ASSESSMENT OF CHALLENGES FACED BY MENA INVESTMENT PROMOTION AGENCIES AND INVESTMENT PROMOTION GUIDELINES FOR THE MENA REGION

A Summary Overview of MENA IPAs and Recommendations for Future Actions

- Working Group 2 -

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PART 1

Introduction

1. This report prepared for the MENA meeting in Bahrain in September 2005 consists of three parts.

Part 1 provides a summary analysis and broad conclusions on the competitive status of investment promotion strategies and investment promotion agencies (IPAs) in the MENA region.
Part 2 outlines brief facts on the range of IPAs, their activities and some key issues for MENA countries in building effective promotion strategies and institutional structures for the future.
Part 3 outlines a self analysis review process for MENA IPAs using successful practice guidelines based on the experience of OECD member countries[1] as well as many developing countries.

Importance of Foreign Direct Investment

2. In the current global economy, Foreign Direct Investment (FDI) is a key component of national strategies to achieve sustainable economic and social development. This has long been recognised by OECD countries (see Exhibit 1), which are both the biggest investors and beneficiaries of FDI worldwide. The OECD country experience points to two broad streams of action that can lead to high levels of FDI:

- Building a stable and conducive environment for business and investment through progressive macroeconomic policies and structural policy reform
- Competing effectively on world markets for mobile foreign direct investment and maximising the benefits of such investment in terms of economic contribution, jobs, exports, technology transfer, human resource and skills development, regional development and integration into the economy

Exhibit 1: Creating the Policy Framework and Environment for Increased FDI

"It is increasingly recognised that, within the right policy setting, foreign direct investment (FDI) is a powerful engine for sustainable growth and integration of nations at different levels of development into the world economy. Governments in all continents now actively seek FDI, and the international community has intensified efforts to assist less developed countries in this process……Today FDI is needed more that ever to achieve sustainable development and poverty reduction.

At the same time, this observation poses new challenges. Host and home governments need to move beyond the traditional policy of liberalising FDI. They must embrace a broader set of policies for an enabling environment for

[1] "Strategic Investment Promotion: Successful Practice in Building Competitive Strategies" (OECD, June 2002); "The OECD Initiative on Investment for Development – A Policy Framework for Investment: Investment Promotion and Facilitation" (OECD, May 2005).

investment: respect for workers and environmental rights, competition, taxation, financial markets, trade, corporate governance, public administration, and other public policy goals. Building the capacity to formulate and implement these policies has become an equally pressing challenge. Developing policy frameworks to ensure that multinational enterprises contribute to development goals and capacity building also remains a priority issue on the international agenda."

Mr. Donald J. Johnston, Secretary-General of the OECD,
New Horizons for Foreign Direct Investment, OECD, 2002

3. Today, all OECD countries compete for FDI whilst major growth economies such as China, India, Brazil, South East Asian and East European countries have emerged as significant new host countries for international investment. With levels of FDI in the MENA region ranging from US$ 2.9 billion (1999) to US$ 1.8 billion (2003), the region has not achieved its potential or matched the success of many other regions.

OECD Experience in Attracting and Benefiting from FDI

4. Is the MENA region interested in attracting new FDI? Is this interest being clearly conveyed to international investors? What are the successful experiences in achieving such investment and deriving the benefits from it?

5. The following section of the report addresses these and other questions by comparing MENA countries experience with OECD's 'successful practice' guidelines (see Exhibit 2 for a summary of the Guidelines and Part 3 for their more detailed elaboration). There is no single solution when it comes to investment promotion strategy. Each country or region needs to adopt a strategy that meets its own competitive position and its own needs, taking into account its resources, culture and aims. The OECD guidelines therefore should be seen as just recommendations in this process and not a prescription that fits all countries. However, two main points are worth noting and emphasising here (a) the Guidelines are derived from long experience of OECD countries as well as many developing and transition countries; (b) the extent to which a country wishes to or is able to match these Guidelines on successful practice is very likely to be a major determining factor in levels of FDI achieved.

Benchmarking MENA Countries against Successful Practice Guidelines

6. Brief background on these Guidelines is outlined in the following section with summary comments on how the MENA region compares to these best practice guidelines. It is important to emphasise that the MENA countries are not homogenous and the general commentary therefore applies in varying degrees to individual countries.

Government Vision and Policy on FDI

7. The importance of government in providing the political leadership in introducing competitive policies is paramount and this theme runs through the guidelines. Government leadership and commitment to achieve progress are fundamental to success. This demands recognition of the competitive environment

for investment, the need to tackle broad policy agenda and build constructive relationships with the private sector. Government should ideally first decide on the role of foreign investment in the overall development of the national economy. This action needs to be underpinned with legislation and institutional structures to give proper effect to policy. Continuity of FDI policy is similarly very important to investors.

8. The government should ideally have a clear vision of the actual and expected benefits of FDI (capital investment, increased tax revenues, exports and foreign exchange earnings, employment and skills, regional development, technology, etc.) and the role of FDI in the overall economic development strategy, including its contribution to balanced regional development. Periodic evaluation of FDI policy is key to a country's long-term success in attracting FDI and maximising benefits from investment. The most successful OECD and non-OECD countries usually have regular and comprehensive of the costs and benefits of their policies and programmes and are continually seeking to refine and improve performance in response to market opportunities and trends.

Exhibit 2: Summary of Strategic Guidelines on Investment Promotion

(1) Establish government policy on foreign direct investment and the vision for its role and contribution to the national economic development framework.

(2) Articulate and advocate national policy on FDI among social partners and civil society as well as investors in order to create a better awareness and consensus on the aims of policy.

(3) Establish an Investment Promotion Agency (IPA) and determine the objectives and the legislative and governance structures of the agency.

(4) Inculcate within the IPA a professional management and service culture, result-oriented ethos and innovative marketing approach in order to compete successfully in attracting new investment and to ensure satisfactory continuity of the organisation culture.

(5) Define strategic policy options and set out the corporate strategy and marketing plan for the IPA to build competitive strength and achieve selected policy options.

(6) Decide on incentives policy and ensure objective and regular evaluation of costs and benefits.

(7) Undertake a comprehensive review of skills available versus skills required by investors. Develop and implement policies to address identified gaps and thereby facilitate new investment, jobs and skills.

(8) Ensure the provision of essential infrastructure needed by industry – industrial estates, modern factory and office buildings, utilities (electricity, gas, water), effluent treatment, drainage, telecommunications (including access to broadband networks) and different modes of transport.

(9) Identify administrative barriers to FDI and establish a programme with clearly assigned responsibilities and target dates to remove such obstacles to investment.

(10) Promote FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building the IPA as a credible and competent partner for investors.

(11) Facilitate investment and service new and existing investors at all stages of the investment cycle, from start-up through to post-investment and new expansion stages.

(12) Encourage greater integration of foreign business into the economy and the establishment of foreign investment in the country.

Comments:
(a) The majority of MENA countries have expressed interest in attracting FDI and outlined a broad policy. In most cases, however, this vision is expressed very generally. There is little evidence of concrete targets and the recognition that world competition for FDI demands strong government support and dedicated strategies and structures.

(b) The specific contribution sought from FDI in MENA countries is often not clear or well articulated. The oil revenues accruing to some MENA governments effectively result in some governments not needing FDI's economic and financial contribution typically needed by other countries. Nonetheless, these governments could benefit from jobs, exports, technology transfer, regional development and diversification of industry sectors.

(c) There is little evidence in any MENA country that a robust evaluation system, capturing all the benefits and costs of FDI has been implemented, yet this is fundamental to effective policy development.

Communicating the Vision and Building Consensus on Policy

9. Successful practice builds on the vision and the presentation of this vision to society. Setting and communicating it widely – can be an important determinant of success. The attraction of foreign investment requires the mobilisation of different interest groups across the government and society. Having established the vision for FDI policy within the overall economic development and competitiveness strategies for the country, it is important that governments play a proactive role in articulating that policy and promulgating it to all social partners as well as to existing and prospective investors.

10. This task should not be underestimated or left to the IPA alone – it requires the active, continuing and committed support of the government to achieve public understanding and support for the IPA. The process of not just communicating the vision, but also reviewing policy performance should ideally be inclusive and objective. The active involvement of investors in that process and in the dialogue on needed policy changes will lead to better policy development and implementation.

Comments:
(a) Nearly all MENA countries have websites, promotional material and other materials to communicate the vision.

(b) Given the low levels of FDI achieved it would seem that there is much scope for better communication of government policy and vision on FDI if the region is to move to new levels.

(c) Discussion with social partners and building consensus on national objectives for FDI does not appear to be a feature of the approach by MENA countries.

Establishing Investment Promotion Agency Structures

11. Successful practice points to the need to establish institutional structures which can be effective and competitive. This is the primary reason why many countries have established dedicated IPAs and endeavoured to ensure that such institutions have the capacity and resources to deliver results. By having an institution that is non-political and non-governmental, these countries have achieved better stability and continuity in the institutional structure and programmes, have been insulated from by periodic changes in government, and have been less restricted by formal procedures that apply within ministries. It is not uncommon for countries to move through stages in establishing an IPA. Initially, investment promotion begins with a dedicated unit within a certain ministry and gradually moves to a more independent organisation that can develop long-term innovative and competitive long –term strategies.

