

# Enabling a Generational Transformation

## A Compendium by the Regional Strategy Group for the Middle East and North Africa

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## Preface

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Following a strategic review, the World Economic Forum has decided to further strengthen its commitment to the Middle East and North Africa (MENA) region by creating the Regional Strategy Group (RSG) for the Middle East and North Africa.

Chaired in 2017 by Bassem Awadallah, Special Envoy of His Majesty King Abdullah II of Jordan to Saudi Arabia and Chief Executive Officer of Tomoh Advisory, the RSG is our flagship community of leaders who will inform and advise the Forum on its MENA strategy and ensure the region's voice is heard globally.

The mandate of this senior advisory body is to provide high-level strategic guidance on the Forum's regional agenda and engage on systemic issues that are vital to this part of the world. The RSG brings together leaders from different sectors and across the region with experience or expertise in policy-making and governance. In keeping with the Forum's commitment to the multistakeholder approach, the RSG will work closely with the Regional Business Council (RBC) to champion public-private coordination in the region.

The inaugural meeting of the RSG will be held during the World Economic Forum on the Middle East and North Africa, which will take place on 19-21 May 2017 at the Dead Sea in Jordan under the theme "Enabling a Generational Transformation".

In preparation for this meeting, the RSG is publishing this compendium of articles to initiate a healthy, open and honest debate about the policy imperatives for the region in the wake of the significant transformations brought about by the Fourth Industrial Revolution.

The World Economic Forum remains firmly committed to improving the state of the region by promoting constructive and forward-looking multistakeholder dialogues.

The opinions expressed in this compendium represent the ideas of their authors and not those of the World Economic Forum.

# Harnessing the Tides of Disruption: Policy Reforms in the Context of the Fourth Industrial Revolution

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At a time when many countries grapple with popular upheaval against the shortcomings of the liberal economic order and the uncertainty generated by accelerating technological progress, the Middle East and North Africa (MENA) stands at the cusp of a sweeping transformation, with the potential to empower a whole generation of citizens. This trend was epitomized by the Saudi government's announcement – almost exactly a year ago – of its “Vision 2030” economic reform plan, which could carry enough momentum to ripple across the whole region.

As the Fourth Industrial Revolution unravels, it will become increasingly vital for leaders to steer a steady course towards these planned reforms to reap the opportunities it will present, and to safeguard their citizens from the disruptions it might usher in. As the low-hanging fruits start to dwindle, it is of the utmost importance not to backslide to policies that were once tried and tested but yielded unsustainable results. The effectiveness of policies that had limited results in the past will be all the more mitigated in an environment where the only constant is rapid and unpredictable change. Indeed, picking winners and cossetting industries is unworkable in such a context because no one has the capacity to accurately predict the direction of industrial transformation or determine the technologies that will form the backbone of the economy.

Therefore, the role that regional governments must play is that of enabler of the private sector in industry and services, financier and regulator of efficient public infrastructure, and provider of safety nets to protect citizens against possible job market shocks. Only through a thriving and innovative private sector can the region improve its international competitiveness and ride the forthcoming wave of transformation towards a prosperous society. Bloated public sectors throughout the region are saturated with employees; the private sector and entrepreneurship are the only remaining viable paths to employment for job market entrants.

## Rethinking Arab manufacturing

With advances in artificial intelligence, additive manufacturing, machine connectivity, new materials and robotics overhauling the factory floor, the Fourth Industrial Revolution will shape the future of production. MENA countries have a historic opportunity to increase the manufacturing sector's share of GDP. Concurrently, this evolution on the production side would likely be reinforced by a parallel shift in consumer tastes. When consumers prize personalization, customization and the instant delivery

of products, such preferences tend to push production towards more localization.

The region has two principal advantages it could leverage to turn these developments into an important advantage. First, it enjoys comparably reduced levels of public debt. Coupled with the immense financial resources of some of its national wealth funds, it would have the fiscal space to make the investments required to enable this transformation. Second, the scores of unemployed youth, previously a liability to the region, could be turned into a potential strength. They would be eager to learn the skills needed to participate in this new economy. Due to the absence of a sizeable established manufacturing sector, such changes would face scant opposition from entrenched interests.

But what can governments do to enable and catalyse this transformation?

## Towards a digital single market

The trends described above indicate that market size would be an increasingly important determinant of competitiveness. Intraregional trade in the MENA region is dwarfed by that in other subregions, like East Asia, ASEAN, North America or the European Union. Consequently, a drive to achieve regional economic integration must be sustained to create a sizeable consumer market that shares a common language. This could be built up gradually by starting with areas that would not stir controversy or local criticism. One possibility would be to start where the European Union leaves off: a digital single market that spans the Arab world, which would boost the survival prospects of local start-ups and brighten the outlook of companies investing in new technologies. Alternatively, another starting point could be to establish a single market for energy and electricity. When Dubai in April completed the plant that will generate the world's cheapest solar energy, it illustrated the technology's immense potential in the sunbathed region. Building an interconnected electricity grid, as a stepping stone to connecting it to neighbouring regions, would go a long way towards mitigating the issues of intermittency that would accompany its widespread adoption. At the same time, a framework should be established to remove non-tariff barriers to trade and set product standards at the regional level.

## “Just-in-time” education models

Furthermore, governments must prepare their workforces and empower them with the skills required to partake actively in these new modes of production. In this particular

region, the traditional mantra of increasing spending is moot, as most countries already allocate a significant share of their budgets to the sector. Nevertheless, the performance of students on international tests (such as the Program for International Student Assessment or the Trends in International Mathematics and Science Study) is below what would be expected for their level of development. Hence, the onus should be on improving the quality of education, in particular teacher quality, which has been identified as the most significant input in education production functions. Yet limiting reform to traditional education would not in itself suffice. By the time the younger cohorts graduate from school and then from university, the Fourth Industrial Revolution will have already engulfed the region. To avoid missing another opportunity, governments need to work with private education providers to design short courses targeting unemployed youth, with the aim of bolstering digital literacy and the mastery of English. An initiative that would pool resources and create partnerships with renowned institutions to create regional centres for cutting-edge vocational education could impart practical skills to the legions of unemployed and underemployed youth in MENA. In any case, educational systems would need to integrate to a greater degree with the job market and display a readiness to evolve rapidly as technology transforms the demand for particular skills.

### **Entrepreneurship, a launch pad for new growth**

In addition, if the region is to offer its citizens the employment opportunities that allow them to lead fulfilling lives, it will have to address longstanding inefficiencies that have been hampering entrepreneurship. Amazon's recent acquisition of UAE-based e-commerce firm Souq.com strongly underlines the promise of the budding tech sector, which can succeed in MENA, in spite of a bureaucratic environment that is difficult to navigate. Governments should enhance the efficiency of labour markets, modernize their bankruptcy laws and simplify the processes to create companies. Also, developing functional mediation and arbitration methods would alleviate the strains from which their judicial systems suffer to resolve disputes. The ability to enforce contracts is a key building block of the societal trust needed for people to complete transactions or conclude agreements without the risk of being swindled. The social capital that thus ensues is an indispensable ingredient of a vibrant and modern economy.

### **Citizen-centred good governance**

While these developments unfold, governments will have a more pressing imperative to step up efforts to weave social safety nets to guard their populations against the detrimental side effects of technological disruption. A first step in this direction would be to eradicate blanket public subsidies for electricity, gas and food. Such policies are notoriously regressive – they benefit the rich more than the poor. In the case of electricity, for instance, a household that is well off consumes more power than one that is destitute; thus the implicit financial transfer from the state to the better-off people is of a larger magnitude. The present scheme should be replaced by means-tested cash transfers, which are more transparent, cheaper to administer, better targeted

and have the corollary effect of nudging the unbanked into the formal financial system. The Kingdom of Saudi Arabia is taking encouraging steps in the right direction, having launched its “Citizens Account” online portal in February 2017 to this effect.

Developing the region's physical, digital and human infrastructure will require the marshalling of significant resources to sustain the momentum for reforms. For states to uphold their end of the social contracts with citizens, they will need to levy more funds and to diversify their fiscal bases. For the citizenry to accept this, governments will need to become more transparent and efficient in the management of their assets. A regional commitment to embrace e-government, with a determined focus on migrating all money transfers between citizens and public entities online, has the potential to curb endemic corruption and to increase the rulers' legitimacy in the eyes of the public. Promoting systems of good corporate governance, in tandem with these efforts, would ensure that the bribery of public officials is addressed on both sides of the equation.

