CO-CHAIRS' DRAFT CONCLUSIONS

MOBILISING INVESTMENT FOR DEVELOPMENT IN MENA REGION

11-12 February 2004, Istanbul

A. Overview

1. Over the last decade, many countries of the Middle East and North Africa (MENA) did not succeed in participating in the global boom of investment flows and in mobilising the vast potential of domestic capital. Many of the region's governments have recognised that their countries have been left behind in the economic globalisation process, and are now keen on catching up. This has resulted in several initiatives and activities geared toward making their economies more open and attractive to foreign investors.

2. This meeting has responded to the interest expressed by a number of OECD and MENA countries to explore ways of co-operation for promoting sound investment policies and good business climate. The groundwork was laid in a number of earlier consultations between the OECD and countries in the region on the margins of the World Bank/IMF meetings in Dubai with Gulf Co-operation Council (GCC) member countries, the UNDP-organised preparatory meeting in Beirut, the OECD Global Forum on International Investment in Johannesburg last November, and various approaches by embassies of MENA countries in Paris.

3. The meeting was held in parallel to the two other components of a possible MENA Initiative, focusing on public governance and corporate governance, each with the relevant stakeholders from the MENA region. These three elements form the overall approach of the OECD to policy dialogue with the region which has as ultimate objective to promote investment for economic, social and human development in the region. Both public and corporate governance components are complementary to the work on investment and those strands of activities would move in parallel so as to maximise the impact of these mutually reinforcing activities.

4. The meeting, organised by the OECD Secretariat and hosted by Turkey, was attended by key government investment executives from Egypt, Jordan, Saudi Arabia, Bahrain, Morocco, Lebanon, United Arab Emirates, Syria, Yemen, Tunisia; on the OECD side, the chairman of the Committee on Co-operation with Non-Members, vice-chairman of CIME and acting chairman of CIME Advisory Group on Co-operation with Non-Members; BIAC and MENA business groups; regional coordinator of the World Bank, regional representatives of UNIDO, WAIPA, UNDP; and executives of Islamic Development Bank, Arab League Investment Committee, Organisation of Islamic Conference, Arab Union of Banks.

5. One participant stressed that now was a "prime time" for the OECD and other international partners to step in to support the reform efforts already set in motion. It was emphasised that the political leadership in the region today was receptive, more than ever, to

positive peer pressure from OECD countries given the severity of challenges and the need to act quickly.

6. In recognition of the benefits of investment, the global interdependance of national investment policies, the value of inter-governmental dialogue and the pressing need to act without further delay, participants in the Istanbul meeting have called on the OECD to help create a MENA Task Force to engage MENA country investment executives, regional organisations and other interested partners in co-operative activities with the OECD and its investment committees. Co-operation could be initiated by a peer review in 2005 of progress in enhancing investment policy transparency and openness in countries of the region in light of OECD experience. The ability of arranging such a review would be a test of the Task Force's MENA members' commitment to reform and interest in OECD dialogue. This review would be based on a synthetic assessment of the Secretariat using established practices under the OECD investment instruments as benchmarks.

7. A series of other action-oriented work have surfaced in the meeting including, *inter alia*, assessment of incentives deployed in MENA countries to attract foreign investment; exchange of experience on international investment law principles and bilateral investment treaties; and actions in support of a corruption-free investment environment. They are outlined in paragraph 38.

8. Against the background of the on-going initiatives, the meeting also provided a platform for achieving cross-fertilisation and synergies with other initiatives under way in the region by multilateral and bilateral donors. Participants indicated that this process should capitalise on the existing initiatives/efforts currently under way, and be structured flexibly with a strong role given to the private sector and other international partners.

