



ESCWA

United Nations Economic and Social Commission for Western Asia

# Business Environment and Investment Climate – Challenges for regulating bodies

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# Indicators of infrastructure quality gaps for firms



Region	Electricity connection delay (Days)	Value lost to power outages (Per cent of sales)	Water connection delay (Days)	Mainline telephone connection delay (Days)
East Asia and the Pacific	21	2.6	18	16
Europe and Central Asia	15	3.0	9	16
Latin America and the Caribbean	34	4.1	35	36
Middle East and North Africa	62	4.3	44	49
South Asia	49	7.4	29	50
Sub-Saharan Africa	38	5.9	42	54
OECD	10	2.3	--	9

*Source:* Data is derived from World Bank Investment Climate Assessments, and reported at [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

❑ **Regulatory governance:** A systematic implementation of government-wide policies to promote a regulatory system that is effective, efficient, transparent, and accessible

❑ **Fair, transparent and clear regulatory frameworks** serve as a *sine qua non* basic condition for dealing effectively with environmental and equality challenges in a society.

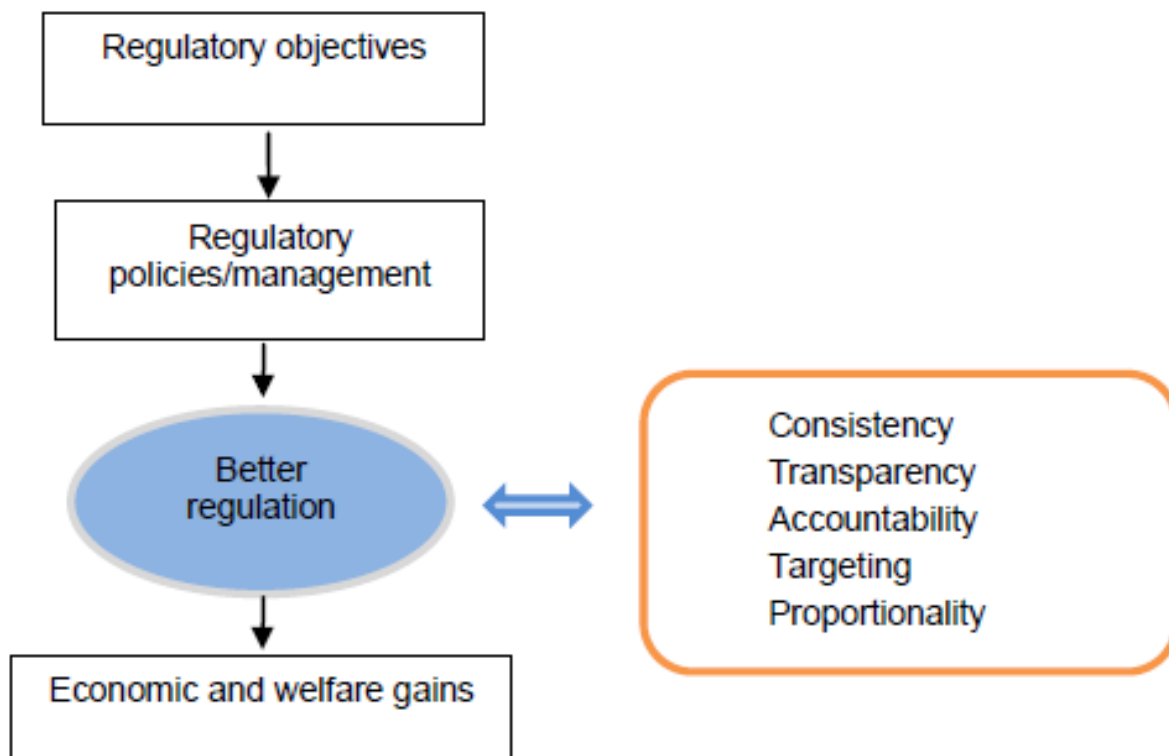
❑ A number of studies of regulatory policy and governance have been published in the last ten years

- ✓ Inter alia: Jacobzone *et al.* (2010); Loayza *et al.* (2004); Djankov *et al.* (2006); Jalilian *et al.* (2007); Gorgens *et al.* (2003)
- ✓ The studies use various proxies for regulatory governance and cover a range of regulatory policies and economic effects

❑ **When does the economic theory justifies state regulation?**

- ✓ Appreciable externalities
- ✓ Market failures
- ✓ Information asymmetries
- ✓ Public good attributes in economic transactions
- ✓ Socially unacceptable income and wealth distributions
- ✓ **Adding economic efficiency and growth**

# The causal chain of regulatory policies



# Recommendation of the Council on regulatory policy and governance (OECD)



## ❑ Commit at the highest political level to an explicit whole-of-government policy for regulatory quality.

✓ The policy should have clear objectives and frameworks for implementation to ensure that, if regulation is used, the economic, social and environmental benefits justify the costs, the distributional effects are considered and the net benefits are maximized

## ❑ Adhere to principles of open government, including transparency and participation in the regulatory process

✓ To ensure that regulation serves the public interest and is informed by the legitimate needs of those interested in and affected by regulation.

## ❑ Integrate Regulatory Impact Assessment (RIA) into the early stages of the policy process for the formulation of new regulatory proposals.

