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## REPORT AND RECOMMENDATIONS OF THE WORKSHOP ON “INCREASING FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO OIC MEMBER COUNTRIES”

30 September – 01 October 2013, Ankara-Republic of Turkey

1. In accordance with the resolution of the 28<sup>th</sup> Session of the Standing Committee for Economic and Commercial Cooperation of the OIC (COMCEC), the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), the COMCEC Coordination Office, the Islamic Development Bank (IDB) Group and, in collaboration with, the Investment Support and Promotion Agency of Turkey (ISPAT) organized a workshop on 30 September – 01 October 2013 in Ankara, Republic of Turkey as a preparatory event for the Ministerial Exchange of Views Session on the theme “Increasing Foreign Direct Investment (FDI) Flows to OIC Member Countries” during the 29<sup>th</sup> Session of the COMCEC, to be held in Istanbul on 18-21 November 2013.

2. Representatives of national investment promotion agencies and other relevant national institutions and ministries in the following Member States attended the Workshop:

1. Republic of Afghanistan
2. Republic of Azerbaijan
3. People’s Republic of Bangladesh
4. Republic of Cote d’Ivoire
5. Republic of Indonesia
6. Republic of Kazakhstan
7. State of Kuwait
8. Malaysia
9. Kingdom of Morocco
10. Sultanate of Oman
11. Kingdom of Saudi Arabia
12. Republic of Senegal
13. Republic of Togo
14. Republic of Turkey

3. In addition, representatives of the OIC General Secretariat, COMCEC Coordination Office, Islamic Development Bank (IDB) Group, Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), Islamic Chamber of Commerce, Industry and Agriculture (ICCIA) and Islamic Centre for the Development of Trade (ICDT) attended the Workshop.

4. The Workshop was also attended by experts from the World Association of Investment Promotion Agencies (WAIPA), United Nations Industrial Development Organization (UNIDO), United Nations Conference on Trade and Development Programme (UNCTAD), Izmir University of Economics, Turkey, and Bilkent University, Turkey.

### **Opening Session**

5. Following the recitation from the Holy Koran, the message of H.E. Prof. Ekmeleddin İHSANOĞLU, the Secretary General of the OIC, was read by H.E. Amb. Mouhamadou Doudou Lo, Director General of Economic Affairs Department at the OIC General Secretariat. Opening statements and addresses have been also made by Mr. Hussein K. JAMA, Advisor to the CEO of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), a member of the IDB Group, Mr. Selçuk Koç, Director at COMCEC Coordination Office, and Prof. Savaş ALPAY, Director General of the SESRIC.

6. In their opening statements, the speakers emphasized the importance of the role of FDI in the economic growth and development process in the member countries. They highlighted the modest share of the OIC countries in world total FDI flows and stressed the need for increasing these flows, particularly the intra-OIC investment flows. In this context, the speakers emphasized the importance of the workshop to identify the main common obstacles and challenges facing the member countries in creating enabling investment environment and expressed the need for enhancing cooperation among the member countries in this important area through, inter alia, sharing knowledge and exchanging experience and best practice.

### **Working Sessions**

7. During the working sessions, representatives of national investment promotion agencies and other relevant national institutions and ministries in OIC countries as well as representatives of relevant OIC and international institutions and some academicians made presentations on various aspects related to the themes of the working sessions, namely: (1) trends in global and regional FDI flows; (2) issues and challenges in attracting FDI in OIC member countries; (3) country experience, best practices and lessons for OIC countries; and (4) the way forward: solutions and initiatives to enhance the role of FDI in the development efforts of OIC countries. The last working session was designated to wrapping up and drafting the recommendations.

## **Session 1: Trends in Global and Regional FDI Flows**

8. Dr. Umut Unal, Researcher at SESRIC, made a presentation titled “Current Stance of FDI in OIC Countries”. In his presentation, Dr. Unal highlighted the unsatisfactory performance of OIC countries in attracting FDI. He underscored the heterogeneity across OIC member countries indicating that FDI inflows and outflows are concentrated only in a few of them. He also emphasized the need to take certain measures to create an environment conducive to attracting more FDI.

