BUSINESS ENVIRONMENT REFORM IN MENA:
SETTING UP THE RIGHT IMPLEMENTATION FRAMEWORK

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The Implementation Challenge in Investment Climate Reform

In many developing countries numerous ambitious reform agendas have faltered and failed to have significant impact on the ground, often creating a counterproductive “reform fatigue”.

Most governments have at their disposal detailed assessments of their investment climate and are able to identify weaknesses. However, expert diagnostics and political will alone are not enough to succeed in reforming the investment climate. Reform initiatives often get bogged down because of a lack of institutionalized inter-ministerial coordination, open public-private dialogue, and efficient project management.

This is not surprising as the implementation challenge is felt more strongly in the field of Investment Climate than in other sectors. Laws, regulations and administrative processes governing the private sector form a complex web involving a variety of institutional bodies: one stop shops, commercial registries, administrative procedures, business law, tax procedures, land titling, commercial justice, etc. Modifying these involves high transaction costs, complex inter-agency coordination and public-private dialogue.

Best reformers worldwide have taken into account this implementation challenge. Recent studies have demonstrated that, in addition to establishing a performing high-level decision-making body, these countries have developed a full-fledged reform process that includes a dedicated reform team at the center of government and a structured dialogue mechanism with the private sector to better coordinate reform identification and implementation. As highlighted in the 2008 report of the Commission on Growth and Development: “Making policy is only part of the battle. Policies must also be faithfully implemented and tolerably administered.”

The need for a Credible Commitment in MENA Countries

The implementation challenge is not a new topic in MENA and several countries have decided to address it by establishing specific bodies in charge of ensuring that better public-public and public-private coordination takes place on business environment issues. The institutional model varies from country to country. While some countries have recently established "Competitiveness Councils" (UAE, Bahrain, Egypt, Saudi Arabia), others are gearing towards Inter-ministerial Committees for economic affairs (Syria) or Public Private Commissions (Morocco), etc.

In spite of this demonstrated will to organize reform, reform committees in the MENA region are still often established without adequate detailed governance rules, methodological tools and operational arms that would permit these

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2 See Reform teams – how the most successful reformers organized themselves, by Alberto Criscuolo and Vincent Palmade, View Point February 2008, the World Bank group.

3 See http://www.publicprivatedialogue.org/ developed by Benjamin Herzberg, the World Bank group.

bodies to have a strong impact on investment climate reforms. This lack of an adequate framework is often the consequence of the complex political economy at work in almost all countries of the region. Uncertain political environment does not easily allow committed reformers to go beyond broad public announcements and the search for elusive “quick wins.”

According to a report recently released by the World Bank, reforms implemented in MENA countries have had limited impact on private investment due to the unequal and unpredictable way in which policies are implemented, resulting in a lack of reform credibility in the eyes of many investors. The report calls for a new partnership between the private and the public sectors, one that mobilizes all stakeholders in the design, implementation and evaluation of economic policies. The report recommends building a credible commitment to reform through the institutionalization of a sustainable reform process.

The World Bank approach

In this context, the World Bank proposes a phased approach to improve the reform process that both answers the request for immediate action by governments and the need to anchor reform initiatives in a sustainable reform process. The objective is to reconcile government’s short and long term interests.

Under this approach, the World Bank assists in (i) assessing the local environment for reform and designing a pilot action plan, (ii) setting up an institutional and operational framework for managing investment climate reforms, and (iii) implementing actionable reforms.

Phase 1: Assessing the local reform process and designing a pilot reform action plan

The WB team undertakes an empirical evaluation of recent reform initiatives selected in coordination with government counterparts. These initiatives are benchmarked against best international and regional practices observed by the World Bank. The evaluation is presented to government counterparts together with an action plan to establish an efficient institutional and operational framework for Investment Climate reform. The evaluation is undertaken following several meetings with key public and private stakeholders. The assessment framework covers the following issues:

- Project preparation phase – public-private consultations, legal assessment, economic analysis;
- Policy-makers decision mechanism – institutional coordination among decision-makers;
- Project implementation phase – clarity of mandate, human resources, budget, reporting;
- Reform management – centralization of reform management, use of common guidelines to monitor each step of the process and evaluate impact.

In parallel with the institutional diagnostic, the team prepares a pilot “Reform Action Plan.” Based on in-depth knowledge of the local context gained under this empirical evaluation, the pilot reform program will include a limited number of well identified projects that help start-up the reform process. In addition to priority projects of the government, Investment Climate Assessment, the Doing Business survey of the World Bank, other donor assessments and private sector stakeholders can provide a set of actionable reform proposals structured around strategic objectives, e.g. administrative procedures, business law, commercial litigation, communication on reforms.