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B. Facts – from the discussions and presentations

9. The presentations and interventions during the meeting have revealed a wealth of useful information and analyses to better understand the investment environment, policy challenges and prospects in MENA countries. The foremost goal of any new initiative, it was underlined at the outset, should be exploring ways of contributing to economic development, modernisation and diversification in MENA countries through mobilisation of investment, both domestic and international. The picture of the investment scene in MENA that emerged from the discussions can be summed up as follows:

10. The region offers many opportunities to investors, both domestic and international; yet, its policymakers have not given due importance to investment as a driver of economic growth, nor has made serious efforts to create a truly business friendly climate and promote opportunities to those who move investment flows. Poor foreign direct investment (FDI) figures reflect poor integration into the global economy and the consequent marginalisation in terms of global economic activity.

11. Not only FDI levels are very low in many countries of the region, but also private domestic investment is limited. The domestic private sector in MENA countries is generally underdeveloped and is not well connected to the regional and global economy. Private investment in the region as a share of total investment is around 40-45 per cent – even lower than in Africa and particularly low when compared to the 75-80 per cent in Latin America and

East Asia. The ratio of private investment to public investment is only two while the same ratio stands at over six for OECD countries and around five for East Asia countries.

12. The region has a very diverse group of countries: rich countries like Qatar and Saudi Arabia, and very poor countries like Yemen and Djibouti. It has countries with a lot of natural resources – primarily oil and gas. And it has countries like Tunisia or Jordan that do not have much in the way of natural resources. So when talking about the MENA region, one should bear in mind that there is substantial intra-regional variation. Some participants debated inconclusively whether there should be a two-track approach in the process treating each sub-region according to its particular circumstances.

13. Often the problem, it was stressed, is not the shortage of capital, particularly in the oil-rich GCC countries. One MENA participant indicated that in the aftermath of 11 September there has been almost no capital outflow from the region as in the preceding years and that, according to one calculation, the amount of Arab capital available for investment was in the range of $2.3 trillion and most Arab financial institutions were looking for investment opportunities in the MENA region. Therefore, it was indicated several times that the government efforts should aim not only at FDI attraction but also mobilisation of domestic and intra-Arab capital for development.

14. The following key features concerning FDI in MENA region were elaborated by country presentations:

- FDI remains the dominant source of external financing for developing countries. Flows of FDI into the MENA region have not kept face with global FDI trends. Indeed, they have been lower than most other regions. The MENA region is only responsible for 0.9 percent of global flows of FDI and 4 percent of FDI flowing to the developing world. The situation is even worse in the oil-rich GCC, which received just 0.1 per cent or one-tenth of one per cent of global FDI and only 7.88 per cent of the region's total FDI inflows in 2002. This is a feeble performance for 5 percent of the globe's population. In a nutshell, the region has ignored FDI and FDI has ignored the MENA world.

- Most of the limited FDI flows go only to a handful of countries and specific sectors. More than 80 percent of FDI stock is concentrated in five countries – Saudi Arabia (34 percent), Egypt (22), Tunisia (14), Bahrain (7) and Morocco (7). The same five countries also have the highest average annual FDI flows. In terms of sector distribution, the bulk of the region's FDI is directed predominantly to petroleum-related and other natural resource activities. Some other countries such as Bahrain, Egypt, Morocco, Tunisia and Lebanon have witnessed FDI inflows into various sectors such as tourism, banking, telecommunications, manufacturing, and construction. Some of these non-hydrocarbon sector FDI flows were ushered by cross-border M&A, particularly of privatised firms.

- At the country level, the flows and stock of FDI remain a small part of the respective economies, both in terms of the gross fixed capital formation (5 percent on average – Bahrain 74, Kuwait 1.4 of FDI stock)) and the gross domestic product (14 on average – 3.9 UAE, Bahrain and Tunisia above 20).

