



OECD-MENA Investment Steering Group Meeting
In partnership with the Jordan Investment Board

30 June – 1 July 2004
Amman, Jordan

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Hotel Le Meridien, Royal Convention Center
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I. Background

1. The Steering Group meeting in Amman is a follow-up to a series of earlier consultations with MENA partners and the 11-12 February exploratory meeting in Istanbul, participated by all interested countries in the region, on “Mobilising Investment for Development in the MENA Region”. The main conclusions from the Istanbul meeting included the following:

- There was a wide recognition that the investment performance of MENA has compared poorly with other regions. The MENA region, while accounting for some 5 per cent of the world’s population, is responsible for only 0.9 per cent of global flows of FDI. Barriers to investment have severely handicapped economic growth and employment.
- MENA participants underscored the divergence of economic and social development levels in the region and the urgency of investment policy reform in their countries to foster international direct investment and private sector development.
- MENA and other participants expressed strong interest in co-operating with the OECD to upgrade their investment policy standards and capacities, and benefit from the Organisation’s well tested working methods for regional co-operation.

- A process of implementation, evaluation and reporting through the creation of an OECD-MENA Investment Steering Group and its thematic Working Groups was proposed.

2. The Investment Action Programme, an integral part of the broader OECD-MENA Initiative for Investment and Governance, seeks to mobilise investment, both foreign and domestic, as a driving force for growth, stability and prosperity throughout the MENA region. It is designed to encourage national and regional efforts to create a favourable environment for the development of a vibrant private sector. It also aims at promoting regional co-operation to create larger integrated markets which are attractive for entrepreneurial activities.

3. The OECD has a long standing experience both within its membership and through its co-operation with non-Members in encouraging a comprehensive approach to the integrated set of policies needed to create and maintain a supportive environment for investment and private sector development. Investment is a horizontal issue - the many policy areas that go into making a good investment environment. These include the laws and regulations specifically addressing investment, the legal and judicial system more generally, taxation, competition, anti-corruption, corporate governance, financial markets, technology, human capital, labour relations, and corporate social responsibility. Policy dialogue between OECD and MENA countries can help build consensus on the range of policy options that form the basis of a broadly-based investment initiative for development and support their effective implementation.

4. The OECD has considerable experience with investment capacity building. Building on decades of improvement, implementation and monitoring of the OECD Codes of Liberalisation and the OECD Declaration on International Investment and Multinational Enterprises, the OECD has developed an approach to capacity-building which has been successfully tested on its own Members, including the transition and emerging economies which recently acceded to the Organisation.

5. The following features make the OECD's approach to capacity building largely unique:

- Multilaterally-endorsed FDI policy benchmarking, covering the many dimensions of an effective enabling environment for investment;
- Inter-governmental peer review, which facilitates learning, contributes to the ownership and credibility of the resulting recommendations and avoids "one-size-fits-all" approaches;
- Progress reporting mechanisms;
- Access to stable networks of inter-connected government officials from thirty OECD, advanced countries, for longer-term follow-up and assistance, through Committee processes and other similar structures.

II. The proposed approach

6. The process will emphasize at all times the practical implementation steps needed to achieve effective reform. Improving the business and investment environment requires committed action on a complex mosaic of policy reforms and a continuous process that focuses on measurable and effective implementation. The biggest challenge for most MENA countries is generally not in identifying issues, indeed most of these have been well documented over years but in establishing the process of change and maintaining the drive for implementation. OECD countries with long experience of tackling policy change and policy development have methodologies, tools and processes that can assist and help to guide that change agenda and this Programme seeks to bring this experience and partnership to MENA. Private investment -- international and domestic (especially small business) -- is vital to the transition process in MENA. Effective implementation of reform can create the right environment for private business and new investment and this is the central aim, in co-ordination with other relevant players, of the OECD-MENA Investment Programme.

7. Building on experience with other regional programmes (e.g. the South East Europe Investment Compact) the MENA investment programme would be: comprehensive, i.e. include all essential ingredients of a favourable investment climate; sustained, i.e. build on a three-year programme; action-oriented, i.e. show specific results at different stages of implementation; demand-driven, i.e. reflect the priorities and concerns of the participating countries; nationally-owned, i.e. propose a reform agenda developed by a national team in each country; periodically-reviewed, i.e. monitor progress achieved with the implementation of the national reform agenda; regionally-integrated, i.e. develop common approaches and perspectives for promoting greater market integration; and effectively-communicated, i.e. include political decision makers and reach out to civil society and public opinion.

