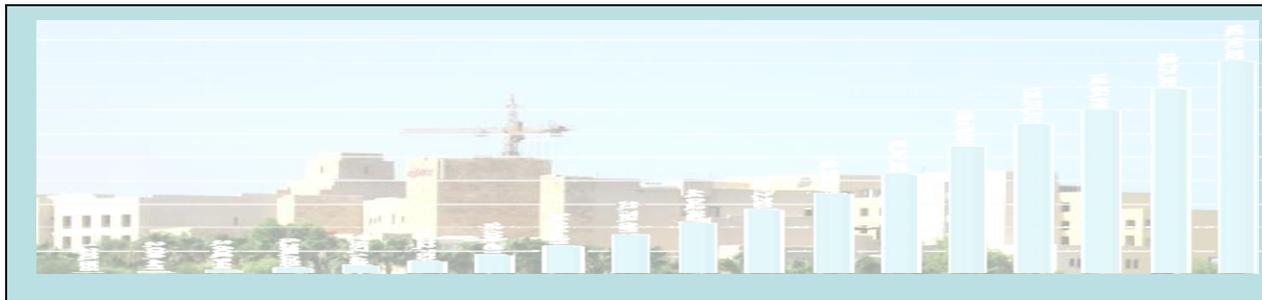


# Iraq Project



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



## MENA-OECD Initiative on Governance and Investment for Development

Dr. Rainer Geiger, Deputy-Director, OECD



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# I. Context

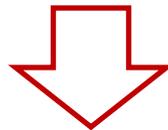
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- Challenging economic, political and security environment
- Unemployment 17,5% in 2007, central urban areas 23% (Iraqi sources)
- Liquidity from oil drives the economy – limited other linkages with the rest of the country
- High inflation rates, levels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



# I. Context: Business Development Policy and Governance Reforms launched

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



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



## II. MENA-OECD/IRAQ Project

The project is based on:

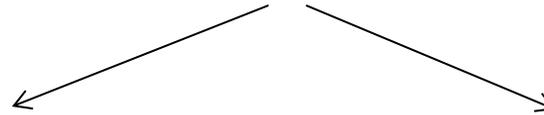
- Mandate provided by **International Compact with Iraq/MENA-OECD Initiative/Paris Declaration on Aid Effectiveness**
- Engagement of key Iraqi Ministries and Agencies
- Support of MENA countries, namely Jordan, Egypt, Morocco and Bahrain
- Capacity-building meetings in the areas of investment reform,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



