ECONOMIC REFORM PROGRAMME

Prioritisation Tool

For Selecting Priority Reform Measures

OECD

GLOBAL RELATIONS
South East Europe

Economic Reform Programme

PRIORITISATION TOOL

For Selecting Priority Reform Measures

OECD
BETTER POLICIES FOR BETTER LIVES

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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.

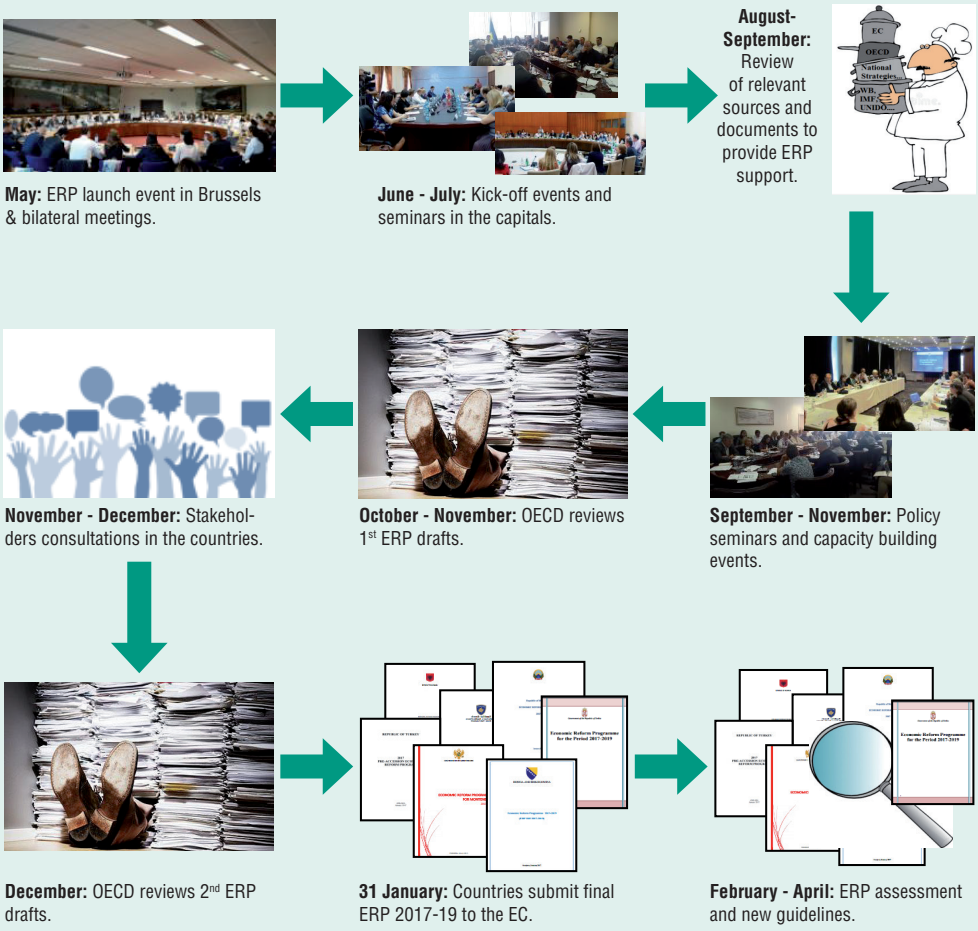
Box. **The ERP annual cycle and the role of the OECD** *(cont.)*

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 Prioritisation Tool was developed by the OECD South East Europe (SEE) regional programme with the purpose of supporting the governments of SEE, prioritising and selecting measures for their annual Economic Reform Programmes (ERPs).

The tool offers a systematic methodology for selecting priority measures for the ERPs. It proposes a step-by-step approach to narrow down a wide range of proposed ERP measures to a maximum set of 20. Together, they represent a credible and consistent policy strategy focused on boosting economic growth and competitiveness.

It is intended 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 prioritising their reform proposals. For this reason, the methodology is presented here in a ready-to-use format with detailed descriptions.

The methodology consists of three implementation steps:

1. **Screening questions**: These exclude any proposed measures from the list that do not satisfy the key criteria for inclusion in the ERP document. There are two sets of screening questions:
   1. Screening of *continuing reforms* rolling over from the previous year's ERP that the government wants to include again in the new one.
   2. Screening of *new reforms* that are being introduced in the ERP for the first time.
2. **Evaluation of measures**: Measures that pass the screening questions are subject to further analysis and evaluation, consisting of:
   1. Scoring of measures for their likely impact on economic competitiveness, growth and employment.
   2. Qualitative evaluation to assess the complexity and risks for implementation.
3. **Holistic review**: Based on the short list from the previous evaluation phase, this final step aims to develop a well-balanced set of priority measures.

By following these three steps, ERP co-ordinators in co-operation (as needed) with relevant line ministries can come up with a set of measures that, together, constitute a credible and coherent policy strategy focused on economic growth and improving the competitiveness of the economy.

This Prioritisation Tool is complemented by an Excel tool, which can facilitate the practical scoring and prioritisation of measures.

