

# **STABILITY PACT**

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

**PROGRESS IN POLICY REFORM IN SOUTH EAST EUROPE  
MONITORING INSTRUMENTS**

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The Investment Compact promotes and supports policy reforms that aim to improve the investment climate in South East Europe (SEE) and, thereby, encourage increased investment and the development of a strong private sector. Building on the core principle of the Investment Compact that “ownership” of reform rests within the region itself, the SEE countries have developed, with the assistance of the OECD, the Monitoring Instruments as a key instrument for managing progress towards individual and common goals. The Monitoring Instruments are an open and transparent means to describe the practical response, over time, of the SEE countries to the commitments made in the Investment Compact, and, more generally, their commitment to the broader objectives of transition.

The Monitoring Instruments were prepared by the Country Economic Teams of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Romania, each of which includes members drawn from relevant government ministries, non-governmental organisations, the private sector and international organisations.

The next edition of the Monitoring Instruments, to be published at the end of 2001, will assess which of the planned policy actions included in this document have advanced since the first edition. It will also include private sector views on progress with the reform agenda as well as indices of changes in investment flows in the region. Together these elements will help to monitor advances in reform and show, over time, what impacts the efforts made by governments are having on building a more favourable investment climate.



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*Note:*

**Federal Republic of Yugoslavia:** The Monitoring Instrument for Serbia is being prepared by the Country Economic Team for inclusion in the next edition (end 2001)

# EXECUTIVE SUMMARY

Measuring progress in implementing reform is a key component of the Investment Compact process. It is vital for South East European countries to manage and track their progress against a coherent set of benchmarks and the Monitoring Instruments serve that purpose. They also make clear to Investment Compact partners, and in particular to private sector investors, that commitments to reform are being matched with policy action in practice.

The policy statements presented in this first edition of the Monitoring Instruments use a common format to describe the programme of structural reform in each South East European country. These detailed policy statements, comprising over 450 specific short-term policy actions underpinned with timeframes and identification of the institution responsible for action, give unique country-specific *and* cross-regional perspectives on the reform process.

Taken together, they attest to the strong similarities among the countries of the region in terms of the issues they face and the range of responses that have been/are being employed, including highlighting where real progress is being made and where obstacles – political, institutional, economic – are hindering reform.

The Monitoring Instruments combine both the achievements that have been made in recent months and the short- and medium-term objectives that have been set. It is clear from the former that significant progress has been made in many areas, (For example, since autumn 2000, almost 30 percent of the legislative reforms initially proposed have already passed into law.)

At the same time, the number of measures in preparation and scheduled for completion in 2001 (more than 300) highlights the scale of the challenge confronting policymakers in the region. This is particularly true given that almost half of this total is legislative initiatives, with a further quarter involving reform of the public administration, both of which can be time-consuming and sometimes controversial endeavours. Nonetheless, the fact that, for example, the governments of Albania and Bosnia-Herzegovina are aiming to complete over 60 percent of their respective (legislation loaded) reform programmes by end-2001 indicates the ambitious targets that the administrations are setting for themselves.

Although completion of legal and institutional frameworks stand out as the over-riding preoccupations of SEE governments, the monitoring matrices bring out two important and positive shifts in focus, discernible particularly in the countries where transition is at a more advanced stage, but appearing also in the others:

- From drafting and adopting legislation to implementing and then enforcing it; and
- From setting up institutions to testing their competence and strengthening their powers.

Such actions (for example in the fields of competition law and policy, corporate governance, commercial law, insolvency regimes and dispute resolution mechanisms) now appear to be higher on the policy agenda in all transition economies. This is a positive sign because they represent the real ‘fundamentals’ or ‘building block’ reforms for a market economy that have been for too long neglected. Although less ‘glamorous’ than privatisation, their impact is likely to prove equally if not more enduring, and just as determinant as a factor to foster economic growth in the region.

A number of factors (both endogenous and exogenous) are influencing this evolution, in particular:

- A political and economic environment more conducive to reform, stemming from 1) the arrival in power (since early 2000) of governments in several countries that are noticeably more committed to the reform process and 2) a period of relative macroeconomic stability, including lower inflation and stable currencies.
- Progress with components of the reform agenda that have in turn exposed the need for greater attention to the enabling environment for business; for example, liberalisation of markets and restructuring of monopolistic state-owned enterprises, as well as the emerging emphasis on SMEs, have highlighted serious weaknesses in the regulation and supervision of commercial transactions.
- The increasing participation of the SEE region in bilateral regional and global trading and investment agreements (most are now members of WTO), which is prompting legal scrutiny of legislative frameworks, their interpretation and implementation. This process contributes to the removal of ambiguities and lack of transparency that could unduly discriminate against non-national investors.
- The conclusion of Accession or Stabilisation and Association Agreements with the EU and successive agreements with the World Bank and IMF, all of which include, to a greater or lesser extent, structural reform requirements.

In spite of these positive signs, potential investors in the region will want to see concrete proof that the legislative, regulatory and supervisory frameworks that are being developed are adequate and that the judiciary has the necessary authority to enforce them, even where strong vested interests are involved. These guarantees will require close political attention and unwavering support.

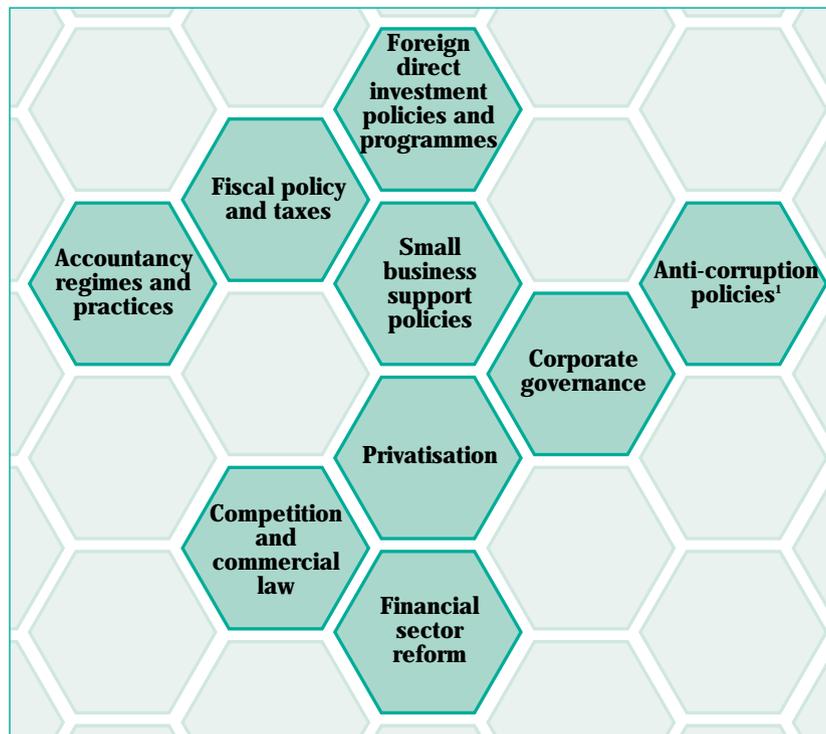
The monitoring process of the Investment Compact provides a means by which to keep political attention focused on the commitments and objectives that have been made. This is especially so for those countries which have endorsed the Monitoring Instruments as official policy statements. The monitoring process can help to ensure coherence in policy formulation and provide a focus, through the Country Economic Teams, for better inter-ministerial and donor co-ordination. Nonetheless, and inevitably, the process stalls on occasion, most often following elections or as a result of internal disagreements within administrations, with the result that the overall reform programme loses vital political support and progress gives way to expediency. The reform process across the region is not self-propelling and needs nurturing both within each country and from the international community.

The monitoring matrices represent an impressive and very ambitious commitment to advancing the process of transition, and it is important to bear in mind that achievement of these goals is by no means “automatic” and in many ways transition remains fragile and vulnerable to short-term political upheavals and economic instability (the current situation in the Former Yugoslav Republic of Macedonia attests to this). The next edition of the Monitoring Instruments (end 2001) should determine whether the general optimism that is reflected in this document was justified.

# PROGRESS IN POLICY REFORM

## 1. Policy Objectives and Planned Actions

The Investment Compact uses the working assumption that improvement of the investment climate and acceleration of economic reform through sound market-oriented policies is the only way to promote a vibrant private sector and increase investment in the economy, both domestic and foreign. Nine inter-related policy areas are recognised as having a particularly significant influence on this process.



The reform programmes presented here are organised mainly around these nine headings, with each country adding supplementary topics where these were deemed relevant to the investment environment. These include, in particular, land reform and property rights issues and external trade policies.

1. More detailed consideration of progress by the countries of South East Europe in combating bribery and corruption is provided through the Stability Pact Anti-Corruption Initiative (SPAI). Information on this project can be found at [www.oecd.org/daf/spaicom](http://www.oecd.org/daf/spaicom).

In each of the policy areas, the reform programmes are based on achievement of a limited number of major policy objectives (column 1 of the monitoring matrices), which, in practice, will require implementation of one or several policy measures or individual actions (columns 2 and 3 in the monitoring matrices).

Thus, for example, in the area of FDI policy, the short-term policy objectives of the government of Albania include:

### **To improve the regulatory and legislative framework for FDI**

The actions planned to achieve this objective are:

- Establishment of independent offices for the resolution of commercial disputes.
- Ratification of several agreements related to arbitration.
- Improvement of the performance of judiciary bodies and tribunals, training of judges, attorneys and notaries.

Similarly, in its efforts to fight corruption, the objectives of the government of Montenegro include:

### **To set up a legal framework and institutions to address issues of corruption**

The specific actions planned to achieve this objective are:

- Establishment of special independent anti-corruption agency.
- Preparation of a law on public procurements.
- Preparation of a law on money laundering.

Altogether, the seven countries included here have set around 180 broad policy objectives, all, to a greater or lesser degree, designed to improve the conditions for investment and private sector activity.

To attain these goals, the countries propose over 450 individual policy measures spread across the nine policy areas as follows.

Table 1. **Distribution of initiatives by policy area**

Policy area	Number of policy measures
Foreign direct investment policies and programmes	50
Small business support policies	57
Privatisation	59
Fiscal policy and taxes	65
Corporate governance	5
Competition and commercial law	26
Accountancy regimes and practices	16
Anti-corruption policies	77
Financial sector reform	40
<i>Other (mainly land reform and trade/external relations)</i>	64

At least seven main types of policy action can be identified.

Table 2. **Typology of policy measures proposed in the Monitoring Instruments**

Type of measure	Number <sup>2</sup>
Strategic planning and policy review	65
Legislative reform	236
<i>Of which:</i>	
• <i>Adoption of new legislation/Amendment of existing legislation</i>	166
• <i>Regulation and implementation of laws</i>	70
Institutional/administrative reform	121
Capacity-building/training	19
Public information/publicity	30
Financing	16
External relations/international treaties	36

The reform programmes are, therefore, predominantly legislative. These legal reforms constitute the point of departure for a series of supporting measures ranging from establishment of regulatory institutions and specialised policy delivery agencies to capacity-building and training programmes for those involved in implementing new practices or information campaigns to explain to the general public or specific audiences what obligations the new legislation brings with it.

<sup>2</sup> The total differs from that in Table 1 because some measures include components from more than one type.

It is fair to assume that the processes of reform in each country follow broadly similar sequences, such as:



As a result, the different starting points, in terms of the level of advancement and the length of time that the reform process has been going on, from one country to another come out clearly from examination of the type of measure in each policy area. For example, in the field of competition policy and commercial legislation, the short-term policy actions proposed by Albania and Bosnia-Herzegovina include adopting commercial legislation and setting up a competition regulatory institution, while for Bulgaria and Romania they include enforcement of legislation by the regulatory body and capacity-building for the judiciary. Similarly, in the field of privatisation, Montenegro and Bosnia-Herzegovina are undertaking strategic plans for privatisation of industrial enterprises, while Croatia and Bulgaria, where the industrial sector is already largely in private hands, focus their strategic plans on the restructuring and eventual privatisation of public utilities.

## 2. Progress to Date and Target Dates

The Investment Compact focuses on measures to rapidly improve the investment climate, a reform programme for the near term that makes a clear statement about the commitment of governments to shared regional goals. Thus, speed of implementation is a key consideration in the reform programmes. Since the process of preparing the monitoring matrices began several months ago, already significant progress has been made. Nonetheless, the scale of the task at hand is also apparent.

The table below, which sets out in percentage terms that proportion of actions completed so far compared with those scheduled for completion in 2001 and later, serves as an indicator of the relative pace of reforms in the different countries of the region. For example, it shows that Bulgaria has moved ahead of the other countries in the implementation of its reform programme, and suggests that the reform programmes that the governments of Albania and Bosnia-Herzegovina, and to a lesser extent Montenegro and Romania, have set themselves are particularly ambitious.

Table 3. **Target dates for all policy measures in the Monitoring Instruments**

	<b>Percentage completed in last 12 months</b>	<b>Percentage for completion in 2001</b>	<b>Percentage with deadline beyond 2001 or not specified</b>
Albania	30	63	7
Bosnia and Herzegovina	14	64	22
Bulgaria	58	33	9
Croatia	42	32	26
FYR Macedonia	37	14	49
Montenegro	40	45	15
Romania	34	45	21

Looking specifically at legislative reform, since autumn 2000, when the countries were asked to identify their priorities and begin compiling a monitoring document, almost one-third of the new or amended legislation has been adopted. Nevertheless, this leaves a large number still to be passed before the end of 2001 if the timetable is to be fully observed. This represents a significant challenge to the legislatures (notably in Bosnia and Herzegovina where the backlog is particularly heavy).

Table 4. **Completion dates for the 166 legislative measures included in the Monitoring Instruments**

	<b>Completed/adopted since beginning of IC period</b>	<b>For completion by end 2001</b>	<b>Longer term (beyond end 2001) or not specified</b>
Adoption or amendment of legislation	47	101	18

Putting together information from the monitoring matrices regarding the overall objectives of reform, the specific policy actions and an indication of the pace of implementation of the reform programmes provides a unique country-specific and regional information source. The following section provides a commentary on some of the main conclusions that can be drawn about the nature of the reform process.

### 3. Analysis of Policy Priorities

The priority areas for policy action can be grouped under three interlinked headings: 1) policies relating to external commercial relations (mainly investment and trade facilitation), 2) policies relating to enterprises (privatisation, enterprise restructuring and private sector development), and 3) policies relating to the framework for commercial relations (competition, company law, regulatory mechanisms).

### 3.1 External commercial relations (including inter-regional trade)

Attraction of FDI into the region remains a key policy priority for all SEE governments. Despite improved results in some countries, and impressive totals in others, there is still concern that too high a proportion of the total FDI is directly related to privatisation of key state enterprises and not enough is greenfield investment or directed into private companies.

Although some of the figures, particularly for Croatia, Bulgaria and Romania, are significant, there is a strong correlation between inflows and progress with cash privatisation. For example, foreign investment into Croatia in 1999 was largely made up of proceeds from the sale of shares in the national telecoms company and to Deutsche Telekom (approximately US\$850 million out of a total of US\$1.3 billion) and the figures for Albania include a significant share resulting from the sale of Albania Mobile Communications (AMC). This means that figures can actually drop dramatically from one year to the next even though the general trend in the number of investments made is upward. **A key message from the table below is that FDI figures may suggest good performance in attracting investment through the impact of a single, one-off major privatisation in a particular year.**

Table 5. **Foreign Direct Investment (net inflows recorded in the balance of payments)**

Country	Yearly FDI net inflows (US\$ million)					Cumulative per capita FDI inflows (US\$)
	1996	1997	1998	1999	2000	1989-1999
Albania	97	42	45	51	92	137
Bosnia-Herzegovina	0	0	100	60	100	37
Bulgaria	138	507	537	806	500	284
Croatia	509	302	781	1,350	450	716
FYR Macedonia	12	18	175	27	100	134
Romania	415	1,267	2,079	949	500	252

Source: EBRD Transition Report 2000

In order to attract investment into other sectors of the economy and into new ventures once the more attractive assets have been sold, efforts are being intensified in at least three areas:

- Ensuring a clearer and more predictable legal and institutional environment for business;
- Integrating into international trade and investment agreements; and
- Improving the effectiveness of FDI promotion strategies and the capacity of promotion institutions.

*a. Providing a predictable and supportive business environment*

In the field of FDI policies, most countries can point to legislation guaranteeing equal treatment for foreign investors, unrestricted repatriation of profits and so on, and many of these laws have been in existence for several years (for example: Albania in 1994, Bosnia 1998, Bulgaria 1997, Croatia 1995). Montenegro enacted its own legislation ensuring equal treatment in November 2000. Legislative initiatives for 2001, if any, are directed towards refinement of existing legislation and enforceability of rules (for example in FYR Macedonia where legislation to improve legal access to real estate for foreign investors has recently been adopted or in Romania where a review of legislation is underway with the aim of simplifying procedures, reducing paperwork and increasing transparency).

Rather than focusing on the specific case of treatment of foreign investors, the Monitoring Instruments highlight a broader initiative to overhaul legal and regulatory systems as they apply to foreign-owned and domestic businesses alike. The reform programmes suggest that major efforts are underway or to be launched in the following fields, each of which has an important impact on investment:

- Reducing administrative and regulatory obstacles to the creation and development of private enterprises - for example, licensing requirements, registration procedures, reporting and accounting regimes. (In some cases, recent FIAS reports are expected to provide the impetus and direction for concrete reform proposals);
- Clarifying and simplifying tax and other regimes to produce a more transparent system, including reduction of the myriad of incentives and exemptions (including those offered to foreign investors) which are often obscure and/or unpredictable in practice;
- Enacting and effectively enforcing commercial laws, in particular, 1) competition legislation and accompanying regulatory institutions and 2) bankruptcy and collateral legislation and accompanying legal recourse mechanisms (discussed in more detail below).

*b. Integrating into international trade and investment agreements*

The Monitoring Instruments reflect the high priority given by all SEE governments to participation in bilateral, regional and global trade and investment agreements.

Over the past year, the countries of the region have made significant progress in integrating into multilateral agreements: the majority are now members of WTO and either participate in or are negotiating to join regional trading agreements. The Monitoring Instrument show, for 2001, a continuation, if not intensification of this activity, with, for example, Bulgaria in the process of finalising more than a dozen bilateral investment treaties (BITs) before the end of 2001 and Croatia committing itself to signing trade agreements that would put over 80 per cent of its foreign trade under some form of free trade coverage. Moreover, despite many difficulties (relating mainly to the assets of the former Yugoslavia), the Monitoring Instruments suggest that countries in the region are committed to making progress on intra-regional trade and investment agreements (for example, a free trade agreement between Croatia and Bosnia-Herzegovina has been concluded and there have been positive developments on regional trade liberalisation in the context of the Stability Pact<sup>3</sup>).

<sup>3</sup> A memorandum of understanding between the countries of the region on the establishment of a regional free trade agreement is in preparation and will be signed in Brussels in June 2001.

Although many of the bilateral agreements cover what can be considered “marginal” markets for goods and services supplied from SEE countries, the overall impact of these agreements on the framework conditions for investment and enterprise development is more far-reaching, ensuring, among other things, that legislation relating to the rights of investors meets certain minimum international legal standards and that its interpretation is clear and unambiguous. A recurring theme of the Monitoring Instruments is the passage from drawing up and adopting legal instruments to their implementation and enforcement in practice, and to their testing in the courts of law: legal scrutiny of domestic legislation in the context of bilateral and international agreements, and the establishment of precedents in the local jurisprudence, can have a very positive impact.

