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AN EXPOSITION OF THE NEW STRATEGY, 'PROMOTING PEACE AND STABILITY IN THE MIDDLE  
EAST AND NORTH AFRICA

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The Middle East and North Africa region is in turmoil. Syria, Iraq, Libya and Yemen are in civil war, causing untold damage to human lives and physical infrastructure. Fifteen million people have fled their homes, many to fragile or economically strapped countries such as Jordan, Lebanon, Djibouti and Tunisia, giving rise to the biggest refugee crisis since World War II. Palestinians are reeling from deadly attacks and blockades. With recruits from all over the world, radicalized terrorist groups and sectarian factions like Daesh are spreading violence around the globe, threatening some governments' ability to perform basic functions. Countries undergoing political transitions, such as Egypt, Tunisia, Morocco and Jordan, face periodic attacks and political unrest, leading them to address security concerns over inclusive growth. Even relatively peaceful oil exporters, such as Algeria, Iran and the GCC, are grappling with youth unemployment and poor-quality public services—the same problems that contributed to the Arab Spring—alongside low oil prices.

In 2011, reflecting the international community's view that the Arab Spring would herald a transition to pluralism and greater democracy, the World Bank Group introduced a strategy for the MENA Region based on four pillars: jobs, inclusion, governance, and private-sector growth. The transition has turned out to be far more painful, and in some cases more violent, than anticipated. The Bank Group's approach has been to take the conflicts and instability as given, and do as much as possible to support inclusive growth using traditional instruments—investment projects, budget support, advisory services, and the occasional convening of development partners. Some of the interventions have achieved results. A program in Yemen transferred cash to nearly 400,000 households; a project in Iraq rehabilitated over 300 km of roads, creating 300,000 person-days of jobs; the expansion and rehabilitation of a water plant benefited some 500,000 Tunisians.

But because of the convulsive effects of violence and instability, overall development in the region remains elusive. The current conflict in Yemen has already set that country's development back several years; UN Secretary-General Ban Ki-Moon estimates that Syria has lost the equivalent of four decades of human development; terrorist attacks in Egypt and Tunisia have hurt tourism, an important source of jobs and foreign exchange in both countries; the civil war in Syria and influx of refugees is slowing growth in Lebanon by 2.9 percentage points a year; blockades and repeated cycles of violence have left Gaza with the highest unemployment rate in the world and a GDP that is 60 percent below potential.

This dangerous and deteriorating situation has prompted an urgent need to rethink the Bank Group's strategic engagement in MENA. Are the four pillars of the 2011 strategy the relevant priorities for MENA today? Does the approach of taking the conflict as given and deploying traditional instruments maximize the Bank Group's impact?

Answers to these questions led us to propose a new strategy, one that flips the previous strategy on its head. Instead of taking the conflicts and violent extremism as given, and doing the best we can to promote jobs, inclusion, governance and growth, the World Bank Group will orient its strategy to directly promote peace and social stability in the MENA region.

There are at least two reasons for this shift. First, peace and stability are pre-requisites for development to take place. To achieve our ultimate goals of ending poverty and boosting shared prosperity, the Bank Group needs to help the countries of the region reverse current trends and establish the conditions for accelerated and inclusive growth. Some of the actions to achieve peace and stability, such as security, are beyond the scope of the Bank. But the Bank Group can play a role in mitigating the underlying causes of the violence and instability. Much of the conflict and unrest in the region stem from a sense of exclusion by various members of society. The old development model, where the state provided jobs, free health and education and subsidized food and fuel, is broken. But the state has been unable to spur private-sector job creation nor improve the quality of public services, building resentment among the citizens. Some of the disaffected join extremist groups; others protest against the state. When protests are met with state-directed violence, people lose faith in the state even providing security, leading to further mistrust. In this situation, the Bank Group can use its instruments to help MENA countries adopt a new social contract, one where the state facilitates the private-sector's ability to create jobs, promotes the delivery of quality public services, and strengthens citizens' ability to hold the state to account. While the areas of engagement may be similar to those in the previous strategy—job creation, service delivery, infrastructure, citizen engagement—the purpose will be different: the interventions will be geared towards alleviating or preventing the reasons for violence and instability in the region. For instance, programs that strengthen competition in domestic markets, permitting small enterprises to grow and create jobs; or enable students and patients to hold teachers and doctors accountable; will reinforce the new social contract. Large public investment projects with no scope for citizen voice will not.

The second reason for the shift in strategy is that conflict and violence in MENA have huge spillover effects. Syrian refugees constitute a third of Lebanon's population. Daesh's terror has been felt not just in Iraq and Syria, but in Libya, Tunisia, Kuwait, France, Denmark, the United States and, indirectly, as far away as Japan. A reduction in conflict and violence in any one MENA country, therefore, will benefit the region as well as other continents. Peace and stability in MENA are global public goods. Precisely because they are global public goods, no one country or institution has sufficient incentive to bear the full cost of ending the conflict and violence. Yet a global coalition would have an interest in pooling resources and expertise to bring about peace and stability in MENA. As an international organization, the Bank Group can play an important role—in collaboration with the United Nations, European Union and other bilateral and multilateral organizations—in mobilizing the international community to form such a coalition. To do so, the Bank would go beyond its traditional, country-based approach and emphasize its function as a global institution with convening power. For instance, the Bank could play a catalytic role in mobilizing concessional resources to help middle-income countries such as Jordan and Lebanon improve the welfare of refugees and their host communities, a global public good. In addition, when the civil wars in Syria, Iraq, Yemen and Libya end, there will be a massive need for recovery and reconstruction. Again, the Bank can bring the relevant stakeholders together now to prepare a recovery and reconstruction program and secure its

financing, just as the global community came together at Bretton Woods in 1944—one year before the end of World War II—to design the post-war reconstruction plan, including the creation of the World Bank and IMF. Finally, the Bank Group can promote regional cooperation in MENA, not just to reap the benefits of greater cross-border trade, investment and infrastructure, but also as a means of building trust among countries and creating a platform for collaboration on political and security matters, similar to how the creation of the European Coal and Steel Community in 1952 led to the formation of the European Union and six decades of peace and prosperity in Europe. In short, the new strategy calls for the Bank to play a regional and possibly even global role in promoting peace and stability for development in MENA.

