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AN OVERVIEW OF USAID-SUPPORTED COMPETITIVENESS PROJECTS

EUROPE AND EURASIA REGION

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Neal Nathanson, Senior Competitiveness Advisor
U.S. Agency for International Development

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DISCLAIMER

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BACKGROUND

COMPETITIVENESS AND ITS RELATIONSHIP TO ECONOMIC GROWTH

Economic growth in a country or community comes from the growth of the individual enterprises in the economy. Enterprises compete against each other to sell their products in the market. To succeed, enterprises must offer products with the qualities and features desired by the buyers. Competitive enterprises are the ones that are best able to satisfy the demands of buyers and to attract new customers. It is the cumulative growth of individual enterprises that produces jobs and income in the economy and it is competitive enterprises that drive this growth.

Competitiveness characterizes the ability of enterprises and industries to sell products profitably in international markets over sustained periods of time. These three attributes of industry competitiveness are significant for the following reasons:

Profitability – Industries that are not consistently profitable will not survive because if operating expenses exceed their income, capital is drained away. In pure economic terms, profitability means that the industry is producing an output whose market value exceeds the total cost of all its component resources, which is an indication of added value and a measure of efficiency.

International Markets – Individual countries have the ability to affect the profitability of enterprises within their markets through a variety of direct or indirect subsidies and barriers. It is far more difficult for a country to affect international markets, meaning that profitability in international markets is a better gauge of true competitiveness than in domestic markets.

Sustained Period of Time – Market conditions can change dramatically over time. The most competitive industries are those that can maintain profitability through a range of different market conditions.

ACHIEVING INDUSTRY AND ENTERPRISE COMPETITIVENESS

Some of the factors and conditions that affect enterprise competitiveness are within the control of the enterprise, while others are not.

Internal Factors Affecting Competitiveness - Management must assess the market conditions and attempt to offer the product that best satisfies the requirements and interests of the buyers. Management determines what kind of product to offer, how it should be produced, how and where it is sold, how labor is organized and trained, the type and quantity of equipment to be used, and countless other actions that together affect enterprise competitiveness.

External Factors Affecting Competitiveness - Some conditions that affect competitiveness are outside of the control of individual enterprises. The quality, availability, and price of raw materials, the availability or absence of skilled labor, the legal and regulatory environment, international exchange rates, and many others affect the ability of companies to compete, but individual businesses have very little ability to control these factors.

Typically, competitiveness projects identify products and/or services that are (or have the potential to be) competitive within national, regional, or international markets, and select interventions to increase the effectiveness of businesses and institutions associated with these products and services.[1] Competitiveness interventions usually encourage development of products with high-market value and processes that enhance productivity. When successful, competitiveness projects result in increased business investment; increased sales, revenue and employment; business expansion; increased productivity and higher wages; and consequently, improved standards of living.

Competitiveness initiatives can be designed to focus on both internal and external competitiveness factors and the mix of interventions will vary from one project to another.

- **Interventions at the enterprise level** focus on helping individual firms or groups of firms improve internal competitiveness factors so as to help them enhance enterprise growth with the expectation of gains within a relatively short period of time.
- **Industry interventions** focus on external constraints to growth by identifying systemic barriers or inefficiencies in an industry or value chain, which, when removed, can benefit many firms in that industry.
- **Broad policy-oriented interventions** target constraints to productivity in the overall business environment so as to benefit firms across a wide range of different industries and business types.

In advanced economies, individual enterprises often organize themselves into formal or informal associations particularly to address external factors. These privately driven initiatives are less common in developing and transitional economies, and as result, such efforts tend to be supported by governments and donor organizations (if they happen at all). Donor and government funded initiatives may target both internal and external factors.

[1] In contrast, traditional economic growth programs, which ultimately should serve to increase competitiveness, are generally targeted more narrowly: e.g., the financial sector, micro, small or medium-sized enterprise sector, business enabling environment, business support organization development, etc.

