

**OECD CONFERENCE**  
**on Investment in MENA**  
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*Part I*

***Investment Climate Reform:  
Challenges for the MENA Region***

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# **PART 1: Economic & Social Challenges facing the MENA Region**

- ❑ They are huge
- ❑ Well known, described in many studies and reports by WBG and others
- ❑ For instance, my colleague Gilles Garcia of the World Bank European Office well summarized the challenges in the following 8 slides

# **Growth in the MENA Region: huge challenges ahead**

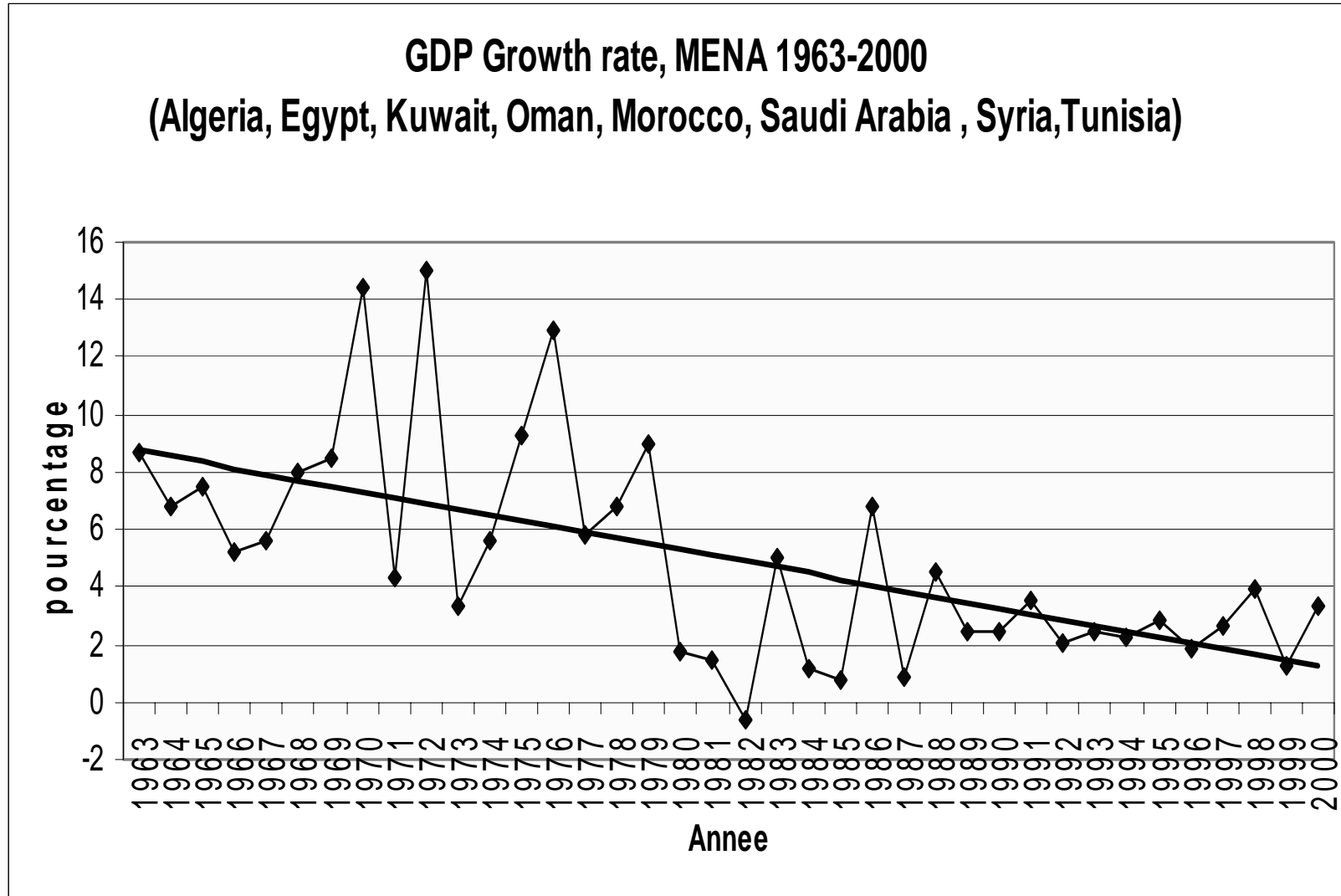
- ❑ 18 countries (from Morocco to Iran – not including Turkey -> ECA region)
- ❑ 300 million inhabitants (60% < 24 years old)
- ❑ 40% of the under 24 are unemployed
- ❑ 100 million jobs must be created in the next 20 years
  - ❑ => **5 million new jobs a year needed**

# **Past 20 years :**

## **Slow growth and rising unemployment**

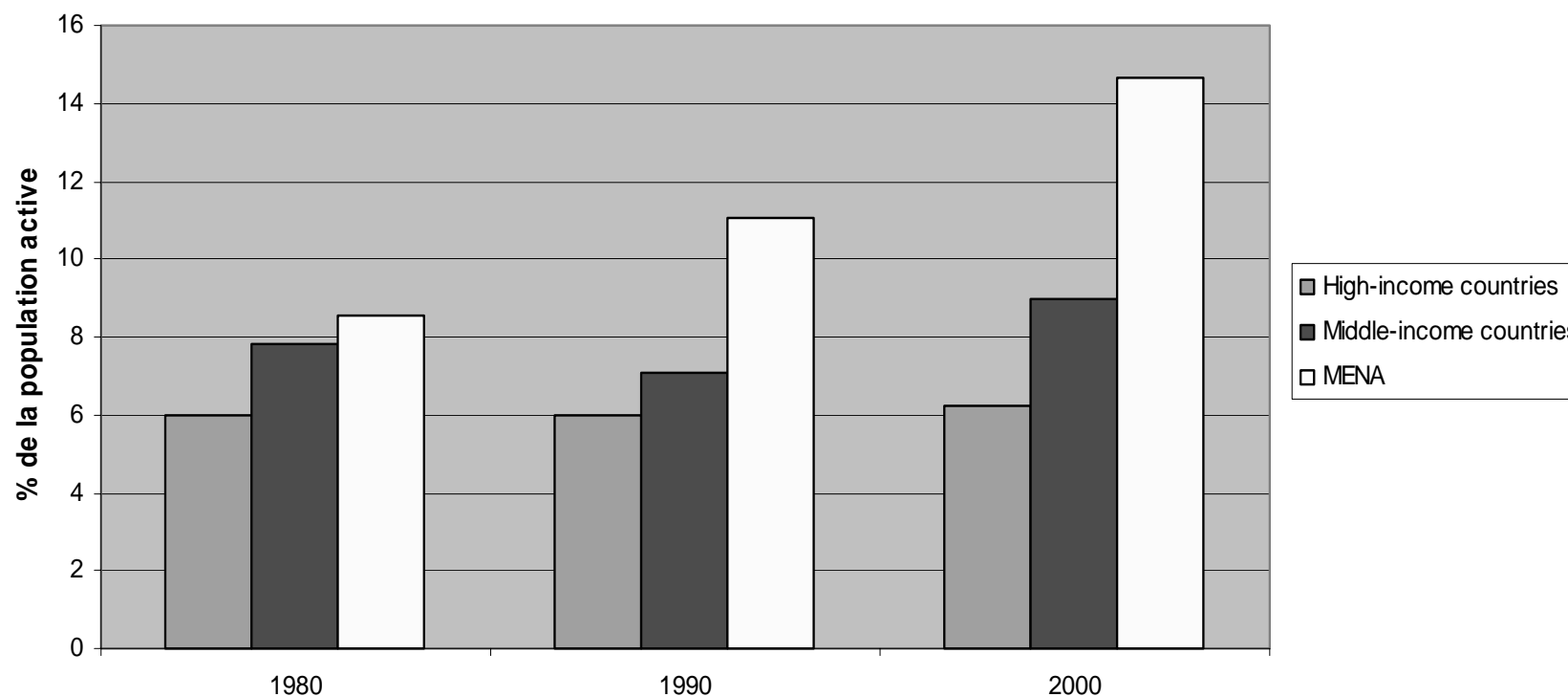
- ❑ Growth close to 2-3% (on average) => not sufficient to reduce poverty
- ❑ Unemployment > 14%
- ❑ Non-oil exports have remained low and stable (around 7% of GDP)