To be sure, much of the strategy will be implemented in the countries. And inasmuch as MENA is a heterogeneous region, the regional strategy will be applied in different ways at the country level. For instance, the weights attached to the different components of the regional strategy (described below) will vary depending on country circumstances. However, unlike previous country strategies, the current and future ones will be explicitly focused on promoting (or preserving) peace and stability in the region. Moreover, in light of spillover effects of conflict and violence, and the need for regional and global public goods, a larger part of the Bank Group’s strategy will be devoted to regional and global programs.

The strategy is well-suited to the World Bank Group at this time. For over a decade, we have been building expertise and gaining experience in the areas of citizen accountability on the one hand, and fragility and conflict on the other. That we are approaching the strategy as one World Bank Group means that the combined forces of the Bank, IFC and MIGA will be brought to bear on the challenge. And the fact that the Bank is now organized along Global Practices should facilitate the delivery of global public goods. But the most important reason for embarking on this new strategy now is that, without concerted action, violence and conflict will continue to corrode the economies, societies and lives of the people of the MENA region—and possibly elsewhere. Business as usual is not an option.

## **I. Pillars of the Strategy**

With the goal of promoting peace and stability in MENA, the strategy will work on two fronts: (i) addressing the underlying causes of violence and conflict in the region; and (ii) mitigating the urgent consequences, such as the refugees and IDPs, and the destruction caused by wars. The two are related. If neglected, tensions between refugees and host communities could erupt into another cycle of conflict; poorly planned and delayed reconstruction could trigger another war (World Development Report 2011).

A World Bank strategy should also be consistent with its mandate, and play to its comparative strengths. While military actions and political interference are clearly outside the Bank's Articles of Agreement, other activities, such as those aimed at rebuilding citizens' trust in the state, are not only consistent with the mandate but could be pivotal in reversing trends towards violent extremism. The Bank's strengths include its ability to generate, curate and transfer knowledge; its convening power as a global institution; and its capacity to leverage its own financial resources and expertise to help meet global financing needs.

Taking these considerations into account, we arrive at a strategy that is divided into four pillars, each coincidentally beginning with "R". The first two address the underlying causes of violence and conflict:

- Renewing the social contract
- Regional cooperation

The latter two pillars tackle the urgent consequences:

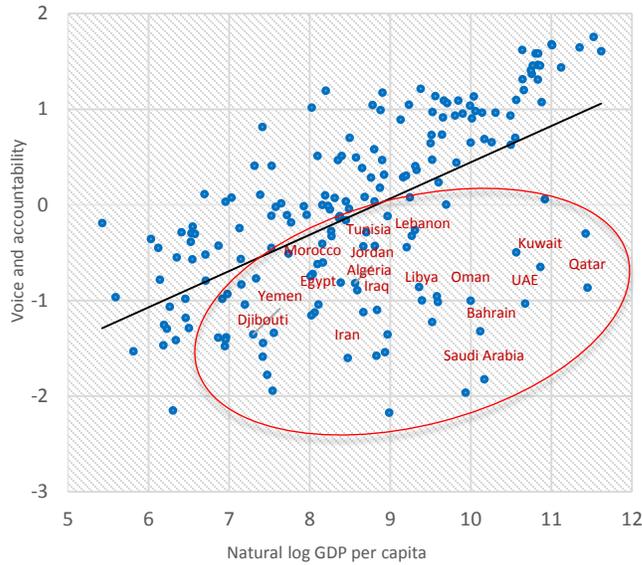
- Resilience to shocks of refugees and IDPs
- Recovery and reconstruction.

We now describe the rationale for each pillar, the intended objective and how it may be achieved.

### **A. Renewing the social contract**

Despite present-day differences, all MENA countries started with the same development model or "social contract" at independence. The state provided jobs, free health and education, and subsidized food and fuel. Perhaps because of the state's largesse, citizens did not raise their voice or demand strong accountability of the state (Figure 1).

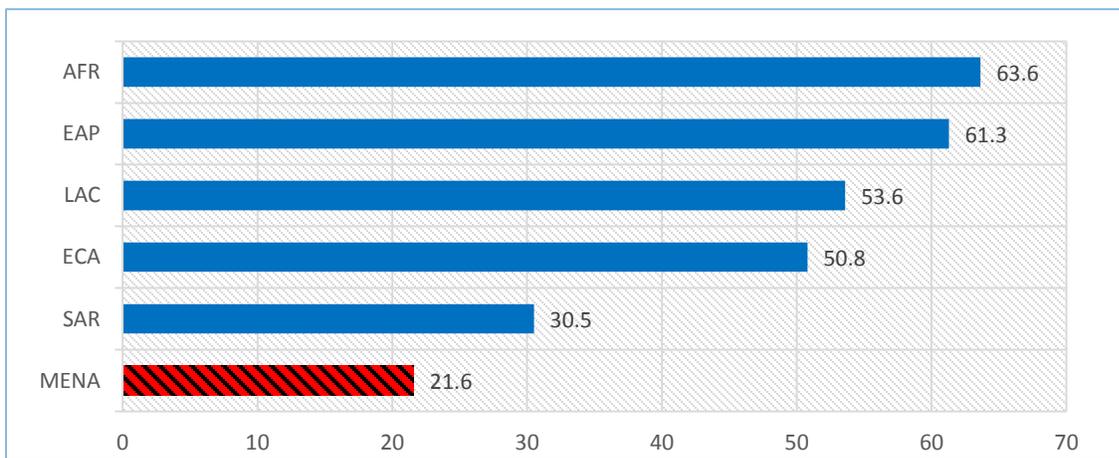
Figure 1: Voice and Accountability



Source: World Bank. Note: Governance estimates are measured on a scale from -2.5 to 2.5. Higher values correspond greater voice and accountability.

The Arab Spring and its aftermath showed that the contract was broken. The state could no longer afford to be the main employer and the public sector’s share in total employment started to decline. Unfortunately, the private sector did not grow fast enough—partly due to elite capture—to absorb the large number of young people entering the labor market. MENA had the highest unemployment rate in the developing world, with youth unemployment rates about twice as high. Large numbers of people entered the informal sector. To avoid the insecurity associated with the informal sector, many women, including educated ones, dropped out of the labor force. MENA today has the lowest female labor force participation rate in the world (Figure 2).