III. Strategic partnerships

8. There are many players and initiatives in the region. The OECD does not intend to substitute but to complement and facilitate them. Reforms cannot be imposed from the outside but need to originate in each country. This is why broad support and a well coordinated effort at the national level are essential. The programme would also use the ingredients of existing regional initiatives and build upon them as far as possible; the Arab Association of Investment Promotion Agencies, the Arab League, the Arab Union of Banks, the Islamic Development Bank, and the Arab Business Council will play an important role as regional partners.

9. Private sector engagement from the outset, through individual companies and business associations, is essential.

10. The effective implementation of the Action Programme also depends on partnership with other international organisations active in the region. This will promote complementary efforts where each partner provides knowledge and resources and shares experience. The World Bank Group, the UNDP and the UNIDO would be key multilateral partners for the programme. There would also be close partnership with the European Commission.

IV. Objectives

11. The inaugural Steering Group meeting in Amman are, *inter alia*, to:

- Establish the Group, finalise its terms of reference and select the co-chairmen of the Steering Group on the basis of nominations from OECD and MENA governments;
- Shape the substantial issues at each of its thematic working groups within the proposed priority policy areas that emerged from the Istanbul discussions;
- Identify the MENA countries that are interested in leading the work and the partnering OECD countries on each individual action project;
- Discuss the locations and sequencing for the issue-specific working groups to come over the next three years; and
- Consider funding, implementation and future steps.

V. Setting the investment reform agenda in each country

12. A region-specific methodology for this Action Programme will emphasise (i) ownership of reforms, (ii) business and civil society dialogue, and (iii) strategic partnership with other regional and multilateral organisations. It should be flexible enough to allow for amendment to suit different sets of MENA requirements, and could adopt a three-phase approach:

- Diagnosis of current investment conditions in the countries of the region;
- Development of country specific policy recommendations and design of regional policy initiatives;
- Monitoring of progress in policy implementation, improvement of the investment conditions and investment performance in MENA.

13. The priorities and reform commitments would be developed by Country Teams appointed by each participating country, in co-operation with the OECD and its partner organisations and included in monitoring instruments that would be periodically updated. Progress would be periodically assessed through regional peer review mechanisms. The Working Groups would decide on the modalities of how best this process can be organised with due respect to the particular circumstances in each country.

VI. Key Components of the Investment Action Programme

14. The Istanbul exploratory meeting identified five mutually reinforcing areas for a co-operative investment-related programme with the OECD in partnership with key national, regional and multilateral actors:

WG1: Transparent and open investment policies

OECD work in this area will be carried out by its Investment Committee, which represents the OECD community of investment policy-makers. It acts as an effective policy forum for sharing experience and developing best practices, with a view to enhancing the contribution of capital flows and multinational enterprises to sustainable growth and development. It is the guardian of the OECD investment instruments. The Committee is a leading source of development of policy advice to non-Member and Members to improve the investment environment. It is developing work to enhancing understanding among treaty negotiators and other interested parties of emerging legal issues relating to investment agreements. In

collaboration with the IMF, OECD work on measurement and analysis of FDI flows and MNE activities contributes to identifying emerging trends and potential implications for policies.

Subjects that could be dealt by this Group include:

- ▶ **Removing discriminatory barriers to investment and enhancing investment policy transparency.** As a first step, limitations affecting international investment in the region including across-the-board screening of FDI entry, sectoral foreign ownership ceilings, exceptions to national treatment after FDI establishment and performance requirements would be addressed. In a second phase administrative and regulatory barriers to both foreign and domestic investment could be examined. Another goal is to improve transparency of investment related regulations. A peer review of progress in addressing these issues could be conducted, taking into account OECD experience and the benchmarks established in OECD's investment instruments.
- ▶ **Working with Investment Treaties.** Investment protection is a basic principle of international investment law, aimed at reinforcing legal security for investments established under a foreign jurisdiction. Recent OECD work in respect to the application of provisions such as "fair and equitable treatment", "indirect expropriation" or Most-Favoured-Nation clause and novel features of "new generation" bilateral and regional investment agreements could be fed into this dialogue.
- ▶ **Promoting integrity in commercial transactions.** The issue of corruption and bribery would be addressed as a risk factor in business transactions from the perspective of both governments (keen to increase both domestic and foreign investment) and the private sector (both foreign and local). The proposed work would thus cover such areas of country policy as preventive measures aimed at enhancing awareness, transparency and accountability in the private sector and measures aimed at ensuring effectiveness in prosecuting corruption of public officials in the context of business transactions.

