

Economic Reform & Building a Better Investment Climate: Using the 'Doing Business Report'

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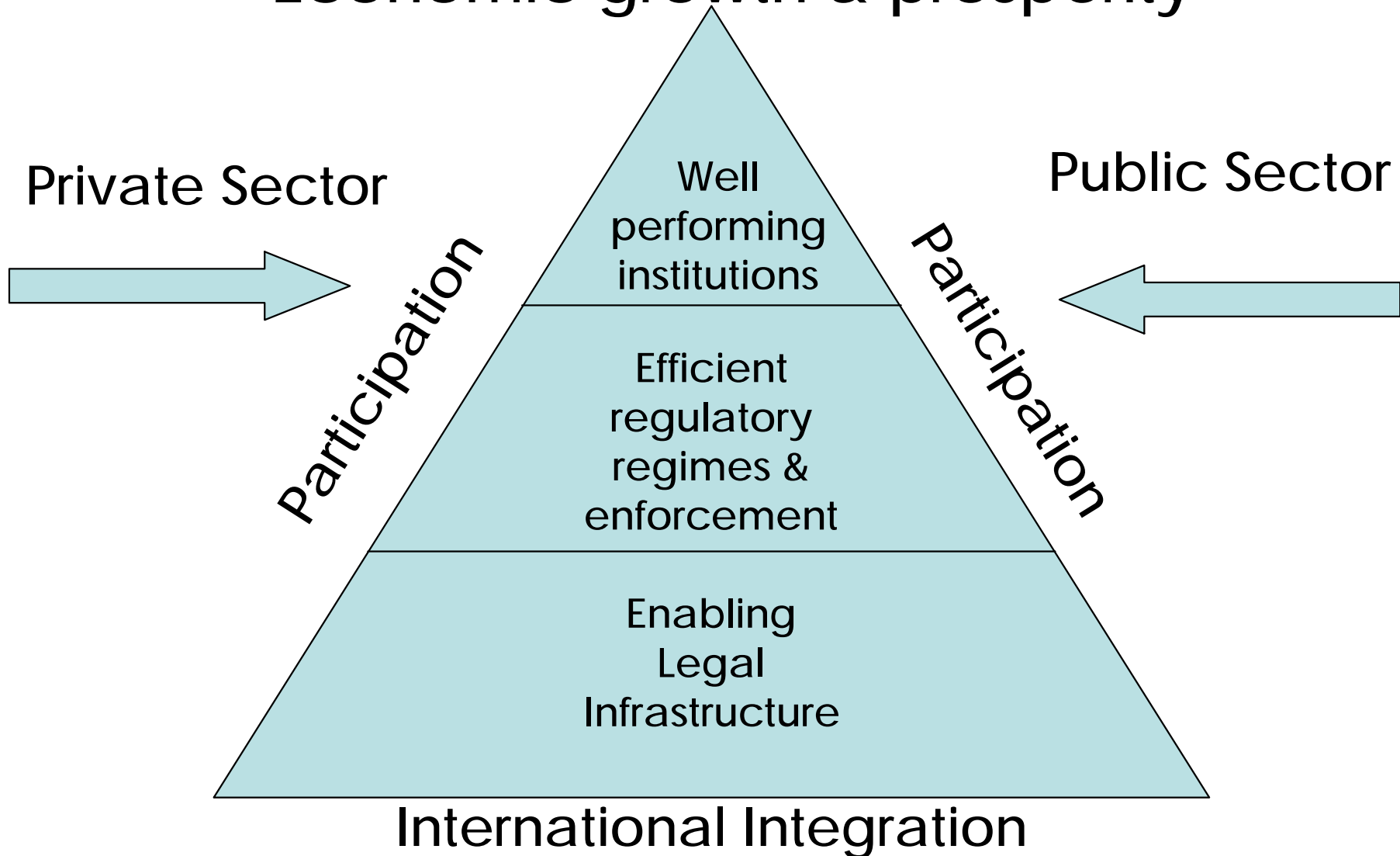
Economic Reform & Building a Better Investment Climate

Role of Parliamentarians

- Importance of Parliamentary Oversight to improve national governance
- Parliaments need to develop tools and institutions to strengthen oversight, transparency and accountability
- MENA governments engaged in : spending, production (SOEs), investment (SOAs), services and financial intermediation
- Corruption, bribery and waste
- Supervision & Control of Natural Resources
- Macroeconomic & Microeconomic issues

Governance integral element of sustainable economic growth & development

Economic growth & prosperity



Investment Climate

- Investment climate affected by many factors: economic development & growth prospects, taxation, laws & regulations, economic diversification, development of banking and financial markets, governance and transactions costs
- Economists have been highlighting the importance for promoting investment of: (a) good governance :both public and corporate; (b) burden of “red tape” and regulations; © corruption and bribery as major factors affecting investment, both domestic and FDI; (d) good infrastructure services & logistics
- World Bank has developed indicators of the ‘cost of doing business’ which provide quantitative measures of the effects of laws & regulations, fees, transactions costs and their impact on business decisions.

