

A New Social Contract for Post-Conflict Middle East and North Africa

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Abstract

The civil wars in Libya, Syria and Yemen arose from the Arab Spring that, in turn, was triggered by a broken social contract. In the old social contract, the state would provide free health and education, subsidized food and fuel, and jobs in the public sector, in return for which citizens would keep their voices low, despite widespread cronyism and corruption. By the 2000s, the state could no longer provide jobs, so the citizens took to the streets in protest. In Libya, Syria and Yemen, the aftermath was civil war that has lasted over a decade. When these wars end, the post-conflict reconstruction strategy should be geared towards a new social contract so as not to recreate the conditions for the resumption of conflict. Yet, the experience with post-conflict reconstruction in MENA and elsewhere has been to reproduce the old social contract, where the centralized state commands all the resources and the citizens are passive recipients of its largesse. The new reconstruction strategy should be one where the citizens hold the state accountable, rather than the other way around. In practice, this means having education and health services managed by communities; private goods such as food and fuel sold at market prices; and fiscal resources transferred to households so that they can decide what to buy, where to live, and what services to demand from the state.

JEL classification: H42, F35, Q34

Keywords: Social Contract, Post-conflict Reconstruction, Arab Spring, Accountability

ملخص

نشأت الحروب الأهلية في ليبيا وسوريا واليمن من الربيع العربي الذي بدوره إلى كسر العقد تماعي. في العقد تماعي القديم، ستوفر الدولة الصحة والتعليم المجانيين، والغذاء والوقود المدعوم، والوظائف في القطاع العام، مقابل لقاء المواطنين أصواتهم منخضة، على الرغم من المحسوبية والفساد على نطاق واسع. بحلول العقد الأول من القرن الحادي والعشرين، لم تعد الدولة قادرة على توفير الوظائف، لذلك خرج المواطنون إلى الشوارع احتجاجاً. في ليبيا وسوريا واليمن، كانت تداعيات الحرب الأهلية التي استمرت لأكثر من عقد. وعندما تنتهي هذه الحروب، ينبغي أن توجه استراتيجية التعمير بعد انتهاء الصراع نحو عقد اجتماعي جديد حتى لا تهبط الظروف لاستئناف الصراع. ومع ذلك، فإن تجربة إعادة الإعمار بعد الصراع في الشرق الأوسط وشمال إفريقيا وأماكن أخرى كانت إعادة إنتاج العقد الاجتماعي القديم، حيث تتولى الدولة المركزية كل الموارد ويكون المواطنون متلقين سلبيين لسخائها. يجب أن تكون استراتيجية إعادة الإعمار الجديدة واحدة حيث يحاسب المواطنون الدولة، وليس العكس. ويعني ذلك، من الناحية العملية، وجود خدمات تعليمية وصحية تديرها المجتمعات المحلية؛ والسلع الخاصة مثل الأغذية والوقود التي تباع بأسعار السوق؛ والموارد المالية المحولة الأسر المعيشية حتى يتسنى لها أن تقرر ما تشتريه، وأين تعيش، وما هي الخدمات التي تطلبها من الدولة.

Errare humanum est, sed perseverare diabolicum
(*To err is human but to persist is diabolical*)
--Lucius Annaeus Seneca

The civil wars in Libya, Syria and Yemen are having a devastating effect on their economies and people. Syria's and Yemen's GDP is about one-third of what it would have been in the absence of war (World Bank 2017, UNDP 2021); Libya's oil production is averaging half its pre-2010 levels (ESCWA 2021). Massive amounts of infrastructure have been lost. In 10 cities in Syria alone, about 27 percent of the housing stock, half the medical facilities and schools, and two-thirds of the power plants have been damaged or destroyed (World Bank 2017). Yemen's the civil war has led to half the population living in extreme poverty, about 40 percent of the children out of school, and about 30 percent of the population (and 24 percent of the children) living with malnutrition (Moyer et al. 2019). In 2022, up to 19 million people are predicted to be food insecure in Yemen--in one of the worst humanitarian crises of recent history (WFP 2022). Significantly, tens of millions of people have fled their homes. Over half the Syrian population is displaced, with half of that total or about seven million people living as refugees in other countries. More than four million Yemenis have been forcibly displaced.