12. The responsible organisation must not be another layer of bureaucracy that investors have to overcome but a real facilitator in providing good factual material and advisory services. Ideally it should have international business and marketing skills to interface effectively with foreign investors as well as business partners. Moreover, as the government agency most in touch with the foreign investor, the IPA is well placed to be the main source of feedback to government policy-makers. Economic development, including promotion of foreign investment, is a long-term process. The IPA has to be organised and run professionally if it is to perform effectively and efficiently in the highly competitive world of attracting mobile investment, while at the same time maintaining responsibility for expenditure of public funds on operations or incentives. The institutional framework should ideally be protected from short-term political pressures that affect the efficiency of its operations.

Comments:

(a) Most MENA have established IPAs although some of these are small and not as effective as they could be. Others function only as a unit within a ministry. Individual countries have made significant advances in improving their policies and structures, but there needs to be a paradigm shift in the overall approach if substantial progress is to be made.

(b) In general, regional IPAs in MENA countries are not competitive in global terms due to the lack of strategy, clear focus on targets, resources and skills.

(c) IPAs should report at the highest political level (prime minister or senior minister level) and have their mandate endorsed at high government level. This political support will give them the necessary status and credibility with both investors and other government ministries and agencies. In a minority of MENA countries this is the position.

(d) IPAs should be in a position to instigate government policy reform with regard to the overall vision and strategy for the promotion of FDI where necessary and in general should act as champions of FDI. Again only in a limited number of countries is this approach by IPAs evident.

(e) IPAs should act as the medium for ensuring that the government hears the views of foreign investors. In some countries there are strong investor representative groups, and facilitating the access of such groups to government policy-makers or encouraging new investor groups are actions that IPAs could usefully undertake. There is spare evidence of this approach by IPAs in MENA countries

(f) IPAs should set up a "one-stop shop" to deal with all of the needs of the incoming investor. This action, a feature of successful practice in some countries, requires political commitment and support. Moves have been made here by some MENA countries.

(g) IPAs need to work closely with local authorities and with other development agencies in maximising the benefits of FDI. The benefits of FDI do not flow automatically once the investment decision has been made in favour of a location. IPAs need to establish close links with investors and increase their contacts with existing industry and other groups. Reports and information available do not indicate that this is common practice in MENA countries.

Professional Management and Service Culture in IPAs for Investors

13. Implementing the empowering legislation and establishing an IPA will not in themselves ensure a successful FDI programme. The IPA itself must be a professionally run organisation staffed by people who understand the mentality and business strategies of foreign investors and are prepared to go the extra distance in terms of helping investors to become established and run their businesses.

Exhibit 3: Elements of Best Practice in IPAs

"Key elements of the best practice work of IPAs typically include:

(a) Having a good service management system which aims its activity at priority market segments/sectors, spells out the service offered and is clear on the delivery method;
(b) Using customised marketing to target clients and build relationships with them;
(c) Pursuing FDI in all elements of the value chain and in all business functions (e.g. design, purchasing, production, distribution, marketing, customer aftercare and service, research and development);
(d) Rooting FDI in the host country through good linkage with local suppliers, subcontractors, business partners, technical institutes and universities, etc. and through good facilitation in the post-investment phase."

Source: OECD Report: *'Investment Promotion Techniques and the Role of Investment Promotion Agencies'*

14. Countries can create a competitive advantage by ensuring that their agencies are *better* than those of competitors. The most successful IPAs today act like premium service companies and often apply similar service systems and quality methods. Their approach is highly professional and efficient. They serve as *development* agencies, proactively seeking to not just undertake promotion but to provide business solutions to potential investors and to improve the wider environment for investors by liaising with relevant government and other bodies concerning changes needed. They are innovative in seeking investment in new and emerging sectors. They have the mandate and resources to undertake their work and are perceived as central to national development policy.

Comments:
(a) The majority of MENA IPAs do not have the structures, practices and culture that would match leading OECD countries in competing for FDI. Building this expertise needs a committed and long term approach.

Defining the Right Strategy

15. The globalisation of business and growth of the knowledge economy have introduced new dimensions into investment decisions for both countries and companies. New and changing sectors (e.g. information and computer technology, biotechnology, media services and financial services) have opened new opportunities and challenges in attracting investment. Many small and medium-sized companies are international investors, and this trend is increasing. A key issue therefore is to recognise that not all FDI is the same. The IPA needs to carefully and realistically select strategic policy options based on the potential of certain sectors but also on a clear understanding of how FDI decisions are made. The IPA needs to understand what investors are seeking, their view of the country as an investment location, the needs of their particular sector and company, the country's competitive advantages for attraction of FDI and how it compares with other countries.

16. Typically, the investor motivation for FDI is to acquire:

(a) Better access to markets – nationally, regionally and globally;
(b) Competitive labour costs and productivity as well as skills availability;
(c) Access to raw materials at competitive cost;
(d) Acceptable risk, linked to a supportive policy environment and with essential infrastructure (utilities, telecommunications and transport).

17. Addressing investor motivations is a central element of the strategic approach of successful IPAs. Similarly, establishing an objective view on the competitiveness of the country is a key part of the strategy for many countries and IPAs. Showing that the business environment rates well compared to other locations may be one of the most powerful messages to send to investors.

Comments:
(a) It would appear that most MENA countries need to assess their competitive position and the key success factors for attracting FDI in various sectors.

(b) A minority of MENA countries have, for example, focussed on the service sector as the source of FDI even though this is the largest segment worldwide.

(b) Sector-specific knowledge and expertise is key to success, yet very few IPAs in MENA possess such characteristics.

Incentives Policy

18. Any government should objectively evaluate the use of incentives and confirm that it is needed in order to compete before introducing it. Numerous surveys of investor determinants have highlighted that incentives rank lower in importance than, for example, political and economic stability, market access, competitive cost structures and an attractive environment for doing business. If the location is fundamentally uncompetitive or insecure, or if the commercial reasoning for the investment is faulty, incentives will not rectify the situation.

19. Incentives need to be properly justified and reviewed regularly and then adapted or phased out once they have achieved their purpose. At the same time, peremptory or retrospective changes to existing incentives may damage the location as an investment destination in the eyes of international investors, should preferably be avoided.

Comments:
(a) The range of incentives offered by governments in the region need better evaluation as to their impact, cost and benefit and the appropriate duration.

Human Resources and Skills Development

20. One of the key areas in which countries (or regions within countries) can develop a competitive advantage is in the area of human skills. This is a broad area that affects wide sections of society, and the role of the IPA should be primarily as interpreter of investor needs and future trends as well as instigator of actions to implement policies and programmes to meet those needs.

21. It is important to emphasise that investment in training brings benefits to international and domestic investors and to the individual in society. In the modern information age, skills acquisition and development are crucial to the competitive status of a country. Many studies have shown that the return on investment in training and education is very high, provided that the skills acquired can be used within the country or region concerned. As high-level skills in particular have a fairly long lead time (three to six years for university level), careful planning of the country's future needs is required.

Comments:
(a) There is little evidence of any MENA IPA playing a substantial role in this vital area. To some extent, this is attributable to their small size and resources available.

(b) Action here is crucial to progress with new technology and added value sectors (e.g. software, biotechnology, financial services, etc.)

Infrastructure

22. Countries – or regions within countries – are frequently not even considered by potential investors if they lack basic infrastructure. If they have the basic infrastructure required by the industry concerned, only then they can effectively compete for investment. To win, they must have something more than the basic infrastructure. What constitutes basic infrastructure varies from sector to sector. IPAs may not be directly involved in the provision of any of the essential infrastructure, although some countries have used their IPAs as providers. However, they again have a vital role to play in interpreting investors' needs and serving as a proactive provider or intermediary, where necessary, to ensure the provision of such infrastructure.

Comments:

(a) MENA countries have comparatively good infrastructure when matched with other regions, however sector specific infrastructure needs assessment.

Removing Administrative Barriers

23. Investment climate issues are of critical importance to foreign investors. The investment climate is determined by a multitude of factors: degree of macroeconomic stability and growth in the country with respect to inflation, exchange rates and balance of payments, and economic expansion; political stability; progress in private sector reform and liberalisation, including privatisation and fiscal, financial and labour reforms. The investment climate also includes such issues as cost structure, productivity, skills availability, sub-supply network and transportation. Progress in improving the investment climate provides important signals in establishing the country's credentials as a location where investors feel optimistic about economic prospects and the climate for doing business.

24. Barriers cause high transaction costs for foreign investors and may deter future investment. These issues also include, for example, the rule of law, personal security, arbitrary government behaviour changing the investment climate, corruption, discrimination against foreign investment, secure and regulated financial systems, free flow of capital, and international standards of accounting and arbitration.

Comments:
(a) World Bank reports (e.g. "Doing Business in 2004") and other reviews and papers highlight the less competitive position of many MENA countries in this area. Substantial progress remains to be achieved here if the region is to improve in its levels of new FDI.

(b) In terms of changing the image of the region in the minds of investors, this is one of the most crucial areas which necessitates changes and improvements to be publicised.

