

PROGRESS IN INVESTMENT REFORM

INVESTMENT REFORM INDEX

October 2006

Preview of 2006 results without scoring.
Final publication with scoring of different levels of policy reform for each
SEE country will be available on 10th of November 2006.

Agenda

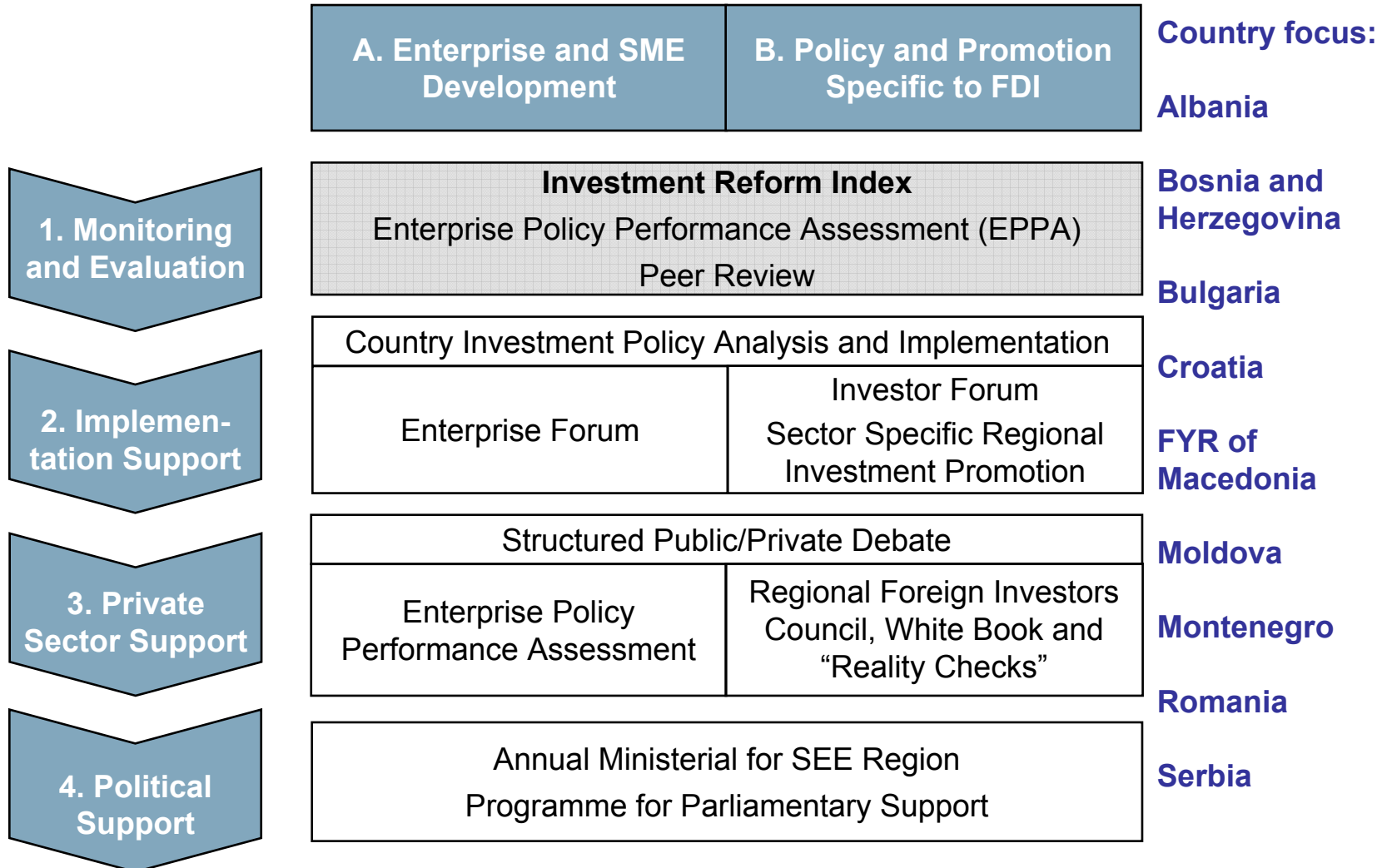
1. Introduction to the Investment Compact and the Investment Reform Index (IRI)
2. Macroeconomic environment in SEE
3. Infrastructure in SEE
4. IRI results for each dimension
5. IRI results by country and country priorities
6. Going forward: Creation of a new SEE Investment Committee

Introduction to the Investment Compact and the Investment Reform Index (IRI)

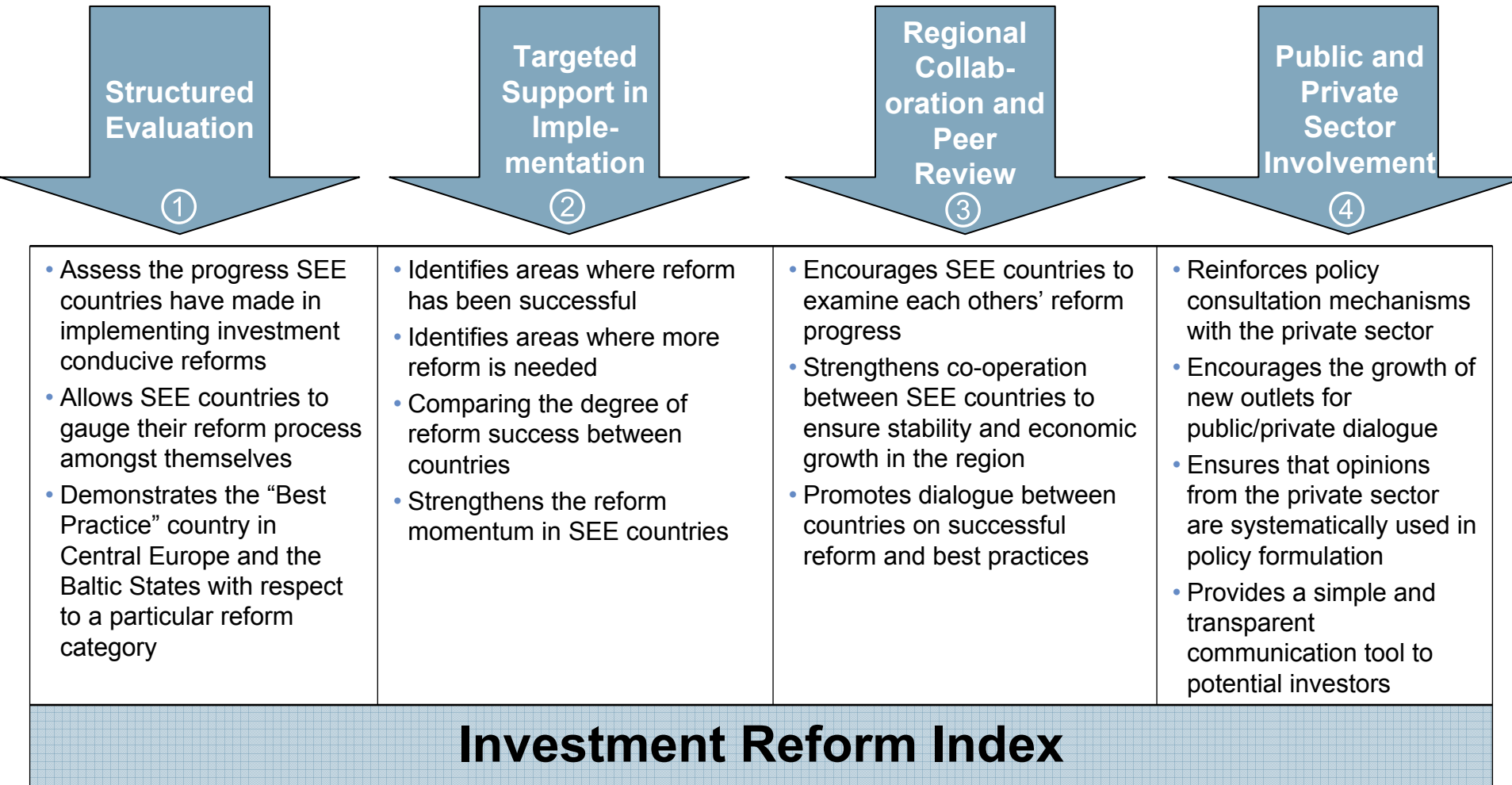
The Investment Reform Index (IRI) and the Investment Compact

