

Final Declaration

Improving the business and investment climate in Iraq

**Seventh Meeting of the Working Group on
Investment Zones in Iraq**

17 February 2015, Room CC2

OECD Headquarters
2 rue André Pascal, Paris

Organised by :



FINAL DECLARATION

I. BACKGROUND ON THE WORKING GROUP ON INVESTMENT ZONES IN IRAQ

Launched in 2010, the Working Group on Investment Zones in Iraq supports the GoI in developing investment zones. Investment zones are a type of Special Economic Zone (SEZ) which the GoI can use to mitigate many of the risks foreign and domestic investors associate with operating in Iraq, and which may help the GoI attract diversified investment and develop sectors outside of hydrocarbons. For example, investment zones could offer an attractive legal and regulatory framework and provide reliable services such as utilities, internet access, and flexible land leases to provide a conducive business environment. Importantly, the GoI could also transfer successful policies developed for its investment zones to the rest of the economy.

The Working Group on Investment Zones in Iraq has met six times, gathering diverse representatives of GoI institutions, the Iraqi private sector, and regional and international experts. The meetings have encouraged discussions and insights into good practices of regional and international economic zone development. In addition, the meetings have allowed the GoI to discuss strategic sites, address challenges, and report progress with the development of pilot zones, such as the Hatein investment zone in Babil province. Upon request by the GoI, the Programme has invited experts from different public and private institutions to inform the GoI with useful information on conducting feasibility studies to examine the economics of SEZs. The past meetings were:

- **A workshop on the Iraqi economic zones (EZ) strategy** (25-26 November 2010, Paris, France)
- **The first meeting of the Working Group on Investment Zones in Iraq** (29-30 March 2011, Amman, Jordan)
- **The second meeting of the Working Group** (23-24 November 2011, Istanbul, Turkey)
- **The third meeting of the Working Group** (20-21 June 2012, Beirut, Lebanon)
- **The fourth meeting of the Working Group** (11-12 November 2012, Amman, Jordan)
- **The fifth meeting of the Working Group** (21-23 April 2013, Cairo, Egypt)
- **The sixth meeting of the Working Group** (17 June 2014, Amman, Jordan)

II. OBJECTIVE OF THE MEETING OF THE WORKING GROUP

Iraq's current Government Strategy calls for establishing SEZs to support Iraq's private sector development. The seventh meeting of the Working Group on Investment Zones in Iraq (February 2015, Paris) will explore rationales for SEZ development and best practices. Iraq has different SEZ models, including free zones which are now in use, and intends to develop industrial zones, investment zones, and economic cities.

The Working Group seeks to:

- Discuss good practices of regional and international SEZ development.
- Support co-ordination between various GoI entities involved in SEZ development.
- Address specific technical issues to help GoI officials plan, develop, and pilot SEZs, such as developing SEZ strategies, designing the legal framework, incentives, land allocation, zone governance, and supporting feasibility study development.
- Discuss strategic sites, address challenges, and report progress with the development of pilot zones, such as the Hatein investment zone in Babil province.
- Promote ways to ensure positive socio-economic impact, such as increased participation of women in the economy, links between major investors and local SMEs, regional development, technology transfer, and poverty reduction.

III. POLICY RECOMMENDATIONS AND ACHIEVEMENTS FROM PREVIOUS SESSIONS OF THE WORKING GROUP

In its past six meetings, the Working Group has developed the following policy recommendations:

- SEZs are policy instruments that the GoI can use to channel investment into specific sectors to help achieve Iraq's development objectives, including private sector development and economic diversification.
- The GoI can use different SEZs to achieve different policy objectives, but they must be integrated into Iraq's national and regional economic development strategies. While SEZs should have specific objectives, they must have the policy flexibility to accommodate different sectors, firms, and investments as the economic zones evolve. Consequently, the GoI must monitor and evaluate the SEZs to adjust SEZ strategy as needed.
- The GoI should develop a coherent legal and regulatory framework for SEZs and a coordinated approach to zone development. In addition, the GoI should engage the Council of Representatives (CoR) to pass relevant laws and bylaws for SEZs and to ensure the support of the provincial governments.
- The GoI should prioritise sectors and focus on developing a few pilot SEZs, with the input from the private sector.
SEZs need to offer quality infrastructure, security arrangements, and a sound management structure designed to afford the level of investor protection necessary to attract strategic investments.

Previous achievements of the Working Group

- The Programme has supported NIC in developing an Investment Zone Strategy for Iraq, and a funded Investment Zone department.
- Upon requests from members of the Working Group, the Programme has provided policy advice on: laws and regulations for investment zones; terms of reference for the feasibility study of the Hatein pilot site; ways to ensure private investments are protected; international good practices in SEZ development; and development strategies for SEZs focussed on the ICT, tourism, and logistics sectors.
- The handbook "Special Economic Zones: Helping Resource Rich Countries Diversify" can guide policymakers considering SEZs seeking to encourage economic diversification.

