Jobs, Growth, and Governance in the Middle East and North Africa

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Unlocking the Potential for Prosperity

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The Middle East and North Africa Region of the World Bank produced four major regional reports on the occasion of the World Bank–International Monetary Fund Annual Meetings in Dubai in September 2003. These reports—on trade and investment, governance, gender, and employment—are intended to enrich the debate on the major development challenges of the region at the beginning of the 21st century.

While the region tends to grab political headlines, much less attention is given to the daunting development challenges facing the countries of the region individually and collectively. The region has had a rich development experience over the last five decades, with significant achievements and successes, but with many limitations. The four reports review that experience, explore prospects for the future, and bring to bear the experience of development from the rest of the world, to provide some directions for reform that will unlock the huge potential of the region and its people.

Produced for a general readership, this note does not go into the details of the history, evidence, and data and analysis. The interested reader is referred to the individual volumes:

- *"Trade, Investment, and Development in the Middle East and North Africa: Engaging the World"*
- *"Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability"*
- *"Gender and Development in the Middle East and North Africa: Women in the Public Sphere"*
- *"Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract"*

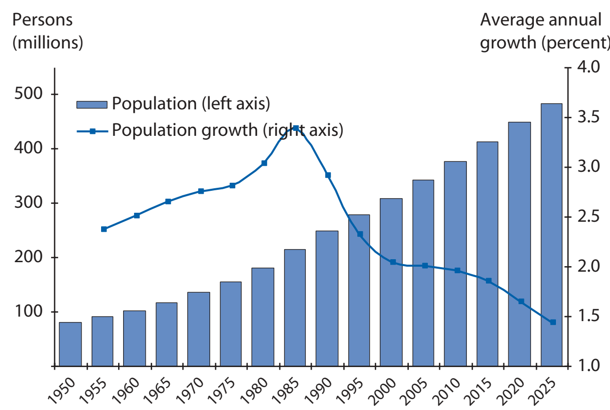
September 2003

Fundamental Transitions for the Region's Greatest Challenge

Between eighty and one hundred million new jobs to be created by 2020. Economic growth to be lifted from a sluggish 3.4 percent over the late 1990s to at least 6–7 percent a year. Governance to move from traditional autocracies to more inclusive governments, accountable to the people. Women to be more equitably included in economic activity and to harness the significant potential economic benefits from an increasingly educated and healthy female population. Public sectors to open the door to more private initiative. Economies dependent on oil and workers' remittances to diversify into manufacturing and services. Closed trading regimes to integrate with new trading partners in the region and the world. Impossible? No. Imperative? Yes. For these are precisely the changes needed to improve living standards throughout the Middle East and North Africa (MENA) over the next two decades. The political imperatives for such change and the stability of the old order are two opposing forces. The balance is shifting toward the need for reform as joblessness and slow growth make the old order increasingly costly and unsustainable.

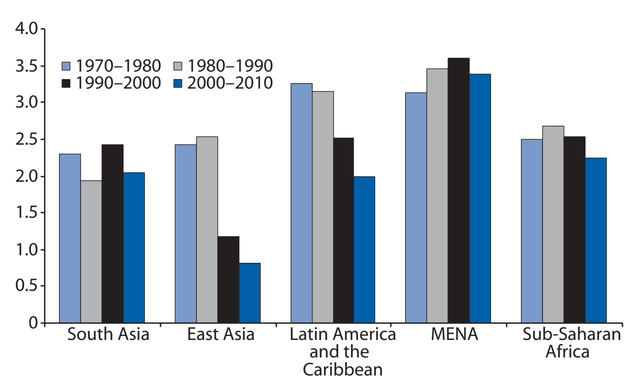
MENA's prosperity depends heavily on establishing regional security and stability. Regional and civil conflicts, wars, and embargoes have all reduced the development performance of the region, diverting resources to military and security expenditures, degrading the investment climate and diminishing the attractiveness of the region through neighborhood effects, and sustaining economic and political structures that are not conducive to good governance and development. Resolving these conflicts and restoring security and stability are important. But even more important are the domestic policy and institutional reform agendas, the focus of this work. The regional conflict and security concerns may partly explain the slow pace or absence of reforms, but they also make the reforms even more necessary and urgent.

Population Trends in MENA, 1950–2025



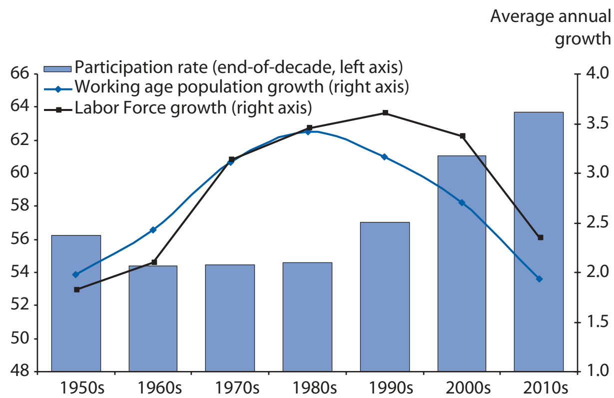
Labor Force Growth in Developing Regions, 1970–2010

(percent)

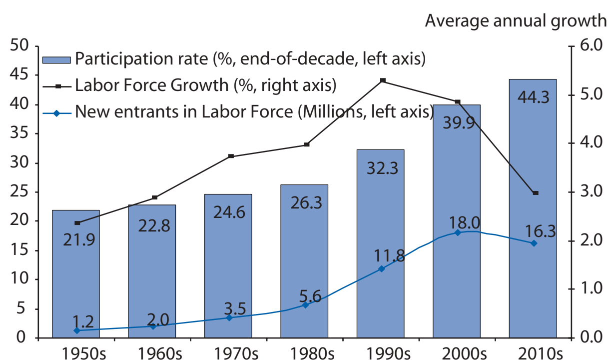


Dynamics of Labor Supply in MENA Countries, 1950–2020

(percent)



Female Labor Supply in MENA Countries, 1950–2020



Employment Problems in a Changing Environment

Over the next two decades the region faces an unprecedented challenge. With the labor forces of the region totaling some 104 million workers in 2000 and expected to reach 146 million by 2010 and 185 million by 2020, some 80 million new jobs will be needed in the first two decades of the 21st century just to absorb new labor force entrants.

These new entrants are increasingly educated, young, and female. Labor force growth rates averaged more than 3 percent a year between 1970 and 2000. The labor force growth rate is forecast at 3.5 percent a year between 2000 and 2010, and not until 2020 will pressure on labor markets fall to the more moderate rates last witnessed in the 1960s. The projected growth of the female labor force at about 5 percent per year during the same period is even more challenging. No other developing region has experienced this magnitude and persistence of labor market pressures. With unemployment above 15 percent, the more ambitious goal of absorbing unemployed workers in addition to the new entrants implies the need to create close to 100 million jobs by the end of the next decade, more than doubling the number of jobs in the region.

Past modes of employment creation are no longer sustainable. Many of the region's traditional systems for employment creation are fast coming to and end. The public sector represented a primary engine for job creation during the 1970s and 1980s and was still a major employer into the 1990s. Today, it accounts for a third of employment in the region—and as much as 80 percent in several Gulf Cooperation Council countries.

But the public sector can no longer be the employment outlet it has been in the past. Across MENA evidence suggests that most branches of the public sector are overstaffed, by as much as a third or more in some countries, steadily eroding productivity. But efficiency losses aside, the strategy of providing refuge to vast numbers of unemployed and new labor force entrants is simply no longer sustainable with the marked change in fiscal circumstances throughout the region. Unless employment growth in the formal private sector accelerates, the rising numbers of new entrants will be pushed into the informal economy.

Oil and aid flows are declining. MENA's development has relied heavily on three financial sources: oil, aid inflows, and workers' remittances. These three sources provided an essential supply of public revenues and private earnings, supporting large-scale public employment and sustaining a state-led development strategy based on central planning and economic and social policies for income redistribution and equity.

But all three sources are under great pressure. Oil prices are projected to decline steadily over the next decade to levels that prevailed in the 1970s. Known oil resources will be depleted in about four decades in some countries (such as Algeria and Iran), and much sooner in others (such as Egypt and Yemen). Aid flows are expected to similarly decline, except in temporary periods of strategic importance and conflict resolution. Finally, labor remittances are not projected to increase significantly, a result of deteriorating prospects for labor migration.

Labor migration prospects have diminished. While regional migration provided an important employment outlet for workers in many of the non-oil-producing economies during the oil boom in the 1970s and 1980s, net outflows of MENA workers to other countries in the region decelerated rapidly in the 1990s. Migration to the Gulf countries has slowed. Lower oil prices, rapidly rising supplies of national labor, and competition from lower cost labor elsewhere in the world have together dampened the Gulf countries' demand for labor from the rest of the region.

Outside the region labor migration has become more complex. The demographics of MENA's young population structure and rising working-age cohorts and Europe's lower labor force growth and aging population provide an opportunity for mutually beneficial migration flows. But the barriers remain high, even to moderate and temporary migration.

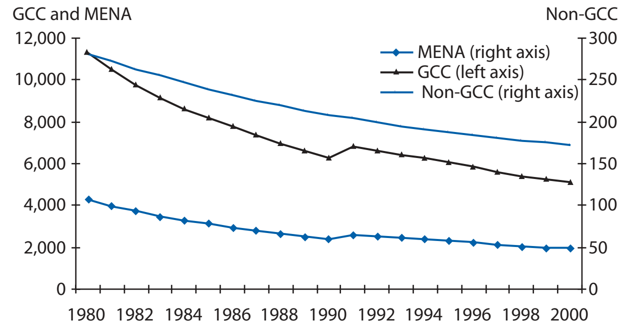
In all, the region's traditional sources of wealth and job creation are fast disappearing. MENA's world has changed, and it must change with it.

Three Fundamental Realignments Are Needed

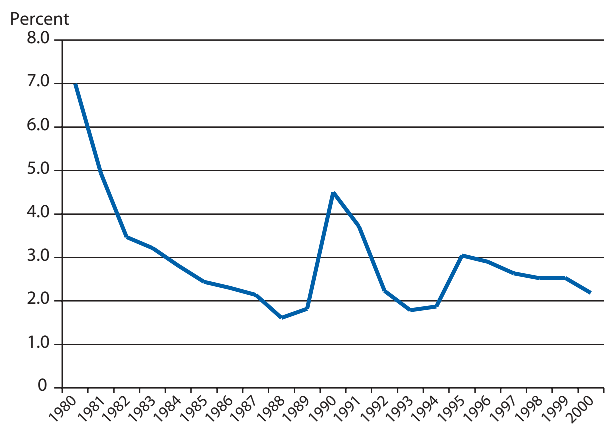
If the traditional engines of job creation will not meet the employment challenge in the 21st century, what will? The reports on trade and investment, governance, employment, and gender argue that to accelerate job creation and growth in the future, MENA must address a set of long-standing policy and institutional challenges to complete three fundamental and interrelated realignments in their economies:

Per Capita Oil Exports in MENA Countries, 1980–2000

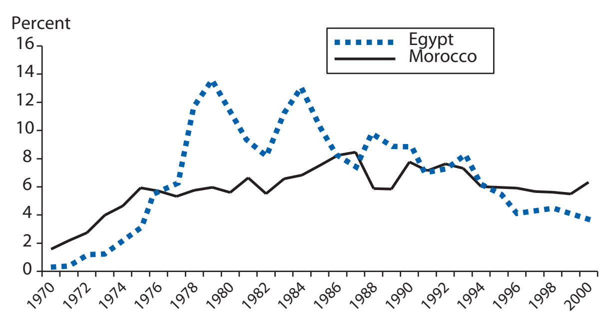
(US$ per capita)



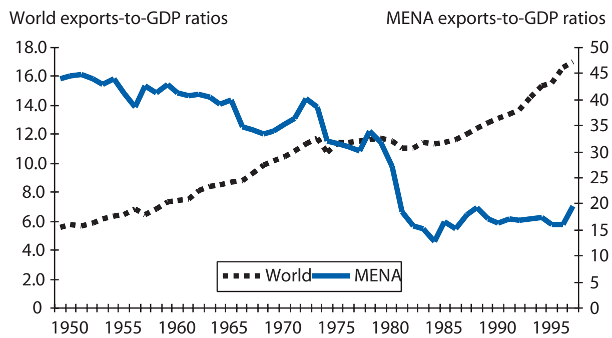
Aid-to-GDP Ratio in the MENA Region, 1980–2000



Workers' Remittances as a Percentage of GDP, Egypt and Morocco, 1970–2000

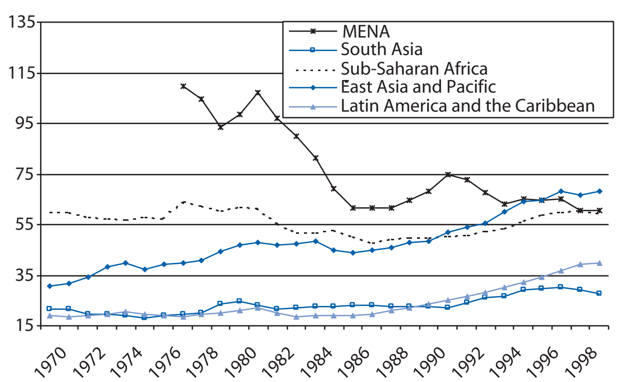


Long-Term Trends in Trade Integration, World and MENA

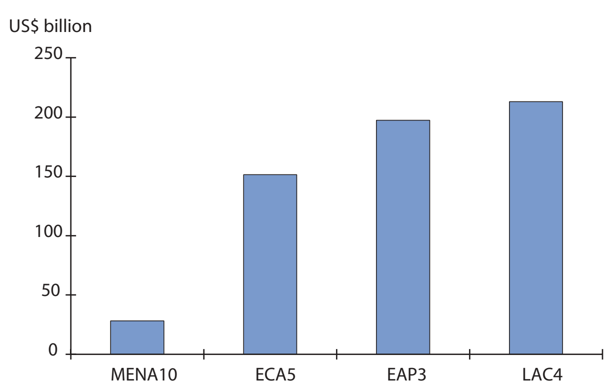


Trends in Trade Integration

(percent of GDP)



Trade Potential of Nonoil Exports, 2000



- ***From public sector-dominated to private sector-dominated***, by reducing the barriers to private activity while creating regulatory frameworks that make private and social interests mutually reinforcing. The private sector's contribution to value added is low compared to that in other regions, and it increased only marginally during the 1990s. The increase in the share of private investment in total investment was not enough to compensate for the decline in public investment. The scope for private sector expansion is very large in MENA, but it requires a conducive economic and social environment.

- ***From closed to more open***, by facilitating integration into global goods and services and factor markets while installing safeguards for financial stability and social protection. The region's potential for trade is large. Exports other than oil are a third of what they could be. Manufactured imports are half of what would be expected, and foreign direct investment flows could be five to six times higher than they are.

- ***From oil dominated and volatile to more stable and diversified***, by making fundamental changes in institutions managing oil resources and their intermediation to economic agents. Diversification is a growing priority because per capita exports of hydrocarbons have been declining during the last two decades, a result of falling real prices, rising domestic demand, and rapid population growth. Diversification is especially urgent for countries such as Syria and Yemen, whose known oil reserves may soon be depleted. Better management of the volatility of hydrocarbon resources and planning for their decline and eventual depletion are important for insulating the real economy as well as ensuring the sustainability and efficiency of public expenditures.

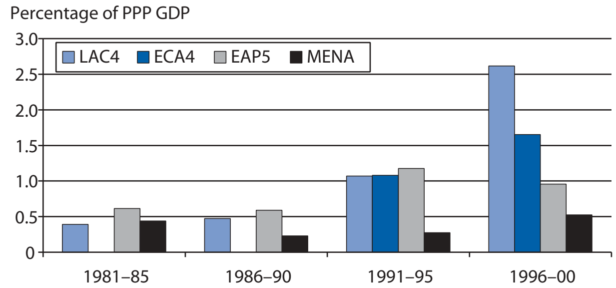
Many countries in the region have already initiated reforms to achieve these transitions, but the reforms have generally been cautious and incomplete. Transitioning from the old to a new model of development, through these three realignments, represents a considerable challenge. At the same time, accomplishing the transitions provides the greatest hope for accelerating growth and delivering the jobs needed to respond to the growing labor force pressures.

The success of these transitions hinges on progress in enhancing gender equality and education quality. Progress on bridging the gender gap in education and health has been impressive. But this has not translated into a commensurate increase in women's participation in the labor force. Women's low participation in the labor force carries large costs to families and society at large, and limits the flexibility of families to adapt to the changing economic conditions.

The transition to more market-driven and globally oriented economies requires continuing progress in widening and deepening the stock of human capital and, more critically, changes in the qualitative outputs of the region's education systems.

Water resources and their management is another major challenge in the region is not addressed in this note, but is critical for most countries of the region (See Box).