When these civil wars end, there will be a strong push to reconstruct damaged infrastructure, revive collapsed economies and rebuild people's lives and the social fabric. But there is a grave danger that the post-conflict reconstruction in Libya, Syria and Yemen will instead recreate the conditions for another civil war. In section I of this paper, we explain why. The main reason is that each of these wars started in the aftermath of the Arab Spring. The conditions that led to the Arab Spring were somewhat distinctive to the countries of the Middle East and North Africa. They involved a broken social contract. The reaction of most governments to the protests was to try to recreate the old social contract rather than acknowledge the need for a new one. As a result, the political and economic turmoil continued, with civil war breaking out in at least three countries. We show that the typical pattern of post-conflict reconstruction is to reinforce the pre-conflict social contract, which will then set the stage for a resumption of civil war. In section II, we describe a post-conflict strategy that will lead to a new social contract and suggest ways of implementing that strategy. Section III addresses some possible criticisms of our proposal and provides some concluding remarks.

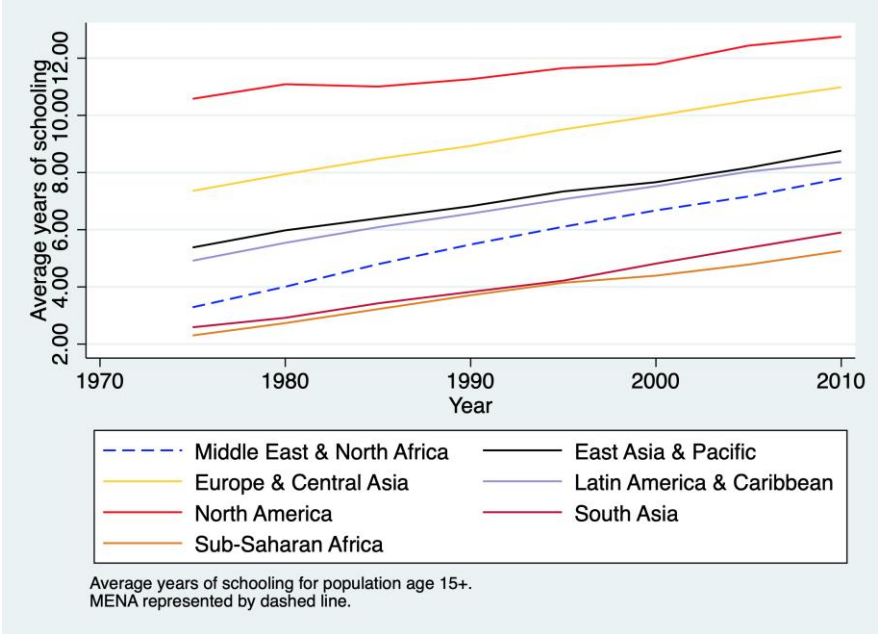
I. Why post-conflict reconstruction may recreate the conditions for another civil war

The argument that post-conflict reconstruction in MENA is likely to lead to another civil war proceeds in four steps. First, we note that the Arab Spring was caused by a broken social contract—and not by inequality, which was relatively low and declining in most Arab-Spring countries (Devarajan and Ianchovichina 2018). Since independence, the countries of MENA had a remarkably similar social contract. The state would provide free health and education, subsidized

food and fuel, and jobs in the public sector. In return for this largesse, citizens would keep their voices low and tolerate state-led corruption and cronyism (Devarajan and Mottaghi 2015). This contract has also been referred to as the “authoritarian bargain” (Yousef 2004).

