BEYOND THE CRISIS: BUSINESS AND CITIZENS AT THE CENTRE OF POLICY RESPONSES

Contribution of the MENA-OECD Investment Programme

MENA-OECD Ministerial Conference

23 November 2009
Marrakech, Morocco

OECD

MENA-OECD INVESTMENT PROGRAMME

I. BACKGROUND

In recent years MENA countries have faced serious unemployment challenges…

At the beginning of 2000, the MENA region faced a challenging combination of rising youth unemployment and high levels of poverty, with almost 20% of the population living under the poverty line of US$2 per day. The region lagged behind other emerging country regions in attracting foreign direct investment, receiving just 0.4% of global inflows in 2000[1]. Already at that time, the World Bank estimated[2] that approximately 100 million additional jobs would have to be created in the MENA region[3] by 2020 just to keep up with current population growth. While the region has made considerable progress since 2000, with global FDI inflows climbing to 5.52% in 2008, a GDP growth of an average of 6-7% is widely considered necessary to absorb new labour market entrants and contribute to poverty reduction.

…which could only be addressed by private sector led growth

One of the key achievements of MENA governments in the last decade has been to steer their economies away from the public sector through reforms improving the climate for foreign as well as domestic investors. Policy reforms ranged from administrative simplification to reform of tax policies, to SME policies and corporate governance and investment liberalisation.

MENA governments requested OECD expertise in 2004 to support implementation of reforms

In 2004, MENA countries invited the Organisation for Economic Cooperation and Development (OECD), along with its key partners, to provide policy advice on implementing investment policy reform. Following this invitation, the MENA-OECD Initiative on Good Governance and Investment for Development was launched, with the participation of 18 countries from the region. The objective of the MENA-OECD Investment Programme, one of the two pillars of this Initiative, is to provide advice on improving the investment policy climate in the region to enhance growth and job creation.

There has subsequently been a significant rise in investment in the region, with a positive impact on employment

MENA governments' efforts over the last years to improve the investment climate have not gone unnoticed by local, regional and international investors. Interregional investment flows have picked up considerably; and FDI inflows to the region have increased rapidly over the past five years, from 22.8 billion USD in 2004 to 93.7 billion USD in 2008[4], with some countries such as UAE, Egypt and Saudi Arabia absorbing a large part of the inflows. The increase in FDI seems to have had a positive effect on unemployment rates – between 2003 and 2008, North Africa's aggregate unemployment rate fell from 13.1 to 10% of the labour force while unemployment in the Middle East fell from 12.1 to 9%.

---

[1] UNCTAD (2001); World Investment Report (2001): Promoting Linkages, New York, Geneva.

[2] World Bank, Unlocking the Employment Potential in the Middle East and North Africa: Towards a New Social Contract, September 2003.

[3] In this context, the MENA region includes Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen.

[4] Based on UNCTAD, World Investment Report 2009 and UNCTAD Country Fact Sheets.

However, quality of FDI flows needs to be improved for sustainable growth

While the dynamism displayed by most MENA economies in undertaking economic liberalisation and modernisation is encouraging, FDI stocks on a per capita basis are still low compared to global benchmarks - for example, no MENA country is featured on the top ten list of countries with the largest FDI stocks.[5] Furthermore, FDI flows need to be channelled into more productive investment, away from the current focus on sectors such as travel and tourism, agriculture, real estate and hydrocarbons. Governments of the region cannot lose sight of the fact that they are competing for investment flows with other regions such as Asia and South-East Europe, which are also modernising at a rapid pace.

II. THE IMPACT OF THE CRISIS

The recent financial and economic crisis has created many new challenges, both for MENA and OECD governments. Although the impact of the crisis has so far been less severe in the MENA region than in many OECD economies, its negative impacts have been felt, albeit unevenly, across the region.