## II. MENA-OECD/Iraq Project

### Iraq & MENA-OECD

#### Investment



#### Anti-Corruption

##### **Key Activities :**

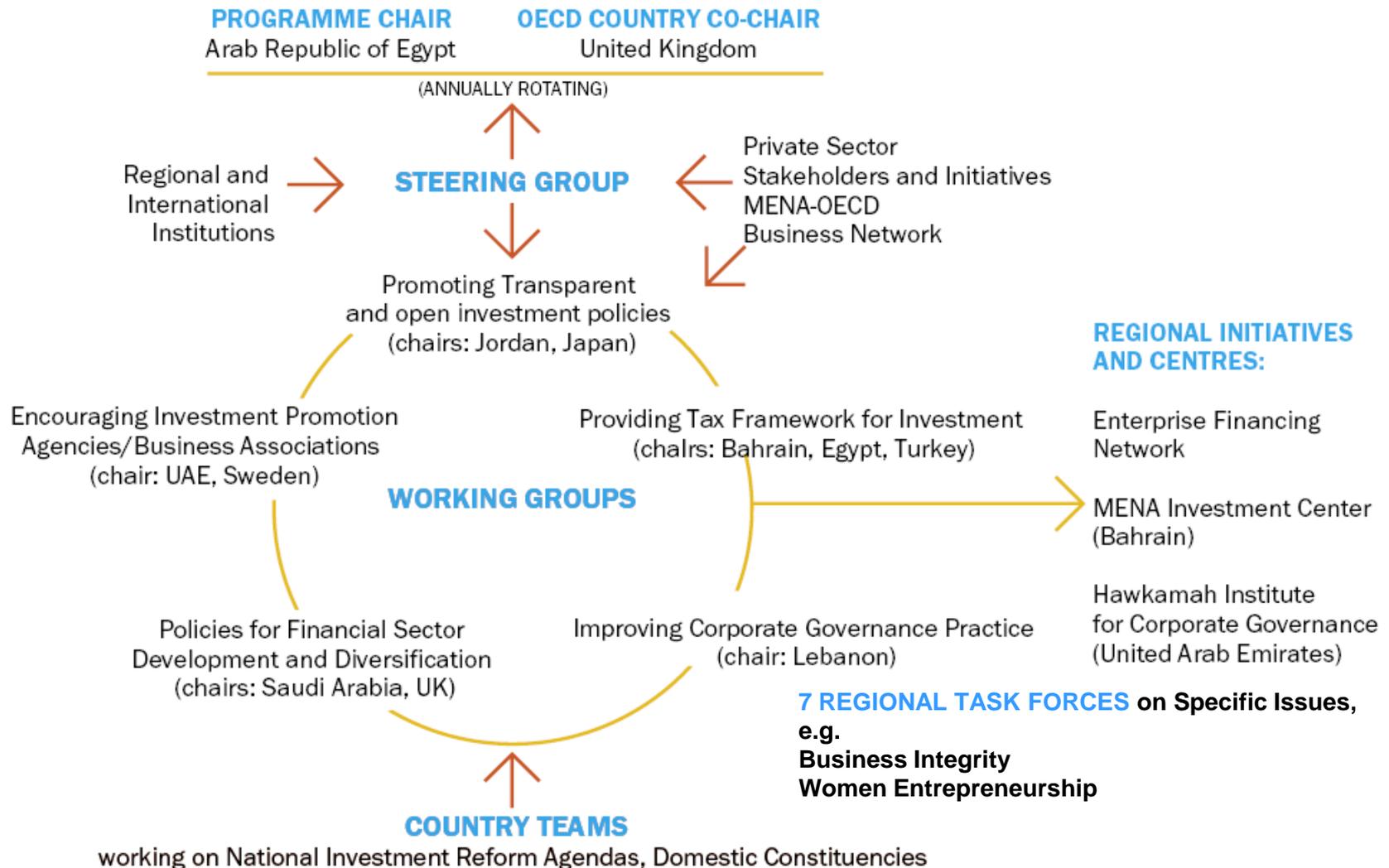
- Support an effective institutional setup of the National Investment Commission (NIC) including interactions with other agencies.
- Support implementation regulation for the Iraqi Investment Law
- Capacity-building for Iraqi negotiators of Investment agreements, design targeted country strategy.
- Integrate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

##### **Key Activities:**

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

