

Structural Reform Progress for Long-Term Growth

An important recurring feature of the *MENA Economic Developments and Prospects* reports has been the charting of the region's progress with structural reform. Since the first issue, the report has aimed to measure progress along three critical paths for higher and sustainable growth: improving trade integration, improving the climate for private investment, and improving governance. Incorporating a range of relevant indicators, the report evaluates reform to understand where countries currently stand relative to one another—and to the rest of the world—and to monitor reform progress over time (see appendix B for a full description of structural reform indicators).

Using these reform indicators, this chapter evaluates the recent progress that has been made by the region on the structural reform front. In section 3.2, the region's progress with trade reform is examined, highlighting the trade initiatives undertaken and measuring progress in lowering trade barriers. In section 3.3, progress on improving the business climate is discussed, highlighting the region's recent efforts at liberalization and measuring progress in improving the business environment, based on a range of business climate indicators. In section 3.4, the region's progress with governance reform is examined, through a review of indicators of both the quality of administration and public accountability. The findings can be summarized as follows.

Trade reforms. Substantial progress has been made in reducing tariffs and the time required for import

and export processing. Tariffs have been reduced from a simple average of 20 percent in 2000 to 13 percent by 2007, a decline not matched in any other region over this period. However, nontariff barriers remain high, and trade logistics performance, reflecting the quality of customs, ports, and transport arrangements, remains subpar.

Business climate reforms. Despite notable improvements in some countries (e.g., the Arab Republic of Egypt and Saudi Arabia), as a whole the region has failed to keep pace with business climate reforms elsewhere. In terms of reform effort, it ranks in the bottom third worldwide (29th percentile).

Governance reforms. Progress with regard to governance has been good. The quality of public administration remains relatively high in MENA, ranking above East Asia, Latin America, South Asia, and Sub-Saharan Africa, although in 2007 this ranking slipped relative to 2006. While the quality of public accountability remains very low in MENA, in terms of reform effort in this area, MENA ranked in the 64th percentile, above all other regions.

3.1 Trade-Related Reforms

3.1.1 Recent developments

Many countries in the region have been making efforts to integrate more effectively with the global

economy. More than half of the region's countries are now members of the World Trade Organization (WTO).¹ Current WTO members in MENA include Bahrain, Djibouti, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.

Saudi Arabia became the most recent member in December 2005, and both Algeria and Lebanon are now negotiating. Many are also members of bilateral and regional trade agreements, such as with the EU (see box 3.1).

¹ Current WTO members in MENA include Bahrain, Djibouti, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.

In addition to cooperation in trade in goods, MENA countries have also looked toward Europe for both financial and technical support through action plans in the context of a broader European Neighborhood Policy (ENP). These country-specific action plans lay out strategic objectives of cooperation between the EU and the MENA signatories, linking economic, political, and institutional reforms in MENA to receive greater financial assistance from and enhanced market access to the EU. The first to sign ENP action plans were Jordan, Morocco, the Palestinian Authority, and Tunisia in 2005, and in 2007, two additional countries—Egypt and Lebanon—also reached agreement. Also, in February 2007, the GCC and the EU reini-

Box 3.1

Trade relationships and recent developments with the European Union

Association agreements and cooperation agreements

Since the 1995 Barcelona Conference, all Mediterranean countries, with the exception of Libya, initiated trade negotiations with the EU and ultimately replaced their Cooperation Agreements of the 1970s with the more comprehensive Association Agreements. The process of achieving a free trade area by 2010, however, has been slowed by a number of political and security events. Syrian Arab Republic's Association Agreement was initiated but not signed, as economic relations were disrupted following the assassination of the Lebanese prime minister in February 2005. The turbulent situation in the Palestinian territory has also delayed the implementation of the agreement, as well as of their European Neighborhood Policy (ENP) action plans. Libya was under international embargo for most of the past two decades, and Algeria joined the process late, only ratifying the Association Agreement in September 2005.

For the rest of the MENA countries that are part of the Barcelona Process, the dismantling of tariff rates—on EU industrial and agroindustrial goods—is either starting (as is the case with Algeria) or is nearing completion. Jordan, Morocco, and Tunisia were the first to ratify the agreement, and by 2007 they had reduced or abolished their tariffs on most European industrial goods entering their respective markets. Egypt started reducing its tariffs on EU imports in 2004, and in Jan-

uary 2007 it initiated the reduction on goods listed under Annex III of its agreement. Lebanon will start the process of dismantlement in 2008.

European Neighborhood Policy: Adoption of Bilateral Action Plans

The ENP, developed in 2004, goes beyond existing relationships such as the Association Agreements to offer a deeper political relationship and economic integration. The new policy applies to the EU's immediate neighbors, nine of which are part of MENA (Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the West Bank and Gaza, Syria, and Tunisia).

The central element of the ENP is the bilateral ENP action plans agreed to between the EU and each partner. These set out an agenda of political and economic reforms with short- and medium-term priorities. Implementation is done through joint subcommittees.

Since the ENP builds upon existing agreements between the EU and the partner, the ENP is not yet available for countries such as Libya and Syria, which have no such agreements in force. Algeria, meanwhile, has not yet initiated negotiations on an action plan. The action plans for Jordan, Morocco, the Palestinian Authority, and Tunisia were signed in 2005 (all four were also the first to sign the Association Agreements). The Lebanese and Egyptian plans were signed in January and March of 2007.

tiated talks on trade cooperation after a long period of inaction.

Agreements with the United States have also been signed by Bahrain, Jordan, Morocco, and Oman, with one for the United Arab Emirates under preparation (table 3.1). Jordan's qualified industrial zone (QIZ) preferential trade agreement with the United States (offering duty-, quota-, and tax-free access to U.S. goods with both Jordanian and Israeli value added) has helped raise manufacturing exports, and a similar QIZ protocol was recently put in place in Egypt. The opportunity for cheaper Turkish inputs in the production of textiles destined to European markets has also triggered a

number of bilateral trade agreements between Turkey and MENA economies.

Intraregionally, MENA economies have sought to foster greater trade and investment through the Greater Arab Free Trade Agreement (GAFTA),² and through the GCC customs union, which is progressing toward a common market arrangement (see table 3.1). Egypt, Jordan, Morocco, and Tunisia signed the Agadir Agreement in 2004, which allows for uniform rules of origin among the four countries with regard to the European Union,

² MENA members are noted in table 3.1. In addition, Sudan is a member.

Table 3.1: Trade policy map of MENA countries: Free trade agreements

	WTO		GAFTA	EU		EFTA		Other FTAs	GCC	Agadir
	Member since		(Association Agreement)	Entry into force	Entry into force					
Algeria	Observer			√	09/2005					
Bahrain	√	01/1995	√					United States (08/2006)	√	
Djibouti	√	05/1995								
Egypt, Arab Rep. of	√	06/1995	√	√	06/2004	√	8/2007	Turkey (2007), QIZ		√
Iraq	Observer		√							
Iran, Islamic Rep. of ^a	Observer		n.a.							
Jordan	√	04/2000	√	√	05/2002	√	09/2002	United States (12/2001), Singapore (08/2005), QIZ		√
Kuwait	√	01/1995	√						√	
Lebanon	Observer		√	√	03/2003	√	01/2007			
Libya	Observer		√							
Morocco	√	01/1995	√	√	03/2000	√	12/1999	United States (01/2006), Turkey (01/2006)		√
Oman	√	11/2000	√					United States (pending)	√	
Qatar	√	01/1996	√						√	
Saudi Arabia	√	12/2005	√						√	
Syrian Arab Rep.	Accession not initiated	√			1977 Agreement			Turkey (01/2007)		
Tunisia	√	03/1995	√	√	03/1998	√	06/2005	Turkey (07/2005), United States (in negotiation)		√
United Arab Emirates	√	04/1996	√						√	
West Bank and Gaza	n.a.		√	√	07/1997	√	07/1999	Turkey (06/2005)		
Yemen, Rep. of	Observer		√							

Sources: World Trade Organization, U.S. Trade Representative, European Union Commission. Note: √ means the country is a member.. Gulf Cooperation Council (GCC) has had a custom union since 2003; European Free Trade Association (EFTA) states include Iceland, Switzerland, Norway, and Liechtenstein. The Greater Arab Free Trade Agreement (GAFTA) entered into force on January 1, 1998; duties were reduced to 0 percent on January 2005. The Agadir Agreement is a free trade agreement that aims to promote south-south integration and complement the Euro-Mediterranean Partnership. QIZ is a qualified industrial zone that enjoys a special domestic fiscal regime. Goods exported from the QIZ enter the United States at preferential rates.