WG2: Encouraging Investment Promotion Agencies to act as driving forces for reform (in partnership with World Bank/FIAS, Arab Association of Investment Promotion Agencies, World Association of Investment Promotion Agencies and UNIDO). Most MENA investment agencies are mandated to undertake policy advocacy in areas such as changes in regulatory framework, enactment of investment friendly policies creating positive image, effective investor targeting and providing post investment services. Advocacy role is defined in terms of their ability to analyse and recommend changes, where necessary, in the policy and regulatory framework and the decision-making process in different government agencies and departments relating to investment approvals, rules. In some countries of the region, investment agencies can directly influence the investment policy agenda by drafting legislation, commenting on the regulatory policies and advising government and legislative bodies. This WG would look into how MENA IPAs could be transformed into strong advocates of policy reform and implementation and serve as a genuine bridge between government and investors.

WG3: Providing a Tax Framework for Investment. Tax is an important determinant of foreign direct investment. Tax can be a potential barrier to inward investment and therefore basic tax design features should not impede investment, for example by the imposition of excessive restrictions in claiming business losses. A tax system should be designed to be attractive to investment, for example through the limited use of tax incentives where

appropriate, while at the same time collecting sufficient revenues to help finance infrastructure development. Another key element is international co-operation. Some MENA countries have developed an extensive tax treaty network; others have very few if any treaties. The OECD has already engaged several MENA countries in an informal dialogue on these issues. This WG would develop a true partnership between the MENA and OECD countries to promote a facilitating fiscal environment for investment in the region. The WG would be composed of tax officials, investment officials and investment agencies to promote coherent policies.

The Working Group is also expected to address the *specific incentives to attract investment*, partly by using the OECD Checklist for FDI Incentive Policies. Many MENA countries have deployed specific tax incentives, and financial subsidies aimed at attracting FDI projects. The WG would develop a process to assess the cost-effectiveness of MENA incentives programmes in both country-specific and regional context.

WG4: Investment strategies in support of diversification (in close partnership with World Bank, International Energy Agency, UNDP and UNIDO). Most countries in the region are heavily dependent on primary production and resource-based sectors, with narrow export bases. The non-oil sector has been largely neglected in these countries. They are currently considering strategies of economic diversification based on inter-sectoral linkages in petrochemical and other industries, the development of agricultural resources, and the growth of the services sector. This Working Group seeks to identify, research, and implement investment strategies in support of diversification in the MENA region to promote greater economic integration with the global economy and to strengthen individual country's economies by eliminating dependence on a single sector. It would also focus on policies to support the process of diversification through FDI into various non-hydrocarbon sectors such as tourism, banking, telecommunications, manufacturing, and construction.

WG5: Improving corporate governance (In partnership with the Center for International Private Enterprise and Global Corporate Governance Forum). The work on corporate governance will build upon the series of national corporate governance meetings and task forces that have been organized in the region over the past two years and the MENA Regional Corporate Governance Forum launched with the support of the Center for International Private Enterprise, the Global Corporate Governance Forum and the OECD. This initiative resulted in the publication of an overview of "Corporate Governance in Morocco, Egypt, Lebanon and Jordan" in October, 2003.

The work has highlighted a number of initiatives to improve corporate governance in the region, but also the challenges in terms of strengthening implementation and enforcement of existing laws and regulations. Companies in the region tend to be in most cases either state-owned or family-owned, with concentrated ownership and weak protection of minority shareholder rights. During this period, a growing interest has been expressed in improving corporate governance in order to increase access to investment, reduce the costs of capital, and strengthen company and economic performance.

Under the auspices of the OECD-MENA Investment Steering Group, this WG proposes to enhance the work of the MENA Regional Corporate Governance Forum and existing national Corporate Governance Task Forces by:

- linking the corporate governance reform agenda to the investment climate agenda and;
- increasing participation from OECD countries and from other emerging economies and international institutions to further exchange experience and support regional participants in their development of recommendations and implementation of corporate governance reform, taking into account the revised OECD Principles of Corporate Governance.

The WG will provide input to the ongoing process described above. In a sense, this working group has already been established in the form of the two regional forums held during the last year, first in Cairo, Egypt on 7 September 2003, and the second in Beirut, Lebanon from 3-5 June 2004. Its purpose will be to consider the conclusions of the “Second Middle East and North African Forum on Corporate Governance” held in Beirut, and to consider how OECD can most effectively support these efforts in the future.

15. The above list is not a restrictive one, but reflects the convergence of OECD's competences and priorities expressed by MENA countries. Other issues could also be proposed during the Steering Group meeting by countries interested in leading them.

