

Evaluation of the Investment Compact Program

July 2004

ATKEARNEY

Agenda

- **Foreword**
- **Executive summary**
- **Context, objectives and approach**
- **Evolution of the investment environment in South East Europe**
- **Evaluation of the Investment Compact program**
- **Budget and organisation**
- **Recommended strategy and actions**
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A.T. Kearney is a leading strategy consulting firm with offices in the major cities worldwide

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- **Founded in 1926, nowadays ranks as the second largest management consultancy firm**
- **3,000 employees in 58 offices in 35 countries**
- **Revenues of over € 1,2 B**
- **Over 2,500 projects per year**
- **High client retention index — 80% of the revenue is from previous clients**

A.T. Kearney has extensive experience of public sector projects

People's Republic of China	Assessed the climate for major long-term investment in China. A review of the relevant regulations and policies was undertaken as well as an evaluation of current and future policy trends related to foreign investment
Croatia	Assessed the attractiveness of Croatia to potential US investors and developed recommendations by which the Croatian Investment Promotion Agency (CIPA) could accelerate US FDI
Slovenia	For the government of Slovenia, developed a export promotion strategy for industrial and manufacturing goods
Malaysia	Conducted a study to identify strategies to improve Malaysia's national competitiveness and develop its manufacturing and services sectors
EU	Numerous engagements with the EU to evaluate the Japanese market for a variety of European products, including household furniture, agricultural and fisheries machinery, energy conservation equipment, and marine sports equipment
Japan	Under commission from the American Chamber of Commerce in Japan, A.T. Kearney developed a definitive study of Opportunities for U.S. Investment in Japan
Brazil	Assisted the government of Brazil in the design and formation of its first national investment promotion agency - Investe Brasil
Egypt	Worked closely with Egypt's General Organisation for Industrialisation (GOFI) and 18 manufacturing companies to attract investment in Egypt
Ireland	Assisted the government in planning the establishment of a new industry including the feasibility of the new sector, type of production capacity, location areas and need for infrastructure support, market plans and potential investor profiles
UK	Undertook a study whose goal was to identify companies interested in considering investment in an industrial park located in Northern England
U.S.	Prepared an industrial development and investment attraction plan for the High Point Chamber of Commerce in North Carolina, U.S.
U.S.	Currently working with Houston to increase the attractiveness of the city to software companies.

The following evaluation is based on a combination of A.T.Kearney expertise, analysis of existing Investment Compact materials / reviews and interviews with key stakeholders

Primary inputs for evaluation

Primary sources and methodologies for the evaluation of the Investment Compact
<ul style="list-style-type: none"> • A.T.Kearney expertise, including the Global Business Policy Council • Detailed review of existing materials, tools and policy reports published by the IC • Existing written feedback from donors / others • Internal evaluations by the IC team • Review of secondary sources such as the EBRD reports on SEE and the BEEPs survey • Analysis of country macro economic data, including investment sources and trends • Review of organisation and management structure • Analysis of budget and financials

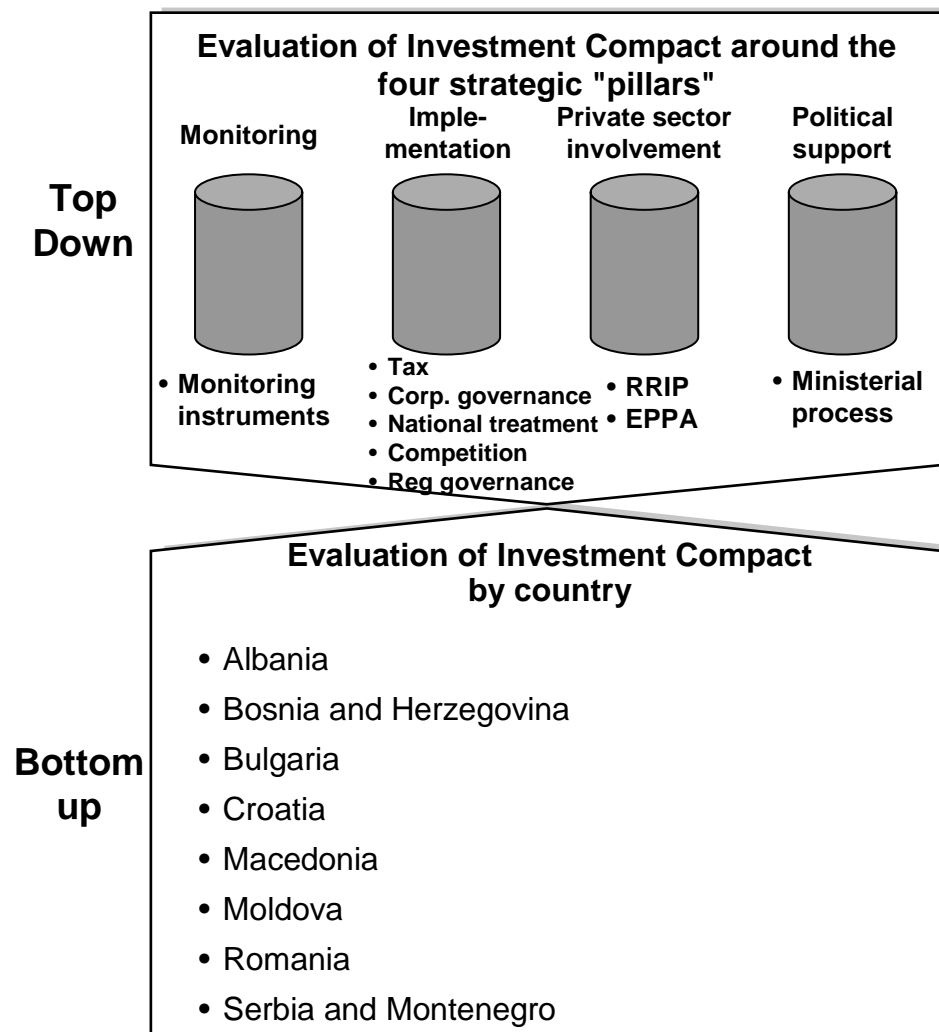


Breakdown of interviews conducted (*)

Category	Number of interviews (*)
SEE public sector	37
SEE private sector	15
BAC / BIAC	6
Donor countries	15
OECD	12
International Financial Institutions	5
Total	90

Note: See appendix for details of interviews conducted
Source : A.T. Kearney analysis

The framework to evaluate the Investment Compact Program was structured around a top down and a bottom up approach



Criteria for evaluation

		Criteria	Description
Outcome	Process	Relevance of objectives	• Extent to which objectives are consistent with country development priorities and over-arching goals of the project (Investment Compact Charter)
		Effectiveness	• Extent to which the objectives have been reached
		Design	• How well the program has been structured to meet its objectives
		Execution	• How effectively the program design has been applied
		Communication	• Effectiveness of internal and external communication
		Coordination	• Internal coordination with OECD • External coordination with partners
		Evaluation	• Team performance is monitored on a systematic basis and feedback is incorporated for continuous improvement
		Efficiency	• Extent to which development objectives are achieved using the optimal amount of resources
		Innovation	• Extent to which program contributes to develop new tools and approaches
		Outcome	• Tangible results achieved from the program • Outcome depends on the relevance of the objectives the extent to which the objectives have been reached and the excellence of the process to reach the objectives
Sustainability	• Probability that the estimated benefit will be maintained and developed over time • Measures resilience to risk		

Executive summary

The Investment Compact is a solid program with good value for money which still has many areas for improvement to increase its impact

- A.T. Kearney, a leading international strategy and management consulting group, has conducted an independent evaluation of the IC Program in April and May 2004
- The overall evaluation shows that the IC has clearly contributed to improving the investment environment and increasing private investment and employment in SEE
 - Key stakeholders support the IC and the way it has developed but want even greater focus, more concrete actions and effective communication
 - The most effective areas of the IC involved the private sector, encouraged “co-leadership” and initiative of SEE stakeholders and focused on producing concrete results
 - The specific reporting structure around a project team composed of donor and recipient countries has ensured greater accountability over how the limited IC budget is spent. Half of the IC budget is now allocated to 3 priority areas: Monitoring process, FDI Policy and Promotion and enterprise policy and performance assessment (EPPA)
 - While contributing to improve the investment environment of the SEE region as a whole, the impact of the IC has been stronger for some countries (eg; Romania and Albania) relative to others (eg, Croatia). Impact largely depended on degree of involvement.
- The main areas for improvement for the IC revolve around focus, more systematic approach with measurement indicators, greater support in implementation and better communication
- Going forward, the IC should concentrate its limited resources in areas of activity that achieve maximum impact around the four existing pillars:
 - **Monitoring process:** Maximum of twelve government-set targets must be concrete and measurable, agreed with the private sector and monitor implementation on a quarterly basis
 - **Support in implementation:** Focus on two clearly defined areas of FDI Policy and Strategic Promotion and Enterprise and SME Policy with practical steps on « how to »
 - **Private sector involvement:** Further strengthen existing structures (eg; Regional FIC network) and integrate these structures into the monitoring process in a systematic way
 - **Political support:** Political support remains a key pillar to ensure that priorities for reform are really implemented. Political support should now go beyond Ministers to parliamentarians and local government officials (eg; Mayors)
- The IC should always be looking for ways to further transfer ownership to the SEE region, for example by progressively giving the regional co-Chair and initiative leaders a greater role in driving the content and process
- Finally, increased local presence will be fundamental to the overall success of the IC over the next 18 months

The Investment Compact program has contributed to improving the investment environment and increasing private investment and employment in SEE

- The investment environment in South East Europe (SEE) has clearly improved over the last four years both in terms of FDI inflows (from \$4 billion to almost \$7 billion in 2003) and in terms of private sector perception from foreign and local investors
- While many factors have contributed to the improvement of the investment environment for SEE region - the primary motivation being the prospect of EU accession - the Investment Compact can claim its part in this improvement and to directly and indirectly contributing to new investment taking place
- The specific reporting structure around a project team composed of donor and recipient countries has ensured greater accountability of how the limited IC budget is spent
- In working towards improving the investment environment in SEE, the Investment Compact has:
 1. Increased FDI and employment in specific countries such as Romania, Serbia and Moldova
 2. Promoted greater regional cooperation on investment issues between governments in a region that was plagued by wars and ethnic strife
 3. Increased private sector involvement, credibility and effectiveness by helping build institutions to dialogue with government and set targets for reform (eg; FICs and regional networks of FICs)
 4. Established the ground for greater regional ownership:
 - Romania has taken on the role as co-chair of the investment compact for the last 2 years
 - Regional chairmanship of the roundtable on investment promotion and other regional networks that can continue dialogue at regional level (competition, tax, corporate governance, enterprise and small business)
 - Launch of regional foreign investor council to coordinate private sector priorities for reform at the regional level
 5. Institutionalized a monitoring process for reform which focuses on short term critical targets
 6. Leveraged the OECD standards, brand and expertise for the SEE region

Key stakeholders support the Investment Compact as a whole but want greater focus, more concrete actions and effective communication

- **Private sector in SEE:** The reports are good but you want to produce less paper and focus on a few policy areas all the way to implementation
- **SEE countries:** The IC / OECD provides us with an independent assessment with the OECD stamp of what we need to focus on. The IC would have more impact if there was more of a focus on “how to”, more local country presence, and even more coordination with other international organisations
- **OECD countries:** Generally satisfied with IC team, activities and results especially after reshaping of strategy two years ago. Main recommendation: Avoid spreading yourself too thin
- **BAC:** The monitoring process in particular is an excellent tool but it needs to be conducted more regularly and you need to measure all the way to implementation
- **BIAC:** The IC is good value for money. There has been impact on the investment environment in SEE through structured dialogue with private sector and SEE governments and some influence on implementation
- **EC / IFIs:** The IC team is great to work with and coordination is effective. What is not always clear is the scope of the activities covered by the IC
- **Stability Pact:** IC has been one of the most independent and effective initiatives and is a model for other initiatives in the Stability Pact

The most effective areas of the Investment Compact involved the private sector, encouraged “co-leadership” and initiative of SEE stakeholders and focused on producing concrete results

- FDI Policy and Promotion and Enterprise Policy and Performance assessment (EPPA) have been the two most effective and differentiated initiatives of the Investment Compact. Both initiatives:
 - Involved the private sector from the start
 - Were driven by a focus on concrete action and results
 - Encouraged SEE stakeholders to participate in leading the initiative to completion
 - Coordinated effectively with other international institutions
- The Monitoring Process has encouraged governments to focus on select priorities for reform but needs refining to measure real implementation
- FDI Policy and Promotion, EPPA and the monitoring process now represent 50% of the IC budget
- Private sector involvement has been one of the most notable differentiating factors for the IC but can be further improved through a strengthening of structures and full integration with the Monitoring Process
- The Political Process is important to ensure awareness, endorsement, and buy-in at the government level but now needs to be more action oriented and go beyond the Minister level (eg; Parliament, local government)
- The Competition Policy and National Treatment initiatives were carefully designed around a “bottom up” participatory approach, ensured continuity in participants, and were effective in encouraging participating countries to prepare meetings and produce action plans. The main weakness of the Competition Policy initiative has been around the follow up of country action plans and the support in implementation
- The Corporate Governance initiative has clearly raised awareness about Corporate Governance among SEE stakeholders and encouraged formal and informal networking among regulatory authorities and the private sector in the region. The subject is not perceived as vital by investors as in other areas
- Tax and Regulatory Reform have been less effective initiatives mainly because the reports produced are seen as too descriptive and theoretical and countries are seeking more guidance on practical “how to” steps

While contributing to improve the investment environment of the SEE region as a whole, the impact of the Investment Compact program has been stronger in some countries relative to others

- Romania has been one of the greatest beneficiaries of the Investment Compact namely through the regional leadership experience it has gained as co-chair for the last two years
- Moldova has clearly benefited from the Investment Compact in the area of Investment promotion where at least 1000 jobs have been generated (3 Italian investments from Padua)
- Macedonia and Albania have made recent rapid progress in their cooperation with the Investment Compact and can point to specific impact on policy implementation
- Cooperation by Serbia and Montenegro and Bosnia and Herzegovina has been active but the outcome has been hurt by political instability
- Bulgaria has been primarily focused on accession to the EU and has not cooperated effectively or made good use of the IC at the government level until very recently
- Croatia is the country which has least benefited from the Investment Compact due to lack of commitment to the IC and significant discontinuity in Ministries and the country economic team

The main areas for improvement for the IC revolve around focus, a more systematic approach, and greater support in implementation and communication

■ The main areas for improvement for the Investment Compact include:

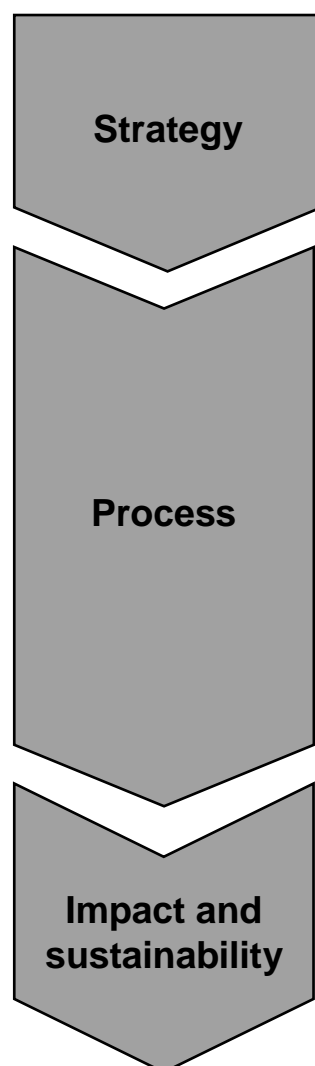
1. Concentrated and continuous focus on the policy areas where the Investment Compact can achieve the strongest impact with limited resources
2. Continue to insist on concrete and practical initiatives over broader theoretical discussion
3. Systematic follow up on initiatives to ensure that actions that have been agreed upon are actually implemented
4. Take recommendations to the next level by providing SEE countries with more detailed guidelines on "how to" implement recommendations and network support to assist such actions
5. Monitor policy reform for FDI and local investment policy more effectively:
 - Monitor on a quarterly basis and provide short reports to all SEE countries and PT members
 - Use established and agreed criteria to determine level of implementation
 - Ensure systematic private sector involvement in establishing targets and measuring progress
 - Ensure that targets are concrete and measurable
 - Measure policy reform all the way to real implementation with a rating of steps to completion which uses a set of agreed indicators
6. Improve internal and external communication with succinct and meaningful messages
7. Further involve and draw lessons from other countries in the region which have joined the EC
8. Evaluate and measure each initiative and event on a more systematic and regular basis

Going forward, the IC should concentrate its limited resources in areas of activity that achieve maximum impact around the four existing pillars