Note: n.a. = not applicable.

a. The Islamic Republic of Iran is the founding member of the Economic Cooperation Organization (ECO), which groups Turkey, Pakistan, Afghanistan, and countries of the former Soviet Union.

thus raising the negotiating power of the free trade zone with respect to the EU. Countries that have signed on to the Barcelona Process³ are at various stages in implementing tariff reductions on industrial imports from the EU, and most have adopted the schedule set within. Egypt has moved even faster than it has committed to under the free trade agreement with the EU, enacting sharp tariff cuts both in 2004, when it reduced the average tariff to 9.1 percent, and in 2007, when it brought the average down further to 6.9 percent (box 3.2).

Resource-rich, labor-abundant economies have also lowered tariff rates, though tariffs remain high among the group. In 2004, the Islamic Republic of Iran reduced the number of tariff bands to 13 and the unweighted average import tariff to 22 percent. Since then, however, progress on trade reform has slowed. Widespread smuggling of imported goods

and a desire to harmonize tariff rates with GCC prompted the government of the Republic of Yemen to lower import tariff rates in 2005, when almost two-thirds of its tariff lines were set at 5 percent, and the average was reduced to just over 7 percent, which at the time was the lowest average tariff outside GCC in MENA.⁴ And in 2007, Syria introduced a number of changes to its custom laws, and peak tariff rates were cut from a high of 255 percent to 60 percent.⁵

Tariff rates among the GCC countries have converged to 5 percent, coming down from slightly higher levels a few years ago and from as high as 12 percent for Saudi Arabia back in 2000.

Beyond tariff reform, a few MENA countries have implemented several changes to reduce the behind-the-border constraints to trade, including sim-

³ The Barcelona Process is the name given to the launch of the Euro-Mediterranean Process of integration.

⁴ Subsequently, Lebanon and Egypt reduced tariffs slightly lower.

⁵ Economic Monitoring Notes for Syria, October 2007, World Bank.

Box 3.2

Trade reform in Egypt

Facing large current account deficits, the Egyptian government embarked on comprehensive reforms in 2003 and 2004 to improve macroeconomic management, increase trade, and promote the private sector. Trade (both exports and imports) has risen following the country's significant exchange rate devaluation in 2003 and the subsequent reduction in trade tariff rates.

The process of trade reform in Egypt began in the late 1990s under the Uruguay Round. The number of tariff bands was reduced, tariff rates declined from an average of 45.0 percent in 1998 to 38.6 percent in 2005, and the average applied most-favored-nation tariff rate fell from 26.8 percent in 1998 to 20.0 percent in 2005. Tariffs were subsequently reduced in steps, and the weighted average tariff rate declined from 14.6 percent in 2003 to 9.1 in 2004, then to 6.9 percent after the February 2007 cuts. Consequently, customs fees plus import-tariff revenues fell from 17.3 percent of imports in fiscal year 2003/04 to 6.5 per-

cent in 2005/06. Without customs fees, the rates declined from 13.3 percent to 6.5 percent, suggesting that such current fees are negligible.

The standard deviation of tariff protection across Egypt's sectors is now only 5.1 percent (excluding beverages). But unlike in other countries, this has not leveled the playing field among Egypt's industries because Egypt's sizable energy subsidies (5.5 percent of GDP in 2007) have disparate effects across sectors. As a result, the effective rates of protection remain high in many sectors. The government announced in August 2007 that subsidies for electricity and gas to the top 40 industrial producers would be phased out over the next three years, and that subsidies for non-energy-intensive industries would continue until 2013. Food, metals, and chemical industries are among the larger beneficiaries of the current energy subsidies, and agriculture and electrical machinery are among the least protected.

Source: Development Policy Review, November 2007, World Bank.

plification of documentation for imports and automating systems. In general, these have been effective in reducing the import and export clearing time in the region to acceptable standards. At the same time, conflict has had a major impact on the ability to trade in Iraq, Lebanon, and the West Bank and Gaza. In Lebanon, the July–August 2006 war and the three-month Naher el Bared War (2007) resulted in complete border closures, halting trad-

ing activities for several weeks and disrupting port operations.

3.1.2 Quantifying progress with trade reform

As in past *MENA Economic Developments and Prospects* reports, MENA's trade policy is evaluated in terms of both its current status (relative to the world) and its progress in reform (relative to the

Table 3.2: Association agreements and action plans with the European Union

Country	Signed	Entered into force	Tariff dismantlement on industrial goods to start	Developments in 2006–07
Algeria	April 2002	September 2005	September 2007 (one annex over 6 years, the other over 12 years)	Tariff dismantlement on Annexes 2 and 3 (all industrial goods) to start in 2007.
Egypt, Arab Rep. of	June 2001	Interim agreement January 2004; full agreement June 2004	Annexes: II (Jan. 2004, over 4 years), III (Jan. 2007, over 7 years), IV (Jan. 2009, over 8 years), V (Jan. 2010 over 10 years)	Action Plan (ENP) signed in March 2007; began reducing tariffs in 2007 (Annex III).
Jordan	November 1997	May 2002	For one annex: May 2002 (over 5 years); and two annexes, starting May 2006 (over 5 and 9 years)	Tariff reductions initiated on EU industrial imports listed in all annexes; for Annex III list A, Jordanian tariffs were abolished in 2007.
Lebanon	June 2002	Interim (trade-related) March 2003; full agreement April 2006	March 2008 (over 7 years)	European Neighborhood Policy (ENP) Action Plan signed January 2007.
Libya	Not part of the Barcelona Process			Discussions with the EU launched, in particular on the ENP.
Morocco	February 1996	March 2000	For one annex: March 2000 (over 4 years), and for another March 2003 (over 10 years)	Tariff reductions observed on all EU industrial imports in the annexes. Tariff will reach 0 percent in 2012.
Syrian Arab Rep.	Initialed October 2004	EU Council to decide on signature date	n.a.	n.a.
Tunisia	July 1995	March 1998	For two annexes: March 1998 (over 5 and 12 years); for Annex 3, March 2002 (over 9 years)	Tariff dismantlement on EU industrial imports approaching end of the schedule. Tariffs on goods in Annex 3 abolished in 2003, for Annex 4 & 5 rates reached by 2007 20 percent and 33 percent of original level. Average tariff on EU goods in 2007 is 6 percent. In January 2008 it will reach 0 percent.
West Bank and Gaza	February 1997	July 1997	Applies to fiscal charges, July 1998 (over 5 years)	Since June 2007, EU normalized relations with the Palestinian Authority. Progress on the ENP Action Plan hindered by recent turmoil.
Yemen, Rep. of	November 1997	July 1998	Cooperation (framework) Agreement, no schedule for tariff dismantlement	n.a.
GCC	Trade relations still governed by the 1988 Cooperation Agreement. Negotiations on an FTA with the European Union were relaunched in February 2007. (First talks were held as early as 1990, but an agreement was not reached and the signature of an FTA was postponed.)			
Iran, Islamic Rep. of	Negotiations on a trade cooperation agreement and the Economic Dialogue were suspended in December 2003.			

