

# **INVESTMENT COMPACT FOR SOUTH EAST EUROPE**

**PROGRAMME FOR 2007**

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**INVESTMENT COMPACT  
FOR SOUTH EAST EUROPE**

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## **1 INVESTMENT COMPACT PROGRAMME FOR 2007**

### **1.1 Monitoring and Evaluation**

The Investment Reform Index (IRI) was launched in November 2006 to evaluate progress made by South East European (SEE) countries on policy reform to improve the business climate.<sup>1</sup> Based on the IRI evaluation six priorities for reform were identified for each SEE country. In 2007 the following monitoring and evaluation activities will be conducted:

#### ***1.1.1 Follow up evaluation to IRI 2006***

The follow-up evaluation to the IRI 2006 will involve an update on the progress made in implementation of the six policy priorities for each SEE country. The next full IRI evaluation to assess regional progress in policy reform to improve the business climate will be conducted in 2008.

##### *1.1.1.1 Proposed criteria to measure success*

1. Evaluation of the degree of progress on policy priorities achieved by SEE country since the publication of the IRI 2006 by the OECD Investment Compact;
2. Renewed commitment by SEE Ministers to implement the policy priority areas from the 2006 IRI and the 2007 review of labour market rigidities at the Ministerial Meeting – November 2007.

#### ***1.1.2 Labour market rigidity evaluation***

One of the areas not covered by the 2006 IRI was labour market rigidities. However, this is an important area to be considered by all SEE countries, especially as this area is often cited as a hindrance to further investment by small- and medium-sized firms. In 2008, the OECD Investment Compact will perform a separate evaluation of the labour market rigidities in SEE, taking into account union wage bargaining, minimum wage formation, employment protection legislation, social security contributions and support by the government in the form of active and passive labour market programmes.

##### *1.1.2.1 Proposed criteria to measure success*

1. Publication of the evaluation of labour market rigidities in South East Europe – November 2007;
2. Integration of labor market rigidities in 2008 IRI evaluation
3. Adoption of the policy recommendations identified in the labour market rigidity assessment report by the SEE Investment Committee in 2008.

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1. The IRI policy dimensions are: (i) Investment Policy; (ii) Investment Promotion; (iii) Tax Policy; (iv) Anti-corruption and Business Integrity; (v) Competition Policy; (vi) Trade Policy; (vii) Regulatory Reform; and (viii) Human Capital.

### **1.1.3 SME Policy Index 2007**

The SME Policy Index was launched on 27 March in Dubrovnik, Croatia to evaluate policy reforms made by SEE countries to improve the business climate for SMEs based on the EU Charter for SMEs. In June/July 2007, three peer reviews will be conducted based on the findings of the Charter Report. These peer reviews will consist of examining one sub-dimension of the Charter in more detail in three countries. The dimensions and countries for the peer reviews will be chosen at the annual European Charter for Small Enterprise conference in Berlin in June 2007.

A second phase of the SME Policy Index evaluation process will start in September 2007. It will include company surveys and focus groups in order to support and complement the findings of the SME Charter Report with first hand data from the private sector. The process will be based on two pillars: (i) evaluation of the impact of policy measures related to specific targets; and (ii) specific guidelines on how to implement reforms related to the specific targets.

#### **1.1.3.1 Proposed criteria to measure success**

1. Decision of Western Balkan countries/regions on the subjects of the three peer reviews in Berlin, June 2007;
2. Publication of the three peer reviews;
3. Adoption by Western Balkan countries/regions of the recommendations coming out of the three peer reviews;
4. Endorsement by Western Balkan countries/regions to undertake the second regional Charter Report starting in September 2008. This report will be published in early 2007 and will have a specific focus on progress in relation to the first report. The detailed analysis will also enable a clear identification of whether the planned targets have been met and whether the guidelines of implementation have been employed.

## **1.2 Support in implementation**

### **1.2.1 “How to Implement” Guidelines**

As a follow up to the IRI 2006 evaluation, the next phase in the Investment Reform process will involve the elaboration of “How-to” guidelines on implementing policy reform in selected areas that are priorities at the regional level. The “How-to” is a set of practical guidelines for countries to design and implement effective policy measures in priority areas as defined by the Investment Reform Index.

The proposed subjects for the 2007 “How-to” guidelines are: (i) implementation of an FDI - SME linkages programme; (ii) addressing the skills gap; (iii) facilitating labour market reforms; (iv) ensuring regular regulatory impact analysis;<sup>2</sup> and (v) improving public procurement systems.

The “How-to” process will be structured around four phases: (i) assessment of where each country stands on the focus area; (ii) definition of practical guidelines to implement measures adapted to the stage of development of the policy area; (iii) definition of action plans in each country depending on the stage of development; and (iv) follow up on action plans and coaching in implementation.