### *c. Improving the performance of FDI promotion institutions*

The need to complement privatisation-related FDI with investment into privately owned businesses and new ventures puts additional emphasis on the work of investment promotion structures and agencies. While ministries of finance and/or privatisation agencies take most of the responsibility for negotiating sales of major public assets to foreign investors, when it comes to “selling” the competitiveness of a particular country, in terms of its infrastructure endowments or the skills of its labour force, then specialised agencies, with professional marketing and promotion strategies, have a key role to play.

The Monitoring Instruments emphasise two aspects of investment promotion: 1) building stronger institutions, and 2) improving the outcomes from FDI promotion activities. While some FDI promotion agencies, notably the BFIA in Bulgaria, have both a solid institutional status and a wide range of advanced marketing and promotional materials, including use of the internet, most other countries have relatively weak FDI institutions and, consequently, poor quality outreach capacity and tools.

Evidence that this situation is being rectified and that a process of institution building (or rebuilding) and refocusing is taking place can be seen in the reform programmes of Albania, Bosnia-Herzegovina, Croatia and FYR Macedonia. In FYR Macedonia, for example, a Trade and Investment Promotion Department has been established in the Ministry of Economy with the intention of acting as a one-stop shop for the registration of foreign companies. In Romania, this process of institutional strengthening is being supplemented by moves to develop mechanisms through which FDI promotion is integrated into the foreign relations activities of the diplomatic/political community.

### **3.2 Enterprise policy and private sector development**

Increasing the pace of privatisation emerges as a prime policy objective. The Monitoring Instruments bring out three main areas of policy action

- Revision of existing legislation, mainly to improve transparency;
- Acceleration of the sale of large enterprises; and
- Preparation of strategic/public utility sectors for eventual privatisation.

These three elements are present in all countries, though at somewhat differing degrees of advancement, except for Montenegro where the enabling legislation for privatisation is currently in preparation.

In most SEE countries, legislation governing the sale of publicly-owned assets was introduced several years ago. However, experience, both good and bad, has highlighted the need for amendments and revisions, particularly with regard to improving the transparency of sales. Concerns over complex and unclear ownership structures have been seen as a major deterrent for foreign investors wishing to invest in going concerns. Similarly, concerns that privatisation processes favour local, insider interests has also acted as a disincentive to foreign companies even to compete in tenders. Addressing these issues and providing potential investors with more and better-quality information are key goals reflected in the policy programmes for 2001. As an example, a new audit law is planned for adoption in June 2001 in FYR Macedonia, which is intended to improve the auditing requirements of companies earmarked for privatisation and ensure that their financial records are transparent and accurate.

A pervasive obstacle to privatisation in some countries, notably Yugoslavia successor states, is the issue of disputed property rights and restitution, which remains only partially resolved. As a result, land reform, completion of land registration and legal procedures for dispute resolution are often included in Monitoring Instruments as key policy objectives linked to privatisation (as well as investment promotion and private sector development).

With regard to overall progress on privatisation, there is significant variation across the region. The mass privatisation phase is completed in most countries, and its rapid completion in the others is a priority (both entities in Bosnia-Herzegovina and in Montenegro).

Progress with privatisation of larger assets, on the other hand, has been much less uniform (see Table 1 in the Appendix). Bulgaria is the only SEE country to have successfully privatised over 50 per cent of all large state-owned enterprises according to EBRD estimates for 2000, with Croatia, FYR Macedonia and Romania having privatised more than 25 per cent, and Albania and Bosnia still to launch comprehensive programmes (though some sales have taken place). The process in Montenegro is at an even earlier stage, but the enabling legislation is either in place or will soon be adopted.

On the positive side, directly negotiated sales of the more attractive state-owned industries (fixed line telecoms, GSM, major banks, tourist facilities) are taking place at a relatively fast rate, and legislative and institutional efforts to promote such sales stands out as a high priority in the short term for all governments (for example, the sale of a second GSM licence in Albania (the first having been sold for almost US\$100 million) and an additional 16 per cent share of Croatia Telecom (one-third of which was sold to Deutsche Telekom in 1999 for US\$850 million)). As noted above, the proceeds from these sales often represent the lion's share of FDI in the region, and constitute an important short-term source of revenue to offset other transition costs (related to reining in of public expenditure, accession to WTO, various agreements with the EU, etc.).

The key obstacle to faster privatisation of large enterprises more generally tends to be the disposal of major loss-making enterprises for which cash privatisation is unlikely unless preceded by significant restructuring, including disentanglement from soft budget processes and other forms of support provided by the state. For example, EBRD's assessment of progress last year shows that few countries had seriously tackled the issue of enterprise restructuring (see Table 2 in the Appendix), with only Croatia receiving a qualified recognition of efforts to financially isolate major loss-makers and reform subsidy policies. Croatia's efforts to liquidate poor performing enterprises remains a key element of the policy programme for 2001, though the legal process so far has been slower than expected, resulting in a backlog of cases that need to be addressed this year.

Judging from the reform programmes presented here, sustained action to address the problem of persistent loss-making industries and to restructure sectors will be prompted from two directions:

- Moves to tighten control of public expenditure and ensure long-term fiscal sustainability; and

– Preparation of strategic sectors for privatisation, notably pre-privatisation restructuring of large state-owned enterprises, including public utilities.

An important policy objective for 2001 in most countries (often proposed in agreement with the IMF) is improvement of the procedures governing public expenditure; in particular, tightening of internal budget processes and establishment of a single “Treasury” to unify government accounts. The allocation of the treasury function to an agency linked to or within the Ministry of Finance, which has been achieved or is in progress in most if not all countries, is designed to curtail overspending and the build-up of debt by individual government departments, agencies and enterprises. It also facilitates the financial isolation (and subsequent restructuring or liquidation) of loss-making state owned enterprises, whose soft budget constraints and state guarantee rights represent a major drain on the coffers of all SEE countries. The main obstacle to faster progress in this area is usually the employment or social consequences of abrupt intervention and the fact that many significant loss-makers are in “strategic” sectors.

The next, but problematic, phase in the privatisation process in most countries is preparation of strategic sectors for privatisation, notably pre-privatisation restructuring of public utilities. The Monitoring Instruments suggest that initial steps are underway. Although mainly at the advanced planning phase, these generally concentrate on unbundling core and subsidiary activities and imposing hard budget controls on the enterprises concerned. This process will be accompanied by preparation of legislation liberalising markets (e.g., electricity, gas) and permitting the sale of licences (for example, comprehensive legislation along these lines is being developed in Croatia). In practice, dismantling complex state monopolies has started slowly and utility pricing that reflects economic costs is still the exception rather than the rule, so this process is likely to be laborious. Moreover, before privatisation of these sectors takes place, sound regulatory institutions will be needed to ensure that public monopolies are not simply transformed into private monopolies.

### 3.3 Framework for commercial relations

As noted above, the extent to which legislation governing business transactions is comprehensive, clear and enforced is increasingly recognised as playing an important role in determining levels of investment, particularly from the perspective of foreign investors whose information needs and legal status may differ from those of nationals. The over-riding impression given by the Monitoring Instruments is that SEE governments are, somewhat belatedly, and in some cases under pressure from the international community, prioritising legislative and institutional efforts in at least two main areas:

- Competition policy<sup>4</sup>; and
- Commercial law.

In the field of competition policy, the scores assigned by EBRD (see Table 3 in the Appendix) attest to the fact that results so far have not been particularly encouraging.

Although new or amended legislation has been introduced in most countries recently, differences emerge in the capacity of the administrations to enforce regulations. In the more advanced countries, notably Bulgaria, Croatia and Romania, some efforts have been made to promote a competitive environment and to initiate proceedings through newly established competition councils or similar agencies to break up major monopolies, but initiatives have been far from systematic. In other countries, the legislation is generally in place but the regulatory back-up is still lacking

4. Under the Investment Compact, a new Regional Flagship Initiative on competition policy and institutions has been launched, with Slovenia, FYR Macedonia and Bulgaria as lead partners with the OECD, and in cooperation with the EU.

However, the reform programmes presented in the Monitoring Instruments suggest that efforts are being reinforced and that some important steps will be taken in the coming months. For example:

Between January and December 2000, the Bulgarian Commission for the Protection of Competition announced 156 decisions, of which an increasing number are based on the application of *acquis* norms. As a support to this, the government is also taking steps to generate a “culture of competition” to underpin the new legal framework. In Croatia the two main areas of upcoming activity are harmonisation of competition legislation with EU norms (with technical support from the German government) and institutional strengthening of the Agency for the Protection of Market Competition whose purview currently excludes public utility markets. In Albania, an Economic Competitiveness Directorate with responsibility for clarifying the mechanisms for monitoring competition issues in Albania. In Bosnia, both the legislative framework and the institutional support still need to be completed, but a key step will be the establishment of a Competition Council in June this year.

Nonetheless, for all countries the need to promote competition through addressing the monopoly positions held by major conglomerates, as well as setting up supervisory institutions, continues to be a central issue. As noted above, however, advances in the areas of enterprise restructuring and price liberalisation should clear the way for these fledgling institutions to take on a more active role. Negotiation on accession to the EU and conclusion of Stabilisation and Association Agreements with the Commission appear to be the key impetus driving the adoption and implementation of new laws in this complex field.

The situation with respect to commercial legislation is similar, in the sense that bankruptcy and collateral laws have been introduced in most countries but their enforcement is inconsistent. The Monitoring Instruments, therefore, include a strong focus on speeding up processing of legal claims.

Regulation and supervision also stand out as key issues in the financial sector, this time prompted by concern to avoid the disastrous bank failures of the past and create more robust banking sectors

Overall, substantial progress has been made in establishing solvent banking sectors in SEE countries. Consolidation of the banking sector depends to a large extent on ensuring significant foreign participation in privatisation of major banks combined with tightening of the regulatory requirements in order to force insolvent banks to close or merge. While the complexity of the portfolios of many formerly state-owned banks has caused significant delays in the sell-off process, significant advances have been made in all countries. The Monitoring Instrument suggests the process is all but complete in both Bulgaria and Croatia, where the major bank sales took place last year, and includes major bank privatisations in the pipeline in Albania (Savings Bank, which is the main savings repository) and Romania (Banca Agricola, which is under special management and has been recapitalised, and the Romanian Commercial Bank, which is the country’s largest bank). In Bosnia-Herzegovina, plans for bank privatisation are currently being considered by both entity governments for adoption in the first half of 2001 with stabilisation of the sector a priority.

At the same time, although significant progress has been made in establishing regulatory and supervisory institutions and a legal framework, a question mark remains as to the degree to which these bodies can exert sufficient control over the sector.

The limited authority that the supervisory bodies enjoyed at their inception, as well as their limited experience, constrained their initial effectiveness in practice in picking out poor performing financial institutions and taking firm remedial action. However, the Monitoring Instruments reflect a strong focus by all of the governments (supported by IFIs) on building more robust institutions, with strengthening of the central bank’s supervisory authority and of its competency a priority in several countries. For example, the National Bank of Romania is working to improve its supervisory and regulatory control

over the banking sector by means of improved risk management and auditing, including an early warning system developed with the IMF to pick out troubled banks. The supervision departments of the Croatian and Bulgarian central banks have also been given additional powers of scrutiny and expanded authority for direct action.

With regard to non-bank financial institutions, the point of departure for the monitoring process is significantly less advanced than for the banking sector. The EBRD assessment for 2000 (see Table 4 in the Appendix) concludes that while securities exchanges have been established some trading in government paper and/or securities is taking place; and the basic legal instruments needed to issue securities have been adopted, there is still little liquidity and trading volumes are very low. The Monitoring Instruments show that the institutional infrastructure for secondary markets - independent share registries, secure clearance and settlement procedures, and regulatory frameworks - is being introduced in most countries. However, there is a sense that trade in securities will depend heavily on further progress with privatisation (which up to now has been the main source of trading).

These reforms (for example in the fields of competition law and policy, corporate governance, commercial law, insolvency regimes, dispute resolution mechanisms and supervision of the banking sector) now appear to be higher on the policy agenda in all transition economies. This is a positive sign because they represent the real 'fundamentals' or 'building block' reforms for a market economy that have been for too long neglected. Although less high profile than privatisation, their impact may well be enduring, and prove just as determinant as a factor to foster economic growth in the region.

#### **4. Monitoring the Process of Reform**

Existing and potential investors in the region want concrete proof that the legislative, regulatory and supervisory frameworks that are being developed are adequate and that the SEE governments are committed to building a clear and predictable environment for business. These guarantees will require unambiguous political attention and support. The Monitoring Instruments can provide a tool for maintaining this political focus.

The reform programmes contained in the Monitoring Instruments provide some evidence of progress in recent months and show that the governments of SEE countries have set themselves ambitious targets for 2001 and beyond. However, stating objectives and achieving them are two very different things.

The next edition of the monitoring matrices will assess which of the planned policy actions included in this document have advanced since the first edition. It will also include private sector views on progress with the reform agenda as well as indices of changes in investment flows in the region. Together these elements will help to monitor advances in reform and try to show, over time, what impacts the efforts made by governments are having on building a more favourable investment climate.



## APPENDIX

### EBRD TRANSITION INDICATORS

EBRD transition indicators provide a convenient estimation of the relative starting points of each country (except Montenegro) in some of the key policy areas when the Investment Compact began. These scores, ranging from 1 (little progress) to 4+ (standards typical of an advanced industrial country), are based on evaluation of both quantitative and qualitative information gathered by EBRD, a full description of which can be found in the *Transition Report 2000* (EBRD).

Table 1. **Large-scale privatisation**

Country	Score
Albania	2
Bosnia	2
Bulgaria	4
Croatia	3
FYR Macedonia	3
Romania	3

EBRD classification criteria:

1. Little private ownership
2. Comprehensive programme almost ready for implementation; some sales completed
3. More than 25% of large enterprises in private hands or with sales at an advanced stage; unresolved issues
4. More than 50% of large enterprises in private hands, with significant progress in corporate governance
- 4+ Standards typical of an advanced industrial economy

Table 2. **Governance and enterprise restructuring**

Country	Score
Albania	2
Bosnia	2-
Bulgaria	2+
Croatia	3-
FYR Macedonia	2+
Romania	2

EBRD classification criteria:

- 1 Soft budget constraints; few other reforms to promote corporate governance
- 2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen corporate governance and competition
- 3 Significant and sustained action to harden budget constraints
- 4 Substantial improvement in corporate governance
- 4+ Standards typical of an advanced industrial economy

Table 3. **Competition policy**

<i>Country</i>	<i>Score</i>
Albania	2-
Bosnia	1
Bulgaria	2+
Croatia	2+
FYR Macedonia	2
Romania	2+

EBRD classification criteria:

1. Little private ownership
2. Comprehensive programme almost ready for implementation; some sales completed
3. More than 25% of large enterprises in private hands or with sales at an advanced stage; unresolved issues
4. More than 50% of large enterprises in private hands, with significant progress in corporate governance
- 4+ Standards typical of an advanced industrial economy

Table 4. **Securities markets and non-bank institutions**

<i>Country</i>	<i>Score</i>
Albania	2-
Bosnia	1
Bulgaria	2
Croatia	2+
FYR Macedonia	2-
Romania	2

EBRD classification criteria:

- 1 Little progress
- 2 Formation of securities exchanges; some trading in government paper and/or securities; rudimentary legal framework for the issuance of securities
- 3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank institutions and associated regulatory framework
- 4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalisation; well-functioning non-bank institutions and regulatory system
- 4+ Standards typical of an advanced industrial economy

# ALBANIA



## Summary

The year 2000 was characterized by positive achievements in the areas of macroeconomic stability and growth, fiscal consolidation and enterprise privatization and institutional reforms. The Government has committed itself to an ambitious programme of reform to build on this progress. The Monitoring Instrument, which has been approved as an official statement of policy, focuses on six key areas:

*Establishing functioning institutions to promote investment and building an enabling environment for FDI.* Priority here is on setting up an effective institutional framework for FDI promotion. Key initiatives include adoption of a law and statute creating an investment promotion agency and an agency for export promotion, establishment of a functioning entity to develop free zones and customs zones, and confirmation of ownership and title status of land and property by means of improvements in the real estate registration system.

*Preparing strategic sectors for privatisation.* Although there have been objective delays with some large privatisations, the pace has picked up and the government is targeting public utilities for pre-privatisation and the dominant savings institution for sale in the coming year. The priorities in the privatisation programme are implementation of programmes of technical assistance for restructuring of the Albanian Energy Corporation (KESH), privatisation of the large Savings Bank, privatization of the Albanian Insurance Institute, privatisation of the fixed line telecoms enterprise following successful GSM licence sales, and transformation of water companies into joint stock companies.

*Implementation of a policy to support SMEs.* The government recently adopted a comprehensive SME strategy and the first steps in building an institutional framework are being taken. The priority initiatives include establishment of an SME agency, review of the administrative barriers to entry and planning of a loan guarantee fund for SMEs.

*Improving enforcement of commercial laws, rules and regulations.* In many cases, the legal framework for commercial relations is already in place, but enforcement is weak and application is inconsistent and often arbitrary. Key measures to be implemented in 2001 include adoption of a bankruptcy law and training of judges/lawyers in implementation procedures, making fully operational the already established competition authority and anti-dumping agency, and preparation of a law on alternative resolution of commercial disputes and arbitration.

*Improving transparency and reducing corruption in the public sector.* Particular emphasis is being placed on combating corruption in tax and customs administration, and on providing support to the judiciary. *Key initiatives in this field include* ongoing evaluation of progress in implementing the Anti-Corruption Action Plan, tightening and streamlining of rules on public procurement, declaration of assets by customs officials and other civil servants, building on the experience of Business Advisory Council, which has proven to be a very effective institution in promoting transparency and structuring the institutional business lobbying.

*Last, but not least, improving physical infrastructure.* Following last year severe energetic crisis, the government has prepared a strategic plan to address the power supply problem for the business community and wider. On the other hand, priority has been to road infrastructure.

