

# Evaluation of business climate policies in South East Europe

Selected results of *Investment Reform Index 2009*  
and *SME Policy Index 2009*

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With the financial  
support of:



The European Union



# The IRI 2009 measures reform in 8 policy dimensions derived from the OECD's *Policy Framework for Investment*

## IRI 2009 Dimensions

1. Infrastructure for investment
2. SME Policy \*
3. Access to finance
4. Investment policy and promotion
5. Tax policy analysis
6. Trade policy and facilitation
7. Human capital development
8. Role of parliaments in economic reform

...developed by OECD member and non-member participants as part of the OECD Initiative on Investment for Development (launched in 2003)

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

# Recall how the work was performed: e.g. Human Capital Development

## 4 Sub-dimensions

Inclusive Strategy  
Formulation

Inputs to  
Initial  
education

Vocational  
education and  
training

Continuing  
education and  
training

Human  
capital  
outcomes

# Human Capital Development: Assessment Framework

Inclusive Strategy  
Formulation

- Workforce skills strategy : design and evidence
- The inclusiveness of strategy formulation

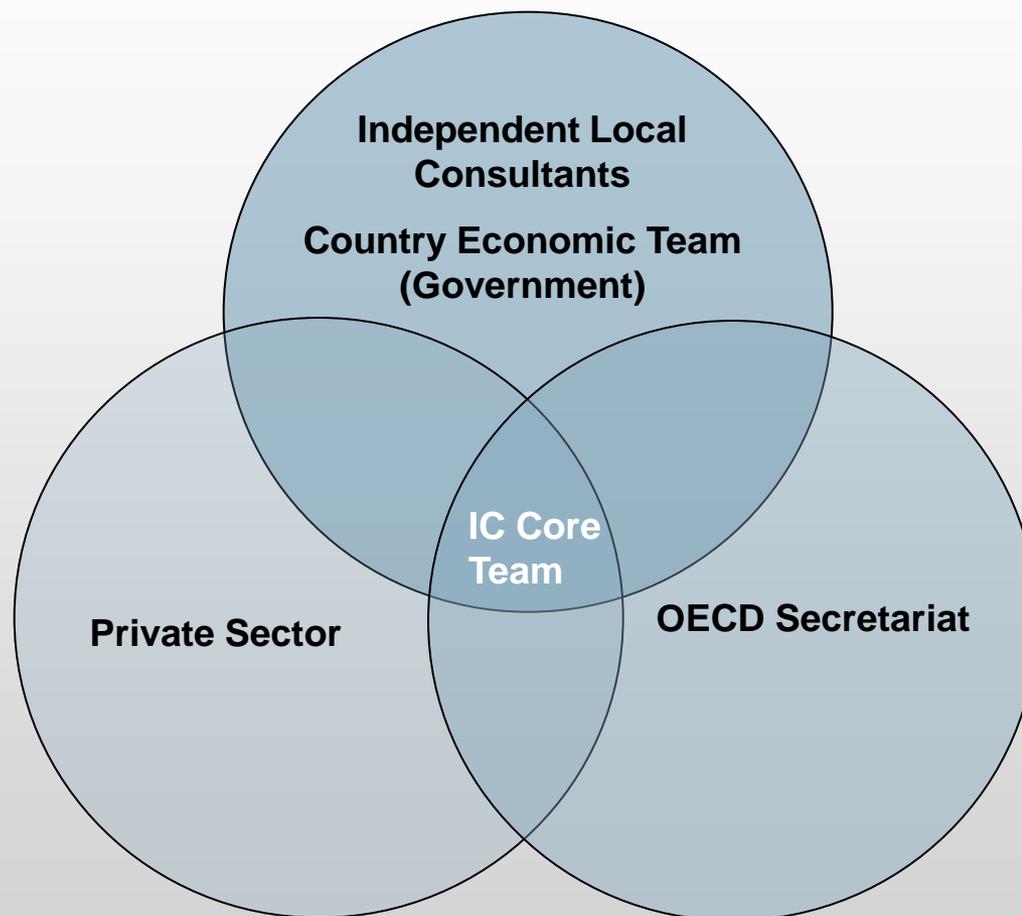
outcomes

# Human Capital Development: Assessment Framework

Level 1	Level 2	Level 3	Level 4	Level 5
No dialogue across government, private sector or civil society on workforce skills development	Consultation across Ministries occurs but on an <i>ad hoc</i> basis.	Consultation across some Ministries and external stakeholders used to improve programmes and policy, but on an <i>ad hoc</i> basis.	Comprehensive inter-Ministerial co-ordination integral to strategy development and delivery, as is consultation with external stakeholders.	Level 4+ wide variety of internal and external consultative and co-ordination mechanisms used continuously, also for strategy monitoring.

•The inclusiveness of strategy formulation

# Parties in the assessment process



# HCD, qualitative data scope -results

		ALB	BIH	BG	HRV	XK	MK	MD	MNE	RO	SRB
Strategy/formulation	Workforce skills strategy: design and evidence	1,00	1,00	4,00	3,00	1,00	4,00	3,00	4,00	4,00	3,00
