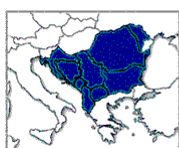


# **INVESTMENT COMPACT FOR SOUTH EAST EUROPE**

## **REPORT OF ACTIVITIES**

**Paris, France**

**April 2007**



# **INVESTMENT COMPACT FOR SOUTH EAST EUROPE**

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## HIGHLIGHTS OF KEY REFORMS IN SEE

South East Europe (SEE) has great potential as an attractive investment location. It neighbours the European Union, one of the world's richest economic areas, and enjoys virtually unrestricted trade access to this vast market. South East Europe also boasts a relatively well-qualified and inexpensive workforce and has a considerable endowment of natural resources, including some of Europe's most beautiful coastal areas.

To what extent have SEE governments leveraged these assets with effective government policies to attract investment and stimulate growth?

According to the Investment Reform Index (IRI) which measures where countries stand in policy reform to improve their investment environment,<sup>1</sup> there is still an important gap between the level of government policies adopted in SEE and the level required to achieve the region's full investment potential.

To be sure, as a region it has made considerable progress in some policy areas. South East Europe now ranks close to Central and Eastern Europe (CEE)<sup>2</sup> in investment policy, trade liberalisation and corporate tax rates. Policy co-ordination within SEE governments has greatly improved: the fact that each of them has been able to co-ordinate between Ministries and deliver on the complex Investment Reform Index self-evaluation process within a short timeframe is a case in point. On the economic front, many achievements can be highlighted. The average GDP growth rate in the region for 2006 was almost 6%,<sup>3</sup> inflation is under control and foreign direct investment (FDI) inflows steadily increased from EUR 4 billion in 2000 to almost EUR 15 billion in 2006.<sup>4</sup> The most recent credit ratings signal greater stability and investor confidence. And SEE now benefits from a real entrepreneurial culture.

However, economic growth and selected policy reforms have not reduced unemployment in the region, which is over 23%<sup>5</sup> in the Western Balkans. The financial infrastructure is still weak, with interest rate spreads in 2005 averaging over 10%.<sup>6</sup> This is almost 30% higher than in CEE and four times as high as in the euro area.<sup>7</sup> FDI inflows continue to depend on privatisation and 90% of inflows are concentrated in only four countries.<sup>8</sup> Trade deficits are high, reflecting the low propensity to export; intra-regional trade and investment are still in the infancy stage.

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1. Dimensions covered by the IRI in 2006 are: Investment Policy, Investment Promotion and Facilitation, Tax Policy, Anti-corruption and Business Integrity, Competition Policy, Trade Policy, Regulatory Reform and Human Capital.
  2. CEE includes the following countries: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia.
  3. Source: EBRD *Transition Report 2006*. Average weighted by GDP. Estimate.
  4. Source: EBRD *Transition Report 2000*; Data for 2006 is a projection.
  5. Source: EBRD *Transition Report 2006*, Average weighted by GDP. Estimate.
  6. Source: EBRD *Transition Report 2006*, Average weighted by GDP; Estimate; Interest rate spread calculated as the difference between the end-year lending and deposit rates.
  7. Source: Eurostat. Interest rate spread calculated as the difference between the MFI lending and deposit rates to non-financial corporations.
  8. Source: EBRD *Transition Report 2006*; those countries are Bulgaria, Croatia, Romania and Serbia. Based on data projections for 2006 and 2005 estimated data for Croatia.

In a number of policy areas, particularly those related to public governance – regulatory governance, anti-corruption, competition – the region’s performance is less impressive. Medium- to long-term strategic areas such as human capital have not received enough attention.

The process of European integration drives the reform agenda throughout the region. It provides a model to follow, with clear targets, timelines and resources. It is also a catalyst for political consensus on reform. EU accession has accelerated the reform process, particularly in Bulgaria and Romania, which lead the region in implementing investment and competition policy. Nevertheless, more can be done in all SEE countries in areas not directly associated with the *acquis communautaire*, such as regulatory governance, investment promotion and human capital.

