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Embarking on a Path of Renewal

MENA Commission on Stabilization and Growth

Economic Research Forum (ERF)
and the Finance for Development Lab (FDL)

ECONOMIC RESEARCH FORUM
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This report is the product of a regional commission of experts, working under the auspices of the Economic Research Forum (ERF), and the Finance for Development Lab (FDL). Members participated in their personal capacity, and their participation does not imply the support or agreement of their respective public or private institutions. The views they express are entirely those of the author(s) and should not be attributed to ERF, its Board of Trustees or donors, or to the FDL.

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Foreword

The Commission was set-up in May 2022 by the Economic Research Forum and the Finance for Development Lab.

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The Commission was asked to focus on the following questions:

- In light of the recent major macroeconomic shocks, coming on the heels of a disappointing growth performance over the last decade, **how risky is the current development path in MENA, and especially in highly indebted Egypt, Jordan, Lebanon, Morocco, Sudan, and Tunisia?**
- **How to avoid financial crises and recessions, and initiate and begin to sustain a higher, more inclusive, and more sustainable growth path?**
- The focus should be on three main policy spaces and how they connect: (i) debt workouts and stabilization measures; (ii) innovative economic, social, and climate-related structural reforms; and (iii) political reform and government accountability.
- How can the proposed reforms add up to a coherent MENA-specific program of progress, adapted to the realities and challenges of our times? What are the main recommendations to national governments, and to the regional and international communities?
- There exist useful reports by national, regional, and international organizations on similar issues. But they tend to be technical in style and diplomatic in tone. **The responsibility of the Commission was to not shy away from the very political choices that confront MENA societies at this historic juncture.** As a result, the report is meant to convey coherent and comprehensive messages about the risks and opportunities of the region's development path.

The report will be followed by country studies that provide country-specific analysis and recommendations. We wish to thank the International Development Research Center (IDRC) of Canada for financing the overall project.

During its work, the Commission held detailed discussions and consultations with several experts. We want to thank in particular Nada Ali (University of Massachusetts), Rabah Arezki (Harvard Middle East Initiative), Ragui Asaad (University of Minessota), Amar Battacharya (Brookings Institution), Kevin Carey (World Bank), Hamouda Chekir (Finance for Development Lab), Daniel Cohen (Ecole Normale Supérieure and Finance for Development Lab), Larabi Jaidi (Policy Center for the New South, Morocco), Atef Kubursi (Mc Master University), Brian Levy (School for Advance International Studies John Hopkins University), Prakash Loungani (International Monetary Fund), Adnan Mazarei (International Institute of Economics), Hamza Meddeb (Brookings Middle East), Jim de Melo (University of Geneva), Atif Mian (Princeton University), and Hania Sholkamy (American University of Cairo).

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Ibrahim Elbadawi

Ishac Diwan

Main Recommendations

In the chaotic global post-COVID-19 economy, with the ongoing war in Ukraine, the challenge of adjusting to the global stagflation that is engulfing the world is particularly hard for the oil importing countries of the Middle East and North Africa (MENA) region.

A regional commission of experts, working under the auspices of the Economic Research Forum (ERF), and the Finance for Development Lab (FDL), was asked to evaluate the macro-economic risks ahead, and to make recommendations on the best course correction to avoid them.

After an elaborate process of analysis, consultation, and deliberation, the Commission came up with four sets of recommendations, which are developed in this report:

First, the recent macroeconomic shock waves are making an already weak economic situation catastrophic. Public debts are rising fast towards unsustainable levels. The challenge ahead is stark: inaction would lead to a financial crisis; but austerity alone could stabilize debt only in the very short term and at the cost of high social tensions. Economic growth is already falling, poverty rising, and the middle-class further weakened, all threatening a rise of social unrest. Failing to develop a convincing response raises the threat of a vicious cycle of economic, social, and political declines, including a retreat into populism, and destructive social polarization.

> **“Recent macroeconomic shock waves are making an already weak economic situation catastrophic.”**

Second, the immediate debt challenge forces countries to adopt painful decisions. While some reduction in government expenditure is unavoidable, much of the political capital invested in adjusting to high indebtedness should go towards improving growth prospects. Public expenditure should be reoriented to safety nets and pro-growth spending. Debt restructuring can only go so far, and countries should not expect too much from it. IMF support will be necessary. It needs to be more generous, but it also need to be made conditional on launching credible national revival strategies, as opposed to the austerity-only based approaches of the past.

Third, a pro-growth macroeconomic framework is necessary to ignite growth. But it is not sufficient. In order to achieve a shift in expectation, structural reforms are needed. The reform agenda not only includes the “old” challenges of improving growth prospects and modernizing the state, it should also address the new challenges of relocalization and climate change. On all these fronts, the medium-term reform agenda needs to be initiated in credible ways to create a major expectation shock that can affect the short term - to encourage the private sector into initiate a supply response, and to encourage citizens to start buildin social trust.

> **“Much of the political capital invested in adjusting to high debt should go towards improving growth prospects.”**

The fourth recommendation is to recognize that economic reforms are eminently political exercises that need to mobilize the political elites to work. The latter need to believe that the risks ahead are catastrophic, but that a better future is possible, and to convey these

Main Recommendations

messages to the citizens with brutal honesty. Politically, they need to organize an open dialogue with the private sector and civil society to find new mutually beneficial arrangements - political, social, and economic - that can unlock the countries' true potential. A gradual process if it starts in earnest is possible - improved trust in institutions and confidence about the future will support collective action and generate a virtuous process of progress on all fronts. In addition, there are enormous new opportunities to expand regional and global cooperation that can and should be mobilized in support of reformist national programs.

> **“Economic reforms are eminently political exercises that need to mobilize the political elites.”**

1. Introduction

Much has been written about the weaknesses of the Middle East and North Africa (MENA) economies: their low level of innovation and labour productivity, the lack of dynamism of their private sector and large informality, or the decay of the capacity of the state and of the quality of its services. The social impact of these weaknesses is also well understood: rising poverty, high unemployment, and increased inequality. There is a heavy sense of stagnation and unhappiness in the region. The resulting social discontent had led to the Arab Spring of 2011, and to repeated eruptions of anger, before COVID-19 put a temporary halt to social mobilization. But this has not spurred efforts for fundamental renewal, while economic performance continues to stagnate.

What is less understood is that the financial situation is about to become much worse in the oil importing countries of the region. We focus our analysis on six of these countries: Egypt, Jordan, Lebanon, Morocco, Sudan, and Tunisia. In these countries, **political stability was only preserved in the past decade through expansionary public spending financed by debt. This process has by now widely run out its course.** Public debt levels have become very large, and global interest rates are rising. In the short term, this will put extra pressure on budgets. But more worrisome, it also makes the current path unsustainable and highly vulnerable to a financial blow-up.

