



THE MIDDLE EAST & NORTH AFRICA

FROM TRANSITION TO TRANSFORMATION



WORLD BANK GROUP







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ACKNOWLEDGEMENTS

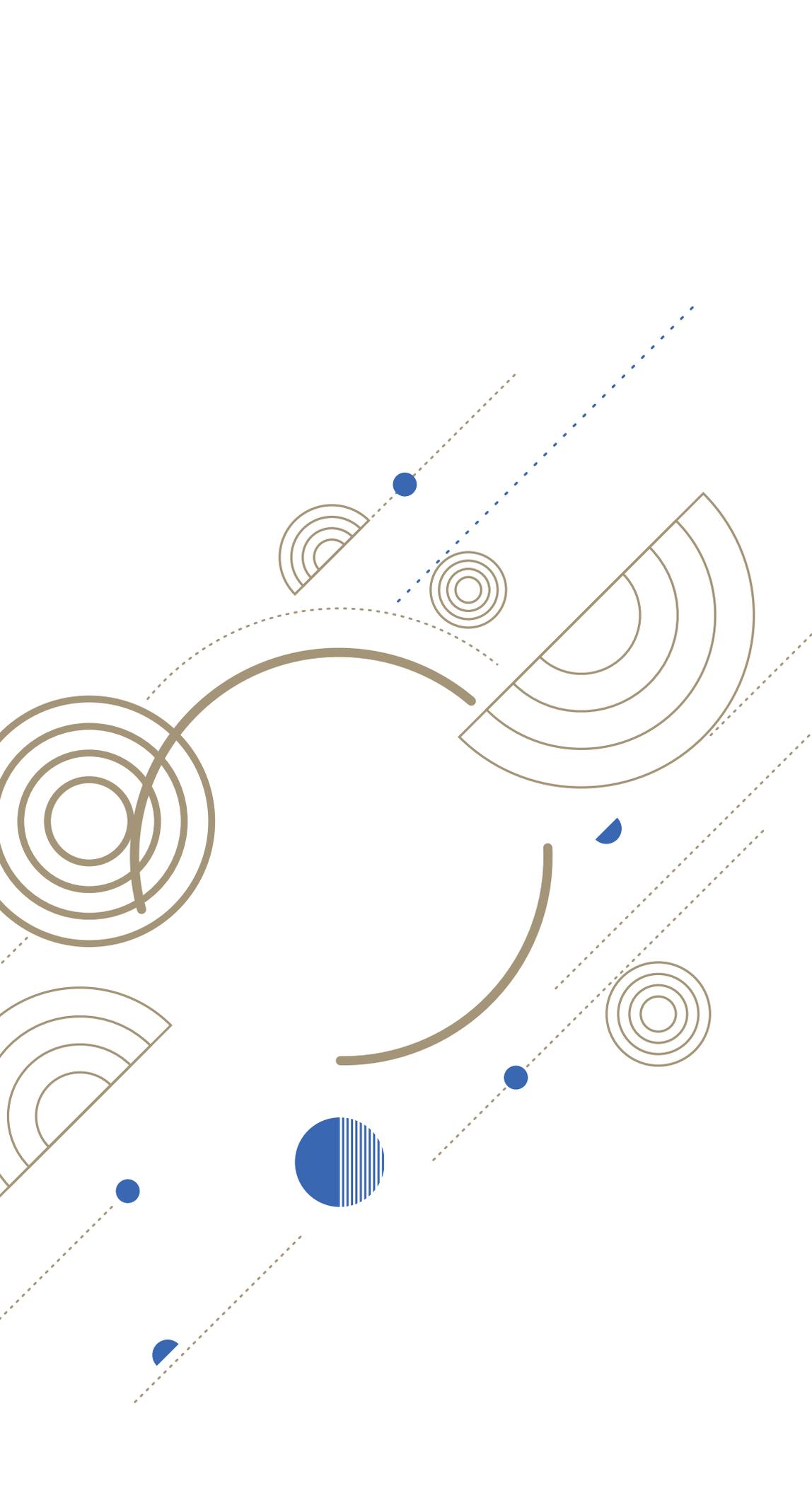
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FOREWORD

ENLARGING THE MENA STRATEGY



The Middle East and North Africa (MENA) region needs to reinvent its economic model to meet the aspirations of its people. While cognizant of the fundamental challenges of today, it needs a new, positive vision built around a shift towards a promising future.

Yes, the region went through—and is still going through—shocks. The tectonic shifts of the Arab Spring have made a deep impact on people and countries. Throughout the turmoil and strife, however, the World Bank Group has been an unwavering and trusted partner to the region. We put together a strategic approach built on renewing the flawed, exclusive, and distorted social contract that failed the people in MENA. Our approach was also aimed at strengthening resilience to shocks—conflict, forced displacement, water scarcity, climate change—at engaging in reconstruction and recovery, and at enhancing regional cooperation, MENA being the least integrated region in the world.

Moving along new paths and disrupting old ways of engagement, the region turned into a source of innovation: pioneering the World Bank Group's cascade approach to open up to the private sector and maximize financing for development; supporting refugees and host countries through concessional financing instruments; responding rapidly, directly, and through partnerships to threats, such as famine in Yemen; and eliminating expensive subsidies and redirecting them to social programs. Not only did governments turn to us for advice and support, the international community and our partners turned to us to help the region return to stability.

We will keep building on these fundamentals of our commitment to the MENA region and seek to enlarge our scope and catch MENA's full power. The power of its people, and the power of its youth.

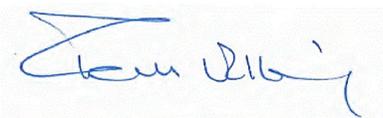
I believe that MENA is more than just a fragile region, and I am optimistic about its potential—provided efforts are made to remove obstacles to progress. It is a region sitting in a geostrategically pivotal corner of the globe. It is economically important, it harbors tremendous energies ready to be tapped into, and it is open to structural reforms and to a new way of engaging with the global economy. It boasts a large, technologically-savvy population of educated young people, many of whom are women, whose talents are not being utilized.

If current trends continue, by 2050 the world will be looking at north of 300 million young people coming to the job market in MENA. This is almost the totality of the region's population today. Between now and then, the region will need to create 10 million jobs every year to meet the demands. These jobs are not going to be coming from the public sector. And those jobs cannot all be coming from the old and tired industrialization policies of the past. We need to help the economies of the region disrupt their old ways.

That is why we are enlarging our strategy to help our countries leapfrog into a new digital economy. A large number of the jobs needed will have to come from a vibrant, unconstrained, and competitive private sector, for which the education systems of our MENA countries need to adapt in terms of governance, curricula, and teaching methods. These jobs will also need to be underpinned by an open embrace of new and transformational technologies, as a way to link the region to the rest of the world and offer its already connected and savvy youth new ways to act as vectors of economic growth and employment.

So, we will invest heavily in human capital to ensure that each new generation is equipped to seize the opportunities a digital economy creates. We will maximize the role of a transparent, competitive, and efficient private sector as the driver of the region's investment model. And we will unlock new technologies to meet the aspirations of the young people of MENA, and to project the region into a more promising future.

MENA is ready for transformation, and open for business.



FERID BELHAJ
Vice President
for the Middle East and North Africa





INTRODUCTION

MEETING ASPIRATIONS

In 2015, the World Bank Group launched a new strategy for the Middle East and North Africa (MENA) region aimed at directly addressing the causes of conflict. This followed the recognition that deploying traditional instruments to promote social and economic inclusion, and working around the growing instability, would not deliver lasting results for the people of the region. Instability not only sets development back but is an obstacle to further gains. The new strategy was designed to preserve the region's achievements while promoting the stability that is the critical requirement for development. Actions under the new strategy were organized around four pillars that aimed to rebuild the social contract that had been eroded by poor services and lack of opportunities, support the resilience of people and communities to cope with the many impacts of conflict, promote regional cooperation as both a catalyst for growth and source of stability, and to move quickly toward recovery and reconstruction wherever and whenever possible.

The MENA region is now at another turning point that requires a further recalibration of World Bank Group engagement. If current demographic trends persist, the region will need to create more than 300 million jobs by the year 2050. The question of where all these jobs will come from and what will they be is central to MENA's future. The capacity to create the number of jobs needed does not yet exist, and valuable human potential is going to waste.

The regional unemployment rate for young people is 25%, and even higher for young women at 39%. And, whereas in most parts of the world higher educational attainment leads to more opportunities, this is not the case in MENA. University graduates make up 30% of unemployed people across the region. Women, who now outnumber men at universities, have twice the unemployment rate of their male peers. An answer for how the region will generate enough jobs to meet the

aspirations of young people is urgent, as their frustrations at being left on the sidelines of the economy will continue to be a source of social tensions.

The traditional route of industrialization for developing countries may no longer be available for MENA. The rapid pace of technological change, dubbed the 'Fourth Industrial Revolution' is transforming the global economy. The jobs that industrialization once created, especially the repetitive work of an assembly line, will increasingly be performed by machines rather than people. Instead, the region can focus on leveraging the potential of its large and well-educated youth population, whose aspirations stretch far beyond assembly lines, to leapfrog past industrialization into the digital future.

The World Bank Group is ready to support this leap, and help countries adapt to the new digital economy, harness its potential and ensure that, from now on, each new generation is equipped to seize the opportunities the digital economy creates. This will require expanding rather than reorienting the MENA strategy. Promoting stability is still critical and the World Bank Group will continue to design interventions based on the four pillars. Developing a new, digital economy will mean transforming the old one, and three new priorities will be added to the four pillars to support this vital process. This dual approach will allow the region to remain focused on fundamentals and continue to help the region meet its challenges, while also providing the support needed to reach for new opportunities. The new Country Partnership Framework for Morocco, covering the years 2019 to 2024, provides an example of what the expanded strategy will look like in practice. World Bank Group actions under the Partnership Framework will focus on promoting social and economic inclusion in Morocco's less developed regions, while also supporting the unlocking of the potential of new technologies to promote entrepreneurship, productivity and e-government platforms to boost growth and innovation.

The first chapter of the book is focused on the new priority of investing in people, to build human capital and develop the skills that are essential for long-term growth. The second chapter is focused on the priority of embracing digital transformation to usher in a new economy for the region. The third chapter is focused on the new priority of mobilizing private finance for development, as a new investment model to propel the region into the future. The fourth and final chapter is a summary of the four pillars in action, with a focus on the innovative approaches that will continue to guide World Bank Group interventions going forward.