In this regard, a programme such as the OECD Investment Compact, which draws on the experience of OECD member countries, can provide SEE countries with expertise and support that are complementary to the EU agenda (and that can support efforts to pursue a more comprehensive approach to policy reform).

Reforms in the region are occurring at different rates and are at different stages. Bulgaria, Romania and (to a certain extent) Croatia have completed a first phase of policy elaboration and institutional building and are currently engaged in policy implementation with respect to most of the dimensions covered by this report.

Outside Bulgaria, Croatia and Romania, other SEE countries have demonstrated solid reform in specific areas such as regulatory reform (Moldova, Serbia), trade (Albania, FYR Macedonia, Moldova, Montenegro, Serbia), tax (Montenegro, Serbia) and investment promotion (Serbia).

However, the same countries lag behind in establishing the basic legal and institutional framework for some key dimensions, particularly:

- Anti-corruption: Albania, Bosnia and Herzegovina, Montenegro, Serbia;
- Regulatory reform: Albania, Bosnia and Herzegovina, FYR Macedonia;
- Human capital: Albania, Bosnia and Herzegovina, Moldova, Serbia;
- Competition: Moldova, Montenegro, Serbia.

Policy inconsistencies produce conflicting signals. For example, while SEE countries have significantly reduced tariffs and abolished import and export licenses, they have not yet addressed high non-tariff barriers to trade such as technical, sanitary and phytosanitary standards, accreditation and conformity assessment. In the area of tax policy, despite very competitive corporate tax rates ranging from 9 to 20%,<sup>9</sup> tax administration is still very weak, with high compliance costs, delays in VAT reimbursement and ineffective mechanisms for dispute settlement.

A key priority for SEE countries should be to ensure more policy consistency, and to avoid sending conflicting signals to investors, by establishing a sound mechanism for policy.

The gap between the leading reformers in the region and other SEE countries is widening. Leading reformers in the region – Bulgaria, Croatia, Montenegro, Romania, Serbia – are increasingly distancing themselves from their counterparts. One data point is telling in this respect: Albania, Bosnia and Herzegovina, FYR Macedonia and Moldova still represent only 9% of FDI flows in the region, down from

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9. With the exception of the Federation of Bosnia and Herzegovina, which has a corporate tax rate of 30%.

19% in 2002 and 21% in 2001.<sup>10</sup> This second group of countries should represent the first priority of regional reform efforts and international support, especially as their representation in the region's GDP is 13%, and their aggregated population makes up almost a quarter of the total SEE population. UNMIK/Kosovo – which was not included in the 2006 IRI assessment but will be included in 2007 – should also be associated with these priority countries.

Competition to attract international mobile investment is more intense than ever. Much available capital has already been invested elsewhere, particularly in CEE. A solid and balanced policy and institutional framework, at both the country and regional level, is needed in order to develop a competitive edge, overcome the limitations of small and fragmented markets, and convince investors that the SEE region can be a reliable and competitive location for investment.

Without further reforms, the Western Balkans and Moldova risk being marginalised by competition from both CEE countries (which are increasingly active in the higher-value, more capital and technology intensive sectors) and low-cost, labour-intensive producers, for example in Asia and North Africa.

As SEE countries continue to make progress, they will have to intensify regional co-operation on trade and investment to reduce policy imbalances and create the critical mass needed to attract investors. The adoption of a Regional Framework of Investment in June 2006 and the signing of the new regional Free Trade Agreement (FTA), which was pursued through simultaneous enlargement and amendment of the Central European Free Trade Agreement (CEFTA) on 19 December 2006 in Bucharest, are strong signals of a willingness to step up regional co-operation.

SEE countries also need to reduce their dependence on donors and increase their ownership of the reform agenda. Moreover, the region as a whole needs to communicate its achievements more effectively – internally and externally – in order to benefit fully from its efforts thus far.

The Investment Reform Index can be used by countries and the region as a whole to better communicate and evaluate and then define priorities for improvement to make a real difference to the investment environment.

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10. Source: EBRD *Transition Report 2006*.