### **Gender justice**

Moreover, for the region to realize its full potential, it will need to address the dismal conditions that afflict half of its population. Without the full participation of women in economic activity, the MENA states will find it extremely difficult to stimulate their economies to reach optimality. The Fourth Industrial Revolution could result in a mixed blessing for women. On the one hand, by making production safer and less physically demanding, it should close the gender gap as regards participating in manufacturing activities. Conversely, by favouring sectors where technology is prominent, which are currently dominated by men, it threatens to exacerbate existing gender disparities. Governments will have the soaring responsibility to manage gender inequalities, by consolidating past gains in women's education, nudging women to enrol in science, technology, engineering or math education, and lifting myriad restrictions on the employment of women, albeit in a manner that respects cultural sensitivities.

In brief, with the demise of overarching linear industrial policy in this era of lightning and exponential progress, governments in the region stand at a crossroads, facing a stark choice. If they are able to adapt and reform their economies, they will turn the Fourth Industrial Revolution into a massive opportunity to mould the youth bulge into their biggest asset. Enabling a generational transformation of this scale could hold the promise of ushering in an era of shared prosperity in which regional stability and peace would be solidly enshrined at last.



# A New Model for Education for the Fourth Industrial Revolution

*Bassem Awadallah, 2017 Chair of the Regional Strategy Group for the Middle East and North Africa; Chief Executive Officer, Tomoh Advisory, Jordan and Special Envoy of His Majesty King Abdullah II of Jordan to Saudi Arabia*

Much has been written and debated about the pace of change our world has experienced as a result of technological advancements over the past decade, advancements that have impacted every facet of our daily lives: how we communicate, work and travel. Indeed, it has altered our very own expectations of what is possible.

In his book, *The Fourth Industrial Revolution*, Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, states: “We must develop a comprehensive and globally shared view of how technology is affecting our lives and reshaping our economic, social, cultural and human environments.”

This exponential impact of technology tells us that the next generation will live in a far different world than the world we live in today. The advent of new innovations in artificial intelligence, 3D printing and robotics, to name a few, will significantly reshape the entire global economy by way of the Fourth Industrial Revolution that Professor Schwab has described.

This imminent revolution will enhance efficiency and productivity in ways never seen or imagined before and will come at a blistering pace. It will transform entire industries, including but not limited to healthcare, communications, transport, manufacturing and entertainment. It is indeed a revolution that holds great promise for human civilization and what is possible for its further advancement.

But these breakthroughs will also bring serious challenges for the next generation. The Fourth Industrial Revolution will render obsolete many of the skills and jobs that entire economies rely on today to provide employment and income for its citizens. With the likelihood of these jobs disappearing over the next 10 to 15 years, governments and policy-makers are facing a race against time to equip and prepare the next generation with the necessary new skills to remain productive, indeed relevant, in the economies of tomorrow.

And although this is a challenge for governments across the world, with some better positioned to deal with it than others, it seems especially acute for the Middle East and North Africa (MENA) region, which, besides suffering from a state of perpetual conflict, ranging from wars, sectarianism, violent extremism and terrorism, is also afflicted with a failed educational system that is hardly equipped to deal with the challenges of today, much less with those that will be ushered in by the Fourth Industrial Revolution.

The challenges at hand are immense, and without drastic measures in transforming the educational system, the MENA region's next generation risks not only being unemployed but, more likely, unemployable, which could have catastrophic consequences far beyond the region's borders.

Among the most alarming indicators for the MENA region is its poor performance in nurturing mathematics and science skills, key prerequisites for success in tomorrow's technology-driven global economy. The average score for the MENA countries participating in Trends in International Mathematics and Science Study (TIMSS) is well below the world average at every level. In international science achievement, the average MENA country score for students aged 9-10 is 408 (the world average is 507), and for those aged 13-14, the average MENA score is 436 (the world average is 503). In TIMSS international mathematics achievement, for students aged 9-10, the average MENA country score is 402 (the world average is 505), and for those aged 13-14, the average MENA score is 403 (the world average is 480). Furthermore, only 10% of universities in the MENA region have academic programmes that focus on entrepreneurship, innovation and creativity, which are the areas that artificial intelligence and robotics will not be able to replace.

This lack of institutional capacity and infrastructure to nurture mathematics, science, computing skills as well as innovation and entrepreneurship presents the most significant challenge to adapting the MENA region's future workforce to the needs of the Fourth Industrial Revolution.

In his new book, *Thank You for Being Late: An Optimist's Guide to Thriving in the Age of Accelerations*, Thomas Friedman states that: “We go to school for 12 or more years during our childhoods and early adulthoods, and then we're done. But when the pace of change gets this fast, the only way to retain a lifelong working capacity is to engage in lifelong learning.”

What is required therefore is nothing short of a separate new revolution in the educational system that matches the scale and pace of the Fourth Industrial Revolution itself. Governments, policy-makers, educators and the private sector are required to come together to reimagine the entire process of learning, all the while challenging established “conventional” norms, including the period it takes to graduate with a degree and the topics that are taught, even at the basic level. Should basic computing and coding become a mandatory subject learned on par with basic reading and writing at the elementary level, for example?

However, as much as technological advances present challenges, they also offer the tools and ability to facilitate and fast-track the required transformation, especially in developing countries, be it in education or, equally importantly, in equipping and positioning MENA countries to ensure their economies remain globally competitive and relevant and are able to absorb the outputs of a revamped educational system.

This is where advanced nations, especially in the west, have a shared responsibility to ensure that developing nations are not left behind by the drastic changes that are taking place. Facilitating the transfer of advanced technology and know-how (at a pace that is much quicker than it is today) is an essential requirement for success. Without the timely transfer of modern up-to-date and relevant technology, developing nations, including those in the MENA region, will fail to keep up and will certainly falter, and lag behind, with drastic consequences for the entire global community.

Globalization and the world's increasing interconnectedness have taught us, particularly in the last 10 years, that what happens in one area of the world directly and adversely impacts other areas. This will oblige the international community to revisit the conditions and requirements for cooperation, and consider what a collective global destiny, rather than isolated national ones, requires. Nothing less than global stability, peace and security are at stake.

## Enabling Generational Transformation in Egypt

*Sahar Nasr, Minister of Investment and International Cooperation of Egypt*

The Government of Egypt has long positioned youth at the core of its development agenda. As a country with a large, young and vibrant labour force, the government is striving to empower young citizens by giving them the right tools and opportunities that will enable them to spearhead the country's economic transformation. Youth make up nearly 40% of Egypt's population; hence, youth issues, especially employment and skills development, come at the very top of the government's priorities. The Ministry of Investment and International Cooperation is working full force on intensifying efforts to empower young citizens by providing the adequate environment and the necessary tools, resources and opportunities that will allow them to achieve their aspirations.

Small and medium-sized enterprises (SMEs) are the main drivers of economic growth and job creation, and in Egypt they account for approximately 98% of enterprises and generate more than 75% of employment. Hence, promoting entrepreneurship in Egypt is a key pillar in the government's quest to empower the young generation and accelerate Egypt's economic development. Towards this end, several SME development programmes and initiatives specifically targeted at youth have been launched to promote financial inclusion as well as to develop entrepreneurial skills. The Ministry is committed to mobilizing all resources to create more jobs for youth and unlock their massive potential. It is in this spirit that a start-up fund was established and will support new and small firms by bridging their financing gap through direct and indirect investments. With a capital of EGP 451 million (almost \$25 million), the new entrepreneurship and investment company also aims to invest in business incubators and venture capital funds to support inclusive and sustainable growth in Egypt. The goal is not only to secure finance for SMEs, but also to provide young entrepreneurs with capacity-building programmes, to ensure they are equipped with the skills necessary for business growth and sustainability.

Improving the investment climate and creating an enabling business and regulatory environment to promote entrepreneurship and expand the private sector are an integral part of Egypt's development strategy. The government has achieved notable progress in this area through its investment reform plan, which is based on four main pillars: (1) improving the legal framework; (2) promoting SMEs; (3) increasing financial resources; and (4) providing essential services to the private sector. To promote entrepreneurial activity and expand the micro, small and medium-sized enterprise sector in Egypt, the Microfinance Law was passed in November 2014, and the Single-Person Company Law was approved in 2016. This month, the Egyptian Parliament approved the long-awaited new investment law, which I am confident will be a milestone on our path to transformational economic development. The new law includes numerous investment incentives, which are bound to create a very favourable environment for entrepreneurship to flourish and private sector to grow. Youth are the future of this nation and the vehicle for instigating positive change, which is why the Government of Egypt is strongly committed to meeting their demands for a better future. By unlocking their full potential as agents of progress, it is possible to be confident of a more prosperous tomorrow.

