OECD INVESTMENT COMPACT FOR SOUTH EAST EUROPE

A decade of partnership for prosperity and stability

OECD
BETTER POLICIES FOR BETTER LIVES

The OECD Investment Compact for South East Europe

Launched in 2000, the Investment Compact for South East Europe is a regional programme of the Organisation for Co-operation and Development (OECD) which supports governments of the region in improving their investment climate and fostering private sector development.

Using the OECD model of policy dialogue and peer learning, the Compact convenes representatives from South East Europe (SEE) governments to exchange best practices and to decide how OECD tools and instruments can be tailored to the needs of countries to help them move closer to internationally recognised OECD standards. It also conducts assessments of SEE investment climates based on the OECD Policy Framework for Investment, designs strategies to help governments set priorities for reform, and supports governments in implementing reform policies. The programme's work is co-ordinated by the South East Europe Investment Committee (SEE IC) and its strategic objectives and actions are endorsed by SEE leaders at ministerial conferences.

The Investment Compact for SEE is one of the OECD's first regional programmes. This pioneering initiative has now become a template for other regional initiatives, such as the MENA Investment Programme and the Eurasia Competitiveness Programme.

As of January 2012, the South East Europe Investment Committee will be co-chaired by the Regional Cooperation Council. However, the OECD Investment Compact for South East Europe remains in support of competitiveness and investment climate, in particular for the implementation of the South East Europe 2020 Vision.

The Investment Compact's members include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Republic of Moldova, Montenegro, Romania and Serbia, with Kosovo under UNSCR 1244/99* as an observer.

** Throughout this publication each reference to "Kosovo" indicates "Kosovo under UNSCR 1244/99".*

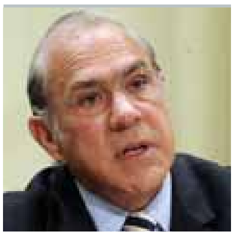
The Organisation for Economic Co-operation and Development (OECD)

The OECD is a multi-disciplinary inter-governmental organisation of 34 member countries based in Paris which engages an increasing number of other countries and economies from all regions of the world. The Organisation's core mission is to help governments make better policies for better lives.

Through its network of 250 specialised committees and working groups, the OECD provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice, and co-ordinate policies. The Organisation's work begins with data collection, policy analysis and benchmarking, then moves on to a collective discussion of policy experiences followed by the identification of good practices, setting of global standards and mutual peer review.

*This brochure was prepared for the Ministerial Conference of the Investment Compact for South East Europe: **Building a 2020 Vision for South East Europe**, 23-24 November, 2011.*

Contents



BUILDING A NEW ENVIRONMENT
FOR PRIVATE INVESTMENT
IN SOUTH EAST EUROPE

A message from the OECD Secretary-General

As the OECD commemorates its 50th anniversary and confirms its mission of "better policies for better lives", we are also proud to celebrate a decade of policy achievements by the OECD Investment Compact for South East Europe.

The Investment Compact was created to ensure peace, stability and prosperity in a region weakened by conflict but endowed with rich resources and dynamism. The Compact's mandate, signed in 2000 by nine South East European governments, recognised private sector development and international co-operation as cornerstones for the revitalisation of the region. Since then, governments, business leaders and civil society have worked together to design and implement reforms to attract more and better investments and raise living standards.

Over the past ten years, the economies of South East Europe have undergone a profound transformation. The region's GDP has more than doubled, inflows of foreign direct investment have increased tenfold, countries have signed an ambitious regional trade agreement, they have advanced their integration into the world economy and their institutions have become stronger.

Yet the region needs to rise to new challenges: with economic growth slowing, public budgets tightening and social pressures mounting, countries must urgently find new and sustainable sources of growth. The Investment Compact's "2020 Vision for South East Europe", to be endorsed by SEE Ministers this year, could serve as a leading roadmap to help the region meet this growth challenge by placing innovation, skills and economic integration at the centre of its strategy for the future. Over the next ten years, the Compact will support countries of the region to put this ambitious strategy into practice.

I would like to congratulate the Investment Compact on its achievements in supporting reforms in the region and thank South East Europe governments and programme donors for their commitment to working hand in hand with the OECD towards common goals. We are pleased to continue this rewarding partnership in the coming years.

Angel Gurría
OECD Secretary-General

"The Investment Compact's '2020 Vision for South East Europe' could serve as a leading roadmap to help the region meet growth challenges."

A message from the European Commissioner for Enlargement and European Neighbourhood Policy

The economies of the Western Balkans are recovering from the economic crisis, but this recovery is fragile. The challenge is not only to strengthen the recovery but in the longer term to ensure that there is sustainable economic growth and job creation to allow the region to catch up with the rest of Europe. This will require, inter alia, significant structural reforms to increase competitiveness and improve the investment climate. For increased competitiveness, it is particularly important to increase the efficiency of public administrations, strengthen the rule of law and combat corruption.

Even if the policies to meet these challenges are adopted and implemented at the national level, the challenges are common across the region. Regional co-operation will help the flow of ideas, as well as their implementation. A regional approach will also strengthen the view that there is a regional economic space, which will be more attractive to investors than small fragmented markets.

The regional ministerial conference is sending a clear signal: the region is committed to the reform process and is ready and prepared to take into account the concerns of the private sector and other relevant stakeholders.

The European Union monitors the process through the Commission's annual progress reports and recommendations. But more than this, we will continue to actively support the region by bringing it closer to the Europe 2020 strategy and by engaging pre-accession funds to the support of competitiveness, human capital development, job creation and sustainable development. We do this to help bring prosperity to the region and the European Union as a whole. The Western Balkans are important for the interests of the European Union, especially in areas such as trade, energy, transport and environment protection.

We acknowledge the engagement, support and efforts of our international partners, in particular the Organisation for Economic Co-operation and Development. Our co-operation benefits the region and the European Union. We wish the Regional Cooperation Council every success when it takes over the management of the South East Europe Investment Committee.

European Commissioner **Štefan Füle**
Enlargement and European Neighbourhood Policy
European Commission

"...the region is committed to the reform process and ready and prepared to take into account the concerns of the private sector and other relevant stakeholders."

A message from the Co-chair of the SEE Investment Compact

The creation of the Investment Compact for South East Europe under the auspices of the Stability Pact and the OECD in 2000 coincided with the commencement of a new phase of development for the SEE region. This was a phase of transition where SEE countries implemented successive political and economic reforms with a view to moving toward a market-based system and further integrating into the world economy. Indeed, SEE countries have actively sought to become a part of global value chains through wider regional growth. However, at the same time they have had to address national economic and institutional challenges, and countries have followed individual EU integration processes.

Designed to help the SEE region attract investment, and thus contribute to growth, the Investment Compact has developed various mechanisms for monitoring and evaluating ongoing regulatory and, specifically, investment reforms. This, together with the creation of the SEE Investment Committee (SEE IC) as a high level co-ordination body, has contributed to achieving visible results. Through the parallel activities of its specific bodies and regional Working Groups for human capital, investment promotion, innovation, tax policy, regulatory reform, and trade, the SEE IC has contributed to significant improvements in the business climate of SEE countries, supporting increased investment flows, and the transfer of technology and skills.

These results are also clearly visible through the *Investment Reform Index* (IRI), a new tool developed in line with OECD standards for evaluating the policy environment for conducting business and attracting investment in the region. Although we were all severely hit by the global financial and economic crisis – which was visible in major SEE countries' macroeconomic indicators – on the regulatory level it was demonstrated that significant progress had been made in the area of investment policy, trade policy and facilitation, SME policies, and legal frameworks for infrastructure.

Serbia, as the co-chair of the SEE IC from 2006, was an active participant in this process at the regional level, targeting improvements in the business climate and private sector development in the broader sense. We are honoured that SEE countries, jointly with the international community and the OECD, after ten years have matured to take over the ownership of SEE IC and transfer it under the auspices of the Regional Cooperation Council. We are confident that our friends will stay with us on our road towards the European Union.

Vesna Arsic
State Secretary, Ministry of Economy and Regional Development, Serbia
Co-chair of the Investment Compact

"The SEE Investment Committee has contributed to significant improvements in the business climate in the region."

A message from the Co-chair of the SEE Investment Compact

When the Investment Compact for South East Europe was established in 2000, it marked a major step for both the region and for the OECD. The countries of the region had to prove their ability to co-operate on an issue - the attraction of foreign investors – which, while of utmost importance to the region as a whole, also saw them competing against each other. And the OECD had to demonstrate that it was not only uniquely suited for the development of state-of-the-art investment policy standards and instruments such as the Policy Framework for Investment but also effective in assisting countries and regions in adjusting their policies and practices accordingly.

Both have passed the test with flying colours. The focus on concrete results in carefully chosen priority areas, of a co-operative working climate fostering regional ownership, and the continued and close interaction with the private sector contributed to tangible improvements in the business climate, increased investment flows and additional jobs throughout the region. The joint efforts of a dedicated team from the OECD, the countries of the region and the donor community thus made the Investment Compact for SEE a model for successful regional initiatives within and outside the OECD.

It has been a great honour for Austria to be able, as co-chair of the initiative since 2002, to host three ministerial meetings, to participate in these achievements. It is a great pleasure to see the success story continue with the handover of the operational responsibility for the initiative to the Regional Cooperation Council.

Manfred Schekulin
Deputy Director General
Trade Policy and European Integration
Federal Ministry of Economy, Family and Youth of Austria
Co-chair of the Investment Compact
Chair of the OECD Investment Committee

"The joint efforts of the OECD, the countries of the region and the donor community made the Investment Compact a model for other regional initiatives."

"...any perception of instability and economic chaos in one country would have a negative impact on the foreign investment prospects of its neighbours."

A message from the Former Special Co-ordinator of the Stability Pact for South Eastern Europe

All enterprises, whether foreign investors or domestic companies, crave stability and a predictable business environment to foster growth. In 2000, while progress had been made in so far as armed conflicts had ended, South East Europe still had to prove that this stability was sustainable. The region had also just entered an intensive period of economic reforms to allow for the transition to a market economy and deeper integration with the EU.

Although at the end of the day countries compete for foreign direct investment projects, the creation of the Investment Compact for SEE, under the auspices of the Stability Pact for South Eastern Europe in January 2000, demonstrated that countries understood the need for co-operation as a condition for survival in the highly competitive global market for foreign investment. The battered, war-torn and politically unstable image of the region in 2000 made such co-operation even more important, as any perception of instability and economic chaos in one country would have a negative impact on the foreign investment prospects of its neighbours.

Thanks to two dedicated and hands-on co-chairs in the Austrian Ministry of Economics and Labour and the OECD's Directorate for Financial and Enterprise Affairs (later supplemented by a co-chair from SEE), the Investment Compact helped to promote a culture of continuous improvement through the systematic monitoring and evaluation of policy reforms, and built the capacity of policy makers for effective policy design through the dissemination of good practices and transfer of OECD methodologies, tools and instruments. By institutionalising high level political support, boosting the private sector's advocacy role alongside the Business Advisory Council for South East Europe (BAC SEE), and encouraging regional ownership of the reform process it has definitely improved the region's overall image as an attractive destination for investment.

Erhard Busek
Former Special Co-ordinator of the Stability Pact for South Eastern Europe

1 Ten years of regional co-operation

Photo: 2004 OECD Investment Compact Ministerial, Vienna, Austria.

Since 2000, the OECD Investment Compact has worked hand-in-hand with South East European economies to improve their business climates, promote regional development and generate more and better investment.

From the Stability Pact to the Investment Compact

TOP: German Foreign Minister, Joschka Fischer speaking in April 1999 about the need for a Stability Pact.

CENTRE: Belgrade Regional Table, May 2006.

BOTTOM: First Investment Compact Ministerial, July 2002.

When foreign ministers of the South East European region and the European Union gathered in Cologne on June 10th 1999 to adopt the Stability Pact, they turned a page in history, leaving behind divisiveness and conflict to move towards a common vision for the region's future.

The Stability Pact was designed to serve as a forum through which South East European economies and the international community could work together to identify common problems and agree on coordinated strategies for resolving them. At the outset, the Stability Pact was supported by more than 40 countries and various international organisations. Aiming to foster regional co-operation and integration with the European Union and NATO, it would assist economies in their "efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region." Three Working Tables structured the Pact's activities:
(I) Democratisation and Human Rights;
(II) Economic Reconstruction, co-operation and Development; and (III) Security Issues.

"The previous policy of the international community vis-a-vis former Yugoslavia had two severe deficits: It concentrated on the consequences instead of on the sources of conflict, and it tackled the problems of the region individually and separately from the ones in other parts of Europe."
Joschka Fischer, German Foreign Minister
Cologne, 1999

Working Table II participants, led by the United Kingdom and the OECD, began drafting an Investment Charter for South Eastern Europe to underpin the implementation and monitoring of pro-investment initiatives in the region. In December 1999, during an informal meeting of Working Table II in Rome, they proposed the framework for the Investment Compact for South East Europe (SEE), whose ambitious aim would be to improve the region's investment climate for domestic and foreign investors. In February 2000, Working Table II formally approved the creation of the Investment Compact for South East Europe and agreed for its Secretariat to be housed at OECD Headquarters in Paris.

This innovative regional framework laid the foundation for collaboration between SEE and OECD countries around business climate and investment reform that is now moving into its second decade.

Heads of State and Government at the launch ceremony of the Stability Pact in Sarajevo on 30 July 1999.