# Low Growth Rates



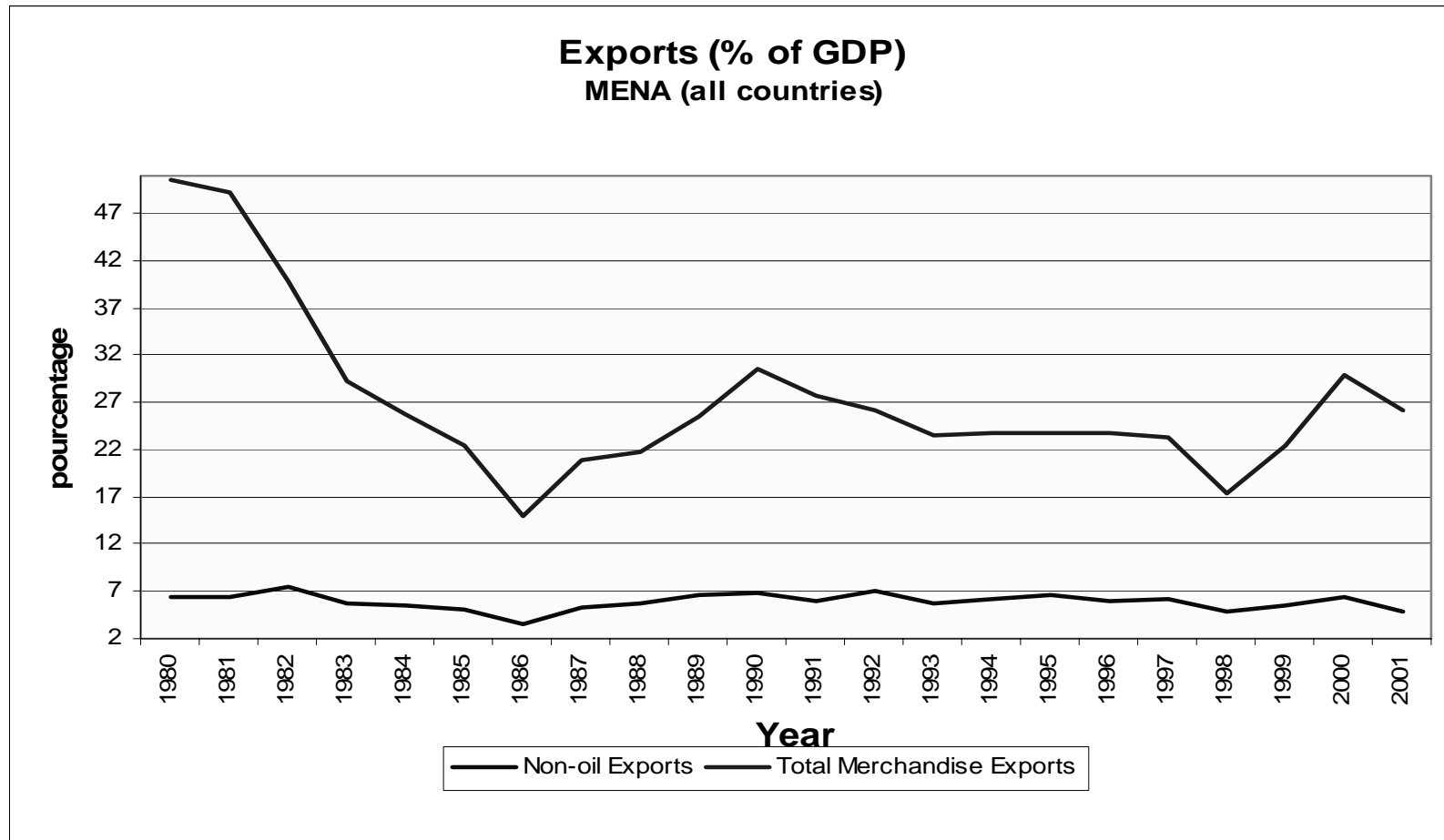
# Unemployment increased

Unemployment rate, MENA 1980-2000

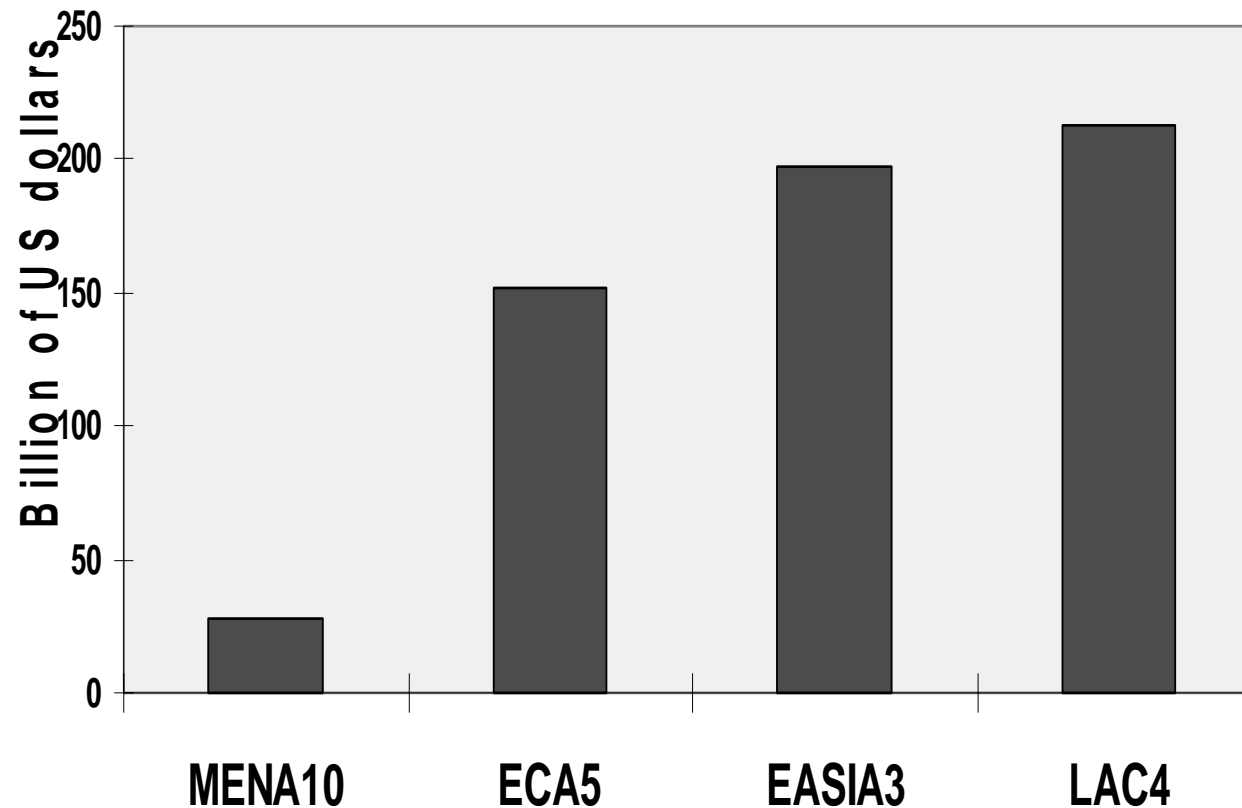


On this page the MENA region includes 12 countries for which data was available: Algerie, Egypte, Iran, Jordanie, Liban, Maroc, Syrie, Tunisie, Yemen, Oman, Bahrein et Arabie Saoudite.

# Exports have not increased



# Non oil exports (\$34 Billion) below other Regions of comparable size



ECA-5: Czech Republic, Hungary, Poland, Russia, Turkey;

