MIDDLE EAST AND NORTH AFRICA REGION

2007 Economic Developments and Prospects

Job Creation in an Era of High Growth

THE WORLD BANK

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Table of Contents

BOXES

FIGURES

TABLES

APPENDIX TABLES

Foreword

The Middle East and North Africa (MENA) region continued to attract international attention during 2006. High oil prices and the region's ongoing struggles with conflict—including the lack of security and growing sectarian violence in Iraq, the summer war in Lebanon, the Israeli-Palestinian conflict, and tensions over nuclear proliferation in Iran—are important not only to the region, but to the world. But these issues often overshadow another, equally compelling, story from the region that is just beginning to emerge and garner international attention in its own right.

During the last few years, MENA has turned in strong economic performances, driven, to a large degree, by high oil prices and a favorable global environment, but also by reform policies that, though gradual, are generally on the right track. Growth in the region continues to be robust for the fourth year in a row, with strong external inflows and continued fiscal and external account surpluses at the regional level. Labor markets have reacted positively to these economic developments, and unemployment has declined even as labor-market pressures are peaking. Of course, the region is remarkably diverse, despite many common economic and social features, and economic developments and outcomes differ significantly among its countries.

This is the third in a series of annual overviews of the region. *MENA 2007 Economic Developments and Prospects*, like its predecessors, reports key macroeconomic developments from the regional perspective as well as progress with structural reforms. The aim is to identify the forces shaping economic outcomes in the region and to highlight the key issues that affect the region's growth prospects. This year, the thematic chapter focuses on labor-market issues, an area of vital importance to the region because of the demands that its demographic transition is imposing on employment and socioeconomic infrastructures. We hope that the report will deepen public understanding of the region's progress, prospects, and challenges.

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Abbreviations and Acronyms

AGR	agriculture
ATC	Agreement on Textiles and Clothing
bbl	barrels
BIS	Bank for International Settlements
BOP	balance of payments
CPI	Consumer Price Index
DECPG	Development Economics Projects Group
EAP	East Asia and the Pacific
EAPEP	*Economically Active Population Estimates and Projections*
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ELMPS	Egypt Labor-Market Panel Survey
ENP	European Neighborhood Policy
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
FTZ	free trade zone
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	gross domestic product
ICT	information and communication technology
IEA	International Energy Agency
ILO	International Labour Organization
IOSCO	International Organization of Securities Commissions
IT	information technology
LAC	Latin America and the Caribbean
LE	Egyptian pound
LFPR	labor force participation rate
LFS	labor force surveys
LNG	liquefied natural gas

MENA	Middle East and North Africa
MFA	Multi-Fibre Agreement
MVA	manufacturing value added
NAFTA	North American Free Trade Agreement
NAV	non ad valorem
NTBs	nontariff barriers
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PA	Palestinian Authority
PAFTA	Pan-Arab Free Trade Agreement
PW	public works
QIZ	qualified industrial zone
RPLA	resource-poor, labor-abundant
RRLA	resource-rich, labor-abundant
RRLI	resource-rich, labor-importing
SSA	Sub-Saharan Africa
TRAINS	Trade Analysis and Information System
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VA	value added
VAT	value added tax
WBG	West Bank and Gaza
WTI	West Texas Intermediate
WTO	World Trade Organization

Overview

The Middle East and North Africa Region (MENA)[1] is undergoing a remarkable period of high economic growth. In parallel with that growth, job creation has increased and unemployment has declined. In view of the rapid expansion of the labor force—the fastest in the world—this is a remarkable feat. The private sector is becoming the main source of new jobs as the share of domestic and foreign private investment increases. However, outcomes are uneven—not all countries are benefiting during this remarkable period of expansion. Women are participating more in economic life but consistently fare worse than men. Productivity growth, the key to long-term growth in incomes, remains low, and sectors with high value added are not the ones creating the majority of the new jobs. The region faces the dilemma of quality vs. quantity of jobs it produces. The private sector will be operating within the context of greater integration into global markets. This signals the emergence of new engines of job creation that, however powerful, may be volatile. It also points to the need for better education systems to prepare workers for a more competitive environment and safety-net mechanisms to address the needs of those that may be left out. Overall, MENA countries have the opportunity to use the current economic boom to advance their reform agenda.

Economic Developments and Prospects

For the fourth year in a row, the MENA region enjoyed a robust pace of economic growth. Strong oil revenues, along with the ongoing European recovery, a more dynamic private sector, and a shift toward more investment provided the momentum needed for another year of first-rate economic performance. Real GDP increased by 6.3 percent in 2006, up from 4.6 percent during the first four years of the decade. Indeed, the region's growth performance in 2006 was one of its best since the 1970s. Growth in 2006 was driven by the continued strong momentum of the MENA Region's *resource-rich, labor-importing* countries and the improved performance of *resource-poor, labor-abundant* countries, while growth in *resource-rich,*

[1] The region consists of resource-poor, labor-abundant economies (Arab Republic of Egypt, Jordan, Morocco, Tunisia, Lebanon, and Djibouti); resource-rich, labor-abundant economies (Algeria, Islamic Republic of Iran, Iraq, Syrian Arab Republic, and the Republic of Yemen); and resource-rich, labor-importing economies (Saudi Arabia, United Arab Emirates, Kuwait, Libya, Qatar, Oman, and Bahrain).

labor-abundant countries stagnated at about the levels reached in 2005.

On a per capita basis, the region grew at an average of 4.2 percent in 2006, the highest level recorded in at least two decades. Given the rate of population growth in the region, this is a remarkable achievement. While recent poverty data are not yet available, the sustained growth performance is likely to have reduced poverty levels.

The current pace of growth has narrowed the gap in per capita income growth between MENA and other developing regions. Over the second half of the 1990s, growth of real per capita income averaged 1.7 percent in MENA. That level was 61 percent of the growth attained by low- and middle-income developing countries as a whole. By 2006, MENA's real per capita income was growing at nearly 75 percent of the aggregate rate. This change is welcome, but it is not enough to close the income gap with other regions. Prospects for sustaining growth in MENA at current or higher rates over the coming years will depend on advances in the structural reform agenda—where progress has been uneven—and on the growing role of the private sector. In the near term, advancing reforms remains a substantial challenge for policy makers in the region.

In contrast to the strong regional growth performance, industrial production turned from gains of 4.1 percent in 2005 to a decline of 0.4 percent in 2006, largely as output of hydrocarbons faced capacity constraints. Among the *resource-rich, labor-abundant* countries, industrial production declined by 2.3 percent in 2006. For *resource-rich, labor-importing* countries, the decline was moderate, at 1.1 percent during the year. In contrast, industrial production accelerated in *resource-poor, labor-abundant* countries to 3.4 percent.

Despite the downturn in oil production and the turnaround in the world oil price[2] from peaks of more than $70 per barrel in August 2006, revenues for the oil exporters continued to build. Hydrocarbon receipts in 2006 rose by more than $75 billion over the 2005 figure, reaching $510 billion. Surplus funds among the oil exporters and the availability of new investment opportunities across the region (some generated by ongoing reforms) boosted flows of foreign direct investment (FDI) to new highs of more than $24 billion in 2006. FDI in the past year was concentrated in the region's *resource-poor* countries (except Djibouti), where the share of FDI in GDP quadrupled from 2004. FDI also was high in the United Arab Emirates (UAE).

Domestic demand continues to be the main source of growth in the region, but investment has risen markedly. The contribution of gross domestic investment to GDP growth almost doubled in 2006, from 2.6 to 4.1 GDP growth points. In addition, private investment as a share of GDP has been increasing, signaling a shift toward more private-sector led growth.

Several factors are likely to shape the profile for growth in the MENA region over the medium term. The external environment is expected to be fairly conducive during 2007–09. At the same time, domestic conditions will vary decidedly across the region, as will efforts at reform. The flux of political tensions could affect the confidence of global and regional investors as well as oil-market conditions. On the other hand, if conflicts were to subside the peace dividend could be significant, boosting growth prospects, incomes, and development.

Labor Market Outcomes

During 2000–05 the MENA region experienced record levels of economic growth, which had strong effects on labor markets. Job creation accelerated, unemployment declined, and women increased their participation in the labor force. While the overall picture is positive, regional aggregates mask the diversity of results at the country level.

Between 2000 and 2005, the region's aggregate unemployment rate fell from 14.3 to 10.8 percent of the labor force, narrowing the gap between MENA and other developing regions. In view of the massive expansion of the labor force, the decrease in unemployment is a remarkable achievement over a short period. But not all of the news is good. Although unemployment has come down in 8 of the 12 countries for which data are available, it is stagnating in Jordan and rising in Kuwait and UAE, albeit from very low levels. Political instability has pushed up unemployment rates in the West Bank and Gaza, which, with Iraq, has the most severe unemployment problem in the region.

Higher growth has delivered many new jobs. Falling unemployment amid rapid growth of the labor force is evidence of high job creation, which reached 4.5 percent on an annual basis during

[2] The World Bank average oil price is a simple average of Brent, Dubai, and WTI crude prices.

2000–05, the highest among all developing regions. All of the 12 MENA countries for which we have data have enjoyed job growth in recent years—in most the growth has been considerable. *Resource-poor* countries are at the low end of the spectrum of job growth; *resource-rich* countries at the high end. Gender differences in employment rates also have declined, but youth, traditionally underrepresented among the region's employed, are barely keeping up with advances for other age groups. Despite the strong job growth, MENA still employs only a small share of its potential workforce. The region's *employment* rate—the share of the working-age population that is actually employed—is only 47 percent, the lowest in the world.

Perhaps the single most important transformation affecting MENA's labor force in the past few years is the increasing presence of women workers. While not much growth could be reasonably expected among men, given already-high participation rates, female participation rates have continued their rapid acceleration, albeit from low baselines. The *resource-rich, labor-abundant* countries are seeing the clearest changes. In Iran, women's participation in the labor force rose from 33 to 41 percent in five years, a phenomenal leap. In 1990, participation rates for women in Iran were below MENA average; by 2005, they were the third-highest in the region. Participation rates also increased substantially in Algeria and Syria. On net terms, the boost in labor force growth since 2000 was entirely due to the arrival of women in the region's labor markets. Nevertheless, because women are still less successful than men in finding jobs, women's unemployment is growing alongside their employment. Nor is higher education any guarantee of labor market success—especially not for women.

Currently, the region's labor markets are at the extreme of developing countries. The region has the highest levels of labor force growth, the lowest levels of female participation, and, except for Sub-Saharan Africa, the youngest labor force. The age profile of the region's labor force is fast approaching that of South Asia and Latin America, but MENA will continue to face a job creation challenge greater than that of any other region except Sub-Saharan Africa. By the end of the next decade, women's participation rates will have drawn close those of South Asia, but still will be the lowest of all developing regions. MENA's total labor force participation rates will remain the lowest of any developing region.

What are the characteristics of the new jobs in the region? On the one hand, the new momentum in job growth has not touched some of the traditional characteristics of MENA jobs. Employment elasticities remain high, for example, indicating that growth in labor productivity continues to be low. On the other hand, labor demand in the public sector is slowing, and most new jobs are in the private sector, mainly in services. Although the services sector has accounted for most new jobs in MENA, the agricultural sector continues to play an important role. In the Islamic Republic of Iran, for example, agriculture provided half of the new jobs in the recent period, while in the Arab Republic of Egypt and Morocco it provided two-fifths and in Algeria, one-fifth. Rapid expansion of female employment in these countries may be traced to the expansion of employment in the agricultural sector and in low-skills services (in Algeria), meaning that women are not really gaining good jobs.

Despite the negative overall relationship between employment and productivity growth in the region, several countries are generating jobs in sectors where productivity is also increasing. The expansion in jobs in the services sectors, and to a limited degree in the industrial sector, has been accompanied by some gains in productivity in most countries. However, there are too many cases of job creation with declining productivity, notably in the countries with the highest job growth. The agricultural sectors in Iran, Egypt, and Algeria all have seen important drops in productivity as employment has increased.

Job creation will remain a priority for MENA countries for the foreseeable future. What will it take to meet the employment challenge? The vast majority of the needed jobs must come from within MENA's economies. Migration provides an important mechanism for risk diversification and income growth, but the sheer size of the job challenge means that labor demand abroad cannot fill the employment gap. Thus, the region must maintain through 2020 the exceptionally high rates of employment growth seen in recent years, while advancing reforms to provoke even greater job creation, particularly by the private sector. At the same time, the employment creation engine must be tuned to provide more of the type of jobs that can raise workers' income. That in turn depends on boosting workers' productivity.

If MENA is to shift to a pattern of high job growth reinforced by rising productivity, economic

growth rates will need to remain strong and even increase. Historically the region's high employment elasticity implied strong job creation in times of fast economic growth but, as noted above, most of the new jobs appeared in low-productivity activities. In a sense, MENA faces a dilemma of quantity vs. quality of jobs. Continued high demographic pressures will push for quantity. But if policy makers wish the improved employment picture to survive a fall in oil prices, they must not ignore job quality. Although the reform process has picked up speed in some countries, it is still moving too slowly to deliver sustained growth at levels that could significantly raise productivity while simultaneously creating jobs (as in East Asia). Moreover, to move to a model of high productivity growth, MENA would need to expand reforms to include efficient safety nets to protect those who may be left behind, even if only temporarily, by structural changes. Labor policy must strike a balance between these two fundamental objectives—protecting workers from the risks of unemployment, lost income, and poor working conditions, and encouraging job creation and the allocation of labor to its most productive uses.

Structural Reform

Strong oil revenues and oil-related wealth, along with Europe's ongoing recovery, provide the momentum for continued robust growth in the MENA region over the short term. Over the longer term, however, MENA economies will have to make comprehensive structural changes to deliver the strong growth needed to meet the region's employment challenge. Particularly critical are improving the climate for private investment, opening economies to greater trade, and improving governance mechanisms across the board for greater public sector accountability and inclusiveness, as well as improved public sector efficiency.

MENA countries have moved their structural reform programs forward over the past six years. On the trade front, as regional and bilateral trade agreements proliferate, regional economies have significantly reduced tariffs and nontariff barriers to imports. Overall, the region ranks second among developing regions on tariff reforms carried out since 2000, trailing only Europe and Central Asia. Less progress has been made in improving the business climate, though MENA countries have undertaken various measures, including the liberalization of key services in the economy, across-the-board business and regulatory policy reform, and targeted interventions to promote specific sectors.

But the path to creating an environment conducive to export-oriented businesses and private sector investment remain far from complete. On the trade front, outside the Gulf Cooperation Council, tariff protection remains excessive, especially among the region's *resource-poor* countries, and significant barriers to developing a strong trading sector persist in the form of cumbersome import- and export-clearing processes. The overall business climate remains weak, with significant impediments to conducting business, especially in key areas such as starting a business, protecting investors, and enforcing contracts.

Many of the region's development challenges are traceable to significant deficiencies in governance. Often efforts to overcome those deficiencies have focused on reforming public administration, both to improve efficiency in the delivery of high-quality public services and to generate fiscal savings. But several countries have gone further, taking important steps to open up their political space, allow for greater public accountability, and strengthen inclusiveness in public policy making, all areas in which MENA continues to score poorly in world rankings. Over the past six years the region as a whole has made some progress in reducing this governance gap. Between 2000 and 2006, MENA countries ranked on average in the 63rd percentile on improving the mechanisms for government accountability, higher than all other regions of the world, with particularly strong efforts among *resource-poor* countries and *resource-rich, labor importing* countries.

While the recent oil boom has greatly benefited the oil-producing economies of the region through higher growth and revenues, the potential impact of the oil boom on the ongoing structural reform effort has been an important concern. Though information is scant, there is some indication that the incentives for sweeping improvements in public sector management have faded with rising oil prices. Although *resource-poor* countries have made strong progress in administrative reform, many of the region's oil economies have failed to make significant efforts to improve public sector management.

In the area of enhancing public sector accountability a significant divergence between MENA's

Table 1: Progress with structural reform

Country/region	Trade policy		Business climate*		Governance: quality of public administration		Governance: public sector accountability	
	Current status[a]	Reform progress[b]	Current status[a]	Reform progress[b]	Current status[a]	Reform progress[b]	Current status[a]	Reform progress[b]
Algeria	68	63	36	37	43	16	28	68
Bahrain	—	76	—	—	78	80	27	96
Djibouti	17	47	9	—	—	—	—	—
Egypt, Arab Rep. of	60	100	2	59	34	91	23	73
Iran, Islamic Rep. of	16	67	26	2	17	11	21	6
Iraq	—	—	33	—	—	—	—	—
Jordan	44	94	59	41	71	87	34	62
Kuwait	69	54	77	16	65	64	30	63
Lebanon	50	80	40	46	—	—	—	—
Libya	—	9	—	—	3	13	0	43
Morocco	52	50	38	76	72	91	32	78
Oman	51	43	79	27	66	80	17	89
Qatar	—	—	—		54	69	15	75
Saudi Arabia	64	88	76	75	59	80	6	75
Syrian Arab Rep.	2	32	33	52	14	59	6	54
Tunisia	53	42	55	40	69	76	22	37
United Arab Emirates	75	—	54	20	61	10	20	84
West Bank and Gaza	—	—	22	—	—	—	—	—
Yemen, Republic of	63	82	66	26	27	23	18	48
Regional averages (unweighted)								
MENA	49	62	44	40	49	57	20	63
Resource-poor	46	69	31	54	61	86	28	63
Resource-rich, labor-abundant	37	61	39	29	25	27	18	44
Resource-rich, labor-importing	65	54	71	34	55	57	16	73
East Asia and Pacific	53	40	64	46	45	45	41	44
Europe and Central Asia	50	64	55	59	50	56	52	56
Latin America and Caribbean	64	57	47	54	44	43	57	42
High-Income OECD	84	61	84	49	89	47	91	47
South Asia	28	41	40	24	33	56	37	31
Sub-Saharan Africa	26	22	27	51	33	51	36	52
World	**50**	**50**	**50**	**50**	**50**	**50**	**50**	**50**

Source: World Bank staff estimates.

Note: For definitions of MENA country groups, see footnote 1.

a. For each index, the country's current status reflects its 2006 placement in a worldwide ordering based on a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the "best" policies worldwide, and 0 representing the country with the "worst" policies worldwide.

b. Reform progress reflects the improvement in a country's rank between 2000 and 2006 (or between 2003 and 2006 in the case of business and regulatory reform) in a worldwide ordering of countries based on changes in a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the greatest improvement in rank worldwide, and 0 reflecting the country with the greatest deterioration in rank worldwide.

***** The business climate index reported in this year's MENA Economic Developments and Prospects Report has been substantially revised (reflecting both changes in the indicators used and considerable revisions to historical data) and is not comparable with the index that appeared in last year's MENA Economic Developments and Prospects report.

— = not available

labor-abundant oil economies and its *labor-importing* oil economies is notable. Since 2003, many of the *resource-rich, labor-importing* economies of the GCC have begun to exhibit a strong commitment to improving government accountability. In parallel with their efforts toward more prudent management of their oil windfall and stronger economic ties with the world, Oman, Qatar, Saudi Arabia, and the UAE have taken significant steps toward greater inclusiveness and accountability in government. It is a significant and encouraging sign that rising oil prices have not blunted these efforts. MENA's *labor-abundant* oil economies, on the other hand, generally have not moved forward with improvements in public sector accountability since 2003. Creating more inclusive and representative governance structures is influenced by forces other than rising oil prices, but given the importance of this topic in the overall reform agenda, the significant backsliding of a few countries represents a concern for the broader reform agenda, because it casts a shadow over prospects for growth in the long term.

1

Recent Economic Outcomes and Short-Term Development Prospects

For the fourth year in a row, the Middle East and North Africa Region (MENA)[1] continued on a strong growth path, with more dynamism from the private sector. Real gross domestic product (GDP) increased by 6.3 percent in 2006, up from 4.6 percent during the first four years of the decade (see figure 1.1). Indeed, the growth performance for 2006 was among the best in more than 10 years. Growth was driven primarily by the strong performance of resource-rich, labor-importing (RRLI) countries and the expansion of growth in resource-poor, labor-abundant (RPLA) countries, while resource-rich, labor-abundant (RRLA) countries stagnated. Given the rapid demographic expansion that characterizes most countries of the region, growth on a per capita basis was less buoyant, reaching 4.2 percent in 2006, but still significantly higher than the 2.6 percent reached in the early years of the new century.

This period of strong growth has helped MENA narrow the gap with other developing regions. Growth of real per capita incomes averaged 1.7 percent over the second half of the 1990s, in contrast with 2.8 percent for low- and middle-income countries. By 2006, MENA's real per capita income increased to 4.2 percent vis-à-vis 5.7 percent for developing countries. MENA is now growing at a rate that is nearly 75 percent of that of other developing regions. This development is to be welcomed, but it must also be recognized that prospects for sustaining growth at these or higher rates over the coming years depend on advances in structural reform, and will prove a substantial challenge for policy makers in the region.

In contrast to the strong GDP growth performance, industrial production declined by 0.4 percent in 2006, largely because hydrocarbon output faced capacity constraints in the year. Among the RRLA countries, industrial production declined 2.3 percent in 2006, standing 6 percent below January 2006 levels. For RRLI countries, the decline was 1.1 percent in 2006, about 4.3 percent below January 2006 levels. In contrast, industrial production accelerated in RPLA countries to 3.4 percent in 2006.

Despite the downturn in oil production and turnaround in world oil prices[2] from peaks of more than $70 per barrel in August 2006 to near $50 by year-end, oil exporters' revenues continued to build in the year. Petroleum and product receipts increased by more than $75 billion, to reach $510 billion in 2006 for resource-rich countries. This supported current account and fiscal surplus positions for the

[1] The MENA region consists of RRLA economies Djibouti, the Arab Republic of Egypt, Jordan, Morocco, Tunisia, Lebanon, and West Bank and Gaza (WBG); RRLA economies Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen; and RRLI economies Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[2] World Bank average oil price is a simple average of Brent, Dubai, and West Texas Intermediate (WTI) crude prices.

Table 1.1: Summary economic developments in the region, by country group, 1996–2006

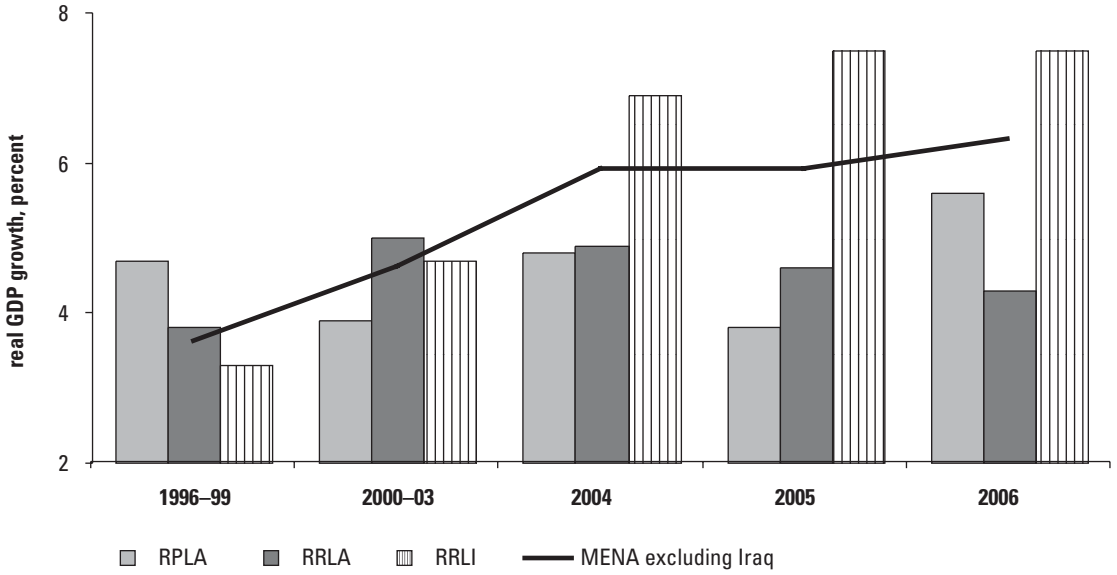
Country group	1996–99 (average)	2000–03 (average)	2004	2005	2006[e]
Entire region (excluding Iraq)					
Real GDP growth (%)	3.6	4.6	5.9	5.9	6.3
Population	2.0	2.0	1.9	1.9	2.0
Per capita GDP	1.7	2.6	3.9	4.0	4.2
Consumer price index (CPI) inflation (%)	4.2	2.8	4.1	5.5	5.3
Industrial production (%)	—	1.5	3.8	4.1	−0.4
Fiscal balance (% GDP)	−2.8	1.5	6.8	11.8	14.5
Current account balance (% GDP)	−0.1	7.1	11.0	16.9	20.7
Foreign direct investment (% GDP)	1.0	0.9	0.9	1.5	1.7
Resource-poor, labor abundant (RPLA)					
Real GDP growth (%)	4.7	3.9	4.8	3.8	5.6
Population	1.8	1.8	1.7	1.7	1.9
Per capita GDP	2.7	2.0	3.1	2.1	3.6
CPI inflation (%)	3.3	2.3	4.0	7.0	5.8
Industrial production (%)	–	1.3	2.8	2.2	3.4
Fiscal balance (% GDP)	−3.9	−5.8	−6.0	−6.7	−6.0
Current account balance (% GDP)	−4.0	−1.5	−0.6	−1.6	−1.7
FDI (% GDP)	2.4	2.2	2.1	5.4	8.0
Resource-rich, labor-abundant (RRLA)					
Real GDP growth (%)	3.8	5.0	4.9	4.6	4.3
Population	1.9	1.8	1.7	1.7	1.8
Per capita GDP	1.9	3.1	3.1	2.9	2.5
CPI inflation (%)	12.6	9.0	10.5	9.4	8.7
Industrial production (%)	–	2.8	4.2	4.8	−2.3
Fiscal balance (% GDP)	−0.9	1.8	2.5	4.6	3.1
Current account balance (% GDP)	1.7	7.3	4.7	11.0	10.6
FDI (% GDP)	0.2	0.5	0.6	0.5	0.9
Resource-rich, labor-importing (RRLI)					
Real GDP growth (%)	3.3	4.7	6.9	7.5	7.5
Population	2.9	3.1	3.1	3.2	3.2
Per capita GDP	0.4	1.5	3.6	4.2	4.2
CPI inflation (%)	0.5	0.0	1.1	2.9	3.4
Industrial production (%)	–	0.8	4.0	4.6	−1.1
Fiscal balance (% GDP)	−3.3	4.6	14.0	21.5	25.8
Current account balance (% GDP)	1.1	11.0	19.0	25.9	32.0
FDI (% GDP)	0.7	0.5	0.7	0.7	0.3

Source: World Bank staff estimates.

Note: The MENA region includes the RPLA economies Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza (WBG); the RRLA economies Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen; and the RRLI economies Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Due to data limitations, the WBG is not included in regional or subregional aggregates. In addition to the resource-based classifications, aggregates are presented for groups based on geography and trade. The Maghreb comprises Algeria, Libya, Morocco, and Tunisia. The Mashreq comprises Iraq, Jordan, Lebanon, the Syrian Arab Republic, and the WBG. The Gulf Cooperation Council (GCC) members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. And "others" consist of Djibouti, the Arab Republic of Egypt, the Islamic Republic of Iran, and the Republic of Yemen. Finally, net oil importers of the region include Djibouti, Jordan, Lebanon, Morocco, and Tunisia. All others are considered net exporters.

e = estimate.

Figure 1.1: Regional growth steps up during 2006



Source: National agencies, World Bank.

Note: RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing. For details of MENA country groups, see footnote 1.

region as a whole, and for resource-rich economies in particular.

The run-up of surplus funds among oil exporters and the availability of new investment opportunities across the region boosted foreign direct investment (FDI) flows to new highs of more than $24 billion in 2006. FDI in the year was concentrated in Egypt, Lebanon, Morocco, Tunisia, and Jordan, as well as the United Arab Emirates.

On the fiscal front, the MENA region as a whole continued to improve. Oil revenues have been sufficient, such that—despite sharp increases in both current and capital fiscal outlays—fiscal positions have remained in surplus, amounting to 14.5 percent of GDP in 2006. This result is dominated by RRLI economies, which increased their fiscal balances to 25.8 percent. RRLA economies saw their fiscal balances deteriorate from a surplus of 4.6 percent of GDP in 2005 to 3.1 percent in 2006. In contrast, RPLA economies improved their fiscal positions slightly, ending up with a fiscal deficit of 6 percent in 2006.

1.1 Overview of Recent Economic Developments

On balance, 2006 for MENA was a year mixed with continued strong economic outturns driven by double-digit gains in domestic demand, welcome advances in per capita income growth, and record fiscal and current account surpluses. FDI and intraregional investment flows emerged as an important growth-enhancing factor for the region. Inflationary pressures have been largely subdued despite the strong pace of activity. At the same time, MENA has remained in global focus due to geopolitical issues, the continued U.S. presence in Iraq, and externalities related to conflict. There is little doubt that risk perceptions of investors toward the region remain elevated, and the manner in which current tensions and conflicts are resolved will play an important part in setting the stage for economic growth over the next years.

1.1.1 Sources of growth

The economies of the MENA region have experienced strong growth in the past few years, riding the wave of the current oil boom. But where is the growth coming from—domestic demand and consumption or investment? What is the contribution of exports and imports to overall growth performance? What is the role of the private sector? This section analyzes sources of growth in MENA.

Domestic demand continued to be the dominant force behind the current growth momentum. Growth decomposition analysis shows that domes-

tic demand contributed 10.7 points to GDP growth in 2006, while net exports had a contribution of –4.4 points, as imports outpaced export performance. As a result, GDP growth for 2006 reached 6.3 percent. This tendency in growth sources has been present for the duration of the recent growth boom, but domestic demand has steadily increased its contribution to growth (see table 1.2). Both the contributions of consumption and investment have been on the rise. In particular, gross domestic investment now contributes 4.1 points to GDP growth, up from 1.3 points in the early 2000s, and the private sector is playing an increasingly important role, with rising investment (see figure 1.2). Private consumption, on the other hand, contributed 5 points to GDP growth.

RPLA countries witnessed a pickup in GDP growth driven by several factors: recovery from drought in the Maghreb; the onset of economic recovery in the euro area; and strong flows of tourism

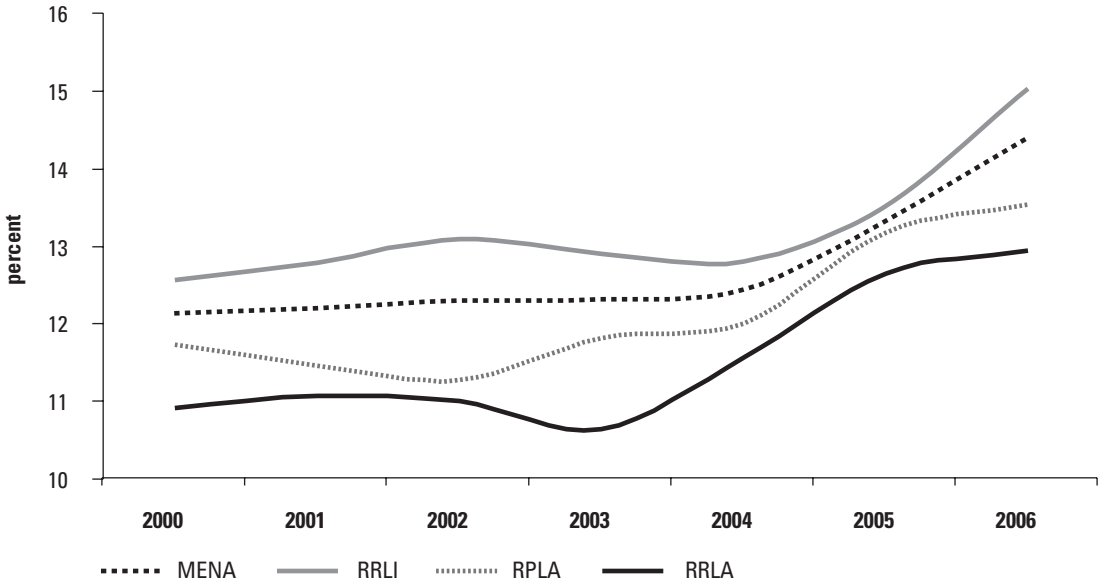
Table 1.2: Sources of growth for the region, by country group, 1996–2006

Country group	1996–99 (average)	2000–03 (average)	2004	2005	2006[e]
MENA region (excluding Iraq)					
Real GDP growth (%)	3.6	4.6	5.9	5.9	6.3
Contributions to GDP growth (points) from:	*3.6*	*4.6*	*5.9*	*5.9*	*6.3*
Domestic demand	3.4	3.5	6.7	8.7	10.7
Private consumption	1.5	2.2	3.8	4.3	5.0
Government consumption	0.6	0.0	1.0	1.8	1.6
Gross domestic investment	1.3	1.3	1.8	2.6	4.1
Net exports, general number field sieve (GNFS)[a]	0.2	1.1	−0.8	−2.8	−4.4
Resource-poor, labor-abundant (RPLA)					
Real GDP growth (%)	4.7	3.9	4.8	3.8	5.6
Contributions to GDP growth (points) from:	*4.7*	*3.9*	*4.8*	*3.8*	*5.6*
Domestic demand	4.4	3.2	4.9	3.9	6.8
Private consumption	2.1	2.6	3.3	2.2	4.9
Government consumption	0.5	0.6	0.1	0.6	−0.1
Gross domestic investment	1.7	0.1	1.4	1.1	2.1
Net exports GNFS	0.3	0.6	−0.1	−0.1	−1.2
Resource-rich, labor-abundant (RRLA)					
Real GDP growth (%)	3.8	5.0	4.9	4.6	4.3
Contributions to GDP growth (points) from:	*3.8*	*5.0*	*4.9*	*4.6*	*4.3*
Domestic demand	2.7	6.0	7.3	4.5	7.1
Private consumption	1.3	2.9	4.8	1.4	3.0
Government consumption	0.0	0.7	0.6	0.9	1.0
Gross domestic investment	1.4	2.5	2.0	2.3	3.1
Net exports GNFS	1.1	−1.1	−2.4	0.1	−2.7
Resource-rich, labor-importing (RRLI)					
Real GDP growth (%)	3.3	4.7	6.9	7.5	7.5
Contributions to GDP growth (points) from:	*3.3*	*4.7*	*6.9*	*7.5*	*7.5*
Domestic demand	3.3	3.8	7.2	12.9	14.1
Private consumption	1.4	1.7	3.6	6.7	6.0
Government consumption	0.9	0.9	1.7	2.9	2.6
Gross domestic investment	1.0	1.2	1.9	3.4	5.5
Net exports GNFS	0.0	0.9	−0.4	−5.4	−6.6

Source: World Bank staff calculations.

Note: Country groups as in table 1.1 note.
a. change in net exports of goods and nonfactor services as a share of GDP [-1] includes residual. Also see table 1.1 note.
e = estimate.

Figure 1.2: Private investment as share of GDP, 2000–06



Source: National agencies, World Bank.

Note: MENA country groups as in footnote 1.

revenues, remittances, and—increasingly—FDI. The acceleration in growth occurred on the back of a sharp revival in domestic demand (notably of private consumption) during 2006.

Consumption and investment were the key factors supporting outturns for the year. While exports were helped by increased demand from abroad, RPLA countries' own imports yielded a net drag from the external sector, subtracting 1.2 points from 2006 growth outturn. RPLA activity recovered despite a substantial flare-up in geopolitical tensions, including conflict in Lebanon and the isolation of the West Bank and Gaza from trade and financial flows. These economies suffered significant GDP losses, with 2006 declines of 5.5 and 12 percent, respectively.

Among oil exporters of the region, the group of RRLA economies,[3] excluding Iraq, experienced a moderate decline in growth in 2006. Domestic demand stepped up to 7.1 growth points in 2006, with an upward shift in all segments of demand, especially private consumption. This development, however, was fully offset by substantial imports of capital and consumer goods, providing a –2.7 point change to growth from trade. RRLA economies' output would have been much more robust in 2006 had growth in Algeria not been disappointing. Latest estimates indicate that Algeria's GDP growth was only 1.4 percent in 2006, due in part to poor performance in hydrocarbons output, as well delayed implementation of public sector investment programs.

In contrast with the modest downturn in growth for the RRLA group in 2006, RRLI economies maintained their robust growth performance in 2006 at 7.5 percent, supported by double-digit contributions from domestic demand, with a shift from consumption toward investment over the course of 2006. Net exports subtracted 6.6 percent from RRLI growth during 2006.

1.1.2 Strong regional growth—but with significant heterogeneity

The dispersion of growth across MENA's diverse group of economies remains wide, from 12 percent growth in Qatar in 2006 to a decline of the same magnitude in the West Bank and Gaza. This is due not only to the fundamental split between oil-dominant and more diversified economies of the region—affected by differing trends in the external environment—but also to economic policy and attitudes toward reform, as well as to the present set

[3] It should be noted that, because of data limitations and uncertainties regarding data quality, Iraq is often excluded in the context of this report from the group of resource-rich economies, and from the MENA region as well. References highlight this point in all tables and figures.

of geopolitical tensions carrying strong direct and indirect effects across regional economies.

1.1.3 Resource-poor economies

For the RPLA economies—distributed across the Maghreb (Morocco, Tunisia), the Mashreq (Lebanon, Jordan, and West Bank and Gaza), and including Egypt and Djibouti—growth improved significantly in 2006. Four of seven economies enjoyed growth increases, notably Morocco, experiencing relief from a severe 2005 drought and enjoying a rebound in agricultural output and rural incomes with a real output growth surge of 7.3 percent. The start of stronger economic recovery in the euro area (the destination for 70 percent of Morocco's goods exports), and the implementation of a free trade agreement (FTA) with the United States on January 1, 2006, also offered better conditions for trade, following adverse effects on Morocco's textiles and apparel exports in the wake of the removal of the agreement on textiles and clothing (ATC) in 2005 (see table 1.3).

Growth in Tunisia also increased in the year. Affected less severely by drought conditions than Morocco, Tunisia's growth acceleration was grounded in stronger manufacturing output, moderate pickup in goods exports, and continued gains in tourism receipts. FDI flows to Tunisia more than doubled to $2.8 billion in the year (about 9.6 percent of GDP), attracted by telecommunications and other assets undergoing privatization, as well as to tourism and related infrastructure. And conditions in Egypt improved, with the country benefiting from strong investment, construction outlays, and tax cuts that boosted household spending. On the external front, goods exports were powered by the start of liquefied natural gas (LNG) shipments, while increases in service receipts—though reduced from 2005 boom levels—remained high: 12.5 percent gains for tourism revenues and 9 percent for Suez Canal dues, with remittances approaching 4.5 percent of GDP. Growth picked up to 6.9 percent in 2006, the strongest since 1984 (see figure 1.3). Finally, GDP advanced by 4.2 percent in Djibouti, with increased port construction outlays and a pickup in activity in the country's free trade zone (FTZ).

Of RPLA economies witnessing deterioration in growth during 2006, Jordan stands out with a 1 point decline to 6.3 percent, linked in part to higher oil prices and deteriorating current account deficits. Despite this, Jordan's growth in 2006 was the third-best of the group, and continues to be one of the most successful growth experiences in the past years, accumulating 24 percent growth in the past three years. The domestic economy remains strong, with investment in real estate and tourism projects leading the way. Demand for services for those working in or with Iraq continues, while record levels of remittances (near $2.5 billion, or 18 percent of GDP) offers ongoing support for consumer spending.

Developments in Lebanon and West Bank and Gaza damaged growth prospects in those economies. West Bank and Gaza's GDP declined by 12 percent in 2006, after a 6 percent gain in 2005. In Lebanon, estimates put the decline of GDP at 5.5 percent for 2006. Prior to the onset of conflict, conditions appeared to be improving, with increased tourism, real estate investment, and capital inflows from the Gulf. The recent gathering of donors in Paris, during which individual countries and multilateral institutions pledged some $7.5 billion to facilitate the rebuilding process, renewed a program of fiscal and economic reform. Estimates of war damage reparations from the month-long Israel–Hezbollah conflict of July–August 2006 were significant (see box 1.1).

1.1.4 Resource-rich economies

As a group, the resource-rich economies have seen GDP increases; however, significant differences exist between RRLA and RRLI countries, and among countries within each group. The RRLA countries experienced a small decline in GDP growth during the year, while RRLI countries continue to grow at fast rates.

For the group of RRLA economies, developments continue to be dominated by the key hydrocarbon producers, Iran and Algeria. Syria and Yemen are smaller oil suppliers (with diminishing reserves), with economies more diversified in manufacturing and basic services.

The drop in GDP growth for the RRLA group masked the fairly strong increase in Iran, offset by a collapse in Algeria to 1.4 percent. GDP growth accelerated in Syria while activity in Yemen improved (see figure 1.4).

In Iran, high oil prices and an expansionary fiscal policy were driving forces for growth. Public sector spending increased in 2006, with current outlays moving up by nearly 5 points of GDP since 2004. Capital spending increased significantly in the cur-

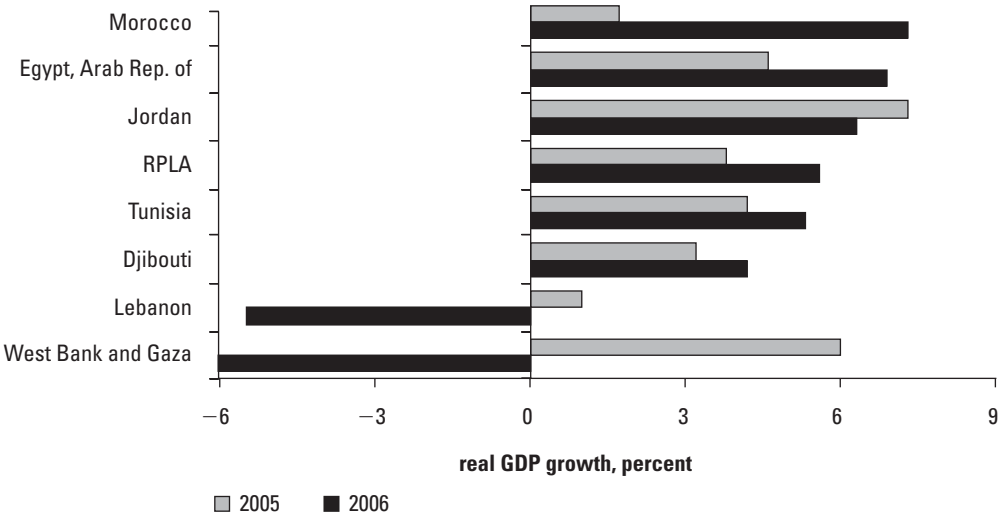
Table 1.3: Real GDP growth for the region, by country group, 1996–2006

Country group	1996–99 (average)	2000–03 (average)	2004	2005	2006[e]
Entire region, including Iraq	—	4.0	6.5	5.9	6.2
Excluding Iraq	3.6	4.6	5.9	5.9	6.3
Resource-poor, labor-abundant (RPLA)	4.7	3.9	4.8	3.8	5.6
Djibouti	–0.7	2.1	3.8	3.2	4.2
Egypt, Arab Republic of	5.2	3.8	4.2	4.6	6.9
Jordan	2.9	4.9	8.4	7.3	6.3
Lebanon	2.6	3.4	6.3	1.0	−5.5
Morocco	4.2	4.0	4.2	1.7	7.3
Tunisia	5.9	4.2	6.0	4.2	5.3
West Bank and Gaza	—	−6.4	6.2	6.0	−12.0
Resource-rich, labor-abundant (RRLA)	3.2	4.8	6.2	6.6	6.5
RRLA countries (incl. Iraq)	—	2.8	7.3	4.6	4.3
RRLA countries (excl. Iraq)	3.8	5.0	4.9	4.6	4.3
Algeria	3.1	4.1	5.2	5.3	1.4
Iran, Islamic Rep. of	4.0	5.8	5.1	4.4	5.8
Iraq	—	−16.6	46.5	3.7	4.0
Syrian Arab Republic	4.1	3.4	3.9	4.5	5.1
Yemen, Republic of	5.5	4.0	2.6	3.8	3.9
Resource-rich, labor-importing (RRLI)	3.3	4.7	6.9	7.5	7.5
Bahrain	4.3	5.6	5.4	6.9	7.0
Kuwait	1.9	5.9	6.2	8.5	6.2
Libya	1.6	4.8	8.2	8.4	8.1
Oman	3.4	4.4	5.6	5.6	6.4
Qatar	11.8	7.1	11.4	11.0	12.1
Saudi Arabia	2.7	3.3	5.2	6.6	5.8
United Arab Emirates	5.2	7.1	9.7	8.5	10.7
By geographic subregion					
Maghreb	3.2	4.2	5.8	5.1	5.0
Mashreq (excl. WBG, Iraq)	3.2	3.7	5.7	3.7	1.4
Gulf Cooperation Council (GCC)	3.5	4.7	6.7	7.5	7.4
Other	4.6	4.8	4.6	4.5	6.2
By oil-trade group					
Oil-exporting countries (excl. Iraq)	3.8	4.7	6.0	6.4	7.0
Oil-importing countries (excl. WBG)	3.7	4.0	5.6	2.8	4.0
Comparator regions					
MENA (excluding Iraq)	3.6	4.6	5.9	5.9	6.3
All developing countries	4.0	4.5	7.3	6.6	6.9
East Asia and the Pacific	6.2	7.7	9.1	9.0	9.1
Europe and Central Asia	2.0	4.7	7.2	6.0	6.4
Latin America and the Caribbean	3.0	1.3	6.0	4.5	5.0
South Asia	5.7	5.1	8.0	8.1	8.2
Sub-Saharan Africa	3.4	3.7	5.2	5.5	5.2

Source: World Bank staff estimates.

Note: Country groups as in table 1.1 note.
— = data not available.

Figure 1.3: Results across resource-poor, labor-abundant economies during 2006



Source: National agencies and World Bank estimates.

Note: West Bank and Gaza's GDP is estimated to have declined by 12 percent in 2006. RPLA country group as in footnote 1.

Box 1.1

Economic consequences of conflict

During 2006, conflict continued to undermine the capacity of some countries in the MENA region to benefit from the current regional and global growth trends. Iraq, Lebanon, and West Bank and Gaza were affected directly by conflict, but spillover effects were present in countries such as Syria and Jordan, both of which ended up with large inflows of refugees.

Plagued by continuing violence and strife, the Iraqi economy grew at a sluggish 3–4 percent in 2006. Non-oil GDP grew at about 10 percent, reflecting enhanced household activities in the nontradable sector, as is typical for conflict environments. However, oil GDP did not grow at all, reflecting stagnant production and export levels. Investment activity was weak in both the public and private sectors. Dollarization grew notably, and there was a high and steady outflow of private Iraqi capital as reported by Jordan, Syria, Lebanon, and the lower Gulf countries. Central banks responded with measures to appreciate the nominal value of the Iraqi dinar. This did not reduce inflation, however, because other key drivers—security risks, supply bottlenecks, and rising public spending—remain unchecked.

Unemployment fell from the peaks of 2003–04, but still exceeded 20 percent, despite massive migration outflows. As a result of the war, an estimated 2 million Iraqis fled to Jordan, Syria, and Lebanon, and an additional 1.7 million relocated to safer areas within Iraq. These flows put high pressure on the Jordanian economy, where the share of illegal migrants is increasing, and controls are now being tightened.

In Lebanon, the hostilities of the summer of 2006 resulted in serious human and physical losses and caused both short- and long-term damage to the Lebanese economy. The war killed more than 1,200 individuals and damaged nearly 107,000 housing units. Nearly 1 million people (a quarter of the national population) were displaced during the height of the hostilities. The direct damages were estimated at around $2.8 billion by the Lebanese government (the biggest cost being for housing). The loss of investor confidence, the damage to the image of Lebanon as a tourist destination, and the emigration of skilled workers will have a long-term impact on the private sector, and on the economy as a whole. It is estimated that 30,000 jobs may have been permanently lost. Some 200,000 people, many of them young and highly skilled, may have emigrated during the hostilities.

The hostilities put an end to expected significant economic recovery in 2006. While economic performance

Box 1.1

Economic consequences of conflict (continued)

in 2005 was adversely affected by the assassination of Prime Minister Rafiq Hariri, growth in 2006 shaped up to produce the highest growth rate in a decade—at around 5–6 percent. Postconflict real GDP for 2006 is currently projected to have contracted by about 5.5 percent—a significant 10–11 percent reversal in output.

Extensive destruction of physical capital and disruption of trade, tourism, and supply channels negatively affected the growth performance of all sectors of the economy. Services, which generate about 70 percent of Lebanon's GDP, have shrunk by an estimated 5 percent. The agriculture sector has been hit severely and is expected to witness a negative growth rate of at least 17 percent. As for industry, it has registered a loss of output estimated at 2.5 percent, with manufacturing suffering the largest decline of around 9 percent. Expressed in monetary terms, the total foregone output attributable to the conflict could be as high as $2.3 billion.

On the fiscal side, Lebanon's public finance was also strongly affected in 2006. On the revenue side, figures indicated a decline of 16.6 percent over the same period in 2005, thus eliminating the 15 percent increase registered in the first half of 2006. Such decline in revenues—estimated at $500 million—was mainly due to lost trade taxes and value added tax (VAT). Expenditures increased because of higher outlays on early relief interventions and repairs to key public infrastructure. Thus, primary expenditure increased by 26.5 percent in the second half of 2006, after a 7 percent decline in the first half.

Consequently, after four years of registering surplus, the primary balance turned into a deficit by the end of the year (excluding grants). Fiscal deficits in 2006 are estimated to reach 14 percent of GDP. As a result, Lebanon's ratio of debt-to-GDP, which had begun declining in the first half of 2006 on the back of government reforms and a growing economy, is estimated to have reached 190 percent by the end of 2006, with debt serviced increasing to 14 percent of GDP.

In West Bank and Gaza, after a modest recovery in 2004–05, the Palestinian economy once again went into decline in 2006. The cutoff of donor assistance to the Palestinian Authority (PA), as well as tax revenue clearance by Israel following the election of the Hamas government, and increasing border closures, all served to choke off the nascent recovery.

In early 2006, the World Bank predicted a major crisis and estimated that GDP could fall as much as 25–30 percent due to the cutoff in aid and tax clearance. However, the economy fared better than expected and the actual decline in GDP was around 12 percent. Yet per capita GDP remains way below its 1999 level.

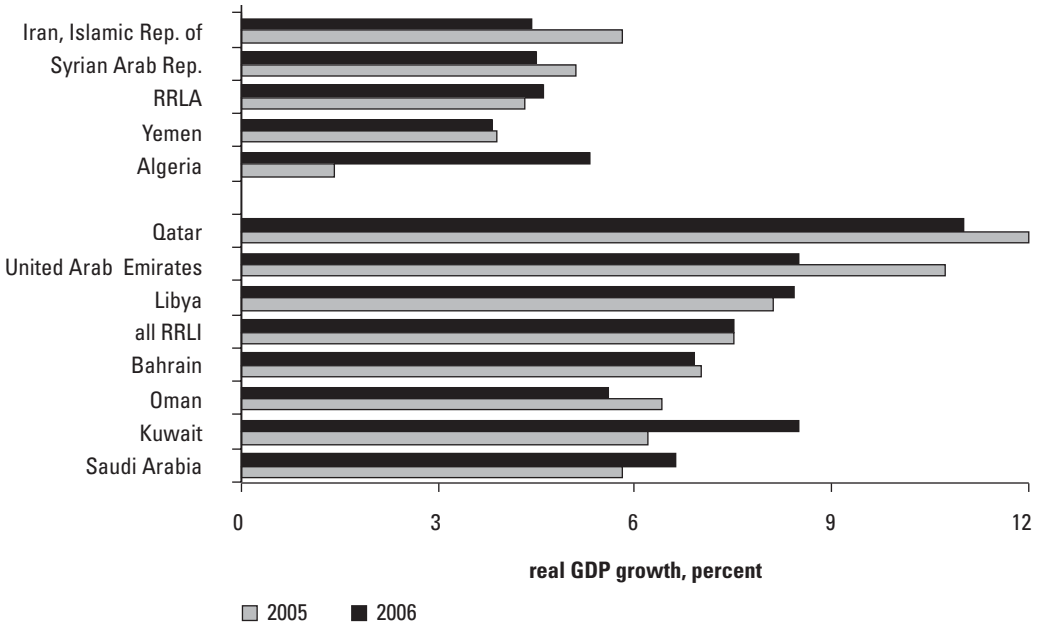
The West Bank and Gaza economy was more resilient than expected because large amounts of money still found its way to the population. Many donors devised ways to inject money in the form of humanitarian assistance. In addition, there were large inflows of remittances from family members abroad. These funds, along with borrowing and selling assets, supported consumption.

This masks the true damage caused by the hollowing out of the economy. The cutoff of aid to the PA has made the government unable to pay salaries, and resulted in a long strike by civil servants. Critical government institutions such as the financial management system, the customs department, the statistics bureau, and others that have taken years to develop, have begun to deteriorate. More troubling still is the steep drop in investment, the depletion of savings, and increase in debt. This situation is unsustainable and indicates that unless there is a resumption of direct aid and a loosening of movement and access restrictions, the economy is poised for a rapid deterioration and increase in poverty.

The fiscal position of the PA continued to deteriorate as a result of conflict. Taxes and domestic and external financing fell by some 40 percent in 2006 compared to the previous year. External support in 2006 was more than twice the amount received in 2005, but this was not enough to offset the reduction in bank lending and the sharp drop in tax revenues. As a result, government investment has fallen and government employees on average received only 50–55 percent of their normal incomes. This had a significant effect on poverty rates because one-quarter to one-third of the population is directly dependent upon a PA wage earner. The PA's fiscal position was brought to the point of crisis by the cutoff of budget support. This has been a growing and unsustainable problem for some time, and is associated with the rapidly rising level of both government employment and wage levels.

Source: World Bank staff estimates.

Figure 1.4: Greater growth for oil exporters during 2006



Source: National agencies, World Bank estimates.

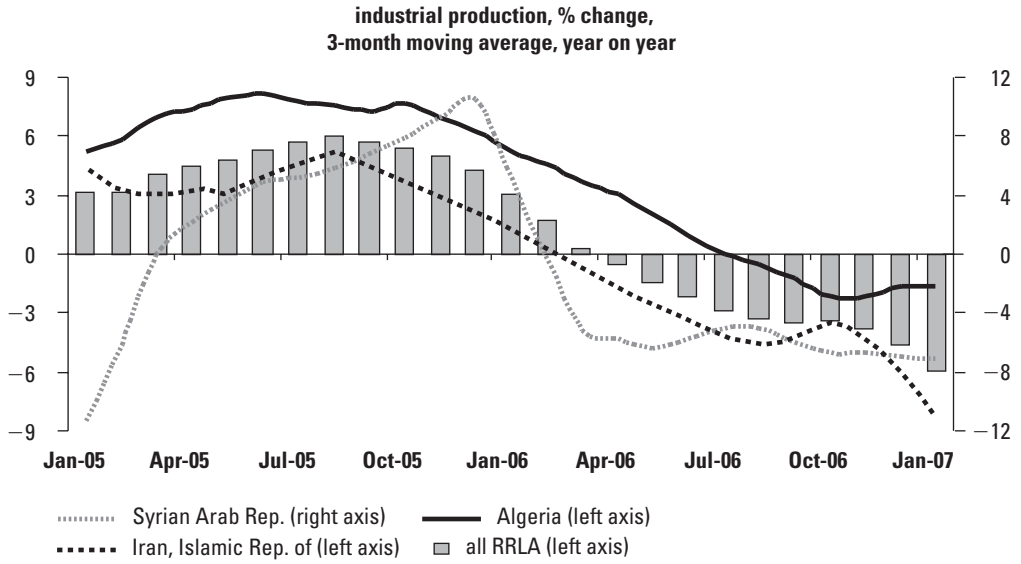
Note: RPLA and RRLI country groups as in footnote 1.

rent fiscal year, especially in transport and other infrastructure projects.

Capacity constraints in oil production are limiting growth in the hydrocarbons sector for all exporters of the RRLA group (see figure 1.5). And with growing import demand, drag from the external side may be expected for some time to come.

The 2006 growth slowdown in Algeria is related to stagnation in hydrocarbon output volumes. As witnessed in all Maghreb countries, agricultural production rebounded after the 2005 drought, and governments are using enhanced oil revenues to bolster consumer spending, construction, and investment. A supplementary budget passed in July 2006 increased expenditures by 35 percent against initial budget allocations. Proceeds were targeted

Figure 1.5: Capacity constraints on oil production in resource-rich, labor-abundant economies



Source: World Bank (DECPG) through national agencies.

Note: RRLA country group as in footnote 1.

toward civil servant wage increases, a doubling of capital outlays, and additional financing for Algeria's "peace and reconciliation" charter program for infrastructure rehabilitation. But as hydrocarbons account for 50 percent of GDP, developments there continue to dominate. Recovery of oil (and gas) output is essential if higher growth is to be recovered. For the fourth year in a row, the RRLI countries witnessed the fastest growth performance among all MENA groups; GDP increased by 7.5 percent in 2006. Among RRLI economies, the United Arab Emirates, Oman, and Qatar stand out with strong acceleration of real output growth.

GDP gains for several oil-dominant countries (Saudi Arabia, Kuwait) remained relatively strong, though they did suffer a decline in 2006. Several factors contributed to these outcomes: (a) a shift in expenditure from exceptionally strong current consumption outlays (public and household) in 2004–05 toward capital spending in 2006, focused on public infrastructure and complemented by a moderate pickup in private investment outlays; (b) a decline in the volume of hydrocarbon exports, given the attempts of the Organization of the Petroleum Exporting Countries (OPEC) from mid-year 2006 to restrict supply and stem incipient declines in global oil prices; and (c) the dampening effects on GDP growth of several years of exceptionally robust import demand.

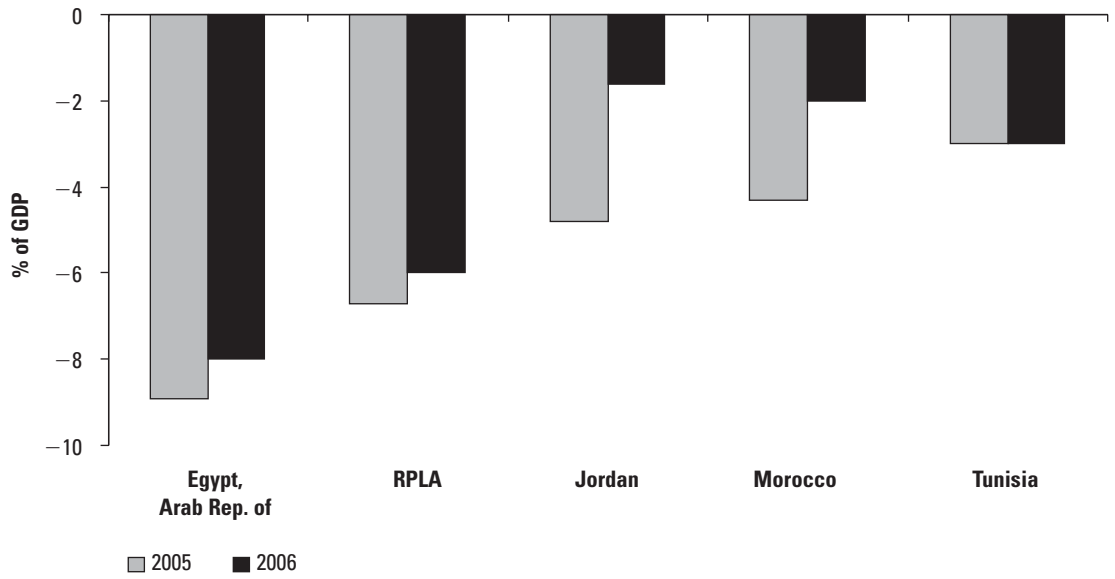
1.2 Fiscal Developments

In the current oil-price cycle, a fiscal surplus position has characterized the aggregate for MENA countries since 2003—increasing from 1.5 percent of the region's GDP in the early 2000s to 14.5 percent by 2006. But this high regional surplus masks a diversity of conditions underlying both country groupings and individual countries. Fiscal balances during 2006 range from a deficit of 6 percent for RPLA countries, which continue to adjust to high oil prices, to a surplus of 25.8 percent for RRLI countries. High diversity also exists among individual countries in the region, from a surplus of nearly 42 percent of GDP in Kuwait to a deficit of 13.4 percent in Lebanon.

As a group, the RPLA economies experienced an improvement during 2006. Their fiscal deficit declined to 6 percent of GDP in 2006 because of global and, more importantly, country-specific factors. As figure 1.6 shows, there has been a degree of improvement in many of the resource-poor countries, particularly Egypt, Jordan, and Morocco.

Differences in the fiscal stance of resource-rich economies were also quite large, reflecting the degree to which these countries are benefiting from higher oil prices and other revenue sources. There has been a distinct shift in the pattern of aggregate expenditure across the RRLI countries, with a halving of current

Figure 1.6: Better fiscal balances in resource-poor, labor-abundant economies



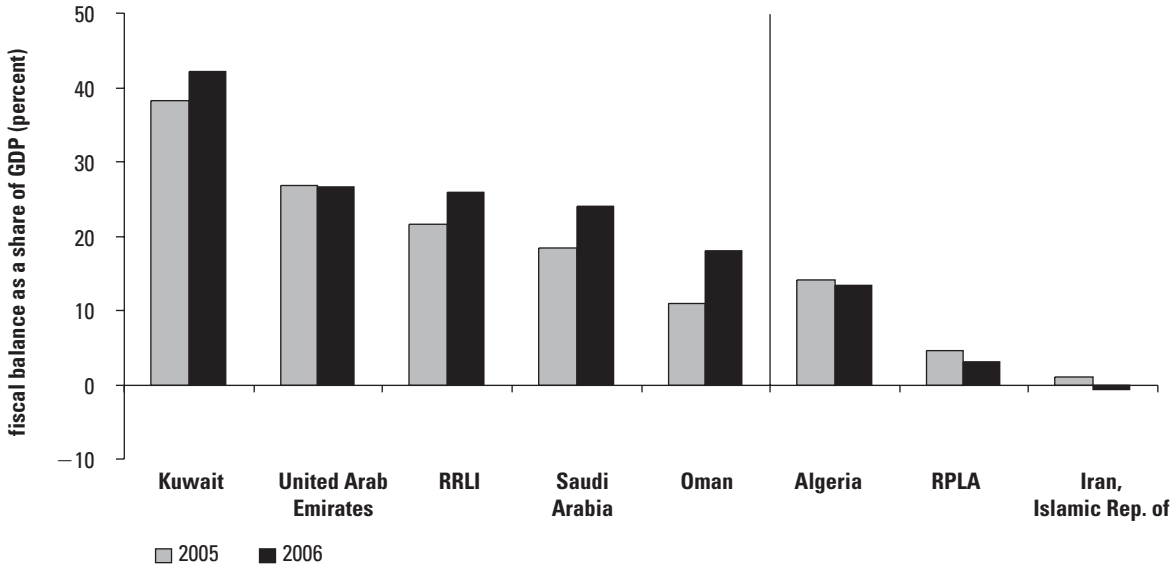
Source: National agencies, World Bank.

