

Options for putting the PFI into action: The Investment Compact and Investment Reform Process

Istanbul, November 2006

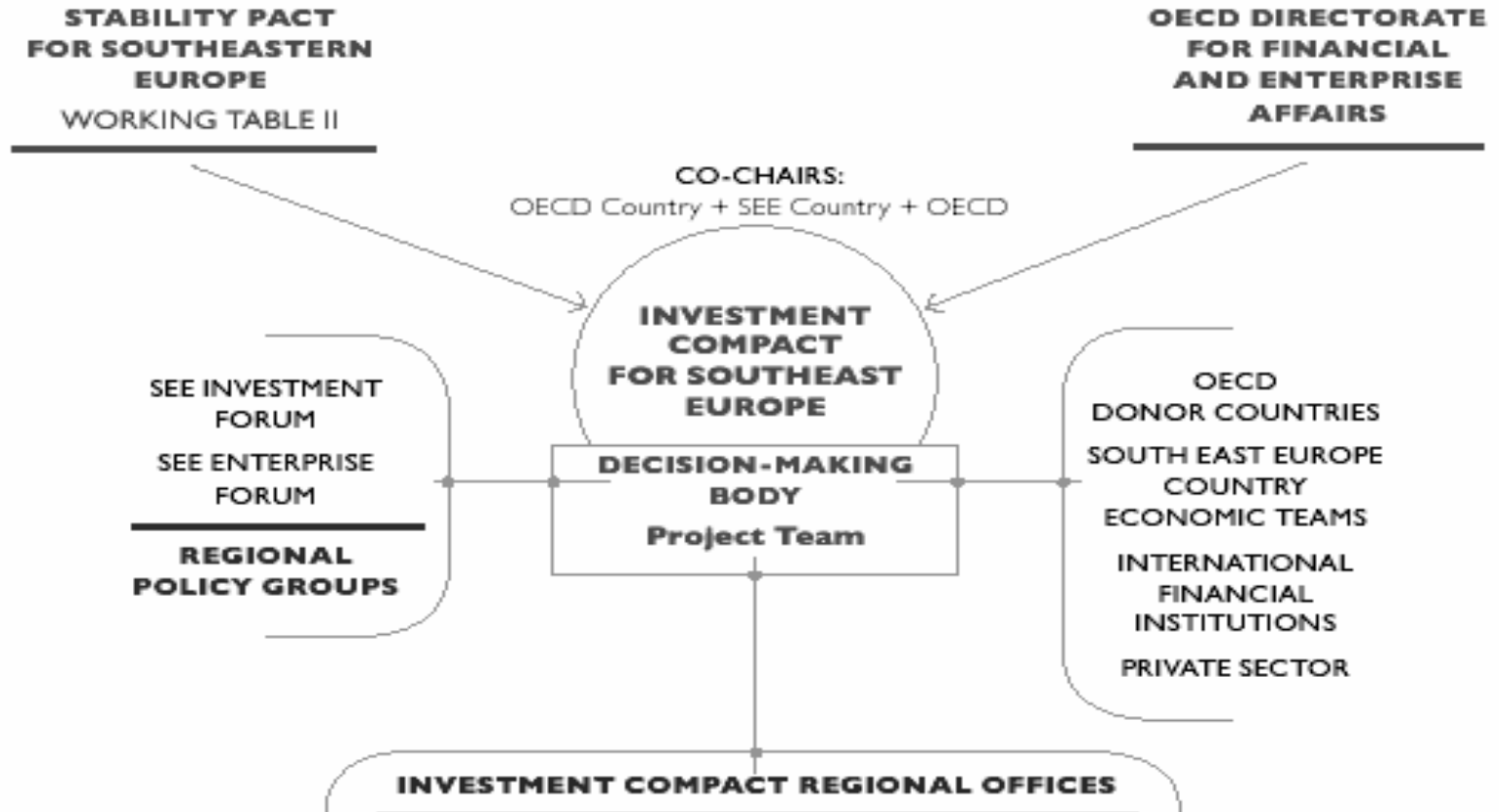
Agenda

1. Introduction to the Investment Compact and the Investment Reform Process (IRP)
2. Overview of the Investment Reform Process
3. Going forward: Creation of an SEE Investment Committee