## MACRO-ECONOMIC INDICATORS

**Table 1. Real GDP Growth Rate (%) in SEE Countries**

Country	2004	2005 <sup>1</sup>	2006 <sup>2</sup>
Albania	6.7	5.5	5.0
Bosnia and Herzegovina	6.0	5.8	5.0
Bulgaria	5.7	5.5	6.0
Croatia	3.8	4.3	4.6
FYR Macedonia	4.1	4.0	4.0
Moldova	7.3	7.1	3.5
Montenegro	3.7	4.1	5.5
Romania	8.4	4.1	6.5
Serbia	9.3	6.3	6.5
<b>AVERAGE<sup>3</sup></b>	<b>6.9</b>	<b>4.7</b>	<b>5.9</b>

1. Estimate

2. Projection

3. Average weighted by GDP

Source: EBRD Transition Report 2006

**Table 2. FDI Net Inflows (EUR million)**

Country	2000	2001	2002	2003	2004	2005 <sup>1</sup>	2006 <sup>2</sup>
Albania	157	224	135	142	232	212	280
Bosnia and Herzegovina	165	143	266	306	343	240	456
Bulgaria	1 098	883	876	1 656	1 944	1 838	2 400
Croatia	1 187	1 297	586	1 546	610	1 207	n/a
FYR Macedonia	193	485	78	77	109	78	240
Moldova	140	112	132	57	104	180	152
Montenegro	n/a	11	84	35	44	379	119
Romania	1 156	1 269	1 080	1 725	4 458	5 270	6 922
Serbia	28	182	475	1 088	676	1 185	2 800
<b>TOTAL</b>	<b>4 123</b>	<b>4 607</b>	<b>3 712</b>	<b>6 631</b>	<b>8 520</b>	<b>10 589</b>	<b>14 576<sup>3</sup></b>
<b>TOTAL CEE</b>	<b>20 228</b>	<b>18 259</b>	<b>20 518</b>	<b>5 805</b>	<b>14 883</b>	<b>19 266</b>	<b>15 910</b>

1. Estimate

2. Projection

3. Includes 2005 FDI figure for Croatia.

Source: EBRD Transition Report 2006

**Table 3. Available Credit Ratings of SEE Countries**

Country	Fitch			Moody's			Standard & Poor's		
	Rating <sup>1</sup>	Date	Outlook	Rating <sup>2</sup>	Date	Outlook	Rating <sup>4</sup>	Date	Outlook
Albania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bosnia and Herzegovina	n/a	n/a	n/a	Ba3	24-05-06	Stable	n/a	n/a	n/a
Bulgaria	BBB	23-06-06	Stable	A1	24-05-06	Positive	BBB+	26-10-06	Stable
Croatia	BBB-	23-06-06	Stable	A1	24-05-06	Stable	BBB <sup>3</sup>	22-12-04	Stable
FYR Macedonia	BB+	13-06-06	Stable	n/a	n/a	n/a	BB+ <sup>3</sup>	23-08-05	Stable
Moldova	B-	4-04-06	Stable	B3	24-05-06	Stable	n/a	n/a	n/a
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	BB	20-12-04	Positive
Romania	BBB	31-08-06	Stable	A1	06-10-06	Stable	BBB- <sup>3</sup>	06-09-05	Positive
Serbia	BB-	25-04-06	Stable	n/a	n/a	n/a	BB-	18-07-05	Positive

1. Long Term Issuer Default Rating.
2. Country Ceiling for Foreign Currency Bonds – Long Term.
3. Credit rating foreign currency.
4. Credit rating, unless otherwise specified.

Source: Fitch, Moody's, Standard & Poor's.

## INVESTMENT COMPACT ACTIVITIES BY AREA OF FOCUS

### Monitoring and Evaluation

#### *Investment Reform Index*

The Investment Reform Index (IRI) is a tool which SEE countries can use to measure and communicate progress on policy reform to improve the business climate. The IRI, which had a timeframe between November 2005 – September 2006, allows SEE countries to benchmark progress relative to their peers in SEE. It also provides direction on how to make improvements within each policy dimension<sup>11</sup> through adopting OECD good practices. Specifically, the objectives of the IRI are to:

1. Structure evaluation;
2. Target support for improvement;
3. Encourage regional collaboration and peer review;
4. Promote public and private sector involvement.

