II.4. POLICY ADVOCACY FUNCTION OF INVESTMENT PROMOTION AGENCIES AND BUSINESS ASSOCIATIONS IN THE MENA REGION

II.4.1. INTRODUCTION

Policy advocacy for investment climate reforms[1] should be a central function of **investment promotion agencies (IPAs)**. Policy Advocacy is traditionally undertaken not only by IPAs but by diverse public and private sector groups, including professional business associations. It is an important component of efforts aimed at enhancing the investment climate in a country.

Research has shown that 80% of investment promotion agencies (IPAs) worldwide engage in policy advocacy in some form[2] and that policy advocacy relative to other functions of IPAs appears to have the strongest association with FDI inflows (Morisset and Andrews-Johnson, FIAS, 2004). At the same time, the policy advocacy function has the lowest budget allocation in agencies, although this is partly attributable to the nature of policy advocacy work compared to more expensive marketing and promotion activities. It does, however, suggest that policy advocacy may need to be considered more carefully and given a higher profile in the strategy and operations of IPAs.

Policy advocacy activity may range from informal and restricted to select issues (e.g. procedures for registering a company, obtaining work permits or acquiring suitable production space) or may be a regular and structured process that seeks not just to deal with desirable policy change but also anticipate future reform and change and convey needs for policy change that will underpin private investment and economic growth. While most IPAs undertake policy advocacy, it is clear from general research and case experience that there is a significant divergence between countries and IPAs in how this function is viewed and conducted.

Similarly to IPAs, **business associations** combine service functions (to their members/investors) and policy advocacy function in one organisation. The big difference is that while IPAs are pursuing public interest driven advocacy, business associations serve the interests of their members. This difference should not be overemphasised, though. A business association established at national level, comprising of many sectors and with a substantive membership can claim to come very close to public interest in its policy advocacy function. An IPA, on the other hand, defending the interest of a single investor in a specific project might be not necessarily in the realm of overall public interest. National business associations representing many sectors would tend to put most of their resources into policy advocacy. Sectoral associations would tend to place more emphasis on services for members, though the policy advocacy part can still be substantial.

In the context of the **MENA-OECD Investment Programme,** the policy advocacy function of IPAs and business associations is a key concern addressed by Working Group 2 of the Programme which commissioned a report and asked for workshops to be conducted focusing on how to strengthen the advocacy function of IPAs and Business Associations in the MENA region. This paper is supposed to serve as a first step for the development of regional recommendations and will contribute to an investment climate assessment tool to be endorsed at the next Ministerial meeting of the Programme. It is designed to stimulate consideration and dialogue on the policy advocacy role of IPAs and Business Associations in the MENA region and to present some experiences and ideas on how this role might be enhanced and developed.

In this context, it would be useful to first briefly look at the key determinants of an effective policy advocacy strategy for investment climate reforms, and the respective roles of IPAs and business associations and regional and multilateral cooperation initiatives as policy advocates will be discussed.

II.4.2. DETERMINANTS OF POLICY ADVOCACY

A. Towards a Definition of Policy Advocacy

Advocacy may be defined as advocating, speaking, writing or making representations in support of a programme, a project, a policy reform or range of reforms. Public policy advocacy is similar in that it entails the use of tools to examine, evaluate and document issues and tactics to influence the public sector in support of a certain change. It also includes research and covers the decision making process starting from policy-making through to implementation. Public policy advocacy is an effort to influence public policy through insights on key issues, experience sharing and various forms of persuasive communication. An effective policy advocacy campaign should ideally be ongoing and focus on specific policy issues, have a well defined vision (what will be the outcome and impact), mission (how the issue might be tackled), and goals (concrete performance steps).

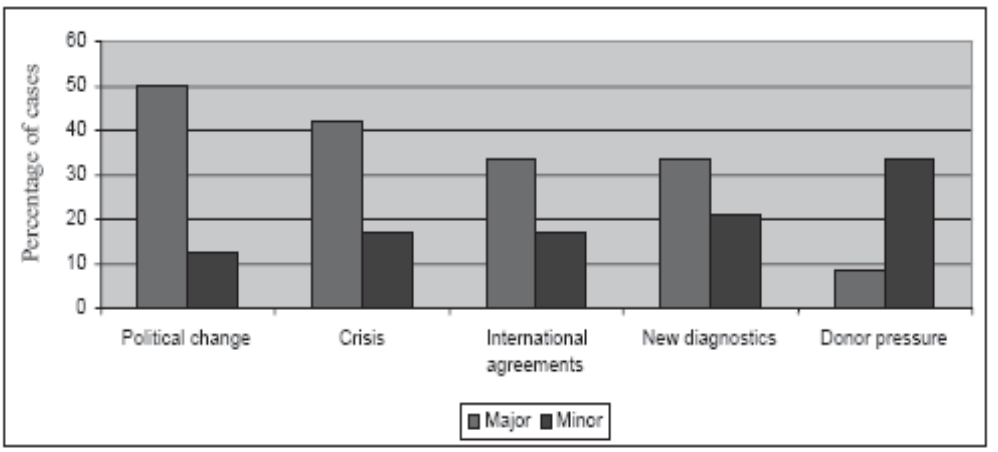
IPAs, with their experience working with cross section of investors from different sectors can systematically gather views and assess feedback and measures needed. The presentation of such information can assist progress of policy measures and underpin improvements in the investment climate. Similarly, Business Associations can provide data gathered from their member that can inform legislators and administrations about obstacles to business growth and measures to overcome them.

The World Development Report 2005 describes policy advocacy as identifying issues that inhibit investment and advocating policy changes that might stimulate development. IPAs and Business Associations can be seen as acting as champions of reform in lobbying legislators and government agencies to correct observed problems.

The main factors supporting investment climate reforms have recently been analysed pointing to the main triggers of investment climate reform described in the Figure below. From this list, IPAs and business associations might be in a position to influence in particular the elaboration of new diagnostics, the conclusion and implementation of international agreements and may be able to use donor pressure on the government for their advantages.

