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Multi-annual Action Plan
for a Regional Economic Area
in the Western Balkans

MAP REA

diagnostic report

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Trg Bosne i Hercegovine 1/V, 71000 Sarajevo
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Tel: +387 33 561 700; Fax: +387 33 561 701

E-mail: rcc@rcc.int

Website: www.rcc.int

Authors: Doris Hanzl-Weiss, Mario Holzner, Isilda Mara and David Pichler,
The Vienna Institute for International Economic Studies

Editor: Bojana Zorić, RCC

Design & Layout: Samir Dedic

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CEFTA Secretariat

Rue de la Loi, 42 / boîte 10

B-1040 Bruxelles / Brussels

Tel +32 2 229 10 11

Fax +32 2 229 10 19

Email: cefta@cefta.int

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Multi-annual Action Plan for a Regional Economic Area (MAP REA) in the Western Balkans

diagnostic report

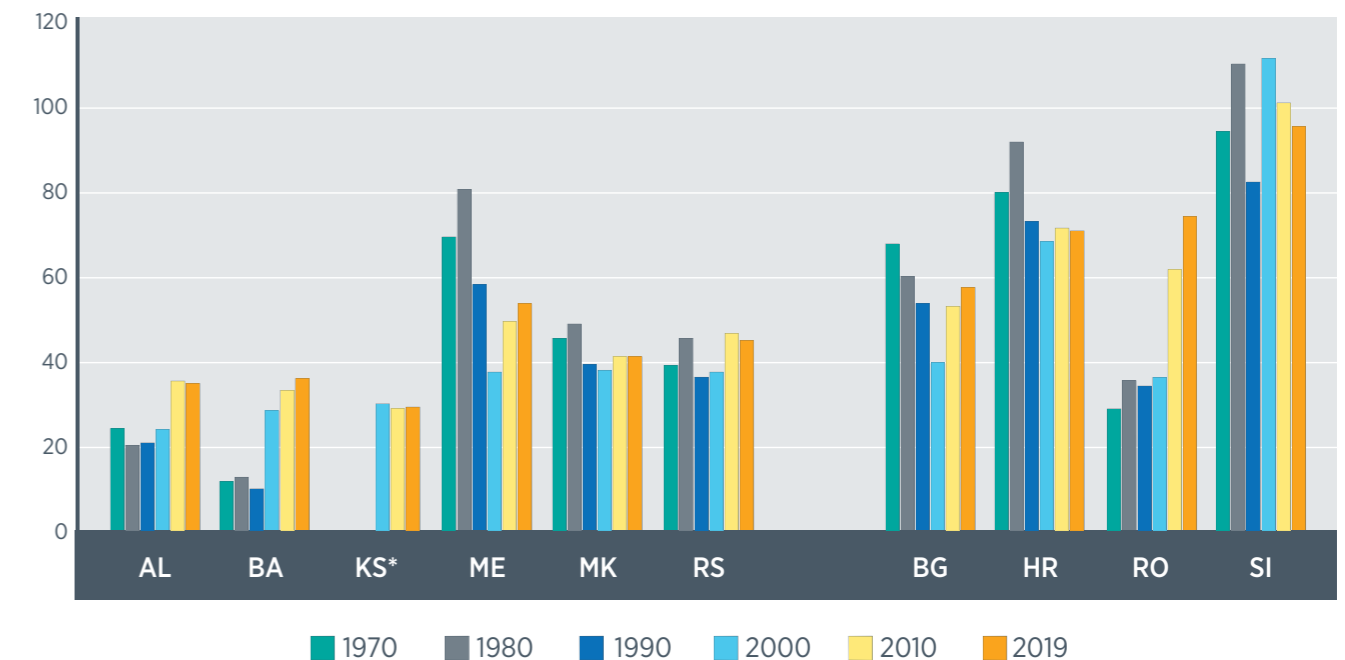
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1. Introduction

In the last half a century, the Central, East and Southeast Europe (CESEE) experienced a history of both economic divergence as well as convergence, vis-à-vis Western Europe but also within the region. A variety of economic systems, different pre-conditions and inherited institutional settings have caused diverse economic reactions to global shocks, such as the oil price shocks in the 1970s, the break-down of communism at the turn of the 1990s, the global financial crisis in 2008, or the most recent Coronavirus crisis. Compared to its regional peers, the economies of Southeast Europe (SEE) suffered substantial economic setbacks during the 1980s, in the wake of the global interest rate hikes after the second oil crisis in 1979. The financing of current account deficits became unaffordable, and curbing domestic demand caused the Gross Domestic Product (GDP) to decline.

Figure 1.1 / GDP per capita at PPP in Southeast European economies, in % of Czech level, 1970-2019



Source: Maddison Project Database 2018 before 2000; wiiw Annual Database 2000 and later.

Compared to average per capita income levels of e.g. Czech Republic, the geographically the most Western and economically the most developed economy of CESEE, economies in SEE experienced massive income losses not only during the 1980s but also during the transition crisis of the 1990s, with the simultaneous advent of much political instability in the whole region (Figure 1.1). Thus, particularly the group of economies, that was later called the Western Balkan 6 (WB6, i.e. Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, the Republic of North Macedonia and Serbia) had to witness an extended period of economic divergence (from relatively low levels), not only with regard to Western Europe but also more successful economies in CESEE. It was only in the early 2000s that a short-lived convergence process started, that allowed the WB6 to raise their incomes to levels of about

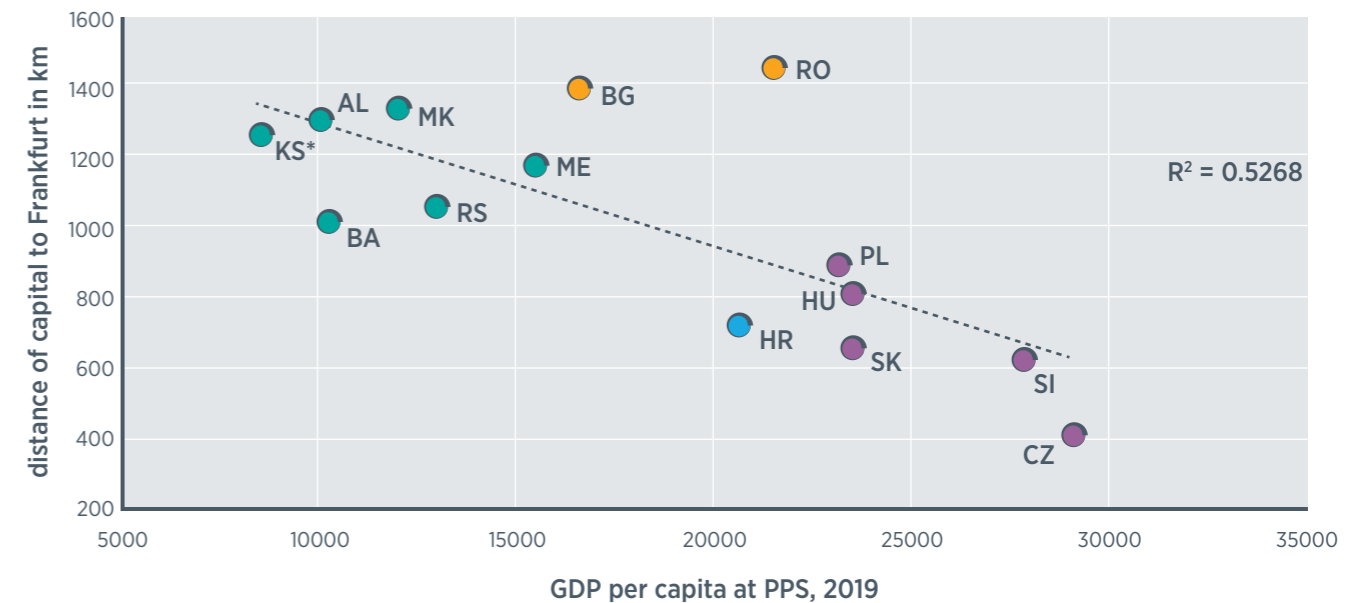
* This designation throughout this document is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

30% to 50% of the Czech average GDP per capita. However, this process was to a large extent based on unsustainable financing schemes and came to a halt in the wake of the global financial crisis, when once again a sudden stop of foreign crediting caused current account deficits to decline and GDP to drop and eventually stagnate.

However, WB6 comparisons with the North-western parts of the CESEE region are tricky. The starting positions before and after the beginning of the transition from command to market economy during the 1990s were very different. Particularly, the crises during early 90's have caused a long delay in Euro-Atlantic integrations, with the respective negative impact on foreign direct investment (FDI) and related export-led growth. Not being part of the vast EU market comes at substantial cost, particularly for small open price-taker economies with a lack of capital. In this respect it is interesting to follow the literature on non-Europe, that tries to estimate the benefits of EU membership. Recent studies, like for instance Felbermayr et al. (2018) find that the biggest potential losses of undoing the various EU integration measures (such as the Single Market, the Customs Union, the Euro Area, the Schengen treaty or the EU transfers) would be particularly severe for the group of economies that joined the Union in 2004 – e.g. Slovakia would lose more than 14% of its real income per capita. This also reflects the strong involvement in the (mainly German-led) production networks of the Central European Manufacturing Core (Stehrer and Stöllinger, 2013; Stöllinger, 2016) via massive FDI inflows in manufacturing around the time of EU accession. Conversely, this implies huge potential gains of an EU accession for the WB6, even if the (pre-)accession investment boom of the early-mid-2000s will not be easily replicated in the WB6.

It might thus make more sense to compare the WB6 to other economies from SEE, with whom they partly share a common historical and institutional background (e.g. within the Ottoman Empire and/or former Yugoslavia). But even this group of economies is difficult to compare the WB6 with. Slovenia joined the EU together with the North-western CESEE economies in 2004, Bulgaria and Romania with a certain lag in 2007, and Croatia only in 2013. While these economies have experienced similar economic dynamics as the WB6 over the last half a century, their income levels are much higher – currently at about 60% (Bulgaria) to almost 100% (Slovenia) of the Czech level.

Figure 1.2 / GDP per capita in EUR at PPS in 2019 and distance of capital city to Frankfurt in kilometres

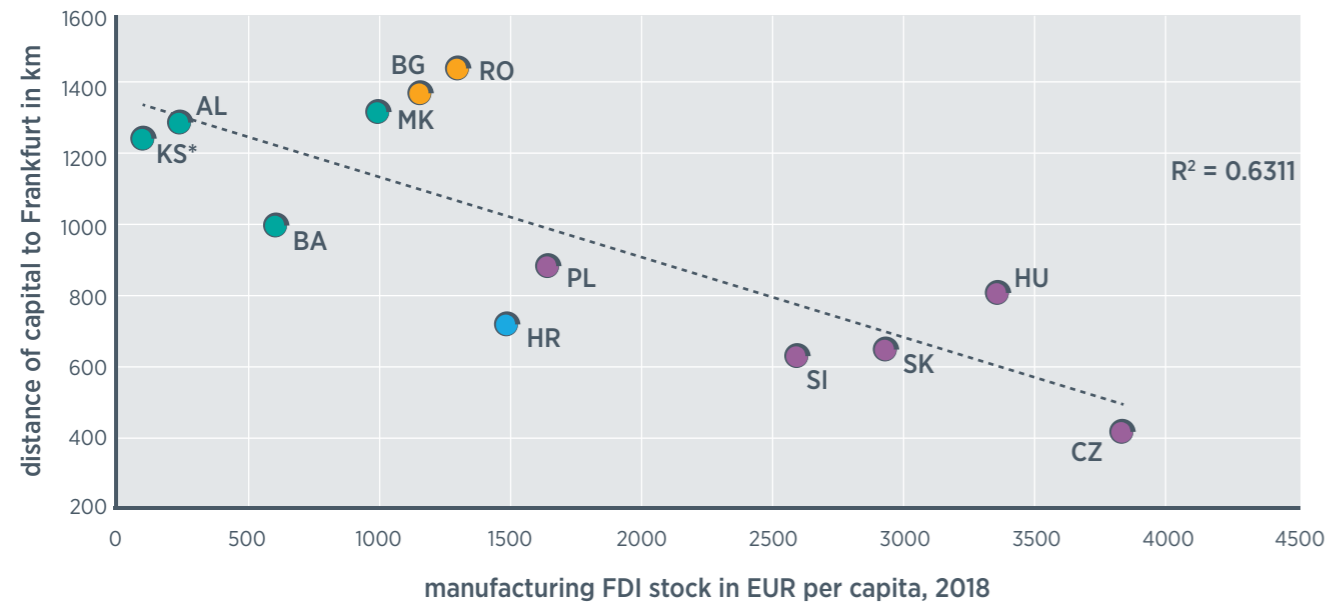


Note: PPS = Purchasing Power Standards; R^2 = goodness of fit of a linear regression model (1 = 100%); colours of markers refer to EU accession status and dates: green = (potential) candidates, light blue = accession 2013, medium blue = 2007 accession, dark blue = 2004 accession.

Source: *luftlinie.org*, *wiiw Annual Database*.

Moreover, the CESEE economies that managed to join the European Union earlier are also geographically closer to the industrial centres of Western Europe. Traditional econometric 'gravity' models of trade and investment flows find, apart from the economic 'mass' of the partner economies and other factors such as free trade agreements and bilateral investment treaties, especially the distance between trade and investment partners as determinants of the respective flows. It is thus not very surprising, that this group of economies were able to profit best from the dominant growth model based on integration with the EU (Becker et al., 2010) and have by far the highest levels of income per capita, being also closest to the economic centre of Germany (Figure 1.2), with Czech Republic and Slovenia leading the pack. The WB6 are at the other end of the regression line and the latecomers in EU integration are in between. Most economies are close to the regression line of this simple linear model (with a goodness of fit R^2 of 53%). However, there are two outliers: Bulgaria and Romania managed to prosper by far more than what one would expect, given their distance to the industrial core of Europe. It is fair to assume that EU accession was an important driver of this development. Berglof et al. (2019) even speak of a Convergence Miracle related to CESEE EU integration and the related investment-based growth model.

Figure 1.3 / Manufacturing FDI stock per capita in EUR in 2018 and distance of capital city to Frankfurt in kilometres



Note: Slovakia 2017; manufacturing FDI stock data is missing for Montenegro and Serbia; R^2 = goodness of fit of a linear regression model (1 = 100%); colours of markers refer to EU accession status and dates: green = (potential) candidates, light blue = accession 2013, medium blue = 2007 accession, dark blue = 2004 accession.

Source: *luftlinie.org*, *wiiw FDI Database*.

The relationship between distance from the German economic centre and the economies' stock of manufacturing FDI per capita is even stronger (R^2 of 63%) than the income level (Figure 1.3) but with similar patterns. Here, Bulgaria and Romania again managed to amass more manufacturing FDI than expected, likely a further indication of the beneficial effects of EU integration for fairly distant economies. However, the EU integration momentum has lost steam and further enlargement is unlikely to happen any time soon (Grieveson et al., 2018). Moreover, the so far dominant growth model that is heavily reliant on competitive wages and exports to Germany (and then often on to China), is unlikely to work as well in the future (Grieveson et al., 2019). CESEE (and thus also the WB6) is therefore searching for a new growth model. This discussion has been going on for quite some time already (e.g. Becker et al., 2010; Guriev, 2017), and suggestions for a new growth model for the wider region range from changes in the financing of investment, improvements in governance, human capital and innovation, all the way to the greening of the economy.

However, improvements in human capital and innovation are especially difficult in the WB6 in a situation where young people are leaving the economies in large numbers. High unemployment and large wage gaps, especially in comparison with Western Europe, have led to considerable outward migration and population decline over recent decades. While these trends have led to a certain reduction in unemployment rates and related increases in real wages in the most recent years, unemployment rates are still in the double-digit range (Astrov et al., 2020). Moreover, due to continuous migration, the region might lose around a quarter of its working age population by the mid of the century, according to the UN 2019 revision of world population prospects.

Although from an economic point it makes sense that, if capital is not moving to places where labour is abundant, migrants will move to places where capital is relatively more abundant. Similarly to income and FDI, distance to Europe's most productive industrial centres is an important determinant with regard to relative migration intensity. The so called

Visegrád 4 economies and EU Member States in the Northwest of CESEE have a considerably lower migrant stock abroad as a share of domestic population of about 8%, while in the WB6 it is at around 32% (Figure 1.4). In the remaining SEE economies it is somewhere in between with some 18%. In order to break the vicious circle of the lack of investment, low productivity and wages, as well as high unemployment and migration and little innovation and human capital accumulation, attracting FDI, particularly in technology-intensive manufacturing, is still the fastest solution. This is also given that own funds and technological potentials are rather limited. The outbreak of the COVID-19 pandemic is certainly not very helpful in this respect, at least in the short run. In the medium to longer run, a move from Western Europe's multinational corporations from offshoring to nearshoring (Grieveson et al., 2020) might be a chance for the WB6 to attract the much-needed investment (GTAI, 2020) in order to integrate into the global value chains (World Bank, 2020a). According to Sabha et al. (2020), over the medium to longer term, this could involve attracting more FDI into the WB6's labour intensive manufacturing sector, as well as tourism services. Over the short to medium run, with the advent of the Coronavirus, nearshoring of some value chains, such as medical equipment, could be a goal for the WB6. However, it might be yet too early to evaluate whether nearshoring to the WB6 is at all realistic or even already ongoing. Nevertheless, it might be indicative that in a recent survey among German firms active in other economies, about 38% plan to look out for new suppliers. However, among these, only 10% would like to shift from their current sources to suppliers from the CESEE region. Also, 22% plan to shift their own production facilities, among which 6% want to move to CESEE (DIHK and AHK, 2020).

Figure 1.4 / Outward migrant stock in % of domestic population of origin, 2019



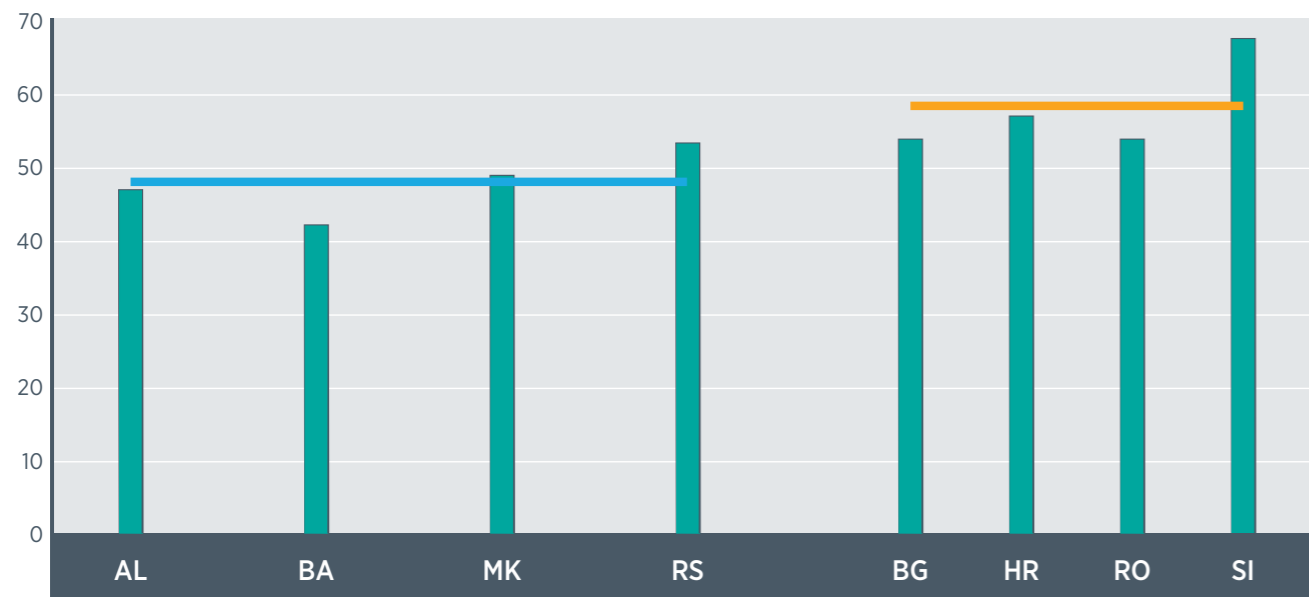
Note: Horizontal lines represent the averages of the two SEE economies' sub-groups.

Source: *UN Population Division*, *wiiw Annual Database*.

One potential way to overcome distance from the industrial centres as well as other barriers to economic development and at the same time offer jobs particularly for the younger population is the digital economy. However, little is known yet how much this development will proceed and what the best preconditions for a successful exploitation of its potentials will be. It is, nevertheless, clearly visible throughout the ongoing COVID-19 crisis that the dynamics have been accelerated and the lockdowns act like a catalyst (Grieveson et al., 2020a). Thus, the digital economy could be a chance of leapfrogging for the economies of the WB6. This is also due to the good mathematical education still available in the region

as a legacy of the communist system. And indeed, there seem to be the first signs of a certain tech boom in pockets of the region (The Economist, 2020). This includes for instance Microsoft's Belgrade development centre and a number of blockchain and games development companies. Only Serbia's education system is churning out about 5,000 graduates specialised for tech jobs annually, and recent investment in digital infrastructure, reformed regulatory frameworks and tax breaks have helped to draw skilled people back home. However, the Network Readiness Index (NRI, Dutta and Lanvin, 2019) suggests that overall, the WB6 are on average less ready for the digital economy compared to their peers in the rest of SEE. These have ranked globally in 2019 between rank number 49 (Bulgaria) and 27 (Slovenia), while the WB6 have reached only positions between 81st (Bosnia and Herzegovina) and 52nd (Serbia). The NRI measures the readiness in terms of technology (access, content, future technologies), people (individuals, businesses, governments), governance (trust, regulation, inclusion) and impact (economy, quality of life, Sustainable Development Goal contribution).

Figure 1.5 / Network Readiness Index, 2019



Note: Score from 0 to 100 (maximum possible).

Source: networkreadinessindex.org.

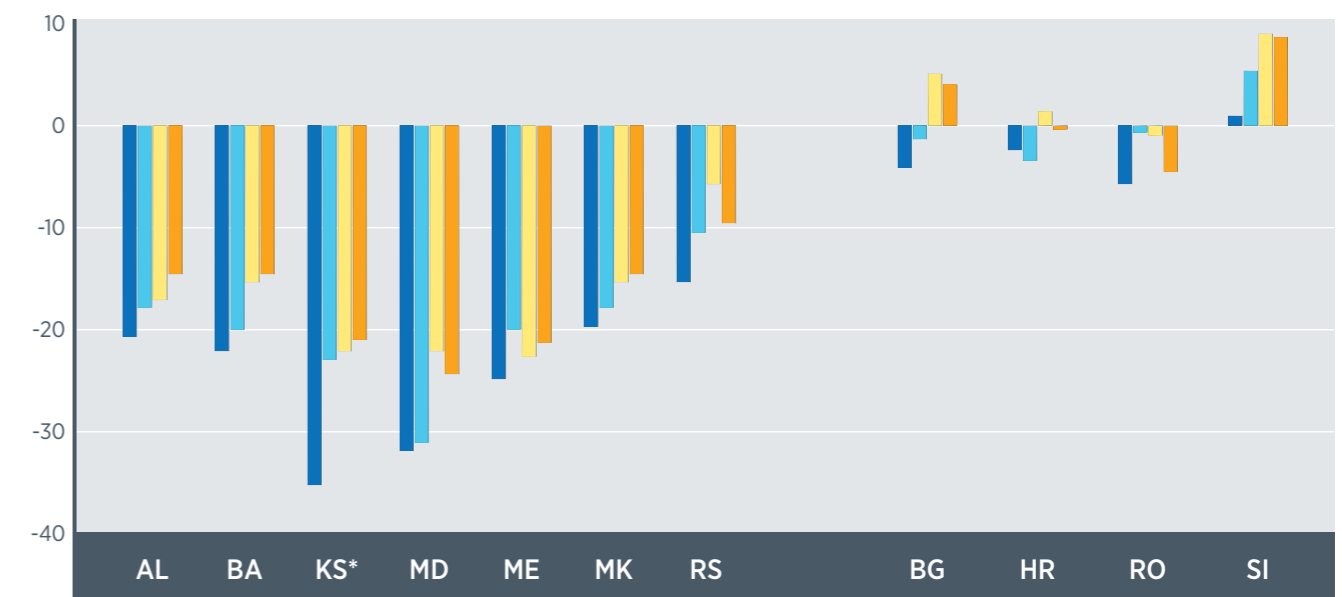
Another, more traditional way, to overcome distance to the industrial centres in Europe is to improve the transport infrastructure. The density and quality of roads and rail in the WB6 is still below its peers. However, the dynamics are pointing into the right direction. The recent years have seen many initiatives to improve and increase the motorway network and more recently also the railway infrastructure (Holzner and Schwarzhappel, 2018; Holzner and Grieveson, 2018). This includes inter alia the intergovernmental Berlin Process as a political forum fostering cooperation also regarding the development of (cross-border/ boundary) infrastructure, the region's Transport Community organisation, supporting the WB6 Connectivity Agenda, as well as the Western Balkans Investment Framework (WBIF), as a financial blending facility for the region's infrastructure projects with European support. All of this is assisted by the European Commission's (six flagship) initiative as well as the region's Regional Cooperation Council's (RCC) activities.

It is interesting to note that in terms of financing of infrastructure construction projects, China is active in the region as well. Under the umbrella of its Belt and Road initiative, Chinese government owned banks provide loans for Chinese construction companies to build transport and energy infrastructure projects in much of SEE. No grants are provided. More-

over, while there is some competition between the EU and China in the region's infrastructure financing, China's role in WB6's exports and inward FDI is still miniscule (Holzner, 2019).

Clearly, for the obvious reasons of sheer economic size – the EU-27 represent a close market of almost 14 tn euros, while the WB6 have a combined GDP of some 95 bn euros, which is about half the GDP of Greece, only – the EU remains the only game in town. Also, (as suggested by a recent report by the Bertelsmann Stiftung, 2020) one has to admit that many of the prerequisites for regional economic cooperation have not existed in the Western Balkans during the past two decades, and that the potential gains have therefore always been quite limited; that regional trade, investment and infrastructure integration have increased somewhat, but that there are still many gaps and challenges ahead; and that these efforts have not fundamentally altered the main obstacles to normalising political relations in the Western Balkans and, ultimately, to the EU accession of its constituent economies. A persistent (though diminishing) lack of export capacities is manifested by double digit trade balance deficits in goods and services (Figure 1.6). This implies a shortage of specialised firms that have unrestricted access to global markets.

Figure 1.6 / Trade balance on goods and services, in %, 2010, 2013, 2016, 2019



Note: Moldova (MD) is a party to the CEFTA agreement.

Source: wiiw Annual Database.

Nevertheless, Grieveson et al. (2020b) finds that the Central European Free Trade Area (CEFTA) in the WB6 contributed to increased intra-regional trade and that the relationship between CEFTA and exports was stronger than for the average of other Free Trade Agreements (FTAs). Thus, it is still useful for the WB6 economies to improve their political and economic ties in the region itself in order to demonstrate the European spirit of peace and cooperation on their way to EU accession, as well as to reap the low hanging fruits of producing and selling on the regional market, where personal connections, common languages and consumer preferences can be exploited and the tiny home markets further increased. To this end, upon request of the WB6 leaders presented at the Trieste Summit held on 12th July 2017, the RCC coordinates the overall implementation of the Multi-annual Action Plan on a Regional Economic Area in the Western Balkans (MAP REA) with the CEFTA Secretariat leading the implementation of the trade agenda contained therein. In accordance with the above-described major challenges of the region, the MAP REA aims to: enable the unobstructed flow of goods, services, capital and highly skilled labour; make the region more attractive for investment and trade; and to accelerate convergence with the EU, with the

final goal of bringing prosperity to Western Balkan citizens. The MAP REA focuses on four components: i) promotion of further trade integration; ii) introduction of a dynamic regional investment space; iii) facilitation of regional mobility; and iv) creation of a digital integration agenda; a detailed analysis is provided for all components.

The purpose of this report is to analyse the progress and conduct an evaluation of results related to the Multi-annual Action Plan for a Regional Economic Area (MAP REA) in the Western Balkans and assess the bottlenecks across MAP REA components, including a detailed proposal for economic development agenda beyond the MAP REA. The report seeks to conduct a fully informed diagnostics of measures along each of the respective components and their corresponding activities. A fully-fledged diagnostic report on MAP REA aims to take stock of the achievements and results so far, identify non-implemented or delayed objectives/measures, and put forward concrete recommendations. The report, thus, provides a holistic approach to the envisaged measures across four MAP REA components at the regional level. Although the report targets all Western Balkan economies, the emphasis is placed on the regional perspective of MAP REA. The report was prepared with the coordination and support of RCC and CEFTA Secretariats, with RCC taking the overall coordinating role and supporting role in three components, namely investment, skills and mobility and digital integration components, whereas CEFTA Secretariat coordinated the inputs related to the trade component.

The importance of this analysis has increased in the wake of the outbreak of the COVID-19 pandemic. As mentioned above, the coronavirus will likely act as a catalyst to ongoing structural change. Not all of its impact will necessarily be negative for the region. A shift from offshoring to more nearshoring by Western European multinational corporations could help boosting much needed investment in the WB6. EU travel restrictions could help making the regional labour market more attractive. Current and potential future lockdowns will accelerate the digital change of the region's economies. Temporary, pandemic-related, long-distance trade barriers and transport restrictions can help to allow local firms to trade more within the region. Therefore, the crisis should be seen as a chance to overcome regional barriers and make the best of the situation by exploiting the possibilities that regional cooperation offers to increase investment to counter sluggish growth, enable regional and circular migration instead of mass emigration from the WB6 to Western Europe, grasp the opportunity for a transition to the digital economy, wither technological backwardness, and to facilitate regional trade without tariffs, quotas and other unnecessary barriers.

International organisations have been analysing many of these and other aspects of the WB6 economies over recent years. Blueprints for 'reviving up the engines of growth and prosperity' were drafted (World Bank, 2017). The OECD (2019) has been analysing opportunities for export sophistication in the region as well as potential competitiveness in the agro-food, metal processing, automotive and machinery sectors, with the aim to 'unleash the transformation potential for growth' in the Western Balkans. In a similar vein, the IMF was advocating for 'lifting growth in the Western Balkans' with the help of the integration into the Global Value Chains (GVCs) and services exports (Ilahi et al., 2019). They have been arguing for the improvement of infrastructure and labour skills and the adoption of trade policies that ensure investor protection and harmonise regulations and legal provisions, in order for the region to enhance its engagement with GVCs. Particularly, the state of public infrastructure in the Western Balkans is a concern for the IMF. Atoyán et al. (2018) assess that the WB6 face significant public infrastructure gaps, which constrain private sector development and integration into European supply chains and are thus an obstacle to faster income convergence.

Also, the EBRD has been analysing 'how the Western Balkans can catch up' (Sanfey et al., 2016). They stress the importance of investment as well as trade integration, improvement of transport infrastructure and technological innovation. But the EBRD was also 'diagnosing the constraints on the path to a sustainable market economy' for the Western Balkans

(Sanfey and Milatovic, 2018). They address the years of firms' under-investment, weak institutions and a difficult business environment, corporate over-indebtedness and market concentration, the informal sector and corruption. In this respect, it is interesting to note that the World Bank and wiiw (2019) have observed that despite low wages, when compared to productivity, the apparent labour cost advantage of the WB6 disappears and the two most direct EU competitors, Bulgaria and Romania, with similar or even lower labour costs, seem significantly more competitive. In addition, the WB6 taxation system results in a relatively high labour tax level for the lowest wage earners in the formal labour market.

Most recently, the impact of the COVID-19 pandemic was at the focus of economic research on the Western Balkans. The World Bank (2020b) looked at the 'economic and social impact of COVID-19'. They were stressing, inter alia, the pandemic related labour market problems arising with widespread informal, temporary, and self-employment; the vulnerability due to the importance of tourism especially in Montenegro and Albania; the lack of fiscal space to adequately respond to the crisis; and limited monetary policy options. Also, the OECD (2020) has published a report on the 'COVID-19 crisis in the Western Balkans'. Apart from the economic impact analysis, that also stressed the issue of trade disruptions and declining remittance inflows, and policy responses and short-term sustainable solutions are being touched upon. These include inter alia support for SMEs, tourism and employment, the promotion of remote learning and digitisation, ensuring the flow of goods and services, encouragement of investment.

The current economic forecasts for the WB6 are sobering. Grieveson et al. (2020) project in their baseline scenario average real GDP growth decline of more than 5% in 2020 and a weak recovery of less than 4% in 2021 (Figure 1.7). Needless to say, the downward risks to this forecast are substantial. Nevertheless, for once, the economic backwardness and low openness seem to be an advantage for the WB6 in this crisis. Their peers in SEE are expected to have substantially stronger recessions of about 8.5% in 2020 and a weaker recovery of just above 3% in 2021, on average. This is due to the assumption, that a high exposure to exports and dependence on tourism will be a strong drag on economic growth during the pandemic. However, it is likely that these factors will again be a substantial advantage, once a medicine or vaccine against the coronavirus has been invented.

Figure 1.7 / Real GDP growth, in %, 2009, 2019 and forecasts for 2020, 2021



Source: wiiw Annual Database.

Grieverson et al. (2020) also outline a number of likely medium to long term effects of this crisis, which will have far-reaching implications for the economies of CESEE in general and the WB6 in particular, with, inter alia: i) a different kind of consumer economy and higher level of caution; ii) an even longer period of ultra-low global interest rates; iii) re-shoring, but also near-shoring, which could also benefit parts of the Western Balkans; iv) more outsourcing of services to the region; v) a still-important regional role for China; vi) a more positive outcome for younger people, capable of capitalising on the digital economy; vii) higher (and possibly more progressive) taxes; viii) an expanded role for the government in economic life; ix) still very low inflation rate for most; x) after a brief lull, labour shortages and automation will return as prominent themes; xi) the gulf between the more advanced EU Member States and less advanced economies in CESEE will grow, unless e.g. the EU integrates the Western Balkans more quickly.

In this sense, it is of utmost importance that the WB6 economies speed up their efforts to join the EU. Fulfilling the goals of the MAP REA is one of the ingredients of the path towards better integration. The following report analyses the region's advancements on this route.

Thereby, the following methodology is applied in assessing the progress and implementation of MAP REA actions. **First**, a desk-based research related to all relevant components includes, inter alia, an analysis of the MAP REA reports and RCC and CEFTA documents. This primarily relies on the available Implementation Reports and results of the relevant summits together with the annexed documents. Also, other evidence-based reports prepared by other national and international organisations are surveyed. Important reports that focus on trade in the region are, for example, the OECD's policy outlook on competitiveness in SEE and region-specific studies conducted by wiiw. For the investment component, this includes for instance investment policy surveys by UNCTAD. For the mobility and the digital integration components, other evidence-based reports prepared by the European Commission and other international organisations are surveyed as well. This also involves the World Bank expertise observing the Western Balkan labour markets.

Second, measurable indicators are selected, in order to determine whether the MAP REA results have so far been achieved for the specific component. Trade related data has been collected mainly from the CEFTA and wiiw trade databases. For the investment component, this comprises inter alia indicators from international databases including Eurostat, UNCTAD the wiiw FDI database and FDI Report. To elaborate measurable indicators for the mobility component, one can rely on a comprehensive statistical database on labour market issues in the Western Balkans, along with an annual labour market report on the region, provided on a joint wiiw-World Bank platform. The intra-regional mobility of students, researchers and different high professional groups within the region can be analysed using e.g. national and international data sources which provide statistics at pair economy level. The Eurostat statistics is a useful international source which can also be used to analyse the mobility of students by degree of education for the Western Balkan economies. The RCC Balkan Barometer is another useful statistical source which allows to analyse potential intra-regional mobility counting for age, gender and level of education. More specifically, international databases for mobility of highly skilled professional groups are included in the OECD or Global Compact database. In order to compare the process of digitalisation in the Western Balkans over time, as well as between economies and peers, a number of national and international data sources can be used. Many economies of the region have conducted special surveys on digitalisation issues. A regional approach on respective indicators is provided by the wb6.digital platform. Related data on the digital economy and society in the Western Balkans is also available from Eurostat. Additional relevant data sources are inter alia UNCTAD, the World Bank, the World Economic Forum, and the International Telecommunication Union.

Third, the state of play for each measure within all components is mapped. Based on a detailed analysis, a short summary of the main challenges to the remaining tasks in the

specific component is provided. The summary provides the basis for the development of potential future measures to achieve the goals of the specific component.

Fourth, based on the above steps a brief summary of the main challenges to the remaining tasks in the different components is provided. This summary, too, is a basis for the development of potential future measures to achieve the goals of the specific component.

Fifth, potential measures/actions/objectives to support the preparation of the enhanced regional economic agenda beyond 2020 for each component are proposed. This should help to support cooperation between the Western Balkan economies and between private sector actors or in the field of the mobility of professionals and students, enhance collaboration between science and industry and increase attractiveness for investors. Within the trade component, future activities should continue to focus on boosting intra-CEFTA trade which remains subdued. The removal of barriers to trade in goods and services and the harmonisation of standards with the EU remains crucial. Such measures are necessary to provide a simple and efficient trade environment, however, they are not sufficient for deep trade integration. The development of regional value chains which is expected to boost trade is likely to depend on the level of integration of the CEFTA market with the EU and other major trading partners. In the context of the investment component, one of the main issues is to strike the balance between competition and cooperation of participating economies. Investment locations compete to attract new projects and make existing investors prosper based on their locational advantages. In fact, one of the main locational advantages is the size of the freely attainable market and supplier network. In the context of mobility, the cooperation between universities, setting up of research hubs and enhanced communication within the regional research and development community could be some of the options. This development of a regional agenda beyond the MAP REA will support cooperation in the Western Balkan region based on digital connectivity, strengthening the digital economy and boosting R&D. There are several international best practice examples of national digital strategies which can also allow cross-border/boundary connectivity. Here, the impact of the COVID-19 crisis needs to be included into the analysis and recommendations. COVID-19 will have impact on short-term economic growth but also on further cooperation efforts and reforms over the medium to longer run.

Sixth, advice on key data, analysis and research that can support the preparation of a regional agenda beyond MAP REA is provided. The regional agenda beyond the MAP REA should aim at developing unobstructed flow of goods, services, capital and highly skilled labour thus making the region more attractive for investment and enhance convergence with the EU. The expert advice includes future actions and objectives within all components.

Seventh, advice on monitoring tools to be introduced as an integral part of an economic development agenda beyond MAP REA is provided. This partly updates and reshuffles the existing database and includes new indicators also in accordance with Eurostat practice.

2. Trade component

2.1. Context

Within the framework of the MAP REA, the CEFTA economies have committed to establishing a regional economic area on the basis of EU compliance and with the objective to decrease the cost of trade and production by eliminating market access barriers. Trade in goods and services between the CEFTA economies should be free of tariffs, quotas and other non-tariff barriers. Furthermore, in order to better integrate the REA into European value chains, the MAP REA also states that it shall be part of the Pan-Euro Mediterranean Cumulation zone¹ which facilitates trade activities based on a common set of rules of origin. CEFTA 2006, with its additional protocols (AP), in particular AP5 on Trade Facilitation and AP6 on Trade in Service should serve as legal basis and provide legal instruments for effective implementation of trade pillar of the MAP REA.

In the last 20 years, several international and regional initiatives have aimed at increasing intra-regional and inter-regional trade. Bilateral Free Trade Agreements (FTAs) and EU Stabilisation and Association Agreements (SAAs)² have been the main tools to boost trade relationships. The inception of CEFTA in 2006 which formed a free trade zone between its parties has led to the elimination of tariffs and significant reduction of non-tariff measures within the zone. A study by Grieveson, Holzner and Vukšić (2020) has analysed the impact of the bilateral and multilateral measures and found that CEFTA had the most substantial impact on intra-regional trade, potentially due to a weak implementation of the previously ratified FTAs. While the effect of CEFTA has been positive for all economies, the impact on intra-regional trade has been the smallest for Serbia which experienced a stronger expansion of their trade relationship with the EU over the last decade. Furthermore, the study suggests that SAAs have supported export growth to the EU.

Large potentials to boost trade relationships through further removal of trade barriers remain (OECD, 2018). In particular, non-tariff measures (NTM) have curbed intra-regional trade in the last two decades, as found by a study by the European Commission (2018). The trade pillar within the MAP REA aims at unleashing this potential. In 2017, the CEFTA Joint Committee adopted³ the AP5 on Trade Facilitation of the CEFTA 2006 which commits the parties to a further removal of barriers to trade in goods. Two years later, the parties have adopted⁴ the AP6 on Trade in Services. The articles of the AP5 and AP6 also helped to determine the policy areas identified within the MAP REA trade pillar. The four main policy areas identified are a) the facilitation of free trade in goods, b) the harmonisation of CEFTA markets with the EU c) the creation of a region free of non-tariff measures and trade defensive measures and d) the facilitation of trade in services.

¹ In total, 23 parties have signed the Pan-Euro-Mediterranean Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention). The contracting parties include the EU, EFTA, CEFTA, Turkey, the Faroe Islands and several other participants in the so-called Barcelona Process.

² SAAs have been signed with Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo*. An Association Agreement between the EU and Moldova was signed in 2014 and came formally into force in 2016.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

³ AP5 has been ratified by Albania, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, and Serbia

⁴ AP6 has been ratified by Albania, Bosnia and Herzegovina and Serbia, and is awaiting notification procedure finalization of Bosnia and Herzegovina to enter into force.

Facilitation of free trade in goods

The creation of a free trade area within CEFTA has laid the basis for the continuation of economic integration. Despite substantial progress in the elimination of tariffs and NTMs, potential remains for increased intra-regional trade (European Commission, 2018; OECD, 2018; World Bank, forthcoming). In 2019, exports to other CEFTA economies accounted for 15.5 per cent of exports of all CEFTA economies which amounts to 5 per cent of the economies' GDP. 70 per cent of all exports in merchandise goods of the CEFTA economies were purchased by EU member states (one third by Germany and Italy alone) and 58 per cent of all goods imported by the CEFTA economies originated from the EU member states. In 2018, the second most important destination (origin) of exported (imported) goods was CEFTA with 15 (9) per cent. While the free trade area of CEFTA remained the second most important destination for goods exported by CEFTA economies in 2019, China has become the second largest exporter to CEFTA, sending goods worth EUR 5 bn to CEFTA. Thus, CEFTA economies are importing more goods from China than from other CEFTA partners⁵.

Indeed, trade activities between two parties also depend on the respective endowments such as natural resources and economic structure. Goods exported to the EU, for example, are characterized by higher technological intensity⁶. 44 per cent of the goods are of medium-high intensity which are mostly manufactured goods such as machinery and transport equipment, and 54 per cent are of low or medium-low intensity. Trade between CEFTA economies is dominated by agricultural products. 78 per cent are either of low or medium-low technological intensity and 18 per cent of medium-high intensity.⁷

Bilateral FTAs and especially the inception of CEFTA have facilitated trade in the last two decades (Grieveson, Holzner and Vukšić, 2020). Furthermore, the economic expansion of CEFTA economies has increased demand for foreign goods (European Commission, 2018). In order to further facilitate trade activities in a world characterised by global value chains, the removal of tariffs and NTMs is crucial (OECD/WTO/World Bank, 2014). More specifically, aligned and efficient customs procedures can reduce the costs of inputs and hence make goods more competitive at regional and international markets (OECD, 2015). The OECD (2018) highlights that fast and efficient customs and procedures at crossing points supported by well-functioning transport, logistics, finance, communications and other business services can encourage trade activities.

The alignment with the EU acquis is a central piece in the process of achieving greater trade activity. In general, the MAP REA (2017) states that the implemented actions need to be based on EU rules. Within the trade pillar, this ambition is entrenched, for example, in the AP5 which emphasises the role of the EU alignment process in 'triggering the mutual recognition of programmes, documents, and inspections among CEFTA Parties'. In order to advance the efforts to facilitate intra-regional trade, the CEFTA economies have set out a series of objectives in the MAP REA agenda.

An important part of the MAP REA trade pillar is the adoption of an Additional Protocol on CEFTA Dispute Settlement (AP7). So far, limited progress has been achieved in this area, and this remains one of the most imminent tasks for the near future, which is key to building an effective system for eliminating unnecessary trade barriers.

The AP5 is central to the MAP REA trade pillar as the economies agreed on a series of areas where improvements should be achieved. Although AP5 has not been ratified by all parties yet, the parties have already achieved substantial progress in implementing measures which have been set out in AP5. First, an agreement to develop a validation procedure for mutual

⁵ For a brief discussion related to issues of recording the value of imports and exports of CEFTA economies, see section 5.2.

⁶ Defined by Eurostat's high-tech classification of manufacturing industries

⁷ Note: the source of the referred data in this paragraph is the WIIW Annual database, Comext, Comtrade and CEFTA.

recognition of Authorised Economic Operators (AEOS)⁸ has been achieved. Additionally, an agreement on facilitating trade in fruit and vegetables has been reached as well. Furthermore, in order to streamline and improve the digital capacities required for smooth trade, the CEFTA's System of Electronic Exchange of Data (SEED) has been operational in all WB6 economies. The economies agreed to secure funding to upgrade SEED to SEED+ which extends the scope of data exchange from customs authorities only, to all agencies involved in clearance of goods. Moreover, the CEFTA Joint Committee has adopted a Customs Joint Risk Management Strategy in December 2019. The strategy which aims to improve information sharing between the CEFTA customs authorities and to remove redundant procedures and overlapping checks at the BCPs/CCPs is currently in the implementation phase. In a step to reduce duplication and overlaps of administrative procedures, the economies also agreed to start activities on mutual recognition of testing reports in the area of market surveillance. Thus, in the last three years, the economies have engaged in crucial activities to simplify intra-CEFTA trade.

Harmonisation of CEFTA Markets with the EU

Harmonisation with EU has been an ongoing process particularly taking into account the SAAs and the AA between the EU and Moldova. The respective articles of the free movement of goods chapter in the SAAs and the AA set out the path towards the establishment of a free trade area between the EU and the respective economy. Harmonisation with the EU is a general objective important to all policy areas within the trade pillar of MAP REA, while in this policy area 'the focus lies mainly in the harmonisation of the rules of origin and tariff system.

In contrast to the EU, CEFTA economies have harmonised only the nomenclature with the CET while they have no harmonised tariff system and each economy applies different rates to external trading partners. The applied tariffs for agricultural and industrial products are close to EU levels (OECD, 2018). A report commissioned by CEFTA suggests that if the CEFTA economies wanted to harmonise their most favoured nation (MFN) rates with EU's common external tariff (CET) rates, they will have to change more than 80 percent of their tariff lines. This process would on average lower average tariffs for CEFTA economies (except Albania and Montenegro) in all sectors except in the fish, tobacco, and chemicals sector where average tariff rates would increase. The report also concludes that no clear economic benefits could be derived from an early harmonisation with EU's CET rates. The JC took note of the report's conclusion not to align Parties' MFN Tariffs to EU CET at its meeting in December 2019.

Sustaining a set of common rules of origin between CEFTA economies, the EU, EFTA and Turkey who have all ratified the Pan-European-Mediterranean Convention (PEM Convention) has been the ultimate goal of the parties. The common rules of origin, which are defined in trade agreements between the parties, allow a party to verify that the particular good can be considered of the party's origin. The origin of a good determines, for example, whether or not preferential tariff rates can be applied. Furthermore, if stipulated in the existing FTA, it allows for 'cumulation of origin'. Cumulation refers to the rule that goods which acquired a status of origin of a contracting party, can be considered of domestic origin if a level of processing goes beyond the so called "minimal operations" in the importing party before being exported to another contracting party. Diagonal cumulation is applied if two or more contracting parties have FTA in force and apply the same set of rules of origin. Due to the fragmented production processes which are characterised by regional and global value chains, goods can move more freely and at a lower cost if diagonal cumulation can be applied.

⁸ AEOs are economic operators which are involved in the international trade of goods and are formally approved by custom authorities to fulfil certain security standards. AEOs encompass among others, manufactures, importers, carriers and distributors.

In November 2019, the contracting parties of the PEM Convention could not adopt a set of revised rules due to the reservations of some parties. The proposed revisions increase the flexibility of the application of some product specific rules and allow for new measures such as full cumulation and duty drawback. Despite the lack of collective consent of the PEM Convention contracting parties, CEFTA economies and other contracting parties decided to move ahead and incorporate the revised rules in their bilateral FTAs as alternative to those contained in PEM convention, on a transitional basis, until revised PEM Convention comes into force. In order to keep the same rules of origin between the EU, EFTA, Turkey and CEFTA and make them as flexible as possible for the economic operators, all the FTAs between the participating partners have to be in force and adapted as necessary.

Diagonal cumulation has been possible within CEFTA prior to the inception of the MAP REA. Further, based on the decision 3/15 adopted by the JC in November 2015, the CEFTA Parties agreed to implement the possibility of full cumulation⁹ and duty drawback as a derogation from the provisions of PEM Convention which allows traders to claim a refund of duties (where possible) if the good is being re-exported for intra-CEFTA trade. The application of full cumulation and duty drawback started in July 2019.

Creating an NTMs and TDM free region

While tariffs are probably the most well-known trade policy tool, non-tariff measures have increased around sixfold between 1995 and 2015 (Ghodsi et al., 2017). UNCTAD (2013) defines NTMs as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both. NTMs do not always aim at directing the amount of goods traded. Often, they are put in place to protect humans, animals, or the environment. The most common NTMs are technical barriers to trade (TBT), which are often applied to manufactured goods and sanitary and phytosanitary (SPS) measures which are mainly used to regulate food and animal products. (Ghodsi et al., 2017). In contrast, trade defence measures (TDM) are often put in place to protect specific sectors from international competition. The European Commission, for example, is tasked to investigate TDMs such as anti-dumping policy, anti-subsidy policy and safeguards¹⁰.

In a study, Ghodsi et al. (2017) argue that not all NTMs have a negative impact on trade activity. For their sample of European and Central Asian economies, they have identified that TBTs and quantitative restrictions are the two measures that inhibit trade the most, while SPS measures entail smaller reduction in trade. The fact that an NTM can even have positive effects can be explained by the fact that open trade may not be optimal due to market failures. For example, a prominent market failure represents asymmetric information: companies or consumers are not always fully aware of the good's quality, safety or environmental standards. In this case, regulated standards can boost confidence of traders and thus lead to an increase in demand for such goods. Common standards and labelling are of course less harmful for trade activity compared to import bans on goods which do not fulfil certain standards. (WTO, 2012)

In a study, the European Commission (2018) highlights that NTMs held back trade in the region. According to the Global Trade Alert (GTA) which tracks liberalising and discriminatory trade measures (tariffs, NTMS and TDMs), no discriminatory trade measures have been implemented by CEFTA economies¹¹ in 2019. Due to the Covid-19 outbreak, several economies have implemented export restrictions such as export bans or quotas on exports of protective or medical goods.

⁹ The terms under which a 'non-originating' good imported to CEFTA can be worked and processed within CEFTA such that it can be considered as an 'originating' good i.e. a good of CEFTA origin.

¹⁰ Safeguards are a temporary policy measure that aims at providing relief to certain sectors that are affected by large influx of imports.

¹¹ No data for Moldova and Kosovo* has been collected.

In order to transparently record NTMs, the number of existing cases is recorded in CEFTA's Market Access Barriers Database. It provides details on the party, sector, status (solved, pending, new) and problem category. Currently, 25 new cases have been reported and 11 cases are pending. However, the details on each of these cases are not publicly available.

According to an analysis by the OECD (2018), the largest room for improvement among CEFTA economies lies in the implementation of sanitary and phytosanitary measures and the conformity assessment infrastructure. The former results from SPS agencies' lack of financial support and adequate equipment for inspection. The latter stems from the report's claim that only North Macedonia and Serbia have sufficient accredited conformity assessment bodies and physical capacities to carry out conformity assessment in many priority sectors.

Within the MAP REA, the CEFTA economies aim at improving cooperation between the parties' competition and state aid authorities and to introduce a reporting system of state aid schemes and measures. The negotiations with the objective to agree on a set of instruments for information exchange between competition and state aid authorities have not yet been successful, but are expected to continue throughout 2020. Furthermore, the objective to remove discriminatory practices in public procurement has been tackled by the preparation of a comprehensive report. This report assesses the current state of play in legislation related to government procurement and its compliance with the CEFTA Agreement, WTO rules and the EU *acquis*. The report also contains recommendations for adjustment and cooperation among the economies involved.

Trade in services

Looking at services trade, within the CEFTA 2006 Article 27, the economies of the region have committed themselves to develop and broaden their co-operation with the aim of achieving a progressive liberalisation and mutual opening of their services markets.¹² While CEFTA 2006 first focused on the liberalization of industrial goods, achievements in the area of agricultural products followed. In 2010, the 'ambition to initiate negotiations on the liberalisation of trade in services has been announced and included in the CEFTA Chairmanship Programme for 2010' (Grčar and Ieseanu, 2010). The main general barrier identified at that time has been the mobility of the workforce, especially for qualified and educated people (Handžiski and Šestovič, 2011). After a long time of negotiations, the CEFTA Additional Protocol 6 on Trade in Services has finally been adopted by the CEFTA Joint Committee in December 2019.

Trade in services takes a special role in the CEFTA region: For those economies at the Adriatic Sea tourism is of utmost importance and contributes positively to the current account. The COVID-19 pandemic will particularly hit the services sector in the region. The most affected services sectors are tourism, retail trade and transport services (OECD, 2020).

Regarding electronic commerce, within the CEFTA 2006, the economies of the region have agreed in Article 28 to promote the development of electronic commerce between them, in particular by cooperating on the market access and regulatory issues raised by electronic commerce. They acknowledged that the use of electronic means increases trade opportunities in many sectors.¹³ Indeed, literature has shown that digital infrastructure has a positive impact on international trade and also trade in services - although here to a mixed extent (a greater effect was found for business services here; see literature review in Prica and Bartlett, 2019, p. 4). Price and Bartlett also found a significant effect of broadband penetration on services exports for the CEFTA parties: A 10 percentage points increase in the broadband penetration rate gives rise to a 3.8 percentage point increase in the share of services exports in GDP in these economies, thus having a greater effect than in other parts of the world (Price and Bartlett, 2019, p. 13).

The importance of information and communication technologies became apparent at the beginning of 2020, when COVID-19 hit our societies. From one moment to the other, online

¹² CEFTA 2006, Article 27

¹³ CEFTA 2006, Article 28

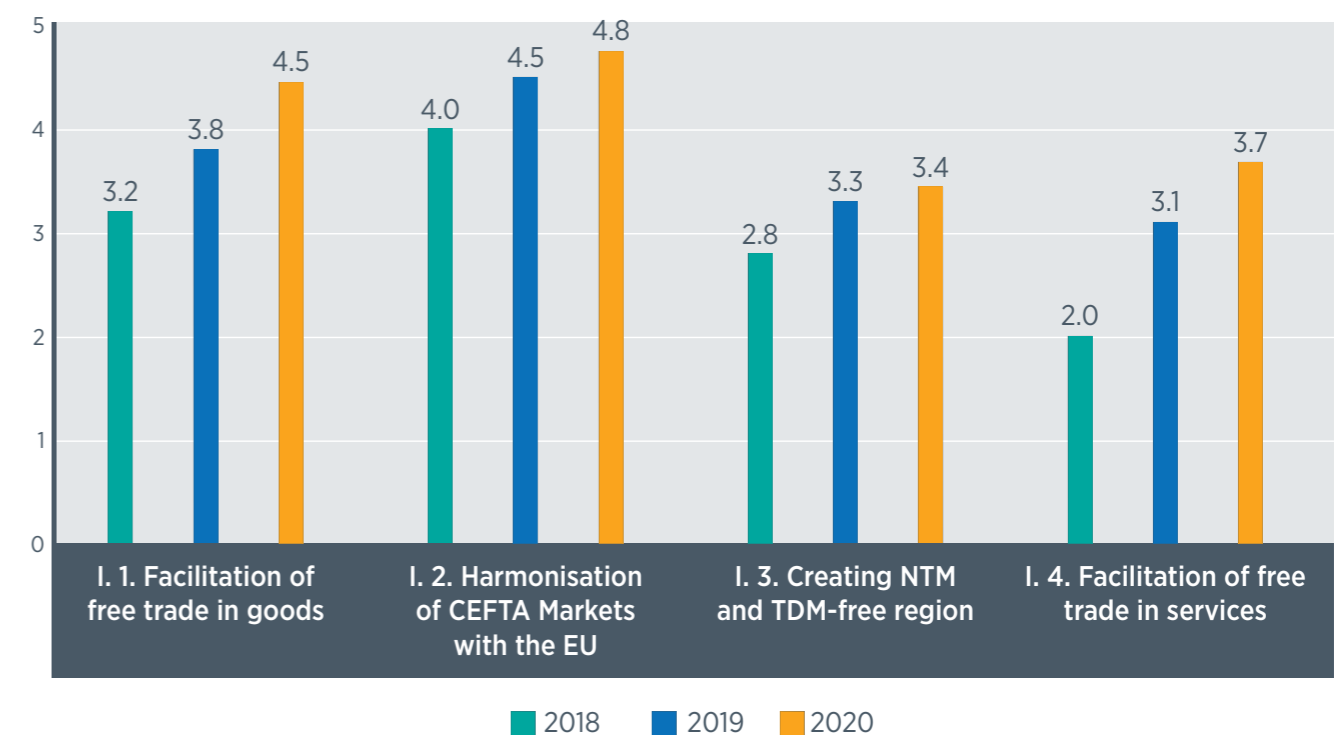
shopping became an important substitute to closed shops, and online shopping surged. Thus, promotion of electronic commerce, especially for SMEs, provides means for new markets and customers (OECD, 2019 and 2020). However, as already indicated in the introduction, the CEFTA economies are on average less ready for the digital economy than their regional peers in South East Europe (including Bulgaria, Croatia, Romania and Slovenia) as shown for example by the Network Readiness Index (NRI, Dutta and Lanvin, 2019). In addition, the NRI sub-index for businesses is very weak in all CEFTA economies and even below the index for governments (for Albania, North Macedonia and Serbia but not for Bosnia and Herzegovina).¹⁴

Within the MAP REA, the core of the fourth policy on facilitation of free trade in services is the adoption and implementation of the Additional Protocol 6 on trade in services, including electronic commerce (AP6). In December 2019 this objective was finally achieved and the AP6 has been adopted. Ratification by all parties, however, still has to follow. The Protocol contains extensive commitments supporting liberalisation of trade, in particular when it comes to providing guarantees for market access and national treatment.

In the field of electronic commerce, the main achievement has been the CEFTA Roadmap for dialogue on regulatory issues in electronic commerce, proposed by the CEFTA Secretariat and endorsed in June 2020 by CEFTA Subcommittee on Trade in Services (CEFTA, Roadmap, 2020). It provides the way forward in the field of electronic commerce and has to be implemented in the years to come.

Furthermore, AP6 covers the mobility of natural persons for business purposes¹⁵ and recognition of professional qualifications, supporting and complementing measures under mobility component of the MAP REA.

Figure 2.1 / Trade – State of Preparedness of MAP REA Implementation



Note: Scoring assesses the stage of preparedness in MAP REA implementation in line with the respective Methodology for Monitoring and Reporting and as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).

¹⁴ For more details on the Network Readiness Index, its pillars and sub-indices see Chapter on the Digital Component.

¹⁵ Annex I: Temporary Entry and Stay of Natural Persons for Business Purposes

Figure 2.1 shows the state of preparedness of the MAP REA policies and progress made between June 2018 and June 2019. Progress has been achieved in all trade policy areas, most pronouncedly in the facilitation of free trade in services. For 2019, the policies 'Harmonisation of CEFTA Markets with the EU' as well as 'Facilitation of free trade of goods' show the highest scores (about 4.5 and 3.8, respectively) and therefore 'good' to 'well advanced' levels of preparation. 'Creating NTM and TDM-free region' and 'Facilitation of free trade in services' have somewhat lower scores of about 3.3 and 3.1, respectively, which means 'moderate' to 'good' level of preparedness.

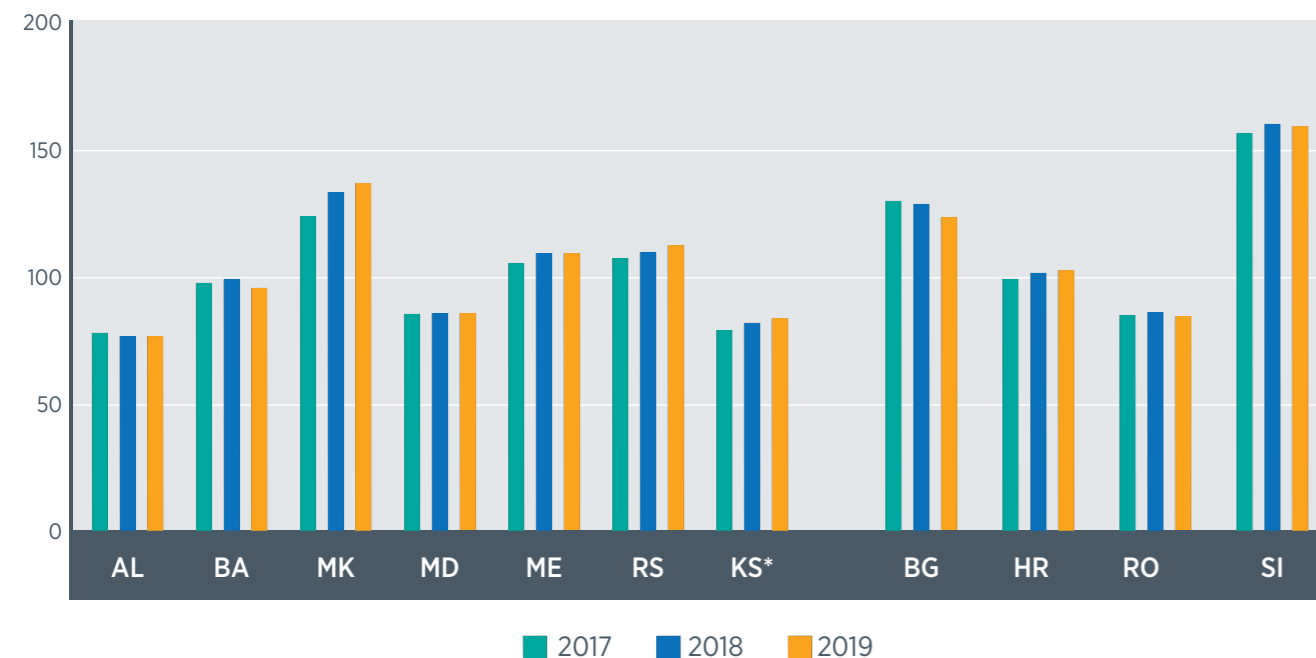
2.2. Measurable indicators

Establishing a vibrant free trade area requires a variety of different measures. Thus, while it is relatively easy to define a good benchmark for the desired output, such as total trade relative to the economic size, it is more demanding to identify indicators that match with the narrowly defined objectives under the MAP REA.