Note: Excludes Lebanon and West Bank and Gaza. RPLA country group as in footnote 1.

spending growth while investment spending has increased, reflecting large-scale infrastructure and other projects to be found across the GCC (see figures 1.7 and 1.8).

Developments among the RRLA countries, particularly in Iran, led to a much-reduced fiscal 2006 surplus—3.1 percent of GDP. Algeria's surplus has diminished by 1 point of GDP as revenue growth slowed, given setbacks in hydrocarbon production in the year. But strong expenditure growth in Iran (continuing near 30 percent growth) against little gain in fiscal revenue in the year produced a deficit of 0.7 percent of GDP—in contrast with fiscal surpluses in the previous three years.

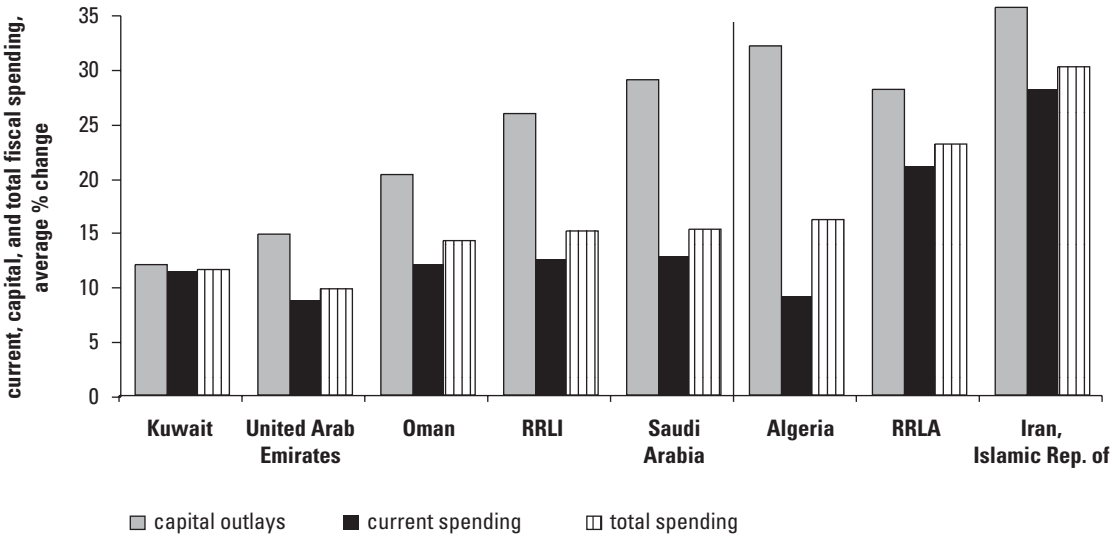
Figure 1.7: High fiscal surpluses in resource-rich, labor-importing economies



Source: National agencies, World Bank.

Note: Selected economies. RPLA and RRLI country groups as in footnote 1.

Figure 1.8: Rapid capital spending in resource-rich countries, 2004–06



Source: National agencies, IMF, World Bank. RRLI and RRLA country groups as in footnote 1.

1.3 Developments in the External Sector

Economic activity among the resource-rich economies had gathered substantial momentum by 2006, from the preceding years of escalating oil prices and heightened external revenue flows (see figure 1.9). To a degree, the accrual of further oil receipts in 2006 offered an opportunity to engage in shifting expenditure—from consumption to capital outlays—and to intensify efforts to encourage spillovers from the oil to the non-oil economy by involving the domestic private sector. Additional revenues also supported a move to pay off outstanding overseas or domestic debt, clearing financial overhang for several large economies.

For the resource-poor economies, developments in the external environment offered the prospect of reviving growth in goods exports, as well as other critical revenue flows—including tourism and remittances. In broader terms, the "growth rotation" taking place in the context of the global economy—the engine of growth shifting from the United States toward Europe, Japan, and East Asia—began to offer more support for growth among diversified economies.

1.3.1 Oil market conditions

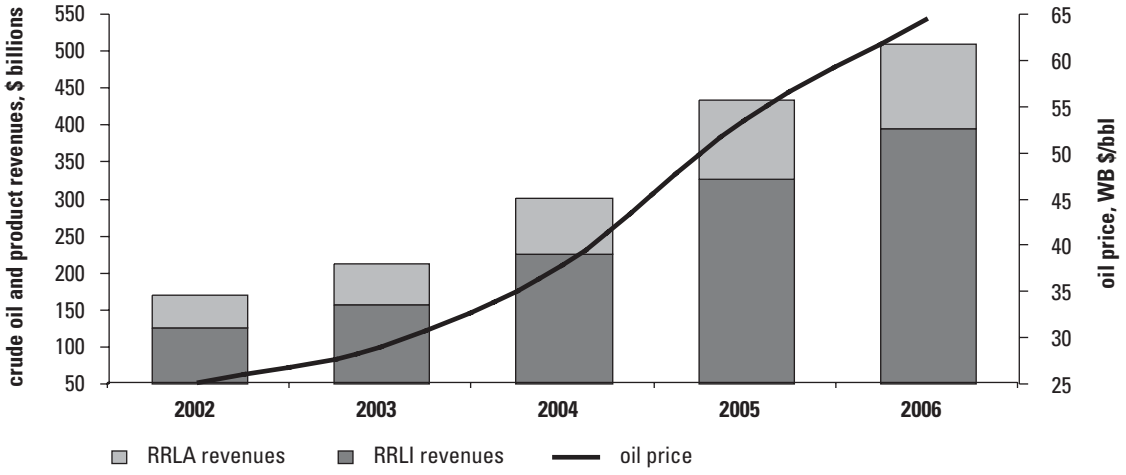
World oil prices increased sharply over 2004–06, with the World Bank price (average of WTI, Brent, and Dubai) exceeding $75/bbl in early August 2006. After a brief fall in prices in late 2004, and accommodating production increases from OPEC, oil prices surged higher in 2005 and 2006, despite slowing oil demand growth and rising inventories. Prices were driven higher by expectations of continued strong growth in demand, capacity constraints, and fears of supply disruption in a number of countries such as Iraq (insurgency), Nigeria (civil strife), and Iran (sanctions). In addition, there were concerns about reliability of supplies from other countries such as Russia (following a cutoff of gas supplies to the Ukraine) and Venezuela, as well as unexpected accidents and weather disruptions (hurricanes in the Gulf of Mexico).

Following the peak in oil prices in August, prices fell by a third to near $50/bbl by late 2006 (see figure 1.10). The decline was due to high stocks, easing of political tensions, and weak demand from mild winter weather, and investors liquidated positions on futures markets. In addition, it was felt that OPEC would keep sufficient oil off the market to support a much higher price than in the 1990s, or the early part of this decade when their target range was $22–28/bbl for a basket of crude (since abandoned). It is presently viewed that OPEC will try to defend a price floor above $50/bbl.

1.3.2 Export market growth in resource-poor economies

GDP growth in the euro area is likely to have reached 2.8 percent in 2006, the fastest expansion in six years. Business and consumer sentiment re-

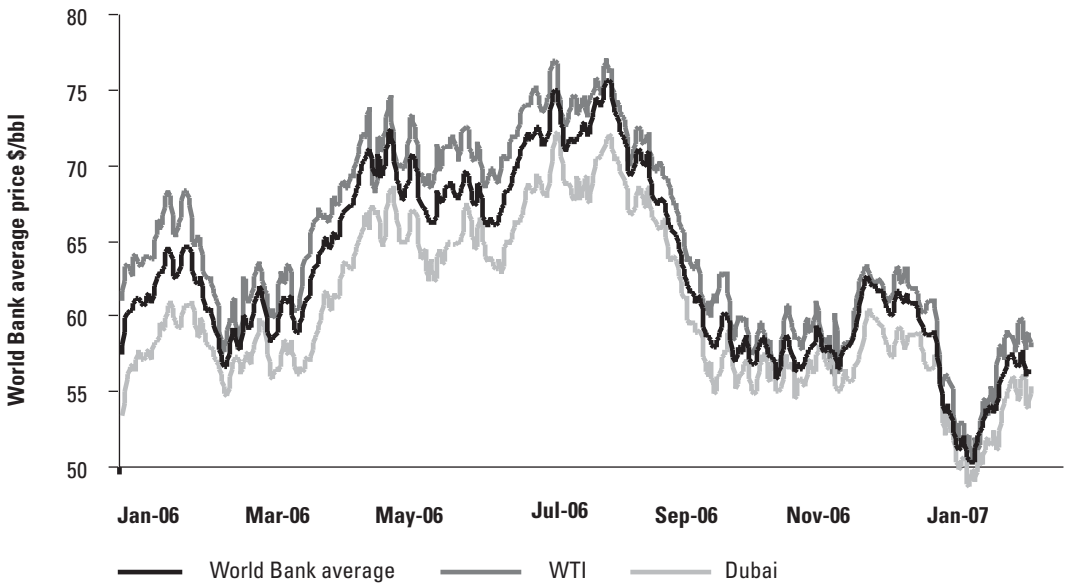
Figure 1.9: Oil price and growth of revenues among exporters, 2002–06



Source: UN Comtrade, IMF, IEA, World Bank.

Note: WB $/bbl = World Bank oil price, average of WTI, Brent, and Dubai crude prices. RRLI and RRLA country groups as in footnote 1.

Figure 1.10: Oil price trends, January 2006–February 2007



Source: DECPG Commodities Group.

mained buoyant, the former linked to exceptional export performance—despite appreciation of the euro against the dollar over 2006—and the latter tied to record low unemployment rates in Germany and France (key MENA export markets) that evolved over the last few years.

A substantial share of goods exports from countries such as Egypt, Algeria, Syria, Morocco, and Tunisia are destined for the European Union (EU) market; at the same time, though shifting in recent years, Europe remains the dominant origin for tourism to these countries from outside the MENA region. And Europe is now the primary host supporting a rising stream of remittance receipts in the RPLA economies.

Reflecting the onset of stronger recovery, imports of goods and services into the euro area increased by 20 percent in dollar terms in 2006. Goods exports from the above-noted MENA countries to Europe are estimated to have increased 24 percent in the year. Tourism revenues have also shown strong gains for the Maghreb countries, Egypt and Jordan, and worker remittance inflows are viewed to have established new highs at $19.3 billion for MENA recipient countries during the year.

1.3.3 Developments in merchandise trade

Trade during 2006 was characterized by continued strong growth in exports for the group of resource-poor economies, but this was outweighed by adverse terms of trade developments and continued rapid import demand, to yield a widening trade deficit of 15.7 percent of GDP. For the resource-rich economies of MENA, oil export receipts eased to 17 percent of GDP. Though import demand among the resource-rich economies continued to increase, trade surpluses widened further for the group, reaching 32.5 percent of GDP.

1.3.4 Exports of goods

For the MENA region as a whole, merchandise exports grew 28 percent in 2006, though falling below the growth boom of 2004–05, when exports achieved 38 percent gains on the back of the hydrocarbons market. As petroleum and related products constitute some 80–85 percent of the region's exports, global oil demand was the fundamental driver for the region's export performance over 2005–06. But other factors combined to influence outcomes for the resource-poor economies during the year, which, on balance, yielded favorable results.

Of the five larger economies of the RPLA group, four enjoyed a boost to export growth during 2006. Egypt's exports jumped by 34 percent, reflecting the earlier coming online of oil and LNG export facilities. Morocco, Tunisia, and Jordan witnessed a pickup in exports over the course of the year. Lebanon performed well during the first half of the year. The conflict in Lebanon, however, produced a

reversal in the latter half, and exports for the year declined by 32 percent.

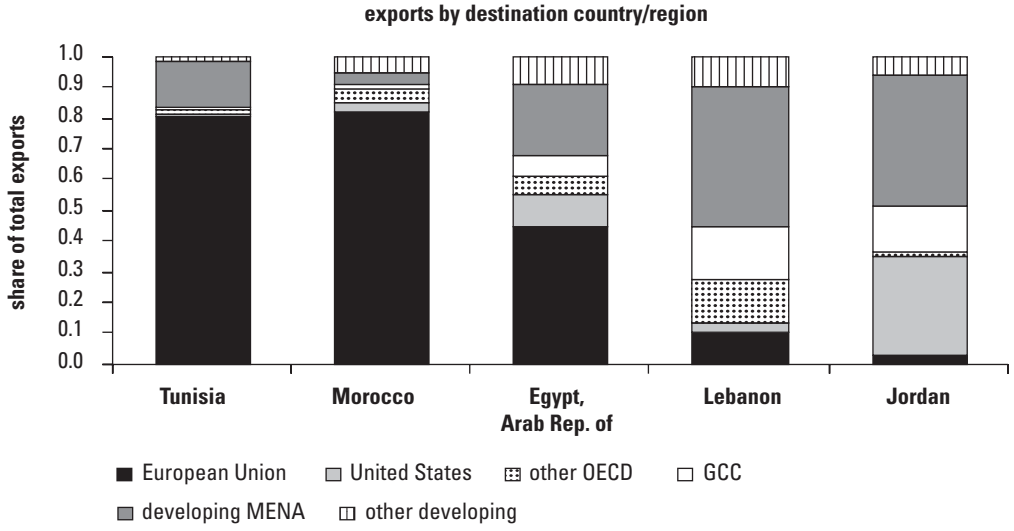
Demand conditions in export markets can carry a powerful influence in shaping export performance, and for a number of RPLA countries, they appear to have done so in 2005–06. As noted, the EU remains a key export market for several RPLA countries, especially Tunisia, Morocco, and Egypt. Up to 80 percent of Tunisia's exports are destined for the EU, with 10 percent remaining within the MENA region (see figure 1.11). Morocco's export base is also EU focused (70 percent), but more diverse across developing regions of the world, with some 10 percent destined for developing Asia. Egypt's export market profile is well diversified across the EU (one-third), developing countries (one-third, of which MENA comprises one-fifth), and other high-income economies (one-third) including the United States, Singapore, Hong Kong, and Taiwan. Destinations for Lebanon and Jordan reflect the dominance of MENA partners in the market, and in the case of Jordan, the United States as an important destination, following the FTA agreement.

European import-demand growth during 2006 was supportive of Tunisia and Morocco, both of which enjoyed a pickup in export growth. Despite massively increased competition in the EU market for apparel and textiles from China and other lower-cost Asian developing countries, upon final phase-out of the ATC in 2005, Tunisia and Morocco were apparently able to cushion their loss of market share over 2005–06. In particular, the traditionally close links between French and Italian apparel firms and North African producers (*travaux à façon*) allowed several market niches to be maintained.

MENA oil exporters possess more than 60 percent of the world's reported oil reserves, and account for 36 percent of world's oil production, a situation that has largely been maintained over the last decade. Oil export revenues have fluctuated greatly (see figure 1.12). Recovery in oil production, and the large jump in oil prices, underpinned export revenues over the period since 2004. Receipts are estimated to have reached $510 billion in 2006 for the resource-rich economies (excluding Iraq). The RRLI group accounts for three-quarters of the total at $395 billion, with the RRLA countries capturing the remainder—nearly $115 billion (see figure 1.12). The escalation in oil receipts during 2006 was such that, in real terms, revenues breached previous peak levels last witnessed in 1980.

The level of MENA's oil exports in 2006 likely represents a near- to medium-term peak, given the degree to which global oil prices have fallen, and against the background of slowing global economic activity moving into 2007. Nevertheless, petroleum revenues accumulated just since 2004 have neared $1.25 trillion, a substantial portion of which is held as international reserves, in stabilization funds, or invested globally. And those funds invested within the MENA region should provide a cushion for economic growth as marginal revenues decline through 2009.

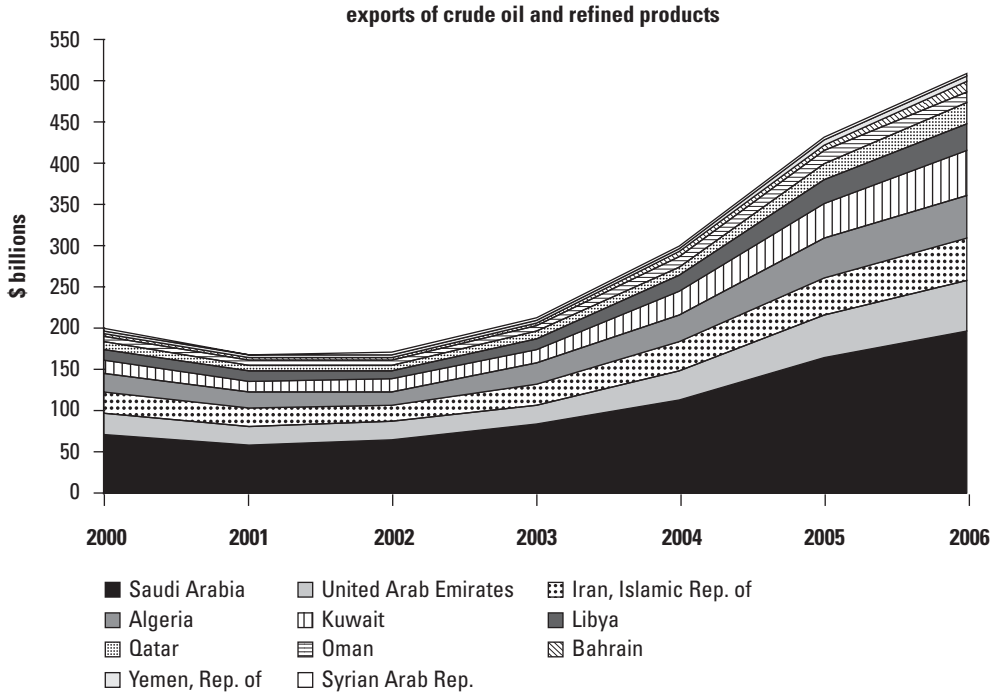
Figure 1.11: The varied export orientations of resource-poor, labor-abundant countries



Source: UN Comtrade database system.

Note: OECD = Organisation for Economic Co-operation and Development; GCC = Gulf Cooperation Council.

Figure 1.12: Rising oil exports during 2006



Source: World Bank, International Energy Agency (IEA), OPEC.

Note: Iraq is not shown.

1.3.5 Imports and trade balances

For the MENA region as a whole, imports of goods advanced 23 percent in 2006. This, in combination with the export performance, yielded an aggregate trade surplus of 24.6 percent of regional GDP. Though imports registered growth similar to that of 2005, changes in demand were notable across MENA subregions. RPLA imports featured a loss of momentum over the course of 2006. Nonetheless, the trade deficit of the subgroup deteriorated to 16 percent of GDP. In contrast, imports into the resource-rich countries grew by 25 percent, a pace similar to 2005, resulting in an increased trade surplus of 32.5 percent of the group's GDP.

Several factors influenced the pattern of imports into the RPLA economies over 2005 and 2006. Aside from economic fundamentals, weather played a key role, as severe drought afflicted the Maghreb, adversely affecting Morocco and Tunisia. Morocco's imports of emergency coarse grains to replenish lost harvests was key in lifting imports in the summer 2005; to a lesser degree, Tunisia's imports increased to cover crop shortfalls.

Oil and critical non-oil commodity prices (grains and other foodstuffs in particular) have also come to affect terms of trade adversely for RPLA countries. For the group, food and beverages account for 12 percent of the import basket, fuels another 12 percent, and raw and intermediate industrial materials some 37 percent. On balance, nearly 60 percent of the import bill stands exposed to the potential of adverse developments in international commodity markets, a particularly difficult vulnerability for policy makers to manage. For instance, the oil import bill increased from $3.2 to $4.2 billion in Morocco between 2005 and 2006, accounting for 60 percent of the country's trade deficit in the latter year. In the case of Jordan, it increased from $2 to $2.5 billion, or three-quarters of the trade deficit.

Egypt, Morocco, and Tunisia also face a nexus; manufactured exports tend to be highly import intensive. This is especially true for textiles, apparel and the higher-end clothing sectors, light manufacturing, and other industries. Hence a welcome pickup in export growth often implies a step-up in imports of intermediate material inputs, semifinished goods, and capital equipment. The pickup in domestic demand growth in 2006 boosted imports for a number of RPLA economies.

The combination of continued strong growth in both exports and imports yielded an increase in the RPLA goods deficit in 2006. The magnitude of the

trade gap, the numerous exposures faced by RPLA economies, and the likelihood of a further pickup in economic activity suggests that such deficits may persist into the medium term. For these economies, however, growing receipts associated with tourism, other services, and worker remittances helped to offset the shortfall in trade, supporting current account positions that, for the majority of RPLA countries, continue to be sustained at levels near balance.

Imports into resource-rich countries increased by 25 percent in 2006, stimulated by oil revenues. Capital goods accounted for 45 percent of imports, given the widespread emphasis among oil exporters on infrastructure development and other public sector investment initiatives. Consumer goods accounted for a fairly small percentage—13 percent of total goods imports—suggesting that, in contrast with previous oil booms, the current period appears to be characterized by a more focused effort to encourage longer-term development. Capital goods (excluding transport equipment) accounted for one-third of imports for the RRLA countries, dominated by Algeria and Iran in 2005–06, echoing large-scale public projects underway in these countries (see figure 1.13).

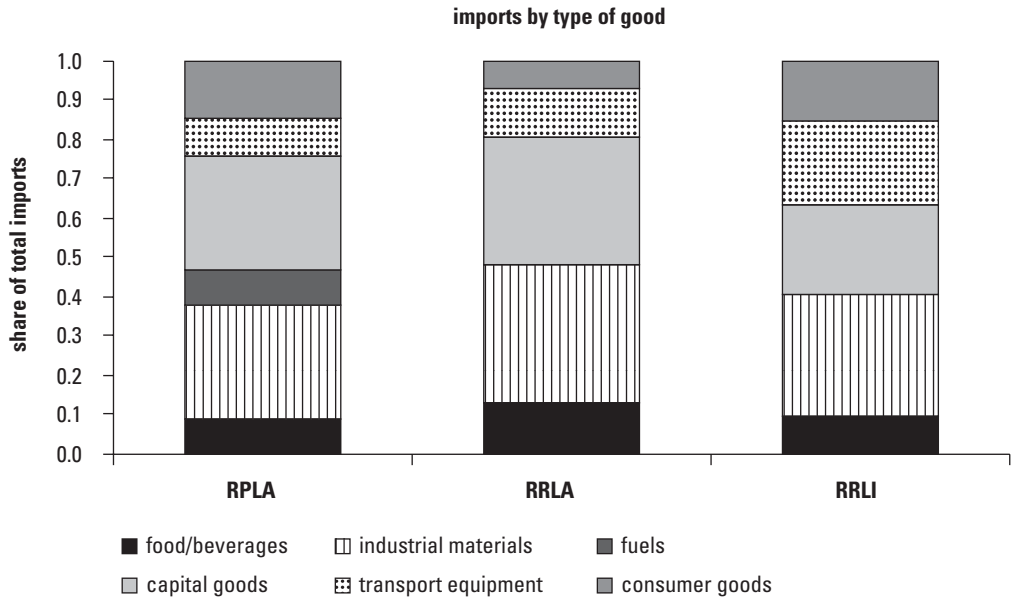
For the RRLA economies, import growth picked up to 28 percent in 2006. The revival was of similar magnitude in Algeria and Iran, reflecting a shift in emphasis from initial efforts to support household incomes and spending to greater emphasis on capital projects. For the RRLI countries, estimates suggest a moderate increase in import growth levels in 2006. Though trade surplus positions are likely to have peaked in 2006, the rate at which these diminish over time is likely to be gradual, assuming a smooth rather than disruptive normalization in global oil markets.

1.3.6 Tourism and remittances

Tourism revenues form a significant portion of external receipts—and of GDP—for a number of countries in the MENA region, especially for the RPLA economies. For the region as a whole, growth of tourism revenues[4] picked up to a 14.5 percent pace in 2006, up from a 12.6 percent growth rate in 2005. In retrospect, the 2006 results for MENA show strong performance, especially in light of heightened tensions associated with the ongoing conflict in Iraq, as well as the mid-July 2006

[4] Tourism revenues here measured as the IMF balance of payments (BOP) services category "travel credit." Does not include second-round effects of tourism-related spending on the domestic economy.

Figure 1.13: Strong demand for imported capital goods and transport equipment from resource-rich countries



Source: UN Comtrade database system.

Note: RPLA, RRLA, and RRLI country groups as in footnote 1.

conflict in Lebanon, where promising prospects for tourism in 2006 came to a halt.

Among RPLA tourism destination countries, the importance of this revenue stream is greatest for Jordan (11.3 percent of GDP in 2006), followed by Morocco (10.6 percent), Tunisia (8 percent), Egypt (7.6 percent), and Lebanon (2.8 percent). For many countries, tourism receipts (along with remittances) offset a good portion of merchandise deficits to keep current accounts near balance. For the countries noted earlier, tourism revenues increased to 8.1 percent of the group's GDP (see figure 1.14).

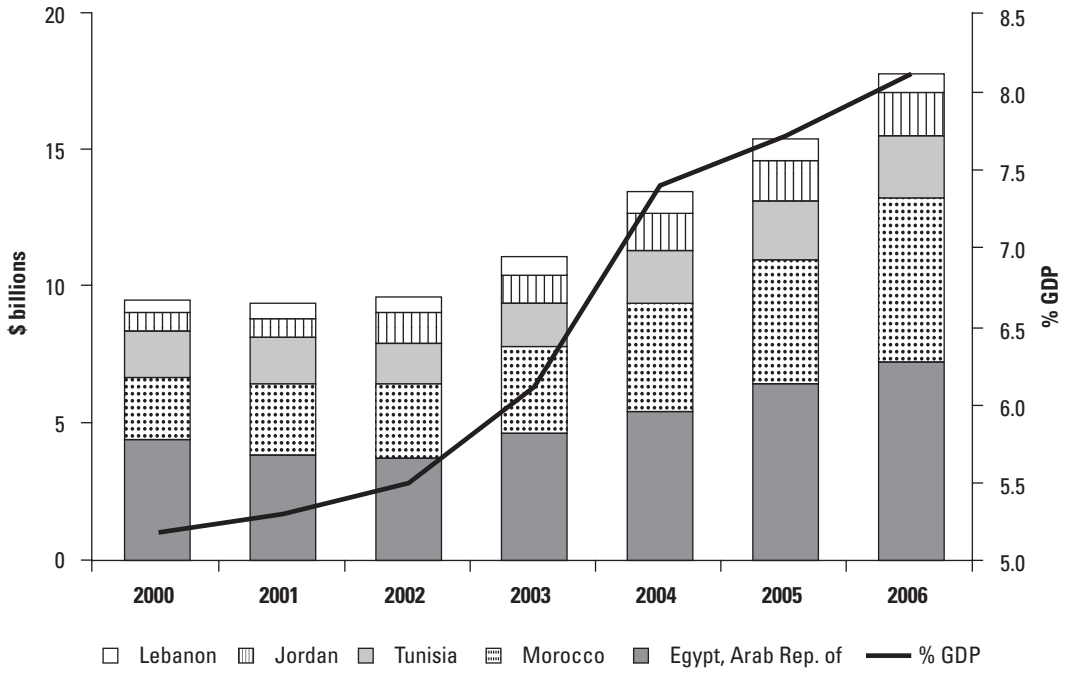
Gains in 2006 were powered by Morocco, with an extraordinary 29 percent increase in revenues, while in nearby Tunisia, tourism receipts grew by 9.4 percent in the year, with tourists originating increasingly from within the MENA region. In the Mashreq, Jordan experienced an advance of 10 percent in tourism revenues, though concentrated in the first half of the year (prior to the outbreak of conflict in Lebanon) with a sharp falloff in arrivals thereafter. And, in Lebanon itself, tourism arrivals surged by 49 percent in the first six months of 2006. Arrivals dropped by 50 percent in the July–September period, when the closure of Beirut's airport had devastating effects on the tourism business. Revenues dropped an estimated 25 percent in the year.[5]

Developments in Egypt—the key destination for Western tourists in the region, with revenues of some $7.2 billion—were mixed in 2006. In the summer months, Lebanon's main tourism clientele—Gulf state nationals and Saudis—switched to other regional destinations, including Egypt, helping to compensate for weak arrivals from key European sources such as France and Italy. As a result of these events, tourism receipts increased by 12.5 percent, in contrast with 18.5 percent in 2005.

In 2006, gross remittance inflows to countries in the MENA region increased 9 percent for a second year in succession—to $19.3 billion. Morocco stands out as the largest recipient of remittances, amounting to $5.2 billion in 2006, up 10 percent from 2005 levels, in part reflecting the onset of stronger economic activity in the euro area. As a share of GDP, however, Jordan is most reliant on this income, notably from the GCC countries, registering 17.5 percent of GDP in 2006. And fastest growth in remittances during 2006 was seen in Al-

[5] World Tourism Organization. "UN-WTO World Tourism Barometer," October 2006. UNWTO, Madrid.

Figure 1.14: Higher tourism receipts for resource-poor, labor-abundant countries



Sources: World Bank, IMF, World Tourism Organization.

geria, which gained 30 percent after a sharp 20 percent contraction in the preceding year.

Among RRLI countries, gross remittance payments increased moderately in 2006. Saudi Arabia retained first place in the group standings, with remittance outflows of $15 billion. As a proportion of GDP, payments were largest for Qatar (4.8 percent), while rapid growth was underway in the United Arab Emirates (12–15 percent over 2005–06), reflecting a surge in construction, services, and other activities requiring extensive use of an expatriate labor force. For the region as a whole, remittances continued to record net outflows ($11.2 billion in 2006), reflecting a long-term trend among the GCC toward increased sourcing of labor from South and East Asia, while diminishing that from countries within the MENA region.

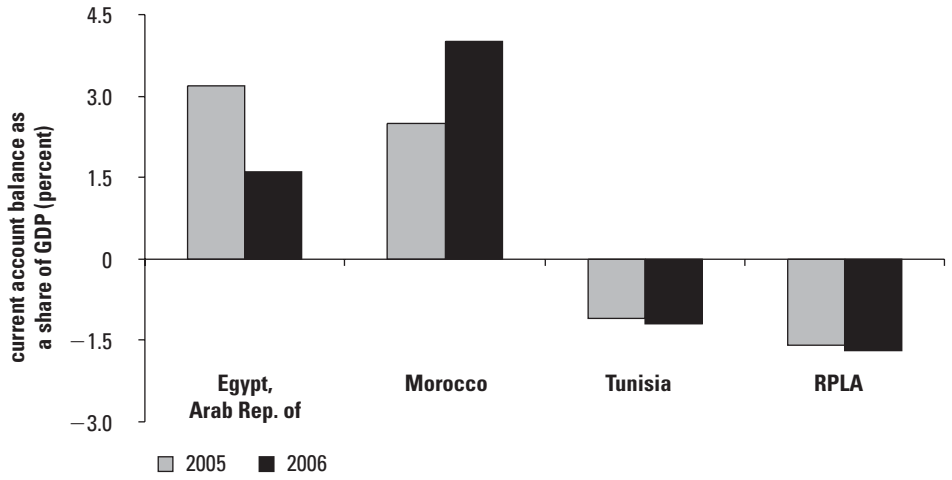
1.3.7 Current account balances

For the MENA region as a whole, the current account of the balance of payments (BOP) improved to almost 21 percent of GDP, but changes in current account positions showed wide variation in 2006, with continued widening of surplus positions for the resource-rich countries, contrasting with a very small deterioration for the resource-poor economies. Dominated by the oil-exporting countries, the surplus position of the region increased by some $90 billion in 2006, to nearly $290 billion. This was distributed across the RRLA countries (which saw a modest increase of $3 billion, given an easing of surplus position in Iran), the RRLI economies (an increase of $88 billion), and the RPLA countries (an aggregate deterioration of $0.7 billion).

Current account results for 2006, expressed as a proportion of GDP, varied across MENA subgroups and individual economies. The resource-poor economies witnessed a moderate deterioration from –1.6 percent to –1.7 percent of GDP (see figure 1.15). Among RPLA countries, Jordan's position moved deeper into deficit, as oil prices increased, while Lebanon continued to register deficits of around 20 percent of GDP. In Egypt, the current account surplus declined to 1.6 percent of GDP in the year, as a $3 billion deterioration in the trade balance outweighed strong performance across Egypt's set of secondary current account revenues, including Suez Canal dues (up 9.5 percent), tourism, and remittance inflows. In contrast, Morocco's current account surplus increased to 4 percent of GDP.

The resource-rich economies saw a continued step-up in surplus position, up to 25.1 percent of GDP (see figure 1.16). The gain was driven by the RRLI economies. Saudi Arabia—which had stepped up oil and natural gas production in the first half of 2006 in an effort to soften rising global oil prices—saw a sharp increase in current surplus to almost 33 percent of GDP. And Oman's surplus increased because of the coming online of a third LNG train, as well as implementation of an FTA with the United States at mid-year 2006. In con-

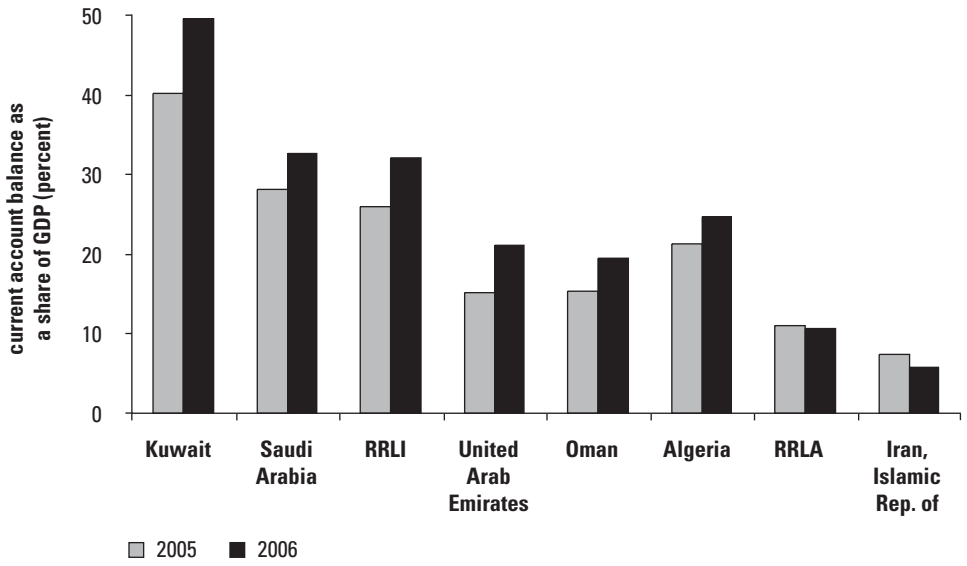
Figure 1.15: Current accounts in resource-poor, labor-abundant countries, 2005–06



Source: National agencies, World Bank.

Note: Excludes Lebanon and West Bank and Gaza. RPLA country group as in footnote 1.

Figure 1.16: Current account surpluses in resource-rich countries, 2005–06



Source: National agencies, World Bank.

Note: Selected economies. RRLI and RRLA country groups as in footnote 1.

trast with the GCC countries, the RRLA group witnessed a modest decline in current surplus position to 10.6 percent of GDP in the year, driven by deteriorations in Iran and Yemen. Iran's current account surplus diminished to 5.8 percent of GDP, as oil production was cut by some 13.5 percent—in part due to capacity constraints—and imports continued on a double-digit growth path. Yemen slipped to a deficit position of 5 percent, given severe capacity constraints in oil production.

1.3.8 Foreign direct investment

The MENA region experienced a sharp increase in FDI flows in 2006—to a record $24.4 billion—up almost 40 percent in the year, and triple the level of 2004 (see figure 1.17). This is due in part to the completion of major privatization deals and increased investments in the energy sector. Intraregional FDI flows increased not only in the energy sector, but also in sectors such as infrastructure, real estate, and tourism. Investors from countries such as Qatar and the United Arab Emirates are expanding their sights rapidly to MENA countries.[6] RPLA economies garnered the bulk of FDI flows in 2006 ($18.3 billion), increasing some 66 percent in the year. Among RPLA recipients, FDI in Egypt increased to $6.1 billion in 2006, due to a telecommunications license and privatization in the banking sector.[7] FDI in oil and gas in Egypt has also been significant in recent years, and is expected to increase considerably in the coming years.

In Tunisia, a major privatization deal in the telecommunications sector, and investment in the oil and gas sector, also led to record high FDI flows.[8] Similarly, in Morocco, FDI flows remained high due to privatization and two telecommunication licenses.[9] And despite the summer conflict, FDI in Lebanon is expected to have increased substantially, due to a major south-south merger and acquisition deal by a South African telecommunica-

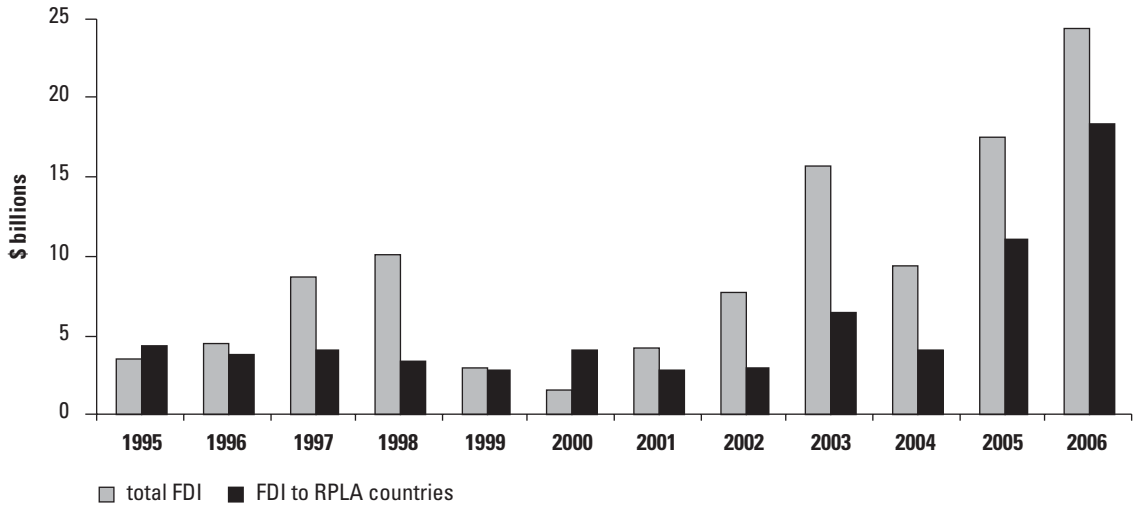
[6] A Bahrain-based firm announced a $1.4 billion investment in Morocco in early 2006 in an equestrian city in Marrakech and a seaside resort in Tangier. Bahrain, United Arab Emirates, and Kuwait are participants. Earlier, the United Arab Emirates announced a $9 billion investment plan in Marrakech tourism and other real estate.

[7] Etisalat of the United Arab Emirates bought Egypt's third mobile network license in July in a deal worth around $2.9 billion. Italy's Sanpaolo won an auction to buy 80 percent of the state-owned Bank of Alexandria for $1.6 billion in October. A Gulf-Arab consortium led by Bahrain's Ahli United Bank agreed to buy 89.3 percent of Delta International Bank in August. The consortium had earlier said the deal values the bank at $322 million.

[8] The value of Tunisie Telecom's partial privatization was around $2.2 billion. The energy sector investment reached almost $0.4 billion in 2006.

[9] In 2006, Italy's Eni had signed an exploration deal with Morocco that would last for a year and would involve geological and geophysical surveys in order to assess reserves.

Figure 1.17: Record flows of foreign direct investment to the region during 2006



Source: National agencies, IMF, UNCTAD, World Bank.

Note: RPLA = resource-poor, labor-abundant (countries). RPLA country group as in footnote 1.

tions company, and real estate investments that had largely been committed before the dispute.[10]

For the RRLA economies, FDI doubled (from low levels), to $3.4 billion in 2006. Algeria secured $1.4 billion in FDI, mostly as investments in oil and gas. The Islamic Republic of Iran continued to receive limited amounts of FDI, even though foreign oil companies—including from China and India—increased their presence in the country.

1.4 Near-term Economic Prospects, 2007–09

A number of factors are likely to shape the growth profile in the MENA region. The external environment is anticipated to be fairly conducive to activity in MENA over 2007–09. At the same time, domestic conditions will vary decidedly across the different economies of the region, as will efforts toward reform.

Prospects for MENA are potentially favorable for the period through 2009. A gradual easing of growth among the resource-rich economies, in tandem with softening oil prices and a drop in MENA oil revenues, appears to be at hand. At the same time, this slack is anticipated to be picked up by the resource-poor economies, as the group's momentum gains stronger traction in 2007–08. On balance, MENA activity may ease from a recent peak of 6.3 percent growth in 2006 to 5.2 percent by 2009. Current and fiscal positions among the resource-rich economies would decline, with RPLA fiscal positions showing improvement, but external shortfalls holding steady near 3 percent of GDP.

1.4.1 Global assumptions underlying the projections

For the oil-dominant countries of the MENA region, the future path of oil prices, the underlying determinants of global oil demand and supply, and OPEC policy measures to hold prices within an acceptable range, are all fundamental to prospects for oil revenues and growth. The general growth outlook for the Organisation for Economic Co-operation and Development (OECD) and developing countries, in turn, helps to determine global oil demand—in recent years a large step-up in the importance of the latter group. Oil-supply growth from non-OPEC sources also has the potential to increase in importance, providing competition for OPEC (and MENA) world markets.

1.4.2 Oil market conditions for 2007–09

Following the average $64.29/bbl oil price in 2006, underlying assumptions posit a gradual softening to $49.72/bbl by 2009. Still, oil prices remain relative-

[10] In April 2006, South African cellular operator MTN concluded its largest outward buyout by purchasing Lebanese Investcom for $5.5 billion.

ly elevated, as global oil demand is viewed to provide fundamental support for these levels.

As highlighted in table 1.5, oil prices in the near to medium term are expected to stay elevated, and MENA oil production levels are to increase gradually through 2009. There is substantial uncertainty, however, about the path of oil prices, and of oil supply and demand. Strong oil demand in developing countries may well support such projections, but unexpected supply disruptions and policies to sustain ever-higher prices could once again lead to large upheavals in the oil market, and for MENA oil revenues in particular.

1.4.3 Overview of near-term prospects

GDP growth for the aggregate MENA region is expected to ease from 6.3 percent during 2006 (4.2

Table 1.4: Assumptions about the global environment to 2009

	2000–04 (average)	2005	2006[e]	2007[f]	2008[f]	2009[f]
Oil-market developments						
World Bank average price ($/bbl)[a]	28.83	53.39	64.29	55.89	52.72	49.72
Growth in world demand (mb/d), % change	**1.9**	**1.5**	**1.0**	**1.7**	**1.9**	**2.0**
OECD demand	0.8	0.5	−0.6	0.7	0.8	0.8
Developing country demand	3.7	2.8	3.3	3.1	3.5	3.7
Growth in world supply (mb/d)	**1.9**	**1.5**	**1.0**	**1.7**	**1.9**	**2.0**
OPEC supply	1.6	3.4	2.1	0.0	0.6	2.2
of which MENA	2.3	3.6	2.1	0.0	0.8	2.2
Non-OPEC supply	2.1	0.3	−1.3	2.9	2.7	1.9
GDP growth in MENA export markets[b]						
World	**2.5**	**3.5**	**3.9**	**3.2**	**3.5**	**3.7**
OECD countries	**1.9**	**2.6**	**3.0**	**2.4**	**2.8**	**3.0**
United States	2.5	3.2	3.3	2.1	3.0	3.2
Euro area	1.3	1.5	2.8	2.0	2.1	2.2
Japan	1.0	1.9	2.2	2.0	2.3	2.5
Developing countries	**4.9**	**6.6**	**7.0**	**6.4**	**6.1**	**6.2**
China	9.4	10.2	10.4	9.6	8.7	8.7
Other East Asia and Pacific	4.7	5.4	5.4	5.7	5.9	6.0
Europe and Central Asia	4.9	6.0	6.4	5.7	5.5	5.5
Financial and non-oil commodity markets						
U.S. LIBOR 6-months (%)	3.0	3.6	5.4	5.6	4.9	4.8
U.S. 10-year T-note	4.8	4.3	4.8	4.9	5.0	5.0
U.S. dollar effective exchange rate (% change)[c]	−1.1	−2.4	−1.5	−3.0	−0.5	−0.5
U.S. dollar per euro exchange rate	1.027	1.250	1.255	1.345	1.290	1.260
Average spread on EM debt (basis points)	640	306	200	—	—	—
Average spread on MENA debt	495	324	325	—	—	—
MSCI EM equity index ($), % change	5.5	30.3	29.2	—	—	—
MSCI MENA equity index ($) % change	7.8	41.7	23.4	—	—	—
Gross capital inflows to EM ($ billions)[d]	195	361	490	—	—	—
To developing MENA region	9	22	11	—	—	—
Non-oil commodity prices (% change)	5.5	13.4	24.6	−1.0	−7.5	−7.7
Manufactures unit value index (% change)	2.4	0.0	3.2	3.8	0.4	0.7

Source: IEA, JP Morgan Chase, Morgan Stanley, OPEC, World Bank, IEA projections.

a. Average of Brent, WTI, and Dubai crude prices.
b. GDP in 2000 U.S. dollars.
c. Nominal, broad measure.
d. Comprised of bonds, bank borrowing, and equity flows, on a gross basis. EM = emerging markets.
e = estimate.
f = forecast.
— = data not available.

percent in per capita terms), to 5.2 percent in 2009 (3.2 percent in per capita terms) (see figure 1.18). The resource-rich countries determine, in large measure, the downslope of the regional growth path, with GDP gains for the RRLI economies falling even more by 2009—on the back of diminished oil revenues—slackening the pace of fiscal outlays, coupled with continued strong momentum in import demand. Growth of RRLA economies would ease as well, and largely for similar reasons. Yet, given the more moderate upturn in recent years, the slowdown for this group appears more measured.

In contrast, a more favorable international environment (turnaround in the terms of trade and pick-up in export market growth) supports GDP growth for the aggregate of RPLA economies. From 5.6 percent output gains in 2006, these countries are viewed to dip in 2007, before advancing moderately to 5.5 growth by 2009. Though the proximate cause of the step-up in growth of resource-poor economies may be stronger export performance (accompanied by continued strength in secondary revenue streams from tourism and remittances), the continuation of domestic reforms that empower private sector growth will be key, as will the emerging trend of increasing FDI flows from within the MENA region.

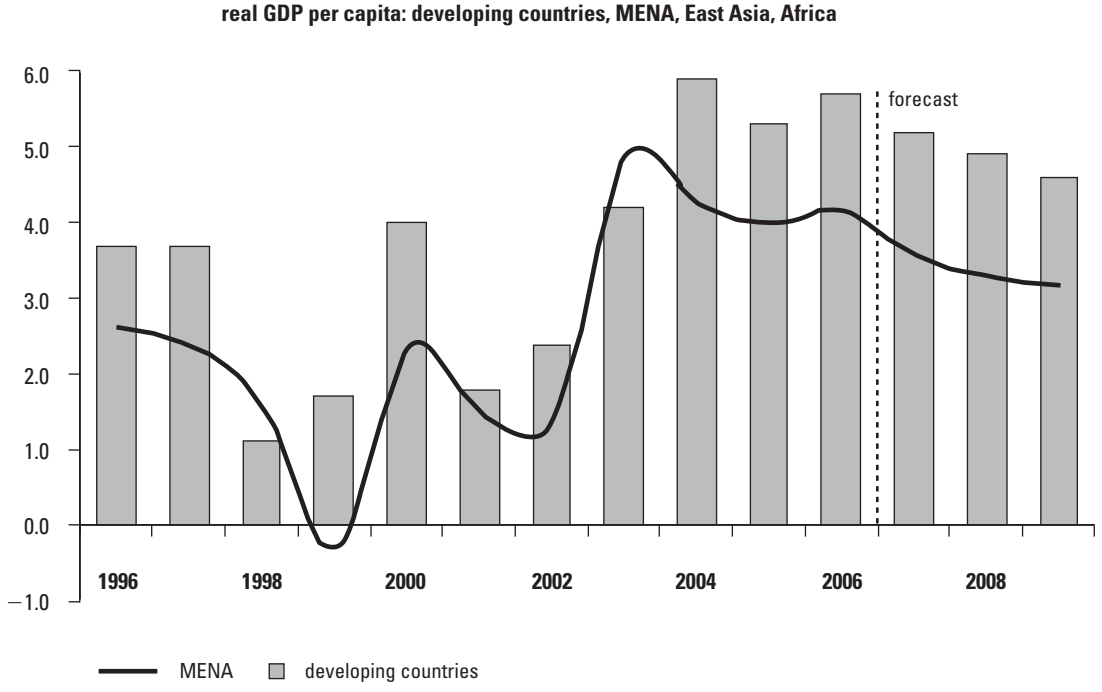
In the immediate term, OPEC appears to be motivated to remove surplus overhang in the market and stabilize prices at a relatively high level—current consensus is $50–60/bbl. OPEC's present challenge is not only to stabilize prices at its preferred level, but also to prevent prices from rising too rapidly, as the oil market balance is tight.

CPI inflation appears to reach peak rates in 2006–07 at 5.2 percent, before diminishing to 4.7 percent by the end of the forecast. Overall fiscal positions decline in surplus during 2007, echoing deficit positions among the RPLA countries—partially offset by continued, albeit much reduced, increments to oil revenue for selected RRLI economies. The aggregate current account position for the region begins to diminish in 2007—continuing on this path though 2009.

As has been the case historically, MENA regional groups are likely to exhibit diverse outturns. The resource-poor economies are likely to be influenced by a host of forces, as growth eases at first from 5.6 percent in 2006, before reviving toward 5.5 percent by 2009.

Among the RRLA countries, developments in Iran and Algeria will tend to shape the subregional outlook, with Syria and Yemen growing at modest rates, being dependent on levels of hydrocarbons,

Figure 1.18: Per capita growth in MENA and in low- and middle-income countries, 1996–2008



Source: National agencies, World Bank projections.

Table 1.5: Real GDP growth for the region, by country group, 2000–09

Percent

Country group	2000–04 (average)	2005	2006[e]	2007[f]	2008[f]	2009[f]
Entire region, including Iraq	4.5	5.9	6.2	5.6	5.3	5.2
excluding Iraq	4.8	5.9	6.3	5.7	5.3	5.2
Resource-poor, labor-abundant (RPLA)	4.1	3.8	5.6	4.9	5.0	5.5
Djibouti	2.4	3.2	4.2	4.7	5.0	5.0
Egypt, Arab Republic of	3.9	4.6	6.9	5.3	5.4	6.0
Jordan	5.6	7.3	6.3	5.0	5.0	5.5
Lebanon	4.0	1.0	−5.5	4.5	2.9	3.5
Morocco	4.0	1.7	7.3	3.5	4.5	4.6
Tunisia	4.6	4.2	5.3	5.6	6.0	6.2
West Bank and Gaza	—	6.0	−12.0	—	—	—
Resource-rich, labor-abundant (RRLA)	5.1	6.6	6.5	5.9	5.4	5.1
RRLA countries (incl. Iraq)	3.7	4.6	4.3	4.0	4.2	4.2
RRLA countries (excl. Iraq)	5.0	4.6	4.3	4.0	4.2	4.1
Algeria	4.3	5.3	1.4	2.5	3.5	4.0
Iran, Islamic Republic of	5.7	4.4	5.8	5.0	4.7	4.5
Iraq	−6.7	3.7	4.0	3.5	4.0	4.5
Syrian Arab Republic	3.5	4.5	5.1	3.2	3.5	3.2
Yemen, Republic of	3.7	3.8	3.9	2.5	3.0	2.5
Resource-rich, labor-importing (RRLI)	5.1	7.5	7.5	6.8	5.9	5.6
Bahrain	5.6	6.9	7.0	6.7	6.0	5.8
Kuwait	5.9	8.5	6.2	5.6	4.8	4.5
Libya	5.5	8.4	8.1	7.5	7.3	6.5
Oman	4.6	5.6	6.4	5.7	4.8	4.8
Qatar	7.9	11.0	12.1	10.6	9.5	8.0
Saudi Arabia	3.6	6.6	5.8	5.7	5.3	5.0
United Arab Emirates	7.6	8.5	10.7	8.5	6.5	6.2
By geographic subregion						
Maghreb	4.6	5.1	5.0	4.5	5.1	5.1
Mashreq (excl. West Bank and Gaza)	4.1	3.7	1.4	4.1	3.6	3.8
GCC	5.1	7.5	7.4	6.7	5.8	5.5
Other (excl. Iraq)	4.8	4.5	6.2	5.0	4.9	5.1
By oil-trade group						
Oil-exporting countries (excl. Iraq)	4.9	6.4	7.0	6.1	5.5	5.3
Oil-importing countries (excl. WBG)	4.3	2.8	4.0	4.4	4.6	4.9
Comparator regions						
MENA (excl. Iraq)	4.8	5.9	6.3	5.7	5.3	5.2
All developing countries	5.0	6.6	6.9	6.4	6.1	5.9
East Asia and the Pacific	8.0	9.0	9.1	8.7	8.1	7.8
Europe and Central Asia	5.2	6.0	6.4	5.7	5.5	5.2
Latin America and the Caribbean	2.2	4.5	5.0	4.2	4.0	3.8
South Asia	5.7	8.1	8.2	7.6	6.9	6.7
Sub-Saharan Africa	4.0	5.5	5.2	5.4	5.3	5.1

Source: National agencies, World Bank staff estimates.

Note: Country groups as in table 1.1 note.
e = estimate.
f = forecast.

exports of non-oil goods, and tourism (for Syria). For the group, GDP growth is viewed to ease though 2007 to 4 percent, after which stronger recovery in Algeria from recent difficult conditions is viewed to turn a corner, reaching 4 percent by the forecast end. Developments in oil markets are central to prospects for Iran and Algeria, but policy developments in both countries will play a major role in the outlook. In Iran, GDP is projected to ease steadily from 5.8 percent in 2006 to 4.5 percent by 2009, on an assumption of unchanged economic policy. Among other factors and policy developments, capacity constraints in oil production are substantially curbing growth.

For the RRLI economies, easing global oil prices and a slower-paced rebuild of oil production levels over the projection period implies a gradual dissipation of current account and fiscal surplus positions. Given the ramp-up in infrastructure and other longer-term investment programs, domestic demand is anticipated to continue at strong rates of growth, underpinning robust import demand, which in turn furthers the process of normalizing excessive external surplus positions. As this adjustment process unfolds, GDP growth is expected to drop from the robust 7.5 percent of 2006 to 5.6 percent by 2009. This pattern of growth characterizes most of the GCC economies, though dynamics will differ based on initial conditions and underlying demand momentum. Oil export revenues for the RRLI economies are slated to peak in 2006 at $395 billion, easing to $356 billion by 2009—a decline of 10 percent from 2006 outturns.

In examining external accounts and fiscal balances over the forecast period, two points stand out. For the region as a whole, both current account and fiscal positions are viewed to diminish as a proportion of the region's GDP over time, but that decline is not—at the end of the day—excessive. Moreover, the buildup of reserves, as well as of foreign assets by the GCC and other oil-exporting countries, should serve to cushion a large proportion of decline in the fiscal surplus, should this be required by policy makers.

MENA's overall external balance is likely to remain in surplus by the close of the projection period, easing from a peak of 20.7 percent of MENA GDP in 2006 to a still-substantial 12 percent by 2009. In turn, the fiscal side is characterized by a peak surplus position of 13.2 percent of GDP in 2007, easing to 7.7 percent by 2009. Balances will differ across MENA subgroups, with the resource-poor economies showing improvement on the fiscal side combined with a degree of deterioration on external accounts. And the resource-rich economies are characterized by a gradual markdown of both external and fiscal positions through 2009.

1.4.4 Risks

The external environment continues to be a key determinant of regional growth, but domestic policies and reform levels also have important influences on performance (see chapter 3). For the oil-rich exporters of MENA, management of the hydrocarbon windfalls of the last years remains a continuing challenge. The risk of overheating domestic demand, with potential inflationary consequences, looms as an overarching threat. Moreover, judicious use of oil stabilization funds—to counter such trends and to offer a cushion for future growth—should be a priority, as should prudent disposition of surplus funds across asset classes. Importantly, domestic reform efforts stand at some risk against the background of abundant liquidity and rapid growth, particularly for RRLA countries. Should oil prices take a sudden and sustained downturn, economies may find adjustment difficult.

The surge in oil revenues and government spending among oil exporters has yet to generate substantial inflationary pressures, with the notable exception of Iran. Rapidly rising credit and external flows, however, present challenges for economic policy management. Moreover, regional stock and housing markets have appreciated enormously; valuations remain high in many countries, while in the Gulf the downward adjustment in stock prices that took place in mid-2006 has not been recovered. Finally, downside risks stemming from uncertain trends in geopolitical conditions remain an element of substantial concern for regional prospects.

Conflict continues to create a development lag in the region, either directly in countries such as Iraq, Lebanon, and West Bank and Gaza, or indirectly through spillover effects that affect government policy and influence oil prices, investment prospects, and migration flows. This places a heavy burden on many economies of the region. If conflict and tensions in the region subside, the peace dividend could be quite significant. Reforms are gradual, but, in general, are moving forward to change the balance between the public and private sectors. In combination with the peace dividend, this could boost growth, income, and development across the entire MENA region.

2

Job Creation in an Era of High Growth

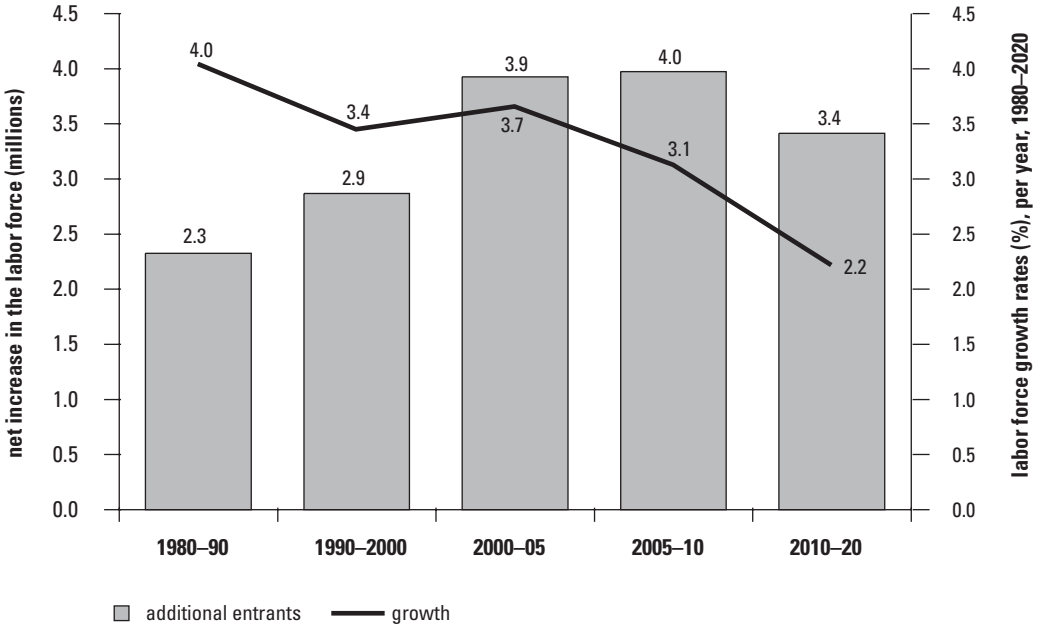
The Middle East and North Africa Region (MENA) is undergoing a remarkable era of strong growth performance, driven to a large degree by the oil boom of the past four years. During this time the region has seen job creation accelerate, unemployment decline, and women increase their active participation in the labor force. While there are many positive results to highlight, at the regional level, aggregates mask uneven results. Some countries have benefited from this growth momentum much more than others, resulting in regional variations in employment trends. Women are more active in the labor force, but are much less successful in finding jobs than their male counterparts, and youth are barely keeping in line with the advances of other age groups.

At the same time as the region is experiencing its strongest economic boom in three decades, it is also facing an unprecedented challenge in labor markets. MENA's demographic bulge, the result of high population growth in the 1970s and 1980s, is now coming of age. Nearly 40 million additional people are estimated to be joining MENA's labor force between 2000 and 2010—an astounding 40 percent increase. While labor force growth will start to decline as the demographic bulge advances, the greatest pressures on the labor market are taking place between 2005 and 2010, when the labor force is expected to increase by about 4 million per year on a net basis (see figure 2.1).

There is no doubt that job creation remains the key to raising income levels and reducing poverty in the region. The rapid expansion of the labor force relative to the number of dependents provides a potential source of higher savings, investments, and future income growth. In the past, however, MENA's economies fell short of creating enough jobs for its growing labor force. The result was high and rising unemployment rates, especially for youth, which in turn carry high social and economic costs.

Three years ago, the World Bank presented *Unlocking the Employment Potential in the Middle East and North Africa: Towards a New Social Contract.* The report described the job creation challenges facing the region, took stock of labor market developments from the 1990s through the early 2000s, and outlined the reforms needed to address those challenges. The report showed that around 100 million additional jobs would have to be created between 2000 and 2020 to employ all additional entrants to the labor market and eliminate unemployment. To achieve these results, the MENA region would have to maintain average annual economic growth rates of 6 to 8 percent per year, far higher than the average 3.6 percent growth witnessed over the 1990s. Such rapid growth would require policy makers to move more decisively on reforms aimed at opening the region to foreign trade, reducing dependency on oil through diversification, improving governance,

Figure 2.1: Labor force growth through 2020



Source: World Bank staff estimates based on ILO 2005.

and reducing the dominant role of the public sector in employment creation.

Much has changed, however, in the MENA region in recent years. Oil prices (World Bank average) rose from $18 a barrel during the late 1990s to $26 in the early 2000s, and reached $64 a barrel in 2006. The rise in oil prices had dramatic implications for regional budgets and stimulated economic growth. Furthermore, it is encouraging to note that several countries have made significant headway on their structural reform agenda (chapter 3). Finally, estimates and projections of the regional labor supply have been revised downward by the International Labour Organization (ILO), as women's labor force participation rates (LFPRs) turned out to be smaller than originally predicted.