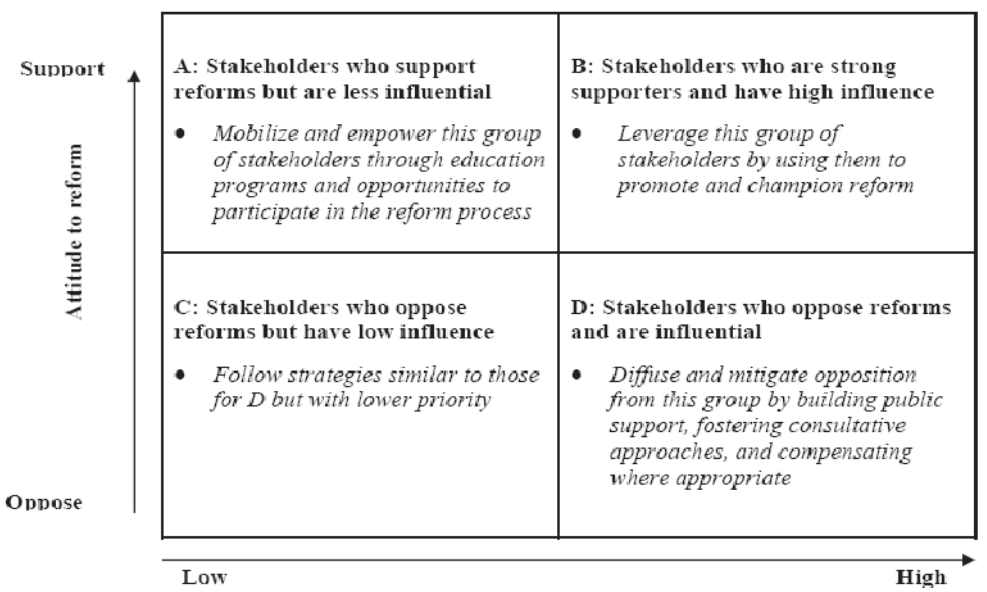
More recent research is particularly concerned with providing advice on how to manage different sets of stakeholders in a policy advocacy process for an improved investment climate. The identification of affected stakeholders and the development of strategies to deal with their concerns are at the core of a successful policy advocacy strategy. It is a prime task for governments, especially if decision making processes are transparent and democratic participation rights strong. IPAs and business associations can help advising government entities in charge of reforms how to best communicate with different stakeholders affected. They might be in a position of influencing these stakeholders themselves. The Figure below shows different groups of stakeholders in an idealised form. This is helpful as communication strategies with these stakeholders will differ according to their influence and level of opposition to reforms. In reality, stakeholders will fall somewhere in between these categories.

Figure 3. The main triggers of investment climate reform



Source: World Bank, 2006.

Figure 4. Figure 2. Strategies for managing different sets of stakeholders



Source: World Bank, 2006.

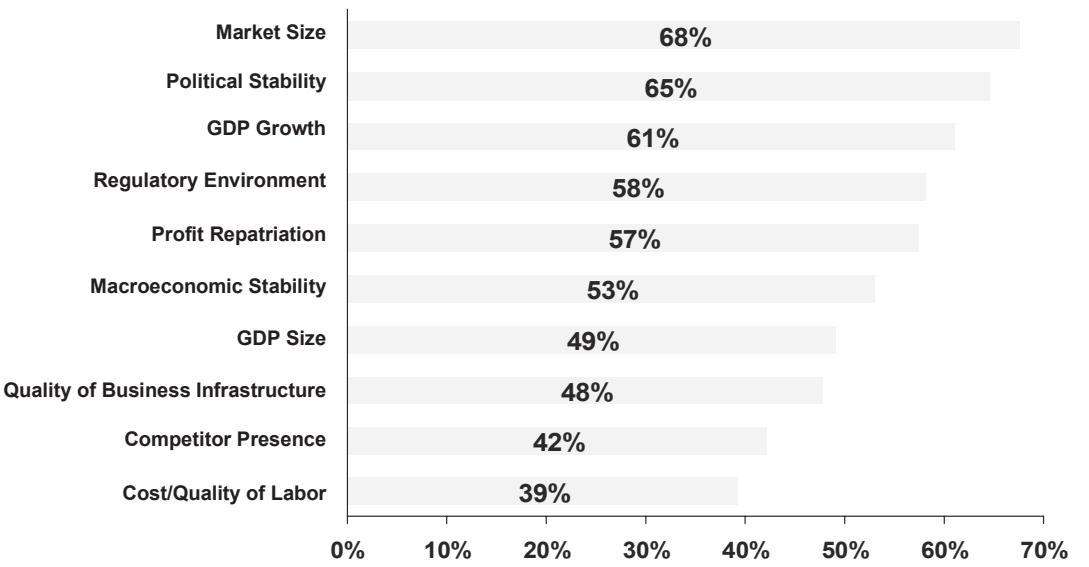
It should be highlighted at this point that while there are some broad conclusions which can derive from the above, there is hardly any 'one-size fits all' model. As a matter of fact, the reform process and therefore also the policy advocacy function which can be provided by IPAs and business associations, differ between democratic and authoritarian governments, between presidential and parliamentary systems and between unitary and federal states. The relevance of stakeholder inclusion and the overall role of public opinion are obviously dependent on level of democratic accountability which a government has to face.

B. Investment Determinants as a Guide to Policy Advocacy Themes

On what policy issues should IPAs and business associations seek to undertake advocacy? For IPAs, clearly the feedback and views of investors, existing and potential, provide a rich database of relevant information. A first contact with investors will often provide a detailed questionnaire on information needed and this source of information from investors on their specific needs will be elaborated as contact develops. Through its frequent contact with investors, the typical IPA has a unique perspective on criteria of concern to business (e.g. infrastructure, regulatory procedures, skills availability, etc.) and these criteria can vary widely depending on a range of factors such as the sector, company and scale of investment. These contacts with investors are clearly an impulse for all IPAs to undertake some form of advocacy. For business associations, the membership can provide a unique source of information and data. Membership surveys and identification of obstacles for investment and business growth through specialised committees are powerful tools for collecting relevant information.

A particularity with regard to IPAs is that some may take a 'supply driven' approach in contacts with investors, emphasising what their country can offer, possibly without adequate recognition of investor needs and determinants. This may not necessarily coincide with what investors seek. A classic mismatch here is an overemphasis on incentives, especially at the early stage of dialogue on investment, rather than an emphasis on strategic business issues that are of prime concern to investors. Figure 2 shows research by the international consultancy firm, AT Kearney, on top determinants of FDI. This research largely reflects the results of similar research from many other sources on this question. What is notable from such research is that the priority issues for most investors all relate to political stability and the investment climate and how this is affected by macro- and micro-economic policies.

Figure 3. Top FDI Determinants (% of Respondents)



Source: 2004 ATK FDI Confidence Index.

Issues such as market size (encompassing subsidiary issues such as market access, customs formalities, transport infrastructure and costs, local competition law, etc.), economic growth rates, and regulatory environment including freedom to transfer profits are all more influential on investors than incentives. This does not mean that incentives are irrelevant but rather that the investment message from countries should focus on 'investor determinants' and especially the high priority issues of the investment climate. Addressing issues of concern in these policy areas is complex and demands involvement of many public sector bodies. Doing so is central to investor facilitation, but also for policy advocacy by IPAs and business associations. IPAs and business associations are in a position to identify and interpret private investor needs to public bodies, and equally to act as a conduit of information from the public to the private sector.

Virtually all countries that aspire to increase private sector investment have liberalised their economies to some extent in recent years. More and more governments are recognising that their policies and behaviour play a critical role in shaping the investment climate of their societies and are making the required changes. The investment climate is the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs and expand. The multi-dimensional nature of the investment climate makes it difficult and complex to assess. In the next paragraph, some tools to assist this process are outlined.

Governments, through their policies and practice exert strong influence with impact on costs, risks and barriers to competition. The recognition that the overall business and investment climate is fundamental to increased investment has instigated initiatives to improve the environment worldwide from major countries such as China and India to smaller countries like Estonia and Slovakia as well as in MENA countries. To varying degrees this focus in most countries has sought, inter alia, to:

- Create a more stable macroeconomic environment;
- Liberalise controls on foreign exchange transactions;
- Undertake regulatory reform;
- Free up trade movements;
- Rationalise tax structures;
- Upgrade investment laws and remove restrictions;
- Actively promote foreign investment and exports.

