KNOWLEDGE LEADERSHIP

Inclusive Growth in the Middle East and Africa

The Challenge of Transforming Demographic Burden to Dividends

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01 Why Inclusive Growth is Critical for the Middle East and Africa

Six years into the recovery from the 2008/09 global financial crisis, it is increasingly clear that the emerging pattern of global economic growth is diametrically different from the pre-crisis decade.

In the developed world, US outperforms the rest while Europe continues to struggle and Japan remains firmly stuck in stagnation.

Among emerging markets, the rising tide raising all boats phenomenon is history. Brazil, Russia, India, China, South Africa (BRICS), the grouping of large emerging markets that never made any sense to begin with, is completely exposed for what it truly is, an arbitrary group of emerging markets that have nothing in common apart from their large populations. Growth in China is slowing as a result of policy-directed rebalancing with domestic services gradually replacing industrial production as the primary growth engine. India is on the cusp of major structural reforms that could raise its trend rate of GDP growth to the 7-9% range in the coming decade. In contrast, Russia, Brazil and South Africa are either stagnating or already in recession.

More ominously for export-dependent emerging markets, global trade has been growing slower than global output since 2008, reversing the trend of the pre-crisis decades when trade grew about twice as fast as world GDP[1]. It is now much more difficult to leverage exports to drive rapid economic growth than in the past. Commodity exporters especially have been severely affected by dramatically cooling demand. The slowdown in growth in China is a major contributing factor - to the extent that if China stays on course in its economic rebalancing, an upswing in commodity demand and prices will be unlikely.

"Under these circumstances, emerging markets will have no choice but to fall back on domestic demand to drive economic growth"

[1] Trade and Development Report, 2013, UNCTAD, Geneva. Chapter One.

> Inclusive growth is therefore about both the pace and pattern of economic growth, which leads to a more vibrant consumer market that can support robust domestic demand.

Under these circumstances, emerging markets will have no choice but to fall back on domestic demand to drive economic growth. There are two key parts to domestic demand: domestic consumption and domestic investment. For domestic demand to be an effective and sustainable driver of growth, these two parts have to become mutually reinforcing. If domestic investment leads to stronger growth in employment and income, then household consumption will rise in tandem with the expanding economy. Rising domestic consumption in turn opens up new and attractive opportunities for more investment. To set in motion this virtuous circle, however, growth has to become more inclusive.

A commonly accepted definition of inclusive growth is sustainable output growth that is broad-based across economic sectors, creates productive employment opportunities for a great majority of the country's working age population, and reduces poverty. Inclusive growth is therefore about both the pace and pattern of economic growth, which leads to a more vibrant consumer market that can support robust domestic demand.

Inclusive growth is especially critical for the Middle East and Africa (MEA) because of the region's demographic dynamics, social structures, current economic conditions, and the ongoing political instability, which are all interlinked. Within this region, the situation is particularly acute for the Middle East and North Africa (MENA).

Today, MENA is at a critical juncture in its history, both from a political standpoint, and from a socio-economic development perspective. For anyone studying the development of this region, it quickly becomes apparent how diverse the countries are – sometimes to the point where studying the 'region' becomes difficult at an aggregate level.

It is 'one region' given the common language (Arabic), geographical proximity, similar demographic structures (youthful populations), and – in most cases – similar governance and cultural characteristics. However, when looking at measures covering social development, economic conditions, infrastructure maturity, trade flow, and so on, major differences become apparent.

On the one extreme, we have the Gulf Cooperation Council (GCC) countries who are powering ahead with infrastructure mega-developments, fuelled by oil revenues. On the other end of the spectrum, we have states that are either failing and/or in a state of civil war like Syria, Yemen, and Iraq. The remaining countries can be best described as being in a 'transitional state' in terms of economic, social, and political development.

However, despite these disparities, one thing that does hold this region together as a 'unit' is its shared future; what happens in one country invariably affects most of the others (as events in Yemen today clearly demonstrate).

Over the past decade, the surge in the oil exporting economies, especially the GCC countries, highlighted a sharp economic divergence within the MENA region in terms of wealth, income per capita, growth patterns and the role of government in the economy. In many ways, this propelled more dynamic and inclusive growth in the GCC countries given the high levels of government local investment and generous social policies.

The other group of countries in the Middle East like Jordan, Egypt, Morocco, and Tunisia also witnessed encouraging growth rates over the past decade due to implementing sound economic reform policies. However, these reforms were not implemented as efficiently and effectively or as comprehensively as hoped. Many structural barriers remained, and the growth in the macro-economy did not translate to inclusive development and prosperity. This resulted in uneven growth and mixed stories of economic success and social unrest, which climaxed in 2011 with the "youth-quake[2]". Other countries like Syria, and even Yemen, also fell in this category of mixed growth messages, but today they stand as failed/civil war states.

Despite these differences, all the countries in the region share two critical trends: a large (and growing) youthful population, and a wide penetration of technology and social media[3].

These two trends, coupled with the non-inclusive growth, combined to spark events in 2011 that came to be known as the Arab Spring.

Reactions and events since 2011 have only sharpened the regional dichotomy. Until late 2014, oil-based economies benefited immensely from the sharp rise in the prices and output of hydrocarbons caused by the spike in geopolitical risk and strong demand from emerging markets. Meanwhile, the non-oil economies at the center of wrenching political change, suffered severe economic setbacks.

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[2] In the early days of the so-called Arab Spring, many terms were used to describe it. One of the earlier names - and most accurate - was youth-quake. This was to indicate the actual drivers of this movement (before any political parties managed to ride the waves).

[3] Some Arab countries like Saudi Arabia have the largest penetration of social media tools per capita according the Arab Social Media report (Mohammed Bin Rashid School of Government). LinkedIn recently called the MENA region its fastest growing regions by number of users in the world.

Since 2011, positive changes have emerged in some countries, such as the GCC countries, in the form of expedited economic and social development. However, in other 'transition' countries, stagnation has set in, especially in post-conflict countries like Egypt and Tunisia. Today, encouragingly, both are engaged in major economic reform programs.

Overall, the factors driving improvement across the region over the past decade have tended to be economic, while the drags have been mainly political and security concerns. There are many 'promising' areas for economic growth like Egypt's massive infrastructure investment plans (supported by generous GCC aid), Jordan's ICT sector, and the hosting of major global events in cities like Dubai and Doha. However, these positive economic 'stories' are the exception to the rule in a region where the future is being shaped by various forms of political instability, growing economic divide, social unrest, and rising youth aspirations and demands. In the face of these challenges, the current economic development models are probably not fit for purpose anymore.

These difficult conditions will continue to hamper the ambitions of regional governments and citizens until a more robust, and inclusive growth model is successfully developed and adopted.

The sharp drop in oil prices recently has further highlighted these concerns and brought the region – again – into question in terms of future growth and sustainability. In fact, the Guardian (a UK newspaper)[4] recently concluded that large oil-producing nations have already squandered their chance to build strong and sustainable economies on the back of high oil prices over the past decade. Given today's oil prices, the International Monetary Fund (IMF) predicted that the GCC alone could lose 300 billion USD in oil revenues (a 21% drop in GDP)[5]. While some oil importing countries (like Jordan and Egypt) might benefit by 2% of GDP on the net effect on their trade balances. However, the impacts on the economies of the GCC will have a ripple effect. They play a major role in providing funds in the form of aid, investment, tourism revenues and remittances to the rest of the countries in the region.

Despite all the concerns about the political and social challenges, many argue that at the heart of the region's challenges lies economic development and inclusive growth. Indeed, whatever the political outcomes of the historic events of 2011 may eventually lead to, it must not be forgotten that these events did not start as ideological revolutions, despite some emerging governments being ideologically inclined. These were also not revolutions orchestrated by charismatic leaders with a set agenda or a unified vision. These were uprisings against what some youth activists termed 'stolen futures' – a loss of hope for a better tomorrow. Young and old people alike reached a tipping point - one that was rooted in social inequality and lack of economic opportunity.

In recent decades, rising living standards and literacy rates, as well as the increased availability of higher education, have resulted in an improved human development index in the majority of Arab countries. At the same time, the region joined the world technology and media revolution, and the Arab citizen was empowered with information access and the ability to transmit information, thanks to social media across and beyond borders. These two trends were not coupled with sustainable economic development, nor political reform and inclusion. The result was a natural tension between rising aspirations, needs and knowledge, and a lack of economic opportunities and political participation.

In recent decades, rising living standards and literacy rates, as well as the increased availability of higher education, have resulted in an improved human development index in the majority of Arab countries.

[4] Guardian Newspaper. 28 November 2014

[5] February 2015

Today in the Middle East, inclusive growth is critical not only for social equality and wellbeing, but also for basic social and political stability. Three core and interlinked areas have to be addressed in this context: managing the 'youth bulge', enabling the private sector, and improving governance and rule of law. In fact, it is in the area of governance and rule of law that almost all Middle East countries, including the GCC countries, have the largest gaps from developed country benchmarks[6] – including the top-ranked GCC countries.

While these governance gaps can be addressed by improved legislation, institution building, and capacity building for enforcement mechanisms, it is addressing the youth bulge that will be a much more challenging issue.

The MENA region has a very unique demographic situation, known as the "youth bulge". This demographic pyramid is common in the whole region where one-third to one-half of the population is under the age of 25 (e.g. people under 25 account for 51% of the national population in Saudi Arabia). This is much higher than the European Union average of 27% or the United States (33%). Moreover, MENA has the world's highest youth unemployment rate.

This holds a lot of challenges and opportunities for the future. Youth can be a powerful social and economic asset or a major burden threatening social stability and economic sustainability. This youthful populace can turn into either a "youth dividend" or a "youth liability", contingent upon the region's ability to create an enabling environment in which young people's aspirations can be fulfilled.

Despite the widely acknowledged importance of this challenge, and the many efforts underway, little progress has actually been made to effectively address youth unemployment. Even in the GCC where many efforts are focused on the youth, persisting high youth unemployment rates clearly demonstrate that effectively addressing youth employment requires more than budgetary capacity and overall economic growth.

The emphasis needs to be on wider inclusion, both economic and social. Economic opportunity and access to markets are critical, and the focus on entrepreneurship must be further encouraged. However, this will probably require some fresh thinking, and more regionally tailored policies. Previous efforts of simply providing soft loans, government-driven funds, and public sector run incubators did not produce the expected results.

Youth political participation should also be encouraged and enabled, and a focused 'youth' agenda must be developed - an agenda that can improve the communication channels with the youth, channels that have been dramatically changed by social media (something regional governments are yet to effectively adopt).

Most importantly, education should be reformed (a topic discussed for decades, with little concrete results). The whole education system, from pre-school learning, to higher education and research, requires modernization. Challenges here are daunting from simple scale issues (to absorb the rising demand), to quality issues, availability of teachers and faculty, government research policies, aligning graduate skills with market needs (a global problem), and reforming school curriculum (something that proved more political and socially challenging than anticipated).

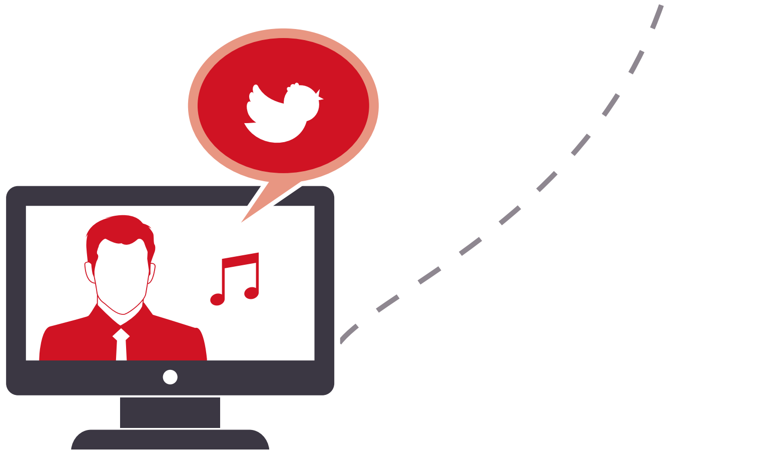
> "Youth can be a powerful social and economic asset, or a major burden threatening social stability and economic sustainability."

[6] World Economic Forum's Global Competitiveness Report (2014 / 2015)

Accordingly, the extent to which youth is well integrated in the formal economy and can both contribute to and benefit from economic development features prominently in assessing inclusive growth in the MEA region. Special "youth indicators" are developed to assess their participation in inclusive growth (see Chapter 2 for description of the inclusive growth assessment) and Chart 1.1 summarizes the scores of the youth cluster of indicators of the Middle East countries and their changes since 2009. As the figures show, all the countries in MENA have either stagnated or shown a drop on these measures. This is alarming, but not surprising. As noted above, this is driven by increasing numbers of youth, increasing unemployment / lack of suitable jobs[7], rising youth aspirations, all coupled with more vociferous, fast spreading and bolder critical voices (driven by proliferation of social media and access to information).

