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An Overview Of The **Private Sector In The Arab Countries**

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Introduction: Private sector and investment in Arab countries

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The private sector as a principal engine behind the development process is an old notion that gained ground during the last two decades. Post-2015, international organizations[1] targeted the private sector to fulfill the transformative global development agendas, and the Addis Ababa Action Agenda further cemented this role. However, recent studies show opposite global trends as corporate practices have been driving inequalities and rentier profit strategies rather than engaging in productive investment for development (UNCTAD 2020). In parallel, the state's role is shrinking under international financial or trade agreements' conditionality, neoliberal economic policies, and increased financialization. The global COVID-triggered recession further accentuated pre-existing cleavages. During such difficult times, countries are competing for financing. This rivalry is expected to increase, driving a race to the bottom, when 'ardent free marketeers are using the disruption in international supply chains to push new rules on international trade and investment, and new privileges for owners of intellectual property and vital technologies that would further reduce the policy space of developing countries, as UNCTAD stated. (UNCTAD 2020)

Against this backdrop, the envisioned role of the private sector in development is questioned. And while the private sector should not - and cannot - replace the state in forging the social and economic development process, its primary role remains essential in creating value-added to the economy, society, and the environment and doing less harm than good.

This paper sketches an overview of the private sector in Arab countries to contribute to discussing its accountability as an agent of change in development. It presents some stylized features of businesses in the region (section 2): ownership, size, sectoral activity. Section 3 reviews the private sector's performance along three dimensions of its primary development role: productivity, job creation, and environmental impact. Next, the paper highlights three types of macro barriers that could deter such a performance (section 4). The private sector in Arab countries faces multiple micro and sectoral barriers that require in-depth country and sector-specific analysis beyond the scope of this paper, using firm-level data. Section 5. describes the private sector under conflicts situation. The last section synthesizes key messages with suggestions for further research to frame the accountability measures of the private sector in the Arab region.

The research is based on secondary information from the literature and existing data from international and national sources and national reports. It relies on publicly accessible region-wide indicators and complements with national examples to offer a more context-specific and closer to local realities depiction. Furthermore, the paper does not offer a comprehensive geographic coverage due to data limitations and the region's heterogeneity, including 22 countries ranging from the richest in the world to the poorest. The paper does not claim to offer a complete picture of the Arab private sector. It does not present any causal links conclusively as that would require much wider investigation beyond its set scope.

The private sector is a heterogenous and broad concept

The private sector is generally defined broadly and loosely. It can include various forms of enterprises, ownership structures, and forms of activities. One comprehensive definition that reflects the extensiveness of the term considers the private sector as 'organizations1 that engage in profit-seeking activities and have a majority private ownership (i.e., not owned or operated by a government). This term includes financial institutions and intermediaries, multinational companies, micro, small and medium-sized enterprises, co-operatives, individual entrepreneurs, and farmers who operate in the formal and informal sectors. It excludes actors with a non-profit focus, such as private foundations and civil society organizations (OECD, 2016). Private sector entities differ in size, institutional and legal setup, ownership structure, and work areas.

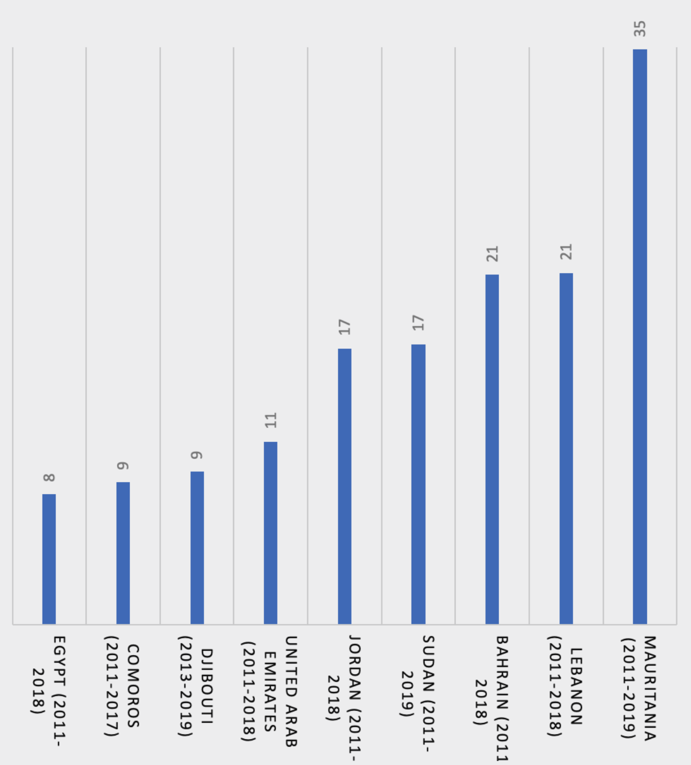
Nevertheless, most research refers to the private sector, excluding agriculture enterprises. For example, the World Bank's Enterprise Surveys (ES)[2],2 a regular firm-level database that is used to inform decision making on the private sector's performance, covers only formal manufacturing and services firms with five or more employees in its databases that include some 11 Arab countries over 2019 -2011 period. ("Survey Methodology for Enterprise Surveys - World Bank Group" n.d.). Considering the characteristics and determinants of the private sector operating in agriculture requires a different framework of analysis to assess its role and impact in development, especially in Arab countries' rural areas, where the agrarian system, as well as natural and social specificities, shape agricultural activity and enterprises operating in it.

The Arab countries are diverse and cannot be examined through one lens. Differences between countries in terms of natural endowment, human capital, geography, history, economic policy and political systems all shape the pattern of economic development, in addition to the private sector functions and the incentives that drive it. The natural extractive industries that are the backbone of the income Gulf Cooperation Council (GCC) economies are not driven by competition and are driven by a different set of incentives than the private businesses of low-income countries where low value-added or subsistence farming prevail. The business firms' dynamics in sectors where foreign direct investment governs or where monopolies form through state regulation, like basic utilities and telecommunication, are not affected by competition. Despite this heterogeneity, the paper refers to 'the private sector as one body, because it is assessing its impact and outcomes at the national system-wide level, yet at the same time, recommends reading generalizations with caution.

Private investment is below potential

Private investment is an indicator of business health and a driver of long-term economic growth. Therefore, it should be sufficient for job creation and raising the incomes of the large Arab populations.

Private investment in Arab countries remains below potential, notwithstanding sporadic periods of progress. Over the past decade and since the global crisis, the share of private investment (gross fixed private capital formation[3]) as a percentage of GDP averaged around %15 annually (Graph 1), below other regions of developing countries that registered an average of %18 approximatively, due to the structure of Arab economies and their institutional setup. Moreover, the ratio did not pick up post2008- because of the economic slowdown and financial squeeze, the decline in oil prices, reduced profitability, and overall economic instability due to the spread of conflicts (International Monetary Fund 2019).



