

## Structural Reform Progress for Long-Term Growth

### 3.1 Introduction

Although continuing high oil prices are expected to contribute to solid growth for oil producers in the medium term and an anticipated recovery in European demand should provide for stronger economic growth among the region's resource-poor, labor-abundant economies, longer-term growth prospects throughout the region depend upon the progress that is made in transitioning to sustainable sources of stronger economic growth and job creation through implementing broad-based structural reform.

Over the past three to five years, MENA has taken a number of steps to transition to more open, private sector-oriented economies with more efficient and accountable governments. With the large windfall revenues accruing to oil producers since 2002, a natural question emerges as to what impact oil is having on the reform process. As noted in chapter 1, the large budget surpluses accruing to oil producers appear to have delayed the imperative for reform of the oil subsidy system in resource-rich economies. Based on structural reform measurements, oil producers<sup>100</sup> have also exhibited weaker

reform progress over the past several years than the region's resource-poor<sup>101</sup> economies have along two major structural reform fronts: improving the business climate and liberalizing trade.

However, the more subdued progress made by oil exporters in these areas of reform in large part reflects lack of improvements among GCC economies, which have traditionally maintained more open and business-friendly trade and investment policies. Perhaps more important, as a group, the oil economies have demonstrated long-awaited progress in governance, an area in which the group demonstrates significant deficit relative to the rest of the world. Specifically, notable progress has taken place over the past five years in enhancing public sector accountability mechanisms, which augers well for continuing reform success. Although oil economies continue to rank in the bottom 20th percentile relative to the rest of the world with regard to measures of public sector accountability (including political and civil liberties, freedom of information, and so forth),<sup>102</sup> over the past five years, oil economies have made greater progress in improving public sector accountability than have all other regions of the world, ranking (on average) in

<sup>100</sup> Resource-rich (oil) economies include (a) resource-rich, labor-importing economies Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates and (b) resource-rich, labor-abundant economies Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen.

<sup>101</sup> Resource-poor economies include Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza.

<sup>102</sup> See appendix B for a description of, and the methodology behind, governance indexes.

the 66th percentile worldwide with regard to improving public accountability.

Worldwide, successful reform efforts have depended critically upon the support and participation of those in society whom reforms will impact. The governance improvements in MENA, by enhancing the accountability of governments and granting greater voice in development to MENA's people, are important not only to take into account the needs and values of those who are affected by reforms but also to ensure that in the transition to a new development model, the economic outcomes are socially acceptable among those who have benefited from the old systems. The MENA region continues to have the greatest gap with the rest of the world with regard to accountable and inclusive governance structures, ranking (on average) in the bottom quintile worldwide. It is thus an important development that both resource-rich and resource-poor economies in MENA are making a start at these vital changes.

With diminishing positive links to the oil economies (and increasing negative impacts from higher oil prices), the resource-poor economies in the MENA region have maintained a solid pace of reform, generally exceeding other regions of the world across all areas of reform. Strong achievements have come in improving the business and regulatory environment (resource-poor economies rank (on average) in the 63rd percentile worldwide with regard to improving the business environment, higher than all other regions of the world but Europe and Central Asia). Trade reform (by reducing average tariffs) has also advanced strongly, largely in connection with recent bilateral and multilateral trade agreements. Led by deep tariff reductions undertaken in Egypt, progress among resource-poor economies outpaced (on average) all other regions of the world, with resource-poor countries ranking (on average) in the 71st percentile with regard to tariff reform. Nonetheless, much greater trade liberalization can take place. The resource-poor economies as a group continue to maintain some of the highest tariffs in the world, ranking in the bottom quartile worldwide with regard to low tariff protection.

Resource-poor economies also made strong advancements in the area of governance. Measures to improve public sector accountability resulted in resource-poor economies ranking (on average) in the 62nd percentile with regard to reform progress over the past five years, second only to the gains made by

the region's resource-rich economies. In improving the quality of public sector administration, however, the group realized even stronger progress. With a number of efforts toward public sector modernization, civil service reform, and anticorruption legislation, resource-poor economies ranked (on average) in the 82nd percentile with regard to reform, the strongest progress worldwide, led by achievements in Egypt, Morocco, and Tunisia.

Along with across-the-board policy reform, MENA economies continue to look to selective industrial policies to complement more broad-based structural reform, including Morocco's recent "Emergence" program (designed to enhance specific sector competitiveness). Although the views on industrial policies are changing and a variety of economic justifications can be made for their use, MENA's own unsuccessful history with industrial policies (and the difficulty in transitioning out of them) should serve as a cautious reminder that the most effective policies for promoting growth rely on strategies to create a neutral and internationally competitive business environment.

### 3.2 Measuring Structural Reform

The World Bank Middle East and North Africa region's recent flagship reports on trade,<sup>103</sup> governance,<sup>104</sup> employment,<sup>105</sup> and gender<sup>106</sup> highlight an extensive list of development challenges facing MENA countries over the coming decades. Many of these challenges are well known, and they encompass a broad range of sectors and themes, from managing scarce water resources to reducing poverty to promoting gender equity. But one issue—employment creation—was identified as perhaps the single most important economic development challenge facing the region,<sup>107</sup> requiring three fundamental and interrelated realignments on the part of MENA economies: (a) *from closed to more open economies*, to create more competitive industries, to benefit from international best practices, and to gain access to new technology; (b) *from public sector-dominated to private sector-led economies*, to provide the basis for

<sup>103</sup> World Bank 2003a.

<sup>104</sup> World Bank 2003b.

<sup>105</sup> World Bank 2003d.

<sup>106</sup> World Bank 2003c.

<sup>107</sup> World Bank 2003e.

improved efficiency and expansion of employment; and (c) *from oil-dominated to more diversified economies*, to reduce the region's dependence on volatile sources of growth, maintain fiscal stability, and preserve important social expenditures. Achieving these realignments require interrelated policy actions on several fronts, including improved governance, particularly with regard to strengthening inclusiveness and accountability.<sup>108</sup>

For the first MENA Economic Developments and Prospects report (MEDP), published in 2005, we attempted to better understand how the region is faring with this economic realignment by constructing a set of structural reform indicators that could allow us to see where the MENA region stood relative to the rest of the world in various areas of reform and—as important—that could allow us to monitor the progress that the region is making in this transition. For that report, structural reform indexes were constructed in three key areas of reform: *trade orientation*, *business climate*, and *governance*. Incorporating a range of relevant indicators available at the time of the report's publication, composite indexes of reform were constructed in each reform area for 2000 and 2004 (the most recent available data at that time) to analyze the region's reform progress.

