

Inclusive Growth in the Middle East and North Africa

Recommendations and best
practices from the private sector

This report makes concrete recommendations for improvements of the private sector environment in the MENA region with a mandate from the Arab-EU Business Facilitation Network that comprises eight leading business organizations from the MENA region and represents more than 750.000 member companies.

Association of Lebanese Industrialists

Jordan Chamber of Industry

Forum des Chefs des Entreprises d'Algeria

Union Tunésienne de l'Industrie, du Commerce et de l'Artisanat

Confédération Générale des Entreprises du Maroc

Damascus Chamber of Industry

Libyan Businessmen Council

Federation of Egyptian Industries

Confederation of Danish Industry

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Foreword

President of the Arab-EU Business Facilitation Network, Mr. TIBAOUI AHMED EL ANTRI

The Arab-EU Business Facilitation Network was initiated in the summer of 2010. Despite the fact that the ideas behind the network predate the beginning of the so-called Arab Spring, the importance of the network's mission has never been of higher importance. The AE-Network seeks to promote intraregional economic integration and business facilitation in the MENA region as well as facilitate interregional trade between the Arab world and the EU. This is a mission that should lie evermore at the core of both Arab and EU policy priorities.

As the EU faces its perhaps biggest existential crises since its inception 60 years ago, it must rediscover its *raison d'être* and underlying core values. These core values are also what should serve as an inspiration to the justification of why the MENA region should seek both to further its own economic integration as well as to connect more closely with its northern neighbours. While the EU might first and foremost be an economic union, the EU's biggest achievement, as also indicated by its award of the 2012 Nobel Peace Prize, is arguably its success in sustaining peace in a region that has historically been the global heart of bloodshed until the middle of the 20th century. It is towards this holistic view of the gains from regional integration that arguments for deeper cooperation within and between our regions must be sought.

While the Arab world is in a state of rapid change, regional economic integration might not be on the top of the political, let alone public agenda. It should, however, be at the very core of solutions to the woes of the region in the short term as well as to the plans for sustainable development over the long run. The political and economic grievances faced in both the EU and in the Arab world are two sides of the same coin. For this reason, a stable and prosperous development within and between our regions must tackle both economic and political reforms for either to succeed. By cooperating more closely and more freely, our two regions will be able to enter into a virtuous circle of economic prosperity and stability.

The backbone of any successful and stable economy is a well-educated labour force working in diverse sectors and in companies of all sizes. For this reason the AE-Network has chosen to focus on the creation of an enabling environment for SMEs as well as improving vocational training across the countries of the MENA region. This will enable the creation of jobs and inclusive growth and ultimately fertilize the ground for further regional integration as well as strengthen arguments for reforms towards more and freer trade with the European Union.

As the arguments for free trade and economic integration across regions are virtually unchallenged within academia, all opposition to such enterprise is bound to have roots in populist political agendas. For this reason, intermediary business organisations have an important role to play in advocating for freer and simpler trade between countries and regions. As an individual business organisation will tend to focus only on bilateral interests, the union of business organisation from both regions in the AE-Network is a unique opportunity for us to learn from each other as well as to reach a wider audience with a wider message:

The facilitation of business within Arab countries as well as between the EU and the MENA region is a win-win situation for all.

Introduction to the Arab-EU Business Facilitation Network

The ARAB-EU Business Facilitation Network is an alliance of 8 leading Business Membership Organisations (BMOs) from the MENA region (Middle East and North Africa). The Network was launched in 2010 and consists of BMOs from Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, and Tunisia. The Confederation of Danish Industry (DI) acts as a facilitating partner.

The Network has agreed to work strategically together, promoting relevant policy issues within and between our respective countries. Specifically, the purpose of the Network is to create a platform from which we can discuss the challenges for businesses and identify shared solutions and policy recommendations. A specific emphasis is on strengthening cooperation between the EU and the Arab World and to achieve a larger degree of integration between the Arab and the EU markets for the benefit of businesses in both regions.

To date we have developed two annual reports with concrete recommendations on how to enhance the business environment in our region by improving both intra-regional trade legislation and trade arrangements with the EU. Based on surveys among member companies and governments in our region combined with extensive desk research, we have developed recommendations and a road map on substantial legislative and procedural matters which, if reformed, will have a positive impact on the level of intra-regional and international trade as well as significant social-economic benefits.

Enhanced inter-regional trade is one precondition for increasing our competitiveness. We need to integrate our economies and push for better regulation and fewer barriers to trade. We call on the governments in our region to implement a legal framework that stimulates companies to improve trade and growth rates. However, the strength of this fully relies on the commitment and willingness of the policymakers in our region to put aside narrow short-term interests.

With regards to private sector reforms, the present political changes can, and should be, transformed into concrete reforms that will benefit businesses as well as citizens through lower prices, job creation and inclusive growth. These economic developments will, in turn, bring sustainability to the political changes in our region and support a reinforcing circle of prosperity.

However, in order to reap these potentials, we need to cooperate to a larger extent than today and our politicians must act now. From a united business point of view, the Arab-EU Business Facilitation Network illustrates that cooperation is not just possible it also highly beneficial.

Policy position

1. Creating an enabling environment for SMEs

Introduction

Small and Medium Sized Enterprises (SMEs) constitute up to 85 percent of the private sector in the MENA region. The contribution of formal SMEs to the economy is estimated to be up to 60 percent of GDP and up to 70 percent of employment on average across the MENA region.

SMEs create spill-over effects in society in terms of dynamics between each other, and they create an overall higher level of productivity. They are not locked in bureaucratic ways of operating and are thus faster in the implementation of new technologies and approaches. This implies that, besides from creating jobs, SMEs are contributing to moving a society in a more modern and dynamic direction.