Graph 1: Average gross fixed capital formation, private sector (% of GDP)
Source: World Bank Development Indicators

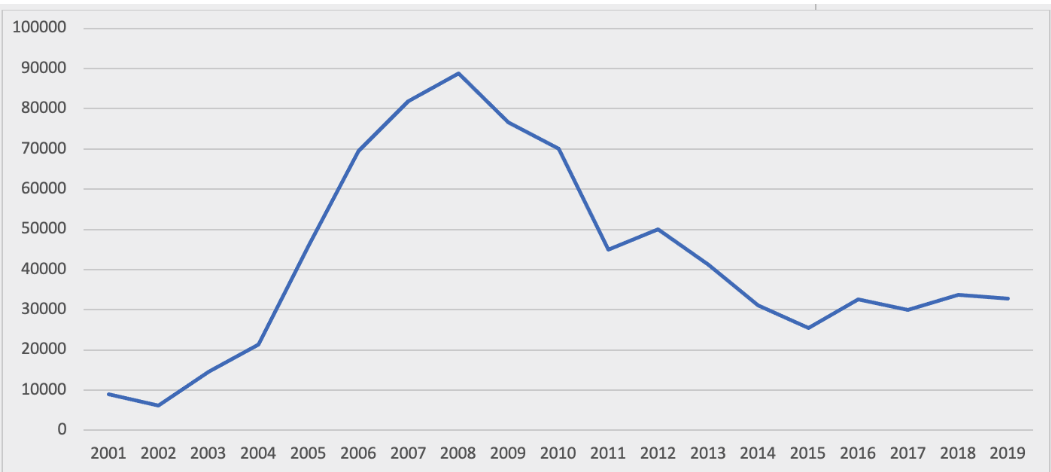
Private investment had benefitted from high oil prices in the 2000s and its positive repercussions on both oil and non-oil exporting Arab economies, yet even then, it underperformed peers. When excluding high-income countries in the Arab region, the share was around %17, in South Asia, for example, it was %26 in 2007 (the only available year for an aggregated regional figures.

GCC countries that benefitted most from the 2000s momentum and outperformed most other Arab countries still reported low private investment rates comparatively. For example, Bahrain, Oman, Saudi, Kuwait, and UAE, reported an average below %15 over 2017-2000, closer to averages of low-income countries (International Monetary Fund 2019).

The GCCs private sector managed to expand with time and became somewhat more resilient to the oil sector busts and booms. Still, its long-run potential remains closely tied to government spending and the surplus generated from cheap foreign labor. Whereas all economies operate along with an association between public spending and private investment, yet the relation in the GCC has been more skewed towards businesses being dependent on the state than elsewhere in the world. Structural and historical political, and economic factors cement this relation and constrain business dynamism. (Hertog 2013).

The foreign component of private investment consists mainly of portfolio investments, loans, and foreign direct investment (FDI). The latter is considered the most relevant to sustainable development because of its size, relative stability, and duration compared to other forms of foreign investment (UNCTAD 2018a). Factors attracting FDI to Arab countries include macroeconomic stability, country openness, domestic market size, politics, and institutional development, amongst others (Ali 2016). FDI in the Arab region is concentrated in a few major sectors, especially the hydrocarbon, infrastructure, and real estate sectors. Therefore, they target the largest economies like the United Arab Emirates, Saudi Arabia, and Egypt.

FDI in the Arab region increased in the 2000s but did not pick up after the 2008 global crisis. FDI inflows during 2010-15 declined by 53% (Graph 2) ("Opportunity for All: Promoting Growth and Inclusiveness in the Middle East and North Africa" 2018). Between 2016 and 2019, they reported an average decrease of 4% (UNCTAD 2020). Still, in the post-COVID-19 pandemic era, foreign direct investment in the Arab region is foreseen to contract more than elsewhere (around 45% in 2020), versus a minimum of a 30% decrease globally (OECD 2020). Governments have been taking immediate investment policy responses, whether by trying to shift towards local production in certain sectors, easing fiscal policy and financial constraints or by opening further to foreign investors.



Graph 2: Foreign direct investment, net inflows (in million US$)
Source: World Bank Development Indicators

Information on the developmental impact of FDI in its different forms across the region is contentious in the literature, even though theory hails FDI as a driver of economic development. The impact varies on a project-by-project basis depending on time, sectors of activities, linkages with local businesses through contractual arrangements and learnings, national policies, the political economy forces, and other domestic factors relative to the dimension of development considered. For example, one empirical study shows that the increases in FDI supported growth in the region but have been associated with environmental degradation (Abdouli and Hammami 2017). In another study covering seven Arab countries (Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, and Syria), FDI has been considered as crowding out domestic investment (Selmi 2016).

FDI benefits' transmission channels are not uniform across domestic firms. The Global Competitiveness Report 2018/2017 shows that the positive spillovers of FDI on hosting economies are generally focused on channels through few large growth firms (i.e., those that generate most jobs). Based on the database of the World Bank Enterprises Survey, the report analyses two types of transmission channels: i) linkages between foreign companies and local ones like suppliers that raise the latter's sales, for example, and; ii) demonstration channels whereby local companies learn and copy from international firms' new technologies and management practices that enhance their productivity. Typically, only a few large firms have an "absorptive capacity" to internalize and benefit but most from the linkages channel. Thus, the region reports gains from FDI mainly through linkages channels. And it is important to keep in mind that becoming suppliers of foreign companies (linkages channel) does not guarantee a leap in productivity to local firms. The research notes that in certain cases, "the competition that foreign firms bring to the domestic market outweighs the FDI benefits that the average firm internalizes. Second, the low absorptive capacity of the average firm prevents it from capturing more FDI benefits." (World Bank and International Finance Corporation 2018). This has to do with the nature and dynamics of the domestic private sector and requires learning more about these "high growth firms" that tend to be younger and smaller.

Stylized features of the private sector

Arab businesses' features (ownership, size, formality, and sectoral activity) define their role as actors in development, starting with delivering their most basic responsibilities, namely raising productivity and generating decent jobs without doing harm.

The Arab private sector consists of formal business enterprises including, amongst other, state-owned enterprises and large politically connected private companies. However, the shape of the private sector in Arab countries was described as irregular because "large and politically connected firms are on top of a large but atomistic informal sector at the bottom, and a gnawingly missing middle" (M. C. Cammett et al. 2015, examining the interaction of economic development processes, state systems and policies, and social actors in the Middle East).

Mostly national family-owned enterprises

The majority of businesses in Arab countries are domestic. In terms of owners' nationality, firm-level surveys in many Arab countries showed that the domestic ownership in a sample of manufacturing and services firms exceeds 90% (Enterprise Surveys - World Bank Group). National policies and regulations influence businesses' forms of ownership. Some Arab economies restrict companies that are completely foreign-owned and, in some cases, like in Kuwait, foreign suppliers are disadvantaged in terms relative to nationals in terms of taxes and subsidies (World Bank 2020). However, most countries are aggressive in increasingly opening up to foreign ownership. Bahrain and the UAE recently allowed full foreign ownership (Organisation for Economic Co-operation and Development 2019).