II.4.3. ROLE OF IPAs IN POLICY ADVOCACY

The term 'policy advocacy' is self explanatory but warrants some elaboration. In contrast to FDI marketing and promotion methods and techniques on facilitating investors, policy advocacy as a function of IPAs is not as widely referred to in research on FDI and IPAs. To some extent, it has sometimes been seen as an optional activity that IPAs do as an adjunct to or derivative of their promotion work. But this view underestimates the value and importance of policy advocacy work.

With respect to IPAs, Morisset and Andrews-Johnson (2004) see policy advocacy as consisting of the activities through which the agency supports initiatives to improve the quality of the investment climate and identify the views of the private sector on that matter. Activities, in their view, include:

- Surveys of the private sector;
- Participation in policy task forces;
- Policy and legal proposals;
- Lobbying.

In determining options for promotion, this research contends that countries with a sub-optimal investment climate should focus on improving the latter first rather than spending resources on promotion. In other words, the recommendation is to focus on improving the investment climate before undertaking expensive promotion. This will in fact have the dual effect of helping to attract investment and enhancing the effectiveness of the impact of the IPA.

IPA policy advocacy is becoming increasingly important. While the traditional focus on investment promotion and attracting investment remains, factors such as heightened competition for FDI, the emergence of new sectors and technologies (e.g. biotechnology, nanotechnology, communications technology) and an increasing emphasis on the contribution of foreign investors to the overall development of the economy – all demand conducive regulation and innovative development policies. Getting the basic investment conditions right, by regularly assessing the investment climate in a changing world and involving all participants in proposed reforms is more important for investment attraction as the competition from new IPAs and emerging economies increases.

Another aspect of policy advocacy that should be strongly emphasised is an IPA's potential forward looking role in identifying new opportunities (new sectors, new innovation, new technology, new regional development) for a country. In some countries, IPAs have not just focused their policy advocacy on hindrances in the investment environment, but have instigated new policy initiatives. For example, expert groups on future skill needs, increased linkage between industry and universities and research institutions and enhanced infrastructure (e.g. broadband availability and cost) have been established. This type of advocacy can contribute substantially to ensuring 'early mover' advantages in competing for FDI and in attracting new investment.

A. Main functions of IPAs

Governments worldwide seek to attract FDI through IPAs. To create employment opportunities and accelerate economic growth in their economies, many governments have elected to pursue strategies to attract foreign investment. The number of IPAs has grown fivefold over the past decade and today there are at least 160 national and more than 250 sub-national IPAs compared to a handful in previous years.[3] Competition for FDI is increasing worldwide and this has promoted greater innovation in the scope and functions of IPAs including in the area of policy advocacy. However there is no single model of success when it comes to promotion and IPAs. In considering the role of IPAs in policy advocacy, it is useful to first consider the various roles of IPAs and where policy advocacy fits into IPA functional responsibilities. IPAs differ widely in terms of their functions and activities, legal status, organisation structure, budgets, and their success. In terms of the range of functions and activities undertaken, it is possible to distinguish three broad categories of investment promotion agencies, namely:

Information providers

IPAs that focus on disseminating investment related information and building the image of the country as an attractive investment location (the majority of agencies tend to fall in this category). Building information systems to facilitate investors is an essential 'building block' for investment promotion by all IPAs. Evidence exists that IPAs that provide good quality investor information can influence investors' location choice decisions (MIGA, World Bank, 2006). Some low level of policy advocacy work may be undertaken by this category of IPA but often on an irregular and unstructured way. It should be noted that the scale, resources and skills profile of many IPAs do not permit much more than information provision and basic investor servicing.

Information and selected service providers

IPAs that undertake information provision but additionally generate investments by marketing investment projects to targeted investors, assist investors in dealing with the host country's administration (e.g. investment facilitation and one stop shops) and assist existing investors in developing or expanding their business operations (investor monitoring and aftercare). Again, typically some policy advocacy work is undertaken, but in restricted form.

Development partners

IPAs that perform all the above functions and in addition seek improvement of the investment climate in a systematic way through structural policy reforms (using policy advocacy, own research and tools) and build links between foreign investors and domestic companies. While IPAs are typically public institutions with a mandate to work and often negotiate with investors, they can equally become real partners to business through their approach, their knowledge and understanding of strategic business issues and their skills in conveying how the features of their locations translate into advantages for specific investors. Such IPAs will often establish and maintain business relations proactively with existing and potential investors and have insights on company and sectoral issues that can greatly enhance their investment promotion and policy advocacy role.

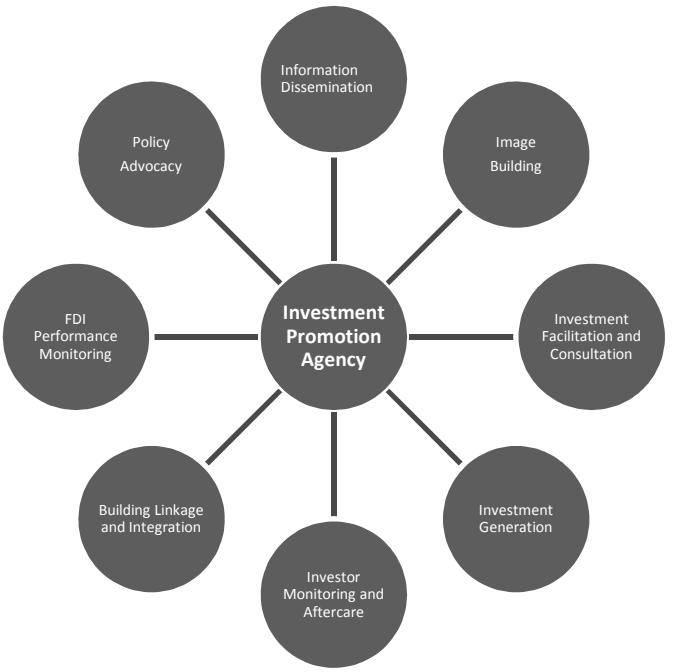
The above typology should not be seen as a hierarchy of progression and incremental success. IPAs at all levels can operate efficiently and effectively in promoting investment and undertaking some policy advocacy. The scale and scope of an IPA's competencies and budget will, however, influence their activity in all functions. Where their mandate, strategy and resources allow them to

extend the scope of their functions to work closer and in a more comprehensive way with investors (existing and potential), there is obviously a potential for greater effectiveness in promotion and impact on the investment climate.

It should be noted however, that working in this way is not an automatic process leading to greater success with attracting investment. Like all operational strategies and practices, the science and art of leadership and management in the IPA combined with innovation and good implementation practices will influence outcomes. In general, IPAs in the 'development partners' category encompass some of the most successful IPAs worldwide and as a consequence have established their credibility and long-term value to governments and other stakeholders.[4] Such IPAs have been in the vanguard in developing policy advocacy in support of efforts to improve the investment climate.

