



**WESTERN BALKANS
REGIONAL
COMPETITIVENESS
INITIATIVE**

Accelerating innovation and skills
in South East Europe



The Organisation for Economic Development and Co-operation (OECD) is a unique forum where 34 member governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and help governments address emerging policy issues such as finding new sources of growth, building skills, and restoring public trust in government and business. The OECD provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies. It increasingly engages with a number of non-members who have become important actors in today's global economy.

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Launched in 2000, the OECD Investment Compact for South East Europe supports governments of the region to improve their investment climate and foster private sector development. Its members include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Republic of Moldova, Montenegro, Romania and Serbia, with Kosovo* as an observer. The Compact brings together representatives from South East Europe (SEE) governments to exchange on good practices and on how SEE economies can move closer to internationally recognised standards using OECD tools and instruments.

www.investmentcompact.org

** 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. Hereafter referred to as Kosovo.*



WESTERN BALKANS REGIONAL COMPETITIVENESS INITIATIVE



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THE POTENTIAL OF INNOVATION AND HUMAN CAPITAL FOR THE WESTERN BALKANS

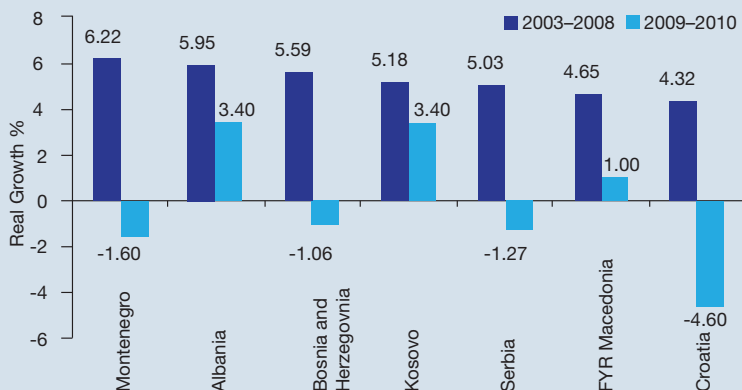
Since 2000, the economies of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia) have undertaken significant reforms to improve their business environments. These reforms led to the doubling of GDP per capita from 2000-2010 and a tenfold increase in inflows of foreign direct investment between 2000 and 2008. The economies of the region also signed an ambitious trade agreement, CEFTA 2006, which has facilitated greater intra-regional investment and trade flows.

However, the global economic crisis in 2009 threw most of the region into a recession. Faced with tightening public budgets and mounting social pressures, governments of the region realised that they could no longer rely on domestic consumption and credit expansion alone to generate growth and jobs.

With increasing global competition, the region's future lies in creating and exporting higher value products and services. **Human capital and innovation lie at the heart of this new growth model for the Western Balkans**

Western Balkan economies need new sources of growth

Real GDP Growth Rate (2003-2010 %)





THE REGIONAL COMPETITIVENESS INITIATIVE

The Regional Competitiveness Initiative (RCI) aims to help Western Balkan economies unlock new sources of growth and competitiveness by tapping their innovation potential and developing the skills of their workforce.

Financed by the EU and led by the OECD Investment Compact for South East Europe, the RCI partnered with governments over a three year period to test targeted innovation and human capital initiatives in their national contexts. Over 2010-2013, each country selected and implemented an innovation-related pilot project with the support of national and OECD experts. Projects included assessments of current country performance based on business surveys, study trips to learn about good practices in OECD member countries, and a detailed action plan. Regional working groups on innovation and human capital development supported peer learning and good practice by sharing knowledge gained through the pilot projects.

This brochure reports on each of these projects, which enabled governments to tailor their innovation policies, launch effective policy reforms and accelerate co-operation between policy makers, businesses and researchers. The RCI project's impact, effective partnership with the region, and innovative approach was recognised by a first place award from the European Projects Association*.

RCI BENEFICIARY ECONOMIES

- ALBANIA
- BOSNIA & HERZEGOVINA
- CROATIA
- KOSOVO
- FYR MACEDONIA
- MONTENEGRO
- SERBIA

* In the category for concluded projects financed by the European Union's Instrument for Pre-Accession.

ALBANIA: launching a business plan competition

Albania wanted to organise its first business plan competition with the support of the OECD. The purpose of the competition was to connect promising business ideas with sources of financing, inspire potential entrepreneurs and promote innovation in the private sector.

