



Investment Compact for South East Europe

(Co-chaired by Austria, Bulgaria and OECD)

Summary Report to the Regional Table and WT II

**Sofia, Bulgaria
18-19 May 2005**



**Republic of Bulgaria
Ministry of Economy**



The Investment Compact for South East Europe

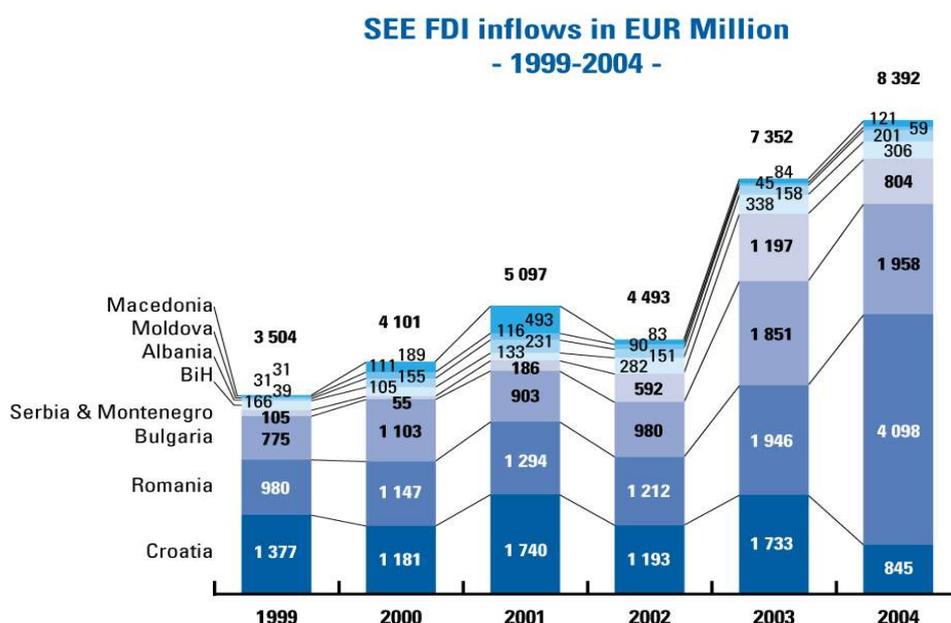
The South East Europe Compact for Reform, Investment, Integrity and Growth ('The Investment Compact') is a vital part of the Stability Pact for South Eastern Europe¹ and seeks to support the improvement of the business environment through better policies and enhanced implementation of policy. Chaired by Austria, Bulgaria (regional co-chair in 2004-2005) and the OECD, the Compact affirms that:

“Revitalisation of South East Europe must rely primarily on private sector development and private investment, including by small and medium-sized enterprises”²

Economically, the region is moving on track for recovery. Real GDP in the countries of the region grew by approximately 5 % in 2004 and by 4-5% over the past 5 years compared to approx. 3.6% in Central and East Europe (Slovenia, Hungary, Poland, Czech Republic, Slovak Republic).

Private Investment is Key and Growing

Supporting the SEE region to make a paradigm shift in FDI levels is a central aim of the Investment Compact. As the chart below shows measurable progress, although still driven largely by privatisation, is being achieved. Investor surveys show a marked improvement in the investment climate and progress is evident on many fronts, for example, last year Romania became the first country of the region to be accepted as an adherent to the OECD investment instruments. Bulgaria has now initiated the same process.



Source: National Central Bank of Austria, BA-CA Konzernvolkswirtschaft
* 2004 figure for Moldova is a projection by 2004 EBRD Transition Report

