

Launch event, Cairo, November 9 2009

MENA DEVELOPMENT REPORT

تقرير التنمية لمنطقة الشرق الأوسط وشمال إفريقيا

From Privilege to Competition

Unlocking Private-led Growth in
the Middle East and North Africa

من الامتيازات إلى المنافسة:

فك قيود النمو الذي يقوده القطاع الخاص
في الشرق الأوسط وشمال إفريقيا



THE WORLD BANK



البنك الدولي

Outline

1. *Introduction: job creation, private sector and growth*
2. Is there really a private sector performance problem in the MENA region?
3. Is it because of insufficient reforms?
4. Why has the response to reforms been lower than in other regions?
5. Consequences of a business environment that is not the same for all.
6. Looking forward: What does this mean concretely for the reform agenda?

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Why a report on private sector development in MENA?

- Polls show that jobs is the #1 issue of citizens of the Arab World.
- 40 million jobs need to be created in the coming decade in MENA.



- These jobs will need to come from the private sector.
- Public agencies and state-owned enterprises cannot create sufficient jobs in a sustainable manner.
- Private enterprises will invest and create jobs only in a conducive business environment

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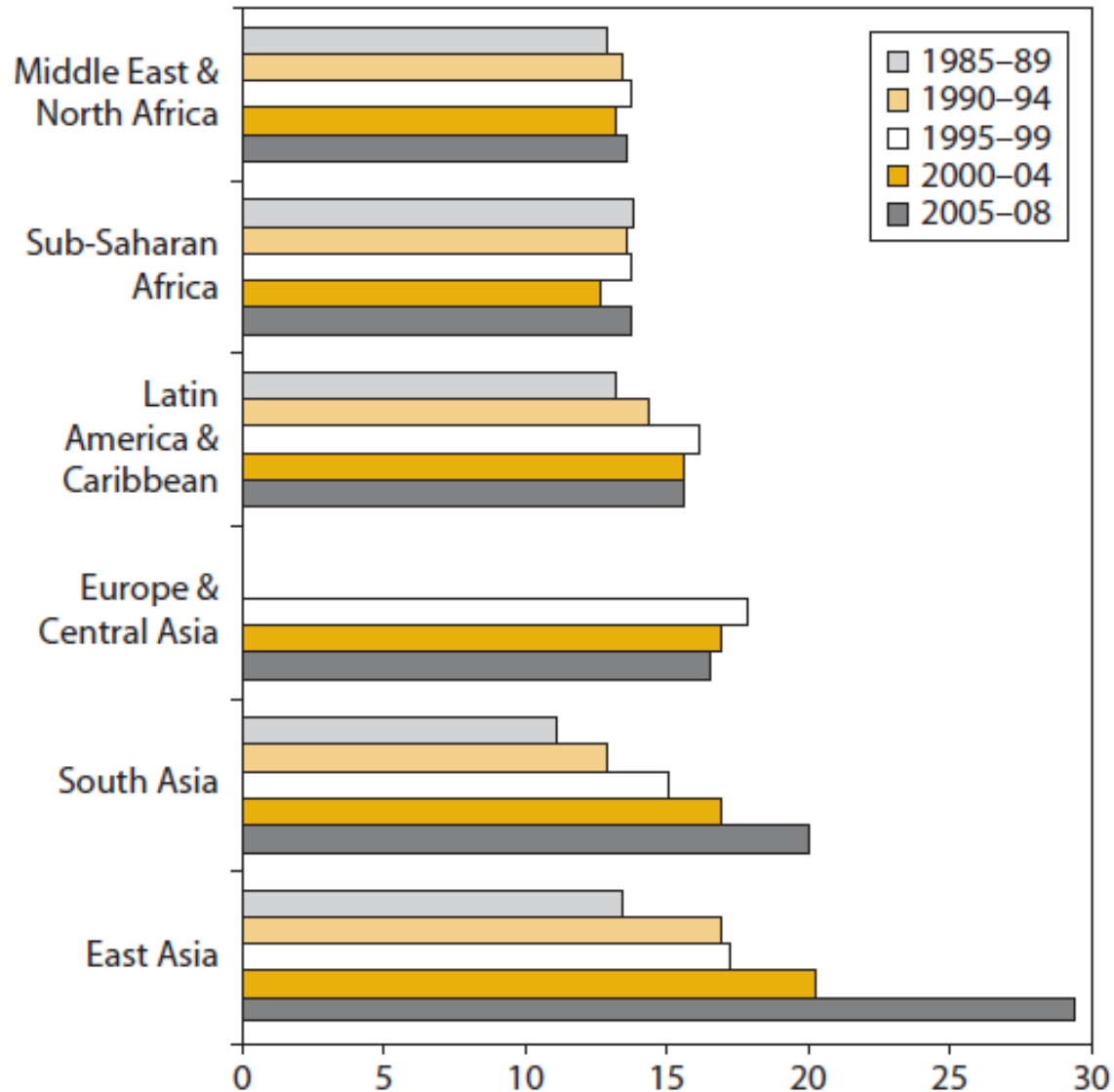


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Insufficient performance of the private sector: private investment.

Stagnating Private Investment Rates *(percent of GDP)*



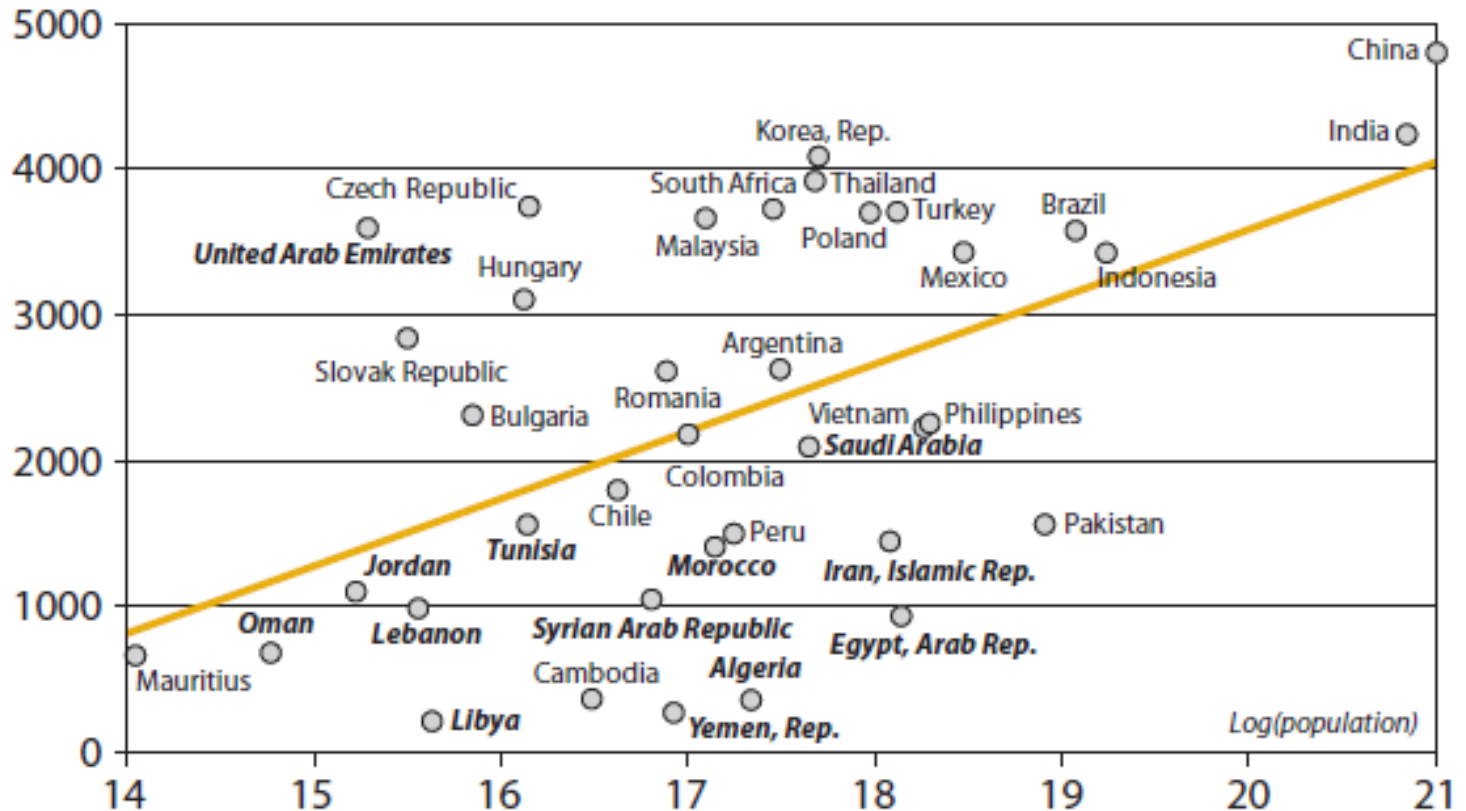
Sources: World Development Indicators, national accounts, International Monetary Fund (IMF).

