Strengthening Transparency and Good Governance in Arab Transition Countries

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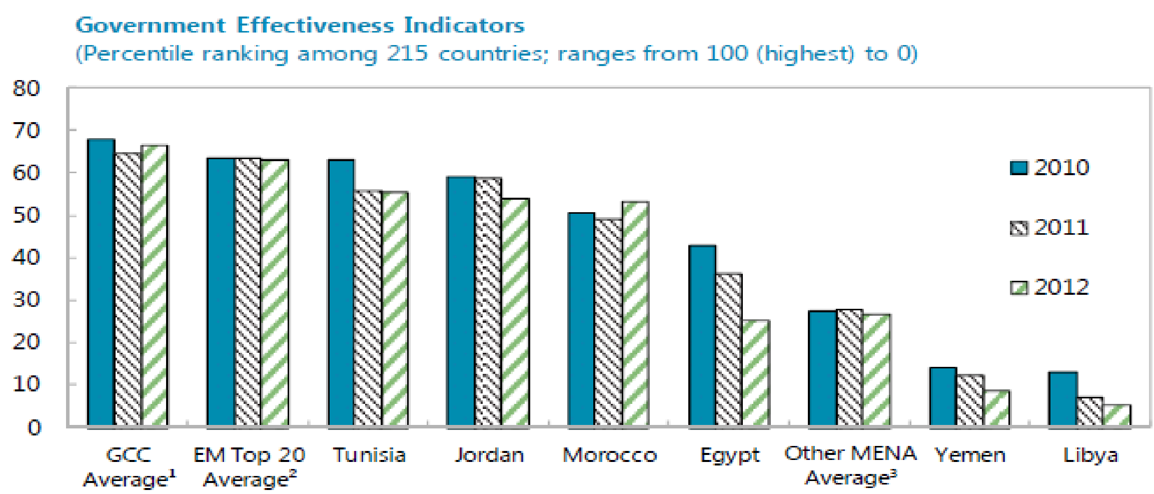
A growing body of empirical research suggests that well-governed countries are more successful in creating investment, growth, and employment. These effects are explained by reduced room for corruption and discretion as governments increase access to information and thereby make rules more predictable and those who create them more accountable. Transparency helps clarify rules and institutions and therefore is an important aspect of good governance.

A background note, prepared for a recent regional conference co-hosted by the IMF provides an overview of how the Arab Countries in Transition (ACTs)—Egypt, Jordan, Libya, Morocco, Tunisia, and Yemen— fare today on widely accepted measures of transparency and governance. The note also identifies the key areas of reform that ACT governments may want to consider to support their economic transformations.

Poor governance performance

ACT governments fare poorly on global governance rankings. According to the World Bank's Worldwide Governance Indicators, the perception of government effectiveness—the reach and quality of public services, the professionalism and independence of the civil service, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies—has declined in several ACTs between 2010 and 2012 (Figure 1).

Figure 1. Governance in the ACTs has weakened in recent years.



Source: World Bank World Governance Indicators, 2013.

1 Includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

2 Top twenty emerging markets ranked by Bloomberg, January 2014.

3 Includes Algeria, Djibouti, Iran, Iraq, Lebanon, and Mauritania.

Weak transparency and good governance are a concern for resource allocation. Information helps individuals monitor events, evaluate options and manage risks. Where information is opaque, resources are more likely to be directed to the wrong use and corruption can thrive. According to the World Bank's Enterprise Surveys, corruption is a major problem in the Middle East and North

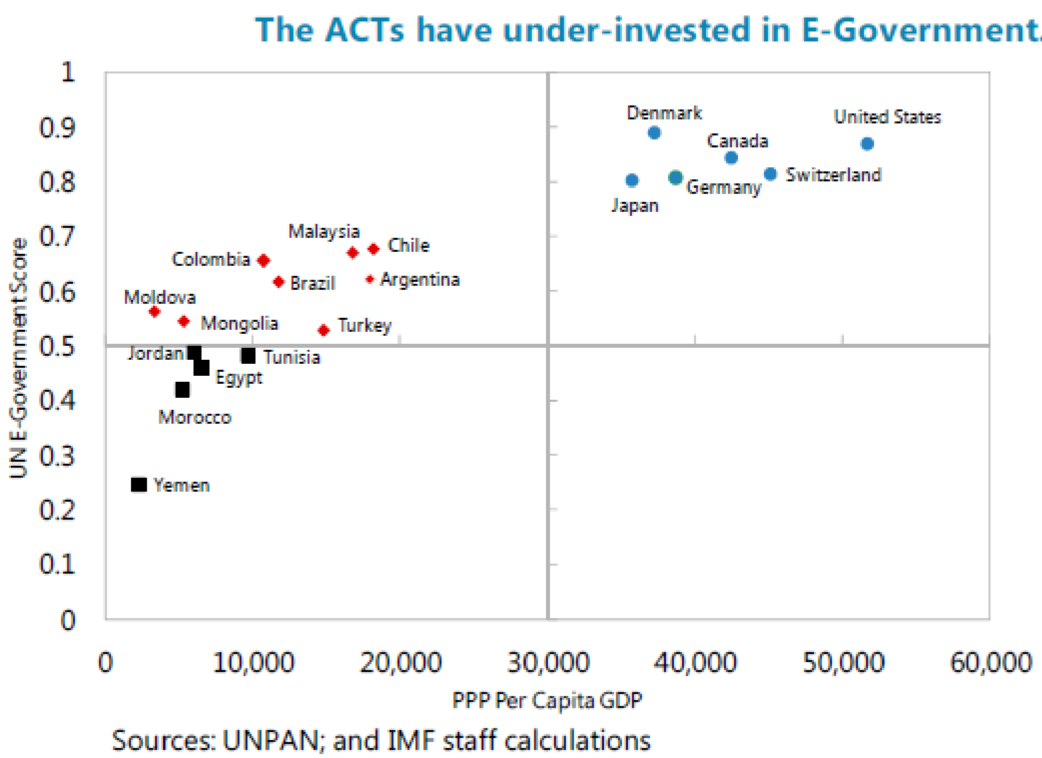
Africa region, with a majority of firms in the MENA region reporting that they have experienced bribe payment requests—a much higher share than in any other region in the world. In addition, officials are often perceived as being partial in changing or applying the law, for the benefit of a few well-connected firms, families, and institutions (World Bank, 2009).