- Although intra-Arab investment is likely to be understated in international FDI statistics, it comprises a significant proportion of FDI inflows – more than half of the total FDI inflows. In some cases intra-Arab investment is considered domestic investment. Private capital flows from the GCC to other MENA countries are a potentially significant source of future private investment. High net worth citizens of the GCC states have invested roughly $1.2

trillion (about 85 percent of their wealth) abroad, mostly in the United States. Also notable is the considerable amount of outward FDI flows and stock in the Arab world. Kuwait has a much higher outward FDI stock ($1.98bn) than inward FDI stock ($527 mn) as of 2000. Despite their familiarity with economic conditions in MENA and willingness to take a fresh look at investment opportunities at home, these elites have diverted only a trickle of their wealth back into the Arab world because they cannot find ways to invest it productively at home.

15. Business representatives identified the following areas as key in explaining the short supply of FDI in the Middle East and North Africa:

- **Conflict and regional instability**. Growth prospects are contingent on political factors. Many countries in the region have faced internal and external challenges that have deterred FDI. Lebanon, Algeria, Kuwait and Libya for instance had periods of political instability over the past two decades that have discouraged investors. In the MENA region, the military intervention in Iraq represented the latest in a series of shocks in recent years. If the efforts to revitalise the peace process shift into high gear, it was argued that there would likely be a lot of “peace dividends” in the region including for investment prospects.

- **Unpredictable macroeconomic conditions and public policy choices** – including volatility from trade shocks; non-market driven exchange rate regimes; lagging integration and openness.

- **Weak institutions and high administrative barriers** – including an arbitrary and cumbersome judicial system; high entry costs for firms; delays in customs clearance. Until recently, many countries confined foreign investment to very few sectors; even then, allowable investment was capped at only 49 percent, preventing a majority ownership and requiring a venture with a local partner.

- **Inadequate infrastructure** – including insufficient access to electricity and water; low access to telecommunications; and low overall quality of infrastructure.

- **Underdeveloped financial sector** – including state ownership of banks and a shallow level of financial services and instruments. The Arab world’s 12 stock markets are very small, with a total capitalization at the end of 2002 of around $200 bn. The banks do not provide financing to the most credit-worthy recipients they can find – most of their funds are loaned to the state and to elites who have political connections.

- **Inadequate availability of a skilled workforce and local partners** – the quality of public schools is inadequate, and research and development is insufficient.

- Another factor is the relatively **slow pace of privatisation**. FDI inflows for some countries have been closely linked to the pace and breadth of the privatisation process, and as the process has encountered delays and significant opposition in many countries, so too, have inflows of FDI been impeded.

- According to World Economic Forum, "with the exception of Egypt, Oman, Syria, and Tunisia, productivity growth in the Arab world has been negative." **Low productivity** in the Arab world does not stem from lack of natural resources or low domestic investment rates. There is plenty of capital. The problem is that financial markets in the Arab world do

not channel capital into its most productive and efficient uses. Restrictions range from public sector monopolies and limitations on foreign majority equity ownership in particular sectors, to corruption and red tape throughout.

16. **Corruption** was repeatedly cited as one of the major impediments to domestic and international investment. It remains one of the Middle East's core problems. In many countries in the region, families and clans simultaneously control large segments of the private and public sectors. Several participants including the Lebanese Transparency Association raised the issue of whether Arab countries are now willing to attack this menace head on or if international organizations should play a leading role in the struggle. Clearly, local intellectuals and political leaders are aware of the issue. The real weakness is in the implementation of internationally recognized standards, including the strict punishment of offenders. A system of checks and balances, linked to public access to information on the decision-making process, could eliminate the problem at its source.

17. The discussions focused on four specific areas viewed as critical for the creation of an integrated and dynamic economy in the region: (i) the need to remove distortions (subsidies, monopolies, protectionist measures) to increase productivity; (ii) the need to remove investment/trade barriers in order to increase intra-regional investment/trade; (iii) the need to increase R&D and innovation in the region; (iv) the need to develop the region's human capital. A **complex regulatory maze** survives in most countries; a web of regulations creates an environment of detailed interference in economic activity. Investors also care greatly about the reliability of the judiciary.