Doingbusiness indicators

2004



2005



2006

- Regulation of Entry
- Labor Regulations
- Contract Enforcement
- Credit Markets
 - Credit information
 - Collateral
- Bankruptcy

- Corporate Governance
- Property Registration

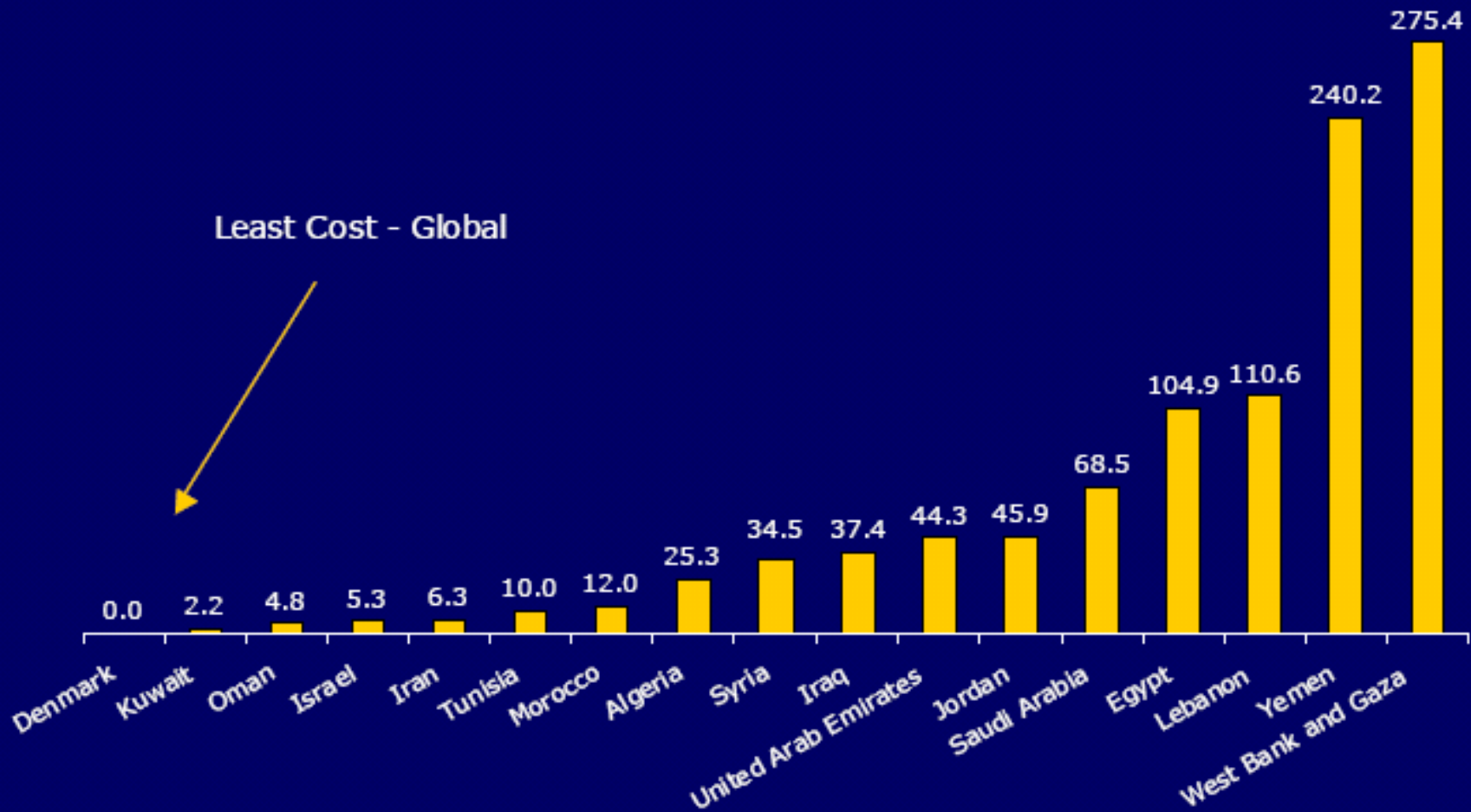
- Business Licensing
- Taxation
- Trade Infrastructure
 - Transport
 - Customs
 - Standards