In this year's MEDP, we again aim to evaluate reform across these three broad areas both to understand where countries currently stand relative to one another and to monitor reform progress over time. In the meantime, across all three areas of reform, additional indicators have become available that strengthen our true understanding of the current reform status in each country. In the area of trade orientation, for example, new information has become available on behind-the-border constraints to trade and on the extent of nontariff barrier coverage. New indicators have also been added to our measurements of governance reform and business climate reform, particularly in the area of financial sector development, the theme of this year's MEDP.<sup>109</sup>

<sup>108</sup> World Bank 2005a.

<sup>109</sup> Because much of this new information is available only for 2005, it is not possible to evaluate progress with reform by utilizing the new information. As a result, the evaluation of the current status of structural reform (based on the widest set of indicators available in 2005) is not entirely comparable with our measures of structural reform progress (based on a more limited set of indicators available in both 2000 and 2005). (For a fuller description of the data and methodology behind the structural reform indicators, see appendix B.)

Utilizing these reform indicators, this chapter evaluates the recent progress that has been made by the region on the structural reform front. Because many economic reforms take time to result in measurable development outcomes, we also discuss the region's more recent efforts and emerging trends. The chapter proceeds as follows: In section 3.3, the region's progress with trade reform is examined, highlighting the trade initiatives undertaken and measuring progress in lowering trade barriers. In section 3.4, 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 3.5, we highlight the region's progress with governance reform, both in improving the quality of administration and in improving government accountability.

### 3.3 Outward Orientation in MENA

#### 3.3.1 *Developments in trade reform*

Much of the region's recent progress with structural reform has occurred in the area of trade policy, especially in connection with a recent proliferation of bilateral and regional trade agreements. The region entered the new millennium with high average tariffs (averaging 19 percent) and with pervasive use of nontariff barriers (NTBs), covering (on average) more than 14 percent of tariff lines (table 3.1). In addition, the MENA region had extensive behind-the-border constraints, including high transport, logistics, and communication costs, increasing the overall costs (and disincentives) to trade.

Since 2000, the MENA region has made significant strides in reducing obstacles to trade, partly in conjunction with bilateral and multilateral trade agreements. In many economies in the region (namely, Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, and the West Bank and Gaza), tariffs have been reduced and nontariff barriers dismantled with the region's largest trading partner, the European Union (EU), as part of the EU Association Agreements. Other bilateral and regional agreements—including free trade agreements with the United States in Bahrain, Jordan, and Morocco; the Pan-Arab Free Trade Agreement; and the Agadir Agreement between Egypt, Jordan, Morocco, and Tunisia—have also helped the process of trade liberalization in the MENA region.

**Table 3.1: Trade protection in MENA, 2000**

Country/region <sup>a</sup>	Simple average tariff	Nontariff barrier coverage <sup>b</sup>
Algeria	24.0	7.4
Bahrain	7.9	7.7
Djibouti	31.0	..
Egypt, Arab Republic of	21.4	26.6
Iran, Islamic Republic of	41.1	39.1 <sup>c</sup>
Jordan	23.1	0.1
Kuwait	3.6	..
Lebanon	10.7	22.3
Libya	17.0	..
Morocco	30.5	18.2
Oman	5.7	1.7
Saudi Arabia	12.0	1.9
Syrian Arab Republic	21.0	..
Tunisia	29.1	16.8
Yemen, Republic of	12.8	..
<b>MENA</b>	<b>19.4</b>	<b>14.2</b>
Resource-poor	24.3	16.8
Resource-rich	16.1	11.6
Resource-rich, labor-abundant	24.7	23.2
Resource-rich, labor-importing	9.2	3.8
ECA4	9.1	13.2
LAC4	14.5	10.5
EAP5	13.0	28.8

*Source:* United Nations Conference on Trade and Development (UNCTAD) staff estimates provided for this report.

*Note:* Data for 2000 or closest year available.

a. Regional average represents the simple averages of the data for the respective countries they represent.

b. Nontariff barrier coverage refers to the number of tariff lines that have at least one core nontariff barrier (quantitative restriction).

c. Number of tariff lines requiring license from Ministry of Industry (from World Bank 2001). The comparators are ECA4 (four countries in the Europe and Central Asia region—the Czech Republic, Hungary, Poland, and Turkey), LAC4 (four countries in the Latin America and the Caribbean region—Argentina, Brazil, Chile, and Mexico), and EAP5 (five countries in the East Asia and Pacific region—China, Indonesia, Malaysia, Republic of Korea, and Thailand).

Resource-poor economies, with higher initial levels of protection, have seen the greatest reduction in tariffs. Jordan significantly strengthened its trade reform program beginning in 2000 by cutting tariffs sharply and lowering other trade barriers; joining the World Trade Organization (WTO); and launching an economic-integration project with Israel, providing tariff-free access for clothes, jewelry, and other goods from joint Jordanian-Israeli factories into the United States. Jordan also completed a free trade agreement with the United States. Egypt undertook unprecedented tariff reform in the fall of 2004, reducing the number of tariff bands, annulling import fees and surcharges incompatible with the General Agreement on Tariffs and Trade, and instituting strong tariff rate cuts on most imports. Lebanon's implementation of the

Association Agreement with the EU and negotiations to joining the WTO have also resulted in substantial trade liberalization efforts over the past few years.

A few of the resource-rich economies also undertook a series of trade liberalization measures. The Islamic Republic of Iran's trade reform strategy, adopted in its third five-year development plan (2000/2001–2004/2005), consisted of trade reform in two stages: in the first stage, emphasizing the elimination of export restrictions and replacing NTBs with tariffs, and in the second, rationalizing the tariff structure, reducing tariff bands, and lowering the average tariffs. Algeria, early in 2000, began a wave of trade reform measures, including abolishing remaining NTBs to trade, comprehensive tariff reform, signing an Association Agreement

with the EU, and beginning negotiations toward accession to the WTO.

Among the resource-rich, labor-importing economies, which had historically maintained more open trade, the GCC countries have worked almost in unison to develop trade ties and to encourage greater foreign participation in their economies. Almost all have taken further steps to cement greater ties with the West. All of the GCC economies have pursued free trade agreements (FTAs) or trade and investment framework agreements (TIFAs) with the United States. To date, Bahrain has an FTA, and similar agreements are being pursued or negotiated with Kuwait, Oman (signed, but not yet completed), Saudi Arabia, and the United Arab Emirates. TIFAs are in force in Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. The GCC economies have also worked to strengthen ties with emerging economies in Asia, particularly China and India. Most implemented further tariff reform (from already relatively low levels) with the introduction of the common external tariff among the GCC in 2003.

#### *Progress over 2005*

Over the past year, achievements have been made on the trade policy front by several of the resource-poor economies that had not yet undertaken deep reform. Under the EU Association Agreement, Tunisia's tariffs on imports originating in the EU were lowered, while imports from the 16 other members of the Greater Arab Free Trade Area have been admitted completely duty-free since January 2005. In addition, Tunisian customs carried out reforms to simplify import procedures, with special emphasis on documentation and the implementation of the WTO Agreement on Customs Valuation. Although technical import inspection procedures remain lengthy and complex, a start was made on reforming these procedures in 2005.

