



# A NEW STATE OF MIND: GREATER TRANSPARENCY AND ACCOUNTABILITY IN THE MIDDLE EAST AND NORTH AFRICA

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## Key Messages

- The MENA region has experienced a year of robust growth. However, significant vulnerabilities still persist: increasing inflation, a two-track growth trajectory, high debt, and the lingering effects of the COVID-19 pandemic.
- These vulnerabilities have deep roots in a governance deficit, especially of transparency and accountability.
- In the face of increased uncertainty, greater transparency and accountability can chart the path to a sustainable recovery, by creating mechanisms to assess the status quo, generating institutional learning and incentives to course correct when needed → A New state of Mind
- Improving governance— and especially transparency and accountability—can be a game changer for managing risk and investing for a sustainable and inclusive future.

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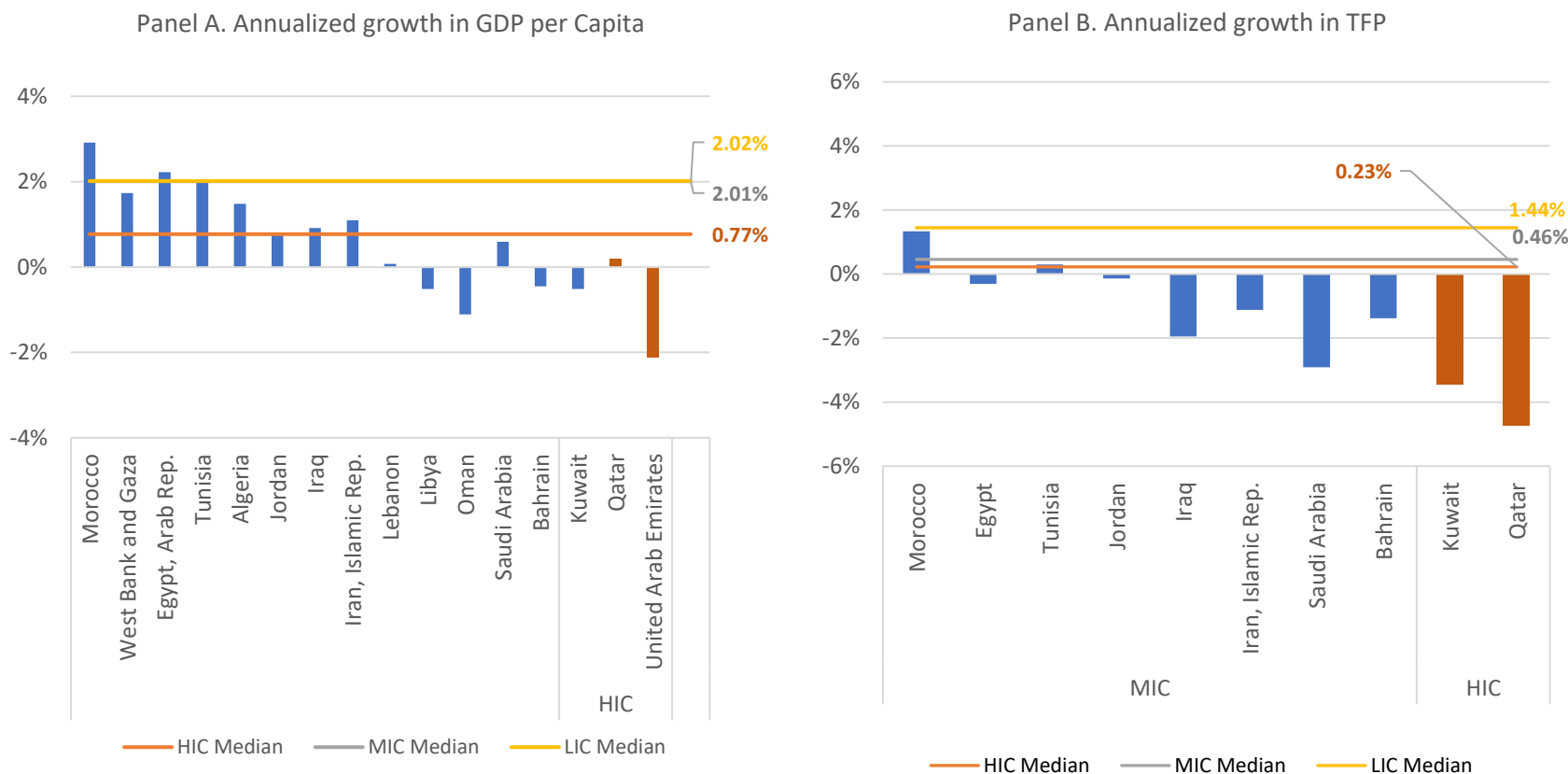
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*Somik Lall*

