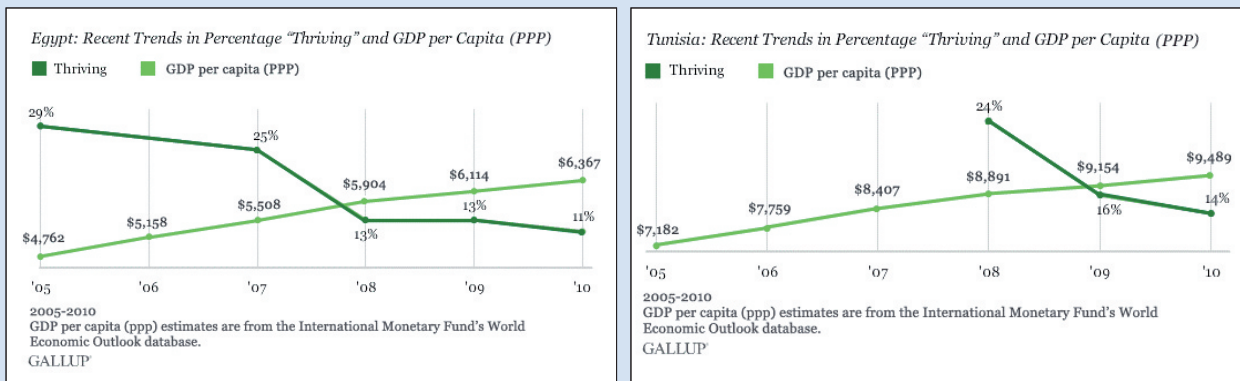


After the spring: Achieving Inclusive Growth in the Arab World A Joint JICA-Brookings Research Program

The revolutions that have swept through the Arab world create great opportunities but also important risks. A successful transition to democracy in the Arab Spring countries could herald a new era of openness, participation, justice and stability for those countries. Failure could either result in a return to autocratic rule, or a rise of extremism and xenophobia. Thus, failure would have negative consequences for peace and stability in the region. Cross-country experience indicates that the transition process is likely to be long and complicated as countries struggle to achieve national consensus and a shared vision of their future, build the institutions necessary for well-functioning democracies, and promote democratic cultures of tolerance and respect for the “other”. Experience of the Arab Spring countries over the last 18 months clearly demonstrate that political transitions do not always move at a stable pace or necessarily in a straight line. Hence, a patient, long-term view is needed.

In order to succeed, democratization efforts have to be accompanied by an economic transition to meet people’s aspirations for higher living standards, social justice and greater equity. Demonstrators in Tunis, Cairo and Sana’a called for bread, liberty and social justice. Those goals are linked. It is difficult to achieve high growth and social justice without a democratic system that ensures liberty, transparency, voice, participation and accountability. At the same time, failure to deliver on economic demands could lead to dissatisfaction with the democratization process and the re-emergence of an autocratic system.

Figure 1: GDP per Capita and Happiness (Egypt and Tunisia)

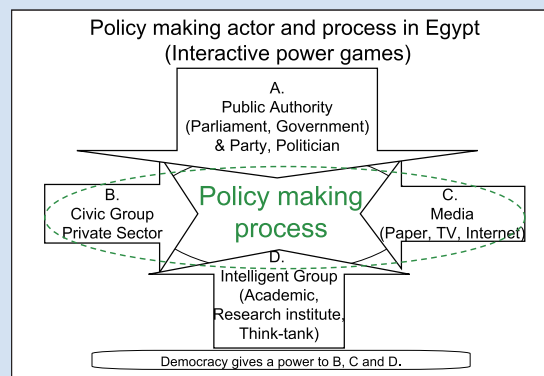


Cognizant of the importance of economic factors, Japan International Cooperation Agency (JICA) and the Brookings Institution embarked in February 2012 on a three-year program of joint research on how to achieve inclusive growth post-Arab spring, with the goal of contributing to regional development and stability. The Arab revolutions have demonstrated that past growth patterns were unsustainable because the majority of the population, and particularly youth, have felt left out of the process and have not benefitted sufficiently from growth. Figure 1 (above) shows how the perception of people in Egypt and Tunisia of their own welfare has been declining in spite of rising average per capita incomes. Hence it is natural that future work should focus on inclusiveness. There are two audiences for this work. First, it is aimed at Arab policymakers and thought leaders so as to provide an input in the policy discussions that have started with the Arab Spring and which are likely to intensify over the coming months. The second audience consists of bilateral and multilateral development partners that are currently reviewing their programs and projects to reflect new realities on the ground and emerging priorities of a new leadership. Work so far has covered three important dimensions of inclusive development in the Arab context: (1) voice and good governance, (2) education and (3) economic opportunities for youth.