To respond to the questions we were asked to reflect on, we have organized our report in four sections, each concluding with a set of key messages. We first reviewed the financial risks and found them to be extremely worrisome. Second, we enquired about the contours of national salvation plans that can reduce the risks ahead, and we concluded that austerity alone would not work, and that instead, economic growth should be at the centre of the new reform agenda. Third, we asked how initiating select short- and medium-term reforms can improve short-term prospects, and help ignite a virtuous cycle of progress. Finally, we look into the central issue of the politics of reforms, and also ask how global and regional cooperation can enhance the domestic agendas.

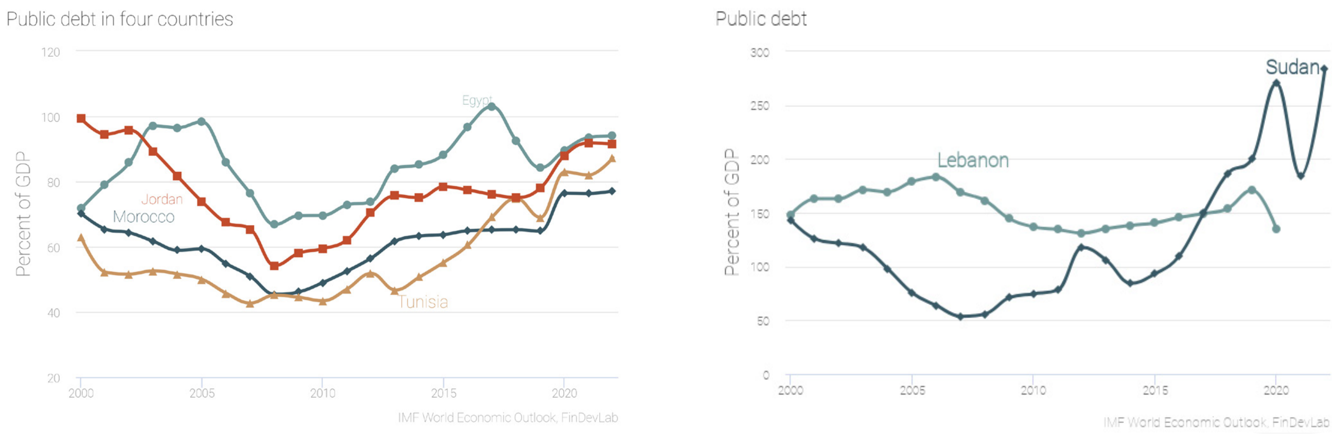
2. Macro-economic tensions at risk of exploding into a financial crisis

In all countries of focus, the public debt to GDP ratio declined after the structural adjustments of the 1980s and 1990s and the provision of debt relief. However, after the 2008 global financial crisis, the debt ratios started rising, and this accelerated after the Arab Spring of 2011, as fiscal policies became more expansionary, and economic growth rates fell. By 2019, these ratios were above 65% in all six countries, levels considered dangerously high for developing countries.

Recent shocks have pushed debt to the brink

Their high debt ratios left MENA countries highly vulnerable to the series of shocks that have rocked the world economy since 2019. Between 2019 and 2022, debt-to-GDP ratios jumped by 10 to 20 percentage points, and are now above 80% for all countries. The first shock was the COVID-19 pandemic of 2020-21. Growth collapsed, as in the rest of the world. MENA governments

Figure 1. Evolution of debt stocks (public debt over GDP)



Source: International Monetary Fund, World Economic Outlook, 2022 provided modest support to firms and households. As in other middle-income countries, expanded spending coincided with reduced revenues, leading to larger fiscal deficits.

More recently, the Ukraine war has resulted in rising international prices of fuel and food, which are imported massively in MENA, with the additional vulnerability that much of the supply of grains was sourced from Ukraine or Russia. Subsidies have risen to alleviate the impact on households, widening internal and external deficits, and pushing public and external debts further up. Several MENA countries already had to devalue their currency since February, and all countries had to raise domestic interest rates. This means that **debt dynamics have now entered a phase of rapid deterioration as interest rates exceed growth and fiscal deficits remain high. If this trend continues, a default on public debt becomes unavoidable** (See Box 1 on Lebanon).

The rise in international interest rates is exacerbating these financial risks. Sudan excepted, all five countries had raised funds on the Eurobond market after 2015 to take advantage of low global interest rates. Recently, the yields of these bonds have shot up. Tunisian and Egyptian yields have risen above 10% since June, a threshold denoting market exclusion (Lebanon has been shut out of the market in 2019). At present, Jordan and Morocco retain access. The response to the current macro shocks in this environment is severely constrained. This is a global phenomenon - around twenty developing countries have lost market access since June 2022, and a larger number of countries are at risk of debt distress if illiquidity morphs into insolvency.

Private activity is stifled by high debt

Economic competitiveness is about the business climate, but also a conducive macroeconomic framework. **In MENA, deteriorated debt dynamics act as a strong brake on private activity. Not only has low economic growth kept debt ratios high, but high debt has also contributed to low investment and growth** (See Table 1). One channel is the crowding out of private investment, much of domestic savings being used to finance public deficits. In some countries, to attract external capital, interest rates were kept high and exchange rates over-valued - a policy-mix that taxed productive investment in tradables and hurt export performance. Total investment - private plus public - was everywhere lower in the 2010s than in the 2000s. By 2019, it was around 10% of GDP in Egypt and in Jordan, and below 20% in Tunisia. It was only higher in Morocco, but without raising growth sufficiently. Moreover, the quality of investment has been low, much of it going into real estate and other unproductive sectors, instead of producing the exports that generate the foreign exchange needed to repay external debts.

Box 1: Lessons from Lebanon's crisis

Since late 2019, a sudden stop of capital inflows has created a triple crisis in Lebanon: fiscal, banking, and balance of payment. As a result, there has been massive inflation and declines in standards of living, large real devaluation and a collapse of imports, banking deposits have been frozen, and the state's capacity has been severely wounded. GDP has fallen dramatically by about half, and poverty has shot to over 50% of the population. The real cause of Lebanon's crisis, and its deepening, is very much related to poor governance and politics: successive governments were unable to muster the discipline to avoid a predicted crisis; and they have been unable to put a credible stabilization plan together, because of fights over how to distribute losses.

After 2011, the war in Syria and the removal of the Saudi implicit guarantee in 2016 weakened the economy. But the road to crisis was also related to bad fiscal and monetary policies. Attracting foreign exchange to finance and defending the peg became increasingly more expensive. High interest rates and an overvalued exchange rate increasingly taxed investment. Devaluating the currency earlier would have prevented de-industrialization and supported investment and export growth. Instead, rent seeking has favoured the non-tradable sectors, such as real estate and finance, where political privileges could be bestowed to the connected few.