*\*Based on MENA Regional Flagships*

# The Region's Subpar Economic Growth in the Past two Decades...

GDP per Capita and Total Factor Productivity Growth (2000-2019)

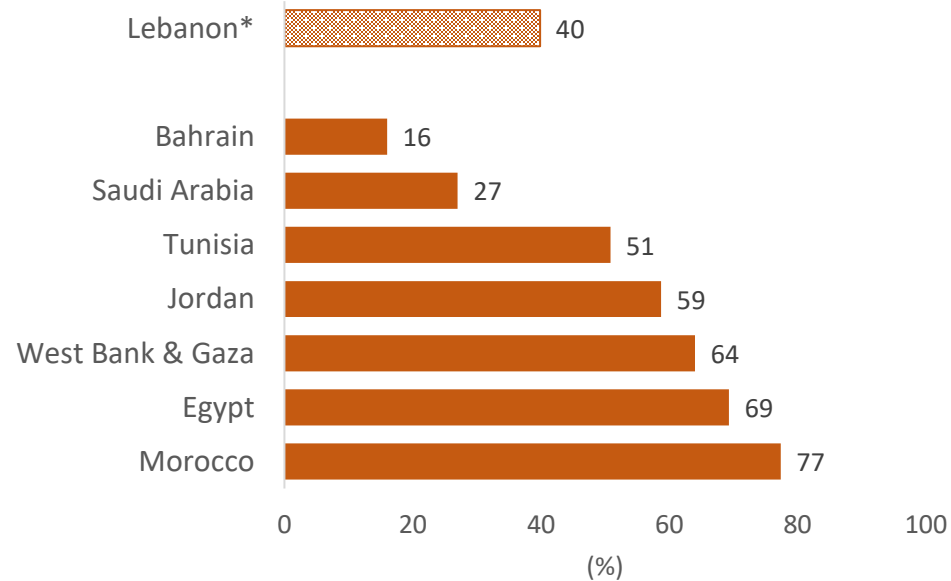


Source: Chapter 1 with data from World Development Indicators (Panel A), Penn World Table (Panel B)

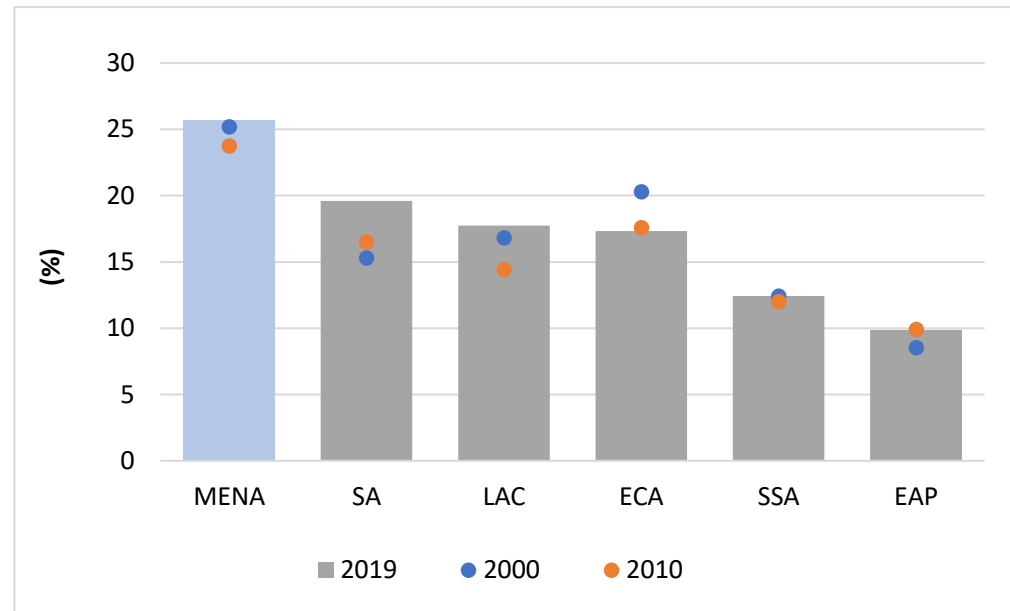
Note: Panel A Sample covers 185 countries, of which 16 MENA countries. Average per capita growth is calculated as compounded growth between 2000 and 2019. Similar approach for Panel B.