Focus of Investment Compact Program

4 Areas



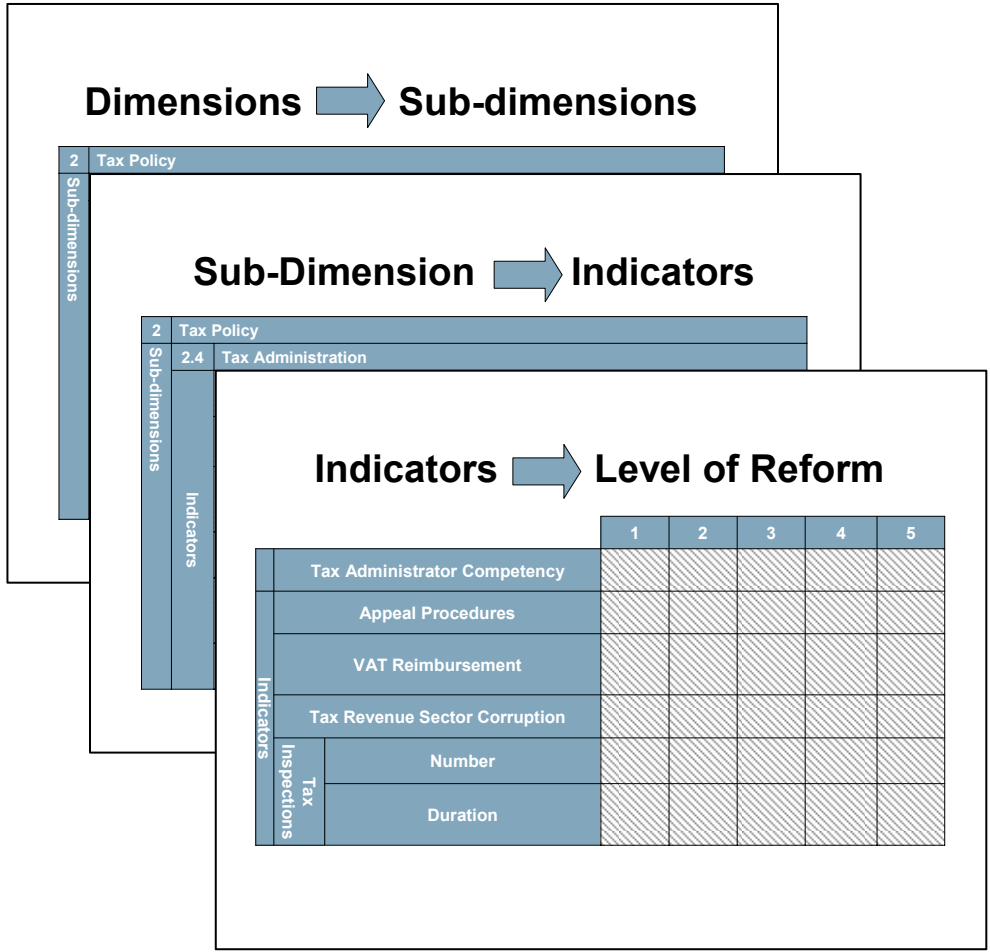
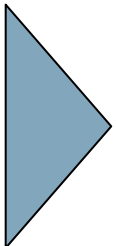
The IRI is guided by four key objectives:



