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FOOD POLICY REPORT

BEYOND THE ARAB AWAKENING

*Policies and Investments for Poverty Reduction
and Food Security*

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Summary and Policy Recommendations

This report has used innovative data and tools to identify three key focus areas for policymakers and civil society in Arab countries directly and indirectly affected by the Arab Awakening. Findings suggest that poverty and income inequality levels are higher than official numbers suggest. In addition, inequalities between the young and the old (in terms of employment opportunities), men and women (in terms of participation in employment), and rural and urban areas (in terms of living standards) are among the highest in the world. There are also vast disparities among Arab-TI countries, with Kuwait, Qatar, and UAE ranking in the top 10 countries in terms of per capita income, and Comoros, Djibouti, Iraq, Mauritania, Sudan, and Yemen in the bottom third of global income distribution. In addition, disparities in all major MDG indicators are very high, particularly those related to health, such as the child mortality rate and the prevalence of child undernutrition.

Given that existing welfare indicators such as income poverty seem to be misleading for many Arab countries and given the importance of food security for the region, this report introduces the risk of food insecurity as a new measure of well-being, combining (1) food imports as a share of total exports plus net remittances and (2) the prevalence of child undernutrition (measured by child stunting). There are important conceptual and practical advantages to this combined macro–micro approach, including capturing the Arab-TI regions’ exceptionally high dependence on food imports (and thus vulnerability to global food price volatility) and the fact that data for almost all countries is available for compiling this innovative index. The index classifies countries into five groups based on their level of food insecurity risk. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE face low levels of food-insecurity risk. Algeria, Iran, Libya, Turkey, and Tunisia exhibit moderate food-insecurity risk, whereas all other countries experience serious, alarming, or extremely alarming levels of food-insecurity risk. Among the countries with the most food-security risk are Somalia and Yemen, followed by Mauritania and Sudan. The Arab-TI countries are also differentiated by whether they are net oil importers or exporters. This distinction is important given that

oil provides significant export earnings for half of the Arab countries and creates fiscal flexibility for governments, which is particularly critical in times of high global commodity prices.

Economic growth on a per capita level has been slow during the past 20 years in many Arab-TI countries and even negative in per capita terms in some countries. Very low annual growth rates (less than 1 percent per capita) were mainly concentrated in conflict-affected countries, including Iraq, Lebanon, West Bank and Gaza, and Somalia. Growth throughout the region has been especially modest in agriculture and manufacturing. Agricultural growth in countries at risk of food insecurity averaged 0.3 percent per capita per year, with negative growth rates for Algeria, Iraq, Yemen, Jordan, Lebanon, Mauritania, Syria, and West Bank and Gaza. While limited agricultural growth can be partly explained by natural resource constraints, manufacturing growth has also been lagging behind other world regions. Manufacturing in Arab-TI countries grew at a modest 1 percent per year on average, and several Arab countries experienced negative per capita manufacturing growth, including Algeria, Iraq, Yemen, Comoros, Lebanon, Mauritania, Syria, West Bank and Gaza, and Kuwait. The countries with the

best manufacturing growth rates include Iran, Sudan, Jordan, Bahrain, and Oman.

Results of this report also show that economic growth does not trickle down to the poor in Arab countries as much as it does in the rest of the world. In other world regions, 1 percent GDP per capita growth reduces the prevalence of child undernutrition by 0.12 percentage points on average; however, statistical evidence did not reveal the same relationship between GDP growth and child-undernutrition reduction in Arab-TI countries. Furthermore, the strong and positive relationship between agricultural growth and reductions in child undernutrition found in other world regions does not apply to the Arab-TI region. There are several structural reasons to explain why agriculture in many Arab countries may not have translated into poverty reduction, including slow agricultural growth in most countries over the past 20 years, the fact that the rural poor earn a large majority of their income from nonagricultural activities, and the finding that it is not always the poorest that depend most on agriculture. In Egypt, for example, the poorest 20 percent of rural households earn only 18 percent of their income from agriculture, whereas the richest 20 percent of rural households earn 36 percent of their income from agriculture. However, it is important to note that there are differences among countries that the cross-country econometric analysis could not fully capture. For example, agriculture will likely have to play an important role in poverty reduction in countries with large agricultural potential, such as Sudan; and agriculture continues to serve as a social safety net in countries such as Egypt, especially in times of crisis. In terms of manufacturing- and service sector-led growth (particularly growth led by the private sector), the Arab-TI region resembles the rest of the world, and results show these sectors drive improvement in poor people's well-being. This type of growth, combined with productivity-driven structural change, has also proven successful for poverty reduction and economic development more broadly in many Asian and Latin American countries, as well as in Turkey.

