



INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MULTI-COUNTRY

EU support to improving economic governance and competitiveness

Action summary

Since 2014, the EU has developed an EU enhanced approach to economic governance aimed at supporting the transition of IPA II beneficiaries into functioning market economies able to withstand the competitive pressures of the EU Single Market. The action has three main objectives. Firstly, it aims at supporting the implementation of reforms identified in the beneficiaries' Economic Reform Programmes (ERPs), in particular in the monetary policy and financial sectors, and further improving the design of the ERPs. Secondly, the action will support the development of a competitive private sector, including through increased research and innovation capacities and stimulate innovation and competitiveness. Lastly, the action will also support the implementation of the regional economic area that was decided by the Western Balkans leaders at the Summit in Trieste in July 2016, in particular by facilitating trade among beneficiaries and supporting the active involvement of the business sector in the implementation of the regional economic area.

These three components will help IPA II beneficiaries to improve their economic competitiveness and to support them in meeting the European economic criteria.

Action Identification	
Action Programme Title	IPA II Multi-country Action Programme 2018
Action Title	EU support to improving economic governance and competitiveness
Action ID	IPA 2018/040-113.01/MC/Economic governance and competitiveness
Sector Information	
IPA II Sector	9. Regional and territorial cooperation
DAC Sector	15110
Budget	
Total cost	EUR 20 388 888
EU contribution	EUR 19 800 000
Budget line(s)	22.020401-Multi-country programmes, regional integration and territorial cooperation
Management and Implementation	
Management mode	Direct and/or indirect management
<i>Direct management:</i> European Commission	Directorate-General for Neighbourhood and Enlargement Negotiations – Unit A3 Thematic support, Economic governance & IFIs, Public Administration Reform Directorate-General for Neighbourhood and Enlargement Negotiations – Unit D5 Western Balkans Regional Cooperation and Programmes (for sub-component 2.3 Proof of Concept)
Implementation responsibilities	Directorate-General for Neighbourhood and Enlargement Negotiations – Unit A3 Thematic support, Economic governance & IFIs, Public Administration Reform Directorate-General for Neighbourhood and Enlargement Negotiations – Unit D5 Western Balkans Regional Cooperation and Programmes (for sub-component 2.3 Proof of Concept)
Location	
Zone benefiting from the action	Western Balkans (Republic of Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Republic of North Macedonia, Republic of Serbia), Republic of Moldova ¹ and Republic of Turkey
Specific implementation area(s)	N/A
Timeline	

* This designation 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

¹ With the aim of ensuring coherence and effectiveness of EU financing, fostering regional cooperation, the European Commission decides to extend the eligibility of Component 3 of this action to Moldova. The EU support to improving economic governance and competitiveness in the region builds on the CEFTA agreement signed in 2006 in line with the Multi-annual Action Plan for a Regional Economic Area (MAP REA) and the South East Europe (SEE) 2020 Strategy. The European Commission has been providing support to CEFTA Parties (Western Balkans and Moldova) to promote the implementation of the CEFTA agenda towards trade facilitation and overall progressive regional integration. It includes the strengthening of the CEFTA Secretariat and the support to all CEFTA bodies. Moldova is a signatory of the CEFTA agreement, and following Article 9 of the IPA II Regulation, Moldova should benefit, when relevant, from all the actions developed under the current CEFTA Agreement framework in order to achieve the key objective of regional economic integration.

Final date for contracting including the conclusion of delegation agreements	At the latest by 31 December 2019		
Final date for operational implementation	At the latest by 31 December 2022		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The Western Balkans stands at an important juncture. While the previous decade had brought the region's per capita GDP almost 8.5% closer to the EU average, this convergence has since halted to a standstill. Average GDP per capita in the region remains roughly half that of the 11 Central and Eastern European EU members, one-third that of the EU's South and a mere one-quarter of the most developed EU members in the Western Europe.

Reform efforts are underway in most of the economies in the region to address internal structural weaknesses, but considerable growth potential can be unleashed through an acceleration of structural reforms that bring more people to the labour market, boost investment and innovation and also through closer economic integration that will make the region more attractive as an investment destination. While Turkey has enjoyed strong growth over the last decade, a recent slowdown and the pressure of globalisation make it important to boost the innovation and competitiveness of its local enterprises, particularly small and medium sized enterprises (SMEs).

In the Enlargement Strategy 2014-15, the European Commission outlined the three pillars of its enlargement policy: rule of law, economic governance and public administration reform. The economic governance pillar addresses the concerns of citizens in a persistently difficult economic environment, with high unemployment and low investment. Economic governance is particularly important in relation to the Western Balkans since none of them is yet considered to be a functioning market economy able to withstand the competitive pressure of the EU single market.

The new economic governance approach provides a more coherent framework for economic policy-making for the Western Balkans and Turkey, inspired by the European Semester process. The objective of the approach is to support them to meet the Copenhagen economic criteria and help them to better respond to numerous economic challenges they are facing.

The European Commission overview of the Economic Reform Programmes (June 2017) highlights that the bottlenecks to competitiveness and growth in the Western Balkans include low private sector investment, especially in research and innovation. Many are the shortcomings related to access to funding for research plans through instruments covering several stages of the innovation cycle. Low product diversification, low labour productivity and underinvestment in modernisation, as well as weak linkages between private companies, science and research are key impediments for further development of the industry sector. The "Triple Helix Partnership" between academia, private sector and governments could foster the competitiveness of the Western Balkans economies and enhance "smart growth" strategies and policies (also part of the Regional Economic Area Action Plan).

In parallel, the Western Balkans leaders decided, at the Summit held in Trieste in July 2017 to accelerate efforts towards regional economic integration among themselves. They consider that deeper regional economic integration will create new economic and investment opportunities for their economies, accelerate preparation for integration within the EU and boost the attractiveness of the region. The European Commission has indicated its full support to this initiative.

This action will support the EU policy on economic governance and competitiveness. It will be implemented through three components covering economic governance, competitiveness, and trade.

Component 1. Support to economic governance

Since 2015, the IPA II beneficiaries have been invited to enhance economic policy and its governance through the preparation of annual Economic Reform Programmes (ERPs). The ERP's chapter covering structural reforms focuses on the analysis of obstacles to growth, on the identification and articulation of priority reform policy measures in nine essential reform areas, and on measuring fiscal implications of the prioritised reform policy measures. With a view to prepare IPA II beneficiaries to

the EU macroeconomic surveillance regime, the ERP exercise leads to targeted policy guidance being adopted jointly by the EU Member States and the Ministers of Western Balkans and Turkey.

Since the launch of the ERP exercise in 2015, some one of the most important challenges of the ERP preparation process in relation to structural reforms include: (1) establishment of well-grounded prioritisation of structural reforms areas and individual policy measures, (2) quantification of costs and budgetary implications of prioritised structural reform policy measures, and (3) securing sufficient funds, budgetary and from other sources, to finance prioritized structural reform policy measures. So far, IPA II beneficiaries have not been able to respond to the requirement of quantifying first level financial effects of structural reforms in a satisfactory manner. The need for such guidance has been expressed by practitioners from the region involved in the ERPs preparation on many occasions. Also, line ministries involved in the process need better coordination with the Ministry of Finance and capacity building on the fiscal impact assessment when prioritising and programming structural reforms.

Also, while economies of the region have seen a revival of growth in recent years, the financial sector is faced with relatively high non- performing loans (NPL) and it is restrictive in providing new credits. Notwithstanding the continued efforts on solving the NPL issue through the implementation of strategies for decreasing NPLs and establishing functional cadastres, there remains the strong need to establish functioning financial markets – in line with the respective EU acquis in this area and especially in order to make better use of domestic savings. The central banks are the key players in this area, but it is necessary to strengthen their respective capacities. At the same time, the Economic and Monetary Union EMU - and financial supervision-related legislation within the EU has considerably expanded after the global financial crisis and there are plans within the EU to continue strengthening the EMU, notably in the area of a banking union. In the context of this rapidly evolving legislative framework, national central banks of EU Member States are required to perform an increasingly number of complex tasks and to coordinate their actions in the context of the European System of Central Banks (ESCB) to ensure the smooth functioning of the monetary and banking unions.