The IRI measures implementation of reform in 10 key dimensions

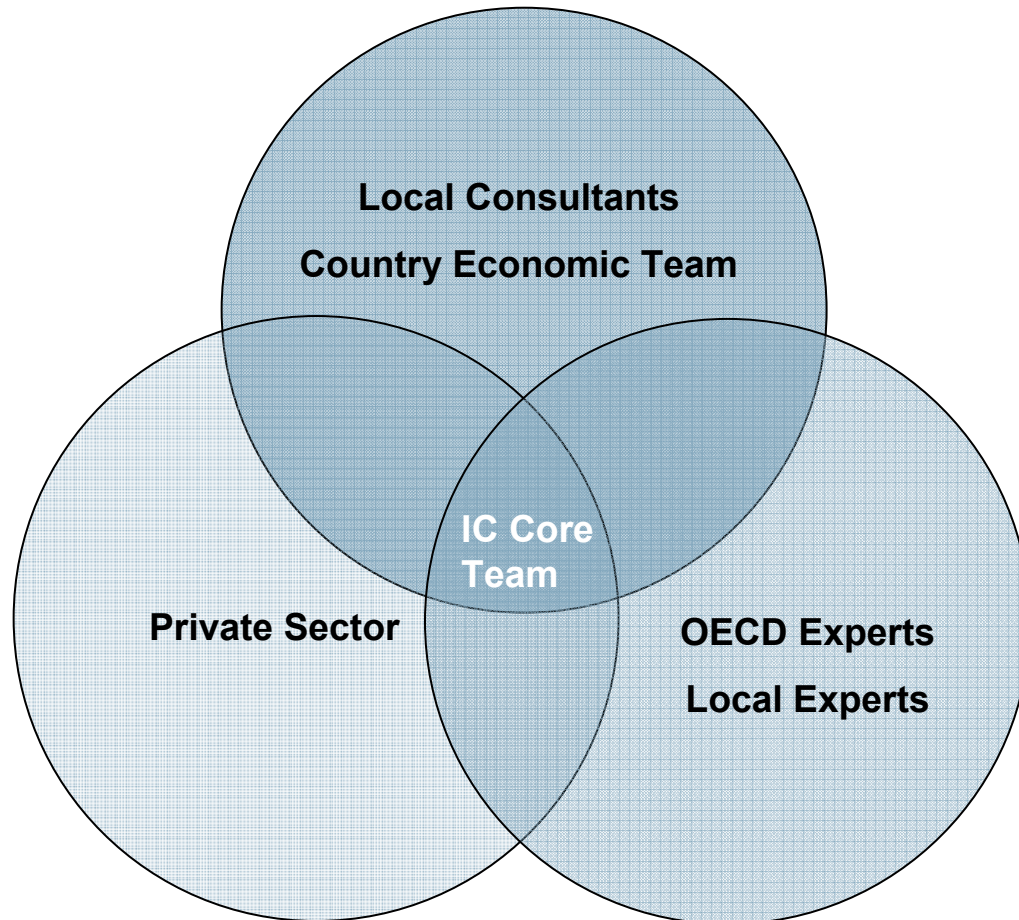
Main focus of evaluation in 2006

- | IRI Dimensions | |
|----------------|----------------------|
| 1. | Investment policy |
| 2. | Investment promotion |
| 3. | Tax policy |
| 4. | Anti-corruption |
| 5. | Competition policy |
| 6. | Trade policy |
| 7. | Regulatory reform |
| 8. | Human capital |
| 9. | Corporate Governance |
| 10. | SME policy* |



*Part of a separate process conducted in cooperation with the EC in the framework of the European Charter for Small Enterprises

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 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

Timeline for the IRI Process

Phase I	<p>October – December 2005</p>	<ul style="list-style-type: none"> ● First consultation on the IRI framework and process with each SEE country during the first round of country missions ● Follow up with SEE countries and opportunity for them to provide feed-back on the IRI framework
Phase II	<p>January – March 2006</p>	<ul style="list-style-type: none"> ● Self-evaluation by SEE Governments ● Individual briefings and consultation with Country Economic Team Leaders throughout the self-evaluation process
Phase III	<p>March – May 2006</p>	<ul style="list-style-type: none"> ● Second round of country missions ● Consultation with policy experts, bilateral consultation with the government, public – private consultation ● Opportunity for SEE Governments to provide feed-back (3 weeks)
Phase IV	<p>May 2006</p>	<ul style="list-style-type: none"> ● Project Team Meeting to review draft results emerging from IRI process ● Opportunity for SEE Governments to provide detailed feed-back 3 weeks following the Project Team Meeting
Phase V	<p>June 2006</p>	<ul style="list-style-type: none"> ● Ministerial Conference and adoption of the Regional Framework for Investment in SEE ● Presentation of regional priorities for reform in SEE based on the IRI evaluation
Phase VI	<p>November 2006</p>	<ul style="list-style-type: none"> ● Publication of the Investment Reform Index report

Strengths & limitations of the IRI methodology

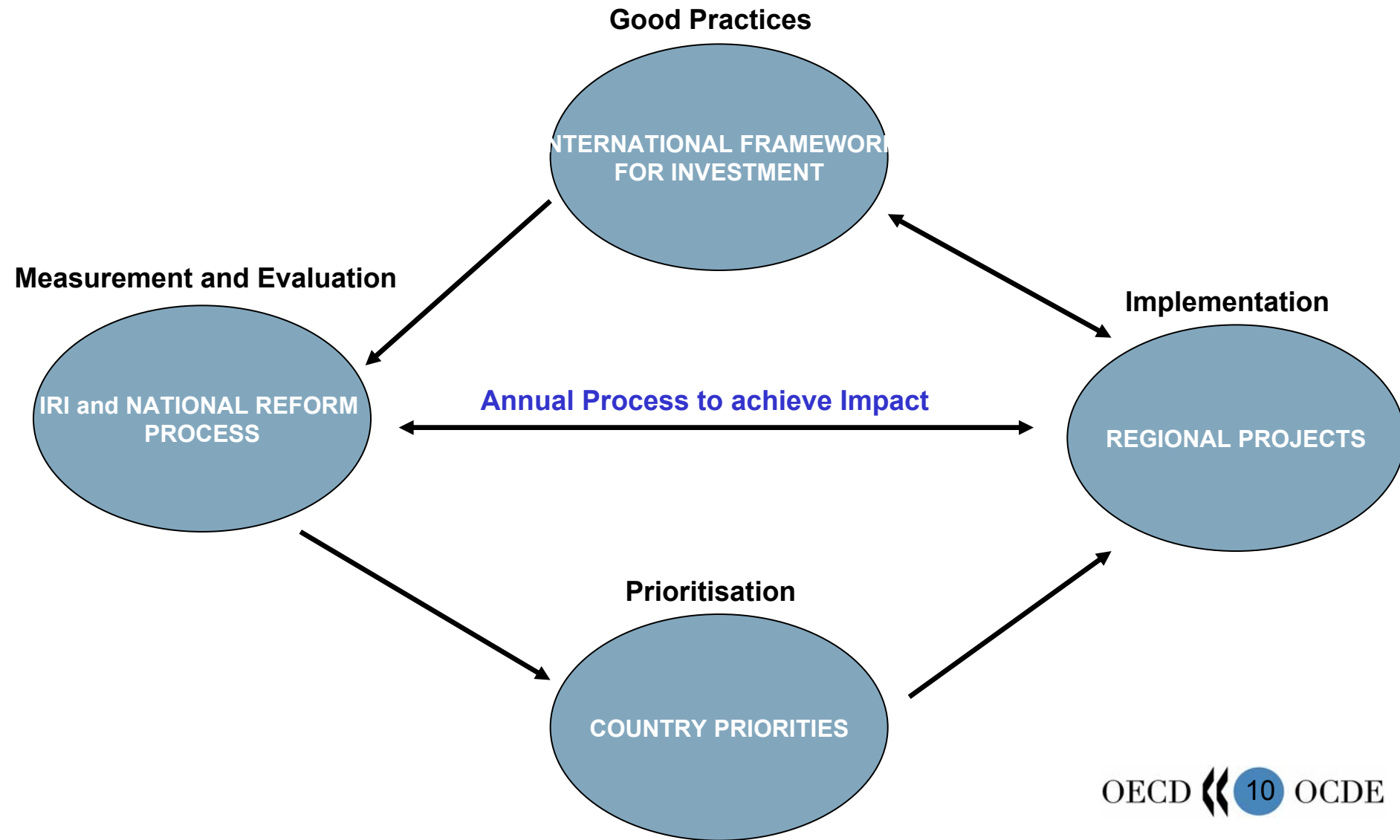
Main strengths of the IRI methodology:

- **Incorporates existing work** already conducted by other organisations (e.g., World Bank's Doing Business report) and combined with data collected by the OECD-IC
- Use of a **common 'scoreboard'** facilitates public-private consultation & helps public officials to communicate better with respect to policy progress and areas where more reform is necessary.
- IRI incorporates **regional 'good practices' from CEE countries**, which are the most relevant recent examples for SEE countries to learn from.
- Indicators of the IRI have been structured to be **fully compatible with the EU accession process in SEE**, and to cover **other dimensions** important for the investment climate that are **not included in the acquis communautaires** - the dimensions of the IRI are based on a broad definition of policy areas that affect the business climate, based on OECD cumulative experience and Policy Framework for Investment.

