GOOD GOVERNANCE FOR DEVELOPMENT
IN THE ARAB COUNTRIES

DEAD SEA, HASHEMITE KINGDOM OF JORDAN
6-7 FEBRUARY 2005

DEVELOPMENT-DRIVEN PUBLIC GOVERNANCE REFORM IN THE ARAB COUNTRIES

A CONCEPTUAL PAPER

DRAFT

Ahmed Sakr Ashour
Chairman of International Group for Performance Consulting
Professor of Management - Alexandria University

JANUARY 2005

FOREWORD

This report on "Development-Driven Public Governance Reform in Arab Countries - A Conceptual Paper" is among a series of reports conducted within the framework of the Good Governance for Development (GfD) initiative. The objective of this preliminary report is to examine the state of the public administration and the ongoing modernizing initiatives in a number of Arab countries.

The regional and national reports seek to define a framework, which could be used at a later phase to compile information and indicators paving the way for the launching of the initiative.

ADEL M. ABDELLATIF
REGIONAL COORDINATOR
Programme on Governance in the Arab Region
United Nations Development Programme

INTRODUCTION

Over the past fifteen years, Arab countries have taken various measures to reform their economic and developmental policies and to integrate with the world economy. This has taken place in reaction to sweeping changes brought about by economic globalization on the one hand and the developmental miracles achieved by an increasing number of what were considered developing economies on the other hand. Various exogenous factors have accelerated the pressure for reform; the demands made by international organizations (World Bank and International Monetary Fund), the establishment of the World Trade Organization (WTO), the partnership agreements made with the European Union, and the demonstration effect of the East Asian Economies. In few Arab countries, indigenous factors and self-initiatives were forces for reform.

Such reforms came after a major slow-down in economic growth caused by the decline in oil prices and development, causing a period of economic stagnation during the 1980s. The reform starting in the late 1980s and 1990s came to reverse a trend of growth in the role of the state, the entrenchment of its bureaucratic machinery in all aspects of life in the society, and deficit financing to provide for that role and the associated growth.

The Arab countries were late starters in applying these reforms. Many of the reforms were introduced reluctantly and were not integrated in a cohesive package.

During the same period most Arab countries attempted to introduce various reforms, and improvements in the public sector. In some cases, these attempts came as the countries realized that public sector reform has to complement the economic policy reforms introduced. In other cases, the attempts were part of the regular activities and programs of administrative reform and development institutions established in the countries.

The economic reforms applied in the Arab region were of limited impact on economic and development performance. The limited effectiveness of policy reform is indicative of the loose and ambiguous relation between policy reforms and economic performance. A great deal of this ambiguity can be explained by the impact of exogenous factors, namely fluctuation of world prices of oil, but more importantly by the governance and institutional factors. Easterly and Levine (2002) argue that "Bad policies are only symptoms of longer run institutional factors and correcting policies without correcting institutions will bring little long run benefit". (P. 33). Similarly, Acemoglu (2003) emphasizes the importance of institutions as a fundamental cause of divergent economic wealth, whereas policy-related factors such as investments and education are considered only proximate causes. This implies the primacy of institutions over economic policies with regard to causes of economic performance.

However, the reform policies and programs adopted by the Arab countries whether they are economic/developmental or institutional, need to be simultaneously analyzed and evaluated. Treating the two groups of reforms separately misses the point, the synergistic and integrative

effects of both. Therefore, while the main focus of this paper would be on administrative and public governance reform in the Arab region, this will be treated and linked to development policy and performance.

This approach is new, since most literature on the assessment and evaluation of public institutions and public governance reforms in the region fail to establish the linkages of such reforms with development policies and performance.

Seeks to achieve the following objectives:

1. To establish a framework that links development performance to policy and public governance and institutional factors.
2. To review the development performance of the Arab region and to identify public governance and institutional factors contributing to it.
3. To identify needed change and reforms in public governance and institutions, which contribute to improving development performance of countries in the region.

ECONOMIC PERFORMANCE AND GOVERNANCE OF THE ARAB REGION

Economic Performance

Over the past two decades, economic performance of most Arab countries was lagging behind on various fronts:

1. The Arab region has been experiencing growth stagnation since 1980s. The policy reforms, which took place in the 1990s, enabled some countries to increase the per capita GDP. But for the region as a whole, growth in per capita GDP remains weak; increasing by an annual average of only 0.3 percentage points, which is less than that of sub-Saharan Africa.

2. Export performance of countries of the region is weak. Exports grew by 1.5% during the 1990s, compared to 6% for the world. Technology intensive exports as a percentage of commodity exports is modest for Arab countries, ranging between 0.03% and 3%, as compared to 33% for South Korea, 21% for China, and 29% for Israel. Overall, the region's share of World manufactured exports has remained stagnant. The region could not benefit from the opportunities associated with the opening of world markets following the establishment of WTO.

3. The share of the Arab region in world foreign direct investment (FDI) is meager compared to East Asia or Latin America. Apparently, the policy adopted by most countries in the region, offering exemptions to attract international investors did not work effectively as anticipated. It failed to provide enough inducement to international capital to overcome deeply rooted deficiencies in the investment environment in countries of the region. It is interesting to note that FDI flows to the Arab region, as well as domestic private investment, are concentrated outside

the traded goods in a narrow set of sectors with limited economic linkages or spillover effects (Dasgupta, Keller and Srinivasan, 2002; Nabli and De Kleine, 2000; Hoekman and Messerlin, 2002). To redirect private investment, including FDI, requires change in policies and major and comprehensive reform of the governance and institutional environment within which the private sector and economic actors operate.

4. Unemployment is becoming a chronic problem in the Arab region. Average unemployment is 15%, which is considered the highest in the world. In some Arab countries (Algeria, Syria, Libya, and Yemen), as much as one third of the labor force is unemployed. Even the oil producing Gulf countries have begun to experience unemployment among their national populations (World Bank, 2002; UNDP, 2002). Most of the unemployed are with middle or high education, indicating a misfit with labor market needs and an inability of the economies to generate enough growth.

5. Although productivity has been on the decline over three decades, its indicators started to pick up with the application of the structural reforms in the 1990s. Total factor productivity (TFP) was declining annually by 0.2% over the preceding three decades. Structural reforms contributed to TFP growth in the region by changing it from an average of -1.3% annually in 1980s to an average of zero percent in the 1990s (Dasgupta, Keller and Srinivasan, T.G., 2002).

6. A collapse in factor accumulation, particularly physical capital, has taken place in most countries due to the slow increase in private investment. The fiscal adjustment component of the reform policies caused a major decline in public investment. Such a decline was not compensated for by an increase in private investment. Clearly, the decline in factor accumulation is due to private investment not responding strongly to structural policy reforms, nor to the tax exemption inducements offered by countries of the region. More deeply rooted deficiencies were deterring national and international private investors. It is ironic that the region has been experiencing major flight of its national funds/capital over the past three decades, due to policy and business environment factors. At a time these funds could have been retained in the region if such factors were supportive and providing the right incentives.

Public Governance and Development

The literature on development and growth modeling is paying increasing focus to the role and impact of institutions on growth (Hall and Jones, 1998; Mauro, 1995). Policy prescriptions suggested by international organizations (World Bank and The International Monetary Fund) were criticized by prominent development economists (Kunnenkamp, 2003) for being less effective in inducing catch up processes for developing countries because they ignored the more deeply rooted barrier to growth, notably the instituted deficiencies prevailing in many of these countries. “Institutional factors...such as the degree of regulation, red tape, and corruption in the government...have become ever more recognized as critical factors that can either fasten or stand in the way of sustained growth” (Kunnemkamp, 2003).

Similarly, public governance, representing how public authority is distributed, exercised and accounted for, is receiving a growing recognition in the development literature, as a determinant of growth and development. It is well recognized now that even good policies come as a result of good governance. Effective policy implementation depends on the institutional structure, efficiency of administration, and public accountability of the executing organizations; all are elements of public governance.

Good public governance for sustainable human development as a UNDP (1997) report indicates, consists of the following:

- Participation.
- Rule of Law.
- Transparency.
- Responsiveness.
- Consensus orientation.
- Equity.
- Effectiveness and efficiency.
- Accountability.
- Strategic vision.

Public governance, relevant to economic development, consists of the institutional factors pertaining to the distribution and exercise of economic power and the rules governing economic relations in the society. Good public governance implies a balanced distribution of power within government institutions (decentralization, deconcentration, and internal accountability) and external to these institutions including inclusiveness of various society groups as well as accountability to them (external accountability). It also implies clear and efficient rules that balance economic interests, provide for equity, protect property rights and facilitate economic transactions. Rules are made and implemented by public institutions. The degree to which these institutions are designed and operated to serve the development and prosperity of the society and balance the interests of various groups/actors determines the likelihood of achieving and maintaining development.

Good public governance does not mean direct intervention and control by the government except when essential and necessary. Rather, good public governance influences economic actors through shaping the incentive structure of economic agents/actors.

Recent literature on developing countries (e.g. Nunnenkamp, 2003b) and the Arab region (World Bank, 2003) has clearly shown the crucial importance of public governance factors for the acceleration of economic development (economically catching up to advanced industrial countries), and for the sustainability of development and growth. It has particularly explained

the growth and development stagnation in the Arab region in terms of public governance and the related institutional deficiency/gap.

In a recent report issued by the World Bank on "Better Governance for Development in the Middle East and North Africa" (2003), the MENA region was found to have an overall governance gap. The region "largely tracks its counterparts worldwide on the quality of administration in the public sector, typically running only slightly lower. They have individually and on average lower levels of quality of administration in the public sector than would be expected for their incomes. This gap tends "to be worse for countries that have higher incomes, that rely on oil resources" (World Bank, 2003, P. 6).

On public accountability (accountability to society and to citizens) the MENA region falls far short. Individually and collectively, the region lags on measures of public accountability, and surprisingly, the richer the country, the worse the gap. Depending on having a good business environment than oil or gas resources (Egypt, Jordan, Morocco, and Tunisia) produces a stark difference in public accountability between those countries and the oil rich countries of the region. The high incomes of the latter depend less on a good government for private investment and business activities (World Bank, 2003, P. 7).

A recent study of the competitiveness of the Arab region (Arab Planning Institute, 2004) emphasized the need to focus on building a solid base of institutional infrastructure (including public governance) rather than merely using tax incentives (tax exemptions/tax holidays) as a means to attract international capital and FDI to the region.

Good public governance for the Arab region requires a major transformation in the role of the state vis-‡-vis other development actors and stakeholders. Historically, and until now in some cases, the overall model of governance in the Arab region has been one of state-led, state-centered, and state-regulated development. The rental state which emerged out of natural sources of wealth controlled by the state, together with a political structure which took the form of traditional monarchies or regimes dominated by one party gave rise to public governance that minimizes the role and participation of its civil society, magnifies the role of the state in the area of social welfare/distribution of rent, and creates and sometimes nurtures a monopolistic and rent seeking private sector which remains dependent on the state. Within this context, the lack of adjustment or adaptation in the political or economic models of governance provided no strong impetus/force for reforming and improving public sector institutions, for transforming into a competitive private sector-led economies or for enhancing the role of civil society in development. As a result, the inflated and inefficient public sector institutions functioned within weak public accountability. The public bureaucracy as the main instrument for development policy implementation became a major source of distortion, waste, and corruption; thus hindering rather than facilitating and accelerating growth and development.

A DEVELOPMENT-DRIVEN FRAMEWORK OF GOVERNANCE REFORM IN THE ARAB REGION

The governance/institutional deficiency in the countries of the Arab region has resulted in a growth development gap. At the root of this is its governance gap. Simulation studies found that if the MENA countries had matched the level of quality of administration of public sector (which includes efficiency of bureaucracy, rule of law, regulations and internal accountability) for a group of good performing southeast Asian countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) its growth rates would have been higher by about one percentage point a year (World Bank, 2003). The shortfall would have been even higher if the full effect of public accountability was included in the calculation. Public accountability is much less developed in the MENA countries than in those good performing comparators (World Bank, 2003, P.9).

Arab countries are lagging behind the better performing economies of the world on five fronts:

1. Policy distortions are great due to a lack of strategic direction, deficiency in econom ic management and weak public accountability.
2. Uncertainties facing business and investors are great and transaction costs are high due to low institutional/administrative, as well as, judicial efficiency.
3. Contradiction and lack of integrity and transparency in the regulatory framework.
4. Marginalization of the role of important developmental actors and sectors of the soci ety/economy, along with unbalanced distribution of power among the state, private sector, and the civil society.
5. Limited quality of public goods and services. The quality of infrastructure services is still low in many Arab countries.

