

MENA Good Public Governance Initiative, Draft background paper On Governance and Investment for Growth prepared for OECD Secretariat by Georges Corm (Avril, May 2004)

Introduction and background

The OECD approach to Governance for non-member countries

The Organisation for Economic Co-operation and Development has pioneered for many years the field of governance and sustainable development. It has helped diffusing the content of new concepts that could guide governments and civil society in improving social, economic and political welfare of the citizens.

Within the new concepts promoted, Public Governance holds a critical place in the development process. It is a cross-cutting issue that affects the performance of a wider range of policy fields: development aid, domestic private sector development, social and labour market policies, promotion of small businesses and foreign direct investment (FDI), regional and environment policies are all examples of policies that depend profoundly on good public governance for their successful implementation. During the past decade there has been a sea change in the attitudes of emerging, developing and transition economies towards public sector governance issues that has led to a better recognition of the fundamental importance of good public governance. The OECD has contributed to this process through policy dialogue, for example in the area of public sector integrity and anti-corruption as well as regulatory reform. Non-members have realised that high-quality public sector governance (at the national, regional and local level) is a precondition for sustainable development. OECD member countries increasingly acknowledge that public sector performance in non-member economies is concurrent with the development of global trade and investment. These changes have amplified the demand for global co-operation and exchange on the issue, which has been reflected in the priorities of the programme work of the OECD Centre for Co-operation with Non-Members (CCNM).

The Governance Action Package (GAP) developed by OECD during the last ten years is intended as a comprehensive effort to pull together in a coherent framework the experience of the OECD in improving public governance and to share it with non-members in support of their own reform efforts in this area. The GAP aims at promoting good public governance through a global network of regional initiatives (Asia, Latin America, South-East and Eastern Europe, CIS-countries, Middle-East and North African Countries or Africa). Achieving this objective will improve the allocation and management of public resources and rebuild trust in public institutions, thus contributing to economic development, reduction of poverty and help to sustain democratic values.

The key thematic components of GAP are the following:

- Public sector integrity and corruption (code of conduct and ethics, accountability and transparency rules)
- E-Government (reduction of corruption and arbitrary decisions or behaviour)
- Government-Citizen Relations (increased participation and dialogue)
- Budgeting as the basic architecture for overall decision-making and accountability in the Government

- Regulatory governance (quality regulation, transparent and accountable, boosting sectoral efficiency and innovation, increasing consumer choice and welfare)
- Regional economic development implying the mobilisation of local stakeholders to increase competitiveness of various region in terms of business attraction)
- Territorial governance with clear and accountable rules for increased role of local bodies and development of public/private partnership.

The main outputs of the GAP consist of the following:

- "Best" or "Assessed" Practice case studies
- Good Governance Strategy reviews
- Handbooks and toolkits
- OECD know-how dissemination networks
- Monitoring Instruments (MIs)

It is in this context that, the OECD Secretariat has held since September 2003 several consultations with countries of the Middle East and North Africa to explore the potential scope and priority areas for closer cooperation between the OECD and this region. The origin of these consultations goes back to the meetings between the Secretary-General and Members of the MENA countries at the annual meetings of the IMF and the World Bank in Dubai in June 2003. The last meeting was held at Istanbul in February 2004 after a meeting in Beirut held in November 2003.

Two areas for potential co-operation have emerged from these meetings, in particular:

- improving the investment policies in MENA countries and
- modernising the government structures in the region.

Recent experience in Reform and Governance in the MENA region

It is remarkable to note that many Middle Eastern and North African countries have entered into the field of global reform since the middle of the seventies of last century. This was the case with Egypt who began its transition from a closed central planned economy and monolithic political system to a more open economy and a pluralistic political system since 1974 under the late president Anwar el Sadate. Since the beginning of the eighties, due to the debt crisis, Tunis and Morocco, as well as Egypt, began to undertake structural adjustment of their economies under the guidance of the World Bank and the IMF, while Syria, another closed and centrally planned economy, adopted a more liberal economic policy encouraging private sector investments since 1985. In 1989-1990, Algeria entered a period of political and economic change. Exchange and foreign trade controls were relaxed and a new law on money and credit reinstated monetary policy as a central tool of new more liberal economic policies; political liberalisation was also initiated allowing for a multiparty system and for a free press, but was abruptly interrupted in 1992 when elections were cancelled after a landslide victory of the Islamic main party.

The drive towards reforms continued in the MENA region during the nineties. Syria enacted several laws for the encouragement of foreign and private investments; recently it allowed for private banks to be created and it relaxed foreign exchange control regulations. Syria also abolished the privilege of the Baath party to supervise all nominations of civil servants in State institutions. Even Iraq, during the nineties allowed for the creation of private banks and instituted a stock exchange.

Privatisation was another area of State and economic reform in Egypt, Tunisia, Morocco, Jordan, while Algeria encouraged foreign oil companies to invest in the country and allowed for the creation of private foreign or local bank and financial institutions.