Step 1

Screening questions

The ERP is a medium-term document and provides a rolling programme, with the implementation profiles of most measures spanning several years. This makes the existing priority measures in last year's ERP a natural starting point for considering the measures to be included in the new ERP. According to the European Commission's guidance note, "measures included in the ERP 2017-2019 should be the same as those included in the ERP 2016-2018 for the years 2017 and 2018 if the priorities remain the same"[1]. However, measures intended to be implemented in 2015 should only be included again if they were not implemented, and should be accompanied by an explanation for the delay.

This means that the new ERP will be a combination of old, perhaps slightly adjusted, reforms, and new ones. However, all of the measures (old and new) still need to be passed through the set of screening questions in order to validate them and check their robustness.

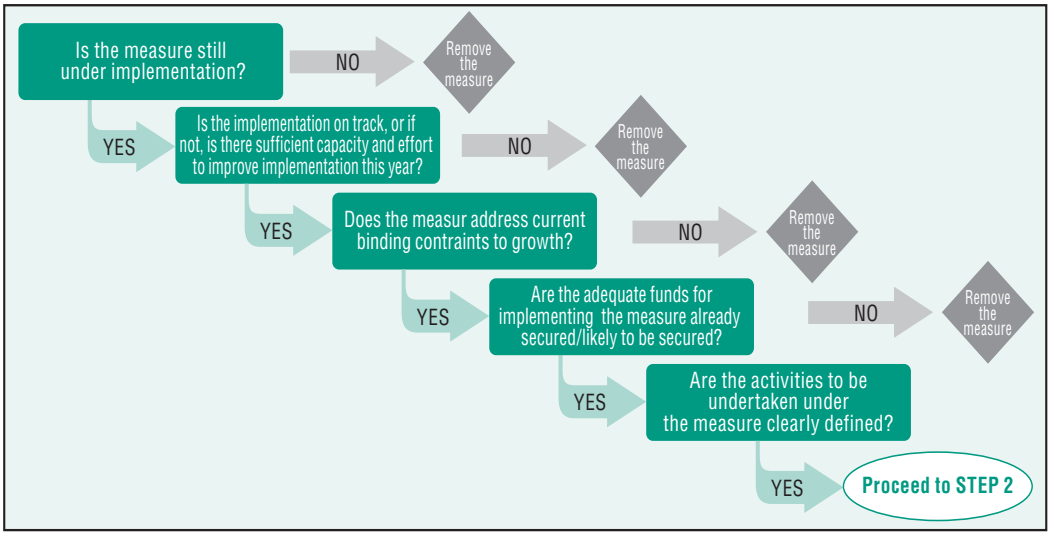
The co-ordinator should take stock of progress with existing priority measures to see where amendments are needed, and consider new developments in the policy environment to see whether any new priorities are required.

1.1. Screening questions for reforms included in the previous ERP cycle

This specific step applies only to measures in the previous ERP cycle that the competent ministry and/or national co-ordinator would like to submit again in the new ERP programme. The purpose of this step is to exclude from the list those measures that no longer satisfy basic prioritisation criteria, such as being under effective implementation, alignment with new priorities or the quality of elaboration in the previous ERP document. Only the measures that pass this screening test are further evaluated (Step 2) and may be chosen as priority measures for ERP.

Figure 1 below provides a detailed list of the screening questions for the reforms introduced in the previous ERP.

Figure 1. **Screening questions for reform measures from the previous ERP**



The rationale of the screening questions is the following:

1. **Is the measure still under implementation?** If a measure is still under implementation, it should pass through to the evaluation stage. If the measure has already been fully implemented, it can be removed from further consideration for the ERP document.
2. **Is the implementation on track, or if not, are sufficient resources being mobilised in order to achieve implementation in the coming year?** If the implementation is going according to plan, proceed to the next question. If the implementation of a measure is off track, this might reduce its expected positive impact on the economy. Unless corrective mechanisms have already been envisaged and concrete steps taken or will be taken to correct the implementation, the measure should be removed. The **monitoring tool** will provide guidance on the adequacy of implementation of each existing measure. For now, Table 1 contains some useful tips on how to review implementation and feed the results into the prioritisation tool.

Table 1. **Additional guidance on implementation review**

Implementation and follow-up actions
• If implementation was **satisfactory** but not yet completed, keep the measure in the ERP and continue as planned.
• If implementation was satisfactory but the **impact** has been **less than expected**, consider making adjustments to strengthen the impact or replacing the measure with similar but potentially more effective goals.
• If **implementation** has had **shortcomings** and they were mainly **related to organisational issues**, keep the measure in the ERP but plan actions to speed up implementation.
• If **implementation shortcomings** were **related to** the **design of the measure or to** the **policy environment**, adjust the measure or, if adjustment is not possible or would seriously reduce its effectiveness or impact, drop the measure from the ERP and replace it with a better suited one.

3. **Does the measure address current binding constraints to growth?** Does the reform tackle the main identified structural obstacles (based on the country diagnostic, changes in the government's political priorities, EU assessments and assessments of other international organisations, etc.), and does its implementation effectively address the negative impact on competitiveness and inclusive growth, as outlined in the economy-wide diagnostic, which should be updated yearly to reflect changes in the policy environment and resulting changes in the binding constraints and priorities?