Excerpts from the founding text of the Investment Compact for South East Europe Compact, endorsed by Working Table II of the Stability Pact in Skopje on 10-11 February 2000

Participants:

- *Affirm that revitalisation of South East Europe must rely primarily on private sector development and private investment, including by small and medium-sized enterprises.*
- *Recognise that improvement of the investment climate and acceleration of economic reform through sound market-oriented policies will promote a vibrant private sector and economic growth.*
- *Are convinced that the creation of a suitable climate for private sector development and restoring investor confidence in the region require not only ambitious reforms throughout the economy but also an active partnership with private investors and co-operation among Governments.*

Governments commit to:

- *Promote a stable macroeconomic environment essential for sustainable economic growth and for restoring investor confidence in the region.*
- *Create an enabling environment for the private sector.*
- *Improve the investment climate for foreign investment.*
- *While acknowledging that national measures... are paramount in improving the investment climate in each economy, [they] will work to strengthen regional and international co-operation.*

The development of the Investment Compact

Over the years, the nature and focus of the Compact's work has shifted to reflect the economic and political evolution of SEE countries.

The main priorities of the first phase of the Investment Compact (2000-2006) were to create a functional forum for policy dialogue on economic reform and secure strong political support for the Compact's mandate.

Ministerial conferences were instrumental in bringing countries together to cement political commitment to change. For instance, during the Vienna conference of 2002 on attracting investment in the region, ministers acknowledged principles which contribute to a favourable investment climate, such as the application of National Treatment of foreign direct investment and the establishment of an effective public-private dialogue. Subsequently, countries agreed to review their investment and private sector development policies. They decided to undertake reforms ranging from the support for small- and medium-sized enterprises (SMEs) to ensuring that timely information was made available for public procurement opportunities.

The Compact's aim would be to durably improve the region's investment climate.

The Sofia Ministerial Conference of June 2005 recognised the important link between trade and investment policy and tasked the Investment Compact with elaborating a Regional Framework for Investment. This Ministerial meeting resulted in greater co-operation between the Investment Compact and the Stability Pact's Working Group on Trade. Drawing upon the OECD's Policy Framework for Investment principles, the Regional Framework for Investment provided the SEE economies with the necessary support to include investment-related clauses in the revised and updated free trade agreement that was negotiated

Hamdo Tinjak

Secretary of the Ministry, Ministry of Foreign Affairs and Economic Relations of Bosnia and Herzegovina
Country Economic Team Leader

As the Country Economic Team Leader of Bosnia and Herzegovina, and as someone who has actively participated in the activities of the Investment Compact for South East Europe, it is my great pleasure to share in the celebration of its tenth year anniversary. We really do have reason to celebrate. Bearing in mind the situation in the region ten years ago and the goals that the Investment Compact's founding mandate set out to achieve, we can confirm that we have indeed witnessed significant reforms and increased integration, investment and development within the region.

Of course, the extent to which countries within the region have succeeded in achieving these original goals varies widely. This has depended on countries' readiness to implement necessary reforms – many of which have been consequences of the EU integration process. However, the global picture of the region has become much brighter, and that has had an especially positive impact on the less developed countries of South East Europe. The success of certain SEE economies has also inspired the others to press on with their reform agendas and confirms the usefulness of initiatives such as the Investment Compact. The Compact's model of creating a dialogue between representatives from the private sector, developed countries, respected experts, and financial and donor sector representatives was the best possible approach to supporting the development of the region.

Still, difficult tasks lie ahead and successful economic reform implies wider societal transformations. We must reform our educational systems, change attitudes towards research and development, make governments and all decision-making procedures more transparent, and from my point of view, achieve an independent and efficient judiciary.

We can be optimistic about the future of the region when we see that many of these reform processes are already well underway and that they will intensify within the framework of the SEE 2020 Vision. However, the precondition for this bright future is political stability within the region, as reaping the benefits of the Investment Compact will be only be possible in a stable context.

Once again I would like to express my deep respect for the founders of the Investment Compact and all of those who have participated in its activities for the important work that they have achieved. I wish the Compact all the best for the future in further developing regional co-operation for the benefit of our citizens.

and signed by the respective Prime Ministers the following year, resulting in the Central European Free Trade Agreement (CEFTA), 2006. The accession of Compact members Romania and Bulgaria to the European Union in 2007 and their new role as donors to the programme also served to deepen political support for the Compact. This was amplified by the active involvement of the private sector through the Business and Industry Advisory Committee to the OECD (BIAC) and the Business Advisory Council for South Eastern Europe (BAC) and of labour unions through the Trade Union Advisory Committee to the OECD (TUAC).

In 2007, the Investment Compact amended its institutional structures to enhance regional ownership and broadened its activities to strengthen the pillar on policy assessment. During that year, the Regional Cooperation Council was created as the regionally-owned successor to the Stability Pact.

The focus on regional ownership of the Investment Compact was intensified with the launch of a new regional institutional structure: The South East Europe Investment Committee (SEE IC), which replaced the Investment Compact Steering Group.

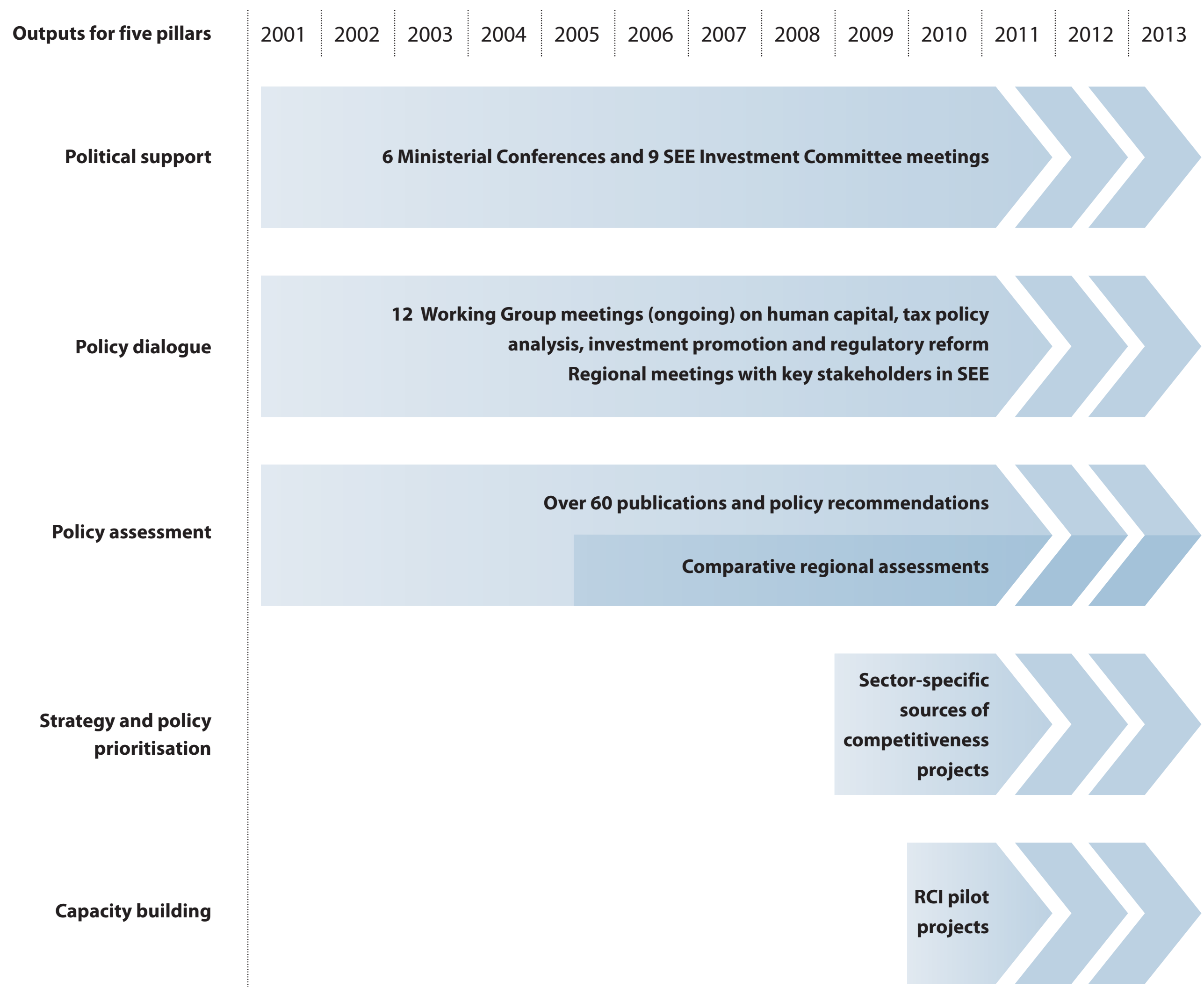
While the structure of the SEE IC mirrored that of its predecessor, governance of the committee moved to a significantly higher political level, with deputy ministers of economy and state secretaries deciding on the programme's agenda and strategic direction. All other actors – including the OECD, key donors, representatives from the private sector, and other international organisations – act as advisors. The SEE IC has proven to be a successful regional forum for discussion of current and upcoming projects, providing SEE economies with political guidance and mutual support, and for achieving jointly agreed decisions about the region's future.

Under this new governance framework, the Investment Compact was able to develop a new work pillar on policy assessment. The Compact launched two new flagship publications to assess national policy frameworks and provide targeted policy recommendations: the *Investment Reform Index* in 2006 and the *SME Policy Index* in 2007.

Working Groups created in 2007 focused on specific policy issues such as investment promotion, anti-corruption, regulatory reform, human capital, taxation, trade and access to finance. Chaired by countries of the region, the groups provided a forum for dialogue and best practice sharing between policy makers, experts and the private sector.

The programme's third phase (2008-present) added two additional pillars to the Compact's work: support for governments in prioritising and implementing reforms.
The Sector-Specific Sources of Competitiveness project, launched in 2009, identified high-potential sectors, including automotive, apparel and ICT, where the region could leverage its comparative advantages and offer recommendations to overcome the main barriers to their development. However, it became clear that SEE governments also needed support from the Compact to effectively implement priority reforms. This gave rise to an additional dimension of the Investment Compact's work: capacity building in support of implementation. The Western Balkans Regional Competitiveness Initiative, created in 2010, applies a "learning by doing" approach to building policy maker capacity through a series of pilot projects aimed at fostering innovation and developing human capital in SEE.

The Compact's programme of work has evolved to respond the region's changing needs



SEE enonomics will endorse a '2020 Vision for South East Europe', setting the path for the next decade of work.

The Investment Compact today and tomorrow

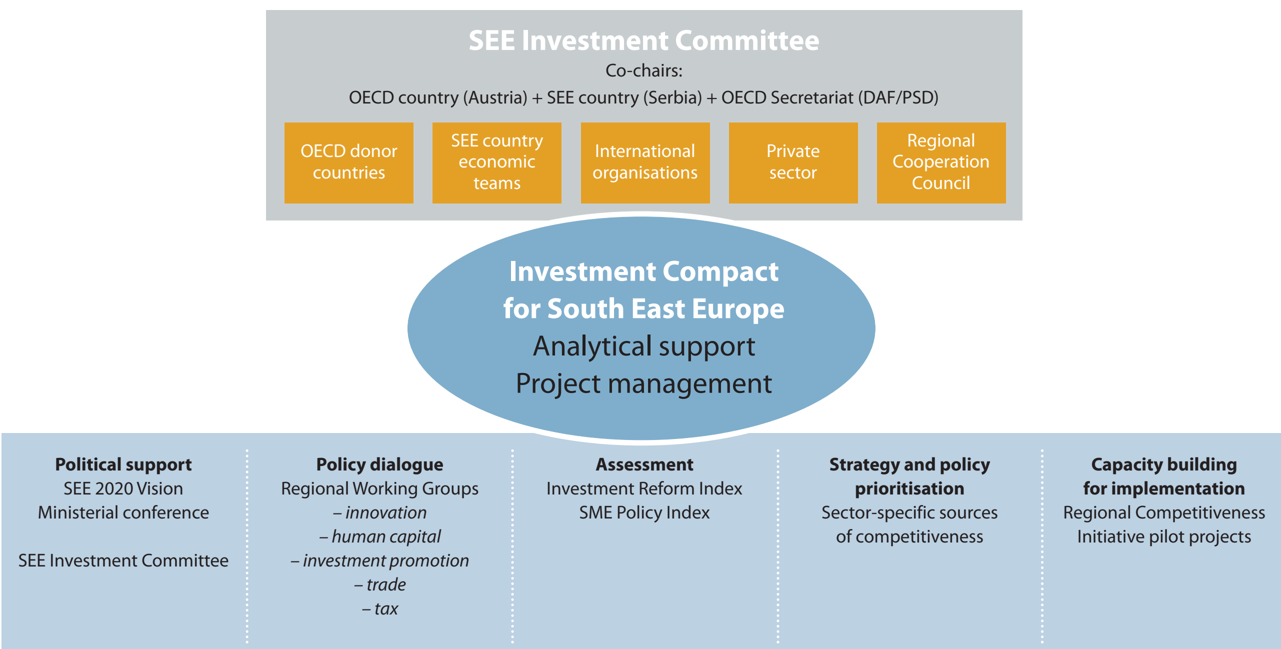
Today, the Investment Compact's activities centre upon five pillars: (i) Political support; (ii) Policy dialogue; (iii) Policy assessment; (iv) Strategy and policy prioritisation; and (v) Capacity building in support of implementation.

The Compact has created a committed network of regional and international experts – OECD donor countries, country economic teams from the region, international organisations and representatives from the private sector and the Regional Cooperation Council – who work in close collaboration to further economic reform initiatives in the region.