Introduction to the Investment Compact

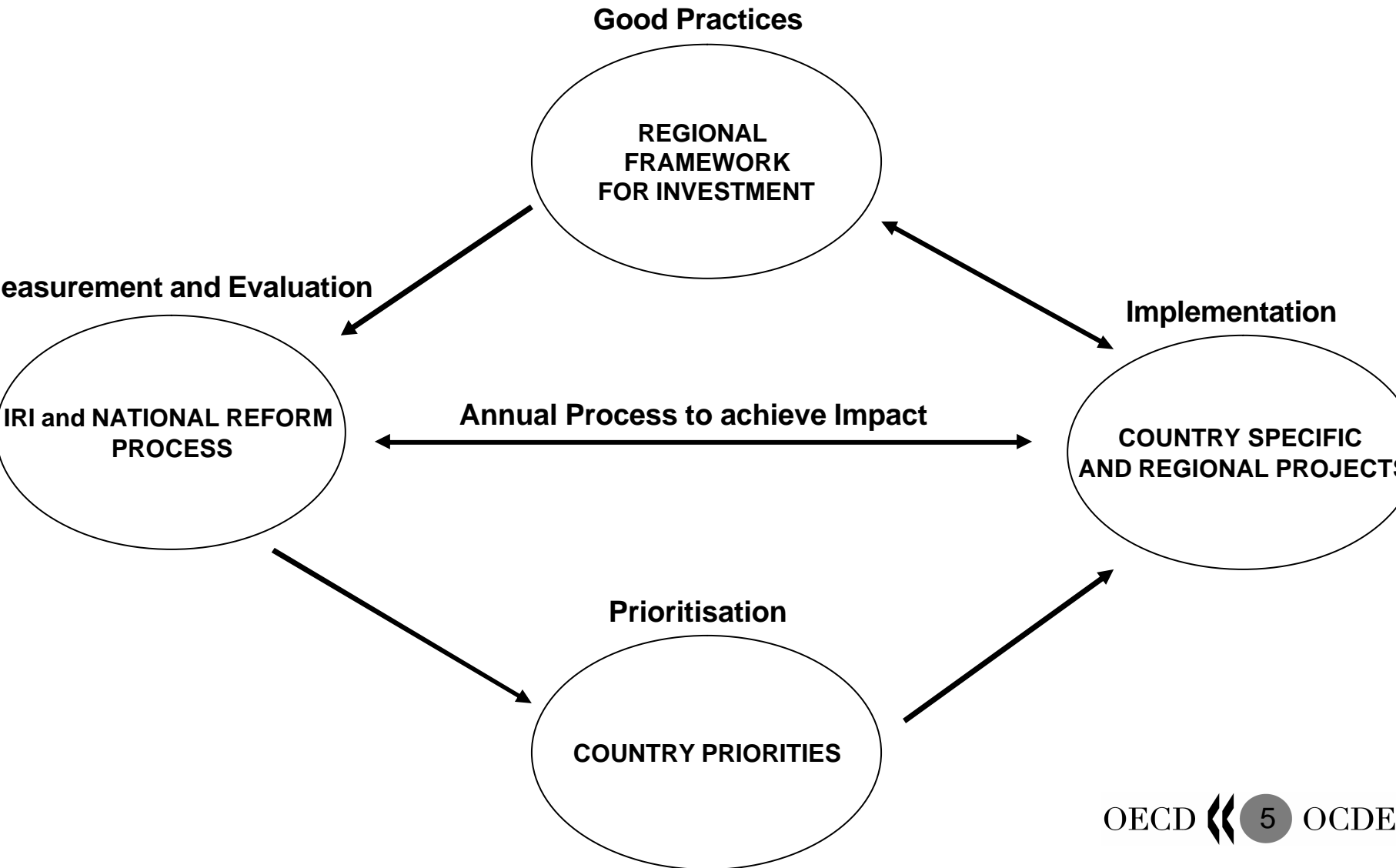
- Investment Compact for South East Europe is a leading programme designed to improve the investment climate and encourage private sector development in South East Europe
- The Investment Compact was launched in 2000 under the Stability Pact and the OECD (Directorate for Financial and Enterprise Affairs)
- The Member Countries of the Investment Compact are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Montenegro, Romania and Serbia
- As the PFI developed between June 2004 and May 2006, elements from different chapters were incorporated into the Investment Compact.

