

From 2003 to 2005, economic growth in the Middle East and North Africa (excluding Iraq) was the strongest in nearly three decades, averaging 6.2 percent a year, up from an average annual growth rate of 3.7 percent during the 1990s. Countries have used the opportunities presented by this wave of economic growth to press ahead with reforms. The new government in the Arab Republic of Egypt is engaged in a range of reforms affecting the financial sector, the investment climate, social protection, education, and urban renewal. Jordan's reforms in education and the investment climate continue apace. Morocco is pushing forward its governance agenda and trade reforms. Tunisia is making progress on its trade agenda and in telecommunications reform.

The Republic of Yemen's new country assistance strategy foresees a new commitment to improved governance, better use of water resources, and economic diversification, while Lebanon's new government is building the foundation for improved transparency and accountability and is laying the groundwork for sustainable economic growth. The Gulf Cooperation Council countries—buoyed by high oil prices—are

moving forward on reforms, from private sector development and privatization in Kuwait to innovative and participatory urban development programs in Saudi Arabia. Qatar is implementing a labor market strategy and a program on the knowledge economy. However, employment creation for the region's youth remains a central challenge to bridging the gap between resource-rich economies and those less endowed.

Job creation continues to be the region's major development challenge. Forecast growth rates, expected to ease to 5.2 percent in 2007 and 2008, remain insufficient to fully address the employment challenges in the region. Close to 100 million new jobs, double the current number, will need to be created over the next 20 years to keep pace with new labor force entrants and absorb those currently unemployed. The current reformist momentum makes it more likely that regional economies will be able to build competitive and diversified private sector-led economies that will generate the growth rates needed to meet the region's needs.

Other challenges include trade reform, since the region remains behind most other middle-income regions, with high

MIDDLE EAST AND NORTH AFRICA FAST FACTS

Total population:	0.3 billion
Population growth:	1.8%
Life expectancy at birth:	69 years
Infant mortality per 1,000 births:	44
Female youth literacy:	81%
2005 GNI per capita:	\$2,240
Number of people living with HIV/AIDS:	0.4 million

TOTAL FISCAL 2006

New Commitments
IBRD \$1,333.6 million
IDA \$367 million

TOTAL FISCAL 2006

Disbursements
IBRD \$811 million
IDA \$216 million

Portfolio of projects under implementation as of June 30, 2006: \$6.6 billion

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2004; HIV/AIDS data are from the UNAIDS 2006 Report on the Global AIDS Epidemic; other indicators are for 2005 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING This section also reports on the West Bank and Gaza.

Algeria	Egypt, Arab Republic of	Iraq	Lebanon	Syrian Arab Republic	Yemen, Republic of
Djibouti	Iran, Islamic Republic of	Jordan	Morocco	Tunisia	

tariffs in many countries and the continuing use of nontariff barriers in some. The region has achieved more progress in reforming the business environment, but it still remains below the average for middle-income countries. A major concern is the slow pace of regional progress in improving governance. The region's rankings on the quality of administration are generally consistent with global trends, although on average, the region ranks in the bottom fifth of countries worldwide on public sector accountability. The lack of rapid reform in implementing inclusiveness and accountability in several countries is of some significance given the implications for the success of broader economic reform efforts across the region.

WORLD BANK ASSISTANCE

Financing during fiscal 2006 reached \$1.7 billion, including \$1.3 billion in IBRD loans and \$307 million in IDA credits; \$17.2 million was financed through the Iraq Trust Fund. The Bank delivered 44 pieces of economic and sector work and completed 39 technical assistance assignments. Assistance is directed at supporting reforms and investments across a wide range of sectors. In response to the threat of avian flu, rapid preparedness assessments were completed in several of the region's countries to identify immediate and long-term gaps in institutional capacities.

Education remains an important focus for Bank activities in the region. In November 2005, the Bank approved its first loan to Iraq in 30 years: a \$100 million IDA-financed Third Emergency Education Project to help alleviate school overcrowding and promote educational reform. In Djibouti, a \$10 million IDA financing arrangement increases equitable access to better quality education, especially for girls and underserved groups. In Tunisia, the Bank is helping the government increase access to and improve the quality of higher education through a \$76 million loan. In the West Bank and Gaza, the Bank is providing advice on the creation of a comprehensive education development plan and is analyzing the efficiency and equity of public resource use in education. In Egypt, the Bank supported the decentralization of the education system through the establishment of boards of trustees that include parents and community leaders. Projects and sector work in Egypt and Jordan have supported the introduction of early childhood development interventions. Finally, ongoing sector work in

Egypt and in the West Bank and Gaza is focused on taking stock of educational achievements and preparing a strategy for the next phase of education reforms.