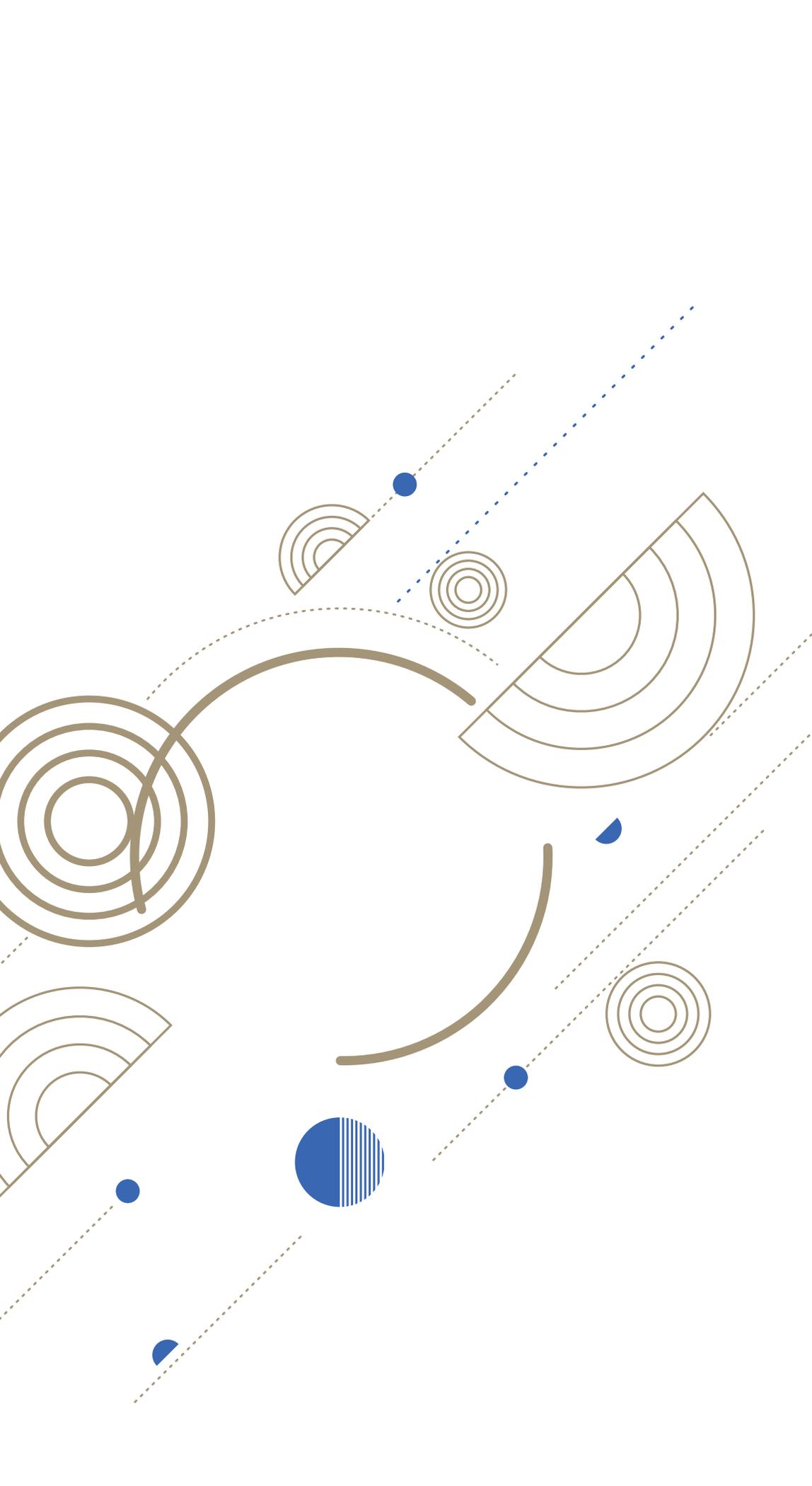




A man in a grey suit, pink shirt, and patterned tie is smiling. A semi-transparent grey overlay covers the image, with text centered on it. The background is a warm, yellowish light.

PART ONE

**INVESTING
IN PEOPLE**



PART ONE | INVESTING IN PEOPLE



Countries from across the Middle East and North Africa have chosen to become early adopters of the World Bank's Human Capital Project, which aims to encourage governments to invest in people as the most valuable asset of every country. Human capital is the sum of a population's health, knowledge, skills, and experience. Often it accounts for the largest share of a nation's wealth—and its greatest single national resource. But, despite considerable public investment in sectors, such as education, that develop human capital, MENA is not preparing its future workforce well.

The consequences of this are far-reaching: Human capital is recognized as a primary driver of sustainable growth and poverty reduction. By improving their human capital, people can become more productive in their work, more flexible and innovative. Public and private investments in building up human capital are becoming more and more important as the nature of work evolves globally in response to rapid technological change. And markets are increasingly demanding workers with higher levels of human capital, including better cognitive and socio-behavioral skills.

The Human Capital Index (HCI), provides a measure of the productivity of that country's next generation of workers by measuring the amount—and the quality—of the public health and education that children born today can expect to have accumulated by the time they enter the job market.

The index has three components: **Survival**: Will children born today survive to school age? **School**: How much school will children complete and how much will they learn? And **Health**: Will they leave school in good health, ready for further learning and/or work?

At 0.49, MENA's HCI is well below the global average of 0.57, indicating that a child born and raised in MENA today will be only 49% as productive as could be expected with the right investment when reaching the age of 18 (Table 1).

Table 1. How MENA scores

INDICATOR	EAST ASIA & PACIFIC	EUROPE & CENTRAL ASIA
HCI Component 1: Survival		
Probability of Survival to Age 5	0.971	0.987
HCI Component 2: School		
Expected Years of School	11.2	12.4
Harmonized Test Scores	410	464
Learning-Adjusted Years of School	7.4	9.3
HCI Component 3: Health		
Survival Rate from Age 15-60	0.835	0.865
Fraction of Children Under 5 Not Stunted	0.762	0.881
Human Capital Index (HCI)	0.53	0.63

Note: Regional averages are calculated based on "World Bank client countries" only, where client countries are

In health, MENA countries fare relatively well with respect to the components of the Human Capital Index—child survival, childhood stunting through poor nutrition, and adult survival. Dramatic progress has been made in reducing mortality and prolonging life over the past four decades. Similarly, a significant reduction in premature deaths and in disability resulting from communicable diseases has taken place.

But big health challenges abound that are not reflected in the HCI. The region is witnessing an increase in noncommunicable disease, such as heart disease, diabetes, and mental disorders. Road traffic injuries are the leading cause of death. Other risk factors for premature death and disability are preventable—dietary risks, hypertension, obesity, and smoking. All MENA countries are facing challenges providing universal health coverage. With total health spending as a proportion of governments' budgets at relatively low levels, MENA countries should have room to expand health expenditure, yet they face difficult fiscal constraints. Efficiencies within the health system and public funding will have to be found.

A closer look at the index reveals that for education, the expected number of years of learning-adjusted schooling is particularly low for MENA. MENA's children can expect to receive an average of only 6 years of quality-adjusted schooling, the

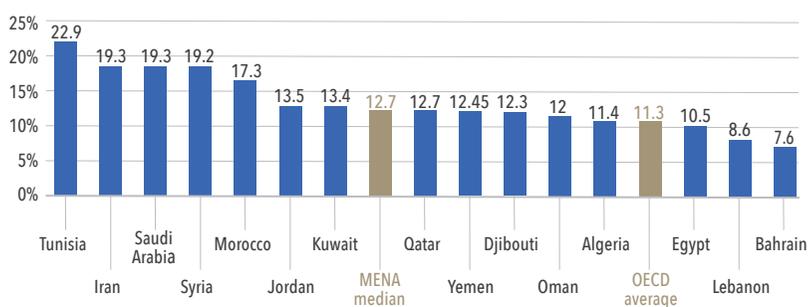
on the Human Capital Index

	LATIN AMERICA & CARIBBEAN	MIDDLE EAST & NORTH AFRICA	SOUTH ASIA	SUB-SAHARAN AFRICA
	0.980	0.975	0.963	0.933
	11.9	9.5	10.4	8.1
	405	382	364	374
	7.7	6.0	6.2	4.9
	0.857	0.869	0.847	0.733
	0.865	0.800	0.684	0.685
	0.55	0.49	0.46	0.40

defined as “all countries that are either IBRD/Blend/IDA eligible as of FY19 classification.”

second lowest regional average. Yet government spending on education is usually higher in MENA countries than in the 34 countries belonging to the Organization for Economic Cooperation and Development (OECD) (Figure 1).

Figure 1. Percentage of total Government spending in Education



Note: Data are for the latest available year between 2006 and 2016. MENA regional medians are computed as the median of the latest year’s figures available for each country. OECD average is as reported in OECD (2017a) (tables B2.3 and B4.1).

Sources: World Bank EdStats database and OECD (2017a).

Decades of investment in education, impressive growth in school enrollment rates, and gender parity at almost all levels of education have not translated into increased human capital. Even with reform, MENA remains stuck with a low-learning, low-skilled workforce. MENA countries have not invested sufficiently in the critical early years, when the brain undergoes its greatest development. As a result, most children come to school poorly prepared for learning. Gross enrollment ratios in pre-primary education are just 31%, with wide differences between countries and within countries. In Iraq, Libya, and Tunisia, children from the wealthiest quintile of society are 17 times as likely to attend some form of Early Childhood Education as children from the poorest. And even those that complete basic education emerge ill-equipped without the basic skills needed to compete and thrive in a modern labor market.

The situation in MENA requires renewed focus on education, not just as a national priority for economic growth and social development but as a national emergency for stability, peace, and prosperity.

Equally critical, low learning outcomes have translated into low returns in the labor markets—resulting in low labor force participation rates, particularly for women, and high unemployment rates, especially for youth. At 21%, female labor force participation rates are among the lowest in the world, compared to 74% for men. Youth unemployment is among the highest in the world. Women contribute only 18% to MENA's overall GDP, compared to a global average of 37%. In MENA, higher levels of education are not correlated with high employment: university graduates are far more likely to be unemployed than are workers with only basic education.

HOW CAN HUMAN CAPITAL IMPROVE?

Education, social protection, health and data

By investing right, MENA countries can unlock the potential of the region's human capital. This will require commitment and political leadership at the highest levels. A whole-of-government approach is required based on a common understanding that a national human capital crisis looms throughout MENA.

A radically different approach is needed from the path of the past.

Education

This is especially true for education. As new technologies disrupt the global economy and change the nature of work, the kinds of skills needed to succeed in the labor market are changing as well. Education systems will need to adapt. Technology presents a unique opportunity to help deliver high quality education.

A new education framework is needed for:

- A concerted push that starts early for all children, regardless of background, with qualified and motivated educators, one that leverages technology, uses modern approaches, and monitors learning.
- A pull for skills needed from the labor market—and from society—that involves reform beyond the education system.
- A new pact for education at national levels, with unified visions and shared responsibilities. Education needs to be made everyone's business.

Social Protection

Outside of education, social protection systems need to be refocused and expanded to ensure no one is left behind. With 45% of the population in the poorest quintile in MENA not covered by social protection programs, vulnerabilities in the region are high, despite the generally low levels of absolute poverty.

Health

Improving the health of the population will require health services to be more efficient. Health financing reforms should move in the direction of providing universal health coverage. Health services also need to respond to the recent increase in deaths from non-communicable diseases and traffic accidents.

One overall challenge is that data and measurement are extremely weak in MENA countries. This needs to be given high level attention so that policy-makers can come to understand how to improve human capital outcomes more effectively.

Data

The Human Capital Project has, as one of its three pillars, a measurement agenda that aims to support countries to improve the quality of their data and encourage country participation in international assessments and in national surveys. Building this evidence base can also inform resource allocation, especially for domestic resources, to achieve greater efficiency and effectiveness in spending.