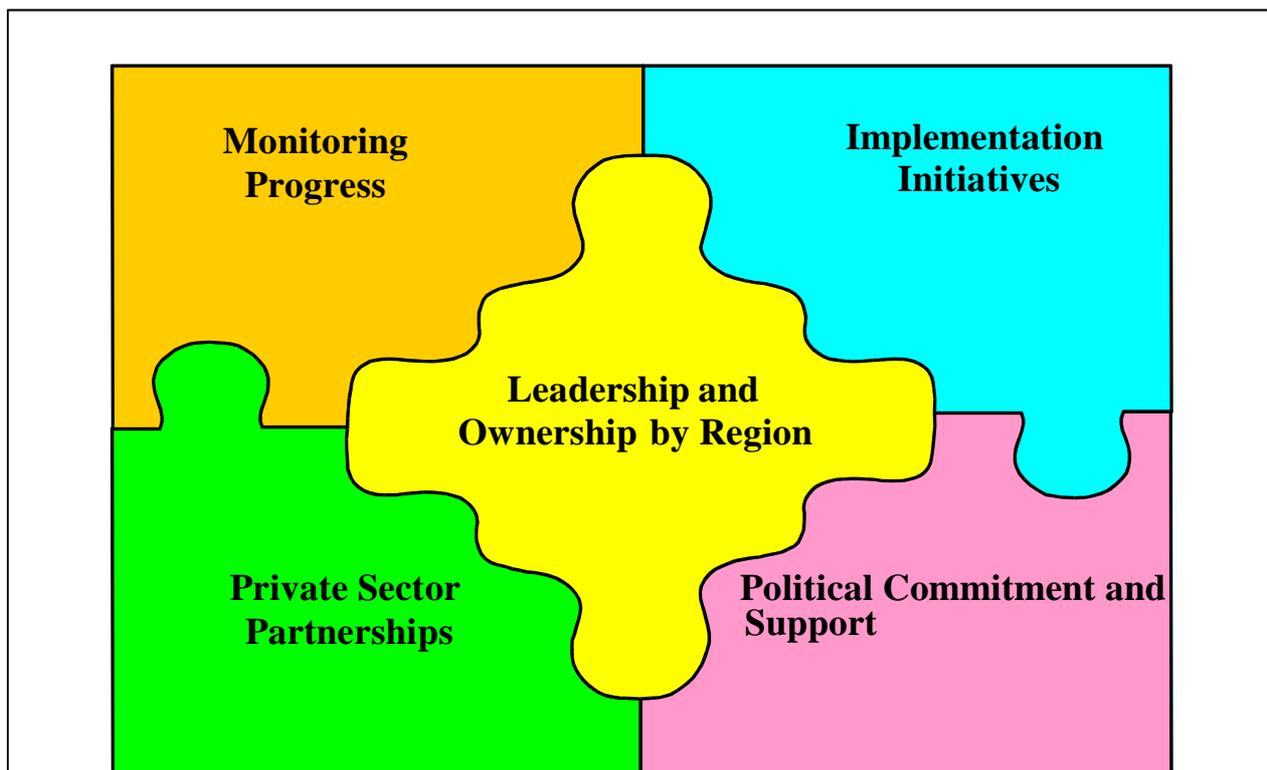
The Investment Compact brings the experience of OECD countries and Stability Pact partners, in response to demand and needs. Its strategy in 2005 -2006 (see chart below) recognises that the “ownership” of policy reform lies squarely with the countries of the region and confirms their central responsibility in implementing action on policy reform. The process pursues a *cross-regional approach* in South East Europe that builds better *regional interaction* and *joint regional action* on common issues. It concentrates

¹ The Investment Compact is a component of Working Table II dealing with Economic Reconstruction, Development and Cooperation. See www.stabilitypact.org and www.investmentcompact.org.

² Source: Investment Compact text, adopted by all SEE countries and Stability Pact partners in Skopje, February 2000

on the *implementation of policy reform* and seeks to *bring the unique Euro-Atlantic-Asian partnership of all Stability Pact partners* and especially the *contribution of the private sector* to that process. It complements the many bilateral and multilateral programmes in support of reform in SEE and supports the overarching political objectives of closer integration with Europe. Sharing of policy experience, peer review, dialogue leading to effective implementation lie at the heart of OECD country 'successful practice' and the Investment Compact seeks to introduce and promote this interaction and approach.

Investment Compact Strategy and Process 2005-2006



The strength of the Investment Compact is in its focussed and pragmatic approach stressing the responsibility of the region for its own future, its effective, "lean" implementation in close co-operation with the private sector, and a process underpinned by a dedicated group of donor countries and organisation. The presence and partnership of the Investment Compact with the region is strengthened with the establishment of small offices in Bucharest, Belgrade, Sofia and in the near future, Zagreb.

In an evaluation of the effectiveness of the Investment Compact, conducted in 2004 by A.T.Kearney, a leading international strategy and management consulting group, they concluded that the Investment Compact is a **"solid program with good value for money"** and **"has clearly contributed to improving the investment environment and increasing private investment and employment in SEE."**

Monitoring Process

The overall monitoring process is crucial in objectively and constructively highlighting progress on priority targets. Following the principle that 'what gets measured gets done' or at least has a better prospect of being done, the Investment Compact monitoring instruments seek to identify top priorities and action needed. It is a transparent and regularly conducted process with countries being able to compare progress. A new edition of the monitoring instrument will issue in May 2005 and in addition a re-designed monitoring process with comparative ratings will be launched by mid 2005.

Implementation

A range of implementation initiatives is conducted by the Investment Compact. Examples of implementation initiatives are the SEE INVESTMENT FORUM (chaired by Bosnia and Herzegovina), dealing with FDI policy and promotion, and the SEE ENTERPRISE FORUM (chaired by Albania), dealing with enterprise and SME policy. Both are leading joint regional activity.