✓ Clearly identify policy goals, and evaluate if regulation is necessary and how it can be most effective and efficient in achieving those goals

## ❑ Conduct systematic programme reviews of the stock of significant regulation against clearly defined policy goals

✓ Including consideration of costs and benefits, to ensure that regulations remain up to date

## ❑ Develop a consistent policy covering the role and functions of regulatory agencies

✓ In order to provide greater confidence that regulatory decisions are made on an objective, impartial and consistent basis, without conflict of interest, bias or improper influence

❑ The provision of a regulatory regime that promotes rather than constrains economic growth is an important part of good governance

❑ Evidence of a statistically significant and positive relationship between regulatory policy, market regulators and governance and economic growth

❑ The ability of the state to provide effective regulatory institutions can be expected to be a determinant of how well markets and the economy perform: key role of Regulatory Bodies

❑ The impact of regulatory bodies on economic growth depends on:

- ✓ The efficiency of the regulatory policies and instruments that are used
- ✓ The quality of the governance processes that are practiced by the regulatory authorities

❑ The financial crisis has reinforced the need and highlighted the importance of a well-functioning regulatory framework for transparent and efficient markets with the right incentives.

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❑ Infrastructure in emerging markets is often subject to a cycle of underinvestment, whereby the current outdated and unreliable infrastructure hinders economic growth, which in turn limits employment opportunities, lowers individual and government income



# Infrastructures and regulations in the Arab Region



❑ Arab governments have generally identified broad policy objectives and the need for new infrastructures, but it is not always clear how the stated objectives are to be achieved, **public consultation is limited and objectives are not always aligned.**

❑ Implementation of reforms is however generally slow, as governments are reluctant to relinquish control. Most infrastructure operators remain publicly owned, although there have been some initial steps to commercialize incumbents.

❑ Studies have shown that infrastructure productivity in the Arab countries is lower than in other world regions. Low quality infrastructure comes with high externalities.

❑ Private-sector participation has been relatively slow to gain momentum and tends to be in discrete areas (construction and maintenance contracts, O&M, Greenfield projects, concessions, etc.)

❑ In general, much of the PSP has occurred in GCC countries.

# Infrastructure reforms: the case of Jordan



- ❑ Important progress made by the Jordanian government to date in implementing infrastructure reforms.
- ❑ Jordan has undertaken many initiatives in recent years to enhance infrastructure performance, including the development of Public-Private Partnerships (PPPs) in the areas of water, energy and transportation, paving the way in the Arab region.
- ❑ Market-oriented reforms have been implemented to achieve competitiveness through good regulation and adequate separation between policy, regulation and service provision.
- ❑ Despite these measures, **demographic trends** and **sustained economic growth** are increasing the demand for infrastructure services, putting pressure on existing infrastructure stocks as well as natural resource endowments.



□ There are some considerable challenges that Arab countries need to overcome in order to move the infrastructure agenda forward.

✓ A World Bank study on Energy efficiency found that energy subsidies cost the region the equivalent of 7.1% of its GDP in 2006, whereas reducing these subsidies could raise the region GDP by 2%. Low-quality infrastructure and service interruptions (shortages) represent a risk for the competitiveness of the region and citizen's life standards. In the Region, 55% of businesses lament power networks as a main constraint to running their enterprise

✓ Water is a particularly scarce resource in the Region, but water losses are high and the collection and treatment of wastewater is insufficient, with the consequent risk of contaminating underground sources

✓ Urban congestion is growing in many megalopolises and therefore increasing transaction costs for businesses or commuting times for workers...Cars mobility in Cairo has declined over years and is now estimated at less than 10km/h in rush hours.!!! It is estimated that the total economic and social cost of congestion is about 5% of GDP.

□ During the past years, countries in the Region have witnessed strong economic growth that to be sustained requires an increase of the investments in infrastructure.

✓ A World Bank study found that Middle Income Countries in the Arab Region will need to invest the equivalent of 9.2% of their yearly GDP, in order to sustain their economic growth prospects.

□ It is estimated that the world will require \$4.1 trillion in infrastructure investments between now and 2030, of which \$80 billion in the Region .

□ So far, the Region is lagging behind other world regions in terms of investment commitments to private infrastructure projects (private capital is around \$6.5 billion/yr).

□ Thus, a more enabling environment for PPPs needs to be developed.

# Infrastructures and investments in the Region



❑ The main challenges to increased Private Sector Participation (PSP) are the political instability and lack of transparency, an unwillingness or inability to pay commercial rates for public infrastructure services, a traditionally dominant public sector, under-developed capital markets and weak investment climate.

❑ International experience has shown that well designed PPPs can lead to significant gains in terms of efficiency, welfare, financing and fiscal space.

❑ Public-Private partnerships can play an important role in bridging this investment gap but needs inter alia:

- ✓ Economic viability
- ✓ Government support and capacity
- ✓ Strong regulation
- ✓ Good governance
- ✓ Flexible structure.

❑ In order to attract foreign private investments, need of good regulations, transparency, oversight

# Final Considerations on Regulatory Governance



- ❑ The importance of the regulatory governance agenda for the Arab countries is sometimes questioned (particularly when building roads and hospitals seem more urgent)
- ❑ The administrative requirements of regulatory governance reforms can seem to pose unacceptably high costs, or require preconditions not present
- ❑ Governments of Arab countries more often regulate against competitive and well-functioning markets, and they implement regulations more poorly.
- ❑ Regulatory environments that favor trade and competition have a positive impact on economy-wide productivity

## Questions for discussion:



- ❑ Can the cooperation of regulatory agencies across countries be a prerequisite for successful integration?
- ❑ What is needed to facilitate regulatory coordination?
- ❑ What are the most promising sectors for regulatory integration in the Arab Region?
- ❑ Role of Arab governments, donors and international development agencies?
- ❑ Any scope for regional infrastructure projects?