Structure and Organization of the Investment Compact



- Romania
- Bulgaria
- Croatia
- Serbia

Investment Compact activity is structured around an annual Investment Reform Process to achieve results

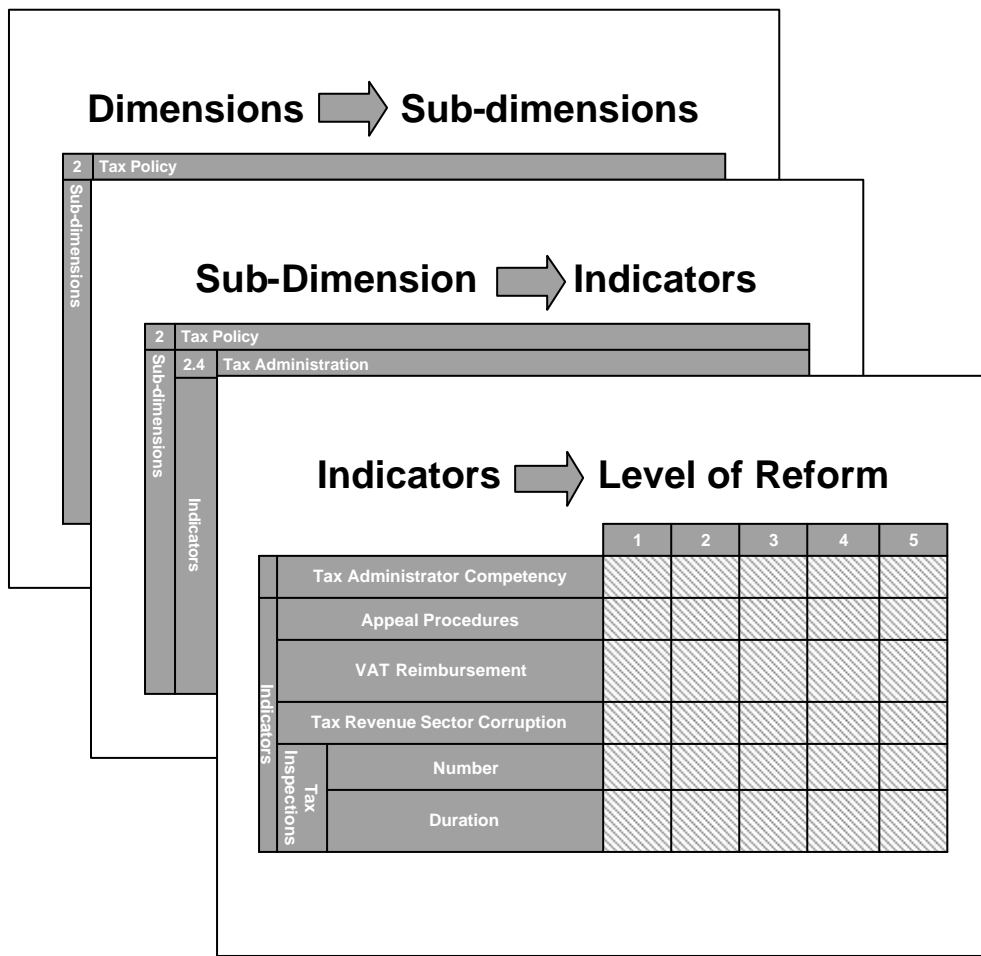
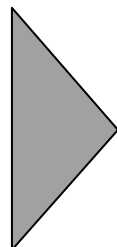


Overview of the Investment Reform Process

Structured around the PFI, the Investment Reform Index (IRI) measures implementation of reform in 10 key dimensions