Image-building

25. Countries and IPAs need to undertake a strategic approach over time to improve the image of the country vis-à-vis other locales for investment, by facilitating investment at all states, servicing investors, and acting as an effective intermediary in all relevant areas. Image-building is a foundation block in the process of attracting FDI. Its role is primarily that of focusing investor interest on the location and overcoming negative perceptions rather than directly persuading a multinational company to invest.

26. Image-building is particularly important for countries which are new to investment attraction, and are undergoing rapid political and/or economic reform, or those which have been faced with violence or terrorist acts (directed either to themselves or to neighbouring states). It is equally important for small states, which receive little international media coverage. Image-building may require considerable and well-targeted expenditure over time, but in itself is not sufficient to make an investor decide on a particular country or location. At the image-building stage, the basic tools of marketing are applied to promoting the country in the eyes of investors. Techniques include segmenting markets, direct marketing, telemarketing, investment exhibitions, missions and seminars, and direct selling, where individual companies represent a key target audience.

27. For direct selling a more targeted approach is needed, based on the business needs of the investor. This can be a long-term process, requiring regular contact over several years before the IPA and its country come automatically into the investor's mind when reviewing new business strategies and making

investment decisions. To make this approach work in reality, the IPA has to build and maintain a presence in its key geographical markets, focusing on those companies looking for particular advantages offered by an IPA's country and maintaining regular personal contact with key decision-makers.

Comments:
(a) Good progress has been made by some MENA countries in projecting their countries, but the wider region does not generally have an image of an important destination for world FDI.

(b) Most MENA countries have a limited direct selling approach to potential investors.

Servicing Investors at All Stages

28. Once the potential investor displays a real interest, the process of country visits, negotiations, advice, legal and regulatory matters, visits with existing investors, financing, location choice, property, recruitment, training, and post-investment facilitation must all be provided in a professional way to the investor. Each investor is different, as is the amount of support required by them.

29. Potential investors will always be interested in visiting existing foreign investors in the country, especially those from the same country or the same sector. The unsolicited recommendation of a fellow foreign investor can be a major advantage for a location. The servicing of investors includes not only a visit by an IPA, but also effective follow-up processes.

30. Post-visit activities involve putting together a development package for the investor comprising of property, training and fiscal and/or financial incentives. Follow-up activities may include the handling of requests for assistance on matters such as taxation, work and residency permits, company registration, tariffs, building permits, utility connections and many other items.

Comments:
(a) The level of expansion of existing foreign investment in the region is not known, which suggests an inadequate post-investment servicing strategy in the region.

(b) In fact, a majority of countries worldwide have ineffective service programmes despite the fact that it is a major source of new investment, thus MENA countries have substantial scope to improve their approach in this regard.

Rooting and Connecting Investment

31. Many countries see the initiation of new investment as the goal when in fact this is only part of the ultimate objective. Two further strategic approaches are needed: (a) rooting investors by promoting expansion of investment and the scope of business functions carried out (purchasing, design, manufacturing, distribution, customer care, R&D) by existing companies (b) successful integration in the local economy and the transfer of management, marketing and technological skills. The latter are benefits which help to establish FDI in a country and to spin off new investment. FDI can potentially act as a key driver of indigenous enterprise development by improving quality and service standards; by establishing links with technical research institutions; by developing local suppliers of goods and services; and by

constructively influencing education and skills training policies on a national level. All of these benefits do not automatically accrue with all investments. They require strategic policies and a promotion strategy that aim at satisfaction of mutual interests.

32. Linking foreign investment to the local economy should therefore be a vital part of the strategic approach by policy-makers in their search for better and more competitive strategies. Policy measures are required to encourage foreign investors to act in this way, in their own interest as well as that of the host economy. This requires effective co-operation between the ministries and agencies involved as well as regular communication with the private sector.

33. Aside from the direct benefits of FDI (capital investment, employment, exports, tax revenue and local purchasing), foreign investment can also act as a key driver of local enterprise development. It can do this by developing management and technical skills, improving quality and service standards, encouraging links with technical research institutions, developing suppliers of goods and services, and influencing education policy on a national level.

34. Connecting foreign investment to the local economy can strengthen the security of the investment itself while also contributing to the development of an entrepreneurial indigenous sector. There will always be some level of contact between the foreign investor and the local economy, even if only limited to basic infrastructure and labour supply. The objective of the government and the IPA is to deepen these contacts in order to both secure the initial investment itself and develop the capacity of the local economy to meet international standards of quality, service and price, and to thereby become internationally competitive in its own right.

35. This process requires a two-pronged strategic approach:

- Motivating foreign investors to increase the direct benefits of the investment to the local economy;
- Developing an internationally competitive domestic sector (which will be assisted by promoting linkages between foreign investors and the local economy).

Successful and competitive practice today demands that host countries and IPAs take the onus in maximising the benefits of FDI through proactive and constructive partnerships with investors.

Comments:
(a) There is little evidence on a structured approach to rooting and building linkage in MENA countries, therefore this comprises an area when significant improvement can be made.

Overall Conclusion

36. The brief comparison of MENA country practices on investment promotion strategy and promotion above highlight many gaps and areas for action. Further commentary on these is given in Part 2 and Part 3.

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PART 2[2]

Drawing on a review of the Investment promotion structures in the MENA region - including information supplied by MENA IPAs - summary conclusions are shown below.

Summary Conclusions

37. Most countries in the MENA region have created Investment Promotion Agencies (IPAs) - to work on: (i) image building, (ii) investor servicing and facilitation, (iii) investment generation and targeting, and (iv) policy advocacy. The responsibilities and emphasis of the various IPAs varies. To a large extent it depends on the purpose and state of their investment policies and how much promotion is needed in view of the country's fundamental attractions and requirement for specific types of investment. Despite some excellent success stories, the region-wide efforts have not yet resulted in significant changes in investors' perception of the region or substantially affecting policy-making. Limitations in resources and policy functions available to the agencies make it difficult to emulate the "best practices" found among the leading IPAs in OECD and other countries.

38. As the government agency most in touch with the foreign and local investors, the IPAs are generally well placed to be an important source of feedback to government policy-makers. Equally, MENA IPAs can become a strong advocate for changes to the regulatory framework and for the enactment of investment-friendly legislation and policies. The advocacy role is dependent on the capability to analyze and recommend policies and contribute to the decision making process of Governments.

39. This part of the report aims at giving a regional perspective on MENA IPAs in terms of recognizing their progress and strengths and acknowledging some further challenges they face in achieving global best practices. The section contains an economic snapshot of the MENA region, a brief description of MENA's IPAs, their mandates and general comments. Following, a short summary of investor needs and the challenges faced by IPAs on international, regional, national and organizational levels is provided.

MENA Region Overview

40. The MENA region comprises the following Arab states in the Middle East and North Africa: Algeria, Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Tunisia, the United Arab Emirates, Yemen and Palestine. The 16 MENA countries and territories, share common challenges and cultural links distinct from neighbouring economies. In 2002, 305.8 million people inhabited the region and produced a total amount of $677.0 billion US, WDI 675.3 billion US for the same year. Hidden in this aggregated figure, and despite the fact that that countries of the region share many social characteristics, is the fact that levels of economic development within the MENA region differ enormously. As a result, GDP per capita varies considerably from one country to

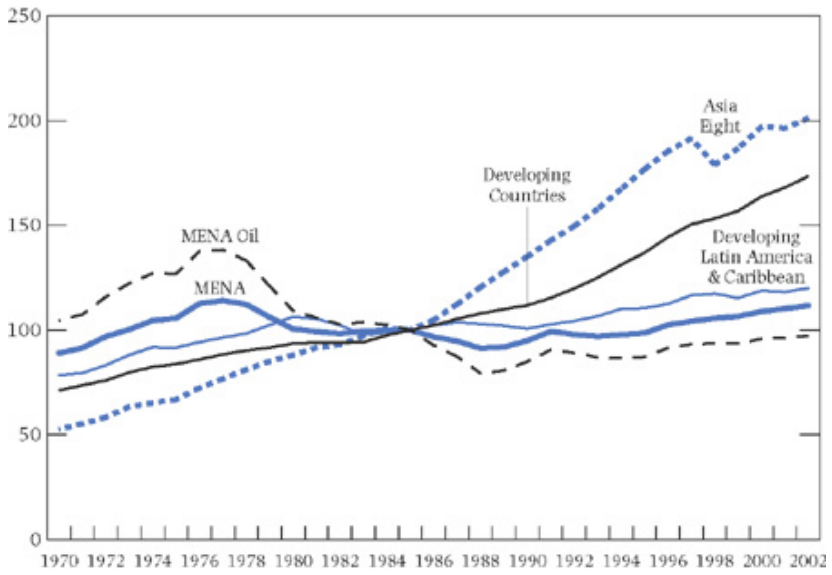
[2] Part 2 of this report was prepared by Mr Mohammad T. Asfour, Advisor, MENA - OECD Investment Programme.

another. The United Arab Emirates, for example, achieved a rate of USD 22 420 of GDP per capita in 2002 while Yemen could not achieve more than USD 870, both measured using purchasing power parity (PPP). The six oil-rich countries of the Gulf Cooperation Council (GCC) have the highest per capita GDP in the region.