Insufficient performance of the private sector: diversification of exports

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Lower Diversification of Exports

(Number of products exported)



Source: Comtrade, 1995–2007 six-digit data.



Outline

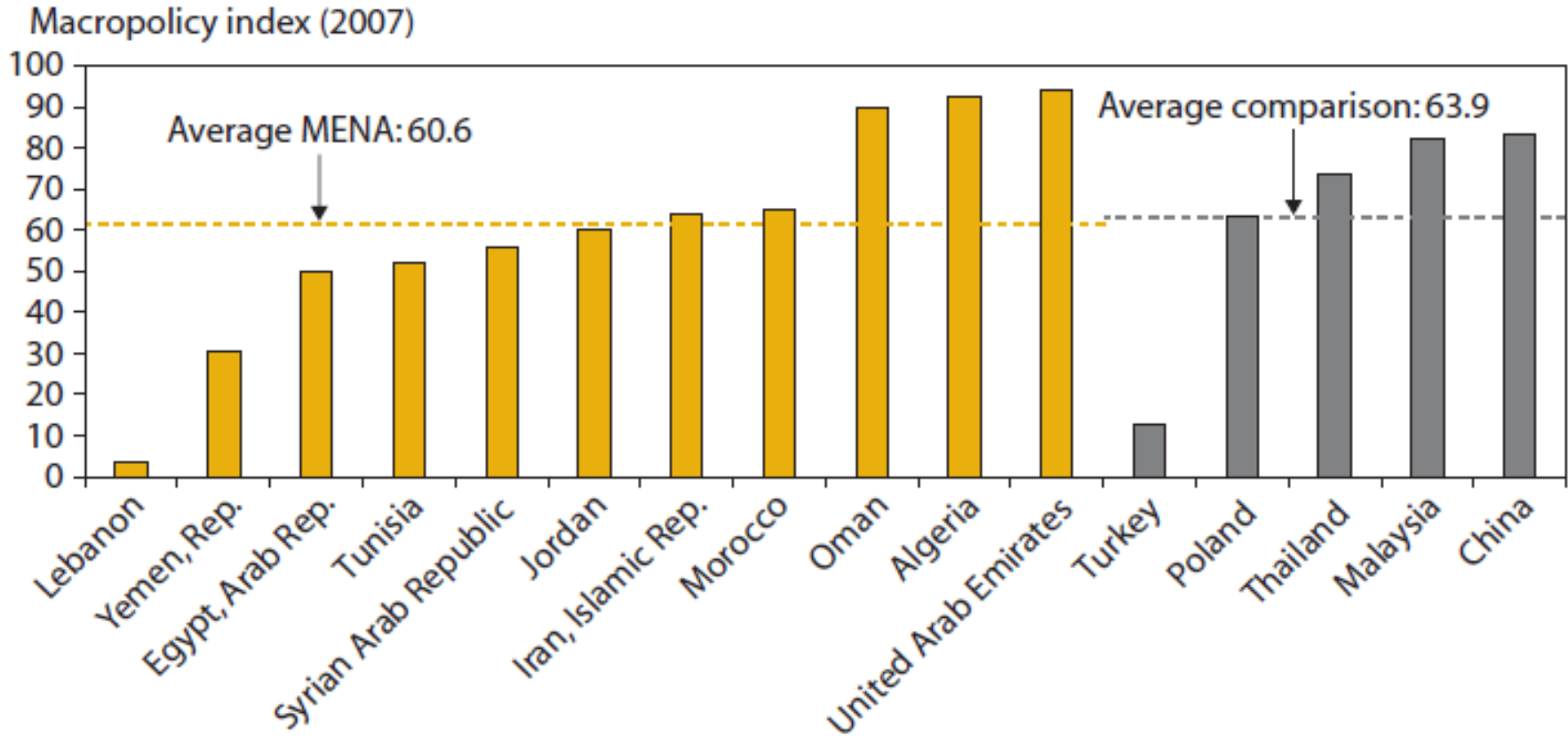
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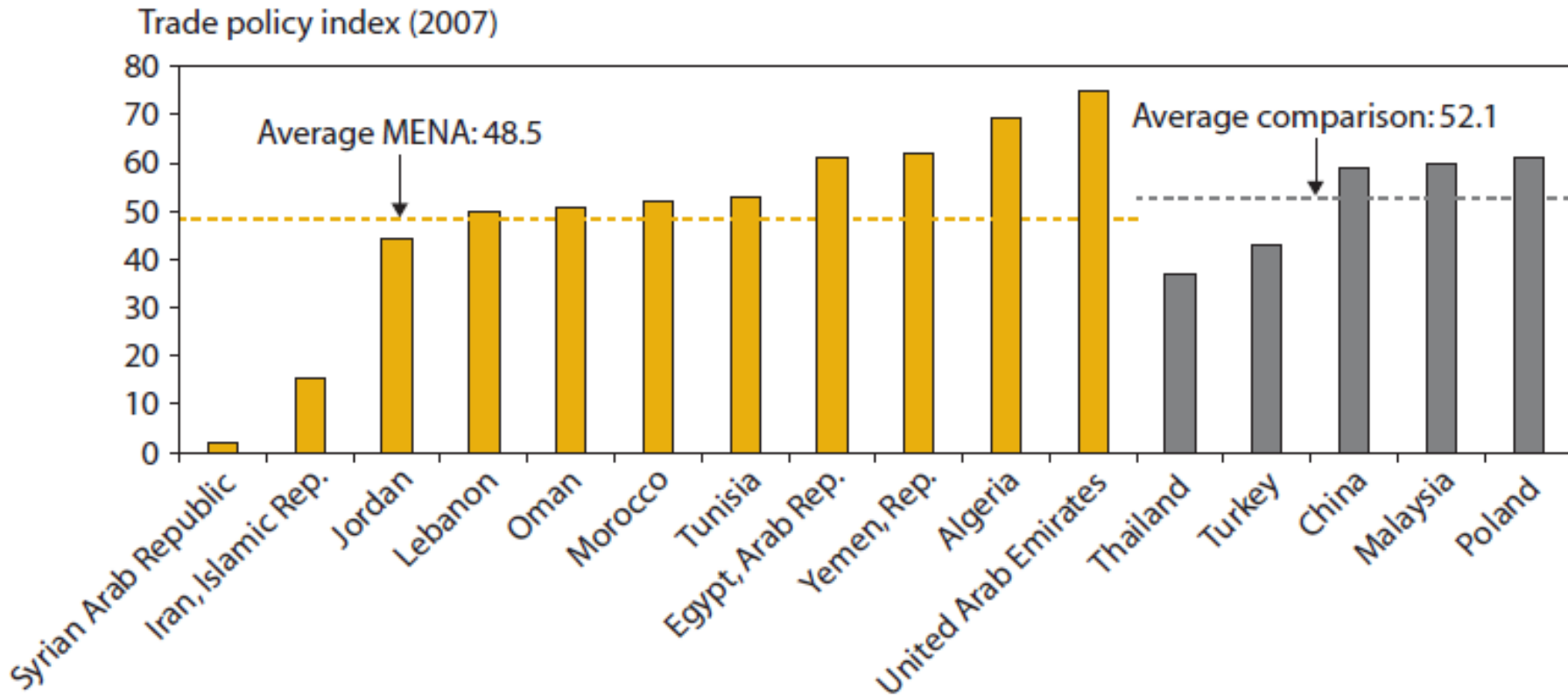
Insufficient macro reforms? Other countries have grown fast with similar conditions.

