

STABILITY PACT

WORKING TABLE II

**SOUTH EAST EUROPE COMPACT FOR REFORM,
INVESTMENT, INTEGRITY AND GROWTH**

4TH PROJECT TEAM MEETING

SUMMARY NOTE

TIRANA, 23-24 MAY 2001

ORGANISED BY
THE OECD AND THE UK FOREIGN AND COMMONWEALTH OFFICE

HOSTED BY
**THE MINISTRY OF ECONOMIC CO-OPERATION AND TRADE
OF THE REPUBLIC OF ALBANIA**

LOCATION
**TIRANA INTERNATIONAL HOTEL
SKANDERBERG SQUARE
TIRANA, ALBANIA**

SUMMARY NOTE

I. Introduction

1. The 4th meeting of the Investment Compact Project Team (PT) focused its attention on the progress achieved in structural policy reform since the launch of the Compact and marked a new emphasis on private sector involvement in encouraging investment and improving the investment climate in South East Europe. Hosted by the Albanian Ministry of Economic Co-operation and Trade, the meeting was held in Tirana on 23-24 May 2001, immediately following the plenary meeting of Working Table II on 22-23 May. The meeting was attended by all participating countries of South East Europe¹, Slovenia, eleven OECD Member countries², international organisations and financial institutions (including European Commission, World Bank, IMF, EBRD, UN/ECE), regional initiatives (UN Interim Administration Mission in Kosovo, Office of the High Representative of Bosnia and Herzegovina, Central European Initiative), and Oxfam.

2. For the first time, a Project Team meeting had the benefit of local participation from the private sector (Foreign Investors Association of Albania, Association of Italian Entrepreneurs of Albania, Union of Chambers of Commerce, Union of Investors and Industrialists of Albania, Friends of Albania Group, American Chamber of Commerce in Albania).

3. The meeting was opened by **Mrs. Ermelinda Meksi, Albanian Minister for Economic Co-operation and Trade, and Co-Chair of Working Table II**. The minister underlined the crucial importance of the Investment Compact's work within the framework of the Stability Pact in improving the environment for investors in the region. The Albanian Government gives high priority to this work, and the minister briefly outlined the Albanian Government's commitment and involvement in the Investment Compact process, which is "building real partnership within countries and across the region in essential and substantive policy development". She encouraged all countries, donors and international institutions to maintain the progress already achieved in this process.

II. Progress in Policy Reform and Operations of Country Economic Teams (CETs)

4. Individual presentations of the progress in policy reform were given by all SEE countries. Progress in structural policy reform is advancing but needs persistent and continuous action to ensure lasting implementation. The draft of the first edition of the *Monitoring Instruments (MIs)*, prepared by the SEE Country Economic Teams (CETs), was presented to the meeting. This document provided detailed outlines of six countries' short to medium-term policy reform objectives and the progress achieved to date on specific reform measures³. Significant progress has been made in the adoption of major legislative reforms, in restructuring institutions and in preparing new policies and programmes. However, the large number of measures still in the preparatory stage underlines the urgent and very ambitious challenge facing policy-makers in the region, particularly in implementing and enforcing new laws and regulations.

5. It was pointed out that the primary objective of the *Monitoring Instruments* is twofold:

¹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Republic of Montenegro, Romania, Republic of Serbia

² Austria, France, Greece, Hungary, Italy, Japan, Spain, Sweden, Switzerland, the UK and the USA

³ Although the *Monitoring Instrument* for the former Yugoslav Republic of Macedonia was not included in this draft, it will be included in the final printed version. Serbia's *Monitoring Instrument* is being prepared by the CET for inclusion in the second edition (autumn 2001).

(a) to provide a cross-regional comparative picture of structural policy reform and to assist SEE countries in driving and monitoring progress;

(b) to reassure potential investors of the ongoing reform process and thereby stimulate new and increased private sector investment.

Several countries underlined the necessity of co-ordinating the measures taken in the context of the MIs with EU accession and association requirements. The EC representative assured the meeting that a *modus vivendi* with EC work had been established and that work carried out under the Investment Compact was both useful and supportive of the Accession and Stabilisation and Association processes.

6. All participants recognised the importance of ensuring visibility and securing support for, and endorsement of, Investment Compact work at the political level. Several countries pointed out that the general direction of government policy is transparent, but there is a need to increase the visibility and transparency of the concrete measures being taken to advance policy reform. This is one of the objectives of the *MIs*. The question of official approval of the *Monitoring Instruments* by the respective governments was raised, and the co-chairs indicated that the formal status of the MIs would have to be worked out country by country.

7. The **first edition of the *Monitoring Instruments* will be published in June 2001**, including an objective cross-cutting analysis, and will serve as a benchmark against which continued progress in the coming months will be measured. CETs were asked to submit to OECD any additions or revisions to the draft document by 1 June 2001 at the latest. Once published, the MIs will also be made available on the Investment Compact Website (www.investmentcompact.org). In collaboration with EBRD, the OECD will prepare indicators of the progression of investment flows into the region, which will be included in the second edition of the *Monitoring Instruments*, to be published in the autumn 2001. This second edition will also include the MI for Serbia.

8. Participants welcomed Slovenia's offer of support to CETs in SEE countries, in order to speed up reform, through three proposals:

- training and education for interested public servants from the region in Slovenian government institutions, with all expenses covered;
- participation in programmes at the Centre of Public Finance, to be opened in cooperation with IMF on 1 June 2001;
- seminars on trade and investment and competition policy that will be open to all SEE countries.

The above proposals were made to selected CETs in view of linguistic similarities. In 2002, the training programme for public servants will also be offered in English and thereby extended to other SEE countries.