Policy advocacy by IPAs should ideally be seen in relation to all other functions and the inter-connectivity of all of these in better investment policies and promotion strategies. Some commentators see IPA functions in terms of four functional categories: image building, investment generation, investor services and policy advocacy (Wells and Wint, 2001). With the emergence of new IPAs and increased competition for FDI, the range of IPA functions conducted nowadays is often wider, instigated by the spread of good management practices and training and technical advisory work of, for example, WAIPA, UNCTAD, MIGA and FIAS in promoting more efficiency and experience sharing.[5] Figure 4 reflects this wider scope that many IPAs now engage in.

Figure 4. IPA Functions[6]



Policy advocacy is one of an IPA's core functions. This is the common theme emerging from research and discussion on the responsibilities and functional scope of IPAs. As indicated above, this activity is often less visible and less recognised than the functions of information provision, image building, and investor services. IPAs are well placed to identify problems in the investment and business environment through their working relationships with international and domestic companies. They may act as the chief advocates for foreign investment and business within the government. They

is also frequently a main channel of feedback to government policymakers on the concerns of foreign investors and other businesses striving to achieve international competitiveness. By documenting the benefits of foreign investment to local consumers, workers, enterprises and offices and communicating to branches of government the advantages of less and more efficient regulation of business, IPAs became key players in the investment climate change.

In broad terms, policy advocacy has two main dimensions:

- Working in partnership with the public sector:

  General policy advocacy towards other government ministries, agencies and the broader public about the need for investment climate reforms (this may include all facts and arguments as to how beneficial FDI can be) in general and on specific reform projects (e.g. on planned reforms or impact of reforms conducted already).

- Working in partnership with the private sector:

  Working with investors (existing and potential) to elicit information on issues that may hinder or obstruct investment. When a (larger) investor actually starts the process he has to be guided through the regulatory institutions and here on his particular license and his particular incentive payment.
  There is also a policy advocacy dimension that the IPA can cater to with the regulatory or approving Ministries and Agencies to ensure proper implementation by all parties. This is particularly the case of large and potentially sensitive projects, such as a construction of a large dam, where there is a need for a public communication strategy on a specific investment project.

Morriset and Andrews-Johnson, FIAS (2003) find that IPAs which spent more time on policy advocacy, were more successful in attracting investors, possibly because of the role of such advocacy in leading to improvements in the investment climate. Measures to promote and facilitate investment (marketing, servicing investors) can be more successful if they take place within the broader context of an overarching strategy for improving the investment environment, which involves mainstreaming investment issues across a broad range of policy areas that affect the investment climate. Concentrating solely on investment incentives has not paid off in a number of countries.[7] Equally, promotion that ignores measures to improve the investment climate is likely to be less effective.

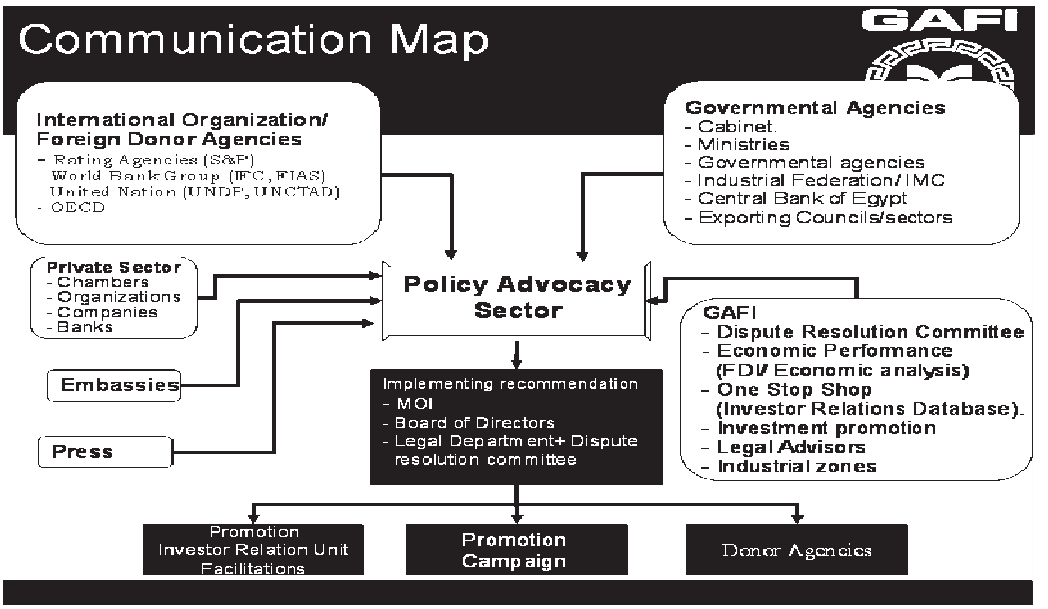
In brief, improving the investment climate is central to effective and successful investment promotion. The predominant message from relevant research and case experience is that IPAs should at all stages of their organisational evolution, seek to focus on this. This requires constructive policy advocacy by IPAs.

B. Other institutions involved in policy advocacy

Apart from business associations, a wide range of institutions can be used to support the policy advocacy functions of IPAs:

- Specialised media reporting on the country's and the region's reform process (Economic Intelligence Unit, Middle East Monitor, AME, others);
- Foreign Embassies, commercial and economic sections;
- Professional service firms
- International organisations
- Foreign donor agencies.

Figure 5. Policy Advocacy 'flow chart'



Source: From GAFI Presentation, Towards an Effective Vehicle for Policy Advocacy, 21 December 2006, OECD NIRA workshop.

C. Building the Policy Advocacy Function

Policy advocacy can cover a multitude of issues and actions by IPAs. IPA insights on policy issues and needed reforms will arise from:

- Requests from investors for information and advice;
- Feedback and case experience from existing investors;
- Private sector dialogue with IPA;
- Policy task forces or committees;
- Comparative international indices that rank countries.

Gathering and disseminating information that benchmarks a country's performance or analyses the costs (or potential loss of new investment) can build better awareness and understanding of the need for reform. It can also help to mobilise support amongst key players for reform. Policy advocacy by a IPA, with its special knowledge and insights from investors, can play a central role here either directly with the IPA or in conjunction with other key public sector actors (e.g. Competition Councils).

Global competition is dynamic and changing – other countries and regions are improving their national competitiveness positions. Relative competitiveness is crucial in pursuing the vision in national development plans and meeting global challenges. The IPAs' work process and activity might usefully be examined to see if it can be better tailored to contribute to meeting this objective. Some illustrative methodologies and tools to consider are briefly outlined in this paper.

D. Internal organisation of policy advocacy

An example of internal organisation of policy advocacy in the Egyptian government involving different governmental entities. As to the process involved 3 steps can be differentiated:

- **Issue identification**

  Often the issue is communicated to the IPA by a leading player from a certain sector. Other sources of information can be surveys conducted by the IPA and information provided by any institution listed under b).