	The inclusiveness of strategy formulation	3,00	2,00	4,00	3,00	2,00	3,50	3,00	4,00	5,00	4,00
	<b>Subdimension average: strategy formulation</b>	<b>2,00</b>	<b>1,50</b>	<b>4,00</b>	<b>3,00</b>	<b>1,50</b>	<b>3,75</b>	<b>3,00</b>	<b>4,00</b>	<b>4,50</b>	<b>3,50</b>
Inputs to initial education	Teacher recruitment and retention	3,50	2,00	3,00	2,50	3,00	3,50	3,00	1,00	3,00	2,00
	Development of the teacher workforce	4,00	2,00	4,00	3,00	3,00	4,00	2,50	3,00	4,00	4,00
	Spending on secondary education/enrolled secondary student										
	Public spending on education/all public spending										
	Spending secondary students/GDP per capita										
	Total spending pre-primary education/child										
	Public spending pre-primary education/all public spending on education										
	<b>Subdimension average: inputs to initial education</b>	<b>3,75</b>	<b>2,00</b>	<b>3,50</b>	<b>2,75</b>	<b>3,00</b>	<b>3,75</b>	<b>2,75</b>	<b>2,00</b>	<b>3,50</b>	<b>3,00</b>
Vocational education and training	Development of the VET system	3,50	3,00	3,50	3,00	3,00	4,00	4,00	3,00	5,00	3,00
	Consultative processes in the VET system	3,00	3,00	4,00	4,00	3,00	4,00	3,00	4,00	5,00	3,00
	Participation in vocational education and training										
	Participation in vocational education and training with a work-based training element										
	<b>Subdimension average: vocational education and training</b>	<b>3,25</b>	<b>3,00</b>	<b>3,75</b>	<b>3,50</b>	<b>3,00</b>	<b>4,00</b>	<b>3,50</b>	<b>3,50</b>	<b>5,00</b>	<b>3,00</b>
Continuing education and training	Extent of development of work-related system of continuing education and training	1,00	2,00	3,00	3,00	1,00	2,50	3,00	3,00	4,00	2,00
	Participation in job-related education and training										
	<b>Subdimension average: continuing education and training</b>	<b>1,00</b>	<b>2,00</b>	<b>3,00</b>	<b>3,00</b>	<b>1,00</b>	<b>2,50</b>	<b>3,00</b>	<b>3,00</b>	<b>4,00</b>	<b>2,00</b>
Dimension average (simple): human capital development		2,50	2,13	3,56	3,06	2,13	3,50	3,06	3,13	4,25	2,88
Dimension average (weighted): human capital development		2,68	2,17	3,51	3,03	2,28	3,50	3,03	2,91	4,14	2,83



# Human Capital Development – regional synopsis

- Education system reform is ongoing almost everywhere. Adapting to Bologna.