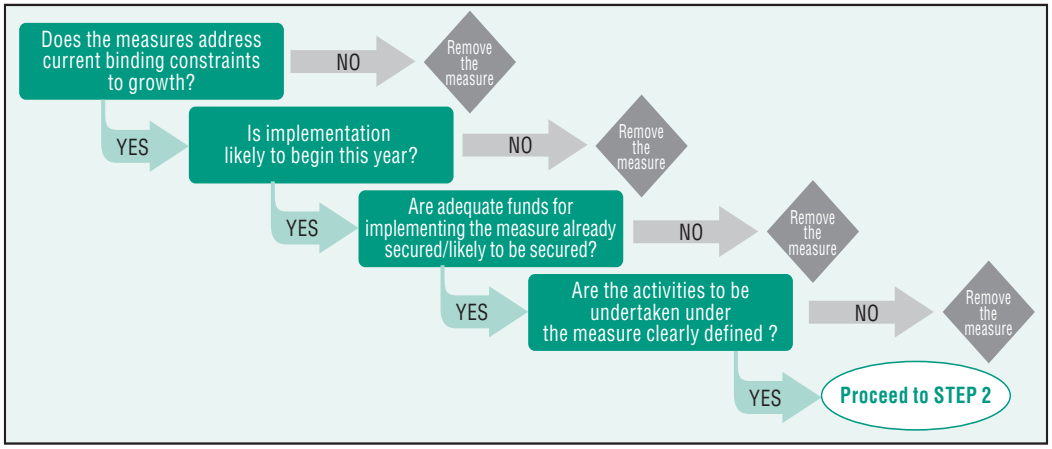
4. **Are adequate funds for implementing the measure already secured or likely to be secured?** This question applies to both old and new reforms. In the case of a measure already under implementation, some funds will already have been allocated for it the previous cycle, but it is important to ensure the necessary funding keeps flowing until conclusion and full implementation. If funding falls below minimum levels, this might suggest that its priority is waning within government as attention and funds are being shifted elsewhere.

5. **Are the activities to be undertaken under the measure clearly defined?** (e.g. what will be done, by whom, by when). Are all key activities that are needed to implement the measure defined in the ERP document? Are those activities well elaborated, including concrete steps to be taken along with a clear timeline to be adhered to? Have the institutional responsibilities, internal hierarchies and tasks been clearly stipulated? Do the relevant institutions have the capacity (budget and staff, etc.) to effectively implement the assigned activities?

1.2. Screening questions for new reforms

Reforms that are being introduced for the first time this year should also be screened, focusing on their relevance for competitiveness and growth as well as whether they can be implemented during the three-year period covered by the upcoming ERP document. Figure 2 presents the four screening questions and the rationale behind the questions.

Figure 2. **Screening questions for new reform measures**
(excluding Public Finance Management and Social Inclusion)



1. **Is the measure relevant for economic competitiveness/growth and/or employment creation?** The measure must address key structural obstacles identified in the diagnostic section of the ERP document and thus contribute positively towards strengthening competitiveness or economic growth or increasing employment. If the measure is not related to any of these goals, it should be removed from consideration.

2. **Is the implementation likely to begin in the coming year?** A measure has to be implemented in the same year as the ERP is published. It does not matter if it will be concluded by the same year, which is most often not the case, but it has to at least be started. This is to avoid idle measures being introduced that could be as well postponed to the next ERP exercise, freeing space for other more urgent reforms.
3. **Are adequate funds to implement the measure already secured or likely to be secured?** Cost estimates and financing must be clear at the time the proposal is made to introduce a measure into the ERP. Lack of adequate funding will certainly result in the halting of the measure's implementation, and this should be avoided.
4. **Are the activities to be undertaken under the measure clearly defined?** (e.g. what will be done, by whom, by when). Are all the key activities needed to implement the measure clearly specified in the line ministries' proposals? Are those activities well elaborated, including concrete steps to be taken along with a clear timeline to be adhered to? Have the institutional responsibilities, internal hierarchies and tasks been clearly stipulated? Do the relevant institutions have the capacity (budget and staff, etc.) to effectively implement the assigned activities?

These questions are difficult to apply to two of the nine reform areas categorised in the European Commission's guidance note[2], namely Public Finance Management (PFM) and Social Inclusion, Poverty Reduction and Equal Opportunities, due to their specific nature. The prioritisation tool can be hardly applied to reforms in PFM, so the introduction of such reform measures should be only considered during the holistic review (Step 3) of the prioritisation process. In contrast, the prioritisation tool can be used for measures targeting social inclusion with some ad hoc arrangements, the first of which is a change in the preliminary screening sections.

Step 2

Evaluation process

Measures that pass the screening questions are subjected to analysis and evaluation. The co-ordinator performs the evaluation based on the information provided by ministries in the descriptions of the measures, and on their knowledge and experience about qualitative issues such as implementation complexity and risks.

The evaluation process consists of an impact scoring and a qualitative evaluation. When justified, the co-ordinator and the relevant ministry can interact in order to improve any measures with high impact scores but for which the qualitative assessment has thrown up any relevant shortcomings.