9. Ms. Nicole Moussa, Economic Affairs Officer, UNCTAD, made a presentation titled “Preliminary Approach to Intra-OIC FDI”. In her presentation, Ms. Moussa focused on the importance of data collection as the main priority of FDI promotion strategy. She also underscored contribution of announced Greenfield FDI projects to the surge of inward and outward FDI flows to and from OIC countries.

10. Prof. Hakan Yetkiner, Izmir University of Economics, presented a paper titled “Trends in Global and Regional FDI Flows: What needs to be done to Attract More FDI to OIC Countries”. The paper sheds light on the global and OIC-specific problems in attracting more FDI. In this regard, he particularly emphasized the low investor confidence as one of the major drawbacks.

11. Mr. Mamoudu Bocar Sall, Director of Research and Studies at ICDT, made a presentation titled “FDI in OIC Member States: Current Status and Prospects”. He highlighted the importance of trade and FDI in the economic development and the main obstacles hampering the development of FDI in OIC countries. He also mentioned some proposed strategies to be developed to attract more FDI flows to OIC countries.

## **Session 2: Issues and Challenges in Attracting FDI in OIC Member Countries**

12. Mr. Hussein K. Jama, Advisor to the CEO, ICIEC, made a presentation titled “Challenges in Attracting FDI in OIC Member Countries”. In his presentation, Mr. Jama highlighted the recent trends in FDI inflows into OIC member countries and emphasised that these flows are low and that a lot of efforts are needed to be taken by these countries to increase them. He also presented some major challenges facing the member countries in attracting more FDI flows. Since these challenges are different depending on the country, he emphasised that each host country needs to tailor its needs to its characteristics, with consistent policy in attracting FDI.

13. Mr. Murat Alici, Deputy Director General, General Directorate of the Investment Incentives and Foreign Direct Investments, Ministry of Economy of the Republic of Turkey, made a presentation titled “The Investment Climate Reform Program in Turkey”. In his presentation, Mr. Alici focused on the role of the government policies to attract FDI and key aspects of creating a better investment environment for investors in Turkey. He briefed the participants on the Investment Climate Reform Program carried since 2002 in Turkey and shared Turkey’s experience by highlighting the efforts of Coordination Council for the Improvement of Investment Environment in this regard.

14. Prof. Selin Sayek, Bilkent University, made a presentation titled "How to attract FDI?". The presentation focused on the findings of the related literature and academic studies. In her presentation, she emphasized the importance of specific factors that influence FDI, including but not limited to, political stability, factor endowments, factor prices and macroeconomic risks.

15. Mr. Carlos Bronzatto, Chief Executive Officer, WAIPA, made a presentation titled "FDI Attraction: the Four Core Areas and Challenges". In his presentation, Mr. Bronzatto briefed the participants particularly on the role of WAIPA in enhancing the cooperation among the individual investment promotion agencies (IPAs).

16. Dr. Cem Tintin, Researcher at SESRIC, made a presentation of a paper titled "Do Institutions Matter for FDI? Evidence from Central and Eastern European Countries". The paper looks at the determinant factors of aggregate FDI inflows in the Central and Eastern European Countries. In particular it investigates the role of institutional factors and whether and how the determinants of FDI inflows differ across three main sectors (primary, manufacturing and services) in the Central and Eastern European Countries.

### **Session 3: Country Experience, Best Practices and Lessons for OIC Countries - I**

17. Mr. Guyub Sagotrah Wiroso, Director of International Business Cooperation, Investment Coordinating Board of Indonesia (BKPM), made a presentation titled "Indonesia Performance and Investment Opportunity". After highlighting Indonesia's investment environment, Mr. Wiroso provided some information on BKPM policy and initiatives to boost investment in Indonesia. Finally, he presented the details of the master plan for acceleration and expansion of Indonesia's economic development.

18. Mr. Saleh Al Saif, Senior Supervisor, Saudi Arabian General Investment Authority (SAGIA), made a presentation titled "FDI in Saudi Arabia, A Success Story". The presentation displayed the Saudi Arabia story of Attracting FDI through SAGIA (Saudi General Investment Authority), and highlighted the policies and activities to promotion and attracting more than 150 Billion US\$ as foreign direct investment to Saudi market during the last six years.