Limitations of the IRI methodology:

- IRI does not cover all the policy dimensions that affect the business climate (eg; financial services).
- **Measuring the effective implementation of government policy can be difficult.** The IRI combines available quantitative data (e.g. percentage of companies with ISO certificates) with qualitative data (e.g. private sector feedback through interviews) - countries are moved up on the scale of implementation only if there is concrete data to support doing this.
- Distinctions between **scoring levels can be challenged** and not all of the indicators have the same weight or importance. To address this issue, a simple weighting system has been incorporated, but the assigned weights can always be questioned.
- **All dimensions are not equally important for each country**, as they are at different stages of development. Each country therefore has to interpret the scores based on its specific development context.

Summary of the Investment Reform Process



Macroeconomic environment in SEE

The GDP growth in 2005 has been strong across the SEE region and is expected to remain strong in 2006, in spite of rising energy costs.

Real GDP Growth Rate (%)			
Country	2004	2005	2006*
Albania	5.9	5.9	5.8
Bosnia and Herzegovina	5.1	5.5	6.0
Bulgaria	5.7	5.5	6.0
Croatia	3.8	4.3	4.6
FYR Macedonia	4.1	3.5	3.5
Moldova	7.3	7.1	5.0
Montenegro	3.7	4.1	4.5
Romania	8.3	4.1	5.5
Serbia	9.3	5.1	5.0
SEE AVERAGE¹	5.7	4.8	5.2

Source: ICEG European Center, EIU, Central Bank of Montenegro / Agenda of Economic Reforms of Montenegro 2002-2007, www.mier.sr.gov.yu (Serbian Ministry of International Economic Relations) / Serbia Memorandum on the Budget and on Economic and Fiscal Policy for 2006

*Figures are forecasts

¹Average weighted by GDP

Inflation has largely been kept under control in 2005. It is expected to decline further this year in Montenegro, Romania and Serbia, but will rise significantly in Moldova.

Consumer Price Index (%)			
Country	2004	2005	2006*
Albania	2.9	2.2	2.8
Bosnia and Herzegovina ¹	0.2	1.9	2.5
Bulgaria	6.2	5.1	5.0
Croatia	2.1	3.0	3.2
FYR Macedonia	-0.4	0.4	0.4
Moldova	12.4	11.9	14.0
Montenegro	4.3	1.8	2.8
Romania	11.9	9.0	7.0
Serbia ¹	13.7	17.3	10.4
SEE AVERAGE²	4.7	5.2	4.4

Source: ICEG European Center, EIU, Central Bank of Montenegro / Agenda of Economic Reforms of Montenegro 2002-2007, Memorandum on the Budget and on Economic and Fiscal Policy for 2006

*Figures are forecasts

¹Retail price index

²Average weighted by GDP

International Credit Ratings imply that the risk profile and the economic outlook of the region is improving.

Available Credit Ratings in 2006			
Country	FITCH ICBA	MOODY'S	STANDARD & POORS
Albania	n/a	n/a	n/a
Bosnia and Herzegovina	n/a	B3 (n/a)	n/a
Bulgaria	BBB- (Stable)	Baa3 (Stable)	BBB (Positive)
Croatia	BBB- (Stable)	Baa3 (Stable)	BBB (Stable)
FYR Macedonia	BB (Positive)	n/a	BBB- (Stable)
Moldova	B- (Stable)	Caa1 (Stable)	n/a
Romania	BBB- (Stable)	Ba1 (Positive)	BBB- (Stable)
Serbia and Montenegro	BB- (Stable)	n/a	BB- (Pos. Serbia)/ BB (Pos. Monten.)

Source: Websites of FITCH ICBA, MOODY'S, STANDARD & POORS

However unemployment remains high in SEE countries, especially in Bosnia & Herzegovina, the FYRoM, Montenegro and Serbia - countries experiencing economic growth without job creation.

Unemployment rate (%)			
Country	2004	2005*	2006*
Albania	14.4	14.3	14.0
Bosnia and Herzegovina	40.5	41.5	42.5
Bulgaria	12.0	10.1	8.5
Croatia	13.8	13.0	12.5
FYR Macedonia	37.2	36.5	36.0
Moldova	8.0	8.8	n/a
Montenegro	22.6	18.9	15
Romania	7.1	5.8	5.6
Serbia	18.5	20.8	n/a
SEE AVERAGE¹	21.6	21.2	20.8

Source: ICEG European Center, EIU, Central Bank of Montenegro / Agenda of Economic Reforms of Montenegro 2002-2007, www.mier.sr.gov.yu, Serbia Statistical Office, Montenegrin Governmental Programme for 2006

*Figures are forecasts

¹Average weighted by GDP

Trade imbalances show that SEE export competitiveness is still weak

Trade Balance (% GDP) ¹			
Country	2004	2005	2006*
Albania	-20.7	-20.5	-20.0
Bosnia and Herzegovina	-53.3	-53.1	-52.0
Bulgaria	-15.1	-20.4	-22.5
Croatia	-25.5	-25.0	-23.0
FYR Macedonia	-20.6	-19.3	-18.0
Moldova	-30.0	-32.4	n/a
Montenegro	-18.9	-19.17	n/a
Romania	-9.0	-10.4	-11.0
Serbia	-29.6	-22.7	-21.3
SEE AVERAGE²	-18.9	-19.2	-18.1

Source: ICEG European Center, Central Bank of Montenegro / Agenda of Economic Reforms of Montenegro 2002-2007, National Bank of Serbia