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[Higher is Better]

Insufficient trade policy reforms? Other countries have grown fast with similar conditions.



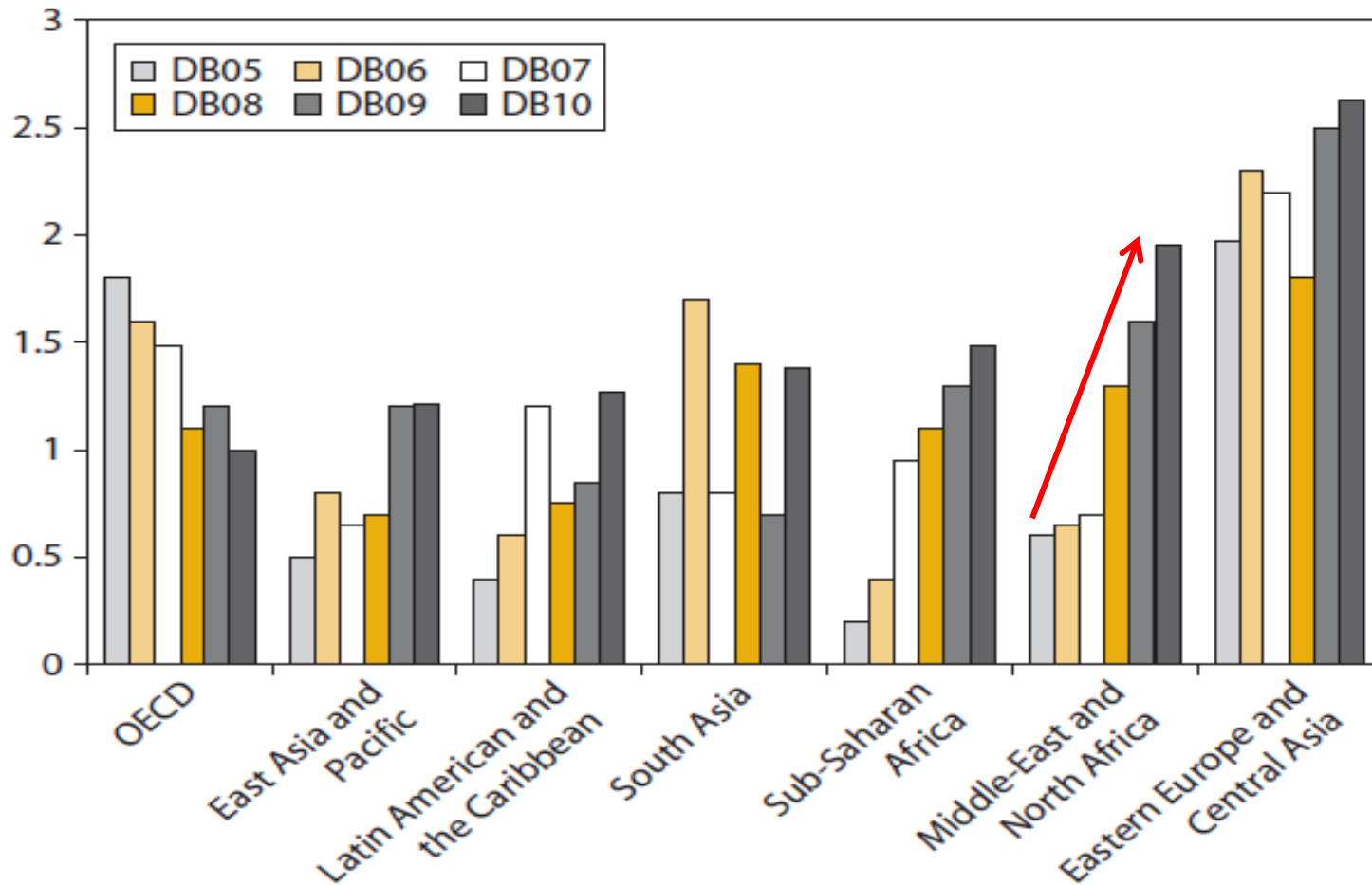
[Higher is Better]

Is the response on its way? Reforms have picked-up recently.

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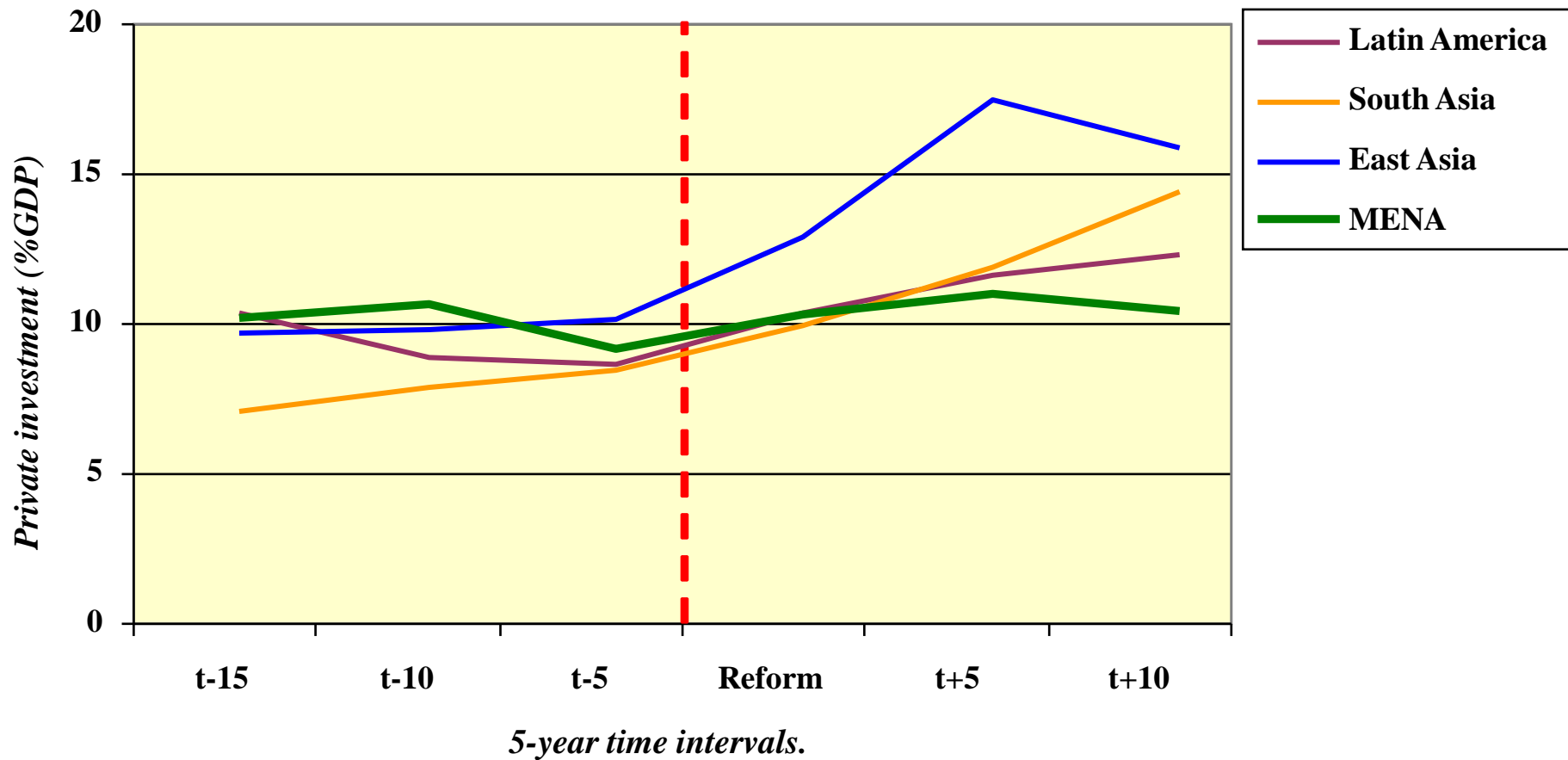
The Number of Regulatory Reforms Has Increased Recently in MENA Countries
(average number of regulatory reforms per country, as measured by the Doing Business report)



Source: Doing Business reform database (www.doingbusiness.org).