# Transformational Technology Requires a Transformational Policy Agenda

Sami Mahroum, Academic and Executive Director, Innovation and Policy Initiative, INSEAD

Over the last seven decades, the Middle East and North Africa (MENA) region has fallen prey to economic thinking heavily influenced by “market failure” propositions. Put simply, “market failure” means that, for a variety of reasons, private-sector providers are failing to deliver a much needed good or service. When the countries of the MENA region came into being, their local private-sector industries were nascent and underdeveloped. The governments of these newly formed nation-states were understandably eager to avert the risks of market failure undermining the development of national economic systems. And as with the zeitgeist of the times, most MENA governments opted to adopt state-led economic development strategies. These typically involved the creation of state-owned enterprises (SOEs) in agriculture, manufacturing and tourism, in addition to leading the development of physical infrastructure and social institutions.

Too eager to correct for market failure, MENA governments overreached themselves in steering the economy, moving from market failure to structural failure. While in the short run, the government policy approach addressed the immediate need for essential investment, the longer-term consequence has been the creation of local economic structures dominated by large rentier state enterprises operating alongside a small mercantile family-owned sector. According to a study conducted by Al Masah Capital Management Limited, reported in its 2011 report entitled *MENA Family Businesses: The Real Power Brokers?*, family businesses make up more than 70% of MENA’s private-sector economy – a higher share than in any other region of the world. The challenge for the growth of the MENA region is that SOEs and family-owned businesses tend to be risk averse, slow in adopting innovation and unwilling to engage with early-stage businesses. Thus, they tend to be low in productivity and innovation.

Today, the rise of platform-based enterprises in the region is a sign of change. The rapid growth of digital-platform-based start-ups, such as Anghami, Bayt, Careem, Maktoob, Souq, MarkaVIP and Yaoota, shows that this change is well under way in the MENA region. Digital-platform-based enterprises make use of digital communications technology to organize, create, develop, exchange and capture value across political and geographic boundaries. This shift is increasingly being referred to as the Fourth Industrial Revolution because it represents a historic breakthrough in the way enterprises, technology and business models are configured to create and capture value.

In the Fourth Industrial Revolution, government matters, but for new and different reasons. Because platform-based entrepreneurs are now able to draw upon the comparative advantages of multiple locations to create their own unique competitive advantage, governments’ role becomes

about enhancing place surplus, the extra benefit that an entrepreneur derives from operating in a place and that totals more than all the costs of operating there. A place surplus can be in the form of cost, convenience, calibre, creativity or even community. This is very clearly seen in the region today where successful platform-based start-ups are leveraging different types of place surplus offered by two or more of the region’s emerging start-up hubs, namely Amman, Beirut, Cairo and Dubai (the “ABCD” of the MENA economy). By simultaneously operating across the ABCD hubs, MENA entrepreneurs are able to overcome hometown deficiencies and leverage the resource surplus that exists elsewhere in the region and beyond.

While change is being spurred by technological developments, the broader transformation of the MENA region’s economic system to overcome its current structural impediments will require a supportive policy agenda from government.

## Strategize public demand

MENA governments need to adopt smart procurement practices that boost innovation in the economy. Much of the innovation and entrepreneurship that drives economic growth is primarily led by small firms (of 10-50 employees). A major determinant of whether these small firms survive and thrive is if government manages its role as a purchaser of goods and services in ways that enable rather than exclude them. This is a critical factor because such procurement comprises between 10% and 15% of GDP of public spending in developed countries and up to 20% of GDP in developing countries. Currently, the conditions for doing business with most MENA countries’ government – including tendering requirements, payment schedules and other bureaucratic demands – tend to be prohibitive for small firms. Simplification and transparency of procurement rules and procedures, and a preference for local content, will allow new and smaller service providers the opportunities to do business with government.

## Accelerate the entry and growth of start-ups

MENA governments need to create and adopt start-up growth strategies. While most new businesses fail after a few years, they remain primary drivers of industrial renewal, innovation and economic growth. An economic structure that is dominated by family and state-owned enterprises without appropriate competition and anti-trust policies in place represents a serious structural problem for an economy. Not only does market dominance by large incumbent enterprises represent a situation of David vs Goliath for new small entrants, but the risks involved in wealth management and transfer within state and family-owned enterprises expose the national economy to greater volatility. A policy strategy that provides a minimal level



of protection and support for new market entrants will help accelerate the entry and scale-up of new firms, and subsequently facilitate a generational and demographic shift in the economy.

### Leverage the tech diaspora

MENA governments need to create and adopt a diaspora engagement strategy. The MENA diaspora is another form of surplus that various countries of the region possess. Millions of highly skilled and creative MENA emigrants live and work outside the region, especially in the United States and Europe. In 2013, approximately 43% of the 1.2 million MENA immigrants in the United States (aged 25 and over) had a bachelor's degree or higher, compared to 28% of all immigrants and 30% of native-born adults. In the five-year period between 2009 and 2013, 13,180 single patent applications (5.1% of all patents) filed under the PCT (the international patent system) in the United States had at least one inventor with a MENA background. The diaspora represents immensely important intellectual and social assets for the region overseas. Currently, they are outward foreign investments with limited returns (mostly remittances that go to fuel consumption). Enabling this diaspora to ply their efforts in the MENA region could be instrumental in accelerating a technology-driven transformation of its economy through a corresponding transfer of knowledge and capital. In this regard, MENA governments could look at creating special venture capital funds that are geared towards creating and supporting local diaspora joint ventures.

In short, with its young and demanding population, the MENA region is facing major challenges as well as opportunities that are uniquely different from its predecessors. Its population is powered by a new generation that is connected to the world with their hands in their pockets. To support them, MENA governments need to formulate and put into action economic transformation strategies that are underpinned by three pillars: digital platforms, tech start-ups and global (diaspora) links.

## The Role of Literacy in Enabling Generational Transformation

*Bodour Al Qasimi, Chairperson, Sharjah Investment and Development Authority - Shurooq*

Of the 35 countries affected by violence and instability on the World Bank's annual Harmonized List of Fragile Situations, 10 are located in the Arab world. Though precise statistics are not available, as many as 17 million out-of-school children in Arab countries are on the list. This represents 50% of the 34 million children the United Nations Educational, Scientific, and Cultural Organization estimates are out of school in conflict-affected countries, and up to 20% of the Arab region's total school-age population.

Generational transformation requires an immediate, coordinated response to help children affected by conflict. These children are deprived of learning opportunities that cultivate critical literacy skills allowing them to successfully participate in adult life and in the rapid transformations affecting the Arab region. Children in fragile and conflict-affected countries are more likely to drop out of school and, once they do, they tend not to go back. As a result, the countries in which conflict prevents children from attending school have the lowest literacy levels in the world.

The International Adult Literacy Survey shows that, after controlling for educational qualifications, the level of literacy has a net direct effect on income, employment, health, participation in continued education, reliance on public assistance and involvement in crime. Literacy is both a foundation for the region's socio-economic development and a prerequisite for successful participation in most areas of adult life. In increasingly literate societies, reading is a prerequisite for success in life. It is key to equal participation in the generational transformation the region is undergoing.

### Literacy is critical to the millions of Arab children who may never enter a classroom

If, as a region, sufficient formal education cannot be provided to conflict-affected children, then supporting accelerated literacy programmes in conflict and crisis-affected countries may be the next best option. Over the past several years, I have had the opportunity to visit many conflict-affected countries in the Arab region and surrounding countries. I was deeply moved by the determination of children in these countries to resume normal lives and educate themselves, despite the harshness of their circumstances. However, the scale of response to the impact of armed conflict on education and literacy is completely inadequate.

The lack of progress for children in conflict-affected countries is often attributed to severe humanitarian funding gaps. While several examples of literacy and learning programmes for children in conflict exist in the region, their reach falls far short of the need. Sufficiently funded remedial programmes that focus on adolescents who have missed out on education due to conflict will be critical to enabling generational transformation. Collectively, the failure to adequately address the region's literacy challenge in conflict countries is shortsighted.

But the responsibility to address this issue should not remain solely the issue of conflict-affected countries and international donors. Meeting this challenge also requires support from the private sector, non-profits and other stakeholders. Significantly more can be done to help create a sense of normalcy for children during conflict, while also ensuring they build critical literacy skills to avoid being disadvantaged in their adult lives.