Phase 2 – Setting up an institutional and operational framework for reform

Under this second phase, the WB team assists government counterparts in implementing recommendations agreed under phase 1. This operational assistance focuses on:

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• Establishing the institutional framework: This framework aims at clarifying the role and functioning of public and private stakeholders involved in the reform process. It usually involves: (a) a central high level decision-making body, (b) a reform management unit, (c) public-private working groups, and (d) project implementation units. In most countries, this framework is laid down in the official text establishing the high level decision-making body.

• Setting up a “Reform Management Unit (RMU)”: The RMU has the operational responsibility of facilitating and monitoring the reform process. It behaves as a service provider with other stakeholders. Relevant profiles include economic, legal, administrative and IT specialists. If the government has a similar unit, it will be trained and aligned to fit in the overall reform framework.

• Developing Methodological Tools: An operational manual and an IT management tool will help the RMU implement its facilitating and monitoring role with working groups involving public agencies and private sector representatives.

Phase 3 – Implementing actionable reforms

During this third phase, the WB team assists governments in implementing and monitoring the pilot reform program by:

• Supporting the central “Reform Management Unit (RMU)” – The RMU needs to be established as a credible facilitator of the reform process, and be able to monitor and follow up the reform progress. To this end, members of the RMU need to be trained on the legal and economic aspects of the investment climate and supported in the implementation of the operational and IT project management tools.

• Mobilizing technical expertise at project level: Reform projects often require a high level of technical expertise in various fields, i.e. legal, institutional, economic and financial. The working groups and the RMU will need to be able to identify best international practices and find experts to adapt them to the local context.

• Setting up a Public-Private Dialogue (PPD) mechanism: Once the pilot reform program is launched, the government needs to build on the momentum for reform by launching a series of structured public-private consultations through the established reform process. The PPD approach has been developed and implemented successfully by a dedicated World Bank Group unit.6

• Evaluating results: The reform process needs to be periodically evaluated to be improved and adapted if necessary. An internal governmental agency or an external organization should undertake this periodic evaluation with full transparency.

The case of Morocco’s reform process

This approach has been recently applied in Morocco. The World Bank’s Investment Climate Assessment and government diagnostics identified inter-agency coordination as the underlying cause for the weak impact of some past reform attempts. In February 2009 the government signed a “Public-Private Pact for Industrial Emergence” with the main business organizations of the country, which provided for the establishment of a high level public-private Commission to coordinate cross-cutting reforms of the investment climate.

The Deputy Prime Minister for Economic and General Affairs (MAEG) then laid down a detailed institutional framework for the Commission, which includes key ministers and representatives of business organizations, and set up a central Reform Management Unit (RMU) in charge of providing support to public-private working groups and ministerial project units. The inaugural meeting of the

6 See http://www.publicprivatedialogue.org

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“National Commission for Business Environment” was chaired by the Prime Minister on Friday, December 11, 2009. During this meeting, the Commission approved its first annual reform program for 2010 with 10 key reform projects, and will meet every two months to monitor their implementation.

The Bank assists the MAEG in (a) designing the institutional framework and building the capacity of the RMU for managing the reform program, (b) establishing public/private working groups, (c) developing an impact evaluation tool, (d) launching reform projects aimed at simplifying administrative formalities and reforming business laws.

The World Bank Team: This assistance is undertaken by the MENA Finance & Private Sector Development team (MNSED) of the World Bank, which is in charge of providing analysis and assistance related to improving the investment climate in the MENA region. The team comprises a group of in-house specialist and external consultants. It has reform experience in all MENA countries. This team works in collaboration with the IFC Advisory Services in MENA, the Doing Business Reform Unit, the Public Private Dialogue Unit, and other units of the World Bank Group to facilitate actual implementation of identified reforms. The team ensures close collaboration with ongoing WB analytical activities and loans to avoid duplication and maximize synergies.

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The MNA Quick Notes are intended to summarize lessons learned from MNA and other Bank Knowledge and Learning activities. The Notes do not necessarily reflect the views of the World Bank, its board or its member countries.

Box1. The National Commission for Business Environment in Morocco:

1. Strategic objectives
2. Reform proposals
3. Reform mandates
4. Reporting

Working groups
National Committee
Project teams
Technical Support

Technical Committee
Reform Management Unit