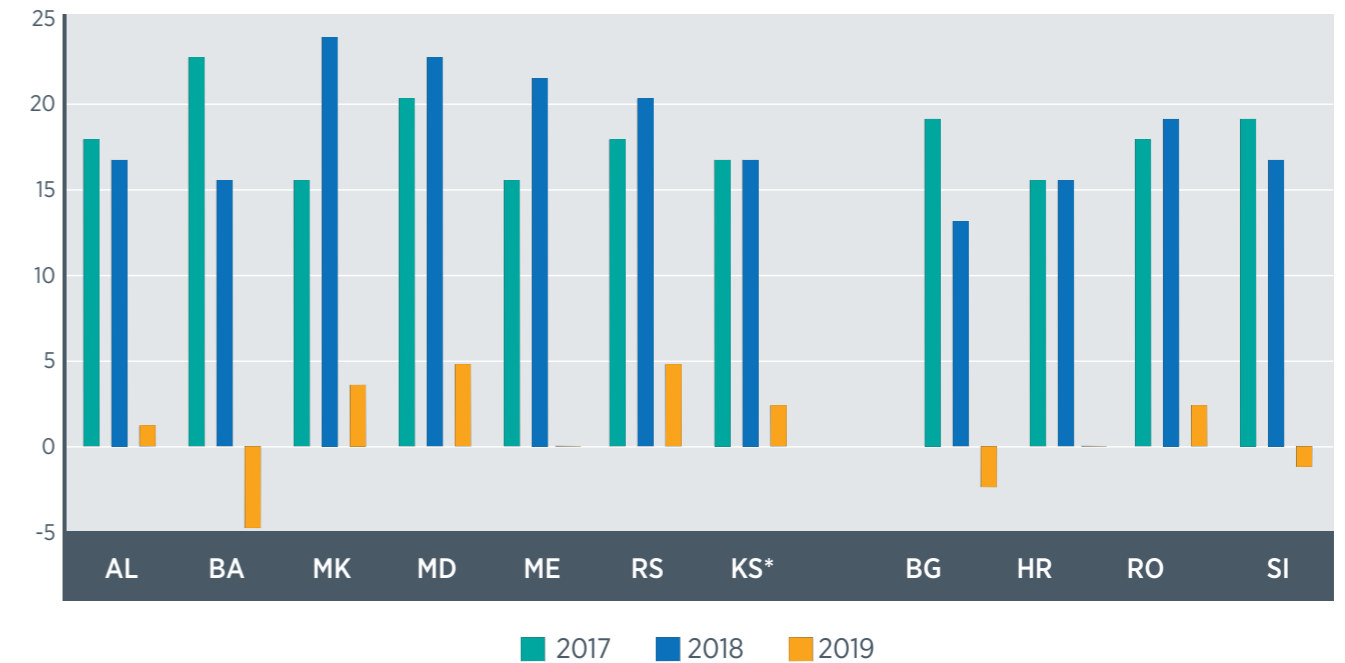
Figure 2.2 (left panel) depicts the trade openness, measured as the sum of imports and exports as a share of GDP of the CEFTA economies and their regional peers who are members of a larger common economic area, the EU. While it is difficult to define an optimal level of openness, more intense trade relationships can facilitate regional economic integration and demonstrates economic specialisation. North Macedonia is by far the most open economy among the CEFTA parties as imports and exports amount to around 140 per cent of its GDP. This measure is sizeable even compared to its EU peers which are dominated by Slovenia that trades in goods and services worth more than 160 per cent of its GDP. The least engaged in trade relative to their GDPs are Albania, Moldova and Kosovo* that achieve similar levels as Romania (around 80 per cent of GDP).

Figure 2.2: Trade openness

Trade in goods and services, % of GDP



Growth rate of trade in goods and services, in pp



Source: World Bank

The nominal value of goods and services traded by CEFTA economies increased by 37 per cent between 2016 and 2019. The right panel of Figure 2.2 shows that CEFTA trade increased substantially in 2017 and 2018, but grew only by small rates in 2019. This pattern is more or less consistent across all CEFTA economies.

Facilitation of free trade in goods

Total trade is the sum of trade in merchandise trade and trade in services. Figure 2.3 reveals a great heterogeneity of trading patterns in goods. While imports of goods have similar importance in most CEFTA economies (right panel), the left panel indicates that particularly Montenegro and Kosovo* barely engage in trade in goods while North Macedonia and Serbia export goods worth around 55 and 40 per cent of their respective GDPs.

Intra-CEFTA trade¹⁶ in goods amounted to EUR 5.5 bn (5 per cent of CEFTA GDP) in 2019 while the relative contribution to it varies substantially across its economies. Kosovo* is the most dependent on trade with CEFTA. It exports around half of its goods to, and imports around a quarter of its goods from the free trade area. In contrast, Moldova is by far the least integrated party as its imports (exports) from (to) CEFTA account only for 1% of its trade activities.

The EU remains the largest trading partner and absorbs around EUR 25 bn of CEFTA's merchandise exports (70 per cent of CEFTA exports). Within the EU, Germany is the largest market for CEFTA exports as it imports goods worth EUR 6.6 bn. Italy ranges second and imports goods worth EUR 4 bn.

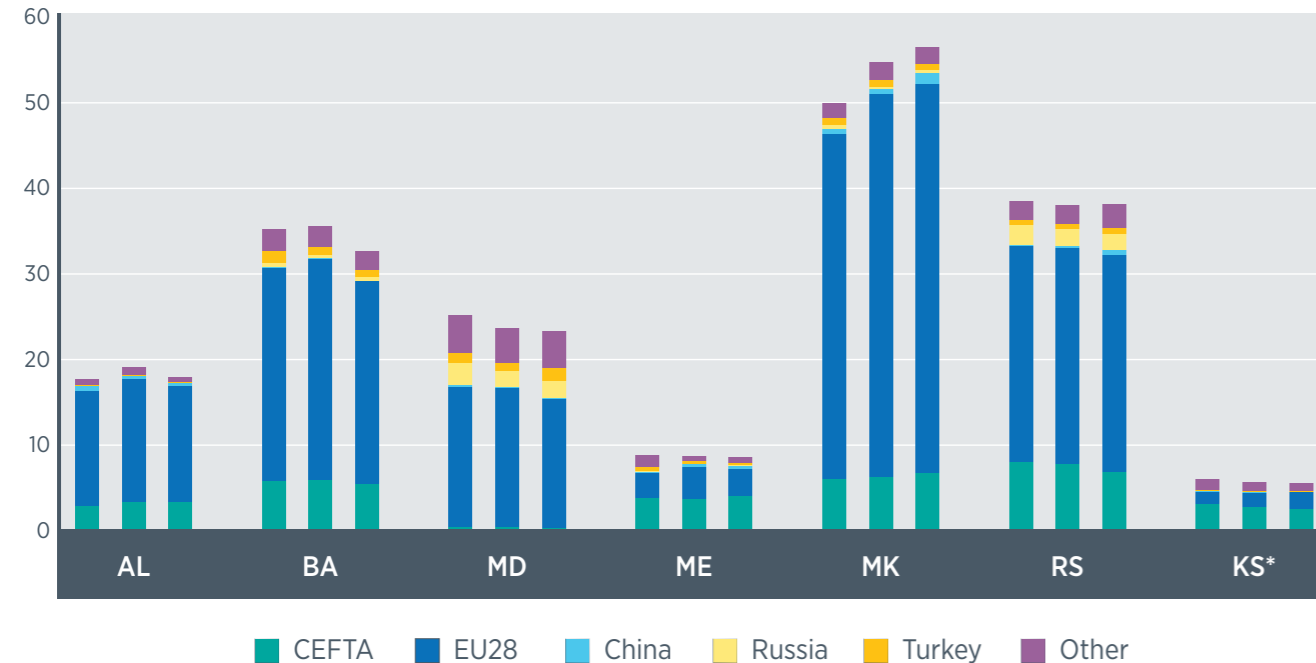
The EU is also the source of most of CEFTA's imports, as its member states export goods worth EUR 34 bn (58 per cent of CEFTA imports) to the free trade area. China has become increasingly important for CEFTA's imports. In 2019, CEFTA parties imported goods worth around EUR 5 bn which is slightly above the recorded sum of CEFTA parties' imports from

¹⁶ Intra-CEFTA trade is defined as the sum of CEFTA parties' exports to another CEFTA party.

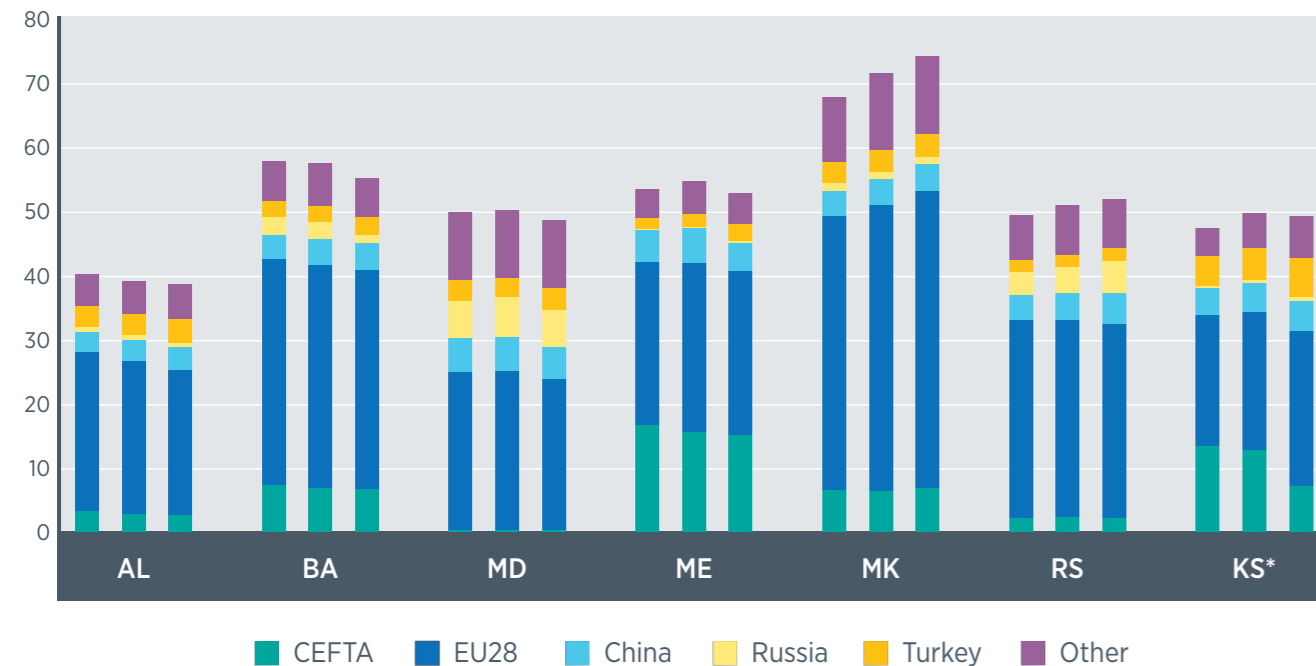
the REA. If intra-CEFTA trade is measured by the recorded exports, as indicated above, intra-CEFTA trade still exceeds the value of Chinese imports¹⁷.

Figure 2.3: Merchandise trade by trading partner, % of GDP

Merchandise exports by destination, % of GDP



Merchandise imports by source, % of GDP



Source: wiiw CEFTA for exports from BA and RS to KS*

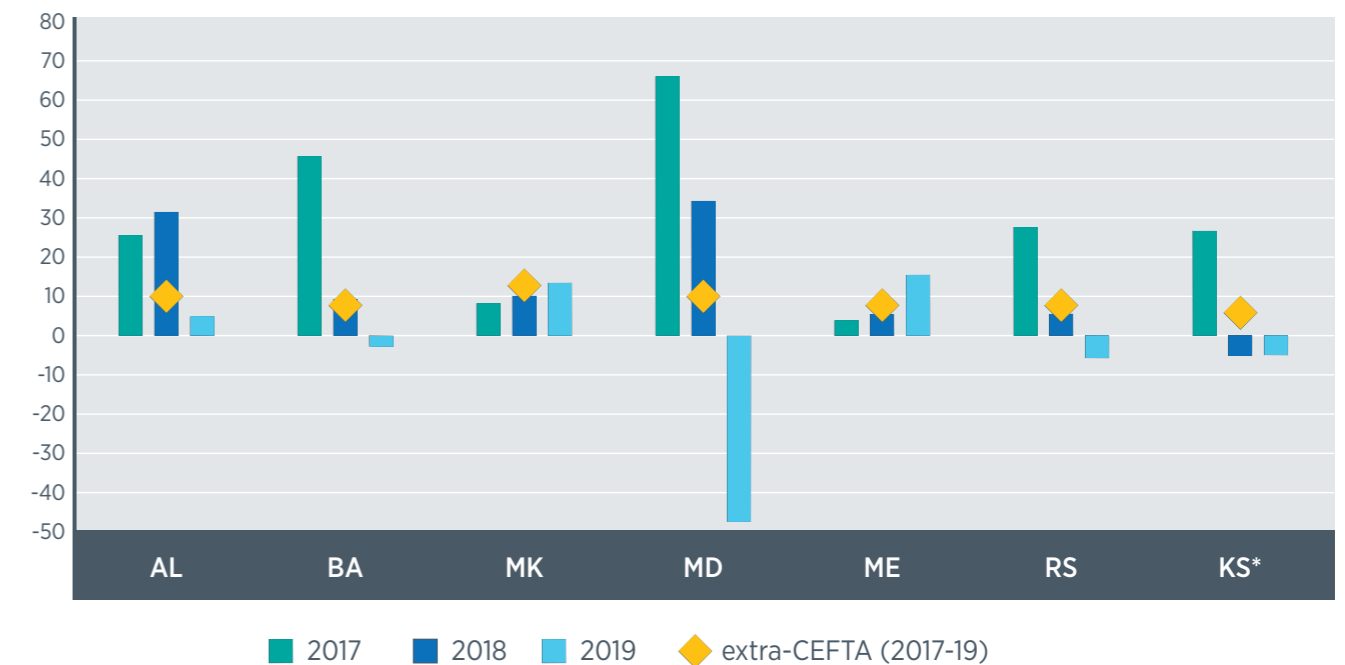
¹⁷ In theory, the sum of exports from one CEFTA party to another should equal the sum of imports from one CEFTA party to another. When combining data from the wiiw database and CEFTA trade data, the gap between the sum of exports and imports reaches around EUR 1 bn in 2019 as the sum of imports amounts only to EUR 4.6 bn.

Intra-CEFTA trade in goods was 6 per cent higher in 2019 compared to 2017 as it increased from EUR 5.2 bn to EUR 5.5 bn. Growth in 2018 was less strong compared to 2017 and turned negative in 2019 as indicated by Figure 2.4. Between 2017 and 2019, trade activities (imports and exports) with other CEFTA parties grew strongest for North Macedonia and Albania where total intra-CEFTA trade increased by 22 and 16 per cent respectively. The increase in total intra-CEFTA trade grew moderately by 7 and 5 per cent for Montenegro and Bosnia and Herzegovina. Trade with other CEFTA economies grew only by 3 per cent in Serbia, which contributes 40 per cent to all of intra-CEFTA trade. Starting from low levels, gains in intra-CEFTA trade were large in 2017 and 2018 for Moldova, but diminished due to a substantial decrease in exports to Serbia in 2019. Furthermore, intra-CEFTA trade declined by 36 per cent for Kosovo* which resulted from a large drop in imports from Bosnia and Herzegovina and Serbia in 2019.

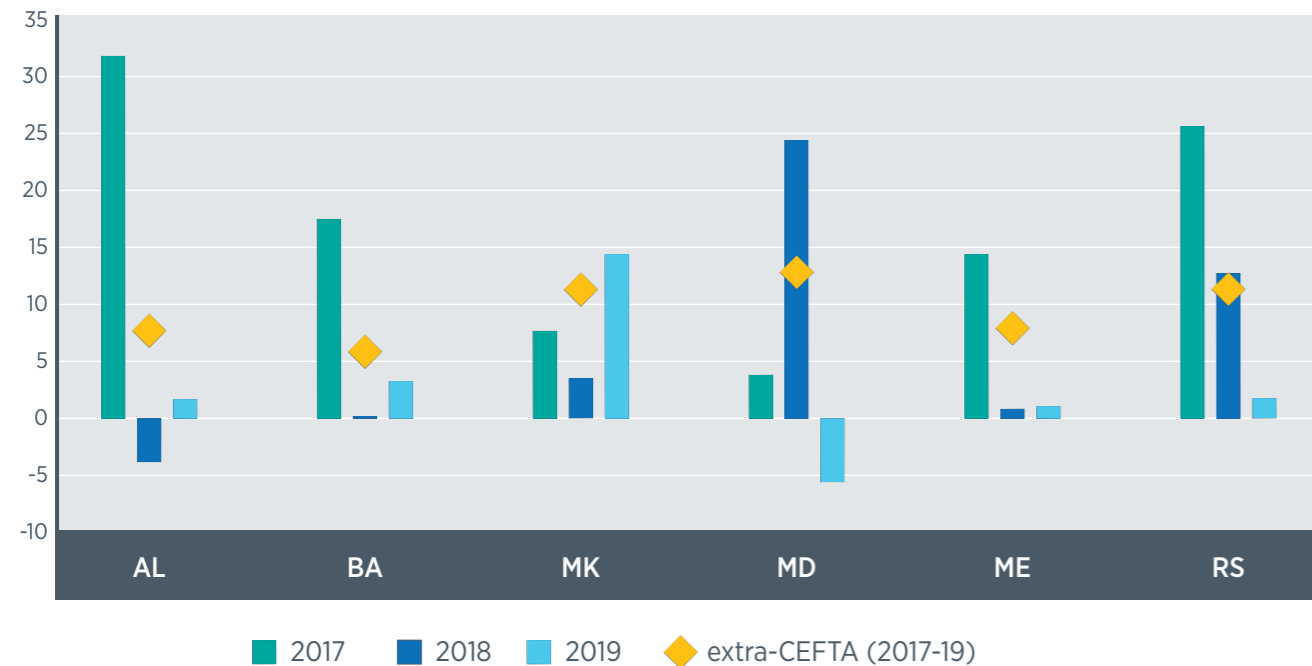
While intra-CEFTA trade increased by 6 per cent, overall extra-CEFTA trade (imports and exports) grew stronger as it increased by around 19 per cent. Merchandise trade with other CEFTA parties grew faster than with non-CEFTA parties only in Albania. In absolute terms, the recorded increase in extra-CEFTA trade was EUR 8 bn with trade partners from the EU, EUR 1.5 bn with China and around EUR 0.8 bn with Russia and Turkey. In relative terms, trade increase was the highest with China (36 per cent), followed by Turkey (26), Russia (20) and the EU (16). As a share of GDP, intra-CEFTA trade declined from 5.4 percent to 4.9 per cent between 2017 and 2019 while extra-CEFTA trade increased from 83.8 per cent to 84.6 per cent.

Figure 2.4: Growth rates of intra-CEFTA merchandise trade

Growth rates of intra-CEFTA merchandise exports



Growth rates of intra-CEFTA merchandise imports



Source: wiiw

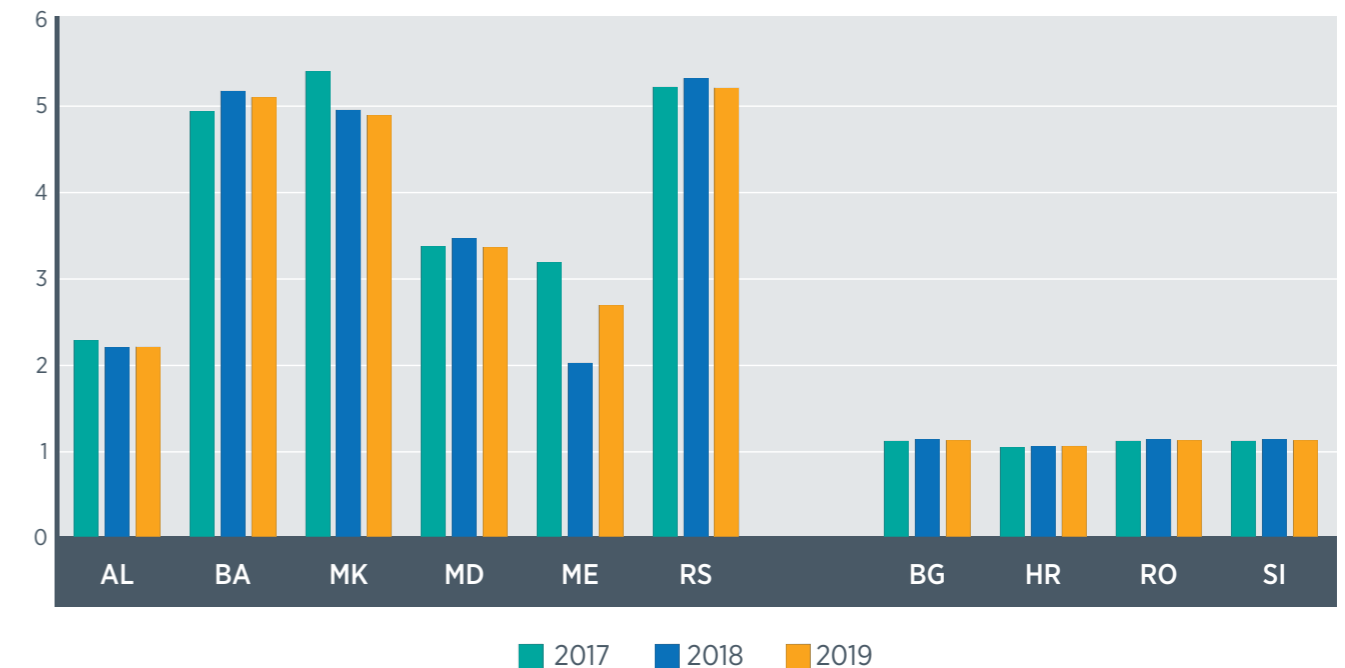
Harmonisation of CEFTA Markets with the EU

In March 2020, the European Council decided to open accession negotiations with Albania and North Macedonia. Thus, Albania, North Macedonia, Montenegro and Serbia are actively negotiating their path towards EU membership. Bosnia and Herzegovina and Kosovo* remain potential candidates,¹⁸ and Moldova has committed to the harmonisation with EU rules within the framework of Deep and Comprehensive FTA part of the Association Agreement. Chapter I in the EU acquis is related to the “free movement of goods” and has so far only been opened for Montenegro. The European Commission annually monitors the progress of how well each of the (potential) candidates is prepared in terms of applying EU standards and rules in each of the 33 policy areas (chapters). The 2020 annual assessment report by the European Commission states that North Macedonia, Montenegro and Serbia have obtained the status of ‘moderately prepared’ in that policy area. Albania has ‘some level of preparation/is moderately prepared’. Kosovo* has improved from ‘early stage of preparation/has some level of preparation’ in 2018 to ‘some level of preparation’, while Bosnia and Herzegovina is still assessed to be at the early stage of preparation.

The average rate of tariffs applied to imports is significantly higher among the CEFTA parties compared to its EU peers Bulgaria, Croatia, Romania and Slovenia. Since 2017, little progress has been made in aligning tariffs with EU rates. It should be noted, however, that the objectives within the trade component of the MAP REA state that “a potential approximation” should be discussed based on an impact assessment of such steps. At the request of CEFTA, an economic analysis on the economic impact of a harmonisation of CEFTA Most Favoured Nation (MFN) rates with the EU Common External Tariff (CET) was conducted. The report highlights that most tariff adjustments would be small on average, but would also entail substantial increases for a few goods such as fish, tobacco and chemicals.

¹⁸ <https://eeas.europa.eu/headquarters/headquarters-homepage/2078/eu-enlargement>

Figure 2.5: Weighted average applied tariff rate, in percentage points



Source: World Economic Forum 2020, The Global Competitiveness Index 4.0

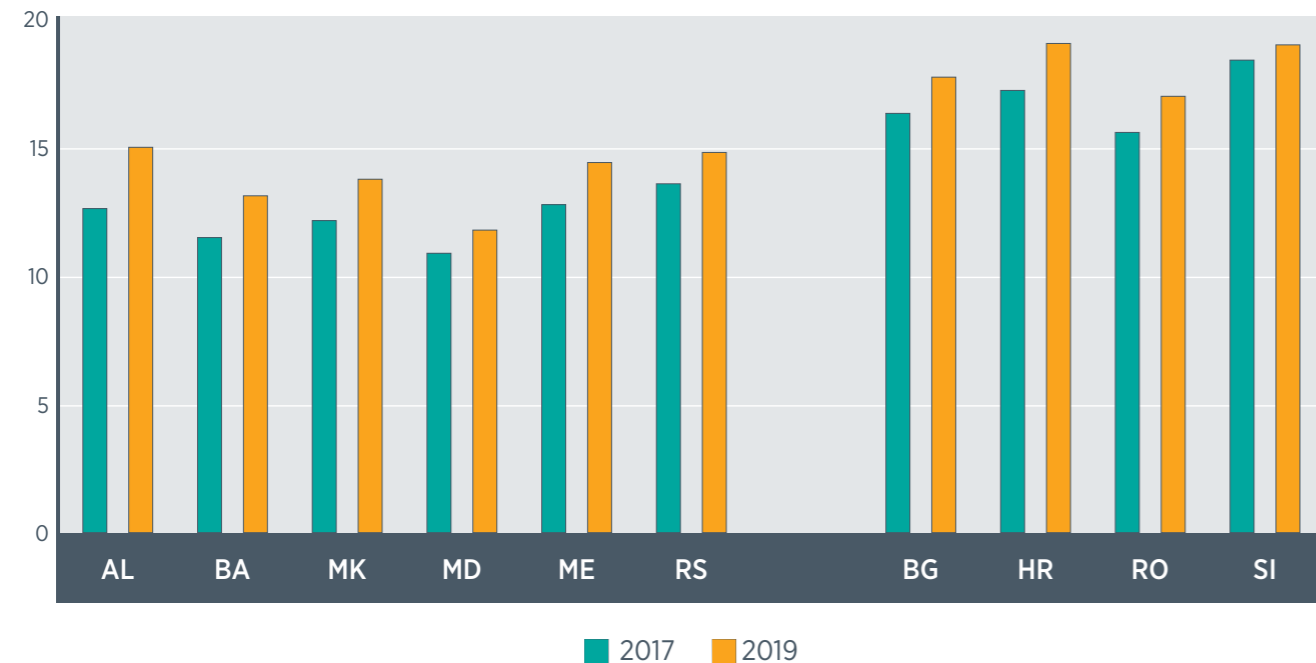
In order to monitor progress in the harmonisation of trade related policies with EU standards, it is useful to compare the parties’ policies across several dimensions. Figure 2.6 shows a panel of two indices that are comprised of a number of sub-indicators.

The OECD’s Trade Facilitation index is composed of 11 sub-indices which combine institutional, legal and technical information. In 2019, the largest existing gap between the CEFTA parties and its EU peers among the different sub-indices stems from the differences in co-operation of the agency at external BCPs/CCPs. The discrepancy is also large in internal BCP/CCP agency co-operation and the public availability of trade-related information. According to the index, policies are mostly aligned with regard to the possibility to appeal decisions by BCP/CCP agencies and the rules and processes related to advance rulings.

Between 2017 and 2019, both the CEFTA parties and the EU member states have improved their scores which resulted in overall absolute but limited relative improvements. The increase in the CEFTA parties’ score can be attributed mainly to simplification and harmonisation of documents, improved appeal procedures, better involvement of the trade community, and improved simplicity and quality of procedures.

Figure 2.6: Trading indices

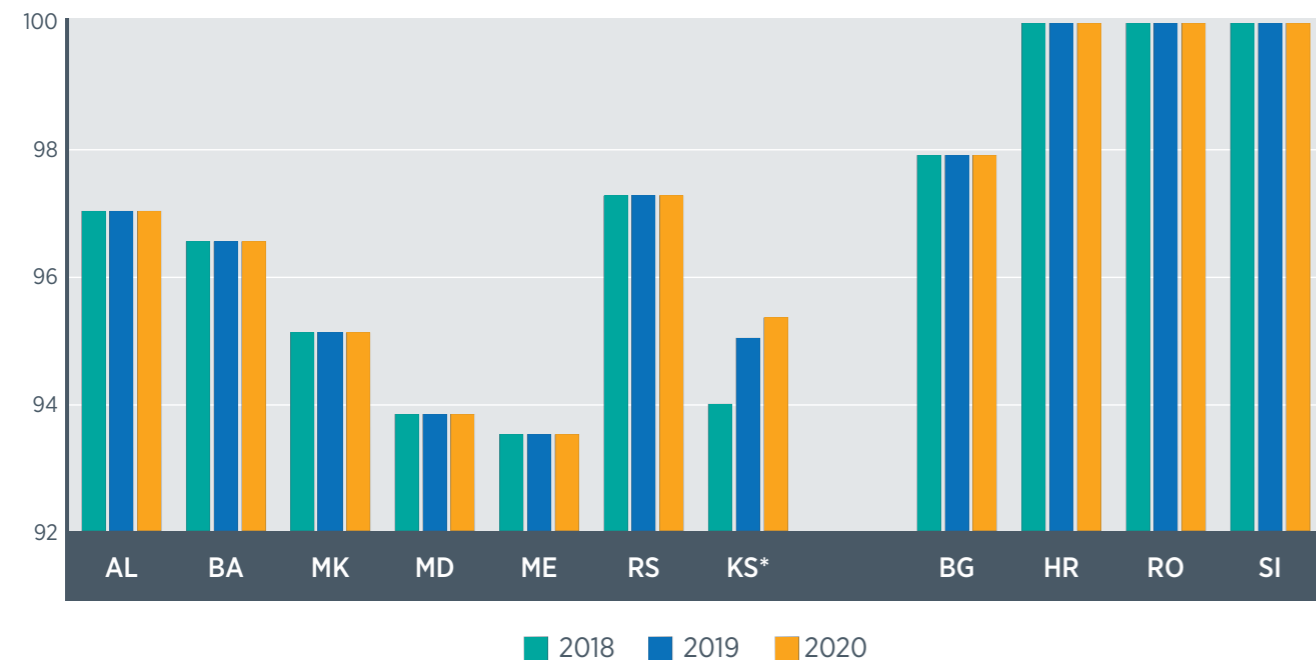
Trade Facilitation Index (maximum=22)



Note: Data for Kosovo* not available

Source: OECD Trade Facilitation Index

TAB Index (best=100)



Source: World Bank Doing Business, TAB Index

The panel on the right-hand side of Figure 2.6, depicts the World Bank’s TAB Index. The index is based on collected data on the time and cost (excluding tariffs) associated with documentary compliance and compliance with regulation related inspections on crossing

points for both imports and exports¹⁹. In the latest Doing Business Report 2020, costs and time invested in export and import processes are on average higher for CEFTA economies compared to their EU peers. In particular, large gaps remain between CEFTA economies and their EU peers in the time and cost associated with compliance with regulation related inspections on crossing points. Within CEFTA, costs associated with compliance with regulation related inspections on crossing points outweigh costs associated with documentary compliance. In contrast, time required to comply with these requirements is similar and amounts to around 5-6 hours. For the EU members shown in Figure 2.6, compliance usually takes one hour or less. Montenegro and Moldova’s relatively low score can be mainly attributed to the former’s high cost and time required to import and the latter’s time required to export. On average, the sub-indicators of the index related to compliance with regulation related inspections on crossing points (costs and time) are significantly worse compared to EU peers.

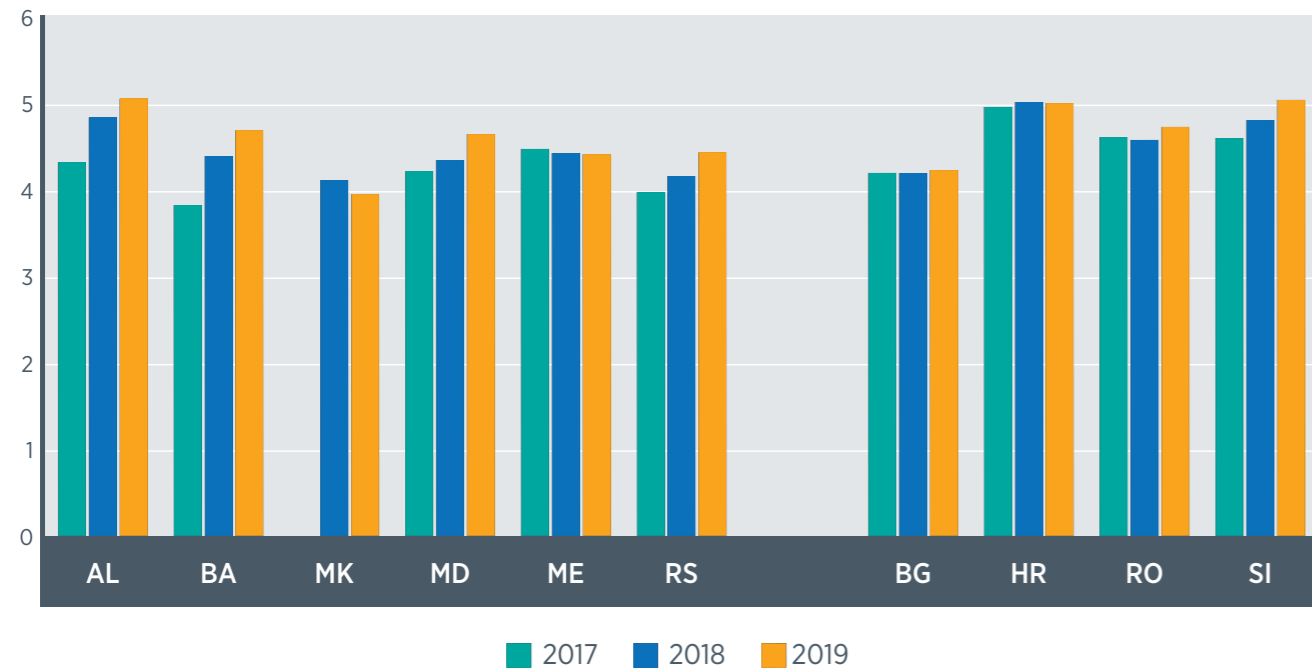
No significant changes were recorded in the components of the TAB index between 2017 and 2019, with the exception of Kosovo*. Kosovo* managed to reduce the time required to comply with regulation related inspections on crossing points restrictions during exports from 25 to 4 hours.

Creating a NTMs and TDM free region

The CEFTA has fully achieved trade liberalisation in manufactured and agricultural products. Measures such as product standards, technical regulations, sanitary and phytosanitary (SPS) measures and conformity assessment procedures often aim at achieving public policy objectives related to security, public health and/or protecting the environment. At the same time, they can pose significant non-tariff barriers (NTBs) to trade. (OECD, 2018)

Figure 2.7 shows the result of a survey conducted by the World Economic Forum related to the impact of non-tariff barriers. The figure suggests that the positive developments between 2017 and 2019 could have limited the impact of NTBs on imported goods for CEFTA parties. Although the measure is based on subjective perceptions, it suggests that the effort conducted by CEFTA parties to limit trade barriers results into improved trade conditions.

¹⁹ The data is collected based on an export and import case study. The export case study uses the export of the economy’s most exported good (in value) to the economy that is the largest purchaser of this product. For the import case study, an import of 15 metric tons of containerized auto parts from its largest suppliers of auto parts is assumed. For details see www.doingbusiness.org.

Figure 2.7: Restrictiveness of non-tariff barriers (1= very restrictive, 7=not restrictive at all)

Note: Response to the survey question inquiring to what extent do non-tariff barriers (e.g. health and product standards, technical and labelling requirements, etc.) limit the ability of imported goods to compete in the domestic market?" [1 = strongly limit; 7 = do not limit at all]; data for Kosovo* not available

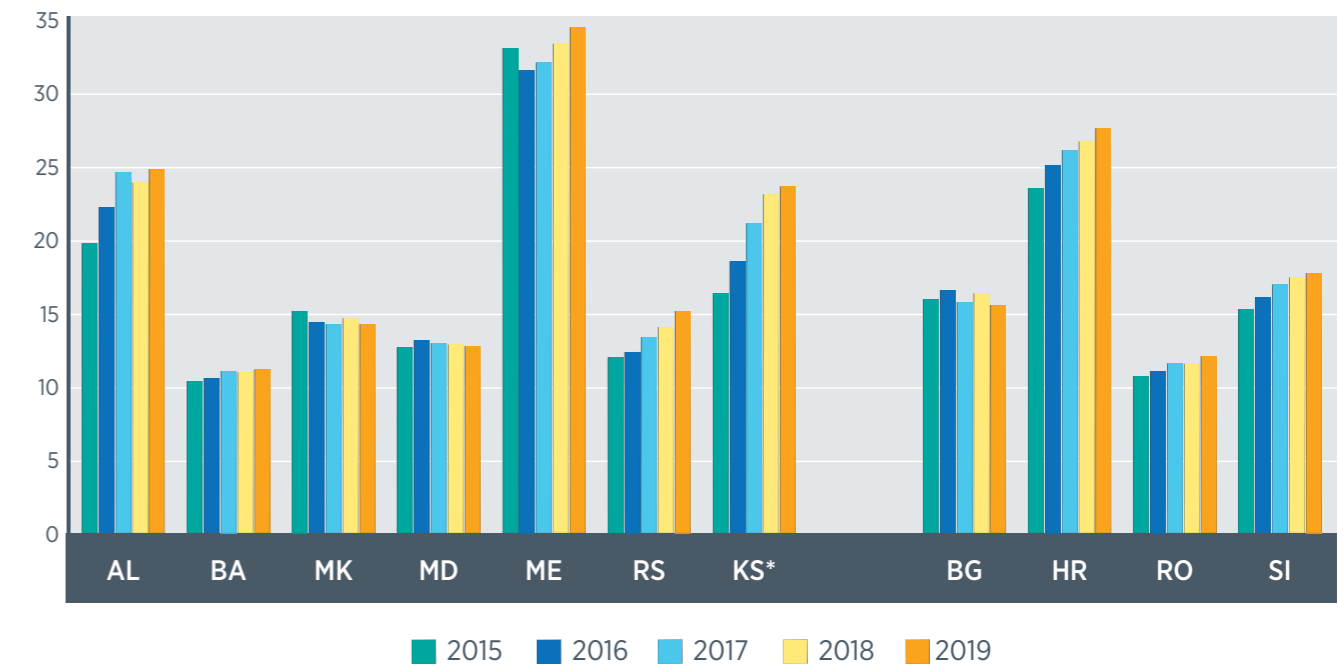
Source: World Economic Forum 2020, The Global Competitiveness Index 4.0

Trade in services

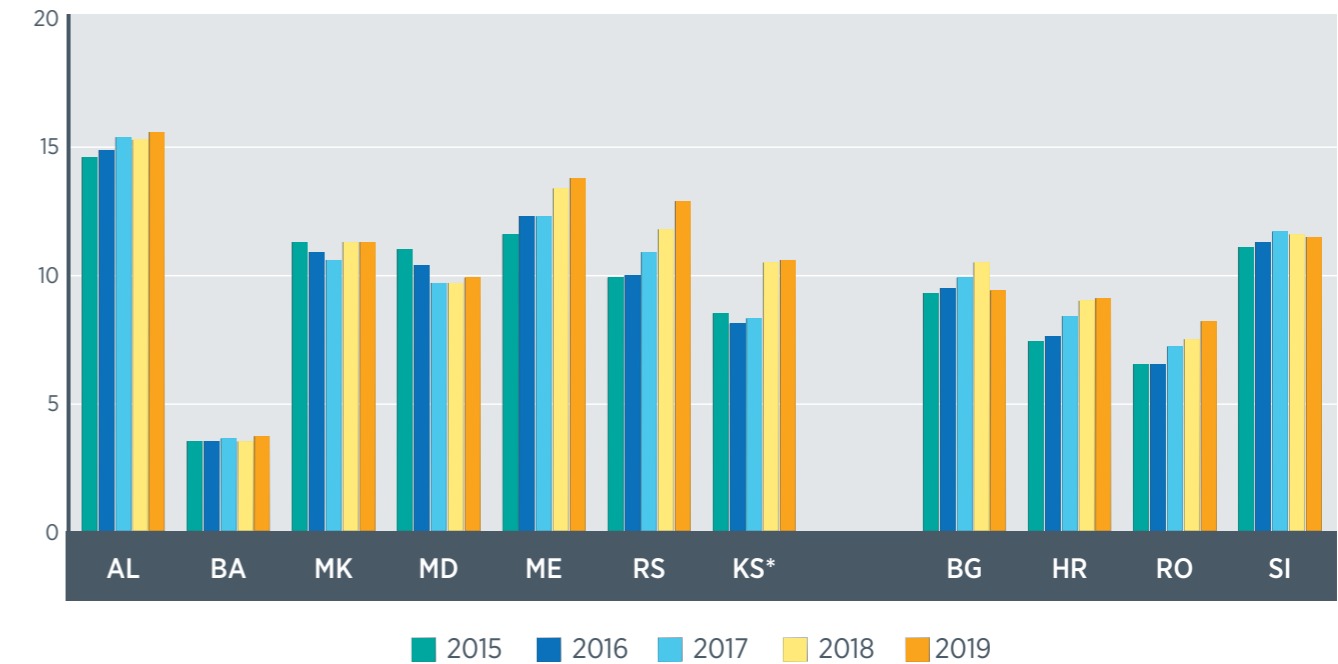
Trade in services plays an important role in the CEFTA economies. While trade in goods is in deficit and contributes to a highly negative current account, trade in services shows a positive trade balance. The importance of services exports is depicted in Figure 2.8 by the share of services exports in % of GDP. In Albania, Montenegro, and Kosovo*, services exports have a particularly prominent role, due to the importance of travel services. Here the share reached 35% and about 25% and 24%, respectively, in 2019. In the other economies, the share ranged between 15% in Serbia and North Macedonia and 13% in Moldova, and 11% in Bosnia and Herzegovina. Looking at the regional peers, services exports reached 28% of GDP in Croatia, 18% in Slovenia, 16% in Bulgaria, and the lowest level is recorded in Romania, 12%. Between 2015 and 2019, the shares increased in most economies but remained constant in North Macedonia and Moldova. Looking at services imports in % of GDP, the share ranged between 16% in Albania on the upper end and 4% in Bosnia and Herzegovina on the lower end. Between 2015 and 2019, the share slightly increased, except in Moldova.

Figure 2.8 / Services exports and imports, in % of GDP

Services exports, in % of GDP



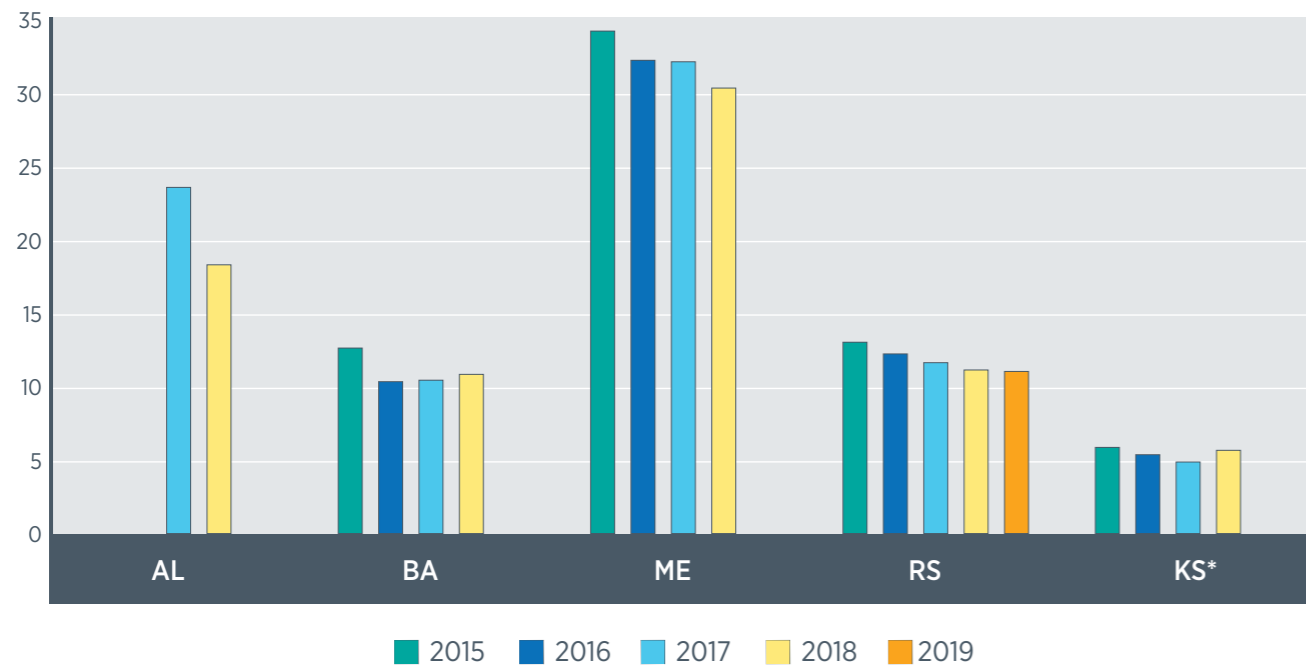
Services imports, in % of GDP



Note: BOP6.

Source: wiiw Annual Database.

The importance of CEFTA services trade is shown in Figure 2.9. Intra-regional trade plays a major role in Montenegro, where 30% of all services exports went to CEFTA in 2018. In Albania, this share reached 18% in the same year. In Bosnia and Herzegovina and Serbia, about 11% of services were exported to CEFTA, while in Kosovo* the share was very small and reached only 6% in 2018. Between 2015 and 2018/19, the shares declined in all economies of the region, but stabilised somewhat in Bosnia and Herzegovina and Kosovo* in the last year observed.

Figure 2.9 / Services exports to CEFTA, in % of total services exports

Note: BOP6. Moldova not included 2015 and 2017; Serbia: Trade with Kosovo* not included. No bilateral trade data available for North Macedonia and Moldova.

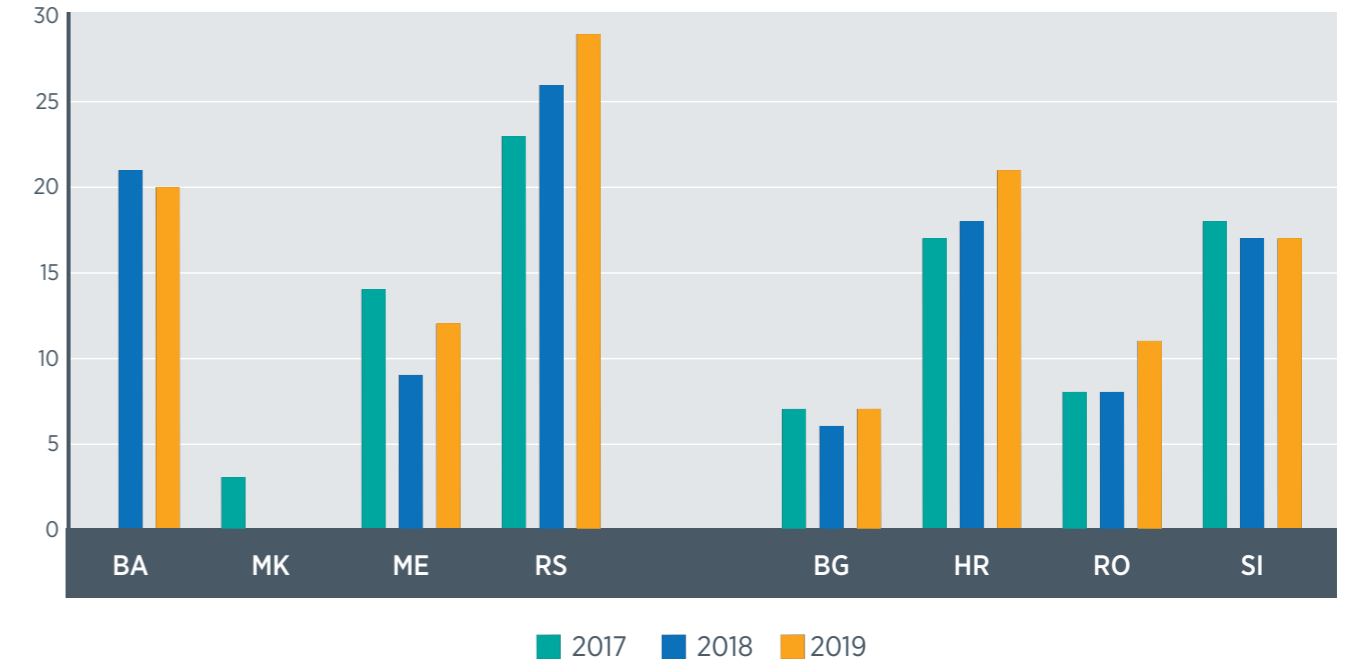
Source: *wiiw Annual Database, CEFTA Database.*

Electronic commerce

Indicators on electronic commerce are included in the Digital Economy and Society Index (DESI) from the European Commission which is a measure for digitalisation of the economy and society in the European economies. Two studies which replicated the DESI-indicators for the Western Balkan economies have found data deficiencies in some areas for these economies (European Commission, DG Connect, 2018 and 2019). Especially in the area of business technology integration, which includes indicators on business digitalisation and eCommerce, only two economies – Serbia and Montenegro – provided data for all indicators for the year 2018. It can be seen that Serbia performed better in the three e-Commerce indicators compared to the EU27. For the future, these data however should become available as the Western Balkan economies committed themselves to ‘setting a commonly agreed baseline and monitoring progress in the main areas of the digital transformation, including through the collection of data to benchmark Western Balkans economies using the Digital Economy and Society Index (DESI)’ at the Western Balkan Digital Summit in Belgrade on 4th April 2019.²⁰ For further information on the other parts of the DESI, see the Digital component section in this report.

One DESI-indicator reflecting electronic commerce is the share of small and medium sized enterprises (SMEs) selling online. Figure 2.10 shows that Serbia exhibits the highest share of SMEs selling online with 29% in 2019, followed by Bosnia and Herzegovina with 20%, both showing higher or similar shares compared to their regional peers Croatia (21%) and Slovenia (17%). Montenegro with a share of 12% is still above the level of Romania (11%) and Bulgaria (7%). Between 2017 and 2019, the share increased markedly for Serbia, but decreased for Bosnia and Herzegovina and Montenegro. However, especially in times marked by anti-pandemics measures, selling online has become an important substitute to selling in the real world and needs to be supported and facilitated to a high extent.

²⁰ <https://www.rcc.int/docs/474/annexed-documents-to-chairs-conclusions-from-the-western-balkans-summit-in-poznan-2019>.

Figure 2.10: SMEs selling online, in % of enterprises

Note: Data for North Macedonia for 2016.

Source: *Eurostat (E-commerce sales [isoc_ec_eseln2])*

Another indicator from DESI – though from the side of consumers – reflects the share of people doing online shopping. Figure 2.11 presents the numbers as a percentage of the total number of individuals. This share is particularly high in the regional peers Slovenia and Croatia (56% and 45% respectively in 2019). In North Macedonia, Serbia and Kosovo*, only about 30% of individuals used the Internet for ordering goods or services online in 2019. In Bosnia and Herzegovina, this share stood at 23% and was comparable to that in Romania and Bulgaria. In Montenegro (16%) and particularly Albania (only 5%), this share was exceptionally low.

Figure 2.11 / Online shopping, in % of individuals

Note: Last online purchase; in the 12 months.

Source: Eurostat (*Internet purchases by individuals (until 2019) [isoc_ec_ibuy]*).

An additional indicator reflecting electronic commerce is the UNCTAD's Business-to-Consumer (B2C) E-commerce Index. It measures an economy's preparedness to support online shopping and is a composite index including four indicators related to online shopping. It has a wide coverage, and includes all CEFTA economies except for Kosovo* (also Moldova is covered, which the Eurostat data does not include). The four indicators covered are: 1) the share of individuals using the Internet, 2) the share of individuals with account ownership at a financial institution or with a mobile-money-service provider, 3) the number of secure Internet servers per million inhabitants and 4) the Universal Postal Union (UPU) postal reliability score. Table 5.1 ranks the CEFTA economies and their regional peers. Croatia and Slovenia top the list with an index value for 2019 of around 84, while Albania and Montenegro are at the bottom with an Index of 53. Compared to the 2018-index, the 2019 figures deteriorated in most economies, with only three economies doing better (Croatia, Bulgaria, Romania).

Table 5.1 / UNCTAD Business-to-Consumer (B2C) E-commerce Index, 2019

Index rank	Economy	"Share of individuals using the Internet (2018 or latest)"	"Share of individuals with an account (15+, 2017)"	"Secure Internet servers (normalized, 2018)"	"UPU postal reliability score (2018 or latest)"	"2019 Index value"	"Index value change (2017-18 data)"	"2018 Index rank"
27	Croatia	75	86	85	91	84.3	1.7	32
32	Slovenia	80	98	90	64	82.7	-7.7	18
39	Bulgaria	65	72	91	85	78.3	0.5	36
45	Serbia	73	71	77	83	76.2	-0.2	41
46	Romania	71	58	84	86	74.5	0.4	45
51	North Macedonia	79	77	55	81	73.0	-2.2	48
54	Republic of Moldova	76	44	70	97	71.7	-1.3	54
63	Bosnia and Herzegovina	70	59	67	50	61.5	-6.9	57
75	Albania	72	40	56	49	54.4	-11.6	64
77	Montenegro	72	68	55	22	54.2	-3.5	76

Note: Data for Kosovo* not available

Source: UNCTAD (2019).

2.3. State of play for each measure

Within the trade pillar of the MAP REA, four major policy areas have been defined. The facilitation of free trade in goods, the harmonisation of CEFTA markets with the EU, creating a region free of non-tariff measures (NTM) and trade defensive measures (TDM) and facilitation of free trade in services. Within those four policy areas, a total of 44 planned measures have been agreed upon by the CEFTA parties. Subsequently, the progress of the trade pillar measures is assessed and summarised. Each measure is evaluated based on one of the three categories: fully implemented, partially implemented, or not implemented. In addition, partially and non-implemented measures are flagged as delayed if they lag behind the proposed timeline. An overview of the measures and its assessment can be found in Table 5.2.

Policy I. Facilitation of free trade in goods

First, the progress in achieving the objectives within the policy area 'facilitation of free trade in goods' is analysed. One of the core objectives is the adoption and implementation of an Additional Protocol on a CEFTA Dispute Settlement Mechanism (AP7). The CEFTA parties have discussed different proposed options for the establishment of the Dispute Settlement Mechanism. Furthermore, they have finalised internal procedures which paved the way for further negotiations to be held in October 2020. Thus, the objective to ratify AP7 can be considered as partially implemented.

The continuous action to maintain a public-private sector dialogue for better monitoring of the implementation of CEFTA has been successful so far. Regular meetings have been taking place between CEFTA Parties and the private sector. Meetings of the Regional Business Advisory Groups (RBAG) Iron and Steel and Vegetables have taken place regularly. RBAGs are composed of private sector actors, such as producers and exporters, and act as a platform to discuss and identify barriers to trade. With a view of strengthening the pub-

lic-private dialogue in the context of CEFTA and REA, the CEFTA Secretariat, GIZ and WB6 Chamber Investment Forum have signed a Memorandum of Understanding in June 2019.

Another core objective of the MAP REA is the adoption and implementation of the CEFTA Additional Protocol 5 (AP5). AP5 encompasses improvements in mutual recognition of trade documents and procedures, and further advances the alignment with EU standards. The adoption of the decision on establishing the validation procedure for the mutual recognition of the parties' Authorised Economic Operators' Programmes for safety and security in December 2019 by the CEFTA Joint Committee was the first important building block. In addition, the CEFTA Joint Committee adopted the decision on Facilitating Trade for Fruit and Vegetable in February 2020. The latter when fully implemented, among others, will enable the mutual recognition of phytosanitary documents necessary for fruits and vegetables trade. Thus, since AP5 entered into force in April 2018, and its implementation is ongoing, the objective can be considered as fully implemented. The ratification process of the AP5, however, remains incomplete as only six CEFTA Parties have ratified the protocol.

The EU funded System of Electronic Exchange of Data (SEED), a software to exchange data from customs documents has been available to the parties prior to the launch of the MAP REA. However, the parties' customs administrations lacked the capacity for the maintenance of the system. Therefore, the parties developed a feasibility plan to guarantee sufficient investment for the SEED Maintenance and Development Project and stated that each party secured adequate funding for the implementation of SEED+. SEED+ will extend the scope of data exchanged between the parties' customs administrations e.g. to include the results of risk analysis and controls, and it also extends the data exchange from customs authorities only to all agencies involved in clearance of goods. Thus, the objective to conclude party level IT interconnections for data exchange between agencies at all levels has been achieved.

The development of a joint risk management strategy is envisaged under the AP5. The aim of the Regional Risk Management Strategy is to improve information sharing between the CEFTA customs authorities and to remove redundant procedures and overlapping checks at the BCPs/CCPs. In this regard, a decisive step has been taken in December 2019, where the CEFTA Joint Committee has adopted the Joint Customs Risk Management Strategy in Tirana. The implementation of the Joint Customs Risk Management Strategy has not yet been completed as the parties are currently engaging in processes to apply the strategy across all levels which are involved in the process of goods clearance. Furthermore, the implementation of the Joint Risk Management Strategy requires a significant amount of financial resources. Thus, the implementation remains only partial.

In order to progress on the objective to facilitate cooperation between the parties' market surveillance control authorities, a time plan was adopted by the CEFTA Joint Committee in December 2019. Furthermore, the parties agreed during talks in November 2019 to work towards mutual recognition of testing reports in the directives on toy safety, low voltage (LVD), General Product Safety Directive (GPSD), personal protective equipment (PPE) and machinery. Thus, the set objectives have been fully implemented.

Furthermore, significant progress has been achieved in the process of mutual recognition of Authorised Economic Operators (AEOs). In order to set up and test guidelines for rules and procedures for the mutual recognition of AEOs as set out in AP5, four pilot validation missions were organised in North Macedonia, Moldova, Serbia and Montenegro. During the pilot exercises, it was possible to simulate the validation processes which will take place under the mutual recognition procedures. Furthermore, the parties adopted the decision to select the sector 'fruits and vegetables' to develop a Mutual Recognition Agreement (MRA) in February 2020, and its implementation has already started. It is further envisaged to extend the MRA to other goods. This process is still under negotiation and a timeframe still needs to be agreed on. Thus, the latter objective can be considered as partially implemented.

Policy I.2. Harmonisation of CEFTA Markets with the EU

All CEFTA parties are contracting parties of the so-called Regional Convention on pan-European-Mediterranean preferential rules of origin (PEM Convention). The PEM Convention sets out the rules under which a specific good is considered as 'originating' from that specific party. Thus, the rules allow a party to verify that the particular good can be considered of the party's origin. The origin of a good determines, for example, whether preferential tariff rates can be applied or not. Furthermore, due to the application of identical rules of origin, the PEM Convention allows for the application of diagonal cumulation²¹ between the CEFTA, the EU, EFTA and Turkey, provided that bilateral FTAs have been ratified between all the parties.

While a Joint Declaration of Cooperation has been signed between Kosovo* and EFTA and Moldova and EFTA, the parties have not yet signed bilateral free trade agreements. Therefore, since the relevant FTAs with EFTA still need to be signed, the diagonal cumulation is not yet possible between all CEFTA members, the EU, EFTA and Turkey. This measure thus remains partially implemented and is also delayed as the agreed timeline envisaged the accomplishment by 2018.

In November 2019, the contracting parties of the PEM Convention could not adopt a set of revised rules due to the reservations of some parties. However, CEFTA parties and other contracting parties decided to move ahead and incorporate the revised rules in their bilateral protocols on a transitional basis.²² In order to keep the same rules of origin between the EU, EFTA, Turkey and CEFTA and make them as flexible as possible for economic operators, all the FTAs between the participating partners have to be in force and adapted as necessary. The CEFTA JC has already agreed on the possibility of full cumulation²³ and duty drawback²⁴ for regional trade within CEFTA in November 2015. In order to implement the two trade instruments, the provisions of the PEM Convention were amended in 2017. The parties have started to implement the application of full cumulation and duty drawback since July 2019, after the respective guidelines were agreed during the meeting of the Sub-Committee on Customs and Rules of Origin in April 2019.

In order to support the discussion about a potential harmonisation of CEFTA most-favoured nation (MFN) rates with the EU's Common External Tariffs (CET), the analysis of the impact of a potential alignment of rates was conducted. The report suggests that the harmonisation of CEFTA MFN with EU CET requires substantial adjustment to the existing tariff regime and brings only small economic benefits. Although the report highlights that a harmonisation with CET is required for full EU membership, it argues that no major benefits can be derived from harmonisation prior to EU membership. The CEFTA Joint Committee took note of the recommendation not to align parties' MFN Tariffs to EUC CET in December 2019. With the conducted impact assessment, the measure has been fully implemented.

Policy I.3. Creating NTMs and TDM-free Region

In the policy area of creating a region free of non-tariff measures (NTM) and trade defensive measures (TDM), the objectives under the MAP REA aim at cooperation between competition and state aid monitoring authorities, eliminating discriminatory practices in public procurement, and monitoring of NTMs.

Within the scope of improving cooperation between competition and state aid monitoring authorities, the CEFTA Secretariat has completed the monitoring exercise for the im-

²¹ Diagonal cumulation refers to the rule that material which has obtained originating status in the trading party may be incorporated in products manufactured in another party without losing its originating status. The material/good will have the origin of the party where the last working or processing operation took place - see (European Commission, 2020)

²² For details, see (European Commission, 2020)

²³ The terms under which a 'non-originating' good imported to CEFTA can be worked and processed within CEFTA such that it can be considered as an 'originating' good i.e. a good of CEFTA origin.

²⁴ A refund of duties that can be claimed by a trader if the good is being re-exported.

plementation of CEFTA Articles on competition and on State Aid, and corresponding JC Decision 1/2011. The negotiations with the objective to agree on a set of instruments for information exchange between Competition and State Aid Authorities have not yet been successful and will continue during the second half of 2020. Thus, this measure remains only partially implemented.

While some CEFTA parties have submitted state aid schemes and measures to the CEFTA Secretariat, the standards for reporting of the schemes depend on the agreement on the format of information exchange between the authorities. Similarly, the design of the network to facilitate peer learning between the authorities will depend on the measures related to the information exchange. Thus, these objectives remain partially implemented.

In order to monitor remaining discriminatory practices in public procurement markets, a public procurement report has been prepared. This report also serves as tool for future monitoring. Furthermore, in order to monitor NTMs in trade in goods and services, the CEFTA parties have set up the CEFTA Market Access Barriers Database (MABD) which is regularly updated and accessible via the CEFTA website. The MABD currently only collects identifying barriers in trade in goods. However, NTMs related to trade in services are not yet recorded by the MABD. The extension of the database to trade in services requires the parties' implementation of AP6.

Policy I.4. Facilitation of free trade in services

The core of this policy is the adoption and implementation of the Additional Protocol 6 on trade in services (AP6). The Protocol consists of the basic principles and rules for trade in services among the CEFTA Parties: non-discrimination, market access, national treatment. There are three annexes which complement the draft text of the Protocol: Annex I: Temporary Entry and Stay of Natural Persons for Business Purposes, Annex II: Regulatory Principles Regarding Telecommunications networks and services and Annex III: Consolidated Schedule of Specific Commitments.

The first objective (I.4.1) 'Implementation of CEFTA Additional Protocol 6 on Trade in Services' encompasses eight actions. The Additional Protocol 6 has finally been adopted by the CEFTA Joint Committee in December 2019, thus the first action to adopt the Additional Protocol has been fully implemented. The AP6 has been ratified by Serbia and Albania while Bosnia and Herzegovina is in the final phase. For the other parties, ratification is well on course. Thus, the action to ensure timely entry into force of AP6 is partially implemented at the time of writing.

