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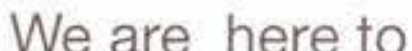

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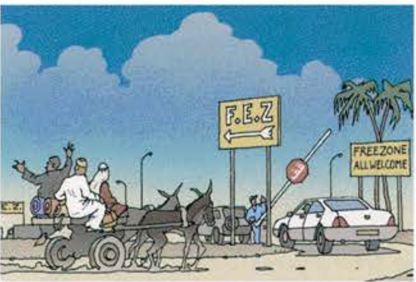

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Cover image
Sunset over Koutoubia Mosque in Marrakech

oecd Observer

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Subscription rate: €69 – US$90 – £47 – ¥9 700
ISSN 0029-7054
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Fax: +33 (0) 1 45 24 82 10
sales@oecd.org

Founded in 1962 The magazine of the Organisation for Economic Co-operation and Development

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75775 Paris cedex 16, France
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Published in English and French by the OECD
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ADVERTISING MANAGER: Mediaside

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Responsible and committed partners

A participatory approach lies at the heart of our country's public policies

Abbas El Fassi
Prime Minister of Morocco,
Host of the 2009 MENA-OECD Ministerial Conference

The international crisis has underscored the paramount need for reform and other efforts to build modern economies capable of attracting international investment and creating the resources needed for sustainable economic and social development.

In the current economic climate, in which early signs of recovery give grounds for optimism, the countries of the MENA region are keenly aware of the common challenges that must be met through stronger principles of good governance and economic freedom, consolidation of the rule of law and democracy, the fair distribution of wealth and compliance, and respect for the environment.

Such challenges encourage us to reinforce our regional integration process to which we are strongly committed, in the mould of the Agadir Arab Mediterranean Free Trade Agreement, for instance, which brings four Mediterranean countries together–Jordan, Egypt, Tunisia and Morocco–in a free trade zone of some 120 million people, or indeed the Kuwait Declaration, which calls for the promotion of intra-Arab investment. We are convinced that regional integration is a vital mainstay for the development of our economies.

Our willingness to intensify co-operation between our countries and to broaden the scope of action does not in any way diminish the importance of strengthening our co-operation with OECD countries, through productive and multidimensional partnerships, in order to pursue co-ordinated joint actions and provide effective responses to the decisive challenges confronting us. The MENA region is now a major player on the international scene, occupying a new place on the world stage. It has all the assets it needs to fulfil its role as a responsible and committed partner with a heartfelt desire to make a positive contribution to the international platform for collaboration and action.

The Kingdom of Morocco has committed itself, under the dynamic leadership of His Majesty King Mohammed VI, to do its utmost to meet the challenges of regional and global economic openness and integration by hastening the pace at which a new generation of structural reforms is introduced into priority sectors, such as agriculture, water resource management, the digital economy, health and education. In renewable energy, we have recently launched an ambitious solar power programme. Morocco's commitment to achieving its "advanced status" with the European Union is yet another practical example of this convergence of values and of economic, cultural and political rapprochement.

These efforts would fall short without the complementary and invigorating contribution from the private sector, which is being asked to play a larger role in designing and realising development projects, and to find useful synergies with players from the public sector and civil society so that we can reach new levels of growth and raise the living standards of our citizens. Our active marshalling of resources also demands harnessing the potential of women by encouraging their participation in economic and social life. This participatory approach lies at the heart of our country's public policies.

The MENA-OECD Initiative on Good Governance and Investment for Development is in this regard a good example of successful collaboration and regional integration based on shared economic and social principles and goals. Morocco is fully aware of the new role it must play within this initiative, which provides a forum for dialogue and debate, and for sharing constructive ideas with a view to spurring development, creating wealth and improving the welfare of our citizens.

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Why governance and investment matter for development

Angel Gurría, Secretary-General of the OECD

The world is going through hard times. Though there are some signs of an economic recovery, global confidence remains fragile.

From the economic and social crisis to climate change, natural disasters and conflict, rarely in modern history have we faced such a testing period. The crisis has taught us many lessons, about our policies, our practices and our ways of life. But if there is one lesson that stands out, it is the importance of international co-operation to help us overcome the challenges we face.

Even before the crisis struck, the MENA region faced difficulties, but with growth and investment reeling from the global downturn, the situation has become urgent: millions of new jobs will be needed for the MENA region's expanding population over the next decade. With annual growth rates that averaged 6% in previous years set to fall to closer to 2-3% this year and foreign direct investment inflows into parts of the region plunging by an estimated 30%, governments need to work hard to attract investment by domestic, regional and international companies.

One underlying cause of the challenges MENA countries face can be traced to administrative and governance processes, which must be addressed to release economic potential, alongside action on education and business development. But though a crisis is a good time to reform, it can also fuel resistance to change. The MENA-OECD Initiative on Good Governance and Investment for Development aims to help support reform-minded governments by sharing best practices from the region and beyond.

The paradigm is simple: ensuring stronger and better governance and a supportive business environment that includes robust education and infrastructure will bring more investment and improve the development prospects for the region as a whole. However, translating the paradigm into reality is not easy, which is where the OECD can help. We have a rich trove of experience to share in all the key areas for action, from public and corporate governance, through human resource skills and women's issues, to capital investment, tax administration and policies for small and medium-sized enterprises. We are honoured to put this knowledge at the disposal of the MENA countries. Our focus has been on improving governance and strengthening investment policies, as these are prerequisites to unleashing the MENA region's considerable development potential. A results-oriented programme, the MENA-OECD initiative helps to share know-how on best practices and lessons from past reforms. We mobilise trusted OECD tools, such as peer review and civil society dialogue, and promote innovative solutions for specific circumstances. Our collaborative work is starting to show results. Take corruption, which has affected investment in the MENA region at some cost to development. Thanks to the involvement of the OECD, among others, now several countries have begun cleaning up their public procurement practices and are creating legal structures to combat bribery of public officials.

Under the Good Governance for Development initiative, MENA and the OECD are working together to help strengthen civil service performance and public service delivery in the region, and to improve such areas as e-government, public-private partnerships, legal enforcement and civil society relations. The fruit of this effort is reflected in the spread of information and communication technologies within administrations, for instance, and in more effective personnel policies, including empowering women in the civil service.

Meanwhile, the Investment Programme is helping to spur progress in areas such as investment rules, tax policies, small and medium-sized business support, corporate governance, sector diversification, trade, skills and responsible business conduct. Some of this work focuses on technical issues, such as providing drafting support for corporate governance codes and training officials on double taxation treaties. The programme has also developed regional guidelines for free economic zones, and has adapted the OECD Principles for Private Sector Participation in Infrastructure to the MENA region. And together with the governance initiative, the Investment Programme provides a forum to enhance contact between policymakers and other stakeholders.

Governance and investment policies will lead the agenda at the MENA-OECD ministerial conference at Marrakech, Morocco on 23 November, which will be held under the high patronage of His Majesty the King Mohammed VI and hosted by Prime Minister Abbas El Fassi. The ministerial meeting will be preceded on 22 November by two important fora on governance and business, as well as a summit of women business leaders.

The countries of the Middle East and North Africa have been at the economic and technological forefront of civilisation throughout much of history. Today, they are at a crossroads in their development. With strong co-operation combined with the right policies and determined approaches, the MENA region has every prospect of playing an increasingly leading role in helping to forge a stronger, cleaner and fairer world economy for all. ■

www.oecd.org/secretarygeneral
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News brief

Showing progress

Leading economists and international policymakers joined together at the **OECD's Third World Forum on Statistics, Knowledge and Policy** in October to sound the call for a new standard in measuring progress.

"What we measure affects what we do, and we have been measuring the wrong thing", said Joseph Stiglitz in a speech at the forum in Busan, Korea. The Nobel Prize-winning economist stressed the need for new progress indicators to replace GDP and GNP, which measure only market activity, rather than the well-being of people.

OECD Secretary-General Angel Gurría echoed the sentiment, proclaiming that "economic resources are not the only things that matter". He insisted that "to capture well-being, we have to measure the expectations and level of satisfaction of individuals, how they spend their time, their paid and unpaid work, their capabilities, the relations they have with other people, their political voice and their participation in public life".

Beyond discussing subjective progress metrics, participants also focused on measuring sustainability and "green growth". Stiglitz suggested computing a "Green GNP" by making adjustments for the depletion of natural resources used to produce economic growth.

Lord Richard Layard, from the London School of Economics Centre for Economic Performance, suggested that only drastic changes will make a difference. "We can only break away from the GDP stranglehold by doing something different," he said. "We should value goods as the people value them, not as we outsiders value them."

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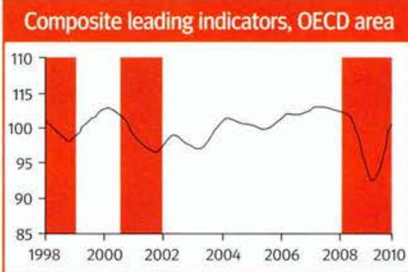
Economy

OECD leading indicators continued to rise for the OECD area in September to 3.4 points higher than a year ago, pointing towards recovery and possible expansion for some countries.

Composite leading indicators, OECD area



The leading indicators for Italy increased by 1.3 points in September, 10.8 points higher than a year ago. France, the UK and China also showed positive signs with leading indicators at least 7.0 points higher than the same month in 2008. US leading indicators increased by 1.4 points in September from August and from a year ago, while the indicators for Japan increased by 1.3 points in September, but were 0.7 point lower than a year ago. See www.oecd.org/statistics.

Unemployment in the OECD area held steady at 8.6% from August to September, up from 6.3% in September 2008, but new data from America shows a jobs recovery may yet be in the distance. US unemployment rose 0.4 points from the previous month in October to 10.2%, marking the first time unemployment has surpassed 10% in the US since 1983. In the euro area, the unemployment rate was 9.7%, 0.1 percentage point higher than in August and 2.0 percentage points higher than September 2008. In Japan unemployment dipped to 5.3% in September from 5.5% in August, but was still 1.3 percentage points higher than in September 2008.

Annual **inflation** fell -0.3 % for the OECD area in September 2009, paced by a -13.9% year-on-year fall in consumer energy prices and a -0.4% dip in food prices from September 2008. The US Consumer Price Index (CPI) dropped -1.3% in September from the same period in 2008, compared to a -1.5% CPI drop in August. Japan's consumer prices fell for a third consecutive month, down -2.2% from the comparable period in 2008, while in the euro area inflation was down -0.3% in September compared with last year.

After the continued drop in quarterly **merchandise trade** volumes of the G7 countries during the last quarter 2008 and first quarter 2009, the trend reversed with more stable growth volumes in the second quarter 2009. Quarter-on-quarter, the growth of G7 exports stabilized at 0.8% while imports declined by -2.5% in the second quarter of 2009. Year-on-year, trade volume growth levelled off at -23.3% for exports and -19.0% for imports.

Hard talk

©Tom Burke/Irish Independent

Ireland's Finance Minister Brian Lenihan listens to OECD Secretary-General Angel Gurría at the launch of the OECD's *Economic Survey of Ireland 2009* (www.oecd.org/ireland) in Dublin in early November. The secretary-general delivered some tough messages for the country–one of the OECD members hardest hit by the global economic crisis. Even with the unemployment rate forecast to hit 14%, the Irish government should tighten up on unemployment benefits as wages are falling, and ratchet up its active labour market programmes. The government should also cut spending on public services, broaden taxation and tighten up on regulations governing the financial sector.

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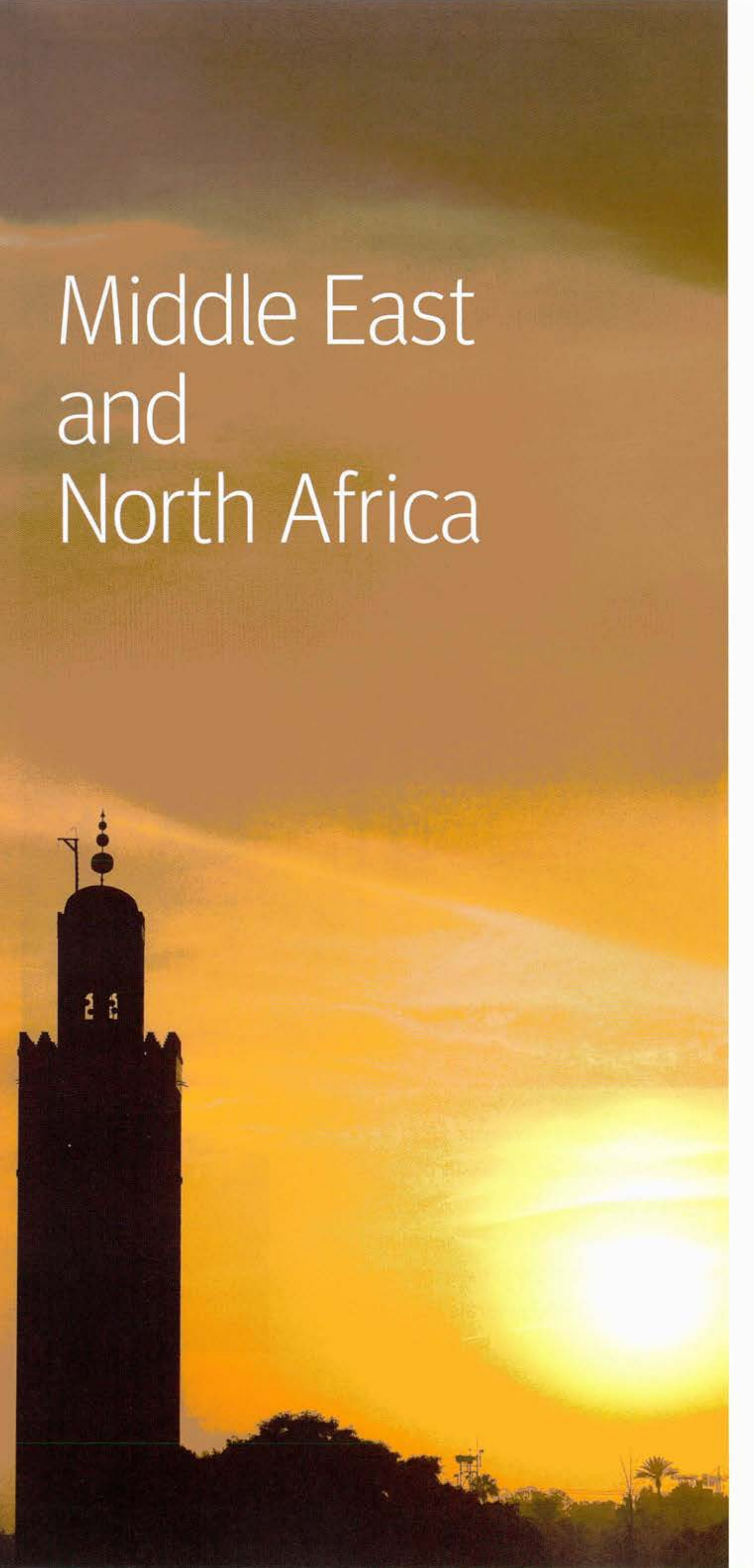


Towards a brighter outlook

Improving governance and investment are preconditions of development in the MENA region.

The countries of the Middle East and North Africa stand at a crucial stage in their development. Though several of them had until recently witnessed high growth–Morocco's economy expanded by over 5% in 2008, Egypt's and UAE's by over 7%–the global crisis has finally dealt a blow.

Real GDP in MENA countries is expected either to slow sharply in 2009 or, in the case of oil-exporting countries, record a slight drop. 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, figures from the World Bank indicate a sharp deceleration to 2-3% in 2009 which, while not a recession, is below countries such as China and India.

How fortunes have changed. Since 2000, the MENA region had started to get on top of some quite major challenges, including high unemployment and poverty–a fifth of the population lived under the poverty line of US$2 per day. The World Bank had estimated that approximately 100 million additional jobs would have to be created in the MENA region by 2020 just to keep up with current population growth. The region lagged behind other emerging country regions in attracting foreign direct investment, receiving just 0.4% of global inflows in 2000, compared to 0.7% for Southeast Asia.

Then the MENA region started to leap forward. Investment inflows climbed to 5.5% of total global inflows in 2008, compared to 3.5% for South East Asia (see graph). Unemployment slowly declined throughout the region in 2006-2008, although it remained structurally higher than in other developing countries.

When the global crisis reached MENA's shores, it did so slowly at first, with most of the early impact being felt by banks that had

borrowed externally or were heavily exposed to asset markets, particularly in some Gulf countries. Now the squeeze is being felt everywhere.

Investment inflows are expected to fall abruptly in 2009, by up to 32% among the group of oil importers. Tourism has declined, small and medium enterprises have been hit and remittances have dried up. Trade has slowed and building projects have stalled. Government revenues have also been reduced, and though resource-rich countries have been able to compensate for this somewhat, in most countries public spending has been severely constrained.

The financial crisis has forced an untimely adjustment to the region's ambitious growth and employment targets: a GDP growth of an average of 6%-7% is widely considered necessary to absorb new labour market entrants and contribute to poverty reduction. But low growth means unemployment is set to rise anew. The ILO thinks the unemployment rate could rise by around 25% in the Middle East and 13% in North Africa in 2009 compared to 2007. Young people and women are likely to bear the brunt.

This daunting prospect, together with high demographic pressures, puts MENA governments under extra pressure to create job opportunities and strengthen their business environments. The reality is simple: more investment, both public and private, domestic and foreign, will be needed to provide new engines of growth and dynamism.

This also puts more onus on the work of the MENA-OECD Initiative on Good Governance and Investment for Development, which was launched in 2004 with the participation of 18 MENA countries. As experts from both MENA and OECD countries repeatedly confirm, reinforcing governance structures and improving the investment climate go hand in hand, and without concerted efforts on these twin fronts involving all players and stakeholders, MENA countries will find it hard to reach their development goals in what has become an increasingly competitive global marketplace.

A results-oriented policy dialogue, the MENA-OECD programmes help to share know-how on best practices and lessons from past reforms. They lean on tried and trusted OECD methods such as peer review and civil society involvement, and privilege the design and implementation of innovative solutions for specific policy or country circumstances. The programmes are co-ordinated, with clear targets and monitoring to improve impact, and they reinforce development initiatives supported by international, regional and bilateral donors.

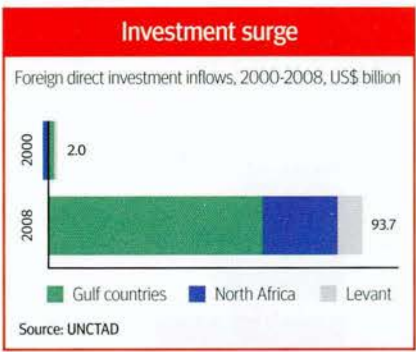
Take corruption, which continues to affect procurement deals at considerable cost to the public. However, progress is being made, for example, in Morocco. In its 2009 *Global Corruption Report*, Transparency International points out that while Morocco has suffered from corruption, it has taken several initiatives to combat it, including adopting a 2007 decree on public contracts and a Construction and Public Works Integrity and Social Responsibility Pact in 2008.

Still, more work is needed to tackle the problem in MENA generally. Steps could include committing to international instruments, such as the OECD Anti-Bribery Convention, which comprises eight non-OECD countries, though none as yet from the MENA region.

There are also questions of government effectiveness to address, which is why simplifying administration is important.

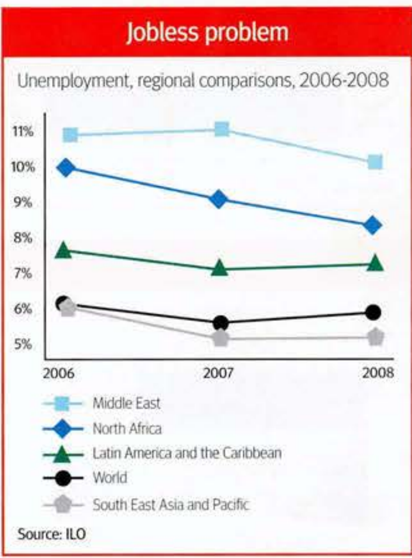
Though some MENA countries are more restrictive than others when it comes to doing business, a recent International Financial Corporation/World Bank ranking shows that none of the MENA countries excels in all fields (www.doingbusiness.org). Bahrain, for instance, ranks highly in dealing with building permits or employing workers, but ranks lower down for enforcing contracts. Morocco does relatively well on enforcing contracts, but scores less highly for employing workers. Getting credit is easier in Egypt and Saudi Arabia than in Algeria or Iraq. And when it comes to paying taxes, the Gulf states lead the way, with the Maghreb drifting behind.

Investment surge



Source: UNCTAD

Jobless problem

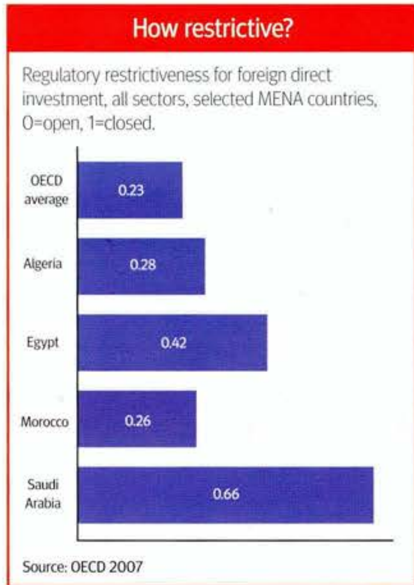


Source: ILO

According to OECD figures, the picture is reversed for restrictiveness towards foreign direct investment, with Algeria and Morocco being no more restrictive than the OECD average, whereas the Gulf countries are.

Whatever the barriers, breaking them down is paramount to overcoming the economic and social pressures the region must confront.

The MENA-OECD programme points the way forward. Consider the **Good Governance for Development** (GfD) initiative, whose aim is to promote development and favour sustainable economic growth by modernising public governance and improving public service delivery and policymaking. The fruit of this work shows up in the spread and penetration of information



and communication technologies in administration and in improved recruitment policies. It also shows in the introduction of merit-based promotion, and the recruitment of women.

The Good Governance for Development initiative also promotes e-government and administrative simplification, and focuses on issues such as public service delivery, public-private partnerships, the judiciary and enforcement, and civil society and the media. A key role is to encourage ministries and government agencies to co-ordinate their actions. Improving performance in public action and reinforcing capacities in policymaking is at the core of the programme mandate. In Istanbul, Turkey, this October, high-level officials from the MENA region met to drive forward work on public sector integrity. Such collaboration improves effectiveness and reassures donors.

While improving governance is key to creating a more efficient public service, the **MENA-OECD Investment Programme** focuses on helping governments to improve the business climate. In addition to enhancing consultation between business and policymakers, such as through the MENA-OECD Business Council launched in 2009, it also fosters reform efforts in areas such as investment, taxes, small and medium-sized business support, corporate governance, trade, skills development and responsible business conduct.

The programme has developed regional guidelines on free economic zones, supports a collaborative process known as the OECD Business Climate Development Strategy, and has adapted the OECD Principles for Private Sector Participation in Infrastructure to the MENA region. Economic diversification is also encouraged in areas such as manufacturing and renewable energy.

The MENA-OECD Investment Programme also seeks ways of improving access to finance. Though financial markets in the region are developing, firms and local investors have traditionally relied far more on family and friends and far less on credit or equity for their funding than do their counterparts in OECD countries. Even if Islamic finance, with its relatively prudent and risk-averse approach, has become more appealing and probably helped cushion the initial blow of the crisis, expanding finance to wider populations remains a challenge.

Supported by the MENA-OECD initiative, governments in the region are working away at improving the climate for foreign and domestic investors, and their efforts have already led to a sharp rise in private sector participation in the economy.

In Morocco, for example, the government is reinforcing its institutional frameworks, focusing on commercial law, justice, and business start-ups. A new investment promotion agency is also being established. Better public services for business are being promoted by introducing performance in civil service and public budget.