Sources: European Union Commission Web site (<http://www.europa.eu>) and national authorities.

n.a. = not applicable.

world). MENA's current trade policy relative to other countries worldwide is evaluated through a composite index, using four trade-related indicators: (1) the simple average (applied) tariff (most-favored-nation rate), (2) the proportion of tariff lines subjected to non-ad valorem (NAV) duties, (3) the average time required to comply with import-clearing procedures, and (4) the average time required to comply with export-clearing procedures. The Doing Business 2008 report (data for 2007) provides the data for the latter two indicators, and the WTO and the TRAINS database are the source of data for tariffs and other duties.⁶

Trade policy reform progress for MENA is evaluated relative to other countries worldwide in two ways. First, and in keeping with previous *MENA Economic Developments and Prospects* reports, trade policy reform is evaluated over the 2000–07 period through progress in reducing average tariffs. Though it only captures one element of trade policy, this reform measure is nonetheless useful in examining reform progress over a relatively long period.⁷ In addition, in this year's *MENA Economic Developments and Prospects* report and going forward, trade reform is analyzed more broadly, by looking at the change in the composite trade policy index (using the four trade-related indicators underlying the composite current trade policy index) over the last three years.

Since 2000, the region has demonstrated strong progress in lowering tariff barriers. Relative to the world, MENA countries rank on average among the top 63rd percentile of countries worldwide with regard to tariff reform, tied with high-income OECD countries and ahead of all developing regions (table 3.3). Between 2000 and 2007, MENA's simple tariffs decreased on average by 7 percentage points, a decline unmatched by any other region.

Leaders in trade reform have emerged from the labor-abundant group, and particularly the resource-poor countries of the region. Resource-poor countries have cut import tariffs from an average of about 26 percent to 18 percent since 2000, ranking them close to the top quarter of countries world-

wide with regard to tariff reform. The particularly strong tariff reform efforts in Egypt, Jordan, and Lebanon underlie this strong performance by the resource-poor group. Egypt ranks in the 96th percentile, the highest in the region, and Jordan and Lebanon both rank in the 91st percentile (the 2007 tariff rate in Lebanon was almost half its 2000 level). But notable tariff reform has also occurred among the resource-rich, labor-abundant economies, where tariff reform on average ranks among the top third of countries worldwide, spurred by the strong tariff cuts in Iran, which cut tariffs from an average of about 66 percent in 2000 to 22 percent in 2007, and Yemen, which cut tariffs from an average of 13 percent in 2000 to 7 percent in 2007.

Although reform progress among labor-importing countries was more moderate (49th percentile), this is largely a reflection of the low levels of protection from the start (with tariffs averaging 9 percent in 2000). Nevertheless, the countries kept pace with the reform efforts undertaken worldwide, and by 2007, all six GCC countries had converged to a simple rate of approximately 5 percent.

Tariff reform is an important element of trade reform, but efforts on multiple fronts can help to improve or hinder the environment for conducting international trade. Because tariffs are the only widely available trade indicator available in 2000, the measure of trade reform from 2000 to 2007 reflects a limited aspect of overall reform. To gauge the broader aspects of trade reform, figure 3.1 presents the change in the current trade policy measure for MENA economies between 2005 and 2007, based on the four available trade-related indicators: average tariffs, the prevalence of non-ad valorem duties, and behind-the-border constraints to trade as measured through the time required for import-clearing and export-clearing procedures. These more accurately reflect overall changes in trade policy, albeit over a short time period.

On the broader trade reform front, MENA countries have in general improved their standing worldwide with regard to facilitating trade over the past two years. Between 2005 and 2007, the trade policy index in MENA (for the group of countries with data available both years) rose from an average of 46th percentile worldwide to 47th percentile. These improvements are compared with dynamic trade reform in the OECD countries, which rose from the 69th percentile on average in

⁶ See Appendix B for a description of methodology behind the structural reform indicators.

⁷ Other trade-related indicators, including behind-the-border procedures and non-ad valorem duties, are only available for the past three years, and thus may fail to capture the spirit of reform over the past decade.

Table 3.3: Trade policy reform progress, 2000–07

Percentile rank

Country or region	Current trade policy ^a	Trade policy reform progress 2000–07 ^b
Algeria	58	69
Bahrain	—	71
Djibouti	52	47
Egypt, Arab Rep. of	72	96
Iran, Islamic Rep. of	1	73
Iraq	—	—
Jordan	50	91
Kuwait	58	7
Lebanon	13	91
Libya ^c	—	—
Morocco	64	55
Oman	44	70
Qatar	—	8
Saudi Arabia	61	87
Syrian Arab Rep. ^d	32	38
Tunisia	56	57
United Arab Emirates	77	—
West Bank and Gaza	—	—
Yemen, Rep. of	20	87
Regional averages (unweighted)		
MENA	47	63
Resource-poor, labor-abundant	51	73
Resource-rich, labor-abundant	28	67
Resource-rich, labor-importing	60	49
East Asia and Pacific	49	43
Europe and Central Asia	50	55
Latin America and the Caribbean	60	57
High-income OECD	82	63
South Asia	23	40
Sub-Saharan Africa	29	30
World	50	50

Source: See appendix B.*Note:*

a. Current trade policy reflects a country's current placement in a worldwide ordering of countries, based on four major categories of trade policy indicators available in 2007, and expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) with the most open trade policies and 0 reflecting the country (countries) with the most closed trade policies.

b. Reform progress index reflects the improvement in a country's rank between 2000 and 2007 in a worldwide ordering of countries, based on a simple average tariff (the only trade policy indicator widely available in 2000) expressed as a cumulative frequency distribution, with 100 reflecting the country that exhibited the greatest improvement in rank and 0 reflecting the country that exhibited the greatest deterioration in rank.

c. In 2006 the Libyan government eliminated all tariffs but converted its import protection mechanism into excise duties, levying consumption taxes—sometimes as high as 50 percent—on imports for which there is a local production. According to the World Bank country report for Libya (July 2006), the new discriminatory excise tax and the service fee of 4 percent are equivalent to trade protection and reduce the transparency of the trade regime. Overlooking this high and hidden trade protection by considering 0 percent as the Libyan simple tariff would distort regional averages and, more important, provide misleading conclusions with respect to Libya's trade policy. According to the 0 percent scenario, Libya would then rank in the 97th percentile, thus reflecting the position of a world leading trade policy reformer. Libya's trade regime, with excise duties as high as 50 percent, does not reflect the status of a leading trade reformer. The trade index is a proxy intended to quantify reforms, but it is based on a single indicator (i.e., simple average), rendering it quite sensitive to empirical variations and manipulations. Therefore, the more plausible option is to remove Libya from the sample, and by doing so, avoid providing misleading conclusions or wrongly calibrating the level of the Libyan trade profile. At this stage of the evaluation, the exercise of converting the new excise taxes on imports into equivalent tariff rates has yet to be done to determine whether the effective tariff protection has dropped or increased from the pre-2006 level of 17 percent.

d. Value does not reflect the August 2007 reduction in peak tariff rates.