### Transformation requires cooperation

Considering education and literacy as the sole responsibility of national governments has not solved the literacy challenge brought on by conflict and instability. This is an issue particularly relevant to the Arab region, but it should also be considered a global challenge for which solutions are required to address conflicts in Africa, South America and Asia. Through collective efforts, including the support and resources of governments, the private sector, communities and individuals, the opportunity is at hand to pioneer a regional solution to the literacy challenge, making a meaningful difference in the lives of tens of thousands of children and families living in conflict globally.

In 2012, in recognition of the significant funding gap for education in conflict-affected countries, the UAE Board on Books for Young People and the International Board on Books for Young People (IBBY) launched the \$10 million Sharjah/IBBY Fund for Children in Crisis. The fund provides non-reimbursable grants to benefit children whose lives have been disrupted by conflict, supporting bibliotherapy, the therapeutic use of books and storytelling; reading programmes for children most at risk due to hospitalization, poverty and displacement; and the building or rebuilding of reading material collections.

The barriers to the education of children affected by conflict are formidable, but initiatives like the Sharjah/IBBY Fund for Children in Crisis reveal the potential for more concerted and comprehensive responses. However, the response to the impact of conflict on education and literacy requires much more significant efforts to work together towards a solution. All too often in the peace-building process, the role of education and literacy in conflict resolution and peace-building and, most importantly, the psychosocial impacts on youth who have been subjected to trauma through wars and violent conflicts are a secondary focus. There is a clear and urgent need to prioritize funding for literacy interventions in conflict countries to avoid a lost generation of unschooled children who will be unable to truly participate in the rapid transformations affecting the Arab region.

## The Power of MENA Giving

*Mona Hammami, Director, Crown Prince Court of Abu Dhabi, United Arab Emirates*

The Middle East and North Africa (MENA) region suffers from structural problems that restrict its development and ability to reach its potential. High unemployment rates, numerous out-of-school children, low educational quality, a high refugee burden, water scarcity, poor infrastructure and much more are all part of everyday reality in many parts of the region. But while these challenges may seem daunting, they are not insoluble. Well-designed developmental programmes have been under way for some time, but progress is costly. Despite the will, resources are often lacking.

The MENA region could benefit from the overlooked potential of its large development finance flows in the form of foreign aid, remittances and philanthropy. These three flows of money individually and collectively represent an unprecedented transfer of wealth. If well utilized, these flows have the potential to revolutionize the way development is thought of in many parts of the region.

### Sizing up the transfers

For an idea of the scale of these transfers globally, consider the following: in 2014, donors provided \$135.2 billion in net official development assistance. In the same year, an estimated \$583 billion remittances were transferred globally; in the United States alone, some \$358.38 billion was given to charities through philanthropy.

Now think of these flows regionally. MENA's donors from the member countries of the Gulf Cooperation Council (GCC) are among the most giving. The UAE donated 1.09% of its gross national income in 2015, the highest in the world and well above the 0.7% UN target. As regards recipients, for many decades North Africa has been the world's largest recipient of foreign aid per capita. MENA as a whole is the third largest global recipient of aid in absolute terms, after southern and central Africa and Asia. However, aid to the MENA region is highly variable. Much of the variation is driven by political and humanitarian purposes (and less by developmental considerations). In terms of philanthropy, the region has one of the highest rates of high net worth individuals (HNWIs) per capita. The size of actual philanthropic and charitable donations, however, is not well documented (due to the lack of a clearinghouse).

MENA's population constitutes 5% of the global population. However, approximately 60% of the world's refugees and a large share of its migrants come from the region. Many of the area's countries are major recipients of remittances. In fact, remittances account for 4% of GDP as a whole, the largest share for any geographical region.

The sums involved in the regional transfer of remittances are huge. In Lebanon, remittances amounted to \$7.5 billion – three times the country’s estimated total foreign direct investment of \$2.4 billion – in 2015. That constitutes approximately 16% in terms of GDP. In Jordan, remittances constitute 14.5%. The region also hosts the largest senders, namely from Gulf countries where the expatriate population is high. Remittances could and should be transformative, but currently they are not.

## Current challenges

So if flows are that sizeable and they constitute such a large amount of funding, why is their impact still limited? The answer is that most of these flows are less strategic or catalytic and lack the tools that would allow them to be channelled more effectively.

Take foreign aid for instance. On the recipient side, most countries have no sense of prioritization of where aid flows might go and what programmes are needed. On the donor side, many countries provide large sums of money as budgetary aid with less targeted programmes that would best benefit the communities at hand. Moreover, there is little harmonization among donors, which often leads to fragmented aid.

Data on MENA philanthropists are scant. However, a few surveys have shown that MENA philanthropists are less strategic in their giving. For instance, data from the Arab Giving Survey show that many GCC HNWI’s rely on relatives and family for their choices of where to donate, and they often tend to be impulse donors. Moreover, very few have foundations to govern their donations and thus do not follow up on the impact of such funding. In addition, very few channels exist to direct non-organized massive individual philanthropic donations. Most individual donations are still religiously driven. Crowdfunding platforms and more innovative technological innovations are still lagging.

In the case of remittances, most of these flows are channelled on an individual basis. Migrants send money home for a variety of reasons. It may just be altruistic, wanting to help the family they left behind. Self-interest may be involved, particularly if they are planning on returning home at some point. Traditionally, most remittances in the region have been sent to fund consumption of domestic purchases, such as food. Rarely do they go to fund investments. However, MENA remittances seldom flow collectively. Collective remittances often have the ability to scale up the impact of such flows, but they require certain tools and instruments to help them flourish.

## “Raise”-ing the bar

While these transfers already contribute to improving people’s lives in the MENA region, they could have greater impact than they do at present. How can MENA better leverage such transfers? How can the potential be raised? Policy-makers can “raise” the impact of these transfers; they can (1) better regulate; (2) alleviate macroeconomic risks; (3) innovate by creating new tools, financial instruments and vehicles to better leverage such flows; (4) synergize and scale up; and, lastly, (5) enhance the effectiveness of these flows.

Better government **regulation** can dismantle hurdles that prohibit such flows from reaching their intended target. For instance, regulating transfer costs will allow more money to flow through formal channels, alleviating the problem of regional remittances that still flow largely informally. Better regulation will also enable a better environment for philanthropic money to flow, be it in the ease of setting up foundations or non-profits, the better use of technological innovation, or the regulation of financial and non-financial institutions as vehicles of money transfer, etc.

MENA governments have the potential to **alleviate** some of their balance of payment risks. In particular, countries like Egypt, Jordan and Lebanon that receive a considerable and relatively stable volume of remittances can use such payments to help increase state funds alongside exports and foreign investments. Moreover, such flows could boost ratings, especially of countries facing credit risk. Alleviating macroeconomic risks will also require using official aid money better. MENA donors should engage in long-term strategic aid programmes that are countercyclical, well targeted and closely monitored. MENA recipients should exhibit less rentier behaviour when it comes to aid, by working on managing such flows to create productive sectors and enabling sustainable development programmes.

Governments have to **innovate**. Consider social impact bonds, a form of social innovation where investment is tied to the outcomes of social initiatives. These bonds are based on a commitment from the government to use a proportion of the savings that result from improved social outcomes to reward the private players (largely philanthropists) that fund the early intervention activities. Reaching a particular target triggers a particular level of payment. Education sectors across the region could be interesting examples of where social impact bonds could be used. Prison management, labour market programmes and healthcare are other sectors where such innovation could be beneficial. Another example of innovation is a combination of remittances and philanthropy used innovatively. Diaspora bonds can raise capital inexpensively. Governments issue bonds that are bought by the patriotic philanthropists/remitters. This funding is then used to build large projects domestically. These types of financing are likely to be attractive in such countries as Lebanon and Egypt.

MENA governments have to encourage and create vehicles for collective remittances. Collective remittances are targeted and are likely to be committed to productive community projects. Another innovation entails the securitization of remittances, which enables access to international capital markets for poorer countries that might find that access difficult to obtain. Although such ideas are attractive, they will require enabling financial infrastructure.

Perhaps one of the most effective ways that governments can revolutionize these transfers of wealth is by **synergizing flows and scaling them up**. This requires forming public-private partnerships. For instance, with the use of structured financing, philanthropists, governments and investors could fund projects that otherwise would not have been developed or financed. A government (even a donor – in this case a GCC country) may, by way of grant or loan,

provide the initial layer, with philanthropists (either local or from within the region) participating at a lower rate of return than other private investors. Other examples of engagement involve philanthropic giving and government funding joining forces to scale up the size of donations. For example, matching funds programmes allow governments to match contributions to specific causes that they identify as important. Other examples of matching funds could include MENA aid donors matching funds flowing from philanthropists or collective remittances to scale up targeted donations.