Monitoring process	Support in implementation	Private sector involvement	Political support
<p>Monitoring instruments:</p> <ul style="list-style-type: none"> • Focus on three targets for achievement in 6-12 months in four areas: <ul style="list-style-type: none"> - FDI Policy and Promotion - Enterprise and SME Dev. - Regulatory reform - Anti-corruption and Bribery <p>Guiding principles for targets:</p> <ul style="list-style-type: none"> • Concrete and measurable • Agreed with private sector and consistent with White Books • Selected by countries to ensure ownership • Step by step monitoring to implementation (scoring 1-5) • Reviewed on a quarterly basis <p>Process:</p> <ul style="list-style-type: none"> • Active local presence and project team missions • Peer review examinations twice a year • Communicate short quarterly reports on website 	<p>Focus on two key areas:</p> <ul style="list-style-type: none"> • FDI Policy and Strategic Promotion • Enterprise and SME policy <p>Guiding principles</p> <ul style="list-style-type: none"> • Focus on practical implementation steps that emphasize “how to” • Active participation from the private sector • Co-leadership from local stakeholders • Regular review with criteria to measure impact and results • Local presence <p>Vehicles</p> <ul style="list-style-type: none"> • FDI Policy and Promotion: Regional Roundtable for Investment Promotion • EPPA: SEE Enterprise Forum 	<p>Focus on two objectives:</p> <ul style="list-style-type: none"> • Strengthen and network private sector • Integrate private sector into monitoring process <p>Guiding principles</p> <ul style="list-style-type: none"> • Structured exchange around the Monitoring process • Regularity of interaction • Local presence <p>Process</p> <ul style="list-style-type: none"> • Regular consultation with national and regional FICs on a quarterly basis to synchronise White Books with Monitoring targets and to measure implementation • SME input through EPPA workshops • Consultation of BAC and BIAC 	<p>Raise political awareness of key reform issues:</p> <ul style="list-style-type: none"> • Ministers • Parliamentarians • Local government officials <p>Guiding principles</p> <ul style="list-style-type: none"> • Concrete action plan and commitment from SEE gvts at each Ministerial • Formal review of results achieved from actions decided in previous Ministerial • Promote structured and effective debate between government and private sector • Gradual involvement of SEECP (modalities to be defined) <p>Process</p> <ul style="list-style-type: none"> • Annual Ministerial meeting of Ministers and Parliamentarians with focus on one specific area for reform • Communication workshops conducted at local gvt level

The Investment Compact should follow a set of strategic guidelines to ensure optimal consistency and effectiveness

Strategic guidelines to follow



Vision: Ensure that Investment Compact objectives are consistent with the vision outlined by the Stability Pact

Focus: Focus on policy areas and process as defined in the four pillars – deepen work on these and do not stray into new activities

Differentiation: Ensure that the work of the Investment Compact is complementary and incremental to areas covered by other international organisations

Execution: Establish a visible local presence to ensure stronger relations and credibility with governments and private sector

Coordination:

- Internal: Leverage the best OECD resources to support in policy implementation
- External: Continue synchronising work with other international organisations such as the EBRD and the EC

Communication:

- Internal: Ensure that donors are clear on IC focus and provide regular succinct updates on activities and results
- External: Ensure sufficient visibility with the media

Continuity: All initiatives undertaken must have sufficient budget to ensure follow up to implementation

Quality: Define the criteria upfront to measure the impact of all initiatives which are undertaken by the IC and ensure continuous improvement

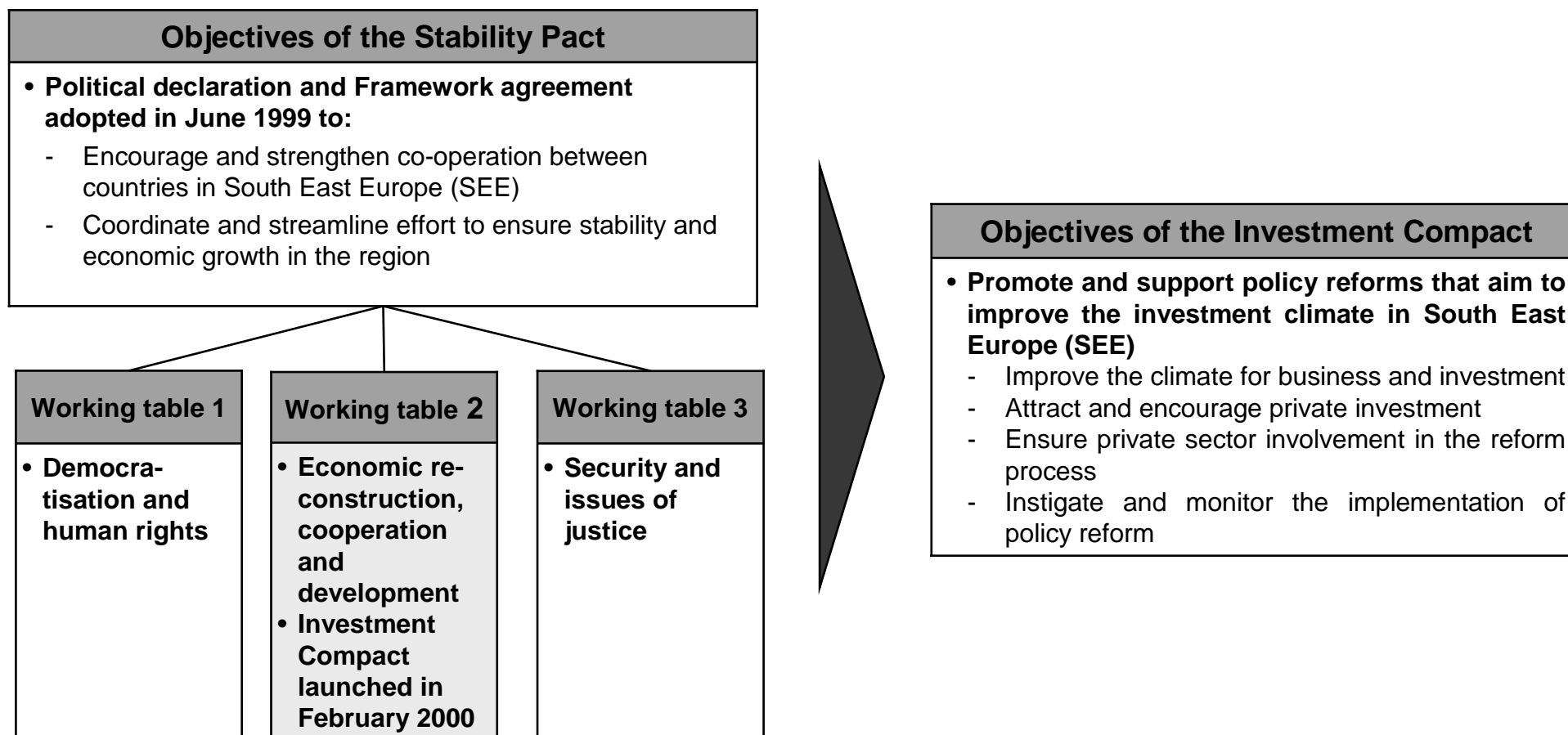
Impact and concrete results:

- Aim to achieve real impact in the SEE region by ensuring that intermediate outputs produced are translated into effective outcomes for the region
- Avoid reports which are too generic or theoretical

Sustainability: Ensure co-leadership from the region in all activities and leverage existing local institutions (ex: SEECF) to ensure greater sustainability of outcomes

Context, objectives and approach

Launched in February 2000, the Investment Compact aims to improve the investment climate in South East Europe (SEE)

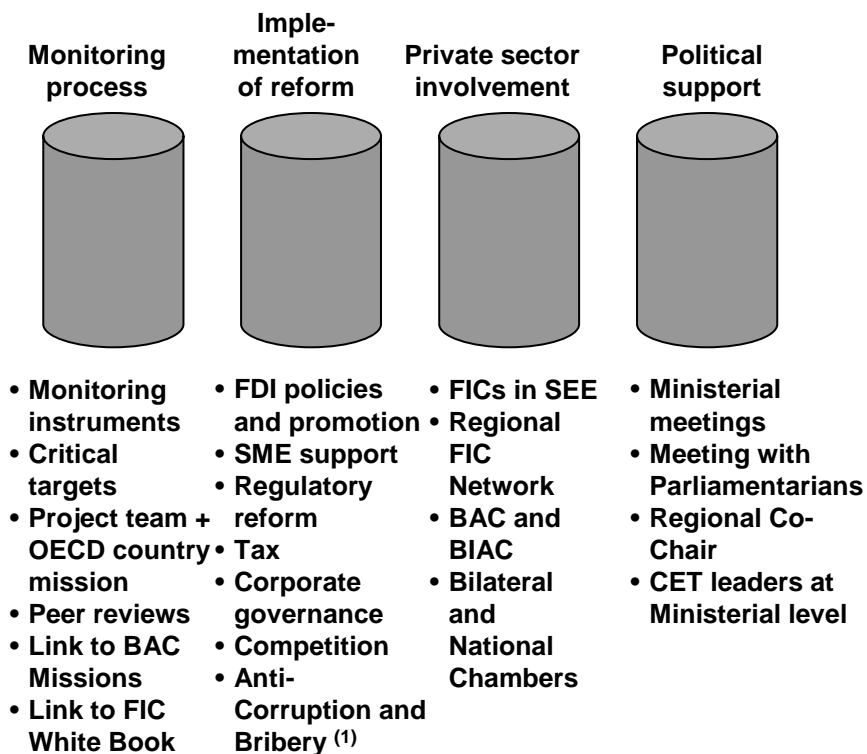


The Project Team reshaped the strategy of the Investment Compact significantly after the first two years

Actions	Description
1. Streamlining of Regional Flagship Initiatives	<ul style="list-style-type: none"> ■ The range of RFIs was streamlined to concentrate on: <ul style="list-style-type: none"> • FDI Policy and Promotion • Enterprise and SME support • Governance and Regulatory Regimes • Follow up on previous policy areas to clarify progress
2. Sharpening of the Monitoring Instruments	<ul style="list-style-type: none"> ■ The Monitoring Instruments were sharpened from following 600 policy reform actions to a maximum of fifteen “critical time bound targets” per year, including the top three priorities in four areas: <ul style="list-style-type: none"> • Overall “most crucial” targets • FDI Policy and Promotion • Enterprise and SME support • Governance and Regulatory Regimes • Anti corruption
3. Refocus of project team activity around 4 strategic pillars	<ol style="list-style-type: none"> 1. Monitoring process 2. Implementation of reform 3. Private sector involvement 4. Political support

The Investment Compact strategy to improve the investment climate in SEE is now structured around four strategic pillars

The four Pillars of the IC Strategy



Current focus on three policy areas

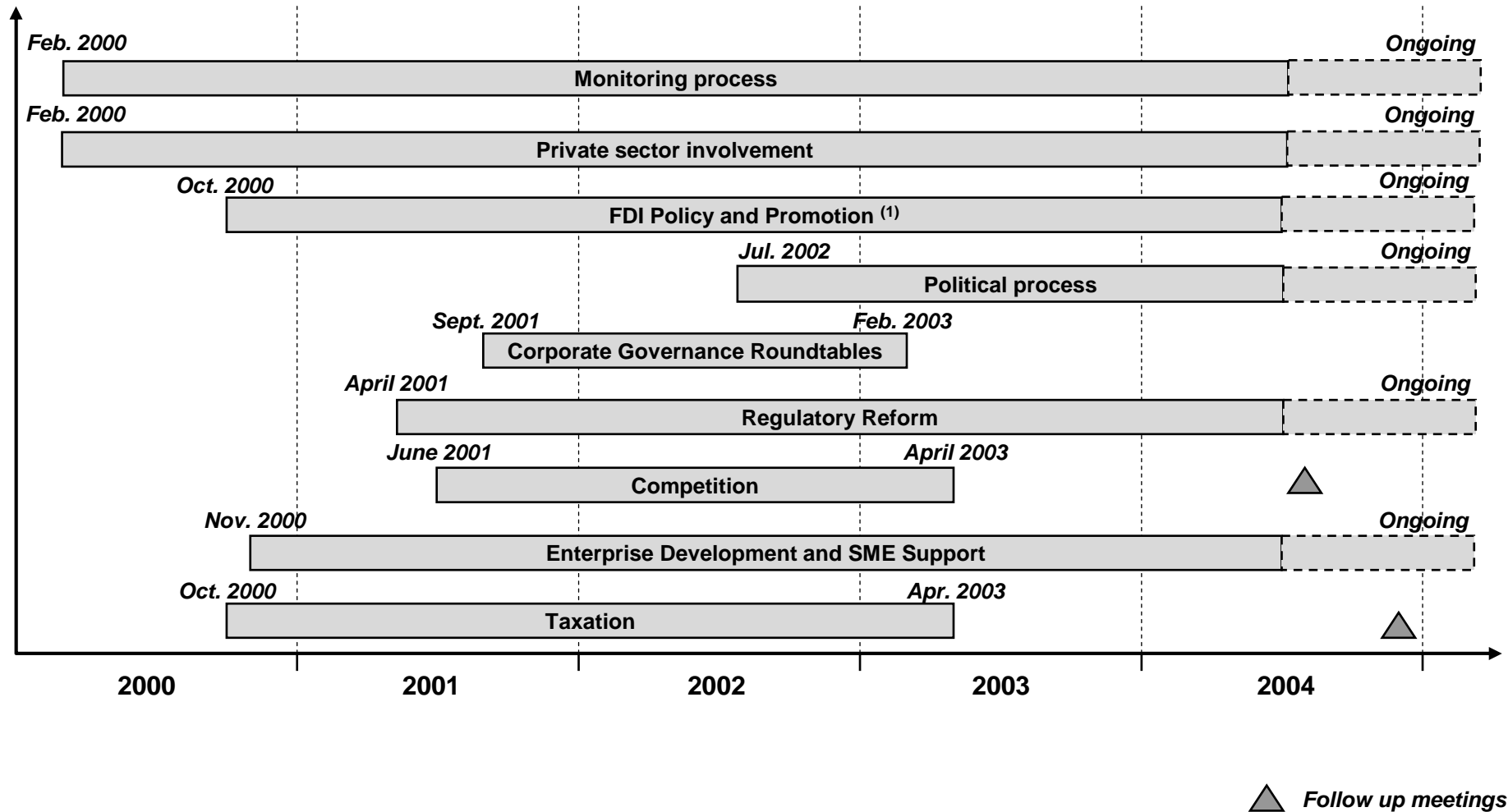
1. Foreign Direct Investment (FDI) policies and promotion strategies
2. Small and Medium-sized Enterprises (SME) support
3. Regulatory Reform

Follow up from previous work

- Tax
- Corporate governance
- Competition

Note: (1) The IC only monitors progress of high priority targets in this area

Timeline for main Investment Compact implementation initiatives



Note: (1) Includes National Treatment which started in mid 2002 and is ongoing

The IC team has launched a comprehensive evaluation of the program in 2004

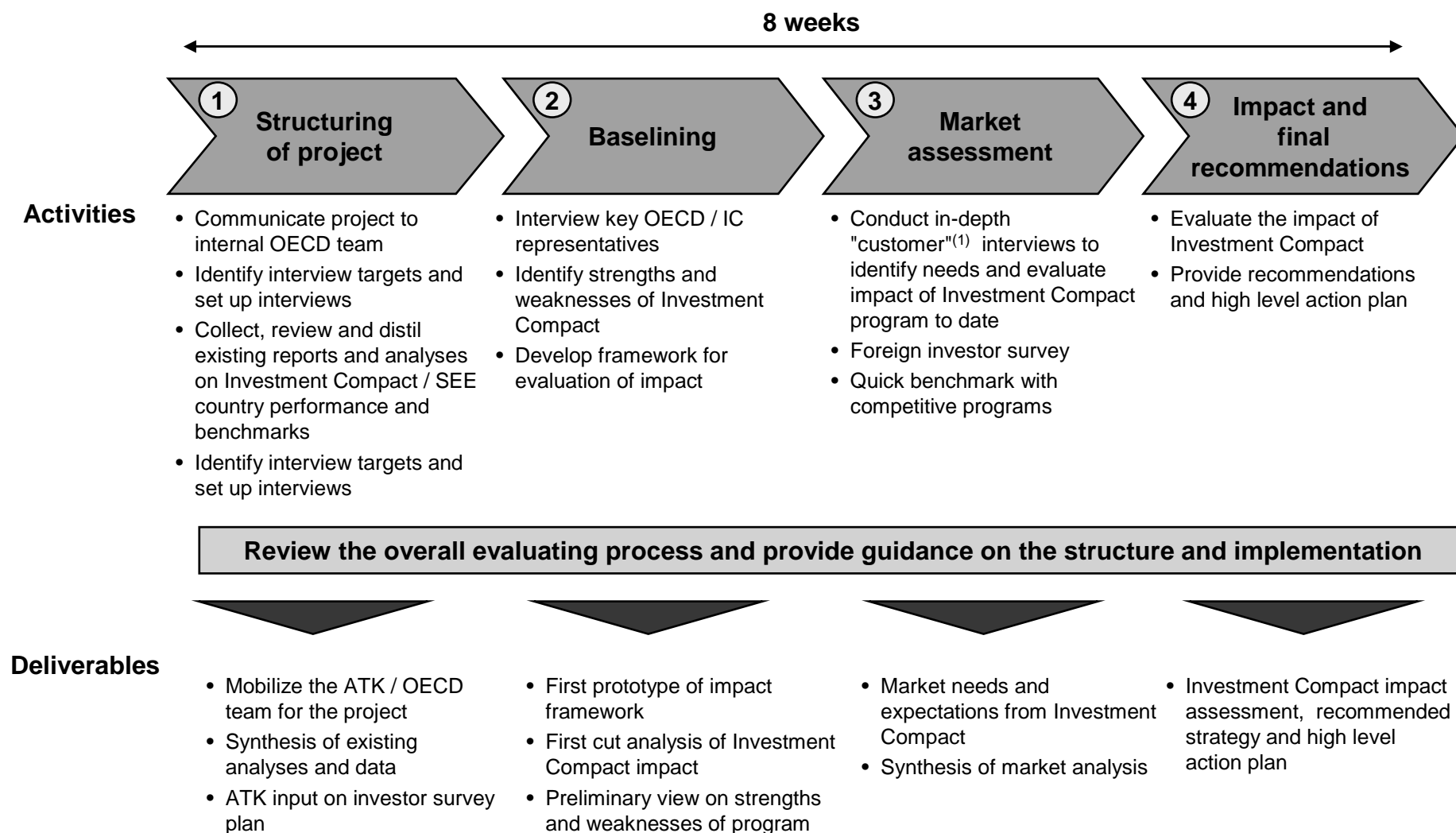
Key questions for the evaluation of the program

- What has the IC achieved over the last 4 years?
- To what extent are the IC achievements in line with the objectives of the Investment Compact Charter?
- What has been the impact on the business and investment environment in SEE?
- What is the perception of the IC?
- What are strengths and weaknesses of the IC?
- Where should the IC go from here?

