

Sector Specific Sources of Competitiveness Project: Presentation of the Regional Investment Strategy

Thursday 3 July 2008

Welcome and Opening Remarks

- Mr. Haris Basic, Foreign Investment Promotion Agency of Bosnia and Herzegovina
- Ms. Judith Novak, European Commission, Directorate General for Enlargement
- Ms. Margit Mischkulnig, World Bank Invest in the Western Balkans Programme
- Mr. Fadi Farra, Organisation for Economic Co-operation and Development (OECD)

Session 1.1: Presentation of the Sector Specific Sources of Competitiveness Project

The OECD described the activities conducted by the World Bank, European Commission and itself

Session 1.2: Presentation of the Regional Investment Strategy

The OECD presented the results of the sectoral analysis in:

1. Automotive components
2. Business process outsourcing (BPO)
3. Information and communication technology (ICT)
4. Textile and garments

Session 1.3: Roundtable Discussion on Results

Country Remarks

- **Albania:** Albania needs to engage in industrial upgrading and skills' improvement in order to be really competitive in these industries. In light of the credit access problem, the Government has recently set up a guarantee fund to support export-oriented companies.
- **Bosnia and Herzegovina:** Bosnia and Herzegovina is interested in increasing the presence of the BPO and the automotive components industries, based on their historical strengths and knowledgeable workforce. Bosnia and Herzegovina would also like to create technological parks to foster ICT industries and innovation.
- **Croatia:** Croatia has a long history of success in many of these sectors, and, given its educated workforce, many international firms have invested in these industries in Croatia. However, Croatia could benefit from more investment, particularly in the automotive component sector, where it has a competitive advantage in complex products and quality. Unfortunately, Croatia is not cost competitive in the BPO sector, and the Trade and

Investment Promotion Agency (APIU) and the Ministry of Economy, Labour and Entrepreneurship feel that the country has more potential to attract other industries that would bring more added value.

- **The Former Yugoslav Republic of Macedonia:** the key findings of the study are very relevant for FYR Macedonia, especially those for the ICT and BPO sectors. FYR Macedonia has recently benefited from quite a few big name investments. However, lack of qualified workers is still a problem, especially in the area of engineering, and there is a steep regulatory burden.
- **Montenegro:** the service sector has enjoyed a very high growth rate in Montenegro in recent years; however, there is still no significant textile or automotive industries.
- **Serbia:** Serbian Investment and Export Promotion Agency (SIEPA)'s activities focus on the PBO and ICT sectors. However, SIEPA realises that the textile and garment industry is very competitive: the industry has received 25 investments in recent years. SIEPA activities to develop this industry have been relatively modest, but do include design exhibitions to promote Serbian designers. Serbia agrees with the next actions identified in the project, especially regarding the automotive components industry, for which engineering schools need to focus on skills rather than theoretical knowledge.

General remarks

- The tourism sector is important and should be considered for future sectoral analyses.
- Upgrading the skills of a workforce with poor initial skills for a specific industry is difficult.
- Analyses should cover the global labour force: importing skills is an important option for policy makers.
- The section of the report dealing with the garment manufacturing sector includes information about labour and environmental standards, as this is important for firms' marketing. Creating a brand is expensive and firms like to guard themselves from the bad publicity that manufacturing under poor labour and/or environmental conditions can cause.
- The importance firms give to taxation as a policy barrier is complicated. It is a fact that most Western Balkan countries have some of the lowest corporate tax rates in the world. However, many countries have much higher labour taxes, which explains the continued dissatisfaction with tax rates.
- Infrastructure is a very important issue, especially for the garment manufacturing industry for which market access speed is crucial. Countries should collaborate on infrastructure development, especially on roads.

Session 2.1: Implementation Road-map – Proposed Actions and Discussion

The OECD presented proposed projects to reduce certain barriers hindering sector specific investment and trade

Country remarks

- **Albania:** the proposed implementation road-map is in line with Albania's development objectives. However, Albania would like to have opportunity to adjust it further.
- **Bosnia and Herzegovina:** Improving access to finance is essential.

- **Croatia:** Croatia fully supports the implementation road-map.
- **FYR Macedonia:** FYR Macedonia will benefit from the development of educational and promotional material for accessing finance. Better co-operation between small to medium-sized enterprises and universities is strongly needed.
- **Montenegro:** access to finance is a significant problem, especially since Montenegro does not have business angels or guarantee funds. However, local banks, offering reasonable interest rates (8-9%), are well developed.
- **Serbia:** Serbia agrees with the implementation road-map and is eager to start implementing it.

