Economic and Social Inclusion for Peace and Stability in the Middle East and North Africa

A New Strategy for the World Bank Group
Introduction

Why a New Strategy? What’s Different? Why Now?
In 2011, reflecting widespread optimism that the Arab Spring would herald a transition to pluralism and greater social and economic inclusion, the WBG introduced a new strategy for MENA...But the transitions since have turned out to be much more painful and violent than expected...

Why a New Strategy?

Fragility has become the new reality for MENA since 2011, with civil conflict engulfing Syria, Iraq, Yemen, and Libya while other countries face security concerns from terrorism...

The last two years have seen a tremendous uptick in violence in MENA, which has the highest number of terrorist incidents and casualties in the world today.

The Syria Crisis is the biggest displacement crisis of this century with most refugees being young, poor, and uneducated...

People in Need

- 12.2 million inside Syria including 5.6 million children
- 4 million refugees including 2.1 million children

Source: UNICEF Syria Crisis Dashboard, June 2015

Terrorism Incidents and Casualties in MENA 2009-2014
(Casualties on left Y Axis; Incidents on right Y Axis)

Source: Global Terrorism Database: http://www.start.umd.edu/gtd/
The deteriorating situation in the region has prompted us to develop a new strategy – one that aims at using development to promoting peace and social stability in the MENA region.

Why a New Strategy...?

There are at least 2 reasons for this shift:

1. Ending poverty and boosting shared prosperity in MENA requires peace and stability - for development to take place in MENA the WBG has to help reverse the current trends in the region and establish conditions for inclusive growth.

2. Conflict and violence in MENA are having huge spill-over effects in terms of refugees, conflict, and terrorism – confronting them through development initiatives that promote peace and stability is therefore a global public good, which requires a global coalition to achieve it.
While many of the areas of engagement appear similar to the old strategy, the purpose will be different and there are several significant shifts in emphasis in terms of how we operate...

### Strategic Shifts in our Engagement

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<tr>
<td>Working around conflict and instability on particular thematic areas</td>
<td>Targeting peace and stability directly as the new lines of sight for all our engagement</td>
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<td>Relying largely on lending and advisory work, with some degree of convening</td>
<td>Deepening partnerships and convening far more, especially with regional partners (e.g. IsDB) and non-state actors</td>
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<td>Predominantly financing infrastructure and services through public investment via the WB</td>
<td>Much stronger push to foster private investment in infrastructure and other services through the IFC and MIGA while strengthening regulatory environment</td>
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<td>Exclusive focus on country-by-country approach</td>
<td>Complement this by expanding the focus to regional programs such as in water, energy, and education</td>
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<td>Relying on WBG own resources</td>
<td>In addition leverage WBG resources to crowd in international resources using innovative financing mechanisms</td>
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The strategy is well-suited to the WBG at this time for many reasons... 

The overall development landscape informed by the SDGs recognizes the need to confront global challenges such as fragility and conflict together by leveraging the convening power of multi-lateral institutions like the WBG.

The WBG has increasing knowledge and experience in the areas of fragility and conflict as well as social accountability building on the WDR 2011, GPSA, and other initiatives.

This is a One WBG strategy – so that the combined forces of the WB, IFC, and MIGA will be brought to bear on this challenge.

The creation of Global Practices facilitates the delivery of global public goods by leveraging the full potential of the new organizational model.

But the most important reason for embarking on the new strategy is that without concerted action to promote economic and social inclusion for peace and stability, violence and conflict will continue to corrode the economies, societies, and lives of the people in MENA.

In other words: BUSINESS AS USUAL IS NOT AN OPTION!
Pillars of the New Strategy

The Four “R”s
Drawing on the lessons from WDR 2011, any strategy to promote peace and stability has to work on two fronts...

**Address Underlying Causes of Conflict & Violence**
- Low trust in state
- Inequality of opportunity and voice (esp. youth, gender)
- Non-inclusive institutions
- Droughts and degradation of natural resources
- Historical fragmentation

**Mitigate Urgent Consequences of Conflict & Violence**
- Destruction of physical and human capital
- Slowing of economic growth
- Large scale forced displacement
- Increased pressure on natural resources and basic services

These two are inter-related and can feed off each other

From these, and taking into account the WBG mandate and comparative strengths we arrived at these four mutually reinforcing pillars...

**Economic and Social Inclusion for Peace and Stability in MENA**
- Renewing the social contract
- Regional Cooperation
- Resilience to IDP/refugee shocks
- Recovery and Reconstruction

For example:
- Destruction of physical and human capital
- Slowing of economic growth
- Large scale forced displacement
- Increased pressure on natural resources and basic services

The first two pillars address underlying causes, while the latter two tackle the immediate consequences...
Despite some differences, most MENA countries adopted a similar development model – where the state provided jobs, free health and education, and large subsidies...