More recently, important political reforms were undertaken in the Gulf region, namely in Bahrain where a parliament was re-instituted and in Qatar where women were granted voting rights and where municipal elections took place. In the Gulf region, it is to be reminded that Yemen enjoys a pluralistic political system with regular elections for parliament and that Kuwait, although women do not yet enjoy political rights, is holding regular elections for parliament with strong political competition between "liberals" and "Islamic conservative" parties. Lebanon after 15 years of turmoil and violence was able to re-institute its free political life after substantial amendments to its Constitution to create a new sectarian balance between its main religious communities. Jordan is also holding regular parliamentary elections.

In terms of adopting reforms that could bring more governance to the countries of the region, many efforts for promoting such reforms have been already devoted under UNDP assistance in various Arab countries(1) .

On the other hand, one should mention the great progresses achieved by Turkey in the political field to become aligned with EU political norms based on democracy, the rule of law and the full respect of human rights. In addition, all non European Mediterranean countries (to the exception of Libya) have now joined into the EU Barcelona process establishing a Mediterranean free trade zone and targeting security and democracy and inter-cultural dialogue between all its members. Syria signing of its free trade agreement with the EU has been recently delayed by manoeuvring of two EU member countries.

However, in spite of all these achievements, there is an overwhelming feeling in the region that reform, governance and sustainable development are not strongly ingrained. The path of reform, compared to other regions like Asia or Latin America looks quite slow and the flow of foreign investment is one of the lowest in the world. Arab Human Development Reports published recently by UNDP has raised alarm at the slow pace of political reform, the gender issue, the illiteracy rate, the poor output of the education systems in spite of huge spending by governments and private sector. Public opinion in the MENA region seems highly disappointed with the present political and economic conditions and many young and educated people, as well as poor rural families, are desperately attempting to migrate from their home countries.

Object of this draft background paper

The present draft paper is an attempt at identifying the main issues that are to be confronted in the MENA region to accelerate transition to open and competitive economies and to pluralistic political system based on the full respect of human rights and the rule of law. Based on OECD experience, it will try to explore how to support the region in advancing at a more rapid pace towards governance, democracy and open, fast growing and competitive economies. It will be divided into four parts:

- Obstacles to reform in the region
- Lessons from MENA countries' experiences in change and reform
- Lessons from OECD countries
- Outlook for the future and the OECD/UNDP initiative

I. Obstacles to reform in the region

The region has been exposed since the end of the Ottoman Empire who ruled most of its present countries for four centuries to a series of local and external constraints. While there is some global consensus in the region about the nature of external constraints, there is no such consensus when it comes to analyse the domestic ones.

In addition, the relation between domestic and foreign constraints is not being put in focus and there might be strong disagreements about the nature of linkages between the two types of constraints.

Another obstacle to identifying adequately the network of constraints is the specific situation that confronts each country or group of countries. Some of the countries have different regional affiliations and inside these affiliations political situations could strongly differ from one country to another. This is why any attempt at improving the reform climate in the region should differentiate between countries and/or sub-groups of homogeneous countries.

The following diagram indicates how to classify and regroup different MENA countries.

External constraints

Arab Countries

- *Machrek countries (Egypt, Yemen, Syria, Iraq, Jordan, Lebanon*

The main constraints have originated from major armed conflicts.

- The Israeli/Palestinian conflict that has involved several Arab countries in different wars (1948,1956,1967,1973),
- The Iraqi/Iranian conflict (1980-1988)
- The Kuwaiti/Iraqi conflict that exploded into the invasion of Kuwait by Iraq and then its liberation by a US led coalition in 1991, the economic embargo on Iraq (1990-2003) and the new US led coalition that occupied Iraq in 2003,
- The long Lebanese turmoil (1975-1990) due partly to domestic causes, but also largely to external regional factors,

These conflicts have had a very negative impact on the situation of the Eastern part of the MENA region. The stationing of US troops in the GCC countries and their occupation of Iraq have created new tensions.

In addition, one could not ignore that flows of foreign aid has been massively influenced by these conflicts in terms of concentration of flows on countries closely allied to the United States and that a large part of such flows have financed military budgets. Amounts of foreign aid devoted to promote sustainable development and

governance, although on the increase in the last few years thanks to OECD guidelines for foreign aid, have remained very modest when compared to military and security aid or to more traditional flows of funding of heavy equipment imported from OECD countries for large infrastructure projects(2).

