OVERVIEW

Poor Places, Thriving People

How the Middle East and North Africa Can Rise Above Spatial Disparities
This booklet contains the Overview as well as a list of contents from the forthcoming book, *Poor Places, Thriving People: How the Middle East and North Africa Can Rise Above Spatial Disparities*. To order copies of the full-length book, published by the World Bank, please use the form at the back of this booklet.
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Overview

This is a summary of the World Bank’s 2010 *Middle East and North Africa Development Report* on spatial disparities. The full report has more in-depth analysis and examples from the region and beyond. It will be available online and from booksellers in August 2010.

For the international experience of spatial development and regional policy, readers may be interested in the World Bank’s 2009 World Development Report, *Reshaping Economic Geography*.

The Political Demand: Spatial Equity with Productivity

Leaders in the Middle East and North Africa (MENA)\(^1\) are concerned about the development gap between leading and lagging areas. Spatially uneven development may be seen as a failure of economic justice, or as a betrayal of the social contract between the government and the governed, and that migration may translate into urban discontent or changes in political and social relations.

But MENA governments have another concern that is no less pressing. Unemployment rates are on average more than twice as high as those in middle-income countries worldwide. Creating jobs requires competitiveness and growth.

Can MENA raise living standards in lagging areas without compromising economic productivity? This report answers yes and proposes a policy framework for doing so.

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1. This study covers the following MENA countries: Algeria, Djibouti, Arab Republic of Egypt, Islamic Republic of Iran, Iraq, Jordan, Lebanon, Libya, Morocco, the Syrian Arab Republic, Tunisia, West Bank and Gaza, and the Republic of Yemen. We use the acronym MENA (or MENA13 when necessary) to signify these 13 countries. The members of the Gulf Cooperation Council (GCC) are not covered in this report because their geographic and economic characteristics are so different from those of the rest of the region.
Spatial Concentration with Spatial Equity

Everywhere in the world, economic activity is spatially concentrated for the simple reason that production is more efficient when it is agglomerated. As a result, 54 percent of the world’s economic activity is concentrated in countries that make up 10 percent of its area; within countries, economic activity is squeezed into the major cities. MENA countries are no exception: the productivity of capital and labor is measurably higher in the Arab Republic of Egypt, Morocco, and Tunisia’s leading areas.

But we have to distinguish two spatial patterns:

• *Agglomeration*, the tight concentration of businesses in certain places.

• *Spatial disparities*, the gaps in living standards between people in different places.

The broad pattern of spatial disparities in the Middle East and North Africa is typical of low- and middle-income countries: living standards are highest where economic activity is densest and where connections to economic density are closest.

• Urban areas are better off than rural areas.

• Areas close to urban centers are better off than isolated areas.

• The same pattern of spatial disparities applies to indicators of both economic and human development.

• The same pattern of disparities is found within subnational divisions.

• Women and men experience spatial inequalities differently.

However, living standards between rich and poor places can converge even as economic agglomeration grows. With effective policies in place, disparities in social indicators, such as poverty, health, and education, can and do shrink.

Spatial Disparities Are a Political Issue

If spatial disparities are a by-product of economic growth, why are they of such concern to policy makers?

From a sociopolitical perspective, spatial disparities can have worrisome effects. They can become a source of political grievance for residents of low-income areas. In addition, by fueling migration, spatial inequalities bring political risks to the better-off areas where the migrants settle.

The policy maker’s challenge is therefore to sustain spatial and political balance without sacrificing the efficiencies gained from agglomera-
tion. The aim of this report is to offer MENA’s policy makers a framework for doing so.

A Policy Framework for Spatial Equity with Economic Efficiency

The solution to the spatial disparity problem lies in careful local analysis and an appropriate mix of policies tailored to the characteristics of each lagging area.

Adapting the 2009 World Development Report, this study examines three policy packages (summarized in table 1):

Package 1 levels the playing field for lagging areas in the area of development by allowing better access to social services and an improved environment for business. Policy Package 1 applies to all lagging areas because it reduces spatial disparities without compromising the efficiencies of spatial agglomeration.

Package 2 connects lagging areas to leading areas. Policy Package 2 applies to lagging areas that are close to leading areas, where spillover effects can reduce spatial disparities.

Package 3 facilitates cluster-based regional economic development and does so without relying on subsidies. Policy Package 3 applies to lagging areas where competitive potential is manifested by private investor interest. The aim is encouraging local economic growth to reduce spatial disparities.

Spatial Disparities in Living Standards: Uncovering the Truth

The spatial concentration of MENA economies is apparent to all. But the reality of spatial disparities—differences in living standards—requires careful examination. To match the policy package to the place,

TABLE 1.1

Matching Policy Packages to Lagging Areas

<table>
<thead>
<tr>
<th>Policy package</th>
<th>Area of applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Package 1: Provides a level playing field and the opportunity for human</td>
<td>All lagging areas</td>
</tr>
<tr>
<td>development in lagging areas</td>
<td></td>
</tr>
<tr>
<td>Package 2: Connects lagging areas to the poles of development</td>
<td>Lagging areas close enough to leading areas to benefit</td>
</tr>
<tr>
<td>Package 3: Takes advantage of private sector interest in nonleading areas</td>
<td>Areas where the private sector might see unrealized growth potential</td>
</tr>
</tbody>
</table>

Sources: Study team and World Bank 2009a.
policy makers must understand the unique characteristics of each lagging area.

Some pointed questions can help indicate the way forward. First, is geography really a major contributor to socioeconomic inequality? Second, is an area lagging because of low economic opportunity or because of poor human development? Third, assuming a genuine spatial inequality problem does exist, how has it evolved over time? Are lagging areas converging with leading areas, or are disparities becoming wider? Is redistribution of population from lagging to leading areas helping to solve the problem?

This analysis will grapple with the problem of diagnosing spatial inequality, showing first how to identify degrees of spatial inequality and then how to separate lagging areas into distinctive types.

**Fast Urbanization but a Delayed Transition out of Agriculture**

MENA differs from other developing regions in at least one key respect. The region’s populations are more agglomerated (urbanized) than one would expect for their level of economic development. Why is that? For one thing, most of the land in the MENA region is too arid or mountainous to support settlement and farming. Consequently, rural populations here have historically been concentrated in coastal strips, in mountain valleys, and along the rivers. By necessity, therefore, MENA’s settled areas have had high population densities from an early date. One implication of this fact is that the region needs less additional population agglomeration to obtain the economies of agglomeration found in developed countries.