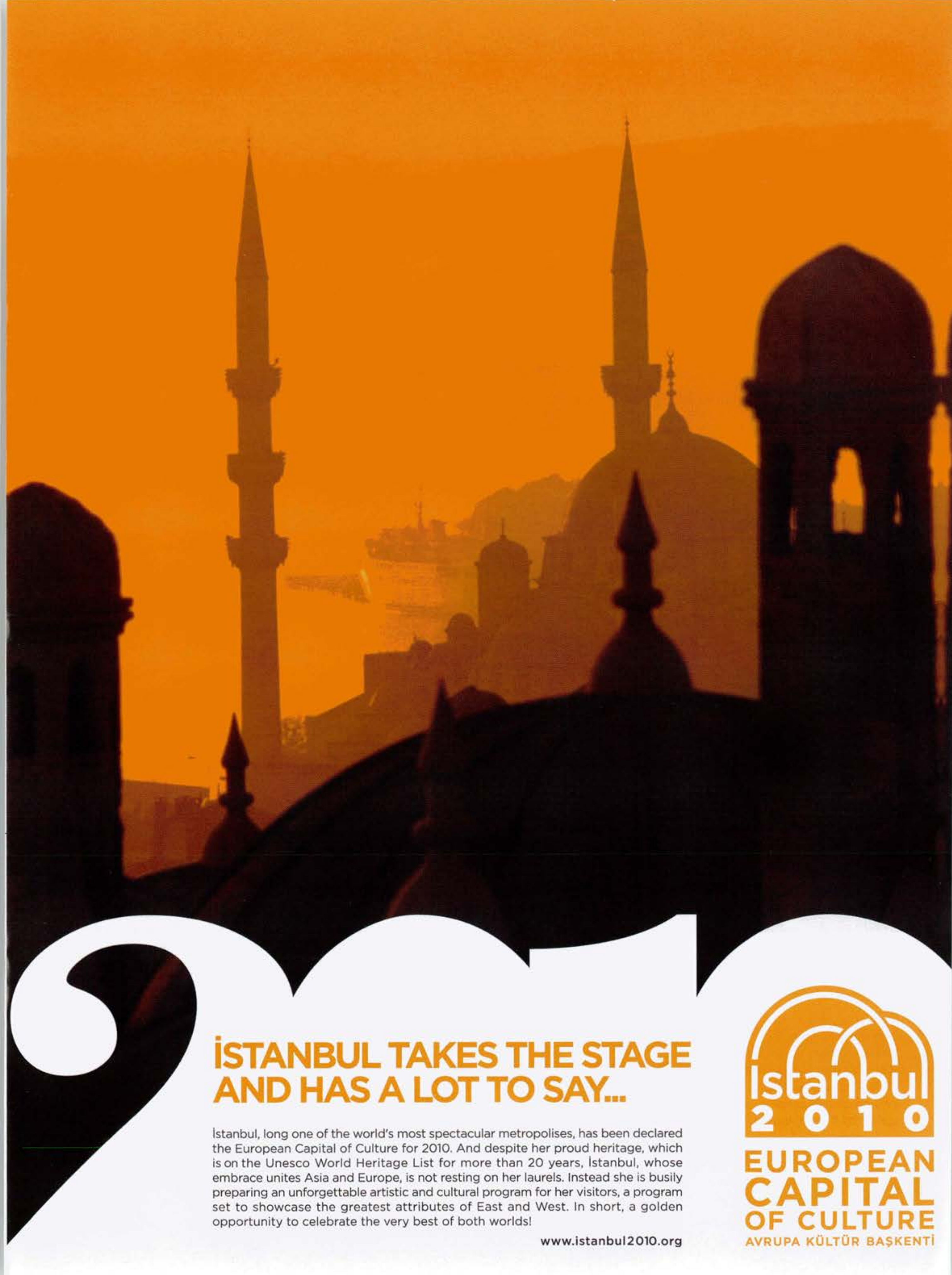
In Egypt, the authorities are streamlining investment procedures and dismantling bureaucratic obstacles, while innovating with new types of investment zones and promoting public-private partnerships in infrastructure. E-government is making progress through several initiatives at central and local levels. In Saudi Arabia, efforts are under way to strengthen the country's financial system by lowering restrictions to foreign ownership and approving new debt instruments. The UAE is moving to lift the 49% ownership restriction on domestic companies in most sectors. Tunisia is relaxing restrictions on FDI in retail distribution, banking and finance while making progress in improving its regulatory environment. And Jordan's government remains committed to its National Investment Strategy to ease bureaucratic restrictions, simplify rules for start-ups, ease labour regulations and overhaul the tax system.

These reforms are all steps towards getting the MENA region on track to sustainable growth and development. They demonstrate a belief that the global crisis must not be allowed to halt action, but rather spur new reform. By building on measures such as these, the outlook for the MENA region will surely brighten in the months ahead. ■ *RJC*

To know more about these programmes, contact Alexander Böhmer of the MENA Investment Programme and Carlos Conde of the Good Governance for Development initiative. *The OECD Observer* would like to thank their teams for their assistance in preparing this edition.

OECD (2009), Trends, Achievements and Challenges: MENA Investment Programme, October, Presentation available online at www.oecd.org/mena

OECD (2009) Modernising Government: The Way Forward, available at www.oecd.org/bookshop



İSTANBUL TAKES THE STAGE
AND HAS A LOT TO SAY...
İstanbul, long one of the world's most spectacular metropolises, has been declared the European Capital of Culture for 2010. And despite her proud heritage, which is on the Unesco World Heritage List for more than 20 years, İstanbul, whose embrace unites Asia and Europe, is not resting on her laurels. Instead she is busily preparing an unforgettable artistic and cultural program for her visitors, a program set to showcase the greatest attributes of East and West. In short, a golden opportunity to celebrate the very best of both worlds!
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Roundtable on the Middle East and North Africa

What governments are doing for development

The global crisis and how to get growth and development back on track led the agenda as ministers from MENA and OECD countries gathered at Marrakech in Morocco on 23 November 2009. In our ninth ***OECD Observer*** ministers' roundtable, we asked representatives from four MENA countries–Morocco (as hosts of the ministerial meeting), Bahrain, Egypt and Yemen–and from three OECD members–Italy, Korea and Spain:

"What action is your government taking to help improve development prospects in the MENA region?"

Morocco

Modernising and diversifying

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Nizar Baraka, Minister Delegate to the Prime Minister in charge of Economic and General Affairs

Over the past ten years, Morocco–under the leadership of His Majesty King Mohammed VI–has been resolutely modernising its economy and setting itself ambitious goals for economic and human development. The quickening pace of growth, in excess of 5%, and the decline in unemployment from 9.1% in the second quarter of 2008 to 8% in the same period of 2009 are signs that this strategy is proving successful.

To build a modern, competitive economy, our focus is on economic diversification, an enhanced business environment and stronger integration into the global economy.

Diversification is crucial if our economy is to be freed from its dependency on the vagaries of climate. Accordingly, Morocco has decided to develop jobs for the future that can generate long-term industrial know-how. Its national economic strategy, drawn up in conjunction with private partners, focuses on high-potential industries such as automobiles, electronics, the digital economy, food processing and offshore services. The government is also focusing on more traditional industries, such as farming and fisheries. These are benefiting from national development plans aimed at modernising production methods and improving the quality of Moroccan agricultural and fishery products.

We are endeavouring to reconcile economic growth with sustainable development by opting for renewable energy (with a target of 10% by 2012), given the country's significant potential for solar and wind power in particular. A new environmental charter also serves as a reminder that development should respect all the major ecological balances.

All of this would be in vain without the human capital, infrastructure and business climate that any economy needs to be competitive. We are, for instance, investing a considerable amount of resources in policies on education, refresher courses and vocational training. Our policy agenda includes major infrastructure projects, particularly in the field of transport with the construction of an extensive 1,500 km motorway network, harbour expansion to make Tangier one of the leading ports in Africa and the Mediterranean, and new airports to support our ambitions for tourism. Furthermore, the National Business Environment Committee, chaired by the prime minister, is ensuring that we provide the right environment for corporate development.

Finally, regional integration and international outreach are improving the development prospects of Morocco and its neighbours and partners. From the 1994 Marrakesh

Agreement Establishing the World Trade Organization to the free-trade agreements with our Mediterranean partners and the US, or our "advanced status" relations with the EU, Morocco is convinced of the benefits of economic outreach and the freedom to invest and trade. As host to the MENA-OECD Forum, Morocco is committed to sharing its experience of economic and human development and drawing on approaches that have met with success elsewhere. The increasing flow of foreign direct investment to both Morocco and the MENA region is proof that this joint strategy is working.

Visit www.affaires-generales.gov.ma

Bahrain
Forging long-term success

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H.E. Shaikh Ahmed bin Mohammed al Khalifa, Minister of Finance

As we were one of the first countries in our region to discover oil, we were also the first to see the need to diversify our economy.

This has been a long-term and steady plan, built on prudent fiscal management and a planned approach to expenditure, coupled with strong financial regulation and a drive for reform.

As a government, we have carefully planned and implemented the various policies needed to bring about our country's future prosperity.

We see clearly the need to drive for more productivity and increase the efficiency of our economy, in line with our Economic Vision 2030 and National Economic Strategy, our national blueprint for the future. We also realise the vital role and demand for education, labour reform, partnerships with foreign business, and the need to establish and adhere to the best international standards.

We need foreign businesses to help us achieve our ambition, and to share in our success.

We have also witnessed the impact of previous global booms and recessions. We see how this current downturn may herald a shift in economic emphasis towards the MENA region and the East.

However, we do not have any headline-grabbing actions or policies to deal with this specific situation. Instead, we have a steely determination to continue along our long-term path of steady, sustainable growth, with prudent financial management coupled with the adaptability to meet the changing realities of the domestic, regional and global situation.

Building for the future has enabled us to take decisions that are best for us and our partners, ensuring success not just for now but for the years to come. It is the path we set now, and the example we set for our future generations, that will determine how successful we will become.

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Egypt
Towards job creation

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Mahmoud Mohieldin, Minister of Investment

The current global crisis poses challenges as well as opportunities to developed and developing economies. The MENA region has seen proposals for reform and stimulus packages, and measures for improving the business environment. We must do this for the emerging generation of entrepreneurs and less privileged small and medium firms that are the hope for a better future.

Egypt has weathered the current global crisis well, thanks mainly to the government's commitment to strengthening the macroeconomic environment through relentless reform efforts. These include enhancing the soundness and stability of the financial sector, strengthening the supervisory and regulatory framework, modernising the institutional infrastructure, liberalising trade, and overhauling the tax system. These reforms created a friendlier investment climate and a more diversified, private sector-led growth, which reached a 25-year record of 7% in 2006-2008. For the fourth year, Egypt was ranked as a leading reformer in the IFC/World Bank Doing Business Report. With an annual average of US$10 billion in foreign direct investment, Egypt is the leading North African country in attracting foreign investments too.

Egypt's response to the economic crisis included a strong stimulus package, a flexible monetary policy, business support, investment in infrastructure and utilities, and adoption of prudent regulations. Growth of approximately 5% has been maintained during the crisis.

For growth to benefit the wider population, social reforms should be sped up, especially in education. This should be done in partnership with the private sector. With the labour force expanding fast and given persistently high unemployment, the MENA region will need to add some 100 million jobs by 2020. Much of this policy challenge falls on Egypt. The government is dedicated to offering a climate conducive to job creation. We believe it will not only define the MENA region's labour market, but Egypt's social contract will depend greatly on it.

The path to high growth is paved with five fundamentals– openness and integration with the world; macroeconomic stability and controlled budgets; savings for infrastructure and human capital investments; efficient markets that are effectively regulated; and a strong state that protects citizens' rights and is committed to sustainable development. Such efforts depend on global co-operation to create the benign global environment that the emerging markets of North Africa and the Middle East need to sustain their growth and development.

Visit www.investment.gov.eg

Roundtable on the Middle East and North Africa - continued

Yemen

Regional co-ordination is key

Abdulkarim Al-Arhabi, Deputy Prime Minister for Economic Affairs, Minister of Planning and International Cooperation

With reunification in 1990, Yemen adopted a liberal economic system, democracy and political pluralism, and decentralisation to enhance people's participation in managing their economic and social affairs. Since then, the government has applied several programmes to promote social and economic development, most recently pro-poor growth plans to address economic growth and poverty alleviation. In addition, the government has adopted national reform programmes to address the internal and external disequilibria, to target better and efficient government, to improve the business environment to attract potential investors, and to enhance the economic opportunity of our people. The series of policies and measures has contributed to economic stabilisation, liberalisation of trade and enhanced private sector participation. At the same time, public investment programmes were implemented to improve infrastructure, enhance social safety networks, expand the provision of basic social services, and promote micro-finance.

Today, Yemen, along with other countries in the region, is faced with challenges posed by the global financial crisis, climate change, water shortage, and lack of security. The government is extremely concerned about these multi-dimensional challenges, and we ask ourselves: What should we be doing to improve development prospects in the region?

One way to respond is to expedite efforts towards more regional and international co-ordination. Regionally, there is a growing need to draw up a strategy and take bold and practical measures to promote more economic co-operation. The government of Yemen, together with its neighbouring Gulf states, has been developing a strategic initiative for economic integration. Such an initiative will have not only an economic added value to all parties, through trade, labour and investment prospects, but also will contribute to the region's stability and prosperity.

Visit www.mpic-yemen.org

Italy

Strengthening shared roots

Renato Brunetta, Minister for Public Administration and Innovation

For geographical, historical and cultural reasons, the Middle East and North Africa region has always been a high priority for the Italian government.

Since 2002, when the Italian government launched the "e-Government for Development" programme, aimed at transferring information technologies to public administration in developing countries, many projects have been carried out in collaboration with international organisations, including the OECD.

The Italian government firmly believes that substantial structural deficiencies in a country's public sector hamper economic growth and result in inefficiency, delays, and burdensome bureaucratic procedures that affect not only the quality and quantity of services offered to citizens, but also enterprises' productivity. In this view, e-governance, or applying digital technologies for interaction among public administration, citizens, civil society and business, can promote a more efficient, participatory and transparent system.

In particular, we believe that co-operation in the public sector, with a strong focus on diffusion of innovation and modernising the civil service, is key for recovery and growth in the global economy.

To this end, we have launched the project Distance Learning for innovative Public Sector. It is aimed at delivering high quality e-learning courses to senior civil servants and other public sector officials, to increase their knowledge and skills in the field of public sector innovation, which is one of the key drivers of economic, business, and social development.

This initiative aims at gathering the best e-learning courses available in partner countries on a single platform to support their efforts in public sector modernisation. The learning content is set by partner and beneficiary countries according to their preferences and needs. The project has already attracted wide interest and will be formally presented at the MENA-OECD Ministerial Conference in Marrakech on 23 November.

We believe that the Italian approach towards development in the MENA region provides an opportunity to make the most of our cultural closeness in order to enhance the links between our peoples and cultures and the roots of our shared Mediterranean identity.

Visit www.innovazione.gov.it

Korea

A strategic partnership

Chang-sub Jung, Vice Minister of Public Administration and Security

In the past decade, the government of the Republic of Korea has strived for joint development with MENA countries by strengthening co-operation in good governance. From 2005, Korea's role as a co-chair in e-government and administrative simplification,

one of the working groups of the Initiative on Governance for Development, has enabled closer co-operative relations between Korea and the MENA region. In this context, Korea has contributed toward modernising public governance in the region through active investment and collaboration in various areas.

In August and September this year, the Korean government partnered with Morocco and Algeria to build Information Access Centers, which will be utilised to provide IT education. Furthermore, the Africa Digital Opportunity Forum was held in August in Rabat, Morocco, providing a venue for high-level government officials from Korea and Africa to share their experiences in ICT policies and to discuss ways of co-operation going forward.

Korea also actively engages with partner countries to provide assistance through various programmes. The IT Youth Volunteer programme has dispatched volunteers to MENA countries including Jordan, Yemen, Algeria, Egypt, and Tunisia. In addition, the Korea IT Learning programme has invited ICT officers from Kuwait, Iraq, Syria, Lebanon and the UAE to participate in training opportunities in Korea.

In order to consolidate the strategic partnership between Korea and the MENA region, bilateral co-operation should also be strengthened along with multilateral co-operation. Hence, continued interest and support of MENA members are needed to develop multilateral co-operation into a bilateral approach in the future.

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Spain

A commitment to development

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Josep Puxeu, Secretary of State for Water and Rural Affairs, Ministry of the Environment and Rural and Marine Affairs

Spain has long experience of development co-operation with countries of the Southern and Eastern Mediterranean. Co-operation has increased considerably over the past 20 years, both in funding and in the diversification of co-operation mechanisms. The net total official development aid allocated to the Middle East and North Africa region rose by a factor of 2.6 between 2004 and 2008, from €202.8 million to €543.7 million in 2008.

The Spanish International Agency for Development Cooperation was restructured in late 2007 to improve the quality and efficacy of aid, in line with the Paris Declaration principles.

The importance given by Spain to development in the MENA region is reflected in the geographical criteria of successive Development Cooperation Master Plans. The most recent Master Plan, for 2009-2012, gives broad association status to Algeria, Morocco, Mauritania, the Saharan Population and the Palestinian Territories. Lebanon and Iraq are identified as focused attention countries, while Egypt, Jordan, Syria and Tunisia are qualified as association countries for the consolidation of development achievements.

Within the context of the EU's Neighbourhood Policy, Spain's co-operation in these countries aims to strengthen institutions, and improve good governance, sustainable economic development, social development, the status of women and the protection of human rights. At the same time, in accordance with Spain's commitment to the Middle East Peace Process, particular attention is given to ease the humanitarian crises in the Palestinian Territories and Lebanon, while assistance remains in place for the United Nations Agency for Palestinian Refugees in the Middle East.

Spain is committed to the Union for the Mediterranean initiative, involving co-operation and the development of international relationships among a group of 43 countries, home to more than 756 million citizens, including all the member states of the EU and the states of North Africa and the Middle East within the Mediterranean region.

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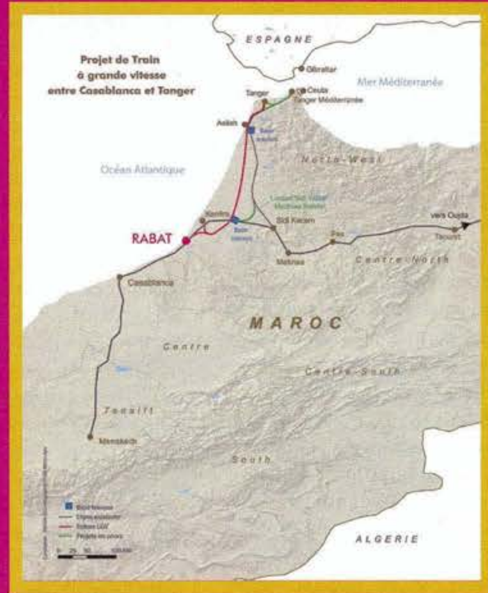
Morocco moving

SNCF International, a fully-owned subsidiary of SNCF, markets the French railways' experience to rail networks and operators throughout the world. It is playing a leading role in the development of the first high speed rail line in the MENA region, the Moroccan line which will ultimately link Casablanca to Tangier.

After five years of preparatory work, France and Morocco signed an agreement in October 2007 covering the design, construction, operation and maintenance of a high speed line between Casablanca, the economic capital of the south, and Tangier, a developing economic star in the north.



This project will provide substantial time gains as the trains will be able to travel at top speeds of 320 km/h. A trip from Casablanca to Tangier will take 2 hours and 10 minutes instead of the current 5 hours and 45 minutes. Train frequency between the two major economic centres will also improve as trains will depart every hour in both directions.

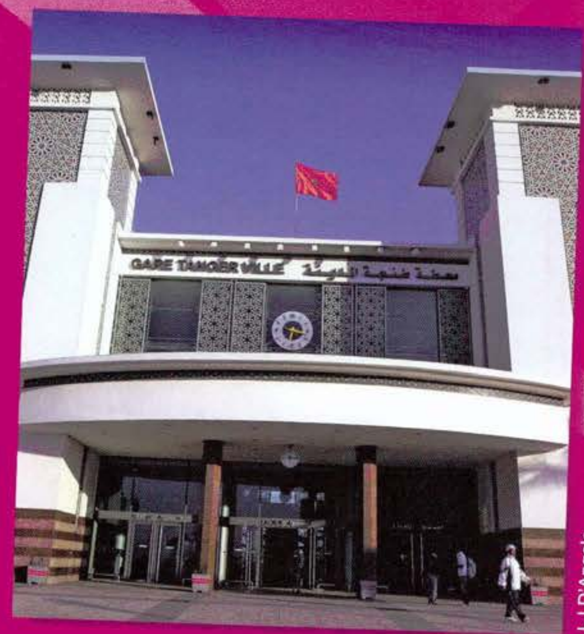
The first 200 km section of the project will link Tangier to Kenitra by 2015. But that's just the first step. In the end, over 1500 km of lines are planned for 2030, including a north-south line from Tangier to Agadir on the southern Atlantic coast, and a west-east line connecting Casablanca to Oujda near the Algerian border.

J-J D'Angelo

at high speed

On this project, SNCF International is providing the client, ONCF (National Office of Moroccan Railways) with its expertise in high-speed rail transport. Working out of a base in Rabat, twenty SNCF International experts (civil and systems engineers, geologists and commercial specialists) will be helping the Moroccan partner manage and coordinate the various phases of the project.

France has acquired a great deal of experience in the operation of high speed lines, since opening its first TGV between Paris and Lyon more than twenty-five years ago, in 1981. Accordingly, SNCF International has accumulated a vast body of expertise, from design to operation and maintenance, which it is able to share with its partners.



J-J D'Angelo

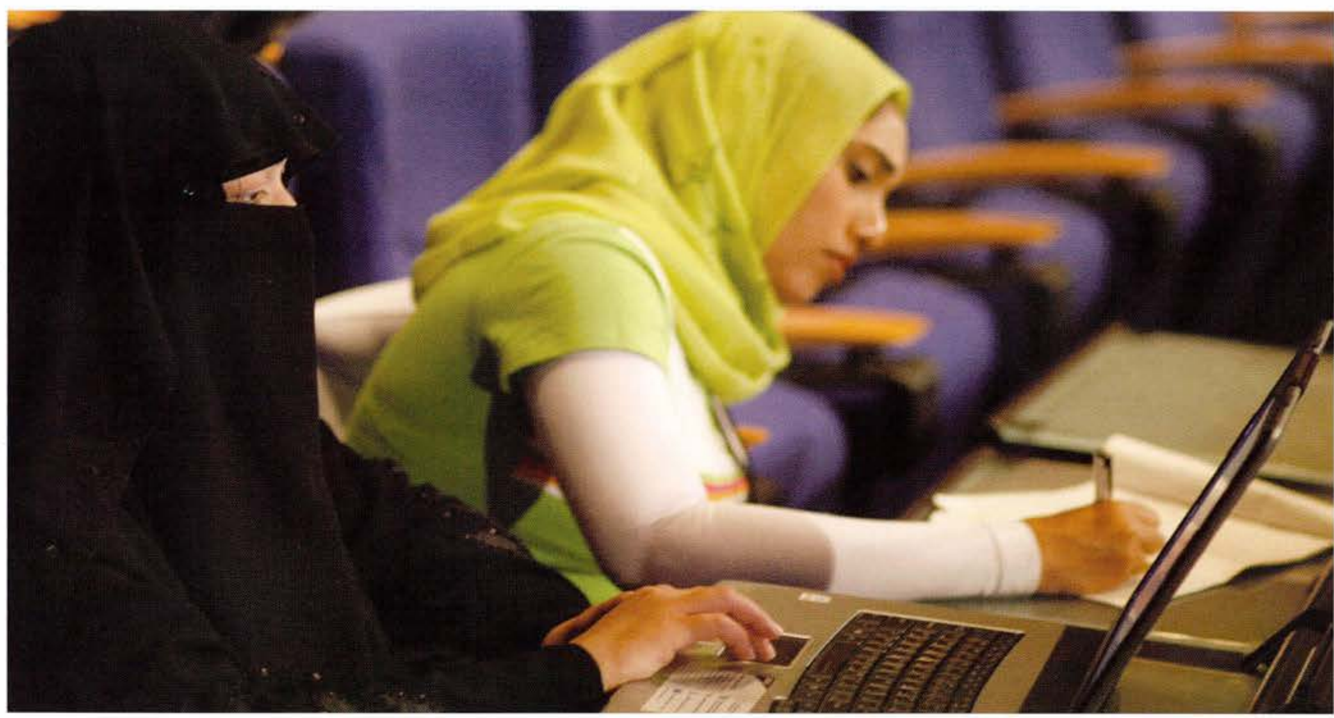
A proof of this is the Moroccan project, the first high speed line in the MENA region, in which SNCF International will have participated from the design stage through to commissioning. The project opens up new development perspectives for SNCF throughout the MENA region. Indeed, SNCF hopes that Morocco's groundbreaking effort will inspire other states in Northern Africa and in the Middle East and encourage them to equip their countries with leading-edge railway infrastructure.

