

The World Bank



MIDDLE EAST AND NORTH AFRICA

1. OVERVIEW

The Middle East and North Africa (MENA) Region has experienced in recent years high economic growth accompanied by strong job creation and declining unemployment. For this performance to be sustainable it needs to be supported by deeper structural reforms in countries of the MENA region.

The GDP growth rate for the region reached 6.3% in 2006 up from an average of 3.6% a year during the 1990s which is the strongest showing in more than 10 years despite the difficult conditions in Iraq, Lebanon and the West Bank and Gaza. The 2006 high growth rates was also the fourth in a row of robust growth performance, driven by high oil prices, economic recovery in Europe and reforms that are broadly going in the right direction. As a result, many jobs have been generated, primarily by the private sector as public employment rates slows down.

Indicators reveal that, between 2000-2005, employment grew at 4.5% per annum. This is the strongest rate of job creation among developing regions. However, productivity remains a concern and women are still less successful than men in finding employment. There is evidence of reform progress in trade, business environment and governance in MENA countries. Prospects for sustaining growth and reducing unemployment in the region at the current rates will depend primarily on advances in the structural reform agenda, which remains a substantial challenge for policymakers.

For MENA economies to achieve further growth, it is crucial to sustain and deepen reforms to improve the climate for private investment, further opening economies to greater trade, and improving governance mechanisms across the board for greater public sector accountability and inclusiveness, as well as improved public sector efficiency.

With respect to progress in structural reform, the region has, by and large, not kept pace with other regions. For example, in the area of trade reform, the region lags behind most other

middle income regions, with continued high tariffs in many countries and widespread use of non-tariff barriers.

MENA has made significant progress on reforming the business environment, but remains below average for all middle income countries. Perhaps of greatest concern is the lack of regional progress in improving governance. Weak governance structure is an underlying challenge to sustaining progress in economic, social and human development indicators in the region. MENA countries have, nonetheless, taken some steps toward addressing some of the gaps in governance. Many of these efforts have focused on reforming public administration, both to improve efficiency in the delivery of quality public services and to create fiscal space. Civil service reform has been a key element of public sector reform programs in a few countries in the region, including in Jordan, Morocco, Egypt and Yemen.

1.1 World Bank Group Assistance

During fiscal year 2007 (July 2006-June 30, 2007), the World Bank Group committed US\$ 2.6 billion in loans, credits, grants, and guarantees to governments and the private sector in countries across the MENA region. The recipients are using these funds in more than 40 projects and programs designed to enhance the business and investment, support ongoing reforms in the financial, education and water sectors, improve infrastructure management, enhance governance structures and encourage sustainable environmental practices.

Four of the World Bank Group institutions contributed to this effort: the International Bank for Reconstruction and Development (IBRD), which provides project financing, risk management products, and other financial services to middle income countries in the region; the International Development Association (IDA), which currently provides interest-free loans and grants to low income countries in MENA (namely to Yemen and Djibouti); the International Finance Corporation (IFC), which has expanded its portfolio to include equity investments, loans, guarantees and advisory services to private-sector business; and the Bank Group's political risk insurance agency, the Multilateral Investment Guarantee Agency (MIGA) with active projects in a number of countries.

During the 2007 fiscal year, IBRD and IDA loans, credits and grants commitments totaled US\$ 1.14 billion with investments in infrastructure projects reaching US\$ 575 million. In middle income countries across the region, the World Bank focused its technical and financial assistance on promoting private sector development while enhancing women's economic opportunities, strengthening institutions and governance while supporting the management of new infrastructure projects. In low income countries, IDA supports access to basic service needs as in the case of Yemen where IDA supports projects in the education, health sectors as well as social protection and rural community development. In Lebanon, Iraq, West Bank and Gaza, the World Bank group's strategy is to address priority needs of vulnerable communities and those most at risk while contributing to developing solid foundations for government and market institutions.