• Updates of '04 topics

• Updates of '04 and '05

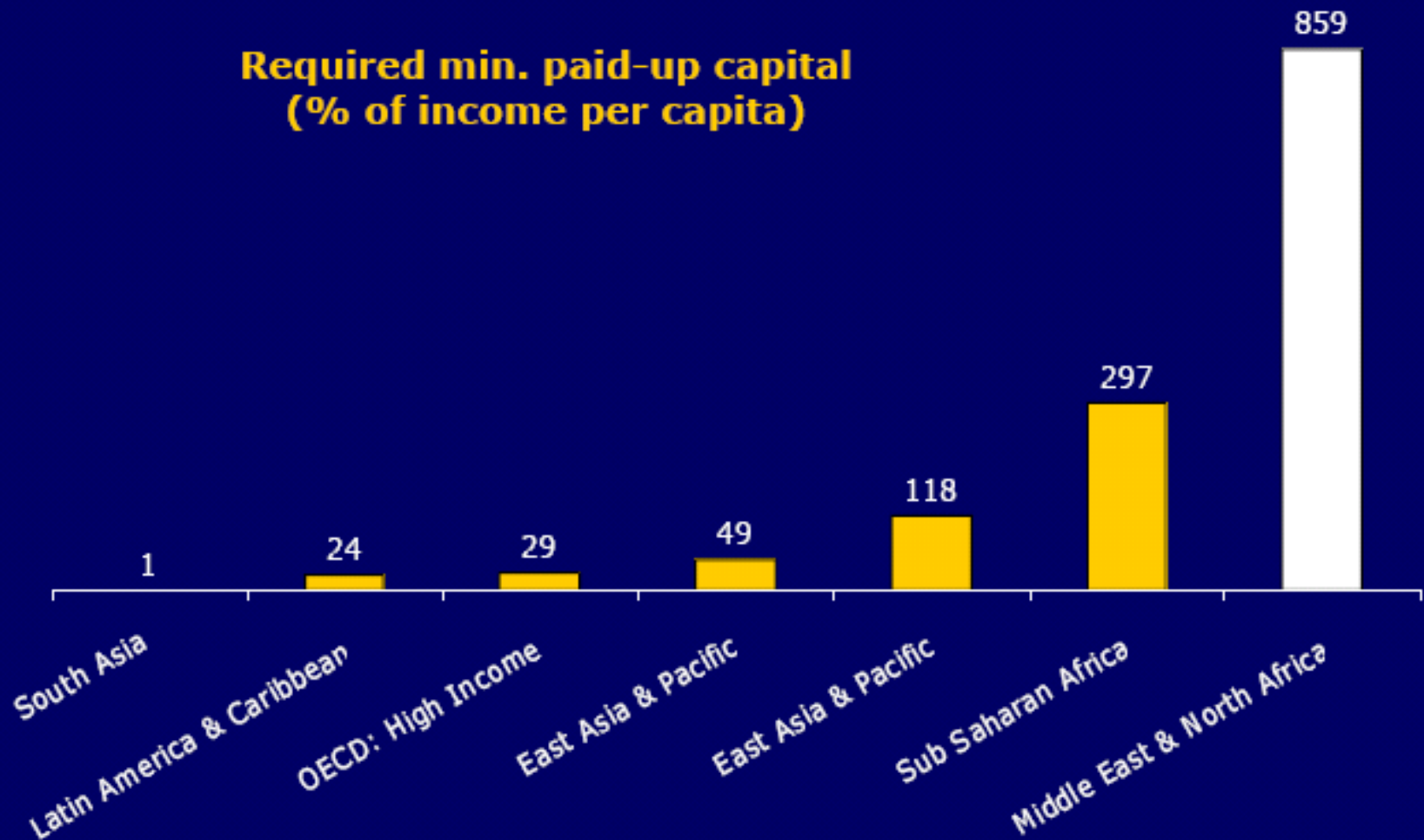
Products: Report, academic papers, country summaries, website database
www.doingbusiness.org

Cost to start a business (% income per capita)