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

## MENA-OECD Investment Programme





## II. MENA/OECD IRAQ Project Achievements

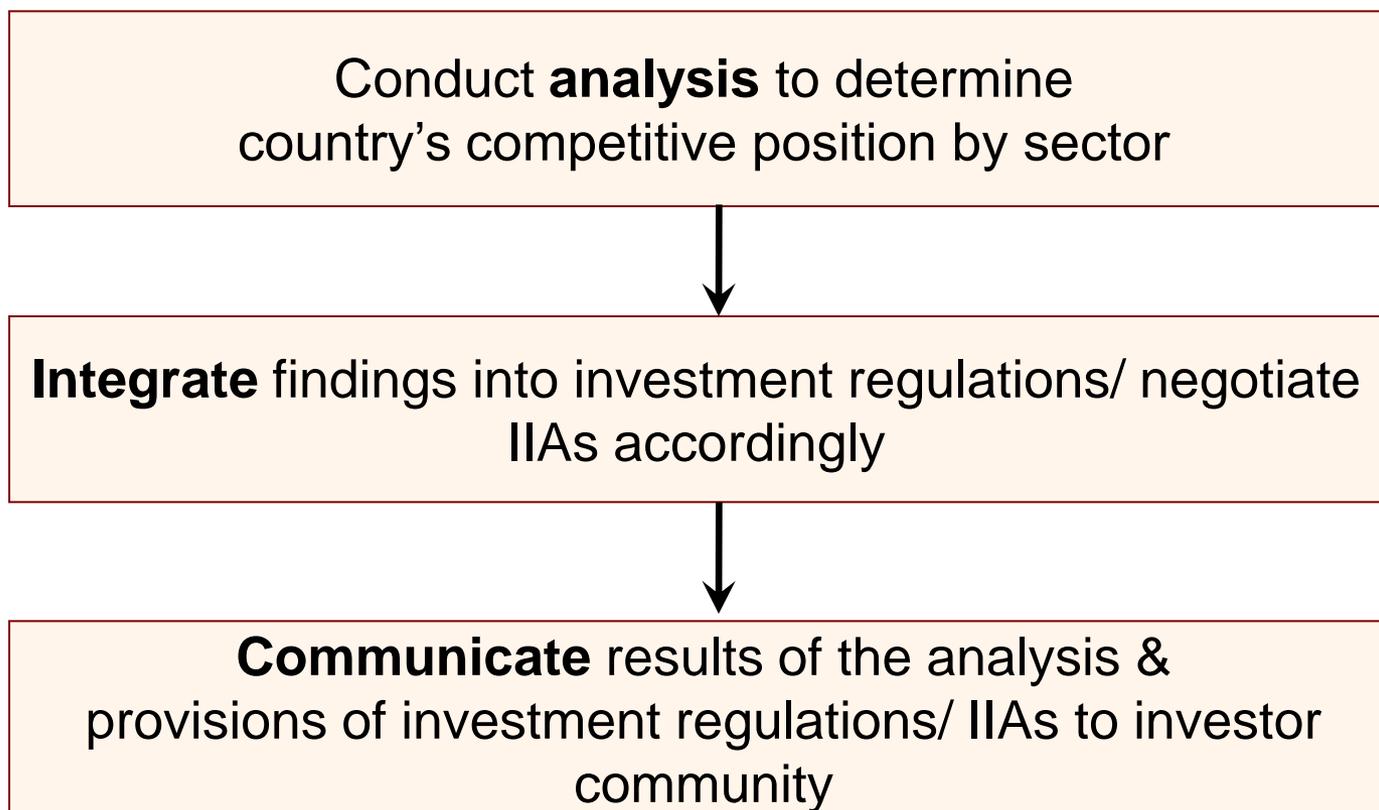
- A network of Iraqi government officials on investment policies and transparency in procurement has been established
- Support structure in Baghdad and Amman has been built up and strategic partnerships with the Government of Iraq have been built
- 9 capacity building meetings have been conducted
-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

