



Istanbul, Turkey
6-7 November 2006



OECD GLOBAL FORUM ON
INTERNATIONAL INVESTMENT

Turkish Treasury

Enhancing the Investment Climate: the Case of Infrastructure

Hosted by the Government of Turkey and organised by the
OECD Investment Committee in partnership with the World Bank



Grand Cevahir Hotel & Convention Center

DRAFT PROGRAMME

(as at 6 November 2006)

The OECD Global Forum on International Investment (GFII) is an annual event organised each year since 2001 under the auspices of OECD's Investment Committee. It brings together investment policy makers, international organisations, and representatives from business, labour, academia and civil society to discuss emerging investment policy issues and challenges.

This year's conference is co-hosted by the OECD and the Turkish government in Istanbul on 6-7 November 2006. It is organised with the financial support and in cooperation with the World Bank. Previous Global Forums have been held in Mexico, China, South Africa, India, and Brazil.

On the morning of 6 November a **Country Roundtable** will take place immediately prior to the Global Forum. It will cover Turkey's recent experience with strategies for enhancing the enabling environment for investment. The main focus will be on various aspects of regulatory reform and their impact on Turkey's investment climate.

Immediately following this Country Roundtable, the **2006 Global Forum on International Investment** will begin. Part 1 of the GFII, during the afternoon of the 6th, will focus on the pioneering experiences of Egypt, Costa Rica and Romania putting the recently completed **Policy Framework for Investment (PFI)** into action.

The second day of the GFII will be dedicated to a focused discussion of the issue of international investor participation in infrastructure. This will serve as one of the final steps in testing the draft **OECD Principles for International Investor Participation in Infrastructure** on real-life cases. Countries participating in the ongoing OECD investment activities focusing on South-Eastern Europe, the Middle East and North Africa and sub-Saharan Africa will be sharing their national experiences.

There is no conference fee but registration is mandatory. For further information, contact Sebastian Gerlach [sebastian.gerlach@oecd.org; +33 1 45241491]. Relevant documentation will be made available during the conference. Documentation and other conference details are also available on the conference website www.oecd.org/daf/investment/development.

AGENDA

DAY 1 - 6 NOVEMBER 2006	
08:30- 09:30	Registration and coffee
Opening Ceremony	
09:30 – 10:30	<p>Welcome address by:</p> <ul style="list-style-type: none"> • Mr. Ali Babacan, Minister of State and Chief Negotiator of Turkey for the EU Affairs, Turkey • Mr. Richard Hecklinger, Deputy Secretary General, OECD <p>Introductory Presentation about Turkey’s experience on Enhancement of the Investment Environment:</p> <ul style="list-style-type: none"> • Mr. Ibrahim H. Çanakci, Undersecretary of Treasury, Turkey
Country Roundtable	
10:30 – 13:00	<p><u>Moderator:</u></p> <ul style="list-style-type: none"> • Mr. Yavuz Canevi, Chairman of the Board of Directors, Türk Ekonomi Bankasi <p><u>Speakers/Discussants:</u></p> <ul style="list-style-type: none"> • Mr. Karl Sauvart, Executive Director, Columbia Program on International Investment, Columbia Law School and Special Advisor to the UN Millennium Project • Mr. Andrew N. Vorkink, Director, Turkey Country Unit, Europe and Central Asia, World Bank • Mr. Cavit Dagdas, Deputy Undersecretary of Treasury, Turkey • Mr. Ferit Sahenk, Chairman of Dogus Holding
13:00 – 14:30	Lunch
OECD Global Forum on International Investment	
PART 1: PUTTING THE PFI INTO ACTION	
14:30- 18:00	<p>Putting the PFI into action: past experience, present activities, future plans</p> <p><i>Introduction of the PFI: Mr. Manfred Schekulin, Investment Committee Chair</i></p> <ul style="list-style-type: none"> • The Minister of Investment, Arab Republic of Egypt, Dr. Mahmoud Mohieldin • The Minister of Trade, Costa Rica, Mr. Marco Vinizio Ruiz • High level representative from Romania <p>Commentary: Representative from the World Bank</p>
16:30 – 17:00	Coffee break

