

Middle East and North Africa Region

April 2015

Maximizing the World Bank Group's Impact in the Middle East and North Africa

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Foreword

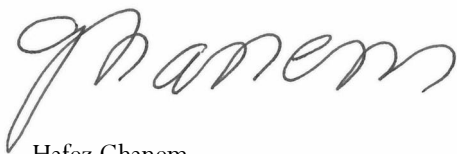
The World Bank Group has recently adopted its new operating model aimed at facilitating knowledge sharing at the global level and harnessing international insights to inform regional and local solutions. Through the Global Practices structure and the close linkages between IBRD, IDA, IFC, and MIGA, the World Bank Group will make sure to maximize its engagement and impact across the world.

Under this new framework of engagement, our collective challenge is to better deliver and increase support to the Middle East and North Africa (MENA) countries. This is especially critical in the MENA region, which is undergoing complicated transitions marked by social unrest and economic vulnerabilities, as well as by open conflicts with regional and global reverberations. In order to respond to the immediate needs generated by the current crises, but also to promote reforms and foster medium- to long-term investments, the World Bank Group seeks to chart a new path forward. In partnership with governments, development institutions, and civil society organizations across the region and globally, the purpose of our joint engagement is to facilitate inclusive growth and convene change in fragile middle-income countries in order to unleash the MENA region's full potential.

To deliver, we need to ask ourselves fundamental questions including: What should the objectives of the World Bank Group be in the region given how pivotal the Middle East and North Africa is for global stability and prosperity? How can the World Bank Group maximize its impact in the region? How do we address the deep governance issues that are muting private sector development and job creation? How can economic and social development best lay the groundwork for the advent of peace?

This report, *Maximizing the World Bank Group's Impact in the Middle East and North Africa*, is part of the ongoing discussion to answer these critical questions. Through the lens of each of the Global Practices and Cross-Cutting Solutions Areas, the report details the current engagement of the World Bank Group in the MENA region. While not exhaustive, the report also highlights some of the most critical cross-sectoral challenges the region faces, including fragility and conflict, private sector development and job creation, subsidies and social safety nets, gender, governance and service delivery in health and education, climate change, public-private partnerships, decentralization, and disaster risk management.

Though the report does not answer the fundamental questions previously posed, its pages provide insights into how the World Bank Group has engaged in the region to date and gives perspectives of how to tailor our strategy moving forward. Ultimately, this report emphasizes that because the MENA region is at a critical stage in its history, the World Bank Group should play a unique role to contribute to building a more prosperous future for the region.

A handwritten signature in dark ink, appearing to read 'H. Ghanem', with a stylized, cursive script.

Hafez Ghanem
Vice President
Middle East and North Africa Region
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Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
CEM	Country Economic Memorandum
CCSA	Cross-Cutting Solutions Area
CDD	community-driven development
CPF	Country Partnership Framework
CSO	civil society organization
DPL	Development Policy Loan
DRM	Disaster Risk Management
E4E	Education for Employment
ESW	Economic and Sector Work
FAO	Food and Agriculture Organization of the United Nations
FCV	Fragility, Conflict and Violence Cross-Cutting Solutions Area
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
GFDRR	Global Facility for Disaster Reduction and Recovery
GHG	greenhouse gas
GNI	gross national income
IBRD	International Bank for Reconstruction and Development
ICT	information and communications technology
IDA	International Development Association
IDP	internally displaced person
IFC	International Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IT	information technology
IUWM	integrated urban water management
MDB	Multilateral Development Bank
MENA	Middle East and North Africa region
MFM	Macroeconomic and Fiscal Management Global Practice
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region (World Bank department)
MSME	micro, small, and medium enterprises
NGO	non-governmental organization

NPL	Non-performing Loan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program-for-Results
PPI	Private Participation in Infrastructure
PPP	Public-Private Partnership
RAS	Reimbursable Advisory Services
RDPP	Regional Development and Protection Programme
SABER	Systems Approach for Better Education Results
SCD	Systematic Country Diagnostic
SME	small- and medium-sized enterprise
SOE	state-owned enterprise
SURR	Social, Urban, Rural and Resilience Global Practice
UHC	universal health coverage
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
WBG	World Bank Group

Executive Summary

This report provides an overview of the World Bank Group's engagement in the Middle East and North Africa (MENA) region, highlighting the new operating model of the World Bank Group. In particular, the report provides insight on the key challenges and strategic engagement of each sector (Global Practice) in MENA and details some of the key cross-cutting challenges that countries face. This report serves as a basis to convene international thought leaders, as well as internal and external stakeholders, in the context of developing a new strategy for the Middle East and North Africa region later this year.

The Middle East and North Africa is at a critical historical juncture, and the Bank has a vital role to play in helping the region lay the foundation for stability and shared growth. The region faces three challenges in particular: (a) long-standing distortions that have generated jobless growth and poor service delivery as well as low financial access and inclusion; (b) severe imbalances that threaten macroeconomic stability; and (c) deep political and social tensions, at times escalating into violent conflict.

The World Bank Group's current engagement supports four key pillars: (a) strengthening governance; (b) ensuring economic and social inclusion; (c) creating jobs; and (d) accelerating sustainable growth. Progress on these pillars can be made through a two-pronged approach focused on addressing the immediate needs arising from humanitarian crises throughout the region while also giving sustained attention to the investments and reforms needed for medium- and long-term development. This two-pronged approach is necessary to help governments cope with immediate pressures on already fragile institutions and at the same time develop long-term strategies to address deep-seated issues that have hindered inclusive growth and prosperity for decades.

In 2013, at the request of the Arab Governors and the G8, the World Bank Group, along with other international financial institutions and members of the Arab Coordination Group, launched a Scaling Up Initiative to support the countries of the Middle East and North Africa region. In this context, the World Bank Group has increased its financial assistance to countries of the region: US\$3 billion in fiscal 2011, US\$3.7 billion in fiscal 2012, US\$3.9 billion in fiscal 2013, US\$4.2 billion in fiscal 2014, and a projected US\$4–5 billion in fiscal 2015. Through a strategy of close engagement with members of the Arab Coordination Group, the volume of jointly financed investment projects has reached an estimated US\$3.9 billion in 2013–14 and is increasing.

Despite this scaling up of financial assistance, many of the challenges in the region remain. These challenges are complex and cross-sectoral in nature. This report details nine specific cross-cutting challenges: climate change; decentralization; disaster risk management; fragility, conflict and violence; fuel subsidies and social safety nets; gender; governance and service delivery in health and education; private sector development and job creation; and public-private partnerships. While these are some of the most critical challenges faced by countries throughout the region, there are other important cross-cutting themes that also need to be addressed moving forward, such as lagging regions and citizen engagement.

In addition to the aforementioned cross-cutting challenges in the region, the new operating model has produced several examples of cross-sectoral collaboration through various operations in MENA. In the Maghreb, for instance, a number of decentralization and local service projects benefitted from the collaboration of various Global Practices—Social, Urban, Rural and Resilience (SURR); Water; Governance; Transport and ICT; and Trade and Competitiveness. The Bank’s Emergency Response in Gaza also presents an example of how different Global Practices—Water, Energy and Extractives, and SURR—jointly delivered in a fragile, post-conflict environment. In Egypt, transformational engagements such as the Agricultural Land Reclamation project draw from the expertise of several Global Practices, focusing on investments across sectors. Furthermore, several Global Practices—Governance; Education; Health, Nutrition and Population; Macro and Fiscal Management; and Trade and Competitiveness—have worked together to advance Reimbursable Advisory Services in the MENA region. Recently, in March 2015, eight Global Practices and the IFC were mobilized for the Egypt Economic Development Conference, supporting key sectors such as energy, agriculture, low-income housing, sanitation, private sector development, tourism, transport, and social protection. Ultimately, these are illustrative examples that highlight the importance of continued collaboration across Global Practices, especially as many of the key challenges in the MENA region are cross-sectoral in nature.

Looking ahead, responding to the changing realities on the ground, the World Bank Group is rethinking its regional strategy in order to maximize its impact in the Middle East and North Africa. This new strategy, which is currently under preparation, will aim to step up the Bank Group’s engagement in the region in order to achieve shared growth and prosperity, as well as work with partners to convene change in the region. Through this approach, the World Bank Group can better mobilize the international community and pave the way for lasting economic and social development in the region, which is a global public good.

I.

The World Bank Group's Current Engagement in the Middle East and North Africa



THE CURRENT ENGAGEMENT OF THE WORLD BANK GROUP IN THE MIDDLE EAST AND NORTH AFRICA

REGIONAL CONTEXT

Since the onset of the Arab Spring in 2011, the Middle East and North Africa region has been in an unprecedented period of flux. Most countries in the region have experienced considerable political and social changes as well as significant economic volatility. The region is currently at a crossroads, where transformational gains built on the ideals of the Arab Spring could be realized, or where fragility and instability could become the long-term norm. Over the last year, there has also been a quantum uptick in conflict and violence in the region, which is having global reverberations.

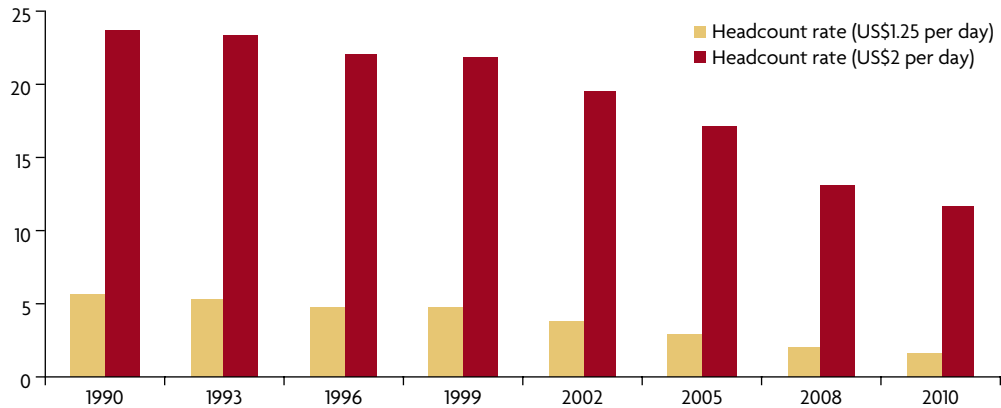
In some countries, most notably Tunisia, the political space has opened up, paving the way for inclusive governance. Other countries, however, have witnessed significant political instability and increased social divisions following the events of 2011. In countries such as Syria and Iraq, this instability has boiled over into violent conflicts that have effectively destabilized the region, with massive outflows of refugees exerting pressure on neighboring states with limited means and already weakened public services. On the other hand, most resource-rich states throughout the region have been relatively stable, but they continue to face significant medium- and long-term structural challenges, as well as immediate concerns due to the declining price of oil.

Many countries of the region face three challenges in particular, which if left unaddressed, threaten their stability and prosperity:

- Long-standing distortions that generated jobless growth, poor service delivery, and low financial access and inclusion
- Severe imbalances that threaten macroeconomic stability
- Deep political and social tensions, at times escalating into violent conflict

In terms of the World Bank Group's twin goals, the Middle East and North Africa region has been making significant progress. The region has already met the 3 percent target for ending extreme poverty, although the fact that 12 percent of the population continues to live on US\$2 or less per day indicates that a significant number of people are vulnerable

Figure 1.1. Absolute Poverty at US\$1.25 and US\$2.00 per day: Middle East and North Africa Region, 1990–2000



Source: PovCalNet, World Bank 2014.

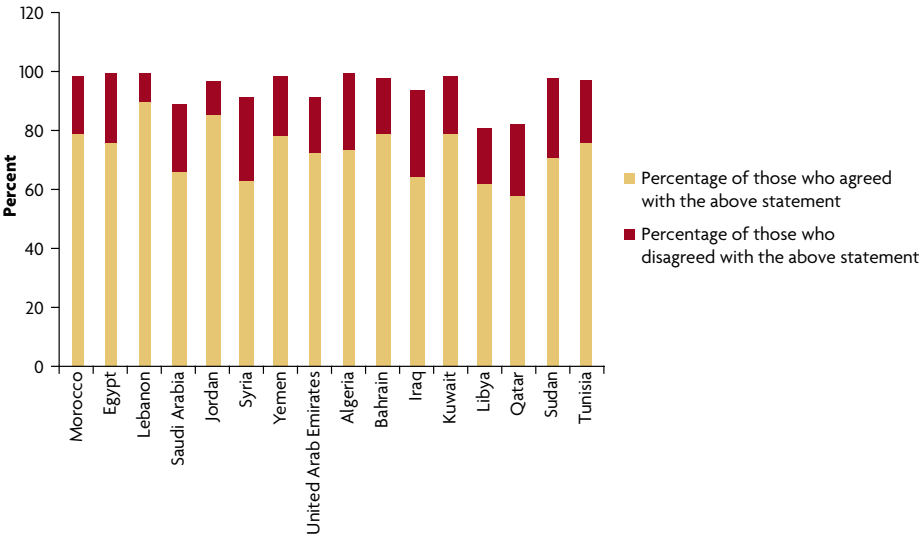
to falling into extreme poverty. Moreover, while the incomes of the bottom 40 percent of the population have been growing faster than the average of the population as a whole, the middle class has remained stagnant which, coupled with the inequality of opportunities and the broader issue of social and political exclusion, was a significant catalyst for the demonstrations that led to the Arab Spring.

Furthermore, although gross domestic product (GDP) growth was strong over the last decade, it was often accompanied by crony capitalism practices and a prevailing sense that privilege—known as *wasta*—was the most important determinant for employment. Recent research has also shown that politically connected firms have crowded out job-creating small- and medium-sized enterprises through various policies, including trade and foreign investment restrictions and stifling regulatory environments (Schiffbauer et al. 2014).

Youth have been hit particularly hard by this difficult social and economic environment. Most notably, the lack of private sector jobs and a stagnant public sector have limited opportunities for youth. At 30 percent, youth unemployment in the Middle East and North Africa region is the highest in the world, amplified by the fact that youth represent a sizeable demographic in the region. Young women face even greater challenges in finding employment, with unemployment rates close to 50 percent in some countries.

In macroeconomic terms, most countries in the Middle East and North Africa are facing deteriorating fiscal balances, high public debt, and low investor confidence, all of which threaten fiscal stability. Contributing to this is the continued existence of energy subsidies that are unsustainable and that in fact, benefit the wealthiest sectors of society.

Figure 1.2. Gallup Poll Question: “In general, do you mostly agree or disagree with the following statement: Knowing people in high positions is critical to getting a job (Wasta)?”



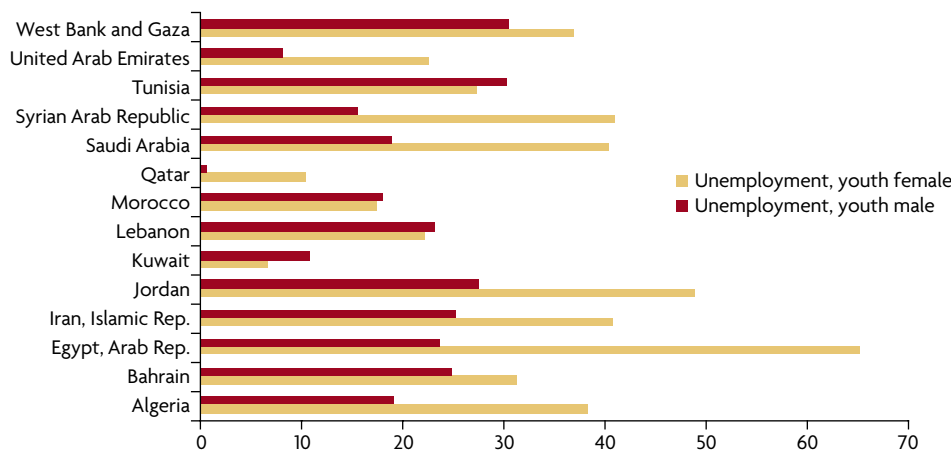
Source: Gallup Poll 2013.

The overall spending on subsidies is staggering, with the Middle East and North Africa accounting for 48 percent of the world’s total energy subsidies. Thus, one of the principal challenges that governments throughout the region will face in the coming years is transitioning away from economic models anchored in strong state subsidies.

Governance remains a central challenge, especially in countries transitioning from authoritarian governments to more open and inclusive forms of governance. Public sector reform and the agenda regarding the devolution of powers to subnational governments have characterized the post-Arab Spring debate and are an ongoing source of tension.

In addition to the aforementioned challenges, the conflicts across the region have fueled mass instability, especially due to the significant numbers of refugees and internally displaced persons, destruction of infrastructure, and staggering death tolls. Since 2011, the conflicts and unrest in Egypt, Tunisia, Syria, Yemen, and Libya have affected over 10 million people, with a cost of around US\$168 billion—19 percent of their combined GDP (Devarajan et al. 2014). The conflicts in Syria, Gaza, and Iraq have been particularly devastating. In Syria, United Nations estimates place the death toll at over 191,000. Over half of the population has been displaced, and 75 percent of the population has fallen into poverty, with 54 percent falling into extreme poverty. The conflict in Gaza has resulted in a collapse of the local economy, with massive destruction to infrastructure, housing,

Figure 1.3. Youth Unemployment (percent), Middle East and North Africa Region

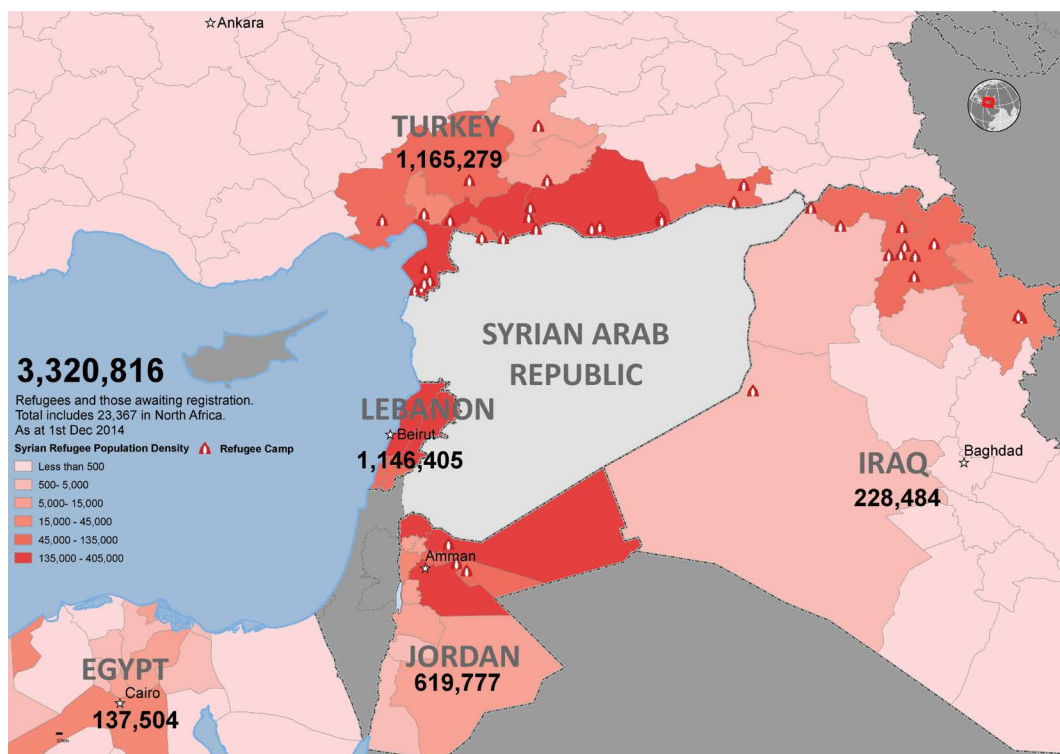


Source: World Bank Development Indicators 2014.

and educational and medical facilities. In Iraq, as a result of the emergence of ISIS—also known as ISIL—and its control of large territories, significant numbers of people have been displaced and trade has been severely obstructed across the Middle East. Libya has also experienced severe conflict and instability, posing security threats to neighboring countries in North Africa. The ongoing conflict in Yemen has undermined the progress achieved in the National Dialogue and further accentuated the precarious security situation across the region.

While these political, societal, economic, and security challenges are not unique to the Middle East and North Africa region, their ubiquity and intensity have created an extraordinary moment in the recent history of the Middle East and North Africa. Nevertheless, the region has tremendous potential for growth and prosperity going forward. Some countries in the region have taken remarkable steps toward realizing this potential. In Tunisia, a new constitution has been adopted, and leaders have taken the path of compromise, inclusiveness, and pluralism as they look to consolidate their nascent democracy. The region also has the extraordinary benefit of having a young population of 100 million people, which is largely well educated, has the ability to mobilize via social media, and ultimately aspires to build more just and prosperous societies. The dynamism of its youth combined with its proximity to European and Asian markets, natural resources, and fertile lands, present exciting opportunities for making significant strides in the Middle East and North Africa, especially if they are matched with visionary leadership, sound economic policies, and a culture of openness and dialogue.

Map 1.1. The Regional Effect of the Syrian Conflict



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations

Source: United Nations High Commissioner for Refugees (December 2014).

THE WORLD BANK GROUP'S CURRENT ENGAGEMENT IN THE MIDDLE EAST AND NORTH AFRICA: RESPONDING TO CRISES AND PROMOTING LONG-TERM PROSPERITY

The World Bank Group has focused on four key pillars: (a) strengthening governance, (b) ensuring economic and social inclusion, (c) creating jobs, and (d) accelerating sustainable growth.

Making progress on these pillars requires **cross-sectoral solutions** to complex and long-standing issues. The World Bank Group is focused on addressing the immediate needs arising from humanitarian crises throughout the region, such as Syria's refugee crisis and Gaza's reconstruction, while also giving sustained attention to the investments and reforms needed for medium- and long-term development. **This two-pronged approach consists of helping governments cope with immediate pressures on already fragile institutions and, at the same time, developing long-term strategies to address deep-seated issues that have hindered inclusive growth and prosperity for decades.**

Addressing the Fragility Challenge in the Middle East and North Africa	
Responding to the impact of the Gaza conflict	The human and economic impact of the conflict on the already weakened economy of the Palestinian territories calls for rethinking new ways not just to reconstruct Gaza, but to build a viable economy for the Palestinian territories. Along with the United Nations and the European Union, the World Bank has assisted the Palestinian Authority conduct a rapid assessment of recent damage in the water, electricity, and municipal sectors and prepared an emergency response package of US\$62 million, which includes support in all three sectors as well as emergency budget support.
Addressing spill-over effects of the Syrian conflict	In neighboring countries, the Bank is assisting with the assessment of the socioeconomic impact of the influx of refugees. In Jordan and Lebanon, the Bank is also responding through emergency operations, including grants to communities hosting refugees aimed at strengthening the capacity of local governments, and with medium- to long-term investment projects to provide infrastructure in key sectors such as municipal services, solid waste management, water, electricity, and transport. Ultimately, the Bank has provided US\$170 million (and leveraged an additional US\$145 million in parallel financing and donor grants) to assist Jordan and Lebanon in strengthening their institutional resilience and mitigating the impact of significant refugee inflows.

Thus, the **World Bank Group’s engagement is crucial in fragile and conflict-affected situations**, in countries undergoing political transitions, and in other seemingly stable countries that continue to face the challenges of high unemployment,

The World Bank’s current engagement supports a two-pronged approach focused on helping governments cope with immediate pressures on already fragile institutions and, at the same time, developing long-term strategies to address deep-seated issues that have hindered inclusive growth and prosperity for decades.

sluggish private sector growth, and weak delivery of public services. In fragile and conflict affected situations, in particular, the World Bank Group is continuing to assist governments and people build systems and services that will strengthen resilience going forward.

During this extraordinary time in the region, the World Bank Group has an opportunity to be at the forefront of helping governments tackle immediate challenges and adopt reform-minded policies needed to strengthen their institutions, empower citizens, and achieve inclusive and lasting growth. Through cross-sectoral engagements, the World Bank Group can have a **transformational impact** in the following areas: (a) enhancing service delivery; (b) creating jobs, improving the investment climate, and facilitating regional integration; (c) achieving subsidy reforms and strengthening social safety nets; and (d) promoting more open, transparent, and accountable societies.

Enhancing Service Delivery

Many of the grievances voiced during the Arab Spring—which continue today—are focused on the weak public services provided by governments. While citizens have demanded effective educational systems, efficient healthcare systems, clean drinking water, reliable energy, and modern and resilient infrastructure, states have been unable, in many cases, to provide such services over the last decade. Moreover, citizens throughout the region have expressed significant dissatisfaction with service delivery, as well

as low levels of trust in state institutions. Going forward, helping governments provide these basic services to citizens will be crucial, both for building stronger and more credible institutions and for reaching the most underprivileged people and regions. This means not only providing greater access to citizens, but also fostering more accountable and efficient governance of basic public services.

Creating Jobs, Improving the Investment Climate, and Facilitating Regional Integration

In order to create the millions of jobs needed and significantly increase growth rates, reforms and investments are paramount to foster private sector-led growth. Most notably, the World Bank Group is focusing on investing in new small- and medium-sized enterprises and advancing greater employer-driven skills development. In this regard, partnering with the International Finance Corporation (IFC), as was done for the first Education for Employment (E4E) investment project, is crucial. Also important are efforts at advancing key projects focused on improving the investment climate in order to create a more dynamic private sector; meeting energy needs in a sustainable and low-carbon manner; and investing in large infrastructure projects aimed at creating jobs, improving trade, and connecting lagging regions to a larger infrastructure network. This is especially important for the Middle East and North Africa, which is one of the least globally and regionally integrated regions in the world. Although home to 5.5 percent of the world's population and 3.3 percent of the world's GDP, the region's share of non-oil world trade is only 1.8 percent. To this end, fostering greater regional integration is a critical long-term strategic objective. Removing trade barriers will contribute enormously to long-term development in the region. A recent World Bank report estimated that greater economic integration in the Middle East could generate as much as US\$30 billion (World Bank 2014b). Building on this agenda across the region in coordination with the IFC and regional partners is essential to foster long-term growth, stability, and prosperity. Although developing a comprehensive agenda for the Middle East and North Africa may be a long-term objective, there are a number of actions that can be taken in the short-term to lay the ground for greater regional integration.

Citizens hold their governments accountable for delivering basic public services and promoting inclusive growth that crowds-in all sectors of society. In fact, recent history in the region serves as a reminder that the alternative to inclusive governance is often social unrest and in extreme cases, violent conflict. Going forward, greater direct engagement with citizens is of paramount importance.

Achieving Subsidy Reforms and Strengthening Social Safety Nets

For decades, unsustainable and large subsidies have been the norm for governments throughout the region. The Middle East and North Africa region represents 48 percent of global energy subsidies, while only accounting for 5.5 percent of the global population and 3.3 percent of global GDP. In hydrocarbon-exporting countries, energy subsidies

exceed 10 percent of GDP, and across the region subsidies crowd out public spending in areas such as education and health. Moreover, these subsidies have not focused on the poorest populations—in fact, they have benefitted the wealthier sectors of society (Devarajan et al. 2014). In the current environment of high fiscal deficits and tense social environments, transitioning away from large subsidies will be difficult but is critical for governments—both in the short and long term. This would not only allow governments to allocate more resources to the improvement of public services, but would also contribute to the creation of a dynamic, employment-intensive economy. Furthermore, due to the recent plunge in crude oil prices, there is a renewed need and unique opportunity to pursue crucial energy subsidy reforms (Devarajan and Mottaghi 2015). To this end, the World Bank is providing support to governments to reform costly and regressive subsidies while ensuring that the most vulnerable groups receive adequate basic services and continue to be supported by a reliable social safety net through targeted cash transfers.

Promoting More Open, Transparent, and Accountable Societies

As has been demonstrated since the onset of the Arab Spring, citizens hold their governments accountable for delivering basic public services and promoting inclusive growth that crowds-in all sectors of society. In fact, recent history in the region serves as a reminder that the alternative to inclusive governance is often social unrest and, in extreme cases, violent conflict. Going forward, open and accountable institutions and greater citizen engagement remain critical. Moreover, in countries such as Morocco and Tunisia, decentralization—or the devolution of powers to subnational governments—has been a central issue. With this in mind, the World Bank is committed to helping governments promote more open forms of governance and assisting local governments improve service delivery. Ultimately, this will be key to empowering citizens and unleashing the immense potential that exists throughout the region.

WAY FORWARD

Four years after the extraordinary events that captivated the attention of the world, the Middle East and North Africa region is at a crossroads. Incredible transformational gains could be made, building on the expectations and aspirations of the region's youth, or instead social upheaval and instability could become the norm, threatening progress for decades to come.

Looking ahead, responding to the changing ground realities, the World Bank Group is rethinking its regional strategy in order to maximize its impact in the Middle East and North Africa. This new strategy, which is currently under preparation, will aim to step up the World Bank Group's engagement in the region in order to achieve shared growth and prosperity, as well as work with partners to convene change in the region. Through

this approach, the World Bank Group can better mobilize the international community and pave the way for lasting economic and social development in the region, which is a global public good.

Going forward, the World Bank Group's role will continue to be critical in assisting governments and people to strengthen institutions, creating more opportunities for social and economic empowerment, and ultimately, building a more prosperous future for the Middle East and North Africa.

THE STRATEGIC RELEVANCE OF PARTNERSHIPS FOR THE MIDDLE EAST AND NORTH AFRICA REGION

The Arab Governors of the World Bank asked that the Bank “greatly intensifies its efforts to help mobilize external financing from other partners in support of the transition countries in economic crisis. . . Arab countries and regional IFIs are ready to work closely with the Bank in this regard.”

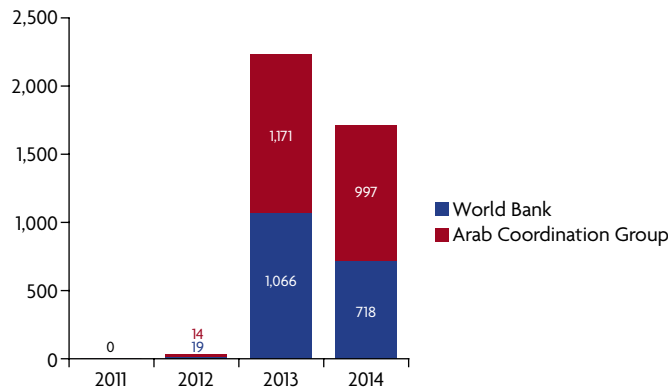
The Deauville Partnership (Finance Ministers of G8, Gulf Cooperation Council, transition countries, and Turkey) requested a determined effort and asked that the World Bank, the International Monetary Fund, Islamic Development Bank, and other international financial institutions prepare a report to “urgently consider further financial support, policy advice, and capacity building to assist Arab countries in transition (ACTs) with economic stability, job creation, and growth.”