Modern corporates with complex ownership structures and dynamics are still not very common in the Arab region. Ownership is still concentrated. While detailed information is not available, it is estimated that 80% of non-oil businesses being family-owned. Even the publicly listed companies' ownership remains with family owners and the state. A review of ownership of 600 publicly listed companies that account for almost total market capitalization showed that sovereign investors are the largest investor category, especially in the GCCs and except for Lebanon and Tunisia (Organisation for Economic Co-operation and Development 2019).

Multinational enterprises are present in the region, more so in large economies. They typically enter Arab countries in the form of FDI greenfield projects that bring in fresh capital and, to a much lesser extent, through mergers and acquisitions (OECD 2020). GCC countries attract most multinationals in general. However, Egypt and Morocco were top FDI recipients in 2019. The least developed Arab countries have the lowest number of FDI projects. For example, out of 815 foreign companies that invested in the region in 2019, only two did in Mauritania, versus more than half in UAE (Arab Investment & Export Credit Guarantee Corporation (Dhaman) 2020). These companies are quite big, and more than a third have an annual turnover of $5 billion, coming mainly from western Europe and within the GCCs. Over the past decade, Chinese companies have increased their investment in the region (Table 1). They typically engage in infrastructural projects and are present nowadays in the hydrocarbon and real estate sectors, especially in the GCCs. The Arab region mainly attracts oil multinationals and property developers. GCC large corporations are amongst the top investors in trade and real estate. Sudan presents a peculiar case where many foreign businesses are in agriculture, having acquired massive fertile farming areas.

Nationalities of some multinationals are loosely recognized, yet many are more difficult to distinguish. The larger these corporations are, and the more integrated into the global value chain, the more complex is their ownership structure, making it difficult to assign it a particular nationality[4]. Typically, business and non-business incentives drive multinationals into rearranging their ownership structures to escape risks and boost their earnings. Consequently, the application of regulations on foreign ownership and the ability of the state to control these businesses is complicated. These multinationals also choose their destination, as they seek new big markets and cost-saving incentives like tax holidays or lower wages in politically stable countries (Arab Investment & Export Credit Guarantee Corporation (Dhaman) 2020).

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Table 1: Top five companies investing in the Arab region 2015-2019

Company	Rosatom	Majid al Futtaim	China Fortune land Development	Total	Al Habtoor
Project value	30$ billion (1 project)	$ 21 billion (33 projects)	$ 20 billion (1 project)	13$ billion (6 projects)	9$ billion (1 project)
Sector	Coal, oil & gas	Food & beverages	Real estate	Coal, oil & gas	Real estate
Description	Rosatom produces nuclear electricity. It engages in nuclear fuel cycle, applied and basic science, nuclear and radiation safety, nuclear medicine, and composite materials related activities	Majid Al Futtaim Group engages in the development and management of shopping malls, hotels and residential and commercial properties	CFLD provides investment, development, and operation services for industrial cities	Total is an integrated international oil and gas company	Engages in the construction, tourism, automobile distribution, vehicle leasing

Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman) 2020

Business size: A missing middle

The private sector in almost every Arab country consists of a small number of large firms and numerous micros, smaller and medium. Small and medium-sized enterprises (SMEs) account for more than 90% percent of the region's businesses and contribute as much as 50% of employment and 70% of GDP in some countries of the region (International Monetary Fund 2019). In Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, and Yemen, more than 96% of enterprises have less than 100 employees. Micro-businesses, i.e., those with the smallest number of employees - by some definition less than five to ten - are the vast majority. For example, in the occupied Palestinian territories, they account for 97% of enterprises, and in Yemen, 90%. In Egypt, the employment share of micro-enterprises is around 68%, much above comparable countries like Jordan (40%) and Tunisia (37%) ("Private Sector Diagnostic Egypt" 2017). The same applies to some GCC countries like Bahrain, where micro-enterprises account for 92% of all firms, while small and medium account for 6% and 1%, respectively (Elseoud, Kreishan, and Ali 2019).

There is no unified region-wide or even a country definition of what is considered a micro, small or medium enterprise, but the most common definition uses employment as a primary criterion. The definition changes from one country to another and naturally depends on the sector, size of the country, level of development, and economic structure. For example, while Algeria, Egypt, and Lebanon define small enterprises as those with less than ten employees, Jordan and the occupied Palestinian territories consider this category as employing less than four (OECD, European Union, and European Training Foundation 2018).

SMEs coexist with few large private companies (domestic and multinationals) and State-owned entities (SOEs). The latter benefit from government financing and tax breaks, and other preferential treatments (Morsy, Kamar, and Selim 2018). In some Arab countries, SOEs ensure large-scale infrastructure investment and capital accumulation necessary for economic development, especially in the GCC, like hydrocarbon and electricity, transportation, telecommunications, postal services, manufacturing, finance, and real estate (World Bank 2020). However, notwithstanding recent policy efforts to support SMEs, policymakers continue to give precedence to SOEs and large companies (Tok 2018).

Entrepreneurial and young firms are most dynamic, yet few manage to survive and scale. As a global average, only 1 in 20 SMEs goes through a rapid growth phase and expands. Unfortunately, there is not much information on entry, exit, and growth in the region that is more important than the number and size of SMEs and start-ups ("Nurturing Start-Ups and SME Growth" 2018). However, qualitative indicators from Egypt, Jordan, Lebanon, Saudi Arabia point to below-average growth supporting SMEs (Strategy& Middle East and Endeavor 2020).

The informal sector remains very large

The informal sector[5] makes up at least a third of Arab countries' economies, and it employs a third of the labor force (Cammett et al. 2015) (Gatti et al. 2014). This figure could be even underestimated given the difficulty of gauging informal activity. However, the level of informality is commensurate with income levels in Arab countries and other comparable developing countries. For example, in Morocco, the occupied Palestinian territories, and Lebanon, more than 50% of enterprises are informal (not registered and employing informally). The vast majority (91%) of informal enterprises are made up of a single employer/owner or are family operations that hire a limited number of employees (ILO 2018). Microenterprises tend to have limited capacity, generate narrow profit margins, offer poor working conditions, and are less likely to benefit from government programs. The Arab region has the second-highest share of informal employment out of total employment (69%) than developed and developing regions. Even when considering non-agricultural informal employment out of total non-agricultural employment, the share remains as high as 64%.

The informal sector is attractive for those with no better alternatives and is the only avenue for the poor. Informal workers lack labor protection, social security. They face poor working conditions, especially in terms of safety, and receive low wages. It has to do with firm size, productivity, and workers characteristics, typically younger and have lower educational attainment. In addition, research shows that the market pays a 'formality premium,' and workers in the region accept this differential when working in the informal sector because of the scarcity of formal jobs and persistently high unemployment (Gatti et al. 2014). Informal employment with lower wages, difficult working conditions, and almost no training reduce productivity. In turn, skill supply and firms' incentives to invest in productivity improvements are depressed (a particularly acute version of what is known as the "low skills trap").

