Policy Measures And Instruments to Improve the Investment Climate in the Deauville Partnership Countries

Andrew H. W. Stone
Lead Private Sector Development Specialist
The World Bank
4 Priorities for Fostering Competitiveness and Diversification

1. **Strengthen the FDI regime** by phasing out restrictions on foreign equity participation; rationalizing investment regimes; easing access to production factors; completing privatization programs; and launching negotiations with Deauville partners on investment.

2. **Improve the domestic business climate** by fostering competition to limit rents; building strong rule-bound market institutions; and promoting new institutional dialogue among stakeholders on all aspects of policies.

3. **Fortify economic governance** by fighting corruption, and discretion; restoring voice, accountability, and checks and balances; strengthening the rule of law and the level playing field; and promoting transparency through the freedom of information.

4. **Foster the 4 pillars of a knowledge economy** by harnessing more technological spillovers from FDI; overhauling education systems; developing comprehensive knowledge and innovation strategies; and further diffusing information and communication technologies.
FDI: Unrealized Potential

• All Partnership economies benefited from the surge of FDI in the mid-2000s. Yet FDI flows also point to a set of political economy, policy, and regulatory issues that are holding them back from benefiting fully from globalization.

• In the early part of the 2000s, all Partnership countries launched comprehensive reforms of their FDI environment. Such improvements in the FDI environment paid off handsomely, yet performance remains below potential.

• The Partnership economies are missing opportunities to attract FDI in manufacturing, which generates by far more steady employment than either oil and gas or real estate.

• All five Partnership economies have yet to take full advantage of their various international investment agreements.
The job-creating potential of FDI is not being realized.

In Egypt, Jordan, and Libya, in 2003–11, most greenfield FDI was directed to the real estate and construction sector, while in Morocco the majority went to the mining sector. Only in Tunisia were greenfield FDI inflows fairly evenly distributed among sectors.
Partnership countries attract less than their full potential FDI.

“According to UNCTAD, in the first few months of 2011, FDI flows to North Africa registered a 50 percent decrease compared to 2010. Egypt suffered an 80 percent decrease, and FDI flows to Libya basically stopped for that period…. Restoring political stability in the aftermath of the regional turmoil of 2011–2012 will be critical to reverse the recent collapse of FDI to the region.”
Facilitating FDI

• All Partnership countries have complex, restrictive investment regimes in critical economic sectors. There is a patchwork of legal investment frameworks and incentive regimes.

• Partnership economies have strong de facto restrictions in the form of limited licenses issued in various sectors, closing market access, stifling competition, and impeding progress.

• Political and policy stability will be a key prerequisite to attract foreign investors and persuade them to establish and operate businesses.

• Foreign investors need compelling business opportunities to invest, and those opportunities are realized in a conducive investment climate that is not seen as unfriendly to business or too risky.
To increase FDI, all 5 Partnership Countries could enhance the FDI environment.

- Clearly embrace **economic openness** and welcome foreign investors. All could engage in wider, deeper, sustained reforms.
- Open up markets; **eliminate remaining market access restrictions**. All 5 economies have pervasive systems of licenses and other administrative mechanisms that impose invasive restrictions, particularly in services, including banking and insurance, tourism, and infrastructure.
- Begin **transparent privatization** to level the playing field and foster competition across more sectors. Public enterprises and quasi-state enterprises still dominate various sectors in all five economies, including banking, mining, oil and gas, utilities, transportation, and tourism.
- Partnership countries should **simplify and rationalize their investment policies** and foreign investment regimes. Partnership countries should adopt one investment law covering all the sectors of the economy, with a few specified exceptions (e.g., extractive, finance, and utilities sectors). **Streamline incentives.**
To encourage FDI, each Partnership Country should:

- **Ease the regulatory burden** through one-stop shops and systematic regulatory reform & streamlining of recurring operational procedures.
- Ease access to production factors. Improve information on **investable land** and ease access. Maintain predictable **foreign exchange** policies and ensure easy access and transfer. Allow sufficient entry of **expatriate labor** with special skills and know-how. to encourage FDI.
- Strengthen institutions in support of FDI. **Focus IPAs on promotion.** Simplify and streamline the investment regime.
- Conduct a **strategic review of international investment agreements** within the context of Agadir and other regional and multilateral agreements. Deauville partners can support.
- Explore intrinsic, sustainable economic **opportunities of mutual interest among Partnership countries.**
Short-term measures (1)