CHARACTERISTICS OF USAID-SUPPORTED COMPETITIVENESS PROJECTS IN EUROPE AND EURASIA

USAID missions in the Europe and Eurasia region have embraced competitiveness projects for more than a decade. Since starting in Croatia and Bulgaria in 1998, 14 missions have launched economic growth projects based entirely or partly on competitiveness principles. Six countries have completed "First Generation" projects and have subsequently launched "Second Generation" projects built on successes and lessons-learned from the First Generation. Actual and anticipated funding for these competitiveness initiatives will exceed $200 million by 2012.

TABLE 1: COMPETITIVENESS PROJECTS IN THE E&E REGION

Country	First Generation Launch	Second Generation Launch
Bulgaria	1998	Graduated
Croatia	1998	Graduated
Macedonia	2002	2007
Serbia	2002	2007
Albania	2003	2009
Bosnia	2003	2009
Georgia	***[2]	2010
Kosovo	2003	2008
Montenegro	2003	2008
Romania	2003	Graduated
Moldova	2004	2010
Armenia	2004	2011
Azerbaijan	2008	2010
Ukraine	2009	

Recognizing the considerable investment in time and resources made by USAID over the past 10 years, in 2008 the E&E Bureau conducted an analysis[3] to identify common characteristics among projects and provide project design guidance for future competitiveness activities. This analysis has been updated to take into account more recent projects and activities. It discusses the strengths, weaknesses, and implementation considerations of activities that have typically been core components of competitiveness projects in the region: (i) enterprise, (ii) industry, and (iii) policy level assistance and addresses workforce development, business development services, and local economic development.

[2] Georgia's EPI Project, launched in 2010, and is more accurately considered a "second generation" project, even though Georgia never launched a project with the characteristics of "first generation" projects.

[3] The analysis was conducted in three parts: (i) interviews with U.S. consulting firms implementing competitiveness projects; (ii) a desk review of competitiveness projects implemented by USAID and other donors; and (iii) field visits to Bosnia-Herzegovina, Serbia, and Macedonia, and group discussions with USAID and project personnel from Croatia, Montenegro, Romania, Bulgaria, Albania, and Kosovo. Subsequent revisions based on site observations in Ukraine, Moldova, Azerbaijan and Georgia.

KEY FINDINGS

1. **The primary difference among projects is the degree to which they focus on enterprise, industry or policy level interventions.** Most competitiveness projects undertake interventions at firm, industry, and policy level, but the degree of emphasis on one type or another can vary quite considerably.

2. **The designs of Competitiveness Projects have evolved considerably over the past decade**. Most of the First Generation project designs were based on a "clusters" methodology, and while clusters and value chains are still prevalent in project designs, the experience and learning at the mission and project level has resulted in more variation than in the original group of designs.

3. **Policy reform activities that focus on specific industries or sectors are more typical in competitiveness projects**. Nearly all current competitiveness projects have a policy reform component, but they rarely engage in broad-based policy reforms such as those tracked by international benchmarking indices like the World Bank's *Ease of Doing Business* indicators or the World Economic Forum's *Global Competitiveness Report*. [4]

4. **Impact measurements affect design and influence a project's mix of enterprise, industry, and policy level interventions.** The need to demonstrate results quickly can drive projects to emphasize short-term, enterprise-level activities over longer-term, industry or policy level interventions. Industry or policy level interventions which have the potential for large-scale impact are difficult to attribute to a project's activities and may take longer to achieve, though it is generally believed that their long term benefits are greater than what can be achieved when targeting firms individually.

5. **Though the region suffers from systemic labor market distortions, until recently workforce development generally had not been emphasized.** Although often discussed, activities to facilitate the movement of labor from low to high productivity industries have been a very small part of competitiveness projects. This may be because workforce development is a complex, cross-cutting issue across enterprise, industry and policy level interventions, and a cross-cutting issue within missions.

6. **Efforts to institutionalize business services have been disappointing.** When competitiveness and other EG projects provide business services through the project itself, they can disappear when the project ends. However, efforts to institutionalize business service

[4] Some of the more recent EG/Competitiveness projects being designed by E&E Missions are more comprehensive, all-encompassing initiatives that do engage in broad-based policy reform that is not exclusively sector-based (e.g. – Azerbaijan ACT, Georgia EPI, Ukraine LINC).

delivery by strengthening business service providers and encouraging commercially-based models have proven difficult to achieve.

