

**INVESTMENT COMPACT
FOR SOUTH EAST EUROPE**

DESIGNING THE FUTURE

**MAKING INVESTMENT HAPPEN
FOR EMPLOYMENT AND GROWTH
IN SOUTH EAST EUROPE**



“Thanks to the commitment and hard work of all its participants, the Investment Compact for South East Europe has played an important role in strengthening economic growth and job creation in this dynamic region. The programme has promoted investment, both foreign and domestic, through supporting policy reforms in key areas, launching a productive dialogue between the private and public sectors, and expanding regional cooperation. The Investment Compact has also served as a model for OECD programmes in other parts of the world.”

Richard Hecklinger, Deputy Secretary General, OECD

The Organisation for Economic Co-operation and Development (OECD), founded in 1961, provides governments with a setting in which to discuss, develop and perfect economic and social policy. The OECD Convention states that the Organisation shall promote policies designed to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy; to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations (www.oecd.org).

The Stability Pact for South Eastern Europe is a political declaration and a framework agreement adopted in June 1999 to encourage and strengthen co-operation among the SEE Countries and to facilitate, co-ordinate and streamline efforts to ensure political stability, social development and economic growth in the SEE Region (www.stabilitypact.org).

WHAT IS THE INVESTMENT COMPACT?

Investment Compact for South East Europe (South East Europe Compact for Reform, Investment, Integrity and Growth) is a leading programme designed to improve the investment climate and encourage private sector development in South East Europe (SEE).

Under the Stability Pact for South Eastern Europe (Working Table II on Economic Reconstruction, Development and Co-operation) and the OECD (Directorate for Financial and Enterprise Affairs), the programme has its own institutional structure including

a Project Team and an Annual Ministerial Conference.

The Investment Compact supports SEE with practical tools to increase investment, growth and employment and support the EU integration process.

The programme focuses on four areas:

- **Evaluation and monitoring of progress** in investment reform, including concrete case studies of how to improve;
- **Support in implementation of investment reform** through coaching and peer review;
- **Support in structuring the dialogue** between public and private sector through the Regional Network of Foreign Investors Councils (www.regionalfic.org) and the Regional White Book;
- **Political support** through an Annual Ministerial Conference focused on a specific theme of investment reform.

ALBANIA



BOSNIA AND
HERZEGOVINA



BULGARIA



CROATIA



FYR of
MACEDONIA



MOLDOVA



ROMANIA



SERBIA and
MONTENEGRO



Progress in the SEE region over the last 5 years

- FDI has steadily increased since 2002 and reached €8 billion in 2005.
- Major privatisations have taken place in all countries.
- Structured regional dialogue takes place between the public and private sector.
- SEE countries have advanced in national treatment standards.
- Bilateral agreements signed for trade, mutual promotion and protection of investments and for avoidance of double taxation.
- Bulgaria and Romania are set to join the European Union in 2007, with Croatia and other SEE countries moving to closer integration.

INVESTMENT COMPACT IMPACT

ON THE SEE REGION

BENEFIT	EXAMPLES
Increased FDI	<p>Direct impact: Investor missions and business-to-business contacts in OECD countries that translate into deals</p> <p>Indirect impact: Incorporated OECD guidelines in drafting key laws linked to investment, in particular national treatment (Romania is an adherent to the OECD Investment Instruments)</p>
Support regional leadership and ownership	<p>Regional Co-Chairmanship of the Investment Compact by Romania in 2003/2004 and Bulgaria in 2005</p> <p>SEE Investment Forum chaired by Romania in 2003/2004 and Bosnia and Herzegovina in 2005</p> <p>SEE Enterprise Forum chaired by Albania since 2005</p>
Public – private dialogue	<p>Country Enterprise Policy Performance Assessments (EPPA) and Regional EPPA which measure private sector perception of progress in reform of local investment environment</p> <p>Setting up of national Foreign Investor Councils</p> <p>Support in structuring debate with SEE governments through Regional White Book</p>
Regional cooperation and joint action	<p>Annual Ministerial Conferences in 2002 – 2005</p> <p>SEE Investment and Enterprise Forums</p> <p>Peer reviews in tax, SME policies</p> <p>Network of SEE Competition Authorities</p>
Improved image	<p>Investor of the year awards (2003, 2004, 2005)</p> <p>Regional investment promotion events</p>