Due to the historic and ongoing period of change in countries throughout the Middle East and North Africa, the region is in need of significant financial resources, both to meet immediate pressures and to undertake necessary medium- and long-term investments. The International Monetary Fund reports that US\$60–70 billion annually are



The Presidents of the Islamic Development Bank and the World Bank Group sign agreements to coordinate efforts on education (October 2014).

Figure 1.4. Arab Coordination Group—World Bank Co-Financing Levels (US\$ million)



Source: World Bank.

needed just to sustain current growth levels in countries undergoing transition¹ (IMF 2014a). In this context, it is critical for the Bank, as well as international partners, to look beyond the dire challenges of the present to mobilize and earnestly engage in partnerships with other multilateral and bilateral partners to scale-up support for the region—both in fiscal terms as well as through capacity building—in order to have a greater impact through larger programmatic operations. Given the strategic importance of this endeavor, a dedicated Partnerships Unit supports this function in the Middle East and North Africa Region.

In 2013, the World Bank, along with other international financial institutions (IFIs) and members of the Arab Coordination Group² launched a **Scaling Up Initiative** to address the requests from the Bank’s Arab Governors and the Deauville Partnership and to support the countries of the Middle East and North Africa region. In this context, the World Bank Group has increased its financial assistance to countries of the region: US\$3 billion in fiscal 2011; US\$3.7 billion in fiscal 2012; US\$3.9 billion in fiscal 2013; US\$4.2 billion in fiscal 2014; and a projected US\$4–5 billion in fiscal 2015.

Through a strategy of close engagement with members of the Arab Coordination Group, the volume of jointly financed investment projects jumped from US\$34 million in

1. Egypt, Jordan, Morocco, Tunisia, and Yemen. (Libya does not face financing needs.)

2. The Arab Coordination Group is comprised of: the Arab Bank for Economic Development in Africa (BADEA), the Abu Dhabi Fund for Development (ADFD), the Arab Fund for Economic and Social Development (AFESD), the Arab Gulf Program for United Nations Development Organizations (AGFUND), the Arab Monetary Fund (AMF), the Islamic Development Bank (IsDB), the Kuwait Fund for Arab Economic Development (KFAED), the Saudi Fund for Development (SFD), the OPEC Fund for International Development (OFID), and the Qatar Fund for Development (QFD).

2011–12 to an estimated US\$3.9 billion in 2013–14. A new impetus for the region is to now take this partnership further toward jointly identifying investment projects, technical assistance, and knowledge-related activities early on upstream, and monitoring and reporting aspects downstream. To this end, the establishment of a joint working group to further solidify and consolidate efforts at the country-level is under discussion.

Similarly, through the IFI Coordination Platform,³ the Bank is also working with other IFIs to complement overall efforts in the region by furthering coordination at the country and sector levels, joining policy dialogue efforts, and exploring flagship sectors where work can be jointly undertaken to deliver impactful projects. For instance, in order to scale-up financial resources for Egypt and in preparation of the March 2015 Egypt Economic Development Conference, the Bank held discussions with European financial institutions to solicit co-financing for scalable Bank-funded projects.

Partnerships and the mobilization of co-financing are of particular importance to the Middle East and North Africa region. Therefore, it is crucial for the World Bank Group to continue to build on the strong momentum that has been generated with various partners, particularly the Arab Coordination Group.

The volume of jointly financed projects jumped from US\$34 million in 2011–12 to an estimated US\$3.9 billion in 2013–14.

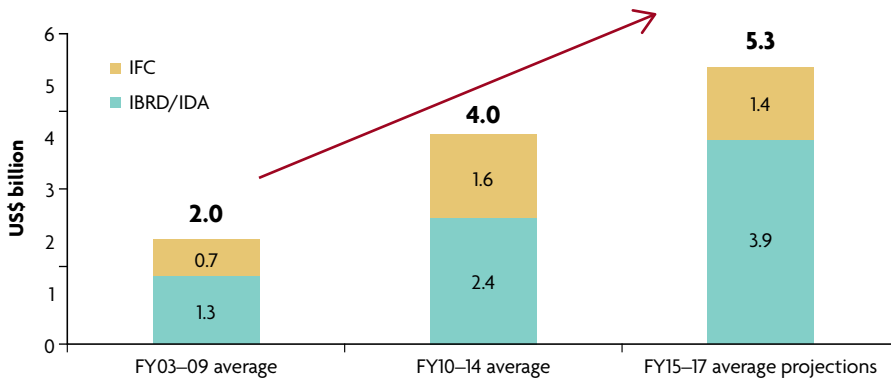
3. The IFI Coordination Platform was created in support of the Deauville Partnership and includes some Arab Coordination Group members (AFESD, AMF, IsDB, and OFID) as well as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Finance Corporation (IFC), the International Monetary Fund (IMF), the World Bank, and the African Development Bank (AfDB).

SUMMARY OF PORTFOLIO

Middle East and North Africa

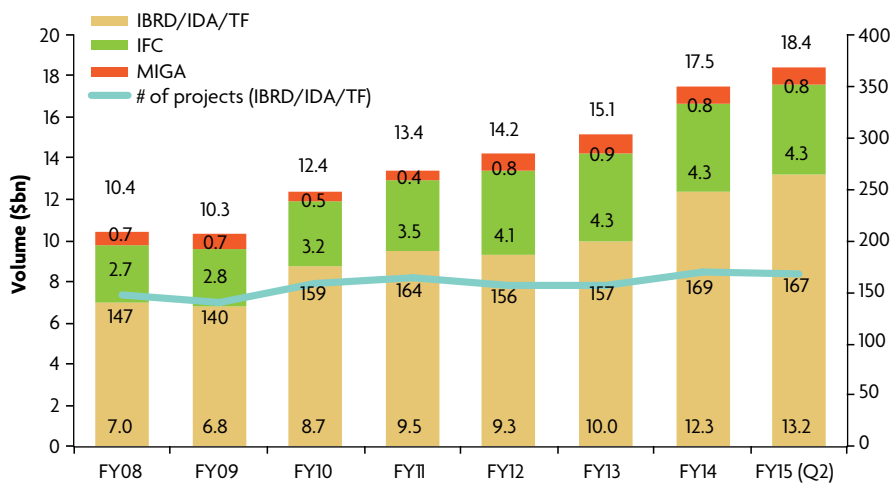
In terms of scaling-up, the World Bank Group has significantly increased its financial support and crowded-in the funding of partners, directing it toward key high-profile projects. To this end, the IBRD/IDA/IFC lending base has almost tripled.

Figure 1.5. IBRD/IDA/IFC Lending Base (figures in US\$ billion)



Source: World Bank.

Figure 1.6. World Bank Group Commitments in MENA

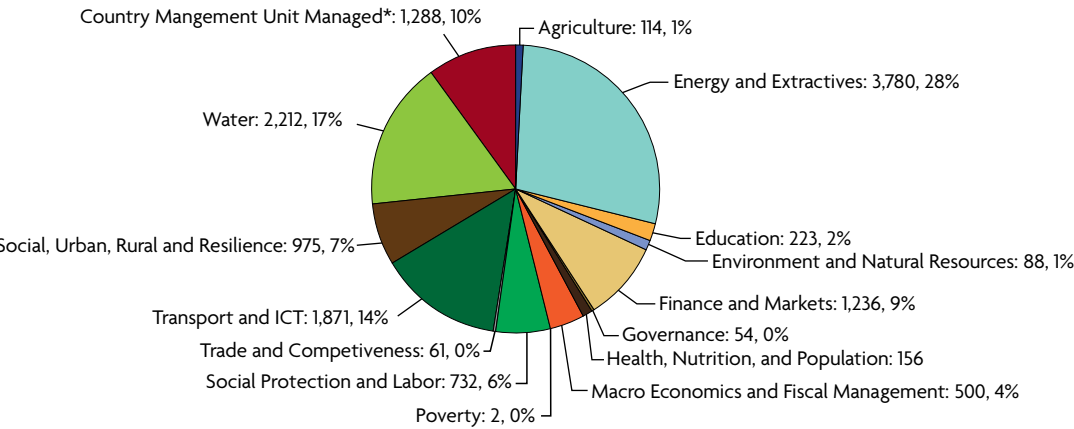


Source: World Bank

Note: MIGA data reflects gross exposures

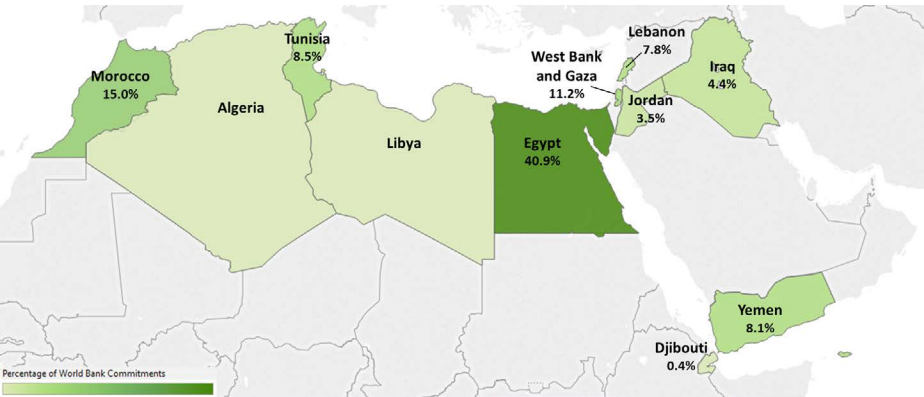
It is important to note that the new operating model has produced several examples of cross-sectoral collaboration through various operations in MENA. In the Maghreb, for instance, a number of decentralization and local service projects benefitted from the collaboration of various Global Practices—Social, Urban, Rural and Resilience (SURR); Water; Governance; Transport and ICT; and Trade and Competitiveness. The Bank’s Emergency Response in Gaza also presents an example of how different Global Practices—Water, Energy and Extractives, and SURR—jointly delivered in a fragile, post-conflict environment. In Egypt, transformational engagements such as the Agricultural Land Reclamation project draw from the expertise of several Global Practices, focusing on investments across sectors. Furthermore, several Global Practices—Governance; Education; Health, Nutrition and Population; Macro and Fiscal Management; and Trade and Competitiveness—have worked together to advance Reimbursable Advisory Services in the MENA region. Recently, in March 2015, eight Global Practices and the IFC were mobilized for the Egypt Economic Development Conference, supporting key sectors such as energy, agriculture, low-income housing, sanitation, private sector development, tourism, transport, and social protection. Ultimately, these are illustrative examples that highlight the importance of continued collaboration across Global Practices, especially as many of the key challenges in the MENA region are cross-sectoral in nature.

Figure 1.7. Middle East and North Africa Region Active Portfolio Total Commitments by Global Practice (figures in US\$ million; percentage of total amount)



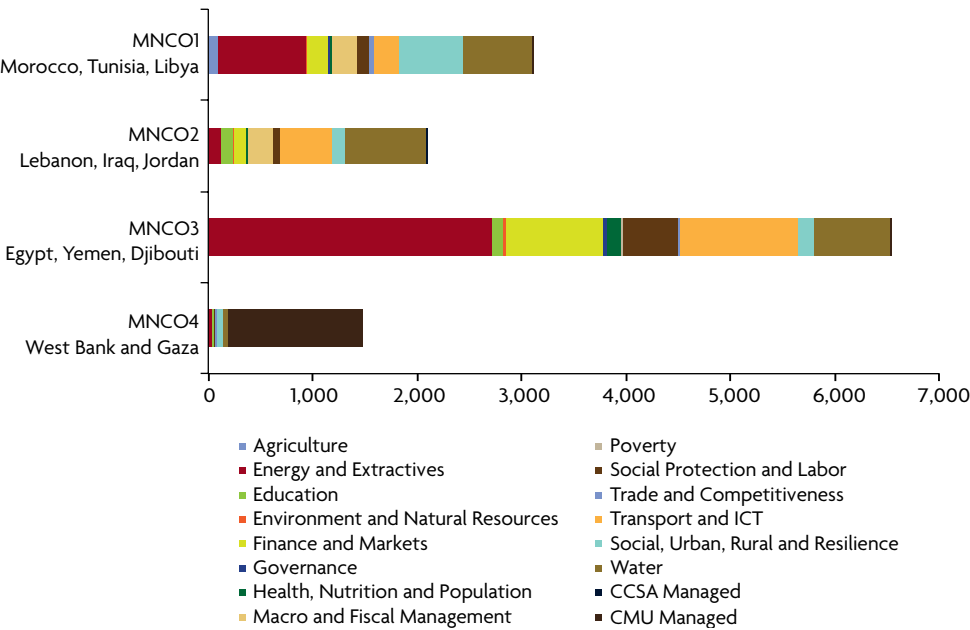
Source: “MNA Monthly Portfolio Report,” January 2015.
 Note: *Three projects are managed by country management units: (a) Yemen MAF Support Project, (b) West Bank and Gaza PRDP TF, and (c) Libya-SPF Transitional

**Figure 1.8. Middle East and North Africa Region Active Portfolio
Total Commitments by Country (figures as percentage of
total commitments)**



Source: “MNA Monthly Portfolio Report,” January 2015.

**Figure 1.9. Country Management Unit Active Commitments by Global Practice
(figures in US\$ million)**

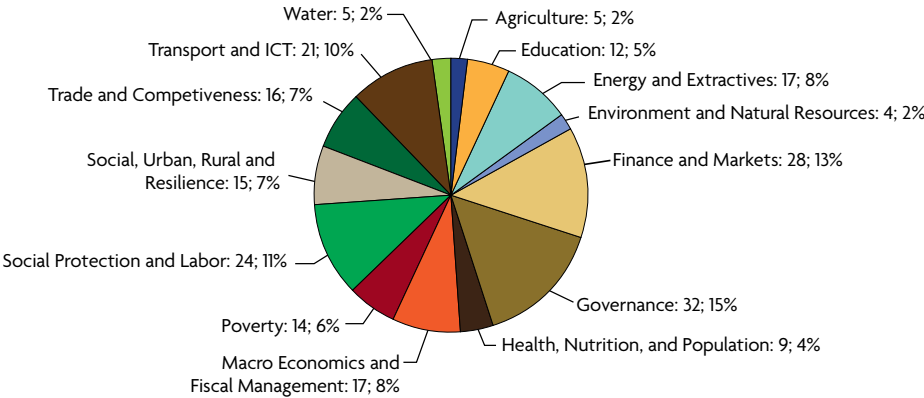


Source: “MNA Monthly Portfolio Report, January 2015.

Note: *Three projects are managed by country management units: (a) Yemen MAF Support Project, (b) West Bank and Gaza PRDP TF, and (c) Libya-SPF Transitional Assistance.

The World Bank’s total knowledge products in fiscal 2015 amount to 223, including 60 Reimbursable Advisory Services (RAS). RAS have been growing rapidly, reflecting a strong demand from clients for our knowledge services.

**Figure 1.10. Fiscal 2015 Knowledge Products by Global Practice
(figures by total number of knowledge products;
percentage of total number)**



Source: World Bank.

Reimbursable Advisory Services in the Gulf Cooperation Council

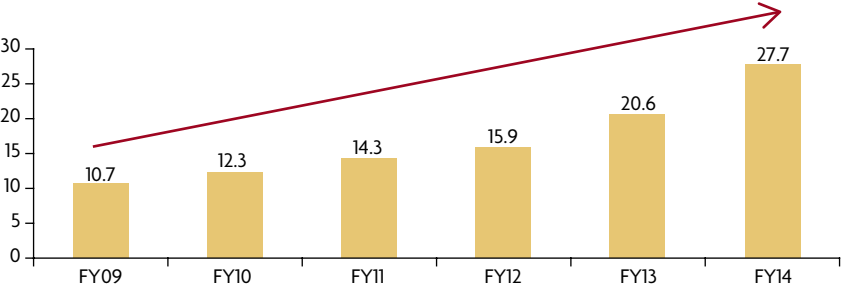
Technical cooperation between the World Bank and countries of the Gulf Cooperation Council (GCC) began over forty years ago with advisory services to the Kingdom of Saudi Arabia, and expanded over time to cover the other GCC countries - Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates. The World Bank, through RAS, and upon demand, delivers advisory services including technical assistance and implementation support in its areas competence.

In recent years, cooperation witnessed significant growth in the domains of governance, education, health, private sector development, environmental management, and transport. Also, cooperation at the GCC regional level was initiated with the GCC Secretariat General and with the GCC Organization for Industrial Consultations on better management of the environment and waterways, and on establishment of the GCC railway network.

This cooperation is beneficial to both the GCC countries and the World Bank. GCC countries strive to learn from the Bank’s global knowledge and operational experience in economic development, rely on its objective advice, and benefit from its ability to facilitate dialogue among stakeholders. The World Bank also benefits from its experience in supporting development efforts in the GCC to further enrich its global experience, gain more exposure to the development challenges of high and middle income countries, and deliver global public goods.

In 2014, the size of the GCC RAS program exceeded US\$20 million and is expected to be around US\$30 million in 2015.

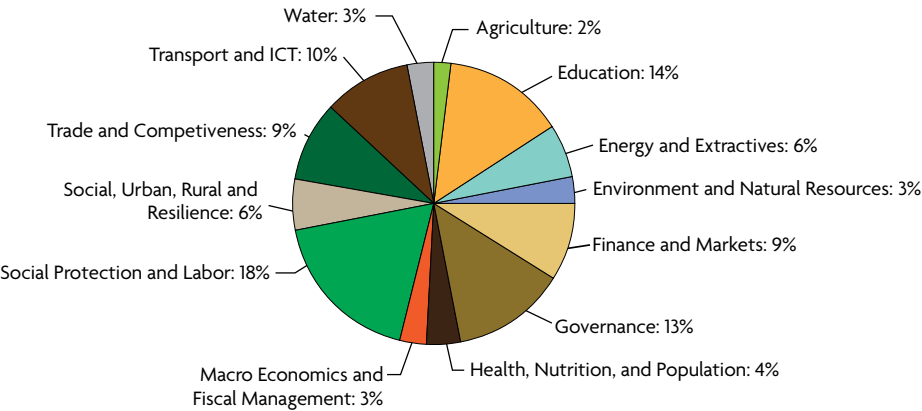
Figure 1.11. Reimbursable Advisory Services (RAS) Revenue Trends in the Middle East and North Africa (in US\$ million)



Source: World Bank.

Note: Business Warehouse data as of November 2014. Includes productized and other RAS-related costs.

Figure 1.12. Reimbursable Advisory Services (RAS) Program by Global Practice (figures as percentage of total multi-year agreement amount)



Source: World Bank.

OVERVIEW OF IFC ENGAGEMENT IN THE MIDDLE EAST AND NORTH AFRICA

Amidst increasing challenges of steep oil price declines, continued economic and political volatility, and low investor confidence, IFC is maintaining a flexible strategy in the region of promoting private sector development in order to fuel growth and job creation. Key strategic pillars to achieve this are supporting investments in infrastructure (especially power and renewable energy), strengthening financial institutions and increasing access to finance, reducing skills mismatch with private sector needs, and fostering entrepreneurship. IFC's engagements are also aimed at easing the constraints to doing business through investment climate reforms and by fostering regional integration through South-South investments, especially from GCC and Asian investors.

Within this overarching strategy, key priorities include helping the public and private sectors in the region tackle the critical energy gap that constrains private sector productivity. Renewable energy (hydro, wind, and solar), transmission and distribution in sectors with meaningful reforms, and gas-to-power based generation will all be areas of focus in many MENA countries. Given the need to promote job creation and entrepreneurship, IFC will try to increase its interventions in the services and the information and communications technology sectors, especially in the areas of tourism, retail, hospitality (including green buildings), broadband, venture capital, and private equity funds.

SUMMARY OF IFC PROGRAM IN THE MIDDLE EAST AND NORTH AFRICA¹

Despite the difficult external environment, IFC remains the leading international finance institution for delivering a package of investment and advisory services to the private sector in the Middle East and North Africa. To date, IFC's total commitments since January 2011 amount to US\$6 billion, of which about US\$2.5 billion has been mobilized from other investors. IFC has played a counter-cyclical role in the region and significantly scaled up in fiscal 2012 and 2013 with record high investments in response to the regional turmoil. Fiscal 2014 was a challenging year given the renewed political and security uncertainties across the region.

In fiscal 2014, IFC investments totaled close to US\$1.8 billion (including US\$486 million in mobilization from other investors) in the Middle East and North Africa to bolster the region's private sector and support job creation. IFC continued to: (a) focus on increasing access to finance with around US\$349

1. Investment totals exclude Afghanistan/Pakistan program, which falls within the Middle East and North Africa in IFC.

million of investments to support micro-, small-, and medium-sized enterprises; (b) ramp up its infrastructure investments, which totaled around US\$571 million, with a particular focus on renewable power and transport; and (c) support manufacturing and services investments in key sectors, including vocational training and affordable housing. IFC also maintained its efforts toward promoting greater inter- and intra-regional investments through several South-South investments. IFC's advisory services engagements included investment climate reforms (e.g., investment code and simplified business procedures); microfinance; and small- and medium-sized enterprise support for risk management, product diversification, increased financial inclusion for women, infrastructure public-private partnerships (including airports and solid-waste management); and increased support toward regional resource efficiency as well as renewable energy operations across the region.

The fiscal 2015 pipeline builds on the growing program in renewables and maintains a focus on supporting small- and medium-sized enterprises through investments in financial intermediaries. So far in fiscal 2015, IFC has committed a total of US\$410 million in long-term finance, including a US\$208 million debt financing package for seven solar PV projects in Jordan, US\$60 million in Egyptian centers to support job creation, US\$60 million equity in Bank Audi, and around US\$7 million in MPEF III in Tunisia to increase access to finance for small- and medium-sized enterprises. In the Maghreb, Morocco is planning events with the Africa region to deepen regional integration and capitalize on opportunities in financial markets, agribusiness, health, and affordable housing. Given the volatile security environment, particularly in some of the fragile and conflict-affected situations, potential opportunities in the power and manufacturing sectors have been delayed.

HIGH IMPACT ENGAGEMENTS IN FISCAL 2014

- Mobilization of **Tafila Wind**, a US\$221 million debt package (of which US\$152 million was from the European Investment Bank, the OPEC Fund for International Development, the Europe Arab Bank, and the Netherlands Development Finance Company) to support the development of a 117 MW wind farm in Jordan. The project is the country's first wind farm and the first private wind project to reach financial close in the Middle East and North Africa region outside of Morocco.
- US\$10 million investment in a new venture capital fund, **Wamda Ventures I LP**, which will focus on the technology sector in the Middle East and North Africa.
- **Equity investment of US\$100 million in ACWA Power** to help the Saudi-based company significantly increase the amount of power it generates from renewable sources and meet a growing energy demand throughout the Middle East and North Africa.

- A commitment of US\$3 million as an equity investment in the **West Bank's Palestine Growth Capital Fund**, managed by the Abraaj Group, to help provide long-term financing to a range of small- and medium-sized enterprises. IFC will also provide the fund with specialized advice on best practices to help improve sustainability.
- Investment of **US\$50 million in a leading Moroccan home builder**, Alliances Group, to increase supply of quality affordable housing and create jobs. Alliances Group plans to build 110,000 affordable housing units—a crucial project in a country that needs an estimated 840,000 homes.
- Support for **Al Kuraimi Islamic Microfinance Bank in Yemen**, with a comprehensive set of capacity-building measures, including product diversification into small- and medium-sized enterprises and housing finance, risk management and governance, strategic planning, and human resources.
- Assessment of the **credit registry of the Central Bank of Tunisia** and identification of opportunities for it to better use available data and expand access to finance. IFC's support will help the Central Bank of Tunisia strengthen banking sector supervision and offer data services that will help other banks better manage credit risk.
- Investment of **US\$11 million equity in Luminus** to help improve post-secondary skills (vocational training) under the E4E umbrella.
- An agreement signed by IFC and IBRD to help increase lending to smaller enterprises in Jordan. The two agencies will support the **Jordan Loan Guarantee Corporation** as it scales up its lending operations, builds its institutional capacity, increases its outreach, and develops new financial products.
- **IFC-IBRD joint Solid Waste Management project in the Palestinian territories** which is expected to benefit 840,000 people in the Hebron and Bethlehem Governorates, dramatically improve much-needed sanitation services in the area, and reduce GHG emissions by 13,400 tons over seven years.
- Help for the **Bank of Palestine** in scaling up its banking operations for small- and medium-sized enterprises in the West Bank and Gaza, especially those owned by women, to drive economic growth. IFC will help the bank develop new products and services catering to the needs of these small firms.

OVERVIEW OF MIGA ENGAGEMENT IN THE MIDDLE EAST AND NORTH AFRICA

MEETING THE CHALLENGE OF THE TIMES

Today's uncertain world has marked effects on prospects for growth for the Middle East and North Africa. Political changes and instability in the region have captured the world's attention and reminded investors in particular about the inherent risks of investing abroad.

Yet the need for investments into the Middle East and North Africa that create jobs and opportunities is greater than ever. This is an important moment for multilateral organizations like the Multilateral Investment Guarantee Agency (MIGA) to step up and fill in gaps that the private sector cannot address. Indeed, MIGA's political risk insurance can be an important mitigation instrument for investors and lenders who may be nervous about maintaining existing investments or have plans to invest in the region that they would rather not put on hold. MIGA can also help banks by optimizing country limits management and reducing capital allocations for country risk.

To demonstrate its commitment to the region, the agency has rolled out a flexible plan to target existing and inbound FDI to ensure that political risk insurance market capacity is maintained and to bolster the efforts of national export credit agencies. Since 2011, MIGA has supported new and existing investments in Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, and Tunisia.

MIGA is also increasing efforts to reach out to investors, lenders, and governments around the world to make it clear that the agency is open for business in the region. The agency is sharing its global experience of managing political risks—particularly by reaching out to governments, presenting at conferences on investment, and scaling up business development efforts.

MIGA's outstanding exposure in the Middle East and North Africa as of the end of December 2014 stood at US\$822 million. These guarantees have covered investments in agriculture, power, banking, manufacturing, sanitation services, sewerage systems, oil and gas, telecommunications, transportation, and tourism. In addition, as of the end of December 2014, MIGA had an outstanding exposure of US\$137 million in six guarantees for projects by companies and banks based in the Middle East and North Africa and investments in developing countries worldwide. MIGA's ability to guarantee projects under Islamic financing structures is another an important component of the agency's support to the Middle East and North Africa region.

MIGA'S CONFLICT-AFFECTED AND FRAGILE ECONOMIES FACILITY

To further encourage foreign investment in conflict-affected and fragile economies, including those in the Middle East and North Africa, MIGA has launched a multi-country, donor-funded facility that will allow the agency to further expand its business in the riskiest of countries. The Conflict-Affected and Fragile Economies Facility uses donor-partner contributions and guarantees, as well as MIGA guarantees, to provide an initial loss layer to insure investment projects in conflict-affected and fragile economies. MIGA anticipates providing aggregate risk mitigation of US\$400 million in conflict-affected and fragile economies through the use of the facility during its initial years.

MIGA'S WEST BANK AND GAZA GUARANTEE TRUST FUND

This trust fund, administered by MIGA on behalf of the Government of Japan and the Palestinian Authority, aims at encouraging investments in the West Bank and Gaza (not a member of MIGA) by providing political risk insurance to both local and foreign investors. The fund is designed to facilitate small- and medium-sized investments, with a special emphasis on projects with high employment-generating capacity.

MIGA IN IRAQ

MIGA welcomed Iraq as a member country in 2008 and signed its first contract of guarantee supporting an investment in 2010. This guarantee of US\$5 million backed a Turkish company's investment into a Baghdad plant that manufactures the raw material used in beverage bottles. As of the end of December 2014, MIGA had insured three projects in Iraq for a total gross exposure of US\$17 million.

Selected MIGA Projects in the Middle East and North Africa

Investor/Guarantee Holder	Project	Project Location	Guarantee Amount (US\$ million)
Deutsche Investitionen und Entwicklungsgesellschaft mbH	Egyptian Refining Company	Egypt	23.4
Alcatel-Lucent International	Regional Telecom	Iraq	10.4
Butec International Ltd. and El Sewedy	Butec Utility Services S.A.L.	Lebanon	35.5
Elif Global Ambalaj San. ve Tic. A.S.	Elif Global Packaging S.A.E	Egypt	26.4
Albermarle Corporation United States	Jordan Bromine Company Limited	Jordan	199.8
Société Générale S.A. and BNP Paribas	Passenger-Car Ferry TANIT	Tunisia	217.7
Adrianus Jacobus Tukker and ZMZM for plastic industries of the West Bank*	Bio ZMZM for Plastic Industries	West Bank and Gaza	1.8

*Underwritten through the MIGA-administered West Bank and Gaza Investment Guarantee Trust Fund.

II.

Overview of the Middle East and North Africa Portfolio by Global Practice



The portfolio data represented in this section is as of January 2015.


LEVERAGING GLOBAL KNOWLEDGE TO SUPPORT THE MIDDLE EAST AND NORTH AFRICA

The World Bank Group's New Operating Model

The Middle East and North Africa region today faces development challenges that are vast and pressing—although not without hope for progress. The most significant of these challenges form the focus of this report and require multi-sector approaches that mobilize the knowledge and skills accumulated by the World Bank Group (IBRD, IFC and MIGA), governments, the private sector, other development institutions and partners, and civil society.