41. United Nation's 2004 Human Development Report summarizes some main economic indicators:

Rank	Country	Life Expectancy	Literacy	GDP Per Capita (PPP)
High human development				
40	Bahrain	73.9	88.5	17,170
44	Kuwait	76.5	82.9	16,240
47	Qatar	72	84.2	19,844
49	United Arab Emirates	74.6	77.3	22,420
Medium human development				
58	Libyan Arab Jamahiriya	72.6	81.7	7,570
74	Oman	72.3	74.4	13,340
77	Saudi Arabia	72.1	77.9	12,650
80	Lebanon	73.5	86.5	4,360
90	Jordan	70.9	90.9	4,220
92	Tunisia	72.7	73.2	6,760
102	Palestine Authority	72.3	90.2	..
106	Syrian Arab Republic	71.7	82.9	3,620
108	Algeria	69.5	68.9	5,760
120	Egypt	68.6	55.6	3,810
125	Morocco	68.5	50.7	3,810
139	Sudan	55.5	59.9	1,820
Low human development				
149	Yemen	59.8	49	870
152	Mauritania	52.3	41.2	2,220
154	Djibouti	45.8	65.5	1,990

42. The region possesses about three-fourths of the world's proven crude oil reserves. GDP of the MENA region's oil exporters accounts for about two-thirds of the total GDP of the region. From MENA's 16 countries and territories, 12 are oil-exporting countries. These are: Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, the United Arab Emirates, and Yemen. Despite the oil revenues both oil producing and non-oil producing countries have been unable to achieve the expected economic growth. The following graph shows that relatively lower growth rate of the region:



Sources: IMF, World Economic Outlook; and IMF staff calculations.

Note: Purchasing power parity GDP weights are used for all aggregate averages except for Asia Eight, which is a simple average. Asia Eight countries are Hong Kong SAR, Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand. MENA oil countries are Algeria, Bahrain, Islamic Republic of Iran, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and U.A.E.

Keller and Nabli's 2002 World Bank study of 16 MENA countries shows that up to 47 million new jobs need to be created between 2002 and 2012 merely to keep pace with new entrants into the labour market. An additional 6.5 million jobs would be needed to reduce the unemployment rate to just below 10 percent.

The region receives only one-third of the FDI expected for a developing country of comparable size, which is concentrated in a handful of countries. According to the WDI database, FDI inflows actually declined from $2.9 US (WDI 3.7) billion in 1999 to $2.7 US (WDI 3.8) billion in 2002, declining again to a humble amount of $1.8 US (from WDI 4.8) billion in 2003.

MENA Investment Promotion Agencies

Algeria: The National Investment Development Agency

43. The National Investment Development Agency (ANDI) is charged with the responsibility of overseeing foreign direct investment in Algeria. The country's first investment code was announced in 1993. ANDI was created in 2001, with the adoption of the new investment law. At the time of this report's creation, some 150 people work within ANDI, at the central level and in the first 6 regional one-stop-shops. A central structure dealing with foreign investments was created within the Head Office of the Agency. ANDI is responsible for assisting both national and foreign investors to facilitate procedures and

grant any fiscal and para fiscal exemptions. It is currently in the process of opening one-stop units in each region of the country.

Mandate:

- Define actions to highlight the comparative and competitive advantages of the Algerian economy;
- Propose support mechanisms for the promotion of investment and the follow up of their good execution;
- Propose to the government all useful legal and economic measures to improve investment and reduce the formalities for projects that are under way;
- Follow up on the operation of decentralized one-stops;
- Support the organization, at both national and international levels, through forums, seminars, and meetings to promote of investment.

Comments:

44. ANDI is placed directly under the authority of the Head of Government, and constitutes one of his services. However, the Minister Responsible for the Promotion of Investment and Participation has operational responsibility for ANDI. This organization gives ANDI good political visibility.

Bahrain: Economic Development Board (EDB)

45. The EDB is an autonomous semi-private agency that was established by an Amiri Decree in April 2000 responsible for formulating and overseeing the economic development strategy of Bahrain. The EDB aims at attracting Foreign Direct Investment (FDI) and has identified six main economic clusters which capitalize on Bahrain's competitive advantages and present investment opportunities. These clusters are:

- Information and communications technology;
- Education and training services;
- Tourism;
- Healthcare services;
- Business services;
- Downstream Industries.

Mandate:

- To promote investment, particularly in key economic clusters;
- To support and facilitate the investment process by providing information to investors on the various facets of the process;
- To assist and streamline the registration process for investors and businesses setting up in Bahrain;
- To assist in resolving difficulties encountered during the approval and registration process.

Comments:

46. Chaired by the Crown Prince of Bahrain, the Board consists of seven ministers and seven senior executives from the private sector. This composition of the Board is aimed at ensuring active participation of the private sector and high political visibility.

UAE: The Dubai Development and Investment Authority

47. The Dubai Development and Investment Authority is a Government Authority entrusted with catalyzing the growth and development of Dubai's economy by attracting corporate and private investors to the UAE and by facilitating the growth of leading local businesses and encouraging local entrepreneurs. It was established through decree no. (2) of 2002.

Mandate:

48. The DDIA focuses on five primary areas of activity:

- Matching Investors with investment opportunities: DDIA seeks to attract investment through initiating, supporting, and developing a wide variety of sizeable, ambitious, quality projects in Dubai. Projects will enjoy the risk mitigation that arises from having Government backing and a well defined Government role.
- Multinational Corporations: DDIA seeks to attract the top global multinationals to set-up in Dubai through a comprehensive value-added offering that facilitates their move to the region.
- Single Window Government Convenience Services: The DDIA provides "single window" Government and Convenience services to major investors and multinational corporations with the aim of facilitating the establishment of operations, easing legal clearances, and delivering world-class support services.
- Local business: DDIA seeks to assist top local companies in creating higher value-added functions for their businesses by supporting them in building expertise, innovating, growing, creating new partnerships, and reaching international customers.
- Small and Medium Enterprise: DDIA seeks to provide an array of services to encourage business establishment and development in Dubai.

Comments:

49. Dubai has already achieved a high standard of income for its citizens. Its citizens are a minority and may not feel the need to contribute to the economy due to their high standard of income. One of the main challenges is to promote its local entrepreneurial culture and create a "creative class" that will, eventually, add value to the economy.

Egypt: General Authority for Investments and free zones

50. GAFI is the primary governmental authority concerned with regulating and facilitating investment in Egypt. As such, it provides a range of free services to investors such as: company registration, site location, partner identification, contracts and licenses acquisition. The Egyptian Investment Law no. 8 was publicized in 1997 (domestic and foreign investments). The primary means

which Law 8 places at the investor's disposal are tax incentives, which range up to freedom from taxation for the lifetime of the project.

Mandate:

- To procure licenses required for the establishment and operations of a project
- To assist investors in site selection and land acquisition.
- To certify the dates of commencing production and help the investor to take full advantage of the tax holiday granted according to location. In this regard a One Stop Shop has been established at GAFI's headquarters to carry out the aforementioned services.

Jordan: Jordan Investment Board

51. The Jordan Investment Board (JIB) is a government agency responsible for promoting and facilitating investment in Jordan. Since its establishment in 1996, the investment board has set the modernization of the Jordanian economy as its prime goal; its priority is to improve the quality of services provided to investors in order to ensure repeated satisfaction. The organization plays a significant role in developing the investment climate in Jordan through facilitating and promoting business opportunities and linking business parties together.

Mandate:

- Enhancing confidence in the investment environment, identifying investment opportunities, promoting these opportunities and motivating investment therein.
- Simplifying the registration and licensing procedures of investment projects, following-up existing Projects, and giving them priority in the finalization of applications at official authorities.
- Establishing an investment window at the JIB which shall undertake licensing investment projects and obtaining approvals on such projects from other authorities pursuant to the legislations in force.
- Giving advice, providing available information and data for investors and issuing related guides.
- Setting and implementing investment promotion programs to attract investors to the Kingdom.

Comments:

52. The JIB has been investing extensively on image building. It recently opened a one stop shop to service investors and issue investor cards, which was perceived by some analysts as legitimizing the inefficiency of investment related authorities and discriminatory against small investors. It might have helped to achieve a stronger investment environment if it had advocated recommendations included in the investment roadmap strategy prepared jointly with FIAS. A new government-led economic development initiative called JAED is expected to revitalize the process.

Kuwait: Kuwait Foreign Investment Bureau

53. Kuwait's Foreign Investment Bureau is a signatory to the WAIPA, however no information could be secured about its operations since its website could not be accessed at the time of writing. As of December 2005, the website was under construction.

Lebanon: Investment Development Authority of Lebanon

54. IDAL is the national Lebanese investment promotion agency dedicated to promote Lebanon as a viable investment destination and to attract, facilitate and retain investments in the country. IDAL was established in 1994 by a decree from the Lebanese Council of Ministers. In 2003, IDAL's mission was reinforced by the enactment of the Investment Development Law 360 and its implementation decrees, regulating the investment activity in Lebanon and empowering IDAL with the required investment promotion tools.