The action focusing on the development of the sustainable mechanism for monitoring trade in services policies, including screening of legislation and mapping of projects and establishment of the efficient dispute settlement mechanism has been partially implemented. A CEFTA Services Regulatory Database has been set up, which is accessible via the CEFTA website. Kosovo* still collects data and will insert it into the database by the end of 2020.

The action regarding the establishment of the contact point for services has been fully implemented, as the parties have designated and nominated the Contact Points for services thereby establishing them.

The action aiming at the establishment and maintenance of the regional transparency platform on services policies featuring channels of communication to the private sector and a wider circle of beneficiaries has been partially implemented. A CEFTA Regulatory Database referred to above has been designed to also serve as a transparency tool to the private sector.

The action to review commitments undertaken by the AP6 in non-liberalised sectors with a view of deepening the market opening in these sectors has not been implemented yet. As the adoption of AP6 was needed first, the timeframe of this action is 2022-23, and activity

is actually foreseen for the year 2022. Therefore, the implementation of this action is well on track.

The action to evaluate the impact of the Agreement on further trade and investment growth, GVC, labour market has not been implemented yet. Again, adoption of AP6 and a certain period of implementation was and will be needed first.

The final action to establish and maintain a platform for statistical data on trade in services, FATS and FDI has been fully implemented. A wide range of data is accessible via the Statistical Portal on the CEFTA website (<https://cefta.int/trade-info-centre/statistics/>) characterising the trade in services of the region, foreign affiliates statistics (FATS; more limited data availability, data available only for three economies) and foreign direct investment (FDI).

The second objective (I.4.2) 'Conclusion of agreements on interregional regulatory cooperation (IRC)' fosters interregional regulatory cooperation, which is defined by the OECD as any agreement or arrangement, formal or informal, between the parties to promote some form of cooperation in design, monitoring, enforcement or ex-post management of regulation. Commitment was made to identify suitable forms of cooperation (e.g. mutual recognition) and negotiate and implement these arrangements.

The action to identify regulatory barriers that impede trade and a proposal for closer cooperation amongst regulatory bodies in sectors and policies of mutual interest has been fully implemented. A report on regulatory barriers that impede trade was elaborated (IRC Report 2017), recommending the sectors where future cooperation could be enhanced by eliminating regulatory barriers. These sectors included: road transport, computer services, tourism, construction and communication services.

The action aiming at the establishment and maintenance of a database with regulatory heterogeneity indices to perform an assessment of implications of arrangements on the region has been partially implemented. All data necessary for calculation of the STRI indexes in selected sectors covered by CEFTA Services Regulation Database have been collected and validated.

The action for identification of suitable forms of cooperation based on soft laws, recognition of international and EU standards, MRAs has been fully implemented. CEFTA has organised three workshops with regulators in three different sectors (tourism, construction and postal and courier services) identifying potential results and challenges, in order to identify one pilot sector to launch the IRC. The tourism sector was selected. The action to negotiate and administer the conclusion of selected arrangements is not implemented as it needs implementation of the previous action now.

The third objective (I.4.3) 'Development of disciplines on domestic regulation' stands in close relationship to the second objective. The first action encompasses the regular review of any issues on domestic regulation in trade in services. The action is not implemented as the first review is delayed and scheduled as part of the AP6 gap assessment in the fourth quarter of 2020. The second action²⁵ is not implemented as well, as it will follow the finalisation of the previous action only.

Pursuit of the fourth objective (I.4.4) 'Launching dialogue on regulatory issues on electronic commerce' has gained speed in 2020. The first action to identify barriers to e-Commerce in CEFTA and assess the e-Commerce impact and launch a regional dialogue on regulatory issues in electronic commerce has been fully implemented. The E-Commerce Report was finalized in June 2019. Based on this Report, the CEFTA Secretariat has proposed a roadmap for dialogue on regulatory issues in electronic commerce (CEFTA, Roadmap, 2020). The roadmap includes a summary on the CEFTA state of play in electronic commerce, key

²⁵ Development of any necessary disciplines in specific sectors to ensure that qualification requirements and procedures, technical standards and licensing requirements do not unnecessarily impede the supply of services across the region.

barriers and priorities and sets out a detailed action plan for the coming years. Thus, the first package of actions should be adopted by mid-2021, and the second package by end 2022. Activities within the roadmap are partly targeting actions of the MAP REA, but also go beyond. The roadmap was endorsed by the Subcommittee on Trade in Services in June 2020.

The action to assess existing geo-blocking measures²⁶ seems not to have been implemented. A study in this field was proposed. Exploratory talks in the Intellectual Property Rights (IPR) area and involving the IPR Authorities in the work of CEFTA have been set on the agenda for 2020.

The action to launch regional actions aimed at increasing citizen's trust in online services (payment, etc.) and coordination on e-Commerce trust marks has been partially implemented. Activities have started, cooperation with e-commerce associations in the region has begun in order to address trust issues through self-regulation activities.

The action to identify and apply the best practice to digital market places to grow SME businesses and drive consumer welfare has been delayed. With the support of German Government, GIZ is preparing a regional action focused on promoting electronic commerce through private sector development.

The action aiming to assess the necessity of regional action to ensure high quality delivery of goods (e.g. digital content traded regionally or physical goods purchased via electronic means) and services at reasonable costs has been fully implemented. The CEFTA Roadmap has proposed activities seeking to cut the transactional costs for regional electronic commerce.

The remaining three actions targeting the recognition of electronic signatures²⁷, ensuring liability of intermediary services providers²⁸ and treatment of unsolicited electronic commercial communication²⁹ are foreseen in the CEFTA Roadmap.

Delayed or not implemented measures

Out of the 45 measures defined under the trade pillar of the MAP REA, 21 have been fully implemented, 14 have been partially implemented (out of which 4 are delayed), and ten have not yet been implemented (out of which two are delayed and eight have not been due yet).

Under the MAP REA, it is envisaged that the CEFTA parties adopt a new additional protocol on dispute settlement referred to as AP7. As negotiation teams have been formed and the parties have finalised internal procedures, negotiations are officially kicked off in October 2020. The initially agreed timeline would have required an adoption of AP7 in 2019. The effectiveness of the negotiations beyond October 2020 will determine if the parties will accomplish this objective by the end of 2020.

The objective to have a network of FTAs between all CEFTA economies and the EU, EFTA and Turkey with identical rules of origin was envisaged to be achieved by 2018. However, Moldova and Kosovo* have not signed an FTA with EFTA yet. Thus, the progress towards achieving this objective depends on the remaining parties' ambition to ratify the required FTAs.

Besides the obligations by the CEFTA 2006 and the Joint Committee Decision 1/2011, the continuous and sustainable reporting of state aid schemes and measures has not been achieved so far. While some parties have already notified the CEFTA Secretariat of state aid schemes and measures, a consistent scheme has not been fully developed. This partly results from the fact that the framework for cooperation between state aid and competition authorities has not been finalised yet. Further negotiations are planned during the second half of 2020.

²⁶ Assess existing geo-blocking measures (focus on digital content and copyright goods) and examine whether they are fit for purpose with the aim to prevent unjustified geo-blocking while ensuring investment and innovation incentives at the same time.

²⁷ Establish recognition of certificates of electronic signature and facilitation of certification services

²⁸ Ensure liability of intermediary service providers with respect to the transmission or storage of information based on EU compliance

²⁹ Address treatment of unsolicited electronic commercial communications

According to the agreed timeline, it was expected that all CEFTA parties would have had ratified the AP6 by 2019. As the AP6 was adopted only in December 2019, by now it was ratified by Serbia and Albania, and Bosnia and Herzegovina is in the final phase. For the other parties, ratification is expected to take place at the end of 2020.

A first review of issues of domestic regulation in trade in services was foreseen between 2018 and 2019. This first review is delayed and scheduled as part of the AP6 gap assessment in the fourth quarter of 2020.

Not implemented actions are only found in the last policy area of facilitation of trade in services. However, here actions often encompass the review of implementation actions which are thus foreseen in a latter period of time. Also, the timeframe of these actions mostly stretches until 2023. Especially in the field of electronic commerce, stock staking has occurred in the first phase, with a roadmap for actions achieved only in June 2020. Hence, implementation will start only later on and will also stretch until 2023.

Table 5.2 / Scoring of progress in the trade component³⁰

Objective	Actions	Timeline	Assessment	
I.1 Facilitation of free trade in goods				
I.1.1. Strengthening the monitoring and enforcement capacity of CEFTA	a. Launching the negotiations on Additional Protocol on CEFTA Dispute Settlement	2017-2017	Fully implemented	
	b. Adopting Additional Protocol on CEFTA Dispute Settlement	2019-2019	Partially implemented	Delay
	c. Ensuring timely entry into force of Additional Protocol on CEFTA Dispute Settlement	2019-2020	Partially implemented	
	d. Engaging Public-Private Sector Dialogue for better monitoring of the implementation of CEFTA (continuous action)	2017-2023	Fully implemented	
I.1.2. Adoption of Additional Protocol 5 and start of its implementation	a. Adoption of Validation Rules for mutual recognition in AP5	2018-2018	Fully implemented	
	b. Ensuring timely entry into force of the AP5	2018-2018	Fully implemented	
	c. Start of Implementation of Mutual Recognition Programmes (Border Documents, where applicable (as specified in AP5), and Authorised Economic Operators Programme)	2020-2020	Fully implemented	
I.1.3. Concluding Party level IT interconnections for data exchange between Agencies at all levels	a. Developing the feasibility plans for investments at Party level by SEED Maintenance and Development Project	2017-2018	Fully implemented	
	b. Ensuring the allocation of adequate financial resources from the budgets to secure internal level connections for the implementation of SEED+	2018-2020	Fully implemented	

³⁰ Refers to the Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, adopted by the Leaders of Western Balkans Six on 12 July 2017, available at <https://www.rcc.int/docs/383/consolidated-multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans-six>

Objective	Actions	Timeline	Assessment	
I.1.4. Improving joint risk management, border controls and one-stop-shop border controls	a. Developing a timeframe for joint risk management, and where appropriate (as specified in AP5): joint border controls, one-stop-shop controls, sharing border control equipment	2018-2019	Fully implemented	
	b. Adoption and implementation of Regional Strategy for joint risk management, and joint border controls, where appropriate (as specified in AP5), one-stop-shop controls, and sharing border control equipment	2019-2020	Partially implemented	
I.1.5. Developing mutual cooperation between market surveillance control authorities of CEFTA Parties	a. Developing a timeframe for mutual cooperation between market surveillance authorities	2018-2019	Fully implemented	
	b. Mapping the regulatory requirements for Mutual Recognition Agreement (MRA) in one supply chain, as selected by the project Support to Facilitation of Trade between CEFTA Parties	2017-2018	Fully implemented	
	c. Develop the timeframe to conclude MRA, based on EU compliance, on the selected supply chain	2018-2019	Fully implemented	
	d. Assess potentials to extend MRA in other supply chains with regional interest	2019-2020	Partially implemented	
I.2. Harmonisation of CEFTA Markets with the EU				
I.2.1. Ensuring the application of SAP+ and Full Cumulation	a. Sustaining uninterrupted application of SAP +	2017-2018	Partially implemented	Delay
	b. Start of application of full cumulation and duty drawback in CEFTA	2019-2019	Fully implemented	
I.2.2. Potential approximation of CEFTA MFN to EU CET	a. Impact assessment of approximation of CEFTA MFN rates with the EU Common External Tariff	2018-2018	Fully implemented	
I.3. Creating NTMs and TDM free Region				
I.3.1. Administrative Cooperation between Competition and State Aid Monitoring Authorities	a. Developing the instruments for information exchange between Competition and State Aid Authorities	2019-2020	Partially implemented	
	b. Full and sustainable reporting of state aid including state aid schemes and measures	2018-2019	Partially implemented	Delay
	c. Enhance cooperation amongst competition authorities by supporting the establishment of a structured network to foster peer learning	2018-2023	Partially implemented	
I.3.2. Eliminating any remaining discriminatory practices in public procurement markets	a. Monitoring the elimination of remaining discriminatory practices in public procurement markets	2017-2018	Fully implemented	
I.3.3. Systemic Monitoring of NTMs in trade in goods and services	a. Employing deterring monitoring and enforcement mechanisms to eliminate any remaining NTBs	2018-2020	Partially implemented	

Objective	Actions	Timeline	Assessment	
I.4. Facilitation of free trade in services				
I.4.1. Implementation of CEFTA Additional Protocol 6 on Trade in Services	a. Adoption of the Additional Protocol 6 by negotiating Parties	2017-2018	Fully implemented	
	b. Ensuring timely entry into force of Additional Protocol 6	2018-2019	Partially implemented	Delay
	c. Development of the sustainable mechanism for monitoring trade in services policies, including screening of legislation and mapping of projects and establishment of the efficient dispute settlement mechanism	2017-2019	Partially implemented	
	d. Establishment of the contact point for services	2018-2019	Fully implemented	
	e. Establishment and maintenance of the regional transparency platform on services policies featuring channels of communication to private sector and wider circle of beneficiaries	2018-2023	Partially implemented	
	f. Review of commitments undertaken by the AP6 in non-liberalised sectors with a view to deepen the market opening in these sectors	2022-2023	Not implemented	On track
	g. Evaluation of impact of the Agreement on further trade and investment growth, GVC, labour market	2020-2023	Not implemented	On track
	h. Establishment and maintenance of the platform for statistical data on trade in services, FATS and FDI	2017-2023	Fully implemented	
I.4.2. Conclusion of agreements on inter-regional regulatory cooperation	a. Identification of regulatory barriers that impede trade and proposal for closer cooperation amongst regulatory bodies in sectors and policies of mutual interest	2017-2018	Fully implemented	
	b. Establishment and maintenance of database with regulatory heterogeneity indices to perform assessment of implications of arrangements on the region	2018-2023	Partially implemented	
	c. Identification of suitable forms for cooperation based on soft laws, recognition of international and EU standards, MRAs	2017-2018	Fully implemented	
	d. Negotiation and administering the conclusion of selected arrangements	2018-2023	Not implemented	On track

Objective	Actions	Timeline	Assessment	
I.4.3. Development of disciplines on domestic regulation	a. Regular review of any issues of domestic regulation in trade in services	2018-2019 2022-2023	Not implemented	Delay
	b. Development of any necessary disciplines in specific sectors to ensure that qualification requirements and procedures, technical standards and licensing requirements do not unnecessarily impede the supply of services across the region	2020-2023	Not implemented	On track
I.4.4. Launching dialogue on regulatory issues on electronic commerce	a. Identify barriers to e-Commerce in CEFTA and assess e-Commerce impact and launch regional dialogue on regulatory issues in electronic commerce	2018-2023	Fully implemented	
	b. Assess existing geo-blocking measures (focus on digital content and copyright goods) and examine whether they are fit for purpose with the aim to prevent unjustified geo-blocking while ensuring investment and innovation incentives at the same time	2019-2020	Not implemented	Delay
	c. Launch regional actions aimed at increasing citizen's trust in online services (payment, etc.) and coordination on e-Commerce trust marks	2018-2020	Partially implemented	
	d. Identify and apply the best practice to digital market places to grow SME businesses and drive consumer welfare	2018-2023	Not implemented	On track
	e. Assess necessity of regional action to ensure high quality delivery of goods (e.g. digital content traded cross-border or physical goods purchased via electronic means) and services at reasonable costs	2018-2023	Fully implemented	
	f. Establish recognition of certificates of electronic signature and facilitation of cross-border certification services	2018-2023	Not implemented	On track
	g. Ensure liability of intermediary service providers with respect to the transmission or storage of information based on EU compliance	2019-2021	Not implemented	On track
	h. Address treatment of unsolicited electronic commercial communications	2018-2023	Not implemented	On track

2.4. Potential new measures, actions and objectives

The progress in the implementation of policy objectives defined in the AP5 (facilitation of trade in goods) and AP6 (facilitation in trade in services) and the ongoing negotiation of AP7 (dispute settlement) show that CEFTA parties are determined to actively develop the regional economic area. While new trade policies have been put into place, further steps are necessary to strengthen efforts achieved in the MAP REA 2017-2020. Within the succeeding MAP REA 2021-2024, the objective should be to further align standards, devote funding for implementation and monitoring, and to improve cooperation between actors within and across economies.

Facilitation of trade in goods

New measures that aim at facilitating trade could improve cooperation between agencies that share common goals. For example, potential overlaps in objectives exist between the Transport Community and CEFTA. While the former mainly promotes physical measures to connect and integrate economies, CEFTA pushes the agenda on non-physical measures. Since it takes both components to establish trade without barriers, new objectives for the MAP REA 2021-2024 should be discussed with other institutions such as the Transport Community. The coordination between CEFTA and the Transport Community has already been successful in implementing Green Lanes during the pandemic.

In a working document prepared by the Transport Community³¹ for the Zagreb Summit in May 2020, four priorities for post-COVID-19 period have been identified. One of them aims at the removal of obstacles existing at the external borders of the Western Balkans with the EU such as redundancy in proceedings, developing new IT/digital solutions, strengthening cooperation mechanisms and developing information and monitoring mechanisms. This proposal suggests that a coordinated approach within the MAP REA framework seems desirable.

As suggested by the OECD's Trade Facilitation Index (see section 2.2) and the World Bank (2015), the time for crossing BCPs/CCPs remains an issue. As the World Bank (2015) argues, this is largely caused by weak coordination of the economies' customs agencies. Thus, the intended measures in the MAP REA 2017-2020 such as mutual recognition of documents, a common risk strategy, the recognition of authorized economic operators and intensified data exchange have been crucial steps. However, initiatives to further improve the communication of customs agencies and the technical capabilities are necessary.

The OECD (2018) also suggests that the largest room for improvement among CEFTA economies lies in the design and implementation of sanitary and phytosanitary (SPS) measures. This is related to the lack of financial support and adequate equipment for inspections within SPS agencies.

As outlined in the European Commission's communication on the progress assessment of candidates and potential candidates and the OECD report (2018), all economies have made progress towards adopting EU standards in the last few years. However, gaps remain especially in the availability of quality infrastructure, personnel and funding for the provision of sufficient capacities for a rigorous implementation of the adopted standards. Thus, the common recognition of trade documents and the alignment of product standards with the EU acquis should be accompanied by measures to increase capacities and quality for standardization, accreditation and conformity assessment bodies.

According to the European Commission's 2020 enlargement reports³², most economies made gradual progress in the adoption of EU acquis related to Chapter I Free Movement of Goods. However, potential remains in the implementation and monitoring of the new measures. The lack of high-quality standards in the monitoring of product standards is unlikely to boost awareness of the importance of safety standards. As outlined by OECD/WTO/World Bank (2014), trust in the quality of goods is an important driver of trade activities. Therefore, the CEFTA parties could push for collective action to improve implementation, monitoring and communication of product related regulations. Particular actions could be related to common standards for conformity assessment, SPS inspections and market surveillance bodies.

³¹ <https://www.transport-community.org/wp-content/uploads/2020/05/Contribution-of-the-Permanent-Secretariat-to-the-Commission-Communication-on-WB.pdf>

³² See https://ec.europa.eu/neighbourhood-enlargement/countries/package_en

Harmonisation of CEFTA Markets with the EU

The CEFTA parties have agreed to not engage in an early adoption of the EU's CET as the potential benefits are expected to be limited. In contrast, as indicated in the previous chapters, the substantial progress in adopting the EU rules in many other areas is expected to facilitate trade in goods and services. However, while the recorded progress is expected to spur trade relations between the parties, the full benefits may only be reaped if the CEFTA Parties are fully integrated into the common market. As Bertelsmann Stiftung and wiiw (2020) indicates, the so called 'New EU Member States' who joined the EU in 2004 greatly benefitted from the integration into to EU internal market. Trade among the new member states grew particularly strong after the EU accession due to the establishment of value chains in Eastern Europe. CEFTA parties could therefore aim at negotiating a path that allows access to the EU common market without full EU membership status. Different kinds of relationships are possible as other economies such as Iceland, Norway and Switzerland have shown. A successful integration into the common market could not only facilitate the establishment of value chains within CEFTA, but also further accelerate overall progress towards the EU membership.

Creating NTMs and TDM-free Region

Although public-private consultations have become more frequent during MAP REA 2017-2020, a large potential remains to further incorporate the private sector in designing effective trade policies in a transparent way. The OECD (2018), for example, states that the structure of consultation mechanisms lacks transparency and an institutionalized framework. Transparent and regular public-private dialogue is also crucial to avoid that new regulations that intend to protect humans, animals or the environment turn into new trade barriers.

Moreover, while reported NTMs are recorded in the Market Access Barrier Database (MABD), the database does not reveal many details on the reported NTM. Adding more information such as a specific issue encountered with respect to the product would allow private sector actors to review issues which have already been reported and dealt with by the respective institutions. This can motivate actors to increase the reporting of perceived trade barriers and hence facilitate a better public-private relationship.

Trade in services

Looking at the MAP REA fourth policy area of facilitation of free trade in services and potential new measures, 'old' measures still have to be finalized first. Sometimes, the timeframe of actions in this policy area (especially in electronic commerce) stretches beyond 2020, usually until 2023. Often, these measures build upon the finalisation of earlier measures or encompass the monitoring or the review of this measure. Thus, these actions should be kept and targets should be achieved in the given time period.

For monitoring purposes, the CEFTA statistics on trade in services, FATS and FDI should be maintained and expanded as soon as new data become available (e.g. FATS data, bilateral balance of payments data). Also, the quality of data should be improved (e.g. minimizing export/import imbalances). Also, the CEFTA Services Regulatory Database will be completed soon. A mechanism to ensure timely updates should be established. This will be a major achievement.

As the AP6 has been finally adopted, after a certain implementation period, the success as well as the gaps should be assessed. This should then lead to further liberalization, i.e. elimination of substantial discrimination, and formulation of concrete new objectives. Also, the evaluation of impact of the agreement on further trade and investment growth, GVC and labour markets should be conducted.

Referring to agreements on interregional regulatory cooperation, these could be extended to sectors beyond the pilot sector of tourism. Agreements should become more focused

and targeted on key barriers including licenses, professional qualifications and work permits. Article 10 (Domestic Regulation) and Article 11 (Recognition) of the AP6 provide basis for further cooperation.

Looking at the issue of electronic commerce, not implemented actions should be kept and further pursued. The issue of geo-blocking should be continuously tackled. However, geo-blocking is often a consequence of IPR and other regulatory issues, and this gap has to be acknowledged first. The actions targeting recognition of electronic signatures, ensuring liability of intermediary service providers, and treatment of unsolicited electronic commercial communication should be incorporated in the new MAP REA. Finally, the CEFTA roadmap on electronic commerce contains a broad range of actions to be achieved in the future, e.g. a CEFTA platform for publishing all information and documents relevant for e-commerce, and should be included in the new MAP REA. This platform could also be used to raise awareness of benefits of e-commerce, especially for SMEs. While this CEFTA-platform serves the purpose of suppliers, from the viewpoint of consumers, a common marketplace or a common platform for regional products and services would be an interesting marketing tool. However, before putting platforms into operation, two key aspects of regional transition costs need to be addressed in order to enable electronic commerce: direct costs (such as postal services) and indirect costs (costs of managing multiple regulatory environments).

The COVID-19 pandemic hitting our world since the beginning of 2020 has intensified our move to the Internet, also for online shopping with shops being closed in the real world. Thus, especially for small and medium-sized companies, the take-up of e-commerce should be promoted and fostered. The OECD has provided interesting examples and information on this topic (OECD, 2019).

2.5. Potential new data, analysis and monitoring tools

As mentioned in the previous section, potential for improvement remains in the processes related to product standardisation, product testing and risk-based controls. A potential new study that identifies the bottlenecks of these issues and presents best-practice strategies could serve as a basis to identify the state of play and provide advice on further improvements.

Furthermore, waiting times at BCPs/CCPs remain an issue. During the Covid-19 pandemic, the European Commission issued instructions to provide so called 'green lanes' along its TEN-T Core corridor. Green lanes are a coordinated logistic strategy between CEFTA parties and between CEFTA parties and EU member states to prioritise the shipment of essential goods at BCPs/CCPs. SEED, a software for inter-agency communication used by customs and agencies allows the exchange even before a truck has arrived at the BCPs/CCPs. Since the green lanes have been in place, the Transport Community publishes the average waiting time at the different crossings. Thus, the extended use of SEED and the collection of waiting time could be used as an opportunity to collect additional data and identify bottlenecks in the post-pandemic era. The scope of data collection could be extended to identify varying processing times of different product groups.

Furthermore, in order to gain a deeper understanding of trade flows between economies and the structure of regional and global value chains, the collection of input-output tables based on EU standards is essential. This data allows, for example, to exhibit trade linkages between different sectors of different economies. As outlined by Reiter and Stehrer (2018), several data gaps remain. Thus, statistical agencies should aim at aligning standards to allow for a comprehensive analysis of interdependencies and value chains.

Due to the globalisation of economies, data collection on trade activities has progressed substantially in the last decades, and CEFTA economies have made progress in the adop-

tion of EU's statistical standards. In order to better evaluate the impact of the implemented measure under the MAP REA, the participation in regional value chains could be monitored based on input-output statistics once collected comprehensively by all economies.

In the second policy outlook for competitiveness in SEE, the OECD (2018) has collected a series of trade indicators in cooperation with the WB6 economies. Such indicators included among others the extent of institutional coordination, monitoring of impact of trade measures and the development of institutional framework related to product standardisation, accreditation and SPS measures. These indicators could also be integrated in the monitoring process

Within the MAP REA fourth policy area of facilitation of free trade in services the CEFTA database on trade in services, FATS and FDI is already established and provides a sound database for monitoring of trade in services. This database could be extended by key data on electronic commerce e.g. available at Eurostat.

3. Investment component

3.1. Context

Foreign investment received by the Western Balkan economies has had a positive economic impact so far. It supported the recovery of exports after the global financial crisis and contributed to quality improvements in several sectors (Hunya et al, 2018). A survey³³ based on international firms operating in the Western Balkans conducted by Ilahi et al. (2019) highlights that international companies value the region's availability of cheap labour, its geographical location and tax environment. However, the survey suggests that major obstacles for international investors still remain. International firms in the region highlight that skills shortages and political stability are considered as the top two constraints for entrepreneurial activity. Issues related to the region's institutional framework, length of time spent in customs, unfair competition and transparency in rules and regulations are considered as pressing issues. Success in removing investment policy related constraints can be achieved relatively quickly if governments show the necessary dedication. Within the framework of the SEE 2020 strategy and MAP REA, the region has committed itself to tackle those issues in a collective effort.

Within the MAP REA Investment Pillar, the economies agreed on six objectives. The first three objectives (see details in section 3 of this chapter) directly aim at laying the regulatory ground for a common investment area. Their implementation is thus mainly dependent on the willingness and effectiveness of the coordinating governments. Furthermore, concrete steps towards implementing investment policies that are aligned with EU standards and international best practices can be monitored relatively easily by assessing new laws and regulation put in place. This is in contrast to the remaining three goals (promotion as investment destination, diversification of financial system and smart growth) which are very much dependent on other players such as the domestic private sector and international investors, as well as global economic conditions. While there is a crucial role for governments to take actions, the success of these measures can only be fully evaluated with a significant time lag.

In the subsequent analysis, the first three objectives identified within the MAP REA Investment Pillar are studied under the umbrella term of 'regulatory framework'. This is not only because of the close links, but also because certain path dependencies exist that affect potential success of other objectives. The fourth objective aims at developing and promoting the region as an 'investment destination'. The fifth and sixth objectives are embedded within the broader fields of 'smart growth' and 'access to finance' respectively. Subsequently, achievements and the general setting of these four broad categories are evaluated. Regulatory framework

As outlined in the 2019 MAP REA monitoring report (RCC, 2019a), developing and establishing a regional investment reform agenda (RIRA) is one of the main objectives of MAP REA's Investment Pillar. The RIRA has been developed and approved by Western Balkan governments in 2018 and provides a guideline for the process of harmonising investment policies with EU standards and international best practices. In order to implement the RIRA, economy-specific investment policy reform action plans (IRAP) have been defined and approved and are now in the implementation phase. Thus, the first objective of establishing a RIRA has already been accomplished.

³³ The survey respondents comprise 66 firms that operate in Albania, Bosnia and Herzegovina, The Republic of North Macedonia, Montenegro, and Serbia and about half participate in GVCs. The sample is biased towards large firms and should therefore be interpreted carefully.

The second objective requires that appropriate instruments to implement RIRA are formalised. As outlined in RCC (2019a), the World Bank provided support to propose five specific instruments including a Regional Investment Treaty, an additional chapter on investment in the CEFTA Agreement, a SEEIC ministerial decision on regional investment policy, regional standards for the negotiation of IIAs and a regional investment policy statement. Eventually, the Western Balkan economies agreed to employ regional standards for IIAs as an appropriate instrument. Progress has also been achieved in drafting a proposal for such regional standards. It is envisaged that the ministers will endorse and sign these standards during the next Ministerial Conference of the South East Europe Investment Committee.

The third objective related to the harmonisation and improvement of the regulatory framework is to implement and monitor the RIRA and the respective IRAPs. The policy actions are implemented by inter-institutional working groups in the respective economies. Progress of each action is monitored regularly and classified as either planned, in progress, completed or delayed. The state of implementation and its monitoring is presented to the RCC's SEEIC-CEFTA JWGI and verified by the SEEIC meeting.

Western Balkans as a unique investment destination

The fourth objective states that the WB region should be promoted as a unique investment destination. Western Balkans Investment Promotion Agencies are employed as an instrument to reach out to the international investment community. Recently, the region made efforts towards increasing the capacity of these agencies. Furthermore, the Western Balkan economies have identified priority sectors with the technical support of the World Bank. Automotive and light manufacturing have been identified as priority sectors for all Western Balkan economies except for Montenegro, which recognised tourism as its priority sector. Investment promotion agencies intend to particularly promote priority sectors (RCC, 2019a).

If measured by the stock of investment international investors own in the host economy, the six Western Balkan economies (WB6) perform well relative to their peers. As Hunya et al. (2018) highlight, the region attracts similar amounts of FDI as the EU Member States in Central and Eastern Europe (EU-CEE). In 2018, the inward FDI stock in WB6 amounted to 66 per cent of GDP compared to 50 per cent in EU-CEE economies. With 42 per cent in Bosnia and Herzegovina and almost 100 per cent in Montenegro (though, in Montenegro, a lot of foreign investment is geared towards the real estate sector), it is evident that there is also a great heterogeneity within the region (Adarov et al., 2019). Privatisations that occurred in the process of developing market economies have opened doors to international investors. In particular, foreign banks and telecom companies have established strong market positions in local markets. (Hunya et al., 2018)

In recent years, the region has also fared relatively well compared to its regional peers. While FDI inflows into EU-CEE remained unchanged on average, inflows into the Western Balkans rose by 28 per cent. This remarkable increase was mainly due to rising investor interest in Serbia and the Republic of North Macedonia. The process of privatising publicly owned companies has not come to a complete halt yet. Public stakes in the Trepça mines in Kosovo*, the aluminium smelter Aluminij and fuel trader Krajinapetrol in Bosnia and Herzegovina or the oil and gas company Albpetrol in Albania could become available to private investors (Adarov et al., 2019; Hunya et al., 2018).

It is not sufficient, however, to judge the attractiveness of an economy to international investors merely by the size of the owned stocks. This is particularly true because the statistics is biased towards sectors with high capital intensity such as real estates and manufacturing and could partly reflect the sectoral structure of an economy (Hunya et al., 2018).

Indeed, FDI entails different consequences for the domestic economy, depending on the destination sector. A well-developed manufacturing sector, for example, is considered as a

strong engine for economic growth. Stöllinger et al. (2013) highlight the sector's innovativeness, high productivity, the provision of relatively well-paid jobs and the strong linkages it creates within global value chains as well as other parts of the domestic economy.

The manufacturing base across the region is rather heterogeneous as different levels of industrialisation during the communist era are today also reflected in shares of FDI attributed towards different sectors (Hunya et al, 2018). Low shares of FDI in manufacturing are recorded in Kosovo* and Albania, while Bosnia and Herzegovina, the Republic of North Macedonia and Serbia attracted more investment in that sector. FDI inflows into Kosovo* are currently dominated by real estate activity which accounts for more than 80 per cent in 2018.

The Covid-19 pandemic has caused major disruptions of FDI activity and GVCs. Uncertainty, delays in approval procedures and the physical closure of businesses have significant consequences in the short and medium term. A first direct consequence of reduced economic activity will be a reduction in retained earnings which accounted for around 38% of FDI inflows in the region in 2019. FDI projects which are already in the implementation phase will also be partly delayed due to constrained economic activity, for example in the construction sector. Delays in approval procedures of greenfield investment and mergers and acquisitions have already been reported. In addition, planned FDI projects may be delayed or even cancelled. This is likely to increase the competition to attract international investors. (UNCTAD, 2020)

Lockdowns had an imminent effect on GVCs. The concept of just-in-time which is characterised by no or small storage facilities have aggravated the effect of bottlenecks caused by suppliers. Some observers have thus argued that the pandemic could give rise to re-shoring and near-shoring (UNCTAD, 2020). Re-shoring still remains an emerging trend and its potential also depends on the industry. Technological barriers limit the scope of full automation of production processes, for example in the textile industry, while it is more feasible in technical terms in the automobile industry (World Bank, 2020). GVCs in the automobile industry are also undergoing changes due to the shift towards the manufacturing of electric vehicles. Government support for the industry which was hit hard by the pandemic will be likely directed towards e-mobility due to environmental concerns and could therefore accelerate this ongoing process.

Self-sufficiency and independence of international suppliers have been particularly discussed in the context of supply of pharmaceuticals and medical equipment. While the local production of some goods seems sensible, a complete reversal is inefficient and can cause international tensions (Brekelmans and Poitiers, 2020).

Access to finance

The diversification of financial systems to boost investment is the objective number five of the Investment Pillar. So far, tangible progress was mostly limited to an analysis of potential reforms in the areas of credit deepening, development finance, non-banking financial products, capital market, financial infrastructure and Fintech. The World Bank (forthcoming) has also prepared a report which lays a part of the analytical basis for future common actions. Furthermore, in collaboration with the World Bank, practical guidelines for capital market development have been established based on the example of Serbia. These guidelines could then be replicated by the other Western Balkan economies. (RCC, 2019a)

Limited access to finance in the Western Balkans poses a serious constraint to entrepreneurial activity and has even deteriorated over time for some economies. In particular, high real interest rates, complex application procedures or high collateral requirements limit company's access to credit. The conditions are particularly problematic to small and medium-sized enterprises (SMEs) and firms that are young, not audited and located outside of major cities. (Moder and Bonifai, 2017)

These constraints are related to the structure of the prevailing financial system which is primarily bank-based. Although banking sectors have developed relatively quickly thanks to large FDI inflows into the financial sector, non-bank financial services remain underdeveloped (World Bank, 2017). Leasing and factoring remain underutilised alternatives to overdrafts and collateralised loans which are the top two sources for corporate finance in the region. Furthermore, financing through capital markets, such as equity finance or corporate bond issuance, remains small. As a result, the investor base remains small too, with only a few operating pension funds, insurance funds or investment funds. (World Bank, forthcoming)

Smart growth

Smart growth is stated as the objective number six. So far, progress has been limited although initiatives to e.g. link the private sector to universities exist (RCC, 2018a). Smart specialisation strategies, that is, identifying and developing priority/niche sectors, have so far only been established in Montenegro³⁴ and Serbia³⁵. As mentioned above, general priority sectors have been identified by all other economies.

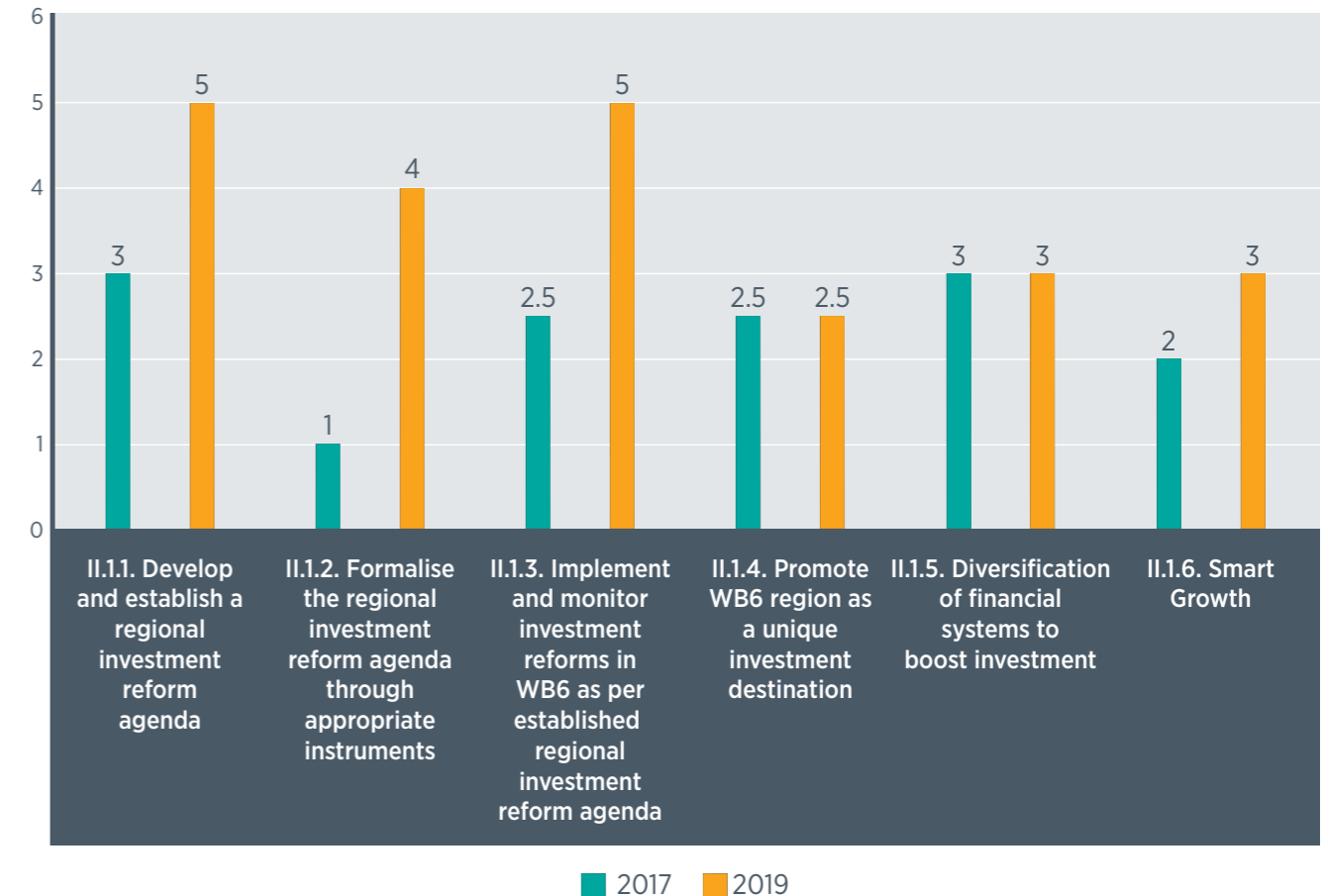
The objective of smart growth is closely linked to the international and domestic investment an economy receives. Several channels have been identified through which FDI activity can impact the host economy. The most prominent are employment and productivity growth, for example, due to knowledge spill-overs, export facilitation and diversification and the sourcing of goods from local suppliers (Echandi, Krajcovicova and Qiang, 2015). However, foreign investors have different motives and thus, FDIs can have heterogeneous effects. Efficiency seeking investment, that is investment driven by a comparative advantage of the host economy such as low labour costs, for example, tends to be greenfield and to produce more sophisticated goods and services. Domestic market-seeking investment, in contrast, entails more significant consequences for domestic markets, for example, due to increased competition.

As Stöllinger et al. (2013) highlight, economic activities in the manufacturing sector are strongly characterised by its integration into global value chains. The small and open EU-CEE economies have shown that strong participation in GVCs can accelerate export and income growth. So far, Western Balkan economies are not well integrated into Europe's GVCs (Ilahi et al., 2019). Furthermore, according to Hunya et al. (2018), FDI is underrepresented in higher-value tradable and high-tech sectors across the region. Within the manufacturing sector, FDI is also concentrated in low-value production.

³⁴ See <https://s3platform.jrc.ec.europa.eu/montenegro>

³⁵ See <https://s3platform.jrc.ec.europa.eu/serbia>

Figure 3.1 / Investment - State of Preparedness of MAP REA Implementation



Note: the scoring system indicates the stage of progress of the objectives as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (score 3); good level of preparation (score 4) and well advanced (score 5).

Source: MAP REA annual report 2019

3.2. Measurable indicators

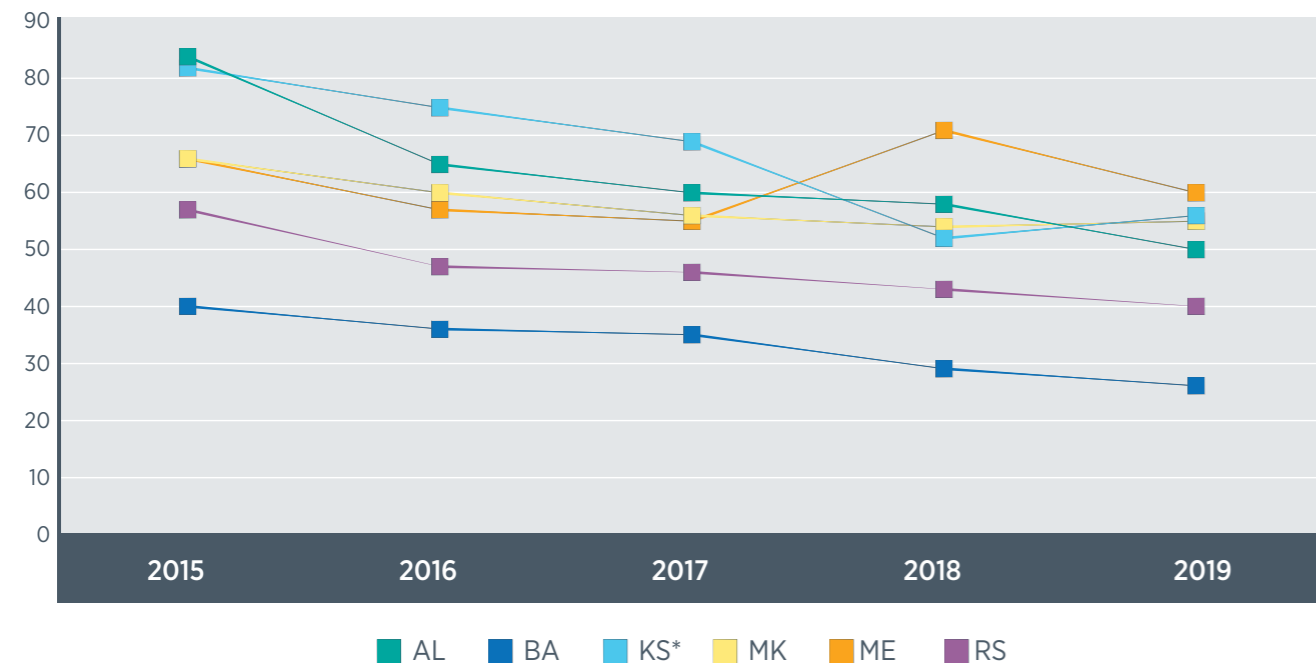
The MAP REA Investment Pillar's main policy areas encompass the harmonisation of the regulatory investment framework, the promotion of the region as an investment destination, achieving smart growth and improving access to a diversified financial system. Ultimately, to achieve these objectives, a positive investment environment is essential. Although it is generally difficult to cleanly measure the sentiment of the business climate, the Balkan Business Barometer (BBB) collects this type of information. In this survey, companies are asked if they consider the domestic economy as a good place to invest – see notes to Figure 3.1. Such indicators have to be interpreted carefully because they could be confounded with the population's general attitude towards the economic and political situation. Changes in the perception could arguably still be a good guide to measure a change in the business climate sentiment.

Between the launch of the MAP REA in 2017 and 2019, the share of firms who consider the domestic economy as 'mostly good' or 'great' place to invest has declined for all economies except Montenegro where the share increased by 5 percentage points. The 2017-2019 period appears to be the continuation of a negative trend since 2015 (the year when the BBB was first collected). While at least half of the firms in Montenegro, Kosovo*, the Republic

of North Macedonia and Albania consider their economy as mostly good or great place to invest, in Serbia, only 40 per cent approve this statement, and only 26 per cent in Bosnia and Herzegovina.

Overall, the downward trend in the investment climate sentiment seems to indicate that current economic opportunities remain below potential. This is also reflected in the fact that, in 2019, more than half of the surveyed firms in every economy argue that governments do not take business concerns into account at all or only a little bit³⁶. In Bosnia and Herzegovina, 92 per cent agree to that statement, 79 per cent in Serbia, and 78 in Albania. According to Figure 3.2, these are also the economies where the investment climate is the poorest.

Figure 3.2 / Share of firms who consider the domestic economy a 'mostly good' or 'great' place to invest



Note: Question: Do you believe that ECONOMY is a good place to invest?;

Answer possibilities: a) It is not good place to invest at all b) It is mostly not good place to invest c) Neither good nor bad place to invest d) It is mostly good place to invest e) It is great place to invest f) DK/refuse; business survey based on 200 interviews with companies per wave and economy (in 2015, 2016 all economies but Serbia had significantly less than 200 observations per wave).

Source: *Balkan Business Barometer 2019*.

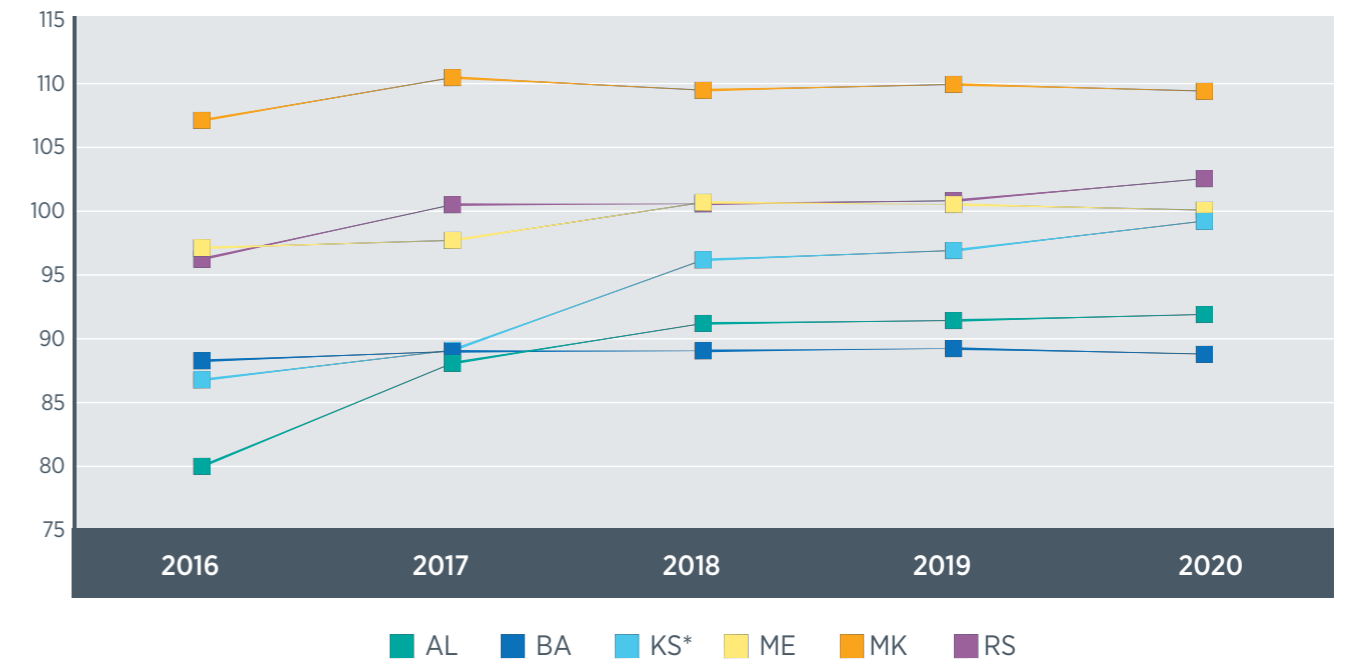
Regulatory framework

The Investment Pillar objectives one to three are all related to the harmonisation of the regulatory investment framework. One way to measure progress towards achieving the envisaged harmonisation is to compare the World Bank's Doing Business Indicator between the Western Balkans and the EU. Figure 3.3 shows the 'ease of doing business' indicator, which itself compares an economy's regulatory standards to a set of benchmark economies of best practice. Thus, the higher the score, the closer an economy is to this best-practice

³⁶ The underlying data stems from the BBB survey. Firms were asked "How much do you feel the Government of your economy takes into account the concerns of businesses?". Firms could choose among four answers: a) not at all, b) a little, c) quite a lot and d) very much.

benchmark. The indicator itself is an average of 10 sub-indicators³⁷ relevant to business activities. In Figure 3.3, the score of Western Balkan economies is compared to the average score of their regional peers Bulgaria, Croatia, Romania and Slovenia. Croatia and Slovenia are selected as a reference group due to their shared history as socialist republics in Yugoslavia. Furthermore, Croatia, Bulgaria and Romania were the most recent economies joining the EU and therefore represent a reference for the region's perspectives of EU membership. Moreover, the economies share the common feature of relatively small but open domestic markets.

Figure 3.3 / Ease of doing business indicator (BG, HR, RO, SI average = 100)



Source: *The World Bank*.

Between 2017 and 2020, the score of four Western Balkan economies improved, while it decreased slightly for two economies compared to their SEE peers. Improvements were strongest in Kosovo*, Albania, Montenegro and Serbia. For Kosovo*, the relative increase stems mainly from higher scores in resolving insolvency, getting electricity, getting credit and protecting minority investors. Albania saw improvements in getting electricity, getting credit and registering property. The increase for Montenegro results from improvements in getting electricity and dealing with construction permits. For Serbia, the increase in the overall score can be attributed to better regulation in the field of protecting minority investors and dealing with construction permits.

Bosnia and Herzegovina's score slightly decreased due to a worse rating in registering property. The Republic of North Macedonia has slightly moved away from best-practices in 2020 compared to 2017, due to a drop in the start-a-business score.

The ease of doing business indicator cannot perfectly measure progress in harmonising investment policy regulation. Still, it shows that different conditions for firms in the Western Balkan economies prevail. The Republic of North Macedonia has adopted a regulatory framework that generates similar and partly higher doing-business scores relative to the

³⁷ All 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

most recent EU-members. Serbia, Montenegro and Kosovo* appear to be on a convergence path in this respect, while potential for improvement remains particularly large in Albania and Bosnia and Herzegovina.

Western Balkans as a unique investment destination

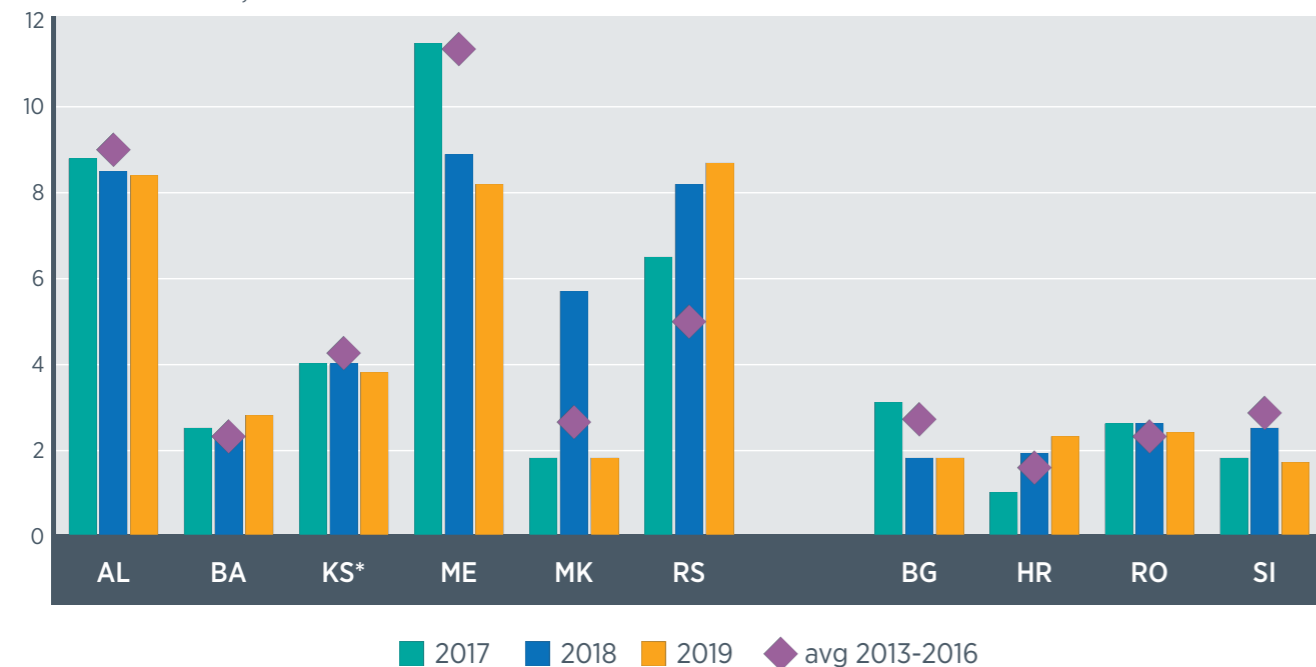
Figure 3.4 presents indicators that measure to what extent the WB6 have already been successful in promoting the region as a unique investment area. It is important to interpret regional FDI developments within the global context of declining FDI activity since 2016. Overall, FDI inflow into the Western Balkans increased between 2017 and 2019 by one third to EUR 6.5 bn, while it rose by around 10 per cent to 8.5 bn in the four SEE peers, but decreased slightly in EU-CEE.

Serbia is by far the largest recipient of FDI and also saw the biggest increase in absolute terms between 2017 and 2019. The annual FDI inflows amount to around 8 per cent as a share of GDP. Albania and Montenegro, although much lower in absolute terms, receive similar levels of FDI expressed in terms of GDP. Albania's and Montenegro's inflow increased in absolute terms to EUR 1.1 bn and EUR 0.43 bn respectively when comparing 2019 values to the average value in the period prior to 2017. The economy, however, has grown faster than FDI inflows, which leads to a decline in FDI relative to economic output. The relative decline is the largest in Montenegro. It should be noted that Montenegro experienced large FDI inflows beyond 10 per cent of GDP since 2005, which were mainly directed towards tourism and real estate sector (European Commission, 2020a). FDI inflow into the Republic of North Macedonia is volatile. After a large inflow in 2018 of almost 6 per cent of GDP, FDI amounted to less than 2 per cent in 2019, similar to 2017. FDI inflows into Kosovo* and Bosnia and Herzegovina were stable at around 4 and 2 per cent respectively between 2017 and 2019.

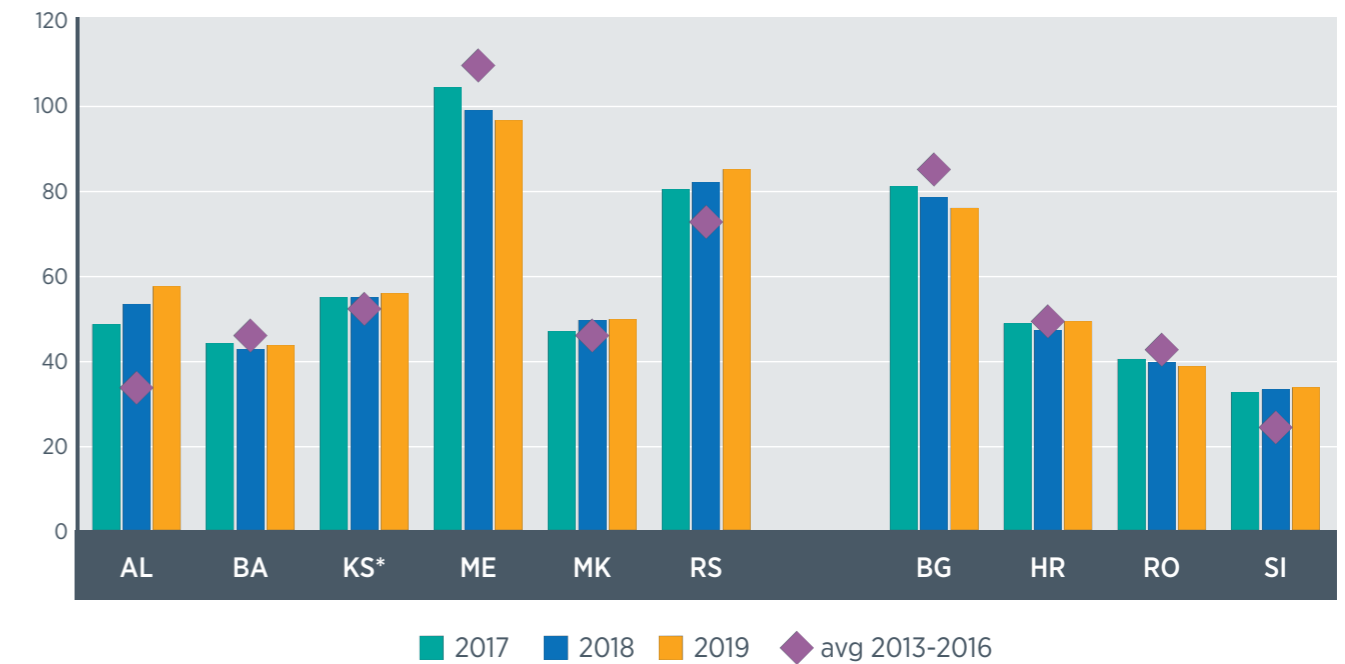
FDI inflows play a much more prominent role in the Western Balkan economies compared to the four SEE-peers today that did not exceed 3 per cent as a share of GDP in 2019. Current levels in WB6 economies are certainly comparable to developments in other SEE economies prior to the EU accession. Rates were particularly high in Bulgaria and Romania and ranged between 13 to 28 per cent and 5 to 10 per cent in the years before 2007.

Figure 3.4 / Inward FDI flow and stock, % of GDP

Inward FDI flow, % of GDP



Inward FDI stock, % of GDP



Source: *wiiw FDI database*.

The stock of FDI measured as a share of GDP is sizeable in all WB6 economies, higher than in Slovenia and Romania where the stock of FDI amounted to 34 and 39 per cent in 2019 respectively. The existing stock of FDI is the largest in Montenegro when measured relative to domestic economic activity. Foreign investors claim 97 per cent of GDP in FDIs in Montenegro, down from 105 per cent in 2017. FDI in Serbia was almost 10 percentage points higher than Bulgaria's, which stood at 85 per cent of GDP. The relative size of the FDI stock in Albania, Bosnia and Herzegovina, Kosovo* and the Republic of North Macedonia resembles the magnitude of Croatia (49 per cent) and ranges between 44 and 58 per cent of GDP.

FDI flows across the region do not only vary in size but also in their sectoral composition. In Albania, foreign investment was the most prominent in the energy sector and mining, which attracted 37 and 19 per cent respectively of all FDI between 2017 and 2019. In Bosnia and Herzegovina, in contrast, 35 and 27 per cent were directed towards the manufacturing and financial sector respectively between 2017 and 2018. In Kosovo*, FDI is strongly concentrated in the real estate sector which received 75 per cent of all FDI flows since 2017. Financial and insurance services represent the second largest sector of around 10 per cent. The Republic of North Macedonia has attracted substantial FDI in its manufacturing sectors between 2017 and 2018. Around half of FDI (51 per cent) was channelled towards firms operating in the manufacturing sector during that period. The manufacturing is also most prominent in Serbia and attracted 26 per cent of all FDI between 2017 and 2019. The wholesale and retail sector received similar amounts (24 per cent) of FDI during the same period.³⁸

To summarise, the increase in FDI in the Western Balkans is significant, but is mainly driven by large gains in Serbia. In 2019, all economies except Serbia and Bosnia and Herzegovina received FDI inflows below the 2013-2016 post-crisis average. Annual FDI inflows as a share of GDP remain relatively low for the Republic of North Macedonia, Bosnia and Herzegovina and Kosovo*. The sectoral allocation of FDI varies significantly across the economies. FDI in the dominant sectors in Albania and Kosovo*, energy and real estate respectively, contribute little to the creation of regional and global value chains. Bosnia and Herzegovina,

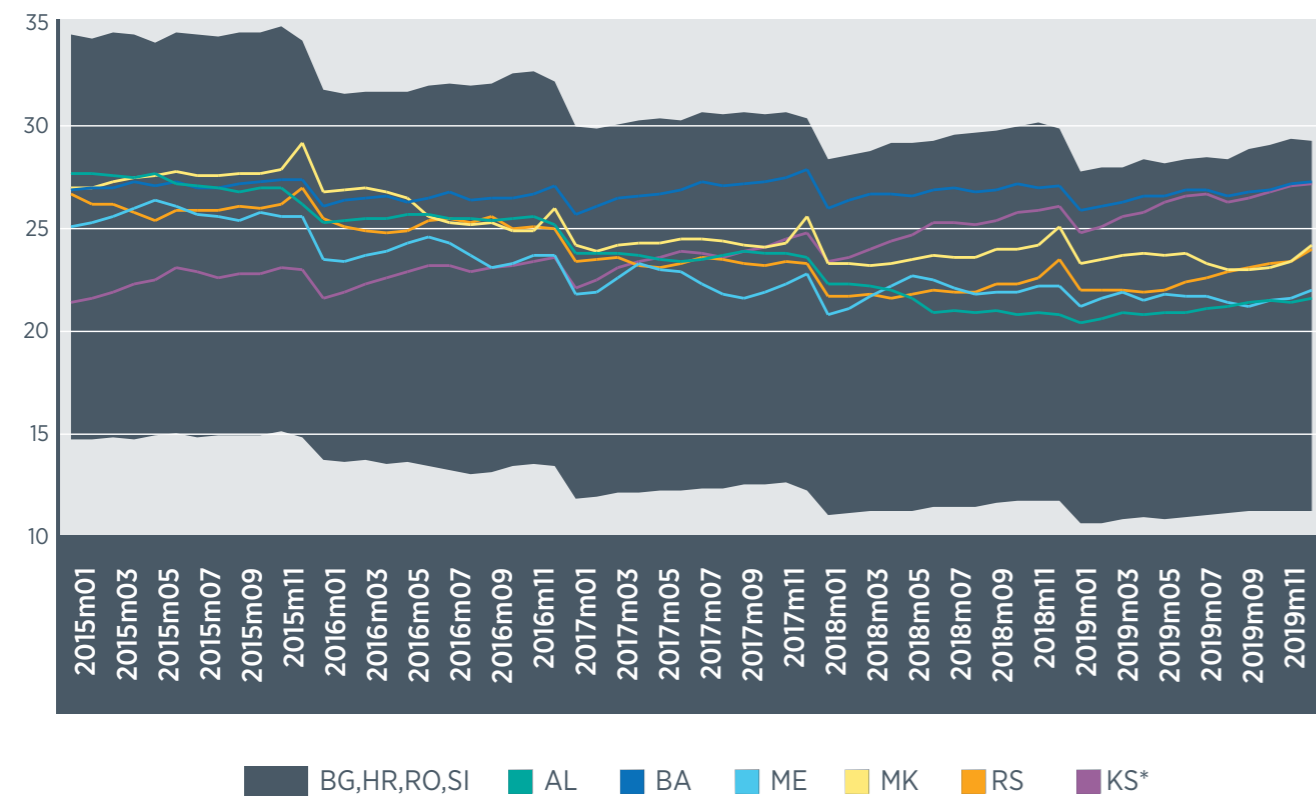
³⁸ For details, see Adarov et al (2019)

the Republic of North Macedonia and Serbia have attracted significant investment in the manufacturing sector which tends to have a greater impact on employment growth.