7. **Grants are difficult to phase out.** While large grant components are typical for USAID post-conflict programming, and an appropriate response to the devastation of conflict, they can be habit-forming and can distort markets. Once economic growth initiatives become equated with grant-giving, local counterparts and beneficiaries come to expect that grants are a natural and typical component of economic growth programs, and can become less enthusiastic partners as the grant components shrink.

WORKING AT THE ENTERPRISE, INDUSTRY AND POLICY LEVEL

In order to address all constraints to competitiveness, projects typically work at three levels:

1. **Enterprise** – Assistance to individual firms or groups of firms to improve their productivity and ability to compete
2. **Industry** – Focus on constraints to a particular industry's growth, identifying and seeking to remove systemic inefficiencies in an industry value chain which affect the growth of all related firms
3. **Policy** – Business environment reform to improve conditions across a wide range of industries and business types.

Most projects in the region are engaged in activities on all three levels. The extent to which projects focus on each of these levels, as well as how project interventions at each level interact, account for most of the difference in competitiveness project design in the region.

In most of the competitiveness projects currently underway there is a definite bias toward actions that produce observable gains in market activity during the life of the project. Industry and policy level interventions take longer to materialize and are difficult to attribute to specific project activities. However, competitiveness projects that focus primarily on enterprise-level assistance because of reporting requirements and the need to clearly demonstrate the impact of money spent, may be missing opportunities to have greater long-term impact. Determining a way to measure intermediate results of high-impact, policy-level activities will be a challenge for the next generation of competitiveness projects.

ENTERPRISE LEVEL ASSISTANCE

Direct assistance to firms can produce the most immediate, tangible and quantifiable results. While projects can significantly impact the firms they assist, with limited time and resources the number of firms a project is able to assist may be small. Consequently, the impact on the overall economy may be limited. Furthermore, assisting a small group of selected firms within a larger economy can raise concerns about favoritism and market distortions.

There are two ways to provide enterprise assistance in a development project:

EXAMPLES OF ENTERPRISE LEVEL ASSISTANCE

- Business advisors placed inside the firms
- Training courses
- Study tours
- Trade shows
- Acquisition of new equipment and technology
- Assistance in obtaining financing
- Direct capital infusions (grants and loans)
- Meeting quality standards and certifications
- Assistance in marketing and promotion
- New product design and packaging

1. **Firm level assistance provided directly with project personnel.** Staff, consultants, and volunteers can be mobilized to provide firm level assistance. However, when the services are provided directly by project-funded staff and consultants, the services end abruptly when the funding runs out. There may be specific circumstances in which it is entirely suitable for a project to provide a discrete set of services which then disappear at the end of the project. And if skills are transferred to individual businesses during the project lifetime and the businesses use those skills to produce sustained growth, the project will have yielded a beneficial result. On the other hand, as businesses and the overall economy grow and evolve new businesses and new skill requirements emerge, so it is often desirable to introduce some means by which assistance can be provided on a sustained basis.

2. **Strengthening Business Service Providers.** As an alternative to delivering services directly by project staff, many projects choose to work with local business service providers to strengthen their delivery capabilities and to introduce commercial and sustainable service delivery models. But while creating an ongoing and sustainable approach to service delivery may appear to be the ideal option, there are times when this may not be the most desirable approach for a project. Focusing resources on business providers will divert resources away from immediate delivery of services to enterprises. Individual firms often face unique problems that require specialized attention and it may not be cost-effective to build a local capacity to deliver a specialized service if there is only limited and intermittent local demand. Furthermore, there may be instances in which a commercial model of business service delivery is simply not possible, at which point a decision must be made as to whether there is a social benefit to providing the service on a subsidized basis or simply to go without. Finally, field experience has shown that building a high quality, professional local capacity for business service delivery is not easy, can consume a considerable amount of time and resources, and there is no clear and definitive proof that strengthening business service providers is a more effective use of firm-level assistance resources than simply providing the assistance directly with project staff.

Beyond the direct and immediate benefit to firms receiving project assistance, engaging in enterprise level work can be valuable for two other reasons. First, working directly with firms is often the best way to learn about the major issues constraining businesses and entire industries. Second, assistance

to an industry leader, or 'catalyst,' or a few highly visible firms can produce a demonstration effect, thereby leading other firms to follow a similar path.