The South East Europe INVESTMENT FORUM, chaired by BiH in 2004-2005

The INVESTMENT FORUM is a unique partnership of all SEE countries working and cooperating together to create a new image of the region as an investment location and to improve each country's investment policy and promotion strategies. Members of the INVESTMENT FORUM include investment promotion agencies, ministries, OECD countries, international organisations and financial institutions, private sector organisations. The FORUM takes practical steps to counteract negative perceptions and build a positive image of the region through regional success stories and business opportunities and hold major business forums and media events. For example, joint missions have been undertaken by the FORUM members to present region-wide business opportunities and conduct investment seminars in Austria, Belgium (Flanders), Germany, Greece, Italy, Japan, Netherlands, Norway, Switzerland and Turkey. In Norway in Feb 2005, 20 SEE companies with IPAs from each SEE country met 50 Norwegian companies and institutions. In May 2005 a 2 week training/investment mission is planned for Japan.

The FORUM introduces "best practice" policies and methods (e.g. national treatment, regulatory reform process, etc.) through workshops, seminars and training. There is no single model of success when it comes to investment policy and promotion. The emphasis therefore is on the SEE countries themselves putting in place, through experience sharing and practical implementation activity the "building blocks" of investment policy and promotion strategy rather than simply imitating practices of other countries.

The South East ENTERPRISE FORUM, chaired by Albania in 2005

The Investment Compact works jointly with the EC and EBRD in the area of small business, linking with and complementing the activity of the European Charter on Small Business. The main outputs are the Enterprise Policy Performance Assessments (EPPAs), a series of short country reports designed to provide each SEE country with a set of practical policy recommendations based largely on private sector inputs from SMEs within SEE countries. The assessments provide an agenda for action by SEE countries.

In 2005 significant progress has been made in this policy area:

- New EPPAs have been launched in Albania, BiH, Bulgaria, Romania and Serbia. These provide agendas for action and this is deepened by follow on work as outlined below.
- Peer review expert meetings have been held in (a) Albania with Italy and Austria acting as peer groups on the informal economy (b) Romania with Belgium and Italy acting as peer groups on public and private sector consultation and (c) a regional peer group with the company registrars from all SEE countries and with peer group consultation from Ireland and the UK

Private Sector Partnership

The private sector plays a central role in all IC activity. Close liaison with the Business Advisory Council of the Stability Pact, the Business and Industry Advisory Committee to the OECD and foreign investor representative groups in the region is maintained. These groups provide valuable advice and guidance and a 'reality check' on policy initiatives designed to improve the business environment.

A **SEE Regional Network of FICs** (representing 450 investor companies, which have invested EUR 20 billion and employ over 550,000) has also been established to strengthen regional dialogue (www.regionalfic.org), and chart issues that are key to investment and trade. The Network met in early April to plan its 2005 programme including participation at the 2005 Investment and Trade Ministerial. Highlighting the role of FDI is important to the change process and again in 2005 the Investor of the Year awards will feature at the Ministerial.

Political Commitment and Support

This year's Ministerial Conference, focusing on 'The Impact of FDI on Employment and Human Resources' as well as a Single Free Trade Area, hosted by Bulgaria, is scheduled to take place in Sofia on 9 June (Business Day) and 10 June (Ministerial Meeting), 2005.

Future Challenges and Conclusions

The combination of the above features provides a constructive process that contributes substantially to capacity building in the region. In summary there has been considerable progress in transition in SEE:

- FDI levels reached a record EUR 8 billion+ in 2004:
- Investment regimes in SEE are improving
- Investment policy and promotion capacities are gradually being strengthened: investment promotion agencies in the region have improved capacities and under the SEE INVESTMENT FORUM promote not just their own countries but the region as a whole to potential investors.
- New region-wide interaction and region-led co-operation supporting reform through the above FORUM and the SEE ENTERPRISE FORUM dealing with small business
- Private sector voice and involvement in policy dialogue and reform has been strengthened through the SEE Regional Network of Foreign Investor Councils
- Direct contact with potential investors substantially improved: The Investment Compact has enabled direct contact to approx. 3,000 potential investors with new investment resulting.
- Regional leadership of the Investment Compact has been enhanced: through Bulgaria as co-chair of the Investment Compact in 2004-2005 (previously Romania) and Albania and Bosnia and Herzegovina as current chairs of regional policy groups.
- Political awareness and commitment to reform has been further strengthened
- OECD countries and new entrants to the European Union (e.g. Slovenia, Hungary, Czech Republic) are providing constructive partnership in Investment Compact activities
- Investment Compact 2005-2006 strategy launched and advancing....joint cooperation with Trade, Anti-corruption and Social Cohesion Initiatives....stronger EC support....stronger on-the-ground regional presence (Bucharest, Belgrade, Sofia, Zagreb....)....numerous joint actions with private sector....Regional Network of Foreign Investor Councils (as well as BAC and BIAC)

The region faces significant challenges in the wider regional and global environment in maintaining the momentum of progressive change and especially in attracting greenfield investment. It needs continued persistence and commitment on key reform issues with strong focus on implementation; intensified capacity building; continued regional cooperation and collaboration; peer review and sharing of experience within the region and with OECD and EU countries; and continued partnership and support from the international community and private sector.

The Investment Compact, responding to demand from the region and the private sector, provides a valuable and proven framework to support real and effective progress in boosting investment and employment in co-operation with all Stability Pact partners.