The problem is with the insufficient response to reforms.

Private investment response to structural reform episodes



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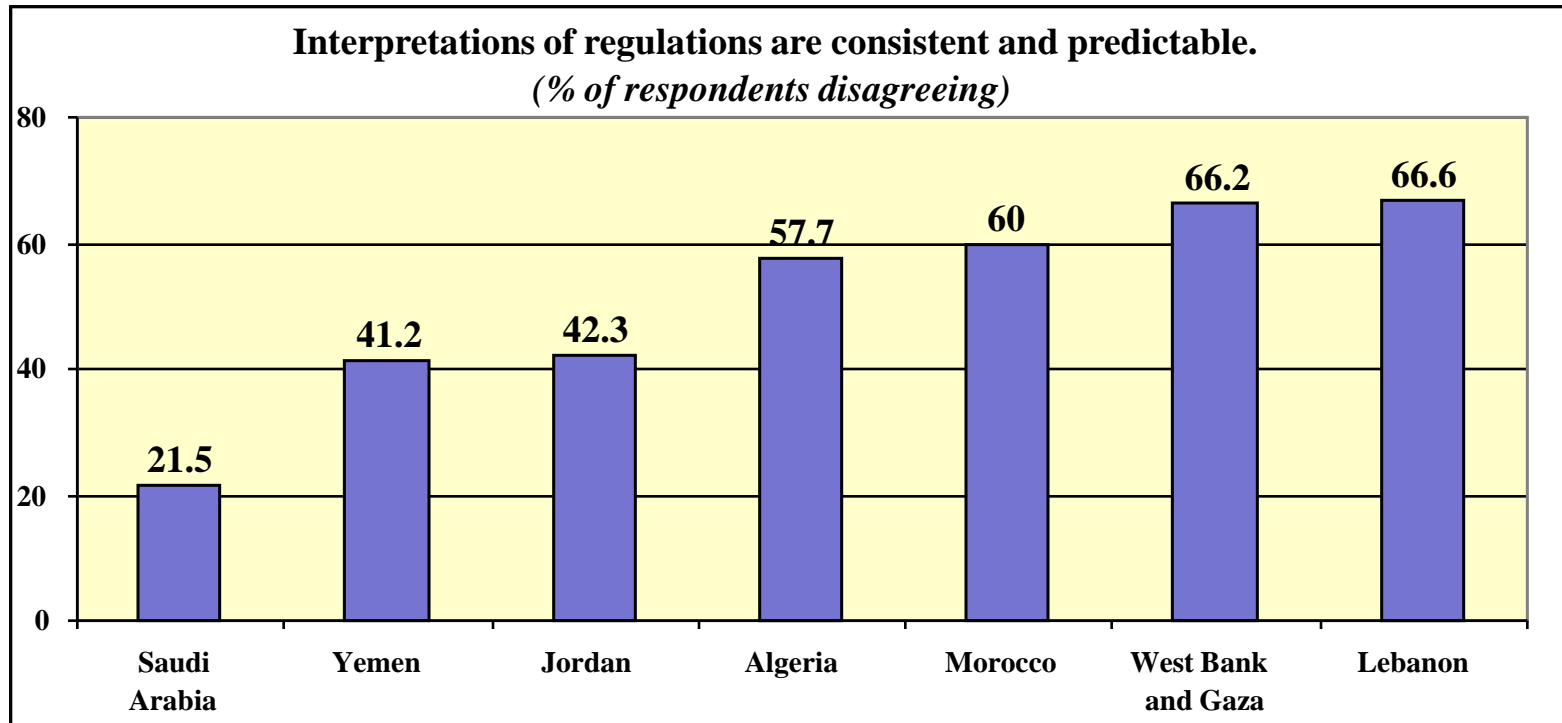
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An unpredictable regulatory environment (not the laws so much, but the consistency with which they are applied)

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Source: World Bank Enterprise Surveys

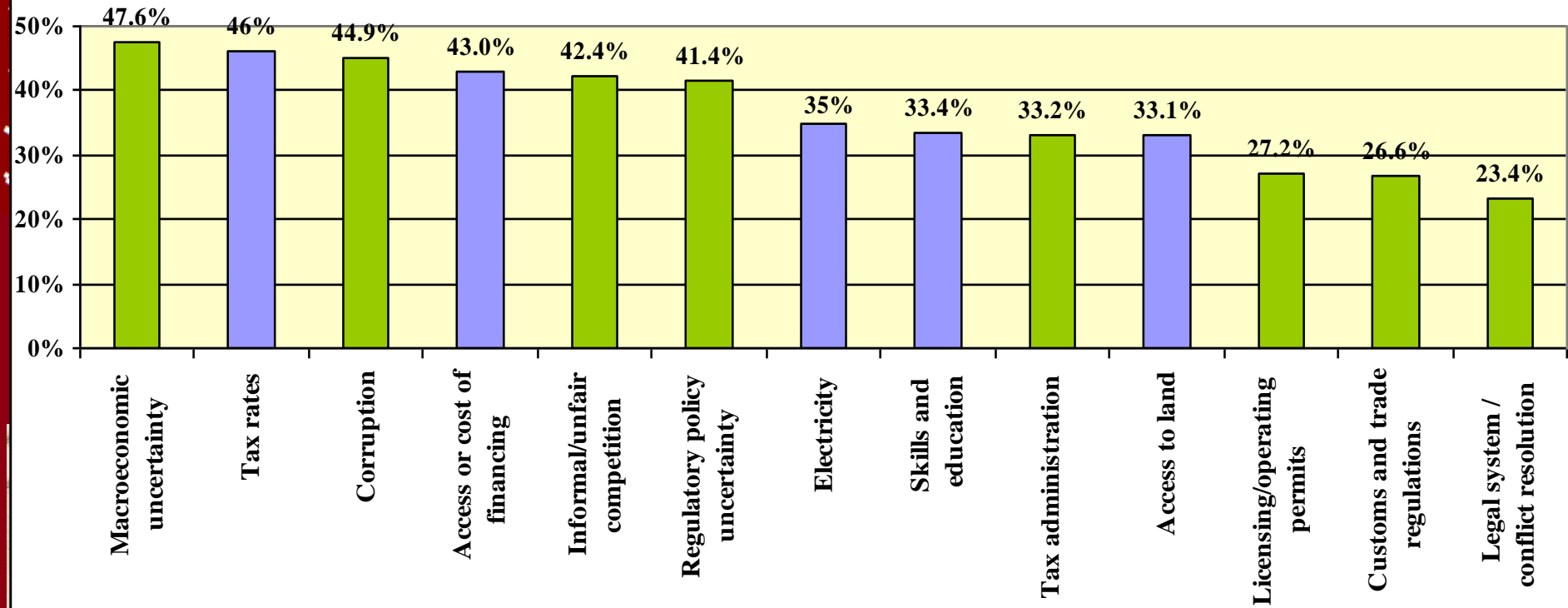


Credibility of governments: what private managers see as their leading constraints.