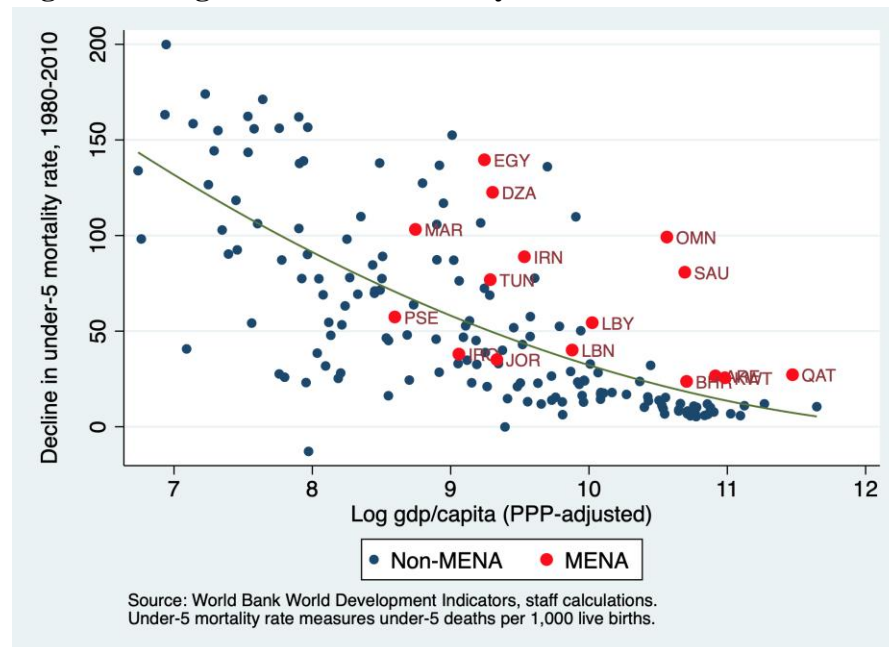
The contract seemed to deliver growth in the post-colonial period and human development through the 2000s. MENA countries enjoyed modest growth, albeit lower than the average for middle-income countries (MICs). As mentioned above, inequality was lower than the MIC-average and declining in many places. There was a rapid increase in educational attainment (the fastest in the world—see Figure 1). And MENA countries saw some of the sharpest declines in child mortality among comparator countries (Figure 2).

Figure 1: Educational attainment 1970-2010



Source: World Bank, World Development Indicators.

Figure 2: Progress in child mortality reduction



Yet, starting from the beginning of the 2000s, there were signs that the social contract was not working. While education enrolments were high and childhood diseases largely eliminated, the quality of health and education services was quite poor (Galal, 2008). There was increasing evidence of absentee teachers in schools and doctors in clinics (Brixi et al. 2015). Disgruntled with the public sector, people resorted to the private sector for health (private doctors) and education (private tutoring). Due to the untargeted food and fuel subsidies and a large public-sector wage bill, the state did not have the fiscal resources to create new jobs to absorb the large number of young people entering the labor force. The large footprint of the state stunted private sector growth, resulting in dual labor markets, with most of the working age population excluded from good jobs (Alloush et al 2013 and Gatti et al 2014). MENA had the highest unemployment rate in the developing world, with the rate for women and youth double the average.

Furthermore, the unemployment rate was highest among the educated youth (Figures 3 and 4).

