

**South East Europe Investment Committee
Fifth Meeting**

Paris, 16 November 2009

- Conclusions -

1. The fifth meeting of the South East Europe Investment Committee (SEEIC) was held on 16 November 2009, at OECD headquarters in Paris. Ms. Carolyn Ervin, Director, Directorate for Financial and Enterprise Affairs, OECD, and Mr. Hido Biscevic, Secretary General, Regional Co-operation Council (RCC) opened the meeting.
2. The meeting was chaired by the three Co-Chairs of the Investment Compact for South Eastern Europe (SEE), Ms. Vesna Arsic, State Secretary, Ministry of Economy and Regional Development, Serbia, Mr. Manfred Schekulin, Director, Export and Investment Policy, Federal Ministry of Economy, Family and Youth, Austria and Mr. Alistair Nolan, Head of the OECD Investment Compact.
3. Participants at the meeting included representatives from all of the SEE economies, the OECD Secretariat, the European Commission, bilateral donors to the Investment Compact, and the business community. Participants from both South Eastern Europe and the international community were highly engaged and took the floor during the various discussion sessions.
4. The meeting focused on business climate reforms beyond the economic crisis and the evolution of the Investment Compact from 2010 to 2011.

Maintaining momentum for reform beyond the crisis

5. The SEEIC received an update on the effects of the global economic crisis in the region and reviewed findings from the forthcoming Investment Reform Index 2009. Key points that emerged from the discussion included the following:
 - a. The global economic crisis has had a real economic impact in SEE resulting *inter alia* in sharp contractions in exports, FDI and remittance inflows, and industrial production - although some economies have been more resilient than others (e.g. Albania will report positive GDP growth for 2008). There are, however, signs that the contraction in economic activity may have bottomed out. The banking sector, despite initial fears, has displayed stability and no speculative bubbles or balance of payments crisis have arisen in 2009;
 - b. Intra-regional trade and investment linkages in the SEE region have proven remarkably resilient in the face of the crisis. For instance, contractions of trade flows were greater between SEE countries and EU partners than between SEE countries themselves. Indeed SEE exports have rebounded to early 2008 levels. The determination of SEE governments to avoid protectionist measures despite pressure from some domestic producers has been reassuring. However, SEE economies are still dependant on developments in the economies of EU members;
 - c. The economic crisis provides an opportunity for SEE economies to undertake structural reforms to address competitiveness gaps and reap greater dividends from enhanced regional cooperation. While the donor community will continue to provide political and technical support for economic reforms, success depends on the SEE economies themselves taking full ownership of policy priorities and reforms;

6. The policy response in SEE to the economic crisis through primarily fiscal measures raised some interesting questions for future policy development and the Investment Compact was asked to examine some of these in advance of the next SEEIC meeting in the spring of 2010. These areas include:
 - a. Real interest rates on deposits had been negative for some time. However, as a result of the crisis and policy responses, they are now strongly positive. How will this impact savings and consumption patterns?
 - b. Direct investment, especially in the banking sector, has played a positive role (i.e., foreign ownership remains very high). What has been the role of foreign and domestic banks in reacting to the crisis? More broadly, how have foreign businesses reacted to the crisis compared to their domestically-owned counterparts in the SEE region?
 - c. The economic crisis could be a catalyst for structural changes. Could foreign investors outside of the EU use SEE as a hub for access to the EU in the post-crisis period? Will global supply chains begin to reorganize themselves to serve the EU market and could SEE economies benefit from this reorganization?
7. The Investment Compact will examine these questions and report back to the SEEIC.
8. Findings from the Investment Reform Index (IRI) 2009 were presented by the Investment Compact. In terms of regional performance, SEE economies scored well in policy areas such as investment policy and promotion, certain aspects of trade, and SME policy. Progress was notably behind international best practices in areas such as human capital development, tax policy analysis and access to finance. Human capital development was flagged as an area where private sector expectations were not being met by the education systems in SEE.
9. The Investment Compact also reviewed the results from the 2009 SME Policy Index which indicates that SEE economies have made good progress in policy areas that directly affect the operational environment for small enterprises (e.g. company registration, regulatory environment). However most economies are at an early stage in terms of introducing targeted policies for specific types of SMEs (e.g. start-ups, export oriented SMEs, technologically innovative firms, etc.).
10. A new Irish-funded pilot project on SME development at the sub-national level in Serbia was also briefly reviewed and it was emphasised that while there have been considerable improvements in the regulatory system at national level, companies increasingly face a range of regulatory and fiscal obstacles at local level (a finding that accords with similar insights gleaned from other economies during fieldwork for the IRI);
11. Several participants noted that in order for policy reforms to advance and be reflected in assessments such as the IRI, governments in SEE need to reinforce administrative capacities, enhance the rule of law, and continue the fight against corruption.