¹The balance between exports and imports of total goods and services

*Figures are forecasts

²Average weighted by GDP

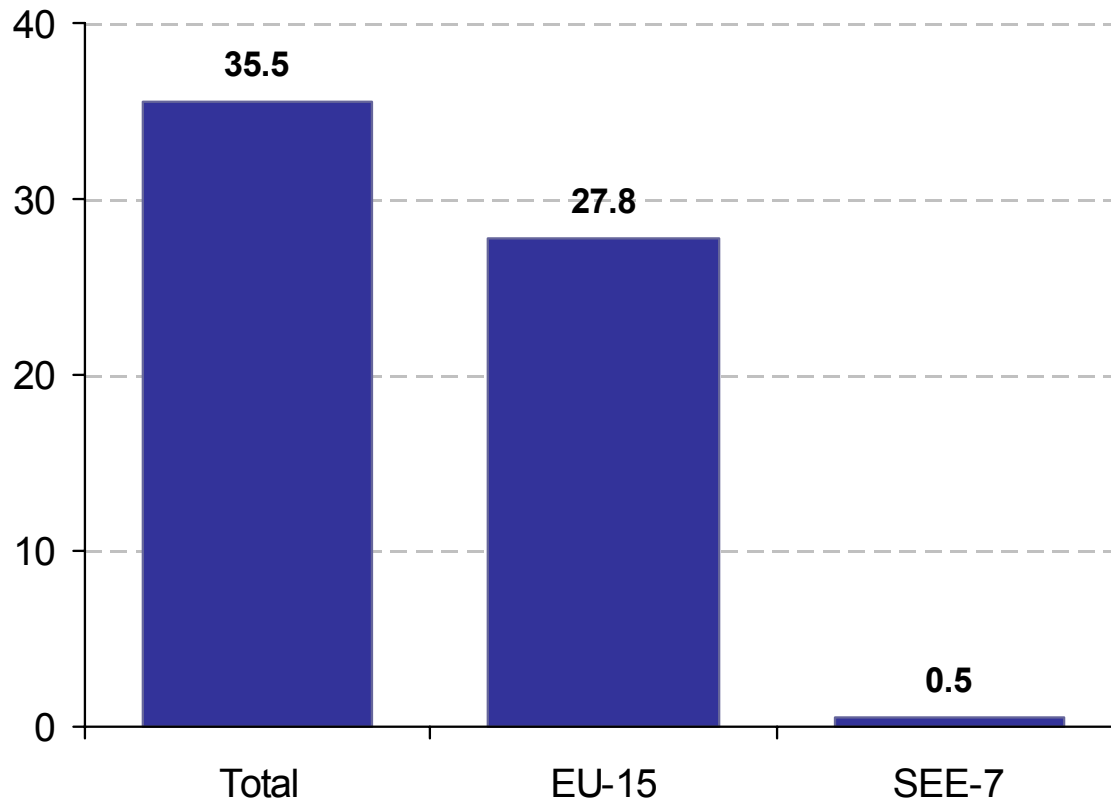
The FDI regional split is deepening: Bulgaria, Romania, Croatia and Serbia attract an ever growing share of FDI (~ 90% in 2005)

FDI net Inflow (mn €)				
Country	2002	2003	2004	2005
Albania	151	158	269	209
Bosnia and Herzegovina	282	338	489	240
Bulgaria	980	1851	2727	1789
Croatia	1195	1788	989	1328
FYR Macedonia	83	84	126	80
Moldova	140	69	124	181
Montenegro	11	89	50*	384*
Romania	1212	1946	5183	5197
Serbia	504	1204	777	1196
TOTAL SEE-9	4637	7476	10735	10603
TOTAL CEC-5	22665	8710	19718	22446

Source: WIIW 2006 *Source: Central Bank of Montenegro and Agenda of Economic Reforms of Montenegro 2002-2007

Intra-SEE FDI is extremely limited. By far the biggest bulk is invested by the EU-15 countries in the region of SEE

SEE-7: Inward FDI Stock by Home Regions (Billion Euros, 2004)



Source: WIIW 2006, SEE-7 excludes Albania and Moldova

A large majority of trade flows are still geared to the EU countries (although intra-SEE trade is rapidly increasing)

Exports to EU in 2004 as % of total	
Albania*	89.6
BiH	55
Bulgaria	58.2
Croatia	64.6
Macedonia	56.4
Moldova	30.1
Montenegro	48.4
Romania	82.6
Serbia*	54.5
SEE AVERAGE	70

Imports from EU in 2004 as % of total	
Albania*	68.7
BiH	54
Bulgaria	54.1
Croatia	69.5
Macedonia	47.2
Moldova	32.8
Montenegro	43.7
Romania	76.4
Serbia*	50.2
SEE AVERAGE	64

Source: Southeast Europe Investment Guide 2006; Acit

*Data for Albania, Serbia is from 2005

Percentage of intra SEE trade of total exports in 2004	Percentage of intra SEE trade of total imports in 2004
9.3%	5.6%

Source: IC calculation based on Stability Pact 2005, EBRD goods data.

Infrastructure in SEE

Energy and Water infrastructure in SEE is still in bad shape, characterised by high distribution losses and high number of outages

Electricity and Water				
Country	Electricity for industrial use, EUR/kWh (incl. VAT) in 2005	Electric power transmission and distribution losses (%of output) in 2003	Electrical outages (days) in 2005	Water supply failures (days) in 2005
Albania	0.096	39.98	194.23	90.47
BiH	0.06* (summer) 0.035* (winter)	16.77	1.34	0.35
Bulgaria	0.046**	14.26	2.83	2.04
Croatia	n/a	20.17	1.03	0.04
Macedonia	0.07	n/a	1.85	0.30
Moldova	0.059***	56.61	1.51	0.96
Romania	0.0865	8.66	2.97	1.04
Serbia and Montenegro	0.035*	16.24	2.67	0.21
SEE Average	0.065	24.67	2.03 (excl. Albania)	0.705 (excl. Albania)
CEE Average	0.031 (Slovenia)	7.72	0.71	0.115

Source: World Bank World Development Indicators; WB Enterprise Surveys; Southeast Europe Investment Guide 2006; * Not clear if includes VAT; **3 tariff reading, day electricity; ***Not clear if includes VAT and industrial price;

Communication costs are still high in SEE and Internet penetration rates are relatively low. This can be attributed to a relatively weak telecommunications infrastructure and to limited competition

Telecommunications		
Country	Internet penetration rate (per 10,000 inhabitants) (%)*	Average International Phone Call (Capital to EuroZone Capital, ie Paris) (EUR/minute)**
Albania	0.8 [^]	0.54
BiH	20.1	0.13-1.10
Bulgaria	84	0.15
Croatia	78.6	0.31
Macedonia	17.4	0.25-1
Moldova	-	0.2-1.6
Romania	22	n/a
Serbia and Montenegro	26.2	0.54
Montenegro	-	0.07
SEE Average	41.38	0.47
Comparable	70.5 (Poland)	0.24 (Greece)

*Source: 2005 EBRD Transition Report (data as at 2004); **Source: 2006 Southeast Europe Investment Guide (data as at 2005); [^] Data 2003

The Interest Spreads of 2005 show that the cost of capital in SEE is still high. The average spread is 60% higher than in CEE and twice as high as in the Euro Zone

Interest Spreads in 2005			
Country	Deposit Rate	Lending Rate	Spread
Albania	5.09	13.08	7.99
BiH	3.56	9.61	6.05
Bulgaria	3.04	7.87	4.83
Croatia	1.71	11.19	9.48
Macedonia	6.60	12.17	5.57
Moldova	13.22	19.26	6.05
Romania**	6.91	12.66	5.75
Serbia*	3.48	14.60	11.12
Montenegro	n/a	n/a	n/a
SEE Average	5.24	12.55	7.10
CEE Average	4.18	7.13	4.18

Source: IMF/IFS (International Financial Statistics); National Bank of Romania; Serbia National Bank

*Excluding December 2005; **Excluding November and December 2005.

