

## **Op-Ed: Poverty in the Middle East and North Africa: *A Cause for Concern?***

Farrukh Iqbal and Mustapha Kamel Nabli<sup>1</sup>

The current high price of oil is likely to reinforce a misleading image of the Middle East and North Africa (MENA) region, namely, that it is a rich region that uniformly provides a wide array of subsidized consumption goods and free social services to its citizens financed by revenues from plentiful supplies of oil and gas. For some countries in the region, especially the small oil-states of the Gulf, this is an accurate image. For others, however, the image is misleading. With or without hydrocarbon resources, many countries in the region face significant challenges in fighting poverty and deprivation.

While poverty is not only about command over monetary resources, a monetary measure is a good place to start. To estimate poverty, the general practice is to collect information about income and spending through household surveys. When we review the data available to the World Bank, what do we find? To begin with, we find that several countries in the MENA region do not collect poverty data at all or, if they collect such data, they do not make the results public. In these countries there is no way of calculating how many people lack sufficient incomes to meet basic food and other expenditure needs. The number of such people may be high or low but the point is that it is not calculated, or if calculated, not reported.

But at least seven countries in the region do collect systematic data on the distribution of incomes or expenditures among their citizens and allow the World Bank access to aggregated versions of the results. These countries include Algeria, Egypt, Iran, Jordan, Morocco, Tunisia and Yemen. A recent World Bank review of country-level household survey data shows that there is much nuance and diversity to poverty patterns and trends in the region.<sup>2</sup>

The available data show that, in recent years, about one in every five persons in the region could be considered poor at the \$2 PPP line (PPP or purchasing power parity measures the amount of local currency that is needed to purchase the basket of goods and services that would cost \$1 in the US). Furthermore, this proportion stayed roughly constant for most of the 1990s, fluctuating between 20 and 25 percent of the population. This stagnation in poverty rates mirrors the stagnation in regional economies over this period and highlights the importance of growth-promoting policies for the region.

But the data also show considerable diversity among countries. For example, Egypt and Yemen feature poverty rates that are more than twice as high as the average

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<sup>1</sup> Mustapha Nabli is the Chief Economist of, and Farrukh Iqbal an Advisor in, the Social and Economic Development Department of the Middle East and North Africa Region of the World Bank.

<sup>2</sup> Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa, World Bank, 2006.

for the region, reflecting conditions that are far removed from those of welfare states living comfortably off natural resources. On the other hand, Algeria, Jordan, Iran, Morocco and Tunisia feature rates that are bunched between 5 percent and 15 percent. And while the poverty trend in Egypt, Jordan and Morocco has fluctuated during the last decade, in Iran and Tunisia it has shown a fairly steady decline. A broadly similar pattern is found even when poverty rates are estimated using national minimum consumption standards.

National poverty lines reveal considerable diversity in poverty rates *within* countries as well. In most countries, some regions, provinces or governorates have much higher poverty rates than others. To take only one example, the poverty rate in rural Upper Egypt is almost seven times as high as that in the big cities or metropolitan areas. Substantial intra-country variations are common and indicate that the fruits of past growth and public spending have not been equally shared. Clearly, issues of inclusion and equal opportunity continue to be a challenge for MENA.

Will the oil-price boom that has prevailed for the last few years carry the region out of poverty? This depends on several considerations. Not all the countries in the region have large hydrocarbon resources. While high oil prices are a boon for some countries, they could bring hard times for large net importers of oil. In these countries, high oil prices increase production costs for businesses and generate fiscal pressures on governments. However, some countries can also benefit from flows of migration and remittances that exist within the region. For example, Egypt, Jordan and Yemen have historically benefited from such links with the oil-exporting countries of the Gulf. Will history repeat itself? So far, the evidence suggests that the present oil-boom is not producing regional spillover effects that are as strong as those witnessed in the previous oil boom of the 1970s and early 1980s.

While it is appropriate to remain concerned about the challenge of income poverty, mention should also be made of experience with non-monetary aspects. Here the region has made tremendous progress. For example, between 1985 and 2000, literacy spread to 69 percent of the population from an initial level of 47 percent, average years of schooling (for those above 15) rose from 3.4 years to 5.2 years, the mortality rate for children under five years of age fell dramatically from 108 per thousand live births to only 46 per thousand and life expectancy rose from 61 years to 68 years. Indeed, by the year 2000, the MENA region had caught up with middle income countries in many conventional human development indicators.

This remarkable result begs a question. Why was MENA's economic performance so poor in the last two decades or so despite rising levels of health and education? At least two inter-related possibilities can be considered for the case of education. First, rising education levels may have contributed positively to the economic performance of the MENA region but the impact may have been overshadowed by the negative effects of other factors such as the decline of public resources (and related infrastructure spending) due to weak prices for hydrocarbons and debt burdens carried over from a more profligate past, poor macroeconomic management, and lack of

movement on key structural reforms such as opening the economy to the private sector and to international trade. Second, the returns on human capital may be low in MENA because of deficiencies in the quality and relevance of education. Or returns to education may be low because of the lack of integration with world markets. Both these possibilities are consistent with available data on rates of return and unemployment. The MENA region exhibits low rates of return to education, ranging from 2.5 percent to 10 percent for different levels. The region also has high rates of unemployment, averaging about 13 percent, but even higher among the educated and the young.

Looking to the future, we may emphasize three considerations. First, as already mentioned, the region needs higher and sustainable growth. If growth comes from a broad economic base and is sustained at around 3 percent per capita per annum, the poverty situation will improve dramatically over the next ten years. Calculations done by World Bank staff suggest that, in such a scenario, the poverty rate for the region could decline to 7 percent, or almost 13 percentage points lower than recently recorded levels.

Second, something must be done to improve the returns to education. The most promising option is to shift the focus of education policy from quantity to quality. Many MENA countries, though not all, have successfully met the initial challenge of putting children in school. Now the emphasis must shift to making sure that schools provide higher quality learning. As MENA economies move towards producing more for world markets, they will need to compete with other countries to secure larger market shares in both goods and foreign investment. The more skilled their workforces, the better equipped they will be to compete internationally. A shift towards better quality will help strengthen the education-income link in the region.

Finally, we must look at the larger picture concerning equality of opportunity. Economic, political and social inequalities tend to trap disadvantaged people at the bottom of society for generation after generation. This is not only unfortunate for those at the bottom it is also an impediment to higher economic growth over the long run. When those with ability are denied the opportunity to contribute fully to the economy, the economy suffers. Most MENA countries have taken big strides towards equalizing opportunities through providing better health and education to their citizens. But opportunities do not flow from better education and health services alone. They are affected as well by the scope for political voice, by a leveling of the political playing field together with the economic playing field. Here the countries of the region have a long road to travel.

*This article has been contributed by Mustapha Nabli, Chief Economist of the Middle East and North Africa Region of the World Bank and Farrukh Iqbal, Lead Economist and author of the World Bank publication: Sustaining gains in Human development and Poverty Reduction in the Middle East and North Africa Region.*