Morocco also made some progress over the year in deepening trade liberalization. Although the level and dispersion of multilateral tariffs remain high (the simple average tariff is 30 percent), over 2004, most-favored-nation (MFN) tariffs were reduced for goods freely traded with the EU—and in the context of the FTA with the EU—and further tariff reductions were applied in March 2005 on selected intermediate and consumption goods. Customs services have been streamlined, and implementation of the free-trade agreement with the United States began in January 2006. Morocco signed an impor-

tant agreement with Turkey, which will allow it to take advantage of cheaper Turkish inputs in the production of its own textiles to European markets.<sup>110</sup>

Among resource-rich economies, in December, Saudi Arabia joined the WTO, following 12 years of negotiations. In meeting the WTO requirements, the kingdom undertook important steps in liberalizing its trade regime, particularly for import licensing, customs valuation and fees, standards and technical regulations, and revising its legislation for intellectual property rights and patent registration. With regard to specific markets, Saudi Arabia has agreed to revise the rules it applies to agricultural imports, including shelf-life restrictions and other nontariff measures that have long hindered the importation of agricultural goods to the kingdom. Almost all agricultural tariffs will be lowered to 15 percent or less. Membership in the WTO is expected help the Saudi Arabian economy diversify more rapidly, improve competitiveness, and create new employment opportunities. Oman, meanwhile, completed its negotiations to conclude its free trade agreement with the United States.

Among the resource-rich, labor-abundant economies, widespread smuggling of imported goods into the Republic of Yemen, combined with a desire to harmonize tariff rates with the GCC, prompted the Yemeni government to move strongly in lowering import tariff rates over 2005, reducing the number of bands from four to three, with the maximum rate still at 25 percent, but with two-thirds of the commodities attracting only a 5 percent tariff rate. After the recent changes, the unweighted tariff rate fell to 7 percent, the lowest average tariff outside the GCC in MENA.

#### *3.3.2 Quantifying progress with trade reform*

MENA's trade policy was evaluated in two ways: First, the trade policy status in 2005 was assessed

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<sup>110</sup> One of the major constraints faced by textiles exporters in Morocco is the EU's restrictive rules of origin. For Moroccan clothing products to satisfy EU rules of origin and qualify for duty-free access in that market, they must be made from domestically produced fabrics, fabrics from EU countries, or fabrics from Tunisia or Algeria (countries that are considered as qualifying areas through full accumulation). These rules force suppliers to forgo cheaper inputs from third-country suppliers to qualify for duty-free entry to the EU. With its recent free trade agreement with Turkey, Morocco has positioned itself to exploit an accumulation of origin with that country—as part of the Pan-Euro-Mediterranean initiative—to reduce Morocco's costs and improve competitiveness.

based on current information on average tariffs, the prevalence of NTBs (with regard to percentage of tariff lines), and behind-the-border constraints to trade (including average time required for both exporting and importing goods). Second, the region's progress with trade policy reform was evaluated, based on the progress made with reducing average tariffs (the only trade policy indicator widely available in 2000, the initial period for comparison).

Based on these evaluations, MENA countries have demonstrated strong progress over the past

five years in the area of trade reform, with continued progress by many countries to lower barriers to trade and to establish trade ties through regional and bilateral trade agreements. MENA countries rank (on average) in the 63rd percentile with regard to their progress in lowering import tariffs, only slightly behind developing countries of Europe and Central Asia and high-income OECD economies (table 3.2).

Particularly strong progress has occurred among the resource-poor economies of the region, led by deep tariff reform in Egypt. With average tariffs de-

**Table 3.2: Structural reform progress: trade reform**

Country/region	Current trade policy, <sup>a</sup>	Trade policy reform progress, <sup>b</sup>
	2005	2000–2005
Algeria	43.6	70.7
Bahrain	—	62.0
Djibouti	—	51.1
Egypt, Arab Republic of	42.8	100.0
Iran, Islamic Republic of	22.3	73.9
Jordan	47.1	85.9
Kuwait	52.6	65.2
Lebanon	61.1	80.4
Libya	—	27.2
Morocco	38.4	52.2
Oman	70.8	10.9
Saudi Arabia	39.5	77.2
Syrian Arab Republic	18.4	43.5
Tunisia	50.9	56.5
Yemen, Republic of	61.7	81.5
<b>MENA</b>	<b>45.8</b>	<b>62.5</b>
Resource-poor	48.0	71.0
Resource-rich	44.1	56.9
Resource-rich, labor-abundant	36.5	67.4
Resource-rich, labor-importing	54.3	48.5
East Asia and Pacific	56.2	37.2
Europe and Central Asia	50.9	69.5
Latin America and the Caribbean	56.6	50.2
High-income OECD	70.2	64.4
South Asia	41.4	47.6
Sub-Saharan Africa	34.4	26.9
<b>World</b>	<b>50.0</b>	<b>50.0</b>

Sources: See appendix B.

Note: Regional averages reflect the simple average of the data for the countries included. — = Not available.

a. "Current trade policy" status reflects country's current placement in a worldwide ordering of countries, based on four major categories of trade policy indicators available in 2005, expressed as a cumulative frequency distribution, with "100" reflecting the country with the most-open trade policies (worldwide) and "0" representing the country with the most-closed trade policies (worldwide).

b. "Reform progress" reflects the improvement in a country's rank between 2000 and 2005 in a worldwide ordering of countries, based on the simple average tariff (the only trade policy indicator available for a large group of countries 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. A larger sample of indicators was used to compute the current trade policy because some indicators have only been made available in 2005.

clining from around 21 percent to 9 percent, Egypt's progress in reducing import tariffs places it at the top of the worldwide ordering of countries with regard to tariff reductions.<sup>111</sup> But strong progress also occurred in Jordan and Lebanon, and the region's resource-poor economies as a group ranked in the 71st percentile with regard to reducing tariffs over the past five years, greater than any other region of the world.

Resource-rich economies exhibited weaker progress, but this partly reflects the lower average tariffs initially, with an average tariff level in 2000 of 16.1 percent, compared with more than 24.3 percent among resource-poor economies (see appendix table B1). Among resource-rich economies, relatively strong progress was made among the resource-rich, labor-abundant economies of Algeria, the Islamic Republic of Iran, Syria, and the Republic of Yemen, which as a group had higher average tariff protection initially (averaging 24.7 percent in 2000, relative to only 9.2 percent among the labor-importing economies). Average tariffs for the group fell from an average of 24.7 percent in 2000 to 16.9 percent in 2005, led by significant tariff reductions in the Islamic Republic of Iran (between 2000 and 2005, the Islamic Republic of Iran's average tariff fell from about 41 percent to around 22 percent). Oil-producing, labor-abundant economies ranked (on average) in the 67th percentile worldwide with regard to lowering tariffs.

