Chapter 1.

Investment policy and promotion in South East Europe

Investment policy refers to a government's foreign or domestic investment framework, while investment promotion denotes activities designed to attract investment to an economy. This chapter on the Investment Policy and Promotion Dimension focuses on three sub-dimensions in its assessment of investment performance and policy development. The Transparency and Treatment of Investors Sub-Dimension examines to what degree foreign and domestic investors have equal rights through a reliable and transparent investment environment. The Investment Promotion and Facilitation Sub-Dimension assesses government policies and activities to promote the economy to investors through measures such as aftercare services, client relationship management and foreign direct investment incentives. The Intellectual Property Rights (IPR) Sub-Dimension gauges IPR protection legislation and enforcement.

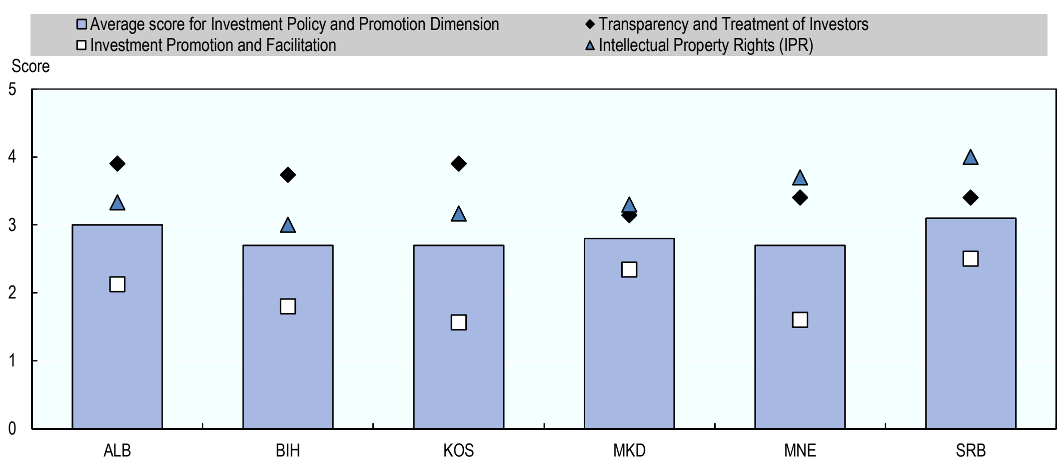
Main findings

As the OECD *Policy Framework for Investment* states, the non-discrimination principle, openness to foreign investment, the protection of investors' property rights and mechanisms for settling investment disputes are core policy issues. They underpin efforts to create a quality investment environment for all (OECD, 2015). Attracting foreign and fostering domestic investment expand an economy's productive capacity, so contributing to job creation and economic growth. In addition, foreign direct investment (FDI) plays an important role in transferring technology and expertise, boosting labour productivity and improving access to international markets (ibid.).

While foreign, domestic and greenfield investment in South East Europe (SEE) have consistently exceeded the EU average as a percentage of GDP since 2007, the gap has narrowed in recent years, due mainly to the double-dip financial crisis.

All SEE economies have an average score of around 3 in the Investment Policy and Promotion Dimension. The score signifies that all SEE economies have largely operational investment policy and promotion frameworks. However, monitoring and readjustment practices still need to be engaged. They are stronger in the sub-dimensions, Transparency and Treatment of Investors and Intellectual Property Rights, than in the Investment Promotion and Facilitation Sub-Dimension, where the Former Yugoslav Republic of Macedonia and Serbia are the most advanced.

Figure 1.1. **Investment Policy and Promotion: Dimension and Sub-Dimension average scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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Achievements

The SEE economies have seen recent improvements in investment policy and promotion.

SEE economies have taken positive steps towards treating foreign and domestic investors equally. In addition, they periodically review their national treatment legislation and adjust it accordingly.

SEE economies have strengthened foreign investors' access to industrial land. Generally, foreigners are allowed to own or lease industrial land in SEE for 30 to 99 years. Bosnia and Herzegovina and Kosovo also periodically review their legislation based on investor feedback and adjust it accordingly. By doing so, they facilitate new and expand on-going investment.

SEE economies have made progress in facilitating business operations. They have strengthened public-private sector dialogue by further involving and consulting the private sector prior to making relevant legislative changes. They have also continued facilitating the recruitment of foreign personnel, be they employees or board members. Moreover, most economies in the region allow investment-related capital transfers.

SEE economies have taken steps to better protect intellectual property rights. They have all enacted IPR-related legislation and ratified the major international IPR conventions. There is also emerging evidence that they are enforcing IPRs more effectively in the region.

Challenges

Despite their achievements, the SEE economies still face a number of challenges that prevent them from attracting all potential investment.

Investment promotion and facilitation strategies as well as investment promotion agency (IPA) operational objectives are not fully implemented. All SEE economies have put an investment promotion agency (IPA) in place with a clear mandate to implement the national investment promotion strategy. However, most IPAs are still in the process of establishing key services such as one-stop shops (single windows for all business administrative procedures) and linking foreign investors with local small and medium-sized enterprise (SME) supplier bases.

The design and promotion of FDI incentive schemes are not fully developed. Few SEE economies have FDI incentive schemes based on a formal cost-benefit analysis. Those economies with FDI incentive schemes in place do not generally publicise them well – through IPA websites, for instance.

Strategic investor targeting is still an emerging practice. While all SEE economies do conduct some investor targeting, the systematic practice of identifying potential investors with suitable profiles and addressing investment promotion and communication campaigns at them is yet to be established.

Aftercare services are currently limited. However, all SEE economies collect investor feedback on an ad hoc basis or are in the process of defining aftercare services in their investment promotion strategic plans.

Access to agricultural land remains comparably difficult for foreign investors. Foreign investors are generally allowed to purchase or lease farm land. However, administrative procedures for doing so are often more burdensome for foreign than for domestic investors. Indeed, some SEE economies may restrict foreign ownership of certain types of land – to ensure food self-sufficiency or control inflation, for example. Laws should clearly state any such restrictions (OECD, 2010).

IPR awareness raising is not a systematic practice. Although most SEE economies have operational IPR information services, they do not yet regularly undertake IPR awareness-raising activities, such as campaigns to promote understanding of IP or capacity-building programmes on how to file for IP protection.

Recommendations

Measures addressing identified challenges can facilitate increased investment.

Further advance the implementation of investment promotion strategies and IPA services. To increase investment, SEE economies could further improve the implementation, evaluation and revision of their investment promotion strategies. Most IPAs would benefit from more clearly allocated budgets and greater operational independence. They also stand to gain from continuous monitoring of their investment promotion practices.

Set up one-stop shops (OSS) to help foreign investors overcome regulatory hurdles. All SEE economies seek to assist foreign investors in negotiating regulatory hurdles and investing in the economy. To that end, a useful initiative might be to establish one-stop shops across all SEE economies. Foreign investors could thus stop at a single window to obtain the permits and support required to establish their business operations rather than having to deal with multiple government bodies.

Strengthen practices for linking foreign investors with the local supplier base. SEE economies could establish FDI-SME linkage programmes to help foreign investors adapt to local markets and support the domestic supplier base. One particular measure could be to create supplier databases and advertise them to new and established investors.

Further enhance communication with potential and established investors through a customer relationship management (CRM) mechanism. IPAs could introduce new CRM mechanisms or expand existing ones in order to proactively manage relations with potential investors and thereby offer enhanced services. Accordingly, they would systematically document all interaction with and information about investors and make systematic use of such knowledge.

Ease foreign investors' access to land. Clearly defined land ownership rights would help encourage new and expand current investment. Furthermore, better access to land for foreign investors could act as an incentive to sustainable land management practices.

Intensify IPR awareness-raising activities. The introduction and systematic enforcement of measures to raise awareness of IPR would increase foreign investors' confidence and encourage them to develop and bring innovative technologies to SEE economies. SEE economies could consider setting up dedicated IP help desks as one practical and user-friendly way of further supporting IPR enforcement.

Overview

Investment policy refers to a government's foreign or domestic investment framework, while investment promotion denotes activities designed to attract investment to an economy or region. The quality of investment-related policies determines, by and large, investment promotion and facilitation (OECD, 2015). The analytical framework presented in this chapter builds on the OECD's Policy Framework for Investment (PFI), a comprehensive and systematic approach to improving conditions conducive to investment (ibid.). Covering a broad range of issues for policy makers, the PFI also assesses such determinants as the treatment of foreign investors, the transparency of the legal framework governing investment and the protection of property rights.

A solid investment policy and promotion framework plays an important role in attracting FDI (OECD, 2011). FDI triggers technology spillover, fosters the creation of human capital, contributes to international trade integration and helps create a more competitive investment environment. It also enhances enterprise development, so contributing to economic growth. Beyond strictly economic benefits, FDI also helps improve environmental and social conditions in the host country through the transfer of cleaner technologies and more socially responsible corporate policies (OECD, 2002). Furthermore, it provides transition countries with much needed sources of finance to build more competitive industries (OECD/The World Economic Forum, 2011). Finally, it increases capital stocks, thus increasing labour productivity (OECD, 2015).