Net Foreign Direct Investment Flows to MENA and Other Regions



Water, Growth, and Socioeconomic Development in MENA

Because MENA is in the driest part of the world, water is critical for growth, development, and poverty reduction in countries of the region. Average per capita water availability in the region is about 1,200 cubic meters a year—the world average is 7,000 cubic meters. By 2025, average regional water availability is projected to be just over 500 cubic meters per person per year.

Current water use practices are unsustainable. The natural problem of water scarcity has been aggravated by inadequate use of economic instruments for managing demand, increases in household incomes, and such supply side factors as, inefficient public sector service delivery and significant expansion in irrigation.

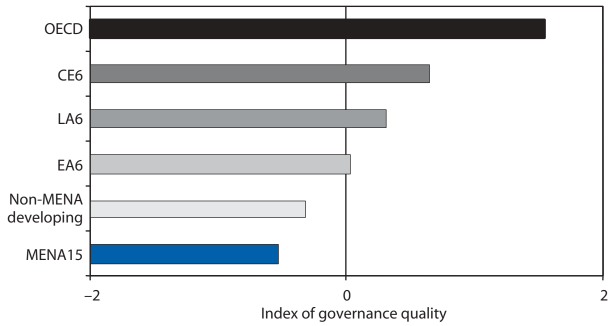
Most MENA countries are extracting groundwater well beyond the renewal rate, mainly because energy subsidies make it cheaper for many to users to do so. But because water supplies are not efficiently distributed, many other users, particularly in urban areas, are forced to rely on vended water, often at 10–20 times official tariffs. Apart from efficiency concerns, therefore, there are serious equity problems with current water practices.

Significant amounts of water supplied for municipal use remain unaccounted for. Water used for irrigation is also wasted because incentives for farmers to adopt modern, water-conserving technologies are still inadequate. Untreated wastewater from municipal sources and agricultural runoff have been polluting shallow aquifers, rivers, streams, and lakes. The increased water contamination is affecting public health and thus generating significant opportunity costs as well. Studies of environmental degradation due to water pollution estimate the costs at about 1 percent of GDP.

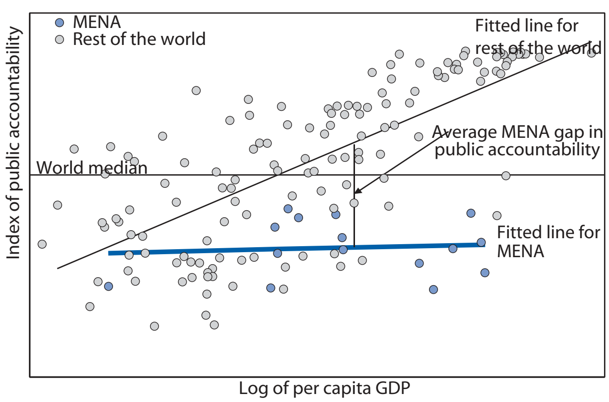
Sustainable water management requires reforms on the demand (economic instruments) and supply (service delivery) sides. Water subsidies, which are both inefficient and inequitable, should be replaced by water pricing based on what users want and are willing to pay for.

Most public sector organizations (serving both irrigation and urban water supply needs) have been unable to serve their customers efficiently. The challenge is to develop alternative institutional arrangements involving the public sector, the private sector, and communities, so that management of water resources is undertaken at the lowest appropriate level.

Index of Governance Quality



Public Accountability and Per Capita Incomes in MENA



Foundations for the Transitions: Governance

The three realignments—key for managing the region's employment challenge—and associated progress on gender equality and education quality cannot be accomplished by policy change alone. Fundamental to each transition is improved governance, across the board. Each transition implies deep changes in the role of government and strong improvements in its effectiveness. The governance agenda is not a separate challenge, to be worked on at its own pace. It is a complementary and reinforcing agenda to reform efforts in private investment, trade, and economic diversification by changing governance mechanisms, thereby improving capacity and incentives within government while fostering a larger role for civil society in governance. While better governance cannot guarantee optimal economic policies, it is indispensable to guard against persistently poor policies and to ensure that the good policies needed to meet MENA's growth potential enjoy legitimacy and are implemented faithfully and with celerity.

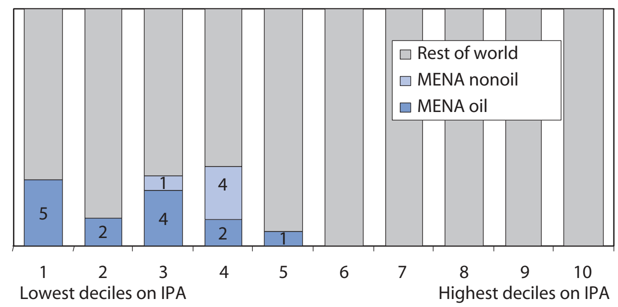
The primary governance challenges derive from weaknesses in inclusiveness and public accountability. Inclusiveness reflects the notion that everyone who has a stake in governance processes and wants to participate in them can do so on an equal basis with all others. Accountability draws on the principle of proper representation—that those selected to act in the name of the people are answerable to the people for their failures and credited for their successes. Accountability depends on both transparency (knowledge and information about governance processes) and contestability (the ability to debate, question choice, and have competition among alternative representatives and policies).

Current governance systems show weakness in inclusiveness… Weakness in inclusiveness is reflected in rural dwellers having few public services, leaving in its wake some of the highest levels of illiteracy among middle-income countries. It is reflected in gender inequalities in voice and participation in society, and differing treatment under the law. It is reflected in nepotism, tribal affinity, patronage, or money determining who gets public services and who does not—and who gets access to lucrative business opportunities and who does not. While every national constitution in the MENA region enshrines the value of equality for all, the inclusiveness gap between the MENA countries and their main competitors in the global economy is wide and persistent.

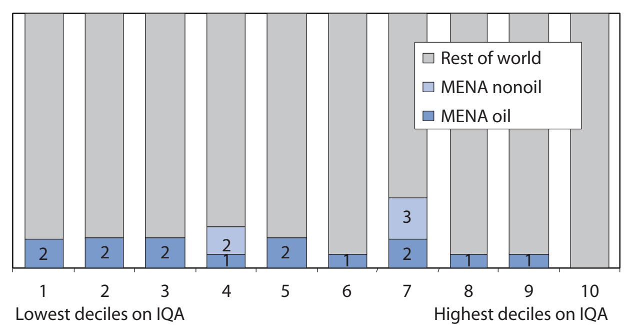
…And in public accountability. Weaknesses in accountability are reflected in failings in transparency in governance mechanisms and in contestability. While there are some glimmers of greater transparency, countries across the region exhibit a pattern of limited and reluctant transparency—reflected in the fact that MENA has the least empirical data on the quality of governance of all regions. No MENA country assures citizens the right to government information; some countries actively repress that right. Freedom of the press is carefully monitored and circumscribed in most countries and periodically assaulted in some by the harassment or arrest of journalists, dampening public debate.

As much as in transparency, there are weaknesses in contestability throughout the region. Contestability can come from within the government structure itself, such as from parliaments that can question national policies, or from the people being governed, such as from fair competitive processes for electing public officials, broader and more binding consultations with civil society, and a vibrant, independent, and responsible public debate on government behavior. While internal accountability mechanisms in executive branch administration are generally comparable to those in other countries with similar incomes, internal checks and balances across the branches of government are uniformly weak, the result of excessive concentration of power in the executive even in notionally pluralistic governments such as Algeria, Egypt, and Tunisia. External accountability, through contestability for public officials, has been rare in the region, leaving its governments the most centralized of all developing countries.

How Do MENA Countries Stack Up with Regard to Public Accountability?



Where Are MENA Countries with Regard to Quality of the Administration?



Countries Will Meet the Challenges of Reform in Different Ways

While the need to complete the three fundamental transitions and underlying governance improvements is common across the region, the priorities and sequencing of changes in polices and institutional improvements needed to achieve higher growth and complete the transitions will vary—depending on relative resource endowments of natural wealth and labor and on past success in undertaking policy and institutional improvements, in particular the strength of governance. Political economy factors are also fundamental to successful development programs. Likewise, countries will meet the challenge of improving governance differently, although progress along all five pathways to good governance—inclusiveness, national and local actions for greater external accountability, and national checks and balances and administrative measures for better internal accountability— is indispensable.

The Impact on Income Growth and Employment Would Be Large

The impact of an integrated package of policy realignments that improves the business and investment climate for the private sector and fosters integration with the world economy is potentially very large. The trade report estimates, based on the experience of comparable countries, that output per worker could increase by some 2–3 percent a year. The governance report, using similar international evidence of good performing countries, suggests that improving the institutions of accountability and public administration could boost output growth per capita by 0.8 and 1.3 percent a year. Increasing the participation of women in the labor force to levels comparable to the highest performers in the region may add 0.4 percent or more to GDP growth.

While these effects are not additive and reflect changes in policies and institutions that are not exclusive, a conservative estimate of the sum of these projected effects, taking into account overlap in the channels through which the policy changes operate, would be output growth per worker of 2.5–3.5 percent a year, or roughly triple the 1 percent growth of today.

The suggested economic transformation and deep reforms would generate millions of new jobs and more productive jobs in traded sectors across manufacturing and services. For instance, bridging only half the gap between the current 6 percent share of nonoil merchandise exports in total exports and its potential of 20 percent, with associated increases in domestic and foreign private investment, would create more than 4 million new jobs over the next five years. That is equivalent to cutting the unemployment rate by 4 percentage points of the labor force. The broader reform agenda would bring even larger benefits.

Old Patterns of Growth and Governance

MENA's historical model of development was based on state-led development and central-planning, economic and social policies designed for redistribution and equity, and a strong social contract between governments and the people they represented. While this model brought initial gains, it did so at significant cost.

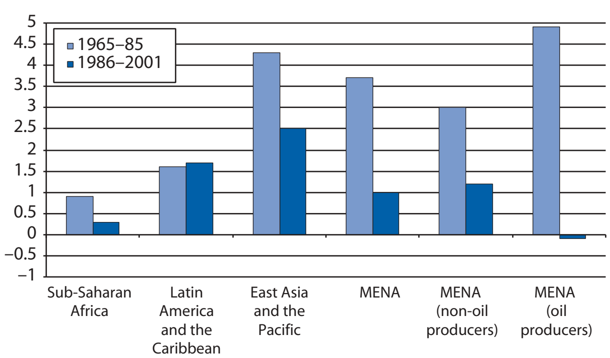
The State-led Development Model Delivered Early Dividends

The development model that emerged in MENA reflected the thinking among political actors at the time about the policies needed to achieve economic and social development. The "social contract" that emerged was intended, in part, to correct for a legacy of inequities and poverty in the region. During the first half of the 20th century the standard of living for the vast majority of the population in MENA was extremely low. Health indicators were among the worst in the world, illiteracy was widespread, and inequalities in income and land ownership were pervasive. The social contract embraced by MENA was also supported by an international consensus, coinciding with the expansion of welfare systems in post WWII Europe.

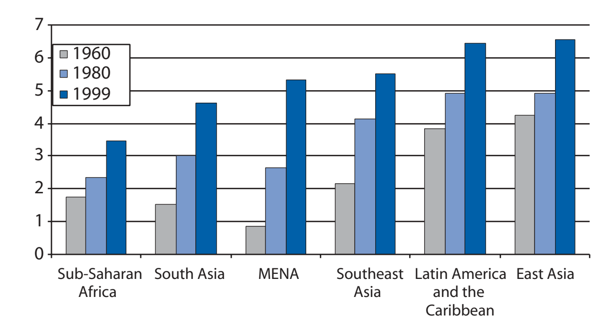
The overall development strategy, which included nationalization of private assets, state planning, industrial development through protected local markets, and redistribution through vast resources directed to social development and large-scale public sector employment, paid large dividends in the early period of modern development, when oil prices boomed. But this social contact already contained the seeds of its own demise. Flawed from the beginning, it was not sustainable or able to build on the capacity of people to innovate and take initiative—critical for long-term productivity growth. The policies and institutions that were put in place could not meet the challenges to come.

Average Annual Change in GDP Per Capita by Region

(percent)



Average Years of Schooling by Region



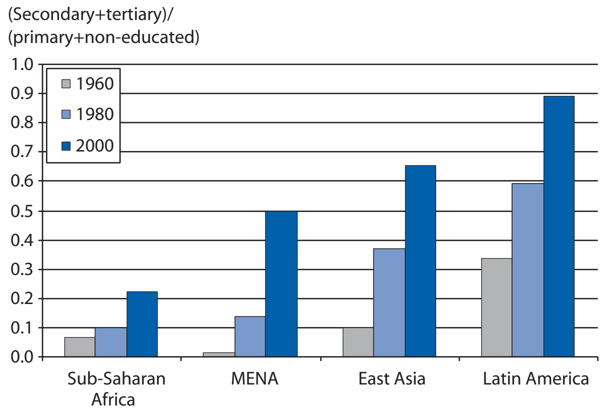
Growth was fast. In 1965–85 economic growth per capita averaged 3.7 percent a year, second only to growth in East Asia and Pacific. Many factors contributed to these gains, including rapid progress in early-stage industrialization; high levels of public employment and spending, especially on infrastructure; trade protection for domestic producers; and rising oil prices that yielded large capital inflows, created jobs, and promoted remittance flows into non-oil-producing MENA states.

Large government revenues from oil supported vast welfare and social service systems. Rising oil revenues helped sustain the social contract in both oil-exporting and non-oil-exporting states. In the oil producers oil revenues permitted the creation of vast welfare systems that redistributed the oil wealth to citizens, though not to noncitizen migrant workers. In nonoil producers remittance income boosted household consumption, especially in rural areas. Loans, grants, and other forms of assistance from oil producers to nonoil producers increased government revenues and sustained redistributive commitments. At the peak of the oil boom in the early 1980s some 3.5 million Arab migrant workers were employed in Saudi Arabia and the Gulf states. In 1973–84 official remittances totaled almost $22 billion for Egypt, $8.2 billion for Morocco, and $6.5 billion for Jordan.

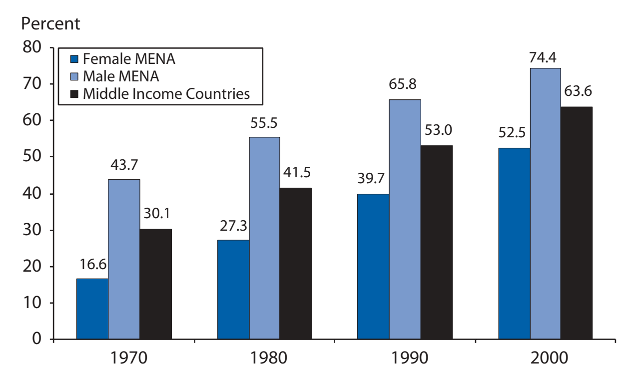
The influence of the social contract meant that rapid growth was accompanied by dramatic gains in social indicators. Indeed, the development model adopted throughout the region was sustained by social achievements. A core attribute of the social contract—an encompassing vision of the state as provider of welfare and social services—materialized through programs for state provision of education, housing, health care, food subsidies, and other benefits.

Education gains were large. With oil windfalls permitting rapid accumulation of revenues, huge resources were channeled into social development. The achievements were vast. The average level of education of the adult population (ages 15 and older) rose from less than a year in 1960 to 3.5 years by 1985, the largest gain for any region. Adult illiteracy was reduced from 70 percent in 1970 to 47 percent in 1990. Basic education of girls received special attention. Over 1960–85 women's average level of education rose by more than 400 percent, from less than a half year to 2.6 years. Female adult illiteracy fell from 83 percent in 1970 to 60 percent in 1990.

Female Education in Developing Regions, 1960–2000



Adult Literacy Rate in MENA



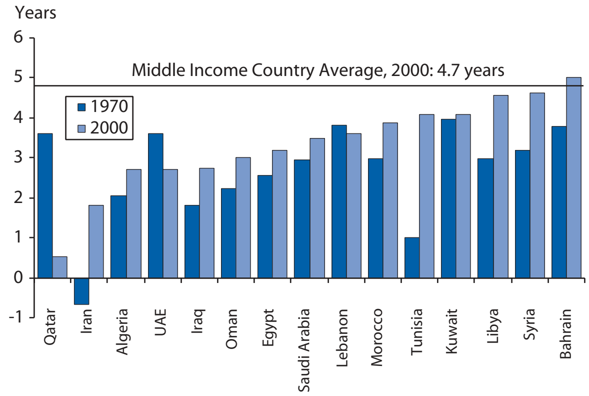
Health indicators improved. Fueled by improvements in basic education and heavy investments in health care and World Health Organization-sponsored sanitation and disease-control programs, health indicators also improved substantially. Infant mortality was cut in half, from 164 per 1,000 live births in 1960 to 75 in 1985. Life expectancy rose from 47 years to 62 years over the same period. Women were large beneficiaries of these health improvements, with reductions in maternal mortality, declines in fertility (from 7 average births per woman to 5), and increases in life expectancy (from 48 years to 63 years).