Among the region's oil-producing, labor-importing economies of the GCC and Libya, though tariff reform has been more limited (the group ranked [on average] in the 49th percentile worldwide with regard to lowering tariffs), this partly reflects lower initial tariff protection. Still, relatively strong progress in lowering tariffs occurred in Saudi Arabia, where the simple average tariff declined from an average of 12 percent in 2000 to an average of 6 percent in 2005.

Although the region has made strong progress with tariff reform over the past five years, MENA's trade liberalization remains far from complete. The

region continues to be one of the most trade-restrictive in the world, ranking (on average) in the bottom 46th percentile of countries worldwide with regard to trade regime openness, higher than only Sub-Saharan Africa and South Asia.

Much of this stems from the continuing high tariff protection (MENA countries rank [on average] in the bottom 38th percentile worldwide with regard to average tariffs)<sup>112</sup> that remains commonplace. About half the countries in the region—Algeria, Djibouti, the Islamic Republic of Iran, Jordan, Libya, Morocco, Syria, and Tunisia—maintain simple average tariffs in excess of 10 percent, the world average. This is especially true among resource-poor economies, where simple tariffs continue to average close to 20 percent, placing them in the bottom quartile worldwide with regard to tariff protection. In Tunisia, the simple average of the MFN tariffs applied in 2005 was more than 28 percent.<sup>113</sup> The heavy MFN tariff protection of the domestic market has changed only slightly in the course of the past 10 years. The average duty on agricultural products (WTO definition) is 67 percent, with a maximum rate of 150 percent; the average duty on nonagricultural products is 23 percent. MFN customs duties in the manufacturing sector average 30 percent, with rates extending up to 150 percent. The modal rate (that most frequently applied) is 43 percent, and products corresponding to only 15 percent of tariff lines are admitted duty-free.

But the region also suffers from proliferation of NTBs, as well as lengthy processes for both importing and exporting. Trade protection is most acute among the oil-exporting, labor-abundant economies, particularly because of high levels of protection in the Islamic Republic of Iran and Syria, with regard not only to tariff protection but also to cumbersome processes for both exporting and importing. Syria, for example, ranks in the bottom 15th percentile worldwide in both the time required to export as well as the time required to import. It requires (on average) some 63 days to complete the processes associated with importing and 49 days to complete the processes associated with exporting.<sup>114</sup> In addition, with tariffs that average close to 20 percent, it ranks in the bottom decile in tariff protection. The Islamic Republic of Iran, with

<sup>111</sup> Progress with tariff reform is measured by the change made by a country in its placement in a worldwide ordering of countries based on their simple average tariffs. Egypt, which moved from the bottom decile of countries worldwide in 2000 (based on simple average tariff) to almost the 50th percentile in 2005, improved its ranking by the greatest amount over the period (with regard to progress, it thus ranked in the 100th percentile with regard to tariff reform). (See appendix B for a further description of methodology.)

<sup>112</sup> See appendix table B2.

<sup>113</sup> Staff estimates from UNCTAD TRAINS database.

<sup>114</sup> World Bank 2006a.

average tariffs of 22 percent (despite significant tariff reduction), ranks in the bottom 5th percentile in tariff protection. It also faces lengthy processes to comply with import and export regulations, ranking in the bottom 20th percentile in the time needed to export and in the bottom 30th percentile in the time needed to import (table 3.3).

Even among the relatively open GCC economies (with regard to tariff barriers to trade), when ac-

counting for behind-the-border constraints to trade (particularly prevalent in Saudi Arabia), the group ranks (on average) in only the 54th percentile worldwide, below the Latin America and the Caribbean region, the East Asia and the Pacific region, and high-income economies.

Thus, while MENA has made relatively strong progress with trade reform over the past several years, much work remains on the trade liberaliza-

**Table 3.3: Current trade policy in MENA**

(Based on simple average tariffs, NTB coverage, average time required for exporting, and average time required for importing)

Country/region	Average tariff	Tariff index	NTB coverage		Average time for exports (days)	Export time index	Average time for imports (days)	Import time index	Overall trade policy index (1–100)
			(% of tariff lines)	NTB index					
Algeria	18.7	8	0.0	88	29	52	51	27	44
Bahrain	5.2	71	0.5	40	..	..	..	..	..
Djibouti	31.0	0	2.7	24	..	..	..	..	..
Egypt, Arab Rep. of	9.1	48	6.1	7	27	55	29	62	43
Iran, Islamic Rep. of	22.1	5	0.5	40	45	17	51	27	22
Jordan	13.1	21	0.3	51	28	54	28	63	47
Kuwait	3.6	92	2.1	26	30	50	39	44	53
Lebanon	5.4	71	0.2	53	22	67	34	54	61
Libya	17.0	14	2.2	26	..	..	..	..	..
Morocco	30.1	1	0.3	51	31	47	33	55	38
Oman	5.7	67	0.0	88	23	64	27	65	71
Qatar	5.0	74	1.0	32	..	..	..	..	..
Saudi Arabia	6.0	63	1.2	30	36	32	44	33	39
Syrian Arab Rep.	19.6	6	0.5	40	49	14	63	13	18
Tunisia	28.3	3	0.0	88	25	58	33	55	51
Yemen, Rep. of	7.0	58	0.0	88	33	43	31	59	62
<b>MENA</b>	<b>14.2</b>	<b>38</b>	<b>1.1</b>	<b>48</b>	<b>31.5</b>	<b>46</b>	<b>38.6</b>	<b>46</b>	<b>46</b>
Resource-poor	19.5	24	1.6	46	26.6	56	31.4	58	48
Resource-rich	11.0	46	0.8	50	35.0	39	43.7	38	44
RRLA	16.9	19	0.2	64	32.5	32	42.0	31	36
RRLI	7.0	64	1.2	40	29.7	49	36.7	47	54
East Asia and Pacific	7.4	57	0.6	52	27.6	60	31.3	63	56
Europe and Central Asia	7.0	67	5.7	36	31.3	53	42.8	51	51
Latin America and the Caribbean	10.2	43	0.5	72	29.7	50	36.8	49	57
High-income OECD	3.7	90	9.2	18	12.0	86	13.4	88	70
South Asia	16.8	14	0.0	69	33.7	39	39.3	44	41
Sub-Saharan Africa	13.7	30	6.6	57	49.2	24	61.1	4	34
<b>LMIC average</b>	<b>10.4</b>	<b>47</b>	<b>2.3</b>	<b>52</b>	<b>28.5</b>	<b>55</b>	<b>33.8</b>	<b>56</b>	<b>53</b>
<b>World</b>	<b>10.0</b>	<b>50</b>	<b>2.7</b>	<b>50</b>	<b>32.2</b>	<b>50</b>	<b>40.4</b>	<b>50</b>	<b>50</b>

Sources: See appendix B.