## ...with Disappointing Labor Market Outcomes...

High Share of Informal Employment (% Total Employment)



Youth Unemployment Rates (15-24 years old) have been persistently high in the MENA Region



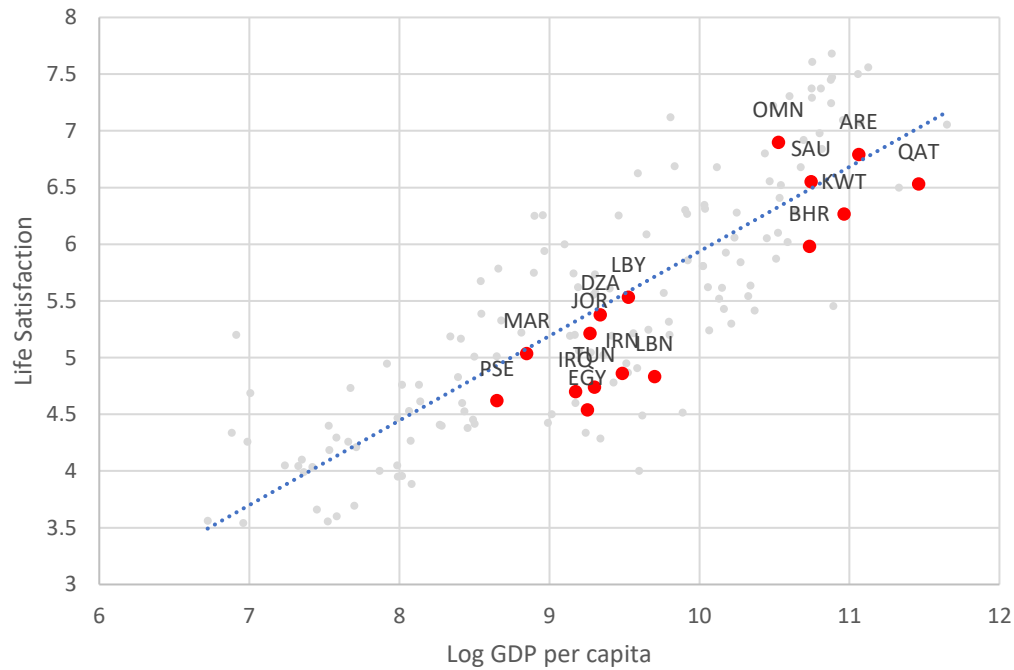
Sources:

Panel A: Chapter 1 with microdata from Egypt (2018), Jordan (2016), Tunisia (2014), West Bank & Gaza (2018) and aggregate statistics from Bahrain (2019), Lebanon (2018-2019), Saudi Arabia (2019). Morocco (2019) are from Lopez-Acevedo et al (2021).

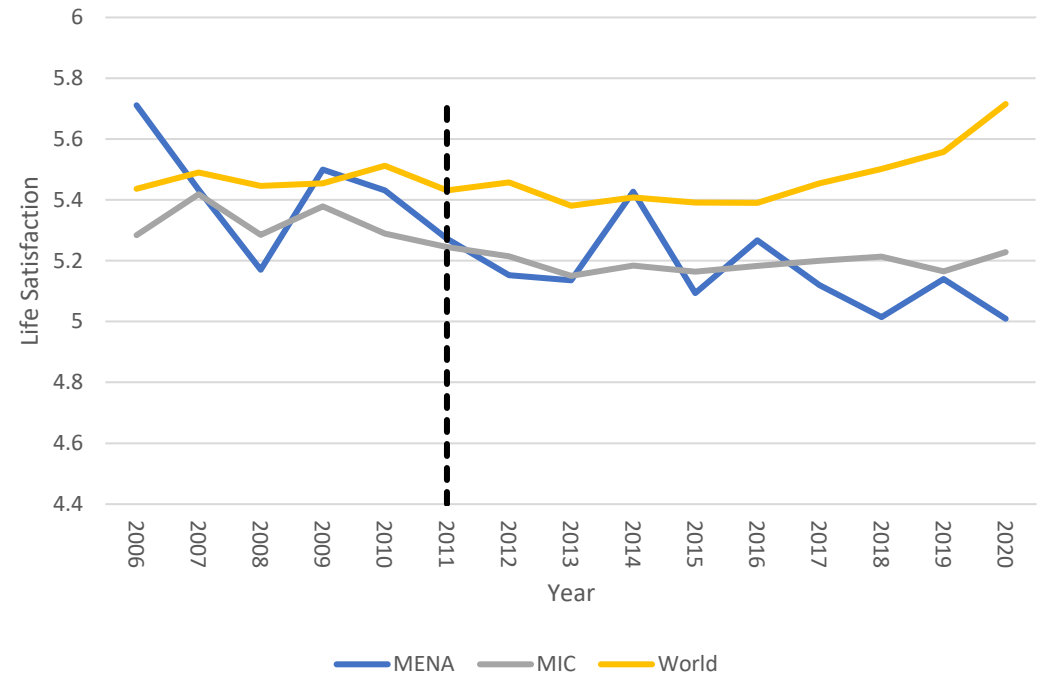
Panel B: ILO

# ...Translating into Low and Declining Life Satisfaction...

Life Satisfaction in MENA is largely below income peers (average 2006-2020)



