OECD

Investment Insights

SEPTEMBER 2019

INVESTMENT PROMOTION IN THE MIDDLE EAST AND NORTH AFRICA: NEW INSIGHTS FROM AN OECD SURVEY

Fares Al Hussami and Sarah Marion Dayan

Middle Eastern and North African (MENA) countries have the potential to leverage their strategic location, considerable market size and young workforce to attract untapped foreign direct investment (FDI). Responding to increased competition for investment among emerging and developing economies, MENA governments have in the past few years accelerated reforms to improve their business climates. Some of these reforms have bolstered the roles of investment promotion agencies (IPAs) to: create awareness of existing investment opportunities, attract investors, and facilitate the establishment and expansion of businesses.

But policymakers, practioners and investors lack information about what exactly MENA IPAs do, how they do it and how they compare to other agencies. A new report remedies this knowledge gap. It maps existing practices among IPAs in eight economies: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, and Tunisia. The report covers a wide range of areas pertaining to investment promotion and facilitation, including agencies' aims, budgets andinvest operations. The main objective of the report is to provide practitioners and policymakers with benchmarks and a better understanding of the similarities and differences across agencies, including OECD IPAs. It aims to help them improve their functions and make informed decisions.

Box 1. The OECD Mapping of Investment Promotion Agencies

The OECD has conducted a series of surveys of IPAs for OECD countries and different regions, including in the Middle East and North Africa, Latin America and the Caribbean and Eurasia (forthcoming). These studies, based on a comprehensive survey jointly designed with the Inter-American Development Bank, provide comparative evidence across agencies, categorise their profiles, and explain existing trends and practices in investment promotion and facilitation.

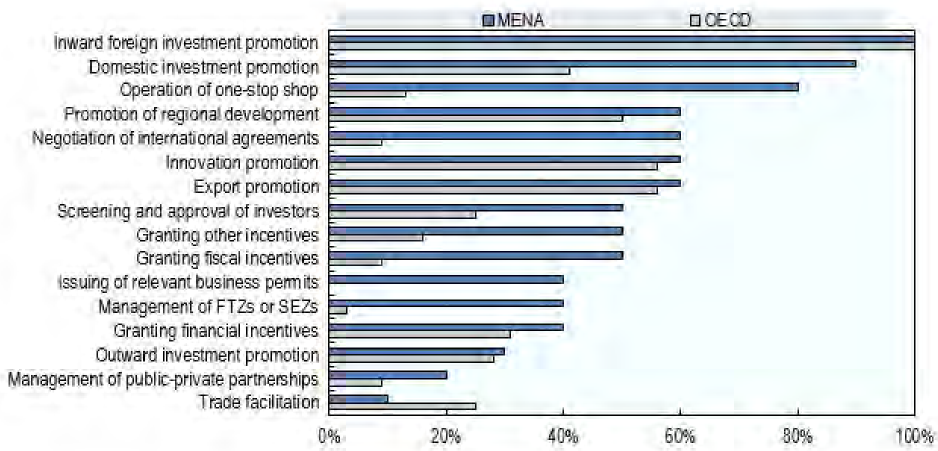
IPAs in MENA share a number of common features…

The survey shows that MENA IPAs have enacted many organisational changes, affecting their operational scope. Some reforms have provided agencies with increased political support: for example, MENA agencies are more likely to report directly to the prime minister (or a high-level investment council) than are OECD IPAs.

Other reforms have expanded agencies' mandates, for instance by integrating investment and export promotion into a single agency. The recent developments illustrate the growing importance of IPAs within their countries' institutional ecosystems.

MENA IPAs focus on different functions and activities than OECD agencies. The former dedicate, on average, a greater proportion of their resources to image building (creating awareness about the domestic market) and investment facilitation activities (assisting the implementation and retention of investment projects). The priority given to reducing information gaps and correcting potential misconceptions might be prompted by growing competition from other emerging markets and the volatile security context in some MENA countries. Conversely, OECD IPAs concentrate the majority of their resources on investment generation – reaching out to foreign investors. While both OECD and MENA IPAs dedicate around a third of their staff to investment facilitation, the types of activities conducted differ. Few MENA agencies provide aftercare services or help forge linkages between multinational enterprises and local companies. Instead, they focus on operating one-stop-shops to facilitate investors' establishment.