Main components of the evaluation

- Internal analysis
- Foreign investor survey
- External consultant to:
 - Conduct an independent assessment
 - Interview cross section of key players
 - Provide overall guidance for evaluation
 - Recommend strategic direction for IC

A.T. Kearney has followed an approach structured around four steps

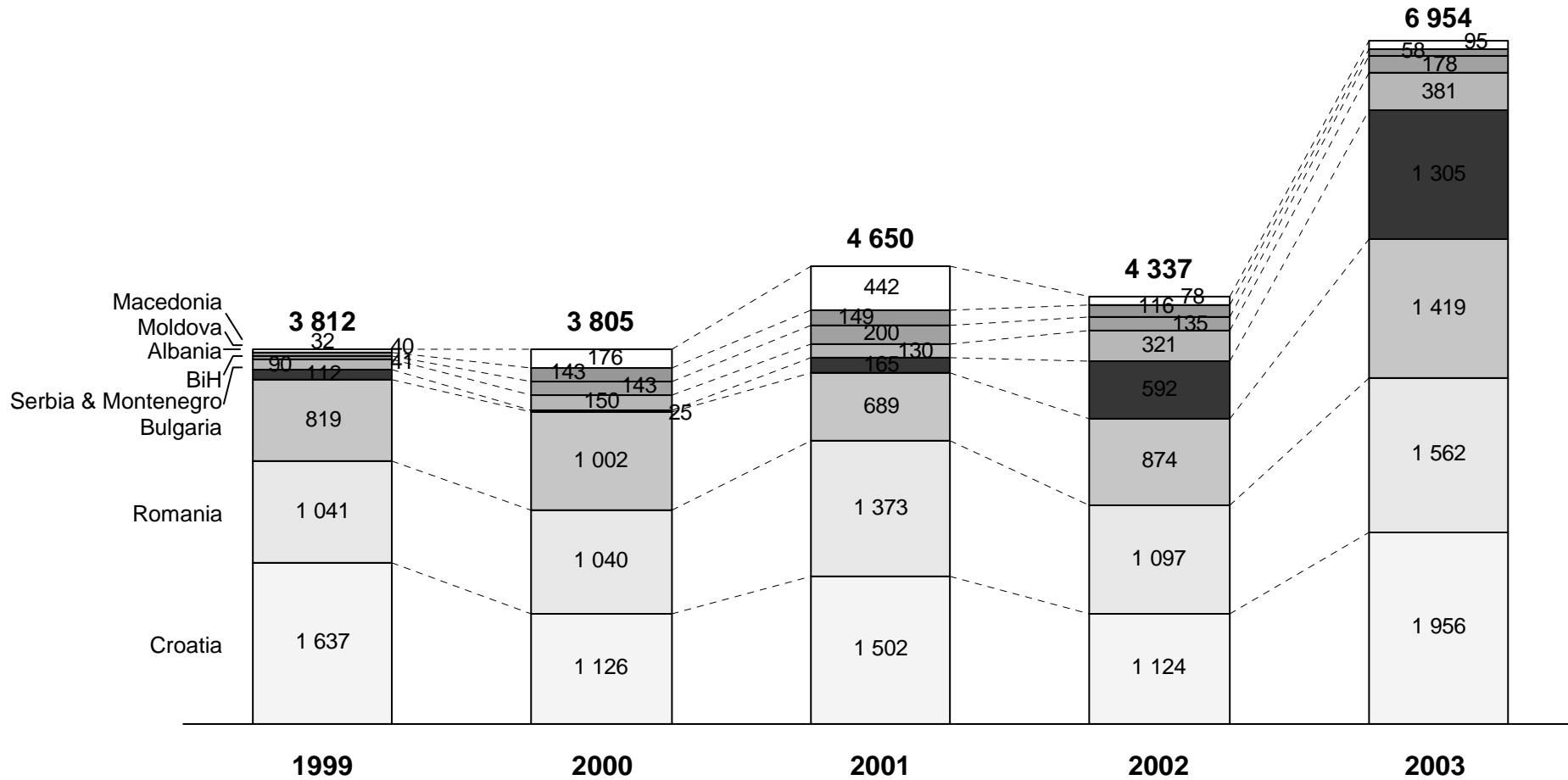


Note: (1) Customers include key investors in SEE, SEE country representatives, FIC, BAC and BIAC representatives, representatives of donor countries, and OECD

Evolution of the investment environment in South East Europe

FDI inflows reached \$7 billion in the SEE region in 2003

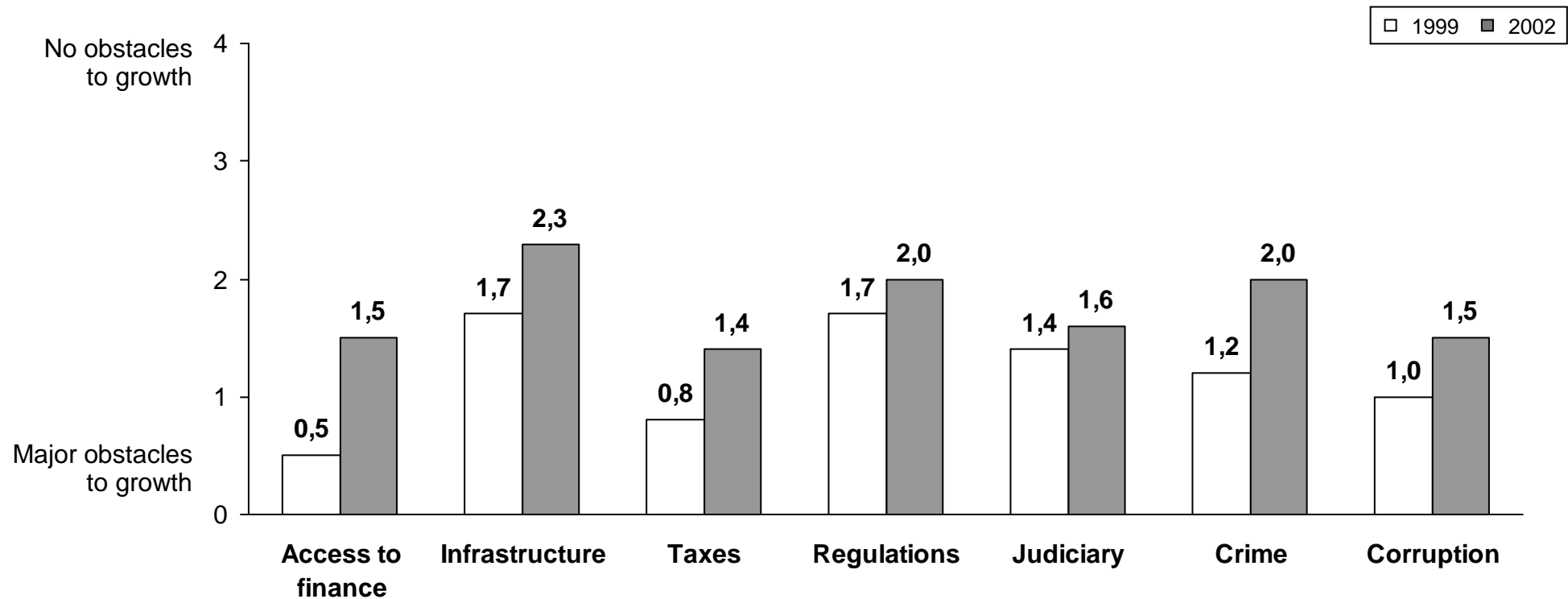
SEE FDI inflows in US\$ Million
- 1999-2003 -



Source : IC Monitoring Instruments 2004, WIIW, 'FDI in South East Europe in 2003-2004', June 2004

Private sector perception of the business environment in SEE has clearly improved over the last few years

Private sector perception of the business environment in SEE
- 1999-2002 -



Note: (1) The score along each dimension is the simple average across all firms surveyed in SEE.
The values range from 1 to 4 with 4 indicating no obstacles to business growth and 1 indicating major obstacles.
Data for 1999 excludes Serbia & Montenegro. The BEEPS data for 1999 and 2002 is not directly comparable because the sample of companies interviewed was not exactly the same and some questions were slightly modified

Source: Business Environment and Enterprise Performance Survey (BEEPS)

Romania reached the top twenty ranking for European investors for the first time in 2003

FDI Confidence Index ⁽¹⁾ for European Investors
- 2002-2003 -

	2003	2002
Rank	Country	Country
1	China	United States
2	United States	Germany
3	Poland	China
4	Spain	Italy
5	Italy	France
6	Germany	United Kingdom
7	France	Spain
8	Russia	Poland
9	United Kingdom	Czech Republic
10	India	Russia
11	Brazil	Austria
12	Mexico	Hungary
13	Hungary	Canada
14	Czech Republic	Netherlands
15	Slovenia ⁽²⁾	Baltic States
16	Romania	Belgium
17	Canada	Switzerland
18	Belgium	Japan
19	South Korea	India
20	Turkey	Brazil

- European investors are pursuing regional investment strategies
- One in ten European investors have a more positive outlook on Romania, Croatia and Serbia compared to one year ago
- *"European investors are increasingly optimistic about the new "little tigers" of Europe – Slovenia, **Romania**, the Baltic States, **Croatia** and **Serbia** – as companies seek new lower-cost production and export platforms, Fresh M&A targets and growing markets. Combined, **these markets are expected to receive 10% of all new worldwide first time investments over the next three years"***

FDI Confidence Index 2003

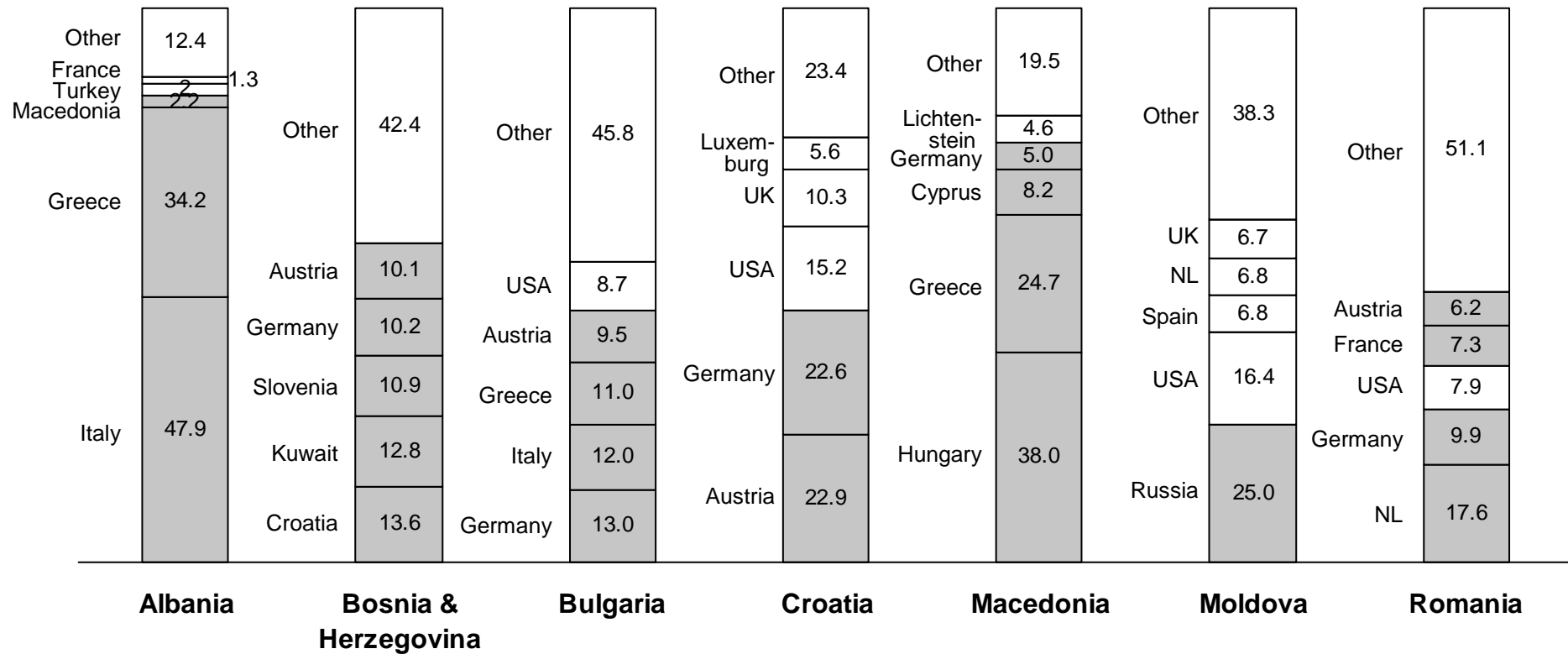
Notes: (1) The FDI Confidence Index was designed to gauge the likelihood of investment in specific markets in order to gain insights into likely trends in future global FDI flows. The survey is constructed using primary data from a proprietary survey administered to senior executives of the world's 1000 largest corporations

(2) First time in the FDI Confidence Index

Source: A.T. Kearney FDI Index 2003, A.T. Kearney analysis


Geographical proximity and cultural links were important determinants of FDI in the region

Top 5 investors in SEE countries ⁽¹⁾ by country of origin
 - 2002, % of FDI stock -



Note: Does not include Serbia and Montenegro

Source: Vienna Institute for International Economic Studies, EBRD, A.T. Kearney analysis

 Strong geographical or cultural links

Progress towards a free trade area has also made the region more attractive for investment

Global events most likely to influence FDI decisions

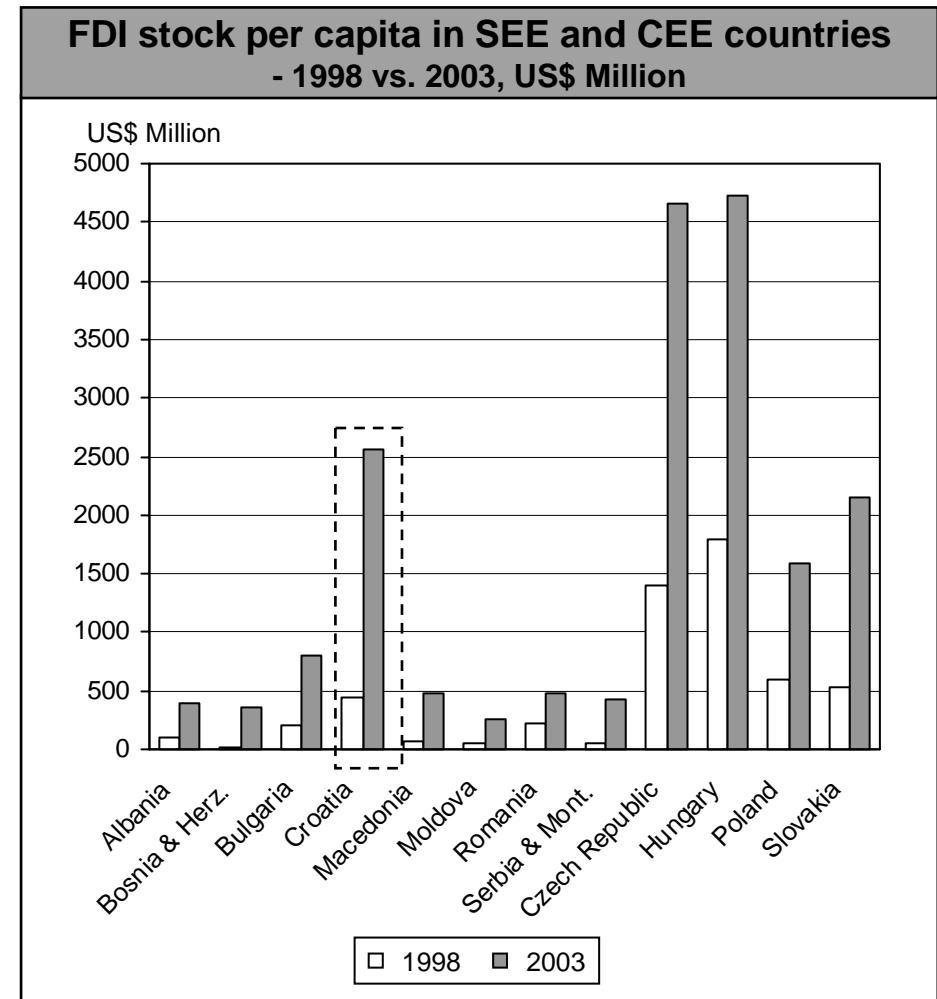
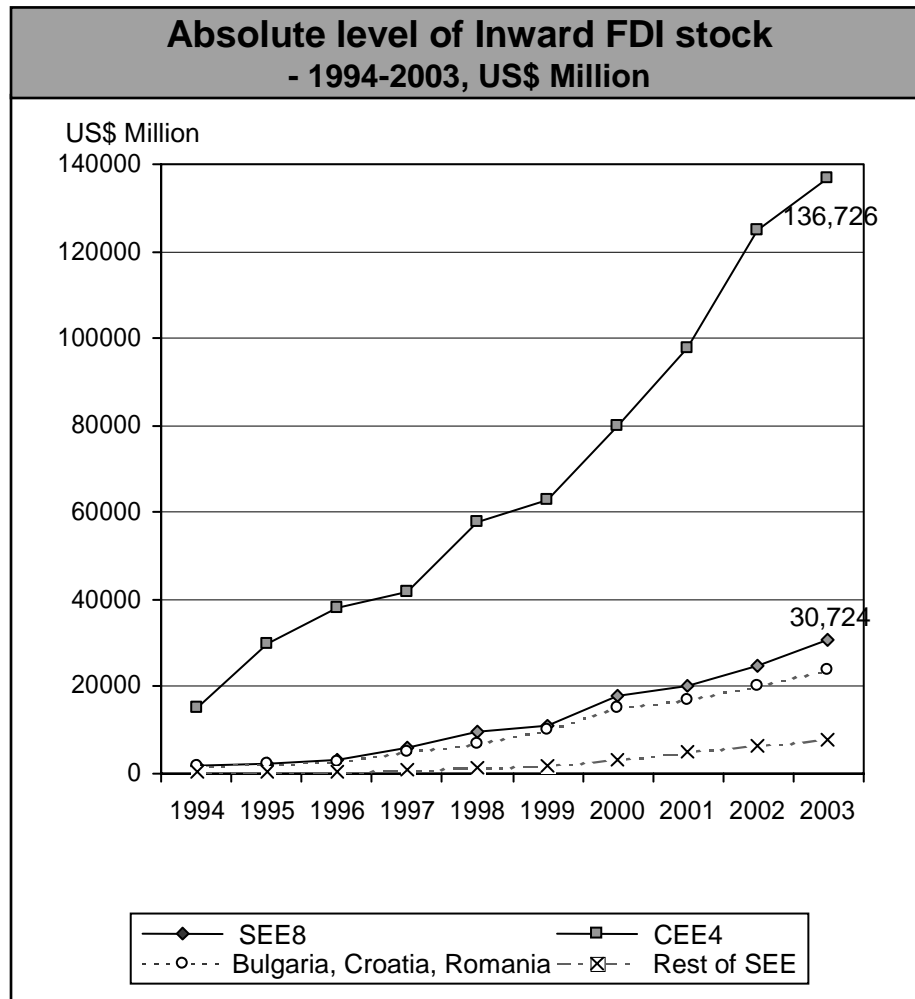