When engaging with today's regional youth, and trying to better understand their needs and aspirations, studies show a new 'breed' of citizens emerging in the MENA region. While television is still their most popular source of information, growing numbers are turning to online and social networks to get their news, with 29% of Arab youth now relying on Facebook and Twitter[8]. As for their main concerns for the future, surveys show that - across the Middle East - primary concerns revolve around rising living costs and unemployment (88% of Arab youth are anxious about the rising cost of living while 73% had concerns about unemployment in their country[9]). In the Levant and North Africa particularly, this has encouraged youth to seek opportunities beyond the traditionally preferred public sector employment option through diversified alternatives such as entrepreneurship. In fact, surveys show that young people in the region are keen to start their own businesses. This is good news, and a welcome trend breaking away from the accepted norm of public sector employment. It must be encouraged and capitalized upon via targeted public policies to enable the entrepreneurship ecosystem.

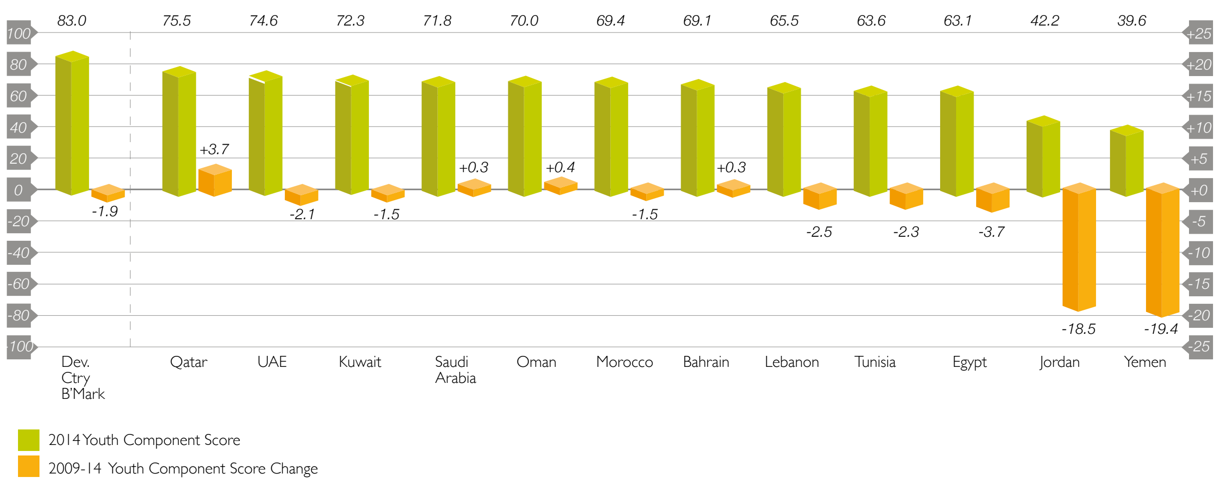
> Growing numbers are turning to online and social networks to get their news, with 29% of Arab youth now relying on Facebook and Twitter.



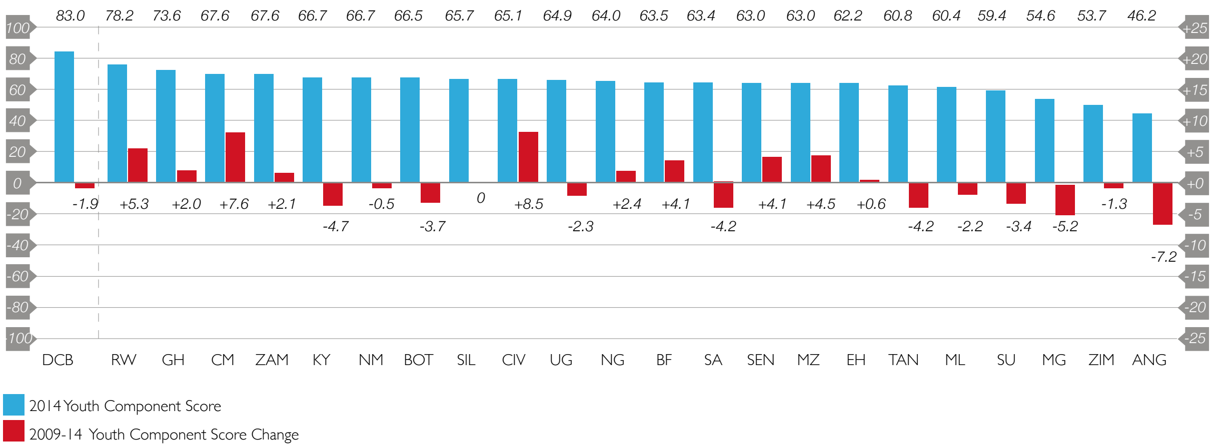
[7] While there are many jobs in MENA countries, not all of them are considered 'suitable' or 'socially acceptable' by the youth. Hence there are countries with large youth unemployment figures, coupled with a large expat population serving local market needs.

[8,9] Arab Youth Survey 2014 Report.

1.1 Middle East Inclusive Growth Youth Cluster Score and Change between 2009 and 2014



1.2 Sub-Saharan African Inclusive Growth Youth Cluster Score and Change between 2009 and 2014



In this context, the focus on entrepreneurship cannot be over emphasized for MENA countries. It is critical for governments to foster an independent pool of young, local entrepreneurs as this will drive diversification and have positive multiplier effects on the wider economy. Entrepreneurs play a vital role in their country's socio-economic development by creating new jobs, stimulating demand for new products and introducing new technologies to the market. Entrepreneurship will also help youth move away from the sense of entitlement, which prevails amongst young Arab people nowadays, with nearly 75% believing that energy, electricity, and transport should be subsidized by their government[10].

Virtually everything that has been said about the MENA region applies equally well to the Sub-Saharan Africa region. Indeed, many of the critical challenges stemming from the youth bulge are more acute in Sub-Saharan Africa due to its bigger population size, generally worse developmental conditions, and increasingly rapid rates of urbanization[11]. Similarly, all the suggested remedial actions for addressing the youth challenge in MENA also apply to Sub-Saharan Africa.

Chart 1.2 summarizes the scores of the youth cluster of indicators of Sub-Saharan African countries and their changes since 2009. Only nine out of the 22 countries assessed show some improvement in the measures of their youth indicators. Rwanda, Cameroon and Cote d'Ivoire show the strongest improvement. At the other end of the spectrum, Angola, Madagascar, Kenya, Tanzania and South Africa show the steepest decline.

The remainder of the report is organized as follows: Chapter 2 explains the process of how inclusive growth is assessed, Chapter 3 describes the assessment results for the MENA, Chapter 4 describes the assessment results for Sub-Saharan Africa, and Chapter 5 concludes with recommendations for action.

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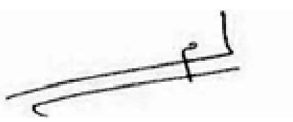

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[10] Arab Youth Survey 2014 Report.

[11] See Africa Cities Growth Index: Understanding Inclusive Urbanization, 2014, MasterCard Worldwide

02 Assessment of Inclusive Growth in the Middle East and Africa

As described in Chapter 1, inclusive growth distributes the fruits of an expanding economy equitably, benefiting not just a few large business conglomerates or cliques of elite with close ties to the government, but small businesses, entrepreneurs, and the ordinary working people at large. Therefore, inclusive growth improves income distribution and generates equal opportunities.

The most common features of inclusive growth are poverty reduction, rising social and economic mobility, and an expanding, dynamic and increasingly prosperous middle class.[1]

As such, inclusive growth is the single most promising pathway of growth and convergence for emerging markets in today's more challenging global economic environment.

In fact, inclusive growth can set in motion a virtuous circle in which growth becomes increasingly sustainable in spite of an uncertain and weak global economy. When the benefits of growth are more equitably shared, income grows faster for the majority of households, making domestic consumption a more viable engine of growth, hence more capable to counterbalance a slowdown in exports. A bigger and more dynamic domestic consumer market, in turn, opens up more opportunities for local entrepreneurs and small businesses to compete, benefiting especially the young, thereby boosting indigenous innovations. As the pace of innovation quickens, stronger investment follows,

[1] For more details on the theoretical perspectives and empirical evidence involved in defining inclusive growth, see Ianchovichina, E. and S. Lundstrom, Inclusive Growth Analytics: Framework and Applications. World Bank Policy Research Working Paper 4851, March 2009.

Investment that focuses on large capital intensive projects in resource extraction that bring high returns to investors but create few jobs tends not to have much impact on driving up domestic consumption.

which further drives domestic demand, including domestic consumption. Collectively, indigenous innovations, competition in the domestic market, and rising investment form a powerful impetus to push governments to provide better leadership, putting pressure on them to reform public institutions like the judiciary, curb corruption and improve the efficiency of the bureaucracy. A more efficient and business-friendly public sector governance then in turn enables the private sector to grow faster, invest more, and perform better [2].

Inclusive growth can also play a crucial role in balancing investment and consumption. Foreign and domestic investment has always been and will continue to be the prime mover of economic growth. However, not all investments are the same when it comes to how they affect domestic consumption. For example, investment that focuses on large capital-intensive projects in resource extraction that bring high returns to investors, but create few jobs, tends not to have much impact on driving up domestic consumption. Such investment certainly contributes to GDP growth, but when it slows, GDP growth slows. With inclusive growth, however, capital-intensive investment is accompanied by employment-intensive investment, especially in the service sector, which benefits small and medium size businesses as well as opens up new opportunities for private entrepreneurs. Thus inclusive growth enables investment and consumption to expand together and become more mutually supporting.

However, inclusive growth does not come free of charge. Hard choices have to be made, and trade-offs have to be accommodated. Incumbent elites with close ties to the government will resist and they need to be combated. Rent-seeking monopolies need to be broken up and the market liberalized to welcome new competitive entrants. Commodity exporters will need to diversify investment away from the narrow resource sector. All these will entail dislocation and pain, and often political risks, but the alternative to inclusive growth is stagnation and failure. Emerging markets must face and make these hard choices if they are to meet the demand for inclusive growth, which is the new benchmark of future success.

[2] Inclusive growth is not the same as income redistribution. In fact intrusive e-government intervention in income redistribution is counter-productive to inclusive growth because such intervention inevitably creates damaging market distortion and curbs growth overall. Successful inclusive growth, on the other hand, would make income redistribution unnecessary and redundant.

Taking these features into account, an assessment is made covering 34 countries in the MEA region (12 countries in the MENA and 22 countries in Sub-Saharan Africa, see Appendix for the full list) on the extent to which inclusive growth has been evident to date as well as potential for further progress. Accordingly, the assessment is structured with two components: the "Present Conditions" (PC) component that represents the current state of inclusive growth, and the "Enabling Conditions" (EC) component that represents the forward momentum of inclusive growth.

In addition, the assessment compares MEA with the benchmark set by the average score of 10 developed economies that represent the "best practice".[3] in inclusive growth. The comparison then is a measure of an emerging market's "distance to best practice". While all scores of the indicators employed in the assessment are measured in absolute values (0 to 100), the "distance to best practice" provides a relative measure of how each country in the MEA region is performing against the average of 10 developed economies. Over time, changes in the "distance to best practice" also provide a measure of how and whether the region is closing the gap with the developed economies.

The Present Conditions component is in turn assessed with two clusters of five indicators. The Enabling Conditions component is assessed with four clusters of 19 indicators and 10 sub-indicators (see Appendix for a detailed explanation of the indicators, scoring methodology and data sources). Their organization is as in the chart to the right.

Collectively the five indicators in Clusters (i) and (ii) provide an assessment of the state of economic growth and how the growth is shared. These are outcome indicators and they reflect the current state of inclusive growth. The oil rent as % of GDP indicator is a negative one in that a higher percentage is indicative of less inclusive growth. The 19 indicators in Clusters (iii), (iv), (v) and (vi) are enabling indicators. They capture the salient aspects of the social economic conditions in the society, including the government and related social institutions that would critically affect inclusive growth in the future.

Present Conditions Component (PC)

- **Cluster (i): Economic Growth and Opportunities**
  - Indicator (1): real GDP growth
  - Indicator (2): real per capita GDP growth
  - Indicator (3): oil rent as % of GDP (negative indicator)
- **Cluster (ii): Equality of Outcomes**
  - Indicator (4): wealthy households as % of marginalized households
  - Indicator (5): middle class households as % of total

Enabling Conditions Component (EC)

- **Cluster (iii): Employment and Productivity**
  - Indicator (6): employment as % of working population
  - Indicator (7): real growth in GDP per person employed
  - Indicator (8): manufactured exports as % of total exports
  - Indicator (9): tourism contribution as % of GDP
- **Cluster (iv): Access to Economic Opportunities**
  - Indicator (10): education index
  - Indicator (11): health index
  - Indicator (12): access to electricity
  - Indicator (13): improvement in potable water source
  - Indicator (14): improvement in sanitation facilities
  - Indicator (15): mobile phone subscription rate
  - Indicator (16): financial inclusion
  - Indicator (17): gender equality (5 sub-indicators)[4]
- **Cluster (v): Youth**
  - Indicator (18): informal economy as % of total (negative indicator)
  - Indicator (19): youth unemployment (negative indicator)
  - Indicator (20): SMEs
- **Cluster (vi): Governance**
  - Indicator (21): voice and accountability
  - Indicator (22): government effectiveness
  - Indicator (23): control of corruption
  - Indicator (24): ease of doing business[5]

[3] See Appendix A for details on the 10 developed economies and their respective IGI scores that are summarized in Chart A2.