Voice, participation and good governance

Arab countries lag behind the rest of the world on nearly all governance indicators, particularly those related to voice and participation. Together with lack of transparency and low accountability this led to greater corruption and the emergence of the soft state. A sense of alienation and exclusion, especially among youth, contributed to popular dissatisfaction. That is why one of the research papers focuses on ways to improve participation in policy making and economic planning, using Egypt as an example. The paper reviews the experiences of Japan, Malaysia and Indonesia which indicate the importance of achieving a national consensus on an economic vision for the future and the policies and programs needed to achieve this vision. Successful East Asian countries have put in place consultative processes (including different government departments, the private sector, and civil society) to agree on national development plans and monitor their execution. The situation has been very different in Egypt where an institutional coordination mechanism among the various government departments was missing. The movement to various reforms provides an opportunity for change. The research paper adapts the experiences of East Asia to Egypt's situation, and presents a proposal for introducing more transparency and participation in economic planning and policy making (figure 2).

Figure 2: Introducing an Economic Dialogue mechanism in Egypt



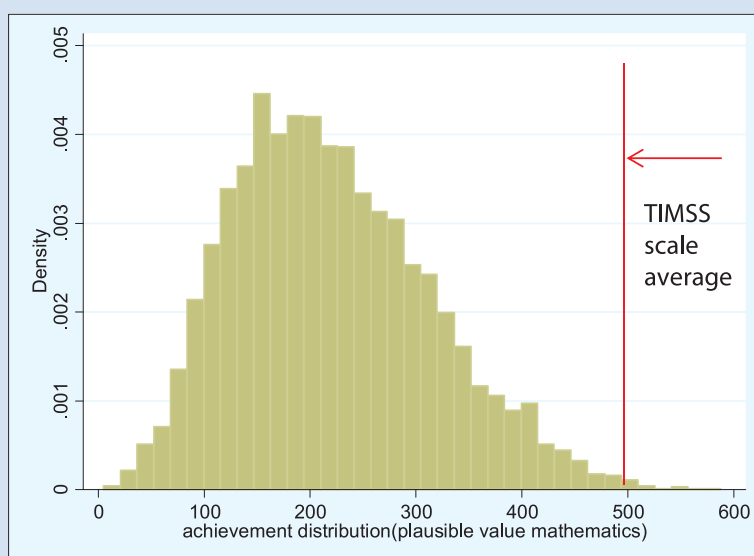
Countries in transition often go through periods of upheaval and weak governance. Iraq is an example where this has occurred. Usually donor agencies reduce their support as they face two key problems in post-conflict or post-revolution situations: (1) high security risk for transparent implementation; and (2) low government effectiveness, marred by corruption, ethnic tensions, and economic malaise. But this is precisely the time when donor engagement is needed most. Therefore, one of the research papers studies the experience of successful JICA projects in Iraq and develops lessons that can be generalized to other situations. It argues that donors should not withdraw their support in difficult post-conflict situations. Instead, they should collaborate with a third party, for instance UNDP for JICA's case in Iraq, who has advantage in dealing with security issues; and develop effective monitoring systems that produce immediate impacts so as to allow for timely corrective actions. The paper shows that frequent contacts between project implementation staff, the third party and the donor agency (together with sustained capacity development efforts) help achieve good outcomes. Peer pressure (competition among implementing agencies), as well as the implementing agencies' desire for social recognition, are also factors that may explain the success of JICA's projects in Iraq.

Education

Arab countries' public spending on education is relatively high (measured as a percentage of GDP), but the results are unsatisfactory. Arab education systems perform poorly on three

important dimensions: equity, relevance and quality of learning. In some countries, such as Yemen and Morocco, equity of access remains as an issue especially for girls. In all countries there is a mismatch between what is taught in schools and universities and the demands of the labor market. As a result, youth unemployment is high especially among the educated. The quality of education is poor. All of the 13 Arab countries that participated in the Trends in International Mathematics and Science Studies (TIMSS) scored below the scale average of 500 in 2007 (Figure 3 shows Yemeni mathematics achievement) .