But...

- Misalignment between skills supplied and market needs:
- Almost nowhere are employers fully satisfied with the employability of graduates.
- Private sector feels curricula are out of date.
- Significant demand from businesses for initiatives that promote skills matching.
- Much work to reform VET systems – but policy and programmes on work-related learning lag furthest (relative to OECD norms).

# Investment Policy and Promotion – regional synopsis

- Non-discrimination firmly anchored in legal and regulatory frameworks.
- But property protection through reliable cadastres and effective IPR enforcement remains a constraint.
- Investment promotion strategies and institutions - the challenge now is to improve services to investors (especially navigating license and approvals at local level) and facilitating commercial relationships with domestic SMEs.
- Privatization entering final phase, but public private partnerships (PPPs) are just emerging - exchanges of international best practices in PPP design and implementation will be valuable.

# Access to Finance – regional synopsis

- Legal framework for access to finance fairly well developed
- Insolvency processes are well-formalized in all economies, except Kosovo under UNSCR 1244/99
- Public or private credit registries operate in most economies in the region

But...

- No Western Balkan economy systematically collects data on access to finance.
- Instruments to improve access to finance for SME need to be further developed:
  - Credit guarantee schemes not well developed.
  - Risk capital is generally absent – opportunities to build a market for informal equity finance.

# Trade Policy and Facilitation – regional synopsis

- All Western Balkan economies have further integrated in the multilateral trading system and facilitated trade . Since 2006:
  - *Progress in WTO negotiations;*
  - *Interim trade agreements with the EU entered into force (e.g. Bosnia and Herzegovina, Montenegro and unilaterally applied by Serbia);*
  - *Autonomous trade preferences granted to the Republic of Moldova;*
  - *CEFTA entered into force;*
  - *Improved accessibility and transparency of customs laws and trading procedures.*
- But, to maximise intra-regional and external trade, the Western Balkans must speed up adoption of EU technical regulations and standards as well as sanitary and phytosanitary measures - and ensure adoption proceeds at an equal pace across the region.