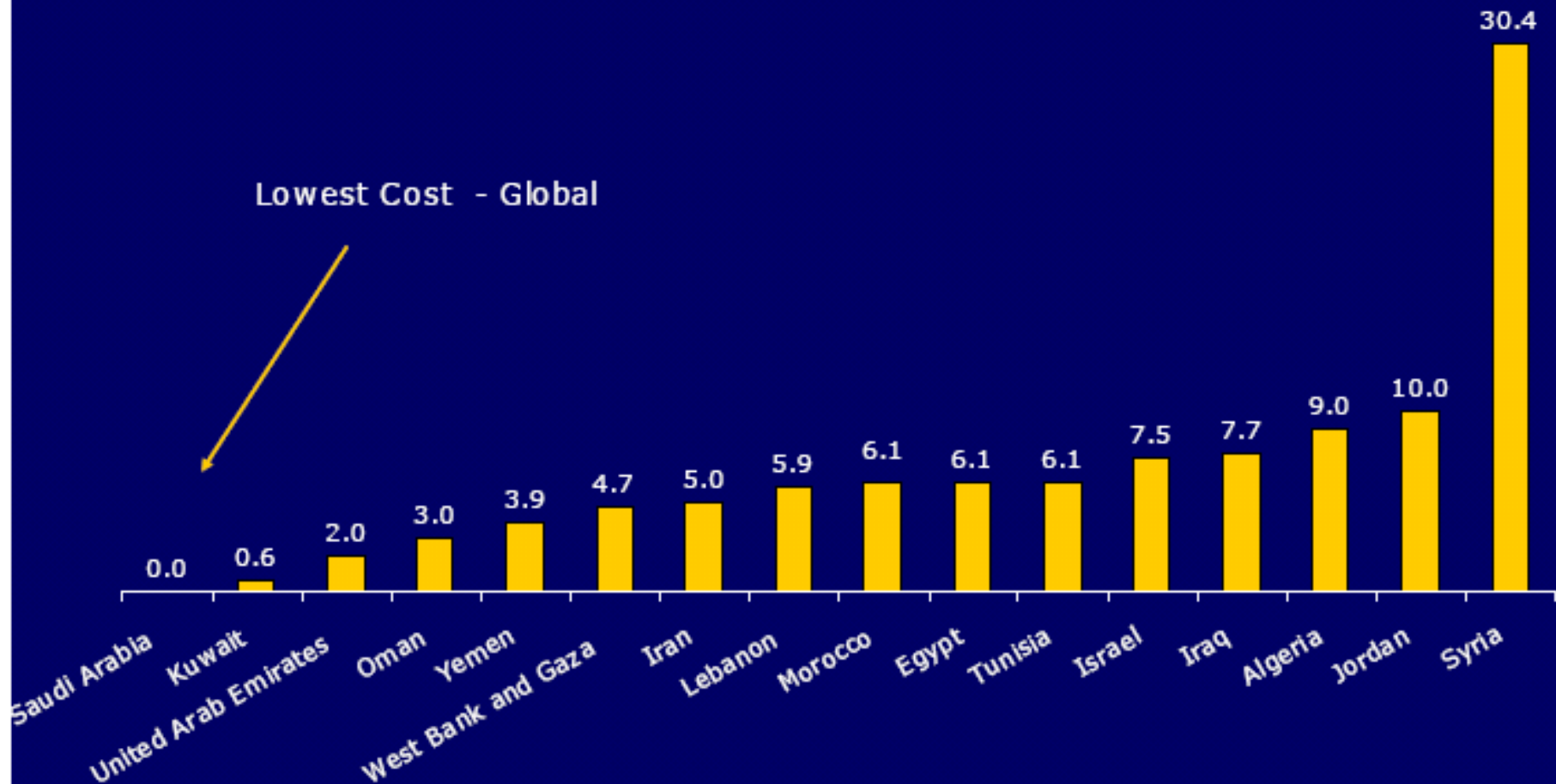


Registering your business – only for the rich?

**Required min. paid-up capital
(% of income per capita)**



Cost to register property (days)