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Leading constraints to MENA firms.

(simple average of a country's share of firms ranking a constraint as "Major or severe")



Source: World Bank Enterprise Surveys

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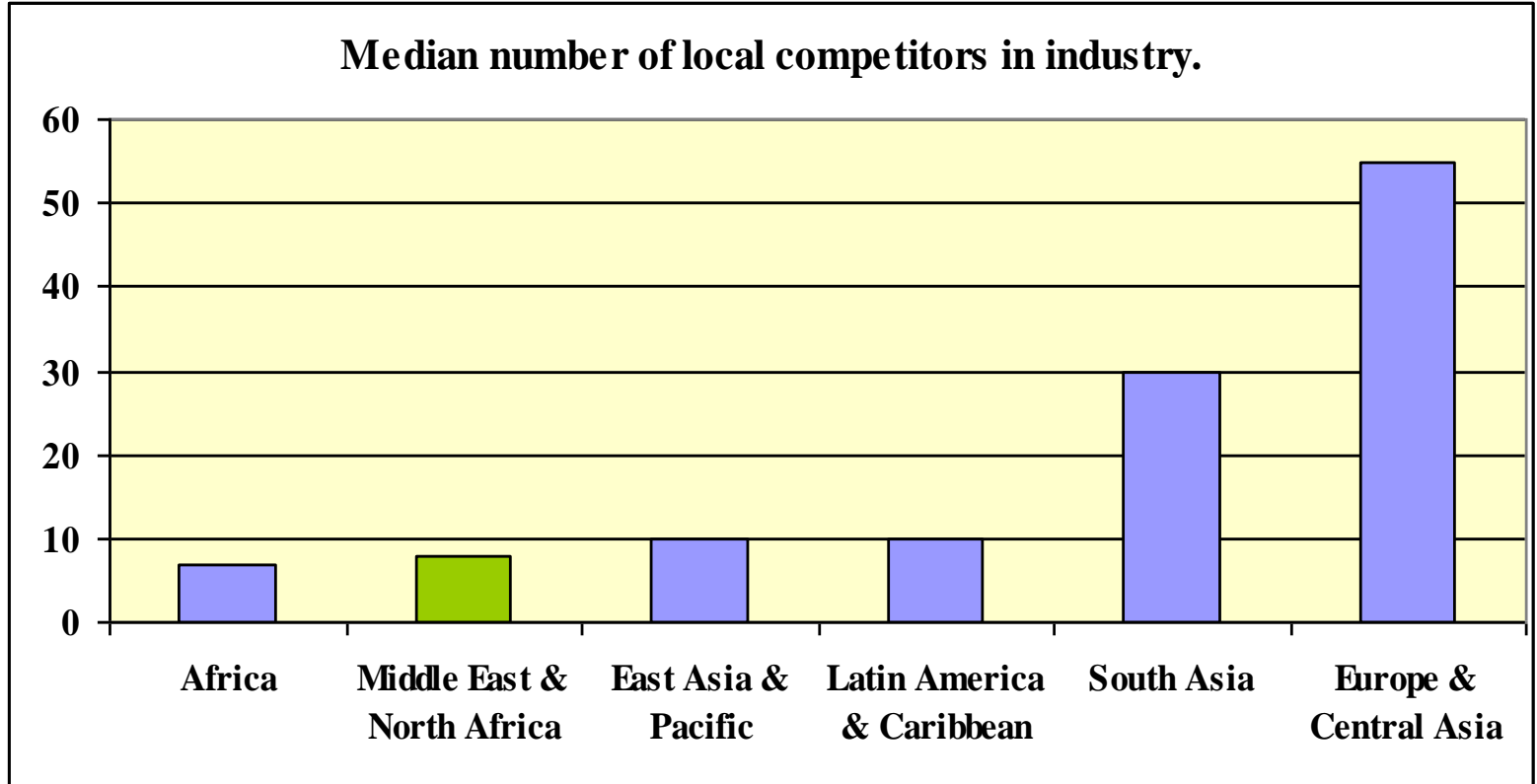
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A business environment of privilege (1/3): less entry means less competition.

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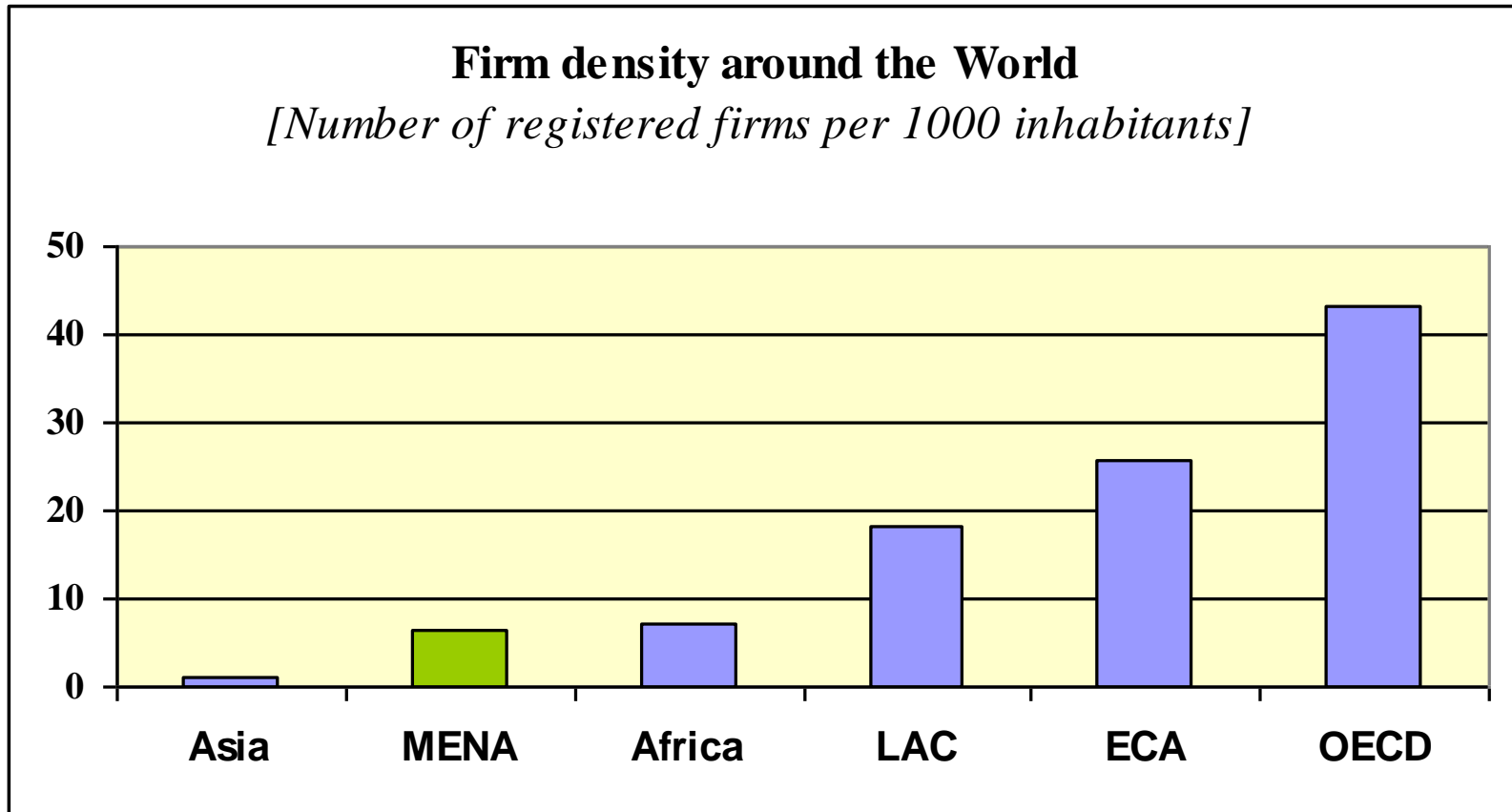


Source: World Bank Enterprise Surveys



A business environment of privilege (2/3): less entry means fewer firms.

