

WESTERN BALKANS

REGIONAL R&D STRATEGY FOR INNOVATION

TECHNICAL ASSISTANCE PROJECT

GROWTH THROUGH RESEARCH AND INNOVATION: THE MOMENT FOR ACTION

With job creation stagnant and economic growth stalled, the Western Balkans region faces an intensifying need to create knowledge-based economies that can generate higher-value-added jobs and stronger growth. Hoping to foster synergies among their similar interventions and build on a growing collaboration, governments from the seven economies in the Western Balkans are developing — with the assistance of the European Commission, the Regional Cooperation Council and the World Bank — a regional strategy for research and innovation. In line with the countries' European integration processes and the goals of the European Union's growth strategy "Europe 2020," the overarching objective is to increase the impact of research and innovation on economic growth and employment opportunities. The Strategy will identify priorities, recommend policy and institutional reforms and be accompanied by an action plan detailing initiatives to be implemented at the supra-national level. It is expected to be presented in 2013 and serve as a framework for a collective effort to promote the Western Balkans' most urgent priority: increasing innovation, growth and prosperity.

Research, Innovation and Firm Performance in the Western Balkans

Innovative firms grow 15 percent faster in sales and 8 percent faster in labor productivity than non-innovative firms.

Firm R&D expenditures significantly contribute to sales (by 14 percent) and labor productivity growth (by 7 percent).

When 'firm R&D', training and infrastructure services are compared, R&D is shown to have the highest correlation to sales growth.

Source: Seker, M. (2012). Background paper for the report, Mimeo.

The Western Balkan region faces complex structural and macroeconomic challenges. On the structural front, a legacy of unfinished reforms still prevents most economies from reaping the benefits of investments in research and innovation — despite the progress they have achieved in recent years. At the macroeconomic level, adverse circumstances required governments to adopt tighter fiscal policies and cautious financial markets reduced public and private resources available for research and innovation. The countries share a common set of problems, such as brain drain, low business expenditures on R&D and outdated research infrastructure. Yet to restore the competitiveness of their economies and accelerate growth, more and better investments in research and innovation are critically important for the Western Balkans.

In the first twelve months of the project, policy notes and studies have been commissioned, country profiles for each beneficiary country were developed; study tours to two regional 'centers of excellence' were organized; and three consensus-building exercises — in the format of interactive roundtables — have taken place. For the available background material, please contact spenn@worldbank.org. Throughout the process, close collaboration with similar regional initiatives has been promoted. On the basis of this work a draft Strategy outline has been developed. The second half of the project will entail further discussions with stakeholders regarding the Strategy and Action Plan.

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The Joint Statement of the Ministerial Conference — held in Sarajevo 2009 — expressed the interest of the region in developing a joint strategy on research and innovation.

The World Bank and the European Commission in September 2011 signed an agreement to support the development of the strategy. The technical assistance is financed with EUR 1,5 million through a Multi-Beneficiary Instrument of Pre-Accession Assistance (IPA).

Beneficiary entities are Albania, Bosnia Herzegovina, Croatia, Kosovo*, FYR Macedonia, Montenegro and Serbia.

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

A Steering Committee composed of the beneficiary entities, the European Commission and the Regional Cooperation Council oversees the project implementation.

An Advisory Body composed of stakeholders of the national innovation systems and *ad hoc* experts are guiding the development of the Strategy.



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WISE INVESTING: AN OPPORTUNITY FOR RESULTS

The draft strategy envisions a ‘two-pronged’ approach with a focus on results. It combines the advocacy of policy reforms at national level and joint investments in selected regional initiatives.

Continued policy reforms are needed to strengthen the impact of research and innovation on economic growth and job creation. To reach this broader objective, reforms should emphasize measures directly contributing to the three main intermediate outcomes: **fostering research excellence and productivity; promoting research commercialization and industry-science collaboration; and enabling research and innovation in the business sector.** Governments will also need to improve the governance of their national innovation systems. For instance, among those reforms, improving the management of public research organizations is of central importance.

Regional cooperation at the policy level will create positive peer pressure and serve as credible commitment for implementing reforms at the national level. Reform progress, however, will follow the institutional dynamics of each country. The impact of policy advocacy and international commitments, therefore, are expected to occur in the medium to the long run.

In the meantime, joint investments will finance regional programs and institutions, pooling regional resources to create a critical mass for promoting *smart specialization* in the Western Balkans. By avoiding the fragmentation and providing a predictable source of funding on a merit basis, the region will be able to start harvesting the economic dividends of investments in research and innovation within a period of four years. The total cost of these investments is estimated to be EUR 200 million.

After a first assessment of existing regional initiatives, the joint investments currently under consideration are:

- i. a research fund to promote collaboration with the scientific Diaspora and support young researchers increasing the attractiveness of the region,
- ii. a program for the development of regional *centers of excellence*,
- iii. a regional technology transfer facility, that will support and provide technical assistance to technology transfer offices at national level,
- iv. an early stage innovation financing facility, complementing the support to be provided by the Western Balkan Enterprise Development and Innovation Facility (EDIF), and
- v. a not-for-profit organization to manage the programs and continue the advocacy of reforms in the region — *the Western Balkans Innovation Strategy Exercise* — (WISE).

Conceived as a small and agile not-for-profit organization with an emphasis on results-orientation and rigorous evaluation, WISE will support systematic learning and policy improvement in the region. WISE will also provide a platform for the coordination, monitoring and evaluation of donors’ support to research and innovation in the region. By coordinating different donors’ activities and helping prioritize key existing bottlenecks, WISE will contribute to improve the impact of public investments in research and innovation in the Western Balkans.

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A *smart specialization* approach would take into account the region’s scientific potential — as for example in the areas of biological sciences and chemistry — and its (latent) comparative advantages — as in the cases of renewable energy and marine biology. The application of general purpose technologies (for example ICT, nanotechnology and biotechnology) to specific fields of economic activity, such as agriculture, health and tourism industries are also options being studied.

The *Centers of Excellence Program* will generate a critical mass of world-class research by effectively integrating research, education (training) and state of the art research networks in fields consistent with the smart specialization strategy for the Western Balkans, increasing the impact of research and innovation on regional development.

Expected results

- ▶ Larger number of scientific publications in high impact journals.
- ▶ Enhance collaboration between scientific Diaspora and local researchers.
- ▶ Improved success rate of regional applicants in EU-funded programs.
- ▶ Increased number and value of patents licensed to the business sector.
- ▶ Stronger industry-science linkages.
- ▶ More research-based startup companies.
- ▶ Higher growth.
- ▶ Better job opportunities.

Total investments required for an initial 4-year period is estimated in the range of EUR 200 Million.