Box 1.1. **Investment Policy and Promotion Dimension in the SEE 2020 Strategy**

The Investment Policy and Promotion Dimension is part of the Integrated Growth Pillar of the South East Europe 2020 Strategy (SEE 2020). The pillar's central objective is to foster integrated growth through the promotion of regional trade, investment linkages and policies that are non-discriminatory, transparent and predictable – all regarded as factors in the region's further integration in the European and global economy. One of two headline SEE 2020 Strategy targets in this pillar is annual FDI inflows to the SEE region by 2020 that are 160% greater than in 2010. The Integrated Growth Pillar informs the key components of the Investment Policy and Promotion analysis in this publication.

The SEE 2020 Strategy also sets specific investment policy and promotion objectives:

- increased trade facilitation through the use of transparency tools and simplified trade-related procedures
- improved investment policy and promotion co-ordination
- better investor and investment protection
- freer movement of experts, professionals and skilled labour
- stronger protection for trademarks throughout the region
- closer alignment of efforts to improve the business environment and promote business climate reforms.

By removing trade and investment barriers through effective co-ordination between government policies and by aligning efforts with the Governance for Growth Pillar, the integrated growth agenda as a whole will contribute to improving the business climate in the SEE region.

The official SEE 2020 Strategy Co-ordinator for the Investment Policy and Promotion Dimension is the Regional Cooperation Council (RCC). The RCC seeks to promote and enhance regional co-operation in South East Europe and is the overall co-ordinator of the SEE 2020 Strategy.

Source: RCC (2013), *South East Europe 2020: Jobs and prosperity in a European perspective*, www.rcc.int/files/user/docs/reports/SEE2020-Strategy.pdf.

Analysis of investment policy and promotion in SEE reveals significant links with other policy areas. For example, a well-functioning legal system can be an important determinant of investment by securing property rights and enforcing contracts (Palumbo et al., 2013). Furthermore, efficient legal procedures prevent breaches of contract and influence firms' investment decisions (Chemin, 2012). This chapter is particularly related with the following chapters:

- **Chapter 4. Research, development and innovation** capacity and investment can be mutually reinforcing. Investment may lead to the transfer of technology and human capital, which heightens competitiveness. Effective R&D and innovation policies can be a powerful driver of investment, as businesses are attracted to economies which lead the way in certain technologies. They seek to take advantage of positive spillover effects to become more competitive on a global scale (OECD/The World Economic Forum, 2011).

- **Chapter 15. Anti-corruption policy** can play an effective part in attracting FDI. Countries where there is little corruption are found to draw larger inflows of FDI (Castro and Nunes, 2013).
- **Chapter 2. Trade policy and facilitation** and investment mutually reinforce each other to increase cross-border activity (OECD, 2002). There is a growing realisation that a sound investment framework increases FDI and furthers the integration of economies in the world economy through trade growth and greater participation in global value chains (GVCs).
- **Chapter 10. Tax policy** and administration can influence investment decisions and prompt follow-up investments from successful, established investors.

Investment Policy and Promotion Dimension assessment framework

This chapter proposes an analysis of investment policy and promotion in the SEE region. It does not seek to be exhaustive, but considers three broad sub-dimensions based on the Integrated Growth Pillar of the SEE 2020 Strategy:

- Transparency and Treatment of Investors

  How clear and predictable is the investment framework to foreign investors? Are they treated on an equal footing to their domestic peers?
- Investment Promotion and Facilitation

  Are investment promotion and facilitation practices properly established? What are they and are they supported by adequate resources?
- Intellectual Property Rights

  How well is the intellectual property of foreign investors protected by the provisions and enforcement of IPR legislation framework and is there IPR awareness raising?

Figure 1.2 shows how the sub-dimensions and their constituent indicators make up the Investment Policy and Promotion Dimension assessment framework.

Each sub-dimension is assessed through quantitative and qualitative indicators. With the support of the OECD, the Regional Cooperation Council (RCC) collected qualitative and quantitative data on the Investment Policy and Promotion Dimension.

Quantitative indicators are based on national or international statistics. Qualitative indicators have been collected and scored in ascending order on a scale of 0 to 5.[1]

FDI performance in SEE economies

Levels of FDI inflows have stagnated in recent years across the SEE region. However, taken as a percentage of GDP, FDI in the SEE region has regularly exceeded the EU average since 2007, thanks to SEE’s closer trade ties with the EU and its lower per capita incomes. Businesses from more developed economies, such as those of the EU, can take advantage of differences in unit labour costs (ULCs) by investing productive capacity in nearshore markets.

Figure 1.2. **Investment Policy and Promotion Dimension assessment framework**

Investment Policy and Promotion Dimension		
SEE 2020 headline target • Increase overall annual FDI inflows **Outcome indicators** • Annual greenfield investment inflow • Share of manufacturing sector FDI • Trademark registration per million people		
Sub-Dimension 1 Transparency and Treatment of Investors	**Sub-Dimension 2** Investment Promotion and Facilitation	**Sub-Dimension 3** Intellectual Property Rights (IPR)
Qualitative indicators 1. Restrictions to national treatment 2. Land ownership 3. Guarantees against expropriation 4. Prior notification and consultation of legislative changes 5. FDI related capital transfer 6. Restrictions on key personnel 7. International arbitration and dispute settlement	**Qualitative indicators** 8. Investment promotion and facilitation (IPF) strategy 9. Investment promotion agency 10. FDI incentives 11. FDI-SME linkages 12. One-stop shop 13. Investor targeting 14. Client relationship management (CRM) 15. Aftercare services	**Qualitative indicators** 16. IPR laws 17. Implementation and enforcement of IPR 18. IPR awareness raising and access to information
Quantitative indicators 1. Cumulated GDP of economies with bilateral investment agreements in force 2. Number of days needed to lease private land 3. Number of days needed to lease public land	**Quantitative indicators**	**Quantitative indicators** 4. Number of WIPO conventions signed on IPR 5. Software piracy rates

Montenegro is the SEE economy with the highest annual FDI inflows as a percentage of GDP, although they have declined in recent years. Most of its FDI goes into tourism infrastructure. While such investment has helped develop the tourist trade, two important contributors to service exports – job quality and average salaries – remain at low levels.

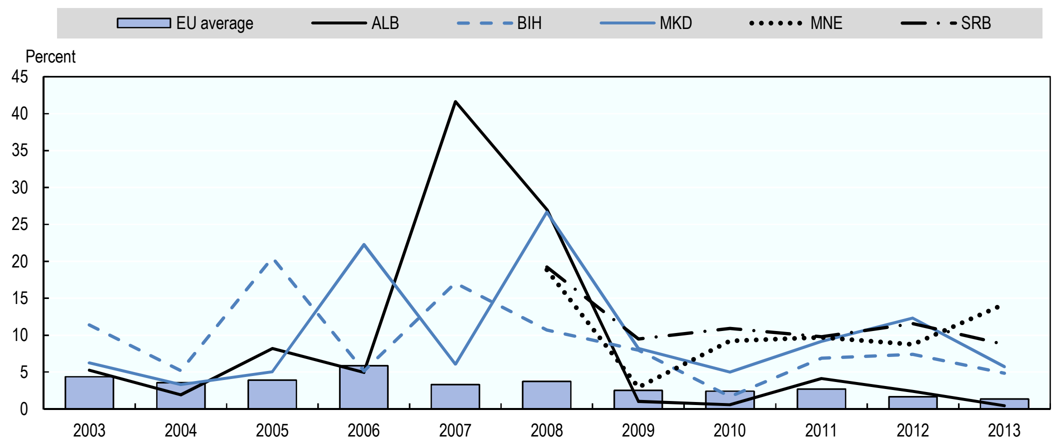
Albania has the second highest FDI to GDP ratio. It has shown strong resilience and maintained FDI growth rates throughout the crisis. They have been especially firm in the extractive sector (Bank of Albania, 2014). The post-crisis macroeconomic situation has had a worse effect on FDI/GDP ratios in the Former Yugoslav Republic of Macedonia and Serbia, where they have declined in recent years. However, they are showing the first signs of recovery (UNCTAD, 2015a).

Overall, resource-seeking FDI has been very robust – especially in Montenegro (tourism) and Albania (mineral resources) – while efficiency-seeking FDI, which dominates in the other three economies, has stagnated.