Recent European Commission's reports and European Commission's and ECB's assessments of the ERPs testify to limited progress on the establishment of financial market infrastructure, and further progress needed in the quality of the ERPs.

Component 2. Support to competitiveness

Despite incremental progress in economic policy making and economic results in recent years, all candidate countries and potential candidates are confronted with challenges in policy making:

- Persisting gaps and limited enforcement records of policy reforms (e.g. investment policy regime, competition policy regime)
- High incidence of corruption and informal economic activity
- Not sufficiently open, transparent and effective public administration which fails to ensure fair conditions for all market participants
- Lack of proper and systematic involvement of stakeholders in the design of economic reform strategies;
- Lack of clear medium term economic development strategies;
- Low level of innovation and technology transfer, as well as (also as a consequence) production of rather low added value products.
- Limited experience in designing bottom-up innovation strategies involving stakeholders in a meaningful entrepreneurial discovery process and partnership (incl. between universities and industry) to define a joint vision for research, and innovation (R&I), bring economic transformation and tackle brain-drain;
- Mostly central policy approaches focusing on framework conditions without taking into account regional diversity and particularities.

Component 3. Support to regional economic integration

Although parties of the Central European Free Trade Agreement (CEFTA) are the second most important market for the Western Balkan economies, intra-regional trade volumes have stagnated in the last ten years while exports to the EU have continued to grow. Also, according to [OECD's SME Policy Index 2016](#) Western Balkans companies deal with more administrative burden in doing cross-border trade (7 documents to clear the export or import, as oppose to 4 in OECD countries). And SMEs suffer from a lack of capacities to internationalise which explains why only one third of SMEs actually export. As a result, the Western Balkan economies remain poorly integrated into the global markets. Compared to peers in Central and Eastern Europe, where the share of exports in GDP average over 75%, the comparable ration in the region is only 35%.

During the Trieste Summit (12 July 2017), the Western Balkans leaders adopted a Multiannual Action Plan (MAP) for the development of a Regional Economic Area (REA), based on the CEFTA legal framework and relevant Stabilisation and association agreements (SAAs), in the areas of trade, investment, mobility and digital that would ultimately enable unobstructed flow of goods, services, investment and highly skilled labour throughout the region. This Action Plan contains a detailed section on trade aspects, which is building upon the CEFTA agreement, including Moldova, and which should ensure that goods, services, investments, and skilled people can move freely in the region without tariffs, quotas or other unnecessary barriers, where trade is facilitated by higher than WTO Rules, aiming at recognition of all border documents, where applicable, procedures, and programmes related to trade once the EU alignment by one or more CEFTA Parties is reached.

In the context of the MAP, the Western Balkans Six Chamber Investment Forum (*WB6 CIF*) has been recognised as the key actor to ensure 1) a continuous dialogue with different structures within the business community in order to identify the key needs, obstacles and opportunities that could be tackled through MAP implementation in order to boost its contribution to economic growth and job creation and; 2) providing business with tools to effectively take up opportunities created by the MAP implementation (e.g. information dissemination, training, capacity building, piloting, network building, etc.). The *WB6 CIF* represents the voice of over 350,000 companies, mostly small and medium-sized enterprises from the region.

OUTLINE OF IPA II ASSISTANCE

Component 1. Support to economic governance

The purpose of this component is to improve the design of the ERPs of the Western Balkans and Turkey, and support the implementation of policy recommendations in particular in the field of monetary policy and financial sector supervision. Support will be provided to the economies to improve the fiscal costing of structural reforms through capacity building related activities (incl. trainings) benefitting line ministries in charge of designing structural reforms. Support will be also targeted to further strengthen the institutional capacity of the central banks of the Western Balkans. This will be realised through regional training and national (bilateral) measures, as well as peer learning seminars, exchange of best practice, participatory learning initiatives for officials of line ministries, ERP coordinators and ministries of finance. The activities envisaged will blend different face-to-face and online learning solutions.

Component 2. Support to competitiveness

To address the above mentioned challenges, the component will:

- Monitor progress in the reform implementation and their outcomes and identify binding and emerging challenges for growth and competitiveness, through the preparation of comprehensive analysis (Competitiveness Outlook), in particular targeting SMEs (SME Policy Index);
- Provide policy recommendations tailored to the circumstances of the region to further narrow down development gaps, by drawing upon good practices and OECD standards;
- Build consensus for economic reforms by engaging in stakeholder consultations and regional policy dialogue;

- Support beneficiaries to design smart specialisation strategies, taking inspiration from those developed by the EU countries and regions, and through the involvement of the private sector and the research and innovation institutions;
- Design a pilot regional Proof of Concept (PoC) scheme to incentivise technology transfer via supporting entrepreneurial capacity among researchers and encouraging innovative SMEs to increase their Research, Development and Innovation (RDI) activities.
- Support governments in the implementation of reforms through capacity building seminars.

Component 3. Support to regional economic integration

This component will seek to enhance competitiveness of the Western Balkans and Moldova's economies and meeting the requirements of the European economic criteria by means of fostering regional economic cooperation and integration into the EU and global market. In the context of the development of the Regional Economic Area, the component will contribute to facilitation of trade and investment. More specifically, it will support the CEFTA Secretariat and CEFTA structures in undertaking activities aiming in at implementing the trade part of the Multiannual Action Plan. It will also support the *WB6 CIF* in delivering the voice of the regional business in the framework of the public-private dialogue and delivering services to the SMEs in order to facilitate reaping the benefits of the REA by the businesses in the region. The component will support the *WB6 CIF* activities in the areas where regional action has leveraging effect, by targeting joint challenges and/or joint opportunities. Special attention will be given to closing the information gap in the business community by increasing visibility of benefits of the REA. Finally, it will also support the abilities of the *WB6 CIF* to provide services to its members.

RELEVANCE WITH THE IPA II MULTI-COUNTRY STRATEGY PAPER AND OTHER KEY REFERENCES

On democracy and governance the revised IPA Multi-country Indicative Strategy Paper 2014-2020² (hereafter referred to as Strategy Paper) states that the IPA II beneficiaries require state-of-the-art knowhow and relevant experience with related reforms, which is mainly available in international organisations such as the OECD, World Bank, the International Monetary Fund (IMF), the Centre for Excellence in Finance and the European System of Central Banks. Since the challenges are broadly similar, the support should therefore be organised at the regional level, but tuned to the specific situation in each beneficiary, so that it addresses specific needs and problems at IPA II beneficiary level. The Strategy Paper further highlights that assistance for economic governance will be provided to support participation in the fiscal surveillance mechanism with the EU and implementation of the economy-specific policy guidance issued in the context of the fiscal surveillance and that this assistance will be provided in strong cooperation with International Financial Institutions (IFIs). It also aims to create favourable conditions for the IPA II beneficiaries to tackle the fundamental reforms in economic governance in the accession process and to meet the economic membership criteria.

The Strategy Paper stresses that the new approach to economic governance will allow enhanced strategic and targeted support for reform priorities. In this context, the relevance of the first component of this action consists in supporting the preparation and implementation of the ERPs and the prioritisation of the reforms.

The Strategy Paper recognises that a major step for the liberalisation of trade flows took place in 2006 through the signature and ratification of CEFTA. Now the major issues on the agenda of CEFTA include the deepening of regional trade integration through the eventual removal of non-tariff measures to trade, improvement of trade logistics, a new dispute settlement mechanism and harmonisation of norms and standards.