SNCF International - Some Key Facts

- 7 vocations:
  - high speed
  - infrastructure
  - traction and rolling stock
  - train operations
  - railway stations
  - information systems
  - training
- 421 missions in 44 countries
- 280 SNCF experts working in 5 continents
- 300 foreign clients trained
- 150 delegations received
- 1000 SNCF agents ready to work abroad
- 10% growth in sales
- 18 million euros of contribution to SNCF's margin

SNCF *INTERNATIONAL*

Women at work



Arab Innovative Teachers Forum, Morocco, April 2008 ©Rafael Marchante/REUTERS

A vanguard of women in the MENA region is driving changes in business and society. How can the economic potential of half the region's population be unleashed?

Hana Barqawi realised her dream of opening her own children's furniture store two years ago in the Jordanian capital of Amman. Ms Barqawi is part of a wave of female entrepreneurs that has swept across the Middle East and North Africa area over the past decade or more. She is not surprised: "Arab women are well-educated, open-minded, open to new ideas, new cultures, new challenges," she says. Nor has she found cultural attitudes to be a major problem, with Jordanian men accepting the new female business presence. But Ms Barqawi notes that while servants and nannies are available to help with childcare, balancing work and family life has now become a daily juggle for many women like her. But to what extent do Ms Barqawi's experiences reflect those of other women across the Middle East and North Africa region? This is a key policy question. Sure enough, women have started to emerge in business and government in several MENA countries, with some countries moving faster than others, but overall they represent a small minority. Nor are all women in the region well-educated or indeed able to enter the work force.

Social attitudes and legal norms diverge greatly in the MENA area, as does the pace of change and development. The tide has moved on somewhat since the days when girls in Gulf countries were not expected to go to school, but female illiteracy nevertheless remains widespread. Geography matters, as women in more remote and conservative rural areas have less opportunity to find work or create businesses than women based in cities such as Amman or Marrakech. Social class also matters: the servants that allow some women to run their businesses do not tend to have the same access to education and job prospects as their bosses.

In short, despite evidence of progress, more needs to be done to help all women in the MENA area reach their potential and unleash the economic and social benefits they can bring.

International initiatives are starting to flourish. For instance, the OECD has been working with MENA countries to help make personnel policies in public administration and government more gender-sensitive by examining the likes of legal rules, merit-based selection and promotion, budgetary policies and capacity building, as well as procedures to help parents balance work and family life. The aim is to increase female representation within the public sector, including in decision-making posts.

Such public policies and reform can promote the social and economic development of women, but the real sea change appears to be happening in private business, with commercial exchange transforming the role women play in their economies. Despite diverse social norms and cultures, it is in setting up and running businesses that women across MENA, from Jordan to Morocco,

report similar types of problems that policy should address.

Take credit. Even Jordan's Ms Barqawi used her own savings to start her business, and believes that high interest rates and collateral requirements continue to prevent women entrepreneurs in Jordan from taking out bank loans. Micro-credit at very low interest is available in several countries, but compared with, say, France, where a third of entrepreneurs are female, business support for women is still underdeveloped.

Efforts are now under way to address such issues in the MENA area, and since the late 1990s, non-profit organisations to help businesswomen have flourished. From international bodies like the Council of Arab Businesswomen and MENA Businesswomen's Network to national "hubs" like the National Association of Women Entrepreneurs of Tunisia and active local organisations, including the Dubai Businesswomen's Council, such resources are vital to the MENA area. They not only assist women in setting up a business, but help to build the networks that are vital to drive business creation across the region.

The OECD's own focus on women at Marrakech aims to encourage these efforts further. A "Declaration on Fostering Women's Entrepreneurship" was issued at the MENA-OECD Women Business Leaders Forum in Cairo two years ago. It invited governments to support women's entrepreneurship with concrete policies, such as removing gender-related deterrents to entrepreneurship; helping women create business networks at local, national and international levels; developing training programmes; and encouraging the exchange of best practices between MENA and OECD countries (for more information, see www.oecd.org/mena).

More progress is expected at the MENA-OECD Business Forum at Marrakech on 22 November when a Women's Business Council, involving women from across the MENA region, will be formally endorsed. Can such initiatives really make a difference in MENA's challenging environment, especially now when a global economic crisis still unfolds? That is largely up to governments.

There are encouraging developments in countries such as Bahrain, where women made up about 5% of the full-time labour force in the 1960s, compared with nearly 30% of the fulltime workforce in the US. By 2001, women already made up 40% of Bahrain's workforce.

A similar picture can be drawn for the United Arab Emirates, where female-owned businesses faired considerably better than those in the US in 2007, with 33% of the Emirate companies surveyed earning annual revenues of more than US$100,000, compared to only 13% of women-owned businesses in the US in the same year.

How much the experiences of Bahrain and the UAE can be applied to larger MENA countries is a matter of debate, but from 1990 to 2003, women's share of economic activity in the MENA region increased by a fifth, one of the fastest rates of increase anywhere and over six times the worldwide rate.

However, what also seems clear is that male-dominated attitudes have not vanished from the region. In her paper, "Gender Inequalities in the Arab World: Religion, Law or Culture?", Dr Madiha El Safty, Professor of Sociology at the American University in Cairo, explains how Arab women's right to employment, and especially promotion, continued to be compromised in the past decade due to their family obligations as wives and mothers. Starting businesses has been one way of surmounting such problems, and in Egypt, female entrepreneurship is now a vibrant part of private sector activity.

In Morocco, there are obstacles too. For Abdelhak Hoummad-Jdid, Business Creation Consultant for Casa Pionnières in Casablanca, more associations and NGOs are required to offer women "concrete solutions to concrete problems". One reason is income. In Morocco, the estimated per capita income in 2008 was $4,000, compared to about $5,000 in Jordan and nearly $40,000 in the UAE. The Moroccan government has now launched micro-credit programmes to help women entrepreneurs circumvent Moroccan rules that deny women access to bank loans. But since Casa Pionnières, a business incubator launched by the Association des Femmes Chefs d'Entreprise du Maroc, mainly targets women with "innovative" and "ambitious" business projects, small loans are not usually well adapted.

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Leyla Khaïat

Even in Tunisia, where pro-Western reforms and commitment to women's rights can be traced back to former President Bourguiba in the late 1950s, female-run businesses face challenges. Despite the country's relative head-start, Leyla Khaïat, First Deputy of the Council of Arab Businesswomen and a Senator in the Tunisian Parliament since 2005, remembers the wall she came up against when she took over her late husband's business in 1985. In the face of fundamentalist unrest and gibes that "a company run by a woman was doomed to bankruptcy", Ms Khaïat decided to champion women's "right of initiative and entrepreneurship". Ten years later, she was

elected President of the CNFCE. Three years after that, in 1998, Khaïat became President of the Worldwide Network of Women Business Owners (FCEM), which did not count a single country from the MENA region among its members at the time, but now has several.

Ms Khaïat notes that limited access to information and training remains a major disadvantage for female business owners in the MENA area, especially for those with businesses located outside capital cities. Because of women's disproportionately low use of information and communication technology, Ms Khaïat says that the "North-South" digital divide is also a "gender" divide. Ms Khaïat has stressed the role of networks like the Council of Arab Businesswomen, which she helped found in 1999, and the need for the OECD's "precise, scientific research" on women and gender in the MENA region.

The divergences across MENA have also had a dampening effect on gender-related progress. In an interview with an Egyptian newspaper in 2008, the president of the Council of Arab Businesswomen, Sheikha Al-Sabah Hessa of Kuwait, explained that while Arab women's standing has been hindered by cultural customs and policies, the differences between individual political and economic systems has been a major obstacle because they limit the free transfer of capital across Arab countries.

> From 1990 to 2003, women's share of economic activity in the MENA region increased by a fifth, over six times the worldwide rate

Co-operation and reaching across borders could give MENA women an extra boost, and would have spin-offs beyond MENA countries to the world economy in general. Little wonder then that non-MENA countries are showing such keen interest. In 2006, the US Department of State, as part of its Middle East Partnership Initiative (MEPI), co-founded the MENA Businesswomen's Network, a web-based portal with national "network hubs" throughout the region. And in April 2009, the US president appointed Melanne Verveer as the first ever Ambassador-at-Large for Global Women's Issues.

Ambassador Verveer, who co-founded the Vital Voices Global Partnership, a non-profit international organisation for women, has been developing and co-ordinating activities, like the Corporate Ambassadors Programme, to further women's advancement worldwide. Launched in 2007 by Vital Voices and MEPI, the programme enables emerging female business leaders in the MENA area to meet with high-level American businesswomen. By encouraging women entrepreneurs to share business tools, knowledge and experience, the corporate mentoring programmes are, says Ambassador Verveer, "an invaluable resource" for countries in the MENA region—as well as for the rest of the world. If women are not empowered, half the economy is underused, Ambassador Verveer recently pointed out to the *OECD Observer*. Moreover, spending on women's programmes is a "high yield" investment, she maintains, since women are so productive and are the low-hanging fruit in investment initiatives. In fact, she says, women-owned new businesses tend to have a better-than-average survival rate, while investing in women triggers "a multiplier effect" that benefits the wider economy and the future.

The message is clear. A stronger, cleaner and fairer economy, both in MENA and beyond, cannot be built without striking a more even gender balance in business and freeing up the enormous productive potential of women. More people like Jordan's Hana Barqawi could then realise their potential, and the entire Middle East and North Africa region would benefit. ■ *MS*

Visit www.oecd.org/mena

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Melanne Verveer, US Ambassador-at-Large for Global Women's Issues

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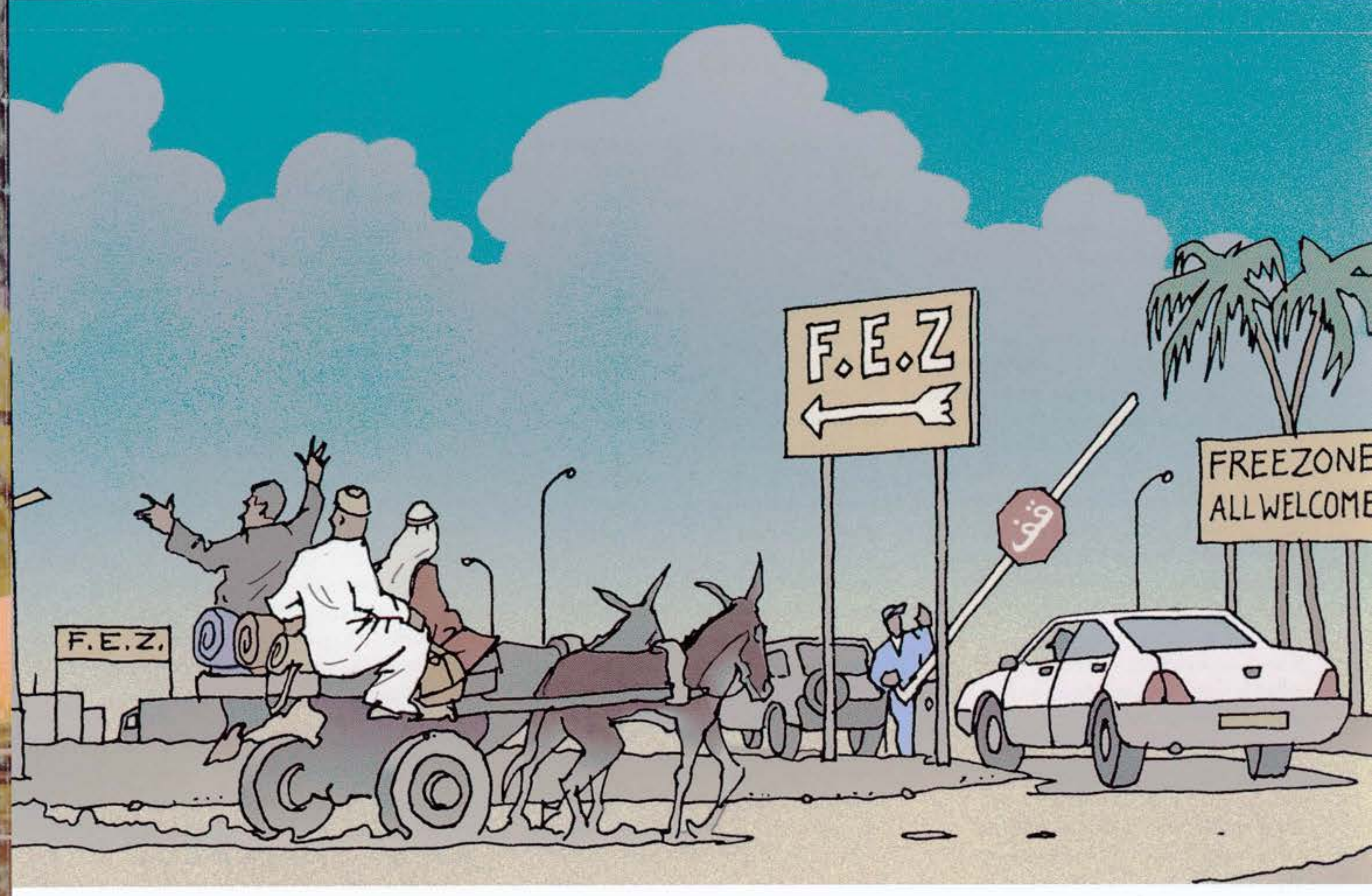
Free zones: Benefits and costs



Free zones have emerged on the scene as a planning tool to help boost economic development. They have their advantages, but their policy pitfalls too.

Since antiquity, governments, emperors, kings and queens have been providing traders and investors with special sites offering respite from normal import-export tax regimes and regulations in return for a steady stream of much needed revenue for the public purse. Before modernity, such places were concentrated in the Mediterranean basin, at Delos in Greco-Roman times, and in Venice, Genoa and Marseilles during the Middle Ages. By the 19th century, they had spread to Southeast Asia. But it was not until the latter half of the 20th century that so-called free zones made their mark as deliberate tools of economic development, most notably in China in 1979 when one of the most famous free zones of all was set up at Shenzen.

Nowadays there are several hundred free zones around the world, and the MENA region has a fair share of successes, from Dubai's media and Internet cities that caught the early wave of the e-economy, through Egypt's Gulf of Suez all the way to the Tangier Free Zone.

Located on the African side of the straits of Gibraltar, just 14 km from Europe, the Moroccan port of Tangier, a town that has long attracted writers, musicians and tourists from around the world, is now using free zones to build a new reputation as a business hub.

The Tangier Free Zone (TFZ) reflects the emerging trend of moving away from classical export-processing zone development towards zones with a multisectoral development approach. It was inaugurated in 1999 and became operational in 2000. Located inland near the airport, it covers some 345 hectares and houses some 400 companies. In the 10 years since its inception, the industrial users of the free zone have invested some €500 million in their facilities.

Some 40,000 jobs have been created, and as Jamal Mikou, managing director of TFZ, explains, these workers have added significantly to Morocco's exports. In 2008, the free zone accounted for a tenth of Morocco's industrial exports, totaling €1.2 billion.

Free zones are also considered a lever for boosting technological skills, particularly in the auto-components industry. Major clients such as Yazaki, Sumitomo and Delphi now supply the automobile industry, and new demand is likely, thanks to investments by Renault. Tangier's free zone is one of several successful such areas in MENA, though the landscape is also dotted with slower performing ones. While most have filled up in terms of investment spaces, their effect on development has been less clear. What do successful free zones have in common and how can they be made to benefit the wider economy?

Since a major objective of creating free zones is to increase exports, most free zones around the world are either ring-fenced enclaves exempt from national import and export duties or formally operate outside the customs area of their host country. Governments often add other benefits to the package, such as tax, regulatory, administrative and financial incentives.

Free zones generally fall into one of four categories: free trade zones, export processing zones, special economic zones, or industrial zones. **Free trade zones**, typically located near seaports or airports, mainly offer exemptions from national import and export duties on goods that are re-exported. Local services gain, though there is little, if any, value added to the goods traded. **Export processing zones** go a step further by focusing on exports with a significant value added, rather than only on re-exports. **Special economic zones** apply a multisectoral development approach and focus on both domestic and foreign markets. They offer an array of incentives including infrastructure, tax and custom exemptions, and simpler administrative procedures. **Industrial zones** are targeted at specific economic activities, say media or textiles, with infrastructure adapted accordingly.

In the MENA region, there are around 73 such free zones, and 17 MENA countries have some type of free zone in place or in development.

MENA free zones have tended to focus on trading (importing goods and re-exporting to other destinations), but lately there has been a trend away from traditional free zones towards the more channeled variety of special economic zones and industrial zones, in part to boost value added and revenue, but also to promote economic diversification and generate more employment.

Take the free zone at Jebel Ali, a deep port in Dubai established in 1985 and widely considered to be among the most successful. It started as a trans-shipment port where large vessels unloaded goods that smaller ships would move on to other ports around the Gulf. Activities and goods involved were exempt from import duty. Jebel Ali triggered a wave of new free zone-type initiatives and the UAE now accounts for over a third of all MENA free zones.

This has led UAE governments, especially Dubai, to establish industrial zones to target particular sectors. There are now 24 such zones, with Dubai Media City being one of the best known.

Six of Egypt's nine free zones were established before 1994. The three established since then include the famous Media Production City, and one large special economic zone called Northwest Gulf of Suez. Since 2007, Egypt has been concentrating on more focused industrial zones, known there as investment zones. These depend less on tax incentives and more on facilitating administrative procedures, quality infrastructure and private sector management to attract investment.

As of June 2008, free zones in Egypt employed nearly 136,000 people. In 2007/2008 they accounted for 20.3% of Egypt's total exports, and FDI in free zones represented 9.5% of Egypt's total FDI in 2007/2008.

Jordan has seven free zones, with the Aqaba special economic zone the most successful. It has attracted more than 300 companies and an estimated $400 million of investment. Three new zones have been established since 2001.

What incentives?

As a general rule, free zones in the MENA region provide regulatory incentives. In many zones, the authorities act as a one-stop shop, cutting related red tape and simplifying administrative procedures. A further regulatory incentive is an exemption from limits on foreign ownership. In many Gulf countries, such as Kuwait, Bahrain and the UAE, land

- Free trade zones (FTZs; also known as commercial free zones) are fenced-in, duty-free areas offering warehousing, storage, and distribution facilities for trade, trans-shipment, and re-export operations.
- Export processing zones are industrial estates aimed primarily at foreign markets.
- Special economic zones cover all sectors and target both foreign and domestic markets. They provide an array of benefits, including tax and regulatory incentives.
- Specialised zones (industrial zones) include science/technology parks, petrochemical zones, logistics parks, and airport-based zones.

ownership regulations are relaxed either through renewable long-term leases or outright waivers. Similarly, labour market regulation can be eased, particularly regarding the employment of expatriates, as in the case of Jordan and Kuwait, or waiving regulations on limited duration contracts, such as in Tunisia. In some cases, foreign exchange regulations can also be foregone, as in Morocco, Syria, and Tunisia.

Free zones often offer programmes of fiscal incentives that go beyond those offered to investors in the wider economy. Algeria, Egypt, Kuwait and the UAE, for example, offer complete exemption from private and corporate income taxes. Lebanon, Morocco and Yemen offer corporate tax holidays of variable duration. As for the private income taxes of foreign employees, Yemen offers full exemption, Jordan a 12-year holiday and Tunisia a flat income tax rate of 20%.

Subsidies are not so prevalent. Financial incentives take the form of low land rental and utilities rates, as in Egypt, Lebanon, Tunisia, Kuwait and UAE, state aid for acquiring land, as in Morocco, or subsidies for training expenses, as in Jordan's Aqaba zone.

Designing a free zone

But do free zones actually work? Some investments may have taken place anyway, though the existence of zones does spur governments to develop their investment policies, satisfy investors and promote opportunities for new businesses. They also create jobs: the World Bank estimates that free zones account for just over 1.5% of national employment throughout MENA as a whole. But take a closer look and it is not hard to see how these zones can end up adding to the fiscal burden of governments, distorting the direction of investments in the wrong areas or creating complacency in extending economy-wide reforms.

The zones in the MENA region that have performed best over a long period tend to be in countries where the enabling environment is relatively favourable anyway, in terms of macroeconomic and exchange-rate policies, private property and investment laws, labour market regulations, productivity of human capital and rule of law. Incentives and economic zones supplement, but cannot replace, a good enabling environment. Zones should not be seen as a substitute for a country's larger trade and investment reform efforts.

The trouble is, while some MENA countries have made encouraging progress in areas such as infrastructure and skills development, results in institution building and reform have been mixed. In fact, informality and administrative inefficiency are still too widespread.

Another question is whether the fiscal incentives that most MENA countries offer are effective. On the one hand, such incentives are rule-based and relatively transparent. On the other hand, they result in foregone public revenue. Thorough cost-benefit analyses should be done prior to establishing the zones and sunset clauses should be used. Furthermore, fiscal incentives could be better tailored to promote capital investment, such as by using investment tax credits and exemption from duties on capital goods, rather than, say, using tax holidays that cannot be guaranteed to spur productive investment at all.

It is not hard to see how these zones can end up adding to the fiscal burden of governments and distort the direction of investments

The race to attract global capital as inward investment is trying, especially in today's crisis. But while there may be valid reasons for setting up zones that offer more attractive investment regimes than the local general regime, governments should avoid fostering zones that no longer perform well or promote development. Indeed, should particular zones prove successful, the public objective should be to extend the regime and its benefits to the rest of the economy.

Zone programmes should target a wide assortment of economic sectors, including commercial and manufacturing activities and professional services, such as warehousing and trans-shipment.

To reduce the burden placed on public resources and increase the efficiency of zones, the private sector should be encouraged to help develop them and be allowed to operate under market mechanisms. Several governments have developed and managed zones that have been less effective than those of their private counterparts.

Moreover, though free zones operate as offshore locations, they are geared to international activity. To avoid unfair competition, preferential duties on sales to the rest of the host economy and other discriminatory practices should be resisted.

Free zones have many merits and have boosted investment in many MENA countries. More zones are in the pipeline and still more will emerge in the years ahead. However, bringing in investment is only one, albeit vital, step in a long journey. The ultimate goal must be to make those investments work to the benefit of the wider economy. ■ *MF*

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Financing SMEs

Mohamed Agrebi, Director General for SME Promotion, Ministry of Industry, Energy and SMEs, Tunisia

For small businesses, obtaining finance that suits specific needs is never easy, particularly in a crisis. What can be done? Tunisia has some answers.

Small and medium-sized enterprises need adequate financing to meet needs at each stage of their life cycle, from creation through operation, development, restructuring, recovery and beyond.

The staying power of a business, its development and its growth will depend in large part on its financing structure (equity, debt), its management, and the kind of assistance it may receive.

If the financial structure is skewed, dominated by short-term credit to the detriment of medium and long-term debt, then an SME's life is likely to be cut short.