Figure 3: Youth unemployment in the 2000s

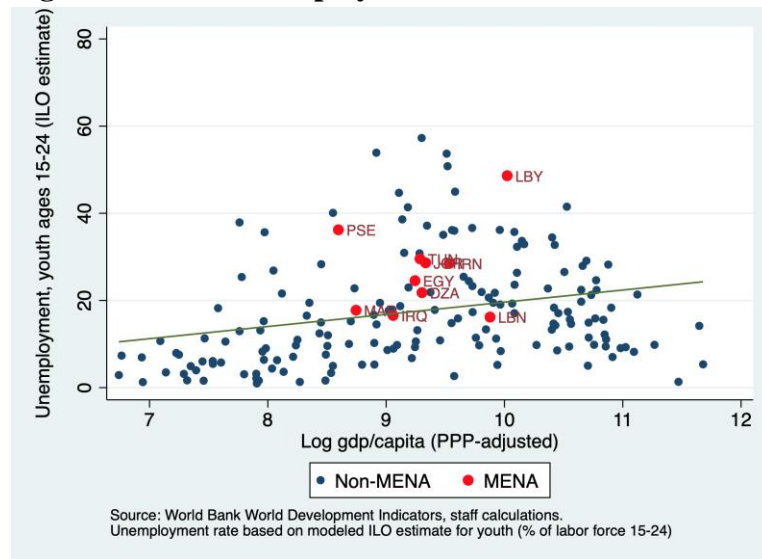
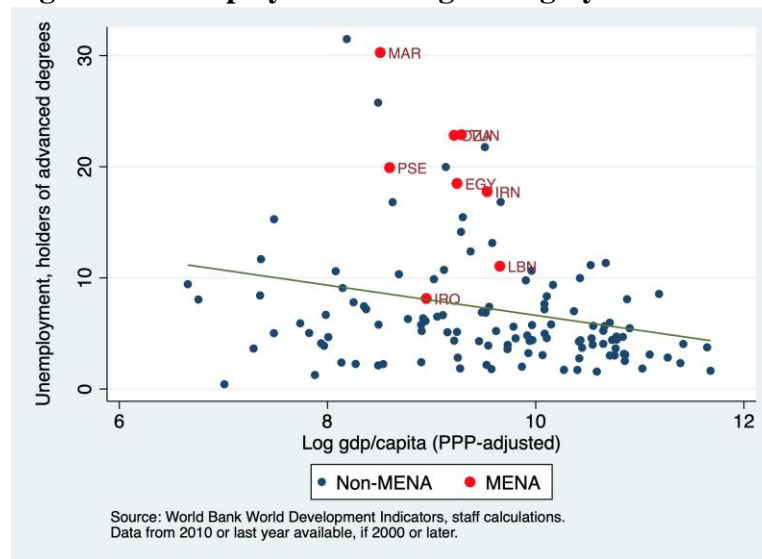
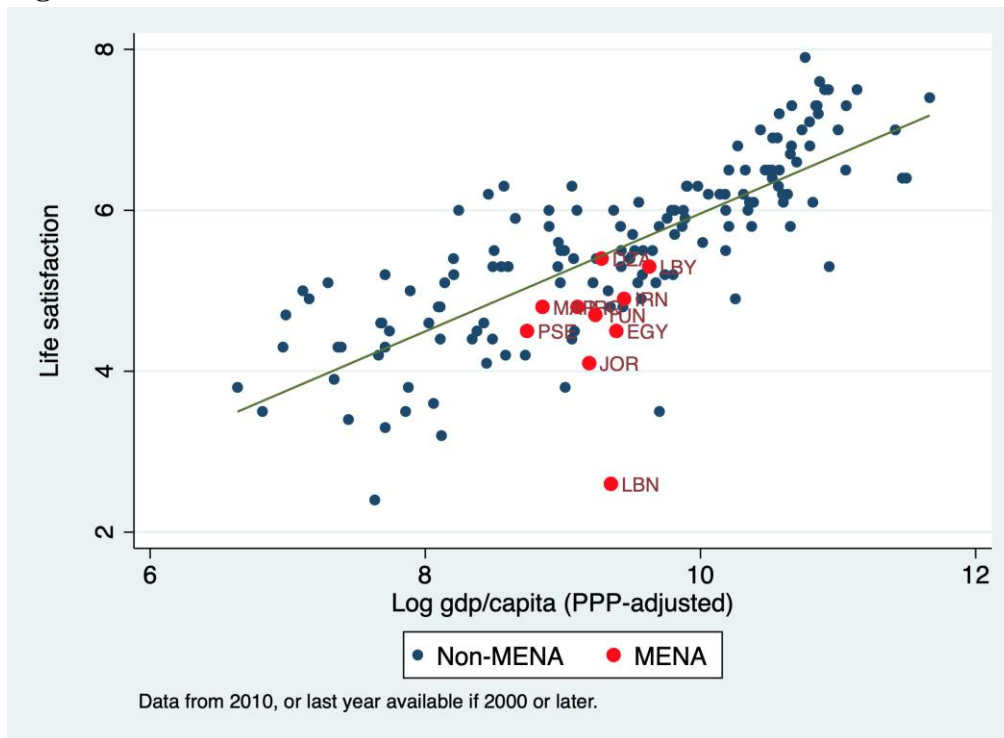


Figure 4: Unemployment among the highly skilled



The inability to get a job, especially for young people who had studied hard to get an education and aspired to enter the middle class, created strong resentment. By 2010, MENA was the unhappiest region in the world (Figure 5).