Government spending is an important tool for supporting private sector-led growth and improving food security. Low- and middle-income countries in the Arab world (and the Arab-TI region) direct the

largest share of GDP to public spending compared with all LMICs across the globe. As expected, public spending is highest in FS countries. Within the group of FSC countries, public spending by oil-exporting countries was higher and grew faster during the past years compared with oil-importing countries. Arab-TI countries as a group allocate about the same amount of resources to agriculture (relative to agricultural GDP) as other world regions. Yet Lebanon, Morocco, and Yemen spend very little on agriculture, indicating potential underspending. Spending on infrastructure is comparable to Eastern Europe and Central Asia. But within the region, there are diverging trends in FS and FSC countries: spending has declined by 2.6 percent per capita per year in oil-importing FSC countries, while spending has sharply increased by 12.2 percent in (oil-exporting) FS countries. As for education and health, Arab-TI countries spend more on education and less on health than the average of all LMICs, but budgets in both categories have shrunk in recent years. In a trend that diverges from overall spending, FS countries' spending on education and health grew less than in FSC countries, and that of oil-importing countries grew faster than oil-exporting countries. Arab-TI countries have by far the highest spending on social protection of all world regions which is driven by large public sectors and related benefits such as pensions. In addition, fuel and, in some countries, food subsidies are often higher than spending on social protection programs and health, and these subsidies are often inefficient and ineffective. Despite these relatively high levels of public spending, overall public spending in Arab-TI countries contributes less to economic growth compared with the rest of the world. These findings clearly suggest a large scope for improving the efficiency and effectiveness of public spending, for which selected measures will be discussed in more detail under policy priority area 3.

Several key policy recommendations emerge from this analysis, including the urgent need to (1) improve data and capacity for evidence-based decisionmaking, (2) foster growth that enhances food security, and (3) revisit the allocation and efficiency of public spending. While these priority areas apply in general to all Arab-TI countries, the urgency to act is greater in FSC countries, and measures may differ in countries with macro- compared to micro-level food insecurity

risks. However, it is important to note that the extent to which these and other desirable reforms can be implemented is limited for several reasons. “Reform” has a negative connotation for many people in the Arab world, mainly because policies have often been designed and implemented using a top-down approach, and certain reforms, including trade liberalization and privatization, have previously bypassed the majority and instead benefited only a few. In addition, in Egypt, Tunisia, and elsewhere, many people were hoping for more jobs and better lives when they took to the streets and are now faced with fewer jobs and growing poverty. Policymakers’ space for action is further limited by the fact that the Arab Awakening unfolded (and continues to unfold) in the midst of a global crisis, where the debt crisis in Europe and the United States is likely to slow global economic growth prospects and may limit trade prospects and external financial support to the region. In addition to potentially limited foreign aid inflows, extensive fiscal measures such as increases in public-sector wages and subsidies in the run-up to and during the Arab Awakening have left governments, especially in oil-importing countries, with large and growing fiscal deficits and thus limited scope for stimulus measures.

The following policy priority areas and related recommendations take these specific political and economic realities into consideration. Therefore, they mainly focus on measures that do not place additional financial burdens on the countries and are largely budget-neutral.

I. Improve data and capacity for evidence-based decisionmaking.

It is critical that policymakers and voters base their decisions on realistic baselines, because decisions based on flawed data can lead to significant financial losses and damage to economies and people. In addition, admitting that some official numbers (such as official poverty and inequality indicators) may underestimate the extent of the problems many Arab countries face will help to increase the credibility of policymakers and allow them to set targets against which future progress can more realistically be assessed. For these reasons, countries should develop and improve availability, accessibility, and quality of data.