And if the head of the business does not receive proper financial guidance, preoccupied as he will constantly be by day-to-day management issues with customers, suppliers, staff, production, administration and the like, this may also pose a major risk to the performance of the SME, its transparency and its relationship with its financing sources, whether banks or venture capital investment firms (*Société d'Investissement à Capital Risque*, or SICAR).

Consequently, any policy aimed at promoting and increasing the pace of SME creation as a source of wealth, jobs and development must take one fundamental aspect into account, namely the specific financing needs of this kind of enterprise.

In addition, modes of financing are changing and depend in particular on the size of the firm, its sector of activity, and whether it is at the creation or expansion stage of its development. Yet any active strategy has to develop tools suited to the needs of SMEs in terms of equity capital, bank credits, and guarantees.

Consider equity financing. Strengthening the equity capital of an SME implies less reliance on debt and consequently reduced financing costs for the firm.
Apart from the promoter's own contribution, incorporating the business and selling shares is bound to strengthen its financial situation, increasing the proportion of equity to debt in its capital structure. It also serves to improve transparency, which is a major step forward compared with individually held businesses.

Tunisia has introduced some very effective instruments to strengthen the equity position of SMEs.

There are tax breaks for parties who subscribe to and participate in the capital of SMEs. This translates into a reduction of the tax base at variable rates and consequently a lower income tax burden at the end of the year. Tax relief is granted at variable rates in line with national goals set in advance. Those rates vary as a function of the project's location, such as 100% in Regional Development Zones, its focus on exports, etc.

There is flexible and light taxation for venture capital investment companies (SICARs) and venture capital mutual funds (FCPRs), which hold shares in the capital of SMEs, notably those run by highly-educated people, SMEs established in Regional Development Zones, SMEs specialised in new technologies, and so on.

And there are government-owned funds (*Fonds de l'Etat*) financed from the budget. These can be used to round out the financing scheme in the form of repayable advances, i.e. personal loans to the owner ("promoter"), with repayment terms longer than 10 years, grace periods, and very low interest rates; and equity investments through SICARs, which manage such investments on behalf of the state.

In this case, priority will be given to promoters to buy back the shares after a fairly long interval. Moreover, the dividends generated by these shares do not flow to the government-owned fund but are returned to the promoter and will be used exclusively to repurchase shares from the fund. Furthermore, the SICARs that manage the fund's holdings in the capital of SMEs are themselves required to take an interest at least equal to that of the fund, with the result that the contributions from the promoter, the subscribers, the state fund and the SICARs will significantly increase the equity portion of the project's financing.

Bank loans are also important. SME access to bank loans is always subject to a reliable technical and economic feasibility study, as well as the presentation of real guarantees or collateral as required by the banks.

In its initial creation phase, an SME with limited financial means may face a real problem in coming up with money to pay for a feasibility study, especially if it intends to use an expert consultant. This problem may tempt SMEs to carry out the feasibility studies themselves, though these would be unacceptable to the banks.

It is interesting to note here a popular solution Tunisia has provided for helping people with business ideas in their quest for financing for feasibility studies.

A special mechanism has been introduced that involves a subsidy of up to 70% of the cost of the study. That subsidy may be paid directly to the consultant or to the promoter. It is paid only if the study is accepted by the banks and the SICARs, which will in this case issue an agreement in principle to finance the project.

This mechanism has led to the creation of specialised consulting firms set up by highly qualified people who secure financing for their clientele. To further improve SMEs' access to tailored financing, a specialised SME bank, the BFPME, has been created to supplement the array of institutions already in place. This special bank covers the entire range of advisory services, monitoring and financing for SMEs. It is also responsible for co-ordinating with other banks and venture capital SICARs to put together project financing packages.

One difficulty SMEs face is that they are generally not in a position to give real **guarantees** to the banks apart from the

> SME entrepreneurs cannot be content with mastering just the production and marketing aspects of running a business

components of the project, particularly in the case of young entrepreneurs seeking to create their first project.

This constraint can reduce the number of projects, however intriguing their business idea and however well-educated and recognised their promoter. It is in this context that a Tunisian guarantee company, SOTUGAR, was created to guarantee loans and equity investments in SMEs.

SOTUGAR shares the investment financing risk with its financial partners, taking for its own account a portion ranging from 50% to 75% of the outstanding amounts guaranteed.

This guarantee arrangement fully meets the needs of Tunisian SMEs, and considerably reduces for them the burden of meeting lending institutions' demands for real guarantees. Yet SMEs are often slow to take advantage of this facility.

Together with the financing mechanisms that can be put in place and the many financing products offered, SME entrepreneurs need to develop a financial culture and acquire a minimum understanding of financial standards and rules. They cannot be content with mastering just the production and marketing aspects of running a business.

Instead, they should look to the specialists in this area, whether through internal recruitment or in the form of consulting services. This will enhance the prospects for SMEs to develop and overcome the difficulties they face.

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Sana Mouziane

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More than meets the movie eye

The 9th International Film Festival of Marrakech takes place on 4-12 December. The festival is a major annual event, drawing in stars from around the world, as well as home grown talent like Moroccan actress and singer, Sana Mouziane, seen here at the 2007 edition. The jury that year was led by Czech film maker Milos Forman; Iranian director and Cannes Palme d'Or winner, Abbas Kiarostami, will fill the role this year. Presided by His Royal Highness Prince Moulay Rachid, Morocco has every reason to take the festival seriously, not just for art's sake, but because of its economic potential too.

A 2008 OECD report estimates the value of the worldwide film and video industries at some US$120-150 billions, most of which is earned within the OECD area. Worldwide box office receipts reached an all-time high in 2008 of $28.1 billion.

The film industry is labour-intensive; between 2000 and 2005, 350,000 people were employed directly by the US motion picture industry. Moreover, it demands very specific high value-added skills. Most of that value-added comes from services related to production and exhibition of film and video. The only formally recognised manufacturing in the industry involves the processing and duplication of films, DVDs or video cassettes, which generated only 1-2% of 2002 US industry receipts. Relative to all other media products, film and video productions require a high amount of up-front investment, most of which is high risk, and often highly innovative.

The OECD has been watching the movies since it was established in 1961. Indeed, as the first ever edition of the *OECD Observer* in November 1962 points out, a committee of film experts was already on location, exploring the delicate issue of opening up the market to more competition and evaluating the restrictions. Because of its association with culture, film has been a sensitive issue, if not a stumbling block, in international talks on trade and investment over the years. There are tricky tax issues to deal with as well, which are covered under the OECD Model Tax Convention. And there are piracy and counterfeit aspects to keep an eye on too. Such policy issues may be hidden behind the scenes, far from the glamour of celebrities and movie cameras, but they are nonetheless part of the business that make festivals like Marrakech the success that they are.

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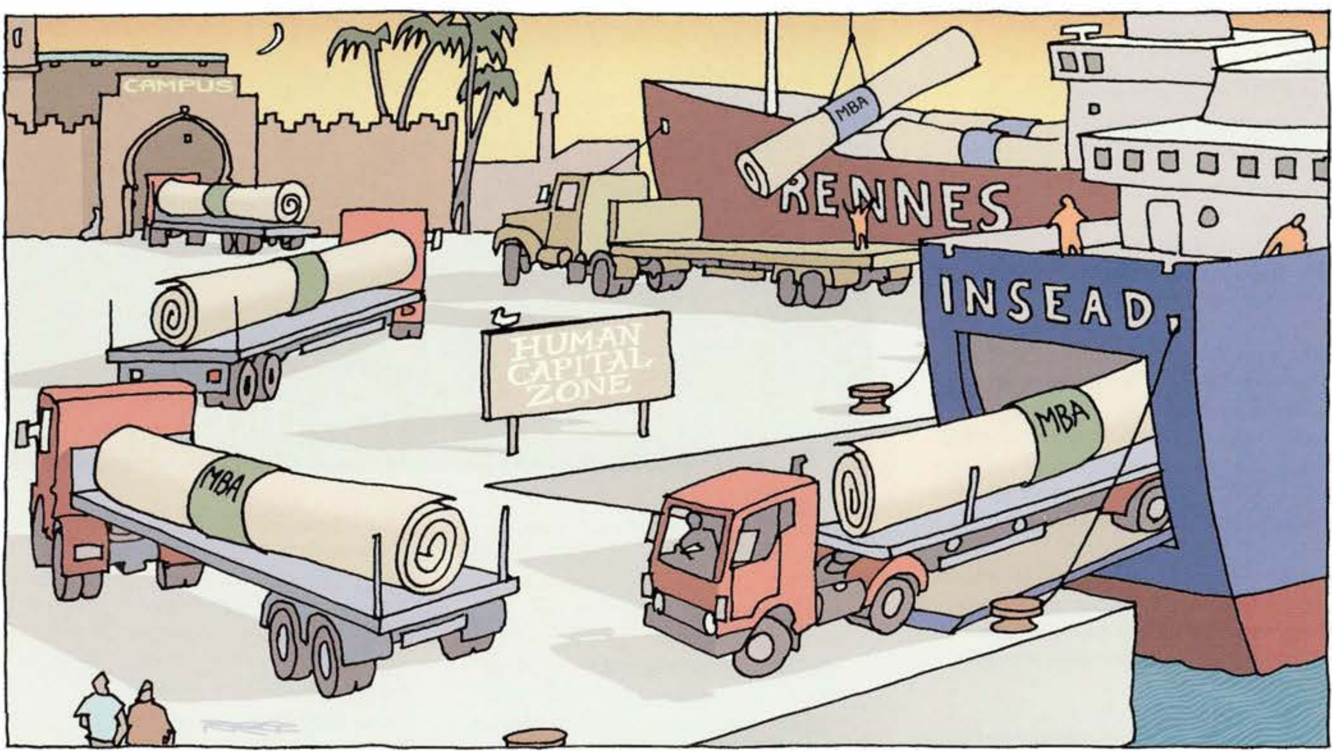
Putting money where our minds are



The MENA region invests heavily in educating its youth. But to cater to a baby-boom generation's demand for advanced studies, governments in the region will have to seek investment from other sources.

The University of Al-Karaouine is located in Fez, Morocco. Founded in 859, it is regarded by many as the oldest university in the world. Today, as countries in the Middle East and North Africa region begin to compete more vigorously in the global economy, they are again focusing more concertedly on how to rekindle their great, historic asset: human capital.

Some 21.5% of the region's population–about 70 million people–is between the ages of 15 and 24, while another 45% of the population is younger than 15 years. To some, this represents a demographic time bomb, especially in a region where post-graduate employment opportunities are notoriously scarce. But change the perspective just a little and the MENA area can be seen as a gold mine of potential talent, skills and innovation that could transform the region into a significant global player.

The region already invests heavily in its children's education. Most countries in the Middle East and North Africa region offer essentially free education at all levels of instruction. On average, they spend nearly 20% of their total public expenditures, and nearly 6% of GDP on education. The World Bank finds that the region spends a much higher amount per pupil relative to its per capita income than both developing and developed countries, particularly for upper secondary and higher education. Indeed, most university students often pay only a symbolic fee that bears no relation to the true cost of their instruction.

The decision to commit so much public spending to education has resulted in some impressive gains. The number of adults in the region who had no formal schooling halved between 1975 and 2000, from about 75% to about 40%. The wide availability of schooling helped to narrow gender and socioeconomic gaps within countries and contributed to the region's economic growth over the past few decades.

But are students in the region learning what they need to know to compete in a knowledge-based global economy? Despite thriving universities in the major cities, students from the region tend to look to universities in OECD countries.

On average, only about a third of university students in MENA countries major in scientific fields–the traditional drivers of innovation. The vast majority of students–more than 70% in Morocco, Oman, and Saudi Arabia–favour the arts and humanities. And most students who enter higher education are unprepared for the rigours of critical thinking that are required both in competitive universities and in today's knowledge-driven labour market. Despite some countries' efforts to revise teaching methods over the past two decades, children in the region's primary and secondary schools are still typically passive

recipients of knowledge, required to do little more than copy from the blackboard and listen to their teachers. Group work, creative thinking, and self-starter learning in the classroom are rare.

While providing free education may be a laudable goal of governments, countries in the MENA area are facing a looming crisis. The percentage of youth in MENA's population will remain high for decades, a consequence of high fertility rates in the region during the 1960s and 1970s. Demand for formal education will grow accordingly. The World Bank estimates that the population of secondary school students will grow by a third over the next 30 years, while the number of students in higher education will double over the same period. Governments in the region will have to find or create new ways of funding education if they want to build a workforce that is trained to compete in—and to help build—a competitive, knowledge-based labour market.

One way to avoid this crisis is to make greater use of private funding. Enrollment in private education is very low in some countries, such as Algeria, Libya, Tunisia and Yemen, but high in others, particularly Lebanon. Increasingly, OECD countries are investing in higher education in the region. On the broad, policy level, the MENA-OECD Investment Programme is formulating national and regional policy recommendations to foster the development of small and medium-sized enterprises, entrepreneurship and human capital. Policies on higher education fit neatly into this area. Individual institutions of higher learning are also stepping up to the plate.

INSEAD, one of the world's largest business graduate schools with headquarters near Paris, opened a Centre of Executive Education and Research in Abu Dhabi in 2007, offering seven short-term open-enrollment programmes on such topics as achieving and sustaining better business performance, learning to lead, and family enterprises. In October 2010, the school will launch the same executive MBA programme that it already offers in France and at its campus in Singapore. INSEAD administrators cite the region's economic growth rate and the need for well-trained local workers as convincing reasons to have a presence in the area. Says an INSEAD spokesperson, "We are convinced that more and more Arabs, as well as expatriates living in the Gulf area, will choose to stay in the Gulf for higher studies, as of the moment where the quality of these studies is good. The change has already been tremendous if you look back twenty years and compare with the current offerings. The change has been from Bedouin to boardroom in one generation. The expanding economy will continue to drive this trend."

Universities in Egypt–which have been offering free education since 1962–have been strengthening and restructuring their business programmes to better meet local and international needs. In 2007, Cairo University's Faculty of Commerce and Georgia State (US) University's J. Mack Robinson School of Business launched a joint MBA programme with the aim of preparing "future executives to assume responsible positions in a swiftly expanding Middle Eastern business environment". According to school administrators, the recent expansion of multinational companies into Egypt, the increased number of joint ventures, an emerging private sector and planned privatisation of government-held companies in Egypt provided the motivation to create the programme. Funded by a three-year, US$400,000 grant through USAID, the programme requires that Egyptian students spend at least one semester studying in Atlanta while Georgia State students can opt to enrol in certain MBA courses in Cairo.

Meanwhile, this past summer, the American University in Cairo launched a new business school with departments in accounting, economics and management. School administrators expect that the emphasis on such practical subjects will be welcomed by the local business community.

Morocco has also been attracting attention.

"The change has been from Bedouin to boardroom in one generation"

The ESC Rennes School of Business, part of the prestigious French *grandes écoles* system, announced this summer that it will be opening a new school in Rabat. The Rennes-Rabat Business School will be built on the 20 hectare campus of the new International University of Rabat. Scheduled to open for the 2010-2011 academic year, the school will offer undergraduates an International Bachelor Programme in Management, while graduate students can enrol in the school's Grande École Programme, sources at Rennes say.

Another France-based school, the International Institute of Information Technologies, or SUPINFO International University, opened a campus in Casablanca last year. The private, non-profit university, which hopes to have some 60 schools in Europe, Asia, Africa and the Americas by 2012, recently opened another two schools in Rabat and Marrakech and has plans to open schools in Tangier, Agadir, Fez and Oujda over the next few years.

To be sure, these initiatives answer only a tiny fraction of the region's demand for world-class higher education, and represent a miniscule amount of the funding that will be needed to ensure that the region's vast young generation will have access to quality–and relevant–instruction as it works its way through the education system. But these kinds of investments, in concert with continued public commitment to education throughout the region, will help students in the Middle East and North Africa to achieve their personal professional goals and help their countries to compete successfully in an ever more demanding global market. ■

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OECD Observer interviews, 2009

Encouraging investment

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Gary Campkin, Head, International Group at the Confederation of British Industry and Chair of the BIAC MENA Task Force*

There is enormous potential for economic growth and development in the MENA region. Realising that potential will be largely achieved through improving investment-friendly policies and practices.

Inflows of foreign investment to the MENA region have surged in recent years. The area attracted some US$14 billion of foreign direct investment (FDI) in 2003, and has more than quadrupled this figure in only three years, bringing in almost $60 billion in 2006. During the same period, real GDP in the MENA region increased steadily and the employment rate grew at an impressive 4.5% per year from 2000 to 2005.

While this growth performance has been encouraging, there is still much room for improvement. Investment in the MENA region still mostly pours into a limited set of economic sectors, such as hydrocarbons, real estate, and tourism-related activities, while other sectors remain underdeveloped.

There are also striking regional disparities. Some countries, such as the United Arab Emirates, Egypt and Algeria, enjoy far greater levels of inward investment than their MENA neighbours. Furthermore, the region needs to create 100 million additional jobs between 2000 and 2020 to employ all additional entrants into the labour market.

On top of these challenges, the MENA region has not been immune to the effects of the current global economic crisis. Estimates indicate that FDI in the MENA region could plunge by as much as 30% in 2009. Meanwhile, the current account balances of the major oil-producing countries in the region have been hard hit by the drop in oil prices during the recent global recession, resulting in less maneuverability for reforms and limited funds for investment in public services. As economic growth in the region slows down due to the crisis, unemployment is also expected to increase.

Policymakers in the region will need to take action on several fronts to boost economic recovery in the short term and set the region on a longer term sustainable path for economic growth. It is imperative that policymakers work to build an attractive investment environment.

Keeping markets open to foreign investment will be important. Many MENA countries could do more to reduce discriminatory treatment between domestic and foreign investors, and could improve transparency and predictability of investment policies, particularly regarding FDI restrictions, screening and approval procedures, and expropriation. As more sectors become open to inward flows of foreign investment, these measures could help to develop economic sectors whose full potential is not being realised through domestic investment alone. This could also improve the diversification and resilience of MENA economies.

Improving **access to finance** in the MENA region will be important for economic recovery too, particularly for small and medium-sized enterprises struggling to obtain credit in the current economic crisis. Government stimulus measures can help provide access to finance in the short term, though more should be done to facilitate the operations of foreign private equity, venture capital firms, and multinational enterprises for important investment projects in the longer term.

Effective **public-private partnerships** will also be crucial for mobilising finances for major long-term investment projects, such as for telecommunications, electricity, transport, and water and sanitation infrastructure and service-provision. Improving the predictability of investment policies combined with greater transparency in political decision-making will largely determine the success of such projects and joint partnerships.

For employment, policymakers should work to improve the quality of educational institutions in the region for all ages, including vocational education and training, and should ensure greater equity in access to education for men and women. Policies should be developed in close co-operation with the business community to ensure that education outcomes increasingly meet current and future labour market needs in the MENA region, leading to a competitive, adaptable and skilled labour market. This would reduce unemployment, retain labour, and attract foreign investors seeking skilled labour in the region.

Visit www.cbi.org.uk

*Founded in 1962 as an independent organisation, the Business and Industry Advisory Committee to the OECD (BIAC) is the officially recognised representative of the OECD business community. BIAC's members are the major business organisations in the OECD member countries and several non-OECD countries. Visit www.biac.org

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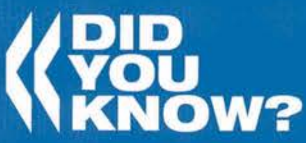

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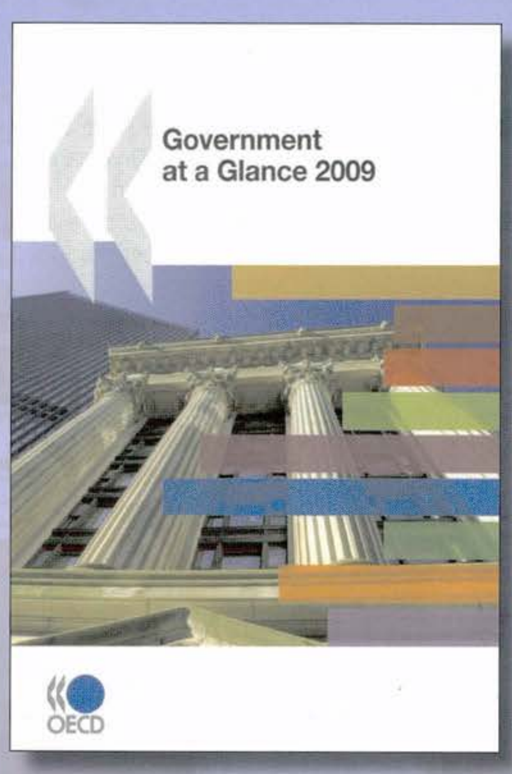

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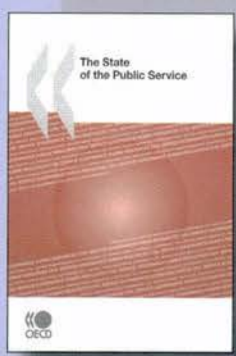

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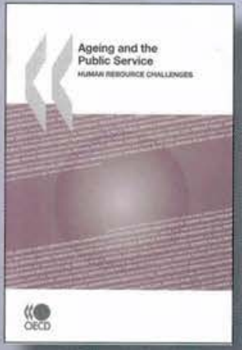

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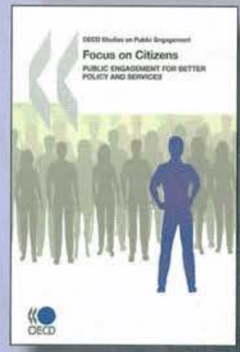

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A work in progress

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Creating a strong public sector is essential for investment and development, but it is easier said than done. Mohammed Abbou, Morocco's Minister for Public Sector Modernisation, shares his ideas on how to move forward.

Morocco is facing the same challenges as most other countries in the MENA region, and hopes to follow the best and most practical paths toward the integrity, transparency, openness and partnership that will promote good governance and development.

Faced with these great challenges, the Moroccan government is striving to modernise the administration as a way of ensuring effective action and good governance.

Our priority areas of action are regionalisation and reinforced local administration, improving public management, and human development, including women's role in public governance.

Regional policies and administrative deconcentration are key aspects of governance. They are essential not only for meeting the expectations of the citizenry and of the government's social and economic partners at the local level, but also for rationalising public management and improving the quality of services.

This approach makes the citizen at once the player, the driver, and the beneficiary of all initiatives and projects for reform and development.
We have given a good deal of thought to administrative organisation and to ways of decentralising powers to local government, and deconcentrating responsibilities within the state apparatus.

This policy is based on a "deconcentration charter" based on proximity of decision-making, that is, decisions should be taken by offices close to the citizens concerned, partnership among the various state services and local governments, and orienting external services at the same level for implementing the regional development policy and integrated economic and social development programmes.

The government of Morocco has taken steps to reinforce **confidence and transparency in public management** as part of a strategic approach aimed at ensuring quality, sharing responsibilities, and streamlining bureaucratic procedures. To meet these objectives, governance and decision-making will have to be adapted to the new issues inherent in Morocco's constantly shifting socioeconomic context.

We are making real efforts to provide prompt, simple and effective service by harmonising and standardising bureaucratic procedures and adopting the quality yardstick in government departments and agencies.

The government is guided in its action by the model of society proposed in the National Initiative for Human Development, which also makes it a national priority to **institutionalise gender equality in government**.

The Ministry for Public Sector Modernisation (MMSP) has drawn up a programme for instituting the gender approach in the public service by reducing

gender disparities in human resource management and placing more women in decision-making positions.

The **working group on public service and integrity**, chaired by Morocco in partnership with Spain and Turkey, has held five very constructive meetings since the Good Governance initiative was launched.

These meetings offer a suitable framework for sharing experience and experiments in MENA countries.

The group takes a practical approach to its work, comparing reform efforts in MENA countries with those in OECD countries. It also produced three case studies, one, in Morocco, on combating corruption and reinforcing transparency in public management, another, in Jordan and Bahrain, on anchoring the principles of integrity in human resource management and codes of conduct for public servants, and the third on ensuring transparency in the delivery of public services by simplifying procedures and eliminating authorisations in Tunisia.