Poverty fell dramatically. Unprecedented levels of income growth with active social programs helped to dramatically reduce income inequality and poverty levels. By 1990 only 5.6 percent of the population in MENA lived on less than $1 per day—the global benchmark for absolute poverty—compared with 14.7 percent in East Asia and 28.8 percent in Latin America.

A statist model became predominant. These results had important political consequences. Underpinning these achievements was a model of state-led, centralized planning that worked through an array of channels. In part to redress rural inequalities, the state pursued a vigorous wave of agrarian reforms. A preference for state-led development over unpredictable markets guided governments during the late 1950s and early 1960s to move away from simply regulating private sectors to directly controlling production through sweeping nationalizations of private assets in industry, banking, insurance, and trade. That produced a dramatic expansion in the scale of the public sector. An uppermost development priority was the establishment of a domestic industrial sector, realized through policies to protect local markets from global competition. Financial sectors were repressed and in most countries in the hands of government. Food sufficiency was another priority, pursued through combinations of production, consumption, and tariff measures to support agricultural production.

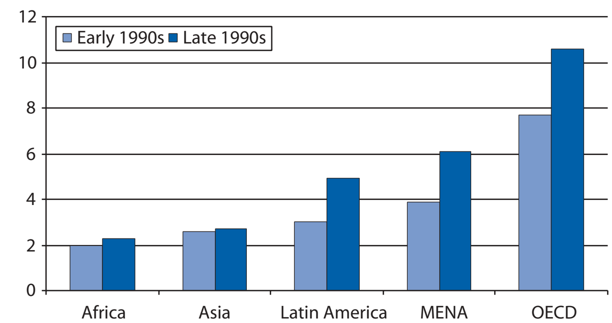
The tremendous achievements in social development and welfare reinforced the role of redistributive mechanisms in sustaining the well-being of large segments of the population, deepening their popularity among the social groups that governments identified as core constituencies. From the 1960s to the 1980s these groups emerged as clear winners in the political economies created by the interventionist redistributive social contract.

Female Advantage in Life Expectancy at Birth, 1970 and 2000



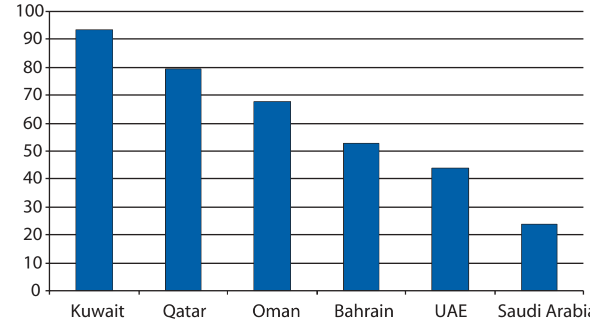
General Government Employment as a Share of Total Population

(percent)



Share of National Labor Force Employed in Government in the GCC

(percent)



But That Model Also Had Significant Costs

While this development model paid large dividends, there were also significant costs. Centralized and hierarchical governments emerged, with limited transparency and contestability of representatives or policies. The model also created economies that had great difficulty adapting to economic change.

Demands for accountability were stifled. The rents the region received from oil and oil-related resources had many implications for governance. Oil revenues relieved many governments of the need to tax. While popular among citizens, this reduced the governments' obligation to be accountable. Oil revenues also allowed governments to redistribute resources and to purchase legitimacy through public employment and broad access to cheap public services, including utilities, education, health, transport, housing, and fuel. Both limited taxation and mechanisms for redistribution muted most demands for accountability. Political considerations, including the real or imagined threat of internal or external conflict, were also used to justify greater political control, further limiting accountability mechanisms. Together with geopolitical forces, the intensity and cumulative effect of these factors impeded the emergence of institutions of good governance in many countries, making it more difficult to improve governance processes.

Labor markets became highly regulated. The region's development model had equally large implications for economic and social policy. An important element of the social contract was management of labor markets. Across the region government ministries and state agencies subjected labor management relations to tighter regulation, increasingly intervening in wages and working hours and procedures for hiring and firing.

Public sectors began to swell. Beyond direct regulation of the workplace, labor markets changed dramatically with the nationalization of assets and direct state control of production. Public sectors became the dominant employers in many countries, and provided a particularly important source of employment for females in the region. Under state ownership, workforce regulations expanded to include job security guarantees, social security programs, relatively high public sector wages with generous nonwage benefits (such as family allowances), sharp restrictions on firing, and other policies intended to provide economic stability to organized labor and to redistribute collective wealth. The results were most extreme in the GCC economies, where governments became the employer of choice because of expectations of higher pay and more desirable working conditions. Oil revenues were high enough that nationals entering the labor force could be hired almost exclusively by the public sector. But throughout the region the public sector's dominance of employment grew to unprecedented levels.

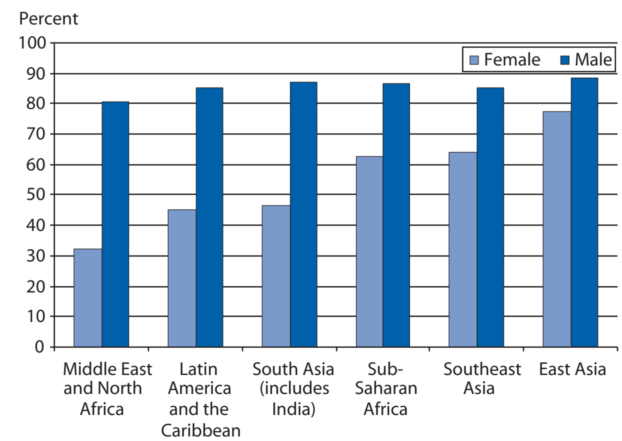
Women's participation in economic activity increased but remained low and constrained. Driven by dramatic increases in educational levels and improvements in health for women and reduction in fertility during the 1970s and 1980s female labor force participation rates increased significantly over the last two decades in MENA, but remained among the lowest in the world and well below what would be expected given education levels, fertility rates, and age structure characteristics.

While the overall macroeconomic performance of the economy may have dampened the demand for female labor, other economic constraints, such as wage discrimination and high unemployment rates, and social norms played a role contributed to this outcome. These constraints are reflected in constraining legal codes that continued to limit women's access to opportunity and to discourage women from entering the workforce.

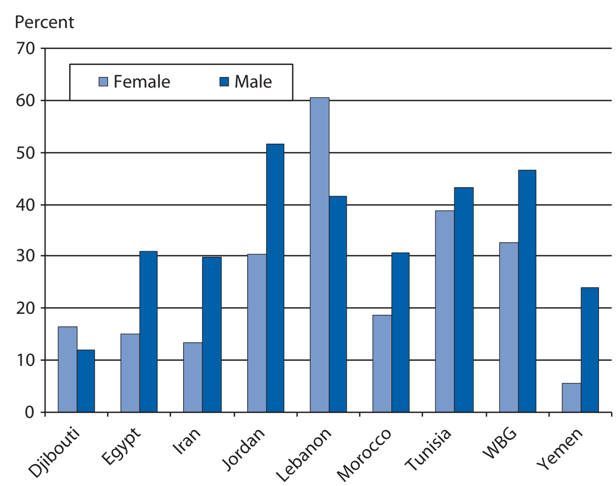
Economies became heavily protected and inward looking. Heavy protection and regulation of industry had substantial implications for investment and production, further affecting job creation and labor demand. Along with heavy import protection, the region's excess consumption of goods and services which are not traded internationally bid up their prices, making them more profitable than traded goods and services. Exchange rates, often overvalued and uncompetitive, provided also marked disincentives for the growth of tradable goods and services. Regulatory environments further discouraged private investment, reduced opportunities for trade, and impeded the development of export-oriented industrial sectors, creating significant obstacles to the integration of MENA economies into global markets.

Warning signs emerged of a shaky development platform. The economic systems that had developed in MENA—systems that carried the people in the region through an un-

Female and Male Labor Force Participation Rates by Region, 2000



Paid Private Sector Employment as a Percentage of the Labor Force



precedented era of achievements—showed signs of cracking under stress. As early as the 1970s the high growth rates were becoming increasingly costly to achieve. Though investments were at record levels, with the rate of growth of physical capital per worker increasing by more than 80 percent in the 1970s over the 1960s, these investments were having increasingly smaller growth payoffs. Total factor productivity growth, which turned negative during the 1970s, was lower than in any other region of the world.

The Unraveling of the Social Contract and Failed Recovery in the 1990s

MENA entered the 1980s with the credentials of nearly a quarter century of rapid and sustained development, but with mounting evidence of strains to the promise of continued prosperity.

The Oil Price Collapse and a Decade of Crisis

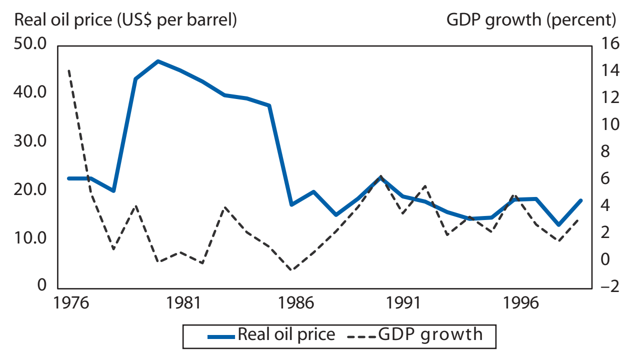
Public expenditures decline. When oil prices collapsed in the 1980s, government revenues throughout the region felt the blow, beginning with the oil producers but with the nonoil producers close behind. Although cushioned by extensive external assistance, the flow of resources to the public sector slowed considerably and government expenditures on social systems and physical capital shrank. For the region as a whole public fixed investment was cut heavily, and growth in physical capital stock per laborer declined by 75 percent from the 1970s.

Macroeconomic imbalances emerge, and growth collapses. Facing declining public revenues, governments struggled to maintain their redistributive commitments. With a public sector wage bill accounting for as much as 20 percent of GDP, deficits mounted and debt grew at an alarming rate. The fiscal strains contributed to large macroeconomic imbalances.

Productivity growth, already declining by the 1970s, plummeted to –1.5 percent a year over the 1980s. Growth collapsed under the multiple blows of declining public spending, an unattractive private investment climate, and continuing losses in efficiency. GDP per capita stagnated over the 1980s, growing an almost imperceptible 0.3 percent a year.

Employment challenges became severe. By the end of the 1980s the inability of the social contract to sustain the gains of previous decades became increasingly evident, especially

Real Oil Prices and Growth, 1976–99



in labor markets. Close to full employment, a mainstay of the social contract, could no longer be maintained. Between the 1960s and 1980s labor force growth had accelerated from 2.1 percent a year to 3.4 percent a year, but with diminished labor migration opportunities, a reduced ability for public sectors to absorb new entrants to the labor force, and little capacity for the underdeveloped private sector to absorb excess laborers, unemployment rates began to mount. By the end the 1980s they had climbed to more than 11 percent, particularly affecting young workers, who represented half the working age population by the 1980s. Unemployment was also acutely felt by women, whose unemployment rates have averaged 30 percent higher than those of men.

Half-hearted Reform Efforts Could Not Sustain a Recovery

Deteriorating budget deficits and the lack of economic growth prompted a handful of economies in the region—including Jordan, Morocco, and Tunisia—to embark in the mid-1980s on programs of macroeconomic stabilization and structural reform. The programs aimed to restore macroeconomic balances and promote private sector-led development. By the late 1980s and early 1990s most governments followed suit, adopting some form of economic stabilization. Policies varied, but included cutting subsidies, reducing public spending, liberalizing trade, reforming exchange rate regimes, encouraging exports, easing restrictions on foreign investment, privatizing state enterprises, and strengthening the institutional foundations of a market-led economy, including consolidation of the rule of law. Many governments joined international trade-promoting institutions and signed trade agreements to spur the domestic economy.

Reforms varied markedly in timing and intensity. While macroeconomic stabilization efforts have been broadly consistent across the region, with some exceptions, the pace of structural reform has differed markedly.

- A group of resource-poor countries, including Tunisia, Morocco, and Jordan, implemented earlier and more intensive reforms toward more open and private-sector-led economies than the rest of the countries of the region. All three signed Euro-Med agreements, Tunisia introduced as early as the 1970s an “off-shore” export processing platform to facilitate trade, both Morocco and Tunisia joined the General Agreement on Tariffs and Trade, and Jordan signed a free-trade agreement with the United States. Reforms also included exchange rate liberalization, tax reforms, financial sector liberalization and privatization in Morocco, and trade, financial sector and exchange rate reforms in Jordan. In general, the reform effort has been steady and without policy reversals.

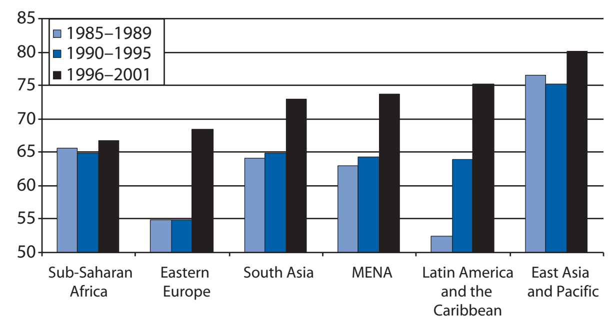
- Other resource-poor countries, including Egypt and Lebanon, have pursued reform more slowly and sporadically. Despite early reforms in Egypt and aggressive macroeconomic stabilization in the 1990s, reforms were partially reversed with escalating behind-the-border trade restrictions and significant exchange rate overvaluation. More recently, reforms have resumed, especially with the signing of a Euro-Med agreement in 2001. Lebanon, with a legacy of destroyed physical and economic infrastructure and weaker institutions, had to contend with large macroeconomic imbalances.

- Other reformers, including Algeria, Iran, Syria, and Yemen, also pursued reforms later, more gradually, and more sporadically than the early reformers. Algeria, with macroeconomic imbalances stemming from the collapse in oil prices, aggressively pursued macroeconomic stabilization, but structural reforms have been far more limited. Trade reforms initiated in the early 1990s were reversed in 1998, and then taken up again in 2001 with the signing of a Euro-Med agreement. Reforms in key areas such as the financial sector and privatization remain limited. In Iran, reforms were generally stalled until 1998, and since then have centered on exchange rate unification and trade, while banking and regulatory reforms still lag and subsidies remain high despite adjusted energy prices. In Syria the trade and investment liberalization begun in 1991 was not sustained. While there has been modest progress in exchange rate unification and private sector regulatory reforms, broader structural reforms have been limited. And in Yemen macroeconomic stabilization reforms have not been accompanied by more aggressive reforms to diversify the economy, despite relatively open trade policies. The investment climate remains poor, reflecting weak rule of law and property rights, ineffective regulatory frameworks, and security problems.

- The six GCC economies—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—

have long maintained an open trade system with free movement of capital and advanced financial systems. As oil prices deteriorated, most countries cut expenditures, but aggregate budget deficits have generally increased. Some of the smaller GCC countries have encouraged growth in selected sectors such as entrepot trade (United Arab Emirates), financial services, and tourism (Bahrain and United Arab Emirates). Oman has made substantial efforts to broaden private sector participation and improve the foreign investment climate, with privatizations and changes in its foreign capital investment law. In Saudi Arabia reforms began much later and have progressed more slowly. The public sector still dominates economic activities; production subsidies protect a large, inefficient, domestic non-oil sector (often publicly owned); and government revenues remain dependent on oil.

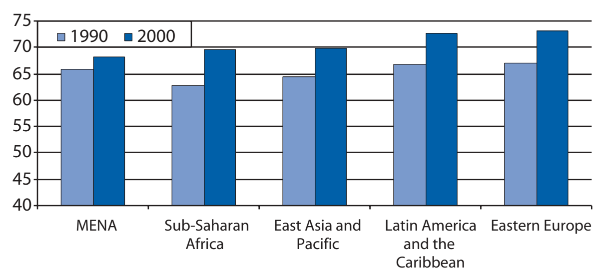
Economic Stabilization Indicators



Restoration of Macroeconomic Stability, But Disappointing Outcomes

Macroeconomic stabilization efforts paid off… During the 1990s several macroeconomic stabilization reforms began to pay off. By and large, MENA countries recovered from the instability of the 1980s, a fundamental pre-condition for higher private investment and growth. Inflation was brought under control, debt levels declined, and macroeconomic performance was positive on average.

Structural Reform in the 1990s



…But growth failed to recover. Despite these successes reforms have not translated into the strong economic recovery that was anticipated. Though GDP growth improved over the crisis-ridden 1980s, per capita growth remained weak, averaging 1.5 percent a year in the 1990s. While the declines in productivity growth were arrested, productivity growth remained negative—and close to 2 percentage points lower than the world average and 3.5 percentage points lower than East Asia was achieving at the same levels of investment.