2.1. Impact scoring

In this step, measures are evaluated and scored for their likely impact on 1) economic competitiveness and growth; and 2) employment.

The values for scoring impact have been chosen to:

- reflect the higher priority given by ERPs to the competitiveness/growth objective than the employment objective as the former are the main goals of measures in Areas 1-6[3] and the latter is the main goal for Areas 7 and 8[4]
- focus on reducing the identified binding constraints on growth
- produce a meaningful ranking of measures based on combined impact scores.

Table 4 explains the impact scores assigned to the measures and the thresholds for the total scores. It is obvious that the impact scores will be only partly based on data and economic analysis and will necessarily involve a large degree of judgement. Annex A at the end of the document provides a concrete example of application of the scoring mechanism to an ERP reform measure.

A checklist of questions to guide the assignment of scores and the evaluation of the likely impacts on competitiveness/growth and employment are presented in the next section.

1. Impact on economic competitiveness and growth

According to the 2017-19 ERP Guidance Note[5], ERP reforms should tackle obstacles to fundamental drivers of growth; improve the efficiency, innovation and transparency of markets; and help in the overall transformation of the economy into a fully functional market one. If empirically backed assessments are not yet available at the time the measures are evaluated and cannot be presented in the document, sound economic judgement may be the only way to score the measures. Note that as far as possible, the evaluation of the impact on competitiveness and growth should relate to the total effects over the three year rolling period of ERP implementation (the year of submission plus the following two years). Ideally, measures should be scored as follows:

Score 10 – measures addressing binding constraints to growth: strong measures (major reforms, cross-cutting policy actions and strategies) addressing a binding constraint to growth as identified by the OECD growth diagnostic study and the sectoral diagnostic conducted by individual line ministries and the national co-ordinator. These could include a well-developed set of measures to improve access to finance, a major labour market reform or a comprehensive action plan to improve the business environment or contract enforcement – provided that those areas were identified as a binding constraint to growth in the economy in question.

Score 8 – major growth measures: measures that do not address an identified binding constraint to growth, but where there is sound economic justification that they would strongly contribute to competitiveness and/or economic growth. Examples include major infrastructure projects with long-term benefits for the economy, industrial clusters, and foreign direct investment (FDI) and export promotion programmes. This also covers smaller (weaker) measures that do address a binding constraint to growth but are targeted at only one specific issue of the many forming the constraint.

Score 6 – medium impact: measures where there is no clear and convincing prior justification for expecting a strong impact, or measures where the impact crucially depends on the way they will be implemented, and where implementation is not specified well enough. These could include increasing subsidies to economic activity or providing targeted tax concessions.

Score 0 – low impact: these include administrative, organisational and capacity building measures; preparatory measures such as feasibility studies or drafting a strategy; institution building measures; or simplifications in only one narrow area of regulation.

2. Impact on employment

The ERP Guidance also calls for the proposed measures to make a significant impact on the modernisation of labour markets, as well as helping to make them more adaptable and responsive to the needs of the economy. If observational projections are not yet available during the evaluation, rational economic estimates may be the only way to score measures. Note that the evaluation of the likely effects on employment should also relate to the total effects over the three year period of ERP implementation (the year of submission plus the following two years). Ideally, measures should be scored as follows:

Score 5 – direct impact: measures that directly address unemployment, labour market functioning or the mismatch between labour supply and demand. For example, active labour market policy measures, vocational education and training (VET) reform measures or job creation measures.

Score 2 – indirect impact: measures with an indirect effect on employment. For example, changes in labour market regulations, measures to develop productive capacity or investment support measures.

Score 0 – low impact: measures with low or no impact on employment, and those which may even have a temporarily negative effect on employment such as restructuring and privatisation.

Reference questions to support impact scoring

The questions provided in Tables 2 and 3 are intended to help experts and co-ordinators score the measures for impact. Although they are not exhaustive, they provide a useful checklist and further illustrate the logical approach to be used in scoring

Table 2. **Questions assessing the impact on economic competitiveness and growth**

Reference questions	Evaluation
Q1. Does this measure mainly involve organisational or institutional changes with little immediate impact on the economy? **Q2.** Does this measure mainly involve preparatory and planning actions with little immediate impact on the economy? **Q3.** Does this measure address a very specific area or issue without a broader impact on the economy?	• If **yes** to any of the questions, score 0. • Otherwise, proceed further.
Q1. Does this measure clearly address an identified binding constraint to growth? Which constraint and in what way? **Q2.** Is this a comprehensive, strong measure that is likely to have a strong impact on reducing or eliminating the constraint?	• If **yes** to both Q1 and Q2, score 10. • If **yes** to Q1, but no to Q2, score 8. • If **no** to both Q1 and Q2, proceed further.
Q1. Is this measure well specified, and does it include clearly defined actions and a credible timetable and funding for implementation? **Q2.** Does this measure address a well-specified issue (problem) that was identified by a relevant analysis/report as a serious impediment to growth or competitiveness? **Q3.** If not, will this measure reduce or remove an important infrastructural bottleneck with direct benefits for private economic activity? **Q4.** If not, is there a convincing economic argument that this measure is likely to significantly increase exports, private investment or supply of competitive products/services?	• If **yes** to Q1 and any of the other questions, score 8. • If **yes** to Q1 and no to all other questions, score 6. • If **no** to Q1 and yes to any of the other questions, score 6. • If **no** to all questions, score 0.