55. IDAL offers investment-services platform, focusing on solution-oriented investment promotion, facilitation, and aftercare service. In addition, IDAL promotes Lebanese exports through a variety of programs. In particular, IDAL focuses on promoting productive sectors in the Lebanese economy, which show growth-potential, and marketability. These sectors are agriculture, agro food, industry, tourism, media, and ICT.

56. IDAL is managed by a Board of Directors, responsible for overseeing operations, approving key projects and setting the strategic direction for IDAL. The Board of Directors is chaired by IDAL's Managing Director and includes, in addition to its two full-time members (the Vice-Presidents), four part-time members from the private sector. IDAL consists of four directorates:

- Financial and administrative affairs directorate;
- Studies, planning, and statistics directorate;
- Information and promotion directorate;
- One-Stop-Shop (OSS) licensing directorate.

Mandate:

IDAL provides a range of investment-related services including:

- Identifying and promoting investment opportunities in Lebanon;
- Disseminating market information about the individual country, business, legal, investment and other relevant information;
- Identifying potential joint venture partners and strategic allies for Lebanese businesses;
- Facilitating the registration and issuance of permits and licenses required for any investment project;
- Providing ongoing support for investment projects once established.

Comments:

(a) IDAL reports to the Prime Minister, who exercises tutorial authority over it. This reporting structure gives it a high political visibility.

(b) Although IDAL is one of the first investment promotion agencies in the region, its performance has inevitably been influenced by the surrounding political situation. This may have affected investor perceptions.

Libya: Libya Foreign Investment Board

57. The L.F.I.B. was established as a key component of the Investment Law No. 5 to provide a wide range of services required by foreign investors. These departments of L.F.I.B. include: Customs office, Immigration and passports office, Tax office, and Labour Force office.

Mandate:

- Provide advice, information, and support to investors;
- Identify and promote investment opportunities;
- Receive and consider applications for foreign capital investments;
- Issue licenses as well as obtaining approvals required for investment projects;
- Develop investment programs and promotional activities to attract investors;
- Recommend or renew exemptions, facilities, or benefits for the investment projects;
- Look into complaints and protests of investors without affecting the investor's right to petition and legal action.

Comments:

58. L.F.I.B's is more of a one-stop-shop office rather than a full IPA. As such, its mandate does not include an advocacy or an investment promotional role.

Morocco: The Investment Department

59. The Department of Investment has been in charge of promoting foreign investments into Morocco since 1996,and it plays an important role within the new framework set up by the Ministry of Economic and General Affairs. The Department of Investment, along with its initial mandate, also steers the Inter-Ministerial Investment Commission - an appeal and arbitration body presided by the Prime Minister.

60. While carrying out its mission, and in order to enhance the government's investment policy the Department of Investment is organized along two main poles, namely cross-sectional and sector oriented:

- Two divisions to cover investment promotion, communication and cooperation, research and regulations;
- Two other divisions are dedicated to activities in priority sectors, agriculture and industry on one hand, tourism and services on the other.

To maximize efficiency, these structures benefit from the support of offices in charge of Human Resources and General Affairs.

Mandate:

61. Beyond its mandate to provide information on the country's potential business opportunities and economic environment, the Department creates and implements investment promotion strategies targeting specific sectors to promote the realization of projects. Its plan of action revolves around four main axes:

- Identifying different categories of investors and countries initiating foreign investment;
- Promoting priority sectors such as tourism, NTIC, electronic and automobile components, textiles, aeronautics and the agro-alimentary industry;
- Coordinating between national institutions and international organizations in the field of investment;
- Locating projects according to the opportunities offered in the different regions of Morocco, in collaboration with the Regional Investment Centers.

Comments:

62. Being a department at the Ministry, this body does not possess adequate autonomy to perform high levels of advocacy. However, since appeal and arbitration authority is chaired by the Prime Minister, it has the potential to play a more active role in advocating for change.

Oman: The Omani Centre for Investment Promotion and Export Development

63. The Omani Centre for Investment Promotion and Export Development (OCIPED) is a Government Organization, formed by a Royal Decree. The Centre aims at increasing private sector's contribution to investments required for the Sultanate's development plans. It also works on promoting Omani product exports to foreign countries to improve the balance of trade of the Sultanate. In line with these objectives and Royal Decree No. 78/2002 regarding amendments of the OCIPED's activities, the OCIPED provides the following services mentioned hereunder.

Mandate:

64. Services rendered by the Directorate General of Investment Promotion are:

- Providing information on investment climate, laws, regulations, procedures and also project specific information;
- Organizing visit program and matchmaking meetings for foreign investors;
- Assisting investors obtain various government approvals and obtain debt funding from government or from commercial banks;
- Reviewing the project proposals prepared by the investors and advising them on the appropriate entry strategy for setting up operations;
- Identifying project and promotion;
- Assisting local investors to identify potential foreign partner and vice versa;
- Organizing Road shows or participating in International seminars in various countries to promote Oman as a destination for investment;
- Reviewing the investment laws, regulations and procedures and making recommendations to appropriate authorities for removing impediments for investment in coordination with private sector;
- Organizing local seminars and programs to encourage private sector initiatives for investment promotions;
- Supporting the existing companies to identify international partners;
- Carrying out specific studies related to investment promotion;
- Organizing various publicity programs and developing promotional materials.

Export Development
Services rendered by the Directorate General of Export Development to the Omani Industries are:

- Providing Market information to exporters;
- Disseminating export enquiries to exporters;
- Providing information on Omani companies to importers;
- Organizing Matchmaking meetings between Omani exporters and International buyers;
- Providing assistance to exporters through OCIPED and its representatives;
- Organizing Seminars / Workshops to update the exporters;
- Promoting Omani products by participating in international exhibitions;
- Participating and organizing trade delegation abroad;
- Bringing out promotional materials and publications;
- Conducting export related market studies for Omani products;
- Developing an export strategy for Oman and contributing to the export promotion policies of the Sultanate;
- Developing Internet based trade information database.

Comments:
65. Export and investment promotion are different activities, and providing both under one umbrella organization might affect strategic planning and organizational efficiency in the absence of clearly developed and articulated strategies for both.

Palestine: The Palestinian Investment Promotion Agency

66. In 2000, pursuant to the promulgation of the Investment Promotion Law (1)1998, the Palestinian Investment Promotion Agency (PIPA) was established as an autonomous agency of the Palestinian National Authority. The law also provided the bylaws by which PIPA operates. A One-Stop-Shop exists to assist investors in: licensing their projects, acquiring permits, obtaining incentives and income tax exemptions.

67. The website of the Agency provides information on investment climate, practical considerations for investors, as well as a business database of companies, which are all necessary in order to inform potential investors about the benefits of investing in the local economy. For the Palestinian authority, aftercare may not be as important a function as for more economically stable regions of the world, however PIPA views this function as key.

Mandate:
68. PIPA aims at building a better future for all Palestinians by constantly striving to improve customer service to foreign and domestic investors, by utilizing an effective One-Stop-Shop, special investment incentives and state of the art technology to attract investment. PIPA also facilitates cooperation between the private sector and the government in order to create and maintain a more competitive investment environment

PIPA's role does not end once a project receives immediate assistance. Aftercare support may not be as important for more economically stable countries around the world, but PIPA views this function as key.

Comments:

69. PIPA has tried to achieve World Association of Investment Promotion Agencies' (WAIPA) key characteristics for an effective IPA. This includes:

(a) Private Sector Participation – 40% of PIPA's voting board members are drawn from the Private sector. PIPA is headed by a thirteen member Board of Directors. Five of these members are drawn directly from the private sector.
(b) Political Visibility – PIPA's Board has direct access to the Council of Ministers. The board of directors is chaired by the Minister of Economy, Trade and Industry, with a representative of the Ministry of Finance serving as deputy chairman. The remaining six Board members are drawn from the public sector, with close ties with the Ministers of Tourism, Industry, Housing, Planning and International Cooperation, Monetary Authority.
(c) Autonomy – PIPA is an autonomous agency with legal authority in respect of any obligation, right, or legal act. One significant area where PIPA can help is in proposing changes to laws and regulations which may be restricting investment.

Saudi Arabia: SAGIA

70. SAGIA was created by the Government of Saudi Arabia in April 2000, when it announced a new Foreign Investment Law. SAGIA's vision is to oversee the creation of a globally competitive and diversified Saudi economy that will enable its people to achieve sustained better standards in quality of life, education, healthcare and employment.

Mission:

- Promote Saudi Arabia as a destination for profitable investments,
- Proactively seek inward investments,
- Achieve steady improvement in the investment climate and provide excellent investor services.

71. SAGIA's vision and mission statements represent the spirit of the Saudi foreign investment law that took effect in April, 2000. The law created SAGIA to steer the Kingdom's inward investment efforts.

Mandate:

72. As the agency is empowered to oversee investment, SAGIA enjoys a broad mandate. These include, but are not restricted to, the following:

- Recommend state policies, legal and regulatory changes designed to increase and diversify local and foreign investment in Saudi Arabia;
- Propose plans to the Supreme Economic Council (SEC) aimed at increasing inward investments and making Saudi Arabia more competitive;
- Promote the private sector as the key force in economic development and redefine the Government's role as policy-setter and regulator, and less interventionist;

- Coordinate with the Government-ministries and departments – to pursue its vision and mission;
- Promote investment opportunities in Saudi Arabia; develop database and conduct studies that are of primary importance to SAGIA's mission.