Private investment failed to materialize. In the 1990s fixed investment continued on the downward spiral that began in the 1980s, with the rate of growth of physical capital per laborer over the 1990s declining by more than 95 percent from the 1980s. Consequently, despite some productivity gains, growth remained anemic. The higher levels of private sector investment needed to push the region out of its growth standstill failed to materialize, in large part because of comparatively poor business environments caused by the uneven, hesitant, and incomplete nature of the reform efforts undertaken in both governance and economic policy. While the early macroeconomic and structural reforms gave a boost to the region's economic outlook, most countries failed to carry through on reforms.

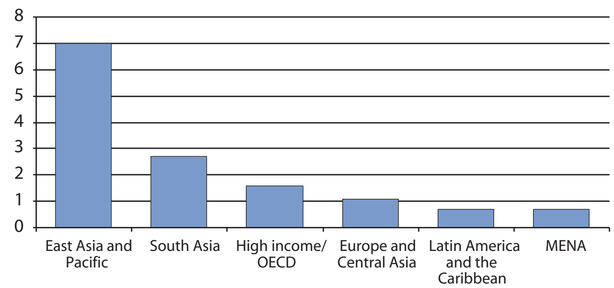
Old-style public investment could not have contained the problem. While private investment failed to respond to uneven reforms, higher levels of public investment could not have made up the investment shortfall. Given the levels of productivity growth exhibited over the 1990s, the levels of public investment that would have been required in most countries would have entailed a serious deterioration of fiscal balances and external accounts, undermining the hard-won macroeconomic stability. The response needed to come from the private sector.

Growing labor market pressures amid stalled recovery. In conjunction with the lack of a dynamic recovery in MENA, over the 1990s the region confronted some of highest rates of labor force growth recorded. Rapid population growth rates between the 1950s and 1990s, along with rising participation in the labor force, fueled labor force growth of some 3.6 percent a year during the 1990s, more than 40 percent higher than in Latin America, South Asia, or Sub-Saharan Africa, and almost three times the rate in East Asia. Entry of female labor into the labor force accelerated to reach 5.3 percent a year during the 1990s, and unemployment rates for women became even higher than those for males.

Unemployment doubled. As the region's labor force swelled and employment outlets remained limited, unemployment rates rose for more than two-thirds of the countries in the region. Unemployment rates are now among the highest in the world, second only to those in Sub-Saharan Africa, and virtually every country in the region is confronting the challenge. Even in the GCC countries, which have traditionally depended on expatriate labor to supplement the national workforce, unemployment rates among national workers have increased rapidly. Unemployment in the region is conservatively estimated at more than 15 percent of the workforce—and more than 20 percent in Algeria, Morocco, and the West Bank and Gaza, and only slightly lower in Iran, Jordan, and Tunisia. Unofficial statistics suggest that unemployment is even higher.

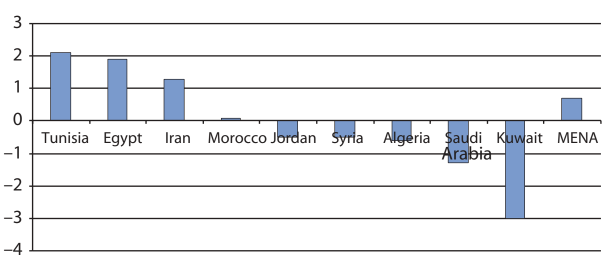
Average Annual Growth in GDP per Employed Person by Region, 1990s

(percent)



Average Annual Growth in Output per Worker in MENA Countries, 1990s

(percent)



Why the Half-hearted Reform Efforts?

MENA governments were able to postpone difficult decisions about structural adjustment and the reorganization of the social contract because of soft budget constraints and the political reactions to reforms.

External revenues allowed delays. While falling oil prices reduced government revenues, continued access to foreign aid, smaller but still substantial revenues from natural resources, and strategic and other forms of rent allowed governments to delay the fundamental reforms needed for greater growth and employment. And worker migration—diminished but still high until the early 1990s—has continued to relieve pressures for more committed reform, providing an outlet for the growing unemployment problem at home.

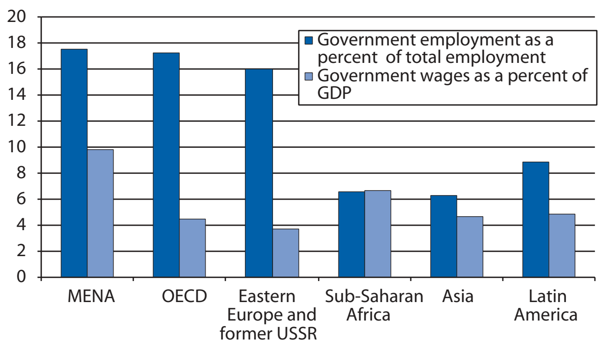
Political reactions limited action. An even greater impediment to a more determined reform effort in MENA has been the region's reaction to its experience with previous reforms. During the initial phases of economic reform in the 1980s, MENA governments accepted a limited and instrumental connection between economic and political reform, and governments in Algeria, Egypt, Jordan, Morocco, and Tunisia all initiated experiments in political reform to secure popular support for market-oriented economic reforms.

These experiments included increased opportunities for participation by opposition political parties, expansion of civil liberties and freedom of the press, increased participation in political life by civil society groups and international nongovernmental organizations, and efforts to strengthen rule of law, reduce corruption, and secure the confidence of domestic and foreign investors.

However, the consequences of cautious and partial political openings undermined its sustainability. Prior to the 1990s, political arenas had become highly compressed and commitments to governance were uncertain, weakening prospects for the emergence of new actions as the political space expanded. The exclusion of opposition movements from political life over time gave way to increasingly radical and often clandestine modes of organization and mobilization. Some of these groups, both those that operated informally and those that contested for power through formal electoral channels, attracted popular support, challenging governments' ability to manage the scope of political change.

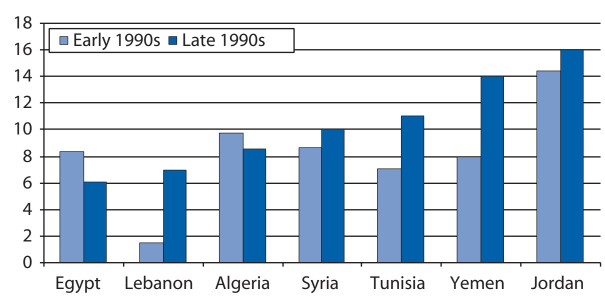
The Size of Government around the World in 1990s

(percent)



Average Government Wage Bill as a Share of GDP

(percent)



The emergence of these groups has led MENA governments to change course on reform. Reluctant reformers from the outset, by the early 1990s they adopted policies that weakened the link between economic restructuring and political change. Economic and political reform became loosely coupled, or were decoupled entirely, as government responded to the appeal of opposition movements and, in some cases, the violence of extremist groups by reviving strategies of political control and reinvigorating the national security concerns that impeded the reform of governance in MENA.

But this reversal and the decoupling of economic and political reforms have, in turn, kept the region from realizing the gains from its reform effort. Earlier attempts to generate support for economic reform by opening the political arena have been replaced by top-down management of reform by decree. This is an adequate mechanism for changing bureaucratic practices, regulatory procedures, and state economic policies, but it is far less effective for deeper reforms that depend on the compliance and participation of the social groups whose economic well-being the reforms are intended to improve. Moreover, by reform by decree reproduces state-centered approaches to the management of economic and social policy, sustaining interventionist and paternalistic patterns of state-society relations. In compressing the political space, MENA governments unilaterally reduced the range of policy instruments available for managing economic reform. The combination of reform by decree and reassertion of political controls has resulted in limited development of precisely the forms of capacity, in both government and civil society, needed to sustain a long-term transition toward market-oriented political economies in MENA.

The Imperatives for Change

Several factors have intensified the need for reform, from building labor market pressures and rising expectations for improved standards of living to growing competitive pressures in world markets.

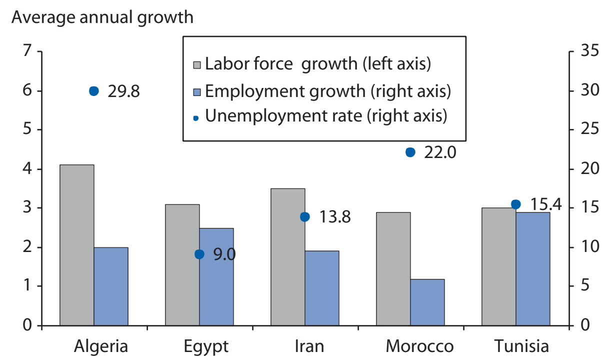
Labor Market Pressures Are Building

A legacy of high population growth rates in MENA between 1950-90, which peaked at 3.4 percent a year in 1985, has translated into some of the most intense pressures on labor markets observed anywhere in the world in the post-WWII period. While the population growth rate fell to 2.2 percent a year during the 1990s and is expected to drop to 2.0 in the current decade, the labor force is projected to grow 3.5 percent a year in the coming decade. Some 42 million new laborers will be looking for work in the next decade, swelling the labor force by more than 40 percent. These severely high rates of labor force growth are not expected to diminish until after 2020.

This growing labor force is increasingly more educated, with higher expectations for employment. Limited reforms in the old model of development over the last decade have failed to produce significant new job opportunities. Youth unemployment is double the average rate in many countries. The majority of the unemployed are first-time, educated job seekers. Worker productivity, the basis for real wage growth, has increased only marginally over the last decade and remains far below that in East Asia and Pacific, South Asia, and Latin America and the Caribbean. Real wages have increased marginally in some countries, but in most they have stagnated or declined, extending a disappointing trend that began in the 1980s. In half of the economies of the region growth in output per laborer has been negative over the last decade and thus unable to simultaneously support the two critical features of improve-

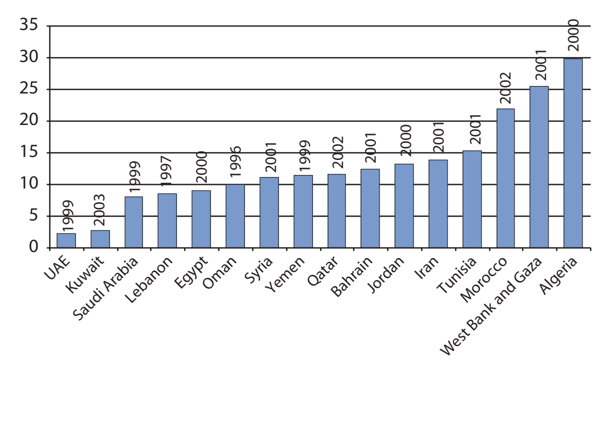
Labor Force Growth versus Employment Growth in the 1990s

(percent)



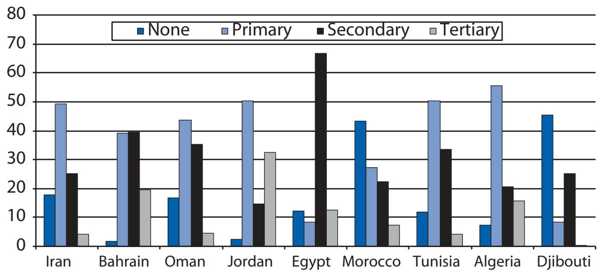
Unemployment Rates in MENA, 2001

(percent)



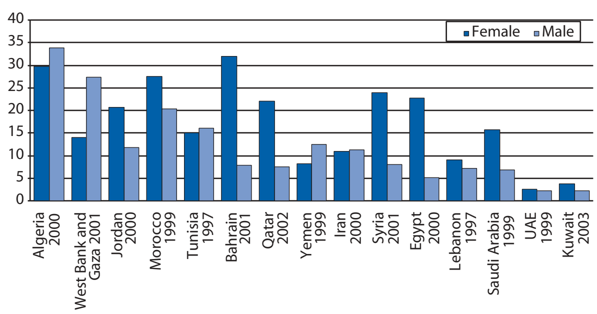
Distribution of the Unemployed by Level of Education

(percent)



Unemployment Rates by Gender in MENA Countries

(percent)



ments in labor market outcomes: real wage growth and reductions in the rate of unemployment.

The costs of low labor force participation by women are particularly high, as expressed in lower family incomes and forgone aggregate income growth. For instance, the gender imbalance in labor force participation in MENA was conservatively estimated to have lowered economic growth by at least 0.4 percentage points during the 1990s.

The costs of further inaction are great. To ensure real wages growth—through productivity improvements—and the absorption of the more than 80 million new labor market entrants over the next two decades, GDP growth needs to double from its 3.4 percent annual rate over the late 1990s to an average of at least 6–7 percent—and for a sustained period. The growth challenge is enormous. It is impossible to achieve under the prevailing development model of growth and governance.

Greater Expectations of Improvements in Standards of Living

Men and women in MENA are living at a time of rising expectations—and growing frustrations. These expectations have been increasingly at odds with the economic realities delivered by the old development model. Per capita income growth remains anemic, despite reforms. Sluggish performance has also contributed to increasing poverty. The proportion of the population living on less than $2 a day rose from 21 percent in 1990 to 23.3 percent by the end of the decade.

Deterioration in these major indicators of labor-market and economy-wide health is an ominous signal to the coming generation of workers. The MENA economies need to create productive income-generating opportunities for these young men and women through economic growth, and governments need to provide the services to make that possible, from education to a conducive business environment.

Public Service Delivery Lags Behind the Rest of the World

Despite the tremendous effort and expenditure in almost all MENA countries to expand basic social services, a disconnect between expectations and realities has also materialized in the delivery of basic services. Performance gaps are widening between MENA and comparator countries in the efficiency and effectiveness of basic social services delivery. In public education, though spending at the primary level is still relatively high in MENA, by measures such as the illiteracy rate, the MENA countries are not doing as well as their comparators. Only two countries, Lebanon and Jordan, have literacy rates about what would be expected at their levels of income. In many of the most important social services, MENA is lagging. Social safety net programs suffer from large leakages and large gaps in coverage, with the most needy often excluded. Though the region spends enormous amounts on food subsidies to ensure minimum levels of food consumption, child malnutrition remains widespread in several countries.

Similar gaps appear in infrastructure services. Despite major public investments in telecommunications, the proportion of unsuccessful telephone calls is 35 percent in Tunisia, 50 percent in Lebanon, 57 percent in Morocco, and 60 percent in Jordan. And large public sector investments in electricity infrastructure have not stemmed power distribution system losses of 13 percent of output—nearly three times East Asia's 5 percent.

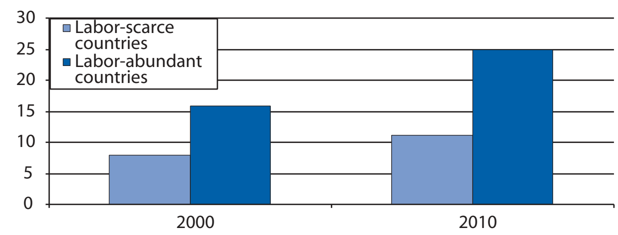
Rising Competition for Global Markets

The costs of wait and see policies are also becoming increasingly expensive for global trade integration. The region faces intensified competition in world markets, at both the skill-intensive and the labor-intensive ends, affecting important industries and activities such as textiles and garments, light engineering, and manufacturing. The longer the region delays trade and related reforms, the more disadvantaged exporters will be in facing these competitive pressures.