Nevertheless, SMEs find it very difficult to set up and grow their business as they face a long list of financial and non-financial constraints. For this reason we must seek to assist SMEs in dealing with their specific challenges, by focusing on the following:

- To increase the formal business sector
- To increase the number of entrepreneurs
- To increase growth among SMEs
- To increase share of SMEs with international activities
- To increase the incentives to run a formal business

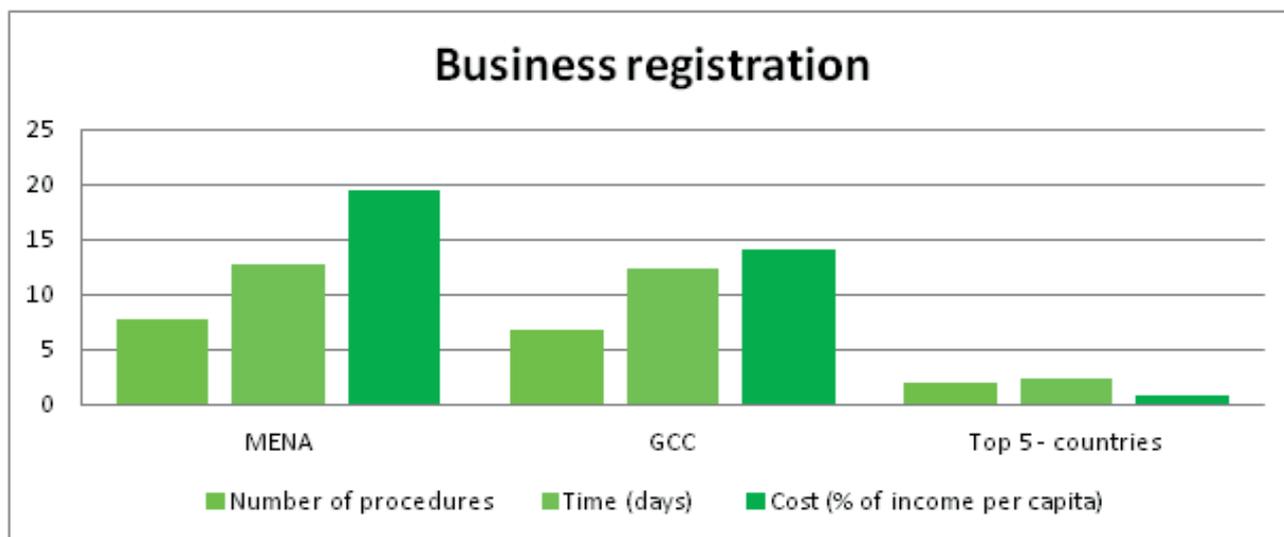
Current status

On the basis of feedback from SME member companies in the region, a varied image is presented showing constraints, potentials and improvements in relation to creating an enabling environment for the SMEs. The overall image presented shows a need for better business conditions, but also acknowledges reforms already implemented to improve these conditions.

The Arab world lags behind other regions in access to credit and in the deployment of movable collateral systems. According to World Bank Enterprise Surveys conducted (2010), the Arab world had the smallest share of firms (25%) with credit lines or loans from financial institutions, and substantial collateral requirements (82% of loans require some type of collateral). Although most banks are already engaged in SME lending to some degree, feedback from member companies shows that this accounts for a very small fraction of total loans and is still at an infant stage.

Many of the companies in the region that have managed to work around the issues of credit, express that they experience limitations in terms of exporting their products, which is not only a limitation to the company in question, but also to society at large.

Exporting in the Arab world takes an average of 21.3 days, and importing 24.9 days. In OECD high-income economies exporting and importing take less than 11 days on average. A study focusing on Asia-Pacific Economic Cooperation (APEC) economies estimates that cutting the days needed to clear exports by half could enable an SME to increase its share of exports of total sales from 1.6% to 4.5%. A study in Sub-Saharan Africa estimates that reducing exporting costs by 10% through improvements in the efficiency of the trade process increases exports by 4.7%.



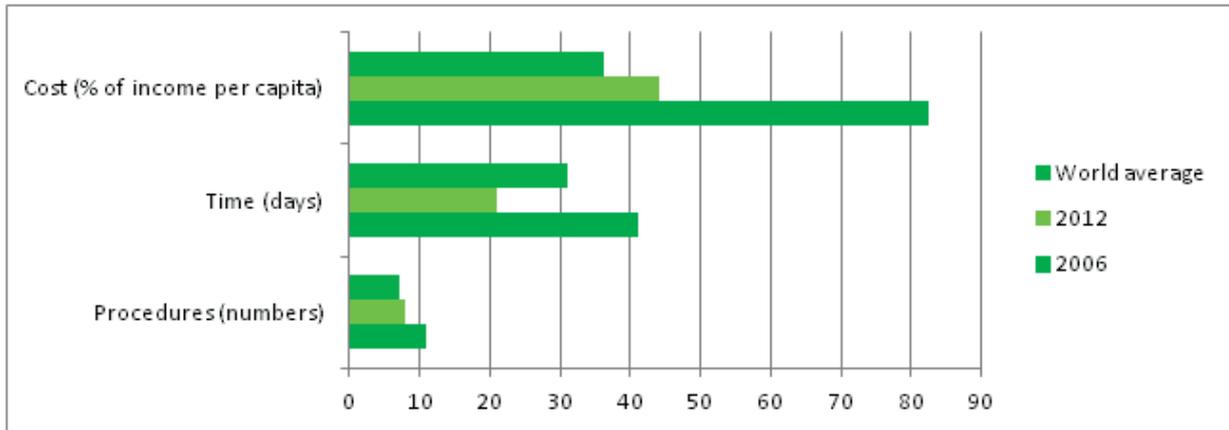
Source: World Bank, 2012

For SMEs to thrive, the basis for growth and innovation need to be in place, and in this respect member companies of the AE-Network have experienced constraints, especially in terms of labor skills and expenditure on R&D.