The Compact continues to foster policy dialogue through the SEE Investment Committee and its regional working groups. It performs regular policy assessments through its *SME Policy Index* and *Investment Reform Index* reviews and supports SEE economies in implementing resulting recommendations. The Compact leads country-specific projects, such as the recently-released study of SME development in the Republic of Moldova and an upcoming review of innovation policy in FYR Macedonia. Finally, Ministerial conferences continue to provide political impetus for the Compact's initiatives. The November 2011 Ministerial is a milestone in this regard, as SEE economies will endorse a "2020 Vision for South East Europe", setting the path for the next decade of work. The Ministerial will also be a turning point for the Compact, as it will mark the transfer of operational management of the SEE Investment Committee from the OECD to the Regional Cooperation Council. These two developments testify to the remarkable progress that the region has made in the space of only a decade. Although challenges remain, the results that the Compact has attained during this time attest to the benefits of closer regional collaboration and international co-operation. Thanks to the considerable efforts made over past years, the economies of South East Europe are well positioned to enter into a new phase of development, driven by innovation and an increasingly skilled workforce.

The Investment Compact looks forward to a second decade of partnership with South East Europe, working together to achieve even greater prosperity for all economies of the region.

The Compact's governance structure and main pillars of work involve stakeholders from both SEE and OECD countries



TOWARDS A SEE 2020 VISION

Inspired by the "Europe 2020" strategy – launched by the European Union in 2010 to promote "smart", "sustainable" and "inclusive" growth in EU member states – the economies of South East Europe will endorse their own "2020 Vision" at the 2011 SEE Ministerial Conference.

The SEE 2020 Vision is the product of close collaboration between the Investment Compact and governments of the region. It defines a strategy for region that focuses on stimulating the key long-term drivers of growth: innovation, skills and trade integration.

Pillars of the SEE 2020 Vision:

- **Integrated growth** through deeper regional trade and investment linkages and policies that are non-discriminatory, transparent and predictable
- **Smart growth** through the commitment to innovate and compete on value-added rather than on labour costs
- **Sustainable growth** through raising the level of private sector competitiveness, entrepreneurship and a commitment to greener and more energy-efficient development
- **Inclusive growth** through skills development, employment creation and labour market participation by all
- **Governance for growth** by increasing the capacity of public administrations to strengthen the rule of law and reduce corruption to create a business-friendly environment.

The SEE 2020 Vision's strong regional dimension in setting targets and developing implementation mechanisms will allow economies to benchmark their progress on each of these pillars. The commitment to regional targets will also send a clear signal of regional ownership: the region is now able to define its own roadmap for future reforms.

Metodij Hadzi-Vaskov

Ph.D., Economic Advisor to the Prime Minister, Former Yugoslav Republic of Macedonia Country Economic Team Leader

In a number of ways, the Investment Compact for South East Europe has proved to be a unique initiative that provides a common policy framework for countries sharing common objectives and facing common challenges.

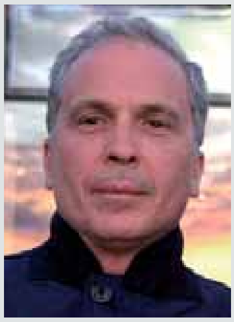
Firstly, the Investment Compact framework provided guidance in turbulent times for the countries of South East Europe about the most important reforms to improve the investment climate and build a more competitive economy. The Compact's reports and policy recommendations have clearly indicated the "distance from the frontier" and have helped countries move closer to OECD and international best practice in a multitude of crucial investment policy dimensions. To a large extent, these actions equipped the countries in the region with the necessary tools to better grasp the moving targets in investment reform and competitiveness enhancement.

Second, through its collaborative and participatory approach, the Investment Compact has set a new benchmark for similar initiatives in the region. Working closely in the preparation of the *Investment Reform Index*, it was a pleasure for me to have taken part in this inclusive and structured co-operation among the primary stakeholders: relevant ministries and public institutions, OECD experts, and the private sector. This collaboration was broad enough to incorporate the main stakeholders, but at the same time precise enough to streamline and process the most relevant information in an efficient way.

Overall, looking back at the past years, I feel honoured to have participated in the activities of the Investment Compact for South East Europe as Country Economic Team leader. Looking forward, I strongly believe that the effects of the actions undertaken in the past decade will be deeply felt into the decade to come.

Donors to the Investment Compact

The Investment Compact for South East Europe could not have achieved impact in the region without the invaluable support of its donors who supplied financial contributions over the years: Austria, Belgium (Flanders), Bulgaria, the Central European Initiative, the Czech Republic, the European Commission, Finland, France, Germany, the Global Corporate Governance Forum, Greece, Hungary, Ireland, Italy, Japan, the Netherlands, Norway, Romania, Slovenia, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.



Milko Kovachev

Head of Department, Council of Ministers
Former Minister of Energy (2000-2005) and Minister of Economy (2005)
Bulgaria
Former Regional Co-chair of the Investment Compact

The Investment Compact for South East Europe is an important OECD initiative that was launched during difficult times. The region was just emerging from behind the iron curtain and trying to return to economic and political stability after the disintegration of former Yugoslavia. The Compact

The 2005 Ministerial of the Investment Compact in Sofia, Bulgaria.

helped countries create a streamlined vision for economic reform and supported their transition toward a market economy. As a result, the region was able to attract much-needed investment for recovery and modernisation.

More than ten years later, the region is still struggling to fully reform its political and economic systems. However, it would never have reached its current stage of development without the support of partners such as the Investment Compact. With the financial crisis of 2008, the inflow of foreign direct investments into the region fell sharply and today it is more important than ever to have platform such as the Investment Compact to generate interest in the region, to support the completion of the unfinished reform agenda and to help make this region an integral part of Europe.

H.E Wolfgang Petritsch

Ambassador
Permanent Representative of Austria to the OECD

After the violent conflicts of the 1990s in the territory of the former Yugoslavia, the re-integration of the successor states into the international political and economic system proved to be a formidable task. This was particularly challenging in Bosnia and Herzegovina, where I served as High Representative - the International Community's top civil administrator - between 1999 and 2002. While political commitment was certainly central to this endeavour, it was clear from the outset that there was also an important economic component. Sustained economic growth and visible improvements in living standards would not only be necessary to overcome immediate war damages but also constitute a fundamental pre-condition for political stabilization and peace-building. To this end, a comprehensive reform of the economic model of this war-torn country was key. Obviously, the promotion of private investment soon took centre-stage, necessitating the development of an adequate institutional framework to both re-allocate domestic resources and attract foreign investment.

In this context, the SEE Investment Compact, established in 2000 as a key component of the Stability Pact for South East Europe, became an important tool in my efforts to lead Bosnia and Herzegovina out of its isolation in both political and economic terms. Part of my strategy was to make Bosnia more attractive for international investment. Thanks to its co-operative and benchmark-oriented approach, the SEE Investment Compact has been a crucial driver in institutional capacity building and in the re-integration of the regional economies into international capital and trade flows ever since. Also, it has played a pioneering role in fostering stronger economic integration of the region and served as a catalyst for important subsequent steps, such as the establishment of the Central European Free Trade Agreement (CEFTA) in 2006.

Given the continuing political challenges in the region, which furthermore are exacerbated by the volatile global economic environment, the Investment Compact's contribution remains as important as ever today.

Anthony O'Sullivan

Head, OECD Private Sector Development Division
Former Head of the Investment Compact for South East Europe

When I joined the OECD in September 2005 as Head of the Investment Compact, the main challenge was to develop a sustainable framework for attracting further investment to the region, leveraging the Compact's achievements in the first five years and OECD best practice, and working in close partnership with SEE economies.

Following consultations with the co-chairs (Austria and Romania), key stakeholders in the region and Investment Compact donors, it was decided to take the Investment Compact to the next level by launching an integrated regional programme model built around five pillars that would mutually reinforce each other: Political support, policy dialogue, policy assessment, policy prioritisation and capacity building. This work would be guided by the SEE Investment Committee, a new executive body mirroring the structure of OECD committees.

As of 2006, policy assessment was further enriched with the launch of the *Investment Reform Index (IRI)* and the *SME Policy Index*, regional comparative policy assessments that would help countries set priorities. The political vision was also

Timeline

Historic events in SEE and for the Investment Compact

	1999	2000	2001	2002	2004	2005	2006
Historic events in SEE	SEE and EU Foreign Ministers sign the Stability Pact	Romania and Bulgaria start EU accession negotiations	Peace re-established in all parts of the Western Balkans		Croatia gains EU candidate status	Croatia begins negotiations for EU accession FYR Macedonia becomes a candidate for membership of the EU	Montenegro becomes a sovereign state Serbia becomes a sovereign state Signing of the Agreement on Amendment of and Accession to the Central European Free Trade Area (CEFTA)
Investment Compact	OECD Ministerial meeting gives mandate for the OECD to participate in the Investment Compact	Stability Pact's Working Table II formally approves the creation of the Investment Compact	Publication of ***"Progress in Policy Reform in SEE"***, the first Compact assessment of policy reforms needed in the 9 countries, and the precursor to later monitoring reports and the Investment Reform Index	Ministerial Conference: ***"Attracting Investment to SEE – Common Principles and Best Practices"*** – Signing of the Ministerial Declaration on *Attracting Investment to South East Europe: Common Principles and Best Practices.*	Ministerial Conference: ***"Building a New Environment for Private Investment in SEE"***	Romania adheres to the OECD Declaration on International Investment Ministerial Conference: ***"Maximising the Impact of Investment on Employment and Human Resources"***	First ***Investment Reform Index*** Ministerial Conference: ***"A Regional Framework for Investment in South East Europe"*** – Regional Framework for Investment in South East Europe is endorsed by SEE Ministers

reinforced with the adoption of the Regional Investment Framework (modelled on the OECD Policy Framework for Investment) at the SEE Ministerial in 2006.

The launch of the *IRI* and *SME Policy Index* set the stage for two additional pillars of work which would produce impact on the ground: Development of policy roadmaps and support in implementation through coaching and capacity building. Regional Working Groups have provided hands-on guidance to policymakers in areas such as investment policy and promotion, SME policy, fighting corruption and human capital development. The Regional Competitiveness Initiative has undertaken pilot projects in Montenegro, Serbia, the Former Yugoslav Republic of Macedonia and Bosnia and Herzegovina to strengthen government capacity to support innovation.

The active input of the business community has also been a key success factor for the Compact. The ongoing involvement of the BAC and BIAC as well as national business organisations has strengthened the policy analysis and recommendations. The Compact launched unique initiatives to help SEE countries and investors connect – for example through public "reality checks" with the Foreign Investor Councils and the annual "Investor of the Year" awards.

The Investment Compact has become a unique regionally-owned platform that draws on the best OECD analytical tools and experience to help SEE countries build a prosperous and stable future to 2020 and beyond.

2007

Bulgaria and Romania join the EU

First ***SME Policy Index***

Launch of SEE Investment Committee and thematic Expert Working Groups

Serbia applies for adherence to the OECD Declaration on International Investment

2008

Regional Cooperation Council formed (replacing the Stability Pact for South East Europe)

Montenegro officially applies to join the EU

Launch of Phase II of Sector-Specific Sources of Competitiveness project

2009

Citizens of Serbia, FYR Macedonia and Montenegro granted visa-free travel to EU

Albania submits application for EU membership

Serbia submits application for EU membership

Second ***SME Policy Index*** published

Support to the launch of the Budapest Process for monitoring the elimination of non-tariff barriers to trade by CEFTA 2006 signatories

2010

Citizens of Albania and Bosnia and Herzegovina granted visa-free travel to EU

Montenegro gains EU candidate status

Second ***Investment Reform Index*** published

Launch of the Regional Competitiveness Initiative

2011

Ministerial Conference: ***Building a 2020 Vision for South East Europe***

The Secretary General of the OECD and the Secretary General of the RCC sign a Memorandum of Understanding officialising the transfer of the chair of the South East Europe Investment Committee to the Regional Cooperation Council

Ministers endorse "2020 Strategy for South East Europe"

2012

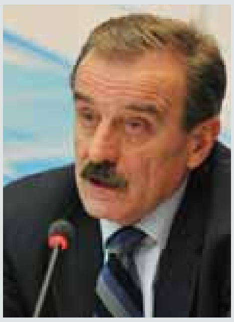
Third ***SME Policy Index*** to be published

Third ***Investment Reform Index*** to be published

2013

Croatia due to become the EU's 28th member state

Regional Cooperation Council



Hido Biščević

Secretary General, Regional Cooperation Council

The OECD Investment Compact for South East Europe has been instrumental in supporting economic stability and development in our region. Its valuable analytical and policy work has provided insights which have helped shape the reform agenda throughout South East Europe. The Compact's inclusive approach and the high level involvement of South East European countries have contributed to a growing sense of ownership and responsibility by the region.

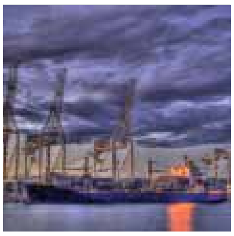
The fact that the Regional Cooperation Council is taking over the South East Europe Investment Committee from the OECD testifies to the RCC Secretariat's proven capacity to make a substantial contribution to the enhancement of regional co-operation in SEE. New economic and political realities in the region led to a decision by the OECD and SEE countries in 2011 that the time had come to transfer SEE Investment Committee activities to regional leadership. The European Commission has also acknowledged the importance of this action for the region and its support to the future Investment Committee's work is of particular value. The RCC Secretariat is fully committed, by embedding the emerging SEE 2020 vision in its activities, to continue working closely with SEE and OECD colleagues to guarantee an even more stable and results-oriented South East Europe Investment Committee.

Participants of the third RCC Annual Meeting held on 28 June 2011 in Becici, Montenegro.

2

A decade of achievements

The progress made in the short space of a decade has been impressive and today, the SEE region is taking increasing ownership of its political and economic future.



A decade of achievements

Over the past decade, the economies of South East Europe have undertaken significant economic reforms with the support of the OECD Investment Compact for South East Europe. These efforts have been rewarded by strong economic growth: GDP per capita doubled from 2000 to 2010, while foreign direct investment flows were multiplied by ten between 2000 and 2008. Countries also signed an ambitious regional trade agreement, CEFTA 2006, which has facilitated intra-regional investment and trade flows. Romania and Bulgaria have become EU members and Investment Compact donors, Croatia will join the EU in 2013, and other South East Europe countries are in various stages of the accession process.