One of the strengths of the Bank Group is its potential for transferring knowledge across the organization and adapting what we learn from our work in one country to another country or region. This helps ensure that every client can develop world-class solutions to its most complex development challenges. The World Bank Group Global Practices collaborate to synthesize expertise from a variety of sectors, while Cross-Cutting Solution Areas focus the Bank Group's efforts and resources in the core areas of jobs; gender; public-private partnerships; fragility, conflict, and violence; and climate change. The Bank Group's regional and country teams have deep local knowledge and understanding of political economy, which ensures that solutions fit the local context and are relevant. By working together, they make it possible for the World Bank Group to offer its clients global knowledge for adaptation into local solutions.

This report takes stock of where we are and where we are heading in our efforts in the Middle East and North Africa Region. The World Bank Group will have to bring its best collective effort consistently to maximize impact in the Middle East and North Africa. We are confident that by doing so, we can make a significant difference for the region at this critical time.



Keith Hansen and Nena Stoiljkovic
Vice Presidents
Global Practices and Cross-Cutting Solutions Areas
World Bank Group

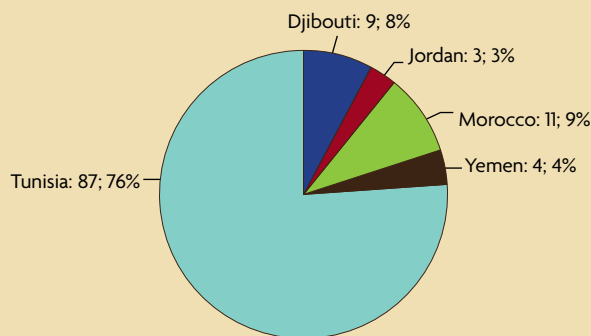
AGRICULTURE GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 7 projects in 5 countries (Djibouti, Jordan, Morocco, Tunisia, and Yemen)
- **Total Commitments:** US\$114 million
- **Total Disbursements to Date:** US\$36 million

Figure 2.1. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

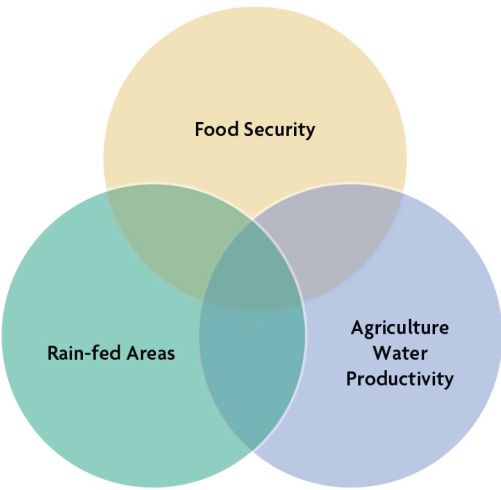
- **Fiscal 2015 Knowledge Products:** 5 products, including 3 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 0 projects in pipeline

KEY CHALLENGES AND STRATEGIC APPROACH OF THE AGRICULTURE GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Food security policies are a major constraint on the agricultural sector. The MENA region has the highest import dependency in the world, with over 60 percent of total food consumed coming from outside of the region. Governments have traditionally sought to enhance food security through incentives for domestic production of basic food and industrial crops. However, these policies and institutions have generally resulted in distortions (policies and institutions), which have high fiscal costs and perpetuate production of relatively low value, water-intensive crops, such as grains and fodder. It should be noted, though, that analyses and experience have demonstrated the comparative advantage of most MENA countries in the production of higher value horticulture, fruit and dairy products, all of which also generate much higher employment opportunities.

Both under- and over-nutrition are worsening in the MENA. Malnutrition is a major issue which has received relatively little attention in MNA. Yemen stands out in terms of under-nutrition with a rate of 40 percent amongst under-five year olds – double the poverty rate. In MENA’s middle and high income countries, over-nutrition is a major concern with increasing rates of obesity and related diseases. In both cases, MENA lags in comparison to other regions in terms of the attention given to nutritional issues.



Poverty reduction requires increased attention to rain-fed areas.

Rain-fed areas remain home to an important share of the poor in most countries in the Middle East and North Africa. However, after several decades of area programs, in the 1990s and early 2000s, governments shifted their focus almost entirely to urban areas. MENA governments are now renewing their focus on these politically sensitive areas, but strategies for supporting these areas remain largely based on social and technical agronomic/farming system analyses carried out over 20 years ago. In the intervening period, dramatic social changes resulting from migration and sedentarization, as well as the impacts of climate change in terms of rainfall patterns, have altered both the context and appropriate resiliency options for these areas. It should be noted that these areas are also where women-headed households represent a high share of farm enterprises.

Rain-fed areas remain home to an important share of the poor in most countries in the Middle East and North Africa, and governments are now renewing their focus on these politically sensitive areas.

Agriculture needs to produce more with less water. Agriculture, while representing a declining share of overall GDP, remains an important source of employment and exports in MENA countries, in particular in Yemen, Egypt, Morocco and Tunisia. However, agriculture is under increasing pressure to reduce its “water footprint” given intense competition for this scarce resource for household, industrial and energy uses.

Key Strategic Engagements

Reforming food security strategies. MENA countries need to review their food security strategies comprehensively and place them in the context of a “Food Markets” approach. The trade-offs in terms of fiscal costs, risks and constraints on sectoral growth and employment need to be assessed relative to a relative shift towards alternative mechanisms for achieving assured supplies of strategic agricultural commodities for food and industrial uses, such as enhanced storage, market mechanisms and contracted overseas production. In addition, nutrition security (focused on both under- and over-nutrition) needs to be integrated into policies and standards governing access to food and food education. While it is recognized that reforms of food security policies confront strong opposition from vested interests in the farm and non-farm sectors, experience globally, including in Morocco where partial reforms have been undertaken, demonstrate the feasibility and benefits of such reforms. Working with partners, including the Trade and Competitiveness Global Practice, the Agriculture Global Practice is undertaking analytical work on food security and food markets in Egypt, Morocco, Tunisia, and Saudi Arabia.

Enhancing the rain-fed areas agenda. Given the significant on-going social and climatic changes in rain-fed areas, there is an urgent need for updating both the socioeconomic and biophysical context as a basis for reviewing policy and investment options in MENA. This includes renewed focus on climate-smart applied research and extension. MENA's investment in public research as a percentage of agricultural value-added has significantly trailed other regions, including Africa, Asia and Latin America and is thus well behind these regions in the use of public-private partnerships and competitive mechanisms to guide and accelerate research, development, and diffusion. At the regional level, the Agriculture Global Practice is developing a rain-fed areas study with the Environment Global Practice and the Gender CCSA, combining socioeconomic and landscape analysis tools to update stakeholder understanding of the current and anticipated context as the basis for policy and investment design, including recognition of the enhanced importance of women-focused approaches.

Increasing the productivity of water used in agriculture. In order to “produce more with less”, the agricultural sector will need to increase productivity, shift to higher value products, and develop the required supply chain infrastructure and institutions, which will translate into increased incomes and employment opportunities at lower rates of water utilization. This requires strengthening farmer organizations as commercial entities; supporting technology transfer for higher value and water conserving crops and production systems; developing public-private partnership approaches to supply chain linkages between agri-business and farmers; developing agricultural/agribusiness skills; and ensuring public regulation, standards and infrastructure to support logistics for both domestic and international markets. The agenda to support the development of higher value agriculture and agribusiness is being pursued in partnership with various Global Practices – including Trade and Competitiveness and Water – as well as the IFC and the Food and Agriculture Organization (FAO).

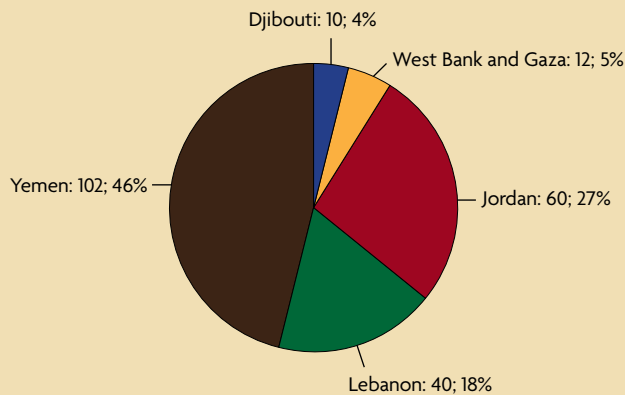
EDUCATION GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 9 projects in 5 countries (Djibouti, Jordan, Lebanon, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$223 million
- **Total Disbursements to Date:** US\$85 million

Figure 2.2. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

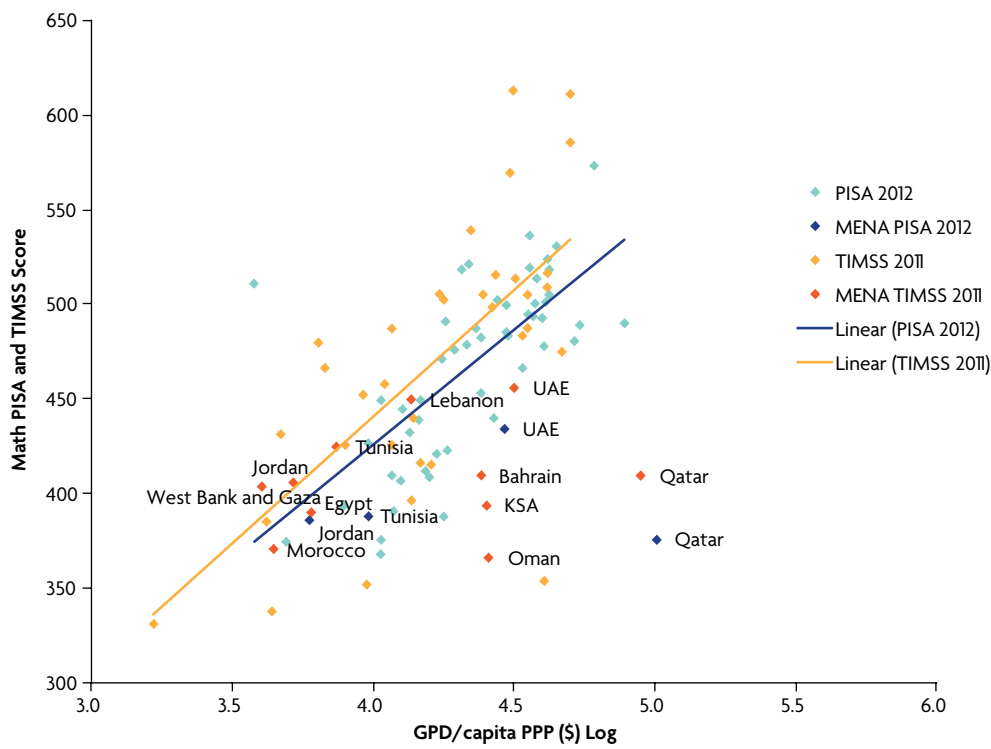
- **Fiscal 2015 Knowledge Products:** 12 products, including 4 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 3 projects in pipeline (2 approved by the Board of Executive Directors) for a total amount of US\$105 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE EDUCATION GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Poor educational outcomes. While education systems in the MENA region have progressed considerably from low starting points in the 1960s and 70s, recent investments in education have still not produced quality educational outcomes. School enrollment rates are generally high in primary education, but dropout is common in secondary education, and learning outcomes are low. For example, secondary students in many countries in the region have performed among the lowest in the world on international learning assessments, such as the Programme for International Student Assessment (PISA) or the Trends in International Mathematics and Science Study (TIMSS) (figure 2.3). Rote methods of learning are still common, with group work, creative thinking, and proactive learning being rare. In addition, early childhood education is generally underdeveloped in the region.

Figure 2.3. Mathematics PISA and TIMSS Performance and GDP/capita (PPP adjusted)



Weak capacity within the education system. Education service delivery in the region has been hampered by a generally low level of capacity, from the policy-making level to the qualifications, retention, motivation and performance of teachers. In some countries, infrastructure is still in need of development, with new schools needed to accommodate the young population and old schools requiring renovation or extension. These issues are exacerbated in many countries by regional conflicts, political instability, the influx of refugees, and low citizen trust, resulting in fragile education systems.

A common theme throughout the MENA region is the issue of high youth unemployment and the inability of the labor market to absorb the growing supply of educated labor force participants.

Education system outcomes and job market disconnect. A common theme throughout the MENA region is the issue of high youth unemployment and the inability of the labor market to absorb the growing supply of educated labor force participants.

Graduates tend to desire public sector jobs, which are limited in number, while private sector employers express demand for the skills and competencies that the education system does not sufficiently produce. For instance, the region generally produces more humanities than science graduates.

High demand for education. With increased youth populations and competition for jobs, the demand for education, especially at the tertiary level, will be further increasing across the region. In addition, as the countries move towards expanding life-long learning opportunities for their populations, the education systems need to consider alternative financing approaches to absorb the demand.

Key Strategic Engagements

Building a high-quality knowledge base. While each country in the region has its unique challenges, there are common issues for which education systems can learn from other countries within the region and globally. The World Bank Education Global Practice is well placed to provide and share knowledge solutions, particularly in the following areas:

- ***Tools that focus on results.*** The Bank's Systems Approach for Better Education Results (SABER) uses evidence-based frameworks to produce comparative data and knowledge on education policies and institutions, with the aim of helping countries systematically strengthen their education systems. The SABER products, which cover many education service delivery topics, have helped countries initiate policy dialogues and produce clear plans for moving forward with their education reforms.
- ***Regional initiatives.*** Regional cooperation on education initiatives is a key part of building capacity and partnerships across the region.

The Arab Regional Agenda for Improving Education Quality (ARAIEQ). A multi-stakeholder partnership that has brought “quality of education” to the forefront, and which ties many existing regional initiatives and institutions together.

The MENA Regional Program on Higher Education. A multi-stakeholder strategic partnership centered on delivering knowledge and promoting reforms

Early Childhood Development for a Better Chance (ECD-4-ABC). Aims to provide an evidence base and best practice programs to countries in the MENA region.

Strengthening education systems. The Bank’s focus in education in the MENA region is on supporting reforms to improve education systems for learning for all. This includes, for example:

- ***Skills development.*** In the competitive labor environment, it is critical for educational systems to deliver the new skills and expertise necessary for graduates to find employment and to succeed. A paradigm shift is needed to move from academic input-based approaches to competency-based outcome approaches in the design and delivery of technical and vocational education and training programs, in particular.
- ***Exploring new financing tracks.*** Public-private partnerships (PPP) and other innovative measures that can mobilize resources without compromising equity and the quality of education are important measures to increase the financing needed for educational initiatives.

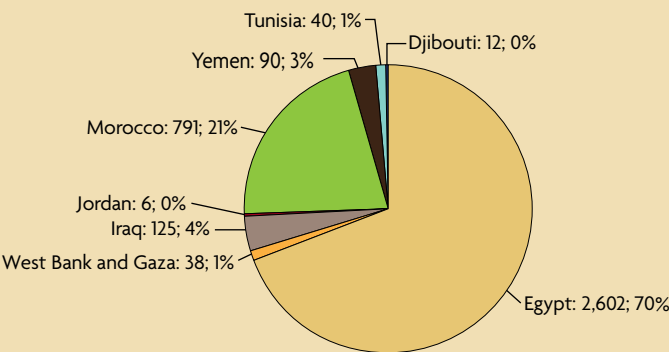
ENERGY AND EXTRACTIVES GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 20 projects in 8 countries (Djibouti, Egypt, Iraq, Jordan, Morocco, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$ 3.7 billion
- **Total Disbursements to Date:** US\$ 1 billion

Figure 2.4. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 17 products, including 2 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 4 projects in pipeline (3 approved by the Board of Directors) for a total amount of US\$ 1 billion.

KEY CHALLENGES AND STRATEGIC APPROACH OF THE ENERGY AND EXTRACTIVES GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

The Middle East and North Africa has 48 percent of the world's proven oil reserves and 41 percent of the world's proven global reserves of natural gas. Hydrocarbons are the region's most important exports and source of foreign currency, and they are its major contribution to global economic growth. To this end some of the major challenges in the region include:

Improving financial sustainability. Energy underpricing is pervasive across the region, which is eroding the sector's financial sustainability. Many countries are struggling to meet the large investment requirements of the sector. Furthermore, regressive and poorly targeted subsidies are contributing to fiscal imbalances. In 2011, the cost of fuel subsidies in the region was approximately US\$237 billion or 48 percent of world subsidies, equivalent to 8.6 percent of regional GDP or 22 percent of government revenues. Bank assistance is thus required throughout the region to achieve key sector reforms and improve the financial sustainability of the sector, including by financially restructuring or corporatizing many of the vertically integrated monopolies.

Weak sector governance and service delivery in electricity and extractives. The implementation of sector reforms has lagged on issues such as corporatization, transparency, and accountability. In addition the public sector is the main driver of sector development, which puts a huge burden on government finances. Moreover, there is an insufficient commercial framework to engage the private sector. Supply interruptions—specifically for fuel and electricity—are also increasing in several countries and are particularly problematic in Egypt, Lebanon, Libya, Jordan, Yemen, and Iraq. Finally, there is poor access to electricity (50 percent) in the two IDA countries of the region, Yemen and Djibouti.

Need for diversification of generation mix and energy efficiency. There is an increased focus on renewables, as countries in the region are in need of diversification of electricity generation for a number of reasons: (a) every Arab country (with the exceptions of Algeria and Qatar) is short on gas, a direct result of the underpricing of energy, poor incentives for investment, and poor planning; (b) for exporters, there is a significant opportunity cost of domestic consumption; and (c) for importers, there is a heavy reliance on fossil fuel resources and a vulnerability to price shocks. These factors are resulting in increased interest and investments in renewable energy. To this end, energy efficiency measures need to be scaled up. Furthermore, the Middle East and North Africa is the only region where energy intensive use has increased over the past two decades, indicating significant inefficiencies.

Regional integration. Regional integration of energy is weak and mainly for emergencies, and could serve to lower costs to consumers and contribute to energy security in the region.

Key Strategic Engagements

Energy sector is key to Iraq's economic development. The energy sector (oil, gas and power) is Iraq's most significant economic sector: Iraq's oil sector accounts for over 65 percent of GDP and more than 90 percent of annual budget revenues, whilst the gas and electricity sectors could contribute significantly to economic growth and diversification, job creation, as well as increased quality of life and social stability for the Iraqi population. As such, the Government of Iraq is interested in exploring World Bank Group programmatic support for key strategic objectives in the sector.

In response to a request from the Government of Iraq, the Bank is currently preparing a US\$500+ million IBRD financing (for the second quarter of fiscal 2016) to support reform and investment in Iraq's electricity distribution sector. This project is focused on improving the provision of electricity services, reducing the large losses of electricity in the power system, and reforming Iraq's electricity sector institutions to improve the overall performance of the sector.

Championing sector reforms and priority investments in Egypt. Support is being provided for Egypt's five-year strategy to eliminate energy subsidies through just-in time and Transition Fund technical assistance.

Following a request from Government, the Bank is preparing the Egypt Energy Systems Improvement Project for US\$660 million in 2016, which will be submitted to the Board for consideration. The project's objectives are: (a) to build much needed transmission capacity which was one of the drivers of power cuts last summer, and modernize the governance of the transmission holding company (EEHC); (b) to support the rehabilitation of conventional power plants to reduce the consumption of natural gas in power generation; and (c) to lower energy consumption through the deployment of smart meters.

In preparation for the Egypt Economic Development Conference, the World Bank Group organized a roundtable of private sector investors in December 2014, and assisted the Government's efforts to articulate its energy strategy in March 2015.

Increased Lending in Clean Energy in Morocco. Following the approval of the Noor-Ouarzazate Concentrated Solar Power Project in September 2014, the Bank is in the final stages of preparation for the Clean Energy Project (US\$125 million for the fourth quarter of fiscal 2015), which seeks to support the capacity of the utility to supply and dispatch clean electricity and to meet the demand of targeted customers more efficiently.

Technical assistance on energy solutions for Tunisia. The Bank is providing technical assistance to assess the economic viability of the proposed Tunisia-Italy Interconnector, and how such a transaction should be structured, and to determine whether additional indigenous gas supplies can be discovered and developed within this time horizon.

Increasing reimbursable technical assistance on energy efficiency in the Gulf countries. In Bahrain, the Bank is preparing an energy efficiency strategy and working on energy efficiency interventions across six ministries. In Saudi Arabia, the Bank is providing advice on selected strategic issues and helping the Saudi Arabian power sector strengthen its institutional capacity to develop and implement sector policies that are consistent with the country's overall economic and social objectives.

Yemen Energy Sector Reforms. Energy sector reforms are currently under discussion, and could potentially lead to a donor's conference of the G8 and the Arab Coordination Group.

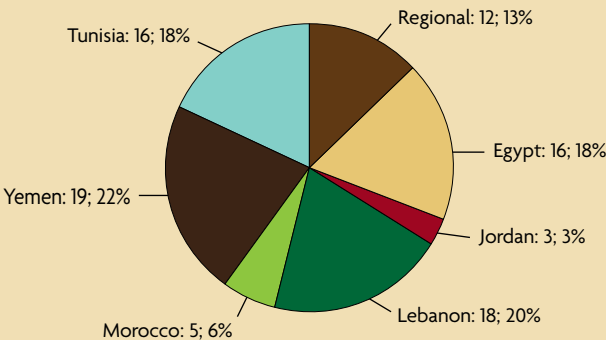
ENVIRONMENT AND NATURAL RESOURCES GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 15 projects in 6 countries (Egypt, Jordan, Lebanon, Morocco, Tunisia, and Yemen)
- **Total Commitments:** US\$88 million
- **Total Disbursements to Date:** US\$10 million

Figure 2.5. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 4 products, including 3 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 3 projects in pipeline (2 approved by the Board of Executive Directors) for a total amount of US\$21 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE ENVIRONMENT AND NATURAL RESOURCES GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Natural Resources, including water, forests, fisheries, coastal zones, are scarce and under threat from man-made or exogenous sources.

The costs of environmental degradation, which include the costs of air and water pollution, are high (US\$20 billion or around 3 percent of GDP), and MENA is falling behind. Everywhere in the world, the costs of environmental degradation, as a share of gross national income (GNI), have fallen by at least 50 percent between 1990 and 2010, except in the MENA region where it has remained almost the same.

The quality of life in both urban and rural areas is deteriorating, especially due to the fact that livelihoods in rural areas are dependent on natural resources. To this end, per-capita costs of environmental degradation remain constant, and deaths attributable to air pollution have grown between 1990 and 2010.

Climate change will exert increasing pressures on natural resources and an already stressed environment. A warmer, drier, and more variable climate with greater frequency of extreme events (floods, heat waves, dust storms) will put increasing pressures on scarce water, forest and arable land resources, compounding food security concerns. Furthermore, sea level rise represents a serious threat to the economies of the MENA region (for example, there is over US\$50 billion of annual flood damage in Alexandria alone due to the failure of flood defenses).

Lack of effective environmental policies. Certain policies and institutions (such as subsidized energy, water, and fertilizer; and lax regulations or enforcement) promote environmental degradation, while other policies (such as the absence of disclosure programs for pollutants) discourage public demand for a cleaner environment. Ultimately these undervalue critical environmental services that would serve to promote water provision and regulation, and address the challenges posed by dust storms, heat waves, desertification, and sea level rise.

Key Strategic Engagements

Invest in knowledge services to better document the economic costs and distributional implications of poor environmental management. This is critical in order to actively inform World Bank programs, and engage more effectively in policy dialogues with governments on the need and ways to address environmental challenges.

Engage with Global Practices across the World Bank Group on key projects in order to bring solutions for addressing environmental challenges in a more systematic fashion. To this end it is crucial to mobilize staff expertise beyond the Middle East and North Africa region to bring in best practices from around the globe. The Morocco Green Growth Development Policy Loan (DPL) and the Waste Management DPL are examples of this approach.

Promoting natural resource management and resilience to address water scarcity and the challenges posed by climate change. This agenda is a priority in the Middle East and North Africa, as it is a water-scarce region. It is also central in order to address poverty and vulnerability in rural areas. Successful interventions will require close coordination with the Water and Agriculture Global Practices as well as the Social, Urban, Rural and Resilience Global Practice to support the implementation of integrated water management practices and the decentralization of service delivery and access to assets (e.g., forests, pastures, and protected areas) in rural areas.

Raising awareness of challenges and environmental threats to fisheries and coastal zones. These are important economic assets (in terms of livelihoods, tourism, the concentration of economic activities, and the existence of main cities along the coast), but they are threatened by over-exploitation, pollution, and climate change, in particular sea level rise. Opportunities to raise the level of awareness about the extent of the challenges and development options in the region will come by bringing in international experience, and partnering with other Global Practices to develop knowledge products aimed at addressing the full scope of the issue.

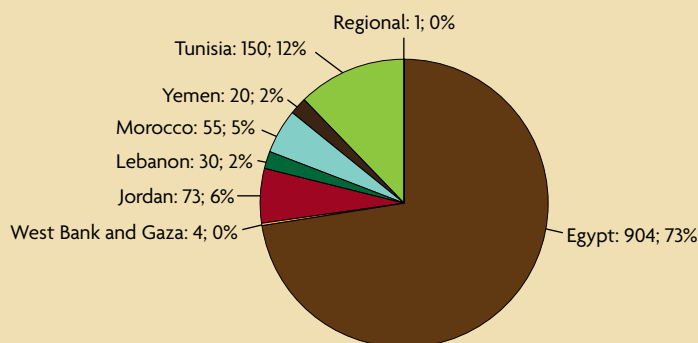
FINANCE AND MARKETS GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 13 projects in 7 countries (Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$1.2 billion
- **Total Disbursements to Date:** US\$751 million

Figure 2.6. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 28 products, including 6 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 4 projects in pipeline (1 approved by the Board of Executive Directors) for a total amount of US\$610 million

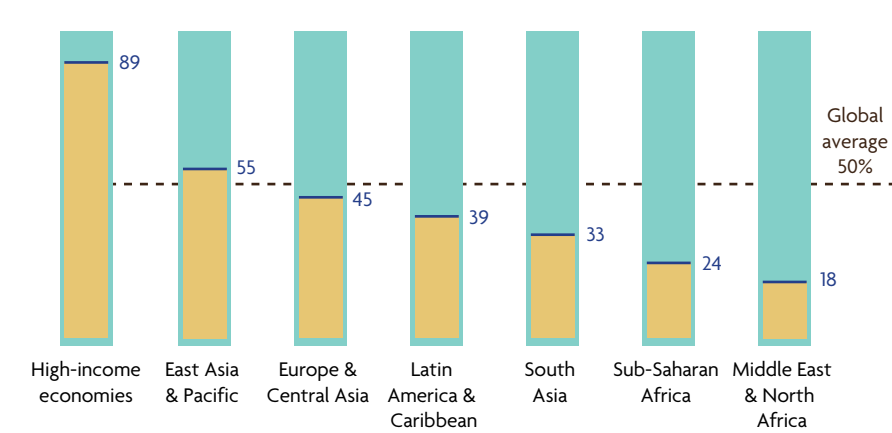
**KEY CHALLENGES AND STRATEGIC APPROACH OF THE FINANCE AND
MARKETS GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA**

Key Challenges

Financial sector stability. Vulnerabilities for the financial sector have emerged from the political and economic disturbances affecting the MENA region. The uprisings of the Arab Spring have resulted in political and economic shocks have been felt across the region. The countries affected directly have seen the strongest impact (Tunisia, Egypt, Libya, Yemen, and Syria), but a larger set of countries have been severely affected through spillover effects (Lebanon, Iraq, Jordan) and trade disruptions (most MENA countries). A number of additional economic and political challenges have added further stress on financial systems. For instance, the Eurozone crisis impacted a number of MENA countries with strong trade links (Maghreb countries) and lower oil and gas prices have had a significant impact on GCC and other oil and gas exporting countries. This has impacted the stability of financial systems across the region, through rising non-performing loans (NPLs), fiscal imbalances financed by state budgets, and increasing dependency on state-financed lending.

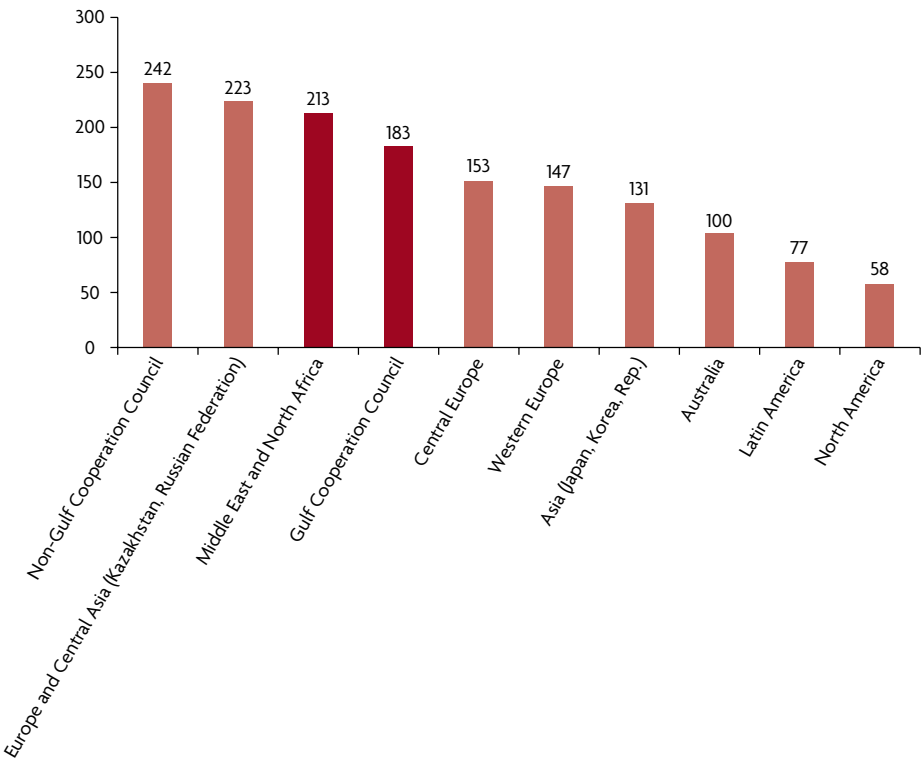
Limited Access to Finance. Most countries within the MENA region are characterized by low levels of access to financial services, with even sharper variations by gender, age and location. Only 8 percent of total lending goes to micro- small- and medium- enterprises (MSMEs). At 1 percent, microfinance outreach is the lowest of any world region. Moreover, only 18 percent of adults have an account at a formal financial institution.