Mindful of the potential down-sides of enterprise-level assistance, competitiveness projects go to considerable lengths to minimize risks through the process of selecting beneficiaries. Typical safeguards include:

a. Aiming for catalytic effect by assisting enterprises that will in turn assist other enterprises, such as processors working with many small producers.
b. Abiding by a transparent selection process, with clearly defined criteria.
c. Limiting eligible uses for assistance narrowly in line with the most important objectives of the project.
d. If feasible, selecting firms in industries where there is the potential for identifying policy level constraints.
e. Requiring cost-sharing to improve the likelihood that the recipient will make a serious effort to realize the maximum effect from the assistance.

Measuring Enterprise Level Assistance

Outcomes of enterprise-level activities are relatively easy to quantify. Typically programs aim to increase revenues and investment, with the larger goal of increasing employment.

Investment by enterprises is an important indicator that a competitiveness project is achieving a beneficial outcome. Investment broadly defined includes not only plants and equipment but also staff training, process improvements, and quality-standards certifications. Enterprises undertake investments if (and only if) they see likelihood for growth in profitability. In economies characterized by chronic underinvestment, observing a significant and sustained increase in investments by firms should be seen as a highly positive outcome.[5]

> **Foreign Direct Investment** (FDI) is viewed as an important indicator for two reasons. First, FDI is often accompanied by technology transfer and enterprise restructuring. Second, it demonstrates that foreigners are positive about the business environment. However, any kind of investment is favorable, so projects should not ignore domestic investment in favor of FDI alone.

[5] One recent observation is that relatively low-cost investments in human capital, process improvements, and quality standards sometimes can produce productivity and income gains that are equal or greater to more capital-intensive investments. Simply measuring totally dollar-value of investments can miss the more qualitative aspects of investment.

Revenue or sales are clear measures of success in improving enterprise competitiveness. Projects should place as much emphasis on increasing domestic and export sales. A successful firm-level intervention can produce revenue increases within a six to twelve month time frame.

Measuring **jobs** created is a common, but not particularly useful indicator for competitiveness projects. It is understandable that when there is high unemployment, job creation is a major goal, but this is better addressed by specific employment generation programs. Job creation may result from competitiveness activities, but it is almost never among the first results. In fact, in transition economies characterized by low-productivity state enterprises, elimination of jobs may be the first step toward a more competitive enterprise. Because productivity gains are often accompanied by increased wages for workers, better indicators of the benefits of competitiveness on labor are increases in average wage rates or total labor payments.

INDUSTRY LEVEL ASSISTANCE

Industry level assistance is critical for establishing the right economic infrastructure and business environment to accelerate competitiveness gains. Industry interventions focus on constraints to growth by identifying systemic inefficiencies in an industry value chain, which, when removed, can benefit many firms in that industry. Business-to-business dialogue should be used to identify these inefficiencies, because every firm benefits when an industry group works together to solve a problem. Through dialogue, firms become engaged at an industry, not individual, level to draft strategies and legislation, discuss policy initiatives and advocate for business environment reform.

Formal organizational structures are not necessary to facilitate dialogue; firms should be engaged through their existing relationships as clusters, networks, or value chains to identify common interest. Industry level initiatives are most successful when firms see a clear benefit from participating and engaging as an industry and when activities do not benefit only one sector or group of firms over another, such as bigger firms becoming more dominant and driving out smaller firms or producers feeling dominated by a processor's group.

TABLE 2: EXAMPLES OF INDUSTRY-LEVEL INITIATIVES

Country	Activity
Albania, Kosovo, Macedonia Agriculture	Ensured that food producers follow international health and safety standards
Bosnia Tourism	Attempted to change the external image of the country away from an association with war toward one extolling the history, culture, and lifestyle of the country
Bosnia Wood Products	Resolved problems with raw material supply and distribution
Bulgaria Information Technology	Developed a public-private partnership, "Bulgarian Competitiveness in Global ICT Markets," supported by the Council of Ministers
Macedonia	Expanded the pool of properly trained and qualified workers available to IT

Information Technology	firms
Macedonia, Serbia Clothing Manufacturing	Addressed problems with regional free trade agreements that are distorting markets for local producers; introduced IT to enhance productivity and competitiveness in order to sell to European markets
Azerbaijan Aquaculture	Helped revive the aquaculture industry that had declined 90% in 20 years by helping with the bulk purchase of fish eggs and feed, and helping to create an industry association for fish farmers.

