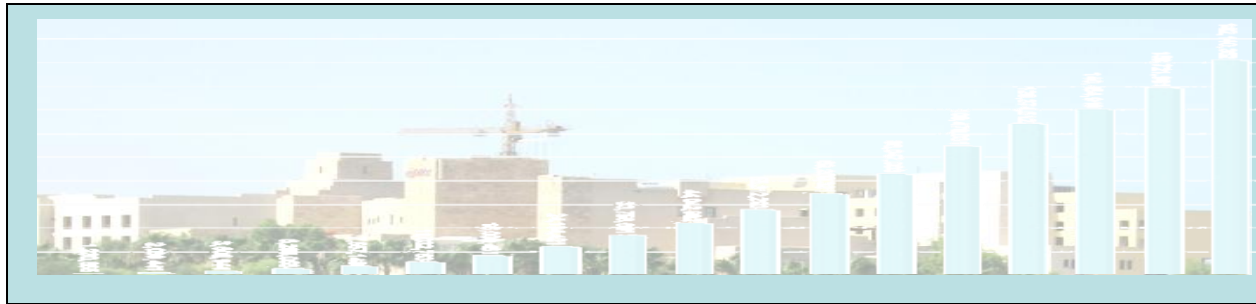


Iraq Project



Investment Policy and Transparency for Growth and Private Sector Development in Iraq



MENA-OECD Initiative on Governance and Investment for Development

Dr. Rainer Geiger, Deputy-Director, OECD

**MENA-OECD
INVESTMENT
PROGRAMME**

**GOOD GOVERNANCE
FOR DEVELOPMENT
IN ARAB COUNTRIES
INITIATIVE**



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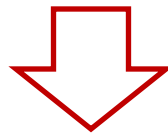
I. Context

- Challenging economic, political and security environment
- Unemployment 17,5% in 2007, central urban areas 23% (Iraqi sources)
- Liquidity from oil drives the economy – limited other linkages with the rest of the country
- High inflation rates, levels beyond 20% (IMF)
- Rebuilding infrastructure considerable challenge
- Masked unemployment paralyzes SOE, governance issues
- Very large young/dependant population:
 - 50% of Iraqis are under 20 years old



I. Context: Business Development Policy and Governance Reforms launched

- Potential for Investment: Foreign, Iraqi Diaspora, domestic is very high
- Iraqi has no FDI figures or ranking – scarcity of data is a major concern to investors
- New Investment Law from 2006, new institutions set up
- New framework for oil sector debated, reforms of banking sector
- 2008: national campaign for fighting administrative corruption



MENA-OECD Initiative has developed ongoing Investment Policy and Anti-corruption projects with the Republic of Iraq in the framework of the International Compact with Iraq



II. MENA-OECD/IRAQ Project

The project is based on:

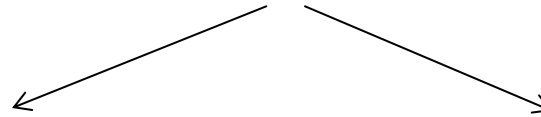
- Mandate provided by **International Compact with Iraq/MENA-OECD Initiative/Paris Declaration on Aid Effectiveness**
- Engagement of key Iraqi Ministries and Agencies
- Support of MENA countries, namely Jordan, Egypt, Morocco and Bahrain
- Capacity-building meetings in the areas of investment reform, public procurement, anti-corruption and improved governance
- Support for involvement of Iraqi government officials into regional expert networks



II. MENA-OECD/Iraq Project

Iraq & MENA-OECD

Investment



Anti-Corruption

Key Activities :

