



ECONOMIC REFORM PROGRAMME

# Diagnostic Tool

For Identifying Key Constraints to  
Competitiveness



**Economic Reform Programme**  
**DIAGNOSTIC TOOL**  
*For Identifying Key Constraints to Competitiveness*

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## Foreword

Structural reforms are fundamental for the six economies of South East Europe (SEE) – Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo\*, Montenegro, and Serbia – in their transition to becoming fully-functional market economies. They are also an indispensable pre-requisite for joining the European Union. To guide the accession process, SEE economies are required to prepare **Economic Reform Programmes (ERPs)**, which outline economies' medium-term macroeconomic and fiscal policy frameworks and structural reform agendas. The ERPs are reviewed at the highest instances of the EU and discussed at the annual Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. Once agreed, they serve as roadmaps for governments to prioritise and implement needed economic reforms.

To support Western Balkan governments in this novel economic governance exercise, the European Commission mandated the **OECD SEE regional programme** to provide policy advice and capacity building to SEE governments in the ERP preparation and co-ordination process. Building upon its unique expertise in supporting economies in the region in the design and implementation of reforms in favour of growth, investment and employment, the OECD SEE regional programme engages in a highly collaborative policy dialogue with SEE government officials and stakeholders from the region to: 1) analyse the main constraints to growth and competitiveness; 2) identify policy responses and prioritise structural reforms; and 3) monitor progress in the ERP implementation.

The resulting **ERP tool box** aims to provide line ministries with a practical instrument that will help strengthen institutional capacities and boost inter-governmental transparency. It consists of three different tools, which can be used separately, or optimally, all together:

1. **The ERP Diagnostic Tool** identifies key structural obstacles that affect an economy's competitiveness and inclusive growth, offering two customised methodologies to analyse the state of play and to define constraints per policy area.
2. **The ERP Prioritisation Tool** helps authorities to select and prioritise reform measures for their annual ERPs using a three-step approach: By offering; 1) a set of screening questions; 2) an evaluation of proposed measures; and 3) a holistic review vis-à-vis all pre-selected reforms.
3. **The ERP Monitoring Tool** provides guidelines and examples on how to track progress in the ERP implementation over time as well as to measure immediate outputs and the outcome of reforms.

To support the effective implementation of the ERP tool box, the OECD has provided hands-on assistance to government authorities in preparing their annual ERPs, and in particular: 1) supporting governments in setting-up the ERP preparation process and building capacities of line ministries involved in the ERP; 2) providing extended ad-hoc analytical support on issues of regional interest as well as on specific requests from each economy, both in terms of analytical reports and policy workshops; and 3) reviewing the final ERP documents and providing its own assessment to the EC. The ERP tools were pilot-tested in selected SEE economies in 2016 and 2017 and are being constantly updated to reflect feedback from its users to align with changes in the ERP Guidance Note and process.

\*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. Hereafter referred to as Kosovo.

Governments from the SEE regions and the EC have recognised the usefulness and relevance of these tools and the ERP exercise. They have contributed to better inter-ministerial co-ordination and to reinforcing economic governance structures across SEE economies.

### Box. The ERP annual cycle and the role of the OECD

Since 2015 SEE economies have been developing annual ERPs. The ERP exercise derived from the European Semester and form part of the EU's multilateral surveillance and economic policy co-ordination procedures. The ERPs are centrally co-ordinated within each economy and endorsed at the highest political level. An official ERP Co-ordinator is appointed within the government who steers the process and ensures a widespread consensus. The work of the ERP Co-ordinator is typically supported by technical co-ordinators within each line ministry. Together they form an ERP Working Group that ensures broad ownership of the exercise and a whole-of-government approach. As one of the key institutions involved in this process, the OECD provides substantive support to the ERP Working Groups throughout the ERP annual cycle. Key milestones in the ERP annual cycle include:

**Guidance for the Economic Reform Programmes (April):** The European Commission (EC) issues the updated Guidance for the ERPs, providing detailed guidelines on the structure and content of the ERP.

**Joint Conclusions of the Economic and Financial Dialogue (JCEFD) between the European Union (EU) and the Western Balkans and Turkey (May):** Representatives of the EU Member States, the Western Balkans and Turkey, the EC and the European Central Bank (ECB), as well as representatives of the central banks of the Western Balkans and Turkey meet for their annual economic policy dialogue, to present a set of policy guidelines to support economies' efforts towards fulfilling the Copenhagen economic criteria. This policy guidance represents a cornerstone for SEE economies' subsequent ERPs.

**Regional Meeting of the ERP Co-ordinators (May):** The OECD and the EC jointly organise the yearly Regional Meeting of the ERP Co-ordinators to discuss the ERP Guidance Note and the OECD expertise to help prepare the ERPs. Meetings are attended by high-level officials from the Western Balkans and Turkey and present the opportunity to discuss lessons learnt and next steps in the ERP preparation, and present economy-specific work plans and support.

**Commission's Overview and Country Assessments (June):** The EC provides an assessment of the previous year's ERPs, taking stock of the implementation of the country-specific policy guidance. Together with the JCEFD, this document represents the basis for the following ERP cycle.

**In-country kick-off events (June–July):** In-country kick-off events take place in the SEE capitals to align all stakeholders involved in the ERP preparation process by setting a clear timeframe and clarifying responsibilities of line ministries. The OECD also takes this opportunity to discuss pending challenges linked to the previous year's exercise and key milestones to be achieved in the new cycle.

**Policy seminars and capacity-building events (September–October):** Upon ERP Co-ordinators' request, the OECD holds in-country policy seminars and capacity building events with line ministries to discuss specific structural challenges and potential reform priorities for each economy, suggesting ways to further improve them for the purposes of the ERP. For example, in the 2016 and 2017 ERP cycles, the OECD organised more than 30 seminars, involving over 800 participants collectively.

**OECD review of the first draft ERP (October–November):** After the submission of the first draft ERP, the OECD reviews and provides written feedback on the draft diagnostics and reform measures. To do so, key reference sources consulted include the OECD SEE regional programme publications, as well as other international analyses (e.g. from the European Commission, World Bank, EBRD) and international experts' feedback.

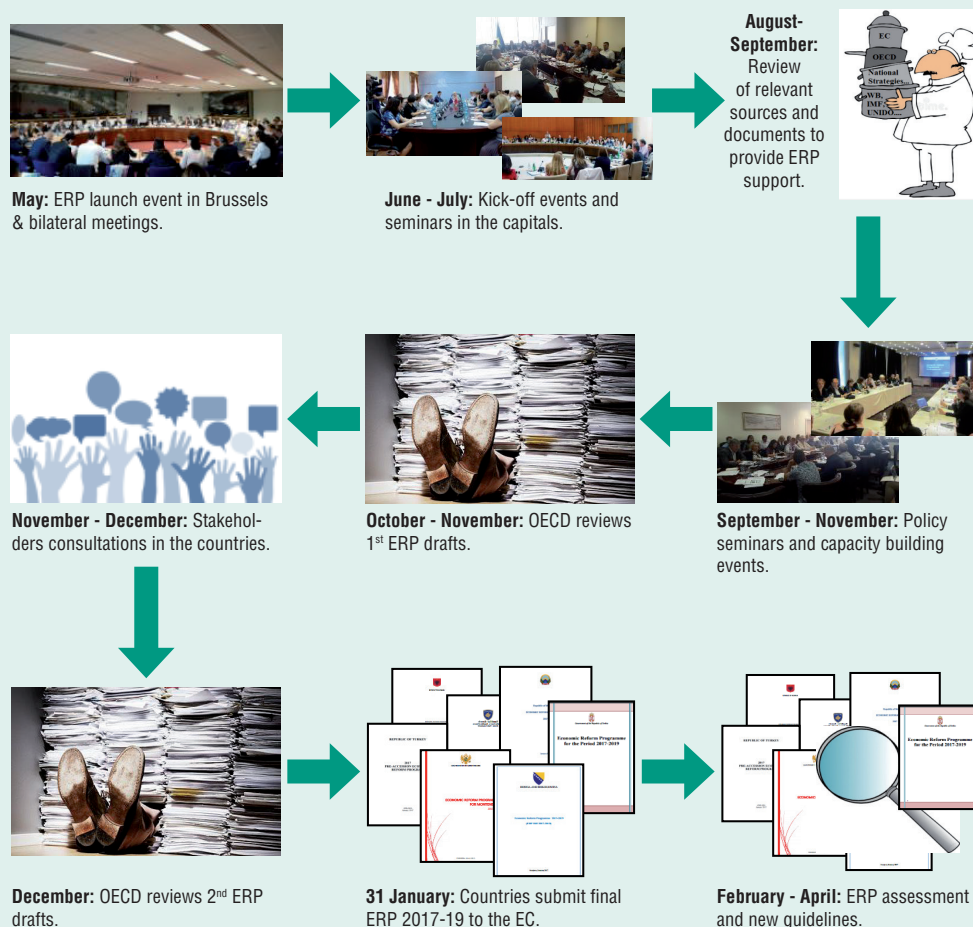
**Box. The ERP annual cycle and the role of the OECD (cont.)**

**Stakeholder consultations (November–December):** ERP Co-ordinators undertake in-country consultations to receive feedback on the diagnostics and reform measures from relevant stakeholders, including the private sector, NGOs and international organisations.

**OECD review of the second draft ERP (December):** After the submission of the second draft ERP, the OECD reviews and provides feedback on the updated versions of the draft diagnostics and reform measures.

**Submission of the final ERP to the European Commission and the OECD (31 January):** Finally, ERP Co-ordinators submit the final ERP to the European Commission and the OECD.

**OECD involvement in the annual ERP cycle**



In addition, the OECD SEE regional programme provides analytical support on topics of regional or economy-specific interest when setting their structural reform agendas. For example, it has provided policy makers with a comprehensive growth diagnostic and a regional study on special economic zones. It examines their relevance as a policy tool for sustainable investment in the region and raises questions on potential deadweight effects, foregone revenues and competition distortion.



## Acknowledgements

The ERP Tools have been specifically developed to support governments from the Western Balkans and Turkey to prepare their annual Economic Reform Programmes (ERP). They consist of three components to be applied in the different stages of the preparation process: the (1) *ERP Diagnostic Tool* to identify obstacles to competitiveness and growth; the (2) *ERP Prioritisation Tool* to select the most credible and growth-enhancing reform measures and the (3) *ERP Monitoring Tool* to track progress in the reform implementation.

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## Introduction

The Diagnostic Tool was developed by the OECD South East Europe (SEE) regional programme with the purpose of supporting governments of SEE in identifying the key structural challenges that hinder competitiveness and inclusive growth. The tool could serve as the cornerstone of the structural reform chapter of the Economic Reform Programme (ERP), from which all structural reform proposals should logically stem.

The tool offers a systematic approach for identifying and describing structural challenges to growth. As they address both economy-wide and sector-specific obstacles, the tool proposes two customised methodologies: the **overall diagnostic** and the **policy area diagnostic**. Both methods are presented in a ready-to-use format with detailed descriptions, but are not necessarily economy-specific: the accessing economies from SEE (Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia) share a significant number of similar challenges, but face an array of specific obstacles at the same time. Therefore, this Diagnostic Tool provides a framework, targeting the most common and significant obstacles to growth that SEE economies address; it is neither exhaustive, nor specifically tailored upon any of them.

The tool is specifically designed to be used by government authorities in charge of co-ordinating the structural reforms of the ERP (i.e. ERP co-ordinators) as well as by the line ministries when drafting their sector analyses, adapting it to the context of the specific economy they operate in.

A. The **overall diagnostic** methodology sheds light on the most critical obstacles to growth for the economy in general and consists of two implementation steps:

1. **Definition of high-level growth challenges:** This first step serves the purpose of providing a bird's eye view of the economy and highlighting fundamental growth challenges. It should ideally seek to provide information on the key features of an economy's state of play, such as the structure of the economy, its productive base and current growth drivers.
2. **Identification of the underlying obstacles to growth:** This second step aims to zoom in on the main structural constraints identified in the previous step, by taking into account findings of existing studies that identify obstacles to growth, or selecting a methodology to conduct a new analysis.

A brief **summary of key selected methodologies** to identify economic constraints, analyse growth opportunities, and derive policy priorities accordingly economy-wide is presented at the end of this section.

A. The **policy area diagnostic** methodology focuses on the key challenges the economy faces in each policy area and explains how they affect competitiveness. It will help, in particular line ministries, in providing accurate analysis input to the ERP and linking them with reform measure proposals. It consists of three implementation steps:

1. **Definition of the state of play in a given policy area:** This first step should provide a general overview of the current landscape for the given policy area to be analysed, by asking for the key features of the given policy area, state-of-play vis-à-vis the government's strategic targets and other benchmarks.
2. **Identification of the underlying obstacles to growth:** This second step aims to zoom in on the main constraints that impede the economic development in that specific policy area. This step should help in giving an answer to the main structural obstacles in that area.

- 3. Highlighting how these obstacles impact economic competitiveness and inclusive growth:** This final step puts the structural obstacles into perspective by highlighting how they affect the overall economy. It also demonstrates why the identified obstacles are the most relevant ones for that policy area. This section should give an answer on how the structural obstacles affect investment, exports, consumption, productivity or employment, and how does this impact manifest itself.

This section will also offer a set of relevant indicators, potential structural obstacles and the consequent impact on growth for all ERP policy areas, with the exception of Public Finance Management (PFM).

The set of proposed indicators for the analysis of the state of play takes into consideration their availability for the SEE region. They derive from OECD and other international sources\* directly applicable to the region (e.g. Competitiveness in South East Europe: A Policy Outlook, SME Policy Index Western Balkans and Turkey) or serve as good practice examples for gauging certain aspects of the market regulation (e.g. OECD Indicators of Product Market Regulation). When a source for an envisaged indicator was not directly available, the most relevant ministry was suggested as best institution to provide a similar set of data. Overall, the indicators and the methodology outlined in the Diagnostic Tool, are not mandatory: they should serve as a guidance for national ERP co-ordinators, when selecting relevant data for the analysis of the state of play of the economy, but can be complemented or replaced, based on criteria of pertinence and availability, by best proxies available at the time of conduction of the diagnostics.

By following these steps, ERP co-ordinators, in co-operation with relevant line-ministries, can come up with a detailed analysis that will allow for a better selection of measures that will effectively tackle the economy's main constraints.

\* Eurostat, EBRD, World Bank Development Indicators, ILO, UNCTAD, UNESCO, FAO, World Economic Forum, national statistical offices.

Chapter 1

## **OVERALL DIAGNOSTIC**

*Step-by-step approach and summary  
of key selected methodologies*



## Overall diagnostic

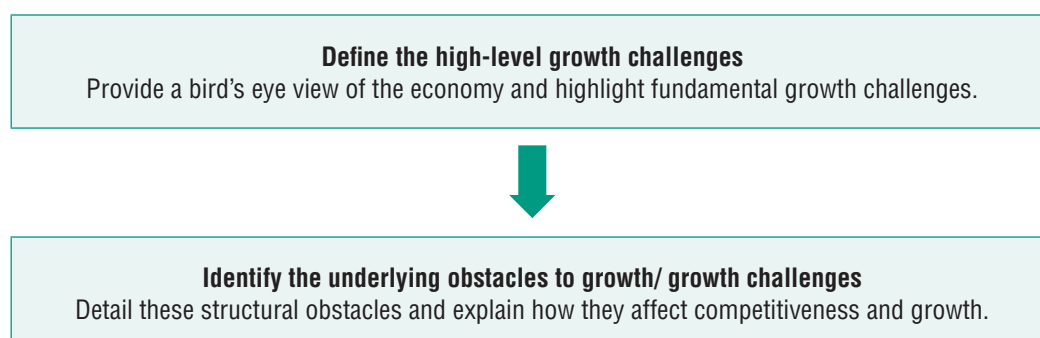
### Objective

To identify the key economy-wide structural challenges that hinder competitiveness and inclusive growth. This diagnostic is the foundation of the structural reform section of the Economic Reform Programme (ERP) from which all reform proposals should logically follow. Specifically, this methodology should help authorities when selecting and providing input for the drafting of the **ERP Section 4.1** (*Identification of key obstacles to competitiveness and inclusive growth*).

### Key questions to be answered

1. What are the high-level growth challenges (e.g. weak domestic and foreign investment, limited export capability or low levels of export sophistication)?
2. What are the key underlying causes behind these growth challenges, as derived from diagnostic analyses (e.g. weak access to finance for domestic small and medium-sized enterprises, or low quality education producing inadequate skills for the needs of the economy)?

### Suggested approach



### Step-by-step approach

#### 1. Define the high-level growth challenges

This step provides a bird's eye view of the economy and highlights the fundamental growth challenges (e.g. the economy is not exporting enough, the economy does not innovate enough, or human capital is weak). It should demonstrate how the current economic structure and growth drivers differ from the desired outcomes as based on government development goals or strategies.

This part should seek to answer the following questions:

1. What is the overall **structure of the economy**? i.e. what is the share of investment and exports vs. other components of gross domestic product (GDP), what is the share of manufacturing vs. services vs. agriculture? What are the key recent trends in these indicators?
2. What does the **economy produce** – its main sectors, main exports and export sophistication? Which products have high development potential? What are the key recent trends in these indicators?
3. What is the **investment composition** and where is investment going? For example what is the share of private vs. public investment as a share of GDP, domestic vs. foreign investment and foreign direct investment (FDI) vs. portfolio? What are the key recent trends in these indicators?



4. What are the current **growth drivers**? For example, what are the growth rate of exports and investment vs. other components of GDP, or the growth of manufacturing vs. that of services?
5. How do indicators 1) to 4) compare to the **government's strategic targets**? How do they compare to **relevant benchmarks** from other economies?

**Note:** benchmark economies will vary depending on the indicator under examination. They can thus include developed economies (e.g. EU15), EU28, new EU member states (EU13), fast-growing emerging markets (for example if looking at GDP growth rate figures or the range of products the economies produce) as well as regional peers (e.g. WB6). Selecting the right benchmarks is essential for the development of a sound and objective diagnostic. If needed, the OECD can assist in identifying appropriate benchmarks.

## 2. Identify the underlying obstacles to growth and growth challenges

This second step aims to provide a more detailed overview of the key growth challenges, zooming in on the main structural obstacles that impede the development of the economy. It should also explain how these structural constraints affect competitiveness and inclusive growth.

The writing of this section consists of two steps:

### 1. Take stock of existing studies that identify obstacles to growth for that economy

Most economies will have at their disposal a number of studies, for example by the OECD, World Bank or the International Monetary Fund (IMF), which identify the most critical and pressing obstacles to growth and competitiveness. They can rely on those results for this section of the ERP document.

### 2. If a new study is needed, select the methodologies to be used for the analysis

If economies need to conduct new analyses or update old ones, proposed tables summarise the suggested methodologies. The tool for writing the ERP policy area diagnostics provides concrete examples of indicators that can be used in the diagnostic analysis, and the sources where these data can be found.

**Note:** this section should not necessarily highlight issues in all policy areas of the ERP document nor does it need to follow the ERP policy area structure. This part of the document should shed light on the most critical obstacles to growth.

This section should answer the following questions:

- a. What are **the main structural obstacles** as identified in your diagnostic analysis/ analyses? These could include weak access to finance for small and medium-sized enterprises (SMEs), a weak and unpredictable regulatory environment, unreliable and poorly maintained infrastructure, heavy administrative and regulatory burden on businesses, limited capacity for innovation, or poor quality of education.

**Note:** this section should not go deeper into the analysis of these constraints, as that analysis will be presented in the specific policy area diagnostics. For example, it is sufficient to say access to finance is a constraint without explaining that it is a constraint because of high interest rates and collateral requirements, etc. as that will be examined more closely in the policy area diagnostic.

- b. How do these obstacles **hinder the economy's competitiveness and growth**? What is the impact on relevant variables such as investment, exports, consumption, productivity, employment and inequality, and through what channels is this impact manifested? For example weak access to finance affects SMEs' capacity for investment and innovation, which, in turn, limits the scope for the diversification of the domestic production and export base and the capacity of SMEs to link into global value chains.

Most economies will have at their disposal a number of studies which identify the most critical and pressing obstacles to growth and competitiveness (Step 2 in the writing of the diagnostic section as described in the diagnostic tool) and thus can rely on those results when writing this section of the Economic Reform Programme (ERP) document. However, in case some countries need to conduct new analyses or update old ones. For this reason, this tool also includes some suggested methodologies:

Table 1 below gives a brief summary of the key selected methodologies. Some of these seek to identify economic constraints, while others analyse growth opportunities and derive policy priorities accordingly. Some of the methodologies are comprehensive enough to be able to independently meet the ERP diagnostic requirements, whilst others will have to be supplemented with additional analysis.

Table 2 provides a more detailed discussion of each methodology and its relevance for the ERP document.

## Methodologies for identifying obstacles to competitiveness and growth

Table 1. Methodologies

<b>Identifying economic constraints</b>	1 Growth diagnostic	Identifies binding constraints to an economy's economic growth.
	2 Growth identification and facilitation (GIF) framework	Identifies industries with high growth potential and the constraints that hamper their development.
<b>Investigating economic opportunities</b>	4 Growth accounting	Examines the contribution of different factors to economic growth (available capital, labour, human capital, and technology) in order to determine which factor has the highest potential to boost GDP growth
	5 ITC export competitiveness assessments	Identifies 1) the drivers and/or obstacles to an economy's export competitiveness; 2) high potential export products and attractive markets for each high performing export product and 3) export opportunities for economies and regions (can be done bilaterally).
	6 EXPY (export sophistication)/product space analysis	Estimates the level of technological sophistication embodied in an economy's export portfolio.
	7 Cluster analysis	Examines and evaluates the health and dynamics of an economy through benchmarking clusters.

Table 2. Diagnostic methodologies

<b>Identifying obstacles/constraints</b>	<b>Description</b>	<b>Advantages</b>	<b>Disadvantages</b>	<b>Relevance to ERP</b>
<b>Growth diagnostics</b>	Identifies binding constraints to an economy's economic growth.	<ul style="list-style-type: none"> <li>Undertakes a comprehensive economy-specific assessment of a wide set of economic indicators to identify most pressing constraints to competitiveness and growth.</li> <li>Targets and prioritises policy reforms with the highest potential impact on growth.</li> <li>Most of the data needed are available from domestic/international sources.</li> </ul>	<ul style="list-style-type: none"> <li>Does not provide insights for specific sectors nor does it examine potential new industries (which are not diagnosed).</li> <li>Focus is only on competitiveness and growth and does not factor in social inclusion, poverty reduction and equal opportunities.</li> <li>Focuses on binding constraints to growth, so cannot provide detailed policy recommendations across all thematic areas of analysis.</li> </ul>	<p>Can provide insights for an overview of the main structural obstacles to competitiveness and growth at national level (i.e. economy-wide diagnostic).</p> <p>Depending on the identified binding constraints, the methodology can provide insights into some of the sector-specific diagnostics in the ERP document.</p>
<b>Growth identification and facilitation (GIF) framework</b>	Identifies industries with high growth potential and the constraints that hamper their development.	<ul style="list-style-type: none"> <li>Provides insights on key strategic sectors by comparing the country to others with similar factor endowments.</li> <li>Identifies key barriers preventing the development of selected industries.</li> <li>Lays out a step-by-step approach for policy makers to facilitate structural change based on the framework of New Structural Economics.</li> <li>Data can be obtained from domestic/international sources (e.g. the United Nations Comtrade Database)</li> </ul>	<ul style="list-style-type: none"> <li>Comparing to other economies based on factor endowments does not take into account changing economic circumstances (such as new technologies or shifts in demand for goods).</li> <li>Depending on the selected sectors, the analysis may not provide a comprehensive overview of cross-sectoral/horizontal obstacles to competitiveness and growth.</li> <li>Focus is only on competitiveness and growth and does not factor in social inclusion, poverty reduction and equal opportunities.</li> </ul>	<p>Can provide insights for the sectoral development section of the ERP document i.e. what are the sectors with the greatest development potential.</p> <p>Can provide some insights for the overall economy-wide diagnostic of key obstacles to competitiveness and growth.</p>

Table 2. Diagnostic methodologies (cont.)