Figure 2.7. Account Penetration—Adults with an Account at a Formal Financial Institution (percent)



Source: Demirguc-Kunt and Klapper 2012.

Figure 2.8. Top Twenty Exposures as a Percentage of Total Equity, by World Region



Limited Depth of the Financial Sector. The financial sector across the region is excessively bank-based and undiversified, and there is additionally low competition in the banking sector. As a benchmark for the financial sector, bank assets stand at 130 percent of GDP. In addition, other areas play a marginal role, with the value of the insurance sector being equal to only 5 percent of GDP, and leasing and factoring even less at 1 percent of GDP. The undiversified character of banking is measured by a loan concentration ratio of 242 percent—the highest in the world—with a strong focus on large corporates.

Most countries within the MENA region are characterized by low levels of access to financial services. Only 18 percent of adults have an account at a formal financial institution.

Regional differences with various distinct banking systems across the region:

- Non-GCC Private-led Banking Systems (including Egypt, Lebanon, Jordan, Morocco, the Palestinian territories, Tunisia, Yemen and Djibouti): Moderate to large banking systems, small to moderate share of state banks, and a moderate to large market capitalization with a high bank share

- Non-GCC Public-led Banking Systems (including Algeria, Iraq, Libya, Syria, and Iran): Small to moderate sized banking systems, a large share of state banks, small market capitalization, and weak financial infrastructure
- GCC countries: Large banking systems, small to moderate share of state banks (but large presence of quasi-public ownership), and large market capitalization with a high bank share

Key Strategic Engagements

The World Bank Group's engagement in the MENA region aims to support countries by promoting financial systems that provide more and better financial services to larger segments of the population. This is an important area of engagement in order to support the ambitious growth and employment agenda, while strengthening the resilience of these financial systems to weather financial, economic and political shocks. MENA's financial systems are characterized by significant diversity in terms of structural characteristics (state vs public led systems), levels of income, and development, all of which require tailored solutions adapted to their needs. To this end, it is critical to support the region by:

Supporting financial sector stability. Providing a strong and stable financial sector is important for the growth of the economy, yet it must ensure both its own stability, as well as its further development. The basis for many systemic country interventions is given by the Financial Sector Assessment Program (conducted jointly with the IMF), which provides a diagnosis of the current state of health of the financial sector, as well as a set of recommendations for legal and regulatory reform. In those economies affected by a financial crisis, the follow-on strategy is to support central banks and ministries deal with NPLs, and introduce specific reforms on risk based supervision, insolvency, creditor rights, and bank resolution. Depending on the country, this may require working directly with state-owned banks on restructuring and/or reforming the governance structures of the institutions, as well as promoting capacity building efforts for both the central bank and the industry.

Enhancing access to finance for households and MSMEs. Resolving the low rates of financial inclusion is one of, if not the key strategic priorities, both for the population, as well as for SMEs. The President of the World Bank Group announced in 2014 the Universal Financial Access agenda, under which 100 percent of the population of the 25 largest countries should have access to financial accounts by 2020. This includes three countries in the MENA region: Egypt, Morocco, and Yemen. Achieving this goal requires working in parallel in a number of areas: (a) reforming payment systems and regulating payment services providers; (b) providing a diagnostic of financial capability and supporting governments in the development of national strategies for financial literacy and capacity; (c) introducing and modernizing regulations for branchless banking transaction accounts; and (d) providing lending and advisory support for low-income housing.

Expanding the access to finance for small- and medium-sized enterprises (SMEs) also requires working in a number of areas. This often includes the introduction of new financial services. Microfinance, for instance, is hampered by inappropriate regulation, which, in turn, often results in reforms that focus on modernizing the legal and regulatory framework for microfinance. Access to credit can be broadly enhanced by creating the correct financial infrastructure, which entails introducing the legal framework for credit bureaus, and supporting the establishment of private credit bureaus. SMEs often lack the collateral required by financial institutions. To this end, supporting the introduction of secured transaction registries both at regulatory and sectoral level has proven to be an effective mechanism for expanding access to credit globally, as banks become legally able to accept the moveable assets that SMEs can offer. Leasing is yet another alternative to provide finance with an alternative form of collateral that in addition is compatible with Islamic finance principles. This offering is completed either by lines of credit (where liquidity is an issue) or by partial credit guarantees for MSMEs (where risk aversion is an issue).

Increasing the depth of the financial sector. Where the financial sectors are generally stable, efforts can be focused at increasing the diversification of financial institutions, and building a platform for long-term finance. This implies working on pension reforms and supervision of pension funds, developing the regulatory framework for capital market development, and strengthening the insurance sector.

Additionally, new financial instruments have been introduced that combine financial sector depth with improved access to finance. Islamic finance is increasingly in demand by SMEs throughout the region. Together with the Islamic Finance Centre in Istanbul, and jointly with IFC, the World Bank is introducing reforms at the regulatory level (to account for the differences in accounting and reporting), and training banks to expand their outreach to SMEs. The MENA region is also known for the lack of patient capital for start-up firms. Nonetheless, MENA is leading globally in developing specific patient capital solutions in order to bridge the gap between start-ups and venture capital firms, and provide start-up SMEs with the necessary patient capital to grow their businesses and provide greater employment.

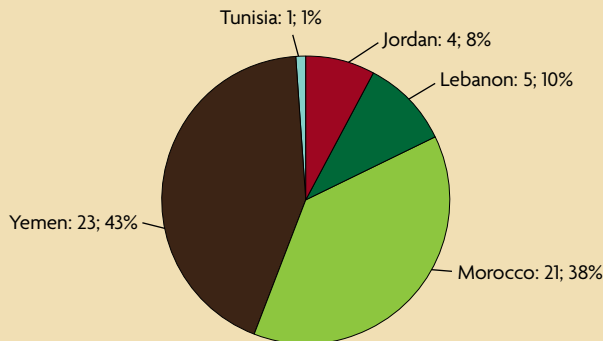
GOVERNANCE GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 10 projects in 5 countries (Jordan, Lebanon, Morocco, Tunisia and Yemen)
- **Total Commitments:** US\$54 million
- **Total Disbursements to Date:** US\$11 million

Figure 2.9. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 32 products, including 8 Reimbursable Advisory Services.
- **Fiscal 2015 Lending:** 3 projects, 2 approved by the Board of Executive Directors for a total amount of US\$4.0 million.

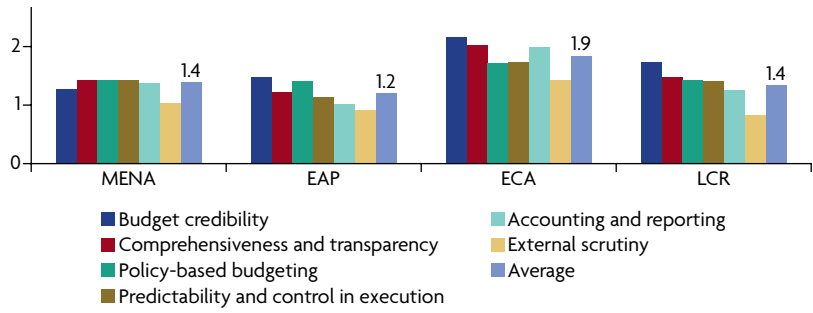
KEY CHALLENGES AND STRATEGIC APPROACH OF THE GOVERNANCE GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

*The existence of weak institutions and poor governance, as many aggregate governance indicators document.*¹ As a consequence, in many countries in the region, governance accountability is weak, trust in government institutions is low, and public-sector service delivery is poor. There has been limited improvement on governance and the quality of institutions since the Arab Spring, which points to deep, historically-rooted institutional issues that are difficult to overcome, particularly the high concentration of political and economic power by the governing elites, and the general lack of transparency and accountability of state actors. These challenges are exacerbated by the limited availability of data on governance for many countries in the region. Such limitations make policy makers and donors unable to, in a number of ways, clearly identify governance weaknesses, prioritize among reforms, and monitor progress.

With regard to public financial management, the Middle East and North Africa aggregated average public expenditure and financial accountability (PEFA) ratings based on the latest assessments (some of which are now becoming dated), scoring C-, comparable to the range of C to C+ scores of the East Asia and Pacific, Europe and Central Asia, and Latin America and the Caribbean regions. However, according to the Open Budget index, the Middle East and North Africa has the lowest scores among the four regions. This situation points to the need for concerted efforts to improve the performance of

Figure 2.10. PEFA Aggregated Scores: C to C+ Average



Source: PEFA Secretariat Database 2014.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean; MENA = Middle East and North Africa.

1. For a more comprehensive analysis of governance please visit: www.agidata.org.

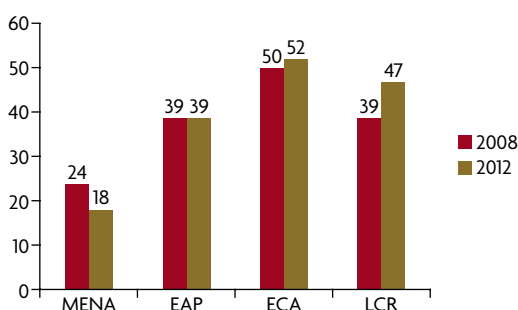
different elements of public financial management systems and to increase fiscal transparency, working with both supply and demand actors to enable true accountability.

There is a volatile environment and an uneven commitment to reforms in areas such as transparency, government effectiveness, civil liberties, media freedom, participation, and social accountability, making the design and implementation of programs much more challenging. This calls for a pragmatic approach focused on building basic systems and capacity to manage public resources, strengthening government accountability, and promoting knowledge sharing. Some of the specific needs include:

- A greater focus on social sector service quality and delivery and the associated institutional weaknesses and poorly managed civil service that prevent better service quality, accessibility, and delivery
- A strengthening of public investment management systems to improve the low execution/quality rate of observed investment budgets
- Capacity development for public financial management and procurement systems to close the significant gap between laws and procedures (de jure) and actual practice and budget implementation (de facto)
- More integrated support for subnational government reforms that includes adequate sequencing and coordination between central/regional and fiscal/institutional reforms and local government reforms
- Enhancements to the corporate governance and financial reporting framework to address serious deficiencies in its structure and function, as well as the lack of awareness among national policy makers of its importance
- Engagement on both the supply and demand sides to strengthen social accountability, ensuring that enhanced public engagement leads to sustainable results

There has been limited improvement on governance and quality of institutions since the Arab Spring, which points to deep, historically-rooted institutional issues that are difficult to overcome.

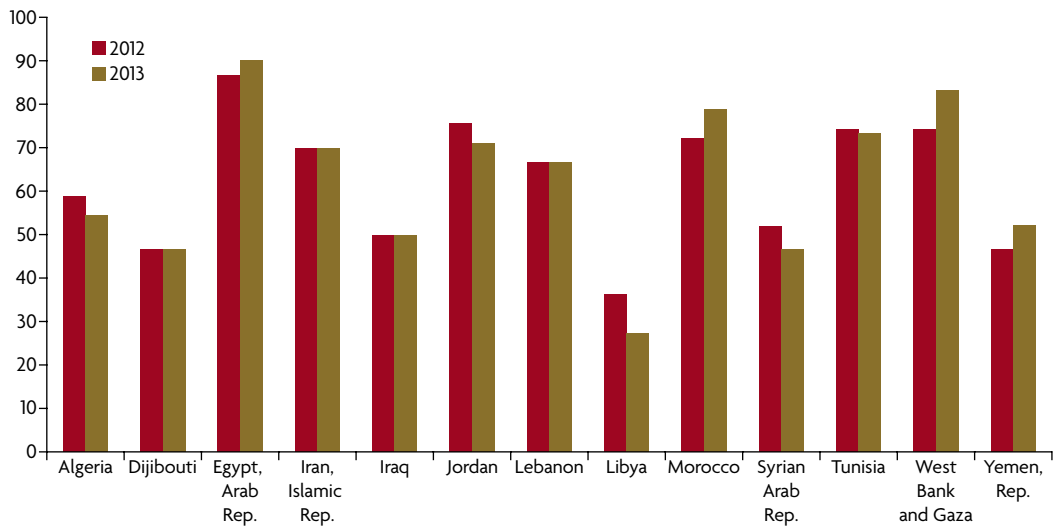
Figure 2.11. Open Budget Index



Source: International Budget Partnership 2008/2012.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and Caribbean Region; MENA = Middle East and North Africa.

Figure 2.12. Statistical Capacity Index for Middle Eastern and North African Countries



Source: World Bank, 2012–13.

Key Strategic Engagements

Building credible state institutions and creating trust between citizens and government. Large, inefficient public sectors are characteristic of most Middle Eastern and North African countries. World Bank engagement aims to clarify core government functions and introduce principles of transparency and accountability in public resource management, including service provision in health, energy, and financial regulations, and optimizing the performance of state-owned enterprises through improved corporate governance and financial reporting. Libya and Yemen have broader state-building initiatives through institutional and capacity development programs. Also, the Bank’s support of public procurement policy and oversight bodies emphasizes the need for more independent and empowered procurement policy units in places where there is a very high concentration of political and economic power. The lack of truly independent policy bodies exacerbates the capturing of economic rents by the elites at the expense of society. Regarding the agenda of corporate financial reporting, the Bank provides technical support to the legal and regulatory framework for financial reporting, professional accountancy organizations, micro-, small-, and medium-sized enterprises, and financial regulators to support better business environments.

Promoting government accountability and open government reforms. It is important to support this agenda through administrative reforms to improve public performance, independent monitoring of government activities, and more effective checks and balances institutions (e.g., judiciary, supreme audit institutions, anticorruption agencies, and effective independent grievance mechanisms). In particular, this includes justice reforms; improving citizen participation and access to information, including economic and social data; and transparency of administrative processes and procedures.

Strengthening public financial management and procurement reforms. This allows countries to plan, direct, and control their financial resources for efficient and effective service delivery and to more transparently manage public resources, which impacts all public spending in Middle Eastern and North African countries. These reforms can also serve higher development goals for economic growth and job creation (e.g., small- and medium-sized enterprise development).

Dialogue Between Public and Private Sectors on Good Governance

The Public Integrity and Openness Department has been working to strengthen the linkages and dialogue between the public and private sectors to improve results on the ground. There is a regional initiative to improve opportunities for small- and medium-sized enterprises (SMEs) to participate in public procurement markets. In particular, efforts are underway in eight Middle Eastern and North African countries to partner with local training institutions and provide capacity building to small businesses in their respective national private sectors. The aim is to enhance the ability of SMEs to both prepare and win bids. When SMEs win government contracts, and thus have more business and an increased need for labor, they create jobs.

A second initiative is to use South-South knowledge to expose clients in the region to good practices for private-public-partnerships (PPPs). A recent learning workshop in Beirut exposed clients from Middle Eastern and North African countries to examples and knowledge from around the world—including speakers and participants from eight countries—on how to successfully work with the private sector to execute the procurement of PPP projects. The Governance team partnered with the Public-Private Partnership Cross-Cutting Solutions Area, the IFC, and the Energy and Extractives and Water Global Practices to provide integrated content on the legal and regulatory framework for PPPs as well as advice for delivering on-time and on-budget PPP projects. Given the growing infrastructure funding deficit in the region, clients are expressing increasing interest in strengthening their governance systems to facilitate private participation in infrastructure and public service provision.

Operations support through increased emphasis on country financial management and procurement systems. The Governance Global Practice helps prepare and provide implementation support to other Global Practice projects with due attention given to responsiveness and quality.

Promoting knowledge management. This is provided through initiatives such as Connecting Voices of MENA (CV MENA) with its four pillars: (a) The Exchange, (b) Solution Labs, (c) Boot Camps and (d) Maarefah (community of practice); in addition to the quarterly magazine. This is also supported through the MENA Network of Public Procurement Experts, the partnership with the Arab Administrative Development Organization (the training arm of the Arab League), as well as the expansion of procurement trainings with a regional scope and aimed at producing regional knowledge products, including surveys and papers on topics related to effective government contracting.

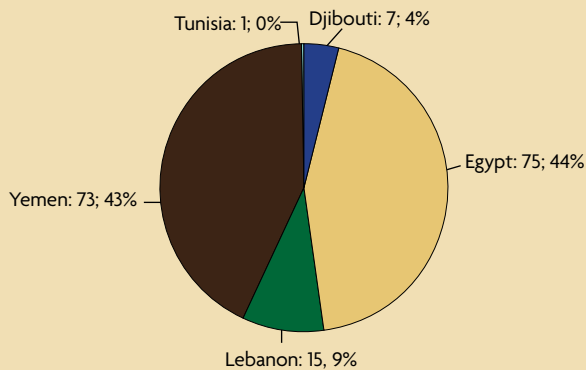
HEALTH, NUTRITION AND POPULATION GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 8 projects in 5 countries (Djibouti, Egypt, Lebanon, Tunisia, and Yemen)
- **Total Commitments:** US\$171 million
- **Total Disbursements to Date:** US\$34 million

Figure 2.13. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 9 products, including 3 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 4 projects in the pipeline (1 approved by the Board of Directors) for a total amount of US\$131 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE HEALTH, NUTRITION AND POPULATION GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Weak governance and service delivery. Poor and fragmented system governance, fiscal sustainability in health expenditures, high level of out-of-pocket expenses, shortages in human resources for health, and low quality of care are all significant challenges that primarily affect the poor, and particularly those residing in rural areas.

Modernizing and transforming the health sector. There is a need for countries in the Middle East and North Africa to move beyond the Millennium Development Goals and transform their health systems to cope with the ever increasing burden of non-communicable diseases in a context of moving towards effective universal health coverage (UHC). This is a key goal of the Health, Nutrition and Population Global Practice, as it is necessary in order to ensure access to essential healthcare services and prevent impoverishment as a result of illness. Similarly, ministries of health need to look beyond mere service delivery toward an increased and more assertive stewardship of health in all policies mainly with respect to issues such as climate change, the environment, transportation, and food security.

Key Strategic Engagements

Improving access to healthcare. Many countries, namely Morocco, Tunisia, and Egypt, have adopted new constitutions in which access to healthcare has been explicitly stated as a human right, followed by high-level commitments to improve equity in health, access to healthcare, and increased public financing. In Morocco and Egypt in particular, there is a palpable move towards achieving UHC with financial and technical support from the World Bank.

Implementing the World Bank's Health, Nutrition and Population Strategy.¹ The new Middle East and North Africa Health, Nutrition, and Population Strategy has been very well received in most countries, many having agreed with the World Bank on how to implement the fairness and accountability

agenda that the strategy focuses upon. To this end, fairness in health and health systems refers to the absence of systematic disparities in health that could be avoided through prevention and care; the just distribution of the burden of costs of health care according to people's ability to pay; and an equitable response to the nonmedical needs, rights, and

Many countries have adopted new constitutions in which access to healthcare has been explicitly stated as a human right.

1. Please see Middle East and North Africa Health, Nutrition and Population Strategy for details on key challenges and opportunities for World Bank Group intervention at <http://documents.worldbank.org/curated/en/2013/01/18369069/fairness-accountability-engaging-health-systems-middle-east-north-africa>.

expectations of those seeking and obtaining health care—that is for a dignified interaction with the provider. Accountability refers to the obligation to ensure that healthcare services are timely, effective, safe, appropriate, cost-conscious, and patient-centered. As a consequence of this new strategy, the Bank has been able to engage in deeper policy dialogue and lending commitments in Morocco, Egypt, Lebanon, the Palestinian territories, and Yemen, with greater emphasis on health system governance and equitable access to quality care. Hence, there are thus strong prospects for both broadening and deepening the Bank’s engagement in the health sector with both IDA and middle-income countries.

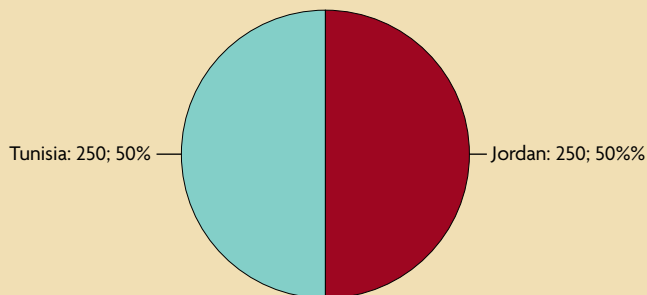
MACROECONOMICS AND FISCAL MANAGEMENT GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 2 projects in 2 Countries (Jordan and Tunisia)
- **Total Commitments:** US\$500 million
- **Total Disbursements to Date:** US\$493 million

Figure 2.14. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** A total of 17 products, including 4 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 3 projects in the pipeline (1 approved by the Board of Directors) for a total amount of US\$541 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE MACROECONOMIC AND FISCAL MANAGEMENT GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Conflict has engulfed some countries including several in transition, while generating complex spillovers for others, especially in the Mashreq. The current global environment presents familiar challenges for the MENA region, but it also presents new opportunities to implement reforms for broader based and more sustained growth. Overall, the oil price decline is already having significant effects on fiscal space in oil-producing countries. It is hoped that the decline in oil prices will give urgency to long-overdue structural reforms in oil-dependent countries while giving impetus for energy subsidies reforms in countries where there were concerns about the inflationary and equity impact of subsidy removal or reduction. Conversely, the positive growth effect of the decline of oil prices in oil-importing countries is yet to be fully seen. To this end, one of the main challenges in the region is:

The impact of the sharp decline in oil prices. Oil prices plunged to a level below US\$50 per barrel (Brent crude) in early January 2015, a 50 percent decline since their peak in mid-June 2014. Most Gulf Cooperation (GCC) countries were able to sustain growth in their non-oil sectors, primarily in services. However, since public spending levels were maintained despite lower oil revenues, fiscal balances have deteriorated. With oil prices projected to remain low, high-income oil exporting countries can seize this opportunity to implement reforms relating to expenditure allocation and efficiency as well as economic diversification. Such reforms will make their economic model more sustainable.

- ***Consequences for developing oil exporting countries.*** For developing oil exporting countries, the fiscal consequences of the oil price shock are more significant, and are exacerbated by political tensions and conflict. Following a short-lived post-revolution economic boom, the civil strife in Libya has contracted the economy by almost 30 percent in 2014. Yemen also suffered from similar disruptions to the oil sector resulting in slower growth (0.2 percent). The economies of these countries also suffer from the persistence of distortive policies that have been detrimental to private savings and investment or to economic activity and job creation in the non-oil sector. A sustained decline in oil prices thus presents a major risk to the medium-term outlook for oil exporting countries.

- ***Consequences for oil importing countries.*** Among the oil importing countries, Egypt, Lebanon and Djibouti achieved accelerated growth rates in 2014. This has been attributed to the progressing political transition in Egypt, increased public spending and investment in Lebanon, and an investment boom in Djibouti. For Tunisia, the successful democratic transition has not yet yielded economic dividends. Moderate gains will be made in GDP growth on the back of a moderate rebound in the tourism and manufacturing sectors. Although Morocco continues on an ambitious reform agenda, trend growth remains sluggish and subject to seasonal factors in agriculture. Jordan's economy suffered large shocks due to spillovers from neighboring Syria and Iraq. Going forward, lower oil prices will, in the short-term, help narrow Jordan's twin deficits and boost private consumption. Structural fiscal consolidation efforts within the framework of the current development policy loan (DPL) and International Monetary Fund (IMF) program, are expected to narrow the fiscal deficit further. Most oil importing countries are likely to benefit from lower oil prices via: (a) higher private consumption; (b) stronger fiscal balance; and (c) improved balance of payments. Low oil prices will also maintain downward pressure on the inflation rate and in turn (indirectly) interest rates. However, proactive and developmentally-oriented policies will be needed if these gains are to translate into sustained growth.

Key Strategic Engagements

Collaborating with the country management units, other Global Practices and units across the World Bank Group to prepare rigorous systematic country diagnostics (SCDs). Where SCDs are not in the pipeline, other economic and sectoral work, such as Country Economic Memorandums (CEMs), will provide an increasingly significant vehicle for integrative diagnostics.

Identifying opportunities for delivering high quality development policy operations. This entails integrating policy measures and reforms aimed at coping with shocks, boosting economic growth and securing social stability through shared prosperity, efficiency-led growth, job creation, macroeconomic stability and/or sound economic governance.

Strengthening analytics. It is critical to enhance the Macroeconomics and Fiscal Management (MFM) Global Practice's integrative role by developing an analytical base for linking structural policies to the twin goals and proactively offering to incorporate macro-perspectives into the key engagements of other Global Practices. Moreover, stepping up country-specific policy dialogue by using insights from analytical work such as the regional flagship report on "Jobs or Privileges" and in-depth country reports to which MFM contributed such as "All in the Family" is important in this agenda.

Disseminating macroeconomic monitoring reports. In order to facilitate greater knowledge sharing on key MFM related issues, there will be a push for greater in-country dissemination of macroeconomic monitoring reports such as the Economic Monitoring Notes, with a focus on emerging macroeconomic and fiscal pressures, structural policy imperatives in areas such energy subsidies reforms, economic diversification, economic implications of gender-based norms, opportunity cost of weak regional integration, and economic and social costs of conflicts.

Supporting Reimbursable Advisory Services (RAS). It is a key strategic focus to deepen the Bank's involvement in policy design and implementation support in the GCC around strategic programmatic RAS, sharing global knowledge, and deploying our GCC RAS experience to other RAS clients like Algeria and the Kurdistan Region of Iraq (KRI).

Developing conflict spillover analyses. Given the security situation across the region, it is important to pioneer conflict spillover analyses through Economic and Social Impact Assessments (completed for Lebanon and KRI) while deploying new tools in collaboration with the Global Facility for Disaster Reduction and Recovery, which allow for during-conflict needs assessments to enable rapid responses when conflict declines.

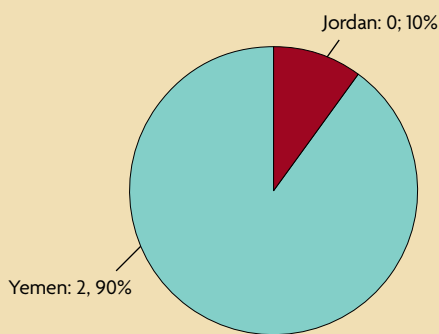
POVERTY GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 2 projects in 2 countries (Jordan and Yemen)
- **Total Commitments:** US\$2 million
- **Total Disbursements to Date:** US\$2 million

Figure 2.15. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 14 products
- **Fiscal 2015 Lending:** No projects in the pipeline.

KEY CHALLENGES AND STRATEGIC APPROACH OF THE POVERTY GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Neither of the indicators of the World Bank Group's Twin Goals gives a comprehensive picture of the MENA region's development path. On the one hand, the extreme poverty goal for 2030 has been met in the region, but adding a mere 75 cents a day to the poverty line increases poverty five-fold. This suggests that significant vulnerability to small changes in income, especially in light of the current economic and political uncertainty.

On the other hand, the shared prosperity indicator does not give an accurate picture. According to this indicator, consumption growth was pro-poor in two of the four countries where data is available, and moreover was slow.¹ But in 2011–12, the region underwent five revolutions expressing widely shared citizen dissatisfaction and calls for greater inclusion, broader opportunities and better governance. To this end, some of the main challenges throughout the region include:

- ***The impact of refugees and internally displaced persons.*** The crisis in Syria and ISIS in Iraq has had widespread repercussions across the region. It has resulted in the largest displacement crisis in modern history with 3.9 million refugees and 7.6 million internally displaced people (IDPs). In Iraq, about 2 million people were internally displaced and about half a million people fled the country. The costs of accommodating the ever growing number of refugees present a major challenge for the neighboring countries. Furthermore, in the absence of data on the welfare of refugees and host communities, it is difficult to design appropriate policies on the part of governments and humanitarian and development agencies.
- ***Lack of dynamism in the private sector.*** Even before the recent transitions and crises, many MENA countries faced systemic challenges that limited the translation of economic growth into broad-based improvements in welfare. The lack of dynamism in the private sector has severely limited job created and contributed to the exclusion of many segments of society from the benefits of growth. The economic structure—dominated by oil in some countries and with fuel subsidies and large public sectors in most others—is one where rents and power accrue to the privileged few (Schiffbauer et al. 2014). Distortive food and energy subsidies account for over 10 percent of GDP in some countries of the region and create major fiscal pressures and their benefits accrue disproportionately to the better off. Yet, it is often difficult to transition from these policies, in part due to the potential poverty impacts in countries with weak social protection systems, particularly if commodity prices are rising.

1. Shared Prosperity for the Global Database of Shared Prosperity (GDSP) circa 2006–11.

- ***Spatial disparities.*** Finally, in many countries, there are also stark disparities in outcomes across space. For example, in Tunisia, Iraq and Egypt, poverty rates are sharply higher in the interior, in the south and in Upper Egypt respectively.
- ***Lack of accessible poverty data.*** In this challenging and fast-changing context, evidence-based policy making is critical but severely hampered by the lack of regular, timely and accessible data on welfare and socio-economic conditions. Access to data in MENA has been improving in recent years but much more needs to be done. Five years ago, in 2008, only one MENA country publicly shared all its micro-data. A year later, surveys conducted in the period 2005–07, supported by substantial technical assistance from the World Bank, were made publicly available for two more countries. Today, in 2015, in all, at most four countries in the MENA region provide public access to micro-data.

Key Strategic Engagements

Developing cutting edge analyses of poverty, inequality, and labor markets. Analytical work on inequality and poverty-related issues at the country and regional level remain critical for guiding policy advice to governments and informing World Bank's operations and country assistance strategies. In the absence of timely and accessible data, the Poverty Global Practice uses innovative methodologies, such as survey to survey imputation, to provide estimates of key welfare indicators. Thematically, our analytical work focuses on: (a) shared prosperity; (b) the poverty impacts of shocks; and (c) jobs and subsidies. For example, the recent Poverty and Inclusion Report in Iraq provides an in-depth analysis of the determinants of poverty and vulnerability, accessibility of basic services, spatial disparities in wealth, labor market characteristics, and the role of the social transfers in supporting the poor. It also offers policy recommendations for enhancing the welfare of Iraqi citizens. Comprehensive poverty assessments are ongoing in Egypt, Tunisia and Yemen; and poverty maps have been completed for Iraq and the Palestinian territories.