The 2006 IRI is structured to assist governments in evaluating and improving policies to promote private direct investment. It incorporates the expertise of the OECD, relevant research from other organisations, government self-evaluations and on-the-ground input from local consultants and the private sector. In order to achieve this, numerous country missions, meetings with governments and the private sector, and extensive desk research has been conducted by both the Investment Compact and relevant ministries in the region. Preliminary findings were presented to each of the countries in spring 2006 and to the Country Economic Team Leaders in Rome in May 2006 as well as the Ministerial Meeting in June 2006. The first draft results were sent to the SEE governments for review in August 2006, and the report was finalised, published and officially launched at the Project Team Meeting in November 2006.

#### *Activities conducted over the past six months*

Since the submission of the last Investment Compact Activity Report at the Project Team Meeting held in Paris on 10 November 2006, the IRI has been launched in all of the SEE countries,<sup>12</sup> through country-specific presentations of the results to the governments, the private sector and the media. Furthermore, the finalised IRI report has also been officially presented to donor countries and international organisations. The following is a list of the dates of the presentations:

- ☒ Serbia – 01 December 2006;

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11 . The IRI policy dimensions are: (i) Investment Policy; (ii) Investment Promotion; (iii) Tax Policy; (iv) Anti-corruption and Business Integrity; (v) Competition Policy; (vi) Trade Policy; (vii) Regulatory Reform; and (viii) Human Capital.

12. With the exception of Montenegro, which is planned for 4 April 2007.



- ☒ Moldova – 14 December 2006;
- ☒ Bosnia and Herzegovina – 9 January 2007;
- ☒ Bulgaria – 24 January 2007;
- ☒ Romania – 25 January 2007;
- ☒ FYR Macedonia – 30 January 2007;
- ☒ Croatia – 2 March 2007;
- ☒ European Bank for Reconstruction and Development, United Kingdom. – 28 November 2006;
- ☒ European Commission and Stability Pact for South East Europe, Belgium – 5 December 2006;
- ☒ Slovenia – 29 January 2007;
- ☒ Ireland – 2 February 2007;
- ☒ Italy – 7 February 2007;
- ☒ Austria – 14 March 2007.

*Activities to be conducted in the next six months*

Presentations are also planned to take place in the following countries:

- ☐ Montenegro – 4 April 2007;
- ☐ U.S.A. – May 2007.

***SME Policy Index***

Small enterprises are the backbone of SEE economies. They make a major contribution to job creation and economic development and are behind the expansion of the services, construction and transport sectors that are driving economic growth in the region. The focus of governments has long been on consolidating macro-economic stabilisation and on managing the restructuring and privatisation of large companies; only limited support was available for small enterprises. Over the last two years, however, all SEE governments have introduced active measures to support SMEs. The IRI does not include a specific chapter on SME policy. Instead, evaluation of SME policy has been the object of a separate evaluation process built around the SME Policy Index, which is based on the European Charter for Small Enterprises.<sup>13</sup> The SME Policy

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13. In 2003, all SEE countries endorsed the European Charter for Small Enterprises, the main policy framework for SME development elaborated by the European Union. In parallel, they actively promoted entrepreneurship and innovative SMEs through the Bologna Process, co-ordinated by the OECD. During this first phase, the IC supported the endorsement process by providing an independent assessment of SME policies through the development of the Enterprise Policy Performance Assessment (EPPA). At the end of 2005, the SEE countries launched a second phase (2006-08) of the European Charter process and agreed to adopt the SME Policy Index as a common tool to measure and communicate progress on the ten action lines of the European Charter for Small Enterprises.

Index allows countries and entities to benchmark their progress relative to peers in the region and provides directions on how to make improvements in each dimension. The objectives of the SME Policy Index are to:

1. Measure SME policy development using the European Charter for Small Enterprise framework, on the basis of inputs from government, private sector and SME policy experts;
2. Allow a comparative independent evaluation of progress on policy implementation on the same set of policy dimensions included in the European Charter for Small Enterprise, across the SEE countries and with reference to good practices;
3. Support SEE countries in setting targets on SME policy development that are measurable, comparable, relevant and consistent with the European Charter for Small Enterprise policy framework;
4. Promote exchange of experiences and cross-country policy evaluation among the SEE countries and the donor countries.