# Tax Policy Analysis – regional synopsis

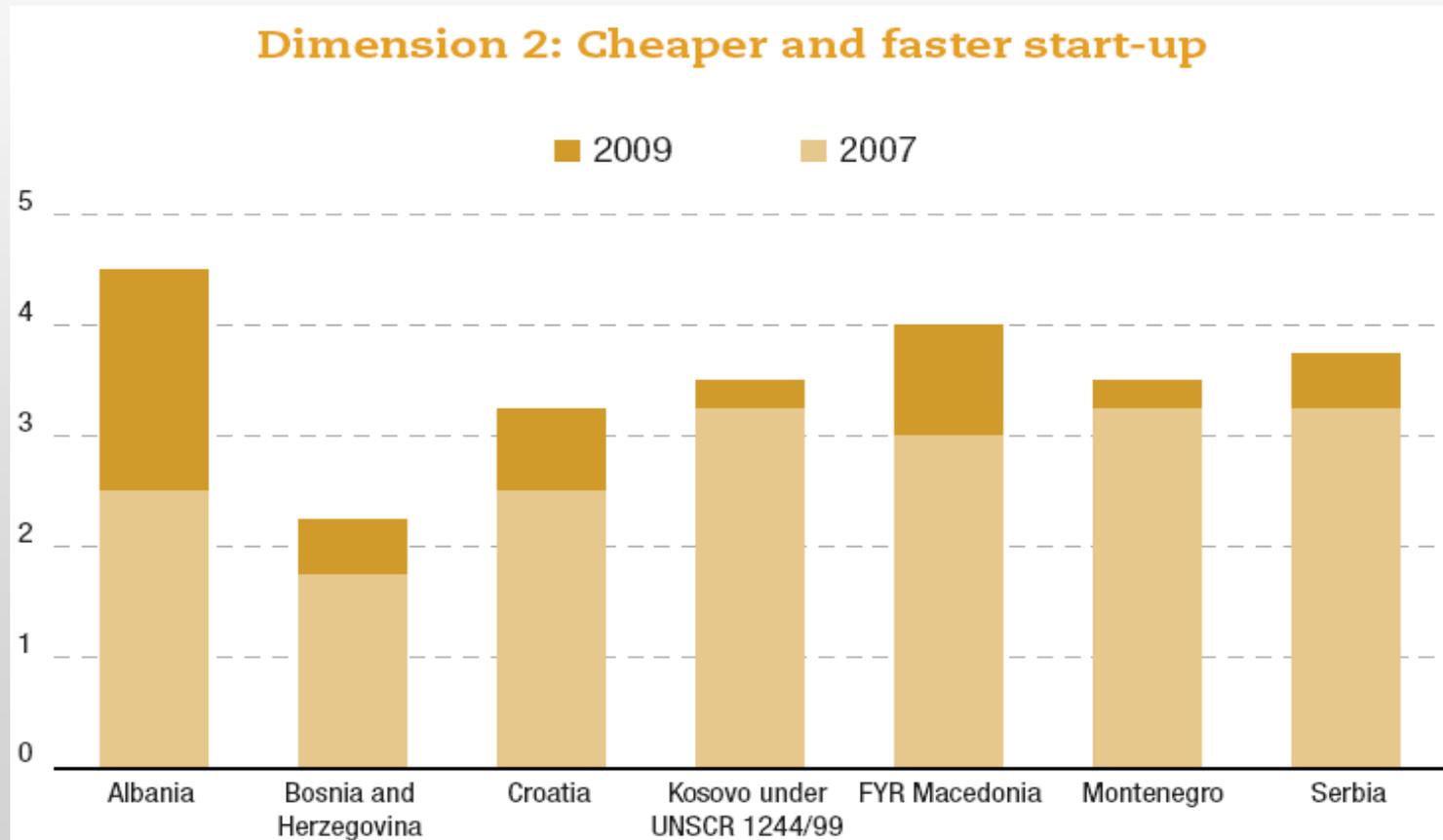
- All Western Balkan economies maintain an **aggregate tax revenue forecasting model** for all or most main taxes.
- All regularly monitor **tax revenue collection and public expenditures**.
- But no Western Balkan economy has implemented models to assess the distributional impact of tax reforms (i.e. which taxpayer groups benefit/lose from current and proposed tax measures).
- Micro-simulation and METR analyses, when used together, help predict the impacts of tax reform and to do tax expenditure analysis. Despite this, no SEE economy has implemented CIT micro-simulation or a METR model.

# Better legislation and regulation – regional synopsis

- Most economies have conducted comprehensive “regulatory guillotine” processes with the support of international donors.
- Advanced implementation of RIA occurring in economies such as Serbia and the Republic of Moldova. But developments in their infancy in economies such as Bosnia and Herzegovina and Kosovo under UNSCR 1244/99.
- While Parliaments/Assemblies have progressed in internal organisation and aspects of communication – still perceived as slow in adoption of normative acts and insufficiently interested in improving communication with their counterparts.