Behind the development/growth gap and the governance gap in the Arab region lies a set of institutional deficiencies that need to be identified. Identifying these deficiencies need to be based on an approach that shows and demonstrates their link to good governance on the one hand and to development/growth on the other. The deficiencies in public institutions relevant to growth and development can be grouped into five factors. The following figure outlines these factors.



The above framework provides a strategic development focus of public governance from and attempts to integrate various aspects of the reform factors. It tries to address the deficiencies currently existing in the reform agenda applied by countries of the region. It particularly and directly links public governance reform to developmental objectives and priorities of countries of the region. Public governance reform should contribute to improving development performance.

Strategic Vision for Development

One of the outstanding features of the East Asian countries is that they formulated a vision for development that guided their policies and programs and integrated their activities and goals in various sectors. The vision served as a guiding framework and a road map for their endeavor to make a developmental leap forward. In contrast, most Arab countries have been operating on short or medium term basis, with national plans, but with no strategic vision for development. Lacking strategic vision resulted in missing the synergy between various sectors and development policies and the absence of competitive advantages for almost all Arab economies. As a result, the region could not catch up with the rest of the world and experienced stagnant economic performance for decades. Formulating a strategic vision for development, although the Arab countries would be late starters on this, requires the following:

- Assess the country's comparative advantage and means to optimize its use.
- Assess the potential competitive advantage(s) the country can develop and means and ways to acquire such advantage(s).
- Identify the specialized national competencies in various sectors that enable the accumulation of competitive capability and advantage.
- Formulate development goals/objectives and monitor achievements in each of them.
- Formulate integrated policies across various sectors.
- Identify roles to be played by various development actors and formulate incentive structures needed to affect/influence their choices and actions.
- Identify and diagnose the institutional framework and needed reforms in institutions along with programmatic and accelerated actions to implement these reforms. These would include legal reform, judicial reform, administrative reform, including an enabling environment and a regulatory framework for the major developmental actors to actively engage in transforming the economy and the society.
- Engage in all of the above through participation and collaborative efforts between various groups, sectors and institutions that provide for inclusiveness, equity and mobilization of the various forces.

Few Arab countries (e.g. Oman, Dubai) have attempted to formulate a vision for development. But the weak public accountability framework in these countries fell short of providing the force impetus needed to translate the aspirations of the vision into reality to balance the roles played by various actors, or apply major institutional reforms. Maintaining impetus and sustaining development within a dynamic and competitive globalized environment require sustained efforts from all sectors and actors to protect the progress made against threats and crises, and to continuously adapt to changing world conditions. This requires capable and vigilant institutions of development management. And, at present, these institutions are weak in all Arab countries. This is why all Arab economies are extremely vulnerable and fragile in facing major world changes. Lack of economic diversification in most Arab economies exacerbates the negative effect of change. The development of a strategic vision and building an institutional and governance framework to support it, represents a reform priority for the region.

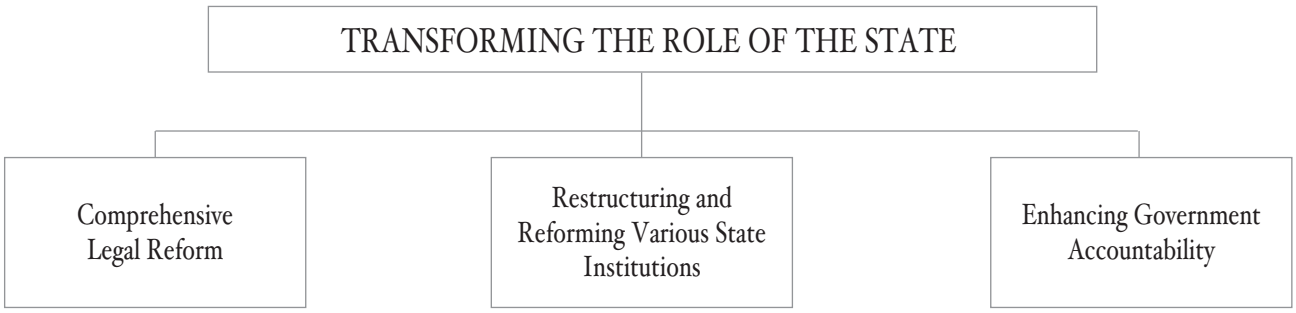
Transforming the Role of the State

For decades, the state has been controlling development in most Arab countries. During 1960s, 1970s, and 1980s the public sector in the Arab region went through a wave of exponential growth in all sectors and spheres of the society's life. Public investment and expenditure were the main source of injecting vitality into the Arab economies. As a result, the size of the public sector (including public enterprises), public budget and public employment were on a growth path over more than three decades. An inflated public sector, an over regulated economy along with a system of bureaucratic administration relying on centralized command and control with little public accountability became a hindrance to growth and development and a source of its stagnation. The hegemony of the state over economic, social and political aspects of life in the Arab countries marginalized the role of the private sector and its civil society and retarded their development.

The sweeping changes taking place worldwide during the 1980s and 1990s and continuing thereafter, have caused Arab countries to adopt various reforms to curb the growth of the public sector and to reshuffle its role. The structural changes applied in the 1990s contained aspects of these reforms. Transformation to market based and private sector led economic system was declared by most Arab countries. However, these reforms were of limited impacts due to a number of factors:

1. Being late starters in the reform.
2. Taking gradual and disintegrated approach towards the transformation into a market economy.
3. Being reluctant and sometimes slow in transforming the role of the state and the sys tem of public administration.
4. Curtailing the institutional development of the civil society and the private sector.

The transformation of the role of the state and the public sector of the Arab countries represents a strategic priority. Elements of such transformation can be summarized in the following figure:



Elements of the transformation include:

- COMPREHENSIVE LEGAL REFORM to balance the need for new rules that regulate transactions, protect competition, and protect the rights of various actors/groups with the need to get the state to focus on what it can do better and what cannot be delegated to the private sector or the civil society. This reform may have to include constitutional changes for some countries in the region. The legal reform needs to bring consistency and simplification in the legal framework and to balance the roles of various development actors.

- RESTRUCTURING AND REFORM OF VARIOUS STATE INSTITUTIONS to reflect the change in roles, and the shared accountability with the private sector and the civil society. This involves restructuring the public sector including acceleration of privatization and corporatization/commercialization of public enterprises and public utilities. Restructuring of the government apex to provide for more integration/coordination and strategic focus has taken place in few countries in the region but not with regard to the reformed roles. Most Arab countries, however, are lagging behind their comparators in this regard. Reforming the role of the state requires additional measures. For example, along with the reform of the regulatory framework and strengthening the role of the state in managing the economy, providing infrastructure services, developing and investing in human capital, protecting the environment, in setting and managing standards and incentives and the retrenchment of the public sector in business areas, there has to be a sphere to encourage and enhance self-regulation and provision through other non-governmental/private sector institutions to complement the changes introduced in state roles.

- BUILDING AND DEVELOPING THE INSTITUTIONAL CAPACITY OF VARIOUS DEVELOPMENT ACTORS/GROUPS. Reforming the role of the state, the regulatory framework and empowering the market forces and the private sector has to be accompanied by parallel efforts to enable the institutions of the private sector and reform their governance structure. It

has to be also joined by intensive efforts to allow civil society to play an effective role in development and to build its governance system and institutional capacity.

REFORMING INSTITUTIONS OF MARKET-LED DEVELOPMENT

The transformation from state and central planning led development to market-based development requires reform on three fronts. The following figure summarizes elements of such reform.



Enhancing Economic Management

One of the outstanding strengths of the East Asian countries as well as the developed countries (OECD), is the capabilities they developed to plan/formulate, coordinate, implement, adjust and control their economic policies. The policy management apex (Presidency/Cabinet, High Councils, Ministers) are supported by high power experts, information and research to provide policy analysis/alternatives, monitoring and assessment as well as early warning for potential crises/shocks. Policy management becomes an important function of the government, especially under market-led economic systems. There, the reliance is on incentives to influence economic actors rather than on direct intervention. In mid 1990s the World Bank and the Arab Administrative Development Organization realized the deficiency existing in economic and policy management in the Arab region and took a number of initiatives in this area. However, initiatives did not translate into reform programs and actions, as they require strong indigenous will on the part of the government along with relentless political support. Enhancing economic management of governments in the Arab region could benefit greatly from the experience of OECD countries as well as the East Asian countries. Essentially, the efforts of such a project/program need to take stock of the institutional capabilities currently existing in countries of the Arab region and to identify common elements of deficiency. The reform and capacity building needs may include various institutional arrangements/mechanisms for policy analysis, planning, coordination, monitoring and control including frameworks for participation of various actors/groups/stakeholders. They will include building and developing human capabilities in

the support entities along with powerful incentives and remuneration to the high power professionals and experts constituting them.

Improving the Institutional Environment of Business

The institutional environment for doing business and attracting investors in most Arab countries lags behind that of their comparators elsewhere in the world. In Morocco, about half of the firms in a recent survey said they had to hire intermediaries or designate full time employees to deal with the bureaucracy (World Bank, 2000a). In Jordan, a potential investor interested in registering a new firm has to wait three months, with half that time spent on a single procedure: inspection by the ministry concerned (World Bank, 2000c). This procedure takes only two days in Canada. In Lebanon, it takes about two years (721 days) to get a contract enforced. It takes 559 days to enforce a contract in the United Arab Emirates, 596 days in Syria, 387 days in Algeria, 240 days in Yemen, 202 days in Egypt, 195 days in Saudi Arabia and 192 days in Morocco. It takes only seven days to enforce a contract in Tunisia, which is a world benchmark (World Bank, 2003).

Investment climate surveys reveal that potential investors in many Arab countries face obstacles to entry and competition. These obstacles are exemplified by cumbersome procedures of licensing, complex and arbitrary regulations and opaque bidding procedures.

The overall business environment is affected by the stability and effectiveness of government policies, the quality of infrastructural services, the quality of bureaucracy and the institutional culture of trust and respect and protection of property rights. There is a great deal of variation among Arab countries with regard to these dimensions. But overall, the weak public accountability, limited contestability, and high transaction costs have acted as deterrents of private investment and FDI in the region.

Corruption in government has been a persistent and major problem impacting negatively on business environment in the region. Various Arab countries have recently taken steps to trace and bring to court grand corruption cases. But all countries in the region have been reluctant to formulate and put into action a program to eradicate causes of corruption or adopt a serious and comprehensive campaign to fight corruption in government. No country has developed an integrated strategy in building public integrity and combating corruption.

Improving the institutional environment of business in the Arab countries needs to be guided by benchmarking with other countries competing with the region in investment trade, and growth. The reform agenda is likely to include improvements in economic management, bureaucratic and judicial efficiency, regulatory framework, contestability, efficient market institutions, business trust, government integrity, and public accountability.

Enhancing Competitiveness

The Arab region's competitiveness standing has been lagging behind the good performing regions in the world with regard to export diversification, technological composition of exports, geographic diversification of export markets, intra-industry trade[1] and manufacturing exports. This is due to countries of the region being rich in natural resource, having had little incentive to diversify and build competitive deficiencies when they attempt to diversify and build capability to deal with competitive world markets.

At present only few Arab countries have laws to protect competition and prevent/regulate monopolies. Almost all of them passed these laws recently (Algeria in 2000, Jordan in 2002, Morocco in 2000, Tunisia in 1991). Enforcement of the existing competition laws and regulations and compliance to them is characterized by a number of weaknesses (Capannelli, 2004):

- Enforcement of competition rules is weak due to weaknesses in the enforcement institutions.
- Enforcement record is slow and dependent on the progress achieved in other economic reforms.
- Sanctions are associated with incompliance, imposed compliance is too slow.
- Effectiveness is impaired by lack of resources and inability to attract sufficient expertise.
- Deficient judicial system.
- Oppositions to reform and insufficient access to business data.
- Weak professional associations and consumer groups.
- Inadequate power granted to the competition authorities.

A recent report issued by the Arab Planning Institute on the Arab region's competitiveness (2003) included a comparison of the competitiveness factors of the region with that of South Korea. The following table includes the Arab competitiveness gap with Korea.

Indicator	Gap with Korea
Technological Infrastructure	0.70
Basic Infrastructure	0.43
Governance and Effectiveness of Institutions	0.39
Human Capital	0.36
Government Performance	0.35
Business Environment	0.34
Dynamics of Markets and Specialization	0.18
Attractiveness of Investment	0.18
Innovation Capacity	0.18
Productivity and Cost	0.11
Overall Economic Performance	0.02

Source: Arab Competitiveness report, 2003, P. 112

[1] Intra-industry trade (trade in similar goods between countries) is an indicator of competitiveness measures, the degree of diversity, specialization and technical sophistication of a country's industry.