Lebanon's experience suggests lessons on how to manage a crisis when it hits: find a rapid political agreement on loss distribution; avoid capital flight; avoid multiple exchange rates; protect the poor; rapidly fix the banking sector; most importantly, have a credible growth strategy that can back such a deal, and that can create some hope for a better future.

Table 1. GDP real growth rates and investment rates before COVID-19

	Average 2000-2010		Average 2011-2019	
	Real GDP growth	**Total investment**	**Real GDP growth**	**Total investment**
Egypt	5.0%	21.6%	3.6%	15.4%
Morocco	4.7%	29.6%	2.5%	32.8%
Tunisia	4.2%	24.9%	0.9%	21.7%
Jordan	6.2%	32.2%	1.9%	23.9%
Lebanon	5.1%	24.5	-2.7%	20.7
Sudan	5.4%	23.9	-1.2%	16.7

Source: World Bank Open Data, 2022

In most scenarios, public debt is unsustainable

Determining the sustainability of public debt is more art than science. The most consensual tool to do so, the Debt Sustainability Analysis (DSA), helps determine under what conditions a country's debt is sustainable in the sense that debt service is affordable for the country at a medium-term horizon. The main factors determining sustainability are the projected path of fiscal balances (deficits increase debt, surpluses reduce them), economic growth (more growth reduces the Debt/GDP ratio), and the cost of borrowing (the dynamics are negative when economic growth is below the interest rate paid on debt).

To gauge the conditions under which countries can remain creditworthy, we have developed three types of scenarios for each country. A first "status quo scenario" extends historical trends into the future. It asks whether a country's debt will be sustainable if the deficit, growth rate, and interest on debt experienced during the pre-COVID-19 five-year window remain unchanged for the next 5 years. The second is a reproduction of the IMF's most recent scenario, which includes the institution's recommendation for a mix of belt tightening and pro-growth reforms that can keep debt sustainable over time. The important question is whether the recommended adjustments are realistic. The third scenario adds in the recent shocks, which are not yet incorporated in IMF reports, to investigate whether the recommended adjustments remain sufficient to keep debt sustainable in view of current circumstances.

The results of the scenarios on debt paths are summarized in Table 2. While there are variations across countries, the risk of insolvency is high in all, and has become higher after the recent shocks. Lebanon and Sudan are already in the midst of a grave financial crisis. If historical trends continue, public debt will become unsustainable elsewhere as well, with risks marginally smaller in Morocco than in Tunisia, Egypt, and Jordan. The last IMF DSAs for Jordan, Egypt, and Morocco found that debt was sustainable, conditional on ambitious fiscal and growth agendas. In some cases, these adjustments however seemed unrealistic, when compared to historical trends. In Tunisia, the last IMF DSA recognizes that regaining sustainability is unlikely. Finally, for all countries, the new shocks have led to even less sustainable paths, requiring additional efforts to regain creditworthiness. Morocco's case is less risky due to its lower debts.

The results of our simulations suggest high risks of debt crises erupting in the region along with risks of regional contagion. In a debt overhang, the state cannot borrow anymore, meaning that any fiscal deficit needs to be monetized, leading to growth and welfare reducing inflation. Such crises can generate a decade of low growth amidst distributional conflicts and political instability, as happened during the 1980s. To reduce debts to sustainable levels, negotiations with creditors need to take place. But these tend to be divisive and slow, as different interest groups push onto others the burden of adjustment (see Box 1 on Lebanon).

Table 2. Debt sustainability assessment: three scenarios

	IMF baseline	**Historical trends**	**New shocks**
Tunisia			
Egypt			
Morocco			
Jordan			
Lebanon			
Sudan			

Source: FDL analysis. Red: the debt to GDP ratio rises over 90% in at least one period. Brown: the debt ratio remains below 90% but rises above 80% for more than one period.

To avoid a crisis situation, there is a need to achieve a mix of three strategies: reduce public sector deficits, increase growth rates, and/or lower borrowing costs. These improvements can be facilitated by a restructuring of public debt, ideally negotiated with creditors before the situation becomes too dire, typically in the context of an IMF program. The magnitudes of adjustments needed to avoid a debt crisis are large, but not enormous. If austerity is the sole mechanism used to stabilize, fiscal accounts need to improve by a large amount - around 3 to 5 percentage points of GDP. However, this would be self-defeating if such austerity were to lead to reduction in economic growth. On the other hand, if economic growth was to rise over the next year or two, then fiscal deficits could improve gradually and still prevent debt trajectories from exploding. Raising growth rates by 1 to 2 percentage points would make a big difference, especially if the cost of borrowing is kept low.

Key Messages

Our first message is that the recent macroeconomic shock waves are making an already weak economic situation catastrophic. Public debts are rising fast towards unsustainable levels. The challenge ahead is stark: inaction would lead to a financial crisis; but austerity alone could stabilize debt only in the very short term and at the cost of high social tensions. Economic growth is already falling, poverty rising, and the middle-class further weakened, all threatening a rise of social unrest. Failing to develop a convincing response raises the threat of a vicious cycle of economic, social, and political declines, including a retreat into populism, and destructive social polarization.

3. Credible national renewal plans

The immediate debt challenge forces countries to make painful decisions. This section examines the contours of a national salvation plan that can outgrow financial difficulties. It investigates how political capital can be invested in improving growth prospects, rather than relying only on austerity; how public expenditure needs to be consequently reoriented; the possible role of debt restructuring in facilitating the transition to a growth path; and finally, the type of IMF support that is needed.

Austerity must be minimized but expenditures need to be re-organized

Coming on the heel of a decade of poor economic performance, relying solely on large fiscal savings to stabilize debt will require enormous political capital. Most public expenditures now go to civil servants' wages, subsidies, SOE support, and interest payments on debt - all of which benefit powerful political constituencies (Table 3). An iron-fist approach of cutting investment and social spending by force, to neutralize opposition, was standard practice during the 1980s. Indeed, governments at that time preferred to impose harsh austerity and avoid what they perceived as a fatal political risk of reforming to open up the economy. But since the Arab Spring, the social and political impact of austerity can be expected to lead to more risk of instability. At the same time, the upside of reforms has risen. **These new considerations - higher risks if inaction, more gains from action - strongly suggest that the time has come to stop kicking the can down the road and engage in serious reforms. Further delays increase risks.**

A growth strategy still demands making difficult fiscal choices, as it requires that some expenditure be re-oriented towards new priorities in an environment with tight budget constraints. Public investment needs to rise fast to reduce existing bottlenecks. Social spending on health and education need to rise over time to support future growth and improve social mobility. The poor need to be protected given the elevated prices of food and fuel.

