



Investment Reform Index 2010

MONITORING POLICIES AND
INSTITUTIONS FOR DIRECT INVESTMENT
IN SOUTH EAST EUROPE



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THE ECONOMIES OF SOUTH EAST EUROPE (SEE) HAVE BEEN HARD HIT BY THE GLOBAL ECONOMIC CRISIS. BEYOND THE CRISIS, THE LONG-TERM COMPETITIVENESS AND PROSPERITY OF THE REGION WILL DEPEND IN LARGE PART ON WHETHER THESE ECONOMIES CAN RAISE THE QUANTITY AND QUALITY OF DIRECT INVESTMENT.

SINCE THE PUBLICATION IN 2006 OF THE FIRST INVESTMENT REFORM INDEX, PROGRESS HAS OCCURRED IN REFORMING POLICIES AND INSTITUTIONS THAT SHAPE THE ENVIRONMENT FOR INVESTMENT.

BUT AS THE INVESTMENT REFORM INDEX 2010 (IRI 2010) SHOWS, FURTHER REFORMS IN A VARIETY OF AREAS ARE ESSENTIAL.

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SCOPE OF THE STUDY

The IRI 2010 is a qualitative assessment of policies and institutions that critically affect the environment for direct investment. Covering ten economies - **Albania, Bulgaria, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Kosovo under UNSCR 1244/99, the Republic of Moldova, Montenegro, Romania and Serbia** – the study examines:

- INVESTMENT POLICY AND PROMOTION
- HUMAN CAPITAL DEVELOPMENT
- TRADE POLICY AND FACILITATION
- ACCESS TO FINANCE
- REGULATORY REFORM AND PARLIAMENTARY PROCESSES
- TAX POLICY ANALYSIS
- INFRASTRUCTURE FOR INVESTMENT AND SME POLICY

Based on inputs from governments, independent experts and the private sector in every economy, and using over 100 indicators, the IRI 2010 assesses investment-related policy settings and reform against international best practice.

Investment policy and promotion

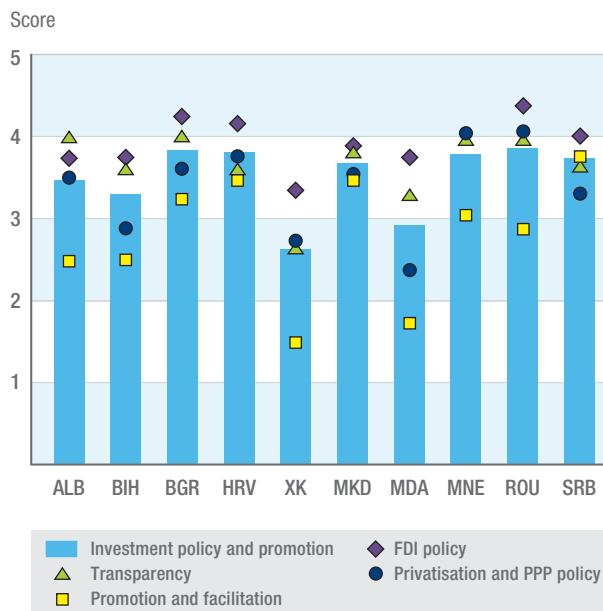
Economies in South East Europe (SEE) have progressively reduced restrictions to national treatment since completion of the previous Investment Reform Index (IRI 2006). Today, restrictions remain only in a limited number of sectors, e.g. arms production and manufacturing.

The protection of physical property has been enhanced with the digitization of land registries and cadastral books. However, enforcement of intellectual property rights (IPR) remains a challenge. In this respect, IPR courts could potentially play a bigger role.

SEE economies should review procedures and criteria for acquiring business-related licenses and permits at the sub-national level (such as building/construction permits) and ensure their overall transparency. One option is to have investment promotion agencies function as one-stop shops for inward investors.

The scope for additional privatisation-related investment is narrowing, while public private partnerships (PPP) are in their infancy. Policy makers in SEE are encouraged to exchange best practices on the design of PPP units, PPP-related legislation, cost-benefit analysis and monitoring, drawing for instance on the OECD Principles for Private Sector Participation in Infrastructure.

INVESTMENT POLICY AND PROMOTION: DIMENSION AND SUBDIMENSION AVERAGE SCORES



Human capital development

Governments in SEE must address skills development on an urgent basis given the long response time of human capital policies and the global increase in demand for skills.

While reforms are occurring in different parts of education and training systems in many countries, evidence suggests considerable misalignment between the profile of skills supplied and the needs of employers. SEE governments also need to tackle weaknesses in the connections between industry and academia more broadly. For instance, many governments need to assess how truly inclusive their consultative processes are and why, in some cases, private-sector participation is limited.