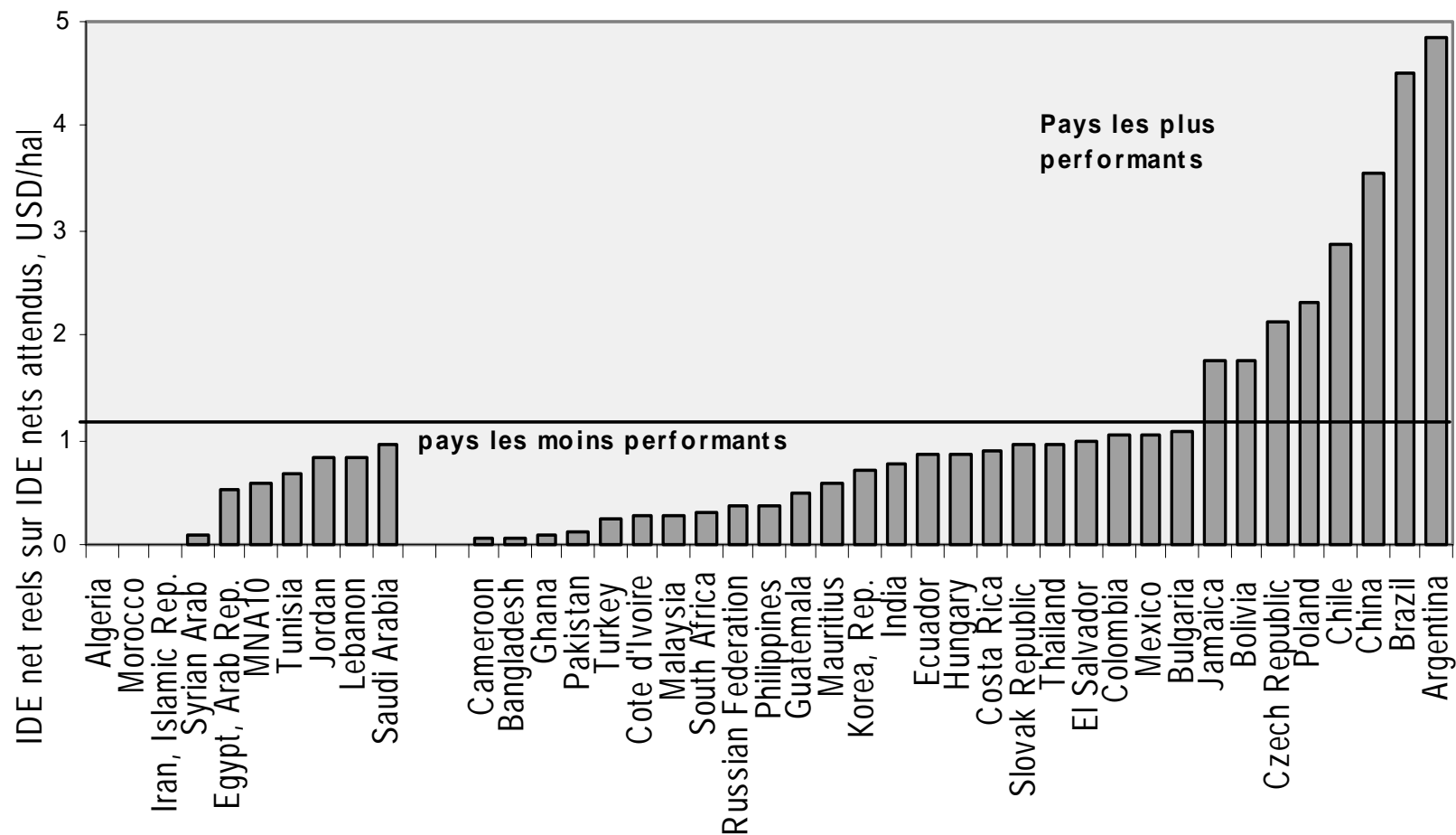
EASIA-3: Indonesia, Malaysia, Thailand; LAC-4: Bolivia, Chile, Mexico, Brazil



# **Trade and Investment are central for growth and employment**

WB research suggests that if only half of the **trade & FDI potential** of the region could be realized, the per capita income could increase by **4% a year**

# An unrealized FDI potential



Source: World Development Indicators.

Note: Regression is based on 42 countries; values for 2 low-income countries (Indonesia and Yemen) are not reported because of negative values.

# Conclusion of Part 1

- MENA's challenges call for dramatic increases in both trade & investment
- Private investment (including FDI) is far below the Region's potential
- How to go about it? **How to improve the investment climate?**

## **PART 2: Improving the Investment Climate**

- ❑ Resting on **strong political will** and **partnership** with the **Private Sector**, an **effective strategy** starts with a **thorough, objective diagnosis** of the **constraints** affecting a country's investment climate and their **prioritization**
- ❑ Many **tools** exist to diagnose the key constraints and monitor reform impact/progress over time

# Assessing the Investment Climate: some “tools” used by the World Bank

## (1) Evaluating the overall climate -> the “Big Picture” approach

- ❑ The *FIAS Diagnostic* of the Investment Climate  
(not a survey)
- ❑ The *Investment Climate Assessment* - ICA  
(survey of firms)

# Assessing the overall Investment Climate:

- ❑ Each approach (ICA and FIAS Diagnostic) has its merits
- ❑ Both nicely complement each other and lead to concrete **recommendations for policy reforms**

# **More on the ICA: a survey instrument**

- A core survey instrument linking constraints to firm-level productivity
- Quantitative questions in terms of dollars and days
- Standardized sampling and implementation across countries
- Additional modules reflecting country circumstances (e.g., Regulatory costs, SMEs...)

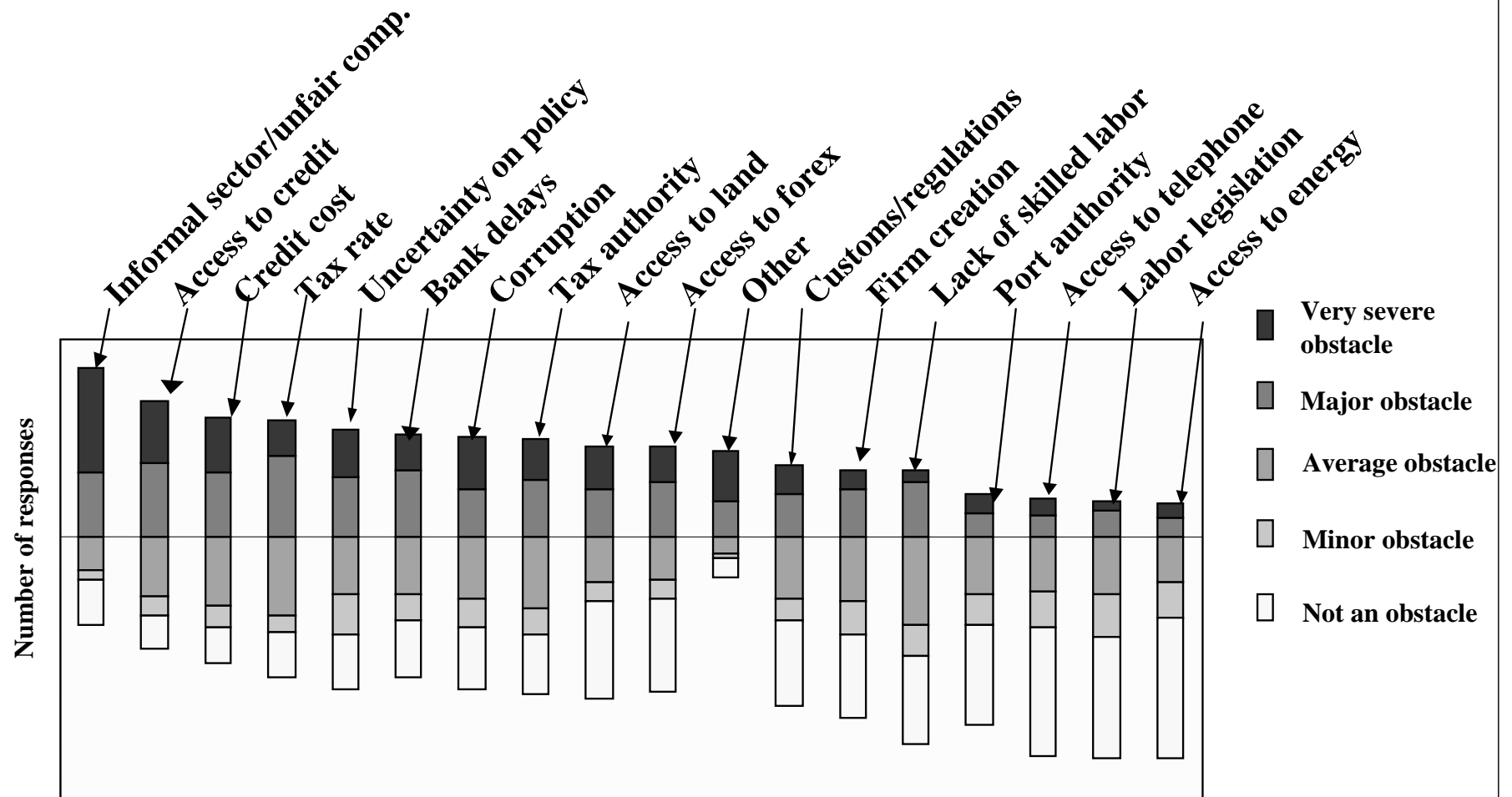
# **What we can learn from a WB Investment Climate Survey: the example of Algeria**

The following 6 slides were prepared by my colleague Najy Benhassine of the MENA region when presenting the initial results of the Algeria ICA survey  
([Nbenhassine@worldbank.org](mailto:Nbenhassine@worldbank.org))