Measuring Industry Level Assistance

Unlike enterprise level assistance, the impact of industry level activities is not easily measured.[6] In the absence of quantifiable indicators, typical indicators include:

- Existence and effectiveness of nationwide associations or chambers representing the business community
- Existence and effectiveness of associations, chambers, networks and other organizations representing specific sectors
- Private or public entities in place to assist businesses in the industry with specific issues such as product development, market research, export promotion, design, packaging, executive training, improving production processes, and quality standards certification
- Educational/training institutions in place; number of students trained in certain skills

POLICY LEVEL ASSISTANCE

Some countries and communities are extremely friendly and open to businesses, while others can be more repressive. The burdens of taxes, licenses, registrations, and inspections can impede growth of businesses overall and fall unevenly on different types of businesses, placing these businesses at a disadvantage. Addressing these issues through policy level assistance lowers costs for firms and improves their ability to compete.

Although in every one of the currently-active competitiveness projects in the Europe and Eurasia region, some attention is paid to the economic policy environment, in general they do not engage in broad-based policy reform of the type tracked by the World Bank's *Ease of Doing Business* index. Instead, policy reform activities target issues and actions relevant to the competitiveness of specific industries. There are three reasons for this:

1. Most projects target specific industries or sectors, and therefore focus on policy issues relevant to those sectors, as they are important to achieving project results.
2. In some USAID missions, high level policy reform is carried out by separate projects.[7]
3. While the countries in the region do not rank among the world's most business-friendly countries in the world, most businesses feel that the economic environment is friendly enough

[6] Industry and policy level interventions are intended to increase growth in revenues, investment, and employment, as are enterprise level interventions. However, for industry and policy level interventions, these outcomes may take longer to materialize, and are not easily attributable to specific project activities.

[7] Both Georgia and Azerbaijan launched new, comprehensive EG/Competitiveness projects in 2010 that combine elements that previously had been in independent projects – including broad-based policy reform. It is not clear whether this represents a trend, however, as staffing levels in E&E missions decline, missions are looking at having fewer projects with more components and elements in each project.

that it does not overly impede general growth. Therefore, widespread and generalized reform of the overall business environment may not be the highest priority for competitiveness projects.[8]

Regardless of whether a project works on sector-specific or national issues, policy level programs should focus on successfully establishing a forum for public-private dialogue, if it does not already exist. Creation or strengthening of an entity for public-private dialogue may be a useful tool for improving the business environment and policy infrastructure, but it should not be the end product of a project. Most importantly, it provides a forum for strategies, legislation, and regulations to be discussed, drafted, approved and implemented in partnership between public and private stakeholders. During the drafting phase of new legislation, typical activities would include comment-and-answer periods and regulatory impact assessments. Such public-private dialogue mechanisms not only improve the policy framework, but also increase transparency in government policymaking.

UNDERSTANDING AND RESOLVING CROSS-BORDER ISSUES

Serbia and Macedonia are both experiencing growth in their textile industries by serving as manufacturing and assembly points for clothing sold in Europe. Complex formulas establish tariffs and quotas based on the quantity and value of inputs and the country from which inputs are sourced. For example, if fabric is imported from Turkey or Egypt into Macedonia and is used for producing clothing that is exported to the EU, the tariff and quota can be different than if the fabric is produced in Macedonia or imported from another Southeastern Europe Free Trade Agreement or EU country. These complexities lead to market barriers and distortions. With assistance from USAID competitiveness projects, textile industry firms are attempting to resolve these market problems to benefit the entire industry. In this case, the ultimate solution lies not only at the level of the national government, but also in the relationship between the government and neighboring countries.