IV. OUTCOMES OF THE SEVENTH MEETING OF THE WORKING GROUP AND NEXT STEPS

In the seventh meeting of the Working Group on Investment Zones in Iraq (17 February 2015, Paris) participants took note of the current efforts of the GoI. Representatives from the following institutions explained their activities with regards to SEZ for the coming 6 months:

National Investment Commission (NIC) and Investment Zones

- The NIC will continue to support the passing of the **second amendment to the 2006 Investment Law**, which should also help toward investment zone development.
- The NIC and the GoI will continue to engage the Council of Representatives (CoR) to pass the necessary laws and bylaws concerning investment zone development.
- The NIC intends to prepare an investment file, with a feasibility study and with information about the land and the services available in the investment zone, for the Hatein pilot investment zone. The NIC will also work towards preparing investment files for the investment zones at Baghdad International Airport and in Basra.

Ministry of Planning and Industrial Zone Development

- The Ministry of Planning informed of the "Higher Commission" concerned with industrial zone development. The Higher Commission will support the development of industrial zones until the **Industrial Zone Law** is passed.

- The Ministry of Planning is eager to make agreements with other countries which have industrial zones. The Ministry of Planning wants to learn more about strategies to develop industrial zones and especially about ways to finance them.
- Feasibility studies for industrial zones at Basra and Najaf are now completed and have been sent to the provincial governments. The Gol will now explore the mechanisms for implementing these feasibility studies.
- The Ministry of Planning stated that the Gol needed to develop policies to support the development of industrial zones, and other SEZs. In particular, the Gol needed to provide political and logistical support from the state to attract investors. The Gol also needed to give investors appropriate equipment and other types of support.

Ministry of Finance and Free Zones

- The Ministry of Finance will continue to receive investment and to develop and promote new free zones; the Baghdad free zone is the next planned, which is in addition to the planned free zones in Ninewa, Al-Qaim, and Fallujah and the established free zone in Basra. The Ministry of Finance intends to acquire land to expand the Basra free zone.
- The Ministry of Finances intends that the private sector will implement projects in the expanded free zone areas.
- The Gol needs to adopt further policy guidelines about the free zones: the laws allow for the development of free zones, but they do not take into account the specific needs of the free zones. In particular, the Gol needs to review the relevant instructions concerning free zones.
- The Ministry of Finance would like a higher authority to co-ordinate SEZ activities in Iraq. The Ministry of Finance has a board of directors concerned with free zones. The board of directors includes other ministries, but on-the-ground co-ordination remains challenging.

Kurdistan Regional Government and Industrial Zones

- The KRG Ministry of Trade and Industry, Board of Industrial Zones, explained some of the may explore a number of changes related to land allocation. These may include: encouraging the transfer of the ownership of land from the Ministry of Finance to the Board of Industrial Zones and establishing a committee for land planning and allocation. In addition and among other measures, the KRG may seek to implement PPP agreements to encourage further investment in industrial zones.
- To improve the policy and institutional framework to develop industrial zones, the KRG intends to examine the differing rights and authority of the government and the private sector.

On the basis of this, the Working Group agreed it would provide support on the following activities:

Special Economic Zone Co-ordination

- The Programme will continue to help the Gol develop a co-ordinated approach to SEZs, engaging PMAC, the Ministry of Planning, NIC, PICs, the Ministry of Industry and Minerals, the Ministry of Finance, and the KRG Ministry of Trade and Industry – noting that there is a need to improve co-ordination between the ministries and institutions involved in SEZ of the Gol.
- The Programme will help the Gol develop the legal framework for SEZs, including the Industrial Zones Law and the Second Amendment to the 2006 Investment Law, as needed, and will support the Gol with policy advice.

Special Economic Zone Development

- The Programme will work with the NIC to link SEZ development with the NIC's plans to develop an investment strategy and investment files for the pilot investment zones.
- In particular, the Programme will support the feasibility process for the Hatein pilot investment zone by assisting the NIC develop an investment file. Similar or additional support for other investment zones planned by the NIC might be considered.
- The Programme will, upon request from the Gol, connect the Gol with practitioners and exerts from other countries which have successfully developed industrial zones to explore industrial zone development and financing.

Other Special Economic Zone Topics – Land Allocation

- The Programme addressed that land allocation issues remain an important impediment to investment. The Programme proposed a number of policy recommendations (e.g. developing a centralised database of land which investors can access, forming a specialised committee to expedite the land allocation process; allocating land for investment purposes to the NIC and PICs) and will provide policy advice to the GoI in this field, if requested.