Table 3. Fiscal accounts (shares of GDP) - 2021

	Tunisia	Egypt	Jordan	Morocco	Lebanon	Sudan
Fiscal deficit	-4.9%	-7.3%	-3.6%	-5.5%	-0.6%	-3.7
Primary fiscal deficit	-7.7%	+1.2%	-7.9%	-4.2%	-1.1%	-3.6
Fiscal expenditures	36.2%	25.9%	31.3%	27.1%	7.0%	38.3%
Fiscal revenues	27.3%	17.9%	24.7%	25.3%	6.6%	34.6%
Tax revenues	24.6%	13.3%	17.3%	20.6%	4.5%	4.8%
Wages	16.6%	5.2%	5.5%	12.0%	5.0%	4.5%
Subsidies and social protection	5.5%	3.8%	8.2%	2.2%	2.0%	3.4%
Interest payment on debt	3.3%	9.1%	4.2%	2.5%	0.7%	0.1%
Public investment	5.9%	3.7%	2.9%	6.2%	0.4%	11.0%

Source: International Monetary Fund, World Economic Outlook, 2022

This means that some sizeable expenditure reduction will be required. Where savings can be made varies from one country to another. While politically challenging, this requires mobilizing the support of constituencies that stand to benefit from a new pro-poor and pro-growth renewal agenda.

Safety nets are needed but are not sufficient

The rise in oil and food prices constitutes a large shock for the poor, as these goods represent around a third of their household budget. But universal subsidies are not the best way to help: they are fiscally expensive (rising to large shares of public expenditures in most countries), inefficient economically (they foster over-consumption), and unfair socially (they benefit the rich more than the poor). Targeted social safety nets (SSN), which are directed at the poor, resolve many of these problems - they cost much less than universal subsidies, reduce over-consumption, and do not leak to the rich. SSNs took off during COVID-19 in several countries, managing to protect the poor when the economy was shut down. Improvements remain necessary - to increase coverage, improve targeting, expand the use of digitalization and transparency, and eliminate clientelism and corruption. But **SSNs are here to stay: they are now seen as an anchor for reforms to come, as a credible commitment that the social agenda will remain at the heart of policy.**

Removing subsidies hurts middle-income households. But this gap points to the risk of over-burdening the SSN with all the ills of the economy. The main problem of the middle class is not the lack of social protection, but the scarcity of good jobs and the poor quality of state services. Both of these ills are due to bad policy and to governance failures, not to transitory shocks.

Box 2. Lessons from Sudan

Moving back from a situation of fragility is extremely difficult, as there are many forces that push back into a poverty and violence trap. The plan of the Hamdok government, coming on the heels of the courageous Sudanese revolution that started in 2018-19, was to move away from universal subsidies, which were consuming more than half of public spending, in order to achieve four goals: reduce the fiscal deficit and control inflation; protect the population directly with an ambitious safety net; use the savings to start revitalizing the state; and count on stabilization and international openness to jump start the economy. The plan had the support of the international community and was contingent on reducing Sudan's external debt.

The military coup of 2021 cut this experiment short. In many of the countries of the region, concerns by ruling regimes about stability empowers the security forces to extend their influence over the economy and the bureaucracy in a way that thwarts reforms. In some countries, such as Sudan, the security services are also invested in economic activities that are directly threatened by reforms. The coup may have managed to protect the military economic interests, but at the huge cost of to the country, as it stopped the ambitious process of revitalization. The current path leads to more poverty and instability. To be reversed, the military needs to remove their veto on political reforms.

Debt restructuring has limited upside in most MENA countries

When external debts are "too" high, and especially when this happens because of an exogenous shock, reducing debt can be in the interest of both the debtor and its creditors. The debtor country then regains access to liquidity, allowing it to grow again. When the debt overhang is caused by faulty internal policies, such an approach works only if credible reforms are in the offing.

In any event, **the debt structure of MENA countries provides little upside from restructuring, because of the prominence of domestic debt, and the inflexible structure of external public debt.** (See Table 4)

- Domestic debt represents a large share of public debt. This is in contrast to the debt crisis of the 1980s and attests to the growth of domestic capital markets. Domestic debt is more than 40% in Jordan and Tunisia and dominates at around 75% of total debt in Morocco and Egypt.
- A large share of external debt is due to multilateral creditors: except in Egypt and Sudan, multilateral creditors are larger than bilateral ones. Multilaterals do not engage in debt workouts, reducing the impact of any Paris Club-like agreement.
- Except in Lebanon, commercial debt represents a small share of total public debt. As a result, restructuring external commercial debt would not meaningfully alleviate the debt burden of the other countries. Moreover, all countries have made considerable efforts to improve access to markets, which would be undone by a restructuring.

Debt restructuring is always a tough process: coordination between creditors has been made more complex in the past decade by the rise of private debt, and the emergence of China and Russia, in addition to traditional OECD and GCC creditors. The pressure to restructure external debt is salient for Sudan and Lebanon in the short term. The issue will also emerge for countries that negotiate an IMF program, as the IMF is generally unwilling to lend to over-indebted countries.

The lack of flexibility in the structure of external debt **means that while it may be necessary to restructure, this would do little to reduce the cost of adjustment. Instead, there will be a need to count more on domestic efforts.** A reduction in the burden of domestic debt is likely to be the main adjustment mechanism - as has happened already in Lebanon and Sudan in the past two years, and in Egypt in 2016-17. This is often implemented through "financial repression" - where real interest rates are negative (typically low nominal rates in an inflationary environment). This strategy requires to close the capital account and is often blunted by leakages (informal foreign exchange markets, illicit capital flights). To be effective, financial repression relies on a moderate "tax" on capital and accrue gains over long periods. Indeed, large taxes on capital create a multitude of risks - of weakening of the banking system, of generating capital flight, and eliciting a political mobilization against reforms, as seen in Lebanon.

Table 4. Structure of public debt ($billion and shares of total), 2022

	Total	Domestic	External	Multilateral	Bilateral	Commercial
Jordan	41.6	19.2	22.4	7.8	3.5	8.8
%	100	46.2	53.8	18.8	8.4	21.2
Tunisia	37.1	14.6	22.5	12.2	4.0	5.5
%	100	39.4	60.6	32.9	10.8	15.0
Egypt	326.4	257	98.9	25.6	37.0	36.3
%	100	72.9	27.1	7.0	10.1	9.9
Morocco	100.3	75.8	24.5	11.8	2.9	7.9
%	100	75.6	24.4	11.8	2.9	7.9
Lebanon	42.9	9.5	33.4	1.5	0.5	31.4
%	100	22.2	77.9	3.5	1.2	73.2
Sudan	72.9	3.7	69.3	6.9	52.7	9.6
%	100	5.0	95.0	9.5	72.3	13.2

Source: International Monetary Fund, World Economic Outlook, 2022 and World Bank Debt Reporting System, 2022

IMF programs should adapt to the reality of MENA countries

In the future, the IMF will continue to play several crucial roles: providing liquidity, determining the extent of debt restructuring needed, enforcing policy conditionality, and ensuring that the country puts sufficient effort in adjusting and its creditors share the burden fairly. There has already been a good deal of experience with IMF programs in the region. It is by now clear that while IMF programs have helped stabilize the financial situations in the past, they did not lead to higher growth (see Box 3). Consequently, there needs to be a new generation of IMF programs in the region. In building up more effective programs, several principles are useful:

First, IMF programs should avoid causing harm. In particular, bailouts that rely largely on deep austerity, generating social instability without addressing the root causes of the crisis push difficulties to the future and are not helpful. **IMF programs should be conditioned on a credible commitment to inclusive growth and sustainable development.** This means that financial considerations, while necessary, are not sufficient. They need to be inscribed in broader national renewal strategies, where countries credibly commit to improve their policies over time.