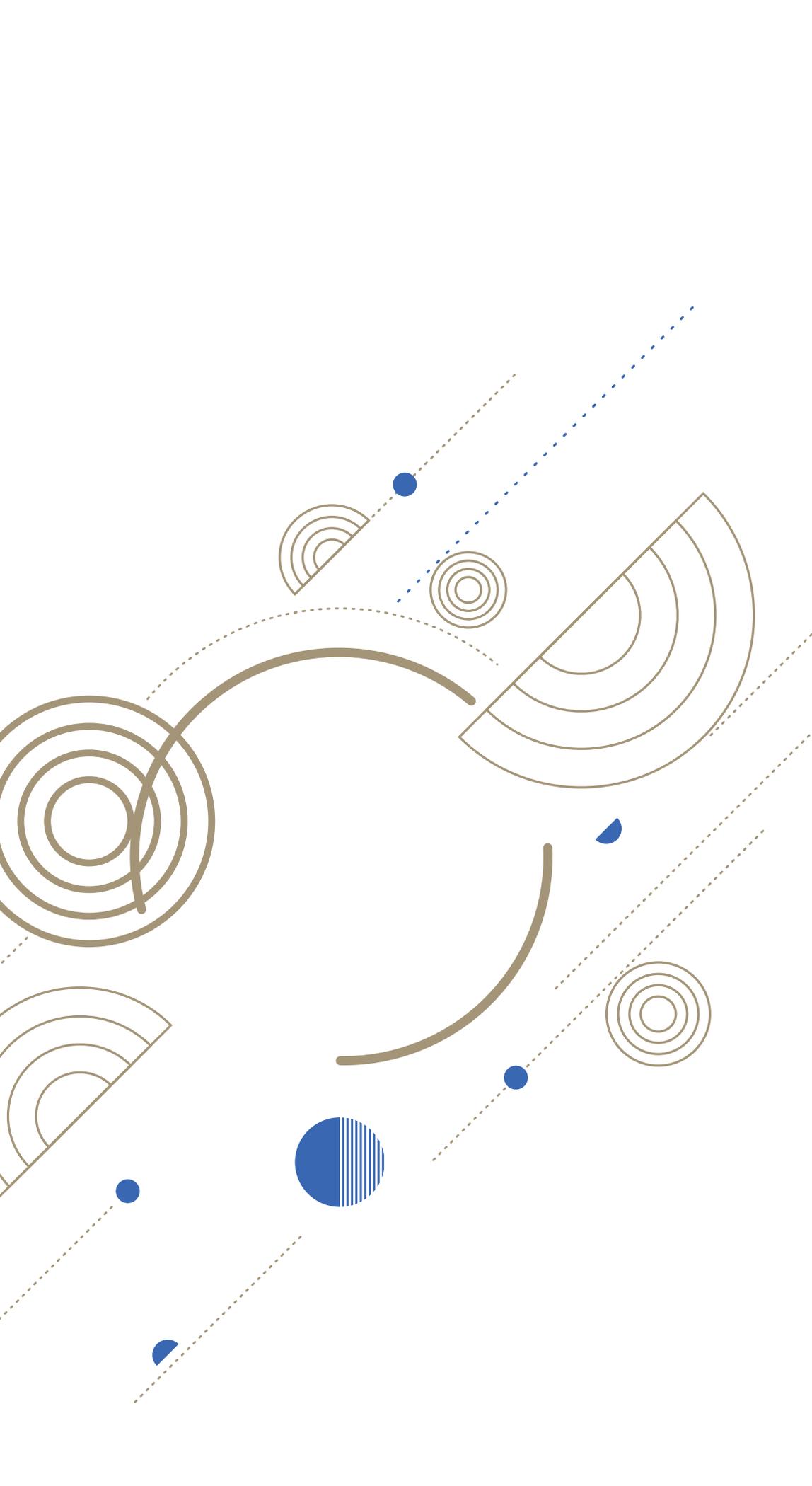
MENA countries spend considerable amounts of money on health, education, and social protection programs, but they are not getting good results. Hence, resources for human capital programs need to be put to better use, particularly given the amount of debt and other limits to fiscal space. Improving the efficiency of current spending and the quality of the services delivered for it are a must.



A young man with dark hair, wearing a dark blue sweatshirt, is shown in profile, looking towards the right. He is sitting at a wooden desk in what appears to be a classroom or lecture hall. In the background, there are large windows with dark frames and a green plant. The text is overlaid on a semi-transparent white rectangular area.

PART TWO

**A NEW
ECONOMY:
DIGITAL
TECHNOLOGY,
AN ENGINE
FOR GROWTH**





PART TWO | A NEW ECONOMY: DIGITAL TECHNOLOGY, AN ENGINE FOR GROWTH

Countries in MENA possess all the ingredients to leapfrog into the digital future. They have large, well-educated populations of young people that have already adopted new digital and mobile technologies. That combination has the immense potential to drive future growth and job creation. Unlocking that potential will be a priority for the World Bank. Public spending, the region's historical engine of development, has reached its limit.

There are green shoots emerging: before being purchased by Uber, the ride-hailing app, Careem, grew from a Dubai-based start-up to a billion-dollar company, creating thousands of jobs in 80 cities in the MENA region, as well as in Pakistan and Turkey. And new digital platforms are already connecting job seekers and employers, providing vocational training, increasing market access for Small and Medium Enterprises (SMEs) and hosting start-up incubators. The challenge is to create the conditions for these green shoots to grow and multiply.

When it comes to accelerating the pace of digital technology, MENA needs a collective and ambitious goal—a “digital moonshot”—or all-out effort.

MENA countries could seek to equal or better OECD countries in their level of access to the Internet, capacity to transmit data quickly (bandwidth), and the number of financial transactions citizens carry out electronically.

The first, essential step is for MENA countries to become “learning societies,” a phrase coined by the Nobel laureate Joseph E. Stiglitz, to describe countries in which shared knowledge leads to increased innovation. This, in turn, fosters development.

To get there, though, as described, education systems will need to change. Two factors work against the region's young people. First, schools are still geared toward channeling graduates into large public sectors. Second, bloated public sectors are crowding out the private sector, which could be a larger provider of high-skilled, high-wage jobs. Curricula should be reoriented toward science, technology, engineering, and mathematics, and away from the social studies long-prized by public-sector employers. Moving toward an innovative learning society will require students to hone their critical-thinking and managerial skills within collaborative work arrangements.

Digital transformation will potentially reshape the division of labor at home. Women in the region are already taking advantage of the flexibility technology offers: in Morocco, home-based female weavers sell rugs and other textiles over the Internet, enabling them to keep a large share of the profits, while in Egypt a young women's startup is marketing healthy homemade meals.

Furthermore, women entrepreneurs in MENA have the potential for regional transformation and leadership. One in three startups in MENA are either founded or led by women, even though women-owned startups receive 23% less in funding than male-owned. Across the region, female-led businesses are hiring more workers than their male-led counterparts; they also hire more women to fill leadership positions.

BOX 1. HARNESSING TECHNOLOGY FOR ECONOMIC EMPOWERMENT

MENA's 21% regional female labor force participation rate is among the lowest in the world. (The world average is nearly 50%.) Unemployment is also high for young graduates of both genders in MENA, at about 35%. In Tunisia, unemployed tech graduates and women in rural areas therefore share the fact that they have high labor force potential but lack opportunity. Young people lack jobs; rural women, access to markets, as well as to raw materials, social services, health care, financing, and information.

The EmpowerHer project is a bridge that brings these two groups together. Young unemployed tech graduates from the poorest interior regions of Tunisia have teamed up with some of the country's poorest women for a series of hackathons to design tech solutions to access essential health coverage, local and international markets for crafts, and low-cost raw material.

One example of EmpowerHer solutions is the platform Ahmini (Protect Me), which was recently adopted as a national program to benefit more than 500,000 women without health coverage. (The founder's mother had not had access to healthcare when she needed it most.) Today, Ahmini enables women in rural areas to enroll in services like health care without having to leave home. It will be the first time many women will have had access to the services they and their families are entitled to.

The World Bank will support female economic empowerment and equality of opportunity through analytics, operations, and advocacy. The Mashreq Gender Facility in Lebanon, Jordan, and Iraq will support these countries to implement their ambitious goals to increase female labor force participation. The World Bank will also continue to implement its Gender Action Plan, which encourages progress toward channeling the underutilized skills and talents of the region's women.

MORE DIGITAL INFRASTRUCTURE

In addition to skills, the digital economy will also need infrastructure. Connectivity is a prerequisite for new mobile and digital services in e-commerce, vocational training, health care, and finance. Countries in the region need to focus on expanding broadband internet access.

However, digital infrastructure in MENA lags other emerging regions. Internet speed is slow. Prices remain high. Too few users have high-speed internet. Many internet markets in MENA countries have monopolies or other entry barriers. These barriers limit innovation across the whole internet value chain. They limit data centers, constrain data intensive businesses, and hurt the overall environment for a data-driven economy.

The region must increase competition, promote a disruptive change in the current business model of incumbent operators, introduce new investment models, and make the case for deep sector reform.

Companies adopting digital technologies are 26% more profitable than their industry peers, and employment growth in tech outpaced gains in other professions by a ratio of 27 to 1 between 2001 and 2011.

Led by digital platforms—and increasing digitalization in the manufacturing, services, and agriculture sectors—the digital economy worldwide amounted to 15.5% of the global economy in 2016 and is projected to grow to 24.3% by 2025.

The development of a cloud-based, high-speed digital infrastructure is particularly critical for the development of jobs in urban areas positioned to be service hubs.

Mobile broadband use in the MENA region is more limited than in other regions, including emerging markets in East and Central Asia. Low quality is also an issue. Except for Lebanon, the United Arab Emirates, and Qatar, MENA countries have mobile broadband speeds below the global average.

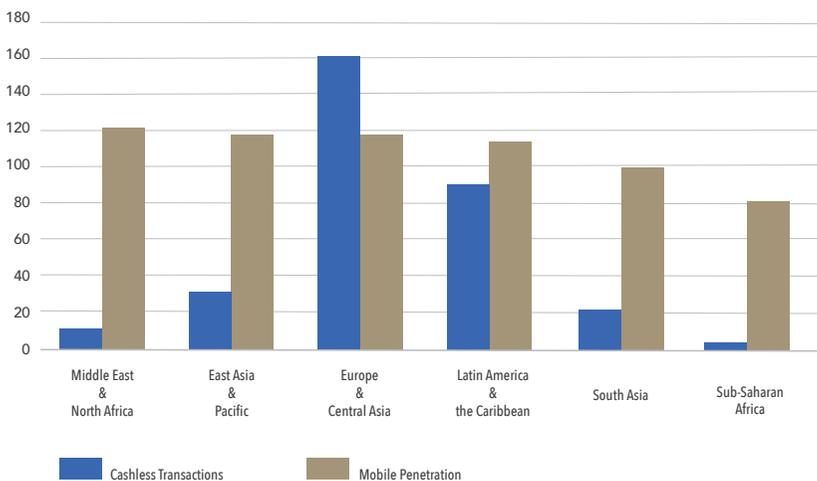
DIGITAL PAYMENTS TO FOSTER INNOVATION

A digital economy depends on payment systems that are not just easy to use and widely available, but also trustworthy. Developing effective peer-to-peer payments that are compatible with banking systems, will be critical for ensuring that digital platforms for ride sharing, on-demand tasks, and other services can thrive.

An example comes from Kenya, where M-PESA was the first of the platforms to offer retail financial services via mobile phone to Kenyans, allowing people in cities to make payments and send money to their friends, families, and business associates in rural areas, and vice versa. Users send and withdraw funds electronically using a feature on an ordinary mobile phone (a smartphone is not necessary). The exchange of money deposited by the sender and withdrawn by the receiver occurs through a nationwide network of agents that essentially act as ATMs.

Kenyan banks, which first petitioned regulators in 2007 to prevent M-PESA from operating, were then the first to ally with its service after its initial success ended up growing their deposits. The same banks were motivated to expand their electronic money transaction services in 2017. Globally, the Fintech field in emerging markets has expanded dramatically, with a number of platforms offering widespread digital payment solutions, such as Alibaba, Alipay, Gojek, and Paytem, which are the backbones of global e-commerce.

Figure 2. Undeveloped digital economy with potential



Note: Cashless transactions are indicated by the average number of per capita cashless transactions made during 2015. Mobile penetration is indicated by mobile subscribers per 100 inhabitants. Regional aggregates are simple averages across member countries.

Sources: World Bank Global Payment Survey 2016; The Economist Intelligence Unit, Inclusive Internet Index 2018; and World Bank staff calculations.

In the MENA region, however, outside of the Gulf Cooperation Council countries, which have relatively advanced payment systems, the quality of financial services lags most of the world. Barring improvements to the financial system and the banking sector, MENA will not be able to harness the full potential of the region's youthful human capital.