The group also benefited from the tools offered by OECD experts for promoting integrity and transparency in public management, such as joint learning studies relating to public procurement and combating corruption in Morocco, peer review, and training for senior officers at the regional centres created in MENA countries–the Regional Centre for Policy Evaluation in Morocco, the Innovation Centre in Tunisia, and the Regulatory Update Centre in Egypt.

An Advisory Committee on Regionalisation is now being created to draw up the "Deconcentration Charter" for promoting further regionalisation in Morocco.

With regard to the gender approach, the MMSP has launched a medium-term strategic programme to mainstream gender equality throughout the public administration.

Visit www.mmsp.gov.ma

Financier of last resort?

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President of the Palestinian National Authority, Mahmoud Abbas (right) waves to supporters

State building is governance writ large. Seen from without, the accomplishments of a nascent state stand in harsh juxtaposition to the fine-tuning of politically and economically stable governments. One is a stone mason and the other a builder, confident the foundations will support his project.

The Palestinian National Authority (PNA) is working in stone. Its achievements are the foundations on which a future state will be built. Over the past three years, it has initiated a series of reforms in public financial management, including the creation of a single Treasury Account, an internal audit function, and the timely distribution of public financial information. Strengthening local government has led to a degree of decentralisation unique in the region. This movement towards reform, however, is burdened by security issues and an economic instability that threaten to shatter these foundations.

The Palestinian National Authority is part of the MENA-OECD programme, notably contributing to work on civil service development, integrity and regulation. Over the next two years, there will be a drive to bolster the institutional capacity of the PNA, with the MENA-OECD programme providing advice in light of current reform and development plans.

It will be a tough challenge, and although the difficulties the PNA face are not always very different in kind from those confronting several other MENA countries, they are arguably more intense.

Whereas private sector investment had been rising before the crisis in the MENA region generally, insecurity has resulted in a dangerous contraction of the private sector in the PNA. Reversing this is a priority. The current political situation has also led to high unemployment and reduced labour mobility in the region. Tax revenues have been hit too, and since most businesses are small and family-owned, they are unable to obtain credit and are forced to turn to

the state. Public expenditure has kept the economy ticking, providing public sector jobs when no other were to be had, but in doing so, the Palestinian National Authority has overstretched itself.

Over the last two years, almost all public investment has been used to meet operating costs and pay back salaries. In 2007, unpaid salaries amounted to over a billion US dollars. Wage inflation bled funds destined for non-salary expenditures. In the electricity sector, for example, net lending was used to cover the enormous number of unpaid bills by consumers. Between 2006 and 2007, net lending escalated to the rate of some $50 million per month.

Public expenditure in the PNA claims a huge slice of GDP: nearly 50% in 2005. High unemployment, aggravated by a booming population (75% of Palestinians are under the age of 30, higher than the MENA region's already very young average), is forcing more and more people to turn to a fiscally parched state. In the Palestinian Reform and Development Plan 2008-2010, the state was lamentably referred to as the "financier of last resort".

The Palestinian National Authority has lightened the load somewhat by reducing its bloated public sector. Removal from the payroll of all employees not legally appointed caused a sharp reduction of the wage bill. In 2008, the PNA appointed an accountant general to supervise treasury, cash and debt management, and decentralised its budget system, allowing for greater accountability. Along with security, prosperity and better quality of life, good governance is counted as one of its four goals. Throw aside any one of these cornerstones, and the state may founder. ■ *LT*

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MENA and MNEs

Small and medium-sized enterprises may be the flavour of the moment in development policy, but the potential role of large multinational firms, or MNEs, should not be overlooked. After all, there is some evidence of MNEs having a positive effect on employment and wages, as well as plugging local suppliers into international markets, which boosts skills, technology and productivity.

On the other hand, some large corporations are associated with investments in countries where poverty is endemic and human rights are virtually ignored. Some admit they have been unable to improve conditions for workers among their local suppliers.

How can multinationals be encouraged to do more for development and improve the welfare of the countries they invest in, as many believe they should? The crisis has focused particular attention on such questions, prompting policymakers to scrutinise the instruments at their disposal.

Take the OECD Guidelines for Multinational Enterprises, for instance. These government-endorsed standards have been embraced by firms the world over to demonstrate their commitment to corporate responsibility, human rights and sustainable development. However, they were last updated in 2000, and a fresh review could, as OECD ministers suggested in June, "enhance their relevance and clarify the responsibilities of the private sector". All OECD members and a dozen or so other countries adhere to the guidelines; at the time of writing Morocco was expected to become the 42nd country to sign up. A special meeting on the MNE guidelines during the 8th Global Forum on International Investment on 7-8 December will identify areas for action. For John Evans, secretary-general of the Trade Union Advisory Committee to the OECD (TUAC), the priorities are to create jobs in the short term and, in the medium term, "to forge a new global economic model to counter a crisis that has engulfed both the developed and the developing world". As he explains to the *OECD Observer*, involving MENA countries is key: "Ensuring investment is sustainable and meets social, environmental and economic development goals is a key priority. TUAC believes that one of the most effective instruments for contributing to sustainable investment is the OECD Guidelines for Multinational Enterprises

The guidelines provide a set of recommendations on good corporate behaviour. They seek not only to protect the rights of workers and the environment in international investment, but also to foster good governance through provisions on anti-corruption, transparency and disclosure. While not legally binding, all multinational enterprises headquartered in adhering countries are bound to comply. And adhering governments are required to deal with allegations of violations.

Trade unions from every region of the world have used the guidelines and recently with some successes. We have reached out to develop partnerships with trade unions in the MENA region. The issue for us now is how to ensure that the OECD Guidelines are better respected by investors in the MENA region." *RJC*

Visit www.oecd.org/daf/investment/guidelines

Visit www.tuac.org

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Cleaning up government

In recent years, governments in the MENA region have expressed welcome resolve to fight corruption in public procurement practices. Talk is turning into action, but more work is needed.

10 years ago this December the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Deals entered into force. The Anti-Bribery Convention requires that its signatory countries make it a crime to bribe a foreign public official in exchange for obtaining, or retaining, international business. Of the 38 countries around the world that have ratified the convention to date, not one is part of the MENA region.

According to some estimates, public procurement is responsible for as much as 80% of world exports in merchandise and commercial services. Government procurement of goods and services, including construction services for projects from laying roads to building and equipping public universities, involves huge amounts of public money. In OECD countries, public procurement is estimated to account for 15% of GDP; in non-OECD countries, that percentage is even higher.

Public procurement can mean valuable, often long-term business opportunities for bidders and their suppiers–and that means it is particularly vulnerable to corruption. Tens of millions of dollars are lost to corruption every year. Development aid programmes are compromised, jobs are destroyed, lives are put at risk by substandard buildings, and democracy itself is threatened.

Corruption in public procurement is a worldwide phenomenon, and countries in the MENA region are not immune. However, over the past decade, MENA countries have begun to put in place legal structures to combat bribery of public officials. Sanctions can be pretty harsh in some countries–up to 25 years of imprisonment. On average, though, imprisonment sanctions range between two and 10 years throughout the region. Some countries have also made a point of cleaning up their public procurement practices. Transparency International praised Morocco's efforts to this end in its *Global Corruption Report 2009*. Late last year, for example, the country launched an Internet portal making public procurement rules, regulations and opportunities easily accessible to the general public. Meanwhile, earlier this year, the authorities in Yemen formed a new Central High Tender Board to ensure that the rules for public procurement are respected, and that remedies are applied if those rules were broken or ignored.

Still, corruption is a drain on governments and stifles investment in the region. A 2006 Foreign Investment Advisory Service study showed that corruption is the main obstacle to investment in Lebanon. Although it is a crime to give or accept a bribe, 60% of the Lebanese firms surveyed for that study reported that "they must give gifts or informal payments to public officials to get things done, and these gifts impose an annual tax equivalent to 5% of sales". In response to an OECD survey on enhancing public procurement, representatives of the private sector in Yemen said that they believe politicians regularly interfere in tenders and protect corrupt officials, and that the courts are afraid to rule against the government. And, despite Morocco's reform efforts, one of the country's leading economics magazines recently calculated that corruption in public procurement cost the country about 5% of each purchase.

For a country like Iraq, struggling to its feet after military intervention and years of pervasive violence, government procurement plays an even more important role. It not only underpins the reconstruction and rehabilitation of the national economy, but it must also provide the needed infrastructure for developing the private sector. All the more urgent, then, that regulations are in place to govern the award of public contracts, that those regulations are enforced, and that the award process is transparent.

Iraqi officials seem to understand this. Following an OECD workshop on Enhancing Transparency in Public Procurement Procedures in early 2008, the Iraqi government asked the OECD to

Public procurement in Iraq underpins the reconstruction and rehabilitation of the national economy

examine its public procurement regulations and procedures and offer suggestions on how to improve them. The OECD just released its Benchmark Report on improving integrity in Iraq's public procurement system. The analysis is based on the OECD Principles for Integrity in Public Procurement—10 guiding principles for enhancing integrity throughout the entire procurement cycle, from needs assessment through tendering to contract management and payment. Analysts also measured the country's policies and practices against such international legal instruments and good practices as the United Nations Convention against Corruption, the Agreement on Government Procurement of the WTO, the Model Law of the United Nations Commission on International Trade Law and the European Commission Directives.

On the positive side, analysts found that Iraq's 2004 procurement law and supporting regulations span the entire procurement cycle, from pre-tender preparations, the tender and evaluation process, to post-award contract management. The law and regulations stress the importance of conducting a comprehensive feasibility study before launching a specific tender. Regulations also require that specific committees be created to receive and evaluate bids.

Iraqi law forbids government and public sector employees responsible for managing the procurement tender from participating as potential bidders in that tender either directly or indirectly. The regulations also prohibit disclosing information to persons not involved in the procurement process. Iraq's anti-corruption agency, the Commission on Integrity, employs officials specifically in charge of inspecting irregularities relating to public spending through procurement.

On the other hand, however, there is little co-ordination of procurement practices across government organisations, and open competitive tender is not required, even though it is internationally recognised as good practice. Co-ordination between Iraq's control institutions–the Inspector General, for internal audits, the Board of Supreme Audit, for external audits, and the Commission on Integrity–is limited, at best, and there is little information publicly available about the results of these institutions' investigations.

The report finds that the process of awarding public contracts in Iraq is not transparent—nor is it even completed in some instances. Some companies have been awarded public contracts again and again, even though they did not complete, or completed badly, previous contracts. Another problem highlighted in the report is subcontracting: the company awarded the tender regularly contracts out the execution of the tender to an Iraqi or a foreign company. That results in fuzzy accountability chains and a final output of poor quality. In a worst-case scenario, that could mean that when a public housing structure topples due to shoddy workmanship or greed, there would be no one to hold to account for the lives lost.

Some would argue that, in an economic crisis, there are more fundamental concerns to address than corruption in public procurement. But putting in place policies and regulations to promote transparency and integrity in public procurement could, even in the short term, help to keep more public money in government coffers.

MENA governments are coming around to that way of thinking. Morocco was the first country to work with the OECD in the Joint Learning Study project, launched in 2008 to improve transparency and prevent corruption in public sector procurement. The programme encourages participating governments to implement reforms in keeping with international standards, including the UN Convention on Corruption, which most MENA countries have ratified, and fosters policy dialogue among MENA and OECD countries. Jordan and Yemen are now involved in these peer-review processes, and several more countries in the region, including Algeria, Egypt, Lebanon, the Palestinian National Authority, Mauritania and Tunisia, have also expressed an interest in working with the OECD in this project.

At a MENA-OECD regional conference on public sector integrity, held in Istanbul in late October, governments in the region acknowledged that implementation of policies to improve integrity in government is spotty. They recognised that integrity in public procurement also depends on transparency in public finance, merit-based human resources policies, the rule of law and political stability. They also agreed on the need to involve all stakeholders, including NGOs, the private sector, trade unions and academics, in preventing corruption, and that applying measures to improve government integrity requires a mix of bottom-up and top-down approaches. While political support at the highest level is necessary to push forward reforms, involvement of the operational and middle-management strata is crucial if these reforms are to be successfully implemented.

The growing awareness of the enormous cost of corruption to national and regional economies is a welcome development, but it is only a first step. Countries in the MENA region and beyond need to formulate–and enforce–policies and legislation that would impose tough sanctions on individuals and firms that engage in corrupt practices at any point in the public procurement process. A positive step would be to commit to the OECD's Anti-Bribery Convention. ■ *MA*

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Fighting bribery

The OECD Anti-Bribery Convention, which entered into force 10 years ago this December, was the first global instrument to fight corruption in cross-border business deals. To date, 30 OECD member countries and eight non-member countries–Argentina, Brazil, Bulgaria, Chile, Estonia, Israel, Slovenia and South Africa–have adopted the convention.
In short, the convention makes bribing a foreign public official a punishable crime in all signatory countries–quite a change from just a couple of decades ago when bribes could be deducted from taxes as a business expense. The convention applies to both individuals and companies, and covers offering or promising a bribe, as well as actually giving one.

Under the convention, foreign bribery is a crime regardless of whether the bribe is offered through an intermediary, or whether the advantage is for the foreign public official or a third party, such as a spouse, political party, or company in which the official has an interest. All forms of bribes are prohibited, including tangible or intangible, and pecuniary and non-pecuniary advantages, such as membership in a club or a job in the private sector.

Bribery is a crime even if the person or entity that offered or gave the bribe was the best-qualified bidder in a procurement process and would have been awarded the contract purely on merit. Criminality also applies regardless of whether the bribe was accepted or the official provided the desired advantage, or if bribery is tolerated or even widespread in the country concerned.

The convention also establishes an open-ended, peer-driven monitoring mechanism to ensure that the signatory countries thoroughly meet their international obligations. The rigorous evaluation process, which Transparency International calls the "gold standard" of monitoring, is conducted by the OECD Working Group on Bribery.

Visit www.oecdobserver.org/corruption and www.oecd.org/corruption

Responsible business forum

Investment is essential for development, but not all investment brings the wide benefits it promises. This is because the impact of investment on development depends on many things. The type of investment is one factor, but more important is the way in which businesses conduct their activities. This also largely depends on whether the policy and regulatory environment provided by governments encourages or discourages responsible business conduct.

The MENA Responsible Business Forum, launched in Cairo in October 2008, reflects the understanding that investors who conduct their business in a responsible way are more likely to deliver sustainable benefits to the wider community. But, unlike many other initiatives in this area, it emphasises the role of government as a crucial factor in providing an enabling operating climate for responsible business. Only then will investment agencies feel they are attracting the right kind of investors, and only then will businesses that are committed to responsible practices feel confident that they will remain profitable.

So far, the forum has focused on raising awareness of the importance of responsible business conduct, developing tools and guidelines tailored to the region's governments and businesses, and promoting actions to improve integrity and transparency, fight corruption, develop skills and entrepreneurship, and tackle climate change.

The forum is open to designated representatives of all recognised governments, companies, non-governmental organisations and international organisations that support its goals. Its secretariat is based at the Egyptian Corporate Responsibility Centre in Cairo. The MENA Responsible Business Forum does not have its own source of finance and relies on the commitment of participants for its energy and delivery of its goals. Participating organisations cover their own costs.

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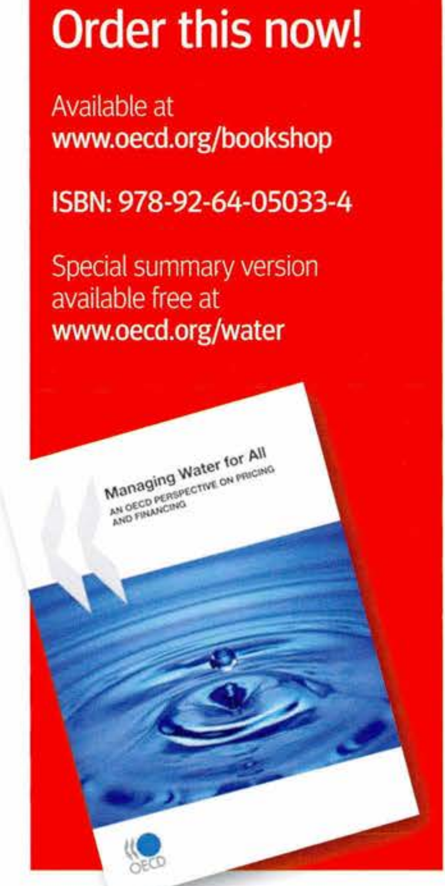

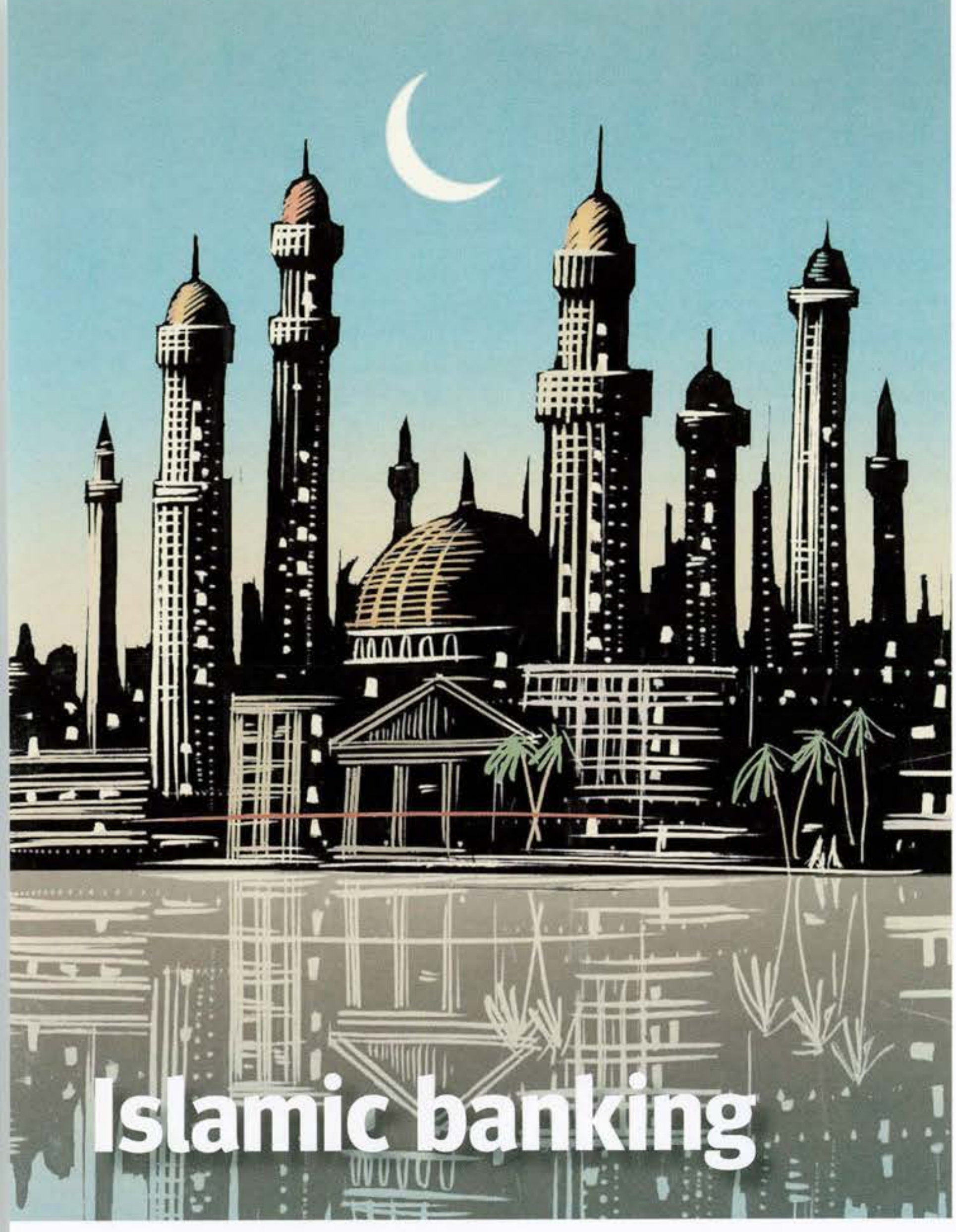

Islamic banking

An asset of promise?*

Crisis-weary bankers, financial regulators and investors could look to Islamic banking for inspiration.

Almost non-existent 30 years ago, modern Islamic finance has risen to become a trillion dollar industry. The sector, though small in global terms, appears to have held up well in the crisis, with the Asian Development Bank putting annual growth at more than 15% over the next 5-10 years. Long focused on a potential global market of 1.5 billion Muslims, Islamic banking is now drawing attention from players the world over. Nowadays, major establishments such as Al Rajhi Bank of Saudi Arabia, the Kuwait Finance House, and Malaysia's Maybank Islamic compete with western financial institutions such as Barclays, HSBC and Deutsche Bank.

Several banks have set up separate Islamic financial services departments in their home markets as well. In the UK, the Financial Services Authority has introduced regulatory standards for Islamic financial products and has a separate department dealing with Islamic financial institutions. Moreover, non-Muslims make up as much as half of Islamic bank customers in some cases.

The failure of financial markets in OECD countries should inspire policymakers to take a closer look at other models, such as Islamic banking. There are clearly lessons to be learned. For a start, Islamic banking is not only considered as a relatively safe refuge from global financial turbulence, but is also seen as broadly equitable and fair compared with the hitherto rather cutthroat western model.

Furthermore, the Islamic banking model offers much to consider in a broad range of topical areas, including risk management, transparency and regulatory oversight.

Fairness and equity is perhaps the fundamental principle behind Islamic finance. In fact, profits and losses are shared between lenders and borrowers, and not just stacked up on one side or the other as is commonly the case in OECD-based banks. For example, under an investment partnership mechanism known as *musharaka*, a company that receives a loan will pay the bank through installments that include both the principal and a percentage of the company's profits. Under another venture capital system called *mudaraba*, banks waive handling fees for company loans that fail to return a profit.

Or take **risk management**. Modern financial markets have tended to focus on maximising returns for investors, but paid too little attention to risk. In the end, financial innovations that were intended to spread the risk in the system, by slicing and dicing mortgages and other credits into derivative products, for instance, actually had the reverse effect of increasing systemic risk. Financial products whose value was uncertain were used as collateral to drive the market for ever bigger, ever riskier, products. The financial innovations simply hid the true risk of the products being traded. A collapse in confidence was inevitable.

Islamic finance takes a far more conservative approach in several ways. First, the value and pricing of these products must be backed by existing physical assets, such as real estate or commodities, like oil and wheat. They cannot be based on other financial products. Any profit from other financial products–in particular interest–is considered to be usury (*riba*) and contradicts the principles of the Koran. That is why, to avoid using interest, Islamic finance has developed a number of alternative investment vehicles, including *musharaka* and *mudaraba* (see box). Also, some highly risky practices are banned, not least short selling, which many people blame for accelerating the financial meltdown by betting on the global financial market's decline.

Islamic banks are prudent when it comes to leveraging their assets to invest in capital too. Consider that the typical leverage ratio of assets

to capital was over 20:1 in the US (Lehman's leveraged around 30:1 before bankruptcy) and over 30:1 in Europe, compared with well below 10:1 in the Middle East and North Africa. It is partly this more conservative approach that has made Islamic banks well equipped to recapitalise their operations in the wake of the financial crisis.

Islamic banking's strict requirement to back all investments with well-documented physical assets not only helps reduce such risks, but it also removes the need for credit ratings from a third party. Off balance-sheet vehicles (or conduits) for risky structured derivatives would not be possible under Islamic finance either, since companies are required to specify all assets and liabilities on the balance sheet.

While reassuring to some, this restrictiveness contains drawbacks too. Islamic banking lacks some of the more sophisticated tools that help modern finance to better manage risk. For instance, currency hedging is forbidden, even to protect against sudden shocks, in part because the transaction is not backed by physical assets. Commodity futures are banned because you cannot profit from assets that do not yet exist.