Table 3. **Questions assessing the impact on employment**

REFERENCE QUESTIONS	EVALUATION
Will this measure improve the functioning of the labour market, matching labour supply and demand, or directly reducing unemployment, poverty or inequality?	If yes, score 5. If not, proceed further.
Is there a convincing economic argument that this measure will indirectly contribute to higher employment during the three-year ERP period?	If yes, score 2. If not, score 0.

2.2. Qualitative evaluation

While impact scores should clearly guide prioritisation, they should not be used simply to automatically select the measures with the highest impact scores. Other important considerations need to be taken into account when developing the final list of priorities. This step collects qualitative information for each measure on its complexity, implementation risks and the EC assessment of the measure in the previous ERP. The best-performing measures for this part of the assessment will be those that require limited inter-institutional co-ordination during the implementation process, entail limited or well-hedged implementation risks and have received a positive assessment by the EC.

For ease of reference, Table 4 summarises the results of both evaluations (the impact scores and the qualitative information), which have to be filled in for each measure evaluated in Step 2.

Table 4. **Summary of evaluation results**

Impact	**Possible scores**
Impact on economic competitiveness/growth	10 / 8 / 6 / 0
Impact on employment	5 / 2 / 0
Total impact score	sum
(Once all measures have been filled) Classification into three groups based on the total impact score (see Annex A)	top/medium/bottom
Qualitative evaluation	**Possible scores**
Implementation complexity	high/medium/low
Implementation risks	high/medium/low
EC assessment of measure in previous ERP	positive/negative

The qualitative evaluation of measures considers two factors: implementation complexity and implementation risks.

Implementation complexity considers the level of co-ordination needed across different institutions and stakeholders to effectively implement a proposed measure. Thus measures that can be implemented by a single ministry or agency will have lower complexity than those involving a number of different institutions and stakeholders. This section will explain in detail the degrees of complexity as categorised by the Prioritisation tool.

Implementation risks are factors that may delay the implementation of the measures or cause them to deviate from the intended track as specified in the ERP document. The evaluation of implementation risks takes into account aspects of the design of the measure, organisational issues and the general policy environment. See below for detailed guiding questions to use to evaluate risk under each of these aspects.

1. Implementation complexity

Measures are classified into three groups according to the effort needed for governments to effectively implement them.

High: measures involving decision makers outside government (the parliament, the judiciary or other independent bodies and agencies) and/or requiring extensive consultations and consensus-building with stakeholders (such as business organisations, employers' organisations, civil society and opinion formers). Major structural and systemic reforms also fall under this category.

Medium: measures requiring co-ordinated action by several government ministries and other organisational units such as agencies.

Low: measures that can be effectively implemented by a single ministry or agency.

2. Implementation risks

Implementation risks should be assessed by using the following list of control questions as guidance:

- **Design of the measure**. Is the measure's description general, written in broad or vague terms, or is it well elaborated including concrete actions to be taken? Does the justification of the measure demonstrate good knowledge of the critical issues? Do the planned actions have enough substance to be effective? Are the planned actions, timeline and results realistic? Is the cost of the measure detailed enough and are the expected impacts on budget and competitiveness plausible? Are the resources planned from outside the budget realistic?
- **Organisational issues**. Is there sufficient capacity in terms of skilful and committed staff in the responsible institutions to implement the measure? Is there sufficient management and leadership capacity at the institutions responsible for implementation? When several institutions are involved, is effective co-ordination assured? How good are the track records of the implementing institutions?
- **Policy environment**. Is the measure likely to face strong resistance from influential stakeholders (for example, other ministries in the government, some coalition parties, social partners, lobbies or the broader public)? If yes, is the government committed enough to persist with implementation or is it more likely that the measure will be adjusted or dropped? Are significant changes in political priorities likely to occur (for example, as a consequence of government reshuffles or forthcoming elections)?

After considering potential risks and their intensity, the co-ordinator should give an overall assessment of each measure by assigning one of the following three labels:

High: measures that are expected to face serious implementation risks in any of the three areas specified above and these risks are likely to cause delays or deviations in implementation.

Medium: measures that are expected to face significant implementation risks in some (but not all) of the three areas, but the responsible ministry has presented a well-elaborated approach to address and mitigate the risks as they occur.

Low: measures that are not expected to face significant implementation risks, or the risks are few and of such nature that they can be easily mitigated as they occur.

3. EC assessment of measure in previous ERP

The review and assessment of the previous ERP document should be taken into account when prioritising the measures for the upcoming ERP document. Measures that were not reviewed positively should take lower priority for inclusion in the ERP document unless they have been improved or revised on the basis of the EC comments. On this criterion, the measures can be evaluated as follows:

Positive: measures are sound and well elaborated. They address key structural obstacles to growth and competitiveness, are adequately funded and the activities that will be undertaken are well described.

