



INVESTMENT COMPACT FOR SOUTH EAST EUROPE

South East Europe Investment Committee 3rd Meeting

Update on the Implementation of
Investment Reform Index 2006
Country Priorities

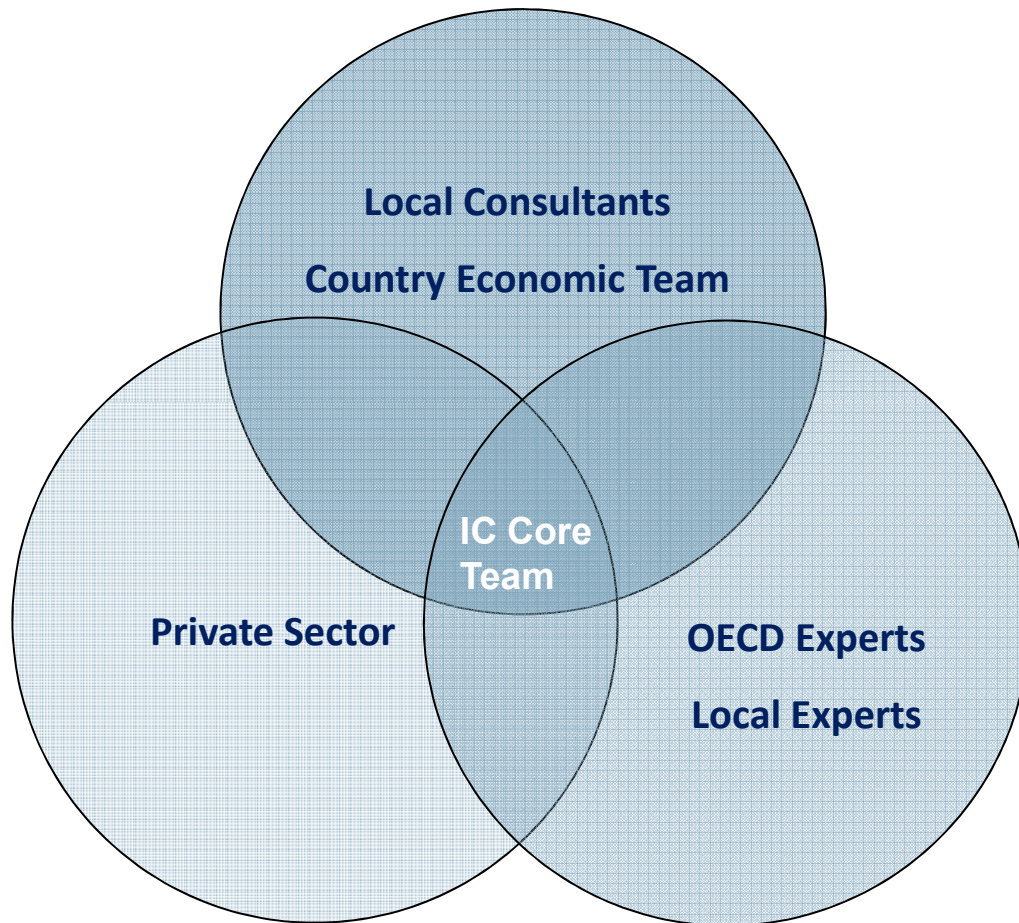
Paris, 23 May 2008

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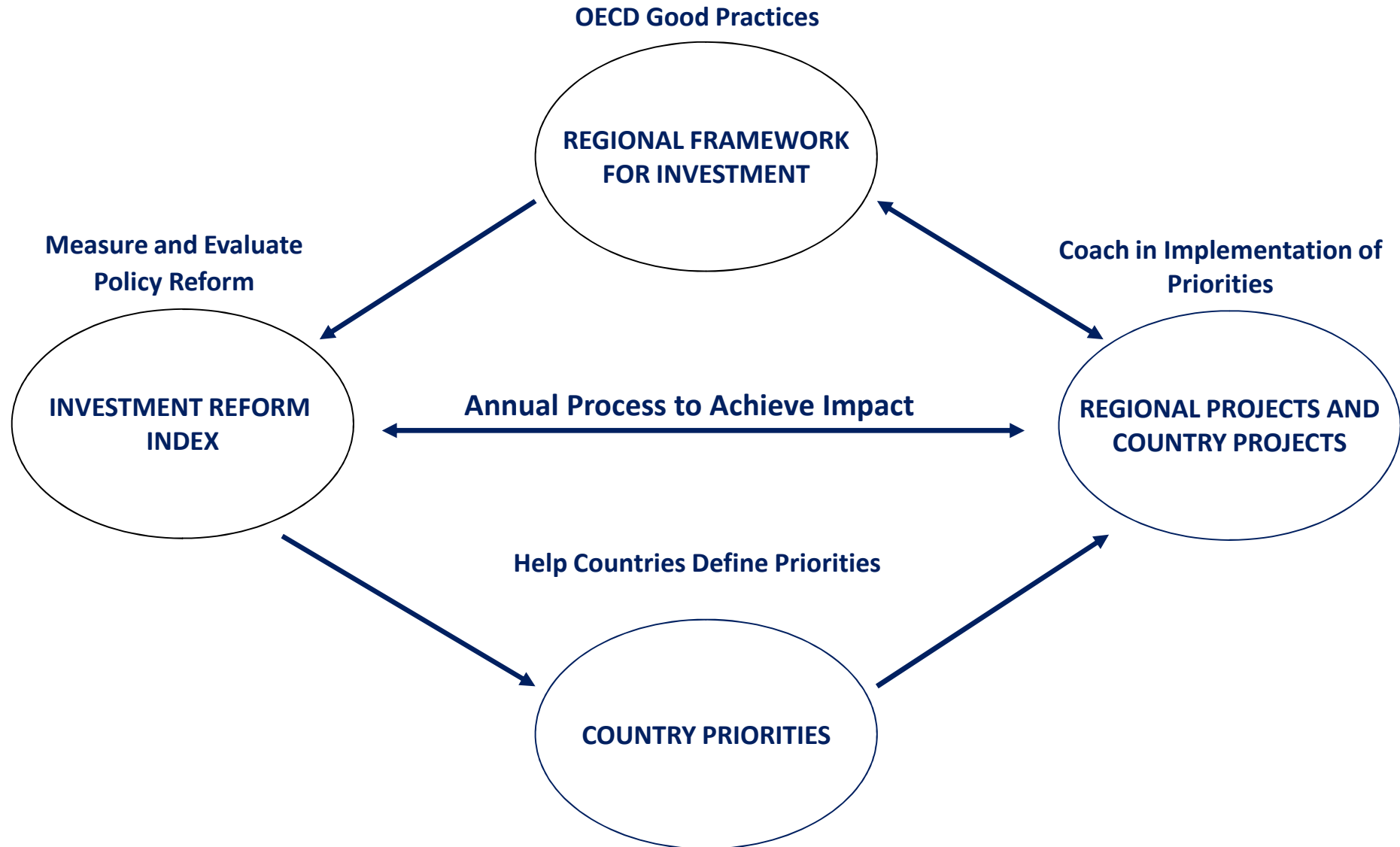
1. Overview of the Investment Reform Index

The Investment Reform Index is organised to involve all levels in the evaluation and input process



- **IC Core Team** collects data and interviews OECD Experts to establish a preliminary level of progress for each country in each policy dimension
- **Local consultants** build from the first measurement by collecting primary data in the countries and conducting interviews with local experts. The results are analysed by the IC Core Team and incorporated into the level of progress
- **The private sector and the Country Economic Team** evaluate the latest measure. This provides an opportunity to step back and analyse the measurements in a broader context. After consultation mechanisms are complete, all parties confirm a final measurement, which is published