## ABBREVIATIONS

AEDA	Albanian Economic Development Agency	LM	Line Ministries
AGA	Albanian Guarantee Agency	MoAF	Ministry of Agriculture & Food
AMC	Albanian Mobile Communication	MoECT	Ministry of Economic Cooperation & Trade
BAC	Business Advisory Council	MoF	Ministry of Finance
BoA	Bank of Albania	MoJ	Ministry of Justice
CCI	Chamber of Commerce and Industry	MoLSA	Ministry of Labour and Social Affairs
CET	Country Economic Team	MoPEP	Ministry of Public Economy & Privatization
CoE	Council of Europe	MoPO	Ministry of Public Order
CFOC	Committee for Former Owner Compensation	MoPW	Ministry of Public Works
CoM	Council of Ministers	NAE	National Agency of Energy
DoPA	Directory of Public Administration	NEFZ	National Entity of Free Zones
EBRD	European Bank for Reconstruction and Development	NGO	Non Governmental Organizations
FDI	Foreign Direct Investments	PPA	Public Procurement Agency
FIAS	Foreign Investment Advisory Service	RDA	Regional Development Agency
GCD	General Customs Directorate	RERO	Real Estate Registration Office
GDT	General Directory of Taxation	RFI	Regional Flagship Initiatives
GoA	Government of Albania	S II	Social Insurance Institute
GTZ	German Technical Co-operation	SAO	Supreme Audit Office
IC	Italian Cooperation	SCA	Security Commission of Albania
IFC	International Finance Corporation	UNCTAD	United Nations Conference on Trade and Development
INSTAT	Institute of Statistics	USAID	United States Agency for International Development
KESH	Albanian Energetic Corporation	WTO	World Trade Organization

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES</b>					
<b>To establish a functioning FDI promotion agency</b>	Preparation of the draft law and statute of the Agency	Underway –subcommittee of CET established. FIAS (with IMF agreement ) are supporting preparation of draft	Postponed to June 2001	MoECT, MoPEP, MoF	June 2001
<b>To promote FDI in line with the recommendations of a recent FIAS study</b>	Publication of FIAS study and preparation of Plan of Action to implement recommendations	Completed in cooperation with FIAS	Discussed with relevant government institutions	MoPEP	January 2001
	Preparation of a strategic document on the most attractive sectors for FDI	Underway in cooperation with USAID	Workshop to be organized with Business community and donor support	MoECT, Line Ministries	End 2001
	Study of areas for potential investment in agriculture and agro industry	Programme underway		MoAF	End 2001
<b>To implement the Free Zone initiative</b>	Establishment of the Free Zone institution: drafting of its bylaws, training of staff, and location studies	Law on establishment of Free Zones passed in December 2000: board, executive director and staff appointed		NEFZ under CoM	End 2001
<b>To improve the regulatory and legislative framework for FDI</b>	Establishment of independent offices for the resolution of commercial disputes	New legislation and regulations required		INSTAT, MoECT, MoF/MoJ	Mid 2002
	Ratification of several agreements related to arbitration		Progress indicator is the number of new regional bilateral agreements ratified	MoJ, MoECT	End 2001
	Improvements of judiciary bodies and tribunals, training of judges, attorneys and notaries	Initial training underway	Progress indicators include number of formal training activities undertaken	MoJ	End 2001

2. SME SUPPORT STRUCTURES					
<b>To adopt an enabling SME policy</b>	Adoption of national strategy for SMEs	National Medium-Term Strategy for SMEs approved	Cabinet Decision has been adopted	MoECT	February 2001
<b>To establish the legal framework for SMEs</b>	Drafting of a comprehensive SME law	Ongoing	Approval expected by December	MoECT	2001
	Improvement of the Law on Small Business Taxes	Completed		MoF, GDT	June 2000
<b>To develop SME institutions and define roles</b>	Preparation of the legal framework for establishing an SME agency	Included in the overall SME strategy	Progress indicator is the formalisation of the agency's structure and role, and the appointment of key staff	MoECT	2001
	Modernisation of the law on Chambers of Commerce	Initial proposals received from the Union of Chambers of Commerce		MoECT, Union of CCI	2001
<b>To facilitate SME's access to financing</b>	Establishment of an SME Loan Guarantee Fund	Study undertaken	Support required for preparation of legislation and regulations	MoECT, MoF	June 2001
<b>To address employment policy issues relating to SMEs</b>	Review of labour legislation	Implementation, including institutional strengthening, in progress		MoLSA, Business associations and CCI	End 2001
3. PRIVATISATION					
<b>To make progress in the privatisation of public utilities</b>	Implementation of a plan for privatising utilities, including water and electricity companies	The plan has been adopted and a progress statement was issued in March 2001	Progress indicator is the number of sales and enterprise restructurings completed	MoPEP	2001
	Transformation of water enterprises into joint stock companies	Procedure completed for 25 companies, from an overall planned 42 (from a total of 56)	Target is finalisation of arrangements for 42 companies by year end	MoPW, MoPEP	2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To privatize the telecom sector</b>	Formulation of a plan to address bill collection, theft and cost recovery problems in the water companies	Plan in place since end 2000	Progress indicator will be the level of implementation of plan and the increase in number and value of payments	MoPW	End 2000
	Strengthening of cost control by reducing overstaffing and improved management	Plan in place	Progress will be measured by the implementation of new management practices	MoPW and water companies	2001
	Approval of overall strategy document on Telecommunications	Plan prepared and completed	Under implementation	MoPEP	June 2000
<b>To make progress in privatisations in the energy sector and industrial enterprise sector</b>	Privatisation of ALB TELECOM	Studies and preparatory work undertaken	Plan to privatise this year	MoPEP	2002
	Privatisation of Albanian Mobile Communications (AMC) and issuance of second GSM licence	AMC privatised in June 2000 and GSM licence issued through international tender	Completed	MoPEP	
	Privatisation of the petroleum & gas sector (Servcom)	Restructuring completed. Servcom split into 3 separate companies	Law approved and privatisation underway	MoPEP	End 2000
	Implementation of power sector reform strategy	TA provider selected for the management of the Albanian Energy Corporation (KESH)	Progress will be measured by increased supply and reduction of illegal connections	MoPEP	2001 to 2003
	Privatization of small hydro power plants	Spin-off of small plants part of the process of restructuring KESH, which is underway	Progress will be measured by actual privatisations	MoPEP	End 2001

	Privatization of Alb Baker (Copper); and Alb Chromium	Accomplished		MoPEP	Mid 2001
	Privatization of Agri Food and pharmaceutical sectors	Completed		MoPEP	End 2000
<b>To foster privatization in the financial sector</b>	Privatization of all commercial banking activity	All Banks (except the Savings Bank) privatised		MoF	End 2000
	Privatisation of the Savings Bank, which is the dominant savings institution	Restructuring and reorientation studies undertaken: Tenders to be invited by mid year	Target is to privatise the SB by end year; indicator will be progress towards this goal	MoF	2001
	Privatization of the Insurance Institute	Studies undertaken	Underway	MoF	End 2001

#### 4. FISCAL REFORM AND TAXES

<b>To modernise the VAT administration system</b>	Completion of computerisation of the VAT administration system in 8 districts	Completed		GDT	Beginning of 2001
	Establishment of a permanent training centre for tax and customs staff	Discussions underway in relation to funding the initial phase		GDT, GCD	2002
	Strengthening of the operations of the large taxpayer office	Office currently being reorganised	Measured by evidence of improved revenues and compliance	GDT	2002
<b>To improve the fiscal balance</b>	Amendment of the Income Tax Law	Adopted in mid 2000	Ongoing activity	MoF, GDT	June 2002
	Approval and implementation of the new tax code	Adopted in December 2000	Ongoing activity	MoF, GDT	2000
	Enforce compliance with the laws on personal income tax and on social security contributions	This is an ongoing activity under the overall programme to modernise the overall tax administration	Measured by continued improvements in revenue collection and level of measures undertaken against defaulting taxpayers	GDT, SII	2000-2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Simplification of the appeals procedure for taxpayers	Establishment of new procedural code  Formal appeals mechanism in place	The aim is to increase the level of compliance and usage, and ensure the availability of clear documentation for taxpayers	MoJ, GDT	End 2000
	Preparation of a position paper on the introduction of agricultural land taxation	Working group established to look at implementation		MoF	2000-2001
	Amendment of the law on Bad Loans Portfolios	Terms of Reference for TA from World Bank approved  International expert to start work soon	Harmonisation of laws with European standard accounting practice would facilitate investment	MoF, GDT	End 2001
	Development of tax sources for local governments	Element of overall tax reform package. on going	Development of local tax base would empower local administrations and Government	MoF	Continuous
<b>To improve the regulations of customs duties</b>	Continuing of reduction in the stock of customs debt	Element of ongoing overall tax administration reform	Progress expected in 2001	GCD	2000-2002
<b>To improve the efficiency of the customs system and its administration and combat smuggling and corruption</b>	Continuing implementation of merit-based payments in customs	Outline scheme in place	Progress in this area is intended to support improvements in public sector performance	GCD	Continuous
	Making anti-smuggling group in Customs Department fully operational	This work is ongoing as an element of overall tax administration reform	Improved performance expected in 2001	GCD	2000

	Introduction of a unified system of sanctions	Ongoing as an element of overall tax administration reform	Improved performance expected in 2001	MoJ, GDT	End 2000
	Insertion of modern post-custom auditing techniques	Ongoing as an element of overall tax administration reform	Improved performance expected in 2001	GCD	2000
	Introduction of standard deadlines for completing clearances and transit transfers	Ongoing as an element of overall tax administration reform	Improved performance expected in 2001	GCD	End 2000
<b>To build the capacity of custom personnel in these areas</b>	Compilation and implementation of an Ethics Code for customs officials including an ethics training plan	Ongoing as an element of overall tax administration reform	Improved performance expected in 2001	GCD	2001
	Completion of training programme for the anti smuggling units (12 trained units)	Ongoing as an element of overall tax administration reform		GCD	2001
	Continuation of the introduction of the system ASYCUDA: • Pilot project • Complete implementation	Project underway to bring system into conformity with European classification standards and norms		MoF / GCD	2001

#### 5. ACCOUNTING REGIMES/PRACTICES

<b>To modernise the public accounting system</b>	Amendment of the existing law on accounting in the public sector	Relevant draft law prepared	Full implementation will facilitate improved medium term public sector planning	MoF	2001
	Compilation of a state accounts manual for the Treasury	Ongoing training programme underway		MoF	2001
<b>To reform the accounting and auditing regimes for private companies</b>	Refinement of the accounting plan for companies	Modernisation of reporting requirements underway		MoF	2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To implement functioning standards for public companies</b>	Implementation of regulations on financial and accounting requirements for public companies	CoM decision already prepared and sent for approval	Formal approval by CoM of draft standards will facilitate launch and trading of company shares on the Stock Exchange	CoM, ASC	2001
<b>6. COMPETITION</b>					
<b>To establish institutional mechanisms for monitoring competition issues in Albania</b>	Establishment of the Economic Competitiveness Directorate	Formally established as a separate unit through an Order of the Prime Minister. Staff to be recruited and trained	When implemented, the Directorate will be responsible for clarification of competition issues	MoECT	June 2001
	Training of the Economic Competitiveness Directorate staff	Presented to the EU for TA support	Awaiting response on funding	MoECT	June 2001
	Establishment of an Antidumping Office	Formally established as a separate unit through an Order of the Prime Minister. Staff to be recruited and trained		MoECT	2001
<b>7. CORPORATE GOVERNANCE</b>					
<b>To complete the legal/judicial framework and provide training to ensure sound implementation</b>	Completion of the Commercial Code	Ongoing	Successful implementation of law will bring legislative framework for commercial transactions closer to international commercial norms	MoJ, CoM	End 2001
	Approval of a Law on Alternative Resolution of Commercial Disputes	Legal basis for arbitration of commercial cases established	Part of wider effort to complete the legislative framework for commercial transactions	MoJ	2001

Approval of a new Bankruptcy Law	Law passed	Part of wider effort to complete the legislative framework for commercial transactions	MoJ, MoF	2000
Training of judges and attorneys in enforcement of the Bankruptcy Law	Ongoing	Successful implementation of law will improve perceptions of enforcement capacities	MoJ	2001
Organisation of a workshop on Corporate Governance issues in Albania	Work underway in cooperation with USAID and Financial Volunteers Corporation	To provide forum for government and private sector to review issues	MoECT, MPEP, SCA	June 2001

## 8. BRIBERY AND CORRUPTION

<b>To implement overall government strategy for tackling bribery and corruption</b>	Completion of revision of Anti-Corruption Plan	Completed	Separate unit under the Council of Ministers has been established	Minister of State under CoM	2000
	Preparation and publication of semi-annual assessment of progress	Process for semi-annual assessments established	4 reports already completed by end 2000. Progress in maintaining transparency is intended to support investor confidence	CoM	Ongoing
<b>A. Institutional Reform</b>					
<b>To set out the key elements of the reform and clarify their societal impact</b>		Statement prepared that clarifies key ways in which the government's institutional and public administration reform strategy addresses poverty reduction objectives of supporting sustainable, socially inclusive growth	The statement emphasises: (a) building more inclusive and citizen-responsive state institutions, and (b) enhancing the public sector's capacity to cost-effectively help in building human capital, particularly among the poorer sections of the Albanian society	CoM Minister of State	May 2000

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To promote reforms that improve transparency in the Civil Service</b>	Enhancement of legislation in the field of the prevention of corruption within the Public Administration	Legislation completed	Appointment of anti-corruption officials in each ministry and publication of their activities will support investor confidence	Minister of State	2001
	Issuing of secondary legislative decrees on (a) recruitment procedures (b) job description, classification, evaluation and appraisals	Planned that all recruitment will follow new procedures	Successful implementation will improve confidence in public sector	DoPA	2001
	Approval of the Law "On the control of ownership declaration "	Draft law completed; with the Government for adoption	Successful implementation will improve confidence in public sector	MoF	2001
<b>To set up institutional mechanisms to improve transparency and monitor progress</b>	Appointment of Ombudsman	Ombudsman appointed	Completed	MoJ	February 2000
	Appointment of Civil Service Commission	Civil Service Commission appointed	Completed	MoJ	July 2000
	Preparation of performance measures for the civil service	Baseline indicators prepared that measure institutional and public administration capacities and performance	Completed	DoPA	End 2000
	Preparation of a remuneration review for the civil service	Salary survey conducted to assess the competitiveness of salaries within the civil service	Completed	DoPA	2000
	Establishment of a functioning central database to monitor employment and authorised posts in the budgetary sector	Phase 1 completed	Phase 2 underway	DoPA	2000-2002

<b>To enhance the role of the Supreme Auditing Office</b>	Review of the Law relating to the office	Completed		Supreme Auditing Office	2000
	Approval of the guidelines and the procedures for the implementation of the Law	Completed	Successful management of the office will enhance public sector reform and investor confidence	Supreme Auditing Office	End 2001
<b>B. Legislative reform</b>					
<b>To adopt and implement European and International legal instruments</b>	Adoption of the Council of Europe Criminal Law Convention on Corruption	Adopted by Government; awaiting Parliamentary approval		MoJ	2001
		Council of Europe Twenty Guiding Principles for the Fight Against Corruption (GRECO) adopted	Ratified by Parliament	MoJ	2000
		Council of Europe Civil Law Convention on Corruption adopted	Ratified by Parliament	MoJ	2000
	Adoption of the Council of Europe Convention on Money Laundering	Convention prepared for ratification	Ratification would provide a positive signal for international business community	MoJ	2000
		Council of Europe 1990 Convention on Search, Seizure and Confiscation of Proceeds of Crime adopted	Ratified by Parliament	MoJ	2000
	Adoption of the 1998 UN Convention Against the Trafficking of Drugs and Psychotropic Substances	Draft law completed	Awaiting ratification by Parliament	MoJ	2001
	Adoption of the 1998 Vienna Convention on Illicit Trade and Money Laundering	Draft law completed	Awaiting ratification by Parliament	MoJ	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To adapt and implement Albanian legislation</b>	Adoption of laws on money laundering	Adopted		MoJ	2000
	Revision of legislation on the confiscation of assets acquired through corruption	Ongoing		MoJ	
	Improvement of the Civil Procedure legislation, especially the Civil Code, the Civil Procedure Code and the Family Code	Ongoing	Original target of mid 2000 put back because of scale of work	MoJ	End 2000
	Strengthening of the Bailiff's Office: reorganisation of structure, increase in its budget and staff training	Completed		MoJ	End 2000
<b>To enact reform of judicial procedures to promote transparency</b>	Opening of court proceedings to the public	Court cases are now open to the public. Exemptions foreseen by laws	It is expected that continued evidence of improved transparency will improve public confidence	MoJ	Ongoing
	Creation of Public Relations structures for providing court information to the public	The PR system is now in place		MoJ	
<b>To implement the reform of the police service</b>	Strengthening of the police service and improvement of their efficiency	This is an ongoing process		MoJ	2000
	Implementation of the Law on State Police	The Law "On State Police" and several Cabinet Decisions have already been approved. Bylaws on police operation have been approved by the government			

	Adoption of the law "On the Functioning of Financial Police"	Approved by Parliament, now in implementation phase	Strengthening of commercial fraud investigator capability should improve business confidence	MoF	2001
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### C. Public Finance Management

#### (i) Taxation:

<b>To decrease opportunities for tax evasion</b>	Improvement of procedures for detection	Legislation in place and being implemented	Measurable by continued improvement in tax collection and number of taxpayers	MoF, GDT	2000
<b>To improve VAT collection</b>	Application of new VAT guidelines	Work has commenced on new guidelines	Measurable by level of new guidelines in place by year end	MoF, GDT	2001
<b>To strengthen professionalism among tax administrators</b>	Reorganisation of tax police by means of a new law Training of tax administrators according to new Tax Procedures Law	Law approved Training of Trainers underway		MoF, GDT GDT	2001
<b>To increase public awareness of new tax rules</b>	Regular performance review of tax administrators Preparation of guidelines for the general public on the Tax Procedures Law	Ongoing activity Programme to publish explanatory leaflets and make available in all districts is now in operation		GDT GDT	2000 2000

#### (ii) Customs

<b>To increase transparency of the asset holdings of customs officials</b>	Preparation of amendments to Law on transparency of assets of customs officials	The law currently in place has only limited sanction on accuracy of declarations. A working group has been set up to examine the issue	Receipt of final report and action plan thereon will constitute a measurable output	MoF, MPO, MoJ, CoM	
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Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Establishment of mechanisms to reward efficient customs officials	Mechanism established to allocate percentage of tax revenues for official bonuses	Progress will be measured by increased levels of detection and actual disbursement of awards	GCD	Ongoing
	Establishment of internal information flow to familiarise employees with rewards and bonus procedures				
<b>(iii) Public Procurement</b>					
<b>To improve implementation of the Public Procurement Law</b>	Adoption of a decision giving jurisdiction on public procurements to the PPA	Decision adopted		CoM	2000
	Revision of standard procedures on public procurements	CoM Decision on standard procedures approved		CoM	2000
<b>D. Public Awareness</b>					
<b>To promote ACP initiatives</b>	Establishment of a public information unit in each ministry	Public information office established in majority of ministries	The target for year end is completion of organisation for all Ministries	LM/ CoM	2001
	Installation of public complaint phone lines in individual ministries	Ongoing – limited progress to date	Completion expected by end 2001	LM	2001
	Organisation of public opinion surveys relating to government initiatives to fight corruption	Ongoing public relations work underway		LM	2001
<b>To implement outreach programme to the business community</b>	Provision of public procurement rules to the Chambers of Commerce and other business associations	Rules circulated to all Chambers	Intended to demonstrate transparent administration of rules to the private sector	PPA, CCI	2000, ongoing

<b>To increase transparency in the public sector by means of public information campaigns</b>	Publication of leaflets explaining the services ministries provide to the public	Ongoing publication programme underway, each ministry has its own home page		LM	2000
	Publication of licence requirements and procedures for starting a business	Ongoing		LM, MoPEP	2000
	Publication of Ethics Codes for civil servants, police forces, attorneys, notaries, arbiters, mediators, economists and journalists	Completed		MoJ	2000
<b>To improve the effectiveness of the financial system</b>	Encouragement of the level of savings by the public	Preparation of draft law on amendment of the Savings Association Law completed	Awaiting Cabinet approval	CoM BoA	September 2000
	Launch of the credit information bureau	To be developed	Awaiting approval	BoA	2001
	Preparation of a plan to introduce a deposit insurance scheme	The draft law has been prepared	Awaiting approval	BoA	2000
<b>To broaden securities markets</b>	Improvement of auction market for treasury bills	The T Bill system is in operation, primarily as an InterBank mechanism		BoA	2000
	Transformation of Tirana Stock Exchange into a separate joint stock company	1st stage achieved with the passing of primary legislation and appointment of initial staff	Not functioning yet as a normal stock exchange – initial measure will include privatisation of AlbTelecom	MoF MoPEP	End 2001
	Approval of the law “On Collective Investment in Securities Fund”	Legislation approved by the Government; awaiting approval by Parliament	Eventual measurable outcomes will include development of mutual funds and similar instruments	CoM, ASC	September 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To improve banking regulations</b>	Replacement of government non-marketable obligations to the Bank of Albania with marketable securities	Partly accomplished		MoF/BoA	2001
	Adjustment of statutory minimum reserves	Regulations introduced	This initiative will serve to increase confidence in banking system	BoA	2000
	Improvement in the operational efficiency and effectiveness of the Loan Collection Agency	Ongoing	Challenging measure to achieve repayment of "old debts"	MoF	2001
	Design and implementation of a real-time gross settlement system	Terms of reference for study prepared		BoA	2001