At the skill-intensive end… On the skill-intensive end two major competitive threats are the upcoming accession of some Eastern European countries to the European Union and Turkey's customs union agreement with the European Union, MENA's major export market. Other regional groupings and free trade agreements also present challenges. Both the Europe and Central Asia and the Latin America and the Caribbean regions, two middle-income regions with labor skill profiles similar to MENA's, have enjoyed faster trade reforms and integration with global markets in recent years and are rapidly gaining market share as

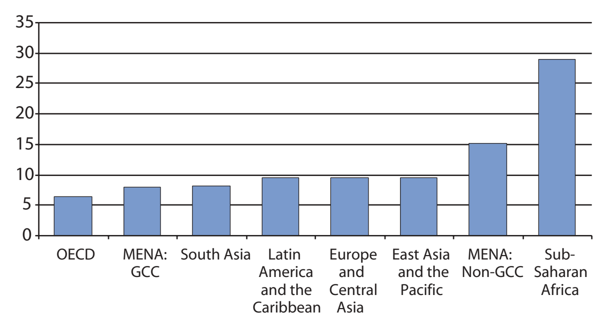
Current and Forecast Unemployment in MENA

(percent)



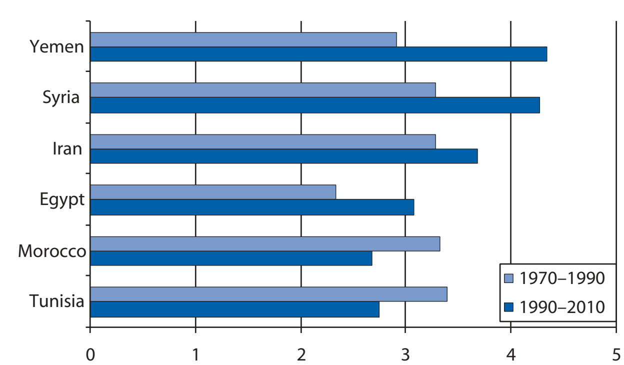
International Comparison of Unemployment Rates

(percent)



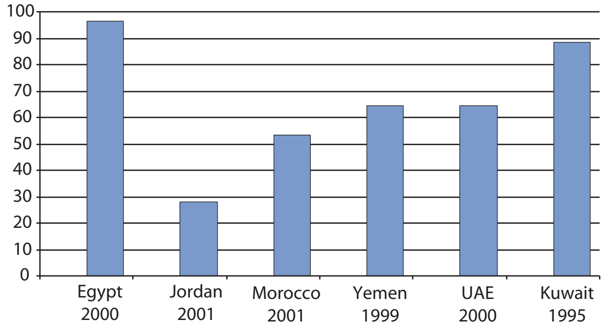
Average Annual Growth in Labor Force in Selected MENA Countries, 1970–2010

(percent)



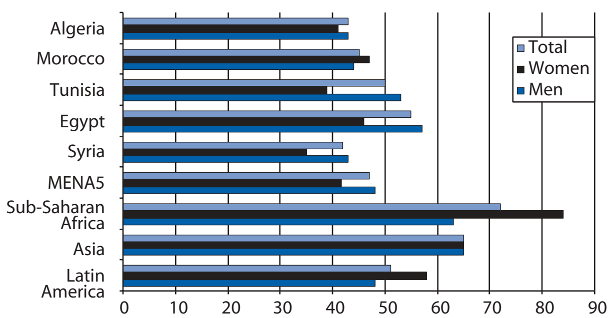
First-Time Job Seekers among the Unemployed in MENA Countries

(percent)



Informal Sector Employment in MENA Countries and Other Developing Regions as a Share of Non-Agricultural Employment, 1994–2000

(percent)



MENA lags behind. A mismatch between the skills required by firms and the skills produced by an education system still organized to turn out new government employees intensifies the competitive problem.

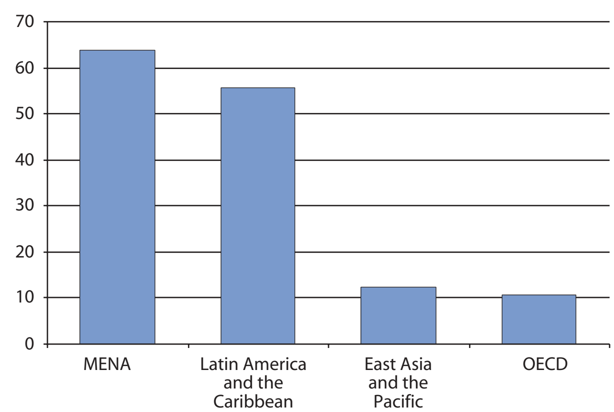
…And in labor-intensive products. Labor-intensive products and manufactures are also facing a new challenge from low-wage, high-productivity countries such as Bangladesh, China, India, Indonesia, and Vietnam. That competition will escalate with the abolition by 2005 of quota preferences in textiles and garments, important to the region's manufacturing employment and export earnings. These labor-intensive sectors, employing more than a million workers, have been among the few in which the MENA region has been gaining market share—partly because of the protected quota markets in the European Union. Adjusted for labor productivity, labor costs in the garments sector in MENA counties are significantly higher than in populous countries of Asia, but lower than in Eastern European countries.

Directions of Change for Meeting the Challenges and Unlocking the Potential

Meeting the challenges ahead requires three essential realignments in economic orientation in MENA: from public sector-dominated to private sector-led economies, from protected to open economies, and from oil-dominated to diversified economies. Progress on gender equality and participation of women in economic activity as well as fundamental reforms in education are critical for the success of these transformations. Also important are minimizing and managing potential output and employment losses in sectors and firms unable to compete under the new incentive structure. These transitions will demand fundamental changes in the role of the state through a broad agenda of governance reforms. Realigning economic and governance structures will involve more fundamental transformations for some countries than for others: initial conditions *do* matter. But for all countries, meeting the challenges will require change.

Firm Entry Costs

(percent of GNI per capita)



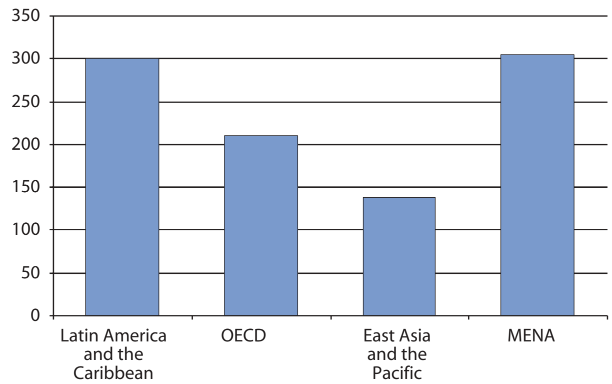
Reinvigorating the Private Sector

Since the late 1980s most MENA countries have attempted to expand private sector activity. But success has been thwarted by an environment not conducive to private business activity, including arbitrary and distorted policies favoring the large number of state-owned enterprises, bureaucratic behavior that increases costs and uncertainties for businesses, and inadequate public services.

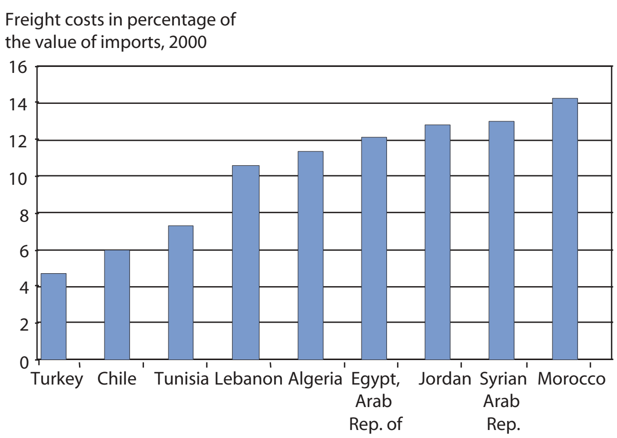
Improve the investment climate. Firm start-ups and operations are significantly hindered by the time and financial costs of regulatory and administrative barriers. For new firms the cost of complying with regulations represents about 76 percent of per capita Gross National Income—well above the 34 percent in Eastern Europe, 16 percent in East Asia, and 14 percent in Latin America. Other costs are

Contract Enforcement: Duration

(days)

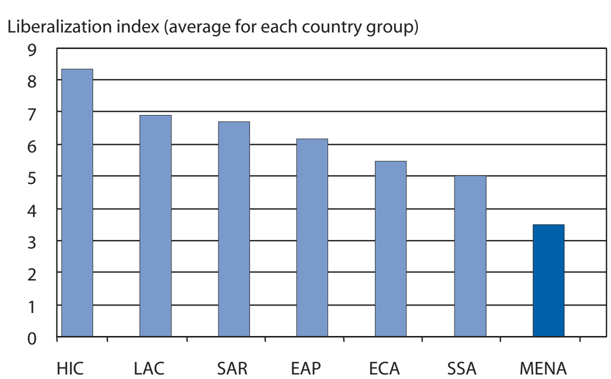


MENA Trade Is Burdened by High Transport Costs



Telecommunications Liberalization in MENA: What's at Stake?

Telecommunications markets remain less competitive.



also high, from licenses to domestic taxation and import duties and regulations that slow customs clearance.

Surveys reveal that potential investors face significant obstacles to entry in many MENA countries, including cumbersome licensing processes, complex regulations, and opaque bidding procedures, as well as official acceptance of uncompetitive practices. In Morocco about half the firms said they had to hire intermediaries or maintain full-time workers to deal with the bureaucracy. In Jordan a potential investor interested in registering a new firm has to wait three months, with half of that time spent on a single procedure—inspection by the ministry concerned. Increasing the cost and risk to businesses, such problems have not only lowered the quantity of new private investment, they have also lowered the quality and efficiency of investments already undertaken, contributing to the overall productivity gap in the region since the 1970s.

Businesses are further handicapped by judicial systems that facilitate neither restructuring of viable businesses nor closure of nonviable ones. MENA compares poorly with other regions in the complexity and time needed to initiate and complete (over 300 days on average) a legal claim. Unpredictability of enforcement is an even more serious problem. Close to half the surveyed firms expressed concern over the unpredictability of the legal system.

Develop finance and key infrastructure for business. Weaknesses in infrastructure and in the financial system are yet another burden on business operations. Almost half the private businesses in the region complain that infrastructure is a moderate to major obstacle. Telecommunications and transport, two backbone services, are significantly underdeveloped. With public banks dominating the banking system in many countries and favoring state enterprises, larger industrial firms, and offshore enterprises, smaller firms have a hard time getting the start-up and operating capital they need.

Accelerate privatization. Public sectors still account for a large share of value added, even in the more diversified economies in MENA. Strategic services—banking, telecommunications, and transportation—remain under public ownership in most countries. Privatizations in the 1990s focused on manufacturing firms, only recently extending to selected services such as telecommunications. And even where privatization of services is advancing, regulatory arrangements often remain weak.

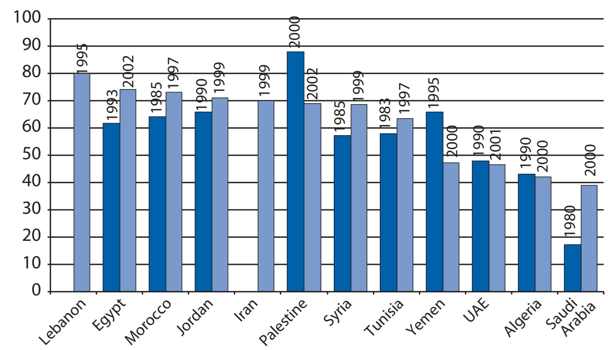
Integrating into the World Economy—to Reduce the Distortions in Closed Systems

Trade regimes in MENA are among the most protective in the world. Tariffs remain high (the average weighted tariff is about 17 percent) and dispersed. Non-tariff barriers and slow and distortionary administration of customs and standards remain widespread. Some estimates show that trading costs (excluding taxes and duties on imports) average 11 percent of the value of trade, adding another layer of protection. Countries of the region need to align their trade policies with best international practice, streamlining tariff structures, reducing the level of tariff protection and dismantling inefficient non-tariff barriers.

In addition at least three steps are needed to speed integration into the global economy:

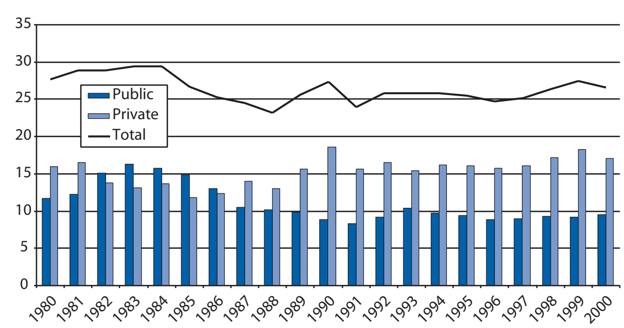
- *Remove behind-the-border constraints.* Behind-the-border constraints, including high costs for transport, logistics, and communication, further raise the costs of trade and discourage investment, both domestic and foreign.
- *Correct overvalued exchange rates.* Real exchange rates in the region have been overvalued by some 22 percent on average during 1985–2000, depressing exports, in particular manufactured exports with higher price elasticities.
- *Participate in global production networks.* Countries in the region export primarily low value-added finished goods and import parts and components for an inefficient inward-looking manufacturing base, with little participation in global production sharing.

Private Sector Contribution to GDP in MENA



Public and Private Investment in MENA, 1980–2000

(as a percent of GDP)

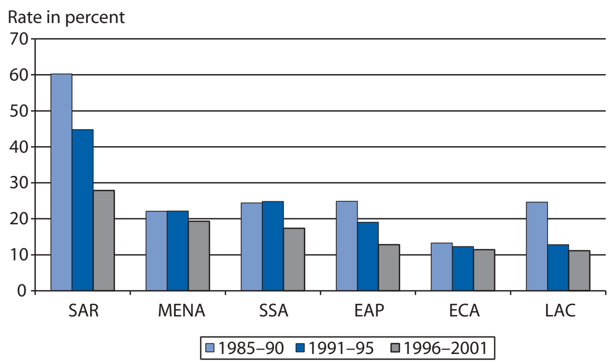


Managing Oil Resources—to Enhance Their Stability and Husband Their Use

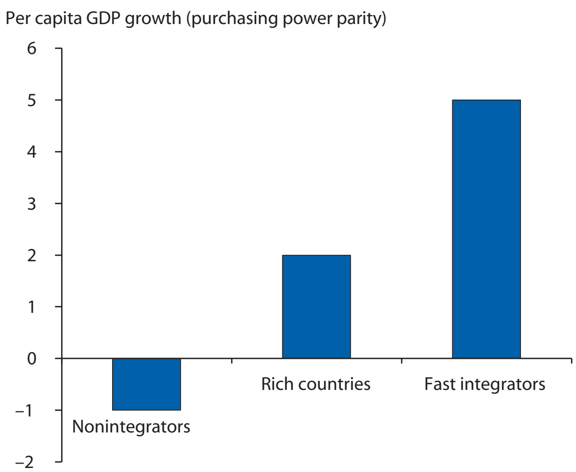
Economic diversification requires proper fiscal policy and public expenditure management in addition to measures to expand globally competitive private businesses outside the oil sector. That means setting up institutions and fiscal rules that insulate public expenditures from oil price volatility and save oil revenues so that they can continue to benefit citizens when oil resources decline. That also means improving the efficiency of public expenditures through better systems of budgeting that emphasize performance and accountability.

Diversifying productive activities is a growing priority, not only for countries whose known oil reserves will soon

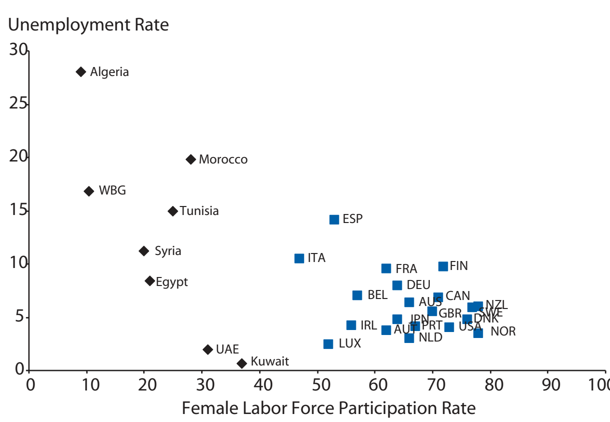
Unweighted Import Tariff Rates



Fast-Integrating Countries Grow Faster, 1990s



Female Labor Force Participation and Overall Unemployment Rate in MENA (black/diamond) and OECD (blue/square) Countries, 2000



be depleted, but for all oil producers. Per capita exports of hydrocarbon products have been declining across the region, with falling real prices, rising domestic demand for energy, and rapid population growth. Governments will need to develop new sources of revenue to ensure the efficiency of public expenditures.

Meeting the Challenge of Inclusion of Female Labor in the Private Sector

The region's high levels of unemployment may discourage women from entering the labor force. But women's greater labor force participation is unlikely to have long-term effects on unemployment rates. While some have argued that greater participation by women in the labor force would exacerbate unemployment among men in the current climate of slow growth and rising unemployment, there is no empirical evidence to support this belief. In fact, a healthy economy that is more inclusive of women is likely to enjoy lower unemployment for all.

The challenge is that of creating opportunities for men and women, and not for one group at the expense of the other. The region needs all its talent and human capital. The expected surge of more educated women in the labor force over the coming decades is challenging, however, as unlike in the past it needs to be met with the creation of job opportunities in a more dynamic and productive the private sector.

The low participation rates of women come with many costs for the region. One is forgone growth, and as women in the region become increasingly better educated, the costs of their nonparticipation increase as well. Another cost is reduced flexibility. During the transitions required for growth, the economies of the region will need greater flexibility—at the economy level, to draw on a deeper pool of labor assets, and at the family level, to ease adaptation to changing economic circumstances. All of this can be facilitated by taking the actions necessary to allow for greater participation of women in the labor force and in the public sphere in general.

In addition to economic discrimination, social norms, which underlie a range of civil, commercial, labor, and family laws and practices in the region, discourage women from entering the workforce. While in most MENA countries women and men have equal constitutional rights, a host of other legal provisions fail to give legal effect to these rights.