Drawing on OECD best practices, instruments and working methods, the Investment Compact has supported South East Europe governments in developing policy tools which have led to reform at both the regional and national level.

The Compact's flagship publications – the *Investment Reform Index (IRI)* and the *SME Policy Index* – its work on the investment and trade pillars of the Central European Free Trade Agreement (CEFTA), and its new Regional Competitiveness Initiative are outstanding examples of achievements in the region.

A decade of dedicated work by the Investment Compact has achieved impact in South East Europe in four areas:

1. **Enhancing the investment climate**
2. **Boosting competitiveness**
3. **Building capacity**
4. **Fostering regional co-operation and leadership**

GDP per capita has doubled in a decade and converged towards EU-15 standards

Gross domestic product based on purchasing-power-parity (PPP) per capita GDP, current international dollars

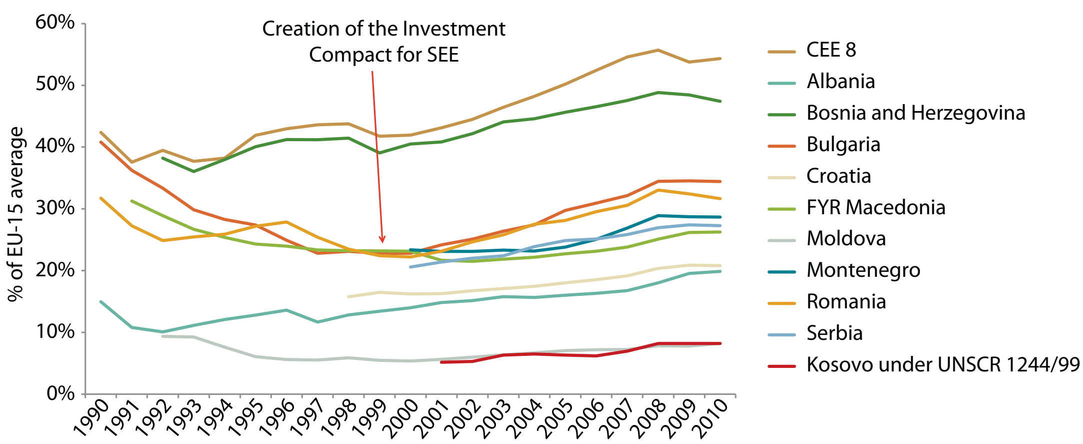


Figure 1. Source: IMF1.
Note: Values for Kosovo under UNSCR 1244/99 come from the World Development Indicators of the World Bank and are in current $ not adjusted for PPP.

1. Enhancing the investment climate

Since 2000, economies in South East Europe have progressively reduced restrictions to investment. They have strengthened their ties with the multilateral trading system and furthered intra-regional trade. Most SEE economies have progressed in establishing and implementing institutional and legal frameworks for regulatory reform. In addition, they have made important progress in boosting their capacity to carry out tax development and implementation.

The Investment Compact has played a key role in improving the investment climate in South East Europe. It has helped countries benchmark their existing policies against each other and against OECD best practice in a wide range of areas impacting investment attractiveness and setting priorities for reform.

KEY ACHIEVEMENTS

- Supported SEE economies to move towards OECD standards. For example, Romania adhered to the OECD Declaration on International Investment and Multinational Enterprises in 2005 and has become an active participant in many OECD structures and committees. In 2007, Serbia applied to adhere to this Declaration as well. Other SEE countries have also ramped up their involvement in OECD activities.

- Continued support to economies in assessing their policies against OECD best practice and in identifying reform priorities. The 2006 Regional Framework for Investment represents the first instance that the principles behind the OECD's Policy Framework for Investment (PFI) were adopted by a group of non-member economies as a guide to improving their investment environment. This was followed by the creation of an innovative instrument in 2006, the *Investment Reform Index*, to analyse and monitor the investment climate in the region based on the PFI.

- Contributed to improving the business environment in South East Europe, especially for SMEs, through the *SME Policy Index*, which supports the implementation of the European Small Business Act principles.

- A programme of action for competition law and policy and for tax policy and governance in South East Europe.

"The Business and Industry Advisory Committee to the DECD (BIAC) was pleased to see the OECD recognition of the important role that investment and the private sector could play in the stabilisation of South East Europe. Under the strong leadership of the late Thomas J. Bata, the business community response was enthusiastic and its representatives participated in more than 100 meetings during the life of the Compact, and provided many ideas and suggestions for improving the investment climate. Many of these became law and benefited both foreign and domestic business and strengthened the economies of South East Europe. It speaks well for the Compact, that by now, all of South East Europe is either a member of the European Union or is on the way to becoming one within a foreseeable time."

Charles Kovacs, Former Chair of BIAC Task Force on South East Europe (2003-2008)

National winners of the "Investor of the Year Award" 2006, co-organised by the Investment Compact and the private sector.

The 2006 SEE Ministerial endorsed the Regional Framework for Investment.

- Significant progress on fiscal policy including a greater ability to assess and implement fiscal policy reforms to respond to the global financial crisis; enhanced capacity to estimate tax revenue and distributional effects of tax reform; support for tax policies for productivity growth and skills upgrading; and an in-depth study of measures relating to National Treatment for foreign controlled enterprises.

- The inclusion of an investment chapter covering investment policy and intellectual property rights as part of the CEFTA amendments of 2006.

- Development of a roadmap for priority reforms in the area of corporate governance, help in strengthening the regulatory framework for capital markets and support for implementation at the regional and national level.

REGIONAL FRAMEWORK FOR INVESTMENT (2006)

***Objective*: provide SEE with a regional policy tool to help improve their investment policies.**

In June 2006, ministers from across SEE unanimously adopted the Regional Framework for Investment (RFI). Inspired by the OECD's Policy Framework for Investment, the RFI consolidates into a single tool the good practices and policy principles that have emerged through the work of the OECD and the Investment Compact. It is an integrated programme of action which focuses on key policy areas relevant to the investment environment including: investment policy, investment promotion and facilitation, tax policy, anti-corruption and business integrity, competition policy, trade, regulatory governance, human capital and employment, corporate governance, and SME policy. In addition to defining common policy principles and actions, the Investment Compact provided support and capacity building for the implementation of this framework. The *Investment Reform Index* uses the various policy dimensions elaborated by the RFI to monitor economic reforms made by SEE economies.

SEE economies are on the move toward EU accession

	EUROPEAN UNION
Albania	Potential Candidate
Bosnia Herzegovina	Potential Candidate
Bulgaria	Member
Croatia	Candidate
The Former Yugoslav Republic of Macedonia	Candidate
Republic of Moldova	Neighbourhood Policy
Montenegro	Candidate
Romania	Member
Serbia	Potential Candidate

WHITE PAPER ON CORPORATE GOVERNANCE (2003)

***Objective*: identify priority reforms in the area of corporate governance.**

The White Paper on corporate governance was drafted in 2003 by a group of representatives from governments, capital market authorities and participants from the private sector, with the support of the Investment Compact and the World Bank. It provides specific recommendations addressing key priority areas for reform: regulatory authority, private sector commitment, professional training, protection of minority shareholders against abuse by insiders and controlling shareholders, competent and accountable boards and convergence with international standards and good practices for accounting, audit and non-financial disclosure. It has served as an instrument to implement reforms at the national and regional levels and helped strengthen the regulatory framework for capital markets.

FDI flows have grown tenfold

FDI inflows in US$ at current prices and current exchange rates in millions for the SEE region

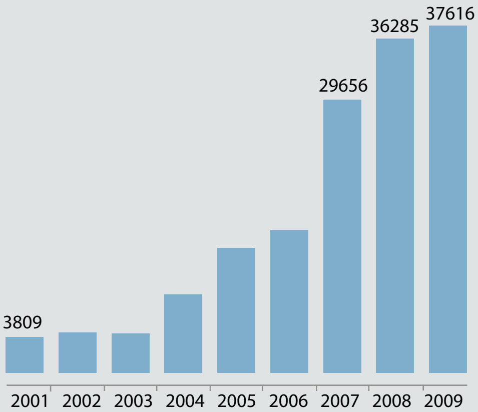


Figure 2. Source: UNCTAD
Note: Values from Kosovo under UNSCR 1244/99 come from the World Development Indicators and are FDI in current US dollars.

Carolyn Ervin

Director, Directorate for Financial and Enterprise Affairs, OECD

Since 2000, the Investment Compact has supported South East European economies in improving their business climates to generate higher levels of domestic and foreign investment. It has assisted governments to successfully identify policy gaps, define priorities and implement reforms in key areas such as investment policy and promotion, SME policy, human capital development, trade policy, regulatory reform, and access to finance. As a result of these reforms, the investment environment in the region has significantly improved over the past decade.

Part of this progress in improving the business climate in South East Europe can be attributed to the Compact's structure and collaborative working methods, which replicate the OECD model of policy dialogue and peer learning at the regional level. Its executive body, the South East Europe Investment Committee, and expert Working Groups provide a unique framework for countries of the region to come together to exchange best practices, share experiences, and devise shared approaches to reform.

The Investment Compact has also helped move countries of the region closer to OECD standards. OECD tools and instruments such as the Declaration on International Investment and Multinational Enterprises and the Policy Framework for Investment (PFI) have acted as guideposts for economic reform in the region. Indeed, the PFI has served as the analytical basis for the Compact's main monitoring tool, the *Investment Reform Index*. Romania adhered to the Investment Declaration in 2005 and Serbia has applied. Other SEE countries have expressed interest in following in these countries' footsteps and a growing number are increasingly active in OECD committees and networks.

Such positive results have made the Investment Compact a template for other OECD regional initiatives in the Middle East and North Africa and in Eurasia. These programmes have mirrored the Compact's approach of transposing OECD structures and methodologies to countries and building networks tailored to regional contexts. This has created considerable political momentum and generated tangible results for non-member countries.

The OECD's Directorate for Financial and Enterprise Affairs greatly values the work that has been accomplished over the last ten years by the Investment Compact and its regional partners and looks forward to supporting the implementation of the Compact's ambitious "2020 Vision for South East Europe".

INVESTMENT REFORM INDEX (2006/2010)

***Objective*: assess the policies and institutions that affect SEE's investment environment and provide targeted recommendations for policy reform.**

The *Investment Reform Index* is a qualitative assessment of policy settings and institutional conditions that shape the environment for direct investment. The most recent IRI, released in 2010, examines eight policy dimensions:

- Investment policy and promotion
- Human capital development
- Trade policy and facilitation
- Access to finance
- Regulatory reform and parliamentary processes
- Tax policy analysis
- Infrastructure for investment
- SME policy

Drawing on the OECD Policy Framework for Investment, the IRI uses a unique scoring system to measure performance in each business climate dimension and related sub-dimensions. Final scores are attributed with the input of both government and business stakeholders.

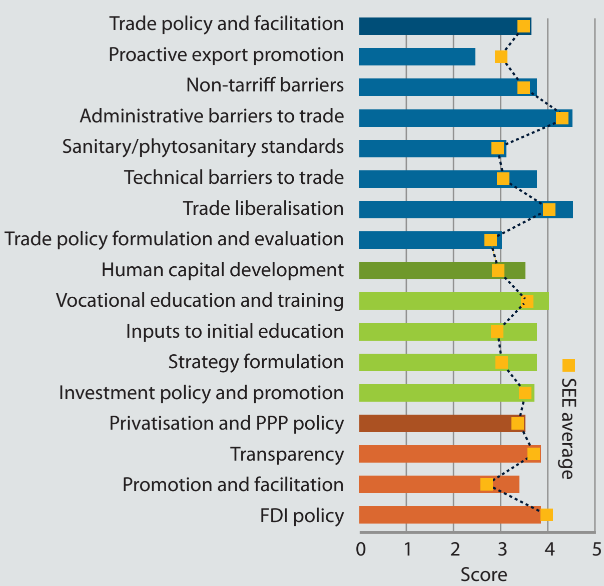
SEE country partners have welcomed the IRI as an innovative and useful tool to benchmark their systems against international best practice and to identify key areas for reform. Follow-up activities to take forward the conclusions of the *IRI 2010* are now underway in many SEE countries. For example, the OECD Investment Committee organised a Working Group meeting in the region on access to finance and related policy priorities identified by the *IRI 2010*. Tangible results from the IRI can be seen in many places; for example, the Former Yugoslav Republic of Macedonia has used the IRI to model its approach to investment promotion.