Figure 3: TIMSS 2007, Mathematics, 4th Grade, Yemen



One of the research papers looks at the issue of the quality of education, using Yemen as an example. It argues for a wide-ranging reform of the education system. Three types of actions can be carried out in the short run. First, it is necessary to deploy more teachers in remote areas, monitoring their actual attendance, and providing incentives in a transparent manner. Second, Yemen could scale up, with donor support, the existing mechanism for school grants to reward schools and communities that improve access for disadvantaged students and girls, and enhance the quality of learning. Third, there is a need to enhance transparency and accountability for results by establishing a simple data base which would include trends of basic updated indicators to monitor and compare progress at the school level, as well as each district and governorate administration office.

Economic opportunities for youth

Nearly 55 percent of the Arab population is under the age of 25 and two-thirds are under the age of 30. Hence, creating opportunities for the millions of young people who are entering the job market every year is a major economic challenge, and the subject of two of the research papers that are looking at Tunisia and Egypt. Youth unemployment in the Arab world is among the highest in the world, and as table 1 (below) for Tunisia shows, unemployment seems to be a particularly serious problem for educated youth. In Egypt, youth with secondary education and above represent about 95 percent of the unemployed. The small enterprise sector is the fastest growing in the economy, growing at about 5.1 percent a year in Tunisia and thus providing most of new jobs. In Egypt about 72 percent of new entrants to the labor market end up working in small and micro-enterprises. However, those enterprises offer low productivity, low wage employment (average wages for men in Egypt are \$3.7/day and for women \$2.6/day) with virtually no social benefits or job security. They have no access to modern technology and operate mainly in the trade or service sectors with little linkages to other firms and virtually no contribution to exports.

Table 1: Unemployment by education level in Tunisia

	2005	2007	2009	May 2011
none	6.3	4.4	6.1	8
Primary	14.3	11.5	10.4	12.4
Secondary	13.3	13.5	14.0	20.6
Higher	14.0	18.2	21.9	29.2

Source: INS, Tunis

Enterprise surveys indicate a significant level of dissatisfaction with government policies affecting small businesses (see table 2, for survey results from Egypt). Entrepreneurs claim that the regulatory framework (licensing, registration etc.) is a hindrance and that it costs them a lot of time and money, that taxation is high and cumbersome, and that they have little access to basic infrastructure and to credit. Very few seem to have benefitted from targeted interventions such as credit from the social fund or special training programs. Hence, there seems to be a good case for a review of policies and programs affecting small enterprises in Arab countries.

Table 2: Constraints to small business in Egypt (percent of entrepreneurs saying it is a major constraint)

	All entrepreneurs	Young entrepreneurs
Securing capital	64.6	62.1
Licensing & registration	61.3	64.0
Labor law	32.3	35.7
Labor inspection	44.9	49.2
Tax rates	68.6	66.7
Customs duties	5.8	5.8
Tax administration	65.0	63.0

Source: Author's calculations from ERF 2003 survey

The papers argue that the objective of government policy and donor interventions should not be simply to support the growth of the small enterprise sector. It should also aim at raising its productivity and its linkages to domestic and international markets. Finding low paying jobs in small enterprises for the millions of young people who enter the labor market each year so that they increase the ranks of the dissatisfied will not solve Arab social problems. The objective should be to support the modernization of the sector so that it can become more dynamic, providing better living standards for young entrepreneurs and decent jobs for new entrants to the labor market. A possible vision for the Arab small enterprise sector would be to become similar to the sectors in Europe or Japan where small and medium enterprises lead in innovation, often operate in clusters and have strong links to larger firms as well as to national and international markets. It is important that countries develop new strategies for the sector based on a broad consultation with owners and workers as well as students who will soon be looking for jobs. Large firms and civil society organizations could also contribute to the debate with the aim of increasing inter-firm linkages and subcontracting. Such strategies may consider direct interventions that go beyond providing more credit to include technical and marketing support. They could also include measures to simplify procedures, lower taxes and enhance the quality of the administration dealing with small enterprises. Finally, international experience shows that a stable macro-economic environment that supports competitiveness is crucial for the sector's development.