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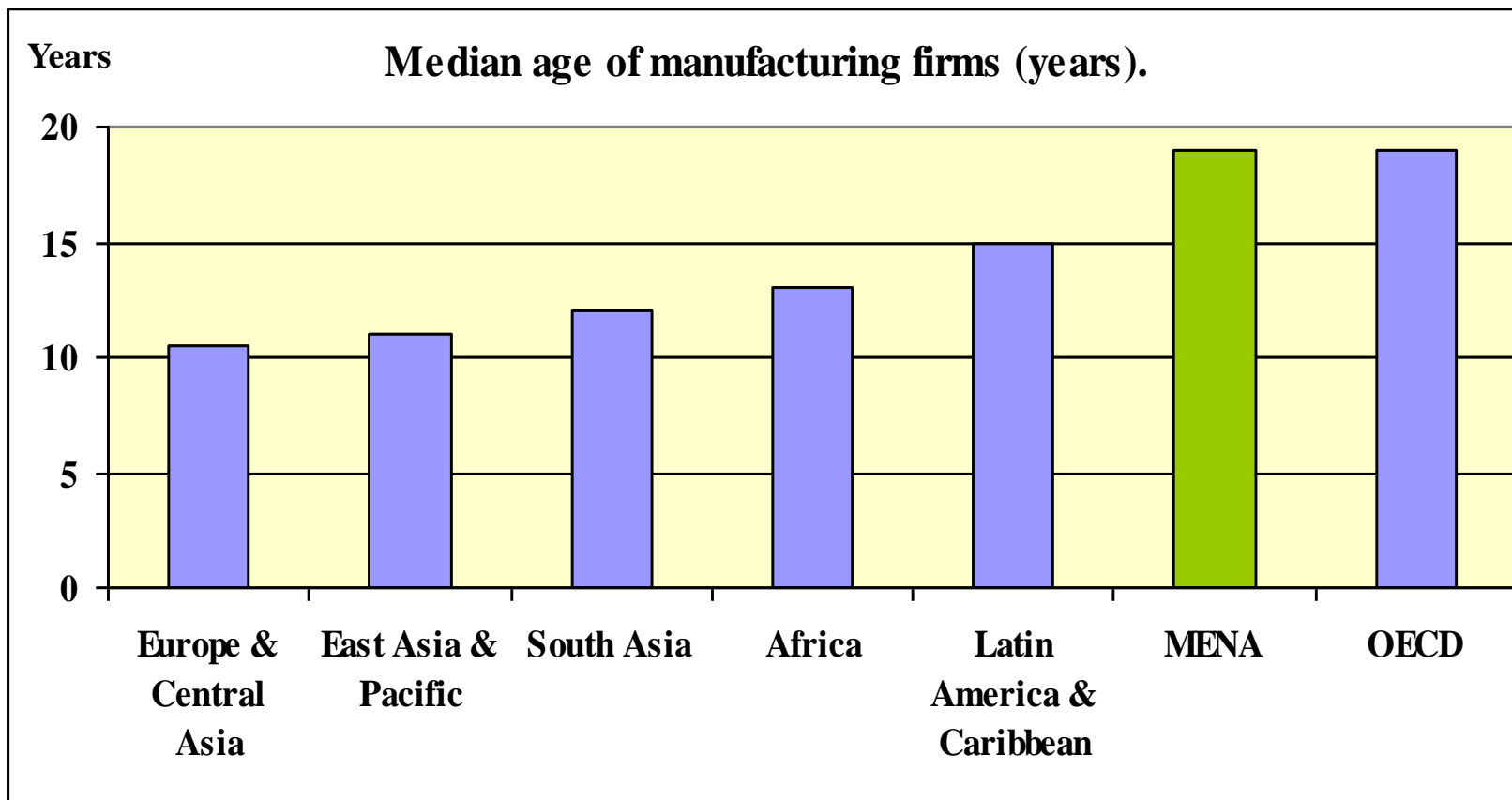


Source: World Bank Enterprise Surveys



A business environment of privilege (3/3): less entry and exit means older firms.

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Source: World Bank Enterprise Surveys



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What will it take to strengthen private sector development, job creation and growth in MENA?

- It's about missing reforms in some areas and some countries (especially oil-rich countries).
- But, more importantly, it's about:
 - Leveling the playing field.
 - Predictability in the way rules are applied.
 - Credibility in reforms (ie. that things are really changing)
- In other words, it's about public governance reforms of those institutions that interact with firms, and that regulate markets, and getting at the rents and barriers to entry.



*To put it simply
(quote from a participant at a regional seminar)*

"Why a seminar on the knowledge-based economy?
Our economy is totally based on "knowledge" or
rather "knowing". To do anything in our country, you
have to know someone "

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High-impact reforms are not easy to implement

- Improving the investment climate often means reducing sources of rents and conflicts of interest.
- Problems of intergovernmental coordination to implement reforms.
- Bureaucracies that suffer from arbitrary application of laws.
- Lack of transparency, coordination and accountability in public administrations that deal with the private sector.
- Oil revenues weaken reform motivation.
- **The voice of the private sector often dominated by the defenders of the status quo.** Insufficient demand for reform from the private sector itself

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The demand for reform is often weak. Does the organized private sector want reform?

Two private sectors, but only one that has effective voice:

	<i>Top three advocacy priorities of main business associations</i>	<i>Top three constraints of enterprises</i>
Lebanon	1. Regulatory	1. Corruption
	2. Tax incentives for investment, gov ^t . support	2. Cost of financing
	3. Support to specific sectors/industrial strategy	3. Corporate tax rates
Syria	1. Tax incentives for investment, gov ^t . support	1. Corruption
	2. Support to specific sectors/industrial strategy	2. Corporate tax rates
	3. Infrastructure	3. Electricity
Yemen	1. Infrastructure	1. Macroeconomic uncertainty
	2. Reduced corporate taxes	2. Corporation tax rates
	3. Training subsidies	3. Corruption
Morocco	1. Training/education system	1. Cost of financing
	2. Support to SMEs	2. Corporate tax rates
	3. Reduced corporate taxes/judicial reform	3. Access to land
Iran	1. Support to specific sectors/industrial strategy	1. Regulatory policy uncertainty
	2. Tax incentives for investment, gov ^t . support	2. Macroeconomic uncertainty
	3. Reduced corporate taxes	3. Cost of financing

To strengthen their credibility and impact, private-led growth strategies should include three pillars.