SME POLICY INDEX (2007/2009)

***Objective*: assess progress in implementing policies to support SMEs in the Western Balkans and Turkey using the European Small Business Act (SBA) and provide guidance on reforms needed to close policy gaps.**

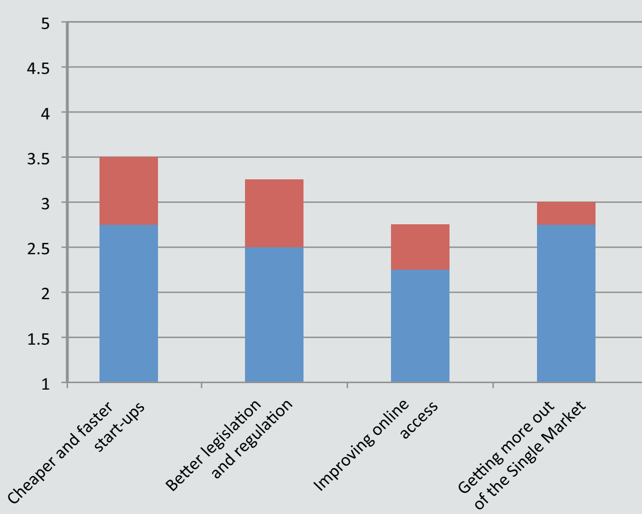
Undertaken in co-operation with the European Commission, the European Bank for Reconstruction and Development, and the European Training Foundation, the *SME Policy Index* provides Western Balkan economies

Example of IRI scoring matrix



The Western Balkans have improved their SME policies since 2007

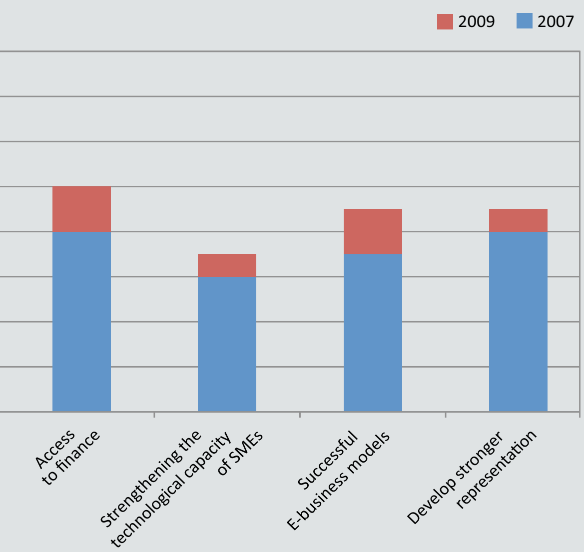
Change in the average regional scores (1 to 5) per policy dimension from 2007 to 2009

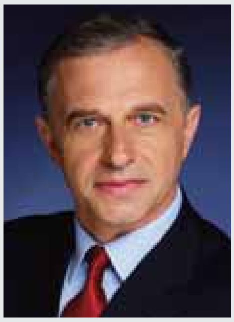


and Turkey with a comparative evaluation of progress in SME policy implementation. Based on results of the assessments, it offers recommendations on how governments can make further improvements within each of the ten principles of the SBA:

- education and training for entrepreneurship
- enhanced bankruptcy procedures
- better legislation and regulation
- simpler administrative procedures
- business support services
- access to finance
- more benefits from the Single Market
- support for business innovation and enterprise skills
- promotion of environmentally friendly businesses
- aid in export promotion

National assessments are based on self-evaluations by Western Balkan governments, independent counter-assessments, field research, and input from the private sector. They score the effectiveness of existing national SME policies on 1 to 5 scale, with 5 indicating OECD best practice. The next *SME Policy Index* will be published in the summer of 2012 and will include a specific assessment of the impact of export promotion programmes and a focus on enhancing SME competitiveness and promotion.





Mircea Geoana

President of the Romanian Senate
Former Minister of Foreign Affairs and Regional
Co-chair of the Investment Compact for South East Europe

The prospect of EU membership has been the driving force for the economic and political reforms and the overall development in South East Europe for the past two decades. In 2000, when the Investment Compact was launched, Romania's own efforts for reforms were focused towards EU accession.

The Investment Compact had four major roles in streamlining the reform process and economic transformation of Romania. It led to a shift in self-confidence, as this was a programme designed not for failed cases but for countries and administrations committed to reform. It led to the removal of structural obstacles in Romania's economy via new procedures and modern mechanisms for attracting foreign investments. Critically, it led to a real partnership with the private sector via the Business Advisory Council (BAC) allowing Romanian companies to acquire a regional approach for their own development plans and strategies. Last but not least, the Investment Compact paved the way for a predictable business climate in SEE. By embracing the Compact's guidelines, Romania has rapidly evolved as a model for other countries in the region.

A concrete example is the *Investment Reform Index*. Since 2006, it has included a Regulatory Impact Assessment element, which has helped countries ensure that all proposed legislation is accompanied by both an impact assessment and a cost/benefit analysis. This has significantly increased the coherence of governance procedures. Extending this to the SME sector has further contributed to the shaping of a reform trend that has helped EU accession preparations.

Today, at a time of global economic governance challenges, the Investment Compact remains an essential tool for supporting the region's development roadmap. Moving forward, it could be of interest to explore how the Compact's experience can be of use and adapted for the purposes of streamlining economic reform and integration for the new democracies in North Africa.

ACTION PLAN FOR TAX POLICY AND GOVERNANCE (2003)

***Objective*: determine how tax policy design can further promote private direct investment in SEE.**

The Action Plan was created in response to the realisation that tax incentives had not had the expected impact on investment in the region and that wider reform of general tax policy was needed. It defines a common set of principles to help guide tax policy design, drawing on a review of tax policies in SEE economies. The Action Plan was endorsed by SEE ministers in 2003 and reflects a commitment to improve key elements for investors: transparency, simplicity, stability of rules and predictability of decisions, a manageable burden of compliance and a tax administration free of corruption. Ministers also agreed that tax systems and incentive schemes must be compatible with international rules – in particular the World Trade Organisation (WTO), the EU acquis communautaire and recommended OECD standards – in the areas of double taxation, combating tax avoidance and abusive transfer pricing.

ACTION PLAN ON COMPETITION LAW AND POLICY (2003)

***Objective*: provide recommendations for reform and co-operation among competition authorities within the region.**

The Action Plan, launched in 2003, encourages the development of strategies to enhance the understanding of the benefits of competition among key stakeholders, including the general public, the business community and at the political level. It calls upon governments to ensure that competition and regulatory authorities are able to carry out their duties without questionable influence or undue interference from other branches of government or interest groups. It also established a framework for enhanced co-operation among SEE competition authorities.

Ms Iulia Iabanji

Director, Organization for Small and Medium Enterprises Sector Development (ODIMM), Moldova

Small and Medium Enterprises are the backbone of Moldova's economy. They help to create new jobs, develop groundbreaking technologies and grow local economies. The dynamism of the SME sector has a direct impact on the population's wealth and the country's level of development. To lay the foundations for sustainable economic development in Moldova, the government and related institutions are working together to create frameworks and polices to foster the growth of SMEs. In this respect, the ODIMM has been very satisfied with its collaboration with the OECD Investment Compact on a major project to strengthen the SME sector: "Supporting the Development of Small and Medium-Sized Enterprises in the Republic of Moldova".

The in-depth assessment presented in the "Fostering SMEs Development in Moldova" report and its policy recommendations to help the government and related SME agencies develop an action plan for entrepreneurial development are of great relevance to Moldova's SME sector. We believe that the project's practical approach and comprehensive scope will also support the OECD and ODIMM's joint efforts to improve the wider business climate in Moldova, thereby driving sustainable growth and employment.

ODIMM would like to thank our OECD Investment Compact colleagues for their expertise, support and valuable contributions to this important project.

Roundtable on developing an SME strategy for Moldova, Chisinau, July 2011.

2. Boosting competitiveness

From 2000 to 2008, SEE economies experienced rapid growth, modest inflation, contained budget deficits and increased macro-economic stability. This period of growth went hand-in-hand with a set of positive policy developments spurred by countries' increasing focus on EU accession and the adoption of the European *acquis communautaire* and by a growing awareness of the benefits of regional co-operation.

Despite these positive achievements, SEE economies continue to face a number of structural challenges which hinder their competiveness:

- A small private sector – comprising on average only around 58% of GDP – much of which is uncompetitive in international terms
- Low levels of innovation in the private sector
- An export profile dominated by low-skill services and natural-resource intensive products
- FDI flows which remain below potential, especially with regard to the tradable sector
- Pervasive skills gaps, exacerbated in a number of economies by significant emigration of skilled workers

Over the past decade, the Investment Compact has supported SEE economies in increasing their competitiveness and evolving from low-cost to knowledge-intensive production. **Human capital development, innovation, targeted policies to support SME development and sector-specific reforms have been key pillars of the Compact's approach to building a competitive, knowledge-based economy in SEE.**

SEE's innovation potential is yet to be unlocked

High tech exports (% of manufactured exports)

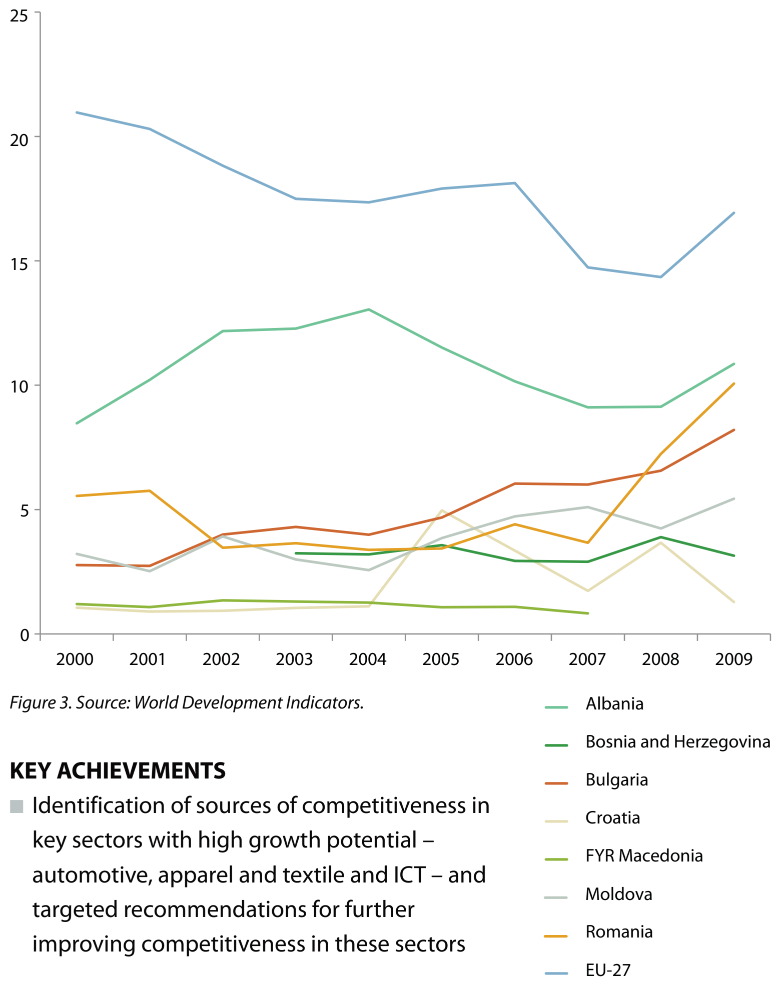


Figure 3. Source: World Development Indicators.

KEY ACHIEVEMENTS

- Identification of sources of competitiveness in key sectors with high growth potential – automotive, apparel and textile and ICT – and targeted recommendations for further improving competitiveness in these sectors
- Tailored implementation assistance to boost innovativeness and human capital development – two weak links for competitive-ness in South East Europe – via a system of pilot projects within the Regional Competitiveness Initiative
- Establishment of a regional body, the South East Europe Investment Committee, as a forum to discuss the competitiveness issues which are of importance to the region

Goran Scepanovic

Deputy Minister of Economy, Montenegro

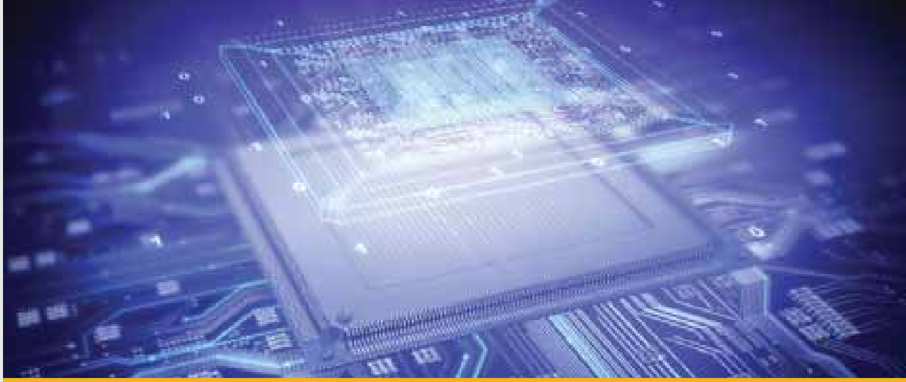
Montenegro has always valued its partnership with the OECD Investment Compact and recognised the value of its analyses of different economic areas affecting the business climate in the SEE region. Since becoming an independent state in 2006, Montenegro has worked to strengthen and broaden this co-operation.

As a result, we have seen firsthand the Compact's substantial and positive impact on promoting our economy and improving its international image as an investment destination.

I have worked closely with the Investment Compact for years. Its Investment Reform Index project has been of major importance, not only for Montenegro but for the whole Balkan region. The IRI has contributed to increasing the transparency of investment policies, which has in turn improved the investment climate and supported better donor co-ordination. It has given us a clear picture of the investment climate across the region and provided countries with specific direction on reforms and strategies that will help attract international investors.

Montenegro is part of the new Regional Competitiveness Initiative (RCI) project, which is supporting our efforts to shape a new approach to innovation policy. By implementing a voucher scheme targeting export-oriented SMEs, we hope to boost their innovative capacity and increase their share of exports to global markets.

Speaking from personal experience, I can say that the Investment Compact team have been excellent "business partners" who are always ready to provide useful advice and support. I look forward to continuing this fruitful co-operation for many more years to come.