General remarks

- Because of a lower investment cost, most employers would rather hire an untrained university graduate than an experienced worker needing re-training.
- It is important to guarantee the involvement of all relevant ministries.
- One problem identified in Serbia is that many automobile companies continue to be state-owned.
- Serbia has recently finalised a database of companies that will be published on the web. However, some hurdles, such as firms not providing the requested information and the difficulty of imputing data, have arisen.
- If possible, the OECD should involve investment promotion agency employees in meetings. This would represent a great learning experience.
- Added emphasis should be given to reducing the time necessary before launching implementation.
- The implementation road-map should ensure synergies with the World Bank Invest in the Western Balkans programme and other regional and country-specific initiatives.

Human Capital Working Group

Friday 4 July 2008

Welcome and Opening Remarks

Mr. Senad Sepic, Ministry of Civil Affairs, Bosnia and Herzegovina

Mr. Alistair Nolan, OECD

Session 3.1: Croatian Labour Market Monitoring Project

APIU and the Institute of Economics (Zagreb) presented the Labour Market Monitor (LMM). LMM is a portal which combines information on employment, unemployment and wages in Croatia for investors, employers, researchers and public servants interested in labour markets and labour regulation in Croatia.

Country remarks

- **Albania:** Albania does not have a project similar to the LMM, largely due to lack of appropriate data.
- **Bosnia and Herzegovina:** Bosnia and Herzegovina does not currently have a programme similar to the LMM. The fact that Bosnia and Herzegovina has many different administrative systems overseeing education complicates the process.
- **Bulgaria:** Bulgaria has put in place a similar project to the LMM; however, it is neither interactive nor online.
- **Montenegro:** Montenegro has yet to put in place a similar portal but does examine workforce supply and demand. The LMM is seen positively and some of its ideas may be replicated.
- **Serbia:** the National Employment Agency has a similar portal to the LMM on its website.

Other remarks

- Having all the data presented on one page to avoid having to view several pages to get the full picture would be helpful.
- The data classifications provided by the national employment agencies are not very relevant to investors. Often the data is not relevant either: average wages include wages for the unemployed and low-skilled within a particular category, thus resulting in a lower wage than most employers will actually be required to pay.
- The current LMM does not look at mobility and people's willingness to change location. This could be of particular interest, and could be included in future models.
- An approach should be developed to incorporate information provided by head-hunting agencies, and their suggestions could be incorporated in the project. These agencies should have suggestions on how to improve the system as many firms now use head-hunters to get information on potential employees and salaries.

Session 3.2: Short to medium term responses for matching skill supply with skill demand

Policymakers in Western Balkan countries and sub-national regions need to ensure that the skills supplied to their local labour market meet the needs of current and future employers. As a first step, countries need to identify their skills needs and the gaps with current skills supply. But what should policymakers do over the short and medium terms once the scale and nature of the skills gaps have been determined, especially since different skills policies have different gestation periods? The range of possible policy measures is broad and trade-offs clearly exist. Issues to consider in this session include:

- What mechanisms and institutional practices need to be in place to ensure that education and training systems are well attuned to labour market needs? What does international evidence tell us on this issue?
- Should continuing education and training be a priority, given that younger and already better educated individuals benefit disproportionately?
- What is the right balance between investing in initial education – developing skills over the medium and long term – and investing in shorter term (and sometimes remedial) measures, and what are the implications for policy design?
- What are the most cost-effective measures available to bring low-skilled and long term unemployment adults back into the workforce?

Professor Ging Wong, Queen's University, Canada

Remarks

- When determining how to increase the involvement of employers in the development of programmes to narrow skills gaps, it is important to fully analyse the problem. There are in fact few programmes that employers can put in place to change the skill level of older workers. However, there are many more programme options for changing the skill level of younger displaced workers. To improve the analysis, governments need to make sure they collect quality data.

Session 3.3: The Proposed Investment Reform Index (2009) Human Capital Indicators

The OECD presented the assessment framework and the indicators for the human capital dimension of the Investment Reform Index 2009.

Remarks

- Data will be collected from the government and private sector. Current data sources will include the Business Environment and Enterprise Performance Survey (BEEPS).
- The ministries involved will depend on the specific ministerial responsibilities and government configurations of countries. Different institutions will collect relevant data in each country, and the Investment Compact will ensure that agents responsible for the data needed are consulted.

- For some countries, problems such as missing data and data collected with a significant time lag will certainly arise.

Session 3.4: Education Reform Initiative for South East Europe

A presentation by the Education Reform Initiative for South East Europe of its activities was followed by a discussion on possible synergies between these activities and those of the Human Capital Working Group and of the Investment Compact in general.

Next Steps

The OECD Investment Compact will:

- Distribute the summary record of the meeting and copies of the slides;
- Send participants a request for suggestions on topics that could be covered during the next Human Capital Working Group Meeting to be held in May 2009.