3.1 In order to develop the SME Policy Index, the Investment Compact finalised the SME policy toolkit and conducted technical meetings with the four partner organisations (EC, OECD, ETF, EBRD) and the National Charter Co-ordinators in the countries in spring of 2006. Western Balkan countries/entities then conducted self-evaluations, structured in a national report corresponding to the ten Charter dimensions, culminating with bilateral meetings in the capitals of all Western Balkan countries/entities with key SME policy stakeholders. Building off of these self-evaluations, the partner organisations as well as independent consultants (Eurecna) conducted counter assessments through desk research, local consultants and structured interviews.

#### *Activities conducted over the past six months*

Since the submission of the last Investment Compact Activity Report at the Project Team Meeting held in Paris on 10 November 2006, the following SME Policy Index activities have been conducted:

- ☒ A regional meeting was held to present the counter assessment to the national SME co-ordinators and gather comments in Belgrade on 17 November 2006;
- ☒ A final opportunity was given to countries to comment on the preliminary scoring given by the four partner organisations, with the final deadline of submission January 2007;
- ☒ The final decision on the scores was taken by the partner organisations by January 2007;
- ☒ The Charter Report was finalised and published by end March 2007 and was launched in Dubrovnik, Croatia on 26-27 March 2007.

#### *Activities to be conducted in the next six months*

The following activities related to the SME Policy Index will be conducted in the next six months:

- ☐ Launching events of the report will take place in Brussels and Paris in April 2007 and the report will be presented at the annual European Charter for Small Enterprise meeting in Berlin in June 2006;

- ☐ Three peer reviews will be conducted in May 2007 based on the findings on the Charter Report. The peer reviews will consist of examining one sub-dimension of the Charter in more detail in three countries. The sub-dimensions and the countries of the peer review were decided during the regional meeting in Dubrovnik on March 26/27 2007;
- ☐ A second phase of the evaluation process will start in September 2007. It will include company surveys and focus groups in order to support and complement the findings of the SME Charter Report with first hand data from the private sector;
- ☐ All final financial and content reporting requirements will be completed.

## **Support in Implementation**

### ***FDI Moldova Project (Supported by the Swiss Government)***

During 2006, the IC worked on implementing the FDI Moldova Project. This project is aimed at supporting Moldova with the objectives to:

- Draft and promote an FDI and Export Promotion Strategy;
- Implement actions to attract foreign investments to Moldova and promote Moldovan investors abroad.

The Project is currently in its second phase aimed at implementing concrete actions to attract foreign investment and promote Moldovan investors abroad. The implementation phase will be developed during the entire year of 2007 with the direct support and co-operation of the Moldovan Government and the Moldovan Investment and Export Promotion Agency. This phase will focus on building an FDI database, launching foreign investors' events, defining and establishing an SME linkage programme and conducting a skills gap assessment.

### ***Activities conducted over the past six months***

Since the submission of the last OECD Investment Compact Activity Report at the Project Team Meeting on 10 November 2006 in Paris, the following activities related to the FDI Moldova Project have been conducted:

- ☒ The Investment Compact presented a first version of the FDI database to the Moldovan Export Promotion Agency. MEPO representatives together with IC representatives restructured the first version in order to reflect input from MEPO and the Ministry of Economy. The Investment Compact also identified potential partners to be involved in this activity (TACIS project to support MEPO and MIDA based in Chisinau) and co-operation contacts have been initiated;
- ☒ Dates of the missions were modified upon request from the Moldovan Government; the main purpose of this action was related to the events schedule that the Moldovan Government already has for 2007. Final approval from the Moldovan Export Promotion Agency on the agenda of the investors' missions was received in March 2007;
- ☒ The Investment Compact interviewed candidates for the skill gaps assessment. The draft questionnaire is to be elaborated after initial approval is received from MEPO on the activities content.