Islamic finance is starting to be considered as an important source of liquidity for cash-strapped governments and companies in the west. The German state of Saxony-Anhalt issued Islamic bonds, known as *sukuk*, in 2004, launching a €100 million ($125.9 million) debt programme. In 2008, the UK government was considering issuing some £2 billion (nearly $3 billion). As with other Islamic financial products, *sukuk* valuations are based on physical assets rather than debt, with arrangements such as leasing back assets like government buildings to ensure rental payments for the bond holders and buying them back when the *sukuk* matures. In just ten years, the global *sukuk* market has developed into a $112 billion industry and should reach $200 billion by 2010. As to banking supervision, there are religious and ethical dimensions to take on board. All Islamic banking institutions must ensure that the products and services they offer are Shariah compliant, and this is usually verified by a specialist Muslim scholar. This requirement applies to western competitors wishing to enter Islamic banking too. It is a challenge, since Shariah banking scholars are in short supply, making it hard to offer acceptable financial products and services to the market.

However, formal principles and standards are also key, and these are set by organisations such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI). Great strides have been made in standardising regulations, but there are still niggly variations in how principles, including those based on Shariah, are applied, depending on the country. Ironing these out could boost the potential growth of the wider Islamic finance industry and make it a truly global force. ■ *RJC/AOS*

*Originally published in No 272 April 2009
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Instruments and principles

Besides the Koran admonishment of ***riba*** (interest), ***gharar*** and ***maisir*** (contractual uncertainty and gambling), and ***haraam*** industries (prohibited industries, such as those related to pork products, pornography, or alcoholic beverages), other principles must be observed by practitioners and supervisors to comply with Islamic jurisprudence and are reflected in financial products:

- *Ijara*: a leasing agreement whereby the bank buys an item for a customer and then leases it back over a specific period.
- *Ijara-wa-Iqtina*: a similar arrangement, except that the customer is able to buy the item at the end of the contract.
- *Mudaraba*: a specialist investment in which the bank and the customer share any profits. Customers risk losing their money if the investment is unsuccessful, but the bank will only charge a handling fee if the investment returns a profit.
- *Murabaha*: a form of credit which enables customers to make a purchase without having to take out an interest-bearing loan. The bank buys an item and then sells it on to the customer on a deferred basis.
- *Musharaka*: an investment partnership in which profitsharing terms are agreed in advance, and losses are pegged to the amount invested.

Regulatory framework and bodies

Islamic Financial Services Board (IFSB) is a standard-setting organisation of 150 members (January 2008), including 37 regulatory and supervisory authorities as well as the IMF, World Bank, Bank for International Settlements, Islamic Development Bank, Asian Development Bank, and 108 market players and professional firms operating in 29 countries. It issues standards, guiding principles and technical notes in the areas of: risk management, capital adequacy, corporate governance, supervisory review processes, transparency and market discipline, recognition of ratings on Shariah-compliant financial instruments, and money market development and conduct.

Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI) formulates standards in areas such as corporate governance, accounting and capital adequacy.

International Islamic Financial Market (IIFM) was founded with the collective efforts of the central banks and monetary agencies of Bahrain, Brunei, Indonesia, Malaysia, Sudan and the Islamic Development Bank. Based in Saudi Arabia, it is an infrastructure institution with the mandate to take part in the establishment, development, selfregulation and promotion of Islamic capital and money markets.

The **IMF**—particularly in the context of its Financial Sector Assessment Programs and work on standards and codes—tangentially considers issues relating to Islamic finance as they concern banking stability. The **World Bank** also works on the subject, for instance, as it relates to corporate governance.

Dr Hessa Al-Jaber

Building a knowledge economy

As part of Qatar's National Vision 2030, the country is taking tangible steps as it journeys towards a post-carbon economy. Through sustainable development and education it aims to transform itself into one of the world's most advanced knowledge economies within two decades. Jonathan Andrews talks to Dr Hessa Al-Jaber, Secretary General of ictQATAR, who is overseeing the development and implementation of the nation's ICT vision, strategy and master plan.

Qatar has seen rapid growth in its economy and population. New companies are opening in Qatar and the information and communication technology needs of businesses and citizens are quickly expanding. ictQATAR was created in 2004 by His Highness the Emir to ensure a smooth and fair transition as Qatar develops a competitive telecoms market and innovative ICT sector.

"ictQATAR connects people to the technologies that enrich their lives, drive economic development, and inspire confidence in the future. As the nation's ICT policy and regulatory body, ictQATAR's responsibility is to support Qatar's ambitious vision for social and political change while advancing global competitiveness," says Dr Hessa.

Its other mandate is to connect citizens to their government and to assist people of all ages and income levels to become comfortable with technology so they can achieve their personal and professional goals.

"Since we opened our doors in 2005, people who live and work in Qatar are already benefitting in countless ways. Children and adults are learning more creatively. Businesses of all sizes are discovering new efficiencies and new markets. Government is more responsive. And transformation in healthcare is underway," enthuses Dr Hessa.

In building this knowledge economy Dr Hessa realises that it is important to instil the necessary skills at a young age.

"It is Qatar's goal to build a modern, world-class education system that allows citizens to develop their potential while respecting our society's values. Integrated technology plays a vital role in reaching this goal, expanding the learning experience for students and their families."

A few of these programmes include: School Knowledge Network, a unique three-way portal that connects students, parents, and teachers any time; Global Gateway, a virtual experience that connects Qatari students with their peers around the world; and model e-School, a blend of e-learning with traditional classroom methods that results in dynamic experiences and activities.

In addition to developing local talent, steps that are currently being taken to ensure market development for ICT in Qatar include attracting further foreign companies and major "knowledge in" projects, creating companies through business incubation and commercialisation of research and growing the existing domestic sector.

"We encourage businesses to embrace ICT through such systems as e-procurement, improving customer service and increasing market knowledge and also developing national and international on-line sales channels," she adds.

ictQATAR is not only helping businesses embrace the ICT culture, but it is also leading the way with e-government services. "The launch of our e-governmental portal, Hukoomi, was one of last year's successes," Dr Hessa claims. "Our strategy aims to help every ministry, council, and agency to better serve the public by providing efficient, effective, transparent information and services day or night."

Security is a paramount concern for citizens, especially children, and also the safety of online commercial transactions, and the privacy of information.

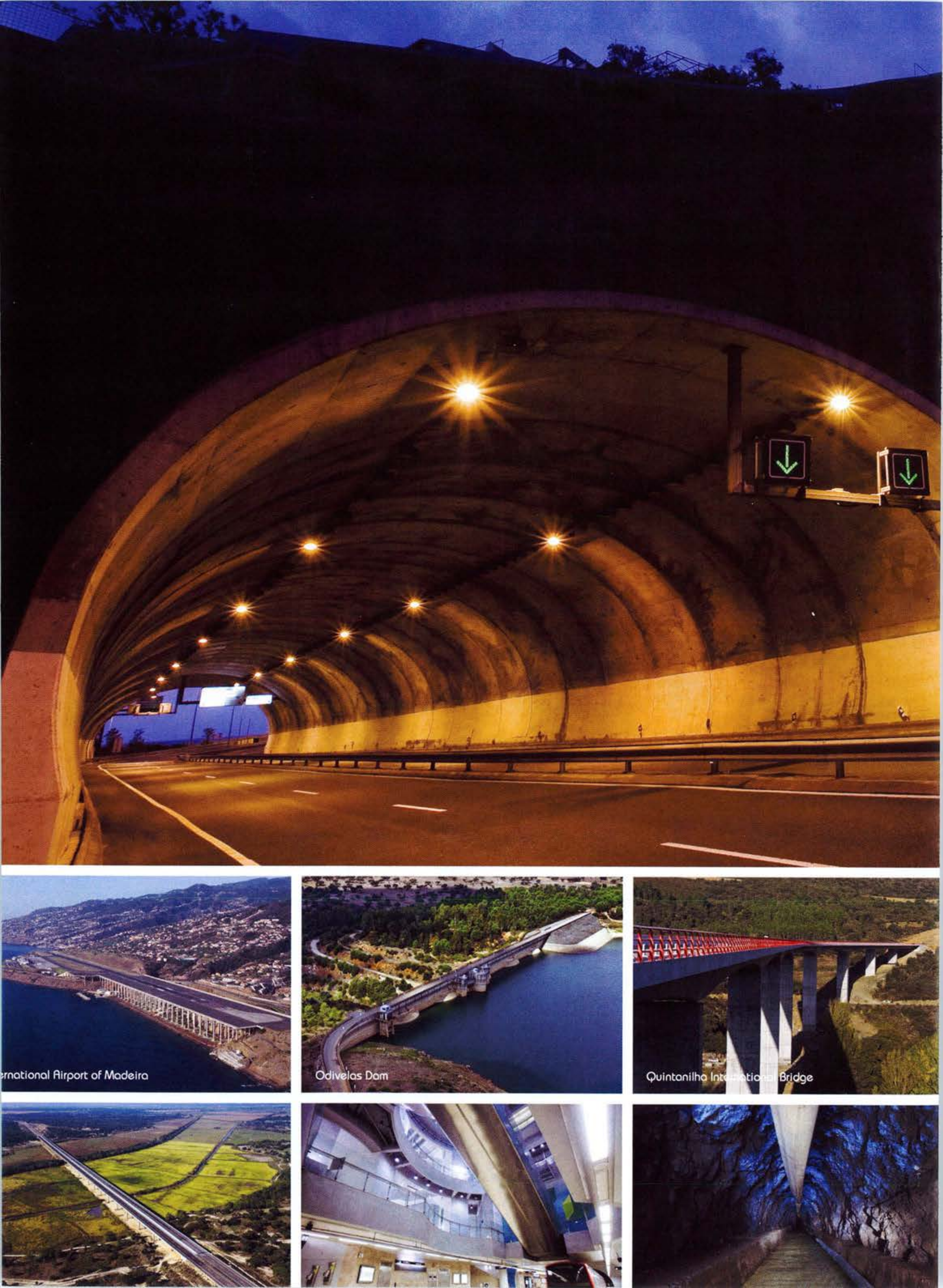
"We partnered with Carnegie Mellon's Software Engineering Institute to establish the Qatar Computer-Emergency Response Team (Q-CERT). Q-CERT's team of more than 30 professionals manage cyber risks and protect users. Q-CERT has developed a national cyberspace security response team to prevent, detect, deter, respond to, and recover from cyber incidents.

"Looking ahead, we will work to heighten national awareness about the need for policy action and international cooperation," she says.

Further liberalisation of the ICT market is taking hold with Vodafone recently entering the service provider market. "The entry of a second service provider into the market will mean better service, better value, and more innovation in products and services. Competition in the sector will make Qatar an even better place for businesses of all sizes to serve their customers and clients," explains Dr Hessa.

Currently Qatar is ranked 32nd among 127 nations in the 2007-2008 Networked Readiness Index produced by the World Economic Forum and INSEAD.

"This ranking squarely places Qatar as a regional leader," Dr Hessa enthuses. "We fully expect our position to climb further, and in the years ahead, an increasingly vibrant, innovative ICT sector will fuel Qatar's economy and secure an even brighter tomorrow for our country." ● *JWA*



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Transport: An investment that pays

More investment in all modes of transport is needed to boost development in the MENA region. How these modes interconnect, and help address issues such as climate change, are important considerations.

The Maghreb coastal corridor links Morocco to Egypt by road and from there connects to the Arab countries of the Mashreq. Much of the 31,000 km of planned roads are in place. Part of a major road plan that some hope will one day link much of the African coastline, the corridor embodies a future of promise.

However, it also points to the size of the challenges MENA countries face in building cross-border transport systems capable of serving the region's burgeoning population and the demands of business and leisure travellers. Transport is a major economic sector, accounting for 5-15% of GDP, depending on metrics used. It is key to driving the extra trade and development that MENA countries need, but that kind of investment raises environmental issues too.

Roads are a tricky area. They can outshine other transport modes as drivers of development, even though accessibility to good roads remains a challenge for many areas. In 2004, some 80% of rural dwellers in the relatively more urbanised Gulf countries had access to an all-season road within 2 km of their homes, according to the World Bank's rural access index. For Tunisia the figure was less than half that, at only 36%. No surprise, then, that several countries, including Morocco, are now working with the World Bank or setting up public-private partnerships to improve their rural road networks.

Roads are not cheap. Apart from construction, there are maintenance costs

to consider. Good road surfaces save fuel costs and help the environment while saving vehicles from unnecessary damage due to potholes. But maintenance budgets in MENA countries aren't always sufficient. Until 2007, Egypt only spent an equivalent of 0.05% of GDP on road maintenance; today this amount has tripled to 0.15%. Morocco spends 0.20% of its GDP on road maintenance. The equivalent for a developed country such as the US is 0.30%.

Nor do roads cure all transport ills. In cities, they can bring another set of challenges, led by congestion and pollution. In high-density Greater Cairo some firms encourage their employees to work from home rather than lose hours in traffic. In Dubai a 2007-2008 study revealed higher than average transport pollution, citing vehicle density and high emissions per vehicle as causes. Both cities have built metro systems to try to relieve the congestion.

Getting on track

Rail solutions, be they urban or regional, are attracting new attention in MENA, as in other regions, for their economic and environmental benefits. Emissions from road transport are one of the main contributors to the build-up of greenhouse gases in the atmosphere. Railways offer substantial savings of as much as a third on energy use and even larger reductions in CO_2 emissions when used in combination with road transport. In short, climate change is also changing the economics of long-distance highway projects in favour of incorporating some rail component, both for people and freight.

Rail is also safer than roads. Road fatalities and accidents are a major economic cost and now considered a leading health issue by the World Health Organization. Road fatalities in some MENA countries are close to the average for OECD countries of around 10 deaths per 100,000 people, but a few, such as Libya, Oman and Saudi Arabia, record well above 20 deaths per 100,000.

The MENA region is reasonably well-endowed with railway track. Morocco and Tunisia, for example, have some 2,000 km of existing track; Algeria 3,500 km of track, and Egypt has about 5,000 km. For comparison with OECD countries, Portugal has some 3,000 km of track and France 30,000 km, while the US track length easily outstrips any other member country, at 225,000 km.

A closer look shows there is work to be done if rail is to become an infrastructure component capable of supporting progress and development in the MENA region. Many networks have fallen victim to under-investment over the past 50 years, some have been abandoned: Libya, for example, no longer has a functioning rail service at all.

Where rail services exist, for freight and passengers, they are generally inefficient or underused. In Egypt, for example, only 3% of freight is transported by rail, compared with 14% in France. While some countries ship some raw materials by train, they could ship more manufactured goods too.

This is changing, however, with Morocco among the leaders. Until recently, phosphates represented some 80% of the freight moved by train there. Morocco is the world's third largest producer of phosphate rock, behind the US and China. Two years ago, a €288 million rail line was opened connecting the container port of Tanger-Med to the national network some 45 km away. Freight capacity is slated to reach 8.5 million containers by 2015.

Saudi Arabia has also taken to trains. It is investing US$2.8 billion in a 2,400 km north-south railway project whose new track, scheduled to be fully operational by 2013, will stretch from Jedda, the capital, to the Jordanian border and from the phosphate mines of Al Jalamid and the bauxite mines of Al Zubairah to the Arabian Gulf.

Passenger services also need serious attention. Whether by track per person or rail travel per passenger, the MENA region lags behind. Some countries are taking action to rehabilitate networks or improve travel times. Egypt is focusing on rehabilitating existing routes, with assistance from the World Bank, while Morocco is planning a high-speed rail line between Tangier and Casablanca for 2013 with the help of a consortium led by France's TGV builders, Alstom.

High-speed rail could be a boon to linking MENA cities in the future, but to improve service, expand rail access more widely and bring in investment, various other policy measures could be considered too, such as separating networks from operations, improving management incentives, and even introducing competition on busy routes.

Air time

Though road and rail offer great potential for investment and development within and between neighbouring countries, policymakers are looking to the skies to lift the MENA region as a whole and respond to business and tourist demands.

Nowadays, countries in the MENA area claim some of the best airports and airlines in the world. In less than 50 years, Dubai has become the world's 11th largest freight airport, handling 1.8 million tonnes of goods per year, and the world's 20th largest passenger airport, with 37 million passengers pouring through its terminals each year. Now UAE is building the Dubai World Central International Airport, which will have an annual cargo capacity of 12 million tonnes, more than three times that of Memphis in the US, today's largest cargo hub by weight, and a passenger capacity of more than 120 million, almost 50% more than Atlanta, now the world's busiest passenger airport. The airport is scheduled to be fully operational by 2017.

The UAE also boasts a successful airline: Emirates ranks among the top ten airlines in the world in terms of revenue and passenger kilometres.

Jordan has used a public-private partnership to develop its Queen Alia International Airport. Airport International Group operates the airport and pays a concession fee of some 50% of general revenues. The partnership plans to open a new, US$750 million terminal in 2012 to handle 9 million passengers.

However, the skies have been cloudier on

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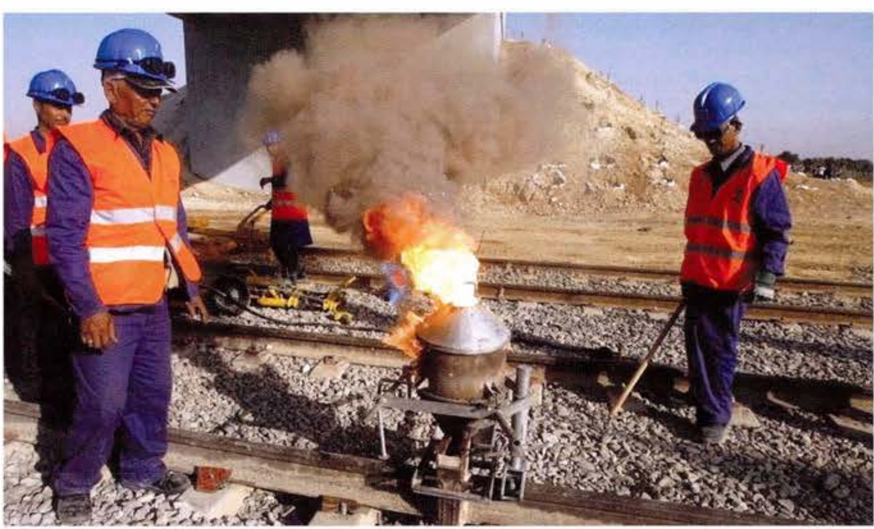

Warming to rail

most other fronts. For the region as a whole, air transport connectivity is low, with most airports underserved in terms of networks and flights. Domestic air travel has been hampered by monopolistic national carriers, and by high take-off and landing fees, making it hard to provide competitive services and harder still to control costs. Again, opening up air space to competition could help address these problems. Low-cost carriers have started to provide services, particularly in the Gulf countries. Though they are not without their detractors and demand good regulation, they can help bring down costs and improve access for remote areas and smaller towns.

Maritime

Facing transport problems is not a new challenge for the MENA region, whose ancient history is steeped in great adventures by land and by sea. Consider the medieval Moroccan geographer, Ibn Battuta, who left his country in 1325 and didn't return until nearly 30 years later, after having visited the lands of every Muslim ruler at the time and travelling as far afield as China and the Maldives. In all, he clocked more than 120,000 km, most of it by sea.

If Ibn Battuta returned today, he would be impressed by the region's state-of-the-art deep ports and dry docks, *entrepôts* and coastal economic zones. But though the region's coastline is long, there are relatively few large ports handling international trade. Those that do, vary in efficiency. Yet efficient port infrastructure can make a huge difference in shipping costs, as port handling accounts for about 40% of the total sea freight costs.

Not that the region is without its stars. According to the American Association of Port Authorities, Dubai ranked 8th for container handling in 2007, while other MENA container ports making the top 50 were Jeddah (33rd), Port Said (37th), Mina Raysut in Oman (38th) and Sharjah in the Emirates (50th). Dubai also excels at seaport management, and DP World in Dubai is now the world's third biggest port operator, with $3.3 billion in revenues and handling 27 million TEU (twenty-foot equivalent units). It also operates MENA's two biggest container ports and recently signed a 30-year concession to operate the port of Algiers.

The UAE's Jebel Ali hums along at 110 containers per hour and Alexandria in Egypt handles some 60 containers per hour. Egypt recently turned over management of operations at Port Said and Damietta to French giant CMA-CGM.

But a port is only as good as the road and rail network connecting it to the rest of the country. Some countries use dry ports, terminals situated in the interior linked by a high-capacity rail network to the maritime port, to bypass road congestion in and around big cities. Egypt, for example, opened a dry port in Sixth of October City, near Cairo, with rail access to coastal cities.

One area where port productivity could improve is in the simplification of import-export procedures. Establishing one-stop shops is a major objective. Egypt is testing one in the Suez Economic Zone, and in Morocco, the national port regulator is implementing a computerised system for a one-stop shop at Casablanca.

This cutting-edge approach would yield benefits if applied to transport development across the MENA region. Technology is still underused in travel services generally. For example, just 1% of ticket sales in MENA are made online, versus 15% in Asia/Pacific and 27% in Europe, a situation that consultants Booz Allen ascribe partly to low penetration of information technology and credit cards, as well as cultural preferences for human interaction. The region's airlines could do more to apply modernising technology, such as e-ticketing and self-checking baggage handling too.

Joining the dots across so many diverse countries is not easy, and technology applications could hold the key to resolving many transport challenges, from managing congestion and shipping to planning new track and roads in light of economic, social and environmental impacts. They would yield clear cost savings for passengers and firms too. The result would be a more effective transport infrastructure, more trade and development, and a stronger, more integrated MENA region. Ibn Battuta would certainly support that. ■ *MF*

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Water: Opening the tap

©Reuters/ Rafael Marchante

Better regulations could encourage investors to dip their toes into MENA's water sector.

A salmon would find it a hardscrabble life in the waterways of the Middle East and North Africa (MENA). Not because of dried riverbeds, overfishing or pollution, but because the region has more dams per cubic metre of water than any other place on earth.

Water here is heavily managed and heavily consumed. Domestic consumption in the Gulf states runs 50% higher than in the US, although the per capita amount of water available per year is 1,200 m3, compared to 7,000 m3 globally. Drinking water only accounts for 8% of consumption; 22% is for industrial use, and 70% for agriculture.

Fortunately, the region boasts some of the world's best hydrological engineers and is a leader in innovative technologies like desalination and wastewater recycling. Unfortunately, many of these efforts fail to bring the expected returns due to inefficiency, poor regulation, bloated subsidies and underinvestment in maintenance. When the conversation turns to the MENA water sector, investors' mouths go dry.

The economic crisis has not helped. The MENA-OECD Investment Programme Steering Group announced that OECD inward foreign direct investment (FDI) in MENA had dropped 13%, and outward FDI fell 6%. Gulf countries fared the worst, losing an estimated 21% in the run-up to the crisis, between 2007 and 2008.

In July, the MENA-OECD Initiative on Governance and Development met with Arab experts to discuss ways to improve governance in the water sector. Geographical and political factors complicate the situation. About 60% of MENA water flows across international boundaries, raising questions of sovereignty. This trans-jurisdictional aspect of water governance is one reason why governments are wary of privatising the sector, even though only 2 of 13 MENA countries have succeeded in covering their operational and management costs.

One of investors' bugbears is inefficiency. Agriculture uses 70% of water reserves, but because of leaks and waste only half of this water reaches crops. Farmers and other consumers would find the situation intolerable if heavy subsidies did not buffer them from the unpleasant reality. A consumer in Egypt, for instance, pays only 20% of water treatment and delivery costs.

Weak regulation is another deterrent to investment. When low-cost drilling arrived in the 1960s, individuals began extracting water from aquifers (the layer of permeable rock, gravel, sand, etc. that stores groundwater) at a pace that overwhelmed regulators. Over-extraction now drains national assets in some countries at a rate equivalent to 1-2% of GDP. Governments must shift their efforts from augmenting supply to managing demand.