Data often exist but are withheld by governments and related agencies. These existing data, such as household surveys, social indicators, national accounts, consumer prices, and others, should be made available immediately online. Several countries such as Egypt, Morocco, Tunisia, Syria, and Yemen have carried out household budget surveys in recent years, which are the main sources for estimating poverty and conducting related policy analyses. Yet none of them is publically available, and even local analysts often have only extremely limited access to the raw datasets. Key indicators for assessing progress toward the MDGs and other development goals do not exist for many countries. For example, the World Development Indicators database (World Bank 2011a) provides recent income inequality estimates at the national level for only half of all Arab-TI countries, while data by rural–urban disaggregation is available for even fewer countries. Another example is the national accounts data often published with significant time lags (sometimes of several years) and produced only on an annual basis, instead of quarterly, as is common in most middle- and high-income countries. Data on consumer prices at the national and local market levels, which are important for food-insecurity risk and impact analysis, are often inaccessible. Such data should be published in a coordinated and consistent way in national, regional, and global online databases.

In addition to the lack of access, the quality of data matters for policy analysis. In the short run, alternative data can compensate for the lack of reliable data. As demonstrated in this report, these alternative data sources include the Demographic and Health Surveys, Multiple Indicator Cluster Surveys, and the Gallup World Poll, all of which are available for many Arab-TI countries. In the medium to long term, countries have to improve the capacity of staff in statistical offices, ministries, and related agencies to collect, analyze, and evaluate relevant data. New technologies such as personal digital assistants (PDAs), global positioning systems (GPSs), user-friendly software, and flexible interfaces have vastly improved in recent years and often have built-in quality-control mechanisms. Focusing on national and subnational regional offices in staff training can greatly improve the quality of data during collection and processing. There is also large scope for regional cooperation

given the multitude of cross-country data (trade, migration, water flows, and others) and potential for knowledge exchange and transfer.

Providing government budget data organized by detailed categories, function, and subnational levels could greatly enhance public spending analysis and allocation. Data on spending on agriculture, infrastructure, education, health, and other areas are often only available by aggregate sectors (including the data used for the public spending analysis in this report). Countries should expand this data to include a detailed subsector breakdown that allows for more specific analysis of the return on investments. For example, it would be interesting for analysts and policymakers to know what type of infrastructure spending—such as investments in roads, irrigation, electricity networks, railways, or harbors—is the most effective at enhancing growth or reducing poverty. Public spending data collection should be expanded to include the subnational distribution of government resources, which is not included in most databases. This kind of information could help identify potential biases in rural–urban allocation, reveal distribution by governorates, and, more generally, give support to subnational development strategies.

2. Foster growth that enhances food security.

Fostering economic growth is key to enhancing food security, yet different types of growth are likely to be more conducive to enhancing food security at macro or household levels or both. For improving food security at the macro level, export-led growth improves the balance of payment position and generates foreign exchange revenues for food imports. Enhancing food security at the household level requires inclusive growth, which generates jobs and incomes for the poor. Growth, combined with appropriate tax systems, also generates government revenues that can be directed to public spending on food security.

Supporting growth that strengthens macro-level food security is particularly important for those countries with high macro-level vulnerability, such as Algeria, Egypt, Jordan, Lebanon, Sudan, Syria, Yemen, Comoros, Djibouti, Mauritania, Morocco, and the West Bank and Gaza (Figure A1.1). Finding the

“right” path to export-led growth is likely to depend on countries’ initial conditions, such as geographic location and natural endowments, among other factors. In terms of geographic location, Mediterranean countries can benefit from their proximity to Europe, an export market for “traditional” goods and services such as fresh or processed fruits and vegetables and tourism. In addition, there is a growing market for nontraditional exports such as renewable energy. Mediterranean countries can use their vast potential for solar energy production to meet this growing demand. Access to the sea also makes many Arab countries attractive places for setting up special zone industrial clusters. Important lessons learned from Egypt’s experience attracting foreign direct investment to its Northwest Suez Special Economic Zone can be applied to sectors such as textiles and garments, petroleum equipment, automobile assembly, and electrical equipment. These lessons highlight the importance of expecting long planning horizons (10–15 years from start to full operation), including special economic zones in national and urbanization strategies, and creating legislation and infrastructure conducive to these plans (Brautigam and Xiaoyang 2011).