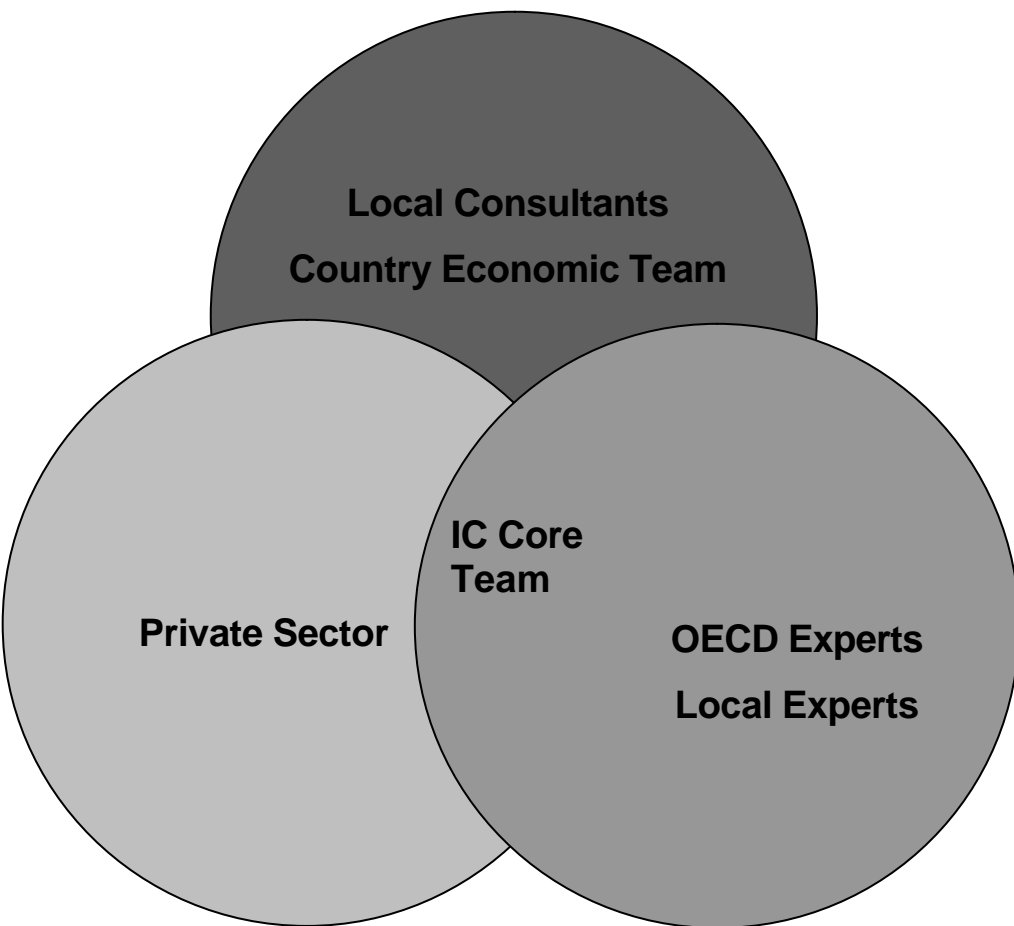
Main focus of evaluation in 2006

- | 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

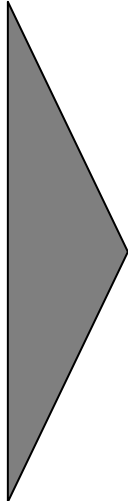


- **IC Core Team** collects data and interviews OECD Experts to establish a preliminary level of progress for each country in each policy dimension
- **Local consultants** build from the first measurement by collecting primary data in the countries and conducting interviews with local experts. The results 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