SEEIC-related activities and Future Evolution of the Investment Compact

12. Ms. Renata Vitez, Director of the Central European Free Trade Agreement (CEFTA) Secretariat, praised the close co-operation with the Investment Compact in terms of facilitating the implementation of CEFTA. She highlighted two specific projects: i) the EC-funded monitoring of the investment-related clauses of the CEFTA; and ii) the Hungarian funded project to identify, classify and prioritise those non-

tariff barriers (NTBs) that affect the main trade flows among the CEFTA Parties and to provide the CEFTA structures with a draft action programme to reduce and/or eliminate these.

13. Regarding the former, Mr. Antonio Fanelli of the Investment Compact, gave an overview of the CEFTA Parties' progress in eliminating restrictions to national treatment; the consistency of the bilateral investment treaties signed between the Parties; efforts to enhance protection of intellectual property rights; improvements in the public procurement market; and the results of econometric analysis comparing FDI and industry concentration in the CEFTA region, the Baltic countries, and central Europe. Serbia, as the next CEFTA Chair, indicated that its proposed work plan for 2010 will focus on investment, services liberalisation, competition and government procurement. In terms of the latter, the Investment Compact noted that, at present, administrative barriers presented the major obstacle to trade among the CEFTA Parties while issues relating to technical barriers and sanitary and phytosanitary issues had the major impact on trade with the EU. A series of recommendations have been presented to the CEFTA Joint Committee for consideration and the Investment Compact will now work with Albania, the in-coming chair of the CEFTA Sub-Committee on TBTs and NTBs, to prepare a work programme to tackle NTBs in 2010 and beyond. The importance of monitoring progress was emphasised and the Investment Compact will work with the CEFTA Parties to develop a scorecard to measure progress on tackling NTBs in 2010.
14. The results of all these projects were presented to the CEFTA Parties at the recent CEFTA week events hosted by the current CEFTA Chair, Montenegro, in Podgorica in the run-up to the CEFTA Joint Committee meeting on 29 October. The SEEIC commended the concept and execution of CEFTA week and looks forward to continued interaction with the CEFTA structures under the forthcoming Serbian Chairmanship of CEFTA.
15. Mr. Anthony O'Sullivan, Head of the Private Sector Development division, OECD, outlined the key elements of the proposal to transfer coordination of the SEEIC to the RCC over a period of 18 months. A background paper on this proposal had been circulated to all participants in advance of the meeting. The Investment Compact has been in operation for nearly a decade and has undertaken an impressive body of analytic work and facilitated constructive policy dialogue between the SEE economies. It is increasingly supporting the SEE economies in implementing specific policy reforms. The goal of transferring the coordination of the SEEIC to the RCC would be two-fold: i) to allow the SEE economies themselves take direct ownership of regional dialogue and the co-ordination of initiatives on investment and business climate reforms; and, ii) allow the OECD Private Sector Development division to focus its resources on providing high-quality analytical work and support for implementation of policy priorities.
16. The Deputy Secretary General of the RCC, Ms. Jelica Minic, expressed the RCC's willingness to assume the responsibility for co-ordinating SEE IC activities. She highlighted the RCC's mandate to support and promote regional co-operation processes in SEE and the fact that economic and social development was one of the priority areas for the Council. She also emphasised how SEEIC activities would complement many of the other actions being undertaken under the auspices of the RCC. Co-operation between OECD and the RCC has intensified over recent months and will be strengthened further during the transition phase. She noted that the RCC would require additional support to ensure that it can carry out its new tasks as efficiently and effectively as possible.
17. Participants welcomed in principle the proposal of transferring co-ordination of the SEEIC to the RCC. The point was made that some institutional capacities within the RCC would need to be strengthened over the transition period to ensure a seamless transfer of responsibility and welcomed the fact that the OECD and RCC would work very closely during this period. The OECD Secretariat also emphasized that it would continue to work with the SEE Investment Committee and the RCC beyond the transition period,