Second, in the current circumstances, IMF programs will be important not just for the liquidity they bring, but also for the stamp of approval needed to unlock funds from official and private sources. **Together, the IMF and the international community - especially the EU and the GCC - should provide sufficient liquidity to avoid destabilizing austerity and to support aggressive investments that aim at making the economy more dynamic.**

Third, while deep debt reduction is unlikely, private external debts should be in part refinanced in the years ahead with new public debts of longer tenor and lower cost, as for Greece in 2011, or, more recently in Argentina. This would allow the countries the time to rebuild its growth potential, and gradually regain market access.

Box 3: Findings of the IMF review of conditionality

The Independent Evaluation Unit of the IMF conducted an assessment in 2021 to verify whether IMF programs were able to boost growth. The main findings of the global study were that the IMF has started to pay more attention to growth, but outcomes have fallen short. In addition, it has changed its approach of fiscal conditionality to become more growth-friendly, but with mixed success. The conclusion of the study is that growth depends on government national plans and reforms. The case studies of Egypt, Jordan, and Tunisia programs show similar results, as they delivered adjustment without sustainable growth. The discovery of gas in Egypt allowed its GDP to grow, but not as a result of the program nor in a sustainable manner.

Key Messages

The immediate debt challenge forces countries to adopt painful decisions. This section argues first that while some reduction in government expenditure is unavoidable, much of the political capital invested in adjusting to high indebtedness should go towards improving growth prospects. Second, public expenditure should be reoriented to safety nets and pro-growth spending. Third, debt restructuring can only go so far, and countries should not expect too much from it. Fourth, IMF support will be necessary. It needs to be more generous, but it also needs to be made conditional on launching credible national revival strategies, as opposed to the austerity-only based approaches of the past.

4. How can pro-growth reforms affect the short term?

The rise of public debt and the slowdown of economic growth have preceded the recent crisis. The existing problems are not only due to the recent shocks, but instead, find their source in long-existing structural weaknesses with deep political roots. National renewal programs need to tackle the perennial challenges of improving the state's capacity and its services, and injecting dynamism to the private sector so as to boost job creation and inclusive growth. Moreover, new challenges should also be addressed. Catching up with technological change and the digitalization of the world need to imbue the medium-term agenda. Finally, the longer-term challenge of climate change has become inescapable.

A growth compact requires political involvement and courage, ingredients that have been missing in the past. For too long, structural reforms have been off the table. Fragile political regimes have feared the reaction of those losing out in the short term; and have not managed to mobilize the larger majorities that stand to gain in the long term. Important constituencies - unionized labour, economic elite, consumers - need to be convinced to take short term-losses, against a promise of larger long-term gains. In doing so, they would be betting that political and social coordination would improve markedly compared to a poor past performance. This calculus now needs to change: political elites, the private sector, and civil society, have now evolved sufficiently to allow for more coordination. Moreover, there are important low-hanging fruits, which would allow building momentum.

These economic, social, and political challenges require efforts over long periods of time to make a difference. This means that reforms will have to be sequenced over time. To be able to ignite a rising path in the short-term, the focus will have to be on their initiation in ways credible enough to create a major shock of expectations. By generating momentum, a credible initiation also makes future policies easier to implement.

Successful reform plans therefore need to be based on both early actions, and a broadly accepted narrative of renewal and progress, with the power to mobilize politicians, social activists, innovators, and entrepreneurs. A credible reform package can raise short-term growth in four ways:

- First, macroeconomic reforms such as monetary and exchange rate policies can have an immediate impact.
- Second, it would attract more liquidity from international financiers, including debt reduction, improving its chances of success.
- Third it will elicit a supply response from the private sector, providing incentives to invest, enter new sectors, and create new jobs.
- And finally, these developments can improve the sense of trust in the future among the population. A more forward-looking citizenry would accept some short-term sacrifices, which reduce political risk and improve further the program's outlook.

Pro-growth macro-economic policies

Growth cannot take place unless the macro-economy is relatively stable, agents can form expectations, they have access to finance, and the country's exchange rate is competitive. There are at least three types of policies necessary for growth (but not sufficient) on the fiscal, monetary, and exchange rate fronts.

First, on the fiscal front, when a gradual reduction of deficit is chosen, the remaining deficit needs to be largely financed externally. The region has been characterized by fiscal dominance, where fiscal decisions leave little room for independent monetary policy. This can only get corrected gradually, with the objective of leaving some financial space available for lending to the private sector; and improving the capacity of the financial system to fund valuable opportunities. Second, to the extent that the broad macro-economic mix allows it, an accommodating monetary policy helps improve access to finance for private companies. Smaller firms in particular have been badly hurt by recent shocks, and need support in order to survive and thrive. To avoid the risk of high inflation, this should be combined with careful monetary management. Inflation can remain moderate if credit expansion and reduced debt servicing costs coexist. Third, when feasible, (real) devaluation of the domestic currency helps to balance the external accounts and reduce the loss of reserves. While large real depreciations cause social pain in the short term (through higher prices of imported goods), on the positive side, by improving competitiveness, they can start a process of economic revival if followed by a supply response.

However, it is not guaranteed that a pro-growth macro policy stance would by itself support higher growth and investment. The apparition of a supply response requires a shift in private sector expectations. In the past, this was missing. In particular, in spite of occasional devaluations, exports have remained sluggish in many countries. In Egypt, even the mega devaluation of 2016 was not followed by a sustainable rise in exports. In Lebanon, a huge real devaluation has taken place since 2019 but exports declined. For investment to rise in the export sectors, the private sector needs to expect that a favourable export regime will be sustained for years to come. Similarly, directed credit has not been met with sustainable rise in investment when the overall economic conditions were not deemed attractive by entrepreneurs.