The table shows that the gap is the widest with regard to technology infrastructure and to a lesser extent with regard to the basic infrastructure, governance and institutional effectiveness, human capital, government performance, and business environment. The areas with the widest gap are either related to government policies, services or to institutions impacting on economic development. The report distinctively indicates the need for effective institutions to manage the competitiveness of Arab economies in the region.

Institutional deficiencies pertinent to the weak competitive advantages of the region can be attributed to lacking competition and competence policy at the national and sectoral levels and to deficiencies in the institutional framework governing/promoting market competition, and enhancing competence development and accumulation, nationally and in various sectors/regions.

Institutional and governance reforms pertinent to enhancing competitiveness include:

- Formulating a national policy aiming at building competitive capabilities that identify where and how the economy of the country can develop and accumulate core competencies that would help the country enhance its performance in world markets. This requires focusing on particular sectors, economic clusters and providing the incentives, institutional and infrastructural support to accelerate their development, and enabling programs to enhance innovation, technological development and productivity/efficiency improvement along with management and marketing capabilities.

- Reforming the institutional framework under which sectors of emerging/performing competitive capability operate, with regard to incentives for investing in knowledge and human capital, and to enhancing quality standards.

- Establishing a governance structure by which economic and production sectors contribute to the formulation of education policies and knowledge/research plans/programs of the education and research institutions, and by which their development needs are better served by their institutions. At present, the Arab countries have loose linkages between educational, training and research institutions, and the beneficiary/user sectors. Horizonal accountability relations need to be developed between human capital and knowledge producing entities (e.g. Universities, Research Centers) and the user sectors.

- Reforming the legal framework and enhancing the capability of the pertinent regulatory agencies with regard to competition law, and regulation of monopolies and monopolistic practices in the market.

- Activating the role of the government through particular mechanisms, in collaboration with private sector institutions (e.g. chambers of commerce, industrial federations and business associations) in enabling business sectors/enterprises to compete internationally. Benchmarking against the better performing economies in the world in this regard could be a rich source for institutional reform ideas.

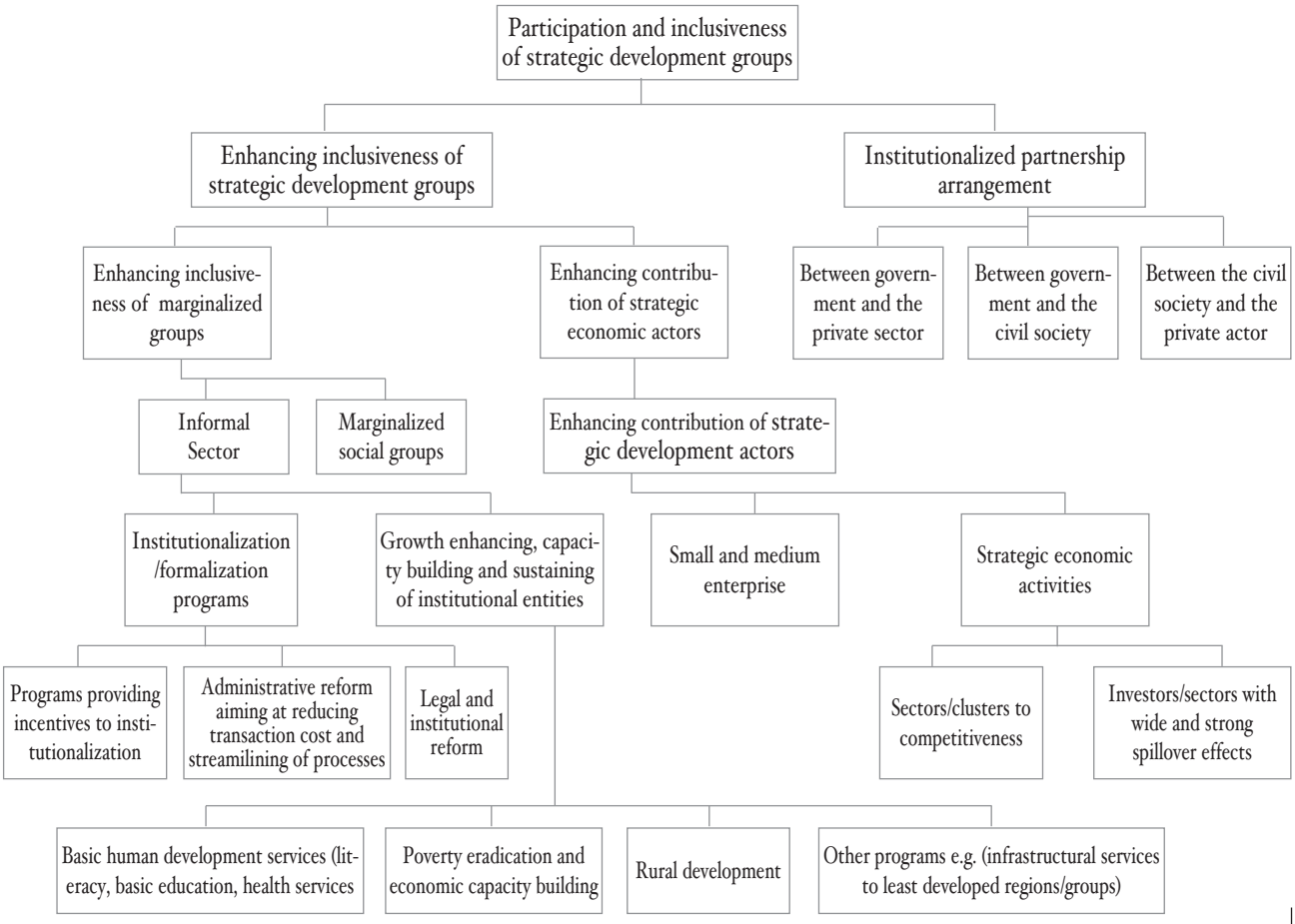
ENHANCING INVOLVEMENT AND INCLUSIVENESS OF STRATEGIC GROUPS/ACTORS

Achieving successful and sustained growth and development requires collaborative efforts on the part of all sectors and groups in the society. It requires equal participation and involvement of key development actors; the state/government, the private sector and the civil society. Mobilizing all capacities and energies of the society toward common development goals, necessitates that these key actors be able to collaborate and together share the responsibility for development.

Success and sustainability of development requires also the inclusiveness of various sectors and groups. Inclusiveness means equity and participation. It implies focusing on and building the capability of the weak sectors, groups, and regions. Empowering and raising the capability of these actors, enabling them to contribute to production, to be part of the effective demand/market, and to be an important contributor to social harmony and stability.

The questions are: What is the institutional framework that can achieve that? What is the role of the public sector in this framework? Through what organizational and administrative means could such partnership and inclusiveness be realized and assured?

The following is a schematic representation of the proposed institutional framework.



INSTITUTIONALIZED PARTNERSHIPS

One of the outstanding tenants of growth in the fast developing economies is the collaborative arrangements they established between the major development partners; the state/government, the private sector and the civil society. "Japan Incorporated" has been emulated by various developing countries aspiring to accelerate their path to growth and development. Various countries took the notion of partnership and extended it to cover the following areas:

1. Partnership between government and the private sector.

The collaborative relationship between these actors is realized through various means. Important among these means are:

- Engaging institutions and representatives of the private sector in the deliberation and formulation of government initiated policies, through joint councils, committees and meetings. Deliberation councils used first by Japan and later by various East Asian countries represent a source of international benchmarks for Arab countries in this respect. Such councils prove to be useful in providing a forum through which information asymmetry between government and the private sector, and thus rent seeking opportunities could be greatly reduced. It is also a mechanism of achieving transparency of government policy deliberation and analysis, and enhancing commitment (via participation) on the part of the sectors to such policies. There are attempts in some Arab countries to establish similar linkages, but there is still a wide room to greatly develop the current practices/attempts into more stable institutionalized and committing arrangements. It is also important to widen the participation base of the partnership arrangements and to support the participants with capacity for policy analysis.

- Establishing mechanisms by which the government can be receptive to the needs of and suggestions initiated by the private sector and its institutions. Arrangements similar to the deliberation councils would serve the purpose, but they may include also setting up a system of encouraging and receiving reform or improvement suggestions pertaining to government policies or practices, and conducting surveys assessing private sector satisfaction with government policies and services. Very little of this is currently taking place in the Arab countries.

- Establishing mechanisms of exchanging and sharing policy competences, knowledge, and information between government and the private sector. Joint economic research and technological development projects are examples of vehicles of collaboration on knowledge generation and sharing. The developed world and the East Asians countries have accumulated experience and experimentation in this area of collaboration that could be valuable to countries of the Arab region.

- The above arrangements require systems of operations and management that the traditional public sector in the Arab region is totally unfamiliar with. The traditional administrative reform skills existing in most countries of the region fall short of coping or catching up with these new

frontiers of institutional partnership between government and the private sector. A crucial prerequisite for moving into this direction is to develop and nurture a culture of collaboration in the establishment and operation of these various institutional arrangements.

2. Partnership between government and the civil society.

The civil society in most Arab countries is currently so fragile that partnership between it and the government would not produce tangible results. Building civil society organizations and developing their institutional capability should go hand in hand with establishing collaborative linkages between government and the civil society. The role of consumer and environmental protection groups, local community associations, poverty eradication organizations, labor unions, professional syndicates and other advocacy/voluntary organization is vital in the functioning and development of the market-based economy.

The hegemony of the state over the economy and the civil society and the constraints and restrictions imposed by the government on civil society organizations greatly limit the potential role they can play to counter balance the power of the private sector and the state. Because these organizations penetrate the society, they can mobilize people, be a vehicle of deploying the country's social capital and act as agent of socio-cultural change in the society. They can act to regulate and control the dysfunctional consequences of the profit maximization tendency of private business and to exercise external accountability over government policies and practices. They can engage in community development, something the government bureaucracy is not fully successful in. Enhancing their role, empowering them and building their capability will get them to share in the burden the government is carrying.

Various means can be used in the Arab countries to develop partnership between government and the civil society organizations to support economic development:

- Engaging civil society groups and organizations in the deliberation and formulation of economic and development policies and programs. This may take the form of using joint councils/committees between government and such organizations.
- Assigning and transferring functions to the civil society.
- Enhancing receptiveness of government to the civil society and changing government attitude towards civil society organizations.
- Collaborating in joint projects.
- Providing government protection of advocacy activities.
- Building capability of civil society and deregulation of constraints.

The deliberation councils used in East Asian countries provide a forum for the participation of the civil society in formulating economic and development policies. The institutional reform of policy and economic management in Arab countries need to incorporate civil society participation through vehicles such as multi-stakeholders deliberation forums.

- Transferring functions originally performed by the government to civil society organizations represents an additional means of involving that sector. This may include social service provision (education, health, etc.), service/program planning and assessment and regulatory functions. Government could contract out certain functions or services to non-governmental organizations. The experience of the Scandinavian countries in this regard provides several good examples of possible ways and areas of involving the civil society in the provision and execution of public functions and programs.

- Enhancing the receptiveness of the government ministries and agencies to suggestions, ideas, issues, and reform demands pertinent to development issues, policies and programs. Establishing two-way communication channels between government organizations and the civil society taking the form of sharing information, exchanging opinions, and joint meetings is essential to this receptiveness. But introducing this frame of mind in government practices towards civil society requires change in the institutional culture prevailing in government bureaucracies in the Arab region.

- Enhancing the formulation and execution of joint projects and programs between government and the civil society in areas representing outreach to certain groups or development of particular sectors or areas. Provision of rehabilitation training to the unemployed, capacity building of micro enterprises and micro-credit programs are examples of collaborative programs/projects in this respect. There is a wealth of international experiences and innovations that could be tapped by the Arab countries in this domain.

- Providing protection and support to civil society advocacy activities along with capacity development of civil society organizations. The state and the overall public governance system should constitute a supportive environment for the civil society to play a role in protecting consumers/environment, regulating/checking the power of the private sector, building and empowering dispersed and weak actors (e.g. small enterprises, workers and their organizations) and alerting the system to needed reforms in polices and programs.

3. Partnership between the private sector and the civil society.

The collaborative relationship between these two sectors could be realized through the government providing forums and mechanisms of joint participation in councils, committees, task forces and joint projects. One very important mechanism that has proven successful is through tripartite arrangements involving government, private sector and civil society participating in joint projects, committees/meetings and in deliberating about economic policies and programs.

Another effective means is through the government providing incentives to encourage collaboration between the private sector and the civil society. Incentives provided to business firms to engage in social responsibility programs and to support philanthropic activities of business through collaboration with civil society organizations are examples of what government can do to catalyze such collaboration. Once more, these reforms require a change in institutional culture prevailing in the government and in the perceived catalyst role it can play vis-‡-vis other developmental actors.