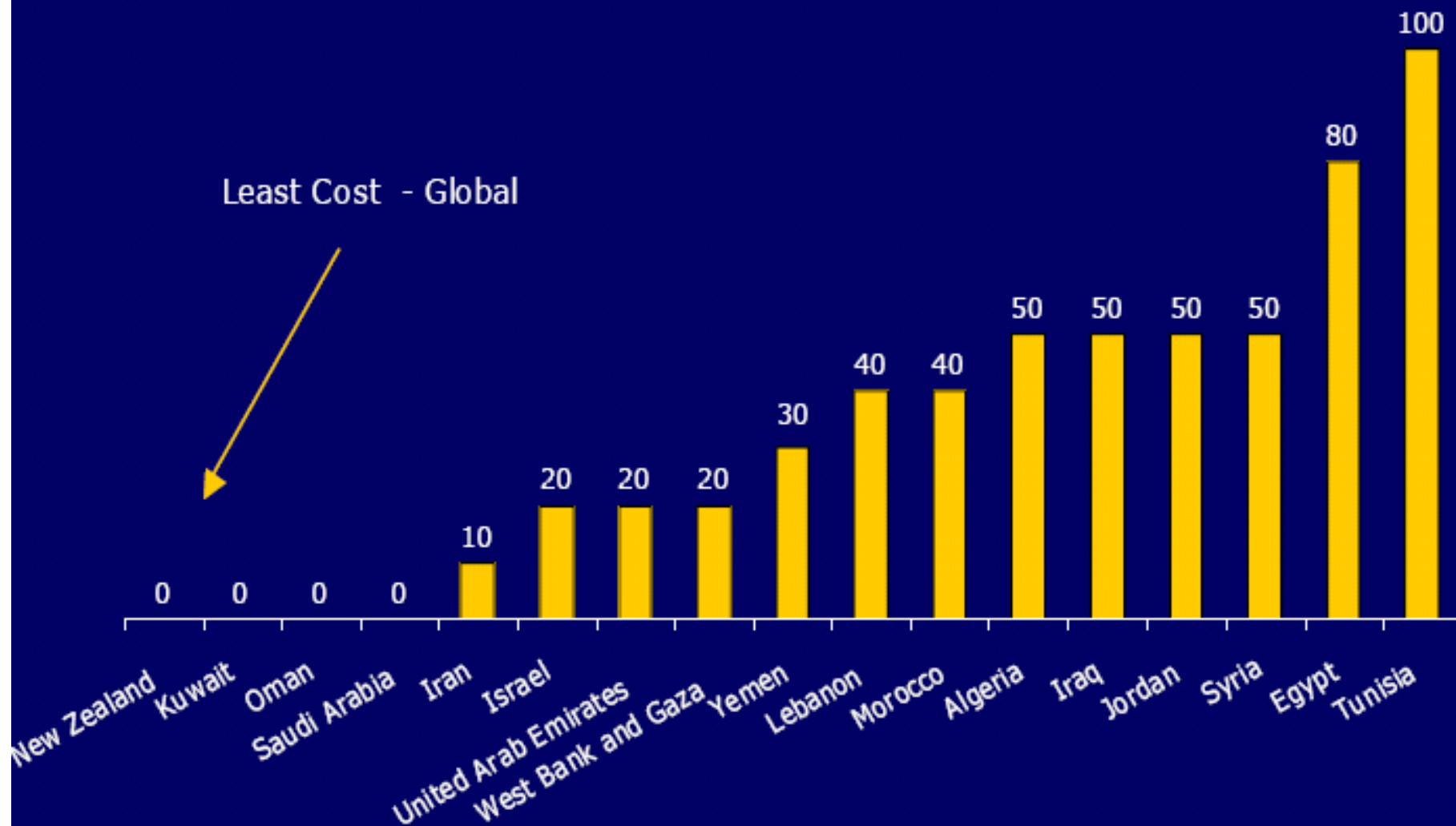


Access to credit – little information sharing

Country	Public Registry (% adults)	Private Bureau (% adults)
Portugal	64.3 (highest coverage)	9.8
Australia	0	100
Egypt, Arab Rep.	1.2	0
Tunisia	8.2	0
OECD Average	7.5	59
Lebanon	3.5	0
MENA Average	1.9	1.7
United Arab Emirates	1.5	0
Yemen, Rep.	0.1	0
Morocco	2.0	0
Jordan	0.6	0
Saudi Arabia	0.2	10.2
Kuwait	0	16.1
Israel	0	0.7
Algeria	0	0
Iran, Islamic Republic	13.7	0
Oman	0	0
Syrian Arab Republic	0	0

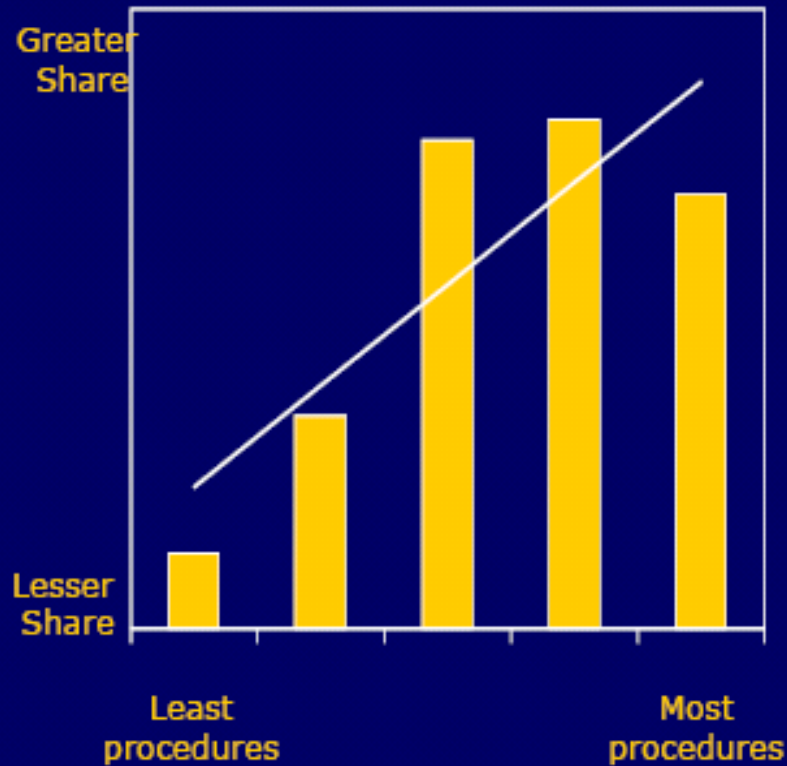
Cost of firing

(weeks wages in severance, notices and penalties)