Services despite being free and accessible were of low quality, yielding poor development outcomes...

The Arab Spring and its aftermath have shown that this ‘social contract’ was broken and unsustainable. These very issues are now feeding into more instability in the region...

Voice and accountability in MENA were among the lowest in the world...
MENA now needs a new social contract - built on greater citizen trust; more effective protection of the poor and vulnerable; inclusive and accountable service delivery; and a stronger private sector that can create jobs and opportunities for MENA’s youth...

The WBG can help MENA countries renew the social contract in at least 3 areas:

**Opportunities**
- Promote broad based private sector development
- Strengthen skills that match market demands
- Work on labor markets to promote formal job creation
- Design ‘capture-proof’ business policies to foster entrepreneurship
- Build inclusion by supporting lagging regions

**Quality services**
- Strengthen public institutions for more efficient and effective service delivery
- Modernize ICT systems and accountability institutions
- Create environment for greater private sector investment in infra and services via IFC and MIGA
- Modernize the Social Protection system
- Build on local success stories (incl. via third sector providers)

**Citizen Engagement**
- Support enabling reforms and legislation (e.g. access to information, etc.)
- Develop performance-based aspects of sectoral governance
- Enhance mechanisms for accountability
- Facilitate consensus building among stakeholders for sensitive policy reforms
- Mainstream beneficiary feedback
Despite a common language, culture, history, and common threats and challenges, MENA remains the least integrated region in the world...

Various regional organizations exist, though they have been ineffective at promoting greater regional integration.

Fragmented political and economic regional policies, lack of progress in reducing barriers to trade, and poor logistics have significantly hindered integration in MENA.

Intraregional Integration across Regions

(share of total)
With the goal of promoting regional cooperation, the WBG will focus initially on key areas where the potential for strong partnerships are emerging...

**Energy**
Given the importance of energy in the economy of the region and fact the MENA has one of the lowest shares of traded electricity production, the focus will be to:
- Support development of regional and sub-regional electricity, solar, and gas markets
- Strengthen and mainstream ongoing climate mitigation efforts
- Continue progress on systematic energy subsidy reform across the region

**Education**
Through the regional education initiative in partnership with the Islamic Development Bank and other agencies, the focus will be to:
- Enhance the contribution of education and training systems to growth, prosperity and social cohesion
- Improve the quality and relevance of education and training for more relevant skills for the economy
- Introduce new approaches to teaching and learning to restore hope for a more prosperous future
- Implement mechanisms for improved performance and accountability of the education system.

**Water**
Address the severe water security issue and climate adaptation by bringing high-level regional support and fostering policy and technological innovation for:
- Sustainable urban water management and agricultural water productivity systems;
- Introduction of tariffs and technology for water and energy efficiency;
- Promotion of rapid delivery systems with strong citizen engagement; and
- Enhanced cooperation of trans-boundary waters resources via intl. water mgt. agreements

By engaging on key sectors, and working closely alongside partners, the WBG can play an important role in:
- Promoting trust and cooperation between states in the region
- Opening space for additional trade, investment and social development to stimulate growth and jobs
- Supporting regional stability built on increased interdependence and strengthened institutions

In addition to these three initiatives, the Bank Group will continue to pursue integration in trade and investment building on previous analytical work.
The Syrian conflict has produced one of the largest refugee crises in the post-WWII era, but displacement challenges are growing rapidly in North Africa and Yemen as well:

**Refugees:**
- 4 mn Syrian
- 5 mn Palestinian
- 250,000 Somalis/others (Yemen)
- estd. 1 mn (unregistered) Libyans in Tunisia

**Internally displaced,** of which:
- 7 mn in Syria
- 4 mn in Iraq
- 1.1 mn in Yemen
- Over 400,000 in Libya

MENA hosts largest number of displaced people in the World – over 15 million (with over 50% women and children) – and this consequence of the instability in the region poses one of the biggest threats to long term resilience of MENA countries...

**Estimates of the economic costs of this displacement are daunting... and are impacting countries beyond the region...**

- 2015 Regional Refugee and Resilience Plan (3R) estimates US$ 5.5 billion needed to cover humanitarian needs of refugees and host communities in 2015 (Egypt, Iraq, Jordan, Lebanon, Turkey, and at regional level)

- Jordan Resilience Plan (2014): US$ 1.8 billion for one year, of which almost US$1 billion to address needs of host communities; 1 percentage point drop in GDP growth in 2013 [IMF]

- Lebanon Economic and Social Impact Assessment (2012-2014): US$ 2.6 billion in direct fiscal impact and 17% increase in poverty

The demographic profile of refugees, as well as the fact that the average length of stay for refugees worldwide is 17 years, has major implications for their development needs and those of hosting communities...