## 9. OTHER KEY POLICIES

### A. Land Reform

<b>To introduce a functioning and comprehensive system of land zoning and registration</b>	Preparation of a plan for real estate registration	Plan prepared		MoAF, REGO	End 2000
	Documentation for 500 Ha cadastral lands prepared and sent to the Real Estate Registration Office	Prepared		MoAF, REGO	2001
	Finalisation of the cartography for 3046 cadastral areas	Finalized for 2400 areas	Completion of measure will facilitate development of a real estate market	MoAF	End 2001
<b>To complete land distribution and expand opportunities for asset accumulation</b>	Reinstallation of district Land Commissions to (a) issue land distribution documents and (b) distribute the remaining undistributed land to individual users or communes	Ongoing	Distributed for 97,7% of the total; 95,5% of which with relevant documentation	MoAF	End 2001

	Allocation of land refused in distribution process to individual users or communes	Proposal prepared	Awaiting approval by Cabinet	MoAF	2001
	Preparation of legislation addressing the issue of compensation for former owners	Two amendments have been prepared; ongoing process	This initiative will contribute towards final resolution of land ownership issue	CFOC	2001
	Completion of the resolution process for forest and pasture land and compensation process for agricultural land	Ongoing	This initiative will contribute towards final resolution of land ownership issue	CFOC	2000
<b>B. Trade Policy</b>					
<b>To reduce and streamline customs duties and tariffs</b>	Reduction of average tariff rates through reductions in the level, number and dispersion of rates	Ongoing element of the overall tax administration reforms		MoF	2001
	Reduction of the top customs duty rate to 15 percent	Ongoing element of the overall tax administration reforms		MoF	2001
<b>To develop an export promotion policy and supporting institutions</b>	Preparation of an Export Promotion Strategy	Draft strategy prepared	Awaiting approval	MoECT	End 2000
	Establishment of an Export/Trade Promotion Centre	Awaiting approval of proposed overall strategy		MoECT	End 2002
	Addition of an export guarantee function in the Albanian Guarantee Agency	Preliminary studies underway		MoECT, MoF	End 2001
<b>To increase bilateral trade agreements</b>	Negotiation and conclusion of a Free Trade Agreement with Macedonia	Ongoing	FTA will influence increasing regional trade and attraction of FDI	MoECT, MoF	2001/2002
<b>C. Energy</b>					
<b>To improve the power supply for the business community</b>	Preparation and monitoring of an action plan on the energy sector	Relevant Cabinet Decision has already been approved	Monitoring underway	MoPEP	2000

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Preparation of a strategic intervention programme for the energy system	Completed	In co-operation with USAID	MoPEP	2001
<b>D. Infrastructure</b>					
<b>To improve physical infrastructure</b>	Implementation of Stability Pact Quick Start Projects	Ongoing	Seven infrastructure QSPs have been selected for Albania; limited progress to date	MoECT, LM	2001
<b>E. Others</b>					
<b>To establish institutional business lobbying</b>	Support for establishment of a professional secretariat for the Albanian Business Advisory Council	BAC already established through an order of the Prime Minister	The discussions in the BAC have already contributed to increasing the level of transparency of the legal framework affecting the business community. In addition, it has proven to be effective in structuring the lobbying activities of the private sector	MoECT	2001

# **BOSNIA-HERZEGOVINA**





## Summary

The macroeconomic situation of Bosnia-Herzegovina has been relatively stable for the past two years, with low inflation, a convertible currency and strong growth, despite concerns about the slow pace of structural reform. Nonetheless, there has been progress in some areas and the Monitoring Instrument sets out a programme of reform for the next 12-18 months that aims to consolidate recent advances. The key areas for action include:

*Addressing barriers to investment and clarifying roles in investment promotion.* The Federal and Entities Governments are currently considering a report evaluating administrative obstacles to FDI in Bosnia prepared by FIAS. Implementation of the key recommendations is expected to be a main field of policy action over the next year. In addition, the institutional status and functions of the fledgling Foreign Investment Promotion Agency (FIPA) is being more clearly defined so that it can play a stronger and more unifying role in enhanced investment promotion activities. Implementation of the recommendations of a Working Group on barriers to inter-Entity trade and negotiation of accession to WTO (foreseen for mid-2002) are also actions that should contribute to improving Bosnia's image as an investment destination.

*Accelerating the process of privatisation, using revised, more transparent procedures.* The Government is emphasising speeding up the privatisation process and addressing issues of transparency and disputes over property rights and title. The key initiatives in both the Federation BiH and RS are completion, over the course of 2001, of the small privatisation process which is advanced in both entities, public share offerings in a large number of medium-sized enterprises, preparation of larger enterprises for sale through international tender (for which the first step is appointment of advisers), and planning for restructuring and eventual privatisation of public utilities, along with drafting of requisite legislation. In addition, the Federation BiH is taking steps to address restitution, "disputed property rights" and "illegal privatisation" cases, where unclear title hinders enterprise privatisation.

*Introducing a modern, open system of tax administration.* In the area of fiscal reform, key short term initiatives in both Entities include technical upgrading of the tax administration system (notably the introduction of simplified computerised registration and identification systems) and information campaigns to raise awareness among taxpayers of the new procedures and their merits, while in the medium term reform of direct taxation legislation is in preparation and the IMF is working with both Entities on the introduction of a VAT tax.

*Taking steps to address observance of the rule of law.* While formal steps have been taken to adopt international conventions relating to bribery and corruption, the legislative supports for implementation of these various conventions are still lacking. As a result, priority is being given to amending criminal codes and judicial procedures, and a number of laws (relating to money laundering, organised crime, corruption) are scheduled for adoption before the end of June 2001.

*Reform of the "infrastructure" of the financial sector.* A major step forward was taken on January 1, 2001 with the closure of the Payments Bureau and the establishment of a Clearing House for monetary transaction through commercial banks. Other key initiatives include the increasing participation of foreign investors in Bosnian banks and the gradual consolidation of the sector with the emergence of larger more competitive institutions, the establishment of functioning deposit insurance agencies (operational in FBiH, in preparation in RS), and, finally, introduction of functioning regulatory/supervisory bodies with the adoption of amendments to the Banking Law.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To increase foreign investment by improving the legal and regulatory framework</b>	Elaboration of a study on the administrative obstacles to FDI	FIAS has prepared first draft of study, which is being reviewed by entity governments for evaluation	After entity governments' review a round table will seek consensus on a final text of study	Ministry for Foreign Trade and Economic Relations in co-operation with FIAS	End May 2001
	Implementation of the conclusions of the above study				End September 2001
	Harmonisation of legislation for foreign investments in BiH			Council of Ministers and Entity Governments	End June 2001
	Elaboration of an FDI strategy				End June 2001
	Review of the effectiveness of existing FDI laws and regulations, and identification of necessary improvements			Ministry for European Integration and Ministry for Foreign Trade and Economic Relations	End June 2001
<b>To strengthen institutions responsible for investment promotion and for FDI strategy</b>	Financial harmonisation of Entity laws and regulations	Harmonisation of legislation is well advanced	Key initiatives to develop FIPA include: - Amendment of FIPA statute - State budget funding - Establishing supervisory board - Opening of FIPA offices in Banja Luka and Mostar - Development of information system, computer networking and databases - Training of FIPA staff	European Commission, Council of Ministers	End June 2001
	Institutional development of FIPA				

<p>Launching of an FDI promotion programme with the following elements:</p> <p>a. Publicise investment opportunities;</p> <p>b. Advance FDI related to privatisation;</p> <p>c. Target potential MIGA;</p> <p>d. Organise investment promotion missions in country and abroad;</p> <p>e. Develop contacts, information and promotional databases</p>	<p>Progress so far:</p> <p>a. Participation of FIPA at fairs and conferences in country and abroad;</p> <p>b. Contract on cooperation with Federal Agency for Privatisation;</p> <p>d. Business guide prepared, the most important Laws printed in English, flyers printed, Website created, contributed to investment guide for SEE;</p> <p>e. Three workshops organised in BiH</p>		<p>FIPA &amp; Federal Privatisation Agency</p>	<p>Permanent</p>
<p>Implementation of a programme for retention of existing investors</p>		<p>Key initiatives will include:</p> <ul style="list-style-type: none"> <li>- site visits</li> <li>- design of a simple tracking system</li> <li>- promotion of strong representation of existing investors on FIPA Supervisory Board</li> </ul>	<p>FIPA</p>	<p>Permanent</p>
<p>Work to ensure FDI policy development within the public administration</p>	<p>Ongoing</p>	<p>Key activities will include:</p> <ul style="list-style-type: none"> <li>- conducting policy research</li> <li>- involving Business Associations in policy</li> <li>- presenting recommendations to the Council of Ministers</li> <li>- presenting the case for FDI to Entity, Cantonal, Municipal Governments and relevant line agencies</li> </ul>	<p>FIPA</p>	<p>Permanent</p>

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>2. SME SUPPORT POLICIES AND STRUCTURES</b>					
<b>To facilitate the development of the SME sector by improving the legislative and regulatory framework</b>	Adoption of a law on SMEs (Business facilitation package)		Modernisation of existing law on enterprises (alternative)	Entity Governments and Parliaments	July 2001
<b>To establish institutional supports for the SME sector</b>	Establishment of SME Departments within the State and Entities Ministries			Entity Governments	July 2001
	Establishment of a development fund for SMEs			Entity Governments	July 2001
	Formation of Entities Agency for SME development			Entity Governments	July 2001
	Formation of State Centre for Entrepreneurship and SMEs			BiH Chambers of Commerce	2001-2002
	SME Project Support through SEED project	The following projects are operational → technical assistance → capacity building → training courses → research			World Bank – IFC (International Finance Corporation)
<b>3. PRIVATISATION</b>					
<b>To accelerate the privatisation processes already underway</b>	Federation BiH				
	Completion of public shares offering (Phase 1)	First round completed. 46 enterprises either sold or partially sold	In the second round 466 enterprises will be offered	Agency for Privatisation FBiH	May 2001

<b>To prepare the eventual privatisations of enterprises in strategic sectors</b>	Completion of public share offering (Phase 2)		From 250 up to 300 enterprises will be offered	Federal and Cantonal Agencies for Privatisation	End 2001
	Completion of "small enterprise privatisation"	Tenders are published on a daily basis		Cantonal Agencies for Privatisation	End 2001
	Privatisation of 86 enterprises through the International Tender Bureau	International advisors have been appointed for approximately 50% of the companies		Agency for Privatisation FBiH	2001 – 2002
	Elaboration of a Feasibility Study on restructuring the telecommunications and electricity sectors			Agency for Privatisation FBiH Ministry of Transport and Communication FBiH Ministry of Energy, Mining and Industry FBiH	End 2001
	Drafting and adoption of a law on the privatisation of enterprises in the telecommunications, electricity and gas transportation sectors			BiH Parliament, Agency for Privatisation FBiH, Ministry of Transport and Communication FBiH Ministry of Energy, Mining and Industry FBiH	2001 – 2002
	Undertaking of a feasibility study on the restructuring of the water and forestry sectors	A memorandum of understanding has been signed. Implementation unit has been established	According to this project two pilot projects will be set up (River basins of Vrbas and Bosna)	Council of Ministers BiH	2001 – 2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Adoption of a Concession Law			Assembly of FBiH	July 31 2001
<b>To address issues of ownership, property rights and restitution</b>	Adoption of restitution legislation	Several Draft Laws pending in FBiH since 1996  Office of High Representative/Council of Ministers draft pending before Council of Ministers since 1999	Before adoption of legislation, relevant authorities should have a clear view on the economic and social implications of restitution legislation, and of their financial feasibility	Assembly of FBiH	July 31 2001
	Privatisation of apartments	Apartment privatisation ongoing since 1997		Relevant Municipalities	During 2001
	Resolution of problems of "disputed property" and "illegal privatisation"			Agency for Privatisation with assistance of OHR	During 2001
	Registration of property ownership as precondition for enterprise privatisation			Appropriate Municipal Bodies	During 2001
<b>Brcko District</b>					
	Privatisation of strategic enterprises	16 strategic enterprises  66 % sale by tender 33 % sale by voucher and certificate	Privatisation Law will be presented to the District Assembly for adoption	Government of Brcko District	End 2001
	Privatisation of other enterprises	Privatisation will be done by entity laws		BH Entities	End 2001
<b>Republic of Srpska</b>					
<b>To accelerate the privatisation processes already underway</b>	Completion of voucher offerings	Voucher investment completed on March 15 2001 Verification on April 15 2001	Voucher offering overview on May 15, 2001 and publication of information	Directorate of Privatisation RS	

	Sale of enterprises up to 300,000 KM		The total number of enterprises is 175	Directorate of Privatisation RS	June 2001
	Sale of enterprises over 300,000 KM	A catalogue of enterprises is being prepared as well as campaign for selling in Yugoslavia, Italy, Austria and Germany		Directorate of Privatisation RS	December 2001
<b>To prepare the eventual privatisations of enterprises in strategic sectors</b>	Tender privatisation of strategic enterprises under a special privatisation programme	International consultants are involved in preparation of a special privatisation program	The total number of strategic enterprises is 182	Directorate of Privatisation RS with assistance of international advisers, RS Government	End December 2001
<b>To begin privatisation in the banking sector</b>	Privatisation of State Banks in RS	There are 10 banks with state capital and one financial organisation. Privatisation programs are mostly accepted		Units for Bank Privatisation and Ministry of Finance	End December 2001
<b>To reform the public utilities for gas and electricity on an inter-Entity basis</b>	Adoption of laws for the restructuring and privatisation of electricity and gas companies			Entity and State Governments and Parliaments	During 2001
	Establishment of Regulatory Agencies for public utilities			Entity and State Governments and Parliaments	During 2001
	Establishment of inter-Entity Public Corporations			Entity and State Governments and Parliaments	During 2001

#### 4. FISCAL REFORMS AND CUSTOMS POLICY

##### A. Legislative reform

	Republic of Srpska				
<b>To reform and modernise the tax administration system</b>	Modernise the tax administration (simplify collection procedures and increase efficiency of tax administration)	A comprehensive Tax Administration Law has been drafted	This Tax Administration Law will soon be adopted by the RS National Assembly	RS Government/ US Treasury/ CAFAO	End 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To introduce new legislation on direct and indirect taxation</b>	Computerisation of the tax system	A Feasibility Plan drafted		Republic Administration for Public Incomes	End 2001
	Provision of personnel training	Nothing done so far		Republic Administration for Public Incomes	End 2001
	Information and education programmes for tax payers	Nothing done so far		Republic Administration for Public Incomes, MoF (RS)	Permanent
	Introduction of unique tax information system	Nothing done so far		RS Government	End June 2001
	Drafting and adoption of law on indirect taxation	Excise and sales tax law in place	Some small amendments will be passed by the RS National Assembly	RS Government/ IMF/ WB	End June 2001
	Prepare introduction of VAT system	A feasibility plan has been drafted by IMF	Ongoing introduction with system of Value Added Tax in Slovenia and Croatia	IMF/GTZ	Not before July 1st 2003
	Drafting and adoption of a law on direct taxation	A working group has been established comprised of staff from both entities at Ministerial and administration level	The framework for a new law was agreed upon in April 2001	MoF RS/FEDD GTZ	End July 2002
	Introduction of an electronic cash register for tax payments	Nothing done so far	Changes in the law are needed first	MoF (RS)	End 2001

FBiH					
<b>To reform and modernise the tax administration system</b>	Adoption of measures to modernise the tax system, including: - Development of a unique information system - Introduction of unique tax identification number - Training of tax administration employees	A comprehensive Tax Administration Law has been drafted	The Tax Administration Law will soon be adopted by the Federal Parliament	Government of FBiH, International organisations	End 2001
<b>To introduce new legislation on direct and indirect taxation</b>	Preparation for introduction of VAT	A feasibility plan drafted by IMF		Ministry of Finance FBiH, IMF/GTZ	July 2003
	Adoption of new direct taxation laws in FBiH			Parliamentary Assembly of FBiH	End 2001
<b>B. Customs Policy</b>					
<b>To modernise customs policy and administration and to reform the tariff system, through strengthening the institutional, technical and legal framework and by the provision of training</b>	Amendment of the Law on Customs Policy	The High Representative has made decisions regarding changes and additions to the Law on customs policy BiH		Parliamentary Assembly of BiH	March 2001
	Adoption of the Law on the State Border Service	State Border Service took charge of 4 border crossings last year and will take charge of another 8 by June 30 2001		Council of Ministers, Parliament Assembly BiH	June 2001
	Implementation of the Law on Customs Policy	Intensive cooperation with CAFAO		Ministry for Foreign Trade and Economic Relations and Entity Governments	End of 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Training programme for anti-corruption teams	Intensive cooperation with CAFAO		Entity Governments	Permanent
	Amendment of the Law on Customs Tariffs			Parliamentary Assembly of BiH	July 2001
	Gradual introduction of ASYCUDA system: pilot project and roll-out		Pilot project scheduled for September 2001 with roll-out end 2001	Ministry for Foreign Trade and Economic Relations	End of 2001
	Implementation of the Law on Customs Offences and Penalties			Entity Governments	During 2001
<b>5. COMPETITION POLICY</b>					
<b>To promote competition by strengthening the institutional and legal framework</b>	Adoption of a Law on Competition			Parliamentary Assembly of BiH	March 2001
	Adoption of Law on Consumer Protection	A consultative Working Group is working on the text of the law		BiH Parliamentary Assembly	June 30 2001
	Founding of the BiH Competition Council			Council of Ministers of BiH	June 2001
	Establishment of the Office for Competition and Consumer Protection in FBiH and RS			Entity Governments	June 2001
<b>6. ACCOUNTING PRACTICES AND REGIMES</b>					
<b>To introduce modern and internationally accepted accounting systems and practices into enterprises</b>	Completion of adaptation of accounting practices to European standards	The law currently accepts international standards. In practice temporary accounting standards are being applied until final transition to international standards is made		Legislative and institutional bodies in the Entities	Ongoing

Introduction of international standards (IAS) in BiH enterprises	90 enterprises trained and converted to IAS	Entity Governments	End of 2002
	45 enterprises trained and cost accounting systems introduced	Association of Accountants and Auditors RS, Association of Auditors FBiH	
	45 enterprises trained and IAS statements produced		
Upgrading of training, testing and certification programmes to international standards (IFAC, UNCTAD or ACCA)		Association of Accountants and Auditors RS, Association of Auditors FBiH, Institute of Accountants and Auditors FBiH	Mid 2002
Enforcement of ethics standards based on IFAC guidelines		Association of Accountants and Auditors RS, Association of Auditors FBiH, Institute of Accountants and Auditors FBiH	Mid 2002
Introduction of self-regulatory organisation for the State of BiH to qualify for Regular Membership of IFAC		Association of Accountants and Auditors RS, Association of Auditors FBiH, Institute of Accountants and Auditors FBiH	Mid 2002
Upgrading of tertiary level education in accounting practices	Undergraduate curriculum has been developed based on international guidelines	Ministry of Education	Mid to late 2002
	Training for faculty on 1st year curriculum ready for implementation		