Investigating Economic Opportunities	Description	Advantages	Disadvantages	Relevance to ERP
<b>Growth accounting</b>	Examines the contribution of different factors to economic growth (available capital, labour, human capital and technology) in order to determine which factor is most likely to create an increase in real gross domestic product (GDP).	<ul style="list-style-type: none"> <li>• Suggests where the potential structural improvements in growth of real GDP lie.</li> <li>• Required data should be available for all South East Europe (SEE) economies.</li> </ul>	<ul style="list-style-type: none"> <li>• Does not explain the underlying causes of growth. It therefore should be complemented by institutional, historical and case studies if one wants to explore the underlying causes of growth, innovation and productivity change.</li> </ul>	It is critical for the analysis of growth challenges at the national level (i.e. economy-wide diagnostic) especially the section on high-level growth challenges.
<b>ITC export competitiveness assessments</b>	<p><b>Trade competitiveness assessments:</b> Identify drivers and/or obstacles to an economy's export competitiveness.</p> <p><b>Export potential assessments:</b> Identify high-potential export products and attractive markets for each high-performing export product.</p> <p><b>Export opportunity scans:</b> Identify export opportunities for economies and regions (can be done bilaterally)</p>	<ul style="list-style-type: none"> <li>• Gives a better understanding of what encourages/discourages export competitiveness.</li> <li>• Benchmarks an economy's export strength in terms of factors of production and the general business environment.</li> <li>• Compares an economy to others with similar export structures to help understand where domestic capacities are strong/weak.</li> <li>• Required data is mostly trade-related and thus available for most SEE economies.</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-country comparison does not take into account the changing dynamic structures of the global economy.</li> <li>• Focus is only on competitiveness and growth and does not factor in social inclusion, poverty reduction and equal opportunities.</li> </ul>	<p>Can provide insights on external competitiveness for the economy-wide diagnostic.</p> <p>Can provide insights for the sectoral development section of the ERP document i.e. which sectors have the greatest development potential.</p> <p>Can provide insights for the diagnostic of the external trade and investment facilitation section of the document.</p>
<b>EXPY (export sophistication) / product space analysis</b>	Estimates the level of technological sophistication embodied in an economy's export portfolio.	<ul style="list-style-type: none"> <li>• Gives an indication of the economy's potential for export diversification and further productivity gains.</li> <li>• Provides insights into how easily export diversification can be achieved.</li> <li>• Helps understand which sectors have high development potential based on complementarities with existing sectors.</li> <li>• Relies on data that is available for most economies in the SEE region.</li> </ul>	<ul style="list-style-type: none"> <li>• Does not take into account the differences in quality of exported goods between economies, which reflect differences in productivity.</li> <li>• Does not provide insights into structural/institutional constraints to export diversification.</li> <li>• Focus is only on competitiveness and growth and does not factor in social inclusion, poverty reduction and equal opportunities.</li> </ul>	<p>Can provide insights on external competitiveness for the economy-wide diagnostic.</p> <p>Can provide insights for the sectoral development section of the ERP document i.e. which sectors have the greatest development potential.</p> <p>Can provide insights for the diagnostic of the external trade and investment facilitation section of the ERP document.</p>
<b>Cluster analysis</b>	Examines and evaluates the health and dynamics of an economy through benchmarking clusters.	<ul style="list-style-type: none"> <li>• Helps identify the sectors with highest diversification potential.</li> <li>• Helps evaluate which regions are most likely to develop clusters in new areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Cluster development is a challenging endeavour with mixed results.</li> <li>• Data limitations may constrain such an analysis in some SEE economies.</li> <li>• Focus is only on competitiveness and growth and does not factor in social inclusion, poverty reduction and equal opportunities.</li> </ul>	<p>Can provide some insights for the overall economy-wide diagnostic of key obstacles to competitiveness and growth</p> <p>Can provide insights for the sectoral development section of the ERP document i.e. which sectors have the greatest development potential.</p>

## Chapter 2

### **Policy area diagnostic**

*Step-by-step approach and selected policy area indicators, structural obstacles and impacts on growth and competitiveness.*



## Policy area diagnostic

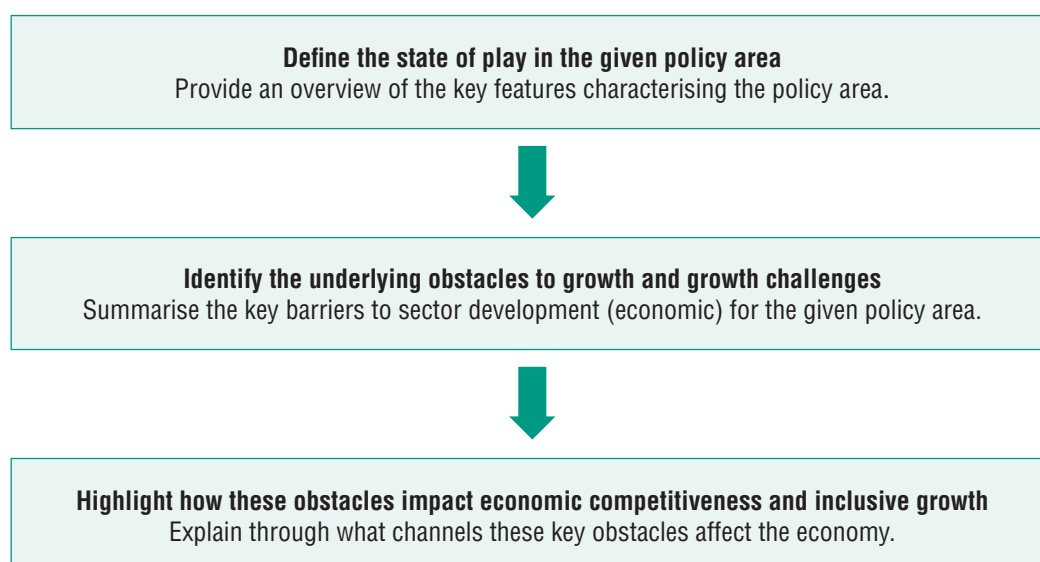
### Objective

To summarise the key challenges the economy faces in each policy area and to explain how they affect competitiveness, growth and social outcomes. The policy area diagnostics are part of the foundation of the structural reform section of the ERP from which all policy area-specific reform proposals should follow logically. The methodology laid in the following pages should help line ministries and other relevant authorities in providing an analysis of main obstacles for the ERP **Section 4.3** (*Analysis by area and structural reform priorities*).

### Key questions to be answered

1. What is the **state of play** in the given policy area? What are the **key features** characterising the policy area?
2. What are the **main structural obstacles and bottlenecks** in this policy area?
3. How do these obstacles affect **competitiveness and growth**?

### Suggested approach



### Step-by-step approach

#### 1. Define the state of play in a given policy area

This first step should provide an overview of the current landscape for the given policy area. As with the economy-wide diagnostic, this first step seeks to give a bird's eye view of the main features of that policy area.

**Note:** this section should not be backward-looking and should not provide a progress report on what has been done to reach the current state. The focus of the diagnostic should really be on describing, as succinctly as possible, the current challenges/situation in each policy area.

This first part should seek to answer the following questions:

1. What are the **key features characterising this policy area**?

A good diagnostic will provide a concise but thorough overview of the state of play in each policy area. To help line ministries in this endeavour, an overview of key features that should be covered in the diagnostic for each policy area of the ERP

document is provided (see Table 3 below). In addition, the tables of this document provide a list of key indicators that could be used to analyse and subsequently describe these key features in the document.

- How do the indicators in 1) compare to the **government's strategic targets** (i.e. where is the economy now compared to where the government wants it to be)? How do they compare to **relevant benchmarks** from other economies?

**Note:** benchmark economies will vary depending on the indicator under examination. They can thus include developed economies (e.g. EU15), the EU28, new EU member states (EU13), fast-growing emerging markets (for example if looking at growth figures) as well as regional peers (WB6). Selecting appropriate benchmarks is essential for a sound and objective diagnostic. If needed, the OECD can assist in identifying appropriate benchmarks.

Table 3. Key features of the state of play

Policy area	Key features of state of play
<b>Energy and transport market reform</b>	<b>Transport:</b> main transport corridors, different modes of transport, inter-modal connectivity, road safety, institutional infrastructure governing transport (including private sector share, level of unbundling, alignment with EU legislation). <b>Energy:</b> main energy corridors, different sources of energy supply, energy connectivity with neighbouring countries, institutional infrastructure governing the energy sector (private sector share, level of unbundling, extent of liberalisation of the market. alignment with EU legislation).
<b>Sectoral development</b>	<b>Agriculture:</b> size and significance of the sector (including contribution to GDP, contribution to employment, level of state aid), structure of the sector (including agricultural and livestock production), capacity and potential of the sector (including agricultural land, level of consolidation, irrigation, quality of machinery, food safety and quality standards compliance, size of rural population, labour productivity in agriculture). <b>Manufacturing:</b> size and significance of manufacturing industry (including contribution to GDP, contribution to employment, level of state aid), structure of manufacturing industry (including industrial and manufacturing production), capacity and potential of the industry (including quality of machinery, compliance with quality and eco- standards, labour productivity in manufacturing). <b>Tourism:</b> size and significance of tourism (including contribution to GDP, contribution to employment, level of state aid), capacity and potential of tourism (including overnights in all types of accommodation, destination accessibility, tourism infrastructure [accommodation facilities, air connectivity and inter-modality], natural resources and cultural resources, visitor satisfaction rating and intention to repeat visits, use of e-tourism and other innovative services, labour productivity in tourism).
<b>Business environment and reduction of the informal economy</b>	Overall ease of doing business, administrative and regulatory burden on businesses (including fiscal and para-fiscal charges), property rights, competition (including informal economy), bankruptcy and second chance.
<b>Trade-related reforms</b>	Trade integration at regional, EU and global level, with a special focus on standards, trade agreements, trade openness, membership towards the World Trade Organization (WTO), main trading partners, main trading sectors, policies to attract FDI.
<b>Research, development and innovation (RDI) and Digital Economy</b>	<b>Research, development and innovation (RDI):</b> level of public and private investment in research and innovation, incentives for innovation, inter-institutional collaboration on innovation. <b>Digital Economy:</b> significance and capacity of the ICT industry, regulatory framework, digital skills, e-government
<b>Education and skills</b>	Educational attainment and quality, alignment with needs of labour market, life-long learning, public-private partnerships in education etc.
<b>Employment and labour market</b>	Employment, labour force participation, unemployment (including structural), labour market flexibility.
<b>Social inclusion, poverty reduction and equal opportunities</b>	Poverty rate and profile (by age, gender, ethnicity etc.), access to education and other public services (by gender, ethnicity etc.), income inequality.

## 2. Identify the underlying obstacles to growth and growth challenges

This second step aims to provide a more detailed overview of the key growth challenges, zooming in on the main structural obstacles that impede the economic development in that policy area.

Most economies will be able to rely on existing studies to identify the most critical and pressing obstacles to inclusive growth and competitiveness for each policy area when writing this section of the ERP document. The OECD *Competitiveness in South East Europe: a Policy Outlook and SME Policy Index*, World Bank *Doing Business* report, studies of the national investment forum council and other relevant publications can also serve as repositories of data and insights on key structural obstacles by policy area.

The approach outlined in this tool relies predominantly on benchmarking against relevant comparable countries, but economies in South East Europe (SEE) can also rely on other approaches if they deem them more appropriate.

This section should answer the following question:

**What are the main structural obstacles, as identified in your analyses?** Structural obstacles represent features in the current economic and governance structure that hamper economic development and growth. They can be caused by government failures (inefficient or ineffective government policies) or by market failures (problems arising from inefficient functioning of the market due to externalities, information asymmetries etc.).

Defining the structural obstacles to growth or development in a given policy area can be challenging for a number of reasons. First, it may be difficult to disentangle obstacles from their negative outcomes on the economy. For example, outdated infrastructure can be defined as an obstacle in that it has a negative impact on the cost, speed and quality of transport of goods and services, which, in turn, negatively affects investment and exports. However, outdated infrastructure is also fundamentally a negative outcome of structural issues pertaining to underinvestment (especially private) in infrastructure, which, in turn, has to do with incentives for private-sector participation in this sector.

Another challenge is to identify the level at which to define obstacles. For example limited access to finance is a key obstacle to growth and competitiveness. If firms cannot easily and affordably access finance, they cannot make productive investments that enable them to grow. However, difficulties accessing finance can reflect a series of underlying structural constraints from weak competition in the banking sector to issues with the cadastre system.

In this tool, the OECD attempts to provide some illustrative guidance on how countries could define the structural obstacles. It mostly concentrates on high-level obstacles that are essential ingredients of the diagnostic, keeping in mind that elaborating those obstacles will require the provision of specifics about the underlying causes, which will differ from economy to economy. It also distinguishes between obstacles and their potential impact on the economy which can also help disentangle the two.

The tables present in the following pages summarise these structural obstacles along with common symptoms associated with each. This is by no means an exhaustive list and economies are encouraged to use them as examples/templates against which they can define their own obstacles for the ERP documents.

### **3. Highlight how these obstacles impact economic competitiveness and inclusive growth**

The final step puts the structural obstacles into perspective by highlighting how they affect the overall economy. It also demonstrates that the structural obstacles identified are indeed the most relevant and important ones for that policy area.

This section should answer the following questions:

1. Do the obstacles **affect one or more of the following variables**: investment, exports, consumption, productivity or employment?
2. If so, **through what channels is this impact manifested?** For example, weak access to finance affects SMEs' capacity for investment and innovation, which, in turn, limits the scope for diversification of the domestic production and export base and limits the capacity of SMEs to link into global value chains.

Please note this can be just a qualitative overview of the kinds of negative impacts that the structural obstacles have on the economy. However, if there are concrete studies that have attempted to provide a quantitative measure of that impact, they can be cited in the report (e.g. "a study conducted in 2014 estimates that disruptions from electricity outages costs companies X millions of euros annually").



### Note

1. The **indicators, structural obstacles** and envisaged **impacts on competitiveness and growth** listed in the following pages should **not** be considered **rigid or exhaustive**: the main purpose is to guide line ministries in collecting relevant information and processing it in order to detect relevant structural obstacles and their impact on growth and competitiveness in the specific field of competence. Line ministries are invited to reduce, expand or change indicators according to their availability and relevance in describing the state of the economy. Likewise, if economies can define the underlying structural problems behind these obstacles more narrowly, they should concisely do so in the ERP diagnostic. Additionally, users should go through the questions outlined above to provide a more detailed review specific to the obstacles they have identified.
2. The categorisation of indicators, obstacles and their effect on the economy is meant to provide illustrative guidance to support line ministries in effectively defining the overall state of play in its field of competence. The outcome should be a clear and concise description of the main obstacles limited to approximately one page in the final Economic Reform Programme (ERP) document (Section 4.3, as detailed on p. 12 of the European Commission's ERP Guidance Note).

## **Energy and transport market reform**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## ENERGY MARKET

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. INFRASTRUCTURE AND CAPACITY</b></p> <p><b>1. Energy</b></p> <p><b>Main energy corridors, by type of energy</b> Indicates the economy's main corridors for different energy segments (oil, gas, electricity). In particular, highlights where energy transmission depends massively on one channel/country of origin. This indicator is relevant to assessing over-reliance on single suppliers and systemic risks to energy sufficiency in case of disruptions. Source: Energy ministry.</p> <p><b>Total investment in energy infrastructure (% of GDP)</b> Measures the level of investment in energy infrastructure as a percentage of gross domestic product (GDP). It gives an idea of the economy's capacity to upgrade its current infrastructure. Source: Energy ministry.</p> <p><b>Investment in energy with private participation (current USD)</b> Measures the amount of private participation in infrastructure (PPI) in the energy sector at current prices. It is a relevant indicator of the economy's openness to private funds for energy infrastructure projects. Source: World Bank Development Indicators, <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a></p> <p><b>Total energy production/TPES (%)</b> Measures the amount of energy produced in the economy as a share of the total primary energy supply (TPES). This is a relevant indicator of the economy's energy self-sufficiency, which is strategically important for development and as a source of potential fluctuations in the performance of the economy. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Total final energy consumption (TFEC) (Mtoe)</b> Measures the aggregate of all of the energy that is used for providing various energy services in million tonnes of oil equivalent (Mtoe). Usually, total final consumption is an aggregate of end-use energy. This means that it focuses on energy currencies like electricity and secondary fuels like gasoline. The focus of the TFEC is in contrast with the TPES. Total final consumption consists of energy that can readily be used by consumers to serve their energy needs, while TPES is an aggregate of all of the energy going into the energy sector. Source: International Energy Agency (IEA) statistics, <a href="http://www.iea.org/statistics/">www.iea.org/statistics/</a>.</p> <p><b>Total net imports of energy (Mtoe), and by source</b> Measures imports of energy in million toe. The greater the imports, the more dependent an economy is on foreign provision and the more vulnerable domestic energy prices are to external fluctuations in price. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Energy balance</b> The make up of energy sources in the economy's total production and consumption of energy (coal, crude oil, oil products, natural gas, nuclear, hydro, geothermal, solar, biofuels and waste, electricity, heat). Heavy dependence on forms of energy which are not locally produced leads in most cases to higher imports and a higher trade deficit. Heavy dependence on solid fuels (coal, lignite) leads to higher levels of pollution with costs to the environment and health. Source: IEA statistics, <a href="http://www.iea.org/statistics/">www.iea.org/statistics/</a>.</p>	<p><b>1. Lack of reliable electricity supply.</b> A contributing factor is the erratic electricity consumption pattern of the poorer parts of the population, which exacerbates seasonal and weather-related peaks in electricity demand (particularly for space and water heating). Extreme peaks can lead to blackouts and/or electricity rationing. To ensure continued service, vertically integrated utilities are forced to maintain considerable reserve capacity. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• frequent blackouts (number of outages over last fiscal year)</li> <li>• high share of electricity produced by establishment's owned/shared generator(s)</li> <li>• measurable revenue losses due to disruptions (quantifiable as expected % decrease in total costs if electricity disruption was no longer an obstacle).</li> </ul> <p><b>2. Low regional connectivity.</b> Lack of supranational interconnecting energy projects and infrastructural divide. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• heavy dependence on a single energy supplier</li> <li>• heavy dependence on a single energy source.</li> </ul> <p><b>3. Insufficient overall investment in new energy infrastructure projects and maintenance or upgrading of existing one.</b> Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• low investment in energy infrastructure as % of GDP</li> <li>• low PPI.</li> </ul>	<p><b>1.</b> Lack of a reliable electricity supply is a major <b>deterrent for investment</b> especially for large manufacturers that rely on a steady supply of electricity. Disruptions in electricity supply result in reduced production and thus loss of revenue.</p> <p><b>2.</b> Low regional connectivity <b>reduces the possibility of supply differentiation, trade potential and energy security</b>, leading to an inefficient allocation of energy supply that translates into an inability to meet peaks in demand. More broadly it means increased uncertainty and reduced growth opportunities. Regional integration would also benefit energy suppliers insofar as it enlarges their market, uncapping their growth potential.</p> <p><b>3.</b> Lack of investment leads to <b>outdated energy infrastructure, resulting in inefficient and polluting energy production</b>, which reduces domestic capacity for power generation, and damages the environment, violating EU environmental standards. It may result in dependence on energy imports, a considerable issue for energy security especially if connectivity with the region is low.</p> <p><b>4.</b> The use of highly polluting energy sources and procedures has <b>harmful consequences for human health</b> – often with a disproportionate effect on poorer parts of the population. Altogether, it leads to increases in the level of air pollution, dust, and levels of sulphur dioxide and nitrogen oxide coming from the energy sector.</p>

## ENERGY MARKET (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>TPES/GDP (toe per thousand 2005 USD)</b> TPES divided by GDP measures the energy intensity of an economy, i.e. the amount of energy it needs to generate a unit of gross domestic product. It is usually preferred to TPES per capita because the latter does not take into account either the impact of climate on energy use (heating, cooling) or the size of the territory and the density of the population. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>2. Electricity</b></p> <p><b>Electricity generation (for heat/other use and by production source: coal, oil, gas, biofuels, waste, nuclear, hydro, geothermal, solar photovoltaics (PV), solar thermal and other)</b> Shows which sources of electricity generation the economy mostly depends on, and can be an indicator of vulnerability. It also shows the extent to which production is dependent on highly polluting lignite vs. cleaner sources like hydropower and renewables and can suggest why economies may not be meeting European environmental standards. Source: IEA statistics, <a href="http://www.iea.org/statistics/">www.iea.org/statistics/</a>.</p> <p><b>Imports, exports and domestic supply of electricity</b> These indicators point to the trade balance in electricity and therefore the economy's self-sufficiency in electricity generation. Source: IEA statistics, <a href="http://www.iea.org/statistics/">www.iea.org/statistics/</a>.</p> <p><b>Losses in transmission</b> An indicator of transmission network quality and energy intensity in the economy. Source: IEA statistics, <a href="http://www.iea.org/statistics/">www.iea.org/statistics/</a>.</p> <p><b>Number of power outages over last fiscal year</b> Number of power outages that disrupted production, declared by a sample of firms in the economy. Blackouts make business unpredictable and increase costs for enterprises. Source: World Bank, Enterprise Surveys</p> <p><b>Percentage of establishments' electricity from generator(s) owned or shared</b> Unreliable electric grids force some firms to secure electric power through owned or shared generators. This increases operational costs. Source: World Bank, Enterprise Surveys</p> <p><b>Share of enterprises mentioning electricity as an obstacle to current operations</b> Relevant indicator to assess if electricity (access to, reliability, cost...) represents a significant obstacle to daily operations and therefore to production for entrepreneurs. Source: World Bank, Enterprise Surveys</p> <p><b>Expected % decrease in total costs if electricity was no longer an obstacle</b> Measures the impact of more stable electricity provision on firms' total operational, according to the entrepreneurs surveyed. Source: World Bank, Enterprise Surveys</p> <p><b>II. REGULATORY FRAMEWORK</b></p> <p><b>Entry regulation for gas and electricity</b> Indicates how the terms and conditions of third party access (TPA) to the energy transmission grid are determined. Is there a liberalised wholesale market for energy (a wholesale pool)? What is the minimum consumption threshold that consumers must exceed in order to be able to choose their supplier? Source: OECD, Indicators of Product Market Regulation.</p>	<p><b>4. High energy intensity</b> is the combination of three main factors: degraded energy infrastructure; high energy losses in transformation, transmission and distribution of energy; and inefficiency in the end-use sector. Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• high TPES to GDP ratio compared to EU economies.</li> </ul> <p><b>5. High carbon intensity due to heavy dependence on lignite.</b> Other environmental concerns include pollution from energy combustion (e.g. indoor and local air pollution from inefficient and improperly used stoves), deforestation and land degradation (from excessive use of wood for fuel).</p> <p><b>6. High market dependence on hydrocarbons imported from outside the region.</b> Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• high total net imports of energy.</li> </ul> <p><b>7. Lack of capacity in energy administration.</b> Administrative bodies are understaffed and need to build capacity and enhance mechanisms to increase transparency and public consultation on strategy and policy development. This particularly includes seeking input from academia, energy and environmental associations, and consumer organisations.</p>	<p><b>5.</b> Higher net imports of hydrocarbons <b>increase the net energetic trade deficit of the country.</b> This in turn will have to be covered by surpluses in other sectors of the economy.</p> <p><b>6.</b> Reduced administrative capacity <b>affects the development of energy markets</b> in a number of ways: lack of reliable energy data time series which makes it hard to build justified analyses, lack of regulative transparency or a national energetic strategy, and lack of synergies, both within the country and regionally.</p> <p><b>7.</b> Conditions of monopoly or quasi-monopoly <b>reduce energy providers' competitiveness</b> on several fronts, including high costs of energy production, and low quality supply. Coupled with limited regulatory capacity, it also results in lack of data and transparency, congested cross-border capacity and weak market rules.</p> <p><b>8.</b> If a single company operates a transmission network and also generates or sells energy, it may have an incentive to obstruct competitors' access to infrastructure. <b>This prevents fair competition in the market and can lead to higher prices for consumers.</b></p> <p><b>9.</b> <b>Due to the limited involvement of private actors, most energy projects are not commercially driven.</b> They are costly and risk being underutilised. Commercial oil and gas operators are best placed to</p>

## ENERGY MARKET (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Public ownership</b> What percentage of shares does the government own, either directly or indirectly, in the largest firm in the sector? Source: OECD, Indicators of Product Market Regulation</p> <p><b>Vertical integration</b> What is the degree of vertical separation between any given segment of the electricity sector and other segments of the industry? (Averaged over four segments: generation/import, transmission, distribution and supply) Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Market structure</b> What is the market share of the largest company in the electricity industry? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Connectivity with other regional energy markets</b> State of implementation of soft measures targeted at integrating regional markets, hence increasing energy efficiency and security. These include development of spot markets, cross-border balancing, regional capacity allocation and cross-cutting measures. Source: Energy Community.</p> <p><b>Central and SEE Gas Connectivity Initiative</b> Long term securitisation of gas supply through regional integration of stocks and links. This includes market openness to third party operators, ensuring free flow of gas, infrastructure related (e.g. connection of spur lines through the Energy Community Gas Ring) and market integration measures, transmission systems operators (TSO) unbundling and national regulatory authority (NRA) independence. Source: Energy Community.</p> <p><b>Development in regional oil stockholding</b> Progress in the level of securitisation of oil and petroleum stockholding systems in accordance with EU directives (state of legislative harmonisation), in order to minimise risks and costs. Due to a high dependency on imports with a limited number of domestic producers, security of oil supply is of special concern. The dependency is aggravated by the lack of interconnections to facilitate oil flows as well as insufficient storage capacities. Source: Energy Community.</p> <p><b>Structural change indicators: infrastructure reforms: electric power (where 1 = full state control, 4+ = full liberalisation)</b> This European Bank for Reconstruction and Development (EBRD) indicator provides a quantitative foundation for analysing progress in the reform of the electricity market. It captures laws, market regulation and price control factors to assess the score. Source: EBRD, <a href="http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html">http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html</a>.</p> <p><b>Residential and non-residential electricity prices, eurocents/kWh (excluding taxes)</b> Measures the price of electricity before taxes (eurocents/kWh) for residential and non-residential use. A more competitive energy market can lead to lower costs of electricity for final users. Cost of energy is a very important factor for potential investors in deciding where to locate their production plants, and therefore lower electricity prices can make an economy more attractive for foreign direct investment (FDI), all other things being equal, than its competitors. Source: Energy regulators' regional associations.</p>	<p><b>8. Lack of clear regulatory and anti-monopoly framework.</b> In the absence of robust regulatory structures, the possibility that a single company – of any nationality – might control the major part of the oil, gas or electricity assets in a market reduces the likelihood of market-based approaches to energy policy developing. Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• low number of energy providers on the market.</li> </ul> <p><b>9. Stalled unbundling process,</b> defined as the separation of energy supply and generation from the operation of transmission networks. Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• low number of energy providers on the market and no distinction between operators in generation, transmission and distribution.</li> </ul> <p><b>10. Electricity markets not fully liberalised.</b> The lack of a competitive regional energy market hinders stability and economic sustainability. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• electricity prices are regulated and not determined by the market</li> <li>• energy regulatory agency is not independent</li> <li>• residential electricity prices are low compared to relevant EU benchmarks</li> <li>• non-residential electricity prices are low compared to relevant EU benchmarks.</li> </ul>	<p>study, implement and operate large projects for energy transportation. Inefficient public projects are not only unsustainable in themselves, but also risk crowding out private companies, exacerbating the problem. If tariffs for electricity are kept artificially low by the public regulator, this reduces interest for private operators and also the general ability to invest in maintenance and upgrading, further reducing the quality of the economy's energy infrastructure.</p>