Status of free trade negotiations for the SEE region

Status of free trade negotiations
<p>As of 2nd July 2004:</p> <ul style="list-style-type: none"> • 29 FTAs have been signed • 19 are in force • All Agreements should be in force by the end of year

Source: A.T.Kearney FDI Confidence Index 2003

The FDI stock of the SEE States is still far behind that of CEE states⁽¹⁾ in absolute terms but is starting to catch up on a per capita basis



Croatia is already ahead of Poland in terms of FDI per capita

Note: (1) Includes Poland, Hungary, Czech Republic and Slovak Republic
 Source: Monitoring Instruments 2003, WIIW

While the SEE investment environment has clearly improved, a number of issues still remain to be addressed

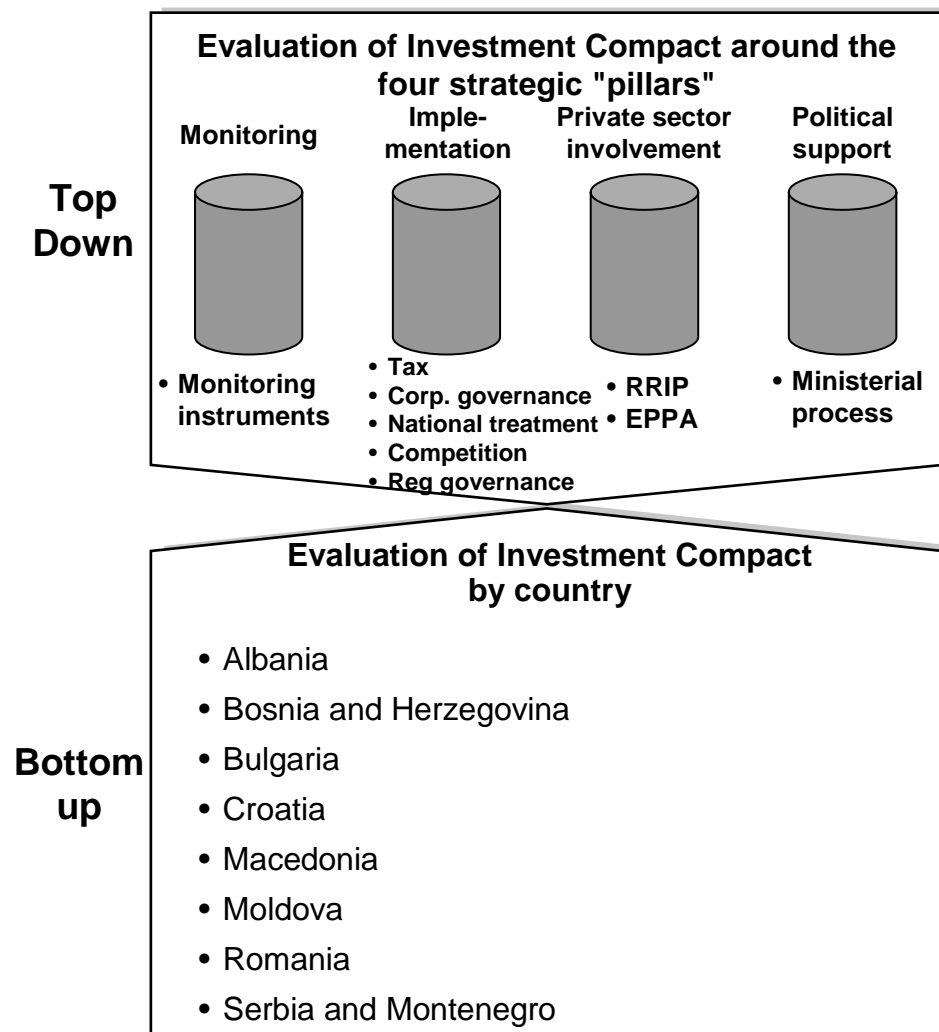
Country	Key issues to address	Quotes
Albania	<ul style="list-style-type: none"> • Rule of law • Corruption • Informal sector • Reform of tax administration • Access to credit for SMEs 	<ul style="list-style-type: none"> • <i>“Banks in Albania finance the working capital of established companies but don’t take any risks in granting loans to smaller companies. There is a real issue of access to credit for SMEs.” former World Bank official</i>
Bosnia	<ul style="list-style-type: none"> • Rule of law, with setting up of courts and training of judges • VAT repayment to SMEs • Communication and training at the lower levels of government 	<ul style="list-style-type: none"> • <i>“Rule of law is key over here. We need qualified judges and to set up the right judicial courts. There are 45000 cases of backlog” Government official</i> • <i>“VAT repayment is very slow and can lead to bankruptcy of small companies” private sector representative</i>
Bulgaria	<ul style="list-style-type: none"> • Investment promotion / fiscal incentives • Institutional support for SMEs + company registration • Discrimination on purchase of assets by foreigners 	<ul style="list-style-type: none"> • <i>“We have spent so much time and effort on EU compliance that investment promotion has been neglected. We are currently changing that.” Government official</i>
Croatia	<ul style="list-style-type: none"> • Investment promotion 	<ul style="list-style-type: none"> • <i>“We have had no real investment promotion for the last two years” Government official</i>
Macedonia	<ul style="list-style-type: none"> • Regulatory reform • Informal sector (social contribution assistance) 	
Moldova	<ul style="list-style-type: none"> • Government intervention • Rule of law • Corruption 	<ul style="list-style-type: none"> • <i>“The government here still has a control mentality. You still have at least 30 areas in the economy with rigid price controls ” Private sector representative</i>
Romania	<ul style="list-style-type: none"> • Corruption • Rule of law • Labor code 	<ul style="list-style-type: none"> • <i>“Current legislation to protect the labor market drastically exceeds the Acquis Communautaire” FIC representative</i>
Serbia	<ul style="list-style-type: none"> • Land reform • Entry and exit procedures for companies • Rule of law • VAT 	<ul style="list-style-type: none"> • <i>“VAT is another key piece of legislation which was not passed by Parliament. The documentation and compliance from VAT is key to cutting out the grey economy. Poorly designed or badly implemented VAT will create huge cash flow problems for companies” FIC rep</i>
Montenegro	<ul style="list-style-type: none"> • Competitiveness • Regulatory reform for SMEs 	

Source: Private sector interviews, Monitoring Instruments

Preliminary evaluation of the Investment Compact Program

- Overall evaluation
- Top down: Evaluation by Strategic pillar
- Bottom up: Evaluation by country

The framework to evaluate the Investment Compact Program is structured around a top down and a bottom up approach



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		Communication	• Effectiveness of internal and external communication
		Coordination	• Internal coordination with OECD • External coordination with partners
		Evaluation	• Team performance is monitored on a systematic basis and feedback is incorporated for continuous improvement
		Efficiency	• Extent to which development objectives are achieved using the optimal amount of resources
	Innovation	• Extent to which program contributes to develop new tools and approaches	
		Outcome	• Tangible results achieved from the program • Outcome depends on the relevance of the objectives the extent to which the objectives have been reached and the excellence of the process to reach the objectives
	Sustainability	• Probability that the estimated benefit will be maintained and developed over time • Measures resilience to risk	

Overall, the IC has clearly contributed to improving the investment environment and increasing investment and jobs in the SEE region

		Category	Comments	
Outcome		Relevance	<ul style="list-style-type: none"> Objectives set out by the Investment Compact were clearly in line with the IC Charter Improving the investment environment at the regional level not addressed by other international organisations 	
		Effectiveness	<ul style="list-style-type: none"> The investment environment in SEE has clearly improved over the last 4 years in terms of FDI and investor perception and the IC can claim its part in that improvement SEE governments have made great strides in learning to cooperate together at a regional level Too many areas covered with not enough depth (linked to limited resources) 	
	Process		Design	<ul style="list-style-type: none"> Focus of program and Monitoring Instruments was streamlined effectively after one year Many areas for improvement in the design of specific components of the investment compact (Monitoring Instruments, RRIPs, Ministerial meetings...)
			Execution	<ul style="list-style-type: none"> Execution of program has been highly satisfactory overall
			Communication	<ul style="list-style-type: none"> General lack of understanding with what the IC is about, especially for actors not directly associated with the program ("The IC fails to communicate what it does exactly" FIC representative) Limited visibility in the press and not enough synthesis
			Coordination	<ul style="list-style-type: none"> Strong coordination with EBRD on SME initiative Coordination with EC on EPPAs excellent but scope for stronger links in SEE countries Need better coordination with other initiatives of the Stability Pact (eg; trade, corruption)
			Evaluation	<ul style="list-style-type: none"> IC team has been flexible and open to incorporate feedback during the project No systematic indicators in place to monitor the programs for continuous improvement
			Efficiency	<ul style="list-style-type: none"> The IC team achieves a substantial amount on a relatively limited budget. "Good value for money" according to one industry representative
			Innovation	<ul style="list-style-type: none"> Several factors make this program innovative relative to other international programs, including involving the private sector, the regional approach to investment and government target setting and monitoring
			Outcome	<ul style="list-style-type: none"> The IC has clearly contributed to making the SEE region more attractive for investment over the last four years
Sustainability	<ul style="list-style-type: none"> IC extension of transfer of ownership to the region is an important element for the sustainability of the outcome Probability of sustainability can be increased through further transfer of ownership, for example, in the area of the political process and the Regional Roundtable for Investment promotion 			

Source : Interviews and A.T. Kearney analysis

The most effective areas of the Investment Compact involved the private sector, encouraged “co-leadership” and initiative of SEE stakeholders and focused on producing concrete results

Strengths and areas for improvement for Investment Compact program

Strengths	Areas for improvement
<ol style="list-style-type: none"> 1. <u>Increased FDI and employment</u> in specific countries such as Romania, Serbia and Moldova 2. <u>Promoted greater regional cooperation</u> on investment issues between governments in a region that was plagued by wars and ethnic strife 3. <u>Increased private sector involvement, credibility and effectiveness</u> by helping build institutions to dialogue with government and set targets for reform (eg; FICs and regional networks of FICs) 4. <u>Established the ground for greater regional ownership</u>: <ul style="list-style-type: none"> - Romania has taken on the role as co-chair of the investment compact for the last 2 years - Regional chairmanship of the roundtable on investment promotion and other regional networks that can continue dialogue at regional level (competition, tax, corporate governance, enterprise and small business) - Launch of regional foreign investor council to coordinate private sector priorities for reform at the regional level 5. <u>Institutionalized a monitoring process</u> for reform which focuses on short term critical targets 6. <u>Leveraged the OECD standards, brand and expertise</u> for the SEE region 	<ol style="list-style-type: none"> 1. More concentrated and continuous focus on the policy areas where the Investment Compact can achieve the strongest impact with limited resources 2. Continue to insist on concrete and practical initiatives over broader theoretical discussion 3. Systematic follow up on initiatives to ensure that actions that have been agreed upon are actually implemented 4. Take recommendations to the next level by providing SEE countries with more detailed guidelines on “how to” implement recommendations and network support to assist such actions 5. Monitor policy reform for FDI and local investment policy more effectively: <ul style="list-style-type: none"> - Monitor on a quarterly basis and provide short reports to all SEE countries and PT members - Use established and agreed criteria to determine level of implementation - Ensure systematic private sector involvement in establishing targets and measuring progress - Ensure that targets are concrete and measurable - Measure policy reform all the way to real implementation with a rating of steps to completion which uses a set of agreed indicators 6. Improve internal and external communication with succinct and meaningful messages 7. Further involve and draw lessons from other countries in the region which have joined the EC 8. Evaluate and measure each initiative and event on a more systematic and regular basis

Source : A.T. Kearney analysis

The feedback on the IC from the SEE countries is largely positive

Highlights from interviews

On regional cooperation *"SEE countries have learned to cooperate much more effectively over the last four years"* SEE government representative

On EPPA *"Your SME work has been helpful to make us focus on how we can support this important source of local investment "* SEE government representative

On Investment Promotion *"The investment promotion we conducted in Italy for the textile sector led to 3 investments from Italian companies and the creation of 1000 jobs in Moldova"*
SEE IP representative

*"In Padua we were in contact with 120 companies at the start. There was a follow up with 16 companies, 5 went far in negotiations, **and 2 eventually made an investment"***
SEE IP representative

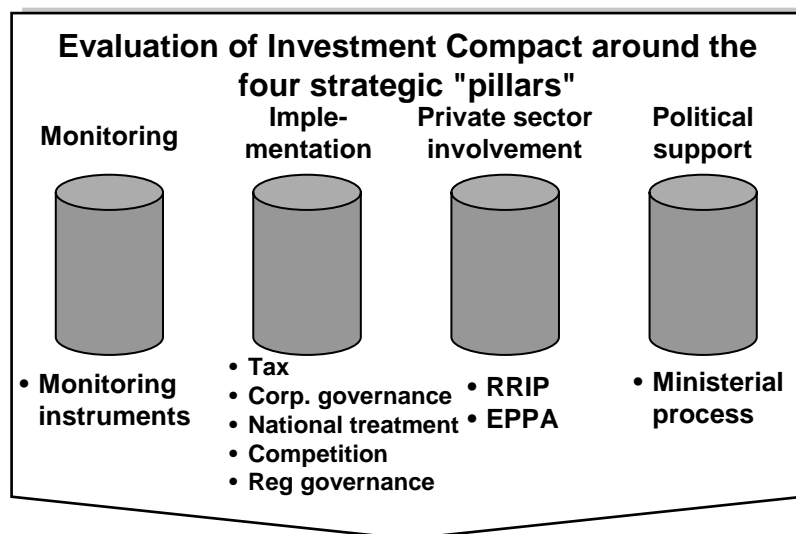
On White books *"The OECD brand gives greater weight to our White book"* FIC representative

On credibility *"OECD evaluations are very valuable because they are independent and come with a strong brand name"* former SEE government representative

Preliminary evaluation of the Investment Compact Program

- Overall evaluation
- **Top down: Evaluation by Strategic pillar**
- Bottom up: Evaluation by country

The top down approach to evaluation covers a total of nine initiatives



Initiative	Brief description ⁽¹⁾
• Monitoring instruments	• Monitoring of policy reform in 12-15 critical time bound targets per country
• Tax initiative	• Defining the best tax policy design for SEE countries through White Paper and technical workshops
• Corporate governance	• White Paper and four regional roundtables to support SEE countries in establishing a reliable system by which companies are directed and controlled to generate a more attractive investment climate
• National treatment	• Ensure greater commitment by SEE countries to accord foreign investors no less favourable treatment than that accorded to domestic companies
• Competition	• Policies – including legal framework and institutions - to create a level playing for companies in SEE
• Regulatory governance	• Improving the policy approach through removing unnecessary regulation and measuring impact of new regulation
• Regional Roundtable for Investment Promotion	• Regular gathering of investment promotion agencies of the SEE to meet investors in a target country on sectoral or general investment topics
• Enterprise Policy and Performance Assessment	• Assessment of government SME policy in SEE countries through structured feedback from the private sector
• Ministerial process	• Annual meeting with Ministers of the SEE countries and private sector to increase regional networking and private / public debate and agree upon action in a specific area of investment policy (eg; National treatment in 2003)

Note: (1) See appendix for more detailed description of some initiatives
 Source: A.T. Kearney analysis, World Bank

The most effective areas of the Investment Compact involved the private sector, encouraged “co-leadership” and initiative of SEE stakeholders and focused on producing concrete results

- FDI Policy and Promotion and Enterprise Policy and Performance development (EPPA) have been the two most effective and differentiated initiatives of the Investment Compact. Both initiatives:
 - Involved the private sector from the start
 - Were driven by a focus on concrete action and results
 - Encouraged SEE stakeholders to participate in leading the initiative to completion
 - Coordinated effectively with other international institutions
- The Monitoring Process has encouraged governments to focus on select priorities for reform but needs refining to measure real implementation
- Private sector involvement has been one of the most notable differentiating factors for the IC but can be further improved through a strengthening of structures and full integration with the Monitoring Process
- The Political Process is viewed as important to ensure awareness, endorsement, and buy-in at the government level but now needs to be more action oriented and go beyond the Minister level (eg; Parliament, local government)
- The Competition Policy and National treatment initiatives were carefully designed around a “bottom up” participatory approach, ensured continuity in participants, and were effective in encouraging participating countries to prepare meetings and produce action plans. The main weakness of the Competition Policy initiative has been around the follow up of country action plans and the support in implementation
- The Corporate Governance initiative has clearly raised awareness about Corporate Governance among SEE stakeholders and encouraged formal and informal networking among regulatory authorities and the private sector in the region. The subject is not perceived as vital by investors as in other areas
- Tax and Regulatory Reform have been less effective initiatives mainly because the reports produced are seen as too descriptive and theoretical and countries are seeking more guidance on practical “how to” steps