Access to finance

Progress towards the fifth objective of achieving better access to finance and a diversification of the financial system is analysed in Figure 3.5. It measures bank loans to non-financial corporations (NFCs) as a share of GDP³⁹. The indicator exhibits that the stock of loans to NFC in Western Balkan economies is similar to its SEE-peers. This is, however, only a rather recent phenomenon. Slovenia, Bulgaria and Croatia experienced significant adjustments during the post-crisis period. Loans to NFCs as a share of GDP dropped from 60 per cent in 2010 to 20 per cent in 2019 in Slovenia and by around 10 percentage points in Bulgaria and Croatia to 29 and 21 per cent respectively. Over the same period, the average share in WB6 gradually declined from 30 to 25 per cent. Little change can be observed within the region since 2017. A positive exception is Kosovo* which increased loans to NFCs from around 23 per cent in 2017 to 27 per cent in 2019. This results partly from improved credit terms, reforms to strengthen contract enforcement and a decrease of banks' risk aversion (World Bank, forthcoming).

Figure 3.5 / Bank loans to non-financial corporations, % of GDP



Note: grey area shows lower and upper limit of values for BG, HR, RO and SI

Source: *wiiw*

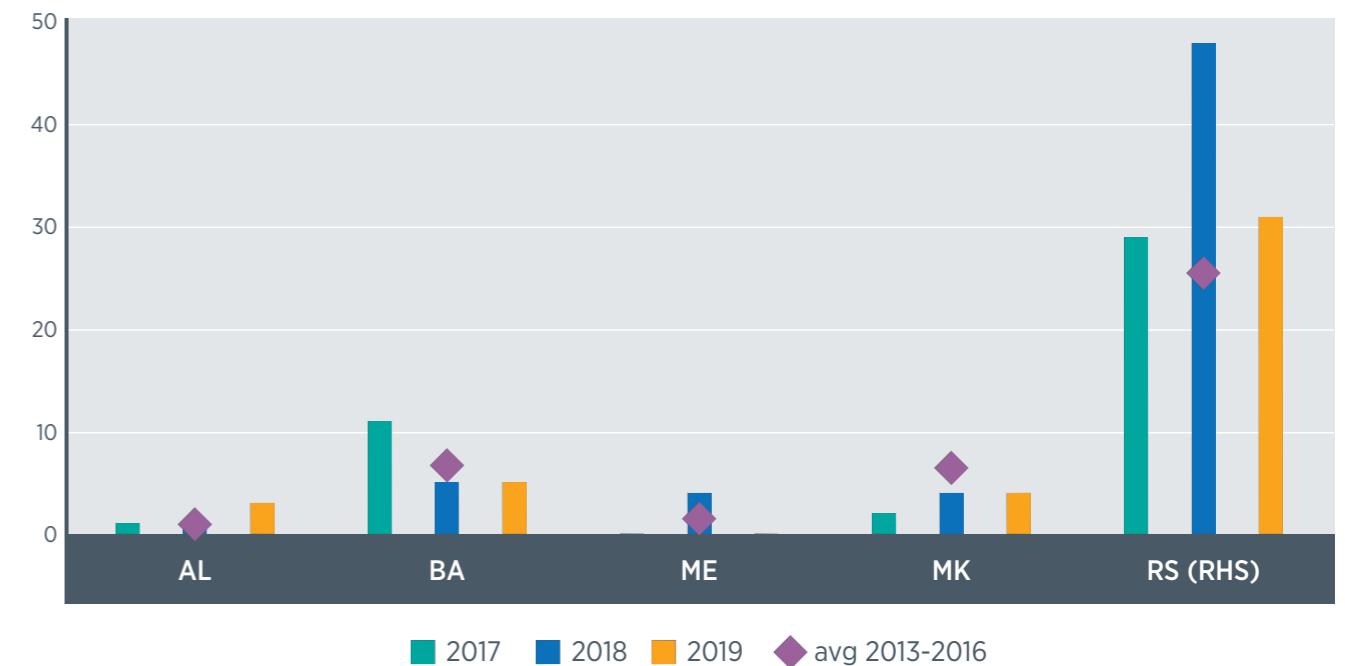
Smart growth

Developing smart growth strategies to achieve a competitive advantage is at the centre stage in the final objective. International investment in the priority sectors and the consequent integration into GVC indicate progress towards achieving the smart growth objective. Figures 3.6 and 3.7 provide this information respectively. In Figure 3.5, the indicator

³⁹ As highlighted in section 2.1 of this chapter, access of finance other than bank loans remains limited in the Western Balkans.

measures the number of greenfield projects announced for the respective priority sector in a given year. All economies except Montenegro have identified the automotive and light manufacturing sector as a priority area⁴⁰. Montenegro has recognised tourism as the most promising sector and has already developed a smart specialisation strategy with the support of the World Bank.

Figure 3.6 / Number of greenfield projects in priority sector



Note: priority sector for all economies but Montenegro: Manufacturing; Montenegro: Hotel and Tourism; no announcements for Kosovo*

Source: *fDiMarkets Database*

Since FDI is greatly biased towards capital intensive sectors such as real estate and manufacturing, Figure 3.5 presents the number of announced FDI greenfield projects instead. Between 2017 and 2019, all economies except for Bosnia and Herzegovina could increase the number of greenfield announcements. Announcements, however, are very volatile particularly for the smaller economies where the number is less than five on average. Announcements for greenfield projects in manufacturing are increasing for Serbia and amounted to 30 in 2019. This is around 60 per cent of total greenfield announcements for Serbia. International investors announced 21 greenfield projects between 2017 and 2019 for Bosnia and Herzegovina. Only five announcements (42 per cent of total greenfield projects) were made in 2018 and 2019 which is below the 2013-2016 average of around eight projects. International investors announced four manufacturing projects for the Republic of North Macedonia (44 per cent of total greenfield projects) which is less than half compared to the 2013-2016 average. Three announcements were made for the Albanian manufacturing sector (half of total greenfield projects). This can be considered as a positive signal, as there were no such announcements between 2013 and 2015. For Montenegro, where tourism is considered as the priority sector, around one third of all announced greenfield projects were made for the hotel and tourism sector. The number of projects in the priority sector, however, still remains low with only five announcements between 2017 and 2019.

For the smaller economies in the region, it remains difficult to attract large numbers of greenfield FDI projects. At the same time, attention of international investors for greenfield projects in the manufacturing sector in Serbia is steadily growing.

⁴⁰ Montenegro and Serbia have already defined smart specialisation strategies which go beyond priority sectors and encompass several sectors, see footnote [2] and [3].

Around half of all greenfield FDI announcements are related to the identified priority sector. To further strengthen the region's effort to successfully implement smart specialisation strategies, foreign investors which tend to be better integrated in global networks are likely to play a key role.

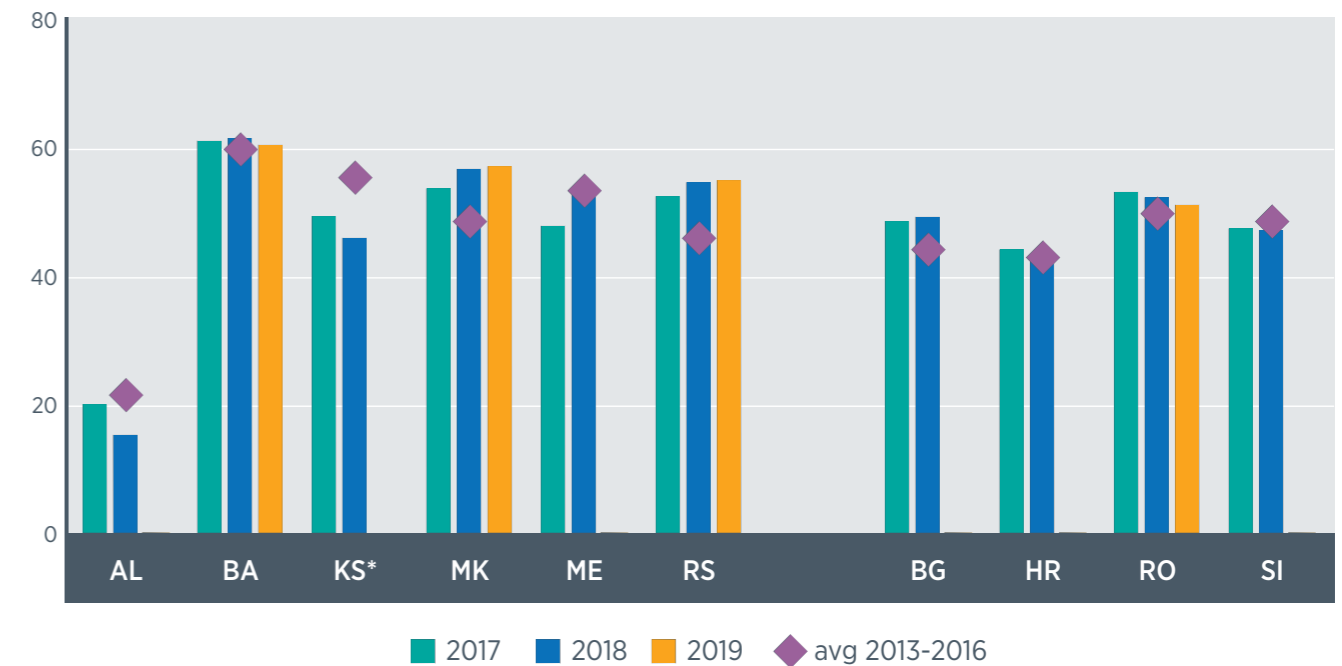
The experience of EU-CEE economies suggests that foreign investment fosters the integration into GVCs. The participation in global production networks in turn has the potential to support export and economic growth (Ilahi et al, 2019). The strategy of five of the WB6 to choose automotive and light manufacturing as a priority sector is also linked to the sector's potential to accelerate the integration into GVCs. Therefore, the second indicator to monitor the progress towards achieving smart growth uses exported intermediate goods as a proxy for participation in GVCs.

Figure 3.7 presents the value of intermediate goods as a share of exported goods. It exhibits that the WB6 economies export a similar share of intermediate goods as compared to their SEE-peers. For the economies presented in that figure, the share ranges between 40 and 60 per cent. Albania represents an outlier in this context as intermediate goods represented less than 20 per cent of its exports in goods in 2019, which can be partly explained by the large share of oil exports. The share for Kosovo* was 46 per cent in 2018 which is substantially lower than its post-crisis average of 57 per cent. Montenegro reported a share of 55 per cent, similar to its post-crisis average. Both Montenegro and Kosovo*, however, export a relatively low share of their overall domestically produced goods. Therefore, intermediate goods as a share of GDP represent only around 5 in 2018. Similarly, Albania's share of 1.4 per cent indicates little activity in GVCs. Compared to Croatia and Romania, whose exports of intermediate goods represent 15 and 19 per cent of domestic GDP respectively, GVCs in Albania, Kosovo* and Montenegro are also much less developed compared to their SEE-peers.

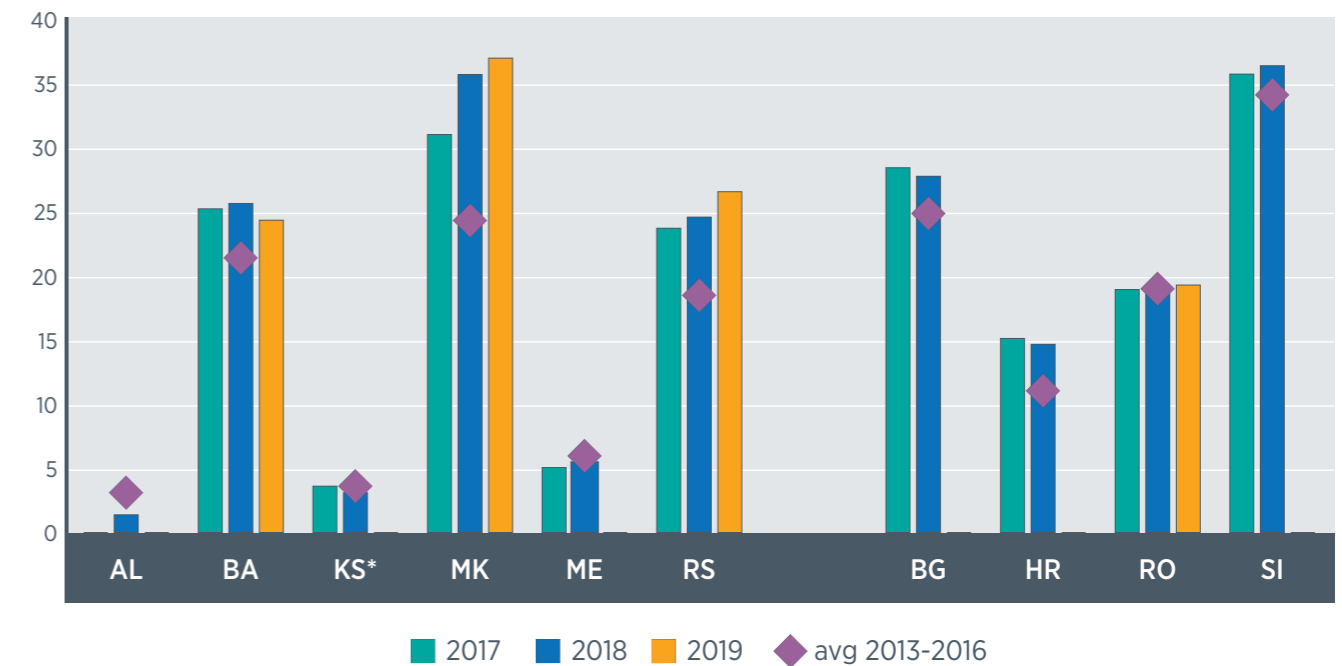
Intermediate goods as a share of exports slightly increased in Serbia and the Republic of North Macedonia between 2017 and 2019 to 55 and 57 per cent respectively. Little change can be observed for Bosnia and Herzegovina whose share remained stable at 60 per cent. The exports of intermediate goods represent around one quarter of Bosnia and Herzegovina's and Serbia's economy. For the Republic of North Macedonia, this fraction is sizeable and amounts to 36 per cent in 2018 similar to the level in Slovenia.

Figure 3.7 / Exports of intermediate goods

Exports of intermediate goods, % of goods exports



Exports of intermediate goods, % of GDP



Note: Intermediate goods are defined based on the following broad economic categories (BEC): 121 Food and beverages, processed, mainly for industry, 22 Industrial supplies not elsewhere specified, processed, 322 Fuels and lubricants, processed (other than motor spirit), 42 Parts and accessories of capital goods (except transport equipment), 53 Parts and accessories of transport equipment.

Data for all economies except Kosovo* is retrieved from Comtrade due to the availability of more recent observations; data for Kosovo* stems from Comext

Source: UN Comtrade, Comext, wiiw, own calculations

Similarly, changes in the export basket composition are uneven across the region. However, overall, exports in the Western Balkans are shifting from predominantly basic to medium-technology products. This shift in production hints at the impact of FDI on the composition of trade. (OECD, 2019)

3.3. State of play for each measure

In order to lay out a roadmap to achieve the six objectives within the MAP REA investment component, governments of the Western Balkans have also agreed on a set of actions for each of the objectives. Progress towards implementing the approved actions is regularly monitored e.g. in the Annual Reports on Implementation of the Multi-Annual Action Plan for a Regional Economic Area in the Western Balkans Six, which were produced for the years 2018 and 2019 so far. In this section, the state of play of each of those actions is evaluated and the level of progress is determined using four categories. Each action is considered as fully implemented, partially implemented, delayed, or not implemented. This analysis is mainly conducted using the available information from the 2019 Annual Report on the MAP REA.

The first of the six objectives is to develop and establish a regional investment reform agenda. Five actions were identified in the 2017 MAP REA. The first two actions which consist of the collection and mapping of investment data and the compilation of investment barriers and best practices were already achieved in 2018. Based on the analysis conducted under actions one and two, the RIRA has been developed and approved by the Western Balkan governments in 2018. The fourth and fifth actions require that IRAPs are formulated and adopted respectively. The IRAPs have been endorsed by the Western Balkan governments and are now in the implementation phase. Therefore, the first objective can be considered as fully implemented.

The second objective aims at formalising RIRA through appropriate instruments. As the first step, the World Bank was instructed to propose instruments that would help to implement the RIRA. The proposed instruments encompass a regional investment treaty, an additional chapter on investment in the CEFTA treaties, a SEEIC ministerial decision on regional investment policy, regional standards for the negotiation of IIAs and a regional investment policy statement. The World Bank's propositions were initially rejected at the RCC's SEEIC-CEFTA Joint Working Group on Investments workshop in May 2019. However, an agreement among the Western Balkan economies to employ regional standards for IIAs as an appropriate instrument has been reached after subsequent negotiations. Progress has also been achieved in drafting a proposal for such regional standards. It is envisaged that the ministers will endorse and sign these standards during the next Ministerial Conference of the South East Europe Investment Committee. As the negotiations on the right instruments for the RIRA implementation have been concluded, this objective can also be considered as fully implemented.

The third and the last objective related to the regulatory framework is the implementation and monitoring of the RIRA and the respective IRAPs. To prepare the implementation and monitoring of the RIRA, changes to domestic legislation are required. All Western Balkan economies have mandated public institutions with the required decision-making authority, established inter-institutional working groups (with the exception of Bosnia and Herzegovina), and the first RIRA monitoring and evaluation report has been prepared. In order to monitor progress, a tool has been developed in cooperation with the WBG. It aims at assessing progress in each of the IRAPs actions under the six identified reform topics⁴¹. Each action is classified as either planned, in progress, completed or delayed. The progress is regularly presented to the RCC's SEEIC-CEFTA JWGI and verified by the SEEIC meeting. The implemen-

41 1. Enhancing entry and establishment opportunities for investors, 2. Improving business establishment policies and procedures, 3. Aligning the legal frameworks for investment, including IIAs, with international good practice and EU standards 4. Strengthening investment retention mechanisms in the region, 5. Developing a regional investment promotion initiative, 6. Streamlining incentives, and improving their transparency and governance

tation and monitoring process of RIRA remains a continuous process throughout 2020. The Western Balkan economies have designed and implemented the necessary actions under the third objective. Thus, the third and the last objective within the investment regularity framework has been successfully accomplished.

Promoting the Western Balkan region as a unique investment destination is the fourth objective. Three actions have been identified to improve communication with international investors. First, the development of a joint investment promotion initiative, second, the initiation of outreach activities for core sectors, and the third action requires that Western Balkan economies also engage in outreach activities that promote the region as a whole as a unique investment destination.

With the support of the World Bank, the Western Balkan economies have identified priority sectors. Automotive and light manufacturing has been recognised by all economies except Montenegro, which declared tourism as its priority sector. The RCC's SEEIC-CEFTA Joint Working Group on Investments has already installed an operational platform for investment promotion, while outreach activities for the domestic priority sector and promoting of the Western Balkan region as a whole remain limited. Since five economies have identified the same priority sector, there is a potential conflict that could emerge as the economies are competing against each other to attract international investors. Actions remain incomplete and therefore, the fourth objective is only partially implemented so far.

The fifth objective within the Investment Pillar aims at the diversification of financial systems to boost investment. In 2017, a regional capital market development task force was established as the successful first step. The second activity requires an analysis of capital markets development to identify gaps and opportunities. The World Bank is currently undertaking an extensive analysis and the report is expected to be released in summer 2020. Based on this analysis, it should be assessed whether a regional strategy for the development of capital markets could be promising. Meanwhile, practical guidelines for capital markets development have been developed based on the example of the Serbian economy. The remaining economies can use these guidelines as a potential blueprint for their domestic financial sector. Thus, first steps have already been initiated, but considerable work remains in this field. Objective number five has been therefore partially implemented.

The final objective to achieve smart growth envisages the development of smart growth and innovation strategies to develop a competitive advantage in specific areas. So far, only Montenegro and Serbia have developed and adopted a smart specialisation strategy (S3). The remaining Western Balkan economies are currently developing S3 strategies with the technical support provided by DG JRC. With still significant gaps in the completion of objective six and an initial deadline set for 2018, the objective is evaluated to be delayed.

Table 2.1 / Scoring of progress in the investment component

Objective	Actions	Timeline	Assessment	
II.1.1. Develop and establish a regional investment reform agenda	a. Execute detailed mapping of foreign investments in the WB region, whereby economies provide access to FDI-relevant data (sectors, reinvestments, employment, etc.)	2017-2018	Fully implemented	
	b. Identify and compile a comprehensive inventory/database of key investment policy barriers and inhibitors, as well as best practices, through in-depth consultations with the private sector and review of existing analysis, with economies to provide relevant data on existing policies, laws, and regulations pertaining to investment, relevant system of incentives as well as legal and other comprehensive protection of the acquired rights of investors	2018	Fully implemented	
	c. Formulate a regional investment reform agenda by prioritising and sequencing issues in investment-pertinent policies to be addressed through a regional dialogue in short-term, medium-term and long-term timeframe	2018	Fully implemented	
	d. Formulate individual-economy action plans reflecting the regional investment reform agenda and streamlining the individual-economy reform efforts	2018	Fully implemented	
	e. Adopt individual economy action plans, reflecting the regional investment reform agenda and streamlining the individual-economy reform efforts	2018	Fully implemented	
	II.1.2. Formalise the regional investment reform agenda through appropriate instruments	a. Conduct analysis and propose options for appropriate instrument(s) acceptable to WB economies based on the content of the agreed regional investment reform agenda	2018	Fully implemented
b. Decide on the necessity, format, and scope of appropriate instrument(s) for implementation of the regional investment reform agenda		2018	Fully implemented	
c. Initiate and conclude negotiations on appropriate regional instrument(s), depending on the decision reached under b)		2018-2020	Fully implemented	

Objective	Actions	Timeline	Assessment	
II.1.3. Implement and monitor investment reforms in WB as per established regional investment reform agenda	a. Strengthen the regional dialogue on the agreed investment reform agenda under the RCC (SEE Investment Committee) by revising the Terms of Reference of Working Group on Investment accordingly	2017	Fully implemented	
	b. Mandate representation of the relevant public institutions with appropriate decision-making power in implementation of the agreed regional investment reform agenda	2017	Fully implemented	
	c. Establish individual-economy focus groups in charge of implementation of agreed investment reforms on individual-economy level	2018	Partially implemented	Delay
	d. Review the progress of implementation of the Regional Investment Reform Agenda and conduct impact assessment through a regular regional dialogue under the RCC-CEFTA Joint Working Group on Investment Policy and Promotion meetings and reports	2018-2020	Fully implemented	
	e. Report on the implementation and impact of the Regional Investment Reform Agenda through the RCC-CEFTA Joint Working Group on Investment Policy and Promotion and SEE Investment Committee Ministerial Platform and the WB summit	2018-2020	Fully implemented	
II.1.4. Promote WB region as a unique investment destination	a. Develop joint investment promotion initiative for WB priority sectors and establish an operational platform of investment promotion tools and techniques	2018	Fully implemented	
	b. Implement a small set of focused investment outreach activities in core sectors targeted by the SEE 2020 Strategy	2018-2020	Partially implemented due to COVID	
	c. Dedicate part of the individual activities of investment promotion agencies to promoting the region as a sound investment destination	2018-2020	Partially implemented	

Objective	Actions	Timeline	Assessment	
II.1.5. Diversification of financial systems to boost investment	a. As a first step in this area, create a regional Capital Market Development Task Force comprising policymakers and regulators to spearhead capital market development matters and enhance coordination on regulatory and supervisory regimes in the region and beyond (including coordination with the Vienna Initiative Working Group on Capital Markets Union)	2017	Fully implemented	
	b. Based on analysis on capital markets development, aimed at identifying gaps and opportunities for broader capital markets integration, assess the need for development of a regional strategy for capital markets development	2018-2020	Fully implemented	
II.1.6. Smart Growth	a. Establish regional dialogue and knowledge exchange on developing Smart growth strategies based on EU experience and support the development of smart specialisation research and innovation strategies in the WB to ensure strategic structural investments and to build competitive advantage i) with the active participation of business and research and innovation communities, engage with EU-wide smart growth approaches, notably the smart specialisation platforms, to develop and implement smart growth development strategies ii) with the active participation of business and research and innovation communities, engage with EU-wide work on digitalisation, to develop and implement digital growth strategies iii) develop easier access to finance for businesses, especially SMEs, start-ups and scale-ups	2018	Partially implemented	Delay

Source: RCC and own elaborations.

As a conclusion, the first three objectives related to the improvement and harmonisation of the investment regulatory framework have been fully implemented. For the remaining three objectives, actions have been taken but remain insufficient and are therefore considered as partially implemented. Thus, within the Investment pillar, no measure is considered as not implemented at all, while only the objectives related to the smart growth agenda appear to be lagging behind the initially envisaged timeline. Challenges remain in completing the remaining objectives on time. In the case of the objectives to diversify financial markets and generate smart growth, the responsible groups seek technical assistance from the World Bank and DG JRC respectively. This should accelerate progress in these fields.

3.4. Potential new measures, actions and objectives

The MAP REA 2017-2020 initiative has been a collection of profound steps towards promoting investment in the region. Further commitment and collective efforts are needed to be able to reap benefits of committed and undertaken reforms in the last three years. The succeeding MAP REA 2021-2024 should therefore continue to address the objectives identified in 2017-2020. Furthermore, the Western Balkan economies should also consider issues that have not been addressed explicitly so far.

Potential objectives for the MAP REA 2021-2024 should fulfil two essential criteria. First, it needs to be highly relevant to establish a common investment space and second, a clear advantage of defining common regional standards over unilateral solutions needs to be present.

Three out of the six objectives under the 2017-2020 investment pillar are related to the regulatory framework. Indeed, according to the 2019 Global Investment and Competition Survey (World Bank, 2020a), the legal and regulatory environment is ranked to be the third most critical factor to drive FDI decisions of international firms. For large firms (those with more than 250 employees) which disproportionately contribute to employment growth in host economies, the legal and regulatory environment tops the ranking of critical factors for FDI. The transparency of rules and regulation is also among the top five constraints to firms that participate in GVC (Ilahi et al, 2019).

On average, however, firms reported that political and macroeconomic stability ranks at the top in a company's decision to invest in specific economies (World Bank, 2020a)⁴². As Table 2.2 indicates, political and macroeconomic stability ranks high not only for FDI related investments, but also for firms engaged in the regional GVC (column 2) and all local entrepreneurs (columns 3 and 4).

Furthermore, the policy uncertainty is negatively associated with investment activity (World Bank, 2020a). The uncertainty for investors triggered by the global Covid-19 pandemic has probably increased the demand for host economies whose policy trajectories and therefore business environments are predictable. As indicated by Grieveson et al. (2020), the global Covid19-pandemic could shift investor's preferences more towards value chains whose links are located closer to the finishing site. The geographical proximity of the WB economies to the EU value chains, however, needs to be complemented by signals to continue the harmonisation process and adoption of best practices. Thus, further areas of regulatory deficiencies should be detected, and agreed standards should be implemented with best-practices benchmarks.

Table 1.2: Factors that determine investment decisions or affect business operations

	Factors critically important for FDI decisions	Top 5 constraints to GVC firms in WB6	Biggest obstacle for business in WB6	Problematic Factors for business operations and growth in WB6	Lowest ranks of WB6 economies in WEF Global competitiveness indicator
	Global Investment Competitiveness Survey (2019)	Ilahi et al (2019) survey	The World Bank Enterprise Survey (2019)	Balkan Business Barometer (2019)	WEF Global competitiveness indicator (2019)
1	Political stability	Talent/skills	Practices of the informal sector	Macroeconomic stability	Market size
2	Macroeconomic stability	Political stability	Political stability	Unfair competition	Innovation capability

⁴² The survey covers more than 2,400 foreign investors with operations in 10 middle-income economies: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam.

	Factors critically important for FDI decisions	Top 5 constraints to GVC firms in WB6	Biggest obstacle for business in WB6	Problematic Factors for business operations and growth in WB6	Lowest ranks of WB6 economies in WEF Global competitiveness indicator
3	Legal and regulatory environment	Customs	Taxes	Availability of labour/skills	Macroeconomic stability
4	Talent/skills	Unfair competition		Taxes	Product market
5	Low taxes	Transparency in rules and regulation			
6	Market size				

Note: Factors from the World Bank Enterprise Survey (2019) were ranked based on the average share of firms indicating the respective factor as the biggest obstacle across the WB economies.

Source: *Global investment competitiveness report 2019, The World Bank Enterprise Survey (2019), Ilahi et al. (2019) survey, Balkan Business Barometer 2019, WEF Global competitiveness indicator 2019.*

Regulatory framework

The development of a RIRA with economy specific plans and actions as well as common regional standards for IIAs have been important steps towards improving and harmonising investment policies. Potential, however, remains to extend the scope of harmonisation to further regulatory areas. For example, as indicated in section 2.2, the region lags behind regional peers in minority investor protection, the registration of property and contract enforcement. Moreover, the region needs to further strengthen its dispute prevention policies and further enhance business facilitation, for example by providing tools for corporations to collaborate with public authorities electronically⁴³.

It is important to note that regulations which have been commonly agreed upon also face a crucial implementation phase. The World Bank (2020) highlights that failures in the implementation of laws can represent severe obstacles to investors. This for example includes administrative complexity and/or bureaucratic discretion. The report further highlights that in particular the duration and complexity of investment approvals and price, technology or product restrictions are considered as a major obstacle for international investors. Therefore, it is crucial that economies benchmark their implementation of regulations, laws and procedures with international best practices. An evaluation scheme which transparently depicts assessment criteria could help to present not only the number of implemented policies but also the quality thereof.

Furthermore, regulations related to products and services which have been identified as major constraints by international investors (The World Bank, 2020a) could be addressed and steps taken to converge towards the EU standards. The UNCTAD investment policy review for South East Europe (2017) exhibits that dominant government monopolies and/or state-owned-enterprises (SOE) pose certain barriers to domestic and foreign investors in some sectors. SOE and the informal sector are likely to deter particularly the FDI that seek to enter the domestic market. Firms that seek FDI for efficiency reasons may have less reasons to shy away from domestic market practices as they tend to supply international markets.

⁴³ Many issues raised by the UNCTAD investment policy review related to the entry and establishment of businesses are currently addressed within the IRAPs. A final evaluation of the achieved reforms should reveal success stories but also potential for further improvement.

Investment promotion

First steps have been made towards building capacities in the promotion of the Western Balkans as a unique investment region. However, striking a balance between competition and cooperation of the Western Balkan economies is difficult as economies compete to attract new investment.

As Heilbron and Aranda Larrey (2020) argue, any promotion strategy should be based on economy specific development plans, investment policies and/or FDI strategies. Based on such decisions derived from government's vision imply the policy decisions related to the strategy of how to attract investment, regulate, and engage with foreign investors (World Bank, 2019). While all economies have identified a priority sector, so far, only Montenegro and Serbia have developed smart specialization strategies. Such strategies do not only include targeted sectors and products, but also active public policies that facilitate the economic strategies. This would allow investment promotion agencies (IPAs) to target investors better and promote sectors and companies. Such concepts could prove particularly useful in designing of post pandemic economic policies. Furthermore, they could also alleviate some of the issues related to the competition for attracting new investors.

Furthermore, IPAs should receive sufficient financial and political support to establish and use advertising instruments. The online platform to promote the region as an investment destination could be further expanded to provide more detailed information. A collective report by WAIPA and the WEF (2019), for example, suggests sharing of information on available buildings and sites using GIS technology (shows statistics of demographics, industries for different geographic regions), publication of all fees, procedures to start business etc.

Smart Growth

The barriers to affordable loans hold back particularly small corporates that lack a banking history and/or collateral. While the objective of financial sector deepening and diversification is also at the heart of the MAP REA, reforms take time to materialise due to only gradual adjustment in demand and supply factors. Firms still heavily depend on internal and partly informal financing. Thus, in order to support particularly young firms, institutions should be established to provide both financial and non-financial support. Support could be provided in the form of grants, public loans/funds, credit guarantees and a provision of low-cost business facilities. As the report by the World Bank (forthcoming) rightly points out, such policies need to be carefully designed to guarantee adequate and intended use of such resources.

Access to finance

A vibrant business sector with emerging and growing businesses creates investment opportunities for the international community. As indicated by a report of the European Investment Bank (EIB, 2016), SME demand for loans and equity can only be insufficiently met. Unfavourable interest rates, complex application procedures and high collateral were the main reasons why companies refrained from loan applications (World Bank, forthcoming).

The EIB report indicates that constraints on access to equity financing is twofold. First, while equity fund activity is present in some economies, "there is a great need for development of the venture capital ecosystem in the region, which would require grant funding". In addition, the report highlights that international equity investors tend to require high standards for investees in terms of management and reporting. Therefore, the objective should be a combination of financial sector development and supporting and consulting of promising enterprises on how to attract international investment.

The World Bank report (forthcoming) on financial sector deepening and diversification of the financial sector highlights that the region's financial sector is characterised by a low-

trust environment. In the context of improving confidence and trust in the Russian banking system, Fuchs (2002) argues that actions need to be taken along four dimensions: (1) improving the legal and accounting infrastructure; (2) improving the structure and performance of the banking system; (3) enhancing the effectiveness of bank regulation, bank restructuring, and liquidation; and (4) enhancing enterprise access to finance.

The World Bank (forthcoming) has put forward a series of measures to improve the legislative framework, enhance access to and diversification of financial instruments. Such measures are crucial for the trust-building process. Trust could be further improved by improving the provision of information on a step-by-step guide for loan applications which could be developed by a cooperation of locally operating banks. Furthermore, an offer of workshops and consultations for companies, particularly for new SMEs could reduce the number of firms that consider the application process to be complex. Such consultations should also provide information on potential governmental financial and non-financial support. This measure could be partly implemented by, or linked to the development of so called one-stop-shops to set up businesses. Initiatives to communicate cross-economy differences in terms of legislation and common practices could further incentivise intra-regional activity and hence regional integration.

Furthermore, common standards in the banking supervision and liquidation of financial institutes would improve the soundness of the financial system and reduce the risk of discretionary treatment which is often considered to be harmful to trust-building. Ahmad et al (2019) recognise the Memorandum of Cooperation signed between the EBA and the Western Balkan economies (except Kosovo*) as an important first step. The economies commit to an alignment of regulatory and supervisory standards to those existing in the EU. Furthermore, the authors suggest that a regional forum for cooperation in banking supervision and resolution could facilitate the sharing of common experience with EU authorities in supervision and resolution. Furthermore, it could reveal insights into the supervision of multi-national banks.

Potential new objectives

As highlighted in Table 2.2, both political and macroeconomic stability are the two most important factors that determine investor's FDI decisions. Actions and policies could be planned to a) help avoid economic shocks and b) help cushion them. While the fate of small open economies depends strongly on the global economic situation, ways should be identified to limit domestic risks. In contrast to other economies competing for investors, low and stable inflation rates are broadly achieved in the region. The prevention of economic shocks could include macroprudential measures that monitor bank lending activities and price developments e.g. in the real estate sector where not already in place.

The current pandemic and the global financial crisis exhibit that economies with strong ties to international GVC tend to have more extreme business cycles which often create long-lasting consequences such as insolvencies which consequently disrupt GVC. Measures such as the development of domestic institutions that support liquidity provision and short-time work could help to cushion detrimental effects.

3.5. Potential new data, analysis and monitoring tools

Obstacles and deficiencies in the design of institutions and regulations remain and the region still lags in some areas compared to its peers. As outlined in section 2.5, the legal framework of some economies could deter investors especially where protection rights and property registration are concerned. Therefore, economy-specific gaps should be identified, where poor regulations and practices deter investors or where harmonisation is deemed beneficial for removal of barriers to smooth intra-regional operations. This could be done

with the help of an online platform that lists the barriers and that publishes annually a progress report, that could also include evaluations of the economic effects of these barriers. Also, the portal could collect complaints and try to validate them.

Furthermore, in order to avoid the implementation of complex and unnecessarily bureaucratic practices, guidelines on how to, for example, introduce efficient electronic systems to communicate and cooperate with authorities could be established. Areas could be identified based on the ten categories defined in the Doing Business Indicator, such as investor protection and contract enforcement. Furthermore, a one-time module in the Balkan Business Barometer could also help to identify problematic areas. Also, this could include research on case studies of regional and international best practices.

In order to better attract and support international investors, in particular in conducting greenfield investments, IPAs need greater capacities and support from domestic authorities. Due to the pandemic, this issue has become even more important since competition for foreign investors is likely to increase in order to support a strong recovery from the economic repercussion. Due to the activity of international investors in GVC, information on existing supply networks is crucial. Therefore, setting up a database encompassing regional suppliers could be useful to facilitate network creation between investors and domestic companies. Such a database should be complemented with information on available resources at the local level. Resources do not only include land and buildings for offices and production with technical details, but also the available skills of the local labour force. Technical assistance to the creation of such databases and consequent provision of such information should be requested. This could be the basis for the establishment of regular matching events for investors and the region's municipalities.

Furthermore, high interest rates and capital flight in distressed times in the region remain prominent factors. An analysis that covers drivers of both aspects could gain valuable insights in further developing of regional financial markets. This includes both an analysis of institutions as well as individual behaviour of the population in the WB economies.

An indirect measure of success of a common investment area is the degree of participation in global and regional value chains. This is because international investors are often linked with regional suppliers. The better the integration of international investors into the regional economy, the greater the overall economic benefits. The regional integration of international corporations is crucial for knowledge spill-overs and transfer, the support for local foreign research and development activities and employment growth. Therefore, the dynamics and presences of regional value chains could be regularly evaluated based on a similar survey already conducted by Ilahi et al (2019). Furthermore, to gauge the dimension of intra-regional value chains and the region's participation in global value chains, bilateral data on intermediate goods should be collected.

In order to evaluate progress on the promotion of the region, information on promotion activity could be collected. This includes the frequency and details such as the economy profile of users who engage with the promotion website but also the number of meetings, and trade fair participation of IPA staff. This could then be augmented with data from the fDi Markets database on greenfield investment that allows creating of performance measures – also for certain industries.

Moreover, another monitoring tool to indirectly measure successful implementation of investment initiatives could be related to detailed loans data for various types of companies and sectors, as provided by the economies' central banks. If possible and if cooperation with the authorities allows, cross border/boundary financing could be included. Relating these figures to overall loan developments can exclude seasonality and cyclicity in the data. Given the high frequency of these indicators, a timely monitoring pace could be established, that also allows for public awareness raising and keeping policy makers accountable for timely reactions to guarantee e.g. aggregate demand, liquidity and macroeconomic stability, which is so important for investors in the region.

4. Mobility component

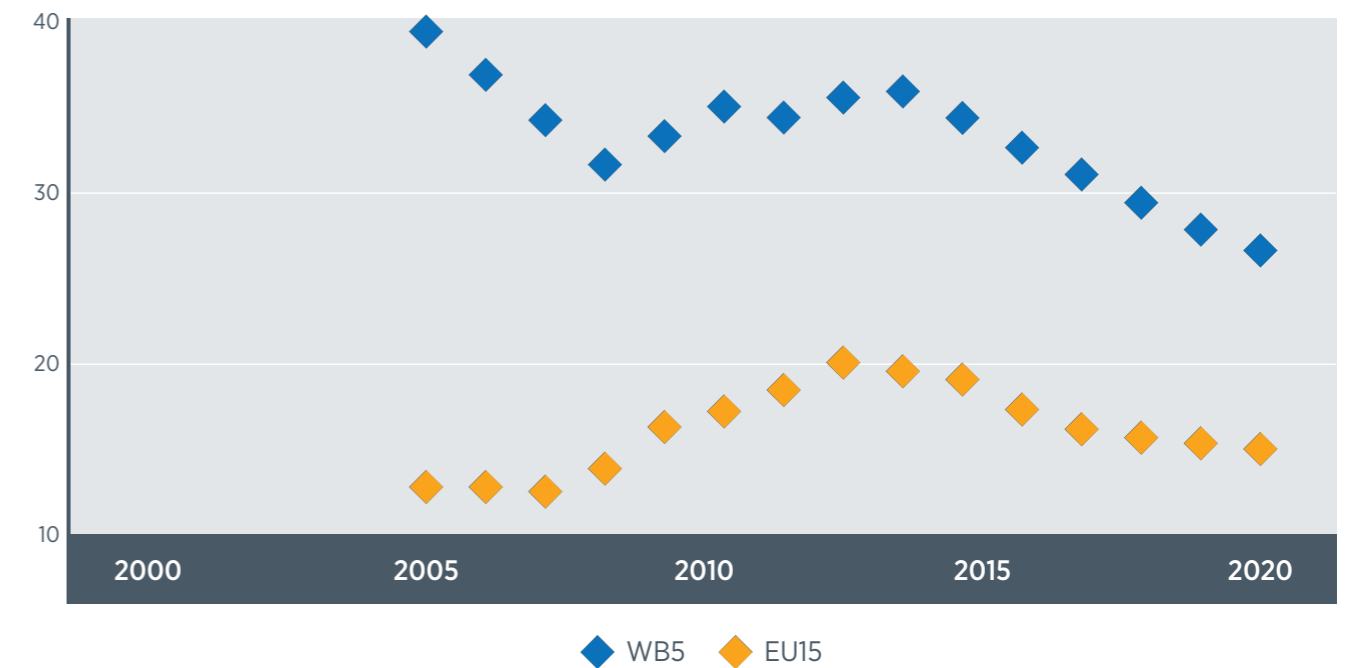
4.1. Context

Migration from the Western Balkan region is a persisting feature over time. The stock of migrants from the region is estimated at 4.6 million in 2019 (UN Statistics, 2019). Migration to the EU-28 and EFTA⁴⁴ has dominated and continues to dominate the outward mobility from the region (World Bank and wiiw, 2018). To put it differently, intra-regional mobility constitutes only one fourth of the total mobility in the Western Balkans.

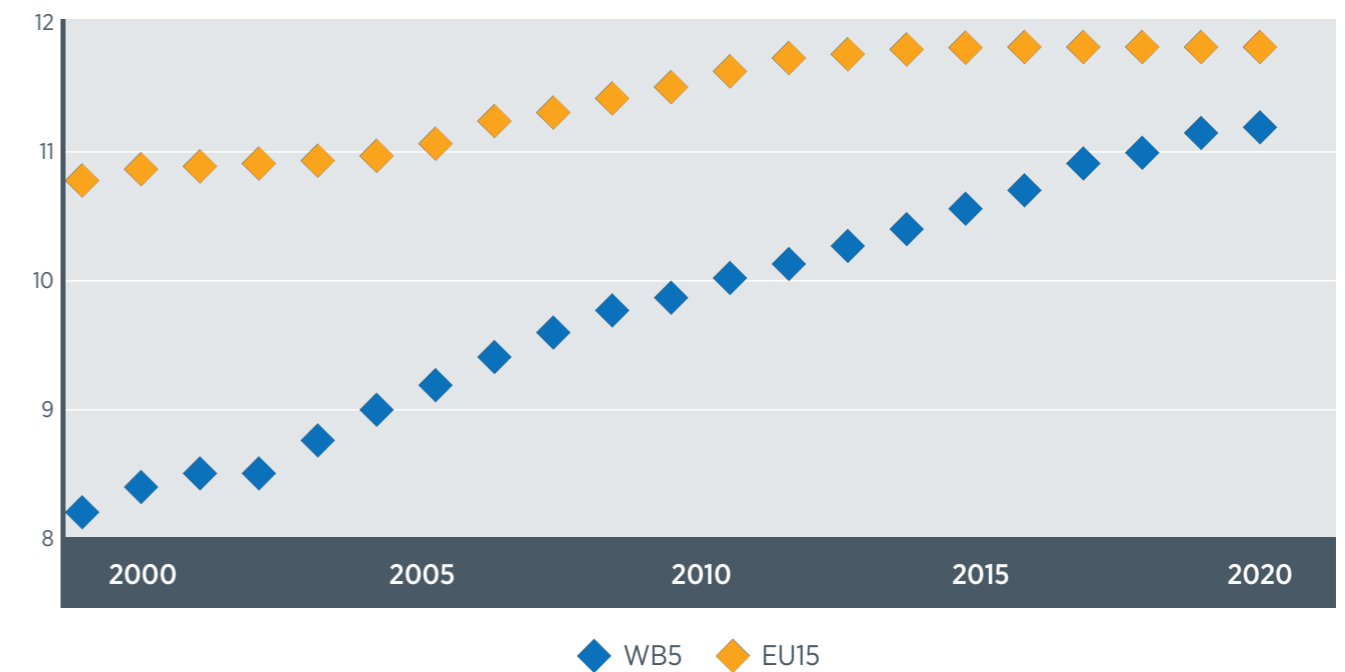
Over the last three decades, the motives for moving abroad were both economic and political ones. The transition process from centrally planned to market economy has been very protracted in the region. While economies of the region have made important steps forward, growth performance continues to be below potential - close to 2.6% in 2010-2019. New jobs have been generated - more than 900.000 jobs were created between 2012 and 2019 in WB6. However, this seems to be an insufficient level as long as unemployment rates in the WB economies hover at around 13.4% in 2019- two times higher than in Croatia or three times higher than in Bulgaria - and youth unemployment persists at 30.4% (World Bank and wiiw, 2020). Certainly, there is a polarisation as concerns new jobs, in great part being created mainly in low paid industries or labour-intensive sectors. Besides, new jobs are mainly taken up from those who have tertiary education. So, this might create some crowding out effect of the low educated by those with tertiary level of education, which typically occurs when job creation is weak.

Human capital in the region - at least measured in average years of schooling - has improved. Still, there is a high rate of labour underutilisation, (see Figure 4.1 below). However, businesses in the region find inadequate the skills of workforce acquired through the education system (Business Balkan Barometer, 2019). A high rate of labour underutilisation, combined with high gaps in unemployment rates and level of earnings in the WB6 in comparison with EU-15 - where mainly citizens from WB6 emigrate suggest that the push and pull factors of migration outside the region continue to remain strong, (see Figure 4.1).

Figure 4.1 Economic determinants to outward mobility and human capital: WB5 to EU-15
Labour underutilization rate: EU-15 vs WB5

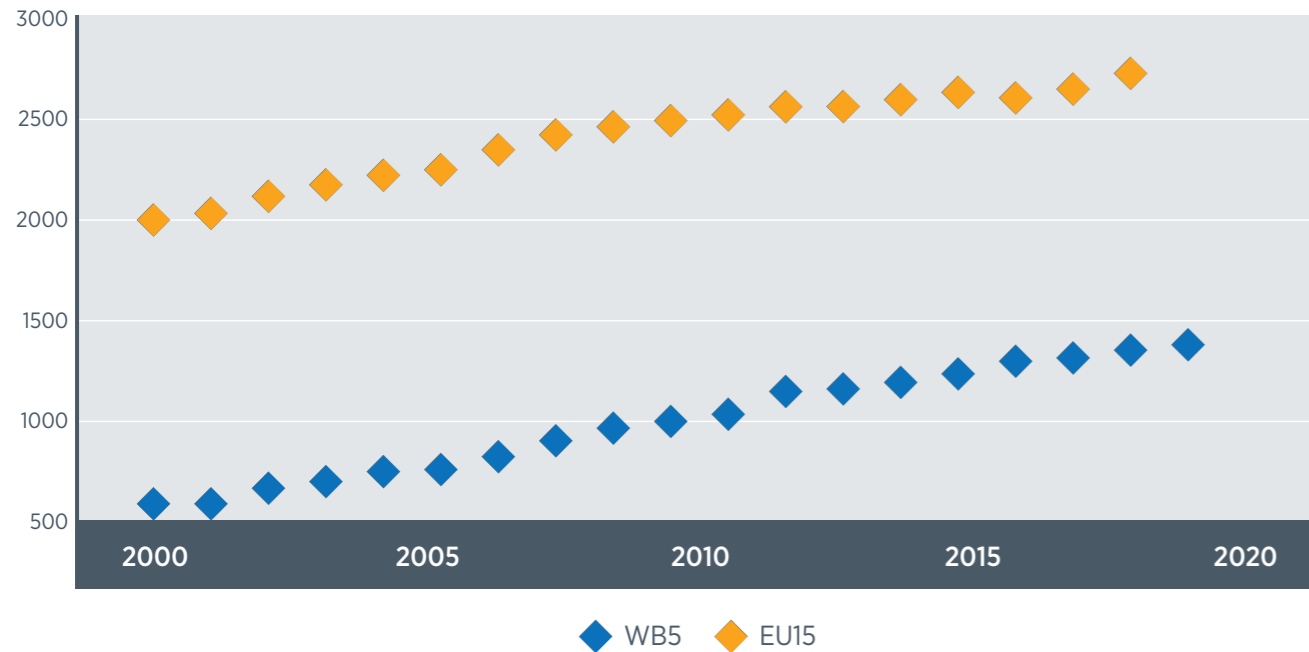


Average years of schooling: EU-15 vs WB6

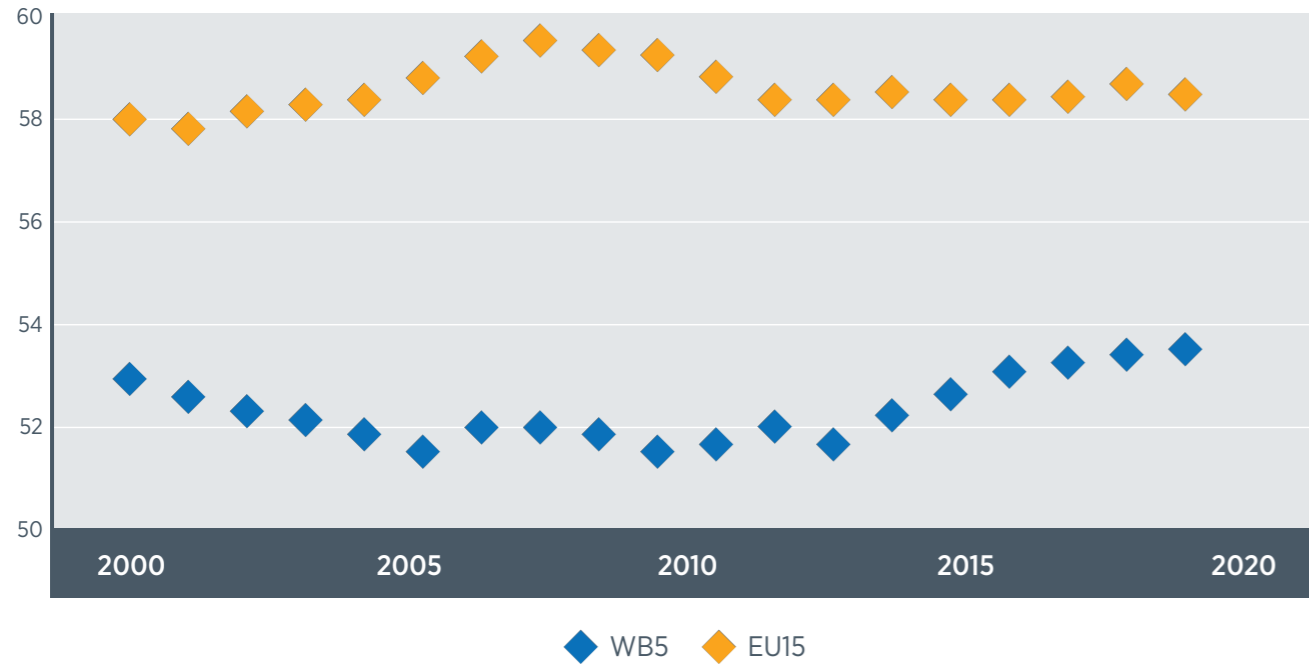


⁴⁴ European Free Trade Association (EFTA) economies included are Switzerland, Norway and Iceland.

Monthly wages, EUR pps: EU-15 vs WB6



Labour Force participation rate: EU-15 vs WB6



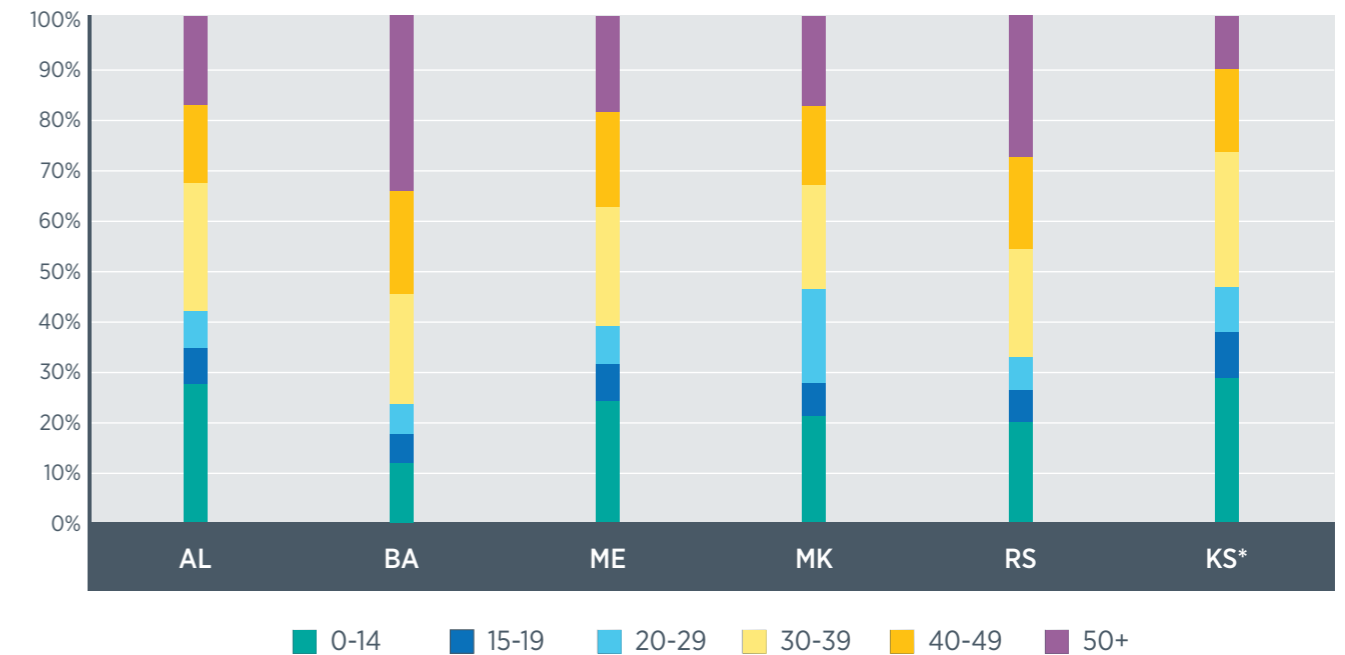
Source: ILO, wiiw, Jobs Gateway database. UNESCO. Note: No information is available on Kosovo* about labour underutilisation, hence WB5 is indicated instead of WB6.

Certainly, there are other sources of frustration: for companies which find it difficult to grow, but also for people in the region who look elsewhere to build their future. The push to leave the region is not only economically related. Over the last decade, the quality of the institutions in the region, distrust in public authorities, dissatisfaction with the general state of affairs, and uncertain life prospects have become important push factors of outward migration (RCC, 2019b; FES 2019, Gedeshi, 2019). Accordingly, outward migration from the region does not decelerate and the potential to out-migrate remains high. This is reflected in the

Balkan Barometer Public Opinion Survey which shows quite a high willingness of people to leave the region.

Emigrants from the region tend to belong to younger age cohorts (see Figure 4.2 below). Women make an important share (ranging between 40% (e.g. Albania) and 52 % (e.g. Serbia), according to wiiw and World Bank (2018). High skilled emigration has been sizable especially in Albania and Bosnia and Herzegovina - above 40% among those of age 25 and above.

Figure 4.2 Age structure of migrants from WB6 to EU-28, 2018



Source: Eurostat

Particularly, emigration of the highly skilled, mainly outside the region, has been characterized by a relatively high human capital flight - on a scale between 0 and 10, the human capital flight index of the economies in the region ranges between 5.2 and 8 (Fund for peace, 2020). Emigration of highly educated has been particularly pronounced among women (World Bank and wiiw, 2018).

Over the last decade, international mobility of students has been rising for a number of economies in the region, at a ratio that corresponds to 15% of students enrolled at universities at home, (UNESCO, 2019)⁴⁵.

Persistent emigration of the highly educated and the low likelihood of return jeopardises economic growth and development in the medium and long run. Rising students' and researchers' international mobility if not combined with incentives to attract, retain or bring back home the talents hampers human capital enhancement and prevents economies in the region from innovating.

WFD(2019) has estimated that annual educational costs because of emigration might range between EUR 960 million and EUR 1.2 billion in Serbia. Also, in Albania, such costs are estimated to vary between EUR 330 million and EUR 500 million. In Montenegro, the opportunity costs of emigration are estimated at EUR 78 million while in the Republic of North Macedonia they range between EUR 278 and EUR 443 million. In Bosnia and Herzegovina, such costs range between 644 and 806 EUR million. Overall, the region might be losing an investment in human capital between EUR 2.1 and EUR 2.8 billion on annual basis due to

⁴⁵ UNESCO Statistics <http://data.uis.unesco.org/>

emigration. Compared to the level of remittances in 2018 – estimated at the EUR 5.7 billion for the four economies above⁴⁶ – the net effect is still a considerable loss in financial terms. Therefore, new policy instruments have to be introduced with the scope of tackling the negative consequences of brain drain.

Accordingly, beneficial aspects of mobility have to be strengthened further and given that younger age cohorts including both men and women are affected, the age and gender dimension of mobility has to be taken into account and further emphasized. A FES (2019) study on youth mobility finds that international educational mobility has beneficial outcomes – studying abroad improves employment chances, knowledge transferability, networking or civic and political engagement of the persons involved – and needs to be encouraged further through mobility programs such as the ones implemented in the European Union, e.g. ERASMUS+.

Gender mainstreaming is a necessary gender equality tool, but this is not a top priority issue in the agenda of the national authorities yet (CSF, 2018). Even though in Europe, the number of women university graduates exceeds the number of men university graduates, women still remain underrepresented in higher paid professions. Also, the rate of high performing students in math that end up working as scientists and engineers is higher among men than among women. Therefore, the EU Commission in its Gender Equality Strategy 2020-2025⁴⁷ and Skills Agenda for Europe aims at addressing a number of challenging issues such as occupational segregation, stereotyping and gender gaps in education and training. The gender gap in the activity rate stood at 19% in 2019 in the WB economies –the activity rate of women is 49% in WB6 – compared to 8%, 9% and 11% in Bulgaria, Austria and Croatia respectively, with an activity rate among women at 69, 72 and 61% respectively (wiiw and World Bank 2020). The EU Commission aims at supporting actions which will strengthen gender equality in the Horizon Europe, such as the possibility to require a gender equality plan from applicants and an initiative to increase the number of women-led technology start-ups. Funding for gender and intersectional research is provided.⁴⁸ The agenda is extended also to accession economies and the EU applies gender empowerment with respect to EU enlargement policies as well, included in the context of Accession Negotiations and the Stabilisation and Association Process. Therefore, the WB economies might also benefit from a framework programme on research and innovation, Horizon Europe, which accounts for gender equality and aims at unveiling women's skills.

Human capital enhancement is paramount for spurring competitiveness and growth. Mobility of highly educated workers both within the region and to the EU – if regulated, facilitated and properly managed – is expected to improve the efficiency and competitiveness of the economies in the region and raise their potential growth. Accordingly, the MAP REA agenda on mobility aims at building up the foundations to human capital mobility. The agenda foresees the implementation of new reforms, introducing new policy measures – in harmonisation with the EU standards as well – and execution of a number of synchronized actions which firstly aim at removing any barriers to human capital mobility, secondly at boosting it further, and thirdly at restraining brain drain and instead forging brain gain and beneficial aspects of human capital mobility. The three main domains of the MAP REA proposed actions concerning mobility are:

Regional mobility of researchers and increased regional investment in research infrastructure

This objective is to enhance the mobility of researchers, firstly by removing legal and institutional barriers which obstruct the mobility of researchers within the region and to the EU, and secondly by developing mechanisms and measures that would increase and facilitate

46 Eurostat(2020).

47 Source: European Commission (2020b)

48 ibid

further the mobility of researchers, using also the existing mobility schemes such as the ones in the frame of H2020, Erasmus+ Marie Skłodowska-Curie actions. Furthermore, in this framework, one of the objectives is mapping of existing research infrastructure, identification of gaps and development of new regional excellence centres which would boost collaboration between science, technology and industry as well as provide a platform for education of young scientists and engineers.

A number of tangible results with respect to regional mobility of researchers and increased regional investment in research infrastructure are already evident. Brain circulation, networking and researchers' mobility are being supported by COST – the EU framework for transnational research collaboration in Europe. COST is assisting researchers from the region to engage in networks which are excellence driven, open and inclusive and follow a bottom-up approach (COST, 2019). Maria-Skłodowska-Curie is another H2020 programme which is assisting researchers in the region to have access to EU funding and boost their mobility and networking with the research community in the EU.

Indeed in 2018, with the support of the RCC, the Ministries responsible for Science of the WB economies came with a joint Initial Statement⁴⁹ on the Horizon Europe proposal. The Initial Statement, among other things, proposed that Marie Skłodowska-Curie Actions (MSCAs), apart from a number of programmes which support capacity building and young and early-career researcher mobility, should be extended to include other programmes such as 'returning grants' from "third economies" for beneficiaries of MSCA with the scope of boosting not only outward mobility, but also its return, as well as to foster the internationalisation of research culture.

The Western Balkan economies, except for Kosovo* and Bosnia and Herzegovina, are already a part of it and have been benefiting from the network infrastructure and connectivity in research and education offered by GEANT, a pan - European network which interconnects National Research and Education Networks in Europe (NRENs) and has been a vital element of e-infrastructure European strategy for almost 20 years. The GEANT connects more than 50 million users at 10,000 institutions across 43 European economies, (ESFRI, 2018a). This is in line with the work that the RCC Working Group on Open Science is doing especially as concerns assisting economies in the region to develop Open Science policies, such as ensuring synergies among national e-infrastructures and EU or global partners, (European Commission, 2019a).

Research infrastructures are essential for innovation. Mobility of researchers or training of post graduate students in collaboration with the industrial partners is considered as an effective approach to the transfer of knowledge (ESFRI, 2018b). Western Balkan economies still have a long way to go before strengthening the link of research infrastructures and industry. Despite being part of the European Strategy Forum on Research Infrastructure, except for Montenegro, Serbia and an entity in Bosnia and Herzegovina, economies of the WB have not finalized their roadmaps on research infrastructure yet (ESFRI, 2018a). Exceptionally, Montenegro is a good example, being the first economy in the region which has already published a roadmap of research infrastructure for 2015-2020 in 2015 and an updated version in June 2019.