Informality is persisting, even though few country and sector-specific studies regularly research this phenomenon. In many cases, the reason for remaining informal include legal and financial requirements like capital taxes and charges requirements (Gatti et al., 2014). At the same time, the number of new firms entering the formal sector is small relative to other countries, especially in Algeria, Iraq, and Egypt, particularly non-GCC countries. Thus, even if some formalize, they remain small. (Purfield 2018). It could also imply that informal units/enterprises have no incentive to formalize.

In the GCC countries, features of informality are observed within the labor force. Migrant workers have been historically segregated and working under conditions similar to informal employment and have generally limited social protection[6]. In this sub-region, over half of all workers are migrants; additionally, migrants account for three-quarters or more of all private-sector employees and depict a significantly higher labor force participation rate (75%) than locals (42%) in 2017.

Shy and uneven industrialization and widespread low value-added activity

Natural endowment, economic, political structure, and development patterns determine every Arab country's sectoral production and private sector's activity. In Egypt, for example, the private sector activity is relatively more diverse than in other Arab countries. Around 73% of Egyptian firms account for 40% of GDP and are in retail trade and manufacturing, yet the vast majority do not export (no more than 5% are engaged in export activities) (European Bank for Reconstruction and Development 2017). In contrast, in Arab less developed countries, like Mauritania, where the economy's production base remains primary, the private sector is more focused on agriculture and extractive industries. (International Monetary Fund 2018).

GCC countries remain dependent on hydrocarbons that dominate public revenues, exports, and gross domestic production (Cammett et al. 2015) Arab governments' rhetoric has focused on diversifying economies, particularly the richer GCC countries. Efforts turned towards developing offshore financial services in Bahrain and trade and logistics services in UAE (Callen et al. 2014a). Other Arab countries, like Morocco, are also trying. Morocco's manufacturing enterprises account for no more than 10% of the number of enterprises, and the manufacturing sector accounts for 16% of GDP

("Key Figures 2020"2020), but the country aims to diversify exports by expanding manufacturing. The private sector in Morocco has been moving from low value-added manufacturing such as textiles to more dynamic, higher value-added sectors, namely the automotive and aerospace sectors. However, integration in the global value chain is still limited (International Finance Corporation 2019).

Despite these efforts, whether in GCC or other Arab countries, dependency on primary sectors prevails, and the contribution of the non-oil sector to exports and productive capacity is limited (Ali 2016). The value-added of the manufacturing sector as a share of GDP hovers around 10% in the region, second in bottom ranking globally. The proportion of medium and high-tech industry value added in total value added in the Arab region is amongst the lowest globally, standing at 24% (United Nations Economic and Social Commission for Western Asia (ESCWA) 2019). The knowledge intensity in industries has been modest with low productivity and limited spillovers (Callen et al. 2014b) and (International Finance Corporation 2019).

SMEs in most Arab countries are mainly in the trade sector and the services sector, notably retail and wholesale. Typically, such activities require small capital, few skills, and relatively less complex operations and administrative setup requirements. Other sectors with high SME representation include manufacturing and construction in countries like Egypt and Tunisia. ("Islamic Banking Opportunities Across Small and Medium Enterprises in MENA" 2014).

Obstacles to a more impactful diversification are not only technical and economic policy choices. A set of political conditions have been holding it back. It has been argued that a political settlement reconfiguration is needed for it to progress. Considering economic diversification through a political lens shows that the elite benefitting from existing structures would have to relinquish some power and gains and thus is resisting the change. The weak regional cooperation across Arab countries, which failed to build linkages and complementarities, and geopolitical conflicts shaped Arab economies' structures (Malik 2019).

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The performance of the private sector

Without delivering on these, the private sector cannot play any leading role in development, no matter what high-level global forums, international organizations, and development agendas say. Unfortunately, Arab countries' performance in this respect is lagging.

Low productivity and dynamism without incentives to change

Total factor productivity's contribution to growth has been relatively weak, despite hefty investment in some countries. In general, aggregate productivity was driven more by the working population expansion due to a demographic increase and, to a lesser extent, by sectoral shifts and within-sector productivity enhancement that were still below other emerging markets. Within-firm total productivity - though quite variable from one firm to the other - is mooted. Examples from firms data in the 2000s in Tunisia and Egypt reported almost no increase in productivity after 35 years of operation while comparable firms in India, Mexico, and Turkey doubled and tripled this indicator (Schiffbauer 2015). Even in the GCCs, total factor productivity generally remained low between 2000 and 2014. The total factor of productivity of GCC economies has been on the fall since the eighties (Hertog 2013). Economic growth rates in many Arab countries are being achieved through capital deepening more than technological advancement, keeping growth below its potential (Ali 2016) and (Purfield 2018).

Labor productivity in Arab countries has been below other comparable regions and declining. Between 2013 and 2017, the Arab region was the only region in the world to register a negative annual change in real GDP per employed person (-0.42%), excluding some north African countries (UN-ESCWA 2019).

Slow technological upgrading and innovation are behind this performance. Such is the case even in the richest Arab countries, the GCCs, where private sector firms' growth lack incentives to increase productivity because of heavy reliance on state support and competitive prices of a factor of production like labor and energy (Hertog 2013). Beyond the GCC, the Enterprise Surveys that include non-GCC Arab countries reported the region as having the lowest rates of firms that introduced an innovation process and spent on research and development (R & R&D). Spending on R&D account for less than 1% of GDP versus 2% in developed countries. This share for the rest of the region is, however, comparable to other developing countries. Yet, Arab countries are behind in exporting high-technology products that account for a mere 2% of manufactured exports versus almost 19% in other peer countries (Purfield 2018). Using the Global Innovation Index[7], ESCWA concludes that most Arab countries showed little or no achievements in innovation since 2011, except for Algeria and Morocco (UN-ESCWA 2017).

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Table 2: Share of firms participating in the Enterprise Survey and working on innovation (%)

Region	Percent of firms that introduced a process innovation	Percent of firms that spend on R&D
East Asia & Pacific	39	14
Europe & Central Asia	18	9
Latin America & Caribbean	31	22
Middle East & North Africa	15	9
South Asia	53.9	16
Sub-Saharan Africa	35	16

Source: Enterprise Surveys ("Enterprise Surveys - World Bank Group" n.d.)

The incentives that could drive technological upgrading are missing, and instead, firms remain stuck in low dynamism conditions. To illustrate, the Tunisian case after the regime change in 2011 has shown that few Tunisian firms manage to grow but do not exit (World Bank 2014), since the logic of 'growth or exit' does not apply much, and capital and labor do not move to shift across sectors. The correlation between firms' growth and profitability is likewise weak in GCC firms that are generally large enough and integrated into global value chains but still rely on government and other region-specific economic advantages and did not register a productivity leap (Hertog, 2020).