Figure 5: Life satisfaction rates around 2010



Source: Gallup World Poll

Note: Life satisfaction measured by answers to the question, “Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?”

Since the state was not delivering on its part of the contract, especially on public-sector jobs, the citizens broke their side of the contract and took to the streets in protest. The Arab Spring led to the ouster of several long-serving autocrats in Egypt, Tunisia, Libya and Yemen initially, and later in Algeria and Sudan.

The great hopes embedded in the Arab Spring were disappointed by a difficult aftermath. Most governments have tried to maintain or recreate the old social contract. Even in Tunisia, which emerged from the Arab Spring as a budding democracy with a multiparty democracy, economic policy continued to mimic the old social contract. Food and fuel subsidies persisted. The public sector wage bill remained high, impeding job growth. Despite the fall of President Ben Ali, cronyism was still there (Rijkers et al. 2017). In many of the Gulf States, public sector salaries increased. Lebanon, Iraq, Algeria and Sudan continued with untargeted subsidies—Électricité du Liban is a prime example. Many continued with the bloated civil service and poor-quality public services (the latter epitomized by the “You Stink” movement protesting municipal sanitation services in Lebanon). In Yemen and Libya, civil war broke out because, among other reasons, there was no mechanism for sharing public revenues once the dictator had been removed. In Syria,

the war was a reaction to President Assad's brutal and extractive regime. In short, rather than being repaired, the broken social contract continued to deteriorate further.

These developments are particularly troubling because the typical pattern of post-conflict reconstruction—across countries and over time—has also been in the direction of the old social contract. Reconstruction programs emphasize central-government-led infrastructure development, the resumption of public-sector health and education services, and the reintegration of displaced populations. This tradition stems from the success of the Marshall Plan after World War II (Tzifakis 2013). But the countries that received assistance then were mainly Japan and in Western Europe. While their infrastructure was destroyed, these countries had reasonable public institutions to manage the reconstruction program.

By contrast, countries that emerge from civil war in general, and those in MENA in particular, started out with much weaker governments and institutions. Indeed, that was one of the reasons they had a civil war. Recreating the same set of dysfunctional institutions risks a resumption of the civil war. Accordingly, there have been efforts to improve governance in post-conflict settings but these have focused mainly on the political settlement after the war. In particular, they have emphasized democratic elections to ensure popular representation in decision-making (Collier 2010). But the economic reconstruction continued to promote rehabilitation of infrastructure and resumption of public services. Despite some reform policies in the trade and fiscal areas, the economic reconstruction was always undertaken by the new post-conflict government. In fact, reconstruction programs have avoided major structural reforms lest they create social discontent and renewed hostilities. Donors have tried to give the nascent recipient government authority, even if it were weak and prone to corruption. One exception was in Liberia after the civil war when the donors insisted that someone outside the government should have co-signatory authority over the spending of reconstruction funds to avoid corruption and cronyism (World Bank 2011). The proposal was met with much criticism in Liberia, including from then-President Ellen Johnson Sirleaf, but nevertheless enabled the implementation of the Governance and Economic Management Assistance Program (GEMAP).

A particular and recent case is the reconstruction of Iraq after the U.S. invasion and fall of Saddam Hussein in 2003. Matsunaga (2019) shows that, between 2003 and 2014, a total of \$230 billion was spent on Iraq's reconstruction. This figure is equal to Iraq's total GDP in 2014. The results are, to put it mildly, disappointing. The highest priority was rebuilding the electricity sector. But the first-year target of 6000 megawatts took eight years to be achieved. And the electricity sector continues to be dysfunctional, with 60 percent of Iraqis perceiving electricity provision as "very bad" and another 20-30 percent saying it is "bad". During this period, public sector employment grew so that public sector jobs accounted for over 40 percent of all jobs in the economy. There is strong evidence that corruption increased and became more widespread. Instead of delivering the reconstruction program in the traditional, top-down manner, had the \$230 billion been transferred

in equal amounts to every Iraqi citizen, it would have increased their incomes by 10 percent every year for the ten years. It is worth noting that in only one year during the period 2003-14 did Iraq's GDP growth exceed 10 percent.