Last but not least the South East European Strategy 2020 (SEE 2020) aims to increase regional trade by 140%, Foreign Direct Investments by at least 160% and GDP per person employed by 32%.

² C(2018) 3442, 31.05.2018.

The planned assistance directly contributes to achievement of the key policy priorities on economic governance, as highlighted in the Enlargement Strategy 2014-15, the December 2014 General Affairs Council Conclusions and the 2016 Enlargement package.

It will support reforms and investments in complementarity with assistance planned under the Indicative Strategy Papers for each IPA II beneficiary which all recognises the importance of economic governance. They also acknowledge that all IPA II beneficiaries have weak capacities for research, development and innovation. Based on Regulation (EU) No 1303/2013, smart specialisation is part of the EU *acquis* and will become a pre-requisite for using European Regional Development Fund for research and innovation in the future.

Competitiveness and growth are among the main pillars of the Strategy Paper, especially: boost competitiveness and innovation to allow participation of candidate countries and potential candidates in the global economy as well as improve the overall business environment including the capacity for innovation.

In October 2013, Ministers from the Western Balkans and Croatia endorsed the Regional R&I Strategy for Innovation. The overall aim of the Strategy is to further growth, competitiveness and employment through four specific priorities: i) improve the research base and conditions for research excellence; ii) promote science-industry collaboration and technology transfer; iii) enable business investments in research and investment and start-up creation; and iv) strengthen the governance of research and innovation policies.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Component 1. Support to economic governance

The beneficiaries have been involved in a number of technical cooperation projects in recent years involving support to the design of their ERPs. This was in fact one of the main components of the programme on economic governance implemented by the OECD and funded under IPA 2015; this programme has provided support to ERP coordinators in particular for economy-wide diagnostic and prioritisation. This support will run until mid-2019 covering five annual ERP cycle. Institutional capacity seems to have increased following OECD intervention and feedback from beneficiaries indicates that the support should be focused less on supporting ERP coordinators and more on the preparation and support of reforms in line ministries and other relevant institutions.

Since 2012, the European Commission has funded a number of small-scale projects implemented by the Centre for Excellence in Finance (CEF) targeting mostly officials from Ministries of Finance. A recent Results-Oriented Monitoring (ROM) report covering the CEF's EU-funded project 'Strengthen Financial Management Functions of Line Ministries' (IPA 2016), has indicated that reaching out to line ministries would be highly relevant since most of the technical assistance is currently channelled towards building capacities of finance ministries only. Focussing support on other institutions is recognised as one of the key drivers towards increasing the prospects for success and sustainability of reform efforts. Indeed, some of the lessons learned emphasise that the success of ministries of finance in ensuring sound public financial management essentially depends on the contributions submitted by line ministries. At the same time, the weak contributions of line ministries are not always a result of lack of capacities, but are in many cases caused by insufficient coordination mechanisms, or inadequate guidelines and incentive arrangements. There is also a recognised need for a unified methodological costing guidance for assessing fiscal implications of structural reforms, which should be kept simple and pragmatic to secure immediate and uninterrupted implementation. The use of the costing guidance would contribute to improving the overall quality of ERP documents, especially the consistency and reliability of cost estimates, and would also provide a framework for their better cross-country comparison in this area.

Central banks of the region have benefited from technical cooperation programmes financed by the European Commission, in particular a number of bilateral twinning programmes (Albania, Bosnia and Herzegovina, Montenegro, Serbia), short term TAIEX support and regional cooperation programmes implemented by the European Central Bank. Regarding the latter programmes, all central banks participated in the IPA-funded regional programme on macro- and micro-prudential supervision,

which was coordinated by the ECB and ended in January 2012 and they also received assistance on central capacity building. The overall conclusion was that the areas of banking supervision, financial stability, financial crisis management, monetary policy, payment systems, statistics, compliance and European perspective, governance policies remain to be further developed in order to be able to smoothly integrate the IPA II beneficiaries in the European System of Central Banks.

Component 2. Support to competitiveness

The following challenges were encountered and addressed in the previous Competitiveness Outlook assessments and in the Small Business Act (SBA) Assessments work:

Whole-of-government approach: In light of the breadth and depth of the project's assessments, a very broad set of knowledge and expertise about the policy practices in line ministries was required. The assessment design was adapted accordingly to include more than 1,500 officials from across public administration, in particular the line ministries, and the statistical offices as active contributors and key partners in the project. Going forward, this high level of inclusiveness should be maintained.

Political support: Given the comprehensiveness of the line ministry involvement in the assessments, strong political support was crucial to mobilise all relevant SEE government parts. Resistance to line-ministries involvement was overcome by obtaining support at highest political level. Achieving whole-of-government mobilisation through high-level political support will also be key in the future.

Capacity in line ministries and statistical offices: The line ministries and statistical offices differ in their capacity to collaborate across the project components' stages (e.g. in data collection, processing and reconciliation, in vetting of analysis and recommendations). This is due to constraints in both, administrative capacity and skills. This risk shall be mitigated by ensuring close coordination between line ministries and the statistical offices with the support provided by IPA, and strengthening the capacity of statistical offices through the contribution to Eurostat.

Deepening of specific analysis and policy advice. Given the comprehensiveness of the assessments in terms of geographic and thematic scope, the reports have so far mainly focused on regional insights and policy advice. The beneficiaries could also benefit from more targeted economy-specific documents. Going forward, the possibility of complementing the regional documents with more specific elements (e.g. Competitiveness Outlook chapters on a single economy) will be evaluated.

Integration across the Government: A lack of coordination is observed amongst public entities in the region, which tend to operate in silos. This phenomenon undermines implementation of policies, and results in duplication of work – at times not consistent with each other. Therefore, work under the Competitiveness Outlook and SBA Assessment will facilitate dialogue between different public entities and stakeholders on cross-cutting policy areas, and encourage an integrated approach to them.

Regarding the support to smart specialisation strategies, the Commission's Joint Research Centre (JRC) has already funded a number of limited preparatory actions in some enlargement and neighbourhood countries, mostly in the context of support to macro-regional strategies, in particular in the Danube region (which involved some IPA beneficiaries and a few ENI beneficiaries). These actions were however not targeting all IPA II beneficiaries.

Enhance technology transfer policies and activities in the Western Balkans via a pilot regional Proof of Concept Scheme: Directorate-General for Neighbourhood and Enlargement Negotiations has an ongoing "EU4Tech" project³ with JRC/Ernst&Young, which the proposed regional grant scheme

³ Service contract N° 2016/382-211, Project "Technology transfer capacity building in the Western Balkans" and an Administrative Arrangement 2016/374-558 between the Directorate-General for Neighbourhood and Enlargement Negotiations and JRC, IPA 2015/031-609.10 Multi-country.

builds on. The current proposal aims at operationalising the gaps at regional level, identified through the researches and workshops implemented under the above mentioned initiative, as well as studies carried out by the European Investment Bank (EIB) in the framework of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF). JRC's thematic expertise and an external provider's services will be used in a synergetic way as to launch a small-scale Western Balkans pilot initiative, which will represent the next, and first practical, stage in the efforts to cover the so called "valley of death" between research and industry.

Component 3. Support to regional economic integration

Trade integration is a long-term process that requires high political will and technical competences by all involved Parties. Stand-alone initiatives not duly placed in a broader strategic context have often led to limited results. The support to regional economic integration builds on priorities identified and endorsed at the highest political level by Western Balkans leader in the context of the action plan adopted at the Trieste Summit and in the SEE 2020 strategy.

The European Commission has been providing support to CEFTA structures and actions over recent years. This support has been instrumental in ensuring the success of negotiations on trade facilitation (Additional protocol 5) and on liberalisation in trade in service (additional protocol 6), by allowing parties to have access to high level expertise at the time when they needed it most in their negotiations.