MENA is urbanizing fast: on average, countries were 65 percent rural in 1960 but 65 percent urban in 2007. Normally, urbanization is accompanied by a shift of labor from agriculture to services and manufacturing. In MENA that labor transition has been delayed. Agriculture has lost its share of value added, but rural areas remain centers of low-productivity employment and poverty. Moreover, MENA has an unusually high rate of agricultural employment growth (figure 1.1), and too many people on too little land has become a common feature of MENA’s lagging rural areas. One reason is that the region has an unusually high rate of growth in the working-age population (figure 1.2). Given the land and water constraints, the region’s agricultural sector cannot continue to absorb surplus labor. A shift of labor out of agriculture is overdue; when it comes, it will shift population into the cities. Climate change is likely to accelerate this process.
FIGURE 1.1

MENA’s Agricultural Labor Force Is Growing Fast Relative to Its Level of Development


FIGURE 1.2

MENA’s Working-Age Population Has Been Booming Compared with Other Countries at the Same Level of Development


Note: DJI = Djibouti, MOR = Morocco.
Spatial Disparities Are Smaller than They Seem

Geography is highly political, so it is essential for policy makers to have an objective understanding of how location affects household welfare.

Things are not always as they seem at first glance. For example, economic elites bump up the average consumption levels in leading areas, but the living conditions of the vast majority of people in those areas may actually be similar to those in lagging areas. Urban slums may have levels of poverty and human development similar to or even worse than rural areas. Simply by using median instead of average values of household welfare can alter the appearance of spatial disparities.

It is also important to focus on absolute poverty numbers as opposed to poverty rates. Focusing on poverty rates can overlook the large absolute numbers of poor people living in high-density urban areas.

Location matters more with respect to living standards in some countries than others. The spatial component of inequality is biggest in Morocco, followed by the Arab Republic of Egypt and the Republic of Yemen. Nevertheless, in no MENA country for which data were available does rural-urban inequality account for more than 20 percent of total inequality of household expenditure. Overall, MENA’s urban-rural and interprovincial divides are no greater than those in other developing regions of the world.

Spatial Disparities Are Often Social Disparities

Household characteristics explain a large share of spatial disparities. The following example will help to clarify the concepts at work. Although Upper Egypt has only 40 percent of the population of Egypt, it accounts for 60 percent of its poverty and 80 percent of its severe poverty. Economic geography, however, is not the main factor holding Upper Egypt back. In fact, demography explains 62 percent of the consumption gap between Upper Egypt and Lower Egypt. The problem is that Upper Egyptian workers have to share their earnings with more family members who are too young or too old to work. In other words, Upper Egypt has a high “demographic dependency”—the ratio of dependents to people of working age. Households with unfavorable demographic characteristics would be at a disadvantage wherever they lived.

Likewise, a household’s education level can influence its success. While leading areas may have better-educated people and lagging areas may provide inadequate educational opportunity, households with low educational achievement will do worse than better-educated households, regardless of location.

Three factors explain why household characteristics in MENA’s lagging areas differ so greatly from those in leading areas: fertility, sorting, and education.
MENA’s demographic transition has been and remains spatially uneven. Although fertility rates are falling across the region, they began falling in leading and urban areas first and in lagging and rural areas later. In the short run, therefore, MENA’s demographic transition has caused spatial disparities in dependency ratios, and this is a major cause of the region’s rural-urban and interprovincial disparities in well-being. As the demographic transition reaches MENA’s lagging areas, however, it will become a major contributor to spatial convergence in living standards.

Many factors influence fertility rates, including female education, gender empowerment, female labor participation and income growth, and access to quality reproductive health services. Spatial considerations influence all of these determinants, which explain why MENA’s demographic transition has been geographically uneven.

The available data on internal migration in MENA confirm the sorting effect: the people with the highest earning potential leave lagging areas. This is due partly to the tendency of people with greater education to place greater value on city amenities, and partly to the fact that the jobs that make education productive tend to be concentrated in cities.

Finally, people in lagging areas are less able to acquire human capital, whether from the educational system or from family members and social networks. This is the education effect.

These three effects—fertility, sorting, and education—are related and mutually reinforcing, and they account for much of what makes a household rich or poor. Improving living standards in lagging regions is therefore as much a question of developing people as it is of developing the place itself.

The demographic and educational components of spatial disparities differ significantly from country to country, as shown in the following examples.

- **Egypt.** Demography is a major contributor to Egypt’s disparities. If all of Egypt’s governorates had the same demographic profile, the rural-urban gap would be a full 17 percentage points lower than it is. Educational disparities are also significant, albeit less so than demography.

- **Djibouti.** Unusually, the demography of rural Djibouti mitigates the rural-urban gap. If rural and urban areas had the same demographic characteristics, the gap would be 4 percent higher than it is. On the other hand, educational disparities add 11 percentage points to the rural-urban gap.

- **Jordan.** Average rural per capita consumption is 24 percent behind urban levels in Jordan. If demographic disparities are removed, this dwindles to an insignificant 12 percent. Controlling for educational disparities, the gap becomes just 3 percent.
• **Lebanon.** In looking at what separates Mount Lebanon, the North, and Bekaa from Beirut, the differences in household characteristics and earnings per worker are not significant. Labor force participation and mobility are the key factors.

• **Morocco.** Morocco features only modest interprovincial disparities but a significant urban-rural gap: per capita household consumption in rural areas is only 54 percent of that in Morocco’s urban areas. Even if rural and urban areas had the same demographic characteristics, the rural-urban gap would still be 41 percent. And controlling for education, rural Morocco’s per capita household consumption would still be 32 percent lower than urban Morocco’s.

• **The Syrian Arab Republic.** Syria’s northeast regions lag far behind Damascus City in terms of average per capita household expenditure. Without demographic disparities, however, the northeast would not be a lagging area at all. Spatial disparities in education seem to play no role.

• **The Republic of Yemen.** Without the demographic and educational components of intergovernorate disparities, the Republic of Yemen’s poorest governorate would trail only 40 percent (instead of 65 percent) behind the city of Sana’a in terms of per capita consumption. The rural-urban gap would be 25 percent instead of 40 percent.

The implication for policy makers is clear: one cannot assume that observed spatial disparities in economic welfare are due to spatial disparities in economic opportunity. For many lagging areas, the population would be disadvantaged wherever they lived, so human development is likely to be a key component of effective spatial development almost everywhere in MENA.

**Convergence and Migration: Sometimes Spatial Disparities Resolve Themselves**

Once policy makers have a clear profile of spatial disparities, it can be useful to know whether those disparities are narrowing or widening over time (box 1.1).

In some countries, the redistribution of population from lagging to leading areas can take place quickly enough to solve the lagging-area problem. If this is the case, then it makes sense to focus economic investment wherever the return is highest, which is usually in agglomerations. In other countries, the population will not shift from lagging areas to leading areas, perhaps because lagging areas have higher fertility rates or because inflexible social structures limit migration. In this situation the lagging areas may require spatially targeted economic development policies to bring about an increase in earnings.
Throughout the MENA region, people are moving from the countryside to the cities. The redistribution of MENA’s population, however, tends to take the form of a gradual shift from rural to urban areas within provinces instead of a lateral migration from lagging provinces to leading provinces.