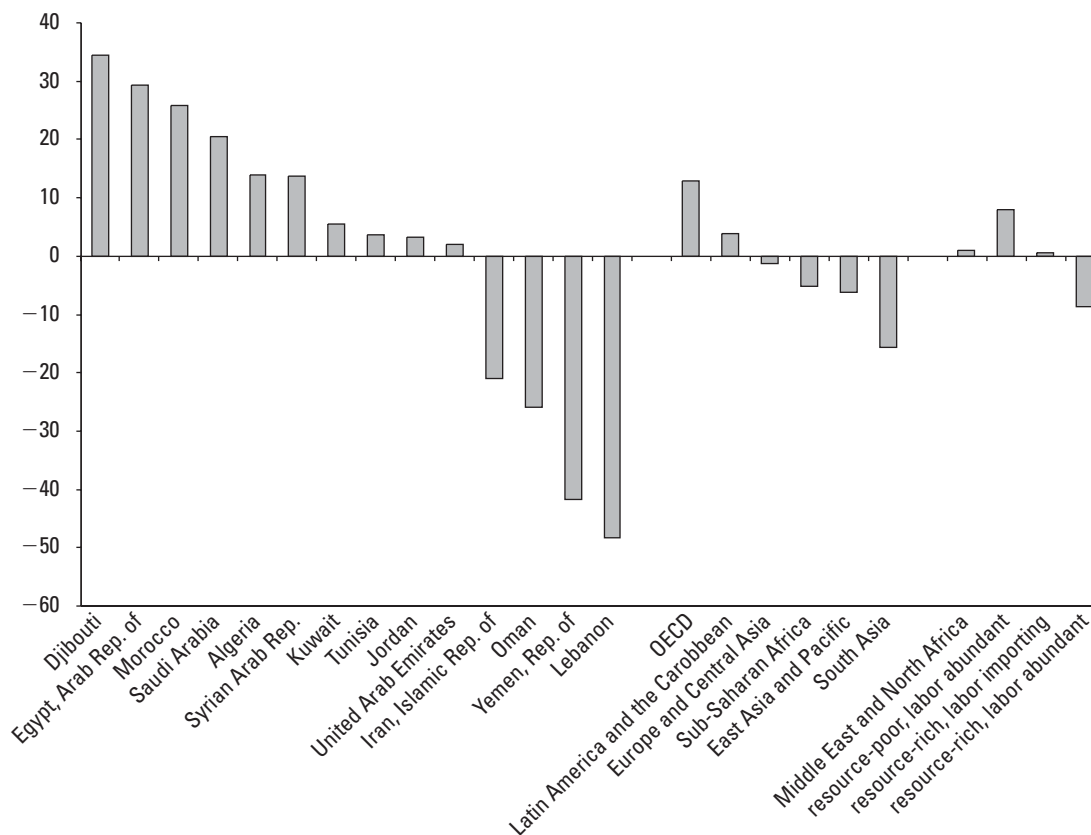
2005 to the 82nd percentile by 2007, and Latin America, which rose from the 57th percentile to the 60th percentile, on average, and with declining trade policy rankings in Africa, East Asia, and Europe and Central Asia.

Resource-poor countries are leading the overall trade policy improvements in MENA, in large part because of the reform efforts in Djibouti, Egypt, and Morocco. In Djibouti, the dramatic rise in its ranking worldwide with regard to trade policy (from the 17th percentile in 2006 to the 52nd percentile) reflects the full removal of non-ad valorem duties on imports, as well as strong improvements in reducing the time for clearing trade (helped significantly by the operationalization of the free zone with a one-stop-shop arrangement). Egypt's trade policy index rose from the 43rd percentile in 2005 to the 72nd percentile in 2007, on the strength of significant inroads in reducing the time required to export (from 27 days to 15 days) and import (from

29 days to 18 days), as well as continued lowering of tariffs (from an average of 9.1 percent to 6.9 percent in 2007). And in Morocco, a reduction in the processes required to import and export have helped to substantially reduce the time to clear trade, elevating the country's trade policy ranking from the 38th percentile in 2005 to the 64th percentile by 2007 (figure 3.1).

A few countries in MENA exhibit strong deteriorations over the past two years in this broader trade policy measure (even countries that may have demonstrated strong tariff reform over the past seven years). The largest single decline in trade policy ranking took place in Lebanon, where 2006 and 2007 border closures as a result of the war resulted in significant increases in the overall average time required for exporting and importing, resulting in an overall deterioration of the country's trade policy rank from the 61st percentile in 2005 to the 13th percentile in 2007.

Figure 3.1: Change in trade policy index in MENA countries and other regions, 2005–07



Source: World Bank estimates.

Note: The figure shows regional absolute change in current trade policy index (composed using information on average tariffs, non-ad valorem duties, and the time for clearing imports and exports). See appendix B for a full description of the trade policy index. Regional averages are unweighted, and data for the UAE and Djibouti cover only the 2006–07 time frame.

Other MENA countries are also exhibiting significant deteriorations in the climate for trade over the past two years, including Iran, Oman, and Yemen (all three of which also exhibited strong tariff reform progress over 2000–07). Figure 3.2 highlights the factors underlying the recent deteriorations in the overall trade policy rankings for Lebanon, Yemen, Oman, and Iran. In both Yemen and Oman, there have been significant declines in each country’s world ranking with regard to NAV duties, as well as the speed in clearing imports and exports. According to the WTO, both countries imposed NAV duties after 2005 (from 0 percent levels in 2005). That factor, combined with inaction on improving the time required for trade clearance, have resulted in substantial deteriorations in their trade climate rankings with regard to the rest of the world. Worldwide, trade clearance has improved significantly; the average time required for exporting has declined from about 32 days to 26 days, while average time for importing has gone from 40 days to 30 days. As a few MENA countries have failed to make similar improvements in their own trade-clearing procedures, they have fallen significantly behind. In Iran, the deterioration in the trade policy ranking reflects a sus-

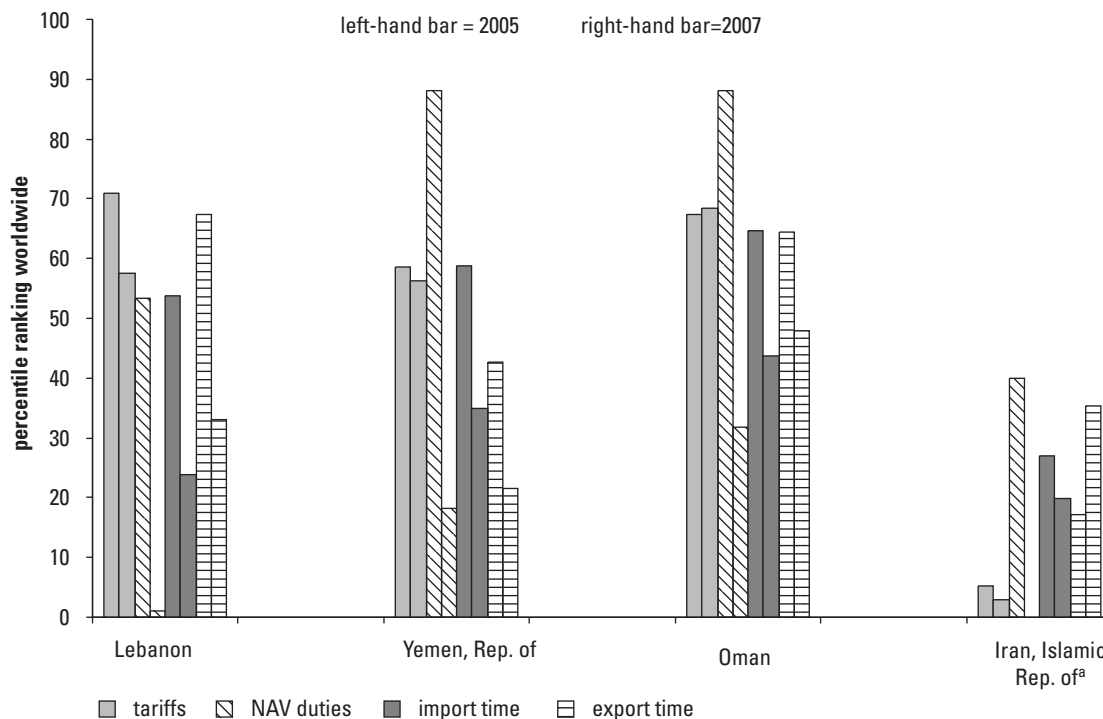
pension of the tariff reform efforts begun in the early 2000s, as well as increasing difficulty (relative to the rest of the world) with clearing imports.

Going forward, MENA economies still have significant opportunities for facilitating trade, primarily through continued tariff reform. Outside the GCC, MENA economies continue to maintain high levels of tariff protection, particularly in Algeria (average tariff rate 19 percent), Djibouti (30 percent), Iran (22 percent), Morocco (22 percent), Syria (20 percent), and Tunisia (27 percent).

Other areas of trade policy are more favorable, with MENA countries in the top half worldwide with regard to the speed of processing trade and with the use of NAV duties. As a result, MENA countries rank on par with world averages (47th percentile) with regard to overall trade policy (table 3.3). But within the region, resource-rich, labor-abundant economies trail far behind the other economies of MENA, with current trade policy ranking on average in the bottom third of economies worldwide (28th percentile), the result of both high tariffs (which place the economies in the bottom 18th percentile, on average⁸) and cum-

⁸ See table B2, appendix B.