Furthermore, the importance of research and innovation (R&I) for future development was recognized and the WB economies have been committed to launch a regional research cooperation hub to enable networking between researchers, mapping of regional research infrastructure and completion of regional open access protocols to research infrastructure in time for the 2020 summit in Zagreb. However, due to Covid-19, it has been postponed. Over the last decade, innovation performance in WB6 economies improved and innovation policy frameworks have continuously been updated and harmonized with the EU framework. The study of Matusiak and Kleibrink (2018) highlights that R&I governance being

49 RCC - <https://www.rcc.int/docs/439/initial-statement-on-the-horizon-europe-proposal-by-western-balkan-six/>

based on the idea of a linear innovation model which focuses on R&D as a source of innovation might be insufficient. Mechanisms that focus on non-R&D sources of innovation have to be expanded. Already, some activities of non-R&D organisations – e.g. innovation funds or business incubators – have been launched in Serbia, Albania and Montenegro and Bosnia and Herzegovina with the support of international funding. R&I systems in the economies of the WB6 are predominantly public and interaction with the private sector remains weak. Such misbalance of R&I in private and public sectors might affect the access to funding, competitiveness, and independent research. Furthermore, weak administrative capacities, lack of coordination among government agencies and capturing of public institutions by private interest are some of the main obstacles for bringing forward sustainable and coherent innovation policies (Matusiak and Kleibrink, 2018, page 27). A broader participation of all stakeholders – including also social partners – is deemed necessary for bringing forward an innovation agenda for the economies of the WB region. The cooperation of the business sector and social partners is crucial in the process of wage setting – a process that is determinant for competitiveness and productivity.

As already highlighted in Sphere (2018), the research capacities in the WB economies remain weak for the following reasons: firstly, a low level of national funding is allocated to research and development; secondly, investment in capacity building of research staff as well as research infrastructure is very low, and thirdly, collaboration and interaction between the research community, industries and the governments remain weak. This also emerged from the respective Economic Reform Programmes (ERP) 2020 of the WB6 economies which point out that all economies in the region have investments in research and development which are quite below the EU average. Among the WB economies, the levels range between 0.04% of GDP (Albania) up to 0.9 % of GDP (Serbia) against the ratio of 2% of EU investment in research and development⁵⁰. Therefore, a common bottleneck for economies in the region remains the lack of financial support at national level for expanding and upgrading research infrastructures and increasing capacity building with academics, professionals and research staff.

Predominantly, the EU financial support is the main source for being engaged in competitive research initiatives, cooperation and mobility within and outside of the region. The Support provided by H2020 programmes has been crucial for promoting research and innovation in the region (European Commission, 2020c). Since 2014, the H2020 funds allocated to Western Balkan research projects have tripled. Since 2016, participation of Western Balkan researchers has increased by 50%. More than 332 researchers from Western Balkan economies benefited from Marie Skłodowska-Curie actions.

Regional mobility of professionals

The main objective here is to reach a mutual recognition agreement of professional qualifications especially as concerns Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework; establish a database on Professional Qualifications and Mobility of Professionals, and build capacity on collection and establishment of such database. MAP REA (2019) reports that despite the negotiations on the Draft Agreement on Recognition of Professional Qualifications⁵¹ having been launched in December 2018; still no consensus was reached during the Poznan Summit in July 2019.

Consequently, further efforts would be required to come to such an agreement.

The first commitment was to compare the regulatory framework and legislation concerning the four preselected professional groups, which would then open the way to an automatic

⁵⁰ Other economies such as Bosnia and Herzegovina allocate 0.2% of GDP to R&D. Kosovo* allocates less than 0.1% of GDP to R&D. Montenegro is at 0,37% and North Macedonia at a rate of 0.44% of GDP. Serbia has the highest rate at 0.9% of GDP invested in R&D. Source: Economic Reform Programme (ERP) (2020) of respective economies.

⁵¹ RCC – Declaration of Recognition of Higher Education Qualifications in the Western Balkans.

or fast track recognition procedure for professional qualifications depending on how close the education and training requirements are to each other, as well as the EU legislation. Through this commitment, it was identified that the economies in the region have similar education and training requirements to each other that are in compliance with the EU concerning the duration of academic studies for doctors of medicine and dentists. Similarities in the education programmes support the idea of introducing an automatic recognition procedure for these professional groups equivalent to the existing automatic recognition procedure applied in the EU with respect to professionals from these groups originating from economies of WB6.

In contrast, it has been identified that for other preselected professional groups such as architects and civil engineers, there are variations in the education programmes across the economies of WB6. Alignment with the EU directive on education programme in architecture has been exceptionally implemented in Montenegro. Given the less harmonized education and training requirements for these categories of professionals, the idea of an automatic recognition procedure is less feasible. Therefore, a fast-track recognition procedure between the economies of WB for architects and civil engineers has been proposed. Nevertheless, this approach would imply further revisions of the legislation or recognition procedures for which the economies in the region seem to not have a unified position. This was also reflected during the 7th negotiations meeting, which took place in Brussels on the 14th June 2019 where the positions of the economies have been diverse – e.g. Albania, Bosnia and Herzegovina and the Republic of North Macedonia have been in favour of continuing and concluding negotiations under the framework of CEFTA; whereas Montenegro and Serbia have been in favour of aligning the educational and training programmes to the EU directive and continuing the negotiations within the CEFTA 2006 agreement in the form of an additional protocol; while Kosovo* was supportive of the idea of a standalone agreement which can serve as a model of effective cooperation among WB6. However, the 7th negotiations meeting did not bring to a final consensus among the participants under which framework to continue the negotiations.

The ERP (2020) of the respective WB economies argue that the regulations and procedures to recruit and promote university professors need to be revised. The mutual recognition of professional qualifications would require a major reform of the education system to ensure a comprehensive and harmonised system across the economies in the region. However, apart from the obstacles as concerns the regulatory framework, mobility of professionals from the region is driven by better jobs and earnings prospects outside the region. Higher wages in EU-15 or other destinations abroad have generated a high outflow particularly among health professionals (Table 3.1) from the region (Mara, 2019). ERP for the Republic of North Macedonia (2020) points out that 69% of university professors in the Republic of North Macedonia are willing to leave the economy for better jobs. As concerns health professionals among 220 doctors who graduate annually from the Faculty of Medicine, 173 apply for work abroad. Also, in Albania, emigration and brain drain have affected not only health professionals but also other categories such as engineers and IT specialists which are in shortage of supply, (Gedeshi and King, 2018). According to ERP Serbia (2020), the economy is facing a “labour force drain” for different categories of workers – including teachers and health professionals. As a consequence, the government introduced fiscal stimulus – e.g. 70% tax deduction for several years – for Serbian return migrants. ERP Kosovo* (2020) points out that skills gap is increasing because of the emigration of highly skilled professionals – especially of IT specialists and health professionals. Similarly, ERP Bosnia and Herzegovina (2020) emphasizes the emergence of labour shortages due to emigration, which is more acute among health professionals.

Regional mobility of students and highly skilled workers

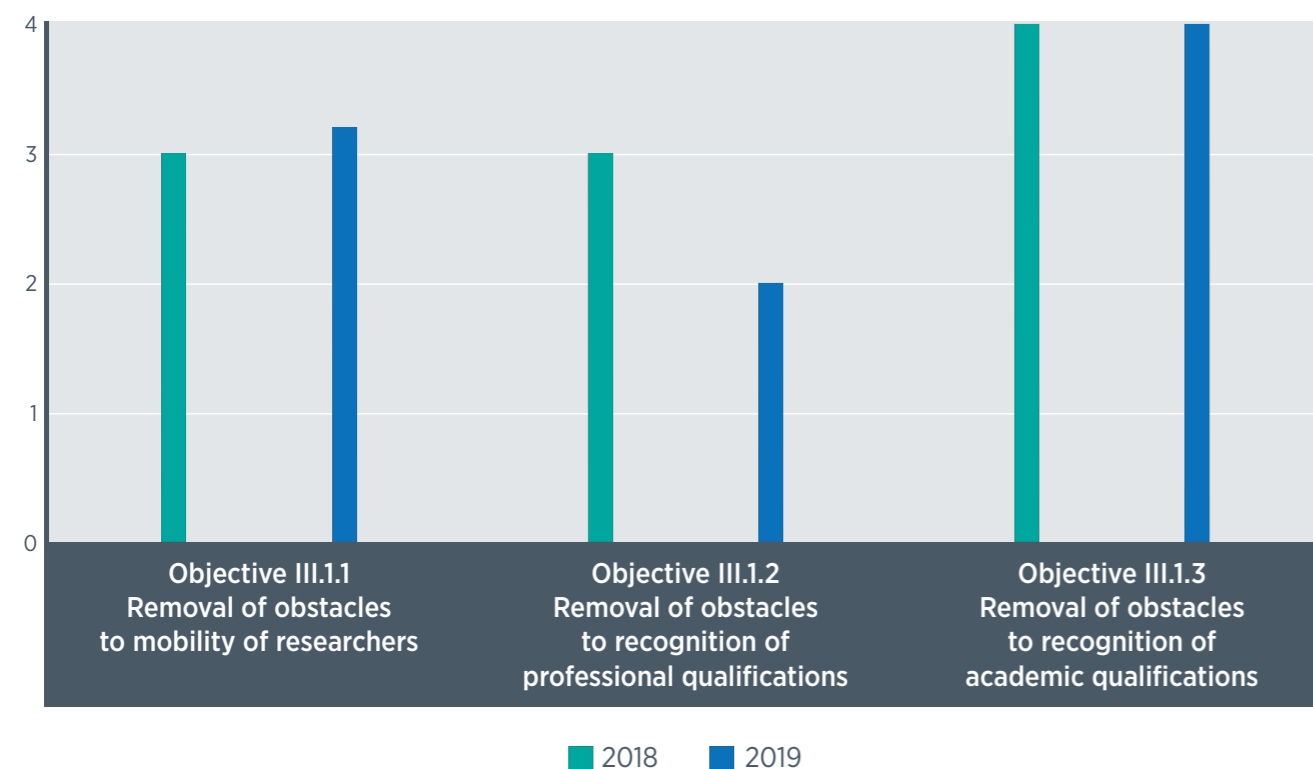
The objective is the mutual recognition of academic qualifications and specification of a number of criteria which would speed up and harmonize the recognition before the im-

plementation of the Bologna system and other EU norms, as well as develop a joint online system which would share information about higher education institutions, qualifications and decisions taken in this respect.

Educational mobility is quite often used as a bridge to long term migration. In this context, instead of enhancing human capital formation, educational mobility might generate brain drain. Accordingly, tailor made policy measures which encourage mobility of the highly skilled but also return migration afterwards, designed in cooperation between sending and receiving economies, have been called to be a part of the mobility action programmes. During the Croatian Presidency of the EU Council in the first half of 2020, brain drain was high on the agenda. In view of that, the CESAER (2020) (Strong and united voice of leading universities of science and technology) has called for more effective framework conditions for research talent circulation motivated by many barriers that researchers encounter concerning social security, pension rights, and migration. FES (2019) also recommends that incentive measures should be introduced with the scope of encouraging professionals and high skilled emigrants to return, and in parallel, other incentive measures that would encourage employers to hire professionals returning from abroad should complement them.

Overall, the MAP REA (2018, 2019) progress report clearly indicates that significant steps forward have been made as concerns the removal of barriers to mobility which can be achieved by identifying and removing legal barriers to the mobility of researchers, which falls into the first group of objectives on Mobility. MAP REA (2018, 2019) reports inform that despite the negotiations on the Draft Agreement on Recognition of Professional Qualifications having been launched in December 2018, a consensus has not been achieved yet. Whereas, as concerns the third domain of objectives – the removal of obstacles to the recognition of academic qualifications, the process has been stalling. MAP mobility scores for 2018-2019 are presented in Figure 4.3.

Figure 4.3 / Mobility - State of Preparedness of MAP REA Implementation



Note: the scoring system indicates the stage of progress of the objectives as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).

Source: MAP REA annual report 2019

4.2. Measurable indicators

The creation of human capital is essential for competitiveness of the economies in the Western Balkans. Mobility of highly educated workers, both within the region and between the region and the EU, is essential for improving the competitiveness of the economies of the region and spurring economic growth. Enhanced opportunities for educated workforce within the region may reduce brain-drain and lead to brain gain for WB economies. Intensification of intra-regional mobility requires not only the removal of obstacles to mobility of skilled people and professionals in the region, but also propelling better life and work prospects in the region.

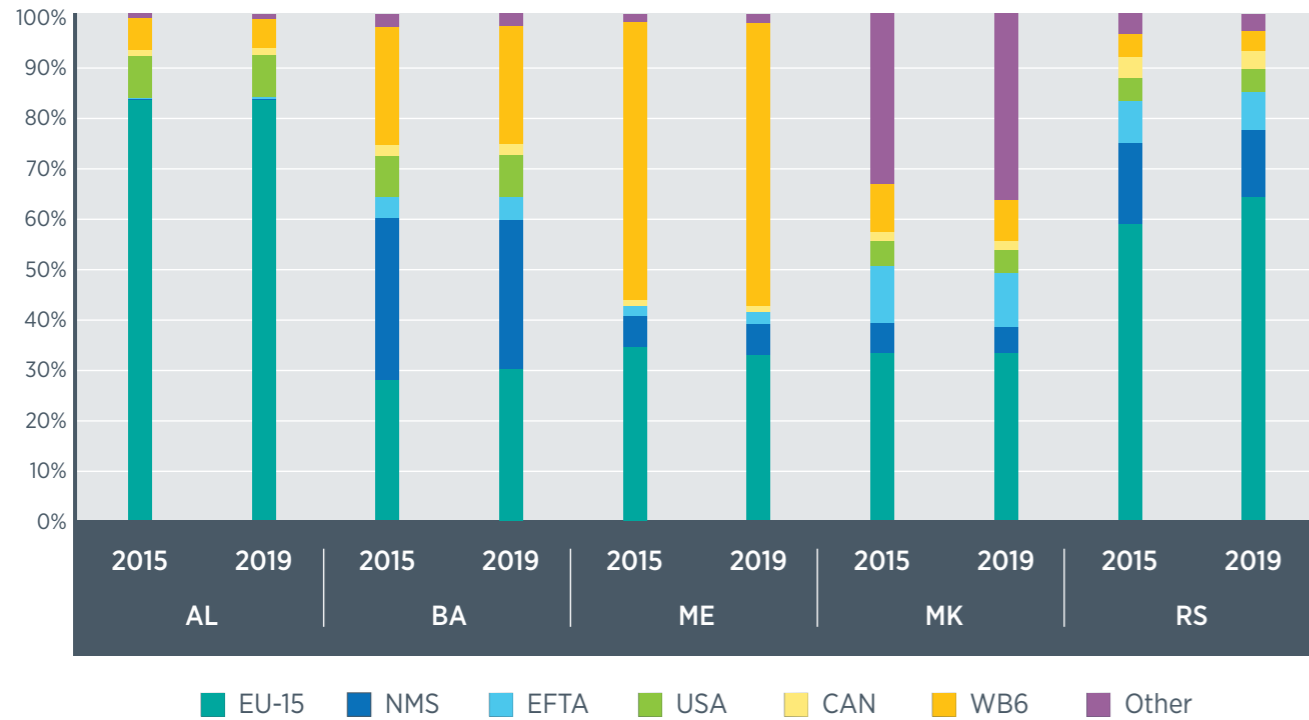
Measurable outcome indicators for the mobility component have been elaborated using a set of comprehensive indicators which reflect the size, changes of mobility over time and across the economies of the region. The intra and inter-regional mobility of students, researchers and different highly skilled professional groups, brain drain and human capital flight for specific groups of professionals, competition for attracting and retaining talents in the WB region, wage gaps for professionals and drivers of mobility, and access to mobility programmes of the EU are some of the indicators used in this context. The RCC Public Opinion Balkan Barometer (POBB), UN statistics, Eurostat statistics and UNESCO statistics are some of the main data sources which have been used to analyse the mobility of highly skilled, professionals and students from Western Balkan economies. The RCC POBB⁵² is a particularly useful source which allows analysing of potential intra-regional mobility counting for the education level of respondents.

Overall mobility from the region

Outward mobility from the Western Balkan economies is considerably high and persisting over time. The UN Statistics, as of July 2019, suggest that the stock of migrants from WB6 is estimated at around 4.6 million - a share of emigrants that amounts to over one fourth of the resident population in the region.

⁵² https://www.rcc.int/seeds/files/RCC_BalkanBarometer_PublicOpinion_2019.pdf/

Figure 4.4 / Overall mobility: main destinations of emigrants from the WB, 2015-2019

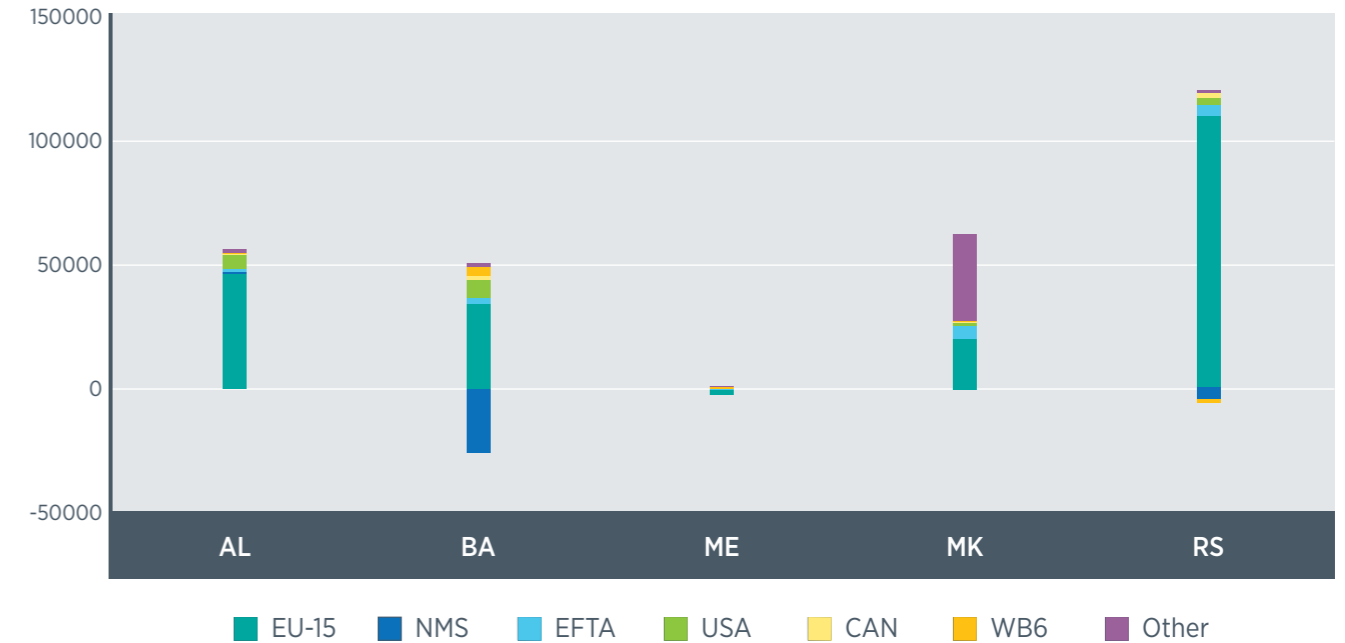


Source: UN Statistics (2019)⁵³, Data for Serbia includes Kosovo*. Note: AL (Albania), BA (Bosnia and Herzegovina), ME (Montenegro), MK (the Republic of North Macedonia), RS (Serbia). EU-15 includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden and the UK; NMS includes the group of economies joining the EU by 2004 onwards – Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Hungary, Romania, Slovenia, Slovakia; EFTA includes Norway, Switzerland and Iceland; WB6 includes Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, the Republic of North Macedonia and Serbia. CAN (Canada).

More than half of the emigrants from the region reside in one of the economies of the EU-15. The WB economies constitute an attractive destination for migration only for 14% of emigrants from the region. The mobility between 2015 and 2019 has been characterized by an outflow mainly directed to the EU-15 (77%), while less than 2% of recent emigrants moved to another economy within the region. Individual economies emigration statistics point out that for some economies, such as Bosnia and Herzegovina, emigration to Serbia has been relevant. For other economies, such as Serbia and the Republic of North Macedonia, emigration to Bosnia and Herzegovina and Montenegro reduced over the same period. Despite the high outward mobility from the region, intra-regional mobility remains quite low, see Figure 4.4-6.

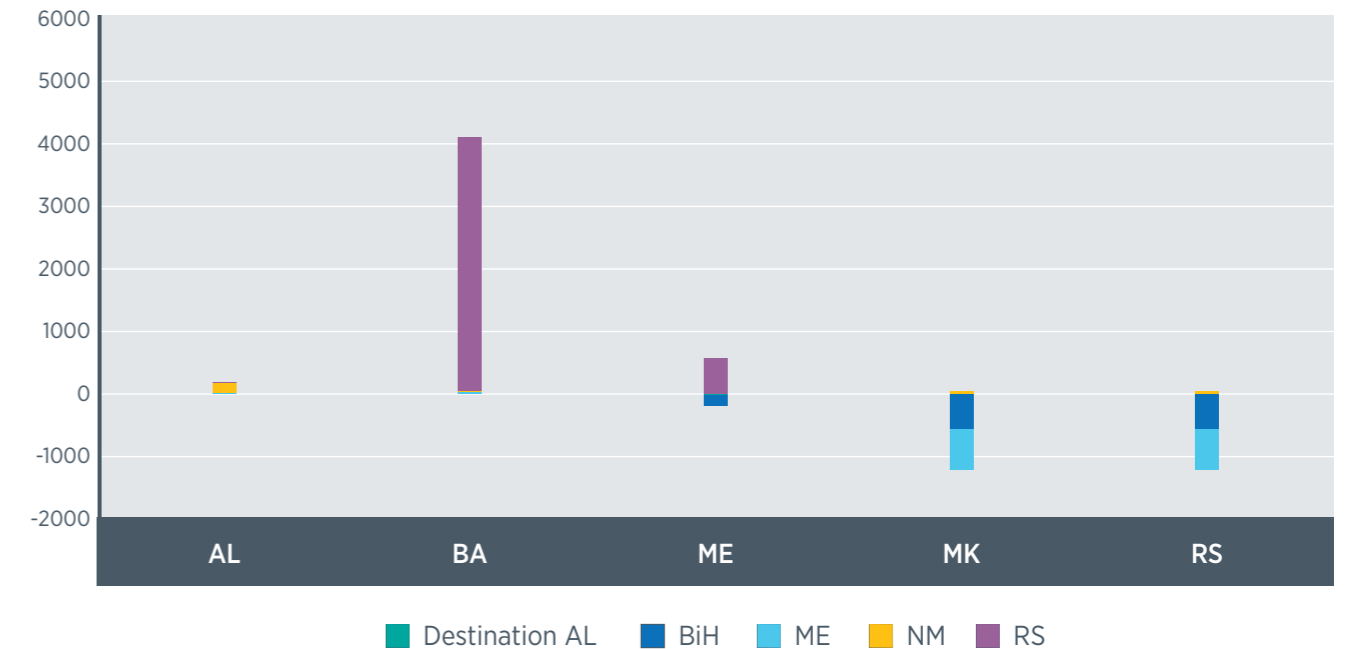
53 Suggested citation: United Nations, Department of Economic and Social Affairs, Population Division (2019). International Migrant Stock 2019 (United Nations database, POP/DB/MIG/Stock/Rev.2019).

Figure 4.5 / Net migration flows from WB6 by destination regions, 2015-2019



Source: UN Statistics (2019), Data for Serbia includes Kosovo*.

Figure 4.6 / WB5 intra-regional net migration, 2015-2019



Source: UN Statistics (2019), Data for Serbia includes Kosovo*.

Potential mobility of the highly skilled

Potential mobility of highly skilled residents in the region shows different patterns concerning inter and intra regional mobility, Figure 47-4.8. The latest PO BB results suggest that residents in the region with the tertiary level of education are more likely to consider moving abroad than moving to another economy within the region. Comparing the outcomes of 2018 and 2019, the PO BB indicates that the share of those who would prefer to move

abroad has slightly increased by 1.3 pp. up to 49% - suggesting that almost half of the highly educated interviewees would consider moving abroad. By contrast, only 5% would consider moving to one of the economies within the region, and their share declined in comparison to PO BB in 2018. Consequently, there is a much stronger preference among highly skilled to move abroad than within the region. However, to better grasp how likely it is that the person who showed a preference to move is actually taking any concrete actions to accomplish its intentions, the PO BB asked further questions in order to find out at what phase of preparations for migration the person might be.

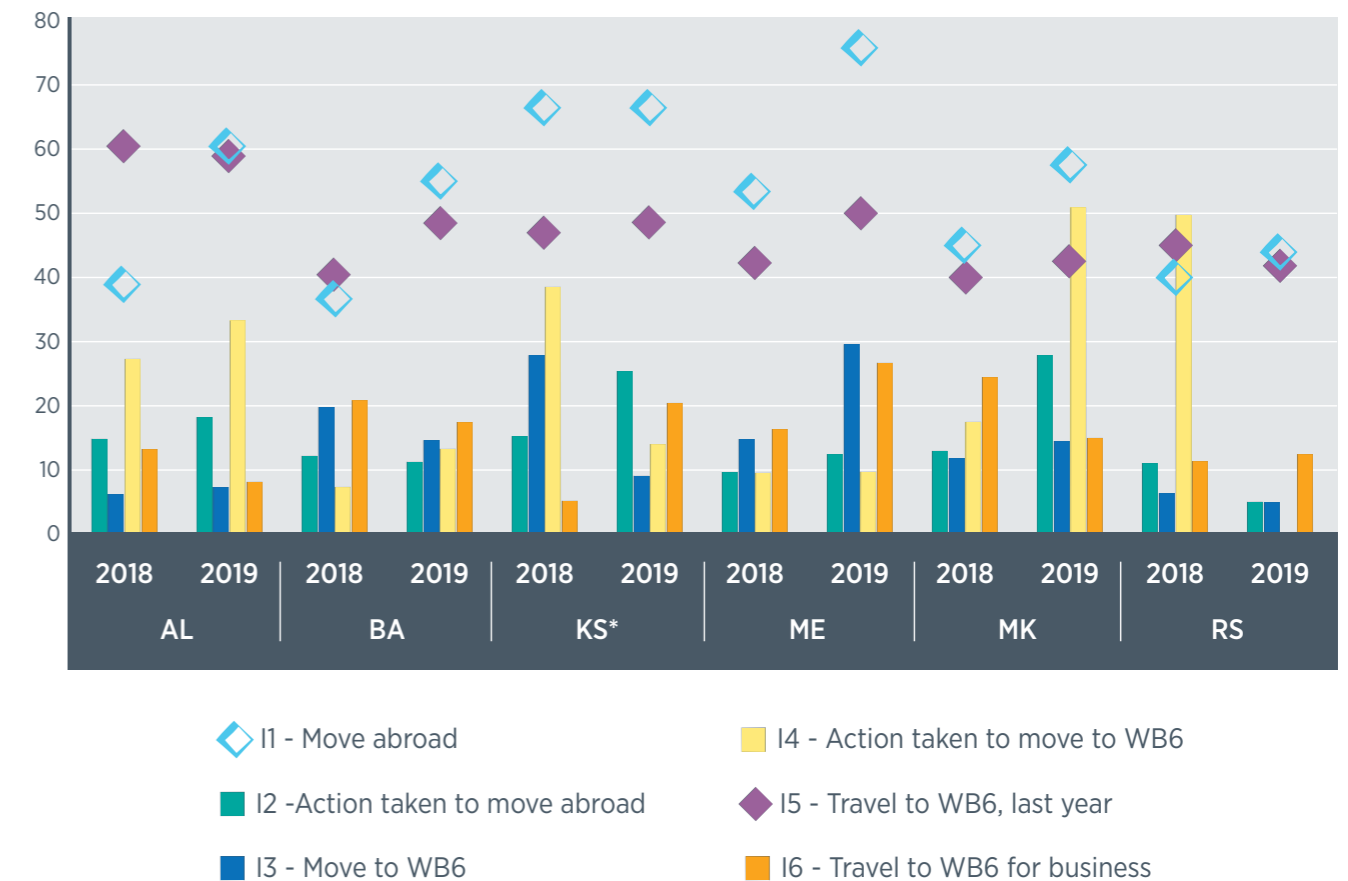
Figure 4.7 / Potential mobility of highly skilled in the Western Balkans, 2018-2019



Source: own elaboration using 2019-2020 Public Opinion Balkan Barometer

The PO BB revealed that the share of those taking concrete actions to move abroad was more than five times lower than the share of those who have a preference to move abroad. Therefore, while close to half of the respondents would prefer to move abroad, among them, only 17.5% are actively taking actions to accomplish the move. However, in comparison to 2018, their share rose by 4.6 pp. A similar question was addressed to those respondents that showed a preference to move within the region. Even though the category of the highly skilled willing to move within the region is much smaller, more than 20% of them confirmed to be at an advanced phase of taking actions to move. Their share in 2019 was 3.4 pp. higher than in 2018. This is a clear indication that among the highly skilled, the preference to move within the region might be lower than to move to other economies outside of the region. Nevertheless, the share of those who are really planning and taking steps forward to move within the region is proportionally higher than the share of those moving abroad. Moreover, changes over time suggest that the latter group grew faster between 2018 and 2019. Certainly, as concerns the highly skilled, the mobility within the region has intensified further, having close to two third of respondents confirming to have travelled within the region in 2019. This share is 12 pp. higher than in 2018. Within this group, the purpose of travel for scope of business was at 17%, a share 4 pp. higher than in 2018. At individual economy level, the potential mobility within and outside the region shows diverse intensity across economies. However, at the aggregate level, potential mobility of the highly skilled within the region is likely to grow, despite of the higher preference for moving abroad than within the region.

Figure 4.8 / Potential mobility of highly skilled in the Western Balkan economies, 2018-2019⁵⁴

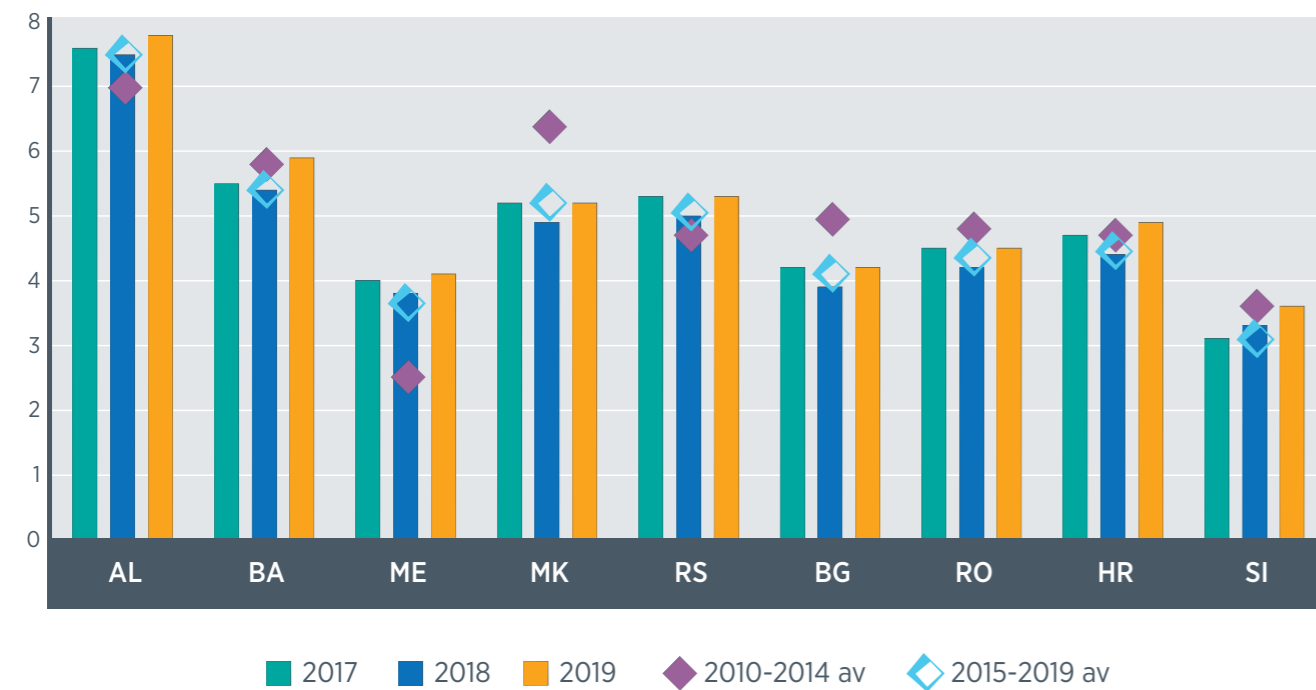


Source: own elaboration using 2019-2020 Public Opinion Balkan Barometer

Brain drain and opportunity costs of emigration

The high level of outward mobility, especially among the highly skilled, has important consequences as concerns human capital and the phenomenon of brain drain. Consequently, as shown in Figure 4.9, the brain drain and human capital flight are particularly high and increasing over time for all the Western Balkan economies. Albania has the highest level of brain drain, while Montenegro has the lowest level. Whereas, the Republic of North Macedonia is the economy which has recorded the highest increase in brain drain in 2015-2019 in comparison to 2010-2014. Compared to other economies such as Romania, Bulgaria, Slovenia and Croatia, the human capital flight appears to be higher among WB6 - excluding Montenegro.

⁵⁴ Note: I1 - Move abroad - Question asked: Would you consider leaving and working abroad? Categories of answer: Yes/no/don't know. I2 - Action taken to move abroad - Question asked: In what phase of consideration are you? Categories of answers taken into consideration: Reviewing and applying to vacancies/I've concretized everything, currently finishing necessary administrative issues/I know the exact date of departure. I3 - Move to WB6 - Question asked: Would you consider leaving and working in another place in the Western Balkans region? Yes/no/don't know. I4 - Action taken to move to WB6 - Question asked: In what phase of consideration are you? Categories of answers taken into consideration: Reviewing and applying to vacancies/I've concretized everything, currently finishing necessary administrative issues/I know the exact date of departure. I5 - Travel to WB6, last year - Question asked: Did you travel anywhere in the region in the past 12 months? Categories of answer: Yes/no/don't know. I6 - Travel to WB6 for business - Question asked: What was the purpose of your travel? Categories of answers taken into consideration: Business purpose.

Figure 4.9 / Human capital flight and brain drain index, 0(low) – 10(high). WB, 2010-2019

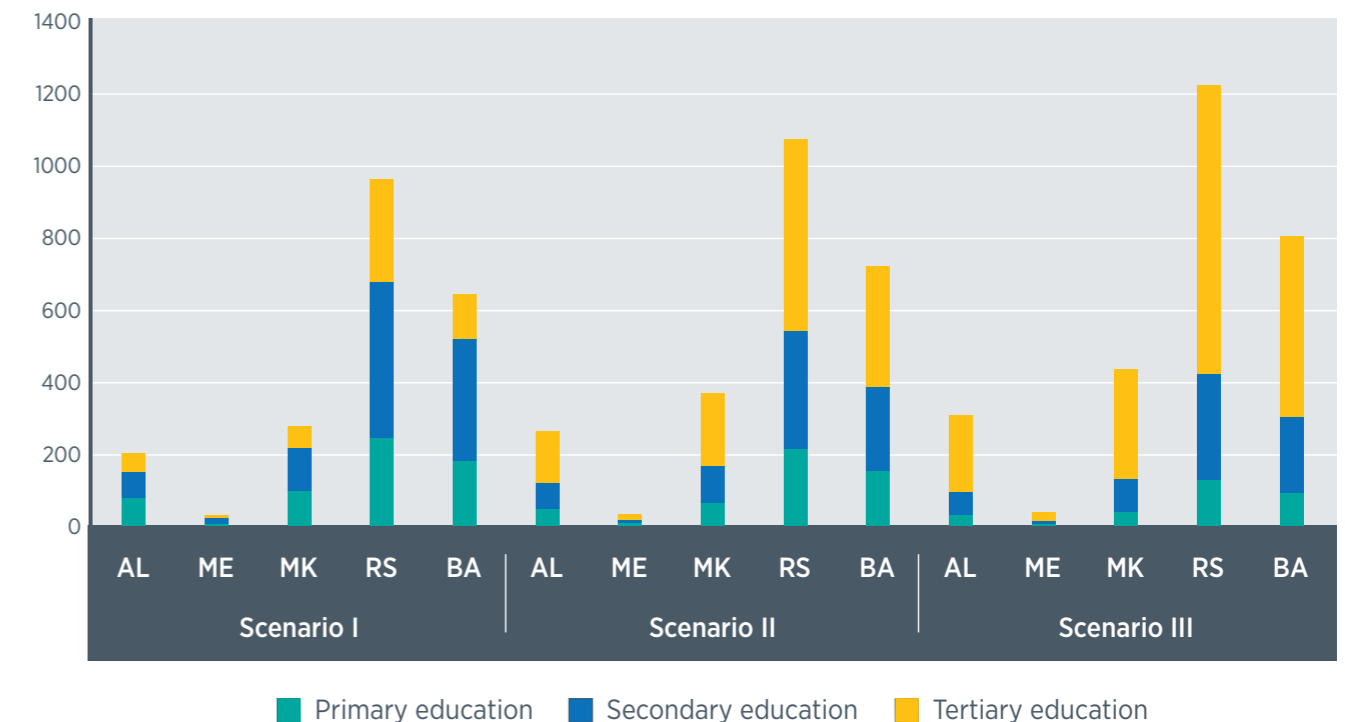
Source: Fund for peace 2020⁵⁵

Human capital flight certainly bears important financial costs for the governments of the sending economies. The Westminster Foundation for Democracy (WFD, 2019) has recently conducted an analysis of educational costs of emigration in four of the WB6 economies – Albania, Bosnia and Herzegovina⁵⁶, Montenegro, the Republic of North Macedonia and Serbia. The respective reports took into account three different scenarios which assumed that under Scenario 1, educational structure for migrants was similar to the one of emigrants age 15+ as according to the 2011 Census. Scenario 2 assumed an equal emigration rate by levels of education. Scenario 3 assumed half of migrants having a high level of education. The estimated outflow of migrants during the 2012-2016 period for respective economies was 43,000 in Albania; 3,600 in Montenegro, 23,000 in the Republic of North Macedonia and 49,000 in Serbia and close to 37,000 for Bosnia and Herzegovina – for the period 2013-2017 – following OECD statistics (WFD, 2019 of respective economies). The opportunity costs of emigration appear to be quite high ranging between EUR 960 million and EUR 1.2 billion in Serbia, corresponding to 2.8% of gross domestic product of Serbia in 2018, see Figure 4.10. Emigration opportunity costs happen to be higher for emigrants with tertiary level of education. The education costs of migration in the Republic of North Macedonia have been estimated between EUR 277 and 433 million or close to 4% of the gross domestic product in 2018. Similarly, in Bosnia and Herzegovina, such costs amount to 4.7% of the GDP – i.e. above EUR 800 million. In Albania such costs were estimated to go up to EUR 307 million, or 2.4% of Albanian GDP in 2018. The lowest opportunity costs of emigration appear to be in Montenegro, being estimated at a level of EUR 37 million and below 1% of GDP. At the

⁵⁵ Human flight and brain drain index, 0 (low) - 10 (high), 2019 – Economies' rankings: The average for 2019 based on 176 economies was 5.55 index points. The highest value was in Micronesia: 9.6 index points and the lowest value was in Australia: 1 index points. The Human Flight and Brain Drain Indicator consider the economic impact of human displacement (for economic or political reasons) and the consequences this may have on an economy's development. On the one hand, this involves the voluntary emigration of the middle class – particularly economically productive segments of the population, such as entrepreneurs, or skilled workers such as physicians – due to economic deterioration in their home economy and the hope of better opportunities abroad.

⁵⁶ Bosnia and Herzegovina population Census was conducted in 2013.

aggregate level, on an annual basis, four of the economies of the WB6 lose investment in human capital which amounts to almost EUR 2.8 billion – equivalent to 3.2% of GDP of the five economies in 2018.

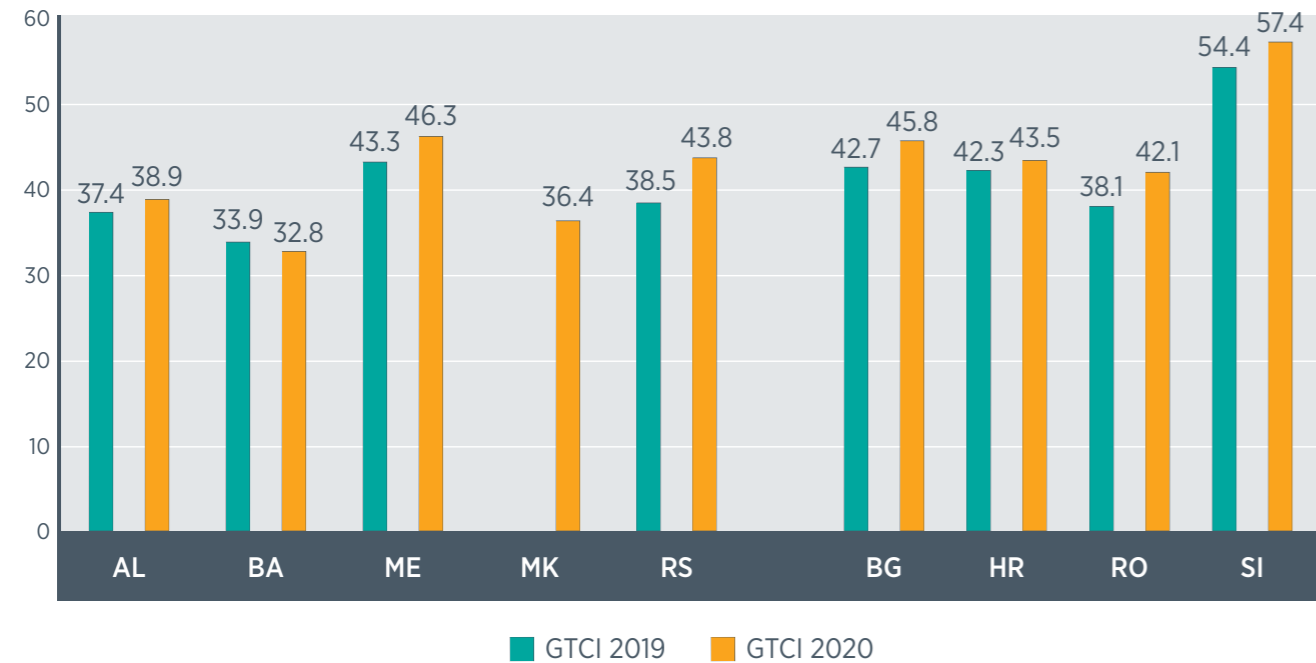
Figure 4.10: Opportunity costs of emigration by educational structure of migrants, in EUR million

Source: own elaboration of WFD⁵⁷

The challenge of attracting and retaining talents

The challenges associated with the mobility of the highly skilled are reflected also on how competitive economies in the region are to attract and retain talents. The Global Talent Competitiveness Index 2020 suggests that some of the WB economies have made some progress between 2018 and 2019, except for Bosnia and Herzegovina. Nevertheless, the WB economies stand at the bottom of the EU ranking on competition for attracting and retaining talent, and their score is almost two times lower than that of leading EU economies.

⁵⁷ Source: https://www.wfd.org/wp-content/uploads/2019/10/WFD-Web-Brochure-NM_FINAL.pdf/

Figure 4.11 / Talent competitiveness index, WB5

Source: 2020 Global Talent Competitiveness Index⁵⁸

Medical brain drain and drivers of mobility

Human capital flight and brain drain might involve special categories of professionals, such as the case of medical doctors and nurses. As shown in Table 4.1 over the last decade, the number of health professionals from the region that moved abroad has more than doubled (e.g. Bosnia and Herzegovina), but for some economies it has tripled (e.g. in Albania and Serbia).

Table 4.1 / Medical brain drain from the Western Balkan economies

	Medical brain drain (ratio of doctors abroad over the total number of doctors at home and abroad)			Percentage of graduates from tertiary education graduating from Health and Welfare programmes, both sexes (%)		
	2010	2017	Time period, latest year available	2013	2018	Time period, latest year available
Albania	7%	18%	2010-2017	14,68	14,05	2015-2018
Bosnia and Herzegovina	8%	14%	2010-2017	13,29	11,94	2015-2018
Serbia	4%	8%	2010-2017	9,58	9,73	2015-2018

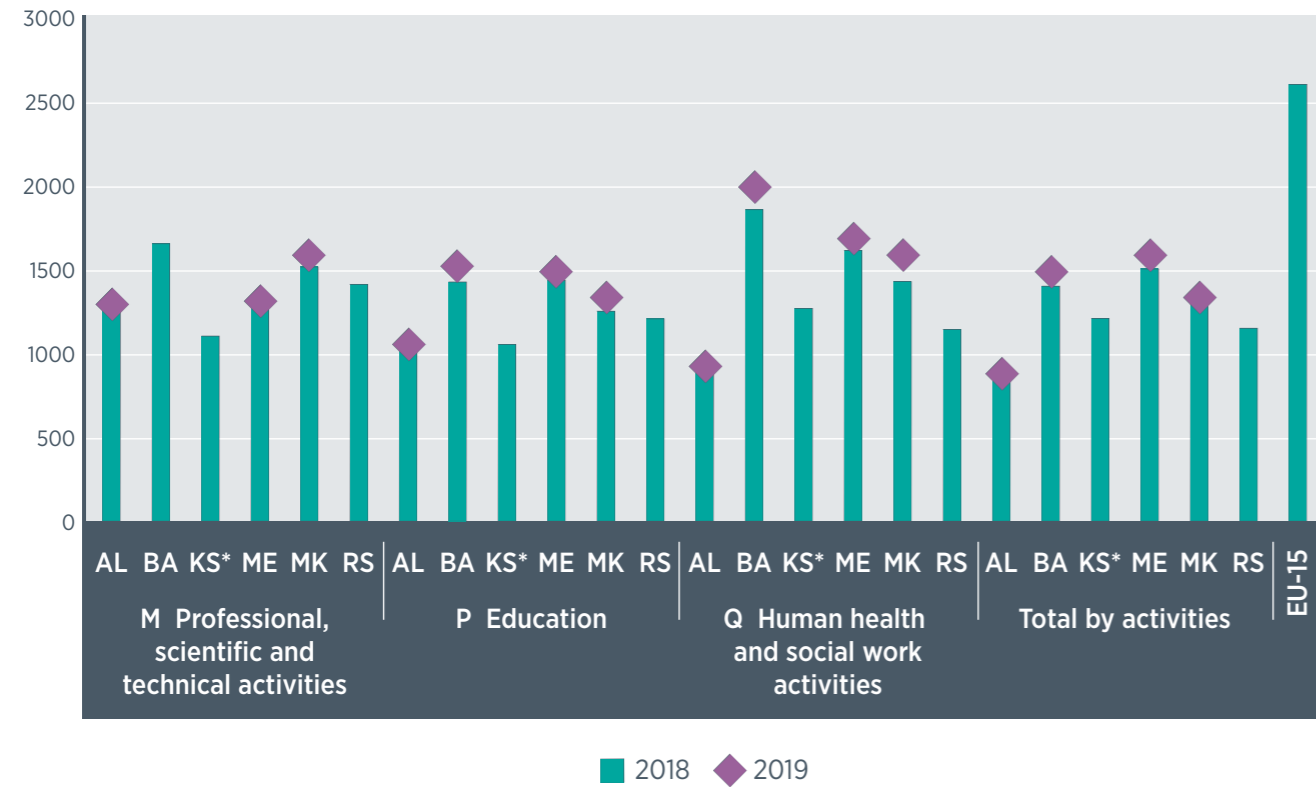
⁵⁸ Source: 2020 Global Talent Competitiveness Index: The talent competitiveness Input sub-index is composed of four pillars describing the policies, resources, and efforts that a particular economy can harness to foster its talent competitiveness. Enable (Pillar 1) reflects the extent to which the regulatory, market, and business environments create a favourable climate for talent to develop and thrive. The other three pillars describe the three levers of talent competitiveness, which focus respectively on what economies are doing to Attract (Pillar 2), Grow (Pillar 3), and Retain (Pillar 4) talent. The Input sub-index is the simple arithmetic average of the scores registered on these four pillars. The talent competitiveness Output sub-index, which aims to describe and measure the quality of talent in an economy that results from the above policies, resources, and efforts. It is composed of two pillars, describing the current situation of a particular economy in terms of Vocational and Technical Skills (Pillar 5) and Global Knowledge Skills (Pillar 6).

Medical brain drain (ratio of doctors abroad over the total number of doctors at home and abroad)				Percentage of graduates from tertiary education graduating from Health and Welfare programmes, both sexes (%)		
Republic of North Macedonia	17%	22%	2010-2017	8,44	10,22	2013-2015
Montenegro	0%	3%	2010-2018	-	-	
Source: own calculation				Source: UNESCO STATS.		
Stock of doctors abroad to selected OECD economies			Time period, latest year available	Top five main destination		
Albania	257	772	2010-2017	Germany (10 times higher than in 2010), USA, UK, Canada, Greece		
Bosnia and Herzegovina	559	1129	2010-2017	Germany, Serbia, Slovenia, Switzerland, Norway		
Serbia	853	2486	2010-2017	Germany, Slovenia, Norway, Sweden, UK		
Republic of North Macedonia	1150	1726	2010-2017	USA, Germany, Serbia, Slovenia, France		
Montenegro	2	46	2010-2018			

Source: Own elaboration using OECD, UNESCO, WHO and national statistics.

Certainly, an important driver of mobility, especially for the group of highly skilled is better work and earnings prospects abroad. The comparison across economies related to the level of earnings - in EUR at purchasing power standards (PPS), for different sectors where the proportion of high skilled workforce is bigger, such as education, health and professional, scientific and technical activities - shows that there are important gaps. Such gaps might be strong pull factors for highly skilled workers to move to other economies in the region. Nevertheless, the wage gap appears to be much higher if overall wages in the region are compared to the levels in the EU-15. Therefore, the WB-EU-15 wage gaps are a much stronger driver of mobility for professionals than wage gaps between WB economies.

Figure 4.12 / Average monthly wages by specific group of sectors, 2018-2019

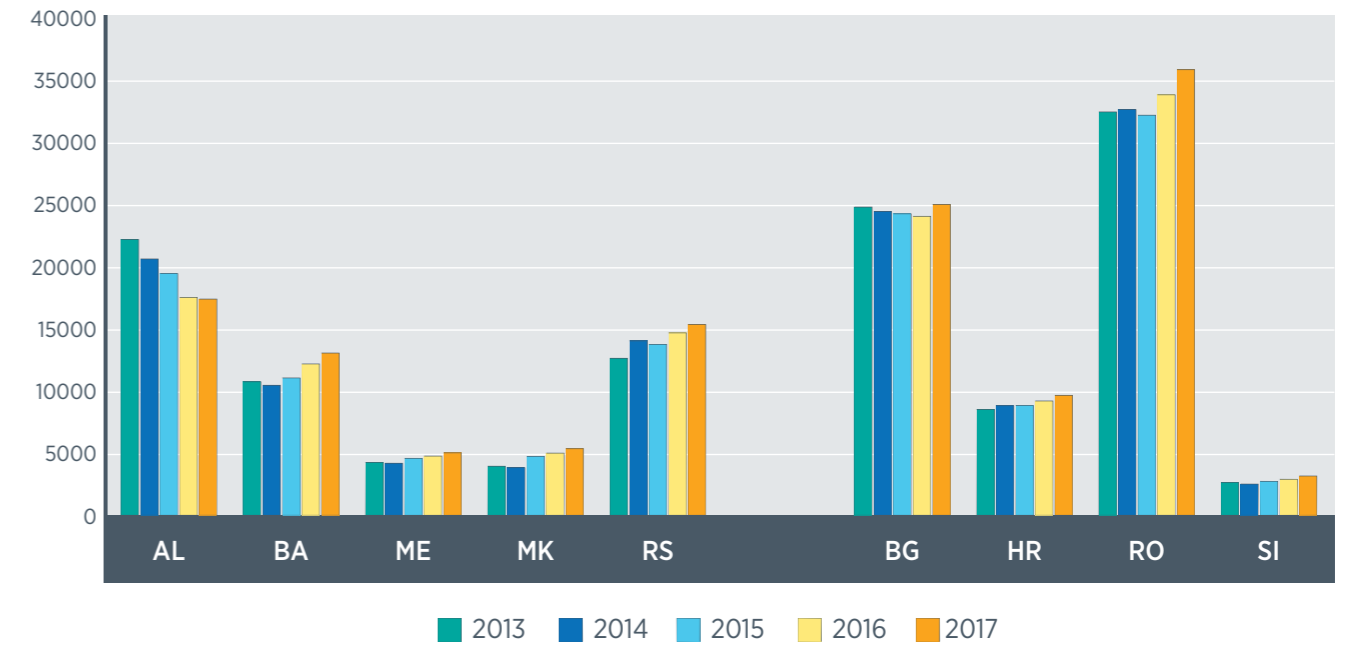


Source: *wiiw database, average monthly gross wages by activities, EUR in purchasing power standards (pps). Due to methodological issues EU-15 average monthly wage has been calculated only at total aggregate level.*

Regional mobility of students and highly skilled workers

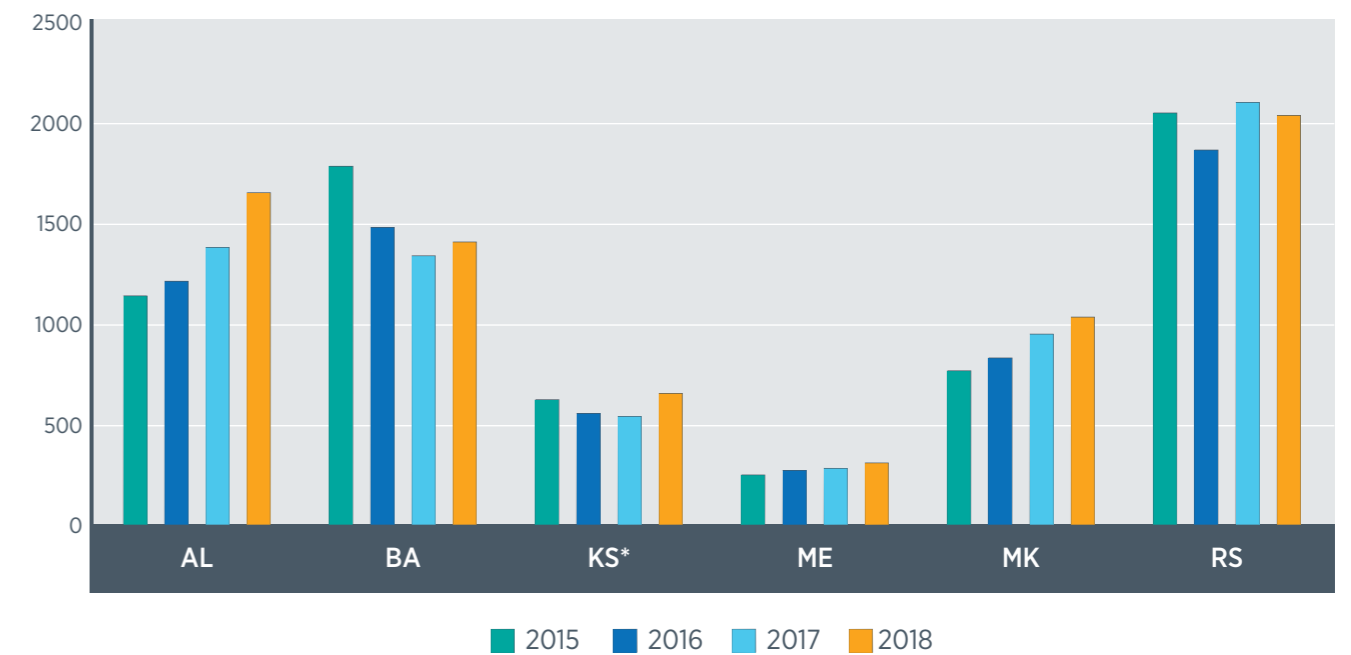
Fostering the mobility of students is a key element for building further human capital and transferability of knowledge. Accordingly, involvement of students from the region in different exchange programmes of education might spur further human capital formation and brain gain in the region, if return migration of students and researchers that graduate abroad occurs. The most recent available data about the mobility of students from the region suggests that more than 56 thousand students from the WB economies, excluding Kosovo*, study abroad (Figure 4.10). Albania has the highest number of tertiary students being enrolled abroad, but in a downward trend between 2013 and 2017. Whereas, for the rest of the economies the number of students enrolled abroad has been steadily increasing.

Figure 4.13 / Internationally mobile tertiary students studying abroad, in thousand, 2013-2017



Source: *UNESCO statistics*⁵⁹

Figure 4.14 / Annual number of Citizens from WB6 who have applied for residence permits for study purposes in selected EU economies, in thousand, 2015-2018



Source: *Eurostat*

Other data sources, such as Eurostat statistics, suggest that residence permits issued for study purposes from a number of EU economies to citizens originating from the WB between 2015 and 2018 has been continuously increasing, except from Bosnia and Herzegovina. Also, information about the mobility of students through Erasmus + exchange programmes shows that the number of students and scholarship winners from the region has

⁵⁹ Dataset: Education Indicator: Total outbound internationally mobile tertiary students studying abroad.

increased between 2018 and 2019. For example, in 2019, more than 52 students from the region – a rise of 27% with respect to 2018 – benefited from Erasmus Mundus Joint Master Degrees which awards EU-funds to Master students (Table 3.3).

Regional mobility of researchers

Mobility of Researchers within the region and to the EU can be further fostered through mechanisms or programmes which promote the mobility of researchers, such as a number of mobility schemes as the ones in the framework of H2020, Erasmus+ or Marie Skłodowska-Curie actions. Tables 3.2 and 3 below provide evidence about the access and participation of researchers from the WB in such exchange programmes.

The participation and involvement of researchers from the region in H2020 Marie Skłodowska-Curie Actions (MSCA) is presented in Table 4.2. The MSCA country factsheet for each of the Western Balkan economies indicates that Serbia has benefited the most from this mobility programme, and this is confirmed throughout all the indicators. The EU budget allocated to Serbia has been above 7 million, in contrast to 0.08 million allocated to Albania or Montenegro. Also, there are 45 research organisations from Serbia participating in MSCA, which is in sharp contrast to other economies in the region, such as Albania and Montenegro with 3 research organisations in MSCA. A similar contrast is observed also regarding the number of researchers funded by MSCA. Diverse outcomes emerge also as concerns the success rate of applicants to MSCA funding. Bosnia and Herzegovina seems to be the most successful with a rate of success at 25%, while Montenegro seems to be the least successful. In terms of gender, participation of women in MSCA funds is the highest in Albania and Montenegro at 63 and 67% respectively. Whereas, the lowest share of women in MSCA funding is found in Bosnia and Herzegovina at 54%. Overall, female participation in MSCA programmes is above 50%.

Table 4.2 / Marie Skłodowska-Curie actions

H2020 - Marie Skłodowska-Curie Actions (MSCA)	2020 Key facts and figures (2014-2020)				
	AL	BA	ME	MK	RS
Number of researchers funded by MSCA:	32	41	12	30	246
EU budget awarded to organisations (EUR million):	0,08	0,98	0,08	0,28	7,76
Number of organisations in MSCA:	3	11	3	4	45
Success rate of applicants	9,09%	25%	11,54	5,26	15,54
Female	63%	54%	67%	67%	58%

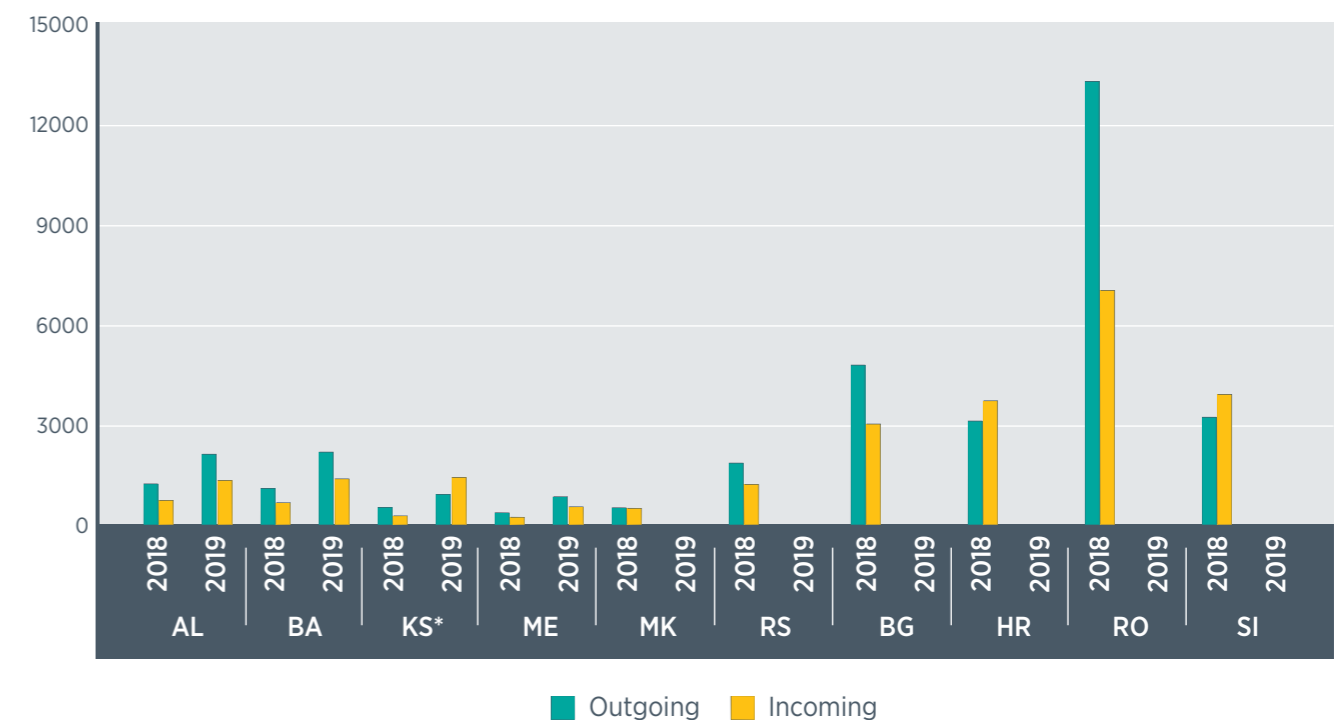
Source: own elaboration from MSCA (2020)⁶⁰

Table 4.3 presents another set of indicators about the mobility of researcher, students and staff from the region through Erasmus+ mobility programmes. The patterns of mobility and research cooperation differ across economies and for diverse mobility programmes in the frame of Erasmus+. For example, in 2019, there were more than 2 thousand Albanian students and researchers who benefited through Erasmus+ International credit mobility programme. In comparison to 2018, the number of Albanian beneficiaries rose by more than 890. Another economy which has benefited from this programme is Bosnia and Herzegovina. Also, in 2019, the beneficiaries from the latter economy more than doubled and exceeded two thousand. In the case of Kosovo* and Montenegro, the number of beneficiaries was close to 900 and strongly rising in comparison to 2018. Moreover, the two-way mobility was characterized by a much higher number of students and researchers hosted by universities

⁶⁰ Note: Success rate is determined by dividing the number of successful organisation participations by the number of eligible applying organisations.

in the region, especially in Albania, Bosnia and Herzegovina and Kosovo*. Actually, in 2019, the highest number of students and staff moving to the universities in the region was recorded in Kosovo*. In 2019, more than 1400 students from abroad were recorded in Kosovo*, in contrast to 263 foreign students recorded in 2018.