Why is the redistribution of population from lagging to leading provinces slow in MENA? One reason is that fertility rates are higher in lagging provinces. The role of social networks may also be critical. In the absence of transparent job and housing markets, the opportunity to migrate may depend on the presence of friends and family in the destination. So while the poorest may have the greatest desire to migrate, the best connected have the greatest opportunity to do so. Studies of Egypt

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**BOX 1.1**

**Convergence Trends for the Islamic Republic of Iran, Tunisia, and Egypt**

*The Islamic Republic of Iran.* In the Islamic Republic of Iran, the convergence in living standards between leading and lagging areas was more a result of leading areas losing ground owing to economic decline than of lagging areas gaining from growth. The urban-rural convergence occurred during 1976–85, when per capita household expenditure fell much more in urban areas than in rural areas. Once the economy resumed steady growth in the early 1990s, however, the urban-rural gap widened once again.

*Tunisia.* Between 1980 and 2000, Tunisia experienced significant interregional convergence. The rural-urban gap also narrowed, although it fluctuated from year to year, probably according to rainfall. Tunisia’s convergence was uneven, however, as regions split into rich and poor clubs. The case of Tunisia shows that spatial convergence at the national level may take the form of a “breakout” by middle-rank regions. For that reason, policy makers should resist the temptation to focus their convergence concerns solely on the most lagging regions.

*Egypt.* The country appears to be facing widening spatial disparities within lagging Upper Egypt, even though divergence is not taking place between Upper and Lower Egypt. Some villages in rural Upper Egypt are being left behind as others “break out” and reduce their poverty rates. Therefore, Egypt’s current strategy of targeting social investments toward low-income villages in low-income governorates may indeed be appropriate.

*Source: Authors.*
confirm the importance of social networks in determining internal migration flows. Gender relations in MENA may also slow interprovincial migration. Social conventions constrain female mobility and labor market participation.

From the preceding considerations, we can see that the population in MENA countries is urbanizing but not “metropolitanizing.” Even though political concerns may focus on the specter of an uncontrolled human tide flooding the primary cities, this is not the reality of internal migration in MENA. The implication is that lagging provinces’ development will depend on local growth poles for some time to come.

**Three Ways to Lag, with Three Policies to Match**

Lagging areas’ diverse geographical characteristics call for different policy responses.

For the purposes of spatial analysis, MENA’s area can be classified along three dimensions.

- **Lagging versus nonlagging.** The question of living standards.
- **Dense versus sparse.** The question of population density.
- **Near versus distant.** The question of travel time to a major city.

A map of the region based on these classifications emphasizes MENA’s varied geography (map 1.1). Much of MENA’s population is clustered in islands of density. The 3 percent of MENA’s surface area that is densely populated is home to 92 percent of the population. Thus most lagging areas’ populations are reasonably agglomerated. The proximity of populations to economic density is another distinctive characteristic of MENA.

Once we know a lagging area’s character, we can match it to the appropriate policy package.

For example, in the lagging area of Djelfā in Algeria on the Trans-Saharan Highway, Djelfā looks like a *fringe* area: sparsely populated, distant from economic density, and with economic potential constrained by a lack of agglomeration and resources. Djelfā may therefore be suited only for Policy Package 1: a level playing field for development, with investment in people.

The Jordanian governorate of Al-Mafrāq is another lagging area. Like Djelfā it is sparsely populated and arid. Yet its provincial capital is only 50 kilometers from Jordan’s capital. Al-Mafrāq is therefore a *belt* area. It could benefit from Policy Package 1’s level playing field for development, but it is also close enough to the capital to benefit from spillover connectivity. Therefore, Policy Package 2 might be appropriate.
The urban governorate of Aleppo in Syria is a lagging area, although it has a large population of educated people, several major employers, and an environment of fertile farmland. It would seem to be a pocket of unrealized economic potential. As well as being a candidate for Policy Package 1, therefore, it could be a candidate for Policy Package 3, a package that is aimed at facilitating private investment in lagging areas.

Analyzing a given lagging area at different levels of spatial disaggregation also reveals new policy-relevant information. Upper Egypt is a case in point.

As a region within a country, rural Upper Egypt appears as a lagging area. Yet 80 percent of the difference in per capita consumption between Upper Egypt and Lower Egypt is due to demography. At the regional level, therefore, the policy emphasis should be on overcoming Upper Egypt’s demographic handicap.

As a governorate, Upper Egypt shows wide disparities from district to district in access to public services and health care, so it is crucial for authorities to allocate public social investment projects to priority areas. The government’s logical policy response has therefore been to emphasize bottom-up, participatory planning of social infrastructure, with financial allocations targeting the poorest districts.

As a collection of communities, Upper Egypt can benefit from the new technique of poverty mapping, which allows policy makers to analyze spatial disparities below the province level. In MENA, this technique reveals the disparities in welfare between neighboring villages, as well as geographically small pockets of dense poverty in large cities. At this level, policy responses should include village-level targeting of public social investment projects and targeting of dense poverty pockets in richer urban areas.

With the importance of diagnosis for matching policies to places made clear, we are now ready to present the three policy packages described at the outset.

**Policy Package 1: Leveling the Playing Field and Investing in People**

All lagging areas have one thing in common: they deserve equal policy treatment—a level playing field for development, one that will reduce spatial disparities in living standards while letting the market determine the spatial distribution of economic activity, thus securing both the economic benefits of agglomeration and the political benefits of spatial equity. This is the goal of our first policy package, which is applicable in all circumstances and the only package suitable for fringe areas.
MAP 1.1

A Policy-Oriented Spatial Typology of the Middle East and North Africa

Sources: Elevation, SRTM30 (2000); land cover, GLC2000 (2000); population, Landscan (2005); rail, VMAP0 (1997); rivers, CIA World Data Bank II (1980s); roads, Euro-med (2000) and VMAP0 (1997); slope, in degrees, SRTM30 (2000); urban areas, GPW3-GRUMP (2000); water bodies, Global Lakes and Wetlands Database layer 1 (2004).

Note: Lagging areas represent 40 percent of the administrative units by country that have the highest rates of poverty, and nonlagging areas represent the remaining administrative units. Using Nelson’s (2008) methodology to calculate a travel time model, “near” is defined as a travel time less than or equal to 3 hours from a city of 500,000, and “distant” refers to any travel time greater than 3 hours. Based on population density data from Landscan (ORNL 2005), “dense” is defined as more than 50 people per square kilometer, and “sparse” covers the remainder. Areas with population density less than 1 are displayed in white.