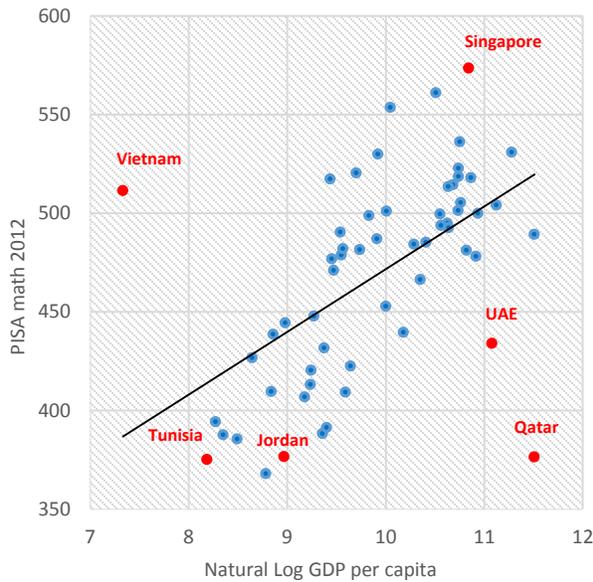
Figure 2: Female labor force participation rates (percent)



Source: World Bank.

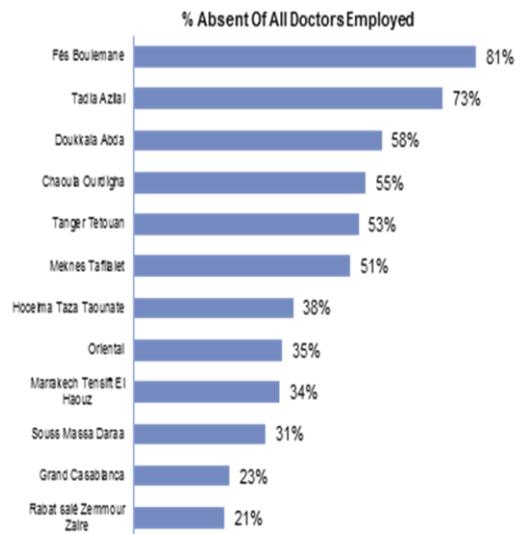
In addition, the quality of the free or subsidized public services was extremely poor. Secondary school students, including those from high-income countries like Qatar and UAE, scored significantly below the average in international standardized tests (Figure 3). Reflecting the lack of accountability, doctor and teacher absenteeism rates were significant (Figure 4).

Figure 3: PISA Math Scores



Source: PISA, 2012

Figure 4: Doctor absenteeism by district in Morocco



Source: 2013 Morocco PETS/QSDS

The poor quality of social services has led most people to the private sector. In Egypt, 70 percent of students get private tutoring (Dang and Rogers, 2008); 89 percent of public doctors are also in private practice. Not only does this flight to the private sector discriminate against poor people, but it also results in people losing trust in government. The 2010–11 Arab Barometer found that about two-thirds of MENA respondents perceived the performance of their government in improving basic health services as “bad” or “very bad”. Citizens of MENA tell pollsters that their government should do better in ensuring service delivery and fighting corruption. Yet, they also express little trust in their government’s involvement in the social sectors. Moreover, they are less likely than citizens of other regions to seek accountability and tell public officials what they think.

Likewise, the poor quality of infrastructure services has paralyzed economic activities due to breakdowns of overloaded electricity networks and long transit times, traffic bottlenecks, port

congestion, poor water and sanitation services and localized shortages of gas and other petroleum products (Figure 5).

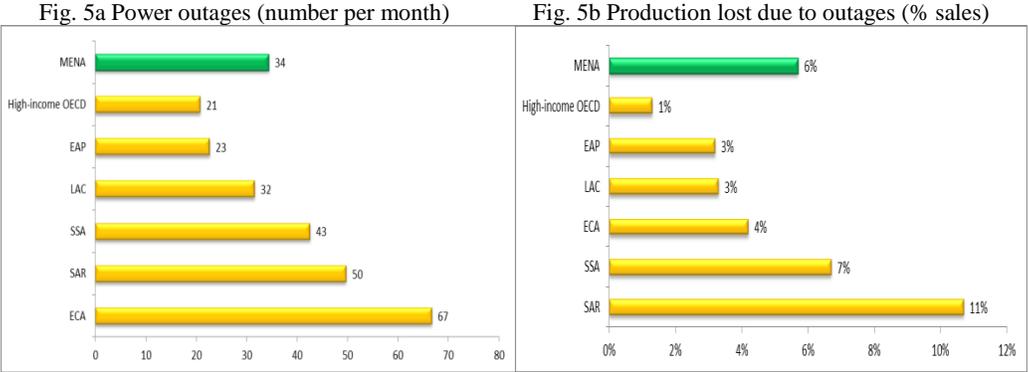


Fig. 5c Production lost due to shipping (% value of product)

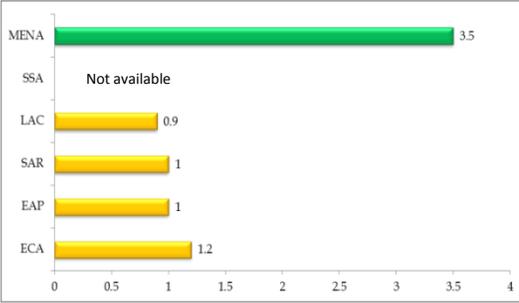
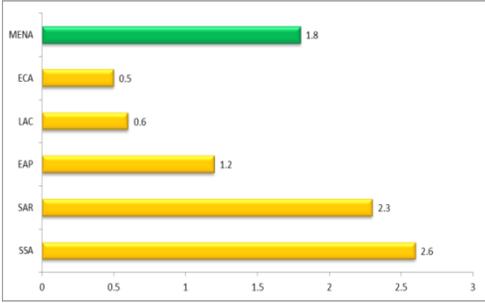


Fig. 5d Water unavailability (number per month)



The source of the poor services are the subsidies that result in tariff levels well below costs, especially in the water and energy sectors, and underspending on operations and maintenance. Total pretax energy subsidies in 2011 cost U\$237 billion—equivalent to 48 percent of the world’s subsidies, 8.6 percent of regional GDP, or 22 percent of government revenue; they represent almost five to seven times the health and education budgets in most MENA countries.

Not only are these subsidies draining the budget and hurting the quality of infrastructure services, but they are mainly enjoyed by the non-poor, who consume more electricity and water than the poor. Furthermore, subsidies are disempowering because the central government—rather than the consumer—decides who gets the services and at what quality. They also imply that the only way poor people can get a benefit from the state is by consuming fuel<sup>1</sup>.