1. Get at the rents:

- ***Remove formal barriers to entry; open trade and investment; reform the banking sector and industrial land markets, etc.***
- ***Reduce conflicts of interests between public servants and investors.***
- ***Address competition issues (e.g. monopolies).***

2. Reform institutions:

- ***Transparency, accountability, measurement.***
- ***Public sector reform, innovation - one institution at a time.***

3. Strengthen the process of policy-making:

- ***Institutionalize channels of private sector consultations.***
- ***Allow entry of independent private sector organizations.***
- ***Process of reforms/inter-government coordination.***



2. *Reform institutions: examples.*

- **Diagnostics: measuring public sector performance, uncertainty, monopolistic behavior.**
- **Evaluations of policies, impacts; analysis of beneficiaries.**
- **Information sharing, harmonization among public agencies dealing with firms (e.g. unique identifier), opening-up access to firm-level information.**
- **Public sector reform: process simplification and institutional reform in key areas of interface with the private sector, e.g. customs, tax authority (e.g. GAFI)**

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3. *Strengthen the process of policy making: examples.*

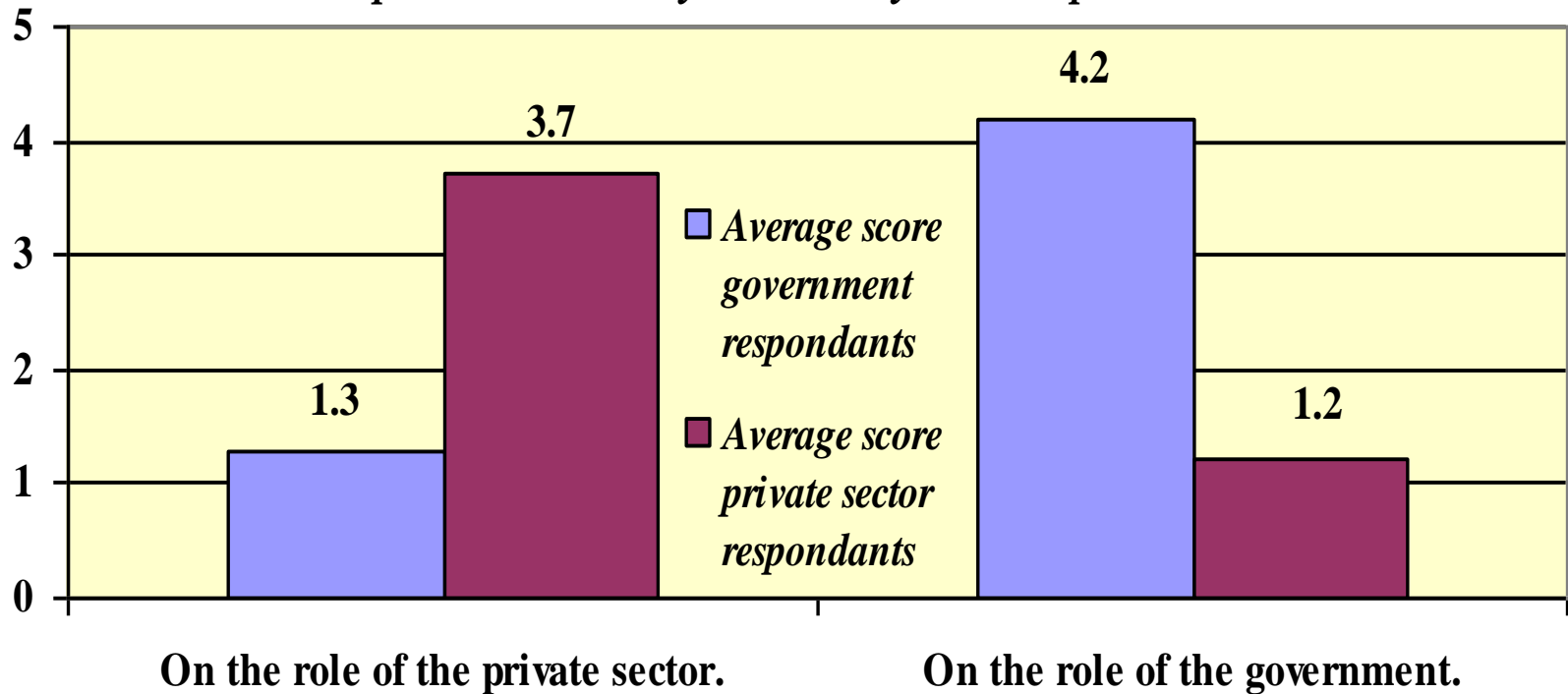
- Institutionalize public-private partnership in the design, implementation and evaluation of policies.
- Improve inter-agency coordination.
- Institutionalize reform processes – e.g. RIA, legal reform commissions, etc.



Improving public-private dialogue is not easy.

Mutual distrust between the private sector and governments

How would you rate the respective roles of the government and the private sector in your country's development?



Source: Flagship report survey of 103 public officials and 114 entrepreneurs of the region

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Most
important

لمنافسة:
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Least
important



Egypt: Embracing Competition

" ...[W]e are carrying out the reforms of business environment for the sake of small and medium enterprises, for companies that have no privileges, for companies that can't survive or grow without facilitating the path for their very existence. We should continue removing obstacles, getting rid of bottlenecks, deal with inefficiencies, and create a competitive platform for businesses. We should do this for the emerging new generation of entrepreneurs who are pushing for competitiveness, government openness and enhancing competition and contestability."

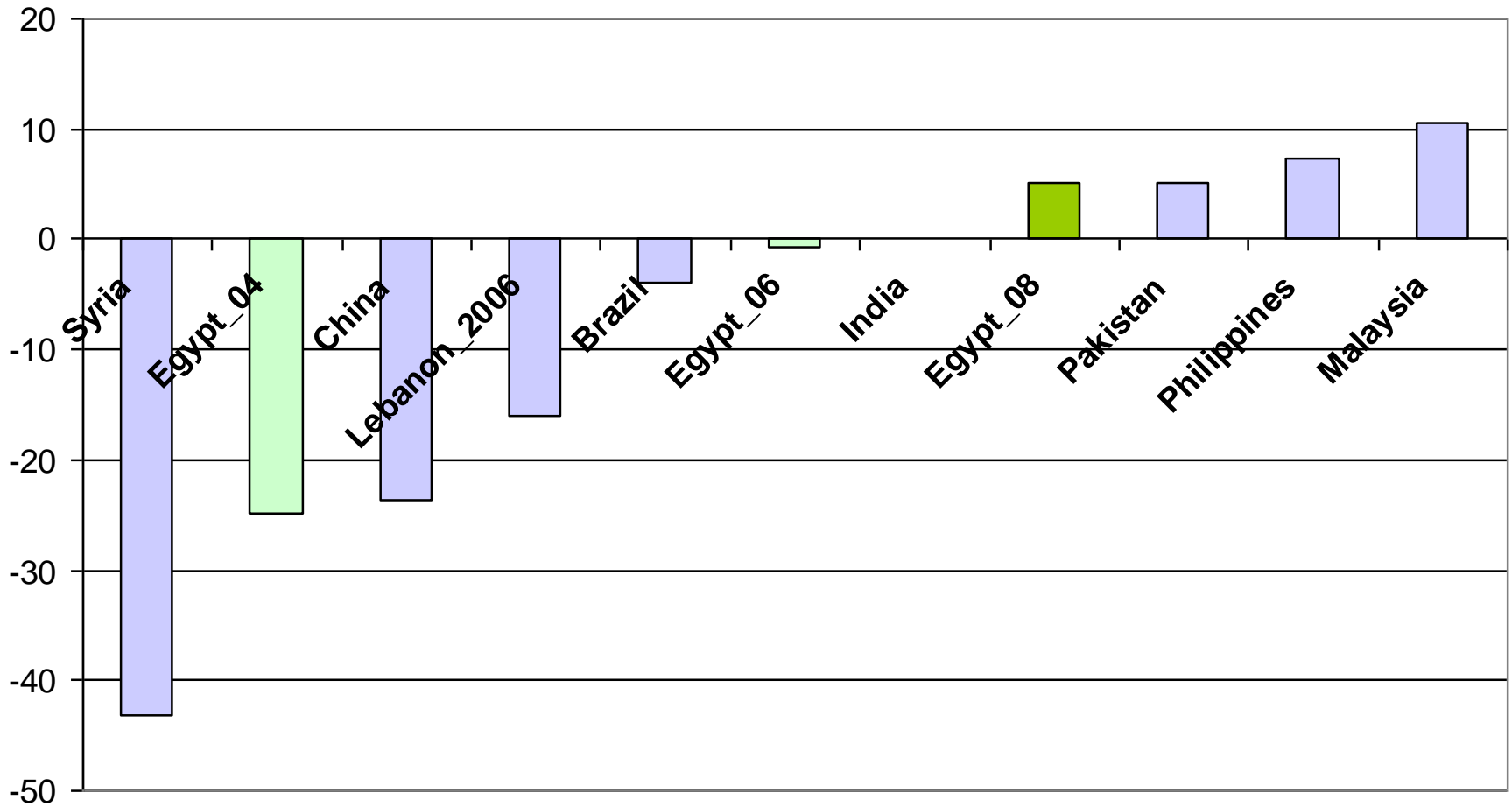
Minister Mahmoud Mohieldin, Rabat, March 2009

Egypt Investment Climate Assessment 2009: Accelerating Private Enterprise-Led Growth

- 5 year national development plan seeks growth using private sector as catalyst and changing government role.
- Poverty Reduction Strategy growth pillar connects poverty reduction to PSD – through employment growth and rising living standards.
- Many reforms since 2004, some quite profound in reducing burden of taxes, tariffs, regulations. Investment, productivity and economic growth have responded.
- Can this growth be sustained and accelerated? Flagship messages emphasize competition, transparency and strong institutions. The ICA focuses as much on process of reform as on its content.