TRANSPORT MARKET

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. INFRASTRUCTURE AND CAPACITY</b></p> <p><b>Main transport corridors (land, water, air)</b> Outlines the main transport arteries, linking to the most relevant international trade routes. Source: Transport and infrastructure ministries.</p> <p><b>Participation in TEN-T core network projects and connectivity agenda</b> Level of engagement in the Trans-European Transport Network (TEN-T) and European connectivity agenda (state of integration and completion of major transport corridors). Better connectivity with the EU is a key factor for growth and jobs. Source: Transport and infrastructure ministries</p> <p><b>Inland transport infrastructure investment in: road rehabilitation, road maintenance, new road construction, railway maintenance (% of GDP)</b> Measures the level of investment in transport infrastructure as a percentage of GDP, broken down into different areas of intervention. Gives an idea of the economic capability to upgrade the current infrastructure. Source: National statistics.</p> <p><b>Number of roads per square kilometre, per unit of GDP</b> Relates the number of roads to the size of the territory and the economy at the same time. An indicator of the adequateness of the road network compared to the physical and economic dimension of the country. Source: National statistics.</p> <p><b>Roads as a share of total transport infrastructure length, and service delivery (freight tonne/passenger km)</b> Measures the role of roads both in terms of total transport infrastructure investment, and share of total transport they carry. Source: National statistics.</p> <p><b>Rail traffic intensity (freight tonne per km plus passenger km per km of line)</b> Indicates the level of utilisation of railway networks, both for the transport of people and of goods. Source: National statistics.</p> <p><b>Share of transport of goods conducted by road / rail / water / air</b> Measures the share of the total goods transport for each type of transport. Indicates revealed preferences in transportation, but can also hint at specific obstacles for certain modes of transport that reduce its usage compared to others. Source: National statistics.</p> <p><b>Number of injured and number of fatalities on roads</b> This is an indicator of the general safety of the roads, and thus, indirectly, also of their level of maintenance. Source: National statistics.</p> <p><b>II. REGULATORY FRAMEWORK</b></p> <p><b>Logistics Performance Index (1=low; 5=high)</b> The Logistics Performance Index (LPI) is the weighted average of the economy's scores for six key dimensions: 1) efficiency of the clearance process (i.e. speed, simplicity and predictability of formalities) by border control agencies; including customs; 2) quality of trade and transport-related infrastructure (e.g. ports, railroads, roads, information technology); 3) ease of arranging competitively priced shipments; 4) competence and quality of logistics services (e.g. transport operators, customs brokers); 5) ability to track and trace consignments; 6) timeliness of shipments in reaching destination within the scheduled or expected delivery time. Source: World Bank, LPI, <a href="http://lpi.worldbank.org/">http://lpi.worldbank.org/</a>.</p>	<p><b>1. Inadequate international connections reduce the level of transport for freight and people.</b> This also makes transport slower, due to a lack of fast roads, while the divide between primary and secondary roads creates disruption and congestion across different regions. Overall, this <b>decreases investors' interest and particularly reduces FDI</b>, in economies where most of the production is exported and production plants need to respond quickly to demands from their headquarters abroad.</p> <p><b>2. Lack of co-modal solutions not only increases freight transportation time, but also suggests that not all transport systems are used to their full capacity.</b> This limits the economy's trade potential and reduces the benefit of individual infrastructure projects.</p> <p><b>3. Low administrative capacity reduces the ability to build coherent, nationwide transport strategies</b> that would encompass different transport systems and create synergies among road, rail and water transport. Ineffective transportation systems negatively affect overall transportation of people and goods.</p> <p><b>4. Burdensome procedures create a disincentive to trade goods across borders.</b> One visible outcome is a low ratio of freight transport tonne-km/GDP, and more generally a reduction in FDI due to increased barriers to investment.</p> <p><b>5. Absence of private operators reduces competition in the sector.</b> On the one hand, this undermines the sustainability and profitability of the transport sector, and on the other concentrates the burden of capital investment on the shoulders of the public sector, which has limited capacity to invest.</p> <p><b>1. Insufficient overall investment in transport infrastructure projects and maintenance of existing infrastructure.</b> Symptoms of this obstacle include one or more of the following:  <ul style="list-style-type: none"> <li>low overall transport infrastructure investment</li> <li>limited road density per 1 000 inhabitants</li> <li>reduced road safety with higher numbers of injured/fatalities.</li> </ul> </p> <p><b>2. Lack of co-modal transport solutions.</b> The absence of multi-modal transportation nodes reduces sensible synergies between different modes of transport (road, rail, air and water).</p> <p><b>3. Lack of administrative capacity.</b> This is reflected in understaffed and underfunded administrations, and above all lack of co-ordination among different transport authorities, which prevents the development of a national co-ordinated strategy on transport.</p> <p><b>4. Non-physical barriers to the movement of goods and passengers.</b> These include excessive border-crossing procedures, administrative and regulatory procedure obstacles. Symptoms of this obstacle include one or more of the following:  <ul style="list-style-type: none"> <li>large numbers of documents required to export and import</li> <li>uncertainty about the time customs procedures will take at the borders.</li> </ul> </p> <p><b>5. Limited openness of transport networks to private operators.</b> Despite progresses in liberalisation, the market is still much closed. Symptoms of this obstacle include:  <ul style="list-style-type: none"> <li>no private operators on the market.</li> </ul> </p>	

## TRANSPORT MARKET (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Entry regulation for rail transport</b> What are the legal conditions of entry into the passenger/freight transport market? Simple average over two segments (freight transport and passenger transport). Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Public ownership (rail transport)</b> What percentage of shares do the government own in the largest firm in the operation of the infrastructure sector? What percentage of shares do the government own in the largest firm in the passenger/freight transport sector? Simple average over two segments (freight transport and passenger transport). Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Vertical separation (rail transport)</b> What is the degree of separation between the operation of infrastructure and the provision of railway services (the actual transport of passengers or freight)? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Market structure (rail transport)</b> What is the maximum number of operators competing in the same area/rail district passenger/freight transport market? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Entry regulation (road transport)</b> In order to establish a national road freight business (other than for transporting dangerous goods or goods for which sanitary assurances are required) do operators need to obtain a licence (other than a driving licence) or permit from the government? Are decisions on the entry of new operators based on criteria other than technical and financial fitness and compliance with public safety requirements? Does the regulator, through licences or otherwise, have any power to limit industry capacity? Are professional bodies or representatives of trade and commercial interests involved in specifying or enforcing entry regulations? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Price controls (road transport)</b> Are retail prices of road freight services in any way regulated by the government? Does the government provide pricing guidelines to road freight companies? Are professional bodies or representatives of trade and commercial interests involved in specifying or enforcing pricing guidelines or regulations? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Public ownership of air transport</b> What percentage of shares in the largest carrier (domestic and international traffic combined) are owned by national, state or provincial authorities? Source: OECD, Indicators of Product Market Regulation.</p> <p><b>Regional air agreement</b> Does the economy participate in a regional agreement? Source: OECD, Indicators of Product Market Regulation.</p>		





## **Sectoral development**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## AGRICULTURE

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. SIZE AND SIGNIFICANCE OF THE SECTOR</b></p> <p><b>Agriculture (% of GDP, growth)</b> The first indicator measures the contribution of agriculture to total gross domestic product (GDP), showing the importance of agriculture for overall output. The second indicator measures the growth or decline in value of agricultural production year-on-year. Source: National statistics.</p> <p><b>Agro-food sector (% of value added in manufacturing, growth)</b> The agro-food sector refers to the subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. The first indicator measures agro-food production as a share of overall manufacturing. It demonstrates how much processing there is beyond basic agriculture and gives an idea of levels of agricultural product specialisation. The second indicator measures the contribution of the agro-food sector to the value added in manufacturing, which gives an indication of the importance of this sector for the economy. Source: National statistics.</p> <p><b>Employment in agriculture (% of total employment)</b> Measures the share of employment generated by the agricultural sector, indicating the importance of the sector for employment creation. Source: National statistics.</p> <p><b>Employment in agro-food industry (% of total employment)</b> Measures the share of people employed in the agro-food sector compared to total employment. It demonstrates the importance of the agro-food sector for overall employment. Source: Food and Agriculture Organization of the United Nations (FAO).</p> <p><b>Share of central government expenditure on agriculture (% of the total budget, per hectare)</b> Measures the share of total government budget directed to this sector. When benchmarked against comparator economies, it indicates how well the sector is supported by the government compared to relevant peers. Source: National statistics.</p> <p><b>II. STRUCTURE OF THE SECTOR</b></p> <p><b>Agricultural production (by different commodity groups)</b> Total agricultural production broken down by commodity group, indicating the structure of agricultural production. Source: FAOSTAT <a href="http://faostat3.fao.org/search/agricultural%20production%20by%20commodity%20groups%20/E">http://faostat3.fao.org/search/agricultural%20production%20by%20commodity%20groups%20/E</a>.</p> <p><b>Livestock production (% of overall agricultural production)</b> Livestock production as a percentage of total agricultural production. Source: FAOSTAT, national statistics.</p> <p><b>Arable land (% of total agricultural land)</b> Measures how much of the total agricultural land area is arable land, indicating how favourable conditions are for agricultural production. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Agricultural area under use (% of the total agricultural area)</b> Measures the ratio of agricultural land under use to total agricultural land, indicating the potential for expansion of the agricultural sector into other currently unused land. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p>	<p><b>1. Highly decentralised agricultural production</b> involving small-scale agriculture with mixed production systems, producing only small quantities of marketable surplus. Fragmented production and lack of mechanisation and know-how makes it difficult for farmers to achieve economies of scale in production and produce the quantities required for some markets, constraining agricultural growth. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• small average size of farms (under 5 ha, sometimes under 1 ha)</li> <li>• low share of irrigated land.</li> </ul> <p><b>2. Low standards for food safety and quality, and underdeveloped related legislation.</b> Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• low number of HACCP and ISO 22000 certificates issued</li> <li>• fragmented legislation; multiple jurisdictions; and weaknesses in surveillance, monitoring and enforcement of national food control systems.</li> </ul> <p><b>3. Weak institutional and administrative framework for the development and implementation of agricultural and rural development policies.</b> Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• no market-based analysis of the potential needs of the sector or policies tailored accordingly</li> <li>• little involvement of agricultural faculties and research institutes in the policy analysis and formulation process.</li> </ul>	<p>1. Small-scale agricultural production results in one or more of the following:</p> <ul style="list-style-type: none"> <li>• <b>outdated technology/ mechanisation and insufficient and poorly designed irrigation systems</b> (if any)</li> <li>• <b>low levels of capacity utilisation</b></li> <li>• <b>low product specialisation</b></li> <li>• <b>lack of standards</b> for food safety</li> <li>• <b>low productivity</b></li> <li>• <b>limited added value</b> and contribution to GDP</li> <li>• <b>higher informal employment</b> in the sector</li> <li>• <b>high share of agricultural land left uncultivated</b></li> <li>• <b>rising trade deficit.</b></li> </ul> <p>2. Economies that rely on food exports for foreign exchange have a particular interest in strengthening national food control systems, harmonising national food regulations with international standards, and establishing import and export food inspection and certification systems to ensure conformity with the World Trade Organization's agreements regarding sanitary and phytosanitary measures and technical barriers to trade. Low food safety and quality standards and underdeveloped related legislation thus result in <b>limited export capacity and can lead to outdated technology and/or mechanisation as well as lower productivity.</b> These in turn affect prospects for growth and the competitiveness of the sector.</p> <p>3. Ad hoc agricultural policy results in <b>inadequate support for agricultural producers, low productivity and low export capacity,</b> among other issues.</p>

## AGRICULTURE (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Labour productivity (GDP/worker in USD, as % of the EU average and as % of the SEE average)</b> Measures output per agricultural worker compared to: 1) the EU average and 2) the South East Europe (SEE) average. Source: International Labour Organization (ILO) <a href="http://www.ilo.org/global/statistics-and-databases/lang-en/index.htm">http://www.ilo.org/global/statistics-and-databases/lang-en/index.htm</a>.</p> <p><b>Rural population (% of the total population)</b> Measures the rural population as a share of the overall population and can be used as a proxy for the labour available to the agricultural sector. Source: National statistics.</p> <p><b>Average size of individual agricultural holding (in ha)</b> Measures the average farm size, indicating potential small-scale production and the level of consolidation. In the EU, holdings with less than 5 ha of land under cultivation are considered small. Source: National statistics.</p> <p><b>Irrigated agricultural land (% of total agricultural land)</b> Irrigated agricultural land refers to agricultural areas purposely provided with water, including land irrigated by controlled flooding. The share of irrigated agricultural land as a percentage of overall land under cultivation gives an idea of how developed irrigation is. The more it is developed, the better the prospects for large-scale production and higher productivity, but irrigation is a major driving force behind water abstraction, meaning sustainable water management has to be in place. Source: World Bank.</p> <p><b>Agricultural exports (% of total exports)</b> Exports of agricultural products as a share of total exports, indicating their importance to the economy's overall export performance. Source: National statistics.</p> <p><b>Agricultural trade (export/import) with EU (% of total trade)</b> Measures agricultural trade with EU countries as a share of overall trade. This indicates the strength of agricultural trade links with the EU. Source: National statistics.</p> <p><b>Non-processed agro-food exports/imports (% total trade)</b> Measures non-processed agro-food products as a share of total exports or imports. Economies should aim to process as much agricultural produce themselves as possible and export less raw agricultural products, since that translates into more domestic value added and hence more job creation and income generation. Source: National statistics.</p> <p><b>Agro-food trade balance (% of GDP)</b> Measures the difference between exports and imports of agro-food products and whether the economy is a net exporter or importer of these products. Source: National statistics.</p> <p><b>Foreign direct investment (FDI) inflows to agriculture (% of all FDI inflows)</b> Measures the share of FDI inflows to agriculture as a percentage of total inflows. Indicates how attractive this sector is for investors. Source: FAOSTAT.</p>	<p><b>4. Limited investment in human resources</b> needed to enhance the technical, marketing and managerial capabilities of the total labour force. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• vocational education and training (VET) curricula are outdated and are not in line with labour market needs</li> <li>• weak capacity of employment services with underfunded and understaffed programmes</li> <li>• no or limited sector training needs analysis (TMA)</li> <li>• low participation in lifelong learning.</li> </ul> <p><b>5. Delays in restructuring and privatisation of state owned agricultural firms.</b> Symptoms include:</p> <ul style="list-style-type: none"> <li>• lack of a comprehensive privatisation strategy</li> <li>• low capacity utilisation</li> </ul>	<p><b>4.</b> Limited investment in human resources results in <b>inadequate human capital at all levels</b>, meaning the sector <b>lacks sufficient numbers, capacity, knowledge and relevant expertise</b> to meet the challenges of a modern, competitive agro-food system or the diversity of problems facing underdeveloped rural areas. This has direct negative effects on employment and its quality, productivity, internal consumption and poverty reduction.</p> <p><b>5.</b> Delays in the privatisation of firms result in the <b>breaking-up of marketing channels and services for small-scale producers</b>, coupled with the <b>slow emergence of new marketing mechanisms</b>. Additionally, a <b>significant share of agricultural land might be left uncultivated</b> or used for urban uses. This deters investments in agriculture, productivity growth, employment, etc.</p>

## AGRICULTURE (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Agricultural machinery (number of tractors per 100 km<sup>2</sup>, average age of tractors)</b> The first indicator is a proxy for the agricultural sector's level of mechanisation. The second measures how obsolete the tractors used might be, indicating the state of mechanisation and potential effects on productivity. Both can be used as proxies for the level of productivity in agriculture. Sources: World Bank, Database of Agricultural Indicators; national statistics.</p> <p><b>Average age of processing equipment in the agro-food industry</b> Measures the level of obsolescence of the equipment used, indicating the state of mechanisation and potential effects on productivity. Can be used as proxy for labour productivity in the food processing industry in the absence of other data. Source: National statistics.</p> <p><b>Organic production as a share of total agro-food production</b> Demand for organic products is growing, especially in EU countries and organic production can represent an avenue for diversification into higher-value products and overall export growth in the sector. Source: National statistics.</p> <p><b>Number of food safety and quality certificates issued in the previous year (HACCP, ISO 22000) compared to a certain benchmark (this will depend on the economy)</b> Measures the level of alignment with international food standards. The implementation of standards has the potential to ease access to the EU single market and liberalise international trade. The greater the number of certificates issued, the greater the expected level of competitiveness when exporting to the EU market. Source: National statistics (e.g. chambers of commerce).</p>		

## INDUSTRY AND MANUFACTURING

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. SIZE AND SIGNIFICANCE OF THE SECTOR</b></p> <p><b>Value added by industry (% of GDP)</b> Industry represents the part of the economy devoted to producing goods, as opposed to agricultural output and services. It comprises, among others, mining, manufacturing, construction and electricity generation. This indicator measures the share of value added by industry as a percentage of GDP. Source: World Bank.</p> <p><b>Value added by manufacturing (% of total value added, % growth)</b> Measures manufacturing's share of total value added and its growth or decline.. It indicates the contribution of this sector to the total value added. Sources: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>, World Bank.</p> <p><b>Employment in manufacturing (% of total employment)</b> Measures the share of employment generated in the manufacturing sector, indicating the importance of this sector to employment creation. Source: National statistics.</p> <p><b>State aid to industry excluding transport, agriculture and fisheries (% GDP)</b> Measures the share of budget devoted to this sector as a share of GDP, indicating the level of support provided by the government. Source: National statistics.</p> <p><b>Share of central government expenditure on manufacturing (% of the total budget, per head, per ha)</b> Measures the share of budgetary funds to this sector out of the overall budget, indicating the level of support provided by the government. Source: National statistics.</p> <p><b>National industry development strategy and action plan</b> A national strategy and action plan enables policy makers to assess the areas of greatest competitive potential and direct their efforts more effectively to capture the economic and wider social benefits of industry. Measured as a yes/no, with scoring based on criteria including quality, development processes, evidence base, delivery through co-ordinated action planning with partners over time and integration with a national strategy and government appropriations for industry. The existence of an action plan does not on its own guarantee effective assistance to improve the competitiveness of the economy's industry. Assessment of this indicator will require a careful and deeper consideration of the context and components for the plan and what it seeks to deliver in terms of improving competitiveness. Some plans may be general when more detailed segment-specific actions might be needed to improve competitiveness. This is especially important given the pace of external factors such as crises, which can have key impacts on competitiveness. This can require action plans to be adjusted at short notice, based on evidence, and the planning process, actors and collaboration must be strong enough to allow such adjustments. Source: Ministry responsible for industry.</p> <p><b>II. STRUCTURE OF THE SECTOR</b></p> <p><b>Manufacturing production (index: 2010=100)</b> Measures changes in the price-adjusted output of manufacturing over a given reference period, expressed as an index with a base of 2010=100. It provides insights into the trends in manufacturing production over time. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p>	<p><b>1. Slow restructuring of the sector</b> following deindustrialisation in the 1990s and 2000s. Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>low levels of capacity utilisation</li> <li>low levels of industrial production</li> <li>insufficient investment in the sector</li> <li>high percentage of unsuccessful privatisations and the lack of a comprehensive privatisation strategy.</li> </ul> <p><b>2. A lack of targeted industrial development and inefficient management of state support for the promotion of investments and exports.</b> Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>industrial policy fails to target the most severe obstacles to industrial development</li> <li>state investment and export promotion is fragmented, unsynchronised, insufficiently transparent and lacks adequate evaluation mechanisms</li> <li>industrial state aid often discriminates against smaller privately owned production companies, with too much state aid granted to unprofitable public companies or to non-transparent FDI projects.</li> </ul> <p><b>3. Limited knowledge transfer between universities and industry.</b> Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>limited incentives for academics to conduct research of commercial value</li> <li>little or no co-operation between the research institutes and industry.</li> </ul> <p><b>4. Limited investment in human resources,</b> which results in an inadequately skilled industrial workforce. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>an education system not aligned with labour market needs</li> </ul>	<p><b>1., 2.</b> Slow restructuring of the sector following the deindustrialisation of the 1990s and 2000s has contributed to <b>deficiencies in the technological level of industrial capacities and skills base, unfavourable export structures, unfavourable levels of specialisation of industrial products and overall low productivity in the sector.</b> Although deindustrialisation appears to have stopped, the level of productivity in the sector remains very low (40% below levels in Central and Eastern Europe).</p> <p><b>Sustained investment in industry and manufacturing</b> is needed to safeguard and upgrade skills, improve productivity and so enable the integration of more firms into global value chains. Privatisation on its own is unlikely to promote economic growth in the absence of a comprehensive industrial policy to guide the replacement of the old industrial structures. Further, the lack of a policy does not comply with the EU <i>acquis</i>.</p> <p>Lack of investment translates into <b>underdeveloped industry producing undifferentiated and basic products and a large share of raw materials and uncompetitive exports</b>, leading to low incomes and overall low productivity of the sector.</p> <p>Poorly defined state aid results in <b>a failure to target aid efficiently where it will create the most growth.</b> This affects industry's capacity to invest and innovate and indirectly leads to low productivity and a weak export base.</p>

## INDUSTRY AND MANUFACTURING (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Industrial product exports (% of total exports, growth)</b> Measures the percentage of industrial products as a share of total exports, indicating their importance to the economy's overall export base. Source: National statistics.</p> <p><b>Intermediate industrial products, exports/imports (% of total trade)</b> Measures intermediate industrial products as a share of total exports or imports, indicating the level of specialisation in the industrial sector. The higher the share of intermediate industrial products in total exports, and the lower their share of total imports, the less specialised the industrial sector. A high share of intermediate industrial products in total exports signals the need to shift output to higher value, specialist products. Source: National statistics.</p> <p><b>Final industrial products exports/imports (% of total trade)</b> Measures the share of final industrial products in the total export or import. Indicates the level of specialisation in the industrial sector. The higher the share of final industrial products of total exports and the lower their share of total imports, the more specialised the industrial sector. Source: National statistics.</p> <p><b>High technology exports (% of total exports)</b> Measures high technology products as a share of overall exports, indicating the level of sophistication of the country's exports. Source: World Bank.</p>	<ul style="list-style-type: none"> <li>• weak capacity of employment services to match people with jobs with underfunded and understaffed programmes</li> <li>• no or limited sector training needs analysis (TNA) resulting in limited access to the training needed</li> <li>• low participation in lifelong learning.</li> </ul> <p><b>5. Lack of institutional support for environmentally friendly industrial production.</b></p> <ul style="list-style-type: none"> <li>• outdated "dirty" technology in use</li> <li>• low number of eco-standards implemented or certificates issued</li> <li>• Insufficient financial support provided for eco-friendly production (lack of subsidies/tax incentives)</li> <li>• Limited non-financial support provided, such as waste management programmes, water conservation programmes, training on the circular economy.</li> </ul>	<p>State support systems should ensure that financial aid is granted on the basis of clear criteria in line with EU and Stabilisation and Association Agreement (SAA) state aid rules, and according to fully transparent procedures.</p> <p><b>3.</b> Limited knowledge transfer between academia and industry reduces the <b>capacity of the sector to innovate and deters potential in-country technology development.</b> This in turn leads to low levels of product specialisation, and a weak export base and hampers potential investments in the sector and limits its growth.</p>
<p><b>III. CAPACITY AND POTENTIAL</b></p> <p><b>Labour productivity in manufacturing (index: 2010=100)</b> Measures changes in the value added per person employed in the manufacturing sector expressed as an index with base 2010=100. Indicates changes in labour productivity over time. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Competitive Industrial Performance (CIP) index</b> The CIP index consists of eight sub-indicators along three dimensions of industrial competitiveness. The first dimension describes an economy's capacity to produce and export manufactured goods and is captured by its manufacturing value added (MVA) per capita (MVApc) and its manufactured exports per capita (MXpc). The second dimension covers an economy's levels of technological deepening and upgrading. The third dimension is the economy's impact on world manufacturing, both in terms of value-added share of world MVA (imWMVA) and of world manufacturing trade (imWMT). Source: United Nations Industrial Development Organization (UNIDO), <a href="http://cip.unido.org/data/Statistics/Research/cip.html">CIP, unido.org/data/Statistics/Research/cip.html</a>.</p> <p><b>Net financial result of manufacturing in the overall economy (total, %, by sector)</b> Measures the profitability of the manufacturing sector, which can serve as a proxy for its relative competitiveness. Source: National statistics.</p> <p><b>Industrial products traded (export/import) with the EU and with SEE (import/export, % of total trade)</b> Measures the share of trade in the industrial products directed to: 1) EU countries and 2) SEE countries, out of overall trade. It indicates the strength of industrial trade links with the EU and SEE economies. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p>	<p><b>4.</b> Limited investment in human resources, which results in <b>inadequate human capital at all levels, mostly lacking sufficient capacity, knowledge and relevant expertise</b> to meet the challenges of a modern, competitive manufacturing sector or to tackle the range of problems facing underdeveloped rural areas. This has direct negative effects on employment and its quality, productivity, internal consumption and poverty reduction.</p> <p><b>5.</b> Lack of institutional support to environmentally friendly industrial production leads to <b>unsustainable growth and an export structure that does not meet international demand.</b></p>	<p><b>4.</b> Limited investment in human resources, which results in <b>inadequate human capital at all levels, mostly lacking sufficient capacity, knowledge and relevant expertise</b> to meet the challenges of a modern, competitive manufacturing sector or to tackle the range of problems facing underdeveloped rural areas. This has direct negative effects on employment and its quality, productivity, internal consumption and poverty reduction.</p> <p><b>5.</b> Lack of institutional support to environmentally friendly industrial production leads to <b>unsustainable growth and an export structure that does not meet international demand.</b></p>



## INDUSTRY AND MANUFACTURING (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Industrial products trade balance (% of GDP)</b> Measures the deficit or surplus in industrial products traded, indicating if the economy is a net exporter or net importer of industrial products. Source: National statistics.</p> <p><b>FDI inflows to manufacturing (% of all FDI inflows)</b> Measures the share of FDI inflows to manufacturing as a percentage of total inflows. It indicates how attractive this sector is for investors. Source: National statistics.</p> <p><b>Investment in machinery and equipment, investment in fixed assets (% of GDP)</b> Measures the level of investment in machinery and equipment and the level of investment in fixed assets as a percentage of GDP. Can serve as a proxy for the level of sophistication of machinery/capital availability in the manufacturing sector. Sources: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>; national statistics.</p> <p><b>Production certification (number of CE-marked products)</b> By affixing the CE marking to a product, manufacturers declare on their sole responsibility that the product is in conformity with the essential requirements of the applicable EU harmonisation legislation, and that the relevant conformity assessment procedures have been fulfilled. Products bearing the CE marking are presumed to be in compliance with the applicable EU harmonisation legislation and hence benefit from free circulation in the European single market. Source: National statistics.</p> <p><b>Number of quality certificates issued</b> Measures the level of alignment with international quality standards. The implementation of standards contributes to easing the access to the EU single market and liberalising international trade. Source: National statistics.</p> <p><b>Eco-friendly technologies as a share of overall technology used</b> Eco-friendly technology can help preserve the environment through energy efficiency and reduction of harmful waste. Potential areas for such technology include green energy, eco-friendly textiles, green building construction, and manufacturing products and materials to support green business. Demand for these products is growing, especially in EU countries and such production can represent an avenue for diversification into higher-value industrial products and overall export growth in the sector. Source: National statistics.</p>		