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
		University faculty exchange programme established with US partners		Selected institutions	Late 2001
	Strengthening of the Main Bureau for public sector reform	With consultation support from the World Bank and SIDA (Sweden)		Entity Governments	Permanent
	Improvement of the Civil Procedure legislation, especially the Civil Code, the Civil Procedure Code and the Family Code	Ongoing	Original target of mid 2000 put back because of scale of work	MoJ	End 2000
<b>7. ANTI-CORRUPTION INITIATIVE</b>					
<b>To amend/enact new legislation to facilitate the fight against bribery and corruption</b>	Reform of the law on criminal procedures	Amendments to the criminal code are still pending	This is a priority in both Entities	Ministry of Internal Affairs, Ministry of Justice	End June 2001
	Amendment of laws on money laundering	The current law in FBiH (from March 2000) does not make money laundering a criminal offence		Ministry of Internal Affairs, Ministry of Justice	End June 2001
		A draft law has been prepared in RS			
	Enactment of a law on organised crime	Law is still in preparation		Ministry of Internal Affairs, Ministry of Justice	End June 2001
	Enactment of an anti-corruption law	Law is still in preparation		Ministry of Internal Affairs, Ministry of Justice	End June 2001

	Adoption of a law on public procurement		Entity Parliaments and Ministries of Finance	End April 2001
<b>To implement recently adopted international conventions and agreements</b>	Ratification and implementation of criminal and civil anti-corruption conventions		BiH Parliamentary Assembly	End June 2001
	Implementation of anti-corruption principles adopted by the Council of Europe	Signed in March 2000 but not ratified yet	BiH Anti-corruption Team and senior representatives of SPAI	Permanent
	Implementation of the principles of the convention on bribery of foreign officials in international business transactions	As yet, this initiative has not taken sufficient legislative steps	BiH Anti-corruption Team and senior representatives of SPAI	Permanent
<b>To build transparency and awareness of government activities in this field</b>	Establishment of a permanent Consultative Network with NGOs, professional associations, private sector and other potential partners in SPAI implementation	Civil society representatives participated at the last SPAI meeting	SPAI Main Bureau and senior representatives in SPAI	Permanent
	Development of a web page allowing public access to information on the work of Government bodies	Funding being sought for the creation of a public web-site	SPAI Main Bureau and senior representatives in SPAI	End May 2001
	Adoption of a Law on Free Access to Information	The Law has now been adopted	BiH Parliamentary Assembly	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>8. FINANCIAL SECTOR REFORM</b>					
<b>To modernise the banking sector through institutional reform and human resource capacity building</b>	Transfer of the responsibility to manage the payment system from Payment Bureaux to the commercial banking sector	Payment Bureaux closed on January 1, 2001. In January 2001, a new payment system allowing transactions through commercial banks and a Clearing House was established in BiH		Central Bank of BiH	
	Privatisation of state banks in FBiH and RS	Process underway	PBS Group of Banks plan under review by Finance Minister	Agency for Bank Privatisation in FBiH and RS	End June 2001
	Improvement of the structure of the banking sector through enlargement of banks and increase of competition	Foreign Banks are actively participating in privatisation and consolidation process	Steady increase in foreign and domestic banks competition	Entity Agencies for Banking, Central Bank of BiH, Commercial Banks	End of 2001
	Strengthening of the Agency of Security of Deposits (FBiH) and establish an Agency in RS	Deposit Insurance Agency operational in FBiH. Review of the RS candidates is underway	4 FBiH banks are now members with deposits insured up to 5000 KM	Agency for Deposits Security in FBiH and RS	June 2001
	Training seminars on implementation of international standards	Ongoing	Increasing staff awareness of international banking system and standards	International organisations	Permanent
	Finalisation of regulations for bank monitoring and supervision	Banking regulatory Agencies established	Revisions to Amendment to Banking Law in draft form	Parliamentary Assemblies of FBiH and RS	End of 2001
	Settlement of obligations on old foreign currency savings	Draft Law on this issue is being prepared in RS		Parliamentary Assemblies of FBiH and RS	End of 2001

Enactment of legislation to: a. improve legal protection of lenders; b. establish institutions for pledge registration; c. develop real estate property market	Part of the Obligation Law and of the Law on Commercial Enterprises	Parliaments and Governments of RS and FBiH and Commercial Banks	End of 2001
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## 9. OTHER KEY POLICY AREAS

### Property Rights

Republic of Srpska					
<b>To clarify and secure property rights through reform of the legal base</b>	Adoption of law on land registration and property cadastre	The law is drafted and is waiting for RS Parliament to pass it	RS Parliamentary Assembly	October 2001	
	Adoption of law on obligations		Working group is still drafting the law	RS Parliamentary Assembly and Ministry of Justice	End 2001
	Adoption of law on sale of property			RS Parliamentary Assembly and Ministry of Justice	End October 2001
	Adoption of law on property – legal relations		Working group is still drafting the law	RS Parliamentary Assembly and Ministry of Justice	End December 2001
	Adoption of law on usurpation	The Law is in Parliamentary procedure		RS Parliamentary Assembly and Republic Administration for Property – Legal Relations	End June 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Adoption of law on tenure of office building and offices	The Law is in Parliamentary procedure		RS Parliamentary Assembly and Republic Administration for Property – Legal Relations	End June 2001
	Adoption on law on condominium property ownership			RS Parliamentary Assembly and Republic Administration for Property – Legal Relations	End June 2001
	Adoption of law on building land		Working group is still drafting the law	RS Parliamentary Assembly and Republic Administration for Property – Legal Relations	End June 2001
<b>Federation of BiH</b>					
<b>To clarify and secure property rights through reform of the legal base</b>	Adoption of law on land registration and property cadastre			Parliamentary Assembly of FBiH	End June 2001
	Adoption of law on condominium ownership			Parliamentary Assembly of FBiH	End June 2001
	Adoption of law on concessions		Working group is still drafting the law	Parliamentary Assembly of FBiH	End June 2001
	Adoption of law on property sales			Parliamentary Assembly of FBiH	End June 2001

Adoption of law on cessation of joint right to land ownership in the villages	Parliamentary Assembly of FBiH	End June 2001
Adoption of law on rights and obligations of state bodies on the use of socially owned resources	Parliamentary Assembly of FBiH	End June 2001
Adoption of law on the regrouping of holdings	Parliamentary Assembly of FBiH	End June 2001
Law on expropriation	Parliamentary Assembly of FBiH	End June 2001
Adoption of law on building land	Parliamentary Assembly of FBiH	End June 2001

### Trade Reforms

Adoption of procedures and regulations in the field of foreign policy	Ministry of Foreign Trade and Economic Relations should add penalty provisions to the Law, improve implementing and control measures and define goods where attest is necessary	Ministry of Foreign Trade and Economic Relations BiH and Entity Parliaments	June 30 2001
Harmonisation of regulations in order to eliminate inter-Entity trade barriers	Consultative Working Group is working on this issue and certain results are achieved	Ministry of Foreign Trade and Economic Relations BiH	End 2001
Establishment of a unique database on foreign trade flows		Ministry of Foreign Trade and Economic Relations BiH	End 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Free Trade Areas established; Negotiations and bilateral FTA signed; Bilateral FTA implemented			Ministry of Foreign Trade and Economic Relations BiH	June 2002
	WTO accession: Memorandum on foreign trade policy in BiH to be submitted; Procedures for WTO accession to be completed		New Law on Custom Tariffs is being debated in Parliament and is expected to be finalised soon	Ministry of Foreign Trade and Economic Relations BiH	End 2005 End March 2001 End 2001 End March 2002
	Memorandum of Understanding for SEE countries regarding trade liberalisation and facilitation	Final negotiations on content of Memorandum of understanding is in process		Ministry of Foreign Trade and Economic Relations BiH	June 2001
<b>Reform of the Public Administration</b>					
<b>To reform and modernise the Public Administration</b>	Establishment of a standing secretariat in the Presidency to resolve personnel and technical problems	Recruitment of the staff of the standing secretariat and adoption of rules and procedures	Rules and procedure, including provisions on staffing, are being drafted	BiH Presidency	June/July 2001
	Restructuring of the Council of Ministers and Ministries	Law on Council of Ministers adopted on 4 April 2000	Reform of the rules of procedure of CoM, with emphasis on CoM's administration	CoM and competent Ministries	June 2001
	Introduction of the law on the Civil Service	The draft law is largely finalised	WG is finalising the draft for an adoption by the collegium of the MCAC in 10 days	Ministry of Civil Affairs and Communications BiH, and Parliamentary Assembly of BiH	June 2001

# BULGARIA





## Summary

The Government of Bulgaria is now completing a three-year reform package (July 1998-July 2001), developed in cooperation with the IMF, which has been successful in bringing macroeconomic stability and creating a propitious environment for structural reform. This Monitoring Instrument presents the range of measures that the Government intends to introduce over the coming months to build on this. In particular, the decision of the European Commission to open discussions on EU accession is likely to intensify the pace of reform in a number of policy areas where harmonisation of legislation and introduction of regulatory mechanisms will be required.

*Enacting reform to promote long-term fiscal sustainability.* Creation of a unified revenue authority, responsible for personal and company tax collection as well as social contributions, is a key initiative that it is anticipated will simplify the current tax regime, improve reporting and reduce tax evasion. On the public expenditure side, the key initiatives include creation of a functioning treasury combining all government accounts and limiting overspending and build up of arrears by individual government agencies.

*Beginning the process of privatisation in strategic sectors.* While the process of privatisation is almost completed (almost 80 percent of non-infrastructure assets have already been sold), a number of strategic publicly owned enterprises are now being targeted for privatisation, a process helped by recent amendments to the Privatisation Act. With a view to privatisation in the relatively short term, initiatives underway at the moment include: implementation of a new privatisation strategy for the state telecoms company (BTC), preparation of plans for restructuring of the coal industry, unbundling of the activities of the national electricity company (NEK) and continuation of a financial recovery plan for the national railway. In addition, the process of isolation and liquidation of loss-making state-owned enterprises is being accelerated.

*Building on better results in FDI by enhancing services for foreign investors.* Initiatives in the field of FDI promotion include the preparation of a draft law on international arbitration in the case of enterprises with more than 50 percent foreign ownership, as well as reform of the public administration to provide more specialised support on business related questions. On the promotion side, the BFIA is expanding its range of promotional materials, notably through enhanced use of the Internet both for Bulgaria-specific information campaigns and co-ordinating regional initiatives.

*Harmonising commercial legislation according to EU norms.* Legislation relating to the protection of competition and creditors rights is currently being amended in accordance with EU Directives and the Commission of the Protection of Competition is making an increasing number of decisions relating to the implementation of the new rules. As a corollary to this, the government is also taking steps to generate a “culture of competition” to underpin the new legal framework.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To facilitate FDI by means of new agreements on mutual protection and promotion of investments</b>	Conclusion of negotiations for Bilateral Investment Treaties (BITs) with Jordan, Pakistan, Bosnia and Herzegovina, Cyprus and Kirghizstan	Negotiations have proceeded to final phase		Ministry of Economy	December 2001
	Start of negotiations for BITs with Jordan, Philippines, Norway, Mexico, Sudan, Yemen, Saudi Arabia and Laos			Ministry of Economy	December 2001
<b>To develop promotional &amp; marketing materials</b>	Implementation of BEF/BFIA Joint Business and Marketing Plan	Being implemented from 1 January, 2001 to 31 December, 2002		Bulgarian Economic Forum (BEF), Bulgarian Foreign Investment Agency (BFIA) – SARA program	December 2002
<b>. . . relating to FDI in the SEE region</b>	Preparation of the second edition of the SEE Investment Guide	First edition published in 2000; second edition in preparation		BFIA, BEF (in co-operation with the investment promotion and development institutions of the other SEE countries)	September 2001
	Development of the SEE Business Information Network (SEEBIN)		Currently in preparation	BFIA/BEF and OECD	

	Establishment of: fi website for promotion of SEEurope (www.seeurope.net) and fi a SEE projects databank www.investdb.net	Both websites are now fully operational and regularly updated	The projects databank currently contains around 100 projects from Bulgaria and Macedonia and looking for co- operation the other SEE countries	BEF/BFIA	
	Organisation of the Southeast Europe Economic Forum (annual event)	Organisation underway for the SEE Forum 2001, to be held on 15-17 October in Sofia		BEF, BFIA	
<b>... focusing on Bulgaria</b>	Identification of target countries for attracting FDI		In preparation	BFIA – SARA program	End of 2001
<b>To attract investment to sectors with significant potential for development</b>	Preparation of Sector Plans for: - Textile & clothing - Food & food processing - Tourism	Sector summaries and sector profiles to be ready by 20 April		BFIA – SARA program	End of 2001
<b>To conduct information campaign highlighting investment opportunities in Bulgaria</b>	Presentations on the current economic situation in Bulgaria to foreign business circles both in the country and abroad Organisation of a series of fora to attract FDI	Bulgaria Tourism Forum 2001 to be held on 18-20 April in Sofia Agribusiness Forum 2001 to be held on 2-4 May in Sofia		BFIA, Ministry of Economy, and competent state authorities	Ongoing
	Development of investment promotion through the Internet	Two websites established: • www.bfia.org: (promoting the investment climate in Bulgaria) • www.biforum.org (supporting the fora, organized by BEF)	In their Investment Promotion Toolkit, MIGA has reported www.bfia.org as a best practice investment promotion web site, chosen from a list of more than 264 different sites	BFIA	Ongoing

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>2. SMALL AND MEDIUM SIZED ENTERPRISE SUPPORT POLICIES AND STRUCTURES</b>					
<b>To strengthen the SME support infrastructure at regional level</b>	Expansion of the existing network of 19 Regional Development Agencies for SMEs with another 9, thereby covering every region in Bulgaria	Organisation of the public tender is underway. The project will take 18 months to complete	Part of the PHARE 2000 project <i>Capacity building for the accelerated growth of the SME sector</i>	The Agency for Small and Medium-sized Enterprises (ASME) and the Association of Regional Development Agencies (BARDA). Supported also by the local authorities	
<b>To ease administrative obstacles to SME development</b>		A pilot project for evaluation of administrative barriers at regional level started in Vidin in January	Supported by the Know-How Fund	The Agency for Small and Medium-sized Enterprises (ASME)	
	Replacement of BULSTAT insurance and tax identification numbers by a unified code	New Act on Statistics adopted (State Gazette No 57/25.06.1999)	The adoption of a Tax Collection Code and Procedures is expected. This will enforce the use of a single identification number	National Statistics Institute (NSI)	2001
	Review of existing licensing and registration regimes, with a view to simplifying the system	Working Group established by a Decision of the Council of Ministers on 6 January 2000	The Working Group has evaluated 540 license regimes and regulations and a list of proposals was presented, under which 121 of them were to be partially or totally abolished. Another 490 have been scheduled for review	ad hoc Working Group	June 2000

<b>To create financial conditions for SME start-up and development</b>	Creation of a Credit Guarantee Fund	Guarantee Fund scheme presented to Government in September 2000	The Guarantee Fund was proposed by a Working Group that included representatives of financial institutions and the Ministry of Finance	ASME	
	Implementation and full disbursement credit lines agreed in 2000	Micro credit line for SMEs concluded with KfW	By the end of 2000, this credit line was being disbursed through the Eurobank and the Union Bank (430 credits and over 50 credits approved respectively)	BNB, ASME, commercial banks	
		Long term investment credit line (10 million EUR) for SMEs concluded with EIB	Disbursement started at the end of 2000	Encouragement Bank, ASME	2001
		Microcredit line (3,5 million EUR) for SMEs concluded with EBRD	Applications for credits have been made. Disbursement through Union Bank will start in 2001	Union Bank, ASME	2001

### 3. PRIVATISATION

<b>To complete privatisation of remaining large SOEs</b>	Extension of privatisation to the public utility sectors	Pre-privatisation underway in the following sectors: power generation and distribution, coal mining, and rail transport (partial)		Privatisation Agency, Branch Ministries	December 2001
<b>To adopt more transparent rules and information dissemination</b>		Regulations for obligatory submission of information and the Privatisation Law have been amended		Council of Ministers	July 2000
				Council of Ministers	November 2000

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>4. FISCAL REFORM AND TAXES</b>					
<b>To decrease the tax burden</b>	Amendment of tax laws to reduce tax rates and social security contributions	Amendments to Corporate Income Tax and Personal Income Tax have been implemented		Tax Policy Directorate	31 December 2000
<b>To introduce new standards in the activity of the tax administration</b>	Development of a system for manual risk assessment and selection of cases for audits		Completed, in cooperation with the US Treasury	General Tax Directorate	31 December 2000
	Development and application of a unified system for analysis, planning and reporting of audits		Completed, in cooperation with the US Treasury. Currently being tested in tax offices	General Tax Directorate	31 December 2000
<b>To increase the efficiency of the tax administration</b>	Development of an "Information Strategy" in compliance with the concept for the establishment of a Unified Revenue Collection Agency	The strategy document has been prepared and is currently in draft form		General Tax Directorate	31 December 2000
	Development of an "Information Security Policy" and "Implementation Plan" for 2 year period	The two documents have been prepared but have not yet been implemented		General Tax Directorate	31 December 2000
	Analysis of the information flows and needs of the tax administration and develop a "Global information model" and specification of the work structure and functioning of "data warehouse"	Implemented			General Tax Directorate

<b>To improve public awareness of changes in the tax system</b>	Launch of public information campaigns on the implementation of the system	A "Questions and Answers" system has been established and a number of publications (brochures, leaflets, tax calendar) have been prepared		General Tax Directorate	December 2000
<b>To reform the tax system in line with the European norms</b>	Adoption of legislation for the establishment and functioning of a system of excise duty bonded warehouses	Draft version of the legislation prepared	Supported through the PHARE project 1999	Tax Policy Directorate (Ministry of Finance) General Tax Directorate (Ministry of Finance)	December 2000
	Issuance of regulations on the procedure for refund of VAT	Regulation 5 issued in State Gazette No. 61-25/07/2000		Tax Policy Directorate, General Tax Directorate	31 December 2000
<b>To reform the public utilities for gas and electricity on an inter-Entity basis</b>	Adoption of laws for the restructuring and privatisation of electricity and gas companies			Entity and State Governments and Parliaments	During 2001
	Issuance of regulations on the procedure for refund of VAT paid by foreign legal entities	Draft version of the regulation prepared; still under discussion		Tax Policy Directorate General Tax Directorate	31 December 2001
	Amendment of the tax and social security legislation in connection with establishment of Unified Revenue Collection Agency	Draft version prepared in cooperation with the IMF		Tax Policy Directorate General Tax Directorate	31 December 2000
<b>To build capacity in revenue assessment and forecasting</b>	Development of a Budget Revenue Assessment Model at national level	The Assessment Model is now operational for the current year	In cooperation with the US Treasury	Tax Policy Directorate	December 2000
	Investigation of micro-simulation models to assess the effect of changes in tax policy in the fields of corporate income tax, personal income tax and VAT		Undertaken in cooperation with the US Treasury, using models provided by OECD	Tax Policy Directorate	December 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>5. COMPETITION LAW AND POLICY</b>					
<b>To ensure the effective implementation of the new competition legislation</b>	Implementation of policies and practices in compliance with the EC legislation and the practices of the European Commission and the European Court of Justice		From January 2000 to December 2000, the CPC declared 156 decisions. The number of CPC decisions based on the acquis increased	Commission for the protection of competition (CPC)	Date of accession
	Establishment of a “competitive culture” by means of regular information campaigns related to the new Competition Act and CPC role, and training of the members of branch unions and organizations		As an example, a “street – law” booklet popularising the CPC’s activities was published and distributed to economic actors and law firms	Commission for the Protection of Competition (CPC)	Ongoing
<b>To further harmonise the competition law in accordance with EC rules</b>	Exemption of other categories of agreements in compliance with EC criteria	The draft of the first CPC decision on block exemption has been prepared	The decision will be promulgated in State Gazette by March 2001 and will enter into force from June 2001	Commission for the Protection of Competition (CPC)	31 March 2001
	Prepare introduction of VAT system	A feasibility plan has been drafted by IMF	Ongoing introduction with system of Value Added Tax in Slovenia and Croatia	IMF/GTZ	Not before July 1st 2003
	Publicising of criteria for block exemptions			Commission for the protection of competition (CPC)	
<b>To strengthen state aid control and monitoring authorities</b>	Organisation of seminars for representatives of the state administration, of local and regional administrations on the legal requirements in the area of state aid		The realisation of these measures is connected with the PHARE Project, which started in January 2001	Ministry of Finance Commission for the Protection of Competition	2001-2002