#### *Activities to be conducted in the next six months*

The following activities related to the FDI Moldova Project will be undertaken in the next six months:

- ☐ Investors' missions: two investors' mission will be undertaken – one to Switzerland in June 2007 and another to France in September 2007. The mission to Switzerland will be organized with the support of the Swiss Organization for Facilitating Investment;
- ☐ FDI database: and FDI database will be created following the agreed template with the Moldovan Government. During the summer of 2007, the Investment Compact together with the Moldovan Export Promotion Agency will finalize the format of the database that will be launched by September 2007;
- ☐ Skills gaps analysis will be conducted through interviews with private sector representatives and Moldovan universities before end-September 2007;
- ☐ Linkage programme with SMEs: pilot programme in remote business services will be launched before end-2007.

#### ***SEESat Project (Supported by the EC)***

Many countries in SEE lack mechanisms to evaluate the impact that investment policies have had on the economy, both limiting their ability to distinguish the most successful policies as well as being able to demonstrate the positive effects of policies to the public. To improve the situation, the OECD Investment Compact has implemented an EC CARDS funded project with the following objectives to:

- Provide a methodological framework for the systematic and comprehensive collection of FDI data based on international standards;
- Improve the ability of policy-makers to evaluate the impact of FDI on a number of key economic variables (e.g. employment, tax revenues, trade, etc.), thus improving countries' ability to target and evaluate policy-making;
- Provide an opportunity for an exchange of experiences between government and bilateral and multilateral organisations operating in the SEE region over a wide spectrum of policy issues, increasing the scope for donor co-operation and co-ordination.

To meet the first objective, the project was supported by the OECD Investment Division in the Directorate for Financial and Enterprise Affairs to prepare a thorough analysis of the quality of compilation and dissemination methodology of FDI statistics gathered for balance of payments purposes. The SEE countries have filled out the Survey on the Implementation of Methodological Standards for Direct Investment (SIMSDI), which is a standardised survey used to assess the quality of FDI statistics according to IMF/OECD standards for all OECD member countries and numerous IMF member countries. The SIMSDI was introduced to representatives of the SEE central banks and offices of statistics on 8 June 2006 at a workshop in Istanbul, Turkey, and the survey was completed by the participants in September 2006.

The second objective has been met by commissioning two case study impact evaluations and an introductory guide on conducting impact evaluations from the Vienna Institute of International Economic Studies (wiiw). The two case studies, entitled *The Role of Foreign Direct Investment in the Croatian Economy* and *The Impact of Foreign Direct Investment on the Restructuring of the Metal Processing Industry in Bosnia and Herzegovina*, were created to provide countries with examples of FDI impact

evaluations useful for policy-making. Earlier drafts of these two studies as well as the introductory guide were presented on 30 October 2006 in Zagreb, Croatia, at the SEEStat workshop on 'Evaluating the Impact of Foreign Direct Investment in the Western Balkans – Case Studies and Practical Tools.

*Activities conducted over the past six months*

- ☒ The third workshop in the project entitled 'South East European Investment Opportunities in the Global Offshoring Market' was held in Prague, Czech Republic in conjunction with CzechInvest on 12-13 December 2006. The aim of the workshop was to turn better policy analysis into future better policy-making. It was attended by representatives from the SEE ministries of economy and investment promotion agencies;
- ☒ The study entitled *The Impact of Foreign Direct Investment on the Restructuring of the Metal Processing Industry in Bosnia and Herzegovina* was formerly presented to the Government of Bosnia and Herzegovina at the Economic Policy Research Unit conference on 'Economic Monitoring, Foreign Trade, FDI and Enterprise Competitiveness' on 9 January 2007 in Sarajevo, Bosnia and Herzegovina;
- ☒ The SEEStat project policy findings and recommendations were presented to the heads and deputy heads of the Western Balkan investment promotion agencies on 28 February 2007 in Tirana, Albania;
- ☒ The introductory guide on how to conduct an FDI impact evaluation has been finalised and placed on the OECD Investment Compact web site;
- ☒ The study entitled *The Role of Foreign Direct Investment in the Croatian Economy* has been finalised for publication and placed on the OECD Investment Compact web site;
- ☒ The study entitled *The Impact of Foreign Direct Investment on the Restructuring of the Metal Processing Industry in Bosnia and Herzegovina* has been finalised for publication and placed on the OECD Investment Compact web site.

