



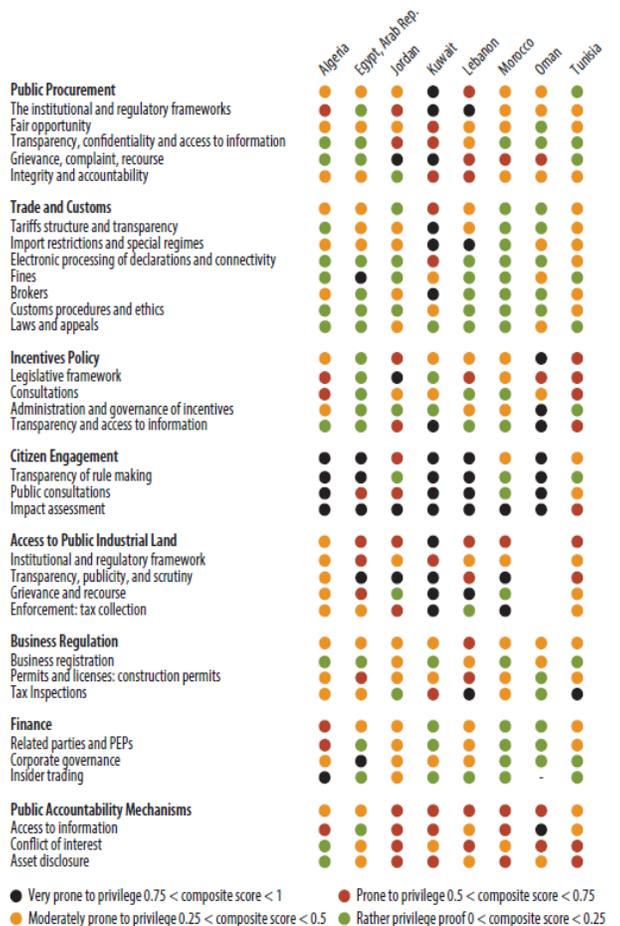
### "WHAT GETS MEASURED GETS DONE" ADDRESSING POLICY CAPTURE AND PRIVILEGE-SEEKING IN THE MENA REGION AND BEYOND

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**Introduction:** Countries around the globe are seeking to diversify their economies and make them competitive. For this to happen, resources need to flow to firms that can make the best use of them. This is not the case in many countries. A good example is the MENA region where, in many countries, the policy regime has evolved in a manner such that a small number of firms end up getting a disproportionate share of resources - public land, procurement contracts, energy, finance and investment incentives, to name a few - not because they are more efficient but because they are politically connected. This skewed distribution of productive resources is a major cause of the high unemployment rates in the region, especially for young graduates - ranging between 15 and 25%. In brief, the ones with resources do not create many jobs. The ones that could have created jobs do not get the resources to do so. Although ubiquitous in MENA, this problem afflicts many other countries.

**What to do?** So, what can be done about this? How can one make a dent in such systems and move towards a policy framework that encourages competition and productivity growth? A recently published World Bank report<sup>2</sup> responds to this challenge and seeks to answer the following question: What good governance features should be instilled in private sector policy and institutions to shield them from capture, discretion and arbitrary implementation?

**Dashboards of Privilege Resistance for Eight MENA Countries, 2015**



<sup>1</sup> Syed Akhtar Mahmood, GMTBR, World Bank. Meriem Ait Ali Slimane, GFCME, World Bank  
<sup>2</sup> Mahmood, Syed Akhtar, and Meriem Ait Ali Slimane. 2018. Privilege-Resistant Policies in the Middle East and North

## Country dashboards, a tool to assess privilege resistance of policies

The study builds upon previous work in the region, which established the presence of policy capture or privilege-seeking, starting with a pioneering regional study in 2009<sup>3</sup>. This was followed by in-depth country studies carried out after the Arab Spring, as more data became available to researchers. Analytic work conducted in Egypt<sup>4</sup> and Tunisia<sup>5</sup> sheds light on the relationship between business regulation and the business interests of former regimes. Connected firms accounted for a large share of employment, output and profits, especially in sectors subject to authorization, and restrictions on import or foreign direct investments. Clans, connected to their respective regimes, abused entry regulations for private gain thereby undermining competition. In Egypt, politically connected manufacturing firms were much more likely to operate in energy-intensive industries thanks to their privileged access to energy subsidies. In Tunisia, connected firms protected by restrictions on foreign direct investments created the space for politically-connected firms to dominate profitable service sectors.

### **MENA's Dualistic Economies and Privilege:**

Privilege-seeking is an important factor behind the emergence of a dualistic structure in MENA economies with a few leading firms, enjoying an artificial, and unfair, competitive advantage, co-existing with a much larger number of informal small firms, which use unproductive technologies to serve local market niches. This situation is consistent with the Schumpeterian prediction stating that large policy privileges lead to sectors with a few colluding, politically-connected large firms, a larger number of unproductive small firms, and overall low productivity and poor job creation. Restrictions on entry and the post-entry privileges generate a substantial cost advantage for the politically-connected firms that dilutes incentives to be productive. Other firms, potentially more

efficient, are either unable to enter the activity or relegated to low-productivity niches with little prospect to grow and create jobs.