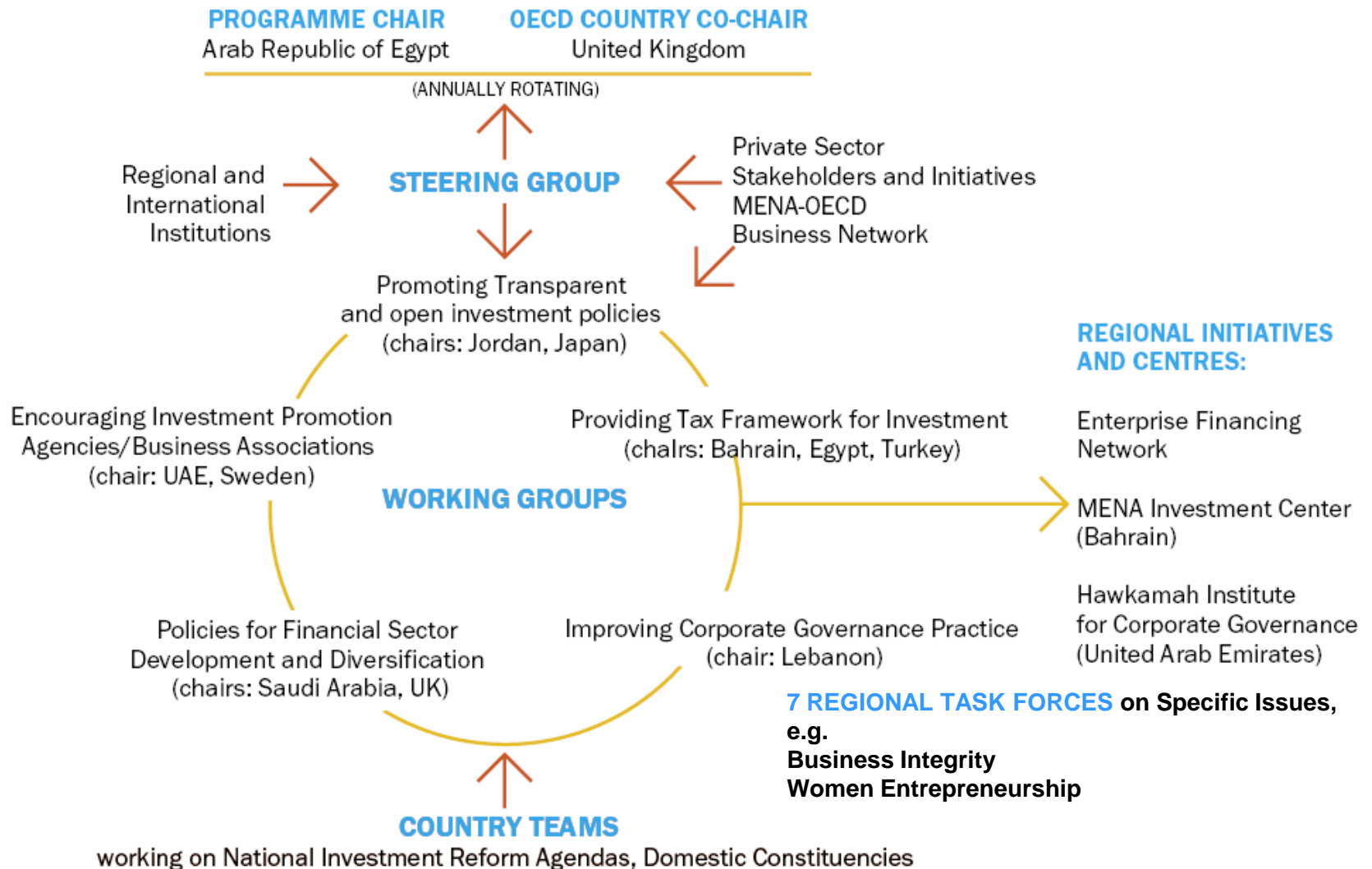
- Support an effective institutional setup of the National Investment Commission (NIC) including interactions with other agencies.
- Support implementation regulation for the Iraqi Investment Law
- Capacity-building for Iraqi negotiators of Investment agreements, design targeted country strategy.
- Integrate GoI officials into regional/international bodies

Key Activities:

- Stocktaking exercise reviewing the main sources of corruption/legislative framework for integrity and fighting corruption.
- Proposal to implement anti-corruption policies in government procurement of key Iraqi ministries – link to Paris Declaration on Aid Effectiveness
- Integrate GoI, Commission of Public Integrity and Inspector Generals into regional networks