Foreign and domestic greenfield investment is a robust driver both of economic and employment growth and – through technology spillover – of innovation (Begović et al., 2008). Between 2003 and 2013, annual greenfield inflows as a percentage of GDP exceeded the EU average in most SEE economies. However, since the 2008 financial crisis, the average ratio of the SEE region's greenfield investment flows to GDP fell from 33% in 2007 to 7% in 2013. This downward trend is consistent with the pattern in the EU as well. In Albania, for example, large projects in the manufacturing and electricity sectors saw the value of greenfield projects rise steeply in 2006 and 2007, only to fall in the aftermath of the global crisis (UNDP, 2012). The SEE economies have not yet regained the ratios of greenfield investment to GDP they boasted in 2008. Montenegro is the sole exception, with greenfield investment flows tripling in 2013 from their low point in 2009.

Figure 1.3. **Annual greenfield investment flows**

Percent of GDP



Note: Data for Kosovo not available. Data for Montenegro and Serbia available from 2008.

Source: Adapted from UNCTAD (2015a), *World investment report 2015: Reforming international investment governance*, www.unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1245; UNCTAD (2015b), *UNCTADStat* (database), http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx.

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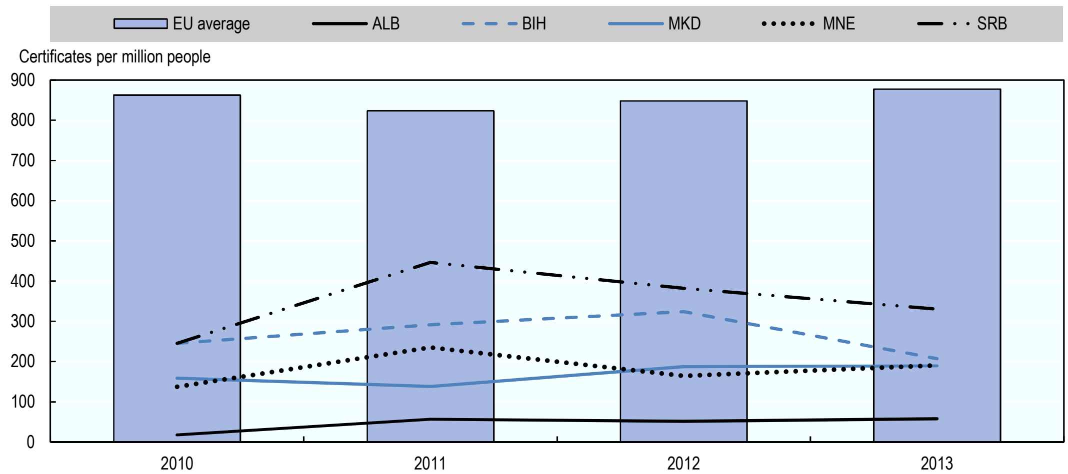
The manufacturing sector has substantial weight in most SEE economies and accounts for a significant share of regional exports. Yet FDI flows into the manufacturing sector followed a downward trend across SEE between 2010 and 2013. In Bosnia and Herzegovina, for instance, they dropped from 26.7% to 8.3% and in the Former Yugoslav Republic of Macedonia from 52.9% to 33.8% over the same period. Albania, too, experienced a similar trend.

In 2014, however, FDI flows into the manufacturing sector substantially increased in the region. The increase was driven partly by Bosnia and Herzegovina where, after years of decline, manufacturing FDI as a share of total FDI rose to 30.8% in 2014.

The number of registered International Organization for Standardization (ISO) certificates is a measure of integration in global value chains and investment resilience. Certificates work as guarantees that a certain product, service, or system meets specific requirements and standards. They enable cross-border trade to enter the global economy, ensure that business operations are efficient and increase companies' productivity. Across the SEE region, the number of ISO 9001 certificates registered per million inhabitants is lower than in the EU. Serbia has the highest rate, while Albania, the Former Yugoslav Republic of Macedonia and Montenegro have the lowest. ISO certification rates increased across SEE in 2010-13, peaking in 2011 at an average of 300 certificates per million people, but have stagnated since.

Figure 1.4. **Registered ISO 9001 certificates**

Certificates per million people



Note: Data for Kosovo not available.

Source: Adapted from ISO (2013), *ISO Survey 2013* (database), www.iso.org/iso/iso-survey; World Bank (2015), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators.

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The available data suggest that FDI, greenfield investment and manufacturing FDI are below their full potential in SEE. Innovation spillover and intellectual property protection also show room for improvement.

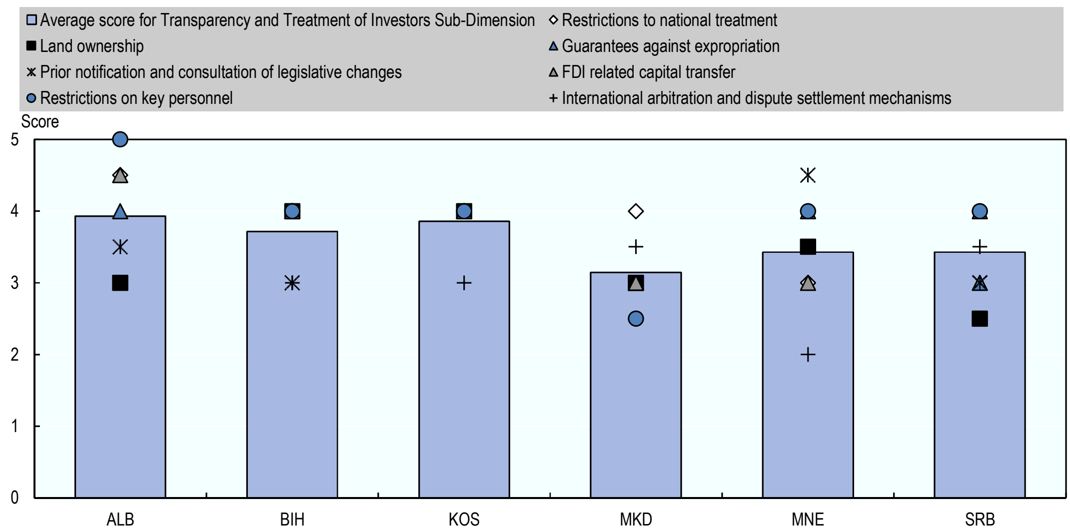
Why, though, are SEE economies not realising their full investment potential and what levers do SEE governments have at hand for improving investment performance?

Transparency and Treatment of Investors Sub-Dimension

A reliable, stable investment environment, in which the property of foreign investors is secured, is a prerequisite for FDI. Cumbersome administrative procedures cost time and money and heighten the investment risk, especially if they lack transparency (OECD, 2015). Transparency remains a key concern of investors worldwide (ibid.). Foreign investors need to be certain that their investments are treated no less favourably than those of their domestic peers. When investment procedures – for starting a business or settling commercial disputes, for example – are transparent and straightforward, they boost foreign investors' confidence and enable them to make better informed investment decisions (ibid.). The Transparency and Treatment of Investors Sub-Dimension includes seven qualitative indicators that analyse foreign investors' rights, access to land and operations enabling policy framework.

Creating a transparent business environment and affording equal treatment to foreign and domestic investors alike have been priorities across the SEE region. On average, the SEE region scores 3.6 out of 5 in the Transparency and Treatment of Investors Sub-Dimension. In other words, economies have established and implemented frameworks and carry out a certain degree of monitoring (Figure 1.5). SEE economies have generally transparent investment procedures and treat foreign and domestic investors in the same way.

Figure 1.5. **Transparency and Treatment of Investors: Sub-Dimension average scores and indicator scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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The areas in which the economies are most advanced are national preference and admittance of key personnel, while the one where there has been the least progress is international arbitration and dispute settlement mechanisms.

Comparison with the 2010 OECD Investment Reform Index reveals a positive overall trend in several SEE economies. Albania, Kosovo and Bosnia and Herzegovina claim the highest average scores in the Transparency and Treatment of Investors Sub-Dimension. Their good showing reflects their recent progress in investment as they bid to raise FDI levels.

SEE economies have strengthened safeguards of foreign investors' rights

The sound safeguard of foreign investors' rights fosters a predictable, secure investment environment conducive to FDI. Before investing in a country, foreign investors consider existing investment agreements that protect other foreign businesses. Key factors in the protection of foreign investors' rights include the equal treatment of foreign investors, the protection of their ownership rights and the presence of dispute settlement mechanisms to solve commercial disputes, such as arbitration (OECD, 2010).

The **restrictions to national treatment** indicator assesses whether foreign investors are treated in the same way as domestic ones. Foreign investors look for jurisdictions that offer fair and equal treatment, as it signals a government's commitment to non-discrimination and a degree of predictability, both of which reduce investment risk (ibid.).

The **guarantees against expropriation** indicator evaluates whether a legal framework protecting the property of foreign investors has been established. While foreign investors value protection against expropriation, they also seek those jurisdictions that offer prompt, adequate and effective compensation for any expropriation that may occur (ibid.).

The **international arbitration and dispute settlement mechanisms** indicator assesses whether an economy has ratified international conventions on arbitration-related matters and whether it has dispute settlement mechanisms in place. The ability to resolve disputes efficiently has been shown to be fundamental in investment decisions (OECD, 2015).