#### Iraq National Investment Commission/MENA-OECD co-operation

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

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

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



## Competitiveness Aspects: Iraqi Investment Law

### Regulation of Entry

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

### Screening and Approval Procedures

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

## Competitiveness Aspects: Investment Laws

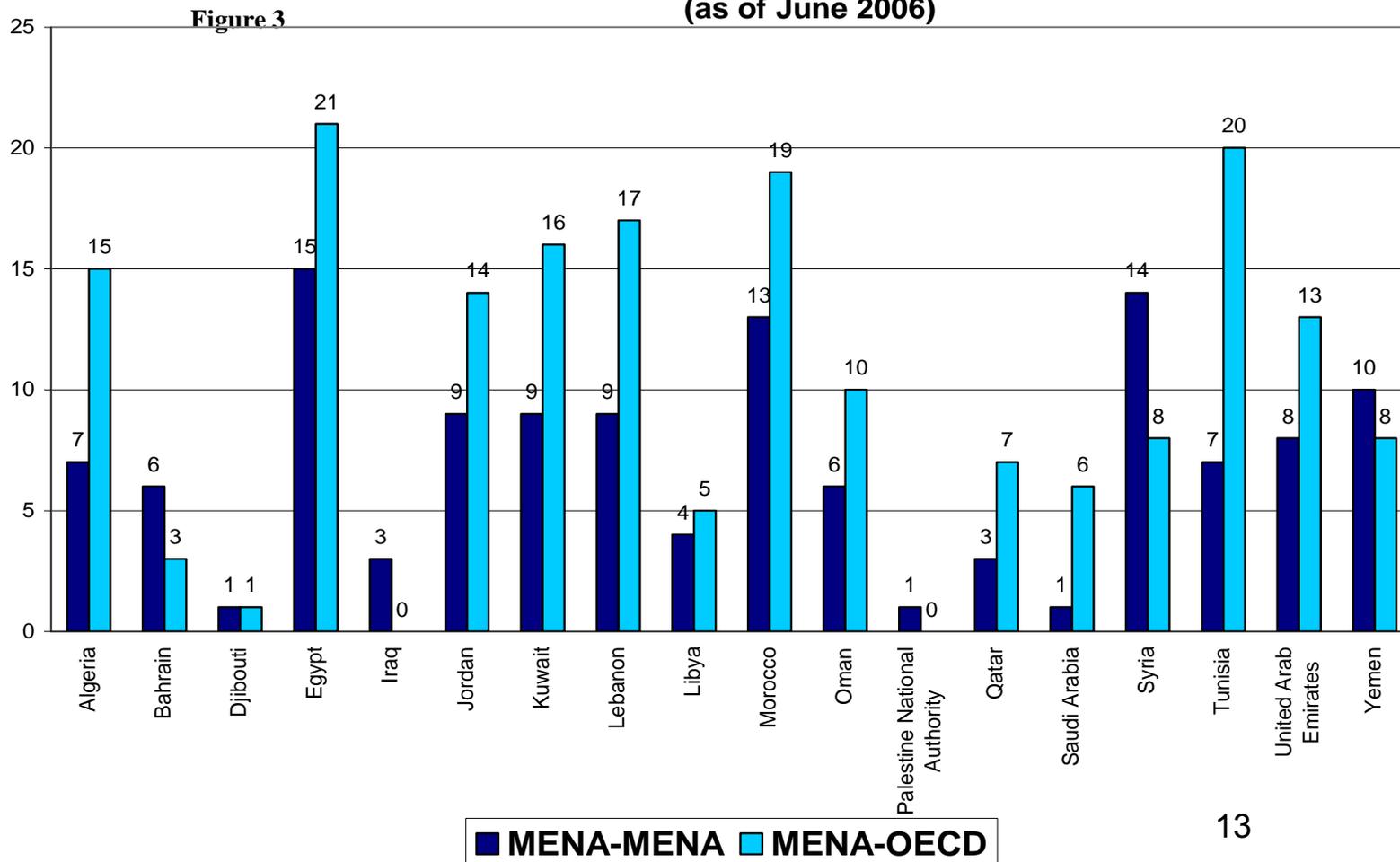
### Investment Incentives

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

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

## International Investment Agreements – Iraq to catch up

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



## IV. Example : Private Sector Development, BCDS

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



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

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

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

# IV. BCDS : Comprehensive Assessment Framework

## I. Business Operational Environment

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

## II. Business Integrity

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

## III. Factor Markets

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

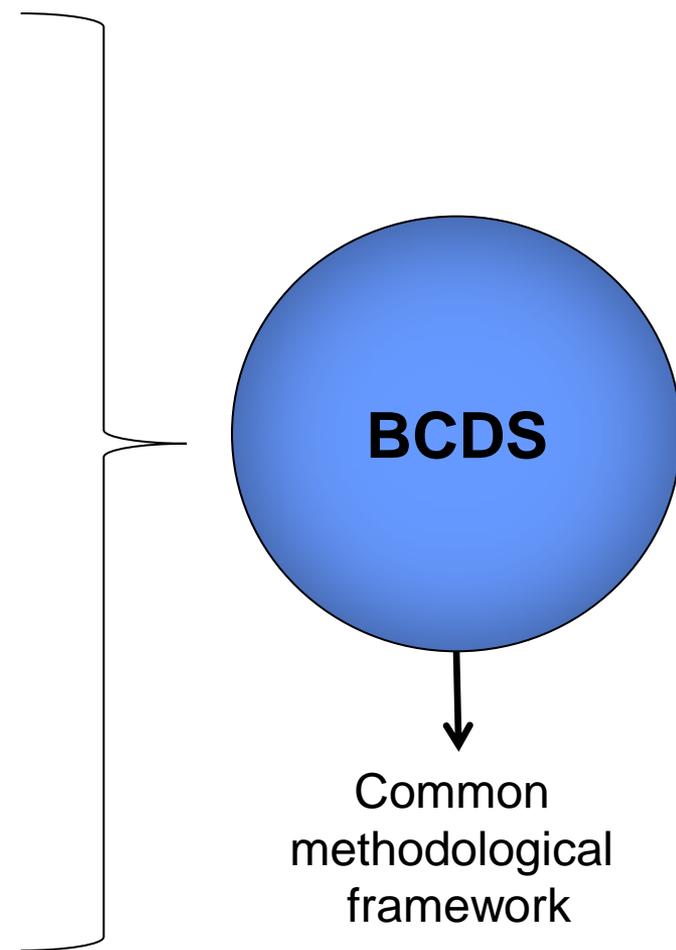
→ Covering all policy areas that can support investment and business climate reforms