History Has Left an Uneven Playing Field for Development

There is a strong statistical relationship between political institutions and spatial development: the less accountable a state, the more agglomerated its population. This might be because undemocratic states tend to neglect people in outlying areas.
MENA’s political history has left behind a spatial bias in favor of metropolitan areas. Many of the contemporary drivers of spatial bias go back to the colonial era.

At independence, most of today’s MENA states were founded on belief in the state’s capacity to regulate social and economic relations. Governance under Ottoman and European rule was based on the development of strong central bureaucracies. Colonial tax systems encouraged a neglect of lagging regions and shifted a large share of tax revenues away from the provinces to the capital region. In the years immediately following independence, central administrations expanded, and power remained concentrated at the capital.

In catering essentially to the metropolis, colonial management avoided redressing regional inequalities. Under both Ottoman rule and European colonization, states served as providers to the metropolis. In favoring resource extraction over economic development, the colonial
powers created an economic geography of “useful versus useless” regions. Disadvantaged people were divided along ethnic and religious lines to prevent their alliance against the government. The development of metropolis- and export-oriented economies subsequently encouraged coastal agglomeration.

Empirical metrics suggest that the MENA states are less externally accountable than other countries at similar levels of development. Without formal arrangements for spreading accountability, decision makers are most likely to be accountable to those with whom they deal directly in the capitals—giving rise to an urban bias. And recently, some countries’ oil and gas revenues placed huge amounts of resources in the hands of the central administration. These factors encouraged centralization, accentuating features that modern MENA states inherited from their colonial past.

MENA’s governments are now seeking to reverse the political drivers of spatial disparities in response to several developments, including rising urban unemployment; the relatively poor performance of centrally planned economies worldwide; the limited ability of non-oil-exporting countries to subsidize public employment and production; and the spread of telecommunications, migration, and the broadcast media, which has made the populations of lagging areas more aware of spatial inequalities.

To create a level playing field for development, MENA’s policy makers will need to therefore remove the historical disadvantages faced by populations in peripheral areas. The approach can be broken down into four action areas:

- improving the investment climate in lagging areas
- integrating the spatial dimension into public expenditure management
- making education, health, and safety nets serve lagging area populations
- facilitating urban growth

**Leveling Subnational Disparities in the Investment Climate**

Data for the MENA countries suggest that disparities in the investment climate (consisting of the institutional context and infrastructural base) are affecting the spatial distribution of economic activity. Studies in Morocco and Egypt found an empirical link between spatial disparities in the investment climate and spatial disparities in firm productivity. We cannot be sure from the data that there is a systematic investment climate bias against lagging regions. It is clear, however, that MENA has significant spatial disparities in the investment climate, which have the potential to influence the location of economic activity (figure 1.3).
How can policy makers begin to level the playing field for private investment across MENA? Possibilities include more transparency in the application of business regulations in lagging areas and the provision of critical infrastructure services in their cities. Not all lagging areas have the economic potential to benefit from improvements in the investment climate. Evidence from Egypt and Morocco, however, suggests that improvements in the institutional environment could be achieved at a relatively low cost and would strongly benefit enterprise productivity.

**Public Expenditure Management Has a Spatial Dimension**

Several countries outside MENA have systems and rules for tracking the spatial incidence of expenditure and ensuring that intragovernmental
transfers reflect different areas’ needs. But MENA’s spatial public expenditure management systems are a clear priority for action.

Most MENA countries cannot monitor where central government spending takes place, which is in itself a problem for spatial policy. Moreover, the systems for allocating fiscal transfers to local governments are usually ad hoc, with the result being that poorer areas are often not compensated for their high level of needs or low resource base.

For Egypt and Jordan, the data suggest that resource transfers and governorate GDP per capita were not correlated: the highest transfers were not given to governorates with the weakest economic base. On the other hand, the data from the Islamic Republic of Iran suggest that the apportionment of transfers from the central government to Ostans (provinces) does give priority to lagging areas.

**Correcting Spatial Disparities in Public Education Systems**

Rural-urban disparities in primary and secondary enrollment rates (and other indicators of educational attainment, such as school completion and math achievement) are an obvious feature of MENA’s education profile (table 1.2). But spatial analysis of the determinants of educational performance is critical; it is not just a question of building more schools in lagging areas.

What causes the spatial disparities in education? To what extent are they due to spatial disparities in children’s socioeconomic status (demand-side factors) and to what extent to spatial disparities in education services (supply-side factors)? We examined the determinants of educational attainment (staying in school) in one country with high spatial disparities in attainment (Morocco) and in another with low dispar-

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**TABLE 1.2**

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Poor</td>
<td>Nonpoor</td>
</tr>
<tr>
<td><strong>Algeria</strong></td>
<td>1995</td>
<td>1995</td>
</tr>
<tr>
<td></td>
<td>Primary</td>
<td>Secondary</td>
</tr>
<tr>
<td></td>
<td>77.0</td>
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<td><strong>Egypt, Arab Rep.</strong></td>
<td>1999</td>
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</tr>
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<td><strong>Tunisia</strong></td>
<td>2000</td>
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</tr>
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</table>

ities (Jordan). The results for Morocco suggest that after the respondent’s age and the household head’s level of education were taken into account, the rural-urban factor explained only a very small percentage of attainment gaps. Instead, most of the disparities were explained by household characteristics. Similarly in Jordan, household economic status was the main determinant of attainment. Put simply, this means that the priority is to make it easier for poor households to keep their children in school, not to build more facilities in poor places.

While spatial disparities in educational attainment are mostly due to household characteristics, spatial disparities in educational achievement (learning) are largely due to geographic differences in the quality of schooling. It seems that students in rural schools receive education of lower quality than those in urban schools. Although MENA countries have achieved spectacular increases in enrollment, they have been less effective than comparator countries in converting those investments and enrollments into retention and learning. The idea that spatial disparities in learning achievement might be largely due to geographical differences in educational quality reflects the same diagnosis, but this is at the sub-national rather than the international level of analysis.

Gender disparities in education are also wider in rural areas in several MENA countries. Reducing these disparities will help reduce spatial disparities in development overall.

These analyses have important implications for policy makers seeking to reduce spatial disparities in education. They lead to four priority axes to combat spatial disparities in education.

- reducing spatial disparities on the demand side
- reducing spatial disparities in quality
- reducing gender disparities in lagging areas
- using spatial planning techniques to deploy appropriate infrastructure

Each theme is illustrated with examples from our case studies on Egypt, Jordan, Morocco, and the Republic of Yemen.

**Reducing Spatial Disparities through Demand-Side Interventions**

We have already seen that the low economic status of children in lagging areas may be more of an obstacle to educational attainment than disparities in educational supply. Therefore, one strategy for reducing spatial disparities is to make it more economically attractive for families to keep their children in school. For example, in conditional cash transfer programs, the transfer of a welfare benefit depends on the receiver’s actions. The education components of such programs address demand-side obsta-
cles to education by contributing toward the costs of sending a child to school. Data from Mexico, Colombia, and Nicaragua clearly show the potential of conditional cash transfer programs to improve enrollment.