Modernizing the state

A major pillar of a renewal agenda is to modernize the state and improve the quality of its services. In much of the MENA region, social services have deteriorated. Since the reforms of the 1980s, the state has shrunk but has tended to remain overstaffed, and civil servants became underpaid. Layoffs have been resisted by labour unions. In some countries, overstaffing has reached extreme proportions, not unlike the situation that prevailed in the 1980s, including in state-owned enterprises. As public wages fell, petty corruption has become more flagrant, and the quality of public services deteriorated. At the same time, health and education have become increasingly privatized – with richer households buying services directly from private providers. Besides lost opportunities to raise human capital, this has led to reduced social mobility and rising inequality. In order to reverse these trends, modernizing the state and its capacities is crucial.

Most countries have embarked on public service reform - in many countries, modernizing the state has even become de-facto the leading state ideology. But serious implementation has not followed. The reform agenda includes shrinking the civil service, improving pay, generalizing e-government, improving checks-and-balances in the allocation of budget, increasing decentralization, and more effective service delivery. All these necessary reforms have been slowed down by special interests.

Credible signals about a new resolve to make progress on this agenda vary. An important signal is to break the control of veto-players over unproductive expenditure, and to shift spending to productive uses. Another is to provide much more space for citizens' association to hold officials accountable, from ministers all the way to schoolteachers, and to improve data transparency.

Democratizing the private sector

The form of "crony" capitalism that has taken hold in most of the MENA region finds its source not just in rent seeking by the privileged elite, but more broadly, in the political elite's fear that an unregulated private sector would foster political instability. This system has encouraged the dominance of monopolies, leading to high prices, low levels of innovation and investment, and little job creation. Politically privileged elites also bias economic policies by lobbying for protection, monopolizing access to finance, and by blocking anti-corruption initiatives.

But we are not in the 1980s anymore. The private sector is now dominant in most countries. But it has low productivity and shows low levels of investment and of innovation. In effect, dualism dominates: the business climate encourages firms to stay either as close as possible, or else as far as possible, from the state. This has resulted in an unbalanced corporate landscape, with a few large privileged firms dominating each sector, and a multitude of informal firms employing most of the labour force. Importantly, there is a "missing middle" of firms - these are exposed to unfair competition from both above and below. This constitutes a brake on growth, as medium-sized firms tend to be the most dynamic job creators in other regions. **Democratizing business is thus about performance replacing rent-seeking - creating a competitive level playing field, where rules apply to all, and where access to credit depends on the quality of projects.** Competition injects dynamism and pushes firms to innovate. It requires severing the corrupting relationship between political and business elites.

In recent years, private investment has declined in most countries as a result of tighter financing constraints, a rise in monopoly power, loss of international competitiveness, and rising political risk. These trends need to be quickly reversed. In the short term, credible signals of a determination to dynamize the private sector include not just a pro-growth macro stance (sharp devaluation, more access to finance), but also the initiation of some structural policies that can shift expectations. The most important signal is that entrepreneurs would stop being punished or rewarded on the basis of their political support or opposition. Democratizing business thus requires moving towards a more open political system.

Mobilizing labour and capital

Low economic dynamism and the lack of opportunities has over time led to the demobilisation of society: MENA countries have become characterized by low saving rates, low tax revenues, and low labour force participation. All these trends have to be gradually reversed in order to be able to support a rising growth path that can be sustained over time.

Saving rates have declined in recent years to very low levels. With the exception of Morocco, national saving rates are below 10% GDP, less than a third of the MICs average. Low national savings are due to large public deficits but also reflect low households savings. At a time when foreign resources have become scarcer, financial independence becomes a key strategic goal. There is thus a need to increase saving rates to finance future growth. Tax revenues are also low in most countries. National efforts especially need to broaden the tax base and make it more progressive. Part of the problem is related to the large size of informality. A renewed effort to provide social security for all, as currently considered in Morocco, would raise both tax revenues and domestic savings.

The scarcity of good jobs has led many to withdraw from the labour force: average male labour force participation in MENA between 2000 and 2020 hovered around 69%, 5 percentage points below the global average. Even worse, this rate is 17.5% for women, way below the global average of 50%. Low female participation is not only due to patriarchal values, which are slow to change, but also to the scarcity of jobs. In a more dynamic economy, a rise in female labour force participation would allow three important evolutions: personal empowerment and emancipation, which leads to improved child education and to lower fertility; higher household incomes, which can sustain the middle class in the face of declining wages; and higher economic growth, including through the development of new sectors such as child and elderly-care, and other household services.

The new challenges of digitalization and relocalization

Global structures of production are being reshaped by technological advances - principally, digitalization and robotization. Digital transformation, which shifts value creation from capital to knowledge, presents an opportunity to improve labour productivity and create good jobs, especially in services. It is also an important instrument for the modernization of state services. But it is still early days for digitalization in MENA. The average annual rate of labour productivity growth in services in the region over the period 1995-2020 was below that of other regions. Digitalization success is supported by a combination of “hard” assets - an information and communication technology infrastructure - and soft assets in the form of complementary skills. MENA countries have invested in digital infrastructure, the “hard” side, with strong growth of mobile and fixed broadband subscriptions and mobile data consumption. But the still low level of skills in the population is holding them back. Thus, building human capital through education and on-the-job training are going to be key.

After decades of hyper-globalisation, there is a turning point in global trade, with an on-going trend to re-localize production closer to consumption in order to reduce CO_2 emissions, and to locate it in friendly countries in order to offset new geo-strategic risks. Moreover, the implementation of green policies in Europe will soon start taxing goods produced in countries with low environmental standards, increasing the incentives of the region to adopt greener production techniques. **The preference for producing in countries strategically closer to Europe and the GCC can be greatly beneficial for MENA countries that embark on a growth path, providing them with valuable new comparative advantages.** In this global reshuffling of production, MENA countries have valuable comparative advantages to build on, including their young population, geographical situation, and cultural assets. Areas with high potential include in particular the tailoring of value chains to the variety of consumer preferences, services in high-tech and in culturally intensive areas, as well as high-value agriculture and agro-business.

Climate challenges and opportunities

Climate change is a fundamental factor affecting the region. MENA is highly vulnerable and faces major impacts of climate change through sea-level rise, precipitation variability, desertification, and increased fresh-water scarcity. Population growth and urbanization interact with climate change, adding a level of vulnerability that no other region will face. **The MENA region is already suffering severely from climate change:** it is estimated that temperatures have increased by c. 1.5 degrees in the last three decades – twice the global average. Precipitation volumes have declined, water scarcity has reached critical levels, and climate hazards have become more frequent and more intense.

MENA societies need massive investments to adapt to global warming in ways that avoid lower growth and negative distributional effects. However, concrete policies have been limited so far. One reason is that adaptation is costly. But it is also far more costly to do nothing - in other words, rates of return on adaptation projects tend to be high. At a macro-level, adaptation costs are considered to be around 2% of GDP per year for the next decade. Adaptation also offers employment and growth opportunities. Given the public good nature of such projects, they need to be funded and undertaken by the state. Raising this magnitude of financial resources is the next big challenge. On the mitigation side, the region needs a sustainable economic growth model, as it is the most fossil-fuel dependent region in the world.