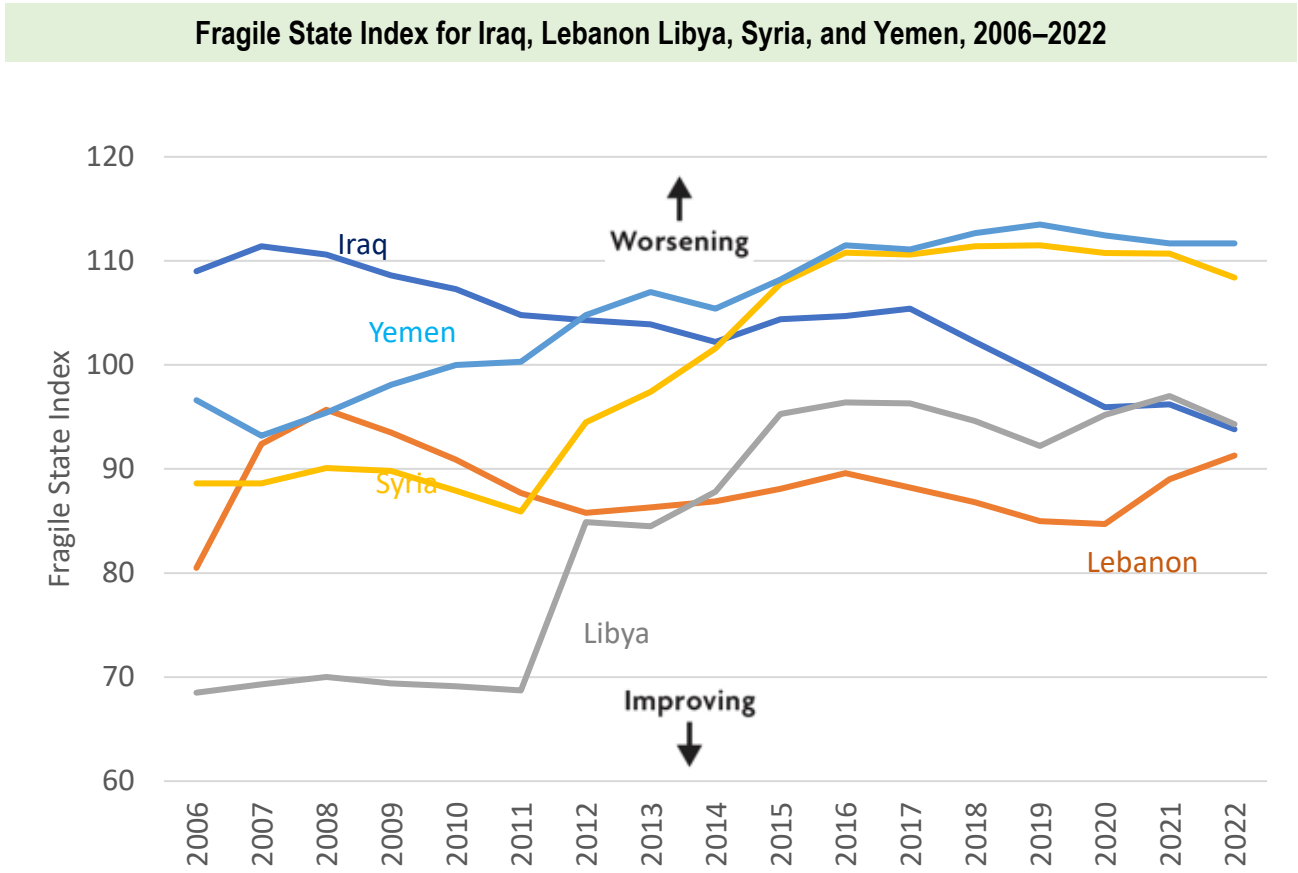
Average Life Satisfaction in MENA Is Declining