## SERVICES: Tourism

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. SIZE AND SIGNIFICANCE OF THE SECTOR</b></p> <p><b>Tourism (% GDP)</b> Measures the share of GDP generated by tourism. Tourism is one of the world's most important industries in terms of GDP. As tourism demand continues to rise overall, tourism GDP increases but competition is also increasing with the growth of emerging economies and the resulting new pressures on the market position of developed economies. Source: World Travel and Tourism Council (WTTC).</p> <p><b>Tourism employment (% total employment)</b> Employment in tourism as a share of total employment. Source: WTTC.</p> <p><b>Tourism exports (% of the total export)</b> Tourism export earnings as a share of overall exports. Source: WTTC.</p> <p><b>Exports of tourism services (% annual growth)</b> Measures the growth or decline year-on-year in value of tourism exports, in the local currency, expressed as a percentage change. As a year-on-year indicator, this measure shows changes in performance reflecting competition in terms of branding, value awareness and international appeal. International comparisons using this indicator will inform policy makers of the economy's performance relative to the level of investment which, in combination with other performance indicators could inform the debate on what works to increase tourism competitiveness. Sources: OECD; International Monetary Fund (IMF).</p> <p><b>Budget allocated to tourism</b> High levels of government financial commitment to the tourism sector (especially in the areas of preservation of natural, cultural and historic heritage, and tourism infrastructure) should, if properly targeted, contribute to improving its competitiveness. Low or volatile financial spending from government over time will result in a suboptimal performance and market failures, and result in a long-term loss of global competitiveness. Source: National statistics.</p> <p><b>Budget of the national tourism agency</b> The size of the agency's budget reflects its capacity to conduct its work on tourism promotion and development. An underfunded and understaffed agency will have difficulty in fulfilling its mandate. Source: National statistics.</p> <p><b>National tourism strategy and action plan</b> A national strategy and action plan enables policy makers to assess the areas of greatest competitive potential and direct their efforts more effectively to capture the economic and wider social benefits from tourism. Measured as a yes/no, with a scoring based on criteria including quality, development processes, evidence base, delivery through co-ordinated action planning with partners over time, and integration with a national strategy and government appropriations for tourism. The existence of a tourism action plan does not on its own guarantee effective assistance to improve the competitiveness of the economy's tourism. Assessment of this indicator will require a careful and deeper consideration of the context and components of the plan and what it seeks to deliver in terms of improving competitiveness. Some plans may be general where more detailed segment-specific actions might be needed to improve competitiveness. This is especially important given the pace of external factors such as crises which can have key impacts on competitiveness. These can require action plans to be adjusted at short notice, based on evidence, and the planning process, actors and collaboration must be strong enough to allow such adjustments. Source: Ministry responsible for tourism.</p>	<p><b>1. Insufficient/inadequate institutional support to the sector.</b> Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• lack of a comprehensive tourism strategy taking into consideration environmental protection and new trends in tourism such as cultural and leisure, culinary, and eco-tourism and studies on creating an attractive tourism offer</li> <li>• limited co-operation between the relevant ministries (ministries of tourism, culture and infrastructure)</li> <li>• lack of one-stop shops providing a single source of information for tourists</li> <li>• few promotion campaigns</li> <li>• lack of regular data collection on tourism</li> <li>• low ranking brand strategy rating.</li> </ul> <p><b>2. The lack of an appropriately skilled workforce</b> hinders the development of a high-quality tourism offer. Relevant market-driven skills (e.g. analysing market needs to create new offers and the ability to identify and employ optimal marketing strategies) and service delivery skills (e.g. gathering, analysing and interpreting customer feedback) can be rather scarce. Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>• few targeted training programmes and persistent skills mismatches</li> <li>• no training on e-tourism and other innovative services.</li> </ul> <p><b>3. Limited co-operation between national tourism organisations and the private sector.</b> Symptoms of the obstacle include:</p> <ul style="list-style-type: none"> <li>• low number of programmes to transmit the main goals of tourism development and help shape the tourism offer provided by the private sector.</li> </ul>	<p><b>1., 3., 4., 5.</b> These obstacles result in <b>inefficient use of available resources</b>, ad hoc measures to support tourism, and <b>disjointed promotion and marketing</b>, which all hamper the development of strategies targeting high-growth tourism markets with a good regional fit. This, in turn, affects employment and private investments in the sector, and consequently deters its growth and development potential.</p> <p><b>2.</b> A well-educated and skilled workforce is crucial to providing tourists with a high-quality offer. <b>Tourism is a highly labour intensive service sector and needs a comprehensive pool of employee skills to keep pace with market developments.</b> If an economy fails to develop this pool, it has a negative impact on employment, productivity, competitiveness. Indirectly, this affects investments and domestic consumption.</p> <p><b>6. International tourism demand has been shown to be highly dependent on the ease of reaching the destination, crossing borders and entering other countries.</b> Access infrastructure, safety and security, and customs procedures are some of the issues that can affect ease of travel.</p> <p>Facilitating travel to and within a country, in particular to tourist sites, is an essential element of a destination's overall competitiveness. Sound air and ground transport infrastructure (e.g. roads, railways and airports) can encourage tourists to choose one destination over another.</p>

SERVICES: Tourism (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>II. CAPACITY AND POTENTIAL<sup>1</sup></b></p> <p><b>Inbound tourism revenues per visitor by source market (% annual growth)</b> Measures the percentage growth or decline year-on-year in inbound tourism revenues per visitor by source market. This measure is a more direct indicator of economic returns than other “activity” measures such as visitor numbers and it provides policy makers with a perspective on whether the international competitiveness of the tourism sector is improving or declining. Sources: National statistics; European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Overnights in all types of accommodation (% annual growth)</b> Percentage growth or decline year-on-year in overnight stays in all types of accommodation or, if not available, in hotels and similar establishments. This indicator focuses on the internal (inbound and domestic) tourism economy. The percentage change is an important measure of recent trends in the sector and should be particularly used in the ERP if there is a notable decline or upturn in tourism, and should be accompanied by some explanation as to why this might be the case. Source: National statistics.</p> <p><b>Occupancy rate in commercial accommodation facilities, per month, average for the year, % change</b> The average length of tourists’ stay is one of the most important indicators for accommodation businesses. Longer stays result in higher occupancy rates, which is the other key indicator for accommodation. The longer tourists stay, the higher the return on investment for marketing and sales and greater impact for hospitality businesses. As with the previous indicator, the percentage change year-on-year is important for observing trends in the sector. Source: National statistics.</p> <p><b>Visitor satisfaction rating and intention to make repeat visits</b> A consistently high customer satisfaction rating across a range of criteria, and high levels of stated intention to return indicates a competitive destination, both now and in the foreseeable future. Evidence of ability to convert interest and satisfaction into additional visits, economic benefits and social influence are associated with a high level of competitiveness. Economies that do not gather evidence of visitor satisfaction or score low in terms of the agreed criteria are associated with low levels of competitiveness. Source: National statistics (visitor satisfaction surveys).</p> <p><b>Number of recognised natural heritage sites</b> Economies with a large number of natural heritage sites, a high degree of biodiversity and a network of natural assets, formal and informal, can promote these attractions as part of a tourism competitiveness strategy. Formally designated sites can be an important ingredient in effective place making to develop strong marketing messages and attract visitors, while informal sites and natural attractions can also attain status, including through social media networks, and attract visitors, improving international competitiveness. Sources: United Nations Industrial Development Organization (UNESCO); International Union for Conservation of Nature (IUCN), biodiversity indicators.</p> <p><b>Total protected areas (% of total territorial area)</b> The indicator should be taken in conjunction with information on biodiversity and ecosystems and interpreted in light of levels of economic development and the structure of the tourism economic patterns. Geographical location and population density also play a role. Source: World Bank.</p> <p><b>Number of cultural attractions (UNESCO cultural database)</b> Countries with a vibrant and/or distinct cultural identity and range of creative activities and events can attract more visitors and economic benefits. This measure indicates the importance of cultural assets in the economy’s tourism offer. Source: UNESCO <a href="http://whc.unesco.org/en/list/">http://whc.unesco.org/en/list/</a>.</p>	<p><b>4. Underdeveloped measures to preserve the region’s natural and cultural heritage.</b> Symptoms of the obstacle include:</p> <ul style="list-style-type: none"> <li>• low number of monuments on the <i>World Heritage List in Danger</i></li> <li>• No partnership with UNESCO on the preservation of the natural and cultural heritage (normally the ministry of tourism or culture would form this partnership)</li> <li>• financing of culture heritage projects comes mainly out of government budgets with little to no financing from European pre-accession funds, the private sector, corporate philanthropy or corporate social responsibility</li> <li>• lack of regular environment risk screening and categorisation, and environment risk assessment</li> </ul> <p><b>5. Inadequate tourism infrastructure.</b> Symptoms of the obstacle include:</p> <ul style="list-style-type: none"> <li>• low number of projects to improve infrastructure around historic sites</li> <li>• low-quality transport infrastructure, limited road safety and weak intermodal connectivity (weak connectivity of tourist destinations with main transport corridors, lack of median strips, small number of overtaking lanes, narrow road shoulders, and low numbers of airline connections especially to major cities)</li> <li>• limited or no co-operation among national governments, regions and municipalities to finance common infrastructure projects (such as through public-private partnerships or through some innovative approaches to infrastructure financing (infrastructure bonds)).</li> </ul>	

1. To avoid replication, some relevant indicators regarding the overall quality of tourism infrastructure and destination accessibility can be found under the transport part of the energy and transport market reform section.

## SERVICES: Tourism (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Number of creative attractions</b> As with the previous indicator, this indicates the importance of creative attractions for the promotion of the economy and can form part of a tourism strategy, developing these assets to improve competitiveness Source: National statistics.</p> <p><b>Entry visa requirements and numbers</b> Measures: 1) the number of countries on the visa-required list and how visas are issued, including paper visas, e/visas or visa on arrival; 2) the number of visas issued each year as a share of inbound tourism arrivals. Visa requirements are part of an economy's tourism competitiveness environment. This indicator helps policy makers achieve a balance between other policy considerations and the opportunity to attract more high-spending visitors from main sources of inbound tourism by assessing visa requirements, their costs and the potential effects on tourism competitiveness. Sources: Foreign affairs and interior ministries, national tourism administrations.</p> <p><b>Number of beds available in commercial visitor accommodation facilities per 100 residents</b> Measures the accommodation capacities of a destination. Source: National statistics.</p> <p><b>Country brand strategy rating (ranking)</b> The indicator acts as a proxy for the effectiveness of the economy's marketing and branding to attract tourists, and indicates the quality of the tourism offer. Sources: National statistical agencies/government departments; private sector surveys.</p> <p><b>Use of e-tourism and other innovative services</b> Number of businesses demonstrating innovation and delivering e-tourism services. Measures the proportion of businesses within the sector that show the characteristics of innovation as defined in innovation surveys. Increasing business innovation, a focus on e-tourism and related technological tools indicate the competitiveness of the business base and its ability to capture internet and e-services business. Sources: National statistical agencies/government departments; private sector surveys.</p> <p><b>Labour productivity in tourism</b> Measures the level of and change in productivity of those employed in tourism and the productive potential of the tourism economy. Productivity is one key dimension of competitiveness. The challenge with this indicator is the difficulty of measurement, particularly addressing quality issues, and the specificity of the tourism sector, including the small size of businesses. Source: National statistics</p> <p><b>Percentage of tourism enterprises providing student internships</b> The skill level of tourism employees is indicative of the quality of employment. This indicator helps assess how many local tourism enterprises are helping to train the next generation of travel and tourism professionals. Source: National statistics</p>		



## **Business environment and reduction of the informal economy**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## BUSINESS ENVIRONMENT

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. GENERAL BUSINESS ENVIRONMENT</b></p> <p><b>Ease of doing business</b> Measures how easy it is in general to operate a business in the economy. This indicator covers the time taken and ease of starting a business, dealing with construction permits, getting electricity, registering property, getting credit, paying taxes, trading across borders, enforcing contracts and resolving insolvency, and how strong the protections for minority investors are. The index also shows for each of these indicators whether the burden is mostly regulatory and administrative, financial, or both, and the diagnostic section should make this explicit in the ERP document.</p> <p><b>Note:</b> sub-components of this index can be used as relevant for the economy. This diagnostic can highlight the areas where the economy is doing well but should mostly focus on the areas where it is lagging behind, based on the global rankings as well as the rankings with regard to peer economies (Europe and Central Asia, South East Europe etc.). <b>Source:</b> World Bank, Doing Business, <a href="http://data.worldbank.org/indicator/IC.BUS.EASE.XQ">http://data.worldbank.org/indicator/IC.BUS.EASE.XQ</a>.</p> <p><b>Global Competitiveness Index (GCI)</b> This index attempts to quantify the impact of a number of key factors which contribute to the economy's competitiveness, with particular focus on the macroeconomic conditions, the quality of its institutions, and the state of its technology and supporting infrastructure. In other words, the GCI measures "the set of institutions, factors and policies that set the sustainable current and medium-term levels of economic prosperity" (Global Competitiveness Index), i.e. those factors that facilitate or drive productivity. <b>Source:</b> World Economic Forum, Global Competitiveness Index, <a href="http://www.gaportal.org/global-indicators/global-competitiveness-index">http://www.gaportal.org/global-indicators/global-competitiveness-index</a>.</p> <p><b>Legislative simplification and regulatory impact analysis</b> Assesses the mechanisms for legislative simplification and regulatory impact assessment (RIA), including whether there is a test to ensure that the specific impact of new laws and regulations on small and medium-sized enterprises (SMEs), for example, is properly measured and mitigated. <b>Source:</b> OECD, SME Policy Index.</p> <p><b>Rule of law indicator</b> Measures the transparency and consistency of the legislation system. Indicates how transparent rules and legislation are, how predictable changes in legislation are for the public, how often laws change etc. <b>Source:</b> World Bank, Governance Indicators.</p> <p><b>II. FISCAL AND PARA-FISCAL BURDEN</b></p> <p><b>Total tax rate (% of commercial profits)</b> Measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. <b>Source:</b> World Bank, World Development Indicators.</p> <p><b>Tax filing and payment procedures</b> Assesses the smoothness of the tax payment formalities and whether efforts have been made to streamline them through the use of simplified or pre-filled tax returns, clear and user-friendly methods for calculating the tax due, and the provision of e-filing and e-payments. <b>Source:</b> OECD, Competitiveness in South East Europe.</p> <p><b>Firms identifying tax rates and procedures as a major constraint (%)</b> The percentage of firms identifying tax rates as a "major" or "very severe" obstacle, on a seven-point Likert scale. <b>Source:</b> World Bank and European Bank for Reconstruction and Development (EBRD), Business Environment and Enterprise Performance Survey (BEEPS).</p>	<p><b>1. An inconsistent, unpredictable and unfriendly legislative environment.</b> Symptoms include:</p> <ul style="list-style-type: none"> <li>• large degree of collision of purposes between laws</li> <li>• laws change frequently, with limited consultation with the private sector</li> <li>• businesses report having a hard time keeping up with rules and regulations</li> <li>• no mechanisms for legislative simplification or they are not implemented regularly and consistently</li> <li>• the chance of selective law enforcement is high, creating an uneven playing field for businesses.</li> </ul> <p><b>2. High fiscal and para-fiscal burden.</b> This obstacle is associated with one or more of the following symptoms:</p> <ul style="list-style-type: none"> <li>• high tax charges as a % of total charges</li> <li>• heavy administrative burden of taxation procedures, with businesses facing a large number of procedures when having to pay taxes</li> <li>• a high and rising share of firms identify tax rates as a major business constraint</li> <li>• a large share of firms identify frequent changes in taxation law as a major constraint</li> <li>• para-fiscal charges are high and numerous and/or unclearly specified to the knowledge of the businesses</li> <li>• para-fiscal charges represent a substantial share of subnational jurisdictions' revenue.</li> </ul> <p><b>3. An inefficient legal system,</b> adding to the difficulty of enforcement processes and the tradability of ownership rights. Symptoms include:</p> <ul style="list-style-type: none"> <li>• commercial disputes are time consuming and costly compared to</li> </ul>	<p><b>1.</b> An inconsistent legislative environment combined with frequent and silent changes of laws and regulations will <b>increase investors' reluctance to make new investments</b>. An unpredictable legislative environment and selective law enforcement <b>increases both operational costs and the difficulty of corporate planning</b>. This can be a major deterrent for foreign investors if they don't consider the economy to be a predictable and safe working environment.</p> <p><b>2.</b> High taxes and a lack of support for the simplification of tax processes <b>reduce investment, productivity and employment</b> due to the associated higher investment, operational and employment costs, and lower expected profits. High tax rates also discourage work, saving and entrepreneurship and encourage taxpayers to rearrange their tax obligations to receive more of their compensation in less heavily taxed forms.</p> <p>Relatively high para-fiscal charges <b>deter investment because they generate considerable uncertainty</b> about the costs associated with investing and operating in a specific locality.</p> <p><b>3.</b> Inefficient contract enforcement procedures also increase investor uncertainty and deter investment. The <b>rule of law and effective protections for investors' rights are key prerequisites for a well-functioning and prosperous economy</b>. Both require a well-functioning judiciary that resolves cases in a reasonable time and is predictable and accessible to the public.</p>



BUSINESS ENVIRONMENT (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Para-fiscal charges</b> Assesses the number of separate para-fiscal charges and their size relative to the economy. Source: Various (foreign investors council, chambers of commerce etc.)</p> <p><b>III. PROPERTY RIGHTS AND CONTRACT ENFORCEMENT</b></p> <p><b>Country Policy and Institutional Assessment (CPIA) property rights and rule-based governance</b> Assesses the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced. Source: World Bank Group, CPIA.</p> <p><b>Small- and large-scale privatisation</b> Measures the percentage of enterprise assets transferred from public to private ownership. Source: EBRD, Transition Indicators.</p> <p><b>Contract enforcement</b> Measures the time taken and cost of resolving a commercial dispute through a local first-instance court. Source: World Bank, Doing Business report.</p> <p><b>IV. COMPETITION</b></p> <p><b>Competition policy</b> Measures the restrictions faced by new market entrants, abuse of market power and the promotion of competitive environment. Source: EBRD, Transition Indicators.</p> <p><b>V. CORRUPTION AND THE INFORMAL ECONOMY</b></p> <p><b>Corruption Perceptions Index (Transparency International) &amp; Control of Corruption Index (World Bank)</b> Measures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Sources: Transparency International, Corruption Perceptions Index; World Bank, Control of Corruption Index.</p> <p><b>Informal employment (% of total employment; and % of GDP)</b> Firstly, this indicator serves to measure informal employment as a share of total employment. It also looks at the working poverty rate in the economy, which is often directly associated with informal employment and poor working conditions, informal sectoral employment and formal employment in the informal sector as a percentage of total employment. Additionally, an estimate calculation of the total size of the informal economy, as a percent of the national GDP, could help understand the actual depth of informality in an economy. Source: International Labour Organization, country-specific studies and assessments ; National Bank Calculations, WB, Other IFI Publications.</p> <p><b>Firms identifying the practices of informal competitors as a major constraint (%)</b> Measures the percentage of firms identifying the practices of competitors in the informal sector as a “major” obstacle on a seven-point Likert scale. Source: World Bank, Enterprise Surveys</p>	<p>EU averages, sometimes because there is no separate commercial settlement circuit and commercial disputes are still settled by civil courts</p> <ul style="list-style-type: none"> <li>there is no clearly established way of resolving disputes, adding to the uncertainty and unpredictability of the legal system</li> <li>property rights are unclear and difficult to enforce</li> <li>no clear legal measures to minimise liability exposure, especially for small businesses.</li> </ul> <p><b>4. No efficient policies to enhance competition have been implemented.</b> Some aspects worth mentioning are:</p> <ul style="list-style-type: none"> <li>limited opportunities to restructure enterprises or legal procedures for restructuring are unclear and complex</li> <li>consumer protection or antitrust legislation is weak, particularly for small businesses</li> <li>new market entrants face high barriers to entry</li> <li>dominant market positions are abused in many sectors</li> <li>little guidance is available to external participants about the competition authorities’ enforcement practices</li> <li>public procurement is not done in a transparent and objective manner.</li> </ul> <p><b>5. The informal sector makes up a relatively large share of the total economy.</b> Symptoms of this obstacle include:</p> <ul style="list-style-type: none"> <li>a large share of enterprises operating in the shadow economy</li> <li>a large share of enterprises cite strong and unfair competition from the informal economy (uncontrolled seasonal employment, no social protection required, etc.)</li> </ul>	<p>Effective protection and enforcement of property rights is also <b>associated with better access to external finance</b>. Clear property rights make it easier for firms to meet collateral requirements and to receive bank- and non-bank financing.</p> <p><b>4.</b> Competition policies lie at the heart of a successful transition to a well-functioning market economy. Ineffective competition policies <b>result in monopolies and restrictive trade practices, which stifle private sector growth</b>. As a consequence, the ubiquitous role of the state in the planned economy may simply be replaced by dominant firms controlling segments of a distorted market economy. On the other hand, effective competition policies allow for market entry deregulation which can <b>drive productivity growth by shifting market share towards more efficient producers</b>, and inducing firms to become more efficient so to survive.</p> <p><b>5.</b> A large informal economy relative to the total economy is associated with:</p> <ul style="list-style-type: none"> <li><b>Lack of protection</b> in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance (ILO, Transitioning from the informal to the formal economy, 2014).</li> <li><b>Loss of budget revenues</b> by reducing taxes and social security contributions paid to the state, which impacts the availability and quality of public goods and services. It invariably leads to a high tax burden on registered labour (The World Bank).</li> </ul>

## BUSINESS ENVIRONMENT (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Public procurement</b> Measures the degree of transparency to which public authorities, such as government departments or local authorities, purchase works, goods and services to boost economic growth, and whether such arrangements are more or less prone to corruption (e.g. if contracts are negotiated without prior published notice or through a call for tender), on a scale from 0 to 5. Source: OECD, Competitiveness in South East Europe.</p> <p><b>VI. ACCESS TO FINANCE</b></p> <p><b>Domestic credit to private sector (% of GDP)</b> Measures the financial resources as a share of gross domestic product (GDP) provided to the private sector by financial corporations through loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. Source: World Bank, World Development Indicators.</p> <p><b>Real interest rate (%)</b> Measures the lending interest rate adjusted for inflation as measured by the GDP deflator. Source: World Bank, World Development Indicators.</p> <p><b>Bank nonperforming loans to total gross loans (%)</b> Measures the value of nonperforming loans divided by the total value of the loan portfolio (including nonperforming loans before the deduction of specific loan-loss provisions). The loan amount recorded as nonperforming should be the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue. Source: World Bank, World Development Indicators.</p> <p><b>Value of collateral requirements (% of loan amount)</b> Measures the value of collateral needed for a loan or line of credit as a percentage of the loan value or the value of the line of credit. Source: World Bank, Enterprise Surveys.</p> <p><b>Market capitalisation of domestic listed companies (% of GDP)</b> Measures the market value of the companies listed on the domestic stock market as a percentage of GDP. Source: The World Bank Group.</p> <p><b>Financial literacy and investment readiness</b> The financial literacy indicator considers whether a national strategy is in place for assessing financial literacy levels and promoting financial education. It also determines whether the government runs any financial education programmes and whether financial information is widely available to the public. The investment readiness indicator looks at businesses' familiarity with equity finance and their knowledge of how to "sell" their ideas to potential investors. Source: OECD, Competitiveness in South East Europe.</p> <p><b>Firms using banks to finance investment (% of firms)</b> Measures the percentage of firms using banks to finance investments. Source: World Bank, World Development Indicators</p> <p><b>Entrepreneurs citing access to finance as a constraint (% of entrepreneurs)</b> Indicates to what extent access to finance is perceived as a constraint by entrepreneurs compared to other constraints based on BEEPS, a firm-level survey of a representative sample of the economy's private sector. Source: World Bank and EBRD, BEEPS.</p>	<p>• high costs of operating in the formal economy</p> <p>• limited enforcement of legal obligations in the informal sector and a lack of effective sanctioning of informal practices.</p> <p><b>6. Corruption is still a problem for both the public and private sector</b> (i.e. the government and private contractors). Symptoms include:</p> <ul style="list-style-type: none"> <li>• a significant share of contracts not going to the best-qualified suppliers, frequently inflated prices to cover bribe payments, environmental requirements not being enforced and taxes not being collected</li> <li>• large informal payments made to public officials to "get things done"</li> <li>• internal auditing institutions are unable to trigger reliable investigations of government operations.</li> </ul> <p><b>7. Limited access to finance remains one of the biggest problems for firms, especially for innovative companies.</b> This obstacle has a number of dimensions. Firms' access to finance is constrained by uncertain prospects of success, long time horizons, a lack of tangible assets to be used as collateral and a limited operating history. Key constraints in this area include:</p> <ul style="list-style-type: none"> <li>• cadastre systems are only partially in place, and not fully functional and accessible by banks and other credit institutions</li> <li>• collateral requirements, as a key pre-condition for obtaining funding, are still high</li> <li>• interest rates are high compared to relevant benchmarks</li> <li>• non-performing loans are high compared to relevant benchmarks</li> </ul>	<p>• Relative advantages for informal firms, i.e. when labour <b>costs/taxes/social contributions are too high</b>, thus creating unfair competition to enterprises operating in the formal sector.</p> <p><b>6.</b> Corruption has a significant negative effect on growth drivers, such as investment, including foreign direct investment (FDI); competition; entrepreneurship; government efficiency, including government expenditure and revenue; and human capital formation. <b>High-level corruption leads to inefficiency and resource misallocation.</b> Corruption will also affect other important indicators of economic development such as the quality of the environment, personal health and safety, equity (income distribution), and various types of social or civic capital ("trust") – which significantly affect economic welfare and, in the case of trust, also the economy's development potential.</p> <p><b>7.</b> Limited access to finance is one of the most pronounced barriers to efforts to build productive capacity and competitiveness, thus <b>hampering job creation, social inclusion and sustainable growth.</b> The reasons for this include:</p> <ul style="list-style-type: none"> <li>• <b>Poor quality financial intermediation</b> (i.e. the inability of institutions to successfully intermediate between lenders and borrowers) results in high transaction costs, high levels of non-performing loans, and limited access for small firms and households to financial services. Ideally, economies should aim to improve intermediation to ensure proper and precise fund allocation, boosting domestic investments and thus productivity and economic growth.</li> </ul>