Figure 4.15/ International credit mobility (ICM) : Students and staff mobility



Source: own elaboration using Erasmus+⁶¹

In terms of the budget received through the ICM mobility programme, the highest absorption rate is found in Bosnia and Herzegovina and Serbia. Participation to Erasmus Mundus Joint Master Degrees recorded 52 beneficiaries, a rise of 27% in comparison to 2018. However, evidence about the participation to Erasmus+ Capacity Building in Higher Education action (CBHE) projects – a two to three years programme which has the scope to modernise and reform the higher education institutions, develop new curricula, improve the governance, and build relationships between higher education institutions and enterprises – shows a lower involvement in 2019, in comparison to 2018, for all the WB economies as concerns the category “Proposals received involving WB economies”.

For the category “Proposals selected involving WB economies”, progress was recorded between 2018 and 2019 for economies such as Albania, Kosovo* and Montenegro. Similarly, concerning Jean Monnet activities, lower participation was recorded in the category of “Proposals received involving WB economies” – e.g. in case of Albania, Kosovo* and Serbia – but higher participation was found in the category of “Proposals selected involving WB economies” – except for the Republic of North Macedonia and Montenegro.

⁶¹ Source: https://ec.europa.eu/programmes/erasmus-plus/about/factsheets_en. Erasmus+ is the European Union (EU) programme for education, training, youth and sport for the period 2014-2020. Erasmus+ funds academic mobility and cooperation projects that involve partners from “Programme Countries” and “Partner Countries” throughout the world. In 2019, 34 Programme Countries comprise the 28 EU Member States plus six other European policy countries**. Erasmus+ supports activities that are closely matched with the EU’s priorities for cooperation policy with partner countries and regions.

Table 3.3 / Erasmus+ actions

	International credit mobility (ICM)		Erasmus Mundus Joint Master Degrees		Capacity-building for Higher Education		Jean Monnet Activities	
	2018	2019	2018	2019	2018	2019	2018	2019
Albania	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving Albania	205	254	0	2	52	39	12	8
Projects selected involving Albania	157	234	0	0	6	10	1	2
Students and staff moving to Europe	1225	2118						
Students and staff moving to Albania	728	1329						
Percentage of regional budget, to WB6	24,7	35,1						
Scholarship-winners from Albania			8	11				
Bosnia and Herzegovina	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving BiH	191	265	1	7	75	45	7	7
Projects selected involving BiH	141	234	0	1	8	8	0	2
Students and staff moving to Europe	1089	2182						
Students and staff moving to Bosnia	662	1377						
Percentage of regional budget, to WB6	21,2	37,2						
Scholarship-winners from BiH			5	8				
Kosovo*	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving Kosovo*	110	138	0	2	34	30	3	2
Projects selected involving Kosovo*	75	123	0	0	6	10	0	1
Students and staff moving to Europe	517	905						
Students and staff moving to Kosovo*	263	1418						
Percentage of regional budget, to WB6	9,67	14,1						
Scholarship-winners from Kosovo*			4	5				
Montenegro	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving Montenegro	87	131	2	0	42	33	2	2
Projects selected involving Montenegro	69	117	1	0	6	9	1	0
Students and staff moving to Europe	361	843						
Students and staff moving to Montenegro	220	536						
Percentage of regional budget, to WB6	6,7	13,6						
Scholarship-winners from Montenegro			1	5				
the Republic of North Macedonia	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving the Republic of North Macedonia	8	13	0	0	25	6	3	5
Projects selected involving the Republic of North Macedonia	4	5			4	2	0	0
Students and staff moving to Europe	13	12						
Students and staff moving to Macedonia	4	8						
Percentage of regional budget, to WB6	0,02	0,02						
Scholarship-winners from the Republic of North Macedonia			3	4				

	International credit mobility (ICM)		Erasmus Mundus Joint Master Degrees		Capacity-building for Higher Education		Jean Monnet Activities	
	2018	2019	2018	2019	2018	2019	2018	2019
Serbia	2018	2019	2018	2019	2018	2019	2018	2019
Proposals received involving Serbia	304		7	6	89		31	17
Projects selected involving Serbia	233		2	2	12		1	4
Students and staff moving to Europe	1851							
Students and staff moving to Serbia	1205							
Percentage of regional budget, to WB6								
Scholarship-winners from Serbia			21	24				

Source: own elaboration using Erasmus+⁶²

Productivity vs remuneration of researchers and academics

As it has been highlighted, better earnings and work prospects abroad are driving outward mobility of the highly skilled. A comparison across regions about the level of earnings in academia clearly indicates that professors and researchers in Eastern and South Eastern Europe – where the economies of WB are included – receive a salary which is two to three times lower than in North America or Western Europe (Figures 3.15-16). Besides, the salaries in academia in Eastern and South Eastern Europe appear to be lower than in Africa.

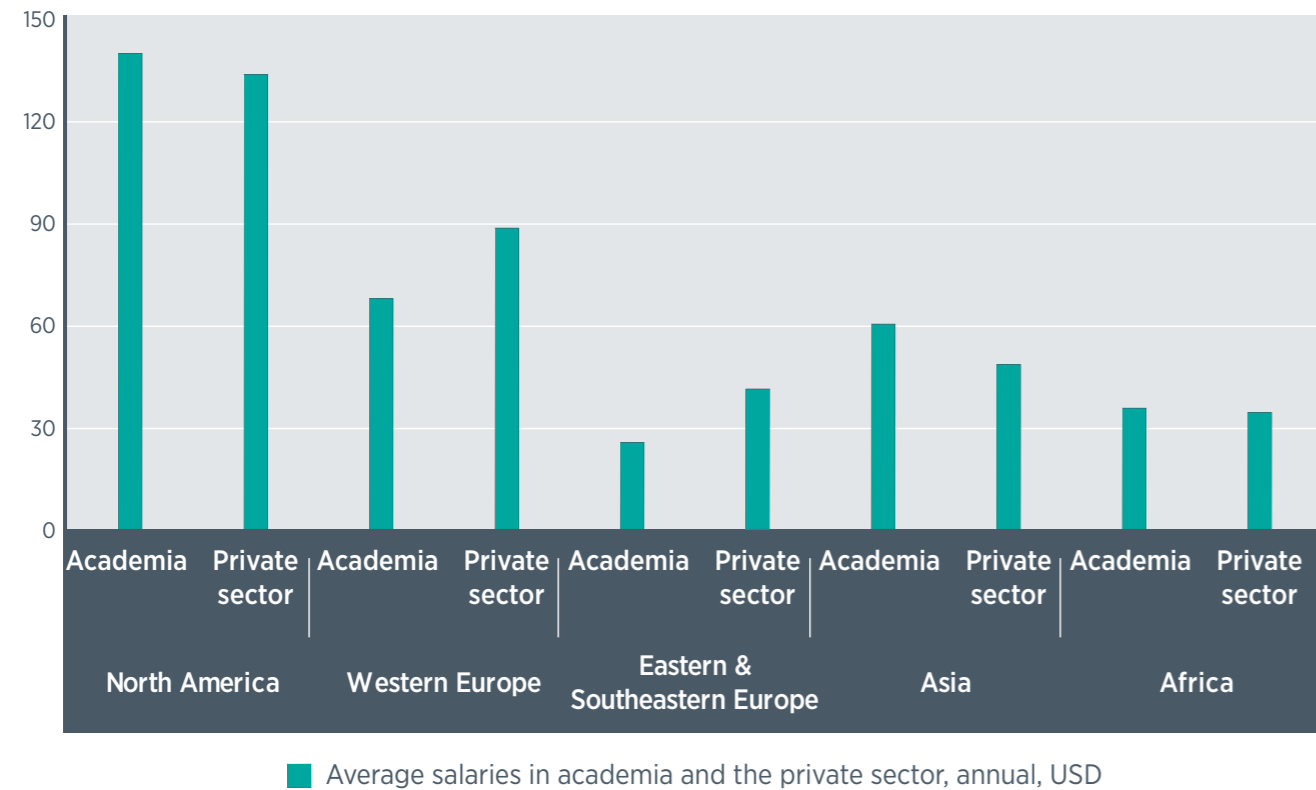
Also, for different levels of seniority, it emerges that salaries in Eastern and South Eastern Europe are the lowest –standing even below the earnings level of researchers in Africa. Certainly, a low level of salaries among academic staff and researchers affects the productivity and the quality of the scientific work. Scientific productivity of WB economies – measured by the number of working documents citations – shows to be much lower than in Croatia, Slovenia, Bulgaria and Romania.

Therefore, bringing forward an innovation agenda and improving competitiveness are more difficult to be achieved given the low scientific productivity of academic staff and researchers. The low productivity among the academic staff in the region might be in part explained by an inadequate research infrastructure, but also fewer resources allocated to skills development and capacity building.

Besides, the relatively low level of earnings in academia makes the sector less attractive and therefore more difficult to attract and retain scientific staff. Moreover, the wage differentials compared to universities or research entities abroad are so high that it becomes a strong pull factor for academic staff in the region looking for better earnings and work prospect abroad.

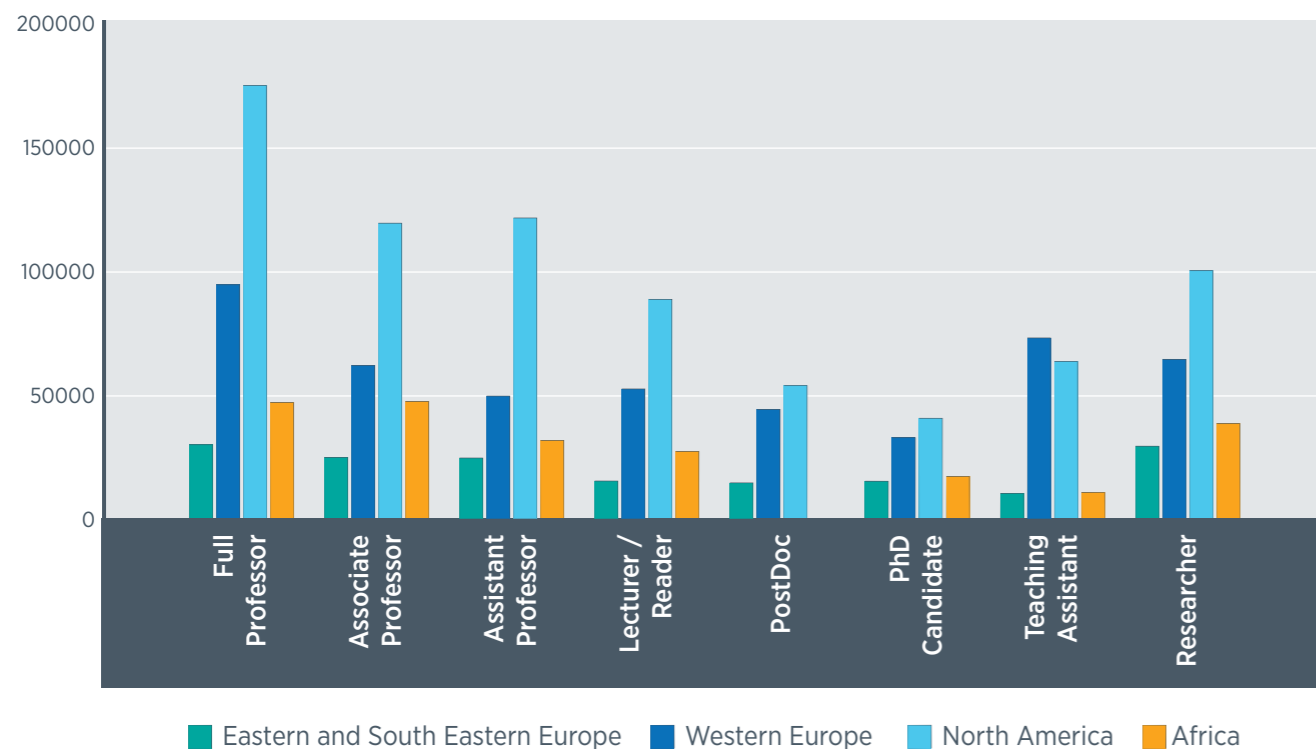
⁶² Source: https://ec.europa.eu/programmes/erasmus-plus/about/factsheets_en. Erasmus+ is the European Union (EU) programme for education, training, youth and sport for the period 2014-2020. Erasmus+ funds academic mobility and cooperation projects that involve partners from “Programme Countries” and “Partner Countries” throughout the world. In 2019, 34 Programme Countries comprise the 28 EU Member States plus six other European countries**. Erasmus+ supports activities that are closely matched with the EU’s priorities for cooperation policy with partner countries and regions.

Figure 4.16 / Average salaries in academia and the private sector, annual, USD



Source: Inomics(2020)⁶³

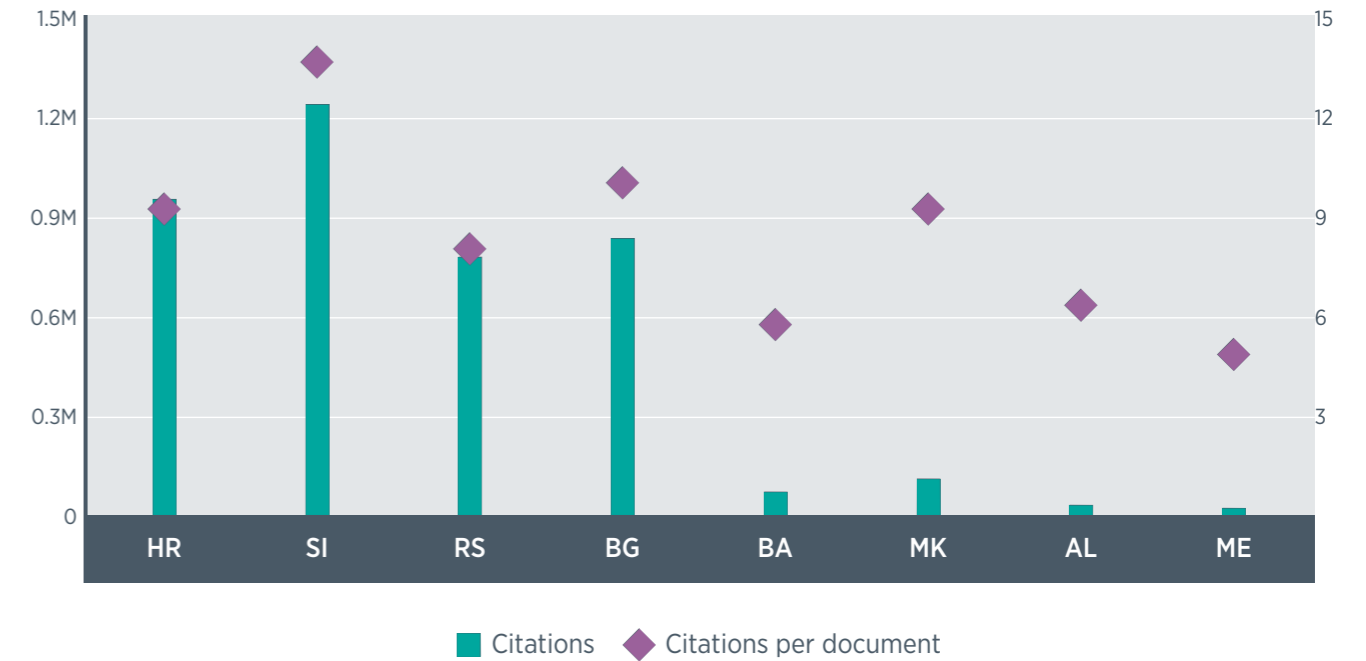
Figure 4.17 / Average salaries by level of seniority in academia, annual, 2017, USD



Source: Inomics(2020)

63 Source: Inomics - Salary Report 2018, page 19. Western Europe includes EU-15, Baltics, Norway and Switzerland. Eastern & South-Eastern Europe includes Albania, Belarus, Bosnia and Herzegovina, Cyprus, Georgia, Serbia, Slovakia, Moldova, North Macedonia, Russia, Romania, Poland, Bulgaria, Czech Republic, Hungary, Ukraine, Croatia. Includes information about salaries of academics and professionals in economics, business and finance, as well as other disciplines such as marketing, finance & accounting, law, statistics, education and politics.

Figure 4.18 / Citations in documents published between 1996 and 2018, economies' rankings.



Source: SCIMAGO (2020)⁶⁴

Summing up, overall, it emerges that emigration from the Western Balkan economies is persisting over time. Despite that, the mobility within the region remains much lower than the mobility outside of the region.

Moreover, potential mobility remains at elevated levels. According to the RCC PO BB 2020, potential mobility of the highly skilled out of the region is the highest in Albania and the lowest in Serbia. Between 2018 and 2019, Bosnia and Herzegovina shows to have had the highest rise in potential mobility. In contrast, potential mobility among the highly skilled has diminished in Serbia, due to improvements in the labour market and economic conditions, and especially new fiscal stimulus targeting the highly skilled - for example the IT sector has been expanding and attracting foreign companies; the economy is emerging as a regional IT hub and IT professionals benefit from tax exemptions and fiscal stimulus.

As concerns potential mobility within the region, the highly skilled in Montenegro tend to show a higher preference to move to another WB economy. Montenegro is also the economy where such preference grew the most between 2018 and 2019. The lowest level of preference to move to another WB economy is found in Serbia and Albania. Potential mobility within the region has been in decline particularly in Kosovo* and Bosnia and Herzegovina.

The human capital flight has been diverse and some of the economies in the region are much more affected by the brain drain. Albania appears to be the WB economy with the highest index of brain drain - estimated at 7.5 - and the lowest is recorded in Montenegro - at the level of 3.4, being more than two times lower than in Albania. Over the last decade, the phenomenon of brain drain accentuated for all economies in the region. More recently, between 2018 and 2019, the indicators suggest a further rise in brain drain being the highest in Bosnia and Herzegovina.

Human capital investment loss due to emigration of the highly skilled is estimated at EUR 2.8 billion in five of the economies of WB - Albania, Bosnia and Herzegovina, Montenegro, the Republic of North Macedonia and Serbia, equivalent to 3.2 % of GDP of the five economies in 2018.

64 <https://www.scimagojr.com/countryrank.php?region=Eastern%20Europe>

The unfavourable position with respect to human capital investment and endowment is reinforced also from Global Talent Competitiveness Index scoring of WB economies. The competitiveness of the region in retaining and attracting talents is one of the lowest among the European economies. Bosnia and Herzegovina has the lowest score, which was in decline between 2018 and 2019. On the other hand, Montenegro is the WB economy with the highest GTCI score in 2019, while Serbia is the economy which had the highest improvement in GTCI score between 2018 and 2019. The wage differential across economies in the region for different sectors of activity – but also in comparison to EU-15 average as a total – might be an important driver of mobility. Nevertheless, the wage gap between the region and the EU-15 is an important determinant of mobility out of the region and might explain partly the low level of attracting and retaining talents. Relatively lower level of remuneration among the academia and research community in the region, compared to developed economies, is also reflected in a lower scientific productivity, jeopardising the competitiveness and implementation of a coherent innovation agenda in the region.

Mobility of students is also on a continuous rise and corresponds to 15% of students enrolled at home. At international level, Albania is the economy which has the highest outbound mobility of tertiary students abroad, but over time this number has been decreasing. As for the rest of the economies, between 2014 and 2017, the trend has been on a rise.

Another indicator, which reports about the residence permits issued to WB citizens in a selected number of EU economies, suggests that, between 2015 and 2018, the highest number of applications – close to 2 thousand annually – have been recorded for applicants from Serbia. The number of Albanians attaining a residence permit for study purposes in the EU has been steadily increasing between 2015 and 2018.

The mobility of researchers has been rising and this is traced by the upsurge in the level of participation in H2020 programmes. The economy which has been benefiting the most from MSCAs is Serbia with more than 246 researchers funded by MSCA. In contrast, Montenegro is the economy with the lowest number of researchers supported by MSCA. The EU budget awarded to research organisations in the WB has been mainly flowing to Serbia, given its highest number of organisations participating in MSCAs. Bosnia and Herzegovina is the economy with the highest success rate with respect to the applications submitted. In terms of gender, women have a good representation rate in MSCAs.

Other indicators with reference to other programmes such as Erasmus+ indicate that Serbia is the economy which has benefited the most, e.g. through International credit programme mobility as of 2018. However, information for 2019 suggests that Bosnia had the highest number of students which benefited from the latter programme, and simultaneously, recorded the highest number of students moving abroad through ICM between 2018 and 2019.

However, economies in the region seem to have moved backwards, as involvement on Erasmus+ programmes such as “Capacity-building for Higher Education” has receded. Bosnia has recorded the strongest drop in such programmes, albeit its level remains higher than in the other economies. Similarly, Jean Monnet activities are found to be the highest in Serbia and Albania, but over the last two years, participation has been less frequent. These outcomes point out that the region might have made important progress in the mobility of students. However, economies in the region are lagging behind and have made little progress with respect to capacity building and absorption of disposable funding.

4.3. State of play for each measure

The MAP REA goal is to support WB economies’ integration into the European Research Area and the European Higher Education Area as well as to assist students, researchers and academics to engage into the existing European networks. Three main objectives have been set and within each domain a number of actions have been proposed. The state of

play and progress on the proposed actions are monitored and reported in the Annual Report on Implementation of the Multi-Annual Action Plan for a Regional Economic Area in the Western Balkans. The assessment of state of implementation will be based on the 2018 and 2019 monitoring reports made available.

The first objective of the mobility component falls into the domain of researchers’ mobility and removal of obstacles. A set of actions have been agreed to reach this objective. The first two actions which WB economies agreed to take at the national level were to identify legal and institutional barriers to the mobility of researchers at the international level concerning recruitment system, promotion criteria as well as working conditions, and accordingly remove such identified barriers.

Further action introduced aimed at developing mechanisms which could assist researchers to better exploit the existing mobility programmes in the EU, e.g. H2020 framework and international mobility programmes funded by the EU. Rising awareness and promotional activities have played a great role in promoting mobility from the region. The progress in this respect has been significant. A recently published H2020 report on the Western Balkan economies about participation in the H2020 framework points out that research projects from the region supported by EU funding have tripled and the participation of Western Balkan researchers has increased by 50% since 2016.

Another action agreed for implementation consists of compiling a research infrastructure roadmap in each WB economy. This Roadmap would assist economies to have more information on existing available sources and identify gaps. Montenegro has completed a roadmap of research infrastructure already in 2015 in line with ESFRI. In 2019, the roadmap has been upgraded to align it to the new strategic framework in Montenegro. Serbia has completed its first mapping exercise and adopted the Research Infrastructure Roadmap in line with ESFRI in 2019. Also, the Republic of North Macedonia has established the Working Group on Research Infrastructure and is developing the mapping methodology. Albania, Kosovo*, Bosnia and Herzegovina – except for one entity of Bosnia and Herzegovina (Republika Srpska) that has completed the adopted the Research Infrastructure Roadmap in 2019 – have not started the process of compiling the research infrastructure roadmap yet.

A part of the actions agreed has been the establishment of a new regional Centre of Excellence. In this respect, progress has been made to establish the South East European International Institute for Sustainable Technologies (SEEIIST). This is a large-scale competitive research infrastructure which aims to bring to a joint cooperation the scientists in the region. SEEIIST has received funding of 1 million EUR from Horizon 2020 for its first phase of a design study. The launch of SEEIIST’s first designing phase was presented in September 2019 in Budva in a high-level event.

The second objective of the mobility component falls into the domain of professionals’ mobility and removing the obstacles to recognition of professional qualifications. The main actions proposed for achieving this objective is first, launching the negotiation on mutual recognition agreements of professional qualifications for doctors of medicine, dentists, architects and civil engineers, and secondly, concluding the negotiation on mutual recognition agreements of professional qualifications for doctors of medicine, dentists, architects and civil engineers in a multilateral framework. The kick-off meeting was held in Podgorica, Montenegro on the 19th December 2018 and progress has been made related to the first action. Nevertheless, with respect to the second action, the progress has been stalling. The negotiations were initially agreed to be finalized by 2019. Nevertheless, the economies have not come to an agreement. Economies have not concluded their negotiations yet because of the lack of consensus about the negotiation framework.

The next three actions launched in this domain consisted of, first, establishing a database on Professional Qualifications and Mobility of Professionals applying a similar structure and composition with the EU Database on Regulated Professions. Secondly, the database has to

be made available and fully operational by December 2019. Thirdly, capacity building for information collection and database maintenance has been suggested within this framework. Initially it was agreed that the database would be officially launched in July 2019 at the Poznan Summit. Nevertheless, progress is stalling as long as the process of operationalising the database has not been initiated.

The third objective of the mobility component falls into the domain of students' and highly skilled mobility and removal of obstacles to recognition of academic qualifications. Economies have agreed on a number of actions which would speed up higher education qualification recognition in the region, improve the exchange and sharing of information about higher education institutions and higher qualifications in the region and strengthen the co-operation between quality assurance agencies in the region. During the summit in Poznan on 11th July 2019, the Declaration on Recognition of Higher Education Qualifications in the WB was presented. Economies committed to come up with a model for mutual recognition of academic degrees, recognition of short, first, second and integrated first and second cycle degrees, and recognition of periods of study abroad as well as fostering regional co-operation in higher education. According to the Declaration on Recognition of Higher Education Qualifications in the WB, it has been agreed that the Working Group on Recognition of Academic Qualifications will prepare a set of recommendations concerning recognition of higher education qualifications aligned with the Bologna system of three cycle studies and the third cycle academic degrees which should be proposed during the next Western Balkan Summit in 2020. Also, a part of the declaration was the commitment to implement the same standards and guidelines of Quality Assurance systems applied in the European Higher Education Area (ESG) also to the Quality Assurance systems in the region.

For monitoring of the progress, indications of either fully implemented, partially implemented, and not implemented and delayed have been assigned to the respective actions, taking into account the timeline of the proposed measures, as in Table 4.4.

Table 4.4 / Scoring of progress in the mobility component

Objective	Actions	Timeline	Assessment	
Mobility of researchers				
III.1.1. Removal of obstacles to mobility of researchers	a. Identify legal barriers for open merit-based, competitive, international recruitment system and remove the identified legal barriers	2020	Partially implemented	
	b. Identify institutional barriers to mobility of researchers, including working conditions, recruitment systems and promotion criteria, and remove identified barriers	2020	Partially implemented	
	c. Develop mechanisms and measures to support increased mobility of researchers from WB to EU within the existing mobility schemes (for instance Western Balkans Window within the MSC Actions)	2019	Implemented	
	d. Develop and implement a pilot scheme to support incoming mobility of post-doctoral researchers to the Western Balkans with an aim to build research excellence networks in the region	2019	Partially implemented	

Objective	Actions	Timeline	Assessment	
III.1.1. Removal of obstacles to mobility of researchers	e. Map the existing research infrastructure in the region to ensure transparent and available information to researchers interested to cooperate with and in the Western Balkans and to identify gaps	2019	Partially implemented	Delay
	f. Develop a new regional Centre of Excellence to promote collaboration between science, technology and industry and to provide a platform for education of young scientists and engineers, based on the mapping and the identified gaps	2020	Partially implemented	
	g. Strengthening the capacity of EURAXESS offices in the region and the implementation of Charter and Code principles and Seal of Excellence	Continuous	Partially implemented	
Mobility of professionals				
III.2.1. Removal of obstacles to recognition of professional qualifications	a. Open negotiation on mutual recognition agreements of professional qualifications for Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework	2017	Implemented	
	b. Conclude negotiations on mutual recognition agreements of professional qualifications for Doctors of Medicine, Dentists, Architects and Civil Engineers in a multilateral framework	2019	Not implemented	Delay
	c. Establish the Database on Professional Qualifications and Mobility of Professionals in 2018 to be fully operational by December 2019	2018	Partially implemented	Delay
	d. Database on Professional Qualifications and Mobility of Professionals fully operational	2019	Partially implemented	Delay
	e. Build capacity to facilitate the data and information collection for the Database on Professional Qualifications and Mobility of Professionals	Continuous	Partially implemented	
	f. Explore possibilities to open negotiations and conclude mutual recognition agreements in other sectors and professions of mutual interest	2018-2020	Not implemented	
Mobility of students and high skilled				
III.3.1. Removal of obstacles to recognition of academic qualifications	a. Draft a proposal on procedure for fast-track recognition of higher education qualifications specifying criteria for fast-track recognition in the region, on the basis of National Qualification Frameworks (NQFs) being developed in accordance with the Bologna Process and other EU norms, as a basis for established learning outcomes and thus recognition	2018	Implemented	

Objective	Actions	Timeline	Assessment	
III.3.1. Removal of obstacles to recognition of academic qualifications	b. Adopt and implement a proposal on procedure for fast-track recognition of higher education qualifications specifying criteria for fast-track recognition in the region	2020	Partially implemented	
	c. Establish an operational sub-regional network of ENIC/NARIC centres	2019	Implemented	
	d. Develop a joint online system to share information, including on higher education institutions, qualifications and decisions taken, available to ENIC/NARIC centres and Ministries in the region	2020	To be fully implemented in summer 2020	
	e. Strengthen cooperation and exchange of information between Quality Assurance Agencies in the region	Continuous	Partially implemented	

The analyses may be summarised as below. The higher access to EU funding through participation in H2020 programmes as well as the larger number of engaged researchers and academics from the region in EU framework programmes confirms the progress of the Western Balkans concerning the mobility of researchers and cooperation with EU universities and research institutes. Nevertheless, three main points have to be highlighted further. The access to funding and number of beneficiaries have not been equally distributed across the region. There is a huge disparity between Serbia – the main benefiting economy both in terms of financial resources and human capital – and other economies in the region. The second point is that, certainly the progress has been evidenced, but the success rate of participation in MSCAs differs quite significantly across economies in the region and for some of them remains significantly below the average success rate of participating economies. Bosnia and Herzegovina's and Serbia's success rate of participation to MSCAs is above the 14% average. In contrast, success rate in the Republic of North Macedonia does not exceed 6%. Certainly, the success will depend on the quality of the education system, researchers and universities in the region who have to compete in many cases with high ranking and very competitive universities in the EU. This issue brings us to the third point, the one on research capacities. Capacity building, networking and cooperation with universities and research institutions in the EU and worldwide requires also a sound and well-established research infrastructure, which the region does not have. Deficiencies in research infrastructure would be properly evidenced and addressed if economies in the region would have progressed with the mapping of existing research infrastructure according to the agreed timeline. Exceptionally, Serbia has completed and adopted the Research Infrastructure Roadmap in 2019. Also, in 2019, Montenegro revised the Research Infrastructure Roadmap produced initially in 2015. Montenegro has been encouraged by the European Commission to take such actions after the opening and provisional closure of Negotiation Chapter 25 – Science and Research (MMS, 2019). Consequently, the EU support to candidate economies during the screening process and opening of chapters is important.

Partial implementation and delay have affected the negotiations on the mutual recognition agreement of professional qualifications for doctors of medicine, dentists, architects and civil engineers in a multilateral framework. Negotiations were launched on 19th December 2019 and were supposed to be finalised in December 2019. The 7th meeting of negotiations held in Brussels remained unsuccessful because the negotiating parties could not agree on the framework of negotiations. The challenge of reaching such an agreement depends on a number of actions and reforms in the education system which would align it to the EU norms and make it equivalent through all economies in the region. Such reforms are still not

implemented. Certainly, the Declaration on Recognition of Higher Education Qualifications presented on July 2019 in Poznan is a step forward in this direction because economies have been committed to set up a model for automatic recognition of academic degrees, and prepare the recommendations for recognition of third cycle academic degrees in accordance with the Bologna Process and other EU norms. Having an equivalent education system through all economies in the region would certainly facilitate the recognition of professional qualifications for the first group of selected professions and other groups afterwards. In conclusion, the lack of consensus about the negotiations framework and the dependency on educational system reforms are delaying the completion of this action.

Other highlighted challenges in bringing forward the innovation agenda include those related to labour market features of the economies in the region. Weak involvement of social partners – also because of a low organisational density of trade unions and employers' associations – relaxed employment protection rules and decentralized wage-setting mechanisms certainly go against a cooperative relationship between employers and employees (Astrov et al., 2020; Matusiak and Kleibrink, 2018). As a consequence, this might not only generate disincentives for investment in the training of employees, but also affect productivity negatively. In order to support structural change in a productive way, the involvement of all stakeholders – employers, employees and social partners – would be needed (JRC, 2018).

4.4. Potential new measures, actions and objectives

Bringing forward a regional mobility agenda implies that economies in the region should cooperate and coordinate their efforts for setting up common objectives and actions which would assist them to be more competitive at national, regional and international levels.

The evidence provided above points out that the objectives and actions implemented in the framework of the MAP REA have made an important contribution to remove obstacles to mobility of the highly skilled within the region. The establishment of the regional Centre of Excellence to promote collaboration between science, technology and industry is a great achievement assisting the research community to expand. Such centres should be further expanded, and research hubs which offer better employment and earnings opportunities within the region should be envisaged.

One of the key issues emerging from this analysis is that, among the highly skilled, moving out of the region is more attractive than moving within the region. Certainly, better working opportunities and earning expectations or higher returns to human capital out of the region, combined with the deteriorating trust in institutions in the region, makes outward mobility more alluring than inward regional mobility. However, the economies in the region have an urgent need to change their economic model and keep the pace with innovation, digital and skills agenda in order to be competitive at regional, EU and global levels.

Implementing such agendas would require being equipped with an adequate workforce possessing proper skills. Therefore, a regional mobility agenda needs to promote and sustain additional efforts which foster cooperation and coordination among the economies in the region for identifying skills in demand and supply, and introduce new measures on how mobility within the Western Balkans could assist the labour markets of the economies in the region with any emerging imbalances, but also in adequately responding to new economic and technological transformations.

If not combined with incentives to attract, retain or bring back home talents, rising students' and researchers' international mobility hampers human capital enhancement and prevents economies in the region to innovate. The importance of research and innovation (R&I) for future development has been recognized. Innovation performance in WB6 economies has improved and the innovation policy framework is being continuously upgraded to

EU standards. Nevertheless, the innovation model should create more space for interaction between the private and the public sector.

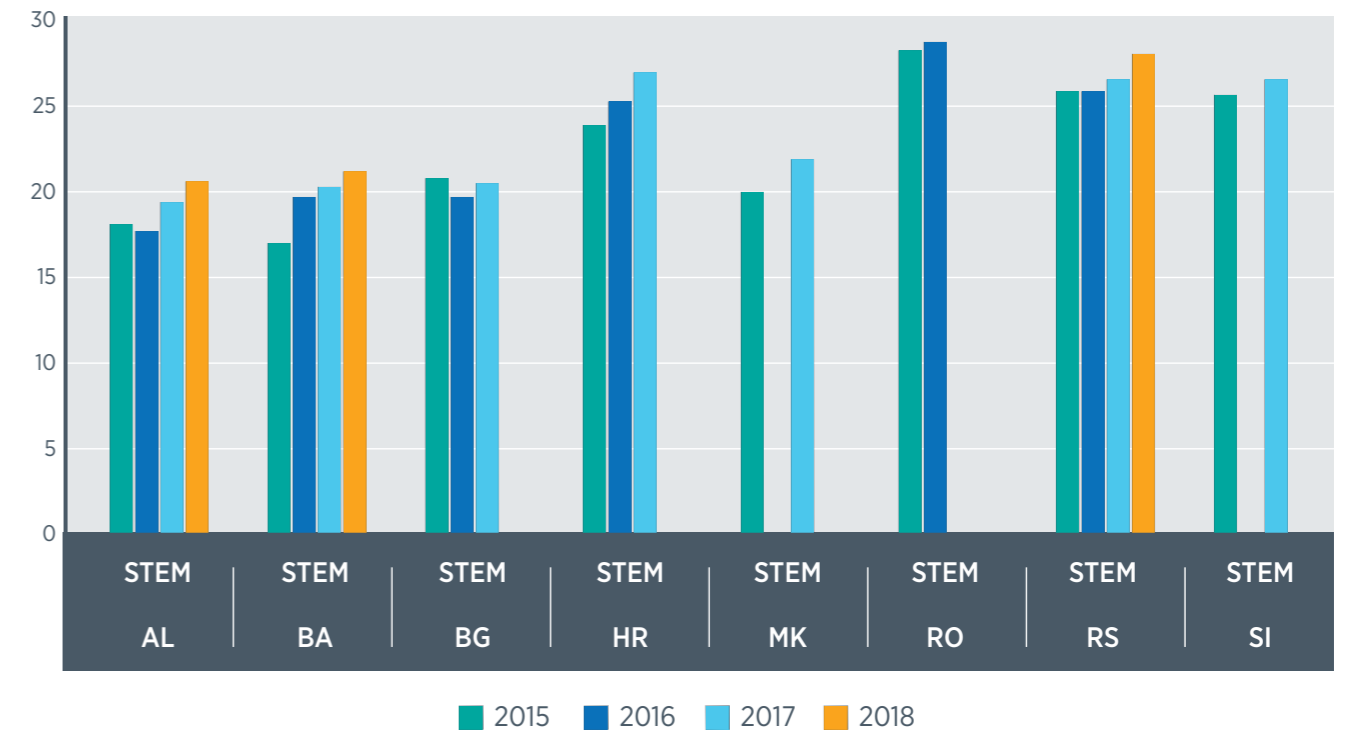
Due to COVID-19, exports and income from tourism are expected to fall, given the strong contraction of the main economic partners, especially in the EU. The economies of the EU are also the ones where most of the emigrants from the region reside. As a consequence, remittances might fall quite substantially, but also the mobility patterns will dramatically change. The COVID-19 emergency is imposing important budgetary shifts. Depending on which agendas the economies in the region are willing to pursue might also determine their ability to move forward certain agendas, including the one on innovation. Therefore, the transformations due to COVID-19 have to be handled as an opportunity, and not as a threat. Online platform jobs have to be supported further, given that COVID-19 is very likely to change the work and mobility patterns, especially among the highly skilled whose professions are less dependent on physical presence. Online work platforms are already a vivid reality also in the Western Balkan economies⁶⁵. Digitisation and fragmentation of work have been facilitated by the lockdown due to COVID-19. Therefore, the WB region should be able to adjust to the new reality as well by pushing further the digital agenda and fostering digital skills.⁶⁶

Online jobs for different professional groups might create new opportunities for highly skilled professionals in the region, especially in ITCs. In absolute terms, the enrolment of students in STEM and particularly ITC programmes has increased over the last decade, and in terms of enrolment rate to ITC programmes, the figure is higher than in other economies such as Romania, Bulgaria and Slovenia, but also Germany, see Figures 3.19-3.20. The rising demand for online jobs and digital skills, especially among the youth, might offer greater opportunities for the later groups which are particularly affected by high unemployment rates and labour underutilisation. Therefore, digital innovation hubs might be further promoted and supported, taking advantage of the increasing number of staff trained in ITC. Certainly, this would further improve the competitiveness of individual economies in the international arena and might attract and retain talents in this sector.

Disruption of teaching programmes at universities has and will significantly affect international students' and researchers' mobility, including the ones from the region. According to IOM (2020), a recent survey of prospective international students showed that 60% of them had to change their study plans due to the pandemic emergency. Video conferences and online platforms, online conferences or lecturing have increased significantly due to COVID-19. Also, students and researchers in the region had to adjust and rely also on different online platforms. Therefore, open science/innovation comes at the forefront and is an important tool to assist researchers and the scientific community in the region to preserve and strengthen further regional and international cooperation between universities, access and transfer of knowledge. Establishing research hubs and enhancing communication within the region and at the international level through open science should be further promoted, under the conditions of limited mobility. Through open science, the access, circulation and transferability of knowledge would be further enhanced and a larger scientific community would benefit from it.

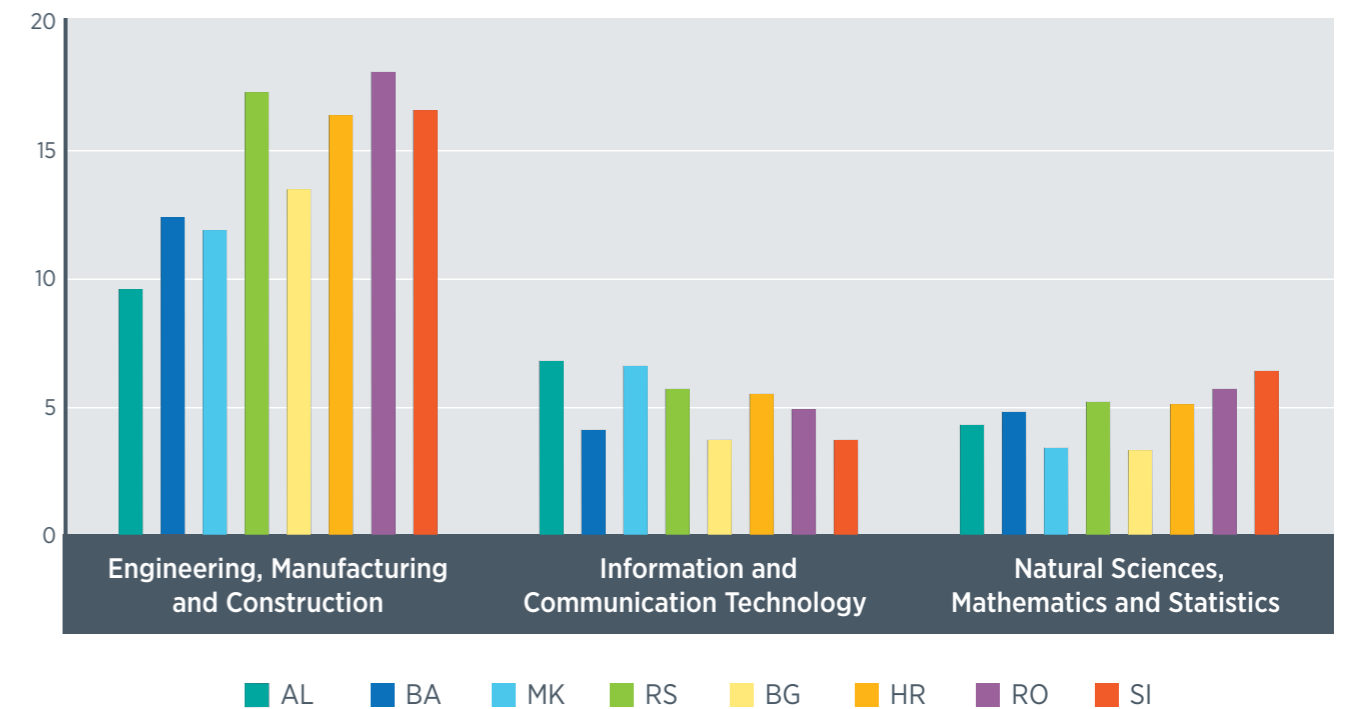
65 <https://ilabour.oii.ox.ac.uk/online-labour-index/>
 66 <https://ilabour.oii.ox.ac.uk/online-labour-index/>

Figure 4.19 / Graduates from Science, Technology, Engineering and Mathematics programmes (STEM) in tertiary education, %



Source: UNESCO statistics⁶⁷

Figure 4.20 / Graduates from STEM: breakdown by programmes, in %⁶⁸



Source: UNESCO Statistics

67 Dataset: Education Indicator: Total outbound internationally mobile tertiary students studying abroad.
 68 In Germany enrolment of students at STEM is at 36%, in ITC at 4.5% as of 2017, UNESCO statistics.

The promotion of an intra-regional mobility agenda should have the scope to support economies in the region in satisfying certain demand for workers and skills in a coordinated way that could be beneficial for the whole region. Therefore, some of the new objectives and actions to be pursued are as follows:

Objective	Actions
Objective I: retain and attract high skilled workers	<ul style="list-style-type: none"> a) Coordination and cooperation for mapping skills in demand and supply in the economies of WB and promote circular migration within the region to tackle labour and skill shortages. b) Coordination and cooperation for introducing fiscal stimulus and incentives for retaining and attracting high skilled workers, financial support for launching of start-ups by high skilled returnees, financial incentives to private businesses that hire high skilled returnees and better coordinated efforts on the transferability of pension rights and social security contributions. c) Coordination and cooperation for establishing a proper distribution of students' enrolment to vocational and tertiary educational programmes, especially as concerns STEMS, in line with types of skills in demand and in accordance with the needs of the private sector. d) Coordination and cooperation for promotion of new policy tools or measures which would encourage the return of political scientists graduated abroad, talented people with outstanding managerial and leadership skills which could contribute to better governance of economic and political agenda in the region. e) Coordinate efforts and cooperation to design programmes which would promote return migration of highly skilled, involve diaspora and strengthen the links with it, especially with successful entrepreneurs in diaspora which could invest and support knowledge transferability and attract more FDI in the region.
Objective II: enhance research infrastructure, capacity building and access to funding	<ul style="list-style-type: none"> a) Further promotion of Erasmus+ and Horizon Europe, promotion of EU programmes and international programmes which support networking, access to funding and research cooperation at regional and international level. b) Increase the participation rate to Erasmus+ and Horizon Europe, increase the number of successful applications and improve absorption capacities of research funding by promoting joint efforts and strengthen regional cooperation through regional research consortiums. c) Establish regional research consortiums and strengthen the cooperation with research community abroad or researchers and scientists from the region which are part of the research community abroad. d) Promote actions at regional level for upgrading the research infrastructure in coordination with the needs of the respective economies and in accordance with a regional innovation agenda. e) Promote actions and coordinate efforts for raising the capacities for research and development, support researchers and doctoral researchers to have a better working environment and better career prospects by getting the private sector more involved to financially support the scientific work.
Objective III: establish Western Balkan Job Mobility portal	<ul style="list-style-type: none"> a) Coordinate efforts and cooperation to design a portal where people in the region would be informed not only about working opportunities in other economies within the region, but also with respect to regulations about living and working conditions in the neighbouring economies in the region, legal requirements and portability of pension and social rights. b) Coordinate efforts and cooperation between public employment services in the region to share information about job offers which could assist job seekers to promote themselves, but also companies to find the workers with the proper qualifications. c) This job portal could be designed similar to EURES job portal of the EU https://ec.europa.eu/eures/public/en/homepage.

Objective	Actions
Objective IV: extend and enrich the evidence about potential mobility among highly skilled and professionals' groups	<ul style="list-style-type: none"> a) Public Opinion Balkan Barometer could extend the range of information collected as concerns occupational groups and working sectors of respondents and any expectations about level of earnings at home, abroad or within the region for those prone to mobility. b) Improve the collection of indicators about human capital, high skilled mobility, labour market needs for skills and vacancies by occupation and working sector. Further details are provided in table 3.5.

4.5. Potential new data, analysis and monitoring tools

Mobility of the highly skilled, brain gain and brain drain are much debated themes in the region. Nevertheless, there is no comprehensive research or empirical evidence about beneficial or detrimental effects – social, economic or demographic – of the highly skilled mobility, especially as concerns its impact on human capital and labour market adjustment.

Analysis of skills in supply and demand

Outward mobility of the highly skilled has been intense, but the educational composition of the labour force has been rising as well. The remaining major challenge is labour market inefficiency – high unemployment rates persisting over time combined with excessive supply of the highly educated that the labour market is not able to absorb. The digital revolution transforms the type of jobs and consequently skills in demand and requires a change in the structural composition of the workforce. The number of the highly educated is on the rise, but the workforce is inadequate for the specific skills needed in a changing labour market. Businesses in the region tend not to be content with the skills of the workforce acquired through the education system (Balkan Business Barometer, 2019. wiiw and the World Bank, (2020) also argued that the workforce in the region is not well prepared for the digital transformation of jobs. Businesses in the region try to correct that, and investment in digital skills has been rising especially through 'on the job training or internal training' – as the most popular training mode in 40% of cases – but also through 'workshops, seminars or conferences' and 'online courses or webinars'. The latter category of training for the acquisition of digital skills is likely to expand, given the transformation imposed by the COVID-19 emergency. Accordingly, further surveys which would allow analysing of the digital skills at sectorial and occupational levels might shed light on a spectrum of skills of the workforce in the region.

Foster et al. (2019) show that a higher stock of migrants in a destination economy might be positively associated with higher FDI inflows to the sending economies of migrants. Also, a number of gravity modelling mobility studies (Landesmann et al., 2015; Mara et al., 2019) have shown that ethnic ties, language proximity or language skills (wiiw and World Bank, 2020) are important drivers of mobility. Therefore, language skills and language proximity might be a comparative advantage that the economies should make use of. Accordingly, further surveys which would allow analysing of language skills, frequency of enrolment to different foreign language courses and level of proficiency, broken down at least by four main foreign languages – e.g. four of the working languages of the EU such as German, English, Italian, and French. These four languages are also the predominantly spoken languages in the main destination economies where emigrants from the region reside, but also in the economies where trade relationships are stronger and foreign direct investments inflows higher.

Analysis of labour deployment, vacancies, labour shortages at industry and occupational levels and impact on internal and international migration

Other than remittances, beneficial aspects of migration remain unexplored. The latter helps to alleviate poverty and social exclusion, or partly improve education and health of those

left behind, but little attention has been paid to ways of shifting remittances from consumption to more productive activities which might generate domestic jobs. Also, ways of involving the large communities of migrants who live abroad to invest and transfer knowledge, values and know-how, have been largely neglected.

Rather than a cause, outward mobility of the highly skilled should be addressed as a symptom of an underperforming economy. In the context of WB economies, what can be observed is that outward migration remains intensive. Certainly, for some sectors there are shortages, but what is common for the region is that the capital cities are becoming hubs of employment, since there is a large shift from rural to urban areas. So, shortage of workers is also a regional issue. For example, emigration of doctors is intensifying, but some regions face a shortage, and others an excessive supply. High wage differentials are relevant within and outside the single economy. Therefore, a collection of indicators which would allow for monitoring of labour deployment, labour shortages and vacancies at industry or occupational level and how such components affect regional and international mobility should be facilitated.

Analysis of mobility of the highly skilled, its main drivers and impact on human capital, adequacy of the workforce and skills

As wiiw and World Bank (2020) pointed out, the *'challenge is not only to equip the workforce with the right skills, but also to provide incentives and an environment that keeps skilled people from migrating. Improving the skills of the workforce is necessary but not sufficient; there is a need for broader reforms that also take into account the migration of skills out of the region'*.

Accordingly, further new research has to be devoted to drivers of highly skilled mobility; does the outward migration of the highly skilled negatively affect the structural composition of non-migrants in the short and long term; does the opportunity to emigrate increase investment in human capital for those who are at home; which are the beneficial outcomes of outward migration of the highly skilled? Is it accompanied by the transferability of knowledge and know-how? Is return migration of highly skilled workers or students who graduate abroad occurring, and at what intensity? How to promote further brain circulation and how to attract and retain talents in the region? The size and profile of highly skilled migrants might be another research direction. The evidence about the size of highly skilled migrants over the last decade is incomplete. The most relevant empirical evidence dates back to 2011 and is provided by the Brain Drain Database (Brücker et al., 2013). Therefore, collecting new statistics about mobility by level of education should be supported.

Analysis of labour market efficiency

Labour market efficiency and the impact of professionals' mobility is another stream of research which needs to be promoted. Labour market efficiency can be analysed by looking at vacancy rates for different professional groups; skills in demand; identification of shortages of workers or skills at sectorial and occupational levels. Labour supply and demand and labour market adjustments strongly depend on the mobility of professionals within and outside the WB economies. It is also highly relevant to analyse what drives the mobility among different professional groups, e.g. medical doctors. Analysing the motives of migration might be relevant for identifying policy actions which would promote temporary rather than permanent mobility.

Analysis of the adequacy of the workforce

The adequacy of the workforce is another venue of research to be pursued. Investigation has to be extended by looking at the horizontal mismatch – e.g. mismatch between skills of workers and job qualification requirements – which can be captured by comparing educational skill levels (e.g. through ISCED categories) – to occupational skills levels (e.g. ISCO

levels of skills⁶⁹). From the demand side, the scope is to analyse the structure of the companies, changes over time, the kind of skills demanded, and potential for expansion over time, and on the supply side, it is relevant to investigate the type of skills promoted in the education system.

Potential new monitoring tools

New monitoring tools need to be further developed with the scope of understanding the patterns of **highly skilled mobility and its main implications for human capital formation and labour utilisation**; secondly, it is necessary to understand how these components – migration, human capital and labour market – are connected or how they affect each other, and thirdly, how to develop policy actions which would strengthen the beneficial aspects or lessen detrimental impact of high skilled migration on human capital and furthermore improve labour market efficiency.

Combinations of monitoring tools have to be introduced to look at:

- ◆ Dynamics between migration, human capital and labour market.
- ◆ Labour supply – labour demand mismatches: e.g. shortages of workers, skills and excessive labour supply at sectorial level and the role of mobility to tackle labour market imbalances and certain demand for skills.
- ◆ Investigate potential beneficial aspect of highly skilled mobility: Return migration, diaspora involvement and transferability of knowledge, remittances and their impact on education and human capital, identify channels for remittance allocation more into investment.
- ◆ Identify actions and programmes tracking high skilled migration and its effects on human capital and labour market, e.g. public or private actions managing mobility of the highly skilled (e.g. changes in migration and visa regimes in the destination economy or return migration programmes promoted in the WB economies); public or private actions incentivising mobility: e.g. exchange programmes for students and programmes which promote transferability of knowledge and brain circulation.
- ◆ New policy instruments are trying to address the negative consequences of brain drain by fostering brain circulation (COST, 2019⁷⁰). COST cross-cutting activity on brain circulation is expected to be launched in 2020, limiting brain drain in Europe.

A number of indicators which would allow monitoring of progress with respect to migration, human capital and labour market efficiency might be the ones presented in Table 3.5. Following the European Skills index⁷¹, indicators on mobility and human capital might be complemented with skills performance indicators relevant in the context of the WB region.

69 International Labour Organization (ILO) classification of International Standard Classification of Occupations (ISCO).

70 COST provides networking opportunities for researchers and innovators in order to strengthen Europe's capacity to address scientific, technological and societal challenges. At COST, there are three strategic priorities: Promoting and spreading excellence, fostering interdisciplinary research for breakthrough science and empowering and retaining young researchers and innovators. COST implements its mission by funding bottom-up, excellence driven, open and inclusive networks for peaceful purposes in all areas of science and technology.

71 European Skills index: <https://www.cedefop.europa.eu/en/publications-and-resources/data-visualisations/european-skills-index/skills-activation>

Table 4.5 / Statistical indicators about human capital, migration and labour utilisation

Human capital	Migration and education	Labour market efficiency	
Human capital index	High skilled migration	Labour demand side	Labour supply side
Education structure of the working age population and progress over time - Qualitative (quality of education, Reading, maths & science scores, computer skills) - Quantitative (years of schooling).	Education structure of migrants, working sectors and occupations of migrants abroad	Structure of businesses and changes over time, vacancy rates by sectors, occupations	Structure of the employees, by gender, age, education, working sector and type of employment
Enrolment rates in tertiary education by type of programs: - at home - abroad	Drivers of mobility: push and pull factors such as: - economic (unemployment gap, wage differential); - social and demographic (e.g. population growth) - gap in the quality of institutions	Change in the structure of the economic sectors	Demographic changes over time: working age population
Investment in human capital (e.g. governments and households) through: - programmes at home - through migration/mobility	Remittances and potential for investment at home	Productivity, wage dynamics at sectorial and occupational level and changes over time	Skill mismatch - Over-qualification rate - labour underutilisation
Return and transferability of skills from abroad	Impact of remittances on education at home	Labour and skill shortages	Skills Activation - Transition to work - Early leavers from training

A further step in this direction could be building an inventory of:

- ◆ Policy actions which emerge, being important for improving and enhancing the beneficial impact of high skilled migration on human capital, labour market and skills needs in specific economies of WB6.
- ◆ An inventory of policy actions or programs that would monitor coordination between the education system and the business community as concerns skills formation through the education system and those demanded in the labour market; main challenges and possible policy actions to deal with horizontal mismatches between skills and job qualification requirements.

Table 4.6 / Collection of evidence about policies targeting human capital, migration and skills in the labour market

Intervention programmes: inventory of good practices			
Education enhancement-oriented programmes	Job search oriented programmes: bridging the move from education to employment	Active labour market-oriented programmes: enhancing skills and chances of employment	Migration oriented programmes: retain skilled workers and attract graduates from abroad, involvement of diaspora, bilateral agreements for facilitating circular migration

5. Digital Component

5.1. Context

The use of digital technologies can generate great benefits in terms of macroeconomic development as well as speed, efficiency and transparency of economic activities across borders or boundaries. Digital integration improves the supply of new services to consumers and businesses and supports socio-economic development, high value job creation and a knowledge-based society. The Digital integration component envisages a regional approach to intergovernmental cooperation in digital matters and integration within the European Digital Single Market.

Digitalisation, the use of information and communication technologies involves a broad set of benefits and promotes economic growth, productivity, and employment (OECD, 2017). However, 'as it progresses unevenly it might create opportunities for business and citizens on the one hand while leaving those behind that are not connected to these technologies. Thus, it might also create new digital divides and inequality' (OECD, 2018). Looking at economic effects in particular, a recent study by ITU (ITU and UN-OHRLLS, 2019) confirms earlier studies (see literature overview by Minges, 2015) that ICT has a stronger impact on developing economies than on developed ones. It states that a 10 per cent increase in fixed-broadband penetration increases GDP/capita by 2.0 to 2.3 percent in developing economies, but only by 0.8 percent in the full sample (developed and developing economies). A 10 percent increase in mobile-broadband penetration leads to an increase of GDP/capita by 2.5 to 2.8 percent, but only by 1.5 percent in the full sample. A comprehensive study (Barbić et al., 2018) analysed the benefits of digital transformation for the Western Balkan economies. It found that a 10 percent increase in the digitalization index increases GDP by 0.63 percent. Also, the effect on productivity was investigated and was found to be higher for manufacturing than for services: A 1 percent increase in the digitalization index increases productivity by 2.12 percent in manufacturing and 0.67 in services. Also, employment effects were found to be positive for manufacturing, as a 1 percent increase in the digitalization index leads to a 1.16 percent increase in employment (findings for services were not significant). Besides measurable impacts, the study stresses that previously marginalised population groups can be integrated into the economy more easily. Other positive impacts were found in the public sector, where digitalization contributes to the rule of law and reduces the potential for corruption. Finally, the study also sees opportunities for a stronger cooperation in the region and a swifter integration into the pan-European digital market.

The importance of information and communication technologies became apparent at the beginning of 2020, when COVID-19 hit our societies. From one moment to another, our lives shifted from the real world into the virtual one. When offices, shops, schools, museums and theatres and sports facilities were closed, the Internet became our window to the outside world. Home-office, e-schooling, online shopping, sports units, museums tours and even concerts moved to the Internet. Also, our habits changed to more streaming, communicating on telephone, or data transfer – Zoom or MS Teams recorded new heights in their usage, MS Teams had 12 million new users in a single week.⁷² However, this put a strain on the internet and fears arose that it might collapse (Germany, Poland, Austria, Spain).⁷³ Also criminals moved into the internet and cybercrime increased. For example, Kaspersky's data for the

⁷² <https://www.globsec.org/2020/05/11/covid-19-in-CEE-infecting-the-world-wide-web/>

⁷³ <https://www.globsec.org/2020/05/11/covid-19-in-CEE-infecting-the-world-wide-web/>

first quarter of 2020⁷⁴ showed a strong increase in mobile malware and mobile banking Trojans (they were 2.5 times higher than in Q4 2019). In the WB region, Montenegro and Serbia belonged to the top 10 economies attacked by ransomware Trojans. Bulgaria topped the global economy list where users faced the greatest risk of online infection, Albania followed on the eleventh place and also the other WB economies had a high risk. Another incident occurred during the COVID-shutdown when the official electronic database of COVID-cases was compromised in Serbia; similar incident happened in Montenegro, and there was a system collapse of online final school exams in Serbia.⁷⁵ However, positive trends also emerged in the WB region: promotion of e-platforms for official documents; e-schooling; growing number of digital initiatives or digitalization of psychological support.⁷⁶ The article⁷⁷ concludes with some recommendations: to introduce a variety of digital tools in education, capacity building of educators and better coordination among governments. It states that 'While there are improvements in terms of the implementation of the Digital Agenda in the Western Balkans, it is evident that many of these solutions should be available long-term. The last few months proved that digital transformation moving forward is indisputable in the whole region'.⁷⁸

However, as already indicated in the introduction, WB6 are on average less ready for the digital economy than their regional peers in SEE (including Bulgaria, Croatia, Romania and Slovenia), as indicated by several international indices. The Network Readiness Index (NRI, Dutta and Lanvin, 2019) shows that SEE peers ranked globally in 2019 between 49th (Bulgaria) and 27th place (Slovenia), while the WB6 have reached only positions between 81 (Bosnia and Herzegovina) and 52 (Serbia). The NRI measures readiness in terms of technology (access, content, future technologies), people (individuals, businesses, governments), governance (trust, regulation, inclusion) and impact (economy, quality of life, Sustainable Development Goal (SDG) contribution). On average, WB economies show higher values for the governance and impact pillar, followed by the technology pillar and trailed by the people's pillar with the lowest values (see Figure 5.1). On a more detailed level, SDG Contribution (D.3.), Regulation (C.2), Quality of Life (D.2) and Access (A.1.) score high on average. On the other end, Governments (B.3), Businesses (B.2.), Future technologies (A.3) and Economy (D.1. reflecting the status of medium-, high tech sectors in the economy as well as productivity) score the lowest on average.