Hence, women face considerable legally sanctioned differential treatment, which perpetuates strict gender-based roles and constrains women's ability to participate effectively in public and economic spheres. Allowing, and even encouraging, women to become greater economic assets requires reviewing and revising policies and laws throughout the region and building coalitions for change to support the reforms.

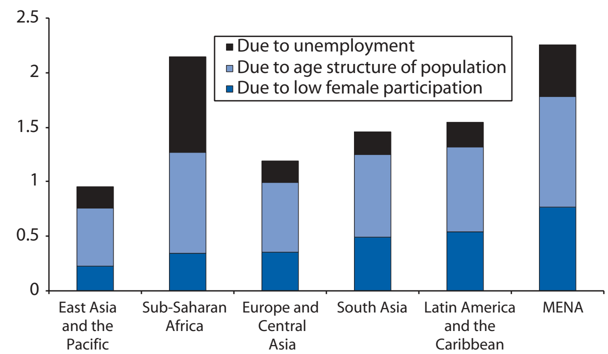
Improving the Quality of Education

MENA countries have made strong progress in expanding basic education, and most countries now report nearly universal enrollment at the primary level and large shares of youth completing secondary school. But rapid technological change worldwide has raised the level of skills required to be competitive in global markets. To adapt, MENA countries must continue to expand the availability of higher education and specialized training programs, while maintaining their investments in primary and secondary schooling.

Apart from expanding access to education and deepening the skill base, MENA countries must address the quality of educational outputs and skill mismatches that contribute to labor market imbalances. Firm surveys in both labor-abundant and labor-importing countries suggest that lack of skills is an important constraint in hiring. Qualitative deficiencies in education have resulted from a variety of factors, including overly centralized management of education, little assessment of performance, and promotion based on seniority rather than performance. Additionally, education systems have been directed largely toward meeting the requirements of employment in the public sector, with few links to the private sector. Without demand for competitive and relevant skills, the education sector has had little incentive to change.

The economic transitions that the region undertakes will benefit education systems, increasing the demand for their transformation. Opening to trade will generate important payoffs to these educational transformations, allowing the region to fully benefit from its substantial investments in human capital. Empirical studies of the relationships among openness, human capital, and total factor productivity growth have found that outward-oriented economies experience gains in total factor productivity beyond the direct effect of openness. Outward orientation is critical for human capital to have a positive impact on economic growth.

Number of Non-working Dependents Supported by Each Worker



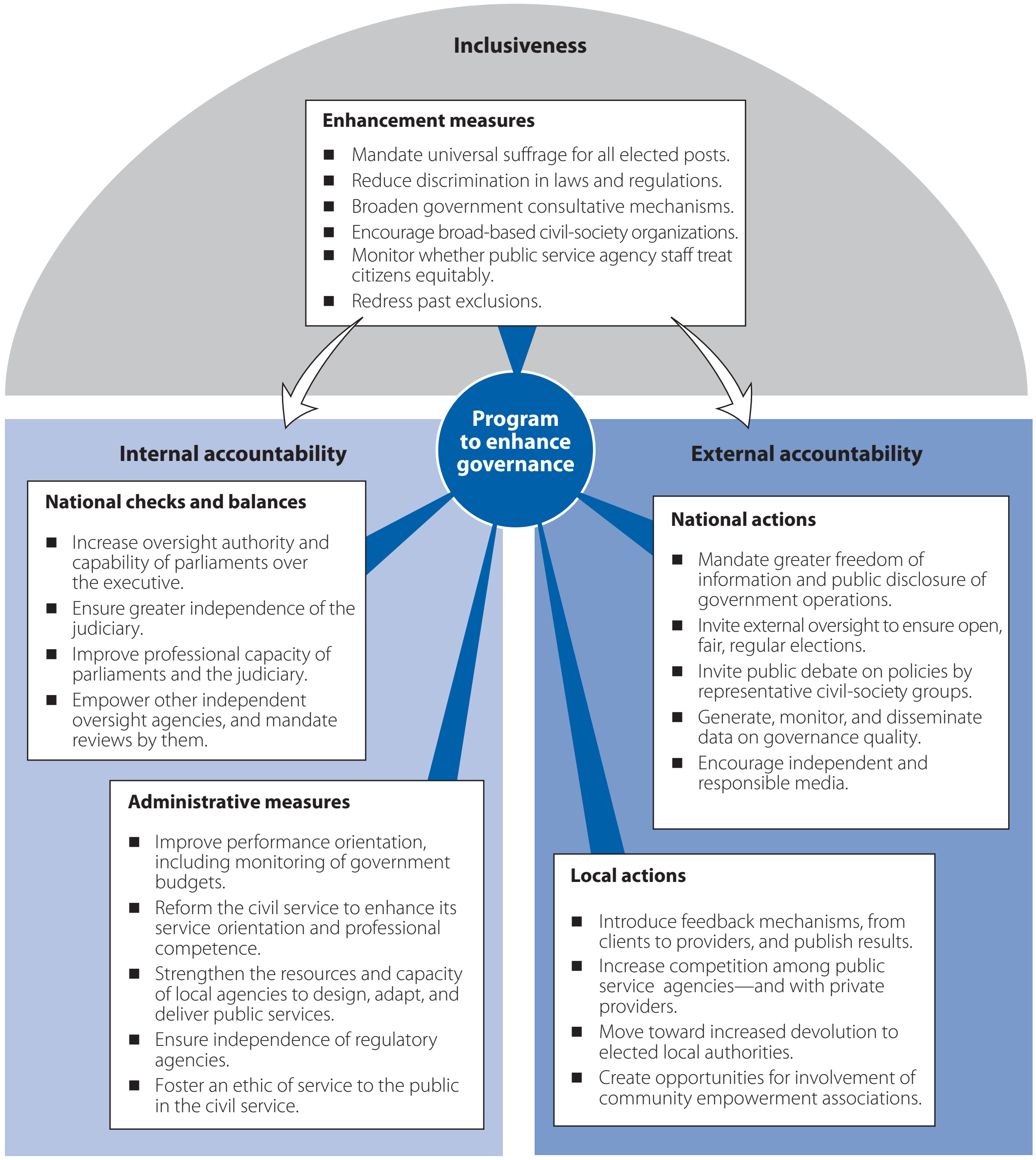
Improving Governance Is Essential

The fundamental challenge for development is not technical, although technical issues are important. It is governance—the ways governments interact with citizens and civil society to promote social and economic welfare. Because gaps in economic and social development in MENA are manifestations of an enduring gap in the quality of governance between MENA and better performing countries elsewhere, the region's economic and social challenges can be viewed largely as a governance challenge, even if better governance is not the only change needed to improve performance. The governance challenge is to strengthen the incentives, mechanisms, and capacities for more accountable and inclusive public institutions and to expand allegiance to equality and participation throughout society. Those good governance mechanisms are first steps in improving economic policies that are themselves instruments for improving the climate and incentives for efficient growth.

Reduce governance gaps in inclusiveness and accountability. To reduce these gaps, both governments and the people must commit publicly to formulating and implementing a broad program of inclusiveness and accountability of government and increased transparency and contestability in public affairs. Such programs would vary across countries, but the process of formulating these programs should itself set high standards for including all segments of society and for making all deliberations public to ensure maximum transparency. These programs should cover a wide array of governance issues and institutions—measures to enhance inclusiveness, national actions to strengthen external accountability, local actions to strengthen external accountability, national checks and balances to strengthen internal accountability, and administrative reforms to improve internal accountability—and should include indicators for measuring progress.

The first step to enhanced inclusiveness is to adopt laws and regulations that secure access to widely accepted basic rights and freedoms, including participation and equality before the law. Broader public consultation, greater freedom for the media, fewer restrictions on civil society, more equitable channels of access to social services, and an end to discriminatory laws and regulations are examples of measures that secure inclusion. They need to be supplemented with strong monitoring to ensure that public officials treat all citizens equally.

A Program to Enhance Governance



But a particular focus must rest on putting in place better systems of accountability, especially transparency and contestability. External and internal accountability are related; the former is critical for providing incentives for governments to strengthen their structures of internal accountability, so action is needed on both fronts. External accountability, to help citizens participate in and monitor government, can come from actions at both the national and local levels. Such measures include greater freedom of information and public disclosure of government operations, including data on government quality, wider public debate by an independent and responsible media and by representative civil society groups, and regular and competitive elections with external oversight to ensure they are fair and open. At the local level external accountability can come from providing citizens with effective feedback mechanisms on public agencies, expanding choices in public service delivery, devolving responsibilities to empowered local communities, and by actively soliciting the participation of community empowerment organizations.

Enhancing internal accountability is about creating mechanisms and incentives within government to ensure effective functioning in the public interest. At the national level it involves strengthening the checks and balances within government, in particular increasing the independence and capacity of the legislative and judicial branches and installing independent oversight agencies like ombudsmen. Within the executive, it involves reforming public administration, strengthening the performance orientation of government budgets, enhancing the service orientation of the civil service, augmenting the capacity of local governments, and ensuring the independence of regulatory bodies.

Different Starting Points, Different Paths

While the need to complete the fundamental transitions is common across the region, how countries do so will depend on their initial conditions and political economy factors. The priorities and sequencing of changes in policies will vary with resource endowments, reform progress to date, and the institutions of governance.

A strong private investment response requires three preconditions: macroeconomic stability, flexible exchange rates in line with fundamentals, and a governance system that ensures a business- and investment-friendly climate effectively regulated to promote competition.

Labor market reforms are another necessary component of policy reforms, but they are not sufficient for addressing the employment challenge. Economic and political conditions and a careful understanding of labor market issues in each country must determine the priorities for reform. Empirical analysis indicates that various interventions to reform labor markets would lead to positive labor and macroeconomic effects, in most cases contributing to higher employment, private investment, and output growth in the long-run. Reflecting complementarities between policies, simulations show that a comprehensive rather than a piecemeal approach to labor market reform delivers the biggest impact. But the employment and growth payoffs associated with the most comprehensive package of labor market interventions are still modest considering the magnitude of job creation needed.

Resource-poor economies must concentrate on the business climate. Most of the resource-poor, labor-abundant economies in the region (Egypt, Jordan, Lebanon, Morocco, and Tunisia) have broadly fulfilled the first precondition for a strong investment response—macroeconomic stability—but Lebanon needs to bring the fiscal and external balances to sustainable levels, and Egypt, with rising public debt, needs to make adjustments to ensure fiscal stability.

Though real exchange rates in the resource-poor countries, with the exception of Lebanon, are broadly in line with fundamentals, exchange rate management must take into account the flexibility needed for successful trade reform. With the exceptions of Egypt and Tunisia, the resource-poor economies of MENA have relatively inflexible exchange rate systems.

But ultimately, it is the absence of the third prerequisite for greater private investment—a governance system that ensures an investment-friendly climate—that remains the greatest challenge for resource-poor economies, undermining the potential impact of trade agreements signed with the European Union and other partners. Improving the business climate will entail strengthening the mechanisms of interaction between business and government in areas where the government acts as regulator or service provider and ensuring effective and fair enforcement of laws and regulations.

Most countries also need to reform regulatory regimes, making them more procompetitive and allowing private participation in all sectors, and to strengthen regulatory capacity by drawing on international best practice to ensure competition and the integrity of the financial systems. A specific focus of these efforts is small and medium-scale enterprises, by reducing barriers to entry and encouraging contract enforcement and protection of property rights. Reform and development of financial services, in particular the banking system, is another important concern.

Resource-rich, labor-abundant economies have a more complicated task. These oil-rich countries (Algeria, Iran, Syria, and Yemen) have a more complex task ahead in making the transition to market-oriented economies. Vast oil rents have permitted the creation of large public sector enterprises, protected by trade barriers and supported by extensive subsidies. These rents have led to overvalued exchange rates, while the volatility in oil prices has been transmitted to the rest of the economy through pro-cyclical fiscal policies. Thus, while preconditions for the oil-rich, labor-abundant countries are generally in line with those in the resource-poor group, they require policy reforms that are deeper in intensity and wider in scope.

Essential infrastructure services, such as electricity production and transmission, which have been monopolized by an inefficient public sector, would benefit from deregulation and competition. Similarly, the financial sector remains mostly in the hands of the public sector, which controls up to 95 percent of banking system assets. Significant improvements in the regulatory environment for the private sector and for attracting foreign direct investment are required. For example, many countries still rely on price controls and regulations, which must to be eliminated to allow the price signals from domestic and external liberalization to take effect.

Resource-rich, labor-scarce economies must concentrate on reducing dependence on an inefficient public enterprise sector and on managing oil revenues. The public enterprise sector is very large in the resource-rich, labor importing economies of the GCC, with most of the large nonoil industries in public hands and dependent on subsidies, including low-cost loans. Recent labor nationalization policies adopted by many countries, if not carefully targeted, may impede expansion of the private sector.

Large oil rents provide both opportunities and challenges for reform. Oil revenues lessen short-term concerns with revenue loss from trade reforms, while reducing domestic energy subsidies can provide substantial budgetary savings. Over time, however, these countries need to boost their non-oil revenue, through broad-based tax systems, among other means. More generally, these countries need to better manage oil price volatility and oil resources. The objective in managing short-term volatility is to insulate government spending from oil windfalls or downturns, implying explicit fiscal rules for saving and or drawing down resources from a temporary stabilization fund. Over and above stabilization objectives, countries need to consider saving a proportion of oil rents for future generations as part of a long-term management strategy for oil resources.

Toward a New Social Contract

The region must move forward with a comprehensive program linking economic reform, governance reform, and political reform. This comprehensive reform agenda will also entail the need for a new social contract in the region, one which better supports the workers and citizens of MENA in transitioning to a new model of development. This new social contract is as much about the process of making policy decisions and implementing them as about the nature of these policies and reforms. It is about governance and political systems that ensure inclusiveness and public accountability, but is also about policies and institutions that deliver sustainable human development.

Economic and Political Reforms Must Be Linked

The top-down strategies of selective reform—resting on weak linkages among economic reforms, governance reforms, and a broader commitment to political reform—have run their course. These strategies weaken the capacity of governments to address severe employment imbalances, to build consensus and support, and to fulfill a new vision for the region. Governments are now in a position to renew the processes of political reform that have been on hold for more than a decade. At the same time, MENA publics remain interested in electoral reform, good governance, and the integration of responsible opposition parties in the political mainstream. In this setting, opportunities exist to revitalize commitments to political reform, accommodate popular interest in choice, strengthen the credibility of governments, and create the political context for a comprehensive approach to reform. To move the reform process beyond its current limits, governments will need to revive national conversations about labor market reform, restructuring redistributive programs, and redefining the terms of the social contract.

The limitations of past approaches to reform are visible in the deteriorating conditions in MENA's labor markets. But states and societies are also confronting the reality that the traditional social contract is no longer sustainable. The redistributive-interventionist social contract jeopardizes the well-being of workers. It shifts economic activity to the informal sector and leaves too many workers unprotected. It constrains investment and growth, undermining the capacity of governments to deliver on their commitments to economic and social justice. It offers a minority of workers security of employment, but at the expense of declining wages and standards of living. It sustains redistributive policies that aim to mitigate inequality but are under-funded, poorly administered, and increasingly ineffective, with results that are generally very inequitable.

While the existing social contract is deeply embedded in MENA political economies, MENA can no longer sustain it. Yet restructuring the rigid, exclusionary, and inefficient aspects of the social contract will not be possible unless reforms take into account the social needs of workers and ensure that economic outcomes are socially acceptable among MENA's citizens more broadly. That requires a renewed political commitment to widely valued social policies—a new social contract that links reform to the principles of poverty reduction, income equality, and income security that have guided MENA's political economies for almost 50 years.

Within this new social contract the principles of inclusiveness and efficiency call for an enhanced role for women in economic activity and a determined move toward greater gender equality. Better access for women to the public sphere and their empowerment would allow harnessing their full potential and help families and societies to be in a much stronger position to meet the challenges of the 21st century.

This new social contract is built on promotion of markets as engines of economic transformation, with regulations to deliver acceptable social outcomes. It depends on state support for the creation of institutions that deliver better governance processes of accountability and inclusiveness. It requires labor regulations that guarantee fairness while preserving flexibility and incentives for performance. It involves education reform guided by projected labor market needs, skills acquisition, and lifetime learning. It entails the creation of conditions for effective collective bargaining and empowerment of unions as capable partners in collective bargaining. And it involves redistribution, but finely targeted to reduce poverty and income inequality.

This new social contract will have long-terms benefits for MENA. It will balance the need for labor market flexibility with the rights of workers, helping to avoid social dislocation and conflicts by offering a positive role to labor in the coordination of more flexible systems of production. It will extend the benefits of formal employment to a larger share of workers in the private sector. And it will create mechanisms for supporting workers and providing them with the skills needed to respond to changes in the structure of employment associated with privatization and the shift to more open economies.