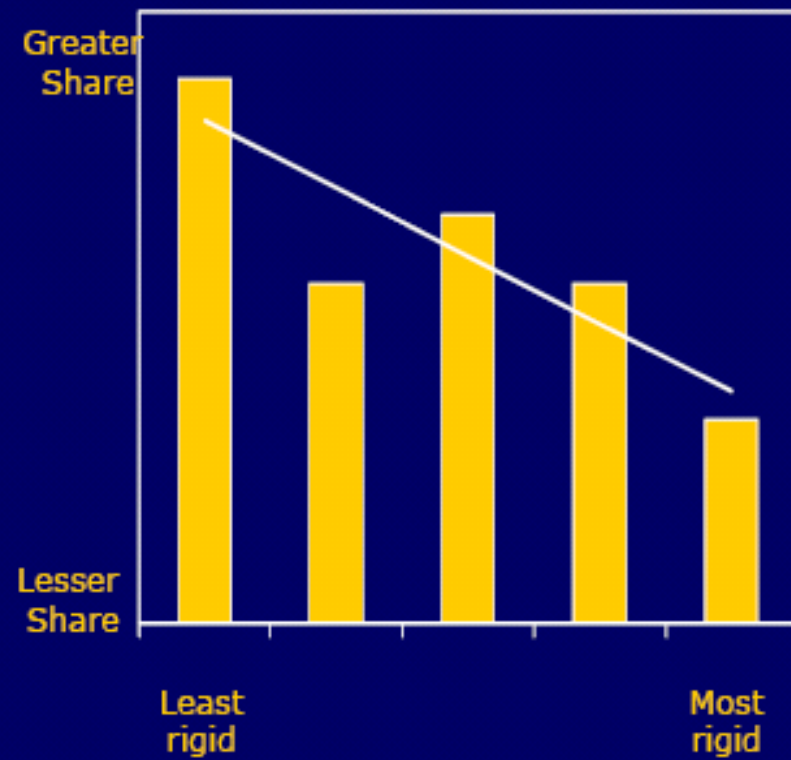
Heavy regulations exclude the vulnerable

Greater Informal Sector to GDP



Countries ranked by procedures to register property, quintiles

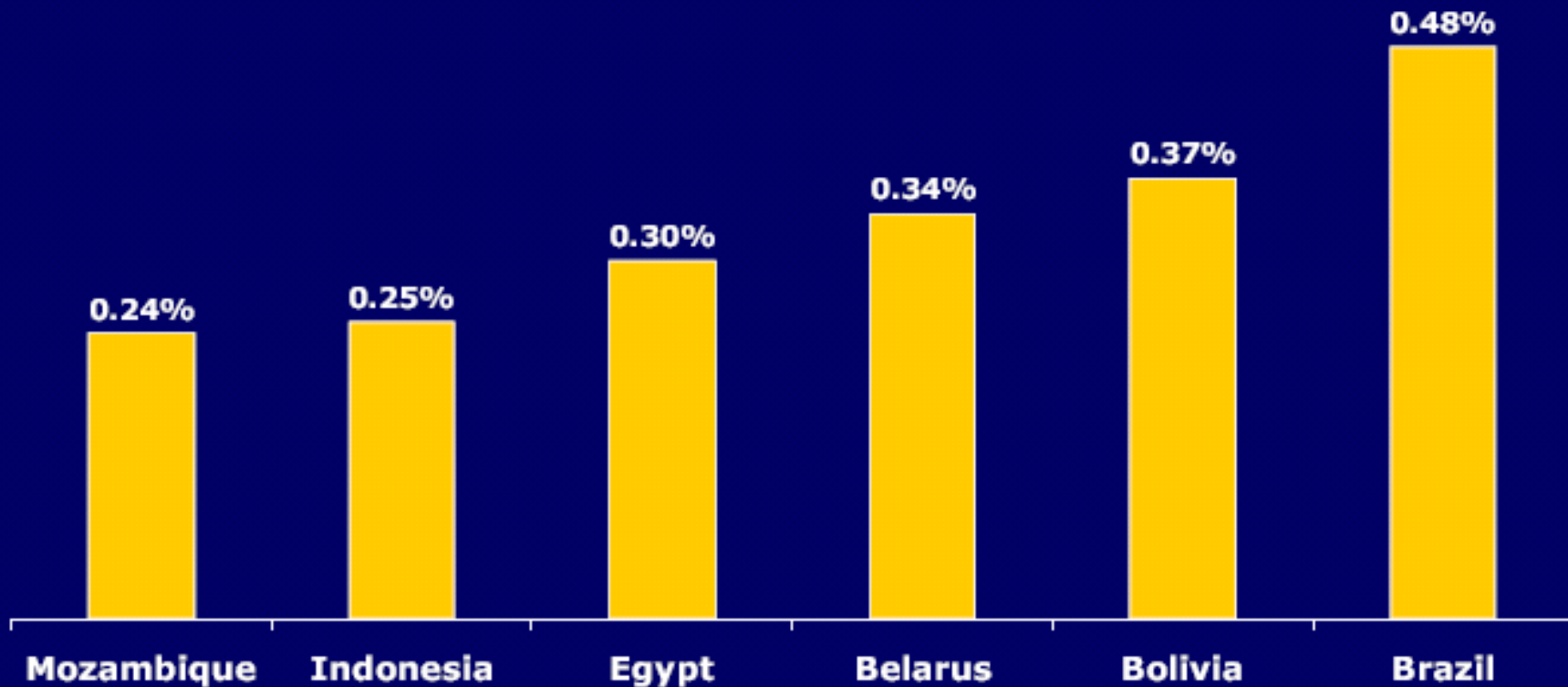
Lesser Women's Share of Private Employment