The first round effects of the crisis have been felt most strongly in GCC countries…

The first round effects of the financial crisis were felt most strongly in banks that had borrowed externally and were heavily exposed to asset markets, notably those in the GCC countries. The sudden withdrawal of foreign funds and fall in domestic asset prices put severe strain on the balance sheets of these banks, and caused credit expansion to contract sharply, by up to 40% in some countries. By contrast, the mainly bank-based financial systems of the non-GCC countries had less exposure to international capital markets and did not face such severe problems. The retrenchment of credit following the financial crisis has tended to have an especially adverse affect on smaller enterprises, which tend to be perceived as higher risk.

…a swift policy response helped mitigate the worst of the problems

In order to address the immediate impact of the financial crisis, central banks in the GCC countries extended credit to financial institutions facing difficulties. This rapid response was successful, as indicated by financial soundness indicators[6]: capital adequacy ratios remain respected, and non-performing loans have not expanded significantly. The lower exposure of non-GCC banks to the crisis meant that less reaction was necessary; actions mainly involved introducing or reinforcing guarantees for local bank deposits in various countries.

The second round effects have been felt more widely in the region…

However, the region could not escape the fallout from the global recession that followed the financial crisis. FDI inflows are forecast to fall abruptly in 2009, by up to 32% among the group of oil importers.[7] Tourism, a major contributor to GDP in some countries, has declined; remittances have dried up; and real estate and other major projects have been stalled. This has been compounded by the effects of slowing global trade on the region. While resource rich countries have

[5] These countries include China, Hong Kong, Singapore, Russia, Mexico, Turkey, Poland, Brazil, Chile and India (UNCTAD World Investment Report 2009).
[6] IMF Global Financial Stability Report 2009.
[7] IMF Middle East and Central Asia Regional Economic Outlook October 2009.

been able to substitute government spending for private capital inflows, public spending in other countries has been constrained by shortfalls in their main sources of revenue.

The effects of the crisis on employment may be long term, even if the recession itself is short-lived

In spite of the extensive policy response outlined above, the onset of the global financial crisis in 2008 and the resulting recession have challenged the region's ambitious growth and employment targets. According to the World Bank, although the region as a whole registered GDP growth of 6.1% in 2008, a slight increase on the 5.6% recorded in the previous year, there is likely to be a sharp decline to around 2.2% in 2009.[8] Similarly, the ILO forecasts that the unemployment rate will increase by around 25% in the Middle East and 13% in North Africa in 2009 compared to 2007.[9]

It is vital that authorities continue with the reform agenda, despite competing claims on their resources

Now that the economic crisis has reached the MENA region, it is more important than ever that governments continue working towards strengthening their economies' investment environments in order to mitigate its effects. MENA governments have clearly recognised the continued importance of their investment reform programs for the recovery of their economies, and plan to pursue long-term reforms to improve the business climate by reducing administrative barriers and relaxing restrictions on inward investment or improving access to finance.

MENA Governments are continuing with longer term reform measures improving the business and investment climate to mitigate the effects of the crisis

In Morocco, for example, the government is actively pursuing sector reforms and improving its institutional frameworks. The government continues to promote the country as an outsourcing hub for European services and manufacturing and is setting up an ambitious horizontal reform strategy. In the framework of the Plan Emergence, and with a new national commission chaired by the Prime Minister, Morocco implemented new and comprehensive business climate reforms including its commercial law and justice system, regulatory reform for business start up and the establishment of a new investment promotion agency (AMDI). In Egypt, public authorities are committed to undertaking reforms aimed at streamlining investment procedures, dismantling bureaucratic obstacles, and liberalizing business.[10] The government is proceeding with ERRADA, a programme targeted at regulatory simplification, has started implementing a new type of investment zones and is further promoting an ambitious agenda of public-private partnership projects in infrastructure. In Saudi Arabia, major reform efforts are under way to further strengthen the country's financial system. Restrictions to foreign ownership are being lowered and new debt instruments approved in the Kingdom. The Saudi Arabian General Investment Agency (SAGIA) is taking additional measures to reduce administrative barriers to business development.[11] In the UAE, the authorities have pledged to introduce new laws to stimulate both domestic and foreign investment in the private sector, including moves to lift the 49% ownership

