Progress of Arab Economies in a Changing World
Global Megatrends and Challenges

Demographic transitions

Urbanization

Climate and resources

Commodity cycles

Technological disruptions

Fragility and violence

Shifts in the global economy

Renewed political debate about globalization

Source: World Bank Forward Look, September 2017
There was a demographic turning point in 2010

- Higher working-age population shares are associated with higher per capita output growth.
- Global demographic trends turned from tailwinds to growth into headwinds around 2010.

Source: World Bank Global Economic Prospects, 2018
The world can be divided into four major demographic groups

<table>
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<tr>
<th>Pre-dividend</th>
<th>Early-dividend</th>
<th>Late-dividend</th>
<th>Post-dividend</th>
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<tr>
<td>Lagging in human development outcomes</td>
<td>Job creation for rapidly growing share of working-age people, mostly youth</td>
<td>Populations beginning to age; potential slowdown in growth of labor supply</td>
<td>Adapting to aging to maintain living standards</td>
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Most of the global population lives in early- and late-dividend countries and while 78 percent of global growth was from late- and post-dividend countries, 90 percent of global poverty is in pre- and early-dividend countries.

Well-managed urbanization can result in better development outcomes
Climate change risks undoing development progress

The number of disasters and losses has been rising. Development progress needs to integrate resilience to avoid undoing hard fought development gains.

Global disaster losses, 1980–2012

Index of risk preparation across countries

Process of integrating climate resilience into development:
- Measure and evaluate results
- Strengthen coordinating institutional mechanisms
- Mainstream across multiple sectors within development process
- Enhance capacity and knowledge
- Identify and assess risks
- Change decisions towards climate resilience
- Facilitate access to predictable and sustained financing
Commodity cycles exacerbate global economic volatility

Commodity price indexes, annual
The rate of technological advancement is unprecedented.
Violent conflict is increasing and becoming more complex
The forcible displacement crisis primarily affects the developing world.
Reflections on the new global economy: multipolarity

The world’s economic center of gravity, 1980–2016, in black, at three-year intervals

Evolution of the earth’s economic center of gravity: 1 CE to 2025

Source: Danny Quah, 2011

Source: McKinsey Global Institute, 2012
Is globalization retrenching?

Global Gross Financial Flows, 1990-2016 (percent of world GDP)

Source: Braga, 2017

Trade and FDI depth through 2016

Source: Ghemawat, 2017
The global risks landscape in 2018
Regional context
Growth: a mixed story

• Region continued momentum but much more is needed to absorb the large youth population entering the labor market

• Factors supporting growth momentum:
  • World economy continued momentum
  • Oil prices stabilizing at relatively high level
  • Stabilization policies have restored macro stability

• Risks: geopolitical tensions and debt spiral
• Medium run:
  • Fall in oil prices, Arab revolts and continued uncertainty constitute persistent shocks
  • First phase of adjustment consisted in stabilization policies
  • Second phase needs to be much more structural and transformative

Source: World Bank Global Economic Prospects, 2018
The most pressing economic challenges facing the region may be the continuing rise in unemployment rates for the youth and public debt levels to finance government deficits.

Vulnerabilities to external shocks, including oil price volatility, are the genesis of that public borrowing, which has reached historically high levels in many countries in MENA.

Borrowing rather than adjusting spending has long been the dominant response in almost all countries in the region. But when debt rises sharply, its sustainability becomes a serious issue.

Indebted governments must pay a large amount of interest, which ultimately increases the budget deficit forcing them to issue more debt.

Source: MENA Economic Monitor, April 2018
Demographics:
More (educated and female) youth entering the labor market

Source: World Bank Global Economic Prospects, 2018
Demographics:

But there is abnormally low labor force participation

Source: World Development Indicators, 2018
The SDGs present a major opportunity for transformation.

Global development agendas serve as a guide for countries to determine their national development path.

### MDGs (2000-2015) vs. SDGs (2016-2030)

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<tr>
<td>Priority Areas</td>
<td>Human Development</td>
<td>Holistic: Economic, Social, Environmental</td>
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<td>Scope</td>
<td>Developing Countries</td>
<td>Universal</td>
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8/21/60 vs. 17/169/230
Countries’ most frequently identified priorities* require an integrated approach

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<th>Priority</th>
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<tr>
<td>Sequencing implementation of goals within context of national priorities</td>
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<tr>
<td>Working in partnership to determine national development strategy</td>
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<td>Coordinating within governments; across and within ministries</td>
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<td>Securing enough financial resources and efficiently allocating them</td>
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<td>Data availability and institutional capacity</td>
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<td>Localizing and implementing the goals at the local level</td>
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<td>Incorporating and mainstreaming gender</td>
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<td>Integrating action on climate change</td>
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* Based on analysis of statements made during the UN High Level Political Forum, July 2017; in no particular order
The World Bank Group supports country implementation of the SDGs
The SDGs are interlinked and data is critical to understand those relationships.
Data is crucial to understanding how trends are shifting.
“Data is the new oil”