Market access barriers can originate not only from legislation but also from the way it is implemented. Even legislation which is consistent with EU *acquis* or international standards can result in barriers to trade if not duly implemented. In order to bring out and make these situations explicit, input and feedback from the private sector is fundamental. At the same time, a strong demand for better quality services coming from the private sector is an essential element to put pressure on public administrations to undertake necessary reforms. This is why it is envisaged to strengthen the consultation with the private sector.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To enhance competitiveness and innovation of the economies of the Western Balkans, Moldova and Turkey.	GDP per person as a percentage of the EU average Global innovation index Trade in goods and services (Exports / Imports, % of GDP) Non-performing loans (% of total loans)	Eurostat "National Offices of Statistics" SEE 2020 implementation reports WIPO OECD Central Banks of beneficiaries	
1. Support to economic governance			
To address fiscal implications of structural reforms soundly and consistently To improve the functioning of the Central Banks in line with EU standards and norms.	Degree of inclusion of the fiscal impact of structural reforms in central budgets and fiscal frameworks Degree of fiscal impact of structural reforms appropriately reflected in ERPs Extent to which processes on banking supervision, financial stability, financial crisis management and monetary policy are in line with European Central banking acquis and international standards.	European Commission staff working documents on the Economic Reform Programmes Yearly action implementation report ESCB and "National Central Banks' Reports" Screening reports, negotiations	

<p>2. Support to competitiveness</p> <p>To contribute to better policies and reforms for economic competitiveness (e.g. trade, investment, transport, energy, competition, tax, access to finance)</p> <p>To contribute to better policies design and reforms implementation stimulating SME sector development</p> <p>To contribute to the adoption of evidence-informed and participatory innovation strategies</p> <p>To strengthen the technology transfer capabilities in the Western Balkans</p>	<p>Level of policy sophistication and implementation (scale 0-5) as measured by the Competitiveness Outlook</p> <p>Level of policy sophistication and implementation (scale 1-5) as measured by SME Policy Index</p> <p>Share of partner IPA II beneficiaries that adopted a policy framework for smart specialisation</p> <p>Number of PoC funded projects</p> <p>Value of investment in RDI equipment</p> <p>Number of new jobs created</p>	<p>OECD Competitiveness Outlook publication</p> <p>OECD SME Policy Index</p> <p>Yearly implementation reports</p> <p>Global Innovation Index (WIPO)</p> <p>Global Competitiveness Index (World Economic Forum)</p> <p>Monitoring and evaluation of the PoC scheme</p>	<p>EU-financed funds providing access to finance are interested to take advantage of the results of the scheme Partner Organisations in the IPA II beneficiaries provide logistic support and stimulate applications for funding.</p>
<p>3. Support to regional economic integration</p> <p>The provisions of the CEFTA Agreement as prioritised by the action plan on the regional economic area and the South East Europe 2020 strategy are soundly implemented.</p> <p>Enhanced transparency in the implementation of CEFTA</p>	<p>Additional Protocol 7 to CEFTA agreement on Dispute Settlement</p> <p>Extent of Implementation of AP 5 and AP 6</p> <p>Number of Mutual Recognition Programmes under CEFTA AP 5 that are operational</p> <p>Number of Mutual Recognition Agreements on recognition of professional qualifications</p>	<p>CEFTA reports and CEFTA website</p> <p>Annual Report of the RCC on implementation of SEE Strategy 2020</p> <p>Annual reports on MAP implementation</p> <p>Balkan Business Barometer</p>	

<p>The private sector of the region to take advantage of the deepening of regional economic integration.</p>	<p>negotiated Number of Mutual Recognition Agreement on electronic commerce negotiated Degree of Institutionalised cooperation between regulatory authorities for goods and services sectors initiated Number of Joint Ministerial Decisions adopted to facilitate trade in goods and liberalise trade in services Improved CEFTA Transparency Pack Intra-regional trade volumes (goods and services) Intra-regional investments Business perception of doing business in the region</p>		
<p>RESULTS</p>	<p>OBJECTIVELY VERIFIABLE INDICATORS (*)</p>	<p>SOURCES OF VERIFICATION</p>	<p>ASSUMPTIONS</p>
<p>1. Support to economic governance</p>			
<p>Result 1 Enhanced ability of policy-makers in line ministries to design, prioritise and implement structural reforms</p>	<p>Number of officials from line ministries trained share of participants reporting improved knowledge Quality of consultations related to structural reform planning documents (existence of consultation reports, composition of working groups and minutes (if available) for the process of drawing</p>	<p>Programme reports</p>	

	up planning documents (strategies, action plans and amendments)		
Result 2 Enhanced technical and administrative capacities of central banks to implement EU compliant policies in particular in the areas of banking supervision, financial stability, financial crisis management and monetary policy.	Extent to which processes on banking supervision, financial stability, financial crisis management and monetary policy are upgraded. Quality (nature and scope) of Manuals developed on the above Extent to which manuals are used	Programme reports Interviews with participants Evaluation sheets General feedback in the framework of missions and stakeholder meetings ESCB reports	
2. Support to competitiveness			
Result 1 Improved capacities of the governments for designing and implementing evidence-based competitiveness and SME policies Result 2 Improved capacities for designing and implementing evidence-based innovation policy and smart specialisation strategy Result 3 Actual involvement of stakeholders in the design of smart specialisation strategies and the priority-setting for public investments via process of entrepreneurial discovery (EDP) Result 4 Set-up of a functioning regional grant scheme for pre-seed funding to (Research and Development Institutions (RDIs) and innovative SMEs and a generated pipeline of innovative products available for investment and commercialisation	Extent to which policy makers in beneficiaries are aware of findings of the competitiveness outlook and SME policy index results % of preconditions fulfilled Quality (nature and scope) of fulfilled precondition(s) Extent to which business proposals are considered in strategy definition % of participants of EDP that represent business Number of new services/products developed under the PoC scheme Number of PoC funded projects receiving additional funding in the scope of the sub-component	Yearly project implementation reports Yearly action implementation reports Yearly action implementation reports Monitoring and evaluation of the PoC scheme	
3. Support to regional economic integration			
Result 1 Strengthened institutional capacity of the CEFTA Structures (incl.	Extent to which the "Seconded National Expert Programme" is	Annual Reports of the CEFTA Structures	

CEFTA Secretariat) for the implementation of the annual Chairmanship Programmes	regularly implemented; Number and relevance of the profiles of the new staff of the CEFTA Secretariat. Number of conclusions/ recommendations proposed by CEFTA Secretariat agreed by Sub-Committees and Working Groups.		
Result 2 Improved CEFTA Trade Statistics System on goods, services and investment	Degree of improvement of CEFTA Trade Statistics System on goods, services and investment	Annual Reports of the CEFTA Structures CEFTA Trade Databases	
Result 3 Improved capacity of CEFTA Structures to implement CEFTA and the trade pillar MAP REA	Extent to which there is a regular preparation of monitoring reports submitted to CEFTA parties. Number of legal texts necessary for signature the Additional Protocols.	Annual Reports of the CEFTA Structures Reports in MAP REA to "National Contact Points" and MAP Coordinators	
Result 4 Improved capacities of targeted SMEs to respond to markets needs and requirements	No. of targeted SMEs that are equipped with the necessary market intelligence to look for business opportunities across borders and that have prepared business plans accordingly.	<i>WB6 CIF</i> Annual Report	
Result 5 Improved capacity of <i>WB6 CIF</i> members to provide business services to SMEs in selected areas	No. of SMEs benefiting from joint Chambers' services No of SMEs that were supported to apply to EU funds. Percentage of supported SMEs that actually benefited from EU funds.	<i>WB6 CIF</i> Annual Action Plan <i>WB6 CIF</i> Annual Action Report	
Result 6 Improved capacities of the <i>WB6 CIF</i> and its members to represent	No of business initiatives and inputs from <i>WB6 CIF</i> submitted to REA governance structures	<i>WB6 CIF</i> Annual Action Plan <i>WB6 CIF</i> Annual Action	

the interest of the business communities within the framework of
REA

No of initiatives from *WB6* CIF that
have been taken into account by
REA governance structures.