Note: 2005 or closest year available. LMIC = Low- and middle-income economies. Regional averages reflect the simple average of the data for the countries included. For each index, a country's value represents the country's current placement in a worldwide ordering of countries, based on that trade characteristic expressed as a cumulative frequency distribution, with "100" reflecting the countries with the most-open/friendly trade policies and "0" reflecting the countries with the most-closed/burdensome trade policies.

tion front. Factoring in tariffs, NTBs, and trade procedures, the MENA region ranks ahead of only Sub-Saharan Africa and South Asia with regard to trade openness, and only one country in the region (Oman) ranks in the top third of countries worldwide with regard to trade facilitation. Many countries in the region have lowered tariffs in parallel with integration efforts with the EU, but the region needs to continue liberalization efforts on a multilateral basis to tap into the trade potential with non-EU countries.

### 3.4 Business Climate

#### 3.4.1 *Developments in business and regulatory reform*

Just as MENA's trade policies will impact the development of competitive export-oriented businesses, MENA's policies and practices regulating business will impact the development of a productive, competitive private sector that can drive economic development and job growth. Thus, a critical focus of MENA's economic transition relates to creating a pro-competitive business environment, free of excessive regulation.

With diminishing links to oil economies, resource-poor economies in MENA have led the way in improving the regulatory environment for private investment. Both Morocco and Tunisia, as part of their industrial modernization efforts under the *mise à niveau* program, undertook various measures to create a more favorable investment climate. Major achievements in Morocco include strengthening the legal, regulatory, and supervisory framework of the financial sector, strengthening property rights, the passage of a new labor code, and—as part of its national privatization program—liberalization of many sectors of the economy, including air transport (significantly improving the potential for tourism) and telecommunications. Structural reforms in Tunisia have included significant progress in privatizing state enterprises, some strengthening of the banking sector, streamlining several business procedures, and reforming the legal framework for asset recovery and bankruptcy.

But a strong drive to attract business has also emerged from resource-rich, labor-importing countries, particularly through opening up to and capturing greater foreign investment. Bahrain passed an amended Commercial Law in 2003, streamlin-

ing the conditions for the operation of private enterprises and easing the restrictions on foreign ownership.<sup>115</sup> Under the new law, Bahrain has become one of the first countries in the GCC to abolish the sole agency Commercial Law. During 2003–2004, a number of key sectors (such as telecommunications, electricity generation, and petrochemicals) were opened to competition. The UAE has also established new laws on foreign ownership and has set its sights on several new industrial free trade zones targeted at attracting more foreign firms.<sup>116</sup> Plans to attract FDI to Qatar are leading to the creation of a “one-stop shop” for investors. A recent law allowing foreign ownership in prespecified sectors, with the approval of the finance minister in each case, is being proposed (with up to 100 percent ownership in selected sectors such as tourism, health, and education). Under the terms of Saudi Arabia's accession to the WTO, significant steps are also being taken toward removing the barriers to FDI. Among the sectors expected to witness foreign entry are insurance, banks and other financial intermediaries (banks can now set up branches, and existing banks can increase their foreign equity from 40 to 60 percent), and energy companies operating in the downstream and midstream sectors.

The Gulf economies have also moved aggressively over the past few years to establish themselves as regional and international hubs for a variety of services, including financial services, trading, tourism, and transport. Bahrain and Qatar have established themselves as regional financial hubs, and the Qatar Financial Center created a financial free zone for international banks and investment companies in 2005. But other services are also emerging: Kuwait is developing a technology free trade zone, and Qatar is positioning itself as a regional education and health services hub, most recently establishing Education City and Hamad Medical City.

#### *Progress over 2005*

Over 2005, continued progress has been made by several of the resource-poor economies to improve aspects of the business environment. Morocco's recent achievements included selling a second fixed-

<sup>115</sup> Under the existing rules, foreign ownership of commercial activities is permitted up to 100 percent of unlisted companies, up to 49 percent of public shareholding companies; furthermore, foreigners can buy property in certain designated areas of the country.

<sup>116</sup> EIU, UAE Country Report, February 2006.

line telephone license to a private company, consolidating financial reforms, and accelerating civil service reform with a successful program of 38,000 civil servants (8 percent of the total) voluntarily retiring. Tunisia's preparations for the implementation of a broad money-targeting framework are at an advanced stage and will lay the groundwork for more flexible exchange rate management in the future. With respect to the financial sector, the government pursued measures to strengthen financial stability. A new round of reforms is expected to be gradually implemented in preparation for the opening of the banking sector to foreign competition. The reforms involve tighter operating standards and a strategy to deal with nonperforming loans and bank restructuring.

Starting in July 2004, Egypt's privatization program was resurrected, and the speed was further accelerated over 2005. The government has sold stakes in a number of commercial banks and companies, the largest privatization thus far being the sale of a 20 percent stake in Telecom Egypt in December 2005, which brought in revenues of more than LE 5.1 billion (close to \$900 million). The government announced in January that it is considering the sale of 45 companies, both minority stakes via public offerings and controlling stakes to corporate investors. This should result in continued strong FDI inflows for 2006.

Egypt also signed into law a new, more simplified income tax in 2005 that substantially cut the personal and corporate tax rates, resurrected the privatization program, and undertook several reforms in the financial sector, including restructuring the banking and nonbanking sectors—a program relying on both privatization and bank consolidation as two major pillars in the drive to strengthen the banking sector by reducing the number of institutions.

For Lebanon, in contrast, 2005 was a lost year for structural reforms, with government changes, practical inability to convene parliamentary sessions, boycott of cabinet meetings, and a very divisive political situation hindering the country from implementing significant structural reforms. A number of laws prepared in the fields of trade, competition, intellectual property rights, e-commerce, public procurement and auditing, public enterprises management, public debt management, public and private pensions, and capital markets are still pending in parliament. The budget law for 2005 was passed only by the end of the year. On the positive side, the

establishment of a large taxpayer's office and the completed registration of private sector employees permitted the Ministry of Finance to raise its collection efficiency.

Among the resource-rich, labor-abundant economies, however, recent progress with structural reforms has been more mixed. Algeria strengthened performance contracts of public bank managers and shareholder oversight, initiated the privatization of a public bank, and made progress in modernizing the payments system. A new hydrocarbon law was adopted that further liberalizes investment in this sector. In the Islamic Republic of Iran, however, structural reforms slowed, with little government activity in pursuing the reform agenda before the June presidential elections, and a new government formed only in late August. Syria's reforms have been limited to date, but over the year several policy reforms have been initiated, including taking steps to liberalize the banking sector and modify taxation.