[8] World Bank, MENA Economic Developments and Prospects 2009.
[9] International Labour Organisation, Global Employment Trends Update May 2009.
[10] Ministry of Investment, Egypt and MEED articles.
[11] James Gavin (MEED); 2009.

restriction on domestic companies in most sectors.[12] Tunisia has committed to a five-year development plan to enhance investment frameworks and currency reform as part of the ongoing liberalisation of services which relaxes restrictions on FDI in retail distribution, banking and finance.[13] Jordan's government remains committed to its National Investment Strategy (NIS), which aims to increase investment flows in consultation with business leaders by easing bureaucratic restrictions, simplifying rules for business start-ups, easing labour regulations and overhauling the tax system.[14]

In addition, MENA governments have implemented a number of short-term investment-related measures directed at mitigating the effects of the crisis in the MENA region. These are primarily fiscal incentives in the form of tax or customs duty reductions and export guarantees.

III. THE MENA-OECD INVESTMENT PROGRAMME: A PARTNERSHIP FOR POLICY REFORMS

A strong partnership between MENA and OECD countries should support the crisis exit strategy: MENA countries should maintain momentum for reform, OECD economies should do their homework

Results from these long term policy choices will take some time to materialize but they will be worth it. At this critical stage, a more active engagement among MENA countries and with other partners is essential to assist governments with their policy choices and help shape the future system. To this end, strengthened partnerships between MENA and OECD economies can help pave the way for an economically and socially sustainable future. The economic crisis may even generate opportunities for the region. Moments of crisis can accelerate reform agendas, as obstacles to implementation can be overcome when the need for immediate policy responses is better understood. Peer support is helpful in such a context, as it offers lessons from efforts to cope with the crisis helps partners to integrate them into revitalized programmes for reform. It is critical that the general thrust towards better business regulation, lean administrative structures, transparency and good governance all remain at the centre of positive development strategies.

The MENA-OECD Investment Programme supports ongoing policy activities…

The MENA-OECD Investment Programme, created in 2004 at the request of the MENA countries and regionally owned, is a comprehensive regional programme that contributes to economic growth and job creation in the MENA region through capacity building and the pursuit of reforms to improve the business climate and investment policies. In order to achieve results, a two-track approach is pursued. First, a regional forum for results-oriented policy dialogue brings together MENA and OECD practitioners in five working groups, in the Programme Steering Group and at Ministerial level. Second, at the national level, the Programme helps strengthen country capacity to evaluate, prioritise and implement investment and business climate policy reforms.

…including regional peer dialogue…

At the **regional level**, the MENA-OECD Investment Programme supports peer dialogue on policy areas of common interest to MENA country participants through the meetings and outputs of the **Working Groups**. Responsible for the

[12] Economist Intelligence Unit; *UAE Country Report*; January 2009.
[13] Economist Intelligence Unit; *Tunisia Country Report*; August 2009.
[14] Economist Intelligence Unit; *Jordan Country Report*; August 2009.

delivery of substantive work, the Working Groups focus on investment policies and promotion; SME policy, entrepreneurship and human capital development; providing a tax framework for investment; competitiveness; and improving corporate governance practice. The regionally-led **Steering Group** meets regularly and provides guidance on the strategic direction of the programme. **Ministerial Conferences** (two have been held to date) provide political support and convey key messages from MENA-OECD countries.

On the occasion of the second Ministerial Conference of the MENA-OECD Investment Programme (November 2007), MENA and OECD Ministers endorsed the **Declaration on Fostering Women's Entrepreneurship in the MENA Region**. They agreed on the necessity to adopt a "targeted and integrated support approach […] to accelerate the rate at which women in the MENA region are starting new businesses, growing their enterprises, creating employment, and participating fully in economic activity." As a follow-up, the Programme created a **Women's Business Network**. Together with other partners, the Programme has also launched the **MENA Forum on Responsible Business Conduct** (RBC), an initiative approved at the second MENA-OECD Ministerial Meeting in November 2007. Under the umbrella of MENA-OECD **Enterprise Financing Network**, a new project, the **MENA 100 Business Plan Competition** was launched in June 2009 (see www.mena100.org). The MENA-OECD **Business Council** will be launched at the Business Forum on 22 November 2009 preceding the MENA-OECD Ministerial Conference in Marrakech.