Report

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DESCRIPTION OF ACTIVITIES

Component 1. Support to economic governance

Activities will target support to the fiscal costing of ERP-related reforms and capacity building activities for central banks. For the fiscal costing sub component, the activities will be designed and delivered as peer-to-peer, participatory learning initiatives for officials of line ministries, involving also ministry of finance officials, the ERP coordinators, while blending together face-to-face and online learning solutions. Indicatively, they would involve:

- ✓ Up to 60 in-economy training activities (workshops, round-tables, expert coaching, and study visits) to strengthen the analysis of expenditures and fiscal implications of policy measures across selected structural reform areas, supported through the compilation of case studies of good practice;
- ✓ 25 regional peer-to-peer training activities (workshops, blended learning initiatives, webinars) aimed at strengthening line ministries' financial management function by addressing the following wider set of areas: financing and fiscal programming of specific structural reform areas; annual budget submissions, and medium-term budgeting; management of external funds, public investments, and public-private partnerships; program, performance, and participatory budgeting; as well as leadership for managing reforms;
- ✓ 4 High-level dialogues with senior officials of beneficiary institutions (i.e. assistant ministers, state secretaries, secretary generals, directors of budget/finance departments, and heads of key policy units) on the implementation of the Action, and internal and external fiscal coordination challenges they face;
- ✓ Identification of up to 21 public officials of beneficiary institutions whose capacities to facilitate learning and promote knowledge sharing will be enhanced, providing them training-of-trainers, and actively engaging them as co-facilitator or lead experts in the delivery of the Action, as feasible;
- ✓ Feeding a functional and user-friendly online platform with at least 300 page views per quarter, which promotes regional knowledge and experience exchange among line ministry officials across the beneficiary region (and beyond) through sharing learning resources, beneficiaries' voices on challenges they face and good practice the experienced, and micro-learning opportunities (quizzes, videos, etc.).

The Central Banks support envisages the following indicative activities:

- ✓ a training programme on key central banking issues consisting of twelve training events, each lasting three days for up to 200 experts. The training will focus particularly on specific issues in the areas of banking supervision, financial stability, financial crisis management, monetary policy, payment systems, statistics, compliance and EU policies, governance policies;
- ✓ two high-level exchange of views among decision-makers in the EU (eg ECB, ESRB, SSM) and in the Western Balkans on the most current issues in central banking and supervision will strengthen networking among the institutions not only at the expert, but also at the policy level. Possible topics could be the 'Resolution of non-performing loans' or 'Governance issues' (eg central bank independence, communication between government and central bank);
- ✓ After the completion of the first training programme, experts from "national central banks" of the ESCB will implement up to two bilateral support measures benefiting each of the beneficiary institutions. The measures will be previously identified in the first two meetings of the Project Steering Committee (PSC).

Component 2. Support to competitiveness

Under this component, there will be three sub components.

Sub component 1. Support to Competitiveness

1.1 Competitiveness Outlook:

This flagship publication provides policy makers in South East Europe with a single window through which to assess progress and outstanding challenges across policy areas key to their competitiveness (e.g. trade, investment, transport, energy, competition, tax, access to finance). The Competitiveness Outlook's participatory assessment process takes into account the collective views of different stakeholders

(government representatives, academia, civil society, NGOs and the private sector), which are reconciled to create a balanced assessment with recommendations for future reform.

The following indicative activities will be undertaken:

- ✓ Revising the Competitiveness assessment tool and methodology, based on lessons learned from the Competitiveness Outlook 2018 process and assessment. The approach to identify priority policy reforms for enhancing competitiveness will also be adjusted;
- ✓ Collecting and analysing data through government self-assessments and assessments conducted by local independent experts, based on qualitative and quantitative indicator questionnaires. This data will be complemented by quantitative data from international sources;
- ✓ Drafting, launching and disseminating the Competitiveness Outlook publication;
- ✓ Providing targeted support and expertise to policy makers to design policy measures necessary for the implementation of the competitiveness-enhancement reforms. Holding regional policy dialogue meetings on tackling barriers to implementing priority reforms.

1.2 Small Business Act assessment

The SME Policy Index is a benchmarking tool developed by the OECD and its partner organisations in 2006, which monitors and evaluates progress in policies that support SMEs. The tool is structured around ten principles of the Small Business Act for Europe, providing a range of pro-enterprise measures to guide the design and implementation of SME policies.

- ✓ Revising the SME Policy Index assessment framework, based on i) lessons learned from the SME Policy Index 2019, ii) feedback received from beneficiaries, iii) latest trends across different policy areas, iv) developments on the Small Business Act;
- ✓ Collecting and analysing data through government self-assessments and independent assessments conducted by OECD with the help of local independent experts, based on a mixture of quantitative and qualitative tools (questionnaires and statistical sheets);
- ✓ Providing advice for SME policy convergence towards EU standards based on the consolidation of the two assessments' results;
- ✓ Drafting the SME Policy Index publication and disseminating its findings through launch meetings.

1.3 Policy exchange (for Competitiveness and SMEs)

The regional policy exchange meetings were established under the IPA II Action “OECD Support to Economic Competitiveness in South East Europe” (2016-2019). Building upon the successful experience, the scope of the regional policy exchange will be further expanded to serve as a platform to discuss policies covered by the SBA and Competitiveness Outlook (CO) assessments, with the aim to advance discussions on implementing specific instruments by exchanging experiences and learning from good practices from their regional peers and OECD/EU countries.

Each regional policy meeting will bring a different policy dimension into focus, and these topics will be chosen based on the CO and SBA assessment results as well as the consultations with the stakeholders in the Western Balkans and Turkey. Representatives of the private sector will participate in regional policy meetings on SME policies. Indicative activities include:

- ✓ Based on the latest findings of the Competitiveness Outlook and SME Policy Index, selecting policy areas in which Western Balkans and Turkey underperform, and require further support in the implementation of recommendations.
- ✓ Identifying good practices both in the South East Europe region and OECD/EU member states whose experience can serve as an example and facilitate implementation of policy measures.
- ✓ Organising regional policy exchange meetings by ensuring the participation of relevant stakeholders and experts from the region, as well as OECD/EU Member States.

Sub component 2) Smart specialisation strategies

The activities will focus on supporting the introduction of a fully participatory entrepreneurial discovery process including a wide range of stakeholders contributing to the identification of the R&I strengths,

opportunities and needs of the relevant IPA II beneficiaries. It will also aim at providing capacity building assistance to integrate better in the competitive research and innovation activities in Europe. Additional support to integrate the smart specialisation approach through the individual bilateral support schemes in the framework of Directorate-General for Neighbourhood and Enlargement Negotiations policy dialogues in support of the reform processes will be put in place for some neighbourhood countries (indicatively Ukraine, Moldova and Tunisia). Some of the activities might be restricted to those IPA II beneficiaries that are currently the best prepared to adapt the smart specialisation strategies approach. The tentative list of activities includes:

- ✓ Mapping of the R&I eco-system and the economic fabrics, STI stakeholders, the collection of the relevant related data and analysis of the R&I priorities;
- ✓ Identification of major gaps and barriers in organisational development and strategic management of STI policies to develop tailor-made capacity building actions for these beneficiaries;
- ✓ Capacity building exercise in support to the R&I ecosystems to secure, develop and enhance engagement of all the relevant stakeholders (business, academia, research organisations and civil society);
- ✓ Strategy design and stakeholder workshops targeted to the policy makers and stakeholders with participation of experts from the EU Member States' regions;
- ✓ Support to the identification of economic competitive advantages, innovation and scientific potential and launching a process of entrepreneurial discovery and search;
- ✓ Organisation of mutual learning seminars and trainings together with the stakeholders from other beneficiaries and the interested EU Member States' regions;