**Enhancing the effectiveness** of transfers would mean redirecting them to productive channels. It also means keeping track of their impact. MENA aid donors are increasingly becoming more strategic and seeking to measure the impact of their flows. Philanthropy still lags behind. New approaches to philanthropy should encourage greater care over the fate of donated funds. It is no longer enough just to give. It is also necessary to ensure that any money given is used efficiently and that certain objectives are met. Moreover, governments need to minimize the use of informal channels in sending remittances out (not only because they raise the risk of insecurity but also because they lead to waste outside the financial system). Governments can also provide awareness programmes to inform people of their options in managing remittances away from pure consumption towards more investment. Income transfers could revolutionize the way development finance is considered in MENA. They could be a key to tackling humanitarian as well as developmental challenges, bridging gaps and building bridges. The MENA region is in desperate need of the power of the giving world. Strategic giving is what it needs. Strategic giving has the potential to improve lives. It is time to “raise” that potential.

## A Tale of Two Economic Visions: Why North Africa Needs an Integrated Industrialization Strategy to Enable Generational Transformation

*Abdelmalek Alaoui, Chief Executive Officer, Guepard Group,*

North Africa is the holder of two alarming world records. First, it is the least integrated economic region in the world with a level of intraregional trade below 3%. Second, it has one of the highest youth unemployment rates, 25%, according to the World Bank.

Among multilateral organizations and experts, the global consensus is that increasing the level of intra-North African trade by 5% could boost regional GDP by 2% per annum. Also, most experts agree that better integrating youth in the formal job market is not only an economic necessity but a social imperative to keep the region stable, less than six years after the wave of social upheaval referred to as the “Arab Spring”.

But these numbers only tell half the story.

### **Like the Roman God Janus, the region has two faces**

Over the last decade, a strong misalignment of strategies has taken place between North African countries, resulting in a negative impact, especially on the youth, in terms of job creation.

North Africa has a dual economic face, and the region itself is also divided into two.

According to the United Nations Economic Commission for Africa, in its report *Promoting Regional Value Chains in North Africa*,<sup>1</sup> the Maghreb region is not only very poorly integrated, but it is also split in two distinct groups with conflicting agendas: the first group is formed by Algeria, Libya and Mauritania, with the common characteristic that their integration to global value chains is at the end of these chains as they mainly export commodities. The second group is formed by Tunisia, Egypt and Morocco, which, according to the report, “have achieved, to a certain extent, a shift from commodities/raw material/agricultural exports to manufactured exports”.

In short, like Janus, the “Roman god of beginnings, gates, transitions, time, duality, doorways, passages and endings”, the Maghreb region has two faces: one looking at the past and the other towards the future.



Hence, the first main challenge for the region is to create conditions in which intraregional trade is placed at the top of the political agenda in order to become a global regional value chain. This means putting aside historical antagonism – especially between Algeria and Morocco – to create a more integrated economic region in which the two trading blocs can interact better and seize the ensuing opportunities. The second challenge is to find ways and means to integrate the youth more effectively into the formal job market by going beyond the traditional solutions based on publicly-funded infrastructure programmes and state-led incentives to stimulate the private sector.

### **North Africa needs to put the new generation at the centre of the conversation**

While the rest of the world is looking for ways to address rapid digitalization and the Fourth Industrial Revolution, North Africa is suffering from a lack of vision, structurally speaking. It has not yet found a way to harness the specific skills of the new generation, disregarding up to this point two essential issues at stake: education and entrepreneurship.

#### **A disconnected educational system**

A quick analysis of North Africa's educational system reveals that the agenda pursued by the region's policy-makers for the past 50 years has failed. Too much focus was made on quantity and granting as many diplomas as possible, without assessing the private sector's needs and without associating it to any strategy. According to the World Economic Forum 2016 Global Competitiveness Index,<sup>2</sup> Morocco, Algeria, Tunisia and Mauritania all lag behind in the crucial issue of internet connection in schools. All rank below the 110th position, although overall these countries have very good internet infrastructure.

Clearly, in North Africa the educational system's disconnect from the private sector and the digital world is a problem when it comes to enabling the next generation to cope with the imperatives of globalization and the subsequent challenges of building a regional value chain. On a sociological level, too, the risks are even greater, as the emergence of a new generation of young "digital refugees"<sup>3</sup> is already apparent in North Africa – the young people know how to use social networks but do not master the digital world in a professional capacity.

#### **A Small Business Act for North Africa?**

The second dimension needed in North Africa to enable a generational transformation is to create a framework whereby entrepreneurship becomes much more than a tag line for politicians when asked what they are doing to reduce the level of youth unemployment. Naturally, regulatory improvements as well as fiscal incentives and public subsidies need to be put in place, but that would move the needle only slightly.

The biggest barrier between North Africa's next generation and entrepreneurship is cultural. For years, being a small entrepreneur was considered by society as a cheap alternative to finding a serious, steady job in the administration or in multinationals. At best, a young entrepreneur was considered to be between jobs or to have failed at finding a job. Although mentalities are slowly evolving – especially in the second group of countries – a strong stigma is still associated with entrepreneurship. In addition, access to capital and financing remains in its early stages in North Africa. In Morocco, for instance, venture capital investments for start-ups were estimated at \$1 million in 2016, whereas mobilized private equity was estimated at roughly \$50 million. These numbers are extremely low when compared to the country's GDP of approximately \$105 billion in 2016.

Therefore, beyond political hurdles, North Africa needs a new economic vision that acts as a game changer in order to enable a generational transformation. This plan should be based on the following pillars:

- **Set aside political integration and focus on regional economic integration** through pragmatic and operational measures concentrated on lifting trade barriers and allowing the free circulation of goods and human capital
- **Create a North African Economic Commission**, held at the ministerial level on a monthly basis, to address the issue of creating a regional value chain in which the countries could cooperate, especially in the automotive and aeronautics sectors
- **Build a regional master plan that goes beyond sectorial strategies**, addressing the crucial issue of industrial convergence as well as social dimensions to determine a regional labour cost
- **Create fiscal incentives to attract venture capital** to stimulate start-up creation
- **Draft a North African Small Business Act** to help increase the creation of small and medium-sized companies by at least 20% over the next five years

# A Political Economy of Generational Transformation

*Mahmood Sariolghalam, Professor of International Relations, National University of Iran*

## Introduction

In the history of socio-economic development, two documented processes lead to change.

The first is change originating from organized groups in societies that can convince the ruling elites of the need to modify their schemes of governance. The classic example is the European experience beginning in the middle of the 17th century where commercial and industrial groups forced the kings to provide space for “public interests”. The organizational and entrepreneurial abilities of social groups that generated capital formation independent of the state later caused transformational change in civil society, rule of law, consensus-building and, ultimately, democracy. The European experience was only extended to North America.

The second is change emanating from the ruling elites themselves. Outside of the European and North American experiences, this course of change is the only exclusive scheme that can be witnessed in Asia, Latin America and somewhat in Africa. Change requires an engine. It is either an engine that is powered by societal dynamism or by enlightened and confident elites. Singapore, China, Malaysia, Dubai and Indonesia are examples of change initially launched in the mindset of a single person. In the case of Brazil, Chile, Argentina, Japan and South Korea, change resulted from decisions within a presiding elite group. The Middle East and North Africa (MENA) does not posture well in this regard. It does not offer many success stories in this category.

## Strategy

### Step one

Since societies in the MENA region are vulnerable, not well organized and dependent on state resources, the decision to develop, let alone transform, particularly during the Fourth Industrial Revolution, must be made by the ruling elite. They are the most decisive stakeholders willing to engage in change and transformation. Exposure to how Asian elites have introduced change without jeopardizing security is instrumental.

### Step two

The first consideration before formulating reassuring economic development and transformational policies must be to respond to the question: How will prosperity affect the security and political structure of the state? Extensive literature in political economy research demonstrates that, regardless of its predilections, a ruling elite must be convinced of the benefits of growth for state security and political stability. Otherwise, it will either protract development or obstruct it.

### Step three

How can the elites' support be secured? This is an issue deeply embedded in countries' domestic structure. Here lessons from the experience of predominantly Asian states are noteworthy. Educators, entrepreneurs, intellectuals, investors, activists and youths need to realize that civil society and democracy are the outcome of wealth creation and empowered groups in a country. Elites will support development and transformation if they see them as being in their security and political interests. China today contrasts remarkably with China in 1980, not only in terms of prosperity but in social networking and a wide range of personal liberties. Beijing certainly still has an arduous task ahead but the change is positively discernible. Therefore, the process of creating and accumulating wealth needs to take place with as little political and security tension as possible.