18. Business representatives outlined three factors that **investors look for** when deciding where to put their money. First, they look for an "enabling environment" that is welcoming, with no cumbersome regulations, well-defined ownership rights, the respect of contractual obligations, the rule of law and international accounting standards. Second, the economy should be dynamic, with sustainable growth, a level playing field, transparency and the free flow of timely and comprehensive information. Third, the country should have adequate infrastructure, including sufficient human resources. Foreign investors also look at whether local investors are investing. "You cannot delink domestic investment and foreign investment," BIAC representative underlined.

19. Another business participant told the audience that MENA countries cannot just do the minimum or use "standard recipes" to attract FDI. Because of the political uncertainty, "the region has to **over-compensate**." He added: "You need to do much more. It's not just economic reform; it's comprehensive reform - political, economic and social." Also important, he argued, is human resource development and regional integration.

20. One of the key challenges for oil-rich countries was how to mobilise investment for **achieving diversification.** The Saudi representative said that his country's foremost priority was to reduce dependence on revenue from hydrocarbons, diversify sources of income and create employment opportunities in other sectors.

21. Some MENA economies were compared with the traditional **"transition"** economies of Eastern Europe and the former Soviet Union as they also try to move from heavily state-dominated and closed economic systems to ones based on private initiative, market forces, and greater integration with the rest of the world. The previous model of public sector largesse financed by rents is no longer workable because the government cannot show the same largesse to a growing population with dwindling resources. Governments

account for as much as 40-60% of gross domestic output and of employment in the MENA region. The big role of the state -- a sector that essentially has low productivity and with limited inherent potential for productivity gain – was viewed as a drag on growth in most economies in the region.

22. There was common agreement as the most important challenge facing MENA countries - **rapid population growth**, which stands at over 3 percent a year – the fastest rate of growth in the world. For this region, where almost sixty percent of the people are under the age of twenty-five, demography could be a "gift" (as it was a gift for East Asia) because if these young people find jobs and can produce, it would provide high returns because of low dependency ratios. But if they cannot find jobs, the demographic gift can turn into a "curse".

23. Creating **larger and more integrated markets**, facilitating cross-border, intra-MENA investment and allowing the free movement of businessmen and exchange of ideas carries economic, as well as political benefits. Despite their combined size of 370 million consumers, MENA markets are "small" because they do not constitute a free trade area and the individual economies and real per capita income are not big enough. MENA states have not only been slow to open up markets and create a transparent and liberal investment environment to outside investors, but intra-regional moves to reduce tariffs and create a regional free trade area have also been stalled by what is regarded as lack of political will, over-reliance on the oil and gas sector and protection of large public sector interests. It is of foremost importance for MENA development to strengthen regional co-operation. It was made clear that different regional associations and initiatives should be co-ordinated and where possible integrated.

24. Participants shared common view as to MENA's **enormous potential**, as aptly characterised by the UN Arab Human Development Report, which needs to be effectively harnessed. After more than 20 years of rapid economic growth, falling oil prices in the mid-1980s and abrupt decline in investment and growth pushed many MENA governments to rethink their basic frameworks for economic management.

25. Beginning in 1985 they shifted at varying rates towards policies designed to achieve macroeconomic stability, a higher degree of integration with the world economy, and an expanded role for the private sector. Most MENA countries have made progress in the past decade. By and large, economic stability has been maintained and structural reforms have been implemented. Several regional integration initiatives have been launched. As a result, economic growth has resumed while poverty and inequality have remained low. But the challenges facing the region demand **greater policy effort** than has been achieved thus far.

26. What kind of economic reforms are needed? What are the prerequisites? How do we accomplish reform? Why have past reforms have failed? A number of initiatives in the trade and investment policy arena have already taken place in the region over the last decade. They include intra-regional bilateral and multilateral integration agreements, the Euro-Med agreements for many countries, and accession to the WTO for others; in addition to many unilateral trade reforms. These agreements and policies are certainly in need of harmonization in order to get the most benefits from them. But more importantly they do not need to be placed at the center of the new development strategies of MENA countries. Participants suggested the problems facing the region require a **massive rather than piecemeal approach** that emphasizes implementation.