The IRI report published in November 2006 identified six priorities per country



2. Progress Made by Countries in Implementing the of IRI 2006 Country Priorities

Albania

| More advanced country priorities | Less advanced country priorities |
|--|--|
| <ul style="list-style-type: none"><li data-bbox="347 448 1086 671">• Anti-Corruption Albania adopted the Anti-corruption Strategy and Action Plan in which it included specific measures for each of the implementing institutions.<li data-bbox="347 691 1086 959">• Human Capital Albania drafted and adopted the Strategy and its Action Plan on Employment and Vocational Training in November 2007 after consultations with the main stakeholders from the labour market.<li data-bbox="347 978 1086 1201">• Investment Promotion The Investment Promotion Agency has been created through the merger of three agencies. A targeted sectors investment strategy was adopted in 2007. | <ul style="list-style-type: none"><li data-bbox="1122 448 1861 759">• Regulatory reform Albania is working with the World Bank on implementing a Regulatory Reform Management System that will include implementation of Regulatory Impact Analysis (RIA). RIA will not be implemented before the second half of 2008.<li data-bbox="1122 778 1861 1238">• Tax Policy (two priorities) There is still no clear evidence of a monitoring system for VAT reimbursement. Conflicting information is received from the private sector. No evidence exists of the implementation of the last priority: changing the legal framework on tax regulation related to estimation of profits before beginning operations. |

Bosnia and Herzegovina

| More advanced country priorities | Less advanced country priorities |
|---|---|
| <ul style="list-style-type: none"><li data-bbox="338 443 1086 799">• Anti-Corruption Important progress has been made by the creation of the Public Procurement Agency, accompanied by a monitoring system for the implementation of the public procurement law. Bosnia and Herzegovina needs only to provide evidence of the monitoring system implementation.<li data-bbox="338 820 1086 1134">• Trade Policy Bosnia and Herzegovina created a special unit – MOFTER – aimed at transposing and implementing harmonized standards. The newly created institutional framework shows the country's interest in finalizing the priority implementation. | <ul style="list-style-type: none"><li data-bbox="1120 443 1848 667">• Regulatory reform Little evidence exists on the implementation of the RIA programme. Bosnia and Herzegovina just started a pilot project with the World Bank on this topic.<li data-bbox="1120 687 1848 954">• Tax Policy Bosnia and Herzegovina made progress on harmonizing legal tax regimes between entities, but with little evidence on clear specific measures for personal tax regimes harmonization.<li data-bbox="1120 975 1848 1066">• Investment Policy No update provided by the Government.<li data-bbox="1120 1086 1848 1177">• Human Capital No update provided by the Government. |

Bulgaria

| More advanced policy priorities | Less advanced policy priorities |
|---|---|
| <ul style="list-style-type: none">• Investment Promotion Strong evidence of priority implementation with new clusters created for SMEs and improvement of the legal framework to support clusters' development.• Competition Policy Strong implementation evidence with modifications to the legal and institutional frameworks to implement a stronger sanctioning policy for anti-competitive behaviour.• Regulatory Reform RIA draft strategy adopted by consultative bodies and an inter-ministerial group has been set-up to ensure follow-up. The government still hasn't approved the Strategy on RIA.• Anti-Corruption Evidence of implementation of the priority through serious improvement of the legal framework. However, a unified legal framework for public procurement is still needed.• Trade Policy Implementation evidence exists, with strong involvement as EU member. | <ul style="list-style-type: none">• Tax Policy Little evidence of implementation. The government has focused on institutional framework modifications, whereas the priority focuses on legal framework modification. |

Croatia

| More advanced country priorities | Country priorities that are less advanced |
|--|--|
| <ul style="list-style-type: none">• Human Capital Priority - adoption of a law on adult education - implemented but no evidence of implementation of the law. | <ul style="list-style-type: none">• Investment Promotion Some implementation evidence exists, but without a clear emphasis on the requirements of the country priorities – no investment promotion strategy yet.• Competition Policy The legal framework modifications advocated by the priority will have been implemented by mid-2008. But no evidence of implementation has yet been provided.• Tax Policy No evidence exists of a monitoring system for the activities of the financial police.• Anti-corruption Little evidence of implementation as customs reform action plan should be part of the anti-corruption action plan already adopted. More implementation and monitoring evidence are needed.• Regulatory Reform Little implementation evidence. The government has made important steps regarding de-regulation but with little emphasis on RIA implementation itself. |