74 Kaspersky - IT threat evolution Q1 2020. Statistics By Victor Chebyshev, Fedor Sinitsyn, Denis Parinov, Oleg Kupreev, Evgeny Lopatin, Alexey Kulaev on May 20, 2020. 10:00 am; Available at: <https://securelist.com/it-threat-evolution-q1-2020-statistics/96959/> download from 22/05/2020

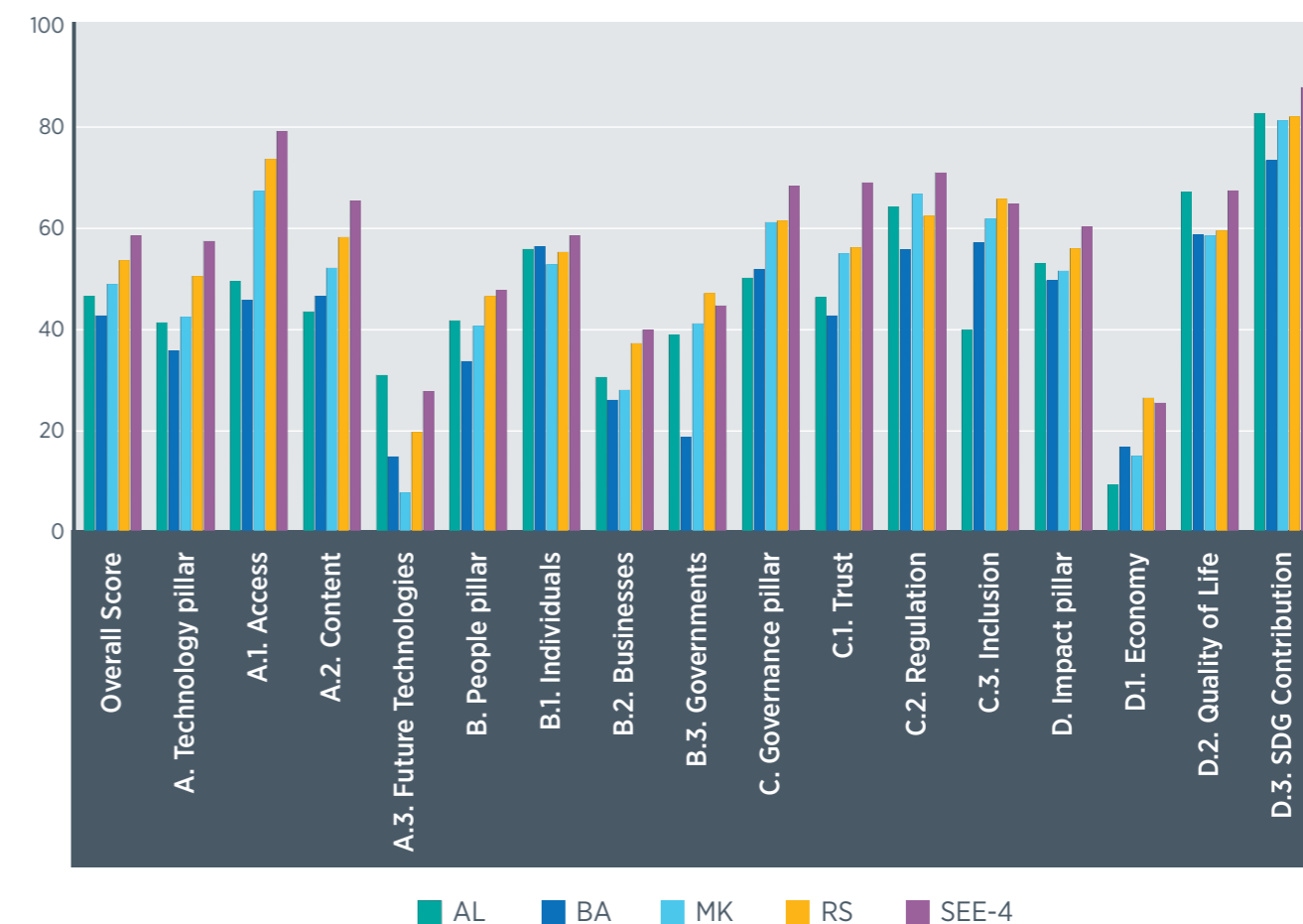
75 See Article COVID-19 and the digitalization of the Western Balkans, May 14, 2020 available at: <https://wbc-rti.info/object/news/20531>

76 Ibid.

77 Ibid.

78 Ibid.

Figure 5.1 / Network Readiness Index, 2019



Note: SEE-4 simple average Bulgaria, Croatia, Romania and Slovenia. Montenegro and Kosovo* are not included in the ranking.

Source: Dutta, S. and B. Lanvin (2019).

The ICT Global Development Index (IDI)⁷⁹ from the International Telecommunication Union for 2017 shows that the WB economies are at a middle level of ICT development when observed globally. The index summarizes a set of indicators on ICT infrastructure, usage and skills. The WB6 scores are lower compared to their SEE peers, where Slovenia shows the highest score (7.38), followed by Croatia (7.24), Bulgaria (6.86) and Romania (6.48). Within the WB region, the biggest progress, i.e. the highest score was achieved by Serbia (6.61 – thus higher than Romania), Montenegro (6.44) and the Republic of North Macedonia (6.01), while Bosnia and Herzegovina (5.39) and Albania (5.14) show the lowest scores and thus the least progress. The EU's Digital Economy and Society Index (DESI) for the year 2018 ranks Serbia (as the only WB economy included in this index so far) on the 25th place. Serbia lists at the bottom end, lower than Slovenia and Croatia, but higher than Bulgaria and Romania, which rank the lowest (see RATEL, 2019).

The European Commission pushed forward the digital transition and integration in the WB region in its strategy 'A credible enlargement perspective for and enhanced EU engagement with the Western Balkans', which was adopted on 6 February 2018. The Commission presented its communication 'A credible enlargement perspective for and enhanced EU engagement with the Western Balkans',⁸⁰ announcing six flagship initiatives for the region, including the Digital Agenda for the Western Balkans. It encompassed 5 areas of action: a

79 <https://www.itu.int/net4/ITU-D/idi/2017/index.html/>

80 <https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement->

roadmap to facilitate lowering roaming costs; support to the deployment of broadband; the development of eGovernment, eProcurement, eHealth and digital skills; capacity building in digital trust and security in parallel to efforts enhancing the digitalisation of industries; and enhanced support for the adoption and implementation of the acquis.

In the Sofia Declaration⁸¹ of 17th May 2018, the leaders of the European Union (EU) and its Member States, in consultation with the West Balkan partners launched the Sofia Priority Agenda for the EU and the Western Balkans. Under the heading of ‘A Digital Agenda for the Western Balkans’ the Sofia Priority Agenda comprises:

1. Launch a Digital Agenda for the Western Balkans, including a roadmap to facilitate lowering the cost of roaming
2. Launch a substantial technical assistance package of EUR 30 mn for the identification of potential digital investments (including broadband) through Western Balkans Investment Framework/Instrument for Pre-accession Assistance

On 17th May 2018, the ‘Western Balkans partners pledged their joint commitment to the Digital Agenda as a key step on their European path, including support for lowering roaming charges within the region and with the EU.’⁸²

At the Digital Assembly in Sofia on 25th June 2018, the European Commission formally launched the Digital Agenda for the Western Balkans.⁸³ The Commission services and the Western Balkan economies committed to (a) invest in broadband connectivity (through pledging EUR 30 mn for digital infrastructure projects under the Western Balkans Investment Framework); (b) to increase cybersecurity; trust and digitalisation of industry (through support of capacity building); (c) to strengthen the digital economy and society (by supporting the deployment of eGovernment, eProcurement, and eHealth tools and help increase digital skills among citizens through involvement in European initiatives and events), and (d) to boost research and innovation (by helping to set up national research facilities and develop state-of-art e-infrastructures and to integrate them in an emerging digital European Research Area). The EU-Western Balkan ICT Dialogue was launched in July 2019 to help organise the process of implementation of the Digital Agenda as well as ensure peer to peer learning and networking.

The Digital Agenda for the Western Balkans is seen to ‘complement the Digital Integration actions agreed by the leaders of the region in the Multi-Annual Action Plan on a Regional Economic Area (Trieste, July 2017), and reflect the conclusions of the Balkans Digital Summit in Skopje on 19th April 2018 (see European Commission, 2018, p.1) and Digital Summit in Belgrade on 4-5th April 2019.

In its digital integration priority, the MAP REA focuses on four policy areas:

1. Digital environment networks and services, connectivity and access: The main aim is to boost digital infrastructure development and regional connectivity; harmonise spectrum policy and coordinate roaming policies towards a roaming free economic area
2. Trust and security in digital services: The objective is to enhance cybersecurity, trust services and data protection
3. Digital economy and society, Inclusive digital society: The main aim is to develop and strengthen supply of digital skills
4. Digitalisation, Data economy, Standards and Interoperability, Innovation: The main objective is to promote the uptake of smart technologies and accelerate digitalisation

perspective-western-balkans_en.pdf/

81 https://www.consilium.europa.eu/media/34776/sofia-declaration_en.pdf

82 https://ec.europa.eu/commission/sites/beta-political/files/boosting-digital-connectivity_en.pdf/

83 https://ec.europa.eu/commission/presscorner/detail/en/IP_18_4242/

Overall, the MAP REA encompasses a broad range of actions, ranging from transposition of EU acquis, setting up regulatory frameworks, building institutions, integrating these into the EU frameworks, and foremost, fostering cooperation among the WB economies.

Up to now, two Western Balkan Digital Summits took place: The first one in Skopje on 18-19th April 2018 and the second one in Belgrade on 4-5th April 2019. The 3rd WB Digital Summit was scheduled for 2-3rd April 2020 in Tirana, but had to be postponed due to the Covid-19 outbreak. The 3rd *Western Balkan Digital Summit*, a flagship event of the regional economic integration agenda, was held on a hybrid form through online sessions held on 26-28th October and concluded by the ICT Ministerial held on 2nd November 2020 in Tirana to build upon the achievements from the last Digital Summit and commit to new challenges ahead. The Digital Summit brought about the signing of the *Memorandum of Understanding on regional interoperability and trust services in the Western Balkans Region and the Memorandum of Understanding on 5G Roadmap for the digital transformation of the Western Balkans region*, based on EU standards and mirroring the best practices in the EU.

A major milestone has been the signing of the Agreement “On the price reduction of the roaming services in public mobile communication networks in the Western Balkans region” (RRA2) on 4th April 2019 in Belgrade by all WB-economies. It provides for a reduction of prices for voice/data and SMS and for the introduction of RLAH (Roam Like at Home) regime by 1st July 2021 in the region. The Regional Roaming Agreement that entered into force on 1st July 2019 provided for substantial roaming charges reduction within the Western Balkans. Currently, we pay on average from 83% to 96% less roaming charges throughout the region.

The Western Balkan economies increased their participation in EU digital bodies, programmes and initiatives:

- ◆ WB economies Regulatory Authorities participate in the Body of European Regulators for Electronic Communications (BEREC). The new working arrangement as of mid-March 2019 allows the participation of all WB NRAs in BEREC Board of Regulators, BEREC working groups and BEREC Management Board. In addition, the Annual ICT Regulatory Dialogue between Western Balkans and EC as part of Digital Agenda has been launched and the first meeting was held on 9th July 2019.
- ◆ BCO (Broadband Competence Offices) contact points of WBs joined the EU BCO workshop for the first time in Warsaw, 11-12th June 2019.
- ◆ Promoting digital skills, WB economies participated in the EU Code Week and almost 70,000 persons participated in 2018.
- ◆ Participation of Montenegro and recently the Republic of North Macedonia in the ISA2 Programme (interoperability solutions for public administrations, businesses and citizens).

Within the Western Balkans Investment Framework, digital connectivity has become an eligible sector for WBIF funding as of December 2017. For the period 2018-2020, EUR 30 mn is earmarked for technical assistance in digital infrastructure (fixed broadband). Projects focus on white areas, rural areas as well as supporting digital connectivity of education, health, municipal and government institutions (WBIF, 2018). Currently, the WBIF supports 10 projects in the field of digital infrastructure (see Box 1 for details) encompassing an investment value of EUR 309.6 mn, with a grant value of EUR 7 mn and a loan value of EUR 4.3 mn.

Box 1: Western Balkans Investment Framework: Projects in the field of digital infrastructure

Regional Broadband Infrastructure Development (Albania): Feasibility study and development plan for efficient and smart investments in broad-band infrastructure across the economy. ICT investments covered by the project will ensure better internet connection for schools, hospitals, public institutions, local administrations and households.

Development of a Broadband Atlas for Albania (Albania)

Smart Cities – Smart Villages (Albania)

Regional HPC Infrastructure, Interconnection of Regional University Campuses via WB NREN to the Infrastructure and Upgraded HPC-hosting Data Centre (Albania)

Development of ICT Infrastructure in Education (Kosovo*): The feasibility study should assess and evaluate the best possible options for connecting the primary and secondary schools in all territory of Kosovo*/all municipalities, which will enable the promotion of a quality change through extending and enhancing a modern telecommunication infrastructure (National NREN).

Advancing Digital Connectivity for Economic Development in the Municipality of Prizren (Kosovo*)

Republic of North Macedonia Digital Economy (NODE) Project: Through the proposed Project, the Government of the Republic of North Macedonia aims to considerably improve the state of the national digital (broadband) infrastructure by investing in the backhaul networks to benefit selected project areas.

Broadband Infrastructure Development in Montenegro: The ultimate aim of the project is to provide the construction of adequate infrastructure for fast and secure internet to all households, businesses, educational and health institutions in order to support the digital transformation of society and economy

Balkans Digital Highway (Albania, Kosovo*, Republic of North Macedonia, Montenegro): The Balkans Digital Highway initiative aims to improve access to high-speed broadband services nationally and regionally, in and between participating economies, through setting up a regional wholesale broadband network over OPGW infrastructure of the participating TSOs. Thanks to the outcomes of the Project, the TSOs will be able, in collaboration with each other, to offer seamless wholesale broadband services cross-border/boundary and across participating economies.

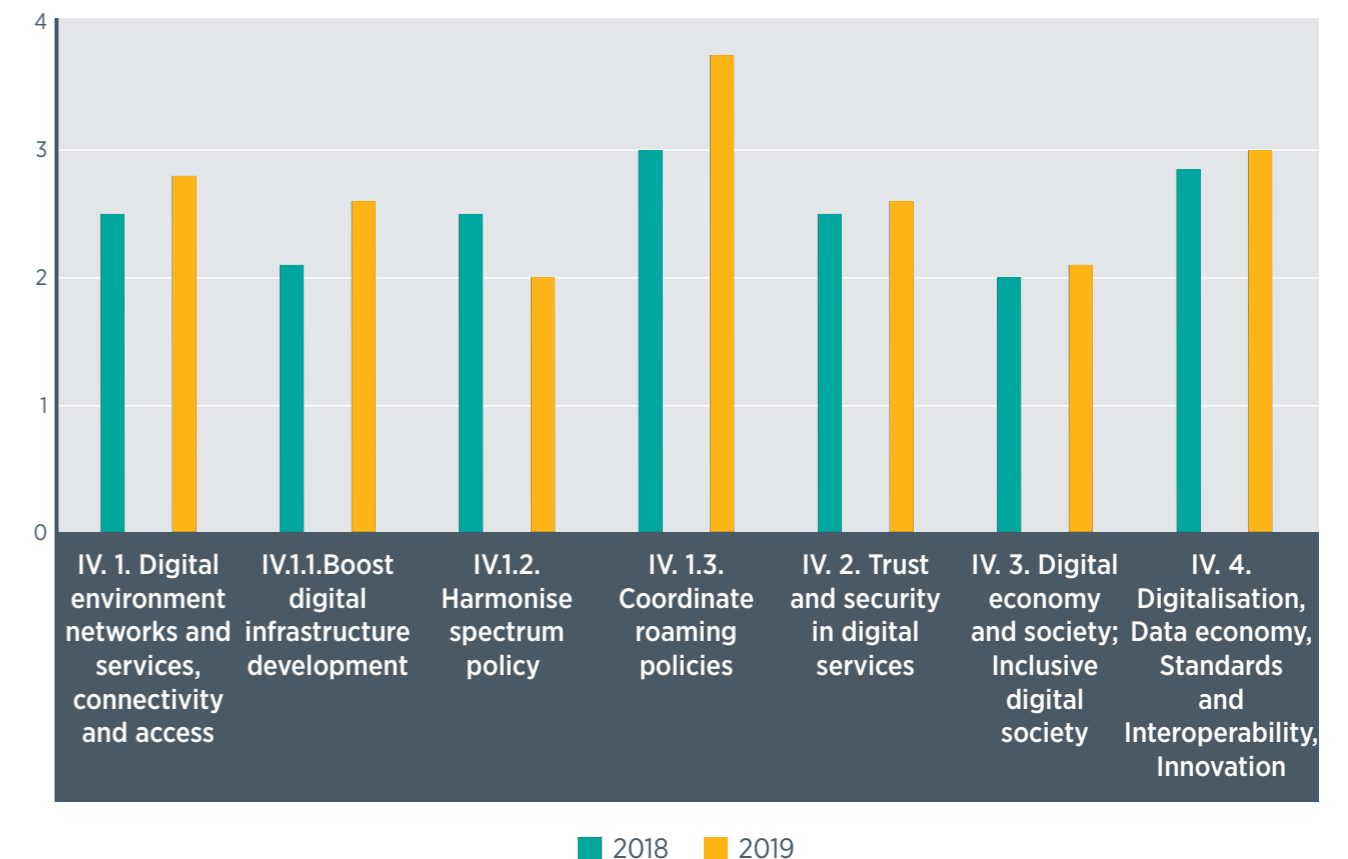
Next Generation Broadband Connectivity for Rural Schools in White Zones (Serbia): This project aims to support the rural broadband infrastructure development in 3 phases through the preparation of the complete project documentation necessary for the implementation and deployment of a rural broadband network to be used by schools.

Source: <https://wbif.eu>; Download as of 2nd July 2020.

Figure 5.2 shows the state of preparedness of the MAP REA policies so far. The policy ‘Digitalisation, Data economy, Standards and Interoperability, Innovation’ shows the highest score (3) and thus a moderate level of preparation. It is followed by the objective ‘Digital environment

networks and services, connectivity and access’ and ‘Trust and security in digital services’. On the lower end, Digital economy and society: Inclusive digital society’ has the lowest score (2) and is thus only moderately prepared. As for the objectives, the ‘Coordination of roaming polices’ exhibits the highest score and is well advanced.

Figure 5.2 / Digitalisation – State of Preparedness of MAP REA Implementation



Note: Scoring assesses the stage of preparedness in MAP REA implementation in line with the respective Methodology for Monitoring and Reporting, and as follows: Early stage (score 1); some level of preparation (score 2); moderately prepared (3); good level of preparation (4) and well advanced (5).

Source: RCC (2019d).

5.2. Measurable indicators

In the European Union, the Commission has implemented the Digital Economy and Society Index (DESI) as a measure for digitalisation of the economy and society in the European economies. It summarizes indicators on digital performance and digital competitiveness and is a composite index. In 2016, the Commission launched a study monitoring the progress made by the EU candidate and potential candidate economies towards compliance with the EU rules for electronic communications and information society services, and convergence with the internal market. It supports monitoring and reporting on the progress and degree under Chapter 10 of the ‘acquis’.⁸⁴ It also includes DESI indicators. In its Staff Working Document on ‘Measures in support of a Digital Agenda for the Western Balkans’ (European Commission, 2018), the Commission acknowledges that the results of this project can help measuring progress in the implementation of the Digital Agenda for the Western Balkans. At the Western Balkan Digital Summit in Belgrade on 4th April 2019, the Western Balkan economies committed themselves to ‘setting a commonly agreed baseline and monitoring

⁸⁴ <https://ec.europa.eu/digital-single-market/en/news/monitoring-electronic-communications-and-digital-services-western-balkans-and-turkey/>

progress in the main areas of the digital transformation, including through the collection of data to benchmark Western Balkans economies using the Digital Economy and Society Index (DESI)⁸⁵. This will guarantee a good data basis for monitoring the progress in digitalisation transformation in the future.

The two components of the EU project included:⁸⁶ First, a regulatory and implementation investigation and second, examining the digital economy and information society by utilising the approach developed by the EU28 Digital Economy and Society Index (DESI). Collected data for the WB economies were published in two reports: 'Status of Digital Economy and Electronic Communications Services in the Western Balkans 2018 (European Commission, DG Connect, 2018) and 'Monitoring the Digital Economy and Electronic Communications Services in the Western Balkans and Turkey, Market Report' (European Commission, DG Connect, 2019). Thus, these two reports serve as a basis for the selection of indicators for digital integration in the WB economies. The 2019-report has provided the following important results:

- ◆ The study sets out to collect about 40 indicators in the following six thematic dimensions: connectivity, digital skills, citizen use of internet, business technology integration, digital public services, and telephony and market revenue.
- ◆ The indicators try to capture the time span from 2013-2018 and the 2019 report shows that overall, there has been improved performance between 2016 and 2018 for all economies.
- ◆ However, not all indicators are available for all WB economies and for all years. Overall, 60% of the required data were provided by the WB economies and Turkey, with Serbia supplying the highest amount of data and Bosnia & Herzegovina the least. Most data are available for the telephony and market revenue dimension (89% of all required data) and connectivity (73%), while the least amount is available for digital public services (38%).
- ◆ Comparison is made to the EU28 average, depicting whether the WB6 economies perform above or below this average in four intervals. Overall, the largest gap of the WB6 occurred in the dimension of digital public services, followed with some distance by citizen use of Internet. In the middle field – but still below the EU-average – digital skills as well as connectivity were placed. In Serbia and Montenegro, the only economies where all data are available in the dimension of business technology integration, these two economies performed even above the EU average.

If data for DESI is collected fully, this database covers all policies from the MAP REA very well, with cybersecurity as the only exception. Thus, there is no need for additional measurable indicators except for cybersecurity (see below for potential indicators for cybersecurity).

The most important indicators are depicted below for each policy area. Comparisons with regional peers Bulgaria, Croatia, Romania and Slovenia show the levels of development in the individual policy areas, changes over time (where possible), and the progress made.

Digital environment networks and services, connectivity and access

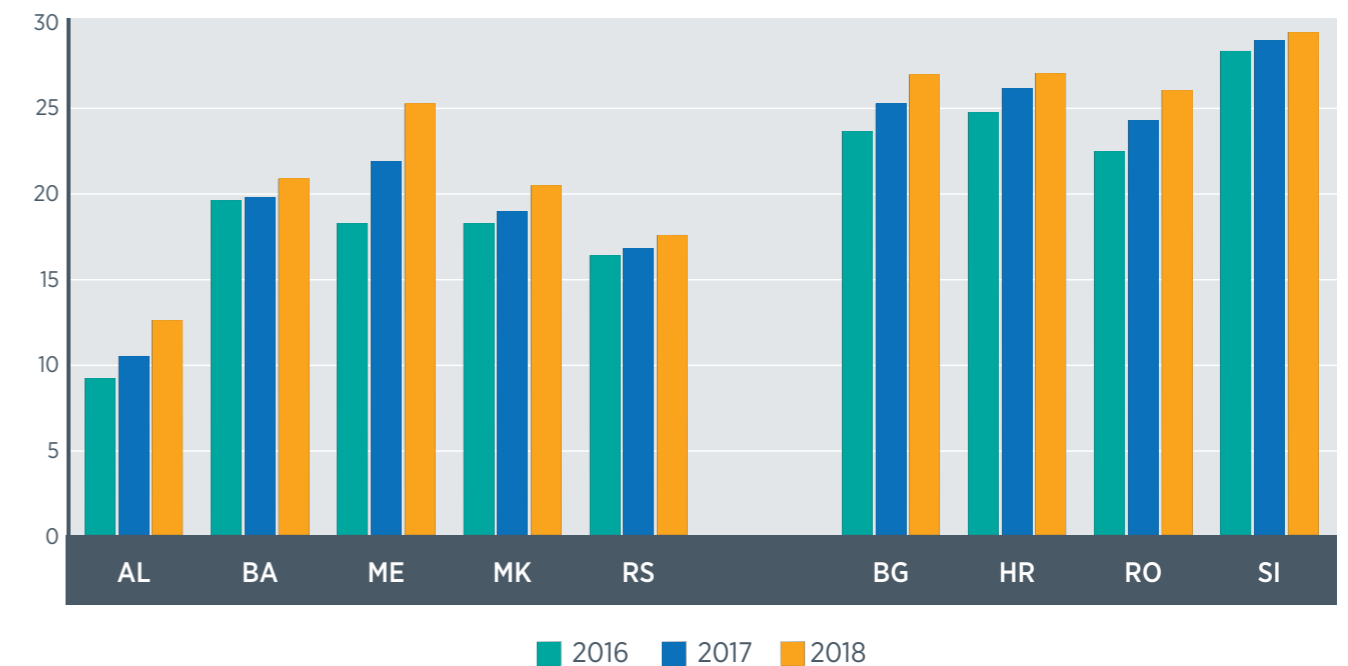
In order to assess the progress in digital infrastructure development in the region, figure 5.3 depicts the fixed-broadband subscriptions per 100 inhabitants from ITU⁸⁷ for three years). The lower levels in the WB region compared to their SEE peers are apparent. Between 2016 and 2018, the rate increased in all economies, with the largest growth taking place in Montenegro.

⁸⁵ <https://www.rcc.int/docs/474/annexed-documents-to-chairs-conclusions-from-the-western-balkans-summit-in-poznan-2019/>

⁸⁶ See Foley, P. (2019), Insights to the digital economy and electronic communications in the Western Balkans. Power-point presentation available at: <https://www.itu.int/en/ITU-D/Regional-Presence/Europe/Documents/Events/2019/Regulatory%20Forum/3.pdf/>

⁸⁷ <https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx/>

Figure 5.3 / Fixed-broadband subscriptions per 100 inhabitants



Source: ITU

The Commission has stressed fixed broadband connectivity as a priority area for potential WBIF support in the region (see WBIF, 2019)⁸⁸ and this has been already confirmed by Digital Summits Conclusions in 2018 and 2019 respectively. The report stresses that 'only fixed broadband can fulfil a real digital transformation because of the high-speed requirements of digital applications' (ibid. page 8). The indicator on fixed broadband subscriptions is a general indicator on the economy level. In addition to low penetration rates, the WBIF report stresses other gaps, i.e. a huge rural-urban divide in broadband access in the region, as well as a low broadband speed.

Table 4.1 presents two indicators for the year 2018 included in the WB-DESI: 4G coverage and mobile broadband take-up. Coverage of 4G is at 100% (Kosovo*) or nearly 100% in Montenegro and Serbia and thus above the levels of their regional peers. Also, it is quite high in Albania and Bosnia and Herzegovina. As for mobile broadband take-up, the gap is less severe. Here, Kosovo* has even higher take-up rate (92) than most SEE peers. Also, Serbia (83) has a comparable level to Croatia (84) and Romania (85). Only in Albania, the take-up rate is significantly lower, and reached only 65 subscriptions per 100 inhabitants in 2018.

Table 5.1 / Mobile broadband indicators, 2018

	4G Coverage In % of households	Mobile broadband take-up Subscriptions per 100 population
Albania	87	65
Bosnia and Herzegovina	.	.
Kosovo*	89	92
Montenegro	97	75
Republic of North Macedonia	100	69
Serbia	96	83

⁸⁸ <https://wbif.eu/storage/app/media/Library/11.Funding/Digital%20connectivity%20under%20the%20WBIF.pdf>

	4G Coverage In % of households	Mobile broadband take-up Subscriptions per 100 population
Bulgaria	80	97
Croatia	94	84
Romania	77	85
Slovenia	98	74

Source: European Commission, DG Connect (2019),

European Commission, DG Connect, DESI 2019 Country Reports available at: <https://ec.europa.eu/digital-single-market/en/countries-performance-digitisation/>

Trust and security in digital services

In order to assess progress in the field of national cybersecurity, international indices might constitute relevant monitoring tools. The WB-DESI does not include the topic of cybersecurity. These indices are the Global Cybersecurity Index from the International Telecommuting Union or the National Cybersecurity Index (NCSI) from the Estonian e-Governance Academy Foundation.

The Global Cybersecurity Index shows the level of commitment towards cybersecurity (see Figure 5.4.). It is a composite indicator published by the ITU (ITU, 2019)⁸⁹, summarizing 25 indicators concerned with legislative measures, technical mechanisms, organizational structures, capacity building activities and cooperative arrangements. As such, it presents an overall picture of the engagement of economies in the field of cybersecurity. From the WB economies, the Republic of North Macedonia scored high and thus showed a high commitment towards cybersecurity (score between 1.000 and 0.670). Medium commitment level (score between 0.669 and 0.340) was found in Serbia, Montenegro and Albania. Only Bosnia and Herzegovina showed a very low score, thus exhibiting only low commitment towards cybersecurity. Compared to their SEE-peers, the WB region shows a gap in cybersecurity, as Croatia, Bulgaria and Slovenia show high commitment, and only Romania a medium commitment.

Figure 5.4 / Global Cybersecurity Index (GCI) 2018, score (1.00-00)



Notes: Bulgaria and Slovenia did not participate in the GCI 2018.

Source: ITU (2019).

89 The Global Cybersecurity Index is published every two years. The next edition is expected in 2021.

Interestingly, the National Cybersecurity Index (NCSI) from the Estonian e-Governance Academy Foundation⁹⁰ (see Figure 5.5) provides a totally different picture than the GCI. The NCSI collects 46 indicators and focuses on measurable aspects of cyber security implemented by the central government: (1.) Legislation in force – legal acts, regulations, orders, etc. (2.) Established units – existing organisations, departments, etc. (3.) Cooperation formats – committees, working groups, etc. and (4.) Outcomes – policies, exercises, technologies, websites, programmes, etc. Croatia ranks the 6th globally, Serbia 15th, and Romania ranks 20th. The other WB economies clearly lag behind their SEE peers and rank between the 54th place (Bosnia and Herzegovina) and 83rd place (Montenegro). Particular striking differences between the NCSI and the GCI are evident in the lower score of the Republic of North Macedonia, and the much higher scores of Serbia and Bosnia and Herzegovina in the NCSI.

Figure 5.5 / National Cybersecurity Index (NCSI), continuous update, maximum score 100%



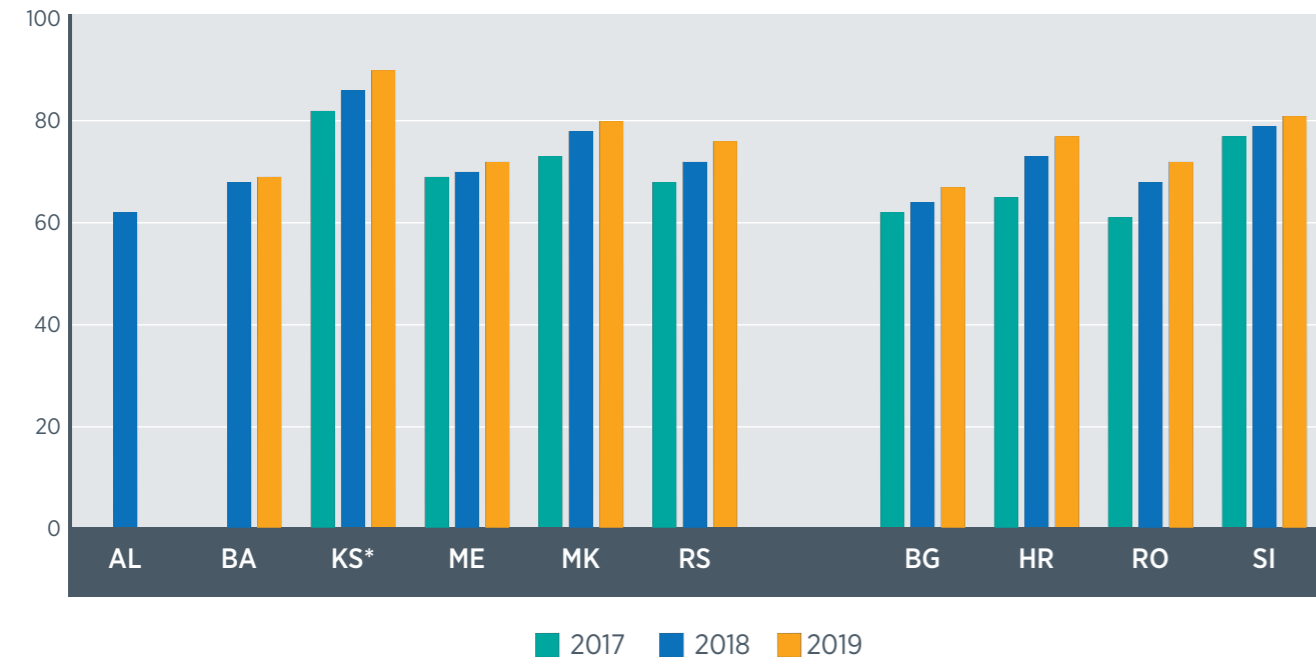
Source: e-Governance Academy Foundation, Estonia (<https://ncsi.ega.ee/>).

Digital economy and society, Inclusive digital society

Progress towards developing and strengthening the supply of digital skills can be assessed by two indicators included in the DESI: One broader indicator that covers basic skills and usage is the share of Internet users who frequently use the Internet. One narrower indicator reflecting ICT-skills is the share of individuals with basic or above basic digital skills.

Looking at the proportion of individuals who frequently use the Internet in Figure 5.6, this share was the highest for Kosovo* (90%) in 2019 and also for the Republic of North Macedonia (80%). The proportion was slightly lower for Serbia (76%), Montenegro (72%) and Bosnia and Herzegovina (69%). The lowest share of Internet users was seen in Albania with 62% (in 2018). Interestingly, compared to the SEE-peers, the WB-economies did relatively well and held shares even above those of their peers: In Slovenia it reached 81%, followed by Croatia (77%), Romania (72%), and Bulgaria (67%). Between 2017 and 2019, the share of frequent Internet users increased in all WB economies.

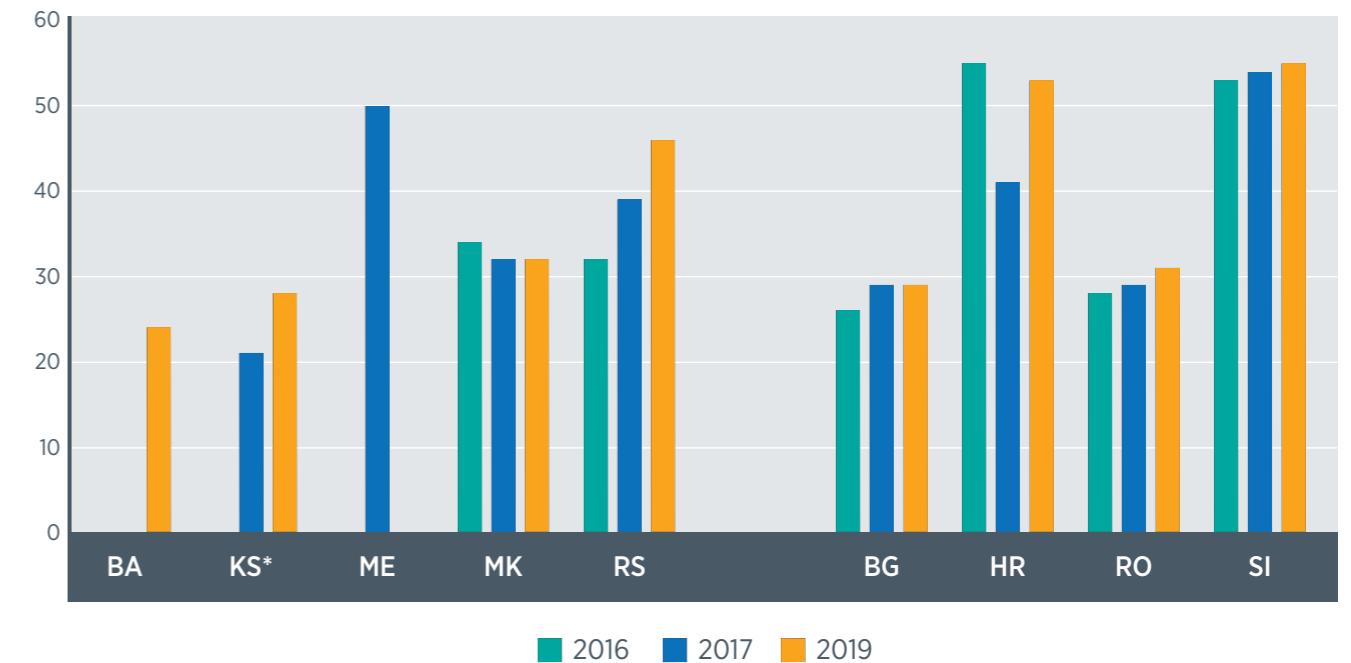
90 <https://ncsi.ega.ee/>

Figure 5.6 / Internet users, in % of individuals

Notes: *Frequency of Internet access: once a week (including every day)

Source: Eurostat (Individuals - frequency of Internet use [isoc_ci_ifp_fu])

When turning to the share of individuals with basic or above basic overall digital skills in Figure 5.7, Montenegro registered the highest share of 50% (2017 data), followed by Serbia with 46%. The proportion was mostly lower in the other West Balkan economies in 2019 – 32% in the Republic of North Macedonia, 28% in Kosovo* and 24% in Bosnia and Herzegovina. Compared to its SEE-peers, the WB-economies exhibited lower shares when compared to Slovenia and Croatia (55% and 53%), but were at the level of Romania and Bulgaria (31% and 29% respectively). Between 2017 and 2019 there was a marked increase in the share of skilled people in Serbia and Kosovo*, while there was a small drop in the Republic of North Macedonia.

Figure 5.7 / Individuals with basic or above basic overall digital skills, in % of individuals

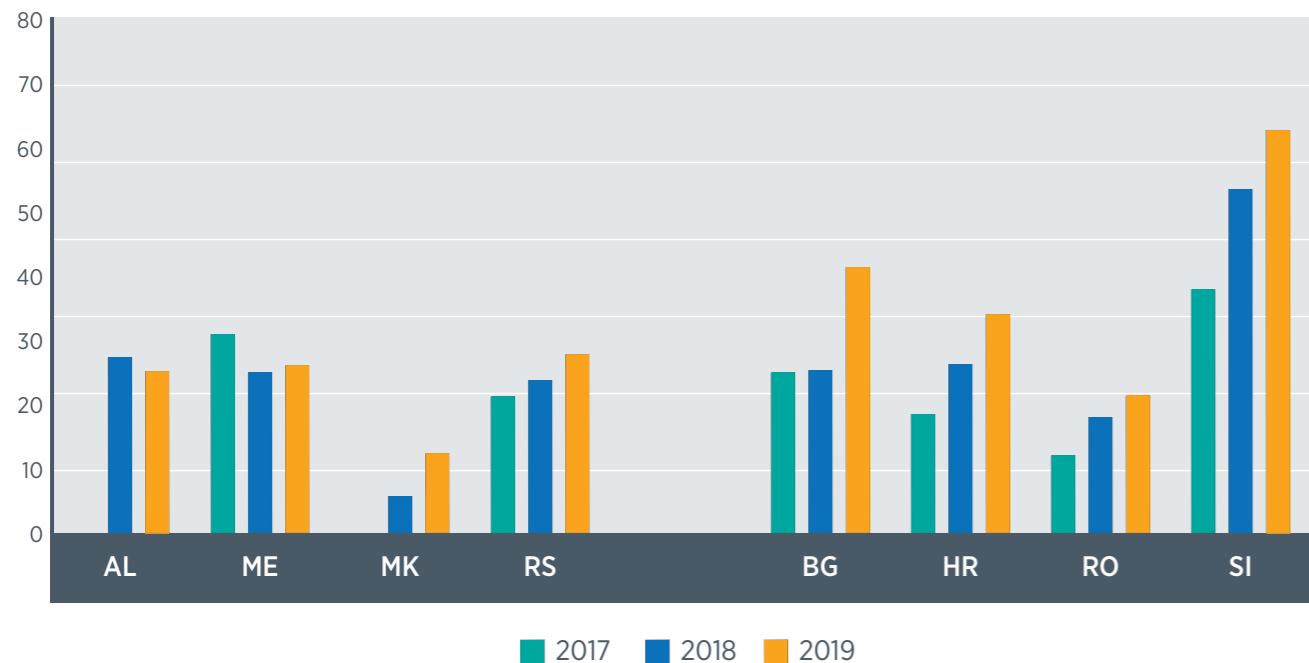
Note: Serbia 2015 instead of 2016

Source: Eurostat (Individuals' level of digital skills [isoc_sk_dskl_i])

Digitalisation, Data economy, Standards and Interoperability, Innovation

The main objective in this policy area is to promote the uptake of smart technologies and accelerate digitalisation. As most actions in this policy area target public administration, indicators will take a closer look at the progress of digitalisation of governments. One indicator included the e-government activities of individuals in the DESI measures.

Looking at e-government activities of individuals via websites (Figure 5.8.), a huge gap can be seen between the Western Balkan economies and Slovenia and also Croatia. While in Slovenia more than half of all individuals (Croatia one third) were involved in some e-government activity in 2019, the share was particularly low in the WB economies. It reached 29% in Serbia, 25% in the Republic of North Macedonia and 23% in Montenegro. The share was lower in Bosnia and Herzegovina (18%), Kosovo* (16%) and Albania (13% for 2018). However, the share of e-government activities was also low in Bulgaria and Romania - it stood at 22% in Bulgaria and only 12% in Romania. Between 2017 and 2019, progress occurred in Bosnia and Herzegovina, the Republic of North Macedonia, and Serbia. However, a negative trend turned up for Montenegro, and especially Kosovo*.

Figure 5.8 / e-Government Benchmark, Key enablers*, Score (0 to 100)

Notes: *The extent to which technical pre-conditions for eGovernment service provision are used. The key enablers used for measuring the quality of the services to businesses and citizens are: a) Electronic Identification (eID) b) Electronic Documents (eDocuments), c) Authentic Sources, D) Digital Post.

Source: European Commission e-Government Benchmark, <https://digital-agenda-data.eu/>

Summing up, the level of digital integration differs among the Western Balkan economies and also among policy areas and even indicators. Overall, in terms of development level, Serbia seems to be the most advanced, followed by the Republic of North Macedonia, Montenegro and Kosovo*. Bosnia and Herzegovina and Albania are trailing behind. Looking at the progress made, the WB-DESI 2019- report (European Commission, DG Connect, 2019) has already shown that overall, improved performance was recorded between 2016 and 2018 for all economies.⁹¹

5.3. State of play for each measure

This section summarises each policy priority and depicts the state of play by identifying the following stages of implementation: fully implemented, partially implemented, delayed, not implemented. Overall, actions for all policy priorities seem to have been partially implemented. Most of the progress seems to be made in the area of infrastructure development, while most gaps remain in the strengthening of digital skills and the uptake of smart technologies (see next section).

Digital environment networks and services, connectivity and access

Objective IV.1.1. The objective to boost digital infrastructure development and regional connectivity, while creating a level playing field for digital networks and services to flourish has been partially implemented.

⁹¹ In more detail, Albania, the Republic of North Macedonia, Serbia and Kosovo* have increased the percentage of indicators meeting or exceeding the EU28 average, but this was not the case for Bosnia and Herzegovina and Montenegro. All economies have decreased the number of indicators over 20 per cent below the EU28 average level (see European Commission, DG Connect, 2019, page 6).

The first action which aims to advance right/introduce policy and regulatory measures that would incentivise investments in high-speed broadband networks, including transposition of EU Directive 2014/61/EU has been partially implemented. The transposition of the EU Broadband Cost Reduction Directive (Directive 2014/61/EU) has progressed but is not completed in all economies. The Directive set out to facilitate and incentive the deployment of high-speed electronic communication networks by reducing their cost. Measures to reach this include the sharing and re-use of existing physical infrastructure. Changes to the national 'Law on Electronic Communication' have been approved in Albania; a new law adopted in Montenegro and most provisions transposed in the Republic of North Macedonia. Transposition is still in progress in Bosnia and Herzegovina, Kosovo* and Serbia.

The next action to complete outstanding broadband infrastructure mapping and perform analysis of broadband markets and identify network coverage gaps and investments, as well as policy measures required to bridge those gaps has been partially implemented. Broadband mapping has progressed, but is not yet completed in all economies. Albania has a broadband atlas that is regularly updated; in the Republic of North Macedonia, mapping of white zones is completed; in Serbia, mapping of mobile broadband is completed). Kosovo's* Electronic Atlas is in the process of updating; while in Bosnia and Herzegovina, preparation for broadband mapping has only started.

The action focusing on the establishment of regular exchange on business incentive models for rural and underserved areas and on the use of PPPs to address low connectivity has been partially implemented. Better connectivity for rural and underserved areas in the WB can be facilitated through the establishment of Broadband Competence Offices (BCO). The role of a BCO is to advise local and regional authorities on ways to invest efficiently in broadband, and help citizens and businesses get better access to broadband services. They act as a single point of contact, collect all information related to broadband, such as laws, building permits, technology or regulatory issues (European Commission, 2018). In the EU, the BCO Network is the main tool for bringing broadband to rural regions.⁹² Within the EU BCO network, experiences and best practises can then be shared. In the WB economies, BCOs have been established in Kosovo*, Serbia and Republic of North Macedonia; the other economies appointed BCO contact points. BCO contact points of WBs joined the EU BCO workshop for the first time in Warsaw, 11-12th June 2019.

The action to establish regional dialogue on commercialisation of spare fibre optic assets; identify and address legal and regulatory constraints and implement the agreed commercialisation model has been fully implemented. The World Bank Study 'Foster infrastructure sharing in the Western Balkans. Balkans Digital Highway Pre-feasibility Study' (World Bank, 2019) started in 2017 and was finalised in May 2019. The World Bank set up the Balkans Digital Highway initiative to explore and advance infrastructure-sharing opportunities in the Western Balkans region (see Box 2). Also, interesting intermediary results could be achieved, including that (i) all transmission system operators (TSOs) in the Western Balkans have confirmed their intention - or are taking the relevant actions - to provide infrastructure-sharing services (ii) the Western Balkan TSOs have formed a group to discuss regional infrastructure sharing and (iii) the Republic of North Macedonia, Kosovo*, and Albania and Montenegro requested funds for feasibility studies on the next phase of activities from WBIF (see Box 1).

⁹² <https://ec.europa.eu/digital-single-market/en/news/european-commission-joins-forces-help-bringing-more-broadband-rural-areas/>

Box 2 World Bank Balkans Digital Highway initiative:

The initiative carried out a number of pre-feasibility studies to:

- (i) explore opportunities to use the excess capacity on existing fiber optic ground wire networks located alongside power grids operated by transmission system operators (TSOs) in the six Western Balkan economies to generate additional income,
- (ii) make a technical assessment of the existing excess optical ground wire (OPGW) capacity on the TSOs' networks,
- (iii) determine what changes are required in the national telecommunications and energy frameworks within and between economies to operationalize infrastructure sharing, and
- (iv) develop an action plan to advance infrastructure sharing in the region that addresses the technical, organizational, and regulatory bottlenecks in each economy.

The action, aimed at strengthening regulatory dialogue amongst all WB regulators as a part of BEREC has been fully implemented. The Body of European Regulators for Electronic Communications (BEREC) is committed to the development and better functioning of the EU internal market for electronic communications networks and services. BEREC is composed of the Board of Regulators, consisting of the heads or nominated high-level representatives of the National Regulatory Authorities (NRA). It is open to the participation of regulatory authorities of third countries. All WB economies are now participants in BEREC.⁹³ During the recent years, regulatory dialogue with BEREC has improved markedly and three meetings were held so far, in June 2018, December 2018 and June 2019. Additionally, WB National Regulatory Authorities (NRAs) have been participating in BEREC under the new working arrangement as of mid-March 2019, allowing the participation of all WB NRAs in BEREC Board of Regulators, BEREC working groups and BEREC Management Board. This supports peer-to-peer learning and increases the capacities of WB NRAs to implement the roaming policy compliant with the EU principles and practice.

The action to complete regional interconnection and integration into the pan-European GÉANT has partially been implemented.⁹⁴ The following NRENs - national research and education networks - in the WB6 are members of GÉANT: RASH - Academic Network of Albania in Albania, MARnet in the Republic of North Macedonia, MREN in Montenegro, and AMRES in Serbia. Kosovo* completed the feasibility study for connecting to GÉANT Network. Bosnia and Herzegovina still misses regional interconnection and integration into GÉANT. There were attempts to establish NERN at the state level and two others at the entity level, however, this has never been realised because of different views regarding NREN authorities (see RCC, 2018b, March).

Objective IV.1.2. The objective to harmonise spectrum policy to ensure timely and efficient availability and boost deployment of standardised 5G networks has been partially implemented. At the economy level, regulatory and institutional frameworks for overall spectrum policy are in place. There is an uneven level of preparedness - while Serbia is the most advanced in spectrum use among the WB economies, Kosovo* lags much behind.

⁹³ https://berec.europa.eu/eng/about_berec/composition_and_organisation/board_of_regulators/

⁹⁴ <https://www.geant.org/About/Membership/Pages/MAandGareps.aspx/>

The first action strives to establish predictable, consistent, and harmonised spectrum policy on regional level and strengthen regional cooperation on spectrum policy harmonisation for 5G, as well as for disaster and emergency services and is partially implemented. In this aspect, regional cooperation is of great importance, thus further efforts should be maintained in the future, too.

Digital switchover (DSO), i.e., the switchover from analogue to digital terrestrial TV, frees up a very large amount of radio spectrum which is then available for wireless broadband communication or other applications ('digital dividend'). It is thus a prerequisite for further steps in the field of spectrum policy. Digital switchover was completed in the Republic of North Macedonia, Serbia and Montenegro even before the start of the MAP REA.⁹⁵ However, in Bosnia and Herzegovina, Albania and Kosovo*, the progress is significantly delayed and still ongoing. In Bosnia and Herzegovina, only the 1st phase of DSO has been successfully completed out of three, and the DVB-T2 standard adopted. In Albania, DSO is more advanced and finalised for the biggest regions. The process is now in the finalisation phase. In Kosovo*, there is a lack of progress, but terrestrial television as a platform doesn't have many subscribers anyway.

The auctioning of freed frequencies takes place in steps and has immediate positive fiscal effects. The Republic of North Macedonia has auctioned off the (first) digital dividend in July 2013, Serbia sold the frequency range of 800 MHz in November 2015, and Montenegro in September 2016 (800 MHz/2600 MHz). In Albania, the 800 MHz band is freed up and issued for LTE networks (the first individual authorisation issued in February 2019).⁹⁶

The 700 MHz band ('second digital dividend') is important for providing additional spectrum for mobile services as a basis for 5G applications. Typically, this band is used for television broadcasting in most economies. Thus, in order to release the 700 MHz band for mobile service, a reassigning of the digital television spectrum is required. In fact, Serbia has already freed up the 700 MHz band as one of the first economies in Europe. The band is free in Montenegro, and in the Republic of North Macedonia, the process for freeing up the 700 MHz band has already started.

Broader coordination on radio spectrum issues takes place within RSPG⁹⁷ regional group, SEDDIF, as well as within WRC-19⁹⁸ preparatory process. SEDDIF - South European Digital Dividend Implementation Forum was established in October 2015 and consists of Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Republic of North Macedonia, Greece, Hungary, Montenegro, Serbia, Slovenia, Turkey and Ukraine (observer). 'SEDDIF was established in order to enable easier optimization and international coordination of the remaining spectrum for broadcasting at the regional level. The results of the work of this forum will contribute to the process of international coordination of frequencies needed for the transition to DVB-T2, and freeing spectrum of the digital dividend for other services in mobile communications networks.'⁹⁹ Coordinated use of the 694-792 MHz frequency band by economies in the region was achieved in December 2017: A Multilateral Framework Agreement with regulatory

⁹⁵ See RCC (2018b, March). June 2015 has been the international deadline for the digital switchover set by the Geneva agreement GE-06

⁹⁶ AKEP organizes public tender for granting rights of use in the 800 MHz unoccupied spectrum, see: http://www.ceerwg.net/our-region/-/asset_publisher/lq9F37mbL1ZN/content/akep-organizes-public-tender-for-granting-rights-of-use-in-the-800-mhz-unoccupied-spectrum, as of 1 August 2019

⁹⁷ RSPG - Radio Spectrum Policy Group is a high-level advisory group assisting the European Commission in the development of radio spectrum policy in the Community. The members of the Group are representatives of the Member States and the Commission. Candidates for accession are allowed to attend the meetings of RSPG as observers. Three Western Balkan economies are currently observers - Albania, North Macedonia and Serbia are listed. See <https://rspg-spectrum.eu/rspg-members-and-observers/>

⁹⁸ World Radio-communication Conferences (WRC) are held every three to four years and are organised by the International Telecommunication Union (ITU), which is the United Nations specialized agency for information and communication technologies - ICTs. It is the task of WRC to review and revise the ITU Radio Regulations, the international treaty governing the use of the radio-frequency spectrum and the geostationary-satellite and non-geostationary-satellite orbits. Kosovo* is not a part of WRC, but expressed interest.

See <https://www.itu.int/en/ITU-R/conferences/wrc/Pages/default.aspx/>

⁹⁹ http://www.ceerwg.net/our-region/-/asset_publisher/lq9F37mbL1ZN/content/seddif-meeting-organized-by-hakom/

bodies responsible for electronic communications in SEDDIF members was signed (except Albania).

Montenegro is about to sign a regional spectrum agreement among four regulators (with Bosnia and Herzegovina, Serbia and the Republic of North Macedonia) upon the EC's approval.

In addition, regular regional coordination and dialogue on spectrum policy are maintained through regular meetings of respective regulatory authorities in each WB economy.¹⁰⁰

Looking at 5G deployment in the region - encompassing 5G trials, 5G cities and 5G cross-border/boundary corridors - Serbia is the only non-EU economy to be included in a 5G cross-border/boundary corridor.¹⁰¹ Serbia has joined a European project to establish 5G corridors to test driverless cars. A letter of intent was signed between Bulgaria, Greece and Serbia in June 2018 on preparing and conducting tests for cooperative, connected and automated driving across the three economies for the purposes of 5G deployment. Serbia activated its first 5G test base station in Belgrade in June 2019;¹⁰² driving of a remote electric car through the 5G network was tested in Albania in November 2019, while Montenegro and the Republic of North Macedonia are planning to launch 5G testing this year.

The second action within this objective envisages coordination of regional positions for the World Radio Conference (WRC), CEPT/ECO (European Conference of Postal and Telecommunications Administrations/European Communications Office). This action has been fulfilled for the latest WRC-19: The World Radiocommunication Conference 2019 (WRC-19) took place from 28th October to 22nd November 2019 in Sharm el-Sheikh, Egypt. Before that, the Regional Radiocommunication Seminar 2019 for Europe (RRS-19-Europe) took place in Tirana from 24th to 27th June 2019, to support capacity building in the area of spectrum harmonisation and 5G networks. A side meeting helped the economies to align their positions for the upcoming WRC-19 and identify potential regional initiatives on spectrum coordination. However, as no info about CEPT/ECO is available and prior coordination should be formalized, i.e. continuous, the action is considered only as partially implemented.

Objective IV.1.3. The objective to coordinate roaming policies towards a roaming free economic area has been fully implemented. A major milestone has been the signing of the Agreement "On the price reduction of the roaming services in public mobile communication networks in the Western Balkans region" (RRA2) on 4th April 2019.

The action to continue regional coordination on roaming policies towards a roaming free economic area and prepare mid-term Action Plan for aligning roaming policies with EU RLAH model has been successfully implemented. The agreement "On the price reduction of the roaming services in public mobile communication networks in the Western Balkans region" (RRA2) has been signed by all WB-economies on 4th April 2019 at the second WB Digital Summit in Belgrade. It provides for a substantial reduction of prices for voice/data and SMS in the first phase and for the introduction of RLAH (Roam Like at Home) regime by 1st July 2021 which brings elimination of roaming charges in the whole region. The RRA2 agreement has been a successor of the first Regional Roaming Agreement, which was signed in 2014 by four of the WB6 economies, Bosnia and Herzegovina, Montenegro, Serbia and the Republic of North Macedonia. It already brought about a cut of roaming costs up to 80% in the region and multiple increases in data transfer in 2015 and 2016 (see RCC, 2018b, March).

The implementation of RRA2 is entrusted to the Western Balkan's Regulators for electronic communications. The implementation is going smoothly and progress is overseen by the

¹⁰⁰ Info can be found here: <http://www.ceerwg.net/mission>. The Central and Eastern European Working Group (CEERWG) is a regional project dedicated to improving cooperation among the NRAs in CEE Europe on issues of common interest in the electronic communications field, to the benefit of the national markets in the participating economies. This regional portal has been established and is being developed to become a one-stop shop for regional overview on the CEE telecommunications and regulation.

¹⁰¹ <http://5gobservatory.eu/>

¹⁰² <https://www.telecompaper.com/news/telenor-serbia-activates-first-5g-base-station--1297858/>

Coordination Body established by the Agreement. In addition, a monitoring mechanism of roaming traffic and prices has been put in place (similar to the so-called International Roaming Benchmark BEREC Data Report). A first review of the implementation of the RRA2 in March 2020 (BEREC, 2020) provided positive results: there is a slight decrease in roaming voice services and roaming SMS, while there is a marked increase of roaming data services.

The regional working group is established composed of representatives of ICT ministries and Regulators from WB6. It meets twice a year in order to review the progress made in the implementation of RRA2 as well as to discuss the ways forward in the roaming policy and alignment with the EU practice. The RRA2 has paved the way for further reductions of the roaming costs between the WB economies and the European Union.

The action aimed at following a multi-stakeholder approach to guarantee transparency and predictability so that all relevant views and expertise on roaming policies are sufficiently accounted for has been fully implemented. Overall, a multi-stakeholder approach with regard to roaming policy has been successfully established throughout the WB6. Successful, constructive and all-inclusive negotiations took place among ICT ministries and Regulators to conclude the new Roaming Agreement. Also, the RCC facilitated the whole process of negotiations with 4 successful rounds of negotiations (held on 6th November 2018, 13th December 2018, 24th January 2019 and 8th February 2019, all in Brussels). The substantial technical support was granted from EC line DGs (i.e. CONNECT and NEAR).

The action to assess the impact of abolishment of roaming charges in the EU for WB in a regional position paper has been fully implemented. RCC commissioned a study to assess the impact of abolishment of roaming charges with the EU, and findings and results should be available to RCC.

Trust and security in digital services

Objective IV.2.1. The objective to enhance cybersecurity, trust services and data protection has been partially implemented.

The action to establish and harmonise cybersecurity, data protection, and privacy regulations on the basis of a level playing field as a key for establishing a functioning and efficient DSM approach has been partially implemented. Most of the progress has been achieved in the field of cybersecurity, while less action is seen in the fields of trust services, data protection and privacy regulations.

Cybersecurity strategies and related action plans for the current period are available in the Republic of North Macedonia (Cyber Security Strategy and its Action Plan (2018-2022)), Montenegro (Cybersecurity Strategy 2018-2021; 2018 action plan adopted) and Serbia (Cyber Security Strategy adopted in 2017; Action Plan for the implementation of the Cybersecurity Strategy has been adopted recently). An update of cybersecurity strategies takes place in Kosovo*, as its National Cyber Security Strategy (2016-2019) expired in 2019. In Albania, the Strategy on Cybersecurity 2020-2025 is currently in the public consultation process. The first cybersecurity strategy is drafted in Bosnia and Herzegovina. In particular, a cybercrime strategy has been adopted in the Republic of North Macedonia in September 2018. In Kosovo*, there is a 2018-2022 strategy and action plan against organised crime, and Serbia has adopted the Cybercrime Strategy for 2019-2023.

The transposition of the EU NIS-Directive (Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union) is in progress in the region. It has been transposed in Albania, Serbia, and is partially implemented in Montenegro. In the other economies, preparation on the transposition of the NIS-directive just started (the Republic of North Macedonia, Kosovo*) or is planned (Bosnia and Herzegovina). Generally, the EU NIS-Directive provides legal measures to boost the overall level of cybersecurity

in the EU.¹⁰³ It focuses on three objectives: (i) improving cybersecurity capabilities at the national level (CSIRT and competent national NIS authority); (ii) increasing cooperation on cybersecurity among EU member states; and (iii) introducing security measures and incident reporting obligations for operators of essential services (OESs) in critical national infrastructure (CNI) and digital service providers (DSPs).

The action to identify and ensure protection of critical IT infrastructures has been only partially implemented. Identification of critical IT infrastructure seems to be slow and there is no information about the level of its protection. The Law on Critical Infrastructure has been adopted in Kosovo* (Draft Law on Critical Infrastructure was approved on 20.10.2017) and in Montenegro (in December 2019). In Albania, the list of critical infrastructure has been adopted and the first audit completed. In Serbia, critical infrastructure of ICT operators of essential services has been recognised, but still no list of operators exists. In Montenegro, the process of identification of critical infrastructure is ongoing. In the Republic of North Macedonia, the methodology for the identification of critical infrastructure has been developed. In Bosnia and Herzegovina, a new forthcoming Law on Cybersecurity will provide basis for identification of key operators of critical infrastructure.

The action to set up regional dialogue and information exchange platform amongst WB CSIRTs (Computer Security Incident Response Teams), advance CSIRTs' capacities and strengthen institutional links with EU CSIRTs has been partially implemented. National CSIRTs have been established in all WB economies, except Bosnia and Herzegovina (there are two operational CSIRTs: an internal one, in the Ministry of Defence, and one in Republika Srpska). However, throughout the region, CIRTs are understaffed and need capacity-building programmes. Generally, a national CSIRT deals with cybersecurity incidents on the national level. The National CERT for Serbia (SRB-CERT), for example, was established on 1st January 2017, is verified by Trusted Introducer and became a full member of the organization FIRST (Forum of Incident and Response Security Teams) in February 2020 (the national CSIRT of Montenegro is also a member).¹⁰⁴ SRB-CERT lists 10 special registered CERT teams on its website.¹⁰⁵

A lot of progress has been achieved in the field of cybersecurity in terms of capacity building and of regional cooperation with strong support and engagement of RCC. In the area of education and training, CSIRTs engaged in capacity building and organised trainings in the economies; CSIRTs also took part in the ITU Cyber Drill, and the Republic of North Macedonia put forward the proposal to establish a Regional Cyber Security Training & Research Centre in Skopje. The Government of Serbia recently launched the Master 4.0 program in the framework of postgraduate studies (three semesters), which includes subjects in the field of cybersecurity and AI. Numerous regional and national events and conferences took place. Also, a regional dialogue has been set up and regular regional cooperation meetings take place among WB CIRTs. Memorandum of Understanding(s) have been signed between CIRTs and this process is ongoing. Cooperation with the European Union Agency for Cybersecurity (ENISA) is important and communication has been initiated by RCC.

The action to establish regional dialogue and information exchange platform amongst authorities in charge of Network and Information Security (NIS) has not been implemented. No information was provided on a regional dialogue among authorities in charge of NIS. It is not clear whether these national authorities have already been established in all WB economies.

In the area of data protection and privacy, the WB6 economies have adopted relevant policies and legislation on privacy (Directive (2002/58/EC), data protection and digital security (Directive 2002/58/EC: Directive concerning the processing of personal data and the protection of privacy in the electronic communication sector (ePrivacy Directive (ePD))). In

¹⁰³ <https://ec.europa.eu/digital-single-market/en/network-and-information-security-nis-directive/>

¹⁰⁴ <https://www.cert.rs/en/vest/430-Nacionalni+CERT+%C4%8Dlan+FIRST-a.html/>

¹⁰⁵ <https://www.cert.rs/en/evidencija-certova.html/>

the Republic of North Macedonia, the Law on Data Protection was recently adopted in line with GDPR (General Data Protection Regulation (EU) 2016/679).

The eIDAS regulation (Regulation (EU) No 910/2014 on electronic identification and trust services for electronic transactions in the internal market) has been already transposed in Albania, Montenegro, the Republic of North Macedonia and Serbia. In Kosovo*, the process is at the final stage. In Bosnia and Herzegovina, the draft Law on Electronic Communications (transposing e-IDAS Regulation) still needs to pass the parliamentary procedure (see also Objective IV.4.1 Promote uptake of Smart Technologies and Accelerate Digitalisation)

In the area of trust services, one good development has been achieved: In April 2019, Serbia and Montenegro signed the Agreement on mutual recognition of qualified trust services.

Digital economy and society, Inclusive digital society

Objective IV.3.1 The objective to develop and strengthen supply of digital skills has been only partially implemented. Generally, dedicated digital skills strategies do not exist in the Western Balkan economies, and relevant provisions are included in their general digital or education strategies or labour and skills strategies. The only exception is Serbia which has adopted a dedicated Digital Skill Development Strategy in February 2020.

The action to initiate regional cooperation on certified re/qualification digital skills programmes has been recently implemented. A regional Multi Stakeholders Working Group was recently established, with representatives from WB6 economies and international organizations active in the area of digital skills. The first meeting was held on 27th April 2020. A Regional dialogue to prepare digital skills strategy(ies) was launched. In addition, preparation of a report mapping best practices in EU MS addressing digital skills has been commissioned by RCC.

The action to pilot a regional intervention aimed at enhancing basic digital skills for citizens to engage online has been partially implemented: On the regional level, the British Council initiative: 21st Century Schools exists, which aims to improve digital skills and perspectives for young people.