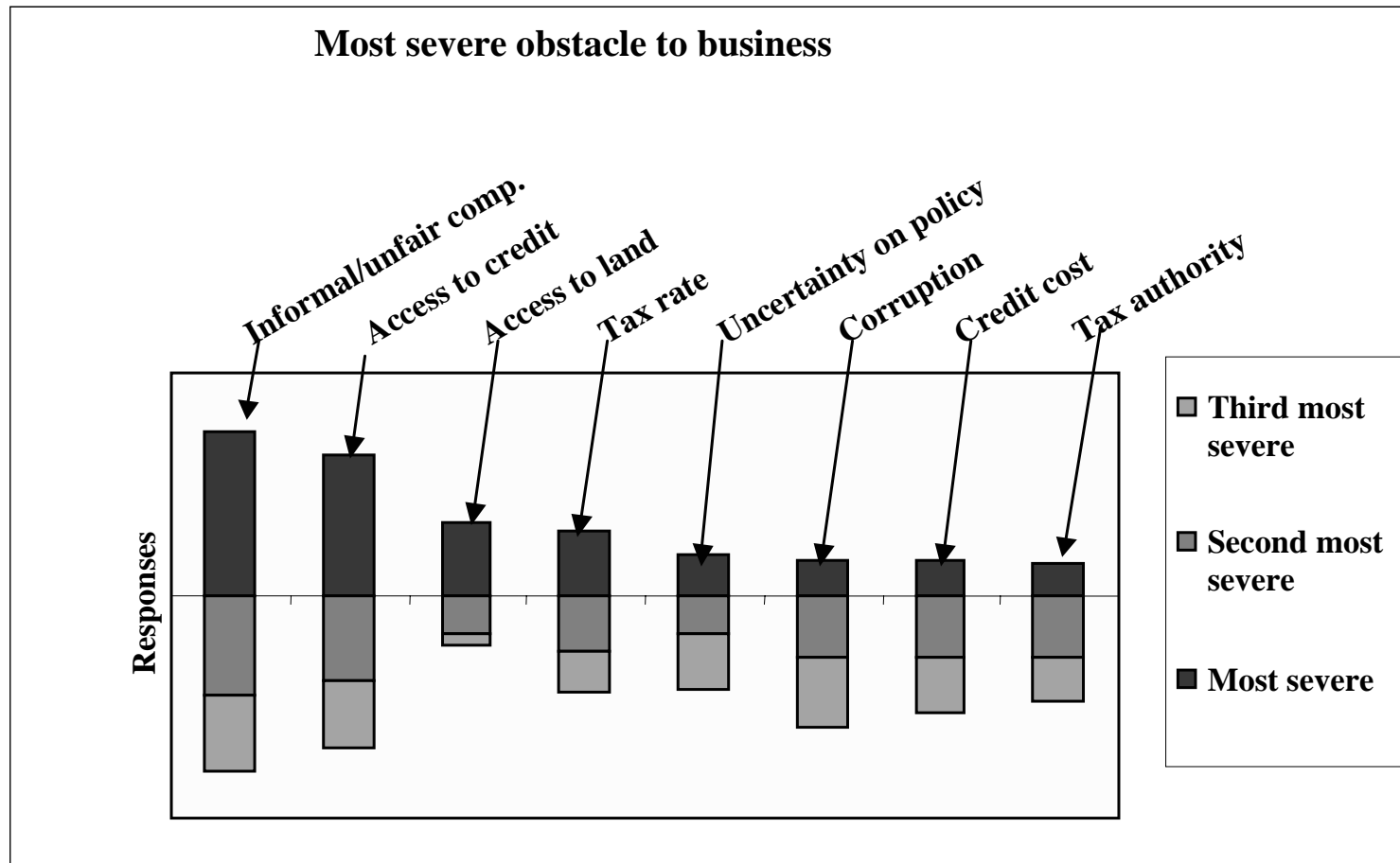


# Algeria ICA - constraints to doing business: the usual suspects...

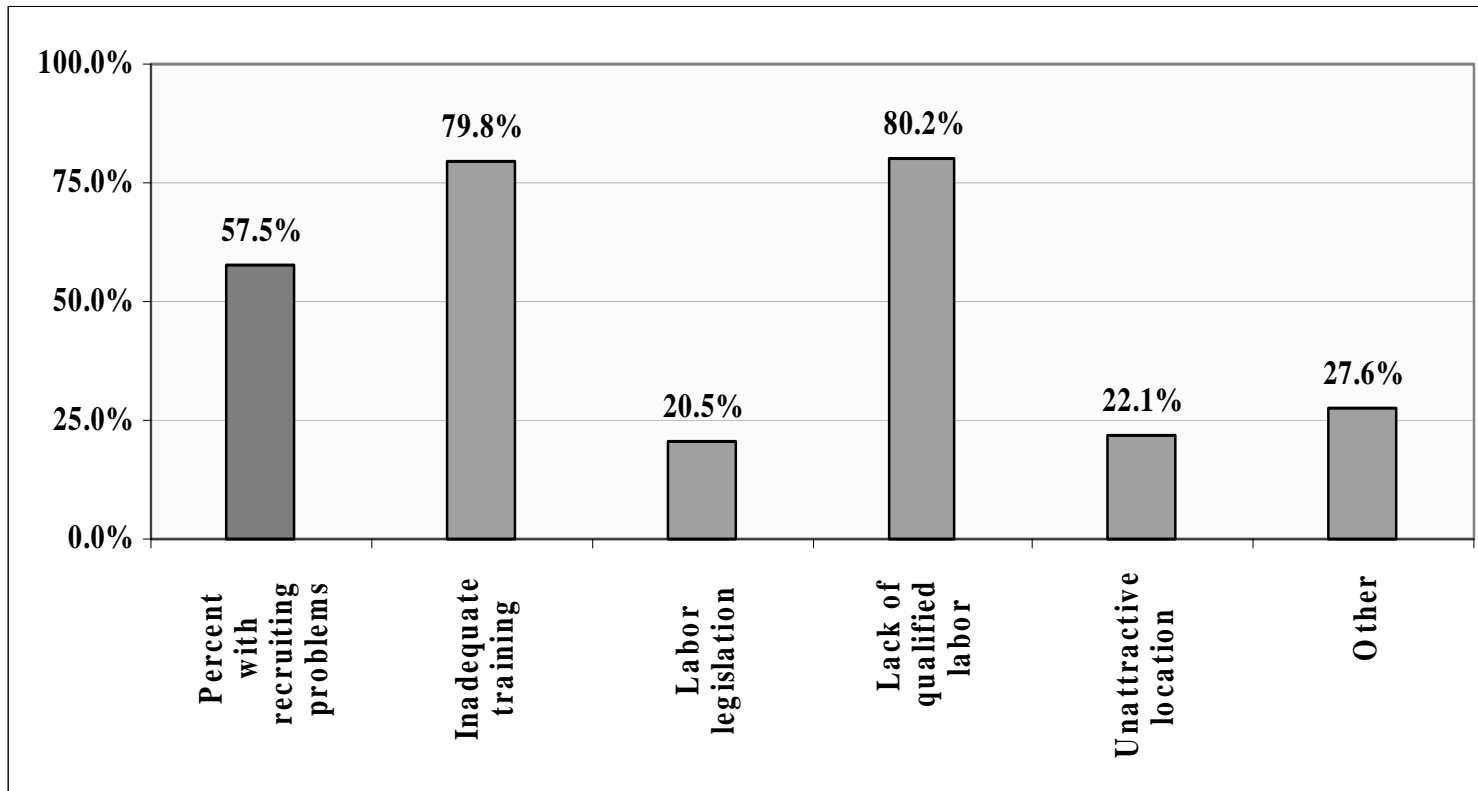
Main Obstacles to doing business



# Algeria - most severe constraints : informal/unfair competition, access to credit, land

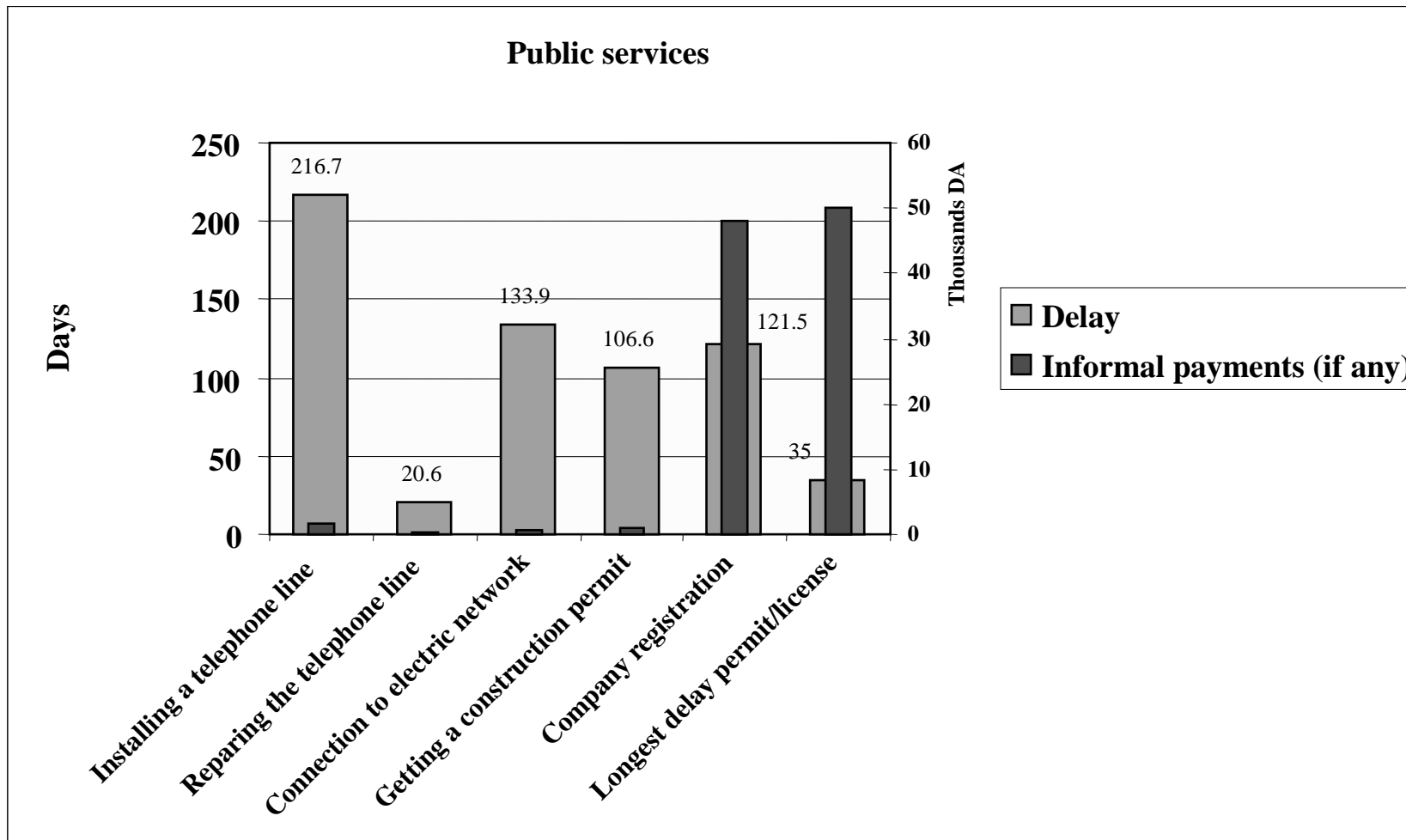


# Algeria ICA: Lack of qualified labor

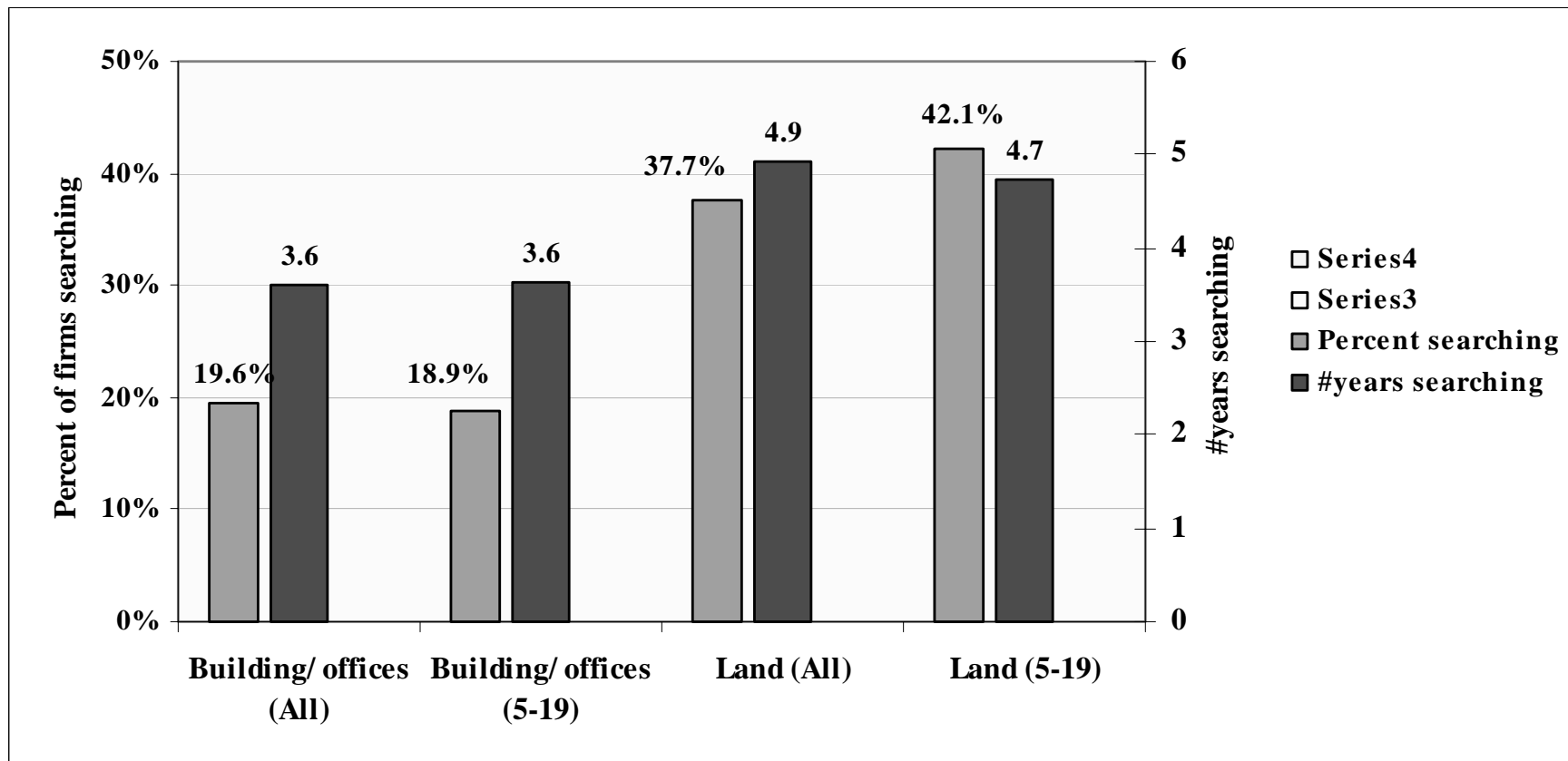




# Algeria ICA: Public services



# Algeria ICA: access to land and buildings...



# **Assessing the Investment Climate: some “tools” used by the World Bank**

- (1) We first looked at the “Big Picture” approach** (assessing the overall investment climate, through ICAs and FIAS Diagnostics)
- (2) Now, let’s focus on a frequent problem: the cost of doing business.** How to measure it?  
How to address it?

# The Cost of Doing Business

- To reduce transaction costs, one first needs to **measure** them.
- The WB has 2 useful tools: « **Doing Business** » and « **FIAS reviews of Administrative Barriers to Investment** »



**“Doing Business” (WB research) compares the cost of doing business in 130 countries using 5 indicators:**

- Starting a Business**
- Enforcing a Contract**
- Flexibility of Labor regulation**
- Getting Credit**
- Closing a Business (insolvency)**