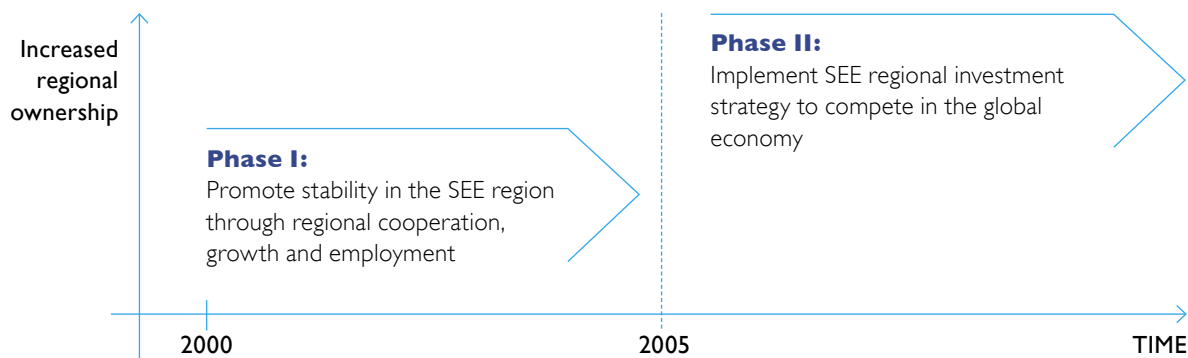
“The Investment Compact reached an agreement for a common policy framework for reforms in South East Europe. Working in close co-operation and building on a real partnership through trade and investment, we have the chance of making South East Europe an integrated part of modern Europe.”

*Rumen Ovcharov,
Bulgarian Minister
of Economy and Energy*

“We see the role of Investment Compact as very important, since there is a great need to communicate the FDI successes of the whole SEE region. The Investment Compact has been a good partner, in a joint effort to get Serbia on the investment map.”

*Jasna Matic,
Director of the Serbian
Investment and Export
Promotion Agency*

VISION: TOWARDS A REGIONAL INVESTMENT STRATEGY



Monitoring and evaluation

- Monitoring of top reform priorities through bottom-up setting of targets by each SEE country (Monitoring Instruments)

- Comparative evaluation of investment reform in each SEE country with the Investment Reform Index

Implementation support

- Analysis and peer review to support progress on key areas of policy reform including national treatment, competition law, corporate governance, investment policy and promotion, tax and corruption

- Support implementation of reform through regional peer review and training and country-specific initiatives to support design and implementation of FDI and SME strategies

Private sector support

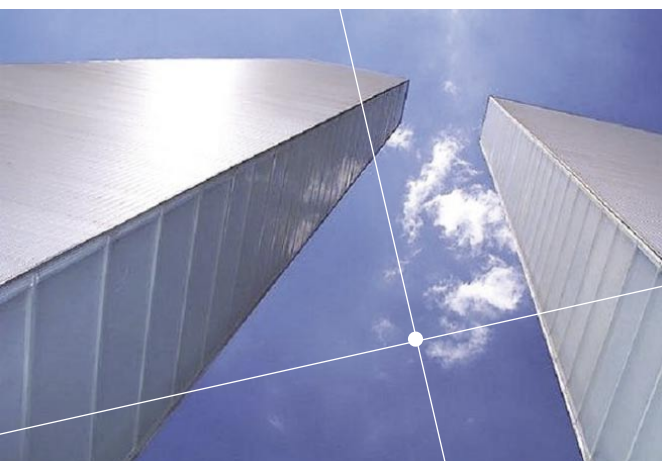
- Support private sector by setting up new Foreign Investors Councils (FIC) in specific countries (e.g., Moldova)

- Support private sector by helping to structure the public-private debate and organising country "reality check" sessions

Political support

- Political support through an annual Ministerial Conference focused on a specific theme of investment reform

- Political support through both an annual Ministerial Conference and a programme to improve the Parliamentary process