Development of legislative framework in compliance with the Acquis in the field of state aid

Ministry of Finance and CPC

2001-2005, Ongoing

## 6. OTHER KEY POLICY AREAS

### Trade Policy

#### To develop a coherent export promotion strategy

Elaboration of a strategy on export promotion with measures to improve the image of Bulgarian merchants, registration and protection of Bulgarian trade marks, averting illegal practices etc

Together with the Bulgarian Chamber of Commerce and Industry, Bulgarian Industrial Association and Bulgarian Export Promotion Center

Ministry of Economy, Ministry of Finance (National Customs Agency), Ministry of Agriculture and Forestry

December 2001

#### To support exporters by means of trade agreements

Conclusion of a free trade agreement between the Republic of Bulgaria and Baltic States, Morocco and Israel

Ministry of Economy, Ministry of Finance (National Customs Agency), Ministry of Agriculture and Forestry

Signature of agreements on liberalisation of the trade in processed agricultural products, fish and fishery products and wine and spirits with the EC

Negotiations completed. Signature of separate agreements expected in 2001

Ministry of Economy, Ministry of Agriculture and Forestry, National Customs Agency

2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Adhesion to the Government Procurement Agreement within the WTO	The mandate for conducting negotiations received The Offer for accession to the Government Procurement Agreement to be submitted at the end of March 2001		Ministry of Economy and competent state authorities	2002
	Adhesion to the Agreement on Information Technology Products within the WTO	The Schedule of Bulgaria's commitments related to the country's accession approved by the Council of Ministers		Ministry of Economy and National Customs Agency	2001
<b>To formulate and gradually implement principles of customs preferences under the Generalised System of Preferences in compliance with EU principles</b>			In preparation	National Customs Agency, Ministry of Agriculture and Forestry, Ministry of Economy	December 2001
<b>To liberalise foreign trade by modifying the Bulgarian Customs Tariff according to the IMF contractual obligations</b>		Changes in the average customs duties rates in MFN-treatment will be introduced, so that from the year 2001 onwards: <ul style="list-style-type: none"> <li>• in respect of industrial goods, the average customs duties rate will be up to 10 percent on the average, while the maximum will be 30 percent;</li> <li>• in respect of agricultural goods, the figures will be 22 percent and 74 percent respectively</li> </ul>	Implemented	National Customs Agency and Ministry of Economy	December 2000

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**To further decrease  
the average MFN  
rates of duties in the  
Customs Tariff  
according to the  
GATT's requirements**

In preparation

National  
Customs  
Agency and  
Ministry of  
Economy

December 2001



# CROATIA





## Summary

The government has acted on the more stable macroeconomic environment to introduce structural reforms designed mainly to improve fiscal sustainability, a strategy developed in co-operation with the IMF and the World Bank with whom loan agreements have been concluded recently. The challenge for the government is to maintain tight control over public finances, while also attending to short term adjustment problems that the strategy may cause, notably increases in unemployment and pressure to preserve social security entitlements.

*Improving the fiscal balance and developing institutions to promote long-term sustainability.* In the search for a more sustainable fiscal balance, a number of policy priorities stand out. In the area of fiscal policy, the creation of a single Treasury account and the closure of all other government accounts is seen as a major step in controlling outflows and avoiding the build up of arrears in different branches of the public administration. A mechanism for monitoring government guarantees and limiting exposure will also be introduced. Isolation and liquidation of loss-making public enterprises and consolidation of residual government stocks (many in loss-making companies) within a single agency (the Privatisation Fund) are also important initiatives to control outflows.

*Preparing major public utilities for privatisation and completing sales of other key assets.* The first phase, necessary for the forthcoming privatisation – unbundling of core activities and unbundling of core activities from non-core businesses – should take place this year for the electricity (HEP) and oil & gas (INA) companies. Before the end of the year, laws for privatisation of HEP, INA and JANAF (pipeline) will be prepared. The laws, which aim to liberalise markets in the energy sector, are already in parliamentary procedure. The non-core businesses in the energy sector will be ready for privatisation next year. It is expected that the process of privatisation of unbundled core activities will start next year. Other upcoming privatisations include the two remaining state-owned banks, the main insurance company, hotel complexes, and an additional 16 per cent share of Croatia Telecom. The sale of tourist facilities (the majority of which are still publicly owned) should be helped by ongoing work to clear up disputed property rights which is currently impeding investment in the sector.

*Developing a more active policy towards small and medium-sized enterprises.* Following the creation of a separate government Ministry for Crafts and SMEs, the key upcoming initiatives involve preparation of a new law on SMEs and amendments to legislation on craft industries and co-operatives, further enlargement of the regional small business centres and the network of SME consultants, development of training programmes for entrepreneurs, and expansion of the current opportunities for financing for SMEs.

*Strengthening regulatory/supervisory mechanism in the financial sector.* A new law on Banks is being prepared that will strengthen the supervisory role of the Croatian National Bank over the banking sector, including reinforcing measures against banks not in compliance with regulations.

*Building a network of reciprocal trade agreements in line with EU/WTO standards.* Accession to WTO and completion of the negotiation of the Stabilisation and Association Agreement with the EU, which was initialled recently, have provided the impetus for more intensive negotiation of trade agreements with the EU, EFTA, CEFTA, and a large number of bilateral partners, with the aim that 80 per cent of Croatia's foreign trade will be covered by free trade conditions by the end of 2001.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES</b>					
<b>To complete/refine instruments to encourage FDI</b>	Preparation and adoption of a Law establishing a Real Estate Fund	Drafting of the legislation has been completed and the procedure for adoption is in progress	This Fund will be used to facilitate allocation of land for lease by foreign investors	Ministry of Economy	
	Preparation and adoption of the Law on Fund for the Stimulation of Job Creation and Re-training	Drafting of the legislation has been completed and the procedure for adoption is in progress			
	Evaluation of recommendations made in recent FIAS studies	The reports have been submitted to the Government by FIAS for consideration and implementation	The reports assess: 1) Investment Incentives and Related Business Taxes and 2) Administrative Barriers to Investment	Ministry of Economy	
	Ministry of Economy in co-operation with FIAS will organise three workshops on the elimination of the administrative barriers to Foreign Investment (June 2001)	Technical preparation concerning the workshops facilities and participants is in progress	→ I workshop is aimed at ministerial level (policy makers) → II workshop is aimed at middle level government officials → III workshop is aimed at public&private business sector	Ministry of Economy	June 2001

	Preparation and adoption of a new Law on Free Zones designed to unify special regulations applying in these areas within one single legal act	Drafting of the legislation has been completed and the procedure for adoption is in progress Several new sites are under consideration for development as Free Zones	Current discussion revolves around how to maximise employment creation potential of Free Zones, and whether they should be located in target areas (e.g., war-affected regions)	Ministry of Economy	End of the year 2001
<b>To make progress on land and property title issues</b>	Continuation of work on reconstituting cadastral registers and settling outstanding ownership cases in the courts	This is an ongoing process	This issue is crucial because it is difficult to invest in property when legal title is unclear. This also has an impact on the extent and pace of privatisation		Ongoing
<b>To establish functioning institutions for delivery of FDI facilitation services</b>	Establishment of a One-Stop Shop for investors	Drafting of the proposal in progress		Ministry of Economy	End 2001
<b>2. SME SUPPORT POLICIES</b>					
<b>To improve the legal framework for micro-enterprises and SMEs</b>	Preparation and adoption of a new Law on SMEs	Legislation currently being drafted		Ministry for Crafts and SMEs	3rd quarter 2001
	Amendment of the existing Law on Craft Enterprises	Legislation currently being drafted		Ministry for Crafts and SMEs	3rd quarter 2001
	Amendments of the existing Law on Co-operatives	Legislation currently being drafted		Ministry for Crafts and SMEs	3rd quarter 2001
<b>To improve reporting and monitoring of the SME sector</b>	Preparation of a model for follow-up, analysis and reporting on small business			Ministry for Crafts and SMEs	End 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To introduce a range of advisory and technical services for SMEs</b>	Establishment of the national network of small business centres	An operational model for regional business centres has been developed with the World Bank and the county administrations	Projects are to be implemented with assistance from local community funds, state budget and other sources	Ministry for Crafts and SMEs	End 2001
	Training of teachers, advisors and promoters of entrepreneurship	An operational model has been developed with the help of Dutch Government	Training is carried out continuously	Ministry for Crafts and SMEs	Ongoing
	Improvement of the national network of small business consultants	Selection of a consultant firm that will act as the network co-ordinator	Functioning of the network is to be substantially improved	Ministry for Crafts and SMEs	Ongoing
<b>To popularise entrepreneurship</b>	Promotion of entrepreneurship and small business creation	Continuous activities in increasing the share of start-up entrepreneurs	Program is carried out in cooperation with counties	Ministry for Crafts and SMEs	Ongoing
<b>To target financing to key areas of the SME sector</b>	Development of SMEs	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing
	Commercialisation of innovations	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing
	Support to export-oriented SMEs	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing
	Restructuring of SMEs	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing

Support to entrepreneurs in tourism	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing
Implementation of new technologies	Credit line established	Loans initiated by the Ministry and provided by the commercial banks	Ministry for Crafts and SMEs	Ongoing

### 3. PRIVATISATION

	Preparation and enactment of a new Privatisation Law		Croatian Privatisation Fund		
	Liquidation of persistently loss-making companies	Bankruptcy proceedings have been initiated in a large number of cases	The legal process is taking longer than expected and a backlog of cases has built up	Croatian Privatisation Fund	Ongoing
<b>To extend privatisation to the major utilities and initiate market liberalisation</b>	Preparation of the largest publicly-owned energy enterprises for privatisation: → HEP (electricity), → INA (oil and Gas), → JANAF (pipeline) and → HZ (railways)	Legal instruments for first phase (energy) are already in procedure. The drafts of laws about privatisation will be prepared at the end of 2001. In the case of public energy utilities, additional legislation on market liberalisation and establishment of regulatory bodies is already in parliament procedure (deadline December 2001)	A two-phase approach has been adopted in each case: 1) unbundling of core activities and unbundling core activities from non-core activities and beginning of sale of subsidiary (non-core activities) enterprises in 2002 2) preparation of core business for privatisation in 2002	Ministry of Economy	June 2002
<b>To complete privatisation in the telecom sector</b>	Privatisation of final 16 per cent of Croatia Telecom		The first 35 per cent of stock was sold last year to Deutsche Telecom. This sale will take the company out of state majority control	Ministry of Economy	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To complete privatisation of the banking / financial sector</b>	Privatisation of the two state-owned banks (Dubrovacka Bank and Croatia Bank)			State Agency for Deposit Insurance and Bank Rehabilitation (BRA)	June 2001
	Privatisation of the state-owned insurance company (Osiguranje)			Ministry of Economy	
<b>To make progress with privatisation of tourist facilities</b>	Privatisation of state-owned hotel complexes (which represent a high percentage of beds in coastal areas)	Some progress has been made, but as yet only around 10 per cent of total publicly owned assets have been transferred	Issues of land ownership complicate sale of some properties. There is concern that these assets be privatised only when title disputes have been resolved		Ongoing

#### 4. COMPETITION POLICY

Institutional strengthening of the Agency for the Protection of Market Competition

The authority of the APMC is currently restricted in certain areas, notably as regards monitoring of public utility markets

Harmonisation of the current Competition Law and related legislation with EU norms

Review of the Competition Law and Bylaws is underway involving working groups with experts from German Ministry of Justice and Competition Authority. The first draft of the Competition Law is going to be delivered to the Agency by the end of May 2001

This initiative is supported by the IRZ Stiftung

Agency for the Protection of Market Competition, IRZ Stiftung

26 May 2001

## 5. FISCAL POLICY AND TAX ES

<b>To take steps to control public spending</b>	Preparation of legislation and reorganisation of the Ministry of Finance to reflect creation of a specific Treasury function and closure of all relevant accounts of line Ministries	Adequate legislative provisions now in place to effect Treasury establishment	This action is intended to avoid over-spending and increase predictability of outflows by consolidating disbursement authority within the Ministry of Finance  This was a key requirement of the recent IMF stand-by loan agreement	Ministry of Finance	1 July 2001
<b>To reform the tax system to promote lower rates but broader tax base</b>	Amendment of the legislation governing personal income tax and profit tax	Legislative changes approved and operational for the current year		Ministry of Finance	1 January 2001
<b>To reduce customs tariffs, in line with WTO</b>	Enactment of legislation to alter current tariff levels	Legislative amendments lowering tariffs enacted in June 2000	New tariff regime took effect on 1 July 2000. Further tariff reductions for agricultural products took effect on 1 January 2001 in line with WTO accession agreement	Ministry of Finance, Customs Administration	1 January 2001

## 6. BRIBERY AND CORRUPTION

<b>To strengthen legislation relating to corruption</b>	Adoption and implementation of a new Police Law			Ministry of the Interior	
	Law on special Office for fighting corruption			Ministry of the Interior	End June 2001
	Law on conflict of interest			Ministry of the Interior	End June 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To elaborate national strategy and create implementing institutions</b>	Preparation of National Anti-Corruption Program with Action Plan			Ministry of the Interior	End June 2001
	Creation of a Special Anti-Corruption Office	Legislation creating the Office adopted		Ministry of the Interior	
<b>To accede to relevant international instruments</b>	Creation of a police anti-corruption unit				
	Criminal Law Convention on Corruption				
	GRECO agreement				
	Civil Law Convention on Corruption				
	OECD Convention on Corruption				

## 7. FINANCIAL SECTOR REFORM

### **To introduce new laws for the banking sector**

<i>Law on the Central Bank</i>	Introduce the new central bank law (i.e. the Law on the Croatian National Bank) to adopt price stability as the central bank primary objective, give the CNB the exclusive responsibility for monetary and exchange rate policy, ensure independence of the central bank, prohibit lending to the government, formalise the procedures for consultation and information sharing between the CNB and the MoF	Law passed by Parliament in April 2001		Ministry of Finances	
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<i>The Law on Banks</i>	Adopt new regulations to allow for CNB's automatic response to banks not in compliance and ensure prompt bank resolution, lengthen the transitional period for adjusting bank exposure, clarify and strengthen the procedures pertaining to the insolvency of banks a) Submit draft law to the Parliament	Drafting of the new law under way		Ministry of Finances	December 2001
<i>Exchange restrictions: The Law on Foreign Exchange Operations</i>	Adopt new regulations to allow enterprises to hold all types of foreign exchange deposits, and allow banks to lend residents in foreign exchange	Law passed by Parliament in April 2001		Ministry of Finances	June 2001 March 2001
<i>Payment System Reform</i>	Implement the new clearing system that will enable banks to operate intrabank payments by themselves. Interbank payments will be operated by the CNB	The new clearing system is in operation as of February 2001	Banks must obtain the CNB approval to operate intrabank payments	Croatian National Bank	February 2001
<i>Monetary Policy Reform</i>	Preparations for issuing Treasury bills by the CNB Gradually reduce the role of CNB bills and replace them with Treasury bills after the new central bank law is passed			Croatian National Bank	End of 2001
<b>To complete privatisation in the banking/financial sector</b>			See under Privatisation		

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>8. OTHER POLICIES</b>					
<b>A. STABILISATION AND ASSOCIATION</b>					
<p><b>To improve the investment climate (enhancing regional stability and cooperation, and removing barriers to investment and trade) via concluding and implementing the Stabilisation and Association Agreement</b></p>				<p>Ministry for European Integration (MEI) and Ministry of Foreign Affairs</p>	
<b>B. EXPORT PROMOTION</b>					
<p><b>To strengthen instruments to facilitate exports including credit facilities and guarantees</b></p>				<p>Croatian Bank for Reconstruction and Development (HBOR)</p>	

# FORMER YUGOSLAV REPUBLIC OF MACEDONIA





## Summary

The Monitoring Instrument sets out the programme of the government as it endeavours to get the process of reform back on track after the dislocation caused by the Kosovo crisis. The main elements of the programme include initiatives in the following fields: investment promotion, SME support and enterprise development, privatisation, fiscal reform, bankruptcy and other commercial legislation, and reform of the financial sector.

*Refining legislation to encourage greater FDI.* Investment promotion initiatives include legislation improving access to land and its use as collateral for foreign investors, as well as upgrading of the institutions responsible for FDI promotion. In addition, steps are being taken to free up land currently held by the government that can be leased to potential investors. Obtaining additional risk guarantees for foreign investors, e.g., through MIGA, is also a priority.

*Building a clear and coherent SME policy with supporting institutions.* Important measures in the field of SME promotion include elaboration and adoption of an SME strategy and a specific law on SMEs, development of the institutional structure for service delivery through the establishment of regional centres, plus measures to facilitate lending to SMEs by commercial banks. In addition, significant improvements are being made in the commercial legislation, including the introduction of a bankruptcy law, and the government is committed to addressing the administrative and regulatory burdens affecting small enterprises.

*Accelerating privatisation and addressing strategic sectors.* In the field of privatisation, the government is keen to speed up the process of privatisation through bundling of stocks and more flexible mechanisms for transfer of claims and shares. The preparation of major public utilities for pre-privatisation is also high on the agenda. In the short term, the major event will be a partial privatisation of the Macedonian telecoms company.

*Assessing outcomes from fiscal reform.* Significant amendments have been made to the tax system over the past two years in order to simplify and modernise the system and create greater incentives for formal economic activity. The government is now evaluating the overall impact of the changes. Priority is currently being given to enhancing the effectiveness of revenue collecting agencies and to improving public awareness of the new tax regime, particularly as regards the newly introduced VAT tax. With respect to public expenditure, a treasury function is being developed within the Ministry of Finance which is intended to control overspending across the public administration and monitor the build up of arrears.