Source: Chapters 1, with Life Satisfaction data are from Gallup World Poll

Note: 1-10 scale with 10 being highest

## ... and Worsening Fragility and Conflict



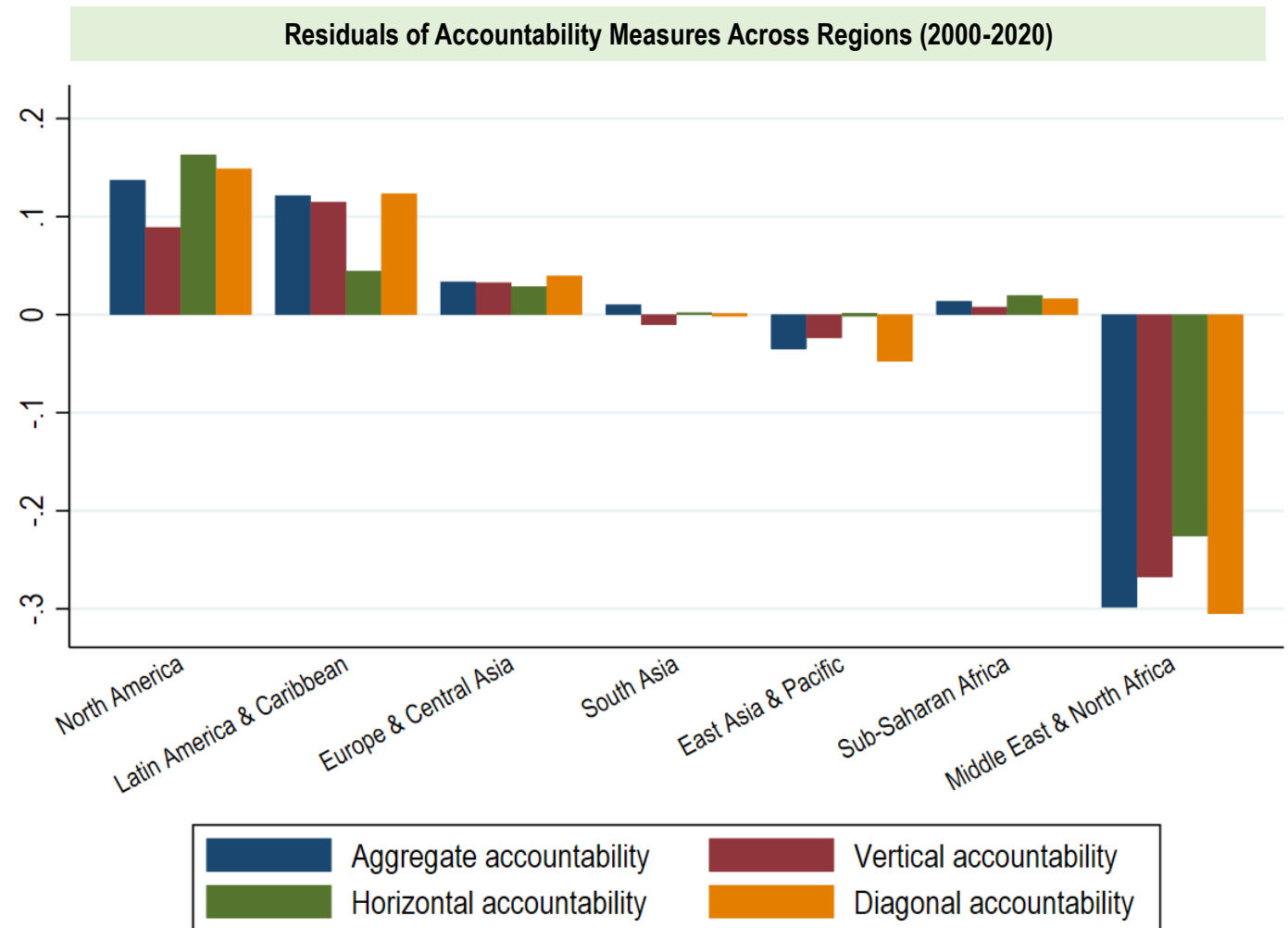
# Accountability

Hoda Assem

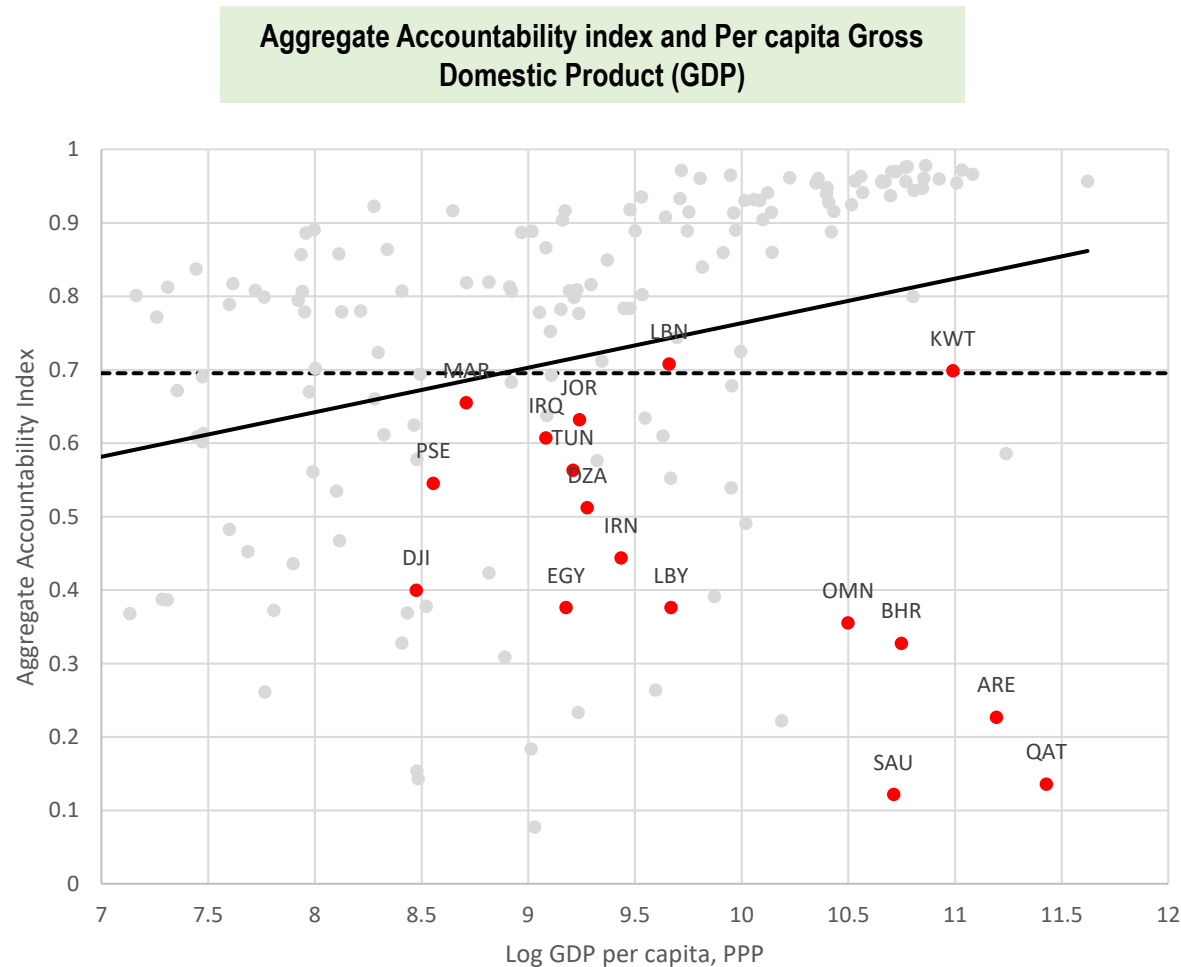


## Low Accountability in MENA vis-à-vis Income Comparators

- The bar chart shows the residuals for the aggregate accountability measure followed by the 3 sub-types (vertical, horizontal and diagonal accountability).
- Middle East & North Africa is the worst performer as it has the highest negative residuals in all measures of accountability. MENA underperforms significantly with respect to other regions. Residuals are more than one standard deviation lower than average.
- Middle East & North Africa perform the worst in diagonal accountability and relatively better in horizontal accountability relative to their income levels.



# Accountability and Per Capita GDP



- Countries in the Middle East and North Africa significantly underperform their income peers in all dimensions of accountability.
- High-income and extremely resource rich MENA countries (Bahrain, Oman, Qatar, Saudi Arabia and United Arab Emirates) except for Kuwait perform much worse compared to other MENA countries.

# Accountability and Trust in Government

- We examine the relationship between accountability and a key political measure—trust in institutions.