### Step four

Despite inevitable resemblances, as a benchmark, every MENA country is a special case. Principally, every state is exceptional due to its comparative advantage and potential for growth and change. Some states, like Egypt, are resource poor and labour abundant. Others, like the UAE, are resource rich and labour poor. Still others, like Iraq, are both resource and labour rich. Each country must accurately assess its advantages and drawbacks. Conclusively, then, each country needs its own road map and strategy for growth and transformation.

### Step five

The two pertinent issues at this stage are, first, compared to all other regions of the world, MENA needs to invest more in organizational skills. Asia possesses this quality in its social fabric and benefits from it as an inherent social capital. Elites in MENA need to tackle this issue and learn to associate, organize and build consensus. Second, the epicentre of all strategies needs to focus on manufacturing and job creation, as the youth unemployment rate stands at 29%. Here the uniqueness of each country is central in its strategic planning.

### Step six

No country can escape the realities of the global economic structure. Therefore, in education, technology transfer, export opportunities, managerial skills and financial markets, the MENA countries must integrate themselves into the global system. Studies on China vividly show how the Chinese Communist Party promoted capitalist growth and transformation through joint ventures, business schools, favourable tax and labour policies, exports, a modern banking system, promising property laws and infrastructure investment. Full, incremental and forward-looking engagement with private companies worldwide

facilitated the Chinese transformation. Once the process of globalization is in force, the foreign policy of these countries must also be accommodative, cooperative and bent on building coalitions and regional networks.

### Step seven

Regionalism is in accordance with globalization as well. Regionalization in Asia and Latin America is evolving rapidly. Countries are benefiting from opening up their financial, labour and consumer markets to others, while also removing visa requirements. This implies the gradual elimination of security concerns among neighbouring countries. In the Pew Research Center's Spring 2014 Global Attitudes survey, 87% of respondents in developing countries agreed that trade benefits their economies. For MENA states, both regionalism and well connected interactions with Europe, the United States and East Asia would be a far more constructive strategy.

### Step eight

To assure incremental, undisruptive and inclusive development, MENA governments need to put in place meticulous law enforcement policies. This will enable the governing elites to demonstrate goodwill to the public, cultivate legitimacy and guarantee sustainability. One measure stands out among all the possible laws and norms: the freedom of the media to expose financial and economic corruption. In many MENA countries, egalitarianism runs deep in the cultural domain. A focused fight against corruption will foster the public support that is much needed by the governing elite.

### Step nine

While MENA states should focus on facilitating growth and transformation, they need to nurture relationships between the local private sector and potential foreign investors. In the case of small, local private sectors, governments should promote attractive investment policies so foreign companies can manufacture and share their know-how with the local entrepreneurs and technology experts.

### Step ten

Economies require propellers. The energy, utility, infrastructure, health and education sectors are MENA's pillars to drive change, foreign investment, foreign-local partnerships, youth employment opportunities, IT development, public satisfaction and even regime legitimacy. The Fourth Industrial Revolution offers a unique opportunity in history to justify both the philosophical and instrumental vehicles of change and transformation. It can be activated by the decisions of confident and future-oriented elite groups who have an accurate assessment of their country's prospects and global trends. This dynamism begins with reasoning attuned to the realities of the MENA region. To combat poverty, war, ethnic divisions and inefficiency, the elite need to be cohesive, to project consistency and have organizational and political skills.

## Reform of the Educational System Is Key to Regional Development

*Oliver McTernan, Co-Founder and Director, Forward Thinking*

In September 2015, the United Nations Sustainable Development Summit singled out young women and men in particular as "critical agents of change" who will play a crucial role, if the universal sustainable development goals are to be achieved by 2030. By enhancing their capabilities, unleashing their energy and expanding the opportunities to shape their own future, young people will help transform their own societies and countries for the better. The message that young people are a key resource, not a problem or a burden in resolving the problems of development, should have particular poignancy in the Middle East and North Africa (MENA) region where an estimated two-thirds of the population are below the age of 30.

According to the *UN Arab Human Development Report 2016: Youth and the Prospects for Human Development in a Changing Reality*, published towards the end of last year, however, this message has yet to be absorbed by the countries within the region. The youth population is increasing, but unemployment, poverty and marginalization are also on the rise. The youth unemployment rate, at an estimated 30%, stands at more than twice the world average of 14%, according to *The Economist*. Young Arab women are particularly disadvantaged.

Young people without jobs and a sustainable income find it difficult, if not impossible, to establish their independence and start a family. The risk of alienation from their societies is real. Their feelings of frustration, rooted in a deep sense of impotence to effect real change, will inevitably lead to protest. The report predicts that by 2020, as many as three out of four Arabs could be "living in countries vulnerable to conflict". The evidence shows that protest movements tend to come in five-year cycles – 2001, 2006 and 2011. Each of these years witnessed an increase in turbulent protests in North Africa.

In many Arab countries, the higher the amount of time spent in education, the lower the likelihood of finding employment. In Egypt, the graduate unemployment rate is 34%, compared to 2% for those who have not completed primary education.

In the Palestinian Territories, the unemployment rates are 42% in the Gaza Strip and 18% in the West Bank. Youth unemployment in Gaza totals 58% – one of the highest rates in the world.

In Tunisia, the total unemployment rate hovers around 15%, but the youth unemployment rate is estimated to be at least 30%. In 2012, after the revolution, youth unemployment reached 37.6%. According to Rached Ghannouchi, Leader,

Ennahda Party, Tunisia, there are 600,000 unemployed young Tunisians, half of which are graduates. To reverse this disturbing trend will require far-reaching policy changes in the region at the economic, political and social levels. An essential starting point would be to develop policies that address the present discrepancies between the educational system and the needs of modern-day employment. High numbers of young people, particularly young women, are unemployed and excluded from the formal economy because they find themselves with qualifications that fail to meet the specific requirements of the job market. In many Arab countries, some would claim the educational system is more suited to the skills needed for government employment than to the growing needs of the high-tech industries or the manufacturing and building sectors.

These findings seem in keeping with young people's common complaints in dialogues conducted in Egypt, Tunisia and the Palestinian Territories over the past five years. They affirmed that courses often fail to equip them with the skills they require. Teaching methods are outdated and focus on rote learning as opposed to encouraging critical thinking and problem-solving. There is too little private-sector input into the educational system to ensure it is equipping students with the skills required by the job market. Internship schemes and on-the-job training are very limited.

Young people also complain that they struggle to access finance or loans and thus are unable to launch their own projects. Banks often demand enormous collateral (in Tunisia it is not uncommon for houses to be used as collateral), which is frequently beyond the means of all but the wealthiest. In addition, too few initiatives help mentor and equip young people with the skills and confidence they need to create their own businesses and jobs. Enormous amounts of red tape constitute another barrier to job creation. Young Tunisians say it can take up to six months to secure the necessary permits to register a business, and they state that permits are often refused arbitrarily or subject to bribes.

In the three places, young people complain of a culture that allows low-level corruption and in which personal relationships are highly valued, which creates additional barriers to employment. Many young people acknowledge that without networks or family influence, they are automatically excluded from a number of jobs. Vocational training is viewed negatively by many young people in the three countries; it is seen as an inferior alternative to traditional higher education. Young people (often pressured by their families) are unwilling to do jobs that are seen as "beneath them". During a roundtable in Tunisia, an unemployed philosophy student's automatic dismissal of the idea of working in a bakery is emblematic of this attitude.

A culture of risk-taking does not exist among the youth, and their families are reluctant to obtain loans for their children due to the fear of failure. Instead, families expect and encourage their children to follow a narrow path – go to school then university, secure a safe public-sector job

and then marry – and are hostile to any deviation from this course. Some feel that simply attempting to establish a business would not be seen as a sign of independence and ambition, but as failing to "make it" on this traditional path. The perceived consequences of launching an unsuccessful business are seen as very negative, with fears of social stigma.

Young women face many additional barriers to employment. Some women say the societal expectations of what represents "appropriate" employment for them are clear, and accordingly they are excluded from many jobs. Many feel that vocational training is not seen as an appropriate option for them. There are also tighter limits on their mobility and ability to find work elsewhere.

In some countries a strong culture of "Etat Providence" (welfare state) persists, with the corresponding idea that the state is responsible for directly providing jobs in the public sector. This system fosters a corrosive mentality that leads some young people to openly aspire to becoming "a nail on the wall" – a Tunisian term referring to a public-sector employee who simply "hangs there", doing little but receiving a steady and secure income for life.

Many young people will wait years for public-sector employment (or in some cases will actively pressure the government to create additional public-sector jobs) rather than look for alternative employment in the private sector.