Governments need to develop an approach to regulation that encourages, rather than stifles, innovation. Ensuring confidence, especially in financial systems, is essential; but regulation must be balanced with policies to boost competition, so that start-ups can easily enter the market and test new ideas. There needs to be more space for more companies like Careem to emerge.

In both fragile and stable settings, several sectors could benefit from digital transformation. In agriculture, the potential benefit of new apps applies to all areas of the food chain, on and off the farm. The food production system is complex, involving many actors exchanging vast amounts of information. Yet, digital technology can substantially reduce the costs of matching buyers and sellers—and reduce the costs resulting from market failures that pervade the agriculture-food system, such as market power, information asymmetries, and transaction costs.

We see these agricultural-related digital technologies thrive globally but their adoption in MENA is slow. Water, for example, is being depleted at an alarming rate and worsening because of climate change. Precision technologies in irrigation systems, offer the hope that the region's natural resources can be used more efficiently.

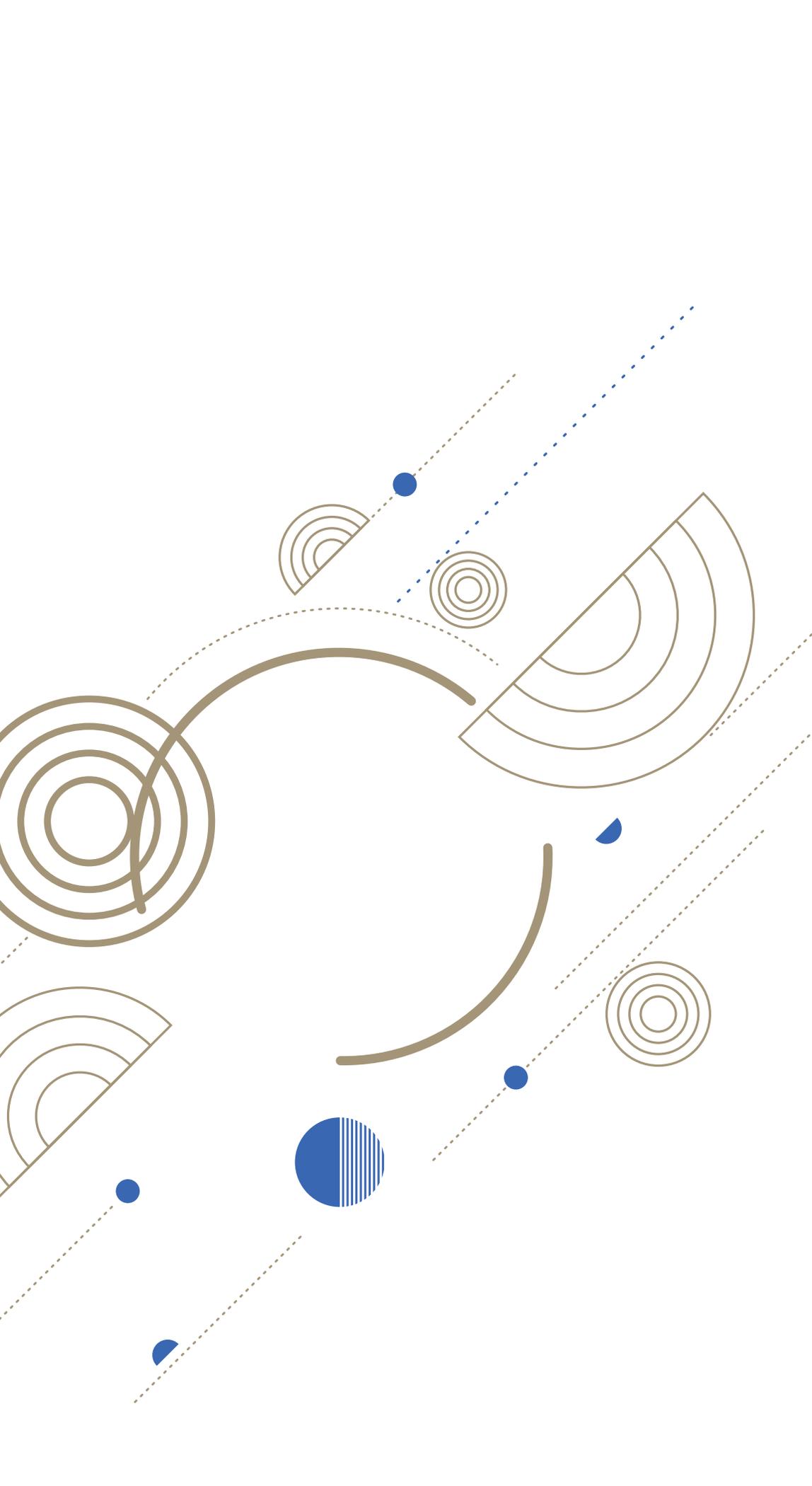
Seizing the opportunities that the digital economy offers requires a big push. It will take policymakers getting to work on many different fronts. The sooner they start, the greater the chance to build more opportunities to fulfill the economic potential of the region's youth.





PART THREE

MAXIMIZING FINANCE FOR DEVELOPMENT: A REGION OPEN FOR BUSINESS





PART THREE | MAXIMIZING FINANCE FOR DEVELOPMENT: A REGION OPEN FOR BUSINESS

Expanding the use of technology to create the new economy will require significant investments. It will not be possible to rely on public funding alone. Mounting public debts require a fundamental change to the investment models in MENA. The private sector is needed to play a much bigger role as an investor and a source of innovation and expertise.

During the past decade, many MENA countries have witnessed the breakdown of the old social contract, one in which a dominant public sector offered jobs, social services, and security, and protected a privileged business class. This class benefited from a poor business environment that protected them from competition.

Across the region, rising debt to GDP ratios and widening budget gaps caused by slow growth, poor fiscal revenue, unaffordable levels of public employment, and badly targeted, inefficient subsidy programs have crowded out investment in infrastructure and social services. Levels of capital formation across MENA still fall well short of the 5% to 7% of GDP seen as the minimum for robust and sustainable growth. The turbulence of the last eight years has also taken its toll.

The World Bank Group itself changed its approach to crowd in the private sector. At its core is close collaboration between the sister institutions of the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). This approach of combining reforms with financing and guarantees to encourage private sector participation is now widely referred to as “Maximizing Finance for Development” (MFD).

A “cascade approach” has been developed for World Bank Group investment decision-making to encourage private sector participation while leveraging and preserving scarce public funds for critical public investments, such as building human capital. Commercial financing is always the first and preferred choice. If commercial financing is not available, an effort is made to address the institutional and regulatory barriers to commercial financing. If those efforts are unsuccessful, the World Bank Group can use risk instruments and the institution’s own matching capital to try to encourage private investment. Finally, if these fail too, only then will public and concessional financing be used.

BOX 2. INVESTMENTS BY PPPs REVIVES EGYPT'S ENERGY SECTOR

Egypt: In 2014, Egyptians faced their second summer of rolling blackouts. Egypt had once been a net energy exporter but had, over time, turned into a net energy importer. The massive subsidies the state paid to keep electricity and fuel prices low for consumers was eating up 22% of the state budget—equal to nearly 6.6% of Egypt’s Gross Domestic Product. This was more than the government was spending on health, education, and social protection combined.

Along with fueling a deepening budget deficit, the subsidies were mainly benefiting the rich, who consumed far more electricity and fuel than the poor. The World Bank launched a three-year, \$3 billion program to support the government’s efforts to improve the governance of the energy sector, reform energy pricing, and adopt forward-looking regulations to attract private investment. The new program enables private companies to build solar plants and sell power to the national grid.

IFC, the World Bank Group’s private sector arm, provided \$645 million in financing to banks and private companies, while MIGA, which guarantees private investment, provided \$210 million in risk insurance for the investments. The joint efforts of IFC and MIGA mobilized \$2 billion in private investment from 15 banks and 20 other international investors, many of them investing in Egypt for the first time.

Energy blackouts are now largely a thing of the past. A policy over the last three years has been aimed at phasing out energy subsidies by raising the price of electricity and fuel to match the cost of producing them. As a result, Egypt is saving \$14 billion annually.

A large proportion of these savings have been channeled to strengthen social safety nets targeted to the segment of the population most in need. Funds have also been freed up for more social spending, allowing for a 300% increase in food subsidies to promote food security among the poorest and to expand the school lunch program to feed more children.

The MENA region has been witnessing a significant growth in the stock of Public Private Partnerships (PPPs), with the number increasing from 165 projects worth \$53 billion in 2016, to 204 projects in 2018 worth just short of \$60 billion. (In comparison, Turkey had 200 worth \$169 billion, Sub-Saharan Africa 443 worth \$68.3 billion, and South Asia 1,183 worth \$279 billion.)

The PPPs in MENA include:

- Egypt: 53 projects worth \$9.8 billion in total. The next phase is focusing on private sector-led job creation based on \$1 billion in Development Policy Financing (DPF) support.
- The Mashreq (Iraq, Jordan, Lebanon, and Iran): 72 projects worth \$15.4 billion in total.
- The Maghreb (Tunisia, Morocco, and Algeria): 57 projects worth \$29 billion in total.
- West Bank and Gaza: 5 projects worth \$239 million in total.

To build on the momentum, the World Bank prepared a report for Egypt that evaluated the possibility of applying the MFD approach to other sectors, including transport, water, sanitation, and agriculture.

REFORMS IN THE MASHREQ AND MAGHREB

The 2018 Mashreq MFD Strategy for MENA became the first regional MFD Strategy prepared in the World Bank Group. New governments in Jordan, Iraq, and Lebanon have signaled their readiness to work with the Bank Group. These new policy directions were presented to international investors and the wider international community at conferences that took place in Kuwait in February 2018 (Iraq), in Paris in April 2018 (Lebanon), and in London in February 2019 (Jordan).

In **Jordan**, new PPP initiatives in transport and education are underway. In Lebanon, there are plans for Energy Sector Reform, a PPP for Bus Rapid Transit, and investments for a National Jobs Program. New MFD-enabling investments are also planned for civil aviation and the digital economy. In Iraq, a multi-phased program to bring reforms and private investment to the energy sector value chain is being prepared. This included IBRD and IFC investments in gas and in independent power producers, with MIGA guarantees, where needed.

Across all three countries, the Bank Group has initiated the “Skilling Up Mashreq” (SUM) initiative, driven by the private sector, through which 500,000 women and young people will be trained in digital technology.

The Bank Group is now applying MFD principles in its interventions across many sectors in the **Maghreb countries**.

In **Morocco**, the Bank’s partnership plan aims to accelerate MFD-related reforms and mobilize private financing in education, transport, water, and communications technology. The MFD approach will position Morocco as a leader in capital markets for Africa and set up a model for municipal finance.

In **Tunisia**, the Bank Group's new infrastructure diagnostic will form the basis of discussions with the government on MFD approaches. The first step has been the adoption of a new strategy for the energy sector to mobilize private finance. Also, a large, private sector-led program has been launched to scale up and accelerate the national renewable energy plan—largely through independent power producer concessions.

MFD will also be central to initiating the Tunisia-Italy Interconnector power line, developing a 450 MW gas-fired independent power producer in Skhira, and developing a Liquid Natural Gas terminal as a public private partnership.

In **Saudi Arabia**, the World Bank is providing technical assistance through Reimbursable Advisory Services (RAS) to strengthen the legal, institutional, and regulatory frameworks for PPPs. The PPP strategy focuses on public utilities, sports, health, education, transport, and municipal services.

MFD solutions have also been initiated in the **West Bank and Gaza**. A performance-based investment operation for improved municipal service delivery has been launched in partnership with the private sector.

To encourage investments in small and medium enterprises, a MIGA Trust Fund has been established to insure those investments. The first-ever World Bank-funded development impact bond was launched to provide Palestinians with “just-in-time” skills development for job opportunities. Equally trailblazing, a joint IFC-IBRD-MIGA investment in a solar power project in Gaza will create close to 1,000 jobs in an area with close to 70% unemployment among young people.