Measuring Policy Level Assistance

Policy level assistance is often thought to have the greatest potential for large-scale impact on competitiveness. While, in principle, the systemic changes resulting from policy level activities will produce overall industry and economic growth, industry output and a country's GDP are not appropriate measures of project success for two major reasons. First, it is nearly impossible to attribute a change in these figures to project actions. Second, measurable change at the industry and country level rarely happens quickly enough and in great enough magnitude to be appropriate for the reporting requirements of USAID projects.

Given their overall impact on competitiveness, there is a strong need for innovative solutions to address the difficulty of measuring policy level activities. The high impact of these programs needs to be demonstrated through cost effective measurement. Early efforts to quantify results include developing methodologies for assessing direct cost savings for businesses from more efficient

[8] Bosnia and Kosovo are two exceptions in Southeast Europe. In both of these cases, however, the government structure and regulatory environment are so complex that the competitiveness projects believe that fundamental reform would be impossible for them to achieve, concentrating instead on targeted, achievable industry-specific reform.

regulation. Progress in this area is expected to be a key contribution to future competitiveness projects. Examples of indicators in current use are:

- Existence and effectiveness of a public-private forum where government and business can discuss economic policies
- Institutionalization of a regulatory impact assessment within the policy development process
- Institutionalizing a comment-and-answer period in the policy development process, giving representatives of the private sector an opportunity to comment on draft legislation

CONSIDERATIONS FOR DESIGN AND IMPLEMENTATION OF FUTURE COMPETITIVENESS PROJECTS

1. Over the long term, all interventions should be expected to produce the same kinds of beneficial results: business growth, job creation, enhanced productivity, and higher wages. However, in the short run not all interventions produce the same type or quantity of impacts. Consequently, **impact measures should be chosen carefully** and balanced between immediate, tangible impacts (export sales, jobs created, loans facilitated, etc.) that drive projects to emphasize enterprise-level interventions and longer-term, less tangible results that would come from industry and policy interventions (such as the removal of business-identified obstacles in the business enabling environment).

2. To increase the impact of **enterprise level assistance**, projects typically require cost-sharing and use a transparent process to select firms. Priority should be given to firms that are industry leaders or 'catalysts,' whose growth will most greatly impact its value chain, or those that are in key positions to reduce constraints to productivity across an industry.

3. **Always encourage competitive behaviors of enterprise**. When seeking to promote competitiveness nationally, regionally or worldwide, project interventions should be structured to enhance and not limit the actual competitive behavior of firms. For example, projects should not endorse practices that improperly limit market entry and perpetuate the dominance of oligopolies within an industry. While the introduction and promotion of industry standards for quality, safety and reliability can be important factors for market acceptance, certifications and licenses can also be abused in ways that limit market entry and competitiveness.

4. **Industry level interventions** are most successful when they improve an industry value chain by removing barriers that are immediate and relevant to an entire industry's growth. Such interventions could include improved transportation networks, creation or diversification of businesses that affect the entire value chain, establishment of embedded business services, national branding or marketing campaigns, and specialized financial products.

5. **Policy level interventions** identified and prioritized for specific industries or sectors tend to more directly impact those businesses, which in turn are more likely to support and stay engaged in the reform process. A priority should be to establish sustainable consultative mechanisms, without prescribing precise structure and membership, so that strategies, legislation and regulations are discussed, drafted, approved and implemented in partnership with public and private stakeholders. Policy level interventions could include renegotiation of unfavorable trade agreements, removal of industry distorting tariffs or taxes, restructuring of a government permit process to allow ease of entry.

6. The development of products with high-market value and increasing process productivity require advanced labor skills that are often deficient in developing and transitional economies. Cross-cutting **workforce development** efforts, implemented in dialogue with industry groups, government, and educational institutions, are essential to fill in the gap that arises from successful competitiveness efforts. Specialized industry-specific training and career development programs can be beneficial, but have limited impact in comparison to restructuring an education or employment services system to link a workforce with work opportunities.

7. Often there is a contradiction between seeking to institutionalize **business services** and requiring those service providers to work with start-up or marginal businesses which cannot afford market prices. Just as general education is considered a social necessity and typically not subject to fully-commercial models of delivery, basic business education and skill-building can be justified as a socially beneficial activity and consequently delivery of these services should not always be fully commercial. Services that can be delivered commercially should be differentiated from services for marginal, low-income businesses, which can be subsidized through cost-sharing or voucher-type mechanisms.