PROJECT ACTIONS:

- Published call for applications on the website of the Albanian Investment Development Agency
- Matched each application team with a voluntary mentor to help them develop their business plan
- Organised a workshop to train entrepreneurs on how to develop a successful business plan
- Selected the top 8 business plans for the final competition and held a workshop on how to create 'elevator' pitches for their business plan
- Held the final competition in Tirana on 8 November 2012, with a jury including representatives from the Ministry of Economy, Trade and Energy, Albanian Investment Development Agency, the European Commission, an Albanian entrepreneur, and the OECD

Left to right: Mr Milan Konopek, OECD; Mr Enno Bozdo, Deputy Minister, Albanian Ministry for Economy, Trade and Energy; Ms Arianita Toci; Mr Erjon Curraj; Mr Lorenc Gjoni (Handmade Albania).

ALBANIA KEY FIGURES:

GDP (CURRENT US\$): 13.1 bn
ANNUAL GDP GROWTH: 0.8%
NET FDI INFLOWS (% GDP): 9.6%
UNEMPLOYMENT (% OF LABOUR FORCE): 13.3%

Source: World Bank Development Indicators for 2012 and IMF (for unemployment) for 2011

KEY ACHIEVEMENTS

- Albania organised its first nation-wide business plan competition involving 18 teams of young entrepreneurs.
- The OECD supported the top three winners of the business plan competition with additional advisory services in the form of market research to help improve their products and services.
- The involvement of officials from the Ministry of Economy, Trade and Energy throughout the project also ensured the transfer of know-how. As a result, a second and more ambitious business plan competition is planned for November 2013 in Tirana.



BOSNIA AND HERZEGOVINA: implementing triple helix partnerships



A study visit of a Bosnian-Herzegovinian delegation hosted by the Flemish government to share best practices in triple helix partnerships.

The OECD worked with Bosnia and Herzegovina to strengthen linkages between academia, business and local governments through triple helix partnerships.

PROJECT ACTIONS:

- Showcased good international practice in triple helix partnerships during seminars
- An expert jury selected the top three triple helix partnership proposals
- Provided tailor-made technical assistance to the selected projects in developing their products and conducting market research
- Presented the results of the triple helix partnerships projects at the final conference “InnoBiH” in Sarajevo on 3 May 2013

BOSNIA AND HERZEGOVINA KEY FIGURES:

- GDP (CURRENT US\$): 17.0 bn**
- ANNUAL GDP GROWTH: -0.7%**
- NET FDI INFLOWS (% GDP): 4.7%**
- UNEMPLOYMENT (% OF LABOUR FORCE): 27.6%**

Source: World Bank Development Indicators for 2012, except unemployment data for 2011

KEY ACHIEVEMENTS

- Identified the innovation potential of the agri-food sector of Bosnia and Herzegovina
- Established a network of 350 agri-food sector stakeholders
- Created three concrete innovation partnerships between research, business and government:
 - Processing field peas into ethanol, animal feed and proteins
 - Creating Omega-3 enriched products
 - Developing an ecological disinfection product
- Introduced a new product – Omega3 enriched eggs – in the Bosnian market
- The project involved officials from both the State and entity levels, making it possible for them to “learn by doing”

TRIPLE HELIX PARTNERSHIPS

Through coordinated efforts, Triple Helix Partnerships accelerate value creation in innovation and ensure effective communication between these three important communities:

- **Businesses have first-hand access to new technologies**
- **Scientists receive feedback from entrepreneurs about the commercial viability of their research**
- **Governments gain insight into the types of policy interventions that spur industry-research co-operation**

CROATIA: creating a national innovation strategy

To help tap the innovation potential of the country, the government asked the OECD to develop an innovation strategy for Croatia.

KEY BARRIERS TO INNOVATION:

- Low national and international mobility of researchers
- Obsolete research infrastructure and equipment
- Low firm capacity to absorb new technologies
- Limited science-industry collaboration
- Insufficient co-operation within government

KEY ACHIEVEMENTS

- Croatia for the first time participated in an OECD peer review of its innovation system.
- The results of the peer review are being used to develop a National Innovation Strategy.
- The assessment of the innovation system and the development of the strategy involved consultations with over 600 representatives of the business and research communities in various forms, from completing surveys to participation in focus groups and workshops.
- Four ministries were actively involved in the drafting process and benefited from a transfer of good practices from the OECD.

CROATIA KEY FIGURES:

- GDP (CURRENT US\$):** 56.4 bn
- ANNUAL GDP GROWTH:** -2.0%
- NET FDI INFLOWS (% GDP):** 2.3%
- UNEMPLOYMENT (% OF LABOUR FORCE):** 15.9%

Source: World Bank Development and Eurostat (for unemployment)

PROJECT RECOMMENDATIONS

- Enhance the innovation potential of the business sector
 - Support the development of R&D-intensive companies
 - Attract foreign direct investments toward activities with high added value
- Increase knowledge flows and interactions between industry and academic institutions
 - Strengthen institutions and programmes promoting science-industry co-operation
 - Allocate structural funds to applied research
- Strengthen human resources by developing skills for innovation and research throughout the educational system
- Improve the governance of the national innovation system
 - Establish consistent and continuous monitoring procedures
 - Evaluate effectiveness of existing programmes



KOSOVO: developing an action plan for innovation



The government of Kosovo wanted to assess its innovation framework and asked for OECD support in developing an action plan.