### *3.4.2 Quantifying progress with business and regulatory reform*

As with trade policy, MENA's business climate was evaluated in two ways. First, the business climate in 2005 was evaluated based on current information on eight different areas important for doing business (ease of starting a business, ease of closing a business, access to finance, ease of hiring and firing, ease of contract enforcement, ease of dealing with pertinent licenses, ease of paying taxes, and ease of registering property). In each of these areas, a variety of information about the ease of doing business was utilized, 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, based upon progress made along four different fronts (the four areas for which information was available in both 2003 and 2005): starting a business, hiring and firing, access to credit, and enforcing contracts. From these data, an overall reform progress index was calculated, reflecting the average progress along all four fronts, expressed as a cumulative frequency distribution.

Based on the composite reform index, the MENA region's progress over the past five years in improving the environment for investment was be-

low the world average. MENA countries ranked (on average) in the 42nd percentile worldwide with regard to business and regulatory reform, about on par with the reform progress in South Asia and Sub-Saharan Africa, and well behind the progress made in Europe and Central Asia (table 3.4).

The greatest progress has occurred among MENA's resource-poor economies, averaging in the 63rd percentile worldwide, driven by strong achievements in Jordan (89th percentile) and Tunisia (93rd percentile), stemming from progress mainly in removing obstacles to starting a business but also in improving access to finance.

Much more limited progress occurred among the resource-rich economies, ranking (on average) in only the 23rd percentile with regard to reform, with the weakest progress among the resource-rich, labor-importing economies (15th percentile). In part, this reflects an overall friendlier business climate initially among the GCC economies. Resource-rich, labor-importing economies, as a group, rank (on average) in the 65th percentile with regard to all aspects of the business environment. Resource-rich, labor-importing economies, however, which rank the lowest in the region (and second-lowest in the world, behind Sub-Saharan Africa) with regard to a

**Table 3.4: Structural reform progress: business and regulatory reform**

Country/region	Current business environment, <sup>a</sup> 2005	Reform progress, <sup>b</sup> 2003–2005
Algeria	13.1	37.6
Egypt, Arab Republic of	11.1	35.9
Iran, Islamic Republic of	56.9	43.7
Iraq	66.0	..
Jordan	58.2	88.6
Kuwait	58.8	6.7
Lebanon	37.3	31.4
Morocco	60.8	54.4
Oman	77.8	15.1
Saudi Arabia	79.7	25.8
Syrian Arab Republic	30.1	5.0
Tunisia	83.0	92.5
United Arab Emirates	43.1	14.0
Yemen, Republic of	35.0	56.6
<b>MENA</b>	<b>50.7</b>	<b>41.5</b>
Resource-poor	50.1	62.8
Resource-rich	51.1	23.5
RRLA	40.1	35.8
RRLI	64.9	15.4
East Asia and Pacific	61.1	46.8
Europe and Central Asia	48.1	64.4
Latin America and the Caribbean	40.4	51.4
High-income OECD	83.5	50.3
South Asia	48.0	41.0
Sub-Saharan Africa	27.4	43.1
<b>World</b>	<b>50.0</b>	<b>50.0</b>

Sources: See appendix B.

Note: Regional averages reflect the simple average of the data for the countries included.

a. "Current business environment" reflects country's current placement in a worldwide ordering of countries, based on eight major categories of business environment indicators available for 2005, expressed as a cumulative frequency distribution, with "100" reflecting the country with the most-friendly business policies (worldwide) and "0" representing the country with the most-unfriendly business policies (worldwide).

b. "Reform progress" reflects the improvement in a country's rank between 2003 and 2005 in a worldwide ordering of countries, based on four major categories of business and regulatory policies available in 2003 and 2005, 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. A larger sample of indicators has been used to compute the current business environment because some indicators have only been made available in 2005.

conducive business environment, also managed relatively limited progress. RRLA economies ranked (on average) in the 36th percentile worldwide with regard to business reforms, with the strongest progress from the Republic of Yemen (primarily through improvements in hiring and firing, the result of a revision to the labor code facilitating the hiring of foreign labor by private investors).

Despite the progress made by a few MENA countries, there remain large impediments to conducting business in the region, evidenced in several

key areas. Regionwide, starting a business remains exceptionally cumbersome, with MENA countries ranking (on average) in the bottom third of countries worldwide with respect to time, cost, and procedures necessary to start a business (table 3.5). Investors in resource-poor economies also face particular impediments with regard to labor laws, with RPLA economies ranking (on average) in the 41st percentile worldwide with regard to the ease of hiring and firing workers. Resource-rich, labor-abundant economies face obstacles in a number of

**Table 3.5: Current business and regulatory environment in MENA**

Country/region	Access		Hiring/ firing	Starting a business	Closing a business	Dealing		Paying taxes	Overall business climate
	Contract enforcement	to finance				with licenses	Registering property		
Algeria	16	13	35	30	73	34	11	3	13
Egypt, Arab Rep. of	24	51	13	26	14	3	14	46	11
Iran, Islamic Rep. of	64	63	28	65	34	3	39	74	57
Iraq	53	..	30	25	..	53	72	..	66
Jordan	63	75	59	23	45	60	34	92	58
Kuwait	38	79	84	43	68	37	49	..	59
Lebanon	9	82	71	36	20	39	45	73	37
Morocco	82	43	16	67	67	17	58	19	61
Oman	43	31	76	60	47	24	89	98	78
Saudi Arabia	39	80	84	5	45	78	99	97	80
Syrian Arab Rep.	5	22	42	13	48	48	48	74	30
Tunisia	97	64	34	74	87	41	55	58	83
United Arab Emirates	15	52	58	14	6	81	94	97	43
West Bank and Gaza	43	..	54	3	..	49	44	..	..
Yemen, Rep. of	63	4	65	3	63	77	74	28	35
<b>MENA</b>	<b>44</b>	<b>53</b>	<b>50</b>	<b>32</b>	<b>48</b>	<b>44</b>	<b>55</b>	<b>66</b>	<b>51</b>
Resource-poor	53	63	41	38	47	46	42	58	50
Resource-rich	37	40	56	29	48	43	64	71	51
RRLA	40	27	40	27	55	46	49	56	40
RRLI	34	80	75	31	42	39	83	97	65
East Asia and Pacific	41	53	71	61	35	63	62	73	61
Europe and Central Asia	59	51	42	56	49	38	56	42	48
Latin American and the Caribbean	38	58	46	42	45	52	52	25	40
OECD	84	90	56	77	85	78	68	71	84
South Asia	37	48	51	62	50	50	39	56	50
Sub-Saharan Africa	38	24	40	29	37	32	24	36	26
<b>LMIC average</b>	<b>49</b>	<b>58</b>	<b>52</b>	<b>51</b>	<b>46</b>	<b>50</b>	<b>55</b>	<b>50</b>	<b>53</b>
<b>World</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>

Sources: See appendix B.