[4] The five sub-indicators of the gender equality indicator are: gender parity in secondary school, gender parity in tertiary education, gender parity in labor force participation, women in parliament, and gender parity in financial inclusion.

[5] See World Bank "Ease of Doing Business" Index for the 10 sub-indicators.

The outcome indicators document the level of economic growth achieved in the emerging markets in indicators (1) and (2) and how well the growth is shared in indicators (3), (4), and (5). They are important considerations in assessing inclusive growth. Even though economic growth alone does not guarantee inclusive growth, it is a crucial prerequisite for it[6]. Economic growth is the indispensable instrument, and rising prosperity for all is the outcome when the instrument is applied inclusively.

Collectively, the four clusters in the Enabling Conditions component assess the extent to which the social, economic and institutional environments are conducive to inclusive growth going forward. Cluster (iii) covers some of the salient aspects of growth and productivity, which are important to support inclusive growth, and how they may facilitate sharing of skills and training among the lower income segments.

Take for example indicator (8), which measures manufacturing exports as a percentage of total exports. This is a pertinent indicator because of the pivotal importance of manufacturing employment in reducing poverty and supporting inclusive growth. From a quantity perspective, employment in labor intensive manufacturing is most suitable in absorbing poor migrants from the countryside escaping poverty and under-employment. From a quality perspective, manufacturing employment, especially in the export-oriented formal sector, are effectively training camps for low and semi-skilled workers to gain exposure to modern machineries, production techniques, industrial methods and discipline. Thus export-oriented manufacturing employment is a potent economic factor that "enables" inclusive growth.

Cluster (iv) addresses the issue of access to opportunities with eight indicators ranging from education to health, infrastructure facilities, technology, financial inclusion, and gender equality. These are crucial enabling factors that affect how ordinary individuals may or may not succeed in participating in an expanding economy.

Take education, indicator (10), for example. No amount of inward transfer of know-how and technology would create new opportunities for the poor if they have not been sufficiently educated to take advantage of these new opportunities. A rising level of education for all is crucial, as is better health care, financial inclusion, and access to basic needs.

In keeping with the emphasis of youth in inclusive growth in the MEA, Cluster (v) consists of three indicators: the size of the informal economy, youth unemployment, and the size of the SME sector. The first two are negative indicators - the bigger the informal economy and the higher the youth unemployment, the less inclusive growth from the perspective of the youth. On the other hand, a vibrant and expanding SME sector can offer better socio-economic opportunities for youth.

The four indicators in Cluster (vi) cover the major social and public institutions, the functioning of which directly affects the general social and business environments that are decisive for inclusive growth. For example, indicator (24), which measures ease of doing business, is a synthesis of 10 sub-indicators that cover a wide range of issues that affect business operations and their ability to compete on a level playing field, which in turn determine whether the private sector is able to generate employment and income for even the poorest segment of the population.

The scores of the 24 indicators are geometrically averaged first at the cluster level, and then the cluster scores are averaged at the component level with the following weights: [7]

PC Component Score

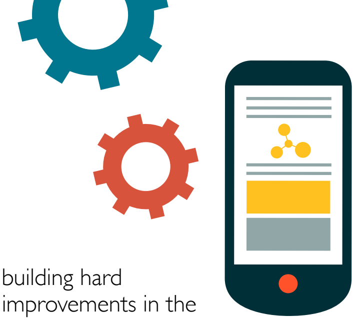
25%	Economic Growth and Expanding Economic Opportunity Cluster Score
+ 75%	Equality of Outcome Cluster

EC Component Score

20%	Employment and Productivity Cluster Score
+ 30%	Access to Economic Opportunity Cluster Score
+ 20%	Youth Cluster Score
+ 30%	Governance Cluster Score

[6] Bhagwait, J. and A. Panagariya, 2013. Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries. New York: Public Affairs.

[7] See Appendix A for details on the definition, measurement, and source of data for each of these 19 indicators.



The top 20 ranked countries in MEA in inclusive growth are shown in Chart 2.1 with their overall scores against the benchmark set by the average of the 10 developed economies (see Appendix for the details of the scores at the component, cluster, and indicator levels of the 34 countries covered by this assessment).

UAE is ranked first in the region in 2014 with an overall score of 57.58, which is only 6.8 points behind the benchmark set by the 10 developed countries. UAE is followed by Qatar in second place, Bahrain in third, Saudi Arabia in fourth, Oman in fifth, and Tunisia in sixth. In fact, with the exception of Botswana, the top 10 are all in MENA.

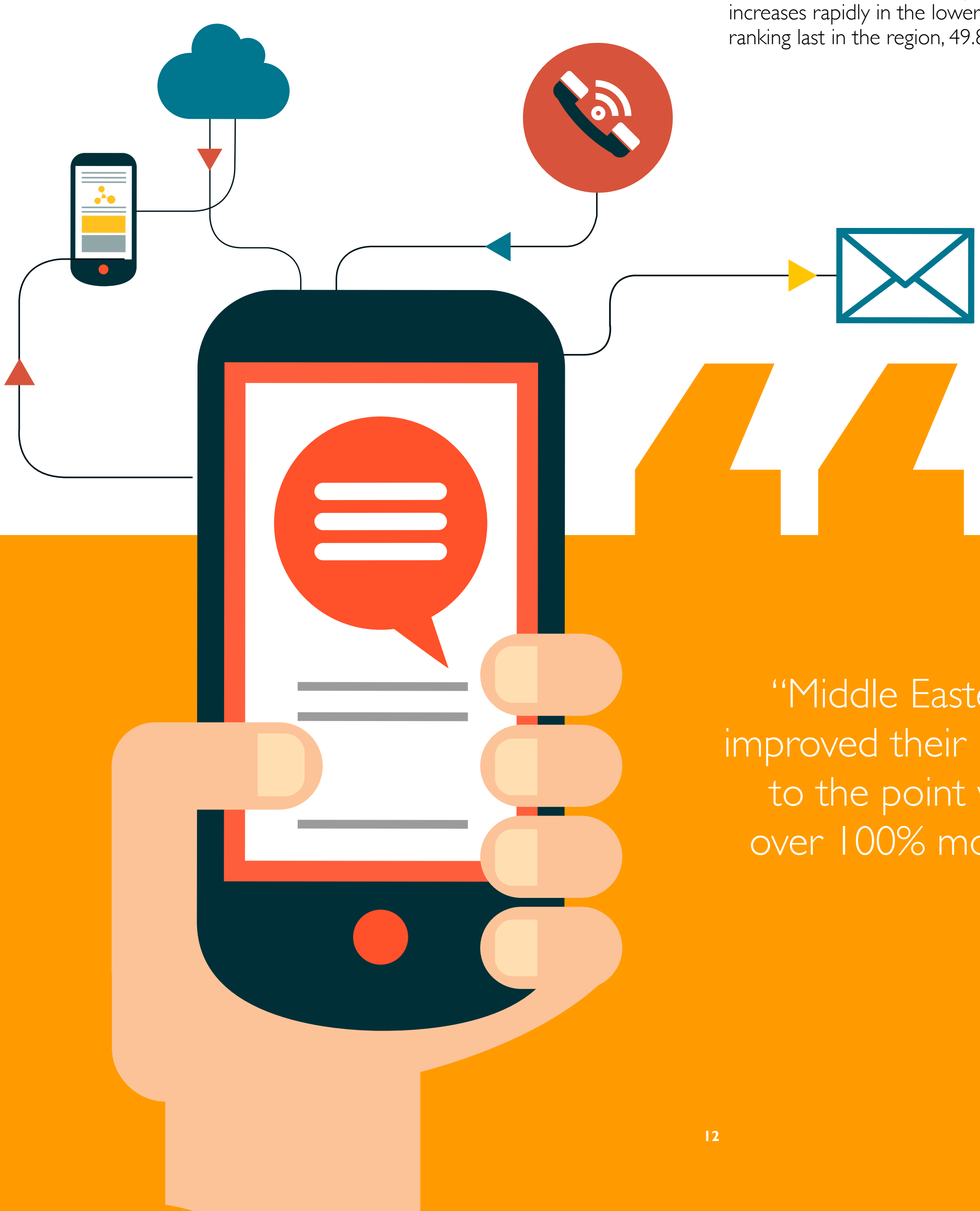
This is a notable achievement for Middle Eastern countries who have spent the past two decades investing in economic development, and focusing on upgrading their social policies and infrastructure. Indeed, they all made significant advances on all the UN's Millennium Development Goals, and hence all demonstrated major improvements in basic education, healthcare, access to electricity, water, and sanitation. They also improved their ICT infrastructure to the point where some countries (like the UAE) have over 100% mobile penetration.

These developments, coupled with building hard infrastructure (ports, airports, etc.), improvements in the business environment, and in-country political stability (despite overall regional turmoil) led to visible improvements in the Enabling Conditions for almost all the Middle East countries, especially those in the top of the league. Needless to say, and specifically in the case of the top five countries, these investments in development were enabled - even turbo-charged - by sustained high oil prices over the past decade.

However, the bulk of the improvements on Present Conditions were largely resource driven, and that is where the picture becomes interesting (and challenging). Very few countries managed to 'break out' from the 'resource' driven economy model to reach a more sustainable balance, with index scores close to developed country benchmarks. In fact, in that context, the UAE seems to be in a category of one, closely followed by Qatar and Bahrain.

Others like Jordan, Morocco, Lebanon, and Egypt demonstrate great potential, but are yet to translate that potential to tangible and sustainable development outcomes. These positions are further detailed in Charts 2.1 and 2.2 below.

This distance to the developed countries' benchmark increases rapidly in the lower ranking countries with Sudan, ranking last in the region, 49.8 points below the benchmark.



"Middle Eastern countries also improved their ICT infrastructure to the point where some have over 100% mobile penetration."

2.1 Top 20 in Inclusive Growth in Middle East and Africa

RANK	COUNTRY	MEA INCLUSIVE GROWTH INDEX			PRESENT CONDITIONS			ENABLING CONDITIONS		
		2010	**2014**	**2010-2014 Index Point Change**	**2010**	**2014**	**2010-2014 Index Point Change**	**2010**	**2014**	**2010-2014 Index Point Change**
*	DCB	66.06	64.4	-1.66	59.9	59.4	-0.44	68.3	66.1	-2.12
1	UAE	47.47	57.58	10.12	43.9	50.7	6.84	48.7	60.1	11.34
2	Qatar	57.62	55.22	-2.4	76.7	56.6	-20.03	52.4	54.8	2.37
3	Bahrain	44.86	54.56	9.7	42.6	56.8	14.17	45.6	53.8	8.21
4	Saudi Arabia	52.74	51.45	-1.29	70.7	65.3	-5.39	47.8	47.5	-0.31
5	Oman	54.5	50.95	-3.55	77.5	50.3	-27.22	48.5	51.2	2.72
6	Tunisia	38.44	44.31	5.87	14.2	21.3	7.16	53.6	56.5	2.93
7	Lebanon	52.23	43.83	-8.4	42.3	46.1	3.83	56	43.1	-12.94
8	Botswana	41.86	43.29	1.43	13.7	17.6	3.9	60.8	58.5	-2.32
9	Jordan	33.22	40.94	7.72	9	42.4	33.42	51.4	40.5	-10.93
10	Kuwait	39.16	40.86	1.7	30.2	44.6	14.39	42.7	39.7	-3.03
11	South Africa	41.24	40.68	-0.56	14.6	17	2.45	58.3	54.4	-3.95
12	Egypt	30.45	39.03	8.58	6.8	26.7	19.86	50.1	44.3	-5.82
13	Namibia	35.06	38.58	3.51	10.7	16.2	5.52	52.1	51.5	-0.59
14	Morocco	29.6	36.47	6.86	4.5	10.6	6.1	55.5	55.1	-0.42
15	Cote d'Ivorie	15.83	26.14	10.3	1.9	5.3	3.38	32.1	44.5	12.44
16	Rwanda	23.53	26	2.47	2.5	3.1	0.57	49.4	52.7	3.37
17	Kenya	23.78	25.71	1.94	2.7	3.6	0.92	49.2	49.5	0.33
18	Ghana	25.02	25.29	0.27	3.4	3.8	0.42	48.7	47.5	-1.16
19	Zambia	23.28	24.84	1.56	3.3	3.6	0.33	44.8	47.3	2.52
20	Senegal	21.61	24.17	2.56	2.8	3.6	0.76	42.6	45.7	3.07