VII. The institutional setting

16. A **Steering Group** would be constituted in Amman to steer the Investment Action Programme. The Steering Group would be in charge of developing the future orientation of the Programme, mobilising political and financial support, and ensuring coherence among the thematic Working Groups. It would be comprised of the WG co-chairs, and senior representatives from contributing countries/organisations. The overall coherence of the different action plans at country/regional level would be the task of the Steering Group which could meet twice a year to follow progress on the various activities. The Steering Group would be co-chaired by an OECD and a MENA country, and meet once a year (or as deemed necessary).

17. The five thematic WGs outlined above would be the core tool in the MENA programme. The **Working Groups** will need some flexibility to adjust priorities and interact with each other on issues of common interest as they go along. They would decide the frequency of their meetings and tasks/responsibilities. They would be open to all countries, but it is expected that the composition of each WG will differ according to interest, capacity and commitment from individual MENA countries. MENA countries would participate in these WGs on the basis of self-selection so that they are driven by players that are committed to reform and co-operation. This would ensure that the activities in the thematic WGs are based on country ownership and demand. The number of meetings will be kept to a reasonable level to allow effective involvement of knowledgeable persons. There should be exchanges of views/correspondence in between, e.g. through an electronic discussion group.

18. It is proposed for senior policy officials and heads of investment agencies to convene in 2005 jointly with the OECD-MENA public governance programme to take stock of the intermediate results, explore synergies and provide guidance for the future steps. A **Ministerial conference** could take place once sufficient progress is achieved for providing further political support to the implementation of the agreed actions.

Agenda

Tuesday, 29 June 2004

Arrival in Amman

19.30 pm Welcome reception dinner hosted by the OECD

Wednesday, 30 June 2004

8:00 – 9:15 am Registration

(While registering, participants are expected to indicate preference for one of the working groups in which they wish to participate on 1 July)

9.30-10.00 am Opening Remarks

- H.E. Mrs. *Reem Badran*, Chief Executive Officer, Jordan Investment Board (welcoming remarks)
- *H.E. Mr. Richard Hecklinger*, Deputy Secretary-General, OECD (rationale for the OECD-MENA Initiative on Investment and Governance for Development; and objectives and expected results of this meeting)
- H.E. Dr. *Mohammed Abu Hammour*, Minister of Finance and Acting Minister of Trade and Industry, Jordan (highlights of investment policy reforms in Jordan as they reflect the pillars of the Investment Action Programme; and proposals for the way forward)

10.00-10.30 Coffee break

10.30-12.30 Setting the Scene – why levels of investment low; how more and better investment can be mobilised for the MENA region?

Co-chairs: Mr. *Wesley Scholtz*, Vice-Chairman of the OECD Investment Committee, and Mr. *Zeyad Al Majeed*, Policy Development, Dubai Investment and Development Agency

Rapporteurs: Ms. *Susan Himes*, OECD, and Ms. *Hana Kanoo*, Bahrain Economic Development Board

- Mr. *Adel Abdellatif*, Regional Coordinator, UNDP Programme on Governance in the Arab Region, focusing on the governance-investment nexus of this Initiative and UNDP's role in it as a key partner

- Mr. *Ken Davies*, OECD Investment Division, highlighting a recent preliminary OECD survey of the regulatory environment for international investment in MENA countries
- Mr. *Ghassam Nuqul*, Arab Business Council, on investment challenges, prospects in MENA region viewed from an investor's perspective
- Dr. *Peter Kreutzberger*, Regional Director for Africa and the Middle East, BDI (Germany) and Chairman, Task Force on the Middle-East and Northern Africa, the Business and Industry Advisory Committee to the OECD, on international investors' perspective

Open discussion

12.30-14.30 Lunch break

Creating an effective “Steering Group”

14.30 – 18:00

Co-chairs: Mr. *Mazen K. Homoud*, Deputy Chief Executive Officer, Jordan Investment Board and Mr. *Shigeo Matsutomi*, Chairman, OECD Investment Committee Advisory Group on Co-operation with Non-Members.