Note: 2005 or closest year available. Regional averages reflect the simple average of the data for the countries included. For each column, a country's value represents the country's current placement in a worldwide ordering of countries, based on that business climate characteristic expressed as a cumulative frequency distribution, with "100" reflecting the countries with the most-friendly policies for doing business, and "0" reflecting the country with the most-cumbersome policies for doing business. OECD = High-income/OECD economies; LMIC = Low- and middle-income economies.

key areas. Of the eight key areas of doing business, in only two (closing a business and paying taxes) do the RPLA economies rank (on average) in the top half of countries worldwide. Impediments are particularly large with regard to contract enforcement, access to finance, and business entry requirements. In resource-rich, labor-importing economies, meanwhile, though generally more business-friendly (in a few areas, such as access to finance, registering property, and paying taxes, they average in the top quintile of countries, worldwide), there remain areas with especially burdensome regulations, including contract enforcement and the procedures for starting a business.

#### *Industrial policy as a complement to market forces*

Along with across-the-board reforms of the business environment, several MENA economies continue to utilize industrial policies (designed to promote specific industries or sectors) to complement more broad-based policies that promote market forces. In Morocco, for example, a new industrial strategy—“Emergence”—was adopted in 2005, designed to enhance specific sector competitiveness and employment creation and to improve the country’s growth potential. The strategy focuses on the identification of specific sectors’ weaknesses and strengths and upgrading the industrial sector through the modernization of its production processes and the consolidation of its competitive edge (see box 3.1).

Tunisia, in the midst of progress along certain structural reform fronts, continues to maintain a dual system of investment promotion and trade policy. Generous privileges are extended for investments in selected economic activities and for exporting, by supporting the creation of “offshore” firms, but the government still discourages foreign investment in protected service sectors. For more than 30 years, the strategy pursued by Tunisia has consisted of promoting exports, especially manufactured goods, while heavily protecting enterprises that supply the local market. This strategy has created a dualism within the economy between an export sector whose competitiveness depends largely on concessions (including tax exemptions, transport cost subsidies, facilitated customs procedures, and foreign exchange concessions) and a domestic sector that is still heavily protected (despite the opening up of bilateral trade in nonagricultural products under the Association Agreement with the EU).

The continued use of industrial policies throughout MENA comes at a time of renewed interest in their effectiveness. Although economists agree that market forces and private entrepreneurship need to be the driving forces behind growth and productivity enhancements, increasing analysis of late has focused on the complementary role to market forces that industrial policies can play.<sup>117</sup>

While a variety of economic justifications can be made for the use of selective industrial policies (including coordination problems and information externalities), several caveats for their use are warranted, particularly for MENA economies. MENA has a long history with industrial policy (from infant industry protection to state planning to widespread consumer subsidies), and although the limits of the region’s protective interventions were realized as early as the 1980s, the transition out of these policies has been painstaking, in large part because it has involved the profoundly difficult task of cutting back economic rents that have been built over the years.

Moreover, the international history of industrial policy has demonstrated, if nothing else, the ability to “get it wrong.” Well-motivated or not, worldwide experience with industrial policy has been remarkably divergent, with as many (or more) failures as successes and with significant unintended consequences (including rent seeking and corruption).

MENA’s recent selective interventions to promote various industries appear on the surface, at least, to be intrinsically different from those in the past (aimed less at protecting domestic industries than at improving their chances for international competitiveness). And indeed, most countries maintain a mixture of both mainstream free-market measures and industrial policies. Nonetheless, given the region’s difficulty with extracting itself from the legacy of past industrial policies, MENA should be cautious in looking to a new system of industrial policies to promote growth, but instead look to create a neutral and internationally competitive business environment.

### **3.5 Governance**

Improving governance in the region is at the forefront of improvements in economic policy. Parallel to the economic reforms the region faces, it must

<sup>117</sup> See, for example, Rodrik (2004).

**Box 3.1****Morocco's Emergence program**

Morocco's Emergence program is aimed at overhauling the industrial apparatus while enhancing its competitiveness and carrying out voluntarist policies in favor of emerging sectors. The strategy takes into account changing regional and international environments. It encompasses a set of measures designed to improve the access of Morocco's domestic products to world markets and to the attraction of foreign investment. The industrial sector has been divided into three poles: the first, made of expanding activities, needs little public help; the second requires public support, given the tough competition it faces; and the third is composed of new global activities in which Morocco could position itself favorably. The latter two poles comprise eight subsectors: the aeronautical, agroprocessing, automotive, craft, electronic, offshoring, seafood, and textile industries.

Within the textile industries, in close partnership with the Association of the Textile and Garment Industries (AMITH), the government is aiming to restructure the competitiveness of the textile and clothing sectors. The two interrelated strategic goals of this plan are (a) to move the textile and garment industry

from its present position as subcontractors for EU suppliers to full-service providers, working directly with the final buyers, and (b) to upgrade from the production of commodity garments to higher-value-added fashion garments. The main instruments of the plan include tariff and customs reforms; transport and logistics improvements; financial and fiscal incentives to boost new investments, establish export platforms, and help firms restructure their balance sheets; and education and training.

The vision of moving away from basic garment products and subcontracting is consistent with the global dynamics of retailing. This will provide some advantages to nearby suppliers of fashion goods and will require additional services. The focus of the plan is on skills development (including design, merchandising, and material sourcing). Trade and customs reforms and trade facilitation are also pertinent. The real test, however, is that of implementation because Morocco lags slightly behind most major competitors with regard to putting in place reforms to adjust to the Multifiber Agreement removal. A swift and effective implementation of the plan is crucial to the survival of the industry.

strengthen the incentives, mechanisms, and capacities for public institutions, both to improve economic policies and to forge the broad social consensus needed to successfully enact reform.

The governance challenges facing MENA are twofold: First, it faces the challenge of modernizing governance structures and operations for more efficient public sector management. It involves administrative reform of the public sector to enhance the efficiency of the bureaucracy, to improve mechanisms of internal accountability, and to reduce corruption. Second, the MENA region faces the more difficult challenge of increasing public sector accountability. This governance challenge requires improving transparency in governance mechanisms and enhancing contestability in government policies.

### *3.5.1 Developments in governance reform*

Several important steps toward governance reform

have been taken by MENA countries over the past several years. On the administrative side, there have been various achievements by both resource-poor economies and oil exporters. Jordan, Morocco, and the Republic of Yemen have each embarked on ambitious programs of civil service management reform, and in Egypt, civil service reform was advanced with the announcement of a new system of early retirement for public sector employees in December 2005. There has been additional progress by the region in attacking corruption, including in Algeria, Egypt, Jordan, and Libya, which recently enacted anticorruption legislation (although implementation is forthcoming).