Against this backdrop, this chapter seeks to answer the following questions. First, how has MENA's labor force changed in the past few years, and what implications does this have for employment and unemployment? Second, how has higher growth affected job creation and unemployment rates? Third, where and for whom are these jobs created? And, fourth, what kinds of jobs are being created in the high-growth environment? High employment numbers are not a final long-term goal for the region. The jobs created also need to be good jobs, sustainable over the long term, with prospects for rising incomes. The interdependence between output growth and job growth forms an additional challenge for a region where natural-resource-driven and capital-intensive output growth has been largely disconnected from job creation in agriculture, government, or low-productivity sectors.

2.1 The Region's Changing Labor Force[1]

2.1.1 Rapid expansion

Data from the ILO indicate that, at the end of 2005, the labor force in MENA was close to 120 million people, accounting for 56 percent of the working-age population (ages 15–64) and about 35 percent of the total population. Annual growth rates for the regional labor force averaged 3.7 percent between 2000 and 2005—higher than in any

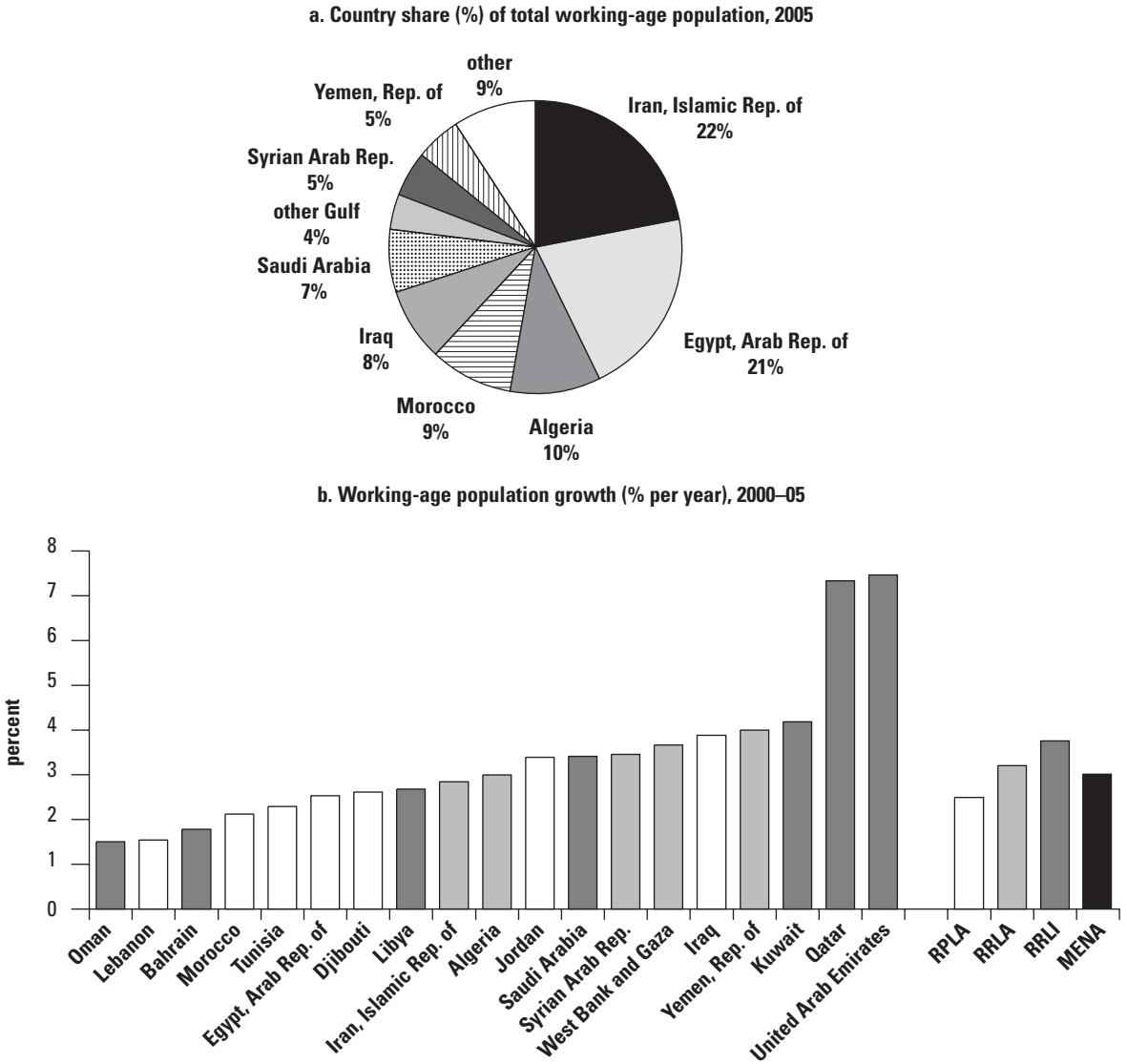
[1] This section draws partly on Dyer (2006a). For consistency and to facilitate comparison between countries, the labor force data presented in this section are based on participation rates from the ILO Economically Active Population Estimates and Projections database (ILO 2005). They refer to members of the population aged 15–64.

other developing region. This implied about 20 million net additional workers coming to the labor market between 2000 and 2005. The labor force continues to expand rapidly as a result of the demographic transition—driven somewhat more by increasing LFPRs, as the growth in the working-age population is slowing down.

Working-age population growth is slowing. MENA's exceptional labor force growth springs from a combination of a rapidly growing working-age population and rising LFPRs. A rapid fall in fertility rates in the 1980s, however, is now translating into slower working-age population growth. Between 2000 and 2005, the working-age population in MENA increased by about 3.0 percent per year, compared to 3.2 percent in the 1990s, and no country in MENA saw faster growth in its working-age population in the past five years than in the 1990s. Yet these growth rates imply that the working-age population increased by a record high 6 million people per year.

A majority of MENA's population belongs to a few large countries, which strongly influence regional average trends. Iran and Egypt are each home to more than one-fifth of the total working-age population while Morocco and Algeria together account for another 20 percent (see figure 2.2). Among these larger countries, the working-age

Figure 2.2: Economic growth and the working-age population in large labor-abundant countries



Source: World Bank staff estimates based on ILO 2005.

Note: RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing. MENA country groups as in table 2.1.

population expanded relatively fast in Iran and Algeria, and slower in Egypt and Morocco. Three Gulf countries—the United Arab Emirates, Qatar, and Kuwait—saw the highest growth rates, followed by the Republic of Yemen, West Bank and Gaza (WBG), Syria, Iraq, and Jordan. The exceptionally high growth rates in the Gulf countries, as well as in Jordan, reflect high inflows of migrant workers rather than fertility-driven changes.

The MENA Region's LFPRs are increasing rapidly. Accelerated growth in LFPRs has also countered the reduction in working-age population growth. LFPRs increased from 54.1 percent in 2000 to 55.9 percent in 2005, representing a growth rate three times as fast as that of the 1990s.

Within the region, resource-poor and resource-rich countries are diverging. As seen in table 2.1, participation rates are generally higher in resource-rich than in resource-poor countries. In the labor-importing countries, as the name suggests, high participation rates bear witness to the important role of migrant workers: an estimated two-thirds of the Gulf workforce is made up of foreigners, of which almost all are employed, while nationals generally have lower participation rates. Now, however, participation rates are also increasing the fastest in resource-rich, labor-abundant countries (RRLA). In Iran, LFPRs increased from 54 to 58 percent in five years; in Algeria, from 58 to 61 percent; and, in Syria, from 62 to 65 percent. Among resource-poor countries—where participation rates are generally lower—trends differ significantly. Participation rates stagnated in Morocco and Egypt, but increased relatively fast in Tunisia, Lebanon, and Jordan. Since 1990, participation rates in Jordan and Tunisia have almost caught up with those in Morocco.

Labor force growth is accelerating. The combination of continued high working-age population growth and rising participation rates resulted in an increase in labor force growth between 2000 and

Table 2.1: Participation rates in labor-abundant countries: high and rising

	Labor force-participation rate			Annual % change in labor force participation rate	
	1990	2000	2005	1990–2000	2000–05
Resource-poor, labor-abundant	**52**	**51**	**52**	**–0.2**	**0.2**
West Bank and Gaza	39	41	41	0.5	–0.2
Egypt, Arab Republic of	52	49	49	–0.7	0.2
Tunisia	51	53	55	0.4	0.8
Jordan	46	54	56	1.5	0.7
Morocco	54	56	56	0.3	0.0
Lebanon	57	57	59	0.1	0.6
Djibouti	71	70	69	–0.1	–0.2
Resource-rich, labor-abundant	**52**	**55**	**58**	**0.5**	**1.0**
Iraq	47	50	50	0.5	0.3
Yemen, Republic of	52	54	54	0.3	0.3
Iran, Islamic Republic of	53	54	58	0.2	1.3
Algeria	52	58	61	1.0	1.1
Syrian Arab Republic	57	62	65	0.8	1.0
Resource-rich, labor-importing	**58**	**59**	**60**	**0.2**	**0.3**
Saudi Arabia	55	53	53	–0.3	–0.1
Oman	57	60	59	0.6	–0.6
Libya	53	55	59	0.5	1.3
Bahrain	66	66	66	0.0	–0.2
Kuwait	64	72	73	1.1	0.4
Qatar	76	72	75	–0.6	0.7
United Arab Emirates	74	77	78	0.5	0.1
MENA	**53**	**54**	**56**	**0.2**	**0.6**

Source: World Bank staff estimates based on ILO 2005.

2005, at around 3.7 percent per year, compared to 3.4 percent in the 1990s. Aside from migrant-driven growth in labor-importing countries, RRLA countries with high population growth and growing participation rates saw an exceptional expansion, with labor force growth rates around or exceeding 4 percent per year. With the exception of West Bank and Gaza and Jordan, labor force growth was considerably slower in resource-poor countries.

The main determinant behind high labor force growth was continued high working-age population growth. However, in Algeria, Iran, and Syria in particular—and also in Lebanon, Libya, and Tunisia—rising participation rates pushed labor force growth much above working-age population growth (see figure 2.3).

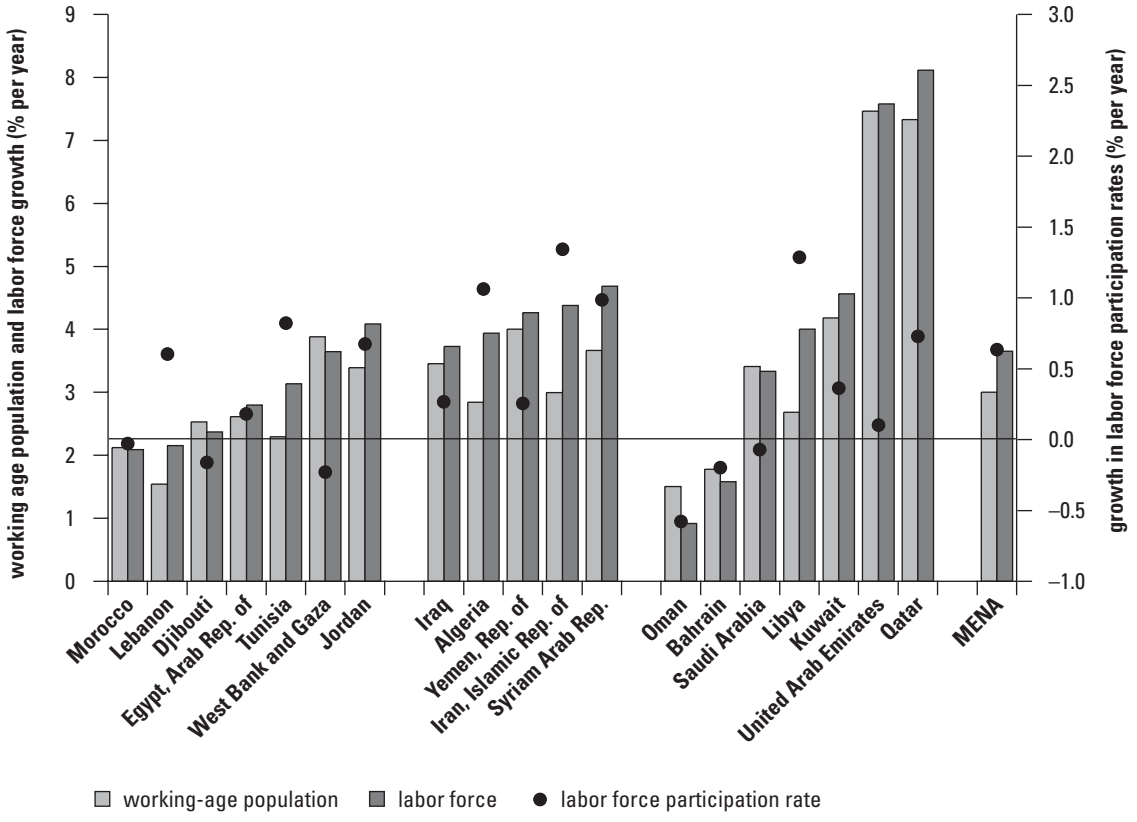
2.1.2 Aging

The Share of youth is slowly decreasing. A young age profile has long been the key feature of MENA's working-age population and labor force. As MENA's working-age population is aging and the demographic transition maturing, the share of youth is slowly changing. In 1990, 36 percent of the working-age population and 27 percent of the labor force consisted of people between 15 and 24 years of age. By 2005, the youth share had fallen marginally, to 35 and 25 percent respectively. At the same time, overall participation rates have remained flat, at around 40 percent (see figure 2.4).

New entrants arrive with higher education levels. The educational attainment level of the labor force continues to grow. This is largely due to the arrival of first-time entrants with higher levels of education.[2] Little recent data on labor force education levels are available, but enrollment rates at higher levels of education have continued to grow in the past few years (see figure 2.5). On average, enrollment rates increased by two-thirds between 1990

[2] For example, the Arab Republic of Egypt survey data from 1998 shows that people aged 60–65 had received, on average, three years of education; those aged 45–49 had received five to six years of education; and people aged 30–35 had received nearly eight years of education (World Bank 2004a).

Figure 2.3: Effect on labor force of growth in working-age population and rising labor force participation



Source: World Bank staff estimates based on ILO 2005.

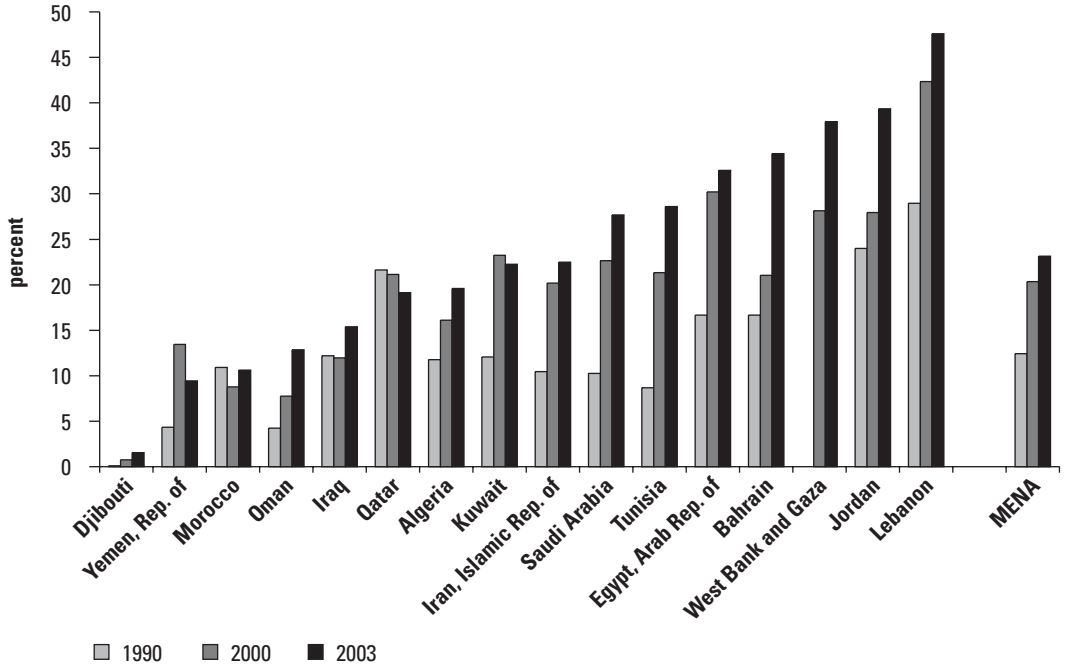
Figure 2.4: Young people as a share of the working-age population and labor force

Source: World Bank staff estimates based on ILO 2005.

Note: LFPR = labor force participation rate.

and 2000, and continued to increase between 2000 and 2003 in all but three countries (Yemen, Qatar, and Kuwait). These higher enrollment rates are likely to result in: (a) higher average education levels in the labor force; (b) lower participation rates for the youngest age groups (who remain in school) but higher participation rates for young graduates; and (c) higher participation of women, whose participation rates are more closely related to education levels than those of men (World Bank 2004a).

Figure 2.5: Enrollments in higher education, 1990, 2000, and 2003



Source: World Bank staff estimates based on World Bank 2007b, except Algeria; World Bank 2006a.

Note: MENA average weighted by working-age population.

2.1.3 Presence of women

The single most important transformation affecting MENA's labor markets in the past few years is the increasing presence of women workers. While not much growth could be reasonably expected from male participation rates—they hover around 80–90 percent in most countries—female participation rates continue to increase at a fast rate, albeit from traditionally low levels. In fact, the overall increase in participation rates since 2000 is due to a record growth in female participation rates. The RRLA countries are seeing the strongest dynamic. In the Islamic Republic of Iran, female participation rates increased from 33 to 41 percent in five years, representing a phenomenal catch-up. In 1990, participation rates for women in Iran were below the MENA average; by 2005, they were the third-highest in the region. Participation rates also increased substantially in Algeria and Syria (see table 2.2). We should note that participation rates in labor-importing countries are affected by an important presence of migrant female workers with stronger labor force attachment than national workers. This may also be the case in Syria and Jordan, which have been strongly affected by the inflow of Iraqi workers.

Outcomes are more mixed for resource-poor countries. Essentially, differences in trends in total participation rates result from differences in trends in female participation rates. Thus, female participation rates increased rapidly in Jordan, Tunisia, and Lebanon; and stagnated in Morocco and Egypt, despite the fact that participation rates for Egyptian women are among the very lowest in the region.[3]

Women account for the acceleration in labor force growth. In net terms, the upturn in labor force growth since 2000 was entirely due to the arrival of women in MENA labor markets (see figure 2.6).

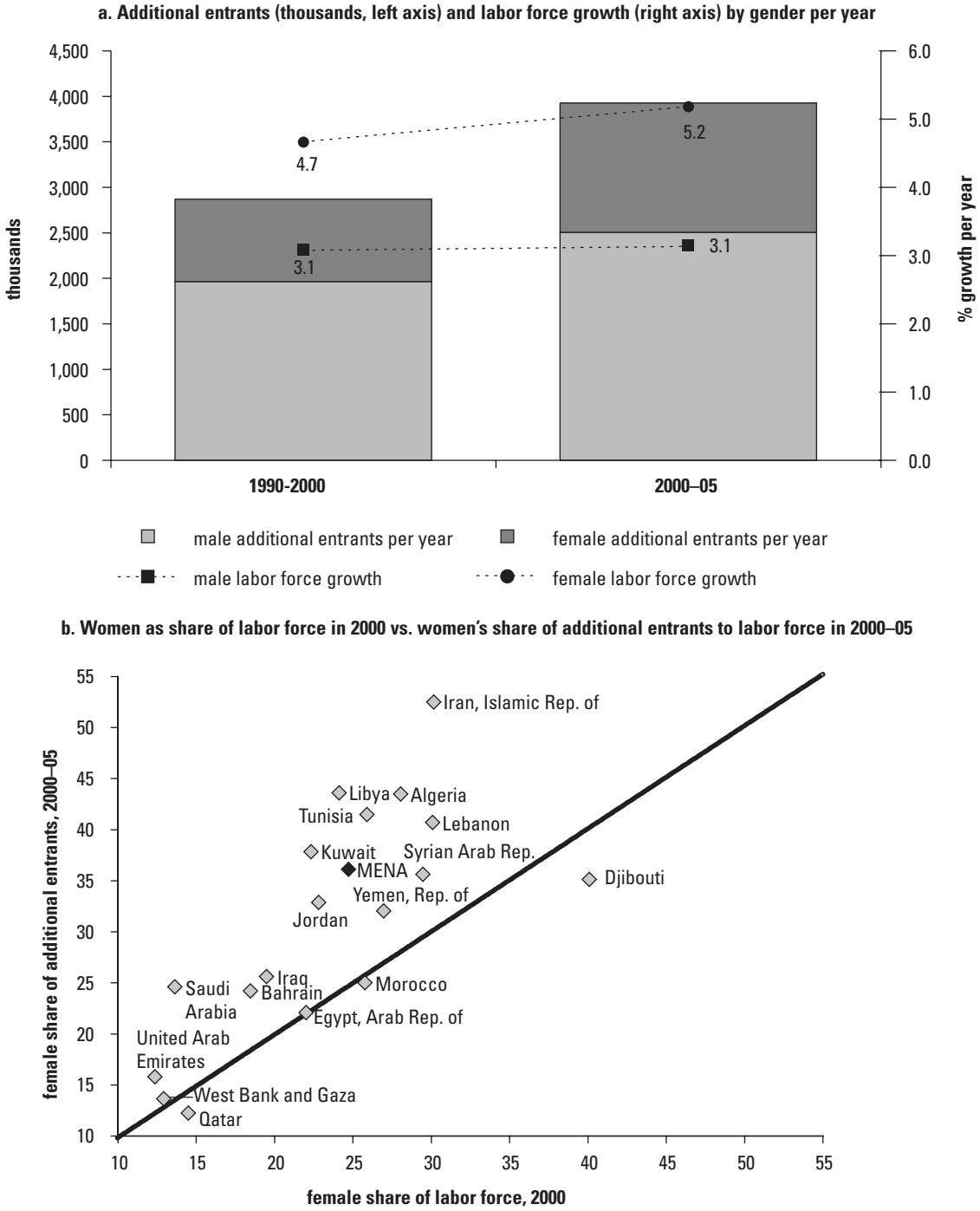
[3] Note that participation rates from ILO data differ from recent survey data for the Arab Republic of Egypt, which indicate an increase in female labor force participation between 1998 and 2006 (see box 2.6).

Table 2.2: Women's participation in the labor force: rising rapidly

	Labor force participation rate for women			Annual % change in labor force participation rate		
				Women		Men
	1990	2000	2005	1990–2000	2000–05	2000–05
Resource-poor, labor-abundant	**26**	**24**	**25**	**–0.8**	**0.4**	**0.1**
West Bank and Gaza	10	11	11	1.3	0.0	–0.3
Egypt, Arab Republic of	28	21	22	–2.5	0.1	0.2
Morocco	26	29	29	1.1	0.0	–0.1
Jordan	19	26	29	3.4	2.1	0.3
Tunisia	22	27	31	2.2	2.6	0.1
Lebanon	34	33	36	–0.3	1.4	0.2
Djibouti	58	56	55	–0.3	–0.4	0.0
Resource-rich, labor-abundant	**23**	**31**	**36**	**3.0**	**3.0**	**0.1**
Iraq	16	20	21	1.9	1.3	0.0
Yemen, Republic of	29	29	31	0.3	0.9	0.0
Algeria	24	33	38	3.3	3.0	0.2
Syrian Arab Republic	30	36	40	2.0	1.9	0.6
Iran, Islamic Republic of	22	33	41	4.0	4.1	0.0
Resource-rich, labor-importing	**19**	**23**	**26**	**1.8**	**2.5**	**0.0**
Saudi Arabia	16	17	18	0.8	1.8	–0.1
Oman	16	21	24	2.7	2.8	–0.3
Bahrain	29	31	31	0.6	–0.2	0.0
Libya	20	28	34	3.5	3.8	0.5
Qatar	30	34	37	1.1	1.9	0.0
United Arab Emirates	26	36	39	3.3	1.8	–0.2
Kuwait	36	45	50	2.4	2.3	0.0
MENA	**24**	**28**	**31**	**1.4**	**2.1**	**0.1**

Source: World Bank staff estimates based on ILO 2005.

Figure 2.6: Women as a share of the labor force, 1990–2005



Source: World Bank staff estimates based on ILO 2005.

Between 2000 and 2005, the female labor force grew by 5.2 percent compared to 4.7 during the 1990s, with a labor force share that increased from 25 to 27 percent. Women's share of additional entrants in the labor force increased from 32 percent to 36 percent in 2005.

Because of different trends in labor force participation, there is a divergence in the female labor force presence across the region. Countries where the female share of the labor force was comparatively high in 2000—Iran, Algeria, Tunisia, and Lebanon—also experienced more rapid increases between 2000 and 2005. In Iran, women made up a majority of all additional entrants to the labor market.

Rising education levels may explain the increase in female labor force participation. Is the important

increase in female LFPRs a result of cyclical or long-term structural factors? While the former implies that women joined the labor force because economic growth has been creating job opportunities, the latter suggests that women wanted and will continue to want to make the most out of their increasing education levels.

As mentioned, recent data on education levels of the labor force and working-age population are not available, but three factors suggest that continuously rising education levels among women play an important role. First, fertility rates have continued to fall, from 3.2 average births per woman in 2000 to 3.0 in 2004. The region's falling fertility is linked to higher education levels and the rising age of women at marriage—and all three factors are linked to higher LFPRs (World Bank 2006a).

Second, the highest levels and strongest increase in LFPRs are among women aged 25–29, the age when people graduate from university (see figure 2.5). While their share of the total labor force remained very small at 5 percent, this age group expanded by nearly 7 percent per year in 2000–05. In Iran, this section of the female labor force expanded by over 10 percent annually; in Egypt, by nearly 7 percent; and in Algeria, by 6 percent. With the exception of Bahrain, growth in female labor force aged 25–29 was particularly high in the Gulf countries. Rapid growth, however, reflected a generally high growth rate for all age groups more than changes in sex or age composition, and is very likely due to immigration. In contrast, participation rates are increasing the slowest for women aged 15–24, probably because they are still in school. Finally, male participation rates stagnated for all age groups.

Third, higher enrollment rates also show a shift in the gender parity in schooling. In 1990, gross enrollment rates at the tertiary level were higher for men than for women in all countries except Jordan, Kuwait, and Qatar. By 2002, however, the situation was the reverse. In 11 out of 18 countries, women had higher enrollment rates,[4] and in all countries except Jordan and Iraq, women's enrollment rates increased faster than those of males (see figure 2.7).

Yet, a key feature of the female labor force is also more stable rates among older workers, meaning that women appear to not automatically drop out of the labor market after marriage. Indeed, by 2005, most of the female labor force consisted of workers aged 30 and above, and this group also grew at considerable speed, around 5.6 percent per year.

2.1.4 More changes on the way

The MENA Regional Employment Report provided estimates of MENA's labor force growth and composition into the next decade, using the most recent ILO data on participation rates and UN population data at the time, that is, version 4 of the *ILO Economically Active Population Estimates and Projections* (EAPEP). New revisions of the EAPEP (version 5) have changed the labor force data significantly. Below, we provide an updated set of projections based on the updated version. While the main conclusions from the MENA Regional Employment Report stand, the magnitude and timing of dynamics change because of revisions to both historical estimates and projections. Most importantly, labor force growth is somewhat lower because of a slower increase in female participation rates than earlier projected (see box 2.1).

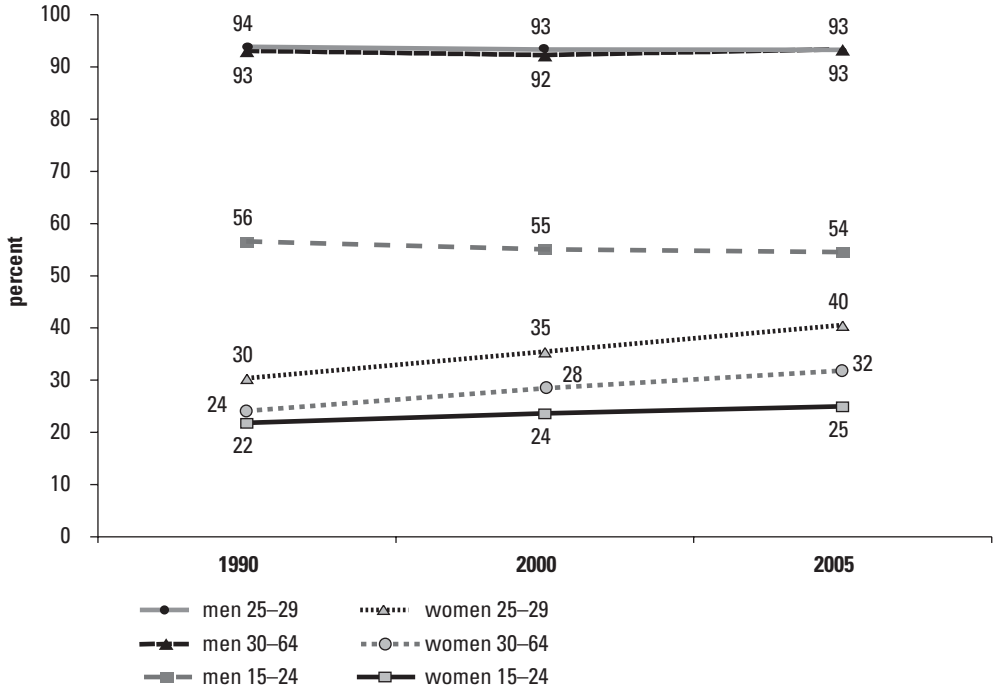
Labor force growth will slow down over time. Since labor force growth continues to be high between 2005 and 2010, MENA's job markets are estimated to be receiving the highest number of entrants in the immediate future (see figure 2.8, panel a). After that, the number of additional entrants in the labor force, as well as labor force growth rates, will drop more markedly to 3.5 million people and 2.2 percent per year, respectively. Women will continue to increase their share in the labor force, but at a slower pace than before, because the increase in participation rates is expected to slow down. By the end of the next decade, the female share will have reached 30 percent. The maturing of the working-age population will show through more decisively, and the share of young people will have fallen to below one-third of the labor force.

No country in the region will see higher labor force growth in the coming years, though growth will remain more or less the same in Saudi Arabia and Egypt (see figure 2.8, panel b). Several countries, however, continue to face a massive number of entrants on the labor market, with labor force growth exceeding 3 percent. Among these are the Republic of Yemen, Iraq, Syria, and Saudi Arabia, as

[4] The MENA average gender parity rate remains below 1 but is influenced by the Arab Republic of Egypt, for which the latest year for enrollment data is 1995. Excluding the Arab Republic of Egypt, the gender parity rate for MENA is 0.98. ELMPS survey data suggests that the share of highly educated women in the working-age population has increased much faster than for men in the period 1998–2006, however, and the 1995 numbers are probably underestimating current enrollment rates considerably.

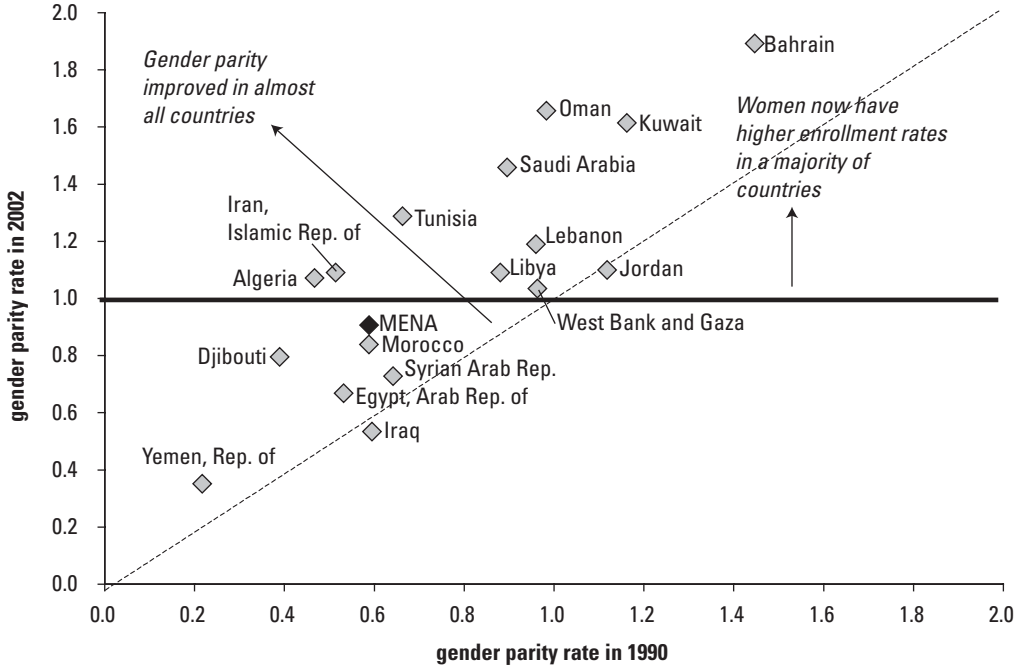
Figure 2.7: Young women, higher education, and labor force participation

a. Labor force participation rates, men and women, by age groups, 1990, 2000, 2005



Source: World Bank staff estimates based on ILO 2005.

b. Changes in gender parity rate, 1990 and 2002



Source: World Bank staff estimates based on World Bank 2007b, except Algeria; World Bank 2006a.

Note: Gender parity rate is female gross tertiary enrollment rate divided by male gross tertiary enrollment rate. Years are 1990 and 2002 except for: Algeria (1990, 2004), Egypt (1990, 1995), Iraq (1985, 2000), Oman (1990, 2001), Syria (1990, 1995), and WBG (2000, 2002).

Table 2.3: The maturation of the female labor force

	1990	2000	2005	1990–2000	2000–05
	Share of total labor force, 15–64			Growth in labor force (% per year)	
All women	22.0	24.8	26.6	4.7	5.2
15–24	7.2	7.7	7.6	4.2	3.4
25–29	4.0	4.3	5.0	4.2	6.8
30–64	10.9	12.8	14.1	5.1	5.6
	Labor force particpation rate			Change in LFPR (% per year)	
All women	24.1	27.5	30.6	1.4	2.1
15–24	21.7	23.5	24.9	0.8	1.1
25–29	30.3	35.4	40.5	1.6	2.7
30–64	24.0	28.3	31.7	1.7	2.3

Source: World Bank staff estimates based on ILO 2005.

Box 2.1

Revised ILO estimates of labor force participation rates in the region

The MENA Regional Employment Report applied the LFPRs reported in ILO EAPAP (version 4) from 1996 to more recent UN Population Prospects data (2002) to get actual labor force numbers. In 2005, ILO issued a set of revised projections, EAPAP version 5, for 1980 to 2020. The new estimates and projections contain important revisions to the data. Most importantly, female LFPRs were estimated to increase at a significantly slower pace.

Primarily, differences resulted from the fact that version 4 was based on country-reported data up until 1989, while version 5 was based on data up until 2001. In version 4, the rising participation rates of the 1980s were thus extrapolated into the 1990s. These ended up as overestimations, especially for women, and especially for Egypt. As a result, the aggregate MENA labor force is smaller in version 5 than in version 4 by nearly 5 million people in 2000, and by more than 7 million people in 2010, or some 5 percent of the labor force. The comparative reduction in estimates and projections of Egypt's female labor force, in particular older workers, accounts for two-thirds of all the net difference between version 5 and version 4 in 2000, and as much as four-fifths in 2010. In total, Egypt's labor force is some 20 percent lower in the revised version of EAPAP.

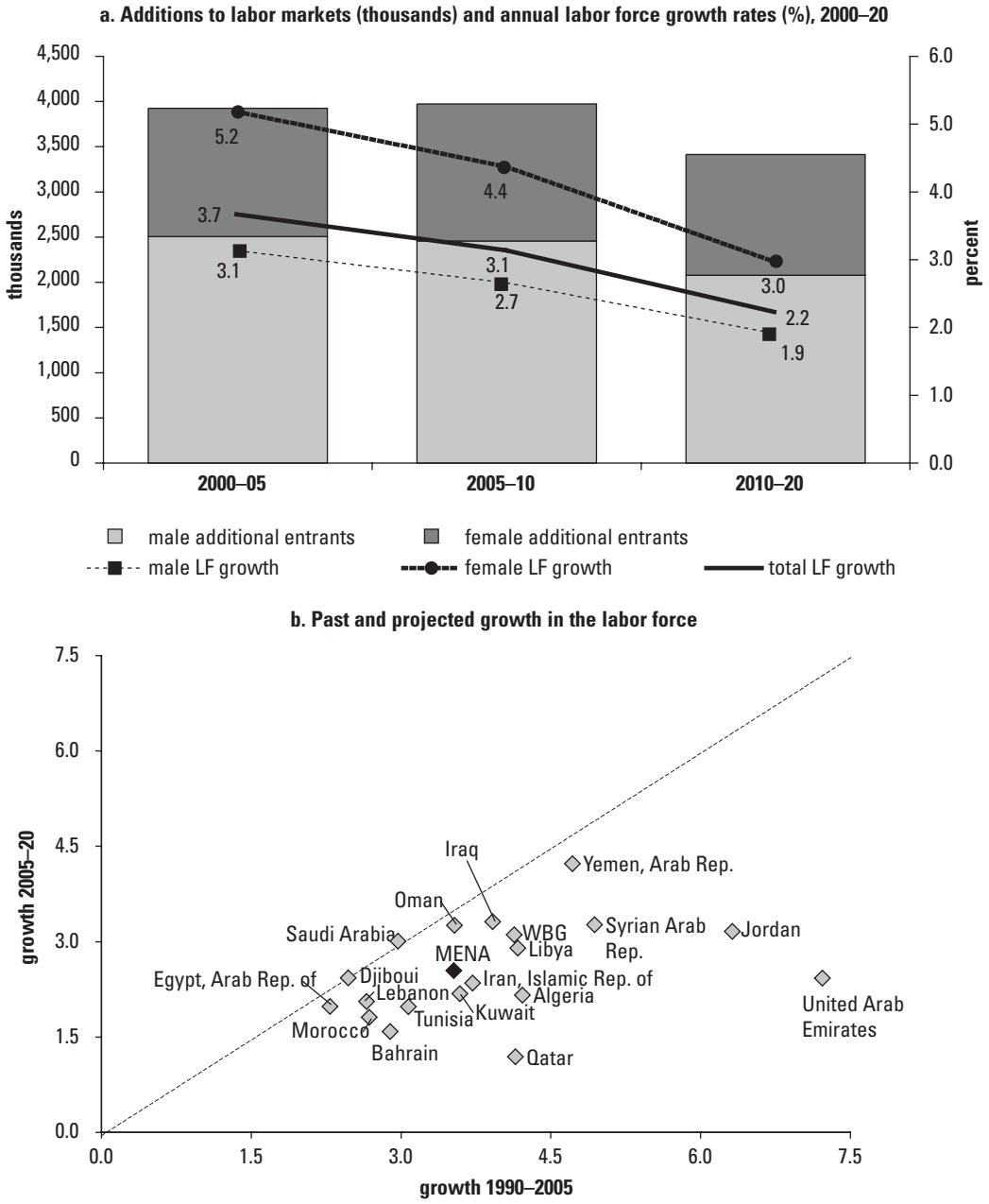
Compared to the Regional Employment Report, the numbers used in this report implicate (a) lower female participation rates; (b) lower labor force growth; and (c) a lower number of jobs needed to relieve the smaller labor market pressures.

Net difference in labor force estimates between version 5 and version 4 (in millions)

	Net difference in labor force (millions)			% of total net difference	
	1990	2000	2010	2000	2010
Total labor force	−1.9	−4.8	−7.8	100	100
Egypt	−1.4	−4.1	−6.7	85	92
Other	−0.5	−0.7	−0.6	15	8
Female	−1.4	−4.3	−7.6	89	103
Egypt	−0.6	−3.2	−5.7	67	77
Other	−0.8	−1.0	−1.9	21	26
Young females	−0.7	−1.5	−3.0	31	41
Egypt	−0.1	−0.9	−1.6	19	22
Other	−0.5	−0.6	−1.4	13	19
Older females	−0.7	−2.7	−4.6	57	62
Egypt	−0.5	−2.3	−4.0	49	55
Other	−0.2	−0.4	−0.6	8	8

Source: World Bank staff estimates based on Dyer 2006a.

Figure 2.8: The passing bubble in labor force growth

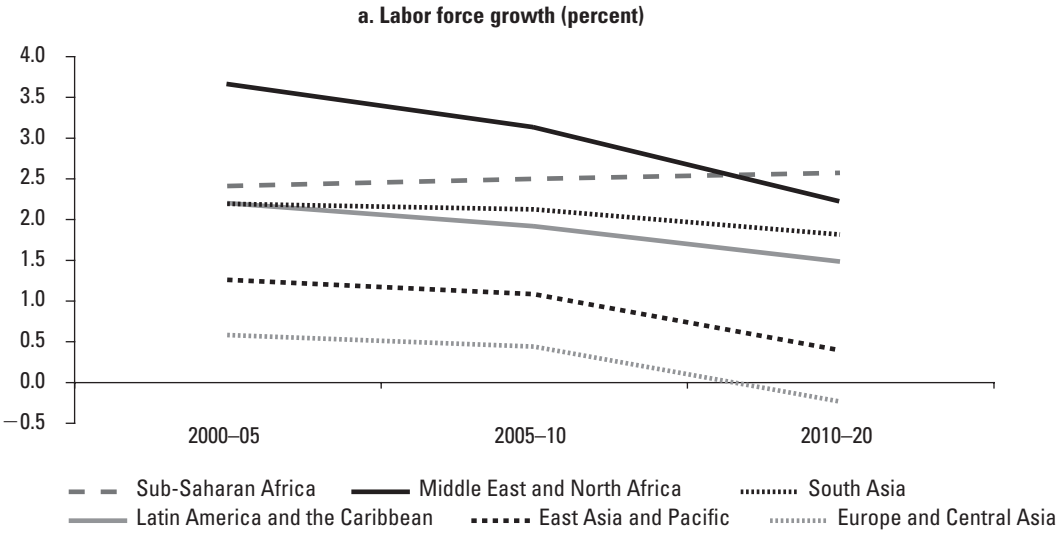


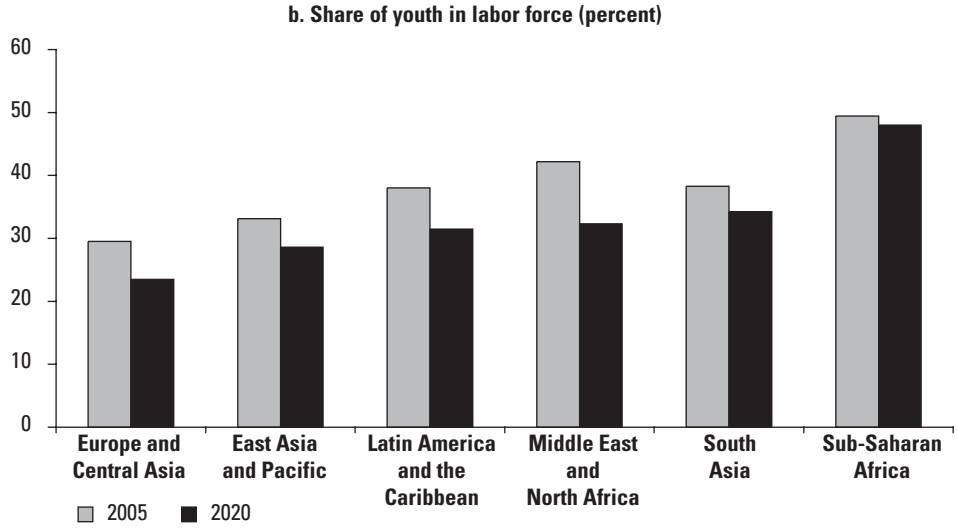
Source: World Bank staff estimates based on ILO 2005.

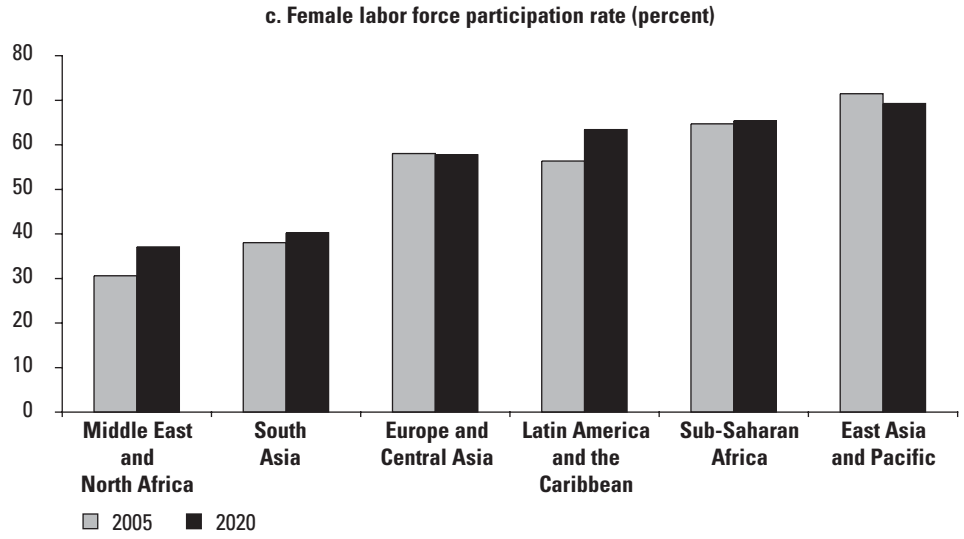
well as West Bank and Gaza and Jordan. Other resource-poor countries generally face much lower growth rates, especially Morocco.

MENA's labor force profile is slowly approaching other developing regions. MENA's labor force dynamics need to be seen in the light of how MENA's characteristics and trends compare to other developing regions. Currently, the MENA region's labor markets are at the extreme: the region has the highest levels of labor force growth, the lowest levels of female participation rates, and only Sub-Saharan Africa has a younger labor force. The region is now rapidly moving toward an age profile closer to that of South Asia and Latin America. However, MENA will continue to face greater job creation challenges than any other region except sub-Saharan Africa—challenges that are exacerbated by the higher educational achievements of new entrants and their ensuing expectations. Moreover, by the end of the next decade, women's participation rates will have approached those of South Asia, but will still be the lowest of all developing regions (see figure 2.9). As

Figure 2.9: The region in international perspective, 2000–20







Source: World Bank staff estimates based on ILO 2005.

a result of the current state and these dynamics, MENA's total LFPRs will remain lower than those of any other developing region in the world.

2.2 Recent Employment and Unemployment Trends

The past few years have been characterized by record pressures in MENA's labor markets, including unprecedented increases in the labor force, a rapidly growing share of women, and a young labor force with higher education levels than in the past. Pressures have been particularly high in the larger labor-abundant countries. At the same time, the region is experiencing strong real output growth accompanied by high employment growth and declining unemployment. This section looks at changes in employment and unemployment in recent years and how they relate to MENA's labor force dynamics and patterns of economic growth.

2.2.1 Falling unemployment

Figure 2.10 provides an overview of developments in the MENA region based on labor market data for 12 countries: Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and the West Bank and Gaza.[5] The aggregates mostly present good news about MENA: between 2000 and 2005, *employment growth has exceeded both labor force and working-age population growth by a considerable amount*. It follows from these data that the regional unemployment rate has decreased while the employment rate—the proportion of the working-age population with a job—has in-

[5] These are the 12 countries for which there is some trend data available for the period 2000–05. However, for some point estimates of unemployment, Iraq, Lebanon, and the Republic of Yemen are also included for comparative purposes. While the labor force data originates in a coherent ILO data set, employment and unemployment data are generally drawn from national official sources and the coverage of countries is smaller because of data insufficiencies.

Box 2.2

Getting the numbers right: employment and unemployment data issues

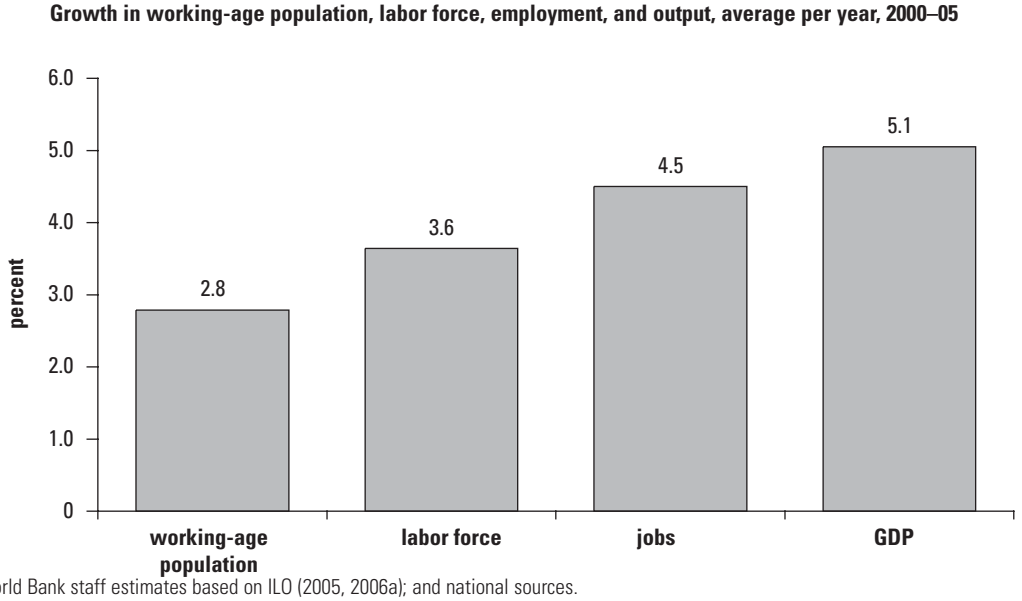
Unlike the labor force data used in the previous section, there is no one consistent comprehensive source of employment and unemployment data. The story has therefore to be pieced together from different indicators, according to their availability. This, in turn, raises issues about comparability across countries and time, and of consistency among different indicators and sources.

The labor force section of this chapter is based on data from ILO, for the purpose of consistent comparisons across time and countries as well as for projections. These series are often not fully compatible with national data for employment and unemployment. Moreover, to maintain consistency within the employment analysis, regional aggregates in the employment section cover only the 12 countries for which employment trend data exists or could be calculated, namely Algeria, Bahrain, Egypt, the Islamic Republic of Iran, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and WBG. As a result, total MENA labor force and working-age population growth estimates, discussed in relation to employment and unemployment analysis, will differ slightly from those presented in the labor force section.

The employment section, further, is based on a mix of national sources and ILO data, depending on availability. Time-series and sometimes even single-point estimates of employment and unemployment data are surprisingly scarce, especially at a disaggregated level and for the recent high-growth period. Consistency problems arise over time and across categories in many countries, both between ILO numbers and government statistics, and within the data sets produced by the government and the ILO respectively. The analysis of Gulf countries' labor markets is marred by lack of data on the respective labor market status of nationals and nonnationals.

Differences in survey design across countries, and over time within countries, can also affect employment and unemployment numbers significantly. The risk of swings in numbers because of changes in measurement may be higher for women than for male workers: women are more prone to work part time and/or at home, and surveys will differ in whether these women are counted as unemployed, inactive, or employed.

Figure 2.10: The region's labor market story, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: Countries and years included in regional aggregate: Algeria (2000, 2005), Bahrain (2000, 2004), Arab Republic of Egypt (1998, 2006), Islamic Republic of Iran (2000, 2005), Jordan (2001, 2005), Kuwait (2000, 2004), Morocco (2000, 2005), Qatar (2000, 2004), Saudi Arabia (2000, 2005), Tunisia (2000, 2005), United Arab Emirates (2000, 2004), and West Bank and Gaza (2000, 2005).

Box 2.3

Some useful definitions of labor market indicators

The *unemployment rate* is the share of unemployed in the labor force. The standard definition includes only those that are actively looking for a job. The extended definition includes the unemployed as well as discouraged workers—those who would like a job but who are not looking because they feel no hope of finding one, and are therefore counted as inactive.

The *employment rate or the employment-to-population ratio* is the proportion of the working-age population that holds a job, that is, those who actually are employed compared to those who potentially could be working. An advantage of the employment rate as a labor market indicator is that it is independent of changes in the labor force. While working-age population changes generally follow slower demographic changes (labor-importing countries being an exception), the labor force is an endogenous variable that can shift from year to year, as workers are encouraged or discouraged to join by the state of the economy and current unemployment rates. As discouraged workers drop out of the labor force, unemployment rates could fall, which erroneously would suggest an improvement in labor market conditions. Employment rates would remain unchanged under these circumstances.

Of course, employment rates say nothing about important qualitative aspects: whether workers are productively employed, have acceptable working conditions, and receive decent wages.

Labor productivity measures value added produced per unit of labor—in this case per worker (rather than per hours worked).

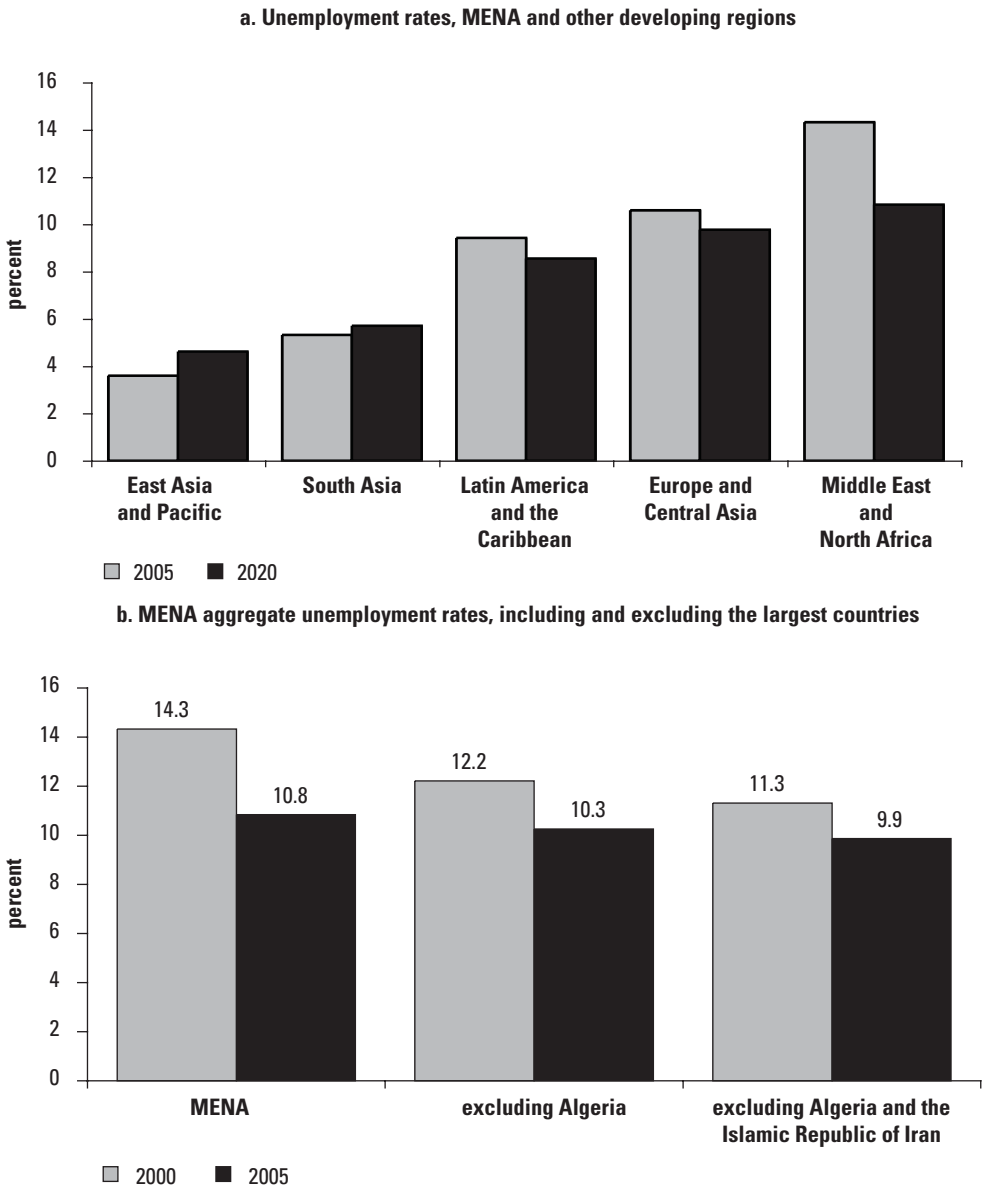
The *employment elasticity or employment intensity of growth* is the percentage change in job creation, given a percentage change in output. Employment elasticities are by definition inversely related to labor productivity growth. Indeed, employment elasticities exceeding 1—jobs growing at a faster rate than value added—imply negative productivity growth.

Unit labor costs are the labor costs associated with the production of one unit of output. Rising unit labor costs at the sector, industry, or firm level means falling competitiveness.

creased. Finally, the capacity of growth to generate jobs has been high: employment growth has tracked output growth closely. The reverse side of this coin is that labor productivity growth, while positive, has been slow. Beyond these aggregates, moreover, there is great heterogeneity, and some countries, as well as some groups of workers, are not benefiting as much from the renewed job growth.

Aggregate unemployment rates are falling in MENA. Between 2000 and 2005, the region's aggregate unemployment rate fell from 14.3 to 10.8 percent of the labor force, narrowing the gap with other developing regions (see figure 2.11, panel a). In view of the massive labor force expansion, this is a remarkable feat over a short period. Half of the drop in the regional unemployment rate is due to a dramatic reduction in official unemployment rates in Algeria, followed by important declines in Iran and Egypt. When the three largest countries are excluded, total unemployment rates were lower in both 2000 and 2005, but fell less significantly, from 11.3 to 9.9 percent (see figure 2.11, panel b).

Figure 2.11: Falling unemployment rates in the region, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources.

Note: Regional unemployment rate is weighted by labor force. In panel b, data refer to the original 12 countries plus Iraq, 2004; Lebanon, 2004; and Yemen, 2005. Bahrain: registered unemployment only. Regional aggregates based on countries available. South Asia excludes India. If the largest countries for remaining regions are excluded (China, Brazil, Mexico, and Russia), MENA's unemployment rate is on par with Europe and Central Asia and Latin America and the Caribbean.

Unemployment rates have come down in eight of the twelve countries for which there are data to calculate labor market trends. In addition, Algeria, Qatar, Egypt, Morocco, Saudi Arabia (nationals only), and Iran have all seen large drops in unemployment rates in this period (see figure 2.12).[6]

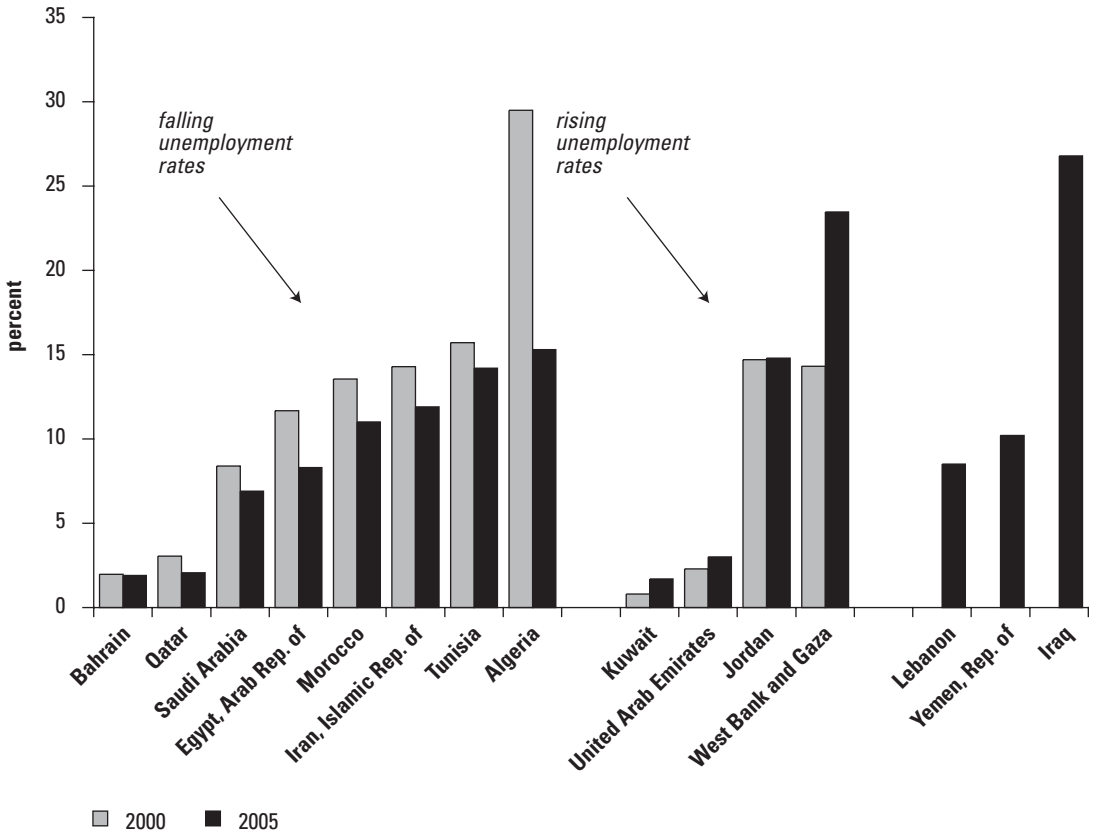
The case of Algeria requires further explanation as unemployment rates were cut by half between 2000 and 2005. On closer inspection, the drastic cut in the number of unemployed largely reflects expansion of employment in "work at home," including military draft and household work, as well as temporary employment programs (see box 2.4).

But unemployment rates are on the rise in some countries. Unemployment rates are also stagnating or even increasing in some MENA countries, even those displaying strong growth performance. Unemployment has stagnated in Jordan. Unemployment rates are coming up in Kuwait and the United Arab Emirates, although from very low levels. Low overall unemployment rates for Gulf countries tend to mask higher unemployment rates for the minority of national workers. Finally, the West Bank and Gaza is the extreme case: unemployment increased by two-thirds over five years. Indeed, two conflict-ridden areas, Iraq and the West Bank and Gaza, have the highest unemployment rates of all countries in the region (see box 2.5).