Leverage a Successful Regional Process that has been Established for Three Years

MENA-OECD Investment Programme





II. MENA/OECD IRAQ Project Achievements

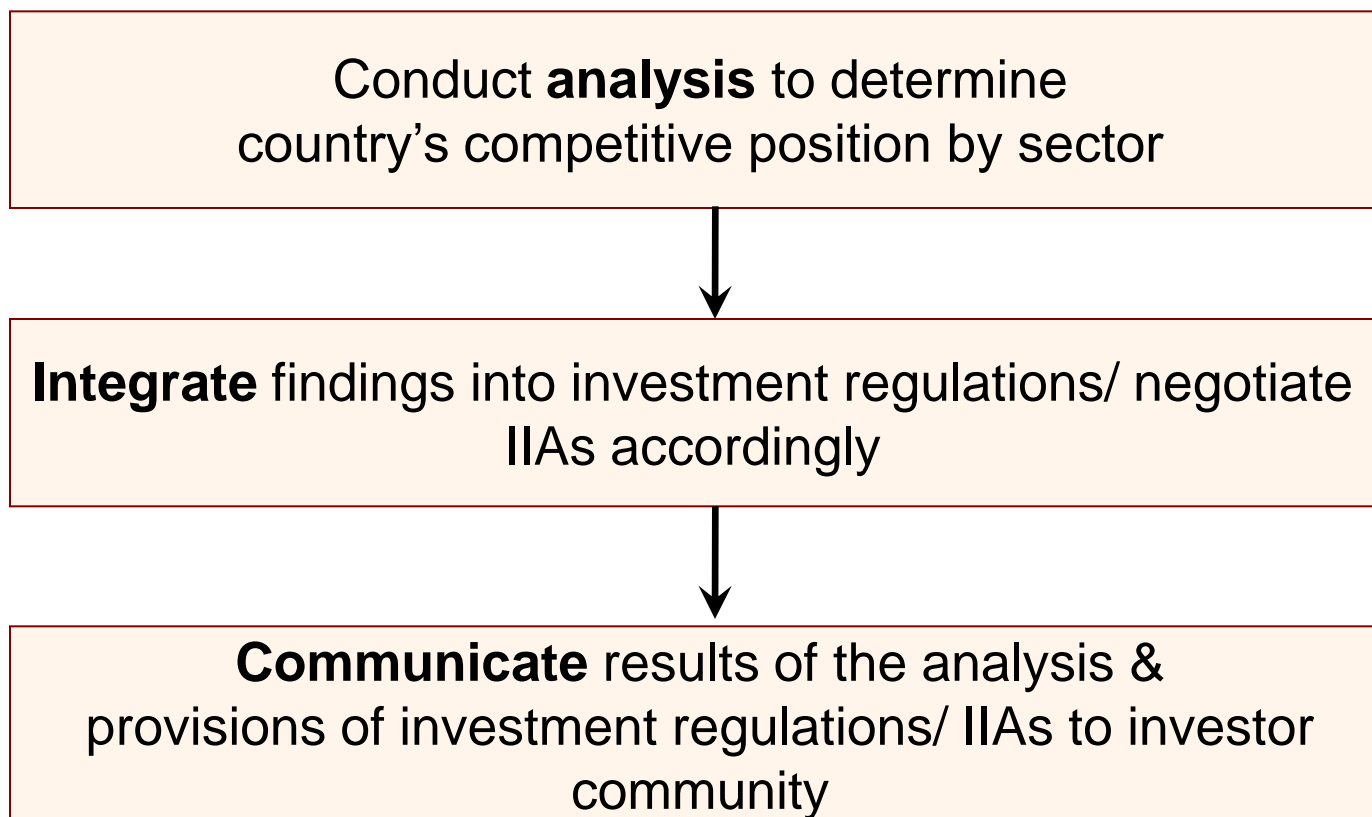
- A network of Iraqi government officials on investment policies and transparency in procurement has been established
- Support structure in Baghdad and Amman has been built up and strategic partnerships with the Government of Iraq have been built
- 9 capacity building meetings have been conducted
- Iraqi business community involved in the activities
- First tangible results: anti-corruption survey, NIC understanding, first draft of investment implementation regulation, investment agreements checklist, investment promotion training