Figure 3.2: Factors underlying trade policy index declines, 2005–07



Source: World Bank estimates.

a. NAV duties are not available for Iran in 2007.

bersome import-processing procedures. Iran in particular stands out for a debilitating trade environment, ranking in the bottom 1 percent worldwide with regard to tariffs and time for trade processing. Region-wide, cutting back on the significant barriers to trade will be required if businesses are to expand and create markets abroad.

3.2 Business Climate Reforms

A favorable business climate and efficient legal environment are necessary conditions to promote private investment and create the jobs needed for a growing MENA labor force. The decision of resource-rich countries to channel their oil-generated surplus to other MENA countries depends greatly on the business environment in the respective countries. The ease of starting a business, the level of investor protection, and other factors play a large role in determining the destination of foreign direct investments. Resource-rich states also have a vested interest in improving their own business climate in order to attract foreign investors and to acquire new technologies for their oil-based sectors as well as to diversify their economies.

3.2.1 Recent developments⁹

Strategies for improving the business climate in MENA have evolved from efforts concentrated on industrial policies toward specific sectors (including the industrial upgrading under the *mis-à-niveau* programs in Morocco and Tunisia), to broader efforts aimed at improving the institutions that support all industrial sectors. A major factor inhibiting greater domestic investment in the MENA region is lack of access to credit by firms, a problem highlighted in the *MENA Economic Developments and Prospects 2006* report (World Bank 2006c). Although many factors lie at the heart of the structural disconnect between the plentiful financial resources in the region and the scarcity of external financing for businesses, one of the key factors has been the high level of public sector ownership of banks, which has affected both the direction of

credit in MENA and the operating efficiency and ability of the banking sector to conduct robust risk analysis. The degree of state ownership is especially high in the resource-rich, labor-abundant economies of Algeria, Iran, Syria, and Libya, but state ownership is also high in several of the resource-poor economies such as Egypt, Morocco, and Tunisia.

Over the past few years, the banking sector has slowly opened to private participation, with a handful of countries in the region granting licenses to private banks and changing foreign ownership restrictions. In Algeria, 13 foreign bank branches have been established since liberalization efforts began, and bidding for the partial privatization of *Crédit Populaire d'Algérie* is under way, with another bank slated for privatization soon (*Banque de Développement Local*). Iran opened the door to private sector participation, although the impact is relatively small to date. Licenses have been issued to four private banks, but together these command a very small share of the market. Syria, whose banking sector was monopolized by the state-owned Commercial Bank of Syria, overturned its 49 percent maximum foreign ownership requirement in 2005, which allowed new banks to be established and foreign Islamic banks to enter the market. Eight private banks are now operating in Syria, including one Islamic bank. The share of private banks in the total balance sheet of the sector reached 15.3 percent by May 2007, compared with 7.1 percent at end-2005. In Egypt, majority stakes in one of the four main state-owned banks, the Bank of Alexandria (with 7–8 percent of total banking deposits), were sold over 2006, and in 2007 it was announced that *Banque du Caire* was for sale. If completed it would lead to a banking sector dominated by private ownership, with the remaining state-owned banks (the National Bank of Egypt and *Banque Misr*) controlling 41 percent of the market. These bank privatizations are only one component of a broad range of actions initiated by Egypt to restructure the financial sector, including the sale of joint venture banks and investment houses, large mergers in the state-owned insurance sector (eventually slated for privatization), and the restructuring of private sector nonperforming loans.

The telecommunications sector has been one of the primary entry points for privatization in MENA. Most of the resource-poor countries have sold partial stakes in the state-owned telecommunications

⁹ Recent developments were drawn from three principle sources: the World Bank Doing Business 2008 report, the most recent International Monetary Fund Article IV reports, and the World Bank Economic Monitoring Notes prepared for the 2007 IMF-World Bank Annual Meetings.

company (Jordan sold a 15 percent stake in Jordan Telecom in 2002, Egypt a 20 percent stake in Telecom Egypt in 2005, and Tunisia a 35 percent stake in *Tunisie Telecom*, and, increasingly, mobile operators have been established in Egypt, Morocco, Tunisia, and Jordan. In Lebanon, encouraging steps toward telecom privatization have been taken with the establishment of the Telecommunications Regulatory Authority, the appointment of its board, and issuance of three new regulations. Preparatory steps are also being taken to privatize the two mobile telephony providers.

Telecom liberalization among resource-rich, labor-abundant economies has moved more slowly. Algeria's long-anticipated privatization of Algeria Telecom has been held back, and the telecommunications sectors in both Iran and Syria remain fully state-owned. However, competition in mobile telecommunications exists in Algeria. Finally, among GCC economies, partial privatization of the national telephone companies has taken place in Bahrain, Qatar, Saudi Arabia, the UAE, and Oman (though not privatization open to foreign ownership), and most have multiple mobile phone operators.

Outside telecommunications, progress with infrastructure liberalization has been mixed, with relatively strong liberalization efforts among a few, including Morocco (air transport, oil and gas exploration, audiovisual communications, and planned liberalization of electricity), Jordan (phosphates, and plans for air transport and electricity generation), Bahrain (electricity, petrochemicals, and planned liberalizations of water and postal services), and Oman (power, water, ports, and oil). Egypt has liberalized air transport. Iran opened the door for private sector participation in most major industries, including power generation, water, postal service, railways, airlines, and shipbuilding, although the actual privatization process has moved slowly, and access to these sectors is still pending. Elsewhere, almost all of the GCC countries have converted to private power, and there have been piecemeal efforts at liberalization in other sectors (Saudi Arabia in air transport, Qatar in some air services and water, and the UAE in tourism and air transport).

In addition to opening key services to competition, the region has taken some steps to reduce the regulatory obstacles to doing business. Supporting the liberalization push in banking, a number of countries have shored up the regulatory environ-

ment for the financial sector. In Morocco, specific measures to improve financial intermediation include standardizing the minimum data required to process loan applications, helping banks to develop their practice of internal rating systems, and merging existing information on credit risk into a privately managed, centralized database to all credit institutions (IMF 2006). In addition, banking laws have been revised to improve supervision of non-bank institutions, and a new insurance code has been adopted, which should improve the insurance sector's efficiency while protecting customers.

In an effort to reduce nonperforming loans, Tunisia has taken steps to improve credit appraisal, raise provisioning rules, and sanction banks with insufficient provisioning or capital. Algeria's key actions include the modernization of the payment system, as well as the introduction of performance contracts in public banks and the publication of explicit subsidies to commercial banks in the 2006 budget law. Iran has worked to develop a risk-based regulatory and supervisory framework for banking and has worked on the measures needed to modernize payment systems, but progress has been slow. Libya launched a series of measures to support financial system reform, aimed primarily at restructuring state-owned banks and adjusting ownership structures to include or increase private participation. Bahrain's reforms, initiated in 2004, include establishing a consumer credit rating agency and drawing up new regulations for insurance companies and trust funds. Bahrain has also made notable progress in developing Islamic lending instruments aimed at rolling over conventional domestic debt and diversifying financial instruments. The regulatory framework of the financial sector in the UAE also witnessed some improvements, with major steps taken to control money laundering, including the passing of anti-money-laundering laws, improving the rules and regulations dealing with the informal money transfer system, improving banking supervision, and enhancing the payments system.

Outside financial sector reforms, MENA countries have advanced other key regulatory reforms. Egypt has undertaken the most comprehensive regulatory reforms across several areas, such as bankruptcy laws (allowing voluntary liquidation), investment laws (creating a one-stop-shop for investors through the General Authority for Free Zones and Investment), commercial dispute laws (establishing dedicated courts to hear business cases), sales tax laws

(overhauling the sales tax to function more like a value added tax), and a recent revision of the property tax law (lowering the current maximum rate of 46 percent to a flat rate of 10 percent on all property).

Another key area of reform in MENA has been reducing the capital requirements and registration process for starting a business, which has been a key part of the business reform agendas in Tunisia and Jordan. Labor laws have also featured prominently in the region, in an effort to improve national employment outcomes, most significant among these a new labor code in Morocco, which significantly clarifies employment relations. Djibouti has also introduced a more flexible labor code, although it has yet to be fully implemented. GCC employment laws, on the other hand, have primarily focused on national employment targets (quotas) and the raising of fees and other restrictions on foreign workers to increase the employment of the domestic workforce. With extensive and modern facilities and services, GCC economies have concentrated much of their reform efforts toward improving commercial laws, particularly to open up to capture greater foreign investment.

