South East Europe should do more to attract foreign investment, says OECD

South Eastern European countries should step up their fight against corruption, further encourage competition and intensify regional co-operation on trade in order to attract more and better foreign direct investment, according to a new OECD report.

The OECD Investment Compact’s Investment Reform Index report 2006 analyses the policies of countries in the region and recommends how they could improve them to attract more and better foreign direct investment (FDI). The countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Montenegro, Romania and Serbia.

Some significant progress has been made, the report finds. Countries have put in place effective investment policies, liberalised their trade regimes and introduced low corporate tax rates that range from 9% to 20%.

However, economic growth and policy reforms have not reduced unemployment in the region, which is over 20% in the Western Balkans. FDI inflows continue to depend heavily on privatisation, with 90% of inflows concentrated in Bulgaria, Croatia, Romania and Serbia.

The report warns that time is running out for the region to achieve its full investment, growth and employment potential. Without further reforms, the region risks being marginalised by competition from both Central Eastern European countries, which are increasingly active in high-value, more capital and technology intensive sectors, and low-cost, labour-intensive producers in Asia and North Africa.

EU accession has accelerated the reform process, particularly in Bulgaria and Romania, which lead the region in implementing investment and competition policy. But every country needs to do more on issues not directly related to the accession process, such as regulatory reform, tax administration and human capital.

Public governance in the region needs to be improved, notably in terms of anti-corruption and regulatory reform. While laws and institutions are in place to fight corruption, there is little evidence of enforcement. There are too few investigations, prosecutions and convictions on corruption charges. Corruption in tax and customs has been reduced by streamlining administrative processes but conflict of interest for civil servants, for instance in the area of public procurement, remains a problem.

Regulatory reform is a major challenge. Countries have put in place regulatory reform strategies and established regulatory bodies. But most of these bodies are understaffed and many lack the power to challenge draft laws.
Policy inconsistencies in the region are also sending out conflicting signals to investors. For example, while countries have significantly reduced tariffs and abolished import and export licenses, they have not yet addressed high non-tariff barriers to trade such as technical, health and sanitary standards, as well as burdensome customs procedures. Land property rights and the enforcement of intellectual property rights should also be strengthened.

The OECD Investment Compact is a regional programme set up to improve the investment environment and encourage private sector development in South East Europe (SEE). It operates under the auspices of the Stability Pact and its work is co-ordinated by the OECD, which provides the secretariat.

To obtain a copy of the Investment Reform Index 2006, journalists are invited to contact the OECD’s Media Division (tel. +33 1 45 24 97 00).

For further information, please contact Anthony O’Sullivan, Head of the OECD’s South East Europe Programme (tel. +33 1 45 24 97 01).