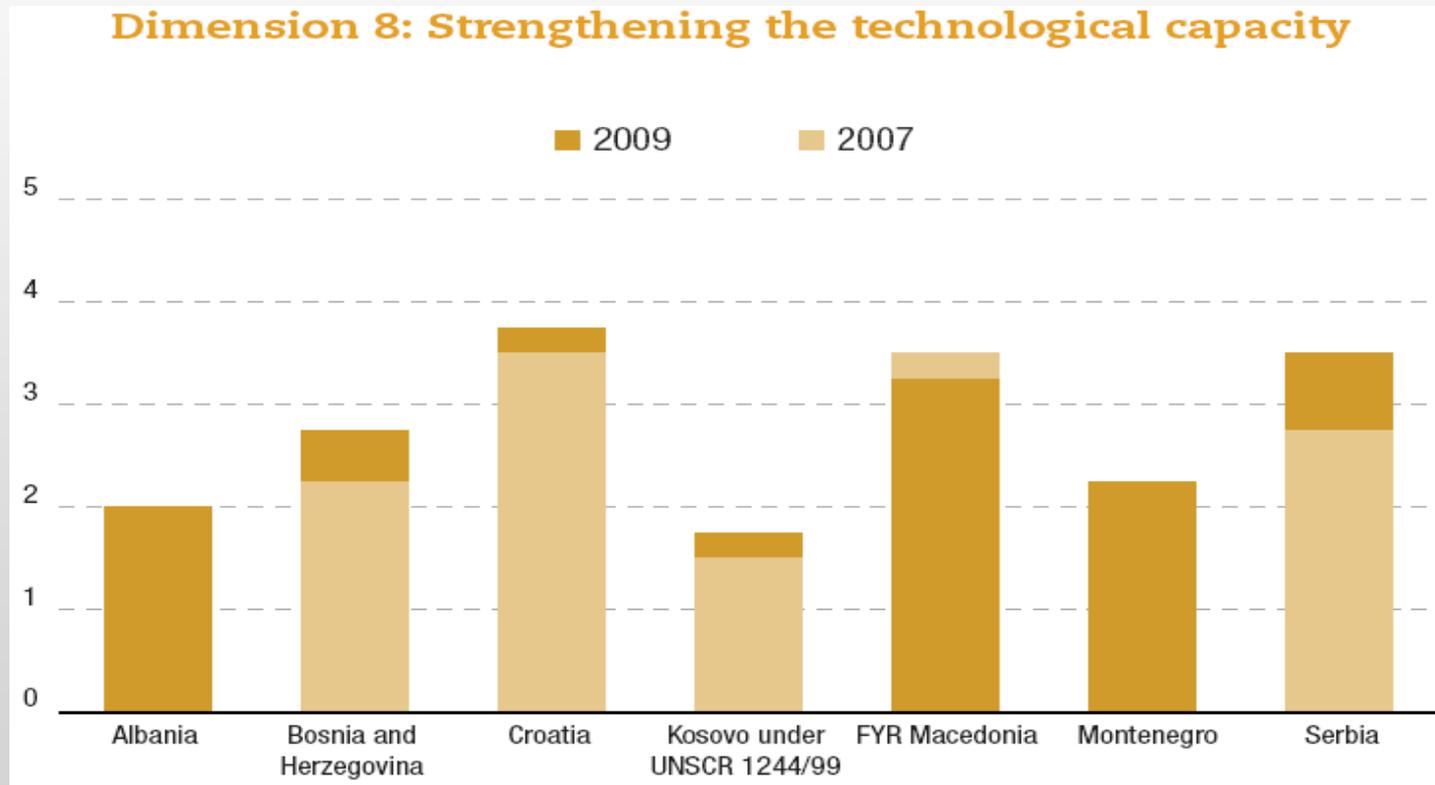
# The SME Policy Index 2009

- Western Balkan governments have generally made good progress in policy areas that directly affect the operational environment for small enterprises (e.g. company registration, regulatory environment).



# The SME Policy Index 2009

- But most economies are at an early stage in introducing targeted policies for specific types of SMEs (e.g. start-ups, export-oriented SMEs, supporting technological innovation).



# Selected findings by economy

# Albania – selected highlights

## Selected challenges/opportunities

- Cadastre and registries of moveable and non-moveable collateral still limited.
  - Introduction of central registry and digitization of cadastre could improve access to information.
  - Reliability of the collateral registries could be improved.
- Despite creating a Business Advisory Council, civil society not involved in consultation at sufficiently early stages.
- To maximise the benefits of free access to the EU market for foodstuffs and agricultural products, need improved implementation of veterinary legislation, training and qualifications of veterinary and phytosanitary inspectors and improved efficiency of phytosanitary laboratories.