Spending on students as a share of per capita income, at secondary and tertiary levels, is often low compared to OECD norms. The challenge is to step up this investment while increasing quality.

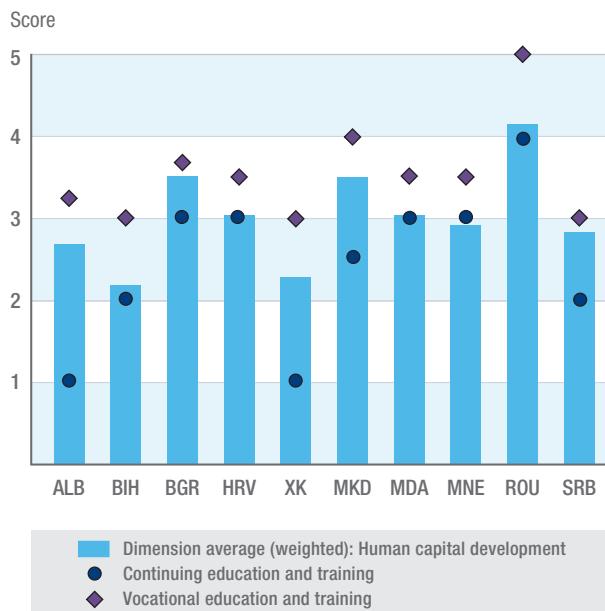
Better data-gathering and monitoring capacity is urgently required in all SEE economies, but particularly in the Western Balkans. There is a paucity of essential data on inputs to and outcomes from national education and training systems.

Participation in adult training is low and systems of work-related training are underdeveloped. Measures are needed to develop effective incentive schemes and improve the quality of training provided.

Opportunities exist for regional co-ordination and co-operation in the education domain. One area highlighted

here is quality assurance, but regional co-operation could also be pursued in such fields as research or curriculum alignment. The experience of the Nordic Council serves as a practical example of how regional co-operation can be pursued.

HUMAN CAPITAL DEVELOPMENT: DIMENSION AND SUBDIMENSION AVERAGE SCORES



Trade policy and facilitation

Since the IRI 2006, all SEE economies have strengthened their ties with the multilateral trading system and furthered intra-regional trade.

Tariffs on agricultural and non-agricultural products have been adjusted to world averages, and the regimes for other non-tariff measures such as licenses and quantitative restrictions are highly facilitatory.

Most SEE economies should speed up the adoption of the EU sectoral acquis for industrial products. Priority should be given to products and sectors strategic to increased intra-CEFTA trade.

The institutional framework for accreditation should be strengthened, in particular by increasing the number and qualifications of staff of national accreditation bodies.

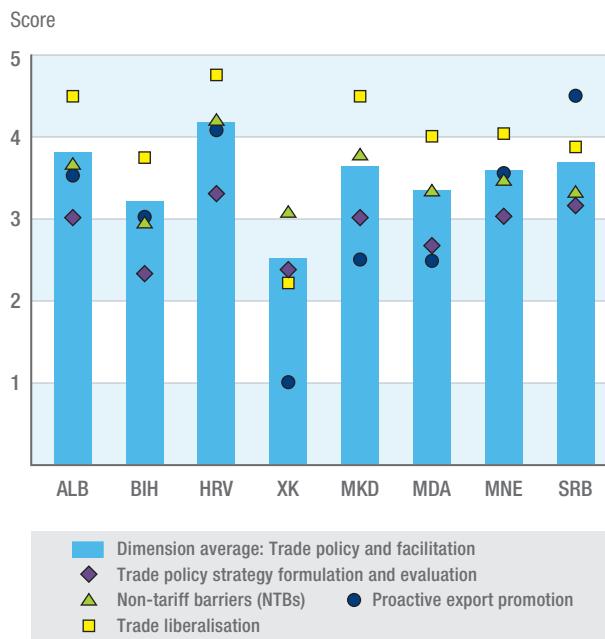
Governments across the region should further support the establishment of a network of independent conformity assessment bodies to facilitate certification for local firms, especially SMEs. Governments should also promote the use of standards among companies, with the aim of boosting export competitiveness.

The implementation of sanitary and phytosanitary measures needs to be facilitated by augmenting human and financial resources, infrastructure and information and communications systems.

Despite some improvements in trade facilitation, businesses still face hurdles in finding information on customs and trading procedures. This highlights a need for improving the transparency and public availability of information on customs regulations and procedural requirements.

Consideration needs to be given to how export promotion agencies and programmes can be strengthened. In some instances this requires an increase in the budget allocations for export promotion agencies, but such increases need to go hand in hand with consistent adoption of documented best practices.