WESTERN BALKANS REGIONAL COMPETITIVENESS INITIATIVE (2010- 2013)

***Objective*: strengthen the competitiveness of Western Balkan economies by increasing productivity through human capital development and innovation in manufacturing and service firms.**

The Regional Competitiveness Initiative is a three-year project funded by the European Union comprising three pillars of work:

1. Supporting policies and activities to increase human capital development
2. Strengthening the capacity of governments in the region to develop and manage innovation-enhancing policies and programmes for business
3. Building on these two previous goals, identify horizontal or sector-specific policy reforms that have economic significance for the entire region

The initiative consists of specific pilot projects implemented at the national level. The first four pilot projects were implemented in 2011:

Mechanisms to finance business services in support of innovation (voucher schemes) in **Montenegro**

The establishment of a Competence Technology Centre (CTC) in **Serbia**

Assistance to the government in designing its overall policy framework for innovation in the **Former Yugoslav Republic of Macedonia**

Co-operation within the 'triple helix' of research-business-government communities in **Bosnia and Herzegovina**

Through these pilot projects, the Investment Compact provides analytical support, policy guidance, capacity building and implementation support to enhance innovation and human capital development. Finally, the RCI supports regional co-operation and policy dialogue through the regional working group on Innovation and Human Capital Development and the project's Steering Committee.

The RCI is already having impact in the region. Examples of this are the inclusion of innovation as a major pillar of the new government's electoral programme in FYR Macedonia, the allocation of funds to an SME voucher scheme by the government of Montenegro, a commitment by the Serbian government to set up excellence centres, and broad participation to co-operation between academia, business and local government in Bosnia and Herzegovina.

SECTOR PRIORITISATION FRAMEWORK (2009)

***Objective*: develop a regional sector-specific approach in the Western Balkans to attract more investment to high-potential sectors and increase trade.**

Funded by the European Union, this project was developed within the context of the Sector Specific Sources of Competitiveness project. It examined three high-potential sectors in the Western Balkans and provided policy recommendations on ways to remove barriers to their further development:

- Intensify regional investment promotion for the West Balkans **automotive sector**, to raise the visibility of the sector with external investors
- Improve access to finance through credit guarantee schemes and credit information in order to help the **apparel sector** reposition towards higher value added production
- Improve human capital development through the introduction of internships in order to build practical skills needed in the **information and communication technology sector**

These recommendations were transformed into action plans which were implemented by governments and resulted in:

- a regional network of investment promotion agencies using a common web platform to promote Western Balkan automotive suppliers *(http://dev.the-serveur.com/ocde/)*
- capacity building for credit information and credit guarantee schemes
- transfer of best practices relating to internships

A proposed follow-up project (in 2013) should establish sectoral working groups and pilot projects to continue implementation of these recommendations and at the same time identify new niches where Western Balkans countries can be competitive.

Goran Radman

Former Chairman of the Business Advisory Council for South Eastern Europe
Dean, VERN University of Applied Sciences, Croatia

Serving as the private sector arm of the broader mechanism for SEE development and investment since 1997, the Business Advisory Council for Southeastern Europe (BAC SEE) was among the first partners to embrace the OECD/Stability Pact Investment Compact for SEE back in 2000.

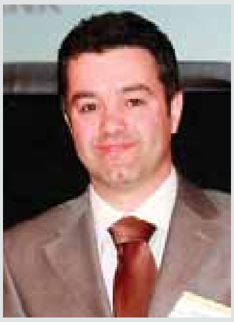
Collaboration between OECD Investment Compact and BAC SEE has been rewarding for both, but, more importantly, it has made an impact on our region. Through the work of the Compact, the voice of the private sector in policy making for development has been strengthened and public-private dialogue on investment and the environment for doing business has been enhanced. The partnership that has been nurtured in the past ten years is critical for improved understanding of the needs of the real economy in the region, and of the benefits stemming from collaboration between governments and the business community. The Investment Compact has been a unique learning experience for all partners involved in its work: an experience in dialogue for investment and in introducing best practices for growth and welfare.

On behalf of all members of the BAC SEE, I would like to thank the OECD Private Sector Development team for their dedicated work and commitment all this time. Your expertise, cultural sensitivity and positive spirit of collaboration have been key in raising political and business support for the introduction and implementation of critical reforms related to framework conditions for regional investment.

It has been a great pleasure and honour to work with such a professional, effective and resourceful team. We do look forward to contributing to the next endeavors of the IC in SEE, and we welcome your efforts to transfer the lessons learned in SEE to other regions as well.

NOTE: The Business Advisory Council for Southeastern Europe is an independent network of some 35 international investors and regional businessmen with activities in key sectors for regional development and competitiveness. The network has been serving as the private sector arm of the broader mechanism for SEE reconstruction and development since 1997.

Launch of the "Enterprise Policy Performance Assessment of Romania" in 2005.



Enno Bozdo

Deputy Minister, Ministry of Economics, Trade and Energy, Albania
Country Economic Team Leader

For over six years, I have had a very close relationship with the OECD and the Investment Compact. As a Country Economic Team Leader, I would like to emphasise the positive and supportive role that the Investment Compact has played. It served as a "push factor" to the governments of SEE countries, providing policy advice and recommendations on key policy areas: FDI and SME policy reforms, enterprise development, the Central Free Trade Agreement 2006 and other activities as well.

For the Government of Albania, the long experience of co-operation with the OECD, and especially with the Investment Compact, is considered as a good investment. Policy advice and the examples of best practices from other SEE countries have supported the implementation of socio-economic reforms in Albania.

As we proudly note, since the government took office in September 2005, Albania's macroeconomic goals – steady economic growth, reforms to improve business environment and to foster exports and FDI, and further consolidation of fiscal and institutional reforms – have been fully achieved.

At the same time, trade liberalisation and facilitation is another important government objective. The Investment Compact, through the support of the implementation of CEFTA 2006, has helped facilitate trade in goods and services, fostered investment, created stable and predictable rules, eliminated barriers to trade between the member countries and provided adequate protection of intellectual property rights, in accordance with international standards.

The OECD *SME Policy Index* and *IRI 2010* are successful policy instruments, which are already having a positive impact as a net contributor to the increase of the competitiveness of the Albanian economy, and specifically of the SME sector.

Active participation of Albania in the Investment Compact has helped the government to be successful in: building and strengthening public sector capacities and reducing administrative costs, formulating and implementing a strategy for the integrated development of a quality infrastructure system in an EU-oriented context, and improving the competitiveness of Albanian products and services.

One of the most positive experiences that we have had with the OECD Investment Compact was the preparation of the report the "Informal Economy in Albania" in 2004. The informal economy in Albania – with its consequences such as tax evasion, labour market distortions and unfair competition – represented one of the biggest obstacles to healthy and sustained enterprise development and to building a functioning market economy. Thanks to this report, during the period 2007-2009, the Government of Albania was able to adopt and implement a medium-term action plan on reducing the informal economy. On this occasion, I would like to thank again the OECD Investment Compact team, for the support given to Albania in the preparation of this study and for the helpful recommendations provided.

The role and contribution of the Ministry of Economy, Trade and Energy has been significant, and I would like to ensure that the co-operation with the OECD Investment Compact team is strengthened even further.

Study visit of a Bosnian-Herzegovinian delegation hosted by the Flemish Government to share best practices in innovation and Triple Helix partnerships between science, industry and local government.

Sophie Verbist

Policy Officer for Multilateral Affairs
Flemish Department of Foreign Affairs

Flanders has enjoyed unique ties with the Organisation for Economic Co-operation and Development (OECD) for many years, especially in areas such as education, agriculture, and innovation

From the very start, Flanders has supported the South East Europe Investment Compact Program (ICP), both financially and substantively. With this support, the Government of Flanders clearly wants to contribute to stability and welfare in the region on its way to EU accession.

The OECD approach to making South East European countries more attractive to foreign investors has turned out to be very successful. The SEE countries have achieved some remarkable results, highlighted by the transformation of Romania and Bulgaria from receivers to donors. The Regional Competitiveness Initiative conducts concrete field projects in four SEE economies.

Over the years, Flanders has been a reliable partner. We participated in a peer review in Romania and in the Investment Reform Index, an instrument to compare local economies and to map their progress. We also hosted a conference to encourage Flemish companies to invest in the region and a seminar for SEE investment agencies.

In addition, we invited a Bosnian-Herzegovinian delegation for a study visit to learn about best practices from Flemish companies and innovation centres in the agri-food business.

Flanders would like to express its appreciation for this fruitful co-operation, and we are convinced that this leads to a win-win situation for all parties. We are looking forward to seeing the Western Balkans become ever more connected and increasingly cooperate as a region under the leadership of the Regional Cooperation Council on its way to economic and social prosperity.

Jasna Matic

State Secretary for the Digital Agenda
Ministry of Culture, Media and Information Society
Serbia

As the Head of the Serbian Investment and Export Promotion Agency 2004-2007 and the State Secretary 2007-2008 for International Economic Relations, I have had the pleasure and the privilege to participate for four years in the work of the OECD Investment Compact for South East Europe.

The four pillar structure of the Investment Compact was instrumental in helping us all create internal tools and processes and gain political support for the policy and institutional reforms needed to improve the business and investment climate.

It has also been very valuable to exchange experiences and best practices with representatives from other countries in the SEE region at Ministerial and expert level meetings. As we share very similar, indeed often identical, problems and challenges, learning about the ways our colleagues have been able to overcome some of them has been really beneficial to us all.

The Investment Compact has been critical in engaging and securing the long term involvement of all government ministries and agencies, as well as other public and private organisations and institutions in reforming the business environment.

In the case of Serbia, there is no doubt that the SEE Investment Compact's monitoring mechanism has dictated the pace of the reforms related to the investment environment. Without the Investment Compact, it would have been much more difficult to sustain the momentum of the reform process and I have no doubt that, in the end, the reforms of the business and investment climate would have been much less rapid and successful.

"The Investment Compact" assesses poor countries – initially in South-Eastern Europe and in future elsewhere – for good government in both theory and practice. The seven categories it studies include tax policy and administration, tariff and other barriers to trade, regulatory reform and education. The methodology is solid and the results revealing.

The Economist,
9 November, 2006

3. Building capacity

The Investment Compact has increased the capacity of SEE governments to effectively design and implement policies through the transfer of OECD methodologies, tools and instruments tailored to the specific circumstances of the region. For example, work performed with the regional working groups on investment policy and promotion, anti-corruption, regulatory reform, human capital, tax and access to finance has facilitated transfer of best practices in areas such regulatory impact assessment, tax policy compliance, and non-discriminatory treatment of investment.

The Compact has also promoted a culture of constant improvement with the systematic monitoring and evaluation of reforms based on the *Investment Reform Index* and the *SME Policy Index*. In preparation for the *Investment Reform Index 2010*, multiple ministries in every economy worked closely with the Investment Compact staff to self-assess policy performance using over 100 performance indicators.

Building the capacity of policy makers in SEE to design and implement competitiveness-enhancing policies is a key component of the Investment Compact's work.

KEY ACHIEVEMENTS

- Created sustainable frameworks for dialogue among experts both within SEE economies and throughout the region to share experiences and transfer best policy practices
- Increased country engagement in key projects. One example is the RCI project, where mixed teams of officials from the region and OECD worked collaboratively to implement sustainable policy reforms
- Provided policy makers with assessments and tools, such as the *Investment Reform Index* and helped them implement reforms
- Strengthened co-operation in tax issues amongst SEE Ministries of Finance, through meetings of the SEE Working Group on Tax Policy Analysis.

"SEECEL is very happy to bring the lifelong entrepreneurial learning agenda, to the Investment Compact and to the investment discourse – a key driver for competitiveness and growth. SEECEL will continue to work with the Investment Compact in building synergies and finding solutions to the human capital pillar of the Investment effort."

Elka Heder
Director, South East European Centre for Entrepreneurial learning (SEECEL)

Sandra Švaljek

PhD, Director, The Institute of Economics, Croatia

Although the main focus of the Investment Compact's work over the past decade has been to foster private sector development in SEE, it has also succeeded in generating other important outcomes for the region. First, the Investment Compact has contributed to a better of understanding of the specificities of the business environment in South and Eastern Europe. It has also created frameworks to assess the performance of nine SEE Investment Compact member countries – in key areas such as such as regulatory reform, human capital development and investment promotion – based on solid and internationally comparable data. Finally, the Investment Compact has had a positive influence on the establishment and development of co-operation within the SEE region.

From the Croatian point of view, the most important benefits of being a SEE Investment Compact member country have been easier access to the know-how and best practices of the OECD member countries, and the programme's success in changing the focus of economic policy in the region toward raising competitiveness, investment promotion and boosting innovation and skills. For an emerging economy striving toward EU membership, the Investment Compact has provided valuable support in the creation of a sustainable and business-friendly market environment.

REGIONAL WORKING GROUPS

***Objective*: Build capacity of policy makers through enhanced policy dialogue on specific policy themes.**

Chaired by countries of the region, working groups provide a forum for sharing best practices between policy makers, experts and representatives of the business community on specific policy themes.

- **Investment Promotion** *(Chair: Bulgaria)* – besides contributing to the IRI Investment Promotion dimension of the IRI, the Working Group produced 'How-to' guidelines on FDI-SME linkages, and helped create a regional network of investment promotion agencies to overcome a number of market, information and regulatory barriers in the automotive industry in the Western Balkans.
- **Anti-corruption** *(Chair: Romania)* – a major output of the Working Group was the development of guidelines for "red flags", i.e., indicators developed to identify most common deviations from transparent and fair procurement. Red flags are a helpful tool in identifying and mitigating potential risks of corruption and other malpractices at different stages of the procurement process, including project design and implementation.
- **Regulatory Reform** *(Chair: Serbia)* – in addition to contributing to the Investment Reform Index Regulatory Reform dimension, the Working Group produced 'How-to' guidelines on effectively involving parliamentarians in the implementation of business regulation.
- **Taxation** *(Chair: Croatia)* – the Working Group provided OECD technical assistance on economic models to assist tax policy analysis, including micro-simulation models, marginal effective tax rate models and the OECD Taxing Wages framework, as well as on taxation, innovation and intangible 'knowledge' capital as well as taxation and training.
- **Access to Finance** – *(Chair: Former Yugoslav Republic of Macedonia)* – the Working Group provided best practices in developing credit guarantee schemes, credit information sharing schemes and investment readiness programmes, as well as a thorough review of the status of bankruptcy legislation in the Western Balkans, including recommendations on how to best adapt the current regime.
- **Human Capital** – the Working Group produced Guidelines on the measurement of skills gaps in SEE, a mapping of initiatives to foster industry-education institutional co-operation, a review of existing internship programmes and an assessment of best practices in the field of internships. As part of the RCI project, the Working Group on Human Capital Development reviews methods and strategies for implementing skills gaps analysis.
- **Innovation** – the RCI Working Group on Innovation is designed to provide opportunities for peer learning and exchanges of best practices with innovation enhancing instruments. Participants include policy makers, members of the private sector and representatives from the research community in the Western Balkans. The Working Group benefits from the participation of experts from OECD member countries. In addition, the Working Group allows participants to learn from each others' experiences in the implementation of individual RCI pilot projects.