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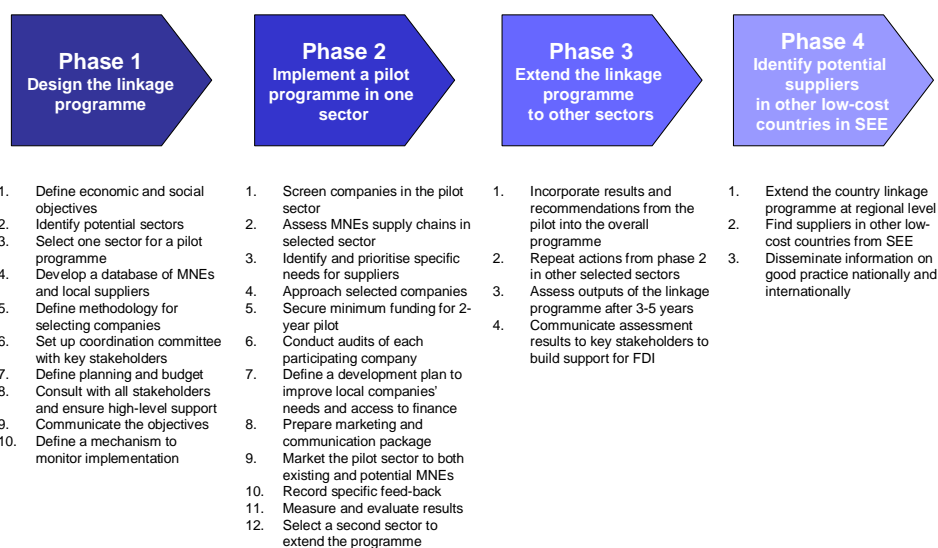
2. For a full description of the projects proposed within each subject please see individual proposals.

### Box 1. How to implement an FDI – SME Linkage Programme

Concept: The linkage programme is a structured approach through which foreign and local enterprises can support each other's economic performance through collaboration in areas such as skill development, upgrading in technical standards, manufacturing and distribution and access to new markets.

Process: The definition of different phases of implementation will take into account each country's progress in building an FDI –SME programme (see draft process below). Each phase will be broken down into detailed guidelines, based on inputs from SEE countries.

Figure 1. Draft process of FDI-SME linkage programme



#### 1.2.1.1 Proposed criteria to measure success

The criteria to measure the success of the adoption and implementation of the “How-to” guidelines are the following:

5. Endorsement of “How-to” guidelines subjects at the Project Team Meeting (PTM) on 2 April 2007;
6. Elaboration, review and publication of the “How-to” guidelines;
7. Adoption of specific action plans with timelines by SEE countries to implement the recommendations found within the “How-to” guidelines;
8. Implementation of specific measures to improve the policy framework in each of the areas of focus as mentioned in the action plans throughout 2008.

#### 1.2.2 FDI Moldova Project

The FDI Moldova Project in 2007 is aimed at implementing concrete actions to attract foreign investment and promote Moldovan investors abroad. The implementation phase will be developed during the entire year of 2007 with the direct support and co-operation of the Moldovan Government and the

Moldovan Investment and Export Promotion Agency. It will be structured around the following elements: (i) elaborate a Foreign Direct Investment Database; (ii) define and upgrade skills required to better adapt Moldovan graduates to private sector requirements; (iii) launch a pilot program on linkages between foreign investors and local enterprises; and (iv) market Moldova as investment destination to four countries: Switzerland, France, Great Britain and Sweden.

For the four above mentioned areas, the Investment Compact will focus on the Remote Technical Business Services Sector. The aim is to develop and better promote one of the new economic sectors identified by the Investment Compact in the FDI Strategy elaborated in 2006.

#### *1.2.2.1 Proposed criteria to measure success*

- Elaboration of a Foreign Direct Investment Database for public use;
- Elaboration of two How-to Guides (for Database management and for Skills promotion/Development);
- Introduction and development of the Linkages concept in Moldova;
- Pilot program on Linkages in Moldova;
- Organization of four investors missions (in Switzerland, France, Great Britain and Sweden).

#### *1.2.3 TIPA Project*

The OECD Investment Compact, in conjunction with the World Bank Invest in the Western Balkans Programme (IIWB) and supported by the 2005 EC CARDS Programme, is embarking on a new project to target investment promotion activities in the Western Balkans (TIPA). TIPA aims to identify, prioritise and determine market dynamics and establish key success factors in 4-6 sectors of the Western Balkans as well as contribute to the systematic reduction of region-wide, industry-specific barriers that hamper trade and investment.

#### *1.2.3.1 Proposed criteria to measure success*

1. Finalisation of the methodology for identifying region-wide priority sectors for the regional investment promotion agenda – June 2007;
2. Identification of four to six priority sectors for the Western Balkans – July 2007;
3. Endorsement of the four to six priority sectors by the Working Group on Investment Promotion – August – 2007;
4. Creation of a company survey to gather data to complete the analysis of each of the identified priority sectors – August 2007;
5. Definition of a regional investment promotion agenda – October 2007;
6. Adoption of the regional investment promotion agenda at the Investment Forum Regional Seminar – November 2007.