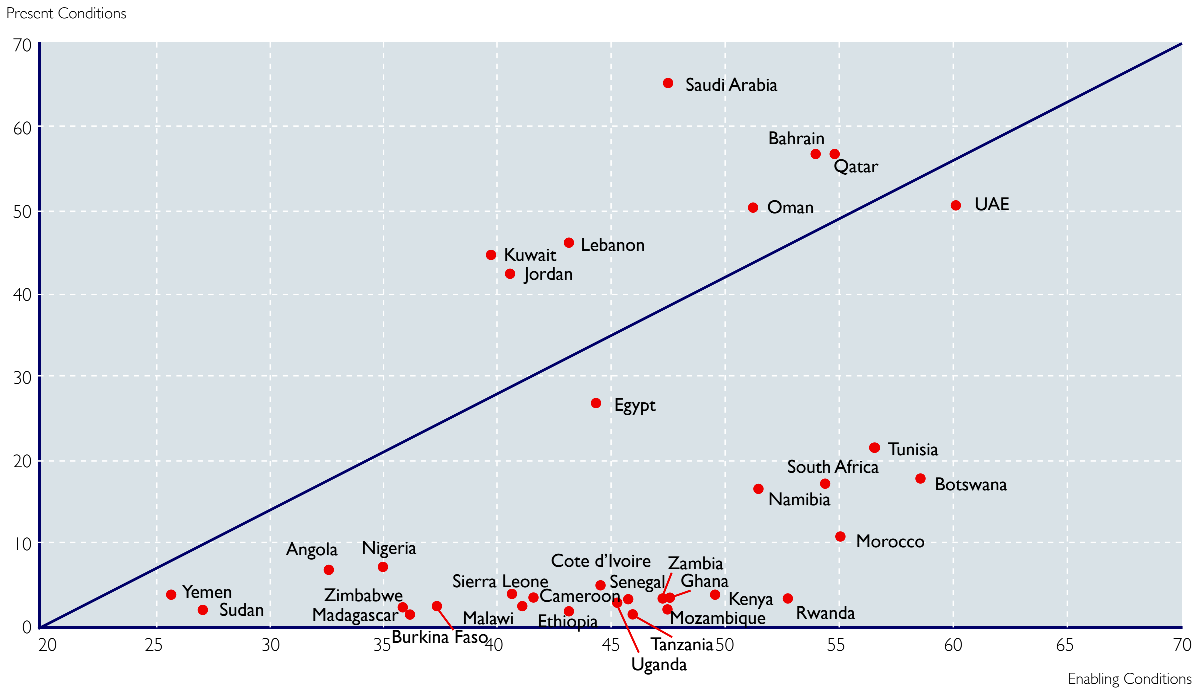
Chart 2.1 above illustrates the challenges ahead for the MEA region. When searching for balanced sustainable development, countries should demonstrate positive improvements in both their Present Conditions and their Enabling Conditions. This +/+ position would indicate that improved economic and social outputs and outcomes are a result of good policies and infrastructure (a cause and effect relationship here pointing toward a sustainable future).

In reviewing the data from 2010 to 2014, only UAE, Bahrain, and Tunisia managed this +/+ combination. This bodes well for these three countries moving forward (notwithstanding the internal political challenges in Bahrain and Tunisia). As for all the other countries, their scores dropped either on their Enabling Conditions, their Present Conditions, or both. There are several reasons and implications for these results, and they vary by country.

If we look at Saudi Arabia and Egypt, the two larger economies in the region, we note that Saudi Arabia showed a drop in both the Present Conditions and Enabling Conditions over the period 2010 – 2014, while Egypt improved its Present Conditions while dropping in the Enabling Conditions. Both readings suggest room for improvement, and the need for wider and sustained reforms. While Saudi is undergoing major economic reform (e.g. in opening up its capital markets, reforming its labor market, heavily investing in training the Saudi workforce, etc.), more reforms are needed – deeper in nature, with more effective implementation, and at a faster pace. Egypt on the other hand is now starting a 'rebuilding journey' and the hard work ahead is only paralleled by the potential and enthusiasm. With its great domestic market potential, Egypt is a 'pivot' economy that can grow, and have wider positive impact on the region.

“When searching for balanced sustainable development, countries should, ideally, demonstrate positive improvements in both their Present Conditions and their Enabling Conditions”

2.2 Present vs Enabling Conditions in Incusive Growth in Midde East and Africa



...many of the 34 countries are found below the 45 degree slope, suggesting that they could perform better in the future relative to what they have achieved thus far.

Critical to both countries would be the sustainability of the reforms, and a complete modernization of their public sectors. The picture in Egypt is mirrored (to a large extent) in places like Jordan and Lebanon. There is good potential, with many challenges ahead, and the need for more meaningful and sustained reforms. What happens (or indeed does not happen) over the coming five years in these countries will set the scene for the next 20-30 years. They all have the potential, but economic survival and prosperity are not guaranteed.

The bottom line for most Middle East countries continues to be the same: economic and social development are hampered by political development (internally) and stability (externally).

Chart 2.2 above illustrates the contrast between the Present Conditions and Enabling Conditions for inclusive growth for each of the 34 countries assessed. For countries located above the 45 degree slope, their Present Conditions account for more than half of their overall inclusive growth scores. For countries located below the 45 degree slope, on the other hand, their Enabling Conditions contribute more than half of their overall scores. As the chart shows, many of the 34 countries are found below the 45 degree slope, suggesting that they could perform better in the future relative to what they have achieved thus far. Among the top 10 countries, three are found below the 45 degree slope: UAE, Lebanon, and Botswana, indicating that even as their current performance is strong enough to put them in the top ranks, they are likely to make even greater progress in inclusive growth in the future. It is notable that in the case of the top 10 Middle East countries, seven are above the slope, suggesting that their growth is either resource driven, or 'concentrated' and non-inclusive, or both. This situation is not sustainable and more needs to be done for developing the Enabling Conditions, and driving towards inclusive growth, with a special focus on youth inclusion.

Sections Three and Four below examine in more detail the conditions of inclusive growth in MENA, and Sub-Saharan Africa respectively.

03 Inclusive Growth in the Middle East and North Africa

The last decade offered a great development opportunity for all MENA countries. The region enjoyed the windfall from record high oil prices, intra-regional investment was on the rise (with GCC countries leading the charge), and all countries enjoyed relative political stability that allowed for effective decisions regarding investments as well as economic and social development.

In fact, during that decade, the GDP of Egypt grew circa 5%+ annually, Jordan 4%+, and 4.5%+ in Tunisia (the group we referred to earlier in this report as 'Transition Economies'). In 2009, the World Bank described economic reform in Egypt as a model for the region (Egypt saw the most visible manifestation of the Arab Spring in 2011), and it was in Tunisia that the IMF praised the "prudent macroeconomic management" in 2007 (the Arab Spring first erupted in Tunisia).

While those statements by international organizations were true for economic growth, the fact of the matter is that this growth was not inclusive. In 2010, Tunisia's national unemployment rate, which understates the true unemployment situation, stood at 14%. Youth unemployment (those between 15-24 years-old) was at a more worrying 31%. The income share of the top 10% was approximately 32% of the total, while the bottom 60% of the population earned only 30% (the top 40% take home 70% of the income).

Jordan faced a similar economic profile, and these challenges were all identified in the "National Agenda 2015", which was developed and published in 2005. It outlined development policies and goals for the coming decade. The recommendations of this National Agenda were poorly implemented, if at all, due to resistance by various stakeholders and a bureaucratic public administration.

The GCC countries grew at an even more impressive rate, fuelled by the rise in oil prices. All six GCC nations enjoyed a windfall of oil and gas revenues, and, in most of them, a development agenda was underway. The UAE (namely Dubai) took pole position investing in mega projects, and unleashing new sectors like tourism and logistics, diversifying their economy away from oil and gas. In some sectors like aviation, Dubai (UAE) took a global leadership position. Other countries like Saudi Arabia launched mega infrastructure projects and went so far as to start the construction of new cities altogether like the King Abdulla Economic City. Qatar and Bahrain witnessed a similar development boom. By the end of 2010, each of the GCC countries had ambitious plans (published in documents like the UAE Vision 2021, Qatar Vision 2030, etc.) in place, and a set of impressive infrastructure projects underway. In parallel, there was a race to improve the business environment with a positive competition to improve the standings on global rankings like the World Economic Forum's Global Competitiveness Report and the World Bank's Doing Business Report. Other GCC countries like Oman and Kuwait witnessed similar developments but at a slower and more unstructured pace.

The 2000s was the golden decade when the GCC showed visible achievements on all economic and social development fronts. These achievements saw countries like the UAE, Qatar, Bahrain and Saudi Arabia all jump into the top ranks in the global rankings. All of them saw improvements in basic health and education in terms of access. However, the quality of both sectors remains a challenge in all six countries with a lot of room for improvement. Other challenges in the GCC included the sustainability of their labor markets, with private sectors virtually dominated by expatriates/temporary workers, and energy sustainability, given the dependence of their fast growing economies on cheap energy.

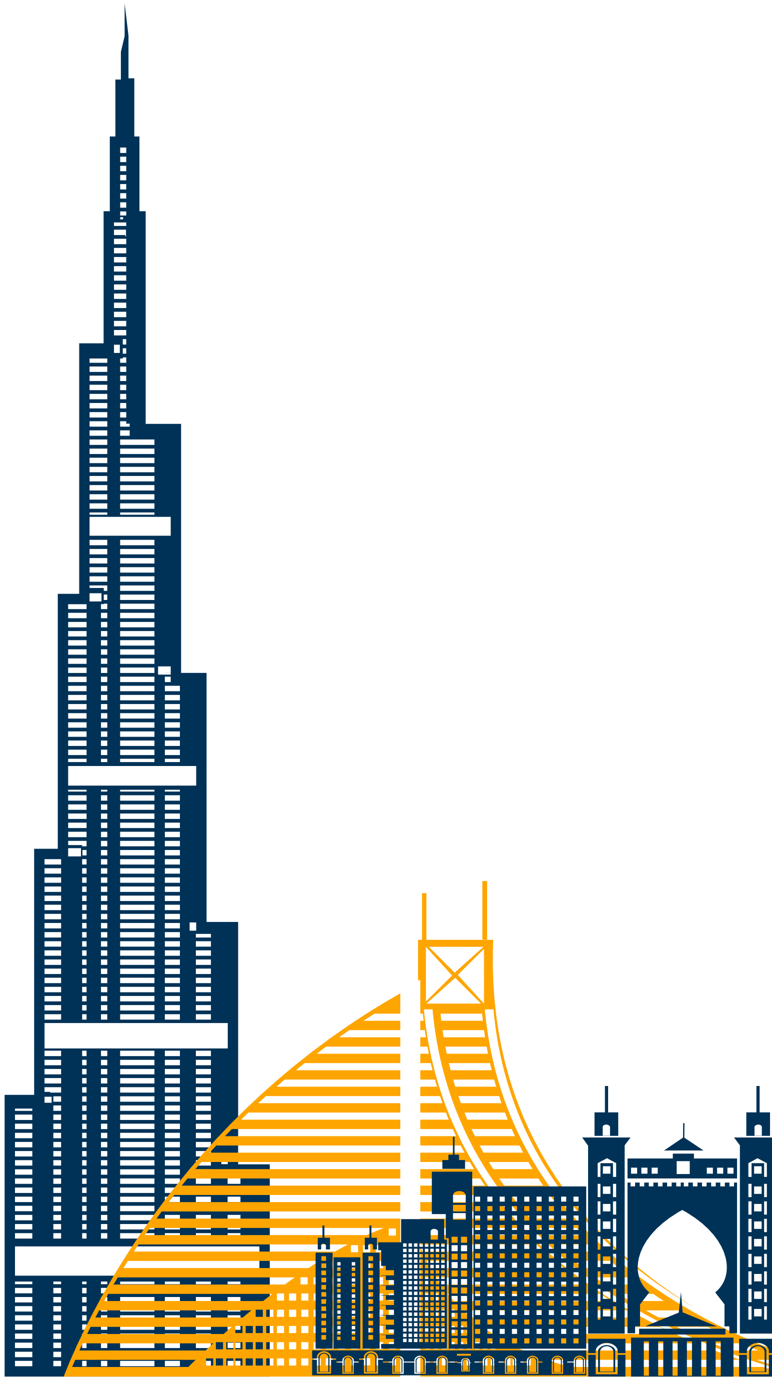
That 'golden' decade was a great opportunity for focusing on inclusive growth in MENA countries – but it was an opportunity missed by most.