- Adopt a timetable for phasing out restrictions on foreign equity participation in all sectors, except for a short negative list.
- Develop a national program to open up and privatize various monopolistic or quasi-monopolistic sectors (e.g. telecom, insurance, power, transport...)
- Extend reforms piloted in SEZs to entire economy, re. tariffs on equipment, regulations, labor rules, and corporate governance.
- Consolidate the legal framework for investment under one open, transparent, and predictable investment code.
- Improve access to land and information on land (e.g., cadastres and land registries), improve leasing, and reduce transaction time.
- Egypt: in-depth review of its National Suppliers Development Program.
- Morocco: Establish national suppliers development program in 2-3 sectors.
- Approach international investment agreements strategically to promote insertion in global or regional value chains and implement existing bilateral investment treaties that are not yet in force.
Short-term measures (2)

- Create dedicated investment promotion institution.
- Systematically translate and publish on websites new laws and regulations of interest to foreign investors.
- Pending a complete overhaul of the legal framework, issue clarifying explanations for investment and trade laws and regulations.
- Make labor policy as it pertains to FDI needs less restrictive.
- Lift restrictions on number of foreigners who can sit on boards of directors in certain economic sectors.
- Develop and implement training programs for government staff, at the national and local levels, to improve the administration of laws and regulations relevant to FDI, including expatriate work permits, commercial license renewal, infrastructure services, and customs.
Medium-term measures

- Phase out restrictions on foreign equity participation in all sectors, except a short negative list.
- Launch negotiations with the EU and other Deauville partners to increase legal protection and provide a level playing field for investors, including common rules and standards of treatment.
- Implement a national program to open up and privatize monopolistic or quasi-monopolistic sectors.
- Extend successful reforms piloted in special economic zones to the rest of the national economy.
- Strengthen expropriation laws, including principles of nondiscrimination and compensation.
- Implement the overhaul of the Egypt’s National Suppliers Development Program.
- Establish a national suppliers development program in Morocco, based on the prior study.
- Develop and implement a comprehensive and modern bankruptcy law (Egypt, Jordan).
- Implement the new strategy of international investment agreements.
- Overhaul legal framework for trade and investment to streamline, clarify, and improve efficiency.
- Adopt or enhance the efficiency of the one-stop shop for foreign investors.
- Implement the strategy for establishing a dedicated national investment promotion agency
- Support the establishment of effective investor-to-state dispute settlement mechanisms.
- Strengthen the design and development of modern, national, unified systems of FDI statistics.
A key challenge in reaping greater benefits from globalization lies in improving the domestic business environment:

- sound regulation of industry that promotes competition
- overcoming bureaucratic delay and inefficiency
- fighting corruption, and
- Improving infrastructure.

Trade and FDI reforms cannot yield full economic benefit in terms without complementary investment climate reforms. The benefits liberalization risk being stifled in absence of competitive product markets and factor markets.
The political economy challenge in MENA

- In many countries, the problem is not insufficient or missing reforms, but rather their poor quality.
- There is also a widespread belief that the business environment as it appears “on the books” does not apply equally to all. Uncertainty about policy implementation discourages new entrants and imposes substantial costs on most incumbent firms, which have to undertake costly mitigating actions.
- Consequently, the region enjoys less competition than others, and the response of private investment to past reforms has been weaker than in other regions. The lack of market contestability and the difficulty of doing business help explain the poor yield of past reforms in Partnership countries.
Recommendations on the Domestic Investment Climate

- Address policy gaps in prior reforms and improve market contestability by removing barriers to entry, exit, and competition.
- Modernize commercial codes, adapt them to the latest banking and financing practices, and simplify company registration.
- Vest increased authority in capable, accountable, rule-bound institutions to underpin markets, for regulation and services.
- Establish a new, transparent relationship between public and private sectors based on open access to laws and regulations and an institutionalized and inclusive dialogue about policy reform.
- Several Partnership countries need to establish a clear strategy that communicates credible commitment to competitive market-led growth.
- To oversee and monitor reforms, governments should coordinate the activities of diverse government bodies and to supply political backing and resources. In the case of legal reforms, the common heritage of Partnership countries opens opportunities for shared approaches.