A survey conducted by the World Bank on the constraints on growth in the MENA region supports this, as the survey showed that constraints on labor skills appeared to have the largest negative impact on growth in the region.

These constraints increase the so-called innovation gap between developed and developing countries which is a comparison of the expenditures on research and development in the different regions. Gross Domestic Expenditure on Research and Development (GERD) as a percentage of GDP highlights this as it shows that developing countries on an average spend 0.6 percent of GDP, Arab states in Africa 0.2 percent and developed countries 2.2 percent. This entails that GERD per inhabitant in developing countries is around \$20, in Arab states in Africa \$7, and in developed countries \$377.

The member companies of the AE-Network, however, acknowledge the efforts already made, and overall the MENA region have, through a number of different reforms, made it easier to start a business in the region. This is shown in the following figure:



Key challenges to SME development

Access to Information

“Many of our member companies argue that their business suffers from insufficiency in the provision of information, mainly due to slow and cumbersome processes, limitations in scope, and only access from isolated institutions.”

- Participant in the AE-network

For the achievement of broader development goals, including economic development, poverty alleviation and social cohesion, SMEs are crucial instruments. It is imperative that SMEs have access to adequate business information to facilitate market access and improve productivity.

Best practice from the region

Jordan seeks to get more new businesses and investments in the formal economy and has, as part of this, set grand goals for information dissemination and improvement of business entry procedures.

Jordan is now using information and communication technology to automate business processes, and procedures have become more effective, simplifying registration processes, and cutting the number of procedures in half, unifying company databases and streamlining workflows.

Future steps include putting the application process online and uniting the various entities involved on one website.

Access to Foreign Markets

“We focus on our home market as we do not have the necessary resources to access the foreign markets, and this seems to be the case for most of my business network”

- Participant in the AE-network

Many SMEs still depend largely, or solely, on their domestic markets. At the same time many SMEs are already exposed to strong international competition even within their own domestic markets. Studies have shown a direct link between internationalization and increased performance. Internationalization reinforces growth, enhances competitiveness and supports the long-term sustainability of the company. It is important to raise awareness not only about the benefits of internationalization, but also about the awareness of existing programs to support SMEs when they decide to go international.

Best practice from the region

Tangier Free Zone (TFZ), near the Ibn Battouta International Airport in Morocco was established as leverage for developing investment and export in the country. TFZ is operating as an export processing zone and includes agri-food, textiles and leather, metallurgy, mechanical, electronics, chemical and high technology.

The ambition is to create 47,000 jobs in 10 years and increase the competitiveness of domestic industries.

Goods entering and leaving the TFZ are not subject to the national legislation on foreign exchange, and commercial and industrial activities as well as services for overseas markets enjoy total exchange freedom whatever the nationality and residence of the operator.

Furthermore The Tangier Free Zone functions as a one-stop-shop for investors in the sense that all the administrative procedures are done on site.

Access to Finance

“Our experience is that our members have trouble getting access to the funds they need for growth or innovation, and often the requirements to financial structure and collateral are unrealistic”

- Participant in the AE-Network

Even before the economic downturn began in 2008, some small firms had trouble getting funds for their business activities. Whether they need a car loan to start a delivery business or venture capital for a production start-up, SMEs often find it difficult to access finance.

Best practice from the region

In Lebanon different programs exist, which are directed towards SME's access to finance. One such program is Kafalat, which is a Lebanese financial company with a public concern that assists SMEs to access commercial bank funding. Kafalat helps SMEs by providing loan guarantees based on business plans and feasibility studies that show the viability of the proposed business activity. The guarantee that is made in favor of the lending bank, allows the borrower to provide the bank with collateral, which makes the loan safer for the bank. With the Kafalat loan guarantee, the bank may require less additional collateral for the loan. Kafalat constantly urges banks not to ask for other guarantees and to be content with the credit decision made based on the business plan and the feasibility of the project.

Best practice from the region

The Egyptian Social Fund for Development (SFD) was established in 2006 with the aim to increase the competitiveness of the private sector and particularly SME's, supported by funds from the World Bank.

The mandate of the SFD is to reduce poverty by supporting community-level initiatives, increase employment opportunities, and encourage small-enterprise development. In doing this, it is tasked with mobilizing resources, and cooperating with governmental bodies and private sector groups. The funds are distributed between supporting the development of small enterprises, providing microcredit, and financing community infrastructure.

Human resources

“How we can get more qualified workers, is a question we hear frequently from our members, and unfortunately the answer will often be unsatisfying for them, as skilled workers are hard to find”

- Participant in the AE-Network

It is widely acknowledged that lack of information and knowledge prevents SMEs from reaching their potential and from growing . However, it's seldom enough to just to make the information available. The issue is more complex. Without the necessary management skills,

Best practice from the region

In 1996, the National agency for enhancing youth employment (ANSEJ) was created in Algeria, in order to support self entrepreneurship through young people and especially through new graduates of universities. A system was built up, in which projects agreed by ANSEJ and presented by young Algerians (whose age is between 19 and 35), can benefit from a very advantageous financing formula.

Amount of these projects can reach up to 10 000 Euros. 30% of the amount is granted by ANSEJ and state funds, and 70 % of the financing is completed by a bank loan with a guarantee of a specialized public institution.

At the end of the year 2011, 232 508 small enterprises were created thanks to this system (ANSEJ). 14% of the financed projects benefited to women.

many viable companies with good product offers never reach their potential or might even risk being run out of business by competition.

Best practice from the region

To ensure a better educated youth Morocco undertook a national program “Education of Employment” (EFE) that seeks high-level institutional change by partnering with some of Morocco's largest universities. EFE has collaborated with more than 180 employers and 30 educational and institutional partners to create and deliver tailored curricula, place youth in jobs, and enhance the ability of traditional education institutions to improve the school-to-job transition.