SPECIFIC EXAMPLES OF SECOND GENERATION DESIGN VARIATIONS

As noted previously, competitiveness projects launched within the past two or three years show a greater degree of design variation than those launched in the early part of the decade. For the first several years, practically all competitiveness project designs focused heavily on project support to build industry-specific clusters, following certain principles first described by Professor Michael Porter. Furthermore, these tended to concentrate on fairly traditional local industries. After several years of experimentation, implementers came to realize that different industry and country conditions necessitated a more flexible and varied approach to project design. Most still do focus on specific industry sectors or groupings using either a cluster or value chain construct. However, the variations around the core themes are now more considerable than in the past.

Among some of the more unique design elements in recent projects include:

- **Serbia Competitiveness Project** – Serbia's second generation competitiveness project has shifted from more traditional industries and sectors to more advanced industries such as film-making, construction management, and alternative energy because of greater value-added opportunities in these advanced sectors.

- **Kosovo Competitiveness Project** – The KCP launched in June 2008 is the first competitiveness project with an explicit workforce development component (although others in Albania, Macedonia, and Bosnia will contain this feature as well).

- **Local Investment, National Competitiveness (LINC) Ukraine** – The LINC Project emphasizes the role that the local business environment has on investment, particularly those investments with a significant land and real-estate component.

- **Macedonia Competitiveness** – Most competitiveness projects work with domestic firms and industries to identify and capture external markets. While not ignoring this dimension of competitiveness, the Macedonia project places a considerable emphasis on identifying industries that are already operating successfully with markets outside of Macedonia and encouraging those industries to locate in Macedonia and bring the market opportunity with them.

EMERGING NEW THEMES IN COMPETITIVENESS PROJECTS

WORKFORCE DEVELOPMENT

In order to improve competitiveness, industries often upgrade from low-skilled, traditional products and production methods to more advanced and complex products and processes. This transition requires new labor skills, and often renders the older, lower-skilled labor force redundant. In the interim there is often a mismatch between the supply and demand for labor – an excess supply of certain skills and shortages of others. Rigidities and anachronisms in labor codes can impede the flow of employment into new industries and formal educational systems are often rigid and oriented toward institutions and industries that no longer exist. The result is a large number of unemployed or underemployed workers create a burden on social networks and systems, while a shortage of appropriate skills constrains growth in advanced sectors.

This labor-skill mismatch has been long recognized but only recently has become a core activity in competitiveness projects. One practical difficulty is that transforming the educational system of a country is a huge undertaking and the result may not be recognizable for a decade or two. Economic growth projects with life-spans of three to five years have been reluctant to engage in such long-term initiatives. In the E&E region where many missions may be subject to close-out within a few years, educational system reform has not been seen as a practical target for engagement.

Educational system reform can fit within the framework of business environment reform agenda. When framed as an economic growth issue, and pushed by leaders in the business community, it is possible to make some headway, although progress can be slow and intermittent.

Even in locations where education is suitable to 21st Century business requirements, students often enter the workforce lacking the practical "soft skills" needed to perform effectively. In Macedonia, for example, it is a violation of the labor code for a student to also have a job. One can be either a student or a worker but not both at the same time. Combined with other restrictions on the hiring of part time and seasonal labor, rarely do students entering the workforce have any actual employment experience. There are efforts underway to both modify the labor code and also introduce internships and work-study programs into educational curricula and these may help the new workforce entrants gain the kinds of practical experience needed for job-seekers and new hires.

QUALITY STANDARDS AND BUSINESS PROCESS IMPROVEMENTS

Certain accepted international standards of quality and productivity are useful for industry competitiveness, for two reasons: 1) they enhance the company's ability to market because customers recognize that the product meets certain recognized standards of safety, reliability, or performance; and 2) the process improvements inherent in obtaining the certification enhance the productivity and profitability of the firm. Consequently, many projects encourage firms and industries to adopt and adhere to the most appropriate standards for those industries.