*Strengthening regulation of the banking sector.* The key initiatives in the financial sector include efforts by the National Bank of Macedonia to enhance its supervisory/regulatory role on the basis of legislation introduced last year, and the introduction of a deposit insurance fund in line with EU norms. The Government is also pursuing a financial system infrastructure development programme which is intended, among other things, to reform the payments bureau (ZPP), to develop collateral registration systems, and to set up a securities/share register.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To clarify the framework for access to real estate by foreign investors</b>	Clarification of ownership status to enable investment in real estate	<p>Law on construction land is in parliamentary procedure</p> <p>Law on ownership relations was adopted on February 20, 2001</p>	<p>Confusion over title to real estate expropriated by the state hinders investment in real estate and commercial property</p> <p>Implementation after 6 months of adoption, in the meantime the additional/ accompanying documents to be adopted</p>	<p>Ministry of Transport and Communication and Ministry of Justice</p>	
	Abrogation of certain restrictions on sale of land, mortgaging or leasing to foreign investors in cases of expropriation	<p>Law on construction land is in parliamentary procedure</p> <p>Law on ownership relations was adopted on Feb 20, 2001</p>	<p>The new laws will be complemented by amendments and addenda to the Law on Transfer of Land and Buildings from 1975 and Law on Ownership Relations from 1980)</p> <p>Implementation after 6 months of adoption; in the meantime the additional/ accompanying documents to be adopted</p>	<p>Ministry of Transport and Communication and Ministry of Justice</p>	
	Introduction of building permits combined with fixed term commercial concessions for investor-operators	Articles introducing this new instrument are included in the Law on Construction			<p>Ministry of Construction and Urban Planning</p>

<b>To facilitate access to land and release of state-owned land for investment projects</b>	Provision of improved information for investors on land use	Transfer of cadastral registers has taken place, but computerisation is ongoing	The long-term aim is to have an integrated computerised cadastral register/land use system for use by potential investors	National Land Bureau, Ministry of Agriculture, Ministry of Justice		
	Preparation of a Government strategy for lease of land owned by the state for use by investors	Realised				Ministry of Transport and Communication and the Ministry of Agriculture
	Establishment of Free Zones	A Law on Free Zones has been passed and a Directorate within the Ministry of Economy has been set up				Ministry of Economy
<b>To strengthen institutions in the field of investment promotion</b>	Establishment of a single institution (one stop shop) aimed at providing all the necessary services for prompt and efficient registration of foreign companies	Trade and Investment Promotion Department was set up within the Ministry of Economy, making efforts to work as one stop shop (latest changes in the organisational structure of public administration)		Ministry of Economy		
<b>To improve risk environment for foreign investors</b>	Intensification of negotiations with MIGA for increased non-commercial risk guarantee coverage		The use of MIGA in offsetting risk will also be promoted in negotiations with potential investors	Ministry of Finance	It works on the investors claim	
	Enactment of the Arbitration Law to tighten the dispute resolution system	Not realised	In addition to introduction of new legislation, substantial training of judges and lawyers in arbitration is anticipated	Ministry of Justice, Ministry of Economy, Bar Association		

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>2. SME SUPPORT POLICIES</b>					
<b>To introduce an overall SME policy</b>	Elaboration of an SME strategy and establishment of necessary institutional, legal and financial supports	A strategy document has been prepared and first steps have been taken to implement key recommendations	The strategy involves co-ordination by the Ministry of Economy and the National Enterprise Promotion Agency (NEPA) of a network of 34 regional SME development centres. Support for the strategy will be provided largely by the PHARE programme	Ministry of Economy, National Enterprise Promotion Agency	
<b>To reduce administrative barriers to enterprise start up</b>	Evaluation of the scope for reducing the bureaucratic steps involved in starting a business	An inter-ministerial Committee (KOPOFO) was established to guide preparation of a proposal for reform in this area	At present over twenty different state agencies can be involved in approving a company registration	Ministry of Justice (in co-operation with other related ministries and institutions)	
<b>To improve the legal framework for SME financing</b>	Amendment of existing legislation relating to collateral and bankruptcy in order to encourage lending to, and investment by SMEs		A key step in the near future will be testing of the new legislation in the courts	Ministry of Finance, Ministry of Justice	
	Introduction of a Law on mortgages with the same objective	To be adopted as a package of laws (including two above mentioned)	As above	Ministry of Finance, Ministry of Justice	

<b>To improve access to and uptake of credits for SMEs</b>	Preparation of an information campaign to publicise existing credit lines offered through commercial banks	Successful realisation through printed and electronic media		Ministry of Finance, Ministry of Economy and National Enterprise Promotion Agency (NEPA)
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### 3. PRIVATISATION

<b>To accelerate the pace of privatisation</b>	Amendments to existing legislation on transformation of enterprises with social capital to enhance the role of the Privatisation Agency is defining the price of share offerings	The necessary legal amendments have now been made; implementation is now underway		Ministry of Finance, Privatisation Agency	
	Amendments to the existing Bankruptcy Law to enable trustees to sell claims to potential investors	The necessary legal amendments have now been made; implementation is now underway		Ministry of Justice	
	Improvement of the financial reporting standards for enterprises earmarked for privatisation		The key aim is to introduce obligatory audit requirements for the enterprises concerned and update and improve the transparency of their financial records	Ministry of Finance, Privatisation Agency	June 2001
	New Law on auditing				
	Bundling of stocks in state-owned enterprises to facilitate more rapid sale	Implemented with the amendments of the Privatisation Law from 1999, and maintain through Privatisation agency		Ministry of Finance, Privatisation Agency	
<b>To target public utilities for privatisation</b>	Identification of key sectors and initiation of pre-privatisation restructuring	Amendments to key legislation undertaken		Ministry of Finance, Privatisation Agency	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>4. CORPORATE GOVERNANCE</b>					
<b>To improve the system of inter-company payments</b>	Transformation of the state-controlled payments bureau and establishment of bank clearing house	A Feasibility Study for the reorganisation of payments has been completed and practical implementation is underway		Ministry of Finance and State Controlled Payment Bureau	(Clearing House)
<b>To introduce and implement effective bankruptcy and other creditor protection measures</b>	Clearing of backlog in insolvency and unsettled liability cases		This will involve an emphasis on training for judges, lawyers and bankruptcy trustees		
	Creation of a legal framework to protect the interests of creditors through stronger secured collateral laws	The enactment of a new Law on mortgages is intended to give additional protections			
<b>5. FISCAL POLICY AND TAXES</b>					
<b>To bring the tax system into line with EU norms</b>	Amendment of the existing laws on personal income tax and profit tax	The amendments have been made and their fiscal impact is being evaluated		Ministry of Finance	
	Introduction and implementation of VAT	The new tax has now been introduced and its effectiveness is being evaluated		Ministry of Finance	
	Modernisation of the tax administration system		This initiative is mainly based on computerisation of the existing collection system and more conscientious record keeping	Ministry of Finance	

## 6. ACCOUNTANCY REGIME AND PRACTICES

<b>To bring the accountancy system into line with EU norms</b>	Proscription of a standard balance sheet format for companies	Completed	Ministry of Finance	Ongoing implementation
	Strengthening of the functions of the Commission on Accounting Standards		Ministry of Finance	
	Transferral of existing accountancy regulations relating to traders to the new Law on Trading Companies		Ministry of Finance	

## 7. FINANCIAL SECTOR REFORM

<b>To strengthen the independence and role of the central bank</b>	Amendment of the existing legislation governing the functions of the National Bank of Macedonia	The greatest part is realised with the new Law on banks, July 2000 New Law for Central Bank has to be prepared	The National Bank, Ministry of Finance	
<b>To open banks and savings institutions to foreign participation</b>	Reduce restrictions on capital participation by single investors and foreign investors	July 2000, the new Law on banks increases the limit for ownership participation from 20 to 33%. Starting from January, 2003 it will be unlimited	Ministry of Finance	
<b>To promote Credit Unions and other local savings institutions</b>	Amendments and addenda to the Law on banks and saving houses and passing the Law on non-banking financial institutions		Ministry of Finance	September 2001
<b>To reduce unofficial transactions between legal entities and reduce cash payments</b>	Enactment of a law on Prevention of money laundering		Ministry of Finance	May 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To develop a secure and transparent securities market</b>	Adoption of the Law on the Securities Market		At present, there are very few listed companies		
	Enactment of a Law on Investment Funds	Approved in February, 2000		Ministry of Finance	
	Amendments in the law on issuing and trading securities (removal of paragraph 3 art. 117)				
	Enactment of a mergers and acquisitions law			Ministry of Finance	June 2001
	Enactment of a new Law for foreign exchange transactions			Ministry of Finance and Central Bank	

# MONTENEGRO





## Summary

The activities of the Government of Montenegro in 2000 were aimed at transformation and privatisation of the economy and the establishment of the structural preconditions for a functioning market economy. The basic objectives for the year 2001 continue and foster the processes begun last year, notably.

*Developing the legislative and institutional frameworks for privatisation.* New regulations have been adopted that should help to accelerate and improve the transparency of the process, enabling the mass voucher privatisations to take place and first steps taken in international tender-based sales. These advances will be accompanied by information initiatives to raise public awareness and understanding of the privatisation process.

*Implementing legislative reforms in the banking & financial sector.* New laws on central bank and on commercial banks have been adopted through which significant improvement in the functioning of the banking system are anticipated. Legislation was also recently adopted in area of trade in securities, and two new institutions were created – the Central Depository Agency and Commission for Securities.

*Clarifying the fiscal and accounting regime and harmonising them with EU norms.* Policy action in these two areas centres on bringing the systems into line with EU standards. Specific initiatives include: introduction of indirect taxation, improvement of the tax administration process, and introduction of a range of measures designed to modernise the accountancy system, notably adoption of a new Accountancy Law.

*Attracting foreign investment.* A law on foreign investments, passed last year, guarantees treatment to foreign investors. Efforts will now focus on developing an FDI promotion strategy and necessary information/marketing materials, particularly in the tourism sector.

*Building a policy for SMEs.* Key initiatives in this field include: setting up an functioning institution to support SME development (the National Agency for SME Development), ensuring co-ordination of SME-related activities within the Government and reviewing existing legislation and its impact on the SME sector. In addition, a number of targeted SME support programmes supported by international donors) are being established and there are plans to set up regional/local business support centres.

*Strengthening commercial laws and expanding foreign trading relations.* A major legislative effort is being undertaken in 2001 to enact legislation setting out the framework for commercial activity in the internal market and with respect to external trade. At the same time, the customs and foreign trade regime is being liberalised by reduction of customs tariffs and the introduction of new regulations.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To establish the basic legal and institutional framework for FDI</b>	Preparation of a comprehensive Law on Foreign Investments	Law adopted by the Parliament	Main goal of the law: creation of more liberal conditions for FDI <ul style="list-style-type: none"> <li>• Equal treatment</li> <li>• Freedom in transfer and reinvestment of profit</li> <li>• Stability of contracts</li> </ul>	Privatisation Council and Agency for Foreign Investments	November 1, 2000
	Reorganisation of the Agency for Foreign Investments	Preparatory phase in progress, including organisation of staff training programmes	Agency will take an active role in investment promotion in Montenegro	Agency for Foreign Investments	July 1, 2001
<b>To define key strategies for attracting FDI</b>	Formulation of a general FDI strategy	Initial process of defining FDI priorities and identifying key policy programmes underway		Agency for Foreign Investments	July 1, 2001
	Elaboration of an FDI promotion strategy	Initial process of defining basic principles of FDI promotion and training needs of personnel underway		Agency for Foreign Investments	July 1, 2001
	Definition of special promotion strategy for diaspora populations	Initial preparatory phase underway		Agency for Foreign Investments	July 1, 2001
<b>To develop investment promotion materials for potential investors in Montenegro</b>	Preparation of a guide to cover:	Both sections currently in final phase of preparation	Guide will be distributed to all interested parties <ul style="list-style-type: none"> <li>• potential investors</li> <li>• government institutions</li> <li>• NGOs</li> </ul>	Agency for Foreign Investments	March 2001
	1) legal aspects of investing in Montenegro 2) investment opportunities and projects				April 2001

<b>To assess potential for FDI in the tourism sector</b>	Preparation of a review of possible foreign investment opportunities in tourism –related industries	A Project Team has been established and its principal tasks defined	Project team is formed from representatives of Ministry of Tourism and US firm Burbon	Agency for Foreign Investments, Ministry of Tourism and Republic Secretariat of Development	July 1, 2001
	Organisation of a conference on tourism investment				
	Elaboration of a Master Plan for the development of the tourism sector	A Project Team has been set up by the German partner		Ministry of Tourism	January 2001
<b>To assess potential for FDI in the agricultural sector</b>		Deliberations of the PT are in their final phase and the group will present its recommendations			
	Presentation of agricultural resources and assessment of possibilities for investments	Compilation of agricultural assets is in final phase	Web site will be created Promotion campaign Publication on agricultural resources	Ministry of Agriculture, Agency for Foreign Investments and Republic Secretariat of Development	April 2001

## 2. SME SUPPORT STRUCTURES AND POLICIES

<b>To set up functioning institution to support SME development</b>		Proposal to establish institution for SME development approved by the Government	Programme of work of the agency set out	Republic Secretariat of Development	End 2000
			Operating rules of the agency, organisational structure and financing established	Government of Montenegro	
<b>To ensure co-ordination of SME-related activities</b>	Clarification of institutional roles and a mechanism for co-ordination of Agency with other state authorities and institutions		This will involve creating a network of institutions working in the field of SME promotion with precisely defined roles and with the Agency co-ordinating activities	Agency for SME Development Other state authorities and institutions	February 1, 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To organise decentralised (local and regional level) institutional supports</b>	Definition of the legal basis for founding regional (local) business centres and identification of an organisational model	Contacts with Slovenian experts have been established and preliminary information-gathering process is underway	To be undertaken in co-operation with the Slovenian Centre for Small Business Development	Agency for SME Development Legal Secretariat	June 2001
	Organisation of a Pilot Project: establishment of a business centre in local community	The key elements of the pilot project have been identified	This project will involve an international call for tender and selection of a contractor to implement the project in the chosen region	Agency for SME Development	December 1, 2001
<b>To adapt existing state regulations to favour SME development</b>	Preparation of a proposal for amendment of existing laws and regulations as they relate to SMEs and recommendations on new legislation that will be required	Analysis of existing regulations required for registering business companies has been completed	Definition of next steps is currently in progress. This project is being undertaken in co-operation with Slovenian Centre for Small Business Development	Agency for SME Development	December 2001
	Preparation of implementation of procedure in municipalities and competent institutions on education, information system establishment and linkages between government and local level		Defining future activities in progress	Agency for SME Development	December 31, 2002
<b>To refine/improve statistical monitoring of SMEs</b>	Reorganisation of the Republic Statistics Bureau's SME statistic gathering and preparation of follow-up regulations/legislation as required	Co-operation with Slovenia established in field of expertise	The key objective of the restructuring is to introduce EU standards and norms into the process of generating statistics on SMEs	Agency for SME development Republic Statistics Bureau	December 15, 2001

## To develop and implement special programmes

<b>1. Technology Pool</b>	Formation of a "Technology Pool" involving co-operation with specialised institutions abroad	Assessment of legal procedures required to establish technology pool completed. Identification of international partners underway	This project will involve an international call for tender for the implementation phase	Agency for SME Development in co-operation with other state institutions	December 2001
<b>2. International co-operation among SMEs</b>	Establishment of co-operative arrangements between SMEs from Montenegro and SMEs from other countries	Process of designing training programmes for SMEs in progress		Agency for SME Development Ministry of Education	September 2001
<b>3. Promotion of entrepreneurship</b>	Realisation of the training project: <i>Development of SMEs and entrepreneurship in Montenegro</i>	Preliminary identification of training needs and planning of courses completed	Undertaken in co-operation with the Slovenian Centre for Small Business Development	SMEs Development Agency	January 2003
	Realisation of the training project <i>Support to SMEs Development in Montenegro</i>	Ten courses on strategic development and consulting of SME's have been planned for a total of 45 participants	Undertaken with support from Germany. The courses will be organized in Montenegro and Germany	Agency for SME Development in co-operation with German partner	December 2002
	Implementation of the project <i>SME Personnel Development in the field of Agriculture, Civil Engineering and Tourism</i>	The identification and design of training programmes is underway	Three courses have been held already in Podgorica Project undertaken in co-operation with European Training Foundation in Turin	Agency for SME Development in co-operation with European Training Foundation	December 31, 2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To design specific financing and credit systems for SMEs</b>	Undertaking of a comprehensive review of the current financing mechanisms for SMEs and recommendations on what additional initiatives need to be designed	Activities on designing new financial program adjusted to needs of SME's have been started	The review covers: analysis of SMEs needs, outcomes from previous financial, networking of financing institutions in Montenegro and abroad, creation of information mechanisms for SMEs, and so on	Agency for SME Development in co-operation with other institutions	March 2001
<b>To stimulate big companies to create co-operative arrangements between themselves and local SMEs</b>	Preparation of a report to define practical forms of co-operation between SMEs and large companies, including major state-owned enterprises			Agency for SME Development in co-operation with Ministry of Economy	June 2001
	Preparation of a Pilot Project <i>Creating SMEs</i> which aims to assess the potential for SME development by means of large firm-small firm interaction	Elaboration of the project outline in final stages	The project will be based on the choice of one large company to act as an example. Implementation will involve an international call for tender	Agency for SME Development in co-operation with Ministry of Economy	September 1, 2001
<b>3. PRIVATISATION</b>					
<b>To establish the institutional and legal framework for privatisation</b>	Preparation of Central Register of citizens who have right to obtain vouchers	Software for Central Register completed. Central Register now operational	Updating Central register	Privatisation Council	April 2001

<b>To launch mass voucher privatisation</b>	Implementation of MVP process	Central register formed		Privatisation Council	December 2001
		Activities on MVP started	Activities will include:		
			Informing citizens on MVP		
			Public campaign		
			Mandate ZOP to open privatisation accounts for citizens and privatisation funds		
			Public call for vouchers		
			Public call for exchange vouchers for shares		
			Post MVP activities		
	Formation and implementation of Central Depository Agency (CDA)	Database completed	CDA is a register of all existing shares issued by economic actors in Montenegro	Privatisation Council	December 2000
	Amendment of the Regulation on privatisation funds	Regulation adopted by the Government	Objective is to define rules for operations of privatisation funds and to secure citizens rights	Privatisation Council	September 2000
<b>To take steps to raise public awareness of privatisation programmes</b>	Preparation of public information and education campaigns	Publicity campaigns in final stages of preparation		Agency for economic restructuring and foreign investments	July 2000

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To make progress on public tender privatisations</b>	Election of the international councils for companies planned to be sold through public tenders (agriculture and tourism)		Management team for tourist companies has been elected	Privatisation Council	December 2000
<b>4. FISCAL REFORM AND TAXES</b>					
<b>To prepare and implement system of VAT</b>	Approval of legal basis for introducing VAT and definition of regulations referring VAT Law  Preparation of structures and mechanisms for implementation/management of VAT	Preliminary evaluation being completed. Detailed preparations in progress	Current preparatory activities include: preparing manuals for employees in the Public Income Directorate with instructions for applying VAT law, other forms of training for tax officials and preparation of forms for data processing	Ministry of Finance	December 2003
<b>To increase government revenues by enhancing tax administration system</b>	Introduction of a range of measures designed to improve the efficiency of tax collection in key areas	Public campaign on increasing tax revenues has started	These measures include establishment of <ul style="list-style-type: none"> <li>• A new tax system for motor vehicles</li> <li>• A new tax system for excise goods</li> <li>• A body for taxpayer registration</li> <li>• An auditing body for big companies</li> </ul>	Ministry of Finance	December 2001

<b>To take steps to improve compliance</b>	Introduction measures to improve compliance with tax laws	In some extent the measures have already caused increase in revenues	These measures include <ul style="list-style-type: none"> <li>• increasing authority given to financial police, and</li> <li>• forming supervisory bodies for the informal economy, unpaid debts, and tax avoidance</li> </ul>	Ministry of Finance	December 2001
<b>To reform the budget</b>	Preparation of new Budget Law which will increase transparency of state budgeted	The Government has approved the draft law, which is now in Parliamentary procedure		Ministry of Finance	June 2001
<b>To prepare law on tax on minimum capital</b>				Ministry of Finance	July 2002
<b>To reorganise the Ministry of Finance</b>	Restructuring of the Ministry of Finance in order to unite inflows (tax and customs revenues) and outflows in single Ministry		This initiative will also involve staff training programmes	Ministry of Finance	December 2002