- *Maghreb countries (Libya, Tunisia, Algeria, Morocco, Mauritania)*

Maghreb countries have attempted in 1988 to create a framework for economic integration (Union of Arab Maghreb). However, efforts have remained constrained by the following conflicting situations:

- Perpetuation of the conflict on the former Spanish Sahara
- Internal disturbances in Algeria (that should be attributed to domestic factors much more than to external constraints)
- The economic embargo on Libya

- *Members of the Gulf Cooperation Council: Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, United Arab Emirates*

The GCC could be considered as a successful sub-regional construction. Its member countries share many economic, social and demographic similarities. They have worked mainly on two fronts: common security policy and economic integration. Their external constraints are international and regional. Their large oil wealth and their vicinity to Iran and Iraq have made them close political and military allies to the United States. This alliance concretised by large military facilities for US troops in the Middle East is not well accepted in all segments of the population and public opinion.

Non-Arab countries

- *Turkey*

This country has a particular position in the region. It is a member of NATO and one of the main axes of its policy is to seek membership of the European Union. At the same time it has to confront Kurdish request for autonomy and to face the turmoil due to the situation in Iraq.

- *Iran*

Iran has gone through a long period of revolutionary changes that had affected negatively for some years its regional and international relations. It supported a long and costly war against Iraq during the eighties. Political institutions seem to have found some kind of stability and equilibrium between "reformists" and "conservatives". However, the pace of reforms has been slowed due to permanent tensions between the two political tendencies.

Its relations with its regional environment and Europe have greatly improved relations with the United States remain strained.

Internal constraints

Arab and non-Arab countries are facing also internal constraints that could be summarised as follows:

A. Economic, social and demography constraints

- *The rural question*

In many countries, rural populations have not achieved economic and social well-being and in some countries the very large pockets of illiteracy are not being tackled with adequate means. Migration from rural areas to shantytowns in large urban centres is a major problem facing many Governments. Gender inequality is more acute in rural region.

- *Population growth and migrations*

Although population growth rates are on the decline in most countries of the region (except the GCC countries), there are still high compared to employment opportunities that are available under present economic circumstances where investment growth in dynamic sectors of the international economy is lagging.

Under such circumstances, large parts of the poorer population, as well as of the educated elite of the region are migrating to other regions of the world. These migration flows are not conducive to more governance, especially when it reduces the development of the urbanised middle class and the professional and scientific elite of the concerned countries. Political instability, revolutions and wars during the last half-century have considerably weakened the stability of social fabric of many countries of the region. In the GCC countries, the need to import labour from Asian countries is also creating social and cultural problems.

In addition, in the GCC countries the problem of large communities of immigrant workers constitutes an additional problem. In certain GCC countries, unemployment rate in the native population can be quite high, while the labour market would still be dependent on foreign workers and white collars. Various policies to reduce this dependence and increase employment of local people have not yet succeeded.

- *Unemployment and low level of productivity*

All recent reports concerning the economic performance of the region have underlined the acute problem of raising unemployment, mainly among the young generation entering the labour market⁽³⁾. The low level of economic performance in the region is not conducive to creation of new employment opportunities at the level required by the high demographic growth rates in the region. Although these rates are now on the decline, the number of new people entering the labour market will continue to increase during the next years due to past high rate of population growth.

The region has also been characterized by a declining productivity since the years of the oil boom in the seventies⁽⁴⁾. This explains why the region has not been able to take advantage of the globalization process, as its economies are not competitive.

Unemployment and productivity thus constitute both a very heavy constraint and a challenge that has to be faced with innovative policies. The principle of governance, as will be seen here under, can be of great help in designing new and adequate policies to suppress these constraints.

- *Worsening income distribution and concentration of wealth*

Unfortunately, few studies are focusing on this issue. When discussed, the approach is that of poverty alleviation and social policies, but not that of suitable access to property and financial means by middle class professional and potential successful entrepreneurs(5). Nor is it dealt with in the context of deepening financial markets that remain quite underdeveloped in the region compared to other emerging markets in Asia or Latin America.

It is in fact assumed that better governance and sustainable development policies would reduce income gaps. However, in the MENA region this problem should not be avoided. Since the years of the oil boom in the seventies, income discrepancies and concentration of wealth and income producing assets in the hand of a few large family business groups with a variety of interests in the key sectors of Middle Eastern economies (banking, industry, trade, tourism and real estate) have constituted an impediment to more competitive domestic markets and to the promotion of middle class entrepreneurs and professionals(6).

B. Institutional and behavioural constraints

Local domestic constraints are very substantial, although there are differences from one country to another. The main constraints to establish Governance in the region are the following.

- *Level of salaries and overstaffing in the Public sector*

Governance in countries belonging to the Machrek sub-group is very negatively affected by the very low level of salaries mainly in the Central Government and local bodies, but also in Public sector entities. Even salaries of minister are extremely low, especially compared to salaries paid in the private sector. This situation helps to perpetuate petty and larger corruption.

Civil service could be tailed down in terms of number, but the level of pay should be substantially raised so that civil servants or members of governments should not be exposed to corruption.

This is particularly important in ministries dealing with investment authorisations and with the judicial system.