Negative: measures need to be better structured, elaborated or implemented. There are outstanding concerns about relevance of the measures for competitiveness and growth, their feasibility/ implementability and/or how the measure was elaborated in the previous ERP document.

A concrete example of assessing an ERP reform measure is provided at the end of the document, in Annex A.

2.3. Interactive improvement

It may occur that a measure scores high for impact but the qualitative assessment identifies some important shortcomings. In such cases, the ERP co-ordinator should make additional efforts to improve the measure, in close consultation with the institution(s) responsible for designing and implementing the measure. Which improvements will be needed will naturally depend on the nature of the identified shortcomings. Some possibilities include:

- If implementation complexity is an issue, the **responsible ministry should present a clear plan on how they intend to deal with the complexity** (for example by extensive consultations aimed at reaching a shared understanding of the measure's importance or ensuring there is clear commitment from all institutions involved in design and implementation of the measure). The time plan should be adjusted to allow for potential delays.
- If implementation risks are a concern, **the implementing ministry should be asked to revise the measure to better address the risks** (for example, by further elaborating the actions it plans to take to ensure substance and effectiveness; developing capacity-building plans and co-ordination arrangements; or adjusting the design of the measure to address key stakeholders' concerns, provided that this does not significantly reduce its potential impact).
- If the measure was not positively reviewed by the EC, the **responsible ministry should take the necessary steps to improve the measure** reflecting the concerns and comments from the EC. This can reflect either substantive changes in how the measure is being implemented or it can relate to improvements in how the measure is elaborated in the ERP document.

Ranking of measures based on combined scores

The two sets of impact scores are added together and the measures are ranked based on their combined scores. The numerical values of scores were chosen so that the combined scores (sums) produce a meaningful overall ranking of measures. This is illustrated in Table 5.

Table 5. **Ranking of measures based on combined scores**

Impact on competitiveness / growth		Impact on employment		Combined score
10	Binding constraint	5	Direct impact	15
8	Major measure	5	Direct impact	13
10	Binding constraint	2	Indirect impact	12
6	Medium impact	5	Direct impact	11
10	Binding constraint	0	Low impact	10
8	Major measure	2	Indirect impact	10
8	Major measure	0	Low impact	8
6	Medium impact	2	Indirect impact	8
6	Medium impact	0	Low impact	6
0	Low impact	5	Direct impact	5
0	Low impact	2	Indirect impact	2
0	Low impact	0	Low impact	0

Step 3

Holistic review

This final step is meant to develop a comprehensive and well-balanced set of priority measures, by combining the results of the impact scores and qualitative information obtained in the previous step.

3. Holistic Review

The final step uses the impact scores and qualitative information from the evaluation to develop **a well-balanced set of priority measures** that, taken together, constitute a credible and consistent policy strategy focused on economic growth and improving the competitiveness of the economy.

Producing a well-balanced priority list involves three steps:

1. Based on the evaluation stemming from Step 2, draft the first list of priority measures. This should consist of the 15-20 measures with the highest impact scores, provided they pass the minimum threshold of 8 points and have not been evaluated as having important qualitative shortcomings which were not successfully addressed by the follow-up improvement process to Step 2.
2. Critically assess this initial list of priorities using the holistic review criteria summarised in Table 6 below.
3. Finally, amend the priority list if needed to develop a well-balanced and meaningful final list of priority measures.

Table 6. **Summary of holistic review criteria**

Reference questions
Do the priority measures address **all the binding constraints to growth**?
Do the priority measures address all **policy guidance**?* If yes, is the policy guidance addressed by some non-prioritised activities of the government? If not, is there a clear justification why some aspects of the policy guidance are not addressed by priority measures this year? ** Joint conclusions with country-specific policy guidance adopted annually in May.*
Are all areas in **ERP Section 4 (Structural reform measures)** addressed? If not, is there a clear justification why those areas are not addressed by priority measures this year?
Is the set of priorities consistent with **key national policy documents**?
Are the **implementation risks** connected with the set of priorities as a whole manageable?
Are **long-term structural issues** sufficiently addressed?
Is there a balance between complex comprehensive measures with **medium-term impact** and simpler targeted measures with **immediate impact**?
Does the set of priorities constitute a **credible and consistent policy strategy** focused on economic growth and improving competitiveness?
Is the **final number of priorities** between 15 and 20?

Note: The accompanying annex provides more detailed explanation of the criteria as well as the adjustments suggested under each criterion.

