

**PROPOSAL TO LAUNCH A NEW
SOUTH EAST EUROPE INVESTMENT COMMITTEE**

OECD INVESTMENT COMPACT FOR SOUTH EAST EUROPE

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FOREWORD

The following proposal to launch a new South East European Investment Committee is intended as a basis for discussion and any suggestions to improve it are welcome. This proposal will be reviewed and finalised at the next Project Team Meeting (PTM) on 2nd of April in Paris.

The SEE Investment Committee would involve eight potential Working Groups which cover most areas of the Regional Framework for Investment. For operational purposes it is suggested to start with four Working Groups in 2007 including Regulatory Reform, Investment Promotion, Anti-Corruption Policy and Human Capital.

It is proposed to start operations of the Working Groups right after the PTM on 2nd of April before the final political endorsement which will occur at the Ministerial Meeting scheduled for June 2007.

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1. INTRODUCTION

“South East Europe (SEE) has great potential as an attractive investment location. It neighbours the European Union, one of the richest economic areas of the world, and enjoys virtually unrestricted trade access to this vast market. South East Europe also boasts a relatively well qualified and inexpensive workforce and has a considerable endowment of natural resources, including some of Europe’s most beautiful coastal areas.”¹

How can South East Europe transform this excellent potential into more and better investment? The South East Europe Compact for Reform, Investment, Integrity and Growth (Investment Compact) has, since 2000, supported the countries of South East Europe in their efforts to stimulate investment, growth and employment, and in their EU integration process, through the development of better government policy. With the adoption of the Regional Framework for Investment (RFI)² in Vienna on 27 June 2006 and the signing of a Regional Free Trade Agreement on 19 December 2006, South East Europe (SEE) has made significant steps towards overcoming regional fragmentation and realising the vision of a common investment and trade area of 56 million consumers.

Progress in implementing policies to attract investment and create a favourable business environment is assessed in the first edition of the Investment Reform Index (IRI) published by the Investment Compact on 10 November 2006. The IRI identifies areas for improvement at both country and regional level. The challenge is now to ensure implementation.

¹ Investment Reform Index 2006: Progress in Policy Reforms to improve the Investment Climate in South East Europe (OECD, 2006), p.14.

² The RFI provides a reference for the elaboration, implementation and evaluation of national policies related to investment in the region. SEE is the first region to adopt such as Framework modeled on the OECD Policy Framework for Investment.

Effective design, follow up and implementation of sound investment policies in line with international best practices, the RFI and the investment clauses of the CEFTA agreement require a proper institutional framework for countries to exchange their experiences, decide on joint activities and monitor results.

A SEE Investment Committee is being proposed by the Investment Compact to ensure implementation by developing detailed guidelines on how to implement reforms in selected priority areas. These proposed selected priority areas are derived from the results of the Investment Reform Index 2006. However, the focus on priority topics will be decided by the SEE countries. The proposed new SEE Investment Committee structure is still in an open process and requires the full involvement of the SEE countries. It is designed to enhance regional leadership for common strategies. The proposed new SEE Investment Committee is closely linked with the Regional Framework for Investment and will be closely associated with other relevant regional initiatives, such as the South East European Cooperation Process (SEECF), the Regional Cooperation Council (RCC) and the Regional Free Trade Agreement for South East Europe (CEFTA).

2. OBJECTIVE OF A NEW SEE INVESTMENT COMMITTEE

The primary objective of the new SEE Investment Committee is to create a high level coordination body to encourage the implementation of policies related to foreign and domestic investment. The SEE Investment Committee will be responsible for developing guidelines on how to implement policy reforms and a program of action and capacity building to support the IRI process and can provide a framework for peer review. The SEE Investment Committee would act as the investment arm of the RCC following a decision from the signatories of the CEFTA agreement; it would be responsible for monitoring and implementing the RFI and serve as a platform for consultations among participating countries on issues relating to investment.

3. PROPOSED STRUCTURE OF THE NEW SEE INVESTMENT COMMITTEE

3.1 Composition of the Committee

The SEE Investment Committee will be composed of senior officials (Deputy Ministers) and their advisors from SEE countries. The SEE Investment Committee will meet twice a year to replace the traditional Project Team meetings of the Investment Compact. Once a year, the SEE Investment Committee will meet at Ministerial level. Government representatives from OECD countries, private sector representatives and other international organisations will attend as observers for consideration of the Committee.