Civil servants in the Maghreb countries and Turkey enjoy a much better standard of living than in the Machrek, however level of pay is still much less than in the private sector. The GCC countries are the only one in the region where a career in the public sector could be considered almost equivalent to one in the private sector.

- *Low level of spending on R & D and absence of linkages between private and public sector and with the educational sector*

International comparison of R & D indicators shows that the level of spending in this field in the MENA region is extremely low(7). Contrary to world evolution, the private sector is not involved in R & D spending which constitute the core of the productivity problem already mentioned(8).

- *High concentration of domestic investment on trade and real estate*

Another feature of the low economic performance of the MENA region is the very high concentration of investment in the real estate sector (trade malls, luxury apartments, five stars hotels) and in the import trade sector to distribute foreign products. Few investments, except in the energy and the petrochemical sectors, are being made to increase the export capacity of local industries and to raise the quality of traditional export products (food, textile, leather).

- *Weaknesses of accounting and legal functions in both public and private sector*

Both private and public sectors do not give the adequate attention to accounting and financial transparency(9). Essential pieces of modern legislation are not being introduced to prevent abuse of public or private funds, as has been the case with OECD countries or many developing countries in other part of the world.

- *Institutional and financial weakness of local bodies*

Although municipal institutions have been introduced in the MENA region in the XIXth century as parts of the reform drive in the Ottoman empire, the role and effectiveness of local bodies remain marginal in many countries of the region. The financial resources enjoyed by municipalities or regions are limited and highly dependent on transfers from the budget of the central government or on a share in the taxes levied at the central level.

II. Lessons from MENA countries' experience in reforms and change

There have been several studies about recent economic reforms, but few attempts were made at trying to appraise and summarise lessons from the many various experiences in the region.

It is often forgotten that there is a very long tradition of reforms in this part of the world since the French revolution and the beginning of the transformation of European political systems. This tradition has been strongly influenced by the European powers, either with direct intervention and occupation, or through the very strong impact of the European Enlightenment political and moral philosophy.

A. A modern history of reforms, revolutions and changes

Turkey in the Ottoman days embarked on several big reforms in 1839, 1856 and 1878 to adapt its institutions to political modernity. This effort was accelerated under the rule of Kemal Ataturk who declared Turkey a secular State and introduced the Latin alphabet instead of the Arabic one in the Turkish language.

Egypt and Mount Lebanon during the reign of Muhammad Ali (1805-1840) also went through a very substantial modernisation of their economic and political institutions. The same could be said about Tunisia at the end of the XIXth century.

Under French and British rule of the Arab countries, modern education and substantial developments of economic and State institutions were achieved. When independence was declared, renewed efforts were done to diffuse education, improve wealth distribution, modernise legal institutions. Monarchies were abolished to be replaced by Republics in Egypt and Iraq. In some countries, like Egypt, Syria, Iraq, reforms were conducted along the lines of centrally planned economy and the various socialist models offered by the Soviet Union, the Eastern European countries or Yugoslavia. New social and political elite emerged from all these changes. When the failure of these socialist models became apparent, changes took place to a transition towards a market economy, as was already mentioned in the introduction.

Women vote was introduced in some MENA countries before a number of European countries, namely Egypt. Active promotion of women and gender equality was realised in certain countries, in particular Tunis and Turkey and Iran.

As soon as increases in oil prices allowed them the necessary financial resources, the GCC countries made remarkable progresses in modernising their economic infrastructures, almost non-existent until the middle of last century. The different States provided generous welfare to their nationals. As already mentioned, since the last ten years great political efforts have been devoted to modernise political and social institutions.

Iran entered a modernisation period in the early XXth century. Modernisation continued during all the century under unstable political conditions. The Iranian revolution was the result of domestic and regional tensions and instability. It brought dramatic changes to the political and economic institutions of Iran and the fabric of social and political elite in the country. It declared itself openly as a revolution that was not inspired by any European liberal or socialist model.

This quick historical overlook shows that the question of reform, governance and improved political institutions is not new in the region. One may say that the problem is not the lack of reform attempts, many of which were conducted through revolutions, some time peacefully, sometime with eruption of domestic violence, but rather the very rich and intense history of reforms and revolutions, in which foreign influence or intervention was not absent in most cases. This history has brought dramatic changes in the region with a lot of hopes and then disenchantment and disappointment at the longer-term results of such changes.

Scepticism or cynicism has unfortunately developed in many part of public opinion. In most countries, a feeling of frustration and even despair predominates and expresses itself either by citizens becoming uninterested in public life and the realisation of public good, or by small group of activists entering different forms of anarchism and terror.

This is why one should attempt at analysing these feelings and drawing the lessons so that citizens could be mobilised again and enter the field of reforms needed with renewed creed and without fearing or asking for foreign interference in the domestic affairs of their respective countries.