The failure of the state to provide jobs or quality services—its side of the social contract—led citizens in a number of countries to demand greater voice and engagement in decision-making. In 2010-11, ordinary citizens across the Arab world rose up in protest, calling for greater voice,

<sup>1</sup> An exception to this pattern is the West Bank and Gaza, which has eliminated most subsidies and built a strong safety net.

justice, dignity and accountability. For several years before that, the ruptures in society created by lack of jobs and poor quality services facilitated the emergence of new groups that build their legitimacy on pro-poor platforms and service delivery. Among these were some Islamic charities<sup>2</sup> that gradually evolved into political movements. These new social movements were consolidated by the emergence of social media that helped break down some of the information barriers that the old elites had created and allowed people to mobilize quickly. These anti-elitist opposition movements brought together hundreds of thousands during the Arab Spring and demonstrated how strong the demand for greater citizen engagement (CE) was and is in MENA.

Some of the political movements that gained power after the Arab Spring were themselves unable to win the support of the majority of the people. In other countries, following decades of authoritarian rule, sectarian tensions erupted into civil war. And when citizens' protests were met with violence, trust in the state to even provide basic security was diminished.

This breakdown in the social contract has nourished the violent extremism that is causing havoc in MENA as well as in other parts of the world. While the drivers of radicalization are many, grievance against exclusionary practices, corruption and state repression is paramount. Extremist groups such as Daesh are able to offer young people a counter-narrative to redress these grievances and confront injustice.

To address violent extremism at its causes, therefore, a new social contract is needed. In this contract, the state would facilitate the creation of jobs in the private sector by promoting competition in domestic markets. It would also strengthen accountability in the delivery of basic services to improve quality. And, in general, the state would increase citizens' ability to hold the state to account. Taken together, these components of the new social contract will regain citizens' trust in the state.

The Bank Group can play a major role in helping the countries of the MENA region renew the social contract in at least three areas:

- *Jobs.* In light of the obstacle to private-sector job creation in the past—elite capture—the design of “capture-proof” policies in the business sector would be a high priority. Next would be policies that build skills through a market orientation. Finally, in some countries, labor regulations need to be improved to promote formal-sector job creation.
- *Quality services.* In the social sectors, governments could build on local success stories, including cases of non-state providers and local governments providing quality services. The Kufor Quod Girls' Secondary School in the West Bank, for example, excels in test scores thanks to reciprocal trust among parents, teachers and the community. In addition, mechanisms that strengthen students' and patients' ability to hold teachers and doctors accountable—such as vouchers—could be piloted and, if effective, scaled up. In

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<sup>2</sup> For example the Muslim Brotherhood in Egypt, Hamas in the Palestinian Territories, Al Adl Wal Ihsane in Morocco, Islah Movement in Yemen

infrastructure, replacing subsidies with targeted cash transfers can improve efficiency, equity and strengthen citizens' voice. And infrastructure investment would primarily be by the private sector, not just for efficiency and budgetary reasons, but also because the market mechanism enforces accountability. The public sector's role would be to create the policy and regulatory environment to ensure this accountability.

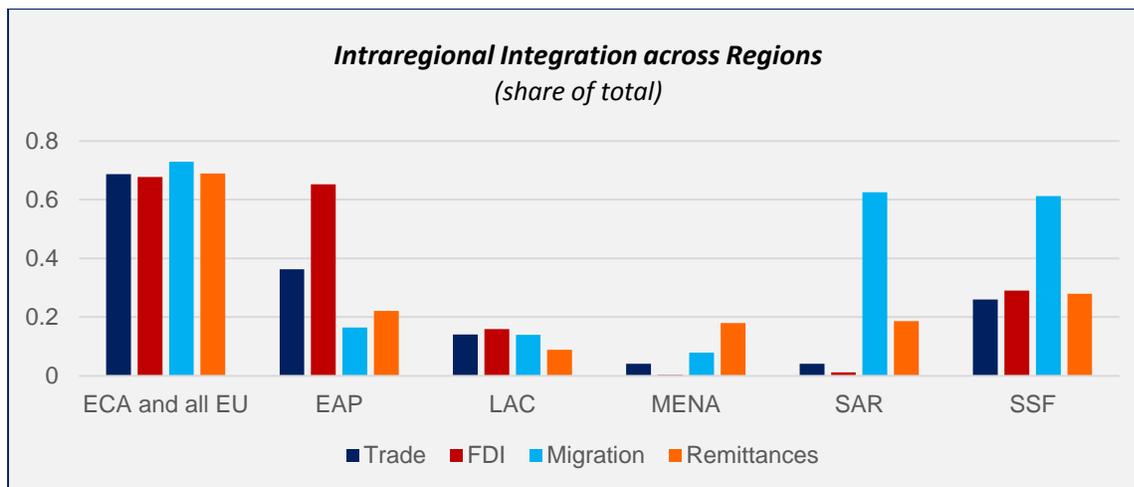
- *Citizen engagement.* In response to the Arab Spring demands for a more inclusive policymaking process, some countries revised their constitutions in the direction of greater citizen engagement. The Bank Group will help implement these constitutions. Three areas suggest themselves as entry points: (i) Enabling cross-cutting reforms and legislation, setting up independent accountability institutions, and greater internet access; (ii) Improving sectoral institutions, such as the accountability in social service delivery mentioned above; and (iii) Incorporating citizen feedback and beneficiary engagement in all World Bank projects.

Not only will they contribute to peace and social stability in the short run, but these actions will help MENA countries achieve economic growth in the long run. There is considerable evidence that economic exclusion—elite capture, poor quality services, etc.—hinders growth. For instance, in Egypt, when a connected firm enters a new, previously unconnected sector, aggregate employment growth declines by 1.4 percentage points annually (Schiffbauer et al., 2015). Conversely, greater citizen engagement and adherence to the rule of law, both of which are central to the new social contract, have been shown to increase countries' long-run growth rates. In particular, an extension of the study by Acemoglu et al. (2015) applied to the MENA countries shows that, if MENA countries reach levels of economic freedom and rule of law comparable to those of OECD countries, they could see an additional 0.8-1.2 percentage points increase in their long-run per-capita GDP growth rates (Annex).

## **B. Regional cooperation**

Despite a common language, history, culture and threats, MENA remains the least integrated region in the world (Figure 6).