### **1.3 Private sector support**

The OECD Investment Compact actively engages the participation and opinions of its partners from the private sector, including the Business Advisory Council to the Stability Pact (BAC) and the Foreign Investors Councils (FIC). Furthermore, it has elicited high private sector input on IC activities through interviews, participation in public/private review of preliminary IRI and SME Policy Index results and input and participation in the business session of the Ministerial. The objectives of the OECD Investment Compact in encouraging private sector support are to (i) contribute to measuring progress on the monitoring and evaluation activities of the OECD Investment Compact (e.g. Investment Reform Index and the SME Policy Index); (ii) give opinions on policy reform issues through dialogue with governments; and (iii) share best practices with SEE countries.

#### *1.3.1.1 Proposed criteria to measure success*

1. Participation of the private sector in OECD Investment Compact meetings, including the Project Team Meetings and then Ministerial Meeting;
2. Frequent OECD Investment Compact meetings with private sector representatives during missions;
3. Adoption of a Business Statement from the private sector during the 'Business Day' at the 2007 Annual Ministerial Meeting;
4. Follow-up on implementation of the Business Statement throughout 2007 and 2008, marking milestones made and goals achieved.

### **1.4 Political support**

#### *1.4.1 Launch of SEE Investment Committee*

The Investment Compact together with its Co-Chairs and SEE countries initiated to launch a new South East Europe Investment Committee in 2007. The proposed new South East Europe Investment Committee (SEEIC) is designed to encourage regional leadership and will be closely linked with the Regional Framework for Investment and other relevant regional initiatives, such as the South East European Cooperation Process (SEECPP), the Regional Cooperation Council (RCC) and the Regional Free Trade Agreement for South East Europe (CEFTA). The proposal will be reviewed and finalised at the next Project Team Meeting (PTM) on 2<sup>nd</sup> of April in Paris.

The primary objective of the new SEE Investment Committee is to create a high level coordination body to encourage the implementation of policies related to foreign and domestic investment. The SEE Investment Committee will be responsible for developing guidelines on how to implement policy reforms and a program of action and capacity building to support the IRI process and can provide a framework for peer review.

The SEE Investment Committee will set up Regional Working Groups to develop plans and capacity building programmes for the implementation of the reform priorities recommended in the Investment Reform Index report. The Working Groups can also develop proposals on good practices to further promote regional integration and to remove obstacles to investment. For operational purposes it is suggested to start with four Working Groups in 2007 including Regulatory Reform, Investment Promotion, Anti-Corruption Policy and Human Capital.

#### *1.4.1.1 Proposed criteria to measure success*

1. Adoption of the SEEIC proposal at the PTM on 2<sup>nd</sup> April 2007;
2. Adoption of four IRI “How-to” guide subjects at the PTM on 2 April 2007;
3. Formation of four Working Groups composed of relevant government experts to oversee the creation of the “How-to” guides at the PTM on 2 April 2007;
4. Review and endorsement of the 4 “How-to” guides by the four Working Groups;
5. Adoption by the four Working Groups of specific action plans with timelines by SEE countries to implement the recommendations found within the IRI “How-to” guides;
6. Follow-up on implementation of action plans by the Working Groups throughout 2008, marking milestones made and goals achieved.

#### **1.4.2 Ministerial**

The next Ministerial Meeting in 2007 will be structured around a public-private panel debate with SEE Ministers and CEOs on reasons why to invest in South East Europe. Following that discussion, one to one meetings will be held with SEE Ministers and CEOs to give the opportunity to address further investment opportunities in South East Europe. The Ministerial Conference will be focused on SME linkages programmes and their benefits for foreign investors and the industrial base in SEE countries through technology and management transfer. SEE Ministers will also adopt the new South East Europe Investment Committee at the Ministerial meeting.

#### *1.4.2.1 Proposed criteria to measure success*

1. Adoption of the SEEIC proposal at the Ministerial Meeting;
2. Adoption of a Business Statement by SEE Ministers at the 2007 Ministerial Meeting;
3. Follow-up on implementation of the Business Statement throughout 2007 and 2008, marking milestones made and goals achieved.

## **2 APPENDIX**

### **2.1 List of Publications**

1. Enterprise Policy Development in the Western Balkans: a Report on the Implementation of the European Charter for Small Enterprises – March 2007;
2. The Role of Foreign Direct Investment in the Croatian Economy – March 2007;
3. The Impact of Foreign Direct Investment on the Metal-Processing Industry in BiH – April 2007;
4. How South East European Countries' Statistics measure Foreign Direct Investment – April 2007;
5. How to Implement Reforms in SEE – November 2007;
6. Sector Specific Sources of Competitiveness – September 2007;
7. Labour Market Rigidities – November 2007.