KEY BARRIERS TO INNOVATION:

- Absence of co-ordination between ministries weakens wider innovation policy reforms
- Lack of reliable data
- Over-dependence on donor initiatives and remittances
- Low research capacity of universities and institutes
- Brain drain – loss of skilled labour abroad

KOSOVO KEY FIGURES:

GDP (CURRENT US\$): 6.2 bn

ANNUAL GDP GROWTH: 3.8%

NET FDI INFLOWS (% GDP): 4.7%

UNEMPLOYMENT (% OF LABOUR FORCE): 45.4%

Source: World Bank Development Indicators for 2012, except unemployment data for 2009

PROJECT RECOMMENDATIONS

- Improve inter-ministerial co-ordination in the design and implementation of innovation policies
- Develop measures to promote business innovation
- Build stronger and more market-relevant research institutions
 - Improve linkages with the international research community and sources of funding
 - Foster collaborative innovation between research institutions and private companies
- Strengthen human resources and skills development

KEY ACHIEVEMENTS

- Kosovo carried out the first assessment of its innovation system and developed a comprehensive Innovation Strategy.
- Involved over 150 companies and researchers in the project to define the strengths and weaknesses of Kosovo's innovation system.
- The Innovation Strategy will provide the framework for closer cooperation between industry and research and lead to more targeted support to raise the business community's ability to innovate.

FYR MACEDONIA: strengthening the national innovation system

With the support of the OECD, the government of The Former Yugoslav Republic of Macedonia developed an innovation strategy and an action plan.

KEY BARRIERS TO INNOVATION:

- Weak capacities of research institutions
- Low propensity to innovate in the business sector
- Poor framework for knowledge transfer
- Lack of co-ordination at the policy-making level

KEY ACHIEVEMENTS

- FYR Macedonia carried out the first comprehensive assessment of its innovation system.
- The assessment involved the contribution of over 500 businesses through surveys and focus groups. Based on the results of this assessment, FYR Macedonia developed and adopted its first Innovation Strategy and Action Plan.
- A new Innovation Law was passed and the implementation of the Strategy, supported by a \$20M loan from the World Bank, is being led by the Office of the Deputy Prime Minister in charge of economic affairs.
- The 20-member inter-ministerial team involved in the project gained valuable experience in the design of innovation policies.

FYR MACEDONIA KEY FIGURES:

GDP (CURRENT US\$): 9.7 bn

ANNUAL GDP GROWTH: -0.3%

NET FDI INFLOWS (% GDP): 3.4%

UNEMPLOYMENT (% OF LABOUR FORCE): 31.4%

Source: World Bank Development Indicators for 2012, except unemployment data for 2011

PROJECT RECOMMENDATIONS

- Foster innovation in the private sector through information campaigns, events, competitions and awards
- Adapt education policy to develop skills needed for innovation
 - Increase the quality of vocational training
 - Promote lifelong learning
- Create a regulatory environment that supports innovation
 - Provide an effective regulatory environment for academics and research institutions
 - Generate a competitive business environment through an effective competition policy
- Increase knowledge flows
 - Strengthen linkages with the diaspora
 - Foster business networks and clusters



MONTENEGRO: introducing an SME voucher scheme



Montenegro wanted to promote innovation in SMEs through the creation of a national voucher scheme. The OECD supported this initiative by performing a feasibility study and designing a proposed scheme.

PROJECT ACTIONS:

- Undertook a needs assessment of export-oriented SMEs in Montenegro
- Conducted a study visit to Slovenia to learn about specific technical and administrative aspects in implementing a voucher scheme
- Delivered an analysis of the potential benefits of a voucher scheme

MONTENEGRO KEY FIGURES:

GDP (CURRENT US\$): 4.2 bn

ANNUAL GDP GROWTH: 0.5%

NET FDI INFLOWS (% GDP): 12.4%

UNEMPLOYMENT (% OF LABOUR FORCE): 19.7%

Source: World Bank Development Indicators, GDP data for 2012, unemployment data for 2011

PROJECT RECOMMENDATIONS

- Implement SME voucher scheme in two phases
- Pilot phase with a focus on government capacity-building in the first phase
- Full scale implementation if the results of the pilot phase prove successful
- Design schemes drawing upon OECD recommendations on value of vouchers, co-financing structures, eligibility criteria for SMEs and service providers, and fraud-prevention measures

KEY ACHIEVEMENTS

- Launched a pilot SME voucher scheme in July 2012
- Established 16 partnerships between local SMEs and local business development service providers
- Confirmed benefit of the pilot scheme for SMEs: increased revenue, raised awareness of innovation and fostered new partnerships
- The pilot scheme built capacity in the SME Directorate to design and implement future SME support schemes. The implementation of another voucher scheme was included in the 2013 Action Plan of the SME Strategy.