- Vertical and horizontal accountability are both positively associated with trust in institutions.
- Diagonal accountability is negatively correlated with trust in institutions.
- Our results suggest that accountability is a key element in improving citizens' trust in institutions, but it requires improvement in all dimensions of accountability, particularly vertical and horizontal.

	(1)	(2)	(3)	(4)
Dependent Variable: Trust in institutions	Aggregate Accountability	Dimensions Accountability	of MENA	More Controls
Accountability index	-0.119*** (0.019)			
Vertical accountability index		0.127*** (0.042)	0.081*** (0.049)	0.155** (0.064)
Horizontal accountability index		0.212*** (0.020)	0.231*** (0.022)	0.146*** (0.023)
Diagonal accountability index		-0.442*** (0.033)	-0.452*** (0.035)	-0.265*** (0.042)
MENA dummy			-0.081 (0.052)	
MENA dummy * Vertical accountability index			0.034 (0.108)	
MENA dummy * Horizontal accountability index			-0.056 (0.087)	
MENA dummy * Diagonal accountability index			0.072 (0.103)	
Log GDP per Capital	0.015*** (0.003)	0.001 (0.004)	0.003 (0.004)	-0.041*** (0.005)
Perception of Economic Conditions				0.295*** (0.025)
Trust Neighbors				0.195*** (0.032)
Perception of Corruption in Government				-0.259*** (0.024)
Level of Democracy (Freedom House/Polity)				-0.001 (0.004)
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	1,782	1,782	1,782	755
R-squared	0.037	0.131	0.137	0.534