Sub component 3) Proof of Concept regional scheme

A regional grant scheme for PoC projects will be established in the Western Balkans (individual grants ranging EUR 20 000-50 000). Full implementation time for the action is 24 months, with 12 months duration for the individual projects. The PoC scheme will have the following characteristics:

- ✓ Eligible beneficiaries: Public Research Organisations (PROs) and Higher Education Institutions (HEIs) founded by a Public Body; Small and Medium size Enterprises (SMEs), where there is no specific central funding available from other sources;
- ✓ Grant size: 100% grant to the HEIs and PROs, and 10% participation from eligible SMEs;
- ✓ Structure of the grants scheme: public call, a 2-stage application process (network of international expert evaluators following and the second round by a multi-stakeholder steering committee-;
- ✓ Eligible activities: functional prototype development; demonstration/analysis of technical feasibility; concept design and development strategy; protection of Intellectual Property (IP); IP assessment, valuation and commercialisation; market research, competitor analysis; product/Service commercialisation studies and plans;
- ✓ Support measures: a Technical Assistance component to mentor applicants, but also during the implementation of the funded PoC projects;
- ✓ The expected results of the actions are: encourage entrepreneurial behaviour among researchers in the region; motivate innovative SMEs to increase their RDI activities; use the potential of the existing infrastructure in HEIs/PROs; create a pipeline for products ready for investment to be passed to the next phases in the innovation/investment chain (Business Angels and VC Funds), for example through EU instruments like the WB EDIF.

Component 3. Support to regional economic integration

There will be two main sub components:

Sub component 1) Support to regional trade integration

The objective of this sub component will be to strengthen the capacities of the CEFTA Structures and support their efforts in implementing provisions of the CEFTA Agreement as prioritised by the MAP REA and as part of the SEE 2020 framework. The indicative list of activities includes:

- ✓ Implementing the "seconded national expert programme", provision of legal expertise to CEFTA structures, etc.;
- ✓ Support to CEFTA to implement the trade pillar of REA MAP and monitoring of the implementation;
- ✓ Improving and maintaining the CEFTA Trade Statistics System on goods, services and investment;
- ✓ Improving and maintaining the CEFTA transparency pack;
- ✓ Regional meetings, workshops and events on the regional economic integration Action Plan;
- ✓ Provision of technical assistance in trade, procurement, IT, legal, finance and administration areas to the benefit of CEFTA parties.

Sub component 2) Support to the Western Balkans 6 Chamber Investment Forum

This part of the action will aim at improving the delivery of services from Chambers supporting regional business cooperation, supporting the actions of the *WB6 CIF* in taking up its role in public-private dialogue related to establishment of REA, promoting the benefits of the regional economic integration in the context of REA in the regional and foreign business community and building capacity of the *WB6 CIF* and its members. Activities would indicatively involve:

- ✓ Creating on-line toolbox providing information on market access in the region;
- ✓ Facilitating contacts between business operators in the Western Balkans with business events;
- ✓ Conducting business surveys and commissioning studies with a view of identifying specific obstacles to cross-border business cooperation in the region;
- ✓ Supporting participation of the business community in the public-private dialogue related to implementation of the regional economic integration action plan;
- ✓ Organising trainings to support business community in yielding the benefits of the regional economic integration;
- ✓ Organising regional business competition to promote success stories of the regional economic integration and actions aimed at developing competitiveness acknowledged on the European and global level;
- ✓ Organising investment conferences to promote foreign investments into the region;
- ✓ Creating promotion and information material (printed, electronic, etc.), and organising info days to disseminate information on potential benefits of regional economic integration;
- ✓ Organising participation of businesses across the region in international fairs and/or business events;
- ✓ Providing technical assistance to SMEs and the chambers in the region to ease the access to EU funds;
- ✓ Setting up services supporting integration of SMEs in European and global value chains;
- ✓ Creating market intelligence data-base for key product/market portfolios to provide support to CIF members in delivering services supporting internationalisation of SMEs in the region;
- ✓ Capacities development activities benefitting the *Western Balkans 6 CIF* (support to its permanent secretariat in Trieste and to the secondment programme) and its members to promote regional economic integration and the competitiveness of local economies;
- ✓ Support to inter-chamber dialogue between Chamber of Commerce and Industry of Serbia and Kosovo Chamber of Commerce.

DESCRIPTION RISKS

Besides general risks of political nature regarding the degree of cooperation among the European Union and the EU candidates and potential candidates from the Western Balkans, Moldova and Turkey, as well as among themselves, the following specific elements of risk will need to be taken into account:

Kosovo is currently neither recognised by all EU Member States nor by all EU candidates and potential candidates from the Western Balkans, resulting in the risk that the representatives of the institutions in

Kosovo might not be given access to some of the EU countries hosting activities or any possible hosting activities of EU candidates and potential candidates.

There might be a reduced commitment of beneficiaries to the EU integration agenda and/or to regional cooperation due to political changes, bilateral tensions or instabilities in the IPA II beneficiaries. This might have a negative impact on the component linked to regional economic integration and all activities involving all partners of the region.

Another risk factor is linked to the inclusiveness of the processes run under the actions as to receive adequate support and level of participation from different regional and national stakeholders involved - public and private sector, academia and research organisations.

Mitigation measures are carried on at political level throughout the dialogue facilitation between the different economies.

Also, it is recognised that the scale and depth of administrative capacity available in the IPA II beneficiaries can vary, which creates a risk for the speed of the implementation of the action. The use of regional policy dialogue meetings will ensure that projects can proceed with those IPA II beneficiaries who are able to commit the necessary resources and that delay and insufficient resources in one IPA II beneficiary will not impede progress in the overall action. In addition, limited administrative capacity in some of the regional organisations targeted by the action, notably the CEFTA Secretariat or the *WB6CIF* Secretariat might have an impact on the ability to implement all activities.

CONDITIONS FOR IMPLEMENTATION

There are no particular conditions that are required for the start of the implementation of the different components under the action, with the exception of the formal launch of trade-related negotiations under the regional action plan for regional economic integration. Failure of launching these negotiations as scheduled in the regional action plan would have an impact on the planned level of activities foreseen in the context of the support to CEFTA.

Otherwise, all implementing agencies have the necessary legal and administrative capacities to carry out the action. However, all of them need to provide the necessary internal resources for the management and administrative back up of the projects.

More importantly, given the range of government ministries and agencies to be involved in the action implementation, it will be necessary to secure high-level political support to ensure the necessary commitment in terms of participation of relevant staff in the various activities.

Failure to comply with the requirements set above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The implementation of the action will require the cooperation and involvement of the main institutions involved in economic policy making in each of the IPA II beneficiaries, as well as a wide range of stakeholders from the private sector, academia and civil society.

The sub component on fiscal costing of ERP structural reforms will be managed by the Centre for Excellence in Finance. To support prompt implementation of this sub-component, it is envisaged that a special Working Group will be established, which will regularly convene. The main objective of the Working Group will be to provide assistance on methodological issues related to the costing of policy measures under structural reforms, especially those envisaged within the ERPs.

The Deutsche Bundesbank, will take the lead for the European System of Central Banks as regards the component on central banking and financial supervision. Partner National central banks from other EU Member States will – based on a written agreement - collaborate with the Deutsche Bundesbank in order to provide speakers for regional training events and also to provide experts on tailor-made national bilateral

measures. The ECB and possibly other institutions will provide resources without reimbursement by the EU. A Programme Steering Committee (PSC) for this sub component will review progress, give guidance and take decisions. The PSC will comprise representatives of the participating NCBs, the ECB, the IPA II beneficiaries and the service provider.