SERBIA: developing a competence technology centre



Serbia's priority was to focus on the development of a competence technology centre in either the agri-food or biomedicine sectors. Such a centre aims to accelerate innovation and economic growth by facilitating interactions between industry, researcher and the public sector.

PROJECT ACTIONS:

- Reviewed practices of existing competence centres and technology institutes in OECD countries
- Presented excellence and competence centres to Serbian officials during a study visit to Slovenia
- Surveyed businesses and research institutions in the agrifood and biomed sectors
- Consulted with experts in the agri-food and biomed sectors
- Assessed the feasibility of a competence technology centre in Serbia

SERBIA KEY FIGURES:

GDP (CURRENT US\$): 37.5 bn

ANNUAL GDP GROWTH: -1.7%

NET FDI INFLOWS (% GDP): 6.2%

UNEMPLOYMENT (% OF LABOUR FORCE): 23.1%

Source: World Bank Development Indicators, GDP data for 2012, FDI data for 2011, IMF data 2012 for unemployment

PROJECT RECOMMENDATIONS

- Orient centres toward firms and researchers in the agri-food or biomedicine sectors
- Establish centres as autonomous, non-profit organisations linked to a university
- Expand their scope of work in two phases (no modifications needed to sub-bullets)
- Ensure a stable source of funding
- Locate close to centres' business/research users

KEY ACHIEVEMENT

- A feasibility study and an implementation plan were developed for the establishment of a competence technology centre in Serbia.
- Over 300 members of the Serbian business and research community were consulted through a combination of surveys, focus groups and workshops.
- The Ministry of Economy is using the results of the pilot project to support the biomedicine sector.
- The project strengthened the capacity of public officials to design new innovation-support measures such as technology brokers and innovation vouchers.

BRIDGING THE SKILLS GAP ACROSS THE WESTERN BALKANS REGION

The Western Balkan economies suffer from a growing gap between the skills of its labour force and the needs of a fast-evolving market. Skilling up the workforce is critical if the region is to create higher value and more globally competitive products and services.

To support the region in bridging the skills gap, the RCI created a Working Group on Human Capital comprising policymakers, business representatives and members of the research community. The Working Group came together between 2011-2012 to:

- Incorporate human capital building activities into the seven pilot projects



- Raise awareness of various methods and tools to measure skills gaps; e.g. the skills sector approach, foresight techniques, and skills gap measurement methodologies developed by CEDEFOP and O*Net
- Build policy maker capacity on how to conduct skills gap analyses
- Transfer good international practices

Strengthening the Human Capital Component in National Pilot Projects

HORIZONTAL ACTIONS ACROSS ALL PILOT PROJECTS:

1. Best practice transfer from OECD countries
2. Support government officials in understanding pros/cons of policy instruments
3. Assist government officials in application of policy instruments

ALBANIA
(Business Plan Competition)

*Transfer of investment readiness skills to young entrepreneurs

BOSNIA AND HERZEGOVINA
(Triple Helix)

*Training of university staff
*Know-how transfer among universities

**CROATIA/ KOSOVO/
FYR MACEDONIA**
(Innovation strategies)

*Assessment of the education system's contribution to innovation

MONTENEGRO
(SME voucher)

*Building SME capacity in organisational management & marketing

SERBIA
(Competence Technology Centre)

*Transfer of know-how from researchers to industry

OECD Key publications



Triple Helix Partnerships for Innovation in Bosnia and Herzegovina, OECD Private Sector Development Policy Handbook, 2013



OECD Reviews of Innovation Policy: Croatia, OECD Publishing, 2013



Assessment of the Kosovo Innovation System, OECD Private Sector Development Project Insights, 2013



Assessment of the National Innovation System in the Former Yugoslav Republic of Macedonia, OECD Private Sector Development Project Insights, 2013



Implementing a Pilot SME Voucher Scheme in Montenegro, OECD Private Sector Development Project Insights, 2013



Establishing a Competence Technology Centre in Serbia, OECD Private Sector Development Policy Handbook, 2013

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