TRADE POLICY AND FACILITATION: DIMENSION AND SUBDIMENSION AVERAGE SCORES



Access to finance

Limited access to finance is a major concern of entrepreneurs in SEE. This problem has been accentuated by the global financial crisis.

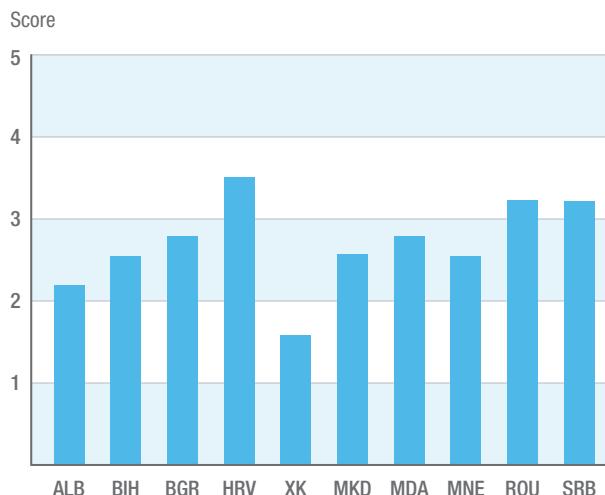
Mechanisms for the sharing of credit-related information have been introduced in all SEE economies. International reporting standards are promoted and credit bureaus and collateral registries are well developed. However, measures should be taken to expand adoption of the standards and, in some economies, to improve the coverage and reliability of data included in the registries.

Both formal venture capital and business angel activity are scarce. Some initiatives in the region demonstrate that policies can facilitate the development of the market for informal equity finance.

Many initiatives exist in SEE to develop guarantee schemes. However, numerous schemes do not seem to have achieved the expected results and visibility. The design, scope and impact of schemes should be more fully assessed.

The growing role of microfinance institutions calls for clearer legal and regulatory frameworks.

ACCESS TO FINANCE: DIMENSION AVERAGE SCORES



ALB: Albania
BIH: Bosnia and Herzegovina
BGR: Bulgaria
HRV: Croatia
XK: Kosovo under UNSCR 1244/99
MKD: The former Yugoslav Republic of Macedonia
MDA: The Republic of Moldova
MNE: Montenegro
ROU: Romania
SRB: Serbia

Regulatory reform and parliamentary processes

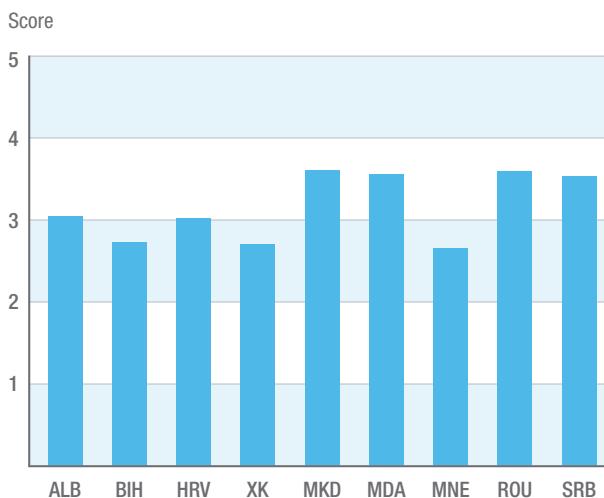
Most SEE economies have progressed in establishing institutional and legal frameworks for regulatory reform and in implementing reform.

However, the use of Regulatory Impact Analysis (RIA) is still in its infancy in the region. Prospective EU accession, and the associated adoption of EU laws and regulations, underlines the importance of establishing an effective review system for draft legislation. Furthermore, in times of economic crisis and budgetary constraint, RIA is an important means to increase the cost-effectiveness of regulatory decisions. SEE governments should prioritise the implementation of RIA. Several OECD publications provide guidance on setting up a RIA system. Sharing the experiences of more advanced SEE economies in this field, such as Serbia, could also benefit the region.

Few SEE economies have adopted a lobby or transparency law. Sound consultation processes can address many causes of regulatory failure, such as inadequate information in the public sector. Romania's transparency law could serve as an example of good practice for other SEE economies.

The limited capacity of parliaments to analyse complex economic legislative proposals remains a problem. Parliaments need to strengthen partnerships with universities, non-governmental organisations and think tanks in order to enhance their capacity and supplement their often modest resources.

REGULATORY REFORM AND PARLIAMENTARY PROCESSES:
DIMENSION AVERAGE SCORES



Note: No scores were awarded to Bulgaria in this policy dimension, due to a lack of information provided by the Bulgarian government/parliament during the assessment process.

Tax policy analysis

In recent years SEE economies have made important progress in strengthening their capacity to carry out tax policy development and implementation, regularly forecasting aggregate tax revenues and monitoring public revenues and expenditures.