Rapporteurs: Mr. *Mehmet Ögütçü*, OECD, and Mr. *Adwan Charles*, Lebanon

- Mr. *Rainer Geiger* and Dr. *Ragaa Makharita* on proposed working methods for the action programme

Issues for Discussion

Participants will discuss the terms of reference for the Steering Group on the basis of a draft text to be distributed in advance. Among the issues to be determined by the Steering Group members are:

- Establish the Steering Group, discuss its draft terms of reference and select co-chairs from OECD and MENA governments
- Discuss partnership with regional and multilateral organisations, and the private sector
- Consider key elements of the three-year strategic action programme
- Identify on the lead MENA countries and partnering OECD countries
- Discuss sequencing of the process
- Consider resource implications – requirements and how the programme will be funded
- Agree on who will do what for the next steps including actions to the end of April 2005

20.00 Dinner, at Fakhr Eddin Restaurant, 1st Circle, Jabal Amman hosted by the Government of Jordan (discussions to continue). Buses will depart from the Hotel Meridian at 19.45 pm. Participants can also take a taxi directly to the restaurant.

Thursday, 1 July 2004

Achieving results through “Working Groups”

9:30 -12:30 Morning Session

Co-chairmen: Mr. *Mohamed Abd El Rehem*, Deputy Chairman, General Authority for Investment & Free Zones, Egypt, and Mr. *Faris Hadad-Zervos*, Head of Mission, World Bank Office, Amman

Rapporteurs: Mr. *Martin Forst*, OECD and Mr. *Moustafa El Abdallah Alkafry*, Director, Syria's Investment Office

9:30-10:30 The Steering Group members and other participants will meet in a plenary session for the general orientations that the Working Groups would benefit from.

10:30-10:45 Coffee break

10:45-12:30 Subject to the progress in discussions and the decision by the Steering Group members, the WGs will meet to (i) set out the thematic issues, (ii) define their terms of reference and working methods, (iii) agree on the lead MENA countries for each WG and partnering OECD countries/organisations, (iv) discuss the sequencing of work, (v) consider the resource requirements for a three-year strategic action programme and funding, and (vi) agree on who will do what for the next steps, particularly for actions to the end of April 2005.

WG1: *Promoting transparent and open investment policies*

Co-chairs: Mr. *Mazen K. Homoud*, Deputy CEO, the Jordan Investment Board, and Mr. *Shigeo Matsutomi*, Minister, Japanese Delegation to the OECD

Rapporteurs: Mr. *Ken Davies*, OECD Investment Division and a MENA government official

WG2: *Encouraging IPAs to act as driving forces for investment reform*

Co-chairs: Mr. *Mohamed Abd El Rehem*, Deputy Chairman, General Authority for Investment & Free Zones, Egypt, and Mr. *Faris Hadad-Zervos*, Head of Mission, World Bank Office, Amman

Mr. *Zeyad Al Majeed*, Policy Development, Dubai Investment and Development Agency, to set the scene

Rapporteurs: Mr. *Mehmet Ögütçü*, OECD, and Dr. *Hashim Suliman Hussein*, UNIDO

WG3: *Providing a tax framework for investment and assessing specific incentives to attract investment*

Co-chairs: Mr. *Khalid Al-Janahi*, Vice-President, Economic Development Board, Bahrain, and Mr. *Osman Emed*, Deputy Director-General, Foreign Investment Department, Turkish Treasury

Rapporteurs: Ms. *Susan Himes*, OECD, and Ms. *Hana Kanoo*, Bahrain Economic Development Board

WG4: *Investment policies in support of economic diversification*

Co-chairs: Dr. *Awwad Al Awwad*, Deputy Governor, Saudi Arabian General Investment Authority and Mr. *Wesley Scholtz*, Vice-Chairman of the OECD Investment Committee

Rapporteurs: Mr. *Takeshi Koyama*, OECD, and Mr. *Peter Balacs*, the European Commission

WG5: *Improving corporate governance*

Co-chairs: Dr. *Nasser Saidi*, Chair of the Lebanese Corporate Governance Task Force, and H.E. Dr. *Salah Eddin El-Bashir*, Minister of Justice, Jordan

Facilitator: Mr. *Rainer Geiger*, Deputy Director, OECD Directorate for Financial and Enterprise Affairs

Rapporteurs: Mr. *Daniel Blume*, OECD, and Mr. *Jalil Tarif*, Executive Director, Amman Stock Exchange

12:30 – 14:00 Break for Lunch

14:00 – 16:00 Afternoon Session

Discussions will continue, as necessary, to agree on the timeline of the next actions and respective responsibilities

16:00-16:30 Coffee break

16:30 – 18:30 Plenary concluding session: The Road Ahead

- The five WG chairs will report to the plenary meeting about the conclusions reached
- The Steering Group co-chairs will wrap up the meeting and elaborate on the next steps

Friday, 2 July 2004

Sightseeing tour, organised by the Jordanian hosts

Contact Persons

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