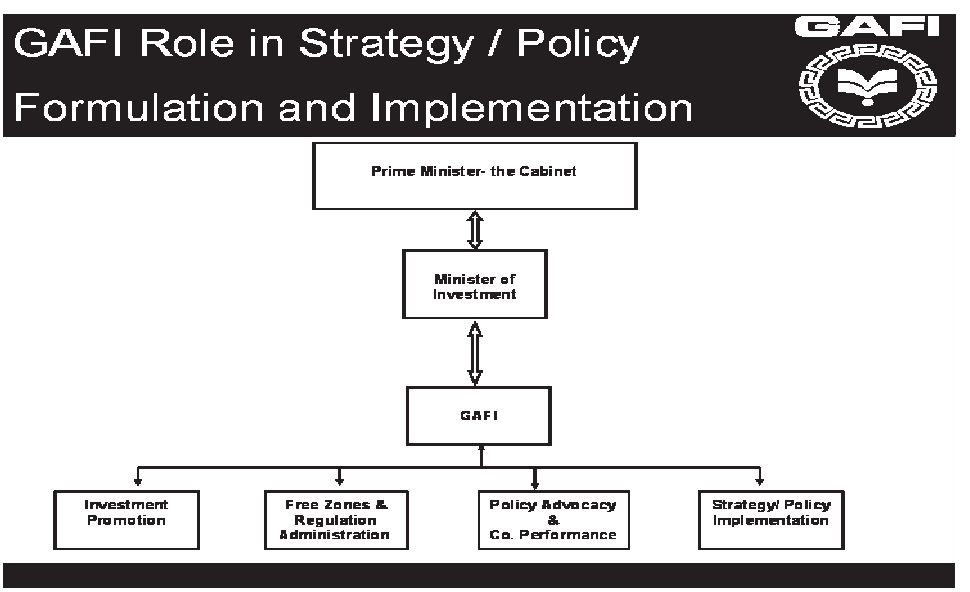
- **Research and data collection**

  Policy advocacy requires the ability to make a sound case to legislators and/or Ministries and agencies involved in the legislative or administrative reform process. For this purpose, the legislative process and political forces impacting on it must be fully understood. Legislative and administrative deadlines must be integrated in the strategy from the beginning. In order to build a strong case, very specialised industry data is often required. The collection of this data can be outsourced, and the IPA staff should concentrate on strategy development and management of the timetable.

- **Process implementation**

  The implementation phase involves many possible scenarios, depending on the kind of strategy chosen for the policy advocacy process. If the strategy involves raising public attention than it would involve media campaigns, high visibility events, etc. The strategy can also be targeted at more inherent deficiencies in the administrative system which prohibit in many countries any open naming and shaming. Efficient networking with the key decision makers is more effective in this case.

Figure 5. Figure 6. Example for Strategy Formulation and Implementation from GAFI



Source: From GAFI presentation, Towards an Effective Vehicle for Policy Advocacy, 21 December 2006, OECD NIRA workshop.

Box 1. Key questions in IPA policy advocacy

Institutional set up and reporting lines

- Does the IPA report to the prime minister or other senior government figures? If not, does it convey its policy advocacy advice to government and how effective is this?
- Is there a close and positive working relationship with the responsible Ministries?
- Is the IPA invited to participate in national policy dialogue and economic planning fora?
- Does the IPA participate in policy committees or task forces dealing with important issues shaping the investment climate (e.g. infrastructure, people and skills development, etc?)
- Does the IPA submit policy analysis and recommendations on change?
- Does the IPA have special (formal) working relationships with key Ministries such as Ministry of Foreign Affairs, Ministries dealing with company registration or labour permits?

Internal Policy Advocacy Capacity

- Does the IPA have internal resources to conduct effective policy advocacy (for example the expertise a to conduct policy analysis, to interpret business needs and to document and articulate policy propos the mandate and budget to conduct research or engage researchers on specific issues where necessa
- Does the IPA have an internal dedicated department or unit that is engaged in such work (or is it conc people mainly engaged in marketing and therefore given a lesser priority)?
- Does the IPA board focus on the policy advocacy function and seek to ensure a high concentr investment climate issues?

Communication with key actors

- Is there a regular communication with Ministries and senior government officials on policy issues?
- Does the IPA have a good and regular working partnership with the Ministry responsible?
- How effective is communication with private sector groups (investor associations, chambers, etc.) such groups invited in a systematic way to provide insights on the investment climate to the IPA?
- Are international indices or similar tools used to channel discussion with public and privat representatives?
- Does the IPA link with competitiveness councils or similar bodies where they exist and what is the joint working (e.g. on research studies, analysis of specific issues, joint surveys)?
- To what extent does the IPA liaise with universities and seek greater industry/university links?
- To what extent does the IPA foster linkages between international and domestic companies (what steps are taken here)?

Future opportunities

- Has the IPA engaged in research on new emerging sectors?
- Has the IPA sought to organize a cross ministry/agency approach to specific issues that could help to investment in such sectors (e.g. on intellectual property, on education/skills, on joint research and deve initiatives)?

Concrete examples of good policy advocacy

- Can the IPA point to initiatives that it has taken and that have lead to policy change?
- What does the IPA see as areas where it can make a contribution to improving the investment climate?
- Is there sufficient awareness of the role the IPA plays in policy advocacy?

Source: MENA-OECD Investment Programme, 2007.

E. Conditions for Effective Policy Advocacy by an IPA

The attraction of FDI and sustainable development connected with FDI require an active, continuing and committed support of the government and of different groups of actors and stakeholders. Having established the vision for FDI policy within the overall economic development and competitiveness strategy for the country, it is important that an IPA together with the government plays a proactive role in articulating that policy, promulgating it to all social partners as well as to existing and prospective investors.

The process of not just communicating the vision, but also advocating change and reviewing policy performance should ideally be inclusive and objective. The active involvement of investors in that process and in the dialogue on needed policy change will lead to better policy development and implementation. All of this process is at the heart of policy advocacy by the IPA.

Key issues that will influence the effectiveness of an IPA's efforts in undertaking policy advocacy are the conditions in which the IPA operates, how an IPA views the priority of policy advocacy and indeed its policy advocacy capacity. These may be issues that IPAs need to review and strengthen if they are to be more effective.

Some questions for IPAs to consider here are outlined in Box 1.This brief list of questions is not exhaustive and may be added to by IPAs based on their experience in conducting policy advocacy and communicating on investment climate reform.

II.4.4. BUSINESS ASSOCIATIONS AND POLICY ADVOCACY

Modern states and their administrations are complex structures which have the difficult task to manage public interest objectives without over regulating business formation and operation. Governments can create obstacles to private sector driven growth and job creation as pointed out by many business and investor surveys conducted in OECD and non-OECD countries. Business associations, be it Chambers of Commerce, sectoral organisations, national organisations or foreign investor councils can play a vital role in providing relevant information about obstacles created by governmental activity to government officials, influencing legislative processes and helping governments to effectively communicate the need for economic policy reforms to affected constituencies.

The independence from the government and from single interests of particular members is a key requirement for an effective and credible policy advocacy process organised by business associations. It should also be highlighted that reform processes and the policy advocacy function which can be conducted by business associations may differ between democratic and authoritarian governments, between presidential and parliamentary systems and between unitary and federal states. Any recommendation must be thus developed with great care and can only be taken as a general guidance which needs to be adopted to the political and economic reality of the individual country.

In principle, business associations play two important roles: first, by creating a functional network, they address common issues and provide various services and facilities for their members, i.e. enterprises that often suffer from a lack of information and resources. Second, they act as agents between private enterprise and the government.