Iraq National Investment Commission/MENA-OECD co-operation

- Supporting and enhancing the Iraqi National Investment Commission to create investment procedures and policies.
- Cooperate in key areas that can simplify licensing procedures
- Identify International Investment Agreements the Government of Iraq could enter into to create bilateral relationships and build the Commissioners capacity to negotiate said agreements.
- Support the organisation of the NIC, including business process engineering, staffing and training
- Assist Iraq in promoting and attracting investment through international conferences and advocacy events
- Assist in strengthening corporate governance of SOEs and providing assistance on PPP/privatisation models
- Assist OECD countries in better understanding the legal and regulatory frameworks for investing in Iraq

III. Example of Investment Policies : the OECD-PSD approach

OECD PSD Approach: From country competitiveness assessment to investment rule-making and promotion



Competitiveness Aspects: Iraqi Investment Law

Regulation of Entry

- Ensure that there are no entry restrictions for target sectors.
- Ensure that entry regulations are transparent (**negative list** approach).
- Ensure **full national treatment** of the foreign investor after establishment.

Screening and Approval Procedures

- Guarantee that screening and approval procedures are **transparent and predictable**, based on clearly defined considerations.
- Guarantee right to **judicial review** of all decisions.
- Provide good **institutional frame** to guarantee that procedures are conducted in an efficient and timely manner.