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C. Proposed process

27. The discussions in the second day of the meeting have focused on the process, which should be put in place for driving a possible MENA investment programme. Participants have called for the OECD to act as a catalyst to provide impetus to the stalled investment-related reforms, ensure a truly multi-stakeholder dialogue and monitor the progress against the internationally recognised benchmarks.

28. For this purpose it was proposed to establish an OECD-MENA Investment Task Force - for leading a result-oriented, sharply focused process - consisting of government investment executives from each MENA country that could serve as the driving force and interlocutor in each country on investment matters. In addition to government representatives, the Task Force would include interested CIME delegates, private sector representatives from OECD and MENA region and key regional/multilateral organisation partners including World Bank/FIAS, UNIDO, EU-supported ANIMA, UNDP, Arab Business Council, Arab League, Islamic Development Bank, Organisation of Islamic Conference, and Arab Union of Chambers of Commerce.

29. Upon invitation from the OECD - once the political go-ahead is given by the Council - the countries/organisations will nominate representatives (a fully authorised senior executive and an alternate member) to serve in the Task Force. Each Task Force member will also be responsible for mobilising, where necessary, their own national authorities/organisations, particularly on issues which fall beyond their competences. Participants meeting all agreed to be members of the proposed Task Force; other key players who were not represented would also be contacted.

30. Terms of reference will be drafted for the Task Force. One of the first tasks, it was suggested, should be starting work on developing a MENA integrated framework for investment policies, based on particular circumstances in MENA region, best international practices, and ongoing regional initiatives by the Arab League, the Arab Association of Investment Agencies, the ANIMA, and the Arab Business Council. Jordan and Egypt briefed participants about the Arab League's recent "Investment Roadmap" and called on the OECD to co-operate closely with the Arab Economic Unity Council's 12-member Investment Committee, currently headed by Reem Badran, the chairman of Jordan's Investment Board.

31. Other MENA participants argued that the Gulf countries were not represented in this Committee and underlined the need for less politicised investment initiatives such as the Arab association of Investment Agencies led by Saudi Arabia, Bahrain and Dubai, which are actively developing a more liberal legal environment, creating a corresponding institutional framework to promote investments, and identifying administrative barriers to investment.

32. There was a call for active engagement of the private sector, both local and international, in the process. The process should be flexible, dynamic and action-oriented, learning from and absorbing past lessons. There was also a word of caution against launching a "big" initiative.

33. It was stressed that the process should be driven and led by MENA countries while OECD and other developmental partners are expected to provide support on the basis of their comparative strengths. Participants clearly recognised that the greatest responsibility

for MENA's growth lies in its own hands. If MENA governments are not able to take further significant steps toward the fulfilment of the reforms, then no amount of investment and assistance will suffice.

34. The OECD indicated that, as in other regional investment initiatives, its newly launched Initiative on "Investment for Development" could provide synergies in this area. The proposed MENA Framework for Investment Policies could cover such areas of host country policy as regulatory reform principles, transparency and corruption, corporate governance, competition, taxation, human capital, enterprise development, investment promotion and incentives, as well as home country policies.

35. Over the long-term, the process could pursue a three-pronged approach: firstly, to help build the roadmap (i.e. key policy benchmarks) for reform, secondly, to assist its implementation and monitoring, and finally to contribute to building institutional and human resource capacities in partnership with major stakeholders.

36. It was also recognised that the success of this OECD-supported process should be measured both by specific and concrete reform initiatives, with short and long term goals, measurable in performance on a regular basis. Hence, it is important to set realistic, time-bound targets and achieve intermediate results having an impact, even if modest, on policy-making. It should focus on the relatively less controversial, modest targets where common interest exists and build on these results for creating further momentum.