THE REGULATORY GOVERNANCE INITIATIVE (2001)

***Objective*: strengthen the institutional, knowledge and process capacities needed to develop and implement more efficient and effective regulation in SEE.**

In October 2001, the Stability Pact and the OECD launched the Regulatory Governance Initiative (RGI). In line with the monitoring instruments of the Investment Compact, the RGI supported the development of action plans outlining the adoption and implementation of criteria, processes and institutions conducive to investment and economic growth. With the assistance of the OECD, but primarily based on a self-assessment approach, each member was encouraged to prepare its own national action plan. Completed action plans were assessed and reviewed by the OECD.

Under this initiative, the OECD also organised a series of multi-disciplinary seminars which provided a forum for participants from the region to exchange their policy expertise.

2002 seminar of "The Regulatory Governance Initiative in South East Europe" in Thessaloniki, Greece.

Evgenia Petkova

Human Capital Development Specialist
European Training Foundation

Strategic dialogue and partnerships for regional prosperity

The European Training Foundation (ETF), an EU agency specialised in actions, research and policy learning on human capital development for stability and prosperity in transition and developing countries, has been working in South East Europe since 1994. Since its establishment, ETF has fostered regional co-operation in its work. The launching in 2000 of the OECD Investment Compact offered an opportunity for further developing regional synergies and complementarities. ETF has been a strategic partner of the Investment Compact since its very first steps.

While 'skills', 'education and training', 'regional stability and development' have been the key words characterising the thematic scope of the partnership, the modes of co-operation have expanded with time. Commitment and ownership of stakeholders in the countries has remained the key for any intervention in the region. An important joint action has been the design and the application (in 2007, 2009 and 2011/12) of the *SME Policy Index*. The Index has proved to be an important tool for producing analytical evidence to inform the Western Balkan governments about their strengths and weaknesses in the process of creating and implementing entrepreneurial learning policy, as well as guiding them to measure the convergence of the region towards implementation of the respective EU policy guidelines.

The Investment Compact has also contributed to enhancing regional capacities for the implementation of socio-economic reforms. Through its involvement in the Investment Compact's Working Group on Human Capital, over the years ETF has contributed to the strengthening of the policy dialogue at the regional level and the enhanced mutual learning and exchange among the Western Balkan countries.

Last but not least, the Investment Compact has also played a conducive role in the design, start-up, and implementation of new regional initiatives such as the Regional Competitiveness Initiative (RCI), financed by the EU Directorate General for Enlargement. The RCI aims to increase productivity and output in the region by fostering human capital development and increasing innovation among manufacturing and service-sector firms in the Western Balkans. In support of the RCI, the OECD and ETF have brought together representatives from education, academia, public administration, as well as business to make co-operation a win-win for all involved.

On the whole, the Investment Compact has contributed to further discussion and dialogue in South East Europe to the benefit of each of the countries and of the overall region. It has been a pleasure for ETF to provide its long-standing experience and know-how.

THE MILOCER DECLARATION: STRENGTHENING THE PROCESS OF ECONOMIC REFORM LEGISLATION (2008)

***Objective*: create a network of parliaments from the region, provide an overview of the legislative process in each country and develop recommendations for improving these processes.**

With the support of the Investment Compact and the Agency for International Development (GIZ) in Germany, detailed studies were conducted on the legislative process in Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia and meetings organised with the parliaments of each country. On the basis of the country reports, a synthesis was elaborated for discussion at a regional meeting in Milocer, Montenegro.

The "Milocer Declaration" calls for increased quality at all stages of the legislative process; improved interaction between governments and legislative bodies; strengthening, streamlining and coordinating the role of parliamentary committees; and enhancing parliamentary capacity for quality control and coherence of legislation. The Declaration also recommended actions to promote regional co-operation among SEE parliaments, in particular through increased knowledge and experience exchanges and establishing informal networks involving important parliamentary commissions, twinning programmes with parliaments from EU member states and the European Parliament.

"I was delighted to be invited to give a key note speech at a conference of the Investment Compact in November 2010 on the important issue of overcoming skills gaps in the region. I was impressed with the way that the Investment Compact has encouraged policy makers from each country to design new projects which promise to make a real impact on economic growth in the region."

Will Bartlett, PhD
Senior Research Fellow
LSEE – Research on South Eastern Europe
European Institute
London School of Economics and Political Science

4. Fostering regional co-operation and leadership

In 2007, the South East Europe Investment Committee was launched. Over the years, the SEE Investment Committee (SEE IC) has evolved into a valued regional forum for exchanges on investment policy and competitiveness issues. Concurrently, the Investment Compact created regional thematic working groups to facilitate policy dialogue between OECD country experts and SEE stakeholders.

Moreover, in a unique development for an OECD regional programme and an important step for the region's ownership of its future, the management and co-ordination of the SEE IC will be transferred in November 2011 from the OECD Secretariat to a single regional chair, the Sarajevo-based Regional Cooperation Council (RCC). This transfer was endorsed by members of the SEE IC at their fifth meeting in 2011.

Regional ownership is also reflected in the fact that Romania and Bulgaria have become donors to the Investment Compact, with other EU-accession countries set to follow in their footsteps.

In a short decade, the Investment Compact has built a platform for regional dialogue enabling SEE economies to take strong regional ownership of their economic reform agenda.

KEY ACHIEVEMENTS

- The creation of the South East Europe Investment Committee as a primary forum for exchanges and decision-making for investment climate and competitiveness issues, and its maturing which enables the transfer of its operational management to the RCC
- Provided numerous frameworks for co-operation through other instruments of the Compact such as thematic Working Groups
- Provided countries with tools such as the IRI to prioritise reforms
- Helped countries enhance regional co-operation through the removal of Non-Trade Barriers as part of the CEFTA project

Increased engagement in regional frameworks, such as CEFTA, has enhanced co-operation and ownership

	CEFTA membership	CEFTA 2006 membership
Albania		2007
Bosnia & Herzegovina		2007
Bulgaria	1999*	CEFTA membership ended when they acceded to the EU 20 2007
Croatia	2003	2007
The Former Yugoslav Republic of Macedonia	2006	2007
Republic of Moldova		2007
Montenegro		2007
Romania	1999*	CEFTA membership ended when they acceded to the EU 20 2007
Serbia		2007
Kosovo under UNSCR 1244/99		2007

SOUTH EAST EUROPE INVESTMENT COMMITTEE

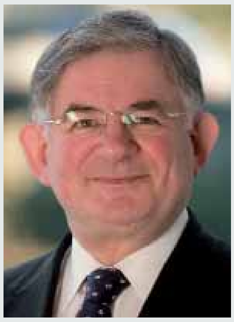
***Objective*: create a forum for peer learning, exchange and decision making on investment climate and competitiveness.**

In 2003, the Investment Compact introduced a system of regional co-chairmanship for the programme. The first co-chair from SEE was Romania (2002/3), followed by Bulgaria (2004/5) and has been Serbia since 2006.

In April 2007, the focus on regional ownership of the IC was intensified with the creation of a new regional institutional structure: The SEE IC that replaced the Investment Compact Steering Group. While the structure of the SEE IC mirrors that of the Investment Compact Steering Group, decisions on the strategy and programme of work now reside solely with the deputy ministers of economy and state secretaries representing the region. All of the other actors – including the OECD, key donors, representatives from the private sector, and other international organisations – participate in the SEE IC as advisors.

The SEE IC meets twice a year to provide direction to the Investment Compact and exchange on major topics related to investment climate and competitiveness. Recent meeting topics included "Response to the crisis" (in June 2010), "Boosting innovation and skills in South East Europe" (November 2011), "Towards a 2020 Vision for South East Europe" (May 2011), and "Moving beyond the European debt crisis to long term competitiveness in SEE" (September 2011). Its major role in 2011 was drafting of the joint declaration to be endorsed at the Ministerial Conference. The Committee also sets the direction for project work as well as for thematic working groups on investment promotion, innovation, human capital, trade, and tax.

As of January 1, 2012, the operational management of the SEE IC will be transferred to the RCC. Chairmanship of the SEE IC will be held by a SEE economy on rotating basis according to alphabetical order of country name.



Declan Murphy

Advisor to OECD
Strategy Partners Ireland
Former Head of the Investment Compact

The Stability Pact for South East Europe facilitated a comprehensive long term conflict prevention strategy to replace the previous reactive intervention policy to the region. New perspectives, thinking and leadership were demanded and this applied equally to the Investment Compact.

The Investment Compact brought international support but emphasised regional ownership and leadership. New regional dialogue and interactions were constructed. Transferring OECD and EU country processes of dialogue and policy reform helped to open a new vision for economic and social development for SEE countries. But the transition process to market economies and a region that was still riven with dissension, and required innovative approaches and methods:

- Country Economic Teams and Leaders in each SEE country were appointed. With the OECD they took a granular approach to identifying issues for implementation. The first edition of the 'Investment Compact Monitoring Instrument' (June 2001) put on record the structural reforms needed in nine SEE economies.
- New and regular modes of regional dialogue and co-operation and especially the annual ministerial meetings introduced peer review and pushed for action.
- Policy experience and 'successful practice' sharing were not enough. SEE countries wanted not just reports and assessments but practical support by donors. Thematic regional networks to drive implementation (e.g. on FDI policy and promotion, entrepreneurship and SME development, fiscal affairs, competition law, corporate governance) were established and led by the region.
- Missions from the region were hosted by for Austria, Japan, Norway, Switz-erland, Belgium, Czech Republic, Hungary, and Turkey. Seminars were held with 100+ companies in Vienna, Tokyo and Osaka, and business-to-business meetings or expert advisory sessions were held in other OECD countries.
- Through BIAC and BAC, leading industry executives participated in on-the-ground policy discussions in SEE. Another notable achievement was the establishment of 'Foreign Investor Councils' in SEE countries.

The substantial support of the Stability Pact Co-ordinator and team in Brussels combined with OECD country support underpinned the progress of the Investment Compact.

CEFTA (2007- 2011)

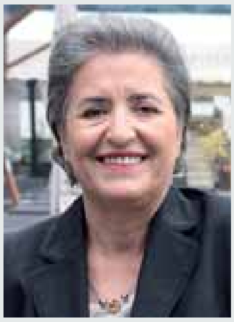
***Objective*: Support deeper regional trade and investment integration under the CEFTA agreement by monitoring the implementation of the investment-related clauses of the agreement and by reducing non-tariff barriers.**

Since 2007, the Investment Compact has supported the CEFTA parties by monitoring:
1) the implementation of the agreement's investment-related provisions; and,
2) the elimination of non-tariff barriers. The Compact's work has resulted in the publication of a series of thematic reports:

- "Intellectual Property Rights in the CEFTA 2006 Signatory Parties" provides a comprehensive review of the legal frameworks covering IPRs in the CEFTA 2006 Parties.
- "National Treatment Restrictions and Review of Bilateral Investment Treaties" examines the types of legal restrictions to National Treatment that exist among the CEFTA 2006 parties and reviews various bilateral investment treaties signed by the parties.

- "Trade Integration, Industry Concentration and FDI Inflows" contains an econometric analysis of the relationship between trade liberalisation and industry concentration since the signing of the CEFTA 2006 agreement.

The Investment Compact's current work programme with the CEFTA parties focuses on the issue of monitoring and eliminating non-tariff barriers. The OECD is also performing a quantitative analysis to understand how industry concentration has evolved at the sub-national level in the CEFTA parties. These analyses aim to help the CEFTA parties understand how deeper regional supply chains can be facilitated through trade integration.



Renata Vitez

Director
CEFTA Secretariat

As the institution created by the CEFTA parties themselves to provide technical and administrative assistance in support of the agreement's implementation, the CEFTA Secretariat relies on rigorous and high-quality analysis on trade and investment-related issues to fulfil its mandate. In this respect, the OECD Investment Compact for South East Europe could not be a better partner for us. The team at the Investment Compact consistently brings fresh, novel and innovative approaches to its analysis which in turn helps the CEFTA parties fulfil their ambitious implementation agenda. The collegiality and mutual respect between colleagues in the CEFTA Secretariat and the OECD Investment Compact ensures our future is built on a solid foundation. We congratulate the OECD Investment Compact on reaching its 10 year milestone and look forward to even closer co-operation in the years to come.

The 2003 Ministerial of the Investment Compact in Vienna, Austria.

Federica Busillo

Head of Unit, International Affairs
Ministry of Economic Development, Italy

Italy has supported the Investment Compact ever since it was launched as an initiative of the Stability Pact for South East Europe, thus becoming one of the most important donors of the programme. The uninterrupted support offered by Italy to this initiative results from the conviction that lively economic growth is a guarantee for lasting stabilisation and for long term prosperity in the region. To meet this aim, the establishment of a favourable investment climate is a critical factor. Moreover, greater regional integration and a closer co-operation amongst SEE Countries are key drivers for small economies to benefit from a larger market, without barriers to trade and investment across the region.