Comments:
SAGIA is invited to enhance the involvement of the private sector in the economic development process. It can also link its "creative class" to foreign investors in order to maximize benefits of FDI.

Syria

73. Syria set up an Investment Bureau, which reports to the Prime Minister's Office. The Bureau acts as a one-stop-shop for facilitating FDI projects, but can count on a limited staff of8 people.

Some other structures are also working in this area:
- The Ministry of Industry, representing Syria within the ANIMA programme, in charge of authorizations for industrial premises, and public companies;
- The Ministry of Economy and Foreign Trade, in charge of the economic strategy and tutor of private companies;
- The State Planning Commission responsible for definition of priorities and national strategies;
- EU programmes such as SEBC (Syrian-European Business Centre, in charge of mise à niveau of Syrian enterprises, production of an investor road map; and
- ISMF responsible for Institutional Sector Modernization Facility, in charge of public sector transformation.

Comments:
74. None of these actors can be considered an IPA (in terms of successful practice worldwide) empowered with legal and budgetary means for developing FDI in Syria.

Tunisia: The Tunisia Foreign Investment Promotion Agency

75. The Foreign Investment Promotion Agency - FIPA-Tunisia - is a public establishment, set up in 1995 under the authority of the Ministry of Development and International Cooperation. It is responsible for providing all support required by foreign investors and for promoting foreign investment in Tunisia. FIPA-Tunisia and its offices abroad form a network for information, contacts, advice, support, assistance to help foreign investors. At present time, FIPA is comprised of:

- Six offices in Paris, Brussels, Milan, Cologne, London and Chicago;
- A General Promotion Division, which can arrange contacts in Tunisia and abroad;
- Two divisions for sectoral promotion (dealing with advanced technologies and consumer products), staffed by senior specialists from various sectors, notably automotive components, electrical and electronic parts, computer components, textiles and clothing, agribusiness, etc.;
- A follow-up and assistance unit.

Mandate:

- Promote Tunisia as an investment location,
- Assist foreign investors in establishing and expanding operations in Tunisia
- Advise the Tunisian administration on measures for improving the investment environment.

Comments:
(a) Prior to commencing its mission, FIPA hired several international consulting agencies to carry out comparative studies of the location factors and production costs of several products. Aimed with this analysis, it is well positioned to understand, compare, and market the benefits of Tunisia as an investment location vis-à-vis its competition.

(b) FIPA also allows investors to benefit from a database on the Tunisian economic environment, regulations, land and buildings, potential partners, etc.

Yemen: The General Investment Authority

76. The General Investment Authority promotes investment in Yemen in accordance with the Investment Law No: (22) of 2002.

Mandate:
- Helping create new job opportunities,
- Application of advanced technology to minimize the environmental hazards
- One-stop shop to serve investors.
- Promoting, simplifying and accomplishing procedures in the shortest possible periods to encourage and attract more local, Arab and foreign investments

Comments:
77. GIA, which is a relatively new IPA, does not presently seem to yet have a strategic focus or plan. To date, one of GIA'a main activities was to prepare 34 investment opportunities for local, Arab, and international investors. GIA may derive greater benefits if it is concentrated more on strategic analysis to evaluate its position in terms of image building, investor servicing and advocacy.

GENERAL COMMENTS

A. Most of MENA IPAs concentrate on image building and investor servicing

B. Some MENA IPAs have the advocacy role within their official mandate

C. Very few MENA IPAs recognize that investing in creating an investor friendly environment is the best tool for investment promotion.

D. Many believe that no promotion at all is better than building a positive image of a negative reality

E. The best means to create an investor friendly environment is through the adoption of

Catering to the investor

Meeting standards

78. Many countries around the world have realized that attracting foreign direct investment (FDI) is essential to the process of economic development and to the prosperity of their citizens. It represents an opportunity not only to bridge the economic gap but the technological gap too. Foreign investments lay foundation for local investors, SMEs and entrepreneurs to prosper in a more efficient, market driven and professional atmosphere, consequently, enabling them to add value to their economies.

79. In order to formulate appropriate investment strategies and policies it is important to understand the common needs and requirements of international investors. The Multilateral Investment Guarantee Agency (MIGA) categorizes investor needs under three levels of importance:

1. Critical
a. Political & Social Stability
b. Labour Costs
c. Utilities Costs
d. Labour Availability
e. Utilities Reliability
2. Important
a. Real Estate
b. Business Conditions
c. Infrastructure
d. Market Access
e. Taxes
3. Less Important
a. Living Conditions

80. Policy makers in MENA countries may wish to rethink their priorities in accordance with investor needs as well as the prioritization of such needs (provided above) in order to achieve higher levels of investment. As mentioned, political and social stability require to be allotted the highest priority, which MENA IPAs often fail to recognize. In light of this shortcoming, government IPAs in the region should evaluate investor requirements from different perspectives and adopt systematic approaches towards identifying and seeking solutions to investor hindrances and maintain a strong advocacy role on such issues.

Competition on a global scale

81. Competition for attracting FDI is increasing, and along with this trend comes the evident need for each IPA to differentiate its product and services from others to achieve higher levels of inward investments. Currently, there are almost 500 IPAs worldwide with similar mission, yet different tools.

The Challenge - Global Competition & partnership

82. National, regional, and local IPAs are appearing at a rapid pace all over the world. As the number of IPAs continues to increase, so does the competition, thereby exerting additional strain on MENA IPAs. In this current climate, it is not only countries that are competing for investment - states, cities and even large commercial or consultancy companies are also prominent players in this domain.[3] As competition is becoming more severe, the need for establishing strategic partnerships increases. Such partnerships with international organizations could help MENA IPAs both share best practices and adopt them locally. Another form of strategic partnerships that could be useful in this regard is partnering with organisations in the region targeted by the IPA, be it business associations, chambers of industry, or other organizations.

Comparative Benchmarking

83. Comparative benchmarking as outlined in Part 1 is an important activity for IPAs in that it helps them understand their competitive position and also positioning of local key industries which foreign investors could take an interest in. Comparative benchmarking can also support the IPAs case when faced with potential investors, especially when they are provided with focused and comparative information on potential promising locations, etc.

84. Such benchmarking helps an IPA acquire more understanding of what its strategy and offerings to potential foreign investors should be, as well as allow for a better understanding of competition. It helps an IPA identify its weaknesses and strengths, opportunities and threats. Once such understanding is achieved, the challenge is to differentiate its services from competition.

Branding and image building

85. Since many IPAs in MENA do not differentiate their services from competition, their services appear to possess a generic image. For example, one can observe the prevalence of the slogan: "where east

[3] In Georgia for example, the main power generation companies have set up their own investment promotion divisions.

meets west" as well as "where else to invest"" in several campaigns. Such slogans may be too bland and general to be effective.

Good image building requires thorough research. Another important issue in image building is credibility. International investors have their own methods in verifying the truth behind a promotional campaign and unless the message is carefully prepared investors may be easily lost to competitors.

Regional Collaboration

86. A general perception amongst IPAs is that they are in competition with each other. Thus, regional collaboration and cooperation may not be perceived as good. OECD country experience with member countries in the Baltic region and with non-members in the Balkan region shows otherwise. The lessons emerging from the Eastern European bloc, as well as other clearly demonstrate that sharing best practices can benefit all in a region; and that collaboration amongst IPAs can increase the image and competitiveness of the whole region, thus giving a better support to each country. Investors are often interested in regional markets. Finally, easy flow of goods, people and investments will increase the competitiveness of the region as a whole.

National Creating an Investor-Friendly Environment

87. "For every country, no matter its size, location or level of development, attracting investment is a competitive exercise. Thus, all countries and local communities alike must be prepared to provide business interests with the right environment - including a transparent and predictable policy framework - if they are to be selected as the site for new or additional investment. Important elements of a sound environment for foreign investors include:

- The absence of administrative measures such as screening and approval requirements for foreign investments and the general absence of ownership, control or performance requirements as a condition of entry;
- The content of national laws, such as planning regulations, corporate disclosure requirements and labour relations must be framed in a manner that is stimulating to private investment;
- Host states should offer constitutional guarantees for the peaceful enjoyment of private property and may want to reinforce these by the conclusion of bilateral investment treaties with home governments of investors, requiring international minimum standards of treatment for foreign investors;
- While efficient and transparent customs legislation and procedures are prerequisites for entering the market, a high standard of intellectual property law and vigorous enforcement enhances the chance to attract high-quality FDI. [4]

[4] BIAC Statement, Istanbul 2004.

Public Policy Advocacy

88. Morisset and Andrews-Johnson found that "on average IPAs should devote more resources to policy advocacy activities that contribute to the improvement of the investment climate and thus generate additional investments." The use of best advocacy practices and customizing them to become compatible with local legal systems is a means to create an investor friendly environment. An interesting example of this practice comes from Brazil where inflows of $4.4 billion US in FDI in 1995 was achieved wever, and following the introduction of a new industrial property law in 1996 FDI surged up to reach USD 32.8 billion in 2000.

