



Twelfth Plenary Meeting of Working Table II
Conclusions by Fabrizio Saccomanni, Chairman
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Check against delivery

Before I report on the discussions at yesterday's meeting of Working Table II (WTII), I am pleased to announce that Mr Marin Molosag, the Deputy Governor of the Bank of Moldova has accepted our invitation to serve as the Co-Chair of WT II. I would like to take this opportunity to welcome the new director of WT II, Laurent Guye, who also happens to be a former colleague at the EBRD where he served as Executive Director for Switzerland.

As Dr Busek stated at our meeting yesterday, we have several important developments to report in the context of WTII. The signing of the international treaty between the EU and South Eastern European (SEE) countries on the Energy Community in Athens on 25 October marked a watershed in terms of regional co-operation, economic reform and integration into EU and international structures. SEE Trade Ministers' decision to move to a single FTA; the commitment made by Ministers for Employment to strengthen even further their co-operation on revamping employment policies; and the reaffirmation of support by SEE Ministers for the enhancing the use of the Information Society are clear signs that the region is making significant progress in regional co-operation in the socio-economic area.

The discussions at our meeting focused on the theme of the business and investment climate in SEE – the progress to date and the challenges that remain. As has been said so many times, investment, both foreign and domestic, is vital if SEE is to ensure sustainable economic growth. WT II has several instruments to assist the region in this process such as the Trade Working Group, the Investment Compact and the Business Advisory Council and one of the objectives of our meeting was to find ways to make these instruments even more useful to the region.

The EBRD launched our discussion with a special presentation of their 2005 Transition Report, which was formally released in London yesterday. Peter Sanfey from the Office of the EBRD's chief economist presented a somewhat encouraging picture of the transition and reform efforts of SEE. This report was complemented by the presentation of the Investment Compact, which endorsed the EBRD's findings that the business climate in SEE has improved substantially. Serbia and Montenegro was singled out as having made the most progress in several items of the reform agenda

The Investment Compact also outlined its revised approach following the instructions given by SEE Economic Ministers at the Investment and Trade Ministerial in June. The initiative is focused on supporting the implementation of the regional reform process through enhanced monitoring and peer reviews, better public/private sector dialogue and support for parliamentarians. In particular, the Investment Compact is working with its partners to put into place a Regional Investment Framework.

As a result of the improved business climate, SEE recorded a very positive inflow of FDI. FDI inflows have risen to over €8billion in 2004 and are expected to reach €10 billion in 2005; growth rates are healthy, above those of Central and Eastern Europe and far above those of the eurozone; and obstacles to doing business have decreased.



We are pleased to note these positive findings and outlook for the region but we cannot be complacent - much more remains to be done. The EBRD report also highlighted:-

- The high current account and fiscal deficits and high levels of external debt among SEE countries;
- The fact that FDI is unevenly spread with Romania, Bulgaria, Croatia and to some extent Serbia, accounting for the largest share of inflows;
- After the significant progress made in previous years, the region appears to have taken a “reform break” with a distinct slowdown in the overall reform process particularly among the EU candidate countries.
- Firms report that managers still pay a substantial “time tax” when dealing with public officials; and
- The so-called “bribe tax” has decreased but still remains significant with small, private companies being hit the most;

As mentioned by our Co-Chair, Mr Molosag, investment flows in the region to date largely stem from privatisations – a one-off form of investment and much more work needs to be done to ensure that greenfield investment is secured.

Our discussions showed widespread support for the Stability Pact’s initiatives in trade, investment and employment. The debate also revealed the high degree of complementarity and increasing co-operation between the various WT II initiatives. The region needs a common economic space, hence the Trade Working Group, the Investment Compact and the Business Advisory Council need to interact closely. A common economic space will not yield results unless it is underpinned by an adequate infrastructure system - hence the work of the Infrastructure Steering Group, the implementation of the Core Transport Network and the Energy Community are vital.

Economic reforms, while crucial for medium to long-term growth often have painful socio-economic effects in the short-term. For example, FDI often leads to restructuring and redundancies in the short-term, but the inflow of capital, managerial and technological inputs will be critically important for future competitiveness and economic development. In the meantime, adequate social policies must be put in place to shield vulnerable groups from the social consequences of economic reform. Our Initiative for Social Cohesion and our initiative on housing and informal settlements are making substantial contributions in this area.

Finally, turning to the main topic of today’s meeting - regional ownership – we held a special meeting yesterday afternoon of the chairs all the WT II initiatives to discuss the senior review group report. As part of this we briefly reviewed the plans of each initiative regarding whether its future would be short-term, in other words is it “mission accomplished”, or whether we would eventually transfer the mandate to an international organisation, or to a regional structure.

I am pleased to say that all our initiatives have a clear strategy for developing regional ownership as they evolve. Of course, given the different subjects that we tackle, the form, content and timelines involved vary from initiative to initiative.

My final message is that the key criteria for all our initiatives is that regardless of where we transfer the activity, it is vital that the new structures are capable of sustaining the concept, process and operation of the regional co-operation that has been established in the various areas under WT II.