In the early 2000s the region received a few 'wake up' calls when some global reports shed light on some of the challenges ahead. Most notably, the Arab Human Development Report (published by the United Nations Development Plan in 2002) alerted the region to the widening knowledge gap and the urgent need for reforming the education systems. Similarly, the World Bank Report (published in 2003) famously noted the 100 million jobs needed for the region's youth by 2020, effectively highlighting the urgent needed for economic development, job creation, and providing the right skills for the youth.

All countries heard the messages well, and most acted with well-intentioned economic and social reforms. These reforms were more effectively implemented in some countries, while others continued to primarily focus on 'business as usual' with a security focus and foreign affairs agenda, relying on foreign aid and a delicate social balancing act.

> "The 2000s was the golden decade when the GCC showed visible achievements on all economic and social development fronts."

> Looking forward, the UAE has the most promising story given its top-ranked position in inclusive growth in the MEA region.



The economic reforms undertaken were all in the right direction. These included gradually opening up markets, improving the overall business environment, reforming customs and duties, introducing more competition and privatizing some state-owned giants, especially in the ICT sector. However, these reforms were insufficient for meeting the challenges. For example, very few of the countries tackled effective labor market reforms, and most continued the very generous subsidies on utilities, fuel, and food, which were mostly populist policies with no effective and efficient social welfare structures. Moreover, and as noted earlier, while the macro economy demonstrated visible growth, it was mostly dominated by large businesses - many state-owned - and family conglomerates. The entrepreneurship ecosystem did not flourish. Linked to all of the above, no meaningful reforms were undertaken to transform the education systems.

During that period, the region's public sector grew larger, and even more inefficient. The government became the employer of choice for most of the region's population, offering what is perceived to be lifetime jobs, with no real accountability, short working hours, and – in the case of the GCC – higher wages than the private sector. These bloated public sectors were also burdened with complex policies and regulations, limited application of technology - despite the euphoria of e-Government in some countries - and productivity levels that were consistently dropping. Apart from the stand-out case of the UAE, no country managed to tackle the Public Sector Modernization in an effective way. Today, the inflated, bureaucratic, and unproductive government structures are the region's main obstacle to growth and sustainability.

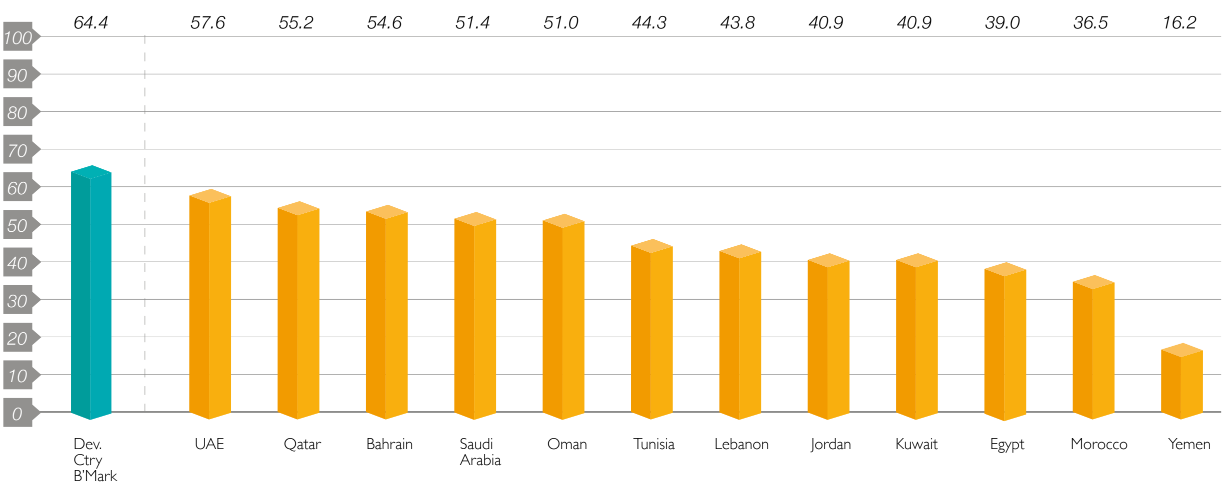
Looking forward, the UAE has the most promising story given its top ranked position in inclusive growth in the MEA region with an overall score of 57.6 (see Chart 3.1). The UAE is only 6.8 points away from the developed countries benchmark, with a strong set of Enabling Conditions, which shows it has more potential to advance. The UAE is closely followed by Qatar, Saudi Arabia, Bahrain and Oman - all are part of the GCC, and the resource-driven growth story fuelled by a decade-long high oil price. Notably, all these countries have focused on building their infrastructure at home and offered generous social welfare policies, which in turn boosted local consumption. Some of their initiatives were not only regionally visible, but are even globally relevant. These include aviation's "Gulf 3" (Emirates Airlines, Qatar Airways, and Etihad Airlines), Dubai mega-real estate developments like the Palm Island and Burj Khalifa (the world's tallest building), Qatar's global investments and hosting of mega events like the World Cup, and Abu Dhabi's 'new' sectors like media and renewable energy. Moreover, the GCC has been working on – and investing in – cross-regional mega-projects like the planned railway system, while continuing to improve intra-regional trade (albeit at a very slow rate). While the road to sustainable and inclusive growth is long, the five GCC countries are moving in the right direction, some clearly in a much faster and more structured way than others.

The other three Middle Eastern countries in the top 10 - Tunisia, Lebanon, and Jordan, share the same characteristics, and more or less the same challenges. They are relatively small countries, with no natural resources to speak of, but with educated populations as well as relatively open markets and societies. These countries have always been the source of promising economic news, such as Lebanon's media sector and vibrant tourism economy (when politics allows it), Jordan's ICT sector and Tunisia's light export-oriented industries. All three countries were underpinned by 'better than regional average' education systems, and all three have more potential in terms of future economic development.

However, their economic potential is consistently hampered or outright halted by external politics, given the regional instability and long-standing conflicts with Israel, and internal politics and governance structures (e.g. Lebanon). These are indeed three countries of 'missed development opportunities'. Their future will depend on continuing to improve their education systems, modernizing their public services, and opening up their economies, transitioning from the economic structure of the powerful elite few to the creative many. After education, the penetration of technologies like social media and e-commerce promises to be the second force in driving towards this inclusive future.

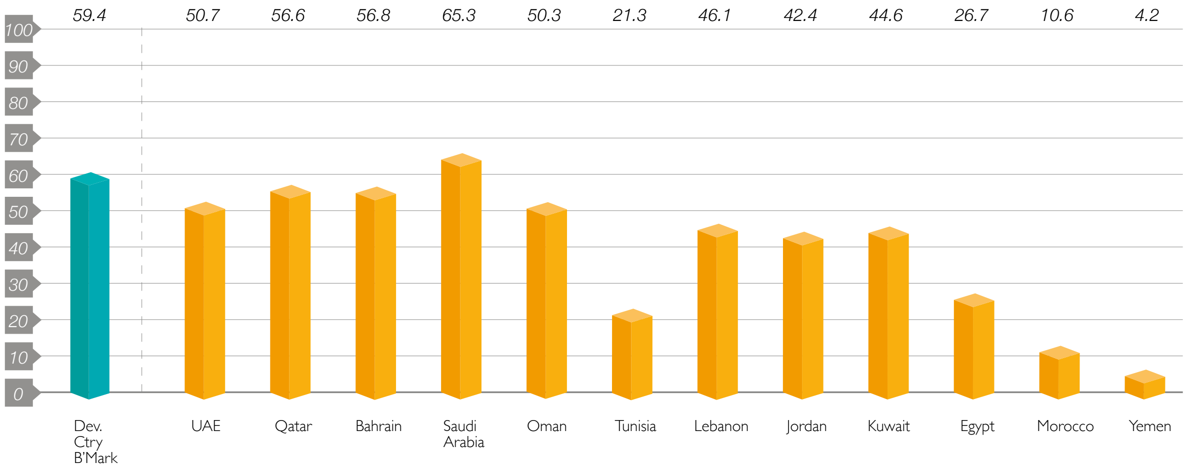
> Their future will depend on continuing to improve their education systems, modernizing their public services, and opening up their economies.

3.1 Ranking of countries in Inclusive Growth in the Middle East and North Africa

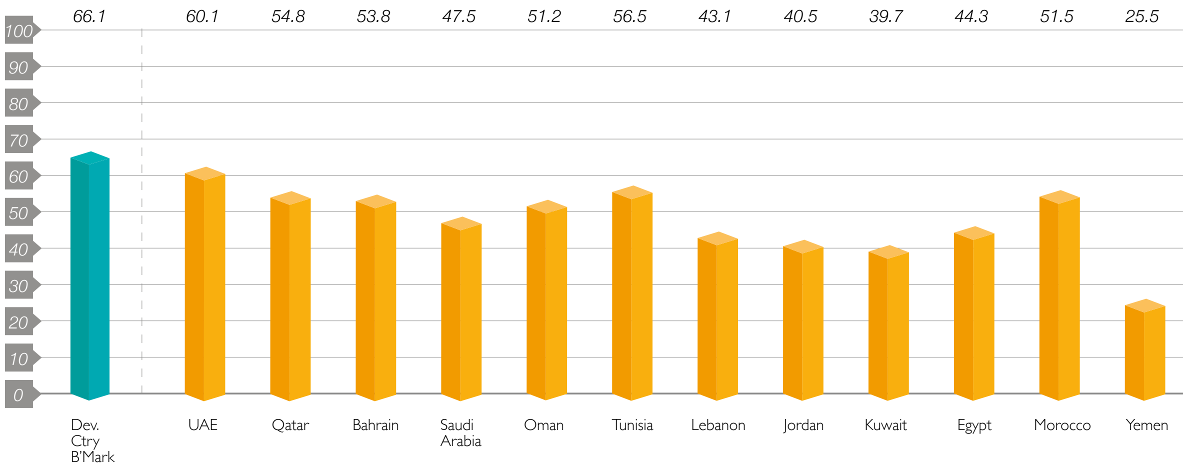


3.2 Ranking of countries in Inclusive Growth in the Middle East and North Africa - Present and Enabling Conditions

2014 PRESENT CONDITIONS



2014 ENABLING CONDITIONS



A more detailed look at Chart 3.2 reasserts some of the points made so far. For example, apart from the UAE, all the GCC countries have much more favorable Present Conditions than Enabling Conditions. In fact, Saudi Arabia's Enabling Conditions are on par with countries like Egypt, a much poorer, densely populated country, in political and economic transition. In fact, little progress has occurred in Saudi Arabia on Enabling Conditions despite major investments and development plans over the past decade. This demonstrates the challenges ahead for most of the GCC countries, especially if the low oil prices witnessed at the start of 2015 are sustained. Some countries in the GCC like Kuwait and Oman will probably feel the most impact given their relatively low Present Conditions (even with the previous run in oil prices) and relatively low Enabling Conditions scores. A recent Chatham House Report alerted that some of these countries may have moved from being oil economies to oil societies.

The GCC inclusive growth picture is dynamic, and will probably look very different five years from now. There are many lessons that can – and should – be learnt from the experience of the UAE for most of the region. Clearly the UAE is doing the right things in terms of socio-economic development. However, the UAE itself has a challenging path ahead to sustain these advances and 'break-out' into a sustainable developed nation model.

Through the lens of the Enabling Conditions, countries like Tunisia and Morocco stand out as ones with great future potential (along the lines of the UAE and Qatar). However, Morocco's Present Conditions are very low whilst countries like Jordan and Lebanon offer a more balanced picture, suggesting better future prospects. In fact, all these countries seem to have many of the Enabling Conditions 'right' to a large extent but with low Present Conditions, which means that tangible results of inclusive growth have yet to materialize.

While this might point to a positive future in Morocco, in Lebanon it is simply an indictment on how damaging the political gridlock is for a country full of opportunity. Also in this category, Tunisia stands out as having great potential for the future, while Jordan displays the same characteristics dampened by a worrying rapid decline in the youth index of the component.

Egypt stands in a class of its own, with a long road ahead. It is a mega economy (with the largest population in the region) that is starting its post-conflict reconstruction journey with many internal and external security challenges. In a recent report by the Abu Dhabi Financial Group, Egypt and Morocco were placed at the top of their list as the most attractive for Foreign Direct Investment flows in the region (risk-adjusted). At the other end of the spectrum, we have fragile states like Yemen and Sudan who are both underperforming on all factors, and are verging on civil war.

Although not surprising, the data provided a clear confirmation of what is being discussed in various forums; the Middle East is not 'one' region and the only 'real' common factors are geography, language, and religion. In terms of economic and social development, there are clear leaders (some approaching global/OECD levels now), laggards, and fragile/failed states.

While the picture differs, the reforms needed to achieve more sustainable and inclusive growth fall in the same buckets. The policies needed are well known. The challenge has been, and will continue to be, the will and ability to implement these policies, many of which will not be popular in the short term.