External Partners Have a Role

As the region steps up to unlock the promise of a better future, external partners, as vigorous proponents of reform, have an important role to play in supporting MENA's transition. Although Europe is MENA's most important trade partner, other partners also need to support faster and deeper integration of MENA into the world economy, facilitating the accession of more MENA countries to the WTO, encouraging more intraregional trade and investment, and lifting economic sanctions. A more liberal policy toward agricultural exports and labor migration from MENA would reinforce the foundations of a strong Euro-Mediterranean partnership.

While external financial and economic support would be welcome, MENA's prosperity depends heavily on establishing regional security and stability. There is strong evidence that violence and conflict have severely impeded the pace of reform and of trade and investment integration, at times rivaling the detrimental influence of poor domestic policies. Persistent conflict has also had large neighborhood effects throughout the region, spilling from conflict-ridden countries to neighboring countries. Greater commitment is required on the part of MENA governments to contain sources of instability. And the international community needs to rethink its response to the devastating effect of persistent conflict in the region. Multilateral efforts are urgently needed to resolve the Israeli–Palestinian conflict and return Iraq to a state of normalcy.

But the Main Responsibility Rests with MENA

Almost a decade ago MENA's governments were asked to "Claim the Future" and take steps to secure the economic well-being of their citizens. Since that earlier study, images of well-educated but unemployed youth have come to define MENA for much of the world. Because of earlier inaction, MENA's leaders now confront more difficult choices and a more urgent need to act. The old social contract no longer provides a viable starting point for reform. A new social contract is needed, one that integrates market-based strategies of growth and inclusiveness and accountability with longstanding commitments to social equity.

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Dynamics of Labor Supply in MENA Countries, 1950–2020; World Bank 2003d; figure 3.9

Female Labor Supply in MENA Countries, 1950–2020; World Bank 2003d; figure 3.1

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Per Capita Oil Exports in MENA Countries, 1980–2000; World Bank 2003d; figure 6.8

Aid-to-GDP Ratio in the MENA Region, 1980–2000; World Bank 2003a; figure 1.5

Workers' Remittances as a Percentage of GDP, Egypt and Morocco, 1970-2000; World Bank 2003a; figure 2.12

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Trade Potential of Nonoil Exports, 2000; World Bank 2003a; figure 1.14; *Note:* Trade potential of nonoil exports reflects the value of nonoil exports in 2000. MENA10 includes Algeria, Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, Saudi Arabia, Syria, Tunisia, and the Republic of Yemen; ECA5 include the Czech Republic, Hungary, Poland, Russia and Turkey; EAP3 include Indonesia, Malaysia, and Thailand; LAC4 include Bolivia, Brazil, Chile and Mexico.

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Net Foreign Direct Investment Flows to MENA and Other Regions; World Bank 2003a; figure 2.7; *Note:* LAC4 include Argentina, Brazil, Chile, and Mexico; ECA4 include the Czech Republic, Hungary, Poland and Turkey; EAP5 include China, Indonesia, Malaysia, the Republic of Korea, and Thailand.

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Index of Governance Quality; World Bank 2003b; figure 0.2; *Note:* Index of governance quality is an aggregated index of all 22 subjective/perception measures in the Index of Public Accountability (IPA) and the Index of Quality of Administration (IQA). See figure source notes below for figures on page 9. CE6 include Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic. LA6 include Argentina, Brazil, Chile, Mexico, Republica Bolivariana de Venezuela, and Uruguay. EA6 include Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. MENA15 include Algeria, the Arab Republic of Egypt, Bahrain, the Islamic Republic of Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, the Republic of Yemen, Saudi Arabia, the Syrian Arab Republic, Tunisia, and the United Arab Emirates.

Public Accountability and Per Capita Incomes in MENA; World Bank 2003b; figure 0.4

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How Do MENA Countries Stack Up with Regard to Public Accountability?; World Bank 2003b; figure 1.9; *Notes:* IPA is the index of public accountability, which covers 173 countries worldwide, and assesses the process of selecting and replacing those in authority; The numbers in bars represent the number of MENA economies within that decile of the IPA.

Where are MENA Countries with Regard to Quality of Administration?; World Bank 2003b; figure 1.6; *Notes:* The IQA is the index of quality of administration, which covers 173 countries worldwide, and measures the overall quality of governance processes; The numbers in bars represent the number of MENA economies within that decile of the IQA.

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Average Annual Change in GDP per Capita by Region; World Bank 2003d; figure 2.4

Average Years of Schooling by Region; World Bank 2003d; figure 2.5

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Female Education in Developing Regions, 1960–2000; World Bank 2003d; figure 3.16

Adult Literacy Rate in MENA; World Bank 2003d; figure 2.3

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Female Advantage in Life Expectancy at Birth, 1970 and 2000; World Bank 2003d; figure 2.11. *Note:* Female advantage in life expectancy at birth calculated as the difference between the female life expectancy at birth and the male life expectancy at birth.

General Government Employment as a Share of Total Population; World Bank 2003d; figure 2.3

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Female and Male Labor Force Participation Rates by Region, 2000; World Bank 2003d; figure 3.2

Paid Private Sector Employment as a Percentage of the Labor Force; World Bank 2003d; figure 3.16

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Economic Stabilization Indicators; World Bank 2003d; figure 2.8; *Note:* Economic Stabilization Indicators measured through a composite index of stabilization indicators. High levels on the index represent relatively higher degrees of economic stabilization.

Structural Reform in the 1990s; World Bank 2003d; figure 2.7; *Note:* Structural Reform measured through a composite index of structural reform indicators; High levels on the index represent relatively higher degrees of structural reform.

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Average Annual Growth in GDP per Employed Person By Region, 1990s; World Bank 2003d; figure 3.24

Average Annual Growth in Output per Worker in MENA Countries, 1990s; World Bank 2003d; figure 3.23

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The Size of Government around the World in 1990s; World Bank 2003d; figure 4.5

Average Government Wage Bill as a Share of GDP; World Bank 2003d; figure 5.2

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Labor Force Growth versus Employment Growth in the 1990s; World Bank 2003d; figure 3.21

Unemployment Rates in MENA, 2001; World Bank 2003d; figure 3.22

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Distribution of the Unemployed by Level of Education; World Bank 2003d; figure 4.4

Unemployment Rates by Gender in MENA Countries; World Bank 2003d; figure 4.3

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Current and Forecasted Unemployment in MENA; World Bank 2003d; figure 6.1

International Comparison of Unemployment Rates; World Bank 2003d; figure 2.7

Average Annual Growth in Labor Force in Selected MENA Countries, 1970-2010; World Bank 2003d; figure 3.10

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First-Time Job Seekers among the Unemployed in MENA Countries; World Bank 2003d; figure 4.2

Informal Sector Employment in MENA Countries and Other Developing Regions as a Share of Non-Agricultural World Bank 2003d, 1994-2000; World Bank 2003d; figure 4.9

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Firm Entry Costs; World Bank 2003d; figure 6.4. *Note:* Firm entry costs represent the average costs for a business to comply with all procedures required for establishing a business, as a proportion of that country's gross national investment per capita. Regional averages represent weighted country ratios, weighted by GNI.

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Contract Enforcement: Duration; World Bank 2003d; figure 6.5

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Private Sector Contribution to GDP in MENA; World Bank 2003d; figure 6.3

Public and Private Investment in MENA, 1980–2000; World Bank 2003d; figure 3.28

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Unweighted Import Tariff Rates; World Bank 2003a; figure 3.1; *Note:* SAR=South Asia, SSA=Sub-Saharan Africa; EAP=East Asia and the Pacific; ECA=Europe and Central Asia; LAC=Latin America and the Caribbean.

Fast-Integrating Countries Grow Faster, 1990s; World Bank 2003a; figure 1.19

Female Labor Force Participation and Overall Unemployment Rates in MENA and OECD; World Bank 2003d; figure 3.10

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Number of Non-working Dependents Supported by Each Worker; Gender figure 3.4

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A Program to Enhance Governance; World Bank 2003b; figure 4.2

Statistical Annex

TABLE 1

Population and GDP

	Population (2000) (million)	Urban population (2000) (%)	Population growth rates: 1995–2000 (% per annum)	Urban population growth rates: 1995–2000 (% per annum)	Per capita GDP at PPP in US$ (2000)	Per capita GDP at current US$ (2000)	GDP in current bln US$ (2000)
Middle East and North Africa	294.9	55.5	2.0	2.6	5,402	2,311	681.4
Algeria	30.4	54.3	1.6	1.6	6,150	1,759	53.5
Bahrain	0.6	90.3	2.4	2.8	15,820	12,294	8.0
Djibouti	0.6	82.9	1.7	2.0	2,350	875	0.6
Egypt, Arab Rep.	64.0	43.1	1.9	1.7	3,470	1,554	99.4
Iran, Islamic Rep.	63.7	60.2	1.5	2.8	5,720	1,595	101.6
Iraq	23.3	68.6	2.3	2.0	..	1,366	31.8
Jordan	4.9	78.3	3.1	3.2	3,820	1,729	8.5
Kuwait	2.0	95.5	4.6	4.7	18,780	18,056	35.8
Lebanon	4.3	87.5	1.6	2.1	4,150	3,810	16.5
Libya	5.3	85.3	2.2	2.7	..	6,453	34.1
Morocco	28.7	52.0	1.7	3.0	3,410	1,162	33.3
Oman	2.4	72.8	2.5	3.3	12,040	8,226	19.8
Qatar	0.6	91.3	3.0	3.3	..	28,132	16.5
Saudi Arabia	20.7	82.9	2.6	3.4	13,460	9,107	188.7
Syrian Arab Republic	16.2	50.0	2.6	3.2	3,280	1,105	17.9
Tunisia	9.6	61.9	1.3	2.5	6,120	2,035	19.5
United Arab Emirates	2.9	83.7	4.4	5.1	..	24,275	70.5
West Bank and Gaza	3.0	..	4.4	..	..	1,470	4.4
Yemen, Rep.	17.5	23.6	2.9	3.8	800	524	9.2
East Asia and Pacific	1,805.5	32.2	1.1	3.6	3,651	887	1,601.2
Europe and Central Asia	474.6	63.3	0.1	–0.1	6,237	1,996	947.1
Latin America and Caribbean	515.8	73.3	1.5	2.1	7,205	3,937	2,030.6
South Asia	1,354.2	26.2	1.9	2.8	2,493	440	596.0
Sub-Saharan Africa	659.0	28.8	2.6	4.6	1,808	492	324.5
Low and middle income	5,104.0	38.8	1.5	2.6	3,802	1,208	6,165.5
High income	950.2	76.4	0.7	1.0	26,345	26,662	25,333.0
World	6,054.1	44.9	1.4	2.2	7,316	5,203	31,499.2

Notes: Regional groups exclude high-income countries. Group averages weighted by population.
Source: WDI Central Database, as of April 2003.

TABLE 2

Economic Indicators

	GDP growth rates 1995–2000 (% per annum)	Per capita GDP frowth rates 1995–2000 (% per annum)	Export growth (GNFS) 1995–2000 (% per annum)	Import growth (GNFS) 1995–2000 (% per annum)	CPI growth 1995–2000 (% per annum)
Middle East and North Africa	3.4	1.4	4.4	0.3	4.9
Algeria	3.2	1.5	6.0	–1.1	6.3
Bahrain	1.7	–1.9	..	..	..
Djibouti	–0.1	–1.8	1.2	0.8	1.9
Egypt, Arab Rep.	5.3	3.3	2.6	2.1	4.8
Iran, Islamic Rep.	3.8	2.3	3.5	–6.6	19.3
Jordan	3.1	0.0	0.4	2.7	2.8
Kuwait	0.7	–3.7	0.1	0.3	1.8
Lebanon	2.3	0.7	4.3	–8.3	4.1
Libya	1.6	–0.5	0.8	0.9	2.8
Morocco	3.6	1.8	5.7	7.4	1.9
Oman	3.3	1.0	5.7	5.3	..
Qatar	11.9	8.4	..	..	..
Saudi Arabia	1.8	–0.8	..	..	–0.3
Syrian Arab Republic	2.4	–0.2	10.5	–0.9	1.8
Tunisia	5.6	4.2	5.2	4.8	3.2
United Arab Emirates	11.8	7.1	..	..	2.1
West Bank and Gaza	3.6	–0.8	–1.8	0.9	6.5
Yemen, Rep.	5.5	2.6	2.4	–4.2	11.3
East Asia and Pacific	5.6	4.5	12.9	8.4	4.6
Europe and Central Asia	2.5	2.4	7.9	7.7	40.0
Latin America and Caribbean	2.9	1.4	8.2	8.6	17.6
South Asia	5.3	3.4	10.1	6.9	7.9
Sub-Saharan Africa	3.2	0.6	4.4	5.0	10.7
Low and middle income	3.8	2.3	9.5	7.5	36.8
High income	3.0	2.3	7.7	8.3	1.8
World	3.1	1.8	8.0	8.2	4.5

Notes: Regional groups exclude high-income countries. GDP growth rate for Qatar for the period 1996–2001.
Source: World Bank MENA Regional Database, as of April 2003.

TABLE 3

Employment and Labor Force

	Unemployment rates (%)	Labor force growth 1990–2000 (% per annum)	Female labor force participation rate (%)	Total labor force 2001 (million)	Labor force participation 2000 (%)	Share of public sector employment (% of total employment)[a]	Labor force in agriculture (%)	Labor force in manufacturing (%)
Middle East and North Africa	15.1	3.6	28.4	102.6	57.0	45.0	16	18
Algeria	29.8	4.1	31.2	10.2	55.5	29.0	12	30
Bahrain	12.4	3.7	36.5	0.3	68.3	79.7	1	54
Djibouti	..	..	51.2	..	..	..		
Egypt, Arab Rep.	9.0	3.1	18.5	23.7	58.9	38.5	30	12
Iran, Islamic Rep.	13.8	3.5	18.3	22.0	54.7	31.3	23	31
Iraq	..	3.7	19.4	6.2	48.2	..	16	18
Jordan	13.2	7.2	12.6	1.6	55.2	35.8	6	12
Kuwait	2.8	2.9	48.2	1.2	73.5	73.8	1	7
Lebanon	8.6	4.0	20.3	1.2	55.7	..	7	31
Libya	..	3.5	26.1	..	..	..	11	23
Morocco	22.0	2.9	38.0	11.5	62.9	9.9	44	14
Oman	10.0	5.3	20.6	0.9	60.2	77.6	9	9
Qatar	11.6	2.1	43.3	0.3	76.5	..	3	7
Saudi Arabia	8.1	3.2	23.9	7.3	57.0	81.8	6	7
Syrian Arab Republic	11.2	4.6	29.9	5.2	54.8	..	28	14
Tunisia	15.4	3.0	24.9	3.7	61.1	21.9	22	21
United Arab Emirates	2.3	3.5	36.7	1.5	75.2	..	8	11
West Bank and Gaza	25.5	4.8	12.9	0.7	41.4	..	14	14
Yemen, Rep.	11.5	4.7	26.6	5.0	57.5	15.9	54	4
Low income countries	7.1	2.4	58.1	1,138.4	76.8	5.3	65	8
Middle income countries	4.9	1.5	66.1	1,378.4	78.6	11.5	26	17
High income countries	7.8	0.9	64.7	466.6	64.7	17.2	8	21
East Asia and Pacific	3.7	1.4	76.3	1,037.6	85.7	6.3	56	10
Europe and Central Asia	11.1	0.6	68.4	236.5	73.8	16.0	21	28
Latin America and Carib	9.2	2.5	47.7	226.8	47.7	8.9	16	21
South Asia	8.1	2.4	49.2	616.0	49.2	14.3	25	14
Sub-Saharan Africa	29.1	2.5	62.5	297.9	83.4	6.6	63	6
World	9.3	1.7	62.5	2,799.8	76.9	28	49	14

a. Figure for Bahrain, Kuwait, Oman, and Saudi Arabia for nationals only

Notes: Regional groups exclude high-income countries. Manufacturing includes all other industry in Algeria, Bahrain, Iran, Iraq, and Libya.

Source: Coutry sources and World Bank calculations.