And female unemployment rates are increasing. The MENA region now has more active women than ever, but more of them also end up unemployed, and the differences between men and women are becoming even more pronounced (see table 2.4). Female unemployment rates have increased in seven out of ten countries, and women's unemployment situation has deteriorated relative to men in all countries, except Algeria and the United Arab Emirates. In Bahrain, the Iran, Jordan, and Tunisia, female unemployment rates have even increased, while those of men have fallen. As

[6] The data for Saudi Arabia here refers to nationals only. The labor force growth rate was higher for nationals than for nonnationals—the national labor force grew by 3.6 percent compared to 3.3 percent for the total labor force according to EAPAP estimates.

Figure 2.12: Unemployment rates in the larger countries, 2000 and 2005



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources.

Note: Earliest and most recent available in the period.

Box 2.4

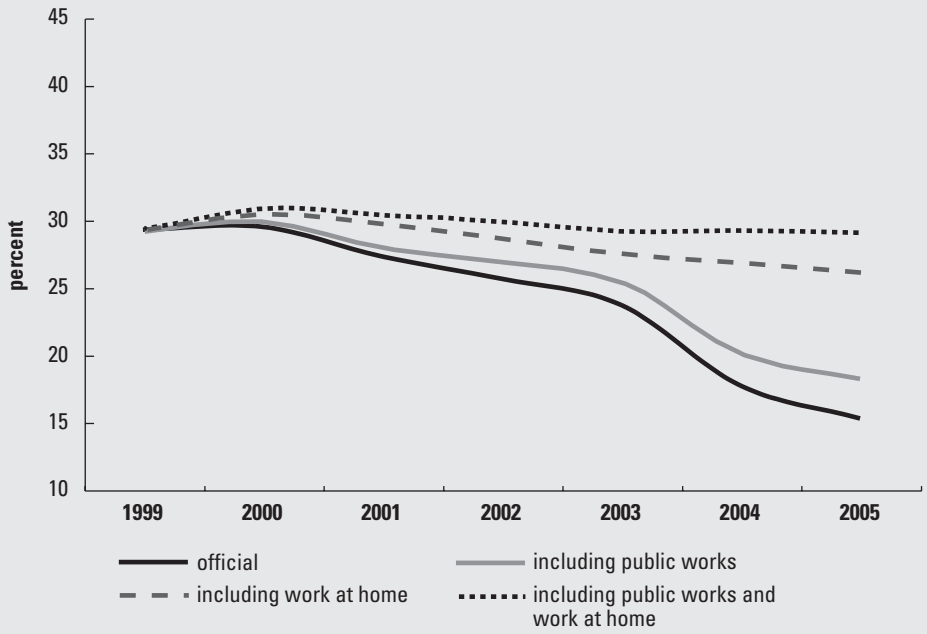
Algeria's unemployment/employment puzzle

In Algeria, nearly half of all additional jobs between 2000 and 2005 were in a sector labeled "work at home," which encompasses military draft, informal, and unpaid activities; another 10 percent were in public works and construction, reflecting temporary employment measures. If job creation in the "work-at-home" and public works sectors since the year 2000 is instead counted as unemployment, unemployment rates in Algeria would have been nearly 30 percent in 2005.

There are also sizeable discrepancies in labor force numbers. ILO labor force data exceeds national labor force data by about one-third. The labor force derived from official employment-by-sector data and unemployment rates is between 5 and 10 percent larger than official numbers for the labor force. Official estimates for the population aged 16 and above (for 1997 only) are higher than ILO numbers for the same year. To maximize consistency, the labor force data here are based on employment-by-sector and unemployment data, while the working-age population has been calculated applying ILO LFPRs to the labor force numbers. If working-age population data from ILO were used, employment rates would instead be considerably lower (around 37 percent compared to 49 percent).

The fall in Algeria's unemployment rates is based on "work-at-home" sector work and public works employment

Alternative unemployment rates in Algeria



Source: Staff estimates based on national sources and ILO 2005, IMF 2007, and World Bank 2007c.

a result, female unemployment rates in Iran and Jordan are now about twice as high as male unemployment rates. In Egypt, unemployment rates for women have come down at par with male unemployment rates, but remain four times higher than for men—the largest discrepancy in the region. In Morocco, they have fallen, but less than for men. In Algeria, female unemployment rates have come down even faster than males, reflecting the impact of job creation in the "work at home" sector (see table 2.4).

Increasing unemployment rates for women are partly the result of rising participation rates, as women are shifting from inactive status to becoming openly unemployed. The increasing gender segregation in the active population is still worrisome, not least because women in MENA already suffer from much higher unemployment rates than in oth-

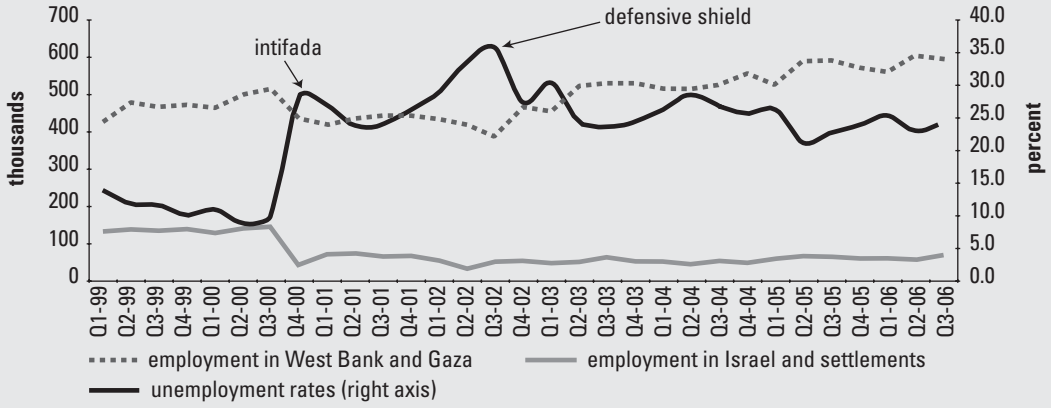
Box 2.5

Job creation, unemployment, and conflict: West Bank and Gaza and Iraq

Conflicts have strong negative effects on labor markets. They restrict the day-to-day mobility of people, encourage brain drain, propel massive population movements that are not related to job opportunities, block production of goods and services, and deter investment. Unsurprisingly, the WBG and Iraq have the worst unemployment rates and lowest participation rates in the MENA region. (No data are available to gauge the impact of the recent war in Lebanon.)

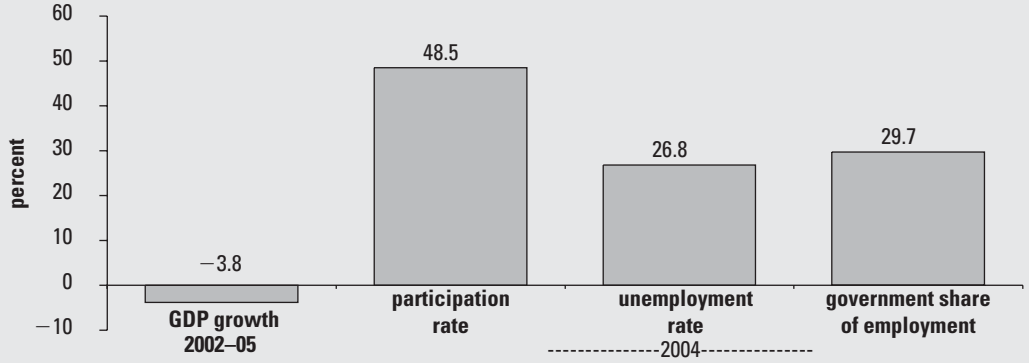
Although unemployment rates were high from the outset, the WBG also saw the steepest increase of all MENA countries between 2000 and 2005. Work opportunities fell drastically at the onset of the intifada at the end of the year 2000. After 2002, there has been some job growth in the Palestinian territories, but none in Israel, and unemployment rates have stagnated around 25 percent. Female unemployment rates increased less than male unemployment rates, because predominantly men were affected by the collapse of the construction sector jobs in Israel.

Employment collapsed in WBG after the intifada



For lack of prewar data, a similar evaluation of the effects of war cannot be made for Iraq. Survey data from 2003 and 2004 suggest that, right after the war, unemployment rates were high (27 percent), coupled with large-scale underemployment, informality, and inactivity. As elsewhere in the region, women suffered from both higher unemployment rates and significantly lower participation rates, and the young and well educated were also less successful. The state accounted for some 30 percent of all jobs while the formal private sector accounted for only a small fraction of total employment.

Economic and labor market conditions in Iraq



(*Box continues on the following page.*)

Box 2.5

Job creation, unemployment, and conflict: West Bank and Gaza and Iraq (continued)

Given the economic collapse in 2003 (output is estimated to have fallen by some 40 percent), unemployment rates were perhaps surprisingly low. The survey data may underrepresent inactivity and unemployment because of limited coverage of more unstable areas, but, overall, job losses appear to have been limited in the immediate aftermath of the war.

Out of those employed in 2004, 88 percent of public sector employees and 94 percent of private sector employees held the same job as prior to the war. The extent of under- and unproductive employment has, however, swelled. Although state enterprises are operating at low capacity, employees remain on the payroll, and are not looking for a job they are unlikely to find.

Problems of overstaffing, unemployment, and labor market tensions are not new to Iraq, but were prominent already during the economic sanctions of the 1990s. The war and the recent escalation of violence against civilians have changed matters for the worse, however, and the 2003 and 2004 numbers are most likely a misrepresentation of the current state of affairs.

Apart from the paralyzing effects of violence, the state sector—previously a guarantor of employment—is set to be further scaled down. At the same time, private investment is nonexistent while the lifting of sanctions and opening of the economy has resulted in imports replacing locally produced goods. Some sources now put unemployment rates as high as 70 percent.

Source: ILO 2006b; estimates based on national sources.

er regions in spite of their low LFPRs (ILO 2004). And, for women, medium and higher levels of education are consistently associated with higher unemployment in the region (see below).

The unemployed are aging. Unemployment rates of youth (aged 15–24) in MENA tend to be at least twice as high as the overall unemployment rate, and far higher than in the rest of the world (ILO 2004). As the share of youth in the labor force is receding, their share of the unemployed is also coming down. In sum, youth unemployment rates have fallen quite significantly, and in several countries at par or even faster than the fall in overall unemployment rates (see figure 2.13). In Jordan, youth unemployment has been only marginally affected, however, and two-thirds of active youth are still unemployed. In Algeria and Iran, youth unemployment is increasing. Indeed, people between 15 and 24 years of age still account for half or more of all unemployed in Jordan, Egypt, Iran, and Alge-

Table 2.4: Unemployment among men and women, 2000–06

Unemployment rates by gender, 2000–06[a]

	Female unemployment rates			Male unemployment rates			Gender parity rate[b]	
	2000	2006	Annual growth	2000	2006	Annual growth	2000	2006
Algeria	31.4	21.3	–12.1	26.6	19.8	–9.4	1.2	1.1
Bahrain	2.0	3.2	13.0	4.2	3.1	–7.4	0.5	1.0
Egypt, Arab Republic of	27.6	18.6	–4.8	7.0	4.7	–4.9	3.9	4.0
Iran, Islamic Republic of	16.8	18.0	1.4	13.8	10.3	–5.7	1.2	1.7
Jordan	20.6	25.9	5.9	13.6	12.8	–1.5	1.5	2.0
Morocco[c]	26.7	24.8	–1.5	19.8	16.3	–3.8	1.3	1.5
Syrian Arab Republic	15.2	28.3	16.8	6.0	9.0	10.7	2.5	3.1
Tunisia	15.9	17.2	4.0	15.1	12.9	–7.6	1.1	1.3
United Arab Emirates	2.2	2.7	5.8	3.2	4.5	9.2	0.7	0.6
West Bank and Gaza	12.3	22.3	12.5	14.7	23.7	10.1	0.8	0.9

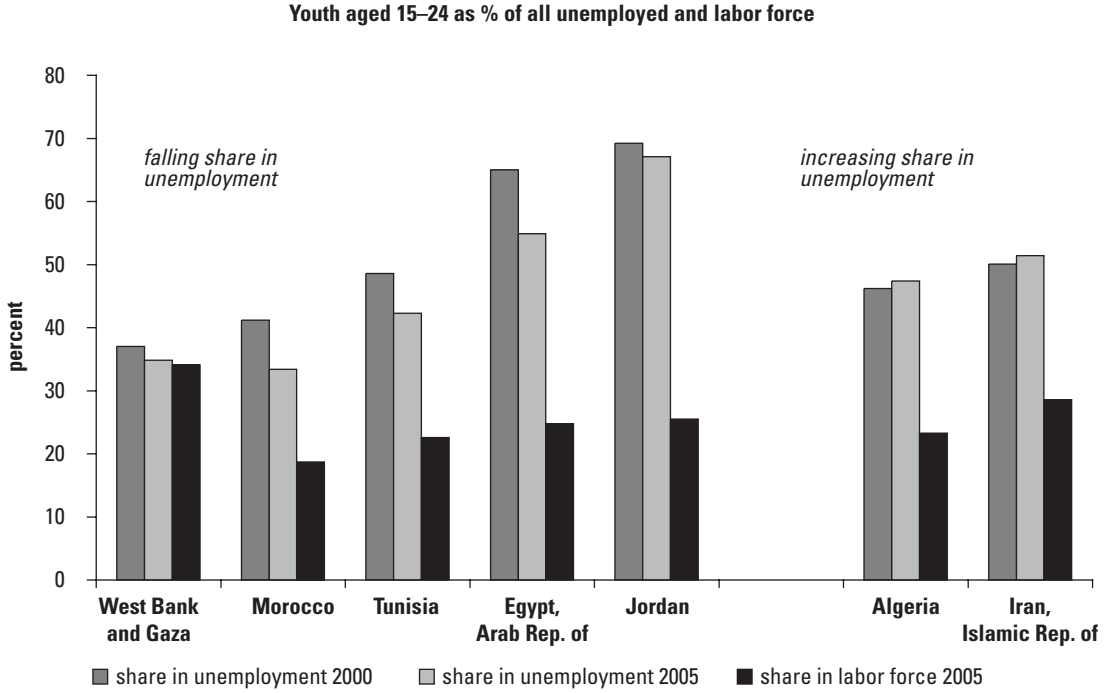
Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

a. Earliest and most recent available for the period.

b. Gender parity rate is defined as the ratio of female to male unemployment rates. In the case of West Bank and Gaza and the United Arab Emirates only, male workers have higher unemployment rates (gender parity less than one).

c. Morocco: urban areas only.

Figure 2.13: Youth's share of unemployment, 2000 and 2005



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

ria, while their respective shares in the labor force hover between 20 and 30 percent. Labor market insertion clearly continues to be a tremendous challenge in the region.

The situation of educated female workers has improved the least. Younger cohorts continue to arrive with successively higher levels of education to the labor market, but the payoff of such investments is less clear. Previous studies have showed that (a) returns to schooling have been lower in MENA than in comparable low- and middle-income regions; (b) returns to schooling have been falling over time; and (c) generally, unemployment rates have been higher among educated than low-skill workers (World Bank 2004a, World Bank 2007b, Pissarides and Veganzones-Varoudakis 2005).

Higher education is no guarantee for success in the labor market, especially for women. Table 2.5 presents data available for Algeria, Egypt, Iran, Jordan, and Morocco. As seen, unemployment rates are highest for those with higher education. Over time, unemployment rates have increased most (Jordan, Egypt) or fallen least (Morocco) for this group. Finally, the differences between men and women are generally higher at higher education levels—women with higher education have at least twice, and up to three times, the unemployment rates of their male counterparts—and the differences have been increasing over time.[7] The low elasticity of unemployment to employment growth in Egypt is particularly striking for educated females: women with higher levels of education are the only workers in Egypt that are facing significantly higher unemployment rates than in 1998. At the same time, their LFPRs have dropped significantly, from 69 to 56 percent, hinting at a large pool of discouraged workers (Assad 2006).

2.2.2 New jobs from higher growth

More jobs than labor force entrants. Falling unemployment rates in the context of rapidly growing labor forces are evidence of high and sustained job creation in the region. Between 2000 and 2005, annual employment growth reached 4.5 percent per year. In total, the 12 MENA countries in our sample have generated 3 million jobs per year, compared to a labor force increase of 2.8 million people per year. While little comparable data on employ-

[7] Note that lower differences between male and female unemployment rates at lower levels of education may simply indicate larger gaps in LFPRs—female LFPRs tend to increase rapidly with education.

Table 2.5: Unemployment and higher education, 2000 and 2006

Unemployment rates by education level and gender

	2000			2006			2000	2006
	Males	Females	Total	Males	Females	Total	Gender parity rate	
Jordan								
Less than secondary	15.6	17.3	15.3	14.2	19.2	14.2	1.1	1.4
Secondary and intermediary	11.2	22.9	13.8	9.5	22.9	12.1	2.0	2.4
Higher	9.7	18.6	12.2	12	29.5	17.7	1.9	2.5
Egypt, Arab Republic of								
Less than secondary	3.8	8.4	4.4	1.5	1.1	1.4	2.2	0.7
Secondary	13.7	47.7	24.4	6.5	33.8	13.5	3.5	5.2
Higher	7.4	20.2	11.6	8.5	24.6	13.7	2.7	2.9
Morocco								
No diploma	—	—	7.1	—	—	5.2	—	—
Intermediate	—	—	26.8	—	—	20.5	—	—
Higher	—	—	29.0	—	—	26.8	—	—
Algeria								
None	—	—	—	7.8	2.9	6.6	—	0.4
Primary	—	—	—	16.5	9.5	15.7	—	0.6
Secondary	—	—	—	18.4	22.8	19.3	—	1.2
Higher	—	—	—	14.5	27.5	19.3	—	1.9
Iran, Islamic Republic of								
Less than secondary	—	—	—	6.1	2.7	5.7	—	0.4
Secondary and intermediary	—	—	—	14.3	31.9	16.4	—	2.2
Higher	—	—	—	10.5	31.3	17.1	—	3.0

Source: Staff estimates based on national sources.

Note: Earliest and most recent years available: Jordan: 2001, 2005; Egypt: 1998, 2006; Algeria: 2004; Iran: 2006; Morocco: 2004; urban areas only. Gender parity rate is defined as the ratio of female to male unemployment rates.

— = data not available.

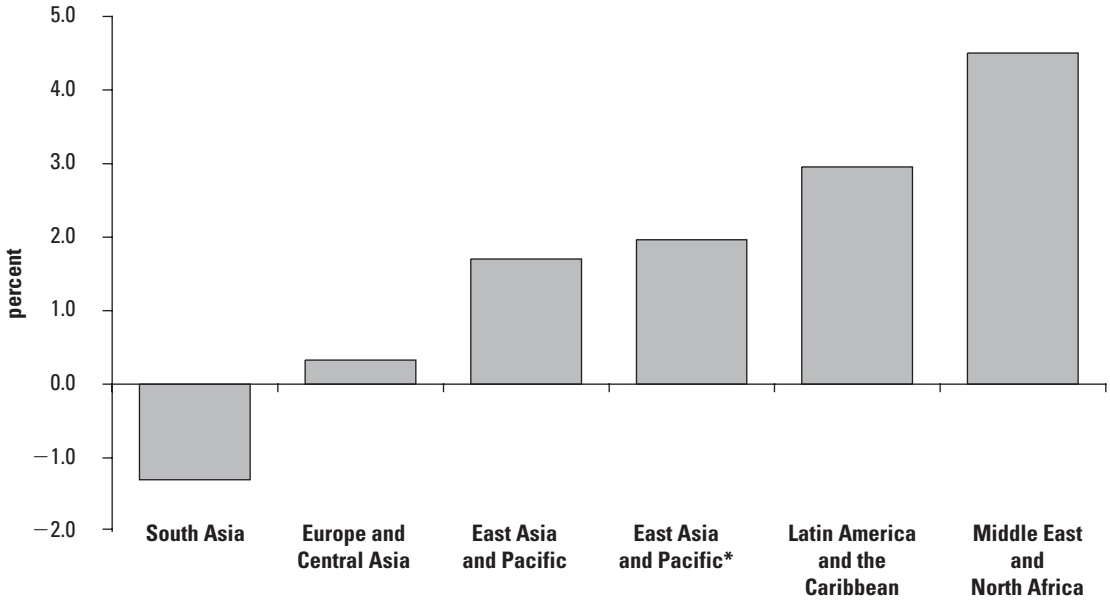
ment in the 1990s are available, the combination of continued labor force growth and falling unemployment suggest a much faster rate of job creation than in the 1990s, when unemployment increased more rapidly than the labor force (World Bank 2004a). Recent employment growth has also been very high compared to other developing regions. MENA's employment growth has been 50 percent higher than Latin America's, and more than twice that of other developing regions (see figure 2.14).

Employment has increased everywhere in the region, but to varying degrees. Aggregates mask great heterogeneity in job creation capacity within the region. Resource-poor countries are at the lower end of the job growth, resource-rich countries at the higher end. All MENA countries in the sample have seen job growth in recent years, and most of them have seen employment increase at considerable rates (see figure 2.15). Essentially, three groups of countries can be discerned. Three Gulf countries, notably the United Arab Emirates, Bahrain, and Qatar have seen exceptionally high employment growth—exceeding 9 percent. Six countries, including the three largest ones in the region, have seen high to very high employment growth, ranging from 3.9 percent in Saudi Arabia to 6.3 percent in Algeria. Finally, three resource-poor countries have seen growth rates below 3 percent—Tunisia, Morocco, and the West Bank and Gaza. In the case of Egypt, the relatively high employment growth emanates from a special labor market survey, while conventional labor market statistics imply less favorable labor market trends (see box 2.6).

Extraordinary factors account for high growth rates. In the Gulf countries, as well as in Jordan, expatriate workers absorb a majority of new jobs. In Algeria, the growth in the "work at home" sector drives up annual employment growth rates above 6 percent, but even without this sector, employment growth would have reached 4.6 percent per year.

Figure 2.14: Job creation in MENA and other developing regions

Annual growth in employment, 2000–05

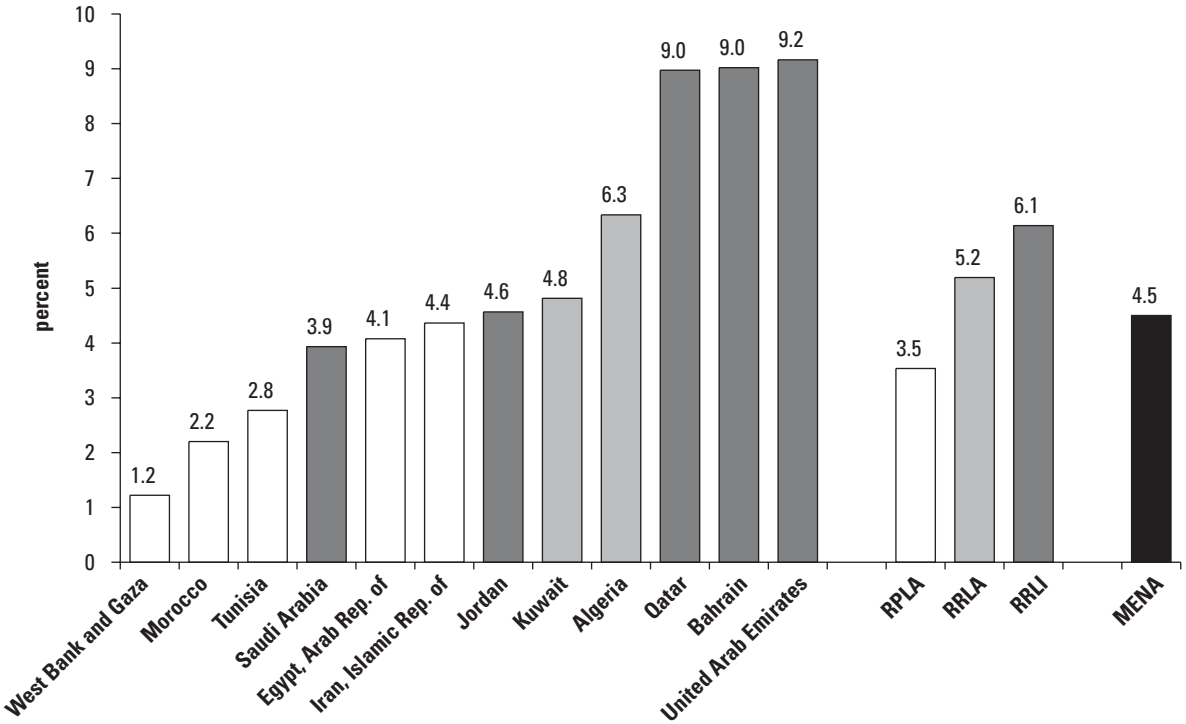


Source: World Bank staff estimates based on ILO 2006a and national sources.

Note: For all regions and national sources for MENA only. Regional weighted aggregates based on available countries. The fall in South Asia is due to a drop in employment in Bangladesh. *Excl. China.

Figure 2.15: Large variations in job growth among countries

Annual employment growth (percent), 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing. MENA country groups as in table 2.1.

Notwithstanding the West Bank and Gaza and its very special circumstances, Morocco has seen the slowest job creation—at 2.2 percent per year.

Employment rates also rose significantly. The employment rate—the share of employed in the working-age population—is a key indicator to understanding labor markets because it answers a fundamental question: how many of those that are old enough to be working actually hold a job and can therefore provide for the rest of the population? It is a particularly important factor in MENA, where women's low participation rates imply a large pool of untapped labor resources.

Because job growth increased at a significantly higher pace than the number of potential workers, the regional employment rate increased quite re-

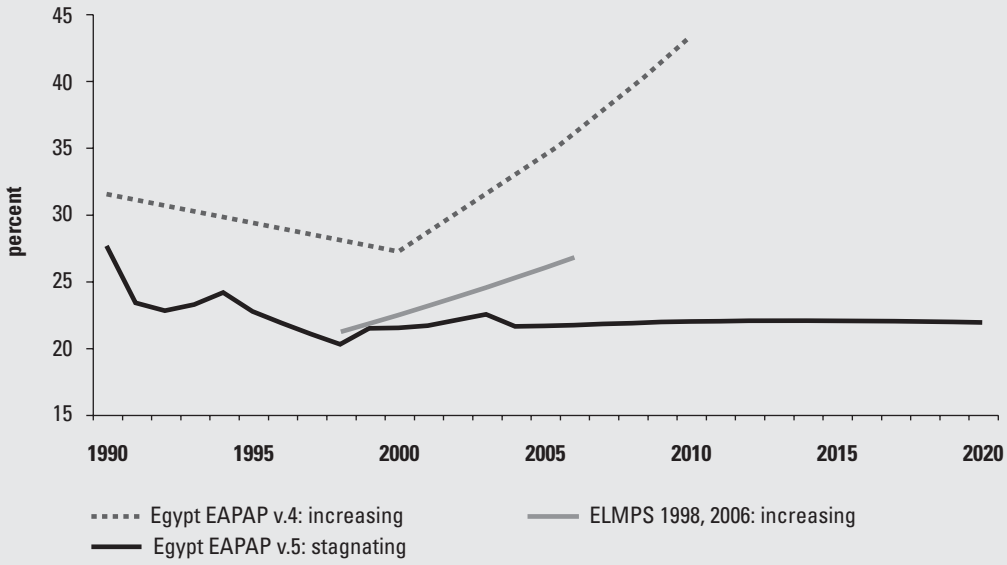
Box 2.6

Egypt: labor market data issues

Egypt has several and conflicting sources of employment and labor force data. One draws on unemployment numbers from labor force surveys (LFS), undertaken and published by CAPMAS, a statistical agency. The other is a set of panel data from the Egypt Labor Market Panel Survey (ELMPS), undertaken in 1988, 1998, and 2006, also by CAPMAS. Unemployment and employment trends, however, differ significantly between these two sources. LFS statistics show stagnation in unemployment in recent years (which would imply lower employment growth), while the ELMPS data point to significant employment growth across the board and a fall in unemployment rates. The standard labor force survey methods are considered weak, especially for capturing female employment, and the ELMPS survey data are more reliable. For this reason, and given the richer detail in the survey data, this report uses predominantly ELMPS data.

Apart from inconsistencies with other national sources, trends from ELMPS data are also markedly different from ILO estimates. ELMPS data suggest rapidly increasing labor force participation among women between 1998 and 2006, and therefore agree more with the earlier version 4 of EAPAP projections of labor force trends in Egypt. Given the size of Egypt's labor force, this has implications for overall labor force projections for MENA. If female labor force participation trends will continue to rise as suggested by ELMPS, labor force growth in MENA will be higher than currently projected.

Female participation rates in Egypt: what to expect in the future?

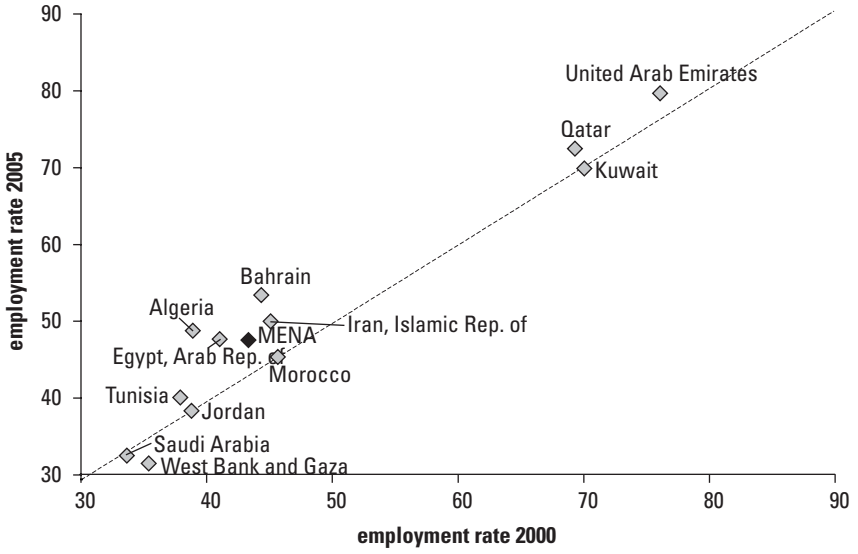


Source: World Bank staff estimates based on ILO 2005, 2006a; Assad 2006.

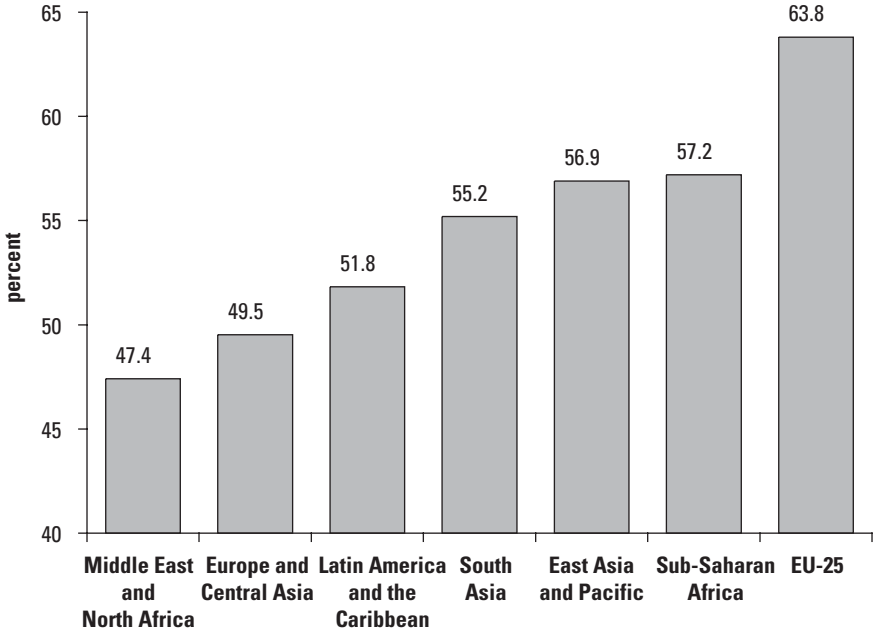
markably, from 44 percent in 2000 to 47 percent in 2005 (see figure 2.16, panel a). In Gulf countries, again, employment rates are pushed up because of the high share of migrants: most of the migrant working-age population is employed, while employment rates most likely are lower among nationals (Saudi Arabia is an exception, because the numbers used here refer to nationals only). Overall, the regional average was pulled up because the three largest countries, in particular Algeria and Iran, saw the most rapid increases in employment rates. Egypt was the only resource-poor country where employment rates improved significantly. In West Bank and Gaza and Jordan, employment rates fell; in Morocco, they stagnated; and in Tunisia, they increased only marginally.

Figure 2.16: Employment in MENA and other regions

a. Employment rates, 2000 vs. 2005



b. Employment rates: MENA and other developing regions, most recent available 2000–05



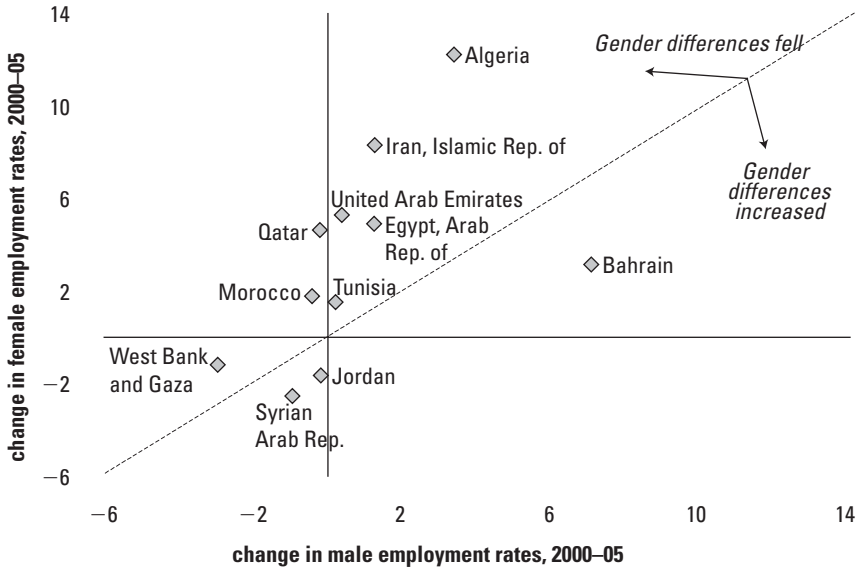
Source: World Bank staff estimates based on ILO (2005, 2006a); Eurostat, and national authorities. Regional aggregates based on countries available.

But MENA still employs a small share of its potential workforce. Employment rates in the region now range from below 40 percent in West Bank and Gaza, Iraq, and Jordan to between 40 and 50 percent in the Republic of Yemen, Morocco, Egypt, Lebanon, Algeria, and the Islamic Republic of Iran, and above 65 percent in the Gulf countries. Although employment rates have come up significantly, the MENA region still has lower employment rates than those prevailing in other developing and developed regions (see figure 2.16, panel b). These low employment rates continue to impose a heavy burden on those who have to provide for many dependents, and demonstrate that MENA still has a large amount of idle labor resources.

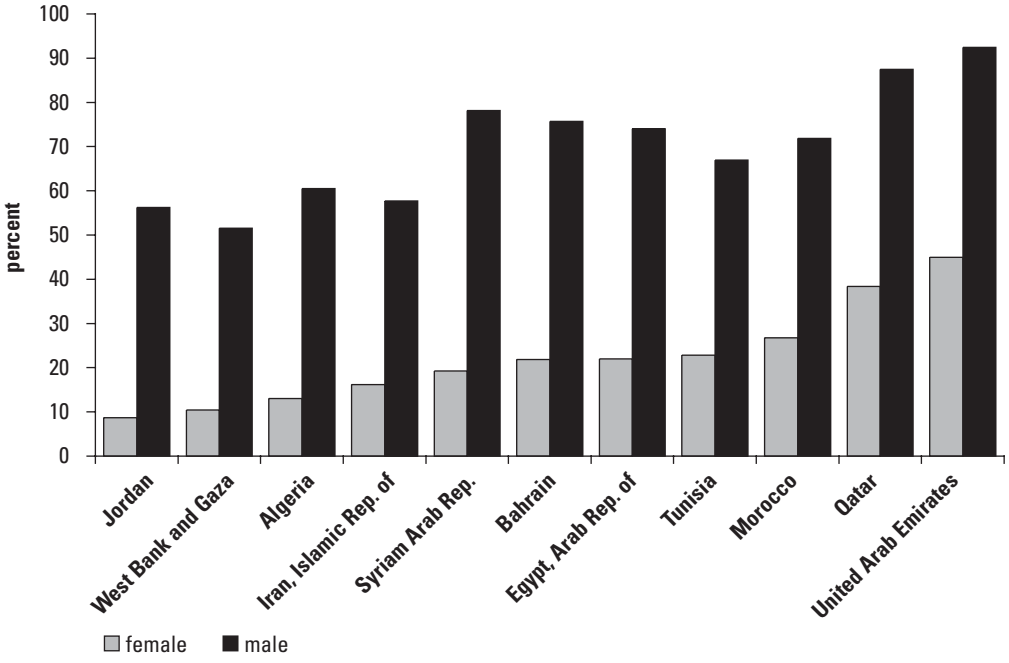
Women have gained jobs in the more dynamic labor markets. In countries with high employment growth, female employment has been a main feature (see figure 2.17, panel a). First and foremost, this has been the case in Iran and Algeria, but also

Figure 2.17: Gender differences in employment rates: falling, but still high

a. Annual change in male vs. female employment rates, earliest and most recent year in the 2000–05 period



b. Female and male employment rates, most recent year 2003–06



Source: World Bank staff estimates based on ILO 2005, 2006a, and national sources.

to some extent in Egypt, the United Arab Emirates, and Qatar, and to a smaller extent, Tunisia. In Iran, female employment rates increased by more than half, from 10 to 16 percent between 2000 and 2005; in Egypt, by half, from 15 to 22 percent in the period 1998–2006; and in Algeria, by one-third, from 9 to 12 percent between 2001 and 2004. Admittedly, these are countries where the differences between men and women were very large at the outset, and where female employment rates still remain among the lowest in the region (and consequently, in the world). However, the gap in employment rates between men and women has declined for many MENA countries during this period of growth.

At the same time as employment for women is growing, unemployment for women is increasing. How do increasing female employment rates square with higher female unemployment rates? The answer lies in the increased feminization of the labor force and the fact that while female unemployment has been growing, female employment has been growing even more rapidly.

In spite of these advances, female employment rates remained very low in the MENA region, generally hovering between 10 and 20 percent of the working-age population (see figure 2.17, panel b), and explain why MENA's overall employment rates remain low. A mix of very low participation rates and high unemployment rates account for these low levels. The distance to more developed regions is large: as a comparison, the aggregate female employment rate in the European Union (EU) reached 57 percent, and the lowest female employment rates in the EU reached 33 and 45 percent (Malta and Italy).

2.2.3 Migration

Labor force growth in the MENA region is driven by three factors: historically high fertility rates, increasing LFPRs, and significant migration. The MENA region is an important sender of migrant workers from Maghreb and Mashreq, and a major receiver of migrant workers in the Gulf. Since labor markets in MENA are quite porous, there is also significant intraregional migration in other parts of MENA. These migration flows influence employment trends. For example, massive return migration to Egypt and Jordan after the onset of the 1991 Gulf war contributed to worsening labor market conditions in the 1990s (World Bank 2004a).

Migration flows within, to, and from the region are motivated by both economic incentives and political instability. In the past, work opportunities in oil countries and northern Europe boosted large flows of legal economic migration from within the region. MENA worker migrants have come to face more obstacles over time. In the Gulf countries, employment nationalization policies on the high-skill end, competition from South Asia on the low-skill end, as well as the 1991 war, affected the flow of Arab workers. In Europe, a tightening of migration policies has transformed legal migration into large-scale illegal flows, especially to Italy and Spain (Johansson de Silva and Silva-Jauregui 2007).

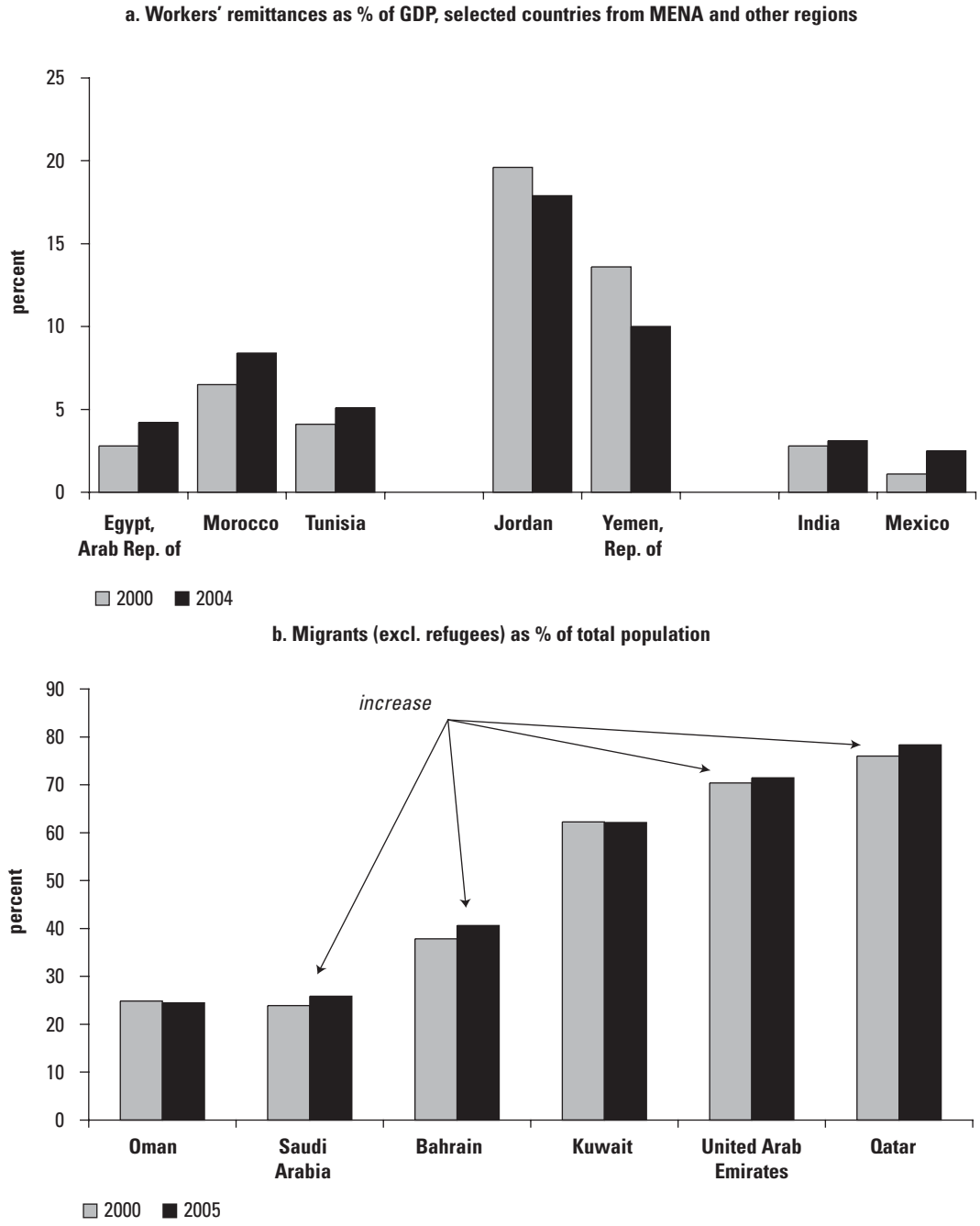
However, MENA is also host to significant refugee flows because of the high political instability within the region and in its vicinity, especially Africa's horn. According to the United Nations (UN), in the past few years, as a result of the war in Iraq, an estimated 2 million Iraqis have fled to Jordan, Syria, and Lebanon, and an additional 1.7 million have relocated to safer areas within Iraq. These flows have put high pressure on Jordan and Syria, where the share of illegal migrants is increasing, and controls are being tightened (Washington Post 2007, UNHCR 2007).

Data on workers' remittances suggest that economically motivated out-migration continues to constitute a key component in the region's economies.[8] Remittances have increased in importance in some MENA countries that are sending workers to Europe (see figure 2.18). The importance of migrant income in these economies is now higher than in India or Mexico—two major sources of migrants in the world.

MENA also continues to be a major recipient of economic migration, however. In spite of employment nationalization policies, the recent economic boom in the Gulf countries appears to have accelerated immigration even further. UN estimates put the migrant share of the total population in the United Arab Emirates and Qatar at close to 80 percent, and it has continued to increase in the past few years. If the 1990s trends are indicative, an overwhelming share of these workers are likely to origi-

[8] Given lack of recent data, remittances are the best but still an imperfect measure of physical migration flows. Remittance flows are influenced by many other factors than the number of workers, including economic conditions in host and home countries, transparency, ease of international payments transfers, and so on.

Figure 2.18: Migration of workers since 2000



Source: World Bank staff estimates based on World Bank 2006a, UN 2005.

nate from South Asia rather than MENA. Indeed, remittances from Jordanian and Republic of Yemen migrants, while exceptionally high, have continued to fall over time.

Labor markets are segmented, so migration may not affect unemployment rates much. Labor markets are also largely segmented—nationals in public sector jobs, foreigners in private sector jobs—which explains the coexistence of high job growth and rising unemployment rates for nationals in Jordan and the United Arab Emirates (see box 2.7). Because of this segmentation, it cannot be concluded that migrants from outside the region are crowding out national workers. In most of the Gulf region, migrants are contracted for a job before they are allowed into the country, and are predominantly employed in the private sector. A more likely explanation for higher unemployment rates among

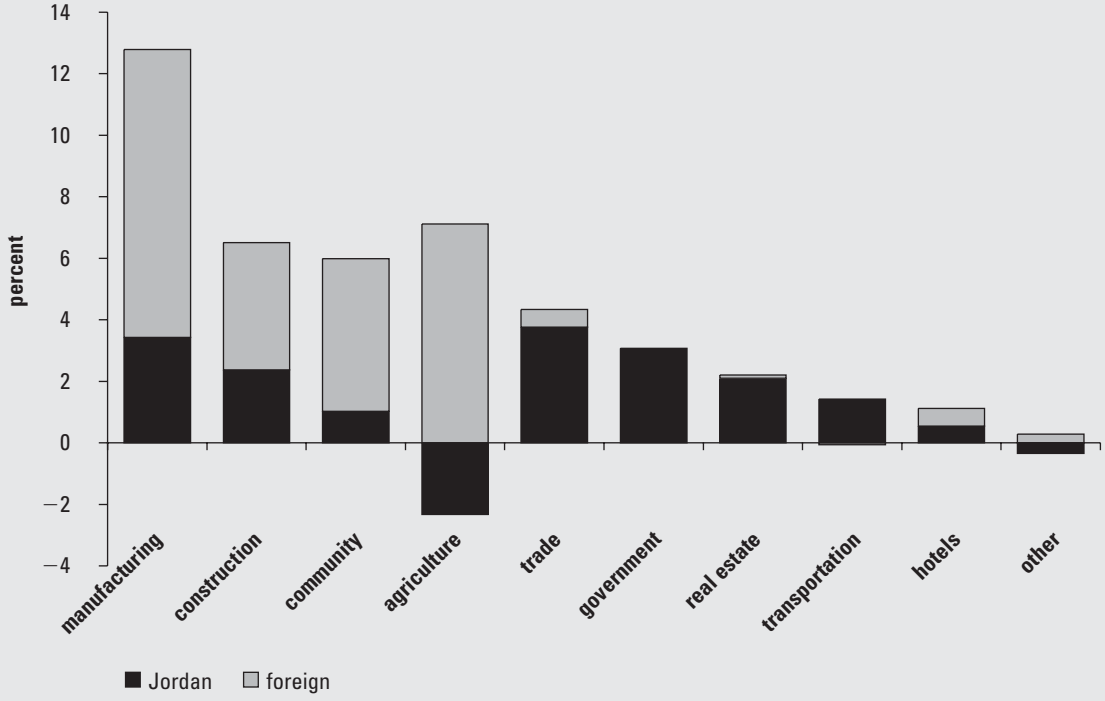
Box 2.7

Job creation, segmentation, and immigration in Jordan and the United Arab Emirates

Jordan's labor market outcomes are puzzling: employment and labor productivity are growing, but unemployment is increasing and employment rates are stagnating. These seemingly inconsistent features spring from the duality of the Jordanian labor market, where a large and increasing immigrant workforce is separated from the national labor force. Foreign workers are estimated to have accounted for the majority of all new jobs created between 2000 and 2005. Nationals have dominated public sector jobs, trade, real estate, and transport and communications. Foreigners, however, have completely dominated the rapidly expanding sectors, including manufacturing, construction, community and personal services, and agriculture.

From 2000 to 2005, Jordan created an average of 45,000 additional jobs per year, and in 2004 surpassed its annual goal by creating more than 100,000 jobs, driven by a high rate of GDP growth. But only 16,500 of the jobs were taken by Jordanians, while the rest went to foreign workers—many of them in the qualified industrial zones (QIZs)—and the unemployment rate remained stubbornly high at around 14.4 percent. An analysis of the Jordanian experience reveals that geography, employability, and expectation mismatches were the cause of the paradox of high economic growth and stubbornly high unemployment.

In spite of continued efforts toward civil service reform, Jordan's employment situation follows a familiar pattern for MENA: reservation wages differ between national and immigrant workers, and to relieve unemployment among nationals, the public sector fills a role as an employment guarantor. Immigrant workers, as well as national workers without education, are in the private sector. Meanwhile, national workers with some education prefer to queue up for better-paid jobs in the public sector. Without the continued expansion of public sector employment in recent years, unemployment rates for nationals would most likely have been even higher.



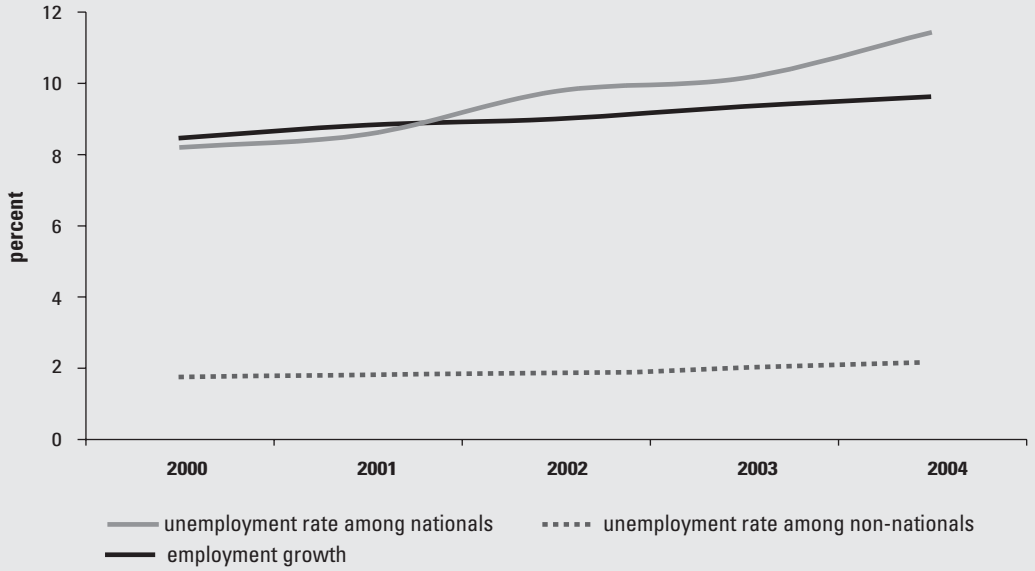
(*Box continues on the following page.*)

Source: World Bank 2006b, IMF 2005

Box 2.7

Job creation, segmentation, and immigration in Jordan and the United Arab Emirates (continued)

The situation in the United Arab Emirates shows similarities to that of Jordan. Around 90 percent of the labor force in United Arab Emirates consists of migrants (2004), and 90 percent of the nationals are employed in the public sector (1995 data). As a result, exceptionally high rates of job growth (approaching 10 percent per year), coexist with high and rising unemployment for national workers (from 8 to 12 percent between 2000 and 2004), and virtually no unemployment among migrant workers.



Source: World Bank 2006b, IMF 2005.

nationals is that they have higher reservation wages (World Bank 2006b) and prefer to wait for "better" jobs. Similarly, migration flows out of the region are not likely to have contributed in a major way to lowering unemployment in sending countries. The mere size of the labor force increases—some 800,000 people per year in Maghreb, 1.4 million if Egypt is added —suggests that this has not been the case.

2.2.4 Types of new jobs

While the relatively high rates of job creation are good news, the sharp differences among countries and groups of individuals in employment outcomes, as well as the persistence in unemployment among the highly educated, raises questions regarding the kinds of jobs available in MENA.

Total labor productivity growth remains low. The job intensity of MENA's economic growth has historically been high. In the 1990s, the MENA region had among the highest employment elasticities in the world, which translated into low—and in the case of the Middle East region—even negative labor productivity growth (see table 2.6). This is consistent with the observation that total factor productivity growth was stagnant in MENA in the 1990s (Keller and Nabli 2006). In other words, the explanation for rising unemployment rates in the 1990s was not that MENA's economic growth was not labor intensive enough, but that growth rates were not high enough for the millions of people coming to age and entering the job markets (World Bank 2004a, Pissarides and Veganzones-Varoudakis 2005). Jobs were also predominantly coming up in agriculture (a low-skill, low-wage sector) or in the public sector (World Bank 2004a, Kapsos 2005).

What is the situation now? Between 2000 and 2005, the MENA region has created employment at a high rate, but slightly lower than the growth in

Table 2.6: Persistently high employment elasticities since the 1990s

Regional and global employment elasticities, 1991–2003

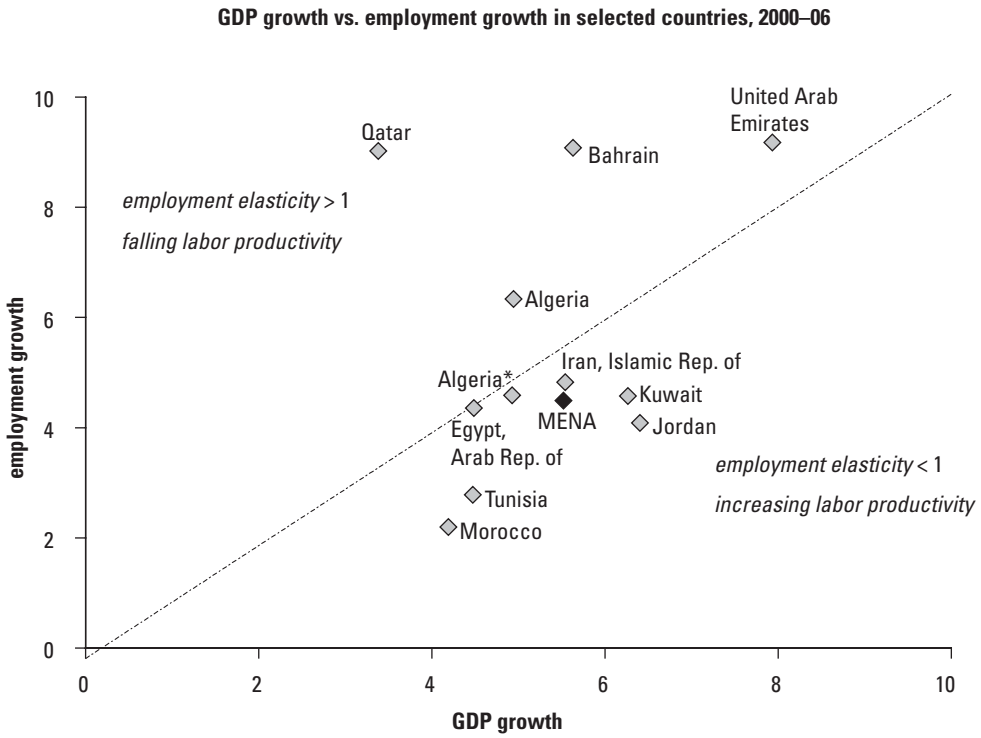
	1991–95	1995–99	1999–2003
Middle East	1.10	1.29	0.91
Sub-Saharan Africa	0.73	0.82	0.53
North Africa	0.30	0.74	0.51
Latin America	0.65	0.70	0.45
Southeast Asia and Pacific	0.39	0.20	0.42
South Asia	0.40	0.19	0.36
East Asia	0.14	0.14	0.18
Former Soviet Union	0.19	0.28	0.18
Central and Eastern Europe	0.24	0.01	−0.19
Global	0.34	0.38	0.30

Source: Kapsos 2005.

Note: Following ILO convention, the regional aggregate for North Africa here includes Sudan and Somalia, Middle East includes Israel.

value added. This implies that labor productivity growth was positive. It continues to be low, however (less than 1 percent per year), and the aggregate employment elasticity continues to be close to unity (see figure 2.19). There is now a productivity divide between high-job-growth and low-job-growth countries. The countries with high employment growth have seen labor productivity fall (Algeria and some Gulf countries) or stagnate (Egypt, Iran, and Algeria if the "work at home" sector is excluded). In contrast, labor productivity growth has been positive in Morocco, Tunisia, Kuwait, and Jordan. As will be discussed in chapter 3, these are also the countries that have moved forward most decisively on economic reforms in recent years and have established relatively business-friendly environments.

Figure 2.19: Persistently high employment elasticities in the region



Source: World bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: Weighted average for countries, as in figure 2.10, excludes West Bank and Gaza and Saudi Arabia.
*Excluding "work at home" sector.

Public sector employment growth is slowing down, leaving room for the private sector. The public sector in MENA used to fill a key role—as an employer of the first and last resort. In the absence of a dynamic private sector, high labor market pressures were met with more public sector jobs, especially for the rapidly increasing number of highly educated young people whose expectations for remuneration and career options could not be met elsewhere.[9] As a result, government employment expanded rapidly, producing an unusually large, as well as costly public sector by international standards. The salary levels and benefit packages offered by the public sector may also indirectly have perpetuated its role as an employment agency, by raising reservation wages. Workers preferred being unemployed, and queued for a well-paid job in the public sector, leading to persistence in unemployment rates, and still higher pressures for the public sector to keep hiring. Finally, public sector labor demand may have distorted education incentives by encouraging investment in human capital, which was not compatible with private sector needs.

Because of spiraling public sector wage bills, downsizing public employment and its share in public expenditures has been part of the regional reform agenda. There are now signs that the dynamics are changing. Overall, job growth in the public sector is slowing down compared to the 1990s, especially in the region's largest countries (see figure 2.20, panel a). It continues to expand by over 5 percent per year in several countries, however, including Jordan. Success has also been varied in reducing the actual cost of government employment. In Egypt, Tunisia, Syria, and Morocco, the government wage bill has increased as a share of GDP (see figure 2.20, panel b).

In tandem with these changes, the private sector appears to have taken on a more important role in employment creation in recent years. In countries where employment data could be disaggregated by private sector and public services,[10] the private sector has created a major share of new jobs. Jordan is an important exception, however. Of the nearly 200,000 new jobs created between 2001 and 2005 in Jordan, more than half were in government services (see figure 2.21). Moreover, in Morocco and Algeria, construction and public works programs—included in the definition of private sector jobs in national statistics—accounted for around 20 percent of all net job creation. In general, this type of labor market program does not provide sustainable and high-quality jobs over the longer term, and, once terminated, participants are not likely to be more successful in joining the conventional labor market than before, thus risking a return to the pool of the unemployed (see box 2.8).

The falling importance of public employment is, in fact, a key explanation for the limited success of educated women in the job market in MENA, and the low elasticity of their unemployment rates to economic growth (Assad 2006). The public sector is seen as a preferable employment option for young women—in general, the public sector also offers more generous gender-specific benefits like maternity leave, childcare facilities, and flexible work hours. The wage premium for public sector jobs relative to private sector jobs tends to be higher for women than for men. And finally, the gender wage gap has been smaller in the public sector than in the private sector in Egypt (World Bank 2004a, 2004b). Because these benefits translate into higher reservation wages, educated women have been disproportionately affected as employment opportunities in the public sector have dried up.

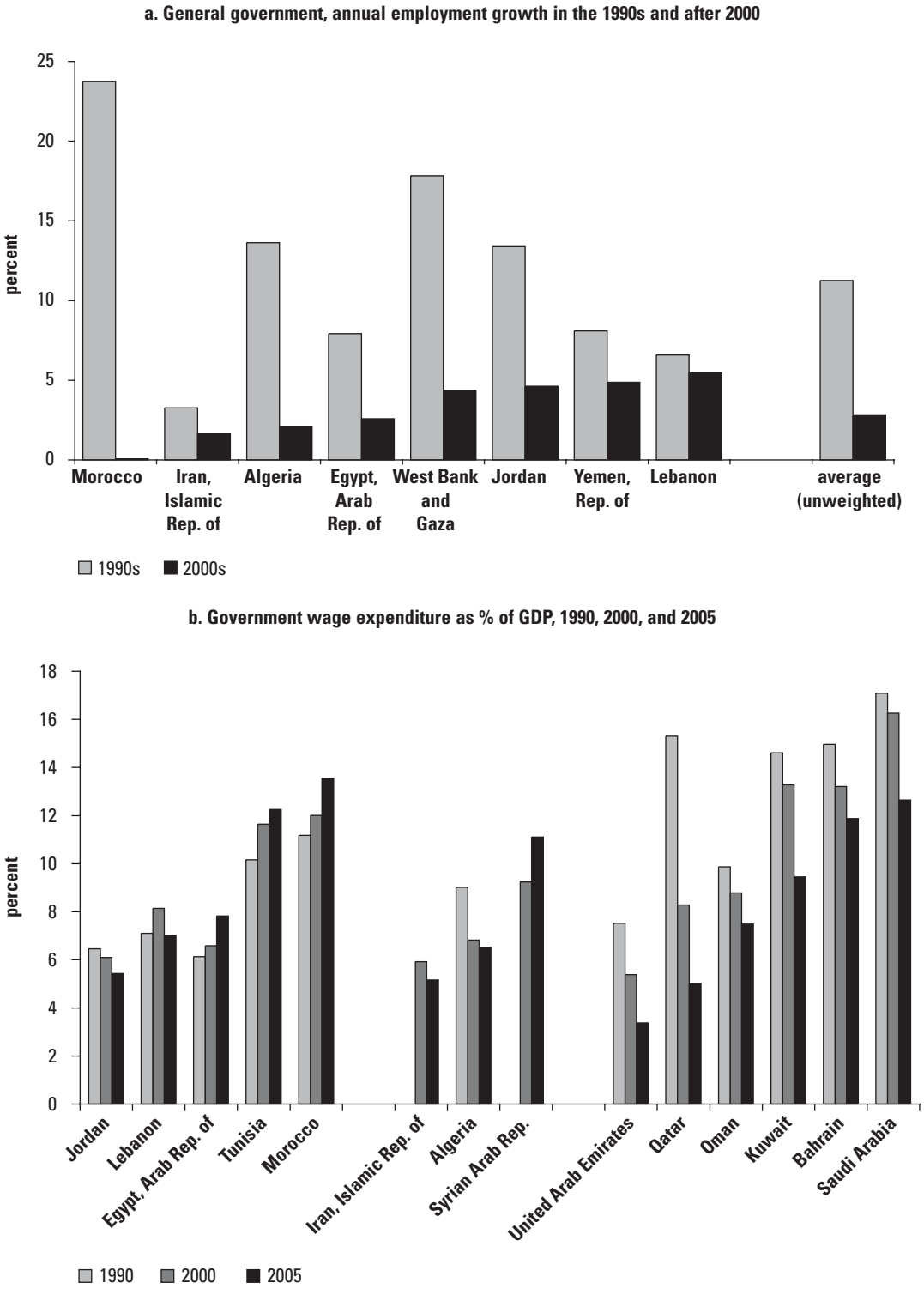
The services sector is the main source of employment growth, but agriculture remains important. The services sector has accounted for a vast majority of new jobs in MENA in recent years (see figure 2.22). The agricultural sector, however, has played a surprisingly important role in the high-job-growth countries, as well as in Morocco. In Iran, the agricultural sector seems to have provided about half of the new jobs between 2000 and 2005; in Egypt and Morocco, two-fifths; and in Algeria, one-fifth. With the exception of Iran, the industrial sector's contribution to employment has been limited.