BUSINESS ENVIRONMENT (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
	<ul style="list-style-type: none"> <li>• bankruptcy procedures are inefficient, slow and poorly defined</li> <li>• financial literacy levels are very low and no national financial education strategy has been implemented</li> <li>• credit guarantee schemes are limited in number and scope, government credit rating is low and there are no risk sharing mechanisms available</li> <li>• development banks are not filling in the gap left by private banks, either due to limited finance, poor targeting of enterprises, or because there are no development banks in the economy.</li> </ul> <p><b>7.1. Limited access to equity finance</b>, with equity financing undeveloped in the economy. Symptoms include:</p> <ul style="list-style-type: none"> <li>• undeveloped capital markets (stock market capitalisation and liquidity is low relative to benchmark)</li> <li>• venture capital activity is in its infancy and lacks clear legal definitions</li> <li>• limited angel investment activity, often with no legal framework to governing.</li> </ul> <p><b>7.2. Limited alternative sources of financing.</b> Symptoms include:</p> <ul style="list-style-type: none"> <li>• limited use of factoring and a lack of explicit factoring laws</li> <li>• crowdfunding hardly exists or is in the early stages of development</li> <li>• microfinance lacks a well-established regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Poorly functioning credit markets</b> with high collateral requirements reduce demand in the economy due to high costs or the inability of firms to meet lenders' terms. Banks usually resort to over-collateralising when there are problems associated with foreclosure and loan-recovery procedures. Inefficient bankruptcy procedures (which are of great importance if businesses are to be able to access finance and thus survive) as well as the lack of second chance opportunities will further worsen the terms of borrowing and reduce investment.</li> <li>• <b>Undeveloped cadastre systems</b> mean credit information registers are of little use to banks. They also mean banks will not be able to efficiently assess the risk associated with borrowers, thus reducing the availability of bank finance to the private sector and hence investment.</li> <li>• <b>Lack of relevant legislation covering venture capital and angel investments</b> leaves investors inadequately protected, reducing both the supply and demand of such investments. This limits the use of funding channels for high-potential business start-ups such as crowdfunding. Failure to exploit such potential sources of investment directly reduces the economy's productivity, innovation and investment potential.</li> <li>• <b>Lack of financial literacy and investment readiness</b> contributes to the underuse of the financial sector as a source of funds. Lack of a national financial education strategy affects people's understanding of how the financial system works, the different types of finance available and how to access it.</li> </ul>

## **Trade-related reforms**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## TRADE-RELATED REFORMS

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. GENERAL TRADE INDICATORS</b></p> <p><b>Total trade in goods and services (% of GDP, % change)</b> Trade in goods and services is defined as the transfer in ownership of material resources and services between one economy and another. It is measured as a percentage of gross domestic product (GDP) for net trade and also annual growth of exports and imports. Sources: National statistics agencies; World Bank, World Development Indicators.</p> <p><b>Openness to trade (trade-to-GDP ratio for latest available year)</b> Measures openness to trade as the trade-to-GDP ratio. It weighs the combined importance of exports and imports of goods and services in an economy, giving an insight into the overall access to foreign markets by domestic firms, as well as the extent of foreign penetration into the national market. Sources: National statistics agencies; World Bank, World Development Indicators.</p> <p><b>Trade balance deficit/surplus (% of GDP, time series, last 10 years)</b> Indicates the degree to which domestic demand exceeds domestic supply, or vice versa. Provides an indication of the economy's international competitiveness. Sources: National statistics agencies; central banks; World Bank, World Integrated Trade Solution (WITTS).</p> <p><b>Current account deficit/surplus (% of GDP; time series, last 10 years, indicating the share of net trade in goods, net trade in services, net income and net current transfers in the final figure)</b> The current account covers all transactions (excluding financial items) that involve economic values and occur between residents and non-resident entities. It includes some of the indicators observed in the balance of trade (plus/minus trade levels of goods and services) but it gives a better/fuller insight into the overall health and international competitiveness of an economy. Persistent current account deficits or surpluses indicate a macroeconomic imbalance that is not conducive to sustained economic growth and, therefore, sustained implementation of sustainable development goals. Sources: National statistics agencies; World Bank; International Monetary Fund (IMF).</p> <p><b>Exports of goods and services (% of GDP, by sector (agriculture, industry, services))</b> Merchandise trade, comprising goods and services leaving the statistical territory, as a share of GDP. This indicator helps to better understand the level of external demand for domestic goods and services, thus also illustrating the international competitiveness of goods and services produced in the economy. Source: National statistics agencies.</p> <p><b>Imports of goods and services (% of GDP, by sector (agriculture, industry, services))</b> Merchandise trade, comprising goods and services entering the statistical territory, as a share of GDP. Indicates how dependent an economy is on goods (raw materials, foodstuffs, machinery, etc.) and services coming from its trade partners. Source: National statistics agencies.</p> <p><b>Main trade partners (ranked as a share of total trade and in absolute terms)</b> This indicator provides an insight into the general trade dynamics of an economy: whether it has a diverse range of trading partners or is tied to just a handful. Dependence on a few trading partners suggests heightened vulnerability to economic developments (particularly shocks) in those countries, especially if they are all part of the same trading block. Sources: National statistics agencies; United Nations; Comtrade Database; World Bank, WITTS.</p>	<p><b>1. Low level of openness to trade and low level of integration into the multilateral trading system</b></p> <ul style="list-style-type: none"> <li>trade as a share of GDP is low</li> <li>little participation in bilateral and multilateral trade agreements</li> <li>large and numerous tariffs and other barriers to trade.</li> </ul> <p><b>2. Low quality of trade infrastructure and logistics</b></p> <ul style="list-style-type: none"> <li>low quality of transport and other trade-related infrastructure, as demonstrated by relevant indices</li> <li>limited connectivity to main transport corridors and main trading partners</li> <li>low score on the LPI.</li> </ul> <p><b>3. Slow, expensive and cumbersome customs procedures.</b> Symptoms of this obstacle include: <ul style="list-style-type: none"> <li>clearing exports through customs takes a significant number of days (with no significant reductions in recent years)</li> <li>a below regional average position in the Doing Business Trading Across Borders ranking, as well as any specific sub-indicators in which an economy does particularly poorly compared with regional or other averages</li> <li>a low score for the LPI Dimension 1 indicator (efficiency of the clearance process).</li> </ul> </p> <p><b>4. Low level of harmonisation with international standards</b> resulting in trading blocks. Symptoms include: <ul style="list-style-type: none"> <li>Few quality and eco-standards are implemented or certificates issued (HACCP and ISO 22000 in the agricultural sector; ISO/TS 16949, ISO 9000/9001; CE marking in manufacturing, etc.)</li> </ul> </p>	<p>1. A low level of openness to trade is often associated with a lower level of economic growth. This is due to a number of reasons:</p> <ul style="list-style-type: none"> <li><b>inefficient allocation of resources</b> (inability to benefit from a focus on comparative advantage and resulting gains from trading with other economies)</li> <li><b>inability to realise economies of scale and scope</b> and the resulting efficiency gains</li> <li><b>inability to benefit from diffusion of knowledge</b> and, as a result, fostering of technological progress</li> <li><b>limited competition from foreign markets</b> which affects domestic productivity as well as prices.</li> </ul> <p>2. Low quality trade infrastructure and logistics reduce the economy's external competitiveness and trading capacity. <b>Enterprises need cheap and reliable access to a network of high-quality infrastructure to be more competitive.</b> No or low-quality infrastructure may cancel out an economy's potential comparative advantage in the production of a product.</p> <p>3. Slow, expensive and cumbersome customs procedures also deter trade. <b>The longer it takes to complete a transaction, the greater the tendency for trade volumes to be reduced.</b> Lengthy procedures for exports and imports reduce the probability that firms will enter export markets for time-sensitive products.</p> <p>4. Low levels of harmonisation with international standards <b>limits economies' export capacities and ability to link up to global value chains.</b> Inadequate alignment with international standards and practices</p>

## TRADE-RELATED REFORMS (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Main export and import products (HS-6 Digit Level, product share and total value)</b> Identifies the main product categories concerned in the economy's import and export trade using the Nomenclature statistique des activités économiques dans la Communauté européenne (NACE) Revision 2, or the Harmonized Commodity Description and Coding System (HS-4 or HS-6). Dependence on a few export products makes an economy vulnerable and indicates that scope for diversification is high. This indicator can also give a sense of the sophistication of exports and the scope for moving up the value chains/increasing value added. Last but not least, it can help to identify currently imported products that could be replaced by domestically produced goods.</p> <p>Sources: National statistics agencies; United Nations, Comtrade Database; World Bank, WITS.</p> <p><b>Percentage of firms exporting directly or indirectly (at least 1% of sales)</b> Calculates the share of firms producing goods and services that are ultimately consumed in foreign markets. It provides insights into the extent to which domestic enterprises meet the quality, safety and other standards needed to export to foreign markets.</p> <p>Source: World Bank, Enterprise Survey</p> <p><b>Logistics Performance Index (LPI) score and rank (time series, last 10 years)</b> The LPI ranks 160 countries on 6 dimensions of trade – including performance, infrastructure quality and timeliness of shipments – that are increasingly recognised as important to development. The data used in the ranking come from a survey of logistics professionals. The LPI provides insights on the overall quality of all trade-related logistics in a particular economy, thus determining its overall trading conditions.</p> <p>Source: World Bank, LPI.</p>	<p>See the relevant indicators in the Sectoral Development policy area diagnostics.</p> <ul style="list-style-type: none"> <li>Fragmented legislation, multiple jurisdictions, and weaknesses in surveillance, monitoring and enforcement of national standards office control systems.</li> <li>Domestic companies do not widely participate in global value chains.</li> </ul> <p><b>5. Low export diversification and sophistication</b></p> <ul style="list-style-type: none"> <li>few export products and potential markets</li> <li>high final score in the Herfindahl-Hirschman product concentration index</li> <li>low value for the export market penetration measure</li> <li>a relatively high share of resource-based and primary product exports, compared to low, medium and high technology exports</li> <li>low level of export sophistication for the economy's main exports, which ultimately results in an overall low expected GDP per capita result – indicating a less sophisticated export portfolio.</li> </ul>	<p>closes prospective markets to the agricultural and industrial sectors. Standards are also a major obstacle to the integration of domestic companies into global value chains, which in turn reduces their scope for growth and productivity gains.</p> <p><b>5. Low export diversification makes economies vulnerable to price volatility.</b> A broadening of the export base through a more diversified national trade portfolio can help maintain stability in export receipts, thus fostering long-term economic growth. As Acemoglu and Zilibotti (“Was Prometheus unbound by chance? Risk diversification and growth”, Journal of Political Economy 105(4): 709-751, 1997) argue, diversification may increase income by spreading risks over a wider export portfolio of goods and services.</p> <p>Export sophistication helps move economies away from a <b>reliance on primary commodities – which usually translates into declining terms of trade, low value added, and slower productivity growth.</b></p>
<p><b>II. CUSTOMS-RELATED INDICATORS</b></p> <p><b>Days to clear direct exports through customs (time series, last 10 years)</b> Specifies the average number of days to clear direct exports through customs as reported by the firms surveyed in the World Bank's Enterprise Survey.</p> <p>Source: World Bank, Enterprise Survey</p> <p><b>Doing Business Trading Across Borders indicators, overall ranking and specific topics (time series, last 10 years)</b></p> <ul style="list-style-type: none"> <li>overall rank in Trading Across Borders</li> <li>time to export: border compliance (hours)</li> <li>cost to export: border compliance (USD)</li> <li>time to export: documentary compliance (hours)</li> <li>cost to export: documentary compliance (USD)</li> <li>time to import: border compliance (hours)</li> <li>cost to import: border compliance (USD)</li> <li>time to import: documentary compliance (hours)</li> <li>cost to import: documentary compliance (USD)</li> </ul> <p>A series of indicators based on a sample import/export procedure in one border gate to estimate the bureaucratic and monetary burden of importing and exporting.</p> <p>Source: World Bank, Doing Business – Measuring Business Regulations “Trading Across Borders” <a href="http://www.doingbusiness.org/data/exploretopics/trading-across-border">www.doingbusiness.org/data/exploretopics/trading-across-border</a>.</p> <p><b>LPI score and rank (time series, last 10 years)</b></p> <ul style="list-style-type: none"> <li>overall position in the ranking</li> <li>Dimension 1: Efficiency of the clearance process (i.e. speed, simplicity and predictability of formalities) by border control agencies, including customs.</li> </ul> <p>Indicators based on various logistical aspects of trade (from infrastructure to bureaucratic procedures), including a specific indicator on the efficiency of the import/export clearance process.</p> <p>Source: World Bank, LPI.</p>		

## TRADE-RELATED REFORMS (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>III. TRADE LIBERALISATION/MARKET ACCESS INDICATORS</b></p> <p><b>Number of regional and bilateral free trade agreements (FTAs)</b> Notes the number of regional or bilateral free trade agreements currently in force in an economy. FTAs have proved crucial in the reduction of trade barriers, and the creation of more stable and transparent trading and investment environments, allowing for increased exports of products and services to partner countries. <i>Source:</i> National trade or economy ministry.</p> <p><b>Tariffs by product groups (summary and duty ranges)</b> Summarises the state of play for tariffs on agricultural and industrial products, including the share of duty-free products, and the average and maximum final bound duties, as well as the same categories for trade partners granted most-favoured nation status. <i>Source:</i> World Trade Organization, Statistics database (tariff profiles).</p> <p><b>Information on non-tariff barriers (NTBs), number of NTB measures, and number of affected products (HS-6 Digit)</b> Specifies the number of distinct NTB measures in effect in a given year, as well as the number of specific products (at the HS 6-digit level) affected in a given year. <i>Source:</i> World Bank, WITS.</p> <p><b>Quantitative restrictions (number and types of quotas)</b> Details the limits, if any, imposed on the value or volume of goods traded. <i>Source:</i> World Trade Organization, Quantitative Restrictions database.</p> <p><b>IV. EXPORT DIVERSIFICATION AND SOPHISTICATION</b></p> <p><b>1. Diversification</b></p> <p><b>Number of products and markets</b> Lists all trading partners and gives the number of partner markets and number of products exported, classified at the 6-digit HS level. <i>Source:</i> World Bank, WITS.</p> <p><b>Herfindahl-Hirschman product concentration index</b> Measures the distribution of trade value across an exporter's partners. An economy with most of its trade value concentrated in a very few markets will have an index value close to 1. Indicates the exporter's dependency on its trading partners and the danger it faces should its partners increase trade barriers, face downward business cycles or other risks. Measured over time, a fall in the index may indicate a diversification of trading partnerships. <i>Source:</i> World Bank, WITS.</p> <p><b>Index of export market penetration</b> Measures the extent to which an economy's exports reach already proven markets. Calculated as the number of countries to which the economy exports a particular product, divided by the number of countries that report importing the product that year. A low value may signal the presence of barriers to trade that are preventing firms from expanding their export markets. <i>Source:</i> World Bank, WITS.</p>		



TRADE-RELATED REFORMS (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>2. Sophistication</b></p> <p><b>Technological classification of exports</b> Provides a percentage breakdown of an economy's exports according to five broad technological categories of final products: high tech, medium tech, low tech, primary products and resource-based products. While the assignment of products to specific categories is not uncontroversial, analysing how an economy's export basket has changed over the years may give insight into the pattern of its economic development. Source: World Bank, WITTS.</p> <p><b>Sophistication of exports (EXPY)</b> Estimates the level of technological sophistication embodied in an economy's export portfolio, indicating its economic development. This measure is based on the assumption that if a product is mostly produced by developed countries, then it is revealed to be a "rich" or sophisticated product. The export sophistication figure is calculated as a weighted average of per capita GDP of countries producing that product, with weights derived from revealed comparative advantage. The economy's expected GDP per capita, EXPY, is calculated by summing all the export sophistication values for the products it exports, weighted by the product's share of total exports. Sources: World Bank, WITTS; Harvard, Atlas of Economic Complexity; MIT, Observatory of Economic Complexity.</p>		

## INVESTMENT FACILITATION

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. GENERAL INDICATORS</b></p> <p><b>Foreign direct investment (FDI) flows (% of GDP, time series, last 10 years)</b> Assesses the dynamics of investment (including pre- and post-financial crisis flows), as well as to understand the nature of the FDI (for example noticeable peaks may be linked to large-scale privatisations, rather than new greenfield investments). Source: National central banks.</p> <p><b>FDI flows, in million EUR, classified by type of activity (NACE Rev 2)</b> Helps discern whether the majority of FDI goes to the non-tradable sector, particularly financial operations and real estate. Source: National central banks.</p> <p><b>FDI stocks in million EUR, by investor countries and type of activity (NACE Rev 2, time series, last 20 years)</b> The first time series shows the patterns in investment relations with different countries and can also help determine if the economy is dependent on FDI from a limited number of economies. This second time series will further help in understanding where FDI flows have gone in the last two decades – covering the entire transition to market economies of these economies. Source: National central banks.</p> <p><b>Cumulative GDP of economies with which bilateral investment agreements are in force</b> Indicates the extent to which an economy has signed investment agreements with sizeable foreign economies (e.g. France, Germany, Italy and the United States), which tend to also be the biggest sources of FDI. Such agreements are crucial facilitators for foreign investment, since they highlight the willingness of an economy to apply international arbitration and dispute settlement mechanisms with potential foreign investors. Sources: UNCTAD (2015), <a href="http://unctad.org/en/Pages/DIAE/FDI%20Statistics/Interactive-database.aspx">http://unctad.org/en/Pages/DIAE/FDI%20Statistics/Interactive-database.aspx</a>; OECD, Competitiveness in South East Europe (Chapter 1, Sub-dimension 1).</p> <p><b>Investment freedom ranking (Index of Economic Freedom)</b> Starting from an ideal score of 100, the Investment Freedom Index deducts points for each restriction found in an economy's investment regime, applying to: 1) national treatment of foreign investment; 2) restrictions on land ownership; and 3) the expropriation of investments without fair compensation. Sources: UNCTAD (2015), <a href="http://unctad.org/en/Pages/DIAE/FDI%20Statistics/Interactive-database.aspx">http://unctad.org/en/Pages/DIAE/FDI%20Statistics/Interactive-database.aspx</a>; OECD, Competitiveness in South East Europe (Chapter 1, Sub-dimension 1).</p> <p><b>Investing Across Borders indicators on FDI regulation</b> The Investing Across Borders indicators assess the laws, regulations and practices that affect foreign direct investment. The methodology is based on that of the World Bank Group's Doing Business project. The indicators highlight differences in economies' regulatory treatment of FDI to identify good practices, facilitate learning opportunities, stimulate reforms and provide annual cross-country data. The indicators cover four main areas: 1) investing across sectors (from mining, oil and gas to health care and waste management); 2) starting a foreign business; 3) accessing industrial land; and 4) arbitrating commercial disputes. Source: World Bank, Investing Across Borders.</p>	<p><b>1. Unfavourable business and investment climate.</b> See indicators and obstacles identified in the business environment policy area table. If they are explained in detail in that section, only general reference to the key obstacles should be made here, in one or two sentences.</p> <p><b>2. Lack of or inefficient FDI-targeting policies</b> (i.e. with an emphasis on specific sectors or specialising in a particular typology of investment). Symptoms include:</p> <ul style="list-style-type: none"> <li>• Lack of a strategic and focused approach to investment promotion (no strategic sector targeting, insufficiently analytical approach to identification of strategic sectors etc.).</li> <li>• Investment unable to establish backward and forward linkages with domestic firms, risking isolating FDI from the rest of the economy, and limited government initiatives and policies to support such linkages.</li> <li>• Lack of aftercare services, leaving foreign investors alone to deal with a semi-unknown market.</li> </ul>	<p><b>1.</b> An unfavourable business and investment climate means the following benefits are not realised:</p> <ul style="list-style-type: none"> <li>• Increased external investment in tradable sectors directly expands an economy's productive capacity, which is reflected in an <b>expansion of job creation rates and economic growth</b>.</li> <li>• Increased investment flows affect economic growth not only because investment functions as a measure of increased capital accumulation but also because of the resulting <b>transfer of technology and skills, not just hard skills, but also entrepreneurial ones</b>. An expanded transfer of technology can be translated into a rise in the production of capital goods and thus more exports.</li> <li>• FDI also helps in the process of technological progress, mainly by means of "<b>capital deepening</b>" that comes along with the introduction of new varieties of capital goods.</li> <li>• The initial FDI investment is marked as is a credit into the current account. <b>Steady FDI inflows thus can help to lower a credit account deficit</b>.</li> <li>• FDI inflows can also increase capital accumulation and augmented human capital through education, training and new management. <b>More productive foreign firms stimulate industry competition</b>, which is often useful for domestic firms. Thus, domestic firms with foreign investment have higher-quality output, which requires markets to match this quality, <b>driving up production standards</b> in other competitive domestic firms and supplementary business. Similar spillovers can be created through <b>supplier linkages between FDI and local SMEs</b>.</li> </ul>
<p><b>II. QUALITY OF INVESTMENT, INVESTMENT POLICY AND PROMOTION</b></p> <p><b>Existence of investor-targeting strategies</b> Measures the extent to which national investment promotion agencies effectively screen potential investors in order to identify the most suitable ones. Source: National sources.</p> <p><b>FDI and small and medium-sized enterprise (SME) linkages</b> Measures the extent to which specific public policies aim to boost linkages between FDI and a local supplier base. Source: National sources.</p> <p><b>Aftercare services</b> Measures the support offered to investors once they have set up their business operations. Source: National sources.</p>		

INVESTMENT FACILITATION (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
		<p>2. Lack of or inefficient policies targeting FDI</p> <ul style="list-style-type: none"> <li>• Poor resource allocation and management of investment attraction policies have a <b>negative impact not only due to the overall fiscal burden they impose</b>, but also prevent adequate investments that are more likely to succeed coming in the country.</li> <li>• Broad FDI policies may increase the <b>risk of a race to the bottom</b> with neighbouring economies or competitors due to the <b>lack of long-term policy approaches</b>. Investments based purely on short-term fiscal holidays, with no pre-selection mechanism, are a noticeable drain on national budgets, and the <b>initial advantages</b> such as new jobs <b>may quickly be reversed</b> whether because the investing corporation decides to reallocate or because the combined costs exceed the perceived benefits of the investment.</li> <li>• Aftercare services are essential to <b>build a solid relation with existing investors</b> and increase trust among prospective ones. Thus, good aftercare services may function as a <b>pull factor for future investments</b>, increasing the prospect of future, more valuable exports.</li> </ul>

## **Research, development and innovation (RDI) and Digital Economy**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## RESEARCH, DEVELOPMENT AND INNOVATION (RDI)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. RESEARCH BASE</b></p> <p><b>Gross domestic expenditure on research and development (GERD), % of gross domestic product (GDP)</b> Measures the level of expenditure (both public and private) on research and development. Innovation has considerable positive externalities for the economy and society, and therefore its financing is needed to support and stimulate research, development and innovation (RDI) activities. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Business enterprise research and development (BERD) expenditure</b> Measures the amount of business expenditure on RDI in millions of euros or local currency. It signals firms' commitment to the systematic generation and commercial application of new ideas, although it is not a direct measure of innovation performance (quality of expenditure). Source: National statistics.</p> <p><b>Number of organisations involved in Horizon 2020</b> Horizon 2020 is the biggest EU research and innovation programme ever with nearly EUR 80 billion of funding available over 7 years (2014-20). A solid number of eligible applications from the economy suggest local innovators are aware of the possibilities offered by the EU to support innovation. Source: National statistics.</p> <p><b>RDI personnel, per million people</b> Measures the number of researchers in relation to the population. An adequate number of researchers are needed to perform RDI activities. Source: National statistics.</p> <p><b>Patent applications, residents</b> Measures worldwide patent applications filed through the Patent Cooperation Treaty procedure or with a national patent office for exclusive rights for an invention – i.e. a product or process that provides a new way of doing something or offers a new technical solution to a problem. A patent provides protection for the invention to the owner of the patent for a limited period, generally 20 years. It is a relevant indicator of the number of discoveries with a practical application and commercial potential. Source: World Bank, Data Bank, <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>.</p> <p><b>II. INNOVATION SUPPORT ORGANISATIONS</b></p> <p><b>Major RDI infrastructure in the country (incubators, accelerators, technological parks etc.)</b> Such infrastructure is crucial to start-ups with limited financial capacity to conduct both their business and RDI activities during different phases of their life cycle. It also has the effect of putting innovative businesses in direct contact with each other, with positive spillover effects. Source: National statistics.</p> <p><b>Number of start-ups active in incubators/parks</b> Total number of active businesses in incubators and technological parks. Indicates the relevance and demand for such services in the economy. Source: National statistics.</p> <p><b>Services offered by the public sector to innovative enterprises</b> Measures the range of services the public sector offers to innovative businesses, beyond hard infrastructure. This can include training, mentoring, innovation promotion, investors networking and matching. Source: National statistics.</p>	<p><b>1. Insufficient financing for innovation.</b> Limited funds to conduct and support RDI activities across the spectrum, from basic research to applied research and final testing. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• low levels of RDI expenditure (low GERD as a share of GDP compared to relevant benchmarks)</li> <li>• RDI is mostly publicly funded with very limited contribution from the private sector (private GERD, BERD, and SME product innovation are low compared to relevant benchmarks)</li> <li>• public RDI programmes are limited to short time periods (1-2 years) and not renewed in time causing disruption in programme activities</li> <li>• limited or non-existent tax incentives for private sector RDI expenditure or for private procurement of innovation.</li> </ul> <p><b>2. Limited hard and soft infrastructure.</b> By "hard" infrastructure we mean the facilities and laboratories in which innovation takes place, while "soft" infrastructure is mainly related to the skills needed to implement and perform innovation. These include the availability of expert consultants in topics of RDI, business development, IP laws and other.</p> <p><b>3. Limited inter-institutional co-ordination:</b> poorly developed inter-ministerial RDI policy co-ordination and monitoring and evaluation practices, due to a lack of dedicated state-level strategic documents clearly outlining governance structures and responsibilities across different institutions. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• overlapping RDI support activities across different ministries and institutions</li> <li>• no clear governance structure for innovation-related activities at the state level</li> </ul>	<p><b>1. and 2.</b> Low RDI expenditure reduces the rate of innovation in goods and services in the economy. <b>Less innovative products imply a less competitive economy</b>, which in turn is reflected in a trade deficit and low productivity, which in turn feeds into low wages. Overall, GDP growth is slowed.</p> <p><b>3. and 4.</b> Lack of institutional co-ordination leads to <b>suboptimal utilisation of scarce public resources in the field of RDI</b>, risking duplication of effort across different institutions. Support may not cover the full life cycle of the innovation process, often failing to link basic research and development to the final innovative output, an innovative product on the market. This also reduces the level of innovation in the economy.</p> <p><b>5. and 6.</b> Lack of co-operation across the private sector, public sector and academia <b>prevents effective knowledge transfer, leading to missed opportunities for economic development.</b> Basic research doesn't translate into new discoveries, while private businesses remain unaware of the latest research, and thus cannot provide insight into its applicability to the market.</p>