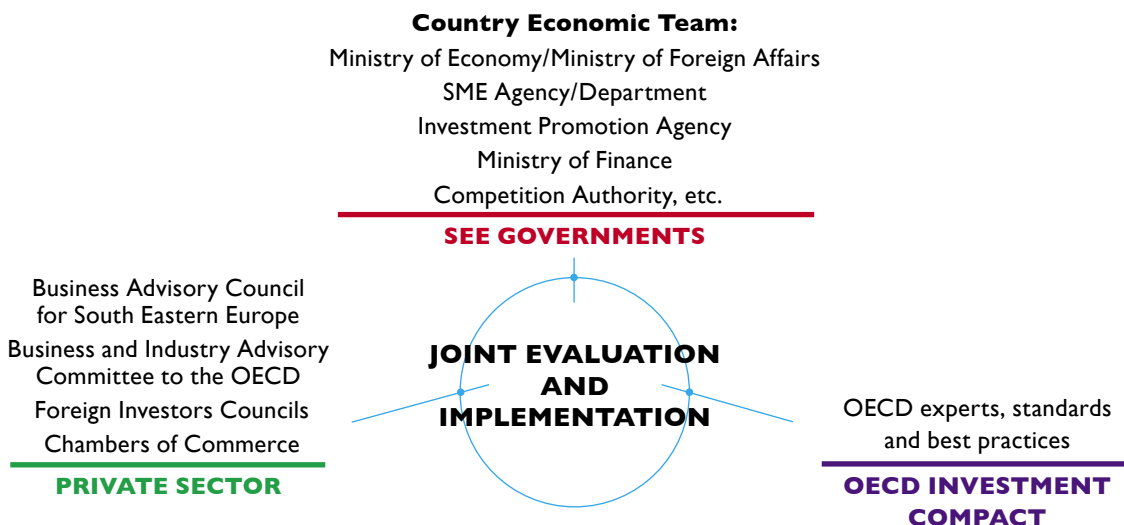


"The Foreign Investors Council (FIC) of Romania was established in 1997. Today, its Members represent almost 80% of the total FDI since 1990. Over the years, the FIC earned the respect of the Romanian government and international institutions as an important partner to improve the business environment for both domestic and foreign investors alike. By working with the OECD Investment Compact in Romania and in South East Europe, the FIC contributes to progress in the region through the sharing of its best practices and transfer of know-how in the lobbying process."

Gilbert Wood,
President of the Foreign Investors Council , Romania

HOW THE INVESTMENT COMPACT WORKS

A TRIPARTITE STRUCTURE OF CONSULTATION:
SEE GOVERNMENTS – PRIVATE SECTOR – OECD INVESTMENT COMPACT



SEE GOVERNMENTS

Role and responsibilities:

- Assume the lead role in investment policy making;
- Propose annual policy targets and actions taking into account input from the private sector and the OECD;
- Provide political support;
- Share best practices with other countries.

PRIVATE SECTOR

Role and responsibilities:

- Contributes to measuring progress on investment policy framework;
- Gives opinions on policy reform issues through dialogue with governments;
- Shares best practices with SEE countries.

OECD INVESTMENT COMPACT

Role and responsibilities:

- Provides OECD expertise, standards and best practices;
- Evaluates and monitors progress in investment reform;
- Supports implementation of investment reform through coaching and peer review;
- Fosters the dialogue between public and private sector;
- Ensures political support through an Annual Ministerial Conference.



Progressively building the blocks of regional ownership

Since 2000 the region has made significant steps towards regional ownership:

- *Regional Co-Chairmanship of the Investment Compact by Romania in 2003/2004 and Bulgaria in 2005.*
- *SEE Investment Forum chaired by Romania in 2003/2004 and Bosnia and Herzegovina in 2005.*
- *SEE Enterprise Forum chaired by Albania since 2005.*
- *Regional Network of Foreign Investors Councils with a Secretariat based in Serbia since 2004.*
- *Ministerial Conference of 2005 which took place in an SEE country for the first time (Bulgaria).*
- *Local OECD Investment Compact offices in Bulgaria, Romania, Serbia and Montenegro.*

“The improvement of the business environment is a major priority for the Romanian Government. In the perspective of the Romanian accession to the European Union, the Romanian Government is constantly working on creating a more attractive framework for investment in order to ensure an increased presence of foreign investors in our country.

During the last four years the co-operation with the OECD Investment Compact allowed Romania not only to build a better regional presence, but also to start sharing best practice with other countries in the region.”

*Gheorghe Copos,
Romanian Vice-Prime Minister
in charge of co-ordinating
the activities in the field of business
environment, investments and SMEs*



“Foreign Investment Promotion Agency of Bosnia and Herzegovina has been active in the Investment Compact’s activities since its establishment, which enabled us to show significant progress of business environment in Bosnia and Herzegovina to potential investors and international financial institutions.