The new report seeks to move the debate and rhetoric on privilege, capture, and cronyism toward a more operational approach that focuses on concrete and specific policy design features that could limit opportunities for privileges. It attempts a systemic measurement of various dimensions of policymaking that could lead to discretionary and unfair behavior. Based on a conceptual framework, it develops a check-list of good governance policy features in selected areas of private sector development policy, such as those mentioned above. It benchmarks eight MENA countries on where they stand in each of the above areas, in terms of how much of these policy and good governance features are prevalent, and offers operational guidance on how this policy agenda can be moved forward.

Several policy areas can be captured and their implementation tilted towards a privileged set of businesses. Burdensome business regulations, erecting barriers to entry, a wide import tariff structure opening the door for cheating and underreporting, non-transparent allocation of monetary incentives and subsidies to the private sector, and unfair access to public procurement and public land are examples of weaknesses in various policy areas that can lend themselves to privilege seeking and undermine competition, business entry and growth. Such problems are accentuated when rules and regulations are not accessible or unclear, when no grievance mechanism is in place, when numerous human interactions are needed, and when there is room for interpretation and discretionary implementation with no obligation to justify decisions nor reverse them in case of complaint.

**Procurement Policy:** Consider the case of public procurement, which is an essential source of business for many private firms including small

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<sup>3</sup> Benhassine, Najy. 2009. From privilege to competition: unlocking private-led growth in the Middle East and North Africa. Washington, DC: World Bank Group.

<sup>4</sup> Diwan, I., P. Keefer and M. Schiffbauer (2014) On Top of the Pyramids - Crony Capitalism and Growth in Egypt. World Bank.

<sup>5</sup> Freund, Caroline; Nucifora, Antonio; Rijkers, Bob. 2014. All in the family: state capture in Tunisia. Policy Research working paper; no. WPS 6810. Washington, DC: World Bank Group.

and medium enterprises. Several aspects of public procurement policies and practices can be assessed to determine how privilege-proof this policy area is. There is need for a strong and independent institution governing public procurement, which is free from any involvement in procurement operations and planning, to avoid any conflict of interest. Procurement opportunities should be widely and transparently advertised to ensure equal opportunity of access to all bidders - failure to do so opens the way for corruption and discretionary treatment. A non-transparent procurement system discourages SMEs to apply for public procurement opportunities, depriving them from an important source of income and growth. Reducing competition in public procurement opportunities leads to higher cost and inefficiencies that also hurt growth.

**Trade and Customs:** Another example is trade and customs. Here, we need to look at tariffs structure and transparency. The wider is the gap between tariffs, the more incentive there will be to cheat and under-declare. Import restrictions and the existence of special regimes can lead to the same behavior. The obligation - de jure or de facto- to use a broker in customs transaction can create rents for a cast of intermediaries and fuel corruption. The existence and enforcement of Customs codes of conduct, and grievance and appeal mechanisms for the private sector to contest customs decisions, are safeguards that reduce the space for discretion and abuse.

**Access to Finance:** Access to finance is also a very critical area where capture can occur. If regulations governing lending to related parties and politically exposed persons are absent or not enforced, the financial system could be captured to the benefit of politicians and the connected business elite while crowding out lending to new comers who have new business ideas and a competitive edge but not connections.

**Competition Policy and Institutions:** Lower barriers to entry foster competition and encourage entrepreneurship. Such openness needs to be enforced by competition authorities. These public entities need to be independent from political influence and have their own

budget. They should have the power to shed light on and dismantle cartels, lower barriers to entry, and protect users and consumers, thereby removing distortions that have taken root and opening the field for new, more efficient and innovative new comers, thus allowing for creative destruction.

**Public Accountability Mechanisms:** Public accountability mechanisms (access to information laws, asset disclosures by politicians, conflict of interest regulations) are also to be considered as corrective mechanisms. Finally, and upstream of these policy areas, consulting the private sector in an inclusive way during the design of policies affecting businesses can improve the policy making process and its outcome.

**Looking Forward:** The prosperity and social cohesion of the MENA region still rests on its ability to transform its public administration to better deliver services to the private sector to absorb a young and increasingly well-educated labor force. This will particularly be the case in post conflict countries where social issues and stability concerns are more acute. Making policy areas resistant to privilege is important for this agenda. The complex political economy underlying policy capture and privilege-seeking may make this a seemingly intractable problem. However, the new study is inspired by recent literature on dynamics of policy change point to windows of opportunity within a complex political economy setting that allow incremental improvements with substantial cumulative effect over time. It breaks new ground by applying, to the private sector governance space, the motto "What gets measured gets done"

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