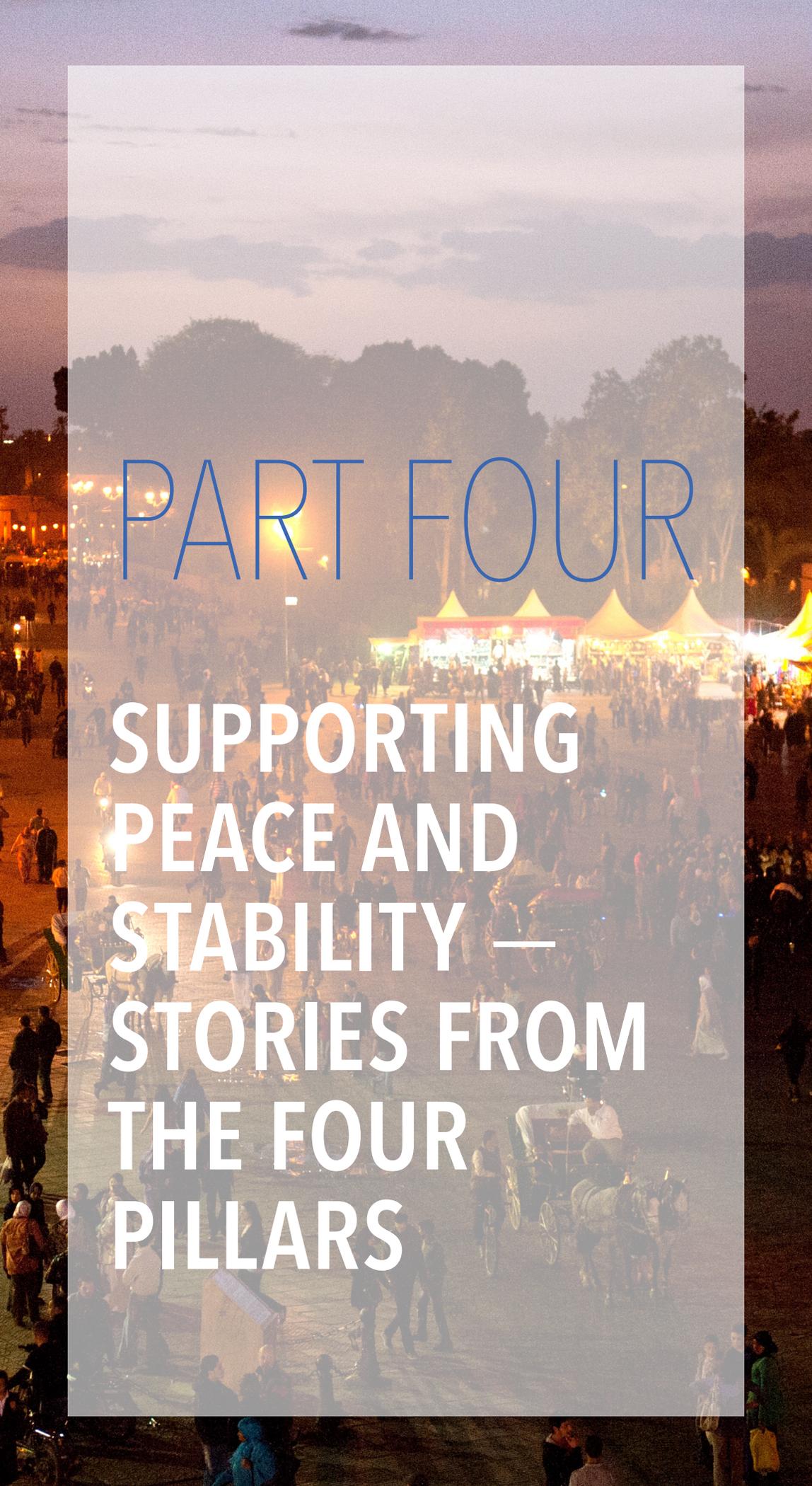
To address the fiscal constraints facing the Palestinian Authority, the Assistance Strategy is an MFD agenda. Its three pillars are reforms to foster private sector investment and job creation, the mobilization of investors and structuring of transactions, and addressing the needs of vulnerable groups. A Private Sector Enhancement Facility has been created to attract resources for the financial instruments needed in guarantees, blended financing, and investment co-financing to ensure viable private sector investment for the fragile and conflict-affected setting that would otherwise pose prohibitive risks to private investors.

The transition to MFD is delivering results, and there is much more potential for drawing on the financing, innovation, and expertise of the private sector, even in fragile settings and countries. In **Yemen**, a \$50 million grant from IDA, the World Bank's fund for the world's poorest countries, is financing the use of small-scale solar systems to power vital basic services and improve access to electricity for vulnerable Yemenis in rural and outlying urban areas. The project is relying on the commercial solar market, which has grown despite the conflict, providing support to the local economy and creating jobs.

The MFD approach will be a signature feature of the World Bank's work in the coming years, in support of policy reforms and investments that promote growth, sustainable improvements in services, and quality jobs, particularly for women and young people. The achievements of the MFD approach make it clear that, despite ongoing challenges, the MENA region is open for business.

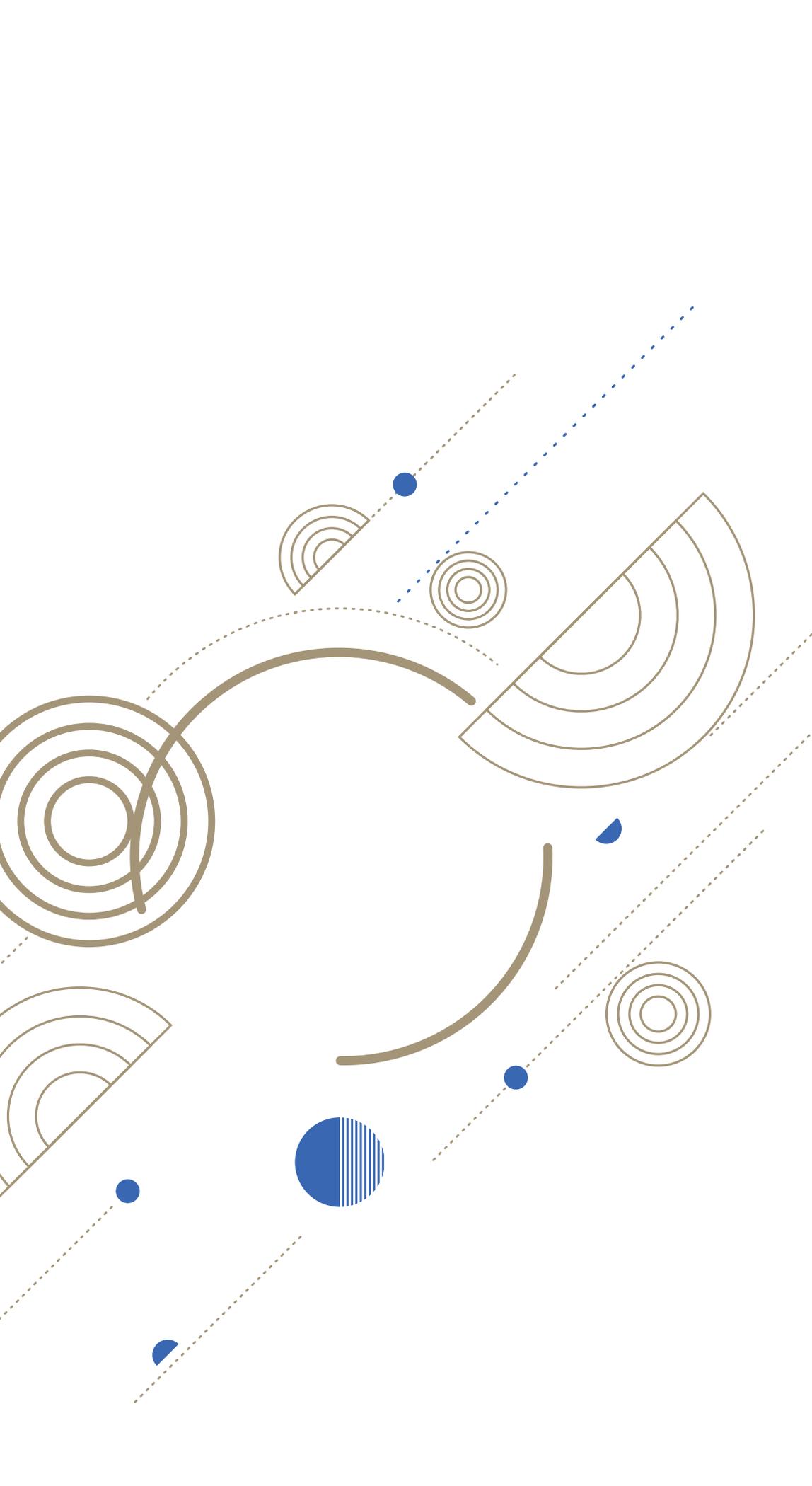




A large crowd of people is gathered at a night festival or fair. In the background, several large, illuminated tents are visible, along with trees and streetlights. The scene is filled with people walking and socializing. The overall atmosphere is festive and lively.

PART FOUR

**SUPPORTING
PEACE AND
STABILITY —
STORIES FROM
THE FOUR
PILLARS**





PART FOUR | SUPPORTING PEACE AND STABILITY – STORIES FROM THE FOUR PILLARS

In 2015, the World Bank Group responded to rising conflict and fragility in the MENA region with a new strategy that put peace and stability at its core. Along with the new strategy, and in response to rising demand from the region, the World Bank steadily increased its financial commitments, reaching a record \$6.4 billion in 2018, up from about \$1 billion in the years leading to 2011. The new strategy was built around four pillars designed to support urgent development interventions to address the underlying causes of conflict and their consequences. The four pillars of the strategy are: renewing the social contract; resilience; regional cooperation; and reconstruction and recovery.



PILLAR I. RENEWING THE SOCIAL CONTRACT

The first pillar, renewing the social contract, is fundamental to the strategy. The aim is to rebuild trust between citizens and their governments. Much of the conflict and unrest that has affected the MENA region has stemmed from a sense of exclusion among various members of society. The World Bank has been playing a major role helping countries in the MENA region breathe new life into the social contract with a new model of development based on more effective protection for the poor and vulnerable, more inclusive and accountable service delivery, and a greater role for the private sector create jobs and opportunities.

Throughout the region, projects funded by the World Bank and implemented by governments are demonstrating the positive results associated with renewing the social contract.

EGYPT. SOCIAL PROTECTION

The Takaful and Karama (Solidarity and Dignity) cash transfer program was launched in 2015. Originally designed to minimize the impact of lifting energy subsidies on the poorest of the poor, by late 2018 it had reached 2.26 million households or 9.4 million individuals—about 10% of Egypt’s population. A key poverty alleviation program, run by Egypt’s Ministry of Social Security and supported with \$400 million from the World Bank, it is one of Egypt’s largest investments in human capital.



Takaful is the larger part of the program, providing family income support. Vulnerable households eligible for the program receive a monthly transfer of 325 Egyptian Pounds (\$18.50c) if they comply with certain childcare requirements. These include an 80% school attendance record for children ages 6 to 18 years; four visits a year to a health clinic for children below the age of 6 years; maintaining child growth monitoring records; and attending nutrition awareness sessions. At these sessions, better child feeding practices are taught and the importance conveyed of regular immunizations for children, and antenatal and postnatal care for women. The program covers a maximum of three children per household. On top of monthly transfers, households receive supplementary allowances for children at different stages of their schooling. More than 1.9 million households, or about 8.3 million individuals, are enrolled.