Next Meeting of the Working Group

The Programme intends to hold the next meeting of the Working Group in Autumn 2015, to be held in-conjunction with the PWG, in co-operation with the GoI, including the KRG.

V. PARTICIPATING ORGANISATIONS IN THE WORKING GROUP MEETING

- National Investment Commission
- Council of Representatives
- General Secretariat for the Council of Ministers
- Prime Minister's Advisory Commission
- Office of Deputy Prime Minister for Economic Affairs
- Ministry of Finance
- Ministry of Industry and Minerals
- Ministry of Higher Education
- Ministry of Planning
- Provincial Investment Commissions
- Kurdistan Regional Government – Board of Investment
- Kurdistan Regional Government – Ministry of Trade and Industry
- Iraqi Businessmen Union
- Iraqi Council for Business Women
- Iraq Federation of Industries
- Iraqi Institute for Economic Reform
- Iraqi National Business Council
- Private Sector Development Centre
- Swedish International Development Co-operation Agency
- United Nations Industrial Development Organization

AGENDA

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Agenda – February 17 – Room CC2 – The Seventh Meeting of the Working Group on Investment Zones in Iraq

9:30-10:00 Introduction

- **Sami AL-ARAJI**, Chairman, National Investment Commission
- **Klaus HACHMEIER**, Iraq Project Co-ordinator, Global Relations Secretariat, OECD

10:00-11:00 Session 1: Rationales for Special Economic Zones (SEZs) and Best Practices

SEZs can attract investors, create jobs, and promote exports. SEZs can help countries realise development objectives by allowing governments to try out new economic reforms or pioneer new industries. SEZs can thus help Iraq develop its private sector.

This session will examine the economic rationale for developing SEZs, focussing on different types of zones that serve various development objectives. The objective is to increase understanding on a) what type of zone to develop and b) how to link SEZ development to existing economic strategies (e.g. economic development strategies, industrial strategies, etc.). In addition, the session will explore the development of the PEZA Philippines and the relevant lessons for Iraq.

Moderator:

- **Klaus HACHMEIER**, Iraq Project Co-ordinator, Global Relations Secretariat, OECD

Speakers:

- **Thomas FLYNN**, Policy Analyst, Global Relations Secretariat, OECD
- **Anders JÖNSSON**, Policy Analyst, Global Relations Secretariat, OECD

Discussants:

- **Sami MATTI**, Deputy Minister, Ministry of Planning
- **Zainab JANABI**, Investor, Majd el Ardh Co.

11:00-11:30 Coffee break

11:30-13:00 Session 2: SEZs in Iraq

In Iraq, three different institutions are responsible for Iraq's SEZs: the National Investment Commission for investment zones, the Ministry of Industry and Minerals for industrial zones and the Ministry of Finance for free zones. In addition, Iraq has economic cities, to be developed by the Ministry of Industry and Minerals. The KRG has also developed economic zones.

During this session, representatives from these institutions will present the roles and responsibilities of their institution as defined by existing laws and regulations and will explore the potential impact of the draft Economic Zone law in discussion. Participants will discuss challenges and perspectives of the Iraqi model, drawing on experiences of other countries with a mixed institutional and legal structure.

Moderator:

- **Maximilien PIEROTTI**, International Programme Co-ordinator, UNIDO

Discussants:

- **Sami AL-ARAJI**, Chairman, National Investment Commission
- **Salahuddin Hamed AL-HADEETHY**, Director General, Free Zones Commission, Ministry of Finance
- **AbdulRazzaq Othman Mustafa NAWANDAIE**, Head, Board of Industrial Zone, KRG Ministry of Trade and Industry

13:00-14:00 **Lunch Break: Château's Roger Ockrent Room**

14:00-15:30 **Session 3: Identifying policy barriers to effective and transparent land allocation for investment projects in Iraq**

Access to land impedes investors' efforts to invest in Iraq. At the request of the National Investment Commission, the session will therefore provide a general overview of issues that policymakers should address when creating processes and institutions that deal with the allocation of land to investors.

Moderator:

- **Hamada ZAHAWI**, Attorney-Advisor, International, Commercial Law Development Programme (CLDP), US Department of Commerce

Speakers:

- **Klaus HACHMEIER**, Iraq Project Co-ordinator, Global Relations Secretariat, OECD
- **Anja PETSCHAUER**, Marketing Director, gwSaar

15:30-16:00 **Session 4: Outlook for Global Value Chains in Iraq**

Integrating into global value chains (GVC) is an important aspect of a country's industrialisation – as production processes have become increasingly fragmented it is no longer necessary to create entire industries to participate in global markets. Instead, to become competitive, countries need to access GVCs by providing specific skills or products that are relevant at certain production stages. GVC integration could encourage the development of high value-added industries in Iraq.