However, no SEE economy has implemented a full array of tax models, e.g. corporate income tax micro-simulation models or tax wedge models. Such models are important for providing, among other things, information on how a given tax reform will affect different taxpayers.

While some SEE economies undertake ad hoc studies on tax issues relevant to small and medium-sized enterprises and multi-national enterprises, no country systematically conducts such assessments. These studies are essential for evaluating the effectiveness of tax policy and identifying tax planning opportunities.

TAX POLICY ANALYSIS DIMENSION AND SUBDIMENSION AVERAGE SCORES



Note: Dimension average score is a simple average of the three subdimensions. Belgium (BEL) is included as a comparator country (see Box 6.1 for more information).

Infrastructure for investment

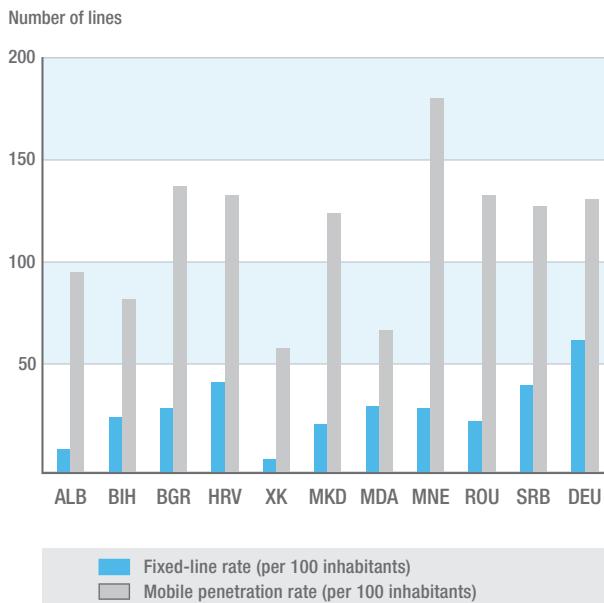
SEE economies have considerably improved their legal frameworks on infrastructure. Recent reforms are largely in compliance with EU standards and aim at fulfilling the EU *acquis* requirements.

Broadband internet penetration is low in most SEE economies. In some countries, a long-term telecommunications strategy is still under development. To improve transparency in the telecommunications market, public-private consultations should be organised more regularly.

The presence of motorways, even among the most advanced economies of the region, is limited. Cross-border and intra-regional co-operation in developing road infrastructure should be established in order to raise the investment attractiveness of individual countries and the entire region.

Underdeveloped rail networks characterise SEE. In some economies, expenditures on rail maintenance are insufficient and construction of new rail corridors is almost nonexistent. Co-operation at the intra-regional level, in conformity with the Trans-European Rail Network guidelines, would benefit the entire region.

FIXED LINE AND MOBILE PENETRATION RATE PER 100 INHABITANTS



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THE INVESTMENT REFORM INDEX 2010 IS ONE AMONG A NUMBER OF STUDIES AND ADVISORY PROJECTS CURRENTLY UNDERTAKEN BY THE OECD'S INVESTMENT COMPACT FOR SOUTH EAST EUROPE. THE INVESTMENT COMPACT WORKS TO ASSIST THE GOVERNMENTS OF SOUTH EAST EUROPE ANALYSE AND ADDRESS POLICY REFORMS NEEDED TO FOSTER PRIVATE SECTOR DEVELOPMENT AND ENCOURAGE INCREASED INVESTMENT. WORKING WITH POLICYMAKERS FROM ALL COUNTRIES OF THE REGION, THROUGH THE SOUTH EAST EUROPE INVESTMENT COMMITTEE, THE INVESTMENT COMPACT REPRESENTS A PRIME INSTANCE OF HOW KNOWLEDGE AND EXPERTISE POSSESSED BY THE OECD CAN BE HARNESSSED AND SHARED WITH NON-MEMBER COUNTRIES.

SPECIAL THANKS ARE DUE TO ALL THE DONORS OF THE INVESTMENT COMPACT FOR SOUTH EAST EUROPE FOR THEIR CONSTANT SUPPORT OF THE OECD'S WORK IN THE SOUTH EAST EUROPEAN REGION.

PARTICULAR THANKS ARE DUE TO THE EUROPEAN UNION, THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF FLANDERS FOR THEIR SPECIFIC FINANCIAL CONTRIBUTIONS TO THE PREPARATION OF THE INVESTMENT REFORM INDEX 2010.

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FOR MORE INFORMATION, CONTACT:

Mr. Alistair Nolan, Head of the OECD Investment Compact for South East Europe
Alistair.nolan@oecd.org, + 33 1 45 24 1386

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