



STABILITY PACT WORKING TABLE II

INVESTMENT COMPACT FOR SOUTH EAST EUROPE

MINISTERIAL STATEMENT A REGIONAL FRAMEWORK FOR INVESTMENT IN SOUTH EAST EUROPE

MINISTERIAL CONFERENCE A REGIONAL FRAMEWORK FOR INVESTMENT IN SOUTH EAST EUROPE 2006

ORGANISED BY
**THE CO-CHAIRS OF THE INVESTMENT COMPACT:
AUSTRIA, BULGARIA AND THE OECD**

HOSTED BY
AUSTRIA

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MINISTERIAL STATEMENT

On the occasion of the 2006 Ministerial Conference of the South East Europe Compact for Reform, Investment, Integrity and Growth (Investment Compact), held in Vienna on 27 June 2006, the Ministerial Delegations of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Montenegro, Romania, Serbia, and the United Nations Interim Administration Mission in Kosovo (UNMIK) unanimously adopt the following Statement:

PREAMBLE

- Building on the commitment contained in the Investment Compact and the policy principles and good practices that have emerged through the work of the Investment Compact, as documented in the previous Ministerial Declarations of SEE Ministers;
- Acknowledging the progress achieved in improving the investment environment of SEE but noting that further improvements are necessary;
- Recognising the key importance of international, regional and domestic investment for economic development and social progress in the region;
- Stressing the need for a Regional Framework for Investment, hereinafter referred to as RFI¹, as a policy tool for participants to elaborate, implement and evaluate policies related to the improvement of the investment environment in the SEE region;
- Noting that the OECD Council adopted a global Policy Framework for Investment on 11 May 2006;
- Encouraging continued dialogue between public and private sector institutions in the contribution and promotion of reforms and transparency and other good governance practices, and the contribution of the private sector and non-governmental organisations to the reform process;
- Noting the importance of the EU Enlargement and Stabilisation and Association Process in the region, and that the RFI is fully in compliance with the participants' obligations vis-à-vis the EU accession;

¹ See Annex 1 for detail of RFI

- Calling for enhanced co-operation among the various Stability Pact Initiatives and the strengthening of partnerships between international organisations active in the region in order to support more efficiently efforts towards an improved investment environment;
- Affirming that this co-operation will be based on domestic and regional ownership of the reform process;
- Recognising the need to communicate effectively the progress in the reform process;

DECLARATION

Participants

1. Recognise that a favourable environment for domestic, regional and international investment depends on the implementation of an integrated program of action, and specifically on the Regional Framework for Investment with the following policy areas:
 - a. Investment Policy
 - b. Investment Promotion and Facilitation
 - c. Tax Policy
 - d. Anti-corruption and Business Integrity
 - e. Competition Policy
 - f. Trade
 - g. Regulatory Governance
 - h. Human Capital and Employment
 - i. Corporate Governance
 - j. SME Policy
2. Adopt the Regional Framework for Investment (RFI) as described in Annex 1;
3. Endorse the Investment Reform Index (IRI) process, developed by the Investment Compact, to provide a benchmark for comparatively assessing reforms in SEE and define domestic priorities.

IMPLEMENTATION AND FOLLOW UP

In line with the above principles, participants will:

- Establish, by the end of 2006, a South East Europe Investment Committee composed of senior government officials and private sector representatives from SEE participants as well as OECD countries to undertake peer reviews, and develop recommendations to improve policies for investment;
- Maintain the Investment Compact Project Team as the management and support body of the SEE Investment Committee;
- Commit to time-bound targets for reforms and make full use of the review process of policy reform established by the Investment Compact (i.e. the IRI) that provides a benchmark for comparatively assessing the results achieved and defining future priorities for action;
- Empower the SEE economic teams to provide effective policy coordination for the implementation of this framework;
- Strengthen regional networks established under the auspices of the Investment Compact, including the SME Roundtable, the Investment Promotion Roundtable, the Corporate Governance Roundtable, and the regional networks for competition, tax and regulatory reform; and to create task forces to deal with specific issues as appropriate;
- Enhance co-operation and co-ordination with other Stability Pact initiatives including the Trade Working Group, the Initiative for Social Cohesion, electronic South East Europe (eSEE), the Stability Pact Anti-Corruption Initiative and the Infrastructure Steering Group;
- Communicate effectively with provincial and local governments and the public to maintain momentum for reform at all levels;
- Consult with existing private sector networks such as Foreign Investors' Councils, chambers of commerce, BAC and BIAC, as well as with other appropriate business groups, private sector associations, social partners and civil society organisations to explore the development of investment opportunities, and to provide input in the formulation and implementation of investment policies, laws and regulations;
- Organise periodic meetings with representatives of parliamentary bodies and the judiciary to discuss key issues relating to the development and implementation of reform legislation;

- Continue to meet annually on Ministerial level under the auspices of the Stability Pact or its successor to review progress achieved.