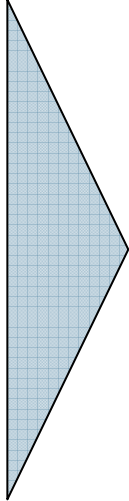
IRI results for each dimension

Overview of IRI results

- There is still an important gap between level of government policies adopted in SEE and level required to achieve region's full investment potential
- EU accession process provides a strong impetus, but more could be done for far reaching policy reform, particularly in areas not directly associated with *acquis communautaire* (eg; regulatory reform, human capital)
- Reforms in region are occurring at different rates and some SEE countries still lag behind in establishing the basic legal and institutional framework for key policy dimensions related to investment
 - Anti-corruption: Albania, BiH, Montenegro, Serbia
 - Regulatory Reform: Albania, BiH, FYR Macedonia
 - Human Capital: Albania, BiH, Moldova
 - Competition: Moldova, Montenegro, Serbia
- Inconsistencies between policies also send conflicting signals to investors (eg; liberal tax policy vs burdensome tax administration)
- Further reforms urgently needed to avoid being marginalized by global competition
- Key to success is to focus on priorities, leverage regional cooperation, and increase ownership of the reform agenda

1. Investment Policy

Main Components of Investment Policy

- 1.1 Non-discrimination and international co-operation
 - 1.2 Protection of property
- 

- Investment policy is one of the most advanced dimensions in SEE
- SEE countries have generally incorporated national treatment principle in the domestic legislation.
 - *Exceptions* from this principle still exist (e.g. more extensive sectoral limitations in Croatia; registration of foreign investment in Bosnia and Herzegovina, FYR Macedonia; ceilings on foreign ownership in Bosnia and Herzegovina; reciprocity condition for the acquisition of real estate assets in Croatia, Serbia, FYR Macedonia)
 - *Administrative barriers* to investment (e.g. licensing and approval procedures, permits) still have a strong impact on foreign investors due to asymmetries in information, language and culture.
- **Guarantees against expropriation and free transfer of funds** are provided in all the SEE countries.
- **Investor-state dispute settlement is** ensured and enforced through ratification of the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards and ICSID (except Moldova, Serbia, Montenegro that did not ratify ICSID).
- **Protection of property is still not fully secured in SEE**
 - **Land and real estate: While acquisition of land either by direct purchase or long-term lease is generally possible in most of the SEE countries** (except Moldova where foreign investors, even locally incorporated, do not have the right to buy agricultural land), *outdated land registers and titles and restitution of nationalised property* generate uncertainty about the acquisition of land.
 - **IPRs: Enforcement of intellectual property rights** remains weak across the region despite legislative and institutional capacity improvements (e.g. Bosnia and Herzegovina remains behind its SEE neighbours in all these areas).

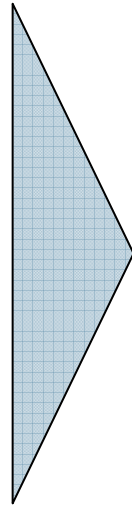
2. Strategic Investment Promotion and Facilitation

Main Components of Strategic Investment Promotion and Facilitation

2.1 Investment promotion and facilitation strategy

2.2 Investment promotion agency and its programmes

2.3. Transparency



- **Results are more mixed for Investment Promotion where the SEE region continues to suffer from a problem of image associated with poverty and corruption**
- **Only a few SEE countries have defined and adopted solid strategic investment promotion strategies :**
 - Bulgaria, Serbia and, very recently, Montenegro adopted IPF strategies that contain a more strategic vision for the country, with elements of 'where to compete' and 'how to compete';
 - Romania and Croatia have rudimentary IPF strategies which need to be improved.
 - Moldova is currently finalising its investment promotion strategy with the assistance of the OECD investment Compact.
- **The development level of investment promotion agencies varies across the region :**
 - IPAs of Bulgaria and Serbia are customer driven, with adequate skills for image building, demand generation and investment facilitation.
 - IPA of Croatia became operational at the end of 2005, after several false starts.
 - Moldova is currently re-organising the IPA.
- **Incentive-based programmes are still not part of a coherent cost-benefit framework:**
 - Romania and Croatia are currently streamlining their approach to incentives to align them to the state aid rules.
- **Linkage programmes between FDI and SMEs are underdeveloped**
 - The implementation of such programmes is in the initial phases in Croatia, Macedonia and Serbia.

3. Tax Policy

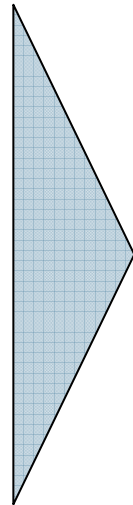
Main Components of Tax Policy

3.1 Tax Policy and Legislation

3.2 Tax Administration

3.3 Compliance Costs

3.4 Transparency



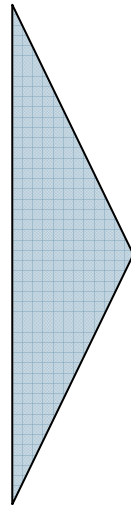
- **SEE countries have largely put in place attractive tax policy and legislative frameworks**
 - Low corporate tax rates that range from 9% to 20%*
 - Generous depreciation regimes and, in most countries, loss-carry forward rules in line with international standards (eg; Serbia).
 - Relatively extensive tax treaty networks which are continually expanding
- **Transparency in tax policy is getting better**
 - Improved communication and access to information on tax policy
 - More frequent and effective dialogue with the private sector
- **However, tax administration in SEE is still very weak**
 - Revenue agencies with insufficient budget and staff
 - Excessive number of tax inspections which usually target the largest taxpayers
 - Lengthy and burdensome appeals procedures
 - VAT reimbursements which take over 90 days and are rarely monitored
 - Introduction of online tax filing systems (eg; Bulgaria) is helping to reduce the compliance costs of firms

*With the exception of FBiH which has a tax rate of 30%.

4. Anti-corruption Policy

Main Components of Anti-corruption Policy

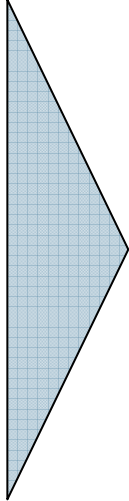
- 4.1 Anti-corruption Strategy and Action Plan
- 4.2 Anti-corruption Legal Framework and Adoption of International Conventions
- 4.3 Promotion of Good Governance and Reliable Public Administration
- 4.4 Transparency



- **SEE countries have strengthened the legislative framework to meet international standards and have comprehensive strategies and action plans in most cases**
 - Albania and Bosnia-Herzegovina have not adopted AC strategies at this time.
 - Some improvements to law are needed to bring countries fully in line with international standards (eg;)
- **Progress in the promotion of good governance and reliable public administration is uneven**
 - Corruption has been reduced in tax and customs administration by streamlining administrative steps and thus reducing opportunities for corruption.
 - Public procurement and conflict of interest for civil servants still remain highly problematic (perceived corruption has actually increased)
 - Croatia and Romania show the strongest results overall
- **Key issue is enforcement as there are still too few investigations, prosecutions and convictions on corruption charges (Albania is most striking example).**
- **Further transparency through monitoring and public-private consultation could help demonstrate results and improve image for the region.**
 - Moldova has shown tremendous progress in the transparency around anti-corruption measures