III. Regional Flagship Initiatives (RFIs)

9. The meeting reviewed progress of activities in ongoing Regional Flagship Initiatives (RFIs), grouped under three main policy areas:

- **Foreign Direct Investment (FDI)**
- **Small and Medium-Sized Enterprise (SME) Support**
- **Governance, Competition and Accountancy**

10. Regional and international organisations and financial institutions, as well as OECD Member countries, expressed their support of specific RFIs. The Central European Initiative (CEI) has developed, together with the Public-Private Partnerships (PPP) for Infrastructure RFI led by UN/ECE, the first phase of a "Project Opportunity Methodology", which will be presented to government representatives and IFIs

at the CEI Economic Forum in September 2001, and SEE countries were invited to use this platform. The representatives of Switzerland and the World Bank pointed out the policy implications of Bilateral Investment Treaties (BITs) on all investment efforts. The RFI on “Promoting Investment through Tax Policy Assessment and Design” was cited by both the World Bank and IMF as having major ramifications for economic policy of SEE countries and expressed strong interest in cooperating in such work. EBRD expressed its appreciation of the excellent co-operation it has enjoyed with the OECD on SME development work, in particular on the Country Assessment and Action Plan (CAAP) in the former Yugoslav Republic of Macedonia. The report on this CAAP will be published at the beginning of July 2001, and it will be important to receive comments from the Project Team on the recommendations emerging and applicability of this initiative to other SEE countries.

11. A new RFI proposal on “**Competition Law and Policy**” was presented to the Project Team for review. The long-term objectives of this RFI are to give to competition authorities in all SEE countries a major role as initiators of regulatory and structural reforms in order to create competitive markets; to ensure that competition law is enforced proactively and effectively; and to create a support and co-operation framework between all competition authorities in the region. In the medium term, these authorities would aim to identify major impediments to the development of competitive markets, identify appropriate tools or remedies and draft action plans for their application. Launched with the support of Slovenia as a partner and source of information with regard to EU accession/association requirements and FYROM as co-partner, this RFI received the full endorsement of the Project Team. To ensure support for the objectives and working methods of this initiative, the heads of competition authorities and CET leaders will be invited to participate in a “Take-off Meeting” in Ljubljana on 20 June 2001. Investment Compact partners were invited to provide any further comments on this RFI for consideration at this meeting.

12. A special presentation to the meeting focused on RFI activity on **investment promotion**. The main objectives of this initiative are to improve the investment image of the region and to strengthen the capacities of investment promotion agencies (IPAs). The Regional Roundtable on Investment Promotion was established in July 2000 to enhance the institutional framework, develop promotion strategies and ensure funding of the IPAs. The Steering Group for the Roundtable, made up of Albania, Bulgaria, Croatia and Romania, presented reports on the various actions already carried out under Action Plan 2001, such as the *Regional Investment Guide* published by Bulgaria at the beginning of the year, the continuation of the SEE Business Information Network (SEEBIN), and the preparation of a revised edition of the *Investment Guide*. The Steering Group welcomed the practical support on individual projects being given by countries such as Greece, Hungary, Italy, Slovenia, Switzerland and the UK, and called for strong financial and technical support from international and regional donors to enable the implementation of the Action Plan 2001 and to ensure the continuation of the initiative through pipeline projects planned in 2002. In this regard, the Stability Pact Office and co-chairs also invited interest from donors in implementing the SEEBIN project.

IV. Private Sector Views on Policy Reform

13. The meeting benefited for the first time from the participation of representatives from the Albanian private sector. The Union of Chambers of Commerce pointed out the dependence of the business community on the development of institutional infrastructure and underlined the need for support from Stability Pact partners. The Union of Investors and Industrialists of Albania cited the problems of maintaining public order and eliminating corruption. Both union representatives emphasized the need for better co-operation between the business community and government agencies in order to create a healthy business environment to encourage investment. The representative of the Foreign Investors Association of Albania (FIAA) outlined the problems involved in this process of encouraging investment in the region: the lack of a clearly defined legislative structure, the need for coherent tax procedures, problems of security and corruption, the lack of confidentiality for investors.

V. Conclusions

14. The Project Team agreed that the Investment Compact process was progressing and that the focus was right. In that regard, participating countries had demonstrated their strong and continuing commitment to policy reform. Planned action was designed to maintain the **momentum and focus**, and increase further the **impact** of the Investment Compact.

15.1 The **momentum** of support to the reform process and ensuring transparency will be maintained in particular through the publication of the *Monitoring Instruments* in June 2001 and their application in subsequent months as a monitoring tool and lever for instigating and implementing reform measures. They no longer show just a “photograph” of the current situation in SEE countries of reform but reveal the dynamics of the reform process.

15.2 A more intensive **focus** will be given to concrete actions in the three main areas of the Regional Flagship Initiatives: foreign direct investment; SME development; and facilitating investment through corporate governance, competition, and accountancy. In the coming months increased emphasis on improving the climate for investment will include steps to remove administrative barriers for business and a series of measures, many being undertaken in collaboration with OECD Member countries and international organisations, to promote the region as an investment destination. An important opportunity to strengthen support for and partnership in this work will be provided at the upcoming meeting of representatives of the Investment Compact Project Team, the Office of the Special Co-ordinator of the Stability Pact, and the private sector with Members of the OECD Council in Istanbul on 15 June 2001.

15.3 Increasing the **impact** of the Investment Compact will entail:

- ensuring transparency and the dynamics of the monitoring process, through the *Monitoring Instruments*;
- increasing private sector involvement through close collaboration with CETs and participation in RFI activities;
- obtaining the active support of the high political level, through dialogue on concrete measures on policy reform.

16. The **next meeting of the Project Team is tentatively scheduled for 23-24 October 2001 in Bucharest**, in conjunction with the regional donors’ meeting of the Stability Pact on 25-26 October.