Competitiveness Aspects: Investment Laws

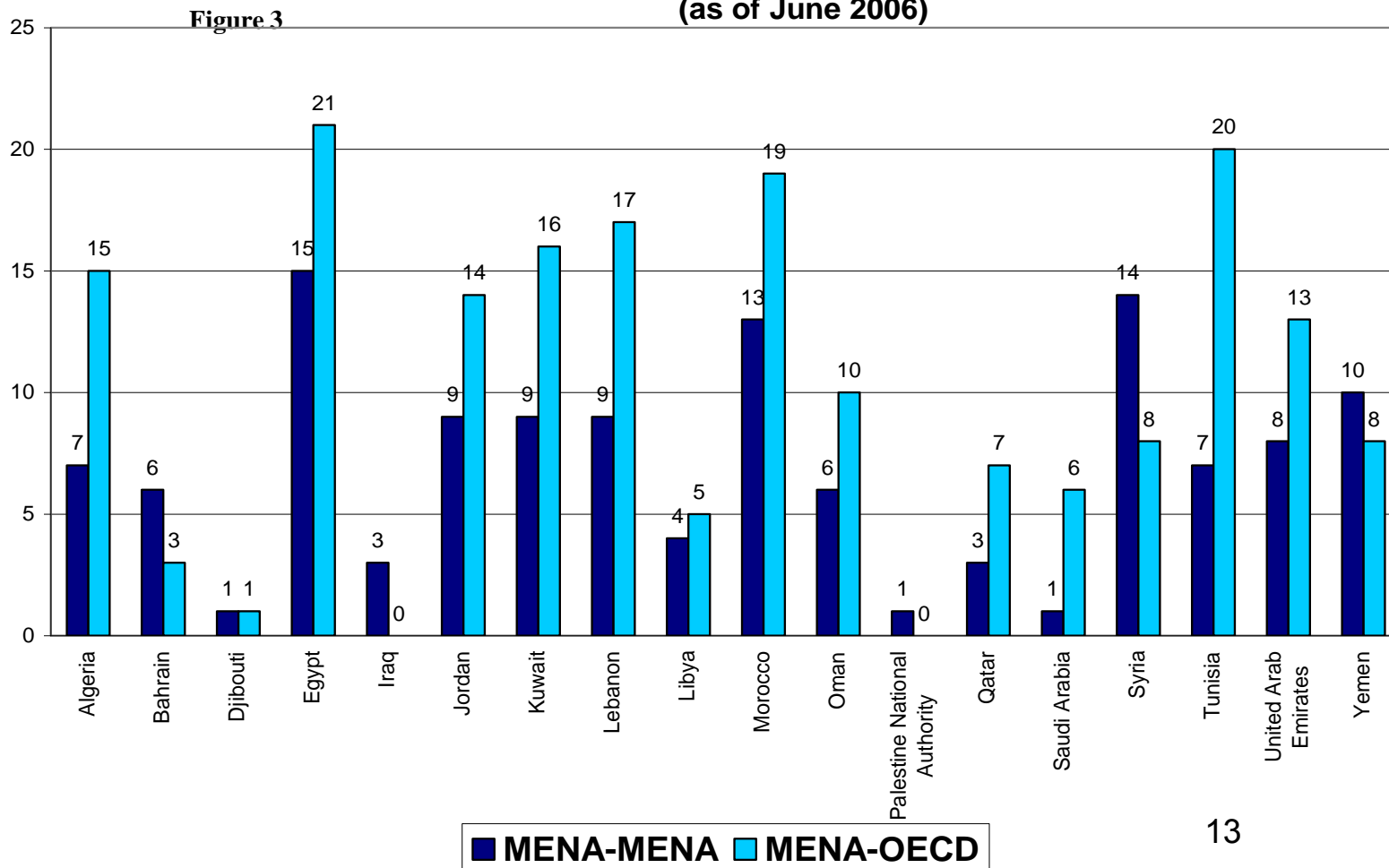
Investment Incentives

- Typology
 - **Regulatory** incentives
 - **Fiscal** incentives
 - **Financial** incentives
- Caveats
 - Incentives can at best be supplement for a **good enabling environment**/ compensate for certain concrete shortcomings.
 - A **cost-benefit-analysis** needs to be conducted (forgone revenues!) and incentives need to have sunset clauses.
 - Incentives need to be carefully designed to **stipulate investment** rather than tax planning.
 - **Administrative discretion** needs to be kept as low as possible.

III. Example of Investment Policies : the OECD-PSD approach

International Investment Agreements – Iraq to catch up

**Comparison of BITs between MENA-MENA and MENA-OECD countries
(as of June 2006)**



IV. Example : Private Sector Development, BCDS

- The Business Climate Development Strategy (BCDS) is a **process** that defines **where and how** a country should reform to improve the business climate and country competitiveness.
- It is targeted at improving the **business environment** to **increase investment** and competitiveness, thereby contributing to **growth** and **employment**
- It is a **co-operative and systematic approach** following three steps:



- Synthesis of existing evaluations using OECD methodology for policy prioritization.
- Stock-taking of existing business climate reform projects.

Define time-bound strategic priorities with government leaders, including consultations with other stakeholders.

Support the design and implementation of improved policy at national and regional level.

IV. BCDS : Comprehensive Assessment Framework

I. Business Operational Environment

1. Investment and Privatisation Policy
2. Investment Promotion
3. Tax Policy and Administration
4. Trade Policy and Facilitation
5. Competition Policy
6. Better Business Regulation

II. Business Integrity

1. Anti-corruption
2. Corporate Governance
3. Commercial Conflict Resolution

III. Factor Markets

1. Infrastructure
2. Human Capital
3. Financial Markets Development

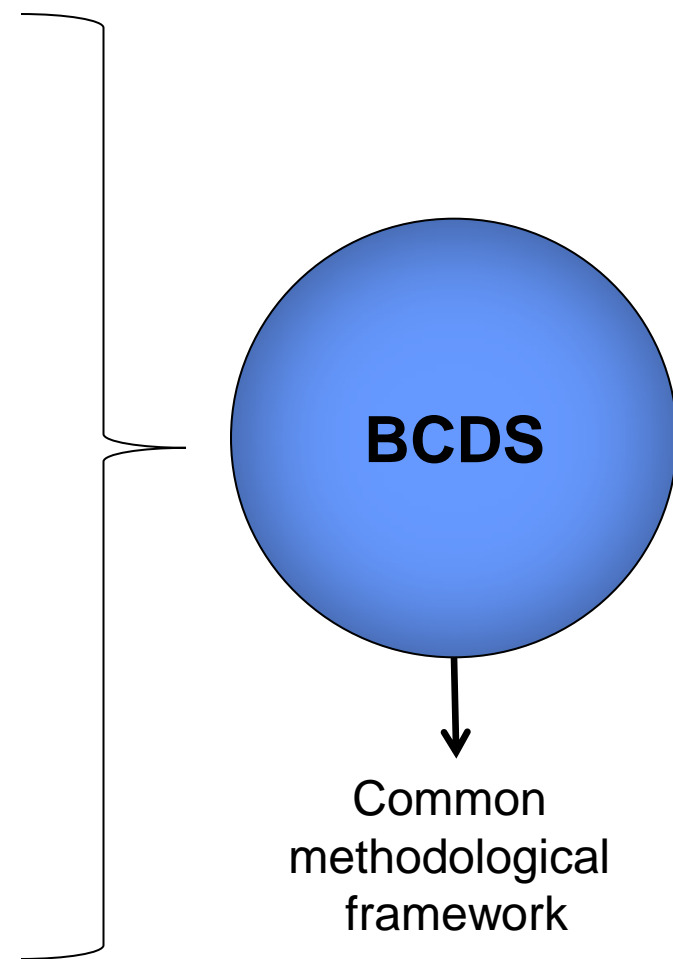
→ Covering all policy areas that can support investment and business climate reforms