In conflict-affected countries, the Bank is addressing emergency reconstruction and capacity-building issues. In addition to the education loan in Iraq, the Bank is financing a \$135 million Emergency Roads Rehabilitation Project and managing the multidonor World Bank Iraq Trust Fund. In the West Bank and Gaza, the Bank is financing projects for water and sanitation, community development, social safety nets, land administration, and education. It is also managing the Public Financial Management Reform Trust Fund, a multidonor budget support instrument through which \$96 million was disbursed in fiscal 2006 against progress in the Palestinian Authority's reform program. The Bank is also a leading agency for economic and policy analysis in the West Bank and Gaza. At the request of donors, two reports have been prepared on the Palestinian economy and its prospects for recovery. (See www.worldbank.org/ps.)

Analytic and advisory services have become a major tool for policy dialogue and reform in response to growing client demand. A programmatic economic and sector work approach was introduced to engage partners across the region in a sustained, multiyear program, and technical assistance and training were tailored to the capacity-building needs of the Bank's partners. There are six ongoing activities.

To strengthen the impact of its analytical work, the Bank has boosted staff capacity and improved cooperation with donors, other international organizations, and Bank Group partners on fiduciary issues and promotion of foreign investment. A series of regional flagship reports was also launched. The first reports were devoted to governance, trade and investment, employment, and gender; the latest reports are on education and water. In the wake of the governance report, the Bank prepared a 10-point strategy for expanding and strengthening its work on governance and public sector management. It envisions progress along a range of dimensions, from improving the treatment of governance in country assistance strategies; to developing better coordination, oversight, and dialogue with clients in high-risk environments; to strengthening regional analytic work on comparative public sector reforms and governance performance indicators.

FIGURE 2.11

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY THEME | FISCAL 2006
SHARE OF TOTAL OF \$1.7 BILLION

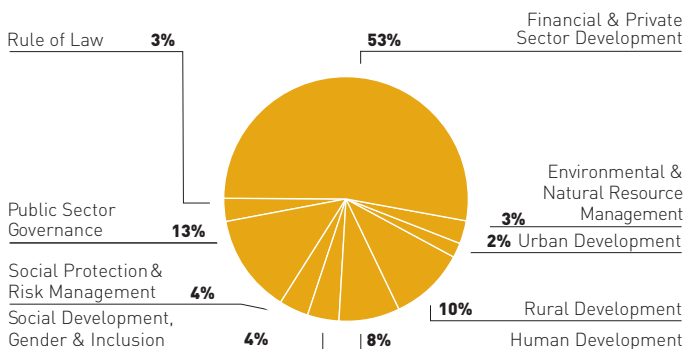
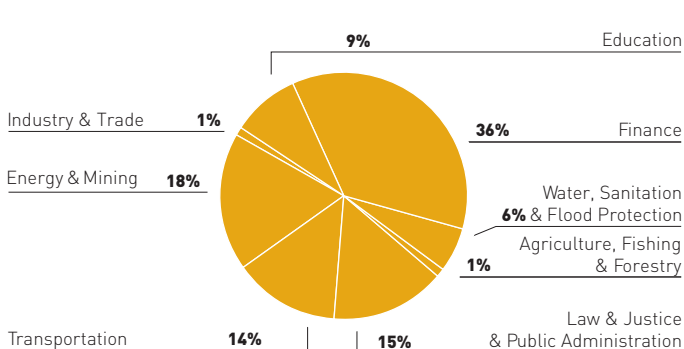


FIGURE 2.12

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2006
SHARE OF TOTAL OF \$1.7 BILLION



Knowledge sharing has been at the core of the Bank's development assistance to high-income Gulf countries. The Bank continues to provide technical and advisory services on demand through the Reimbursable Technical Assistance Program. In Saudi Arabia, the Bank provides policy advice in several sectors. In Kuwait, assistance has been provided to the Education Indicators and Assessment Program, and in Bahrain, the Bank's policy advice was requested to develop social safety nets and redefine the Bahrain Stock Exchange as a Gulf financial center.

In the social sectors, the Bank published a regional review, *Pensions in the Middle East and North Africa: Time for Change*, to highlight the urgent need for pension reform. Analytic and advisory activities were undertaken in the Islamic Republic of Iran and Egypt for pension reform and in Algeria for social insurance. A regional strategy to help prevent a major surge in HIV/AIDS infections was also launched. Although the region's level of infection is relatively low (an estimated 0.2 percent of adults), risk of infection cannot be underestimated.