FIPA’s current chairmanship of the SEE INVESTMENT FORUM is a sign of our readiness to assume a lead role in the creation of a single regional investment promotion strategy for the SEE region.”

*Slavica Korica, Deputy Director,
Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA)*

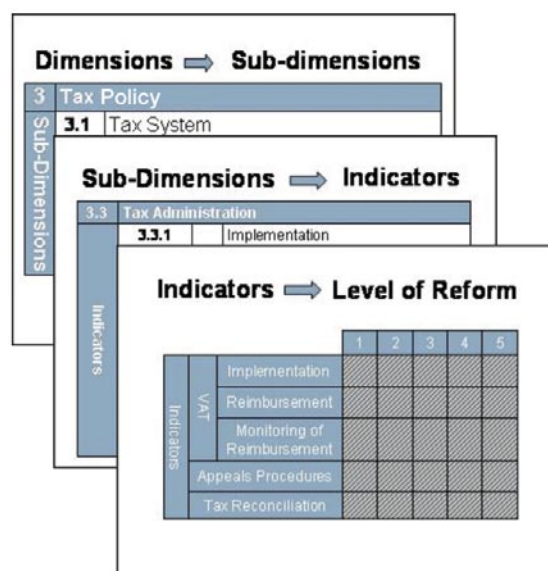
DIMENSION	DESCRIPTION
1. Investment Policy	<ul style="list-style-type: none"> ■ Set of laws and regulations that focus on issues such as: <ul style="list-style-type: none"> -Property and contractual rights, including intellectual property rights. -The equal treatment of foreign and national firms (e.g. national treatment of foreign firms). -Removing administrative obstacles to investment. -Cost-benefit assessment of investment incentives.
2. Investment Promotion	<ul style="list-style-type: none"> ■ Institutions, strategy and policy to promote the investment environment to existing and potential investors. ■ Cornerstone of investment promotion is typically a well-funded investment promotion agency and a streamlined procedure to facilitate investment.
3. Tax Policy	<ul style="list-style-type: none"> ■ Framework, institutions, laws and strategies that impact investment decisions. ■ Specific areas of focus include: <ul style="list-style-type: none"> -Corporate tax regime -Tax administration -International tax treaties and standards -Transparency of regulations
4. Anti-corruption Policy	<ul style="list-style-type: none"> ■ Laws and institutions to reduce corruption at the national and local level. ■ Specific programs address: <ul style="list-style-type: none"> -Conflict of interest -Training of customs and tax officials -Training of judges
5. Competition Policy	<ul style="list-style-type: none"> ■ Set of laws and institutions (e.g. competition law and competition authority) that promote competition and prevent firms from gaining excessive market share and abusing market power. ■ Effective competition policy encourages investment and economic development by reducing barriers to entry. ■ It also increases consumer welfare, encourages innovation and enhances economic efficiency.

DIMENSION	DESCRIPTION
6. Trade Policy	<ul style="list-style-type: none"> ■ Laws, policies and procedures relating to trade of goods and services. ■ Cornerstone is typically an export promotion agency or equivalent and regional or bilateral trade agreements (e.g. creating a free trade area in SEE).
7. SME Support	<ul style="list-style-type: none"> ■ Government strategy, policy and institutions to support the creation, development and growth of small and medium-sized enterprises. ■ Key areas of focus include: <ul style="list-style-type: none"> -Business incubation -Women's entrepreneurship -Access to finance -SME links to FDI -Structure and program of SME agency
8. Public Administration	<ul style="list-style-type: none"> ■ How laws and public policies are designed and enforced. ■ Includes: <ul style="list-style-type: none"> -Policy elaboration mechanism -Regulatory strategy -Regulatory oversight body -Public/private consultation
9. Financial Institutions and Infrastructure	<ul style="list-style-type: none"> ■ Laws and institutions that structure financial markets in particular with respect to privatisation and competition (collateral requirements, credit risk assessment, registry of cadastres, access to credit). ■ Legal and regulatory framework allowing private sector participation in infrastructure projects (energy, telecommunications, transport, municipal services).
10. Human Capital	<ul style="list-style-type: none"> ■ Consists of four main components: <ul style="list-style-type: none"> -Educational attainment -Workforce skills -Population health -Labour market policy and regulation ■ Human resource development is a critical component to building an attractive investment environment, in particular in developing regions such as SEE.