B. Incremental progresses versus radical changes

There is no doubt that the region has undergone too many dramatic changes during the last two centuries without reaping the benefits that has accrued to neighboring European countries, mainly after World War II. This could explain the present situation of public opinion in the region as just described. If some activists groups continue to believe in radical changes isolated from world evolution and modernity, the vast majority of people, although dissatisfied with the present state of affairs in their country, are not in favor of new radical and violent changes that would isolate their countries from the rest of the world.

However, the new agenda for reform promoted by UN bodies and sister institutions and based on the concepts of sustainable development, governance, accountancy, transparency and stakeholder participation in public affairs, appear to citizens very theoretical and almost impossible to implement in the political and economic climate of their countries, given the external and domestic constraints that we have identified.

Thus, the problem faced by reformers in the region is the credibility gap towards the efforts undertaken by local governments with or without the support of foreign and international institutions. The number of active and developing NGOs adopting the international reform agenda in the region, although quite substantial, do not yet constitute a consistent base to be counted on. When their linkages to foreign governments or international institutions are strong, this may expose them to pressure and even attacks by local authorities.

This state of mind should be changed if the proper ground is to be laid to promote continuous incremental changes. Most successful experiences of reform in the world during the last fifty years have been achieved by a flow of continuous new actions involving different group of stakeholders and a better policy focus in areas in need of changes to suppress the causes of citizens' discontent and to integrate underprivileged groups to participate efficiently in the growth of the domestic economy. This could be called the incremental approach to reform and change and should not be considered as being too slow a path. On the contrary a regular and steady flow of incremental changes could bring an accelerated general improvement in the well being of citizens in a much faster way than dramatic or revolutionary changes that create opposition and a state of permanent political tension in the society.

This is why well-designed and well-supported incremental actions could, in fact, bring the improvement in social, economic and political well being that citizens are looking for in the region. It is here that OECD countries' experience could be of value to the region. This experience has been described in details in various OECD publications and it is worthwhile to try to identify lessons that could be profitable in the present regional conditions.

III. Lessons from OECD countries' experience

Accepting that sources and forms of authority have to adapt and change

OECD countries' experience is extremely rich and could not be fully summarized here. However, it is important to underline that a prime cause of success of peaceful

and positive changes that have taken place in OECD countries lies in the fact that it was realized that traditional sources and forms of authority emanating from the classical notion of the Nation State will have to change and be adapted to both new technologies and new aspirations of citizens eager to be associated to the huge transformation of economic, financial, social, cultural way of life that took place after World War II.

This was not an easy transition, as the type of authority exercised by the Nation State since the Treaty of Westphalia in 1648 was considered as the base of social order. World War II consecrated the victory of democratic rules in exercising authority and the collapse of the Soviet Union in 1990 generalized democracy principles in all of Europe and in many parts of the world.

However, traditional democracy based on the respect of individual human rights, the rule of law and periodical elections to choose those that will exercise authority could not fully take into account the new aspirations of citizens to be part of the decision making process in all matters affecting their day to day life. Continuous changes in daily life brought by the acceleration of technical progress and the economic globalization have progressively made the political and intellectual leadership in OECD countries to accept the fact that the exercise of authority should be much more widely and evenly distributed than in the model of centralized Nation State(10).

This has been achieved not by revolution or drastic changes, but by a mixture of new forms of citizens' actions to lobby and pressure governments to hear their voices and their arguments and more open-minded decision makers and political thinkers ready to adapt and review the concept of authority and the way to secure more citizens' participation in its exercise. The various Green movements that emerged in the seventies, following the oil crisis, were a good example of this evolution.

In this sense, Governance could be said to be an adaptation of democratic rules to global changes affecting the life of citizens to secure participation and ownership of decisions and policies affecting their lives by different concerned groups in the society.

This distribution of authority has been realized through different mechanisms that could be identified as follows.

- *Decentralization of authority geographically*

Most OECD countries have considerably increased the authority granted to local bodies. Citizen participation in decision-making is made so much easier at the local level that it is natural that Central governments should delegate large parts of their authority to local bodies to achieve more governance. In addition, citizens can control much more effectively what decisions are made at the local level and how there are implemented than it is the case when all decision are monopolized at the central level.

Local bodies can then institute various consultation processes before proceeding with decision-making. They can also promote participation more effectively among different categories of citizens, the local administration, the private sector, and the social and educational institutions. Nordic countries have been pioneers in this field

instituting local partnership between local bodies, NGO's and local private sector companies(11).

Public/private association to promote investments needed for improved public services can also be more easily implemented at the local level than at the central level. The same could be said in respect to fighting unemployment. Municipal bodies can grant financial aid within the framework of a clear commitment by private sector companies operating at the local level. Coordination between local branches of business associations, technical vocational schools and local administration can bring huge changes in economically depressed regions.

It is true that it could happen that decentralization might in some cases increase opportunities for corruption. This is the case when control on local administration is loose and decentralization rules are not transparent and clear. But there is no doubt that rewards are generally higher than risks. Corruption at local level can be dealt with through clear and transparent rules, allowing for an efficient monitoring from both the center and the local levels.