FYR Macedonia

| More advanced country priorities | Less advanced country priorities |
|--|--|
| <ul style="list-style-type: none"><li data-bbox="322 405 1061 671">• Competition Policy Full implementation of the priority on strengthening the competition authority. FYR Macedonia needs only to introduce a monitoring system for the implementation of all legal improvements.<li data-bbox="322 692 1061 916">• Tax Policy Strong implementation evidence related to VAT reimbursement. (The current improved system for Large Taxpayers needs to be extended to all taxpayers in the country). | <ul style="list-style-type: none"><li data-bbox="1097 405 1845 628">• Investment Promotion Limited evidence of implementation. The legal framework modification (adoption of an investment promotion strategy) is expected in 2008.<li data-bbox="1097 649 1845 873">• Regulatory Reform Implementation of the priority – introduction of RIA system – is being made gradually. Implementation of a clear unified RIA system is needed.<li data-bbox="1097 893 1845 1203">• Human Capital (2 priorities) Limited implementation evidence exists related to the modification of the legal framework. Several improvements have been made but with little emphasis on the priority field itself, a workforce skills development strategy. |

Moldova

| More advanced country priorities | Less advanced country priorities |
|---|---|
| <ul style="list-style-type: none"><li data-bbox="322 344 1070 612">• Investment Policy Full implementation of the priority – adoption of an investment promotion strategy. All Moldova now needs is a monitoring system for the implementation of the priority.<li data-bbox="322 632 1070 900">• Competition Policy Strong evidence of implementation (creation of the Competition Authority with budget and staff). The government needs to focus on completing the last two components of the country priority.<li data-bbox="322 919 1070 1139">• Tax Policy Strong evidence of implementation – Code of Ethics for Tax inspectors. The missing element is the monitoring system of priority implementation<li data-bbox="322 1158 1070 1426">• Anti-corruption Policy Evidence of implementation – adoption of the conflict of interest law. However, the final form of the law has not yet been approved. More evidence of implementation is needed. | <ul style="list-style-type: none"><li data-bbox="1097 344 1825 564">• Trade Policy Little evidence of implementation. One pilot project launched in trade policy area needs to be extended to the entire dimension.<li data-bbox="1097 584 1825 852">• Human Capital Important evidence of implementation with a solid strategy already drafted. However, the strategy has not yet been implemented. The government needs to focus on adopting and enforcing it. |

Montenegro

IRI 2006 recommended country priorities

1. Investment Promotion: Define and adopt an investment promotion strategy that reflects government and private sector consensus on sector priorities.
2. Competition: Adopt a competition strategy that includes appointing an independent competition authority with power to investigate anti-competition behaviour and impose sanctions
3. Anti-corruption: Adopt the new draft law on public procurement and enforce effective implementation timetable.
4. Regulatory Reform: Define and implement a long-term regulatory reform strategy and implement a RIA programme for all newly adopted legislation.
5. Tax: Ensure Tax Administration Inspectors are based on clear monitoring indicators (e.g. filing of returns) instead of discretionary behaviour encouraged by needing to meet budget estimates
6. Trade: Streamline customs and administrative procedures to decrease the complexity and time required for imports and exports.

Romania

| More advanced country priorities | Less advanced country priorities |
|---|--|
| <ul style="list-style-type: none"><li data-bbox="324 432 1048 612">• Anti-corruption Policy Priority – monitoring system with clear indicators for public procurement law implementation - fully implemented.<li data-bbox="324 632 1048 852">• Tax Policy Strong evidence of implementation with legal framework modification and implemented indicators (transparent and consistent standards for tax inspectors).<li data-bbox="324 871 1048 1051">• Regulatory Reform Strong evidence of implementation. RIA strategy finalised and to be implemented before June 2008.<li data-bbox="324 1070 1048 1294">• Human Capital Strong evidence of implementation of the strategy on education. However, less evidence on the monitoring system for the priority's implementation. | <ul style="list-style-type: none"><li data-bbox="1099 432 1843 699">• Investment Promotion (Two priorities) Very little evidence of implementation regarding updates of the legal framework and institutional framework for the investment promotion agency and strategy. Needs to focus on strengthening both. |

Serbia

| More advanced country priorities | Less advanced country priorities |
|---|---|
| <ul style="list-style-type: none"><li data-bbox="324 475 1070 655">• Human Capital Priority (strategy for adult and vocational training) now fully implemented. Need to monitor its implementation.<li data-bbox="324 675 1070 943">• Anti-corruption Strong evidence of implementation with remaining issues on transparency and inter-institutional co-operation to be tackled (public procurement law and monitoring system)<li data-bbox="324 962 1070 1275">• Competition Policy Strong evidence of implementation regarding the creation of a competition committee. The government now needs to focus on granting sanctioning powers to the committee through an amended legal framework. | <ul style="list-style-type: none"><li data-bbox="1097 475 1845 608">• Tax Policy Little evidence of a clear monitoring system for VAT reimbursement.<li data-bbox="1097 627 1845 847">• Trade Policy Little evidence of implementation. More to be achieved through the CEFTA sub-committee on Trade to start working in May 2008.<li data-bbox="1097 866 1845 1134">• Investment Policy Little evidence of implementation. The country priority (use of urban construction land and any type of land by foreign investors) needs constitutional amendments. |