BUILDING THE CLIMATE FOR INVESTMENT

The Bank helped strengthen the framework for private sector-led growth through analytic work such as invest-

ment climate assessments in Lebanon, Saudi Arabia, and the Republic of Yemen. The Bank also produced public expenditure reviews in Egypt, the Islamic Republic of Iran, and the Syrian Arab Republic to encourage sound financial management and good corporate governance. It provided technical assistance for reforms such as reducing the cost of doing business in Algeria and Morocco; strengthening trade facilitation in Lebanon, Tunisia, and the West Bank and Gaza; and developing export markets in Saudi Arabia. In Morocco, a \$200 million financial sector development policy loan was provided to strengthen the enabling environment for financial intermediation and risk management. The Bank is also supporting Egypt's financial sector reform program.

Improving infrastructure services is essential for improving the investment climate. The Bank has demonstrated several models for public-private partnerships in this regard through support to the transport and power sectors in Djibouti, Egypt, Morocco, and the Republic of Yemen; rural road development in Morocco; and water services quality and reliability in Morocco and Tunisia. It is providing fee-based technical assistance to develop Algeria's water resources. The Bank has also worked with the Tunisian government to develop a public-private partnership strategy for the development and management of infrastructure services.

FOSTERING PARTICIPATION IN DEVELOPMENT

Recognizing the diversity of social groups and opinions and the growing momentum of reform throughout the region, the Bank opened dialogue with parliamentarians, youth, women, the private sector, and the media. In Egypt, Lebanon, and Morocco, these groups participated in country assistance strategy consultations. Regionwide, the Bank engaged such groups in debates on trade reforms, governance, the rule of law, and gender issues. The Bank also worked to empower youth to participate in development through organization of the Small Grants Workshop for youth groups in Egypt and the Republic of Yemen and through *World Development Report 2007* consultations with more than 150 young Egyptians. (See www.worldbank.org/mna.)

TABLE 2.6

WORLD BANK LENDING TO BORROWERS IN MIDDLE EAST AND NORTH AFRICA BY THEME AND SECTOR | FISCAL 2001–2006
MILLIONS OF DOLLARS

THEME	2001	2002	2003	2004	2005	2006
Economic Management	11.9	5.0	0.0	0.0	45.8	0.0
Environmental and Natural Resource Management	27.5	21.7	186.0	113.8	160.2	44.5
Financial and Private Sector Development	78.8	204.1	48.3	259.3	166.6	907.8
Human Development	35.7	61.9	140.9	192.1	95.4	128.5
Public Sector Governance	102.6	93.3	106.6	19.6	166.0	229.0
Rule of Law	56.5	49.1	48.0	1.8	1.8	46.9
Rural Development	86.4	14.5	100.6	65.1	155.3	177.9
Social Development, Gender, and Inclusion	52.5	13.4	63.1	70.7	123.0	67.8
Social Protection and Risk Management	5.6	11.0	96.1	31.6	98.5	69.7
Trade and Integration	3.4	24.8	3.6	158.3	0.0	0.0
Urban Development	46.7	55.8	262.7	178.7	271.1	28.6
Theme Total	507.5	554.5	1,056.0	1,091.0	1,283.6	1,700.6
SECTOR						
Agriculture, Fishing, and Forestry	46.5	2.9	196.7	27.2	229.2	15.3
Education	72.3	38.0	154.3	154.9	124.0	146.8
Energy and Mining	0.0	1.3	0.0	0.0	0.0	316.5
Finance	0.0	110.5	1.9	20.8	142.5	625.0
Health and Other Social Services	39.3	41.7	124.2	52.0	0.3	0.0
Industry and Trade	27.0	71.7	74.3	23.4	277.9	14.0
Information and Communication	59.2	69.9	2.3	0.0	18.5	0.0
Law and Justice and Public Administration	161.5	74.7	213.6	93.6	232.9	249.2
Transportation	82.8	70.9	107.9	409.6	29.0	237.6
Water, Sanitation, and Flood Protection	19.0	73.1	180.9	309.5	229.3	96.4
Sector Total	507.5	554.5	1,056.0	1,091.0	1,283.6	1,700.6
Of which IBRD	355.2	451.8	855.6	946.0	1,212.1	1,333.6
Of which IDA	152.3	102.7	200.4	145.0	71.5	367.0

Note: Includes all adjustment, development policy, and investment loans. Effective fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals due to rounding.