37. Monitoring and benchmarking have emerged as critical components of this process in order to generate peer pressure for measuring MENA countries' reform performance.

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D. Objectives and priority areas for action

38. The discussions revealed the following range of proposals on "Mobilising Investment for Development in MENA Region", which are listed in the order of importance as expressed by participants and which will be further sharpened after a second round of (electronic) discussion with Task Force members:

Objective I: To establish clearly where countries stand in terms of investment-related reforms; what initiatives/efforts are already underway at national, regional and international levels; and why progress is so far inhibited…

I.1 A stocktaking of "who has done what" in MENA in the field of investment and of achievements/failures. Almost all participants stressed that this process should capitalise on what's been already achieved and not duplicate with existing initiatives. There was a call for the OECD to compile a concise report of who's doing what and achievements/challenges in the area of investment covering the MENA region. This would clearly identify the gap and show the direction in which any fresh process should be focusing.

I.2. A peer review of progress in enhancing investment policy transparency and openness in countries of the region in light of OECD experience. A number of MENA countries do not have horizontal restrictions to FDI, at least for greenfield operations. However, it emerged from the discussions that restrictions can result from the need to get

multiple administrative permits, sectoral restrictions to FDI and the process by which market exclusivity granted to State-owned enterprises or recently privatized entities. The process by which activities are added to or taken off the list of protected activities is often neither well defined nor transparent and could be the result of arbitrary considerations. Sometimes certain types of business lines are reserved for national investors only. To illustrate the need to reform rules for foreign investors, one participant noted that no less than 107 barriers existed to foreign investment in a MENA country.

Participants indicated that there was a wealth of information from World Bank's recent report "Trade, Investment and Development in the MENA", FIAS diagnostic reports, UNCTAD investment policy reviews IMF annual inventory on Foreign Exchange Arrangements and Foreign Exchange Restrictions and UNIDO studies on the vast subject of barriers to investment in the region. They called for the compilation of a scoping report that provides a synthetic and focussed picture of basic non-conforming FDI measures in the region. These measures could include: general screening; sectoral ownership ceiling; discriminatory licensing in public utilities; access to privatisation schemes; performance requirements on foreign investors; discriminatory tax treatment. They can be assessed against the benchmarks established under the OECD investment instruments.

Objective II: To provide a platform for the discussion of controversial investment issues which slow down regional integration efforts …

II.1. Assessment of incentives deployed in MENA countries to attract foreign investment. Competition for FDI is increasing globally, regionally and among and within countries. There is less money going around the world – leading to greater rivalry to attract it. One MENA government representative said that their region was not immune from this trend and that a number of regional investment initiatives lost momentum when the issue of incentives came to the fore. It was suggested that the OECD could support a regional dialogue on this sensitive issue by using its checklist for investment incentives as the basis.

As economic and financial barriers disappear, it was argued that tax differentials will have a greater impact on investment flows. Clear and transparent tax rules on cross-border investment flows play an important role in attracting and retaining investment. Corporate tax rates are generally reasonable in MENA and in line with most emerging markets. For instance, in the GCC there are no taxes while Lebanon has low rates. Egypt and Syria have high rates. Most countries provide additional, generous investment incentives. Egypt gives tax holidays from 5 to 20 years, sectoral incentives and regional and export incentives. Yemen exempts foreign investors from all taxes and duties for 5-10 years and provides import duty exemptions. Participants were interested in further discussing possible OECD support in the area of ***tax incentives*** including issues in their design and administration and minimizing potential economic distortions.

II.2. Encouraging Investment Agencies to act as driving forces for reform. 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 analyze 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.