If the growing numbers of young people in the Arab world are to find stable and satisfying employment, governments must take urgent measures to nurture a political environment and economic policies that allow private enterprise and individual entrepreneurship to flourish. They must also be ready to challenge some of the societal attitudes that inhibit development.

The lack of flexibility in the educational system must be addressed without delay to secure real progress. Some countries are beginning to recognize this and have begun to introduce reforms to the curricula and to expand vocational training programmes. But the pace of change may prove too slow to address the growing dissatisfaction among the youth.

Economic reforms are also needed. A key constraint to developing the private sector is access to credit. The relative share of Arab firms reporting difficulties with credit is 39%, the second largest in the world, and the share of firms using banks to finance investments is 7%, the smallest in the world.

Finally, political instability in the region will continue to have a considerable impact on the ability of young people to find work and become critical agents of change. The UN Economic and Social Commission for Western Asia, in its *Survey of Economic and Social Developments in the Arab Region 2015-2016* report, claims that the protests and subsequent instability relating to the Arab Spring cost the MENA region almost \$614 billion. Many fear that as long as the underlying causes of these protests remain unaddressed, persistent instability and further protests may act as a brake on growth.



# Growth and the Future of Jobs in the MENA Region

Sufyan Al Issa, Principal Investment Officer; Regional Programme Leader, Middle East and North Africa, International Finance Corporation

The Middle East and North Africa (MENA) region presents some of the most pressing development challenges and opportunities. It suffers from conflict and fragility, macroeconomic imbalances, lower oil prices and high unemployment rates, to mention a few. Many countries are implementing reform measures to address these challenges. The pace of reform in the GCC is picking up as governments across the subregion are treating low oil prices as a permanent trend. In addition, Egypt is implementing key reforms to address macroeconomic challenges. The 2017 *MENA Economic Monitor* report, entitled *The Economics of Post-Conflict Reconstruction in MENA*, published by the World Bank indicates that as a result of these reform measures, economic activity is expected to improve slightly after 2017 and growth to surge above 3% between 2017 and 2019. Foreign direct investment is expected to increase markedly in Egypt in 2017, with government targets in the \$10-13 billion range.

The increasing economic growth and reform momentum in the region is a welcome sign. This trajectory needs to be sustained over several years, however, to unleash the full potential of MENA and address the pressing challenge of creating good jobs, especially for young men and women. Youth unemployment in the region stands at 30%. The youth labour force participation rate is around 30%, compared to 46% in the rest of the world. The public sector remains the biggest employer in MENA. It continues to account for 60-80% of total formal employment in the Gulf States, Egypt, Iraq, Jordan and Tunisia. The World Economic Forum *Global Competitiveness Report 2016-2017* ranks 12 countries of the MENA region within the lowest 20 countries globally in terms of participation rate of women in the labour force. According to the International Labour Organization, in 2014 the region had an average participation rate of 24.9% for women (the lowest in the world) compared to 78.4% for men.

Tackling the youth unemployment challenge will require a dual focus on private-sector-led economic growth to create labour and employment opportunities (including self-employment), and on the supply of labour with the skills appropriate for a market economy. Economic growth and, consequently, job creation, both depend on many factors. One of these factors is undoubtedly the human capital endowment of countries. Experiences around the world have shown that the availability of a well-educated and skilled workforce aligned with labour market needs is a key ingredient for successful economic transition and growth. The success of MENA's economic transition today is hence underpinned by the ability to create a skilled local workforce that caters to the growing needs of the labour market outside of the public-sector domain.

Besides education and skills, the MENA region needs to address other deep structural constraints to unleash the potential of the private sector to facilitate growth and job creation. A recent enterprise survey<sup>1</sup> shows that political instability (30.1%), electricity (14.5%) and lack of access to finance (9.9%) are the biggest obstacles to the growth of companies in MENA (excluding the GCC). While some countries in the region are implementing reform measures to improve the environment for conducting business, firms, especially small and medium-sized enterprises (SMEs), are still facing significant challenges in doing business in MENA. For example, the World Bank *Doing Business 2017* report indicates that MENA's average regional ranking among the 190 economies assessed is 135 for getting credit, 123 for resolving insolvency, 121 for protecting minority investors and 108 for enforcing contracts (1 representing the best performance and 190 representing the worse performance).

In addition, the recent International Finance Corporation-supported survey by Wamda Research Lab, reported in the 2016 publication entitled *Access to Talent for MENA's Entrepreneurs*, found that nearly half of entrepreneurs struggle to find qualified hires, particularly jobseekers with sales, business development and management skills. But technical abilities are not the only stumbling blocks. About 40% of employers have trouble finding workers with key soft skills, such as motivation. Much of the blame for the skills gap lies with MENA's education sector, which has not been linked to new economic dynamics and future jobs. Schools and universities tend to focus on traditional disciplines and pay less attention to courses in such booming fields as logistics, tourism and IT. Furthermore, they do not focus on developing students' entrepreneurial skills.

One of the key elements to also boost growth and job creation in MENA is to create a more conducive environment for private-sector development and build up the infrastructure in which SMEs and entrepreneurship can thrive. Smaller businesses form the backbone of most MENA economies, but they often struggle to access the financing they need to grow and create jobs. SMEs total approximately 23 million in MENA, but two-thirds do not have access to credit. World Bank data show that just 8% of all bank lending in MENA goes to SMEs and that the total credit gap facing smaller businesses is about \$240 billion. Given these challenges, an environment that does a better job of supporting SMEs needs to be created. Countries in the region should also continue structural reform processes to deploy favourable policies that counter the challenges facing the private sector and to unlock the potential for private-sector-led growth in MENA. These reforms aim to reduce dependency on the public

<sup>1</sup> The Economics of Post-Conflict Reconstruction in MENA, World Bank Group, April 2017

sector and to realign incentives to support economic diversification, competitiveness and job creation. Such a path would require higher entries of promising start-ups, and improvement in SME productivity to support diversification in higher added-value activities. Only a comprehensive support package that addresses the wider range of issues related to MENA's entrepreneurial environment and follows the "life-cycle" approach of an entrepreneur's evolution would enable this direction.

The role of international financial institutions, including the World Bank Group, is critical in supporting such processes and developing innovative solutions to these pressing challenges. The International Finance Corporation's new vision of "Creating Markets, Creating Opportunities" represents a comprehensive approach to private-sector development and job creation by focusing on establishing regulatory and policy frameworks that enable markets to thrive, promote competition, create demonstration effects and build the capacity of both governments and the private sector to open new market opportunities. Such an approach is very relevant to MENA to boost private-sector development and address unemployment problems, especially among youth and women.

Finally, it is critical for the region and development partners to consider that no shortcuts can be taken to address constraints to growth and job creation. Improving the business environment, developing infrastructure and boosting skills and entrepreneurship development are key for private-sector-led growth and job creation in MENA. In addition, generating business opportunities for women and encouraging their participation in the economy and labour force should be a regional priority. The pace of reform addressing barriers that prevent women from contributing their full potential to the region's economy and society should be intensified.

## The Palestine Investment Fund: Investing for Impact in Conflict-Affected and Fragile Economies

*Mohammad Mustafa, Chairman, Palestine Investment Fund*

The harsh political and economic realities Palestinians face do not often provide an environment conducive for investment or economic development. The risks for investors are high and many – as a result of continued denial of independent statehood and the inability to implement economic development policies. As a result, the Palestinian economy remains fragile and investment as an engine of growth is minimal.

As the political process in pursuit of Palestinian rights and statehood ebbs and flows, a strategic decision has been taken to sustain the Palestinian national project by building the foundations of a state through developing institutions and an economy that are resilient in the face of today's challenges and fit for a future independent Palestinian state.

Today the situation in the Palestinian Territories is bleak and remains bound by a vicious cycle of political instability and low economic growth. Limited access to land designated as area C (nearly 60% of the West Bank) has cost the Palestinian economy \$3.4 billion<sup>2</sup>, and restrictions on the movement of goods and services cost the Palestinian labour market \$230 million a year<sup>3</sup>. In addition to the challenges ensuing from a stringent political environment, the economy in the Palestinian Territories is shrinking due to reduced government spending on development, which went from 5.7% of GDP in 2006 to 2.1% of GDP in 2016 due to a sharp decline in foreign donor funding that dropped from \$1.2 billion in 2013 to \$700 million in 2015 and decreased investor confidence in the Palestinian market.