Stagnant growth and lack of “trickle down” growth is common across most Middle Eastern and North African economies.

A regional flagship on Inequality of Opportunity in MENA will be completed in 2015, offering insights on inequality in access to services and labor markets. At the country level, the recently released studies on inequality in Egypt have shed light on the nature of inequality in the country, the sharp difference between facts and perceptions, the state of poverty and inequality in the poorest villages of the country and the relation of top incomes and inequality.

The Poverty Global Practice also supports labor market analyses in several MENA countries. In Morocco, our studies on female employment are informing discussions on labor market reforms. The recently released report on jobs in Egypt offers an in-depth analysis of employment trends over the past decade, spatial disparities in labor markets and impediments to private sector job creation.

Promoting subsidy reforms. Costly and inefficient subsidies for food and energy have been common throughout the region and have resulted in fiscal pressures, particularly with the rise of food and commodity prices. The World Bank has been repeatedly called to assist governments in the analysis of subsidies, simulation of subsidy reforms, and, at times, implementation of reforms. Poverty economists have provided technical assistance in seven countries Morocco, Tunisia, Libya, Egypt, Jordan, Djibouti and Yemen. For example, the Poverty Global Practice developed a model for distributional analysis of subsidies and a simulation of subsidy reforms.²

Building knowledge on the welfare needs of refugees and IDPs as well as host communities. Availability of detailed data on the poverty profile and needs of refugees and IDPs is critical for designing effective support programs for them. In Iraq, poverty teams are working with the government to estimate the poverty impact of the new conflict and to provide analytical underpinnings for the crisis response strategy.

The Bank has partnered with the UN High Commissioner for Refugees (UNHCR) to produce a comprehensive welfare needs assessment, which will be used to design social assistance programs. Refugees, IDPs and migrant populations are not captured by World Bank poverty statistics because these are based on national household surveys covering the resident population. As a result, little is known about welfare of over 50 million refugees and IDPs worldwide. Cooperation with UNHCR is expected to fill this gap and facilitate development of methodologies that can be applied to other refugee and displacement situations.

In addition, the World Bank, the Regional Development and Protection Programme (RDPP) and UNHCR are collaborating to implement an innovative multi-country survey to assess the socio-economic conditions and coping strategies of hosting communities and refugee populations.

Improving availability, quality and access to data. The World Bank has provided intensive technical assistance in survey design, sampling, implementation, data quality and new methods and tools to IBRD and IDA countries of the region. The Bank has had a major impact on availability of data in fragile states, and supported large household survey implementation in Yemen and Iraq. For example, Yemen's on-going household survey is the first since 2005. In both countries, the World Bank's assistance has resulted in open data access.

Statistical capacity building activities are also ongoing in Egypt, Jordan, Morocco and Tunisia. A regional facility dedicated to expanding the access and quality of micro-data for poverty and shared prosperity has been set up. In other countries in the region the strategy has been focused on strengthening existing relationships, providing training on innovative methodologies and generating demand for open data access.

2. Please refer to the Subsidy Simulation Stata Package, or SUBSIM, for more details: www.subsim.org.

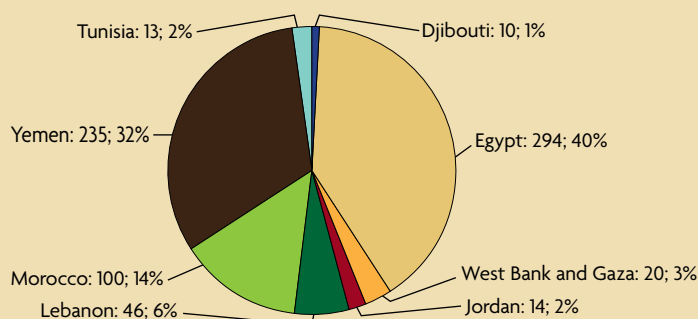
SOCIAL PROTECTION AND LABOR GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 17 projects in 8 countries (Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$732 million
- **Total Disbursements to Date:** US\$327 million

Figure 2.16. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 24 products, including 8 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 7 projects in the pipeline (4 approved by the Board of Directors) for a total amount of US\$649 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE SOCIAL PROTECTION AND LABOR GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

High levels of fuel and food subsidies. With the region holding approximately 48 percent of the global fuel subsidies, resources are locked into this inefficient mechanism that is regressive in nature. Moreover, these subsidies, particularly fuel subsidies, are ineffective in reaching the poor.

Program fragmentation and lack of coordination. Most countries in the region have a large number of programs with overlapping mandates, institutional arrangements, and delivery mechanisms. Existing coordination mechanism at the policy and program implementation levels are weak and result in inefficiencies as well as exclusion of target groups.

Key Strategic Engagements

Supporting social protection programs. Supporting Middle Eastern and North African countries consolidate their social protection and labor programs into coherent systems is a key agenda item. Such support entails: (a) building unified registries of beneficiaries of social programs, whereby different program databases can identify beneficiaries and exchange information; (b) supporting the consolidation of policy and program level coordination amongst social ministries; and (c) addressing emergency needs, which often follow political events, by creating quick job opportunities and using the existing systems to deliver immediate support.

Supporting the design of policies to reallocate public social expenditures in a more targeted and progressive manner. This includes supporting the region's governments by ensuring the necessary fiscal space to undertake reforms of regressive subsidies.

Not only does this relate to energy subsidies, but also to eliminating regressive features present in other social programs, such as the structural deficits or pension programs, as well as poorly targeted social safety net programs.

Informing labor discussions. The World Bank provides technical assistance to a variety of stakeholders to better inform overall labor discussions in the region. This, in some countries, involves discussions with employers, labor unions and focuses on areas such as reform of social security systems and labor regulations.

A key opportunity for Social Protection in Middle Eastern and North African countries is to support efforts to consolidate social safety nets, with an emphasis on pursuing a systemic approach rather than fragmented programs.

Better equipping the unemployed in the region. Although the main issues regarding unemployment relate to growth levels and their sustainability as well as the demographics of the region, certain groups such as youth and women have particular vulnerabilities in the labor market. There is thus a specific focus on these groups in order to enhance their employability in the labor market. This includes short-term approaches such as supporting active labor market projects, as well as long-term projects such as supporting structural reforms in labor markets and improving interventions to connect skills and jobs.

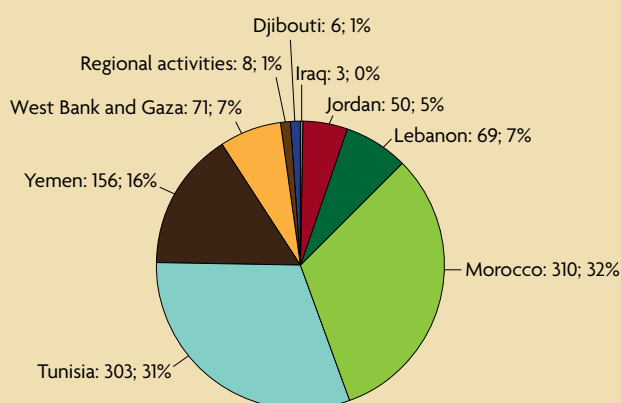
SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 21 projects in 8 countries (Djibouti, Iraq, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$975 million
- **Total Disbursements to Date:** US\$312 million

Figure 2.17. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 15 products, including 6 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 4 projects were approved by the Board of Directors for a total amount of US\$483 million.

KEY CHALLENGES AND STRATEGIC APPROACH OF THE SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

The Middle East and North Africa Region (MENA) is one of the world's most volatile and conflict-affected regions. After Africa, MENA has the highest numbers of displaced people due to conflict, with 9.1 million internally displaced persons in 2013. Several countries in the region are experiencing recurrent cycles of conflict and fragility with long term impacts on poverty, human development and social cohesion.

The region is increasingly vulnerable to natural disasters and climate change. The MENA region has been affected by 388 disasters in the past 35 years, with the number of disaster events almost tripling since 1980. Furthermore, the effects of climate change (for instance, the increasing water supply gap) will also have a significant impact on the region moving forward.

Cities are key engines of growth, but also hotspots of poverty and unemployment. About 64 percent of GDP is generated in cities, dominated by primary cities. Moreover, MENA is 60 percent urbanized compared to the global average of 52 percent. Poverty is urbanizing, as the poor increasingly live in informal settlements and slums. If unmanaged, urban poverty can contribute to social instability and unequal growth.

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High youth unemployment is a major source of tension. MENA is home to the largest youth population of any region (30 percent of the population is between the ages of 15–29). Forty percent of youth are not part of the labor force, in training or school, and youth represent 67 percent of the total unemployed.

Key Strategic Engagements

Due to the aforementioned challenges, the SURR Global Practice is focusing on developing more inclusive development approaches and opportunities. This will entail reducing inequality by addressing regional disparities, including rural and urban disparities. Improving accountability through better governance, local empowerment and decentralization will also be crucial. Finally, the provision of local basic services, particularly for disenfranchised groups, including refugees and internally displaced persons, is a key area of focus.

Improving government accountability, expanding decentralization, empowering local governments, and enabling citizen voice. Mainstreaming citizen engagement through operations and country systems (e.g., grievance redress mechanisms, citizen

feedback, budget transparency, participatory planning, etc.) is a main focus area. It will also be crucial to continue sharing relevant experiences on adopting more inclusive and participatory approaches to reflect changing state-society relations. In addition, comprehensive approaches to improving local service delivery institutional frameworks and governance structures is a significant part of this agenda.

Enabling cities to become growth engines and incubators of innovation and enterprise. This includes expanding the provision of services, especially for marginalized groups, reducing socioeconomic inequality and demographic and regional disparities, and fostering transparent financing for better, more responsive and efficient local services.

- ***Palestinian territories.*** The World Bank's urban and social development program in the West Bank and Gaza applies an integrated approach to strengthen government and civil society institutions for improved local service delivery. The Palestinian Solid Waste Management Program equips local government to provide more efficient and reliable solid waste services, and also mandates them to conduct citizen satisfaction surveys and develop municipal service delivery performance scoring systems. Furthermore, the Bank's financial and capacity building support in the Palestinian urban and social sectors is complemented by a number of AAA including on municipal finance, inter-governmental fiscal relations, municipal public-private partnerships, village development and governance, housing finance, and state-NGO relations.
- ***Tunisia.*** The Bank's urban development and local governance engagement in Tunisia presents a comprehensive package of support and services for the government in transition. For instance, an Economic and Sector Work (ESW) series (including policy notes) on: (a) decentralization; (b) municipal finance; (c) regional disparities; and (d) spatial disparities and labor market provided key data and analysis to inform the decentralization process. In addition, a Program for Results (PforR) provides fiscal incentives for improved institutional performance of 264 municipalities in support of the government's transition to a decentralized service delivery model as enshrined in the new constitution. The Bank has also provided just-in-time technical assistance to assist municipalities and the central government transition to the new roles designated to them by the new constitution.
- ***Gulf Cooperation Council countries.*** The World Bank's City Institutional Strengthening Program (CISP) provides continuous support to metropolitan municipalities in the Kingdom of Saudi Arabia in: (a) Urban Management; (b) Urban Regeneration; (c) Climate and Disaster Resilience; and (d) Economic Empowerment of Women. The Bank's Solid Waste Sector Program in Kuwait assists the Municipality of Kuwait in strengthening the legal, planning and institutional frameworks necessary to improve operational, environmental and economic performance.

Tunisia. Tunisia Urban Development and Local Governance Program for Results (PforR) is helping the government of Tunisia: (a) introduce citizen participation in the annual planning process at the municipal level nationwide; and (b) establish a portal (e-Platform) to serve as a transparency platform providing real-time information about financial transfers to local governments, thus enabling monitoring by local government, civil society organizations (CSOs) and citizens.

MENA. There are new local governance and service delivery operations taking place across the region in Tunisia, Yemen, Morocco, Jordan, and the West Bank and Gaza.

Addressing the social, economic and political exclusion of women and youth. The Bank has contributed to this agenda by targeting gender interventions in country programs, removing constraints to youth and women's economic participation, while increasing their voice and participation in project design and implementation. This has been facilitated through knowledge exchanges, raising awareness and capacity building on social accountability methods (via the Affiliated Network for Social Accountability in the Arab World), as well as by mainstreaming citizen engagement in more than 40 operations. Moreover, the Bank has focused on enhancing social cohesion and access to social opportunities, mostly targeting women and youth, through numerous literacy programs, vocational training, capacity building for community associations, and other community development activities.

- ***Palestinian territories.*** The Gender Action Plan for the program focused on the key constraints women face in participating in the labor market, making service delivery responsive to women's needs, and enhancing women's decision-making and access to credit. Moreover, building stronger government-civil society relations for better service delivery and enhanced accountability through programs such as the West Bank and Gaza Village and Neighborhood Development Program (VNDP) and the ongoing Palestinian NGO Program, for example, address capacity development needs of citizens and CSOs. The VNDP applied a community-driven development (CDD) approach to build social capital and enable communities to formulate the first community development plans.
- ***Yemen.*** The Faith Based Leadership Training for Women provided a comprehensive 10-module leadership training over a six-month period to 36 women change-makers, political advocates and civic champions.
- ***MENA.*** Women and youth employment and entrepreneurship projects in Jordan, Egypt, Tunisia and Morocco target women and youth to increase employment prospects. Targeted gender analysis and programs in Yemen and Morocco to address challenges faced by women in terms of voice and participation.

Strengthening resilience to climate change and natural disasters. Governments have progressively shifted their risk management approach from emergency response and disaster risk management to long-term resilience. To this end, promoting the establishment of resilience strategies and funds is critical. The Bank is thus focusing on helping national governments and cities build sustainable, resilient infrastructure in the context of rapid urbanization and fast growing cities.

- ***Jordan and Lebanon.*** In both countries, the Bank is helping to respond to the crisis in Syria by supporting the resilience of municipalities dealing with refugees and infrastructure challenges. The Bank has carried out the Jordan Emergency Services and Social Resilience Program, and the Lebanon Municipal Services Emergency Project.
- ***Palestinian territories.*** The Bank has supported this agenda through the Gaza Emergency Additional Financing to the Second Municipal Development Project.

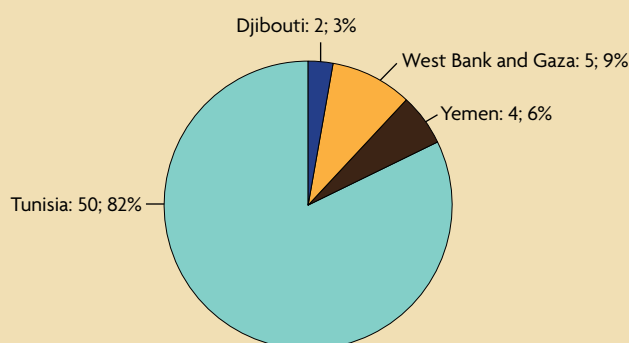
TRADE AND COMPETITIVENESS GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 5 projects in 4 countries (Djibouti, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$61 million
- **Total Disbursements to Date:** US\$3 million

Figure 2.18. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 16 products, including 6 Reimbursable Advisory Services. IFC Advisory Services accounts for an additional 14 knowledge products.
- **Fiscal 2015 Lending:** 2 projects to be delivered for a total amount of US\$206 million.

KEY CHALLENGES AND STRATEGIC APPROACH OF THE TRADE AND COMPETITIVENESS GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges

Complex political economy issues. Dealing with complex political economy issues that are constraining private sector development and job creation in the Middle East and North Africa is the main challenge in the region.

The *Jobs or Privileges* regional report has recently pointed to issues of policy uncertainty, capture, and discretionary implementation of regulations and policies as key constraints to private sector development and job creation in the Middle East and North Africa. Addressing these issues of capture, discretion, and policy uncertainty is particularly sensitive and challenging as they relate to deeply entrenched political economy equilibria.

Key Strategic Engagements

Encouraging regulatory simplification, transparency and accountability. Supporting major efforts in the areas of regulatory simplification, transparency, and accountability in the delivery of regulatory services; improving the competition framework and its enforcement; and putting in place mechanisms that shield government policies, interventions, and agencies from capture, discretion, and arbitrary enforcement to protect privileged incumbents from competition.

Priority areas for intervention. Ultimately, the priority areas for intervention in Trade and Competitiveness in the Middle East and North Africa are in the realm of policy changes and better governance rather than in actual investments, which limits the scope for investment lending, except in financing the infrastructure for cluster development and growth poles.

Ensuring cross cutting Global Practice interventions. Developing interventions with other practices to provide cross-Global Practice solutions, particularly for jobs with the Education Global Practice, governance and transparency with the Governance Global Practice, e-government initiatives for Government-to-Business (G2B) services and trade facilitation infrastructure with the Transport and ICT Global Practice, agribusiness value chains with the Agriculture Global Practice, tourism offerings with the Social, Urban, Rural and Resilience Global Practice, and overall growth policies and business taxation policies with the Macro and Fiscal Management Global Practice.

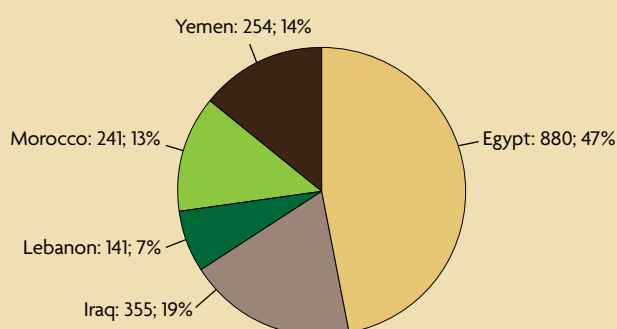
TRANSPORT AND ICT GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 10 projects in 5 countries (Egypt, Iraq, Lebanon, Morocco and Yemen)
- **Total Commitments:** US\$1.9 billion
- **Total Disbursements to Date:** US\$513 million

Figure 2.19. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 21 products, including 7 Reimbursable Advisory Services
- **Fiscal 2015 Lending:** 7 projects in the pipeline for a total amount of US\$407 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE TRANSPORT AND ICT GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

Key Challenges: Transport

Upgrading urban transport services. Sixty percent of the population is now urbanized. Most cities see rapid growth in urban transport demand and motorization. Yet, the development of urban transport systems, and particularly public transport, has lagged, and this has fostered excessive reliance on private automobiles. As a result, many of the region's large urban areas where the bulk of GDP is produced face increasingly difficult transport problems with high traffic congestion, reduced mobility, and deteriorating air quality. This reduces social and economic opportunities and quality of life, especially for the poorest, while affecting cities' competitiveness and economic growth.

Expanding access to all-weather roads in rural areas. Transport is critical in rural areas for accessing markets, health centers, schools and other social and administrative services. Populations without affordable and dependable transport are generally poorer. For most MENA countries, especially those with a large rural population, such as Morocco, Egypt, and Yemen, all-weather access in rural areas is limited by the poor condition of road networks and the inadequacy of basic transport services. In Yemen for instance, only about 25 percent of the rural population lives within two kilometers of an all-weather road.

Sixty percent of the population is now urbanized. Most cities see rapid growth in urban transport demand and motorization, leading to more congestion, less mobility, and poorer air quality.

Improving the governance of large state owned enterprises (SOEs). Whether operating in the field of railways or urban transport, many SOEs are heavily subsidized, inefficient and loss making.

Facilitating trade and promoting regional integration through greater efficiency of transport infrastructure and services. Intra-regional trade is marginal—for example, trade between Morocco, Algeria, and Tunisia accounts for only 3 percent of their total trade. Over the past years, the region has lost global market share in many export sectors, and non-oil exports represent just one percent of world trade, which is the lowest share of any developing region. While a number of factors have contributed to this reduction, low performing transport infrastructure and services in many countries of the region have adversely affected trade flows through higher costs, delays, and uncertainty. To address this situation, more efficient logistical services are required as well as transport infrastructure with broader geographic coverage, better inter-modal connectivity, and higher quality and capacity.

Increasing the role of the private sector to meet growing transport demands.

Throughout the 1990s, most countries encouraged private participation in the development of infrastructure facilities and services. However, private investment flows to transport public-private partnership (PPP) projects throughout the MENA region have been low. Yet, the need to build additional capacity at airports and ports, and to extend and maintain road and motorway networks has continued to grow. To meet this additional demand in a fiscally constrained environment, the private sector has an important role to play. This requires a change in paradigm, as for too long the focus in MENA's transport sector has been on public provision of infrastructure and services.

The region has the highest greenhouse gases transport emissions per unit of GDP, roughly the same as North America.

Mitigating and adapting to climate change.

Climate change mitigation is a special challenge in the region. Indeed, although MENA greenhouse gas (GHG) emissions are less than 6 percent of the world total for the transport sector, some countries are among the highest per capita emitters in the world. In addition, of all the regions of the world, MENA has the highest GHG transport emissions per unit of GDP – roughly the same as North America.

Contributing to social development by improving road safety, responding to women's needs, and increasing physical accessibility for people with reduced mobility.

Four countries of the region rank among the ten worst countries in the world for road traffic mortality and injury rates.

Key Strategic Engagements: Transport

Improving expenditure patterns in five key areas: (a) maintenance, especially for roads; (b) urban public transport, including the expansion of mass transit systems; (c) capacity and efficiency of infrastructure for international and particularly regional cross-border trade; (d) social development—i.e., rural access, road safety, needs of women, and physical accessibility for people with reduced mobility; and (e) assessment and selection of transport investments.

Increasing the performance and capacity of the public sector. Whether it is at the government level or within state owned enterprises, capacity development should be pursued vigorously. Indeed, transport sectors often do not have the adequate systems, institutions, or even staff to formulate and implement adequate strategies and investment plans, and to ensure that operations are organized and managed efficiently. Planning systems and data bases need to be improved, for example for urban transport. Proper asset management systems are required, especially in the road sector. Regulatory capability should be developed, notably for urban public transport services. Performance of border agencies needs to accompany improved cross-border facilities. Furthermore,

better monitoring and multi-sectoral coordination is necessary for addressing the social agenda. Finally, better governance and accountability systems are necessary throughout the region.

Developing a suitable environment for efficient provision of transport infrastructure and services by the private sector. A key challenge within the region's transport sector remains one of removing major policy and practical constraints to private sector participation and competition. Policy makers should greatly improve the institutional, regulatory, and financial framework in transport to provide suitable incentives for private participation. This still requires in many cases separating the policy, regulatory, and operational functions in the sector. In parallel, it will be key to develop well-structured transactions that best fit the specific economic and political context of MENA countries. Cost-effective transport services also need to be promoted through deregulation of transport markets and greater competition among service providers, including for international transport.

Improving pricing policies, notably for fuel and public transport services. Although the situation varies greatly by country, there are numerous examples of gross price distortions in the MENA transport sector, for example for fuel pricing and public transport tariffs. These should be gradually removed while paying attention to the social impact of cost reflective price levels. Raising fuel prices is essential for increasing transport sector energy efficiency and reducing GHG emissions but it should be carried out in a gradual manner as part of a fair process that includes compensation for the poor. Whenever feasible, proper systems should also be established to compensate operators for public service obligations imposed on them.

Improving road and railways management and safety. The road sector is a key enabler of economic development but there is a need to develop a road strategy to first enhance the preservation and the safety of road network assets. In some countries, railways are an essential mode of transport, especially for low-income commuters, and have been affected by acute safety issues, aging infrastructure and rolling stock. There is a

Morocco. The Morocco Second National Rural Roads Program (NRRP2) consists of the rehabilitation of 15,560 kilometers of rural roads throughout the country, which will improve access to all-weather roads for about three million rural dwellers. A 2010 study of the Ministry of Equipment, Transport and Logistics on a sample of six roads financed by the program showed encouraging results, compared to the situation prior to the project: transport cost of passengers and goods decreased by about 40 percent, school enrollment rates increased by 17 percent, girls school enrollment rates went up from 40 percent to 44 percent, visits to health facilities increased by 40 percent, women visits to health facilities increased from three to five times per year, household revenue and consumption increased by 35–40 percent, and the price of a basket of basic commodities (sugar, oil, gas bottle, tea, flour) decreased by 14 percent.

need to reform the railways to introduce better accountability, and improve financial and safety management.

Reducing emissions of greenhouse gases and adapting the transport sector to climate change. Much can be done in the MENA region to reduce GHG emissions through general efficiency improvement measures such as vehicle emissions regulations, fiscal incentives, raising fuel prices, and better traffic management, as well as through specific actions such as vehicle fleet renewal programs, public information campaigns, and training of operators. Investment in public transport in the large cities would also be a key contributor to emissions reductions. These measures would have major co-benefits in terms of better air quality and lower fuel import bills for the oil importing countries. In addition, adaptation of the transport sector to the changing climate, particularly the heavy rains and flooding that climate models predict for the region, requires better design norms and methods, retrofitting vulnerable infrastructure, and building capability within transport and other relevant institutions to address catastrophic events.

The introduction of competition and open access regulations could significantly change the landscape of the region and spawn substantial economic growth.

Key Challenges: ICT

Sector liberalization, regulation and infrastructure open access. Several countries have yet to liberalize, or further liberalize their ICT sector in order to increase broadband access and make it more affordable to the average citizen. Strengthening the regulatory framework is also needed in order to ensure level playing field and infrastructure open access.

Private sector participation. Investments in infrastructure and services could be substantially enhanced in many countries where the incumbent is state-owned or internet service providers are restricted. Growth in the sector would have several virtuous effects. Notably, a vibrant IT private sector is needed to sustain eGovernment programs and the related IT outsourcing services (systems, services, maintenance and development). In addition, the expansion of the private sector in the ICT field could also boost the adoption of innovative IT management tools among small- and medium-sized enterprises, and in turn could increase productivity and transparency.

Innovation ecosystem. Mobile broadband is increasingly accessible and is opening new horizons of services and products. To seize these opportunities, digital literacy programs (which stress inclusion of girls, women, the disabled, and the elderly) and computer science programs in higher education are needed. This in turn can feed start-ups which, if have access to facilities and financing, can be an engine of job creation.

Key Strategic Engagements: ICT

Strengthening competition and open access. The introduction of competition and open access regulations could significantly change the landscape of the region and spawn substantial economic growth.

Accelerating the transition towards the digital economy. This covers multiple dimensions on the “demand” side of the sector: eGovernment programs, ICT in various sectors (agriculture, energy, transport, health, education, etc.), IT sector development, and innovation ecosystems,

Promoting open and big data. A continuation of the eGovernment programs, open data (public and private data) and big data are shaping citizen engagement and the innovation ecosystems. They are key elements of the new frontier for ICT sector development.

Djibouti. The Djibouti Telecom Sector Opening Project will introduce competition and improve the institutional and regulatory environment by updating the legal and regulatory framework, strengthening the capacity of the Ministry of Communication, and preparing the establishment of an independent regulatory authority. It will also examine options for Djibouti Telecom’s strategic repositioning.

Tunisia. The Tunisia Accelerating High-Speed Internet Access Project will contribute to expanding and developing Tunisia’s broadband services by accelerating ultra-fast broadband (UFB) deployment in appropriate geographical locations with the involvement of the private sector and by furthering competition in the sector.

Morocco. The Morocco Creating Income-Generating Opportunities through ICT-enabled Microwork will explore income-generating opportunities for the most disadvantaged communities through ICT-enabled work.

Lebanon. The Mobile Innovation Ecosystem Project aims at boosting the innovation ecosystem through stimulating the private and public sectors, as well as civil society, to engage in new collaboration and co-creation models.

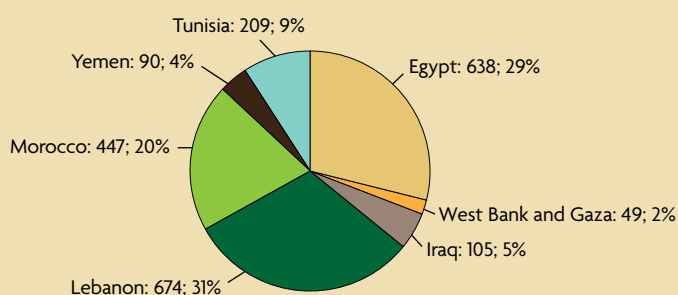
WATER GLOBAL PRACTICE

Middle East and North Africa

Highlights

- **Active Portfolio:** 24 projects in 7 countries (Egypt, Iraq, Lebanon, Morocco, Tunisia, West Bank and Gaza, and Yemen)
- **Total Commitments:** US\$2.2 billion
- **Total Disbursements to Date:** US\$520 million

Figure 2.20. Total Commitments by Country (\$ million, % of total)



Fiscal 2015 Deliverables

- **Fiscal 2015 Knowledge Products:** 5 products
- **Fiscal 2015 Lending:** 5 projects in the pipeline (2 approved by the Board of Executive Directors) for a total amount of US\$687 million

KEY CHALLENGES AND STRATEGIC APPROACH OF THE WATER GLOBAL PRACTICE IN THE MIDDLE EAST AND NORTH AFRICA

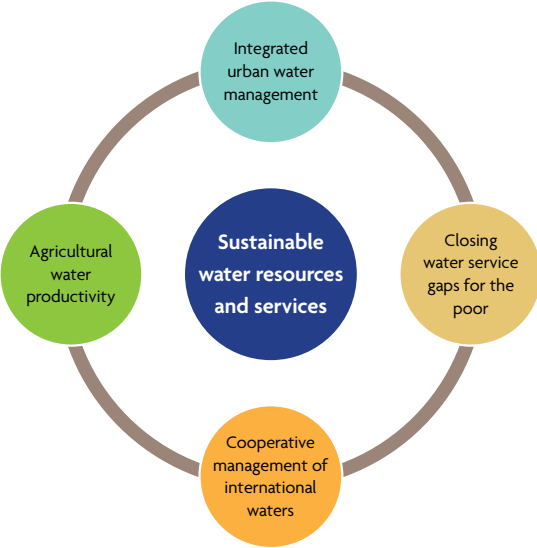
The Middle East and North Africa region is the origin of the Water Global Practice’s emerging “Extreme Water Initiative”. This initiative seeks to link localities, utilities, policy and technology innovators, and civil society organizations across the world in a common agenda in order to share approaches and identify solutions to the challenges imposed by extreme scarcity in achieving water security.¹

Key Challenges

Water scarcity. As the most water-scarce region in the world, the Middle East and North Africa faces tremendous challenges in meeting the growing demand for water to support expanding urban populations and economic growth, while moving towards more effective inter-sectoral water allocation, including the use of water pricing.