ENHANCING THE INCLUSIVENESS OF STRATEGIC DEVELOPMENT GROUPS/ACTORS

Balancing the contribution and the interests of various development stakeholders and allowing various strategic groups to share in the fruits of development and growth brings harmony to the society and allows the sustainability of development.
Inclusiveness of various strategic groups in contributing to development and benefiting from its outcomes is also a means to mobilize the full potential of various forces and sectors in the society. Enhancing inclusiveness can be achieved through insuring inclusiveness of marginalized groups/sectors and of strategic development actors.

The following is an analysis of these two components:

1. Enhancing inclusiveness of marginalized groups /sectors.

Sustainable development implies economic empowering of various sectors and groups to mobilize their contribution to growth and progress. Two basic issues stand here as obstacles to such sustainability unless reforms are made to enhance their inclusiveness. They are: the informal economic sector and the marginalized social groups.

a. The informal sector represents a serious problem for developing countries and for economies of the Arab region. The fact that a substantial percentage of enterprises, property and economic transactions fall outside the formal/institutionalized economy means that growth and development potential of the economy is reduced by that percentage. The fact that the informal enterprises, property and economic transactions are not integrated with in the main stream of the economy implies that they are not part of the formal wide-markets, they do not benefit from nor are they protected by the formal rules governing economic relations, they do not benefit from or deal with formal financial institutions (e.g. banking sector) they do not pay taxes, and they exist outside the domain of development and economic policy reach. Their existence outside the institutionalized sector poses a serious problem to policy planning due to lack of records/data about the economic activities representing the informal sector. The following table represents the relative size of the informal sector in the Arab countries along with comparative indicators extracted from the data bases of the World Bank.

Country	Informal Economy (%GNI, 2003)
Algeria	26.9
Egypt	35.1
Jordan	19.4
Lebanon	34.1
Morocco	36.4
Saudi Arabia	18.4
Syria	19.3
Tunisia	38.4
United Arab Emirates	26.4
Yemen	27.4
Average of Arab Countries	26.9
World Best (Canada)	3
South Korea	27.5
Malaysia	31.1

The major factor for the exclusion of that sector from the main stream of the formal market/economy has to do with deficiencies in the legal institutional frame work existing in the country and the bureaucratic practices of the government, which provide disincentive for enterprises and economic transactions/activities to formalize. The work of Hernando de Soto (2000) is illuminating on the potential gains of integrating this sector within the institutionalized economy and on the reform agenda/approach that need to be adopted to progress on the path of this integration. His study of the informal real estate properties in Egypt indicated that the value of informal properties amount to US$ 241 billion (most of it is in urban areas). The value of this informal capital is greater than 55 times of FDI in Egypt up to 1996 and 16 times the accumulated investment in formal assets made by private firms under the incentives provided by the investment law (de Soto, 2002). This he calls "deal capital" because it does not and cannot perform the economic functions of capital assets in the modern market-based economy. He found that the complicated legal requirements and the lengthy and cumbersome administrative procedures of registering real estate property serve as main deterrents from and disincentive for formalizing the property. For example, it takes 77 steps and 31 entities and between 6 to 14 years to gain access to land for construction purposes and to register these property rights in Egypt (de Soto, 2000, P. 24-25).

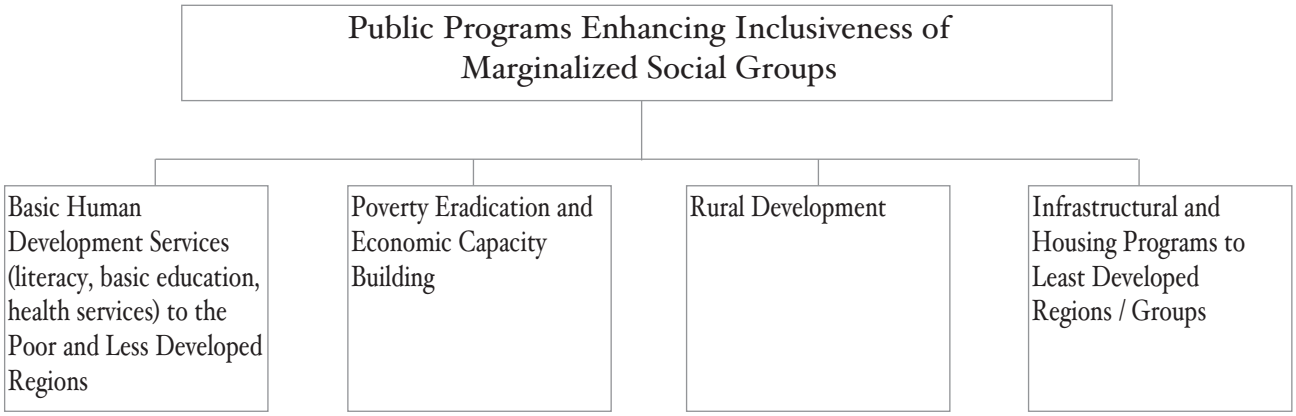
The existence of a large informal sector is an indication of the failure of the legal, institutional and administrative system. It reflects a choice of exit from the formal economy, and it also means that the institutions of the formal economy could not provide enough inducement for the choice of voice or inclusion.

Formalization and institutionalization of properties and economic activities of the poor, which constitute a substantive portion of the informal economy, can be realized through a compre-

hensive institutional reform program aiming to integrate that sector and incorporate it within the main stream of the formal economy. A focus on the nature, problems and current practices of that sector is a prerequisite for success of the reform program.

B. ENHANCING INCLUSIVENESS OF MARGINALIZED SOCIAL GROUPS THAT CAN POTENTIALLY CONTRIBUTE TO GROWTH AND DEVELOPMENT REPRESENTS ANOTHER CHALLENGE. The poor, the illiterates, the unemployed, the undeveloped/rural areas, and the random housing areas and the economically depressed regions are examples of groups that are relatively or partially excluded from the growth and development that the rest of the society is experiencing.

For development to be wide-based and sustainable it has to have a strategic focus on these marginalized social groups. Real development is about enabling these groups, building their economic capacity, improving their quality of life and integrating them in the main stream of progress. This is how they could become part of the effective demand as well as being active contributors to production, market transactions and overall progress and growth of the total economy. The role of the government in directing the development policies and programs to these groups and insuring their inclusiveness in contributing to and benefiting from economic growth and development cannot be divorced from implementation of such policies and programs. The quality of government institutions formulating, providing or engaging in these programs determine whether these groups are actually included or excluded from the development stream. Public programs insuring inclusiveness can be classified as in the following chart:



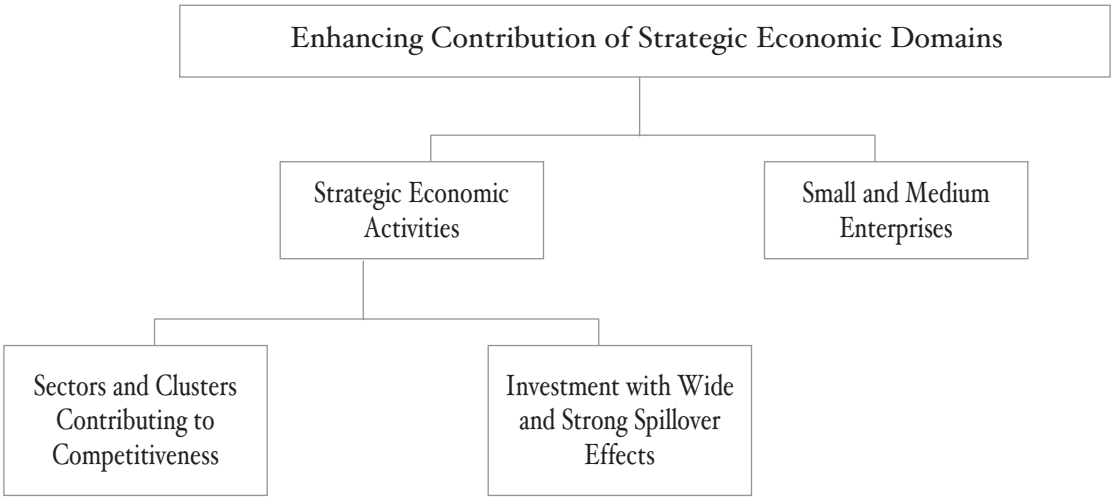
Programs directed to marginalized social groups cannot be successfully administered through the traditional bureaucracy. If provided and administered by the government, they would require an organizational set up, management and accountability systems that are characterized by passionate and ideological orientation towards the recipient groups or customers. The hierarchical, routine, procedural and formalistic system would likely accelerate the path to failure of these programs. Flexible, adaptive, innovative, team-based, self controlled and passionate commitment to the customers represent the features of the suitable system. Reform of the institutional framework of the providing agency has to go into this total transformation path.

The limited success of the programs directed to the marginalized groups in the Arab countries and many developing countries is primarily due the misfit between the institutional framework, the nature of the programs and the recipient groups.

The provision of some of the above programs/services through civil society organizations avoids the problems associated with traditional government bureaucracy. However, for these programs to be successful, especially when they are provided on national basis, would require government finance, support and monitoring. It is important in these cases that government involvement would be supportive and catalytic. In such cases, the reform of the government agencies and systems interfacing with these programs is needed to provide the support, facilitation, direction and monitoring, and to minimize unsuitable bureaucratic and constraining regulatory practices.

2. Enhancing the contribution of strategic economic domains.

Lessons gained from countries with successful development performance such as Japan, South Korea, Taiwan, Malaysia and Italy indicate the crucial importance of focusing on (a) strategic economic activities which contribute to competitiveness and have wider impact on the economy and (b) enhancing the role of the small and medium enterprises (SME). This can be represented in the following figure:



a. Strategic economic activities.

The role of the government is crucial in supporting the development of economic/industrial clusters (Porter, 1990) and in enhancing competitiveness of selected sectors. Linking the incentives to the selected activities, providing specialized human development and infrastructural services where the clusters are located, supporting and encouraging linkages among the enterprises, supporting and encouraging investment in joint knowledge research/innovation programs and streamlining administrative procedures through single windows/one stop shop and

TQM system are examples of what could be focal targets of government support and facilitation. At present many countries of the Arab region have established industrial cities and free zones as means of encouraging industrial development. These districts enjoy tax incentives and other government support. However, most of them were neither established to serve as nucleolus for future clusters nor to foster competitiveness. The incentive structure and the type of support the government provides are not geared towards these ends. Thus a great deal of reform needs to be introduced in the incentive, support and institutional framework under which these districts/sectors operate.

On the other hand, the governments in the Arab countries need to redesign the incentive structure and reform the institutional frameworks pertinent to investment to attract, encourage and support investments with wide and strong spillover effect on the economy. Recent literature has pointed out policy and institutional deficiencies in the developing countries that do not differentiate between investment projects according to their economic impact. The Arab countries' investment policies, incentives, government services and institutional support do not make such differentiation. The result has been limited growth and development impact of private investment in most countries of the region.

Policy and institutional reform to enhance and widen spillover effects of the investment in the Arab countries needs to be accompanied by transformation of government role, services and administrative practices interfacing with private investment to facilitate, accelerate, and monitor/ensure snowballing effects on economic and development parameters (e.g. growth, technology transfer, employment, competitiveness, export growth, local development). The reform agenda here is multifaceted and needs to encourage various government ministries and agencies (e.g. finance, trade and industry, investment, administrative reform) to integrate their policies.

B. SMEs: SMEs in Arab economies constitute a substantial percentage of economic activities. They provide, as in most developing economies, the bulk of employment, contribute to growth, and constitute the majority of enterprises in various sectors. In some countries of the world they are major contributors to exports, and innovative and cutting edge technology-based activities. In the Arab region as in the most developing countries, SMEs remain engaged in traditional activities generally with low level of productivity, low technology, poor quality products, stagnant growth, and serving small, localized markets. A substantial portion of micro enterprises existing in the Arab economies belong to the informal sector. Some of the small and micro enterprises may be economically viable over the long term, but a large portion is not (Lall, 2000). With the wave of economic liberalization, the intensification of competition and changing technology, many traditional SMEs face the risk of being wiped out and the extreme difficulty of upgrading.

Government policies and institutions in the Arab countries are biased against SMEs. This bias is common in developing countries. The "widespread use of investment and import licenses and controls, directed credit, location incentives, infrastructure provision and so on" tend to favor firms with better resources and connections. Large firms and powerful business groups are in a

better position to exploit the system and extract benefits from it through corruption and rent seeking. Ironically, some policies and programs designed to favor SMEs end up with undesirable effects on their capability and competitiveness. Lall (2000) provides examples of such unintended effects in the tax privileges/exemptions or government support given to micro or small enterprises. These inducements serve as impetus or incentives to "stay small" rather than grow large.