DAY 2 - 7 NOVEMBER 2006

PART 2: INTERNATIONAL INVESTOR PARTICIPATION IN INFRASTRUCTURE

09:30-11:00	The investment climate: Getting it right, or living with weaknesses? <i>Moderated by Oktay Varlier, Board Member of DEIK and Chairman of the Turkey-Kazakhstan Business Council</i> <ul style="list-style-type: none">• Manfred Schekulin, OECD Investment Committee, Chair• Ellis Juan, Infrastructure Economics and Finance, World Bank• Bambang Susantono, Advisor to the Minister for Economics, Indonesia
11.00-11.30	Coffee break
11: 30-13:00	Shaping the Project: Design, Contracts, Awards and Regulation <i>Moderated by Rainer Geiger, Deputy Director, OECD Directorate of Financial and Enterprise Affairs.</i> <ul style="list-style-type: none">• Jack Moss, Aquafed• Joachim von Lukowicz, HochTief• Howard Mann, Senior International Law Advisor, IISD
13:00-14:30	Lunch
14:30-16:00	Responsible Investment and the Development Dimension <i>Moderated by Costas Masmanidis, Secretary General, Black Sea Economic Cooperation Business Council</i> <ul style="list-style-type: none">• Veronica Nilsson, TUAC• David Tozer, EIRIS, United Kingdom.• Rijit Sengupta, CUTS Centre for Competition, Investment & Economic Regulation, India.
16.00- 17.00	Closing session <ul style="list-style-type: none">• Mr. Cavit Dagdas, Deputy Undersecretary of Treasury, Turkey• Mr. Shinichi Kitajima, Ambassador of Japan to the OECD, Paris, France

ANNOTATIONS

Country Roundtable: Concrete steps to enhance the Turkish investment climate

During the 1980s and 90s, FDI inflows to Turkey averaged USD one billion, which was below the real potential of the country. This very low FDI inflows to Turkey was the natural outcome of macroeconomic instability characterized by chronic high-inflation and budget deficits. A strong and comprehensive economic reform program to curb the high inflation and budget deficits has been in place over the last four years. With the determined implementation of the economic reform program, the inflation rate has fallen below the two digits and the economy has grown nearly 8 % on average in the last three years.

In parallel to the macro-economic reform program, the Turkish Government has also engaged a regulatory reform program for the improvement of the investment environment. Within the context of the regulatory reform program, the Turkish Parliament has adopted 18 laws so far, including a new FDI Law, Company Registration Law, and FDI Promotion Agency Law. Furthermore, the Government of Turkey has established a high-level private-sector driven Investment Advisory Council (IAC). The objective of the Council meetings is to advise the Prime Minister and his cabinet on measures to improve the flow of investment into the country. In this context; the Council provides perspectives on the Government's measures to improve Turkey's investment climate and presents views on how to enhance its competitive position in the world economy. So far, Investment Advisory Council for Turkey has convened in 2004, 2005 and 2006 under the chair of Prime Minister Mr. Recep Tayyip Erdogan.¹

The economic and regulatory reform program along with other efforts of the Turkish Government have substantially elevated the FDI flows to Turkey. Starting from 2003 with a level of USD 1,8 billion, FDI flows to Turkey reached to a record level of USD 9,7 billion in 2005. It is expected that Turkey will break a new record in 2006 with an FDI inflow of significantly above the last year. Despite this impressive improvement in FDI performance, Turkey should take additional steps to attract particularly new investments into the country with positive effects on GDP, exports, employment and infusion of new technologies.

In this context, Turkey Country Roundtable should focus on macro and micro economic policies and investment strategies that Turkey should pursue in order to attract new investments. In this context the following questions should be answered during this roundtable:

- Given the fact that there are many other nations around Turkey racing to attract potential investors to their respective countries, what are the competitive advantages (and disadvantages) of Turkey compared to other nations and what should be done to increase these advantages (and eliminate disadvantages)?
- What are the positive effects of Turkey's Regulatory Reform Program on investment climate?
- What are the shortcomings of Turkey's current investment climate?
- What type of macro and micro strategies should be pursued to attract greenfield investments?

¹ For more information about regulatory reform program and the Investment Advisory Council for Turkey, see <http://www.investinturkey.gov.tr/>

Global Forum Part 1: Putting the PFI into action: past experience, present activities, future plans

The Policy Framework for Investment (PFI) is a non-prescriptive instrument, structured in the form of ten thematic checklists of questions covering policy issues germane to a healthy investment environment. The ten policy areas covered in the PFI are widely recognised, including in the Monterrey Consensus, as underpinning a healthy environment for all investors, from small and medium-sized enterprises (SMEs) to multinational enterprises (MNEs). The ten chapters of the PFI are: investment policy; investment promotion and facilitation; trade; competition; tax; corporate governance; policies for promoting responsible business conduct; human resource development; infrastructure and financial sector development; and public governance. While the main focus is on domestic policy issues, the PFI also addresses ways in which international co-operation can play a positive role across each of these policy areas.

The questions in each chapter of the PFI are supported by annotations and complemented by references to selected policy resources. Three principles apply throughout the PFI. The first is *policy coherence*. The second principle is *transparency and accountability*. How transparency and accountability in specific public policy domains fosters an environment where investment flourishes is thus a theme taken up in the questions in each of the chapters. *Regular evaluation* of the impact of existing and proposed policies on the investment environment is the third principle that underpins the PFI. The questions have been developed so that they can be used flexibly by governments in accordance with different development objectives and priorities. In this way, the PFI recognises the dynamic nature of development and the need for an approach that can be adapted in accordance with changing needs and conditions. The discussions during this session of the Global Forum will kick off with short presentations on different country experiences with the PFI, including an advanced self evaluation in Egypt to the early planning phases of a proposed regional initiative in Costa Rica. The objective of this session will be to discuss and develop ideas for putting the PFI into action and to elaborate methodological options.