Table 1.1. **Transparency and Treatment of Investors Sub-Dimension: Foreign investors' rights indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Restrictions to national treatment	4.5	4.0	4.0	4.0	3.0	4.0
Guarantees against expropriation	4.0	4.0	4.0	3.0	4.0	3.0
International arbitration and dispute settlement mechanisms	3.0	3.0	3.0	3.5	2.0	3.5

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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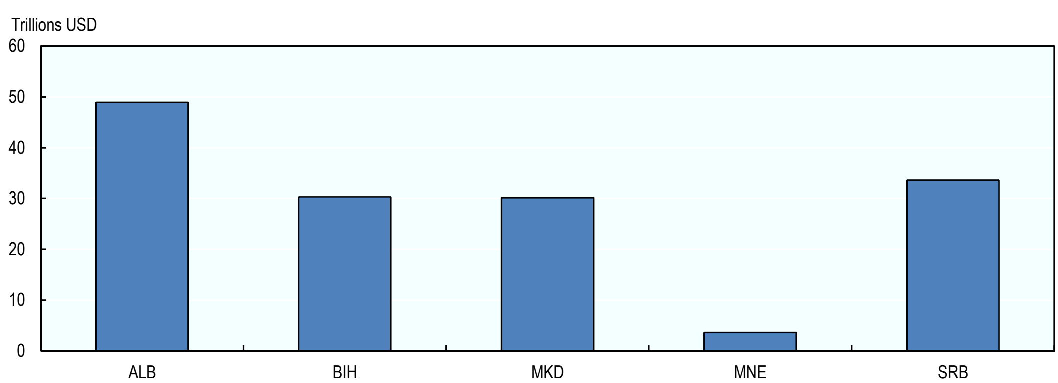
In line with such considerations, a quantitative indicator, cumulated GDP of economies with bilateral investment agreements in force (Figure 1.6), evaluates whether SEE economies have signed FDI protection agreements with sizeable foreign economies (e.g. France, Germany and the United States).

Figure 1.6. **Cumulated GDP of economies with bilateral investment agreements in force, 2013**

Trillions USD



Note: Data for Kosovo not available.

Source: Adapted from UNCTAD (2015b), *UNCTADStat* (database), http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx; United Nations Conference on Trade and Development (2013), *Investment policy hub* (webpage), http://investmentpolicyhub.unctad.org/IIA.

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Generally, SEE economies fare well when it comes to indicators that measure the protection of foreign investors' rights. In that regard, a number of significant patterns may be observed across the region.

SEE economies have shown strong commitment to safeguarding foreign investors' legal rights. They have, for instance, all signed investment agreements and seek to treat foreign and domestic investors equally. Furthermore, the expropriation of foreign investors' property is permitted only in strictly defined circumstances, generally followed by prompt, adequate and effective compensation. Finally, dispute settlement mechanisms are generally in place.

Albania, Bosnia and Herzegovina, and Kosovo boast comparatively well-established legal frameworks for safeguarding the rights of foreign investors. In the three economies, foreign investors enjoy the same treatment as their domestic peers. Furthermore, bilateral investment agreements with more advanced economies have come into force in Albania and Bosnia and Herzegovina. As for the expropriation of foreign investors, the three economies allow it only in very specific and defined circumstances and follow it up effectively with adequate, speedy compensation.

The Former Yugoslav Republic of Macedonia and Serbia have also taken measures to protect foreign investors' rights. Both economies treat foreign and domestic investors equally. Furthermore, they have dispute settlement mechanisms in place which strengthen their governments' commitment to the rule of law.

As a sign of their determination to meet their investment treaty obligations, the Former Yugoslav Republic of Macedonia and Serbia have fully ratified and implemented such international arbitration agreements as the New York Convention and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention). Albania and Bosnia and Herzegovina, too, have ratified and implemented both agreements. By approving the Law on Foreign Investment, Kosovo has also advanced the implementation of regulations in both the New York and ICSID conventions.

Montenegro has taken positive steps to protect the rights of foreign investors. It allows them to purchase agricultural land, for instance, and guarantees them adequate, prompt and effective compensation in the event of expropriation.

Montenegro has signed comparably few investment agreements and recently introduced national preferences (in the fishery, insurance and air traffic sectors, for example). Furthermore, it has a limited number of dispute settlement mechanisms in place and, despite ratifying both the New York and ICSID conventions, it has not yet started monitoring them.

The Former Yugoslav Republic of Macedonia and Serbia are yet to institutionalise certain practices that protect the rights of foreign investors. For example, the Former Yugoslav Republic of Macedonia and Serbia have not yet reviewed their legal framework for provisions guaranteeing foreign investors against expropriation.

SEE economies continue facilitating foreign investors' access to land

Secure land rights are a prerequisite for a sound investment environment (OECD, 2010). There may be circumstances in which economies do not allow foreign investors to own certain types of land – to ensure food self-sufficiency or limit inflation, for example. However, such restrictions should be clearly set out in law (OECD, 2010), particularly as well-established land ownership rights can encourage new and continuing investment. Moreover, they also incentivise sustainable land management (OECD, 2015). Foreign investors always consider whether a host country's law entitles them to purchase land and property and how cumbersome the requisite administrative procedures are.

Accordingly, the **land ownership** indicator measures whether foreign investors are allowed to purchase or lease agricultural and industrial land and property. Clearly defined, secure land rights encourage foreign investors to invest in an economy, while the number of days it takes to lease private and public land is a measure of how easy it is for investors to access land.

Table 1.2. **Transparency and Treatment of Investors Sub-Dimension: Foreign investors' access to land ownership indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Land ownership	3.0	4.0	4.0	3.0	3.5	2.5

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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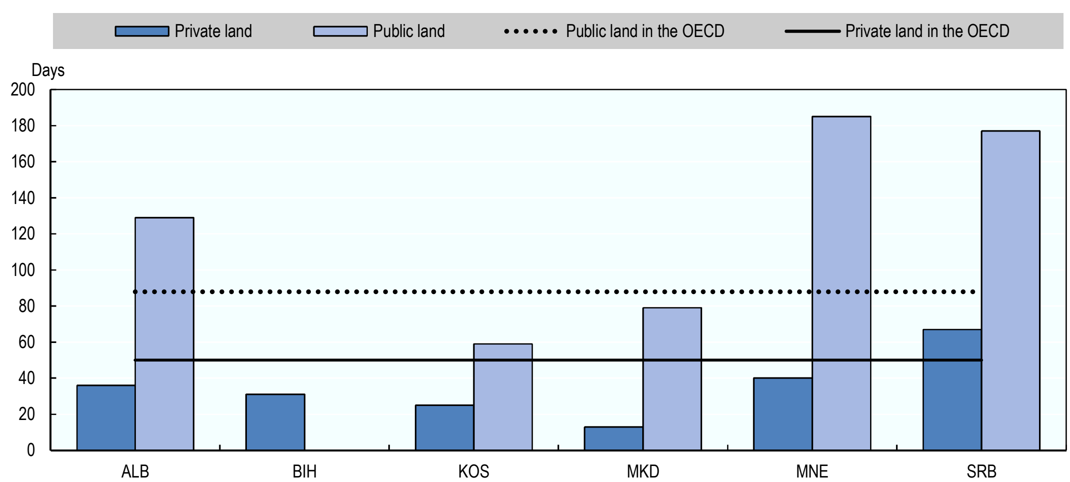
The World Bank report, *Doing Business 2014*, includes the number of days that it takes to lease private and public land.

Figure 1.7. **Days needed to lease private and public land, 2013**



Note: Data for number of days needed to lease public land in Bosnia and Herzegovina not available.

Source: World Bank (2013), *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, http://dx.doi.org/10.1596/978-0-8213-9984-2.

StatLink http://dx.doi.org/10.1787/888933321207

SEE economies generally allow foreign investors to purchase or lease agricultural and industrial land. They have comparatively transparent procedures to that end and a number of good practices have emerged.

Bosnia and Herzegovina, Kosovo and Montenegro all allow foreign investors to buy land, which includes agricultural and industrial land as well as real estate. Furthermore, the number of days it takes to lease private land is less than the OECD average in all three economies. The number of days to lease public land in Kosovo is less than the OECD average. In addition, as emphasised in *Doing Business 2014* (World Bank, 2013), Montenegro has streamlined its property registration formalities.

Albania and the Former Yugoslav Republic of Macedonia have also taken positive steps to facilitate foreign investors' access to land and, in both economies, the number of days needed to lease private land is lower than the OECD average. The same is true of public land in the Former Yugoslav Republic of Macedonia. That being said, the actual process of leasing or purchasing land in both economies remains comparatively difficult.

Albania, for its part, allows foreign investors to buy land on the condition that they do so at no less than three times the market price.