Karama aims to protect those who are especially vulnerable: orphans, the disabled, and the elderly poor. They receive 450 EGP (\$26) a month with no conditions. Karama reaches about 1.3 million individuals: about 17% are elderly, 82% are disabled, and 1% are both elderly and disabled.

Of the households enrolled in Takaful and Karama, 88% are headed by women.

The success of the programs has led the Egyptian government to consider leveraging Takaful and Karama to launch targeted interventions for illiteracy, decent housing, and family planning. There are plans to move the program from protection to production by helping beneficiaries climb out of poverty and by developing livelihoods of their own.

TUNISIA. BRINGING GOVERNMENT CLOSER TO PEOPLE

Tunisia placed decentralization at the heart of its new constitution. The constitution outlines a vision of fully devolved and empowered local governments with autonomy for executing their mandates of providing local services according to transparent principles of participation by, and accountability to, their citizens. Two-thirds of the country's total population, equaling about seven million Tunisians, live in the country's towns and cities. Under the highly centralized decision-making system that existed prior to the 2011 revolution, municipalities had limited responsibilities and played a relatively minor role in local development. Strengthening local governments is a first step toward decentralization, bringing government closer to people.



The World Bank launched a \$300 million Urban Development and Local Governance program to support decentralization by improving the capacities of local governments and increasing the participation of citizens in local decision making. The program received additional funding of \$130 million in 2018 to extend the program and expand the number of Tunisians it reaches. With the support of the program, Tunisia has achieved several milestones, installing a new system based on minimum requirements that municipalities must meet to receive funds, which

work as an incentive for improvements in financial management, budget planning, and the involvement of citizens in decision making.

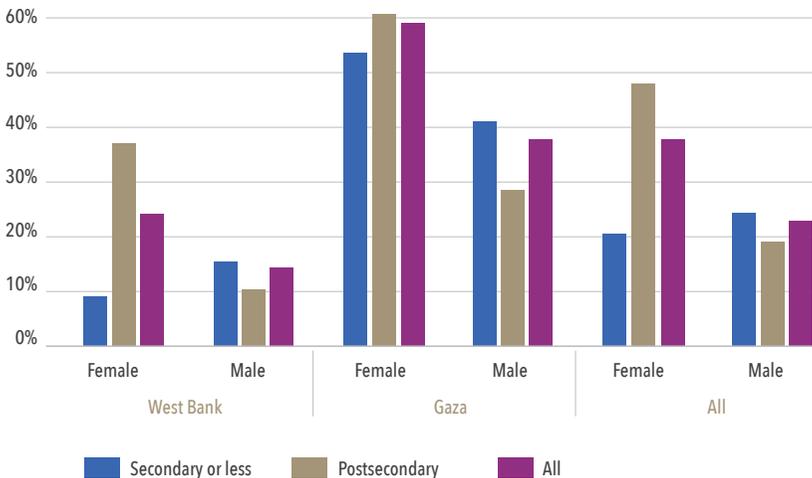
In 2018, almost 90% of municipalities exceeded annual performance assessment targets. Local governments have either begun or completed infrastructure projects in many municipalities. The program has also supported grants to encourage investments in under-equipped neighborhoods, targeting about 640,000 Tunisians. These have included local roads, markets, and street lighting, which women in particular want not only to increase security but create opportunities for businesses to stay open late.

In the first free and fair municipal elections in May 2018, many Tunisians had their first opportunity to participate in local decision making. This was true of Hassiba Chabbouh, a high school physical education teacher elected to the city council in the town of Mourouj on the outskirts of Tunis. "When the youth facility project was approved by the city council, it was the happiest day of my life!" said Chabbouh, voicing her enthusiasm at local decisions that meet local needs.

WEST BANK & GAZA. BREAKING DOWN BARRIERS TO WOMEN'S EMPLOYMENT

Alongside projects and programs, the World Bank has produced a significant body of analytical work to address critical issues in the region. This includes analysis undertaken in fragile and conflict settings, such as the West Bank & Gaza, where solutions are being sought to address high rates of unemployment, particularly among women and young people. *Enhancing Job Opportunities for Skilled Women*

Figure 3. Unemployment rate, by gender, education, and region: West Bank and Gaza, 2015



Sources: Labor force survey, 2015

in the Palestinian Territories, a recent World Bank study supported by the Norwegian government, shows the extent to which the human capital of the Palestinian labor force is going untapped. As with the rest of the region, a striking feature of the Palestinian Territories is the significantly higher rate of unemployment among skilled women relative to skilled men.



There are, however, some exceptions: As part of its commitment to accelerating job creation in the region to absorb its many young people and harness the economic potential of women, the World Bank is focusing on creating productive opportunities in the Palestinian territories by creating incentives for increased investment in women-owned enterprises.

Aya Kishko is a case in point. At 26 years old, she is running her own, successful business in Gaza, *Basata Up*—an enterprise built on upcycling discarded wooden crates into high value furniture. On any given day, more than 200 trucks, each containing about 24 wooden crates of merchandise, enter Gaza. While the goods are distributed, the crates are usually discarded out onto the streets. Not only are they an eye sore but, in a small, densely populated city like Gaza, they are also an environmental hazard.

Kishko, a graduate of architectural engineering, is among a small but growing number of rising female innovators breaking new ground in non-traditional, high impact fields across the Palestinian territories.

"I strive to provide opportunity and hope to Gazan youth, many of whom had been jobless before working at my company," said Kishko. "I would especially like to encourage and inspire more women in the field; one idea is to establish a women's training center in my workshop to involve them not only in design and marketing, but also in implementation and manufacturing, which tends to be male-dominated."

The report says is not clear at what point in a woman's career discrimination becomes a binding constraint, but evidence suggests that it may be at the point of entry into the labor market. A prevalent view among employers revealed in qualitative surveys was that men were viewed as more deserving of a job.

Ultimately, however, the report says closing the gender gap requires tackling all the constraints facing women and men in a comprehensive manner. This starts with reforming laws that do not treat women and men equally and with enforcing discrimination-free employment in the private sector.



PILLAR II. RESILIENCE

In the past decade, people and communities have experienced a series of shocks in MENA. Conflict has led to the tragic loss of life and the mass displacement of people. It has also led to the loss of livelihoods and access to public services, and to pressures on communities following the sudden arrival of hundreds of thousands of refugees. In addition to conflict, the region has had to cope with the shock of climate change, the effects of which are especially severe in MENA. Under Pillar II, a number of projects have been launched to help people and communities build up their resilience to cope with these shocks.

YEMEN. BUILDING RESILIENCE

The World Bank is providing—through its fund for the world's poorest countries, the International Development Association (IDA)—large-scale emergency grants to Yemen. Working through an innovative partnership with the United Nations, IDA has financed \$1.36 billion in emergency interventions that invest in people and the institutions Yemenis rely on for critical basic services and livelihood support.

The IDA grants have been able to save lives, in part through the \$483 million Emergency Health and Nutrition Project (EHNP), which has reached more than 14.6 million people in all districts of all Yemen's governorates. About one million people in high risk districts have been vaccinated with an oral cholera vaccine. Nearly 12,000 health personnel have been trained and, to protect the country's future generation, 6.9 million children (five million of them under 5 years old) have been immunized.

The health project is implemented by the **United Nations Children's Fund (UNICEF)** and the **World Health Organization**, and funds local medical staff, as well as their operating expenses and supplies. A health facility in Al-Hayma near Sana'a, the Yemeni capital, is an example of how this works. Mobile teams based at the health clinic identify people in the surrounding area who need medical care, such as Muneera, a three-year-old who was suffering from malnutrition, acute pneumonia, and fever at home in her village last year.

Her father could not afford to take her to the clinic. “I have been without a job for a long time because of the war,” he explained, “and I cannot provide enough food for my family.” The mobile team visited and provided therapeutic feeding to help his daughter overcome the effects of malnutrition until her life was out of danger.

The project contributed to the treatment of more than 130,000 acutely malnourished children in Yemen between January and June 2018.



The World Bank has also partnered with UNICEF in a \$340 million Emergency Cash Transfer Program to ensure vulnerable Yemenis have money to buy food and basic necessities. Cash transfers have been provided to people across Yemen’s 333 districts, reaching, on average, 1.45 million poor households (about 9 million people). The strategy is centered on reviving a key national social protection program that had stopped functioning, providing critical support and food security among the population.

The World Bank is also into its second year of a \$150 million operation with the UN’s Office for Project Services to restore critical urban services in a number of Yemen’s cities. Reaching 1.4 million people, the project is providing health facilities with solar energy, upgrading key urban roads, cleaning up accumulated debris and waste from the streets, fixing water and sanitation services, and restoring parks and public places.

JORDAN AND LEBANON. EXPANDING BASIC SERVICES FOR CITIZENS AND SYRIAN REFUGEES

The devastating war in Syria drove millions of Syrians across the border in search of refuge. Jordan and Lebanon, among others, opened their borders to receive them. The two countries were quickly hosting the world's largest number of refugees in relation to the size of their populations. The sudden increase in their populations has put immense pressure on basic infrastructure and services.

As of April 2019, the World Bank's active portfolio in Jordan comprised 14 projects valued at \$1.3 billion in grants, concessional financing, and low interest loans. These projects cover a number of key sectors, including health.

THE GLOBAL CONCESSIONAL FINANCING FACILITY

Jordan and Lebanon had struggled to cope with basic services, such as schools and health facilities, and everything from trash collection to the water supply was being overwhelmed. This was making life harder for both Syrian refugees and the communities hosting them. Both countries required large investments to address the impact of the refugees but, as middle-income countries, they could not access financing on concessional terms. Instead, Jordan and Lebanon found themselves with a growing debt burden.

In view of the global public good the two countries were providing by hosting refugees, in 2016 the World Bank partnered with the United Nations and the Islamic Development Bank to create a facility that would provide Jordan and Lebanon with concessional financing. The facility makes innovative use of grants from donor countries, with \$1 in grants leveraged to create about \$4 in concessional financing to provide vital longer term and low-cost financing. By the end of that year, the facility had been expanded to become the Global Concessional Financing Facility (GCOFF). It remains focused on Jordan and Lebanon, but the expanded facility ensures a coordinated international response to refugee crises in middle-income countries. In just over two years, the facility has unlocked over \$2.5 billion in concessional financing for Jordan and Lebanon.

JORDAN. EMERGENCY HEALTH PROJECT

The cost of public health services is 7% of Jordan's GDP, far higher than most developing countries. The presence of Syrian refugees has increased demand for health services, making it hard for Jordan to keep on top of public health. The majority of the 650,000 registered Syrian refugees in Jordan live in host communities outside of refugee camps. In June 2017, the World Bank launched a \$50 million Emergency Health Project supported by the GCFF to help the Government of Jordan maintain primary and secondary health services for poor, uninsured Jordanians and Syrian refugees. The project follows a Results-Based Financing model, disbursing funds against independently verified results. It also provides technical assistance and capacity building. Since its start, it has provided hundreds of thousands of impoverished Jordanians and Syrian refugees with health services.



SHOCKS CAUSED BY CLIMATE CHANGE

In addition to shocks caused by conflict, the region is suffering from shocks to livelihoods and the economy caused by the effects of climate change. Nearly two-thirds of agriculture in MENA relies solely on rainfall, making the region especially vulnerable to changes in both temperature and rain patterns. And, as global temperatures rise, they will rise even faster in MENA, causing more severe and frequent droughts. The 2015 drought destroyed over half of Morocco's wheat harvest and led to a 1.5% drop in the country's Gross Domestic Output. About one quarter of MENA's workforce is employed in agriculture—in Morocco, it is even higher, at 40%.

MOROCCO. MAKING EVERY DROP COUNT

In water-scarce Morocco, irrigation plays a fundamental economic and social role. Although practiced on only 16% of land cultivated in the country, it generates half of the agricultural Gross Domestic Product (GDP) and 75% of agricultural exports.