Reducing Spatial Disparities in Quality
The spatial deployment of teachers and administrators creates inequities in the quality of education. In Morocco, difficult living conditions in rural areas lead young teachers to move to urban areas as soon as they can. In addition, levels of absenteeism are high, and teachers are underused, working less than the legal minimum of 24 hours per week. In Jordan, teaching posts are awarded to those who have waited the longest to get the next job in line. In Egypt, as in Morocco, teachers migrate from rural to urban areas as they gain experience. Finally, in the Republic of Yemen, teachers are haphazardly placed on the basis of local influence, so schools in lagging areas are unlikely to obtain experienced teachers.

It is clear that improving human resource management in public education services is critical for reducing spatial disparities in education quality. Local recruitment of teachers and incentives such as improved living conditions and housing are necessary to draw experienced teachers and principals to lagging areas. And more formal, systematic, and needs-based posting procedures are needed to better match teachers to vacancies.

“School development initiatives” have demonstrated great potential for improving education quality in targeted geographic areas. These are development plans managed at the school level by school boards, teachers, and parents. This approach relies on the capacity and motivation of the local school governance committee. It also presupposes that school principals have the skills and motivation to act as community leaders.

Reducing Gender Disparities in Education in Lagging Areas
The interaction of gender disparities and spatial disparities creates wide gender gaps in lagging areas. In Morocco, for example, the gender gap for literacy is 5 percentage points in urban areas, compared to 35 percentage points in rural areas. Reducing spatial disparities in girls’ education would also remove one of the causes of spatial disparities in fertility rates, which would in turn reduce spatial disparities in dependency ratios and living standards.

Any intervention aimed at reducing spatial-gender disparities in education should be made with girls’ unique needs in mind. For example, programs in the Republic of Yemen are improving living conditions for female teachers in lagging areas and recruiting women teachers locally.
Conditional cash transfer programs can be designed to provide families with special incentives to keep girls in school. Spatial planning of public investment in education—such as shorter distances between schools and residences, and adequate water and sanitation—can reflect girls’ educational needs.

**Using Spatial Planning Techniques to Improve the Spatial Efficiency of Infrastructure**

The race to achieve the Millennium Development Goal of full primary level completion has given strong emphasis to school construction across the MENA region, but the need for robust spatial planning of investments is becoming urgent. As the goal of universal primary enrollment and completion comes close to achievement, policy makers are shifting their focus to secondary schools, which are more expensive and farther from home. In addition, population distributions are changing rapidly with urbanization and the spread of the demographic transition from leading to lagging areas.

The situation in several MENA countries bears out the assertion that robust spatial planning is necessary. The Republic of Yemen faces a number of spatial imbalances in education. Despite Egypt’s high population densities, there are significant spatial inequalities in access to educational infrastructure. Jordan suffers from a serious spatial disequilibrium in the distribution of basic and secondary schools, leading to high maintenance costs and low utilization rates.

**Health: Correcting Spatial Disparities in Outcomes**

Geographical differences in health status are a major concern for policy makers. MENA governments spend an average of 3.3 percent of GDP on health services, and, as a matter of equity, the impact of that spending should not depend on a person’s location. Moreover, the performance of health systems in the MENA region will increasingly be measured in terms of their ability to reach marginalized people.

**Health Services and Health Outcomes in Poor Places**

Large spatial disparities exist within the MENA countries in health outcomes and access to services. There are localized pockets of bad health indicators in countries such as Lebanon, Egypt, Tunisia, Jordan, and Morocco. Health care personnel are concentrated in urban areas, which are likely to offer higher wages, better living conditions, and greater opportunities for professional development; however, low-density areas have more facilities per capita. This may be due to the desire of policy makers to make facilities geographically accessible to all citizens, which inflates the proportion of facilities in areas of low density. Putting these two trends together, rural
facilities are understaffed and underused compared with those in cities. Thus, building facilities in lagging areas is not the answer.

**Bringing Better Health to Lagging Areas in Different Ways**

How, then, can MENA governments reduce the health status divide between leading and lagging regions? The key is improving the quality of health service delivery, rather than its scale.

When it comes to strengthening public health delivery facilities in lagging areas, successful interventions have focused on staff incentives and nonstaff recurrent funding. Morocco’s Integrated Management of Childhood Illnesses program, for example, focused explicitly on staff motivation, with training and free housing for personnel in lagging areas. Spatially adapted delivery systems have also proved cost-effective for low-density areas. For example, the Islamic Republic of Iran has strengthened communities through training of local health workers to provide family planning and reproductive health care. As a result, service coverage in rural areas has increased from nearly 40 percent to 90 percent in 15 years.

Empirical evidence from countries as disparate as Costa Rica, the Islamic Republic of Iran, Singapore, Sri Lanka, and the United Kingdom reveals the efficacy of demand-side interventions in improving health status in lagging areas. A multitude of demand-side factors may be limiting the expansion of health services in lagging areas, notably limited insurance coverage. MENA’s health insurance systems tend to be limited to wealthier urban residents. Strategies that aim to expand education, transportation, nutrition, water, sanitation, and incomes in lagging areas may have a stronger effect on spatial disparities in health outcomes than a simple emphasis on the stock of health facilities. In Egypt programs have focused on increasing women’s awareness of health issues and empowering women to take advantage of family planning services. Expanding insurance plans into poor areas, as the Islamic Republic of Iran has done, can also encourage public and private providers to deliver appropriate care by stimulating demand.

Improved management information systems can help health departments ensure efficient targeting of resources. Implementation of better monitoring and IT systems in the Islamic Republic of Iran and the West Bank and Gaza resulted in strong improvements in resource distribution and usage rates of health facilities.

**Targeting Social Safety Nets to Mitigate Spatial Disparities**

Although many MENA countries have some kind of social safety net program, they are rarely considered a component of spatial policy. When well targeted, these programs can reduce spatial disparities, but poorly targeted programs actually increase the gap between rich and poor places.
In terms of spending, energy (and food) subsidies are by far the major social transfers in the region; however, for policy makers concerned with spatial equity, a major drawback of commodity subsidies—and energy subsidies in particular—is that they are regressive. The people who consume the most, the nonpoor in leading areas, receive the lion’s share of the subsidy.

On the other hand, social funds and conditional cash transfers have been shown to effectively target lagging areas. Geographical targeting distributes benefits to people who are likely to be poor or vulnerable, based on where they live. Proxy means testing uses easily observed household indicators to predict household income and determine who is eligible for benefits. But these positive examples of transfer schemes are not prevalent in MENA, and many existing programs could contribute more to reducing spatial disparities if better targeted.