Good news: Productivity Rose

Gap Analysis: Total Factor Productivity, Egypt and Comparators (China=0)



Over time, tax constraints have improved dramatically.

	2004	2006	2008
1	Tax Rates	Macroeconomic Instability	Macroeconomic Instability
2	Macroeconomic Instability	Illegal/Informal Competition	Informal sector competition
3	Regulatory Policy Uncertainty	Corruption	Regulatory policy uncertainty
4	Tax Administration	Regulatory Policy Uncertainty	Worker Skills

Egypt ICA 2009: 6 Principles for Strengthening the Reform Process

- **Better Information**
- **Better Dialogue**
- **Better Planning**
- **Better Procedures**
- **Stronger Institutions**
- **Accountability for Actions and Results**

Egypt Example: Reducing Macroeconomic Policy Uncertainty

- Not just inflation control, but also increasing transparency with which Government formulates policy.
- Reduce policy uncertainty and improve predictability through a clearly announced, well-discussed strategy for macroeconomic policy measures.

Further Enhancing Egyptian Productivity

- Remove remaining constraints to regional and foreign investors.
- Remove barriers to entry and formalization.
- Strengthen competition policy in Egypt, expand competition advocacy. Competition should emerge as a consistent policy perspective carrying through to multiple arenas.

Example: Redesigning the Reform Process (Morocco 2008)



Problems of implementation and inter-ministerial coordination.

Government launched process rooted in principles of good practice:

- 1. Preparation of reforms:** careful selection of priorities; consultation with stakeholders, use of an inter-ministerial coordination process.
- 2. Implementation of reforms:** Assignment of adequate human and financial resources, good monitoring, introduction of a conflict-resolution system, formal quality control procedures.

Streamlined process, standard project cycle; guidelines; new inter-Ministerial Commission to lead decision-making.

Focused institutional reform: Reform of Cairo's One-Stop Shop as a model.

- **Clear mission of investment facilitation.**
- **Strong political support, semi-Autonomy and dedicated revenue source**
- **Permanent, modern office in early 2005.**
- **2004 law merged into one entity all responsible for establishing businesses.**
- **>40 procedures eliminated, others streamlined.**
- **Separation of "front office" and "back office" functions.**

Single document ("contract"), single payment.

Some new hiring (esp. "front office"), new pay and incentive scheme, promotions, training, monitoring.

Decentralizing – delegating decision authority to each OSS.



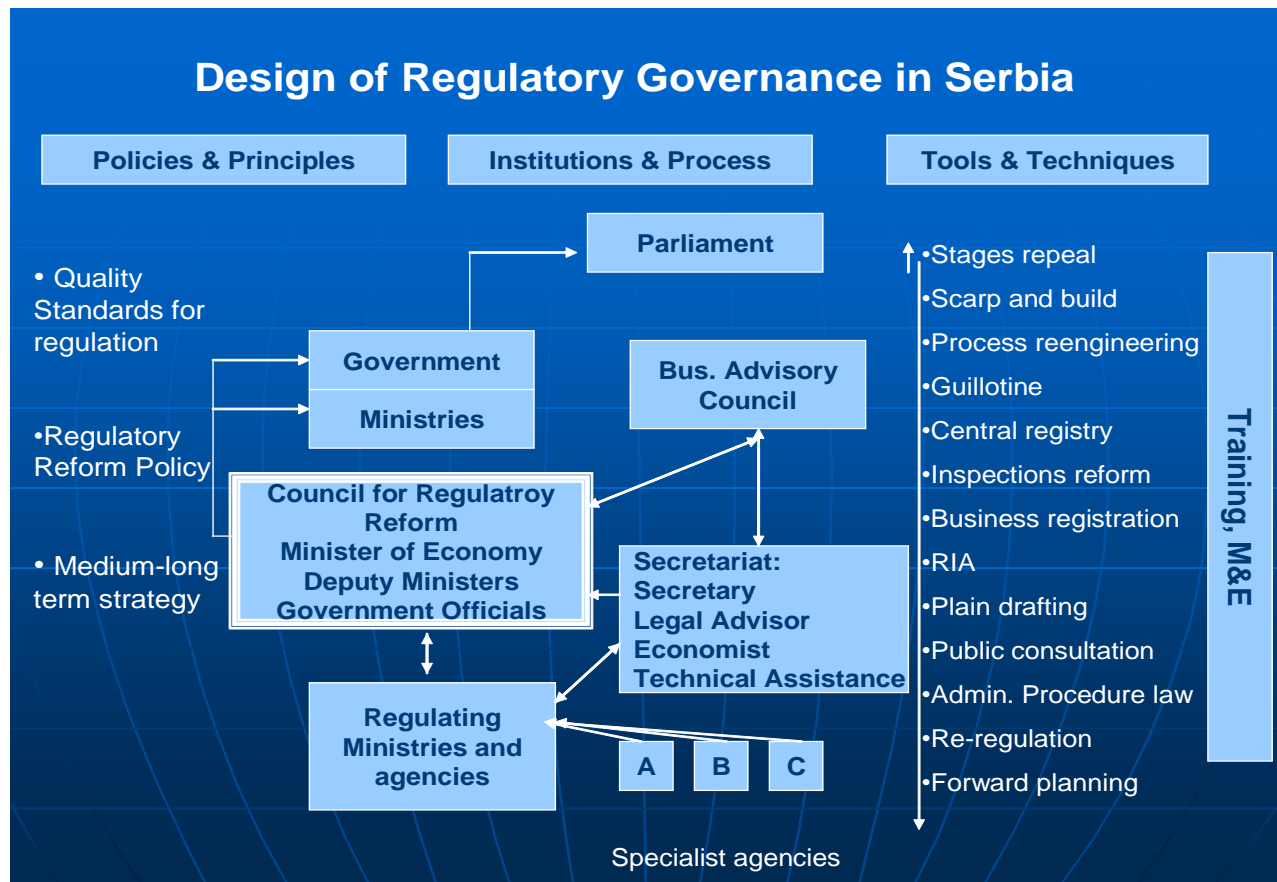
General Authority for Investment



Can it be replicated in other institutions?

Reducing Regulatory Policy Uncertainty

- Some very effective reforms, but piecemeal.
- Can be central, strategic and systematic.



- Egypt's ERRADA program aims in this direction.

Expanding Access to Finance in Egypt

- Reduce regulatory barriers to entry in banking.
- Expand coverage by private, public credit bureaus.
- Strengthen creditor rights, including facilitating the use of movable assets as collateral.
- Improve regulatory framework for non-bank finance.
- Improve bankruptcy law, procedures, to better protect secured creditors, recover or preserve asset value.
- Expand availability of non-interest bearing finance.
- Control inflation, to limit the real cost of credit.
- Support non-governmental channels of microfinance.

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