Job creation is neither sufficient nor up to standards of decent work

It is well established that jobs are the driver to improve living standards and fight poverty, but not any kind of jobs, rather jobs with sufficient pay, rights at work, social protection, and based on social dialogue; in other words, decent jobs.[8]

The region's businesses are not generating enough jobs for large populations, and they are not producing skilled jobs. Unemployment rates have been stubbornly hovering around 8% over the last two decades, amongst the highest in the world. The region has one of the lowest employment-to-population ratios of 47% rates in the world.

The public sector absorbs a large part of the labor force in many Arab countries. It employs more than 25% of the labor force in the GCC and Algeria, versus 9% in developing countries (International Monetary Fund Middle East and

Central Asia Department 2018). The benefits and protections that the public sector jobs provided are unmatched in the private sector that mostly employs informally.

The formal private sector provides less than a third of employment opportunities in the region (International Monetary Fund Middle East and Central Asia Department 2018). The Enterprise Survey data on formal businesses shows that the region has the smallest annual employment growth rate (2.3%) compared to three times this rate in South Asia and Sub-Saharan Africa. In the GCCs, the private sector creates many employment opportunities, yet these tend to attract non-nationals. Many jobs are low productivity jobs offered to low-paid migrant workers that the private sector prefers to employ, while nationals prefer to get public sector employment, maintaining the labor market segregation (Hertog 2013).

The bulk of employment is informal. The share of informal employment out of total employment ranges from 45% in Jordan to almost 90% in Comoros (ILO 2018). "Small activities" that tend to be low productivity activities (businesses with five or fewer employees) create the bulk of jobs in the region. In Egypt and the West Bank and Gaza, they make up almost 60% of private-sector employment. In Jordan and Tunisia, the ratio hovers around 40%. Even when these small businesses formalize, they rarely grow to create more jobs (Purfield 2018).

There are no conclusive studies about SME job creation capacities. In Morocco, 37% of registered firms are less than five years old, but little is known about their survival rate or their impact on job creation (International Finance Corporation 2019). In some cases, like Lebanon, it is the largest companies that are the politically connected firms that provide even more jobs (probably for clientelist reasons), though they are less productive and harm job creation within their sector of operations (Diwan and Haidar 2016). Research on developing countries have shown that while SMEs provide a large share of employment, many end up failing, and, consequently, their net job creation rate goes down to be the same as large firms, thus, the importance of focusing on supporting enterprises to grow for a positive employment impact ("Private Sector Development Synthesis Note Evidence and Debates on Employment Creation" 2017)

Informal employment means low social protection coverage rates, with many Arab countries offering social security only with formal employment and lacking alternative schemes adapted to the high informality of economies. In some Arab countries, social protection coverage is as low as 10%. Instead, there is heavy reliance on subsidies, assistance, and charities (International Labour Office 2017)

Extreme and moderate working poverty rates[9] for non-GCC Arab countries stands at 32%, amongst the highest compared to other regions. In other words, almost a third of workers have no sufficient income to sustain their households, denoting the low wages they receive. Unfortunately, data on wages in the region is insufficient; only a few GCC countries show growth in wages in 2008-2017 (International Labour Office 2018).

Thus, the elements of what the ILO would consider as conditions closely associated with decent work opportunities are missing. These elements include: 'opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.' In addition, Arab countries, just like many other developing countries in the world, lack the context-specific statistical indicators and legislative frameworks to measure the quality of jobs available along the decent work dimensions. ("Measuring Job Quality: Difficult but Necessary" 2020)

Businesses more aware of environmental harms, but production models did not change

There is no doubt that businesses in Arab countries have become more aware of operations' impact on the environment and their responsibility towards sustainability practices. Regional sustainability strategies and plans, such as the Arab Regional Strategy for Sustainable Consumption and Production, have been adopted for decades and many Arab countries translated these into national frameworks. However, practices are lagging (United Nations Economic and Social Commission for Western Asia (ESCWA) 2019).

Aggregated and quantitative information on the contribution of businesses in Arab countries to an environmental transformation is scarce, bar some case studies from different sectors. Similarly, there is not much information on applying recommendations stipulated in projects' environmental impacts assessments. The situation is not limited to this region but applies to many developing countries, yet most reviews of environmental impacts assessments indicate that they are not properly implemented and thus are not performing their objective; the reasons being they are late to start, and the role of the public consultations in their design is small (Kolhoff 2016). One study covering the UAE concludes that the practice of environmental impacts assessments over the 2000s increased notably because of required legislation. However, implementation remained weak in identifying more sustainable alternatives, adapting the final project to reduce harm, and ongoing impact monitoring (Heaton and Burns 2014).

The predominant production and consumption patterns have not yet fundamentally transformed from a linear extractive and degenerative model to a circular regenerative model. According to the first Arab Sustainable Development Report (2020), while some Arab countries have sustainable consumption and production plans, the proper economic incentives required for making this structural shift are not in place yet. Instead, incentives work in the opposite direction reinforcing environmental harm. The take, make, use, dispose of approach to production depletes natural resources and generates waste and emissions. In sectors such as construction, manufacturing and food production, the material used during production is generally not optimized, product life is not maximized'. (United Nations Economic and Social Commission for Western Asia (ESCWA) 2019).

Available indicators suggest the private sector - in addition to other economic actors like governments - is not delivering on the environmental sustainability front, despite a few successful projects. Carbon dioxide emissions in the Arab region are, for example, the highest relative to all other regions in the world, standing at 1.4 kg per unit of manufacturing value-added in 2010 US dollars. In the GCCs, emissions per capita are a quadruple of the world average. Renewable energy accounts for 4% of total energy consumption in the region when the world average is 18%. The private sector does not have sufficient incentives to make the radical shift to reduce environmental harm (United Nations Economic and Social Commission for Western Asia (ESCWA) 2019).

Macro barriers to the private sector's development contribution

Private sector productivity and capacity to grow require an enabling economic environment. This section presents the macro challenges that work against creating the conditions for private sector contribution to the development process. Sector and firm-level barriers require further detailed primary research beyond the scope of this report.

Macroeconomic policies hold back the private sector

By reviewing Arab countries' recent history, three broad periods of structural change are observed: the period from the 1960s and 1970s of import substitution, industrialization, and heavy state intervention; the lost decade of neoliberal structural adjustment and the rollback of the state in the 1980s and 1990s; and the twenty-first century first two decades that stepped up further liberalization, deregulation, 'free' markets, privatization and applying public-private partnerships schemes. All of this operated under political settlements that deepened 'crony capitalism,' increased inequalities, and trapped the region in a situation of chronic high unemployment, low productivity, and wages. Neither of these stages led to the development of a robust and competitive private sector. The neoliberal policy dominance continued despite its failures and consequent uprisings, starting in Tunisia and Egypt objecting to its outcomes. The same policy bias preoccupied with freeing markets continues under IFI conditionalities and the forbearance of national policymakers (Joya 2017).