*Activities to be conducted in the next six months*

- ☐ The study entitled *How South East European Countries' Statistics Measure FDI* which details the findings of the SIMSDI will be finalised for publication and placed on the OECD Investment Compact web site by end April 2007;
- ☐ All final financial and content reporting requirements will be completed by July 2007.

***TIPA Project***

The OECD Investment Compact, in conjunction with the World Bank Invest in the Western Balkans Programme (IIWB) and supported by the EC CARDS Programme, is embarking on a new project, Targeting Investment Promotion Activities in the Western Balkans (TIPA). TIPA aims to promote FDI and foster economic growth and political stability in the Western Balkans specifically with the objectives to:

1. Identify, prioritise and determine market dynamics and establish key success factors in 4-6 sectors of the Western Balkans.
2. Contribute to the systematic reduction of region-wide, industry-specific barriers that hamper trade and investment both intra-regionally and with other European states.

To achieve the first objective, a thorough evaluation of industries within the Western Balkans will take place to determine which are most competitive at the regional level, taking into account government priorities and the strengths and weaknesses of each country. The end result will be an investment promotion agenda for the entire Western Balkans, to be endorsed by the individual countries. The second objective, to begin in approximately six months time, will involve formulating individual projects to address barriers to investment in the identified sectors, e.g. improving VAT reimbursement mechanisms for export-oriented sectors.

*Activities conducted over the past six months*

- ☒ Presentation of the general outline of the project at the third SEESat workshop entitled 'South East European Investment Opportunities in the Global Offshoring Market', held in Prague, Czech Republic on 12-13 December 2006. The presentation was followed by questions, answers and inputs from the participants about the project;
- ☒ Preliminary presentation of the methodology of the project at the OECD/IIBW workshop held in Tirana, Albania on 28 February 2007. The presentation was debated by the participants of the workshop, and inputs were received and incorporated into the project.

*Activities to be conducted in the next six months*

The following activities related to the TIPA Project will be undertaken in the next six months (as soon as the contract with the EC is signed):

- ☐ The OECD Investment Compact will finalise a methodology for identifying region-wide priority sectors for the regional investment promotion agenda;
- ☐ A company survey will be conducted to gather data to complete analysis of each of the identified priority sectors;
- ☐ A regional investment promotion agenda will be defined to be presented at the next SEE Investment Committee.

**Private Sector Support**

The OECD Investment Compact actively engages the participation and opinions of its partners from the private sector, including the Business Advisory Council to the Stability Pact (BAC) and the Foreign Investors Councils (FIC). Furthermore, it has elicited high private sector input on IC activities through interviews, participation in public/private review of preliminary IRI and SME Policy Index results and input and participation in the business session of the Ministerial.

The objectives of the OECD Investment Compact in encouraging private sector support are to:

1. Contribute to measuring progress on the monitoring and evaluation activities of the OECD Investment Compact (e.g. Investment Reform Index and the SME Policy Index);
2. Give opinions on policy reform issues through dialogue with governments;
3. Share best practices with SEE countries.

### *Activities conducted over the past six months*

Since the last Project Team Meeting, the following activities have been conducted to encourage private sector involvement in defining and implementing policy to improve the business environment:

- ☒ The PTM on 2 November in Paris brought together numerous representatives from SEE countries as well as representatives from international organisations, donor countries and the private sector. At the PTM, the OECD Investment Compact presented the final results of the Investment Reform Index process; focused on the SEE governments' policy priorities in 2006; and the countries of the region further endorsed the Regional Framework for Investment in South East Europe;
- ☒ The OECD Investment Compact attended two BAC meetings in December 2006 in Zagreb, Croatia and in March 2007 in Skopje, FYR Macedonia;
- ☒ The OECD Investment Compact conducted missions to each SEE country (with the exception of Montenegro, to take place on 4 April) to present the final results of the Investment Reform Index 2006 process. Each presentation included an element to explain country-specific results to both policy-makers and representatives from the private sector as well as a press conference. For a detailed list of the dates and places of the country missions, please see section on the Investment Reform Index;
- ☒ A regional meeting was held in Belgrade, Serbia to discuss the preliminary results of the SME Policy Index and gather comments from both governments and the private sector, and then the final SME Policy Index was presented to representatives from governments and the private sector at a conference in Dubrovnik, Croatia on March 26-27, where the SME Policy Index findings and policy areas for reform were endorsed.