This session will discuss how SEZs can help Iraq to better integrate in GVCs. Key challenges are to enhance productivity and local processing, improve access to finance for small- and medium-sized enterprises (SMEs) and develop high quality infrastructure.

Moderator:

- **Klaus HACHMEIER**, Iraq Project Co-ordinator, Global Relations Secretariat, OECD

Speaker:

- **Javier LOPEZ GONZALEZ**, Policy Analyst, Trade and Agricultural Directorate, OECD

16:00-16:30 **Coffee break**

16:30-17:00 **Closing and Final Declaration**

This session will conclude the seventh meeting of the Working Group. The Programme will invite comments and discussions from participants, formulate conclusions and proposals for further activities, and note suggested topics for the next meeting.

- **Klaus HACHMEIER**, Iraq Project Co-ordinator, Global Relations Secretariat, OECD

The Iraq Project: “Improving the business and investment climate in Iraq”

Hydrocarbons have driven Iraq’s recent economic growth; however, they create few jobs for Iraqis. To reduce its reliance on hydrocarbons and promote sustainable economic development, the Government of Iraq (GoI) has sought to create private sector jobs.

In 2007 the GoI requested the OECD’s support to develop its private sector. In response, the MENA-OECD Investment Programme (the Programme) launched the Iraq Project. The Project combines capacity building and policy dialogue activities to improve the GoI’s policies and institutions concerned with private investment and governance affecting the business environment.

The Iraq Project benefits the National Investment Commission (NIC), the Provincial Investment Commissions (PICs), the Office of the Deputy Prime Minister for Economic Affairs, the Iraqi private sector and provinces, as well as Kurdistan Regional Government’s (KRG) Board of Investment. The Programme works in consultation with the United Nations, the World Bank, and the US Department of Commerce’s Commercial Law Development Programme (CLDP).

The Swedish Government will finance the Iraq Project until June 2016. The United States Government previously financed the Iraq Project.

Accomplishments and impact

The Programme has, with other international organisations and donor-funded projects, built **GoI’s capacity to enter into investment-related agreements**. Following several capacity-building activities, Iraq negotiated bilateral investment agreements with France, October 2010; Germany, December 2010; and Japan, June 2012. It also launched an agreement between the NIC and Egypt’s Ministry of Investment, during in an event with OECD participation on 3 May 2013. The Programme has also helped prepare Iraq, in co-operation with CLDP, to **join the International Centre for Settlement of Investment Disputes (ICSID) Convention** and reform its arbitration law. The Convention governs dispute resolutions for international investors through arbitration, and its member states are required to enforce awards. Iraq’s legislative bodies ratified the Convention, and now the instrument of ratification awaits the signature of Iraq’s Acting President.



Capstone Meetings, Baghdad, February 2014: the Programme presented its policy recommendations, developed 2007-2013, to senior GoI officials.

The Programme has worked with the NIC **to develop and implement policies on Special Economic Zones (SEZs)**. With Programme support, the NIC has:

- Created a funded “Investment Zone” department;
- Developed Iraq’s current Investment Zone regulation; and
- Developed the pilot Hatein Investment Zone and began negotiations with a potential investor.

Recently, the NIC has invited the Programme **to analyse and comment on the draft Second Amendment to the 2006 Investment Law** (to be discussed in Parliament) to ensure the amendment adequately addresses investor concerns.

Capacity-building activities

The Programme seeks to help the GoI develop a more attractive investment policy framework. It will assess Iraq's legal, regulatory, and institutional investment framework. Based on the assessment the Programme will then train Iraqi policymakers on ways to improve the investment regime.

The Programme seeks to increase the capacity of the Iraq's National and Provincial Investment Commissions (the NIC and the PICs) to better attract and retain investment, particularly in sectors strategic to Iraq's long-term economic development. The Programme is conducting an investment promotion diagnostic. Based on the findings, the Programme will develop capacity-building activities that include training sessions and a roadshow to align the NIC, the PICs, and the KRG's Board of Investment with best practice investment promotion techniques.



1st Meeting of the Project Working Group, Baghdad, May 2014

Policy dialogue activities

The Programme **engages Iraqi policymakers in the regional dialogue on business climate related issues.** Government representatives, Iraqi NGOs, and business associations participate in the Programme's MENA-region activities, including the working groups on Investment and on SME Policy and Entrepreneurship, the OECD-MENA Women's Business Forum, and training activities at the IMF Training Centre in Kuwait. The

GoI is also co-chair of the Investment Security in the Mediterranean (ISMED) Working Group.

Through the Working Group on Investment Zones, the Programme seeks to support the GoI's efforts to establish a clear framework for SEZs, which the Iraqi government can use to promote investment into strategic sectors. In addition, the Programme intends to advise the GoI on its efforts to conduct a feasibility study for a pilot SEZ.

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