Figure 6: Intra-regional Integration



This means first, that the potential gains from regional integration are huge. On trade integration alone, the countries in the Levant have the potential to expand trade, especially with Iraq and Turkey, by an amount that is comparable to what the six founding members of the European Economic Community gained when they signed their regional trade agreement (World Bank, 2014). The Maghreb countries, with their higher tariffs (some as high as 17 percent), could benefit even more, especially given their proximity to Europe. The most successful example of sub-regional integration, the GCC, has created a common market and customs union, eliminated intraregional tariffs, and increased the value of goods traded between member states. The gains from regional investments, especially when non-regional investors pull back at the first sign of turmoil, could be even greater.

Secondly, and more importantly, regional cooperation can serve to build trust among the countries of the MENA region, just as the European Coal and Steel Community did among countries that fought on opposite sides of World War II. Some of the conflict in MENA today is driven by proxy wars between sovereign nations. But when countries trade with and invest in each other, they need to cooperate with each other. This economic cooperation could serve as a platform for cooperation on political and security issues that, in turn, could lower the level of conflict in the region.

The purpose of this pillar, therefore, is to promote regional cooperation not just for its own benefits, but as a means to greater peace and stability in the region. Since regional cooperation is a vast area, we are focusing initially on three areas, both because of their salience with the overall strategy and of the strong partnerships that they involve.

- *Energy.* The MENA region has one of the world's lowest shares of electricity production that is traded. Yet, studies indicate that the investment costs to meet the growing electricity demand would be reduced by 35 percent with a fully integrated electricity grid. The region can also benefit from increased trade in solar power, especially in North Africa, and participation in the growing international gas market.

Over the next 12 months, the World Bank Group intends to work with its regional partners, in particular the Islamic Development Bank and the African Development Bank, on regional integration issues, to discuss access to the European power market, regional integration as a means to attract investments in clean energy, and integration of energy efficiency standards.

As a first step, we are collecting and reviewing all of the analytical work related to regional markets, and summarizing the collective wealth of information in this area. As a second step, the Bank Group would develop a discussion paper on the potential for gas to promote economic growth, and the possible elements required to further develop the market. The paper would summarize the recent experience of various countries in the region in the implementation of LNG import terminals, in particular for gas to power. There is a growing body of evidence that countries are willing to pay relatively high international prices for imported LNG (greater than \$10 /mmBTU) including Egypt, Jordan and Lebanon. This indicates that there may be a similar economic rationale to increase domestic prices for gas.

Subsidized energy tariffs have been the main detriment to the financial viability of the gas and electricity sectors in the MENA region, undermining private-sector investment in energy supply, renewable energy and energy efficiency, progress toward energy market reforms, and development of regional energy markets in MENA. Many countries in the region have begun to address energy subsidies, but further reforms are needed throughout the region. The World Bank Group intends to initiate a regional-champions working group, which would work with reformers from countries in the region that have significantly improved sector performance, reduced the fiscal burden of the power sector through subsidy reforms, improved service delivery, attracted private capital, and restructured the role of the public sector in the power sector. This is modeled along the lines of a regional-champions working group in South Asia.

- *Water.* MENA is the most water scarce region in the world, with an average of 656 cubic meters of renewable freshwater per capita, about half that of the next scarcest region (South Asia). At the same time, the productivity of water is one of the lowest in the world. The reason is government policies that encourage inefficient water use. Water tariffs in MENA are among the lowest in the world. For example, high-income, water-stressed Kuwaitis (whose tariffs are well above those in most MENA countries) pay less for household water than low-income, water-rich Liberians, and only about a third as much, on average, as consumers in other water scarce countries such as Mexico, Singapore and Namibia. MENA governments are providing the highest level of subsidies globally – approaching 2 percent of GDP on average. In addition, the benefits of these subsidies are disproportionately captured by the wealthiest quintile of the population. The cumulative impact of these policies is to distort any signals of scarcity and therefore undermine incentives for innovations in water management or technology by either consumers or suppliers of water.

At the same time, reform of water policies has been difficult in MENA, not least because of powerful vested interest who benefit from the subsidies. The regional integration pillar will take a region-wide view to build political support for reforms as well as institutional arrangements. Drawing on the experience of other water-scarce countries or regions such as Australia, Singapore, India, the United States, Israel and Chile, which have demonstrated political will to reform, the program will attempt to (i) introduce tariffs and technology for water and energy efficiency; (ii) integrate communities through rapid delivery programs with strong citizen engagement; (iii) introduce integrated urban water management and agricultural water productivity systems that simultaneously address sustainability of water services and water resources; and (iv) expand international water management agreements.

- *Education.* As mentioned earlier, the quality of education is failing in almost all countries in the MENA region. Many children are leaving school without the basic skills in literacy and numeracy, and there is wide variation in learning outcomes by socioeconomic status, geography, and gender. While secondary and tertiary enrolment rates are comparable with OECD countries, too many graduates do not have the skills required by the labor market, resulting in high rates of unemployment among youth, social exclusion, and marginalization. The frustration of these graduates, combined with teacher absenteeism and shortage of teaching materials all contribute to low trust in the system and hence in the state.

Regional cooperation in MENA offers an opportunity for promoting education reform. In addition to the common problems outlined above, all Arab countries share a common language of instruction. It may be possible to coordinate efforts at reforming the curriculum and methods of instruction, for instance. Furthermore, to the extent that certain reforms are contentious, the political resistance may be easier to overcome if they are proposed at the regional, rather than at the national, level.

The work will build on the Education for Competitiveness regional initiative currently undertaken in partnership with the Islamic Development Bank, which strives to develop and reform curriculum standards, improve governance and accountability, and in general enhance the education system's contribution to growth and competitiveness in MENA.

In addition to these three initiatives, the Bank Group will continue to pursue integration in trade and investment, building on previous analytical work that documented the challenges and the costs of not integrating. Going forward, the focus will be on deepening some of the nascent arrangements, especially those associated with agreements with the European Union, WTO, as well as intra-regional investments.

### **C. Resilience**

The sheer number of refugees and IDPs, as well as their expected duration, is threatening the resilience of MENA economies. At last count, there were five million Syrian refugees, half of

them children, in Turkey, Jordan, Lebanon (where they make up 30 percent of the population), and about 100 other countries. In Iraq, the number of IDPs has risen by 2 million since June 2014. More recently, the civil war in Yemen has led to at least one million IDPs and a flight of refugees to places such as Djibouti and Somalia. The conflict in Libya has sent about a million people into Tunisia and displaced another 400,000 in the country.