Channels of communication

89. It is important to establish strong channels of communications with all concerned government agencies. There is an apparent need to enhance communication and team building skills all over the MENA region.

Transparency

90. Though transparency is considered to be one of the most important factors for an international investor, many MENA countries have not tackled this issue adequately. The following table shows the progress the UAE has accomplished a higher rank between 2001 and 2004.

Country	2001	2002	2003	2004
Algeria	***	**	88	97
Bahrain	***	**	27	34
Djibouti	-	-	-	-
Egypt	54	62	70	77
Jordan	37	40	43	37
Kuwait	***	**	35	44
Lebanon	***	**	78	97
Libyan Arab Jamahiriya	***	**	118	108
Mauritania	***	*	*	*
Morocco	***	52	70	77
Palestine National Authority	***	**	78	108
Oman	***	**	26	29
Qatar	***	**	32	38
Saudi Arabia	***	**	46	71
Sudan	***	**	106	122
Syrian Arab Republic	***	**	66	71
Tunisia	31	36	39	39
United Arab Emirates	***	**	37	29
Yemen	***	**	88	112
Iraq	***	**	113	129

Notes:

- For the following countries no sources were available.

* For the following countries and territories only one source was available.

** For the following countries only two sources were available.
*** For the following countries no sources were available that year.

Sources: transparency.org, icgg.org

Organizational

Reporting mechanism and private sector relationships

91. The conceptual framework developed by Wells and Wint (1990, revised 2001) suggests that an IPA's effectiveness is influenced by its institutional structure and reporting mechanisms. An agency might be consistently more effective if it receives strong political support through direct reporting links to the highest government authority in the country. In a World Bank report on "The Effectiveness of Promotion Agencies at attracting Foreign Direct Investment" the authors Jacques Morisset and Kelly Andrews-Johnson point out that "countries where the agencies have established reporting mechanisms to the highest level of policymakers (for example, the president or the prime minister) and have benefited from the support of the private sector have been systematically associated with more FDI. Such institutional links strengthen the government's commitment and reinforce the agency's credibility in the eyes of the business community." The report also comments that "FDI flows are significantly lower in countries where the IPA is part of a ministry instead of an autonomous body or a joint private-public institution." In light of these findings, ensuring high government reporting structures for IPAs is an important factor for MENA governments to bear in mind.

The effectiveness of IPAs is also enhanced when the agency reports to a supervisory board that includes representatives from the private sector. A 2003 study by Morisset reports that the higher the number of private members, the greater the IPA effectiveness. (2003)

Financial limitations

92. Promotion activities require high costs, including taking care of potential investors, travelling, and providing promotional materials, making it difficult for IPAs with small budgets to fulfil their commitments effectively. Morisset and Andrews-Johnson's review of the recent international experience indicates that this financial commitment has to come principally from the government, which remains the main source of financing for IPAs (typically not less than 70%).

Setting the scene

93. The study conducted by Jacques Morisset and Kelly Andrews-Johnson demonstrated that expenditures on policy advocacy are at the top of the list of high returns, and efforts and the so-called investment-generating activities produce the smallest return per dollar spent.

Public policy advocacy (PPA)

94. "Advocacy" is defined as advocating, speaking, or writing in support of a programme or a project. Public policy advocacy is similar in that it entails the use of tools and tactics to influence public attitudes in support of a certain cause. It also includes research and covers the decision making process starting from policy-making until implementation.

95. An effective public policy advocacy campaign should have a well defined vision, mission, and goals. The mission describes how the vision can be implemented, while the goals need to be specific, focused, and measurable. To achieve goals on short, medium and long term, action plans should be produced. Since public policy advocacy aims at bringing about change, best practices need to be customized to accommodate local legal and cultural systems in different MENA countries.

Objectives

96. In general PPA in MENA countries could have the following objectives:

- Lobby decision makers to introduce investor friendly rules and regulations;
- Put the demands of investors into political and policy systems;
- Advocacy on issues and conflicts that might otherwise be ignored;
- Involve investors in the government decision process;
- Create a space for public argument and discussion in issues related to investment;
- Suggest alternatives to solving investors' problems.

Research

97. A detailed research plan should be formulated to encompass the following elements:

- Find numerous sources of information. Possible sources include existing reports from other government agencies, international organizations (such MIGA, ANIMA, OECD, UNIDO, etc), regional organization, business associations, universities, investors; staff who administer programs addressing the targeted issue; local newspapers; books, etc.
- Research the arguments from multiple perspectives.
- Conduct surveys, opinion polls, public forums, focus groups.
- Identify supporters and resources to address the problem or issue, including investors, business association, and academic institutions and other groups that might be interested in the issue.

Customizing approach to local environment characteristics

98. In general, the following approach may provide useful guidelines:

- **Determine who has the authority** to recommend or pass regulations and implement and enforce the law.

- **Identify the "point person/s" within government who are responsible for writing or revising, interpreting, and enforcing certain regulations**. Since this is an ongoing process, it is important to maintain open channels of communication with those people.

- **Develop relationships with concerned government officials and agency staff**. Invite representatives from those agencies to meetings, conferences, and special events. Educate them about your work. Provide them with brochures, fact sheets, newsletters.

- **Know the relevant laws and procedures governing regulations**.

- **Monitor the media**. Watch for actions affecting investment environment in the country. You could designate someone to regularly read newspapers, magazines, the Internet and seek all available sources of information.

- Develop an **action plan.**

- **Develop relationships and coalitions with interested organizations.** It is also of importance to develop a strong relationship with the media and manage PR promptly and efficiently.

- **Get broad endorsement on your comments on proposed regulations**. Discuss the proposed regulations or problems with existing regulations with a broad cross-section of investors before developing your comments on regulations. Then distribute a draft of your comments to targeted groups and individuals to get their suggestions and or endorsement. You could even request letters endorsing your comments. You can also encourage other organizations and affected individuals to develop their own comments. Include the reasoning behind your recommendations in your comments.

PART 3

Reviewing Investment Promotion Strategies: Next Steps -- A Self Analysis Framework for IPAs

99. Based on extensive country experience and research, this part presents in more detail the framework for successful practice in designing an IPA strategy, for use by governments in the promotion of foreign direct investment. It is also meant to serve as a benchmark against which individual MENA countries can assess their existing or planned FDI promotion strategies. As stated in Part 1, successful practice includes the policies, strategies, institutional structures and marketing activities that many OECD member countries and transition countries have employed with proven results. This document does not provide a detailed prescription or step-by-step guide on operational practices, but highlights the core principles and strategic policies that many countries have demonstrated to be most effective in attracting investment. While there are common features, it is important to emphasise again that each country has applied its own innovative approach, and as such, continues to seek new directions in competitive strategy that will respond dynamically to a highly competitive and changing environment.

100. The guidelines focus primarily on attracting mobile investment in the form of "greenfield" or joint venture projects. Mobile investment is the term used to describe foreign direct investment (FDI) in manufacturing and services, which may locate in any one of numerous countries and for which countries world-wide compete between each other to attract. While the practices outlined refer mainly to greenfield investment, they can encompass joint venture or in some cases privatisation projects, where various investment destinations are being considered.

101. The guidelines provide a standard against which economies can examine and compare their current performance and refine the policies and strategies to improve performance. The twelve specific guidelines presented here provide an overall "successful practice" strategic framework for investment promotion.

102. art 2 outlined preliminary information gathered from MENA country websites and reports and supplied by MENA countries. To further assist their strategic development, MENA country IPAs are invited to use the following more detailed guidelines as a checklist to assess their status and identify areas for development of their strategic approach to investment promotion.

PART 4

STRATEGIC GUIDELINES ON INVESTMENT PROMOTION

Strategic Guideline 1:

Establish government policy on foreign direct investment and the vision for its role and contribution to the national economic development framework.

1.1 Establish and widely publicise the broad vision and aims of FDI policy in terms of national economic and social development.

1.2 Introduce and enact legislation, where necessary, on FDI policy, treatment of FDI, new institutions and other policy areas that impact on FDI.

1.3 Ensure consistency of other government policies (e.g. legal and administrative procedures, labour regulations) with agreed FDI strategy so that efforts to attract FDI are not undermined or obstructed by conflicting laws and regulations.

1.4 Involve foreign investors in policy dialogue at all stages in the development of new policies.

1.5 Ensure that foreign investment policy has a regional dimension, i.e. that appropriate steps are taken to ensure that as many regions as possible benefit from FDI (e.g. infrastructure and skills training/development).

1.6 Periodically assess the economic impact of FDI and instigate policy change, where necessary, to improve performance or deal with a changing environment.

Strategic Guideline 2:

Articulate and advocate national policy on FDI among social partners and civil society as well as investors in order to create a better awareness and consensus on the aims of policy

2.1 Undertake wide communication and publicity on planned FDI policy and expected results as well as on the methodology to monitor and review performance.

2.2 Take a proactive role in communicating with civil society and with domestic and international media in order to explain FDI policy and government support for it.

2.3 Ensure that new FDI projects are properly announced and publicised (this is a key part of the work of an Investment Promotion Agency and requires close partnership between government and IPA to achieve best results).