But the region also has large potential in renewable energy. Morocco, Tunisia, Egypt, and Jordan have started innovating in the sector, piloting large solar farms, and the transformation of solar energy into hydrogen. Countries that are close to Europe will increasingly be in a position to export renewable energy (electricity, hydrogen), and to convince European producers to move production closer to where renewable energy is produced.

Key Messages

A pro-growth macroeconomic framework is necessary to ignite growth. But it is not sufficient. In order to achieve a shift in expectation, structural reforms are needed. The reform agenda not only includes the "old" challenges of improving growth prospects and modernizing the state, it should also address the new challenges of relocalization and climate change. On all these fronts, the medium-term agenda needs to be initiated in credible ways to create a major expectation shock that can affect the short term - to encourage the private sector into initiating a supply response, and the citizens to start rebuilding social trust.

5. Political reforms are at the heart of the renewal agenda

An economic renewal strategy would not be credible without dealing with the political roots of the economic challenges. **To initiate a virtuous cycle of economic progress, political elites need to be closely associated with change. They need to mobilize those who stand to gain, weaken the opposition to change, ensure a fair distribution of the costs and benefits of reforms, and rebuild trust in the state as well as state capacity.**

To be successful, political elites need to convince themselves and society of two evolutions:

- That change is desirable, because delaying it would ultimately lead to economic collapse;
- That the risks involved are worth taking, because opportunities offered by change have grown larger and are more available.

The risks of vicious circles

There are grave risks of socio-political chaos ahead. The use of austerity, with no movement on pro-growth and pro-state reforms, risks unleashing three types of negative forces. First, in response to increased austerity, social grievances could come back with a vengeance. Previous attempts at slashing subsidies without compensations were disastrous, and led to massive riots in the 1970s and 1980s in all the major regional capitals. The adjustments came later in the 1990s in the form of a lost decade of gradual fiscal stabilization, imposed through repressive means. The rise in grievances precluded economic or political reforms. The Arab Spring of 2011 was triggered by accumulated social discontent and anger - at the lack of dignity, jobs, and services. But none of these agenda items have been addressed yet.

Second, the business sector is indirectly hurt by the policies of austerity, as the rise in popular grievances will increase political risk, and dampen business confidence. While devaluation and improved macro-stability can potentially improve external competitiveness, firms will need to have confidence that business conditions will improve, and that macro-conditions will remain favourable over the medium term for them to invest more and to shift to the tradable sector.

Third, when elite groups lose hope in the future, their horizon shortens. Established actors (e.g. security/military groups, state dependent labour unions, or politically connected business groups) play a central role in shaping policy. A low trust environment shortens the planning horizon and generates little incentives for cooperation. These perverse incentives have been the main reason for the lack of progress in the recent past. Divided politics make it harder for regimes to shape a reformist social coalition. They are less able to mobilize groups that would gain from reforms, such as unemployed youth, or the market-oriented middle class.

As a result of these negative dynamics, Arab societies have witnessed a gradual weakening of institutions, including the justice system, decentralized bodies, and political parties. As a consequence of repression and co-optation, intermediate bodies such as unions and business groups have grown weaker. Civic and political spaces have been closed down. Parliaments have become an extension of executive power rather than systems of checks and balances. These weak foundations have made the region vulnerable to manipulation by regional and global powers.

A retreat into populism and social polarization is plausible if these trends continue. Opinion polls show that trust in governance is at historically low levels. Equally, confidence in the future has fallen to disastrously low levels, and as a consequence, a large proportion of the youth express a desire to emigrate. Those are circumstances ripe for the emergence and popular support for a strong man to miraculously save the day. Populism however tends to move away from economic and social concerns to identity issues, and to rely on divisive narratives. A strong man is unlikely to solve the real constraints to progress: on the contrary, they will linger and exacerbate over time.

The conditions for progress now exist

While the overall diagnostic seems bleak, there are also brighter lights shining at the horizon. Elements of progress can break the spell of divisive political discourse and ineffective economic policymaking. Well prepared, they can use the current shocks to engineer a turnaround. **Three drivers of change need to come together to be able to pivot to a more hopeful path of progress: proactive engagement by economic elites, a social movement based on broad sections of civil society, and political leadership. Because of the accumulated experiences of the past decades, the first two can now be mustered, if the third can be mobilized and is able to coordinate them.**

In the case of economic elites, the conditions for a positive posture seem more present than at any point in the past. The reforms of the 1990s had ushered the growth of politically connected large private firms, and of a sprawling sector of small informal firms. The emerging economic elites were content to remain politically quiet and enjoy their privileges until the 2000s. However, in the wake of the 2011 uprisings, domestic resistance to privileges grew. As a result, in searching for ways to re-establish political stability, post-2011 regimes have tended to repress established economic elites. The collapse of law and order at the same time allowed the informal sector to become increasingly infiltrated by criminal activities. It is by now clear that political passivity is no longer good for business. The interests of large and small firms have become more united than in the past, as both would benefit from macro-economic stability and a more rigorous application of the rule of law.

Other economic and political elites have learned by now that the politics of pushing the cost of reforms to others ends up in a destructive negative-sum "game of chicken". In Lebanon, where huge financial losses need to be distributed before the banking sector can be revived, bankers have started to internalize the need to take a short-term hit, even if massive, for future opportunities to open up again. Elsewhere, it has become clear that labour unions can create instability, rather than protect civil servants, if the economy does not grow. Similarly, in all countries where the military has significant economic interests, it has become clear that unfair competition has led to a costly demobilization of the private sector.

The other major political actor, civil society, has also come of age. Its uprisings in 2011, and more recently in 2019, have ushered in sweeping long-term cultural changes. This has upended politics and has excluded the possibility that a repressive regime could be sustainable. Post-2011, large parts of civil society became polarized around identity lines, as political parties competed to fill the political vacuum using divide-to-rule tactics to mobilize popular support. By now however, it has become patently clear that the religious/secular divide should not be allowed to become the central tenet of political life. Civil society groups now realize that they would be more effective in generating progress by mobilizing around constructive strategies. Civil society is especially well positioned to play positive bridging roles, such as animating national debates, advocating for constructive solutions, and championing cooperation between national actors. At the grassroots level, it can also build blocks of progress - such as horizontal accountability mechanisms to help improve the capacity of the public sector, associative efforts to fight corruption and ensure a level playing field in business, or community-driven efforts to protect the environment.