"The Middle East is not 'one' region and the only 'real' common factors are geography, language and religion."

04 Inclusive Growth in Sub-Saharan Africa

In the decade of the 2000s economic growth in many Sub-Saharan African countries started to accelerate, breaking the mould of stagnant and even negative growth that haunted the region in previous decades.

In fact, countries like Angola, Nigeria, Mozambique, Ethiopia and Rwanda managed to expand their GDP in real terms by 7% or more for consecutive years, making them among the best performers in the world[1]. A wide range of factors contributed to their success: strong commodity prices and corresponding increase in investment in energy and resources, ending of the debt crisis that plagued Sub-Saharan Africa's public finance for far too long, more market-friendly government policies, steady improvement in the business operating environment, and the emergence of a nascent domestic consumer market.

These are welcome developments, yet behind the optimism and enthusiasm about Sub-Saharan Africa is a more sobering reality. The basic structure of most Sub-Saharan African economies has not changed much in the last 50 years. In many countries commodities dominate their exports and account for the bulk of industrial production while labor intensive manufacturing has yet to take off. Furthermore, in spite of higher headline GDP numbers, most Africans are still employed in the informal economy, suffering from some of the highest morbidity and mortality rates in the world. The deployment of technologies has been patchy and inefficient, which means growth in productivity remains low. The fact remains that in most Sub-Saharan African countries, 50% or more of the population is still mired in poverty, living on US$1.25 a day or less[2]. These structural weaknesses cast doubt on the extent to which the impressive growth record of the last decade can be made sustainable, especially in an environment of slowing global trade and plummeting commodity prices. According to the African Center for Economic Transformation, what is required for strong and sustainable growth in Africa is much deeper structural transformation in the region's economies than what

> "The fact remains that in most Sub-Saharan African countries, 50% or more of the population is still mired in poverty, living on US$1.25 a day or less."

[1] IMF WEO data.

[2] World Bank data.

has been accomplished to date[3]. Integral to such structural transformation is the need to generate inclusive growth.

In this assessment, Botswana is the most promising given its top ranked position in inclusive growth in Sub-Saharan Africa with an overall score of 43.3 as shown in Chart 4.1. Botswana's score is, however, 21.2 points behind the benchmark set by the developed countries, and 14.3 points behind UAE, the top ranked country in MEA. South Africa and Namibia follow Botswana closely in second and third ranks with overall scores of 40.7 and 38.6 respectively. There is a significant drop in the fourth ranked Cote d'Ivoire's score at 26.1. The scores between Cote d'Ivoire and Madagascar, ranked 21st, are bunched closely, with another drop for Sudan at the lowest rank at 14.6.

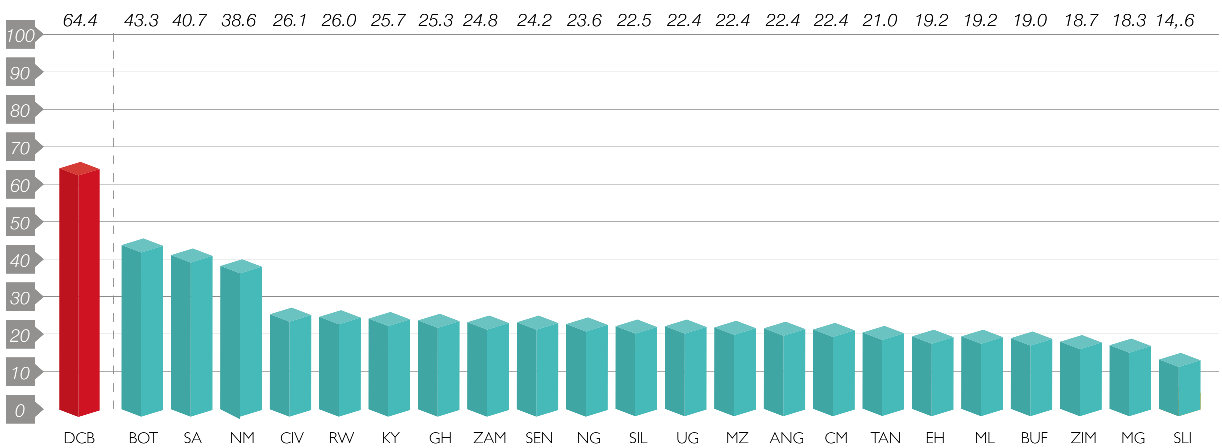
There is generally a sharp contrast between Present Conditions and Enabling Conditions in all 22 Sub-Saharan African countries assessed in this report. While their scores in Present Conditions are uniformly low, their scores in Enabling Conditions are much higher as Chart 4.2 shows. This suggests a more positive looking future for these Sub-Saharan African countries since their stronger Enabling Conditions will provide, over time, a more solid foundation for better inclusive growth.

An interesting finding is that their scores in Enabling Conditions are uncorrelated with their current overall rankings as can be seen in Chart 4.2. The combination of a relatively low overall ranking with a relatively high Enabling Conditions ranking offers a clue for identifying strong performers in inclusive growth in the future. For example, Rwanda is currently ranked fifth in its overall scores, but it ranks third in its Enabling Conditions score, putting it ahead of Namibia and Cote d'Ivoire. Similarly, Kenya and Ghana are ranked sixth and seventh respectively in their overall scores, but they move up one rank to fifth and sixth ranks respectively in their Enabling Conditions scores. More strikingly, Mozambique, ranked 13th overall, moves up to be at par with Ghana in sixth rank in its Enabling Conditions score. Finally Tanzania, ranked a lowly 16th in overall scores, moves up to the eighth rank in its Enabling Conditions scores. The picture is therefore a dynamic one, suggestive of significant changes ahead.

> There is generally a sharp contrast between Present Conditions and Enabling Conditions in all 22 Sub-Saharan African countries assessed in this report.

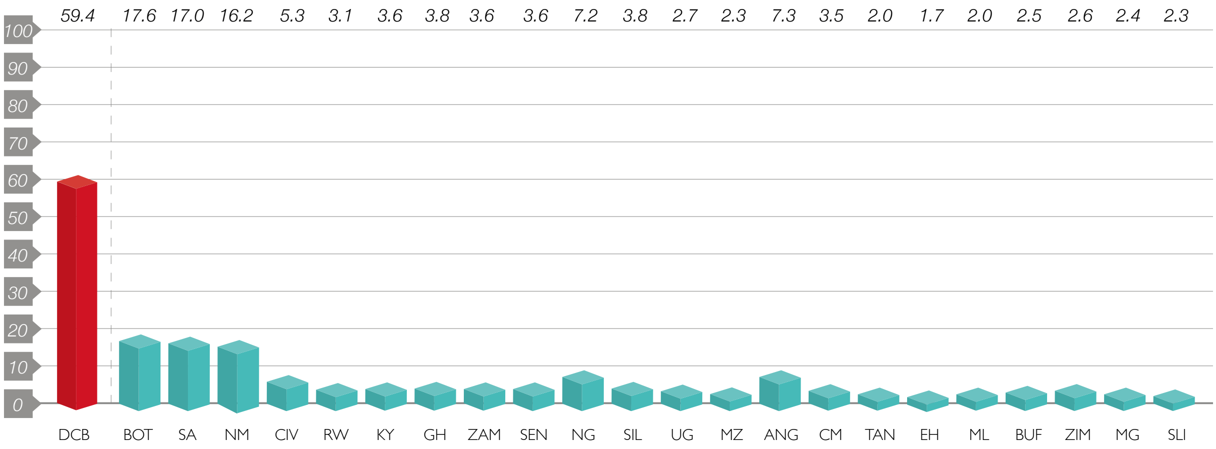
[3] See Amoako, K.Y., 2014. Growth with Depth: African Transformation Report. African Center for Economic Transformation. Accra, Ghana.

4.1 Ranking of countries in Inclusive Growth in Sub-Saharan Africa

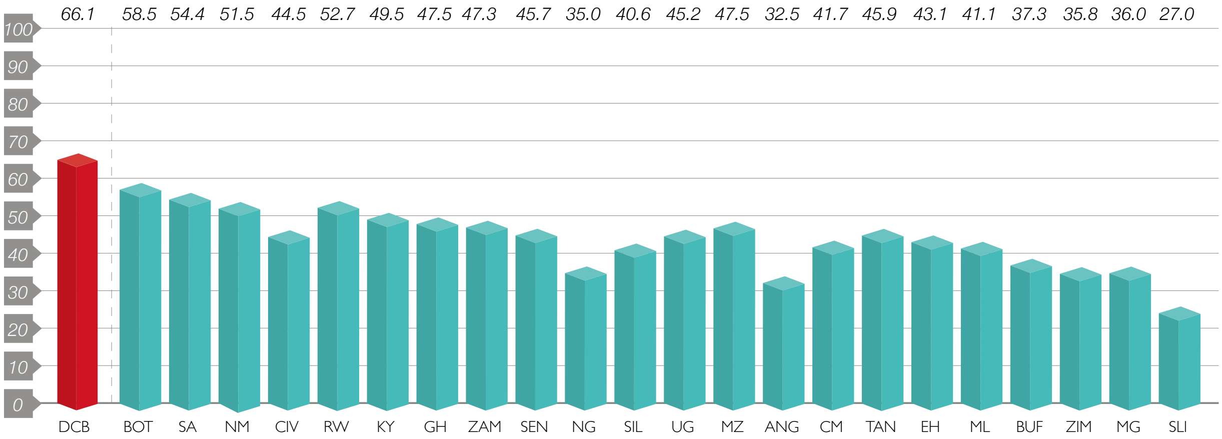


4.2 Ranking of countries in Inclusive Growth in Sub-Saharan Africa - Present and Enabling Conditions

2014 PRESENT CONDITIONS

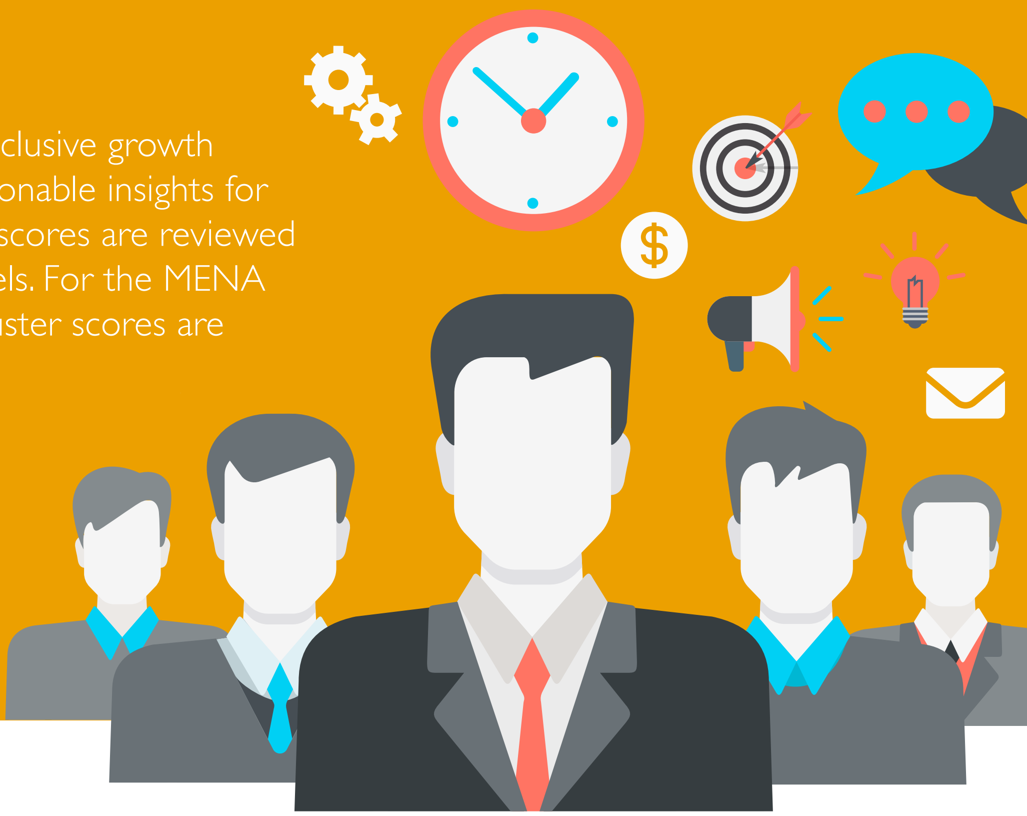


2014 ENABLING CONDITIONS



05 The Way Forward: What Can Be Done?

The framework for assessing inclusive growth developed here also offers actionable insights for public policies when individual scores are reviewed at the cluster and indicator levels. For the MENA sub-region, for example, the cluster scores are summarized in Chart 5.1.