**Smoothing the Path for City Growth**

The development of MENA’s lagging rural areas depends on labor shifting out of farming into the cities. As MENA’s farm workforce continues to grow, it becomes harder and harder for limited land and water resources to sustain its productivity. Two-thirds of the farm labor productivity difference between MENA and Spain is explained by MENA’s higher ratio of labor to land. The data also show that agricultural productivity growth in MENA is driving farmgate prices down rather than farmer incomes up because supply is outstripping urban demand. *In short, long-term rural development in MENA depends on urbanization.*

Urbanization helps to reduce spatial disparities by shifting labor from lagging to leading areas. Therefore, smoothing the path for urbanization is a recipe for spatial convergence in living standards. Urbanization is proceeding apace in the MENA13, where the average rate of growth of the urban population is 3.3 percent per year, compared with 2.6 percent for national populations. The question therefore is not how to slow down the growth of cities, but rather how policy makers can ensure that urbanization occurs as smoothly as possible. This involves three topics: land markets, urban public services, and institutional frameworks.

**Land Markets that Support Smooth Urban Growth**

Well-functioning land markets are critical for smooth urban development. In MENA, however, there are signs that land markets could be performing better.

Land for housing. While the supply of housing in MENA compares favorably with other countries at a similar level of development, MENA’s housing is expensive, and the affordability problem is most acute for low-
income households. Although housing subsidies in countries such as Algeria, Egypt, the Islamic Republic of Iran, Jordan, Morocco, Tunisia, and the Republic of Yemen are sometimes massive, low-income households may have difficulty making the investments that give them access to these subsidies. MENA’s housing stock is also underused, with high vacancy rates. These factors act as a brake on rural-urban migration, denying people in lagging areas a key pathway out of poverty.

**Land for business.** Surveys of MENA entrepreneurs indicate that difficulties in accessing land are one of their main obstacles to competitiveness. While MENA13 countries perform well with respect to the time required to purchase property, they are worse than any region of the world except sub-Saharan Africa in terms of transaction costs.

**Land for the rural transition.** Efficient agricultural land markets will be important to facilitate the shift of labor out of agriculture in the future and to increase the earnings of those who remain in farming. In MENA’s agricultural land markets, however, it is often difficult for landowners to obtain and maintain registration. Therefore, the actual pattern of recognized ownership is not reflected in the official record. This can create problems in accessing credit or consolidating fragmented land holdings.

**Planning Urban Services**

The integration of new arrivals into the city depends upon their ability to access public and private services. Here we illustrate a few key principles for an agenda for MENA urban service development.

**Planning ahead, rather than reacting to in-migration.** Public authorities have a tendency to delay the provision of services to new informal settlements because of perceptions that they are temporary or unwelcome. But these settlements instead should be seen as part of the housing solution rather than a problem. The earlier that services for emerging settlements are planned, the greater the efficiency of road, power, water, and sanitation networks. Urban planning can also limit MENA’s vulnerability to climate change by minimizing construction in vulnerable areas and ensuring investment in protective infrastructure.

**Responding to the “spatial flow” of market-led city growth.** Service provision and new developments should follow people’s settlement preferences rather than attempt to lead them. For example, the Islamic Republic of Iran created 18 new towns since the Revolution at a considerable distance from their parent cities with the aim of protecting farmland and preventing informal settlements around major cities. These towns, however, became dormitory communities for salaried employees of the mother city and had no economic base of their own. Therefore, the authorities have refocused their attention on increasing the supply of housing within the metropolis itself.
Similarly, in 1969, Egypt created distant satellite cities in the desert around Cairo intended to limit the city’s growth. These cities suffered from the opposite problem as the Iranian new towns; they had significant business but few residents, and this created a pattern of reverse commuting. Meanwhile, the forces of agglomeration were accelerating the growth of Cairo’s metropolis. By the early 1990s, therefore, the government had refocused its efforts on slum upgrading, using services to improve the quality of growth in the metropolis.

In both the Iranian and the Egyptian cases, the authorities shifted their approach, using service provision to improve the quality of metropolitan agglomeration rather than trying to discourage it.

Institutional Arrangements for Smooth Urban Growth

The institutional capacity of municipalities to respond to urban growth through planning, regulation, and service provision differs greatly throughout the region. Various initiatives to strengthen those capacities are ongoing.

Policy Package 2: Connectivity—Making Spillovers Work for Poor Places

Spillovers from agglomerations into their peripheries are one of the most powerful forces in spatial development, offering the potential to reduce spatial disparities by yoking lagging regions to the growth of leading regions.

MENA’s lagging areas have a proximity advantage: 61 percent of their population lives within three hours of a major city. How, then, can MENA connect its lagging areas to agglomeration hubs so that they maximize the benefit from spillover effects? The answer has three components:

- transport
- trade facilitation
- information and communication technologies

Improving Spillover Transport Connections

MENA’s transport infrastructure is basically road-based. The extensive primary road network generally provides adequate intercity (that is, long-distance) connectivity. In measures for road network coverage, MENA performs well in comparison to other developing regions.
Given that 61 percent of MENA’s lagging area populations already live within three hours of a city, MENA governments should not assume that long-distance connectivity is a major component of the lagging areas problem. The positive outlook on long-distance connectivity in MENA, however, masks a problem: the predisposition toward expanding higher-class roads in MENA at the expense of other key transportation investments.

MENA’s broad pattern of public expenditure in transport could benefit from a reallocation of resources away from expansion of the domestic trunk road network toward maintenance of the existing network; improving rural access; trans-border networks; and improving traffic management to reduce congestion and improve safety. Urban and peri-urban mass transit systems are critical if people from lagging areas are to benefit from demand for labor from nearby agglomerations.

Degradation of road surfaces. The expansion of the trunk road network is taking place at the expense of regular maintenance. World Bank studies identify road deterioration as a major problem in Algeria, Egypt, the Islamic Republic of Iran, Iraq, Libya, and the West Bank and Gaza.

Rural connectivity deficits. MENA also suffers from a comparative neglect of rural accessibility. The rural index indicator for MENA, defined as the percentage of rural population with access to an all-season road, was an estimated at 60 percent in 2004 (figure 1.4), outperforming only sub-Saharan Africa and south Asia. Recent rural road investments in Morocco and the Republic of Yemen, however, have delivered measurable and cost-effective impacts in lagging areas.

Urban congestion. Too many private cars and poor public transportation lead to congestion in MENA’s cities. Motorization rates are set to

**FIGURE 1.4**

**Rural Access Index: MENA versus Comparator Regions, 2004**

(Percent of rural population with access to all-season road)

Source: Roberts et al. 2006.