The fiscal, monetary policy mix, obsessed with inflation targeting and fiscal consolidation had a detrimental effect on private investment across the region, making the cost of financing high, curbing private investment, and disconnecting financialization from real economic activity. Arab countries applied traditional policy instruments for stabilization purposes with little consistency towards achieving macroeconomic objectives, disregarding policy tradeoffs, and moving into short-termism. Policies created distorted incentives that pushed businesses towards less productive investments, stifled private sector dynamism, limited job creation, and resulted in oligopolistic or monopolistic structures. This is the case mainly in countries like Egypt and Lebanon and most middle-income Arab countries (Galal et al., 2017).

Since the 1960s, the industrial policy adopted in many Arab countries has not successfully completed a structural transformation for economic development. The patterns of change have been uneven. Countries like Egypt, Morocco, and Tunisia managed to diversify exports - to a certain extent

- and increase the share of manufacturing, yet their level of exports' sophistication remained low compared to newly industrialized countries. Large productivity gaps between different sectors persisted (Atiyas 2015). Industrial policy allowed few big businesses to accumulate rents while economies continued to informalize, and job creation problems did not resolve (Cammett et al., 2015). This relation between business and the political elite prevented any other possible arrangement between the state and the private sector.

Post-2011, some Arab countries seem to have embarked on adapting their policy instruments towards a more favorable industrial policy. Changes to policy direction are observed in countries like Morocco by relying on a systemic approach, industrialization through dynamic competitive advantage, and, to some extent, enhancing the public-private sector dialogue, even though this remains concentrated with the larger businesses (Hahn and Auktor 2018) Morocco's economic model finds itself at a crossroads. The uprisings and subsequent revolutions in many Arab countries in the wake of the 2011 "Arab Spring" show the prevailing social contract in the Middle East and North Africa (MENA). However, so far, strong horizontal and vertical linkages did not spread across the economy. Smaller businesses are stuck in traditional activity, and the large ones are often politically connected firms with no incentives to drive the growth of SMEs. Multiple challenges obstructed the process, depending on the country and sector, from the choice of policy instruments and applied measures, the coherence, and coordination with macroeconomic policies, international trade conditions, inadequate infrastructure, the political economy configuration, governance, and related administrative issues, lack of information at firm-level, amongst other issues.

Arab countries are increasingly adopting private partnerships (PPPs) arrangements forgoing long-term planning under the industrial policy and opting for the 'project' logic. There is no conclusive evidence on whether PPPs are more successful in bringing a public or collective benefit at the economic level than other arrangements such as public procurement. PPPs are applied to deliver basic utilities and even social services while abdicating the traditional role of the state and its administrations. Studies document that the PPPs' contractual terms (from negotiation and design to project outcomes' monitoring) and project management play a key role in determining the performance and impact of PPPs. The Arab countries' state-business historical relationship and mechanisms of interactions, the concentration of capital within the private sector, the political economy dynamics, the asymmetry of information, and public sector's negotiating and financial capacities are unbalanced, to the favor of few related businesses that capture rents under PPPs while easily shifting away risks, as part of their profit strategies, gearing away from contributing to the development process. (Schiffbauer 2015). Cases of privatization and sector liberalization, for example, in Egypt and Jordan, such as in telecommunications, finance, and real estate, ended up with a "handpicked regime of insiders who enjoyed monopoly powers over entire sectors of the economy" (Malik, Atiyas, and Diwan 2019).

Crony capitalism conditions

The various political regimes that ruled Arab countries and the adopted economic strategies have somehow resulted in 'crony capitalism' as state elites and bureaucracy created a small group of privileged firms around them. (Chekir and Diwan 2015; Diwan, Keefer, and Schiffbauer 2015; Nucifora, Rijkers, and Freund 2014) The cases of Egypt, Morocco, Tunisia, and Lebanon, reported in Diwan, Malik, and Atiyas (2019), provide a mapping of these firms and their connection to political power. The connection is defined by time and country setting and is especially shaped by political settlements and development history. In Egypt and Morocco, business owners and management are leading governing political parties. In Lebanon, the whole of the political system, a model of sectarian consociationalism, prevails by feeding - and at the same time benefitting from - a business elite. Not much has changed after this decade's uprisings in countries like Egypt and Lebanon, and this is not unfamiliar in the rest of the world. However, the peculiar about Arab countries is the profound and wide divide between the politically connected and those that are not, with the former extracting economic gains far above-market returns while the latter completely excluded. The GCC situation is not very different; only political regimes remain more powerful than their crony business entourage even though the boundaries between private and public are blurry and the political settlement revolves around clans and families. The social contract in GCCs is anchored on a private sector demand heavily dependent on the state and its support system that is 'de-risking the economic lives of citizens' and slowing entrepreneurship and innovation (Arezki 2019).

Typical mechanisms used for the extraction of exceptional rents include laws and regulations' capture, access to credit and trade policy, preferential procurement treatments, subsidies, and others, in addition to favorable access to land, capital, water, and related infrastructure. For example, in Egypt, only 4% of businesses versus 71% of politically connected businesses sell products protected by at least three technical import barriers. Furthermore, 45% of all connected firms operate in energy-intensive industries such as cement or steel, compared to only 8% of all other firms. In Tunisia, almost two-thirds of politically connected firms are in sectors requiring an exclusive license versus 45% of non-connected firms. The most common sectors where these firms operate are in services, like banking, real estate, tourism, distribution, natural resources, and telecommunications (Schiffbauer 2015).

Cronyism, clientelism, and corruption have been negatively impacting aggregate job creation and competitiveness. Reviewing data from pre-2011 in Egypt, Diwan, Keefer, and Schiffbauer estimated that employment opportunities in the formal sector could have been 25% higher in ten years had it not been for cronyism. Firms that do not have a political connection in Egypt were found to have a higher probability of investing in product innovation than politically connected businesses. In Lebanon, Diwan and Haidar showed that politically connected firms create more jobs than non-connected firms, but they decrease net job creation in sectors where they operate. This detrimental situation supports the dominating political settlement, even if at the expense of economic development. Business turnover and entry of new firms are lower in sectors dominated by politically connected firms. Overall, connected businesses - generally the largest – benefit from privileges, making Competition unfair, discouraging other firms from investing and reducing motivation to innovate. The beneficial aspects of competition, i.e., the private sector's drive to innovate and invest in raising efficiency and labor productivity, are eroded. 'These firms gain privileges but do not provide back proportionately to the economy at large' (Diwan, Malik, and Atiyas 2019).

The largest firms with strong political connections form lobbies with representation in formal business associations. They consequently shape the discourse on the role of the private sector in development, shape the general public policy trends, and contain the reach and role of regulators, ultimately influencing the very same accountability frameworks they would be subject to. The case of the Lebanese banking system under the 2020 financial crisis shows how such a lobby through its association can obstruct policymaking and even redirect it to its advantage and influence the accountability it should be subjected to.