Table 7. **Reference questions to help balance the priority measures**

REFERENCE QUESTIONS	ADJUSTMENT NEEDED
Do the priority measures address all the binding constraints to growth?	• If **not**, look for or develop additional measure(s), or improve the existing measures, to make sure all binding constraints are addressed. • If **yes**, proceed further.
Q1. Do the priority measures address all policy guidance?* **Q2.** If not, is there a clear justification why some aspects of the policy guidance are not addressed by priority measures this year? **Q3.** If yes to Q2, are those policy guidance aspects addressed by some non-prioritised activities of the government? ** Joint Conclusions with country-specific policy guidance adopted annually in May.*	• If **yes** to Q1, proceed further. • If **no** to Q1 and **no** to Q2, look for or develop additional measure(s), or improve the existing measures, to address the policy guidance in question. • If **yes** to Q2 and **no** to Q3, add or adjust activities (but not priorities) to address the policy guidance in question. • If **no** to Q1 and **yes** to both Q2 and Q3, provide the relevant explanations in the ERP text.
Q1. Are all areas in ERP Section 4 addressed? **Q2.** If not, is there a clear justification why those areas are not addressed by priority measures this year?	• If **yes** to Q1, proceed further. • If **no** to both Q1 and Q2, look for or develop additional measure(s), or improve the existing measures, to address the section in question by a priority measure. • If **no** to Q1 and **yes** to Q2, provide due explanations in the ERP text.
Is the set of priorities consistent with key national policy documents?	• If **not**, adjust the list or improve the existing measures to improve consistency. Alternatively, consider amending the national policy documents.
Are the implementation risks connected with the set of priorities as a whole manageable?	• If **not**, adjust the list or improve the existing measures to reduce the implementation risks.
Are long-term structural issues sufficiently addressed?	• If **not**, adjust the list or improve the existing measures to address them.
Is there a balance between complex comprehensive measures with medium-term impact, and simpler targeted measures with immediate impact?	• If **not**, adjust the list or improve the existing measures to achieve a better balance.
Does the set of priorities constitute a credible and consistent policy strategy focused on economic growth and improving competitiveness?	• If **not**, adjust the list or improve the existing measures to improve credibility and consistency of the set of priorities.
Is the final number of priorities between 15 and 20?	• If **higher**, omit the measures with the lowest impact scores and/or least favourable qualitative assessment. • If **lower**, consider developing additional priority measures or, alternatively, justify a smaller number of priorities (e.g. by the need to focus or implementation capacity constraints).

Notes

1. European Commission (2016). "Guidance for the Economic Reform Programmes", p.11, European Commission, Brussels.
2. European Commission (2016). "Guidance for the Economic Reform Programmes", pp.12-13, European Commission, Brussels
3. Public Finance Management (PFM), Energy, transport and telecoms markets, Sectoral development, Business environment and reduction of the informal economy, Research and innovation, External trade and investment facilitation.
4. Education and skills, Employment and labour markets.
5. European Commission (2016). "Guidance for the Economic Reform Programmes", European Commission, Brussels.

Annex A. How to prioritise an ERP reform measure: a concrete example

Box. **Reform measure: Consolidation and defragmentation of agricultural land**

Short description of the measure

According to the National Strategy for Agriculture and Rural Development 2014-2020: "Reparcelisation projects and consolidation of land will be carried out in parallel with infrastructure planning in terms of the quality of the road network and irrigation network as part of an integrated approach to rural development.

Priority will be given to regions with developed and intensive agriculture where small and fragmented parcels significantly limit the further development of agriculture as a primary agricultural activity in rural areas, primarily on the basis of interest shown by the farmers. The process of land consolidation will be initiated by at least half of the land owners in the consolidated area or ex officio by the relevant ministry. The consolidation is implemented if at least 70% of owners of land parcels in the consolidation area agree to conduct the consolidation through distribution of agricultural land, or all owners in the case of consolidation with exchange. Consolidation process will be used to increase the area of land per farm by purchasing or allocation of state agricultural land available for rent.

To achieve better results, the active land consolidation policies in agriculture will be combined with appropriate adaptation to other policies which have an impact on preventing further fragmentation or initiation and intensification of the consolidation process of the agricultural land such as "the mobility of the agricultural land market".

Activities per year

2017

- Awareness raising on consolidation procedures and identification of new consolidation regions (on-line campaign, 5 municipality meetings with land owners and local institutions);
- First capacity building for the Ministry of Agriculture for successful implementation of land consolidation projects (6 members of the Unit for Land consolidation);
- Initiation of development of tools and legal procedures for implementation of consolidation projects;
- Establishment of a Monitoring and Evaluation system.

2018

- Capacity building for the Ministry of Agriculture for successful implementation of land consolidation projects (additional 4 members of the Unit for Land consolidation);
- Further awareness raising on consolidation procedures for interested municipalities (7-10 meetings, with priority for the regions affected by consolidation projects in 2018)
- Implementation of threew/four consolidation projects;
- Monitoring and Evaluation for the second half of the year for the first consolidation projects.

2019

- Implementation of additional three/four consolidation projects;
- Reporting on the final outcome of the projects implemented in 2018, and monitoring of implementation of the new projects.

Budgetary impact

Total costs amount to EUR 4 million (1 million from the national budget, the rest is external donor funding). Budget allocation by year:

2017 – EUR 2 million

2018 – EUR 1 million

2019 – EUR 1 million

Box. **Reform measure: Consolidation and defragmentation of agricultural land** *(cont.)*

Expected impact on competitiveness

Allowing farmers to acquire farms with fewer parcels that are larger and better shaped and to expand the size of their holdings enables them to become more competitive. Improving the agricultural property structure can facilitate the adoption of new agricultural technologies leading to a more prosperous and efficient agricultural sector. Benefits from land consolidation in EU countries include increases in gross income of farmers and reduction of working hours in the field.