Reform of government policy and practices toward SMEs in the Arab countries fall under five broad areas:

- Developing an integrated strategy for SMEs which would aim at enhancing the role and contribution of SMEs in economic development to enhance their competitiveness and growth potential. The strategy will cut across various government domains (taxes, customs, licenses, infrastructure, industrial districts/free zones, investment, technology development, research, export development/support, human resource training, entrepreneurial/management development).

- Creating a coordinative body to look after SMEs and to integrate policies, programs and issues relevant to these enterprises.

- Adopting the goal of lowering the burdens and transaction costs carried by SMEs. This may include removal of the policies that discriminate against SMEs, raise entry, exit and operational costs, or reduce access to support services and institutions (Lall, 2000).

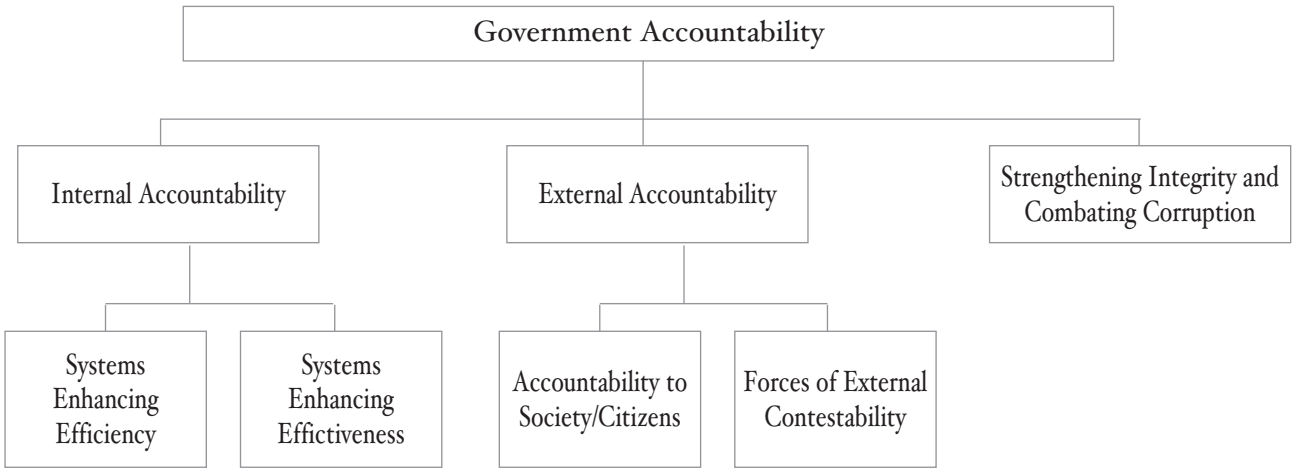
- Remedying market failures through proactive measures to overcome market deficiencies by institutional support, incentives and subsidies, special access to finance, targeted training, consultancy and research support (Lall, 2000).

- Promoting linkages and clusters through encouragement of existing or potential agglomerations by provision of suitable infrastructure, promotion of business linkages among SMEs and with large firms and seeking encouragement of local support institutions (Lall, 2000).

ENHANCING GOVERNMENT ACCOUNTABILITY

Accountability in a governance framework means that those with authority to act in the name of people are answerable to the people for their failures as well as credited for their success (World Bank, 2003, P. 38). Government accountability could be instituted through internal systems (internal accountability) to govern the behavior of different agencies in the aim of protecting the public interest. It could also be instituted through direct means (external accountability) by making the government and its agencies answerable for their actions, performance and results to people and/or exposed to contesting forces external to the government. Government accountability requires both a good system of administration including internal control to insure effectiveness and efficiency in serving the public interest as well as a set of institutions by which the government is made answerable directly to the people and is exposed

to forces that energize its performance. It also requires solidifying the system of integrity and combating corruption in the public sector. The following figure illustrates the components and factors of government accountability:



Enhancing internal and external government accountability in the Arab region is elaborated in the following analysis.

Internal Accountability

The administrative and control systems used by Arab countries, constituting government internal accountability are similar in that they rely on traditional rule-based public administration system. With minor differences, they share the following characteristics:

- High degree of centralization. Except for the U.A.E., the central government in most Arab countries possesses vast powers over local entities in financial, civil service and administrative matters. The government system is run through highly centralized and unified structure and processes. Local entities and lower administrative levels rely on directives and decisions made at the highest level in the ministries.

- Centralization also characterizes the control process. Control is mostly exercised through central agencies. The system of internal audit and control that exists in some countries has also been instituted by central control agencies.

- Rule-based administrative and control system. The bureaucratic model of administration with its emphasis on formal rules and procedures characterizes the administrative system used by all governments in the region with the exception of Dubai. The system of control follows the emphasis on rules and procedures of the administrative system. Both put little emphasis on per-

formance or results. The same emphasis on rules and procedures applies to the civil service system. Although most of these have adopted merit based criteria, they are systems still based on seniority rules. However, the seniority rule is tampered for higher executive posts either by competence or by socio-political considerations.

- THE INCENTIVE STRUCTURE IN THE GOVERNMENT IS NOT TIED TO PERFORMANCE BUT MOSTLY TO RULE ADHERENCE. The internal control system and the compensation and the incentive structure in general do not promote performance improvement. Rather, they promote rule adherence, risk avoidance and rigid practices. In the oil producing Arab countries, the compensation of public employees is generally at par with the going rates in the private sector. But government work is characterized by relaxed accountability for exerting efforts or achieving results. In the rest of the Arab countries, public wages are mostly below the going rates in the private sector, thus causing deficiency in public employee work motivation and integrity.

- TRADITIONAL FINANCIAL AND LINE-ITEM BUDGETING SYSTEM. The budgeting system currently in use in all Arab countries is the traditional input focused line-item budget. The system focuses on the allocation of budgetary resources based on input requirements and historical precedents. The focus is on yearly allocation. No medium term or long term planning is required for budget allocation. Because the focus is not on resource utilization, factor productivity or performance, public expenditures are not assessed with regard to the results or impacts they produce. The system of resource management applied in governments of the Arab region contains and oftentimes protects the existence of resource wastes. Financial and resource accountability systems are mostly focused on fulfilling rules, procedures and regulations rather than achieving efficiency or economy.

- EXCESSIVE REGULATION AND LEGALISTIC ORIENTATION. Most of the public administrative systems in the Arab region have been set following the French administrative law, with its emphasis on formalistic, detailed regulations and centralistic orientation. Over the years the legal codes, by-laws and regulations governing the practices of public organizations in most countries have accumulated to a point reaching or approaching excessiveness. The detailed legalistic regulations governing the actions of public agencies and employees have served to protect against social and political nepotism which is widespread in the region, but had a catastrophic impact on administrative innovation/adaptability of public service quality and customer care. With weak public accountability in the Arab countries, the legal regulatory framework led to a rigid, inadaptive, closed and low performing government bureaucracy. The reform efforts and programs aiming at streamlining the administrative procedure, which almost all administrative reform institutions in the region engage in, could not succeed in improving administrative performance because the basic tenants of the system were left untouched. Usually the system needs to be deregulated and not just streamlined to produce a tangible change in performance.

- GOVERNMENT INFORMATION SYSTEM. Over the last two decades, the world has witnessed major changes in government information systems. With the widespread use of computers and the internet, the modernization of government information systems over the last decade took

major steps into establishing government intranets in many sectors and providing an increasing number of its services electronically through websites. E-government transformation became a sign of public sector modernity and efficiency. It should be noted, however, that the speed and scope of such transformation was much greater and faster under systems that shifted from the traditional rule-based public administration to results-based public management. The results-based public management system by its very nature, allowing innovation, flexibility, focusing on results and emphasizing customer satisfaction facilitates the achievement of the maximum modernization of government information systems and optimal application of electronically provided public services. To reap the fruits of introducing computerized information systems and e-government, major changes are required in the system of administration more than just streamlining or procedure simplification. Deregulation, re-engineering, strategic restructuring and total transformation of administrative systems are the approaches used in realizing the shift. Over the last decade, various governments have adopted projects to computerize information systems in immigration, civil identity, statistics, finance, education, health, and various other services. During the last few years a number of Arab governments (e.g. Tunisia, Jordan, Kuwait, Bahrain, Qatar, Dubai of UAE, Egypt) have adopted e-government projects through which public services could be provided electronically. Administrative environments characterized by flexibility, innovation and customer orientation such as that of Dubai has allowed the modernization of government information systems to become a benchmark for the rest of the region. The lack of readiness in the administrative environments in other countries and the limited use of computers and the internet in the society in Arab countries are slowing down the information and electronic transformation and modernization of the public sector in these countries.

- ENHANCING INTERNAL ACCOUNTABILITY THROUGH ADMINISTRATIVE AND GOVERNANCE REFORM. To achieve major improvement in internal accountability requires a paradigm shift in administrative and governance reform. Over the last twenty years, changes and improvements in the system of public administration in the Arab countries, have not produced qualitative change in the performance and efficiency of public sector. While government organizations in all Arab countries are now better staffed and have more modern systems of administration than what they had twenty years ago, this has not had much tangible effect on their performance. The changes that need to be introduced are in the tenants of the system of administration and internal governance. The following are the suggested directions of the needed reforms.

1. RIGHTSIZING THE GOVERNMENT.

The inflated size of government employment and budget in all Arab countries should be subjected to a reform plan to reach the right size over a period of three to five years. Much of the problem the public sector is facing in improving its efficiency is due to weak control over the bureaucratic tendency for growth. The government size tends to grow faster than the growth in the size of the economy, eventually causing a burden on achieving further economic growth. One way to control such growth is to make government organizations accountable for the efficiency, productivity and results produced by the resources they possess, and to benchmark

these indicators against comparable international best practices. Another way is to decompose the public sector and its organizations to identify inflated components. Differentiation between units, personnel, resources serving the main functions of the organization and those serving auxiliary or support functions is likely to identify and expose major structural imbalances causing over size. Strategic reforms of government role and restructuring will likely produce major reforms with rightsizing implications. Outsourcing and contracting out of certain functions, commercialization of certain functions/entities, corporatization of others, and privatization of public organizations will all lead to rightsizing reforms in the public sector.

2. Strategic Management of the Public Sector.

With the increase in environmental volatility facing public sector and the quest for greater accountability of the government as a part of the transformation into results-based management, an increasing number of public sector organizations are engaging in strategic planning, environmental monitoring, strategic performance assessment and strategically-driven capacity development. The strategic management framework has been adopted by government organizations in various parts of the world as part of the contemporary administrative reform movement. The adoption and impact of such framework is greatly facilitated by the application of results-based public management paradigm. Under the traditional rule-based public administration paradigm, the introduction of strategic plans and performance assessment achieved limited success since the basic accountability and the control exercised by controlling agencies was rule based. Over the last fifteen years a number of Arab public sector organizations have attempted to install strategic planning and flexible systems of administration focusing on strategic achievements. Attempts of the sort took place in countries like Kuwait, Emirates, and Jordan. The success of these attempts varied greatly depending on whether the accountability system was rule-based or results-based. Under the system of results-based accountability such as that in Dubai, strategic management systems have been adopted by almost all local directorates and authorities of the Emirate. The overall environment in the Emirates was also supportive of adopting innovative and strategic approaches. As per example of such supportive environment, Dubai has developed an overall strategic vision for development for the year 2030. The government activities of the Emirate were required to develop their own strategic plan/vision within the overall developmental strategy of Dubai. The experimentation with strategic planning in other parts of the Arab region has faired with much less success and sustainability than that of Dubai, due to lack of overall strategic vision/plan of the government, over emphasis on rules in the accountability framework, and lack of overall political support for the strategic innovation/reform. The adoption of strategic management framework by public sector organizations in the Arab countries, if backed by the above factors, could constitute a major shift in the performance and accountability of the public sector. It would link public sector organizations to the overall direction the country is taking in an increasingly volatile development environment. It would also establish the accountability of these organizations for development-relevant performance and results.

3. Enhancing Effectiveness of Public Sector.

Effectiveness of the public sector could be enhanced through strengthening the goal orientation of its organizations and the system by which they are managed. The transformation into a results-based public management system could achieve much of this reform. The great leap forward in performance and effectiveness made by public sector organizations in developed countries such as the UK, USA, Canada, New Zealand and the new industrialized countries such as South Korea, Malaysia, and Singapore is due to the focus on effectiveness through goals and results of the public sector in general and public organizations in particular. The great success of the public sector reforms applied by Dubai can also be attributed to its focus on effectiveness. Factors or ingredients of the goal/results orientation or effectiveness driven system could be delineated in the following:

- Goals and results based management system. It means directing the planning, the coordination, organization structuring, incentives and control as well as other management functions to focus on the formulation, implementation, achievement and evaluation of planned goals and related results. It implies measuring and assessing goals and directing the various management activities towards enhancing their achievement.