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Lebanon's banking lobby blocks crisis recovery plan, holding it accountable

After more than two decades of a currency peg and monetary and fiscal practices that failed to build up a resilient and productive economy, the Lebanese economy collapsed. The cabinet - supported by an international financial advisory company and Lebanese experts - provided a clear diagnostic of the roots of the problem as part of its suggested recovery plan. The plan, and more importantly, the diagnostic, revealed that the financial sector should bear a substantial share of losses and is consequently held accountable. Thus, bank shareholders would have to pay a hefty cost that they contested, even though they had accumulated extraordinary profits from the exceptional measures that the Central Bank applied pre-crisis.

As a result, the banks, represented by their association, joined forces with a parliamentary committee representing most political parties in power, along with the Central Bank governor, and fiercely opposed the cabinet's plan. Lebanon's discussions with the International Monetary Fund (IMF) were halted after 16 meetings leading to the resignation of two government advisors, members of the negation team. It is important to note that Lebanon is desperate for aid, whether from IMF or other donors, given the economic situation. No multilateral and bilateral aid is expected to materialize due to a lack of a unified recovery plan. However, until the writing of this report, there has been no agreement on how to distribute the financial sector losses and move forward.

Banks fought back any measure that threatened their position and financial interests and came up with an alternative to reduce their losses. They lobbied for their plan's adoption, calling for the privatization of state assets, a form of the transfer of public wealth from the public to pay off the losses of the banking system. The banks successfully blocked the government's plan and made sure they are present on the negotiating table dictating alternatives to avoid being held accountable for a crisis they significantly contributed to. Moreover, turning the table, leading to a deadlock in negotiations (around a year without a solution so far), also facilitated shifting the burden away from their shareholders and large depositors towards the public at large (rich, poor, banked, unbanked), instead of adopting a solution with a more equitable distribution of losses. At the same time, the Central Bank sustained the bank›s position and implemented measures that effectively served as an across-the-board forced reduction in customer deposits.

External forces, integration, and global value chains obstacles

The mentioned domestic policy choices are also a consequence of external forces. The IFI lending programs› conditionality and the global financial system are not conducive to creating an enabling environment for domestic private sector development. IFIs call for the private sector's development, yet they continue to recommend the same old market-led policies for Arab countries since before 2011, even though these resulted in constraining private investment, productivity, and expansion of businesses. The International Monetary Fund (IMF) discourse's change over the last decade and return to the 'good governance' factors have been more of a rhetorical exercise (Hanieh 2015). Instead, IMF's policies have been focused on enhancing static efficiency rather than productive investment and building innovation. Recently, in its review of 2017-2011 programs, the IMF itself questioned the long-term impact of such policies (International Monetary Fund 2018).

Along with the same rationale and occasionally for geopolitical motives, Arab countries embarked on several multilateral and bilateral free trade agreements in addition to the pan-Arab free trade agreement. The agreements' impact and tradeoffs regarding expanding productive capacities of businesses are unclear on a country by country and even sector by sector basis. The agreements' complexity and multiplicity, weaknesses in their institutional arrangement, underlying political dynamics, and flaws during negotiations led to deadlocks and did not achieve full potential gains. The regional picture is that of limited progress and exports concentrated in primary sectors, with little growth in shares of technology-intensive industry.

Indeed, not all businesses and countries equally gain from greater trade integration because that has to do with the quality and their position when participating in global value chains.

How would the private sector, especially SMEs in Arab countries, benefit from market linkages across global value chains under trade agreements to deepen production capacities and not just increase trade volumes? It also has to do with the obstacles businesses face when integrating into global value chains due to imbalanced power relations between states and companies on hand and amongst companies competing for greater value capture across the globe. Large multinationals concentration and growing power with states losing authority are currently key features of global value chains (Mayer and Phillips 2017). Furthermore, it is a question of whether this integration is in the low value-added segment or the high value-added one, leading to job creation and upskilling of the labor force.

Under conflict, economies became 'multiple economies' with multiple authorities, across separate territories, each characterized by a level of economic security and its political powers, like in Syria.

The private sector in conflicts

The Arab region has seen the largest number of conflicts globally in recent history, with an estimated net loss of $614 billion in economic activity between 2011-2016 (United Nations Economic and Social Commission for Western Asia (ESCWA) 2019). Under conflict, economies became 'multiple economies' with multiple authorities, across separate territories, each characterized by a level of economic security and its political powers, like in Syria. The physical infrastructure destruction, restricted access to markets, resources, and a move to a cash-based economy led to either exit or move into short-term emergency operations, low value-added activities, failing to impact productivity and employment. The private sector shifted motives to survival mode, no planning and investment, and often opting for quick profiteering from conflict-related opportunities, especially if international sanctions further suppress activity.

The labor force and employment opportunities have been negatively impacted. On the one hand, the displacement, war causalities, and insecurity restricting work access reduced the size of the labor force. Workers also lost their skills. On the other hand, employment sectors moved more into informality, trade, and services and less into the productive sectors of agriculture and industry. Overall, businesses lost productivity. For example, the share of workers in farming and fisheries was reduced from 70% to 30% of the labor force in Yemen due to the conflict. In Syria, the share of workers in the manufacturing and agricultural sectors dropped while it increased in trade and services. Indeed, the share of the manufacturing sector out of GDP contracted by 2015 to a little more than a third of its level in 2010 and almost 3 million jobs (Syrian Center for Policy Research (SCPR) 2015).

Capital flight also reduced the private sector size. More than a third of enterprises shut down in Yemen, and more than half reduced activity by 2018 (refer to the forthcoming national report). Syrian capitalists transferred their businesses to neighboring countries like Lebanon, Jordan, and Turkey. For example, Syrian companies accounted for more than a quarter of all foreign companies registered in Turkey in 2014 (Abboud 2017). The exited capital might not contribute to post-war reconstruction, having ended relations with local powers and the regime. It would be difficult for these businesses to cater to their home country as they disconnect from meeting local conditions, and their business model and productivity adapt to other markets, not to mention their distance from conflict actors and the regime. In contrast, some corporates and small and medium enterprises fail or refuse to benefit from the conflict economy and decide to face hostile context in alternative ways depending on the specificity of their situation. They adopted entrepreneurial strategies to face instability and family and social networks to survive.

New business elite(s) formed and captured emerging opportunities from the conflict situation and even violence. They became the new cronies that served the regime or conflict direct actors and took advantage of the exit of the pre-war business class in Syria. This has been evident, for example, during the elections of the Aleppo Chamber of Commerce that resulted in a complete change in its constituency in 2014 as new businesses were elected (European University Institute. Robert Schuman Centre for Advanced Studies. 2018.