in terms of undertaking rigorous analytical work to support the SEEIC's work plan, contributing content for plenary meetings and working groups. Indeed, the OECD – with the support of the donor community - will continue its support for economic development in the region into the foreseeable future.

18. The SEEIC concluded with a review of current and forthcoming projects for 2010 and some preliminary reactions to the menu of items proposed by the OECD Secretariat on the basis of the results to date, for future work. The following activities will be undertaken as part of on-going work and projects due to commence in the short-term:
- Launch of the Investment Reform Index 2009 in the first quarter of 2010. A series of launch events will be held to publicise the release of this report. An event will be held in each of the SEE economies as well as in Brussels and Paris and the report will also be presented at other relevant meetings/conferences. The Investment Compact will prepare materials to support each event and will circulate a timetable of events to all members of the SEEIC well in advance;
 - Initiation of comparative SME policy performance based on the European Small Business Act. It is hoped that the EC will shortly approve the financing for this assignment which will follow-up on the SME Index 2009 and expand it to take account of the changes wrought by the European Small Business Act;
 - Support in implementation of CEFTA commitments. A report on the monitoring of the investment related clauses of CEFTA will be published in early 2010 and the Aid for Trade project focused on NTBs will continue to support the Sub-Committee on TBTs and NTBs during 2010;
 - Second phase of the Sector Specific Sources of Competitiveness project. The sector specific assistance in the textiles, automotive industry and ICT areas will be completed in the first half of 2010;
 - Launch of the Moldova SME project. Activities under this project, financed by the government of the Netherlands, will commence in early 2010;
 - Commencement of the EC-financed Regional Competitiveness Initiative. This three-year project will provide policy assistance to the SEE economies in the areas of human capital development and innovation. A combination of country-specific pilot projects and regional activities will be used to encourage cross-ministerial co-operation, transfer of know-how and the analysis and development of policy options in these fields. Further information on this project will be circulated following its approval.
19. Based on the results of work undertaken to date, particularly the SME Policy Index and the IRI, the OECD proposed a menu of policy areas where further work could be undertaken at regional level. A tour de table to obtain preliminary reactions on this revealed interest in SME development, investment policy and planning, access to finance, trade and human capital development. It was noted that some activities are required at country level whereas others should be conducted on a regional basis. The participants agreed to send their formal reactions on the menu of items in writing to the OECD Secretariat. A deadline of December 21st is proposed. It was also noted that participants could indicate their preferences for new ideas not explicitly listed in the menu of items. This will allow the Investment Compact to prepare an overall work programme for the SEE IC and its Working Groups that can be adopted at the next SEEIC meeting, subject to the availability of financial support from the donor community.

20. A number of countries also referred to specific areas of possible country-level support. The Investment Compact will follow-up bilaterally with these and all other countries, based on the analytic findings of the IRI. The Investment Compact intends to use the process of preparing and carrying out IRI launch events in all countries as opportunities to define with national authorities possible country-level work.
21. The Co-Chairs complimented the Investment Compact Secretariat on its work to date and in particular for the extensive preparations for the meeting. They thanked all participants for their highly active participation in the meeting and agreed to hold the next SEEIC meeting in spring 2010.