Profile of refugees in Jordan and Lebanon distinct from pre-crisis Syrian and host populations:
- Younger than pre-crisis Syria: 65% under the age of 25; 19% under the age of 4
- Majority of the population is poor: between 50-73%; and 85% not in camps
- Lower level of education: 80% have only primary education or less
- Most are employed in informal economy/services/sales

Source: Joseph Willits (Twitter) and The Guardian
The goal of the resilience pillar will be to promote the welfare of refugees, IDPs, and host communities in the MENA region focusing on building trust and sustainable solutions for displaced people...

3 Principles will be followed:

Adequate support should go to host governments so that they, in turn, can promote the welfare of host communities, refugees and IDPs.

Given the expected duration of these displaced persons, development assistance should be oriented towards helping them build assets - human capital, physical capital and institutional capital.

Since the welfare of these people is a global public good, a large share of the assistance should come from the international community in general and the donor community in particular through concessional financing.

Which will be applied in different forms of support:

Sequenced interventions to help refugees, IDPs, and host communities:

- Livelihood Programs
- Social Protection & Education
- Improvement of Basic Service Delivery
- Investment in long term productivity

Mobilization of financial support and policy reforms from international community using our analysis and convening power:

Using a resilience-based developmental approach that:

- is based on an understanding of vulnerabilities and risks,
- preserves protection space (reducing tensions),
- protects development outcomes, and
- leverages opportunities for growth, reduced poverty, and shared prosperity.
The intensity, duration, and level of destruction of the conflicts and civil wars, as well as the growth slowdowns as a result of political instability and violence, highlight the need for a major recovery and reconstruction effort in MENA...

Estimates of the size and scale of reconstruction needs are staggering:

- High level UN estimates:
  - Rebuilding war-torn Syria will cost $170 bn (increasing by the day).
  - Cost for Libya, more than $200 bn over next 10 Years.
  - Humanitarian needs alone for Yemen are around $274 mn and rising
- World Bank's Damage Needs Assessments (DNAs):
  - In Gaza estimate over $1.4 bn in the loss of physical structures; $1.7 bn in economic loss.
  - For four cities in Iraq, estimate the total damage in transport, water/sanitation, municipal buildings and housing to be up to $443 mn.
  - In six cities in Syria, estimate damage in energy, housing, health, education, WASH, roads, agriculture estimated to be up to $4.3 bn
- Terrorist incidents in Tunisia have reduced tourist arrivals by 50% in 2015, lowering GDP by 3.5%

Some emerging lessons from ongoing work in MENA:

- Response speed is of essence (e.g., emergency response after the Gaza 2014 and Iraq 2015)
- Establishing, maintaining and updating baseline data and upstream analysis helps implement rapid interventions
  - Primacy of understanding social, institutional and political economy constraints to sustained recovery
  - Complemented by in-conflict preliminary damage and needs assessment using satellite imagery and remote sensing
- Establishing effective partnerships with local stakeholders, including civil society organizations and the private sector is absolutely critical
- Targeting work at local and sub-sovereign level pending resolution of conflicts
- Lessons being applied to dynamic needs assessment of ongoing conflict methodology (e.g. in Yemen)
Given the scale of destruction the WBG will need to adopt a ‘dynamic’ approach to reconstruction and recovery that brings in external partners, leverages large scale financing, and move beyond humanitarian response to longer-term development...

Reconstruction & Recovery

The principles:

- Prepare in advance
- Mobilize resources now
- Build on work of partners
- Stay flexible and dynamic
- Engage over the long term

Stabilization to Consolidation to Development: “Building Back Smarter”

- Establishing people’s confidence
  - provide immediate social assistance for the affected and displaced

- Restoring basic services
  - along all key service dimensions water & sanitation, energy, transport, housing, municipal/community infrastructure, health, education, etc.

- Enhancing livelihoods/economic opportunities
  - tackle institutional, governance, economic and private sector development aspects during reconstruction – to lay foundation for broader recovery

- Fostering social cohesion
  - through trust and community development
Implementing the Strategy

Programs, Partnerships, Finance, Knowledge
Regional priorities will translate into country strategies and programs, building on systematic country diagnostics...

The heterogeneity of the MENA region will imply that different pillars will be more or less relevant in different clusters of countries...

- Iraq, Yemen, etc.
- Priority will be on Resilience, Reconstruction & Recovery
- E.g. Yemen Dynamic Needs Asst., IFC Iraq energy program, etc.

- Algeria, GCC countries, etc.
- Priority on pillars for regional cooperation and renewing the social contract (esp. quality services)
- E.g. IFC-WB Education for Competitiveness program with IsDBG, etc.