The Monitoring Process has encouraged governments to focus on select priorities for reform but needs refining to measure real implementation

		Category	Strengths	Weaknesses	Suggestions for improvement
Outcome	Process	Relevance of objective	<ul style="list-style-type: none"> Regional approach to target setting and monitoring and peer review In line with higher order objectives of IC charter and donor community Public and Accessible 	<ul style="list-style-type: none"> Many other international organisations are already monitoring progress but on a country by country basis 	
		Effectiveness	<ul style="list-style-type: none"> Helped countries focus on action needed Perceived as constructive by investors 	<ul style="list-style-type: none"> Homogeneity of targets between countries Difficulty to achieve consensus 	
		Design	<ul style="list-style-type: none"> Top 3 approach and deadlines helps focus on priorities Target setting by SEE countries creates ownership 	<ul style="list-style-type: none"> Current scoring system does not allow measure of implementation Monitoring is not frequent enough 	<ul style="list-style-type: none"> Change scoring to 1-5 Monitor on a quarterly basis Consider introducing scorecards
		Execution	<ul style="list-style-type: none"> Region wide participation and benchmarking Reality checks with private sector 	<ul style="list-style-type: none"> CET's have not functioned well Lacked regular private sector involvement Targets not always measurable 	<ul style="list-style-type: none"> Formalize links and input from private sector Streamline and link with private sector More on the ground support Ensure that all targets are measurable
		Communication	<ul style="list-style-type: none"> Regular updates with donor countries Website dedicated to IC Easy access to the instrument 	<ul style="list-style-type: none"> No dedicated media program Limited visibility in the press Need for more one pagers 	<ul style="list-style-type: none"> Dedicate a person in IC team and CETs to communication and website Synthesize and simplify outputs to reach a broader audience
		Coordination	<ul style="list-style-type: none"> Active coordination with other international organizations on specific topics (EPPA with EBRD and EC) 	<ul style="list-style-type: none"> Not seen by SEE countries on an approved part of the accession process Co-ordination with of initiatives could be strengthened (ex: corruption trends) 	<ul style="list-style-type: none"> Strong endorsement by EC of targets that are set.
		Evaluation	<ul style="list-style-type: none"> Refocus on monitoring instruments in response to feedback from donor countries 	<ul style="list-style-type: none"> No process in place to obtain regular feedback from users 	<ul style="list-style-type: none"> Incorporate regular feedback from users
		Efficiency	<ul style="list-style-type: none"> Monitoring conducted with very limited resources 	<ul style="list-style-type: none"> Responsiveness and timeliness from specific countries Need for more in-depth analysis at times 	<ul style="list-style-type: none"> Need greater local presence for more objective and timely evaluations
		Innovation	<ul style="list-style-type: none"> Regional approach to regular monitoring with private sector involvement is unique 		<ul style="list-style-type: none"> Make greater use of the web as a tool for communication
Outcome					
Sustainability		<ul style="list-style-type: none"> Concept introduced and run for four years 	<ul style="list-style-type: none"> Local capacity and continuity of people familiar with process 	<ul style="list-style-type: none"> Stronger links with FIC instruments (ex: White Book) 	

Source : A.T. Kearney analysis

Strengths and areas for improvement of the Monitoring process

Strengths and areas for improvement of Monitoring Instruments

Strengths	Areas for improvement
<ul style="list-style-type: none"> • Open and transparent means of communicating progress of SEE countries towards achieving commitments made in the Investment Compact • Promotes reform in the SEE region through systematic benchmarking with peer review • Communication tool to private sector investors to track progress in economic reform in South East Europe countries • Country specific and cross regional perspective on the reform process • Target setting by governments creates ownership • Continuous process of Monitoring allows stakeholders to follow progress from the start to the end of the project • Manage progress towards individual and common goals 	<ul style="list-style-type: none"> • Consistency of Monitoring Instruments with the Foreign Investor Council White Papers for reform • Stronger involvement from the private sector (<i>"I would use the MI if I was more involved in the process"</i> FIC representative) • Stronger guidance from OECD Investment Compact team needed in selection process for top investment issues to monitor for each country • Homogeneity and measurability of targets between countries • Ability to measure implementation (1-5) • Need to follow up on past targets • Need to adapt format of Monitoring Instruments to different relevant audiences: <ul style="list-style-type: none"> - Concise format for private sector investors or donor countries - More extensive and detailed version for policy makers in the SEE region

Source: A.T. Kearney analysis

The IP Initiative has structured a regional approach to investment promotion which has led to concrete investments and job creation in SEE

		Category	Strengths	Weaknesses	Suggestions for improvement
Outcome		Relevance of objectives	<ul style="list-style-type: none"> Regional approach to promotion in line with number one reason for FDI: market size Differentiation: no other regional promotion initiative in SEE 	<ul style="list-style-type: none"> Strong differences in country evolution Direct investment should be stated and measured as an objective 	<ul style="list-style-type: none"> More formal statement of objectives
		Effectiveness	<ul style="list-style-type: none"> Reshaping of thinking about IP in the region Direct exposure to new potential investors Some FDI projects delivered 	<ul style="list-style-type: none"> Imbalance towards wealthier countries needs to be rectified 	<ul style="list-style-type: none"> Focus more on systematic skill training in IPAs and network other expert groups to play stronger role
	Process	Design	<ul style="list-style-type: none"> Formal regional chairman (greater ownership) Intra-regional sharing Active participation by all SEE countries 	<ul style="list-style-type: none"> No structural indicators to measure success of initiative Not enough training at IPA level 	<ul style="list-style-type: none"> Introduce simple measurement criteria and formal feedback loop More practical training and stronger links to institutions which provide effective training
		Execution	<ul style="list-style-type: none"> Hosting and support from OECD countries Sharing of practical experiences 	<ul style="list-style-type: none"> Investment promotion agency reps do not get enough feedback and training 	<ul style="list-style-type: none"> Consider series of capacity building workshops
		Communication	<ul style="list-style-type: none"> Good internal communication Dedicated business cards Some press releases Investor of the Year award 	<ul style="list-style-type: none"> Limited publicity and visibility in the press Concrete results of RRIP not published 	<ul style="list-style-type: none"> RRT plan should have a communications strategy and resources to enable this
		Coordination	<ul style="list-style-type: none"> Solid coordination with host country IPAS 	<ul style="list-style-type: none"> Could benefit from links to related bilateral programs 	<ul style="list-style-type: none"> Coordinate more with FICs and bilateral chambers
		Evaluation	<ul style="list-style-type: none"> Feedback through the RRT group which is incorporated 	<ul style="list-style-type: none"> Systematic measurement after each event 	<ul style="list-style-type: none"> Introduce systematic measurement after each event with quick survey
		Efficiency	<ul style="list-style-type: none"> Effective impact for limited budget 	<ul style="list-style-type: none"> Not enough communication before planned event or preparatory work by IPAs 	<ul style="list-style-type: none"> More intensive communication and preparation before planned event
		Innovation	<ul style="list-style-type: none"> Concrete example of regional collaboration Reshaping of thinking about IP in the region 		<ul style="list-style-type: none"> Specific action on intra-regional desirable
		Outcome	<ul style="list-style-type: none"> Only international program to support a regional approach to FDI promotion Positive feedback from IP agencies 	<ul style="list-style-type: none"> Practical needs of potential investors not always met No process/criteria to measure success 	<ul style="list-style-type: none"> Need more integrated view of region Criteria to measure success
	Sustainability	<ul style="list-style-type: none"> RRT with regional leader provides a solid basis for continuity 	<ul style="list-style-type: none"> Organization of future events still depends very much on IC team 	<ul style="list-style-type: none"> Prepare greater transfer of ownership to regional IC offices and IPAs 	

Source : A.T. Kearney analysis

Strengths and areas for improvement of Investment Promotion

Strengths and areas for improvement of Investment Promotion

Strengths	Areas for improvement
<ul style="list-style-type: none">• Regional approach to investment promotion• Generate concrete and direct contacts with real potential investors• Some contacts with investors have been transformed into greenfield FDI on the ground, e.g. Swiss investment in Romania, two Italian investments in Serbia leading to new jobs• Regional leadership of RRT provides the foundations for continued transfer of ownership	<ul style="list-style-type: none">• Focus more on capacity building and training (<i>"We need more training for promotion. It is worth exchanging experiences with leading IP agencies like Ireland or Czech Rep"</i> SEE IP representative)• Give greater voice to existing foreign investors in the region (<i>"It is important to highlight real business and success stories when we do promotion for the region"</i>, SEE IP representative)• Increase coordination with regional FICs, Bilateral Am Chams and National Chambers• Communication strategy• Measurement criteria for success

The EPPA has been most effective through its systematic involvement of the private sector and drive to focus on concrete actions and results

		Category	Strengths	Weaknesses	Suggestions for improvement
Outcome		Relevance of objectives	<ul style="list-style-type: none"> In line with IC Charter Differentiation through focus on SME private sector input 	<ul style="list-style-type: none"> Objective to put forward to implementation needs better elaboration 	
		Effectiveness	<ul style="list-style-type: none"> Specific examples of direct contribution (ex: setting up Agency for Entrepreneurship in Macedonia) 	<ul style="list-style-type: none"> Link with EPPA and technical assistance in each country 	
	Process	Design	<ul style="list-style-type: none"> Leveraging of local consultants and CET leaders Structured input from private sector through workshops 	<ul style="list-style-type: none"> No survey administered to broaden data points Certain dimensions selected are less known by the private sector to provide input (ex: Incubators) 	<ul style="list-style-type: none"> Focus on dimensions most relevant to private sector input Introduce questionnaire to replace focus groups
		Execution	<ul style="list-style-type: none"> Effective fine tuning of methodology through structured feedback process 	<ul style="list-style-type: none"> Some difficulty in keeping to deadlines Uneven quality control of consultants between countries 	
		Communication	<ul style="list-style-type: none"> Effective dissemination of report to other international organisations 	<ul style="list-style-type: none"> Very limited press 	<ul style="list-style-type: none"> Consider presenting results at local government level Translate in local language
		Coordination	<ul style="list-style-type: none"> Joint effort with the EBRD and the EC EPPA used as input for EU SME Charter 	<ul style="list-style-type: none"> Delays in coming out with results have made timely input in EU Small Business Charter process more difficult OECD structure makes it difficult to gain input from other SME experts within OECD 	
		Evaluation	<ul style="list-style-type: none"> Forums to revise methodology and results 	<ul style="list-style-type: none"> No periodic structured evaluation process 	
		Efficiency	<ul style="list-style-type: none"> Employment of local consultants 		<ul style="list-style-type: none"> Consider leveraging local universities and using questionnaires to reduce costs on future assignments
		Innovation	<ul style="list-style-type: none"> Excellent example of coordination between several international organisations 		
		Outcome	<ul style="list-style-type: none"> Unique cross regional coop assessment + concrete recommendations 	<ul style="list-style-type: none"> Local language versions 	<ul style="list-style-type: none"> Road shows to disseminate main recommendations with local industry groups and local gvt officials
	Sustainability	<ul style="list-style-type: none"> South East Europe Enterprise Forum 	<ul style="list-style-type: none"> Should be chaired by regional actor 		

Strengths and areas for improvement of EPPA

Strengths and areas for improvement of EPPA

Strengths	Areas for improvement
<ul style="list-style-type: none">• Structured feedback from the private sector on critical areas of government SME policy• Contribution to policy implementation in specific areas (ex: setting Agency for Entrepreneurship in Macedonia)• Close coordination and alignment with EBRD and EU• Provides unique cross regional picture of issues facing enterprises and SMEs• Peer pressure process through South East Europe enterprise forum	<ul style="list-style-type: none">• Ensure EPPA is completed in time to be used as private sector input in SME Charter process• Surveys can periodically replace live workshops for continued feedback from private sector• EPPA work can now be taken to the next level for more detailed support in implementation• Define indicators to measure performance• Follow through on recommendations• Clarify the mandate of the Enterprise Forum

The Political Process is important to ensure awareness and endorsement, at the government level but now needs to extend to other levels

		Category	Strengths	Weaknesses	Suggestions for improvement	
Outcome		Relevance	<ul style="list-style-type: none"> • Overriding objective of generating political support for reform in the region is critical to achieve implementation 	<ul style="list-style-type: none"> • Definition of political support too narrow 	<ul style="list-style-type: none"> • Include Parliamentarians and local government in targets for support 	
		Effectiveness	<ul style="list-style-type: none"> • All SEE countries endorsed common declarations in the last annual Ministerials and at the Tax Ministerial 	<ul style="list-style-type: none"> • Limited ownership because countries do not provide enough input into declarations 	<ul style="list-style-type: none"> • Circulate content well in advance of meetings so that all countries have real opportunity to provide input 	
	Process		Design	<ul style="list-style-type: none"> • Regular annual forum that follows up previous commitments • Private sector involvement 	<ul style="list-style-type: none"> • Not enough concrete debate between private sector and government • Need representation at lower levels of government (« the doers ») 	<ul style="list-style-type: none"> • Organise government/private sector workshops where additional debate can take place
			Execution	<ul style="list-style-type: none"> • Cross regional participation and IC visibility at SEE government level 	<ul style="list-style-type: none"> • Countries do not always send Ministers to the meeting • Outcome from ministerial meetings is not always communicated effectively back to SEE countries 	<ul style="list-style-type: none"> • Periodic reviews with countries on the specific progress on the declarations signed
			Communication	<ul style="list-style-type: none"> • High profile location in Vienna chosen for 2004 • Combination with Investor of the Year awards 	<ul style="list-style-type: none"> • Need more press coverage • Agenda and content for Ministerials is not communicated early enough for countries to prepare 	<ul style="list-style-type: none"> • Develop communications strategy • Specific objectives for the Ministerial meetings should be more explicitly communicated in advance
			Coordination	<ul style="list-style-type: none"> • Wide participation of SEE countries 	<ul style="list-style-type: none"> • Greater participation by IFIs desirable 	<ul style="list-style-type: none"> • More involvement by SEE countries needed to maximise impact
			Quality	<ul style="list-style-type: none"> • Excellent support by Austrian co-chair 	<ul style="list-style-type: none"> • No process or indicators to evaluate performance of Ministerial meetings 	
			Efficiency		<ul style="list-style-type: none"> • Direct return on investment difficult to measure 	
			Innovation			
			Outcome	<ul style="list-style-type: none"> • Good opportunity for networking between private sector and government 	<ul style="list-style-type: none"> • Concrete outcome of Ministerial meetings is not always clear to participants 	<ul style="list-style-type: none"> • Need for action plan at the end of each Ministerial
	Sustainability	<ul style="list-style-type: none"> • Solid example for SEECF to follow 	<ul style="list-style-type: none"> • Lack of responsibility given to SEE regional organisations for preparation and management of meetings 	<ul style="list-style-type: none"> • Consider transfer of political process to the SEECF and the modalities that could achieve this effectively 		

Source: A.T. Kearney analysis

Strengths and areas for improvement of Political Process

Strengths and areas for improvement of political process

Strengths	Areas for improvement
<ul style="list-style-type: none">• Brings governments of region together with special focus on private investment levels• Align Ministers of the region under a common declaration on investment• Opportunity for networking between government and private sector• Creates more visibility of reform process• Helps to counteract discontinuity in government / ministers through regular involvement	<ul style="list-style-type: none">• Need for more debate between government and private sector• Go beyond Ministers to Parliament and local government (eg; Consider inviting small groups of Parliamentarians to join Ministerial delegation)• Level of representation between governments is at times uneven• Need to specify action plans at the end of the meetings• Follow up on commitments made in previous meetings• More effective communications strategy• Regional Co-Chair should take a greater role in overall process (with modalities to be defined)

Competition Policy action has raised awareness and networking among SEE authorities

		Category	Strengths	Weaknesses	Suggestions for improvement	
Outcome		Relevance of objectives	<ul style="list-style-type: none"> • In line with IC Charter and key building block for foundation of an attractive investment environment • Regional need for competition authorities to learn how to identify key barriers to competition and draw out action plans • Focus on raising skills understanding 			
		Effectiveness	<ul style="list-style-type: none"> • Networking between competition authorities • Improved ability of competition authorities to write inventory reports and action plans • Change in mindset about competition (ex: role of advocacy for Comp authorities) 	<ul style="list-style-type: none"> • Difficult to ensure continuity because Initiative was interrupted after one and half years because of lack of funding 	<ul style="list-style-type: none"> • Ensure that budget for follow through is factored in at the start of the project 	
	Process		Design	<ul style="list-style-type: none"> • Bottom up thematic meetings encouraged participation and created ownership • Recruitment of regional players to lead the process (Slovenia, Bulgaria and Macedonia) • Country inventory reports before meetings and action plans after the meetings • Requirement of continuity in participants 	<ul style="list-style-type: none"> • Present competition authorities with a model inventory report and action plan at the end of the first meeting • Process for follow up on action plans 	<ul style="list-style-type: none"> • Provide more support to SEE countries with best practice models of “how to”
			Execution	<ul style="list-style-type: none"> • Key OECD knowledge made available before meetings • Consistency in participants and active participation 	<ul style="list-style-type: none"> • No systematic follow up on action plans 	
			Communication	<ul style="list-style-type: none"> • Media invited to Belgrade event 	<ul style="list-style-type: none"> • Very limited communication overall 	<ul style="list-style-type: none"> • Greater focus on media communication for local events
			Coordination	<ul style="list-style-type: none"> • Solid collaboration between OECD Competition Division and IC team • Coordination with EC DG Competition 		<ul style="list-style-type: none"> • Work more closely with EC
			Evaluation	<ul style="list-style-type: none"> • Participant feedback forms filled out at the end of each thematic meeting 	<ul style="list-style-type: none"> • Results from participant feedback not publicized for evaluation 	<ul style="list-style-type: none"> • Leverage feedback forms to communicate excellence of initiative
			Efficiency	<ul style="list-style-type: none"> • Solid return on investment for very limited budget 		
			Innovation	<ul style="list-style-type: none"> • Bottom up approach to addressing competition issues with the region • Recruitment of regional players to lead the process 		
		Outcome	<ul style="list-style-type: none"> • Network between competition authorities in the region • Change in mindset about competition • Specific implementation of policy targets in MI 	<ul style="list-style-type: none"> • Systematic Follow up on country inventory reports and action plans 		
	Sustainability	<ul style="list-style-type: none"> • Sustainability is made stronger by establishment of formal regional network of competition authorities 	<ul style="list-style-type: none"> • Official mandate for network not specified 	<ul style="list-style-type: none"> • Give a clearer mandate to SEE competition network 		