The private sector motives changed under conflict, especially as it identified new opportunities. Activities ranged from smuggling to extortion and wider, more developed formalized operations. Business thrived on rents or the insecurity and damages that people endured. New businesses related to the conflict forces (political or armed forces) also turned from war/illegal activities to formal businesses. The opposite happened too: legal businesses turned to become intermediaries for the conflict actors, such as a registered engineering firm in Syria that turned to 'illegal' oil trading with the Islamic State (Abboud 2017). They formed 'the business community that is politically loyal and economically capable of addressing many of the economic needs of the conflict….' (Abboud 2017). Their income and wealth accumulation depends on the conflict that they might not have an interest in ending.

These are some of the conflict dynamics that shape business behaviors and relations with markets, society, authorities, and other local forces in Arab conflict-ridden countries and determine the reconfiguration of resources and wealth distribution patterns. Post-conflict, the private sector's role in economic development and peacebuilding is dubious. Nevertheless, it could contribute to cleavages keeping tensions alive despite containment of violence. For example, Iraq's rentier economy expands while the private sector remains mostly informal, import-based, and governed along identity and socio-political divisions (Costantini 2017).

Conclusion

This paper sought to highlight key overarching trends that characterize the private sector in the Arab region. Despite heterogeneity mirroring the diversity of Arab countries along national historical, social, political, and economic development trajectories, the private sectors in different Arab countries share some similarities.

Private investment is generally weak and below peers, especially since the private sector consists mainly of national micro and SMEs. Medium enterprises' growth potential is not well investigated but seems slow. Informality prevails and is expanding. A bird's eye view of Arab countries' economic development patterns does not reveal a region-wide effective diversification and industrialization experience, despite some pockets of success. Low productivity and dynamism in many Arab countries characterize the private sector. Neither the quantity nor the quality of jobs created meets development goals. Awareness about environmental sustainability increased, but the required structural changes for it to happen have not taken place yet.

The macro barriers impeding the private sector from delivering its traditional developmental role, i.e., creating value and jobs without doing harm, include a monetary and fiscal policy mix curbing private investment and an industrial policy often used as a political instrument rather than an economic one under systems of crony capitalism. The international economic system and the private sector's integration with external markets and global value chains did not act as levers for national development. The spread of conflicts in the region distorted the private sector's role and behavior. The private sector's features, nature, and relations with conflict actors, issues, and dynamics need to be evaluated and considered according to the specificity of the very local conditions.

This context requires adapted accountability mechanisms to these weaknesses, as the private sector expected to carry forward ambitious development agendas is itself underdeveloped. As a result, its performance still does not meet the basics of decent job creation and productivity advancement before stretching it to consider wider social and environmental responsibilities.

Several international guides and tools with a variety of scopes and applications have been produced to inform accountability frameworks such as the far-reaching Sustainable Development Goals, the UN Global Impact, the UNCTAD's Guidance on Core Indicators for Entity Reporting on Contribution Towards Implementation of SDGs (2019) that concentrates on the economic, environmental, social and governance impacts of companies' activities and others, in addition to more sector or theme-specific tools like the United Nations Environment Program's Finance Initiative.

The accountability framework has to reconsider business/corporate purpose and its financing drivers. Businesses should be assessed beyond the mainstream profit-making and maximizing shareholders' values motives and a longer-term reimagined purpose that shifts the business model and the whole economic system to serve the development process. The Arab region, still dominantly controlled by family-based businesses and small and medium enterprises (more than publicly listed), might be ripe to reconsider the purpose and move from degenerative to regenerative and distributive models to contribute to a real transformation.

However, the role of the private sector and its accountability towards development outcomes cannot materialize without a developmental state that engages and designs policies for business creation, purpose growth, and motivation to serve economic and social needs.

The matter is not merely technical. Business accountability frameworks should consider - and are themselves impacted by - politics and distribution of power and power relations driving business motives. Vested interests and political settlements need to be confronted. While underlying principles are clear, moving to reality and implementation is a process marred with challenges. Transparency is key, and so is going beyond voluntary initiatives.

The role of the state and its oversight are essential to catalyzing the private sector. The state can use international treaties, national legislation, regulations with enforcement powers, national and international review instruments, transparency, and media tools to enhance the effectiveness of accountability mechanisms. But what if the state and businesses have been captured by the elite? Accountability mechanisms should be able to reflect this situation and elements of crony capitalism. In other words, accountability frameworks should address businesses but, more importantly, the state's performance and the dynamics between them to deliver an enabling environment for businesses' performance. Here citizens' and civil society's roles come to play, and democratic processes are crucial to keeping the public and private sector in check. Accountability frameworks need to be top-down and bottom-up.

More research is needed to support an effective private sector engagement in development. Areas for further investigation concerning the Arab region include: investigating specific cases of medium enterprises' growth obstacles, including linkages with large high productivity regional and global chains and reassessing trade agreements from this perspective; researching drivers that can direct Arab business towards investing in innovation; exploring more and documenting periodically on wage trends and jobs' quality indicators against benchmarks of decent work; and providing detailed case studies of PPPs and their developmental impact in Arab countries.

Finally, as the world is facing unprecedented disruption in all systems globally, regionally, and nationally and as existing structures are being reconsidered - even by those that had been so resistant to reconsideration, it might be the right time to re-question the role and relations of all economic actors in the region towards enabling a more developmental private sector that delivers on generating enough jobs and higher standards of living.

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Endnotes

1 The words companies and firms are used interchangeably to refer to private sector enterprises in this paper.

2 The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG) conduct the Enterprise Survey as a survey of firm in the manufacturing and services sectors of the formal private sector. The Survey includes latest data of firms from 11 Arab countries as follows: Djibouti (2013); Egypt (2020); Iraq (2011); Jordan (2019); Lebanon (2019); Mauritania (2014); Morocco (2019); Sudan (2014); Tunisia (2020); West Bank and Gaza (2019); and Yemen (2013)

3 Gross private fixed capital formation is private investment that covers gross outlays of the private sector (including private non-profit agencies) in addition to its fixed domestic assets. It is an indicator of the future productive capacity of an economy and its potential from the private sector's investment on additions to its fixed domestic assets.

4 For example, the 2016 World Investment Report notes that 100 MNEs have on average more than 500 affiliates each across more than 50 countries with 7 hierarchical levels in their ownership structure that include some six nationalities. (UNCTAD 2016)

5 The informality takes different forms from being unregistered, not having a tax number, not being registered with the social security system or underreporting workers, or all of these forms combined (Gatti et al. 2014).

6 The Arab region has the largest share of migrant workers (around 41% of total employment compared with a global average of almost 5%) (International Labour Office 2019)

7 The GII was developed by Cornell University, INSEAD and the World Intellectual Property Organization, which publish a yearly report ranking world economies' innovation capabilities and results.

8 According to the ILO, decent work consists of 'work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.' ("Decent Work" n.d.)

9 As per the ILO "Moderate and extreme working poverty rates refer, respectively, to the shares of workers living in households with a daily per capita income or consumption of between US$1.90 and US$3.20 in purchasing power parity terms and less than US$1.90."