# Bosnia and Herzegovina – selected highlights

## Selected challenges/opportunities

- Strengthened coordination mechanisms between State and Entities would improve the implementation of trade–related measures.
- Faster implementation in the SPS area (especially veterinary field) would improve opportunities for exporters under current preferential arrangements (mainly with EU).
- Export promotion agency and programmes lack resources and funding.
- Investment promotion activities should explore opportunities to link foreign and domestic enterprises.
- Need for national regulatory reform strategy.
- Private sector thinks education system not relevant to its needs; data not in line with EUROSTAT or ISCED.

# Bulgaria – selected highlights

## Selected challenges/opportunities

- Investment promotion activities could focus more on facilitating commercial relationships between foreign investors and domestic firms.
- Investors have raised concerns that investment policy consultation by public officials is sometimes *pro forma*.
- Although credit guarantees exist, impact is still limited and design may need to be reviewed.

# Croatia – selected highlights

## Selected challenges/opportunities

- Despite significant efforts of regulators to reduce delays (e.g. introduction of out-of-court settlement), liquidation procedures are still slow.
- Faster adoption of old and new approach *acquis* could stimulate exports of a number of products.
- Ease of obtaining certification in some sectors could be improved.
- Bankruptcy procedures are still protracted.
- Private sector thinks curriculum out of date – still weak links between schools, universities and business community; major challenges restructuring universities.
- Concern about lack of continuity of regulatory reform efforts.

# Kosovo under UNSCR 1244/99– selected highlights

## Selected challenges/opportunities

- Strengthening capacity of the Standards Agency and SPS-related agency would speed up the EU standards adoption process and implementation of SPS measures.
- Resources and capacities of the export promotion agencies and programmes could be significantly upgraded
- IPR enforcement mechanisms could be strengthened.
- Slow progress in adopting SPS measures due to lack of administrative capacity.
- Institutional framework for certification very weak.
- The economy where access to finance is most problematic.
- Need publicly available criteria for obtaining FDI incentives and a system for evaluating the costs and benefits of FDI incentives.

# FYR Macedonia – selected highlights

## Selected challenges/opportunities

- The dynamic of standard transposition could be accelerated.
- Streamlining competencies and co-ordination among SPS bodies.
- The establishment of an export promotion agency with autonomous staff and financial resources would improve the effectiveness of promotion activities.
- Stringent efforts in adopting legal framework for regulatory reform, now need for push in implementation (e.g. RIA).
- Need to reduce delay in closing a business.
- Closer monitoring/evaluation of investment promotion strategy.

# Republic of Moldova – selected highlights

## Selected challenges/opportunities

- Process of transition from old GOS to EN standards could be speeded up.
- Raising awareness among business of the importance of certification would have a positive impact on competitiveness.
- Strengthened implementation of the licensing regime – especially for trade in foodstuffs and agricultural products.
- Only one (private) credit bureau currently operating and has very limited number of partners - development of credit information services could be further promoted.

# Montenegro – selected highlights

## Selected challenges/opportunities

- Improving the capacity of the accreditation body would improve functioning of the conformity assessment and quality infrastructure.
- Administrative capacities of SPS bodies could be strengthened in order to guarantee adequate implementation of food safety, veterinary and plant protection controls.
- Limited data on spending on education at different levels nor per pupil.
- Government trying to launch a credit guarantee scheme – useful lessons available elsewhere.
- Private sector concerned that procedures for obtaining permits and licenses are applied on an inconsistent basis across municipalities.

# Romania – selected highlights

## Selected challenges/opportunities

- Could better utilize IPA to help investors navigate local level license and permit requirements.
- System for the registration of moveable collateral is still at an early stage of development.
- More detailed analysis would be valuable on the skills required by employers in order to fully align educational opportunities and training. And consultative and coordination mechanisms in education/training – process could be more effective.
- More flexible and efficient internship systems for students could be developed

# Serbia – selected highlights

## Selected challenges/opportunities

- Inclusiveness of trade policy consultations could be broadened beyond business representatives.
- Additional efforts need to be put in strengthening inter-institutional co-ordination in the SPS area.
- Greater alignment of education/training system with market needs, and rebalancing between theory and practice in curricula (from private sector feedback).
- While some banks offer factoring services, no legal framework is in place, which limits the development of this market.