IFC's annual investments in the MENA region for the fiscal year 2007 reached US\$ 1.2 billion. These investments and advisory services support job creation while demonstrating the opportunities that the private sector can provide. The IFC has increased its presence in MENA to address financing gaps in the region's markets including companies' access to finance and private sector involvement in infrastructure. During the past year, priorities included reducing the constraints on private sector activities in conflict-affected and frontier countries. So, for example, through the *Lebanon Reconstruction Program*, , some 3000 local companies received new loans.

During the period 2006-2007, MIGA provided technical assistance for three projects in the MENA region, in addition to co-sponsoring an intra-regional investment summit. The event, held jointly with *The Islamic Corporation for the Insurance of Investments and Export Credit* and the *Dubai International Financial Center*, brought together investors and financiers from across the region. As of June 30, 2007, MIGA's gross guarantee exposure in the region stood at US\$ 285 million, 5.4 percent of the agency's outstanding portfolio.

2. WORLD Bank Support Programs and Priority Interventions in the MENA region

During the fiscal year of 2007, the World Bank Group provided technical and financial support for reforms, as well as for emergency and reconstruction efforts in the MENA region. The World Bank's strategy identifies cross-cutting challenges whose impact is taken into account with each intervention the Bank supports at the country level. These challenges are:

- Governance;
- Private Sector Development;
- Education;
- Sustainable Water Management;
- Gender and inclusion;

2.1 Governance

Over the past 3 to 4 years, issues of governance and administrative reform have come to the forefront of the development debate in MENA. In comparison with other regions, MENA rates well in such indicators as political stability and e-governance, and fair in terms of service delivery and anticorruption, but there is wide variation between countries. The overall size and affordability of the public sector is also an important issue for the region. When government employment is viewed in per capita terms or as a proportion of the labor force, MENA remains home to some of the largest governments in the world.

During fiscal year 2007, governance and anticorruption consultations were held in Egypt, Jordan, Morocco and Yemen. The consultations involved representatives of civil society, media, donors, parliamentarians, governments and development assistance organizations.

2.2 Private Sector Development

Sustained economic growth raises incomes and creates jobs for the poor, thus alleviating poverty. Helping countries pursue faster, more sustainable growth is a crucial component of the Bank's role in the MENA region.

In order to support countries' efforts to build a business friendly investment climate, good corporate governance and a vibrant financial sector, the Bank has undertaken a number of *Investment Climate Assessments* (in Algeria, Egypt, Lebanon, Morocco, Oman, Saudi Arabia, Syria, Tunisia, and Yemen), *Financial Sector Assessments* (in 14 MENA countries since 1999), and analysis, technical assistance and support for trade facilitation (in Jordan, Lebanon, Morocco and Syria). A regional report on private sector development is being prepared.

The Bank is also supporting reform programs in the Gulf countries through policy advice and technical assistance. It is providing technical assistance to Maghreb countries to strengthen legal, regulatory and administrative performance as measured by the Doing Business Indicators. Moreover, it is supporting and encouraging private-public partnerships for the development of infrastructure.

2.3 Education

While MENA countries invest a higher proportion of their gross domestic product on education than other regions in the world, they continue to face challenges developing a high-quality education system at all levels as well as promoting life-long learning and training that responds to the needs of the labor market.

Improving the education system, therefore, is an important component of the World Bank's strategy to promote knowledge-based economic development, and to facilitate the economic transition of countries in MENA. In particular, the Bank works with MENA countries to ensure equitable school access and retention; to improve the quality and relevance of all levels of education and training; to build capacity in education governance in both the public sector and in local communities; to increase the efficiency with which education services are delivered; and to improve the fiscal sustainability of public investment in the education sector. Furthermore, the World Bank has been paying increasing attention to disadvantaged children and youth (dropouts, working children, the disabled), encouraging MENA countries to develop cross-sectoral responses to ensure that this population too has access to quality education.

The Bank has responded to diverse and changing needs through knowledge transfer and lending. This includes supporting access for Yemen and Djibouti to the *Fast Track Initiative*

to meet *Education for All* objectives, as well as improving the capacity of the education systems in Jordan, Tunisia, and Morocco to adapt to the global knowledge economy. Projects in these three countries have focused on improving education quality and relevance, as well as introducing technology to the classroom. Sector work in Tunisia and Morocco has provided insight into the costs and financing options for higher education and is providing the basis for ambitious reform efforts.