IV. BCDS : Expertise of OECD

OECD

- Leading expertise on economic development based on 30 top industrialised countries in the world
- Established MENA Investment Program and 5 Working Groups to analyse and promote investment climate reform through regional dialogue
- Country specific “National Investment Reform Agendas”
- OECD Policy guidelines and databases

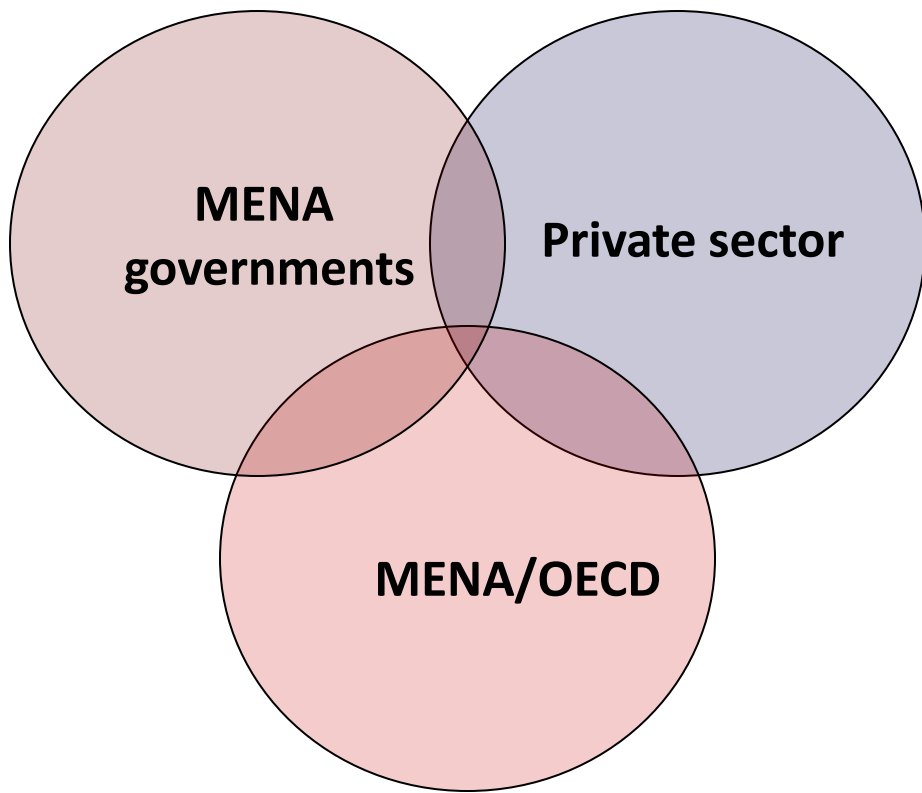
Other Indicators, Diagnostic and Strategy Work undertaken by partners (UNDP, WB, UNIDO)





IV. BCDS : Involve Governments and Private Sector for Maximum buy-in

- Country economic teams conduct self evaluation
- Joint definition of priorities