The median length of stay of refugees worldwide is 17 years. The nature of the conflict in MENA suggests that it will be similar for those in Jordan, Lebanon and elsewhere. Even if the wars subside, many of those fleeing sectarian violence are unlikely to return to the same place. Surveys of Syrian refugees and IDPs suggest that up to 20 percent—about 2.2 million people—have no intention of returning home. Among those willing to return, many will likely not return for a decade or more. Five million Palestinians have been refugees for over 65 years.

One of the main characteristics of the Syrian refugee crisis is that 85 percent are dispersed in large geographic areas while only 15 percent are in camps. The large number of displaced outside of camp facilities significantly increases the impact on host communities and makes it much more difficult for aid providers to reach these individuals and families. The Syrian refugee population is also very young with the majority of the displaced being women and girls. For the overall population, 23 percent are below 18 years and almost 9 percent below 5 years.

In Jordan and Lebanon, most of displaced Syrians seem to have been on the move before leaving Syria, escaping drought and economic hardships and so they seem to be a poorer sub-sample of the original population. Using a poverty line of 50 JD per person a month, it is estimated that 69.2 percent of the refugees in Jordan are below the poverty line.<sup>3</sup> UNHCR's 2014 Vulnerability Assessment of Syrian Refugees in Lebanon also estimated that 71 per cent of Syrian refugees cannot meet their basic needs without engaging in negative coping strategies.<sup>4</sup>

The majority of Syrian refugees in the region rely on humanitarian food assistance as their primary source of food. Shelter also continues to pose a major challenge. More than half live in sub-standard accommodation with challenges related to tenure, privacy, physical security, sanitation, and overcrowding. In Jordan, 98 percent of refugees living outside the camps rent their accommodation at rates that typically equal more than half their income.

Levels of education for registered Syrian refugees are generally low. In Jordan and Lebanon, 80 percent of refugees do not have more than primary education. Alarming, nearly 2.3 million of the displaced in Syria receive no formal education and almost 50 percent of the 950,000 registered school-age Syrian refugee children in host countries are not enrolled in school. Non-formal education caters to about 10 percent of the registered school children. Several factors contribute to low school enrollment rates including rigid registration requirements, financial barriers, concerns about safety and harassment, and discrimination in schools. Although Syrian refugees have access to national health care services in the hosting countries, they seem to suffer from high incidence of non-communicable diseases including hypertension and diabetes. Many also suffer from post-traumatic stress disorder, anxiety, depression and other mental health conditions. In terms of

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<sup>3</sup> "How Poor are Refugees" - A Welfare Assessment of Syrians living in Jordan and Lebanon, World Bank and UNHCR (2015).

<sup>4</sup> Regional Refugee and Resilience Plan (2015), UNHCR.

access to livelihoods, Syrian refugees suffer from serious impediments including restrictions on their employment in the formal sector. As a result, most of them work in the informal sector, accepting low wages and not benefiting from any labor protection. Child labor is a reported problem in all host countries.

The impact on host communities and countries has also been significant. Few countries have experienced such a sudden increase in their population. The additional demand for basic services has meant that schools run double shifts<sup>5</sup> and public spending on health, education, water and electricity is that much higher (about \$1.1 billion in Lebanon). There is anecdotal evidence that the influx of Syrian refugees, who are willing to take jobs at lower wages, has bid down labor earnings in Jordan. Putting these together, there are estimates that the Syrian war is lowering GDP growth rates in Lebanon by 2.6 percent a year; and by 1.8-2.6 percent in Jordan. Finally, the presence of such a large number of refugees is beginning to have an effect on the social fabric. In northern Jordan, 20 percent of the communities reported tensions from competition in education, housing and income-generating opportunities. Security incidents in Lebanon are on the rise. Given the existing ethnic tensions in the country, there is a danger they will spiral into open conflict.

Refugees also have an impact on the rest of the world. Conflicts with host communities can spill over to neighboring countries. Attempts at migration to Europe have increased significantly recently, with many of the migrants being refugees from civil wars in the Middle East and South Asia. In short, the welfare of migrants, IDPs and host communities is a global public good. As such, it will take a global effort to address the problem.

The goal of the resilience pillar will be to promote the welfare of refugees, IDPs and host communities in the MENA region. To do so, we will follow three principles. First, national governments should be supported so that they, in turn, can promote the welfare of host communities, refugees and IDPs. Second, given the expected duration of these displaced persons, development assistance should be oriented towards helping them build assets, in terms of human capital, physical capital and institutional capital. Third, since the welfare of these people is a global public good, the international community in general and the donor community in particular should provide some of the assistance.

These principles can be applied in host countries in terms of their policies as well as the financing they receive. On policies, both research and experience show that the welfare of the target group is best served by following a hierarchy of interventions, starting with social protection to protect the vulnerable, improve livelihood prospects, and stimulate local markets. Next, displaced populations should be given income-generating opportunities by, for example, livelihood programs, such as cash-for-work, training and apprentice programs, access to microfinance and enterprise development activities. If they work, these have the added benefit of keeping some of the displaced people from engaging in criminal activity or joining extremist organizations. Third, improvements in the delivery of basic services will enable the displaced to take advantage of income-generating opportunities, while diminishing some of the resentment from congestion in the current services of host countries. Finally, investments in long-term productivity, that will stimulate private investments and enable the host country to benefit from the higher demand

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<sup>5</sup> In Jordan, students are often segregated with afternoon shifts reserved for Syrians.

associated with larger population size and the entry of new skills and possibilities of knowledge transfer, could create the environment where refugees and host communities can jointly prosper.

As an example of the latter, the Governments of Jordan and United Kingdom and the World Bank are collaborating in the development of Special Development Zones in northern Jordan where Jordanians and Syrians could work. The products from these zones could receive preferential trade access to the European Union. Regional and international companies, including those displaced because of the Syrian civil war, could invest in these zones, taking advantage of the trade preferences and cheap labor. Not only would these enterprises be fulfilling some aspects of their corporate social responsibility, but they would be incubating the post-conflict Syrian economy, since the firms could more easily move their operations to Syria once there is peace. Finally, as value chains become more regional than global—because of the need for face time among plant managers—these Special Development Zones could help Jordan link up with European value chains, thereby earning a “geo-economic rent.”