2.4 Sustainable Water Resource Management & Water Supply and Sanitation

The countries of the MENA region are home to five percent of the world's population, but contain less than one percent of the world's renewable fresh water. While water availability remains relatively constant, demand has grown rapidly, leading to extraction rates beyond sustainable levels in these countries and a deterioration of environmental conditions.

Water supply and sanitation services have expanded considerably in the region, but utilities are plagued by problems of deteriorating infrastructure, poor service quality and, in many cases, inadequate supply. Services are subsidized in all but two countries of the region, which puts extra pressure on public budgets. Irrigation takes up more than 80 percent of the region's water and is often used to grow low value crops.

The Bank helps its clients address this challenge through both policy advice and lending support. In 2007, a regional report on the political economy of water reforms was launched. It contends that water need not be a major constraint to growth and development in the region if the resource is managed in a flexible, adaptable and efficient fashion within a public accountability framework.

Developing such a flexible management system will involve addressing technical considerations, building adaptable institutions and developing transparent, inclusive accountability structures. The drivers for water reform lie outside the traditional water sub-sectors, and these are changing in ways that might provide opportunities for reforms that have so far been elusive – providing good governance mechanisms are in place.

A regional effort aimed at improving the management of international waters was successfully continued through the *Nile Basin Initiative* (which has engaged Egypt with the upper riparian countries of the Nile).

Investment lending programs have continued to support water service provision, utility reforms, integrated management of water resources, irrigation improvements, private sector investments, and sewerage and sanitation development in the MENA countries, such as Morocco, Egypt, Tunisia, West Bank and Gaza, Yemen, Jordan and Iran. The Bank is also pioneering the use of *Development Policy Lending* in the water sector in Morocco. Finally, the Bank has been preparing rehabilitation projects for water supply, sanitation and irrigation services in Iraq.

2.5 Gender

Progress on bridging the gender gap in social indicators has been impressive in MENA, mainly because of heavy public sector investments in education and health sectors, from which women have benefited significantly. However, this has not had a commensurate increase in women's access to the public sphere as measured by such indicators as labor force and political participation. On both of these indices, the MENA region stands far below other developing regions. This has had a significant impact on MENA's growth and development.

The MENA Region relies on a three-pronged *Gender Strategy* to support women's economic rights, consisting of:

- (a) Ensuring women's access to public resources (gender policy and budgeting by mainly responding to the needs of poor women);
- (b) Creating a level playing field for women's participation in the labor force (targeting middle and working class women that depend on wage income); and
- (c) Promoting women's access to asset and wealth creating opportunities (supporting women entrepreneurs with knowledge and personality to assume positions of leadership and decision making).

This strategy has been implemented along four tracks:

- Deepening and broadening analytical work;
- Engaging government officials with the view to mainstreaming gender into development;
- Strengthening national capacity in gender mainstreaming through training; and,
- Broadening gender networks within regional civil society.

Youth and Inclusion

The World Bank is also supporting the capacity of community-based organizations through a number of community driven development projects that address themes of rural development, service delivery to vulnerable groups and slum upgrading. The Bank is also preparing a regional policy note on youth that emphasizes the opportunity for growth and stability they represent in the region. The Bank has increased its efforts to address the situation of youth in a multisectoral manner. In 2007, the MENA lending program focused on entrepreneurship, training, employment and higher education through projects in Egypt, Jordan and Tunisia.

Country Development Marketplace events have been organized in Morocco and Lebanon adopting themes of entrepreneurship and governance. These events serve as vehicles for partnerships between youth NGOs and the business community. In Iran, the Bank prepared a *National HIV Strategy* which identified youth as an important component. In 2007, the city of Rabat hosted the *Regional Conference on Youth*, which focused on opportunities for youth in

urban areas and how they can better engage with municipal authorities to play a more effective role in development.

3. Looking Ahead

To help meet the diverse challenges faced by the region, the World Bank will work to support each country's unique long-term development goals. It will also seek to further build upon developing partnerships with civil society and the poor to better understand their needs, and to ensure knowledge sharing with development organizations.

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