Available water per capita in the MENA region is expected to halve in forty years. In just 15 years, the area's population of 300 million is projected to reach 500 million, for which some 100 million new jobs will have to be created. MENA countries are struggling to cope with this surge in demand, and are turning to OECD instruments, such as *Private Sector Participation in Water Infrastructure: Checklist for Public Action*, for guidance.

Public-private partnerships (PPPs) would certainly help, but investors are leery of PPPs without a sound regulatory framework. The type of regulation chosen depends on whether the political system functions according to civil or to common law. Civil law informs most choices in the Maghreb, where horizontal, cross-sectoral approaches are favoured, whereas the Gulf states prefer sectoral regulation, granting considerable discretion to the delegated authorities.

> About 60% of MENA water flows across international boundaries, raising questions of sovereignty

Unlike salmon, investors don't like to swim against the current; but sheltered by better regulation, transparency and predictability, they are likely to return to MENA's water sector. ■ *LT*

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Renewable force

With less than 0.3% of MENA's electric power capacity from renewable sources, the potential for expansion is great

©REUTERS/Rafael Marchante

Several MENA countries are major oil and gas suppliers. Could the region become a global source of renewable energy too? Perhaps, but large investment is needed.

Through the ages, the countries of the Middle East and North Africa have been known for their great feats in engineering. The marvels are legion, from the Mesopotamian irrigation systems to the Great Pyramid. But did you know that the first concentrated solar steam engine was built near Cairo in 1914? A century later, solar energy is again putting the region on the cusp of new exploits, this time in renewable energy.

The timing is good, for today, the region faces a supply challenge as energy demand is set to surge in the next 40 years. But thanks to abundant sun and wind, the region has a rare supply opportunity too.

Electricity demand in several MENA countries is expected to double by 2050. Using fossil fuels to meet that demand is not an option. Several MENA countries are not oil producers and must find alternatives for their energy security. Even in those countries that are, subsidies on fossil fuels already lead to wasteful consumption and fossil fuels are a primary cause of climate change. So, for its own long-term energy security, MENA must think not solely of its fossil fuel resources, but mixing them with renewable sources too.

Less than 0.3% of MENA's electric power capacity is nowadays generated by renewable sources; in Sweden, for instance, the corresponding figure is about 30%, mostly from biomass and hydro. Some 10% of Spain's total energy supply comes from renewable sources, with wind and hydro each accounting for a fifth of that.

The potential for expansion and spin-offs would therefore be great. Non-oil producing countries like Morocco would greatly

reduce their energy dependence on imports by developing solar and wind capacities, while oil-rich nations could manage their increasingly scarce fossil fuel reserves more sparingly.

Human capital would also benefit from investing in renewables. The IEA estimates that building a concentrated solar power plant is likely to create eight to ten jobs per megawatt of equivalent electrical solar capacity. Building electrical solar capacity brings skills and learning in technology such as mirrors, heat receivers, and turbines. A single gigawatt would generate not just energy, but thousands of skilled jobs too. That means more highly qualified local scientists and engineers working in the region, with more skills and more value-added jobs injected into the economy.

But environmental sustainability is probably the most obvious and certainly the most urgent motivation for investing in renewable energy. Electricity in the MENA region is now based on fossil fuel and accounts for 28% of the area's greenhouse gas emissions. One study from DLR, the German Aerospace Centre, shows that if today's energy mix remains unchanged, CO_2 emissions from the MENA region could nearly triple over the next three decades, from 770 million tonnes per year today. A turn to solar and wind energy would slow the rise in CO_2 and, if combined with lower transport emissions, possibly result in an actual decrease in emission levels.

The sun is the most obvious of MENA's renewable resources. In desert areas, the energy from the sun is double that recorded in Paris. MENA is a region where Direct Normal Irradiance, the indicator used to measure the sun's energy, averages in excess of 1,800 kWh per square metre per year–enough for concentrated solar power and more than enough for regular photovoltaic production.

The land required to produce solar energy is large for most temperate countries, but not for deserts; 15,000 square km (about half the Nevada desert) would supply all of the US's needs, for instance. In the MENA region, where desert land is also in abundance, a solar thermal plant the size of Lake Nasser (about 5,000 square km) could supply energy that is equivalent to the annual oil production of the entire Middle East. Ambitious, but is it feasible?

For now, the production of solar energy in the region is patchy. The UAE's Masdar, a subsidiary of the Mubadala Development Company, owned by the state of Abu Dhabi, is leading the way by developing a 100 MW concentrated solar power plant, known as SHAMS 1. As with all such sources, it has been certified for the Kyoto Clean Development Mechanism, thus allowing for trade in carbon markets. The company has even designed an emission-free city and set up a renewable-energy institute.

Algeria, Egypt and Morocco are developing Integrated Solar Cycle Combination plants that use solar power to save in fossil fuel-generated power. Morocco's Ain Beni Mathar has 20 MW of solar power that contributes to a 470 MW total, Algeria's Hassi R'Mel project has a capacity of 150 MW with a solar share of 35 MW, and Egypt's Kuramyat uses 30 MW of solar for a total capacity of 150 MW. Solar irradiance is MENA's biggest potential energy resource, and could transform the region into a world solar energy supplier.

Winds of change

But solar energy isn't the only comparative advantage of MENA countries. Wind velocities in the 8-11m/sec range regularly sweep the Gulf countries, as well as Egypt and Morocco. Egypt's potential capacity through wind power is estimated at 20,000 MW, Morocco's at 6,000 MW (see box).

In fact, both of these countries are already harvesting their wind. Morocco has four sites with a total capacity of 1,000 MW, while Egypt plans to recoup 2,000 MW by 2010. Egypt's Zafarana project, which is expected to produce about 300 GWh/a, can serve as an example for the rest of the region. And Egypt has set itself an ambitious target of producing 12% of its electrical power from wind farms by 2020. Tunisia meanwhile has four wind farm sites with a total capacity of 120 MW, and Jordan has a 40 MW farm.

Investors drawn to the region are attracted by plentiful sun and wind, but also by lower costs. Electricity from concentrated solar power in the MENA area is currently around 25% cheaper than in Spain for instance, and the IEA expects that differential to continue into the near future.

Two Euro-MENA collaborations are now in the works. One project, launched by the Desertec Foundation in Berlin and 12 companies, nine of which are German though there is one Algerian firm, will build solar plants and transmission infrastructure to deliver solar energy to both MENA countries and Europe. The €400 billion project is expected to supply 15% of Europe's electricity demand from some 20 locations around MENA by 2050.

Another project, known as the Mediterranean Solar Plan, aims to link Europe's renewable-energy technology with MENA's renewable-energy resources. Europe will invest in plants and buy back some of the output, helping to achieve the 20% share of renewable energy earmarked for its energy mix by 2020. The Mediterranean plan aims to achieve a capacity of 20,000 MW by that time, mostly from solar energy, for an estimated investment of at least €60 billion. Some 70 pilot project proposals have been submitted.

Old hurdles

Not everyone is happy with these renewable energy projects, with some critics dismissing them as a form of energy colonialism, arguing that Europe could develop cheaper renewable energy sources, such as wind, hydro and biomass, on its own territory. Another high hurdle to jump, both for the Mediterranean Solar Plan

and Desertec, will be putting in place the transmission network to deliver MENA electricity to Europe. Current networks linking Spain with Algeria and Morocco have a capacity of only 600 MW, which is far short of the mark. Technology is not really the obstacle; what is needed is investment.

The IEA puts investment costs in a range of US$4,200 to US$8,400 per megawatt for concentrated solar power plants, depending on labour and land costs, technologies, the quality of the solar resource, and the sizes of storage and solar field; generally, the more storage needed, the higher the costs.

As with the Desertec project, public financing for the Mediterranean Solar Plan will need private funds if it is to work. Funds could be attracted through investment tax credits and by trading certificates of emission reduction, which were formulated under the Kyoto Clean Development Mechanism.

The World Bank is ready to play a part through its Clean Technology Fund. This $5 billion fund is overseen by a 16-member Trust Fund Committee that includes representatives from Egypt and Morocco. A regional investment plan under the fund will be formulated with the aim of attracting as much as $750 million to support the Mediterranean Solar Plan.

Such initiatives testify to the potential of the MENA region as a future major supplier of renewable energy. If the hurdles can be cleared, then the region may enter a new period of historic engineering feats for the world to admire. ■ *MF*

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Visit www.iea.org

Moroccan wind

On 2 November, Morocco launched a US$9 billion solar energy programme. With five power plants, the programme aims for a total installed capacity of 2,000 MW by 2020–equivalent to almost 40% of the country's electricity production.

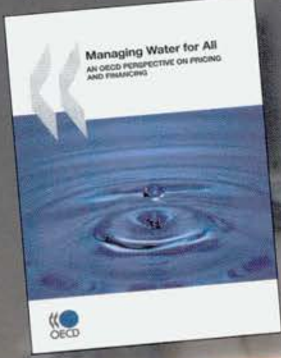
The new plan demonstrates how seriously MENA is taking solar energy. But until now, it has been in wind that some real strides have been made. Morocco started to focus on renewables back in 1982 when the Centre for the Development of Renewable Energy (CDER) was set up. In the mid-1980s, with assistance from USAID, Morocco mapped its wind resources and the regions with most potential–in the north, around Tetouan, and in the west, around Tarfaya, both clocking average wind speeds of well over eight metres per second. Investors sat up.

Some ten years later, another site in the north of the country, Al Koudia al Baida, was tapped to host the country's first wind farm, with help from German investors. The Moroccan Electricity Office, ONE, agreed to retain ownership of the farm while buying electricity from it for 20 years. The 50 MW project cost some US$60 million. A second, smaller farm was opened on the same site in 1996 and two larger farms were opened elsewhere in the country. Cap Sim in the south was inaugurated in 2007, offering a capacity of 60 MW. Another one at Tangier in the north represents a great leap forward with 140 MW of planned capacity. An additional 300 MW of wind farms will be set up near Tarfaya by 2012, with private firms agreeing to buy supply.

For engineer Mustapha Enzili, head of resources and engineering at CDER, "the 1990s were devoted to prospection and preparation, the 2000s saw the installation of the first wind farms, and the 2010s should be home to scaling".

Now, industrial firms can produce electricity for their own needs and sell surplus to ONE. The cement manufacturer Lafarge has taken the lead in this area by installing a 32 MW capacity wind farm. Mining companies and steelmakers also have projects that would produce 1,000 MW by 2012 in wind farms near Tangier, Laayoune and other sites. And the national drinking water office is doing a feasibility study for a desalination plant driven by a 10 MW wind farm at Tan-Tan. In all, Morocco could be producing over 1,500 MW of wind power by 2012. *MF*

Water matters



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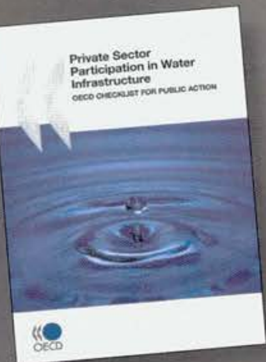

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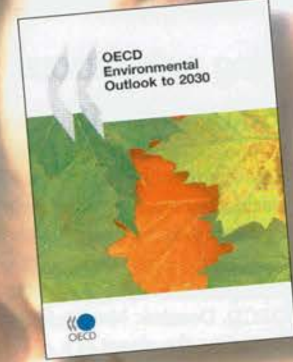

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Call to action on climate change

After a year of pain and pessimism, we are starting to see signs of an economic recovery. Green shoots are sprouting. Governments' bold economic and financial actions over the past year are beginning to take effect.

But we are not out of the woods yet. We now need to make sure that recovery is sustained, and for that bold action on climate change will be needed. As world leaders prepare for the UN climate change talks in Copenhagen this December, one of their top priorities must be to move their economies towards a low-carbon future.

Business as usual is not an option if the economic recovery is to be sustained. If we carry on increasing greenhouse gas emissions, the resulting climate change will lead to massive upheavals: floods and droughts, more violent storms, more intense heat waves, escalating conflicts over food and water and resources. Shocking signs are already visible of what may lie in store...

Faced with such risks, we need to act now to prevent worst-case scenarios from becoming reality. According to analysis from the OECD, IPCC, McKinsey and others, serious climate action will cost only a fraction of a percentage point of annual growth in world GDP. Doing nothing, by contrast, as the Stern Review on the Economics of Climate Change has warned us, could lead to radically larger losses.

Starting today, we need to change our lifestyles and our attitudes. We need to produce, transport, consume, regulate, govern and think differently. We need to go green...

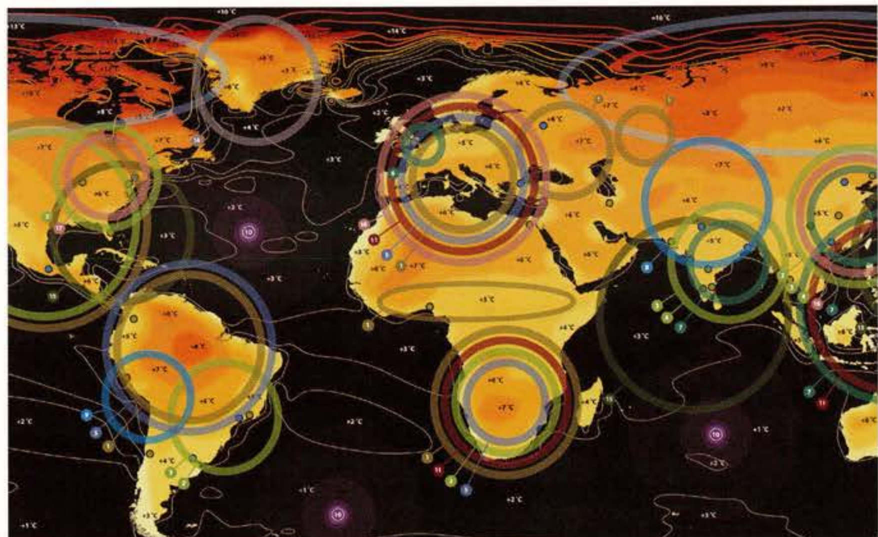
The financial and economic crisis from which we are emerging provides a unique opportunity to achieve that. Last month's G20 agreement to eliminate fossil fuel subsidies by 2020 was a positive move– according to OECD analysis, removing fossil fuel subsidies in some of the developing countries alone could reduce global greenhouse gas emissions by 10% in 2050, while also increasing economic efficiency. But in addition, we must channel investment into clean-energy technologies, buildings and transport infrastructures that can be the foundation of a low-carbon economy.

In doing so, we will create huge opportunities in the form of new industries and new jobs, helping to offset recent job losses in other sectors. In China alone, the renewable energy sector already generates output worth US$ 17 billion and employs one million workers. That's only a small part of what could lie in store. The potential for "green technologies" in such areas as energy, water, buildings, transportation and industry is huge...

...advanced economies must agree to make sharp cuts in their own greenhouse gas emissions while at the same time providing robust financing to support mitigation and adaptation in developing countries. But emerging economies must also contribute. In return for financing commitments from advanced economies, they must pledge to take appropriately ambitious action to counter the negative effects of increased energy use and deforestation...

...Climate change is the greatest challenge that humanity has ever faced collectively. We must respond to it now, for our own sake and for the sake of our children and grandchildren. We can make going green compatible with increased prosperity.

Excerpt from article by WWF International Director General James P. Leape and OECD Secretary-General Angel Gurría, originally published at *OECD Observer* online. Full article at www.oecdobserver.org.



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Charting a disastrous course on climate

The UK government has prepared a map of the world showing how the effects of climate change would differ by region. The map, presented to OECD Secretary-General Angel Gurría by the British ambassador to the OECD, Dominic Martin, shows the likely impact on the planet of a 4 °C rise in the global average temperature.

OECD analysis suggests that unless action is taken, global greenhouse gas emissions will rise by about 70% between now and 2050, and that by 2100 there could be a 4-6 °C global mean increase in temperatures above pre-industrial levels.

Recent speeches by Angel Gurría

Lighting the way forward for education

An "education lighthouse for the way out of the crisis" was recently launched in the form of a new OECD web community dedicated to guiding education through the economic crisis. To date, the educationtoday collaborative website features nearly 200 content items from OECD experts and external analysts and is available to anyone who registers via myOECD at OECD.org.

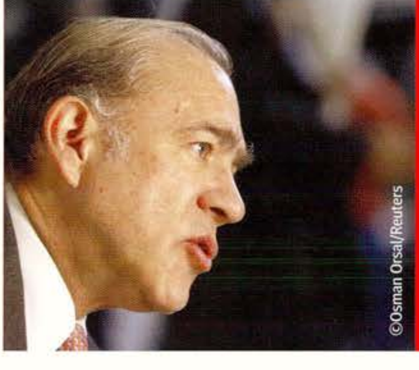
Found at www.oecd.org/edu/lighthouse, the site encourages discussions and document-sharing among members of the fast-growing OECD social network and provides links to relevant papers and analysis. Members can also participate in related polls, such as: "Do you think education was also responsible for the financial and economic crisis?" When the *Observer* went to press, the poll showed 25% of respondents replying "yes", 45% answering "no", and 30% saying "partly".

The OECD Education Directorate will provide up-to-the-minute information, evidence and analysis on the impact of the crisis on education, with concrete examples of how governments and institutions in different countries are coping.

The map shows that as the Himalayan glaciers melt, 23% of the population of China could be deprived of vital, dry season, glacial melt water by 2050. It also shows that an estimated mean sea-level rise of 53 cm by 2075 would result in floods affecting an additional 150 million people, particularly in Asia.

Mr Gurría said that the map "constitutes an invaluable contribution to raise awareness of the size of the challenge". He added, "The scientific evidence is overwhelming, the economic logic is compelling, and the costs of inaction are frightening."

More at www.oecd.org/environment



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Remarks delivered at the Institute of International and European Affairs, Dublin, Ireland

Launch of Economic Survey of Ireland

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Remarks delivered at the launch of the 2009 *Economic Survey of Ireland*, Dublin, Ireland

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Opening remarks delivered at the ITD Global Conference, Beijing, China

Towards green growth: how can the Environment Policy Committee contribute?

21 OCTOBER 2009
Remarks at the Environment Policy Committee meeting (EPOC), OECD Conference Centre, Paris, France

Climate change: the biggest threat to economic recovery

Angel Gurría, Secretary-General of the OECD, and James P. Leape, Director General of WWF International, *OECD Observer* op-ed, www.oecdobserver.org

George C. Marshall: a tribute from the OECD

16 OCTOBER 2009
Statement to commemorate the 50th anniversary of the death of George Marshall, OECD Conference Centre, Paris, France

Education for the future - Promoting changes in policies and practices: the way forward

10 OCTOBER 2009
Remarks delivered at the Education Ministerial Round Table, UNESCO, Paris, France

Managing the crisis: from recovery policies to long-term reforms

1 OCTOBER 2009
Remarks delivered at the annual meeting of senior officials from centres of government, OECD Conference Centre, Paris

Parliamentary Assembly of the Council of Europe

30 SEPTEMBER 2009
Remarks at the OECD Debate at the Parliamentary Assembly of the Council of Europe, Strasbourg, France

Beyond the crisis: what is the jobs potential of shifting towards a low-carbon economy?

29 SEPTEMBER 2009
Opening remarks delivered at the meeting of OECD employment and labour ministers, OECD Conference Centre, Paris

New arrivals

5 November 2009
Thorir Ibsen takes up his post as the new ambassador for Iceland, replacing Tómas Ingi Olrich.

1 November 2009
Richard A. Boucher (US) has been appointed Deputy Secretary-General of the Organisation. He replaces Thelma Askey.

Calendar of forthcoming events

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a more comprehensive list, see the OECD website at **www.oecd.org/media/upcoming**, which is updated weekly.

NOVEMBER - highlights

9-10	**Innovation for Social Challenges,** conference organised by the Directorate for Science, Technology and Industry.
10	**IEA World Energy Outlook 2009** published.
11-12	**Africa Investment Initiative**, two meetings organised by NEPAD-OECD. Ministerial meeting on Mobilising Resources for Trade and Investment, on 11/11, and high-level meeting on 12/11. Johannesburg, South Africa.
16-18	**FAO World Summit on Food Security**, organised by the Food and Agriculture Organization, with participation of the OECD. Rome, Italy.
16-18	**High-level consortium meeting of the PARIS21 partnership**, organised by the OECD and the government of Senegal, followed by the African Symposium on Statistical Development. Dakar, Senegal.
19	Publication of **OECD Economic Outlook No 86.**
22-23	**Ministerial meeting of the MENA** (Middle East and North Africa) countries, organised by the MENA-OECD programme, with participation of the OECD Secretary-General. Marrakech, Morocco.
30 - 2/12	**World Trade Organization Ministerial Conference** : "The WTO, the Multilateral Trading System and the Current Global Economic Environment". Participation of the Secretary-General. Geneva, Switzerland.
30 - 1/12	Presentation of the **Latin American Economic Outlook 2010**: Migration and Development in Latin America and the Caribbean. Estoril, Portugal.

DECEMBER

1-3	**Routes out of the Crisis**: Strategies for Local Employment Recovery and Skills Development in Asia, meeting organised by the ILO and OECD. Malang, Indonesia.
3-4	**Investment Policy Review of India**, OECD publication presented at a high-level symposium on Global Economic Prospects and the Indian Economy, with participation of the Secretary-General. New Delhi, India.
7-8	**The Crisis and Beyond**: International Investment for a Stronger, Cleaner, Fairer Economy, forum on international investment, organised by the Directorate for Financial and Enterprise Affairs.
9	**Foreign Bribery: Who Pays the Price**, roundtable marking International Anti-Corruption Day and 10th anniversary of the entry into force of the OECD Anti-Bribery Convention. Open to the media.
7-18	**UN Framework Convention on Climate Change**, COP15, with participation of the OECD Secretary-General. Copenhagen, Denmark.
8	Publication of **OECD Health at a Glance**.
8-10	**Empowering E-Consumers**: Strengthening Consumer Protection in the Internet Economy, conference organised by the OECD Directorate for Science, Technology and Industry. Washington DC, USA.

JANUARY

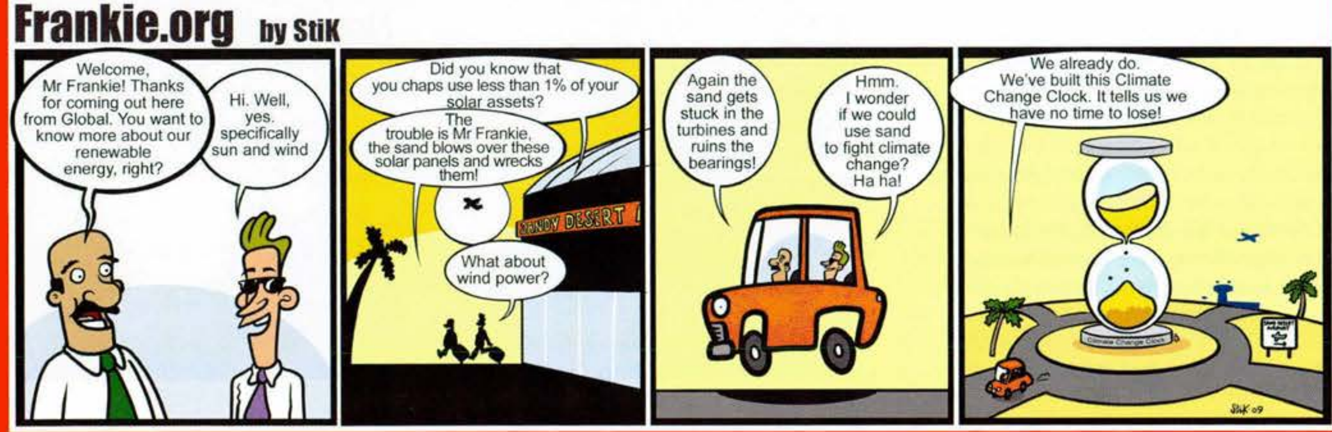
13-15	**Safer Schools, Safer Communities**: Ensuring Safe and Secure Learning Environments for Children and Young People, conference organised by the Directorate for Education and the UK government. London, UK.
27	**Strengthening Developing Countries through Taxation**, roundtable on Tax and Development organised by the OECD.
27-31	**World Economic Forum**, participation of OECD Secretary-General. Davos, Switzerland.