* Year 2003/2004  **Year 1999/2004

Note: AFR = Africa, EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and Caribbean, MNA = Middle East and North Africa, SA = South Asia.
increase with economic growth, but these lean toward private cars instead of public transportation. Mass transit in MENA consists largely of low-quality, publicly owned bus services. Unaffordable public investment in light rail is often seen as the main alternative; however, other potential strategies include lifting barriers to private investment in urban buses and the development of Bus Rapid Transport (BRT).

**Road safety.** MENA has, by far, the developing world’s most dangerous roads. The situation is particular worrisome in Morocco, Jordan, and the Islamic Republic of Iran.

**Low efficiency of road use.** In some MENA countries, the return on road investment is being undermined by inappropriate regulation of commercial operators.

**Smoother Border Crossings**

Land borders create artificial lagging areas by restricting the movement of people and freight. The construction of trans-border connections, improved logistics infrastructure, and the easing of border formalities therefore function not only as trade-promotion policies, but also as a part of national strategies to reduce spatial disparities.

**Electronic Proximity: A New Tool for the Integration of Lagging Areas**

Isolation from information is part of the lagging area problem. As mobile phones and the Internet become the default communication media, those without access to them will become marginalized. Information and communication technologies (ICTs) therefore give policy makers a new set of options for attacking spatial disparities.

MENA’s rural areas generally have poor access to mobile telephone and Internet services. In 2007, cellular connections in Egypt, the Islamic Republic of Iran, Lebanon, Libya, and Syrian Arab Republic were lower than in other countries at similar levels of development (figure 1.5). MENA is the only world region in which the rate of rural mobile phone usage has not overtaken that of fixed lines.

The challenge of ICT access in MENA’s lagging areas has two components: the market efficiency gap and the access gap.

**Closing the market efficiency gap.** The market efficiency gap is the difference between the current level of service penetration and what is achievable in a liberalized and stable regulatory environment. However, although telecommunications liberalization in MENA is a work in progress, tariffs are generally not high (except in Lebanon and Morocco). So MENA’s problem is possibly more one of . . .
FIGURE 1.5
Some MENA Countries Are Well Below the Trend in Terms of Cellular Connections

Source: ITU International Telecommunications Database.

Closing the access gap. The access gap is the difference between leading and lagging areas remaining under efficient market conditions. Competitively awarded public-private partnerships are an efficient instrument for bringing ICT infrastructure and services into less profitable, low-density areas.

Policy Package 3: Facilitating Cluster Development in Areas with Unrealized Potential

Although economically marginal areas usually miss out on private investment because of the forces of agglomeration, there are exceptions to the rule. Tunisia’s Centre-East region, the Tanger-Tétouan region in Morocco, and some governorates in the Islamic Republic of Iran are examples of lagging areas that converged with leading areas. What can governments do to facilitate this desirable process?

In this section we will begin by examining failed regional economic development policies in lagging areas around the world. We cast a similarly critical eye on regional economic development policies targeting lagging areas in the MENA13, and describe an alternative approach to regional economic development.

Global experience has little positive to teach about the potential of big spending programs to encourage economic growth in lagging areas.
While the traditional approach has been to focus public infrastructural investment on lagging areas, a number of studies indicate that returns to public investment are highest in leading areas, which offer the benefit of economies of agglomeration. Governments have also attempted to steer private investments toward lagging areas through financial incentives—with typically poor results. Even where spatially targeted incentives have induced firms to invest in lagging areas, the gains are often short-lived.

In MENA the focus has been on using financial incentives to override economies of agglomeration, despite the global evidence that this approach is ineffective. In Algeria, regional economic development programs, which included investment in state-owned industries, attempted to spread economic activity beyond Algiers’ sphere of influence. Yet both public and private investments remained centered on Algiers. Syria experienced similar difficulties during the 1990s in using industrial zones as incentives to encourage economic activity in lagging rural areas. Despite these efforts, economies of agglomeration prevailed, and the private sector continued to locate in major cities.

**Coordination Instead of Financial Incentives**

Some governments are now adopting a new approach to regional economic development policy. This approach accepts that the forces of agglomeration are too strong to be overridden by public money. The role of the government becomes that of facilitator rather than steerer. Table 1.3 compares the old and new paradigms of regional economic development policy.

| TABLE 1.3 |

| Old and New Paradigms of Regional Economic Development Policy |

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<thead>
<tr>
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<th>Old paradigm</th>
<th>New paradigm</th>
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<tbody>
<tr>
<td>Objectives</td>
<td>Trying to compensate for locational disadvantages of lagging regions</td>
<td>Tapping underused potential to enhance regional competitiveness</td>
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<tr>
<td>Unit of intervention</td>
<td>Administrative units</td>
<td>Functional economic areas</td>
</tr>
<tr>
<td>Strategies</td>
<td>Sectoral approach</td>
<td>Integrated approach</td>
</tr>
<tr>
<td>Tools</td>
<td>Subsidies and state aids</td>
<td>Mix of soft and hard capital (capital stock, labor market, business environment, social capital, and networks)</td>
</tr>
<tr>
<td>Actors</td>
<td>Central government</td>
<td>Different levels of government (with private sector)</td>
</tr>
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</table>

Source: OECD 2009.
Infrastructure and education are effective only in combination. A recent analysis of the determinants of regional growth found that infrastructural investment influences growth only when combined with human capital and innovation; infrastructure alone has little impact.

If regional development is to be based on local potential, regions need a decentralized, bottom-up approach to policy design and implementation. Regional actors are better able to use information about local capacities and needs than are central authorities, and local actors are more likely to support projects they have helped design. Mobilizing local stakeholders may require decentralization and a structured dialogue between the different levels of government. A successful example is the EU’s LEADER Community Initiative, which aims to promote endogenous growth through decentralized local action groups.

The public-private interface is a key source of regional productivity, growth, and innovation. Although governments cannot force agglomeration, they can play an important role in encouraging interchanges between regional actors and assembling the linkages on which agglomerations are built. For example, a Moroccan initiative identified four sectors as candidates for cluster development and fostered a continuous dialogue between public and private institutions aimed at identifying and coordinating investments and regulatory reform.

Because cluster-driven growth is multisectoral, policy makers need to shift increasingly to a territorial perspective rather than a sectoral one. The “green clusters” approach for rural areas provides a good example.

Realizing Agricultural Potential: Green Clusters

Agriculture is still central to MENA’s lagging area economies. So what kind of agricultural growth can lead development there?

MENA’s agricultural policy has long involved public spending on water diversion and price subsidies. Water diversion is reaching its ecological limit, however, and production subsidies can exacerbate inequality because the better-off residents of better-off rural areas receive a disproportionate share of the subsidy. Sector analysis suggests that the main potential engine of agricultural growth in MENA’s lagging areas needs to be cluster development around high-value product supply chains. Therefore, we can apply the general principles of the new paradigm of regional economic development to agriculture: first, begin with a cross-sectoral territorial diagnosis that identifies latent potential, and second, ensure that the full range of private stakeholders have a leadership role beginning in the diagnostic stage.
Proximity for All: Public Institutions for Spatial Policies

MENA governments can therefore beat the trade-off between agglomeration economies and spatial inequality—if they tailor their policies to the specific characteristics of their lagging areas. The three policy packages just described are designed to capitalize on those opportunities, as shown in figure 1.6.