Countries ranked by rigidity of employment index, quintiles

Lower barriers, higher growth

**Additional annual income growth
due to business start-up reform**



Note: The hypothetical reform involves moving from the 75th to the 25th percentile on the ease of start-up. Calculations based on Klapper, Laeven and Rajan (2004).

Parliaments & Cost of Doing Business

- Focus on legal and regulatory burdens on business and the economy
- Barriers and regulations, high transactions costs and procedures, lack of respect & enforcement of property rights drive people and business into 'informal sector', encourage bribery & corruption and negatively affect the most vulnerable groups: women and the young
- Focus on government related transactions costs as they affect: business, labor market, housing, property, trade, investment
- Focus on streamlining procedures and on reducing rigidities and barriers to entry, production and competition
- Focus on improving overall economic and financial governance in accord with international best practice and standards
- Reports on the Observance of Standards & Codes (ROSC) provide an entry point to examine efficiency, transparency and disclosure of policies in the areas of macroeconomic policies and data, market integrity and structure and financial market soundness

MENA Published ROSC Reports*

TOPIC	COUNTRY	DATE OF PUBLICATION
ROSC Report on Payment Systems	Morocco	July 17, 2003
	Tunisia	June 17, 2002
	United Arab Emirates	January 27, 2003
ROSC Report on Fiscal Transparency	Tunisia	January 29, 2001 & September 30, 1999
	Iran, Islamic Republic of	December 10, 2002
ROSC Report on Governance Survey	Egypt	2001 & 2003
	Morocco	2003
Financial System Stability Assessment (FSSA)	Algeria	May 17, 2004
	Kuwait	May 24, 2004
	Morocco	July 17, 2003
	Tunisia	June 17, 2002
	United Arab Emirates	January 27, 2003
Financial Sector Assessment Program (FSAP)	Kuwait	November 8, 2004

*As available on the IMF and World Bank sites on 12/01/05

Source: IMF, World Bank

MENA Published ROSC Reports*

TOPIC	COUNTRY	DATE OF PUBLICATION
ROSC Report on Banking Supervision	Algeria	May 17, 2004 & June 23, 2001
	Kuwait	May 24, 2004
	Morocco	July 17, 2003
	Tunisia	June 17, 2002, January 29, 2001 & September 30, 1999
	United Arab Emirates	January 27, 2003
ROSC Report on Monetary & Financial Policy Transparency	Algeria	May 17, 2004
	Morocco	July 17, 2003
	Tunisia	June 17, 2002, January 29, 2001 & September 30, 1999
	United Arab Emirates	January 27, 2003
ROSC Report on Data Dissemination	Jordan	February 10, 2004 & October 16, 2002
	Morocco	April 4, 2003
	Tunisia	January 29, 2001 & September 30, 1999
ROSC Report on AML/CFT	Kuwait	May 24, 2004
ROSC Report on Accounting & Auditing	Egypt	August 15, 2002
	Lebanon	May 7, 2003
	Morocco	July 25, 2002
ROSC Report on Securities Regulation	Kuwait	May 24, 2004
	Morocco	July 17, 2003
	Tunisia	June 17, 2002, January 29, 2001 & September 30, 1999
ROSC Report on Insurance Supervision	Morocco	July 17, 2003
	Tunisia	June 17, 2002

ROSCs & Parliaments

Parliament and MPs should give special attention to the:

- ROSC Report on Governance Survey
- ROSC Report on Monetary & Financial Policy Transparency
- ROSC Report on Data Dissemination
- ROSC Report on Fiscal Transparency
- Legal and Judicial Sector Assessments undertaken by the World Bank

ROSCs important in that they also allow cross-country and regional comparisons

Fiscal Transparency – Basic Principles

- I **Institutional clarity**: government's role and the way its agencies interact
- I **Public information** for fiscal policy—and government's commitment to provide it
- I **Open processes** of budget preparation, execution, and reporting
- I **Assurance of integrity** of information by strong oversight

The Code is organized in a hierarchy of principles and practices, which progressively define good practice in fiscal transparency—under the 4 principles, 10 specific principles, and 37 areas of good practice are defined.