Participants look forward to a first report on the application of this framework and the operation of these institutions in time for the 2007 Ministerial Meeting.

ANNEX 1

REGIONAL FRAMEWORK FOR INVESTMENT

1. Investment Policy

Implement investment policies based on the following elements:

- Elaborate clear and transparent domestic policies, laws, regulations and administrative practices that do not impose unnecessary burdens;
- Ensure coherence and stability of laws, regulations and administrative practices;
- Apply national treatment to foreign investors at both the pre-and post-establishment stage and ensure that exceptions are clearly formulated and brought to the attention of the Investment Compact;
- Promote an effective services sector, in particular through the removal of remaining obstacles to foreign investment in the areas of financial and professional services;
- Ensure timely and unrestricted transfer of the proceeds of investments;
- Guarantee repatriation of the capital when the investment is partially or fully terminated;
- Provide full protection of property, contractual rights including intellectual property and real estate ownership, as well as high standards on expropriation and compensation;
- Allow access for investors to effective dispute settlement mechanisms including government- ratified and binding instruments such as arbitration;
- Simplify visa, residency, and work permit regulations for key personnel for investment;
- Conclude and ratify international treaties with high standards of promotion and protection of investment and harmonise as far as possible treaty practices within the region;
- Encourage responsible business conduct through:
 - Investment policies that are consistent with sustainable development;
 - Dialogue with social partners on different aspects of investment policy;
 - Promotion of internationally agreed principles of good corporate conduct including the OECD Guidelines for Multinational Enterprises.

2. Investment Promotion and Facilitation

Define and implement an effective strategy of investment promotion that is specific and takes into account best practices, including the OECD Guidelines for Investment Promotion, such as:

- Elaborate government vision and policy on FDI among social partners, civil society and investors;
- Apply investment incentives in a transparent and non-discriminatory manner; undertake systematic reviews of cost/benefits of existing and planned incentives, according to the OECD Checklist on Incentives;
- Establish and/or strengthen Investment Promotion Agencies (IPA) with adequate human and financial resources, whose performance is regularly reviewed;
- Define strategic policy options and set out the corporate strategy and marketing plan for the IPA;
- Involve IPAs in identifying administrative barriers to FDI and establish a programme with clearly assigned responsibilities and target dates to remove such obstacles to investment;
- Set-up mechanisms for regular dialogue between IPAs and investors;
- Provide IPAs an opportunity to express their views on all policy areas related to investment to their governments;
- Encourage IPA involvement in international and regional networks and capacity-building initiatives;
- Facilitate investment and servicing of new and existing investors at all stages of the investment cycle, from start-up to post-investment and new expansion stages;
- Encourage greater integration of foreign business into the economy and the establishment of foreign investment through linkage programmes with SMEs.

3. Tax Policy

Take the following actions in line with the recommendations of the Statement of SEE Finance Ministers of 4-5 December 2003:

- Develop and administer a comprehensive tax strategy, consistent with economic development and investment strategies;
- Develop and maintain transparent, clear and predictable tax laws, regulations and administrative practices and explicit legal basis for all taxes, duties and similar charges; consolidate all income and profit tax laws into a single Code, supplemented by accessible explanatory materials and supporting information;
- Implement a tax system which is equally applicable to foreign and domestic investors;

- Develop a comprehensive tax treaty network to address international double taxation, minimise opportunities for abusive tax avoidance and provide greater certainty of tax treatment (e.g. through dispute settlement mechanisms, much as mutual agreement procedures amongst tax authorities);
- Apply the OECD Guidelines on Transfer Pricing and Thin-capitalisation and other anti-abuse rules to protect the domestic tax base;
- Employ cost/benefit analysis of tax incentives; make the evaluations available to parliamentary committees and the public;
- Implement a tax administration system based on a clear definition of tax payers' rights and responsibilities;
- Implement mechanisms for fast and efficient VAT reimbursement for exporters;
- Establish procedures for co-operation between tax and investment policy makers and investment promotion agencies, and for consultation of the private sector to improve tax policy design, and coherence of tax and investment policies.