However, water scarcity represents a growing challenge for farmers. To promote a more sustainable model of irrigation, the government has developed a national plan to optimize water-use and increase productivity in irrigated agriculture.



Upgraded distribution networks can deliver water 24/7 to individual farmers. This allows farmers to adopt more efficient drip irrigation, which is sponsored by the government through an incentive program.

Ahmed El Youssfi owns 14 hectares of land near the village of Thnine Gharbia in the fertile Doukkala region. He benefited from World Bank support to the government's national irrigation project, Programme national d'économie d'eau en irrigation. "We used to rely on groundwater, access to water was a luxury," he said. "We had to spend months without farming and without income during the summer."

Preserving water also increases incomes. Drip irrigation, which minimizes evaporation by allowing water to drip slowly from pipes to the roots of plants, has changed the way local farmers manage their land, saving on water and increasing productivity tremendously. Their income over time is 25% to 30% higher than when they relied on irrigation from sprinklers. Producing more food is not, however, enough to increase farmers' incomes; added value comes from greater access to markets and agribusinesses.

Kamel Belabbes is part of the World Bank’s technical assistance team responsible for synergies between the processing sector and farmers in Doukkala. “Our role here is to build bridges between the processing sector and farmers’ associations,” he explained. Engagement has paid off, with the area supplying the national sugar company with sugar beet and plans for processing tomatoes and milk also making headway.

The project is improving the management of one of Morocco’s most valuable resources, water, while improving the livelihood of farmers.

DJIBOUTI. GENERATING GREEN ENERGY

Djibouti relies on energy imports from Ethiopia to meet its domestic demand. This puts it at risk of fluctuating energy prices, a risk that will grow because its domestic demand is expected to increase in the medium-term.

The investment guarantee arm of the World Bank Group, MIGA, is supporting a wind project in Djibouti, in line with its strategic focus on climate change technology in IDA and fragile and conflict-affected countries. By providing political risk insurance to investors and lenders, MIGA promotes private investment in developing countries.



The Ghoubet Wind Project involves the design, construction, operation, and maintenance of a 60-megawatt (MW) wind farm. The project will provide a total 60 MW of generating capacity through some 15 wind turbines, each 150 meters in height. The electricity generated will be fed to a substation within the site. A 230kV overhead transmission line will be constructed to connect it to a planned

substation and the national grid. That substation, and a double-circuit 230kV transmission line to another near Djibouti City, is being constructed by Électricité de Djibouti (EDD).

Construction is expected to start in mid-2019 and take up to 18 months. It will require an estimated 300 workers during peak construction and up to 12 people to run it. The project will increase Djibouti's energy security and provide clean, green power for economic development.



PILLAR III. REGIONAL COOPERATION

Regional cooperation promotes trust between countries. Increased regional trade, apart from stimulating growth and job creation, can also promote interdependence as a foundation for long term stability. The Middle East & North Africa region has high barriers to cross-border trade which, coupled with poor logistics and too few common economic or political policies, have made MENA one of the least integrated regions in the world. In the Maghreb, for instance, countries face lower trade costs when trading with Europe than with each other. This presents opportunities for increased cooperation and regional trade that Pillar III aims to promote, such as Morocco's expansion of financial services into neighboring West Africa.

MOROCCO. EXPANSION OF SERVICES

IFC, the private sector arm of the World Bank Group, has been ramping up its work encouraging investment by MENA countries in Sub-Saharan Africa. Morocco



in particular is building bridges with its southern neighbors as part of its goal to develop its economy.

The Banque Centrale Populaire (BCP), an IFC client, is one of the largest banks in Morocco. It has ambitious investment plans for Sub-Saharan Africa (SSA), including support to a microfinance institution in Côte d'Ivoire.

The SSA region is rich in potential but needs an estimated \$90 billion a year over the next 10 years to meet its basic infrastructure demands. IFC has invested in Moroccan banks and insurance companies—purchasing equity and issuing guarantees for cross-border trade—to help them enter emerging markets, create jobs, share best practice, and raise local business standards.

Combined commitments totaling almost \$300 million since 2015 in subsidiaries belonging to Banque Marocaine du Commerce extérieur—such as insurance company, Saham Finances, and Attijariwafa Bank—have been designed to increase Africa's access to goods and services. This regional cooperation is stimulating growth in Sub-Saharan Africa by providing financing while also allowing Moroccan companies to blossom into international concerns and compete on a global level.

COMMON CONCERNS, COMMON POLICIES

There are also common concerns that would benefit from a regional approach. MENA holds close to half of the world's oil and gas reserves, and very high solar and wind energy potential, but most countries in the region are struggling to meet domestic demand for gas and power. Regional and sub-regional electricity, gas, and solar markets would help address this. Managing water resources to cope with water scarcity also requires regional cooperation. Common educational standards would help tap the potential of education to contribute to regional growth and prosperity. Under Pillar III, the World Bank has been promoting regional cooperation on all these issues. This has included regional analysis on electricity, water, and education.

The World Bank has conducted analytical research into areas key to regional cooperation and created products of practical use. One example is an electricity database that covers 67 electricity utilities, offering policymakers a valuable public resource. Demand for electricity in the MENA region is increasing sharply, requiring an additional 135 GW of generation capacity and an investment of \$450 billion.

A World Bank report, *Shedding Light on Electricity Utilities in the Middle East and North Africa*, offers a more extensive analysis of the performance of **electricity** utilities and provides quantitative evidence on how better management, sustainable pricing, and context-specific reforms would free up enough resources to make the investments needed and lower operating costs.

As well as addressing the deficit in electricity, regional cooperation could help tackle water scarcity. Countries in MENA have been at the forefront of developing practices to manage water in a largely arid and highly variable climate, but rising demand,

climate change, inter-sectoral competition, and urbanization are exacerbating an age-old problem. The scale of the water crisis is unprecedented and requires coordinated responses across institutions in many countries.

A joint World Bank and Food and Agriculture Organization report, *Water Management in Fragile Systems: Building Resilience to Shocks and Protracted Crises in the Middle East and North Africa*, finds that institutional failures to address water-related challenges can act as risk multipliers, compounding existing situations of fragility. However, it also finds that improving **water management** can contribute to building resilience in protracted crises. Left unaddressed, water issues can erode government legitimacy. The report says institutions and policy choices can mediate water-related impacts on people and economies.

Working together within countries and across boundaries is essential. Given the scale and commonality of the challenges and the transboundary nature of important issues like climate change and shared water resources, collective action and partnerships are essential.



Education is another area for potential cooperation. A World Bank report, *Expectations and Aspirations: A New Framework for Education in the Middle East and North Africa*, reviews the state of education across the region. It says the situation requires a renewed focus on education, not just as a national priority for economic growth and social development, but as a national emergency for stability, peace, and prosperity. The report feeds into dialogue between the World Bank and MENA countries on education policies and the need for urgent and deep reforms, focusing on education's large, untapped potential to contribute to the region's human capital, wealth and well-being.



PILLAR IV. RECOVERY AND RECONSTRUCTION

Under the fourth pillar, the World Bank Group has focused on directly addressing the impacts of conflict. Given the scale of the destruction and its effects on the people of the region, the traditional approach of waiting for conflict to end and then conducting a post-conflict needs assessment, followed by the financing of a reconstruction plan, was considered insufficient. Instead, a dynamic approach was adopted that has involved conducting ongoing damage assessments during conflict to get the necessary data to launch reconstruction efforts as soon as fighting stops. It has also meant moving as quickly as possible to restore basic services as a way of rebuilding the relationship between citizens and their government to consolidate the peace. The World Bank Group is convening international partners to raise the scale of financing needed. This pioneering approach, of preparing for reconstruction before conflict has ended, is in fact a return to the World Bank's origins. The Bretton Woods Conference that laid the foundations for the recovery after World War II—and led to the founding of the IMF and World Bank—was held in July 1944. This was one year before the war ended in September 1945.

IRAQ. RISING FROM THE RUBBLE

In Iraq, the World Bank Group has put its news strategy into practice. In July 2015, the World Bank provided Iraq with a \$350 million loan for an emergency operation to restore public services to Iraqi citizens living in municipal areas of two governorates that, after fighting between Iraqi forces and ISIS, had been brought back under government control. The project entrusted local authorities to rebuild infrastructure and, in the process, rebuild the relationship between citizens and



the state. It is an example of how the reconstruction process as well can underpin stability by bringing government closer to citizens.

In 2015 and 2016, the World Bank provided a total of \$2.64 billion in DPF—or budget support—to help Iraq cope with the collapse of prices for oil, its main source of revenue, while maintaining reforms to help stabilize the economy and lay the foundations for inclusive growth for all Iraqis, all of this while fighting to recover territory.

An additional \$400 million was approved in 2017 to expand the initial \$350 million for reconstruction. The expanded project supported the reconstruction and rehabilitation of bridges and roads, providing about 3 million Iraqis with improved mobility, more than 2 million with improved access to electricity, and 1.1 million with improved waste management services. Beyond infrastructure, the World Bank is also focused on supporting the people of Iraq. The \$300 million Iraq Social Fund for Development is working to improve the living conditions of more than 1.5 million poor households by increasing access to basic services and creating employment opportunities.

While fighting was still going on around Mosul, the World Bank partnered with the Iraqi government on one of the largest and most comprehensive Damage and Needs Assessments it has carried out. This was done using a combination of ground data and innovative remote-based technology. The data formed the basis of the Iraqi government's presentation to the Kuwait International Conference for Reconstruction that raised over \$30 billion.

SYRIA. COUNTING THE COST

The World Bank has focused on supporting the millions of Syrian refugees in Lebanon and Jordan, as well as helping host governments shoulder the financial burden. At the same time, the World Bank has conducted major research to gauge the extent of the social and economic damage in Syria, and to understand the factors that determine the decisions of Syrian refugees on whether to return or stay in their host countries.

The report, *The Toll of War: Economic and Social Impact Analysis of the Conflict in Syria*, finds the visible impacts of the Syrian war may only be the tip of the iceberg. A key finding of the report is that the breakdown of the systems that organize both the economy and society, along with the trust that binds people together, has had a greater economic impact than the destruction of physical infrastructure.

The report finds that about 538,000 jobs on average were destroyed annually during the first four years of the conflict, and that young people now facing an unemployment rate of 78% have few options. By comparing current circumstances with a projection of how Syria would have developed in the absence of conflict, the report calculates that the war has caused a loss in Gross Domestic Product of \$226 billion, or four times the country's GDP in 2010.



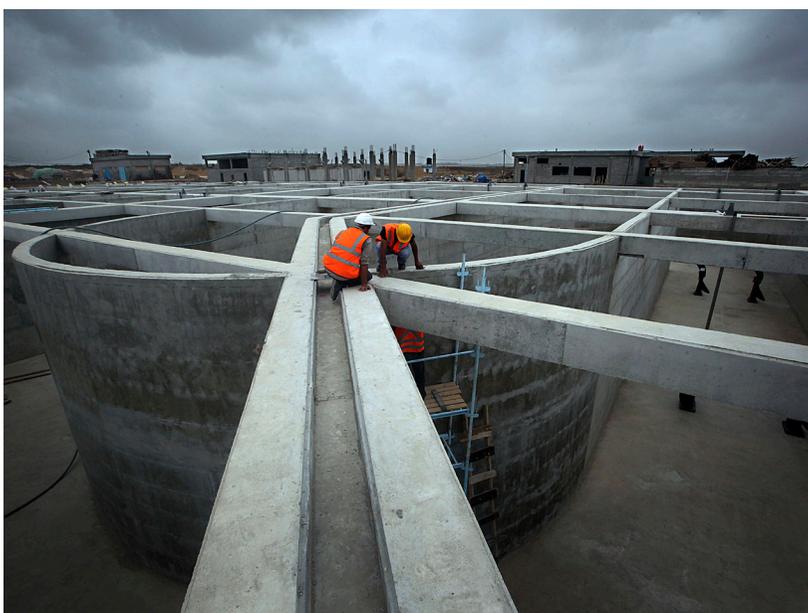
While not the focus of the report, the detailed analysis it provides of the social and economic impacts of the war would help prioritize actions in any future reconstruction and recovery process.