2.4 Actively and publicly participate in supporting the work of the IPA – this is a key task for government.

2.5 Ensure that local industry or regional partners are fully aware of the opportunities for business links and co-operation with foreign investors.

2.6 Consult with social partners and foreign investor representative groups in reviewing, amending or introducing new FDI policies to improve performance.

2.7 Ensure that the conduct of performance reviews allows for inputs from all relevant groups in society and that such reviews are made available to the wider public.

Strategic Guideline 3:

Establish an Investment Promotion Agency (IPA) and determine its objectives, as well as the legislative and governance structures of the agency.

3.1 Establish an Investment Promotion Agency (IPA) with a clear legal structure and powers to carry out its mandate.

3.2 Ensure that the mandate of the agency is clear, transparent and modifiable only by government decision. To be effective, the agency needs to be empowered and resourced so that it can compete internationally for investment.

3.3 Appoint a senior cabinet economics minister (or the prime minister) to be directly responsible for the activities and performance of the IPA.

3.4 Provide sufficient resources and budget to meet the objectives.

3.5 Decide on the role, authority, responsibilities, appointment procedures, budgeting process and reporting of the IPA supervisory board, chairman and chief executive.

3.6 Appoint the supervisory board, including significant private sector and key stakeholder representation, and the chief executive.

3.7 Appoint an independent chairman as the key communications channel between the supervisory board and the responsible minister.

3.8 Clearly state the responsibilities, powers, budgetary and reporting procedures of the agency, the limits on capital and operating expenditure, and appropriate auditing procedures.

3.9	Set clear targets and measures of outputs and programme performance to meet government objectives and budget allocations.

Strategic Guideline 4:

Inculcate within the IPA a professional management and service culture, result-oriented ethos and innovative marketing approach in order to compete successfully in attracting new investment and to ensure satisfactory continuity of the organisation culture.

4.1	Appoint a high calibre chief executive who has the vision, experience and management skills to build and lead a successful organisation.
4.2	Implement professional recruitment procedures to ensure that all management and staff are appointed based on industry experience, skills and personal qualities.
4.3	Ensure that conditions of employment within the organisation, insofar as possible, match those of industry and thereby facilitate quality recruitment and retention of experienced staff.
4.4	Ensure that staff are provided with continuous training and skills development (e.g. business strategies, marketing techniques, sectoral knowledge, presentation skills, client servicing, project evaluation).
4.5	Follow best corporate and management practices in developing the strategic and operational plans for the IPA.

Strategic Guideline 5:

Define strategic policy options and set out the corporate strategy and marketing plan for the IPA to build competitive strength and achieve selected policy options.

5.1	Identify positive and negative factors that differentiate the country from its regional and global competitors, as well as develop strategic policies and actions to address these factors with investors.
5.2	Create awareness and a positive image of the country in the minds of potential investors. This is an important first step to successful promotion of investment.
5.3	Select priority industrial and service sectors where the country already has or can develop competitive advantage, keeping in mind the potential in new emerging technologies and arising from structural change in industry sectors.
5.4	Undertake research on selected sectors so that strategic issues affecting business and investment are understood and reflected in IPA's dealings with investors.
5.5	Encourage action by the government, where necessary, to enhance competitive advantages for attracting investment (e.g. special skills training or provision of specific infrastructure).
5.6	Develop corporate strategies and operating plans to focus on selected options.

Strategic Guideline 6:

Decide on an incentives policy and ensure objective and regular evaluation of its costs and benefits.

6.1 Review incentive policies in competitor countries in order to assess the level of competition and the need for incentives.

6.2 Determine if incentives are necessary and design an appropriate incentives package which is affordable and effective. In the case of EU candidate or aspiring candidate countries, such incentives would have to be compliant with EU state aid regulations.

6.3 Ensure that all planned incentives are properly evaluated through cost/benefit analyses and that the scope and duration of incentive programmes are well defined.

6.4 Initiate required legislative changes.

6.5 Review incentives policy periodically, monitoring the cost effectiveness of incentives in achieving stated goals and revising incentives policy where necessary.

6.6 Consider appropriate tax agreements with FDI originating countries.

Strategic Guideline 7:

Undertake a comprehensive review of skills available versus skills required by investors. Develop and implement policies to address identified gaps and to facilitate new investment and job-creation.

7.1 Identify key skills in industry sectors that are being targeted for FDI and ensure that well constructed training, retraining, skills development and educational programmes are provided to meet the changing needs of both domestic and international investors.

7.2 Seek joint involvement of relevant state organisations with industry players in designing and conducting training in order to ensure relevance and quality practices.

7.3 Set out an information society strategy which is co-ordinated with FDI policy and promotion, addresses training and skills demands, and attracts investment in modern technology sectors.

7.4 Within the framework of the above strategies, ensure good collaboration between the education sector, training sector and industry in order to provide new job opportunities and meet the needs of investors.

Strategic Guideline 8:

Ensure the provision of essential infrastructure needed by industry – industrial estates, modern factory and office buildings, utilities (electricity, gas, water), effluent treatment, drainage, telecommunications (including access to broadband networks) and different modes of transport.

8.1	Based on the target sectors identified, develop "centres of excellence" which will attract investors by making available infrastructure that will give the country or region an advantage when competing internationally for investment.
8.2	Examine potential advantage to be gained from the provision of advance factories, serviced offices or serviced land (with all utilities in place) for selected investors and encourage private sector suppliers to meet this demand.
8.3	Devise commercial packages with infrastructure providers to ensure the provision of specialist infrastructure (e.g. pharmaceutical and chemical industries have specialist needs in the areas of water, environmental treatment and procedures).
8.4	Within the framework of the information society strategy, ensure that a modern telecommunications infrastructure, in particular high-speed broadband access, is provided or planned for.

Strategic Guideline 9:

Identify administrative barriers to FDI and establish a programme with clearly assigned responsibilities and target dates to remove such obstacles to investment.

9.1	Undertake regular reviews of the investment climate in the country, using independent expert advice and surveys of investors' opinions.
9.2	Draw on the experience of other countries in identifying and addressing major issues affecting the investment climate.
9.3	Ensure that regulations and procedures which impact on foreign investors are coherent and consistent.
9.4	Establish a programme with clearly assigned responsibilities and target dates to remove administrative barriers to foreign investment.
9.5	Inform and educate society on the negative impact of barriers to FDI.
9.6	Provide appropriate structures to facilitate access by foreign investors to senior politicians and government officials.

Strategic Guideline 10:

Promote FDI by undertaking a comprehensive and professional marketing programme aimed at new and existing investors and by building the IPA as a credible and competent partner for investors.

10.1	Use professional surveys of investor perception of the country as the basis for an image-building programme.

10.2 Develop an international image-building programme aimed at the foreign investment community and international business media.

10.3 Include, where possible, the existing foreign investor community in promotion activities.

10.4 Use senior political figures and government officials, existing foreign investors, and the overseas expatriate community as "ambassadors".

10.5 Identify and target growing sectors, i.e. sectors where the country can offer competitive advantage.

10.6 Within these sectors, identify the key investing companies and the decision-makers within those companies.

10.7 Implement an investment generation campaign aimed at key executives in potential investing companies and based on an appreciation of investors' investment priorities and on the competitive advantages the country can offer in response to those priorities.

10.8 Organise and conduct well planned country visits by potential investors, ensuring the provision of all relevant information and advice necessary to assess the country's attraction as an investment location.

Strategic Guideline 11:

Facilitate investment and service investors at all stages of the investment cycle, from start-up through to post-investment and new expansion stages

11.1 Ensure that IPA staff has the right skills, experience and training to deal with senior foreign investors, and remunerate staff accordingly.

11.2 Prepare and manage visit programmes, paying attention to the details of itineraries as well as content.

11.3 Agree on the itinerary in advance with the investor, addressing all key issues that the investor wants to clarify.

11.4 Ensure early contact with local suppliers (component suppliers, subcontractors, service providers) in order to facilitate the potential investment and use of the local supply network.

11.5 Assemble a development package, negotiate legal agreements, provide assistance during start-up and a comprehensive service during the early years of operation.

11.6 Maintain contact and work closely with existing investors, as they can have powerful influence on other potential new investors and are themselves a major source of new investment through expansion, introduction of new products, etc.

Strategic Guideline 12:

Encourage greater integration of foreign businesses into the economy and the establishment of foreign investment in the country.

12.1	Survey foreign investors on what they purchase and are willing to purchase from the local economy in terms of services, materials and technological support.
12.2	Develop specific support programmes aimed at domestic suppliers, training institutions and technology centres capable of becoming internationally competitive suppliers to investors.
12.3	Identify gaps in local firms' management training and technological capacity to support targeted foreign sectors, and support investment to close the gaps.
12.4	Identify and support local manufacturing and service firms capable of developing an internationally competitive position through the development of sub-supplier programmes based on the needs of the foreign investor.
12.5	Support programmes aimed at upgrading indigenous management, technology and language skills provided by management training institutes, universities, etc.
12.6	Support programmes linking foreign investors and the higher education sector in the development of new technologies, associated start-up companies and technology clusters based on shared exploitation of academic, human and capital resources.
12.7	Encourage enterprises to act in conformity with the OECD *Guidelines for Multinational Enterprises*.