Figure 1. Share of MENA and OECD IPAs reporting the function as an official mandate



Countries attract higher levels of FDI when they choose to prioritise certain types of sectors, investors or countries. In the MENA region, the decision to prioritise often comes from the highest levels of government, but some agencies have more autonomy in selecting priority sectors, in line with the government's wider development goals. Agencies seek projects that will have a positive impact on domestic firms' production capabilities, the country's image, regional development, jobs and innovation. All agencies that prioritise by sector seek to diversify the economy, promote regional development and reinforce their competitive position vis-à-vis other countries. IPAs that prioritise country-specific investment primarily favour partners in international investment and free trade agreements. Such agreements are a less important factor for OECD IPAs in their targeting, potentially because of lower barriers to trade and investment than in MENA economies.

Most MENA IPAs have a dedicated unit to monitor and evaluate the efficiency of the agency and its ability to meet its policy objectives. MED agencies reported that improving their monitoring and evaluation tools is a priority, as these are often inconsistently implemented. MENA countries, and all governments, seek to get the most out of FDI to support economic development. Often agencies are required by law to report on their activities and impact. But interestingly, MENA agencies privilege measuring whether their activities have an impact on attracting FDI that creates jobs or supports local development over assessing the agency's operational efficiency. They are more likely than OECD IPAs to take corrective action if investors do not deliver on their job creation promises but less so if investors breach responsible business conduct standards. This suggests a greater priority in attracting FDI with strong impact on job creation rather than on wider working conditions.

Like all IPAs, MENA agencies operate in a dense and complex network of public and private stakeholders. They work much more closely with the highest levels of government than do OECD IPAs: their top strategic relationships are more frequently with the president or prime minister.

MENA agencies work less frequently with the foreign ministry, innovation agencies, diplomatic missions abroad and sub-national and local authorities. It is costly to have offices or staff abroad (which the majority of OECD IPAs have, compared with only three IPAs in the MENA region). Within the country, most MENA agencies have a centralised approach to investment promotion compared to the OECD, working with their own branches rather than separate, decentralised entities. Around a third of MENA IPAs never contact agencies at the sub-national level, and report difficulties working with local governments.

…But they also have unique challenges and distinct characteristics

The data collected in the mapping report reveals that, like OECD IPAs, there are clear variations among MENA IPAs with respect to their institutional setting, the activities they prioritise, their monitoring and evaluation tools, and their co-ordination mechanisms with other entities. Table 1 categorises MENA and OECD IPAs based on their main institutional and strategic characteristics.

Table 1. Summary typology of MENA and OECD agencies

	Specialised	Generalist
Image builders	Switzerland; **Tunisia (FIPA)**	**Libya**; Slovenia
Generators	Austria; Chile; France; Germany; Greece; Iceland; **Morocco**; Netherlands; New Zealand; Slovak Republic; Sweden ; United States	Estonia; Korea; Poland
Facilitators	Australia; Denmark ; Ireland ; Japan; United Kingdom	Czech Republic; Hungary; Norway; **Tunisia (APII)**; **Tunisia (TIA)**
Balanced	Canada; Finland; Israel; Spain; Turkey	**Algeria**; **Egypt**; **Jordan**; Latvia; **Lebanon** Mexico; **Palestinian Authority** ; Portugal

Note: Specialist/Generalist include IPAs with a smaller/higher number of mandates than the median.

The table recapitulates two key findings of the report. First, most MENA agencies are generalists (i.e. they have broader mandates), compared to their OECD peers. Second, the majority of MENA IPAs provide a balanced mix of promotion and facilitation activities while most OECD agencies focus primarily on attracting new investors ("generators"). This is the case of Algeria, Egypt, Jordan, Lebanon, and the Palestinian Authority. Morocco and Tunisia (FIPA) have specialised agencies with mandates focused on investment promotion activities; neither operate a one-stop-shop. The Moroccan IPA is the only agency in the region that concentrates on investment generation, similar to most OECD IPAs.

The way forward

The results of the mapping pave the way for more targeted policy recommendations and peer-learning activities. Future work could support MENA IPAs in their efforts to streamline their institutional setting, guide them in strengthening their investment facilitation framework, and provide them with practical advice to evaluate the impact of their activities.

References

OECD (2019), Mapping of Investment Promotion Agencies: Middle East and North Africa
OECD (2018), Mapping of Investment Promotion Agencies in OECD countries
OECD work on investment promotion and facilitation

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