- Flexible decentralized management structure. With the focus being directed to goals and results of pubic sector organizations, a flexible decentralized management structure would be needed. The emphasis on effectiveness requires devolving decision making power downward, allowing greater flexibility and removing unnecessary regulatory and procedural restrictions on initiatives and innovations made by lower levels. There is a growing awareness in administrative reform circles in the Arab region of the need for decentralization of both national and local government systems. And, a number of Arab countries (e.g. UAE, Morocco, Tunisia, Jordan, Yemen) have instituted structures involving authority devolvement to local entities. The success of these attempts varied depending on the degree to which the conditions for local decentralization (e.g. capacity development of local entities, existence of political support, enhancement of the performance accountability of decentralized structure and community empowerment) were met. At the national government level, centralized and inflexible structures remain to characterize the management system in all Arab countries.

- Performance-based budgeting. Performance based budgets, by their emphasis on goals/objectives and results constitute an important element of the effectiveness focus of the results-based public management system, and also constitute a key component of this system. In fact, adopting a performance-based budgeting system represents an early prerequisite to the transformation to the results-based management system. Most of the countries that reformed their public sector management into a results-based system have had performance budgets in use for a number of years. In the Arab region, a few counties are currently applying, on experimental basis, or exploring the potential use of performance-based budgets. Thus, Jordan, the UAE, and Egypt have projects to introduce these new budgeting systems. The rule-based system of administration prevailing in all governments of the region is likely to constrain the possible use and effect of the performance budgeting system.

- ELEMENTS OF A SOUND PERFORMANCE BUDGETING SYSTEM INCLUDE:
  - Performance planning/objectives setting.
  - Performance measurement/assessment.
  - Performance costing/activity-based budgeting.
  - Performance-based accounting.
  - Performance information and reporting system.
  - Performance control and accountability.
  - Performance-based incentives.
  - Performance improvement mechanisms.

  Effectiveness of the performance budgeting system depends on the integrated application of the above elements in addition to having an administrative environment characterized by a focus on results. Realizing these amounts to a major transformation of the public sector and its internal accountability system.

- CUSTOMER ORIENTATION AND QUALITY EMPHASIS. This includes the application of "Citizen Charters", the "One Stop Shop", customer focused system of management, and quality systems. Treating citizens as customers to be cared for and focusing on the quality of public services has been part of the trend of adopting private business practices and orientations by the public sector. This has been an outstanding feature of the new public management paradigm. These trends are slowly penetrating the government reform movement in the Arab region. Although citizen charters have been used by various countries in the world (OECD, Common Wealth Organization), they have not been applied in the Arab region. The "One Stop Shop" system of unifying the multiple entities with which citizens deal with in getting a public service into one window has proven in many countries of the world to be a mechanism that reduces the burden on the service recipients and improves coordination among the various entities intersecting on the service. An increasing number of Arab countries have introduced various modalities of the "One Stop Shop" to public services provided to investors (e.g. Dubai, Jordan, Egypt), and, with a lesser extent, to the general public. A similar increasing trend is taking place in the region in applying citizen surveys. The most successful applications of these various mechanisms and techniques have taken place in Dubai. The administrative culture prevailing in the government in other Arab countries and the prevailing traditional rule-based system of administration are creating various obstacles in the adoption and application of these new reforms.

- STRATEGIC HUMAN RESOURCES SYSTEM. Under the strategic management framework, it is important to align the reform of the civil service system to serve the strategic vision and goals of the public sector organizations. Strategic human resources planning management (HRM) requires that government human resource planning; employment, compensation, training and development, career planning/development, performance management and human resource integrity policies/practices be strategically integrated with, and supportive of, the overall strategy of the public organizations. Truly serving the public interest, enhancing performance, adapting to the needs of the public served, focusing on the developmental goals and priorities, and seeking/engaging in continuous improvement require major changes in the HRM/civil serv-

ice system applied in government organizations. The experience of reformist OECD countries (e.g. New Zealand, Canada, USA, and UK) and emerging economies indicates that reform of the HRM in the above directions has to be given high priority in the reform agenda. It further indicates that such a reform may include giving a significant margin of flexibility to government organizations to design and to fit their HRM policies with their strategic plans. Thus, flexibility needs to be introduced in the overall HRM system used by the government to allow adaptation of that system to fit the strategic requirements of particular organizations. At present the HRM/civil service systems in most countries of the Arab region are far from the needed reforms. Most of the civil service reforms introduced during the last two decades have not changed the basic tenants of the system (i.e. being non-strategic, rule based and highly bureaucratic). Realizing the full potential of public employees and aligning the strategic reform of public organizations in the Arab region requires a change in the basic tenants of the HRM/civil service system currently in use.

- Developing crisis management and policy/decision support capabilities. The increasing volatility of the environment of the public sector and the focus on the strategic direction of its organizations requires building the capability of the central apex of the government (the cabinet) and of its key organizations (ministries and public authorities) in two areas; namely crisis management and policy/decision support. The two represent the most needed competences for the improvement of policy management. The first constitutes a threat or uncertainty factor impacting on the effectiveness of public policies and programs. Handling and managing this risk to contain/control its consequences and ramifications, to correct for the negative impacts it may generate and to learn from risk experience is a reform area of growing interest. Establishing early warning systems in the government apex, building the capacity to handle sudden changes/crises/shocks impacting on policies and programs, developing repertoire of means and abilities to contain/control negative impacts of the crisis and enhancing the organizational learning capabilities are essential elements of crisis management. The second component pertains to building policy/decision support capabilities to provide needed indicators, problem assessment/diagnosis, issue analysis, generation/evaluation of alternative policies/decisions, scenario building, and impact assessment. Governments in most Arab countries lag behind developed countries and east Asian countries in the capabilities pertaining to crisis management and policy/decision support. Among the Arab countries, Egypt has pioneered the development of institutions serving the two areas. Information and Decision Support Center, attached to the cabinet, which was established in the late 1980s to serve both policy support and crisis management is the most advanced institutional example across the Arab region. The Center has been instrumental for developing similar spin-offs in a number of ministries and governorates. It engaged in various projects during 1990s to support top-level state policies. However, and due to limited demand on the part of the cabinet for its policy/decision support services, its role and impact on this area has been limited. However, Arab countries could learn from this experience to gain the positive lessons and avoid the negative ones. They could also learn from the experience of the reformist OECD and East Asian countries with regard to institutional and capacity frameworks used by these countries in the above two areas.

4. Enhancing the efficiency of public sector.

Public sector efficiency can be enhanced through modernization of its systems and operations to achieve economy in the use of public resources. Efficiency of administrative systems and operations is realized when:

- Resources are optimally allocated and utilized.
- Cost of services/programs are minimized.
- Operations are streamlined.
- Processes/performance cycles are sped up.
- Waste and idle capacity are minimized.
- Productivity of resources is increased.
- Assets and resources are properly maintained and preserved.

The above items constitute elements of efficiency improvement programs of government administration. They also constitute domains for the development of efficiency measures to assess the need for efficiency enhancement and evaluate efficiency and productivity dimensions of public sector performance. Efficiency is not a substitute for effectiveness. The former has to do with how the internal systems of the government are functioning. Effectiveness pertains to what these systems produce and the impact they have in the targeted public or sectors. The later is an externally oriented concept. Most of the history of contemporary administrative reform contains attempts to institutionalize systems of administration or to improve their efficiency. And, most of the failure of these attempts come from lack of measurement of their consequences and low concern for goals and results. This is the paradox of most of the reforms conducted within the rule-based system of public administration which is widely applied in the Arab region. Thus, in the World Bank report (2003) on Better Governance for Development in the MENA Region, quality of administration was assessed through various indicators that measure the risk and level of bureaucratic corruption and black market activity, the degree and extent to which certain rules and rights are protected and enforced, the quality of budgetary processes and public management, the efficiency of revenue mobilization, the overall quality of bureaucracy, and independence of civil service from political pressures[2]. A number of interesting findings were obtained in this study (World Bank, 2003, P. 58-62).

- On average, MENA countries fall short of other countries at similar income levels in the quality of administration indicators in the public sector. The gap widens for richer countries in the region.

- Wide variations exist in the quality of administration between countries of the MENA region. There is also wide variation among countries with regard to the sub-items of the quality of administration.

- Most countries of the region do not perform much worse in the quality of their administration than countries at similar income levels, and several countries do better.

[2] Independence of civil service from political pressure can be interpreted to mean the degree to wich such administrative systems have been institutionalized and operated based on objective (non-political criteria.

When this portrait is contrasted against the development indicators of countries of the region, a paradox emerges. The paradox can be stated in the following: whatever differential achievement countries of the region have with regard to improving public sector administration these achievements have not impacted on economic or developmental indicators.

Lack of goal/results orientation of efficiency improvement reforms and lack of synchronization with effectiveness requirements constrained such impact. Most administrative reform taking place in the region focuses on inputs or processes (e.g. training, organizations restructuring, procedure simplification and standardization). For efficiency enhancing reforms to produce performance improvement, they need to be well focused on particular areas constituting efficiency dimensions, and linked to efficiency measures as well as having goal/results orientation.

The following are contemporary approaches to reform aiming at improving administrative efficiency:

- Re-engineering and streamlining administrative processes. This approach has proved to be successful in eliminating, reducing/compressing and redesigning administrative processes and work flow while increasing the net value generated by the total system.

- Quality systems. These include applying quality assurance and certification (ISO) and/or applying Total Quality Management system. Application of these systems results in major improvement in efficiency and quality. Public organizations in Dubai and in Bahrain have taken the lead in the Arab region in applying these systems.

- Organization restructuring. This approach is usually used to provide for more focus through specialization, better coordination/interaction, removing overlap in jurisdictions, better control, and achieving hierarchal decentralization and simplification. It includes organization audit and redesign of both the organization and job structures and related manuals. The approach is widely used in reform programs in the Arab counties. Its impact on efficiency improvement depends on the simultaneous application of other approaches, the clarification of the reform objectives and the neutralization of personal/political factors. Many of the organization restructuring projects applied may result, due to political factors, in inflating/enlarging the structure rather than rationalizing it.

- Civil service modernization. This includes modernization of the various aspects of HRM system in the public sector through having clear policies, criteria, and procedures for the various functions of HRM. The modernization programs may include a mixture of institutionalization efforts and attempts to professionalize the processes of the system to enhance its efficiency and integrity. It may also incorporate building the capacity of the entity managing the functions of the system (e.g. HR planning, staffing, remuneration...etc), and introducing computerization of the HRM data bases and procedures.

- Modernization of the government information system and introduction of e-government. This includes computerization of the information systems used by the government.

This computerization movement in government has taken great strides worldwide after the spread of the personal computers. It has contributed to great improvement in data and information management and accelerated efficiency in most areas computerization was introduced. Yet in many countries in the world and especially the Arab countries only a fraction of the full potential of the computerization has been realized in the organizations/units in which computers were acquired. E-government systems represent a more advanced stage of the computerization. The system has been successfully applied in various countries in the world such as OECD members and East Asian countries. Various Arab countries have adopted e-government projects in selected domains. The more advanced and ambitious application of e-government is currently taking place in Dubai. The system accelerates the efficiency of government communication and services, provided that its internal and external prerequisites are fulfilled. Its success, as indicated earlier, depends on the proper reform (streamlining) of internal organization structure and process and on the electronic capability of the external public served.

- MODERNIZATION OF ACCOUNTING AND THE INTRODUCTION OF GOVERNMENT FINANCIAL/COSTING SYSTEMS. Modernization of government finances pertains to rationalizing the budget structure and processes to achieve greater economy and efficiency on the expenditure side, and also to improving the efficiency of revenue collection. Modernization of government accounting involves improving the recording, classification, retrieval, communication, and disclosure of government accounting information so that it can improve the management of government finances. Introduction of computerized accounting information systems can contribute greatly to this. A more advanced step in the modernization of this area is the introduction of costing systems to enable better planning and control over the cost of government programs, processes/activities, and services.