Are workers moving to sectors with higher productivity growth? Looking at employment and productivity growth from the sectoral perspective helps us to identify the characteristics and potential impact of the new jobs created in MENA. There is still a fairly clear negative relationship between productivity growth and employment creation in the region. The trade-off between employment and labor productivity growth may seem logical, but is not necessarily a given, especially if coupled with technology improvements in the services sector, as seen in developed countries (Annenkov 2005). In general,

[9] In addition, there is evidence that public sector wages were higher than private sector wages in MENA, unlike in other regions (World Bank 2004).

[10] Government services include the public administration, health, and education sectors.

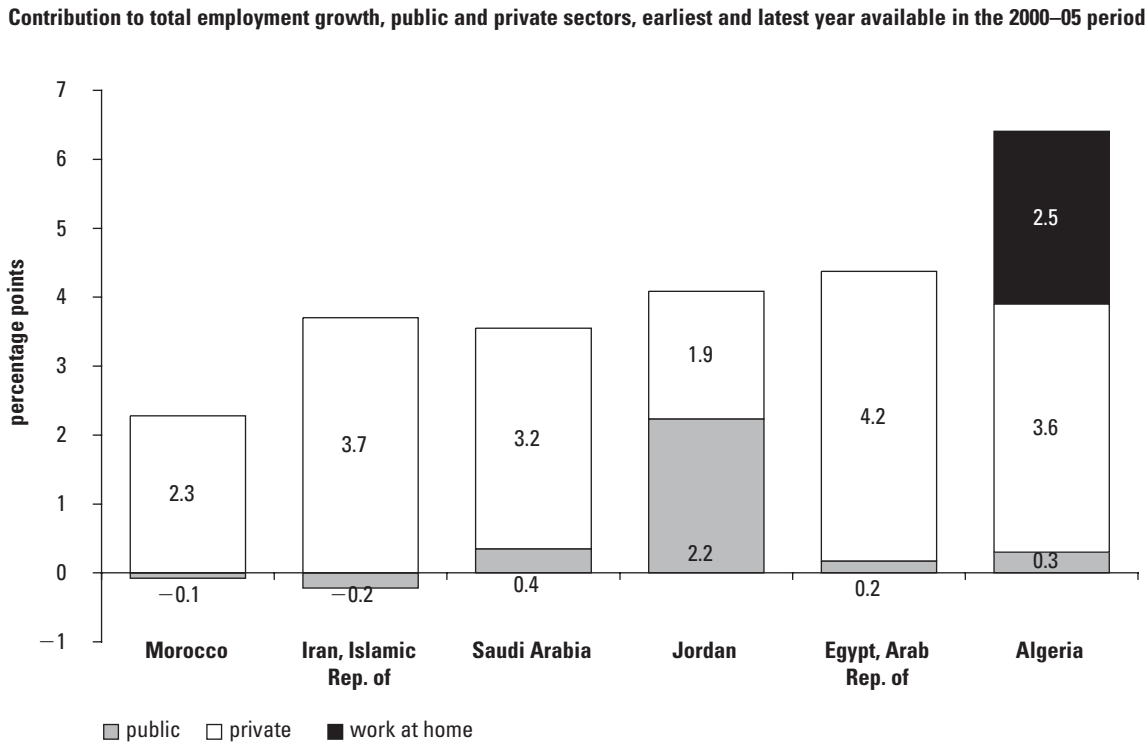
Figure 2.20: Slowing growth in public sector employment



Source: World Bank staff estimates based on national sources, World Bank 2006a.

Note: General government includes central government, subnational governments, health and education, and where available, state-owned enterprises.

Figure 2.21: New jobs and the private sector



Source: World Bank staff estimates based on national sources.

Note: Public sector refers to public administration, health, and education. Sector A's contribution to growth in total employment in percentage points between periods t and t+1, and is calculated as the share of sector A in total employment in period t times the growth rate of employment in sector A, between t and t+1. Totals for Iran and Saudi Arabia differ from figure 2.15. Here, Iran is based on 2004–06 data, when job growth was lower than over the 2000–05 period (3.5% vs. 4.8%), while Saudi Arabia includes employment for nonnationals as well.

MENA countries do not display the dynamic shifts that occurred, for instance, in Ireland in the 1990s, where sectors with highest productivity gains also produced relatively more additional jobs, leading to rapid growth, declining unemployment, and the convergence of per capita incomes with the rest of Europe (see figure 2.23, panel a).

Recent developments in MENA are nonetheless interesting because, despite the overall negative relationship between employment and productivity growth, several countries are generating jobs in sectors where productivity is increasing. Output growth has been high enough to both sustain some (if limited) productivity improvements, and create new jobs at the same time (see figure 2.23, panel b). The expansion in jobs in the services sectors and, to a smaller degree, the industrial sectors, is in most countries being accompanied by some gains in productivity. Jordan is to be noted, as job growth in industry has been coupled with significant productivity growth.

There are also cases of job creation with declining productivity, most importantly among the countries with high job growth. The agricultural sectors in Iran, Egypt, and Algeria have seen important drops in productivity as employment has increased. Agricultural labor absorption likely signifies a safety net for low-skill workers and, as such, an increase in underemployment. In the nonagricultural sectors with higher growth in employment, productivity growth has generally been low or negative. The extremely poor results for Algeria's services sector (declining productivity) is in part due to the expansion of the "work at home" sector, but even when we net this out, labor productivity stagnated in the Algerian services sector. Overall, these results present an important caveat to the improvements in female employment rates in the region, as such job growth may have been predominantly in low-skill sectors.

Labor demand and labor market flexibility. The fact that some sectors are recruiting people while productivity is growing is a likely indication of growing labor demand in the formal private sector, which is seeing higher demand for its products and

Box 2.8

Public works programs and government hiring in Morocco and Algeria

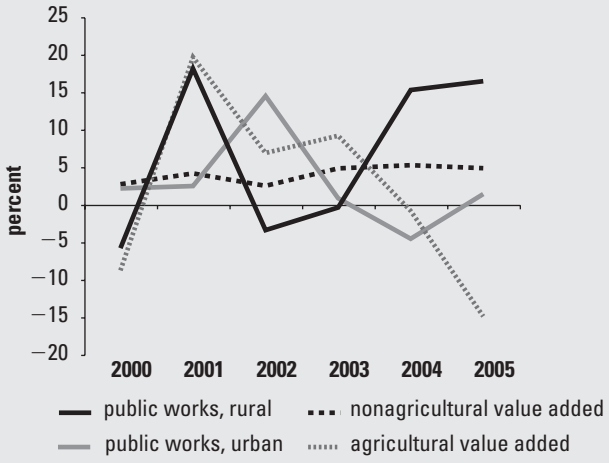
In Morocco, between 2000 and 2005, public works and construction jobs in rural and urban areas expanded by 9 and 3 percent, respectively, each year. In Algeria, employment in this sector grew by 6 percent per year. By 2005, these jobs accounted for 7 and 12 percent of total employment in Morocco and Algeria, respectively.

International experience shows that public works programs can fill an important role as a short-term safety net in economic downturns. In reality, however, they are often procyclical, and expand when government income is high. Public works programs are not a suitable instrument for labor market insertion— participants' chances of getting a regular job afterwards do not improve (Dar and Tzannatos 1999). Arguably, these jobs should therefore be counted as hidden unemployment.

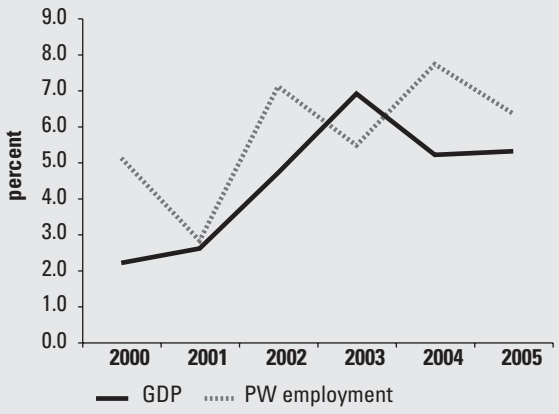
Looked at year by year, public works jobs in Algeria have been countercyclical after 2001—suggesting that the sector does fill a role as a safety net—but seen over the entire period, there is also a clear upward trend. Public works employment has in fact been fuelled by high and rising economic growth. In Morocco, public works programs in rural areas have increasingly been filling a role as a shock absorber, as attempts to reduce the income impact of agricultural output swings are failing. This escalation over time, in tandem with rising economic growth, gives cause for concern as there is little evidence that these programs will help solve a more permanent problem of creating viable jobs for the working population. The sustainability of these jobs, especially in the context of lower growth and higher fiscal pressures, is therefore highly questionable.

Public works programs are successively expanding

Morocco: growth in value added (agricultural and nonagricultural) and employment in construction and public works (rural and urban areas)



Algeria: growth in GDP and employment in construction and public works

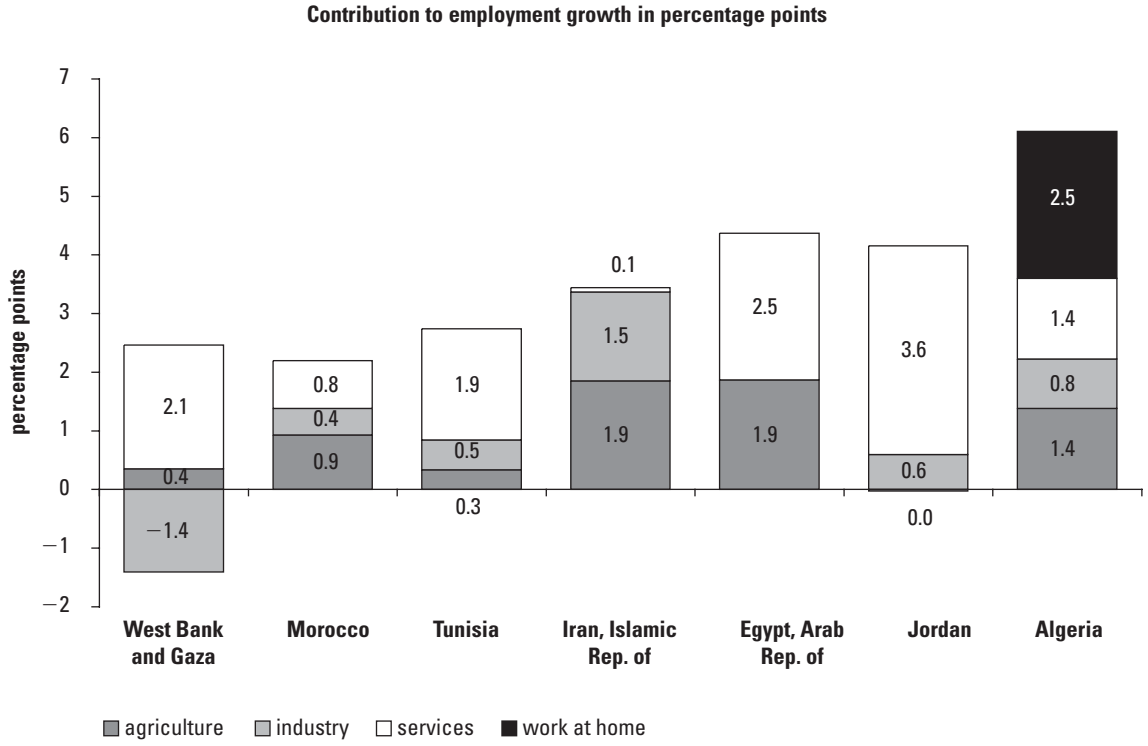


Source: Staff estimates based on national sources, ILO 2005, World Bank 2007c.

services. On the other hand, there appears to have been quite high growth in informal sector jobs (agriculture and low-productivity services), which essentially bypass regulatory frameworks and formal wage-setting mechanisms that tend to constrain job creation in the formal sector.

Labor demand is affected by labor costs and by how well the skills profile of the labor force fits the needs of firms. Labor costs not only include wages, but also indirect costs associated with rigidities in hiring and firing workers, and labor taxes. Wage data are scarce (see box 2.9 below), but indicators of labor market conditions and regulations give some insights into the demand side of the labor market (see table 2.7). Overall, these indicators put the MENA region in the middle of the group of

Figure 2.22: Job creation and the service sector



Source: World Bank staff estimates based on national sources.

Note: Sector A's contribution to growth in total employment in percentage points between periods *t* and *t* + 1, is calculated as the share of sector A in total employment in period *t* times the growth rate of employment in sector A between *t* and *t* + 1. Iran, see fig. 2.21.

developing regions. However, the middle-of-the-road position appears to depend on the relatively favorable business climate in RRLI countries, while labor-abundant countries, in particular resource-poor countries, do worse than most developing regions. There are significant employment restrictions in Algeria, Morocco, and Tunisia, and various areas of rigidity throughout the region. But on the whole, employment policies constitute one of the less restrictive areas in terms of doing business in most countries. Notwithstanding MENA's relatively *good* position with respect to labor market flexibility and labor costs, RRLA countries have made progress in the past few years on reforming labor markets (especially the rigidity of employment). Surveys of firm managers' perceptions of business constraints give a more inconclusive picture.[11] Overall, labor issues, including regulatory framework and the skills level of the available workforce, do not generally rank as a very important constraint to business compared to factors such as access to finance and tax levels.[12]

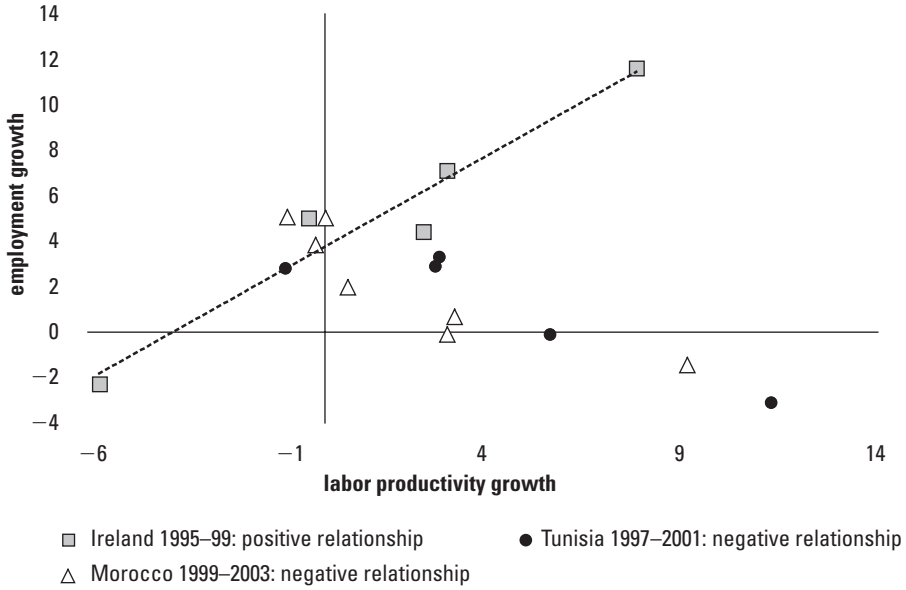
In sum, there are positive developments in MENA's labor markets, which seem to have become more dynamic in recent years. The private sector has taken over as the major source of job creation in MENA, and there may be even more dynamics at the firm level within economic sectors. However, employment elasticities have remained high and labor productivity growth slow because sectors with high value-added growth are not the ones creating the majority of the new jobs. Instead, the evidence is that most jobs are still low skill and low wage, and, especially in the case of agriculture, likely to represent underemployment and subsistence work. The sluggish levels of overall labor productivity growth and the fact that most jobs continue to be created at the expense of labor productivity hold back income in the present and jeopardize growth, employment, and income prospects for the future (see box 2.9).

[11] See Investment Climate Assessments for the Arab Republic of Egypt (2005), Lebanon (2006), Morocco (2005), Oman (2004), Saudi Arabia (2006), Syria (2005), and the Republic of Yemen (2006).

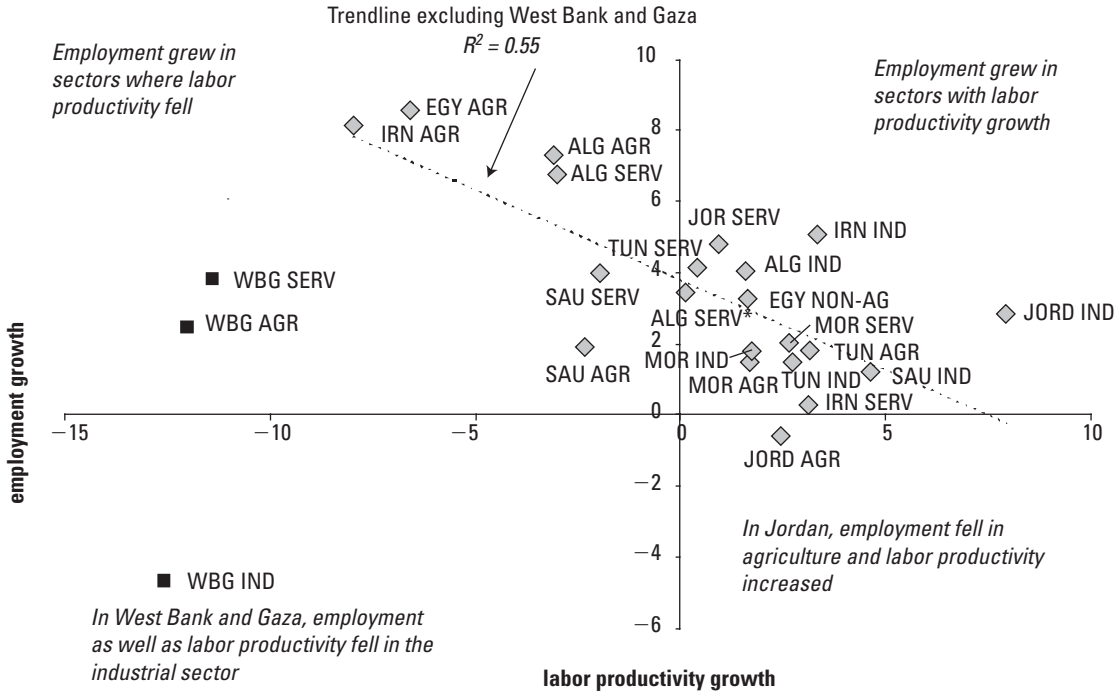
[12] Saudi Arabia is an exception. Fifty percent of firms list labor regulations and difficulties of finding adequately skilled personnel as a severe constraint to business operations.

Figure 2.23: A persistent trade-off between jobs and productivity gains

a. Labor productivity growth and job growth in subsectors, Ireland, Tunisia, and Morocco



b. Annual employment growth vs. annual productivity growth, agricultural, industrial, and services sectors, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources; World Bank 2004c.

Note: ALG SERV* excludes "work at home" sector. AGR = agriculture; SERV = services; IND = industry; NON-AG; nonagricultural.

Table 2.7: Labor market regulations in MENA and elsewhere

Indices for labor market regulations and employment reforms, 2003–06

Level of labor market regulations in 2006					Employment reform,
Hiring	**Hours of work**	**Firing**	**Nonwage labor costs**	**Firing costs**	**2003–06**
MENA RRLI (76)	SA (68)	MENA RRLI (89)	SA (73)	ECA (68)	*MENA RRLA (75)*
EAP (63)	EAP (64)	EAP (67)	EAP (70)	OECD* (64)	***MENA (56)***
OECD* (57)	LAC (57)	LAC (59)	MENA RRLI (60)	MENA RRLA (58)	*SSA (54)*
MENA (55)	MENA RPLA (55)	OECD* (56)	SSA (57)	EAP (55)	*ECA (52)*
ECA (50)	**MENA (50)**	**MENA (51)**	LAC (57)	**MENA (49)**	*OECD* (51)*
LAC (49)	MENA RRLI (49)	MENA RRLA (48)	**MENA (44)**	MENA RRLI (45)	*LAC (49)*
MENA RPLA (48)	OECD* (47)	ECA (45)	MENA RRLA (41)	SSA (41)	*MENA RPLA (46)*
MENA RRLA (46)	ECA (43)	SA (43)	OECD* (40)	SA (40)	*MENA RRLI (41)*
SSA (41)	SSA (42)	SSA (37)	MENA RPLA (39)	MENA RPLA (40)	*EAP (36)*
SA (41)	MENA RRLA (38)	MENA RPLA (30)	ECA (20)	LAC (35)	*SA (30)*

Source: World Bank staff estimates based on Doing Business dataset.

Note: For each country, the percentage of countries that perform worse in the respective reform area has been calculated. A higher number—rank—thus indicates a better result. The numbers in parentheses in the table are the regional unweighted averages of individual country rankings. Employment reform is the weighted average of rankings for labor market regulations except non-wage labor costs. * High-income countries only. OECD = Organisation for Economic Co-operation and Development. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; SA = South Asia; SSA = Sub-Saharan Africa; RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing.

Box 2.9

Low labor productivity threatens competitiveness and real wage growth

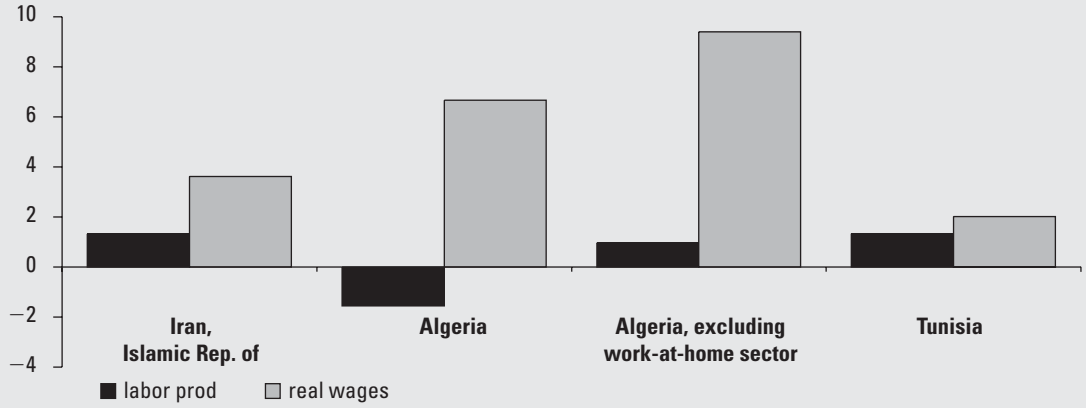
Low growth of labor productivity offers a choice between two ills: (a) low income growth in the present to maintain competitiveness, and (b) eroding competitiveness, which worsens prospects for future income growth. Growth in labor productivity is needed to sustain real wage increases over time. If wages increase more than labor productivity, unit labor costs (the labor cost of producing one unit of output) rise, since unit labor costs are the ratio of the average wage to labor productivity:

$$ULC = \frac{W}{\Upsilon} = \frac{L}{\Upsilon} \times \frac{W}{L} = \frac{W/L}{\Upsilon/L}$$

Increasing unit labor costs erodes competitiveness and puts at risk future growth and employment prospects.

How has the region faced this trade-off? The sketchiness of wage data and lack of information on the informal sector constrain the analysis. However, data for Iran, Algeria, and Tunisia suggest a rising competitiveness problem. In the nonagricultural sector, real wages increased considerably faster than labor productivity between 2000 and 2005, particularly in Algeria (see figure).

Labor productivity and real wage growth in the nonagricultural sector, 2000–05, Iran, Algeria, and Tunisia



Source: Staff estimates based on ILO 2005 and national sources.

2.3 Meeting the Employment Challenge

The changing age structure of the labor force and the maturing population in MENA now place the region in a unique position. Between 1990 and 2010, the growth of the working-age population will have exceeded that of the dependent population by a much greater magnitude than in any other region in the world. What is needed to transform this large pool of potential workers into actual workers?

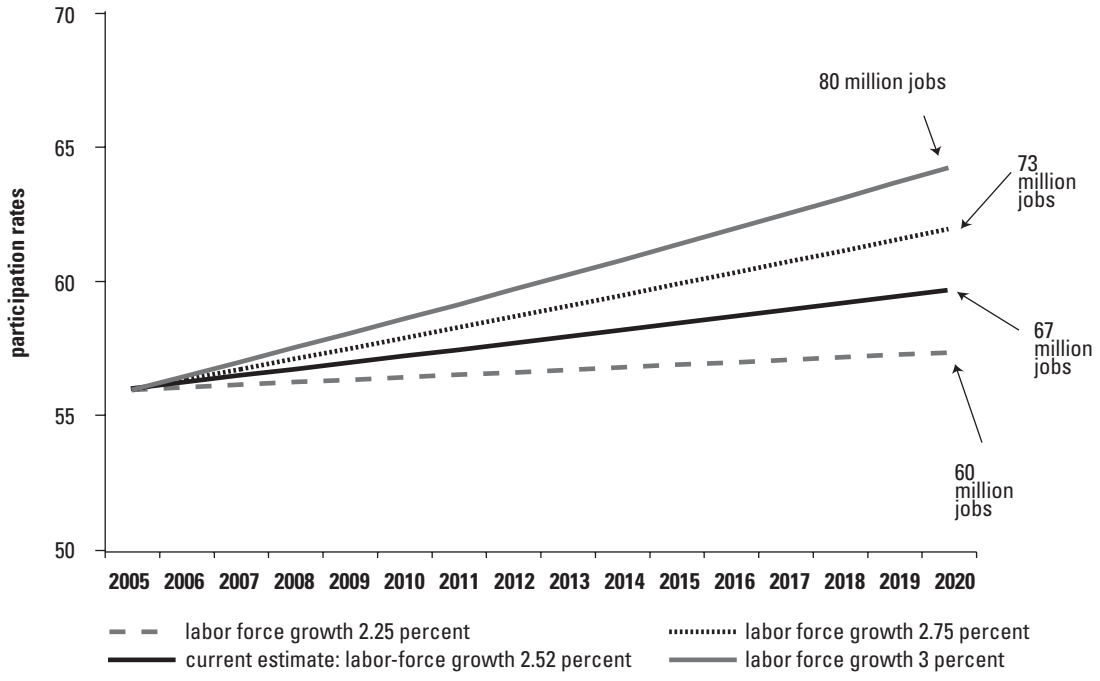
2.3.1 How many new jobs will be needed?

Adjusting to projected labor force growth. The MENA Regional Employment Report concluded that between 2000 and 2020, the region would have to create 80 million jobs to absorb new labor force entrants. To meet the greater challenge of absorbing new entrants and eliminating unemployment (estimated at the time at nearly 15 percent), the region would have to create nearly 100 million jobs in the period 2000–20, or 5 million jobs per year. Following this approach, but using the revised ILO estimates, MENA would need to create slightly fewer jobs per year because of lower estimated labor force growth. By 2005, MENA's labor force had expanded to nearly 120 million people, and is estimated to reach 174 million by 2020. The region will therefore need to create 54 million jobs over the next 15 years to merely cover new entrants to the labor force. With unemployment in the MENA region now estimated at just above 12 percent,[13] the more ambitious goal of creating jobs for the unemployed, in addition to the new entrants, implies the need for 68 million new jobs by 2020, or 4.5 million jobs per year—a reduction of about 10 percent compared to previous estimates. Nonetheless, creating this number of jobs is still a daunting endeavor.

Labor force projections are uncertain and depend on economic circumstances. The difference in the estimated job creation needs for the region presented above and those used in the MENA Regional Employment Report highlight two important issues. The first is that even relatively small changes in actual compared to projected participation rates will have large implications for the estimates of the

[13] Referring to the 12 MENA countries as well as Iraq, Lebanon, and the Republic of Yemen, for which there are point estimates.

Figure 2.24: Job creation requirements and changes in labor force participation rates



Source: World Bank staff estimates based on ILO 2005.

needed jobs for the region. Figure 2.24 presents a sensitivity analysis that shows that if participation rates were to rise from 56 to 64 percent by 2020, instead of the currently projected 60 percent, 80 million new jobs will be needed instead of 68 million. Should participation rates stagnate, only 60 million jobs will be needed. While the number of jobs is intimidating in either of these scenarios, the uncertainty surrounding the actual magnitude of the employment challenge is high.

The differences in ILO revised data also show that LFPRs are difficult to forecast because they do not follow more predictable population-driven patterns. LFPRs are endogenous to economic circumstances and are influenced by many factors including incentives, the probability of getting a job, wage levels, and economic and social policies.

Revisiting the 100 million jobs estimate. From this perspective, the employment challenge spans more than labor force participation and unemployment rates suggest. In reality, the inactive population may hide a large number of potential but discouraged workers who would like to work but have given up hope of finding a job. The challenge of job creation involves these workers as well. In this vein, the European Employment Strategy, agreed on by the Lisbon European Council in 2000, sets a different goal for the EU: that the overall employment rate should reach 70 percent by 2010, compared to its present level in Europe of 64 percent. Today, MENA's employment rate is below 50 percent, meaning that less than half of its potential workforce is employed. What would raising this employment rate—both by lowering unemployment and by raising participation rates—imply in terms of job creation?

Figure 2.25 translates the job creation numbers matched to ILO projections of labor force growth into employment rates, and also presents two additional scenarios. With the projected labor force growth around 2.5 percent per year between 2005 and 2020, and the corresponding job creation of 68 million jobs, MENA employment rates would increase to about 60 percent by 2020. While this represents a significant increase compared to the current employment rate, it falls short of the levels currently registered in the EU, and much short of the goal the EU has set itself for the end of this decade. For MENA to reach the current EU employment rate of 64 percent by 2020, about 79 million jobs will have to be created in the next 15 years. And, finally, to reach the more ambitious European goal of an employment rate of 70 percent, nearly 100 million jobs would be needed in the same time frame—that is, nearly 6.5 million jobs per year. This represents a sustained employment growth of around 4.4 percent per year.

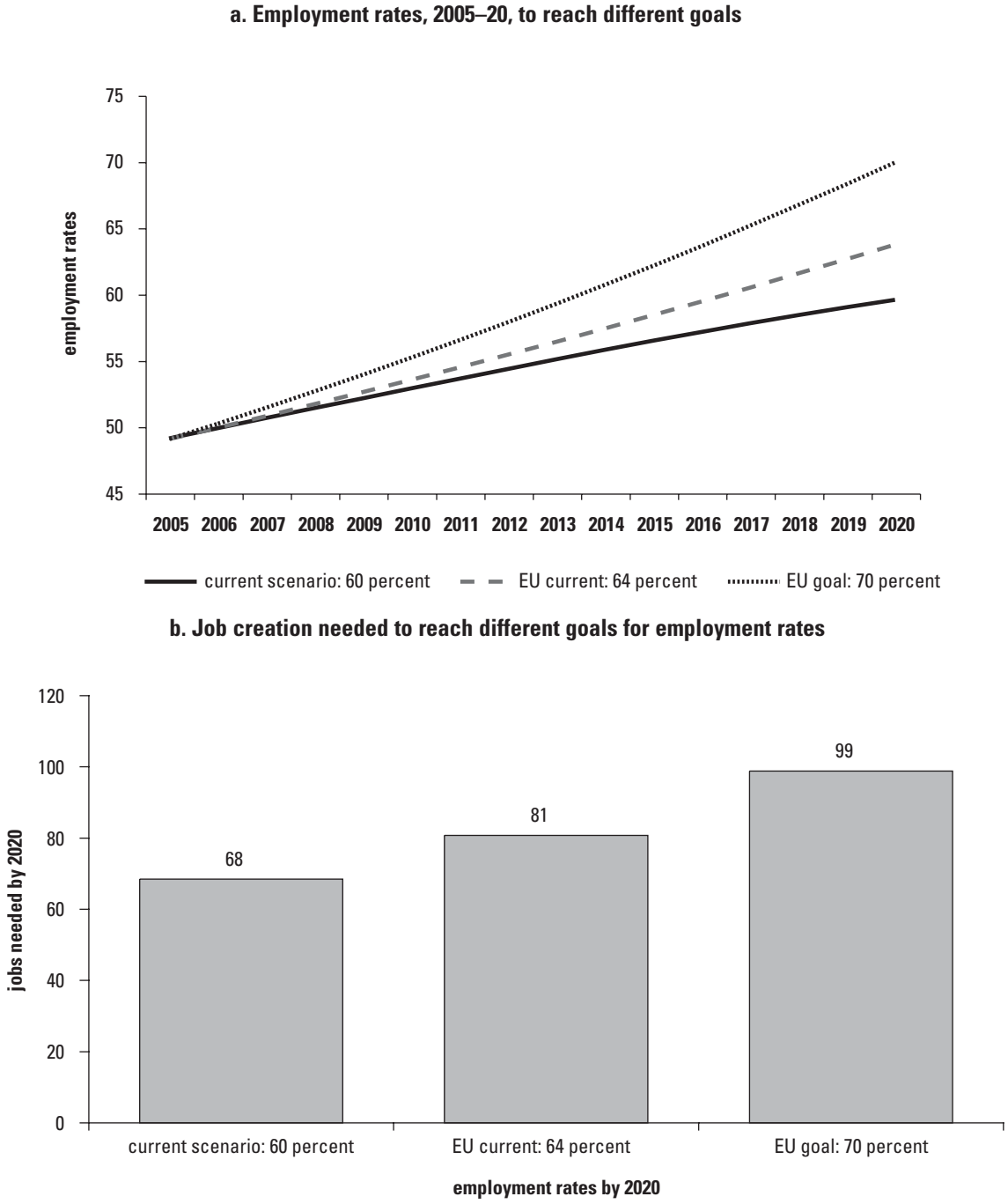
2.3.2 Quantity and quality of jobs: a dichotomy?

The population in MENA has been and continues to be one of the fastest growing in the world, but employment did not grow as fast as the region's labor force in the past decades. While employment growth was relatively strong in the 1970s, during the first oil booms, it failed to keep up with demographic pressures in the 1980s, when oil prices dropped and government-led growth strategies lost momentum. The 2000s are bringing some new perspectives to the employment challenges of MENA, as a new, and so far sustained, oil boom drives much of the action in the region. The recent economic boom seems to have altered prospects for addressing and resolving much of the region's employment challenges. But not all countries in the region are benefiting from the recent growth. At the same time, labor force growth will come down over time as the population in MENA ages, and its composition is also changing in favor of increased female participation.

Can the MENA employment challenge be met? The vast majority of jobs would need to come from within MENA's economies. Migration provides an important mechanism for risk diversification and income growth, but the mere size of the job challenge means that labor demand abroad cannot fill the employment gap. Thus, the region would need to maintain the exceptionally high rates of employment growth of recent years through 2020, and advance structural reforms to facilitate job creation, particularly by the private sector. At the same time, enhancing worker productivity remains a key challenge and will require strong efforts to build real skills and foster entrepreneurship and innovation in the private sector.

Indeed, the MENA region is facing a double employment challenge: the number and the kinds of jobs that need to be created. To shift to a higher-productivity/high job-growth scenario, economic growth rates need to remain strong and employment elasticities need to decline. Historically, MENA countries' high employment elasticity implied strong job creation at times of strong economic growth, but, as noted above, at the cost of

Figure 2.25: More jobs needed in the region



Source: World Bank staff estimates based on ILO 2005.

low productivity. This highlights a dilemma of quantity versus quality of jobs created. Continued high demographic pressures will push for quantity rather than quality. For these jobs to last, especially beyond a fall in oil prices, there needs to be a focus on quality as well. Although the reform process has picked up speed in some countries (chapter 3), it is still moving slowly and unlikely to deliver growth levels on par with East Asia, which could significantly raise productivity levels in tandem with strong job creation.

During the 1980s and early 1990s, there is no doubt that the dominance of public sector employment had lingering effects on productivity in the region. There is a large body of research that shows that human capital accumulation in the public sector,

especially within the administrative civil service, may not significantly contribute to economic growth, and, in fact, may actually reduce economic growth if government workers use some of their powers to generate rents for themselves (Pritchett 1999). The degree to which the region's exceptional public sector employment has lowered MENA's growth is not entirely clear, but a recent study estimated that the loss of GDP growth in the MENA region between 1985 and 1995, strictly due to public administration employment, was some 8.4 percent, or close to 1 percentage point per year (Pissarides 2000).

Although the region has been successful over the last few years in creating jobs, worker productivity growth has remained low—lower than most other regions of the world. Sectors with high value-added growth are not the ones creating the majority of new jobs. The evidence instead suggests that most of the region's jobs are still low skill and low wage, especially in agriculture, construction, the informal sector, and low-skills manufacturing. In the future, the sources of job growth need to become less dependent on such low-productivity activities and more dependent on high-productivity growth activities (driven by the private sector and world markets).

To move to a model of higher productivity growth, MENA will need to expand reforms in complementary areas. Better educational systems will be needed to prepare workers and entrepreneurs for a competitive global environment, and continued public administration reform will be needed to ensure that private sector labor demand is not distorted. Finally, low-productivity jobs are still providing income security for MENA's working poor. A more dynamic and open economic environment will imply higher job insecurity, and, possibly, higher income inequality. This calls for considerable strengthening of safety net mechanisms to minimize the impact of income volatility and address the needs of those that may be left behind in the transition.

This also raises the issue of developing nonwage sources of income, such as unemployment insurance, to allow for higher productivity growth. Unemployment insurance schemes remain undeveloped in MENA. The only country to introduce such a scheme is Algeria. Though many of the unemployed in MENA have been first-time job seekers, this pattern is changing as the MENA region works through the demographic transition. And as MENA's unemployed become workers with greater job experience, the need for unemployment insurance heightens—not only to protect workers from lost wages, but to make sure that workers undertake efficient job searches. In economies without unemployment insurance, job search duration is significantly reduced, and workers often accept lower-productivity jobs to avoid the costs of unemployment. Lower-productivity jobs offer insurance from unemployment. These jobs are easier to get, but imply lower wages.

Labor policy needs to balance these two fundamental objectives—the goals of protecting workers from the risks of unemployment, lost income, or poor working conditions, and the goals of encouraging job creation and the allocation of labor to their most productive uses. The degree to which one goal is emphasized over another depends on the national context.

The shift toward private sector export-driven job growth, with higher productivity, would have the benefit of increasing the returns on education, and resolve one of the main weaknesses of the old development model in MENA. This shift will, over the long term, help to reduce the productivity gap between MENA and other regions. But it will require better educational systems to prepare workers for a competitive global environment, as well as better signals from the labor market to the education sector—otherwise educational reform will not be sustainable. Improving those signals will also necessitate reform of the public administration sector. However, the gains in terms of higher returns to education and skills may come at the cost of higher inequality. Unskilled labor may not see the benefits of economic growth in terms of increased earnings, but rather in terms of improved employment prospects.

This creates a challenge for policy makers. The policy response is certainly not to slow the pace of technical progress or the opening of markets. It lies in enhanced educational and skills development programs both for entrants into the labor markets and for those who have to retrain and return to the markets.

The overarching challenge of creating sufficient employment opportunities in MENA points to the continued need to create an environment in which private sector investment—and employment—can prosper. Even though the region has made progress along all areas of reform in the last few years, a broad range of issues continue to hinder the private sector from fully emerging in MENA.[14] As the pri-

[14] See chapter 3 of this report.

vate sector becomes the main player in labor markets, and as reforms in the business environment are undertaken, it faces the challenge of becoming less dependent on rents, whether directly from the state or through prevailing uncompetitive practices and state capture.

In the long term, to meet the employment challenge, RPLA economies in the region have to move forward on comprehensive structural reforms that will improve the competitiveness of their economies, enhance public sector governance, and strengthen the role of the private sector. Resource-rich economies have the opportunity to use the current oil boom to speed up the transition to more diversified economic structures, where a larger role is played by private sector export-led growth. Both resource-poor and resource-rich economies will need to focus on creating good jobs that are sustainable and enhance the well-being of their populations.

3

Structural Reform for Long-Term Growth

Strong oil revenues and oil-related wealth, along with the ongoing European recovery, provide the momentum for continuing robust growth in the MENA region over the short term. Over the longer term, however, MENA's growth prospects will be shaped by many other factors. Among oil producers, the duration of extraordinary oil prices and the fiscal management of the windfall revenues will greatly influence the prospects for long-term income and economic growth. Many of the resource-rich, labor-importing (RRLI) economies of the Gulf, in particular, are pursuing a variety of strategies to use current oil savings to build up longer-term revenue streams outside of oil, with central banks and the rest of the banking systems accumulating significant foreign assets.

However, beyond oil wealth management, one of the region's fundamental development challenges—creating sustainable employment for its workforce—will require the region to undergo major structural changes to provide strong engines for employment growth. While employment growth has been strong in recent years, MENA has a long way to go to reach more desirable levels of employment and employment of women, as well as to improve the productivity of its jobs. Understanding the progress that has been made in implementing this structural reform agenda, then, is an important aspect of gauging the region's potential for long-term growth and employment.

Over the past six years, MENA countries have shown progress in moving forward their structural reform programs. In the context of a proliferation of regional and bilateral trade agreements, MENA economies have significantly reduced tariffs and nontariff barriers to imports, and over the past six years, the region ranks on average in the 62nd percentile worldwide with regard to tariff reform.[1] But the path to creating an environment conducive to trade remains far from complete. Outside the Gulf Cooperation Council (GCC), tariff protection remains excessive. Tariffs average 17 percent among resource-rich, labor-abundant (RRLA) economies, and tariffs are even higher among resource-poor countries, particularly in Tunisia and Morocco, where the current simple average tariff is above 26 percent and the heavy tariff protection of the domestic market has changed only slightly over the past 10 years. Moreover, significant barriers to developing a strong trading sector exist in the form of cumbersome import and export clearing processes.

Improving the competitiveness of the region's trade sector also depends upon greater progress in liberalizing backbone services critical to trade. While there has been recent progress in liberalizing a few key services, liberalization is often stop and go, and the process remains far from complete. In

[1] See Appendix B for the methodology behind the structural reform indicators.

many countries, key sectors remain closed to competition, either through ownership restrictions or other regulatory practices.

Over the last few years, MENA economies have undertaken measures to improve the environment for business, focusing on liberalization of key services in the economy, across-the-board business and regulatory policy reform, and targeted interventions to promote specific sectors. The more general upgrades to industry in the *mise à niveau* programs in Morocco and Tunisia, for example, have changed to programs targeted at upgrading specific sectors. These targeted interventions are also apparent throughout the GCC countries, which have worked to develop key service centers by creating international legal and business infrastructures separate from the rest of the country.

Despite some improvements in a few countries, progress in business and regulatory reform has been below average. Outside of the GCC countries, which have fairly developed business infrastructure and generally favorable business policies, the region continues to suffer from significant impediments to conducting business, especially in key areas such as starting a business, protecting investors, and contract enforcement. Taken as a whole, in a worldwide ordering of countries based on the overall business climate, MENA countries rank in the 44th percentile with respect to the climate for doing business—behind all other regions but Sub-Saharan Africa and South Asia.

Many of the MENA region's development challenges relate to governance challenges, although over the past years, MENA countries have taken steps to address significant deficiencies in governance. Many of these efforts have focused on reforming public administration, both to improve efficiency in the delivery of quality public services, and to create fiscal savings. MENA's historical state-run models have translated into large civil services, and civil service reform has been a key element of the public sector reform programs in a few countries in the region, such as Jordan, Morocco, and Egypt.

But beyond efforts to improve public sector efficiency, several countries have taken important steps to open up the political space and allow for greater accountability and strengthen inclusiveness in public policy, an area in which MENA continues to rank near the bottom worldwide. Over the past six years the region has taken considerable steps forward in reducing this governance gap. Between 2000 and 2006, MENA countries ranked on average in the 63rd percentile with regard to improving the mechanisms for government accountability, higher than almost all other regions of the world, with particularly strong efforts among resource-poor countries and resource-rich, labor-importing countries.

While the recent oil boom has greatly benefited the oil-producing economies of the region with improved growth and revenues, an important concern has been the potential impact this oil boom might have on the continuing structural reform effort. Though information is scant, there is some indication that the incentives for sweeping improvements in public sector management have diminished with rising oil prices. Although resource-poor countries made strong progress in administrative reform, many of the region's oil-dominant economies failed to demonstrate significant efforts to improve public sector management.

In the area of enhancing public sector accountability, there is a significant divergence between MENA's labor-abundant oil economies and labor-importing oil economies. Since 2003, many of the resource-rich, labor-importing economies of the GCC have begun to show strong efforts to improve government accountability. Along with their efforts toward more prudent management of the oil windfall and stronger economic ties with the world, GCC countries such as Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) have also taken significant steps forward in the sphere of enhancing the inclusiveness and accountability of government. It is a significant and encouraging sign that these efforts have taken place despite rising oil prices. MENA's labor-abundant oil economies, on the other hand, have generally not moved forward with improving public sector accountability since 2003. Creating more inclusive and representative governance structures is influenced by far more than rising oil prices. Still, given the importance of this area of reform for the overall reform agenda, the significant backsliding by a few countries causes us concern for the long-term prospects for growth.

3.1 Measuring Structural Reform

Beginning with the first MENA *Economic Developments and Prospects* report in 2005, evaluating the region's longer-run growth prospects has in part relied on assessing the region's progress with policy and institutional reform. Utilizing a range of avail-

able indicators, structural reform indices were constructed in three distinct areas of reform: *trade and outward orientation*, *business and regulatory reform,* and *governance*, broadly corresponding to the key areas of change required in the region to create more open, private sector–driven, and diversified economies.

These indices have evolved as new information has become available that strengthens our knowledge of both the current reform status and structural reform in each country. With these measures of structural reform, this year's MENA Economic Developments and Prospects report highlights where the MENA region stands with regard to the rest of the world in terms of economic policies and structures, and evaluates the region's recent progress in terms of its transition to more open and private sector–oriented economies. Because many economic reforms take time to result in measurable development outcomes, in addition to structural reform indices, we also discuss the region's more recent efforts and emerging trends.

In this chapter, we examine the region's progress in trade reform over the period 2000–06, highlighting the trade initiatives undertaken, evaluating progress in lowering trade barriers, and discussing the issue of service sector liberalization. Then, we discuss progress in improving the business climate, highlighting the region's recent efforts at liberalization and measuring progress in improving the business environment from 2003 to 2006, based on a range of business-climate indicators. Next, we highlight the issue of service sector liberalization, and estimate the potential gains from liberalization of both financial services and infrastructure services. Then, we address the region's progress with governance reform, both in improving the quality of administration and in improving government accountability. Finally, we conclude the analysis with a comparison of the region's pace of structural reform before and after the start of the oil price boom.

3.2 Outward Orientation (Trade Reform)

The relationship between openness to international trade and income growth is almost axiomatic.[2] A vast amount of empirical literature supports the view that economies with greater openness to international trade experience higher rates of economic growth, as a result of both higher investment levels and sustained gains in productivity.[3]

But in addition to increases in growth, greater openness also can motivate the overall reform agenda, by building virtuous circles of structural and institutional reform. Opening economies to greater trade and competition expands the role of non-rent-dependent export sectors. These more productive and efficient segments of the economy need better policies and institutions to compete, thus building the demand on policies and institutions to respond. For example, Mexico's trade liberalization through NAFTA induced business associations to lobby the government for reductions in the regulatory burden to help them compete (Kikiri, Kenyon, and Palmade 2006). Trade doesn't just raise the demand for other reforms; it also raises the marginal product of other reforms, in that better infrastructure, telephones, roads, and ports translate into better performance of the export sector (Berg and Krueger 2002). And greater openness and trade also expose the workforce to the need for new skills and knowledge, creating another effective coalition for reform, with this workforce demanding the skills and services needed to compete in this economic setting.

MENA countries entered the new millennium at a significant deficit with respect to most other regions of the world in terms of its integration into the world economy. The World Bank's flagship report on trade and investment highlights many aspects of this deficit (World Bank 2003a). While most regions of the world saw rising trade over the last two decades, trade in MENA declined, with the ratio of trade to GDP falling from an average of 100 percent in 1980 to about 60 percent by 2000. Non-oil trade also failed to grow, with the share of non-oil trade/GDP falling from about 53 percent in the early 1980s to 43 percent by 2000 (World Bank 2003a). Regional exports remained dominated by oil, with oil and petroleum product exports accounting for 81 percent of regional exports in 2000, down only slightly from 84 percent in 1990, and 95 percent in 1980. Only a few countries had established growing non-oil export sectors.

[2] See for example: Sachs and Warner 1995, Frankel and Romer 1999, and Dollar and Kraay 2001.

[3] Although there has been criticism of the evidence of the relationship between openness to trade and growth (see for example, Rodríguez and Rodrik 1999), a broader interpretation suggests only that certain conditions are necessary for these gains from trade to be realized.

Similarly, the region failed to attract more than a negligible share of the world's foreign direct investment (FDI). In 2000, while MENA accounted for 5 percent of the world's population and 2.5 percent of world income, its share of world FDI was a mere 0.3 percent.[4]

Many factors affect the level of trade in a country. Trade is influenced not only by formal trade policies like tariff and nontariff policy, exchange rate policy, and policies affecting costs behind the border, but also by many external policies and structures affecting the overall climate for conducting an exporting or importing business. Political and institutional considerations also play a large role.

[4] World Bank staff estimates from country data.

To be sure, MENA's ability to expand trade has been disadvantaged by a legacy of protectionist trade and exchange rate policies. As a result, at the start of the new millennium, the region maintained the highest level of tariff protection in the world outside of South Asia, with simple average tariffs in MENA averaging almost 19 percent. It also heavily utilized quantitative import restrictions, with more than 23 percent of tariff lines subject to core nontariff barriers (NTBs) (table 3.1). Core NTBs include price control measures (such as antidumping and countervailing duties) and quantity control measures such as import licenses and quotas.

Technical barriers to trade, customs, and administrative procedures, and costly and inefficient backbone services, such as transport, logistics, ICT serv-

Table 3.1: Tariff and nontariff protection in the region, 2000 (or closest year available)

Country/region	Simple average tariff	Nontariff barrier coverage[a]
Algeria	24.0	17.5
Bahrain	7.9	4.4
Djibouti	31.0	—
Egypt, Arab Republic of	21.4	28.7
Iran, Islamic Republic of	41.1	39.1[b]
Jordan	23.1	48.6
Kuwait	3.6	—
Lebanon	10.7	24.1
Libya	17.0	—
Morocco	30.5	9.1
Oman	5.7	13.1
Saudi Arabia	12.0	15.4
Syrian Arab Republic	21.0	—
Tunisia	29.1	33.1
Yemen, Republic of	12.8	—
Regional averages (unweighted)		
MENA	**19.4**	**23.3**
Resource-poor	24.3	28.7
Resource-rich, labor-abundant	24.7	28.3
Resource-rich, labor-importing	9.2	11.0
Sub-Saharan Africa	15.8	4.7
East Asia and Pacific	10.7	19.6
Europe and Central Asia	9.5	9.5
Latin America and Caribbean	13.4	30.0
South Asia	17.6	13.6
High Income/OECD	4.3	25.7
World	**13.6**	**17.6**

Sources: Tariff data are from UNCTAD TRAINS database; nontariff barrier data are from World Bank Development Economics Group online data and statistics, "Frequency coverage ratio of nontariff barriers by country."

a. Nontariff barrier coverage refers to the proportion of tariff lines that have at least one core nontariff barrier (quantitative restriction).
b. Proportion of tariff lines requiring license from Ministry of Industry (from World Bank 2001).
— = data not available

ices, and finance, have further raised the overall costs and disincentives to trade. Problems in the overall business climate, discussed further in section 3.4, have added to the region's poor trade outcomes.

3.2.1 Recent developments

Over the past several years, the region has embarked on reforms to liberalize their trade regimes and remove the many existing impediments to greater trade. At the start of the decade, only half of the countries in the region, Bahrain, Djibouti, Egypt, Kuwait, Morocco, Qatar, Tunisia, and the United Arab Emirates, were members of the World Trade Organization (WTO). But over the past seven years, Jordan, Oman, and Saudi Arabia have acceded to the WTO, and Algeria is in the final stages of meeting the conditions of accession.

In line with worldwide trends, bilateral and regional trade agreements have proliferated in MENA. Dominant among these were the Association Agreements with the European Union, signed by most of the labor-abundant countries in MENA. Resource-poor economies were among the first to ratify the Agreements, which establish tariff-free trade in industrial goods between the European Union and countries of the Southern Mediterranean. Tunisia and the Palestinian Authority, on an interim basis, had agreements in force by 2000. Since then, all of the other resource-poor economies but Djibouti have signed and put into force EU Association Agreements: Morocco in 2000; Jordan and Lebanon in 2002; and Egypt in 2004. Both Algeria and Syria have signed agreements that remain to be put into force. Beyond cooperation in trade in goods, several MENA countries have designed action plans in the context of a broader European Neighborhood Policy (ENP), which allows for an agenda of political, economic, and institutional reforms in exchange for greater integration into European programs and networks, increased financial assistance, and enhanced market access. Unlike countries that were part of the EU enlargement, the European Neighborhood policy action plans are selective, and MENA countries with EU Association Agreements in force can choose to harmonize norms and standards on a piecemeal basis, depending upon their own approaches for integration with the European Union (box 3.1). To date, ENP action plans have been agreed upon by Jordan, Morocco, the Palestinian Authority, and Tunisia, and both Lebanon and Egypt are expected to complete the design on their action plans in 2007.

Beyond the Association Agreements with the European Union, MENA's largest trading partner, MENA countries have also entered into bilateral trade agreements with other major trading partners, including the United States. In addition to free trade agreements (FTAs) signed between the United States and Jordan and Morocco, several GCC countries have signed (Bahrain, Oman) or are pursuing (United Arab Emirates) FTAs with the United States (table 3.2). In the process they have thrown off course a multilateral EU-GCC free trade agreement, which was envisaged as one of the major outcomes of the GCC customs union entered into in early 2003. GCC economies have also aimed to strengthen economic ties with countries in Asia, particularly China and India. Free trade agreements with both being finalized.

MENA countries also enacted intraregional trade agreements as a means to heighten regional trade and intensify economic cooperation, including the Pan-Arab Free Trade Agreement (PAFTA), grouping 17 Arab countries, and the Agadir Agreement, signed by Morocco, Jordan, Tunisia, and Egypt, which allows for cross rules of origin among the four countries with regard to the European Union.

In part due to these agreements, MENA countries made significant progress over the last seven years in tariff reduction and rationalization, with resource-poor economies leading the movement. Jordan undertook sizable commitments in trade reform since 2000, partly through the process of membership in the World Trade Organization (WTO) in 2000 and the implementation of a Free Trade Agreement with the United States in 2001, with tariffs reduced by about half from an average of 23 percent in 2000 down to less than 12 percent by 2005. Trade liberalization was also a key element of Lebanon's structural reform agenda, and between 2000 and 2005, the simple average tariff was cut by almost half, from 10.7 percent to 5.4 percent. And significant trade liberalization took place with Egypt's broad-based trade reform in 2004, resulting in a reduction in the number of tariff bands, an annulment of import fees and surcharges incompatible with the GATT, and a reduction of tariffs on over 700 import items, including clothing, textiles, IT, and machinery and equipment used in the textile sector. As a result, tariffs declined from an average of over 21 percent in 2000 to just over 9 percent.

Box 3.1

Morocco's "Open-Sky Agreement" and Europe's "Neighborhood Policy"

Morocco's air transport market, dominated by Royal Air Maroc (60 percent of passenger traffic as of 2004), has undergone dramatic opening initiatives over the past two years. In December 2005, within the context of the ENP, Morocco signed an "open-sky" agreement with the European Union, its largest trading partner (nearly three-quarters of Morocco's trade is with the European Union and the bulk of tourists flocking to Morocco are Europeans). This agreement represents the first concrete example of implementation of the ENP. It means a significant regulatory approximation in exchange for a stake in the EU internal market. Upon a satisfactory evaluation of regulatory standards and compliance with EU aviation safety standards, Moroccan air carriers can fly to and through any airports in Europe if they depart from Morocco. Reciprocally, EU airlines departing from Europe are entitled to operate with no restriction between Europe and Morocco.

Comparable reforms implemented in other countries illustrate the possible benefits that Morocco can gain from amplified competition. The introduction of competition in Europe has been followed by a substantial reduction in airfares. Fares between London and Dublin, for instance, were down by half immediately after liberalization of this route. Similar effects were found in other Latin countries, including Mexico, where an increase in cross-border air traffic went hand in hand with a sharp decline in fares on competitive routes. Studies have found that fares on routes having two competitors are lower by 8 percent on average than the case of a monopoly.

Only a short time has elapsed since the EU-Morocco "Open-Sky Agreement" went into effect on January 1, 2006, and it is early to gauge its economic benefits. There are, however, indications that airfares went down and overall air traffic has expanded since January 2006. Morocco has become the only non-EU Mediterranean country host to a low-cost carrier, Ryannair. The latter has opened routes to and from three airports in Morocco: Fez (Frankfurt, London, and Marseille), Oujda (to Marseille), and Marrakesh (Frankfurt, London, and Marseille), and anecdotal evidence suggests that prices have significantly gone down on those routes.

Source: World Bank 2007k.

Most of the resource-rich, labor-abundant economies also undertook trade liberalization efforts. Early in the decade, Iran reduced the number of tariff bands to 13 and cut the unweighted average tariffs by about half, from about 41 percent to 22 percent. But this progress slowed, and recently tariffs on some goods have been sharply increased in order to support domestic production. Algeria undertook large reductions in the maximum tariff rates and rationalization of the tax and tariff structure. Since 2000, the number of tariff rates was reduced to four (0, 5, 15, and 30 percent), although the average tariff remains high at 18.7 percent, down from 24 percent in 2000. Other import taxes, such as the *redevances douanières*, were replaced by a small fee and the customs tax was eliminated. Among the resource-rich, labor-abundant group, the most significant tariff reform was adopted in Yemen, where widespread smuggling of imported goods, combined with the desire to harmonize tariff rates with the GCC, prompted the government to lower import tariff rates in 2005, reducing the number of bands from four to three, with two-thirds of the commodities attracting only a 5 percent tariff rate. After these changes, the unweighted average tariff rate fell to 7 percent, the second-lowest average tariff, after Lebanon, outside the GCC in MENA.

GCC economies have maintained more open trade policies right from the outset, but since 2000, there has been further tariff liberalization by Saudi Arabia, which lowered customs duties to align with the other GCC customs union countries. In December 2005, Saudi Arabia was admitted to the World Trade Organization, and in the process of meeting WTO requirements, many remaining protective trade policies were revised, particularly in the areas of import licensing, customs valuation and fees, standards and technical regulations, and legislation for intellectual property rights and patent registration.

Table 3.2: U.S.–Middle East free trade efforts, 2006

Country	Free trade agreement	Trade and investment framework agreement	Bilateral investment treaty	World Trade Organization	Generalized system of preferences
Jordan	✔	✔	✔	✔	✔
Morocco	✔	✔	✔	✔	✔
Oman	✔	✔		✔	✔
Bahrain	✔	✔	✔	✔	Not eligible
United Arab Emirates	Negotiating	✔		✔	Not eligible
Egypt, Arab Republic of		✔	✔	✔	✔
Tunisia		✔	✔	✔	✔
Kuwait		✔		✔	Not eligible
Qatar		✔		✔	Not eligible
Saudi Arabia		✔		✔	Not eligible
Algeria		✔		Negotiating accession	✔
Iraq		✔		Negotiating accession	✔
Yemen, Republic of		✔		Negotiating accession	✔
Lebanon		✔		Negotiating accession	✔
Iran, Islamic Republic of				Negotiating accession	Not eligible
Libya				Negotiating accession	Not eligible
Syrian Arab Republic					Not eligible

Source: U.S. Trade Representative www.ustr.gov.

Note: The Palestinian Authority participates in the U.S.-Israel FTA.

3.2.2 Quantifying progress

Trade policy is multidimensional, reflected in a variety of policy actions which, together or separately, impact the ability and incentives for firms to conduct trade. To analyze MENA's current trade-policy status relative to other countries worldwide, a composite index was constructed, using several trade-policy–related indicators, including: the simple average tariff, the proportion of tariff lines subject to non ad valorem (NAV) duties, the average time required to comply with import-clearing procedures, and the average time required to comply with export-clearing procedures.[5] MENA's trade-policy reform progress relative to other countries was evaluated based upon its progress in reducing average tariffs between 2000 and 2006.[6]

On the trade reform front, MENA countries have demonstrated strong progress over the last few years in lowering tariff barriers. Relative to the world, tariff reform by MENA since 2000 ranks on average in the top 62nd percentile of countries worldwide, higher than any other region but Europe and Central Asia.[7] The region's resource-poor countries have made the most significant progress, on average, ranking in the 69th percentile worldwide, led by the Arab Republic of Egypt, Jordan, and Lebanon, but several of the region's resource-rich countries also made strong strides in lowering tariffs, particularly Saudi Arabia and Yemen (table 3.3).

At the same time, though the region has begun to move strongly on tariff reform, the task of creating an environment conducive for trade remains far from complete. Tariff protection remains excessive, averaging 13.1 percent, higher than all other regions but South Asia and Sub-Saharan Africa, and far higher than the world average of 9.8 percent. Tariffs are particularly high among resource-poor countries, where the tariff applied to goods aver-

[5] See Appendix B for description of methodology behind structural reform indicators.