Source : A.T. Kearney analysis

Strengths and areas of improvement of Competition Policy initiative

Strengths and areas for improvement of Competition Policy initiative

Strengths	Areas for improvement
<ul style="list-style-type: none">• Bottom up process of thematic meetings encouraged participation and created ownership• Active preparation through country inventory reports before each meeting and action plans following the meetings• Recruitment of regional players to provide expertise (Slovenia) and lead the process (Bulgaria and Macedonia)• IC work on competition has created demand for a follow up initiative around competition policy in the Balkans sponsored by the EU• Continuity in the participants	<ul style="list-style-type: none">• Lack of continuity in initiative (linked to limited funding)• Limited follow up on action plans prepared by each country• Very limited communication around initiative• Provide a more precise mandate to SEE competition network

Real follow through on National Treatment will be tested at Ministerial in July

		Category	Strengths	Weaknesses	Suggestions for improvement
Outcome		Relevance of objectives	<ul style="list-style-type: none"> In line with IC Charter and key building block for foundation of an attractive investment environment Principles embodied in numerous bilateral treaties and OECD investment instruments Specific expertise of the OECD 		
		Effectiveness	<ul style="list-style-type: none"> Detailed inventories on a country by country basis Peer review between SEE countries Networking between CET leaders of SEE countries 	<ul style="list-style-type: none"> Lack of continuity in CET team 	<ul style="list-style-type: none"> Make continuity of participants a pre-requisite from the start
	Process	Design	<ul style="list-style-type: none"> Bottom up thematic meetings encouraged participation and created ownership Synthetic tables used for regional follow up 	<ul style="list-style-type: none"> Full scope of industrial sectors covered from the start Real implementation is not measured 	<ul style="list-style-type: none"> Consider focusing on just a few sectors at the start to make the concept of National Treatment more concrete for SEE participants Define scoring system to measure all the way to implementation
		Execution	<ul style="list-style-type: none"> Excellent inventory reports Solid preparation of SEE states at the roundtables 	<ul style="list-style-type: none"> Not enough participation in the debate by SEE countries Limited input from some countries (eg; Croatia) 	
		Communication	<ul style="list-style-type: none"> Ministerial in Vienna used as vehicle for communication around NT (Article 6 of July 2003 Ministerial statement) 	<ul style="list-style-type: none"> Need for more communication to demystify National Treatment Very limited communication overall 	<ul style="list-style-type: none"> Simplify wording and greater focus on media communication for local events
		Coordination			
		Evaluation			
		Efficiency	<ul style="list-style-type: none"> Solid impact with limited budget 		
		Innovation	<ul style="list-style-type: none"> Cross regional comparison of National Treatment 		
	Outcome	<ul style="list-style-type: none"> Networking between CET leaders in the region Greater awareness of National Treatment Ministerial statement on common action around NT 			
	Sustainability	<ul style="list-style-type: none"> Sustainability is supported by EU accession process and prospect of becoming a member of OECD 			

Source : A.T. Kearney analysis

Strengths and areas for improvement of National Treatment initiative

Strengths and areas for improvement of National Treatment initiative

Strengths	Areas for improvement
<ul style="list-style-type: none">• Bottom up thematic meetings encouraged participation and created ownership• Country inventory reports before meetings and action plans after the meetings• Networking between CET leaders of SEE countries• Specific OECD expertise• Sustainability is supported by EU accession process and prospect of becoming a member of OECD	<ul style="list-style-type: none">• Introduce scoring system to measure real implementation• Limited input and participation from some countries (eg; Croatia)• Greater focus on communication

The Tax initiative was not clearly structured around concrete action for SEE

		Category	Strengths	Weaknesses	Suggestions for improvement	
Outcome		Relevance of objectives	<ul style="list-style-type: none"> • In line with IC Charter • Tax is one of the key areas to influence investment • Recognised expertise of OECD 	<ul style="list-style-type: none"> • Specific objectives not clear from the outset other than the production of a report 	<ul style="list-style-type: none"> • Make specific intermediate objectives very clear from the outset 	
		Effectiveness	<ul style="list-style-type: none"> • Short term recommendations included in December 2003 Ministerial declaration 	<ul style="list-style-type: none"> • Limited change observed in gvt tax policies • Lack of conditionality to enforce implementation in this sensitive area 	<ul style="list-style-type: none"> • Stronger link to Monitoring Instruments 	
	Process		Design	<ul style="list-style-type: none"> • Leveraging of CTPA network to conduct workshops and train on implementation 	<ul style="list-style-type: none"> • No process in place for systematic follow up and peer review process 	<ul style="list-style-type: none"> • Include systematic review and follow up as vital part of process • Adapt CPTA training to SEE countries
			Execution	<ul style="list-style-type: none"> • OECD team produced a very solid report 	<ul style="list-style-type: none"> • Delays in producing the report • Difficulty in identifying right people for questionnaire • High turnover of SEE participants 	<ul style="list-style-type: none"> • No real follow up on objectives
			Communication	<ul style="list-style-type: none"> • Effective dissemination of report to other international organisations 	<ul style="list-style-type: none"> • Lack of regular meetings • Limited press • Better dissemination to the countries 	<ul style="list-style-type: none"> • Summary extracts in leaflet and distributed in local languages
			Coordination	<ul style="list-style-type: none"> • FIAS and IMF kept updated • Proposals in line with EU state aid rules 	<ul style="list-style-type: none"> • Joint involvement of EC and IMF desirable 	
			Evaluation	<ul style="list-style-type: none"> • Report sent to other international organisations 	<ul style="list-style-type: none"> • No process or metrics for evaluation especially coming from the SEE countries 	
			Efficiency		<ul style="list-style-type: none"> • Return on investment from budget is not clear 	
			Innovation			
		Outcome	<ul style="list-style-type: none"> • Final report is excellent • Ministerial declaration on tax signed by SEE governments • Decision to create a regional tax network 	<ul style="list-style-type: none"> • Concrete outcome for SEE countries beyond the final report and Ministerial declaration is not clear 	<ul style="list-style-type: none"> • Overall result is too theoretical for practical implementation in SEE countries 	
	Sustainability	<ul style="list-style-type: none"> • Regional tax network • Ministerial declaration 	<ul style="list-style-type: none"> • Limited sustainability of a report without real action plan per country 	<ul style="list-style-type: none"> • Provide more precise mandate for tax network 		

Source : A.T. Kearney analysis

Strengths and areas of improvement of Tax initiative

Strengths and areas for improvement of tax initiative

Strengths	Areas for improvement
<ul style="list-style-type: none">• Leveraging of Center for Tax Policy Administration network (CTPA) to conduct workshops and train SEE tax leaders on implementation• High quality final report• December 2003 Ministerial declaration to tackle key tax issues identified in report	<ul style="list-style-type: none">• Lack of clarity in specific objectives upfront (eg; objectives of the tax survey?)• Some recommendations viewed by local players to be too theoretical and not country specific enough (eg; tax incentives)• No process in place for systematic follow up of short term objectives:<ul style="list-style-type: none">• Tax expenditure reporting• Cost benefit assessment of main programs• Lack of continuity in participants• CPTA training not fully adapted to SEE countries

Awareness about Corporate Governance has been raised in SEE but the subject is not perceived as vital by investors compared to other areas

		Category	Strengths	Weaknesses	Suggestions for improvement	
Outcome		Relevance of objectives	<ul style="list-style-type: none"> • OECD regarded internationally as leading authority on Corporate Governance and only intl body of governance principles to address the entire CG framework (legal, institutional and regulatory) 	<ul style="list-style-type: none"> • Not clear how CG initiative fits in overall logic of Investment Compact • Some countries have more urgent priorities 		
		Effectiveness	<ul style="list-style-type: none"> • Awareness of CG was raised among stakeholders in SEE • Laws based on white Paper adopted by some SEE countries (eg; Macedonia) 	<ul style="list-style-type: none"> • Limited follow up on action plans 	<ul style="list-style-type: none"> • Include systematic review and follow up as vital part of process 	
	Process	Design	<ul style="list-style-type: none"> • expertise • RRT approach tried and tested in other regions 			<ul style="list-style-type: none"> • Insist on keeping same participants in all the RRTs
		Execution	<ul style="list-style-type: none"> • Roundtables well structured around the five chapters of OECD approach to CG 	<ul style="list-style-type: none"> • Limited participation from some countries (eg; Serbia) 		
		Communication	<ul style="list-style-type: none"> • Several communication events organised (eg; EBRD and EU communication event planned for 2004) 	<ul style="list-style-type: none"> • Not enough communication at the local level • Limited communication of White paper 	<ul style="list-style-type: none"> • Translate white paper and organise short presentations in local towns and provinces 	
		Coordination	<ul style="list-style-type: none"> • Joint initiative with the World Bank which has been conducted in many regions 	<ul style="list-style-type: none"> • Limited internal coordination between IC team and OECD Corporate Governance team 		
		Evaluation	<ul style="list-style-type: none"> • Feedback forms completed and used to improve meetings 			
		Efficiency	<ul style="list-style-type: none"> • OECD team experience in conducting CG initiatives in other parts of the world 			
		Innovation				
	Outcome	<ul style="list-style-type: none"> • White Paper and RRTs have been used to implement laws on CG for some countries • Translated in five different languages by SEE countries 	<ul style="list-style-type: none"> • Corporate governance not always perceived as first priority by investors 			
	Sustainability	<ul style="list-style-type: none"> • SEE regional network on corporate governance can contribute to sustainability 				

Source : A.T. Kearney analysis

Strengths and areas for improvement of Corporate Governance Initiative

Strengths and areas for improvement of Corporate Governance Initiative

Strengths	Areas for improvement
<ul style="list-style-type: none"> • OECD is recognised as the leading international body on Corporate Governance • Experienced team in Corporate Governance which has already conducted RRTs in many other regions of the world • Initiative clearly contributed awareness raising about corporate governance and the formation of formal and informal regional networks between country officials • Specific impact on legislation for some countries 	<ul style="list-style-type: none"> • Coordination and synchronisation with Investment Compact team was limited

The Regulatory Reform initiative needs to be more specific and action oriented to have any real impact

		Category	Strengths	Weaknesses	Suggestions for improvement
Outcome		Relevance of objectives	<ul style="list-style-type: none"> Excessive regulatory barriers are one of the key barriers to development of SMEs and foreign investment 	<ul style="list-style-type: none"> Intermediate objectives not clearly specified Strong overlap with other international organisations such as FIAS 	<ul style="list-style-type: none"> Make clear what is exactly included in this initiative (scope)
		Effectiveness		<ul style="list-style-type: none"> Report produced is too generic and theoretical More specified action plan by countries needed Overall effectiveness very limited 	<ul style="list-style-type: none"> Future work should aim for more concrete action in specific policy areas
	Process	Design		<ul style="list-style-type: none"> No clear link to specific policy areas Too theoretical and not action oriented 	
		Execution	<ul style="list-style-type: none"> 2 reports produced 	<ul style="list-style-type: none"> Reports are very descriptive Limited links with other Investment Compact 	<ul style="list-style-type: none"> Orientation towards concrete action More specifics for each country
		Communication	<ul style="list-style-type: none"> Focus on Ministerial Declaration in 2004 	<ul style="list-style-type: none"> Many countries not clear as to scope and meaning of this initiative 	<ul style="list-style-type: none"> Clarify scope and meaning of Regulatory reform
		Coordination		<ul style="list-style-type: none"> Limited coordination with other international organisations 	
		Evaluation		<ul style="list-style-type: none"> No indicators or process in place to evaluate quality and impact 	
		Efficiency		<ul style="list-style-type: none"> Value for money is questionable 	
		Innovation		<ul style="list-style-type: none"> Approach to regulatory reform is not particularly innovative 	
		Outcome		<ul style="list-style-type: none"> No attachment to specific policy areas Too theoretical and not clearly driven towards results 	
	Sustainability	<ul style="list-style-type: none"> Regulatory Reform is focus of Ministerial in 2004 			

Source : A.T. Kearney analysis

Strengths and areas for improvement of Regulatory Reform initiative

Strengths and areas for improvement of Regulatory Reform initiative

Strengths	Areas for improvement
<ul style="list-style-type: none"> • Greater visibility by putting Regulatory Reform at the top of the Agenda of the next Ministerial 	<ul style="list-style-type: none"> • Specific intermediate objectives not clear • Generic concept of Regulatory Reform needs to be attached to specific policy areas • Recommendations too theoretical for practical application in SEE • No clear action plan • Limited results beyond reports which were produced

Preliminary evaluation of the Investment Compact Program

- Overall evaluation
- Top down: Evaluation by Strategic pillar
- **Bottom up: Evaluation by country**

While contributing to improve the investment environment of the SEE region as a whole, the impact of the Investment Compact program has been stronger in some countries relative to others

- Romania has been one of the greatest beneficiaries of the Investment Compact namely through the regional leadership experience it has gained as co-chair for the last two years
- Moldova has clearly benefited from the Investment Compact in the area of Investment promotion where at least 1000 jobs have been generated (3 Italian investments from Padua)
- Macedonia and Albania have made recent rapid progress in their cooperation with the Investment Compact and can point to specific impact on policy implementation
- Cooperation by Serbia and Montenegro and Bosnia and Herzegovina has been active but the outcome has been hurt by political instability
- Bulgaria has been primarily focused on accession to the EU and has not cooperated effectively or made good use of the IC at the government level until very recently
- Croatia is the country which has least benefited from the Investment Compact due to lack of commitment to the IC and significant discontinuity in Ministries and the country economic team

Active cooperation by Serbia has also been hurt by political instability

Key macro economic data for Serbia

	1999	2000	2001	2002	2003
GDP US\$M	10 090	8 670	11 545	15 686	15 500
FDI in flows US\$M	112	25	165	475	1300
Inflation rate (%)	27.1	NA	NA	14.8	7.8
Unemployment rate % - end year	27.9	28.4	27.5	22.7 <i>estimate</i>	34.5

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	<ul style="list-style-type: none"> Acquisition of construction rights has been simplified Concession Law and Secured transaction Law have been adopted
SME policy	<ul style="list-style-type: none"> A credit guarantee fund for SMEs has been established Tax facilities for SME Start up have been introduced Dissemination of information on institutional support to SMEs has been improved
Tax	<ul style="list-style-type: none"> Law on tax administration and tax procedures has been adopted
Corruption	<ul style="list-style-type: none"> A set of amendments improving the judicial organisation have been adopted & Staff involved in fighting organised crime has been increased (successful operations have been conducted against organised crime)

Evaluation of Investment Compact

Pillar	Comments
Political process	<ul style="list-style-type: none"> CET Leaders actively involved Actively involved in debate during ministerial and direct contribution to declaration Progress on National Treatment
Private sector involvement	<ul style="list-style-type: none"> Setting up and development of FIC Strong performance of SIEPA in RRT Two FDI transactions concluded
Monitoring instruments	<ul style="list-style-type: none"> Targets in line with foreign investor and donor priorities Timelines in response from CET
Policy implementation	<ul style="list-style-type: none"> Political instability since end 2002 has blocked implementation Laws corresponding to targets were ready to be discussed and passed by parliament
IC team performance⁽¹⁾	<ul style="list-style-type: none"> Local country presence was very important
Recipient country performance⁽²⁾	<ul style="list-style-type: none"> Strong overall performance Performance was hurt by political instability

"The investment environment has not improved over the last 2 years. All reforms have grounded to a halt"

FIC representative

"There is a great tax administration law which was passed but it is not implemented because of a serious lack of skills and institutions. Implementation needs to be more effective"

FIC representative

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Sources: National Bank of Serbia, A.T. Kearney analysis

Montenegro is struggling to maintain its focus on improving the investment environment

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	<ul style="list-style-type: none"> • New investment promotion agency established in 2004 • Strategic priorities for the Agency for Economic Restructuring and Foreign Investment Promotion have been identified
SME policy	<ul style="list-style-type: none"> • Local business centres, incubators and innovation centres have been established • Training programme for entrepreneurs and financial institution officers have been conducted
Tax	<ul style="list-style-type: none"> • A set of tax laws has been adopted • VAT has been introduced
Corruption	<ul style="list-style-type: none"> • A strategy and set of measures to reduce grey economy fight corruption and money laundering has been adopted • Law on money laundering has been adopted



Evaluation of investment Compact

Pillar	Comments
Political process	<ul style="list-style-type: none"> • CET Leaders actively involved
Private sector involvement	<ul style="list-style-type: none"> • Setting up and development of FIC • Development of new IP Tools
Monitoring instruments	<ul style="list-style-type: none"> • Targets defined difficult to monitor • Deadlines not well respected
Policy implementation	