In Serbia, too, there are still obstacles. It does not yet allow foreign investors to purchase farmland, for example, while the number of days it takes to lease private and public land is higher than the regional and OECD averages. As for registration procedures, they have become more expensive in Serbia than in the rest of the region, as World Bank reports in *Doing Business 2014*.

SEE economies have made their policy frameworks more conducive to on-going business operations

Once a foreign enterprise has made its initial investment, the policy framework that governs business operations in the host country will determine whether it can do business sustainably and continue to invest. Factors that help sustain on-going business operations include ease of recruitment from abroad, the involvement of businesses in any legislative changes that may affect them and the ability to transfer profits. OECD analysis shows that these elements are fundamental to investment decisions (OECD, 2010).

The **restrictions to key personnel** indicator gauges the degree to which investors can hire foreign staff, be they ordinary employees or board members. No or few such restrictions encourage investment, as businesses generally try to reduce risk by employing experienced personnel, especially when making major investments (OECD, 2015).

The **prior notification and consultation of legislative changes** indicator evaluates to what extent governments inform and talk to the private sector when they plan to make changes to legislation that affects the business environment. The economies that do notify and consult generally produce laws that factor in investors' interests and help foster a more stable investment environment (OECD, 2010).

Finally, the **transfer of FDI-related capital** indicator assesses whether and to what extent laws, regulations and international commitments provide for the transfer of investment capital, which includes profits, dividends and proceeds from the sales of investments. Profit remittance is a key concern in most investment decisions (OECD, 2010).

Table 1.3. **Transparency and Treatment of Investors Sub-Dimension: Operations enabling policy framework indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Restrictions on key personnel	5.0	4.0	4.0	2.5	4.0	4.0
Prior notification and consultation of legislative changes	3.5	3.0	4.0	3.0	4.5	3.0
FDI related capital transfer	4.5	4.0	4.0	3.0	3.0	4.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322798

SEE economies generally perform well when it comes to sustaining on-going business operations and investment. A number of significant patterns emerge across the region:

- SEE economies have continued to facilitate the recruitment of foreign personnel, whether employees or board members.
- Public-private sector dialogue is also well established, with governments involving and consulting the private sector prior to making legislative changes that affect it.
- Most economies allow investment-related capital transfers.

Kosovo has a well-established holistic legal framework – part of its efforts since 2008 to establish a functioning market economy. It also allows foreign workers, including managerial staff, to take up employment. Furthermore, the government systematically consults private businesses and other stakeholders prior to making legislative changes that affect them. Indeed, Article 32 of the Regulation of Rules and Procedure No. 09/2011 specifically states that ministries must publish proposed legislative changes for public comment and that they should seek the views of non-governmental organisations substantially affected by the changes. Finally, foreign investors may, freely and without delay, remit profits and transfer to another country any proceeds from investment in Kosovo.

Albania, Bosnia and Herzegovina, Montenegro and Serbia have no general restrictions on the number of foreign employees or on their duration of employment. Indeed, all four economies make it easy for foreign nationals to come to work. Albania and Montenegro also systematically consult stakeholders prior to relevant legislative changes. Finally, all four economies permit foreign investors to transfer abroad all funds related to their investment.

Bosnia and Herzegovina and Serbia still conduct consultations on an ad hoc basis with a narrow selection of stakeholders. However, both economies actively promote prior notification and consultation among stakeholders.

The Former Yugoslav Republic of Macedonia does not use certain business-facilitation measures as standard practice. As in other SEE economies, foreigners wishing to work there need to apply for long-stay visas or temporary residence permits. Furthermore, application procedures are reported to be cumbersome and may be a sizeable barrier to the employment of foreign personnel. Finally, the government still notifies and consults only some stakeholders prior to legislative reform and does so on an ad hoc basis.

The way forward in transparency and treatment of investors

As SEE economies look to the future, they might bear in mind a number of policy interventions to further improve the treatment of investors.

The Former Yugoslav Republic of Macedonia and Serbia could consider periodically reviewing their expropriation-related legislation and adjusting it if necessary.

The Former Yugoslav Republic of Macedonia could simplify procedures and requirements for employing foreign personnel. It could also introduce legislative provisions that would facilitate the transfer of investment-related capital. In addition, it could publicise restrictions on the transfer of FDI-related capital, then monitor the law and make any necessary adjustments.

Albania and the Former Yugoslav Republic of Macedonia could periodically collect feedback from foreign investors and adjust legislation accordingly in order to simplify administrative barriers to land access.

Serbia could consider making it easier for foreign investors to purchase agricultural land and further ease the administrative procedures for leasing private and public land.

Bosnia and Herzegovina and Serbia could make pre-reform notification and consultation standard practice, while involving a broader cross-section of stakeholders from the private sector. They could do so by drawing on the OECD Background Document on Public Consultation (2006), as it contains a number of detailed recommendations for consulting stakeholders. The recommendations include systematically assessing whether a legislative change impacts the private sector and drawing up guidelines for the ensuing dialogue with stakeholders from the investment and business community.

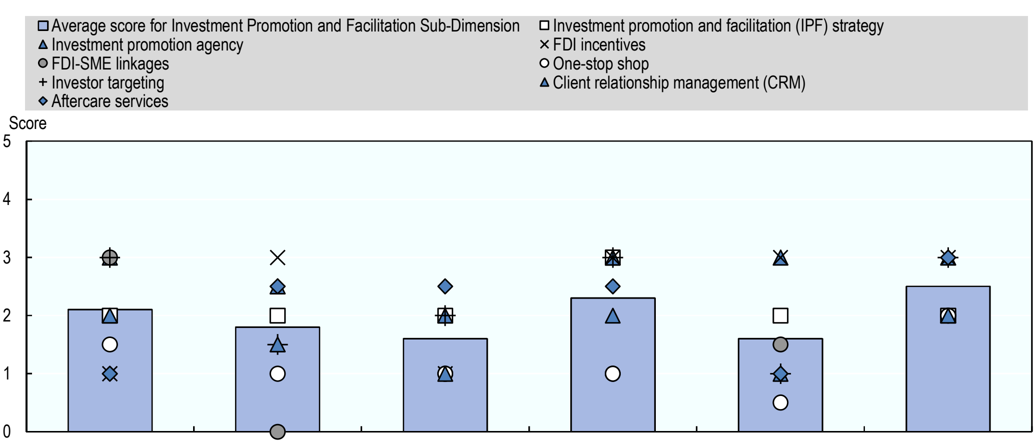
Kosovo and Montenegro could consider facilitating foreign investment through more bilateral investment agreements. Montenegro could also further implement and begin monitoring the legislation and regulations set forth in the New York Convention and ICSID, especially with regard to the enforcement of arbitration awards. It might also monitor its dispute settlement arrangements more closely.

Finally, all SEE economies could consider streamlining the investment regulatory framework to an even greater extent so as to further improve the business environment in the region, as advocated in the joint conclusions of the Economic and Financial Affairs Council (Council of the European Union, 2014).

Investment Promotion and Facilitation Sub-Dimension

It is essential that any economy wishing to draw investors promotes itself as an attractive FDI destination and takes action to facilitate procedures and foster an investment-friendly environment (OECD, 2010). Figure 1.8 shows the SEE economies' scores in the Investment Promotion and Facilitation Sub-Dimension.

Figure 1.8. **Investment Promotion and Facilitation: Sub-Dimension average scores and indicator scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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The Investment Promotion and Facilitation Sub-Dimension comprises eight qualitative indicators (Table 1.4). They assess the overall investment policy and facilitation framework (IPF) and investment promotion services.

Table 1.4. **Investment Promotion and Facilitation Sub-Dimension: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Investment promotion and facilitation (IPF) strategy	2.0	2.0	2.0	3.0	2.0	2.0
Investment promotion agency	3.0	2.5	2.0	3.0	3.0	3.0
FDI incentives	1.0	3.0	1.0	3.0	3.0	3.0
FDI-SME linkages	3.0	0.0	1.0	1.0	1.5	2.0
One-stop shop	1.5	1.0	1.0	1.0	0.5	2.0
Investor targeting	3.0	1.5	2.0	3.0	1.0	3.0
Client relationship management (CRM)	2.0	1.5	1.0	2.0	1.0	2.0
Aftercare services	1.0	2.5	2.5	2.5	1.0	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322808

As the scores indicate, all SEE economies have investment promotion and facilitation frameworks in place, though not all have taken action so far. The greatest progress has come in the drawing up of IPF strategies and the setting up of functional investment promotion agencies. In contrast, some of the more advanced investment promotion and facilitation practices are yet to be instituted.

Analysis does in fact reveal a number of regional patterns and good practices, although there is still room for improvement. Albania, the Former Yugoslav Republic of Macedonia and Serbia score an average mark of over 2, indicating that they have fully adopted their frameworks and entered the initial stages of implementation.