EFE-Maroc is catalyzing through partnerships with the University Hassan II in Casablanca and El Jadida, Chouaib Doukkali University in El Jadida and Abdelmalek Essaadi University in Tangier, Tetouan, and Assilah, EFE is sharing best practices and curriculum to help these universities improve the employment outlook of their graduates.

Innovation

“We would like to engage our members more in partnerships and initiatives challenging and developing our industry, but funding and relevant information is almost impossible to get”

- Participant in the AE-Network

SMEs face increasing competition not only for sales, but also for technical know-how and skills. Many SMEs lack the necessary resources (human, knowledge and financial) to participate in innovation project, and at the same time the SMEs often also lack information about relevant partners (e.g. companies, universities and research institutions). In the current financial situation, SMEs also experiences difficulties in getting the necessary funding.

Best practice from the region

Lebanese Industrial Research Achievements’ (LIRA) objectives are to encourage university-industry cooperation towards building a knowledge-based economy, match university research with industry needs, and offer a national platform for potential new products and services (supporting university-based research labs). The instruments to help achieve the objectives consist of an annual Conference and Exhibition for Research Achievements, regular contact with industrialists and universities/vocational schools, and coordination and cooperation with other Arab and International organizations that share similar objectives

Following several workshops in the MENA region with the participating BMOs of the AE-network and leading international experts, as well as feedback from the vast member base of the Arab-EU Network, the main constraints towards the development of an enabling environment for SMEs have been identified. On the basis of this the network has identified four recommendations that are easy to implement and that are based on best practices from the region.

Recommendations for the MENA governments

- Actively and financially support industrialists to participate in international sectorial exhibitions to help them access foreign markets and promote domestic products.
- Put in place financial support schemes specifically targeting exporters, supplemented by programs aimed at assisting exporters in tapping into new export markets (including technical capacity building and promotional support programs).
- Assist SMEs to access commercial bank funding by providing loan guarantees to reduce the risk of the loan for the bank and thereby provide incentives for commercial banks to be less risk averse. This should ensure access to credit for sound business projects without having to provide collateral.
- Encourage university-industry cooperation towards the building a knowledge-based economy as well as launch programs to match university research with industry needs.

MENA Small Business Act

SME development should be the first, and main, priority for the governments in the MENA region when drafting any new law or policy. In order to assist the governments of the MENA region with this task, the AE-Network has set up 10 guiding principles that, if followed when drafting new legislation, will improve the environment for SME for the benefit of the entire economy and society at large through inclusive growth and job creation.

To create a level playing field for SMEs and ensure that these can utilize their full potential, the Arab-EU Network set up [10 principles](#) which should guide the design and implementation of policies and laws in the MENA region every time a law is being drafted.

1. Create an environment in which formal businesses can thrive and are rewarded
2. Policies should promote good corporate governance and fight corruption and improve transparency
3. Encourage and support SMEs in the MENA region to benefit from European Market
4. Facilitate SME's access to finance and develop a legal and business environment supportive to timely payments
5. Fixed dates for when business regulation will come into force
6. Design rules according to the "Think Small First" principle
7. Promote the upgrading of skills in SMEs and all forms of innovation
8. In case of force majeure, provide honest entrepreneurs who have faced bankruptcy a second chance
9. Adapt policy tools to SME needs to facilitate SME's participation in public procurement
10. Implement good corporate governance in the entire procurement cycle, from needs assessment to contract management

2. Vocational Training

Introduction

The countries in the MENA region face many challenges when it comes to decreasing the high unemployment rate – especially among the youth. This is essential for the economy, but also for the political stability of the countries in the long run.

For decades, the governments of the MENA region have subsidised the economy and increased public sector jobs to maintain employment and to promote stability. This has resulted in a misallocation of resources and a skills mismatch on the labour market. There is a need for a more competitive private sector that is more capable of exporting manufactured products to other countries. For this to come true a qualified work force is needed, and to facilitate this, the education system must be transformed.

An increase in the overall educational level will improve the efficiency of each individual worker. Moreover, workers who have received little formal education can carry out only simple manual work and find it much more difficult to adapt to more advanced production processes and techniques. Lack of basic education has therefore become a constraint on business development, with enterprises finding it difficult to move up the value chain by producing more sophisticated or value intensive products. Education and especially the right kind of education is one of the answers to this challenge.

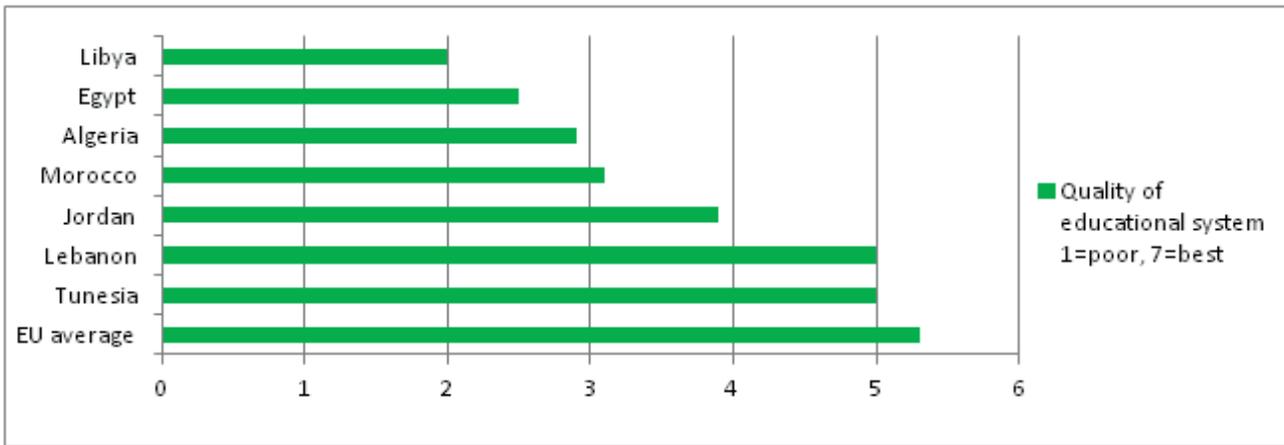
There are big challenges in creating a coherent education system that responds to the need of the labour market in a globalised world. From the private companies' point of view, the challenges are especially big regarding the need to supply the private enterprises with the right kind of qualification – especially from vocational education and training.