Fostering growth that improves household-level food security must become a key priority, especially in countries with high levels of poverty, including in Djibouti, Egypt, Iraq, Sudan, Somalia, Libya, Mauritania, Syria, and Yemen (Figure A1.2). Results from this report show that growth led by the manufacturing and service sectors is most pro-poor (Table 3), but many countries have seen dismal manufacturing growth, and the manufacturing sector’s poverty-reducing effects in Arab-TI countries are weaker than in the rest of the world. Thus, Arab-TI countries need country-level analysis to find the binding constraints on accelerating growth and to identify country-specific reasons why growth does not reach the poor to the same extent it does in other world regions. For example, growth diagnostics for Egypt suggest that inefficient bureaucracy and financial services, high public debt levels, and lack of education are key issues that constrain private sector-led growth (Enders 2007). For Morocco, key constraints include low women’s educational coverage, poor institutional capacity, and biased export incentives (López-Cálix 2005). For oil-exporting countries, managing Dutch disease effects—such as overvalued

exchange rates and distortions in the labor markets, both of which compromise the competitiveness of the domestic manufacturing sector—is an important cornerstone of pro-poor growth policy. In addition, and to make growth inclusive, governments need to expand targeted social safety net programs in countries where they are already in place and establish such programs in countries lacking established safety net programs. Labor-intensive public works programs, conditional cash transfers and in-kind transfers, and unemployment insurance are essential for protecting the food insecure. Safety nets should be effectively combined with gender-sensitive interventions that increase the productive capacity and improve the health and nutrition of vulnerable households and individuals (Fan, Torero, and Headey 2011).

Fostering export-led, inclusive growth and targeting transfers to poor households require substantial improvements in institutions and legal frameworks for firms and individuals. The “governance gap” that exists throughout the region has to be closed through improvements in public administration and public accountability overall. It is crucial to build healthy governing institutions in the Arab world so that they are able to provide, make available, and improve opportunities for individuals and private firms to contribute to human and economic development.

Agricultural growth may play a role in enhancing macro-level food security either through growth in agricultural exports or food production for the domestic market. It may also provide incomes to the rural poor. However, the finding that agricultural growth is not pro-poor in the Arab-TI region calls for revisiting the sector’s roles, which have traditionally included job creation for the poor, provision of a safety net in times of crisis, development of lagging regions, and provision of environmental services. Structural transformation within the sector still has potential for creating jobs, especially for lower-skilled workers who are often poor. For example, more laborers are required to produce vegetables than to produce cereals, providing huge opportunities for countries with a large share of irrigated cereal production, such as Egypt and Syria, to switch to export-oriented cash crops. In addition, smallholder agriculture continues to provide an important safety net function for farmers and their family members, especially during times of

crisis. To support the development of rural areas and lagging regions and the provision of environmental services, Arab governments should shift policies and investments to agriculture and related rural activities through targeted “green box” measures including subnational comprehensive regional development programs and research and development (Minot et al. 2010). Morocco and Tunisia are two countries with significant agro-processing and related export sectors that absorb important surpluses of rural labor, and their experience may provide important lessons for other Arab countries. Subnational development programs, for example for upper Egypt or northeast Syria, should have agricultural supply chains as key components (IFAD 2011). These components would include boosting agricultural productivity in high-value crops, linking farmers to agribusinesses, promoting producer organizations’ access to markets, and supplying public services such as health and education.