* Members of the Global Partnership for Sustainable Development Data
Until there is a sustainable business model for data, it will not be used efficiently.
The shape of successful national data systems in the future

<table>
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<tr>
<th>Institutions Based on</th>
<th>Organizations that Have</th>
<th>Data that Are</th>
<th>Users Who Are</th>
<th>Data Uses</th>
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<tr>
<td>• Open data laws</td>
<td>• Budgetary autonomy</td>
<td>• Up to date</td>
<td>• Connected</td>
<td>• Planning</td>
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<tr>
<td>• Rights to privacy</td>
<td>• Trained staff</td>
<td>• Disaggregated</td>
<td>• Data literate</td>
<td>• Policy making</td>
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<td>• Accountability to users</td>
<td>• Adequate installations</td>
<td>• Easy to manipulate and visualize</td>
<td>• Diverse (e.g., academics, CSOs, media, local and central governments)</td>
<td>• Monitoring</td>
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<td>• Broad outreach to society</td>
<td>• Connected databases</td>
<td>• Accessible in remote areas</td>
<td>• Targeting</td>
<td>• Research</td>
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<tr>
<td>• Harmonized data conventions</td>
<td>• Early warning systems</td>
<td>• Georeferenced</td>
<td>• Advocacy</td>
<td>• Lobbying</td>
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<td></td>
<td>• International partnerships</td>
<td>• Contestable</td>
<td>• Citizen empowerment</td>
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</table>

Source: Data for Development: An Evaluation of World Bank Support for Data and Statistical Capacity, Independent Evaluation Group, World Bank, 2018
The key components of financing sustainable development

Components of a sound financial sector

- Consumer/Investor Protection
- Effective Regulations
- Financial Literacy
- Financial Innovation

Legal framework to enhance trust, confidence in financial contracts and transactions
How can the private sector get involved?

How much is out there?

- More than $10 trillion invested in negative interest rate bonds
- $24.4 trillion in low-yield government securities
- $8 trillion sitting in cash

$24.4 trillion in low-yield government securities

$8 trillion sitting in cash

$10 trillion invested in negative interest rate bonds
Financing sustainable development

When a project is presented, apply the “Cascade”. You should ask: “Is there a sustainable private sector solution that limits public debt and contingent liabilities?” If the answer is...

Promote such private sector solutions
• The World Bank could play an important role in supporting the government to advance appropriate private sector solutions. i.e. through analytical support, technical assistance for relevant reforms and capacity building, project identification and preparation support, project structuring, and support to the government in negotiations with the private sector.

YES

Ask whether it’s because of:
• Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
• Risks? If so, assess the risks and see whether WBG instruments can address them.

NO

Source: World Bank, 2018
Several business themes provide major opportunities in a world economy heading for the SDGs

<table>
<thead>
<tr>
<th>Theme</th>
<th>Value of incremental opportunities in 2030 (US$ billions: 2015 values)</th>
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<tbody>
<tr>
<td>Mobility systems</td>
<td>2,020</td>
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<td>New healthcare solutions</td>
<td>1,650</td>
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<td>Energy efficiency</td>
<td>1,345</td>
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<td>Clean energy</td>
<td>1,200</td>
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<td>Affordable housing</td>
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<td>Circular economy manufacturing</td>
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<td>Healthy lifestyles</td>
<td>835</td>
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<td>Food loss &amp; waste</td>
<td>685</td>
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<td>Agricultural solutions</td>
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<td>Forest ecosystem services</td>
<td>365</td>
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<td>Urban infrastructure</td>
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<td>Buildings solutions</td>
<td>345</td>
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<tr>
<td>Other</td>
<td>740</td>
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Financial Inclusion

Account ownership varies in the Arab world

Adults with an account (% age 15+)

Arab world has large gender gaps in account ownership

Adults with an account (% age 15+), 2017

Account ownership varies in the Arab world.

Arab world has large gender gaps in account ownership.
Exponential changes in IT are disrupting industries & creating new opportunities

Why Blockchain?

