

# OECD Investment Compact for South East Europe: a Leading Programme Making Investment Happen for Employment and Growth in South East Europe

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More than ever, South East Europe (SEE)<sup>1</sup> is on the investment and trade agenda for international business community. With a dynamic market of 55 million people, the region has real potential for growth based on ongoing policy reforms and increasing levels of foreign direct investment.

Economically, the overall SEE region has entered a new phase of development. The region has made great progress in affecting political changes, reforms and macroeconomic stabilisation. It is now in a position to compete with economies from other parts of the world, provided that the pace and scope of reforms in the SEE countries are maintained and the region's competitive advantages, namely access to European and CIS markets, a well-educated labour force, a wide range of natural resources, fast improving infrastructure, stimulating regimes for foreign investments, are fully exploited.

## Solid macroeconomic progress over the last five years...

Macroeconomic progress in the region has been solid. Over the last five years, the average annual GDP growth rate has been consistently positive, with Albania, Moldova and Romania

boasting rates of over 5%. Inflation has decreased to below 5% for almost all the SEE countries. Budget deficits have been steadily declining and Bulgaria, Bosnia and Herzegovina and Serbia and Montenegro had budget surpluses in 2004. Major privatisations have taken place in all countries and FDI inflows have steadily increased, reaching close to EUR 10 billion in 2005.

Furthermore, the SEE region has made significant progress in designing and implementing economic reform. It is worth highlighting several key areas of economic reform. By adopting national treatment legislation for foreign investors, most SEE countries have improved their *investment policies*. An example is Romania's adherence to the OECD Declaration on International Investment and Multinational Companies in 2005. Progress has also been made in *regulatory reform*. For example, Moldova has implemented the Guillotine process to reduce business regulations. In Bosnia and Herzegovina the so-called Bulldozer project led to improvement in the business climate

the adoption of 50 reforms in 150 days. The area has also made progress in reforming their tax regimes. Several SEE countries decreased corporate income tax rates (Serbia – 10%; Montenegro – 9%; Bulgaria – 15% and Romania – 16%, some of the lowest income taxes in Europe) and improved tax administration. Almost all SEE countries have made strides in *competition policy* by putting in place legal and institutional frameworks, generally following the EC competition standards. In *trade policy*, the countries have signed a network of bilateral free trade agreements and are making plans to start

negotiations on a regional free trade area. Finally, progress has been made in *SME policy* through financial sector reforms and improved access to financing for small- and medium-sized enterprises.

The region has made great progress in affecting political changes, reforms and macroeconomic stabilisation

<sup>1</sup> South East Europe in this article refers to the countries which are beneficiaries of the Stability Pact for South Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania, Serbia and Montenegro

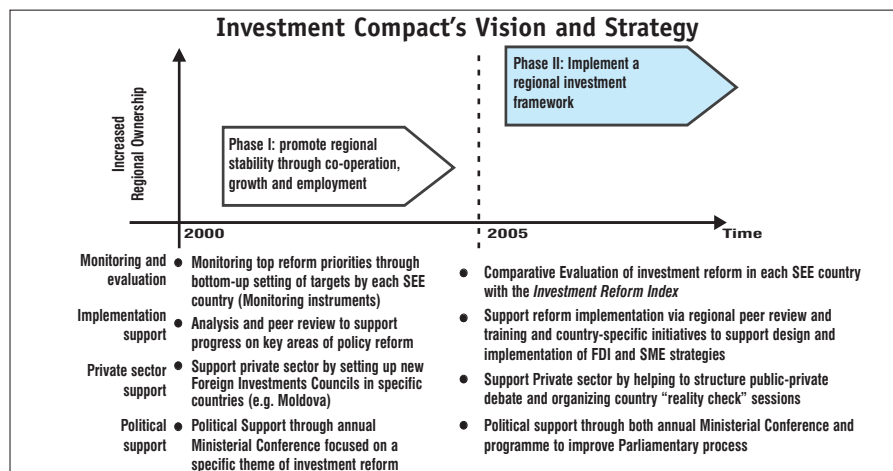
### ...but there are still important challenges to face in the coming years

Despite significant progress, the SEE region still faces key challenges to increasing investment and trade. Private investment in the SEE region, both domestic and foreign, remains insufficient and effective policies are needed to promote more Greenfield and SME investment. Intra-regional trade is still limited and non-tariff barriers to trade continue to hinder inter-regional trade. Furthermore, the *EU integration* process poses new challenges for the countries on the accession path, after the EU accession of Bulgaria and Romania in 2007. *Competitiveness* for FDI remains a serious challenge for SEE, due to the strong competition from China and other newly industrialised nations.

### Working closely with SEE governments and private sector, the Investment Compact designs and implements a regional approach to improving the business climate in SEE

Established in 2000 under the Stability Pact for South Eastern Europe (Working Table II on Economic Reconstruction, Development and Cooperation) and the OECD (Directorate for Financial and Enterprise Affairs), the OECD Investment Compact programme aims to improve the investment climate and encourage private sector development in SEE. The Investment Compact has structured its agenda to support institutional and capacity building in SEE, consolidate regional ownership around investment policy and reform, support EU integration, and focus on the development and adoption of a regional investment framework. Concrete projects are developed and built on four areas of focus:

- 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 and the regional White Book;
- Political support** through an Annual Ministerial Conference focused on a specific theme of investment reform.

The strength of the Investment Compact programme lies in its focused and pragmatic approach stressing the responsibility of the region for its own future, its effective implementation in close cooperation with the private sector and actively supported by a group of donor countries and organisations.

### The Investment Reform Index: A new tool to coach SEE countries in improving their policies to support the business climate and communicate economic progress to the investor community

Responding to the demand from the SEE region and the private sector, the programme provides a valuable framework for policy evaluation and support in reform implementation. The Investment Reform Index (IRI) is a new tool developed to help the policy eval-

uation exercise in SEE countries. What is different about the IRI concept lies in its approach. The IRI provides:

- **A comprehensive evaluation** of the investment environment structured along 10 key policy dimensions in line with the OECD standards: investment policy, investment promotion, tax policy, anti-corruption policy, competition policy, trade policy, SME support, public administration, financial institutions and infrastructure, and human capital;
- **A tripartite participatory approach** to evaluation and measurement including government, the private sector and the OECD;
- **A practical tool** for governments to define priorities for reform;
- **A living index** through the Investment Compact website that will include an interactive space where individuals and experts can comment on particular aspects for the review.

The evaluation of the ten policy dimensions has already started with a series of country missions and exchange of views with private sector organisations in Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro. Albania and FYR of Macedonia are next on the agenda, which will complete the first round of policy findings.

A full review of IRI results with government and private sector will take place in each SEE country in April of this year and the first results will be published in June. ■