# Micro Data Openness

Hans Hoogeveen

## Why care about micro data (openness)?

- Micro data remain the backbone of modern statistical systems
  - Population and economic censuses
  - Labor force, consumption, enterprise and health surveys
- Evidence based decision making by public and private agents requires up to date information
- Data transparency is associated with higher rates of growth
  - Lower cost of lending
  - Fewer bad policy decisions
  - Easier to achieve consensus about reform
  - Improved social contract

# In MENA critical micro data are not collected; when they are, they are not made available

## Public Access to Micro Datasets

Countries/data category	Establishment survey	Consumption survey	Labor force survey	Health survey	Population census	Economic census
Algeria	-	-	-	-	-	Collected, Not available
Bahrain	-	Collected, Not available	-	Collected, Not available	Collected, Not available	-
Djibouti	-	Available	-	-	Collected, Not available	-
Egypt	-	Available	Collected, Not available	-	Collected, Not available	Available
Iran	-	Available	Available	-	Available	-
Iraq	-	Available	-	Available	-	-
Jordan	-	Collected, Not available	Collected, Not available	Available	Collected, Not available	Collected, Not available
Kuwait	Collected, Not available	Collected, Not available	Collected, Not available	-	-	-
Lebanon	-	-	Available	-	-	-
Libya	-	-	-	-	Collected, Not available	-
Malta	Collected, Not available	Available	Available	-	Collected, Not available	-
Morocco	Collected, Not available	-	Collected, Not available	-	Available	-
Oman	-	-	Collected, Not available	-	Collected, Not available	-
Qatar	-	-	-	-	Collected, Not available	Collected, Not available
Saudi Arabia	Collected, Not available	Collected, Not available	Collected, Not available	Collected, Not available	Collected, Not available	Collected, Not available
Syria	-	-	-	-	Collected, Not available	Collected, Not available
Tunisia	-	Available	Collected, Not available	Collected, Not available	Collected, Not available	Collected, Not available
United Arab Emirates	-	Collected, Not available	-	-	-	-
West Bank and Gaza	Available	Available	Available	Available	Available	Available
Yemen	-	-	-	-	Collected, Not available	Collected, Not available
Total surveys with microdata publicly accessible (indicated accessible on NSO website) over microdata collected	1 (1)/5	7 (4)/12	4 (3)/11	3 (0)/6	3 (1)/14	2 (2)/9
		Microdata not collected		Microdata collected but not publicly available		Microdata collected and publicly available

# Why are micro data so hard to come by?

- Lack of capacity is unlikely to explain the present situation
  - Technical capacity is available
  - Financing needs are minimal
  - To the extent that statistical agencies are short on the above, this seems to be a policy choice

## Meanwhile

- The opportunity cost of not having up to date statistics has probably increased
  - economies have become more complex
  - the rate of change accelerates
- The (political) risk associated with data transparency may be over-estimated
  - Increasingly, authorities control public messaging

## Concluding:

- As the benefit to cost ratio has shifted, this seems to be as good a time as any to invest in micro data availability and transparency

# Jobs

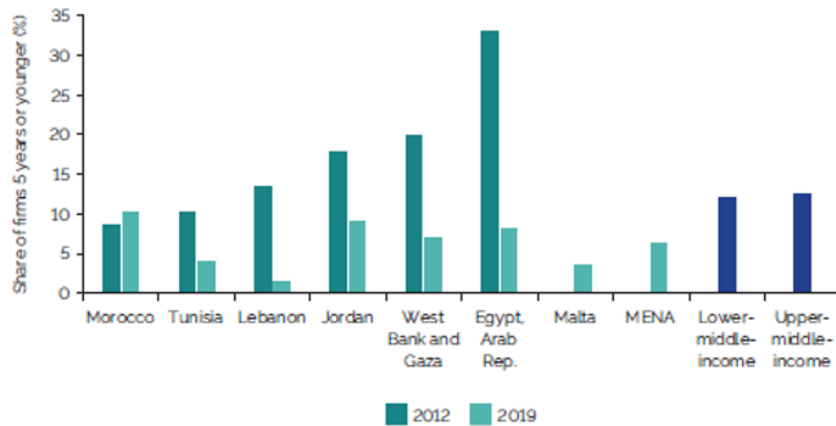
Federica Saliola and Asif M. Islam



# Job creation is hindered by limited transparency and accountability in MENA

A governance model drenched in favoritism discourages private sector dynamism, which is essential for the creation of more and productive jobs.