19. Mr. Ahmet Ihsan Erdem, Project Director, Investment Support and Promoting Agency of Turkey (ISPAT), made a presentation titled "Investment Promotion and Facilitation in Practice: The Case of ISPAT". In his presentation, he highlighted the main promotion and support activities of ISPAT by providing some examples of recent investment attracted through their institutional support.

### **Session 4: Country Experience, Best Practices and Lessons for OIC Countries - II**

20. Mr. Faisal Al-Hinai, Investment Promotion Executive, the Public Authority for Investment Promotion & Export Development (PAIPED), made a presentation titled "Oman Experience in Investment Promotion". The presentation focused on the services that the PAIPED provided for the

investors to increase the FDI. It highlighted the packages and incentives that provided by the industrial Aria and free zones for the investor for the same goal to increase the FDI.

21. Mr. Arham Abdul Rahman, Director, Malaysian Investment Development Authority (MIDA), made a presentation titled “Malaysia’s Experience in Attracting FDI”. After providing brief information on the functions of MIDA and a brief account of Malaysia’s economic development over the last decades, Mr. Arham Abdul Rahman presented the key strategic approaches adopted by MIDA that include, among others, ecosystem approach which will allow the government to move away from offering high and increasing tax incentives to attract FDI.

## **Session 5: The Way Forward: Solutions and Initiatives to Enhance the Role of FDI in the Development Efforts of OIC Countries**

22. Mr. Mehdi Fakheri, Director General, Islamic Chamber Research and Information Centre (ICRIC), representing ICCIA, made a presentation titled “FDI Flows to OIC Countries: Modalities to Increase it and benefit from it”. By focusing on the major FDI statistics across OIC region, Mr. Fakheri pointed out some policy issues that could be helpful in attracting the FDI flows into OIC countries.

23. Mr. Suleyman Yilmaz, Director, UNIDO Centre for Regional Cooperation in Turkey, made a presentation titled “UNIDO and Investment Monitoring Platform (IMP)”. The presentation emphasized that matching the expectations of foreign investors with qualified and capable local investors remains a grave problem in many developing countries. In this context, Mr. Yilmaz highlighted the Investment Monitoring Platform (IMP), which is a global web-based tool developed by UNIDO to analyze, research, and share investment and initially launched for 19 African countries, which hosts in-depth data on almost 7,000 companies in the target countries.

24. Mr. Ahmet Okur, Expert, COMCEC Coordination Office, made a presentation titled “COMCEC Strategy and Increasing FDI Flows to the COMCEC Region”. The presentation focused on the COMCEC strategy and new mechanisms introduced by this strategy, namely: Working Groups and Project Cycle Management (PCM).

## **Outcome of the Workshop**

### **A. Challenges, Obstacles and Problems**

25. During the general discussions and deliberations, the participants highlighted the following challenges, obstacles and problems which are still facing many OIC member countries in their efforts to attract more FDI flows:

- Inadequate investment promotion capacities, particularly addressed to image building and nation branding. Foreign investors still seem to be unaware of main policies, development plans, needs and potentials of economic sectors of many OIC countries.
- Inefficient legal and institutional investment regulatory frameworks to facilitate starting new businesses, registering properties, dealing with licenses, enforcing contracts, protecting investors and dealing with dispute settlement mechanism.
- Inadequate infrastructure and investment in skills and modern technologies to enhance productive capacities.
- Small (often informal) private sector and weak financial and banking sector.
- High political risk, conflicts, and economic instability.
- The lack of reliable and up-to-date statistics and information on FDI flows to and among OIC countries.