3.2.2 Targeted industrial policies

Both Morocco and Tunisia have moved on from the generalized *mise-à-niveau* platforms to more specific sectoral upgrading. Morocco launched its Emergence Program (begun in 2005), focusing on overhauling eight main sectors, including modernizing the textile sector to adapt to the dismantling of the Multifiber Agreement (MFA),¹⁰ and consolidating the sectors of electronic components, information technology, automotive manufacturing parts, aeronautics, and artisan products. Authorities are implementing a broad range of incentives that include tax exonerations, subsidies for training, and development of four offshore free trade zones. And Tunisia moved on to a five-year program targeted at industrial innovation in small and medium enterprises (SMEs), with general privileges extended for investments in selected economic activities and for exporting.

¹⁰ In January 2005, the World Trade Organization's Multifiber Agreement (MFA) on Textiles and Clothing expired. The agreement had allowed privileged access to European markets for a few MENA economies—Egypt, Morocco, Tunisia, and the United Arab Emirates in textile and clothing products.

For many countries in the region, establishing industrial zones (or free zones) has been an increasingly important mechanism for attracting investment. Among resource-poor countries, Tunisia is in the process of developing its Industrial Zone of Enfidha and its tourism park of Hergla, and in Morocco, following the success of Casa Nearshore Park, the Moroccan government has defined an extensive list of incentives to promote new offshore operators, including fiscal exoneration, income tax ceilings, and training and cash support for the recruitment of Moroccans. In Egypt, meanwhile, in addition to the qualified industrial zones in Greater Cairo, Alexandria, and the Suez Canal, several country-specific industrial zones are being established to support businesses from those countries looking for an export platform to Europe, Africa, and the Middle East. Over 2007, Egypt signed agreements for industrial zones with China, Jordan, Qatar, Saudi Arabia, and Turkey, and is looking elsewhere for similar agreements, including the Russian Federation. While Djibouti has had a long-standing free zone, it was only after a 2004 law was issued to govern the free zone and establish the incentives to operate there that foreign investments began to flow.

The GCC economies have also heavily used industrial and free trade zones, not only to provide a platform for manufacturing, but also to establish themselves as regional and international hubs for a variety of services, including financial services, trading, tourism, and transport. The UAE has become a major source of tourism-related investments, which often take the form of large-scale property redevelopment that incorporates hotels, residential facilities, and amenities.¹¹ The GCC countries have also sought to attract financial sector clusters along the lines of the Bahrain Financial Harbor, the Dubai International Financial Center, and the Qatar Financial Center, which created a free zone for international banks and investment companies in 2005. Dubai has emerged as a regional hub for a variety of services, including e-commerce, finance, biotechnology, and health care, and even international film (with the Dubai media city). Oman, meanwhile, is positioning itself to become a regional hub for information technology-enabled services, and Qatar is emerging as a

¹¹ Examples include the Cairo Hills and Marassi developments in Egypt, both of which are multibillion-dollar projects.

hub for both health care services and education, with the recently established Hamad Medical City and Education City, which are designed to attract overseas institutions to set up campuses (including Cornell University) while promoting the development of knowledge-intensive industries.

3.2.3 Quantifying progress

As with trade policy, MENA's business climate was evaluated in terms of its current status and its progress in reform, relative to the world. First, the business climate in 2007 was evaluated based on available data for the following eight indicators: ease of starting a business, ease of closing a business, ease of hiring and firing, ease of contract enforcement, ease of dealing with pertinent licenses, ease of paying taxes, ease of registering property, and the degree to which investors are protected. In each of these areas, a variety of information about the ease of doing business was used, often including average time, cost, and total number of procedures required for each business obligation (see appendix B for a fuller description).

In addition to evaluating the current status of the business environment, the progress with reform of the business climate was evaluated in two ways. As with past *MENA Economic Developments and Prospects* reports, business reform was evaluated for the longest period possible (2003–07) by evaluating the progress made along four different fronts (the four areas for which information was available starting in 2003): starting a business, hiring and firing, enforcing contracts, and closing a business. From these data, an overall reform progress index was calculated, reflecting the average progress along all four fronts, expressed as a cumulative frequency distribution.

Additionally, this year's *MENA Economic Developments and Prospects* report began to analyze business reform more broadly, looking at the change in the composite business climate index from 2005 to the present and using the data from the eight indicators noted above. The first year all eight areas of the business climate are available is 2005. This more accurately reflects overall changes in the business climate, albeit over a short time period.

Over the past four years, MENA has lost significant ground with respect to reform of the business climate, ranking in the bottom third worldwide (29th percentile) and lower than any other region of

the world (see table 3.4). Only a few countries in the region have kept pace with business reform efforts occurring worldwide, including Egypt, Oman, Saudi Arabia, and Tunisia, but the majority of countries have slipped in terms of their worldwide ranking with respect to the four key areas of the business environment for which data are available since 2003.

The majority of the region's progress in reform of the business regulatory environment over the past four years has centered on improving the ease of starting a business (and several of the resource-poor countries, including Egypt, Jordan, and Morocco, have made significant inroads in facilitating business start-up procedures and lowering start-up costs). But the region has not kept pace with reforms in hiring and firing, contract enforcement, and business closure. The lack of progress in the area of contract enforcement is particularly troubling, as it is an especially problematic area for the region (with the region ranking on average close to the bottom third worldwide).

Among the strong reformers over the past four years, Oman has demonstrated the strongest overall effort, ranking in the 69th percentile worldwide, reflecting significant improvements in both hiring and firing and business closure. In Egypt, the strong business reform effort reflects across the board improvements in the processes required for starting a business. In 2007, the government cut the minimum capital required to start a business from 50,000 Egyptian pounds (US\$9,150) to 1,000 pounds (US\$180) and halved the start-up time and cost. Saudi Arabia was also a strong reformer, focusing its efforts on improving the business start-up process. Previously, \$125,000 (or 1,057 percent of per capita income), 13 procedures, and a process of almost five weeks were required to set up a company. The national competitiveness center, established in June 2006, quickly eliminated the capital requirement, and as a byproduct decreased the number of procedures to seven, while the registration time declined from 39 to 15 days.

By far, the least progress in reform has occurred among the resource-rich, labor-abundant group, where Iran, Syria, and Yemen all rank in the bottom decile worldwide with regard to reforms of the business climate.

The business reform index captures the MENA region's progress with reform across several fronts (including the ease of starting a business, closing a business, hiring and firing, and enforcing contracts)

Table 3.4: Business and regulatory reform

Percentile rank

Country/region	Current business environment 2007 ^a	Reform progress, 2003–07 ^b
Algeria	30	51
Djibouti	11	—
Egypt, Arab Rep. of	20	61
Iran, Islamic Rep. of	21	1
Iraq	37	—
Jordan	49	37
Kuwait	77	12
Lebanon	42	3
Morocco	31	17c
Oman	76	69
Saudi Arabia	87	55
Syrian Arab Republic	23	8 ^c
Tunisia	49	52
United Arab Emirates	54	6
West Bank and Gaza	33	—
Yemen, Rep. of	63	10
Regional averages (unweighted)		
MENA	44	29
Resource-poor, labor-abundant	32	42
Resource-rich, labor-abundant	35	17
Resource-rich, labor-importing	73	35
East Asia and Pacific	63	45
Europe and Central Asia	56	63
Latin America and the Caribbean	47	46
High-income OECD	84	63
South Asia	46	33
Sub-Saharan Africa	26	46
World	50	50

Source: Staff estimates from the World Bank Doing Business Indicators.

a. Current business climate (i.e., measured by the business and regulatory composite index) reflects a country's placement in a worldwide ordering of countries. The composite index is based on eight major business-environment indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country or countries with the most friendly business policies worldwide.

b. Reform progress reflects the improvement in a country's rank between 2003 and 2007 in a worldwide ordering of countries, based on four major categories of business and regulatory reform policies available in 2003 and 2007, expressed as a cumulative frequency distribution, with 100 reflecting the country or countries that exhibited the greatest improvement in rank and 0 reflecting the country (countries) that exhibited greater deterioration.

c. The business reform index for 2003–07 is significantly changed from the 2007 report (evaluating reform over the 2003–06 period), primarily because of changes to the underlying historical data.