The Arab Association of Investment Agencies has expressed a strong interest in OECD co-operation to enhance the capacities of the MENA investment agencies as a **"bridge" between investors and policy-makers** in partnership with WAIPA, MIGA, UNIDO, ANIMA, Arab Association of Investment Promotion Agencies and Arab League. It has put a special emphasis on (i) Policies, laws and regulations governing FDI including licensing issues, pricing policy, ownership issues, distribution restrictions (if any), guarantees, raising of debt etc; (ii) Issues that are of concern to the foreign investor such as protection of IPR, seamless entry and exit of investment, *force majeur* issues pertaining to political risk, trade related investment issues etc; (iii) Decision making structures and the process time for arriving at decisions; and (iv) Dispute settlement system for the investors.

II.3. Exchange of experience on international investment law principles and bilateral investment treaties. As part of its monitoring of recent developments in bilateral and regional agreements, it was suggested that the OECD's surveys of jurisprudence and literature concerning the interpretations of the indirect expropriation, fair and equitable treatment, MFN provisions and international arbitration system could be helpful for MENA governments, particularly in designing their BITs and regional trade/investment agreements. Participants also expressed interest in discussing the features of "new generation" bilateral and regional investment agreements. A follow-up work with MENA countries could focus on identifying emerging "best practices" in new treaties' text on such issues as transparency and dispute settlement and new patterns in developed to developing country investment agreements.

Objective III: To increase awareness among MENA policy makers that enhancing transparency and good governance (both public and private) matter for investors…

III.1. Actions in support of a corruption-free investment environment. *T*he issue of corruption and bribery could be addressed in the framework of an investment roadmap as a security issue for 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 latter being predominantly made of SMEs which suffer a lot from corruption). The proposed Framework for Investment Policies in MENA 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.

The process, targeting bribery in business transactions, would pursue the three-pronged approach proposed for the overall investment framework process. Preventive measures targeting the public sector and aimed at improving public integrity, transparency and accountability should be left to the public governance leg of the MENA Initiative in the framework of a broader public governance action plan. This initiative would add value to the one targeting investment policies and, as such, both initiatives would be seen as i) focused and ii) reinforcing each other. Synergies will be sought in this work with the public governance component of the Initiative.

III.2. Establishing stronger corporate governance principles. Good corporate governance is part of a broader investment framework supportive of sustainable growth and development

in MENA. Although the Istanbul meeting did not address corporate governance specifically, several MENA participants discussed the corporate governance-investment relationship. Some participants suggested that countries in the region should adopt common standards of corporate governance, set out separate roles for management and shareholders, and develop a culture of accountability and transparency in their companies. The issue is particularly important for the MENA because of the prevalence of family companies or corporations with a dominant shareholder structure. Like other enterprises, many of these firms need to improve governance standards to attract foreign investors.

During the discussion, participants debated the feasibility of adopting common standards across the economies of the MENA. Some argued that the MENA is not a single bloc, but a region with many different centres. Participants called for higher standards of disclosure to give investors greater confidence, thereby boosting market stability and integrity. One participant pointed out that various organizations including the OECD have already set out standards of corporate governance: "The models exist - use them! Just start!" . This component will be taken up on a separate track by the evolving MENA corporate governance work[1]

Objective IV: To help MENA countries with peer learning and self-monitoring through sharing the OECD's benchmarking methodology of investment policy peer reviews and best practices in close co-operation with other multilateral (UNCTAD, World Bank/FIAS and UNIDO), regional (Arab League, Arab Association of Investment Agencies, ANIMA) organisations and international/local private sector organisations…

***IV.1. Supporting investment peer review process*.** Peer review is an integral part of capacity building; it provides an opportunity to transfer knowledge and experience; contributes to institution building; promotes convergence of approaches; fosters dialogue and best practices; assists compliance with rules and commitments. As in the case of NEPAD, MENA countries could consider a peer review mechanism, which is about monitoring, peer learning, and promoting the integration of international principles and standards into national practices. The review mechanism could explore various dimensions of the domestic policy framework for FDI in MENA including general laws and regulations, public services, macro-economic policies, customs procedures, the regulation of FDI, incentives, trade-related investment measures.