In sum, the experience around the world and especially in MENA suggests that the post-conflict reconstruction in Libya, Syria and Yemen is likely to follow the traditional pattern of: (i) centralized government provision of donor-funded infrastructure; (ii) delivery of health and education services using traditional government services; (iii) reintegration of refugees and internally displaced persons (IDPs) whence they left; (iv) economic management by central government or donor-designated technocrats; (v) continued corruption given the cozy relationship between the government and donors. All five of these components are reminiscent of the old social contract, whose failure triggered the Arab Spring and the subsequent civil wars. Unless it is geared towards a new social contract, post-conflict reconstruction is likely to recreate the conditions for another civil war.

II. Towards a post-conflict recovery geared to a new social contract

Is it possible to design the post-conflict recovery in these countries so that, while rebuilding infrastructure and resuming public services, the government and citizens are working towards a new social contract, one that privileges citizen empowerment and government accountability (rather than the reverse)? The following design elements are likely to deliver:

1. Citizens are empowered in the management of basic services. For health and education services, this means that service providers—doctors and teachers—are accountable to the beneficiaries—students and patients. This was one of the missing links in the previous system of centralized, publicly financed and provided human services. The doctors and teachers were, at best, accountable to the central government, which was often unable to monitor their performance. The few cases where beneficiary groups could have a role in holding service providers accountable—such as the schools in Jenin, West Bank where active parent engagement has led to the schools' having the best TIMSS scores in the country or the Concours Qualité in Morocco that encourages competition among primary health clinics through community participation (Brix et al. 2015)—could be replicated in the context of post-conflict reconstruction, especially since the traditional bureaucratic structure is likely broken down.

For other public services such as electricity and water, the key is to make the utilities accountable to the customer. When these services are subsidized, as they are in all MENA countries, the utility is beholden to politicians who decide on the subsidy. As a result, the customer has little leverage when they receive poor service. At the same time, in contexts where authorities lack legitimacy and citizens don't trust them, they will refuse to pay even low fees for service, generating a downward spiral in terms of quality and fiscal revenues. Khemani and de Waal (2022) argue that moving away from over-centralized decision-making

to empowering frontline service providers and leveraging local elections political processes can improve legitimacy, generate more trust, and eventually set these institutions on a path to better management of scarce resources. At that point, if the customer is paying the full price, then the utility has to deliver or the customer may refuse to pay. So the post-conflict recovery should include empowerment of frontline providers together with the progressive elimination of subsidies and full-cost pricing of utilities. Note that the argument for full-cost pricing is not based on fiscal considerations. It is a form of empowerment of the citizen, and hence part of a new social contract.

2. To be sure, the elimination of subsidies will have an adverse impact on the poor (even though the bigger impact will be on the rich, who consume these services in much greater quantities). To cushion the impact on the poor, the recovery program should include a system of targeted cash transfers to the bottom 40 percent of the income distribution. The point of the transfers is to help the poor pay the higher prices for water, electricity and other goods and services that will no longer be subsidized. But the underlying rationale is to empower the poor. In the old social contract, the only way poor people could get a benefit from the state was by consuming fuel or electricity. Now that they are receiving cash, they can decide how to spend the money. This is an example of the shift to citizen empowerment in the new social contract.
3. The reconstruction of damaged infrastructure should be tailored to people's needs rather than where they used to live. As mentioned earlier, about half the population of Syria no longer live in their homes. They fled because of the violence and conflict. Many of them may not wish to return to their original homes, especially if the conflict was with their neighbors. If the government were to simply rebuild infrastructure where it was destroyed, it would be forcing people to return to places from which they fled. Instead, the post-conflict reconstruction plan should take into account where people want to live, and with whom, and then build the infrastructure around these places. Some of the damaged infrastructure may remain unbuilt but that would be better than artificially recreating old neighborhoods and risking a return of the hostilities.
4. Any distribution of resources should adhere to principles of equity. Most of the civil war countries are beset by ethnic or sectarian divisions. Albeit with country-specific dynamics, these divisions contributed to the outbreak of wars in MENA. If the resources for reconstruction are seen as not distributed equitably, the earlier conflicts may re-emerge. However, there are at least two problems in implementing this principle. First, equity might be understood in different ways across different groups. There may also be tradeoffs between equity and efficiency. Some regions may be more effective at reconstruction. Giving them more money will generate quick results, generating overall support for the post-conflict program. But favoring a region because it is more efficient may elicit the resentment that created the conflict in the first place. Secondly, how should the principle of equity be