— = data not available.

over the longest time period available (since 2003). Other important elements of business reform—such as dealing with licenses, protecting investors, registering property, and paying taxes—are not reflected in table 3.5. In an effort to gauge reform across the broader business environment (across all eight areas of doing business), figure 3.3 presents the change in the current business climate index for MENA economies between 2005 and 2007, based

on the eight available business climate-related indicators. This more accurately reflects overall changes in the business climate, albeit over a short time period.

Over the past two years, MENA countries on the whole have exhibited deterioration in their ranking worldwide with respect to the broad spectrum of indicators of the business climate. Between 2005 and 2007, the business climate index in MENA (for

Table 3.5: Quality of public administration and reform progress

Percentile rank

Country or region	Quality of administration 2007	Quality of administration reform progress 2000–07
Algeria	32	11
Bahrain	75	62
Egypt, Arab Rep. of	42	94
Iran, Islamic Rep. of	30	38
Jordan	54	22
Kuwait	55	29
Libya	4	15
Morocco	75	90
Oman	56	28
Qatar	61	82
Saudi Arabia	71	92
Syrian Arab Rep.	13	48
Tunisia	73	75
United Arab Emirates	44	2
Yemen, Rep. of	23	18
Regional averages (unweighted)		
MENA	47	47
Resource-poor, labor-abundant	61	70
Resource-rich, labor-abundant	24	29
Resource-rich, labor-importing	53	44
East Asia and Pacific	46	50
Europe and Central Asia	54	64
Latin America and the Caribbean	43	42
High-income OECD	89	48
South Asia	34	51
Sub-Saharan Africa	31	45
World	50	50

Source: See appendix B for the methodology behind the governance indexes.

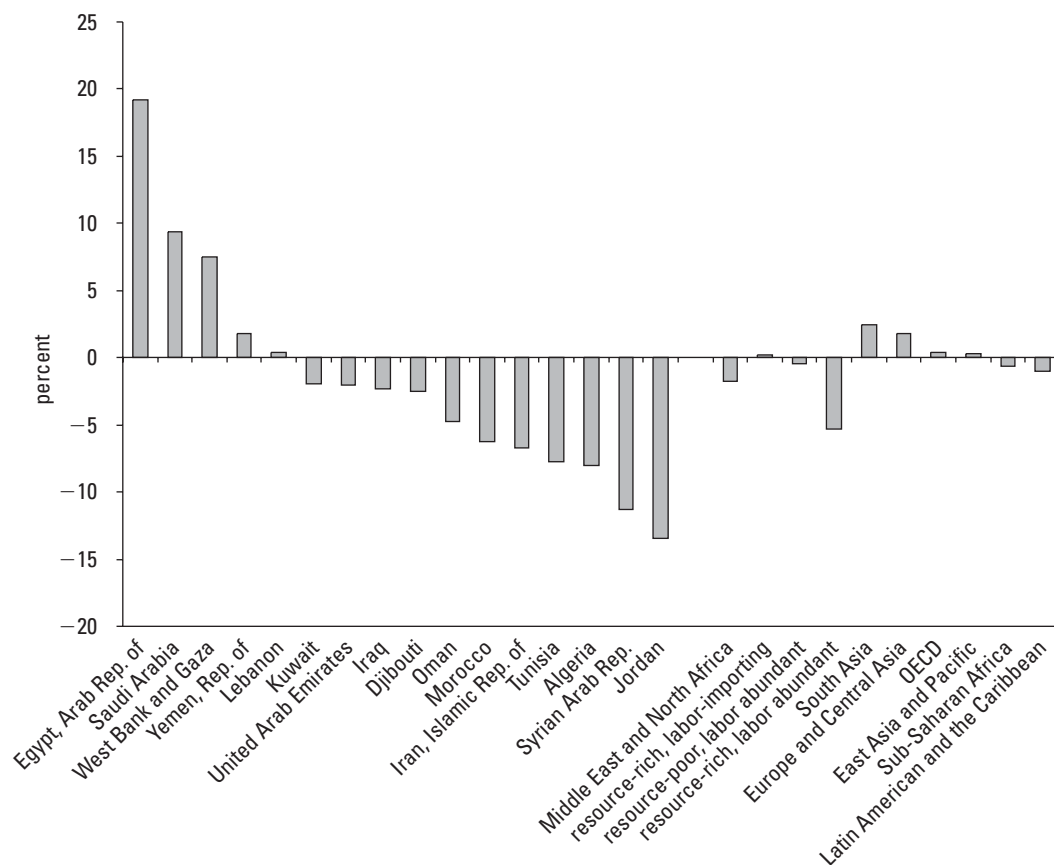
Note: Current status reflects a country's current placement in a worldwide ordering of countries, based on a variety of indicators of quality of public administration, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country or countries with the best or most efficient public administration worldwide and 0 reflecting the country or countries with the weakest or most inefficient public administration worldwide. Reform progress reflects the improvement in a country's ranking between 2000 and 2007 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.

the group of countries with data available both years) fell from an average of the 46th percentile worldwide to the 44th percentile. The greatest deteriorations in the business climate have taken place among resource-rich, labor-abundant countries (with significant declines in Algeria, Iran, and Syria), which as a group have fallen over the past two years from an average of the 40th percentile to the 35th percentile.

Egypt has made the greatest progress in the past two years in improving the overall environment for

business. Its ranking has risen dramatically since 2005, from the 1st percentile worldwide to the 20th percentile. In addition to the progress Egypt made in facilitating business start-up, it also eased the bureaucracy that builders face in getting construction permits. The cost of registering property was also reduced, from 3 percent of the property value to a low flat fee. Strong progress also took place in Saudi Arabia with respect to improvements in the ease of starting a business, protecting investors, and facilitating contract enforcement.

Figure 3.3: Change in business climate index, 2005–07



Source: World Bank estimates.

Note: The figure reflects absolute change in the current business climate index (composed using information across eight separate spheres of the business environment). Regional averages are unweighted.

Moving forward, the business climate in general remains problematic for the MENA region, with both resource-poor and resource-rich, labor-abundant economies ranking close to the bottom third of countries worldwide.¹² Contract enforcement is a common area of weakness, ranking on average in the bottom third worldwide. The process for enforcing business contracts is both time-consuming (requiring about 2 years, compared with 1.7 years worldwide) and procedurally heavy (requiring about 45 separate procedures, compared with 38 worldwide). Resource-poor countries additionally suffer from significant difficulties in hiring and firing, and exhibit a lack of safeguards to protect investors. Among resource-rich, labor-abundant countries, the areas of the business climate that stand out as significantly below average center around difficulties with starting a business (primarily

due to high minimum capital requirements) and lack of safeguards to protect investors. Perhaps nothing stands out more than the minimum capital requirements for starting a business. In both Syria and Yemen, the minimum capital required to start a business is more than 2,000 percent of income per capita (in Syria, it's closer to 4,000 percent), compared with an average of 115 percent worldwide.

3.3 Governance Reform

Achieving the transition to more open, market-oriented economies requires fundamental changes in the role of government in some key areas of policymaking and considerable enhancement of its effectiveness in others. The MENA region faces traditional challenges to efficient public sector management, including ensuring the efficiency of the bureaucracy, protecting the rule of law and property rights, controlling corruption and improv-

¹² See table B4, appendix B.

ing mechanisms of internal accountability. Equally important, the region faces challenges of improving public sector accountability and inclusiveness, crucial to guard against poor policies and ensure that the good policies needed to meet MENA's growth potential enjoy legitimacy and are implemented.