SEE economies have the main IPF infrastructure in place

A comprehensive IPF infrastructure is the basis for establishing effective investment promotion and facilitation practices to attract FDI (Table 1.5). It includes an effective strategy, a well-funded and well-staffed investment promotion agency (IPA) that implements it and, ideally, a single point of contact for all administrative procedures that investors are required to go through in order to start business operations.

The **IPF strategy** indicator measures to what extent governments have developed and implemented a strategy to promote and facilitate investment. An effective IPF strategy – with clear objectives, mechanisms, responsibilities and action plans – is the foundation of IPF infrastructure and successful practices. Building on that foundation, the IPA indicator evaluates whether a government agency that implements the IPF strategy is up and running. Generally, a single implementing agency is more effective than multiple government bodies with different investment promotion and facilitation duties.

A well-funded, well-staffed **IPA** is considered a key factor in effectively implementing an investment promotion and facilitation strategy (OECD, 2015). Finally, the **one-stop shop** qualitative indicator ascertains whether governments have introduced single windows where foreign investors may obtain all the permits required to start business operations. Streamlined permitting procedures co-ordinated by a single body speed up procedures, improve transparency and reduce investment risk.

Table 1.5. **Investment Promotion and Facilitation Sub-Dimension: Framework indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Investment promotion and facilitation (IPF) strategy	2.0	2.0	2.0	3.0	2.0	2.0
Investment promotion agency	3.0	2.5	2.0	3.0	3.0	3.0
One-stop shop	1.5	1.0	1.0	1.0	0.5	2.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322818

Across the SEE region, efforts to build an effective IPF infrastructure have yielded progress, but advanced IPF infrastructure is yet to come.

All SEE economies have developed and adopted IPF strategies and set up investment promotion agencies with financial and personnel resources allocated to implementing the measures in the economies' strategies. Some economies have made progress in cutting the number of government contacts handling investment formalities, but one-stop shops are still to be introduced.

Serbia has developed and adopted an IPF strategy and the Serbian Investment and Export Agency (SIEPA) is implementing the measures it sets out. SIEPA also helps foreign investors overcome regulatory hurdles by offering administrative support in the investment phase and beyond.

Albania and the Former Yugoslav Republic of Macedonia have also made sound progress towards a comprehensive IPF infrastructure. The former, for example, recently approved the Law on Strategic Investments, which aims to promote and attract investments in strategic industries such as energy, transport and tourism. Albania also ratified the Law on Concessions and Public Private Partnership to further facilitate investments realised through public-private partnerships. The Former Yugoslav Republic of Macedonia, for its part, approved the implementation of a comprehensive IPF strategy, the National Programme for Stimulating Investments 2011-2014. Both economies have comparatively well-funded, well-staffed IPAs in place – the Albanian Investment Development Agency (AIDA) and InvestMacedonia. Both have also taken initial steps to support foreign investors through all the administrative procedures needed to set up business operations, although they have not yet put in place one-stop shops and investors still have to stop at numerous administrative windows.

As for Bosnia and Herzegovina, Kosovo, and Montenegro, they are still working towards a comprehensive IPF infrastructure. All three economies have developed and adopted IPF strategies. Over 20 municipalities in Kosovo have taken measures to steer foreign investors through administrative procedures. However, the municipalities do not offer a full service portfolio yet.

The Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA) and the Kosovo Investment and Enterprise Support Agency (KIESA) are not yet implementing the full range of measures in their governments' strategies. Both governments, however, have indicated that more resources might be forthcoming to support the implementation of their IPF strategies.

When it comes to one-stop shops that handle all formalities, however, Bosnia and Herzegovina, Kosovo, and Montenegro have not yet taken steps in that direction.

SEE economies perform a range of investment promotion activities

Once the economies have set up effective IPF infrastructures, their next step is to attract and incentivise investors by promoting themselves as profitable destinations that facilitate investment. IPF practices include selecting and interacting with potential investors who have suitable profiles, organising investment promotion events, offering foreign investors adequate incentives to invest, and linking them with local supplier bases.

To support these efforts, SEE economies might introduce customer relationship management (CRM) systems to help IPAs interact with potential investors more effectively. Finally, aftercare services that seek to retain investors and support them in any business expansion can also be an effective tool to increase FDI (OECD, 2010).

The **investor targeting** indicator measures whether and to what extent IPAs screen potential investors in order to identify suitable ones and target their approach. Screening and targeting practices make IPAs more efficient as they focus their resources on identified investor profiles. As for the **FDI incentives** indicator, it gauges whether SEE economies grant investors adequate fiscal, financial or regulatory incentives to attract and retain them. It also measures whether incentives have been developed in accordance with careful cost-benefit considerations and whether incentive schemes are publicised and information is publicly communicated.

Another investment promotion activity involves bringing together foreign investors and host economy SMEs. The **FDI-SME linkages** indicator gauges whether SEE economies have established practices for supporting foreign investors in building local supplier bases. Linking investors with supplier SMEs is mutually beneficial. The **customer relationship management** indicator assesses whether IPAs use a structured and informed approach in interacting with potential investors. With a clearly defined CRM strategy and adequate software to document all interaction, IPAs can make their investor communication more effective.

Finally, the **aftercare services** indicator measures the support offered to investors once they have set up their business operations. Such services can help enhance foreign investors' satisfaction and prompt them to expand their activity.

Table 1.6. **Investment Promotion and Facilitation Sub-Dimension: Promotion services indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
FDI incentives	1.0	3.0	1.0	3.0	3.0	3.0
Investor targeting	3.0	1.5	2.0	3.0	1.0	3.0
FDI-SME linkages	3.0	0.0	1.0	1.0	1.5	2.0
Client relationship management (CRM)	2.0	1.5	1.0	2.0	1.0	2.0
Aftercare services	1.0	2.5	2.5	2.5	1.0	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322829

As the indicator scores in Table 1.6 show, all SEE economies are starting to take action to promote and facilitate investment. Half of them hold investment promotion and matchmaking events, frequently targeting specific countries or sectors. SEE economies generally offer foreign investors incentives, based in part on cost-benefit considerations.

All also run business-linkage activities to help foreign investors build local supplier bases. Finally, most IPAs do keep track of their communication and interaction with investors, although they have yet to put in place integrated CRM systems.

The Former Yugoslav Republic of Macedonia and Serbia have comparatively well-established investment promotion practices. For example, they post publicly available information on investment incentives on their IPA websites, although they have not yet run cost-benefit analyses of their incentives to assess whether they are effective. Both economies also systematically conduct investment promotion campaigns. They also frequently hold follow-up conversations with established investors to collect feedback on ways to further improve the investment environment. In addition, Serbia's SIEPA has a local supplier and foreign investor database to facilitate business linkages. The Former Yugoslav Republic of Macedonia foresees measures to connect and secure co-operation between foreign investors and local SMEs in its Master Plan for Competitiveness.

Albania, too, has made solid progress in developing IPF activities. It runs regular investment promotion campaigns to attract new investors, for example. The number of such events that the Albanian Investment Development Agency (AIDA) has held in recent years rose from 4 in 2010 to 18 in 2014. Furthermore, the Albanian government is drafting legislation to design FDI incentives based on cost-benefit analysis and will ensure information on the incentives is made available to the public. Albania's investor-supplier linkage programmes are making headway, too, and it has already run a linkage pilot programme. Finally, Albania also holds follow-up conversations and meetings with foreign investors as part of its aftercare service, although it does not yet seek feedback on a systematic basis.

Bosnia and Herzegovina and Kosovo, too, follow up investors to gain post-investment feedback as part of their aftercare service provision.

Bosnia and Herzegovina, Kosovo and Montenegro have yet to make certain investment promotion and facilitation activities standard practice. For instance, all three could target investors and conduct investment promotion campaigns on a more regular basis.

Kosovo and Montenegro have taken only their first steps towards linking foreign investors with local supplier and are yet to develop CRM practices. Furthermore, while Montenegro publicises FDI incentive schemes and information on eligibility for such schemes on the website of the Montenegrin Investment Promotion Agency (MIPA), Kosovo is still to establish this practice. Cost-benefit analysis of FDI incentives could be developed further in both economies.

The way forward in investment promotion and facilitation

As SEE economies look to the future, they might consider a number of policy interventions to further strengthen their IPF infrastructure. For instance, Bosnia and Herzegovina and Kosovo could pursue the implementation of their IPF strategies and strengthen IPA resources.

Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo and Montenegro could strengthen support for foreign investors as they attend to investment formalities by reducing the number of administrative ports of call and moving towards a one-stop shop.

Albania and Serbia could further advance implementation of their IPF strategies.

As SEE economies look to the future, they might consider making their investment promotion and facilitation efforts even more effective through a number of measures. For instance, Bosnia and Herzegovina and Kosovo could consider implementing FDI-SME linkage practices to help investors build a local supplier base, from which the domestic economy would also benefit.

SEE economies could take into consideration the joint conclusions of the Council of the European Union, which emphasise the importance of giving SMEs targeted support and improving their access to finance in order to foster economic activity (Council of the European Union, 2014).