On the financing side, since the welfare of refugees and host communities is a global public good, some of the financing for these programs should come from the international community. This financing could take the form of grants or, since most of the host countries are middle-income countries, buy down of the interest component of debt.

Finally, in addition to providing financial assistance, countries outside MENA could adopt policies that improve the welfare of refugees and IDPs. In particular, policies towards migrants—especially in Europe, which is seeing large numbers of refugees trying to enter the continent—could have a significant impact. Despite being signatories to the 1951 Refugee Convention and the 1968 Protocol, most countries limit the number of asylum applications they accept. This is understandable given the many economic and political implications associated with the process. However, with the large increase in the number of protracted conflicts and the continued movement of refugees, there are ongoing efforts to provide some legal alternatives for the increasing level of irregular migration of refugees.<sup>6</sup> However, it will likely take many years to overcome the negative public attitudes towards migrants in general, and resettled refugees in particular. In the meantime, the World Bank could play a bigger role in providing analysis that clarifies the costs and benefits associated with a more open resettlement policy at both regional and global levels.

## **Reconstruction and Recovery**

The intensity, duration and destruction of the civil wars and conflicts in MENA are unprecedented. Rebuilding war-torn Syria has been estimated at \$170 billion. A separate calculation puts the output lost from the conflict with ISIS in the Levant at \$35 billion. Libya’s infrastructure needs are put at \$200 billion over the next 10 years. Yemen’s humanitarian needs alone are around \$274 million—and rising. Finally, as mentioned earlier, the region is experiencing the biggest refugee crisis since World War II.

Given this scale of destruction, the traditional approach of waiting for the conflict to end and then conducting a post-conflict needs assessment followed by financing of a reconstruction plan will

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<sup>6</sup> From Refugee to Migrant? Labor Mobility’s Protection Potential, Migration Policy Institute

not be enough. What is needed is a “dynamic” needs assessment and actions undertaken during conflict. The experience from several Latin American countries shows that this approach can be cost effective.

Moreover, inasmuch as the conflicts have their roots in sectarian divisions and failed governments, any recovery program needs to rebuild trust alongside roads and bridges. Accordingly, the program should prioritize social assistance to the affected and displaced, which will protect them while giving them choices about where to live. This should be closely followed by improvements in the delivery of basic services, both because people need them to survive and because it helps build confidence in government. Next, the program should develop livelihoods and employment opportunities so people can begin to lead reasonably normal lives. Last but certainly not least, the program should emphasize institutions and governance for recovery and reconstruction—the neglect of this aspect has caused many recovery programs to fail.

The approach advocated here, of starting reconstruction before the conflict is over and regaining citizens’ trust in the state, will require working with non-traditional partners. The Bank has traditionally worked with the UN, bilateral donors and national governments. But when the war is still going on, there may not be a functioning national government. However, there may be a viable subnational or local government that can begin a recovery program. Likewise, some of the assistance will have to be delivered by non-state actors, such as NGOs and charities, who are often the only people with capacity to work in these violent settings. In some cases, the private sector is functioning when the government is not. At the other end of the spectrum, the size and scope of the reconstruction program means that it has to be undertaken in collaboration with regional and global organizations.

This recovery and reconstruction program will require massive financing from the global community, mobilized early and before the conflict has come to an end. To that end, we propose a financing plan as follows: A coalition of donors provide guarantees that would then be used to issue “MENA” bonds. The proceeds from the bonds can finance the recovery and reconstruction program in the MENA countries. If a country defaults, the guarantee will be called. Estimates show that such a scheme could leverage the guarantees by up to seven times. Moreover, the borrowing costs to the countries would be about 3-500 basis points below what they can get on the market. Most importantly, it is possible that the existence of such a financing plan will induce warring parties to lay down their arms.

Implementation of this program will stretch the Bank’s procedures. For starters, working in conflict environments requires much greater security considerations and likely costs. We would need to refine our legal and fiduciary frameworks for countries without de facto governments. And we may be working with non-state actors who are part of armed groups, as we have done in the past with the Sudan’s People’s Liberation Movement or minority factions in Myanmar.

Nevertheless, the historical significance of this pillar cannot be overstated. Article I of the Bank’s Articles of Agreement states that “[t]he purpose of the Bank are: To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including *the restoration of economies destroyed or disrupted by war...*” (emphasis added). This pillar takes the World Bank back to its origins.

Secondly, the Bretton Woods Conference that laid the foundations for the recovery after World War II was held in July 1944; the war did not end until 1945. In other words, the idea of preparing a reconstruction and recovery plan, including its financing, while the conflict is going on, has a precedent—one that is associated with the origins of the World Bank and IMF.

## **II. Implementing the Strategy**

While this regional strategy will largely be implemented at the country level through Country Partnership Frameworks, the shared objectives of peace and stability indicate certain common features in how the Bank Group's instruments and resources will be deployed and leveraged.

### **A. Partnerships**

The public-good nature of peace and stability in MENA implies that partnerships are arguably the most important instrument for delivering the strategy. It also means that the priority of regional programs relative to country programs will increase.

In practice, these two propositions suggest that the Bank will use its unique combination of expertise and convening power to build coalitions for promoting peace and stability in the region. The partnerships fall into three categories:

- *Financial partnerships.* The coalition of donors to provide grants or interest buy-downs for refugees, IDPs and host communities, or the scheme to issue MENA bonds, guaranteed by donors, to finance recovery and reconstruction in the region, are the two main examples. In particular, partnerships with regional institutions such as the Islamic Development Bank will be central. The proposals for these partnerships were discussed and strongly supported at a stakeholders' meeting on the margins of the Bank/Fund Annual Meetings in Lima in October.
- *Knowledge partnerships.* These will be critical for the dynamic needs assessments to underpin the recovery and reconstruction pillar. In addition, engagement with non-state actors such as academics or civil society will be important for renewing the social contract, especially the citizen-engagement component, as well as for the other pillars. Examples of knowledge partners include the Library of Alexandria and the International Peace Institute.
- *Advocacy partnerships.* Some aspects of the new strategy will involve the Bank's playing an advocacy role. Two examples are the treatment of refugees as migrants; and pro-poor reforms, such as the replacement of fuel subsidies with targeted cash transfers, which will help with the new social contract. In the latter type of cases, the advocacy is more effective if it is done in partnership, especially with a local partner.