For the sub component on the Competitiveness and SBA assessments, the organisation of the activities and overall implementation will be undertaken by the South East Europe division (SEE division) of the OECD Global Relations Secretariat (GRS). Other OECD Directorates and Committees will be consulted and involved as appropriate. The South East Europe division has for the last 17 years provided technical support and expertise aimed at facilitating the EU integration process in South East Europe. The OECD will coordinate closely with the European Commission (Directorate-General for Neighbourhood and Enlargement Negotiations, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs), the EU Delegations, nationally appointed SBA Co-ordinators, "national statistical offices" in the SEE region, as well as other key partners that have an active role in the SBA Assessment (e.g. EBRD, ETF).

The activities linked to the development of smart specialisation strategies will be carried out and led by the JRC Growth & Innovation Directorate and in particular the S3 Platform and the activities will be systematically overseen by the Directorate-General for Neighbourhood and Enlargement Negotiations services in order to ensure the consistency with other EU interventions supporting the improvement of economic governance and development of line policies in the targeted beneficiaries. The existing S3 steering team, chaired by the Directorate-General for Regional and Urban Policy, will be used to engage the other European Commission Services when so requested by the Directorate-General for Neighbourhood and Enlargement Negotiations. Teams for smart specialisation will be set up in agreement with beneficiaries and will be composed of responsible line ministries, institutions and agencies and regional authorities. A steering group composed of representatives of JRC and the Directorate-General for Neighbourhood and Enlargement Negotiations will be established for this sub component, which will meet at least twice a year.

The operational component of the PoC grant scheme will be implemented by an external contractor to be selected via a public procurement procedure to be managed by the Directorate-General for Neighbourhood and Enlargement Negotiations. The JRC ("Intellectual property and Technology Transfer" Unit) expertise in technology transfer and experience in providing technical assistance to other areas (regional clusters, for ex. Danube Strategy), as well as its activities under the ongoing "EU4Tech project" will be used for the: coordination of the network of independent evaluators; monitoring and coordination of the implementation of the action, including results, activities, performance indicators and risks, communication activities, monitoring and evaluation. This assistance will be the object of an administrative arrangement to be concluded between JRC and the Directorate-General for Neighbourhood and Enlargement Negotiations. A steering committee will be established under the PoC grant scheme.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The overall budget of the action is EUR 19.8 million and will be managed centrally by the European Commission. The Commission will sign five direct grants, one service contract and two administrative arrangements to implement the action.

A first grant of EUR 2 million will be allocated to the Deutsche Bundesbank as it is the coordinator of the enlargement cooperation of the European System of Central Banks (ESCB) in the area of central banking and supervision.

A second direct grant of EUR 2.5 million will be made to the Centre for Excellence in Finance, an international organisation based in Ljubljana, on account of its experience and thus expertise in training government officials in how to calculate the budgetary implications of the structural reforms included in the ERPs specifically. During regional ERP coordination meeting and some other bilateral meeting, the IPA II beneficiaries have expressed specific interest in receiving the CEF experts support for the costing of structural reform, based on their previous experiences. There is indeed no other organisation that has already provided support for costing of structural reforms linked to the ERPs. This is why the CEF has this unique position. CEF experts have in fact developed the methodology for costing of structural reforms in the ERPs outlined in the Guidance Note.

A third grant of EUR 6 million will be signed with the OECD to be signed in Q3 2019. The OECD has developed the necessary network of experts in the relevant IPA II beneficiaries (government officials and civil society) to be able to implement the complex methodology, which indeed requires full involvements by all stakeholders. Moreover, there is a need for the sake of the beneficiaries to keep continuity in the methodology of both analyses/assessments to be able to compare the results over the years.

A fourth grant will be attributed to the CEFTA Secretariat for an amount of EUR 2.8 million. The CEFTA Secretariat is the only regional organisation in charge of supporting the trade negotiations among all CEFTA parties.

A fifth grant of EUR 2.5 million will be attributed to the Secretariat of the *WB6 Chamber Investment Forum*. This organisation is the only one in the region that has access to the vast majority of private sector enterprises through its constitutive organisations (the chambers of commerce of the Western Balkans members).

An administrative arrangement between the European Commission's Joint Research Centre Smart Specialisation Platform in Seville and Directorate-General for Neighbourhood and Enlargement Negotiations will be made to support the smart specialisation sub-component. The amount of the arrangement will be EUR 2 million.

The Proof of Concept Grants scheme will be implemented in direct management mode. There will be two contracts to be signed for a total amount of EUR 2 million: an Administrative arrangement with the "Intellectual property and Technology Transfer" unit of the Joint Research Centre (EUR 0.35 million) and a service contract (EUR 1.65 million). The tendering procedure will be managed by Directorate-General for Neighbourhood and Enlargement Negotiations with technical support coming from DG JRC. The two contracts will be complementary.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the Directorate-General for Neighbourhood and Enlargement Negotiations guidelines on linking planning/programming, monitoring and evaluation. In addition, the action might be subject to external monitoring in line with the European Commission rules and procedures.

All implementing partners of this action will be asked to prepare regular report (an initiation report; semi-annual progress reports, and a final report informing the relevant indicators included in the log frame) prepared to inform all relevant stakeholders, i.e. beneficiaries, the European Commission, EU Delegations, cooperating institutions, and the wider public. For all training activities, implementing partners will collect participants' feedback on the usefulness and impact of delivered activities.

Regular updates on the PoC scheme will also be provided to the Directorate-General for Neighbourhood and Enlargement Negotiations and other stakeholders at the semi-annual Platform Advisory Group meetings of the WB EDIF.

INDICATOR MEASUREMENT

Indicator	Baseline 2010 (2)	Target 2020 (3)	Final Target (2020-2021) (4)	Source of information
MCSP/SEE 2020 indicators				
GDP per person as a percentage of the EU average	31	40	/	Eurostat SEE 2020 implementation reports
Total trade in goods and services (Exports + Imports, EUR millions)	54 686	129 500		
No of structural reforms where costing is fully is provided and justified for three years period as per the ERP Guidance note	Baseline ERP 2018-2020	50	120	
Non Performing Loan Rate	Eurozone average +/- 20%	Eurozone average +/- 15%	Eurozone average +/- 10%	
Aggregate Bank Lending Western Balkans	+5%	+10%	+15%	
Competitiveness Outlook average scores (scale 0 to 5; 0: no policy, 5: high level of policy implementation)	<i>Baseline: regional, weighted score, Competitiveness Outlook 2016</i>	<i>Regional, weighted score, Competitiveness Outlook 2018</i>	<i>Regional, weighted score, next Competitiveness Outlook edition</i>	OECD Competitiveness Outlook
	<i>N/A</i>			
	<i>1.8</i>	<i>2.7</i>		
<i>Agriculture</i>	<i>2.6</i>	<i>+0.3</i>		

<i>Access for Finance</i>		+0.1		
<i>Anti-Corruption Policy</i>	1	+0.25		
	1.4	+0.5		
<i>Competition Policy (alternative scoring methodology, with no quantitative averages)</i>	2.3	+0.25		
	2.3	+0.25		
	2.5	+0.10		
<i>Cultural Tourism</i>	2.3	+0.25		
<i>Digital Society</i>	N/A	1.96		
<i>Education and Competencies</i>	1.4	+0.25		
<i>Effective Public Administration</i>	2.8	+0.1		
<i>Employment Policy</i>	1.5	+0.3		
<i>Energy Policy</i>	N/A	1.8		
<i>Environment Policy</i>	1.9	+0.2		
<i>Investment Policy and Promotion</i>	2.9	+0.1		
<i>Science Technology and Innovation</i>	1.7	+0.25		
<i>State-Owned Enterprises</i>				
<i>Tax Policy</i>				
<i>Trade Policy</i>				
<i>Transport</i>				
SBA scores, measuring SME policy convergence (scale 1 to 5; 1: no policy, 5: high level of policy implementation)	Baseline: regional, weighted score, SME Policy Index 2016	Regional, weighted score, SME Policy Index 2019	Regional, weighted score, next SME Policy Index edition	OECD SME Policy Index
<i>Entrepreneurial Learning and women entrepreneurship</i>	2.5	+0.25	+0.5	
	2.9	+0.25	+0.5	
<i>Bankruptcy and second chance</i>	3.6	+0.25	+0.5	
<i>Institutional and Regulatory framework for SME policy</i>	3.4	+0.25	+0.5	
	3.1	+0.25	+0.5	
<i>Operational environment for SMEs</i>	3,5	+0.25	+0.5	