Current situation

“Member companies throughout the region have expressed concerns regarding the current condition of the work force, and many member organizations question the efforts made by previous governments to build a proper education system to meet today’s business needs”

- Participant in the AE-Network

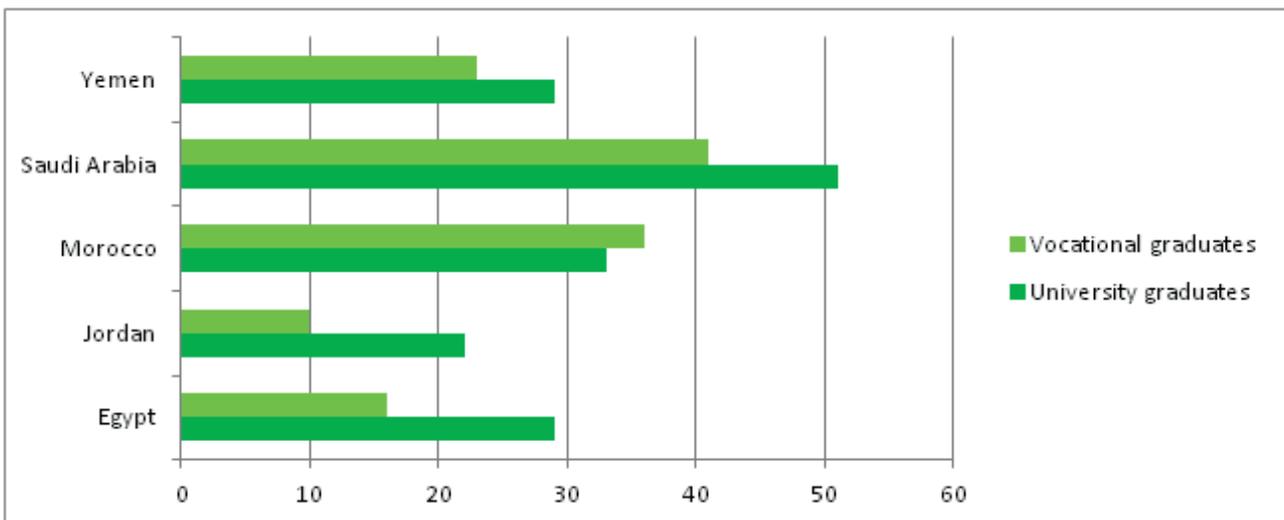
MENA countries spent an average of 5.3% of public expenditure on education from 1995 – 2003. Asian and Latin American countries spent 3.6 and 3.9 percent. At approximately the same time (1990 – 2003) the GDP growth pr. capita was 0.8 percent in MENA and 4.3 in Asia and 1,7 in Latin America. All else equal it is thus evident that the MENA region has been performing poorly in transforming expenditure on education to economic growth.



Quality of education system (0 is poor and 7 is best) Source: Global competitiveness report 2010-11, WEF

Furthermore, a survey in the MENA region highlighted that employers do not find that graduates from universities and vocational education have the appropriate hard or soft skills. The lacks are most severe regarding vocational education. Emphasis should especially be put on improving the vocational education system and curricula should to be adapted better to the needed competences on the labour market.

Percentage of managers who agreed that newly hired students have appropriate skills:



Source: e4e

Key challenges

No long term strategy

As mentioned above, MENA countries have had a lower return on the investment in education if terms of economic growth if compared to the countries of Asia and Latin America. One reason could be the lack of focus according to what kind of education investment that yields the best result in terms of economic growth. One finding of the ARAB-EU Network is that there is a lack of long term strategy at national level on skills

development and that governments do not engage in public-private dialogue in order to match education in general and vocational training in particular with the needs of the private sector.

Best practice from the region

To increase its overall industrial capacity Egypt is giving special emphasis to the upgrading of the quality of vocational training. Through its TVET program (technical and vocational education and training) Egypt seeks to upgrade and reform vocational training in order for it to be closer linked to the needs of the labour market, and in particular to those of the SME's.

Basic technical and vocational education and training in Egypt is provided through secondary education in technical and commercial schools, and post-secondary education in training institutions. Other forms of training include training through industry attachments (such as apprenticeships), in-service training, and the re-training of people already in the labor force, both employed and unemployed.

Low quality and outdated curriculum

High quality primary, secondary, higher and vocational education and training are fundamental to our future prosperity. In the rapidly changing and globalized world, education is the key to employment, economic success and allowing people to participate fully in society.

The education system in the region, however, is widely criticised among the members of the AE-Network for clinging to an outdated tradition of rote learning methods and teacher-oriented pedagogy that prevent the emergence of pupils who are capable of independent and critical thinking. Basically, the education system in the region has focused more on repetition and knowledge of facts and concepts, and less on developing problem-solving capacities.

Reforms are therefore called for that support active learning and problem solving skills among pupils, as well as reforms that ensure an adaptation of curricula to the needed competences on the labour market.

Best practice from the region

Tunisia has undergone a pedagogical reform inspired by the Competency Based Approach. The motivation has been to shift away from the topic/information-based curriculum towards a new curriculum that focuses on knowledge, skills, and attitudes with emphasis on the core skills of reading, writing, and numeracy skills. Each unit of the curriculum embodies learner-centered activities that integrate these three types of competencies. The new curriculum is also characterized by the introduction of English at the eighth grade of basic education to expand the multilingual skills of the Tunisian students. The adoption of the new curriculum has been followed by the design and production of a new generation of textbooks and assessment handbooks.