Water as a source of social and political tension. Given the fragile political context, water is often a source of further social and political vulnerability, fueling conflicts between nations, regions, urban and rural communities over scarce resources, and undermining the social compact between the state and its citizenry where basic water services are under-provided (poor, rural and peri-urban communities) or are of very poor quality (many major municipalities).

Institutions and policies in need of strengthening. Water institutions and policies across the region – including key issues such as client responsive and sustainable utilities,



1. Defined as meeting the social, environmental and economic needs for water resources on a sustainable basis.

water pricing, regulation of groundwater utilization and water quality – require substantial institutional and policy strengthening.

Climate change. These challenges are further accentuated by the risks of climate change. Forecasts suggest that climate change will result in generally lower and more concentrated precipitation levels over much of the region, higher temperatures and evapo-transpiration rates, and will place further pressure on the natural basis of water security – groundwater aquifers.

Key Strategic Engagements to Meet the Extreme Water Challenge in MENA

Developing integrated urban water management (IUWM) for localized water security. MENA's rapidly growing cities and towns are quite vulnerable to water service shortages due to the insufficient capacity to mobilize and treat water and wastewater, as well as potential supply shocks due to natural (droughts or earthquakes) or man-made (conflict) disruptions. Localities such as Sana'a in Yemen and Gaza in the Palestinian territories are already facing critical water supply constraints as they deplete their local aquifers. Global experience has shown that local water security, under extreme circumstances, necessitates a different water services management approach which goes beyond the standard, efficient utility approach (though still much needed in most MENA countries) to include highly specific technology options and institutional capacities. IUWM is particularly relevant to the MENA extreme water context as it explicitly integrates improvements in service delivery in cities and towns with more effective management of water resources both local (aquifers and rivers) and incremental (conveyed water, desalination, and reuse), as well as energy efficiency. As the risks of localized water insecurity are most intensively perceived by mayors and other local governance authorities, the Water Global Practice is working with the Social, Urban, Rural and Resilience Global Practice to bring together the municipal services agenda with the sustainable water resources management agenda across the region, including in Morocco, Tunisia, the Palestinian territories, Yemen, Lebanon, Iraq, Jordan, and Saudi Arabia.

As the most water-scarce region in the world, the Middle East and North Africa faces tremendous challenges in meeting the growing demand for water to support expanding urban populations and economic growth.

Increasing the productivity of water, particularly in agriculture to improve allocative efficiency. Despite its extreme scarcity, MENA has amongst the lowest levels of water productivity in the world. This is particularly true for agriculture which continues to account for approximately 80 percent of freshwater withdrawals in the region. While non-conventional sources of freshwater such as desalination and reuse of wastewater can provide some incremental resources (albeit at high cost), there is a compelling need to stabilize and eventually reduce water resource consumption in agriculture and facilitate reallocation to urban, industrial and other higher value uses in terms of economic growth and employment. In order to ensure that the inter-sectoral competition for scarce water resources

does not accentuate tensions between rural and urban communities, we are working with countries to maintain or increase agricultural value added and food security in a context of likely declining water use. Specifically, the Water Global Practices is working in conjunction with the Agriculture Global Practice to increase both the efficiency and quality of irrigation services, while increasing the value of production, setting the basis for improved water pricing and other incentives for efficiency. In conjunction with the Food and Agriculture Organization (FAO) and other partners, the World Bank is currently focusing its agricultural water productivity work in Morocco, Tunisia, Egypt, Yemen and Iraq.

Closing remaining basic water service gaps for the poor in rural and peri-urban areas, and supporting communities impacted by refugees and internally displaced persons. Despite tremendous improvements in water supply and sanitation coverage in the MENA region over the past three decades, there are significant areas which remain unconnected to improved services—particularly in rural and peri-urban areas where the costs or service provision are higher and the scope for cost recovery lower, than in core urban areas. This has been accentuated in recent years by the inflow of refugees from the conflicts in Syria and Iraq. In addition to the health and welfare risks posed by access to substandard water and sanitation services, these service gaps are often perceived by citizens as contributing to their sense of social and political exclusion. However, global as well as regional experiences provide a range of technical and institutional options to address these challenges while limiting fiscal costs. These options require governments and utilities to incorporate an open approach of the mechanisms and roles of local communities and the private sector in delivering services. In addition, the Bank is supporting programs responding to the impacts of the refugee influx in Jordan, Lebanon and Iraq/Kurdistan Region of Iraq.

Supporting cooperative management of international waters. With an estimated 60 percent of freshwater resources in trans-boundary rivers and aquifers, the MENA region is amongst the most water inter-dependent in the world. While often viewed as a source of actual and potential conflict, recent global experience suggests that this can also be the basis for strengthening international cooperation, as in the case of India and Pakistan's respect of the Indus River Agreements, and more recently, the Jordanian, Israeli and Palestinian tripartite agreements in the context of efforts to address threats to the Dead Sea. There are also civil society and local government based initiatives in several countries which provide an opportunity for developing “bottom-up” cooperation. A water secure MENA requires increased technical support to political agreements at the national and local levels on shared management of rivers and major aquifers. Such agreements should focus on common information and modelling of resources, water quality, current and future utilization, and options for water sharing. Given the importance of water quality issues to this agenda, the Water Global Practice is currently working with the Environment Global Practice on this initiative, including in the Jordan River Valley—Red Sea to Dead Sea—and the Nile Basin Initiative.

III.

Selected Key Cross-Cutting Challenges and Opportunities in the Middle East and North Africa



KEY CHALLENGES

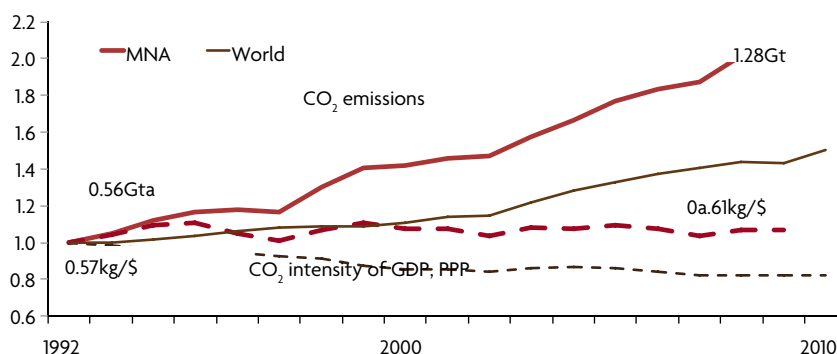
Climate change is a critical issue in the Middle East and North Africa as the region continues to experience extreme heat, drought, and aridity. While societal responses to changes are hard to predict, extreme impacts would present unprecedented challenges to the social systems affected. Climate change might act as a threat multiplier to the security situation in the region by imposing additional pressures on already scarce resources and by reinforcing pre-existing threats connected to migration following forced displacement.

Changing precipitation patterns and an increase in extreme heat pose high risks to agricultural production and regional food security. Productivity is expected to drop and crop yields may decrease by up to 30 percent and more if the global temperature rises more than 4°C compared to the historical average. With 70 percent of agricultural production being rain-fed, the sector is highly vulnerable to temperature and precipitation changes and the associated potential consequences for food, social security, and rural livelihoods. The increase in demand for irrigation water will be difficult to meet due to the decrease in water availability. Rising food prices that often follow production shocks and long-term declines make the growing number of urban poor increasingly vulnerable to malnutrition. With its high and growing import dependency the region is particularly vulnerable to worldwide and domestic agricultural impacts and related spikes in food prices.

Heat extremes will pose a significant challenge for human health. The period of consecutive hot days is expected to increase. Heat stress levels can approach the physiological limits of people working outdoors and severely undermine regional labor productivity. High temperatures can cause heat-related illnesses especially for vulnerable groups. The relative risk of diarrheal disease as a consequence of climatic changes and deteriorating water quality is expected to increase.

Sea-level rise will pose serious challenges to the region's coastal population, infrastructure, and economic assets. All coastlines are at risk from sea-level rise. The Maghreb countries of Tunisia, Morocco, and Libya along with Egypt, are among the most exposed North African countries in terms of total population affected by sea-level rise. Key impacts include inundation, flooding, and damages caused by extreme events (including storms, storm surges, and increased coastal erosion). Impacts on groundwater levels are significant, with potential negative repercussions on human health for local and migrant populations.

Figure 3.1. Relative Increase of CO₂ Emissions and the CO₂ Intensity for MENA Compared to the Global Average



Source: WDI data from CDIAC

Increasing energy intensity and gas flaring risks GHG emissions rising even higher. Energy intensity—the ratio of energy use to GDP—has dropped dramatically nearly everywhere in the world. With a few exceptions, the energy intensities of countries in the MENA region remain below the averages for their income brackets—but for most of them energy intensity is rising, the opposite of trends elsewhere. From 2000 to 2012, the energy intensity of lower-middle-income countries worldwide fell by 2.5 percent a year, while MENA countries in the same income bracket rose by 0.4 percent. Upper-middle-income countries worldwide saw energy intensity fall by 0.5 percent a year over the same period, but those in MENA by only 0.1 percent. Among high-income countries, energy intensity fell across the globe at 1.6 percent a year, in contrast to a rise in the MENA region of 0.9 percent. In addition, gas flaring in oil production causes significant losses every year, representing 28 percent of global flaring volumes (2012), with eight of the top 20 gas flaring countries located in the MENA region. To this end, GHG emissions in the region have doubled over the past two decades (to 1.28 gigatonnes in 2010).

There has been a limited use of renewable energy sources in the region. Meeting the forecast level of demand growth over the next decade will require major investments. According to a recent World Bank estimate, additional demand for electricity could grow by 84 percent in the MENA region by 2020 (compared to 2010), requiring 135 gigawatt of additional capacity. Whether those investments will embrace energy-efficient technologies is a critical question. The broad availability of hydrocarbons associated with universal subsidy schemes for energy consumption has hindered the use of new technologies to harvest renewable energy and energy efficiency potential. The production of energy

from renewable sources is still limited, even as solar and wind energy can be easily harvested due to the climate of the region.

KEY STRATEGIC ENGAGEMENTS

Improving water resource management and water quality: To face the challenge of water scarcity, the Bank Group is engaged in improving water resource management and increasing water mobilization and provision. This is important in order to alleviate pressure during the dry season, through a “landscape” approach that supports rural livelihoods and the sustainable management of forests and grazing areas and watersheds. Global benefits in terms of increased sequestration can be substantial, and provide additional revenues for financing the environmental services provided by these natural assets. As water becomes less available, preserving its quality becomes more important. The Bank Group is engaged in reducing water pollution in major water rivers and Lake in an integrated fashion (i.e., Lake Qaraoun; Lebanon), from industrial pollution (i.e., Lebanon, Pollution Abatement project) or from agriculture (Egypt analytical work).

Improving natural resources and desert ecosystem management. To increase resilience to drought, the Bank is engaged in the sustainable management of desert and oases ecosystems to optimize the provision of desert goods and services in the agro-food chain specific to arid environment and to promote eco-tourism (i.e., Algeria, Jordan, Morocco and Tunisia). The Bank is also promoting climate resilient agriculture especially in rain fed areas (i.e., Yemen).

Protection of coastal zone. Coastal cities play a major role in economies across the MENA region. The Bank Group’s strategic vision is to promote the development and management of a coastal zone that is both sustainable and resilient (i.e., Morocco Integrated Coastal Zone Project).

Local Co-benefits of Climate Change Mitigation. Air pollution has become the most significant cause of premature deaths in the world. Mitigation actions to reduce greenhouse gases from energy and transport sectors in particular, will also have a significant and positive impact in reducing air pollution, and the large human and economic costs associated with air pollution. To be effective, these efforts need to be complemented by efforts to build Air Quality Management Systems, most notably in large urban centers and industrial areas (i.e., RAS in Gulf countries; Egypt Analytical work). The Bank is also working to implement the Montreal Protocol to phase out HCFCs in the region.

Reforming the energy sector. The current structure of the energy sector in most of the countries, characterized by dependence on fossil fuels and sub-optimal efficiency in key end-use sectors (industry, transport, and residential sectors), poses competitiveness risks and has a direct implication on fiscal spending. While climate change mitigation is not a primary driver of change of the energy sector in the MENA region, the fundamentals of the energy sector in the MENA region are rapidly changing, with important climate

change co-benefits. Many countries are taking a hard look at reforming energy subsidies, driven by the need to improve fiscal balances, shift government spending to social services, and to attenuate the impact of the volatility of oil prices in the economy.

Supporting the diversification of energy sources. In response to the need for energy security and to hedge against exposure to oil price shocks, many countries in the region are adopting aggressive renewable energy strategies, and embracing hydropower, wind and solar power. This is true for net energy importers such as Morocco, as well as energy-rich countries alike, which consider developing renewable sources of electricity generation as an economic alternative to ever-increasing pressures on the countries' hydrocarbon resources.

Improving energy efficiency. While still a nascent interest, MENA countries are also seeking opportunities to improve energy efficiency through advancing strategies already adopted and by applying international experience to accelerate implementation of policies and programs. This includes implementing energy efficiency along the entire value chain, from production, transmission and distribution, to reducing energy demand. Finally, citizens are increasingly demanding improved service delivery and sound governance, including from the energy sector.

KEY CHALLENGES

All of the countries where the World Bank Group is engaged in the Middle East and North Africa region were affected in one way or another by the 2011 political upheaval, popularly known as the Arab Spring. The demands for more economic and political inclusion forced the region as a whole to consider vital questions regarding good governance, public accountability, shared growth, and the rights of ordinary people to have a say in their country's future. The dialogue around these issues has put much of the region on a path toward profound political and social change. Much of that change involves redrawing the social contract between the citizens and the state with the objectives of bringing the state closer to citizens, acknowledging voice and diversity, ensuring equitable and responsive service provision, and enabling local endowments for inclusive local development. This is the broad context for decentralization in the Middle East and North Africa region today. Yet, many challenges remain for effective decentralization to take roots, even in countries where political momentum exists for decentralization. For instance:

- Political decentralization continues to lag in the region as a whole with notable exceptions. While the Palestinian territories have a tradition of elections at the local level, Yemen, Tunisia, Libya, and Morocco are fast forwarding their efforts to devolve through constitutional and legal changes. Countries like Lebanon, driven by political and other exigencies, are expanding the functional domains of local governments through de facto arrangements.
- Broadly, administrative decentralization in the Middle East and North Africa can be characterized as deconcentrated rather than devolved. The public administration system comprises an elaborate system of deconcentrated field offices of line agencies. The financing and construction of major infrastructure as well as decisions on service delivery are usually made by the central government. Deconcentrated central units provide major public services, including water, sanitation, health, and education, while devolved municipal units perform a limited menu of functions, such as street maintenance, construction of local roads, street lighting, garbage collection, libraries, park services, and issuing construction permits.

- Although the degree of fiscal decentralization differs among the Middle East and North Africa countries, many have highly centralized expenditure and revenue systems. Expenditure responsibilities have followed bureaucratic and administrative considerations rather than principles of political accountability and economic efficiency. Most of the local expenditure responsibilities are “delegated” as opposed to “owned.” Further, expenditure assignments are not matched by corresponding revenues.
- Intergovernmental fiscal frameworks do not address issues of vertical and horizontal balance between tiers of government and among subnational units. Most countries have rather ad hoc local revenue systems. Municipal budgets primarily depend on transfers. However, transfer systems tend to rely on earmarked grants and suffer from a lack of transparency in the allocation mechanism. Own source revenues are limited in many countries and public financial management systems are generally weak.
- Services coverage has improved in several countries but equity, quality, and sustainability are continuing challenges. Operation and maintenance of infrastructure and cost recovery for services are weak. Inadequate coordination between central and local authorities and weak local capacities have led to imbalances in the coverage and quality of services.

KEY STRATEGIC ENGAGEMENTS

Much of the post-Arab Spring political change falls outside World Bank’s operational domain. Yet, the Bank has played a meaningful role to help countries, cities, towns, and communities address a broad gamut of issues related to decentralization, local governance and development, and citizen voice and participation through demand-based policy support and technical assistance, by facilitating knowledge exchange among countries, and by financing local governance and service delivery programs.

- In Tunisia, for example, the Bank is supporting state restructuring and constitutional reforms aimed at decentralizing the state, strengthening foundations of good governance, making service delivery more accountable and effective, and opening avenues for greater voice, citizen engagement, and participation.
- In Morocco, the Bank is supporting the government’s regionalization agenda, while in Saudi Arabia, the Bank is providing technical assistance to improve local finances.

- In the Palestinian territories and Jordan, the Bank has supported local infrastructure development and service delivery as well as the strengthening of local governments through policy support, investment projects, and technical assistance. The World Bank's programmatic engagement with local governments in the West Bank and Gaza have allowed it to establish a transparent, performance-based transfer mechanism, providing investment grants as incentives for municipal management reforms.
- Bank support to Jordan and Lebanon in the wake of the Syrian crisis to ramp up critical services and to embed conflict resilience among host communities involves strengthening local response systems through intergovernmental channels and local participatory mechanisms.
- Bank focus has encompassed both demand and supply sides of accountability. The Bank is supporting the strengthening of frameworks and capacities for transparent and efficient subnational PFM systems across several countries in the Middle East and North Africa. In the Kurdistan Region of Iraq, the Bank has helped strengthen demand-side mechanisms to enable responsive service delivery, while in Morocco, working within a deconcentrated framework, the Bank has supported a national program of localized service delivery and citizen engagement.

Most decentralization initiatives in Middle East and North Africa region have involved multisectoral teams. Moving forward, it is crucial to engage on the following areas through a comprehensive approach.

- Strengthening analytical foundations to better understand the largely idiosyncratic path of decentralization and localization in the Middle East and North Africa, including its political, social, institutional, and developmental underpinnings;
- Further developing country-specific knowledge of decentralization, regionalization, and localization imperatives to gauge appropriate entry points and tailor contextually relevant responses;
- Capturing appropriate cross-Global Practice linkages to harness contextual global knowledge and solutions, drawing from relevant global knowledge repositories and teams existing across several Global Practices; and
- Enhancing knowledge exchanges, bringing greater quality control, sharing experiences across sectoral and country teams, and mentoring staff working on decentralization issues in the region.

DISASTER RISK MANAGEMENT

KEY CHALLENGES

Increasing small unreported hazards, rapid urbanization and informal settlements. The Middle East and North Africa region (MENA) has been affected by 388 disasters in the past 35 years. With 62 percent of the population living in cities, the region's rapid urbanization is increasing the exposure of people and economic assets to disaster events.

MENA has been affected by 388 disasters in the past 35 years.

Floods are the most recurrent hazards in the region, representing 53 percent of the recorded disasters since 1981. The percentage of gross domestic product (GDP) exposed to floods has tripled from 1970–79 to 2000–09.¹ **Earthquakes** are the second most prevalent disaster in the region, but the most damaging, followed by **droughts** and **storms**. These numbers only speak for the large scale events, which are documented, and their effects calculated. However, low scale events are frequent and increasing across MENA, disrupting the national and local economies. West Bank and Gaza, Morocco, Yemen, Saudi Arabia, Iran, Algeria and Djibouti have experienced severe storm and flash-floods events in 2013–14.

Rapid urbanization is an important aggravating factor to the impact of natural hazards in a region where the urban population accounts for 62 percent of the total population and is expected to double in the next three decades.² Additionally, **3 percent of its surface area is home to 92 percent of the population**.³ The impact of urbanization is especially significant in the region's coastal areas, where the largest cities and economies are located. Today, approximately 60 million people (about 17 percent of MENA's total population) live in the region's coastal areas. The concentration of people and economic assets increases their exposure to disaster events. The high slum to urban ratio throughout the region makes these urban areas particularly vulnerable to both floods and earthquakes.

Climate change and variability will also impact MENA economies. In 2050, the region will likely face a 50 percent renewable **water supply gap**. Thus, water will need to be imported or desalinated, costing the driest MENA economies at least a 1 percent reduction in GDP.⁴ According to the Inter-Governmental Panel on Climate Change

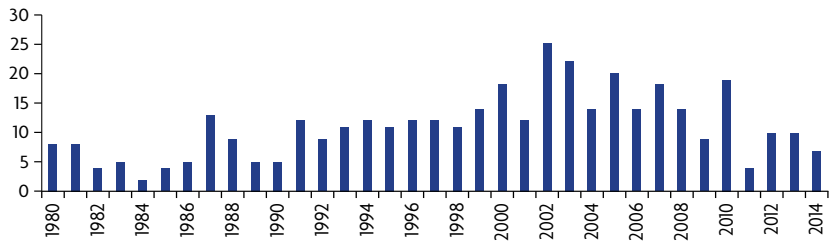
1. United Nations, 2011 *Global Assessment Report on Disaster Risk Reduction*, 32.

2. UN-HABITAT, *The State of Arab Cities 2012: Challenges of Urban Transition*, 2012, www.unhabitat.org.

3. World Bank, *Poor Places, Thriving People*.

4. World Bank, *Adaptation to a Changing Climate in the Arab Countries*.

Figure 3.2. Occurrence of Disaster Events in MENA, 1980–2014



(IPCC), *sea-level rise* would cause millions to be displaced in the region. In Egypt alone, a 1-meter rise in sea level is estimated to put 12 percent of the country’s agricultural land at risk. The same event would directly affect 3.2 percent of the population in the region, compared to a global figure of 1.3 percent.

KEY STRATEGIC ENGAGEMENTS

Digital Risk Information Management System. Deploy integrated risk information management systems to collect, unify and organize risk data, understand and quantify risk, prioritize resilience initiatives, map experts and relationships, and communicate and share data.

Resilience Funds and Strategies. Create resilience funds to make pro-active investments in risk reduction, financial protection, response, recovery and rebuilding efforts.

Integrated Risk Management. Promote resilient and safer cities by developing resilience framework and strategies (in Djibouti, Yemen, Lebanon, Morocco, and Kuwait) and creating jobs and skills (funding resilient entrepreneurs across 100 cities in MENA, and educating and training women entrepreneurs).

WORLD BANK DRM PROGRAMS IN MENA

- Since 2008, the World Bank, with support from the Global Facility for Disaster Reduction and Recovery (GFDRR) has expanded its risk management portfolio to 10 countries leveraging US\$750 million early recovery, reconstruction and resilience.
- The report, *Natural Disasters in the Middle East and North Africa Region: A Regional Overview*, was developed by the World Bank in collaboration with MENA governments, the United Nations, and regional institutions.

- MENA countries progressively shifted their risk management approach from emergency response, to disaster risk management, and finally to long-term resilience. This has led to a stronger involvement of the Ministries of Finance, Interior, Environment and Education and city mayors in risk preparedness and response.
- Prioritized risk management investments have been made in assessment and communication of risk, institutional coordination, and early warning systems.
- Risk assessment baselines have been established, creating the necessary foundation to partner with countries to establish resilience funds and strategies in order to “risk proof” these economies. This has been done in Morocco, Yemen, Lebanon, Djibouti, and Saudi Arabia, for instance.
- Hydromet network has been established in Djibouti, Yemen, and Morocco.

FRAGILITY, CONFLICT, AND VIOLENCE

KEY CHALLENGES

The MENA region is currently experiencing significant instability, with several violent conflicts, and political transitions, which are fundamentally altering the political, social and economic landscape. Underlying causes and dynamics are complex and multi-faceted, spanning sub-national, country and regional forces. The impacts and consequences of violence and conflict are not limited to individual countries, with significant spillovers on neighboring countries and, indeed, globally.

Drivers of fragility and conflict. Despite positive economic growth and low (and declining) levels of poverty in the MENA region between 2000-2010, several structural challenges contributed to deepening fragility, in particular due to the 2011 Arab Spring and the subsequent trajectories of political transition, instability and conflict in countries throughout the region. In summary, these include:

- **Deep horizontal and vertical inequalities**, which were exacerbated by worsening global and regional economic conditions (including the 2008 financial crisis), and led to strengthened perceptions of marginalization. In 2011, these grievances were one of the factors that led to the massive popular demonstrations in Tunisia, Yemen and Libya, for instance.
- **Poor governance, characterized by inadequate service delivery, lack of transparency and accountability, and even corruption.** Despite decades of apparent stability, the weaknesses of many state systems were exposed in 2011, in light of states' inability to manage socioeconomic crises and mounting popular grievances. The 2011 Arab uprisings ushered in complex political transitions in a number of MENA countries, resulting in drastic and chaotic redistribution of power and attempts to redefine the social contract. In many countries, this led to a change in government, new constitutions, and some reforms. Whereas in some countries change took the form of revolutions followed by transition processes (Tunisia and Egypt), in others it took the form of violent contestations of state authority (Libya, Syria, and Yemen).
- **Increased social fragmentation and polarization.** While social cleavages (i.e., ethnic, sectarian, regional, etc.) in MENA have a long and complex history, they have been exacerbated in recent years and become areas for mobilization, competition and conflict. This has led to the fragmentation of the national and social fabric in some countries, and the rise to prominence of identity-based agendas at the expense of a collective national vision. In some countries the deterioration of social cohesion has

taken violent forms, including radical forms of social and political organization and the use of extreme violence to achieve political objectives. This is the case for instance in Libya, Syria and Yemen. This situation was also compounded by external destabilizing factors and influences which exacerbated dissent and fed conflicts.

Dynamics of fragility and violence. The way in which the various underlying drivers of fragility and conflict have shaped the dynamics of fragility, conflict and violence differs significantly between countries. In very general terms, country-specific dynamics can be regrouped as follows:

- ***Countries undergoing complex transitions.*** In Tunisia and Egypt, large-scale demonstrations and mobilization have led to political transitions that to date, have addressed some grievances and initiated important reforms and institutional transformation, including through constitutional processes.
- ***Countries experiencing large-scale conflict.*** Syria, Libya, Iraq and Yemen are experiencing large-scale violence and conflict, characterized by the breakdown of institutions, major loss of life, significant population displacement, destruction of infrastructure, and economic crises.
- ***Countries in situations of acute vulnerability.*** Other countries have been significantly affected by conflicts occurring in neighboring countries, increasing their vulnerability to destabilization and conflict. These include most notably Lebanon and Jordan, which have been directly impacted by the Syrian conflict through the influx of refugees, as well as the spill-over of conflict and violence across borders. In both Lebanon and Jordan, the costs of spillover are significant, undermining development achievements and prospects, creating important socioeconomic and fiscal pressures, and exacerbating already fragile political equilibriums.

Regional dimension of conflict and fragility. Beyond the typology of country-specific fragility and conflict trajectories, attention must also be paid to regional-level conflict dynamics. Three distinct dynamics can be identified: (a) Destabilizing regional impacts of country-specific conflicts (the Syrian conflict is having a significant impact on neighboring countries, in particular through the influx of refugees in Jordan and Lebanon); (b) transnational activity and organization of extremist armed groups; and (c) cross-border illegal networks and governance vacuums in peripheral areas (for instance in the Sahel).

KEY STRATEGIC ENGAGEMENTS

The World Bank has been responding to fragility and conflict in the region through promoting stability, responding to urgent priorities and supporting comprehensive and inclusive development solutions, complementing efforts in the political, security and humanitarian spheres. While the following work is preliminary, and there is a great deal more to be achieved in strengthening the World Bank's response to fragility and conflict—in close partnership with the United Nations (UN) and other partners—key tenets of the Bank's strategy include:

- A differentiated approach that recognizes the heterogeneity of fragility and conflict dynamics across countries;
- A two-pronged approach that focuses on responding to immediate needs and priorities while supporting long-term reform, institutional transformation and development goals;
- Identification of financing instruments adapted for delivering results in contexts of protracted crisis, high risks, and in the absence of clear linear transitions from conflict to peace, and most notably capturing the particular situation of fragile and conflict affected middle-income countries;
- A regional approach to both containing and mitigating regional dynamics and impacts of conflict and fragility, and strengthening regional capacities for crisis prevention, management and recovery.

Specifically, the Bank is:

Strengthening governance and state-building, by consolidating political settlements, supporting fundamental reforms and building institutional capacity. Addressing the governance challenge in the MENA region requires three types of assistance, in order to address the inter-related challenges of consensus building on governance priorities, enhancing accountability and transparency of institutions, and improving quality and efficiency of functions and services:

- *In the transition countries*, the focus is on supporting 'deep' institutional reforms to improve transparency, participation and accountability, thereby ensuring continuity and implementation of the outcomes of recent political transition processes, as well as improved delivery of services;
- *In the conflict countries*, the Bank supports national dialogue around key transition and reform priorities, with a view to informing political settlements, constitutional processes and reform processes. An example is the Bank's recent support for the Yemeni national dialogue process. Other areas of engagement include support

for strengthening (and/or rebuilding) state and institutional capacities, with a particular focus on core functions and service delivery mechanisms, local governance, inter-government coordination and decision-making, and leadership training on the management of transition processes.

- ***In the case of the vulnerable countries***, the focus is on strengthening institutional resilience and capacity to deliver services in the context of the refugee influx, building on support provided to date. A key priority is linking improvements in local service delivery with structural reforms to sustain these gains as part of a longer-term development strategy. Future priorities include supporting Lebanon in creating the necessary space for dialogue on policy and reform priorities to enable more effective governmental action on urgent priorities.

Addressing social and economic stresses and grievances, notably through expanding opportunities, addressing the needs of marginalized and vulnerable populations, and strengthening social cohesion and resilience. Traditional approaches to economic growth and poverty reduction in the countries impacted by fragility and conflict are not enough, and need to incorporate a focus on the social and economic challenges which contribute to drivers of conflict and fragility. These include economic inequalities and associated perceptions of exclusion and marginalization; the marginalization of at-risk groups who turn to violence and extremism in the absence of meaningful opportunities; and tensions and conflicts between groups arising from competition over livelihoods and services.