### *Activities to be conducted in the next six months*

The following activities related to private sector support will be undertaken in the next six months:

- ☐ The next PTM will be held on 2 April in Paris bringing together representatives from the governments and the private sector. The PTM will be the first opportunity to present the new SEE Investment Committee and definition of Working Groups including objectives, deliverables, participants and timetable by the OECD Investment Compact. At the PTM, the next round of the Investment Reform Index, the 'How to implement' concept, will be elaborated and presented to the participants as well as the final results of the SME Policy Index;
- ☐ The next Ministerial meeting will also involve a 'Business Day' and 'Investor of the Year Awards' on 7 June 2007. These two activities will bring together the private sector with government representatives to build the regional and country image and awareness within the international business community and promote FDI as a means to boost sustainable economic development and growth.

## **Political Support**

The OECD Investment Compact ensures political support for its initiatives by holding bi-annual Project Team Meetings which bring together key policy-makers in the region from the ministries of economy and the investment promotion agencies to discuss the work plan of the Investment Compact. The Investment Compact also holds annual Ministerial meetings to encourage top-level political support and regional ownership of SEE countries in the reform process and Investment Compact activities. Further

political support is harnessed via regular country missions to the region to discuss Investment Compact work activities and identified priority areas of reform.

The general objectives of Project Team Meetings, Ministerial meetings, country missions and other activities to gain political support are to:

1. Encourage consensus on OECD Investment Compact activities;
2. Discuss policy recommendations and findings from Investment Compact evaluations;
3. Promote regional co-operation in the implementation of reforms;
4. Garner political commitment from relevant policy-makers to implement reforms.

*Activities conducted over the past six months*

Since the last Project Team Meeting, the following activities have been conducted to encourage further political support of the OECD Investment Compact:

- ☒ The PTM on 2 November in Paris brought together numerous representatives from SEE countries as well as representatives from international organisations, donor countries and the private sector. At the PTM, the OECD Investment Compact presented the final results of the Investment Reform Index process; focused on the SEE governments' policy priorities in 2006; and the countries of the region further endorsed the Regional Framework for Investment in South East Europe;
- ☒ The OECD Investment Compact conducted missions to each SEE country (with the exception of Montenegro, to take place on 4 April) to present the final results of the Investment Reform Index 2006 process. Each presentation included an element to explain country-specific results to key policy-makers as well as a press conference. For a detailed list of the dates and places of the country missions, please see section on the Investment Reform Index;
- ☒ A regional meeting was held in Belgrade, Serbia to discuss the preliminary results of the SME Policy Index and gather comments from both governments and the private sector, and then the final SME Policy Index was presented to representatives from governments and the private sector at a conference in Dubrovnik, Croatia on March 26-27, where the SME Policy Index findings and policy areas for reform were endorsed;
- ☒ A final meeting of the SEESat project was held on 28 February in Tirana, Albania to discuss the final results of the project with representatives from the investment promotion agencies and discuss priority areas for reform.

*Activities to be conducted in the next six months*

The following activities related to political support will be undertaken in the next six months:

- ☐ The next PTM will be held on 2 April in Paris. The PTM will be the first opportunity to present the new SEE Investment Committee and definition of Working Groups including objectives, deliverables, participants and timetable by the OECD Investment Compact to key policy-makers of the region. At the PTM, the next round of the Investment Reform Index, the 'How to implement' concept, will be elaborated and presented to the participants as well as the final results of the SME Policy Index;



- The next annual Ministerial meeting will be held on 5 and 6 July in Belgrade, Serbia. It will involve high-level political support for and regional ownership of the new SEE Investment Committee and the IRI 'How to implement' initiative of the Investment Compact. It will also involve a call for reforms in such areas as infrastructure, human capital, worker and student mobility, property ownership and registration, anti-corruption, investment policy and promotion, trade, competition and regulatory reform.