These actions also authorize a vision of shared citizenship, fostering a new dynamic of cooperation in pursuit of win-win possibilities, as a foundation for more open and inclusive societies. **The Arab Spring, despite its poor results so far, has demonstrated the absence of any sustainable alternative to democratization. Citizens have also learned that an effective democracy are not built overnight, but require a long process.**

Economic reforms are essentially political

There have by now been decades of search for workable ways to organize the political economies of the region. Political elites, economic elites, and civil society actors each have key roles to play in reversing the downward spiral of polarization. Political elites need to explain the risks ahead with brutal honesty and convince fragmented actors that collective action will open up large opportunities for progress. Such convincing can only occur if they showcase an evolution in political openness that allows for collective action to take place. **Political reforms are of course valuable in their own right. But they are also a necessary component of any ambitious economic revival plan that can enrol the cooperation of firms and citizens.**

The required political evolution concerns upholding two central principles of democratic life, in ways clearly observable by businesses and citizens at large:

- First, political elites should signal that they are ready to embrace openness. Concretely, they could illustrate this commitment by organizing processes of national consultation and dialogue (see Box 4); the enforcement of a level playing field among all firms; an opening up to civil society, with stricter respect for human rights, and more free spaces for discussion and criticism, including by media; and more civilian control over security services.
- Second, political elites need to show that they will support an equitable distribution of both the costs and benefits of reform. A sense of equity fosters trust, and is necessary to shift from a narrative of grievances, to one of aspiration for progress. With rising trust, plans for renewal can start to generate hope - supporting a greater willingness by economic and political agents to take a longer time horizon - fuelling a shift from divisiveness and opportunism toward an increasing embrace of cooperative, mutually advantageous approaches to collective action challenges. Fairness can be signalled in various ways, from social safety nets to tax reforms, control over cronies, and the neutralization of veto players.

Box 4. Morocco new development model

The New Development Model was developed in Morocco in response to a mandate entrusted by the King to a Special Commission in 2020. (Egypt and Jordan had a similar process in the recent past to produce national development plans). The Commission followed a participatory approach, holding working sessions with citizens and stakeholder groups, using an online discussion platform (CSMD.ma), and fielding visits to all regions. In its final report, the Commission advocated to strengthen both the state and society in a balanced manner. It used a system-wide view to identify "systemic knots" as well as "levers" to accelerate positive change. It ended up proposing a series of specific development objectives, and of strategic axes of transformation, to guide governments in preparing particular reform programs. One innovation proposed by the commission is a new effort to broaden the coverage of social insurance as a way to shrink the informal sector over time. The goal is to boost tax revenues and social security coverage.

Renewing the regional and global agendas is also necessary

Unlike the ineffective Arab League, a strong regional block must be built by sovereign states with common goals. Regional cooperation is needed to address the rising challenges of global warming, displacement of refugees, and where needed, post-conflict reconstruction and improved security.

There are enormous new opportunities to expand economic regional cooperation - this concerns in particular digital integration, climate cooperation, and collective efforts to improve food security. On the first front, Arabic speaking people represent about 5% of the global population, but the Arabic content on the internet is only 1%. To catch up on digitalization, this content has to sharply rise, which can best happen with improved relations across countries. Second, water management of inter-state rivers will become even more important in the future as water scarcity keeps rising - this concerns not just the Nile, Euphrates, and Tigris, but also the Jordan river, Asi and many other smaller rivers. Climate adaptation projects, for example to reduce the risks of floods, also go beyond borders. The production of clean energy and its export would be greatly facilitated by a regional approach (grid, investments, technology).

Finally, the MENA region includes some of the most food insecure countries on earth, but also, countries with vast but non-developed agricultural potential, such as Sudan, Morocco, and Algeria. Developing food security collectively can create a lot of value.

In all cases, massive investment in capital and technology will be needed, and this cannot happen unless deep and trusting relations can be built among the countries of the region. This concerns at least two distinct agendas. First, the divergence of the region into highly successful GCC states, and an impoverished backwater, is not stable and rather creates a source of tensions and divisions. Income convergence needs to be encouraged. This will also support the GCC's transition out of oil – as the GCC starts relying less on oil exports, it will need a regional market for its diversification drive to thrive. Second, progress on the regional front requires more attention to the security agenda. Conflict inflicts enormous economic externalities, in addition to untold human suffering. Old conflicts, including the Israeli-Palestinian conflict need more attention and a just resolution. New conflicts must be extinguished in Syria, Yemen, and Libya: new political settlements need to be found, and post-conflict reconstruction engaged. In the meanwhile, refugees and IDPs require support, and this needs to be shared more fairly within the region and globally.

As other developing regions, MENA expects more from the international community – more focused coordination to help stabilize the world economy, more finance to deal with the climate challenge, and more clarity on the global financial safety net to deal with the rocky period ahead. A united region would have more influence in joining its voice with that of other regions in calling for important reforms in the global financial architecture, to address the climate challenge more forcefully, strengthen the financial muscle of international financial institutions, create structures for quicker debt restructuring agreements when they are needed, and to agree on a fairer global taxation system that limits capital flight and tax evasion.

Globally, the polarization of geo-politics is bringing back cold-war dynamics. The MENA countries would benefit most if they can manage to unify their ranks in order to benefit from competition between the blocs, and avoid being dominated by one.

Key Messages

Our fourth recommendation is to recognize that the economic reforms are eminently political exercises that need to mobilize the political elites to work. The latter need to believe that the risks ahead are catastrophic, that a better future is possible, and to convey these messages to the citizens with brutal honesty. Politically, they need to organize an open dialogue with the private sector and civil society to find new mutually beneficial arrangements - political, social, and economic - that can unlock the countries' true potential. A gradual process if it starts in earnest is possible - improved trust in institutions and confidence about the future will support collective action and generate a virtuous process of progress on all fronts. In addition, there are enormous new opportunities to expand regional and global cooperation that can and should be mobilized in support of reformist national programs.

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ERF at a Glance: *The Economic Research Forum (ERF) is a regional network dedicated to promoting high-quality economic research for sustainable development in the Arab countries. Established in 1993, ERF's core objectives are to build a strong research capacity in the region; to encourage the production of independent, high-quality research; and to disseminate research output to a wide and diverse audience. To achieve these objectives, ERF's portfolio of activities includes managing carefully selected regional research initiatives; providing training and mentoring to junior researchers; and disseminating the research findings through seminars, conferences and a variety of publications. The network is headquartered in Egypt but its affiliates come primarily from different countries in the region.*

About FDL: *The Finance for Development Lab is an independent, not for profit, non-partisan think tank, dedicated to building a fairer and more effective architecture for international finance. Acting as a hub for policy discussions, the lab collaborates with think tanks, researchers and key stakeholders across the Global South to generate constructive ideas, craft innovative proposals, and influence global policy makers, with a particular focus on the G20, and Bretons Wood Institutions. The Lab is situated at CEPREMAP, a leading French research institution, located within the Paris School of Economics. It is supported by the Bill and Melinda Gates Foundation.*

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