IC team performance⁽¹⁾	<ul style="list-style-type: none"> • More ground presence needed
Recipient country performance⁽²⁾	<ul style="list-style-type: none"> • Performance hurt by political instability

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

Romania was one of the greatest beneficiaries of the Investment Compact through its Co-Chairmanship of the Program

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$ M	35 592	37 053	40 181	45 760	56 951
FDI inflows US\$M	1 025	1 009	1 315	1 061	1 533
Inflation rate %	45.8	45.7	34.5	22.5	15.3
Unemployment rate % - end year	11.8	10.5	8.8	8.4	7.2

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	<ul style="list-style-type: none"> Established Romanian Agency for foreign investments (ARIS)
SME policy	<ul style="list-style-type: none"> National credit guarantee fund Export credit assistance
Tax	<ul style="list-style-type: none"> Fast track process for VAT New corporate tax law Learned how to assess impact of tax incentives (tax modelling)
Competition	<ul style="list-style-type: none"> Streamlined competition authorities
Corruption	<ul style="list-style-type: none"> Very little progress
Corporate governance	<ul style="list-style-type: none"> OECD guidelines used to change law on minority shareholder rights

Evaluation of investment Compact

Pillar	Comments
Political process	<ul style="list-style-type: none"> Great strides made in leadership of region following nomination as Cochair
Private sector involvement	<ul style="list-style-type: none"> Greater consultation of private sector through EPPA Solid cooperation and interaction with IC
Monitoring instruments	<ul style="list-style-type: none"> MI in line with EU accession targets and FIC White book Gvt responded in timely way
Policy implementation	<ul style="list-style-type: none"> Policy review in 2002 and EPPA contributed to policy debate
IC team performance⁽¹⁾	<ul style="list-style-type: none"> Local presence has been an important factor Need to provide greater expertise
Recipient country performance⁽²⁾	<ul style="list-style-type: none"> Solid ownership and responsibility from the government team

"The investment compact has been very valuable for Romania and we are very committed to improve the investment environment at the regional level. We now need to continue the transfer of ownership of the Investment Compact from the OECD to the region"

Romanian Minister

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

In Bosnia and Herzegovina, private sector involvement has been the most effective of the four pillars

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$ M	4 901	4 743	5 015	5 609	7 020
FDI in flows US\$M	90	150	130	321	259
Inflation rate %	3.7	4.8	3.1	0.3	0.6
Unemployment rate % - end year	39.3	39.7	40.3	40.9	41.2

Key progress in improving investment environment over the last 4 years

Area	Progress
SME	• Company registration process improved significantly
Tax	• Set up indirect tax policy commission body

Evaluation of investment Compact outcome

Pillar	Comments
Political process	<ul style="list-style-type: none"> • Very decentralized government structure makes coordination difficult • Not very active in drafting of statements at Ministerial meetings
Private sector involvement	<ul style="list-style-type: none"> • Active contribution RRIPs • Foreign Investor Association is weak but actively involved in MI • Solid work on SMEs through EPPA
Monitoring instruments	• Targets selected in line with FIAS study
Policy implementation	• Monitoring instruments contributed to highlight the importance of reform in company registration
IC team performance⁽¹⁾	Satisfactory
Recipient country performance⁽²⁾	• Strong continuity in CET representatives after slow start

"We need new laws in auditing accounting, contract law, bankruptcy, registration of companies, tax...BiH still has a nuclear bomb-shelter tax!"

Government official

"Our main focus right now is to fulfill the requirements of the EU. Any help you can give us here is welcome"

CET leader

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

Bulgaria is now looking to work more closely with the Investment Compact to help attract FDI in the SEE region

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$M	12 946	12 597	13 557	15 563	19 858
FDI in flows US\$M	819	1 002	813	905	1 419
Inflation rate %	2.6	10.3	7.4	5.8	2.3
Unemployment rate % - end year	16.0	17.9	17.9	16.3	13.5

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	• Restructuring of Bulgarian Foreign Investment Agency (BFIA) with a specialisation by industry
SME policy	• Establishment of a credit scheme
Tax	• Adopted a uniform corporate tax rate of 23.5%
Competition	• Amendment of existing law

Evaluation of investment Compact

Pillar	Comments
Political process	• Level of representation for Bulgaria not high enough (as at period of evaluation)
Private sector involvement	• Relatively limited compared to Romania • Bulgaria Economic Forum uses network of IP agencies to put together SEE Investment guide
Monitoring instruments	• MI used as a tool for public policy debate between public and private sector
Policy implementation	• Policy implementation primarily influenced by EU implementation
IC team performance⁽¹⁾	• IC team could have been more active in Bulgaria
Recipient country performance⁽²⁾	• Strong instability of the CET • Limited involvement of the CET actors

"We have been so focused on meeting EU conditions for accession in the political and social sphere that we have not focused much on the investment environment. We now want to work with the Investment Compact to help make the region more attractive for investment. It is in the interest of all the countries in the region and we have a lot to bring in terms of experience"

Bulgarian government official

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

Macedonia has been a late bloomer in taking advantage of support offered by the IC

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$M	3 674	3 588	3 437	3 690	4 604
FDI in flows US\$M	32	178	445	81	97
Inflation rate %	-1.1	5.8	5.5	1.8	1.2
Unemployment rate % - end year	32.4	32.1	30.5	31.9	36.7

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	• New investment promotion agency to be set up
SME policy	• New agency for entrepreneurship and enterprise development (based on EPPA recommendations)
Tax	• Tax treatment still favours foreign investors
Competition	• Plans to create an independent agency in competition
Corruption	• Independent parliamentary committee set up to deal with corruption
Corporate governance	• New commercial company law modelled on OECD jurisdictions

Evaluation of investment Compact

Pillar	Comments
Political process	• More active contribution after May 2003
Private sector involvement	• Involvement with FIC effective when done on the ground • Preparation of White Book following contacts with regional FIC
Monitoring instruments	• Very limited govt. cooperation in first 2 years • Much better response since May 2003
Policy implementation	• New Agency for entrepreneurship and enterprise dvpt based on EPPA • New investment promotion agency to be set up • New commercial company law based on OECD guidelines
IC team performance⁽¹⁾	• Solid performance
Recipient country performance⁽²⁾	• Performance improved significantly after May 2003

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

Moldova is still struggling to move away from a control economy mentality

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$M	1 172	1 288	1 478	1 630	1 958
FDI in flows US\$M	40	148	155	146	92
Inflation rate %	34.3	31.1	9.6	5.2	15.7
Unemployment rate % - end year	11.1	8.5	7.3	6.8	7.9

Only gradual progress in improving the investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	• New investment law passed in April 2004 – the impact in its operation remains to be seen
SME policy	• No specific SME policy
Tax	• Tax administration not facilitating investment
Competition	• Independent competition authority has not been established
Corruption	• Anti-corruption agency has become a target for corruption

Evaluation of investment Compact

Pillar	Comments
Political process	• Stronger political support desirable at all levels of government including local government
Private sector involvement	• FIC recently set up with input from IC • Active foreign investment agency which has benefited from RRIP in Padua
Monitoring instruments	• MI used by gvt officials to put pressure on the administration • Solid cooperation
Policy implementation	• New investment law has passed

IC team performance⁽¹⁾	• Relatively limited focus on Moldova vs other SEE countries
Recipient country performance⁽²⁾	• Good effort on some initiatives but could be broadened

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

With many political changes, Croatia has not worked effectively with the IC but it is now looking to start again on a fresh basis

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$M	19 906	18 427	19 863	22 436	28 335
FDI in flows US\$M	1 467	1 088	1 561	1 123	1 712
Inflation rate %	4.8	6.2	4.9	1.8	1.7
Unemployment rate % - end year	13.5	16.1	15.8	14.8	19.2

Key progress in improving investment environment over the last 4 years

Area	Progress
FDI Policy & Promotion	<ul style="list-style-type: none"> Investment promotion agency is set up but not active
Competition	<ul style="list-style-type: none"> New competition agency with solid guidelines established Still need to demonstrate practical implementation (ex: Monopolies/ state owned enterprises)

"There has been no investment promotion in this country for the last two years"

Government official

"The OECD can have no impact on this country if it does not open an office in Zagreb"

Government official

Evaluation of investment Compact

Pillar	Comments
Political process	<ul style="list-style-type: none"> Very limited support in the political process Limited representation from the country
Private sector involvement	<ul style="list-style-type: none"> Investment Promotion Agency is set up but not active German/Croatia chambers of commerce input in MI; initial steps taken to form FIC
Monitoring instruments	<ul style="list-style-type: none"> Struggle to get responses Inconsistencies in targets Discontinuity in target fulfilment
Policy implementation	<ul style="list-style-type: none"> Nothing happened in 2003 Very limited impact
IC team performance⁽¹⁾	<ul style="list-style-type: none"> More ground presence needed
Recipient country performance⁽²⁾	<ul style="list-style-type: none"> Cooperation has very limited and the quality of the responses is inconsistent

"We have not been good at working with the Investment Compact. There has been no continuity. The CET leader is currently not even defined. We are ready to start working with you again but you need to come down and show us how"

Government official

"Western countries expect us to jump decades in a few years but we need to train politicians and business people over the long run"

Government official

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

Source: A.T. Kearney analysis, IMF, EBRD

Albania has made solid progress in its cooperation with the IC over the last four years

Key macro economic data

	1999	2000	2001	2002	2003
GDP US\$ M	3 445	3 694	4 254	4 835	6 113
FDI in flows US\$M	41.2	143	207.3	135.0	178.0
Inflation rate %	0.4	0.0	3.1	5.2	2.4
Unemployment rate % - end year	18.4	16.8	16.4	15.8	15.2

Key progress in improving investment environment over last 4 years

Area	Progress
FDI Policy & Promotion	<ul style="list-style-type: none"> • New Investment and export promotion agencies set up in 2003 by an act of Parliament
SME policy	<ul style="list-style-type: none"> • SME support agency operational in 2003 • Bankruptcy law is beginning to be implemented
Tax	<ul style="list-style-type: none"> • No real reform in tax administration and inspection
Corruption	<ul style="list-style-type: none"> • Little progress on the corruption front

Evaluation of investment Compact outcome

Pillar	Comments
Political process	<ul style="list-style-type: none"> • Strong political commitment and regular presence at Ministerial meetings • Minimal input in declarations at Ministerials • Lack of continuity linked to political changes in first three years
Private sector involvement	<ul style="list-style-type: none"> • IC inputs used by FICs for dialogue with gvt (Monitoring Instruments) • EPPA recommendations used to design SME support agency
Monitoring instruments	<ul style="list-style-type: none"> • Quality and timeliness of response • Responses involve all relevant ministries
Policy implementation	<ul style="list-style-type: none"> • EPPA recommendations used to set up SME support agency • MIGA and RRIP guidelines applied to set up IP agency
IC team performance⁽¹⁾	<ul style="list-style-type: none"> • Significant time devoted to Albania
Recipient country performance⁽²⁾	<ul style="list-style-type: none"> • Solid cooperation from the gvt team in Albania, especially in the last year

“Paper reports is not something we can live on. What we need is for the OECD to focus on one or two specific themes (eg; VAT) and push them through all the way to implementation”

Private sector representative

Notes: (1) Team performance in project identification, preparation, appraisal, implementation

(2) Extent to which recipient country assumes ownership and responsibility to implement commonly agreed upon targets

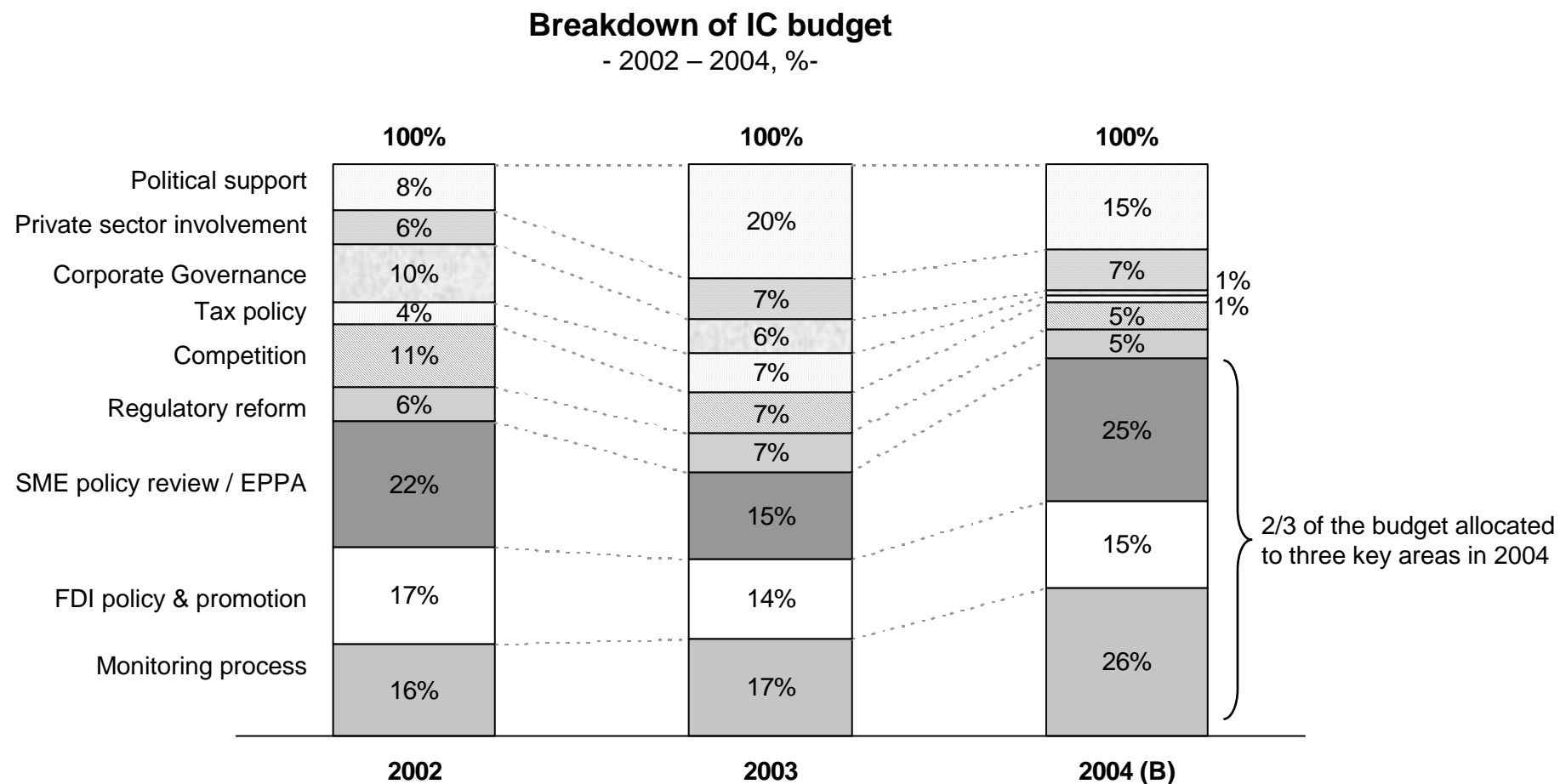
Source: A.T. Kearney analysis, IMF, EBRD

Budget and organisation

The IC budget has come from half of the OECD countries (17 countries)

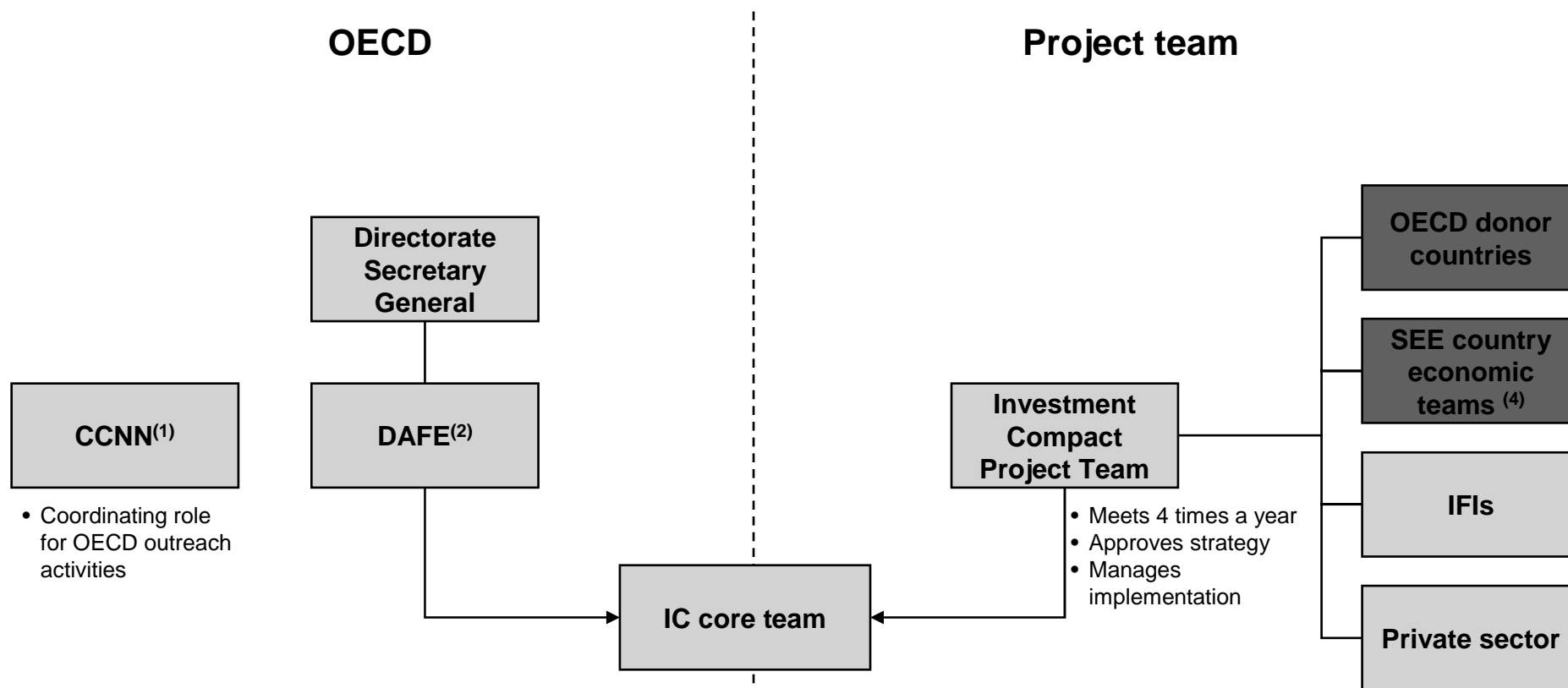
- Over half of all OECD countries (17 countries) have provided funding to the Investment Compact since its commencement
- OECD donor country support has been consistent and key to ensuring activity under the Investment Compact
- Switzerland has been the largest donor
- The specific reporting structure around a project team composed of donor and recipient countries has ensured greater accountability of how the limited IC budget is spent
- Equally important has been the active participation by OECD countries:
 - jointly leading the process (e.g. initially UK and now Austria as co-chair),
 - bringing their expertise/experience in policy reform to meetings
 - in reviewing and advising on IC strategy through the Project Team

More than two thirds of the IC budget is now allocated to three priority areas: Monitoring Process, FDI Policy and Promotion and EPPA



Source: Investment Compact, A. T. Kearney analysis

The specific reporting structure around a project team composed of donor and recipient countries ensures greater accountability over how the limited IC budget is spent



Notes: (1) Committee for Cooperation with Non Members

(2) Directorate for Financial & Enterprise Affairs

(3) Includes Director, 2 executives, 2 local representatives, 1 Financial controller & office manager, head of publishing, 3 administrative assistants

(4) Broad based country team which includes a CET leader, 5-6 other Ministers / deputy Ministers, representatives from the private sector and representatives from IFIs. The role of the CET is to be the liaison point for implementation.