#### 5. BRIBERY AND CORRUPTION

<b>To set up legal framework and institutions to address issues of corruption</b>	Establishment of special independent Anti-Corruption Agency	Law establishing an Agency and regulating its powers has been passed and the Agency is now in operation		Ministry of Justice	February 1, 2001
	Preparation of Law on Public Procurements	Draft of law is finished		Anti-corruption body, Republic Secretariat for Legislature and Ministry of Justice	March 1, 2001
	Preparation of Law on Money Laundering	A bureau to investigate capital gained through criminal activities has been planned	Law is in preparation stage	Ministry of Finance	June 2002

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>To define overall policy and objectives in the field of bribery and corruption</b>	Preparation of a report to define basic principles in the fight against criminal activities and identification of training and other programme needs	Activities are ongoing	Identification of problems and areas in which corruption is highest. Definition of measures to combat corruption and bribery	Anti-corruption body	March 1, 2001
<b>6. FINANCIAL SECTOR DEVELOPMENT</b>					
<b>To take legal steps to establish and/or reform financial institutions</b>	Establishment of a legal framework for work of Central Bank	A Law governing the activities of the Montenegrin Central Bank passed by the Parliament	Central bank is independent institution in charged for monetary policy in Montenegro and regulation of banking sector	Ministry of Finance, Republic Secretariat for Legislature and Privatisation Council	November 1, 2000
	Drafting of legislation to reform the banking sector	A Banking Law was passed by the Parliament	Banking sector is to be reformed according to new rules established by this law	Ministry of Finance, Republic Secretariat for Legislature and Privatisation Council	November 1, 2000
	Transformation of the institutions involved in the payments system		Payments and Settlements office (ZOP) will be reorganised and all payments between economic actors will be through commercial banks	Institute for Accounting and Payment Operations and Central Bank	December 31, 2002
<b>To improve the confidence of private citizens in financial institutions</b>	Formation of a Deposit Insurance Agency	The Agency has now been founded and is operational		Privatisation Council	October 1, 2000

	Implementation of a programme for the return of old foreign currency savings	Implementation of the programme in progress	Significant amount of old savings is returned to citizens (deposits amounting to 5000 DEM)	Government of Montenegro and commercial banks	
<b>To develop a functioning securities market</b>	Formation of a functioning Central Depository Agency	Legal instruments for establishing the Agency have been approved and the Agency has been set up	Process of MVP should be an initial for development of securities market	Ministry of Finance and Privatisation Council	November 1, 2000
	Formation of a functioning Securities Commission	Legal instruments for establishing the Agency have been approved and the Agency is in the process of being established		Ministry of Finance and Privatisation Council	May 1, 2001
	Introduction of a Law governing the securities market	Draft Law prepared		Privatisation Council	March 1, 2001
	Preparation of a regulation on securities dematerialization (person does not have to have a paper to prove the ownership over security, he just has to be registered as a owner in Register-CDA) and privatisation vouchers	Regulation adopted by the Government		Privatisation Council	October 1, 2000

#### 7. ACCOUNTING REGIMES AND PRACTICES

<b>To review and reform the accountancy system</b>	Introduction of a range of measures designed to modernise the accountancy system, notably adoption of a new Accountancy Law	Montenegro has joined the SEEPAD initiative	Other measures include: <ul style="list-style-type: none"> <li>• Reorganisation of the Accountants Association;</li> <li>• Review of the profession's practices and provision of training for accountants</li> </ul>	Republic Secretariat for Development Montenegro Accountants Association, Republic Secretariat for Legislation	December 31, 2001
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Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Establishing co-operation with other countries and using their experience	Project team members have already established contacts with EUROSTAT and with Slovenian Statistics Institute	Expert assistance will be provided by EUROSTAT and by the Slovenian Statistics Institute	Project Council and Project Team	June 2001

## 8. OTHER IMPORTANT POLICY ISSUES

### A. IMPROVEMENT OF MACRO-ECONOMIC AGGREGATES AND INTRODUCTION OF SNA

<b>To reform institutions engaged in statistical work</b>	Reorganisation of data gathering and processing functions within the relevant government Ministries	Preliminary assessment of restructuring and associated training needs underway	This relates mainly to Montenegro Statistics Office, Ministry of Finance and Republic Secretariat for Development	Montenegro Statistics Office and Republic Secretariat for Legislature	December 31, 2001
	Modernisation of Montenegro Statistics Office	Proposal of Statistics Office modernisation prepared as well as IT system scheme	The main features of the modernisation programme include: <ul style="list-style-type: none"> <li>• Staff training;</li> <li>• Recruitment of young people;</li> <li>• Design of a new IT system</li> <li>• Technical training</li> </ul>	Montenegro Statistics Office and Republic Secretariat for Development	December 31, 2001
<b>To initiate work in priority areas</b>	Preparation of a new Law on Statistical Research		This sets out the overall objectives/ methodology of statistical research, and prepares the ground for more independent research (where previously it was conducted by the Federal Statistical Office)	Montenegro Statistics Office and Republic Secretariat for Legislature	December 31, 2001

Preparation of the Statistical Office for the task of updating the business register	So far, the team has been selected, preliminary information on needs has been gathered and education programmes are being designed	This process will involve training programmes for staff involved in data gathering and processing	Montenegro Statistics Office in co-operation with Commercial court, Institute for Accounting and Payment Operations, Republic Secretariat for Development, Public Income Directorate and Central Bank	April 1, 2001
Preparation of Law on Classification of Economic Activities	The Project Team has been selected and has commenced work on identifying priorities and education needs		Montenegro Statistics Office in co-operation with other agencies noted above	December 31, 2001
Evaluation of the informal/grey economy in order to assess its extent and statistical treatment	The Project Team has been selected and is beginning its review of the available literature		Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001
Creation of additional statistical tables	The Project Team has been selected and is beginning its review of the available literature and need for expert assistance		Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001
Development of ongoing educational programmes in key areas, notably in fields related to SNA	The Project Team has been selected and some contacts with international organisations have been established	Contacts with international organizations	Montenegro Statistics Institute in co-operation with other agencies noted above	December 31, 2001

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>B. FOREIGN TRADE AND CUSTOMS SYSTEM REFORM</b>					
<b>To establish Montenegro's foreign trade and customs and internal market regimes</b>	A major legislative effort is being undertaken in 2001 to enact legislation setting out the framework for commercial activity in the internal market and with respect to external trade	In all cases, the legislative acts are in preparation or have been prepared and are expected to be adopted before the end of the year	<p>The principal Laws relate to:</p> <ul style="list-style-type: none"> <li>• Foreign trade</li> <li>• Customs and tariffs (including WTO)</li> <li>• Commodity Reserves</li> <li>• Competition and consumer protection</li> <li>• Product/Technical Standards</li> <li>• Price Controls, and</li> <li>• Market Inspection</li> </ul>	Ministry of Trade in co-operation with relevant Ministries/ Agencies	December 2001

# ROMANIA





## Summary

The arrival in power of a reform-minded government, coinciding with the opening of negotiations on the accession to the EU and loan agreements with the IMF, mark a turning point in the process of economic reform in Romania. The economic strategy that has been developed by the new government is expected to bring rapid progress in reform efforts, which had lost some momentum last year. This Monitoring Instrument reflects the approach of the government and the orientation of priorities towards EU accession criteria. Among the clear priorities that emerge are: fiscal reform, increasing the pace of privatisation of SOEs, pre-privatisation restructuring in public utilities, reduction of red tape relating to SMEs and business start ups and otherwise promoting dynamism in the SME sector, and development of a multi-faceted financial sector and a higher volume stock exchange.

*Simplifying the tax system.* The main objective of fiscal reform is to lower tax rates, broaden the tax base and remove arbitrary and non-transparent exemptions. Both personal income and corporate tax laws have been amended, a uniform VAT tax rate has been introduced and individual/discretionary tax incentives have been abolished. These changes are intended to streamline the system and reduce tax evasion and underreporting, and a key activity of the Government over the coming year will be to monitor the impact of these reforms.

*Making headway with privatisation of high-profile SOEs and taking steps to restructure public utilities.* The rate of privatisation increased last year and the aim for 2001 is to build on that success. A large number of major enterprises have been targeted for sale, including large industrial enterprises and banks, with the nomination of privatisation advisors, publication of calls for tender, and so on already well under way. The main strategic share offerings include Petrom, the national oil, metallurgy and tobacco companies and the national airline. Restructuring of the energy sector is also a priority, with the power (CONEL) and gas (ROMGAZ) companies having been broken up in advance of privatisation and new legislation for granting licences opening up the sectors to greater competition.

*Reviewing the treatment of small business and incentives for entrepreneurs.* The growth of the SME sector is a priority for the government. The main initiatives include a comprehensive review of the administrative barriers that entrepreneurs presently face in establishing a small business, reduction in the number of licences required for an average company registration, simplification of reporting requirements for SMEs and review of accounting practices for SMEs, and improvement of the financing options for SMEs, notably through the establishment of a loan guarantee fund for SMEs and better information on services for SMEs through regionalised information centres.

*Completing the privatisation major banks and taking steps to improve supervision of the banking sector.* The most pressing financial sector reforms include further steps towards privatisation of major banks and improvements in the regulatory supervisory structures in the sector. The main sales proposed for the coming period are Banca Agricola (BA), which is under special management and has been recapitalised, and the Romanian Commercial Bank (BCR), which is the country's largest bank. The National Bank of Romania is working to improve its supervisory and regulatory control over the banking sector by means of improved risk management and auditing, as well as an early warning system developed with the IMF to pick out troubled banks. Development of a securities market is also a priority but after limited success in attracting investors, the growth of the RSE appears to be linked to progress with major privatisations.

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>1. FOREIGN DIRECT INVESTMENT POLICIES AND PROGRAMMES</b>					
<b>To develop further an appropriate enabling environment</b>	Harmonisation and updating of investment-related legislation	Consultations underway on draft review	The aim is to facilitate investment by ensuring a simpler and more transparent legal framework	Ministry of Development and Prognosis	Mid 2001
	Reduction of number of official forms, simplification of procedures, etc.	Measures in this area included in draft review above		Ministry of Development and Prognosis	Ongoing
	Initiation of programmes for regional and sectoral development	Task force established by Prime Minister  Public /private sector consultation is planned as a component of this initiative	Intended to underpin investment aspects of economic development support policies	Ministry of Development and Prognosis	Ongoing
<b>To improve activities and materials for FDI promotion</b>	Expansion of programme of promotional activities	Trade fairs, economic missions and specific programmes organised		Ministry of Development and Prognosis	Mid 2001
		Preparation of information materials on investment opportunities			
	Inclusion of FDI as integral element in international programmes/foreign policy actions	Consultation between Foreign Affairs and Development ministries ongoing	Mainly focusing on greater involvement of high-level political actors in FDI promotion activities	Ministry of Foreign Affairs/Ministry of Development	
	Establishment of specialised Romanian Centre of Commerce	Measure under consideration	The aim is to highlight the positive role the private sector can play	Ministry of Development Chambers of Commerce	

## 2. SME SUPPORT POLICIES

<b>To simplify company registration</b>	Review of legislation relating to administrative obligations on small businesses	Legislative review submitted to Govt in mid March. Agreement reached to circulate		Ministry for SMEs	Mid 2001
	Reduction of the number of licences/ permits (from around 90 to 5 major licences)	Discussions underway with private sector and line ministries		Ministry for SMEs	1st phase feedback by mid year
	Reduce processing time	Questionnaires issued		Ministry for SMEs	
	Establishment of one stop office for SME's		The aim of this initiative is to increase the range of services for SMEs and provide simplified access	Ministry for SMEs	
<b>To improve the financial environment for SMEs</b>	Introduction of loan guarantee fund for SME's	Interdepartmental meetings to discuss this initiative have started		Ministry for SMEs Ministry of Finance	
	Implement loan guarantee scheme for SME's	Government agreement to the principle has been achieved. Discussion now relate to funding		Ministry for SMEs Ministry of Finance	
<b>To make information about programmes for SMEs more accessible</b>	Establish regional information centre(s)			Ministry for SMEs Ministry of Finance	

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>3. PRIVATISATION</b>					
<b>To continue increased pace of privatisation programme from 2000</b>	Privatisation of 63 large, high visibility enterprises, such as major steel works and banks	Nomination of privatisation advisors, publication of calls for tender, and so on is well under way in many cases	Share offerings include key enterprises such as the national oil, metallurgy and tobacco companies and the national airline	Privatisation Authority	C 30 sold by year end
	Disposal of all (45) tourism facilities in rural area	Responsibility delegated from Privatisation Agency to Ministry of Tourism	An important by-product of these sales is expected to be increased activity on the Bucharest Stock Exchange Target is to sell off 45 by the end of the year Ministry looking at innovative financing arrangements for sale on local markets, such as purchase on deferred terms	Ministry of Tourism	End 2001
	Advance sale of 800 smaller companies	Complete documentation has been prepared on transparent sale of 400 companies	Target of 400 privatisations (half of total) set for 2001	Privatisation Authority	End 2001, remainder in 2002
<b>To launch pre-privatisation restructuring in public utility sectors and public services</b>	Preparation for sale of the main public utilities, starting with the energy sector	Unbundling of the businesses of the power (CONEL) and gas (ROMGAZ) companies initiated	New legislation for granting licences opening up the sectors to greater competition have also been introduced	Privatisation Authority	End 2001

Evaluation of scope for privatisation of public services to improve efficiency	Limited progress to date. Matter being discussed with Ministry for Local Government	Public services include such things as irrigation management, veterinary services and seed analysis
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#### 4. FISCAL REFORM AND TAXES

<b>To strengthen reform of the tax system</b>	Revision of the income tax law following problems with definitions of taxable and non-taxable income and incentives for certain categories of tax payers	The revised law has been drafted and will be completed with information on its influence of its provisions on the budget of the year 2002	General Division for Tax Policy and Legislation	1st trimester 2001
		Analysis of the categories of interest which should be considered as deductible on the computation of taxable profit, with a view to drawing up a draft law for changing the profit tax	General Division for Tax Policy and Legislation	2nd trimester 2001
	Improvement of the legal framework of the tax on agricultural income	The draft of the law has been drawn up and submitted for signature to the Minister	The General Division for the Fiscal Policy and Legislation	the 31st of March 2001
	Improvement of the legal framework for local taxes	The legal instruments are currently being drawn up	The General Division for the Fiscal Policy and Legislation	September 2001
	Introduction of VAT exemptions to provide incentives for SMEs	The import of machines and equipment, raw materials and materials destined for upgrading of SMEs are exempted from custom duties and VAT of	Part of a private sector development and SME start up legislative initiative	The General Division for the Fiscal Policy and Legislation

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
	Improvement of the VAT legislation	The draft of the law for VAT has been drawn up and has been submitted for approval to the Ministry of Justice, the Ministry of European Integration and the Ministry of Public Works, Transportation and Tenement		The General Division for the Fiscal Policy and Legislation	March 2001
	Revision of the current system of excise duties	The draft law on excise duties has been submitted to the Ministry of European Integration		The General Division for the Fiscal Policy and Legislation	
<b>To improve tax collection</b>	Completion and the harmonisation of the legal framework in the field of VAT and the excise duties	The legal instruments are currently being drawn up, with the assistance of the European Union		The General Division for the Fiscal Policy and Legislation	December 2001
	Initiation of a plan for administrative co-operation in the field of indirect taxation (VAT, excise duties, custom duties)	The legal instruments are currently being drawn up, with the assistance of the European Union		The General Division for the Fiscal Proceedings	December 2001
	Preparation of the conditions for the adherence of the Ministry of Public Finance to the Convention for Mutual Administrative Assistance on Taxation, with the assistance of the European Union			The General Division for the Fiscal Proceedings	December 2001
	Initiation of a national programme for the improving of the administration of indirect taxes, with the assistance of the European Union			The General Division for the Fiscal Proceedings	December 2001

## 5. BRIBERY AND CORRUPTION

<b>To implement measures to address corruption</b>	Ratification of Conventions of the Council of Europe	Signed, but not yet formally ratified	Issue of implementation of legislation/conventions/recommendations now needs to be addressed	Government	2001
	Formation of regional groupings to adopt common strategy on corruption	Member of regional group	As above	Government	2001
	Management of domestic legislation on corruption	Legislation passed since May 2000	As above	Government	2001
	Management of laws in relation to money laundering	National office established since mid 1999	As above	Government	2001

## 6. COMPETITION LAW

<b>To ensure effective implementation of Competition and State Aid policy</b>	Completion of secondary legislation for enforcing:		These initiatives are to be supplemented with staff training, including IT. Donor support for capacity building programmes has been obtained		2001/2002
	1. <i>Competition Law</i> (largely improved definitions of exemptions) and 2. <i>State Aid Law</i> (largely clearer definition and eligibility criteria)	Adjustment of law on block exemptions is in preparation		Issues are under consideration on an interdepartmental basis	Competition Council

Policy Objective	Planned Actions	Activities Implemented to Date	Remarks	Responsibility for Action	Target Date for Completion
<b>7. ACCOUNTING REGIME AND PRACTICES</b>					
<b>To harmonise accounting rules with European Directives and International Accounting Standards</b>	Harmonization of the accounting and reporting rules for small and medium enterprises in accordance with international practices	Accounting regulations harmonized with the Fourth European Directive 78/660 and International Accounting Standards have been implemented starting with financial statements prepared for year ended 31 December 2000 by listed companies, regies autonome and some national companies	These rules will be implemented in phases, up to 2005  The companies that are not covered by these regulations will apply a simpler accounting system	Accounting rules Directorate	2002
	Setting up the accounting rules for specific operations for insurance and re-insurance companies	The specific rules for insurance companies are to be tested by a representative sample of insurance companies, in the last half of this year  Based on the outcomes, the chart of accounts will be completed and it will be applied by all insurance and re-insurance companies	It is necessary to run in parallel a training programme for the specialists involved in the area	Accounting rules Directorate	The fourth quarter 2001
	Harmonization of the accounting rules specific for companies working on capital market with European Directives and International Accounting Standards	A mixed committee has been established composed of representatives of the National Security Commission, representative companies working on capital market and specialists from Ministry of Public finance, with responsibilities in drawing up the specific accounting rules for operators on capital market	So far, foreign technical assistance for drawing up the project of these rules has not been secured. At the same time, the necessity of training courses for the specialists in the field should be addressed	Accounting rules Directorate	2002

## 8. CORPORATE GOVERNANCE

<b>SEE Corporate Governance Roundtable</b>	Review of Corporate Governance in Romania  First meeting of the SEE Corporate Governance Roundtable 27-28 September Bucharest, Romania	Undertaken as part of the Investment Compact Regional Flagship Initiatives	National Securities Commission and the Bucharest Stock Exchange
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## 9. FINANCIAL SECTOR REFORM

<b>To make progress in sale of state-owned banks</b>	Privatisation of Credita Agricola (CA) and Romanian Commercial Bank (BCR), plus other smaller banks	Both major privatisation projects are at an advanced stage. CA already under special management pre-privatisation and has been recapitalised	Ministry of Finance Privatisation Authority
<b>To improve regulation of the financial sector</b>	Strengthen regulatory role of the Romania National Bank and Improvement of system of risk management and surveillance of banks  Establish regulatory body in the insurance sector	“Early warning system” developed in cooperation with the IMF to monitor poor performing banks  Office of Insurance Supervision Commission established	Undertaken with support from the IMF  Ministry of Finance End 2001
<b>To develop a functioning securities market</b>	Increase activity on the Stock Exchange and improve the regulations governing operation of the Exchange	Work underway on upgrading the regulatory framework of the Stock Exchange	Growth in the volume of trading appears to be dependent on progress with privatisation  Ministry of Finance 2000-2002
<b>To introduce public service reform</b>	Pilot multi annual budgeting procedures introduced into selected ministries 2000		Pilot being extended to all ministries (beyond original 8) in 2001  Ministry of Finance 2001

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