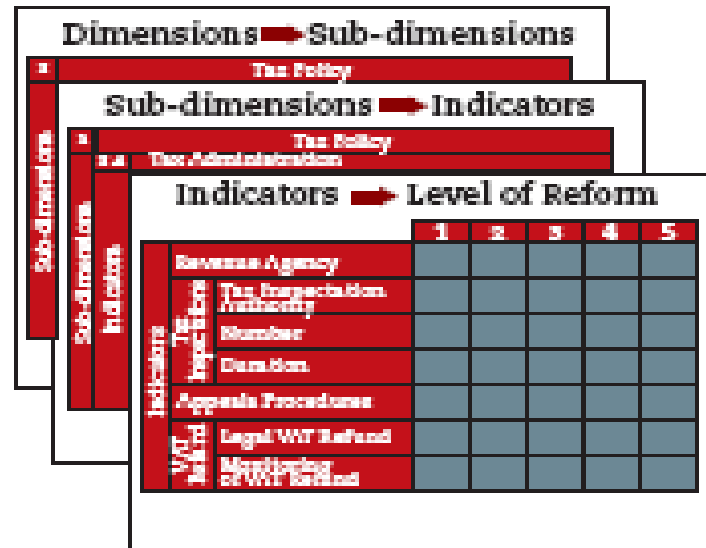
- Chambers of Commerce and Foreign Investor Councils conduct independent evaluation

- Coordinate overall evaluation
 - Leverage existing tools and databases
 - Ensure rigour and independence of assessment

IV. BCDS: Leverage Proven Tools such as the OECD Investment Reform Index

Main focus of evaluation in 2006

- ### IRI Dimensions
1. Investment Policy
 2. Investment Promotion and Facilitation
 3. Tax Policy
 4. Anti-corruption and Business Integrity
 5. Competition Policy
 6. Trade Policy
 7. Regulatory Reform
 8. Human Capital and Employment
 9. Corporate Governance
 10. SME Policy



Source: OECD Investment Compact



V. Business Integrity

Example: Ongoing work with Gol on Bribery and Corruption

- Misallocates scarce public resources, Undermines development, Distorts competition & Prevents democratic development
- Companies domiciled in State Parties are exposed to solicitation and to the temptation to pay bribes to secure business
- OECD takes a multidisciplinary approach to
 - * Reduce the flow of corrupt payments
 - * Promote policy change
 - * Set high standards for global governance



V. Governance and Transparency

OECD Anti-Bribery Instruments applicable to businesses of 37 Countries

- 1. Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (modeled on the US Foreign Corrupt Practices Act)*
- 2. 1997 Recommendation of the Council on Combating Bribery of Foreign Public Officials in International Business Transactions and*
- 3. 1996 Recommendation of the Council on the Tax Deductibility of Bribes to Foreign Public Officials*
- 4. Has developed a set of public sector governance and private sector integrity recommendations*



V. Governance and Transparency

Example: Ongoing work with Gol on integrity in public procurement

- Public procurement is an important economic area for all countries (15% of GDP and above in OECD countries)
- Public Procurement is a long and complex process where corruption can occur at all different phases
- No economy and no sector are free from risks
- Appears in association with other crimes
- OECD has developed years of experience in fighting corruption and enhancing integrity in public procurement



V. Governance and Transparency

OECD's multifaceted approach to engage the Gol and encourage action

- OECD provides concrete advice on ways to strengthen anti-corruption & procurement laws and systems
- Provide awareness-raising & Training material for both procurement and law enforcement agencies through

I. Stocktaking (ongoing):

Iraq's main corruption sources and current counter-measures

II. Review the legal anti-corruption framework

Identify legislative needs in line with international standards to ensure effective implementation and enforcement of national provisions criminalizing corruption

III. Tools to detect and investigate corruption

- *Risk assessment of corruption challenges in public procurement*
- *Development of detection indicators or “red flags”*



GOI and MENA/OECD: Five points of Value Added

1. Support the implementation of the **International Compact with Iraq** and establish a methodology for evaluation of progress under the targets set by the ICI;
2. Involve Iraqi officials into regional expert groups leveraging the established regional **MENA-OECD Initiative** to address reforms;
3. Provide **targeted capacity building support** leveraging OECD and MENA countries expertise and capacities;
4. Support **leadership in the government** to ensure coordination and consensus on priorities for reform throughout a broad range of policy areas affecting better governance and the business climate;
5. **Involve continuously the private sector and civil society** throughout the process to increase buy-in for governance and business climate reform.



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For information about the MENA-OECD Investment Programme and its Activities, please refer to:

www.oecd.org/mena/investment