[1] For several months OECD has been exploring the state of corporate governance in the MENA, and what role the OECD could play in furthering corporate governance policy dialogue in the region. In 2003, OECD participated in four meetings on corporate governance in MENA: in Tunis in May, Casablanca in July, Cairo in September, and Qasseem, Saudi Arabia in October. The Casablanca and Cairo meetings were organized by the Global Corporate Governance Forum (GCGF) and the Center for International Private Enterprise (CIPE), an affiliate of the US Chamber of Commerce. The series of corporate governance workshops in the region has focused on Egypt, Jordan Lebanon, and Morocco. In November 2003, participants from those MENA workshops participated in the "High Level Working Meeting and Consultation on the OECD Principles of Corporate Governance" in Paris. It is clear from these contacts in the region, and from partners in CIPE, the GCGF and the World Bank Group, that there is a great deal of interest in corporate governance reform and corporate policy dialogue in MENA.

As part of the MENA initiative, the OECD will continue to contribute to the ongoing policy dialogue in the region, while exploring interest both within the region and from donors in establishing in the future a MENA Corporate Governance Roundtable, including the development of a MENA White Paper on Corporate Governance (as has been done for other OECD Regional Roundtables), with the objective of setting out an agreed regional action plan for corporate governance reform.

IV.2. Aligning foreign investment statistics for MENA countries with international standards. The OECD is the guardian of the OECD Benchmark Definition of FDI, developed in tandem with the broader concept of IMF Balance of Payments Manual. A review of the Benchmark Definition will be completed by early 2007. Each edition of *International Investment Perspectives* includes an analysis of recent FDI trends using the OECD database. More detailed statistics continue to be published in the *International Direct Investment Statistical Yearbook*. MENA participants have expressed interest in the OECD providing advice on landscaping FDI flows in the region to understand better their origin, sectoral breakdown and trends as well as on FDI data collection and processing according to the OECD benchmarks.

IV.3. Familiarisation of the OECD-MENA Task Force members with the OECD working methods. Invitation would be extended to the Task Force members to have series of discussions with different parts of the OECD and to attend OECD investment outreach events including the Global Forum on International Investment (GFII). The next GFII will be held in India on 19-21 October 2004, focussing on the role of industrialised countries and international co-operation in assisting developing countries' efforts to attract investment – this would include such themes such as FDI-ODA synergies, public private partnerships in infrastructure, and corporate social responsibility.

Objective V: To help MENA countries diversify beyond oil and gas in maximising the benefits of FDI and improve human resource development…

V.1. Role of FDI in diversification beyond oil and gas**.** 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 neglected. Countries are considering strategies of economic diversification based on inter-sectoral linkages in petrochemical and other industries, the development of agricultural resources, the growth of the services sector. FDI can play a crucial role in this process. In terms of sectoral distribution, some other countries such as Bahrain, Egypt, Morocco, Tunisia and Lebanon have witnessed FDI inflows into various sectors such as tourism, banking, telecommunications, manufacturing, and construction. Some of these non-hydrocarbon sector FDI flows were ushered by cross-border M&A, particularly of privatised firms. Saudi Arabia expressed readiness to take the lead for this work in close co-operation with the OECD and other MENA countries.

V.2. Promoting stronger local partners and skilled human resources for foreign-invested enterprises*.* Small and medium-sized enterprises (SMEs) are viewed as a critical sector for growth, employment, and poverty alleviation in MENA. Building stronger SME-FDI linkages is an issue of great interest to most MENA partners. The possible work in this area could focus on how to make SMEs better local partners for foreign investors – to make MENA economies more attractive to FDI and to strengthen the benefits of foreign investment to the local economy. Another equally important work is how to make MENA SMEs benefit from expanding regional and international trade opportunities and identify the role of the international community and stakeholders to facilitate this process. Enhancing human capital and developing capacities for investment also emerged as an area for support to MENA countries.