- *Decentralization of authority horizontally*

While decentralization of authority to local bodies is the equivalent of a vertical distribution of authority, horizontal distribution consists in distributing the decision making process among the concerned stakeholders according to different problems to be dealt with on a national scale.

There are many mechanisms that have been developed in OECD countries to this effect, mainly through the Government machinery being obliged institutionally to consult with representatives of civil society, business associations, professional bodies and trade unions before making decisions(12).

It is also a common practice now to nominate independent committees or panels composed of independent personalities and experts to recommend to the governments the path to follow for conducting reforms in specific areas where changes of regulations are due.

Parliamentarian committees are also asking more and more often for representatives of civil society and private sector to participate in the decision-making process by giving their opinion on new laws that are to be enacted.

Accepting that more controls are needed on the exercise of authority

Distribution of authority is not enough to arrive at Governance. New monitoring and control mechanism are also needed to appraise the results on the ground of decision-making and be able to correct promptly any negative effects of new legislation or administrative decision.

In this respect, there have been continuous efforts to improve the knowledge of citizens about how decisions are implemented and what results have been achieved.

- *Adapting State and local budgets to the new governance principles*

Citizens and even their parliamentary representatives are very often not able to understand the content of State and local budgets. Budget documents lack simplicity and transparency, given the complexity and number of functions that modern States have to carry.

This is why considerable efforts have been devoted in OECD to improving the presentation of budget documents and organizing them so that the government would be obliged to:

- clarify its priorities and its objectives in each field of its intervention (health, education, culture, environment, etc.),
- elaborate clear multi-annual programs based on integrated projects,
- create adequate indicators to measure implementation progress and successes achieved in reaching identified objectives

Special care is to be devoted to subsidies granted to the private sector or to NGOs to monitor the use of funds and check that they really contribute to achieve objectives.

It is not only the State auditing boards' powers traditionally based on accounting and legal control of public spending that have been reinforced in OECD countries, but also their powers to judge the efficiency of public spending and to prevent wastage of public funds.

- *Development of e-government procedures*

This development prevents any arbitrary decision by an administrative authority as procedures are embedded in an IT automated process that prevents any undue intervention in a regular and legally compliant request.

- *Reinforcement of powers of the judiciary system*

During the last twenty years a remarkable trend has developed in most OECD countries giving the judicial bodies increased powers to detect, judge and punish misconduct by civil servants, embezzlement of public (as well as corporate) funds. In certain countries, there have been complaints about the excessive powers acquired by judges, but here again, it seems that positive results have overcome the negative impact felt in some specific business areas, mainly in areas where private and public interest may conflict.

- *Entrusting the implementation of State regulatory function to independent agencies*

This has been one of the main achievements of the recent decades. It is due to the wave of privatizations that took place in the eighties of last century from which originated the need to have strong and independent bodies to implement sets of regulations needed to:

- secure fair competition among private firms supplying public goods after the selling of Public enterprises having enjoyed a full monopoly of a specific activity,
- protect the interest of the consumers and public safety,
- securing adequate level of investment and maintenance.

Independent Regulatory agencies are composed of independent and highly respected personalities enjoying an impeccable technical and moral reputation in the field of their specialty. They would only report as a collective body to the highest authorities (Council of ministers or Parliament) and not to any ministry or Government bureaucracy.

Looking at human capital as the main asset to be developed to face globalization and enhanced international competition

OECD countries have focused their efforts since the end of World War II on increasing the productive capability of their population. After a first period when efforts were devoted to basic education and social welfare, OECD countries shifted focus to emphasize the need of their societies to become based on knowledge and thus to develop on a continuous base knowledge acquisition techniques.

High level of Human capital have now become the basis of prosperity in OECD countries are competing among themselves to attract entrepreneurial and scientific talents and are also competing to attract the best talents and skills from other parts of the world.

Spending on Education and Research and Development has become a priority for each government and the private sector is now spending in certain cases as much as State or State agencies. Acquiring and diffusing knowledge have become one of the largest industries in most OECD countries.

Partnership between Education institutions, the State or local authorities and the private sector has become the main tool to concretize the "Knowledge society".

OECD Secretariat has been monitoring education and R & D expenses for the last forty years in all its member countries and has conducted substantial research on the mechanism of innovation and technology diffusion. This has also been the case of the European Union.

UNDP has also greatly contributed to this growing trend by insisting on all aspects of human development and by studying how to increase efficiently spending to develop human capital. In a society based on knowledge, traditional ways of gaining and exercising authority are being changed and new Governance rules are put in place that are more adapted to the needs of a knowledge society.

Education methods, new tools of diffusing knowledge, the control and regulation of the economic value of knowledge and the equal access to knowledge are new avenues that need attention, rules and regulations, given their tremendous impact on all aspects of our life as citizens, producers, consumers, parents and teenagers.