## Preliminary results of OECD pilot project on SME Policy Development at the sub-national level in Serbia

- Consultation between SMEs-municipalities is weak compared to consultations between SMEs and national government.
- Gaps exist between regional SME development goals and the resources and support services at the local (municipal) level.
- Business development services (e.g., quality standards, research, marketing, promotion etc.) are scarce outside of Belgrade. SMEs in regions need more information on types of services and providers of BDS.
- Local authorities recognise the importance of investment promotion for SME development. But limited coordination of activities and resources among municipalities in same region.

All comments welcome:

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THANK YOU

# Albania – selected highlights

## Since 2006

- A work program launched to assess the internal capacity for trade policy making and implementation.
- In 2008, new laws on Standardisation and on General Product Safety Essential Requirements for Products and Conformity Assessment (aligned with EU *acquis*).
- New VET agency and major VET programme development - but no CET strategy.
- Signed and ratified most outstanding bilateral investment treaties. But despite laws and international agreements to protect IP, estimated level of pirated software rose from 2005 to 2008.
- Has assessed the average cost to SMEs of complying with all main taxes and prepared studies to determine the advantages and disadvantages of simplifying elements of the tax regime.

# Republic of Moldova – selected highlights

## Since 2006

- In 2007, law on standardisation was amended and aligned with EU *acquis*. Adopted several EU New Approach directives.
- Became an affiliate member of CEN (2008)
- New law on Sanitary and Veterinary Activities entered into force and Sanitary-Veterinary Agency for Safety of Products of Animal Origin was established in 2008.
- Republic of Moldova has made efforts to reduce certain restrictions to national treatment (e.g. foreign enterprises may own property and urban land).
- MIEPO developing a database to track interested inward foreign investors.
- The government has passed Law no.179 of 10.07.2008 “on Public Private Partnerships” which establishes a legal framework for PPPs.

# Republic of Moldova – selected highlights

## Since 2006 (cont.)

- Cadastral system is in place and information is widely available on-line.
- A number of activities are under way to set up a National Centre for Vocational Education Development.
- The “National Strategy for Employment Policies for 2007-2015” was approved by Government Decree.
- Republic of Moldova (and Bulgaria and Romania) periodically prepares tax expenditure estimates of revenues foregone for each of the main corporate tax incentives for investment.
- Each year the Ministry of Finance of the Republic of Moldova prepares estimates of tax revenues foregone as a consequence of main tax incentives. These estimates are used in preparing the annual budget law.

# Montenegro – selected highlights

## Since 2006

- Implemented a simplified tax regime for SMEs.
- New concession law adopted in 2009 provides legal framework for PPP projects.
- Minimal restrictions to national treatment in FDI-related legislation.
- Institute for Standardisation established in 2007 and Law on standardisation adopted in 2008.
- Became a correspondent member of ISO in July 2007, Associate Member of IEC in January 2009 and Affiliate Member of CEN in July 2008. Application for the status of CENELEC Affiliate Member is currently in process. New law on accreditation adopted.
- Currently creating a NQF.
- National Employment Strategy and Human Resources Development 2007-2011 adopted in 2008.

# Romania – selected highlights

## Since 2006 + notable points

- Remains a regional leader in terms of the openness of its policies toward FDI.
- Has undertaken a review of its investment promotion strategy and institution.
- Level of collateral is amongst the lowest in the region. A central collateral registry is operating.
- Leasing fairly well developed and providers are monitored by the national Bank of Romania.
- Compared other economies in the region, factoring is well established. Credit guarantee schemes and export guarantee services are widely available.
- Reports on status of the national education system published yearly.
- Ministry of Education, Research and Innovation set up working groups with social partners - to draft new educational laws and identify lines of action for the pre-university educational system.