Source: IMF FAD

Fiscal Transparency And Fiscal ROSCs

Reports on the Observance of Standards and Codes (ROSCs):

- Assess practices against code—set a baseline
- Identify areas where improvement is needed
- Help set priorities for fiscal reform—and identify technical assistance needs
- Used by rating agencies / market analysts
- **67 countries have completed fiscal ROSCs - 62 are published on the IMF website**
- A wide range of country coverage - Includes Algeria (2004), Tunisia (1999), Mauritania (2002), Morocco (2005) in the region

Source; IMF FAD

Experience Of Fiscal ROSCs

Issues identified in ROSCs include:

- Greater clarity of government role vis a vis central bank
- Importance of consolidated budgets including all entities: central and local government, SOEs, SOAs
- Greater Clarity of internal budget decision-making
- Extensive Quasi-fiscal activities in State Owned Enterprises and banking sector
- Inadequate Public access to fiscal data

Source: IMF FAD

Parliaments: building capacity to enhance oversight and accountability

- Parliaments in the MENA region typically lack the capability and resources to oversee the fiscal and budgetary activities of government and may face legal and/or constitutional restrictions
- Ensuring fiscal disclosure and transparency, accountability and oversight by Parliament requires dedicated resources: a Parliamentary Budget Office is an institutional innovation that helps fill the gap
- Government Accounting Office or 'Cour des Comptes' need extensive modernization and restructuring to ensure independence and strong oversight

Parliamentary Budget Office Model I

- Small, nonpartisan agency that produces policy analyses, cost estimates of legislation, and budget and economic projections that serve as a basis for Parliament decisions about spending and taxes
- Governance of PMO is critical to ensure non-partisanship, independence and integrity
- Every piece of legislation affecting the use of the nation's resources should undergo PBO's scrutiny.
- PBO is a public-sector "think tank" employing multidisciplinary staff of professional analysts--public-policy, legal and budget experts, economists, and other critical experts
- PBO should enjoy greater flexibility than other government employers in hiring staff, setting salaries, assigning responsibilities, and recognizing and rewarding achievement.

Source: CBO

Parliamentary Budget Office Model II

- Indicative PBO divisions: Budget Analysis, Health, Social and Human Resources, Infrastructure, Macroeconomic Analysis, Microeconomic Studies, National Security, and Tax Analysis.
- PBO analyzes the Government's proposals and estimates their costs. PBO examines alternative scenarios that Parliament can consider to minimize outlays or increase revenues in analysing budget proposals and other legislation
- PBO should price proposed legislation and evaluate the economic impact of legislative mandates and present them to Parliament.
- PBO officials and other staff can and should appear to brief Parliament staff and to testify before Parliamentary committees seeking input into budget and policy decisions.

Natural Resource Countries' Specific Concerns

- Smooth fluctuations in spending due to natural resource price changes:
 - Improve planning for long term & Address generational equity concerns
 - Best to use budget processes, with sound fiscal policy framework, and conservative natural resource prices assumptions and expenditure projections
- Institutionalize natural resource financial management through creation of a NR Fund
- A number of countries in the MENA region operate NR funds
- If NR Fund adopted, it should:
 - Adopt principle that sale of NR is utilization of wealth and not income: only a fraction of the revenue should be transferred to annual budget
 - Be integrated within regular budget process to avoid parallel budgets, so All resources flow through the budget, and Spending from the fund only through the budget
 - Operate in a transparent and accountable manner:
 - transparent external oversight of management
 - overview of asset management
 - publication of data on financial assets and annual accounts
 - External audit
- Source: IMF

Proposed Actions & Tools

1. Form National Committees with an agenda to address reforms aiming to reduce Cost of Doing Business
2. Produce ROSC Reports:
 1. Governance
 2. Data Dissemination
 3. Monetary & Financial Policy Transparency
 4. Fiscal Transparency
3. Institution Building:
 1. Parliamentary Budget Office
 2. Reform & Modernize Government Accounting Office
4. Form Regional MENA Parliamentary Forum focusing on measures to improve the investment climate