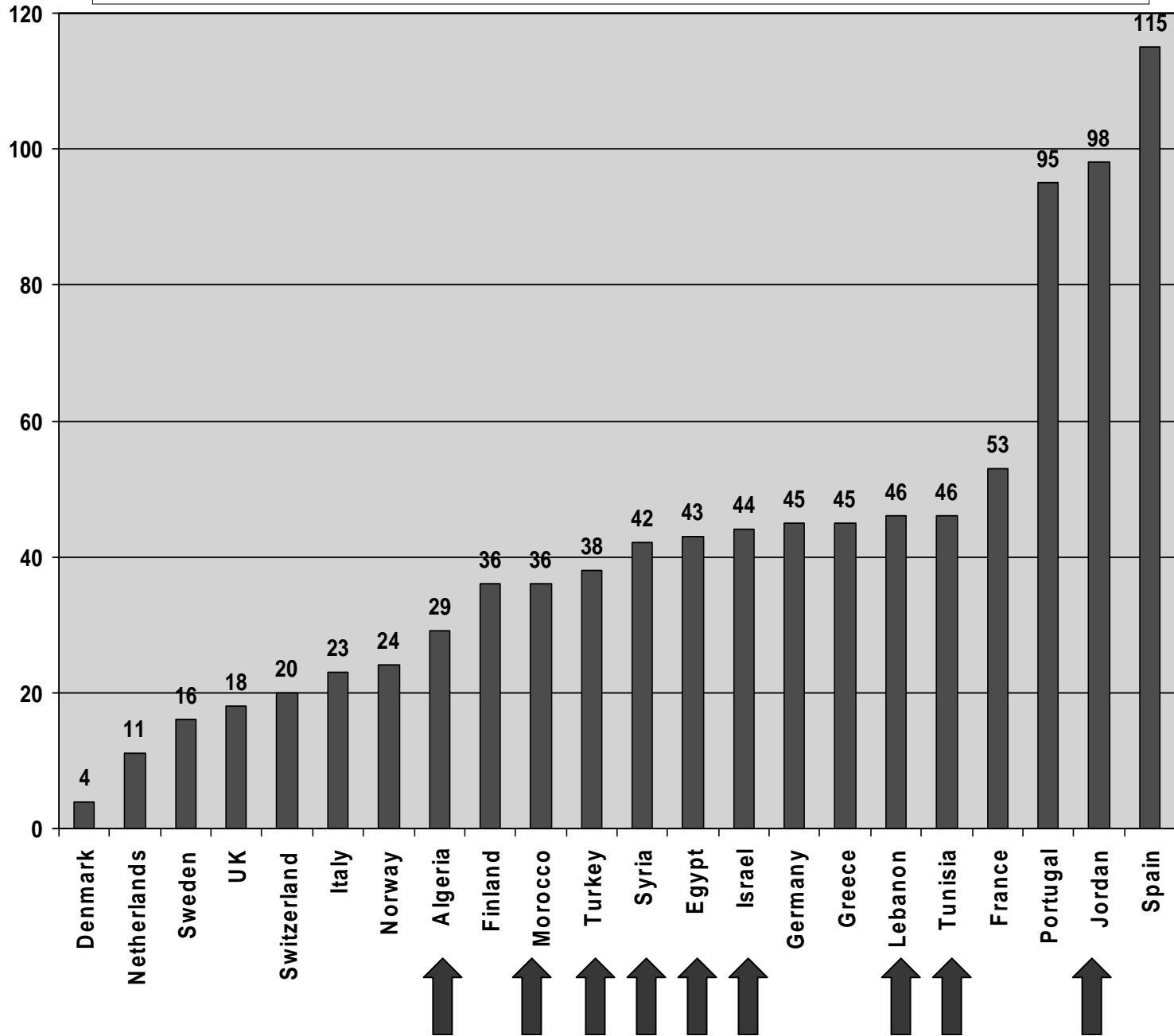
# **“Doing Business” : let’s look at some of the results for the MENA region**

- ❑ Starting a Business**
- ❑ Closing a Business (insolvency)**

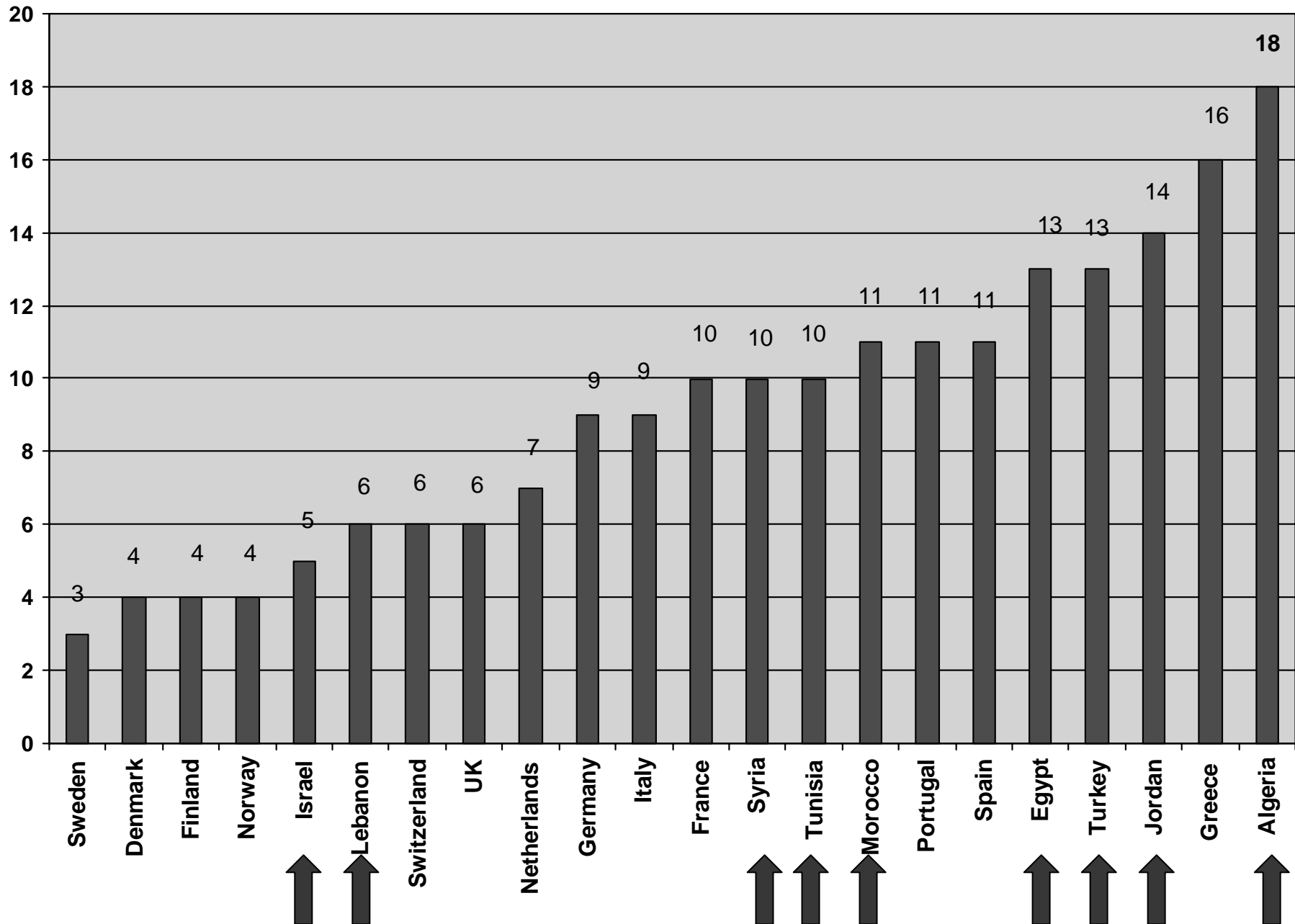
(Results available at:  
<http://rru.worldbank.org/DoingBusiness>)