3.3.1 *Recent developments*

Over the course of the past few years, MENA countries have taken measures to improve governance in the region. Most of the region's attention has focused on reforming the delivery of public services and improving its quality, reflecting a range of improvements in combating corruption, addressing weaknesses in the judiciary, improving property rights, and streamlining bureaucracy. All of these factors are important determinants in creating a better investment climate, limiting the opportunities for corruption and rent seeking, and lowering the costs for firms to conduct business. But the region has also steadily moved to open the political space in which reforms are embedded. These reforms, more than any, will signal to potential investors a genuine change in the business landscape. It is through these improvements in the accountability of government that continued policy improvements can be ensured.

Resource-poor countries have led the region in public sector reforms, not only those related to improving public service delivery. Over the past couple of years Egypt undertook a number of important changes that aim to improve its business environment, which has served as a catalyst to reform the domestic public administration.¹³ Several measures were introduced to reform the tax and customs codes, streamline registration procedures, and speed up the privatization process. In addition, the Egyptian government recently proposed a number of reform measures (including the early retirement of public sector employees) to reduce redundancies in the public sector.

¹³ The quality of public administration (IQA) index includes seven underlying indicators, three of which are from Doing Business and another two of which are from the Heritage Foundation, covering business regulation and property rights. Both Egypt and Saudi Arabia have made significant progress in the business climate over the past year, thus positively affecting a number of the underlying indicators used in the IQA index. This explains the empirical linkages between this governance index and the business reforms undertaken in both Egypt and Saudi Arabia.

Jordan also has implemented a strong governance reform program, including a recent legislative overhaul that includes a new law on access to information as well as an anti-money-laundering law. In Morocco, following the introduction of an early retirement scheme and no-new-net-hiring policy a couple years back, an anticorruption agency was recently set up, an e-government portal covering some 190 services was launched, and an e-card for citizens was issued to improve services and minimize corruption.¹⁴

Resource-poor countries have made modest advances in the political reform process. In March 2007, some 34 constitutional amendments were passed in Egypt, ostensibly to enable opposition parties to participate more actively in the political process, and in May 2007, the Political Parties Committee approved the establishment of a new party (the Democratic Front). Some plans to move forward with several new laws were outlined, including a law on the exercise of political rights that is expected to introduce an element of proportional representation (with a fixed quota of women) into national elections. In Morocco, elections were held in September 2007, and earlier a law on political parties was passed and the audiovisual sector liberalized. Moroccan civil society is active, and press freedoms are relatively progressive.

During 2007, Yemen's parliament approved the formation of an anticorruption authority, and the government has officially joined the Extractive Industry Transparency Initiative and is taking steps as well to improve internal and external auditing. A public procurement law, procurement manual, and restructured High Tender Board are now in place. A new land registration law was recently passed by the Cabinet, and the land registration authority is undergoing restructuring. Work has also proceeded satisfactorily in various areas of public financial management, including the Automated Financial Management Information System project, income tax system modernization, budget classification and reporting, and preparation of financial law. In the area of civil services reform, good progress has been made toward establishing a biometric identification system (with current rate of completion nearing 80 percent of civil servants) and the civil service fund.

The GCC states have generally maintained more efficient public sectors than the rest of the region,

¹⁴ Ministère de la Modernisation des Secteurs Publics; Report to the World Bank Office in Morocco, December 19, 2007.

but there have been continued actions to improve the quality of the public administration and to open up the political space and allow for greater accountability. On the accountability front, strong actions from a few countries have been undertaken over the past several years. In Bahrain, after full suffrage was granted to all citizens and an independent judiciary was created, the second parliamentary elections in 30 years were held in November 2006. In Oman, a second Consultative Council was elected in October 2007, and progress is seen on the gender front, with proposals to strengthen women's rights. This follows the appointment of Oman's first woman minister with a portfolio in 2004. In Qatar, municipal elections were held for the first time in April 2007, and a new parliament, two-thirds of which is elected by the people, is expected to be formed in 2008. As for Saudi Arabia, the country held nationwide elections for the first time in February 2005 to elect municipal councils.

3.3.2 *Quantifying progress*

Two structural reform indexes were used to quantify the quality of MENA's public administration and public accountability, each measuring both the level and the change of governance ratings relative to the rest of the world. The quality of public sector accountability was assessed using current information on political rights, civil liberties, freedom of the press, and various measures of executive recruitment and participation processes. The composite index includes 11 subindexes collected from Freedom House, Polity, and the International Country Risk Guide.¹⁵ The quality of public administration was assessed using indicators on corruption, bureaucracy, property rights, regulation, and the ease of doing business. Reform progress was measured over the 2000–07 time frame.¹⁶

With respect to the quality of public administration, the MENA region has not kept pace with worldwide reform efforts, ranking on average in the 47th percentile with respect to reform (see table 3.5). This compares with a reform rank of the 57th percentile only last year.

Within the region, resource-poor countries have implemented the strongest efforts to improve public sector administration, ranking in the top 30 percent

of countries worldwide with respect to reform. Especially strong efforts emerged from Egypt, Morocco, and Tunisia. Egypt was the 2007 top world reformer in doing business, and Morocco was also a major reformer with respect to starting a business and scored high in terms of business regulation.¹⁷ As for Tunisia, the country's reform efforts encompassed the business regulatory environment, the protection of intellectual property rights, and the doing business climate, in particular closing a business.

Resource-rich, labor-abundant economies, on the other hand, continued to lose ground with respect to the rest of the world in terms of the quality of the public sector administration, with the group now ranking in the bottom quarter of countries worldwide.

Among the GCC countries, the quality of administration has generally been superior, ranking on average in the 61st percentile worldwide. Over the past seven years, the resource-rich, labor-importing group has kept pace with worldwide improvements in the quality of public sector administration, with particularly strong efforts from Bahrain in the areas of business regulation and intellectual property rights protection.

With regard to the accountability of government, the MENA region continues to demonstrate significant progress over the past several years (table 3.6). In terms of reform efforts, the region ranks at the 64th percentile, which is the highest worldwide. The resource-rich, labor-importing group has demonstrated the strongest reform effort, ranking in the 74th percentile. Bahrain and Kuwait made particularly strong progress over the past few years, reflecting improvements in terms of democratic accountability (in the case of Bahrain) and freedom of the press (the case of Kuwait).

Despite this, much more needs to be done on the public sector accountability front. The region has begun to see the impacts from reform, with growing private sector investment and private employment over the past several years. However, the continued impacts of these trade and business reforms, within the context of a globally competitive economy, are limited by the environment in which policy is made and administered. Continuing and significantly strengthening this area of reform is paramount.

¹⁵ The most recent data were collected, and, with the exception of the Polity IV indicators, data apply to 2007.

¹⁶ See appendix B for a description of the methodology behind the governance indicators.

¹⁷ Improvement reflected by the index was computed by the Heritage Foundation.

Table 3.6: Public sector accountability and reform progress

Percentile rank

Country or region	Public sector accountability 2007	Public sector accountability reform progress 2000–07
Algeria	27	56
Bahrain	25	94
Egypt, Arab Rep. of	23	75
Iran, Islamic Rep. of	22	8
Jordan	34	62
Kuwait	32	77
Libya	0	45
Morocco	32	77
Oman	17	88
Qatar	14	65
Saudi Arabia	5	68
Syrian Arab Rep.	8	67
Tunisia	20	30
United Arab Emirates	20	84
Yemen, Rep. of	19	57
Regional averages (unweighted)		
MENA	20	64
Resource-poor, labor-abundant	27	61
Resource-rich, labor-abundant	19	47
Resource-rich, labor-importing	16	74
East Asia and Pacific	39	41
Europe and Central Asia	53	56
Latin America and the Caribbean	57	42
High-income OECD	91	48
South Asia	37	29
Sub-Saharan Africa	36	53
World	50	50

Source: See appendix B for the methodology behind the governance indexes.

Note: Current status reflects the country's current placement in a worldwide ordering of countries, based on a variety of indicators of public sector accountability, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best or most accountable governance structure worldwide and 0 reflecting the country (countries) with the weakest or least accountable governance structure worldwide. Reform progress reflects the improvement in a country's worldwide ranking between 2000 and 2007 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.