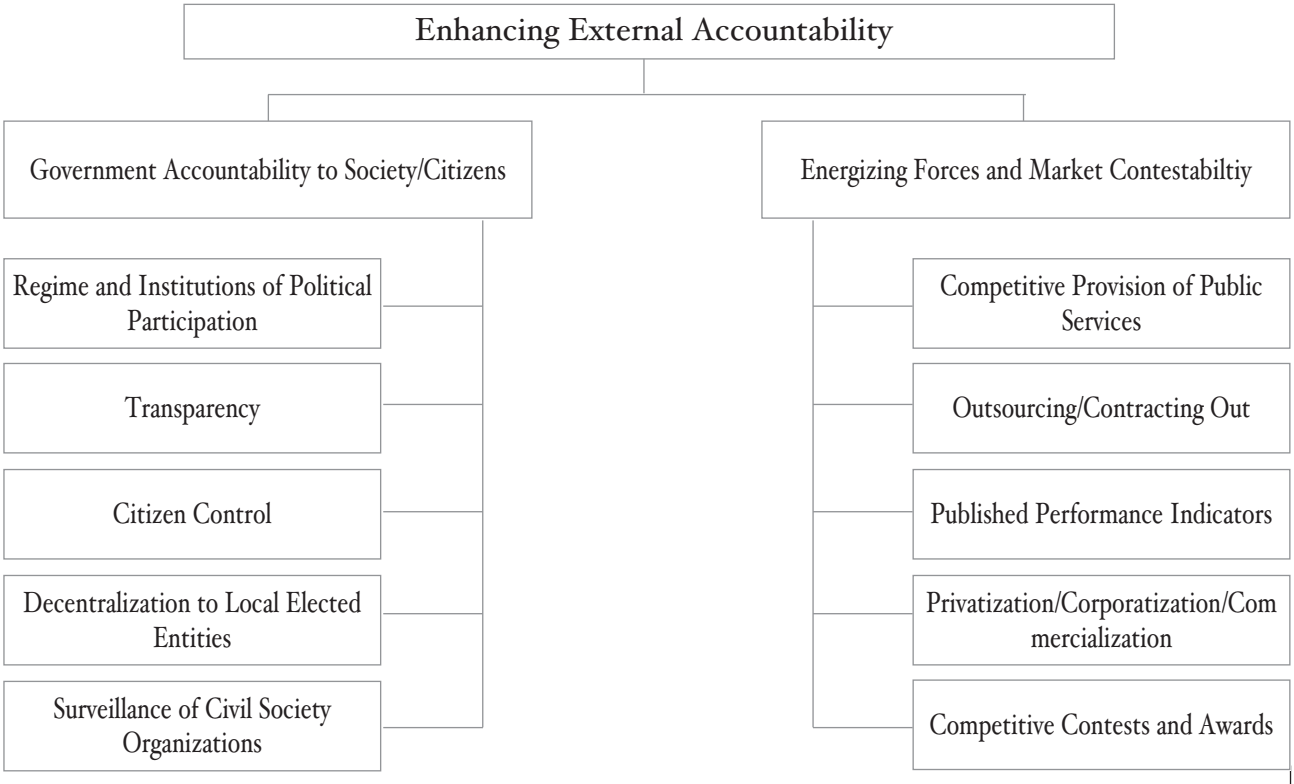
- ASSET MANAGEMENT AND RESOURCE ACCOUNTABILITY SYSTEMS. Governments all over the world possess/contain assets and resources of great magnitude and value. Yet the systems by which these assets/resources are acquired and managed leave a lot to be desired as far as economy, optimal use, preservation of value and efficiency/productivity. The systems of asset management and resource accountability attempt to rationalize the acquisition, utilization/development and preservation of various types tangible (e.g. physical/financial) and intangible assets (e.g. knowledge, information) available to government organizations.

- EFFICIENCY/PRODUCTIVITY MEASUREMENT AND BENCHMARKING. Introducing efficiency/productivity measurement in government organizations represents a very powerful means to improve efficiency. Government organizations that have incorporated systematic assessment and analysis of such indicators have been able to achieve great improvements through the process of measurement, inter-organization comparisons and feedback. There is a worldwide movement to introduce efficiency and productivity indicators in the public sector. However, most of these attempts are taking place within wider modernization and effectiveness enhancement reforms. Comparative assessment of efficiency and productivity through benchmarking are also taking place within competitive contests and prizes among public sector organizations. These systems allow public organizations to learn from the best practices on efficiency.

EXTERNAL ACCOUNTABILITY

External accountability of the government and its answerability to the society and citizens is a supportive framework for internal accountability. Weak external accountability means that the government is not answerable to people and does not have to account for its policies and performance. Under such a situation the government would not be under the urge or pressure to enhance internal accountability systems. This is precisely the paradox administrative reform is facing in the Arab region. The governments in the region are not answerable to the society and citizens, and are not therefore under pressure to improve. Most of the gap between the Arab countries and the rest of the world are the striking weaknesses in external accountabilities and in access to basic political and civic rights. World Bank reports indicate that Arab countries, irrespective of their income, trail behind most countries of the world in public accountability. Richer Arab countries are even lower on public accountability than the resource poor countries. Governments in these countries face little pressure to improve governance to enhance economic development. The resource-poor countries of the Arab region are characterized by another paradox. The governance gap in these countries is likely to be due to the vested interests of established entities reaping private benefits from the status quo of the weak governance (World Bank, 2003).

World experience indicates that external accountability can be enhanced through making the government more answerable to people. It can also be enhanced through injecting energizing forces and market contestability in government. The following figure outlines the elements of enhancing external accountability, which will be subsequently delineated.



Enhancing government accountability to society and citizens.

The following are various means by which government accountability to society and citizens can be enhanced.

1. Reform of the political regime and institutions of citizen participation.

This pertains to providing greater freedom, participation and voice to citizens. Participatory democracies provide various means by which citizens can choose their representatives in various state bodies, make government accountable for its actions, and exercise voice regarding these actions. The Arab region as a whole falls far below other regions with regard to political development and participation. This is why administrative and government reform has taken a slow pace in the region. Governments are under little political pressure to engage in serious reforms.

2. Enhancing government transparency.

Transparency is based on the citizens' right to know. It requires the regular disclosure of information on what government officials and agencies are supposed to be doing, what they are actually doing, and who is responsible. It also involves clear publicly accessible information on the rights of citizens; services for which citizens are eligible; ways to access such services; and regulations citizens are expected to comply with (World Bank, 2003, xix).

Transparency generates the information by which public officials and agencies are made accountable to citizens and the society. Such information is essential in determining and enforcing rewards for correct actions and punishments for wrong doings. Transparency is a crucial element in any program aiming at combating government corruption. Transparency of government activities particularly susceptible to corruption are usually given emphasis in any serious anti-corruption programs. They are: (Pope, 1996)

1. Public procurement;
2. Customs;
3. Taxation;
4. Police (especially traffic police);
5. Immigration;
6. Licenses and permits (including drivers' licenses);
7. Provision of services where there is state-owned monopoly;
8. Construction permits and land zoning; and
9. Government appointments/employment.

The condition of government transparency in the Arab region leaves a lot to be desired. Lack of government transparency in the Arab countries in the above areas has been a major factor for the chronic problems of administrative corruption in the region. Enhancing transparency of government is a condition for improving public governance in the region. Additional complementary measures to enhance transparency are also needed. They include enhancing the freedom of the press to expose malpractice and providing protection for whistle-blowers3 and facilitating their role in reporting misconduct.

3. Enhancing citizens' control.

To insure greater government integrity and to improve public sector performance, citizens constituting the direct stakeholders of government actions need to be empowered with control and surveillance capabilities. This can be achieved in a variety of ways. Giving the citizens the right to complain; engaging them in the assessment of services; allowing them to participate in planning/budgeting and formulation of priorities; and engaging their civil society representatives in government reform plans are examples of citizen empowerment schemes. Over the last decade, a number of Arab governments have attempted some of these schemes. Thus, in Tunisia citizen groups have been instituted to evaluate various public services. In Dubai, citizen satisfaction surveys are now commonly used by government organizations. In Kuwait, an attempt was made in the early 1990s to conduct citizen surveys to assess public service quality. Most countries of the region have citizen procedure and citizen care units in the government organizations. However, the effectiveness of these systems are very limited due to weak enforcement, and lack of citizen surveillance over them. Various Arab countries are gaining increased awareness of the importance of citizen satisfaction with government services. Various slogans are raised carrying the notion of customer sovereignty in public services. However, these attempts have proven to be hard to translate into tangible reality under systems that greatly constrain the political sovereignty of citizens. Customer sovereignty flourishes under systems that ensure citizen sovereignty.

4. Decentralization to local elected entities.

This can be done through transferring power to local entities whose officials are elected by the local citizens. This type of decentralization brings power and governments closer to the people. It allows local communities and citizens to exercise surveillance over local entities; and brings the decentralized power to be answerable to local people. By doing so, services will have greater correspondence to local community needs. The issue of decentralization to local entities has been attracting greater interest in the Arab region recently. In Egypt, Yemen, Morocco, and Tunisia a strong reform movement has been calling for the transfer/devolution of authority to local bodies, especially elected ones. However, the hegemony of the central government has been constraining actual transfer of power to local entities. The relatively short experience with local participation has also been a limiting factor of transfer/devolution of power to elected entities.

5. Activating the role of civil society organizations.

In modern societies, civil society organizations play an essential role in making the government accountable to the society, by adopting issues representing the interests of various society groups. Enhancing the role of civil society in demanding accountability from government involves the most basic questions about power, integrity, transparency, and participation (Pope, 2000; Orego, 1995). The work of Putnam (1993) has demonstrated that the civil society can be instrumental for economic development, by providing the institutional mechanisms for collaboration and participation among people. Civic participation can be instrumental in getting people to adhere to rules they have imposed on themselves (Putnam, 1993). Activating the role of civil society in demanding and enhancing accountability from government requires a political

environment characterized by freedom and voice. It also requires that civil society organizations, themselves, be accountable, transparent and egalitarian. In the Arab region, the slow development of the civil society has been one of the major factors for governance deficiency. The Arab states have been reluctant to include civil society as a partner in development, let alone allowing it to act as a watch dog on government and state actions. Oftentimes, governments have seen it as a rival, both in terms of power and influence, and in terms of the outside aid it diverts from sources and channels which have traditionally been the exclusive preserve of government. Being in a developmental state, the situation of the civil society in the Arab countries is exacerbated further by the difficulties its organizations have in securing adequate funding and access to information while retaining independence and avoiding accusations of being foreign dominated.

Introducing energizing forces and market contestability.

The idea of introducing energizing forces and market contestability has to do with creating pressure on the public sector to change and improve similar to those constituting the environment in which the private sector operates. The contemporary literature on government reform has emphasized the importance of pressure and market contestability as means to activate forces for change in the public sector (Manning, 1996; Holmes and Stand, 1995; Commonwealth Secretariat, 1995; OECD, 1995; Osborne & Gaebler, 1993). James and Manning (1996) differentiated between four types of pressure for government reform. They are: fiscal pressure; consumer pressure (consumerism); pressure for new ideas (paradigm shift); and external pressure (emanating from the forces of globalization and other international sources).

At the core of the group of countries which have experienced the greatest pressure for change in all areas, a pressure that have led to extensive public service reform, are the OECD countries (Manning, 1996). With the exception of fiscal pressure and external pressure, the pressures for reform in developing countries are low. This is why, as Manning (1996) indicates, the interest in reform shown by governments of these countries have not been matched by good implementation, and reform projects generated by the pressures had limited or no impact on the wider public sector.

The situation in the Arab region is similar to that in the developing countries. Not enough pressure is exerted on the governments to engage in serious and extensive reform that changes the basic assumptions and tenants of the system of governance and administration. This is particularly true as far as changing the conditions under which public sectors operate toward energizing the forces for change and introducing market contestability.

Using the framework suggested by James and Manning (1996), the following table is constructed to provide comparison between Arab countries and other groups of countries with regard to pressures for government reform.

Pressure for Reforms	OECD Core Reforms	Developing Countries	Arab Countries
Fiscal Pressure	High	High	Low/Medium
Consumer/Market Pressure	High	Low	Low
Pressure of New Ideas: Voluntary Pressure	High	Low/Medium	Low
External Pressure	Low	High	High
Overall Pressure for Reform	Consistently High Pressure	Varying Pressure	Consistently Low Pressure

The question is how to overcome such condition of low incentives for government reform in the Arab countries? The pressure factors suggested by James and Manning pertain to the overall aggregate macro level. However, it is possible to introduce pressure factors and mechanisms that operate at lower than the aggregate macro level. The factors delineated below can be considered as examples of the energizing and market contestability factors that can be used to generate pressure for reform in the Arab countries.

1. Competitive provision of public services.
This can be realized through creating contestability in the provision of public services. By arranging for several sources of supply, competitive provision generate a strong pressure on government organizations to improve and reform. This has proven to be a very effective way to create pressuring competitive forces within the service provision that lead to improvement.