## RESEARCH, DEVELOPMENT AND INNOVATION (RDI) (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Private sector self-sustainable initiatives</b> Special attention should be given to private sector activities aimed at supporting innovation, including the provision of infrastructure and services on a market basis. Where these exist, state intervention can have a negative impact, crowding out sustainable market-led projects with publicly financed activities. These funds could be better spent on areas not covered by private provision. Therefore, an initial mapping of all activities coming from private institutions can be beneficial (business angel networks, private incubators and accelerators, private sources of RDI funding, venture capitals, etc.). Source: National statistics.</p> <p><b>III. INCENTIVES FOR RDI</b></p> <p><b>RDI grants for businesses</b> Direct financial support for RDI gives firms a relevant incentive to conduct research and introduce innovative goods and services into the market, such as voucher schemes. Source: National statistics.</p> <p><b>Availability of fiscal support for RDI activities</b> Indirect forms of financial support to RDI in the private sector can include various tax incentives – fiscal forms of monetary support aimed at facilitating RDI activities conducted by the private sector. Source: National statistics.</p> <p><b>Presence of public procurement for innovation</b> Public procurement can play a relevant role in driving demand for innovative solutions. Provisions targeting small and medium-sized enterprises (SMEs), or specifically innovative solutions, can help businesses achieve the economies of scale they need to make their innovations sustainable and give them wide public recognition. Source: National statistics.</p> <p><b>IV. COMMERCIALISATION OF RDI</b></p> <p><b>Small businesses introducing product or process innovations (% of total firms)</b> Measures the share of innovative SMEs out of the total number in the economy. SMEs are often more flexible than larger firms, and able to adopt new solutions more quickly, in both their production and their processes. However, SMEs might lack the financial instruments to follow up on their innovative ideas; a low share of innovative SMEs might signal the need to intervene in support of SMEs and their RDI activity. Source: National statistics.</p> <p><b>Innovations introduced by firms broken down by type (such as technological, marketing or organisational innovations)</b> Measures the share of innovation by type of innovation. These include je product, process, organisational or marketing innovations. Public support should address all types of innovation. Source: National statistics.</p>	<p>• no co-ordination body for innovation activities at the state level</p> <p>• limited to no communication between science- and economy-related ministries and institutions.</p> <p><b>4. Fragmented support and activities.</b> Lack of co-ordination, and dependence on donor and external funds, which are limited in scope and time, often lead to the segmentation of the innovation process: firms are not supported over the entire cycle of innovation, from the idea to its commercialisation, and therefore their innovations often die before reaching the market, even after support in the initial phase through private and/or public channels.</p> <p><b>5. Lack of information and awareness about innovation.</b> A lack of up-to-date and comprehensive channels (Internet, newspaper, television), offering concrete information and increasing awareness among the general public about innovation reduces the general inclination to attempt to innovate. It also means allocated funds and resources often remain underused, reducing their impact.</p> <p><b>6. Limited business-academia collaboration:</b> Joint initiatives between public research bodies and businesses are limited, reducing the capacity of businesses to innovate. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• limited incentives for academics to conduct research of commercial value, or in some cases even restrictions</li> <li>• no convenient or adequate vehicles for businesses to seek help from research institutions to tackle business problems</li> <li>• no incentives for students to engage in knowledge transfer activities</li> <li>• no incentives for the promotion of on-campus start-up activities</li> <li>• low share of scientific publications significant for economic activity.</li> </ul>	

## DIGITAL ECONOMY

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. SIGNIFICANCE AND CAPACITY</b></p> <p><b>Percentage of the ICT sector on GDP (% , % growth by ICT sec-tor)</b> Measures ICT's share of total value added and its growth or decline. It indicates the contribution of this sector to GDP. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Percentage of the ICT personnel in total employment</b> Measures the share of employment generated in the ICT sector, indicating the importance of this sector to employment creation. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Investment in telecommunications infrastructure (% of GDP)</b> Measures the level of investment in telecommunications in the economy. Being a highly technological sector, it is a relevant indicator of the economy's commitment to keeping up with its international peers, especially in the field of broadband tele-communication. Source: National statistics</p> <p><b>Investment in telecoms with private participation (current USD)</b> Measures the value of telecom projects that have reached financial closure and directly or indirectly serve the public, including operation and management contracts with major capital expenditure, greenfield projects (in which a private entity or public-private joint venture builds and operates a new facility), and divestitures. It is an indicator of the level of interest among private investors in the economy's telecom-munications market. Source: World Bank, Open Data, <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a></p> <p><b>Penetration rate of fixed telephony (%)</b> Measured as the ratio between the number of active fixed telephone lines and the population. Differences across economies could suggest different market conditions for fixed and mobile telephony (openness towards different operators), making it more convenient for users to opt for one or the other. Source: National statistics</p> <p><b>Penetration rate of mobile telephony (%)</b> Measured as the ratio between the number of active mobile phones and the population. A high share might be the result of specific lifestyles, low prices for mobile services or better infrastructure compared to fixed telephone lines. Source: National statistics</p> <p><b>Fixed broadband penetration rate (%)</b> Number of fast internet fixed lines divided by the national population. Access to broadband is relevant to the competitiveness of an economy and its enterprises, as it allows faster and more widespread collection and dissemination of information and services. Source: National statistics</p> <p><b>Mobile wireless broadband penetration rate (%)</b> Number of fast internet mobile lines divided by the national population. Source: National statistics</p> <p><b>Percentage of households with internet access at home (all forms of internet usage are included. The population considered is aged 16 to 74)</b> Measures internet penetration at a household level. It is also an indicator of how tech-savvy households are regarding internet use. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p>	<p><b>1. Limited availability of ICTs: the spread of ICT infrastructure is limited, and therefore the population does not participate in the benefits of ICTs. Symptoms of this obstacle include one or more of the following:</b></p> <ul style="list-style-type: none"> <li>• low investment in ICT technologies</li> <li>• low broadband penetration rate</li> <li>• low frequency of internet use.</li> </ul> <p><b>Stalled local loop unbundling (LLU).</b> The least replicable element in the establishment of a connection to an end-user location is the local loop: the access from the local telephone exchange to the customer's premises (also called "the last mile"). Access networks represent over half of the investment by a fixed network operator and although competitive access technologies are emerging, the copper access network infrastructure is still difficult to duplicate. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• limited number of alternative providers</li> <li>• high share of population with no internet skills.</li> </ul> <p><b>2. Limited access to FinTech for businesses</b> reduces the access to alternative funding sources for supporting cash flow and risk capital needs of businesses (including start-up and scale-up companies). The main</p>	<p><b>1. Limited availability of ICTs negatively impacts productivity and overall GDP growth,</b> by reducing the contribution of ICT goods and services to total value added. It also has a negative impact on individuals' lives. <b>Improved ICT diffusion can help address social challenges,</b> with opportunities towards promoting inclusiveness; mitigate risks of energy shortages, leading to a more inclusive society, which in turn benefits all citizens. <b>Access to ICTs allows faster and more widespread collection and dissemination of information and services.</b> The mobility, ease of use, flexible deployment, and relatively low and declining rollout costs of technologies, especially mobile and wireless ones, enables them to reach rural populations with low levels of income and literacy. Several key drivers of household income are believed to be linked to internet access speed and the availability of internet access in general:</p> <ul style="list-style-type: none"> <li>• <b>faster broadband boosts personal productivity</b> and allows for more flexible work arrangements</li> <li>• higher speeds also open up <b>possibilities for more advanced home-based businesses,</b> replacing or supplementing ordinary jobs</li> <li>• <b>greater speed enables people to be more informed, better educated and socially and culturally enriched</b> – ultimately leading to a more rewarding career path.</li> </ul> <p><b>2. Lack of FinTech</b> is particularly hindering development and growth of digital start-ups. However, its impact is much broader and affects the economy as a whole as FinTech has a positive impact on increasing the</p>



## DIGITAL ECONOMY (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Internet access in households by degree of urbanisation (% of all households)</b> Measures the percentage of households having internet access based on their location (densely-populated area, intermediate urbanized area, sparsely populated area). It indicates the degree of digital divide within the economy. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Enterprises with broadband access (% of enterprises with at least 10 persons employed)</b> Measures the percentage of enterprises that have broadband access, including fixed and mobile connections. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Enterprise having received orders online (% of enterprises with at least 10 persons employed)</b> Measures the percentage of enterprises that have received orders online in the last calendar year. This implies that these enterprises have a certain degree of ICT skills. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Access to FinTech for businesses</b> FinTech describes technology-enabled innovation in financial services, regardless of the nature or size of the provider of the services. What is the share of enterprises that have access to FinTech? What is the pace at which this share is evolving? Source: National statistics</p>	<p>symptom of this obstacle is :  <ul style="list-style-type: none"> <li>low technology-enabled innovation in financial services.</li> </ul> <p><b>3. Low capacity of the national regulatory authority (NRA) to effectively perform its regulatory functions.</b> Despite continuing alignment of national electronic communications legislation to the EU acquis, the current institutional framework often falls short of ensuring an adequate level of financial and operational independence for the NRA. Symptoms of this obstacle include one or more of the following:  <ul style="list-style-type: none"> <li>limited budget for performing its duties</li> <li>low number of employees in administration</li> <li>government interference in its resolutions.</li> </ul> <p><b>Despite the market being opened to competitors, the incumbent operator remains the dominant operator,</b> especially in fixed-line telephony. Even when the incumbent has lower market shares, it often supplies 100% of bitstream connections to alternative operators in the wholesale market. Symptoms of this obstacle include one or more of the following:  <ul style="list-style-type: none"> <li>low investment in new infrastructure</li> <li>low broadband penetration rate</li> <li>high access costs.</li> </ul> <p><b>Different forms of price control</b> on fixed-line telephony tariffs for incumbent operators. In economies where monopoly providers kept monthly rental and local call charges low in order to make basic service more affordable, this was traditionally subsidised by excessive prices on</p> </p></p></p>	<p>competitiveness of the local market, through lowering barriers to entry for newcomers, while preserving fair competition, a level playing field and incentives to innovate.</p> <p><b>3. Low administrative capacity prevents the adequate monitoring of operators with significant market power,</b> usually the incumbent. This effectively prevents a fair opening of the market to alternative operators, <b>reducing competition on the market,</b> and thus maintaining high prices that lead to lower access to telecommunications.</p>
<p><b>II. REGULATORY FRAMEWORK</b></p> <p><b>Entry regulation</b> Is free entry permitted in at least one market in the sector (i.e. can anyone enter the market, provided they meet licensing criteria)? Do laws or regulations restrict, in at least one market in the sector, the number of competitors allowed to operate a business (e.g. by establishing a legal monopoly or duopoly, or a limited number of franchises or licenses)? Is unbundling of the local loop required? Is mobile phone interconnection mandated? Source: OECD, Indicators of Product Market Regulation, National statistics</p> <p><b>Free flow of data</b> Are there rules and regulations impeding the free flow of data? Is there a legislative framework on access to and transfer of data, data portability and liability of non-personal, machine-generated digital data? To what extent is the existing legislation in this domain aligned with the EU legislation in this area? Source: National legislation, National statistics</p> <p><b>Public ownership (% of shares)</b> What percentage of shares does the government own, either directly or indirectly, in the largest firm? Simple average over four segments (fixed-line network, fixed-line services, mobile services, Internet services). Source: OECD, Indicators of Product Market Regulation, National statistics</p> <p><b>Market structure</b> How many firms compete in the same market? Simple average over two segments (fixed-line services, mobile services). What is the percentage market share of new entrants in the sector? Source: OECD, Indicators of Product Market Regulation, National statistics</p>		

## DIGITAL ECONOMY (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Telecommunication market reforms (where 1 = full state control, 4+ = full liberalisation)</b> This EBRD indicator provides a quantitative foundation for analysing progress in the reform of the telecommunications market. It captures laws, market regulation and price control factors to assess the score. Source: EBRD, Transition Indicators, <a href="http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html">http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html</a></p> <p><b>Fixed broadband internet monthly access fee in euros, including Value-added tax (VAT) (incumbent vs. alternative)</b> Average cost of a monthly subscription to broadband internet, per user. In general, more competitive telecommunications markets will have lower access fees than others, depending also on the diffusion and quality of telecommunications infrastructure in the country (high maintenance costs will probably lead to higher usage costs as well). Source: National statistics</p> <p><b>Residential charges for: a 10-minute local call, a 10-minute fixed to long-distance call, a 10-minute fixed to mobile call and a 10-minute fixed to international call in euros, including VAT (incumbent VS alternative)</b> Price is an indicator of openness of the market. Effective competition will reduce prices, and the removal of regulatory and physical barriers to alternative providers should allow them to keep prices low and enable them to make more aggressive price offers than the incumbent or state-owned operator. Source: National statistics</p> <p><b>III. DIGITAL SKILLS</b></p> <p><b>Individuals' level of computer skills (% of the total number of individuals aged 16 to 74)</b> Using a self-assessment approach, it measures whether individuals have carried out specific tasks related to computer use. Tasks include the ability to copy or move files and folders, copy and paste tools, use basic arithmetic formulas in spreadsheets, compress files, connect and install new devices, and write a computer programme. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Individuals' level of internet skills (% of the total number of individuals aged 16 to 74)</b> Using a self-assessment approach, it measures whether individuals have carried out specific tasks related to internet use. Tasks include the use of search engines to find information, sending emails with attachments, posting messages to chatrooms, using the internet to make telephone calls, using peer-to-peer file sharing for exchanging movies and music, etc. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>Activities performed over the internet by individuals over the last 12 months</b> These can include finding out information on goods and services, health services, or public services in general; engagement with public authorities; e-mails; voice over Internet protocol (VOIP) calls; instant messaging; e-trade; e-banking services; study-ing; and knowledge-related activities. This is an indicator of general Internet literacy in the country. Source: National statistics</p> <p><b>Frequency of internet use (% of individuals aged 16 to 74)</b> Measures how often individuals access the Internet. It is an indicator of the integration of internet into daily life as well as the familiarity of users with the Internet. The percentages are presented based on whether users access the Internet on a daily base, at least once a week (but not every day) or at least once in the last three months. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p> <p><b>ICT in school curricula</b> Assesses ICT curricula in school, whether computers and Internet access are in place, and whether there is sufficient proficient teaching capacity. Source: National statistics</p>	<p>national and international calls. The ending of monopolies has meant that incumbent operators have to bring their tariffs more into line with the underlying costs of providing their services. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• low local call prices for the incumbent operator compared to alternatives</li> <li>• high long-distance call prices for the incumbent compared to alternatives</li> <li>• hidden costs such as monthly fixed fees.</li> </ul> <p><b>4. Unjustified or disproportionate data location restrictions</b> refer to rules or practices that specify a particular, often geographically defined, area where specific data needs to be collected, processed or stored. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• barriers around access to and transfer of non-personal machine-generated data</li> <li>• limited portability of non-personal data</li> <li>• interoperability of data</li> <li>• lack of standards</li> </ul> <p><b>5. Underdeveloped ICT skills in the population:</b> a large share of the population has little or no understanding of ICTs. Symptoms of this obstacle may include:</p> <ul style="list-style-type: none"> <li>• low public investment in ICT education</li> <li>• absence or limited number of ICT courses and trainings in school</li> <li>• absence or limited number of ICT courses and trainings at work.</li> </ul>	<p><b>4. Free flow of data</b> is necessary for the development and use of innovative data technologies and services. Small and medium enterprises including researchers and innovators particularly benefit from improved business conditions. <b>SMEs can both benefit as providers and users of data and data technologies and services that can be used for the collection, processing and storage of data.</b> Unjustified or disproportionate restrictions of flow of data can have negative impact on economic growth, competitiveness, innovation, job creation and societal progress in general.</p> <p><b>5. Limited ICT skills</b> imply that the school curricula are not well developed enough. <b>Students finish school without relevant skills that they would need in the labour market.</b> As a consequence, these students will be less productive and less familiar with ICTs when entering the labour market, which will in turn negatively impact the productivity of firms for which they will work.</p>

DIGITAL ECONOMY (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>IV. E-GOVERNMENT</b></p> <p><b>E-Government Development Index (EGDI)</b> Measures the readiness and capacity of national administrations to use ICT to deliver public services. The EGDI is based on an expert assessment survey of the online presence of all United Nations Member States, which assesses national websites and how e-government policies and strategies are applied in general and in specific sectors for the delivery of essential services. Source: United Nations E-Government Survey</p> <p><b>E-Participation Index (EPI)</b> Reflects the e-participation mechanisms that are deployed by a government as compared to all other countries. This measure offers insights on the availability and relevance of participatory services available on government websites. Source: United Nations E-Government Survey</p> <p><b>Individuals using the internet for interaction with public authorities</b> Measures whether, within the last 12 months, individuals used internet to interact with public authorities for one of the following reasons: obtaining information from public authorities' websites, downloading official forms, submitting completed forms. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a></p>	<p><b>Structural obstacles</b></p> <p><b>6. Limited number of e-government services:</b> both citizens and enterprises cannot consult laws, decrees and national strategies on the internet, or have only access to a limited number of them. Symptoms of this obstacle may include:</p> <ul style="list-style-type: none"> <li>• difficulty in accessing government information</li> <li>• cumbersome bureaucratic procedures to obtain licences, information and documentation</li> <li>• increased costs for private operators and businesses.</li> </ul>	<p><b>Impact on competitiveness and growth</b></p> <p>Moreover, limited understanding of ICTs in enterprises negatively impacts their productivity and ability to ensure effective and efficient communications with customers and suppliers, and prevents them from accessing regional and global value chains. This in turn negatively impacts the competitiveness of the economy as a whole.</p> <p><b>6. The development of e-government platforms can foster participatory approaches to policy making.</b> Involving stakeholders in decision making, law adoption and, public strategy formulation, does not only serve purposes of transparency and accountability, but it also provides enterprises and individuals with <b>easily accessible information on the legislative status quo in their respective fields, ensuring that everybody is aware of the current situation.</b> This in turn can improve the business environment and the ease of doing business, which can boost productivity and growth.</p>

## **Education and skills**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## EDUCATION AND SKILLS

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. EDUCATION ACCESS AND ATTAINMENT</b></p> <p><b>Participation rate in early childhood education and care (ECEC) (% of 3-6 year-olds)</b> Measures the share of children aged 3 to the first year of compulsory schooling attending ECEC. Early childhood education and care is essential to build basic skills and reduce inequalities. There are three broad rationales for supporting early childhood care and education. First, it has a significant economic and social impact, raising an economy's educational outcome and benefiting the disadvantaged the most. Second, it supports families and contributes to boosting female employment. Third, it can play a crucial role in combating child poverty and helping children overcome educational disadvantage.</p> <p>Sources: European Commission, Eurostat database, education and training <a href="http://ec.europa.eu/eurostat/web/education-and-training">http://ec.europa.eu/eurostat/web/education-and-training</a>; education ministries.</p> <p><b>Highest educational attainment (people aged 15 and over)</b> Measures the educational attainment of the whole population broken down into four categories: less than primary, primary, secondary and tertiary (plus the not definable and not stated categories). Education is an important determinant of economic growth. Higher levels of educational attainment lead to a more skilled and productive workforce and to a more efficient production of goods and services. This in turn forms the basis for faster economic growth and rising living standards.</p> <p>Sources: International Labour Organization (ILO). Key Indicators of the Labour Market (KILM) database, <a href="http://www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/lang-en/index.htm">www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/lang-en/index.htm</a>; ILO (2010), A Skilled Workforce for Strong, Sustainable and Balanced Growth: A G20 Training Strategy, <a href="http://www.oecd.org/g20/summits/toronto/G20-Skills-Strategy.pdf">www.oecd.org/g20/summits/toronto/G20-Skills-Strategy.pdf</a>.</p> <p><b>Participation in lifelong learning among 25-64 year-olds (%)</b> Measures the share of 25-64 year-olds who have taken any form of lifelong learning (LLL) programme, whether in-job training or state-sponsored courses. Participation in LLL is an important determinant of labour productivity; workers need to maintain and upgrade skills through continued learning to stay in line with changes in labour market developments and needs.</p> <p>Sources: European Commission, Eurostat database, education and training <a href="http://ec.europa.eu/eurostat/web/education-and-training">http://ec.europa.eu/eurostat/web/education-and-training</a>; education ministries.</p> <p><b>Availability of on-the-job training</b> Indicator based on the World Economic Forum (WEF) Global Competitiveness survey which reflects firm responses to the following questions: "In your country, how available are high-quality, professional training services?" and "In your country, to what extent do companies invest in training and employee development?" (1 = not at all; 7 = to a great extent) for 2014-15. Weighted average of over 13 213 surveys in 134 economies. This indicator provides insights on the availability of opportunities for on-the-job skill development and upgrading which are essential to complement the education system, helping young people raise their skill level and gain work experience.</p> <p>Sources: World Economic Forum, Global Competitiveness Index Report, <a href="http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf">www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf</a>; OECD (2015), Adapting to the Changing Face of Work, <a href="http://www.oecd.org/employment/Adapting-to-the-changing-face-of-work.pdf">www.oecd.org/employment/Adapting-to-the-changing-face-of-work.pdf</a>.</p>	<p><b>1. Educational attainment and skills levels are low.</b> Attainment is low because the returns on education are low and people do not have the incentive to remain in school. Symptoms include:</p> <ul style="list-style-type: none"> <li>• High rates of early leavers from education and training at all educational levels, negatively affecting overall levels of education attainment</li> <li>• Low participation rates in early childhood education</li> <li>• High numbers of students dropping out after lower secondary school.</li> <li>• Higher than average share of NEETs</li> <li>• Low returns across different levels of education.</li> </ul> <p><b>Limited lifelong learning opportunities.</b> Scarcity of lifelong learning and training opportunities prevents the effective recycling of people in the workforce (or prospective workforce). Symptoms include:</p> <ul style="list-style-type: none"> <li>• educational institutions providing lifelong learning and training are non-existent, scarce or hard to find</li> <li>• public employment services largely provide passive measures rather than active ones, focusing on providing unemployment subsidies and supporting early retirement schemes instead of training and other employment incentives</li> <li>• the private sector is unable or unwilling to take on the entire burden of providing additional training.</li> </ul> <p><b>2. Government spending on education is low or suboptimal.</b> Government expenditure on education does not have an impact on overall educational quality if spending is inadequate. Symptoms include:</p>	<p><b>1. Educational attainment has a critical impact on economic growth, competitiveness and social outcomes:</b></p> <ul style="list-style-type: none"> <li>• <b>Increased knowledge and skills have a direct return in the form of increased productivity.</b> An adequate education and skills-development system transmits the knowledge and competencies that help generate and implement the new ideas which drive innovation and technological progress, with a subsequent positive impact on exports, investment and consumption.</li> <li>• In contrast, an insufficiently educated workforce will have a negative impact on investment as the economy becomes less attractive, especially in the knowledge- and capital-intensive sectors. <b>Productivity per worker is likely to be lower, as will be the value added of the economy's exports.</b></li> </ul> <p>Attainment also has a direct impact on labour market outcomes, <b>affecting not just the level of employment, but also working conditions</b>, especially since higher levels of educational attainment are associated with higher salaries (<i>Education and labour markets (Education and labour markets, Analysing global patterns with the KILM, ILO, 2015)</i>). These in turn have a direct effect on internal consumption as higher incomes translate into more disposable income, and poverty reduction and inequality, as income inequalities fall when there is a large pool of educated workers in adequately-remunerated positions.</p> <p><b>2. Inadequate resources devoted to the education system have implications for competitiveness, growth and social outcomes:</b></p> <ul style="list-style-type: none"> <li>• Greater public spending on all educational levels has a <b>positive impact on education attainment and quality</b> (particularly in primary and secondary education) and it can help boost overall economic growth</li> </ul>
<p><b>II. QUALITY OF THE EDUCATION SYSTEM AND SKILLS</b></p> <p><b>1. Resources</b></p> <p><b>Government expenditure on education (% of GDP)</b> Measures total general (local, regional and central) government expenditure on education (current, capital and transfers), expressed as a percentage of total GDP. It signals a state's commitment to the systematic improvement of the education system, although it is not a direct measure of betterment in itself (quality of expenditure).</p> <p>Sources: European Commission, Eurostat database, education and training <a href="http://ec.europa.eu/eurostat/web/education-and-training">http://ec.europa.eu/eurostat/web/education-and-training</a>; World Bank, World Development Indicators, <a href="http://data.worldbank.org/data-catalog/world-development-indicators">http://data.worldbank.org/data-catalog/world-development-indicators</a>; education ministries</p>		

