

Preface

Investment policy reform to foster private sector engagement remained high on the agenda in Middle East and North Africa (MENA) countries in 2005. And there are **positive signs**: 2004 was the best year in terms of private participation in infrastructure in MENA countries in a decade, although some sectors are still lacking openness and innovative potential to attract more private sector investment. The year 2005 saw a boom in the MENA region equally in the construction sector and the real estate market. Banks across the Gulf countries are reporting record profits, although the main reason for this surge is rooted in the high oil prices, with some countries on course to highest record income ever. Many other Arab countries now try to attract these petrodollars into their economies to help boost growth and create jobs.

Until now, the **employment record** in the MENA region has been mixed. The average unemployment rate for the 7 largest non-oil diversified economies in the region has actually rose from 12.7% in 1990s to 15% in 2000. However, more recently, the employment figures in the region have been rather positive in that a reduction of unemployment in some countries in the region, Algeria and Iran being the most poignant examples, has been witnessed. The encouraging trend is that even in resource poor economies such as Morocco and Tunisia, a decline in the levels of unemployment has also been witnessed over the past 4 years.

The solution to MENA countries' unemployment problem is closely connected to an improvement in GDP growth performance. **Sustained reforms** undertaken since the 1980s and 1990s by most countries in the region have improved the climate for growth, by restoring and maintaining macroeconomic stability, raising literacy rates, and increasing the private sector's role in the economy through such measures as privatisation. Yet the private sector's response in terms of growth and job creation has been disappointing, particularly in comparison with more dynamic emerging market countries. Presently, private investment is only 14% of GDP for MENA as a whole, significantly below East Asia and other developing country regions. MENA countries have realized the investment gap and started to work on correcting the imbalance by establishing free trade zones and reforming their investment laws to improve their competitive position vis-à-vis other developing country regions.

Clearly, the prerequisite for more successful job creation is sustained and sustainable economic growth. This growth has to come from the private sector. OECD work with non-member countries in the past underlined the need to transition from public sector-dominated economy to one that is **private sector-led**. In many MENA countries, the public sector remains the main source of job creation. The legacy of import-

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oriented, socialist development strategy explains the important role of the public sector in MENA economies.

The business community continues to tell governments that a sustainable private sector led growth requires not just macroeconomic stability but also a stable and conducive *investment climate*. For MENA countries, enhanced economic reforms, namely **reforms of the investment environment** and improvements of financial markets are major prerequisites for attracting investment, whether domestic, intra-regional (Arab) or foreign.

Against this background, MENA countries invited the Organisation for Economic Co-operation and Development (OECD) to provide policy advice on implementing investment policy reform. OECD expertise lies in designing and helping to implement comprehensive investment reform strategies, drawing on its successes with other regional and country-specific programmes. MENA countries have developed an *Initiative on Governance and Investment for Development in the MENA* region, which the OECD is hosting. There are two programmes in this Initiative – one focused on public governance, the other on investment. The key objective of the **MENA-OECD Investment Programme** is to mobilise private investment - foreign, regional and domestic - as a driving force for economic growth and employment throughout the Middle East and North Africa (MENA) region.

The Regional Dialogue of this Programme is structured around five comprehensive investment reform areas which have been identified by MENA countries themselves. Each reform area is implemented by a Regional Working Group, led by a MENA country:

- Promote transparent and open investment policies (Jordan)
- Encourage Investment Promotion Agencies and business associations to act as driving forces for economic reform (Dubai, UAE)
- Provide a tax framework for investment and assessing incentives (Bahrain, Egypt)
- Promote policies for financial sector and enterprise development for economic diversification (Saudi Arabia)
- Improve corporate governance (Lebanon)

The five Working Groups of the MENA-OECD Investment Programme met for the first time in February 2005 to establish the framework of the Programme and the outputs to be achieved by each Working Group.

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Between the first set of meetings and the second set of meetings - which took place during September 2005 - the Working Groups took stock of the current situation in MENA countries with regard to the specific policy areas of each Working Group. This stocktaking exercise led to the creation of the reports included in this CD-ROM.

This CD provides background documentation for the first MENA Ministerial Meeting convened on 13-14 February 2006 in Jordan under the Programme. The Ministerial meeting will review progress in implementing policy measures to improve the investment climate and to provide further guidance on the future work of the Programme. The stocktaking reports are work in progress and contain data which need to be updated as reforms are being implemented in MENA countries. The information contained herein is based on submissions made by MENA governments, information provided during the meetings of the Working Groups and Task Forces under the Programme in 2005, and on publicly available resources of recognised international organisations.