## IV. BCDS : Expertise of OECD

### OECD

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

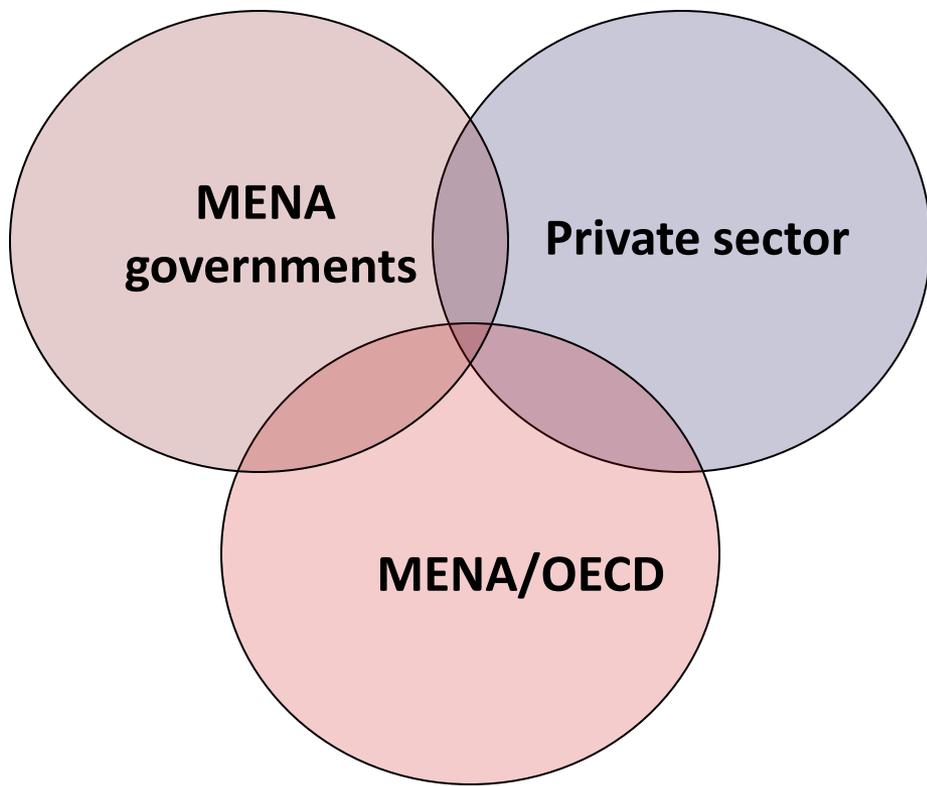
**Other Indicators, Diagnostic and Strategy Work undertaken by partners (UNDP, WB, UNIDO)**





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

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



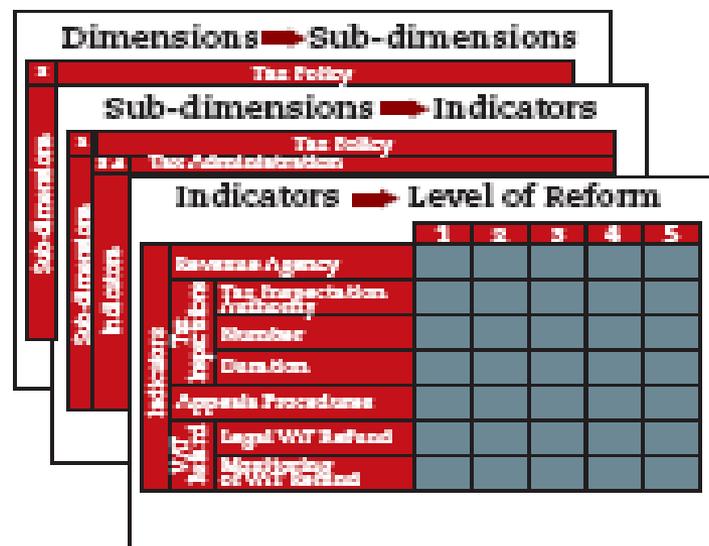
- Chambers of Commerce and Foreign Investor Councils conduct independent evaluation

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

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

Main focus of evaluation in 2006

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



Source: OECD Investment Compact



## V. Business Integrity

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### Example: Ongoing work with Gol on Bribery and Corruption

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



## V. Governance and Transparency

### *OECD Anti-Bribery Instruments applicable to businesses of 37 Countries*

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



## V. Governance and Transparency

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### **Example: Ongoing work with Gol on integrity in public procurement**

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



## V. Governance and Transparency

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

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

#### **I. Stocktaking (ongoing):**

*Iraq's main corruption sources and current counter-measures*

#### **II. Review the legal anti-corruption framework**

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

#### **III. Tools to detect and investigate corruption**

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



# GOI and MENA/OECD: Five points of Value Added

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



# Contact Information

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

[www.oecd.org/mena/investment](http://www.oecd.org/mena/investment)