practiced? Should different provinces receive the same amount regardless of population? Should regions where IDPs moved to receive more even if these people eventually move to other parts of the country? Should places that were more damaged by the war receive more, even if they are sparsely populated? Given that there is no simple solution to these problems, we propose that the resources be distributed equally per capita, regardless of location, ethnicity, or displacement status. In the next section, we discuss how to implement such a proposal.

5. The new social contract should minimize the potential for corruption and cronyism. One way is to reduce the amount of money being controlled by the central government. A lot of corruption takes place in procurement contracts for infrastructure. By limiting the size of these contracts and decentralizing the control of the resources, one can reduce the size of the “rents” to be captured and, hence, reduce the level of corruption.
6. Inasmuch as the government cannot guarantee employment in the public sector, and it was the failure to keep this promise that was one of the triggers of the Arab Spring, the post-conflict reconstruction should be geared towards creating the preconditions for the private sector to create jobs. The main way to do this is to radically change the role of the state in these economies. On one hand, the reconstruction phase will need to keep in check the size and compensation in the public sector. The combination of high salaries, benefits, and lifetime employment makes public-sector jobs much more attractive than those in the private sector. Highly qualified people choose to remain unemployed and wait in the queue for the few public-sector jobs rather than work in the private sector. But this makes the private sector uncompetitive in world markets. At the same time, the large footprint of the state via State Owned Enterprises (SOE), which enjoy more favorable access to credit and regulation than private sector firms further limits the ability of private sector firms to compete and grow (Islam et al. 2022). As part of the post-conflict reconstruction, therefore, there should be a rationalization of public sector employment and promotion of a business environment that helps make the private sector competitive.

III. Implementing the new social contract in a post-conflict recovery

While the elements of the new social contract in a post-conflict MENA seem reasonable, not to say desirable, the main question is: How can it be achieved? On one hand, if there were an omniscient, benevolent social planner, he or she would be able to allocate resources so that the public goods are produced, citizens receive the public services they desire and the private sector grows to produce private goods. Unfortunately, this omniscient, benevolent social planner does not exist (in MENA or anywhere else). In this case, the traditional approach has been to let the central government manage the reconstruction resources. However, the way this approach played out in MENA led to the old social contract, where the state provided a minimum level of services to citizens in return for social cohesion.

To achieve the new social contract where citizens are empowered and governments accountable, we need an alternative. The polar opposite version of the traditional approach is one where the reconstruction resources are distributed as cash transfers equally to the whole population of the country (including refugees). Citizens can then pool their resources to provide “club goods”, such as schools and clinics. Since they are paying for these goods, citizens are likely to hold providers accountable for delivering quality services.

Other local public goods, such as sanitation, can be provided by local entities, such as community associations and municipalities. They would be financed by transfers from the citizens. In this way, there would be competition among municipalities to attract citizens, since they will bring their money with them. This would also be a way for IDPs in particular to choose where they live.

Finally, the post-conflict reconstruction program is mainly about rebuilding national public goods, such as electric power plants, roads and bridges. While the government will be responsible for ensuring they are rebuilt, the financing will come from taxation rather than directly from donor resources. In this way, citizens will have an incentive to scrutinize the government’s reconstruction program, reducing the chances that contracts are granted to cronies.

In sum, by transferring the reconstruction funds directly to citizens, and then having them choose how the reconstruction program proceeds will approximate the new social contract. Citizens will be able to demand the public services that they want because they will be paying for them. They can locate where they wish to live and then have the local infrastructure built around them rather than having to locate where the infrastructure is rebuilt. Local authorities will have an incentive to provide good-quality services to attract citizens, who will be coming with their own money. And if the reconstruction of national infrastructure is financed by taxation rather than by donor transfers, then the government will be accountable to the public, who pay the taxes, and will have greater difficulty diverting funds to other purposes. In other words, citizens will be empowered and the government accountable.