Skills mismatch

Up-to-date skills that address the needs of the labor market are crucial for all economies. Skill mismatch refers to various types of skill gaps or imbalances, which may be quantitative or qualitative in nature, between the labor force and the needs of the employers. Skill mismatch has important implications at various levels. In addition to possible adverse impacts on individuals and companies, skill mismatch may hamper economic growth, competitiveness and innovative capacity at macroeconomic level.

Best practice from the region

Public and private-sector institutions in Lebanon plan to work together to shape cooperative vocational training. 27 public and private schools now offer initial cooperative vocational training in eight occupations, based on the dual system. Demand is on the rise: in the 2010/2011 school year, approx. 1,680 young people underwent dual training and more than 650 companies offered apprenticeship positions. About two-thirds of the qualified apprentices found a job straight away or decided to study further.

Recommendations for the MENA governments

- Bring together partners and institutions from public and private sectors to shape cooperative vocational training. Cooperative training can only be shaped by pulling together, making the necessary adjustments and setting the legal framework.
- Educational institutions should establish strong ties with industrial institutions in order to help students procure training and secure employment upon graduation. The educational programs should better merge theory and practice in accordance with international standards, and make use of up-to-date curricula.
- Set up goal for the educational system that can support economic development in our countries and a strong competitive private sector.
- Focus on the quality of TVET Programs (technical vocational education and training) to attract young people. We need to increase of the funding for TVET because TVET is very important for the development of the economy and the further qualification of unskilled employees.

3. Rules of Origin

Introduction

In light of the future deep and comprehensive free trade areas that will be part of the existing Euro-Mediterranean Association Agreements in 2012-13, it is important that the negotiations take account of the challenges as seen from an Arab-EU private sector perspective. The AE-Network sees significant potential benefits in reforming the current rules of origin between the EU and the MENA region.

The agreements are expected to improve economic governance as well as the ability of the partner countries to attract investments. In the context of these negotiations, the EU will also pay particular attention to measures which can enhance regional economic integration.

Currently, many industries in the MENA region are suffering because of increased competition from countries such as China and Turkey, but also because of the poor trade relations with the EU. In particular, the complex rules of origin imposed by the EU on South Mediterranean Countries make export to the EU a cumbersome process.

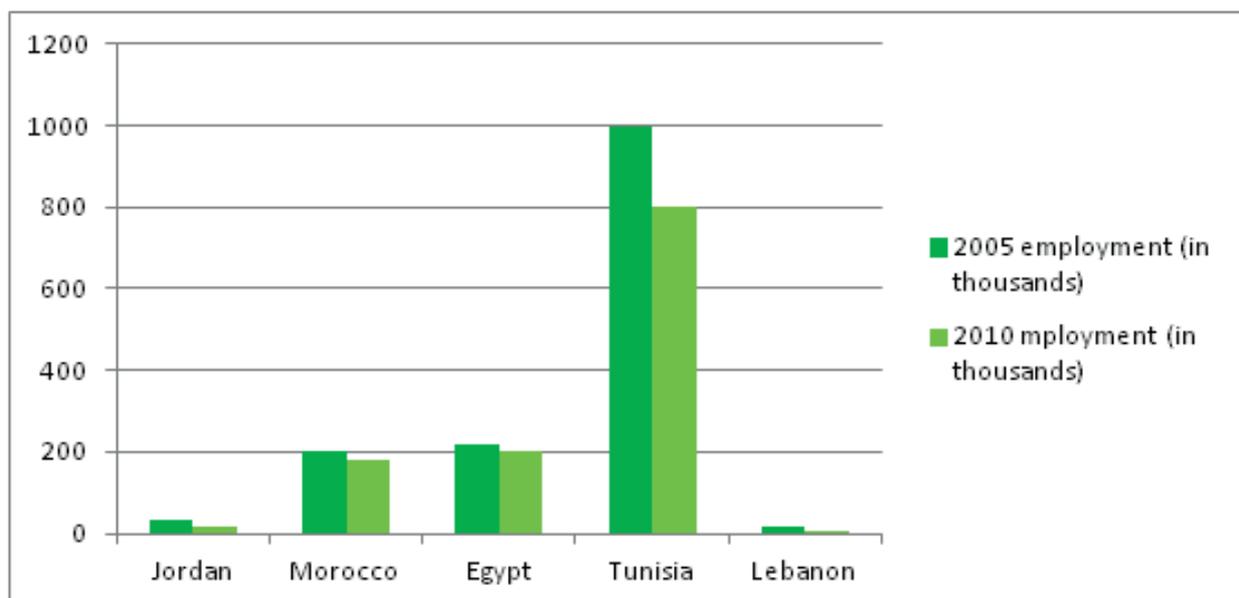
“Our members cannot abide to many importers desire to obtain their fabrics from a 3rd party and be manufactured in our country since the actual strict rules of origin do not allow it. Therefore exports are negatively affected and cannot be maximized under the current circumstances.”