# Serbia – selected highlights

## Since 2006

- The one economy where policy on access to finance based on surveys of firms (conducted for the set up of a “start-up fund”).
- Adopted a new law on standardisation and a law on technical requirements and conformity assessment of products (2009) - Established Institute for Standardisation - New law on foreign trade transactions introduces more transparency in licensing.
- An Action Plan for implementation of the Strategy for Development of Adult Education introduced in March 2009.
- Food Safety law in line with EU *acquis* (adopted in 2009).
- Cadastre completed for approximately 80% of Serbia’s territory.
- Register of liens on movable property is in place at the Business Registers Agency and is available online.
- Tax – pursuing major reforms – much focus now on better analyzing the fiscal environment and fiscal reforms themselves.

# Bosnia and Herzegovina – selected highlights

## Since 2006

- A Unit for Statistics and Analysis of Foreign Trade Exchange established within the Ministry of Foreign Trade and Economic Relations.
- Institute for Standardisation began operations in 2007.
- In 2009 Food Agency unveiled a new strategy to increase food safety.
- The European Credit Transfer System adopted; Preparation of NQF underway; New Agency on Pre-primary, primary and secondary education.
- Electronic conversion of land titles and records is slow, but advancing.
- Legal framework for access to finance is mostly set. Insolvency laws, registration of pledges and credit information services are well developed.

# Bulgaria – selected highlights

## Since 2006

- Bulgaria (+Republic of Moldova and Romania) periodically prepare tax expenditure estimates of revenues foregone for each of the main corporate tax incentives for investment. The only SEE economies to do so.
- Bulgaria the only economy to have implemented a framework for identifying and analysing the degree of thin capitalisation of resident foreign-controlled companies.
- Open and liberal FDI policy – and software piracy rate experienced a modest decrease from 69 to 68 percent.
- Insolvency legal framework is well developed.
- Leasing is well developed and factoring is quite common although volume is still limited.

# Croatia – selected highlights

## Since 2006

- Introduced new laws on technical requirements and conformity assessment (2007) and on formal notification procedures in the field of standards, technical regulations and conformity assessment procedures in line with EU requirements.
- Submitted application to become signatory of the EA Multilateral Agreement. First round of negotiations for an ACAA (Agreement on Conformity Assessment and Recognition of Industrial Products) with the EU was held in 2009
- HITROREZ process - started in 2006 - streamlines the regulatory and legislative environment – considered an international good practice.
- Creating NQF - a National Strategy on teacher development underway - quality assurance system in education and especially VET underway.

# Croatia – selected highlights

## Since 2006 (cont.)

- Enforcement of IP laws improved, software piracy the lowest in SEE. Backlog of land registry cases much reduced.
- Comprehensive investment promotion strategy being developed by the Trade and Investment Promotion Agency.

# Kosovo under UNSCR 1244 – selected highlights

## Since 2006

- Customs information easily accessible through a single enquiry point.
- National Council for teacher licensing established in January 2009 (a notably comprehensive system of teacher development overall).
- Strategy for Development of Pre-University Education in Kosovo 2007-2017.
- Private sector considers that education has definitely improved - but much still to do.
- Studies have been conducted examining the implications for enterprise financing of double taxation of distributed and retained profits.

# FYR Macedonia – selected highlights

## Since 2006

- Became a full member of EA (2007) and an associate member of the International Laboratory Accreditation Cooperation - ILAC (2008). Introduced a single window for trade licenses (EXIM).
- A VET Council and Council for Adult Education formed.
- Skill Needs Analysis model for short-term labour forecasts established in 2006 - but skills shortages acute.
- Preparation of new law on accreditation in accordance with EC Regulation No.765/2008 underway.
- By end 2008, nearly 84% of municipalities had completed their cadastral registers - in contrast to only 46% in 2005.
- Implemented a simplified regime for SMEs and further analyses done of the tax burden.
- Leasing industry well-developed - and one of the few economies where Venture Capital activity is reported.