5. Competition Policy

Main Components of Competition Policy

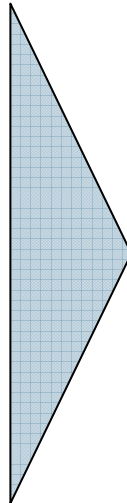
- 5.1 Competition policy strategy
 - 5.2 Competition policy legal framework
 - 5.3 Enforcement and application of competition law
 - 5.4 Competition authority or equivalent
 - 5.5 Transparency
- 

- **The legal framework for competition policy in SEE countries is in place:**
 - Bulgaria and Romania tailored their competition laws and the secondary legislation to the EC model.
 - All the other countries enacted competition laws based on the EC rules but need to complete their secondary legislation.
- **Independent competition authorities have been set up in almost all SEE countries, except Moldova and Montenegro.** However:
 - Strengthening the administrative capacity through budget reinforcement, adequate staffing (including legal and economic expertise) and training of the personnel should be ensured especially in Albania, Bosnia and Herzegovina, Croatia and Macedonia.
 - Competition authorities from Croatia, Macedonia and Serbia should be given sanctioning powers.
- **State aid control programmes, including legislation, institutions and record of implementation have been adopted** (except in Bosnia and Herzegovina and Moldova).
- **Only Romania and Bulgaria have built a real enforcement record that includes sanctions**
 - The other countries in SEE have limited enforcement record due to the lack of adequate staffing and budget, of independence or of power to sanction.
- **Competition policy advocacy (ex ante consultations on draft legislation and public awareness campaigns) is still in infancy stage for the region**

6. Trade Policy

Main Components of Trade Policy

- 6.1 Institutional and operational framework
- 6.2 Multilateral and regional trade agreements
- 6.3 Trade Liberalisation
- 6.4 Non Tariff Barriers
- 6.5 Administrative barriers to trade
- 6.6 Pro-active trade policy



- **SEE countries are now well integrated into the world's trade system and have achieved a high degree of trade liberalisation**
 - All SEE countries are WTO members with the exception of BiH, Montenegro and Serbia.
 - Almost all SEE countries benefit from nearly complete unrestricted access to European market through the ATMs, the SAA and Europe Agreements.
 - At the regional level, a bilateral FTA network is in place.
 - Croatia has the most liberal trade regime in the region.
- **However Non Tariff barriers in SEE countries are still too high to reach the full potential of free trade**
 - Limited and weak application of technical regulations and standards, including sanitary and phytosanitary (eg; FYR Macedonia, Moldova, Serbia, Montenegro)
 - Weak structure for conformity assessment (eg; Albania, BiH and FYR Macedonia)
 - Some improvements in import / export procedures particularly in Croatia, Romania and Serbia

7. Regulatory Reform

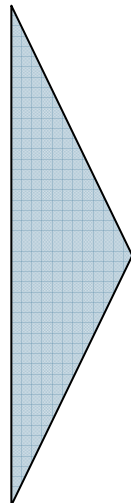
Main Components of Regulatory Reform

7.1 Regulatory Reform Strategy

7.2 Regulatory Oversight Body

7.3 Regulatory Impact Analysis

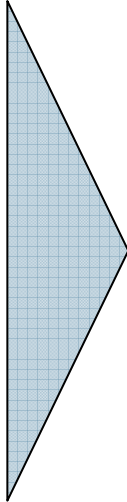
7.4 Regulatory Transparency



- **SEE countries have designed and implemented regulatory reform strategies and Regulatory bodies have been established**
 - Regulatory bodies provide an objective and separate opinion from the entity preparing the draft legislation and are typically located at the centre of government
 - However, many of these bodies are understaffed and lack the power to challenge draft legislation
 - Only BiH does not have a regulatory body at arm's length
- **Regulatory Impact Analysis (RIA) is still in infancy stage**
 - When applied it is rarely used to change draft legislation
 - Key issue in the region because many SEE countries require rapid and extensive adoption of EU regulations in order to comply with the *aquis communautaires*
 - Serbia is ahead of its peers in systematically applying RIA to draft legislation
- **Regulatory Transparency is improving with a number of new public-private forums**
 - But transparency and communication is still too often passive vs active
 - Many companies interviewed (particularly small ones) still report that there is little or no meaningful dialogue with policy makers.

8. Human Capital

Main Components of Human Capital

- 8.1 Education Quality and Enrolment
 - 8.2 Education and Training of Workforce
 - 8.3 Transparency in education and workforce skills development
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- **The fundamental issue for the SEE region today is the gap between existing skills and those required by the private sector**
 - While most SEE countries have formalised education strategies, implementation is slow and these strategies are typically not adapted to the real skills requirements of business
 - In particular, VET and Adult Learning should be expanded and further adapted to labour market needs
 - Romania stands out in the region for its targeted and effective implementation of VET and Adult Learning (and has the lowest unemployment rate in the region)
- **Progress in the region is more apparent in the areas of civil service training**
 - Plethora of courses in IT and language skills
 - Greater emphasis can be placed on code of conduct and work ethics
- **Transparency in education and training policy is improving**
 - More active public private consultation on education policies
 - But almost no monitoring and evaluation of impact of education on labour market

IRI results by country and country priorities

OECD IC Recommended Country Priorities: Albania

1. Tax: Ensure that VAT reimbursement is systematically monitored. The VAT is reimbursed within 30 days, which is mandated by law.
2. Tax: Change the tax regulation stating that start-ups must pay taxes on estimated profits before beginning operations.
3. Investment Promotion: Create a new strategy for the National Business Agency, following the merger of the investment promotion and SME agencies.
4. Regulatory Reform: Implement the programme for regulatory reform to create the basis for RIA.
5. Anti-corruption: Develop and implement a new anti-corruption action plan with clear time bound targets and success indicators.
6. Human Capital: Finish drafting, adopt and implement the employment strategy, ensuring that it is in line with the principles of the European Employment Strategy.

OECD IC Recommended Country Priorities: Bosnia and Herzegovina

1. Tax Policy: Move towards greater harmonisation of corporate, and personal tax regimes in the entities.
2. Investment Policy: Ensure proper functioning of the Intellectual Property Institute and coordination of police, customs administration, prosecutors and courts to enforce intellectual property rights legislation.
3. Anti-corruption: Create and start operating the Public Procurement Agency with the role of implementation of the Public Procurement Law.
4. Trade: Upgrade domestic sanitary and phytosanitary standards in line with the EU standards and strengthen domestic laboratories and technical certification bodies.
5. Regulatory Reform: Introduce formalised and systematic Regulatory Impact Analysis at state and entity level.
6. Human Capital: Introduce and implement strategies for adult learning and vocational training.