So how can the state best organize and mobilize itself to resolve spatial disparities?

Many MENA countries have similar governmental structures. Sector ministries are centralized, which makes local coordination difficult, and subnational administrations have very limited resources and capacity.

Global experience suggests that states can use five basic approaches to integrate the management of the various sectoral strands of spatial policy: territorial development planning, needs-based spatial allocation of fiscal resources, area-based programs, deconcentration, and decentralization.

**Territorial development planning** involves a central institution responsible for monitoring and analyzing spatial development trends and feeding

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**FIGURE 1.6**

A Framework for Addressing Spatial Disparities

<table>
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<th>Are spatial disparities in well-being really a significant and persistent problem?</th>
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<td>(consider spatial distribution of well-being, migration, convergence, evolution of household characteristics)</td>
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<th>Is there private interest in locational competitive potential?</th>
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<td>NO -- Package 1</td>
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<td>Package 1</td>
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**Sources:** Study team and World Bank 2009a.
spatial orientations into the national public investment planning process. Algeria, Morocco, and Tunisia are currently implementing this approach.

Needs-based spatial allocation of fiscal resources can take the form of untied grants or program funding. A formula-based approach to the spatial allocation of fiscal grants is common in federal states, where the government’s political credibility depends on transparent and equalizing resource transfers. In the absence of simple and transparent allocation rules, however, political bargaining is likely to prevail. As we have seen, there is much room for improvement when it comes to using needs- or formula-based fiscal allocation rules to support the development of lagging regions.

Central governments can also steer fiscal resources toward poor areas by financing nationwide programs in which the level of activity is based on a location’s need. Several MENA countries, including Morocco and Egypt, have programs of this type.

Area-based programs bring the spatial dimension to policy by dedicating funds and creating institutions for specific areas. The challenge lies in integrating the program with the activities of local governments without undermining them.

Deconcentration is on the agenda in all the MENA13 countries. Key lessons for MENA’s policy makers include:

• Deconcentration requires a strong institutional champion and coordinator.

• Deconcentration involves the delegation of decision making on activities, finance, and human resource management; it works best when all three are deconcentrated in parallel.

• The central ministry’s policy making and oversight functions remain critical when policy execution is deconcentrated.

• A clear definition for the respective mandates of elected local authorities and deconcentrated sector ministries becomes extremely important.

Decentralization involves the transfer of resources and decision making to subnational administrations with political accountability to local citizens. It makes for a more efficient implementation of policies and enhances external accountability.

A vast literature suggests that the transfer of power and resources to lower levels of government helps match resources to local priorities. The problem, however, is that fiscal decentralization increases the lagging area’s influence only over its own (inadequate) resources, not over the national allocation of resources. Therefore, decentralization can widen spatial disparities, as there is a risk of a mismatch between fiscal responsibilities and spending mandates, and of the overloading of subnational
governments’ limited managerial capacity. Fiscal decentralization is usually a political response to spatial disparities or ethnic division, and so it is often implemented without sufficient attention to the potential negative economic consequences. Cross-country analysis reveals that decentralization in low- and middle-income countries is linked to, if anything, a faster increase in spatial disparities over time.

So what is the verdict on decentralization and spatial disparities in MENA? We can sum up the evidence with three propositions:

• There are good reasons to continue decentralization in MENA: to improve accountability, responsiveness, and service quality.
• Decentralization will not necessarily reduce spatial disparities, and decentralizing mandates without resources and capacity will increase them.
• What is most important is creating transparent and predictable arrangements for equalizing intragovernmental fiscal transfers and building local governments’ capacity in lagging areas.

In conclusion, although most MENA governments are strongly committed to the development of lagging regions, few have asked what type of institutional platform is needed for a spatial approach to development policy.

In Short . . . Seven Policy Axioms

Drawing the previous arguments together, seven brief messages can sum up the report’s policy implications for MENA.

1. Spatial development begins with clear institutional roles and processes. Spatial policy making is multisectoral and multiinstitutional. The “process platform” for spatial development includes arrangements for monitoring and coordination, resource allocation, planning, and role definition.

2. Analysis is vital. MENA needs better spatially disaggregated statistics, especially broken down by gender. It is critical to check that spatial disparities really are a major development issue; very often they are not as important as politics portrays them. Diagnosing the lagging area will identify the right policy package(s).

3. Good development is good spatial development. First and foremost, lagging areas need a level playing field for development. Simply by fulfilling their existing mandates to provide a positive business environment and services to the poor, sector ministries will be making a full contribution to national spatial development objectives. Girls’ education in lagging areas is the win-win-win-win priority for
spatial development. And erasing spatial disparities in the business environment should offer a high benefit at a particularly low cost.

4. *Bringing social services to lagging areas* usually means finding the incentives for high-quality personnel to work in underprivileged areas and for poor people to use public services, and tailoring delivery mechanisms to lower-density areas. Simply building more facilities will not solve the problem.

5. *Commodity subsidies channel a lot of public money to leading areas.* Targeted social protection schemes are more spatially equitable.

6. *Short-distance spillover connectivity* between leading and lagging areas is the transportation priority for MENA’s lagging areas. Depending on a lagging area’s specific geography, this could mean investment in rural feeder roads, road maintenance, intraurban public transportation, border logistics or peri-urban radial connections, as well as better regulation of transport operators. It is up to MENA governments to encourage private investment and innovation in electronic connectivity, which offers new potential for lagging areas to obtain the benefits of proximity.

7. *The best practice approach to local economic development* emphasizes the coordination of multiple actors to facilitate private sector interest in an area’s latent potential. Attempts to use financial incentives to shunt private investment toward lagging areas have a very bad track record.

In short, agglomeration may be an inevitable part of growth, but governments can mitigate spatial disparities. It is a matter of policy choice.

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<td>Zip</td>
</tr>
<tr>
<td>Country</td>
</tr>
<tr>
<td>Phone</td>
</tr>
<tr>
<td>Fax</td>
</tr>
<tr>
<td>Email</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>METHOD OF PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Charge my</td>
</tr>
<tr>
<td>□ Visa □ Mastercard □ American Express</td>
</tr>
<tr>
<td>Credit card number</td>
</tr>
<tr>
<td>Expiration date</td>
</tr>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Signature</td>
</tr>
<tr>
<td>□ Enclosed is my check in US$ drawn on a U.S. bank and made payable to the World Bank</td>
</tr>
</tbody>
</table>

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