3.2 Regional Working Groups

The SEE Investment Committee will set up Regional Working Groups to develop plans and capacity building programmes for the implementation of the reform priorities recommended in the Investment Reform Index report. The Working Groups can also develop proposals on good practices to further promote regional integration and to remove obstacles to investment. For operational purposes it is suggested to start with four Working Groups in 2007 including Regulatory Reform, Investment Promotion, Anti-Corruption Policy and Human Capital.

3.2.1 Composition of Working Groups

The Working Groups will be composed of 1-2 Country experts (e.g. from IPA, Ministry), 2-3 OECD experts, 1-2 international partner organisations, 2-3 private sector representatives (e.g. BAC, FIC, Chamber of Commerce) and 1-2 Investment Compact analysts. Working Groups will have a mandate and be defined based on regional and country priorities identified in the Investment Reform Index evaluation and specific requests from Ministers. They will proceed by themes through Expert Teams which are modified and substituted once a task is fulfilled. A preliminary list of potential topics to address through Working Groups is in Appendix A.

As not all topics can be covered in the first year, it is suggested to start by setting up Expert Teams within the framework of the Working Groups on the following four policy areas:

- 1) Regulatory Impact Analysis (RIA) (main partners: OECD Public Governance Directorate and World Bank)
- 2) Investment Promotion: Linkages Programmes (main partner: Czech Invest)
- 3) Anti-corruption in public procurement (main partner: OECD Anti-Corruption Division)
- 4) Human capital: Increasing labor mobility and evaluation of skill gaps (main partner: OECD Directorate for Employment, Labour and Social Affairs)

To ensure added value, the work of the Expert Teams will be closely coordinated with other international organisations and existing policy networks working in similar fields. The specific objectives of each Working Group will be defined right from the start of its mandate and validated by the SEE Investment Committee.

3.2.2 Structure of Working Groups

Working Groups will be composed of a Chair (SEE country), experts from participating countries, private sector and other international organisations. The Working Group will also include OECD experts and members of Investment Compact team.

3.3 Role of Investment Compact

The Investment Compact will continue to play an active role in supporting the SEE Investment Committee with the management of the content and process.

4. BUDGET

The SEE Investment Committee will be run as a lean, demand-driven operation. The annual cost of operation of the SEE Investment Committee, including meetings, participation of experts, and publications is estimated to be 700 K euros. While the

Investment Compact proposes to cover the first year of operations, the budget will be based on the principle of co-funding between donors and SEE countries starting in 2008.³

In 2007 the Investment Compact will fund one participant per country and meeting. Starting in 2008, SEE countries should cover their own travel cost.

By the second SEE Investment Committee meeting at the end of 2007, a formula shall be developed and discussed for cost sharing between countries. The objective is to aim for cost sharing on the basis of assessed contribution starting in 2008. As of 2008, one third of the required funds shall be covered by the SEE countries.

³ The exact rules of this breakdown can be decided by the second SEE Investment Committee in 2007.

APPENDIX A: TENTATIVE AGENDAS FOR REGIONAL WORKING GROUPS

1. INVESTMENT POLICY WORKING GROUP

Potential Area to Address ⁴	Expected Outputs	Potential Partners
Licensing and administrative barriers to greenfield investment	<ul style="list-style-type: none"> ➤ Review of administrative and licensing requirements for several sectors to be identified in a selected number of countries ➤ Formulation of recommendations on how to reduce the licensing and administrative requirements, based on OECD good practice 	FIAS
National treatment	<ul style="list-style-type: none"> ➤ Update of the SEE National Treatment Review published in 2004 	
Remittances	<ul style="list-style-type: none"> ➤ Evaluation of how to further transform remittances into investment, based on extensive survey of nationals ➤ Focus on high remittance countries such as Moldova and Albania 	EBRD

⁴ List not exhaustive. Area to be decided by working group participants.