The heterogeneity of the MENA region will imply that different pillars will be more or less relevant in different clusters of countries...

There will naturally be certain sectors and areas that receive greater focus than others...

MORE OF:
- Private-sector-led infrastructure
- Citizen engagement
- Emergency response
- Lagging region development
- Social protection modernization
- Education for transformation
- Sector governance reform
- Local level support
- Transformative ASA such as Jobs or Privileges report

LESS OF:
- Traditional public-sector-led infrastructure development
- Projects without citizen engagement
- Service delivery projects that don’t address quality issues
- Small and fragmented knowledge and lending products
The magnitude of the challenge facing the region, and its global implications mean that partnerships are arguably the most important instrument for delivering the strategy...

**Three Kinds of Partnerships will be developed:**

- **Financial Partnerships**
  - Coalition of donors will be brought together to mobilize financing for MENA
  - Initial Stakeholders Meeting scheduled on sidelines of Lima Annual Meetings

- **Knowledge Partnerships**
  - UN and other agencies will be core partners for dynamic needs assessments
  - Civil society, academia, and media partners will brought in for other pillars
  - E.g. Library of Alexandria and International Peace Institute

- **Advocacy Partnerships**
  - Some aspects of strategy – e.g. treatment of refugees or replacement of fuel subsidies with cash transfers - will require advocacy role
  - Local stakeholders and regional platforms (e.g. CMI) will be leveraged to facilitate this form of partnership
With respect to financing, the WBG will continue to expand its investment in the region…but in addition to our own funds, the core focus will be on leveraging and mobilizing global resources to meet the extraordinary financing needs of the region…

**The WBG is working on solutions to mobilize the international community through 2 distinct financing mechanisms aimed at:**

**Supporting the recovery and reconstruction of MENA conflict-affected and transition countries**

*How?* Through a special bond issuance mechanism aimed at raising large volumes of financing for reconstruction and recovery projects

**Strengthen the capacity of communities hosting refugees and internally displaced persons to absorb the shocks on their economic and social fabric**

*How?* By blending grant resources with IBRD lending in order to increase the provision of concessional financing

**These proposals will benefit MENA countries by:**

1. Financing the large costs of reconstruction and recovery by mobilizing third party guarantees to support additional financing
2. Providing finance at more advantageous rates and conditions than otherwise available
3. Providing substantial additional financial capacity, given the limited investment in most MENA countries

**WBG own lending will be geared toward renewing the social contract…**

For example:

- Projects that emphasize public goods over private goods (e.g. sanitation)
- Projects that improve the policy and regulatory environment for private sector investment
- Projects that strengthen accountability
- Projects that strengthen inclusion
Our knowledge work (including our growing RAS program) will be of prime importance in informing and mobilizing the support for the strategy and will lead (rather than follow) our lending...

Examples of knowledge work:
- Renewing the Social Contract
- Regional Integration
- Resilience to refugee/IDP shocks
- Reconstruction & Recovery

Geared towards:
- Providing the rationale for a renewed social contract
- Spurring public debate, engagement, and dialogue
- Providing evidence to support sensitive reforms
- Developing partnerships and coalitions for reform
- Assessing conflict impacts and reconstruction needs
- Monitoring the welfare and needs of refugees and IDPs
Risks and Monitoring

Risks, Challenges, Monitoring and Evaluation (M&E)
By its very nature, this is a high risk strategy that will require us to be dynamic and adaptive...

Examples of the challenges:

Security and Operational risks
- Risks to staff security working in conflict areas
- Fiduciary and safeguards risks inherent in conflict and high risk environments

Reputational Risks
- Perceptions that WBG is taking sides in conflict situations
- Risk of WBG funds landing in wrong hands
- Sensitive reports and assessments can carry reputational risk

External/Conflict Risks
- The biggest risk is that, despite our and the international community’s best efforts, the conflict gets worse with disastrous economic and social consequences

Possible mitigation measures:
- Follow UN guidelines on staff security
- Make greater use of local consultants
  - Reverse/third location missions
- Develop guidelines for work with third party actors in places without de facto governments
  - Simplify procedures and allow greater flexibility to take risks
- Expand outreach to civil society and particularly youth groups
- Use media to showcase positive results
  - Work with credible partners
- Commitment to complete openness and transparency in engagements
- Balance with risk of no change in approach to increasing crisis in region
M&E for the strategy will need to combine traditional project level results with impact level data on peace and social stability...

At impact level we will track indicators associated with greater peace and social stability with help from FCV Group

Input and operational results indicators will focus on contributions to the 4 pillars of the strategy that reflect our overall approach

With support from LLI we will explore the use of Big Data and Sentiment/Social Network Analysis to get real time attitude data and combine this with perception survey data
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Thank You!