<i>Support services for SMEs and start-ups</i>	3.4	+0.25	+0.5	
<i>Public procurement</i>	3.9	+0.25	+0.5	
<i>Access to finance for SMEs</i>	2.9	+0.25	+0.5	
<i>Standards and technical regulations</i>	2.9	+0.25	+0.5	
<i>Enterprise skills</i>	2.5	+0.25	+0.5	
<i>Innovation policy for SMEs</i>	3.3	+0.25	+0.5	
<i>Greening of SMEs</i>				
<i>Internationalisation of SMEs</i>				
Evidence and quality (nature and scope) of innovation policies and smart specialisation Share of partner IPA II beneficiaries that adopted a policy framework for smart specialisation	Baselines to be defined for each indicators per IPA II beneficiary	Advanced group + 10% Non-advanced group +5% Milestones: 10 for advanced group, 7 for non-advanced group (per IAP II beneficiary) 1/3 of partner IPA II beneficiaries adopted a policy framework for smart specialisation	Same as in column 3	<ul style="list-style-type: none"> • Yearly implementation reports (3-5 pages) • Yearly implementation reports (3-5 pages)
Intra-regional trade volumes (goods, % of GDP)	10.6	14.3	14.4	

(1) This is the related indicator as included in the Indicative Strategy Paper (for reference only)

(2) The agreed baseline year is 2010 (to be inserted in brackets in the top row). If for the chosen indicator, there are no available data for 2010, it is advisable to refer to the following years – 2011, 2012. The year of reference may not be the same either for all indicators selected due to a lack of data availability; in this case, the year should then be inserted in each cell in brackets. The baseline value may be "0" (i.e. no reference values are available as the Action represents a novelty for the beneficiary) but cannot be left empty or include references such as "N/A" or "will be determined later".

(3) The target year CANNOT be modified.

(4) This will be a useful reference to continue measuring the outcome of IPA II support beyond the 2014-2020 multi-annual financial period. If the Action is completed before 2020 (year for the performance reward), this value and that in the 2020 target column must be the same.

5. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Gender mainstreaming is not the main objective of the action in itself, but to a certain extent it to be considered by all components. Where possible, the training activities will provide guidance on how to integrate gender perspective into different stages of policy programming cycle. Also, where possible, data collected will be gender-disaggregated.

In the context of the activities supporting the fiscal costing of reforms, a set of training activities will be designed to also recognise how policy performance can be intensified with gender responsive budgeting. Through practical exercises, these activities will examine the tools for integrating gender responsive budgeting into financial programming procedures and discuss different approaches utilised by the IPA II beneficiaries.

EQUAL OPPORTUNITIES

The action will strive towards combating discrimination, giving equal chances to both women and men, and person with handicaps, as well as equally addressing their needs. In all of the activities women and men will be encouraged to participate proportionally, with the aim to increase awareness and promote networking and the exchange of good practices among the beneficiaries on equal participation of women and man, and persons with handicap, in decision-making positions. In particular these principles will be valued when selection of participants at training activities.

MINORITIES¹ AND VULNERABLE GROUPS

Participation of the implementation of the action will be guaranteed on the basis of equal access regardless racial issues or ethnic origin, religion and beliefs, age or sexual orientations. The same considerations regarding equal opportunities apply.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

The development of this action has included detailed consultations with various stakeholders including government officials, as well as representatives of the business and academic communities in the Western Balkans. All activities described above rely on the active participation and contributions of stakeholders outside of government. The implementation partners will continue the practice of encouraging the participation of relevant stakeholders in the implementation of this action.

With specific reference to the components on Economic Governance and Competitiveness, dialogue between public and private sector is an essential aspect of the implementation. The private sector will be involved in consultations to identify norms and practices. Moreover, the private sector and other stakeholders will be closely associated to the activities in relation to the development of inclusive smart specialisation strategies.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The activities under this action will be designed and implemented in respect to environmental friendly office principles with the overall aim of diminishing their negative implications on natural resources. The consciousness about the need for protecting environment implies that implementing partners will strive to implement a no paper policy in order to eliminate or greatly reduce consumption of paper to minimum levels by: dissemination of learning materials in digital format, maintaining communication with beneficiaries

¹ According to the Turkish legal system the word minorities encompasses only group of people defined and recognized as such on the basis of multilateral and bilateral instruments to which Turkey is a party.

throughout online systems, issuing and keeping action-related documents in digital format, and digitally signing documents without printing etc. When organising regional training activities, additional action towards reduction of negative carbon emissions will be taken by organising shared airport transfers, as feasible.

Climate action relevant budget allocation: EUR 0 million

6. SUSTAINABILITY

The sustainability of the action is ensured through a number of characteristics and mechanisms:

- The action builds on established structures and partners, which are already aware of many of the requirements and technicalities of the action due to cooperation on similar projects in the past (Competitiveness Outlook 2018, SBA Assessment 2019, CEF Project for Ministry of Finance, CEFTA established since 2006).
- The action is rooted in local stakeholder ownership and leverages existing resources;
- Many components (Competitiveness Outlook, SBA assessment, legal and TA advice to CEFTA, Smart specialisation strategies, etc...) provide comprehensive, action-oriented policy recommendations, which are of value long after the action has been completed;
- The assessment frameworks of the CO and SBA assessment processes provide change management tools for governments and enable them to continue structure their policies and reform processes soundly even after the action is concluded.
- The direct outcomes of the action, such as enhanced government coordination, increased involvement and fostered cooperation between different stakeholders (public-private-academia), improved awareness of policy strengths and weaknesses, and peer learning will have positive long-term effects on the quality of policy making and consequently on economies' economic development.
- The action will build capacities in institutions (CEFTA Secretariat, WB6 CIF secretariat, CEF, Central Banks) that will allow them to provide continued support to final beneficiaries after the end of the action. In highly technical matters linked to the EU accession process (such as EU Legislation on the functioning of economic and monetary union, central banking and financial supervision), the capacity development agenda of the region will have to be extended and deepened, closely supported by international technical assistance and linked to further regional networking activities.
- Some of the actions will build on ongoing Directorate-General for Neighbourhood and Enlargement Negotiations-funded initiatives and therefore represent a further step in the effort to build capacity in the relevant IPA II beneficiaries for innovation and private sector development, as well as to overcome identified structural gaps at regional level, which hamper the sustainable job creation and the smart growth.
- Some of the actions under this document will be implemented in a complementary way as to bring maximum effect and benefit of the EU financing, for example the ones on smart specialisation and PoC (different structures of the JRC will work together).

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the action. The implementation of the communication activities shall be funded from the amounts allocated to the action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the EU communication and visibility requirements in force. All stakeholders and implementing partners shall ensure the visibility of EU Financial assistance provided through IPA II throughout all phases of the programme cycle.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process, as well as the benefits of the action for the general public. Actions shall be aimed at strengthening general public awareness and support of interventions financed and

the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and the EU Delegations in the field. The European Commission and the EU Delegations should be fully informed of the planning and implementation of the specific visibility and communication activities

Visibility actions already envisaged include for example: dissemination of action-related events on implementing partners' web sites, use of social media, use of newsletters, online platforms, high level events, press release, etc.