Focusing on the Enabling Conditions for the moment, a clear pattern emerges in that the "employment and productivity" cluster is the weakest among the four clusters that make up the Enabling Conditions. Take the top-ranking UAE, for example. Its "employment and productivity" score is 21.8, compared with its score of 81.1 in "access to economic opportunity", 75.8 in "governance", and 74.6 in "youth". This pattern of a sharp divide between the "employment and productivity" cluster and the rest is evident in all the MENA countries.

Taking a closer look, the "employment and productivity" cluster consists of four indicators: labor force participation, real GDP growth per capita, manufacturing output as a percentage of the total, and tourism income as a percentage of the total. The labor force participation is a supply side factor, and weak scores on that front suggest that human resources are ineffectively deployed. When combined with fast population growth, the result is low growth in real GDP per capita. Manufacturing and tourism industries are both important because they are export-oriented and employment intensive, and can play a major role in meeting the demand for jobs in a fast-growing and young population as in most of the MENA. Weak scores in these indicators reassert many of the observations made in Section Three on the policy challenges facing this sub-region and what needs to be done to meet these challenges.

"Manufacturing and tourism industries are both important because they are export-oriented and employment intensive, and can play a major role in meeting the demand for jobs."

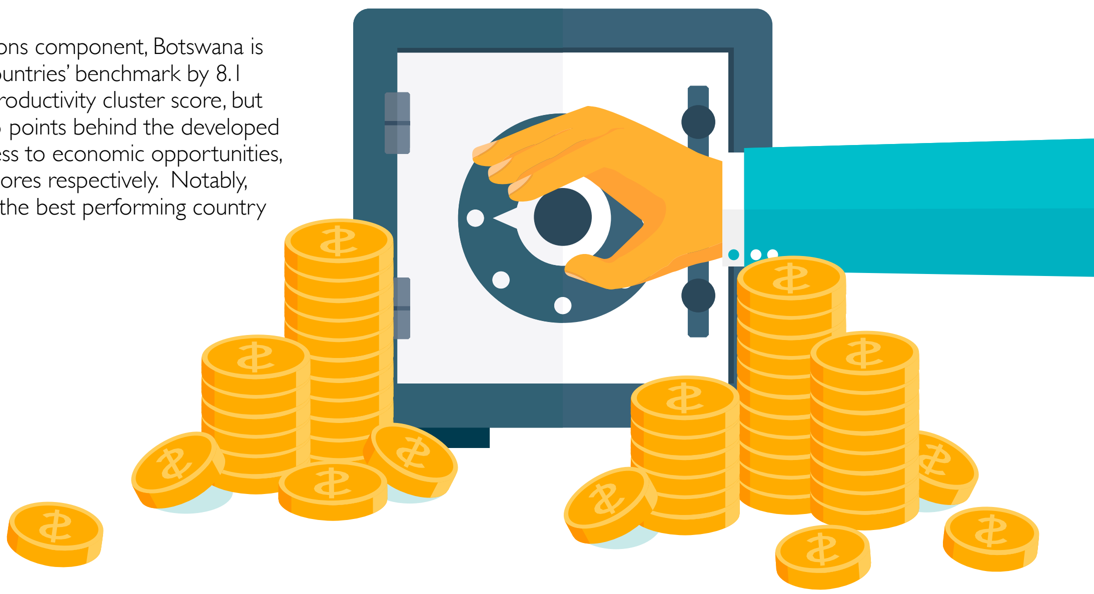
5.1 Inclusive Growth Components in the Middle East and North Africa

MENA Regional Rank	MEA Market Rank	Country	Overall Index Score	PRESENT CONDITIONS			ENABLING CONDITIONS				
				Component Score	Economic Growth & Expanding Economic Opportunity	Equality of Outcomes	Component Score	Employment and Productivity	Access to Economic Opportunity	Governance	Youth
	•	Developed Country Benchmark	64.4	59.4	20.2	85.2	66.1	19.7	91.1	92.5	83
1	1	UAE	57.58	50.7	20.6	68.4	60.1	21.8	81.1	75.8	74.6
2	2	Qatar	55.22	56.6	24.3	75.1	54.8	15.5	75.2	74.8	75.5
3	3	Bahrain	54.56	56.8	22.4	77.4	53.8	16.9	80.3	66.1	69.1
4	4	Saudi Arabia	51.45	65.3	29.2	85.4	47.5	11.8	74.8	58	71.8
5	5	Oman	50.95	50.3	10.1	85.9	51.2	14.1	77.7	64.5	70
6	6	Tunisia	44.31	21.3	31.3	18.8	56.5	26.1	73.2	67.5	63.6
7	7	Lebanon	43.83	46.1	8.1	82.2	43.1	8.7	70.2	58.2	65.5
8	9	Jordan	40.94	42.4	23.3	51.7	40.5	9.3	68.9	61.7	42.2
9	10	Kuwait	40.86	44.6	5.2	91.1	39.7	4	77.1	63.4	72.3
10	12	Egypt	39.03	26.7	18.2	30.3	44.3	16.1	56.1	54.3	63.1
11	14	Morocco	36.47	10.6	34.4	7.1	55.1	27.1	66.7	62.6	69.4
12	33	Yemen	16.24	4.2	14.1	2.8	25.5	3.4	39.6	46.9	39.6

For the Sub-Saharan Africa sub-region, the cluster scores are summarized in Chart 5.2. A comparison in cluster scores between the top ranked Botswana with the developed countries' benchmark scores is instructive for understanding better where and how inclusive growth fails in the sub-region. In the "growth and expanding economic opportunities" cluster, one of the two clusters in the Present Conditions component, Botswana's score is 15.5 points ahead of the developed countries' benchmark, which is not surprising as it is more difficult for high income countries to consistently generate growth rates comparable to low income countries that are operating from a much lower base. Botswana's score in the second cluster of the Present Conditions component, equality of outcome, is a shocking 71.3 points behind the developed countries benchmark. The contrast between the scores of these two clusters points to a history of poor distribution of income and wealth even during a period of strong economic growth.

In terms of the Enabling Conditions component, Botswana is again ahead of the developed countries' benchmark by 8.1 points in the employment and productivity cluster score, but 23.7 points, 16.2 points, and 16.5 points behind the developed countries benchmark in the access to economic opportunities, governance, and youth cluster scores respectively. Notably, this is in reference to Botswana, the best performing country in Sub-Saharan Africa.

Thus, the gap between the ability to generate economic growth in the future and distributing the benefits of growth more equitably in Sub-Saharan Africa is likely to persist without more effective policies in areas represented by indicators that constitute the access to economic opportunities, governance and youth clusters as described in Section Two (see Appendix for more details). Closing such a gap will require more effective investment in education and health for the young (especially young females), creating and enforcing a more level playing field for small businesses and entrepreneurs, improving access to financial services and, last but not least, productive employment that meets the aspirations of the fast growing youth population of the region.



5.2 Inclusive Growth Components in Sub-Saharan Africa

				PRESENT CONDITIONS			ENABLING CONDITIONS				
SSA Regional Rank	MEA Market Rank	Country	Overall Index Score	Component Score	Economic Growth & Expanding Economic Opportunity	Equality of Outcomes	Component Score	Employment and Productivity	Access to Economic Opportunity	Governance	Youth
	*	Developed Country Benchmark	64.4	59.4	20.2	85.2	66.1	19.7	91.1	92.5	83
1	8	Botswana	43.29	17.6	35.7	13.9	58.5	27.8	67.4	76.3	66.5
2	11	South Africa	40.68	17	25.2	14.9	54.4	18.9	72.1	75	63.4
3	13	Namibia	38.58	16.2	36.3	12.4	51.5	17.7	63.5	71.8	66.7
4	15	Cote d'Ivorie	26.14	5.3	56.9	2.4	44.5	20.7	48.8	52.5	65.1
5	16	Rwanda	26	3.1	57.8	1.2	52.7	18.5	65.4	65.8	78.2
6	17	Kenya	25.71	3.6	44.3	1.6	49.5	23.3	58.5	56.8	66.7
7	18	Ghana	25.29	3.8	44.3	1.7	47.5	14	54.8	69.5	73.6
8	19	Zambia	24.84	3.6	44.3	1.6	47.3	16.4	57.4	62.3	67.6
9	20	Senegal	24.17	3.6	31.2	1.7	45.7	20.9	46.5	61.2	63
10	21	Nigeria	23.59	7.2	52	3.8	35	7.3	46.6	49.9	64
11	22	Sierra Leone	22.49	3.8	100	1.3	40.6	16.9	39.7	54	65.7
12	23	Uganda	22.43	2.7	43.9	1.1	45.2	21.2	48.5	54.7	64.9
13	24	Mozambique	22.38	2.3	65.4	0.8	47.5	20.3	56	58.8	63
14	25	Angola	22.37	7.3	39.3	4.1	32.5	5.7	61.1	44	46.2
15	26	Cameroon	22.36	3.5	35	1.6	41.7	12.8	56.9	48.5	67.6
16	27	Tanzania	21.04	2	51.2	0.7	45.9	21.3	51	57.3	60.8
17	28	Ethiopia	19.2	1.7	56.1	0.5	43.1	17.9	48.4	54	62.2
18	29	Malawi	19.19	2	43.3	0.7	41.1	15.9	42.6	58	60.4
19	30	Burkina Faso	19.03	2.5	48.4	0.9	37.3	8.4	45.9	57.1	63.5
20	31	Zimbabwe	18.67	2.6	31.5	1.2	35.8	7.3	63.3	44.4	53.7
21	32	Madagascar	18.27	2.4	24.6	1.1	36	14.6	33.9	52.7	54.6
22	34	Sudan	14.6	2.3	6	1.7	27	3.3	43.6	40.2	59.4

“Essentially, the region needs a “new” development model and a paradigm shift in thinking.”

In MENA it is clear that despite the differences in their Present and Enabling Conditions, all countries in the region face various challenges: generating economic opportunity and diversification, productivity improvements and addressing the youth bulge.

Future sustainability will require focused policies and expedited implementation. However, such a reform and modernization agenda usually requires medium to long timeframes – hence there is a pressure to do more with less resources, at a pace faster than ‘business as usual’.

All the data in the Index points to five areas that should be in the forefront of the minds of all government leaders for a more sustainable, equitable future: public administration modernization and better management of public finances, improved governance and rule of law, comprehensive education reform, creating and enabling a vibrant entrepreneurship ecosystem and further economic integration.

In terms of economic integration, if the region can see beyond political borders and think about a market ‘union’, we can quickly see how the MENA countries can collectively harness their ingredients for success: a youthful and increasingly educated labor force, untapped potential in industry and

services as well as substantial financial and natural resources. Such a 'market' would build on, for example, the natural and fiscal resources in Saudi Arabia, affordable labor in Egypt, and dynamic trading hubs like the UAE and Lebanon. The region would do well to study the potential economic scenarios under condition of market collaboration or union. This does not mean that we are calling for a utopian market union, but for the very least a more effective implementation of the various 'cooperation' agreements for the movement of capital, labor, and goods. Essentially, the region needs a "new" development model and a paradigm shift in thinking.

In this context, there is no substitute for reforms that aim to improve both the quantity and quality of economic growth. The full potential of the MENA private sector must be unleashed and this requires a level playing field for the private sector. The role of the state in economic development has to be redefined to focus on enabling a more 'free market' economy while investing in public-private partnerships to deliver the required growth.

All this will require enhanced government capability with greater transparency and accountability. This requires a major modernization program for the public sector, not only to make it more accountable and effective, but to improve its ability and efficiency. The government modernization agenda is going to be challenging. It must be comprehensive in tackling issues of performance management, accountability for public results, meritocracy in recruitment and promotion, better utilization of technology in government services, more transparent reporting on government data and results, improved public financial management and a revamp of the 'subsidy' programs that continue to exist. In short, governments in the region must be rapidly transformed from the early 20th century model to the 21st century one. Nothing short of Government 2.0 will suffice to tackle the challenges ahead.

> "The MENA region must equip the youth with the right skills, which requires a complete overhaul of the education system"

At the heart of all of this will be education and a focus on the youth. The MENA region must equip the youth with the right skills, which requires a complete overhaul of the education system. The foundation and suggested starting point of this overhaul is the curricula and teacher training, unlike the education 'reform' policies of the past decade that focused on physical infrastructure and IT investments. The improved education system will invariably re-define the social contract in a participatory way to meet the aspirations of millions of young women and men in this vast region who will no longer settle for less. It is time to stop focusing exclusively on hardware, and investing in the real software of the education system.

Both the MENA as well as the Sub-Saharan African regions are going through a defining moment in their history, and they have all the right ingredients for a more prosperous and sustainable future. It is now time for bold decisions and real reforms, reforms that can only come from within, and ones that engage the region's youth and harness their energy. This is the only way to convert their demographic burdens into dividends.

appendix

methodology and data sources

Coverage of Countries

Middle East and North Africa:
Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, UAE, Yemen

Sub-Saharan Africa:
Angola, Botswana, Burkina Faso, Cameroon, Cote d'Lvorie, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Uganda, Zambia, Zimbabwe

Structure of the Assessment Process

The assessment of inclusive growth involves 24 indicators (with 10 sub-indicators), organized into six clusters, which are then grouped into two components: Present Conditions and Enabling Conditions. The structure is illustrated in Chart A1 at the bottom of the page.