FEBRUARY

18	**OECD high-level Parliamentarian seminar.**
25-26	**Ministerial meeting on agriculture**, organised by the Directorate for Trade and Agriculture.

FURTHER AHEAD

Mar 22	**International Regulation of Water,** high-level policy workshop organised by the University of Durham. Participation of OECD Environment Directorate. Durham, UK.
Jun 8-9	**Global Forum on Trade,** Globalisation, Comparative Advantage and Trade Policy.



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Back to Iraq

Voting for a better image

Unemployment at historic highs, declining oil prices, plummeting government budgets and low investment due to persistent political uncertainty–one or more of these barriers to progress exist in many MENA states, but add them all and combine the security concerns in the aftermath of war and that is the unique challenge for Iraq. For years, arms and oil have been the major trade activity, but with security improvements being implemented in tandem with political, legal and regulatory reforms, investors are once again beginning to view the Mesopotamian cradle of civilisation also as a cradle of investment. *Supporting Investment Policy and Governance Reforms in Iraq 2007-2008* reflects MENA-OECD discussions with the Iraqi government concerning economic and governance reforms over the past two years. It looks extensively at Iraq's new investment law, implemented in 2006, assessing the challenges posed by corruption in Iraq, especially in government procurement, and examines how these factors will affect Iraqi efforts to attract foreign investment.

Iraq's vast energy reserves have long been a source of bribery and corruption surrounding the production and distribution of gas and oil. The Iraqi government, with investment needs especially in housing and construction, heavy industry, brick manufacturing and cement, agriculture, and tourism, must take steps to stamp out rampant corruption to assuage the concerns of potential investors.

All of the political and regulatory reforms will be of no use however, should the conflicts that are still common across the country lead to further breakdowns of security. One way to combat violence is to raise the living standards of the people. It is also imperative to improve the image of Iraq abroad to dispel the notion that the country is perennially in turmoil. Implementing the rule of law, raising the level of governmental transparency, and reaching out to potential sources of foreign capital will all go a long way to achieving that end.

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Focus on investment and governance

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Making Reforms Succeed: Moving Forward with the MENA Investment Policy Agenda
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Government at a Glance 2009

Government at a Glance is a new, biennial publication of the OECD. It provides over 30 indicators describing key elements underlying government performance. With a focus on public administration, the publication compares the political and institutional frameworks of government across OECD countries, as well as government revenues, expenditures and employment. It also includes indicators describing government policies and practices in integrity, e-government and open government, and introduces several composite indexes summarising key aspects of public management practices in human resource management, budgeting and regulatory management.

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This fourth annual assessment of transparency and tax information policies shows substantial progress being made and brings to 87, the number of countries covered by the report. This edition features for each country new summary assessments providing a snapshot of their legal and administrative framework. The report contains a series of tables, on a country-by-country basis, that provides information on: laws and agreements permitting the exchange of information for tax purposes; access to bank information for tax purposes; access to ownership identity and accounting information; and availability of ownership, identity and accounting information relating to companies, trusts, partnerships and foundations.

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Country	Indicator	Period	% change from: previous period	% change from: previous year	Indicator	Period	level: current period	level: same period last year
Australia	Gross domestic product	Q2 09	0.6	0.6	Current balance	Q2 09	-10.13	-14.45
	Leading indicator	Aug. 09	0.9	-2.8	Unemployment rate	Aug. 09	5.80	4.10
	Consumer price index	Q2 09	0.5	1.5	Interest rate	Aug. 09	3.30	7.31
Austria	Gross domestic product	Q2 09	-0.5	-4.5	Current balance	Q2 09	1.97	3.28
	Leading indicator	Aug. 09	1.1	0.1	Unemployment rate	Aug. 09	4.70	3.80
	Consumer price index	Aug. 09	0.4	0.3	Interest rate		*	*
Belgium	Gross domestic product	Q2 09	-0.3	-3.7	Current balance	Q2 09	0.50	-15.55
	Leading indicator	Aug. 09	1.3	-0.9	Unemployment rate	Aug. 09	7.90	7.50
	Consumer price index	Sep. 09	-0.3	-1.2	Interest rate		*	*
Canada	Gross domestic product	Q2 09	-0.9	-3.2	Current balance	Q2 09	-9.60	6.68
	Leading indicator	Aug. 09	1.7	1.5	Unemployment rate	Aug. 09	8.70	6.20
	Consumer price index	Aug. 09	0.0	-0.8	Interest rate	Sep. 09	0.40	3.29
Czech Republic	Gross domestic product	Q2 09	0.1	-5.5	Current balance	Q2 09	-0.44	-1.89
	Leading indicator	Aug. 09	0.1	-11.5	Unemployment rate	Aug. 09	6.90	4.30
	Consumer price index	Aug. 09	-0.2	0.2	Interest rate	Sep. 09	1.88	3.81
Denmark	Gross domestic product	Q2 09	-2.6	-7.0	Current balance	Q2 09	1.58	1.95
	Leading indicator	Aug. 09	0.9	0.0	Unemployment rate	Aug. 09	5.90	3.30
	Consumer price index	Aug. 09	0.3	1.1	Interest rate	Sep. 09	1.15	5.03
Finland	Gross domestic product	Q2 09	-2.6	-8.9	Current balance	Jul. 09	0.35	0.76
	Leading indicator	Aug. 09	1.5	8.2	Unemployment rate	Aug. 09	8.70	6.40
	Consumer price index	Aug. 09	0.3	-0.7	Interest rate		*	*
France	Gross domestic product	Q2 09	0.3	-2.8	Current balance	Jul. 09	-1.75	-6.17
	Leading indicator	Aug. 09	1.3	6.6	Unemployment rate	Aug. 09	9.90	7.80
	Consumer price index	Aug. 09	0.5	-0.2	Interest rate		*	*
Germany	Gross domestic product	Q2 09	0.3	-5.9	Current balance	Q2 09	35.98	70.92
	Leading indicator	Aug. 09	2.4	2.1	Unemployment rate	Aug. 09	7.70	7.20
	Consumer price index	Aug. 09	0.2	0.0	Interest rate		*	*
Greece	Gross domestic product	Q2 09	0.2	-0.3	Current balance	Jul. 09	-4.12	-5.39
	Leading indicator	Aug. 09	0.1	-1.1	Unemployment rate	Jun. 09	9.20	7.50
	Consumer price index	Aug. 09	-0.7	0.8	Interest rate		*	*
Hungary	Gross domestic product	Q2 09	-2.0	-7.3	Current balance	Q2 09	0.84	-2.18
	Leading indicator	Aug. 09	1.5	-5.1	Unemployment rate	Aug. 09	9.60	7.80
	Consumer price index	Aug. 09	-0.3	5.0	Interest rate	Sep. 09	7.36	8.66
Iceland	Gross domestic product	Q2 09	-2.0	-3.1	Current balance	Q2 09	-0.37	-1.72
	Leading indicator		..	..	Unemployment rate		..	..
	Consumer price index	Sep. 09	0.8	10.8	Interest rate	Sep. 09	8.40	16.10
Ireland	Gross domestic product	Q2 09	0.0	-7.3	Current balance	Q2 09	-2.22	-5.47
	Leading indicator	May 08	-0.8	-6.8	Unemployment rate	Aug. 09	12.50	6.30
	Consumer price index	Aug. 09	0.4	-5.9	Interest rate		*	*
Italy	Gross domestic product	Q2 09	-0.5	-6.0	Current balance	May 09	-0.26	-7.29
	Leading indicator	Aug. 09	2.0	10.4	Unemployment rate	Jun. 09	7.40	6.80
	Consumer price index	Sep. 09	-0.2	0.2	Interest rate		*	*
Japan	Gross domestic product	Q2 09	0.6	-7.2	Current balance	Jul. 09	12.29	14.94
	Leading indicator	Aug. 09	1.3	-3.9	Unemployment rate	Aug. 09	5.50	4.10
	Consumer price index	Aug. 09	0.3	-2.2	Interest rate	Aug. 09	0.25	0.75
Korea	Gross domestic product	Q2 09	2.6	-2.2	Current balance	Aug. 09	1.79	-5.12
	Leading indicator	Aug. 09	0.9	8.8	Unemployment rate	Aug. 09	3.80	3.20
	Consumer price index	Sep. 09	0.1	2.2	Interest rate	Sep. 09	2.64	5.79
Luxembourg	Gross domestic product	Q2 09	-0.3	-5.3	Current balance	Q2 09	0.42	1.42
	Leading indicator	Aug. 09	1.8	0.6	Unemployment rate	Aug. 09	6.60	5.10
	Consumer price index	Sep. 09	-0.1	0.0	Interest rate		*	*
Mexico	Gross domestic product	Q2 09	-1.1	-9.7	Current balance	Q2 09	0.22	-2.27
	Leading indicator	Aug. 09	1.0	5.2	Unemployment rate	Aug. 09	5.90	3.90
	Consumer price index	Aug. 09	0.2	5.1	Interest rate	Sep. 09	4.60	8.32
Netherlands	Gross domestic product	Q2 09	-1.1	-5.2	Current balance	Q2 09	12.77	11.41
	Leading indicator	Aug. 09	1.3	-3.1	Unemployment rate	Aug. 09	3.50	2.70
	Consumer price index	Sep. 09	0.5	0.4	Interest rate		*	*
New Zealand	Gross domestic product	Q2 09	0.4	-1.1	Current balance	Q2 09	-0.37	-3.59
	Leading indicator	Aug. 09	0.7	4.0	Unemployment rate	Q2 09	6.00	3.90
	Consumer price index	Q2 09	0.6	1.9	Interest rate	Sep. 09	2.77	7.95

			% change from:				level:	
			previous period	previous year			current period	same period last year
Norway	Gross domestic product	Q2 09	-1.3	-2.5	Current balance	Q2 09	15.76	26.89
	Leading indicator	Aug. 09	0.1	-3.0	Unemployment rate	Jul. 09	3.00	2.40
	Consumer price index	Aug. 09	-0.2	1.9	Interest rate	Sep. 09	1.93	6.82
Poland	Gross domestic product	Q2 09	0.5	1.4	Current balance	Jul. 09	-0.63	-1.22
	Leading indicator	Aug. 09	0.1	1.0	Unemployment rate	Aug. 09	8.00	6.90
	Consumer price index	Aug. 09	-0.4	4.1	Interest rate	Sep. 09	4.18	6.63
Portugal	Gross domestic product	Q2 09	0.3	-3.7	Current balance	Jul. 09	-1.68	-2.99
	Leading indicator	Aug. 09	1.8	-3.8	Unemployment rate	Aug. 09	9.10	7.90
	Consumer price index	Aug. 09	-0.3	-1.3	Interest rate		*	*
*Slovak Republic	Gross domestic product	Q2 09	2.2	-5.4	Current balance	Q1 09	-5.39	-1.34
	Leading indicator	Aug. 09	1.9	-7.5	Unemployment rate	Aug. 09	11.60	9.00
	Consumer price index	Aug. 09	-0.1	1.3	Interest rate		*	*
Spain	Gross domestic product	Q2 09	-1.1	-4.2	Current balance	Jul. 09	-2.20	-10.35
	Leading indicator	Aug. 09	1.5	4.5	Unemployment rate	Aug. 09	18.90	11.80
	Consumer price index	Aug. 09	0.3	-0.8	Interest rate		*	*
Sweden	Gross domestic product	Q2 09	0.2	-6.1	Current balance	Q2 09	10.21	7.85
	Leading indicator	Aug. 09	0.8	-2.9	Unemployment rate	Aug. 09	9.40	6.00
	Consumer price index	Aug. 09	0.2	-0.8	Interest rate	Sep. 09	0.15	4.49
Switzerland	Gross domestic product	Q2 09	-0.3	-2.1	Current balance	Q2 09	11.74	7.45
	Leading indicator	Aug. 09	1.4	3.1	Unemployment rate	Q2 09	4.10	3.40
	Consumer price index	Sep. 09	0.0	-0.9	Interest rate	Aug. 09	0.32	2.75
Turkey	Gross domestic product	Q2 09	2.7	-7.1	Current balance	Q2 09	-3.54	-13.36
	Leading indicator	Aug. 09	1.1	3.0	Unemployment rate	Jun. 09	12.30	9.00
	Consumer price index	Aug. 09	-0.3	5.3	Interest rate	Apr. 08	16.65	17.86
United Kingdom	Gross domestic product	Q2 09	-0.6	-5.5	Current balance	Q2 09	-17.68	-10.11
	Leading indicator	Aug. 09	1.6	1.7	Unemployment rate	Jun. 09	7.80	5.40
	Consumer price index	Aug. 09	0.5	1.6	Interest rate	Sep. 09	0.62	5.87
United States	Gross domestic product	Q2 09	-0.2	-3.8	Current balance	Q2 09	-98.79	-187.72
	Leading indicator	Aug. 09	1.6	-1.6	Unemployment rate	Sep. 09	9.80	6.20
	Consumer price index	Aug. 09	0.2	-1.5	Interest rate	Aug. 09	0.30	2.79
Euro area	Gross domestic product	Q2 09	-0.2	-4.8	Current balance	Jun. 09	-7.43	-10.66
	Leading indicator	Aug. 09	1.7	4.1	Unemployment rate	Aug. 09	9.60	7.60
	Consumer price index	Aug. 09	0.3	-0.2	Interest rate	Sep. 09	0.77	5.02
Non-members								
[1] Russian Federation	Gross domestic product	Q2 09	-0.2	-10.9	Current balance	Q4 08	9.28	25.01
	Leading indicator	Aug. 09	1.1	-10.2	Unemployment rate		..	..
	Consumer price index	Aug. 09	0.0	11.6	Interest rate	Jul. 09	10.40	7.73
[2] Brazil	Gross domestic product	Q1 09	-0.8	-1.6	Current balance	Q1 09	-3.06	-8.38
	Leading indicator	Aug. 09	0.4	-8.5	Unemployment rate		..	..
	Consumer price index	Aug. 09	0.2	4.4	Interest rate		..	..
[2] China	Gross domestic product		..	..	Current balance		..	..
	Leading indicator	Jul. 09	1.5	-0.7	Unemployment rate		..	..
	Consumer price index		..	..	Interest rate	Jun. 09	1.20	4.20
[2] India	Gross domestic product	Q1 09	1.4	4.1	Current balance	Q1 09	4.75	-1.53
	Leading indicator	Aug. 09	0.9	0.1	Unemployment rate		..	..
	Consumer price index	Aug. 09	1.3	11.7	Interest rate		..	..
[2] Indonesia	Gross domestic product	Q1 09	1.0	4.4	Current balance	Q4 08	-0.01	3.66
	Leading indicator	Aug. 09	1.0	-5.2	Unemployment rate		..	..
	Consumer price index	Sep. 09	1.0	2.8	Interest rate	Aug. 09	8.73	8.40
[2] South Africa	Gross domestic product	Q2 09	-0.8	-2.8	Current balance	Q1 09	-3.88	-6.20
	Leading indicator	Jul. 09	0.5	-4.0	Unemployment rate		..	..
	Consumer price index	Aug. 09	0.3	6.4	Interest rate	Sep. 09	6.94	11.14

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, which signals cyclical movements in industrial production from six to nine months in advance. **Consumer Price Index:** Measures changes in average retail prices of a fixed basket of goods and services. **Current Balance:** Billion US$; seasonally adjusted. **Unemployment Rate:** % of civilian labour force, standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey. **Interest Rate:** Three months; *refers to Euro area.

..=not available

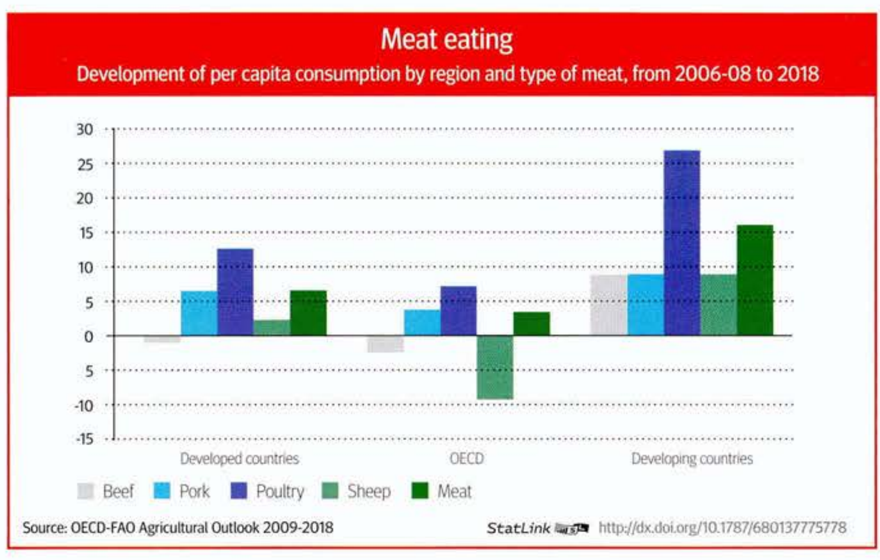
[1] Accession candidate to OECD

[2] Enhanced engagement programme

Source: Main Economic Indicators, October 2009

Where's the beef?

Despite the global economic slowdown, consumption of meat is projected to grow over the next decade, keeping pace with increases in population and purchasing power in most parts of the world. By 2018, human beings will be eating more than 320 million tonnes of meat a year, up some 20% compared with 2006-08. In developing countries, per capita meat consumption will jump more than 16%, outpacing population growth and rising from 24 kg per person per year today to a projected 27 kg in 2018. The types of meat that we eat vary, depending on where and how we live–for example, whether domestic beef production is substantial, as in East Africa, or whether there are religious prohibitions, such as those against eating pork in the Middle East and North Africa. Also, higher incomes could lead to more beef imports, as in Southeast Asia.

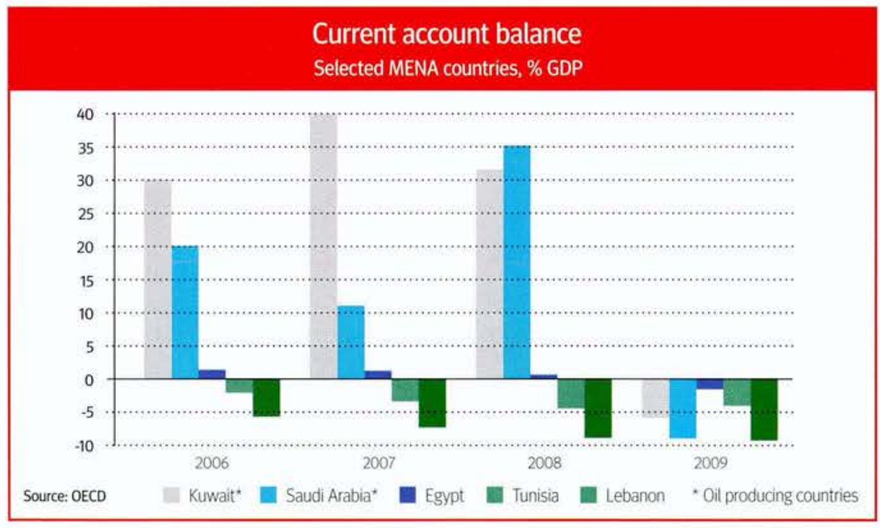


Worldwide, poultry consumption is expected to increase the most, as consumers show their preference for lean, easy-to-cook and relatively inexpensive meat. In fact, poultry will account for almost half of the projected increase in meat consumption outside the OECD area, and will record sharp gains within OECD countries too as consumers try to trim both spending and waistlines.

OECD-FAO Agricultural Outlook 2009-2018, available at www.oecd.org/bookshop, ISBN 978-92-64-01144-1

Energy deficits

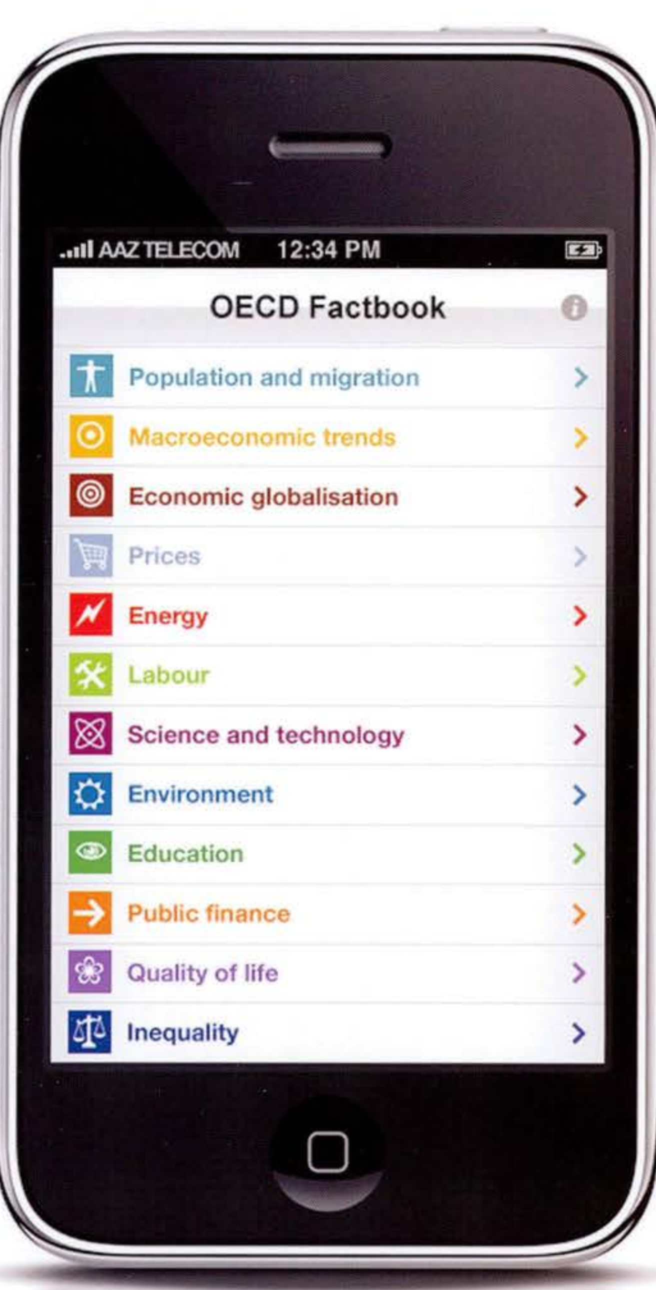
Oil-producing MENA countries can expect steep drops in their current account balances in 2009 due to falling crude oil prices and lower global demand during the economic crisis. Non-oil producers' balances should remain steadier, albeit negative, according to recent statistics.



In 2008, current account surpluses accounted for approximately a third of GDP in Kuwait and Saudi Arabia, but that figure is projected to plummet 36 and 42 percentage points to deficits of -5.6% and -8.7% of GDP for 2009 respectively.

Among non-producers surveyed, only Egypt had a positive current account balance in 2008, but that is expected to fall 2.3 percentage points and slip into the red, to record a deficit of -1.8% for 2009. Tunisia and Lebanon, which have each carried negative current account balances since 2005, can actually expect their positions to improve slightly, reflecting lower imports, interest rates and net transfers abroad; their deficits will ease from -4.4% to -3.8% of GDP and from -11.4% to -9.5% respectively for 2009.

Crude oil prices were firming again towards $80 per barrel when going to press, improving current account prospects for 2010, provided the global recovery continues. Nevertheless, diversifying the economy can alleviate some of the pressures on oil-producing nations caused by the crisis, policy experts believe, while increasing export competitiveness would help reduce the current account deficits of non-oil producing states.



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