2. INVESTMENT PROMOTION WORKING GROUP

Potential Area to Address	Expected Outputs	Potential Partners
Regional FDI strategy	<ul style="list-style-type: none"> ➤ Selection of priority sectors based on predefined criteria ➤ Analysis of market dynamics, value chain and competitive dynamics for each retained sector ➤ Recommendations of where and how to compete at the regional level ➤ Marketing strategy for the region 	FIAS / MIGA
Investment promotion strategies and agencies	<ul style="list-style-type: none"> ➤ Peer review of existing investment promotion strategies and agencies (with involvement of Czech Invest) ➤ Coaching in improving existing IP strategies ➤ Recommended actions to improve each IP agency, including communication with potential and existing investors 	MIGA
Linkages Programmes	<ul style="list-style-type: none"> ➤ Database of existing and potential investors 	Czech Invest

3. REGULATORY REFORM WORKING GROUP

Potential area to Address	Expected Outputs	Potential Partners
Regulatory Impact Analysis (RIA)	<ul style="list-style-type: none"> ➤ Staged approach to RIA ➤ Inventory of where each SEE country stands based on a standardised questionnaire ➤ Definition of staged RIA approach adapted to the context of each SEE country ➤ Coaching in step increase within RIA for selected SEE countries ➤ Increased involvement of Parliamentarians in the design and implementation of new legislation 	FIAS MIGA OECD Public Governance Directorate Economics Institute in Belgrade
One stop shop	<ul style="list-style-type: none"> ➤ Peer review of business registration in SEE (with update of the Investment Compact Peer Review conducted in 2005) ➤ Leverage experience of countries that have already introduced a one-stop shop (eg: Moldova) ➤ Recommendations for each SEE country on how to introduce a one stop shop for business registration (when not already in place) 	TBD

4. HUMAN CAPITAL WORKING GROUP

Potential area to address	Expected Outputs	Potential Partners
Skills gap	<ul style="list-style-type: none"> ➤ Inventory of supply and demand of skills based on company and university surveys ➤ Action plan on how to fill the gaps through specific training programmes ➤ Strengthening of links between SEE and OECD universities around most important development needs ➤ Government or private sector sponsored training programmes 	USAID OECD Directorate for Education
Increasing labor mobility	<ul style="list-style-type: none"> ➤ Evaluation of labor market mobility across SEE based on the OECD Labor Market Rigidity Index ➤ Peer review and debate on findings ➤ Recommendations for each country on priority steps to increase mobility of labor. 	OECD Directorate for Employment, Labour and Social Affairs

5. ANTI-CORRUPTION WORKING GROUP

Potential area to Address	Expected Outputs	Potential Partners
Public procurement systems	<ul style="list-style-type: none"> ➤ Assessment of current public procurement systems as part of the anti-corruption package, based on a questionnaire ➤ Identification of areas for improvement in each SEE country ➤ Coaching in how to improve the public procurement systems to reduce corruption 	Stability Pact Anti-corruption Initiative OECD Anti-corruption Division

6. TRADE POLICY WORKING GROUP

Potential area to Address	Expected Outputs	Potential Partners
To be defined in cooperation with the CEFTA Secretariat	➤ Elimination of trade barriers affecting investment	CEFTA

7. TAX POLICY WORKING GROUP

Potential area to address	Expected Outputs	Potential Partners
Tax administration	<ul style="list-style-type: none"> ➤ Assessment of strengths and areas for improvement in tax administration in SEE ➤ Peer review and exchange on how to improve tax administration in SEE 	OECD Centre for Tax Policy and Administration
Total effective tax rate	<ul style="list-style-type: none"> ➤ Evaluation of total effective tax rate in each SEE country including inventory of tax incentives and secondary taxes ➤ Coaching and implementation of procedures to ensure evaluation of total effective tax rate is conducted on systematic basis 	OECD Centre for Tax Policy and Administration
Bilateral tax treaties	<ul style="list-style-type: none"> ➤ Review of existing bilateral tax treaties ➤ Coaching to improve and complete existing treaties 	OECD Centre for Tax Policy and Administration

8. ENTERPRISE DEVELOPMENT WORKING GROUP

Potential area to Address	Expected Outputs	Potential Partners
Development of SMEs	➤ Elimination of administrative barriers affecting the establishment of SMEs	FIAS/EC