Conditions inside Syria will be a key factor in the decision of Syrian refugees to return home. A second report, *The Mobility of Displaced Syrians: An Economic and Social Analysis*, identifies key factors weighing on Syrian refugees and analyzes how changing conditions in Syria might affect their decisions to go home. The results were compared with other refugee situations around the globe. The extensive analysis of data, review of international experience, and forward-looking simulations allowed for a comprehensive, evidence-based study of the return patterns of Syrian refugees.

The sheer scale and pace of the conflict in Syria have resulted in persistent hardships for Syrians both inside and outside Syria. Taking refuge is not always a “win-win” situation offering both better security and better economic opportunities for Syrian refugees. On the contrary, access to security is often counterbalanced by a decrease in the quality of life. Short-term security also comes at the expense of lower human capital accumulation that will affect the future of Syrian children and youth. In addition, the report says maximizing refugee returns at any cost is a poorly defined policy target and recommends instead a focus on maximizing the well-being of refugees, their hosts, and Syrians in Syria.

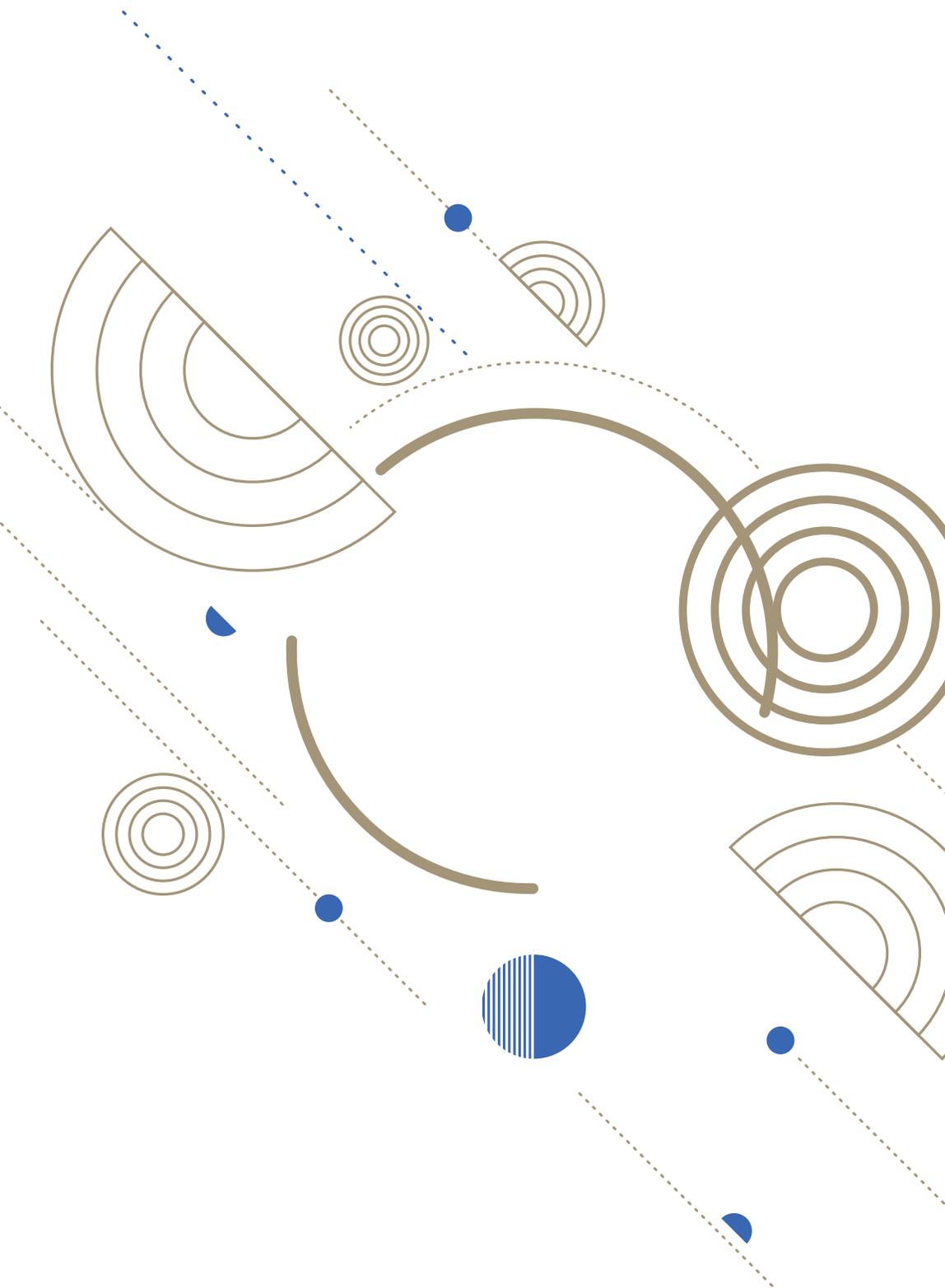
WEST BANK & GAZA. REBUILDING INFRASTRUCTURE IN THE MIDST OF TENSION

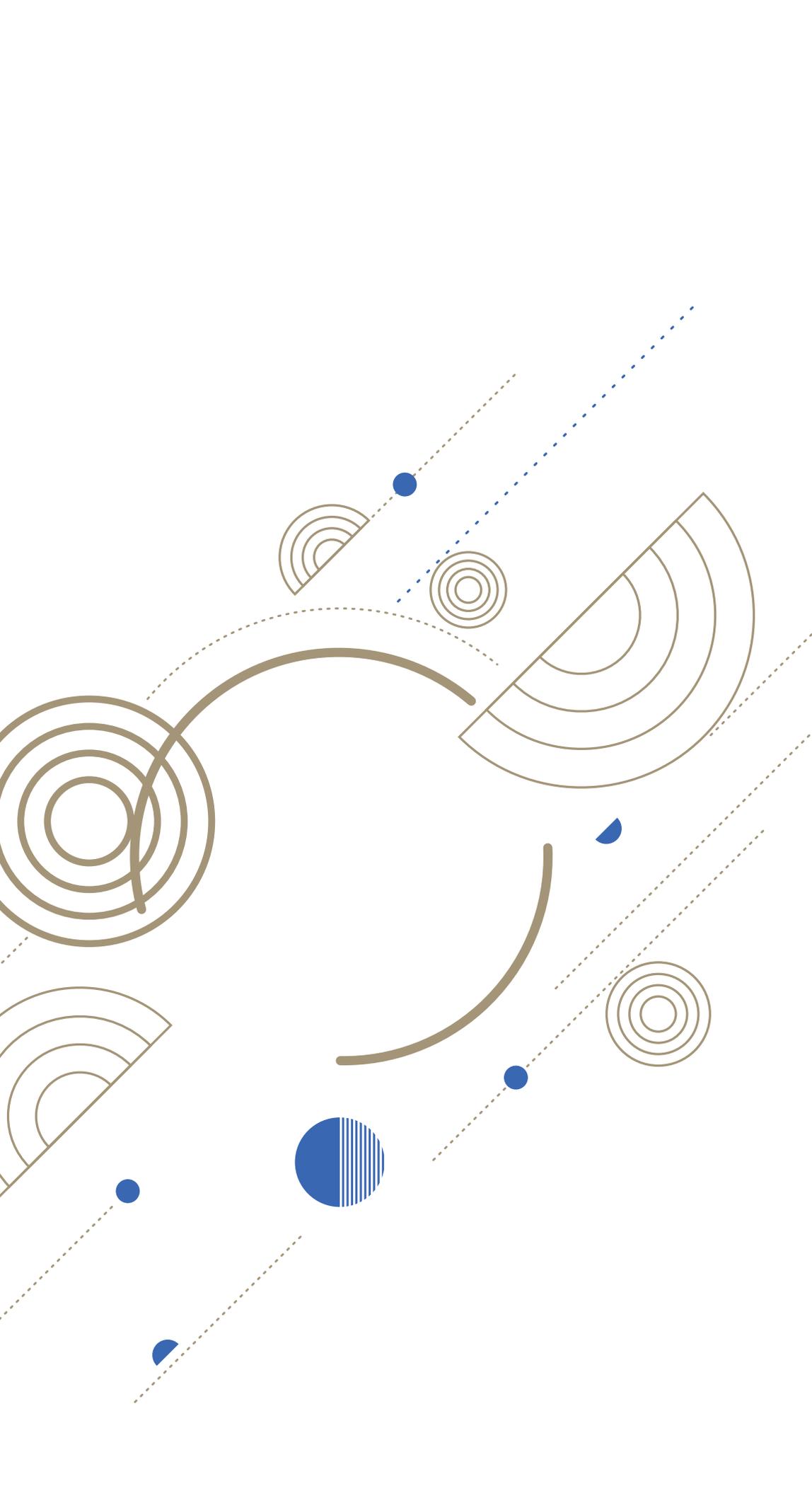
Years of neglect and poor management, due in large part to recurring conflicts, have led to the steady depletion of Gaza's natural aquifer. The empty aquifer has been contaminated by seawater and untreated sewage and for years Gaza's population has endured an environmental disaster. Despite the extremely volatile environment, however, the long-awaited construction of the new North Gaza Wastewater Treatment Plant was completed, with the plant now ready for operation. It will provide a long-term, sustainable wastewater management solution for more than 400,000 citizens.



The new water treatment plant will both improve public health and provide a means of replenishing the aquifer. The project faced numerous challenges, including years of blockade, restrictions on the entry of critical building materials and equipment, war damage to existing infrastructure, and the suspension of work due to hostilities.

The project faced numerous challenges, including years of blockade, restrictions on the entry of materials and equipment critical for construction, war damage, and the suspension of work due to outbreaks of conflict. Despite the challenges, the \$82 million project has transitioned from being an emergency intervention to a longer-term development solution.





CONCLUSION



Many people in the MENA region are still trapped in conflict, and instability continues to threaten development gains. In a region that has had low levels of extreme poverty, recent data revealed the rate had almost doubled from 2.6% to 5% between the years 2013 and 2015. The increase was mostly concentrated in Yemen and Syria and driven by conflict.

Climate change will also test the region's capacity to adapt. Temperatures will rise faster than the global average, accompanied by longer, deeper and more frequent droughts. The four pillars of the MENA strategy will continue to be the organizing principle for World Bank Group support to the region as it confronts these challenges. The World Bank Group will stay focused on promoting peace and stability through economic and social inclusion as the necessary conditions for development.

At the same time, neither the region nor the World Bank Group can afford to take its eye off the future. The region will need to create 10 million jobs every year to meet the aspirations of young people joining the labor market. Even before the rise of instability, the region's economies were unable to create enough jobs to meet demand. The lack of opportunities was the source of the frustration among young people that continues to be a driver of social tensions. Meeting this jobs challenge will require transforming regional economies from a reliance on the public sector for investment and jobs, to private sector-led growth, driven by the innovation and creativity of young people.

To achieve this transformation, MENA will need to invest in people to build human capital and develop the skills of the future, embrace the digital technology that is transforming the global economy, and increase competition to show the region is open for business. It will also need to mobilize private sector finance for development. The World Bank Group is expanding its strategy to provide the relevant support for this transformation. Alongside the four pillars are three new priorities that have been added: investing in human capital, digital transformation, and mobilizing private finance for development. With this expanded strategy, the World Bank Group will continue promoting stability while helping to usher in a more dynamic economy capable of generating the quality and quantity of opportunities needed to meet the aspirations of the region's young people.

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