Blockchain & Distributed Ledger Technologies
- Transparent
- Robust
- Cost Effective
- Decentralized
- Immutable

Applications:
- Finance (e.g. remittances; P2P Payments)
- Record Keeping
- Identity Management
- Smart Contracts
- Sharing Economy (P2P market)
- Crowdfunding
- Governance
- Supply Chain Auditing
- Protection of Intellectual Property
- Land Titling Registration
Two-thirds of unbanked adults globally own a mobile phone.
Fintech will be critical

- Did not make or receive digital payments in the past year
- Made or received digital payments in the past year

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Domestic savings can help reduce poverty and drive economic growth

Key drivers

Influence savings behavior: introduce savings accounts for all students

Improve real income through:
- increasing total factor productivity,
- increasing labor efficiency, and
- maintaining price stability

Reform public social security

Enhance commercial insurance systems

Mobilize digital/biometric ID systems

Realize the potential of fintech
The Human Capital Project

“How much human capital will a child born today acquire by the end of secondary school, given the risks to health, education and social protection that prevail in the country where she was born?”

Three main indicators, reflecting building blocks of the human capital:

1. Survival – Will kids born today survive to school age?
2. School – How much school will they complete and how much will they learn?
3. Health – Will kids leave school in good health and be ready for further learning and/or work?
The practice of sustainable development

Assessing social risk and its mitigation should be conducted at the local level

- 78 countries have a population of under 5 million
- 181 provinces have a population of over 5 million
- 86 provinces have a population of over 10 million

*Analysis conducted on developing countries

Source: Data calculations from local government statistics
## Sample Municipal Budget

### Expenses

1. Preschool education
2. Primary and secondary school
3. Health care
4. Social assistance and poverty alleviation
5. Public order and civil protection
6. Infrastructure and public services
7. Environment protection
8. Social, cultural, recreational expenditures
9. Local economic development
10. Social housing
11. Urban development
12. Civil security
13. Transfer to sub-local government entities
14. (subsidies, grants, equity, in-kind)
15. Loan repayment
16. Interest charges
17. Guarantees called (paid by the municipality)

### Revenues

1. Property tax (rates) on land and/or buildings
2. Tax on the transfer of immovable property
3. Tax on motor vehicles
4. Local sales tax and/or tax on the sale of local products (or surcharge)
5. Tax on local businesses and services
6. Tax on electricity consumption (surcharge)
7. Tax on nonmotorized vehicles
8. Tax on tourism, hotels, restaurants, and entertainment
9. Tolls on roads, bridges, etc., within the limits of the local government
10. Charges for public works & public utilities such as waste mgmt, drainage, sewage, & water supply
11. Charges for markets and rents for market stalls
12. Charges for the use of bus stations and taxi parks
13. Fees for approval of building plans and erection and re-erection of buildings
14. Fees for fairs, agricultural shows, cattle fairs, industrial exhibitions, tournaments, and other public events
15. Fees for licensing of businesses, professions, and vocations
16. Fees for other licenses or permits and penalties or fines for violations
17. Fees for advertisement
18. Fees on sales of animals in cattle markets
19. Fees for registration and certification of births, marriages, and deaths
20. Fees for education & health facilities established or maintained by the local govt
21. Fees for other specific services rendered by the local government
22. Rent from land, buildings, equipment, machinery, and vehicles
23. Surpluses from local commercial enterprises
24. Interest on bank deposits or other funds
Localization of Urban Development: The case of China

Reforming land management and institutions

Creating a mobile and versatile labor force with equal access to a common standard of public services

Managing environmental pressures

Placing urban finances on a more sustainable footing while creating financial discipline for local governments

Improving governance at the local level

Timing, sequencing, and monitoring

Improve the revenue base of local governments by mainstreaming a property tax on housing

Improve the intergovernmental grants system

Establish an explicit framework for local government transactions

Reform the financial sector to enhance fiscal discipline of local governments
Localization of Urban Development

U.K. Midlands
Successful locally owned businesses help develop local markets, create innovation, success and redistribution in a self-reinforcing cycle

Indonesia:
A program is being implemented to enhance the capacity of local governments to improve efficiency and effectiveness of local public spending. Also implemented the PNPM program: community driven development

Kenya:
A government funded drought insurance program brings satellite based insurance to Kenyan pastoralists and farmers using mPesa.

Colombia:
**The World Bank Group**

- **IBRD** (1944): International Bank for Reconstruction and Development (IBRD)
- **IDA** (1960): International Development Association (IDA)
- **IFC** (1956): International Finance Corporation (IFC)
- **ICSID** (1966): International Center for the Settlement of Investment Disputes (ICSID)

**IBRD** lends to governments of middle-income and creditworthy low-income countries

**IDA** provides interest-free loans, or credits, and grants to governments of the poorest countries

**IFC** provides loans, equity, and advisory services to stimulate private sector investments in developing countries

**MIGA** provides political risk insurance and credit enhancement to investors and lenders to facilitate FDI in emerging economies

**ICSID** provides international facilities for conciliation and arbitration of investment disputes