The remaining two actions seem not to have been implemented, and therefore are delayed.¹⁰⁶ These two actions have focused on IT specialists on the one hand and inclusion of specific groups of the society on the other. Generally, however, several initiatives and programmes dedicated to digital skills at the national level exist in some of WB economies, and various events took place. Within EU frameworks, WB economies and almost 70,000 persons participated in the EU Code Week in 2018. Some interesting examples at the national level include:

- ◆ Bosnia and Herzegovina: In cooperation with the association of 38 of the economy's largest software companies, the "Bit Alliance", the Ministry of Communications and Transport has worked on promoting the potential for developing the software industry in Bosnia and Herzegovina. The Bit Alliance is promoting e-skills, offering trainings and cooperating with educational institutions in revising university, high school and elementary school curricula according to the needs of the software industry.
- ◆ Kosovo*: In 2016, the World Bank-supported 'Women in Online Work' (WoW) pilot explored the suitability of online work for young women in Kosovo*, a population with the poorest job prospects. The two-phase WoW pilot covered five municipalities and it aimed to train unemployed and underemployed young women in skills demanded by the ever-growing online freelancing market. The programme was extended to all municipalities in the subsequent 5 years.

¹⁰⁶ These were: (c) Pilot a regional intervention aimed at enhancing skills for IT specialists that would be closely linked to the demand from and coordinated with digital businesses in WB and EU and (d) Set up and implement regional training and employability enhancement programme aiming to mobilise and upskill un/underemployed population (women) to seek revenue generation opportunities through online work platforms; with particular emphasis on youth, women, and people with disabilities.

- ◆ Montenegro: All digital week and the International Day of Girls in ICT in Montenegro organized.
- ◆ Republic of North Macedonia: The first centre in the Republic of North Macedonia and the region, HubIT, under USAID Social Inclusion Project was opened in Skopje, offering services to young people with disabilities and enabling them to start careers in the IT sector
- ◆ Serbia: Serbia has an IT Industry Strategy 2017-2020 and an Action Plan for IT Industry Development. As a part of this strategy, the Government offered incentives to NGOs that implement digital skills projects for women.

Digitalisation, Data economy, Standards and Interoperability, Innovation

Objective IV.4.1. The objective to promote the uptake of smart technologies and accelerate digitalisation has been partially implemented.

The action to set up regional cooperative dialogue on digital transformation challenges and prospects in WB has been fully implemented:¹⁰⁷ A regional cooperative dialogue on digital transformation challenges and prospects in WB has been successfully established through the Western Balkan Digital Summits. Up to now, two Western Balkan Digital Summits took place: The first one in Skopje on 18-19th April 2018 and the second one in Belgrade on 4-5th April 2019. The 3rd WB Digital Summit was scheduled for 2-3rd April 2020 in Tirana but had to be postponed to September due to the Covid-19 outbreak. However, no new date has been announced yet.

A comprehensive study (Barbić et al., 2018) analysed the benefits of digital transformation for the Western Balkan economies and its broader economic, social and political repercussions for the region.

The action to foster the Data economy (Big Data, Open Data and Open Government) has been partially implemented.¹⁰⁸ As regards open government, all Western Balkan economies are members of the Open Government Partnership (OPG) Initiative, except for Kosovo*.¹⁰⁹ Currently, WB economies are implementing commitments under their Open Government Action Plans 2018-2020 (Albania, Montenegro, Republic of North Macedonia, Serbia). Bosnia and Herzegovina adopted its first Action Plan 2019-2021. Also, in Kosovo*, the Action Plan on OPG is in place. All economies have established forms of central portals for open data; some economies have launched new portals, whilst others have upgraded existing portals and other IT tools. Open Data Portal Serbia is also included on the European Data Portal.¹¹⁰

The Smart e-Government International Conference took place on 30th November 2018, in Belgrade, organised by ReSPA (Regional School for Public Administration in Dalinovgrad, Montenegro). Senior managers from public administration, eGovernment policy makers, industry leaders and academics shared knowledge and experience on e-Government service and Trusted Electronic Identification.

As for regional cooperation, some progress has been noted on the use, exchange and safe and reliable flow, access and transfer of data: Kosovo*, Albania and the Republic of North

¹⁰⁷ There have been two sub-actions, which both have been fully implemented: (i.) Assess the state of play of the business environment and the multi-faceted benefits an accelerated and regional Digital Transformation would create in the Western Balkans and (ii.) Organise annual regional WB Digital Summits so as to contribute to a continuous dialogue amongst WB authorities, non-governmental organisations, companies, chambers, and academia

¹⁰⁸ There have been two sub-actions, which both have been partially implemented: (i.) Support an open data region and improve quality of open data portals through regional cooperation and best practice exchange (ii.) Strengthen regional coordination on use, exchange and safe and reliable flow, access and transfer of data and integration within the European data ecosystem and economy

¹⁰⁹ <https://www.opengovpartnership.org/our-members/>

¹¹⁰ <https://www.europeandataportal.eu/>

Macedonia have committed to the Regional Research and Development Cloud (RRDC), aiming to gather and collect open data from these three economies enabling students, young people, start-ups and businesses to access them. The project also includes an IoT Platform and smart city cases for the upcoming years. RRDC aims to establish R&D Cloud infrastructure for the three economies, serve the digital transformation of industry and public sector, provide a platform that will involve start-ups and IT industry, and identify and adopt suitable policies for trust, security and privacy.

Looking at the action to align standards, complement interoperability frameworks and introduce a pan-European dimension, in line with EIF (European Interoperability Framework), this action has been partially implemented.¹¹¹ All WB economies have adopted e-authentication frameworks and made progress in improving their e-authentication schemes, harmonising domestic legislation with eIDAS regulation, etc. Albania, Montenegro, the Republic of North Macedonia and Serbia have already transposed eIDAS in new laws, while in Kosovo* the process is at the final stage. In Bosnia and Herzegovina, the draft Law on Electronic Communications (transposing e-IDAS Regulation) still needs to pass the parliamentary procedure (see also Policy IV.2. Trust and security in digital services).

The National Interoperability Frameworks, organising interoperable digital public services, have been adopted in all WB economies. The EU revised and updated the European Interoperability Framework in 2017. In Montenegro, preparations for a new national interoperability framework to be harmonised with new European Interoperability Framework (EIF) have been completed. Montenegro was also the first WB economy to participate in the ISA2 EU programme - interoperability solutions for public administrations, businesses and citizens. The Republic of North Macedonia has completed the procedures for joining ISA2 recently.

The action to foster cooperation amongst digital hubs has not been implemented.¹¹² However, some activities, events and conferences took place nevertheless. Digital Innovation Hubs are one-stop-shops that help companies to become more competitive with regard to their business/production processes, products or services using digital technologies. The EU's Smart Specialisation Platform on digital innovation hubs lists 25 hubs from the WB region (included are all six West Balkan economies)¹¹³ and provides opportunities for cooperation, as do Horizon 2020 and EU Territorial and Cross-border Programmes. The Western Balkans are involved in 9 EU-funded projects from H2020 in the area of e-infrastructures and as such benefit from € 2.28 million (e.g. involvement in VI-SEEM, GN4-2 (GEANT), EOSC-Hub, OpenAIRE, EUDAT-2020)¹¹⁴. In Albania, TechSpace was launched in February 2019 and is currently fully operational, being the largest technology lab in Albania to support start-ups and students, and reinforce and encourage them in delivering projects and ideas in the field of Information and Communication Technology. In the Republic of North Macedonia, a Feasibility Study for Establishing a Scientific Technology Park (STP) has been delivered and the opening ceremony of the initial premises of the STP was held in March 2019. Montenegro is planning to establish a Science Technology Park. Albania wants to establish a Regional Digital Transformation Centre in Tirana.

Some events and conferences took place, including the Yearly Start-up Summit (15th November 2018, Sofia), which reviewed the ways to improve framework conditions for start-ups in Central and East Europe and WB. The first International SEE IT Summit took place on 7-9th November 2018 in Novi Sad, gathering ideas on Future Agro Challenge and Start-ups Technology Challenge. The Conference DIGITALKS was organised on 11-12th October 2018 in

¹¹¹ The sub-action (i) to coordinate regional activities on interoperability standards and facilitate development of standards and interoperability initiative seems not to have been implemented.

¹¹² The following two sub-actions have not been implemented: (i.) Facilitate Business Investments in research and Innovation and in the Creation of Start-Ups and (ii.) Pilot regional cooperation ("twinning") initiatives amongst technology/innovation parks and assess demand and prospects for establishment of regional digital Innovation hubs

¹¹³ <https://s3platform.jrc.ec.europa.eu/digital-innovation-hubs-tool/>

¹¹⁴ <https://ec.europa.eu/digital-single-market/en/news/promoting-excellence-science-western-balkans/>

Pristina to focus discussion on policies and practices to promote innovation and entrepreneurship.

Digital innovation profiles have been drafted in some WB economies.¹¹⁵

Table 5.2 / Scoring of progress in the digital component

IV. 1. Digital environment networks and services, connectivity and access			Stage of implementation
IV.1.1. Boost digital infrastructure development and regional connectivity, while creating a level playing field for digital networks and services to flourish			partially implemented
a. Advance right/introduce policy and regulatory measures that would incentivise investments in high speed broadband networks, including transposition of EU directive 2014/61/EU	Continuous		partially implemented
b. Complete outstanding broadband infrastructure mapping and perform analysis of broadband markets and identify network coverage gaps and investments, as well as policy measures required to bridge those gaps	2020		partially implemented
c. Establish regular exchange on business incentive models for rural and underserved areas and on the use of PPPs to address low connectivity	2018-onwards		partially implemented
d. Establish regional dialogue on commercialisation of spare fibre optic assets; identify and address legal and regulatory constraints and implement the agreed commercialisation model	2017-2020		fully implemented
e. Strengthen regulatory dialogue amongst all WB regulators, as part of BEREC	Continuous		fully implemented
f. Complete regional interconnection and integration into the pan-European GÉANT	2023		partially implemented
IV.1.2. Harmonise spectrum policy to ensure timely and efficient availability and boost deployment of standardised 5G networks			partially implemented
a. Establish predictable, consistent, and harmonised spectrum policy on regional level and strengthen regional cooperation on spectrum policy harmonisation for 5G, as well as for disaster and emergency services	Continuous		partially implemented
b. Coordinate regional positions for the World Radio Conference (WRC), CEPT/ECO	Continuous		partially implemented
IV. 1.3. Coordinate roaming policies towards a roaming free economic area			fully implemented
a. Continue regional coordination on roaming policies towards a roaming free economic area and prepare mid-term Action Plan for aligning roaming policies with EU RLAH model	2018		fully implemented
b. Follow a multi-stakeholder approach to guarantee transparency and predictability so that all relevant views and expertise on roaming policies are sufficiently accounted for	Continuous		fully implemented
c. Assess impact of abolishment of roaming charges in the EU on WB in a regional position paper	2018		fully implemented
IV. 2. Trust and security in digital services			Stage of implementation
IV.2.1. Enhance cybersecurity, trust services and data protection			partially implemented

	a. Establish and harmonise cybersecurity, data protection, and privacy regulations on the basis of a level playing field as key for establishing a functioning and efficient DSM approach	Continuous	partially implemented
	b. Identify and ensure protection of critical IT infrastructures	Continuous	partially implemented
	c. Set up regional dialogue and information exchange platform amongst WB CSIRTs (Computer Security Incident Response Teams), advance CSIRTs' capacities and strengthen institutional links with EU CSIRTs	Continuous	partially implemented
	d. Establish regional dialogue and information exchange platform amongst authorities in charge of Network and Information Security (NIS)	Continuous	not implemented
IV. 3. Digital economy and society; Inclusive digital society			Stage of implementation
IV.3.1 Develop and strengthen supply of digital skills			partially implemented
	a. Initiate regional cooperation on certified re/qualification digital skills programmes	2018	fully implemented (recently)
	b. Pilot a regional intervention aimed at enhancing basic digital skills for citizens to engage online	Continuous	partially implemented
	c. Pilot a regional intervention aimed at enhancing skills for IT specialists that would be closely linked to the demand from and coordinated with digital businesses in WB and EU	2018	not implemented/delayed
	d. Set up and implement regional training and employability enhancement programme aiming to mobilise and upskill un/underemployed population (women) to seek revenue generation opportunities through online work platforms; with particular emphasis on youth, women, and people with disabilities	2018	not implemented/delayed
IV. 4. Digitalisation, Data economy, Standards and Interoperability, Innovation			Stage of implementation
IV.4.1 Promote uptake of Smart Technologies and Accelerate Digitalisation			partially implemented
	a. Set up regional cooperative dialogue on digital transformation challenges and prospects in WB		fully implemented
	i. Assess the state of play of the business environment and the multi-faceted benefits an accelerated and regional Digital Transformation would create in the Western Balkans	2017	fully implemented
	ii. Organise annual regional WB Digital Summits so as to contribute to a continuous dialogue amongst WB authorities, non-governmental organisations, companies, chambers, and academia	2018-onwards	fully implemented
	b. Foster Data economy (Big Data, Open Data and Open Government):		partially implemented
	i. Support an open data region and improve quality of open data portals through regional cooperation and best practice exchange	Continuous	partially implemented
	ii. Strengthen regional coordination on use, exchange and safe and reliable flow, access and transfer of data and integration within the European data ecosystem and economy	Continuous	partially implemented

¹¹⁵ <https://www.itu.int/en/ITU-D/Innovation/Pages/Platform/diprofile.aspx/>

	c. Align standards, complement interoperability frameworks and introduce a pan-European dimension, in line with EIF:		partially implemented
	i. Coordinate regional activities on interoperability standards and facilitate development of standards and interoperability initiatives	Continuous	not implemented
	d. Foster cooperation amongst digital hubs:		not implemented
	a. i. Facilitate Business Investments in research and Innovation and in the Creation of Start-Ups	Continuous	not implemented
	ii. Pilot regional cooperation (“twinning”) initiatives amongst technology/innovation parks and assess demand and prospects for establishment of regional digital Innovation hubs.	2018-onwards	not implemented

As conclusion, overall, there seems to be a good progress in implementation of the infrastructure objective, one action is not implemented in the field of cybersecurity, while most gaps remain in strengthening of digital skills and the uptake of smart technologies (see also Table 3.2). In the field of cybersecurity, the establishment of a regional dialogue amongst authorities in charge of NIS has not been achieved. In the field of skills, a regional intervention targeting IT specialists has not been realised; in addition, training and employment enhancement promoting e-inclusion has not taken place in the whole region. Within the policy area of smart technologies, cooperation amongst digital hubs could not be fostered.

Main problems and challenges found during the implementation of the MAP REA include financing needs and constraints, the lack of human resources in public administration and the need for technical assistance. In the field of digital infrastructure, there are in particular financial constraints in funding capital-intensive broadband infrastructure. When looking at the implementation of projects, the use of public land for infrastructure development is difficult, obtaining permits is lengthy and parafiscal charges high (Barbić et al., 2018). In the field of cybersecurity, there is insufficient awareness about the importance of cybersecurity in the region. Also, incident reporting is lacking. The main problems, however, are the missing financial, personnel, material and technical resources. In the field of digital skills, brain drain is the main issue of concern. In the area of uptake of smart technologies in public administration, strong fluctuation and lack of human resources are the main problems.

As concerns data availability, the study by the European Commission and DG-Connect (European Commission, DG-Connect, 2019) has shown the lack of data for the economies of the region. The DESI-index provides a sound framework for assessing the progress of digitalisation in many fields, however data are mostly patchy and missing. International organisations again provide a wide variety of indices; however, they do not include all WB economies (usually Kosovo* is not included). In addition, these indices are not updated every year (e.g. Network Readiness Index 2016; 2019 update) and there is typically a time lag in publication. ITU is the main source of data on infrastructure indicators. Eurostat recently updated its data on ICT usage of individuals and households and for the first time all WB-economies are available (although data is not available for all economies and all years). Eurostat provides the most up to date information – 2019 data are already available. In the field of ICT usage in enterprises, however, all WB-economies are still not covered.

5.4. Potential new measures, actions and objectives

Overall, there has been a strong progress in the digitalisation component of the MAP REA. One of the main successes have been the Western Balkan Digital Summits, that have already taken place twice with major outcomes and fostering dialogue among main stakeholders.

Major achievements should be delivered in the future as well. Moreover, most actions in the digitalisation component are continuous and do not have a deadline, and thus they should be prolonged.

The most important objectives and actions for the future could be:

◆ Digital infrastructure

Further efforts are needed to improve the digital infrastructure. Actions that started under the current planning period should be sustained: Continue harmonization of EU acquis and broadband mapping; Step up efforts to realize the **Balkans Digital Highway Initiative**; continue infrastructure-sharing projects; Apply for WBIF funding and utilize financing opportunities for digital infrastructure; Further strengthen BCOs in the WB economies, actively participate in the EU Broadband Competence Offices Network, screen the EU toolkit for rural development and look for best practises; Continue regional dialogue and actively participate in BEREC; Further efforts to establish a NREN in Bosnia and Herzegovina and to integrate it into the GÉANT.

In the field of spectrum harmonization, finalization of digital switchover in Bosnia and Herzegovina, Albania and Kosovo* is still needed; further maintain regional cooperation in the field of spectrum policy and coordination; more information on **5G deployment** is needed.

In the field of roaming, the Roaming Agreement needs to be monitored; next steps towards the reduction of roaming prices between the EU and WB should be taken.

◆ Digital skills

Strengthening of digital skills – as an indispensable enabler of digital transformation – must remain one of the main objectives. The following actions might be encompassed: Formulating digital skills strategies in the region; Collecting best practises from the region and learn from their experience and replicate them in other economies of the Western Balkans; Build **national Digital Skills and Job Coalitions**. National Coalitions bring together ICT and ICT-intensive companies, education and training providers, education and employment ministries, public and private employment services, associations, non-profit organisations and social partners that develop concrete measures to bring digital skills to all levels of society.¹¹⁶ Participate in EU initiatives: EU Digital Skills and Jobs Coalition, Digital Opportunity traineeship scheme; **Monitor the needs and supply of digital skills**.

Innovation, data infrastructure and future technologies

This might become a new objective. Innovation and new technologies are closely related; data infrastructure is needed besides physical infrastructure. In the field of innovation, the previous two sub-actions have not been implemented, but are quite important. Thus, strengthen efforts for their realisation: establish the cooperation amongst digital innovation hubs; Map the existing digital innovation hubs and assess the need and demand for establishment of regional digital innovation hubs; Facilitate business investments in research and innovation and in the creation of start-ups.

Strong focus should be put to **future technologies** such as Artificial Intelligence, IoT, Cloud Computing, Big Data, High Performance Computing, Open Data, Blockchain, etc. More information is needed on new technologies in order to put up new measures and actions in this field. There is much information available, but this needs to be screened, evaluated and assessed in a new study, also in cases where integration into European Initiatives should be envisaged.

◆ Cybersecurity

Cybersecurity constitutes an important element/prerequisite for digitalisation. Hence, completing actions from the programming period is important: Complete transposition of

¹¹⁶ See examples of National Coalitions for Digital Skills and jobs in Bulgaria, Croatia, Slovenia or Romania: <https://ec.europa.eu/digital-single-market/en/national-local-coalitions/>

NIS-Directive; Step up efforts to identify critical infrastructure and to ensure its protection; Enhance and strengthen CIRTs and their cooperation; A regional approach to ensure regular exchange of information on cyber incidents is still needed, as well as a regional platform; Further strengthen cooperation with the European Union Agency for Cybersecurity (ENISA).

Also, in terms of stepping up **awareness and education** efforts: Continue awareness raising programmes; Enhance cybersecurity skills at all levels of the society: cybersecurity topics covered in schools at all levels of the education system; study programmes on cyber security at universities; Proceed and follow up the proposal to establish a Regional Cyber Security Training and Research Centre in Skopje.

◆ E-government, e-procurement, e-health, privacy and trust services

Digitising the public sector has been the main priority and efforts should be continued. The two fields – e-procurement and e-health – have not been covered in this programme period but have been listed under the Digital Agenda for the Western Balkans. Here, a stock-taking of the current situation in the Western Balkans seems to be needed. Further actions include: Step up efforts to integrate the WB-economies into the EU ISA2 programme; Participate in the EU Open Data platform; Extend efforts towards Regional Research and Development Cloud (RRDC), and intensify regional cooperation.

In the area of privacy and trust services, the following actions could be continued: Embark upon the mutual recognition process for trusted services; Adopt new legislation in the field of privacy and data protection; as challenges in the implementation of GDPR are foreseen, help and information in the form of e.g. workshops could be proposed; Challenges in the implementation of the eIDAS remain, and therefore certain kind of support/technical assistance or a workshop was proposed.

It has to be noted that the IT/ICT-sector itself as well as businesses (e.g. e-commerce) are NOT covered under the digital component. For the future programming period, overlaps or cross-cutting topics have to be considered (e-commerce, role of digitisation for industry). However, the DESI will also provide information on business digitisation (connectivity and the use of digital tools) and e-commerce. Digital-start-ups should not be forgotten in the new programming period.

5.5. Potential new data, analysis and monitoring tools

In order to benefit from experiences obtained in the region, it would be good to collect best practice examples from the implementation of the MAP REA in the recent years (in a publication, online tool). Examples might include Kosovo's* 'Women in Online Work' (WoW), Serbia's participation in the European Data Portal, Montenegro joining the ISA2 programme as the first economy in the region. Collect information from stakeholders: how were obstacles overcome, why did it work, what have been the factors of success, can it be replicated in other economies, etc.

However, in order to benefit from best practice not only in the region but also within the EU, collect best practices from the EU (e.g. highlights in DESI-country reports), maybe include comparisons to other successful economies' experiences, such as for instance Estonia; consider twinning projects with frontrunners from the EU, e.g. in the field of cybersecurity with the Estonian e-Governance Academy Foundation in order to improve monitoring of cybersecurity. Looking at the other side of cybersecurity, the region gained some visibility in the last years due to digital misconduct, as there were cases that seemed to go into a wrong direction.¹¹⁷ Evaluate how the creative energy could be used in a more fruitful way.

¹¹⁷ <https://money.cnn.com/interactive/media/the-macedonia-story/>

Target Research and Innovation: A lot of information on research and innovation is available in the MAP REA Reports: in the component of investment within the objective 'smart growth', in the component of mobility within the objective 'removal of obstacles to mobility of researchers', and in the component of digitalisation within the objective 'promote the uptake of smart technologies and accelerate digitalisation'. A study to consolidate the information would be a good opportunity to gain an overview of the state of play of research and innovation in the WB-economies, putting a strong focus on digitisation and digital innovation hubs. An adequate mapping of digital innovation hubs in the WB region seems to be missing. Also, an overview of which portals/platforms/clouds do exist in the region/in the EU could prove to be useful.

Focus on new technologies: More information is needed on new technologies in order to put up new measures and actions in this field. There is much information available, but this needs to be collected systematically. These include new technologies such as Artificial Intelligence, IoT, Cloud Computing, Big Data, High Performance Computing, Open Data, Blockchain, 5G, etc.

- ◆ Which European initiatives are going on in these fields and where can WB economies participate (e.g. European AI Alliance; EU Blockchain Observatory and Forum);
- ◆ Collect EU or global rankings and evaluate where the WB-economies could participate or learn from (e.g. European Digital City Index <https://digitalcityindex.eu/>)

The COVID-19 outbreak at the beginning of 2020 has had tremendous impacts not only on the WB-economies. However, the Coronavirus has particularly hit the tourism industry, which constitutes an important part of the WB-economies. While the EU is focusing on 'Digitising European Industry', the WB-economies should particularly focus on digitising tourism (e.g. digital skills for setting up tourism information and hotel and restaurants websites; creating platforms for marketing; internet connections in hotels and related tourism businesses). In addition, one of the lessons of the outbreak might be that digital skills of teachers should be improved. Maybe e-schooling has brought about new ideas or has shown deficiencies and need for action.

A number of new monitoring tools could be introduced with regard to digital issues in the WB6. These might include, inter alia, the following ones:

Cybersecurity monitoring: In order to establish an up-to-date cybersecurity monitoring programme, cooperation with the Estonian e-Governance Academy Foundation could be established in order to improve monitoring of cybersecurity in the region. This could be done e.g. with the help of a twinning programme.

New technologies monitoring: As mentioned above, more information is needed on new technologies. There is much information available but it needs to be collected systematically, also in the field of monitoring. Hence, it would be good to gain an overview of what is already done in the EU and which monitoring tools already exist (e.g. Open Data Maturity Report 2019 by the European Commission, European Data Portal, 2019). Then WB-economies could either participate or have their own, adjusted monitoring tool.

Digital skills monitoring: Digital skills are an important enabler for the digital transformation. Most jobs today require some form of digital skills. However, there is a lack of digital experts in Europe. It is necessary to bring together all actors, employers, industry, trade unions, education etc. to evaluate what the employers need and what the education systems can deliver. One opportunity would be to establish a monitoring tool for digital skills supply and digital skills demand. Educational outcomes should be monitored for skills supply and centrally pooled in order to see where supply of new skills is developed in order to fine-tune and relate it to the demand.

Monitoring of financing possibilities for digital start-ups: In order to support digital start-ups and create opportunities, building-up a database for start-up risk capital providers and

related opportunities is an important pre-condition to monitor digital start-up development. This would involve respective cooperation with the region's banking sector that could provide for valuable regular monitoring data to target e.g. the volume of new loans (as well as refinancing loans) for digital start-ups.

6. Lessons learned from MAP REA

The MAP REA, being the first regional mid-term economic cooperation and integration framework that has been endorsed at the highest level, generated concrete results and resulted in noteworthy success that the region can boast about. The political will and efforts invested into the implementation of key objectives across all policy areas resulted in major regional achievements, namely the signing of the Regional Roaming Agreement on the price reduction of the roaming services in the region, organisation of the Western Balkans Digital Summit on an annual basis, endorsing and validating the Regional Investment Reform Agenda (RIRA) at the highest level, as the first coordinated regional investment policy and promotion reform framework, agreeing on a creation of a regional database of Research Infrastructure to optimize the existing Research Infrastructure and open avenues for interdisciplinary collaboration between researchers, industry and wider society in the region, agreeing on the information and data collection for recognition of Academic Qualifications protocols and so forth.

The high-level support from the European Union was yet another factor of success to deliver on commitments within the MAP REA. On the other hand, existing political sensitivities have affected implementation in some areas and, thus, hampered the progress in terms of obtaining concrete results. Despite challenges and difficulties, it has been also proven that the experience stemming from the implementation of the MAP REA served as a useful tool for planning of the future process related to the enhanced REA 2021-2024. Since 2017, the MAP REA agenda encountered several challenges and risks, related, but not limited to the nature and technical feasibility of the measures, capacity of public administration to comply with the manifold and very demanding agendas, coordination amongst relevant institutions at the level of each WB economy and regional level, the lack of dedicated technical assistance and financial instruments to support the implementation of certain parts of measures and so forth. Relying on lessons learned could, in turn, help facilitate the process of internal coordination, planning and subsequent implementation of the measures within the framework of future REA 2021-2024.

First and foremost, challenges were encountered in scoping of the measures which are concrete and pragmatic on the one hand, clearly demonstrating the results of the regional economic cooperation, and highly transformative on the other hand, given the gaps and needs in the region, as well as the convergence gap with the EU. The formulation and conceptualization of some measures which were not specifically time bound but more of a continuous nature exerted certain challenges in terms of tangible, defined and quantifiable outputs. A more systematic effort within the regional structures to properly define detailed measures and identify specific milestones with a view of articulating outputs and outcomes, as well as desired impact is needed. To this end, existing mechanisms should serve as an initial platform to find feasible and appropriate solutions.

In this regard, the cross-sectoral nature of the MAP REA exerted significant challenges in terms of coordination, as it necessitated stronger coordination of line ministries, agencies and other relevant stakeholders at the level of each economy, as well as at the regional and international levels. In order to avoid such an approach, the actions should be well targeted, feasible and with measurable impact. Despite difficulties to be very specific in some cases given the changes in economic and social development in the Western Balkans, regional setting should serve as an initial platform for finding feasible and appropriate solutions if such measures are put forward. The necessity to work towards internal coordination more

prominently was recognised not only at the level of each economy but also at the regional level. The complexity of measures and increased number of institutions involved in the implementation of certain agendas have multiplied through years, but this can serve as an impetus for having a broad range of institutions involved in the direct implementation, thus requiring strong coordination efforts from all stakeholders involved.

Secondly, since many of the measures within the MAP REA entail acquis alignment, the challenges inherent in varying accession and alignment stages as well as its dynamics have also influenced the implementation track record. The regional economic agenda demands a greater focus on regional measures, while this has not been the case in certain measures. Acquis alignment is without doubt a high priority and prerequisite for any integration agenda, but this remains a part of national responsibilities of each economy directly linked with EU accession process. In addition, given that Western Balkan economies follow their national plans for EU acquis alignment, the pace and speed vary, even more so taking into the consideration that some regional measures necessitate national reforms. To this end, the MAP REA implementation has noted that the level of harmonisation of the legislation with the respective EU acquis was uneven across WB, as economies are in different stages of the EU integration process, which are also associated with different dynamics of the legislative process.

Furthermore, monitoring process of the MAP REA implementation experienced certain obstacles in terms of reporting on the activities and steps that needed to be taken on behalf of WB economies. Different timeframe of the measures, coupled with the mix of national and regional measures posed a challenge in measuring of the progress. The monitoring process should fully mirror the achieved progress in each WB economy in the sense that it relates fully and directly to the implementation of MAP REA measures rather than offering the state of play under each measure. Such an approach prevents the responsible bodies to fully deliver on the commitment within the reporting and monitoring tasks. In this respect, a proper monitoring system with clear progress tracker should duly reflect the progress of each measure without creating misperceptions with respect to the implementation status of a specific measure. A more user-friendly approach in showcasing the progress in the form of scorecards or alike will be taken into consideration when devising a monitoring tool for REA 2021-2024 agenda.

In addition, administrative and bureaucratic obstacles to the implementation of MAP REA measures proved to be a particular challenge across the WB region. The scarce technical and expert support at the economy level to design and implement regional activities on several occasions hampered the smooth implementation of the measures. A complex chain of decision-making process posed a challenge to the effective implementation of reforms in each economy, and impacted coordination and communication amongst relevant stakeholders. The capacity of domestic structures at the economy level should be strengthened significantly (also through technical assistance) and recognised as a precondition for the successful implementation of measures under REA 2021-2024 agenda.

Moreover, limited availability of dedicated technical assistance across almost all MAP REA measures (with the exception of those in the Investment component) has also impacted the effectiveness and success rate of administrative capacities in their implementation efforts. It has been observed that the MAP REA implementation has been detached from financial instruments, including those within the framework of available EU funds for capacity building activities. Existing EU instruments should have been more proactively used in those instances where specific needs were identified. Besides, the need for prioritisation of measures in terms of achievable short- and long-term objectives as well as identification of quick “wins” with longer structural interventions at both economy and regional levels was identified as yet another lesson learned.

Last but not the least, the implementation of MAP REA measures showed the need to integrate WB6 closer into the EU programme and initiatives through identified actions in the

Action Plan that aim to facilitate the WB6 participation in designated programmes, initiatives and institutions. Although an increased participation of WB6 in EU programmes has been observed, especially in the digital component, the region’s participation should have been more frequent and noticeable across all four MAP REA components. A more proactive stance and positive response from EU institutions and other relevant partners would help facilitate this process. A wide array of opportunities is presented within EU framework for the formulation of joint positions at the regional level. Such an opportunity should be seized more frequently by all WB governments and regional coordination bodies.

7. Summary and policy recommendations

The Western Balkans find themselves in an underprivileged position in Europe when it comes to economic development. Indeed, this is not necessarily a new situation. In the European context of long-run economic growth and catching-up, the WB6 region has been a laggard most of the time. This is due to geographic distance to the centres of economic activity, as well as due to a history of destructive wars and political fragmentation. Consequently, the Euro-Atlantic integration process and the related benefits that come with access to a vast market and more security have been very slow and incomplete. In order to step-up integration with the EU, the WB6 economies were urged to increase integration among themselves. And although it is clear that the tiny regional market will never be a substitute for the huge EU market, it is still useful for the WB6 to improve their political and economic ties in the region. This is in order to demonstrate the European spirit of peace and cooperation on their way to EU accession, as well as to reap the low hanging fruits of producing and selling on the regional market, where personal connections, common languages and consumer preferences can be exploited and the tiny home markets further increased.

To this end, the RCC, in cooperation with CEFTA, is coordinating the Multi-annual Action Plan on a Regional Economic Area in the Western Balkans (MAP REA). The MAP REA focuses on the following actions: i) promotion of further trade integration; ii) introduction of a dynamic regional investment space; iii) facilitation of regional mobility; and iv) creation of a digital integration agenda. The importance of this analysis has increased in the wake of the outbreak of the COVID-19 pandemic. The coronavirus will likely act as a catalyst to ongoing structural change.

Not all of its impact will necessarily be negative for the region. A shift from offshoring to more nearshoring by Western European multinational corporations could help boost the much-needed investment in the WB6. EU travel restrictions could help make the regional labour market more attractive. Current and potential future lockdowns will accelerate the digital change of the region's economies. Therefore, the crisis should be seen as a chance to overcome regional barriers and make the best of the situation by exploiting the possibilities that regional cooperation offers to increase investment in order to counter sluggish growth, facilitate regional and circular migration instead of mass emigration from the WB6 to Western Europe, and to grasp the opportunity for a transition to the digital economy, and overcome technological backwardness.

Looking at recent developments, it can be shown that there has been a significant increase in FDI inflows to the Western Balkans, but this was mainly driven by large gains in Serbia. In 2019, all economies except for Serbia and Bosnia and Herzegovina received FDI inflows relative to GDP below the 2013-2016 post-financial-crisis average. Annual FDI inflows as a share of GDP remain relatively low for the Republic of North Macedonia, Bosnia and Herzegovina and Kosovo*. The sectoral allocation of FDI varies significantly across the economies. FDI in the dominant sectors in Albania and Kosovo*, energy and real estate respectively, contribute little to the creation of regional and global value chains. Bosnia and Herzegovina, the Republic of North Macedonia and Serbia have attracted significant investments in the manufacturing sector, which tends to have a greater impact on technological upgrading and employment growth.

In order to achieve the objective of a unique investment area among the Western Balkan economies, four broad objective groups have been identified: the regulatory investment framework, the promotion of the common investment area, the financial sector and smart

growth strategies. Significant progress has been achieved in the harmonisation of investment policies. With the technical support from the World Bank Group and other institutions, the WB6 have agreed upon a regional investment reform agenda. Economy-specific action plans have been developed and are currently being implemented and monitored. Furthermore, in an important step, the economies agreed on common standards that serve as a guide for new negotiations or re-negotiations of International Investment Agreements (IIAs). The WB6 economies managed to fully implement most of the actions designed within the investment pillar, with some delays in the promotion of the region and the development of domestic economic strategies, partly caused by the Covid-19 pandemic.

A most recent positive trend in FDI inflows and global-value-chain participation has been observed. FDI inflows into the region increased from EUR 4.9 bn in 2017 to EUR 6.5 in 2019 with the largest contribution from increased activity in Serbia. The exports of intermediate goods, a proxy for the integration into global value chains, increased by 45% between 2016 and 2018. Indeed, it is too early to be able to link this positive outcome to the efforts under the MAP REA. For example, a broad positive trend in the announced greenfield projects for prioritised sectors could not be detected between 2017 and 2019. However, a strong commitment to further harmonisation of regulations with EU standards is an important signal in times of uncertainty caused by the pandemic.

The development of national economic strategies remains incomplete, and collective promotion of the common investment region proves to be difficult. Structural shifts in the global value chains such as new networks around the production of electric vehicles and potential tendencies of re-shoring and near-shoring need to be observed carefully when designing new strategies. Furthermore, access to diverse financial instruments needs to be further improved to harness benefits from FDI for local firms.

7.1. Future regional economic agenda

The Western Balkan economies have made substantial progress towards achieving the agreed measures under the MAP REA 2017-2020. The effort to reduce barriers in trade and goods and the alignment of standards with the EU also need to be continued in the successor of MAP REA.

In order to spur further the trade integration within the framework of the MAP REA, CEFTA economies have agreed to address issues in four main policy areas in order to facilitate trade "without tariffs, quotas and other unnecessary barriers". The four main identified policy areas are a) the facilitation of free trade in goods, b) Harmonisation of CEFTA Markets with the EU c) the creation of a region free of non-tariff measures and trade defensive measures and d) facilitation of trade in services.

The developments in trade in goods and services in the CEFTA region observed between 2017 and 2019 trends are mixed. Overall, all economies experienced an expansion in nominal trade, particularly in 2017 and 2018. Over the three-year period, the total trade expressed as a per cent of GDP increased in North Macedonia, Montenegro, Serbia and Kosovo*. Montenegro, Serbia and Kosovo* increased trade both in goods and services, while North Macedonia only increased its merchandise trade. Trade in goods and services relative to GDP decreased in Albania and Bosnia Herzegovina, while it stagnated in Moldova. The subdued trade activities in these three CEFTA economies can be mainly related to a decrease in trade in goods.

Growth in intra-CEFTA merchandise trade generally lagged behind its potential. Exports to other CEFTA economies remained constant between 2017 and 2019 at around 4.9 per cent of GDP. The EU remains by far the largest trading partner and absorbs around 70 per cent of all exports and is the source of almost 60 per cent of imports. CEFTA remains the second largest export destination for CEFTA economies, but China has become the second

most important source of imports in 2019. Furthermore, differences in trade patterns across trade partners have not altered. Intra-CEFTA trade differs from trade with the EU in the technological intensity of goods that tend to be more technologically sophisticated when exported to the EU.

Over the 2017-19 period, several trade indicators suggest that improvements in standards and practices were recorded. Gaps relative to EU peers remain, especially in external and internal BCP/CCP agency cooperation and the availability of trade related information.

In the policy area 'facilitation of free trade in goods', several objectives have been achieved. First, regular public-private sector meetings e.g. the Regional Business Advisory Groups (RBAG) Iron and Steel and Vegetables have taken place regularly and have agreed to continue beyond MAP REA 2017-2020. Furthermore, the economies have achieved progress in the IT interconnection and secured funding to operationalize and maintain the System of Electronic Exchange of Data (SEED). In order to simplify the trade of goods, it has been agreed to work towards the recognition of testing reports for different product groups (Toy safety, low voltage, GPSD, PPE and machinery). Furthermore, in the process towards mutual recognition of trade documents, the economies have agreed to select the sector of fruits and vegetables and prepare a mutual recognition agreement. The economies have also agreed to add more sectors for which mutual recognition agreements should be established.

Despite gradual progress, some measures remain behind the anticipated timeline. First, it was envisaged to adopt the Additional Protocol 7 on CEFTA Dispute Settlement in 2019, which should come into force in 2020. Furthermore, while progress has been made on the implementation of several elements set out in the AP5, the ratification process has not been completed by all parties.

Important steps have also been taken in the policy area related to the harmonization of CEFTA markets with the EU. In particular, the economies have established the legal basis and started the implementation of full cumulation and duty drawback within CEFTA. Furthermore, a report commissioned by CEFTA provides an economic impact assessment on the consequences of the full alignment of CEFTA's most favoured nation rates with the EU's common external tariff rates. Moreover, the goal to avoid interruptions of the zone of cumulation (CEFTA, the EU, EFTA, and Turkey) due to the revision of the rules of origin of the PEM Convention has been achieved. Furthermore, diagonal cumulation between all economies has not been fully achieved, as FTAs between Moldova and Kosovo* and EFTA have not been signed yet. Measures related to the policy area of creating an NTM and TDM free region mostly remain only partially implemented. The exception is the objective to remove discriminatory practices in public procurement, as a comprehensive report has been prepared. This report assesses the current state of play of legislation related to government procurement and its compliance with the CEFTA 2006, WTO rules and EU Acquis. Incomplete measures include structured reporting and communication system of state aid schemes and measures. Furthermore, since AP6 is not in force yet, NTBs related to services have not been incorporated within the Market Access Barrier Database yet.

The decision process on identifying new measures and objectives should benefit from an inter-institutional dialogue. For example, CEFTA and the Transport Community share common goals in connecting the region. Collaboration between CEFTA and the Transport Community have proven to be successful in the past, for example in establishing green lanes which facilitate processes for essential goods during the Covid-19 pandemic. Improved coordination between customs and agencies involved in clearance of goods should further reduce the waiting times.

In order to boost the impact of the legal alignment of standards for goods and services, agencies that plan and implement the standardization should obtain more financial and political support. For example, capacities of agencies to conduct conformity assessment, SPS

inspections and market surveillance should be increased. Transparency should also receive greater attention in the public-private dialogue and the reporting of Market Access Barriers.

In order to better evaluate the impact of measures implemented under the MAP REA, the statistical basis for trade data should be enhanced e.g. to provide input-output tables based on international standards. Furthermore, the collection of crossing time as it is currently the case at the green lane BCPs/CCPs should be maintained and extended to cover more details, such as product groups.

A major achievement in the 'facilitation of free trade in services' has been the adoption of the CEFTA Additional Protocol 6 on Trade in Services (AP6) in December 2019. Ratification by all parties, however, still has to follow. The Protocol contains extensive commitments supporting liberalisation of trade, in particular when it comes to providing guarantees for market access and national treatment. In the field of electronic commerce, the main achievement has been the Roadmap for dialogue on regulatory issues in electronic commerce, proposed by the CEFTA Secretariat and endorsed in June 2020 (CEFTA, Roadmap, 2020). It provides the way forward in the field of electronic commerce and has to be implemented in the years to come. Not implemented actions are only found in this last policy area of facilitation of trade in services. However, actions here often encompass the review of implementation actions which are foreseen in a later period of time. Also, the timeframe of these actions mostly stretched until 2023. These actions should be kept in the next programming period 2021-2024 and form the main body of actions.

Hitting the world since the beginning of 2020, the COVID-19 crisis has shown the vulnerability of certain services sectors, especially tourism. It now seems to be an advantage that the tourism sector has been selected as the pilot sector to launch interregional regulatory cooperation. Maybe this could stimulate (regional) tourism and soften the negative effects. Also, COVID-19 has brought to the forefront the importance of electronic commerce, the uptake of which should be fostered, especially by SMEs.

In the field of trade in services, the CEFTA statistical portal with data on trade in services, FATS and FDI is already established and provides a sound basis for monitoring of trade in services. The scope of the portal could be extended by key data on electronic commerce e.g. available at Eurostat.

Benchmark indicators for the trade component to be included in annual reports in the future:

Objective	Indicator
Facilitation of trade in goods	Processing time at BCP/CCP by product group Integration into regional value chains based on input-output tables
Harmonisation of CEFTA Markets with EU	Institutional setting and cooperation based on OECD (2018) Number of Mutual Recognition Programmes based on EU acquis harmonisation.
Trade in services	Services exports and imports, in % of GDP Services exports to CEFTA, in % of total services exports
Electronic commerce	SMEs selling online, in % of enterprises Online shopping, in % of individuals UNCTAD Business-to-Consumer (B2C) E-commerce Index

Recommendations for enhancing the regional agenda beyond 2020:

Objectives	Actions
Trade	
Facilitation of trade in goods	<ul style="list-style-type: none"> a) Formalize inter-institutional cooperation (e.g. with Transport Community) to define new objectives b) Enhance coordination between customs and trade agencies to reduce time required at BCPs/CCPs c) Increase capacity of agencies to conduct conformity assessment, SPS inspections and market surveillance, particularly in priority sectors d) Continue the activities on establishing mutual recognition programs
Harmonisation of CEFTA Markets with EU	<ul style="list-style-type: none"> e) Integration of the harmonised policies to the EU internal market
Creating NTMs and TDM-free Region	<ul style="list-style-type: none"> a) Improve transparency in public-private dialogue b) Develop risk assessment tools for SPS and improve coordination among SPS agencies c) Enhance transparency of MADB Database
Trade in services	<ul style="list-style-type: none"> a) Finalisation of CEFTA Services Regulatory Database b) Maintenance of CEFTA statistical database on trade in services, FATS and FDI c) Review and gap assessment of domestic regulation with AP6 d) Evaluation of impact of the Agreement on further trade and investment growth, GVC, labour market e) Extend and further specify interregional regulatory cooperation beyond the pilot sector
Electronic commerce	<ul style="list-style-type: none"> a) Continue work on geo-blocking b) Implement actions in CEFTA Roadmap on electronic commerce

The future regional economic agenda should continue on the path of regulatory framework harmonisation and evaluate implementations regularly. In order to promote the region as a common investment space, economies should complete and improve the development of economic development plans incorporating recent trends in FDs and GVCs, which are also affected by the Covid-19 pandemic. The information available through websites of investment promotion agencies should be further expanded. Institutions that specialise in the provision of information related to available financial and non-financial support and consult corporates on a broad set of issues could strengthen the growth of particularly small firms. Trust-building measures in the financial sector and macroeconomic stability concerns should also be incorporated in future strategies. In Tables 5.1 and 5.2, recommended actions as well as indicators by objectives for enhancing the regional economic agenda beyond 2020 are presented.

Table 7.1 / Investment component: Recommended actions by objectives

Objective	Actions
Objective I: Regulatory framework	<ul style="list-style-type: none"> f) Expand scope of regulatory harmonisation incl. service and product market policies g) Design transparent assessment scheme which is used to evaluate the quality of IRAP implementation
Objective II: Investment promotion	<ul style="list-style-type: none"> a) Complete the design of economic development plans b) Create database of local companies that supply priority sectors c) Expand available information at IPA websites
Objective III: Smart growth	<ul style="list-style-type: none"> d) Establish institutions that provide information on public financial and non-financial support and offer consultations
Objective IV: Access to finance	<ul style="list-style-type: none"> a) Improve trust building through provision of information and consultation on availability and use of financial instruments b) Develop step-by-step guidelines for applications to different financial instruments c) Set up regional forum for cooperation in banking supervision and resolution
Objective V: Macroeconomic stability	<ul style="list-style-type: none"> a) Exchange information on design and implementation of macroprudential measures b) Design institutions and mechanisms that guarantee liquidity provision to firms in time of economic distress

Source: Own elaborations.

Table 7.2 / Investment component: Recommended indicators by objectives

Objective	Indicator
Investment promotion	IPA website activities
	Number of greenfield investments
Access to finance	Detailed information on loans, by firm size, sector
	Information on cross-border/boundary lending activity

Source: Own elaborations.

So far, pockets of modernisation have not been able to reverse the process of mass-emigration from the region. It emerges that outward-migration from the Western Balkan economies persists over time. Despite that, the mobility within the region remains much lower than the mobility outside of the region. Moreover, potential mobility remains at elevated levels. Nevertheless, there are regional differences, which might be related to differences in investment patterns as well. According to the RCC PO BB 2020, potential mobility of the highly skilled out of the region is the highest in Albania and the lowest in Serbia. Between 2018 and 2019, Bosnia and Herzegovina shows to have had the highest rise in potential mobility. In contrast, potential mobility among the highly skilled has diminished in Serbia. As concerns potential mobility within the region, the highly skilled in Montenegro tend to show a higher preference to move to another WB economy. Montenegro is also the economy where such preference grew the most between 2018 and 2019. The lowest level of

preference to move to another WB economy is found in Serbia and Albania. This shows that migration processes are not only guided by investment and income levels, but also by opportunities and other important push and pull factors.

Intra-regional mobility should assist economies in the region to satisfy certain demand for workers and skills in a coordinated way that could be beneficial for all economies in the region, but also to make the region more attractive for FDI and internationally competitive with respect to its human resources. Fostering intra-regional mobility would require supporting some actions that might have an immediate impact in the short run, e.g. offer incentives to highly skilled workers to move within the region, such as fiscal stimulus or tax exemptions. In the long run, the rising educational quotas for those professional qualifications which are in the great demand should be supported.

Therefore, regional coordination should envisage strategies which concentrate on short term solutions, especially by focusing on objectives for attracting and retaining the highly skilled. In this respect, the economies in the region are ranking quite low in the international arena, and in the era of innovation and digitisation, this is considered crucial. Therefore, the mobility agenda in the region should foresee more cooperation and coordination aimed at retaining and attracting talents. As shown above, the earnings prospects in the region are less alluring, and therefore the productivity suffers as well, at least among researchers and academic staff. Therefore, more actions should be devoted to improve the relationship between earnings and productivity, and incentive measures should be promoted for facilitating the high skilled circulation within the region, motivating them to move within the region rather than moving abroad. This would also imply more coordination and support, extending to social security and pension transferability as well.

Promoting human capital enhancement requires adequate research infrastructure. Accordingly, economies of the region should join their efforts on upgrading their research infrastructure. Not only government financing should expand, but also establishing of a new target – in line with the EU agenda on education, skills and innovation – which has to be agreed among the WB economies. Also, the absorption capacities of the EU and international funding should be improved further through upgrading of capacity building and expansion of researchers and academic staff. The involvement of the business community should also be encouraged, and financing of scientific research through the private sector should also be promoted. Such an approach could be beneficial for the private sector, but it would also support the research community to expand by offering more job opportunities to scientific researchers.

Furthermore, more efforts should be devoted to the promotion of joint efforts and engagement of all stakeholders, such as governmental bodies, private sector and the scientific community and social partners in designing and implementing new policy measures, which can be sustainable at the regional level, but also in coordination with the EU agenda on skills and innovation, assuring thereby the implementation of a coherent and balanced agenda with respect to gender and needs of less advantaged social groups. Tables 5.3 and 5.4 present recommended actions and indicators by objectives that should help to enhance the regional economic agenda beyond 2020.

Table 7.3 / Mobility component: Recommended actions by objectives

Objective	Actions
Objective I: retain and attract high skilled workers	h) Coordination and cooperation for mapping skills in demand and supply in the economies of the WB and promote circular migration within the region to tackle labour and skills shortages.

Objective	Actions
Objective I: retain and attract high skilled workers	<p>i) Coordination and cooperation for introducing fiscal stimulus and incentives for retaining and attracting high skilled workers, financial support for launching of start-ups by high skilled returnees, financial incentives to private businesses that hire high skilled returnees and better coordinated efforts on the transferability of pension rights and social security contributions.</p> <p>j) dents' enrolment to vocational and tertiary educational programmes, especially as concerns STEMS, in line with types of skills in demand and in accordance with the needs of the private sector.</p> <p>k) Coordination and cooperation for promotion of new policy tools or measures which would encourage the return of political scientists graduated abroad, talented people with outstanding managerial and leadership skills which could contribute to better governance of economic and political agenda in the region.</p> <p>l) Coordinate efforts and cooperation to design programmes which would promote return migration of highly skilled, involve diaspora and strengthen the links with it, especially with successful entrepreneurs in diaspora that could invest and support knowledge transferability and attract more FDI in the region.</p>
Objective II: enhance research infrastructure, capacity building and access to funding	<p>d) Further promotion of Erasmus+ and Horizon Europe, promotion of EU programmes and international programmes which support networking, access to funding and research cooperation at regional and international levels.</p> <p>e) Increase the participation rate to Erasmus+ and Horizon Europe, increase the number of successful applications and improve absorption capacities of research funding by promoting joint efforts, and strengthen regional cooperation through regional research consortiums.</p> <p>f) Establish regional research consortiums and strengthen the cooperation with research community abroad or researchers and scientists from the region who are part of the research community abroad.</p> <p>g) Promote actions at regional level for upgrading the research infrastructure in coordination with the needs of the respective economies and in accordance with a regional innovation agenda.</p> <p>h) Promote actions and coordinate efforts for raising the capacities for research and development, support researchers and doctoral researchers to have a better working environment and better career prospects by getting the private sector more involved to financially support the scientific work.</p>
Objective III: establish Western Balkan Job Mobility portal	<p>e) Coordinate efforts and cooperation to design a portal where people in the region would be informed not only about working opportunities in other economies within the region, but also with respect to regulations about living and working conditions in the neighbouring economies in the region, legal requirements and portability of pension and social rights.</p> <p>f) Coordinate efforts and cooperation between public employment services in the region to share information about job offers which could assist job seekers to promote themselves, but also companies to find the workers with the proper qualifications.</p> <p>g) This job portal could be designed similar to EURES job portal of the EU https://ec.europa.eu/eures/public/en/homepage.</p>

Objective	Actions
Objective IV: extend and enrich the evidence about potential mobility among highly skilled and professionals groups	<p>c) Public Opinion Balkan Barometer could extend the range of information collected as concerns occupational groups and working sectors of respondents and any expectations about level of earnings at home, abroad or within the region for those prone to mobility.</p> <p>d) Improve the collection of indicators about human capital, high skilled mobility, labour market needs for skills and vacancies by occupation and working sector. Further details are provided in table 3.5.</p>

Source: Own elaborations.

Table 7.4 / Mobility component: Recommended indicators by objectives

Objective	Indicator
Retain and attract high skilled workers	<p>Job vacancies by working sector and occupational groups</p> <p>Skills in demand and on-job formation by working sector and occupation</p> <p>Wage gaps by working sector and occupational groups between the economy and potential destination of migration</p> <p>Investment in human capital: governments and household expenditure on education.</p> <p>Further details are provided in table 3.5.</p>
Enhance research infrastructure, capacity building and access to funding	<p>Investment in research infrastructure: governments and private sector expenditure on research infrastructure.</p> <p>Further details are provided in table 3.5.</p>
Potential mobility among highly skilled and professionals groups	<p>Intentions to move within and outside the region by professional groups, labour market status, age, gender and education and urban/rural area.</p> <p>Further details are provided in table 3.5.</p>

Source: Own elaborations.

Digitisation is seen as a way of economic leapfrogging in the WB6. However, the potentials are distributed quite heterogeneously, as the level of digitisation, digital policy issues and digital integration differs among the Western Balkan economies. Overall, in terms of digital development levels, Serbia seems to be the most advanced, followed by the Republic of North Macedonia, Montenegro and Kosovo*. Bosnia and Herzegovina and Albania are trailing behind.

The digital integration component of the MAP REA focused on detailed actions in four policy areas: (1) Digital environment networks and services, connectivity and access (2) Trust and security in digital services (3) Digital economy and society; inclusive digital society and (4) Digitalisation, data economy, Standards and Interoperability, Innovation. Substantial progress has been achieved in all these policy areas, with particularly significant progress in the field of (1) digital environment networks and services, connectivity and access and also in (2) Trust and security in digital services, especially in the field of cybersecurity. The organization of the Western Balkan Digital Summits - the first one in Skopje on 18-19th April 2018 and the second one in Belgrade on 4-5th April 2019 - was a major achievement. Another major milestone has been the signing of the Agreement 'On the price reduction of the roaming services in public mobile communication networks in the Western Balkans region' (RRA2) on 4th April 2019 in Belgrade by all WB-economies. The Western Balkan economies also increased their participation in EU digital bodies, programmes and initiatives. This is fostered and promoted through the EU's Digital Agenda for the Western Balkans, and seen to complement the MAP REA digital integration component. Assessing overall progress,

however, some actions could not be implemented in the policy area (3) Digital economy and services; inclusive digital society and (4) Digitalisation, data economy, Standards and Interoperability, Innovation, especially in the field of innovation, and thus certain gaps remain. The main constraints and challenges encountered during the implementation period include financing needs and constraints, the lack of human resources in public administration and the need for technical assistance. Monitoring of the progress is hindered by the lack of available data in the Western Balkan region, in particular for Kosovo* that is not included in international indices.

The COVID-19 crisis, hitting the world since the beginning of 2020, has accelerated digital transformation. It highlighted the importance of the availability of digital networks and digital skills and brought forward its limitations. Thus, digital networks and the level of digital skills need to be improved in order to face this new challenge. Also, digitalisation brings about various positive effects and involves a broad set of benefits as indicated in the literature. However, the Western Balkan economies still lag behind their regional peers when comparing available indices. Thus, efforts have to be stepped up to reap these benefits and to close the gap with regard to regional peers.

For the new programming period 2021-2024, one needs to capitalise on the past achievements in order to deliver in the future. In particular, one of the main successes - the Western Balkan Digital Summits, with major outcomes and fostering dialogue among the main stakeholders - should also take place in the coming years. In addition, participation and cooperation of the Western Balkans with EU bodies or expert groups, initiatives as indicated in the EU's Digital Agenda for the Western Balkans should be stepped up and promoted (e.g. preparation for WiFi4EU, co-operation with EU eHealth Network, Digital Opportunity Traineeship, SELFIE, HEInnovate, European Digital Competence Framework for Citizens, Start-up Europe, taking part in TAIEX activities, see European Commission, 2008). In this way, Western Balkans can benefit from best practises, foster linkages and extend their knowledge base. Policies in the next programming period should in particular focus on building digital infrastructure and connectivity, as well as on strengthening digital skills and education. A strong focus should be put on innovation and new technologies, such as Artificial Intelligence, IoT, Cloud Computing, Big Data, High Performance Computing, Open Data, Blockchain, etc. In addition, fostering cybersecurity and promoting e-Government, e-Procurement, e-Health, privacy and trust services should be set on the agenda.

As a monitoring tool in the area of digitalisation, data collection of indicators for the DESI will help to monitor progress in terms of digital infrastructure, digital skills, and e-government. Also, e-Commerce and e-Health will be covered. In terms of cybersecurity, either the Global Cybersecurity Index (available every two years) or the National Cybersecurity Index could be used. As data for more years and all economies become available, an improved data basis will be ready for comparison, also with the EU or selected economies from the EU. Tables 5.5 and 5.6 provide recommendations for actions enhancing the regional agenda beyond 2020, as well as benchmark indicators for the digital integration component to be included in annual reports in the future.

Table 7.5 / Digital component: Recommended actions by objectives

Objectives	Actions
Objective 1: Extend digital infrastructure and improve connectivity	<p>a) Further advance and incentivise investments in high-speed broadband networks; apply for WBIF funding and utilize financing opportunities for digital infrastructure; foster Western Balkans Digital Highway Initiative</p> <p>b) Enhance capacity building of Broadband Competence Offices (BCO) and support active participation in the EU Broadband Competence Offices Network</p> <p>c) Foster regional cooperation in the field of spectrum policy and coordination</p>

Objectives	Actions
Objective 1: Extend digital infrastructure and improve connectivity	<ul style="list-style-type: none"> d) Build a regional strategy and information sharing on 5G e) Monitoring of Western Balkans Roaming Agreement and advance in the reduction of roaming prices between the EU and WB
Objective 2: Strengthen digital skills and digital education	<ul style="list-style-type: none"> a) Develop dedicated national digital skills strategies and foster regional cooperation b) Assess best-practises addressing digital skills in the region and the EU and chose 2-4 of them to emulate in the region; focus on e-inclusion of vulnerable groups such as women, youth, and people with disabilities c) Build national Digital Skills and Job Coalitions and build regional cooperation d) Set up a monitoring tool for digital skills supply and demand e) Assess bottlenecks arising in the education system during the COVID-19 crisis and adopt reasonable measures to counteract; improve e-skills of teachers
Objective 3: Focus on innovation, data infrastructure and new technologies	<ul style="list-style-type: none"> a) Establish a strong focus on new technologies; acknowledge recent trends in new technologies and try to foster cooperation with initiatives in the EU b) Set up a regional data strategy c) Extend efforts towards Regional Research and Development Cloud (RRDC) d) Foster innovation in new technologies and promote regional digital innovation hubs; map and promote existing innovation hubs in the region; assess need and demand for establishment of new ones e) Facilitate investment in digital start-ups
Objective 4: Foster cybersecurity	<ul style="list-style-type: none"> a) Transpose NIS-Directive; identify and ensure protection of critical IT infrastructures b) Enhance and strengthen CIRTs and their cooperation within the region and the EU c) Enhance awareness raising programmes and enhance cybersecurity skills at all levels of education and society
Objective 5: Promote e-Government, e-Procurement, e-Health, privacy and trust services	<ul style="list-style-type: none"> a) Foster e-government development and harmonisation with new European Interoperability Framework (EIF); participate in the ISA2 programme and in monitoring of NIF with EIF through the National Interoperability Framework Observatory b) Foster information sharing on eIDAS regulation c) c. Stock-staking on e-procurement and e-health in the region; assess bottlenecks arising in the health sector during the COVID-19 crisis and adopt reasonable measures to counteract d) Adopt new legislation in the field of privacy and data protection and organise information sharing on GDPR e) Strengthen regional cooperation in trust services and mutual recognition of trust services

Source: Own elaborations.

Table 7.6 / Digital component: Recommended indicators by objectives

Objective	Indicator
Digital infrastructure	Fixed-broadband subscriptions per 100 inhabitants
	Mobile-broadband subscriptions per 100 inhabitants
Use of Internet and digital skills	Regular Internet users, in % of individuals (frequency of Internet access: once a week)
	Individuals with basic or above basic overall digital skills, in % of individuals
E-Government	E-government activities of individuals, in % of individuals
Cybersecurity	Global or National Cybersecurity Index

Source: Own elaborations.

Finally, in order to come up with an overarching, 'out-of-the-box' suggestion, a Western Balkans Big and Open Data Initiative (BODI) is proposed, given that data is seen as the prime resource of the future, and certain economies that have a very liberal approach to big and open data are deemed to have better economic development potentials. Examples include Estonia's public open data management or China's liberal approach to integrated big data.

A BODI approach could be a Unique Selling Proposition (USP) of the WB6 region, as it could not only supply free and interconnected data on a large scale but also an important and otherwise inexistent cross-border/boundary data repository. This could make the WB6 a laboratory for Europe in terms of investing, working and roaming across fragmented economies. The suggestion includes a joint open data platform hub with related offices in each single economy collecting and processing (as well as anonymising where necessary) huge masses of data in a joint format, starting from official data, to financial data, trade and investment data, digital flows data, mobility data, and connecting across various sectors of the economy as well.

This could also help to solve old problems related to the lack of transparency in the region and at the same time attract foreign investors to use the possibilities of connecting e.g. e-commerce, credit card payments info, employment and education data, production data, investment info, public admin data, etc. Also, BODI would make it necessary to register and store data in several languages or at least in English in order to make it globally usable.

In addition to this and somewhat related, a cross-cutting policy recommendation refers to the collection of data and research on the possibility of stepping up WB6 language proficiency in the main FDI host economies' languages - i.e. German and Italian in addition to English and French; if nearshoring is aimed for, if circular migration (and tourism related employment) is promoted, and if e.g. call centres and other digital services should become more important, then this could potentially become a very important initiative that could transform the region in many ways.

These suggestions are not unrealistic compared to many other theoretical options, but constitute a way to overcome the 'geography of animosity' and related numerous ethnic and territorial conflicts in the Western Balkans at least in the economic way by providing a virtual common space which would have good chances as an USP for the region to attract new investment, facilitate more regional mobility and bring forward an uptick in digitisation, allowing the WB6 to finally break with the bleak economic past and leapfrog into a brighter future.

Moreover, all the above suggestions have the potential to improve the regional prospects of getting closer to the EU averages across several policy fields such as mobility, innovation, digital skills, financial markets, etc. Also, the linkages with the EU will be improved through these measures, as they help to overcome internal as well as external barriers to trade, in-

vestment, mobility and digital activities. Also, most of the suggested measures have the potential to reduce the distance to Europe's prime centres of industrial development, innovation and finance. As elaborated in the introduction to this report, greater proximity to these centres is imperative for the economic development of the Western Balkans.

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Regional Cooperation Council Secretariat

Trg Bosne I Hercegovine 1/V

71000 Sarajevo, Bosnia and Herzegovina

T: + 387 33 561 700

www.rcc.int



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