In order to create considerable impact, roughly at least 30% of all agricultural land will be consolidated in the coming 30 years. This requires each year to 'deliver' about 3 000 hectares of land consolidation projects being finalised. Assuming a preparation / implementation time of three years, it means that in each year about 10 000 hectares will be under implementation.

Expected social outcomes

By renewal of rural communities, land consolidation can promote social stability. Results from various research and assessments of land consolidation projects show that many communities that have experienced land consolidation show increases in the number of new jobs created.

The project will be implemented in compliance with the VGGT-Voluntary guidelines of land tenure, a gender sensitive and social inclusive approach of interviewing and meetings in which all participa nts will be able to express their interests and will influence the project options.

Step 1: Screening questions

Table A.1. **Answering to the screening questions for the reform on land consolidation**

Question	Answer (Yes/No)	Explanation
• Does the measure address current binding constraints to growth?	**YES**	*The measure tackles a binding constrain to growth in the agricultural sector, which is of high relevance to national GDP and hence overall growth.*
• Is implementation likely to begin this year (2017)?	**YES**	*First activities are to be undertaken in the year of adoption of the ERP.*
• Are adequate funds for implementing the measure already secured/likely to be secured?	**YES**	*1 million € from the national budget has already been secured in the 2016 national budget law, while additional funds from the EU have been approved.*
• Are the activities to be undertaken under the measure clearly defined?	**YES**	*Activities are clearly defined on a yearly basis for the duration of the ERP (three years).*

Given that the measure fulfils the basic requirements set by the screening questions, it is possible to further evaluate the relevance of the reform (second step).

Step 2: Evaluation process

2.1 Impact scoring

Table A.2. **Questions assessing the impact on economic competitiveness and growth**

Reference questions	Evaluation	Score
Q1. Does this measure mainly involve organisational or institutional changes with little immediate impact on the economy? **Q2.** Does this measure mainly involve preparatory and planning actions with little immediate impact on the economy? **Q3.** Does this measure address a very specific area or issue without a broader impact on the economy?	**Q1. No.** **Q2. No.** **Q3. No.** **➡ Proceed further**	–
Q1. Does this measure clearly address an identified binding constraint to growth? Which constraint and in what way? **Q2.** Is this a comprehensive, strong measure that is likely to have a strong impact on reducing or eliminating the constraint?	**Q1. Yes.** **Q2. Yes.** **➡ Agriculture has a significant share in GDP, employs a large number of persons and has a high contribution to foreign trade. Despite this, the fragmented production and lack of mechanisation makes it difficult for farmers to achieve economies of scale in production and produce the quantities required for certain markets, constraining agricultural growth. Progressive reparcelisation and defragmentation of agricultural land will directly tackle this issue.**	**10**

Table A.3. **Questions assessing the impact on employment**

Reference questions	Evaluation	Score
• Will this measure improve the functioning of the labour market, matching labour supply and demand, or directly reducing unemployment, poverty or inequality?	**No.** **➡ The measure does not directly affect the labour market. Proceed further.**	–
• Is there a convincing economic argument that this measure will indirectly contribute to higher employment during the three-year ERP period?	**Yes** **➡ Results from various research and assessments of land consolidation projects show that many communities that have experienced land consolidation show increases in the number of new jobs created.**	**2**

Overall score of the measure: 10 + 2 = 12.

With a combined score of 12, this reforms falls into the first tier (11-15 points, compare with Table 5 in the Evaluation Process chapter), including most meaningful reforms for growth and competitiveness.

2.2 Qualitative evaluation

Implementation complexity: High

The implementation of consolidation procedures is a long process, involving a wide array of state institutions and agencies, in charge to accept and adopt the required procedures. Past experience shows a general lack of trust among stakeholders, which can considerably delay the effective implementation of the reform. Thus, awareness raising campaigns are envisaged from the very beginning, and the landowners' consent to land consolidation will be actively pursued. EU countries' good practices in the implementation of land consolidation will be carefully analysed and applied wherever feasible.

Implementation risks: Medium

The design of the measure might not be comprehensive enough, leading to a failure in its implementation or in a more limited economic impact. Supporting legislation on abandoned land is missing, and state-owned land is not included in the consolidation process, weakening the government's position vis-à-vis private stakeholders.

Previous EC assessment: Positive

"The measure on the consolidation and defragmentation of agricultural land is well-designed with a credible timeframe. Land consolidation is a major reform, which is expected to produce significant positive effects if implemented in full. However, the activities included in the ERP only refer to two pilot projects between 2016 and 2018 whose impact on the sector and on competitiveness has not been quantified. A broad reform of the sector should include developing a proper legislation related to abandoned land, efficient monitoring of the use of state-owned land (database) and the revision on the law on land consolidation, to incorporate state-owned land in the process."

Overall, the reform performed strongly across the quantitative and qualitative evaluation. This exercise should be reiterated for the remaining measures suggested for the ERP, before moving to the third and final step (holistic review), which aims to assure a well-balance set of priority measures for the final Economic Reform Programme.

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.

Co-funded by the European Union