The proposed approach to post-conflict reconstruction in MENA is similar to proposals for the use of oil revenues in developing countries (Moss et al. 2015, Devarajan 2019). These studies showed that in oil-rich, weak-governance countries, development outcomes can be improved by transferring oil revenues to citizens and taxing them back to finance public goods. The reasoning is the same as with post-conflict reconstruction funds. Governments in resource-rich countries are not accountable for the use of oil revenues because they arrive directly from the oil company. By contrast, governments are accountable for revenues earned by taxation because citizens have the option of withholding taxes if the government mis-uses the funds. The same logic applies to reconstruction funds, which is why we have applied this idea to the current context.

That said, both the “oil-to-cash” and the present proposal raise several questions about their implementation. We address some of them below.

The first question is whether it is even technically feasible to transfer cash to every citizen, especially in a war-torn country. While that would have been an obstacle ten years ago, technology has progressed to the point where it is possible to transfer cash by biometric-identified, electronic debit cards at a cost of less than \$2 per card. India has rolled out these cards to over a billion people. Furthermore, many countries now send and receive money through cell phones. To the extent that cellphone penetration is high in MENA, the current proposal is technically feasible.

The second question is whether citizens will use the cash transfers wisely or instead squander the money on “temptation goods” such as alcohol and tobacco. The experience with unconditional transfers around the world provides compelling evidence that most people spend the money they receive from the government either on educating their children or investing in their business. There is no evidence of increased spending on temptation goods (Evans and Popova 2017).

Third, there is a concern that, when provided with cash transfers, people will stop working, whereas one of the goals of post-conflict reconstruction is to revive the labor market. Again, the empirical evidence with cash transfers is that the effect on people’s willingness to work is either neutral or mildly positive. The longest running cash transfer program, the Alaska Permanent Income Fund, has registered a small but positive increase in labor supply (Jones and Marinescu 2022).

Fourth, it could be that when transferred resources, citizens might decide to vote with their feet and leave their country of origin, creating an exodus that might put under stress social services of neighboring or receiving countries. But the fact that they are bringing their money with them may reduce the resistance that frequently accompanies such refugee waves.

Finally, why would any government choose to transfer all its resources to citizens and then hold itself accountable for expenditures through taxation? Some recent work by Devarajan and Do (2022) provides a possible reason. If the government will need to introduce taxation in the future (possibly when the reconstruction money runs out), it will have to credibly commit to not being corrupt (otherwise, citizens will refuse to pay taxes). By providing cash transfers, the government is signaling that its cost of being corrupt is much higher in the future and therefore it is in the government’s interest to be honest. In addition, in the case of reconstruction funds, since donors are providing the funds, they could insist that they be transferred to citizens to ensure that the funds are properly used.

Concluding Remarks

The devastation caused by the civil wars in Libya, Syria and Yemen have brought the need for a post-conflict reconstruction plan into focus. In this paper, we have asserted that such a plan should consider the causes of the civil war to avoid the reconstruction recreating the conditions for another civil war. Since these civil wars emerged in the aftermath of the Arab Spring, and since the Arab Spring was caused by a broken social contract, the post-conflict reconstruction should not recreate the old social contract. Yet, the traditional pattern of recovery programs have all the characteristics of the old social contract: central-government-led rebuilding of infrastructure, public delivery of basic services without built in accountability systems. We propose a different reconstruction program, one that moves the country towards a new social contract, where citizens are empowered and government is held accountable. To achieve the new social contract, we suggest that the reconstruction funds be transferred directly to citizens, allowing them to pool their resources, join municipalities, and pay taxes to finance the various public goods needed for a functioning economy.

This system should be accompanied by establishing clear and credible monitoring and evaluation. Since there is no silver bullet in development, measurement and good evidence on what works are precious instruments for institutions to learn, course correct when needed, and build transparency and trust along the way.

Without embedding accountability from the get-go into post-conflict reconstruction, there is the danger that Libya, Syria and Yemen, once out of a conflict, will end up with the old social contract, setting the stage for another wave of disastrous civil war. As the opening quote of this paper says, to err is human but to persist is diabolical.

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