Global Forum Part 2: International investor participation in infrastructure

Important lessons have been learnt from international investor participation in infrastructure over the last decade. The authorities in many countries at first embraced international (as well as other private) investor participation in their infrastructure sectors with much enthusiasm, *inter alia* as a way of engendering much-needed infrastructure investment amid empty public coffers. International investors were eager participants in utilities privatisations and other large-scale projects on the assumption that the partnership with public authorities helped limit project risks. While many internationally-invested infrastructure projects were indeed successful, others were not, and a period of sobering reflection has since set in.

The extent of private sector involvement tends to differ across sectors. Investors and authorities are in search of the modes of private involvement, short of full privatisation, that in each case will generate the best mutually-satisfactory outcome. And, they ask themselves how to build capacities and design models of private-public cooperation to avoid some of the misunderstandings of the past.

The OECD has taken steps to assist them. First, the PFI includes a chapter on infrastructure and financial intermediation, aimed at providing policy makers with a checklist against which to assess their overall policies in this area. Secondly, the nascent OECD Principles for International Investment Participation in Infrastructure provide a more concrete guidance, based on practitioners' experience, on steps that implementing authorities and investors can take to enhance the chances of success.

The investment climate: Getting it right, or living with weaknesses?

Where authorities welcome international investor participation in infrastructure the main obstacle tends to become the business climate surrounding such investment. The outcome of projects depends strongly on the quality of the political, economic and regulatory environment in which it takes place – in short, on many of the elements of the enabling environment for investment as defined in the emerging Policy Framework for Investment. The quality of the legal environment is of paramount importance. Unless the rule of law is firmly established, and regulation consistently enforced, PPI is fraught with risk. A lack of legal clarity has been behind many widely-publicised cases of governments (especially newly-elected ones) challenging existing contracts or dismantling regulatory setups.

The infrastructure sector is “burdened by its own past”. Private investors are often invited into national infrastructure sectors at a point where basic services are already at risk. This can be particularly difficult for foreign-based operators who are seen by some stakeholders as lacking in legitimacy. This is particularly problematic where the decision to transfer utilities services from the public to the private domain is not infrequently linked with a decision to cede subsidies. A shift to “cost recovery pricing” to finance the new capital spending is often seen by existing consumers as a denial of well-earned rights. A policy of transparency and inclusive dialogue with all stakeholder groups invariably produce the best long-term results. Conversely, attempts to push PPI projects forward without consultations, or whilst providing faulty or no information to the public, have been at the heart of many policy upsets.

Shaping the Project: Design, Contracts, Awards and Regulation

Successful private involvement in infrastructure is feasible only when both the public and the private participants are willing to enter into a *bona fide* partnership for a considerable period of time. This gives rise to a number of issues, including: (i) a need for authorities to make policy objectives, as well as the expectations to individual projects, clear; (ii) an output-based project definition in which the general public rather than the public sector is seen as the clients; (iii) a need to secure a high degree of transparency in the public-private partnership, including in the context of political change, where all project-relevant data are fully disclosed.

Strong and enforceable contracts are vital to successful projects, but they cannot cover all aspects of a partnership. Renegotiations of contracts are a normal consequence of long-term partnerships, but they should nevertheless be kept to a minimum. The best way of balancing the “sanctity of the contract” with the necessary flexibility may be to include contractual stipulations specifying under what circumstances revisions to the original agreement shall be considered. Another crucial success factor is the apportioning of risk. A commonly agreed principle applies, namely that the party that has more control over a given risk factor should bear the risk. In consequence, the public sector is expected to carry risk classified as political and regulatory. This does not imply that political and regulatory change should not take place, but it should take place in an open and transparent fashion including stakeholder involvement.

Responsible Investment and the Development Dimension

International investor participation in the developing world may raise a number of additional concerns for governments and businesses. The challenges of getting the private sector involved do not differ fundamentally from the points made above, but the economic and political realities add to the difficulty of addressing them. For instance, in poorest countries, meeting populations’ infrastructure needs may be intrinsically linked with issues of subsistence and human rights.

There is an emerging consensus that many of the developmental challenges, including infrastructure, are interlocked and need to be addressed concomitantly. Efforts to address the quality of governance, the fight against corruption, legal and contractual frameworks, infrastructure, poverty reduction and sustainable development need to be conducted in unison and with the involvement of host and home country governments as well as private investors.

The OECD recommends instruments to multinational enterprises seeking to behave responsibly. The OECD Guidelines for Multinational Enterprises provide recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas relevant to infrastructure, including employment relations, human rights, environment, combating bribery, consumer interests and competition. Moreover, a new Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones is designed to help enterprises operating in countries with weak or non-existent government address risks and ethical dilemmas not usually encountered in countries with stronger governance arrangements.