[6] Tariff information is the only data widely available for 2000, the initial period of comparison. Doing Business indicators on behind the border constraints to trade only became available in 2005.

[7] Structural reform indices are presented based on a country's percentile rank within a worldwide cumulative frequency distribution. Running from 0–100, higher numbers indicate better policies or stronger progress.

ages 18.4 percent. In both Tunisia and Morocco, the current simple average tariff is above 26 percent, and the heavy tariff protection of the domestic market has changed only slightly in the course of the past 10 years.

Relative to the rest of the world, MENA economies rank on average in the 42nd percentile with regard to tariff protection, behind all regions of the world but South Asia and Sub-Saharan Africa (table 3.4). Imports are also hindered through the continued use of NAV duties, specific duties or taxes based on volume, rather than the value of the import. About 0.8 percent of tariff lines carry such duties in MENA, higher than all other regions but Europe and Central Asia and high-income countries, but the ad valorem equivalent of these NAV duties is unclear.

Beyond tariffs and duties, clearing processes for trade remain burdensome, particularly with regard to importing. Import-clearing processes are especially cumbersome among resource-rich, labor-abundant economies, which on average rank in the bottom third of countries worldwide with regard to the time associated with complying with import procedures (figure 3.1).

In general, MENA's export-clearing processes are less burdensome, but the time required for complet-

Table 3.3: Trade-policy reform progress, 2000–06

Country/region	Current trade policy 2006[a]	Trade-policy reform progress 2000–06[b]
Algeria	68	63
Bahrain	—	76
Djibouti	17	47
Egypt, Arab Republic of	60	100
Iran, Islamic Republic of	16	67
Jordan	44	94
Kuwait	69	54
Lebanon	50	80
Libya	—	9
Morocco	52	50
Oman	51	43
Saudi Arabia	64	88
Syrian Arab Republic	2	32
Tunisia	53	42
United Arab Emirates	75	—
Yemen, Republic of	63	82
Regional averages (unweighted)		
MENA	49	62
Resource-poor	46	69
Resource-rich, labor-abundant	37	61
Resource-rich, labor-importing	65	54
East Asia and the Pacific	53	40
Europe and Central Asia	50	64
Latin America and the Caribbean	64	57
High-income OECD	84	61
South Asia	28	41
Sub-Saharan Africa	26	22
World	**50**	**50**

Source: See Appendix B.

a. Current trade-policy status reflects country's current placement in a worldwide ordering of countries, based on four major categories of trade-policy indicators available in 2006, expressed as a cumulative frequency distribution, with "100" reflecting the country (countries) with the most open trade policies and "0" reflecting the country (countries) with the most closed trade policies.

b. Reform progress reflects the improvement in a country's rank between 2000 and 2006 in a worldwide ordering of countries, based on the simple average tariff (the only trade-policy indicator widely available in 2000) expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank and 0 reflecting the country (countries) that exhibited the greatest deterioration in rank.

— = data not available.

Table 3.4: Tariffs and duties in the region, 2006

Country/region	Average tariff [a]	Percentile rank [b]	Non ad valorem duties (percent of tariff lines)	Percentile rank [b]
Algeria	18.7	7	0.0	88
Bahrain	5.1	72	1.0	31
Djibouti	31.0	0	2.7	22
Egypt, Arab Republic of	9.1	48	0.2	54
Iran, Islamic Republic of	22.1	4	0.5	39
Jordan	11.8	33	0.3	46
Kuwait	3.6	92	1.3	28
Lebanon	5.4	69	0.5	39
Libya	17.0	13	2.2	23
Morocco	26.2	2	0.0	88
Oman	5.0	74	1.0	31
Qatar	5.0	74	1.0	31
Saudi Arabia	4.8	75	1.3	28
Syrian Arab Rep.	19.6	5	0.5	39
Tunisia	26.9	1	0.0	88
United Arab Emirates	4.8	75	0.5	39
Yemen, Republic of	7.0	62	0.0	88
Regional averages (unweighted)				
MENA	13.1	42	0.8	47
Resource-poor	18.4	25	0.6	56
Resource-rich, labor-abundant	16.9	20	0.3	63
Resource-rich, labor-importing	6.5	68	1.2	30
East Asia and Pacific	7.3	59	0.5	56
Europe and Central Asia	6.8	66	3.4	36
Latin America and Caribbean	9.5	45	0.3	69
High-income OECD	4.2	88	5.6	16
South Asia	15.0	22	0.4	60
Sub-Saharan Africa	13.7	27	0.7	62
World	**9.8**	**50**	**1.8**	**50**

Source: Average tariffs and ad valorem duties from WTO International Trade Statistics.

a. Simple average tariffs based on most-favored nation applied rates.
b. For any country, percentile rank reflects the proportion of countries worldwide with a higher tariff or higher non ad valorem duty.

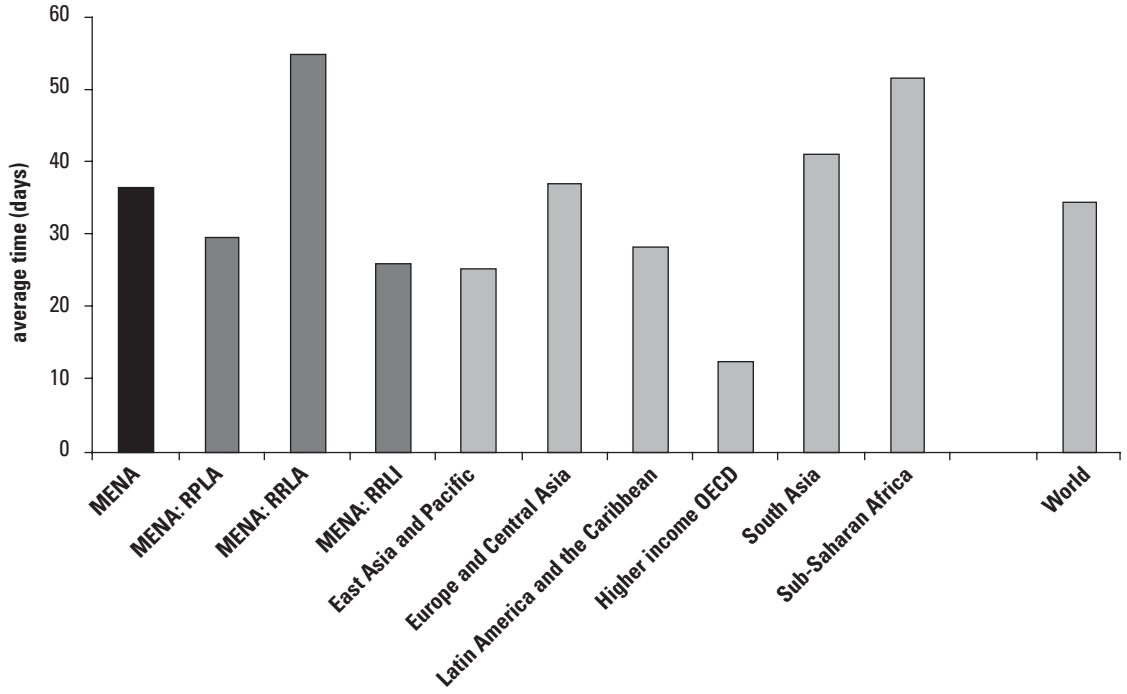
ing export procedures is particularly high in Iraq, Syria, and Yemen. In Syria, the time required for export clearing averages 40 days, about 45 percent higher than the world average, with particularly great time burdens for preparing export documents.

A composite index of trade policy, factoring in tariffs, NAV duties, and time required for trade-clearing processes, indicates that the MENA region ranks on average in the 49th percentile with regard to trade facilitation, behind the average of countries of East Asia and the Pacific, Latin America and the Caribbean, and high income countries, and about on par with Europe and Central Asia. While the region's resource-rich, labor-importing countries of the GCC have fairly open trade regimes, on average ranking in the 65th percentile worldwide, elsewhere the region continues to maintain significant import barriers in the form of high tariffs and duties, and suffers from lengthy procedures for engaging in trade. MENA's resource-rich, labor-abundant countries are among the least friendly to trade in the world, on average ranking in the 37th percentile, only higher than the average for South Asia or Sub-Saharan Africa (table 3.3).

3.2.3 Increasing the gains from trade through service sector liberalization

Lowering barriers should allow for greater trade to emerge in MENA, but the effects of trade on

Figure 3.1: Import-clearing procedures in MENA and the world



Source: Staff estimates from World Bank *Doing Business* indicators.

Note: MENA RPLA (resource-poor, labor-abundant) economies include Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza; MENA RRLA (resource-rich, labor-abundant) economies include Algeria, Iran, Iraq, Syria, and Yemen; MENA RRLI (resource-rich, labor-importing) economies include Kuwait, Libya, Oman, Saudi Arabia, and the United Arab Emirates.

growth are not uniform across the world. And in the MENA region, the effects of trade on growth have been found to be considerably weaker than for other countries (Makdisi, Fattah, and Limam 2005). One key reason is the lack of services liberalization.

The competitiveness of a country's trade sector is heavily dependent upon access to a wide range of services at world prices. Backbone services, such as transport, utilities, finance and insurance, and communications are central to the global competitiveness of firms. An efficient financial sector ensures that investments can take place where they will have the highest returns. An efficient communications sector lowers the costs of information dissemination, raising efficiency of firms engaged in trade. An efficient transport sector contributes to the efficient distribution of goods within countries, raising the ability for firms to participate in global trade (Sekkat 2002).

In MENA, there has been recent progress in liberalizing a few key services, detailed in section 3.5. However, the process remains far from complete. In many countries, key sectors remain closed to competition, either through ownership restrictions or regulatory practices. This lack of entry has kept the quality of these services low and the cost high, undermining industrial exporters from moving further up the value chain. Manufactured exports in MENA are generally low value-added and technologically unsophisticated, with few countries' industrial sectors moving up the value chain. In Morocco, for example, resource-based industries account for 51 percent of the country's total manufacturing value added (MVA), while advanced medium- and high-technology industries only account for 25 percent. The food, tobacco, and clothing sectors alone account for 40 percent of the country's MVA, employing 51 percent of all manufacturing workers. Morocco's industrial structure has barely evolved toward higher value-added and technology-intensive sectors in the last 15 years.[8]

Removing barriers to competition in services will remove the internal constraints to greater competitiveness and economic efficiency, increasing

[8] Oxford Analytica, "Morocco: Stability masks manufacturing woes," October 6, 2006.

MENA's gains from trade liberalization. But the traditional framework for liberalization of services is on a bilateral or reciprocal basis. The economic relationships covered by the EU Association Agreements, for example, exclude trade in services (along with agriculture), which substantially limits their potential economic impact. Nor does the PAFTA cover trade in services. To achieve greater gains from trade liberalization, liberalizing trade in services and removing the regulatory barriers to investment need to become key priorities.

3.3 Business and Regulatory Reform

The challenge of creating sufficient job opportunities for MENA's rapidly growing labor force is immense. As noted in chapter 2, with diminished employment opportunities in the public sector and reduced migration, the most important engine for rapid and sustainable job growth in MENA into the future will need to be the private sector. Providing a business environment in which a dynamic and competitive private sector can thrive in MENA is a multidimensional endeavor.

Businesses depend upon mechanisms that provide for macroeconomic stability, critical for affecting the certainty of investors' decisions. They depend on trade and exchange rate policies that do not undermine competitiveness. And they require a regulatory environment that promotes competition, supports efficient resource allocation, and protects property rights. A strong legal environment that effectively enforces and administers commercial laws, as well as efficient financial institutions that can mobilize and make available resources for entrepreneurs to start new businesses, and for existing businesses to grow and expand, are also important for bolstering a good investment climate.

3.3.1 Recent developments

Over the last several years, almost every country in the region has undertaken various steps to improve the environment for business. Reform has centered on three key areas: liberalization of specific services in the economy to competition, across-the-board business and regulatory policy reform, and targeted interventions to promote growth in specific sectors.

MENA's recent liberalization of services has centered primarily on a few key areas, including telecommunications, transport, and banking (discussed further in section 3.5). In addition to opening key services to competition, the region has taken some steps to reduce the regulatory obstacles to doing business. Supporting a liberalization push in banking, a number of countries have shored up the regulatory environment for the financial sector. In Morocco, specific measures to improve financial intermediation include standardizing the minimum data required to process loan applications, helping banks to develop their practice of internal rating systems, and merging existing information on credit risk into a privately managed centralized database to all credit institutions (IMF 2006a). In addition, banking laws have been revised to improve supervision of nonbank institutions. In an effort to reduce nonperforming loans, Tunisia has taken first steps to improve credit appraisal, raise provisioning rules, and sanction banks with insufficient provisioning or capital. Algeria's key actions include modernization of the payment system, as well as the introduction of performance contracts in public banks and the publication of explicit subsidies to commercial banks in the 2006 budget law. Iran has worked to develop a risk-based regulatory and supervisory framework for banking and has worked on the measures needed to modernize payment systems, but progress has been slow. Libya launched a series of measures to support financial system reform, aimed primarily at restructuring state-owned banks and adjusting ownership structures to include or increase private participation. Bahrain's reforms initiated in 2004 include establishing a consumer credit rating agency and drawing up new regulations for insurance companies and trust funds. Bahrain has also made notable progress in developing Islamic lending instruments aimed at rolling over conventional domestic debt and diversifying financial instruments. The regulatory framework of the financial sector in the United Arab Emirates also witnessed some improvements, with major steps taken to control money laundering, including the passing of anti–money laundering laws, improving the rules and regulations dealing with the informal money transfer system, improving banking supervision, and enhancing the payments system.

In addition to reforms aimed at the financial sector, regulatory reforms have centered on a few key areas. One is improving bankruptcy laws, which in Egypt were revised to allow voluntary liquidation, which should significantly ease business-closure procedures. The cabinet recently approved a draft law to establish economic courts with specialized

judges and special provisions for appeals within 30 days. The courts will have jurisdiction over matters related to the central bank and the financial and monetary system, the capital market law, stocks, house financing, intellectual property rights, competition, consumer protection, insurance, the provisions of the commercial law concerning bankruptcy, and disputes over commercial contracts worth more than LE 10 million (US$1.7 million). Another key area was reducing the capital requirements and registration process for starting a business, which has been a key part of the business-reform agendas in Tunisia and Jordan. Labor laws have also featured prominently in the region, in an effort to improve national employment levels. For example, a new labor code in Morocco significantly clarifies employment relations. GCC employment laws, on the other hand, have primarily focused on national employment targets (quotas) to increase the employment of the domestic workforce.

In addition to across-the-board reform, MENA countries have relied on interventions targeted to specific sectors in an effort to "launch" private sector growth. In Morocco and Tunisia, these targeted efforts came after the *mise à niveau* programs aimed at upgrading industry in general. Early in the 2000s, Morocco's reform efforts included fiscal measures, simplified investment and procurement procedures, and an improved institutional framework governing the private sector, while Tunisia's concentrated primarily on providing technical assistance, training, subsidies, and infrastructure improvements.

But both countries have moved on to upgrade more specific sectors. Morocco launched its Emergence Program in 2005, focusing on overhauling eight main sectors, including modernizing the textile sector to adapt to the dismantling of the MFA,[9] and consolidating the sectors of electronic components, information technology, automotive manufacturing parts, aeronautics, and artisan products. Authorities are implementing a broad range of incentives that include tax exonerations, subsidies for training, and development of four offshore free trade zones. Tunisia moved on to a five-year program targeted at industrial innovation in small and medium enterprises, with general privileges extended for investments in selected economic activities and for exporting.

Reform aimed to promote key sectors is a strategy also highly visible in GCC countries. A majority of the GCC economies have worked to develop service centers, creating international legal and business infrastructures separate from the rest of the country. They have established themselves as regional service hubs, including Bahrain, Qatar, and the United Arab Emirates in financial services, United Arab Emirates and Oman in tourism, Kuwait recently in technology, and even Qatar's latest development push in regional education and health services.

3.3.2 Quantifying progress

MENA's business climate was evaluated in two ways. First, the business climate in 2006 was evaluated based on current information in eight areas important for doing business: (1) ease of starting a business; (2) ease of closing a business; (3) ease of hiring and firing; (4) ease of enforcing contracts; (5) ease of registering property; (6) ease of paying taxes; (7) degree to which investors are protected; and (8) ease of dealing with licenses. In each of these areas, a variety of available indicators related to that sphere were utilized, often including the time, cost, and number of procedures required for fulfilling a certain business obligation. Based on these eight areas, a composite index of the business climate was calculated.[10]

In addition to evaluating the current business environment, recent reform of the business climate was evaluated based on progress made along four different fronts, for which information was available in both 2003 and 2006: (1) starting a business; (2) closing a business; (3) hiring and firing; and (4) enforcing contracts. From these data, a business and regulatory reform progress index was calculated, reflecting the improvement between 2003 and 2006 along these fronts. A fuller description of the

[9] In January 2005, the World Trade Organization Multi-Fibre Agreement (MFA) on textile and clothing expired. The agreement had allowed privileged access to European markets for a few MENA economies—the Arab Republic of Egypt, Morocco, Tunisia, and the United Arab Emirates—in textile and clothing products.

[10] The categories included for this year's business climate index differ from last year's, with the addition of information on protecting investors, and with the removal of last year's indicators for access to credit. The results of these changes, however, are large, and thus the business climate index for 2005 has been recomputed and is included in Appendix B (along with a fuller description of the methodology behind all structural reform indices).

methodology underlying the business-climate index and the business-policy-reform index can be found in Appendix B.

On the recent reform front, the MENA region has made below average progress over the last three years in improving the business climate, relative to the world. On average, MENA countries rank in the 40th percentile with regard to business and regulatory reform between 2003 and 2006, behind all other regions but South Asia (table 3.5).

Within the region, resource-poor countries have demonstrated stronger progress in business-climate reform, on average ranking in the 54th percentile worldwide, led by reform efforts in Morocco and Egypt. Morocco's progress with reform primarily reflects improvements in the ease of starting a business. In addition to significant declines in both the number of procedures, from 11 to 6, and the average time required to start a business, from 36 to 12 days, the average minimum capital requirement associated with starting a business fell by more than 90 percent, from an average of 761 percent of income per capita to a mere 67 percent. Elsewhere, Egypt's progress in business and regulatory reform

Table 3.5: Business and regulatory reform*

Country/region	Current business environment 2006[a]	Reform progress, 2003–06[b]
Algeria	36	37
Djibouti	9	—
Egypt, Arab Republic of	2	59
Iran, Islamic Republic of	26	2
Iraq	33	—
Jordan	59	41
Kuwait	77	16
Lebanon	40	46
Morocco	38	76
Oman	79	27
Saudi Arabia	76	75
Syrian Arab Rep.	33	52
Tunisia	55	40
United Arab Emirates	54	20
West Bank and Gaza	22	—
Yemen, Republic of	66	26
Regional averages (unweighted)		
MENA	44	40
Resource-poor	31	54
Resource-rich, labor-abundant	39	29
Resource-rich, labor-importing	71	34
East Asia and the Pacific	64	46
Europe and Central Asia	55	59
Latin America and the Caribbean	47	54
High-income OECD	84	49
South Asia	40	24
Sub-Saharan Africa	27	51
World	**50**	**50**

Source: See Appendix B.

* Current business-environment and reform-progress indices are not comparable to those in last year's report. For 2005 index values, see Appendix B.

a. Current business environment reflects country's current placement in a worldwide ordering of countries, based on eight major categories of business-environment indicators available for 2006, expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) with the most friendly business policies worldwide and 0 representing the country (countries) with the most unfriendly business policies worldwide.

b. Reform progress reflects the improvement in a country's rank between 2003 and 2006 in a worldwide ordering of countries, based on four major categories of business- and regulatory-reform policies available in 2003 and 2006, expressed as a cumulative frequency distribution, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank and 0 reflecting the country (countries) that exhibited the greater deterioration.

— = data not available.

primarily reflects reductions in the time and number of procedures associated with starting a business, but also relative improvement worldwide in contract enforcement—less a reflection of Egypt's efforts than a reflection of general rise in the time, procedures, and costs associated with enforcing contracts.

Despite recent efforts in business-climate reform, however, the overall state of the business environment in MENA is poor. Although the GCC economies have fairly developed business infrastructure and generally favorable business policies, MENA's resource-rich, labor-abundant and resource-poor countries are among the least business-friendly in the world, with burdensome and costly procedures and practices that thwart business development.

In resource-poor economies, only a few countries such as Jordan and Tunisia have regulatory policies and infrastructure that are fairly conducive to attracting and maintaining investment. The majority have significant impediments to conducting business, especially in the areas of starting a business, protecting investors, and contract enforcement in sales disputes. On average, resource-poor businesses must comply with 41 different procedures during the process of dispute settlement and the total time required averages about two years,[11] higher than all other regions of the world but South Asia (figure 3.2).

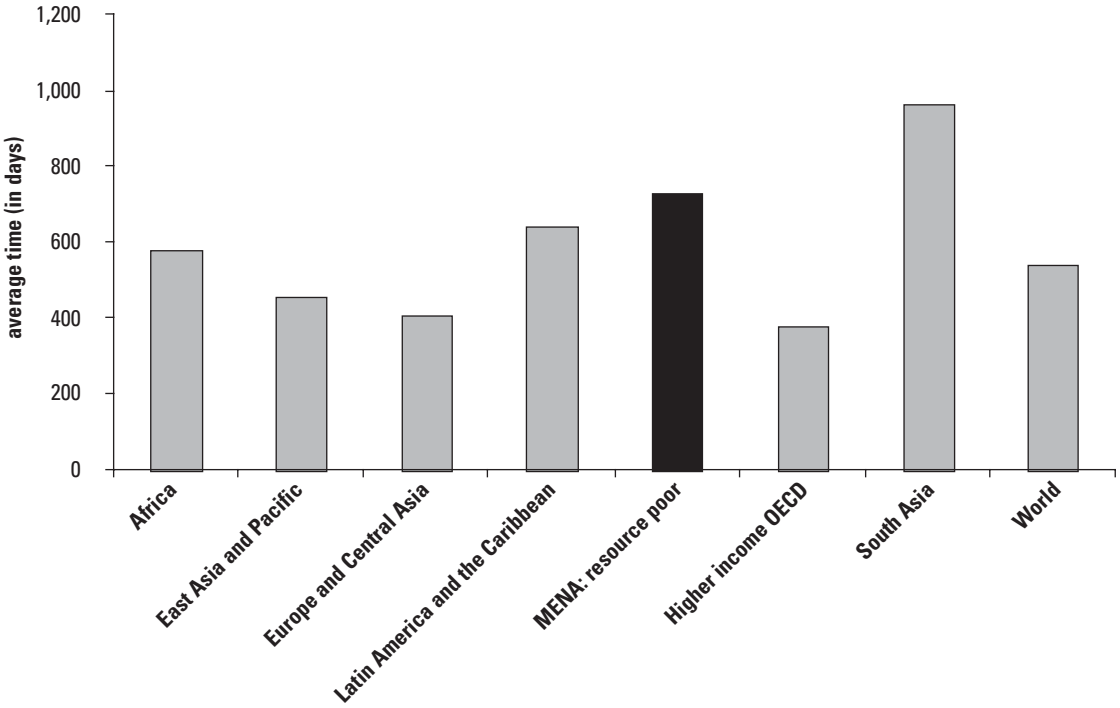
Firing restrictions among resource-poor countries are substantial, where firing for redundancy is either illegal, as in Egypt, or subject to numerous procedures and approvals. Worker hours are also subject to various rigidities, with restrictions on the number of working days, night work, and weekend work. And licensing procedures associated with business are extensive and costly.

Two countries that have especially large challenges in improving the business climate are Egypt and Iran, among the most populated countries of the region. In Egypt, in every sphere of the business climate, the country ranks in the bottom third worldwide.[12] Almost all aspects of doing business suffer from major obstacles, but the problems are especially severe in contract enforcement, where the total time required for dispute settlement can average almost three years, about twice the world aver-

[11] Unweighted average of countries represented.

[12] See Appendix B for individual business-climate indices by category.

Figure 3.2: Average time required for contract enforcement in the region's resource-poor economies



Source: Staff estimates from World Bank *Doing Business* indicators.

age, as well as in dealing with licenses. And in Iran, although some features of the business climate are well developed, a few key areas are exceptionally problematic, resulting in a seriously weak overall business climate. One of these areas is in dealing with licenses, where it costs on average almost $19,000 for the regulatory procedures to build a warehouse, and where the approval for an electrical connection alone can average a year.

As a whole, in a worldwide ordering of countries based on the overall business climate, taking into account numerous indicators across a number of key business areas, MENA countries rank in the 44th percentile with respect to the climate for doing business—behind every other region of the world but South Asia and Sub-Saharan Africa (table 3.5).

3.4 Liberalizing Key Services

Service sector liberalization—opening essential services within the economy to domestic and foreign competition—constitutes a separate and fundamental element for fully realizing the benefits from both trade-policy reform and business and regulatory reform. Backbone services such as information technology, communications, financial services, transport, and distribution play a key role in the development of integrated supply chains in the economy, improving overall productivity and the gains from other reforms. This section reviews the progress made by MENA countries in service liberalization and assesses the economic gains from service sector reforms.[13]

Although MENA has made recent progress in liberalizing a few key services, the process remains far from complete. In many countries, key sectors remain closed or semiclosed to competition, either through ownership restrictions or regulatory practices. Moreover, liberalization in the region has been a stop-and-go process, as countries face the political difficulties of implementing bold reform. Many promising efforts at liberalization have been tempered as opposition surfaces. In Algeria, a groundbreaking hydrocarbon law passed in 2005, allowing majority private sector ownership for the first time in the hydrocarbon sector, and separating regulatory powers from production. The law received a setback in 2006 with an amendment reinstating a predominant role for the state-owned oil company Sonatrach. Elsewhere, while competition has been introduced in many sectors, there remain large numbers of sectors with significant restrictions to investment. Often the number of firms has been fixed by regulation and there remain limits to foreign participation.

To better understand where MENA countries stand with regard to this important area of reform, this section assesses service sector reform, drawing upon indicators which the European Bank for Reconstruction and Development (EBRD) commonly uses to measure progress in service sector reform in transition economies (see box 3.2 and Appendix C for methodology behind EBRD service sector liberalization indices). Although these indicators are only available until 2004, they nonetheless provide a useful picture of both where the MENA region stands relative to other regions, and relatively recent progress with reform. In addition, we assess the potential impact of service sector reforms on the economic growth of MENA countries.

Broadly, the service sector comprises infrastructure services, including telecommunications and information technology, transport, energy, and water, as well as financial services. They also represent key inputs for the production of other goods and services. Telecommunications services are crucial for the international diffusion of information and knowledge. Access to modern networking technology allows the economy to diversify by utilizing information technologies to export labor-intensive services.[14]

Efficient transport services ensure that goods and people arrive in foreign countries in a timely manner. In places where it is expensive to ship goods abroad and service delays are frequent, transportation can become a prohibitive barrier to trade or can bias the geographic composition of exports and preclude countries from participating in the global production sharing that increasingly characterizes international trade. For tourism—a key service export in Maghreb—good transportation and telecommunications infrastructure are also key for growth in the sector.

Access to financial services—like working capital, export credit, and insurance—is critical if firms are

[13] See appendix C, Anos-Casero and Seshan 2007, and World Bank 2007i for details on data sources and methodology.

[14] Good examples are the call centers that are proliferating in Tunisia and Morocco. Efficient producer services and the development of e-commerce (Internet) are of great importance in expanding export earnings.

Box 3.2

The EBRD services reform indices

For the period 1990–2004, the European Bank for Reconstruction and Development (EBRD 2004) has compiled indices of reform in five infrastructure sectors (electric power, water and wastewater, railways, roads, and telecommunication) and two service sectors (banking and nonbank financial institutions). Scores range from 1, which means that little progress has been made, to 4+, which means that the most advanced implementation of the reform agenda has been achieved. The overall index for service sector reform is the simple average of the infrastructure and finance indices.

The finance index is the average of the following indicators.

- *Banking and interest rate liberalization*. The top score of 4+ signifies full compliance with banking laws and regulations set by the Bank for International Settlements (BIS) and the existence of a full set of competitive banking services.
- *Securities markets and nonbank financial institutions*. The top score indicates full compliance with securities laws and regulations set by the International Organization of Securities Commissions (IOSCO) and the presence of fully developed nonbank intermediation.

The infrastructure index is the average of the five indicators:

- *Electric power*. The top score means that tariffs reflect costs and provide adequate incentives for efficiency improvements. There is widespread private sector participation in the unbundled and well-regulated sector. The sector is fully liberalized, with well-functioning arrangements for network access and full competition in generation.
- *Railways*. The top score signifies a separation of infrastructure from operations and freight from passenger operations. Full divestment and transfer of asset ownership has been implemented or is planned, including infrastructure and rolling stock. There is an established rail regulator, and accessible pricing is implemented.
- *Roads*. The top score means road administration is fully decentralized. Commercialized road-maintenance operations are competitively awarded to private companies. Road-user charges reflect the full costs of road use and associated factors, such as congestion, accidents, and pollution. There is widespread private-sector participation in all aspects of road provision. There is full public consultation on new road projects.
- *Telecommunications*. A top score indicates that effective regulation is enforced through an independent entity. A coherent regulatory and institutional framework exists to deal with tariffs, interconnection rules, licensing, concession fees, and spectrum allocation. There is a consumer ombudsman function.
- *Water and wastewater*. The top score means that water utilities are fully decentralized and commercialized. A fully autonomous regulator exists that has complete authority to review and enforce tariff levels and quality standards. There is widespread private sector participation via service/management/lease contracts. High-powered incentives, full concessions, and/or divestiture of water and wastewater services are present in major urban areas.

Source: EBRD 2004.

to obtain and fulfill orders from abroad; the existence of markets for foreign exchange, forward contracts, options, and other derivatives can reduce exporters' exposure to risk.

The service sector reforms discussed in this section cover both deregulation, dismantling barriers to entry and promoting competition, and improved regulation, like putting in place an appropriate legal environment, strengthening regulatory agencies, and increasing their independence. The policy challenge is to achieve a balance between effective regulation and increasing the contestability of markets (Hoekman 2005). Reforming backbone services sectors can play an important role in fostering deeper economic integration. First, service sector reforms can support Maghreb's integration with global production networks. The cost and quality of key backbone

services are important determinants of multinational firms' decisions to locate production facilities in a country. Second, these reforms will also increase domestic firms' productivity and competitiveness because they reduce the costs of producing and trading goods and services. Third, these reforms, by improving the efficiency of key backbone services, facilitate the development of new exports with time-sensitive delivery schedules, such as exports of electronic components and exports of ICT-enabled services.[15]

3.4.1 Progress in service sector reforms

Liberalization of specific services of the economy has started to gain momentum in MENA, but overall progress of service sector reforms in the MENA region has been modest. Figure 3.3 plots the region's progress with service sector reform according to the broadest indicator of service sector liberalization, including financial services, transport, telecommunications, power, and water, based on the EBRD overall service sector reform index. This broad index—like the underlying category indices—ranges from 1 to 4.3, with 4.3 indicating best practice, and spans the period 1990–2004. (See Appendix C for methodological details.[16]) Despite progress over the last few years, MENA's overall progress with service sector reform falls well below that of other economies in transition. However, in a few areas the region has demonstrated considerable progress.

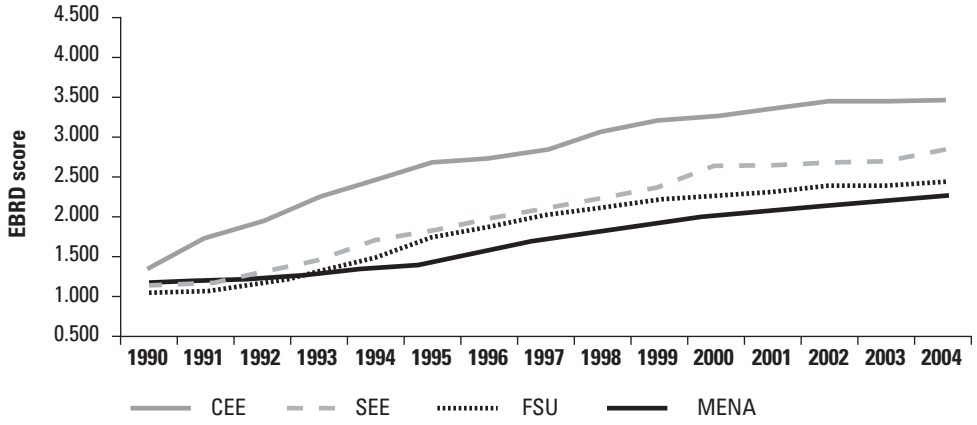
3.4.2 Financial sector reforms

Financial sector reforms spur trade and the flow of FDI. Financial sector reforms aimed at increasing competition and market contestability in the sector are associated with higher flows of trade and FDI, even after controlling for income levels (figure 3.4). Empirical research has found that integration of financial markets and trade in goods and services tend to go together (Levine 2001). Financial services are themselves subject to international trade and investment, and it has been found that trade and FDI also improve the quality and reduce the cost of financial services. The presence of foreign banks, for example, can exert competitive pressure on local banks, leading to a significant decline in their overhead costs. In addition, foreign banks often bring new products and may stimulate improve-

[15] ICT-enabled services encompass a broad range of activities made possible by advances in telecommunications and the spread of the Internet. These services are increasingly provided in offshore locations in emerging markets and include: (i) data conversion and digitization (i.e., medical transcriptions); (ii) voice center operations (offshore reservation centers, call centers, and telemarketing); and (iii) outsourcing back-office and professional and administrative services.

[16] Given data restriction, for the quantitative analysis of the service liberalization section we cover only six countries in MENA: Algeria, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, and Tunisia.

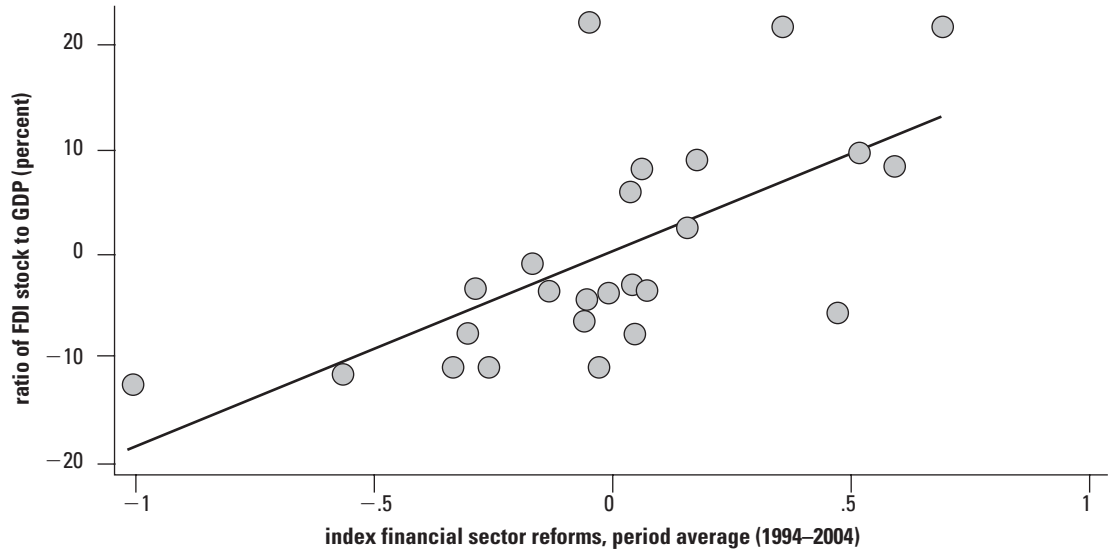
Figure 3.3: Progress in service sector reforms in selected regions, 1990–2004



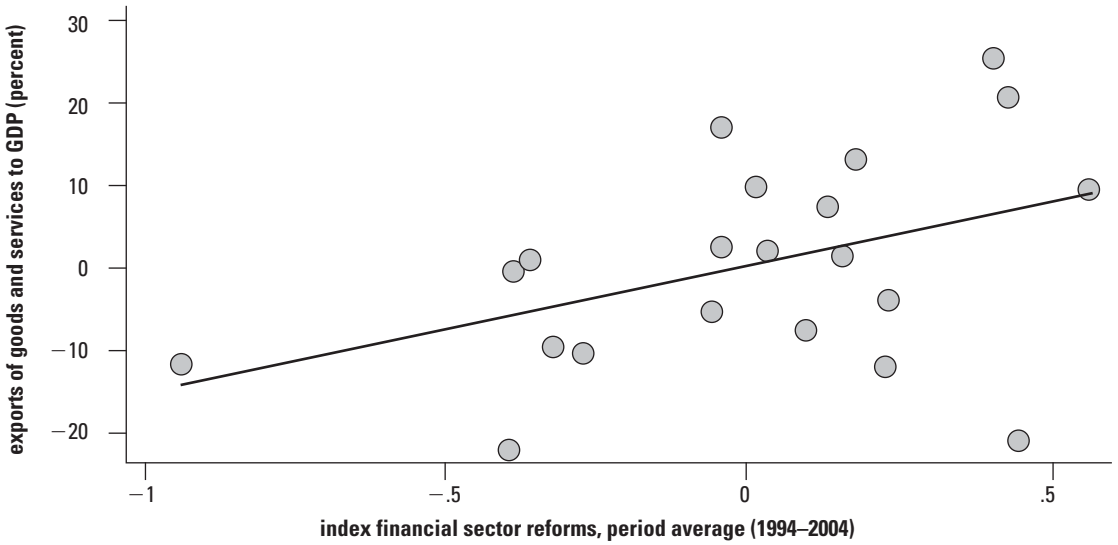
Source: World Bank staff estimates.

Note: MENA= Morocco, Algeria, Tunisia, Egypt, Jordan, and Lebanon. SEE= Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia & Montenegro. CEE = Poland, Hungary, Czech Republic, Slovak Republic, and Slovenia. : FSU= Estonia, Latvia, Lithuania, Russia, Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Figure 3.4: Financial sector reforms, trade, and foreign direct investment



coef = 18.791269, se = 4.6134953, t = 4.07



coef = 15.799645, se = 8.0420938, t = 1.96

Source: World Bank staff estimates.

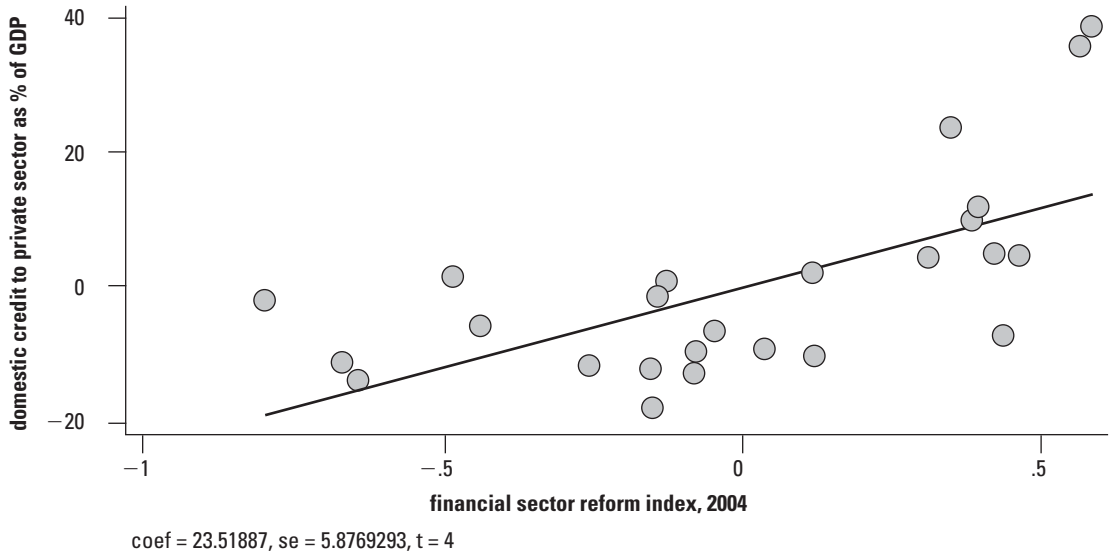
ments in domestic supervision and regulation. However, ultimately the link among trade, FDI, and financial sector performance is affected by the quality of the regulatory framework (Honohan and Klingebiel 2000).

Financial sector reforms are also associated with greater access to credit. Financial sector reforms aimed at increasing competition and market contestability in the sector are associated with higher shares of domestic credit by the banking sector, after controlling for income levels (figure 3.5).

For the MENA region, financial services constitute an area in great need of further liberalization. A major factor inhibiting greater domestic investment in the MENA region is lack of access to credit by firms, a problem highlighted in last year's MENA Economic Developments and Prospects report.[17] Investment Climate Assessments undertaken by the World Bank indicate that a low proportion of firms

[17] *MENA Economic Developments and Prospects* (2006).

Figure 3.5: Financial sector reforms and access to credit



Source: World Bank staff estimates.

in the MENA region have access to finance, with more than three-quarters of funding for investment being sourced from retained earnings, and only 12 percent from the banking sector, which is lower than any other region of the world.

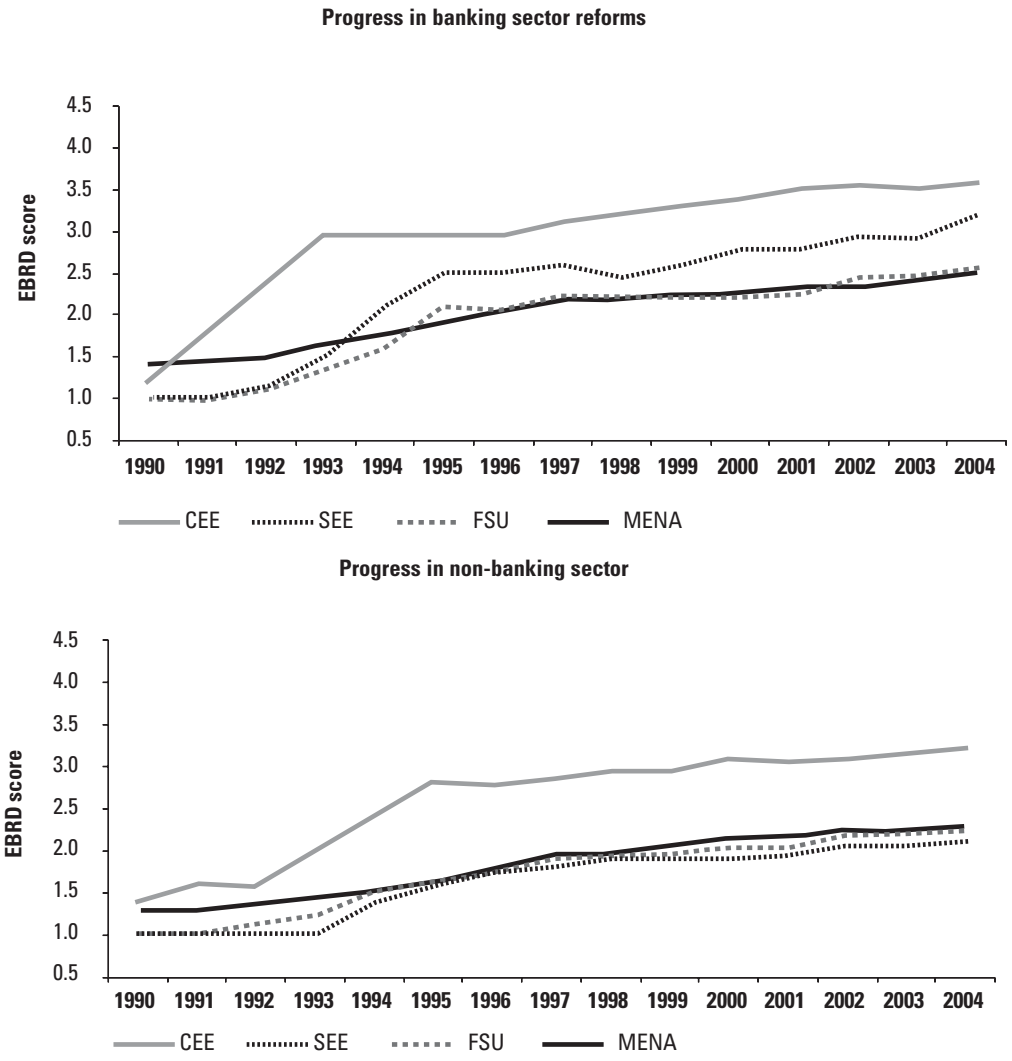
Although many factors lie at the heart of the structural disconnect between the plentiful financial resources in the region and the scarcity of external financing for businesses, one of the key factors has been the high level of public sector ownership of banks, which has impacted the direction of credit in MENA, as well as the operating efficiency and the ability of the banking sector to conduct robust risk analysis. The degree of state ownership is especially high in the resource-rich, labor-abundant economies of Algeria, Iran, Syria, and Libya, but state ownership is also high in several of the resource-poor economies like Egypt, Morocco, and Tunisia.

Over the last few years, many MENA economies have taken steps to open their banking sectors to greater private sector participation, granting licenses to private banks and changing foreign ownership restrictions. While these changes are only nascent, they nonetheless signal a broad change in policy by the region. Much of the recent efforts have come from those countries with the highest degree of state intervention and ownership in the sector. In Algeria, two new private banks were established in 2006. Iran opened the door to private sector participation, although the impact is relatively small to date. Licenses have been issued to four private banks, but together these command a very small share of the market. Syria, whose banking sector was monopolized by the state-owned Commercial Bank of Syria, overturned its 49 percent maximum foreign ownership requirement in 2005, which allowed for a new bank to be established, and foreign Islamic banks are also entering the market. And in Egypt, majority stakes in one of the four main state-owned banks, the Bank of Alexandria (with 7–8 percent of total banking deposits), was sold in 2006. This major privatization was only one component of a broad range of actions initiated in 2004 to restructure the financial sector, including the sale of joint venture banks and investment houses, and the restructuring of private sector nonperforming loans.

However, while some MENA countries have made significant progress in liberalizing the financial sector, the region still lags behind international standards in ensuring market competition and contestability in the sector (figure 3.6).

One of the main drivers of deeper regional integration in both the EU accession countries of Central and Eastern Europe, and more recently the Western Balkans, has been foreign direct investment by European banks. If the MENA countries want to emulate these successful precedents, privatization of the remaining state-owned banks and financial services companies, such as insurance and the stock market, would be the main policy lever.

Figure 3.6: Progress in financial sector reforms



Source: World Bank staff estimates.

Note: Country groupings as in figure 3.3.

3.4.3 Infrastructure sector reforms

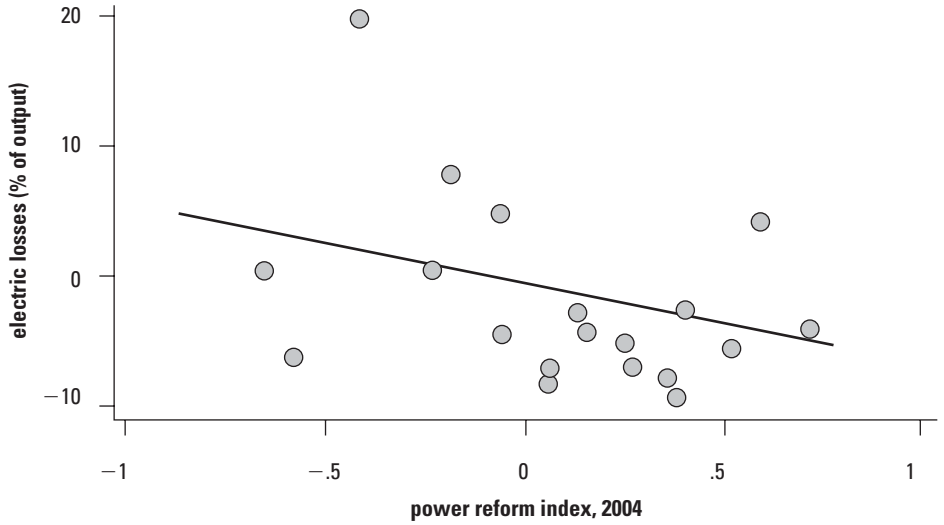
This section focuses on the following infrastructure sectors: transport (roads and railways); telecommunications; power and water. Three types of reforms are particularly important in increasing the efficiency of the provision of regulated infrastructure services[18]: (i) allowing entry of new domestic and foreign providers; (ii) where feasible, opening the domestic market to imports of such services; and (iii) the establishment of an independent regulator.

Power sector reforms are associated with better quality of electricity services. Progress in power sector reforms aimed at improving competition and market contestability in the sector are positively correlated with lower electric transmission and distribution losses, as a share of total electrical output, after controlling for income levels (figure 3.7).

Telecommunication sector reforms are associated with better access and quality of telecommunication services. Fink et al. (2003) found that privatization, competition and the introduction of independent regulators had a positive impact on telephone penetration and productivity in the telecommunications sector. The study also found

[18] Reforms may and often do include privatization, but this variable is captured in the overall investment climate reform index discussed in the earlier section of the chapter. Even if incumbent providers remain state owned, if regulators permit entry of new providers in the market, such competition can be expected to yield efficiency gains in the industry overall.

Figure 3.7: Power sector reforms and electric losses



Source: World Bank staff estimates.

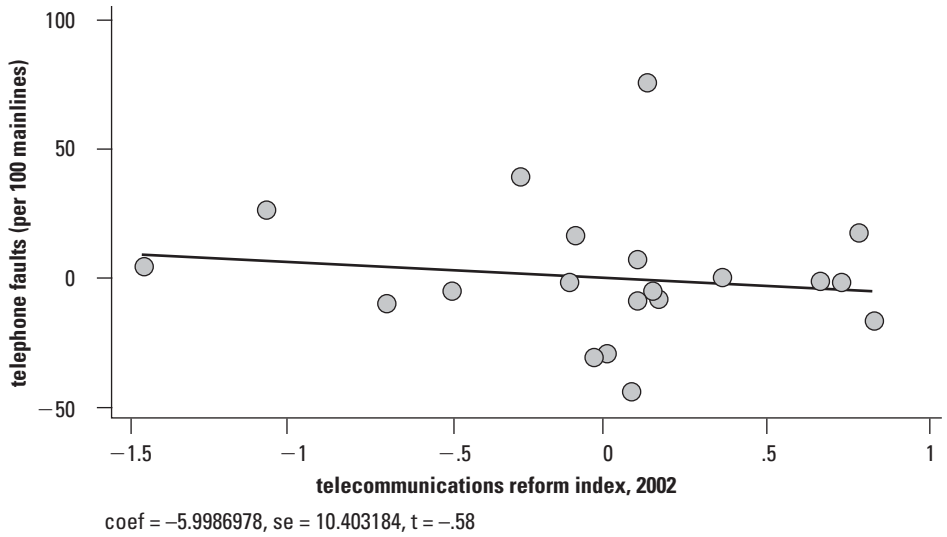
that countries that introduced the full package of reforms did systematically better than those that confined themselves to partial reforms. Telecommunication sector reforms aimed at improving competition and market contestability are associated with lower telephone faults (per 100 main lines), after controlling for income (figure 3.8). These reforms are also associated with higher numbers of mobile subscribers (per 1,000 habitants), also after controlling for income levels (figure 3.9).

Poor transport infrastructure results in higher direct transport costs and longer time of delivery, leading to higher domestic production and trading costs. An improvement in a country's infrastructure can make a big difference to the costs of trading. A 10 percent increase in transport costs may reduce trade volume by more than 20 percent (Limao and Venables 1999). The decline in transport costs accounts for an estimated 8 percent of average world growth since 1945 (Baier and Bergstrand 2001). Better infrastructure for sea, land, and air transport are associated with higher volumes of trade. A recent study shows that doubling the number of paved airports per square kilometers of territory in a country boosts imports by 14 percent. Trading with an exporting country with twice as many airports increases bilateral trade by a further 15 percent. Doubling the kilometers of paved roads per 100 square kilometers is estimated to increase trade by 13 percent (Nordas and Piermartini 2004).

With a few exceptions MENA countries have made less progress in liberalizing infrastructure services than many other emerging economies (figure 3.10). Implementing and sustaining reform has tended to be more difficult in some sectors than others. In telecommunications, where prices before liberalization were often high, and in port and airport transport, which are generally export-oriented services, there have been fewer difficulties in initiating reforms. In the electricity and water sectors, on the other hand, where prices are generally far below cost, the progress has been much slower, as policy makers must balance the need for efficiency improvements with expected price increases. Tunisia and Algeria have approached service reform in the infrastructure sector in a piecemeal fashion. As a result, privatization has been slower than in other parts of the world and barriers to entry often remain forbidding for investors.

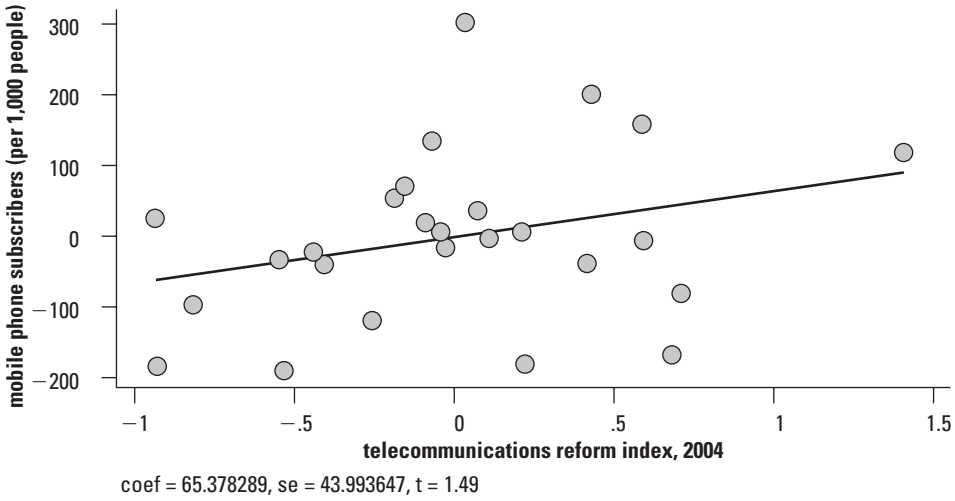
Telecommunications reform has received the most effort within the region, with Jordan, Egypt, Morocco, Algeria, and Tunisia all having opened the telecommunications sector to foreign competition, and with partial privatization of the national telephone companies in Bahrain, Qatar, Saudi Arabia, the United Arab Emirates and Oman, though not open to foreign ownership. Competition in mobile telecommunications exists in Egypt, Morocco, Tunisia, Algeria, Jordan, and Kuwait, and most recently Bahrain and Saudi Arabia.

Figure 3.8: Telecommunication reforms and telephone faults



Source: World Bank staff estimates.

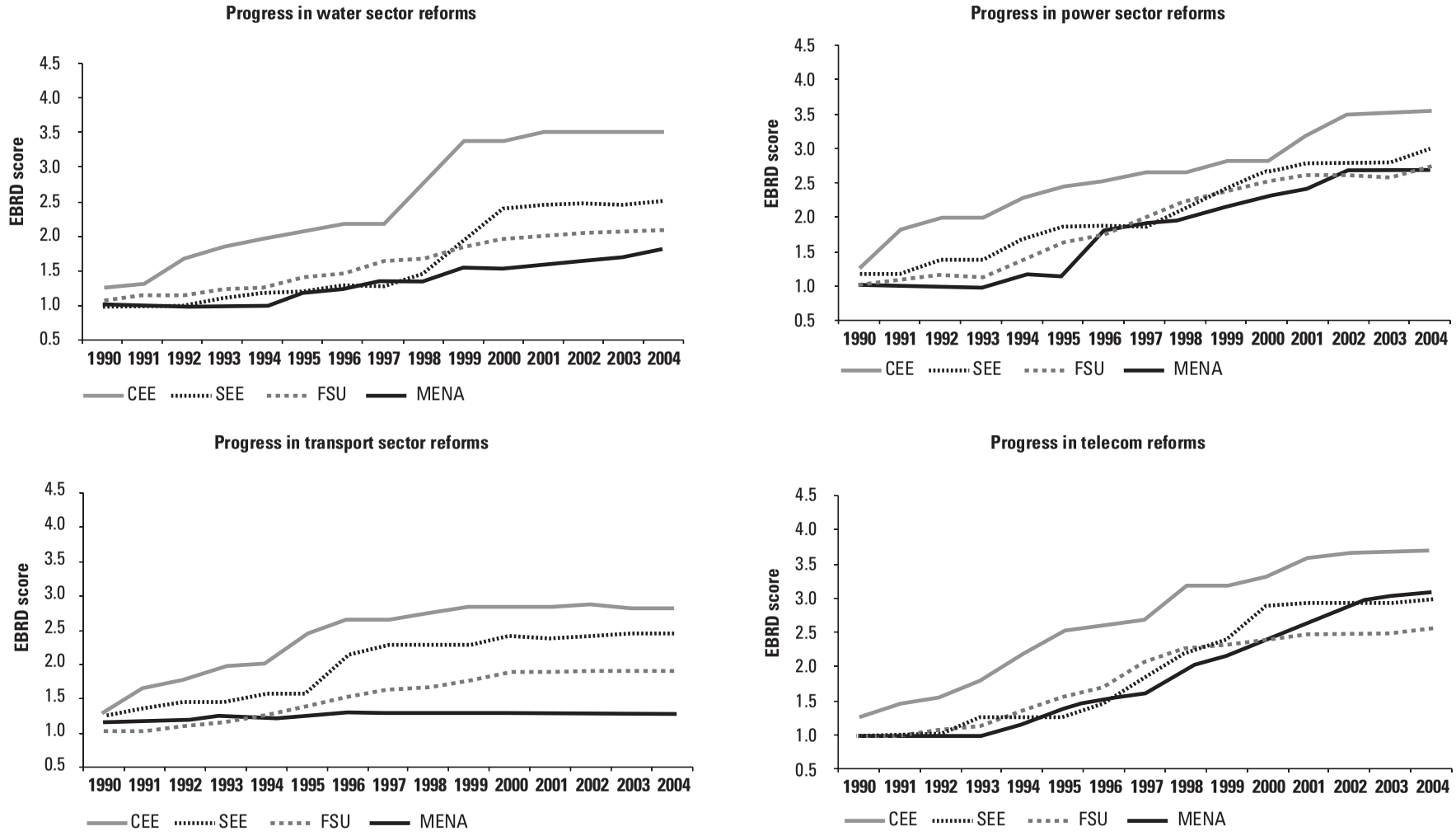
Figure 3.9: Telecommunication reforms and mobile phone subscribers



Source: World Bank staff estimates.

Outside telecommunications, progress with infrastructure liberalization has been mixed, with relatively strong liberalization efforts among a few, including Morocco, in air transport, oil and gas exploration, audio visual communications, and with planned liberalization of electricity; Jordan, in phosphates, air transport, and with planned liberalization of electricity generation; Bahrain, in electricity, petrochemicals, and planned liberalizations of water and postal services; and Oman, in power, water, ports, and oil. Egypt has liberalized air transport. Iran opened the door for private sector participation in most major industries, including power generation, water, postal service, railways, airlines, and ship building, although the actual privatization process has moved slowly and access to these sectors is still pending. Elsewhere, almost all of the GCC countries have converted to private power, and there have been piecemeal efforts at liberalization in other sectors, such as Saudi Arabia in air transport, Qatar in some air services and water, and in the United Arab Emirates in tourism and air transport.

Figure 3.10: Progress in infrastructure reforms, 1990–2004



Source: World Bank staff estimates.

Note: Country groupings as in figure 3.3.

3.4.4 *Economic impact of service sector reforms*

Drawing on time-series data for a group of 30 countries, including 6 MENA countries and 24 transition economies, covering the 1990–2004 period, we estimate the impact of service sector reforms on per capita income growth, trade, and FDI in MENA countries (see World Bank 2006 for details). The magnitude of the impact of these reforms varies across countries. Below we report the average impact for the MENA countries under analysis:

Impact on per capita income growth. One unit point increase in the service sector reform index is associated with an average increase in annual real GDP growth per capita of about 2 percentage points in MENA countries, holding inflation and the change in investment-to-GDP constant.

Impact on FDI. One unit point increase in the service sector reform index is associated with an average increase in FDI stock of about 8 percentage points, holding inflation and the change in investment-to-GDP constant.

Impact on per capita export growth. One unit point increase in the service sector reform index is associated with an average increase in annual export growth of about 1 percentage point, holding inflation and the change in investment-to-GDP constant.

Thus, the potential impact of greater liberalization of services in MENA economies, in terms of export growth, FDI, and overall growth, is considerable. It is interesting to note that the economic gains of service sector reforms has tended to be consistently higher for the Maghreb countries, Algeria, Morocco, and Tunisia, than for Mashreq countries, Egypt, Lebanon, and Jordan. One possible explanation is that the Maghreb countries, with the exception of Tunisia, have made less progress in reforming the service sectors than their Mashreq neighbors.

3.5 Governance Reform

At the heart of many of the economic challenges facing the MENA region are governance issues. The World Bank outlined some of the key governance challenges facing MENA in its flagship report on governance (World Bank 2003b). Along with the economic reforms the region needs, it must strengthen the incentives, mechanisms, and capacities for public institutions, both to improve economic policies and to force the broad social consensus needed to successfully enact reform. Policy reform can help to build coalitions that expect and demand good institutions. But there need to be some feedback mechanisms in place for these expectations and demands to be heard and met.

MENA's governance challenges relate to two different but complementary spheres. First, they face the challenge of modernizing governance structures and operations for more efficient public sector management. That task involves administrative reform of the public sector to enhance the efficiency of the bureaucracy, to improve mechanisms of internal accountability, and to reduce corruption. Second, the MENA region faces the more difficult challenge of increasing public sector accountability. This governance challenge requires improving transparency in governance mechanisms and enhancing contestability in government policies.

3.5.1 *Developments*

Over the past years, MENA countries have taken significant steps to begin to address the region's significant deficiencies in governance. Many of these efforts have focused on reforming public administration, both to improve efficiency in the delivery of quality public services and to create fiscal savings. MENA's historical state-run models have translated into large civil services, which have been a key element of the public sector reform programs in a few countries in the region, including in Jordan and Morocco. Morocco's early retirement program aided the departure of 8 percent of the central government civil personnel within a year of its launch. The implementation of the early retirement scheme and the continued no-new-net hiring policy reduced the wage bill by 1.4 percentage points in 2006, to 12.2 percent of GDP (IMF 2006a).