When designing country-specific growth strategies, emerging challenges should also be closely integrated as they can severely compromise growth. Projections show that in all Arab countries, except Djibouti and Lebanon, water scarcity is likely to become much worse, causing those countries to suffer from extreme water scarcity by 2050 (Figure A3.1). Continued high population growth is likely to put additional pressure on water and other natural resources but may also provide opportunities for development through higher density, specialization, and shorter distances. Assuming that urban areas will not be able to absorb a rapidly growing rural population quickly, rural development must continue to play an important role (Figures A3.2 and A3.3). In addition to constraining economic growth, natural resource scarcity plus projected strong impacts of climate change may also exacerbate conflicts in the region, which already exhibits the highest number and intensity of conflicts in the world (Table A3.1). Evidence shows that countries in political transition (such as Egypt, Tunisia, and Libya) are often at the highest risk of conflict (Collier and Hoeffler 1998). In the context of the Arab Awakening, pessimists frequently point to experiences from Eastern Europe and Sub-Saharan Africa in which power vacuums have led to an increase in civil wars led by armed groups (Kaldor 2006; Duffield 2001). The more optimistic view points to new opportunities that

emerge from the fall of authoritarian regimes, including unique momentum for political and economic reforms. However, more research is needed to support policy-makers in their quest to lead a peaceful and successful transition process. In this context, two important interlinked questions need to be answered: (1) What are the major causes of conflicts in Arab countries? and (2) What measures can eliminate these causes?

3. Revisit the efficiency and allocation of public spending.

Arab countries urgently need to assess the efficiency and allocation of public spending. In general, most oil-exporting countries with fiscal space will find it easier to compensate for inefficiencies by increasing spending, while oil-importing countries with fiscal deficits are likely to have to rely mainly on reallocation of spending and improving spending efficiency. However, both oil importers and oil exporters should have a genuine interest in achieving higher returns on their spending. A wide array of country-specific factors affects public expenditure efficiency, such as the level of economic development, size of the public sector, public-sector competence, governance, political stability, security of property rights, and others. As in the case of growth strategies, investment plans have to account for country-specific conditions, and, importantly, they should be linked closely to growth strategies at subsector and subnational levels to ensure maximum consistency and development impact.

As a key element of increasing efficiency, public services need to be overhauled in order to better serve the people and achieve the desired outcomes. Results of this report show that social-sector spending, and most critically education spending, is much less effective in the Arab-TI region compared to the rest of the world (Table 6). This finding is consistent with the often-heard notion that the education systems in most Arab countries have produced schools and universities that lack good technology, appropriate curricula, or motivated teachers and that pump out a large volume of graduates with high career aspirations who do not have skills matched to the labor markets. However, given that education is the foundation for achieving inclusive growth, Arab policymakers will have to prioritize education to address existing skill gaps, better respond to labor market signals, and stimulate

knowledge-based capabilities, matching opportunities in the global as well as regional and local economy (UNDP 2009). For example, a growth strategy that builds on manufacturing-led growth for improving food security as suggested by the findings of this report will require building a strong, competitive, and relevant vocational education system. From a demand perspective, the alternative to a general education—vocational training—must be made worthwhile and competitive. Governments should employ national media to dispel the current negative perception of a vocational education and career. Within a national plan, the government should portray both education systems—general and vocational—as complementary in their national development goals. For general education, the curriculum across all education levels should be modified to be competitive, not just nationally but also internationally. Public-sector employment should be consolidated, and teacher and instructor salaries and training must also become competitive in order to align instructor incentives with the government's and people's aspirations of achieving prosperity.

These priority areas may provide a starting point for governments, be they established, in transition, or newly elected, to improve the lives of the people. What is urgently needed are national dialogues about the joint vision of society, not only in terms of political systems, but also economic development pathways. Governments and citizens should be considering key questions: What should the economy look like in 20 years? What relationship should the country have with the global economy and neighboring countries? How much inequality and redistribution are acceptable and necessary? Development strategies based on a joint vision should have answers to more specific questions: Which short- and medium-term goals should be achieved? And what are realistic ways to achieve them? Successful design and implementation of these strategies will require visionary leadership, sound laws and institutions, politicians who are accountable and listen to the voices of the people, and a civil society that is patient and accepts the tenants of democracy. The Arab World has awakened. It is time to take the next steps.