The interests of private business vis-à-vis the government may include alternative policy recommendations and claims for changes and reforms to enhance the investment climate. It can be said that in emerging economies, the second role of the business associations is more important than in developed countries, because unlike the developed countries featuring market economies with necessary rules and institutions, the emerging economies often lack a stable and predictable business environment.

The role of business organisations can be even more relevant in countries where economic activities are conducted mainly by small and medium sized business enterprises, as it occurs in the MENA region. In these countries, the nascent private enterprises often lack adequate resources and capacity to formulate and effectively propagate alternative policies targeting the enhancement of the investment environment. There is also no clear consensus on the advantages of a domestic free market economy neither among the rulers nor the general public.

Enterprises and business associations can fill this gap by assuming a policy advocacy role. For this role to be credible and in order to inform policy makers about existing obstacles and propose measures for reform, the first important task for any business association is the collection of credible information. Membership surveys and research conducted by external resources can provide the necessary basic information about how certain regulations and administrative practices affect negatively business growth and future investments. The better this data is collected, the more compelling will the advocacy case be.

Box 2: Policy Advocacy Step-by-Step Approach

For best results, a step-by-step approach to developing a business advocacy program and include (1) staff research and policy recommendations on issues, (2) committee deliberations, acceptance, and recommendations of staff policy recommendations, and (3) board of directors' deliberations and acceptance of committee policy recommendations, is recommended:

- Establish a public policy committee to analyze legislative and regulatory issues;
- Have the association's staff conduct legal and economic research on key issues;
- Present issue briefs to the committee and then brainstorm various solutions;
- Review hot issues that are being discussed by the politicians and the news media;
- Set priorities by determining which issues can really be influenced by the association;
- Gain membership input on those priorities through surveys and discussion meetings;
- Draft specific policy positions which the public policy committee will approve and recommend to the board of directors.

The board should vote on the recommendations from the public policy committee and take firm stands on the issues. Once adopted by the board, the positions become a public policy agenda. That agenda then serves as the program of work for public policy advocacy efforts for the business association.

Develop a legislative strategy for gaining support for the association's policy positions.

Make sure all persons involved understand and support the strategy. The political process should be clearly defined.

Educate the membership on the need for change and mobilize the grassroots network of the association to gain public support.

Communicate with the membership by sending them newsletters, legislative updates, and legal research papers filled with reasons for the proposed changes.

Hold seminars and workshops to explain the details of the proposal.

Sponsor social events and invite key lawmakers to help convince them of the rightness of the cause.

Ask the membership to educate their own employees, suppliers, customers, families and friends. Remember, democracy is a numbers game – a majority of votes will determine the outcome.

Write letters to elected representatives and explain policy positions, and make direct contact to explain how the position of the association is good for the entire economy and for the people.

Provide testimony before legislative or regulatory bodies on specific pending bills.

Write thank-you letters to all politicians involved in the process, even those who did not vote the right way. There will always be a future issue on which their votes will be needed.

Continually track the proposals passing through the legislative process so that additional follow-up action can be taken if necessary

Source: Center for International Private Enterprise, Business Associations for the 21st Century, 2005.

In the next stage, internal legitimation has to be generated by presenting collected data and a strategy to internal policy committees composed of the key members affected by the policy. The leading figures in such an internal committee can also play an important role in promoting the advocacy case vis-a-vis the government. In fact, practice has shown that the presentation by an affected businessperson can underline the authenticity of the concern.

The strategy will often be developed in the form of a policy paper which will need to be approved by the internal committee in charge of the issue area. After all internal approvals are gathered, the delivery of the information is the key service a Business Association has to perform as an effective policy advocate.

Box 2 provides an overview of the development and implementation of an effective policy advocacy process by a Business Association.

II.4.5. REGIONAL AND MULTILATERAL CO-OPERATION SUPPORTING POLICY ADVOCACY FOR THE MENA REGION

This paper highlighted the various initiatives and actions IPAs and business associations can take to strengthen their strategic approach to FDI and business facilitation and improve their policy advocacy function in such work. In summary, some areas where IPAs and Business Associations in MENA countries could play a role include:

- Informing decision makers on the need to introduce investor and business friendly rules and regulations (using for example, the World Bank 'Doing business in 2007' data and OECD Policy Framework on Investment as a guide to check comparative status and best practice);
- Assessing and put the needs of investors into political and policy systems;
- Involving investors in policy proposals that affect investment promotion and in the government decision process;
- Creating a space for public argument and discussion in issues related to investment;
- Suggesting approaches and alternatives to solving investors' problems through their insights from investment projects and links with investors.

Strong momentum for reform can also derive from regional integration processes and networks of policy dialogue often organised by international organisations. The trend can be mentioned in the MENA region to conclude Free Trade Agreements and Regional Integration Agreements containing market access for investors, investment protection and promotion provisions. MENA countries' own initiatives include the Arab Free Trade Area which aims to establish a free trade zone among 18 members of the Arab League by 2008. In order to update the existing agreements and to bring them in line with international developments, the Council of Arab Economic Unity approved in 2000 the Agreement on the Encouragement and Protection of Investments and Transfer of Capitals among Arab States by virtue of decision No. 1125/71 of 7/6/2000.[8]

Japan started to promote Economic Partnership Agreements which include elements of FTAs based on the premise that they "contribute to the development of Japan's foreign economic relations as well as the attainment of its economic interests as a mechanism to complement the multilateral free trade system centering on the WTO.[9]" More regional agreements are foreseen with the United States where the U.S. Trade Representative (USTR) has engaged in intensive negotiations with a number of Arab countries to develop bilateral trade agreements which it hopes will result in the Middle East Free Trade Area (MEFTA) by 2013.[10]

In pursuing this goal, the US administration announced a six-step process for MENA countries to become part of MEFTA: (1) Joining the WTO; (2) possibly participating in the Generalised System of Preferences; (3) trade investment framework agreements (TIFAs); (4) BITs; (5) FTAs; (6) participating in trade capacity building. Morocco, Jordan and Bahrain have concluded FTAs with the

United States, and similar agreements with Oman and the United Arab Emirates are being explored. MENA countries are also strengthening their ties with the European Union by negotiating and implementing the Euro-Mediterranean Partnership Agreements. Tunisia, Morocco, Egypt and Jordan only recently signed the Agadir Agreement committing them to negotiate an FTA by 2006. Currently the EU is engaged in FTA negotiations with the countries of the GCC.

A. MENA-OECD Investment Programme

Some MENA countries have over the last years made considerable progress in key areas of investment climate reforms and their experiences may assist other MENA countries in developing FDI strategies and especially their policy advocacy for reform and progress. A platform for this exchange of good practice in the region is provided, amongst others, by the MENA-OECD Investment Programme. The MENA-OECD Investment Programme was founded in 2004 to support the emerging policy advocacy function of IPAs and the relevance of an improved investment climate for the attraction of more investment – domestic or foreign. During its initial phase, the key objectives pursued by the Programme were to:

- develop and document the state of development of the investment related legal and regulatory framework in the region;
- establish time-bound investment reform targets for the countries participating in the Programme and work on their implementation;
- create regional networks of private sector participants, key organisations, and country Ministries and Agencies.