## **B. Recommendations**

26. In the light of the above challenges, obstacles and problems, the participants made a set of policy recommendations that would lead to create a favourable environment conducive to the flow and presence of FDI in the long-term with a view to increasing FDI flows to OIC countries. These recommendations are made at both the national and OIC cooperation levels as follows:

### **At National Level:**

1. Member countries should ensure a clear national commitment for creating the necessary enabling investment environment that would promote and encourage investment both national and foreign. This should be supported by appropriate national legislations, strategies and institutional mechanisms including IPAs.
2. Developing coherent and consistent policies specifically targeted to attracting more FDI, through, inter alia, developing and improving appropriate investment framework and enhancing the business environment, with special focus on certain important FDI pointers such as freedom to control investments, convertibility, stock market reforms, political stability and legal frameworks for doing business.
3. Member countries should exert their efforts to enhance their attractiveness from the prospective of foreign investors through strengthening a combination of two sets of FDI determinants: (1) economic determinants: include traditional economic factors such as the availability of low-cost raw materials, skilled labour, and adequate physical infrastructure; and (2) institutional and policy-oriented factors or framework for FDI: includes factors such as rules and standards regarding entry, treatment and operations of foreign firms (business facilitation), and policies on

functioning and structure of domestic market like trade policy, privatization policy, and tax policy.

4. Legal and institutional investment framework should pay particular attention to transparency, recognition of private property ownership, securing industrial and intellectual property rights, freedom of contract and corporate control and liability, curbing private and public monopolies, tax reform and long-term environmental policies.
5. Establishing integrated hard and soft infrastructure facilities conducive to industrial development, enhancing local manpower skills and seeking technological upgrade. Special attention should be given to key infrastructures, particularly energy, transportation and information and communication technologies (ICTs) in order to enhance the competitiveness of the country.
6. Improving the links between the corporate sector and the financial system through measures and policies related to credit facilities for the private sector, broader, deeper and more efficient capital markets and linkages, to the extent possible, to international financial markets. This should be done by strengthening the capacity and efficiency of the financial system and encouraging establishing modern legal financial frameworks that incorporate the rule of law and international accounting and auditing standards as well as corporate governance and bankruptcy arrangements that meet global standards.
7. Efforts should be made to facilitate the flow of financial resources across borders, particularly FDI, through the gradual removal of restrictions on capital movements and ensuring investment protection and guarantees, supporting venture capital and other types of risk financing, tax incentives, developing less burdensome business regulations and well-defined ownership rights, and encouraging the establishment of special economic zones and free trade and export processing zones.
8. Improving the labour market conditions to enable foreign companies to draw from a qualified labour market. In this respect, due consideration should be given to the capacity building of human resources to invest in technicians, skilled and well-trained workers and managers. Equally important requirements are transparency and flexibility of labour markets and freedom of movement of the labour force.

#### **At OIC Cooperation Level**

1. Concluding bilateral, multilateral and regional investment agreements and treaties of a mutually beneficial nature among the OIC member countries to facilitate capital flows and boost intra-OIC and foreign investment and to prevent the negative impact of often-conflicting national investment policies.

2. Developing and adopting new modalities and approaches for increasing intra-OIC investment through, inter alia, encouraging joint investment projects at the OIC regional and sub-regional levels, concluding of contracts among industrialists of the member countries with a view to sharing information and experiences, promoting and financing joint ventures among private investors from member countries, and encouraging reciprocal investments in special economic and free trade zones.
3. Developing capacity building and experience sharing programmes to be implemented through an effective networking among the national IPAs in the OIC countries.
4. Encouraging the relevant OIC institutions, in particular SESRIC, IDB Group, and ICCIA, to conduct activities focusing on facilitating the exchange of knowledge, experience, and best practices among the member countries with a view to enhancing FDI flows in the OIC region and FDI from the rest of the world.
5. Encouraging the development of an OIC online operative information-sharing portal for providing information related to investment opportunities in OIC countries, national, regional and international sources of finance, laws and regulation, new technologies and know-how in collaboration with UNIDO and relevant OIC institutions.
6. Developing databases on investment in the OIC countries, including information on investment opportunities, potential investors, etc. and sharing experiences between member countries for the development of conducive business environment and appropriate regulatory frameworks for promoting intra-OIC investment.
7. Call upon the member countries to make use of and benefit from the facilities and schemes of the relevant entities of the IDB, such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD) and the International Islamic Trade Financing Corporation (ITFC).
8. Highlighting the significance of the COMCEC strategy for enhancing the mobility of capital and increasing FDI flows in the COMCEC region, the workshop encouraged the member countries and relevant OIC institutions to make use of and benefit from the operational instruments of the COMCEC strategy namely, Working Groups and the COMCEC project funding.

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