MEASURING PROGRESS WITH THE INVESTMENT REFORM INDEX

Consistent with the Investment Policy Framework of the OECD Directorate for Financial and Enterprise Affairs, the **Investment Reform Index (IRI)** measures regional progress in investment reform along 10 key dimensions.

INVESTMENT POLICY	
INVESTMENT PROMOTION	1
TAX POLICY	2
ANTI-CORRUPTION POLICY	3
COMPETITION POLICY	4
TRADE POLICY	5
SME SUPPORT	6
PUBLIC ADMINISTRATION	7
FINANCIAL INSTITUTIONS AND INFRASTRUCTURE	8
HUMAN CAPITAL	9
	10



What is different about the Investment Reform Index:

- **Comprehensive** evaluation of the investment environment structured along 10 key dimensions in line with OECD standards.
- **Tripartite participatory approach** to evaluation and measurement including government, private sector, OECD.
- **Practical tool** for governments to define priorities for reform.
- **Living Index** through the Investment Compact website that will include an interactive space where individuals and experts can comment on particular aspects of the review.

“In 2001, the OECD was instrumental in helping us set up the Foreign Investors Council in Serbia. The FIC now has 120 members, have produced 3 annual white books on government priorities for reform and this year organized a first «Reality Check» session with top government policy makers. The purpose of the «Reality Check» was to follow up on issues identified in the White Book 2005.”

*Mike Ahern,
President of the Foreign Investors Council,
Serbia and Montenegro*

IMPLEMENTATION SUPPORT

IS BASED ON EVALUATION AND INVOLVES BOTH REGIONAL AND COUNTRY INITIATIVES

SUPPORT IN IMPLEMENTATION

SUPPORT AT REGIONAL LEVEL

- **Peer Review:** systematic examination and performance assessment in order to help the SEE countries improve policy making, adopt best practices, and comply with established standards and principles.
- **Coaching/training sessions** for SEE government officials that combine theory with practical advice in implementation of key dimensions of the regional investment framework.
- **Sector-specific regional investment promotion** through investor missions and business-to-business contacts.

SPECIFIC COUNTRY SUPPORT

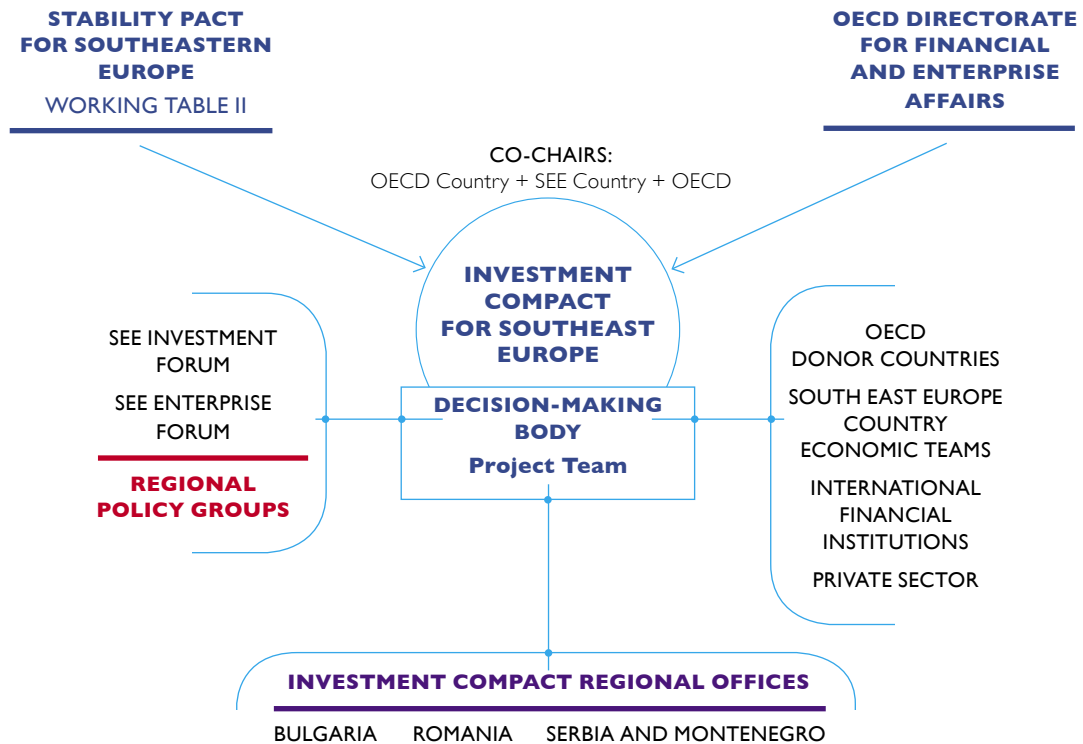
- **Country Investment Policy Assessment (CIPA):** Detailed assessment and policy recommendations pertaining to the Investment Compact's two main foci: FDI Policy and Promotion and Enterprise and SME Development.
- **Country Investment Policy Implementation (CIPI):** Detailed action plan and implementation coaching centered around Enterprise and SME Development and FDI Policy and Promotion.