Examples of IRI evaluation: Investment Policy

ILLUSTRATIVE

Main Components of Investment Policy

- 1.1 Non-discrimination and international co-operation
 - 1.2 Protection of property
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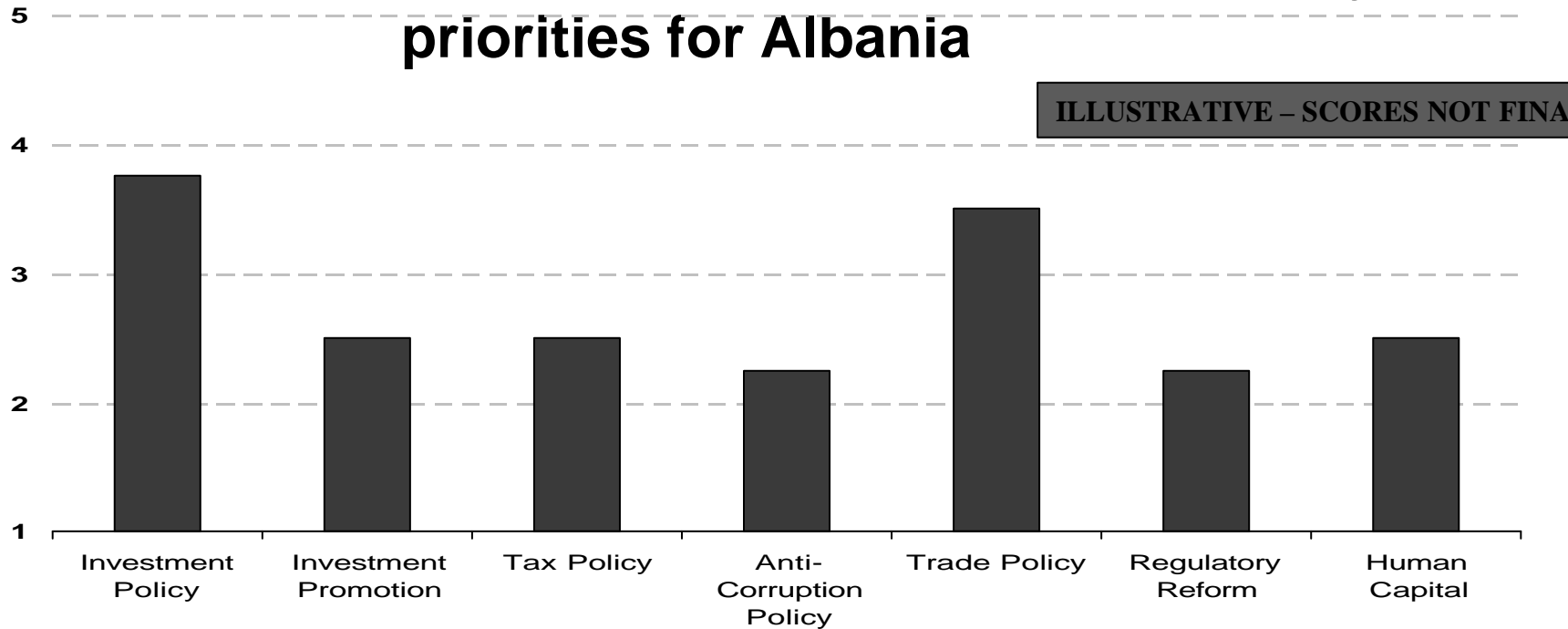
- Investment policy is one of the most advanced dimensions in SEE
- **SEE countries have generally incorporated national treatment principle in the domestic legislation.**
 - *Exceptions* from this principle still exist (e.g. more extensive sectoral limitations in Croatia; registration of foreign investment 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* produce 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)

Examples of IRI evaluation: Investment Policy

ILLUSTRATIVE – SCORES NOT FINAL

	Level 1	Level 2	Level 3	Level 4	Level 5
1.1 Non-discrimination and international co-operation				<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 5px;">Albania BiH Macedonia Montenegro Serbia</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 20px; margin-bottom: 5px;">Bulgaria Romania</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 5px; margin-left: 100px;">Moldova</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 100px;">Croatia</div>	
1.2 Protection of property			<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 5px;">Albania Croatia Macedonia Montenegro Serbia</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 20px; margin-bottom: 5px;">Bulgaria Romania</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 100px; margin-bottom: 5px;">BiH Moldova</div>		
OVERALL			<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 5px;">Albania BiH Macedonia Montenegro Serbia</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 20px; margin-bottom: 5px;">Bulgaria Croatia Romania</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 100px; margin-bottom: 5px;">Moldova</div>		

Example of IRI Results and recommended country priorities for Albania



OECD Investment Compact Recommended Country Priorities

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.

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.

For more information please contact:

Anthony O'Sullivan at anthony.osullivan@oecd.org

or

Georgiana Pop at georgiana.pop@oecd.org