Today, OECD countries are in the process of reviewing all their laws and regulations so as to facilitate the acquisition and diffusion of knowledge among their citizens and increase the competitive capacities of their societies in an international environment where knowledge is becoming the basis of power.

The result is a virtuous circle whereby more educated and knowledgeable citizens are asking for more participation and empowerment in the exercise of authority and in

all the complex processes of decision-making. Governing elites are now competing to find new ways to accommodate a larger participation of their citizens in public life and to share their political responsibility with civil society, business and professional associations, trade unions, scientists, educational institutions, local institutions, etc.

These are the main lessons that could be drawn from OECD member countries' experience and that could be of great value to the MENA region.

IV. Outlook for the future of Governance in the MENA region and the role of OECD

The future of governance in the MENA region: towards a new approach to change and reform

Given the situation described here, OECD in partnership with UNDP is ready to assist MENA governments in their drive to modernize their institutions. MENA countries dispose of untapped development potential and have not been able to fully integrate into the global market economy. Improved public governance could provide strong benefits and dividends by encouraging economic growth, trade, investment, government service delivery, and job creation in the region.

It is time that accumulation of different types of reform experiences in the region should bear its fruits. In spite of the external constraints mentioned in part II, there is room for substantial improvements, namely in the field of creating a more dynamic economic environment in each country to tap the huge potential of the region. The vicious circle affecting economic performance of the region is of a socio-economic nature and could be attributed to the various domestic constraints that we have identified in part II. Developing the appropriate policies to reducing such domestic constraints should become a priority, as the region cannot continue to be an exporter of high quality human resources. Talents have to be maintained in the region and the huge financial assets that some citizens maintain in foreign financial or real estate markets should be put at use domestically. This could happen, only if a climate of confidence is established. Such climate could only be created through instituting the various governance mechanisms allowing the proper distribution of authority and decision-making between all stakeholders in the society. Best practice and valuable experiences could be found in different part of the world and it would be useful to disseminate the accumulated knowledge on successful experiences(13).

In spite of all the political and military tensions in the region that is being perpetuated by high level of conflicts in Israel/Palestine and in Iraq, there is a strong consensus that more governance, more open societies, more human and gender rights are to be consolidated in the region. This has been repeatedly emphasized since the beginning of year 2004 by various Arab intellectual gatherings and political events(14).

Outdated institutions should continue to be phased out progressively, while new institutions adapted to the era of globalization and competition should be put in place. The incremental approach described above is well suited to the conditions of the region provided it is part of a new vision for change towards governance and improved investment climate. In this respect, more investments in human capital, a better distribution of investments in the real sectors of the economy, investments in R & D and in the knowledge economy are key ingredients for making the MENA

economies more dynamic and able to create enough employment opportunities for the young generation so that the drain of entrepreneurial and professional or scientific talents out of the region could be stopped.

As already mentioned, if there is no need and no desire in the region for radical and revolutionary changes in the political arena, the need for change in the socio-economic fabric of the region is very acute. This is where the diffusion of governance and sustainable development principles in the region could be the basis for the global changes needed. As mentioned by an OECD publication, sustainable development cannot be reached without the dissemination of an "institutional culture of change and progress" (15). Well-tested tools exist now to allow for such changes to take place within the consensus existing for gradual action to tackle bottlenecks and gaps that we have attempted to identify in part II.

These tools could be introduced and tested in the region even if political and military circumstances remain tensed. In other parts of the world, such tensions have existed or in certain cases continue to exist without having affected the capacity of governments, private sector and civil society to develop efficient partnership to face the challenges of the huge economic, scientific and technological changes affecting the world economy and society. It should also be reminded that most governments in the region have proved their eagerness to accelerate the modernization of their institutions and to become an active part of the global economy. Political reform is proceeding, but needs more focus on the specific socio-economic governance issues for the region that have been underlined here.

It is our belief that tackling these specific issues should not arise alarm with the governments of the region, which are under heavy political pressure from external powers to accelerate the path of political reform. The initiative proposed here is not to be considered as part of these pressures. On the contrary, it is the continuation of substantial efforts that OECD Secretariat has devoted in the last twenty years to promote well-focused governance principles and best practices in all parts of the world, including with OECD members. The Governance Action Package mentioned in the introduction is a clear indication that OECD new focus on the region is the continuation of the efforts being developed within the framework of the GAP in other parts of the world.

1- See various documents and comments on such efforts implemented in different Arab countries on the following website: www.undp.org/rbas/ediscussion. Among the documents available, PNUD et Gouvernance au Maroc, UMP City Consultation Guidelines, Extending Educational Access through Deconcentration of Services in Jordan, Water Management and Empowerment in Jordan, A Concept Paper, Broad Policy Options For Municipal Action in Urban Management with particular reference to Improved Governance, The Role of Participation and Partnership in Decentralised Governance: A Brief Synthesis of Policy Lessons and Recommendations of nine Country Case Studies on Service Delivery for the Poor.