However, in developing and emerging markets it is often difficult and expensive for firms to obtain the quality certification. There are direct and indirect costs for a firm to undertake the necessary improvements in plant, equipment, and process improvements. Often the instructors and certifying bodies are not present within the country, making the cost of obtaining the certification even higher than it would be in an advanced country. Consequently, to encourage the introduction of these standards, projects sometimes will co-fund the direct costs of training associated with achieving the standard.

One caution: standards and certifications can serve as a barrier to market entry. If a government or industry sets certification requirements in a market, only those firms that obtain the certification are permitted to operate in that market. USAID projects should not cooperate with certification requirements if the true purpose of the certification is to create or perpetuate cartels or other market-limiting mechanisms.

LOCAL ECONOMIC DEVELOPMENT

As described previously, business environment improvements at the industry and at the national policy level are traditional themes for competitiveness projects. However, many of the policy factors that affect competitiveness are in the hands of local, not national, government. Investment transactions that involve the purchase of land, the construction of buildings, and the obtaining of

permits and licenses typically require actions at the local level. While national-level enabling actions may be required, the implementation of those laws and regulations is typically a local government responsibility.

In addition to these regulatory actions, local governments have the ability to enhance the attractiveness of an investment opportunity with other actions such as the provision of infrastructure (roads, water, electricity, etc), specialized training of workers for the industry, and favorable tax treatment. A supportive local government can be an effective tool for encouraging investment, even in a country where the business environment at the national level may be less favorable.

The LINC (Local Investment, National Competitiveness) Project in Ukraine recognizes this duality. The LINC design calls for the encouragement of policy reform at the national level, but focuses most of its resources and efforts on the impact of local government actions on investment and competitiveness.

GLOBAL ECONOMIC DECLINE

The global economic decline that began with the financial crisis in 2008-2009 is slowly receding. In most of the countries of the region, positive growth returned in 2010, although at rates generally lower than the years 2005 – 2008.

Much of what drove growth before the economic collapse was external to the countries of the region – foreign direct investment, externally-sourced consumer credit, and remittances. These sources of growth are now greatly diminished, and countries must rely more on internal and regional markets to stimulate growth.

Over the past year or so, commodity-price inflation – particularly for oil, food products, and cotton have put new pressures and stresses on the less developed economies. Consumer price inflation in many of the countries of the E&E region is now in double-digit ranges, and reaching a critical point for lower-income individuals. Already these economic stresses are affecting stability in areas of the Middle-East and North Africa and could cause instability in the E&E region as well. However, countries of E&E may also benefit from these stresses. As the Middle-Eastern suppliers to Europe become less reliable, areas such as the Balkans, Moldova, and Ukraine become increasingly more attractive as suppliers – so long as they are able to remain stable and competitive.

CONCLUSIONS

Type of Intervention	Project Considerations
Enterprise Level	• Impact on individual firms can be great, but it can be difficult to achieve large-scale impacts • Aim for catalytic/demonstration effect • Abide by a transparent selection process • Require cost-sharing by beneficiary firms • Limit eligible uses of assistance
Industry Level	• Beneficial outcomes difficult to quantify in the short term • Firms must see a clear benefit to participating or they lose interest • Activities should not favor one group of businesses over another • Encouraging firms to obtain quality standard certifications can be beneficial as long as these efforts are not disguised methods of limiting market access.
Policy Level	• Involve private sector in policy process • A public-private dialogue mechanism should be the means, not an end. The form of the mechanism is less important than its ability to achieve a positive result.
Local Economic Development	• Policy reform does not imply working only at the national government level. Policy reform at the local level can favorably affect investment activity, particularly in property-related investments • Local government can enhance investment viability through provision of infrastructure, favorable zoning and permits, and other public actions
Business Services	• When service markets are underdeveloped, direct provision of services can be a public good; otherwise, local businesses should provide services • Cost-sharing/vouchers can be an effective transitional mechanism • Creating institutions or using associations for service delivery is rarely effective
Workforce Development	• Industry-specific training programs can be beneficial, but are difficult to show large scale impacts • Solutions to systemic labor market problems require work at industry or policy level
Grants	• Ensure clear, simple and transparent procedures • Provide grant funding for capital equipment only in cases of highly catalytic industries with substantial impact on other businesses • Require cost-sharing, with high percentage requirements for large, more established enterprises