Recommended strategy and actions

There is a wide range of areas that the Investment Compact can cover to help improve the investment environment in SEE

Potential areas of focus for the Investment Compact

Local and Foreign Direct Investment

- FDI strategy (*)
- Institutional framework
- Investment law
- Investment promotion in target countries (*)
- General and National treatment (*)

- Rule of law
- Competition policy (*)
- Administrative and regulatory barriers (*)
- Tax policy (*)
- Corruption
- Infrastructure
- Structured dialogue with government (*)
- Linkage between foreign and local investment

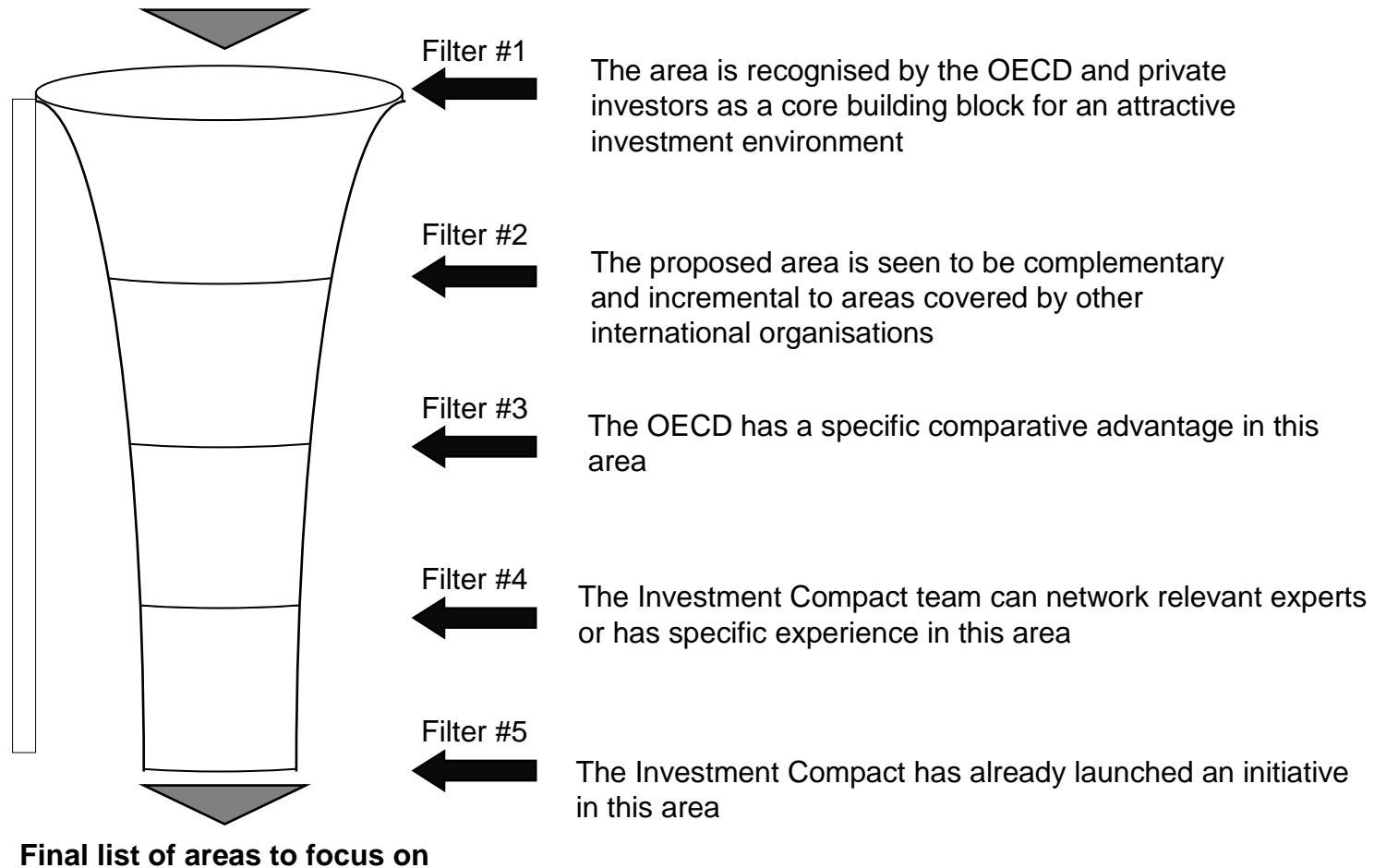
Enterprise and SME Policy

- SME strategy (*)
- Institutional framework for SMEs (*)
- Strategy and institutional framework for SMEs (*)
- Training and labor skills development (*)
- Access to credit and VC (*)
- Access to business advisory (*)
- Business incubation (*)
- R&D infrastructure and support
- Informal sector (**)

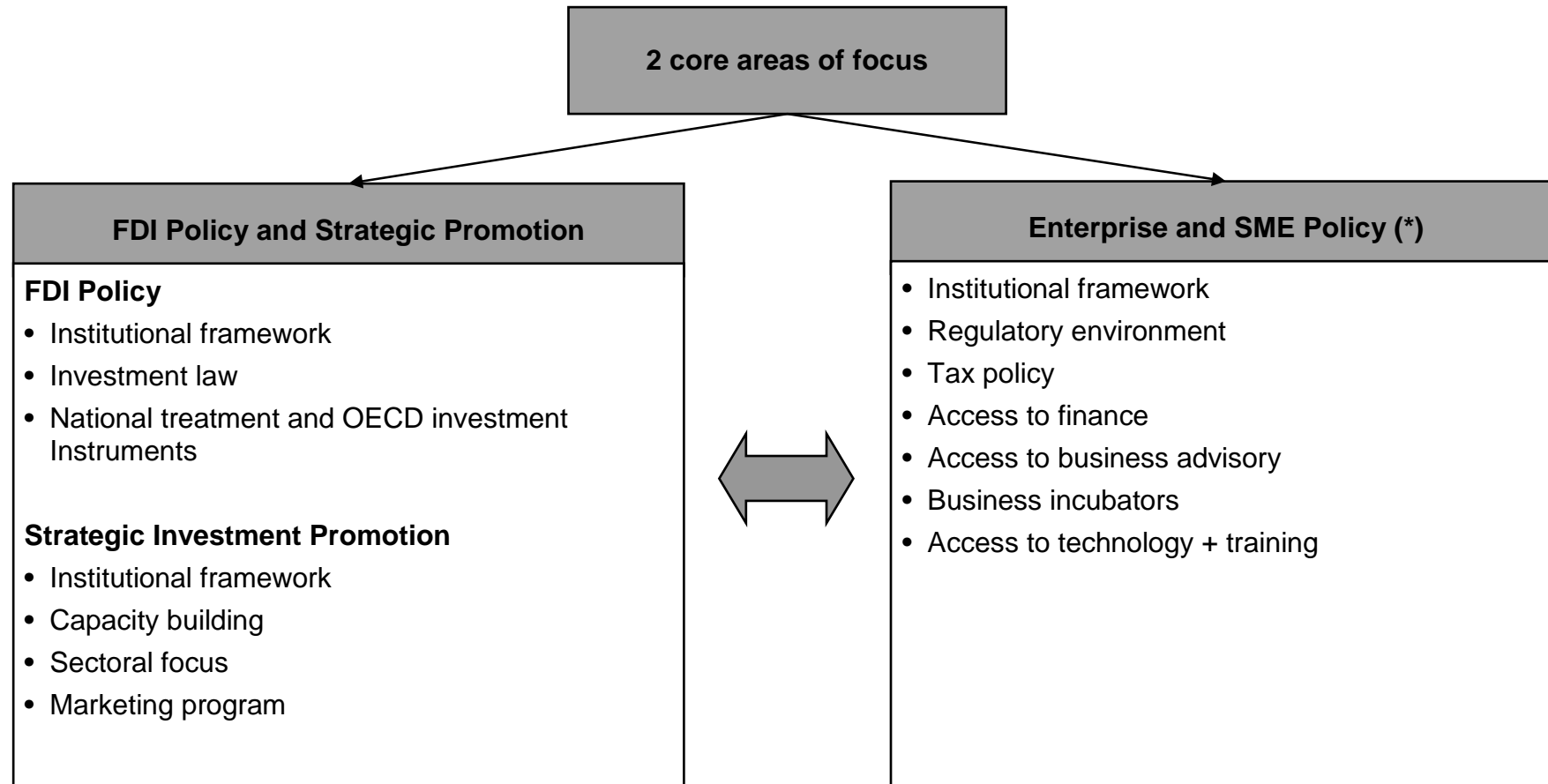
Note: (*) Current area of focus for Investment Compact (**) Pilot study in Albania may provide guide for regional wide initiative
 Source: A.T. Kearney analysis

The Investment Compact must focus on the areas where it has the greatest comparative advantage

Initial list of potential areas for the Investment Compact to cover



The IC should support SEE countries in policy implementation around 2 core areas: FDI Policy and Promotion and Enterprise and SME policy



Note: (*) Covers the six areas of the EPPA framework
 Source: A.T. Kearney analysis

Proposed actions for FDI Policy and Promotion and EPPA need to be taken on board by the IC Strategic plan

Initiative	Proposed actions
FDI Policy and Promotion	<ul style="list-style-type: none"> • Focus investment promotion only on specific sectors (avoid “general” investment promotion) • Prepare a more integrated presentation of the SEE region for each targeted sector (e.g. tourism, auto, food, etc.) • Target countries with closest geographical and cultural links to the region for maximum impact • Training: Conduct "dry run" presentation workshops to train the investment Promotion Agencies representatives • Incorporate live success stories from investors already in the region • Select criteria to measure success: <ul style="list-style-type: none"> -Number of contacts generated by country -% of contacts which turned into advanced discussions -% of contacts converted to investment -Total investment generated from the RRTs • Conduct a quick survey of investors after each RRT to identify areas for improvement
Enterprise and Policy Performance Assessment (EPPA)	<ul style="list-style-type: none"> • Take selected recommendations of the EPPA to the next level of “how to implement” for SEE governments • Ensure full consistency between EPPA findings and Monitoring process and use monitoring instruments to measure success of EPPA • Ensure that EPPA is fully synchronised with EU SME Charter process • Consider integrating local universities in in workshop process to help reduce costs • Consider using short questionnaires to provide a broader set of data and complement workshop approach

Country Economic Teams will need to be restructured into leaner and more focused operating units

Current weaknesses of CETs

- Role and mandate of CETs is not clearly outlined
- Too many members makes coordination difficult
- Membership to some CETs is limited to Ministries and does not include any representatives from the private sector or IFIs
- Lack of continuity with frequent change of political officials
- No “on the ground” support from the OECD



Recommended actions

- Specify role and mandate of CETs
- Restructure CETs into smaller, more manageable groups
- Integrate members from the private sector or at least ensure regular and structured consultation with the FICs
- Provide greater support to CETs with local support from Investment Compact

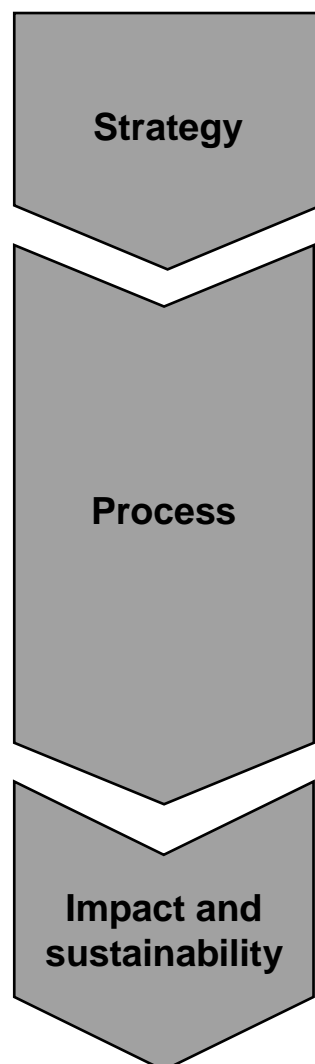
Going forward, the IC should concentrate its limited resources in areas of activity that achieve maximum impact around the four existing pillars

Monitoring process	Support in implementation	Private sector involvement	Political support
<p>Monitoring instruments:</p> <ul style="list-style-type: none"> • Focus on three targets for achievement in 6-12 months in four areas: <ul style="list-style-type: none"> - FDI Policy and Promotion - Enterprise and SME Dev. - Regulatory reform - Anti-corruption and Bribery <p>Guiding principles for targets:</p> <ul style="list-style-type: none"> • Concrete and measurable • Agreed with private sector and consistent with White Books • Selected by countries to ensure ownership • Step by step monitoring to implementation (scoring 1-5) • Reviewed on a quarterly basis <p>Process:</p> <ul style="list-style-type: none"> • Active local presence and project team missions • Peer review examinations twice a year • Communicate short quarterly reports on website 	<p>Focus on two key areas:</p> <ul style="list-style-type: none"> • FDI Policy and Strategic Promotion • Enterprise and SME policy <p>Guiding principles</p> <ul style="list-style-type: none"> • Focus on practical implementation steps that emphasize “how to” • Active participation from the private sector • Co-leadership from local stakeholders • Regular review with criteria to measure impact and results • Local presence <p>Vehicles</p> <ul style="list-style-type: none"> • FDI Policy and Promotion: Regional Roundtable for Investment Promotion • EPPA: SEE Enterprise Forum 	<p>Focus on two objectives:</p> <ul style="list-style-type: none"> • Strengthen and network private sector • Integrate private sector into monitoring process <p>Guiding principles</p> <ul style="list-style-type: none"> • Structured exchange around the Monitoring process • Regularity of interaction • Local presence <p>Process</p> <ul style="list-style-type: none"> • Regular consultation with national and regional FICs on a quarterly basis to synchronise White Books with Monitoring targets and to measure implementation • SME input through EPPA workshops • Consultation of BAC and BIAC 	<p>Raise political awareness of key reform issues:</p> <ul style="list-style-type: none"> • Ministers • Parliamentarians • Local government officials <p>Guiding principles</p> <ul style="list-style-type: none"> • Concrete action plan and commitment from SEE gvts at each Ministerial • Formal review of results achieved from actions decided in previous Ministerial • Promote structured and effective debate between government and private sector • Gradual involvement of SEECF (modalities to be defined) <p>Process</p> <ul style="list-style-type: none"> • Annual Ministerial meeting of Ministers and Parliamentarians with focus on one specific area for reform • Communication workshops conducted at local gvt level

Source: A.T. Kearney analysis

The Investment Compact should follow a set of strategic guidelines to ensure optimal consistency and effectiveness

Strategic guidelines to follow



Vision: Ensure that Investment Compact objectives are consistent with the vision outlined by the Stability Pact

Focus: Focus on policy areas and process as defined in the four pillars – deepen work on these and do not stray into new activities

Differentiation: Ensure that the work of the Investment Compact is complementary and incremental to areas covered by other international organisations

Execution: Establish a visible local presence to ensure stronger relations and credibility with governments and private sector

Coordination:

- Internal: Leverage the best OECD resources to support in policy implementation
- External: Continue synchronising work with other international organisations such as the EBRD and the EC

Communication:

- Internal: Ensure that donors are clear on IC focus and provide regular succinct updates on activities and results
- External: Ensure sufficient visibility with the media

Continuity: All initiatives undertaken must have sufficient budget to ensure follow up to implementation

Quality: Define the criteria upfront to measure the impact of all initiatives which are undertaken by the IC and ensure continuous improvement

Impact and concrete results:

- Aim to achieve real impact in the SEE region by ensuring that intermediate outputs produced are translated into effective outcomes for the region
- Avoid reports which are too generic or theoretical

Sustainability: Ensure co-leadership from the region in all activities and leverage existing local institutions (ex: SEECF) to ensure greater sustainability of outcomes