2. Outsourcing and contracting-out.
Government outsourcing of supplies and services and its relying on outside sources for provision of certain activities through contracts have been growing as a means to reduce government size and achieve efficiency and economy. The growing use of these policies has been created out of the pressure to economize government spending, improve quality of services and streamline government operations. It has been used to increase the government reliance on market sources for service provision. In both cases of outsourcing and contracting-out, the government maintains control over service prices and quality standards. Over the last decade, various Arab countries have started to rely on outside sources of supply or provision. Most of the applications are taking place at the sub-government and local levels. Operations of the central government have not been affected much by this trend. What is needed is a comprehensive audit of various government activities which constitutes support or auxiliary functions for consideration of outsourcing or contracting out these functions.

3. Externally publishing performance information.
This assumes that the performance of government organizations is assessed through systematic means. A great deal of pressure on these organizations to improve and reform is created through external scrutiny of and publication and dissemination of extensive performance infor-

mation. The promulgation of such information triggers the interest of the public opinion, the press, the stakeholders, reform experts, interest groups in addition to the government controlling agencies, and generates the needed pressure.

4. Privatization/commercialization/corporatization.
These represent various means of introducing market-based mechanisms in the public sector. Within this, Manning (1996) suggests that priority should be given to moving market-based activities to the private sector. Privatization and private sector provision (outsourcing and contracting out) represent the means to achieve that. Successful application of these market-based transformations requires effective regulatory institutions especially in the case of public utilities. Where privatization and private sector provision is not possible, two options are available; commercialization and corporatization. Commercialization means the government continuing to provide the service but on cost-recovery or other price/fee bases. Corporatization involves designing corporate forms with government for functions expected to generate operating surplus (Manning, 1996).

5. Installing competitive contests/awards schemes.
Competitive contests and awards in the public sector are being used now by an increasing number of countries in the world. They are used to reward organizational excellence, to provide an energizing force for development and innovation, to create a quasi competitive market mechanism among public organizations and to provide an opportunity for organizational learning through benchmarking among these organizations. When the criteria of these contests are properly designed and implemented, the contests/awards schemes can generate a powerful force for improvement and reform. The experience of OECD countries and the newly industrialized countries in using these schemes can be of great benefit for the Arab countries. In the Arab region, Dubai has been using these schemes since 1998. Originally they installed an award scheme similar to Malcom Baldridge Award used in the USA. But over the last few years they adopted the scheme of the European Quality Award. The award system has been developed into a full-fledged program containing various contests/awards to recognize and reward different types of innovations and performance distinction at various levels and domains. Over the last three years the program was expanded to include prizes and contests for public sector performance at the scale of the Arab region. The program is strongly supported by the top leadership of the Emirate. The impact of this program on improvement, innovation and reform of public sector organizations in Dubai has far exceeded any other reform program in the Arab region at the national or local levels.

6. Conducting integrity audit of public sector organizations.
Integrity, transparency and ethics should be incorporated in the standards by which public sector organizations are made accountable. Verifying and assessing ethical conduct of public officials and public agencies requires subjecting their practices and activities to accountability surveillance and audit. This is not to search for wrong doings but also for exemplary cases of ethical conduct. In countries with strong integrity regimes the task of conducting this audit is done on regular basis and irregular points when necessary by the anti-corruption institution. Special

attention is given to government activities particularly susceptible to corruption. Usually greater scrutiny is applied to these areas. The power of such audit is greatly increased when its reports are made public. Introducing such a mechanism in the Arab countries is likely to depend on the strength of their commitment to combating corruption and strengthening integrity.

7. MATCHING PRESSURE/ENERGIZING FORCES AND ACTIONS.
It is not enough to generate pressure and energizing forces. It is equally important to link these with reform actions, and to make sure that change and improvement have become a habit. This is not to say that Arab countries should engage in changing their government systems and practices for the sake of mere change. It implies that change should result in improved performance and impact. Externally generated forces for improvement should be matched with internally activated mechanisms such as transformational/innovative leaders, TQM, quality circles and organization/group learning networks. Aligning external forces with internal energizing mechanisms is likely to change the culture of stagnation, passiveness, mechanistic mindset, and rule-oriented resistance to change characterizing government bureaucracies in the world, including Arab countries.

STRENGTHENING INTEGRITY AND COMBATING CORRUPTION

Although government integrity/corruption is partly a product of the accountability system within which the government operates, its treatment within the context of governance reform warrants special focus. Like most developing countries, governments in the Arab countries are vulnerable to various forms of corruption. Due to corruption, government led development programs in the Arab countries in the last four decades have been mishandled, and have distorted development greatly and wasted a significant portion of its resources. The current system of public governance in the region has contributed greatly to the waste and corruption associated with the public sector. Grand corruption exists in most Arab countries, as the state directs and controls major public projects and transactions with little public accountability over its actions. Petty corruption exists also in most Arab countries, but its common form, bribery, is widespread in government organizations of middle income and poor Arab countries. The impact of corruption on the investment climate varies greatly among countries, depending on the degree to which corruption has penetrated government organizations dealing with the private sector. Where real wages of public employees have deteriorated greatly, these organizations and their employees became more vulnerable to briberies and other forms of corrupt practices.

The following table is extracted from the Corruption Perception Index - 2003 prepared and published by Transparency International.

CORRUPTION PERCEPTION INDEX 2003 FOR ARAB COUNTRIES

Country Rank(1)	Country	CPI 2003 Score(2)
26	Oman	6.3
27	Bahrain	6.1
32	Qatar	5.6
36	Kuwait	5.3
38	United Arab Emirates	5.2
39	Tunisia	4.9
44	Jordan	4.6
47	Saudi Arabia	4.5
69	Syria	3.4
72	Egypt	3.3
74	Morocco	3.3
80	Lebanon	3.0
82	Palestine	3.0
88	Algeria	2.6
91	Yemen	2.6
110	Sudan	2.3
115	Iraq	2.2
120	Libya	2.1
	Best Five Countries	
1	Finland	9.7
2	Iceland	9.6
3	Denmark	9.5
4	New Zealand	9.5
5	Singapore	9.4

(1) Total number of countries included in the index for 2003 is 133 countries.
(2) Out of ten.

As the table indicates, most Arab countries included in the index fall below the world median which is rank 67. All Gulf Arab countries have ranks above the world median. However, there is a vast difference between the index scores of most Arab countries and those of the best five countries in the world.

Strengthening integrity and combating corruption in the Arab countries requires reforms in three main areas:

1. REFORMING THE ACCOUNTABILITY SYSTEM (INTERNAL AND EXTERNAL) WITHIN WHICH THE GOVERNMENT ORGANIZATIONS OPERATE, INCLUDING REFORMING THE ADMINISTRATIVE SYSTEMS.

ENHANCING PUBLIC AND POLITICAL ACCOUNTABILITY OF THE GOVERNMENT. International reports have indicated that there is a serious gap in public accountability between the Arab region and other regions in the world (e.g. World Bank, 2003).

ADOPTING A PROGRAM OF STRENGTHENING INTEGRITY AND COMBATING CORRUPTION IN GOVERNMENT ORGANIZATIONS. Part of such a program is to establish an independent anti-corruption agency and empower it with the means to launch and implement the program. At present, no such independent anti-corruption agency exists in countries of the region. Countries of the Arab region could learn from international experiences regarding the structure, roles, and prerequisites for the effectiveness of such an entity. The program needs to be supported by the apex of the government and the state. This program may include:

- Enhancing the transparency of the government activities, particularly those activities vulnerable to corruption.
- Strengthening the sanctions associated with corrupt / unethical practices.
- Providing political support and commitment of the top political leadership to enhancing the integrity of various branches of the state and fighting corruption in their organs.
- Enhancing the role of the civil society organizations in the campaign against corruption.
- Building the institutional capabilities of the state's various domains and systems to reduce the likelihood of corruption and increase the probability of ethical, proper, and efficient conduct. This requires a major audit of the current institutional framework governing practices and decisions in the public sector and a comprehensive attempt to reform the related systems and institutions.
- Building and strengthening the integrity tenants of the civil service and HRM system in the government should be an important component of the reform agenda. Improving the professionalism of the civil service is an important reform dimension in this regard.
- Building awareness among the public of the need to combat, fight, and prevent corruption and encourage integrity and ethical practices in all areas of the society's life.
- Treat the deeply rooted causes of corruption and not merely fighting the symptoms. Streamlining administrative systems, monitoring performance, including ethical dimension in the assessment of public agencies and officials, correcting/reforming the compensation system of public employees, regulating the exercise of public authority, and strengthening the control and accountability system are all elements of reform that address real causes of corruption.

REFERENCES

- Acemoglu, D. (2003). "Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development". Finance and Development, 40 (2): 27-30.
- Arab Planning Institute (2003). Arab Competitiveness Report 2003. Kuwait: Author.
- Capannelli, Elisabetta (2003, October). "Competition and Regulation in Infrastructure: Perspectives for the Mediterranean Region". Private Participation in Mediterranean Infrastructure (A Joint World Bank/European Commission Programme), 2nd Seminar. Cairo, Egypt.
- Commonwealth Secretariat (1995). From Problem to Solution: Commonwealth Strategies for Reform. London: Commonwealth Secretariat.
- Dasgupta, Dipak, Keller, Jennifer and Srinivasan, T.G. (2002). "Reform and Elusive Growth in the Middle East - What has happened in the 1990s?". The World Bank, Working Paper Series no. 25.de Soto, Hernando (1997). The Mystery of Capital, New York: Basic Books.
- Easterly, W. and R. Levine (2002). "Tropics, Germs, and Crops: How Endowments Influence Economic Development". National Bureau of Economic Research, NBER Working Papers 9/06. Cambridge, M.A.
- Hall, Robert and Charles I Jones (1999). "Why Do Some Countries Produce So Much More Output per Worker Than Others?". Quarterly Journal of Economics.
- Hoekman, B., and P. Messerlin (2002). "Harnessing Trade for Development and Growth in the Middle East". Report by the Council on Foreign Relations, Study Group on Middle East Trade Options. New York.
- Holmes, M. and D. Shand (1995). "Management Reform: Some Practitioner Perspectives on the Past Ten Years", Governance, vol. 8, no. 4.
- James, O. and N. Manning (1996). "Public Management Reform: A Global Perspective", Politics, No. 2, 1996.
- Lall, Sanjay (2000). "Strengthening SMEs for International Competitiveness". The Egyptian Center for Economic Studies, Working Paper No. 44.
- Manning, Nicholas (1996). "International Lessons from Public Service Reform: Resisting Disconnected Solutions". In, World Bank, Good Governance for Private Sector Development and Investment in the Middle East and North Africa. Workshop Proceedings, World Bank.
- Mauro, Paolo (1995). "Corruption and Growth". Quarterly Journal of Economics 110: 681 - 712.
- Nabli, M.K. and A.I. De Kleine (2000). "Managing Global Integration in the Middle East and North Africa". In: B. Hoekman and H. Kheir - El - Din (eds.), Trade Policy Developments in

the Middle East and North Africa. Washington D.C.: The World Bank.

- Nunnenkamp, Peter (2003). "Economic Policy, Institutional Development, and Economic Growth: How Arab Countries Compare with Other Developing Countries". Keil Institute for World Economics, Working Paper No. 1183.
- Orrego, Claudio (1995). "Citizen Participation and the Strengthening of Accountability in Chile's Municipal Governments". manuscrito inedito, abril.
- Osborne, D. and T. Gaebler (1993). Reinventing Government. London: Penguin.
- Pope, Jeremy (1996). "Enhancing Accountability and Ethics in the Public Service". In: World Bank, Good Governance for Private Sector Development and Investment in the Middle East and North Africa. Workshop Proceedings, World Bank.
- Pope, Jeremy (2000). Confronting Corruption: The Elements of a National Integrity System. Berlin: Transparency International.
- Porter, Michael E., (1990). The Competitive Advantage of Nations. New York: The Free Press.
- Putnam, Robert (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton, N.J.: Princeton University Press.
- UNDP (United Nations Development Program) (2002). Arab Human Development Report. 2002. New York.
- World Bank (2000a). "Pilot Investment Climate Assessment: Moroccan Manufacturing Sector at the Turn of the Century: Results of Firm Analysis and Competitiveness Survey, FACS - Morocco". Washington D.C. Available online at http://www.worldbank.org/privatesector/ic/docs. Accessed 2004.
- World Bank (2000b). The Quality of Growth. New York: Oxford University Press.
- World Bank (2003): Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability. Washington D.C. Available online at http://www.worldbank.org/privatesector/ic/docs. Accessed 2004

1. Intra-industry trade (trade in similar goods between countries) is an indicator of com petitiveness measures, the degree of diversity, specialization and technical sophistica tion of a country's industry.

2. Independence of civil service from political pressure can be interpreted to mean the degree to which such administrative systems have been institutionalized and operated based on objective (non-political) criteria.

3. Whistle-blowers are those individuals who direct the attention to wrong doings and expose malpractices taking place in the organization. By doing so they may face the risk of vindictive actions by those whose wrong doings have been exposed.