On Shared Prosperity in the Middle East and North Africa

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Introduction: The Middle East and North Africa (MENA) Region has made steady progress in terms of the World Bank’s twin goals of eliminating extreme poverty and boosting shared prosperity. During the 2000s, the percentage of people living on less than $1.25 a day declined in all regional economies, except Yemen, and in 2010 was low on average (Figure 1). The incomes of the bottom 40% have been growing at higher rates than average incomes in almost all MENA countries for which information is available (Figure 2). In fact, in terms of the income growth among the bottom 40%, the MENA region has done better than most other regions, except Latin America and the Caribbean (Figure 2). Income inequality has not worsened and has been low by international standards.

Figure 1: Poverty Rates in MENA

Source: Household Survey Data, PovCalNet.

Figure 2: Income growth of the Bottom 40%

Source: World Bank, Global Shared Prosperity Database; Note: Different periods for different countries: Egypt (2005-08); Iraq (2007-12); Jordan (2006-10); Tunisia (2005-10); Palestinian territories (2004-09).

Yet, there were revolutions in several MENA countries and widespread discontent. Why?

Causes of Social Discontent: First, unemployment rates in MENA are among the highest in the world, and are especially high for young people and women (Figure 3). Importantly, good jobs are hard to find as majority of jobs are informal. According to Gallup survey data, more than 80% of the people in the
region believe that “wasta” or connections are critical to getting a good job.

**Figure 3: Lack of Jobs**

![Unemployment rate, %](image1)

Source: Household Survey Data.

The second reason is the poor quality of public services. Despite nearly full school enrolment, students are not learning as much as they should when they are attending classes. MENA students lag behind their peers in developing countries on standardized 8th grade math tests. One of the reasons for the poor education outcomes is the shortage of qualified math teachers. More than half of the students in the region attend schools with a severe shortage of qualified staff. The situation is particularly dire in Tunisia, Syria, and Morocco, but it is a problem even in the GCC economies. In addition, teachers and doctors are frequently absent from schools and health clinics. In Yemen, for instance, teachers are absent 20% of the time and doctors are absent nearly 40% of the time (Figure 4). Teacher and doctor absenteeism is a problem not only in low-income Yemen, but also in middle-income Egypt and Morocco.

Third, we believe people are likely to be dissatisfied that expensive energy subsidies have burdened fiscal budgets and benefitted the rich. The top 20% of households consume a large share of energy subsidies. Not only are energy subsidies benefiting affluent households, they are also benefiting politically connected firms. In Egypt, for example, firms with political connections are disproportionately present in high energy-intensive industries (Figure 5). The regressive and inefficient subsidies reduce the fiscal space available for spending priorities on health, education, and infrastructure investments.

**Figure 4: Poor Quality Services**

![Self Absenteeism in MENA](image2)

Source: TIMSS 2011 for all countries except Egypt and Kuwait which were from TIMSS 2007.

**Figure 5: Subsidies and Politically Connected Firms**

![Egypt](image3)

Source: Diwan et al. (2013).

Fourth, and more fundamentally, economic growth has been low in per capita terms (Figure 6). It averaged between 2 and 3% during the last decade when other middle-income economies grew at much higher rates. Growth has been slow despite policies to encourage industrial development. Industrial policies have not worked in the region because they have been subject to capture by those in power and those with connections.
In Tunisia, for example, the Ben Ali family not only owned companies in a diverse set of industries from banks to pharmaceutical companies, hotels, and dealerships, to name a few, but they used their influence to pass regulations that restricted entry to the industries in which they were present (Rijkers et al. 2014). As a result of this regulatory capture and distorted business climate, the private sector in MENA lacks dynamism. In Egypt, for example, firms stay small as they age because they have few opportunities to invest and grow into medium-sized and large firms (Figure 7).

**Figure 7: Private Sector Lacks Dynamism**

Tourism and some manufacturing activities have been particularly hurt, as political instability tends to discourage foreign visitors and investors, especially those making foreign direct investments in labor intensive, tradable activities (Burger et al., 2013). So unemployment rates have increased above those observed prior to the Arab Spring. Several countries have experienced macroeconomic stress (Figure 8). Investment has plummeted and fiscal and external balances worsened.

**Boosting Shared Prosperity in MENA – the How:**

So what can be done to boost real shared prosperity in the Middle East and North Africa? Two things must be done. First, leveling the playing field is a priority because everyone must have a fair opportunity for success. Regulations should not favor the privileged. Expensive general subsidies should be replaced with targeted cash transfers to support vulnerable households and investments should be made to improve the quality of human capital and institutions. Second, citizens should hold the state accountable, rather than the other way around. Getting there will not be easy. One important step will be to start measuring those things that matter for real shared prosperity, for example, progress towards eliminating “wasta” (privileged jobs), regulatory capture, and provider absenteeism. By collecting information and sharing it with the public, citizens will be empowered to act and improve their chances of achieving real shared prosperity in the Middle East and North Africa.

**The Post 2011 Situation:** Since 2011, the situation in the region has gotten worse. Unemployment rates have gone up because growth has slowed down and even collapsed in some of the transition economies.
References


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