Scoring the Indicators

To ensure that the values of each of the indicators are made compatible and can be aggregated into a common score, three different procedures are used depending on the format in which the raw data are presented. The three procedures are:

• **Max Country Divisor:** Indicator raw values are converted to a 1-100 range by using the value of the country with the highest value as the divisor.

• **As is, Capped at 100:** Indicator raw values are already in percentage terms and are used as such. The maximum value is capped at 100 in cases where the values exceed 100.

• **Inversion, Capped at 100:** Indicator raw values are already in percentage terms but the indicator is a "negative" one where the higher the value, the weaker the inclusive growth. They are inverted before being used.

Averaging the Scores Using Geometric Means

The Potgieter and Angelopulo Methodology (i.e. weighted geometric mean) is used for averaging the indicator scores. This is primarily an application of using geometric averaging instead of arithmetic averaging, which has the benefit of awarding convergence of indicator values while penalizing divergence in indicator values. When indicator values converge, it suggests that they work closely together and are generating synergy, and geometric averaging reflects such synergy. In the case where indicator values diverge and with one of two indicators having very high values, the mathematical average may end up being very high. With geometric averaging, however, a lower average is obtained.

Weights Assigned to the Scores

Country Overall Score:

25% Present Conditions,

75% Enabling Conditions

Present Conditions:

25% Economic Growth and Expanding Economic Opportunity

75% Equality of Outcomes

Enabling Conditions:

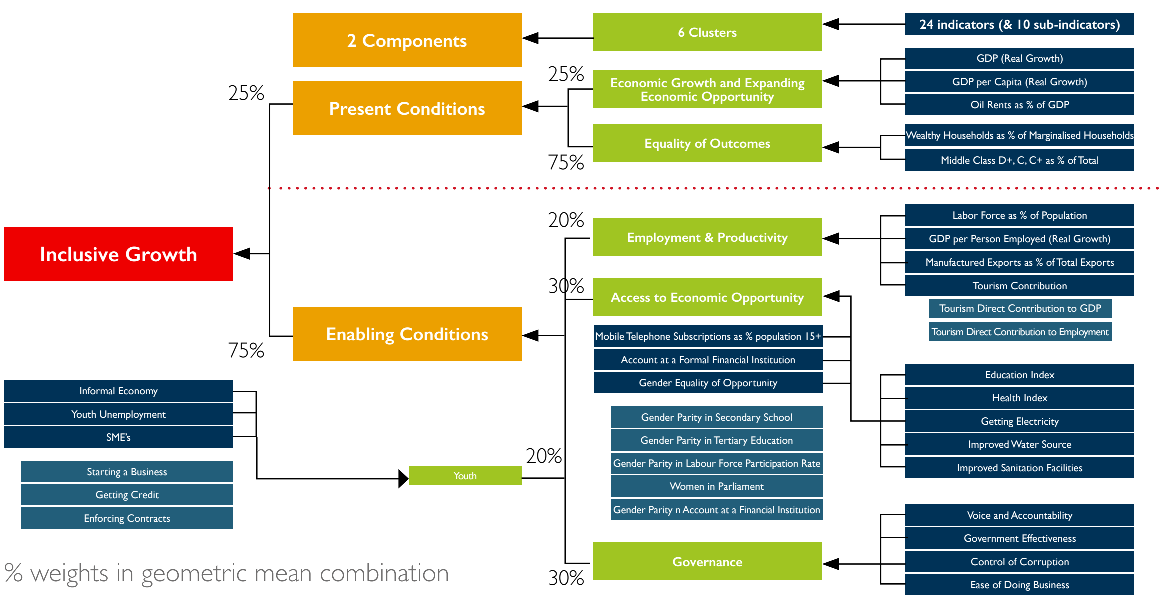
20% Employment and Productivity

30% Access to Economic Opportunity

30% Governance

20% Youth

A1 Assesment of Inclusive Growth in Middle East and North Africa



Data Sources

INDICATOR	DATA SOURCE	SCOURING OF INDICATOR
Real GDP Growth	IMF WEO	Max Country Divisor
Real GDP per Capita	IMF WEO	Max Country Divisor
Oil Rent as % of GDP	World Bank	Inverted, Capped at 100
Ratio of Top to Bottom Social Classes	Camback-Danglar	As is, Capped at 100
Middle Class Household as % of Total	Camback-Danglar	As is, Capped at 100
Labor Force as % of Population	ILO, US Census	As is, Capped at 100
GDP per Person Employed	ILO, IMF WEO	Max Country Divisor
Manufacturing Export as % of Total	WTO	As is, Capped at 100
Voice and Accountability	World Bank	As is, Capped at 100
Government Effectiveness	World Bank	As is, Capped at 100
Control of Corruption	World Bank	As is, Capped at 100
Ease of Doing Business	World Bank	As is, Capped at 100
Education Index	UN	As is, Capped at 100
Health Index	UN	As is, Capped at 100
Getting Electricity	World Bank	As is, Capped at 100
% of Pop. W. Access to Potable Water	World Bank	As is, Capped at 100
% of Pop. W. Access to Sanitation	World Bank	As is, Capped at 100
Mobile Subscription as % of Pop. Over 15	ITU, US Census	As is, Capped at 100
% of Pop. W. Bank Accounts	World Bank	As is, Capped at 100
Gender Parity in Secondary School	UNESCO	As is, Capped at 100
Gender Parity in Tertiary Education	UNESCO	As is, Capped at 100
Gender Parity in Labor Force	ILO	As is, Capped at 100
Women in Parliament	UN MDG	As is, Capped at 100
Gender Parity in % W. Bank Account	World Bank	As is, Capped at 100
Youth Unemployment	ILO	Inverted, Capped at 100
Informal Economy	Ceyhun Elgin and Oguz Oztunah; Friedrich Schneider	Invested, Capped at 100
Starting a Business	World Bank	As is, Capped at 100
Getting Credit	World Bank	As is, Capped at 100
Enforcing Contract	World Bank	As is, Capped at 100

A.2 Incusive Growth Scores of the Developed Countries Benchmark

		MEA INCLUSIVE GROWTH			PRESENT CONDITIONS			ENABLING CONDITIONS		
Rank	Country	2010	2014	2010-2014 Index Point Change	2010	2014	2010-2014 Index Point Change	2010	2014	2010-2014 Index Point Change
*	Developed Country Benchmark	66.06	64.4	-1.66	59.9	59.4	-0.44	68.3	66.1	-2.12
1	South Korea	69.47	67.6	-1.87	73.4	71.3	-2.18	68.2	66.4	-1.77
2	Germany	69.08	64.81	-4.28	67.3	58.7	-8.55	69.7	67	-2.73
3	United States	64.95	64.25	-0.7	52.1	55.7	3.66	69.9	67.4	-2.54
4	Japan	69.9	64.13	-5.77	71.6	59.9	-11.69	69.3	65.6	-3.74
5	United Kingdom	63.49	63.94	0.46	50.1	56.1	6.03	68.7	66.8	-1.92
6	Denmark	65.18	62.61	-2.57	54.5	55.2	0.7	69.2	65.3	-3.89
7	Norway	49.05	62.45	13.39	34.6	59.3	24.66	55.1	63.5	8.45
8	Australia	59.64	62.1	2.46	53.5	59.1	5.6	61.8	63.1	1.3
9	Canada	63	61.22	-1.78	59.3	58.4	-0.84	64.3	62.2	-2.12
10	France	62.88	60.15	-2.73	53.6	50.6	-3.09	66.3	63.7	-2.56

A.3 Top 20 Inclusive Growth in the Middle East and Africa

Rank	Country	MEA INCLUSIVE GROWTH 2010	MEA INCLUSIVE GROWTH 2014	MEA INCLUSIVE GROWTH 2010-2014 Index Point Change	PRESENT CONDITIONS 2010	PRESENT CONDITIONS 2014	PRESENT CONDITIONS 2010-2014 Index Point Change	ENABLING CONDITIONS 2010	ENABLING CONDITIONS 2014	ENABLING CONDITIONS 2010-2014 Index Point Change
*	Developed Country Benchmark	66.06	64.4	-1.66	59.9	59.4	-0.44	68.3	66.1	-2.12
1	UAE	47.47	57.58	10.12	43.9	50.7	6.84	48.7	60.1	11.34
2	Qatar	57.62	55.22	-2.4	76.7	56.6	-20.03	52.4	54.8	2.37
3	Bahrain	44.86	54.56	9.7	42.6	56.8	14.17	45.6	53.8	8.21
4	Saudi Arabia	52.74	51.45	-1.29	70.7	65.3	-5.39	47.8	47.5	-0.31
5	Oman	54.5	50.95	-3.55	77.5	50.3	-27.22	48.5	51.2	2.72
6	Tunisia	38.44	44.31	5.87	14.2	21.3	7.16	53.6	56.5	2.93
7	Lebanon	52.23	43.83	-8.4	42.3	46.1	3.83	56	43.1	-12.94
8	Botswana	41.86	43.29	1.43	13.7	17.6	3.9	60.8	58.5	-2.32
9	Jordan	33.22	40.94	7.72	9	42.4	33.42	51.4	40.5	-10.93
10	Kuwait	39.16	40.86	1.7	30.2	44.6	14.39	42.7	39.7	-3.03
11	South Africa	41.24	40.68	-0.56	14.6	17	2.45	58.3	54.4	-3.95
12	Egypt	30.45	39.03	8.58	6.8	26.7	19.86	50.1	44.3	-5.82
13	Namibia	35.06	38.58	3.51	10.7	16.2	5.52	52.1	51.5	-0.59
14	Morocco	29.6	36.47	6.86	4.5	10.6	6.1	55.5	55.1	-0.42
15	Cote d'Ivorie	15.83	26.14	10.3	1.9	5.3	3.38	32.1	44.5	12.44
16	Rwanda	23.53	26	2.47	2.5	3.1	0.57	49.4	52.7	3.37
17	Kenya	23.78	25.71	1.94	2.7	3.6	0.92w	49.2	49.5	0.33
18	Ghana	25.02	25.29	0.27	3.4	3.8	0.42	48.7	47.5	-1.16
19	Zambia	23.28	24.84	1.56	3.3	3.6	0.33	44.8	47.3	2.52
20	Senegal	21.61	24.17	2.56	2.8	3.6	0.76	42.6	45.7	3.07

A.4 Countries in 21-34 Ranks

Rank	Country	MEA INCLUSIVE GROWTH 2010	MEA INCLUSIVE GROWTH 2014	MEA INCLUSIVE GROWTH 2010-2014 Index Point Change	PRESENT CONDITIONS 2010	PRESENT CONDITIONS 2014	PRESENT CONDITIONS 2010-2014 Index Point Change	ENABLING CONDITIONS 2010	ENABLING CONDITIONS 2014	ENABLING CONDITIONS 2010-2014 Index Point Change
*	Developed Country Benchmark	66.06	64.4	-1.66	59.9	59.4	-0.44	68.3	66.1	-2.12
21	Nigeria	19.89	23.59	3.7	3.3	7.2	3.98	36.3	35	-1.36
22	Sierra Leone	17.5	22.49	4.98	2.1	3.8	1.76	35.7	40.6	4.9
23	Uganda	21.28	22.43	1.15	2.1	2.7	0.62	45.8	45.2	-0.66
24	Mozambique	20.74	22.38	1.64	2.1	2.3	0.28	44.8	47.5	2.7
25	Angola	15.6	22.38	6.78	2.2	7.3	5.04	29.8	32.5	2.74
26	Cameroon	18.3	22.36	4.06	2.1	3.5	1.31	37.4	41.7	4.29
27	Tanzania	19.77	21.04	1.27	1.5	2	0.52	46.7	45.9	-0.75
28	Ethiopia	18.37	19.2	0.83	1.6	1.7	0.06	41.1	43.1	2
29	Malawi	17.64	19.19	1.55	1.4	2	0.52	40.7	41.1	0.39
30	Burkina Faso	18.16	19.03	0.86	2	2.5	0.57	38.1	37.3	-0.88
31	Zimbabwe	23.32	18.67	-4.65	3.3	2.6	-0.64	44.8	35.8	-9.03
32	Madagascar	14.67	18.27	3.59	1.1	2.4	1.24	34.3	36	1.66
33	Yemen	20.46	16.24	-4.22	3.9	4.2	0.33	35.6	25.5	-10.15
34	Sudan	14.26	14.6	0.34	2.4	2.3	-0.1	25.8	27	1.19

About the Authors

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Yuwa is currently Chief Economist, MasterCard Center for Inclusive Growth, and Global Economic Advisor, MasterCard.

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