In 2006, Egypt also launched a system for early retirement of public sector employees, which allows for retirement for employees with minimum years of service, regardless of whether their position is threatened. Previously, retirement was possible only at 60 years of age, with special packages offered only to those working for companies due to be divested. And in Yemen, major reengineering efforts are underway to improve the efficiency of administrative processes in key ministries and agencies, encompassing over two-thirds of total public employment, through the implementation of the National Wage Strategy. Improving public sector efficiency has also

centered around modernizing the organizational structure of the public sector.

In addition to efforts to improve public sector efficiency, several countries have taken important steps to open up the political space and allow for greater accountability in public policy and to strengthen inclusiveness in public policy. Many of these efforts have come from the GCC. In 2001, Bahrain became a constitutional monarchy with a bicameral parliament, full suffrage was granted to all citizens, male and female, and an independent judiciary was created. The government has more recently introduced a proposal to strengthen women's legal rights, particularly in cases dealing with child custody, inheritance, and divorce, and to shift jurisdiction over family affairs from Islamic to civil courts. Although the bill is still being blocked by conservative forces in the parliament, reformists are battling the issue. Saudi Arabia held its first nationwide elections in February 2005 to elect municipal councils. It also has made changes—albeit small—to improve the status of women, including giving women the right to obtain personal ID cards, and improving the employment opportunities in the public sector. Qatar has introduced new legislation granting more freedoms and permitting demonstrations, labor union formation, and public meetings. And in Oman, a consultative parliament was established in 2003, enabling all eligible adults to vote. Political rights have been extended to women, and starting in 2004, a number of women have been appointed to ministerial and ambassadorial posts.

Elsewhere, a major achievement in enhancing accountability occurred with Morocco's adoption of the Law on Political Parties, which helps consolidate the credibility and efficiency of political parties and institutions. And in the area of transparency, after a half century of state monopoly, Morocco's audiovisual sector was liberalized, allowing greater access to wider and diversified sources of information.

3.5.2 Quantifying progress

MENA's reform progress was evaluated across two broad spheres of governance: governance related to the quality of public administration, and governance related to public sector accountability. For each sphere, two structural reform indices were created, measuring both the current status of a country relative to the rest of the world in terms of that sphere of governance, as well as the country's recent progress with reform.

Public sector accountability in 2006 was evaluated based on current information in a variety of key accountability areas, including political rights, civil liberties, freedom of the press, and various measures of executive recruitment and participation processes. Quality of public administration in 2006 was evaluated based on current information on several areas of public sector capacity, including corruption, bureaucratic quality, property rights, regulation, and various regulatory processes for business. For both areas of governance, reform progress was measured over the period 2000–06.[19]

In the area of improving the quality of public administration, MENA countries have made strong advances over the last six years, ranking on average in the 57th percentile worldwide, higher than all other regions of the world. Resource-poor countries, which on average rank fairly high relative to other developing regions in terms of public sector efficiency, also demonstrated strong advancements since 2000, and average in the 86th percentile with regard to improvement in the quality of administration between 2000 and 2006, with efforts centered on improving procedural requirements for business. Public administration quality among resource-rich countries varies dramatically between the generally more efficient public sectors of the GCC and the substantially less efficient public administration of the labor-abundant economies and Libya. Without Libya, resource-rich, labor-importing economies would rank in the 64th percentile, on average, with regard to the quality of public administration. Over the last several years, a few of the GCC countries have exhibited further progress in the area of reducing corruption, and as a group the labor-importing economies rank in the 57th percentile with regard to recent reform efforts. Resource-rich, labor-abundant economies, however, have not kept pace with worldwide progress in public administration reform, ranking on average in the bottom third worldwide with respect to improvements in the mechanisms for the delivery of quality public service (table 3.6).

Along with improvements in public administration efficiency, MENA has demonstrated significant progress over the last several years in improv-

[19] See Appendix B4 for description of the methodology behind governance indicators.

Table 3.6: Quality of public administration in 2006 and quality of public administration reform 2000–06

Country/region	Quality of administration index: current status (percentile rank)	Quality of administration reform index (percentile rank)
Algeria	43	16
Bahrain	78	80
Egypt, Arab Republic of	34	91
Iran, Islamic Republic of	17	11
Jordan	71	87
Kuwait	65	64
Libya	3	13
Morocco	72	91
Oman	66	80
Qatar	54	69
Saudi Arabia	59	80
Syrian Arab Rep.	14	59
Tunisia	69	76
United Arab Emirates	61	10
Yemen, Republic of	27	23
Regional Averages (unweighted)		
MENA	**49**	**57**
Resource-poor	61	86
Resource-rich, labor-abundant	25	27
Resource-rich, labor-importing	55	57
East Asia and Pacific	45	45
Europe and Central Asia	50	56
Latin America and Caribbean	44	43
High-income OECD	89	47
South Asia	33	56
Sub-Saharan Africa	33	51
World	**50**	**50**

Source: See Appendix B for methodology behind governance indices. Current status reflects country's current placement in a worldwide ordering of countries, based on a variety of indicators of quality of public administration, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best/most efficient public administration worldwide and 0 reflecting the country (countries) with the weakest/most inefficient public administration worldwide. Reform progress reflects the improvement in a country's worldwide ranking between 2000 and 2006 in a worldwide ordering of countries based on quality of public administration, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.

ing the mechanisms for greater government accountability. The gap between MENA countries and the rest of the world in terms of accountable and inclusive institutions is large. On average, based on a range of measures, MENA countries rank in the bottom 20th percentile with regard to public sector accountability in a worldwide ranking of economies. And only one country, Jordan, ranks above the bottom third[20] (table 3.7). But an encouraging and important development has been the recent inroads that MENA countries have made toward reducing this governance gap. Between 2000 and 2006, MENA countries ranked on average in the 63rd percentile with regard to improving the mechanisms for government accountability, higher than all other regions of the world. Strongest improvements have come from resource-rich, labor-importing countries, which on average rank in the 73rd percentile with regard to public accountability reform, led by Bahrain and Oman, but with progress throughout the GCC. But resource-poor countries, led by Morocco, have also made inroads.

[20] And Jordan is only marginally above the bottom third.

Table 3.7: Public sector accountability, 2006, and public sector accountability reform 2000–06

Country/region	Public sector accountability index: current status (percentile rank)	Public sector accountability reform index (percentile rank)
Algeria	28	68
Bahrain	27	96
Egypt, Arab Republic of	23	73
Iran, Islamic Republic of	21	6
Jordan	34	62
Kuwait	30	63
Libya	0	43
Morocco	32	78
Oman	17	89
Qatar	15	75
Saudi Arabia	6	75
Syrian Arab Republic	6	54
Tunisia	22	37
United Arab Emirates	20	84
Yemen, Republic of	18	48
Regional Averages (unweighted)		
MENA	**20**	**63**
Resource-poor	28	63
Resource-rich, labor-abundant	18	44
Resource-rich, labor-importing	16	73
East Asia and Pacific	41	44
Europe and Central Asia	52	56
Latin America and Caribbean	57	42
High-income OECD	91	47
South Asia	37	31
Sub-Saharan Africa	36	52
World	**50**	**50**

Source: See Appendix B for methodology behind governance indices. Current status reflects country's current placement in a worldwide ordering of countries, based on a variety of indicators of public sector accountability, expressed as a point in the worldwide cumulative frequency distribution, with 100 reflecting the country (countries) with the best/most accountable governance structures worldwide and 0 reflecting the country (countries) with the weakest/least accountable governance structures worldwide. Reform progress reflects the improvement in a country's worldwide ranking between 2000 and 2006 in a worldwide ordering of countries based on public sector accountability, with 100 reflecting the country (countries) that exhibited the greatest improvement in rank worldwide, and 0 reflecting the country (countries) that exhibited the greatest deterioration.

3.6 Reform and the Oil Boom

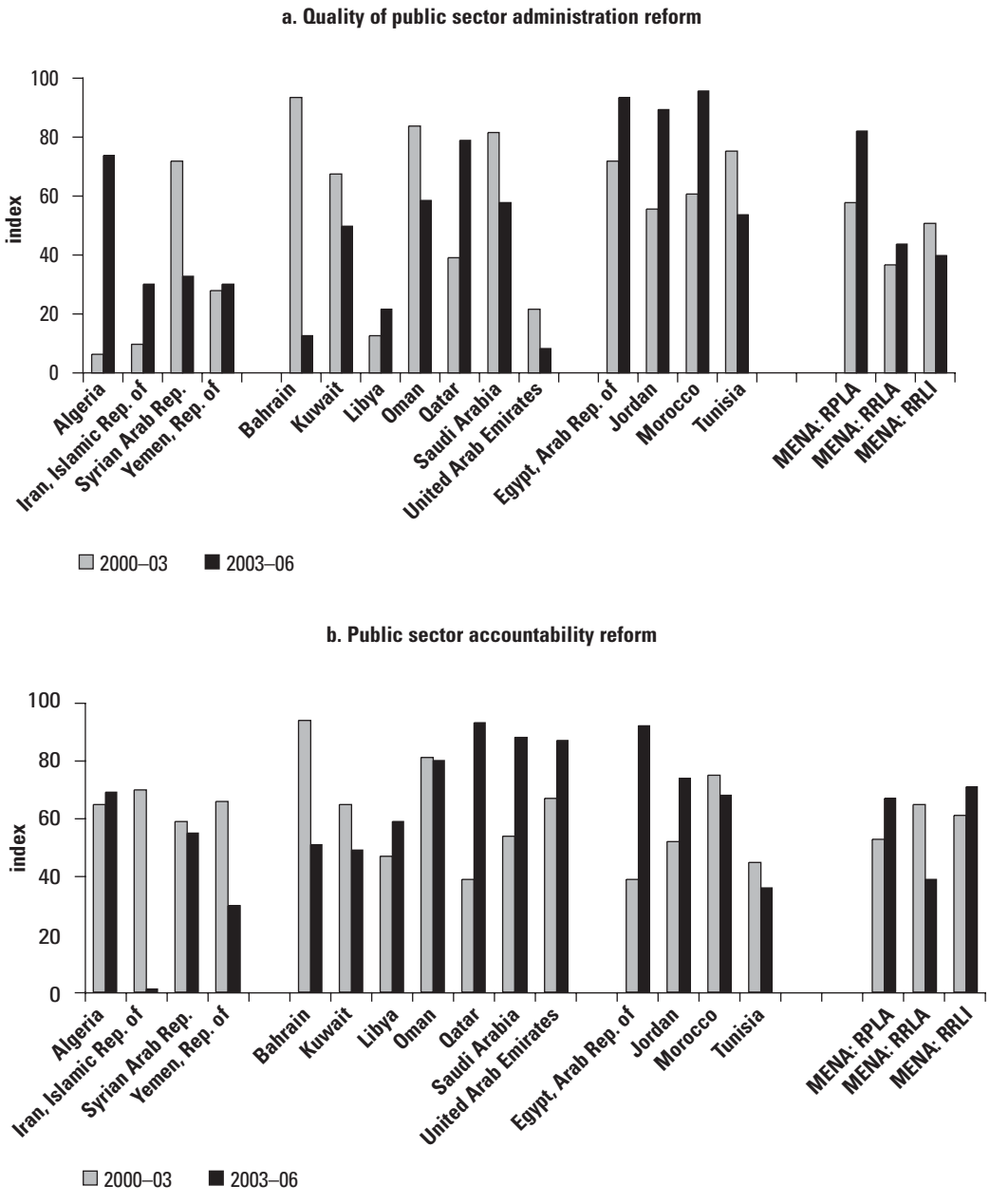
While the recent oil boom has greatly benefited the oil-producing economies of the region in terms of higher growth and revenues, an important concern has been the potential impact this oil boom might have on the continuing structural reform effort. Historically, the region relied on oil and oil-related revenues to delay implementing a deeper economic reform agenda, with the substantial revenues from oil permitting many to postpone difficult but important reforms that were taking place worldwide. Indeed, it was only in the mid-1990s, well after the collapse of oil prices in the mid-1980s, that most of the countries in the region began the long and complex process toward more market-driven, open, and diversified economies.

With the current oil boom, a natural question is whether the region's structural reform effort will slow. Answering the question, however, is difficult. Structural reform takes place in distinct stages and actions. Examining one period of reform versus another may yield results that are less a reflection of changes in reform effort rather than simply reform sequencing. Reform is also a reflection of need, and countries might demonstrate a lower reform effort

in one particular area because less reform is needed. Moreover, our information on structural reform is limited to just a few short years, and only in the area of governance reform is information available both prior to and after 2003.

There are some generalities about reform in MENA that can nonetheless yield important insights. In the area of public administration reform, there is some evidence that, outside of the resource-poor countries that face higher oil-import bills and oil subsidies, the incentives for sweeping improvements in public sector management have diminished with rising oil prices. On the whole, oil economies backed off from improvements in the quality of public sector administration after 2003, even where modest progress had been occurring previously (figure 3.11). In only Algeria, Iran, and Qatar was the reform effort significantly heightened

Figure 3.11: Governance reform since the oil boom



Source: See Appendix B for methodology behind governance reform measures.

Note: Worldwide average reform for any period = 50 (50th percentile). For explanation of MENA groups, see figure 3.1 note.

following the start of the oil boom. In both Algeria and Iran, however, this "heightened" effort since 2003 more accurately reflects the modest containment of a significant downward slide since 2000. Interestingly, resource-poor countries, facing higher oil import bills, have almost universally demonstrated a significant improvement in measures of the quality of public sector administration since the start of the rise in oil prices.

In the area of enhancing public sector accountability, however, a significant divergence between labor-abundant and labor-importing oil economies is notable. Between 2000 and 2003, efforts at improving public sector accountability were mixed. Only a few of the early reformers in the area—Oman and Bahrain, but also Iran—made significant strides in opening up the public space and increasing mechanisms for greater voice in governance. Most of the oil and non-oil countries remained inactive in improving mechanisms for greater accountability.

Since 2003, however, many of the resource-rich, labor-importing economies of the GCC have begun to exhibit strong efforts to improve government accountability. Parallel with their efforts toward more prudent management of the oil windfall and stronger economic ties with the world, GCC countries such as Oman, Qatar, Saudi Arabia, and the United Arab Emirates have taken significant steps forward in the sphere of enhancing the inclusiveness and accountability of government. It is a significant and encouraging sign that these efforts have taken place despite rising oil prices.

MENA's labor-abundant oil economies, on the other hand, have generally not moved forward with improving public sector accountability since 2003. Algeria is an exception. Undoubtedly, creating more inclusive and representative governance structures is influenced by far more than rising oil prices and the abundance of labor. However, given the importance of reform in public sector accountability to the overall reform agenda, the significant backsliding by a few countries, especially Iran, is cause for concern for the broader reform agenda, and thus the prospects for long-term growth.

Appendix A: Statistical Tables

Table A.1: Real GDP growth, 1996–2006

(percentage per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	4.0	6.5	5.9	6.2
MENA (excluding Iraq)	3.6	4.6	5.9	5.9	6.3
By resource-based classification					
Resource-poor, labor-abundant	4.7	3.9	4.8	3.8	5.6
Djibouti	–0.7	2.1	3.8	3.2	4.2
Egypt, Arab Republic of	5.2	3.8	4.2	4.6	6.9
Jordan	2.9	4.9	8.4	7.3	6.3
Lebanon	2.6	3.4	6.3	1.0	–5.5
Morocco	4.2	4.0	4.2	1.7	7.3
Tunisia	5.9	4.2	6.0	4.2	5.3
West Bank and Gaza	—	–6.4	6.2	6.0	–12.0
Resource-rich	3.2	4.8	6.2	6.6	6.5
Resource-rich, labor-abundant (incl. Iraq)	—	2.8	7.3	4.6	4.3
Resource-rich, labor-abundant (excl. Iraq)	3.8	5.0	4.9	4.6	4.3
Algeria	3.1	4.1	5.2	5.3	1.4
Iran, Islamic Republic of	4.0	5.8	5.1	4.4	5.8
Iraq	—	–16.6	46.5	3.7	4.0
Syrian Arab Republic	4.1	3.4	3.9	4.5	5.1
Yemen, Republic of	5.5	4.0	2.6	3.8	3.9
Resource-rich, labor-importing	3.3	4.7	6.9	7.5	7.5
Bahrain	4.3	5.6	5.4	6.9	7.0
Kuwait	1.9	5.9	6.2	8.5	6.2
Libya	1.6	4.8	8.2	8.4	8.1
Oman	3.4	4.4	5.6	5.6	6.4
Qatar	11.8	7.1	11.4	11.0	12.1
Saudi Arabia	2.7	3.3	5.2	6.6	5.8
United Arab Emirates	5.2	7.1	9.7	8.5	10.7
By geographic subregion					
Maghreb	3.2	4.2	5.8	5.1	5.0
Mashreq (excluding WBG, Iraq)	3.2	3.7	5.7	3.7	1.4
GCC	3.5	4.7	6.7	7.5	7.4
Other	4.6	4.8	4.6	4.5	6.2
By oil-trade group					
Oil-exporting countries (excluding Iraq)	3.8	4.7	6.0	6.4	7.0
Oil-importing countries (excluding WBG)	3.7	4.0	5.6	2.8	4.0
Comparator regions					
MENA (excl. Iraq)	3.6	4.6	5.9	5.9	6.3
All developing countries	4.0	4.5	7.3	6.6	6.9
East Asia and the Pacific	6.2	7.7	9.1	9.0	9.1
Europe and Central Asia	2.0	4.7	7.2	6.0	6.4
Latin America and the Caribbean	3.0	1.3	6.0	4.5	5.0
South Asia	5.7	5.1	8.0	8.1	8.2
Sub-Saharan Africa	3.4	3.7	5.2	5.5	5.2

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: The MENA region includes the resource-poor, labor-abundant (RPLA) economies: Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank and Gaza; the resource-rich, labor-abundant (RRLA) economies: Algeria, the Islamic Republic of Iran, Iraq, the Syrian Arab Republic, and the Republic of Yemen; and the resource-rich, labor-importing (RRLI) economies: Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Due to data limitations, the West Bank and Gaza is not included in regional or subregional aggregates. In addition to the resource-based classifications, aggregates are presented for groups based on geography and trade. The Maghreb consists of Algeria, Libya, Morocco, and Tunisia. The Mashreq is comprised of Iraq, Jordan, Lebanon, the Arab Republic of Syria, and West Bank and Gaza. The Gulf Cooperation Council (GCC) members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE. And 'other' consisting of Djibouti, the Arab Republic of Egypt, the Islamic Republic of Iran, and Yemen. Finally, net oil importers of the region include Djibouti, Jordan, Lebanon, Morocco, and Tunisia. All others are considered net exporters.

Table A.2: Real growth in per capita GDP, 1996–2006

(percentage per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	1.9	4.4	3.8	4.0
MENA (excluding Iraq)	1.7	2.6	3.9	4.0	4.2
By resource-based classification					
Resource-poor, labor-abundant	2.7	2.0	3.1	2.1	3.6
Djibouti	–3.2	0.0	2.0	1.4	2.4
Egypt, Arab Republic of	3.3	1.8	2.2	2.6	4.4
Jordan	0.1	1.9	6.0	4.8	3.9
Lebanon	0.8	2.1	5.0	–0.3	–6.7
Morocco	1.8	2.3	2.9	0.7	6.3
Tunisia	4.2	3.0	4.8	3.0	4.1
West Bank and Gaza	—	–9.6	2.4	2.4	–16.2
Resource-rich	1.4	2.7	4.1	4.4	4.3
Resource-rich, labor-abundant (incl. Iraq)	—	0.8	5.2	2.5	2.3
Resource-rich, labor-abundant (excl. Iraq)	1.9	3.1	3.1	2.9	2.5
Algeria	1.5	2.6	3.6	3.7	–0.2
Iran, Islamic Republic of	2.5	4.4	3.7	3.1	4.5
Iraq	—	–19.4	41.6	0.3	0.7
Syrian Arab Republic	1.4	0.9	1.6	2.1	2.7
Yemen, Republic of	2.6	0.9	–0.5	0.7	0.8
Resource-rich, labor-importing	0.4	1.5	3.6	4.2	4.2
Bahrain	1.2	3.4	3.4	4.8	4.9
Kuwait	–2.0	2.5	3.5	5.4	3.8
Libya	–0.4	2.7	6.0	6.2	6.0
Oman	0.9	1.8	3.2	3.1	3.9
Qatar	8.5	4.4	9.0	8.6	9.7
Saudi Arabia	0.0	0.5	2.1	3.6	2.9
United Arab Emirates	–0.9	–0.3	3.2	1.2	3.3
By geographic subregion					
Maghreb	1.5	2.7	5.3	3.8	3.6
Mashreq (excluding WBG, Iraq)	0.7	1.3	3.5	1.5	–0.8
GCC	0.4	1.4	3.3	4.0	4.0
Other	2.7	2.9	2.9	2.6	4.1
By oil-trade group					
Oil-exporting countries (excluding Iraq)	1.7	2.5	4.0	4.2	4.7
Oil-importing countries (excluding WBG)	1.9	2.3	5.6	1.6	2.8
Comparator regions					
MENA (excl. Iraq)	1.7	2.6	3.9	4.0	4.2
All developing countries	2.5	3.1	5.9	5.3	5.7
East Asia and the Pacific	5.1	6.8	8.2	8.1	8.2
Europe and Central Asia	1.9	4.7	7.3	6.0	6.4
Latin America and the Caribbean	1.4	–0.2	4.4	3.2	3.7
South Asia	3.7	3.4	6.3	6.3	6.6
Sub-Saharan Africa	0.9	1.3	2.8	3.3	3.2

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.3: Nominal GDP, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	641.9	788.7	1,011.4	1,208.6	1,450.6
MENA (excluding Iraq)	619.2	769.0	985.7	1,174.1	1,399.3
By resource-based classification					
Resource-poor, labor-abundant	158.8	177.6	190.0	204.6	229.4
Djibouti	0.5	0.6	0.7	0.7	0.8
Egypt, Arab Republic of	80.4	92.1	78.7	89.6	107.1
Jordan	7.6	9.2	11.4	12.7	14.3
Lebanon	15.8	18.1	21.7	22.0	21.9
Morocco	35.3	36.8	50.0	51.6	57.2
Tunisia	19.8	21.4	28.1	28.7	29.0
West Bank and Gaza	—	3.1	3.6	4.0	3.9
Resource-rich	460.4	591.4	795.8	969.5	1,169.8
Resource-rich, labor-abundant (incl. Iraq)	—	226.3	311.4	367.5	428.4
Resource-rich, labor-abundant (excl. Iraq)	175.2	206.6	285.7	333.0	377.1
Algeria	48.0	58.8	85.0	102.3	112.3
Iran, Islamic Republic of	105.8	117.1	163.2	189.8	220.0
Iraq	12.7	19.7	25.7	34.5	51.3
Syrian Arab Republic	14.8	20.5	24.5	26.7	28.3
Yemen, Republic of	6.6	10.2	13.0	14.3	16.5
Resource-rich, labor-importing	285.1	384.9	510.0	636.5	792.7
Bahrain	6.3	8.5	11.0	13.5	16.4
Kuwait	29.5	39.6	60.2	81.3	98.8
Libya	30.3	26.9	30.3	39.1	46.5
Oman	15.2	20.5	24.8	30.7	38.4
Qatar	10.8	19.7	28.5	35.7	47.0
Saudi Arabia	157.5	193.9	250.7	309.9	368.8
United Arab Emirates	50.7	75.7	104.6	126.2	176.8
By geographic subregion					
Maghreb	118.2	143.8	193.5	221.6	244.9
Mashreq (excluding WBG, Iraq)	38.2	47.8	57.5	61.4	64.5
GCC	270.0	358.0	479.7	597.4	746.3
Other	193.3	220.0	255.6	294.3	344.3
By oil-trade group					
Oil-exporting countries (excluding Iraq)	492.8	624.7	789.5	956.8	1,164.6
Oil-importing countries (excluding WBG)	78.9	86.1	111.9	115.7	123.1
Comparator regions					
MENA (excl. Iraq)	619	769	986	1,174	1,399
All developing countries	5,495	6,482	8,836	10,345	11,859
East Asia and the Pacific	1,440	2,016	2,693	3,076	3,554
Europe and Central Asia	1,144	1,161	1,720	2,104	2,428
Latin America and the Caribbean	1,754	1,855	2,042	2,406	2,763
South Asia	518	679	1,392	1,600	1,762
Sub-Saharan Africa	308	359	495	579	692

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.4: Consumer price inflation, 1996–2006

(percentage per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	4.2	3.3	5.0	6.4	6.8
MENA (excluding Iraq)	4.2	2.8	4.1	5.5	5.3
By resource-based classification					
Resource-poor, labor-abundant	3.3	2.3	4.0	7.0	5.8
Djibouti	2.5	1.7	3.1	3.1	3.5
Egypt, Arab Republic of	3.8	2.6	4.9	11.4	7.7
Jordan	2.8	1.5	3.4	3.5	6.1
Lebanon	3.7	2.6	4.7	–0.7	4.0
Morocco	1.9	1.6	1.5	1.0	3.1
Tunisia	3.2	1.9	3.1	3.0	2.3
West Bank and Gaza	6.5	3.5	3.0	3.5	4.2
Resource-rich	4.5	2.9	4.2	5.0	5.1
Resource-rich, labor-abundant (incl. Iraq)	11.5	10.1	13.1	12.3	13.8
Resource-rich, labor-abundant (excl. Iraq)	12.6	9.0	10.5	9.4	8.7
Algeria	6.3	2.1	3.6	1.6	2.2
Iran, Islamic Republic of	18.2	13.8	15.2	13.4	12.0
Iraq	3.5	18.2	31.7	32.8	50.0
Syrian Arab Republic	1.8	1.5	4.6	7.9	6.0
Yemen, Republic of	10.7	11.0	12.0	14.6	15.7
Resource-rich, labor-importing	0.5	0.0	1.1	2.9	3.4
Bahrain	–0.2	–0.9	2.3	2.7	3.4
Kuwait	1.8	1.3	1.3	3.8	3.2
Libya	0.0	–6.0	–3.4	3.4	3.1
Oman	–1.0	–0.5	0.7	1.2	3.0
Qatar	3.3	1.6	6.6	8.4	7.0
Saudi Arabia	–0.4	–0.2	0.0	0.5	2.2
United Arab Emirates	2.3	2.6	4.5	7.7	6.0
By geographic subregion					
Maghreb	3.6	1.9	3.0	2.4	2.7
Mashreq (excluding WBG, Iraq)	3.4	2.1	4.2	3.2	5.5
GCC	1.9	0.6	3.7	5.5	5.1
Other	5.1	2.3	4.1	8.5	8.9
By oil-trade group					
Oil-exporting countries (excluding Iraq)	4.2	2.9	4.3	6.4	5.8
Oil-importing countries (excluding WBG)	2.7	1.9	2.8	1.4	3.4
Comparator regions					
MENA (excl. Iraq)	4.2	2.8	4.1	5.5	5.3
All developing countries	7.8	5.8	6.0	4.3	4.0
East Asia and the Pacific	6.6	4.0	4.2	3.0	2.7
Europe and Central Asia	104.7	5.8	6.2	4.0	6.0
Latin America and the Caribbean	10.1	7.8	8.3	9.1	7.3
South Asia	8.1	5.3	7.6	6.3	8.1
Sub-Saharan Africa	10.0	6.0	6.4	6.7	5.8

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.5: Overall fiscal balance, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	57.1	134.8	198.1
MENA (excluding Iraq)	–17.3	11.6	67.5	138.5	202.7
By resource-based classification					
Resource-poor, labor-abundant	–6.2	–10.2	–11.3	–13.7	–13.7
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	–1.5	–4.7	–6.5	–8.0	–8.6
Jordan	–0.2	–0.2	–0.2	–0.6	–0.2
Lebanon	–2.9	–3.1	–2.2	–2.0	–2.9
Morocco	–0.7	–1.5	–1.7	–2.2	–1.1
Tunisia	–0.8	–0.7	–0.8	–0.9	–0.9
West Bank and Gaza	—	–0.7	–0.6	–0.8	–1.2
Resource-rich	–11.1	21.8	78.8	152.2	216.5
Resource-rich, labor-abundant (incl. Iraq)	—	—	–3.2	11.4	7.1
Resource-rich, labor-abundant (excl. Iraq)	–1.6	3.8	7.2	15.2	11.7
Algeria	0.1	3.3	5.8	14.6	14.9
Iran, Islamic Republic of	–1.6	0.3	2.8	2.1	–1.5
Iraq	—	—	–10.4	–3.8	–4.6
Syrian Arab Republic	0.1	0.0	–1.1	–1.2	–1.2
Yemen, Republic of	–0.2	0.1	–0.3	–0.3	–0.5
Resource-rich, labor-importing	–9.5	18.0	71.6	137.0	204.8
Bahrain	–0.3	0.1	0.0	0.2	0.7
Kuwait	4.1	9.5	15.8	31.1	41.7
Libya	0.5	2.3	5.7	7.3	11.2
Oman	0.1	1.6	2.1	3.4	7.0
Qatar	–0.9	1.1	4.8	4.2	8.5
Saudi Arabia	–10.6	–3.5	24.1	57.0	88.7
United Arab Emirates	–2.3	6.9	19.0	33.8	47.0
By geographic subregion					
Maghreb	–1.2	3.4	9.0	18.8	24.0
Mashreq (excluding WBG, Iraq)	–3.0	–3.2	–3.4	–3.8	–4.4
GCC	–9.8	15.7	65.9	129.7	193.6
Other	–3.3	–4.3	–4.0	–6.2	–10.6
By oil-trade group					
Oil-exporting countries (excluding Iraq)	–12.7	13.7	66.5	129.7	193.0
Oil-importing countries (excluding WBG)	–4.7	–5.5	–4.9	–5.7	–5.2
Comparator regions					
MENA (excl. Iraq)	–17.3	11.6	67.5	138.5	202.7
All developing countries	–127.0	–163.2	–165.3	–132.0	–106.6
East Asia and the Pacific	–27.5	–54.3	–35.4	–39.5	–37.9
Europe and Central Asia	–46.5	–41.1	–10.8	30.5	46.5
Latin America and the Caribbean	1.5	–4.1	4.9	4.9	20.1
South Asia	–41.8	–55.6	–99.6	–113.1	–125.8
Sub-Saharan Africa	–10.6	–9.0	–12.8	–7.8	–6.7

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.6: Overall fiscal balance, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	5.6	11.2	13.7
MENA (excluding Iraq)	–2.8	1.5	6.8	11.8	14.5
By resource-based classification					
Resource-poor, labor-abundant	–3.9	–5.8	–6.0	–6.7	–6.0
Djibouti	–2.4	–3.0	–2.1	0.3	–4.1
Egypt, Arab Republic of	–1.8	–5.4	–8.2	–8.9	–8.0
Jordan	–2.8	–2.1	–2.0	–4.8	–1.6
Lebanon	–18.7	–17.0	–10.0	–9.2	–13.4
Morocco	–1.9	–4.1	–3.4	–4.3	–2.0
Tunisia	–4.2	–3.4	–2.7	–3.0	–3.0
West Bank and Gaza	—	—	–15.9	–19.4	–31.9
Resource-rich	–2.4	3.6	9.9	15.7	18.5
Resource-rich, labor-abundant (incl. Iraq)	—	—	–1.0	3.1	1.7
Resource-rich, labor-abundant (excl. Iraq)	–0.9	1.8	2.5	4.6	3.1
Algeria	0.2	5.6	6.9	14.2	13.3
Iran, Islamic Republic of	–1.6	0.2	1.7	1.1	–0.7
Iraq	—	—	–40.5	–10.9	–9.0
Syrian Arab Republic	0.7	0.3	–4.3	–4.4	–4.4
Yemen, Republic of	–2.5	1.1	–2.3	–2.4	–3.0
Resource-rich, labor-importing	–3.3	4.6	14.0	21.5	25.8
Bahrain	–4.3	1.2	0.3	1.8	4.0
Kuwait	13.9	24.5	26.3	38.2	42.2
Libya	—	8.5	18.7	18.7	24.0
Oman	0.8	7.7	8.5	11.0	18.1
Qatar	–8.3	5.7	17.0	11.7	18.1
Saudi Arabia	–6.8	–1.9	9.6	18.4	24.1
United Arab Emirates	–4.4	8.9	18.2	26.8	26.6
By geographic subregion					
Maghreb	–0.9	2.3	4.7	8.5	9.8
Mashreq (excluding WBG, Iraq)	–8.0	–6.8	–6.0	–6.2	–6.8
GCC	–3.7	4.3	13.7	21.7	25.9
Other	–1.7	–2.0	–1.6	–2.1	–3.1
By oil-trade group					
Oil-exporting countries (excluding Iraq)	–2.6	2.2	8.4	13.6	16.6
Oil-importing countries (excluding WBG)	–5.9	–6.4	–4.4	–4.9	–4.2
Comparator regions					
MENA (excl. Iraq)	–2.8	1.5	6.8	11.8	14.5
All developing countries	–2.3	–2.5	–1.9	–1.3	–0.9
East Asia and the Pacific	–1.7	–2.8	–1.3	–1.3	–1.1
Europe and Central Asia	–4.5	–3.8	–0.6	1.4	1.9
Latin America and the Caribbean	0.1	–0.3	0.2	0.2	0.7
South Asia	–7.7	–8.3	–7.2	–7.1	–7.1
Sub-Saharan Africa	–3.5	–2.4	–2.5	–1.3	–1.1

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.7: Total fiscal revenue (including grants), 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	23.1	31.1	36.2	41.1	42.7
By resource-based classification					
Resource-poor, labor-abundant	24.9	26.5	26.2	26.2	27.7
Djibouti	31.7	30.1	35.6	37.1	37.1
Egypt, Arab Republic of	24.6	27.1	25.6	24.7	28.3
Jordan	32.6	33.4	36.6	34.0	33.6
Lebanon	17.2	20.8	23.0	22.4	22.8
Morocco	27.7	26.5	26.8	29.1	28.6
Tunisia	24.3	24.3	24.1	24.2	23.7
West Bank and Gaza	—	14.3	26.4	30.3	12.6
Resource-rich	22.5	32.4	38.6	44.3	45.6
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	24.0	25.4	25.4	30.6	28.3
Algeria	30.5	36.6	36.1	41.1	41.0
Iran, Islamic Republic of	20.5	18.3	18.1	23.2	20.0
Iraq	—	—	—	—	—
Syrian Arab Republic	25.8	29.2	33.5	37.4	37.0
Yemen, Republic of	29.4	34.5	32.0	39.7	38.1
Resource-rich, labor-importing	21.6	36.3	46.0	51.5	53.8
Bahrain	26.9	32.9	34.1	32.2	29.5
Kuwait	60.3	64.0	56.5	62.7	65.1
Libya	34.3	48.7	59.5	59.5	67.0
Oman	39.5	45.8	47.6	47.6	51.5
Qatar	36.0	37.3	48.0	49.2	50.2
Saudi Arabia	27.8	34.2	43.4	49.9	54.9
United Arab Emirates	34.0	41.1	42.5	49.3	45.5
By geographic subregion					
Maghreb	29.1	34.3	35.6	39.4	41.0
Mashreq (excluding WBG, Iraq)	23.6	26.8	30.2	31.3	31.4
GCC	33.5	39.7	45.1	51.0	53.0
Other	22.5	22.8	21.2	24.5	23.5
By oil-trade group					
Oil-exporting countries (excluding Iraq)	29.0	33.8	37.6	42.8	44.5
Oil-importing countries (excluding WBG)	25.2	25.5	26.4	27.2	27.0

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.8: Total fiscal expenditures, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	31.7	31.8	29.9	30.0	29.4
By resource-based classification					
Resource-poor, labor-abundant	29.0	31.6	31.2	32.1	33.4
Djibouti	35.1	33.1	37.7	36.8	41.2
Egypt, Arab Republic of	26.8	31.3	31.6	31.8	35.5
Jordan	35.3	35.5	38.5	38.6	35.3
Lebanon	35.4	37.9	33.0	31.3	36.1
Morocco	29.3	30.6	30.2	33.5	30.6
Tunisia	28.9	27.6	26.6	27.2	26.7
West Bank and Gaza	—	—	42.3	49.7	44.5
Resource-rich	32.6	31.8	29.6	29.5	28.7
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	25.0	24.6	25.5	28.6	30.1
Algeria	30.6	31.0	29.3	26.9	27.7
Iran, Islamic Republic of	22.1	19.9	21.0	26.8	29.2
Iraq	—	—	—	—	—
Syrian Arab Republic	25.5	29.0	37.8	41.8	41.4
Yemen, Republic of	30.1	33.5	34.2	40.5	39.1
Resource-rich, labor-importing	37.4	35.7	31.9	30.0	28.0
Bahrain	37.4	31.7	33.8	30.4	25.5
Kuwait	48.1	39.5	30.2	24.5	22.9
Libya	—	40.2	40.8	40.8	43.0
Oman	39.7	38.1	39.2	36.6	33.4
Qatar	44.6	31.6	31.0	37.5	32.1
Saudi Arabia	34.8	36.2	33.8	31.5	30.8
United Arab Emirates	38.5	32.3	24.3	22.5	18.9
By geographic subregion					
Maghreb	30.0	32.0	30.9	30.9	31.2
Mashreq (excluding WBG, Iraq)	31.5	33.6	36.1	37.4	38.3
GCC	37.6	35.4	31.4	29.3	27.1
Other	24.3	25.3	25.0	29.0	31.7
By oil-trade group					
Oil-exporting countries (excluding Iraq)	31.9	31.8	29.9	30.0	29.4
Oil-importing countries (excluding WBG)	27.6	28.1	26.8	27.9	27.2

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.9: Current fiscal expenditures, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	26.3	25.7	25.1
MENA (excluding Iraq)	25.8	25.9	24.4	24.2	22.5
By resource-based classification					
Resource-poor, labor-abundant	23.2	25.9	26.0	27.6	28.2
Djibouti	30.8	30.0	30.0	27.5	29.8
Egypt, Arab Republic of	21.1	25.5	26.9	27.5	30.6
Jordan	28.0	28.5	28.6	31.6	27.8
Lebanon	28.3	34.9	29.2	29.2	31.9
Morocco	24.9	25.4	25.7	29.7	26.2
Tunisia	22.0	19.8	19.9	20.7	20.0
West Bank and Gaza	—	—	36.6	39.7	39.3
Resource-rich	26.7	25.9	24.0	23.4	21.4
Resource-rich, labor-abundant (incl. Iraq)	—	—	25.3	25.8	29.7
Resource-rich, labor-abundant (excl. Iraq)	17.7	18.1	18.8	20.3	20.6
Algeria	22.9	22.2	20.3	17.2	16.7
Iran, Islamic Republic of	15.5	15.6	16.5	19.9	20.8
Iraq	—	—	98.3	78.9	96.3
Syrian Arab Republic	13.8	17.0	25.3	29.6	29.5
Yemen, Republic of	24.1	26.2	24.7	31.2	30.6
Resource-rich, labor-importing	32.2	30.0	27.0	25.1	21.8
Bahrain	25.6	25.2	25.3	24.5	21.6
Kuwait	42.5	35.4	30.2	24.5	21.9
Libya	—	22.4	24.5	24.5	25.8
Oman	32.2	29.6	28.6	25.6	23.4
Qatar	38.6	26.5	22.1	20.0	17.9
Saudi Arabia	30.6	31.6	29.8	26.2	24.9
United Arab Emirates	31.7	27.5	20.3	24.2	14.9
By geographic subregion					
Maghreb	23.8	22.7	22.3	21.9	21.0
Mashreq (excluding WBG, Iraq)	22.6	26.0	27.4	29.9	29.9
GCC	32.4	30.6	27.2	25.1	21.5
Other	18.1	20.2	20.2	22.7	24.3
By oil-trade group					
Oil-exporting countries (excluding Iraq)	26.1	26.1	24.7	24.5	22.7
Oil-importing countries (excluding WBG)	25.2	26.4	25.2	27.6	26.0

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.10: Exports of goods and services, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	35.6	41.0	49.3	55.6	58.8
By resource-based classification					
Resource-poor, labor-abundant	24.6	25.9	34.2	35.6	35.9
Djibouti	38.9	37.7	37.9	37.4	35.2
Egypt, Arab Republic of	18.1	18.9	31.4	31.8	31.4
Jordan	48.5	45.0	52.2	51.9	52.0
Lebanon	12.7	15.6	19.0	19.2	19.9
Morocco	28.0	32.6	33.2	36.4	36.7
Tunisia	42.8	45.3	47.3	50.5	54.7
West Bank and Gaza	—	—	—	—	—
Resource-rich	39.3	45.6	52.8	59.9	63.3
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	23.6	32.1	35.0	40.6	42.3
Algeria	27.2	37.7	40.1	47.6	55.6
Iran, Islamic Republic of	19.6	27.9	31.1	35.6	35.5
Iraq	—	—	—	—	—
Syrian Arab Republic	35.1	36.2	41.7	44.7	41.4
Yemen, Republic of	35.8	38.3	38.4	48.3	44.2
Resource-rich, labor-importing	49.1	52.8	62.8	70.0	73.3
Bahrain	78.5	84.5	83.3	87.5	93.7
Kuwait	49.4	51.1	56.2	63.4	65.1
Libya	—	47.7	58.1	76.4	80.3
Oman	46.8	58.1	56.9	63.5	64.7
Qatar	47.1	64.3	69.1	64.1	85.3
Saudi Arabia	36.8	42.8	52.7	60.6	64.3
United Arab Emirates	77.7	74.3	89.9	96.6	91.6
By geographic subregion					
Maghreb	35.7	39.0	42.2	50.5	55.8
Mashreq (excluding WBG, Iraq)	28.7	30.1	35.3	37.1	36.4
GCC	47.8	53.4	63.1	69.5	72.9
Other	19.6	24.5	31.6	35.1	34.7
By oil-trade group					
Oil-exporting countries (excluding Iraq)	37.1	42.3	52.1	58.6	61.1
Oil-importing countries (excluding WBG)	26.2	28.7	30.7	32.6	33.7
Comparator regions					
MENA (excl. Iraq)	35.6	41.0	49.3	55.6	58.8
All developing countries	27.0	30.4	33.0	34.7	36.5
East Asia and the Pacific	33.9	35.9	41.7	44.7	46.6
Europe and Central Asia	36.5	40.6	42.7	42.8	46.5
Latin America and the Caribbean	18.8	23.1	27.1	28.4	27.7
South Asia	13.6	15.2	10.4	11.6	13.3
Sub-Saharan Africa	32.5	35.9	38.1	38.9	38.3

Source: World Bank staff estimates based on National Income Account concept.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.11: Merchandise exports, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	446.0	613.1	784.2
MENA (excluding Iraq)	182.3	276.4	428.2	590.3	755.5
By resource-based classification					
Resource-poor, labor-abundant	20.5	26.0	36.0	41.5	48.4
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	4.9	7.4	10.5	13.8	18.5
Jordan	1.8	2.5	3.9	4.3	4.9
Lebanon	1.0	1.4	2.0	2.2	1.5
Morocco	7.1	7.8	9.9	10.7	12.0
Tunisia	5.6	6.8	9.7	10.5	11.5
West Bank and Gaza	—	—	—	—	—
Resource-rich	161.8	250.5	392.1	548.8	707.1
Resource-rich, labor-abundant (incl. Iraq)	—	—	105.8	144.4	174.1
Resource-rich, labor-abundant (excl. Iraq)	36.4	58.9	88.0	121.6	145.4
Algeria	12.0	21.0	32.2	46.3	59.8
Iran, Islamic Republic of	18.7	28.6	43.9	60.0	70.5
Iraq	—	12.1	17.8	22.8	28.7
Syrian Arab Republic	3.7	5.7	7.3	8.7	8.0
Yemen, Republic of	2.1	3.7	4.7	6.6	7.0
Resource-rich, labor-importing	125.4	191.5	304.1	427.2	561.7
Bahrain	4.2	6.1	7.6	10.1	13.5
Kuwait	12.8	18.2	30.1	46.9	60.4
Libya	8.4	12.3	17.4	29.6	37.0
Oman	6.8	11.3	13.4	18.7	23.9
Qatar	4.8	11.9	18.7	21.9	38.8
Saudi Arabia	52.2	77.8	125.9	181.2	229.7
United Arab Emirates	36.4	53.9	91.0	118.8	158.4
By geographic subregion					
Maghreb	33.1	47.9	69.2	97.1	120.3
Mashreq (excluding WBG, Iraq)	6.5	9.6	13.2	15.2	14.4
GCC	117.0	179.3	286.7	397.5	524.7
Other	25.7	39.7	59.0	80.5	96.1
By oil-trade group					
Oil-exporting countries (excluding Iraq)	154.8	236.9	370.4	516.3	665.7
Oil-importing countries (excluding WBG)	15.6	18.6	25.5	27.7	29.9
Comparator regions					
MENA (excl. Iraq)	182	276	428	590	755
All developing countries	1,223	1,676	2,433	3,007	3,668
East Asia and the Pacific	435	634	960	1,181	1,438
Europe and Central Asia	270	389	628	780	1,007
Latin America and the Caribbean	301	376	475	583	667
South Asia	56	75	99	120	141
Sub-Saharan Africa	85	106	148	179	204

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.12: Crude oil and refined product exports, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	126.7	204.8	324.2	463.2	547.5
MENA (excluding Iraq)	122.2	190.9	306.5	439.8	521.7
By resource-based classification					
Resource-poor, labor-abundant	3.1	3.0	5.1	6.6	11.5
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	2.5	2.1	3.9	5.3	10.2
Jordan	0.0	0.0	0.0	0.1	0.1
Lebanon	0.0	0.0	0.0	0.0	0.0
Morocco	0.1	0.3	0.3	0.3	0.2
Tunisia	0.5	0.6	0.9	1.0	1.0
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	119.1	187.8	301.4	433.2	510.2
Resource-rich, labor-abundant (incl. Iraq)	34.9	63.8	93.0	129.1	140.6
Resource-rich, labor-abundant (excl. Iraq)	30.3	49.9	75.2	105.7	114.9
Algeria	10.9	20.7	33.2	47.0	54.2
Iran, Islamic Republic of	15.2	23.1	34.3	48.3	50.3
Iraq	4.5	13.9	17.8	23.4	25.8
Syrian Arab Republic	2.4	2.9	3.5	4.2	3.8
Yemen, Republic of	1.9	3.3	4.2	6.2	6.5
Resource-rich, labor-importing	88.8	137.9	226.1	327.6	395.3
Bahrain	1.1	1.7	5.8	7.6	10.9
Kuwait	11.9	16.2	27.8	42.6	55.4
Libya	7.9	11.5	18.7	28.3	31.5
Oman	5.4	8.1	13.2	16.0	15.8
Qatar	3.7	7.6	11.7	18.6	23.7
Saudi Arabia	45.0	68.8	110.9	164.7	197.7
United Arab Emirates	13.8	23.9	38.1	49.7	60.5
By geographic subregion					
Maghreb	19.4	33.1	53.0	76.5	86.9
Mashreq (excluding WBG, Iraq)	2.4	2.9	3.6	4.3	3.9
GCC	80.9	126.3	207.5	299.2	363.9
Other	19.6	28.5	42.4	59.8	67.0
By oil-trade group					
Oil-exporting countries (excluding Iraq)	110.7	169.3	272.1	391.6	466.2
Oil-importing countries (excluding WBG)	0.6	0.9	1.2	1.3	1.3

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.13: Imports of goods and services, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	33.7	32.6	37.2	37.5	38.2
By resource-based classification					
Resource-poor, labor-abundant	34.2	32.9	42.3	45.8	45.2
Djibouti	50.7	47.2	54.2	56.1	57.1
Egypt, Arab Republic of	25.6	22.8	34.2	38.3	35.9
Jordan	69.8	68.2	82.6	93.3	93.9
Lebanon	49.0	37.7	45.0	44.1	46.1
Morocco	32.3	36.8	39.7	44.0	44.7
Tunisia	45.5	49.3	50.1	51.0	54.6
West Bank and Gaza	—	—	—	—	—
Resource-rich	33.5	32.5	35.9	35.8	36.8
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	21.5	24.2	28.7	27.7	30.2
Algeria	24.1	23.1	25.7	23.5	26.6
Iran, Islamic Republic of	16.6	22.5	29.0	27.2	29.5
Iraq	—	—	—	—	—
Syrian Arab Republic	38.5	30.2	32.2	40.2	40.6
Yemen, Republic of	44.6	38.5	38.1	39.8	46.0
Resource-rich, labor-importing	41.0	36.9	40.0	40.1	39.9
Bahrain	68.6	63.8	64.2	63.0	57.7
Kuwait	44.2	34.2	32.0	30.1	25.2
Libya	—	29.4	33.9	32.8	36.0
Oman	39.5	35.8	42.9	36.1	37.2
Qatar	50.1	34.7	26.4	35.4	32.8
Saudi Arabia	27.2	28.5	28.3	27.9	30.6
United Arab Emirates	72.3	61.4	75.1	78.4	69.4
By geographic subregion					
Maghreb	35.1	31.1	34.1	33.5	36.0
Mashreq (excluding WBG, Iraq)	49.1	40.4	47.0	52.6	54.3
GCC	40.1	37.7	40.4	40.5	40.2
Other	21.3	23.6	31.1	31.3	32.4
By oil-trade group					
Oil-exporting countries (excluding Iraq)	33.2	32.0	36.9	37.4	37.7
Oil-importing countries (excluding WBG)	42.4	43.5	47.8	51.3	53.1
Comparator regions					
MENA (excl. Iraq)	33.7	32.6	37.2	37.5	38.2
All developing countries	26.9	28.7	31.3	32.6	34.8
East Asia and the Pacific	32.1	32.0	38.3	40.8	42.6
Europe and Central Asia	36.4	39.2	42.3	42.6	46.9
Latin America and the Caribbean	19.8	22.9	25.1	25.7	25.5
South Asia	15.5	16.8	12.8	15.0	18.1
Sub-Saharan Africa	30.8	31.7	32.0	32.4	32.4

Source: World Bank staff estimates based on National Income Account concept.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.14: Workers' remittances (net), 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	–12.3	–13.6	–10.2	–11.6	–11.2
By resource-based classification					
Resource-poor, labor-abundant	8.0	8.8	11.0	12.9	13.9
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	3.4	3.2	3.0	4.3	4.5
Jordan	1.5	1.8	2.1	2.2	2.5
Lebanon	0.5	–0.1	0.3	0.3	0.4
Morocco	2.0	2.9	4.2	4.7	5.2
Tunisia	0.7	1.0	1.4	1.4	1.4
West Bank and Gaza	0.9	0.8	0.7	0.7	0.7
Resource-rich	–20.3	–22.4	–21.2	–24.5	–25.1
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	3.4	3.6	5.4	4.9	5.5
Algeria	1.0	1.1	2.5	2.0	2.5
Iran, Islamic Republic of	0.8	0.8	1.0	1.0	1.0
Iraq	—	—	—	—	—
Syrian Arab Republic	0.5	0.5	0.7	0.8	0.9
Yemen, Republic of	1.1	1.2	1.2	1.1	1.1
Resource-rich, labor-importing	–23.7	–26.0	–26.5	–29.4	–30.6
Bahrain	–0.7	–1.1	–1.1	–1.1	–1.2
Kuwait	–1.5	–1.9	–2.4	–3.3	–3.4
Libya	–0.2	–0.6	–0.8	–0.8	–0.8
Oman	–1.5	–1.6	–1.8	–2.3	–1.9
Qatar	–1.2	–1.5	–2.2	–2.2	–2.3
Saudi Arabia	–15.2	–15.3	–13.6	–14.3	–15.0
United Arab Emirates	–3.5	–4.0	–4.6	–5.4	–6.0
By geographic subregion					
Maghreb	3.4	4.4	7.3	7.2	8.3
Mashreq (excluding WBG, Iraq)	2.5	2.2	3.1	3.3	3.7
GCC	–23.5	–25.3	–25.7	–28.6	–29.8
Other	5.3	5.2	5.2	6.4	6.6
By oil-trade group					
Oil-exporting countries (excluding Iraq)	–17.9	–20.3	–20.6	–22.1	–23.1
Oil-importing countries (excluding WBG)	4.7	5.7	8.0	8.6	9.4
Comparator regions					
MENA (net recipients)	11.4	12.4	16.3	17.8	19.3
All developing countries	59.2	96.8	131.2	150.9	161.8
East Asia and the Pacific	11.5	22.4	30.5	34.8	36.2
Europe and Central Asia	6.7	10.7	12.8	17.5	19.0
Latin America and the Caribbean	15.2	25.6	39.2	45.4	51.2
South Asia	13.1	23.2	28.4	33.5	34.4
Sub-Saharan Africa	1.7	2.5	4.3	4.1	4.1

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.15: Tourism revenues (BOP basis), 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	11.5	15.7	20.7	23.3	26.7
By resource-based classification					
Resource-poor, labor-abundant	7.6	9.8	13.4	15.3	17.8
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	3.2	4.1	5.4	6.4	7.2
Jordan	0.8	0.9	1.3	1.4	1.6
Lebanon	0.3	0.5	0.8	0.8	0.7
Morocco	1.6	2.6	3.9	4.6	6.0
Tunisia	1.6	1.6	2.0	2.1	2.3
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	4.0	5.9	7.3	8.0	9.0
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	1.8	2.3	2.8	3.2	3.6
Algeria	0.4	0.5	0.8	1.1	1.2
Iran, Islamic Republic of	0.2	0.6	0.8	0.9	1.0
Iraq	—	—	—	—	—
Syrian Arab Republic	1.1	1.0	0.9	1.0	1.2
Yemen, Republic of	0.1	0.2	0.3	0.2	0.2
Resource-rich, labor-importing	2.2	3.6	4.5	4.8	5.4
Bahrain	0.3	0.7	1.0	1.1	1.1
Kuwait	0.0	0.0	0.0	0.0	0.0
Libya	0.0	0.0	0.0	0.0	0.0
Oman	0.2	0.5	0.6	0.7	0.8
Qatar	0.1	0.2	0.3	0.4	0.4
Saudi Arabia	0.9	1.2	1.3	1.4	1.6
United Arab Emirates	0.7	1.0	1.2	1.3	1.4
By geographic subregion					
Maghreb	3.6	4.8	6.7	7.8	9.4
Mashreq (excluding WBG, Iraq)	2.2	2.4	3.0	3.2	3.5
GCC	2.2	3.6	4.5	4.8	5.4
Other	3.5	4.9	6.5	7.5	8.4
By oil-trade group					
Oil-exporting countries (excluding Iraq)	6.8	9.5	11.8	13.3	15.0
Oil-importing countries (excluding WBG)	4.4	5.7	8.0	8.9	10.6

Source: World Bank staff estimates.

e = estimate.
— = data not available.
Note: See footnote to table A.1.

