

The World Bank



MIDDLE EAST AND NORTH AFRICA

OVERVIEW:

The Middle East and North Africa (MENA) is an economically diverse region that includes the oil-rich economies in the Gulf, resource abundant, populous countries such as Algeria and Iran, and countries that are resource scarce in relative to population size, such as Egypt, Morocco, and Yemen. The region's economic fortunes over much of the past quarter century have been heavily influenced by three major factors: the price of oil, the prevalence of latent and open conflict, and the legacy of economic policies and structures that emphasized a leading role for the state.

Economies in the MENA region continued to grow robustly with real GDP increasing by 6.3% in 2006; the best growth performance for the region in more than 10 years. Strong oil revenues along with the ongoing European recovery provided the momentum for better growth performance in the region which -despite the rapid demographic expansion- has led to an increase GDP per capita by 4.2% in 2006. The recent growth performance has helped MENA to narrow the gap in growth in per-capita incomes with other developing regions. Prospects for sustaining growth in the region at the current rates, however, will depend primarily on advances in the structural reform agenda, which remains a substantial challenge for policymakers in the near term.

Meeting the employment challenge in MENA continues to be a priority. While over the past four years the MENA region has seen job creation accelerate, unemployment declined, and women increase their active participation in the labor force, unemployment remains at about 11% and MENA still employs a small share of its potential workforce, as employment rates in the region are about 47 percent, the lowest in the world. The capacity of income growth in the region to generate jobs has been high but the challenge remains to maintain the exceptionally high rates of employment growth seen in recent years while seeking ways to enhance worker productivity. For MENA economies to achieve that, the need is high for 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.

To meet this challenge, the MENA region will need to transition to an economic model that enables it to substantially develop its employment creating growth potential. This will require comprehensive structural reform.

In evaluating the structural reform progress, the region has, by and large, not kept pace with worldwide progress. 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 more 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. In MENA governance is an underlying challenge to sustaining progress in economic, social and human development indicators. MENA countries have 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 savings. Civil service reform has been a key element of the public sector reform programs in a few countries in the region, including in Jordan, Morocco, Egypt and Yemen.

World Bank Assistance

The Bank's overarching objective in the MENA Region is to help countries meet their development challenges by strengthening the momentum for policy reform and institution-building that is essential for developing a better climate for investment, growth and job-creation.

Bank lending has grown to \$1.7 billion in fiscal 2007 supporting reforms and investments across a wide range of sectors including infrastructure. In particular, our lending program aims to boost access to basic services, enhance water supply and natural resource management, advance rural development and infrastructure. The Bank is also working with clients to reform the financial sector and stimulate private sector development in the region.

Analytical and advisory services have become a major tool for policy dialogue and reform in response to growing client demand. Approaches and tools are diversifying. The Bank continues to provide its traditional analytical and core Economic and Sector Work (ESW), but has also introduced a Programmatic ESW (PESW) approach in which we join with clients in a sustained, multiyear program of analytical work that uses a combination of existing instruments, including ESW, technical assistance and training, in a customized manner suited to the client's capacity building needs..

The Bank has also added a series of regional reports to address issues of particular importance to the region. These reports address the critical themes of governance, trade and investment, employment, gender and water. An additional report on education will be disseminated next year.

To strengthen and reinforce the impact of its analytical work, the Bank has worked to boost the capacity of its staff and improve their cooperation with counterpart institutions. It has also enhanced partnerships with other donor agencies (e.g., the Islamic Development Bank and the

European Investment Bank) on implementation and fiduciary issues. Knowledge sharing has been at the core of the Bank's fee-based assistance to the Gulf countries for many years now. This has recently expanded to other middle income countries including Egypt and Algeria.

The Bank continues to expand its range of services beyond direct lending and analytical work in several important respects. The Bank continues to work closely with its sister institutions, the International Finance Corporation (IFC), which promotes economic development through the private sector, and the Multilateral Investment Guarantee Agency (MIGA), which helps encourage foreign investment in developing countries by providing guarantees to foreign investors.

World Bank's Areas of Focus in the MENA Region

The World Bank has responded to the challenges of the region by providing assistance on a broad range of sectors and areas of activities tailored to the specific challenges and national goals of each country. However, five cross-cutting challenges have been identified as a common agenda across the region, and their impact is carefully taken into account with each intervention the Bank undertakes in a country.

Governance

Over the past 3-4 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 region ranks considerably worse than global comparators on issues of public voice, accountability and participation. The overall size and affordability of the public sector is also a large 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.

Private Sector Development

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

So as 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.

Education

While MENA countries invest a higher proportion of their gross domestic product on education than other regions in the world, the region continues to face challenges developing a high-quality education system at all levels and 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; improve the quality and relevance of all levels of education and training; build capacity in education governance in both the public sector and in local communities; increase the efficiency with which education services are delivered; and 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.

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 have 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, 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.

Gender and Inclusiveness

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 a significant impact on MENA's growth and development.

A key entry point to bring about change is to focus on women's economic rights. This focus will capitalize on the Bank's comparative advantage of economic development and strengthen the work of other institutions that address rights-based approaches.

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 -- 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/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.

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. For example, the Third Palestinian NGO project which was approved by the Board in November 2007 aims at building the capacity of Palestinian NGOs by focusing on issues of good governance, accountability and transparency that will empower and mentor these community-based institutions to better respond to the needs of vulnerable groups on a sustainable basis.

The Bank is also preparing a regional policy note on Youth that emphasizes youth as an opportunity for growth and stability in the region. Approximately 60% of the region's population is below the age of 24 and despite declining fertility rates, the region will continue to have one of the largest youth populations in the world. In 2007, the Bank concluded an assessment of the "Voices of the Youth" where interviewed youth in Egypt, Yemen, Morocco, West Bank and Gaza expressed concerns, among other things, over the quality of education and training offered and its relevance to the needs of employers. Another major concern for youth is a desire for meaningful participation and political and social inclusion.

Government policies impacting youth tend to be sectoral hence lacking the interrelated nature of youth's transition to adulthood. The Bank however has intensified its efforts to address the situation of youth in a multisectoral manner. In 2007, the MNA lending program focused on entrepreneurship, training, employment and higher education through projects in Egypt, Jordan and Tunisia. In addition, the Bank is preparing a youth policy note for the MNA region that identifies current gaps, priorities and policy recommendations for mainstreaming the youth agenda across the various sectors. Country Development Marketplace events were 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 player. 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.

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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