Finally, this strategy represents a wide-ranging partnership across the Bank Group. First, the strategy has been developed by several cross-Global-Practices working groups. Second, the role of IFC is central, especially on infrastructure investments (the role of MIGA has to be developed further). Third, the financing mechanisms for the resilience and recovery and reconstruction pillars

are being developed in collaboration with the Treasury. Finally, Legal, Controllers and Financial Management staff are advising on how to engage in countries without ad hoc governments, such as Yemen, and GSD staff are advising on staff working in difficult security environments, as noted in the recovery and reconstruction pillar.

## **B. Knowledge**

Given the need to renew the social contract, which is fundamentally a political outcome, the Bank's knowledge work will lead, rather than follow, its lending. Knowledge products, such as the flagship report, *Jobs or Privileges?* not only show the contours of the new social contract—where the state promotes competition in domestic markets—but, by providing evidence to nourish a public debate, can help build political consensus around the necessary reforms. Other examples include subsidy reforms, which are also necessary for the new social contract, but remain politically contentious; strengthening accountability in service delivery by building on local successes; knowledge work on drivers of conflict and local political economy to inform the pillar on recovery and reconstruction; and scaling up citizen engagement through citizens' charters, etc.

The Bank's knowledge work is also important for building coalitions with international partners, many of whom look to the Bank for this aspect of the partnership. For instance, the Bank's Lebanon Economic and Social Impact Assessment served as the basis for a high-level dialogue in the United Nations on support to countries affected by the Syrian crisis.

Some of the knowledge work will be traditional reports, such as the damage and needs assessments for areas devastated by war. However, in light of the changing environment, the Bank will innovate with new instruments, such as crowd-sourced information and the use of the MIT Media Labs to disseminate our findings.

## **C. Finance**

The Bank Group's financing is so small relative to other resources in MENA that its best use is as leverage to contribute to peace and stability in the region. At the country level, lending operations will aim at strengthening the new social contract. Projects directed at politically sensitive or lagging regions, such as the Iraq Emergency Operation for Development, or at improved governance, such as the Tunisia decentralization operation, are examples. As mentioned earlier, all projects will include citizen engagement. Conversely, we will do fewer public investment projects without some strengthening of citizen accountability. Also as stated earlier, in order to benefit from the built-in accountability of a well-functioning market, the presumption will be that financing of infrastructure projects will come from the private sector, led by IFC. The World Bank's knowledge and possibly policy conditionality will be used to help countries achieve the policy and institutional reforms that both attract private financing and enhance welfare. For example, in Jordan, electricity generation and distribution are privatized. Meanwhile, in Iraq, we are currently working on improving the regulatory framework to attract private financing in

electricity distribution. In both IFC and the Bank, there is already considerable expertise in these operations in the energy, water, transport and ICT sectors.

In this framework, we expect that the Bank's lending will increase substantially during the next few years, reaching about \$6 billion. Demand for our resources remains high, and there are possibilities of high-impact projects and programs in these countries. If there is a cessation of hostilities in MENA, the lending program will increase even more.

### **III. Risks**

By its very nature, this is a high-risk strategy. Attempting to address the causes and consequences of violent conflict creates, in the first instance, risks to the security of staff working in these countries. But there are also risks to the effectiveness of the Bank Group's interventions stemming from the nature of the strategy. When working with non-traditional partners, the Bank cannot apply its full-fledged fiduciary standards all the time. The strategy involves new areas of engagement for the Bank, such as political assessments, that could entail risks. That the perceptions of the Bank in parts of the region are quite negative—in a recent (albeit limited) survey, 90 percent of respondents did not believe that the Bank works to reduce poverty—could stand in the way of the strategy's success.

There are also several reputational risks associated with the strategy. If we have a financial relationship with non-state actors, the money may end up in the hands of terrorists. Some of our partners may have links with violent extremists. And inasmuch as DPLs go to the budget, if government expenditure ends up financing terrorists (such as when Iraqi civil servants' salaries in some districts are "taxed" by Daesh), the Bank could be accused of indirectly aiding these groups.

Looming over all these risks, however, is the biggest risk that, despite our best efforts, the conflicts get worse, and the region implodes.

Our approach to mitigating these risks is threefold. On staff security, we will continue to follow the UN guidelines. In seriously dangerous environments, such as Libya, we meet with counterparts in a third location, such as Tunis or Istanbul. We will also try to make greater use of local consultants. On the effectiveness of interventions, we will develop new guidelines for working with non-state actors in places without de facto governments, and disseminate and publicize these guidelines so everyone is aware of the risk profile. As to the reputational risk, this has to be balanced against the reputational risk that we did not attempt this bold strategy. If death and destruction increase in MENA and it is known that the Bank could have done something but did not because of "reputational risk", that is likely to be even worse for the Bank's reputation.

### **IV. Monitoring Results**

The past five years have shown that the standard methods of monitoring results are inadequate for today's MENA. Project-level results, such as kilometers of roads built, may miss the fact that the country may be in civil war. Even macro-level results such as GDP growth, income poverty and the distribution of income, did not predict the Arab Spring, much less its aftermath. Every country

saw its growth rate accelerate prior to 2010. Extreme poverty, at 2.4 percent, has been virtually eliminated. In most countries, inequality was low and declining or stagnant. But other measures, such as well-being indicators, voice and accountability, and opportunities for the middle class (as opposed to the bottom 40 percent) captured the problems that triggered the Arab Spring and continue to beset the region.

In light of this experience, and given that our strategy is aimed at promoting peace and stability, we will monitor those indicators that are associated with greater peace and social stability. The two categories of indicators are: (i) Perception surveys, such as the Gallup Poll, Arab Barometer and World Values Surveys, all of which better predicted the Arab Spring than conventional indicators. We will monitor whether the trends in these surveys are improving or getting worse as we roll out the strategy. (ii) Sentiment analysis and Big Data, which track attitudes in real time by gleaning information from social media. To the extent that some countries, such as Saudi Arabia and UAE, have high levels of social media use, this source of data could be quite valuable.

Finally, we will develop and monitor input indicators that are consistent with the theory of change associated with the new strategy. We will have indicators that show whether our interventions are helping to renew the social contract (the use of citizen engagement in projects is an example). Household surveys can tell us whether the welfare of refugees and host communities is improving. Preparedness indicators can be used to inform progress on the recovery and reconstruction pillar. And standard indicators such as the share of electricity production that is traded will be used for the regional integration pillar.