Table A.16: Current account balance, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	99.4	193.9	288.1
MENA (excluding Iraq)	–0.2	54.7	108.9	198.7	289.2
By resource-based classification					
Resource-poor, labor-abundant	–6.1	–2.7	–1.2	–3.2	–3.9
Djibouti	0.0	0.0	0.0	0.0	0.0
Egypt, Arab Republic of	–0.8	0.8	3.4	2.9	1.7
Jordan	0.0	0.4	0.0	–2.3	–2.9
Lebanon	–4.4	–4.2	–5.1	–4.8	–4.7
Morocco	–0.3	1.0	1.0	1.3	2.3
Tunisia	–0.6	–0.8	–0.6	–0.3	–0.3
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	5.9	57.4	110.1	201.9	293.1
Resource-rich, labor-abundant (incl. Iraq)	—	—	4.0	32.0	38.7
Resource-rich, labor-abundant (excl. Iraq)	3.0	14.5	13.4	36.7	39.8
Algeria	0.3	7.3	11.1	21.7	27.7
Iran, Islamic Republic of	3.1	5.8	1.4	14.0	12.7
Iraq	—	—	–9.5	–4.8	–1.1
Syrian Arab Republic	–0.5	0.9	0.6	0.3	0.3
Yemen, Republic of	0.2	0.6	0.3	0.7	–0.8
Resource-rich, labor-importing	2.9	42.9	96.7	165.2	253.3
Bahrain	–0.1	0.4	0.4	1.6	2.8
Kuwait	5.5	9.2	18.2	32.6	48.8
Libya	1.3	3.8	7.4	12.9	14.4
Oman	–0.9	2.2	0.6	4.7	7.5
Qatar	–1.8	4.3	7.6	7.1	22.8
Saudi Arabia	–3.8	15.9	51.9	87.1	119.8
United Arab Emirates	2.7	7.3	10.6	19.1	37.2
By geographic subregion					
Maghreb	0.7	11.3	19.0	35.6	44.0
Mashreq (excluding WBG, Iraq)	–4.9	–2.8	–4.5	–6.8	–7.3
GCC	1.6	39.1	89.3	152.3	238.9
Other	2.5	7.1	5.1	17.6	13.6
By oil-trade group					
Oil-exporting countries (excluding Iraq)	4.9	50.9	102.4	183.1	267.2
Oil-importing countries (excluding WBG)	–5.3	–3.5	–4.6	–6.1	–5.6
Comparator regions					
MENA (excl. Iraq)	–0.2	54.7	108.9	198.7	289.2
All developing countries	–47.8	71.8	117.8	258.6	333.9
East Asia and the Pacific	17.5	68.1	92.0	180.0	251.0
Europe and Central Asia	–7.4	8.1	4.2	17.6	18.3
Latin America and the Caribbean	–47.5	–19.7	20.3	39.6	53.4
South Asia	–8.9	2.2	–11.1	–22.9	–39.1
Sub-Saharan Africa	–5.6	2.1	–0.1	6.1	5.4

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.17: Current account balance, 1996–2006

(percentage of GDP)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	9.8	16.0	19.9
MENA (excluding Iraq)	–0.1	7.1	11.0	16.9	20.7
By resource-based classification					
Resource-poor, labor-abundant	–4.0	–1.5	–0.6	–1.6	–1.7
Djibouti	–0.8	3.1	–1.2	–4.2	–4.4
Egypt, Arab Republic of	–0.9	1.0	4.3	3.2	1.6
Jordan	–0.3	4.5	–0.2	–18.2	–19.9
Lebanon	–30.0	–23.1	–23.3	–21.8	–21.5
Morocco	–0.9	2.7	2.0	2.5	4.0
Tunisia	–3.1	–3.7	–2.0	–1.1	–1.2
West Bank and Gaza	—	—	—	—	—
Resource-rich	1.3	9.7	13.8	20.8	25.1
Resource-rich, labor-abundant (incl. Iraq)	—	—	1.3	8.7	9.0
Resource-rich, labor-abundant (excl. Iraq)	1.7	7.3	4.7	11.0	10.6
Algeria	0.4	12.4	13.1	21.2	24.6
Iran, Islamic Republic of	2.9	5.3	0.9	7.4	5.8
Iraq	—	—	–36.8	–13.8	–2.2
Syrian Arab Republic	–3.9	4.5	2.5	1.1	1.1
Yemen, Republic of	2.7	5.9	2.0	5.0	–5.0
Resource-rich, labor-importing	1.1	11.0	19.0	25.9	32.0
Bahrain	–1.1	4.2	3.8	11.7	17.2
Kuwait	18.5	23.4	30.2	40.1	49.4
Libya	—	12.6	24.4	33.0	31.0
Oman	–6.2	10.6	2.3	15.3	19.4
Qatar	–18.6	21.4	26.7	19.9	48.6
Saudi Arabia	–2.7	8.0	20.7	28.1	32.5
United Arab Emirates	5.5	9.7	10.2	15.1	21.0
By geographic subregion					
Maghreb	0.6	7.8	9.8	16.1	18.0
Mashreq (excluding WBG, Iraq)	–13.8	–6.0	–7.8	–11.1	–11.2
GCC	0.5	10.8	18.6	25.5	32.0
Other	1.4	3.3	2.0	6.0	3.9
By oil-trade group					
Oil-exporting countries (excluding Iraq)	1.0	8.1	13.0	19.1	22.9
Oil-importing countries (excluding WBG)	–7.0	–4.2	–4.1	–5.3	–4.6
Comparator regions					
MENA (excl. Iraq)	–0.1	7.1	11.0	16.9	20.7
All developing countries	–0.9	1.1	1.3	2.5	2.8
East Asia and the Pacific	1.1	3.4	3.4	5.8	7.0
Europe and Central Asia	–0.6	0.8	0.2	0.8	0.8
Latin America and the Caribbean	–2.7	–1.0	1.0	1.6	1.9
South Asia	–1.7	0.2	–0.8	–1.4	–2.2
Sub-Saharan Africa	–1.9	0.7	0.0	1.0	0.8

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.18: Foreign direct investment, 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	9.6	—	—
MENA (excluding Iraq)	5.9	7.2	9.4	17.5	24.4
By resource-based classification					
Resource-poor, labor-abundant	3.6	4.0	4.0	11.0	18.3
Djibouti	0.0	0.0	0.0	0.1	0.1
Egypt, Arab Republic of	0.7	0.7	0.4	3.9	6.1
Jordan	0.1	0.4	0.7	1.5	2.5
Lebanon	1.8	1.7	1.5	1.9	4.3
Morocco	0.6	0.7	0.8	2.9	2.5
Tunisia	0.4	0.6	0.6	0.7	2.8
West Bank and Gaza	0.1	0.0	0.0	0.0	0.0
Resource-rich	2.3	3.2	5.4	6.5	6.1
Resource-rich, labor-abundant (incl. Iraq)	—	—	1.9	—	—
Resource-rich, labor-abundant (excl. Iraq)	0.3	1.0	1.7	1.7	3.4
Algeria	0.3	0.8	0.9	1.1	1.4
Iran, Islamic Republic of	0.0	0.0	0.4	0.3	0.5
Iraq	—	—	0.2	—	—
Syrian Arab Republic	0.1	0.2	0.3	0.5	0.7
Yemen, Republic of	–0.2	0.0	0.1	–0.1	0.8
Resource-rich, labor-importing	2.0	2.2	3.7	4.7	2.7
Bahrain	0.1	0.0	–0.2	–0.2	0.1
Kuwait	1.1	1.2	–2.5	–4.5	–2.1
Libya	0.0	0.0	0.0	0.0	0.0
Oman	0.1	0.1	0.0	0.4	0.4
Qatar	0.0	0.4	0.5	0.5	0.8
Saudi Arabia	0.7	–0.9	–1.9	1.4	–0.7
United Arab Emirates	0.0	1.4	7.8	7.2	4.2
By geographic subregion					
Maghreb	1.3	2.2	2.2	4.7	6.7
Mashreq (excluding WBG, Iraq)	2.1	2.2	2.5	3.9	7.5
GCC	2.0	2.2	3.7	4.7	2.7
Other	0.6	0.7	0.9	4.1	7.5
By oil-trade group					
Oil-exporting countries (excluding Iraq)	2.7	3.0	4.9	9.3	10.8
Oil-importing countries (excluding WBG)	2.9	3.3	3.6	7.1	12.2
Comparator regions					
MENA (excl. Iraq)	5.9	7.2	9.4	17.5	24.4
All developing countries	135.0	162.8	217.5	280.5	285.0
East Asia and the Pacific	48.0	49.3	66.1	96.9	95.0
Europe and Central Asia	19.9	29.7	62.8	73.6	72.0
Latin America and the Caribbean	55.3	62.0	62.5	70.1	65.0
South Asia	3.7	5.0	7.3	9.9	9.0
Sub-Saharan Africa	5.4	10.4	12.0	16.2	16.0

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.19: Foreign direct investment as a share of gross fixed investment, 1996–2006

(percentage per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	4.3	4.3	4.5	7.2	8.0
By resource-based classification					
Resource-poor, labor-abundant	11.2	11.1	10.1	25.6	37.3
Djibouti	6.7	9.0	29.7	43.5	69.0
Egypt, Arab Republic of	5.1	3.8	3.1	24.3	31.9
Jordan	6.8	19.6	23.6	51.0	69.1
Lebanon	40.1	44.8	32.3	42.7	89.1
Morocco	7.7	6.9	6.3	22.5	17.0
Tunisia	8.1	11.9	9.3	11.2	41.4
West Bank and Gaza	—	—	—	—	—
Resource-rich	2.1	2.3	3.2	3.2	2.4
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	0.6	1.9	2.2	2.0	3.4
Algeria	2.5	6.2	4.3	4.4	5.0
Iran, Islamic Republic of	0.1	0.0	0.8	0.5	0.8
Iraq	—	—	—	—	—
Syrian Arab Republic	4.0	4.0	5.7	9.2	12.3
Yemen, Republic of	–11.1	0.2	3.5	–3.7	17.3
Resource-rich, labor-importing	3.3	2.6	4.0	4.2	1.7
Bahrain	13.8	2.4	–7.2	–7.0	4.3
Kuwait	25.1	15.4	–23.3	–28.0	–9.3
Libya	0.0	0.0	0.0	0.0	0.0
Oman	2.4	3.8	–0.4	6.7	5.2
Qatar	0.0	8.1	7.1	5.8	8.4
Saudi Arabia	2.2	–2.5	–4.5	3.0	–1.1
United Arab Emirates	0.0	7.2	35.2	25.3	9.4
By geographic subregion					
Maghreb	4.5	6.8	5.2	9.7	12.1
Mashreq (excluding WBG, Iraq)	21.5	22.2	19.4	30.6	53.1
GCC	3.5	2.7	4.2	4.4	1.8
Other	1.4	1.4	1.5	5.7	8.8
By oil-trade group					
Oil-exporting countries (excluding Iraq)	2.5	2.2	3.1	4.9	4.4
Oil-importing countries (excluding WBG)	15.7	16.6	13.6	26.4	40.7
Comparator regions					
MENA (excl. Iraq)	4.3	4.3	4.5	7.2	8.0
All developing countries	10.1	10.4	10.0	10.8	9.2
East Asia and the Pacific	10.4	8.0	7.4	9.4	8.0
Europe and Central Asia	9.3	12.6	17.5	16.2	13.3
Latin America and the Caribbean	14.4	14.2	11.7	10.8	8.1
South Asia	3.0	3.4	3.8	4.4	3.4
Sub-Saharan Africa	9.0	17.0	14.2	16.2	13.3

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.20: Foreign direct investment as a share of GDP, 1996–2006

(percentage per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	1.0	0.9	0.9	1.5	1.7
By resource-based classification					
Resource-poor, labor-abundant	2.4	2.2	2.1	5.4	8.0
Djibouti	0.6	1.0	5.8	8.5	13.3
Egypt, Arab Republic of	1.0	0.7	0.5	4.4	5.7
Jordan	1.6	4.0	5.7	12.1	17.8
Lebanon	13.1	8.9	6.9	8.6	19.6
Morocco	1.7	1.6	1.5	5.7	4.4
Tunisia	2.0	3.0	2.1	2.5	9.6
West Bank and Gaza	—	—	—	—	—
Resource-rich	0.5	0.5	0.7	0.7	0.5
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	0.2	0.5	0.6	0.5	0.9
Algeria	0.6	1.4	1.0	1.1	1.2
Iran, Islamic Republic of	0.0	0.0	0.2	0.1	0.2
Iraq	—	—	—	—	—
Syrian Arab Republic	0.9	0.8	1.2	1.9	2.5
Yemen, Republic of	–2.6	0.0	0.8	–1.0	4.9
Resource-rich, labor-importing	0.7	0.5	0.7	0.7	0.3
Bahrain	1.8	0.2	–1.5	–1.5	0.9
Kuwait	3.8	2.5	–4.2	–5.5	–2.1
Libya	—	0.0	0.0	0.0	0.0
Oman	0.4	0.5	–0.1	1.3	0.9
Qatar	0.0	1.7	1.8	1.4	1.7
Saudi Arabia	0.5	–0.5	–0.8	0.5	–0.2
United Arab Emirates	0.0	1.7	7.5	5.7	2.4
By geographic subregion					
Maghreb	1.1	1.5	1.2	2.1	2.7
Mashreq (excluding WBG, Iraq)	5.9	4.5	4.3	6.4	11.7
GCC	0.8	0.5	0.8	0.8	0.4
Other	0.3	0.3	0.4	1.4	2.2
By oil-trade group					
Oil-exporting countries (excluding Iraq)	0.6	0.5	0.6	1.0	0.9
Oil-importing countries (excluding WBG)	3.8	3.8	3.2	6.2	9.9
Comparator regions					
MENA (excl. Iraq)	1.0	0.9	0.9	1.5	1.7
All developing countries	2.4	2.5	2.5	2.7	2.4
East Asia and the Pacific	3.3	2.5	2.5	3.2	2.7
Europe and Central Asia	2.0	2.6	3.7	3.5	3.0
Latin America and the Caribbean	3.0	3.3	3.1	2.9	2.4
South Asia	0.7	0.7	0.5	0.6	0.5
Sub-Saharan Africa	1.7	2.8	2.4	2.8	2.3

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.21: Gross foreign reserves (including gold), 1996–2006

(current US$ billions)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	238.5	297.7	363.3
MENA (excluding Iraq)	89.2	149.9	230.7	285.6	349.2
By resource-based classification					
Resource-poor, labor-abundant	35.4	40.4	56.8	64.5	77.4
Djibouti	0.1	0.1	0.1	0.1	0.1
Egypt, Arab Republic of	17.6	13.8	15.0	21.4	23.9
Jordan	2.2	4.0	5.5	5.5	7.0
Lebanon	9.1	10.7	15.7	16.6	19.0
Morocco	4.5	9.5	16.6	16.5	20.7
Tunisia	1.9	2.3	3.9	4.4	6.8
West Bank and Gaza	0.0	0.0	0.0	0.0	0.0
Resource-rich	53.7	109.6	173.9	221.2	271.8
Resource-rich, labor-abundant (incl. Iraq)	—	—	92.5	125.7	151.4
Resource-rich, labor-abundant (excl. Iraq)	15.8	44.3	84.6	113.6	137.3
Algeria	5.4	21.3	43.5	56.6	78.2
Iran, Islamic Republic of	9.0	16.7	32.6	47.8	49.6
Iraq	—	—	7.8	12.1	14.1
Syrian Arab Republic	0.4	2.2	2.9	3.1	3.1
Yemen, Republic of	1.1	4.0	5.7	6.1	6.4
Resource-rich, labor-importing	37.9	65.3	89.3	107.6	134.5
Bahrain	1.3	1.7	1.9	2.2	2.3
Kuwait	4.0	8.5	8.3	9.0	12.7
Libya	6.6	15.5	25.9	39.7	56.3
Oman	2.1	2.9	3.6	4.4	5.0
Qatar	0.9	1.8	3.4	4.6	5.4
Saudi Arabia	14.0	20.3	27.5	26.8	27.8
United Arab Emirates	8.9	14.6	18.5	21.0	25.0
By geographic subregion					
Maghreb	18.5	48.6	89.9	117.2	162.0
Mashreq (excluding WBG, Iraq)	11.7	17.0	24.0	25.1	29.0
GCC	31.3	49.8	63.4	67.9	78.1
Other	27.7	34.6	53.3	75.4	80.1
By oil-trade group					
Oil-exporting countries (excluding Iraq)	65.9	102.0	145.4	186.0	217.5
Oil-importing countries (excluding WBG)	17.9	26.6	41.8	43.1	53.5
Comparator regions					
MENA (excl. Iraq)	89.2	149.9	230.7	285.6	349.2
All developing countries	583.0	970.2	1,652.8	2,051.4	2,415.0
East Asia and the Pacific	225.4	424.0	803.0	1,020.0	1,200.0
Europe and Central Asia	95.3	168.6	300.0	395.0	450.0
Latin America and the Caribbean	149.5	180.0	226.7	262.8	325.0
South Asia	39.0	84.8	150.0	156.7	170.0
Sub-Saharan Africa	27.9	37.9	61.1	81.9	95.0

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.22: Reserves in months of import coverage, 1996–2006

(months of goods imports)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	9.7	10.0	9.5
MENA (excluding Iraq)	7.0	9.8	10.1	10.2	10.2
By resource-based classification					
Resource-poor, labor-abundant	9.8	10.3	10.7	10.5	11.0
Djibouti	4.6	4.5	4.1	3.5	4.3
Egypt, Arab Republic of	13.9	10.8	9.5	10.8	9.8
Jordan	6.9	10.6	9.0	7.0	7.9
Lebanon	16.2	20.3	21.7	23.1	24.8
Morocco	5.8	10.0	12.1	10.5	11.6
Tunisia	3.0	3.0	3.9	4.3	6.0
West Bank and Gaza	—	—	—	—	—
Resource-rich	5.9	9.7	9.9	10.2	10.0
Resource-rich, labor-abundant (incl. Iraq)	—	—	12.8	15.4	12.7
Resource-rich, labor-abundant (excl. Iraq)	6.4	13.1	15.2	18.5	17.5
Algeria	7.5	22.7	29.1	34.8	38.2
Iran, Islamic Republic of	7.7	9.3	10.2	14.0	11.0
Iraq	—	—	4.8	5.9	3.5
Syrian Arab Republic	1.1	6.0	5.0	4.2	3.6
Yemen, Republic of	5.9	15.8	17.7	16.2	13.8
Resource-rich, labor-importing	5.7	8.3	7.4	6.9	7.0
Bahrain	4.4	4.4	3.8	3.6	3.3
Kuwait	6.5	13.4	8.6	6.9	10.1
Libya	13.6	32.8	35.4	44.0	46.6
Oman	5.7	6.4	5.5	6.5	5.7
Qatar	3.0	4.3	8.5	5.5	5.2
Saudi Arabia	6.4	8.1	8.0	5.9	4.7
United Arab Emirates	3.8	4.8	3.5	3.1	3.0
By geographic subregion					
Maghreb	6.9	15.4	19.5	22.8	26.3
Mashreq (excluding WBG, Iraq)	9.4	13.3	12.6	11.3	11.5
GCC	5.1	6.7	5.6	4.6	4.3
Other	10.5	10.3	10.5	13.0	10.8
By oil-trade group					
Oil-exporting countries (excluding Iraq)	6.9	8.8	8.2	8.4	7.9
Oil-importing countries (excluding WBG)	7.7	10.0	11.2	10.4	11.7
Comparator regions					
MENA (excl. Iraq)	7.0	9.8	10.1	10.2	10.2
All developing countries	4.4	5.9	7.6	8.0	8.6
East Asia and the Pacific	5.1	6.9	9.0	9.9	10.5
Europe and Central Asia	3.5	4.3	5.3	5.9	7.0
Latin America and the Caribbean	4.3	4.3	4.7	4.6	4.8
South Asia	4.6	7.6	11.0	11.0	11.0
Sub-Saharan Africa	3.1	3.6	4.4	5.2	6.0

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.23: Exchange rates, 1996–2006

(units of local currency per US$)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	—	—	—	—	—
MENA (excluding Iraq)	—	—	—	—	—
By resource-based classification					
Resource-poor, labor-abundant	—	—	—	—	—
Djibouti	177.721	177.721	177.721	177.721	177.721
Egypt, Arab Republic of	3.390	4.107	6.163	6.006	5.750
Jordan	0.707	0.714	0.709	0.709	0.709
Lebanon	1,551.3	1,507.5	1,507.5	1,507.5	1,507.5
Morocco	9.238	10.631	8.868	8.865	8.797
Tunisia	1.070	1.380	1.246	1.297	1.382
West Bank and Gaza	—	—	—	—	—
Resource-rich	—	—	—	—	—
Resource-rich, labor-abundant (incl. Iraq)	—	—	—	—	—
Resource-rich, labor-abundant (excl. Iraq)	—	—	—	—	—
Algeria	57.086	77.389	72.060	73.276	73.056
Iran, Islamic Republic of	2,890.2	6,925.5	8,614.0	8,964.0	9,143.2
Iraq	—	1,943.250	1,455.000	1,467.000	1,500.000
Syrian Arab Republic	51.040	50.100	50.140	52.140	53.903
Yemen, Republic of	128.336	172.349	185.800	195.100	198.080
Resource-rich, labor-importing	—	—	—	—	—
Bahrain	0.376	0.376	0.376	0.376	0.376
Kuwait	0.302	0.304	0.290	0.290	0.290
Libya	0.397	0.914	1.300	1.310	1.315
Oman	0.384	0.384	0.384	0.384	0.384
Qatar	3.640	3.640	3.640	3.640	3.640
Saudi Arabia	3.745	3.745	3.745	3.745	3.745
United Arab Emirates	3.672	3.672	3.672	3.672	3.673
By geographic subregion					
Maghreb	—	—	—	—	—
Mashreq (excluding WBG, Iraq)	—	—	—	—	—
GCC	—	—	—	—	—
Other	—	—	—	—	—
By oil-trade group					
Oil-exporting countries (excluding Iraq)	—	—	—	—	—
Oil-importing countries (excluding WBG)	—	—	—	—	—

Source: World Bank staff estimates based on Atlas exchange rates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.24: Real effective exchange rates, 1996–2006

(Percentage change per year)

Country	1996–99	2000–03	2004	2005	2006[e]
MENA region (including Iraq)	2.9	–0.3	–5.2	0.8	–0.9
MENA (excluding Iraq)	3.0	–0.3	–6.1	0.9	–1.0
By resource-based classification					
Resource-poor, labor-abundant	1.9	–2.5	–14.1	0.8	–2.0
Djibouti	—	—	—	—	—
Egypt, Arab Republic of	1.8	–3.2	–21.5	1.8	–5.1
Jordan	4.3	–0.9	–3.8	6.7	4.4
Lebanon	—	—	—	—	—
Morocco	3.4	–0.2	–7.7	–1.8	–1.0
Tunisia	0.4	–5.1	–4.0	–1.6	7.4
West Bank and Gaza	—	—	—	—	—
Resource-rich	8.0	1.8	–7.4	3.2	–2.6
Resource-rich, labor-abundant (incl. Iraq)	4.5	3.1	2.6	2.3	–3.4
Resource-rich, labor-abundant (excl. Iraq)	5.1	3.5	–0.1	2.9	–3.9
Algeria	2.4	–4.4	0.7	–3.9	0.7
Iran, Islamic Republic of	6.8	8.2	–0.1	6.8	–7.7
Iraq	—	—	21.7	–2.1	–0.1
Syrian Arab Republic	—	1.2	–0.2	1.7	0.6
Yemen, Republic of	13.3	2.9	–3.8	2.5	1.9
Resource-rich, labor-importing	2.4	–1.1	–5.3	–0.1	0.9
Bahrain	1.6	–1.5	–2.9	–1.2	1.9
Kuwait	3.2	0.0	–5.1	2.0	1.6
Libya	—	—	—	—	—
Oman	1.8	–2.9	–9.6	1.9	1.4
Qatar	5.8	–1.1	2.7	3.5	4.5
Saudi Arabia	1.6	–2.0	–6.7	–2.5	–0.4
United Arab Emirates	4.7	0.7	–5.1	4.0	3.5
By geographic subregion					
Maghreb	1.2	–3.1	–2.4	–1.8	2.9
Mashreq (excluding WBG, Iraq)	2.0	–1.0	–5.6	2.9	0.7
GCC	4.0	–1.2	–1.0	1.7	2.7
Other	6.3	1.3	–1.8	1.2	0.9
By oil-trade group					
Oil-exporting countries (excluding Iraq)	3.1	0.2	–6.9	1.5	–1.5
Oil-importing countries (excluding WBG)	2.0	–1.5	–4.7	–0.4	1.9

Source: World Bank staff estimates.

e = estimate.

— = data not available.

Note: See footnote to table A.1.

Table A.25: Population: Estimates and projections, 1990–2020

Country	Million people					Growth per year (%)			
	1990	2000	2005	2010	2020	1990–2000	2000–05	2005–10	2010–20
MENA	250.2	311.0	342.3	375.8	444.9	2.2	1.9	1.9	1.7
By resource-based classification									
Resource-poor, labor abundant	97.3	118.3	129.4	140.9	163.2	2.0	1.8	1.7	1.5
Djibouti	0.6	0.7	0.8	0.9	1.0	2.5	2.1	1.6	1.7
Egypt, Arab Republic of	55.7	67.3	74.0	81.1	94.8	1.9	1.9	1.8	1.6
Jordan	3.3	5.0	5.7	6.3	7.6	4.3	2.8	2.1	1.8
Lebanon	2.7	3.4	3.6	3.8	4.1	2.2	1.0	1.1	0.9
Morocco	24.7	29.2	31.5	33.8	38.3	1.7	1.5	1.5	1.3
Tunisia	8.2	9.6	10.1	10.6	11.6	1.5	1.1	1.0	0.9
West Bank and Gaza	2.2	3.2	3.7	4.3	5.7	3.9	3.3	3.2	2.8
Resource-rich	152.9	192.6	212.9	234.9	281.8	2.3	2.0	2.0	1.8
Resource-rich, labor abundant	125.4	156.7	171.2	188.2	224.9	2.2	1.8	1.9	1.8
Algeria	25.3	30.5	32.9	35.4	40.6	1.9	1.5	1.5	1.4
Iran, Islamic Republic of	56.7	66.4	69.5	74.3	85.0	1.6	0.9	1.3	1.4
Iraq	18.5	25.1	28.8	32.5	40.5	3.1	2.8	2.5	2.2
Syrian Arab Republic	12.8	16.8	19.0	21.4	26.0	2.7	2.5	2.4	2.0
Yemen, Republic of	12.1	17.9	21.0	24.5	32.7	4.0	3.2	3.2	2.9
Resource-rich, labor-importing	27.5	36.0	41.7	46.7	56.8	2.7	3.0	2.3	2.0
Bahrain	0.5	0.7	0.7	0.8	0.9	3.1	1.6	1.7	1.4
Kuwait	2.1	2.2	2.7	3.0	3.7	0.4	3.8	2.5	2.0
Libya	4.3	5.3	5.9	6.4	7.5	2.0	2.0	1.9	1.6
Oman	1.8	2.4	2.6	2.9	3.5	2.9	1.0	2.2	2.0
Qatar	0.5	0.6	0.8	0.9	1.0	2.6	6.0	1.9	1.5
Saudi Arabia	16.4	21.5	24.6	27.7	34.0	2.8	2.7	2.4	2.1
United Arab Emirates	1.9	3.2	4.5	5.0	6.1	5.7	6.7	2.3	2.0
By geographic sub-region									
Maghreb	62.5	74.6	80.3	86.3	98.1	1.8	1.5	1.5	1.3
Mashreq	39.5	53.4	60.8	68.4	83.9	3.1	2.6	2.4	2.1
GCC	23.2	30.7	35.9	40.3	49.3	2.8	3.2	2.4	2.0
Other	125.0	152.3	165.3	180.8	213.6	2.0	1.7	1.8	1.7
By oil-trade group									
Oil-exporting countries	208.6	259.9	286.9	316.0	376.6	2.2	2.0	2.0	1.8
Oil-importing countries	41.6	51.0	55.4	59.8	68.3	2.1	1.6	1.5	1.3

Source: ILO 2005.

Note: See footnote to table A.1.

Table A.26: Population ages 15–64: Estimates and projections, 1990–2020

Country	Million people					Growth per year (%)			
	1990	2000	2005	2010	2020	1990–2000	2000–05	2005–10	2010–20
MENA	134.2	184.5	213.9	241.8	291.2	3.2	3.0	2.5	1.9
By resource-based classification									
Resource-poor, labor abundant	54.0	71.4	80.7	89.6	106.3	2.8	2.5	2.1	1.7
Djibouti	0.3	0.4	0.4	0.5	0.6	2.7	2.5	2.2	2.3
Egypt, Arab Republic of	30.7	40.1	45.7	50.7	60.6	2.7	2.6	2.1	1.8
Jordan	1.6	2.9	3.4	3.9	5.0	5.9	3.4	2.7	2.6
Lebanon	1.6	2.1	2.3	2.5	2.8	2.8	1.5	1.7	1.2
Morocco	14.0	18.2	20.2	22.2	25.6	2.7	2.1	1.9	1.5
Tunisia	4.7	6.1	6.8	7.5	8.2	2.6	2.3	1.8	0.9
West Bank and Gaza	1.1	1.6	1.9	2.3	3.3	3.9	3.9	3.7	3.7
Resource-rich	80.2	113.1	133.2	152.2	185.0	3.5	3.3	2.7	2.0
Resource-rich, labor abundant	64.4	90.9	106.4	121.5	146.3	3.5	3.2	2.7	1.9
Algeria	13.5	18.8	21.6	24.2	27.6	3.4	2.8	2.3	1.3
Iran, Islamic Republic of	29.3	40.0	46.4	52.2	58.5	3.2	3.0	2.4	1.1
Iraq	9.7	13.7	16.2	18.9	25.1	3.5	3.5	3.1	2.9
Syrian Arab Republic	6.3	9.5	11.4	13.2	16.9	4.2	3.7	2.9	2.5
Yemen, Republic of	5.6	8.9	10.8	13.0	18.2	4.7	4.0	3.8	3.4
Resource-rich, labor-importing	15.8	22.2	26.7	30.7	38.7	3.5	3.8	2.8	2.3
Bahrain	0.3	0.5	0.5	0.6	0.7	3.6	1.8	2.5	1.6
Kuwait	1.3	1.6	2.0	2.2	2.7	2.0	4.2	2.5	2.0
Libya	2.3	3.4	3.9	4.2	5.0	3.8	2.7	1.9	1.7
Oman	1.0	1.5	1.6	1.9	2.3	4.2	1.5	2.8	2.2
Qatar	0.3	0.4	0.6	0.7	0.8	2.8	7.3	1.7	1.5
Saudi Arabia	9.2	12.4	14.7	17.2	22.3	3.1	3.4	3.2	2.6
United Arab Emirates	1.3	2.4	3.5	3.9	4.9	6.5	7.5	2.6	2.1
By geographic sub-region									
Maghreb	34.5	46.4	52.5	58.1	66.5	3.0	2.5	2.1	1.4
Mashreq	20.3	29.8	35.2	40.8	53.2	3.9	3.4	3.0	2.7
GCC	13.5	18.9	22.9	26.5	33.7	3.4	3.9	2.9	2.4
Other	65.9	89.4	103.3	116.4	137.9	3.1	2.9	2.4	1.7
By oil-trade group									
Oil-exporting countries	110.9	153.3	178.8	202.9	245.6	3.3	3.1	2.6	1.9
Oil-importing countries	23.3	31.2	35.1	38.9	45.7	3.0	2.3	2.1	1.6

Source: ILO 2005.

Note: See footnote to table A.1.

Table A.27: Labor Force: Estimates and projections, 1990–2020

	Million people					Growth per year (%)			
Country	**1990**	**2000**	**2005**	**2010**	**2020**	**1990–2000**	**2000–05**	**2005–10**	**2010–20**
MENA	71.2	99.9	119.5	139.4	173.5	3.4	3.7	3.1	2.2
By resource-based classification									
Resource-poor, labor abundant	28.3	36.7	41.9	47.4	56.9	2.6	2.7	2.5	1.8
Djibouti	0.2	0.3	0.3	0.3	0.4	2.5	2.4	2.2	2.4
Egypt, Arab Republic of	16.0	19.6	22.5	25.5	30.6	2.0	2.8	2.5	1.8
Jordan	0.8	1.5	1.9	2.2	3.0	7.4	4.1	3.3	3.1
Lebanon	0.9	1.2	1.4	1.5	1.8	2.9	2.2	2.5	1.8
Morocco	7.6	10.2	11.3	12.6	14.8	3.0	2.1	2.2	1.6
Tunisia	2.4	3.2	3.8	4.3	5.0	3.0	3.1	2.7	1.6
West Bank and Gaza	0.4	0.6	0.8	0.9	1.2	4.4	3.6	3.4	3.0
Resource-rich	42.9	63.2	77.6	92.0	116.6	3.9	4.2	3.5	2.4
Resource-rich, labor abundant	33.8	50.1	61.6	73.4	92.6	4.0	4.2	3.6	2.4
Algeria	7.1	10.9	13.2	15.3	18.1	4.4	3.9	3.1	1.7
Iran, Islamic Republic of	15.6	21.8	27.0	32.3	38.4	3.4	4.4	3.6	1.7
Iraq	4.6	6.8	8.2	9.7	13.4	4.0	3.7	3.5	3.3
Syrian Arab Republic	3.6	5.9	7.4	8.9	11.9	5.1	4.7	3.7	3.0
Yemen, Republic of	2.9	4.8	5.9	7.2	10.9	5.0	4.3	4.3	4.2
Resource-rich, labor-importing	9.1	13.1	16.0	18.6	24.0	3.7	4.1	3.1	2.6
Bahrain	0.2	0.3	0.3	0.4	0.4	3.5	1.6	2.0	1.4
Kuwait	0.9	1.2	1.5	1.7	2.0	3.1	4.6	2.7	1.9
Libya	1.2	1.9	2.3	2.7	3.5	4.3	4.0	3.6	2.5
Oman	0.6	0.9	0.9	1.1	1.5	4.9	0.9	3.5	3.1
Qatar	0.3	0.3	0.5	0.5	0.6	2.2	8.1	1.5	1.0
Saudi Arabia	5.0	6.6	7.8	9.1	12.1	2.8	3.3	3.2	2.9
United Arab Emirates	0.9	1.9	2.7	3.1	3.9	7.0	7.6	2.8	2.3
By geographic sub-region									
Maghreb	18.3	26.2	30.5	35.0	41.4	3.6	3.1	2.7	1.7
Mashreq	10.3	16.1	19.6	23.2	31.3	4.6	4.0	3.5	3.0
GCC	7.9	11.2	13.7	15.9	20.5	3.6	4.1	3.0	2.6
Other	34.7	46.4	55.7	65.3	80.2	2.9	3.7	3.2	2.1
By oil-trade group									
Oil-exporting countries	58.9	82.8	100.1	117.5	147.2	3.5	3.9	3.2	2.3
Oil-importing countries	12.3	17.1	19.4	21.9	26.3	3.4	2.5	2.5	1.9

Source: ILO 2005.

Note: See footnote to table A.1.

Table A.28: Unemployment rates, 2000–05

(percent)

Country	2000	2001	2002	2003	2004	2005
MENA (15) [1]	–	–	–	–	–	12.0
MENA (12) [2]	14.3	–	–	–	–	10.8
Resource-poor, labor abundant	12.3	–	–	–	–	10.4
Djibouti	–	–	–	–	–	–
Egypt, Arab Republic of [3]	11.7	–	–	–	–	8.3
Jordan	–	14.7	15.3	14.5	12.5	14.8
Lebanon	–	–	–	–	8.5	–
Morocco	13.6	12.5	11.6	11.4	10.8	11
Tunisia	15.7	15.1	15.3	14.5	14.2	14.2
West Bank and Gaza	14.3	25.2	31.3	25.6	26.8	23.5
Resource-rich	16.2	–	–	–	–	11.2
Resource-rich, labor abundant	18.6	–	–	–	–	12.8
Algeria	29.5	27.3	25.7	23.7	17.7	15.3
Iran, Islamic Republic of	14.3	14.2	12.8	11.8	10.3	11.9
Iraq	–	–	–	28.1	26.8	–
Syrian Arab Republic	–	–	–	–	–	–
Yemen, Republic of	–	–	–	–	–	10.2
Resource-rich, labor-importing	4.8	–	–	–	–	4.4
Bahrain [4]	2.0		2.7	3.6	1.9	–
Kuwait	0.8	0.8	1.1	1.3	1.7	–
Libya	–	–	–	–	–	–
Oman	–	–	–	–	–	–
Qatar	3.0	–	–	–	2.1	–
Saudi Arabia [5]	8.4	8.3	9.7	9.6	7.0	6.9
United Arab Emirates	2.3	2.4	2.6	2.7	3.0	–

Source: Estimates based on ILO (2005, 2006) and national sources.

Note: Aggregates are weighted by labor force and based on earliest and latest years available and are consequently only calculated for 2000 and 2005. 1. Excludes Djibouti, Libya, Oman, and Syria. 2. Excludes Djibouti, Lebanon, Iraq, Libya, Oman, Syria, and Yemen. 3. Refers to 1998 and 2006. 4. Registered only. 5. Nationals only.
Note: See footnote to table A.1.
– = data not available.

Appendix B: Structural Reform Indicators for 2007

This appendix describes structural reform indices in four areas of reform: (1) trade policy; (2) the business climate and two spheres of governance; (3) public administration; and (4) public sector accountability. As did prior editions, this report evaluates countries' structural reform efforts based on two characteristics: "current status," which indicates countries' relative standing on each reform dimension, and "reform progress," which evaluates each country's progress in improving an area of reform over a set period, relative to the rest of the world.

Measuring structural reform is a complex process. Calculations depend critically on the methodology and on the underlying measures used to construct the indicators. Structural reform measurements can be sensitive to even small changes in either. In this report, that sensitivity is particularly apparent in the business-climate indices, because this year's indices of current business climate and business-climate reform include a new category of business measures while dropping one of the categories used last year.[1] That, combined with historical revisions to some data, result in indices that differ markedly from those in last year's report. Because of these large changes, in addition to reporting 2006 structural reform indices, we have recomputed the business climate indices for 2005. These are reported in section B.2.

B.1 Trade Policy

B.1.1 Current trade policy

We evaluate countries' current trade policy using four indicators available for a large sample of countries for the year 2006 (or the closest year): (1) the simple average tariff from UNCTAD's TRAINS (Trade Analysis and Information System) database; (2) the average non ad valorem duty from the World Trade Organization's (WTO's) statistical database, and from the World Bank's *Doing Business in 2007: How to Reform*; (3) the average time required for export clearing; and (4) the average time required for import clearing. These indices are the same as those used to measure trade policy in last year's report.

On each underlying trade indicator (for example, tariffs), we ranked countries from "good" to "bad" on the basis of their trade policies. These rankings were then converted to points in the worldwide cumulative frequency distribution (percentile rankings). The country with the lowest tariffs worldwide, for example, would have a percentile

[1] For the current business-climate index, a new aspect of the business environment—protecting investors—has been included. This category of indicators became available through the World Bank's Doing Business indicators only in 2005 and was not included in last year's report. The business category "access to credit" was eliminated from this year's business-climate measure, as explained in section B.2.3.

ranking of 100 (the "best" tariff policy). With percentile rankings for each of the four trade-policy categories, each country's overall trade policy was then calculated by averaging percentile rankings, and expressing those averages as points in a cumulative frequency distribution. A country with a value of 100 could be said to have the most trade-friendly set of policies possible. Table B.1 reports the percentile rankings for the underlying trade-policy variables are shown, along with the overall trade-policy index.

B.1.2 Trade-policy reform

Because most of the underlying indicators used in constructing the current trade-policy index have only recently become available, trade-policy reform is evaluated based on just one underlying indicator: simple average tariffs (from UNCTAD's TRAINs database). Reform is evaluated over the period from 2000 (or closest available year) to 2006 (or closest available year). The sample of countries was restricted to those for which simple average tariff data are

Table B.1: Trade policy in 2006

Country/region	Average tariff	Percentile rank	NAV duties	Percentile rank	Time (days) for export clearing	Percentile rank	Time (days) for import clearing	Percentile rank	Overall trade policy index (percentile rank)
Algeria	18.7	7	0.0	88	15	76	22	63	68
Bahrain	5.1	72	1.0	31	—	—	—	—	—
Djibouti	31.0	0	2.7	22	25	43	26	52	17
Egypt, Arab Republic of	9.1	48	0.2	54	20	58	25	56	60
Iran, Islamic Republic of	22.1	4	0.5	39	26	40	38	32	16
Iraq	—	—	—	—	105	0	135	1	—
Jordan	11.8	33	0.3	46	24	46	22	63	44
Kuwait	3.6	92	1.3	28	18	66	27	49	69
Lebanon	5.4	69	0.5	39	22	51	34	40	50
Libya	17.0	13	2.2	23	—	—	—	—	—
Morocco	26.2	2	0.0	88	18	66	30	46	52
Oman	5.0	74	1.0	31	23	47	27	49	51
Qatar	5.0	74	1.0	31	—	—	—	—	—
Saudi Arabia	4.8	75	1.3	28	13	80	34	40	64
Syrian Arab Republic	19.6	5	0.5	39	40	17	49	19	2
Tunisia	26.9	1	0.0	88	18	66	29	47	53
United Arab Emirates	4.8	75	0.5	39	18	66	16	77	75
West Bank and Gaza	—	—	—	—	27	37	41	28	—
Yemen, Republic of	7.0	62	0.0	88	33	28	31	44	63
Regional averages (unweighted)									
MENA	13.1	42	0.8	47	28	49	37	44	49
Resource-poor	18.4	25	0.6	56	22	52	30	47	46
Resource- rich, labor-abundant	16.9	20	0.3	63	44	32	55	32	37
Resource-rich, labor-importing	6.5	68	1.2	30	18	65	26	54	65
East Asia Pacific	7.3	59	0.5	56	24	58	25	61	53
Europe/C. Asia	6.8	66	3.4	36	29	47	37	50	50
L. America/Carib.	9.4	45	0.3	69	22	56	28	55	64
High-income	4.2	88	5.6	16	11	84	13	85	84
South Asia	15.0	22	0.4	60	34	33	41	36	28
Sub-Sah. Africa	13.7	27	0.7	62	40	29	52	27	26
World	**9.8**	**50**	**1.8**	**50**	**28**	**50**	**34**	**50**	**50**

Source: World Bank Staff estimates.

Note: Percentile rank reflects the proportion of countries worldwide with more "unfriendly" trade policies.
NAV=Non ad valorem; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing; WBG = West Bank and Gaza.
— = data not available.

available for both years.[2] For each year, we ranked countries based on their simple average tariff and then transformed that rank to a point in a worldwide cumulative frequency distribution to generate a percentile ranking—from 0 to 100, with 100 being the country or countries with the lowest tariff for that year. Trade-policy reform was calculated as the change in a country's percentile ranking between 2000 and 2006, expressed as a point in a cumulative frequency distribution. A country with a trade-reform index value of 90, for example, can be said to have moved farther up the worldwide cumulative frequency distribution (based on tariffs) than 90 percent of all other countries (table B.2).

[2] Restricting the sample potentially affects the ultimate ranking of a country in the worldwide frequency distribution. A country that might fall in the 60th percentile on tariffs in 2006 (based on the full sample of countries for which tariff data were available in 2006), might fall into a higher or lower percentile in 2006 if the sample were restricted to those countries that also had tariff data available for 2000.

B.2 Business Climate

B.2.1 Business-climate index

The business climate in 2006 was measured using a variety of indicators in eight broad areas of the business environment: (1) ease of starting a business; (2) ease of closing a business; (3) ease of hiring and firing; (4) ease of enforcing contracts; (5) ease of registering property; (6) ease of paying taxes; (7) degree to which investors are protected; and (8) ease of dealing with licensing procedures (table B.3).

Table B.2: Trade-policy reform index

Country/region	Average tariff, 2000 (percentile rank)	Average tariff, 2006 (percentile rank)	Trade-policy reform (percentile rank)
Algeria	7	8	63
Bahrain	73	79	76
Djibouti	3	0	47
Egypt, Arab Republic of	9	55	100
Iran, Islamic Republic of	1	3	67
Jordan	8	38	94
Kuwait	92	91	54
Lebanon	63	77	80
Libya	28	10	9
Morocco	4	2	50
Oman	84	80	43
Saudi Arabia	58	81	88
Syrian Arab Republic	12	5	32
Tunisia	6	1	42
Yemen, Republic of	51	67	82
Regional averages (unweighted)			
MENA	33	40	62
Resource-poor	16	29	69
Resource-rich, labor-abundant	18	21	61
Resource-rich, labor-importing	67	68	54
East Asia and the Pacific	58	55	40
Europe and Central Asia	68	77	64
Latin America and the Caribbean	45	50	57
High-income OECD	93	94	61
South Asia	31	25	41
Sub-Saharan Africa	45	29	22
World	**50**	**50**	**50**

Source: World Bank Staff estimates.

Note: Average tariff percentile rankings in this table differ slightly from those in table 3.4 because, for the purpose of computing "reform," the sample was restricted to those countries for which 2000 and 2006 tariff information was available. In table 3.4, percentile rankings were determined for the larger sample of countries for which 2006 tariff information was available.

Table B.3: Building the current-status indices

Business-climate category	Underlying indicators
Starting a business	(1) the average number of procedures; (2) the average time (in days); (3) the average cost (percent of income per capita); and (4) the minimum capital requirements (percent of income per capita).
Closing a business	(1) average time (in years); (2) average cost (percent of estate); and (3) average recovery rate (cents on the dollar).
Hiring and firing	(1) the difficulty in hiring index; (2) the rigidity of hours index; (3) the difficulty of firing index; and (4) firing costs (in weeks of wages).
Enforcing contracts	(1) the average number of procedures; (2) the average time (in days); and (3) the average cost (percent of debt).
Registering property	(1) the average number of procedures; (2) the average time (in days); and (3) the average cost (percent of property value).
Paying taxes	(1) the average number of payments; (2) the average time (in hours); and (3) the total tax rate (percent of profit).
Dealing with licenses	(1) the average number of procedures; (2) the average time (in days); and (3) the average cost (percent of income per capita).
Protecting investors	(1) the disclosure index; (2) the director liability index; and (3) the shareholder suits index.

Source: World Bank 2007e.

We constructed indices of each country's current status on those indicators using a methodology that is explained in this section. Unless otherwise indicated, the underlying indicators were drawn from the World Bank's *Doing Business in 2007: How to Reform* or its online edition.

Within each business climate category (starting a business, for example), the country's performance on the underlying indicators (such as the average number of procedures required to start a business) was ranked from "good" to "bad." The rankings were then converted to a point in the worldwide cumulative frequency distribution to yield percentile rankings. The country with the fewest procedures required to start a business, for example, would have a percentile ranking of 100 for that indicator (100 being the "best" policy). Composite indices for each category were then constructed by averaging the underlying percentile rankings and expressing that average as a point in the worldwide cumulative frequency distribution. A country with a value of 100 in the category of dealing with licenses, for example, could be said to have the least burdensome licensing requirements in the world, based on the underlying measures.

Tables B.4 through B.6 report the resulting composite indices (percentile rankings) in each business-climate category for the countries of the region. Because of considerable historical revisions to some of the underlying data (and minor changes in the underlying indicators used in some categories), the composite indices presented here are not comparable with those presented in last year's MEDP report. To allow for comparison, we recomputed the composite indices for 2005 and included them in the tables.

Finally, a composite index of the current business climate for 2006 was constructed by averaging each country's percentile rankings in all categories and expressing that average as a point in the worldwide cumulative frequency distribution. A country with a current business climate index value of 90, for example, had an overall business climate that was better (more business friendly) than 90 percent of all other countries for 2006. Table B.7 presents the current business climate in MENA countries, relative to other regions of the world, for both 2005 and 2006.

B.2.3 Business-reform index

Because data for some of the eight aspects of the business environment described in table B.3 became available only in 2005, we evaluated business reform using indicators for just four aspects: (1) ease of starting a business; (2) ease of closing a business; (3) ease of hiring and firing; and (4) ease of enforcing contracts (table B.8). In these four areas data were available for both 2003 and 2006.

The aspects of the business climate used to measure reform in this report differ from those used last year. Access to credit, which was included in last year's reform analysis, was eliminated from this year's business reform measure, because the indicators used in its construction have been judged to be poor measures of true access to credit. As noted in last year's report, although the MENA region has relatively high levels of credit to the private sector, for example, surveys of firms consistently rank access to credit as a major constraint to business. However, better measures of true access to credit—such as the proportion of firms that rank access to

Table B.4: Business-climate indices for 2005 and 2006, resource-poor countries

(percentile rank)

Country/region	Djibouti	Egypt, Arab Rep. of	Jordan	Lebanon	Morocco	Tunisia	West Bank and Gaza
Starting a business 2006	10	30	24	34	74	68	1
2005	*14*	*30*	*28*	*37*	*67*	*71*	*3*
Dealing with licenses 2006	36	2	60	44	23	37	38
2005	*39*	*3*	*61*	*41*	*25*	*35*	*49*
Hiring and firing 2006	29	17	83	76	9	48	43
2005	*49*	*16*	*84*	*75*	*8*	*48*	*43*
Registering property 2006	21	16	38	47	73	56	33
2005	*27*	*21*	*40*	*52*	*69*	*60*	*37*
Protecting investors 2006	5	21	22	35	43	13	35
2005	*4*	*23*	*22*	*36*	*42*	*13*	*37*
Paying taxes 2006	71	18	90	70	27	21	69
2005	*73*	*13*	*91*	*78*	*29*	*23*	*63*
Enforcing contracts 2006	3	10	57	15	27	77	42
2005	*3*	*10*	*60*	*16*	*28*	*78*	*48*
Closing a business 2006	23	23	47	28	67	90	11
2005	*25*	*24*	*50*	*29*	*68*	*89*	*12*
Business climate current status 2006	**9**	**2**	**59**	**40**	**38**	**55**	**22**
2005	*13*	*1*	*63*	*42*	*37*	*56*	*26*

Source: World Bank Staff estimates.

Table B.5: Business-climate indices 2005 and 2006, resource-rich and labor-abundant countries

(percentile rank)

Country/region	Algeria	Iran, Islamic Rep. of	Iraq	Syrian Arab Rep.	Rep. of Yemen
Starting a business 2006	32	63	14	20	3
2005	*36*	*65*	*24*	*18*	*3*
Dealing with licenses 2006	33	3	44	50	78
2005	*33*	*2*	*50*	*47*	*79*
Hiring and firing 2006	49	20	39	47	72
2005	*50*	*19*	*38*	*40*	*72*
Registering property 2006	12	19	78	46	76
2005	*14*	*24*	*76*	*49*	*79*
Protecting investors 2006	61	12	39	32	24
2005	*61*	*11*	*40*	*33*	*26*
Paying taxes 2006	3	45	74	67	49
2005	*2*	*49*	*75*	*68*	*28*
Enforcing contracts 2006	65	82	26	12	80
2005	*67*	*82*	*27*	*13*	*81*
Closing a business 2006	80	40	11	49	66
2005	*74*	*42*	*12*	*50*	*66*
Business climate current status 2006	**36**	**26**	**33**	**33**	**66**
2005	*38*	*28*	*39*	*34*	*61*

Source: World Bank Staff estimates.

Table B.6: Business-climate indices for 2005 and 2006, resource-rich and labor-importing countries

(percentile rank)

Country/region	Kuwait	Oman	Saudi Arabia	United Arab Emirates
Starting a business 2006	41	55	12	11
2005	*46*	*60*	*6*	*13*
Dealing with licenses 2006	39	26	75	55
2005	*40*	*28*	*73*	*55*
Hiring and firing 2006	87	74	86	68
2005	*88*	*74*	*87*	*68*
Registering property 2006	61	92	98	96
2005	*52*	*92*	*99*	*96*
Protecting investors 2006	80	59	47	26
2005	*80*	*59*	*47*	*27*
Paying taxes 2006	77	98	97	99
2005	*78*	*99*	*98*	*99*
Enforcing contracts 2006	56	43	45	35
2005	*57*	*45*	*48*	*38*
Closing a business 2006	63	70	45	15
2005	*70*	*69*	*49*	*16*
Business climate current status 2006	**77**	**79**	**76**	**54**
2005	*79*	*80*	*78*	*56*

Source: World Bank Staff estimates.

Table B.7: Current business climate, 2005 and 2006

(percentile rank)

Country/region	2005	2006
Algeria	38	36
Djibouti	13	9
Egypt, Arab Republic of	1	2
Iran, Islamic Republic of	28	26
Iraq	39	33
Jordan	63	59
Kuwait	79	77
Lebanon	42	40
Morocco	37	38
Oman	80	79
Saudi Arabia	78	76
Syrian Arab Republic	34	33
Tunisia	56	55
United Arab Emirates	56	54
West Bank and Gaza	26	22
Yemen, Republic of	61	66
Regional averages (unweighted)		
MENA	46	44
Resource-poor	33	31
Resource-rich, labor-abundant	40	39
Resource-rich, labor-importing	73	71
East Asia and the Pacific	64	64
Europe and Central Asia	54	55
Latin America and the Caribbean	48	47
High-income OECD	84	84
South Asia	39	40
Sub-Saharan Africa	27	27
World	**50**	**50**

Source: World Bank Staff estimates.

credit as a major constraint to business—are not widely available for industrialized economies.

Moreover, information on closing a business has been included in this year's reform analysis. Because significant revisions to the historical data became available this year, this category of business reform can now be included.[3] Within several other business categories, historical data for new indicators and countries have become available, thus expanding both the sample of countries and the set of underlying indicators.

For each of four broad aspects of the business environment (table B.8), we used several underlying indicators to construct composite business-reform indices in each category, as explained below.

In each of the four categories, we calculated reform as the average change in the country's ranking in the worldwide frequency distribution between 2003 and 2006, based on changes in the country's percentile ranking on each of the underlying indicators. An overall business reform index was then computed as the average of the reform indices in each category, expressed as a point in the worldwide cumulative frequency distribution. A country with a business-climate reform index of 90, for example, made very strong progress in the worldwide cumulative frequency distribution between 2003 and 2006, across all areas of reform. Table B.9 reports the business-climate reform indices for each category, along with the overall business climate reform index, for the countries of the region.

B.3 Governance

We evaluated governance in the region on two broad dimensions: *quality of public administration* and *public sector accountability*. For each dimension, we created two indices of structural reform: one to measure the current status of each country's reforms relative to other countries, and the other to assess each country's reform progress over time.

B.3.1 Quality of public administration

We measured the *current status* of each country's public administration using seven measures. From Political Risk Services, we utilized an (1) index of corruption and (2) index of bureaucratic quality. We used the Heritage Foundation's (3) index of property rights and (4) index of regulation. From the World Bank's Doing Business indicators, we used (5) the number of procedures required to start a business, (6) the average time required to enforce a contract, and (7) the average time needed to close a business.

The current-status index for the quality of public administration reflects 2006 data (or the closest available year), in keeping with the methodology established by the World Bank in 2004 (World Bank 2003b). It was computed using principal component analysis, which requires constant weights over time for the purpose of subsequently measuring change. The weights were based on data from 2003. We converted each of our measures to standard normal and constructed a composite index of quality of public administration for the year 2003. We then subjected the standardized data to principal component analysis. The weights from that analysis were retained and applied to the data for 2006.

The current status of quality of public administration reflects the resulting composite index, expressed as a point in the worldwide cumulative frequency distribution. A country with a percentile ranking of 60 on quality of public administration scores better than 60 percent of the world's countries on that dimension of governance.

In addition to computing the quality of public administration for 2006 as described above, we also computed it for the years 2003 (using 2003 data)

[3] Information on closing a business has been available in the Doing Business indicators since the 2004 report (2003 data). However, the dataset underwent substantial revisions in 2006 (2005 data), but the historical data (for 2003) was not revised and available until this year.

Table B.8: Building the composite business-reform indices

Business-climate category	Underlying indicators
Starting a business	(1) the average number of procedures; (2) the average time (in days); (3) the average cost (percent of income per capita); and (4) the minimum capital requirements (percent of income per capita).
Closing a business	(1) average time (in years); (2) average cost (percent of estate); and (3) average recovery rate (cents on the dollar).
Hiring and firing	(1) the difficulty in hiring index; (2) the rigidity of hours index; (3) the difficulty of firing index; and (4) firing costs (in weeks of wages).
Enforcing contracts	(1) the average number of procedures; (2) the average time (in days); and (3) the average cost (percent of debt).

Table B.9: Business-climate reform indices, 2003–06

Country/region	Starting a business	Hiring and firing	Enforcing contracts	Closing a business	Overall business reform
Algeria	58	47	61	13	37
Egypt, Arab Republic of	68	45	95	7	59
Iran, Islamic Republic of	25	61	2	2	2
Jordan	95	57	35	1	41
Kuwait	37	8	69	16	16
Lebanon	45	64	0	86	46
Morocco	100	2	79	60	76
Oman	1	78	9	74	27
Saudi Arabia	73	23	88	57	75
Syrian Arab Republic	49	97	58	0	52
Tunisia	48	49	38	53	40
United Arab Emirates	22	73	45	5	20
Yemen, Republic of	42	39	31	49	26
Regional averages (unweighted)					
MENA	51	49	47	32	40
Resource-poor	78	38	62	30	54
Resource-rich, labor-abundant	44	61	38	16	29
Resource-rich, labor-importing	33	45	53	38	34
East Asia and the Pacific	54	36	47	51	46
Europe and Central Asia	58	52	62	48	59
Latin America and the Caribbean	53	52	47	55	54
High-income OECD	49	54	45	49	49
South Asia	36	27	46	31	24
Sub-Saharan Africa	42	53	48	59	51
World	**50**	**50**	**50**	**50**	**50**

Source: World Bank Staff estimates.

and 2000. For 2000, however, data for just four of the seven underlying measures were available. (Data for the Doing Business indicators were not available until 2003.) For the three measures where data did not exist before 2003, we used 2003 data as a proxy for the 2000 data values.

Using the methodology just described, we calculated the quality of public administration in 2000, 2003, and 2006 (table B.10). Progress toward improving the quality of public administration was measured as the change in a country's percentile ranking on quality of public administration between 2000 and 2006 and expressed as a point in the worldwide frequency distribution. A country with a reform-progress score of 100 on quality of public administration, then, made the greatest improvement in rank between 2000 and 2006.

B.3.2 Public-sector accountability

We evaluated the current status of public sector accountability in the countries of the region using 11 measures. We drew on Freedom House's measures of (1) political rights, (2) civil liberties, and (3) freedom of the press. From the Polity IV database of the Center for International Development and Conflict Management we took scores of (4) polity, (5) regulation of executive recruitment, (6) competitiveness of executive recruitment, (7) openness of executive recruitment, (8) regulation of participation, (9) competitiveness of participation, and (10) executive constraints. From Political Risk Services we made use of (11) the index of democratic accountability.

Using the methodology described in section B.3.1, we computed public sector accountability in each of the countries of the region for 2000, 2003, and 2006 (table B.11). Progress toward greater public sector accountability was measured as the change in a country's percentile ranking between 2000 and 2006, expressed as a point in the worldwide frequency distribution. A country with a reform-progress score of 100, then, made the greatest improvement in rank between 2000 and 2006.

Table B.10: Quality of public administration in 2000, 2003, and 2006, and reform progress, 2000–06

Country/region	Quality of public administration 2000	Quality of public administration 2003	Quality of public administration 2006 (current status)	Reform progress: quality of public administration reform, 2000–06
Algeria	52	39	43	16
Bahrain	71	84	78	80
Egypt, Arab Republic of	20	22	34	91
Iran, Islamic Republic of	30	19	17	11
Jordan	61	62	71	87
Kuwait	62	65	65	64
Libya	15	7	3	13
Morocco	58	59	72	91
Oman	59	66	66	80
Qatar	50	49	54	69
Saudi Arabia	53	59	59	80
Syrian Arab Republic	13	15	14	59
Tunisia	64	68	69	76
United Arab Emirates	75	71	61	10
Yemen, Republic of	32	29	27	23
Regional averages (unweighted)				
MENA	48	48	49	57
Resource-poor	51	53	61	86
Resource-rich, labor-abundant	32	26	25	27
Resource-rich, labor-importing	55	57	55	57
East Asia and the Pacific	46	46	45	45
Europe and Central Asia	47	47	50	56
Latin America and the Caribbean	46	44	44	43
High-income OECD	89	89	89	47
South Asia	33	30	33	56
Sub-Saharan Africa	34	36	33	51
World	**50**	**50**	**50**	**50**

Source: World Bank Staff estimates.

Table B.11: Public sector accountability in 2000, 2003, and 2006, and reform progress, 2000–06

Country/region	Public sector accountability 2000	Public sector accountability 2003	Public sector accountability 2006 (current status)	Reform progress: public sector accountability reform, 2000–06
Algeria	26	27	28	68
Bahrain	15	27	27	96
Egypt, Arab Republic of	20	18	23	73
Iran, Islamic Republic of	30	32	21	6
Jordan	33	33	34	62
Kuwait	28	30	30	63
Libya	1	0	0	43
Morocco	29	32	32	78
Oman	11	15	17	89
Qatar	12	11	15	75
Saudi Arabia	3	3	6	75
Syrian Arab Republic	6	6	6	54
Tunisia	23	23	22	37
United Arab Emirates	15	17	20	84
Yemen, Republic of	18	20	18	48
Regional averages (unweighted)				
MENA	18	20	20	63
Resource-poor	26	26	28	63
Resource-rich, labor-abundant	20	21	18	44
Resource-rich, labor-importing	12	14	16	73
East Asia and the Pacific	42	40	41	44
Europe and Central Asia	51	52	52	56
Latin America and the Caribbean	58	59	57	42
High-income OECD	91	91	91	47
South Asia	42	40	37	31
Sub-Saharan Africa	36	36	36	52
World	**50**	**50**	**50**	**50**

Source: World Bank Staff estimates.

Appendix C: EBRD Services Reform Indices

Since 1990 the European Bank for Reconstruction and Development (EBRD 2004) has compiled indices of reform in five infrastructure sectors (electric power, water and wastewater, railways, roads, and telecommunication) and two service sectors (banking and non-bank financial institutions) for transition economies. Scores range from 1, which means that little progress has been made, to 4+, which means that the most advanced implementation of the reform agenda has been achieved. We applied this methodology to six MENA countries (Morocco, Algeria, Tunisia, Egypt, Jordan, and Lebanon) for the period 2000–04. The criteria for each score in each covered sector are provided below.

Electric power

Score	Criteria
4+	Tariffs reflect costs and provide adequate incentives for efficiency improvements. There is widespread private sector participation in the unbundled and well-regulated sector. The sector is fully liberalized, with well-functioning arrangements for network access and full competition in generation.
4	Generation, transmission, and distribution are separate. There is independent regulation. Rules for cost-reflective tariff-setting are formulated and implemented. There is widespread private sector participation in distribution and/or generation. There is some degree of liberalization.
3	Laws have been passed providing for the full-scale restructuring of the industry, including vertical unbundling through account separation and the setup of regulators. There is some tariff reform and improvements in revenue collection as well as some private sector participation.
2	The power company is distanced from the government, but there is still political interference. There is some attempt to harden budget constraints, but effective tariffs are low. There are weak management incentives for efficient performance, and there is little institutional reform and minimal, if any, private sector involvement.
1	The power sector operates as a government department with few commercial freedoms or pressures. Average prices are well below costs, and cross-subsidization is extensive. The structure is monolithic, with no separation of different parts of the business.

Water and wastewater

Score	Criteria
4+	Water utilities are fully decentralized and commercialized. A fully autonomous regulator exists that has complete authority to review and enforce tariff levels and quality standards. There is widespread private sector participation via service/management/lease contracts. High-powered incentives, full concessions, and/or divestiture of water and wastewater services are present in major urban areas.
4	There is a large degree of decentralization and commercialization. Water utilities are managerially independent, with cash flows—the net of municipal budget transfers—that ensure financial viability. There are no cross-subsidies. A semiautonomous regulatory agency has the power to advise and enforce tariffs and service quality. There is substantial private sector participation through build-operator-transfer concessions, management contacts, or asset sales in several cities.
3	There is a fair degree of decentralization and commercialization. Water utilities operate with managerial and accounting independence from municipalities using international accounting standards and management information systems. Operating costs are recovered through tariffs, and cross-subsidization is minimal. More detailed rules specifying tariff review formulas and performance standards are drawn up in contract documents. There is private sector participation through the full concession of a major service in at least one city.
2	Decentralization is moderate, and the initial steps toward commercialization are being taken. Services are provided by municipally owned companies. There is partial cost recovery through tariffs, and initial steps to reduce cross-subsidization are being taken. General public guidelines exist regarding tariff-setting and service quality, but both are under ministerial control. There is some private sector participation through service or management contacts, and/or there is some competition to provide ancillary services.
1	Decentralization is minimal, and there is no commercialization. Services are provided by vertically integrated natural monopolies of the government ministry or municipal departments. There is no financial autonomy and/or management capacity at the municipal level. There are low tariffs and low cash-collection rates, and cross-subsidization is extensive.

Railways

Score	Criteria
4+	There is a separation of infrastructure from operations and freight from passenger operations. Full divestment and transfer of asset ownership has been implemented or is planned, including infrastructure and rolling stock. There is an established rail regulator, and accessible pricing is implemented.
4	Railways are fully commercialized, with separate internal profit centers for passengers and freight. There are extensive market freedoms to set tariffs and investments. There is an implementation of medium-term business plans, and ancillary industries are divested. There is private sector participation in freight operation, ancillary services, and track maintenance.
3	Commercial orientation exists. Freight and passenger services are separated, and some ancillary businesses are divested. Some budgetary compensation is available for passenger services. There is improved business planning with clear investment and rehabilitation targets, but funding is unsecured. There is some private sector participation in rehabilitation and/or maintenance.
2	Rail operations are distanced from state, but there are weak commercial objectives. There is some business planning, but targets are general and tentative. There is no budgetary funding of public service obligations. Ancillary businesses are separate, but there is little divestment. There is minimal private sector participation.
1	The structure is monolithic, operated as a government department, with few commercial freedoms. There is no private sector participation, and cross-subsidization is extensive.

Roads

Score	Criteria
4+	Road administration is fully decentralized. Commercialized road-maintenance operations are competitively awarded to private companies. Road-user charges reflect the full costs of road use and associated factors, such as congestion, accidents, and pollution. There is widespread private sector participation in all aspects of road provision. There is full public consultation on new road projects.
4	There is a large degree of decentralization. A transparent methodology is used to allocate road expenditures. There is competitive procurement for road design, construction, maintenance, and operations. There is large-scale private sector participation in construction, operations, and maintenance directly and through public-private partnerships. Public consultation and participation and accountability on road projects is substantial.
3	There is a fair degree of decentralization and commercialization. Regulation and resource allocation functions are separate from road maintenance and operations. Vehicle and fuel taxes are related to road use. Under negotiated commercial contracts, private companies are able to provide and operate roads. There is private sector participation in road maintenance and/or through concessions to finance, operate, and maintain parts of the highway network. Public consultation and participation and accountability on road projects is minimal.

Roads (continued)

Score	Criteria
2	There is a moderate degree of decentralization, and initial steps toward commercialization are being taken. A road/highway agency exists. There are improvements in resource allocation and public procurement. Road-user charges are based on vehicle and fuel taxes but are not linked to road use. A road fund exists, but it is dependent on a central budget. Road construction and maintenance is undertaken primarily by corporatized public entities, but there is some private sector participation. Public consultation and participation on road projects is minimal.
1	Decentralization is minimal, and there is no commercialization. All regulatory, road-management, and resource-allocation functions are centralized at the ministerial level. New investments and road-maintenance financing is dependent on central-budget allocations. Road-user charges are not based on the cost of road use. Road construction and maintenance is undertaken by public construction units. There is no public consultation in the preparation of road projects.

Telecommunications

Score	Criteria
4+	Effective regulation is enforced through an independent entity. A coherent regulatory and institutional framework exists to deal with tariffs, interconnection rules, licensing, concession fees, and spectrum allocation. There is a consumer ombudsman function.
4	There is complete commercialization and extensive liberalization, including the privatization of the dominant operator, and there are comprehensive regulatory and institutional reforms.
3	There is substantial progress in commercialization and regulation. Telecommunication and postal services are fully separated, and cross-subsidization is reduced. There is considerable liberalization in the mobile segment and in value-added services.
2	There is modest progress in commercialization. There is corporatization of the dominant operator and some separation from public sector governance, but tariffs are still set politically.
1	There is little commercialization or regulation. There is minimal private sector participation, and political interference in management decisions is strong. Tariffs are low, and cross-subsidization is extensive. Liberalization is not envisaged, even for mobile telephone and value-added services.

Banking

Score	Criteria
4+	There is full compliance with banking laws and regulations set by the Bank for International Settlements (BIS). A full set of competitive banking services is available.
4	There is significant movement of banking laws and regulations toward BIS standards. There is well-functioning banking competition and effective prudential supervision. There is significant term lending to private enterprises and substantial financial deepening.
3	There is substantial progress in the establishment of bank solvency and of a framework for prudential supervision and regulation. There is full interest-rate liberalization with little preferential access to cheap refinancing. There is significant lending to private enterprises and a significant presence of private banks.
2	There is significant liberalization of interest rates and credit allocation. There is limited use of directed credit or interest-rate ceilings.
1	There is little progress beyond the establishment of a two-tier system.

Non-bank financial institutions

Score	Criteria
4+	There is full compliance with securities laws and regulations set by the International Organization of Securities Commissions (IOSCO). Fully developed non-bank intermediation is present.
4	Securities laws and regulations are approaching IOSCO standards. There is substantial market liquidity and capitalization as well as well-functioning non-bank financial institutions and effective regulation.
3	There is a substantial issuance of securities by private enterprises. Independent share registries, secure clearances, and settlement procedures, and some protection of minority shareholders exists. Non-bank financial institutions, such as investment funds, private insurance, pension funds, and leasing companies, have emerged, and the associated regulatory framework exists.
2	Securities exchanges, market makers, and brokers exist. There is some trading in government paper and/or securities, and a rudimentary legal and regulatory framework for the issuance and trading of securities exists.
1	There is little progress on any of the elements described above.

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