- ***In the transition countries***, the area of focus should be both in generating opportunities (through job creation, support to entrepreneurs, and skill-building) and in economic and social reforms to address inequalities and improve access to services;
- ***In the conflict countries***, the focus is on immediate and short-term employment generation and social welfare support as part of broader economic recovery strategies, targeting groups that are most vulnerable. A good example is Bank assistance for cash transfers for the poor under the Social Welfare Fund in Yemen that has continued despite repeated crises. On the social side, priorities include mitigating and reversing current trends towards fragmentation and extremism by addressing the grievances of at-risk groups (e.g., youth) who are more susceptible to radicalization, and by strengthening local mechanisms for conflict resolution and collaboration in diverse communities (bridging ethnic, tribal, religious and economic divides);
- ***In the case of the vulnerable countries***, the focus of the Bank's engagement is on the nexus between humanitarian and development assistance. To this end, it is key to complement the provision of humanitarian assistance to refugees by supporting host communities in order to mitigate the economic and social pressures placed on the latter. A key issue is strengthening the ability of communities and institutions

to manage the stresses, burdens and shocks created by conflict spillover, including population displacement, regional economic shocks, and cross-border violence.

Developing innovative approaches to respond to crises and post-crisis recovery, addressing both short-term priorities and longer-term structural drivers of fragility and conflict. With protracted crises and non-linear transition processes marked by high volatility and fluidity, traditional approaches and financing instruments are not sufficient. Ensuring results in these contexts necessitates approaches that are grounded in an accurate assessment of challenges and needs (and hence appropriately targeted and framed), and which retain sufficient flexibility to combine responsiveness to short-term priorities with long-term solutions to structural drivers of fragility and conflict.

- ***In the transition countries***, the Bank's focus has been largely programmatic in nature, with a focus on supporting transformations in key sectors (including the private sector), and increased participation of national stakeholders in policy reform processes.
- ***In the conflict countries***, the Bank has employed a number of different instruments to permit continuous analysis of socioeconomic conditions and needs, and provide targeted assistance in the short-term. These include:
 - Undertaking targeted social and economic impact assessments (including Yemen, Libya and the Kurdistan Region of Iraq), and providing analytical/information management platforms to facilitate recovery planning;
 - Providing technical assistance to governments and other stakeholders to support development of recovery plans and priorities;
 - Development of operations to support implementation of critical reforms, improve services and economic opportunities, and restore critical infrastructure for long-term development.
- ***In the case of the vulnerable countries***, the Bank has engaged in supporting both immediate 'stabilizing' measures to mitigate the social, economic and fiscal burdens of the refugee influx, as well as longer-term measures to improve and upgrade delivery systems, infrastructure and governance mechanisms. A key challenge includes creating new ways to adapt to the dynamic situation on the ground whereby refugees and hosting communities are sharing the same living environment, and interacting in an extremely close economic and social fabric. Humanitarian aid is having a direct impact on refugees and hosting communities alike, helping improve living conditions but potentially distorting some economic dynamics, such as the job market. Therefore, the challenge is to identify additional financing to address the gap between humanitarian and development assistance, the latter of which is currently insufficient since these are middle-income countries with limited access to the Bank's grant and concessional lending facilities.

Promoting regional stability through prevention, mitigating the ‘spill-over’ of conflict across borders, and strengthening regional early-warning and crisis management capacities. Key priorities include:

- Designing regional interventions to prevent, contain and mitigate destabilizing impacts of conflicts in neighboring countries, building on the experience of the Bank in supporting efforts to manage the impact of the refugee influx in Jordan and Lebanon;
- Develop regional capacity to provide analytical, learning and technical assistance on common regional fragility, conflict and violence issues and themes (e.g., political transitions, national dialogues, job creation and labor market development, state and institution-building), drawing on global experiences, approaches and lessons, and supporting their adaptation to particular national contexts and requirements; and
- Strengthening collaboration and coordination with regional organizations (e.g., League of Arab States, Gulf Cooperation Council, and the Islamic Development Bank) on crisis prevention, early warning and response, post-conflict assessments, training, and capacity development for governments.

ROLE OF THE FRAGILITY, CONFLICT AND VIOLENCE CROSS-CUTTING SOLUTIONS AREA

The Fragility, Conflict and Violence (FCV) Cross-Cutting Solutions Area, working in partnership with key Global Practices, will support the World Bank’s regional teams in scaling up their engagement on fragility and conflict in the MENA region. Key building blocks for scaling up and systematizing WBG engagement include:

- *Scaling up analytical work on FCV issues to inform strategy and operations*, including through explicit analysis and treatment of FCV issues in SCDs and CPFs, and cross-regional research and analysis of FCV issues in middle-income country contexts;
- *Improving the design of World Bank Group operations to address FCV drivers*, including through mechanisms to dedicate staffing and expertise for project preparation, including a dedicated cadre of specialists;
- *Identifying instruments to finance innovative approaches and emergency responses*, complementing IBRD/IDA sources, including through the FCV instruments (e.g., State and Peacebuilding Fund or the Korean Trust Fund) and innovative trust fund mechanisms for emergency response.

- *Expanding partnerships with the United Nations*, as well as others in order to improve coordination along the nexus of humanitarian assistance, development, and political transitions; and strengthen regional capacities for crisis prevention and mitigation; and
- *Developing approaches to address the regional and global impact of FCV dynamics*, including through innovative regional or multi-country programs to build resilience and mitigate the impacts of large-scale displacement.

Highlights of ongoing and past FCV CCSA support in the MENA region include:

- Support for the preparation of World Bank Group watching briefs, re-engagement strategies, country assistance strategies and interim strategy notes (notably for Yemen and Libya).
- Support for the organization of multi-stakeholder needs assessments, including in Libya and Yemen.
- Support for World Bank Group engagement on governance and institution-building, including in Libya (development of senior leadership skills for transition) and in Yemen (National Dialogue).
- Contributed to a regional development and protection program for refugees and host communities in the Middle East (in Jordan, Lebanon and Iraq). This included the development of analytical products, including political economy analyses of forced displacement in the region.
- Provision of funding of over US\$50 million through the State and Peacebuilding, Korean and UN/World Bank Partnership Trust Funds to support World Bank Group emergency responses and innovative programming.
- Research and analysis on regional issues, notably the on-going study on the economy, security and governance of the Sahara (in partnership with the World Bank Africa region).

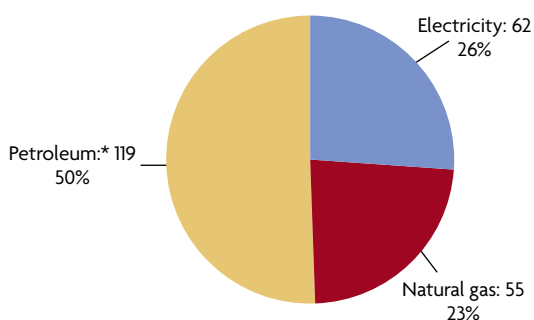
FUEL SUBSIDY AND SOCIAL SAFETY NET REFORMS

KEY CHALLENGES

The cost of fuel subsidies in the Middle East and North Africa region in 2011 was about US\$237 billion¹ (see figure 3.3), which is about 48 percent of world subsidies, equivalent to 8.6 percent of regional GDP or 22 percent of government revenues (Sdravovich et al. 2014). A main rationale behind the fuel subsidies was that they were a part of the “social compact” that sought to support and conveniently reach the poor and vulnerable and to encourage industrial development. However, the largest share of the subsidies has been accruing to middle- and high-income classes and to energy- and capital-intensive industries at the expense of labor-intensive sectors. Further, fuel subsidies accrue enormous fiscal burdens, undermining government expenditures on more productive economic and social programs necessary for economic growth, job creation, and the improvement of service delivery to citizens (see figure 3.4) (Devarajan et. Al. 2014).

Most of the region’s spending on social transfers consists of poorly targeted food and energy subsidies, crowding out more effective interventions. In sharp contrast to fuel subsidies, other social safety nets in the region are under-resourced, receiving less than 0.7 percent of GDP, and are fragmented among many small programs with significant overlaps and in many cases, are not well targeted. Most of the poor and vulnerable fall through the cracks: two out of three people in the poorest quintile are not reached by nonsubsidy social safety nets. In fact, existing coverage of the bottom quintile in the Middle East and North Africa is less than half of the world average. Moreover, inadequate targeting results in significant leakages of social safety net benefits to the non-poor, siphoning off resources that could be used to decrease poverty and improve the welfare distribution. Although subsidies are very inefficient and frequently ineffective relative

Figure 3.3. Total Energy Subsidies in the Middle East and North Africa in 2011: US\$237 billion (figures in US\$ billion)

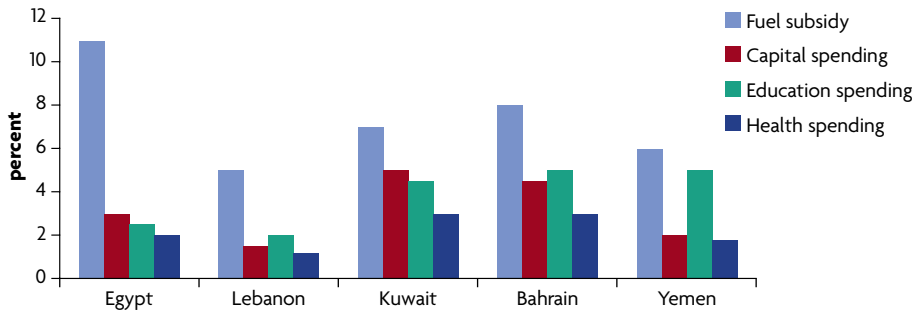


Source: Sdravovich et al. 2014.

*Mainly for diesel and gasoline used in transport, agriculture, and water sectors and liquefied petroleum gas for households.

1. Of which, US\$204 billion was in oil exporting countries and US\$33 billion in oil importing countries.

Figure 3.4. Fuel Subsidies in Comparison to Capital, Education, and Health Spending (figures represent percentage of total government expenditure)



Sources: IMF 2013, 2014b; World Development Indicators database.

to other social safety net interventions, due to their sheer size, large numbers of people depend on them to stay out of poverty.²

Excessive fuel subsidies also lead to unchecked demand for electricity,³ poor incentives for energy efficiency,⁴ inefficiencies in fuel consumption,⁵ energy supply shortages, and deteriorating environmental pollution,⁶ resulting in a strain on public financing for required infrastructure to meet growing energy demands. Further, subsidized energy tariffs have been the main detriment to the financial viability of the gas and electricity sectors in the Middle East and North Africa region, undermining private sector investments in energy supplies, renewable energy, energy efficiency, progress toward energy market reforms, and development of regional energy markets. Energy subsidies have also encouraged capital-intensive industries at the expense of employment-creating industries.

International experiences show that sustainable subsidy reforms entail well-designed and politically supported comprehensive programs encompassing multi-year fuel price adjustment plans implemented in tandem with targeted social protection programs, mitigation measures to certain groups of the population, and effective public outreach

2. This is particularly the case with fuel subsidies, while food subsidies generally tend to be better targeted.

3. Earlier World Bank reports show that by 2020, peak electricity demand in the Arab countries is forecast to be 84 percent greater than 2010 levels, requiring an additional 135 GW of generating capacity at a total investment cost of US\$450 billion in the expansion of power generation, transmission, and distribution (World Bank 2013).

4. The Middle East and North Africa is the only region in the world that had a negative rate of improvement for energy intensity gains during the period 1990–2010.

5. Large fuel subsidies discourage incentives to improve the use of fuel. For example, average fuel consumption per vehicle in the Middle East North Africa is reported more than double the average in countries without fuel subsidies, and fuel efficiency in power generation in many Gulf Cooperation Council countries are considered among the lowest.

6. Today, the Middle East and North Africa region is the second largest world producer of carbon dioxide emissions per capita.

strategies. The interaction between subsidy and social safety net reforms is bidirectional: on the one hand, the social safety net reforms serve to selectively mitigate the social and economic impact of price increases among the poorest and therefore contribute to managing the political economy of subsidy reforms, while subsidy reforms provide the necessary fiscal space to finance well-targeted social protection programs. While these key elements of subsidy reforms are widely recognized by governments in the region, they have been difficult to implement, in part due to the weak technical, administrative, and coordination capacities of government agencies; the fragmented and inefficient social protection and poverty targeting programs; and poor sequencing with energy sector reforms. For subsidy reforms to be successful, timing and supportive political economy environments are important because there is a risk of political opposition and public discontent and a lack of trust that savings will be used wisely, which often leads to ad hoc programs of fuel price increases. As an interim step, countries in the region are increasingly investing in energy efficiency and renewable energy to reduce consumption of highly subsidized fuels and electricity and to invest in the upgrading of energy infrastructure to improve energy service delivery to their citizens.

However, the enormous fiscal burden and high public debt caused by energy subsidies, especially encountered by energy importing countries in the Middle East and North Africa and the fiscal pressure oil exporting countries are expected to experience with emerging low oil prices, has made the reform of electricity and fuel price policies inevitable and an urgent priority that must be pursued by governments in the region. Governments realize that effective and sustainable subsidy reforms will also serve as main drivers for curbing inefficient energy demand, promoting economic and green growth, and improving the deteriorating financial and operational viability of the energy utilities in the region.

Nonetheless, the experiences of MENA countries with subsidy reforms show that, with the exception of those in Jordan and the Palestinian territories, subsidy reform programs are still largely implemented on an ad hoc basis without plans for achieving full cost recovery in the longer term. Despite this limitation, a gradual extension of fiscal space to expand social safety net programs provides a unique opportunity to accelerate reforms in their targeting and coverage. Such reforms have been analyzed for years with only limited progress. Sustained progress will require additional efforts to consolidate their gains by: (a) introducing or rigorously implementing automatic price setting mechanisms; (b) extending the scope of reforms to tackle energy subsidies to enterprises; and (c) building efficient, well-targeted, and adequately resourced social safety net systems to reach the poorest and redistribute resources in a more equitable manner.

Country	Energy Prices Reforms	Social Protection Reform
Morocco	<p><i>Fuel prices:</i> Subsidized.</p> <p>Government implemented a subsidy reform program consisting of the indexation of tariffs to reflect fluctuations in fuel prices, a reduction of certain energy subsidies.</p> <p><i>Electricity prices:</i> Subsidized.</p> <p>Government implementing an electricity tariff adjustment plan 2014–17.</p> <p><i>World Bank program:</i> Ongoing analytical work on energy efficiency (where pricing will be identified as an impediment) and energy efficiency operation under preparation.</p>	<p>A myriad of small targeted social safety net programs exist, including cash transfers, microcredit, fee waivers, housing assistance, and workfare, covering only a limited segment of the poorest. Their targeting is weak, driven by a mix of geographical and subjective criteria. Design deficiencies, fragmentation, and targeting inconsistencies generate overlaps as well as coverage gaps.</p>
Tunisia	<p><i>Fuel and electricity prices:</i> Subsidized. In July 2014, the government introduced a supplementary bill to reduce the high public spending (and cut the budget deficit by nearly US\$1 billion in 2014).</p> <p><i>World Bank program:</i> Ongoing analytical work on systems planning and least-cost expansion. Tunisia Energy Efficiency Project under supervision.</p>	<p>Social safety net programs are underfunded and poorly targeted, with leakages as high as 60 percent under the National Assistance to the Needy Families Program, whose targeting approach combines the use of categorical and self-declared (unverified) criteria.</p>
Egypt	<p><i>Fuel prices:</i> Subsidized.</p> <p>The government implemented major fuel price increases in July 2014. However, no comprehensive multi-year fuel subsidy reform plan publicly exists. Significant gas shortages exist for electricity and industrial users.</p> <p><i>Electricity:</i> Subsidized.</p> <p>Pervasive power cuts since 2009. The government approved a five-year electricity tariff adjustment plan (2013–17).</p> <p><i>World Bank program:</i> White Paper on Sector Reforms under preparation for the Economic Summit. Continued support to Ministry of Petroleum on subsidy reforms through energy/social safety net technical assistance financed by Transition Fund.</p>	<p>Cash transfer programs targeting the poor are fragmented and inefficient. The recent energy (fuel and electricity) subsidy reform in Egypt allowed more fiscal space (LE 51 billion savings) for the government to strengthen its social safety net system with the introduction of two new better-targeted cash transfer programs, and by allowing improvements in benefits from the food subsidy programs (ration card and Baladi Bread programs). Poverty maps will be used to direct the first phase of benefits based on geographical targeting, while a longer-term program will be implemented at a later phase, using a proxy-means-test formula to target the poor and to gather relevant targeting data from the Unified National Registry under preparation.</p>
Lebanon	<p><i>Fuel prices:</i> Not subsidized.</p> <p>Automatic retail pricing mechanism applies.</p> <p><i>Electricity:</i> Subsidized.</p> <p>Inadequate and deteriorating supply. No reform plan. Extensive and pervasive power cuts have led to significant use of captive power.</p> <p>PRG for floating storage regasification unit (with substantive subsidy savings) under preparation.</p>	<p>Social safety nets are fragmented, weak, and ill prepared to be effective. Government spending on social safety nets has a limited impact on poverty due to high rates of leakage to the non-poor, weak capacity and coordination among the main public institutions, and lack of reliable and timely data. In 2011, the government launched a new targeted program adopting proxy-means testing to identify poor and vulnerable households, providing them with a spectrum of benefits.</p>

(continued)

Country	Energy Prices Reforms	Social Protection Reform
Jordan	<p><i>Fuel prices:</i> Not subsidized except liquefied petroleum gas (LPG). Automatic retail pricing mechanism applies.</p> <p><i>Electricity:</i> Subsidized due to interruption of natural gas supply from Egypt.</p> <p>The government approved a five-year electricity tariff adjustment plan (2013–17).</p> <p><i>World Bank program:</i> Jordan policy-based guarantee on water and energy under preparation. Support for development and scale-up of renewable energy.</p>	<p>The latest fuel subsidy reforms have allowed the country to introduce a new cash transfer program with improve-as-you-go targeting mechanisms by building the Unified Registry and adopting a proxy-means-test formula to target the poor.</p>
Palestinian territories	<p><i>Fuel Prices:</i> Not subsidized. Automatic retail pricing mechanism applies.</p> <p><i>Electricity:</i> Largely not subsidized. Prices adjusted by the electricity regulator.</p> <p><i>World Bank program:</i> Support establishment and operation of the electricity regulator. Support energy efficiency and renewable energy development.</p>	<p>The largest World Bank social safety net program is a cash transfer program, which has been known for good targeting and outreach to poor populations, skills training of social workers, and maintenance of an up-to-date poverty database. In 2012, the program reached over 100,000 poor households, covering more than half of the poorest quintile and devoting two-thirds of its resources to the extreme poor.</p>
Oil Exporting Countries (Gulf Cooperation Council, Iran, Iraq, Algeria, and Libya)	<p>Constitutes the overwhelming share of fuel subsidies in the region (US\$204 billion out of US\$237 billion).</p> <p>Iran had partially successful fuel subsidy experience in 2010.</p> <p>Gulf Cooperation Council countries: Fiscal deterioration brought subsidy reform on the policy agenda with Dubai, Qatar, and Bahrain undertaking limited ad hoc subsidy reforms. Growing engagement on energy strategy and energy efficiency in Bahrain, Saudi Arabia, and Kuwait.</p> <p><i>World Bank program:</i> Libya National Energy Strategy with sector reforms financed by the Middle East and North Africa Transition Fund under preparation.</p> <p>Iraq: Completed an integrated national energy strategy and a study on natural gas pricing. Investment in electricity distribution sector (to reduce losses) under preparation.</p>	<p>There are some serious considerations in some Gulf Cooperation Council countries to reform subsidies. Kuwait is an example.</p>

KEY STRATEGIC ENGAGEMENTS

The Bank has provided support to Middle Eastern and North African countries in multiple areas, through the use of a variety of instruments. In addition, the World Bank's engagement has been characterized by the cross-sectoral collaboration among Global Practices, particularly Energy and Extractives, Social Protection and Labor, and Macroeconomics and Fiscal Management. Specific areas of support include:

- Assessing benefit incidence
- Developing reform scenarios
- Supporting social safety net strengthening options
- Supporting communication and public engagement strategies
- In some cases, providing support to address political economy dimensions of subsidy/social safety net reforms

Specific examples of operations include a blend of technical assistance, economic and sector work, funding, and capacity building. Examples of these types of approaches include the following:

- The Bank produced a series of knowledge products on reforming energy subsidies and building social safety net systems in the region.
- A number of technical assistance efforts have recently been provided to several Middle Eastern and North African countries by the Bank to support governments in customizing the best scenarios of fuel subsidy reforms and strengthening their social safety net systems. For instance, through technical assistance supported by the Energy Sector Management Assistance Program (ESMAP) Facility on Fuel Subsidy Reform, the Energy and Extractives Global Practice has supported the Government of Egypt better understand the benefit incidence of energy subsidies, explore the potential impact of the different options of subsidy reform, and develop a communications strategy for fuel subsidy reform measure to ensure effective public outreach. In addition, the Bank has supported the Government of Egypt reform the energy sector through the Energy-SSN Sector Reform Transition Fund.
- The Bank has been working closely with the governments of the region to strengthen the existing social safety net programs and improve their targeting through the adoption of proper targeting methodologies, improved access to central databases, and consolidation of programs. The ongoing regional Multi-Donor Trust Fund knowledge sharing and how-to initiative in subsidy reform reflects the importance of cross collaboration between the Social Protection and Energy and Extractives Global Practices.

- The Bank also provides financial support to adopt improved targeting to the poorest. For instance, the Bank approved a US\$500 million operation for the Government of Egypt to establish 1.5 million new house gas connections targeting poor and disadvantaged areas.

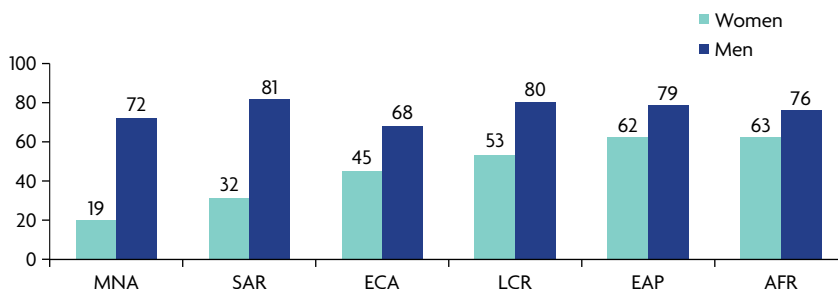
While the technical analysis of poverty, impact, reform options, and design have been the major success stories of Bank support, communications, citizen's engagement, and the political economy dimensions of subsidies and social safety net reforms remain critical elements of a solid strategy. The World Bank should emphasize these key aspects of energy subsidy reform. Among other benefits, this would improve the enabling environment for reforms and minimize the risk of reversals.

KEY CHALLENGES

Low female labor force participation despite gains gender parity in human capital. Compared to other regions, the Middle East and North Africa has the lowest female labor force participation rate (19 percent for women compared to 72 percent for men in 2010) (figure 3.5). Unemployment in MENA is also high among women in MENA (20 percent for women compared to 9 percent for men in 2010), which indicates significant constraints to women who do want to work. Some of the underlying constraints of low female labor force participation and high unemployment are restrictions on mobility; social and cultural norms; legal framework (including regulations that restrict work); critical skill mismatches between what is studied in school and what the private sector demands; employers' perception that women are more costly and less productive; women's concerns about reputation and safety in private sector jobs; and constraints on women's entrepreneurship including constraints on access to credit and entrepreneurship training. Moreover, there are also policy dis-incentives, such as subsidies designed to keep women at home as well as policies that discourage firms from hiring women, which also serve as key constraints to greater participation of women in the labor force.

Low levels of political participation, voice and agency. One of the key constraints on women's empowerment in MENA is the lack of voice, participation, and agency. One indication of the lack of voice and participation is the low level of women's political representation: on average only 7 percent of seats in parliament in MENA countries are held by women. Moving forward, capacity development programs and equal opportunity initiatives for women hoping to enter politics and public service, such as candidate

Figure 3.5. Labor Force Participation Rate (percent of male or female population ages 15+ (modeled ILO estimate), 2010



Source: World Development Indicators 2010.

training, mentoring programs, recruitment initiatives, awareness-raising campaigns to counter gender stereotyping of candidates, and implementation of work-family balance programs in public service, are all measures that could strengthen women's political participation. Two stark indications of women's lack of agency in MENA are mobility restrictions and violence against women. Mobility restrictions, stemming from conservative gender norms, safety considerations, and legal framework, disadvantage women in the labor market and their access to services.

Reforming the legal environment is essential to increase the rights of women and their ability to participate in the economy and promote socioeconomic development. It is important to note that although some progress has been made on these fronts, such as protecting women from domestic violence in Egypt, Jordan, and Morocco (UN Women 2011), there needs to be increased focus on implementation.

KEY STRATEGIC ENGAGEMENTS

Preparing country gender diagnostics and targeting gender interventions in the Bank's country program. At the country-level, MENA strives to ensure that country strategy and dialogue is gender informed. A key activity has been the preparation of gender diagnostics such as comprehensive country gender assessments, gender policy notes, diagnostics on constraints to female labor force participation and entrepreneurship, and the integration of gender into country poverty assessments. Portfolio reviews have also been prepared for many countries to identify strategic areas where gender should be integrated into projects and into the Bank country assistance/partnership program. Recently, in the West Bank and Gaza, the Social, Urban, Rural and Resilience Global Practice has supported the Country Management Unit (CMU) in the preparation of a Gender Action Plan Fiscal 2015–17, which identified women's empowerment issues,

Recent and upcoming gender Economic and Sectoral Work (ESW) in MENA

- Opening Doors: Gender Equality in MENA (fiscal 2013)
- West Bank and Gaza: Aspirations On Hold? (fiscal 2013)
- Yemen Policy Note on Gender Challenges (fiscal 2014)
- West Bank and Gaza Country Gender Action Plan (fiscal 2014)
- Morocco Country Gender Assessment (fiscal 2015)
- Iraq Poverty and Inclusion in Iraq (fiscal 2015)
- Jordan Country Gender Assessment (fiscal 2015)
- Tunisia Gender, Poverty and Social Assessment (fiscal 2016)
- Djibouti Poverty and Gender Assessment (fiscal 2016)
- West Bank and Gaza female labor market study (fiscal 2016)

established priorities within the portfolio, identified gender entry points in projects, and established a monitoring and reporting framework. Enhancing the use of diagnostics that identify specific constraints to gender equality is thus crucial.

Removing constraints to women's economic participation. The Bank is focusing on building the knowledge base on what works to enhance women's economic empowerment in MENA. Pilots and programs addressing the constraints women face are being implemented and tested for impact. A key focus is on programs to smooth the school to work transition for young women, and fostering women's entrepreneurship through expanding access to credit and providing business development training and mentorship. Recent noteworthy projects and engagements are summarized below.

Jordan. In the New Work Opportunities for Women (NOW) Pilot Impact Evaluation (2010–13), researchers studied the impact of an experiment (randomized controlled trial) in Jordan designed to assist female community college graduates find employment.

Egypt. The Enhancing Access to Finance for Micro and Small Enterprise Project (2013–15) aims to increase access to finance for small and medium enterprises, targeting in particular underserved populations such as women and youth in Upper Egypt.

Tunisia. The Providing Integrated Support and Incubation Services for Graduates of a University Entrepreneurship Track (2013–15) supports the piloting and evaluation of additional entrepreneurship and business development services, such as incubation and access to credit, to improve the effectiveness of the entrepreneurship track for women in Tunisian universities.

Egypt. The Inclusive Regulations for Microfinance (approved fiscal 2014) project, an investment lending project, aims to promote gender-inclusive development of the Egyptian microfinance sector through developing the legal and regulatory framework for financial inclusion, establishing and operationalizing the microfinance unit, and promoting accountability, governance and consumer protection.

Morocco. The Strengthening Micro-Entrepreneurship for Disadvantaged Youth in the Informal Sector (approved fiscal 2014) project adopts specific measures to overcome gender-specific constraints to employment and entrepreneurship thus contributing to reduce the stark female disadvantage in the labor market.

Regional. The Women Entrepreneurship in DRM Program (fiscal 2014–15) represents a collective effort between multiple public and private sector actors to launch the first women business plan competition in disaster risk management to promote the creation of risk management start-ups by women.

Increasing women's voice and participation in project design and implementation.

The Bank has stepped up gender mainstreaming of projects with a focus on service delivery and infrastructure operations. This area of engagement reflects the large number of this type of projects in the region. Specifically, the Bank's efforts aim to increase women's voice and participation in decision-making, design, implementation and monitoring of projects in order to make infrastructure and basic services more responsive to women. These efforts are in line with the recent citizen engagement agenda in the region. Some examples of recent projects are presented below.

Morocco. The National Initiative for Human Development 2 (INDH2) (approved fiscal 2012) is a nationwide social inclusion community driven development (CDD) program. The program is fostering women's representation and improving the quality of women's participation in decision-making committees.

Yemen. The Labor Intensive Public Works Project Additional Financing (approved fiscal 2014) project enhances women's participation in implementation activities and project design and feedback.

Lebanon. The Water Supply Augmentation Project (WSAP) (approved fiscal 2014) aims to increase the volume of water available to the Greater Beirut and Mount Lebanon area. Gender mainstreaming actions include focus groups with women to influence project design and capture anticipated project benefits through the gender lens; participation of women in decision-making activities of water use, and gender-responsive educational programs about water demand management.

Moving forward, gender related activities will focus on three main areas:

1. Systematizing gender mainstreaming in MNA operations by setting up a MENA gender working group to provide strategic guidance on regional priorities; a system to identify gender entry points and monitoring indicators in projects; supporting the development of Country Gender Action Plans to feed into country strategies; and preparing a Regional Gender Action Plan in line with new Gender Strategy and the new MNA Strategy.
2. Strengthening Bank engagement in priority areas by easing constraints to female labor force participation, including norms, mobility, educational segregation, the cost and availability of childcare, firm hiring practices; addressing the legal environment for women (asset ownership, family and employment laws) through diagnostics, and policy dialogue; enhancing women's voice and participation through (a) increasing the representation and the quality of participation in the design and implementation

of CDD, infrastructure, service delivery projects; and (b) leadership training programs; and addressing gender based violence and male gender issues in fragile and conflict-affected situations.

