

**SOUTH CAUCASUS AND UKRAINE INITIATIVE**

**PROJECT SUMMARY**

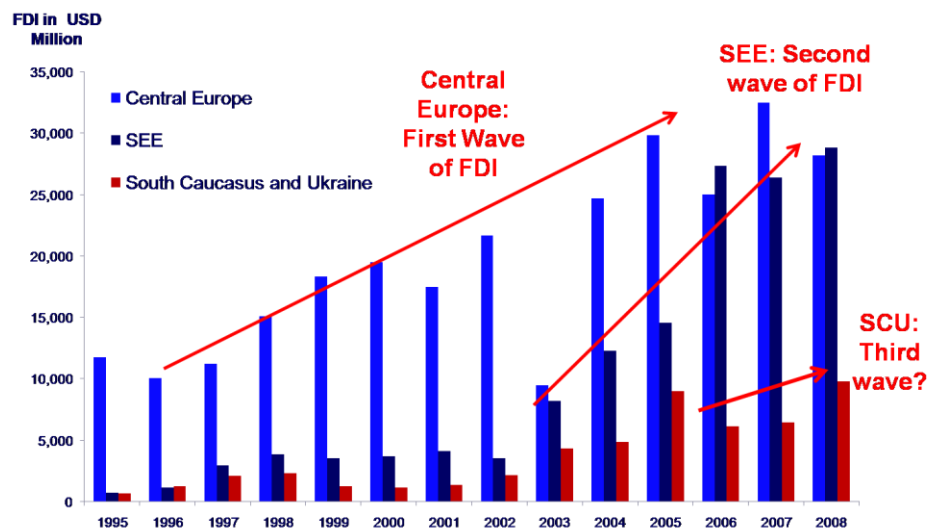
**Organisation for Economic Co-operation and Development**

Launched in 2008, the Eurasia Competitiveness Programme is a regional programme that contributes to economic growth in Central Asia (CA) and the South Caucasus and Ukraine (SCU). OECD experts work closely with governments, the private sector and civil society to design and implement tools and instruments that will lead to policy reforms and improve the business climate. Geographically, the Central Asia (CA) initiative covers Afghanistan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan. The South Caucasus and Ukraine (SCU) initiative covers Armenia, Azerbaijan, Georgia and Ukraine – with Moldova as an observer.

## The need to accelerate policy reforms to support the business climate and address the impact of the financial crisis

- The South Caucasus and Ukraine have enjoyed increased foreign direct investments (FDI) since 2002.
- However, FDI per capita is still up to 6 times lower than Central and Eastern Europe and is mainly concentrated in the energy sector.
- The financial crisis has impacted GDP growth and investment flows of most countries of the region.
- There are major economic differences between countries from the South Caucasus and Ukraine region in terms of FDI flows, and a regional approach can help the less advanced economies benefit from greater economic integration and learn from those that are more advanced.
- The region is not yet perceived as an investment destination across sectors.
- The South Caucasus and Ukraine would benefit from a regional approach to promote investment, international and intra-regional trade.
- There is a need to support reforms that would enhance both the quantity and quality of FDI.

## FDI trend in the South Caucasus and Ukraine region - A potential new investment destination following Central Europe and South East Europe



Source: EBRD Transition report 2008, OECD Analysis  
FDI net inflows for Azerbaijan are negative in the period of 2006-2008

THE OECD  
EURASIA  
COMPETITIVENESS  
PROGRAMME

**The objective** of the Initiative is to:

- Improve competitiveness in the participating countries through better policy design and implementation. The right policies will lead to a better business climate and encourage regional co-operation. Ultimately, the Initiative will help foster economic development and stability.

**The Initiative will achieve** its objective by:

- Sharing OECD best practices and policy experiences that improve the business climate;
- Supporting dialogue and exchange of best practices and reform experiences;
- Assisting governments to develop policies that support local businesses and encourage foreign investment.

**The key principles** driving the delivery of the Initiative are:

- Transparent and strong links with the National Development Plans, and the unique domestic conditions of each country;
- Active ownership of the participating countries;
- Voluntary self-evaluation by the government of its policy reforms;
- Active involvement of the private sector;
- Co-ordination with existing donors and other international organisations to avoid any overlap.

**The governance structure:**

- Oversight and regional ownership is ensured through an Advisory Council, chaired or co-chaired by OECD member countries, and the Working Groups who are responsible for the delivery of substantive work;
- Meeting twice a year, the Advisory Council includes representatives of the participating countries, Advisory Council co-chairs, OECD representatives and members, as well as donors, international organisations and the private sector;
- A ministerial meeting will be held annually, while the policy working groups meet once or twice a year. Beneficiary countries are expected to attend all meetings and provide at least two experts per policy working group from 2009 onwards.

**The beneficiaries of the Initiative** are policy makers, business intermediaries and the private sector, including investment promotion agencies, chambers of commerce and small- and medium-sized enterprises.

## THE PROCESS

**A three step process** for promoting policy reform:



### **Step 1: A - Policy review:**

In the first step of the Initiative, common policy areas are identified and agreed upon through government consultations. The OECD Policy Framework for Investment is used as a basis for this step. Consultations may also consider specific sectors warranting their own regional networks. Once the policy areas and sectors have been identified, policy working groups are established with country experts and the private sector to identify ways to address any existing policy barriers.

### **Step 2: B - Policy Working Groups:**

The policy working groups allow countries to exchange experiences, conduct peer reviews and develop recommendations to address common policy issues.

### **Step 3: C - Implementation support:**

Finally, concrete action plans are developed at both country and regional levels to be implemented by governments. These plans could include such elements as sector-specific policy recommendation; linkages programmes between international and local companies, or alignment of industry requirements and education curriculum.

It is to be noted that country-specific Sector Competitiveness Strategies will also be implemented in parallel with the regional approach.

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