In addition, several countries in the region have taken important steps in opening up the political space and allowing for greater accountability in public policy. Many of these steps have been taken by the GCC countries. In 2001, Bahrain became a constitutional monarchy with a bicameral parliament, granting full suffrage to all male and female

citizens, and creating an independent judiciary. Qatar's political environment has also undergone rapid changes, including introducing an electoral process in conjunction with the Municipal Council. In May 2003, Qatar also established a Human Rights Committee and became the first country in the Gulf to have a female holding a public office. In 2004, the government introduced new legislation granting more freedoms and permitting demonstrations, labor union formation, and public meetings. These steps toward allowing greater voice in development are an important element in moving further with the economic reform agenda, ensuring that in the transition to a new development model, the economic outcomes are socially acceptable. In Oman, a consultative parliament was established in 2003, enabling all eligible adults to vote.<sup>118</sup> Political rights have been extended to women, and starting in 2004, a number of other key appointments of women to ministerial and ambassadorial posts have occurred. Allowing greater information about domestic economic policies has also begun to enter the agenda. In 2005, the Omani government granted a license for private television and radio stations for the first time. Taken together, these steps provide greater incentives to regional governments to pursue sound and effective policies.

Elsewhere, a major achievement in enhancing public sector accountability has occurred with Morocco's recent adoption of the Law on Political Parties, which helps consolidate the credibility and efficiency of political parties and institutions. First, the law aims at enabling the political parties to take more responsibility and be more accountable to their constituencies. Second, it seeks a more efficient parliament, with two or three homogeneous groups becoming healthy coalitions. Third, the law includes provisions to ensure good governance inside political parties by allowing the judicial system to abolish parties that do not abide by internal regulations.

### *3.5.2 Quantifying progress with governance reform*

Governance in the MENA region is evaluated based on the set of governance indicators established in the World Bank's 2003 report on governance in the MENA region.<sup>119</sup> From that report, two separate

spheres of governance were examined: governance related to public accountability and governance related to the quality of public administration. For comparability, those governance indicators have been computed again, utilizing the methodology established, but with a minor adjustment to the underlying data and an adjustment to the computation methodology (see appendix B).

From these two governance spheres, we evaluated both the current status of governance in MENA (in quality of public administration and in public sector accountability) and the progress with governance over 2000–2005. Based on the composite reform indexes, the MENA region has made significant strides in the realm of governance over the past few years.

In the area of improving the quality of public administration, the MENA region ranked (on average) in the 63rd percentile worldwide, ahead of all other regions of the world. The strongest reform effort has occurred among resource-poor economies in the region, which ranked (on average) in the top quintile worldwide with regard to improving the quality of public administration, led by strong achievements in Egypt, Morocco, and Tunisia. But a few resource-rich economies also made strong gains, including Algeria, Oman, Qatar, Saudi Arabia, and the Republic of Yemen.

But perhaps even more important, the region has made strong progress in improving mechanisms for greater government accountability. Between 2000 and 2005, MENA countries ranked (on average) in the 64th percentile with regard to improving mechanisms for government accountability, stronger progress than in any other region of the world (table 3.6). The greatest improvement has emanated from the resource-rich, labor-importing economies, where a few countries (such as Bahrain, Oman, and Qatar) have taken significant steps to open up the political space for greater participation in public policy.

These essential reforms toward greater public sector accountability are particularly important for the successful implementation of other areas of the reform agenda. Worldwide successful reform efforts have depended critically upon the support and participation of those in society whom reforms will impact. The governance improvements in MENA, with regard to granting greater voice in development to MENA's people, are important not only to take into account the needs and values of those who are affected by reforms but also to ensure that in the transition to a new development model, the eco-

<sup>118</sup> Despite the parliamentary elections, however, the powers of the parliament are still limited.

<sup>119</sup> World Bank 2003b.

**Table 3.6: Structural reform progress: governance reform**

Country/region	Quality of administration, current status <sup>a</sup>	Reform progress, <sup>b</sup> 2000–2005	Public sector accountability, current status <sup>a</sup>	Reform progress, <sup>b</sup> 2000–2005
Algeria	37.6	91	29.1	91
Bahrain	76.6	26	22.7	91
Egypt, Arab Republic of	42.6	92	24.8	84
Iran, Islamic Republic of	16.3	19	20.6	4
Jordan	66.0	67	34.0	60
Kuwait	58.2	24	31.2	65
Libya	10.6	64	0.0	42
Morocco	73.0	83	32.6	81
Oman	61.0	75	15.6	81
Qatar	59.6	89	13.5	74
Saudi Arabia	57.4	77	5.0	69
Syrian Arab Republic	14.9	67	7.1	74
Tunisia	74.5	87	22.0	22
United Arab Emirates	58.9	6	17.0	41
Yemen, Republic of	28.4	71	19.9	89
<b>MENA</b>	<b>49.0</b>	<b>63</b>	<b>19.7</b>	<b>64</b>
Resource-poor	64.0	82	28.4	62
Resource-rich	43.6	55	16.5	65
Resource-rich, labor-abundant	24.3	62	19.1	64
Resource-rich, labor-importing	54.6	52	15.0	66
East Asia and Pacific	43.3	45	41.0	48
Europe and Central Asia	47.0	46	51.8	51
Latin America and the Caribbean	45.8	50	57.0	53
High-income OECD	89.2	47	91.2	49
South Asia	47.5	53	38.9	31
Sub-Saharan Africa	39.4	53	36.7	55
<b>World</b>	<b>50.0</b>	<b>50</b>	<b>50.0</b>	<b>50</b>

Sources: World Bank Staff estimates; see appendix B.

Note: Regional averages reflect unweighted average of countries included.

a. "Current status" reflects country's current placement in a worldwide ordering of countries, based on a variety of governance indicators expressed as a cumulative frequency distribution, with "100" reflecting the country with the most-efficient/accountable governance processes (worldwide) and "0" representing the country with the most-inefficient/unaccountable governance processes (worldwide).

b. "Reform progress" reflects the improvement in a country's rank between 2000 and 2005 in a worldwide ordering of countries, based on governance indicators 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.

conomic outcomes are socially acceptable among those who have benefited from the old systems.

At the same time, it must be emphasized that the MENA region continues to have the greatest gap with the rest of the world with regard to accountable and inclusive governance structures, ranking (on average) in the bottom quintile worldwide, by far the lowest average ranking worldwide. Moreover, there is almost no diversity in the region with

regard to accountable governance structures. Every country in the region except one—Jordan—ranks in the bottom third with regard to public sector accountability (and Jordan is only marginally higher). Given this especially large gap in public sector accountability with the rest of the world, it is thus an important development that both resource-rich and resource-poor economies in MENA are making a start at these vital changes.