4. Anti-Corruption and Business Integrity

Develop effective strategies, legislation and enforcement practices to prevent and punish bribery, corruption and extortion, at the least in line with relevant international conventions and recommendations and the Ministerial Declaration on 10 Joint Measures to Curb Corruption in South East Europe (Stability Pact Anti-Corruption Initiative, May 2005), in particular:

- Develop and apply necessary regulatory and institutional reforms;
- Encourage education and prevention campaigns in all areas of Government and public administration;
- Organise awareness campaigns in order to inform the public on corruption, its implications and their legal rights to act against corruption;
- Develop and implement transparent and straight forward public procurement procedures;
- Introduce and enforce targeted measures to improve transparency and integrity in law enforcement bodies and public administrations, in particular in customs, tax collection, government procurement and administrative practices at provincial and local levels;
- Increase efforts to improve the competence, effectiveness and integrity of the judiciary;
- Evaluate systematically the implementation of anti-corruption measures and make the results public;
- Strengthen regional co-operation, including the use of the Stability Pact Anti-Corruption Initiative to create synergies in the fight against corruption throughout the region.

5. Competition Policy

Promote a competitive market environment, in particular:

- Create and effectively enforce competition legislation which is clear, transparent, non-discriminatory and in line with international best practice;
- Institute independent enforcement agencies with adequate human and financial resources;
- Apply effective sanctions for cartels and other forms of anti-competitive conduct;
- Promote effective communication with the private sector and general public to help enterprises understand and comply with competition law and consultations on proposed changes;
- Develop effective policy advocacy actions through ex ante consultation with Government bodies on draft legislation and policies with impact on competition (e.g. privatisation, trade, regulation of economic activities, economic strategies);
- Expand efforts to ensure the compatibility of privatisation operations with competition principles;
- Promote co-operation among competition agencies on international competition issues, such as cross border cartels and mergers and acquisitions, bearing on the investment environment.

6. Trade

- Implement open trade policies including WTO commitments and free trade agreements, especially the forthcoming Single Free Trade Agreement to be created through the simultaneous enlargement and amendment of the Central Free Trade Agreement (CEFTA);
- Reduce technical barriers to trade and progressive alignment of technical standards and sanitary and phytosanitary standards with EU standards;
- Strengthen accredited inspection institutions that issue internationally recognised quality certificates and support for companies that apply for certification;
- Apply fast and transparent customs administration procedures;
- Develop and implement export promotion programmes consistent with the investment strategy;
- Adopt systematic and regular monitoring and evaluation of the implementation of international trade agreements;
- Commit to regular and systematic consultations with the public and private sector on trade policy.

7. Regulatory Governance

Work toward high standards of regulatory governance:

- Sustain efforts to build a transparent and effective system for regulation, based on a comprehensive, multi-year regulatory reform strategy, incorporating the principles of transparency and accountability;
- Reduce administrative burdens on business, in particular by simplifying licensing and authorisation requirements, shortening delays, redesigning the systems for inspections and auditing by state bodies;
- Consult the private sector and non-government organisations in the regulatory process;
- Implement efficient and speedy complaint and appeals procedures;
- Introduce regulatory impact analysis on a systematic basis to improve draft legislation and government regulations;
- Create a regulatory oversight body at the centre of government with powers of ex-ante appraisal, consultation, advocacy, challenge and monitoring of regulations.

8. Human Capital and Employment

Promote employment and human capital development, in particular:

- Create education and employment policies taking into account market needs and especially focusing on vocational education and lifelong learning;
- Develop policies to encourage firms and governments to invest in employee training programmes;
- Promote private sector involvement in the development and monitoring of governmental human capital development policy;
- Adopt labour market policies which balance social and economic interests, encourage employment and labour mobility;
- Ease transition costs by adopting employment strategies and active labour market measures to help workers move into more productive industries;
- Promote co-operation with the Bucharest Employment Process of the Stability Pact's Initiative for Social Cohesion and implement relative commitments made at the Sofia Meeting of SEE Ministers of Employment in October 2005.

9. Corporate Governance

Implement the recommendations included in the OECD Principles on Corporate Governance and the 2003 SEE White Paper on Corporate Governance. For that purpose:

- Promote sound corporate governance practices in all sectors of the economy and for all categories of enterprises;
- Improve implementation and enforcement by regulatory authorities of rules and regulations relating to corporate governance;
- Review domestic corporate governance system to ensure alignment with OECD Principles of Corporate Governance and publication of the results;
- Develop training and capacity building for all parties and professions involved in corporate governance;
- Improve disclosure and accounting systems, to conform to high quality international standards of accounting and auditing.

10. SME Policy

Take the following actions in line with relevant regional and international recommendations and policy guidelines:

- Support start-ups and micro-enterprises, facilitating their access to basic business services and reducing regulatory compliance costs;
- Enhance and complement access to financial instruments, including access to equity and venture capital;
- Promote training and education for entrepreneurs;
- Improve the quality of regulation, taking into consideration the specific needs and constraints of the small business sector;
- Improve tax policy design and tax policy administration, lowering of tax compliance costs and promotion of the reduction of the informal economy and unfair competition practices based on the systematic evasion of taxes and social contribution.