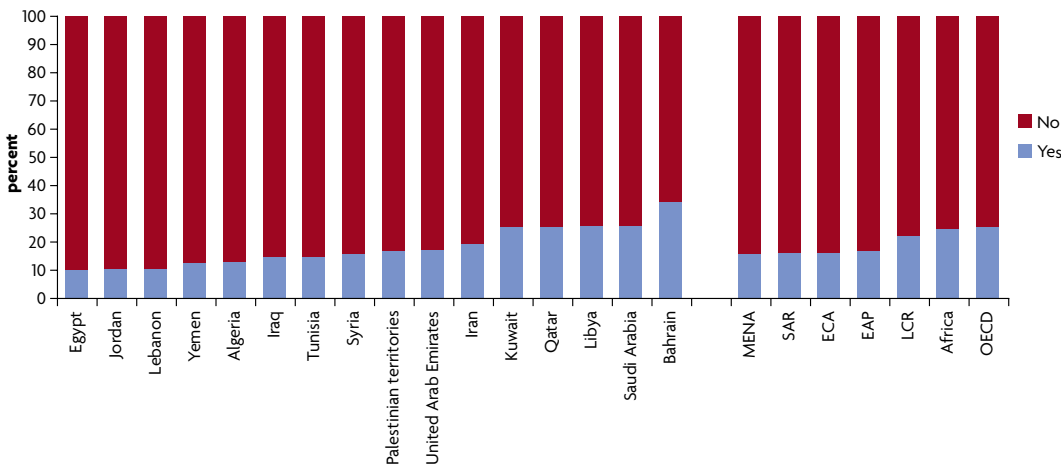
3. Investing in knowledge creation, learning and capacity building by setting up a MNA Gender Innovation Lab to learn from rigorously evaluated pilot programs; increasing the collection and disclosure of sex-disaggregated data and strengthening country capacity in gender-sensitive analysis, design, and implementation in line ministries and implementing agencies.

GOVERNANCE AND SERVICE DELIVERY IN HEALTH AND EDUCATION

KEY CHALLENGES

The quality of service provision in the Arab world lags surprisingly behind its potential. Universal access to education and health is a constitutional right in most Middle Eastern and North African countries, the region is predominantly comprised of middle-income countries with adequate human and material resources, and governments are perpetually engaged in reform efforts aimed at better service provision. Yet citizen dissatisfaction continues to be widespread. On average, about one-half of respondents in the region conveyed dissatisfaction with education services and health care in their countries, according to the Gallup Poll 2013, while about two-thirds perceived the performance of their governments in improving basic health services as bad or very bad, according to the 2010–11 Arab Barometer. Citizens in the Middle East and North Africa tell pollsters that their governments should do better at ensuring service delivery and fighting corruption. They expect their governments to provide services but express low levels of trust in state institutions (Brixi et al. forthcoming). Moreover, given the existing institutional weaknesses, they are less likely than citizens in other regions to seek accountability or voice their opinions to public officials (figure 3.6).

Figure 3.6. Voicing Opinions to Public Officials: Middle East and North Africa and Other Regions, 2013



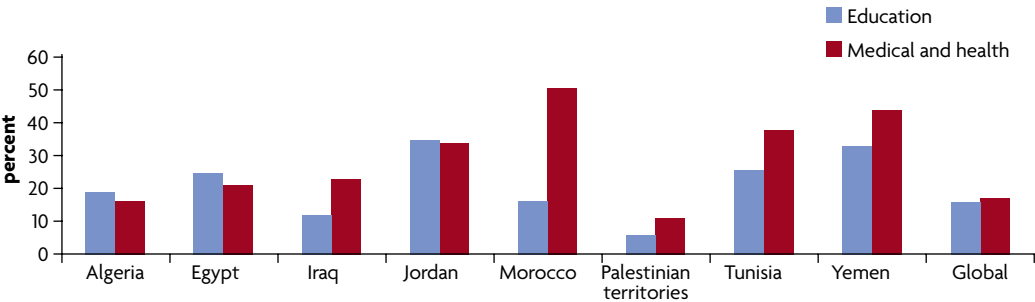
Source: Gallup Poll 2013.

Note: EAP = East Asia and Pacific; LCR = Latin America and Caribbean Region; MENA = Middle East and North Africa; OECD = Organisation for Economic Co-operation and Development; SAR = South Asia.

Education and health outcomes have improved in recent decades, but they have not kept up with demand. Due to economic development, in most Middle Eastern and North African countries, outcomes such as school enrollment and child mortality have reached their expected levels. The quality of service delivery has not, however, kept pace with the broader socioeconomic transitions. Middle Eastern and North African students score low on international competency tests, and graduates struggle to find jobs. Health inequities based on income, gender, degree of urbanization, and age persist. Out-of-pocket health expenditures are high by international standards, leading to impoverishment or the forgoing of receiving health care due to costs. Information asymmetries are high, as citizens typically find little publicly available information about the performance of schools and health facilities or about fees at health facilities. This lack of transparency can give rise to informal user fees. In fact, about one-third of citizens in Middle Eastern and North African countries have reported paying informal fees in the education sector and especially in the health sector (figure 3.7).

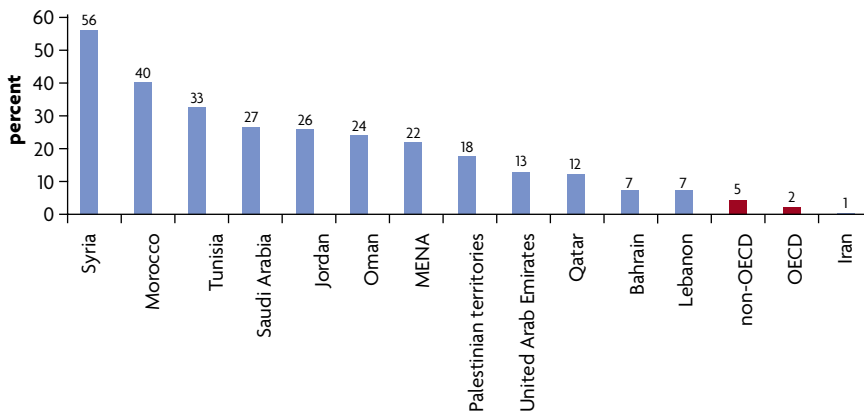
Service-delivery performance demonstrates weaknesses in the effort and capacity of providers at the local level. Surveys show that providers may not possess the qualifications and professional autonomy necessary for delivering quality services, particularly in rural localities. They also often lack key resources, such as teaching materials and medicines. Importantly, their effort appears to be lagging. Thirty percent of students in Middle Eastern and North African countries attend schools where principals report to TIMSS surveys that teacher absenteeism is a serious problem (figure 3.8). Similarly, health professionals show high levels of dissatisfaction, and absenteeism is over 30 percent in Egypt, Morocco, and Yemen. Where observations exist, the adherence to curricula in schools and to clinical care protocols in health facilities appears lower (figure 3.9). Dual employment in both the public and private sectors is widespread in education and health, which can create conflicts of interest among providers. In Egypt, for instance, 89 percent of private physicians also work in public facilities.

Figure 3.7. Percentage of Survey Respondents Who Reported Paying Informal Fees, by Sector: Middle East and North Africa Region and Globally, 2013



Source: Transparency International Global Corruption Barometer 2013.

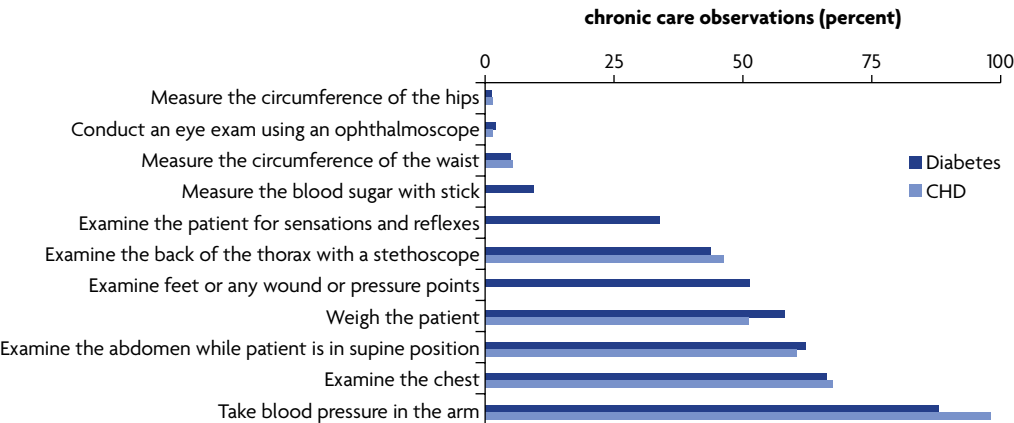
Figure 3.8. Percentage of Students Whose Principals Report that Teacher Absenteeism Is a Serious Problem in Their School: Middle East and North Africa Region and Globally, 2013



Source: TIMSS 2011.

A majority of Middle Eastern and North African citizens face a cycle of poor performance: weak institutions undermine performance, trust, and engagement; this, in turn, generally fails to foster the engagement and pressures necessary for strengthening institutions. The cycle may be virtuous at the local level, as case studies demonstrate, but appears stuck in a low equilibrium at the national level in most Middle Eastern and North African countries. The initial factors underlying this cycle can be understood through the region's historical development, which has led citizens to place a high value

Figure 3.9. Adherence to Care Protocols for Diabetes and Coronary Heart Disease in Health Facilities: Egypt, 2010



Source: Egyptian Health Governance Survey 2010.

on education, health, and other services; has created expectations that the state should provide these services; and has fostered the establishment of weak institutions, including civil service as a privilege and limited accountability and incentives to meet citizen demands. Without dependable institutions and citizen trust, there is little engagement, institutions remain stagnant, and service delivery remains poor.

A series of interconnected processes perpetuate the cycle of poor performance in Middle Eastern and North African countries. First, institutions in the region are rarely subject to internal and external accountability mechanisms. This is partly due to the shortage of performance information guiding centralized decisions and partly to the lack of incentives toward establishing accountability for performance at the center of government or within the education and health sectors, all the way down to schools and health facilities. Administrative institutions suffer from highly centralized bureaucracies and weak budgeting systems, unable to efficiently allocate human and material resources or adequately manage performance. Social institutions emphasize obligations to social networks over national welfare, involving the widespread practice of *wasta*, a form of clientelism, as well as a willingness to accept informal payments as a necessary practice. Political institutions are highly centralized, offering citizens little influence on policy formation and few opportunities to provide feedback on performance quality. The result is a lack of transparency, monitoring, and enforcement that could underpin accountability. As a result, Middle Eastern and North African countries experience a wide gap between policy frameworks and their actual implementation, overall and specifically in the education and health sectors, and this undermines performance.

KEY STRATEGIC ENGAGEMENTS

Enhancing education—from preschool to technical, vocational, and higher education—and health services will not be achieved by policy reforms alone. To foster better performance, policy reforms need the backing of institutions—especially incentives embedded in both formal and informal accountability relationships—and the trust and engagement of citizens. Furthermore, for institutional and policy reforms to have impact, they need to emerge from problem-led learning processes, represent context-specific solutions, and engage broad groups to ensure that new institutions are shared, legitimate, and contextually appropriate. They also need to recognize the actual incentives associated with specific problems in specific settings that prevail for stakeholders. Within the existing constraints, an incremental, problem-driven approach to institutional and policy reforms can combine considerations of feasibility and political support with considerations of possible solutions. It can also adapt reform design to more closely align with the existing reform space, thereby gradually expanding the space for reform.

Complementing sector-specific institutional and policy reforms in the education and health sectors, it will be important to seek a stronger social contract between public servants, citizens, and providers and to empower communities and local leaders in finding “best fit” solutions. In addition, quick wins that are observable by citizens are needed—especially in countries that are in transition or that are emerging from conflict and fragility—to gain and retain trust and make the cycle of performance virtuous.

Specific areas for collaboration between the Education and Health, Nutrition, and Population Global Practices on one hand and the Governance Global Practice on the other include performance management in the public sector and within the education and health systems and the mechanisms to share and act on performance information; accountability institutions, such as the courts, an independent auditor, and an ombudsman, to monitor service-delivery performance and assist in resolving complaints; inter-ministerial coordination in multisectoral areas, such as early childhood development; decentralization; the alignment across central and local government levels; and the development of local autonomy and accountability in service delivery.

In addition, the inclusion of education- and health-related co-responsibilities as part of social safety net programs can not only facilitate an uptake of essential services but also the sharing of performance information—for instance, with regard to student learning or school and health facility performance—and the creation of citizen feedback loops.

Finally, the impact of institutional measures, such as specific actions to improve external and internal accountability on education and health service-delivery indicators and outcomes must be measured with the joint involvement of relevant Global Practices.

Against the backdrop of the existing social contract, the education, skills, and labor market nexus is at the core of the youth employability challenge in many Middle Eastern and North African countries. The challenge and opportunity is to offer integrated solutions so as to better orient: (a) education and skills development systems toward learning, partnering with the private sector and meeting labor market needs; (b) social protection and active labor-market programs aimed at incentivizing private sector employment and expanding opportunities for women; (c) public employment aimed at performance with conditions comparable to private sector employment rather than entitlement; and (d) migrant admission schemes in natural resource-rich countries aimed at reducing the cost differential between expatriates and nationals.

PRIVATE SECTOR DEVELOPMENT AND JOB CREATION

KEY CHALLENGES

One of the main challenges for the Middle East and North Africa region is the creation of sustainable growth that delivers the quantity and quality of jobs needed. An inclusive and competitive private sector has proven to be one of the most effective and long-term solutions for creating and sustaining jobs.

However, for a long period of time, the region's main driver for growth has been the public sector, and several countries in the region are facing difficulties in shifting toward private sector-led growth. Investment continues to be made largely through the central government or through state-owned enterprises operating in a nontransparent and uncompetitive environment and in sectors with low productivity and little effect on long-term job creation (notably in real estate). There is a lack of public information on contract awards as well as a lack of transparent and effective complaint mechanisms in the region, which ultimately hampers investment and private sector growth.

As a result, the investment climate in most Middle Eastern and African countries remains poor and, in most cases, is getting worse in the aftermath of the Arab Spring. The Doing Business indicators reveal a relative decline of performance for virtually all countries in the region (World Bank 2014a). Unless the Middle East and North Africa can make its business environment more investment-friendly, including by improving mechanisms for complaints, and introducing private investment in key sectors, including infrastructure and social services, it will not achieve the levels of economic and job growth needed to meet the socioeconomic expectations of the population.

Furthermore, low capital intensity¹ results in weak competitiveness driven by a poor business climate and low productivity. A lack of effective and well-enforced competition and investment policies undermines attempts to level the playing field so that marginalized or discouraged enterprises and entrepreneurs can compete fairly with large enterprises.

Thus, while the public sector cannot hire new entrants to the job market as a result of a tighter budgetary and fiscal environment, the private sector has not yet taken the lead due to a mismatch between private sector demand and supply by a public sector-oriented education. The lack of market dynamism combined with the disproportionate regional

1. Defined as limited assets being put to productive use and the inefficient use of those assets due to poor management practices and weak skills.

impact of investment climate constraints explains in large part the higher levels of unemployment outside of metro cities in the Middle East and North Africa. These constraints to business are forcing more businesses to stay informal and for all businesses to increasingly rely on informal labor arrangements.

To this end, key constraints for credible private-led growth strategies and job creation in the region include:

Absence of effective and inclusive policy making. Governments suffer from weak institutional capacities to own and implement reform visions and effectively and transparently pursue evidence-based policy dialogues with sufficiently representative private sector stakeholders to determine shared priorities.

Absence of a transparent and competitive public procurement system. Public procurement has an impact on competition, trade, and investment. When it works well, it attracts investments and private sector growth.

Limited access of small- and medium-sized enterprises (SMEs) to public procurement contracts. SMEs play a critical role in creating jobs in the region but are often shut out from public procurement opportunities.

Formal (de jure) and informal (de facto) barriers. Such barriers include both complicated and superfluous regulations, weak regulatory capacity, and rent-seeking behaviors (borne inter alia, out of discretionary administrative power and nontransparent decision making) limit the entry of new firms and their growth, holding back competitiveness and the overall development of the SME sector and its associated job creation.

Smaller firms stagnate in terms of employment growth—small firms stay small. This is not only due to the fact that many of the large entrepreneurs in the region are privileged and receive preferential treatment that puts the SMEs at a disadvantage (Schiffbauer et al. 2014). It is also because in local communities, small businesses face day-to-day challenges as a result of the discretionary and nontransparent behavior of lower-level government functionaries. A comparison between Arab and Latin America countries demonstrates that firms start out larger in Arab countries but grow more slowly over time, so that firms in Latin America are about twice as large after operating for ten years.

Weak involvement of the private sector in public sector service delivery. There is insufficient engagement of private sector expertise and financing in the delivery of public services. Expertise is lacking in social and infrastructure service provision and there is limited public sector capacity in public-private partnership mechanisms.



Access to financial services seen as among the main constraints to the survival of young small firms. Arab firms are less likely to be linked into the financial system than firms in other countries worldwide. Microfinance outreach is lower in the Middle East and North Africa than anywhere else in the world. Recent surveys for the Middle East and North Africa showed that SMEs were only able to access less than 10 percent of bank credit in 2011, with a financial gap reaching more than 125 percent of current outstanding banking finance to SMEs (Rocha 2011). Beyond credit, the availability of early seed funds for start-up and early-growth firms is another key requirement to overall private sector development in the region. SMEs suffer disproportionately from the burdensome business climate. The large, well-established firms operate in a limited competition regime while SMEs often strive to survive.

Weak framework for financial inclusion. The existing legal and regulatory framework related to financial inclusion is either weak or nonexistent, particularly in the financial infrastructure sector (credit reporting, payments systems, secured lending, capital market development, and diversification).

Key sectors, such as tourism and agribusiness, are not competitive due to weaknesses in the value chain. Access to credit and insurance markets is a major challenge facing the agricultural sector in the Middle East and North Africa. Moreover, poverty and inequality are concentrated in rural areas with predominantly agricultural activities. Ultimately, the lack of key promotional and support services in critical growth and employment sectors, such as tourism and agriculture, is a significant challenge, particularly in more disadvantaged regions.



KEY STRATEGIC ENGAGEMENTS

To date, the World Bank Group strategy for credible private-led growth and job creation has focused on: (a) developing a regulatory environment that fosters opportunities for entrepreneurship and job creation; (b) facilitating access to a broad range of financial services for firms and for households; (c) mobilizing the private sector to offer better services, such as housing finance and insurance, to the poor as consumers; (d) supporting developing countries in building robust financial systems that are resilient to shocks; (e) measuring the development results of the World Bank Group's private sector activities and helping to advance results measurement in the development community; and (f) increasing the employability of youth by aligning the demand from markets to the supply of skilled labor.

Building transparent and fair public procurement systems. In addition, the Bank's strategy for promoting private sector development and job creation has focused on building transparent and fair public procurement systems by improving regulatory frameworks, modernizing procurement tools (e.g., e-procurement), and making sure that SMEs have access to government contracts.

Promoting policies, investment lending, technical assistance, and advocacy and knowledge. Bank assistance is delivered through a mix of support to: (a) policy-level actions (e.g., strategies, laws, and regulations); (b) investment lending, mostly in the financial sector for SMEs' access to credit; (c) technical assistance and advisory services on specific subjects (regulatory simplification, review of incentives to investment, competition law, and support to microfinance institutions and education for employment); and (d) advocacy and knowledge (investment climate assessments, Doing Business, the Middle East and North Africa regional flagship report on private sector development in

2009—*From Privilege to Competition*, and the Middle East and North Africa financial sector flagship report in 2011). In addition, with Bank support, public procurement heads and high-level officials of the ministries of finance working on public procurement have established the Middle East and North Africa Network of Public Procurement Experts. In fact, the network has chosen the “promotion of SME participation in public contracts” as a pillar of the regional strategy precisely because of its impact on job creation and prosperity.

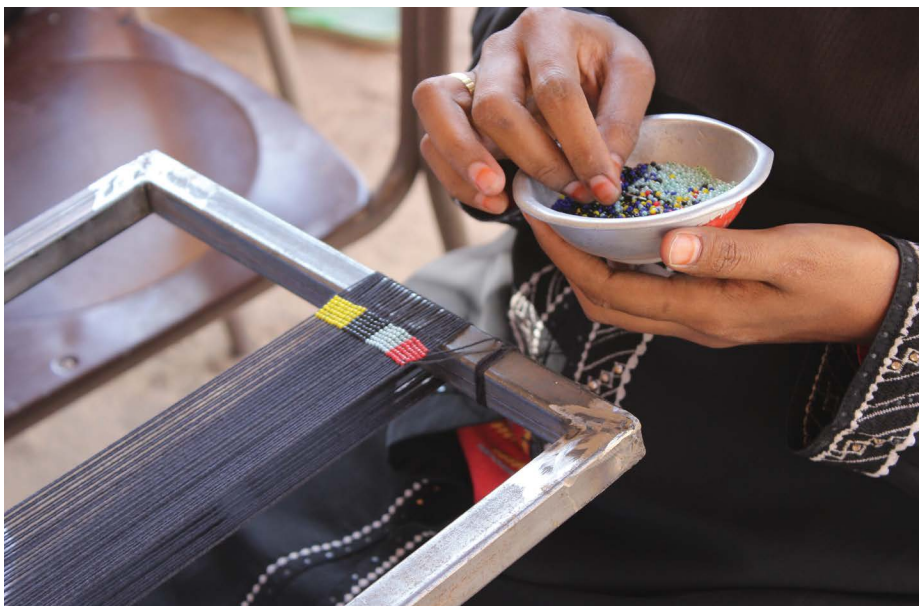
Supporting the improvement of the business climate, and the creation of a more competitive environment for business to invest and grow. This agenda will entail: (a) increased and more liberalized trade and investment regimes aimed at growing foreign direct investment and domestic investments; (b) the enactment of a legal and institutional framework to bolster competitive behaviors; and (c) measures encouraging public service delivery by the private sector to inter alia introduce renewed dynamism in the public sector.

Innovating and expanding in new areas. The World Bank is focused on building on initial successes and promote efforts with different products, including early seed financing, micro-works programs, information and communications technology, handicrafts, and tourism—all of which provide interesting employment opportunities for women in the Middle East and North Africa region.

Supporting advocacy for a change in the private-public sector relationship in the Middle East and North Africa. The Bank will continue to build on previous analytical work and address the privilege and connectedness agenda, setting up mechanisms that ensure that public investment opens up economic participation and benefits to lagging regions and underserved populations and firms. There is also a broader need to rethink the role of the private sector and its relationship with the public sector and state-owned enterprises.

Promoting “economic governance.” There needs to be a greater engagement regarding dismantling the conflicts of interest that exist between public figures and private enterprises. To this end, this agenda includes: (a) improving transparency and governance of state-owned enterprises, (b) developing clear conflict-of-interest rules, (c) opening sectors under monopoly to more competition, (d) improving transparency in the way public incentives and public lands are granted, and (e) reinforcing the powers of competition agencies and other agencies in charge of receiving and investigating complaints.

Furthering business environment reforms and eGovernance. The focus should be on improving the predictability of how the laws and regulations are implemented in practice. In this respect, using innovative solutions and approaches like eGovernance is an essential area where the Bank can work across Global Practices (e.g., Transport and ICT, Trade and Competitiveness, and Governance) to promote transparency and predictability. In the end, this will result in new job creation and formalization.



Encouraging sector-specific approaches to connect large firms, SMEs, and MSMEs through a global value chain. There is a need for reforms that smooth the way for business and investment for micro-, small-, and medium-sized enterprises and public investments that also catalyze private investments at the smaller and mezzo end of the scale.

Focusing on public-private dialogue arrangements. This is a critical part of the renewed effort to mobilize innovative financing and private sector expertise, including in regard to early seed financing, the deployment of Development Impact Bonds, and public-private partnership initiatives across social and infrastructure service provision.

Connecting the private sector agenda with the social agenda. Linking together social protection, education, microenterprise development, and microfinance into integrated solutions for the poor and vulnerable based on an approach that would build on and deploy individual and community assets to productive use.

Identifying catalytic infrastructure development for growth and investment in order to direct public investment more effectively. This not only applies to major infrastructure, but also to mezzo-level infrastructure that can be transformational at a community or cluster level.

PUBLIC-PRIVATE PARTNERSHIPS

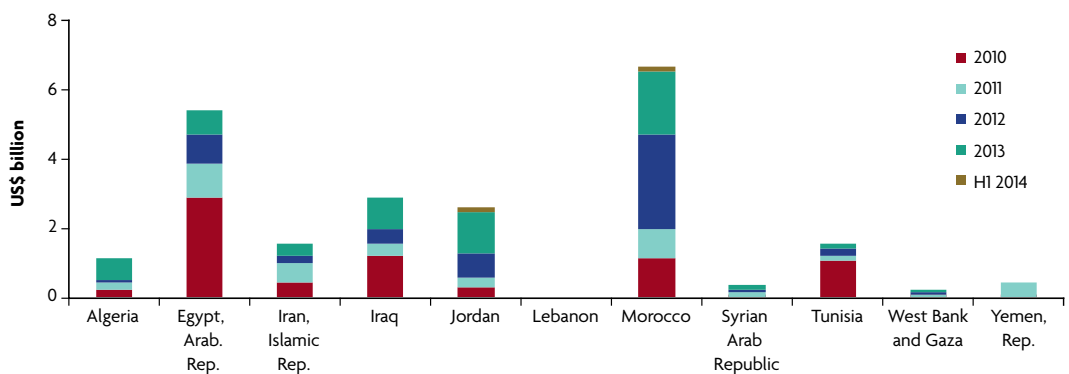
KEY CHALLENGES

Many countries in the MENA Region are opting for structured, coordinated and comprehensive Public-Private Partnership (PPP) programs versus an ad-hoc approach followed in the past. However, some are now being challenged by the ongoing political, social and economics transformations that were triggered by the Arab Spring. Some of these challenges include:

PPPs have historically been undertaken in an ad-hoc manner. In some cases, PPPs were undertaken without a clear overarching legislative, institutional or regulatory environment. The approach was based more on a project-to-project basis, and primarily focused on the power and transport sectors. Very little, however, has been done at the sub-national level.

Weak public and private sector capacity. In many instances, the public sector capacity to plan, structure, evaluate, procure, negotiate and monitor PPPs has been weak. Furthermore, capacity at the sub-national level has been almost non-existent. In addition, domestic private sector capacity to provide advice or bid for PPPs remains weak in many countries. Past projects have relied on foreign advisory firms and private sector bidders.

Figure 3.10. MNA, Volume of Private Investment Commitments in Infrastructure by Country (2010–H1 2014)



Source: World Bank PPI Database.

Figure 3.11. MNA, Volume of Private Investment Commitments in Infrastructure by Sector (2010–H1 2014)



Source: World Bank PPI Database.

Financing Challenges. There is a lack of local long term financing needed for project financing in PPPs. The supply side has been weak mainly due to a weak demand. In addition, it should be noted that historically there has been a culture of users not paying for public services, which can make user-paid PPP structures more challenging to finance.

Weak investment planning and management of fiscal commitments arising out of PPPs. Public investment planning is generally weak in the region and needs to be developed, while the process needs to be able to ‘filter-out’ potential PPPs. Moreover, countries often need support in terms of strengthening their capacity to estimate, record and backstop fiscal commitments (annuity payments, subsidies, grants, guarantees) arising out of undertaking PPPs.

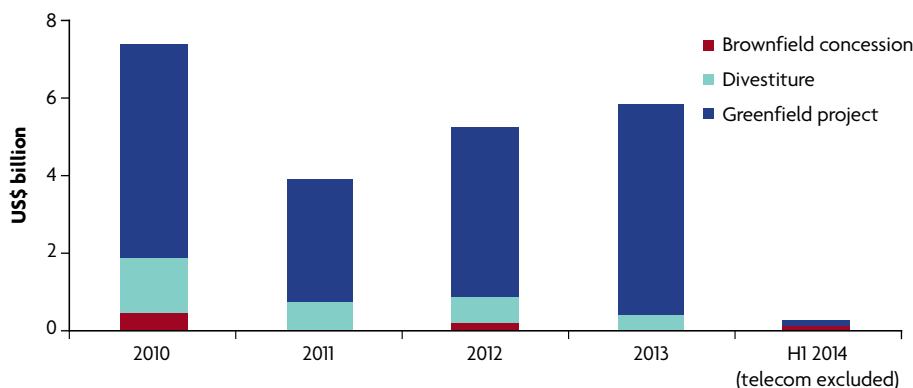
Private Participation in Infrastructure (PPI) in MENA has mainly been in the telecom sector. Jordan, Algeria, Egypt and Morocco have been active with PPI, but overall the total investment in the region is very low, and has the opportunity to be increased.

KEY STRATEGIC ENGAGEMENTS

Despite the challenges, and going forward, demand for PPP support in the MENA region remains strong. The World Bank Group has provided comprehensive support to many countries in the Region to put in place structured, coordinated and comprehensive PPP programs (such as in Morocco, Egypt, Jordan, and Kuwait). Similar support was also being provided to Syria and Yemen, but is currently stalled.

Key support in the region moving forward will center around:

Figure 3.12. MNA, Volume of Private Investment Commitments in Infrastructure by Contract Type (2010–H1 2014)



Source: World Bank PPI Database.

Strengthening decision making on PPPs, including:

- **Building a robust pipeline of projects - developing a set of tools to assess country and project readiness for PPPs** and project level filters including the choice to do the project as a PPP. Tools will also be developed to guide on how to manage fiscal commitments arising out of undertaking PPPs.
- **Supporting during the Systematic Country Diagnostic (SCD) stage.** This would focus on identifying gaps in infrastructure and service provision that could be filled with PPP interventions.
- **Supporting during the development of Country Partnership Frameworks (CPF).** This would identify key Bank interventions (menu of products and options; including lending or contingent support) that could help country PPP programs; benefiting from the SCD.

Providing upstream policy, legal, institutional and regulatory PPP reform support. This agenda can be supported through the drafting of policies, legislation, and business plans for PPP units.

Developing and disseminating the global public goods agenda on knowledge, data and capacity building. Much of this is undertaken in collaboration with other Multi-lateral Development Banks (MDBs). Partnerships with these organizations serve as an open forum to discuss the challenges and opportunities for PPPs globally.

Supporting capacity building efforts. The WBG is working with other MDBs in offering different trainings and certifications for local officials to develop competencies in PPPs.

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