The Investment Compact has proven to be a very effective tool in helping SEE Countries address precisely these issues: encouraging the adoption of programmes of market, institutional and legal reforms, promoting dialogue and intra-regional co-operation, monitoring by an internationally authoritative institution such as the OECD and recognising the progress made. In this regard, the *Investment Reform Index* has become a prominent publication both for countries in the region as a tool to identify reform priorities, and for EU Countries and foreign investors. For Italy in particular, the Investment Reform Index represents an important tool to deepen the knowledge of the region's economy and it is used as a reference document for bilateral co-operation initiatives with SEE Countries.

Substantial progress has been made in the region since the beginning of the initiative, both by SEE Countries, which have put in place the key reforms needed to remove obstacles to domestic and foreign investors, and by the Investment Compact organisation itself, which has been able to adapt to the specific development context of each country and of the region itself (for example, the institutionalisation of the Investment Committee as part of the Regional Cooperation Council).

The more recent commitment of SEE countries to adopt a common regional vision to stimulate competitiveness based on the main pillar of the Europe 2020 strategy is to be very much appreciated since it represents a step forward in the perspective of a strengthened co-operation with EU and of future enlargement processes.

"Enthusiasm, creativity, commitment, partnership and perseverance... these critical features have made the Investment Compact a shining example of international co-operation for better policies for better lives."

Rolf Alter, Director, Public Governance and Territorial Development Directorate

Mary O'Mahony

Head of Office, Support to IFI Co-ordination in the Western Balkans and Turkey
Former Director Working Table II, Stability Pact for South Eastern Europe

The Investment Compact for South Eastern Europe was one of the first regional initiatives launched under the Stability Pact for South Eastern Europe – the forerunner of the Regional Cooperation Council. Together with the Trade Working Group, with which it cooperated closely, the Investment Compact formed an important pillar of the Pact's economic development activities. Over the years it has provided an excellent example of the Stability Pact's unique mandate to facilitate regional co-operation supported by coordinated external expertise to assist the Western Balkans as they pursued three inter-related economic objectives:

- transition to a market economy
- greater opening to foreign trade and investment
- deeper economic integration with the European Union

The degree of involvement by the governments of the region from the outset demonstrated that the countries fully understood the need for co-operation as a condition for success in the highly competitive global market for foreign investment. The active, "hands-on" approach of the two committed chairs of the Investment Compact, the Austrian Economics Ministry and the OECD's Directorate for Financial and Enterprise Affairs, as well as the support of the European Commission and several bilateral donors, allowed the countries to benefit from the various experiences of more developed economies in designing and implementing economic policies that attract investment – both domestic and foreign.

Part of the Investment Compact's success in producing sustainable results can be attributed to its close collaboration from the outset with the governments in the region and a progressive transfer of ownership of the reform process. In this area, the Investment Compact was an "early adaptor" compared to many other regional initiatives, setting up a network of Country Economic Team Leaders and in 2003, introducing the system of regional co-chairmanship currently held by Serbia. The focus on regional ownership was further increased by the creation of the SEE Investment Committee in 2007. The forthcoming transfer of management responsibility from the OECD to the RCC mirrors the transfer of responsibility for overall regional co-operation from the Stability Pact to the RCC in 2008. It firmly puts the region in charge of this valuable mechanism while maintaining access to relevant international expertise. Given the challenging economic and political climate facing the region and the intense international competition for investment, the Investment Compact remains as relevant for the Western Balkans in 2011 as it was in 2000.

Alan Paic

Head of the OECD Investment Compact for South East Europe

The Investment Compact is about people. It is about the people in South East Europe who strive for higher value added jobs, a supportive working environment, more prosperity, and better lives. It is about their leaders who give direction for reform in order to achieve those objectives. It is about officials who create and implement better policies which will lead to better lives. It is about a team of dedicated analysts and experts within the OECD Investment Compact team who bring their expertise in support of the reform process, helping boost competitiveness and create a better investment climate. It is about the donors who support the Investment Compact financially and with their expertise, sharing best practice with the governments of SEE. It is also about a network of partner organisations that collaborate and support us on the various projects we implement in the region.

The Investment Compact is about dialogue. Dialogue in the SEE Investment Committee enables policy makers to share and compare best practices in high level policy making in support of investment and competitiveness. They can also decide on common initiatives such as the "SEE 2020 Vision". Dialogue in the thematic working groups enables experts to learn from peers and from OECD best practice in areas such as investment promotion, innovation, human capital development, access to finance, trade, tax policy and others.

The Investment Compact is about analysis. Comprehensive, thorough and impartial analysis helps understand where countries stand and what gaps still need to be filled in order to reach best practice. A specific method based on customised indicators and a collaborative process which involves governments, the private sector and independent experts has proven its merit in delivering reliable and impartial results.

The Investment Compact is about creating impact. The gaps identified by analysis give rise to potential reforms. These reforms are prioritised according to their foreseeable impact and the feasibility of their implementation. The Investment Compact provides assistance and capacity building for implementation. Work in mixed teams between the beneficiary and OECD staff makes it possible to implement reforms according to best practice while at the same time building capacity of the beneficiary officials through a "learning by doing" approach.

Now that the SEE Investment Committee will be chaired by the Regional Cooperation Council and a SEE economy, this does not mean that the role of the OECD Investment Compact will diminish. Quite to the contrary, the OECD Investment Compact remains more than ever dedicated to helping the region further improve its investment climate and become more competitive in the global marketplace. The "SEE 2020 Vision" provides an ambitious, yet realistic, roadmap to achieve these goals for South East Europe -- through people, dialogue, analysis and a commitment to impact. For me personally, it is a pleasure and an honour to lead a team of dedicated professionals who will bring this agenda forward.

The OECD Investment Compact team

Bibliography of key Investment Compact publications and papers

2011

Republic of Moldova 2011: Fostering SME Development.

'National treatment restrictions in Parties to the Central European Trade Agreement (CEFTA)', *OECD Journal: General Papers,* pp. 21-32.

'Review of bilateral investment treaties signed by Parties to the Central European Free Trade Agreement (CEFTA)', *OECD Journal: General Papers*, pp. 33-42.

'Trade and investment in regional trade agreements: The case of the Central European Free Trade Agreement (CEFTA)', *OECD Journal: General Papers,* pp. 9-19.

'Concentration of Manufacturing Industries in CEFTA 2006: Industry Profiles'. Draft Paper on Innovation System Review for the Former Yugoslav Republic of Macedonia.

2010

Investment Reform Index 2010: Monitoring Policies and Institutions for Direct Investment in South East Europe.

Intellectual Property Rights in the CEFTA 2006 Signatories Parties, OECD/CEFTA Issues Paper, 2010.

Trade Integration, Industry Concentration and FDI Inflows: The Experience in Central and South Eastern Europe, OECD/CEFTA Issues Paper, 2010.

National and Regional Small and Medium Sized Enterprise Policy Linkage in Serbia.

2009

SME Policy Index 2009 - Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans, OECD/EC/ETF.

Sector Specific Sources of Competitiveness in the Western Balkans: Recommendations for a Regional Investment Strategy.

Implementing the CEFTA 2006 Agreement: Reaping the Benefits of Trade and Investment Integration in South East Europe.

Policies and Tools for Private Sector Development - Business Linkages: Linking Foreign and Domestic Firms to Maximise the Benefits of FDI for Employment and Sustainable Growth.

2008

Innovation in SMEs in the Western Balkans: Findings of Focus Group Meetings held in Western Balkan Countries in November-December 2007, OECD/EC/CEI.

2007

SME Policy Index 2007 - Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans.

How South East European Countries' Statistics Measure Foreign Direct Investment.

Improving the Process of Economic Reform Legislation in FYR Macedonia, OECD/GTZ.

Improving the Process of Economic Reform Legislation in Montenegro, OECD/GTZ .

The Impact of FDI on the Restructuring of the Metal Processing Industry in Bosnia and Herzegovina.

The Role of Foreign Direct Investment in the Croatian Economy.

2006

Investment Reform Index 2006: Progress in Policy Reforms to Improve the Investment Climate in South East Europe.

Foreign Investors Council: Proposals for Improvement of the Investment Climate in Serbia, Belgrade, Serbia and Montenegro.

How to Improve the Legislation Process in Serbia and Bosnia and Herzegovina: The Path from Proposing a Law to Enacting it in Parliament.

Investment Compact for SEE (2006), Report of Activities.

2005

Anti-Corruption Measures in South Eastern Europe: Civil Society's Involvement.

The Business Registration Process in South East Europe: A Peer Review.

The Employment Impact of FDI: The Experience of South East European Countries, Discussion Paper.

Monitoring the Regulatory Governance Reform Priorities in South East European Countries, Implementation Report.

Progress in Policy Reform in South East Europe: Monitoring Instruments.

Bosnia Herzegovina: Enterprise Policy Performance Assessment, OECD/EBRD

Bulgaria: Enterprise Policy Performance Assessment, OECD/EBRD

Croatia: Enterprise Policy Performance Assessment, OECD/EBRD

Romania: Enterprise Policy Performance Assessment, OECD/EBRD.

Serbia and Montenegro: Enterprise Policy Performance Assessment, OECD/EBRD.

2004

Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development, OECD/UNIDO.

Foreign Investors Council White Book: Proposals for Improvement of the Investment Climate in Serbia.

Investment Compact: Regulatory Governance in South East European Countries: Progress and Challenges.

Regulatory Governance in South East European Countries: Progress and Challenges.

The Informal Economy in Albania: Analysis and Policy Recommendations.

Progress in Policy Reform in South East Europe: Monitoring Instruments.

Albania: Enterprise Policy Performance Assessment, OECD/EBRD.

2003

A Survey on the Role of Taxation in FDI in South East Europe.

'Competition Law and Policy in South East Europe', *OECD Journal: Competition Law and Policy*, pp. 7-82.

Foreign Investors Council: Proposals for Improvement of the Investment Climate in Serbia.

Progress in Policy Reform in South East Europe: Monitoring Instruments.

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

White Paper on Corporate Governance in South East Europe.

South East Europe: Enterprise Policy Performance Assessment, OECD/EBRD.

Albania: Enterprise Policy Performance Assessment, OECD/EBRD.

Bosnia and Herzegovina: Enterprise Policy Performance Assessment, OECD/EBRD.

Bulgaria: Enterprise Policy Performance Assessment, OECD/EBRD.

Croatia: Enterprise Policy Performance Assessment, OECD/EBRD.

FYR of Macedonia: Enterprise Policy Performance Assessment, OECD/EBRD.

Moldova: Enterprise Policy Performance Assessment, OECD/EBRD.

Montenegro: Enterprise Policy Performance Assessment, OECD/EBRD.

Romania: Enterprise Policy Performance Assessment, OECD/EBRD.

Serbia: Enterprise Policy Performance Assessment, OECD/EBRD.

2002

Progress in Policy Reform in South East Europe: Monitoring Instruments.

2001

Progress in Policy Reform in South East Europe: Monitoring Instruments.

Monitoring instruments: Progress in Policy Reform in FR of Yugoslavia – Serbia.

Acknowledgements

This commemorative monograph could not have been produced without the commitment of the team who worked on the project under the leadership of Anthony O'Sullivan, Head of the OECD Private Sector Development Division (PSD); Alan Paic, Head of the Investment Compact for South East Europe; and Vanessa Vallée, Communications Manager for the Division.

The project team is grateful to all of the stakeholders from the region and from OECD countries who contributed their testimonies on the impact of the programme. Without their involvement – and that of their governments or organisations – undoubtedly the Compact would not be able to celebrate such considerable achievements over the past decade.

We would like to thank Rainer Geiger for his invaluable support and substantial contribution to this report on all levels and Rolf Alter for his key role in shaping the Investment Compact at its outset. We are grateful to Declan Murphy and Mary O'Mahoney for their support in ensuring that all key milestones were reflected in this report. We would also like to thank our OECD colleague Steven Clark from the Centre for Tax Policy who provided information about the Compact's work on taxation and Stéphane Jacobzone for his contribution of photos.

We are grateful to PSD staff members who gave unsparingly of their time to ensure that this report be launched at the SEE Ministerial. Anne-Christelle Ott, Sarah Perret, and Anita Richter drafted original texts for the monograph and undertook considerable research on the early history of the Compact. Antonio Fanelli, Milan Konopek, Jakob Fexer, Adelina Vestemean and Viorica Revenco also provided useful input into the report. Emma Beer provided invaluable support on editing, photo research and project management while Liz Zachary solicited and edited testimonial contributions.

Finally, the Compact would like to thank all of those who have given of their time over the past decade by contributing to the Compact's work and participating in its many meetings. We look forward to achieving the SEE 2020 vision with your ongoing support.

Photo credits

Cover: The first Ministerial of the OECD Investment Compact for South East Europe, held in 2002 in Vienna, Austria. Photo courtesy of Austrian Government © Renate Apostel.

Ministerial photos on pages 7, 8 (bottom of the series of 3, and bottom of page 8-9), 14, 22, 38 are courtesy of host countries.

Page 8:
Top and centre photos courtesy of the Stability Pact.

Page 18: Photo courtesy of the RCC and the Montenegrin Government.

Page 21: Photo courtesy of the OECD.

Page 26: Photo courtesy of ODIMM.

Page 30 : (top) Photo courtesy of the Romanian Government
(bottom) Photo courtesy of the Flemish Government.

Page 34: Photo courtesy of Stéphane Jacobzone.

Photos © www.fotolia.com – pages: 20, 23 (top), 24, 26, 34 (top right), 37 (top), 39, 40.
Photos © www.istockphoto.com – page 34 (top left}.

Design and pre-press production by **Baseline Arts Ltd**, Oxford, UK – *www.baselinearts.co.uk*

www.investmentcompact.org