Furthermore, Bosnia and Herzegovina, Kosovo and Montenegro could develop more advanced CRM systems so that IPAs optimise their communication and interaction with investors.

Bosnia and Herzegovina, Kosovo and Montenegro could benefit from the recommendations for better investment promotion and facilitation practices outlined in the *OECD Policy Framework for Investment* (2015). Recommendations include:

- undertaking investor targeting activities to identify potential investors with suitable profiles
- tailoring investment incentive schemes
- developing good aftercare and policy advocacy services.

Box 1.2. **CzechInvest, an example of good practice in investment promotion**

Setting up an effective investment promotion agency to promote and facilitate FDI can be an effective tool for increasing investment. In line with that objective, the Czech Ministry of Industry and Trade established in 1992 CzechInvest as the national investment promotion agency.

Since its establishment, CzechInvest has helped to attract new investment projects, especially in selected priority sectors such as the automotive and the aerospace industry, IT, software development and clean technology.

CzechInvest boasts a wide-ranging service provision for attracting FDI and expanding domestic investment. It also promotes inward investment into the Czech Republic through numerous promotion events worldwide. In this context, it also provides potential investors with information on the business climate, investment environment and investment opportunities in the Czech Republic. Furthermore, CzechInvest acts as the single interface for most investment procedures and provides businesses directly with permits required to set up business operations. CzechInvest‘s service portfolio also includes consultations on how to most effectively handle investment procedures and the attribution of investment incentives. Finally, the agency’s investment facilitation strategy also includes aftercare services, business expansion assistance and business linkage practices.

Despite a fall in inward FDI to the Czech Republic in the aftermath of the financial crisis in 2011, CzechInvest successfully mediated investment projects worth USD 1.9 billion. In 2013, the figure rose to USD 2.4 billion for 108 projects.

Given its fine results, CzechInvest regularly serves as a model for the establishment of effective IPAs in Central and Eastern Europe, the Russian Federation and Central Asia.

Source: Ecorys (2013), *Exchange of good practice in Foreign Direct Investment promotion*, www.ec.europa.eu/DocsRoom/documents/4669/attachments/1/translations/en/renditions/native.

In addition, Albania could consider posting FDI incentive eligibility criteria and procedures on AIDA's website so that they may be freely consulted.

Albania could further develop the provision of aftercare services such as follow-up conversations and meetings with investors to gain feedback on the business environment.

The Former Yugoslav Republic of Macedonia could consider further strengthening FDI-SME linkage practices to help investors build local supplier bases with domestic SMEs and further strengthen the domestic economy.

Intellectual Property Rights Sub-Dimension

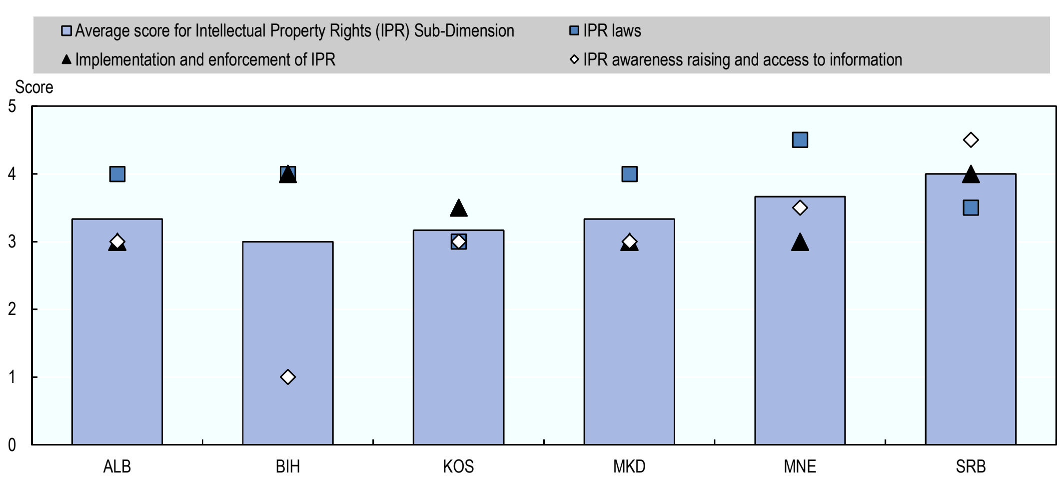
Many foreign investors regard intellectual property rights (IPR) protection as a key requirement for investing in research and development and creating innovative products and processes (OECD, 2015). Good practices in protecting the intellectual property of foreign investors include establishing effective, adequately resourced bodies for intellectual property protection adhering to international IPR conventions and enforcing laws to protect intellectual property (OECD, 2010). Furthermore, for IPR to be effective, economic actors need to be aware of the IPR legislation in place and to know that it is systematically enforced (ibid.).

The Intellectual Property Rights Sub-Dimension includes three qualitative indicators analysing the overall intellectual property rights framework and intellectual property right information access and promotion.

While this chapter focuses on the protection of IPRs, Chapter 4 complements it with a detailed assessment of how IPR legislation is conducive to innovation.

Figure 1.9 shows the SEE economies' scores in the Intellectual Property Rights Sub-Dimension and the indicators that constitute it.

Figure 1.9. **Intellectual Property Rights (IPR): Sub-Dimension average scores and indicator scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933321220

SEE economies fare comparatively well in the field of intellectual property rights (IPR). The average scores point to a fair environment for investors in knowledge-intensive sectors. Generally, SEE economies perform better in IPR protection and enforcement than in IPR awareness raising and access to information (Figure 1.9).

Analysis of IPR reveals a number of good practices, while the potential for improvement persists in areas like raising awareness. With well-established IPR frameworks and monitoring systems in place, Serbia and Montenegro emerge as the regional leaders in the protection and enforcement of intellectual property.

SEE economies have progressed in establishing effective IPR frameworks

An effective IPR framework can determine the willingness of foreign technology holders to invest in a country (OECD, 2015). Factors that contribute to an intellectual property framework conducive to FDI include comprehensive legislation and effective enforcement mechanisms. OECD analysis shows that they are fundamental to investment decisions (OECD, 2010).

The **intellectual property rights laws** indicator gauges whether SEE economies have adopted legislation that affords comprehensive protection to different forms of IPR. This is a critical requirement since extensive IPR legislation gives foreign investors the confidence to share technology, thereby stimulating further innovation in an economy which increases productivity and growth (OECD, 2015).

The **implementation and enforcement of IPR** indicator measures whether an effective IPR enforcement body is up and running. If protection is to be effective, however, legislation must be comprehensive with adequate infrastructure and resources to implement it.

Table 1.7. **Intellectual Property Rights (IPR) Sub-Dimension: Framework indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
IPR laws	4.0	4.0	3.0	4.0	4.5	3.5
Implementation and enforcement of IPR	3.0	4.0	3.5	3.0	3.0	4.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322839

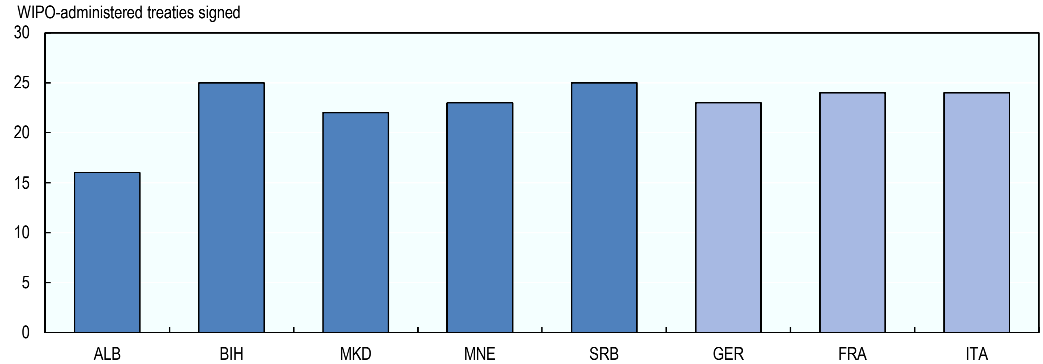
The indicator, number of WIPO-administered treaties signed (Figure 1.10), denotes the number of international IPR agreements to which an economy is a signatory and assesses how much it adheres to international IPR standards. Compliance matters to investors who regard it as a guarantee that their intellectual property is protected.

Finally, the software piracy rates indicator measures the proportion of installed software that is pirated (Figure 1.11). High piracy rates may point to weaknesses in intellectual property protection.

Generally, SEE economies perform well on measures of effective IPR frameworks. A number of significant patterns have emerged across the region.

SEE economies protect various forms of intellectual property, such as patents, trademarks, industrial designs and geographical indications. Furthermore, most have signed a good number of international IPR agreements. However, at twice the average EU rate, software piracy in the region remains an issue.