"The Investment Compact has done a very good work in promoting greater regional cooperation on investment issues, in reshaping the investment promotion approach in Albania and SEE region, and in fostering direct contacts with potential investors from OECD countries."

*Estela Dashi,
Director of the Albanian Investment Promotion Agency
(ANIH)*

STRUCTURE AND ORGANISATION OF THE INVESTMENT COMPACT



SEE INVESTMENT FORUM is a partnership of national organisations active in the field of investment promotion in SEE, including investment promotion agencies, government ministries, private sector and non-governmental organisations.

The FORUM agenda is designed to enhance regional capacities in investment policy and promotion, to reveal the SEE business potential and to boost FDI in the SEE region through:

- Outward investor missions in various OECD countries (Italy, Belgium, Japan, Norway, Germany, Czech Republic, etc); follow-up with potential investors.
- Investor awards.
- Promotion: publications featuring international investment in SEE and investment guides for SEE region.

SEE ENTERPRISE FORUM is a partnership of national organisations active in the field of enterprise policy and support of micro, small and medium-sized enterprises, including the Ministries of Economy, the Enterprise and SME Development Agencies, the private sector and other non-governmental organisations.

It aims to promote exchange of experiences, dialogue and co-operation among the members of the SME policy community in South East Europe and the OECD countries, through regular country policy assessments, such as the Enterprise Policy Performance Assessments, peer reviews, policy studies, workshops and seminars.

The OECD Investment Compact would like to thank the OECD Member countries and international organisations that actively support and finance the Investment Compact work in particular:

Austria, Belgium (Flanders), France, Ireland, Italy, Norway, Switzerland, United States, the European Commission, the Central European Initiative, and the OECD Centre for Co-operation with Non-Members

SELECTED PUBLICATIONS

Series:

Progress in Policy Reform in South East Europe: Monitoring Instruments, 5th Edition (2005)

Progress in Policy Reform in South East Europe: Monitoring Instruments, 4th Edition (2004)

Progress in Policy Reform in South East Europe: Monitoring Instruments, 3rd Edition (2003)

Progress in Policy Reform in South East Europe: Monitoring Instruments, 2nd Edition (2002)

Progress in Policy Reform in South East Europe: Monitoring Instruments, 1st Edition (2001)

Business Registration Process in South East Europe. A Peer Review (2005)

Enterprise Policy Performance Assessment of Albania (2004)

Enterprise Policy Performance Assessment of Bosnia and Herzegovina (2005)

Enterprise Policy Performance Assessment of Bulgaria (2005)

Enterprise Policy Performance Assessment of Croatia (2005)

Enterprise Policy Performance Assessment of FYR of Macedonia (2003)

Enterprise Policy Performance Assessment of Moldova (2003)

Enterprise Policy Performance Assessment of Romania (2005)

Enterprise Policy Performance Assessment of Serbia (2005)

Enterprise Policy Performance Assessment of Montenegro (2003)

Monographs:

Monitoring of the Regulatory Governance Priority Reforms in South East European Countries. Final Implementation Report (2005)

Regulatory Governance in SEE Countries: Progress and Challenges (2004)

Competition Law and Policy in South East Europe: A Programme of Action (2003)

White Paper on Corporate Governance in South East Europe (2003)

Tax Policy Assessment and Design in Support of Direct Investment: A Study of Countries in South East Europe (2003)

National Treatment of International Investment in South East European Countries: Measures Providing Exceptions (2003)

Strategic Investment Promotion: Successful Practice in Building Competitive Strategies (2002)

White Book of The Regional Network of Foreign Investors Councils in South East Europe (2004)

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