…and country-specific implementation support

At the request of MENA countries, Phase II of the MENA-OECD Investment Programme has strengthened **country-specific activities** through the development of **Business Climate Development Strategies** (BCDS). Egypt and Morocco have been selected as pilots to conduct the first BCDS assessments. A first assessment of business climate policy for both countries across 12 dimensions was conducted and subsequently presented in October 2009. The Programme invites other countries to conduct a similar thorough assessment of their business climate, define key strategic directions and work on implementation support. The MENA-OECD Programme's investment policy work with **Iraq** was further strengthened and nine capacity-building workshops on investment policy, international investment agreements, anti-corruption and transparency, and aid management were held in Cairo, Amman, and Paris.

The Programme responds to the needs of MENA governments for reform policies beyond the crisis

In **response to the crisis**, the Programme encourages countries to pursue priority business climate reforms. Working Groups discuss and develop regional policy recommendations on how to improve investment and tax policies, corporate governance, access to finance, and financial market development, drawing lessons from the **OECD Strategic Response** to the Financial and Economic Crisis. More specifically, the Working Group on Investment Policies and Promotion monitors the impact of the crisis on FDI flows and suggests policy reform measures, conducts peer learning exercises based on case studies of good practice, discusses ways to strengthen regional investment promotion and protection frameworks and undertakes work on free economic zones, investment incentives and PPPs. The Working Group on SME Policy,

Entrepreneurship and Human Capital Development measures the impact of the crisis on SME development and financing, proposes appropriate responses, and develops tools to enhance SME competitiveness (guidelines on SME-FDI linkages, an action plan on women's entrepreneurship, access to finance, work on export-oriented/high-growth SMEs, business law and conflict resolution reforms). The Working Group on Tax Policy analyses the tax regulatory and policy implications of the crisis and provides analytical tools and capacity building evaluating the effects of tax policy options on revenues, efficiency, equity, distribution, investment, and labour. The Working Group on Competitiveness, to be formally created during the MENA-OECD Ministerial Conference 2009, is defining a regional agenda for improved competitiveness (MENA Competitiveness Report). Finally, the Working Group on Corporate Governance develops and contributes to the implementation of recommendations on corporate governance in banks and State-owned enterprises and on insolvency frameworks.

The MENA-OECD Ministerial Conference is a unique opportunity to shape the road ahead

The **MENA-OECD Ministerial Conference** in Marrakech on 23 November 2009, will be a unique opportunity for dialogue among MENA and OECD Ministers dealing with investment and public governance policies, and will closely involve representatives from business and civil society. Together, participants will develop action-oriented strategies to face the future with a strong reform agenda in place. The MENA-OECD Ministerial Conference of the MENA-OECD Initiative is graciously hosted this year by the Government of the Kingdom of Morocco. The Ministerial Conference will focus on the theme *'Beyond the Crisis: Business and Citizens at the Centre of Policy Responses'.* Main outputs expected are:

- A **Declaration** by attending Ministers from the region on their commitment to pursuing priority business climate and governance reforms with a view to creating jobs;
- Regional policy recommendations on how to improve corporate governance, tax policy, access to finance, and financial market development, drawing lessons from the **OECD Strategic Response** to the Financial and Economic Crisis and MENA policy makers in the expert WGs;
- Launch of the **MENA-OECD Business Council** which will formalise the input of the private sector into the Programme;
- The presentation of the **Business Climate Development Strategies** (BCDS) for Egypt and Morocco, which will provide guidance for continued reforms beyond the crisis and examples for other countries in the region;
- Agreement on the **Work Programme** for 2010 and beyond.

MENA-OECD Investment Programme

CONTACT

Website: www.oecd.org/mena
Email: mena.investment@oecd.org
Alexander Böhmer, Head, MENA-OECD Investment Programme
Tel. +33 1 45 24 19 12, Email: alexander.boehmer@oecd.org