# **STARTING A BUSINESS**

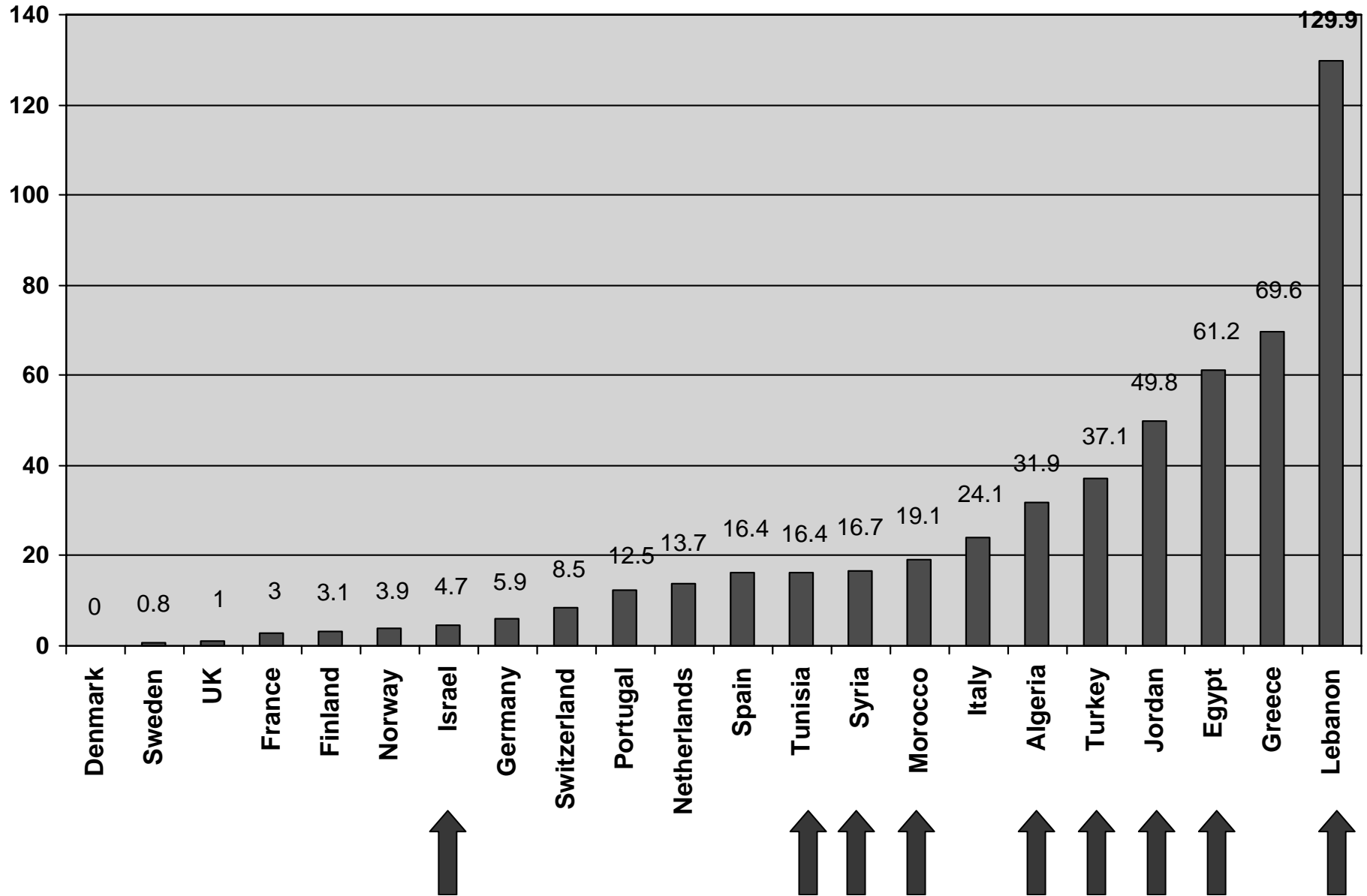
# Number of days required



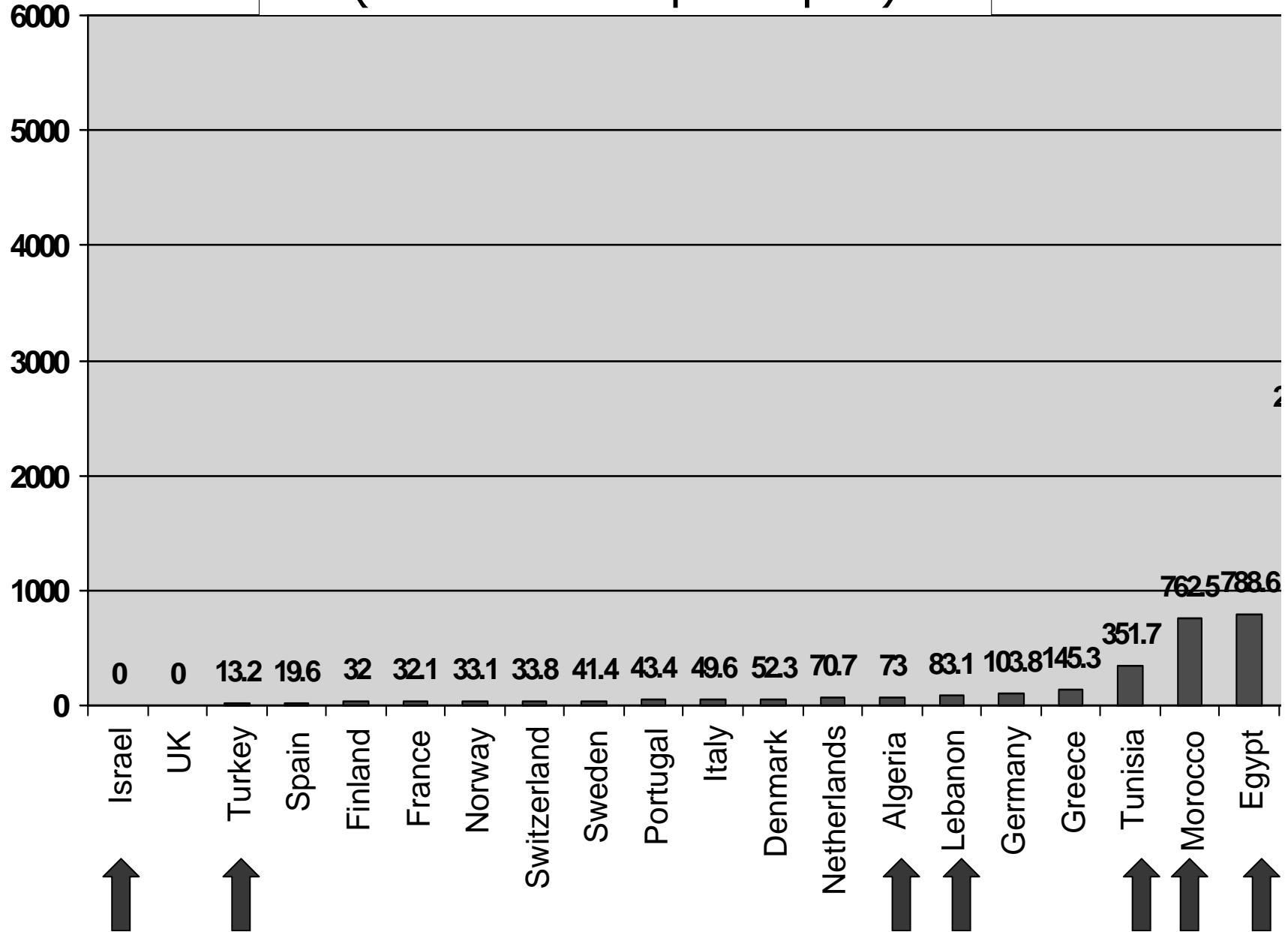
# Number of steps required



# Administrative Costs & Fees (as % of income per capita)



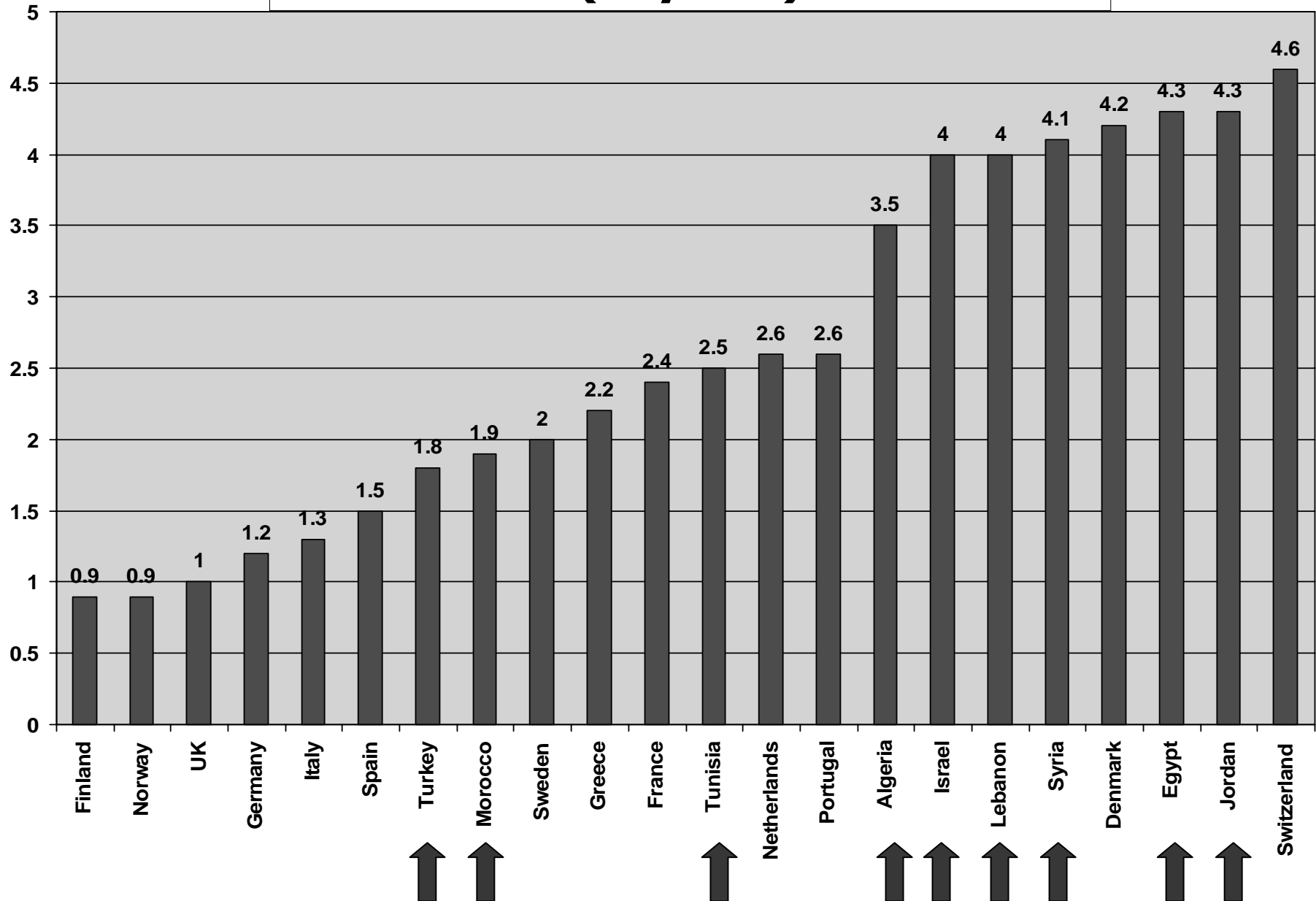
# Minimum Capital ( % of income per capita)