Enhancing governance and transparency

Policymakers in the ACTs have many opportunities to strengthen transparency and good governance—and civil society to advocate for them—in the public and private sectors. Actions in these areas have clear economic benefits and include the following:

1. Improved access to budget information to empower the public, audit institutions, and the media to hold governments accountable for the use of public resources.

2. E-government initiatives are currently underutilized in the region, but have the potential to increase transparency, reduce opportunities for corruption, cut the cost of government services and reduce inequalities across geographic distances. In 2012, the ACTs ranked on average 119th out of 192 countries included in the United Nation's E-Government Survey. Resource constraints do not seem to be the cause of the lag—economies at similar income levels have higher rankings on the index (Figure 2).



3. Greater legal transparency to engage stakeholders. ACTs rank on average 84th out of 148 countries on the World Economic Forum's Transparent Policymaking Indicator, and also show weak results in readings of the Open Government Indicator of the World Justice Project's Rule of Law Index.

4. Stronger corporate disclosure requirements and strengthened auditing and reporting standards. Firms in the MENA region disclose less information than their peers in other parts of the world. This makes it difficult for investors to distinguish between promising and less promising business ideas. Low transparency in the operations of both enterprises and banks can also result in high numbers of nonperforming loans. Moreover, the ACTs still have some way to go on strengthening auditing and reporting standards.

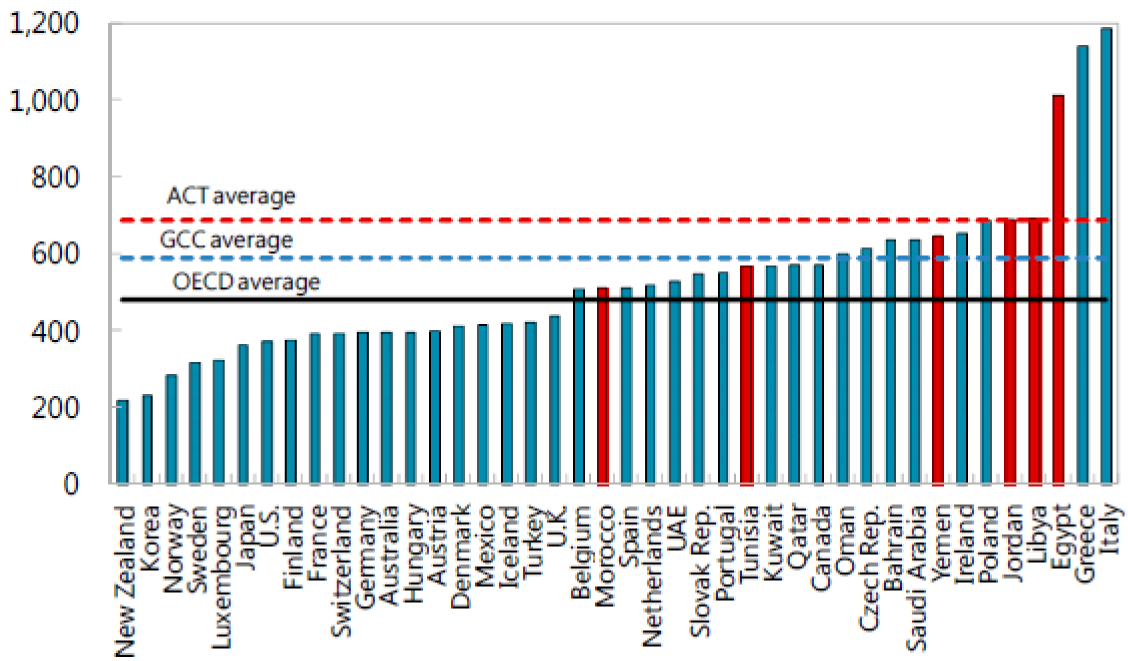
5. Better credit information to promote access to finance. Weak credit information is routinely identified among the most important reasons why banks are so hesitant to lend, especially to small- and medium-sized firms (SMEs)—the main engine of job creation. Most ACTs depend on traditional public credit registries, and even the countries that have introduced private credit bureaus are lagging behind other regions in coverage and quality of information.

6. Consistent and predictable enforcement of rules. Firms in the region report an uneven playing field that favors incumbents. Respondents to the World Bank's Enterprise Surveys complain of inconsistent and unpredictable implementation of rules and regulations. This is harmful in particular for SMEs, as they tend to suffer disproportionately from such practices.

7. More efficient courts. Some ACTs experience long delays in contract enforcement (Figure 3). This not only undermines the rule of law; it also has economic consequences. For instance, where court delays are significant, commercial disputes and insolvency cases take longer to resolve, resulting in a greater depreciation of the assets under dispute.

Enforcing a contract in the ACTs takes a long time.

(Time to enforce contracts, in number of days)



Source: Doing Business.