EDUCATION AND SKILLS (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Average monthly teacher's salary (% of average salary)</b> Measures the average monthly salary of teachers in primary and secondary education as a percentage of the average national salary. Comparing the salaries of professionals in the education sector to average salaries helps assess whether teaching can be considered an attractive career, particularly because it is one of the ways in which talented potential candidates can be attracted to the sector. It also indicates whether teachers are sufficiently rewarded and enjoy enough support in their work. Sources: European Commission, Eurostat database, education and training, <a href="http://ec.europa.eu/eurostat/web/education-and-training">http://ec.europa.eu/eurostat/web/education-and-training</a>; education ministries.</p> <p><b>Pupil-teacher ratio in primary and secondary education (headcount basis) and average classroom size</b> High pupil-teacher ratios tend to affect the standard of education by lowering its quality (teachers have too many students as to dedicate a reasonable time to each of them to improve or correct their skills) and may represent underfunding of the system. On the other hand, low pupil-teacher ratios may also have negative impacts if the total teachers' payroll is too burdensome: misusing resources by paying (lower) salaries to too many staff members. Average classroom size can also be helpful to gauge the level of misuse or underfunding of public resources to education. High average class sizes denote an infrastructure need in the education system, while an excessively low average class size also denotes a mismanagement of resources, with half-empty buildings that still incur all the previous maintenance costs. Source: United Nations Education, Scientific and Cultural Organization (UNESCO) Institute for Statistics.</p> <p><b>2. Labour market responsiveness</b></p> <p><b>PISA average scores in 2006, 2009 and 2012</b> PISA (Programme for International Student Assessment) is a triennial international survey which evaluates education systems worldwide by testing the skills and knowledge of 15-year-old students. Three key subjects are examined: reading, mathematics and science. Being a standardised survey, PISA tests are not directly linked to the school curriculum. Instead, they are designed to assess to what extent students at the end of compulsory education can apply their knowledge to real-life situations and are equipped for full participation in society. An increase of 50 PISA points in educational achievement can translate into an extra 1% of economic growth in the long run. Sources: OECD, Competitiveness in South East Europe; OECD (2014), PISA 2012 Results <a href="http://dx.doi.org/10.1787/9789264208780-en">http://dx.doi.org/10.1787/9789264208780-en</a>. Note: Data for Bosnia and Herzegovina, Kosovo* and the Former Yugoslav Republic of Macedonia are not available since they have never participated in the survey.</p> <p><b>Percentage of firms reporting that an inadequately educated workforce is a "major or very severe obstacle"</b> The Business Environment and Enterprise Performance Survey (BEEPS), jointly carried out by the World Bank and the European Bank for Reconstruction and Development (EBRD). This indicator identifies the share of firms finding the workforce's actual and prospective skills and education unsatisfying to such an extent that it is a major or severe obstacle to their everyday functioning. Source: EBRD, BEEPS <a href="http://ebrd-beeps.com/data/">http://ebrd-beeps.com/data/</a>.</p> <p><b>Share of employers having difficulty in filling job vacancies, and hardest-to-fill jobs by category</b> Identifies 1) the proportion of employers having difficulty filling positions; 2) which jobs are difficult to fill by category, such as skilled trade workers, engineers, technicians, information technology (IT) staff; 3) and the reasons why, based on surveys conducted among hiring managers. Employers can also be asked about the impact talent shortages have on their organisations and what steps they are taking to address them. Source: Manpower Group, Talent Shortage Survey.</p>	<ul style="list-style-type: none"> <li>Overall low levels of government expenditure, providing insufficient resources for the needs of the education system. Government expenditure as a share of GDP is lower than comparator countries.</li> <li>Mismanaged government expenses mean resources are not directed towards the right priorities (e.g. high current expenditures, inadequate strategic planning and corresponding expenditure planning).</li> </ul> <p><b>3. The education system is not responsive to the needs of the labour market or unable to provide a satisfactorily qualified workforce.</b> The education system is not creating a workforce equipped with the skills needed by the private sector, be they of a more technical nature (e.g. a lack of mining engineers or physicists) or other, softer skills such as English and other foreign languages. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>Educational attainment is out of balance with the needs of the economy, i.e. there are too many or not enough people with the right level of qualifications.</li> <li>Scores for PISA and other international assessments of the education system are lower than comparators.</li> <li>Teaching curricula and methods are inadequate or old fashioned, lagging behind the state of the art. The private sector has very limited input into curriculum design.</li> <li>The government does not conduct analyses of the skills needed by the market to use when defining its education strategy. Employer surveys have not been recently carried out or not regularly enough</li> </ul>	<p>(Does Higher Government Spending Buy Better Results in Education and Healthcare, IMF, 1999).</p> <ul style="list-style-type: none"> <li>In contrast, underspending on the education system has immediate consequences on the quality of the education system, as a result of <b>inadequate teaching resources</b> (numbers and quality of teachers, teaching/learning technology, etc.).</li> <li>Resource mismanagement can also affect the outcomes of the education system, especially when a large share of public financing is dedicated to current expenditures, namely salaries. In this case, <b>significant financial resources will not necessarily mean an improvement in the quality of education.</b></li> <li>Mismanagement of resources in education and skills <b>helps to perpetuate inequality</b>, since this can translate into only those who can afford it being able to access high-quality education.</li> </ul> <p><b>3.</b> An education system that is unresponsive to labour market needs has considerable negative impact on competitiveness and growth:</p> <ul style="list-style-type: none"> <li>It generates an inadequately educated workforce with a direct impact on the quantity and quality of investment in the economy. <b>If companies cannot find workers with the skills they need, they are more likely to choose not to invest.</b> This in turn has implications for growth and innovation among domestic enterprises and the ability of the economy to attract foreign direct investment (FDI). <b>This particularly affects investment in knowledge-intensive and higher value-added industries</b>, which has implications for the value added in the economy and the prospects for strengthening product sophistication and moving up the value chain.</li> <li><b>Proneounced skills mismatches in the economy can lead to considerable structural unemployment.</b> Long-term</li> </ul>

## EDUCATION AND SKILLS (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Estimated co-operation levels between vocational education and training (VET) providers and business</b> Ideally, an indicator that would permit authorities assess to what extent VET institutions work with the business community (to improve curricula, provide internships and trainings to students etc.) and whether efficient policy measures are in place to facilitate such co-operation. The OECD's Competitiveness in South East Europe: A Policy Outlook developed a qualitative indicator to score performances starting from a baseline of 0 (no existing framework whatsoever for the policy topic concerned) to 5 (existing framework, monitoring structures in place, and continuous corrective measures and independent impact evaluation present). Source: OECD, Competitiveness in South East Europe, Labour Market Alignment Sub-dimension (p. 122), <a href="http://dx.doi.org/10.1787/9789264250529-en">http://dx.doi.org/10.1787/9789264250529-en</a>, (table: <a href="http://dx.doi.org/10.1787/888933322966">http://dx.doi.org/10.1787/888933322966</a>).</p> <p><b>Early leavers from education and training among 18-24 year-olds (%)</b> Measures early school leavers (i.e. those who leave formal schooling or training with no officially recognised diploma) as a share of all school leavers. This indicator can be used to foresee later suboptimal conditions in the labour market for those with no officially recognised educational attainment or only lower qualifications, who are more likely to end up in suboptimal job categories. Similarly, high shares of drop-outs are also an indicator of an educational system that is not responsive enough to the needs of the student population, as well as suggesting the absence of a student-centred approach in the curricula. Sources: European Commission, Eurostat database, candidate countries and potential candidates, <a href="http://ec.europa.eu/eurostat/data/database?code=cpic">http://ec.europa.eu/eurostat/data/database?code=cpic</a>; European Commission, Eurostat database, education and training <a href="http://ec.europa.eu/eurostat/web/education-and-training">http://ec.europa.eu/eurostat/web/education-and-training</a>; education ministries.</p> <p><b>Rate of young people not in employment, education or training (NEETs), 15-34 year-olds</b> Measures the level of young people who are disengaged from the labour market, education or training, who could potentially be mobilised to join the labour market. Young NEETs may suffer from higher risks of labour de-activation from a very early stage, even at the moment they first enter the labour market, thus being pushed to conditions of underemployment and job insecurity, informal employment, and marginalisation and disengagement. This measure can be used to identify structural deficiencies or even absences in the education and skills systems. The share of NEETs thus proves useful in identifying an education and skills system that lacks the capacity to successfully (re)activate these young people in the labour market. Source: European Commission, Eurostat database.</p> <p><b>3. National qualifications framework</b> <b>Current state of national framework legislation</b> Qualifications frameworks are designed to set criteria for the knowledge and skills that should be attained at any given education level. Therefore they are aimed at raising the standards and quality across all levels of the education system. Well-developed national qualifications frameworks can make education systems more transparent. Source: OECD, Competitiveness in South East Europe.</p> <p><b>4. Entrepreneurial learning</b> <b>Promotion of entrepreneurial learning and enterprise skills</b> Assesses the extent to which entrepreneurial learning is fostered in education. Entrepreneurial learning represents all forms of education and training with the goal of enhancing entrepreneurial spirit and activity. This is a critical means of creating a more flexible workforce. Source: OECD, Competitiveness in South East Europe.</p>	<p>for the state to be able to estimate the skills the labour market needs and make them available in the short or medium term.</p> <ul style="list-style-type: none"> <li>The private sector identifies human capital as a major constraint on the economy. A significant proportion of employers find it particularly difficult to fill some categories of job vacancies.</li> <li>The education system does not actively foster training in the private sector: Private sector employers do not have a say in curricula and teaching methods and thus prefer to cherry-pick prospective workers rather than take on the burden of transmitting the skills needed in their sector.</li> <li>Students do not receive entrepreneurial education and enterprise skills are not promoted at all levels of education. Entrepreneurial learning is not fully incorporated into the education system, and there are few collaborative efforts between universities, businesses and the public sector to promote entrepreneurial learning.</li> </ul>	<p>and persistently high structural unemployment has considerable implication for long-term growth as it leads to deterioration of skills, discouraged workers etc.</p> <ul style="list-style-type: none"> <li><b>Skills mismatches can also result in suboptimal employment outcomes</b> such as people taking jobs for which they are either over- or under-qualified. This has a clear impact on labour productivity, which in turn affects wages and consumption. Along with structural unemployment, underemployment also has considerable negative impact on social outcomes such as <b>social exclusion, poverty traps and inequality</b>.</li> <li>An inadequate (or absent) lifelong learning systems <b>will relegate a significant share of those willing to work to informal employment</b>.</li> <li>An education system which is unresponsive to labour market needs will also lead to <b>high levels of youth unemployment</b>, as graduates struggle to find jobs that match the skills they obtained in the education system.</li> </ul>





## **Employment and labour market**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*



## EMPLOYMENT AND LABOUR MARKET

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. GENERAL INDICATORS</b></p> <p><b>Employment rate of 15-year-olds and over</b> Measures the extent to which available labour resources (i.e. the labour force) are being utilised in the formal sector. Calculated as the ratio of the employed to the working-age population. Employment rates are sensitive to the economic cycle, but in the longer term they are significantly affected by governments' higher education and income support policies and by policies that facilitate the employment of women and disadvantaged groups. Sources: European Commission, Eurostat database, Labour Force Survey; International Labour Organization, Key Indicators of the Labour Market (database).</p> <p><b>Labour force participation rate (% of total population) and female participation rate (% of female population aged 15 and over)</b> Measures the labour force as a percentage of the working-age population, and as a percentage of the female working-age population. Sources: World Bank, World Development Indicators (WDI); national statistics offices.</p> <p><b>Unemployment rate of 15-year-olds and over</b> Measures the number of unemployed people as a percentage of the labour force, where the latter consists of the unemployed plus those in paid or self-employment. Unemployed people are those who report that they are without work, that they are available for work and that they have taken active steps to find work in the last four weeks. When unemployment is high, some people become discouraged and stop looking for work; they are then excluded from the labour force. This implies that the unemployment rate may fall, or stop rising, even though there has been no underlying improvement in the labour market. Sources: European Commission, Eurostat database, Labour Force Survey; International Labour Organization, Key Indicators of the Labour Market (database).</p> <p><b>Long-term unemployment rate (12 months + )</b> Refers to people who have been unemployed for 12 months or more. The long-term unemployment rate shows the proportion of the long-term unemployed as a share of all unemployed. Long-term unemployment is of particular concern for policy makers, as high rates of long-term unemployment indicate that labour markets are operating inefficiently. Sources: European Commission, Eurostat database, Labour Force Survey; International Labour Organization, Key Indicators of the Labour Market (database).</p> <p><b>Youth unemployment rate (15-24 year-olds)</b> Measures the proportion of 15-24 year-olds in the total workforce, who do not have a job and are available and actively looking for work, i.e. the number of those unemployed divided by the total (all ages) of people in the labour market (employed plus unemployed). Sources: European Commission, Eurostat database, Labour Force Survey; International Labour Organization, Key Indicators of the Labour Market (database).</p> <p><b>Young people not in employment, education or training (NEET) (15-19 year-old men, 15-19 year-old women, 20-24 year-old men, 20-24 year-old women, %)</b> Measures the share of young people who are NEET, as a percentage of the total number of young people in the corresponding age group, by gender. Young people who are neither in employment nor in education or training are at risk of becoming socially excluded – individuals with income below the poverty-line and lacking the skills to improve their economic situation (OECD data, <a href="https://data.oecd.org/youthinac/youth-not-in-education-or-employment-need.htm">https://data.oecd.org/youthinac/youth-not-in-education-or-employment-need.htm</a>). NEETs are considered at risk as they are jobless and inactive and have little access to learning opportunities. Sources: European Commission, Eurostat database, Labour Force Survey; International Labour Organization, Key Indicators of the Labour Market (database).</p>	<p><b>1. Labour market rigidities are high.</b> Labour market rigidities increase the difficulty of entering and exiting formal employment. They can be caused by:</p> <ul style="list-style-type: none"> <li>• costly and complicated hiring and firing procedures</li> <li>• limitations on part-time contracts and overall flexibility in working arrangements</li> <li>• high labour taxes and contributions, which are often not progressive meaning they impose a heavier burden at lower wage levels.</li> </ul> <p><b>2. High levels of informal employment.</b> Symptoms include:</p> <ul style="list-style-type: none"> <li>• a large share of the working-age population is employed either full time or part time in the informal sector compared to relevant benchmarks</li> <li>• large numbers of firms report unfair competition from the informal sector in the BEEPs survey.</li> </ul> <p><b>3. Public labour institutions are weak.</b> Public employment services and labour inspectorates lack the capacity to provide quality support. Symptoms include:</p> <ul style="list-style-type: none"> <li>• very high staff workloads (up to 600 jobseekers for each PES officer), seriously constraining effective employment policies (OECD, 2016).</li> </ul> <p><b>4. High levels of skills mismatches resulting in high structural (youth) unemployment.</b> The education system is not responsive to the needs of the labour market or unable to provide a satisfactorily qualified workforce. Symptoms of this obstacle include one or more of the following:</p> <ul style="list-style-type: none"> <li>• Educational attainment is out of balance with the needs of the economy, i.e. there are too many or not enough people with the right level of qualifications.</li> </ul>	<p><b>1.</b> Rigid labour markets discourage investment and formal job creation, inhibit efficient resource allocation and encourage informality.</p> <p><b>2.</b> Informal employment is associated with:</p> <ul style="list-style-type: none"> <li>• <b>Lack of protection</b> in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance (ILO, <a href="http://www.ilo.org/global/topics/employment-promotion/informal-economy/lang-en/index.htm">http://www.ilo.org/global/topics/employment-promotion/informal-economy/lang-en/index.htm</a>).</li> <li>• <b>Loss of budget revenues</b> due to reduced taxes and social security contributions paid to the state, which reduces the availability and quality of public goods and services. This invariably leads to a high tax burden on registered workers (World Bank, Policies to Reduce Informal Employment. An International Survey, 2011).</li> <li>• <b>Informal firms have a relative advantage</b>, especially when labour costs, taxes or social contributions are too high, creating unfair competition for enterprises operating in the formal sector.</li> </ul> <p><b>3. Weak public institutions</b></p> <ul style="list-style-type: none"> <li>• Public employment services <b>do not effectively link job seekers to job markets</b>, or provide training and other employment incentives.</li> <li>• <b>Labour inspectorates cannot identify and effectively sanction informal employment</b>, which in turn results in the growth of poor quality jobs with insufficient social protection, the narrowing of the tax base, etc.</li> </ul>

EMPLOYMENT AND LABOUR MARKET (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Informal employment rate</b> Measures employment in a diversified set of economic activities that are not regulated or protected by the state. Based on the European Bank for Reconstruction and Development (EBRD), Business Environment and Enterprise Performance Survey (BEEPS) indicator on firms reporting informal sector competition as an obstacle to their operations. Sources: National statistics offices; EBRD, BEEPS.</p> <p><b>Employment protection legislation for regular contracts and for regular and fixed-term contracts</b> Qualitative indicators used in the 2016 OECD Competitiveness Outlook. Both are composed of four sub-indicators: 1) regulation of individual dismissal of workers with regular contracts; 2) additional restrictions on collective dismissal; 3) regulation of standard fixed-term contracts; and 4) regulation of temporary work agency employment. Employment protection legislation (EPL) is designed to increase job security by providing workers with safeguards against risks like the loss of earnings and the obsolescence of their job-specific skills and experience. However, EPL can sometimes constrain firms so much that it discourages job creation and the efficient reallocation of resources. Sources: OECD (2016), Competitiveness Outlook; OECD, Indicators of Employment Protection (database).</p> <p><b>Tax wedge as a % of an employer's gross wage</b> The "tax wedge" is defined as the share of tax and social security contributions by employers and employees over total labour costs. The higher the wedge the more likely it is that enterprises will hire workers informally. High tax wedges also contribute to the overall labour cost and thus affects the labour cost competitiveness of the economy. Sources: National statistics offices, ministries of finance.</p> <p><b>II. LABOUR GOVERNANCE</b></p> <p><b>Public employment services (PESs)</b> Qualitative indicator used in the OECD 2016 Competitiveness Outlook to assess the efficiency and effectiveness of the PESs by looking at their operational structure and capacity. National employment agencies cater primarily to officially registered jobseekers and people who, though currently employed, are at risk of involuntary job loss due to their employer's economic difficulties. Source: OECD, Competitiveness Outlook.</p> <p><b>Programmes targeting youth unemployment</b> Qualitative indicator used in the OECD 2016 Competitiveness Outlook to examine the effectiveness and scope of programmes specifically targeting youth unemployment. It measures whether there are co-ordinated, strategic government programmes to promote youth employment, how widely they have been implemented, how well they co-ordinate with educational institutions and how much they are contributing to decreasing the youth unemployment rate. Source: OECD, Competitiveness Outlook.</p> <p><b>Programmes to reduce informal employment</b> Employment in the informal sector includes all jobs in informal sector enterprises or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job (ILO, 2000). This qualitative indicator used in the OECD 2016 Competitiveness Outlook examines the effectiveness and scope of programmes specifically targeting informal employment. Source: OECD, Competitiveness Outlook; ILO (2000), Resolution concerning statistics of employment in the informal sector in: Current International. Recommendations on Labour Statistics.</p>	<ul style="list-style-type: none"> <li>• Scores for the Programme for International Student Assessment (PISA) and other international assessments of the education system are lower than comparators.</li> <li>• Teaching curricula and methods are inadequate or old fashioned.</li> <li>• The government does not conduct analyses of the skills needed by the market to use when defining its education strategy.</li> <li>• The private sector identifies human capital as a major constraint on the economy. A significant proportion of employers find it particularly difficult to fill some categories of job vacancies.</li> <li>• The education system does not actively foster training in the private sector.</li> <li>• Entrepreneurial learning is not fully incorporated into the education system, and there are few collaborative efforts between universities, businesses and the public sector to promote entrepreneurial learning. <i>(If these are explained in detail in Education and Skills policy area table, only general reference to the key obstacles should be made here, in one or two sentences).</i></li> </ul> <p><b>5. Labour mobility is hampered by non-physical barriers</b> Administrative procedures for hiring foreign workers are numerous and complicated by:</p> <ul style="list-style-type: none"> <li>• large numbers of documents needed to certify a foreign qualification</li> <li>• lack of agreements with other economies to acknowledge each others' qualifications</li> <li>• high fees required to certify a foreign qualification.</li> </ul>	<p>4. Skills mismatches have a considerable negative impact on competitiveness and growth.</p> <ul style="list-style-type: none"> <li>• An unresponsive education system generates an inadequately educated workforce that <b>has a direct impact on the quantity and quality of investment in the economy</b>. This in turn has implications for growth and innovation of domestic enterprises and the external competitiveness of the economy in attracting foreign direct investment (FDI). <b>This particularly affects investment in knowledge-intensive and higher value-added industries</b>, which has implications for the value added in the economy and the prospects for strengthening product sophistication and moving up the value chain.</li> <li>• <b>Pronounced skills mismatches in the economy can lead to considerable structural unemployment</b>.</li> <li>• Skills mismatches can also result in suboptimal employment outcomes such as <b>people taking jobs for which they are either over- or under-qualified</b>.</li> <li>• An inadequate (or absent) lifelong learning system <b>will relegate a significant share of those willing to work to informal employment</b>.</li> <li>• An education system which is unresponsive to labour market needs will also lead to <b>high levels of youth unemployment</b>, as graduates struggle to find jobs that match the skills obtained in the education system. <i>(If these are explained in detail in Education and Skills policy area table, only general reference to the key obstacles should be made here, in one or two sentences).</i></li> </ul>

## EMPLOYMENT AND LABOUR MARKET (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>III. SKILLS</b></p> <p><b>Percentage of firms reporting that an inadequately educated workforce is a “major or very severe obstacle” to the firm</b> The BEEPS survey, jointly carried out by the World Bank and the EBRD, identifies the share of firms finding the skills and education present in the economy’s (prospective or actual) workforce unsatisfying to such an extent as to make it a major or severe obstacle for the company’s everyday functioning. <i>Source:</i> EBRD, BEEPS datasets, <a href="http://ebrd-beeps.com/data/">http://ebrd-beeps.com/data/</a>.</p> <p><b>Share of employers having difficulty in filling job vacancies, and hardest-to-fill jobs by category</b> Surveys conducted among hiring managers to identify: 1) the proportion of employers having difficulty in filling positions; 2) jobs that are difficult to fill by category, e.g. skilled trade workers, engineers, technicians, information technology (IT) staff; and 3) the reasons behind these difficulties. Employers can also be asked about the impact talent shortages are having on their organisations and what steps they are taking to address them. <i>Source:</i> Manpower Group, Talent Shortage Survey.</p> <p><b>Estimated co-operation levels between vocational education and training (VET) providers and business</b> Ideally, an indicator that would permit authorities to assess to what extent VET institutions work with the business community (to improve curricula, to provide internships and trainings to students etc.) and whether efficient policy measures are in place to facilitate such co-operation. The OECD’s Competitiveness in South East Europe: A Policy Outlook developed a qualitative indicator to score performances starting from a baseline of 0 (no existing framework whatsoever for the policy topic concerned) to 5 (existing framework, monitoring structures in place, as well as continuous corrective measures and independent impact evaluation present). <i>Source:</i> OECD, Competitiveness in South East Europe: A Policy Outlook, Labour Market Alignment Sub-dimension (p. 122), <a href="http://dx.doi.org/10.1787/888933322956">http://dx.doi.org/10.1787/888933322956</a>.</p> <p><b>IV. LABOUR MOBILITY</b></p> <p><b>Outward migration of young and highly skilled people</b> Measures the economy’s capacity to retain talented people on a scale from 1 (not at all – the best and brightest leave to pursue opportunities abroad) to 7 (to a great extent – the best and brightest stay and pursue opportunities in the country). Higher salaries, better employment prospects and better employment conditions abroad are the main drivers of “brain drain”. There is a strong direct correlation between economies’ salaries and their rankings for talent retention in the GCI. <i>Source:</i> World Economic Forum, GCI.</p> <p><b>Inward migration of young and highly skilled foreigners</b> Measures the economy’s capacity to attract talented people on a scale from 1 (not at all) to 7 (to a great extent – attracts the best and brightest from around the world). Apart from general employment conditions (such as salaries and employment prospects), an economy’s dominant and more dynamic industries play an important role in attracting skilled workers. <i>Source:</i> World Economic Forum, GCI.</p> <p><b>Number of work permits issued to foreign workers</b> Serves as a measure of labour mobility. Greater labour mobility allows a more efficient allocation of resources and is an important driver of innovation. <i>Sources:</i> Interior ministries, national employment agencies; regional co-operation councils.</p> <p><b>Recognition of foreign qualifications</b> A qualitative indicator used in the OECD 2016 Competitiveness Outlook in South East Europe that assesses the provision for recognising foreign credentials. It gauges whether there is a co-ordinated, holistic government approach to labour migration, how widely it has been implemented and how well all stakeholders are included in the process. <i>Source:</i> OECD, Competitiveness Outlook.</p>		<p>High rates of structural (youth) unemployment result in:</p> <ul style="list-style-type: none"> <li>• Forgone production, which in turn burdens the public finances by increasing social spending on benefits for the jobless and can undermine social cohesion (OECD, 2016).</li> <li>• Young people become dependent on support systems, which reduces the economy’s long-term growth potential.</li> <li>• Initial failure on the labour market can have a profound influence on later working life. Getting off to a good start facilitates young people’s integration into the labour market and lays the foundation for a good career, while it can be difficult to catch up after an initial failure.</li> <li>• Brain drain can have a profoundly negative effect, with skills shortages reducing the overall quality of human capital in the economy, which in turn has implications for competitiveness and investment and real GDP growth.</li> </ul> <p>5. Limited labour mobility results in inefficient allocation of resources. A geographically mobile workforce, whether domestic or cross-border, means workers from regions with an oversupply of labour can move to the regions which need. Without this mobility, labour is inefficiently allocated, hindering productivity and income generation.</p>