2- A recent study based on data extracted from the OECD electronic data bank for Official Development Assistance granted from 1963 to 2000 by OECD countries to the MENA Region countries (without Iran, but including Turkey) shows that 80% of this aid has been received by four countries only (Egypt, Israel, Morocco and Turkey). The study also shows that only 18% of aid committed has been pledged for sustainable development projects (humanitarian aid, institutional support, education, social development and health, SMEs, promotion of democracy, etc.). See G. CORM, *Coopération et mobilisation de ressources financières pour le développement durable en Méditerranée, Plan Bleu d'action pour la Méditerranée*, Sophia Antipolis, France, 2003 (study available on www.planbleu.org).

3- See the first Arab Human Development Report 2002. *Creating Opportunities for Future Generations*,

UNDP, New York, 2002 and the more recent MENA Development Report, Better Governance for Development in the Middle East and North Africa. Enhancing Inclusiveness and Accountability, The World Bank, Washington D.C., 2003.; see also The Labour Market and Employment problems in the Arab Countries (in Arabic), The Arab Monetary Fund and the Arab Fund for Economic and Social Development, Abu Dhabi, 2002.

4- Ali Al- Kadri & Yacuchisa Yamamoto, Analysis of performances and assessment of growth & Productivity in the Escwa Region, Economic & Social Commission for Western Asia (ESCWA), Beirut, 2002, unpublished paper; see also the two first issues of Analysis of performance and Assessment of Growth and Productivity in the ESCWA Region, United Nations, New York, 2003 & 2004 and Responding to Globalization: Skill Formation and Unemployment Reduction Policies, ESCWA, United Nations, New York, 2003. See also Globalization and Firm Competitiveness in the Middle East and North Africa, Mediterranean Development Forum, The World Bank, Washington D.C., 2002.

5- See Reducing vulnerability and Increasing opportunity. Social Protection in the Middle East and North Africa, The World Bank, Washington D.C., 2002; see also Preventing and eradicating Poverty. Report on the experts' meeting on poverty alleviation and sustainable livelihoods in the Arab States, Damascus, Syria, February 1996, UNDP (without date); see also G. CORM, Sustainable Human Development and Macroeconomy. The state of the Arab World (in Arabic), ESCWA and UNDP, "Studies in Human Development", n° 6, New York, 1997.

6- For the banking sector in the Arab World, see Good Governance in Arab Banking and Financial Institutions in Light of Internationally Accepted Standards, Union of Arab Banks, Beirut, 2003; see also G. CORM, The competitive capacity of the Lebanese banking system (in Arabic), Association of Banks, Beirut, 1996.

7- See Research and Development expenditure in Industry 1987/1999, 2001 Edition, OECD, 2001 and see Towards a knowledge-based economy, 2001 Edition, OECD, 2001.

8- On this point, see G. CORM, The private sector role in the development of the Machrek countries (in Arabic), a paper presented to the symposium on "The role of the private sector in the Arab countries: present situation and future prospects", The Islamic Development Bank, Cairo, May 2003.

9- See on this specific point, Ibrahim AKOUM, Governance and Globalization, An Economic and Financial Approach, Union of Arab Banks, Beirut, 2004.

10- See in particular, La gouvernance au XXI^e siècle, OECD, Paris, 2002 ; see also Les lignes directrices du CAD. Stratégies de développement durable, OECD, 2002.

11- See Des partenariats locaux pour une meilleure gouvernance, OECD, 2001.

12- See Managing Conflict of Interest in the Public Service. OECD Guidelines and Country experiences, OECD, 2003 and Open Government. Fostering Dialogue with Civil Society, OECD, 2003; see also José M. Sousa REGO, presentation of the Portugal experience to the OECD Exploratory meeting on "Good Public Governance for Development in the Middle East and North Africa Region (MENA) region", Istanbul, February 2004. For Italy, see Fiorenza BARAZZONI, Public sector reform – the Italian case, and for Poland, see Jacek CZAPUTOWICS, Challenges & experiences of Governance Reforms, presentations to the Istanbul meeting.

13- One should not forget to include the lessons that could be drawn from the East Asian miracle in economic growth and democratisation; see The East Asian Miracle. Economic Growth and Public Policy, The World Bank, Washington D.C., 1993.

14- See the « Sanaa Document » issued on January 10, 2004 by a Conference organized by the Yemeni Government with the participation of various local and Arab NGOs and political parties; this meeting was followed by the Alexandria meeting organized by the Alexandria Library and attended by the Egyptian President, Mr. Housni Mubarak and 150 Arab intellectuals in March 2004. In addition, the last Summit of the Arab League in Tunis in May 2004 has also discussed the issue of reforms.

15- See Lignes directrices du CAD. La réduction de la pauvreté, OECD, 2001, p. 36.