This is compounded by severe unemployment rates, especially among the youth, which stands at a soaring 43%. With high Palestinian literacy rates, young graduates leave university with no jobs on the horizon. Unemployment is a critical challenge that is either met with the exodus of bright young Palestinians to other markets or creates an environment of frustration that makes youth susceptible to radicalization – or taking less than desired paths. Given the tense political situation, high unemployment and staggering economy, these variables line up to make a combustible equation.

<sup>2</sup> World Bank, Area C and the Future of the Palestinian Economy, 2013

<sup>3</sup> World Bank, Area C and the Future of the Palestinian Economy, 2013

At the time of its creation in 2003, the Palestinian Investment Fund (PIF) – which was incorporated as a public shareholding company – assumed the role of a traditional sovereign wealth fund, driven primarily by maximizing profit. It sought to consolidate government assets and had an investment philosophy that was mainly outward looking, with 70% of its assets abroad. However, four years into its tenure, PIF shifted its *raison d'être* given the political and economic developments, or the lack thereof. The fund adopted an inward mandate that focused on economic development in the Palestinian Territories. PIF was to challenge the political realities and become an engine for economic development and job creation in the Palestinian Territories.

PIF's reincarnation as an impact investor meant that a new investment philosophy and strategy were needed. To begin, investment returns were redefined as financial returns and social outcomes; investment opportunities would need to be assessed based on their net present value, the number and quality of jobs created and their effect on the economy as a whole. Investment risks were also redefined; PIF had to accept the political risk in the Palestinian Territories to anchor its philosophical pivot. As a result, previous investment allocations were jettisoned in favour of a Palestine-focused investment programme.

Strategically, PIF was to focus on addressing areas too large or complex for the private sector to tackle and develop. Private investors would be invited to co-invest alongside PIF, while PIF's share would be gradually reduced as the investment matured, thus promoting private-sector ownership and sustainability.

PIF would also leverage its asset base of approximately \$850 million to attract foreign investors to the Palestinian Territories; attracting investors required the fund to put its capital at risk to minimize the risk for foreign investors. PIF would lead the project origination and structuring process and invite investors at the development stage to improve the risk profile of projects.

PIF's investment philosophy is crystalized in its new "Build Palestine" initiative, a national investment initiative that seeks to achieve economic development and independence by combatting low unemployment, decreasing reliance on foreign aid, and investing to bridge the infrastructure gap in the Palestinian Territories.

Build Palestine seeks to mobilize \$7 billion in investment to create 410,000 jobs by 2025 to reduce unemployment. These are large-scale projects that cut across such key sectors as infrastructure, industry, agriculture, tourism and technology.

Over \$4 billion is earmarked for infrastructure, including a massive investment programme in solar energy to wean the Palestinian Territories off the dependence on imported electricity. Other critical infrastructure components include water, transport and connectivity.

To transform the Palestinian Territories' economy into one built on knowledge, competitiveness and technology, PIF is planning to build innovation, science and technology labs in partnership with leading international universities. These innovation labs will offer education and research facilities focusing on agriculture technology, biotech and biomed as well as digitalization. The innovation labs will also host an accelerator to work with innovative Palestinian start-ups. To enable Build Palestine, PIF is working on a unique set of supporting initiatives. PIF is working to mobilize private capital in the form of co-investment in strategic projects; investment which private capital to co-invest alongside PIF. Inviting co-investors will cement the private sector's role in leading the Palestinian economy, and ensure the initiative's sustainability beyond PIF's investment horizon. Additionally, PIF is working with a host of multilateral institutions, including the World Bank, to create a tailored investment guarantee facility that addresses the risks of investments in Palestine.

# Enabling a Generational Transformation

Wolfgang Bruehlhart, Director, Middle East and North Africa Department, Federal Department of Foreign Affairs of Switzerland

Since December 2010, the Middle East and North Africa (MENA) region has undergone a historical process of rapid and profound change in its political and social structures. Moreover, the conflicts in Libya, Iraq, Yemen and Syria were and are threatening stability and security in the region. In addition, the MENA region has been facing rapid demographic expansion for nearly three decades, and generational demographic imbalances are yet to come: more than 28% of the population is between the ages of 15 and 29, and youth unemployment totals around 30%.

Over the last century, governments in the region have improved the quality of education and people have developed new patterns of consumption and are now connected to the outside world via modern media. Millions of people access Facebook on mobile phones, and MENA is one of the fastest growing regions for Twitter and Instagram. A new generation in the region is ready to leap into the Fourth Industrial Revolution.

## Education and professional training: Vectors for shaping the region's future

To form a better future, peace, stability and security must urgently be restored in the region; it is a *sine qua non*.

From an economic perspective, strong emphasis must be placed not only on enhancing the business environment, expanding the labour market and facilitating access to finance, but also and foremost on promoting education and vocational training. The labour force urgently needs more education and improved technical skills, for example in engineering and science. The region must be realigned to fulfil the demands of the high-tech world and to participate fully in the Fourth Industrial Revolution. The challenges are major. The MENA region has the opportunity to cultivate and profit from the potential of a very young and dynamic population and numerous natural resources. Also encouraging are initiatives taken by governments, entrepreneurs, training institutions and universities with the support of the international community.

## The WorldSkills 2017 and Expo 2020 examples

In 2017 the UAE will be the first country in the Middle East to host the WorldSkills Competition, which takes place every two years in a city around the world. Young people from several member countries and regions will gather in Abu Dhabi in October to compete in skill competitions. The event will attract numerous international visitors, including experts and officials who will enjoy an unprecedented opportunity to network and learn more about the economic background and expertise of the countries that form the WorldSkills family. It provides an opportunity to boost relations and exchange knowledge between GCC countries, nearby Asian states and the MENA region, and to showcase how technical and vocational education can help to meet the future challenges and the demands for a knowledge-based

economy and global competitiveness. It will inspire a new generation to explore and embrace the opportunities offered by vocational skills and training.

Expo 2020 will be organized in Dubai from 20 October 2020 to 10 April 2021 under the theme "Connecting Minds, Creating the Future". This is the first time in its 160-year history that the World Fair will be held in the Middle East, bringing the best of trade, innovation and products from all over the world to the MENA region; from unlocking development opportunities for the next generation, to reimagining how people move and connect, to finding sustainable solutions around energy and water. Expo 2020 promises to be a festival of human ingenuity, showcasing and exploring what is possible when new ideas and people connect, as well as a formidable vector of emancipation for MENA youth.

## Two other innovative projects: Solar-Impulse and SESAME

The Solar Impulse project of Bertrand Piccard and André Borschberg was an idea born in Switzerland. Its goal was to circumnavigate the Earth with a piloted fixed-wing aircraft using only solar power. It is a success story, not only because it is an extraordinary achievement, but foremost because its aim was to promote green energy and sustainable technologies. When Solar Impulse landed in Morocco during its first flight between two continents in 2012, King Mohammed VI announced the construction of the world's biggest solar thermal power plant in Ouarzazate, Morocco.

SESAME (Synchrotron-Light for Experimental Science and Applications in the Middle East) is another innovative project. It is the first major intergovernmental scientific facility in the Middle East, based in Amman, Jordan, and will be officially inaugurated on 16 May 2017. It has been set up on the model of CERN (the European Organization for Nuclear Research) and developed under the auspices of UNESCO. The aim of SESAME is not only to foster scientific and technological excellence in the Middle East, but also to build scientific and cultural bridges between diverse societies, and to contribute to a culture of peace through international cooperation in science. The current members of SESAME are Bahrain, Cyprus, Egypt, Iran, Israel, Jordan, Pakistan, the Palestinian Authority and Turkey.

## Swiss contributions and support

Switzerland is the first country to announce its participation in Expo 2020 in Dubai. Its presence will offer an opportunity to promote its research capacity and innovation in the fields of renewable energy and transportation, among others, thus contributing to adding value to the Fourth Industrial Revolution. In the MENA region, Swiss contributions are also a commitment to peace and security, its offer to serve as mediator, and its humanitarian and development aid.



## Endnotes

1. United Nations Economic Commission for Africa, *Promoting Regional Value Chains in North Africa*, 2016. Available at <http://www.uneca.org/publications/promoting-regional-value-chains-north-africa>.
2. World Economic Forum, *The Global Competitiveness Report 2015-2016*, 2015. Available at [http://www3.weforum.org/docs/gcr/2015-2016/Global\\_Competitiveness\\_Report\\_2015-2016.pdf](http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf).
3. The word “digital refugee” was popularized by Salesforce Chairman and CEO Marc Benioff during the World Economic Forum Annual Meeting 2017 in Davos-Klosters, where he stated that, “Technology’s frantic speed will create ‘digital refugees’ with no clear fix.”



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