- Participant in the AE-Network

The case of the textile industry

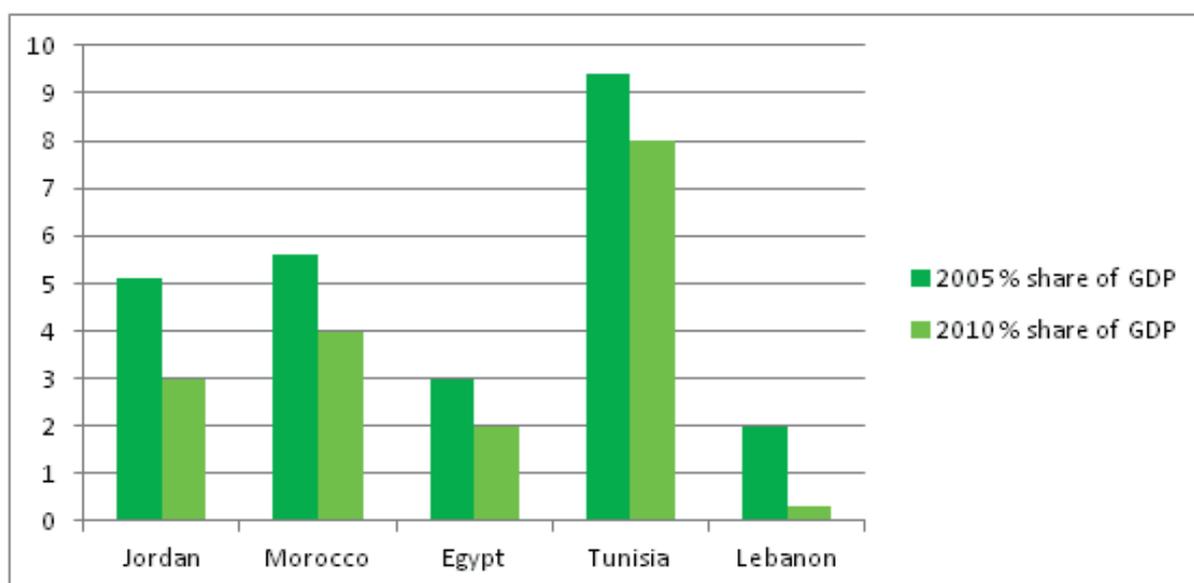
An illustrative case on the unnecessary complexity of the trade agreements are the rules of origin imposed by the EU, especially on the textile industry, which has hampered the sector's full potential for job generation and economic growth in the MENA region.

The textiles and clothing industry plays a major economic role in the textile producing countries of the MENA region and is among the top 3 largest overall sectors in the region. The sector is characterized by being labor intensive and with significant value adding production. The sector's share of GDP is, however, decreasing in the region as is illustrated in the following table:



Source: World Bank

The decrease in the textile sector's share of GDP can also be seen in a negative trend of the sector's creation of jobs as illustrated below. This is especially critical in these years where so many young people are entering the job-market in the MENA region.



Source: World Bank

In the case of Egypt, which is home to a fully vertically integrated textile industry, with the entire production process — from the cultivation of cotton to the production of yarns, fabrics and ready-made garments — carried out domestically, the sector is the second largest producing sector after agro-industry and the first in terms of jobs, accounting for 30% of Egyptian employment. The share of jobs is, however, decreasing and the number of textile-related companies registered with the Industrial Development Authority, has fallen from 8000 in 2005 to 6000 in 2010.

Another example is Lebanon, where the textile and clothing sector has been through a difficult period. In the 1990s textiles was the leading export product of the country, but has now fallen to an eighth-place. In the past six years, the sector lost nearly 8,500 jobs in Lebanon. Figures released by the textile union illustrate, that the industry had 568 factories and work-shops in 2010 against 1,239 in 1999. The number of employees has decreased in the same period from 15470 to 6987, while turnover fell from \$ 336 million to \$ 177 million over the period.

Key challenges

For a product which has been produced in more than one country, it is determined that the origin of the product is in the country where the **last substantial transformation** took place. Whereas ACP countries have been given preferential rules of origin to the EU markets, by requiring only a single transformation in order for exported goods to qualify for preferential market access, MENA countries are required a two-stage transformation (the last two substantial transformations are required to take place in the given country). These strict rules negatively affect local production and exports to the EU cannot be maximized under current circumstances. In order to facilitate trade, the Arab-EU Business Facilitation Network recommends improvements of procedures related to Rules of Origin.

Recommendations to the MENA governments and the EU

Simplify the rules of origin by allowing same rules as offered to ACPs countries, i.e. decrease the required level of process to single transformation. Therefore, the Pan-Euro-Mediterranean council of ministers' recommendations for the review of rules of origin for South Mediterranean Countries should be activated – especially for textile, household appliance and automobile.

- Improve the Euro-Mediterranean partnership, through targeted programs to upgrade the companies on the one hand and boost exports and foreign investment, particularly by reducing the negative perception of the country risks.
- Increase focus on traditional direct costs of fabrics and labor is necessary, but not sufficient to increase exports. This requires improving the efficiency and reducing the cost of logistics. Important time and cost savings can be realized by improving the sourcing of inputs, customs and ports procedures

4. Anti-corruption measures

Introduction

While an individual company might thrive in a non-transparent and poor governance environment ripe with corruption and nepotism, the private sector as a whole can only thrive in an environment that favors free and open markets. As illustrated through the theoretical clarity of such a classical prisoner's dilemma, the practical role of a business member organization is, at a fundamental level, to act as a guardian on behalf of the private sector as a whole and fight for a freer and more open environment for all its members. A business organization is, in other words, an intermediary entity that should work towards broad and utilitarian purposes as opposed to narrow clientilistic interests of an individual company. Such efforts includes saying no to corruption on behalf of the entire business community. Also for this reason, it is crucial that business member organizations are wholly anchored in the private sector and thus completely independent vis-à-vis governments.

The participating organizations of the Arab-EU network all say no to corruption and strive to pass on this message to all their member companies. Several members of the AE-network are already members of the UN Global Compact and thus say no to corruption on behalf of their members by virtue of endorsing the 10th principle of the Compact, namely that "Businesses should work against corruption in all its forms, including extortion and bribery".

Key challenges

According to Transparency International's Corruption Perceptions Index, the MENA region is widely perceived as very corrupt. There are several common challenges posed by corruption that apply to most of the countries in the region. These challenges can be found both at the political level and between the public and private sector.

Political corruption has been considered uncontrolled throughout the MENA region for many years, and the particular forms of government that have been common in the region, have given public sector corruption much prospect. With recent political developments in the MENA region, there is, however, a significant momentum for combating corruption at the political level.