**CLOSING A BUSINESS  
(INSOLVENCY)**

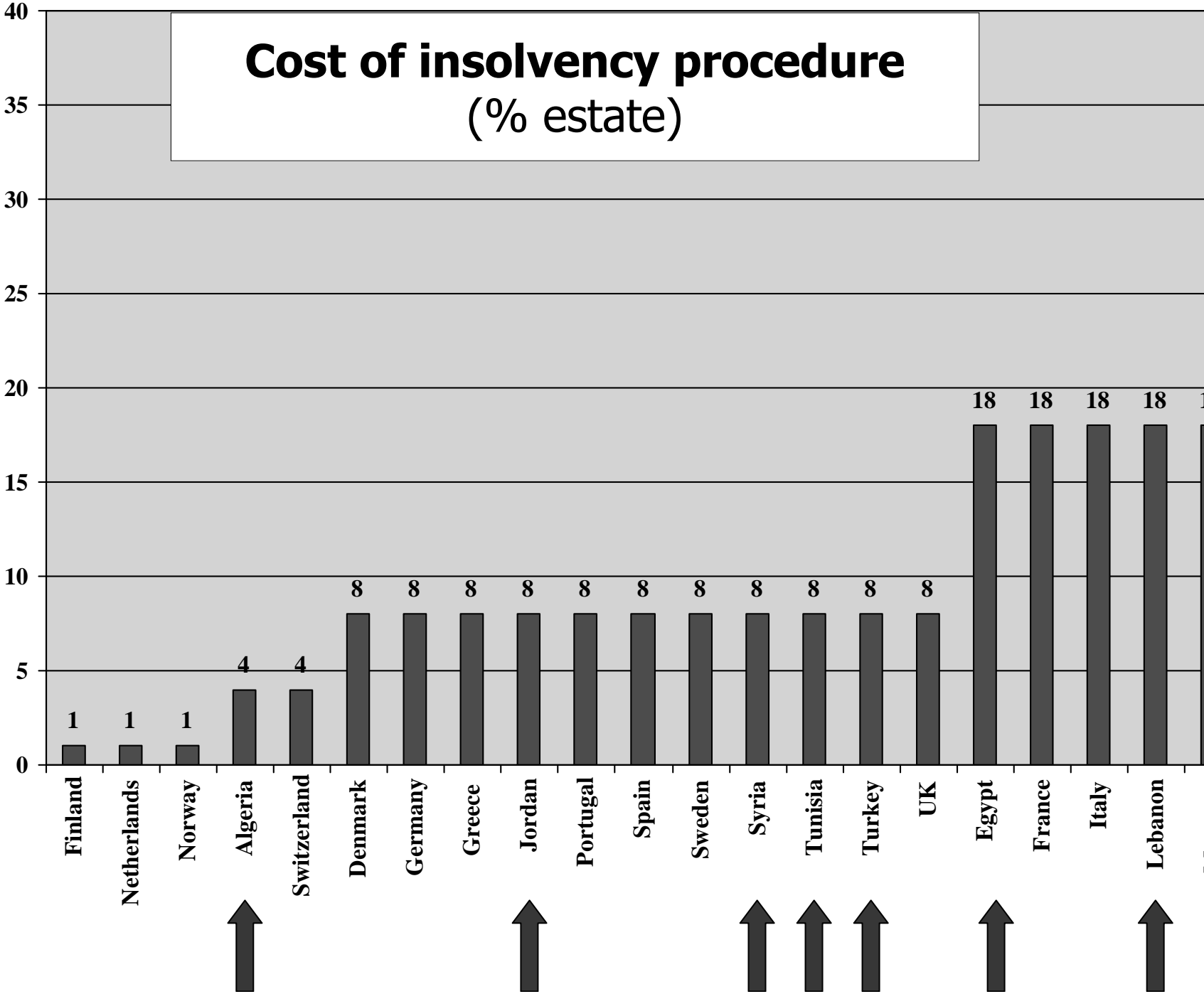


# Time required for liquidation (in years)



# Cost of insolvency procedure

(% estate)



# The Cost of Doing Business

Comparing « Doing Business » and FIAS Admin.  
Barrier studies.

- « **Doing Business** » = good tool to quickly benchmark countries (130 countries covered and growing) against 5 key indicators (more to be added in 2005)

# Reducing the Regulatory Burden

- « **FIAS Admin. Barriers studies** » focus on *administrative* procedures (not bankruptcy or access to credit) and:
  - (a) cover **all procedures** an investor has to go through to set-up a business and start operating and
  - (b) Provide an in-depth **analysis** of those and detailed, **concrete, and implementable recommendations** for their **simplification**.

# Administrative Barriers

- 
- Get Tax ID
  - Get Import Permit
  - Get Employer ID
  - Apply for Expatriate Work Permits
  - Apply for License
  - Acquire Business Visa
  - Register with Investment Promotion Agency
  - Apply for Incentives
  - Apply for Investor Permit
  - Find Land
  - Apply for Land
  - Register Licenses
  - Register Business
- Other visible text in the image:*  
• Negotiate  
• Claim Incentives  
• Unions  
• Repatriate Profits  
• Export Goods

## **PART 3:**

### **Improving the investment climate in MENA:**

#### **Designing and Implementing a Strategy addressing the main Constraints**

# **Investment climate reform in MENA region: some priorities emerge in spite of countries' varying situations (1)**

- Clear need for Governance, transparency reforms
- Accelerate economic reforms (liberalization)
- Reduce tariff and non tariff barriers to trade

# **Investment climate reform in MENA region: some priorities (2)**

- Improve physical infrastructure, access to land
- Invest in Education, Labor Skills
- Reduce Transaction costs, regulatory burden
- Reform Tax System & Incentive Regimes



# New reality call for New FDI Policies

In the past:

- FDI was treated with suspicion
- Key objective was to protect local industry from competition
- State was dominant in the economy

Result => **restrictions to FDI, a “command & control approach”**

# From Control to Promotion

With globalization came:

- Greater recognition of the benefits of FDI
- Focus on liberalization, deregulation, increased competition
- More limited role for government
  - => More liberal FDI policy
  - => Emphasis is **less on control and more on promotion**

# Shift From Control to Promotion Creates Opportunities for the IPAs

IPAs have a central role to play, not only through promotion per se, but:

- ***investment facilitation,***
- ***servicing investors and***
- ***policy advocacy → here is the link with IC Reform***

**In the new context, calling for far-reaching Investment climate reforms, the IPAs of the Middle East have a central role to play**

Ideally positioned to (a) identify constraints affecting firms and on this basis to (b) formulate proposals for specific reforms and (c) to advocate for these changes with the Government.

***Policy advocacy → the new frontier for IPAs ?***

# WHERE TO GO FOR ADVICE?

For any assistance in **designing & implementing investment policy reforms** based on country's circumstances and best international practices → one partner: the **Foreign Investment Advisory Service (FIAS)** of the World Bank and IFC

Thanks for your attention.

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