Figure 1.10. **Number of WIPO-administered treaties signed, 2015**



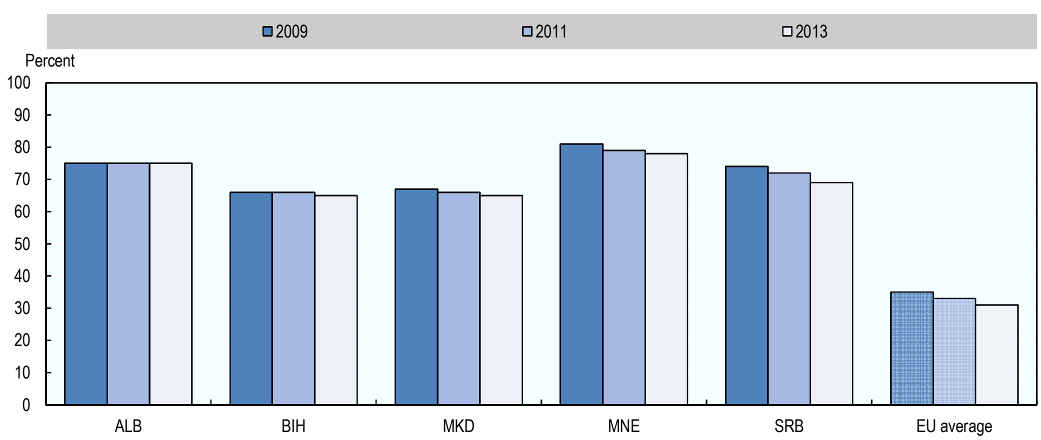
Note: Data for Kosovo not available.

Source: World Intellectual Property Organization (2015), *WIPO-Administered treaties* (webpage), www.wipo.int/treaties/en.

StatLink http://dx.doi.org/10.1787/888933321238

Figure 1.11. **Software piracy rates, 2009, 2011 and 2013**

Percent



Note: Data for Kosovo not available.

Source: BSA (2014), *The compliance gap: BSA global software survey*, http://globalstudy.bsa.org/2013/downloads/studies/2013GlobalSurvey_Study_en.pdf.

StatLink http://dx.doi.org/10.1787/888933321245

Bosnia and Herzegovina, Montenegro and Serbia boast comprehensive IPR legislation that protects various forms of IPR, e.g. patents and trademarks. All three economies are also parties to international agreements, such as the Patent Co-operation Treaty (PCT), the Madrid System for the International Registration of Marks and the Hague Agreement Concerning the International Deposit of Industrial Designs.

Indeed, both Bosnia and Herzegovina and Serbia have signed more international IPR accords than EU member countries such as France, Germany and Italy. Both economies also have well staffed and funded IP enforcement bodies which adjudicate IPR-related disputes. They both monitor the enforcement of their IPR legislation.

Albania, the Former Yugoslav Republic of Macedonia and Kosovo and have made solid progress in establishing and implementing an effective IPR framework. They have, for example, widened the scope of their IPR legislation in recent years.

Albania and the Former Yugoslav Republic of Macedonia are signatories to international IPR agreements, such as the PCT, the Madrid System for the International Registration of Marks and the Hague Agreement Concerning the International Deposit of Industrial Designs. Finally, it has been reported that governments of both economies could increase resources to support their IPR enforcement bodies.

Albania, the Former Yugoslav Republic of Macedonia, Kosovo and Montenegro are still to monitor IPR enforcement.

As SEE economies look to the future, they could consider a number of policy interventions to further strengthen their IPR framework. Albania and the Former Yugoslav Republic of Macedonia could increase their IPR enforcement bodies' resources. Kosovo could consider regularly reviewing and adjusting IPR laws to pre-empt any potential shortcomings. All SEE economies could consider monitoring the enforcement of IPR legislation on a systematic basis to ensure that intellectual property is even better protected.

SEE economies all seek to raise awareness of IPR

If IPR practices are to be effective, economic actors need to know that IPR legislation is in place and that it is systematically enforced. Ways to raise awareness of IPR include dedicated help desks and user-friendly information outlets on protected patents.

The indicator, **IPR awareness raising and access to information**, considers whether a government takes action to raise awareness of IPRs. Action may be, for example, IPR awareness-raising campaigns or capacity-building programmes in processing intellectual property applications.

Table 1.8. **Intellectual Property Rights (IPR) Sub-Dimension: Awareness raising indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
IPR awareness raising and access to information	3.0	1.0	3.0	3.0	3.5	4.5

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink http://dx.doi.org/10.1787/888933322842

SEE economies score comparatively well when it comes to raising awareness of IPR and enhancing access to information. IPR information services are generally operational, most economies carry out awareness-raising measures and governments hold IPR information sessions – on the use of the intellectual property system, for example.

Montenegro and Serbia have comparably well established IPR awareness-raising practices. The Montenegrin Intellectual Property Rights Office, for example, regularly maintains and updates its website to keep the public informed of changes in IPR legislation. Furthermore, Serbia has put in place a dedicated IPR help desk to offer economic actors guidance and answer queries on IPR.

Albania, the Former Yugoslav Republic of Macedonia and Kosovo have made sound progress in their IPR awareness-raising activities and have developed IPR information systems, for example.

However, all three economies are still to establish dedicated IPR help desks to provide guidance to foreign investors and other economic actors.

Bosnia and Herzegovina is yet to make IPR awareness-raising activities standard practice. Despite offering some information on IPR, Bosnia and Herzegovina is still to run IPR awareness-raising campaigns.

As SEE economies look to the future, they might consider a number of policy interventions to further raise awareness of IPRs among economic actors. Bosnia and Herzegovina could further advance the development of an IPR information service, for instance through further developing its structure and organisational format. Albania, the Former Yugoslav Republic of Macedonia and Kosovo could consider setting up dedicated IRP help desks to support economic actors and keep them up to date with IPR legislation.

Box 1.3. **IP Australia, an example of good practice in intellectual property protection**

For many foreign investors, particularly those in knowledge-intensive industries, the protection of intellectual property is a key requirement for investing in a country. If IPR practices are to be effective, investors and businesses need to be aware of the host country's IPR legislation and to know that it is always enforced. To that end, governments set up IPR information services. IP Australia is the Australian government agency administering intellectual property rights and legislation related to patents, trademarks, designs and plant breeder's rights. It is a listed entity within the Australian Department of Industry and Science.

IP Australia undertakes a number of IPR awareness-raising activities, such as processing patent applications, conducting IP hearings and maintaining IP registers. It works with IP offices in Australia and international IP organisations, as well as with business groups, trade associations and government bodies to ensure the effectiveness of Australia's IP system. It holds regular meetings with its national stakeholder groups to raise IPR awareness.

Through its large portfolio of activities, IP Australia provides substantial information on IPRs, contributing to IPR awareness raising across Australia. Through its website, it supplies detailed information on the different kinds of IP that can be filed. IP Australia also provides access to searchable patent, trademark, design and plant breeder's rights databases. It ensures that information is practical, user-friendly and tailored to private sector actors. Finally, IP Australia runs targeted IP programmes for SMEs, exporters, creative industries, the vocational and education sector, and schools.

With its comprehensive set of IPR awareness-raising activities and private sector focus, IP Australia is perceived as one of the most advanced agencies in the field. It substantially contributes to the protection of IPRs in Australia, where IPR protection is among the strongest there is.

Source: IP Australia (n.d.), *IP Australia* (webpage), www.ipaustralia.gov.au.

Conclusions

SEE economies have demonstrated that they are making headway towards a sound, predictable investment framework that is conducive to foreign and domestic investment alike. Indeed, foreign and domestic investors are widely treated on an equal footing and investment procedures are increasingly transparent. SEE economies have also institutionalised a growing number of investment promotion and facilitation practices and instituted measures to protect and enforce intellectual property rights. All economies have, for instance, enacted IPR legislation and ratified international IPR agreements.

Nevertheless, the SEE region's economies still face a number of challenges. They include granting foreign investors greater access to land and, in accordance with the New York and ICSID conventions, advancing the implementation and systematic monitoring of legislation and regulations – for instance with respect to the enforcement of arbitration awards. Further progress in rolling out investment promotion and facilitation practices, such as FDI-SME linkage programmes and one-stop shops would also be beneficial. A final positive move would be to foster awareness of IPRs through more extensive IPR information services – e.g. dedicated help desks to advise economic actors on IPR legislation and provide them with information.

Addressing those challenges would enable the region to build an investment framework that increasingly attracts investors and, in turn, fosters further FDI and domestic investment.

Note

1. A score of 0 denotes minimal policy development while a 5 indicates alignment with good practices. Each level of scoring is updated for the individual indicator under consideration, but they all follow the same score scale: a score of 1 denotes a draft or pilot framework, 2 means the framework has been adopted, 3 that it is operational and that the budget is available accordingly, 4 that some monitoring and adjustment has been carried out, and 5 that monitoring and improvement practices are systematic. For more information, please refer to the methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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