Nepotism, whereby individuals are appointed on the basis of their networks rather than merits, contributes to the abuse of public office which has compromised the credibility and effectiveness of public institutions. Similarly, cronyism, or the granting of privileges based on relationships, distorts markets and competition and hinders government efficiency – particularly in relation to public procurement processes. Furthermore, the MENA region lacks internal and external accountability mechanisms and lacks truly independent oversight institutions or ombudsmen that have the power to hold public officials accountable.

Private sector engagement in corruption is widespread in the MENA region and often the ruling elite has parallel interests in both the public and private sectors. In the private sector, business interests are not adequately nor equally represented in political processes, as often a small number of large firms enjoy the benefit from governmental protection and power to influence the rules to their own advantage. Business organizations can play a powerful role in mitigating such clientilistic tendencies as BMOs represent the interests of the private sector as a whole – interests which will tend to be parallel with the interests of society at large.

Recommendations for the MENA governments

The Arab Spring and the reform process that it has unleashed in some countries constitute an invaluable opportunity to fight corruption and to promote the rule of law. The business network proposes the following recommendations to facilitate this transformation:

- “Smart” privatization of public companies through stock markets and transparent processes (incl. acceptance of parliament)
- Digitalization of permits, licenses etc. to avoid the need for cash transfers
- Training of public officials
- Transparency of laws
- Standardize public procurement laws according to international technical specifications and make clear deadlines for acceptance/rejections of bids for public tenders

5. Visa

Introduction

Business visas are a substantial financial and time burden. The financial and intangible damage to companies in both the EU and MENA region caused by visa requirements each year are completely disproportionate when compared to the underlying objective of visa procedures.

Furthermore, Research by World Tourism Organization (UNWTO) and the World Travel & Tourism Council (WTTC) show that G20 economies could boost their international tourist numbers by an additional 122 million, generate an extra US\$ 206 billion in tourism exports and create over five million additional jobs by 2015 by improving visa processes.

Key challenges

We recognize that the states are confronted with the challenge of balancing national security and immigration concerns on one hand, while promoting economic activity and fostering

political relations on the other. The existence of visas, however, constrains reciprocal investment decisions and visa barriers are an impediment to the exchange of ideas and values.

Recommendations

We welcome the introduction of the biometric procedures, where the missions will electronically scan applicants' fingerprints when accepting visa applications. The procedure will accelerate the visa procedure further. This biometric procedure is expected to be introduced gradually towards 2013. Once a person's fingerprints have been scanned in, an interview at the mission will only be necessary in exceptional cases when submitting a visa application. Even though the introduction of the biometric procedure is an important step, further measures are needed to unleash the full economic potential of a closer economic cooperation among the two regions.

We therefore ask the governments and parliaments of the Schengen area and of the MENA region, as well as the European Commission and the European Parliament, to accelerate the visa application process by means of:

- A gradual reduction of the number of required documents
- Abstaining from requesting original source documents
- Abstaining from requesting the applicant to appear in person at the consulate
- Increasing the issuing of multiannual visas up to 5 years
- Reducing visa fees
- Providing the opportunity for simplified quick business visas for short trips

We recommend that the states exempt frequent travelers from the requirement to personally lodge a visa application. We furthermore recommend that the states - in accordance with Schengen regulations - issue multiple entries visas with long-term validity to frequent travelers who have proven their integrity and reliability inter alia through the regular use of previously issued Schengen visas. An increase in the number of multiple entries visas, which entitle holders to multiple short stays in the Schengen area over a long period of time, means it is no longer necessary to submit visa applications repeatedly. This option is of particular benefit to persons who have to travel frequently for professional or private reasons and have proven their reliability by using previous visas legally.

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Recommendations from the AE-Network

23 recommendations for economic integration and business facilitation in the MENA region

<p>SME environment</p>	<p>The Governments should actively and financially support Industrialists to participate in international sectorial exhibitions to help them access foreign markets</p> <p>Put in place financial support schemes targeting specifically exporters supplemented by programs aimed at assisting exporters in tapping new markets</p> <p>Assist SMEs to access commercial bank funding by providing loan guarantees to reduce the risk of the loan for the bank and thereby provide incentives for commercial banks to be less risk averse.</p> <p>Encourage university-industry cooperation towards building a knowledge-based economy and launch programs to match university activities/research with industry needs/problems.</p>
<p>Vocational training</p>	<p>Bring together partners and institutions from public and private sectors to shape cooperative vocational training</p> <p>Educational institutions should establish strong ties with industrial institutions in order to help students procure training and secure employment upon graduation.</p> <p>Set up goal for the educational system that can support economic development in our countries and a strong competitive private sector.</p> <p>Focus on the quality of TVET Programs (technical vocational education and training) to attract young people.</p>
<p>Anti-corruption</p>	<p>“Smart” privatization of public companies through stock markets and transparent</p> <p>Digitalization of permits, licenses etc</p> <p>Training of public officials</p> <p>Transparency of laws</p> <p>Standardize Public Procurement Laws according to international technical specifications and make clear deadlines for acceptance/rejections of applications/tenders</p>
<p>Rules of origin</p>	<p>Simplify the process for obtaining final products by allowing same facilities offered to ACPs countries</p> <p>Improve the Euro-Mediterranean partnership, through targeted programs to upgrade the companies and boost exports and foreign investment</p> <p>Increase focus on traditional direct costs of fabrics and labor is necessary, but not sufficient to increase exports</p>
<p>Visa</p>	<p>Introduction of the biometric procedures</p> <p>A gradual reduction of the required documents</p> <p>Abstaining from requesting original source documents</p> <p>Abstaining from requesting the applicant to appear in person at the consulate</p> <p>Increasing the issuing of multiannual visas up to 5 years</p> <p>Reducing visa fees</p> <p>Providing the opportunity for simplified quick business visas for short trips</p>