## **Social inclusion, poverty reduction and equal opportunities**

*Policy area indicators, structural obstacles  
and impact on competitiveness and growth*





## SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>I. POVERTY AND INCOME INEQUALITY</b></p> <p><b>Gini coefficient</b> The Gini coefficient calculates the ratio of cumulative shares of the population arranged according to income, to the cumulative share of total income received by them. The higher the figure, the more unequal the economy is. Source: World Bank Group.</p> <p><b>Inequality of income distribution</b> Calculates the ratio of total income received by the top 20% of the economy's population by income (top quintile) to that received by the lowest 20% of the population by income (bottom quintile). Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Persistent risk of poverty rate</b> Calculates the share of people living in households with an income below the risk-of-poverty threshold (set at 60% of the median equalised disposable income) in the current year and in at least two of the preceding years (broken down by gender). Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>At risk of poverty before social transfers, % of the population</b> Calculates the share of people living in households with an income below the risk-of-poverty threshold before taking into account social transfers (broken down by age and gender, most frequent activity status, household type, and tenure status, plus illustrative values of the risk-of-poverty threshold). Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>At risk of poverty after social transfers, % of the population</b> Calculates the share of people living in households with an income below the risk-of-poverty threshold after taking into account social transfers (broken down by age and gender, most frequent activity status, household type, and tenure status, plus illustrative values of the risk-of-poverty threshold). Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Material deprivation index</b> Measures the share of materially deprived people in the economy. It covers the share of people whose living conditions are greatly constrained by a lack of resources and cannot afford at least four of the following: 1) to pay rent or utility bills; 2) to keep their home adequately warm; 3) to pay unexpected expenses; 4) to eat meat, fish or a protein equivalent every second day; 5) a week's holiday away from home; 6) a car; 7) a washing machine; 8) a colour TV; or 9) a telephone. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Poverty gap index</b> Measures the intensity or depth of poverty, defined as the average poverty gap in the population as a proportion of the poverty line (a person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs – this minimum level of per capita expenditure is referred to as the poverty line). This indicator reflects the depth of poverty as well as its incidence. It is often described as measuring the resources needed per capita to eliminate poverty, or reduce the number of people living below the poverty line to zero, through perfectly targeted cash transfers. Source: National statistics.</p> <p><b>Social protection expenditure, % of gross domestic product (GDP)</b> Measures the extent to which expenditure power is distributed through social protection (social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs). When benchmarked against comparator economies, it indicates how well the government supports social protection compared to relevant peers. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p>	<p><b>Structural obstacles</b></p> <p>1. Poverty and income inequality rate is high and/or continuously increasing. Symptoms include:</p> <ul style="list-style-type: none"> <li>• a high and rising Gini coefficient for the economy</li> <li>• the ratio of total income received by the top 20% of the population compared to the bottom 20% by income is progressively increasing</li> <li>• a high share of people living below the national median income rate</li> <li>• a large working-poor population with an income below 60% of the national median</li> <li>• low or insufficient measures aimed at reducing poverty, such as minimum wages or transfers</li> <li>• national fiscal policies not helping to reduce inequality and possibly even fostering it, particularly when redistribution is ineffective due to - no or scarce wealth and property taxes</li> <li>- lack of progressive income taxation</li> <li>- too many opportunities for tax avoidance and evasion</li> <li>• social transfers aimed at reducing poverty are largely non-income-based and therefore inefficiently distributed and do not sufficiently target the poorest segment of the population</li> <li>• a large proportion of the population are materially deprived underfunded and barely functional programmes for wage employment (supplementing existing livelihoods in rural areas), self-employment, social security and urban poverty alleviation</li> <li>• unemployment benefits, state-assistance programmes for job hunting and health benefits for the poor and unemployed barely exist or seem ineffective at reducing</li> </ul>	<p><b>Impact on competitiveness and growth</b></p> <p>1. Income inequalities undermine the economy's performance in the long term. The relationship between the two is indirect:</p> <p><b>Excessive inequality hampers growth.</b> As an International Monetary Fund (Causes and Consequences of Income Inequality: A Global Perspective, 2015) study has shown "[i]f the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth." This also strengthens the assumption that improving the incomes of the poor and the middle class matters the most for growth via a number of inter-related economic, social, and political channels.</p> <p><b>Inequality noticeably affects education outcomes and skills.</b> High and sustained levels of inequality, especially inequality of opportunity (i.e. inequality attributed to variables beyond our control) can entail large social costs. Rooted inequality of opportunity can negatively affect an individual's educational and work choices. In addition, generally, low-skilled workers are far more likely to be unemployed than those with higher education. By the same token, high levels of inequality can affect an economy's overall human capital endowment, making it a less attractive place for investment. Inequality also affects labour market outcomes. Limited skills and education hamper</p>

SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Health expenditure, % of GDP</b> Measures the share of GDP spent on health care protection. When benchmarked against comparator economies, it indicates how well the government supports the health sector compared to relevant peers. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Self-reported unmet needs for medical examination (by sex, age, detailed reason, income quintile, labour status, educational attainment level, degree of urbanisation)</b> Indicates the share of the population aged 16 and over reporting unmet needs for medical care due to various reasons (too expensive, too far to travel, waiting list, etc.). Self-reported unmet needs concern a person's own assessment of whether he or she needed medical examination or treatment (excluding dental care), but did not have it or did not seek it because of these reasons. Sources: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>; national statistics.</p> <p><b>Pension expenditure (% of GDP)</b> Measures the share of GDP spent on pensions. Pensions comprise part of the periodic cash benefits under the disability, old-age, survivors and unemployment functions. The "pensions" aggregate is defined as the sum of the following social benefits: disability pension, early retirement due to reduced capacity to work, old-age pension, anticipated old-age pension, partial pension, survivors' pension, and early retirement benefit for labour market reasons. Sources: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>; national statistics.</p> <p><b>Long-term growth in pension expenditure, % of GDP (2010-60)</b> Measures forecasted increase in public pension expenditure over the period 2010-60. The indicator is a measure of the sustainability of an economy's pension system. Pension costs make up a large part of public expenditure and are a major factor in the present and medium- to longer-term public budget position. Sustainable pension schemes need a fiscal and financial balance between revenues and liabilities and the ratio of workers/contributors to pensioners/beneficiaries. Source: National statistics.</p> <p><b>At risk of poverty rate for people aged 65 and over</b> Measures the percentage of this population group with disposable incomes below the risk-of-poverty threshold. This income-based measure is liable to overestimate the relative poverty rate among older people since it does not take into account the wealth of pensioners, given the relatively higher share of house owners and higher private savings among this group, or the value of non-monetary benefits such as free or subsidised health care and transport. Sources: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>; national statistics.</p>	<p>income disparities</p> <ul style="list-style-type: none"> <li>• <b>lack of job-related state mechanisms</b> for skills attainment specifically dedicated to the poorest percentiles of the population</li> <li>• <b>an inefficient health care system</b>, i.e. there is a discrepancy between investments in health care and the expected outcomes</li> <li>• <b>total household health expenditure can be considerable</b>, especially for the poor: transportation costs and informal payments represent a relatively big share of total health expenditure and constitute a larger share for the poor than the rich</li> <li>• <b>the sustainability of the pension system is questionable</b> given:             <ul style="list-style-type: none"> <li>- <b>demographic ageing</b>, combining a steady increase in life expectancy with a decline in the proportion of people of working age, increasing the relative number of those retired</li> <li>- <b>high mandatory contribution rates</b> that raise some revenue, but also lead to tax evasion among individuals and employers, sometimes resulting in a net fall in revenue to the pension system</li> <li>- <b>efforts to lower pension contributions are hampered</b> by the level of pension expenditures to be financed.</li> </ul> </li> </ul> <p><b>2. Gender disparities are persistent and deeply embedded</b> in the economy with limited initiatives to empower women and boost their economic and political status. These disparities can be manifested in multiple ways.</p> <p>Overall, women are systematically excluded from full participation in social, political and economic life:</p> <ul style="list-style-type: none"> <li>• <b>low scores for indicators measuring women's inclusion in the economy's social, political and</b></li> </ul>	<p><b>Impact on competitiveness and growth</b></p> <p><b>Individuals' ability to gain a strong foothold in the labour market.</b> A disadvantageous position in the labour market perpetuates the vicious cycle of inequality and limited social mobility.</p> <p><b>Inequality fosters unproductive and rent-seeking behaviour.</b> Inequality of outcomes will push individuals to divert their efforts towards securing favoured treatment and protection, resulting in resource misallocation, corruption, and nepotism, with attendant adverse social and economic consequences.</p> <p><b>Poverty increases the cost of the welfare system.</b> Poor living conditions as a result of poverty and deprivation affect the health and well-being of the population and increase the expenses of the welfare system, particularly those regarding the national healthcare services.</p> <p><b>Inefficient health care systems impede growth prospects</b> indirectly by taking up significant budget expenditures that do not fully translate into expected outcomes.</p> <p>A financially sustainable pension system is indispensable if it is to meet its key purpose, which is to protect older people from poverty and to allow them to enjoy decent living standards and economic independence when ageing. Pensions affect public budgets and labour supply in major ways and these impacts must be considered in pension policy. <b>Poverty and income inequality hamper investments, and hence growth, by fuelling economic, financial, and political instability.</b></p>
<p><b>II. GENDER INCLUSION</b></p> <p><b>1. General</b></p> <p><b>Social Institutions and Gender Index – SIGI</b> Measures the level of discrimination against women in social institutions (formal and informal laws, social norms, and practices). As underlying drivers of gender inequality, discriminatory social institutions perpetuate gender gaps in areas of development such as education, employment and health, and hinder progress towards rights-based social transformation. Source: OECD, SIGI.</p> <p><b>Gender-Related Development Index (GDI)</b> Measures gender gaps in human development by accounting the disparities between women and men in three basic dimensions of human development: health, knowledge and living standards, using the same component indicators as in the Human Development Index (HDI). The GDI gives the ratio of the HDI calculated for females as a percentage of the HDI calculated for males using the same methodology as in the overall HDI. Source: United Nations Development Programme (UNDP), Hyman Development Report, <a href="http://hdr.undp.org/en/content/gender-development-index-gdi">http://hdr.undp.org/en/content/gender-development-index-gdi</a>.</p>		

## SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Gender Empowerment Measure (GEM)</b> Seeks to measure relative female economic and political power. It considers gender gaps in political representation, and in professional and management positions in the economy, as well as in incomes. Source: World Bank Group.</p> <p><b>Gender Gap Index (GGI)</b> Measures the following dimensions: 1) economic participation (male and female unemployment levels, levels of economic activity, and remuneration for equal work); 2) economic opportunity (duration of maternity leave, number of women in managerial positions, availability of government-provided childcare, wage inequalities between men and women); 3) political empowerment (number of female ministers, share of seats in parliament, women holding senior legislative and managerial positions, number of years a female has been head of state); and 4) health and wellbeing (effectiveness of governments' efforts to reduce poverty and inequality, adolescent fertility rate, percentage of births attended by skilled health staff, and maternal and infant mortality rates). Source: United Nations Economic Commission for Europe (UNECE), Gender Statistics.</p> <p><b>2. Education</b></p> <p><b>Gender Parity Index (GPI), by education level</b> Measures the relative access to education for men and women, the number of students entering tertiary education, the proportion of students studying abroad and the share of students transitioning from school to work, as a ratio of girls to boys. Source: United Nations Educational, Scientific and Cultural Organization (UNESCO); UN Millennium Development Goals Indicators <a href="http://unstats.un.org/unsd/educational/Metadata.aspx?IndicatorID=9">http://unstats.un.org/unsd/educational/Metadata.aspx?IndicatorID=9</a>.</p> <p><b>Educational attainment by gender</b> Looks at the highest level of education completed by an individual. There are three levels: below upper-secondary, upper secondary and tertiary attainment. Upper secondary education typically follows completion of lower secondary schooling. Lower secondary education completes the provision of basic education, usually in a more subject-oriented way and with more specialised teachers. This indicator is measured as a percentage of the 25-64 year-old population; for tertiary, upper secondary, and lower secondary, with data disaggregated by gender. Source: OECD, educational attainment [adult_education_level] (indicator); National Statistics <a href="https://data.oecd.org/eduatt/adult-education-level.htm">https://data.oecd.org/eduatt/adult-education-level.htm</a>.</p> <p><b>Population achieving at least a fixed level of proficiency in literacy and numerical skills, by age group and gender (%)</b> The percentage of young people (15-24 year-olds) and adults (aged 15 years and above) who achieve or exceed a given level of proficiency in 1) literacy; and 2) numeracy. Source: UNESCO.</p> <p><b>3. Employment</b></p> <p><b>Employment/unemployment rate by gender and age (%)</b> Calculates the percentage of employed/unemployed people out of the total labour force, by gender and age. The labour force is the total number of people employed and unemployed. Unemployed people comprise those aged 15 to 74 who were: 1) without work during the reference week; 2) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week; and 3) actively seeking work, i.e. had taken specific steps in the four week period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of, at most, three months. Source: European Commission, Eurostat database, <a href="http://ec.europa.eu/eurostat/data/database">http://ec.europa.eu/eurostat/data/database</a>.</p> <p><b>Labour force participation rate by gender (% of total population)</b> Measures the labour force participation rate of men vs. women as a percentage of the total population. Labour force participation rate is the proportion of the population ages 15 and older who are economically active: all people who supply labour for the production of goods and services during a specified period. Women are more likely than men to be inactive (mainly due to external reasons, namely a heavier family burden than men, social attitudes that place women in the role of homemaker etc.), so will systematically show lower labour participation rates than men. Source: International Labour Organization (ILO).</p>	<p><b>economic dynamics (SIGI, GEM, GGI)</b></p> <ul style="list-style-type: none"> <li>discriminatory attitudes are still prevalent in ideas about appropriate behaviour for women, restrictions on their independence, and their aptitudes.</li> </ul> <p>There are differences in access to education and skills:</p> <ul style="list-style-type: none"> <li>education and skills attainment differ considerably depending on gender</li> <li>low scores/ranking position in the Gender Parity Index.</li> </ul> <p>Labour market participation and employment rates differ:</p> <ul style="list-style-type: none"> <li>The gender division of labour within the economy is high, with unequal gender distribution between sectors and occupations. There are high levels of women in so-called "feminine" careers such as teaching and nursing.</li> <li>A large gender employment gap – the degree to which the proportion of men of working age in employment exceeds that of women. Women are unable to access the same employment opportunities, earn the same salaries, or rise up the ranks and take on higher levels of responsibilities as men do.</li> <li>Women's labour participation rates are much lower than men's, or women are more likely than men to end up in (involuntary) part-time positions. Women are more likely to be affected by time-related underemployment, and obliged to accept (involuntary) part-time positions.</li> <li>Inequalities in the domestic/unpaid sector, with women dedicating substantially more time to household activities than men.</li> </ul>	<p><b>High income inequality may increase socio-political instability, primarily by fuelling social discontent</b> (political and social unrest, criminality etc.) Socio-political instability has an impact on the political and economic environment by increasing the level of perceived uncertainty, which in turn reduces (prospective) investments.</p> <p><b>2. The economic empowerment of women</b> is a prerequisite for sustainable development. The UN 2030 Agenda for Sustainable Development (Transforming our World: The 2030 Agenda for Sustainable Development. United Nations, 2015) reaffirmed the universal consensus on the crucial importance of gender equality and its contribution to the achievement of the 17 Sustainable Development Goals. Gender equality and empowered women are catalysts for multiplying development efforts. Investments in gender equality yield higher returns on all development investments. In contrast, gender inequality and lack of women's empowerment will negatively affect economic growth and development because it leads to the productive capacities of a large segment of the economy's population being underused:</p> <p><b>Lack of adequate jobs for women leads to increased costs to the public finances</b>, both directly because of the need to provide larger social benefits, and indirectly, through reduced income from labour taxation.</p>

## SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
<p><b>Share of part-time (voluntary or involuntary) employment, by gender and age group</b> Indicates the shares of voluntary and involuntary part-time work among part-time workers, as well as the ratio of voluntary and involuntary part-time work, and labour force and the gender composition of (voluntary and involuntary) part-time workers. A high share of involuntary part-time employment denotes a widespread phenomenon of time-related underemployment. Sources: OECD (Incidence of involuntary part-time workers: <a href="https://stats.oecd.org/Index.aspx?DataSetCode=INVPT_I">https://stats.oecd.org/Index.aspx?DataSetCode=INVPT_I</a>); ILO Women at work, Trends (2016).</p> <p><b>Time spent in paid and unpaid work for employed persons by gender</b> This indicator provides an insightful glimpse of how family/home dynamics affect employed women and men. Even when employed full time women tend to bear the brunt of domestic and family responsibilities (i.e. unpaid work), thus directly affecting their work and earning patterns. Sources: OECD (Time spent in paid and unpaid work, by sex: <a href="http://stats.oecd.org/index.aspx?queryid=54752">http://stats.oecd.org/index.aspx?queryid=54752</a>); ILO Women at work, Trends (2016).</p> <p><b>Glass ceiling index</b> Rates economies on women's chances of equal treatment at work. It combines data on higher education, labour-force participation, pay, childcare costs, maternity rights, business-school applications and representation in senior jobs. Sources: Multiple (OECD, ILO, European Commission).</p>	<p><b>Negative motherhood wage gaps and fatherhood pay premiums persist</b> due to the (imposed) heavier role of women in reproductive labour.</p> <ul style="list-style-type: none"> <li>• <b>Discrepancies between genders persist in unemployment, economic activity and remuneration for equal work.</b></li> </ul> <p>There is systematic discrimination against women in the workplace:</p> <ul style="list-style-type: none"> <li>• <b>low scores/overall ranking in the GGI</b></li> <li>• <b>a high score on the glass ceiling index</b></li> <li>• <b>a large pay gap between women and men</b> as well as a considerable gap in occupancy of managerial positions.</li> </ul> <p>Men and women have unequal access to finance and investment opportunities:</p> <ul style="list-style-type: none"> <li>• <b>a low share of women entrepreneurs</b> in the economy compared to men</li> <li>• <b>women are relegated to small and (more likely) micro-enterprises</b> due to limited access to credit and investment opportunities.</li> </ul> <p>Women are unable to access positions of political power:</p> <ul style="list-style-type: none"> <li>• <b>pronounced gender inequalities in political power</b> – the proportion of seats held by women in national parliaments and local governments is low; there are hardly any women presidents, or as ministers in the national Cabinets.</li> </ul> <p><b>3. Inclusion of some or all ethnic minorities is a major challenge.</b> Not all ethnic groups enjoy equal economic opportunities and/or political rights. Some ethnic groups</p>	<p><b>Greater labour force participation by women leads to a better allocation of female workers</b> across occupations and economic sectors and thus further contributes to economic growth.</p> <p><b>Lower labour participation rates among women imply they have fewer employment opportunities</b> from their very entry into the labour market, as well as little job variation later, over time, ultimately affecting their earning capacity and economic security, which in turn has a negative impact on the economy.</p> <p><b>Low entrepreneurship levels among women</b>, and their relegation to micro-enterprises and less profitable activities, exclude them from entering the more productive and profitable sectors of the economy, resulting in the underuse of their productive potential.</p> <p><b>3. The ineffective inclusion of ethnic minorities into the social fabric</b> has economic significance: The <b>higher political risk</b> derived from ethnic exclusion, segregation and resulting tensions translates in higher cost of capital, lower prospective investments, and the economy overall becoming a less attractive investment destination.</p> <p><b>Recurrent job discrimination discourages members of ethnic minorities from investing in education and skills</b>, reducing in their chances of obtaining a better foothold in the labour market. As such, their productive potential risks being underused, limiting the growth potential of the economy.</p>
<p><b>4. Entrepreneurship</b></p> <p><b>Share of women entrepreneurs in the economy (%)</b> Calculates the percentage of women entrepreneurs in the total economy. A higher share tends to indicate women's greater engagement and more solid presence in the economic fabric of society. Source: ILO.</p> <p><b>III. ETHNIC INCLUSION</b></p> <p><b>Educational attainment by ethnicity</b> Measures the highest level of education completed by an individual from a specific ethnic group and compares it to the educational attainment level of the majority group in the economy. Source: National statistics.</p> <p><b>Economic activity within ethnic groups (% employed, unemployed, inactive)</b> Measures the different shares of employment, unemployment and inactivity per ethnic group. Members of ethnic minorities are more prone to end up either unemployed or (even more likely) inactive. In contrast, members of the ethnic majority will enjoy notably higher employment rates, accompanied by lower unemployment and inactivity rates. Source: National statistics.</p> <p><b>Level of ethnic tensions</b> Measures the level of tensions between different ethnic groups in the economy on a scale of 1-10. Increased levels of inter-ethnic mistrust, accompanied by fear and competition among ethnic groups can increase the likelihood of grievance-based mobilisation for civil conflict, as well as they have an adverse impact on the stability of the state in general, but also specific state administrative bodies controlled by the ethnic majority. Sources: European Social Survey; UNESCO (data on South East Europe); United Nations Development Programme (UNDP).</p> <p><b>Median household income by race/ethnicity</b> Measures the income levels by ethnicity in the economy and provides an indication of the success of efforts to eliminate ethnic disparities in access to employment and education, as well as in the reduction of income gaps – ultimately helping in reducing poverty disparities between races/ethnicities. Source: National Statistics.</p>	<p>Men and women have unequal access to finance and investment opportunities:</p> <ul style="list-style-type: none"> <li>• <b>a low share of women entrepreneurs</b> in the economy compared to men</li> <li>• <b>women are relegated to small and (more likely) micro-enterprises</b> due to limited access to credit and investment opportunities.</li> </ul> <p>Women are unable to access positions of political power:</p> <ul style="list-style-type: none"> <li>• <b>pronounced gender inequalities in political power</b> – the proportion of seats held by women in national parliaments and local governments is low; there are hardly any women presidents, or as ministers in the national Cabinets.</li> </ul> <p><b>3. Inclusion of some or all ethnic minorities is a major challenge.</b> Not all ethnic groups enjoy equal economic opportunities and/or political rights. Some ethnic groups</p>	<p><b>3. The ineffective inclusion of ethnic minorities into the social fabric</b> has economic significance: The <b>higher political risk</b> derived from ethnic exclusion, segregation and resulting tensions translates in higher cost of capital, lower prospective investments, and the economy overall becoming a less attractive investment destination.</p> <p><b>Recurrent job discrimination discourages members of ethnic minorities from investing in education and skills</b>, reducing in their chances of obtaining a better foothold in the labour market. As such, their productive potential risks being underused, limiting the growth potential of the economy.</p>

## SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
	<p>may suffer from one or more of the following disadvantages:</p> <ul style="list-style-type: none"> <li>• <b>lack of education</b> (including higher than average shares of illiteracy) and training; lack of language skills (i.e. difficulties in speaking the national, vehicular language of the ethnic majority); lower attainment levels than the ethnic majority</li> <li>• <b>lack of knowledge/unfamiliarity with the legal and administrative workings of the state</b></li> <li>• <b>lack of physical mobility</b> from enclaves and concentration in deprived areas</li> <li>• <b>constrained access to finance and investment</b> due to inability to meet collateral requirements, etc.</li> <li>• <b>limited access to political power</b> with minority groups under-represented in government, parliament etc.</li> </ul> <p><b>High levels of ethnic tension</b></p> <p><b>The level of tension</b> between different ethnic groups in the economy is high and often increasing.</p> <p><b>Lack of policies on affirmative action, non-discrimination and diversity management</b>; or, if they do exist, there is little effective information about current policies for inclusion or it is not adequately transmitted:</p> <p>Minorities are often <b>unaware of specific measures and legislation aimed at supporting them</b> so they do not take advantage of them, even when these measures are in place. <b>Persistent cultural discrimination against minorities</b>, including by public authorities, dissuades them further from reaching out to public institutions for support.</p>	<p><b>Strong divisions along ethnic and cultural lines</b> are more likely to lead to political violence as well as frequent breakdowns of law and order.</p>

SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES (cont.)

Indicators of state of play	Structural obstacles	Impact on competitiveness and growth
	<p><b>There is a persistent “generational poverty trap”,</b> by which members of minorities are unable to break the vicious cycle of illiteracy-poverty-exclusion over time and over generations. This results in limited access to education and health, with a negative impact on future career prospects, integration into society and living standards.</p> <p><b>Lack of legal registration/access to citizenship</b></p> <p>Members of ethnic minorities are <b>more likely to lack a declared residency</b>, or are not even included in the register of births, or lack an official identity number.</p> <p><b>Lack of proper documentation limits access to public services</b>, including education, health, pensions and social benefits. This also means the state is unable to track minority groups in order to actively engage in their inclusion.</p>	



## OECD GLOBAL RELATIONS SOUTH EAST EUROPE

The **Organisation for Economic Co-operation and Development (OECD)** is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The Organisation provides a setting where governments can compare policy experience, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. The OECD currently has 35 members and engages in extensive relations with partners from over 100 economies around the world.

Since 2000, the **OECD South East Europe regional programme** has closely collaborated with economies of the region to foster growth, investment and employment through reforms in favour of competitiveness and private sector development. The programme addresses regional and national needs, capacities and reform priorities; while translating OECD standards and best practices into actionable advice for South East European economies. The programme currently encompasses three main streams of work.

1. The programme supports Western Balkan partners in the preparation of their **Economic Reform Programmes** which are part of the EU Semester. The OECD aims to assist with relevant approaches and tools to facilitate the definition of adequate medium-term macroeconomic and fiscal frameworks along with specific policy reforms.
2. The OECD also works with policy makers from the region to benchmark progress with broad-based structural reforms, as reflected in a publication titled **Competitiveness in South East Europe: A Policy Outlook**. The Outlook compares progress on the basis of a comprehensive matrix of qualitative and quantitative indicators across seventeen policy dimensions key to competitiveness.
3. Another initiative of the programme focuses on policy reforms aiming to facilitate the implementation of the Small Business Act for Europe. The **SME Policy Index**, a periodic flagship publication, monitors convergence towards good practices, supports governments in setting targets for SME policy development and facilitates policy dialogue on future and current challenges.

The strong co-operation effort taking place under the auspices of the programme is carried out thanks to voluntary funding, in great part contributed by the European Commission.