TABLE 4

Poverty Indicators

	National poverty line				International poverty line				
	Survey year	Population below the poverty line: Rural %	Population below the poverty line: Urban %	Population below the poverty line: National %	Survey year	Population below $1 a day %	Poverty gap at $1 a day %	Population below $2 a day %	Poverty gap at $2 a day %
Middle East and North Africa	..	..	..	..	1999	2.2	..	23.3	..
Algeria	1995	30.3	14.7	22.6	1995	<2	<0.5	15.1	3.6
Bahrain	..	..	..	..	..	..	..	..	..
Djibouti	1996	86.5	..	45.1	..	..	..	..	..
Egypt, Arab Rep.	1999–00	18.3	3.7	16.7	2000	3.1	<0.5	43.9	11.3
Iran, Islamic Rep.	1998	31.7	14.2	20.9	1998	<2	<0.5	7.3	1.5
Iraq	..	..	..	..	..	..	..	..	..
Jordan	1997	..	..	11.7	1997	<2	<0.5	7.4	1.4
Kuwait	..	..	..	..	..	..	..	..	..
Lebanon	..	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..	..
Morocco	1998–99	27.2	12.0	19.0	1999	<2	<0.5	14.3	3.1
Oman	..	..	..	..	..	..	..	..	..
Qatar	..	..	..	..	..	..	..	..	..
Saudi Arabia	..	..	..	..	..	..	..	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..
Tunisia	2000	8.3	1.7	4.1	2000	0.5	..	6.7	..
United Arab Emirates	..	..	..	..	..	..	..	..	..
West Bank and Gaza	1998	37.2	15.4	23.2	..	..	..	..	..
Yemen, Rep.	1998	45.0	30.8	41.8	1998	15.7	4.5	45.2	15.0
East Asia and Pacific	..	..	..	..	1999	15.6	..	50.1	..
Europe and Central Asia	..	..	..	..	1999	5.1	..	20.3	..
Latin America and Caribbean	..	..	..	..	1999	11.1	..	26	..
South Asia	..	..	..	..	1999	36.6	..	84.8	..
Sub-Saharan Africa	..	..	..	..	1999	49.0	..	74.7	..
Low and middle income	..	..	..	..	1999	..	..	..	..
High income	..	..	..	..	1999	..	..	..	..
World	..	..	..	..	1999	23.2	..	55.5	..

Notes: Regional groups exclude high-income countries. Poverty lines based upon national poverty lines, and are not internationally comparable. Rural poverty in West Bank and Gaza reflects Gaza only. Urban poverty in West Bank and Gaza reflects West Bank only.
Source: WDI Central Database, as of April 2003. Country sources for poverty figures in Iran, Egypt, and the West Bank and Gaza.

TABLE 5

Social Indicators

	Life expectancy at birth (years) 2001	Infant mortality (per 1,000 live births) 2001	Life expectancy at birth, female (years) 2001	Adult illiteracy (% of population age 15+) 2001	Maternal mortality ratio (modeled estimate, per 100,000 live births)	Total fertility rate (births per woman) 2001	Gross primary enrollment (% of school-age population) 1999–2000	Malnutrition prevalence, weight for age (% of children under 5) 2001[a]
Middle East and North Africa	68.2	43	69.7	35.5	189.9	3.3	96.8	14.5
Algeria	71.0	33.3	72.0	32.2	150.0	2.9	114.4	6.0
Bahrain	73.0	7.7	75.8	12.1	38.0	2.6	105.6	..
Djibouti	45.8	115.2	45.3	34.5	520.0	5.3	36.9	18.2
Egypt, Arab Rep.	67.5	41.8	70.0	43.9	170.0	3.2	100.0	4.0
Iran, Islamic Rep.	71.0	26.0	70.0	22.9	130.0	2.6	116.6	10.9
Iraq	61.1	93.2	63.2	..	370.0	4.2	101.6	..
Jordan	71.5	25.3	73.4	9.7	41.0	3.6	104.3	5.1
Kuwait	76.6	9.4	78.8	17.6	25.0	2.6	77.2	1.7
Lebanon	70.4	25.5	72.4	13.5	130.0	2.3	100.2	3.0
Libya	71.0	26.2	74.4	19.2	120.0	3.4	117.3	4.7
Morocco	67.5	46.6	70.0	50.2	390.0	2.8	97.0	9.5
Oman	73.6	16.2	75.4	27.0	120.0	4.1	74.6	23.3
Qatar	74.8	14.0	75.1	18.3	41.0	2.5	86.0	5.5
Saudi Arabia	72.5	18.2	74.6	22.9	23.0	5.4	68.4	..
Syrian Arab Republic	69.7	24.0	72.4	24.7	200.0	3.6	103.5	12.9
Tunisia	72.1	25.8	74.4	27.9	70.0	2.1	118.2	4.0
United Arab Emirates	75.3	7.0	76.7	23.3	30.0	3.1	94.4	7.0
West Bank and Gaza	72.1	22.0	74.6	..	..	5.0	..	15.1
Yemen, Rep.	56.5	76.0	57.6	52.3	850.0	6.1	77.5	46.1
East Asia and Pacific	69.2		71.0	13.2	126.0	2.1	107.0	14.8
Europe and Central Asia	68.5		73.2	2.7	31.7	1.6	102.2	6.7
Latin America and Caribbean	70.6		73.9	10.8	138.3	2.5	129.6	9.1
South Asia	62.6		63.3	44.7	325.0	3.2	101.4	53.0
Sub-Saharan Africa	46.2		47.0	37.7	965.8	5.1	78.3	18.1
Low and middle income	64.5		66.3	23.8	159.5	2.8	106.9	14.1
High income	78.1		81.3	<3.0	9.9	1.7	103.2	..
World	66.6		68.7	20.5	235.5	2.6	103.2	11.7

a. Or latest year available.

Note: Regional groups exclude high-income countries.

Sources: WDI Central and World Bank MENA Regional Databases, as of April 2003.

TABLE 6

Trade and Openness

	Exports of goods and service to GDP in % (2000)	Imports of goods and service to GDP in % (2000)	Nonoil merchandise exports to GDP in % (2000)	Nonoil merchandise export in mln US$ (2000)	FDI to GDP (average 1995–2000) (%)
Middle East & North Africa	34.1	25.6	5.9	43,743	0.7
Algeria	42.5	21.3	1.1	612	0.8
Bahrain	82.1	63.4	19.1	1,523	..
Djibouti	44.6	62.8	2.1	13	0.6
Egypt, Arab Rep.	16.3	22.9	3.7	2,958	1.2
Iran, Islamic Rep.	24.9	13.3	3.2	3,257	0.0
Iraq	14.6	15.3	..	..	..
Jordan	41.8	68.6	22.4	1,897	4.1
Kuwait	59.4	31.7	3.2	4,120	0.3
Lebanon	13.0	37.8	4.3	713	1.2
Libya	35.6	15.5	2.0	992	..
Morocco	31.2	37.4	21.5	7,156	1.6
Oman	58.5	30.7	9.6	1,895	0.4
Qatar	68.4	34.0	6.4	1,144	..
Saudi Arabia	43.6	24.9	3.3	6,143	..
Syrian Arab Republic	38.2	30.1	6.1	1,096	1.0
Tunisia	44.0	47.6	26.4	5,143	2.4
United Arab Emirates	70.6	52.7	12.9	10,903	..
West Bank and Gaza	13.9	70.8	..	..	..
Yemen, Rep.	43.7	35.9	4.1	375	–2.3
East Asia and Pacific	42.0	36.2	43.9	499,521	3.7
Europe and Central Asia	43.1	38.6	25.6	230,495	2.5
Latin America and Caribbean	18.0	19.4	14.5	291,726	3.7
South Asia	15.2	18.1	9.5	62,005	0.7
Sub-Saharan Africa	31.7	31.7	16.7	65,153	2.0
Low and middle income	29.9	27.8	24.3	1,213,685	2.8
High income	24.5	24.6	15.4	4,642,327	2.3
World	25.6	25.3	18.5	5,911,256	2.4

Notes: Regional groups exclude high-income countries. Regional averages for all indicators but nonoil merchandise exports to GDP come directly from the WDI Central Database. Regional average for nonoil merchandise exports to GDP calculated taking weighted average of indicator for countries available, which may not correspond exactly to the countries for other regional indicators. Nonoil export ratios to merchandise exports derived from reporting country data in United Nations Commodity Trade Database (COMTRADE) and applied to merchandise export data from WDI.
Source: WDI Central and World Bank MENA Regional Databases, as of April 2003. United Nations Commodity Trade Database, as of August 2003.

TABLE 7

Infrastructure Indicators

	Vehicles (per 1,000 people) 1996[a]	Paved roads (% of total roads) 1999[b]	Internet hosts (per 10,000 people) 2000	Mobile phones (per 1,000 people) 2001[c]	Irrigated land use, (% of cropland) 2000
Middle East and North Africa	59	66	0.6	30	38
Algeria	53	69	0.01	3	7
Bahrain	312	78	17.3	425	67
Djibouti	19	13	0.6	5	..
Egypt, Arab Rep.	30	78	0.8	43	100
Iran, Islamic Rep.	41	56	0.11	32	46
Iraq	51	84	0.002	..	64
Jordan	68	100	1.5	167	19
Kuwait	408	81	23.2	445	70
Lebanon	336	85	11.9	..	31
Libya	241	57	0.02	9	22
Morocco	52	56	0.3	164	13
Oman	142	30	3.0	124	78
Qatar	369	90	0.5	293	62
Saudi Arabia	157	30	1.5	113	43
Syrian Arab Republic	30	23	0.001	12	23
Tunisia	64	64	0.1	40	8
United Arab Emirates	103	100	92.1	616	31
West Bank and Gaza	..	..	..	91	..
Yemen, Rep.	34	12	0.1	2	30
East Asia and Pacific	17	21	1.4	57	38
Europe and Central Asia	135	86	24.1	92	11
Latin America and Caribbean	115	27	29.6	122	14
South Asia	7	37	0.3	4	40
Sub-Saharan Africa	23	13	3.1	18	4
Low and middle income	39	31	6.3	47	23
High income	552	92	935.8	532	12
World	124	43	152.5	124	20

a. Data from 1997 for Lebanon, from 1998 for Syria, and from 1999 for Bahrain and Morocco.
b. Bahrain, Morocco, and Syria figures from 2000.
c. Lebanon figure for 1999.
Notes: Regional groups exclude high-income countries.
Source: WDI Central Database, as of April 2003.

TABLE 8

Water and Environment

	Freshwater resources per capita (cubic meters) 2000	Freshwater use (% of total water resources) 2000	Improved water source (% of population with access) 2000	Organic water pollutant (BOD) emissions (1000 kg per day) 1998[a]
Middle East and North Africa	1,413	50	59	41.1
Algeria	471	35	89	45.6
Bahrain	..	..	..	5.1
Djibouti	3,639	..	100	..
Egypt, Arab Rep.	1,071	96	97	210.2
Iran, Islamic Rep.	2,018	54	92	101.9
Iraq	4,776	39	85	19.6
Jordan	143	..	96	16.1
Kuwait	..	..	..	11.1
Lebanon	1,109	27	100	14.9
Libya	113	..	72	..
Morocco	1,010	40	80	89.2
Oman	415	..	39	5.6
Qatar	171	..	..	3.7
Saudi Arabia	116	..	95	24.4
Syrian Arab Republic	2,761	27	80	15.1
Tunisia	481	61	80	46.0
United Arab Emirates	69	..	..	..
West Bank and Gaza	..	..	..	..
Yemen, Rep.	234	71	69	7.8
East Asia and Pacific	6020	12.8	76	1,145.8
Europe and Central Asia	13,465	10.7	135	494.0
Latin America and Caribbean	31,530	6.5	115	87.1
South Asia	2,777	29.3	7	615.9
Sub-Saharan Africa	8,306	3.7	23	54.7
Low and middle income	8,460	10.8	39	278.7
High income	9,672	10.7	552	440.6
World	8,649	16.7	124	398.9

a. Figures from 1997 for Algeria and Jordan, and from 1999 for Morocco, Oman, and Tunisia.
Notes: Regional groups exclude high-income countries.
Source: WDI Central Database and World Bank Regional Databases, as of April 2003.

TABLE 9

Gender Indicators

	Adult female iliteracy rate (% of females ages 15 and above) 2001	School enrollment, primary, female (% gross)	School enrollment, secondary, female (% gross)	Primary school enrollment gender gap[a]	Labor force, female (% of total labor force)	Proportion of seats held by women in national parliament (%) 2001
Middle East and North Africa	47.5	90.5	74.4	91.9	32.3	3.4
Algeria	43.0	107.4	73.4	92.3	31.2	3.0
Bahrain	17.4	103.1	105.1	99.9	36.5	..
Djibouti	45.6	34.7	..	75.6	51.2	..
Egypt, Arab Rep.	56.2	96.1	83.1	93.4	37.0	2.0
Iran, Islamic Rep.	31.1	84.7	75.4	96.3	30.1	5.0
Iraq	76.7	..	..	..	19.4	6.0
Jordan	15.7	..	..	..	27.8	..
Kuwait	20.4	..	..	..	48.2	..
Lebanon	19.7	97.2	79.4	96.6	32.3	2.0
Libya	31.9	116.6	91.1	101.7	26.1	..
Morocco	63.9	87.7	..	87.1	43.6	1.0
Oman	38.4	70.8	67.5	96.1	20.6	..
Qatar	16.9	104.5	91.7	99.7	43.3	..
Saudi Arabia	33.1	66.2	64.3	96.4	23.9	..
Syrian Arab Republic	39.6	105.1	40.8	93.1	29.9	10.0
Tunisia	39.4	114.7	80.4	95.7	39.5	12.0
United Arab Emirates	20.9	98.9	79.7	99.8	36.7	..
West Bank and Gaza	85.0	49.5	65.5	98.0	9.7	6.0
Yemen, Rep.	74.7	61.0	..	63.2	31.4	1.0
East Asia and Pacific	19.9	113.8	61.8	101.3	44.5	20.2
Europe and Central Asia	4.0	103.0	86.1	97.2	46.3	8.6
Latin America and Caribbean	12.1	127.8	89.3	107.6	34.8	12.3
South Asia	57.3	83.9	39.3	82.4	42.0	8.9
Sub-Saharan Africa	46.9	74.2	29.9	86.7	42.0	11.3
Low and middle income	31.1	107.9	76.4	97.3	40.1	10.2
High income	..	102.0	108.0	99.7	43.1	16.4
World	25.6	100.1	67.8	94.2	40.6	14.0

a. Female enrollment as a percentage of male enrollment.

Notes: Regional groups exclude high-income countries. Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Enrollment and labor force figures are most recent estimates from 1993 to 2002.

Source: WDI Central Database, as of April 2003 for regional figures. ILO *Economically Active Population*, 1996 and UN *Population Prospects*, 2002.

TABLE 10

Governance Indicators

	Index of governance quality	Index of public accountability	Index of quality of administration	Year women received right to vote (UNDP)
Middle East and North Africa	36.8	32.1	46.7	..
Algeria	32.1	31.3	40.8	1962
Bahrain	50.2	31.5	66.0	1973
Djibouti	..	..	..	1946
Egypt, Arab Rep.	30.2	30.1	37.9	1956
Iran, Islamic Rep.	29.9	43.8	29.7	1963
Iraq	..	..	..	..
Jordan	44.2	45.2	50.7	1974
Kuwait	48.5	43.8	56.7	..
Lebanon	32.1	42.3	35.1	1952
Libya	..	..	..	1964
Morocco	42.7	39.2	51.7	1963
Oman	39.5	26.7	52.7	..
Qatar	30.3	23.4	41.9	..
Saudi Arabia	32.3	17.6	47.9	..
Syrian Arab Republic	18.6	18.0	27.9	1949
Tunisia	43.1	35.3	54.0	1957
United Arab Emirates	56.4	33.8	73.7	..
West Bank and Gaza	..	..	..	..
Yemen, Rep.	22.6	18.9	33.5	1967
Low and middle income	41.4	53.8	41.2	..
Non-OECD High Income Countries	68.5	64.8	73.6	..

Notes: The Index of Public Accountability is an aggregated index of 12 subjective/perception measures: political rights, civil liberties, freedom of the press (Freedom House. 2002. Freedom in the World 2001-2002), polity score, regulation of executive recruitment, competitiveness of executive recruitment, openness of executive recruitment, regulation of participation, competitiveness of participation, executive constraints (Center for International Development and Conflict Management. 2000. Polity IV Project), democratic accountability (Political Risk Services. 2001. International Country Risk Guide), and transparency and accountability (World Bank data). The Index of the Quality of Administration is an aggregated index of 10 subjective/perception measures: corruption, bureaucratic quality (Political Risk Services. 2001. International Country Risk Guide), property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration (World Bank data), property rights, regulation, black market (Heritage Foundation/ The Wall Street Journal. 2002. 2003 Index of Economic Freedom), and number of procedures (Djankov, Simeon, Rafael La Porta, Florencio Lopez de Silanes and Andrei Shleifer. 2000. "The Regulation of Entry"). The Index of Governance Quality is an aggregated index of all 22 subjective/perception measures in the Index of Public Accountability and the Index of the Quality of Administration. The method of aggregation used in Principal Component Analysis. (For more details see "Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability". 2003. World Bank. *Forthcoming*). The average for Middle East & North Africa does not include West Bank and Gaza, Iraq, Libya and Djibouti due to data insufficiency.