OECD'S ADVISORY GROUP ON INVESTMENT (AGI) MEETS IN BUDAPEST

The role of investment finance and guarantee schemes in facilitating foreign direct investment (FDI) in Eastern Europe and the Newly Independent States was examined at the Third Plenary Meeting of the OECD Advisory Group on Investment, held in Budapest on 9th-10th February. The meeting was hosted by the Hungarian Ministry for International Economic Relations and opened by Minister Bela Kadar.

Senior policy makers from 18 transition economies, officials from OECD countries and half a dozen leading international organisations, as well as private sector experts noted that for the time being the majority of foreign investments are self-financed by Western parent companies. Although official and commercial sources provide a variety of finance and guarantee opportunities for investment in the region, actual FDI flows are still limited.

Participants identified five major areas for public and private initiatives that would increase the role of external finance and guarantee schemes for the benefit of greater FDI flows:

-- Host governments need to foster macroeconomic and political stability and strengthen their domestic banking system and capital markets. Progress in these areas will improve the creditworthiness of a country and facilitate access to project finance and guarantees.

-- Host governments and potential investors should respond better to the needs of financial and guarantee agencies for country-specific and investor-specific information.

-- Official and private finance and guarantee agencies may combine their products with technical assistance in management advice to potential investors. Design and implementation of business plans, production facilities or marketing strategies have an important impact on the validity of an investment project.
Foreign and domestic banks in transition economies need to provide more training opportunities for local staff. Increasing the number of competent loan officers will improve suitable evaluation of investment projects and help secure matching domestic finance for joint ventures.

Finance and guarantee agencies need to improve transparency and procedures in existing facilities and programmes in order to increase effective access for potential investors.

The next meeting of the AGI, in October 1994, will examine the role of foreign direct investment in certain key sectors, such as banking, communications and tourism.

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