OECD IC Recommended Country Priorities: Bulgaria

1. Investment Promotion: Reinforce the cluster approach in investment promotion to further promote linkages between foreign investors and SMEs.
2. Tax: Create an overarching tax strategy specifying the principles and economic goals of taxation, current and future tax rates, and improvement of the tax administration.
3. Anti-corruption: Create a coherent, comprehensive Conflict of Interest Policy and ensure that it is applied and monitored.
4. Competition: Implement a deterrent sanctioning policy to limit hard-core anticompetitive behaviour (e.g. cartels).
5. Trade: Streamline customs and administrative procedures to decrease the complexity and time required for imports and exports.
6. Regulatory Reform: Define and implement a comprehensive regulatory reform strategy which includes a formal, systematic RIA programme.

OECD IC Recommended Country Priorities: Croatia

1. Competition: Reinforce the Competition Authority by allowing it to issue fines.
2. Investment Promotion: Develop an Investment Promotion Strategy that is closely tied to the overall development strategy.
3. Tax: Closely monitor the activity of the newly established Financial Police in order to avoid overlapping responsibilities with tax administration auditors.
4. Regulatory Reform: Develop and implement a comprehensive RIA programme.
5. Anti-corruption: Develop an action plan for customs reform and put in place a system based on indicators to monitor implementation.
6. Human Capital: Adopt the new Law on Education with particular focus on adult education.

OECD IC Recommended Country Priorities: FYR Macedonia

1. Investment Promotion: Adopt an investment promotion strategy that reflects government and private sector consensus on the country's investment promotion activities.
2. Regulatory Reform: Create a comprehensive regulatory reform policy and strategy incorporating a RIA programme which systematically evaluates new legislation.
3. Tax: Ensure that VAT reimbursement is systematically monitored and that VAT is reimbursed within 30 days, as stated in the law.
4. Competition: Strengthen the competition authority powers to impose sanctions.
5. Human Capital: Reduce the wage wedge, which is one of the highest in the region.
6. Human Capital: Develop and implement a comprehensive workforce skills development strategy. (TBC)

OECD IC Recommended Country Priorities: Moldova

1. Competition: Set up an independent National Competition Protection Authority with adequate budget and staff to carry out investigations and impose remedies and sanctions.
2. Investment Promotion: Define and implement a comprehensive investment promotion strategy, working closely with the Swiss funded OECD Investment Compact project in this area.
3. Tax: Implement a Code of Ethics for tax inspectors and a monitoring system to ensure regulations are enforced.
4. Anti-corruption: Implement an enforcement law requiring officials to declare assets.
5. Regulatory Reform: Following an effective guillotine approach on legislation, define and implement a comprehensive, multi-year regulatory reform strategy.
6. Human Capital: Develop a comprehensive strategy to improve adult and vocational education.

OECD IC Recommended Country Priorities: Montenegro

1. Investment Promotion: Define and adopt an investment promotion strategy that reflects government and private sector consensus on the investment promotion 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: Ensure alignment of technical standards with EC standards

OECD IC Recommended Country Priorities: Romania

1. Investment Promotion: Elaborate a comprehensive Investment promotion Strategy that includes priority sectors and concrete programs to tie foreign investment to local investment (SMEs). This IP Strategy should also be clearly linked to the industrial and export promotion strategies
2. Investment Promotion: Strengthen the investment Promotion Agency with additional staff and budget (aim to double budget from 500,000 Eur to 1 Million Eur and increase staff to 40 from 19). The agency should intensify promotion to potential foreign investors through country/specific missions and offer clear and well-packaged on the ground services for potential and existing investors.
3. Implement transparent and consistent standards for tax inspectors to impose sanctions and monitor the results with pre-defined indicators to reduce discretionary power.
4. Regulatory Reform: Introduce Regulatory Impact Analysis for all newly adopted legislation.
5. Anti-corruption: Introduce a system with indicators to monitor implementation of the public procurement law. This system can then be used as basis to monitor other area of anti-corruption (such as customs reform, professionalism of civil service).
6. Human Capital: Adapt the education strategy (including vocational training and adult learning) to reflect the specific needs of the labour market over the next ten years.

OECD IC Recommended Country Priorities: Serbia

1. Competition: Establish a Competition Authority to enforce the law by carrying out investigations and imposing remedies and sanctions.
2. Investment Policy: Allow foreign and local investors to own all types of land (e.g. urban construction land).
3. Anti-corruption: Create a comprehensive customs anti-corruption Action Plan and system to monitor implementation.
4. Anti-corruption: Apply the law on public procurement and introduce a system to monitor implementation.
5. Tax: Enforce law to reimburse VAT within 30 days and with effective monitoring and application of sanctions.
6. Human Capital: Develop specific strategies for adult and vocational education.

Going forward: Creation of a new SEE Investment Committee

Going forward: Setting up a new SEE Investment Committee to oversee implementation of reform

- Following the adoption of the Regional Framework for Investment (RFI) in Vienna on 27 June 2006 and the launch of the Investment Reform Index 2006 in November 2006, the Investment Compact will be ready to increase its support of SEE in improving the business climate.
- Design and implementation of policies to support SEE governments will be on regional actions identified in the IRI and spearheaded by a new SEE Regional Investment Committee composed of senior government officials and private sector representatives from SEE and OECD countries.

Objectives of the SEE Investment Committee:

1. Monitor and implement the RFI adopted by SEE governments (27 June 2006)
2. Monitor and implement the Investment provision of CEFTA Agreement
3. Act as the Investment Arm of the new Regional Cooperation Council (RCC) which replaces the Stability Pact

The SEE Investment Committee will include:

- Senior level representation from SEE governments: at least deputy Minister or Secretary of State level
- President and General Managers of Investment Promotion Agencies
- Presidents of SEE Foreign Investor Councils
- Senior representatives from BAC and BIAC

Notes: The Regional Framework for Investment 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 which is modeled on the OECD Policy Framework for Investment.

Regional Actions to consider

- **Investment Policy:** Actively enforce intellectual property rights with adequate financial and human resources.
- **Investment Promotion:** Adopt country-specific and a regional investment promotion strategies that include a clear strategic vision and specify where and how to compete.
- **Tax Policy:** Improve tax administration capacity through more systematic training of tax officials, especially auditors.
- **Anti-Corruption Policy:** Monitoring and evaluation of anti-corruption policy should be strengthened, focusing on evaluation of the effectiveness of policies in place and the use of risk-assessment techniques to identify future priorities.
- **Competition Policy:** Set up independent competition authorities in Moldova and Montenegro and build up a strong enforcement.
- **Trade Policy:** Reduce NTBs including technical standards, sanitary and phytosanitary standards and insufficient conformity assessment structure in most countries.
- **Regulatory Reform:** Formalise and systematically apply Regulatory Impact Analysis (RIA) to draft regulations.
- **Human Capital:** Conduct regular assessment of skill gaps and incorporate the results in medium and long term education/training strategies.

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