More advanced and less advanced policy priorities for all countries*

| Country | More Advanced Country Priorities | Less Advanced Country Priorities |
|------------------------|--|--|
| Albania | <ul style="list-style-type: none"> • Anti-Corruption • Human Capital • Investment Promotion | <ul style="list-style-type: none"> • Regulatory reform • Tax Policy (two priorities) |
| Bosnia and Herzegovina | <ul style="list-style-type: none"> • Anti-Corruption • Trade Policy | <ul style="list-style-type: none"> • Regulatory reform • Tax Policy • Investment Policy • Human Capital |
| Bulgaria | <ul style="list-style-type: none"> • Investment Promotion • Competition Policy • Regulatory Reform • Anti-Corruption • Trade Policy | <ul style="list-style-type: none"> • Tax Policy |
| Croatia | <ul style="list-style-type: none"> • Human Capital | <ul style="list-style-type: none"> • Investment Promotion • Competition Policy • Tax Policy • Anti-corruption • Regulatory Reform |

*Based both on absolute scores and policy dimension scores relative to SEE average except competition which is based on the policy dimensions findings and recommendations in the Chapter on Competition Policy .

More advanced and less advanced policy priorities for all countries

| Country | More advanced policy priorities | Less advanced policy priorities |
|---------------|---|--|
| FYR Macedonia | <ul style="list-style-type: none"> • Competition Policy • Tax Policy | <ul style="list-style-type: none"> • Investment Promotion • Regulatory Reform • Human Capital |
| Moldova | <ul style="list-style-type: none"> • Investment Policy • Competition Policy • Tax Policy • Anti-corruption Policy | <ul style="list-style-type: none"> • Trade Policy • Human Capital |
| Montenegro | | |
| Romania | <ul style="list-style-type: none"> • Anti-corruption Policy • Tax Policy • Regulatory Reform • Human Capital | <ul style="list-style-type: none"> • Investment Promotion (Two priorities) |
| Serbia | <ul style="list-style-type: none"> • Human Capital • Anti-corruption • Competition Policy | <ul style="list-style-type: none"> • Tax Policy • Trade Policy • Investment Policy |

3. Next Steps and Key Events

Timetable of the Investment Reform Index 2009 Evaluation

| Action | Date | Responsible |
|---|-----------------------------|---|
| Finalisation of results of the implementation IRI 2006 country priorities | July 2008 | Investment Compact and CETs |
| Sending out of self-evaluation IRI toolkit and launch of private sector survey | June '08 | Investment Compact |
| First round of country evaluation missions | June-September '08 | Investment Compact and CETs |
| Organisation of private sector questionnaire and focus groups | September - December '08 | Investment Compact, private sector partners (BAC, FICs, EUROCHAMBRES) |
| Finalisation of self-evaluations based on IRI toolkit | October '08 | SEE countries |
| Country missions to interview key public and private sector stakeholders, discuss preliminary IRI results, explain differences and gaps, and complete the evaluations | October / November '08 | Investment Compact |
| Follow-up questions sent to governments | November '08 | Investment Compact |
| Evaluations by independent consultants | October-November '08 | Independent consultants |
| Preparation of draft analysis | December '08 - January 2009 | Investment Compact |
| Submission of final inputs from countries | December '09 | SEE countries |
| Finalisation of evaluation and identification of priorities | January '09 | Investment Compact and SEE countries |
| Text for publication is finalised | February '09 | Investment Compact |
| Publication release | May '09 | Investment Compact |
| Second round of country missions to present IRI results to government teams and build momentum for follow up | Jun '09 | Investment Compact |

Preliminary Results

- Implementation results are preliminary.
- Results will be finalised in co-operation with governments by July 2008.
- For any comments and suggestions please contact:

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