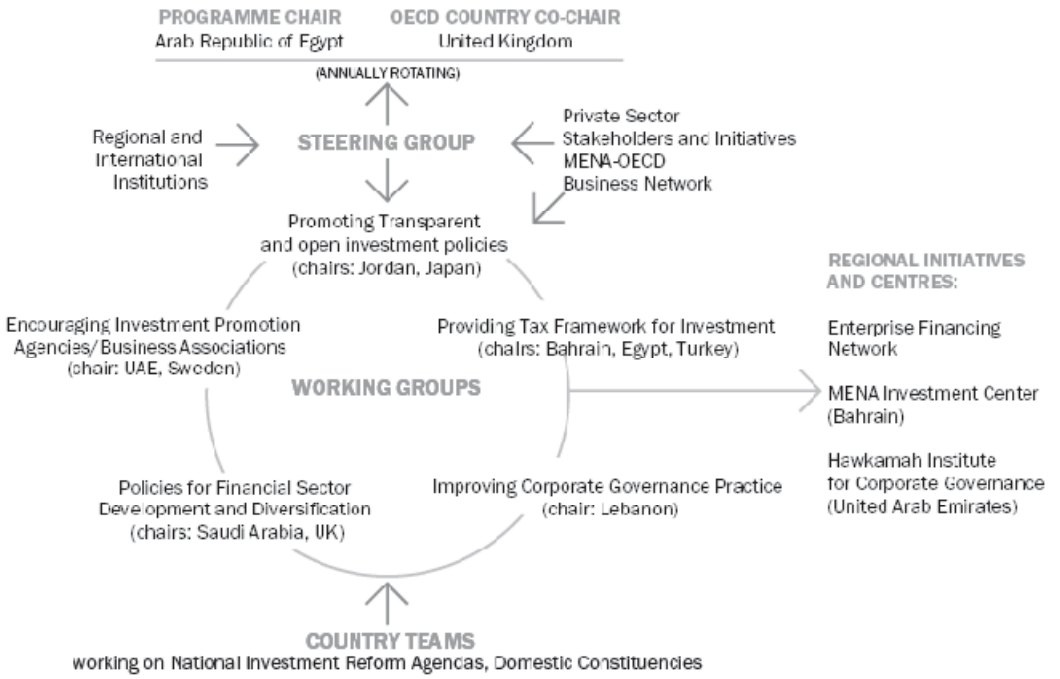
Meanwhile and in relation to the first objective, the Programme has taken stock of the regulatory environment, recent developments and key challenges in areas related to investment policy, investment facilitation, taxation financial sector development, corporate governance and women entrepreneurship. Work at the national level related to the second objective of the Programme - establishing time-bound investment targets for the improvement of the investment environment.

To this end, National Investment Reform Agendas (NIRAs) have been elaborated with MENA governments. These Reform Agendas include concrete measurable targets to be achieved within a period of 6 to 12 months. The Steering Group has reviewed and encouraged this process at its meetings held in April and October 2005 in Paris and Istanbul and presented to the Ministerial Meeting and Business Day on 13-14 February 2006 in Jordan, which was attended by delegations of 16 MENA countries, represented by Ministers or high level representatives from the relevant Ministries. The meeting concluded with a Declaration on "Attracting Investment to MENA Countries – Common Principles and Good Practice". Ministers also endorsed an ambitious programme for regional dialogue and capacity-building developed by the Working Groups. The Ministers noted the National Investment Reform Agendas developed by MENA countries and encouraged their implementation.

With respect to the third objective, the Programme has succeeded in developing a wide network of private sector organisations (i.e. the Arab Business Council, Business and Industry Advisory Committee to the OECD), regional organisations (the Arab Union of Banks, TOBB), as well as other private sector participants who continue to attend the meetings of the Programme. Additionally, the MENA-OECD Business Network organised a Business Day preceding the Ministerial Meeting, as well as awarded 24 companies from the region with an 'Investor of the Year' Award for innovation and employment creation.

Finally, several MENA countries have demonstrated an interest in participating in activities of the OECD Investment Committee and adhering to the OECD Declaration on International Investment. Egypt has become a member and Jordan and Morocco have started a procedure to adhere to the OECD's Declaration on International Investment and Multinational Enterprises.

Figure 7. The Structure of the MENA-OECD Investment Programme



B. Policy Framework for Investment (OECD)

The OECD Policy Framework for Investment is a non-prescriptive tool that provides a checklist of important policy issues for consideration by governments interested in creating an environment that is attractive to all investors and in enhancing the development benefits of investment to society, especially the poor. In this way, the framework aims to advance the implementation of the United Nations Monterrey consensus, which emphasised the vital role of private investment in effective development strategies. The framework is not a volume of ready-made prescriptions but a flexible tool to frame and evaluate policy challenges that countries face in pursuit of development. The ten chapters draw on good practices from OECD and non-OECD countries (officials from about 60 countries participated in its development) and cover:

- Investment policy;
- Investment promotion and facilitation;
- Trade policy;
- Competition policy;
- Tax policy;
- Corporate governance;

- Policies for promoting responsible business conduct;
- Human resource development;
- Infrastructure and financial sector development;
- Public governance.

In the Framework, over 80 questions are posed and annotative text gives background on issues. This framework provides a valuable tool for IPAs and Business Associations to consider in developing their policy advocacy and in assessing policy reform for consideration.

C. The OECD 'Investment Reform Index'

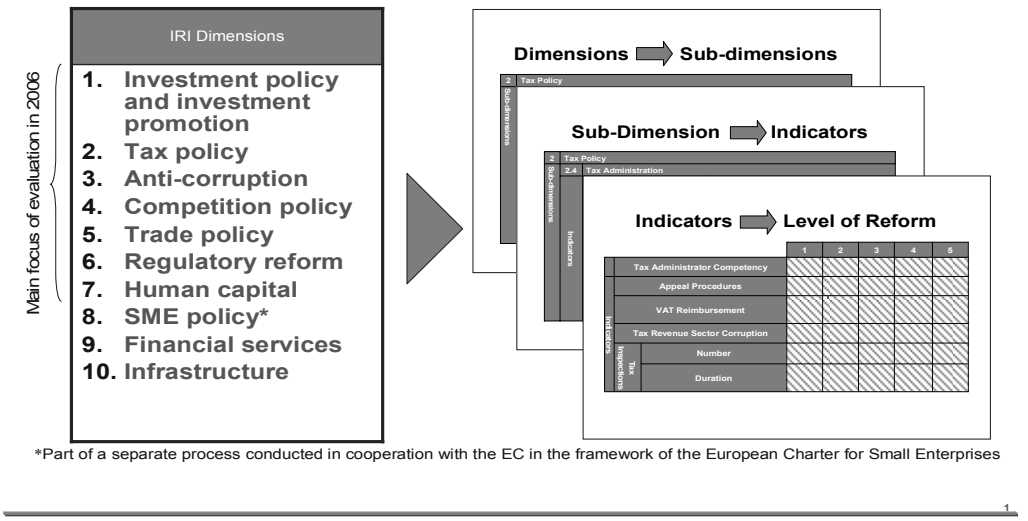
The Investment Reform Index (IRI) has been developed by the OECD to assist the countries of South East Europe in monitoring and driving the progress of reform along 10 key dimensions. [11] The policy dimensions and process of identifying sub-dimensions and indicators are illustrated in Figure 8. Many countries have identified key areas for reform and various international reports over the years have highlighted issues for action. What is often missing in reform efforts is a clear focus on where action is needed and a modus operandi lead by countries themselves to tackle the underlying factors. Policy discussion and policy dialogue may remain too much at a general level without adequate focus on critical sub-dimensions or sub-indicators that may be the root obstacle and cause of lack of progress with reform.

By focusing on concrete underlying factors, the IRI seeks to shift obstacles to reform and to communicate clearly to policy makers where the problem lies and where action is needed. Through the use of a rating system, through 'self analysis' and through comparison with other countries in the region, individual countries can better track their relative progress with reform. Achieving reform is a positive step in all instances but may not be that significant in competitive if neighbouring or competing countries are moving much faster with similar reforms. The IRI therefore has the advantage of giving insights into this relative progress with reform issues. It is also a capacity building process for policy makers within the country concerned as it is not simply an external evaluation but a process in which policy makers themselves play a lead role. The scope of the IRI can be extended, as required, to draw comparisons with other OECD countries where relevant.

The main distinguishing and differentiating factors of the Investment Reform Index (IRI) are:

- **Focus on a very specific region/country** where history, culture and geography allow for more relevant benchmarking with competing countries/regions.
- **Tripartite participatory approach** to evaluation and measurement involving government, private sector, and the OECD.
- **Comprehensive evaluation of the investment environment** structured along ten key dimensions (additional dimensions may be added) in line with OECD standards.
- Does not only measure but also provides guidance on how to improve through good practices.
- **"Meta – Index",** which incorporates existing work already conducted by other organisations (e.g., World Bank's Doing Business reports).

Figure 8. OECD Investment Reform Index



The IRI is a practical tool for policy makers to play a central role in monitoring progress of reform priorities.Based on the IRI, the MENA-OECD Investment Programme will in its second phase develop a **Business Climate Development Strategy (BCDS)** to evaluate the business climate and define priorities for reform implementation in selected countries of the MENA region.

II.4.6. CONCLUSIONS

The above tools are examples to illustrate how policy makers and IPAs - in their policy advocacy role - can use methodologies that will enhance their work. In some MENA countries, significant efforts have been made to examine and improve competitiveness. IPAs could benefit from considering how they might use them in their policy advocacy work. Through the use of such methodologies and tools, MENA countries and their IPAs could potentially enhance the structuring and focus of their reform efforts.

In this context, dialogue on policy reform would not just be in response to the latest international report issued or discussion on the next priority but on a regular and systematic approach. It would be concentrated on agreed concrete indicators of policy performance, reviewed at regular intervals and show how action and progress are being achieved (or not achieved) with these. Clearly the process and agreement on relevant policy dimensions, sub-dimensions and indicators would need to be fully discussed and agreed in advance. The use of such methodologies has the further advantage of making clear to all participants where discussion needs to focus and communicating to all the relative progress. The introduction of these methodologies demands a process over time and expert guidance.

Progress on competitiveness in the range of policy areas should ideally be systemically monitored in comparison to major trading partners and main competitor countries for FDI ('comparator countries'). A crucial factor for effective dialogue and successful policy reform is for policy makers to use comparative methodologies and practices for examining policy issues, for making comparisons with selected competitor countries and for benchmarking regularly progress against agreed indicators. Through regular benchmarking and comparison of policies, established international data and indices (e.g. OECD, World Bank, UNCTAD, and various investment climate and competitiveness studies and surveys), the process of reform implementation can be strengthened.

NOTES

1. Defined here in its simplest terms as advocating policy change and reform to improve the investment climate and thereby promote new business and investment.

2. UNCTAD, 2002.

3. UNCTAD, 2002, World Bank, 2005.

4. OECD, 2002.

5. The scope of an IPA's activities can of course be wider or narrower than depicted in this chart. It can extend to investment policy (e.g. especially where an IPA is located within a Ministry), and include issues such as privatisation, constructing or managing export processing zones, etc. or it can focus on some of the functions listed in the chart.

6. The functions listed reflect findings and reports from various sources, for example, World Bank/World Development Report, 2005; OECD, 2002; FIAS/Morisset and Andrews-Johnson, 2004.

7. McKinsey, 2003.

8. http://www.arabinvestmap.com/default.asp?PageId=4&CurrentLanguage=EngLang&agrID=4 .

9. Para. 1 of Basic Policy towards further promotion of Economic Partnership Agreements (EPAs), approved by the Council of Ministers on the Promotion of Economic Partnership on December 21 2004, http://www.mofa.go.jp/policy/economy/fta/policy0412.html .

10. For details, *Mary Jane Bolle*, Middle East Free Trade Area: Progress Report, CRS Report for Congress, 2005.

11. OECD Investment Compact for South East Europe 'Designing the Future – Making Investment Happen for Employment and Growth in South East Europe'. See also www.investmentcompact.org

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Annex II.4.1.

INTERNATIONAL INDICES AND COUNTRY RANKINGS THAT GUIDE INVESTORS ON INVESTMENT CLIMATE COMPARISONS AND COMPETITIVENESS OF COUNTRIES

	World Economic Forum Index Ranking 2006[1]	World Bank 'Ease of Doing Business' Ranking 2007[2]	Economic Freedom Rankings 2006[3]
Algeria	76 ↑	116 ↑	124 ↓
Bahrain	49 ↑	n/a	40 ↓
Dijbouti	n/a	161 ↓	n/a
Egypt	63 ↓	165 ↔	80 ↓
Iraq	n/a	145 ↓	n/a
Jordan	52 ↓	78 ↓	48 ↓
Kuwait	44 ↑	46 ↓	24 ↔
Lebanon	n/a	n/a	n/a
Libya	n/a	n/a	57 ↓
Morocco	70 ↑	115 ↑	95 ↔
Oman	n/a	55 ↓	24 ↓
Palestine National Authority	n/a	127 ↔	n/a
Quatar	38 ↑	n/a	n/a
Saudia Arabia	n/a	38 ↓	n/a
Syria	n/a	130 ↑	111 ↑
Tunisia	30 ↑	80 ↓	68 ↑
UAE	32 ↑	77 ↓	12 ↓
Yemen	n/a	98 ↑	n/a

Sources: International surveys – see footnotes.

1. World Economic Forum – Global Competitiveness Index, country rankings 2006. The rankings shown are from a total of 125 countries surveyed and with arrow showing the trend in 2006 versus the previous year.
2. World Bank/IFC annual survey on cost and ease of 'Doing business in 2007', rankings of MENA countries shown from total of 175 countries surveyed.
3. Heritage Foundation ranks freedom from government regulation in 130 countries based on 10 factors covering economic performance, government efficiency, business efficiency and infrastructure.

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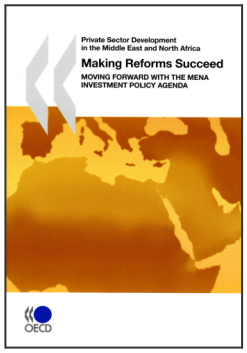

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