Young Firms (5 Years or Younger) as Share of All Firms



Source: World Bank Jobs Undone report (2022)

The degree of political connections in the private sector is high in MENA, with a negative impact on job creation.

Share of politically connected firms by firm size



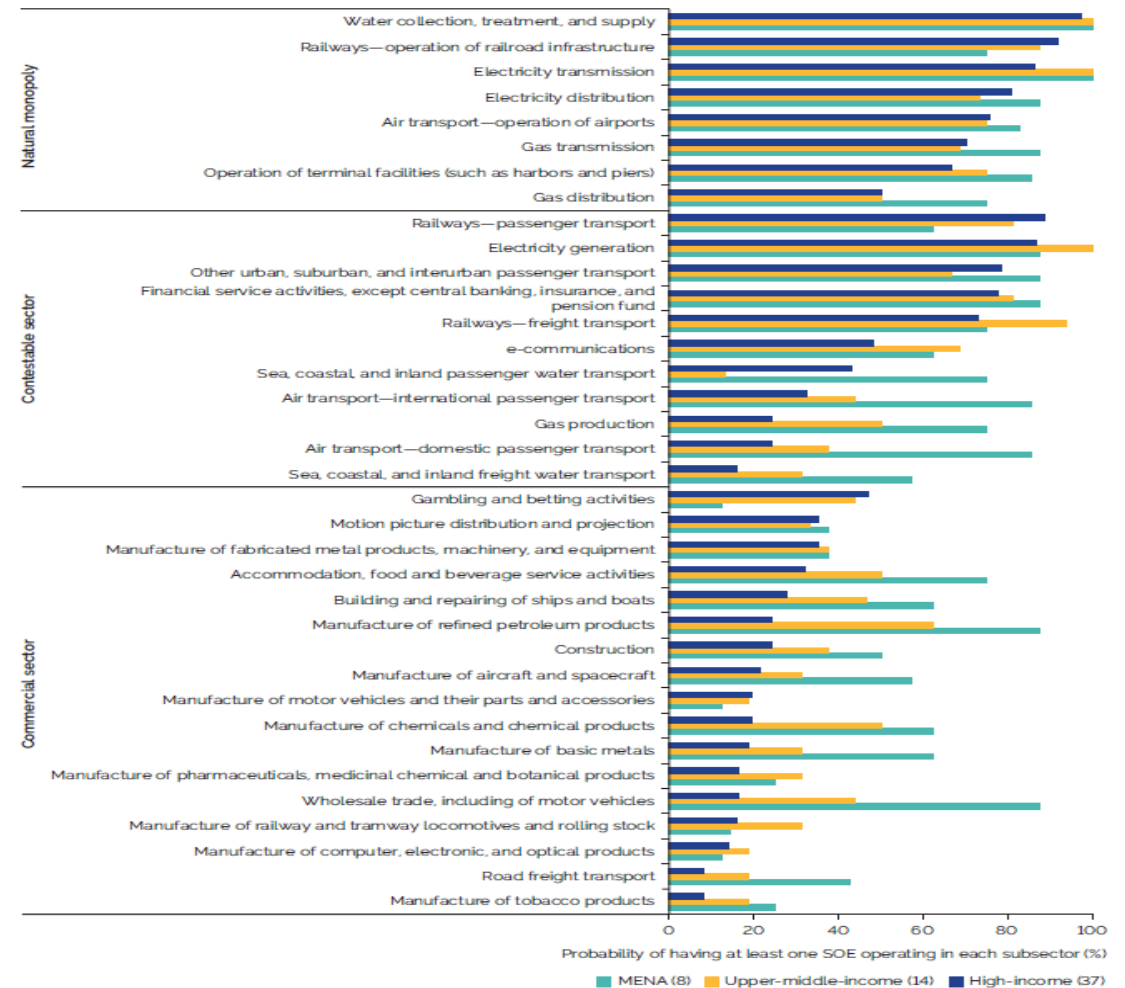
Source: World Bank Jobs Undone report (2022)

# Better governance for jobs: leveling the playing field in the product market

## State-Owned Enterprises (SOEs) Operating in Various Sectors in the Middle East and North Africa and Income Peers

New data on Product Market Regulations (PMRs) collected in 2020-2021 in 8 MENA countries reveals a high presence of governments through SOEs, including in markets where competition is viable but SOEs do not compete on a level playing field.

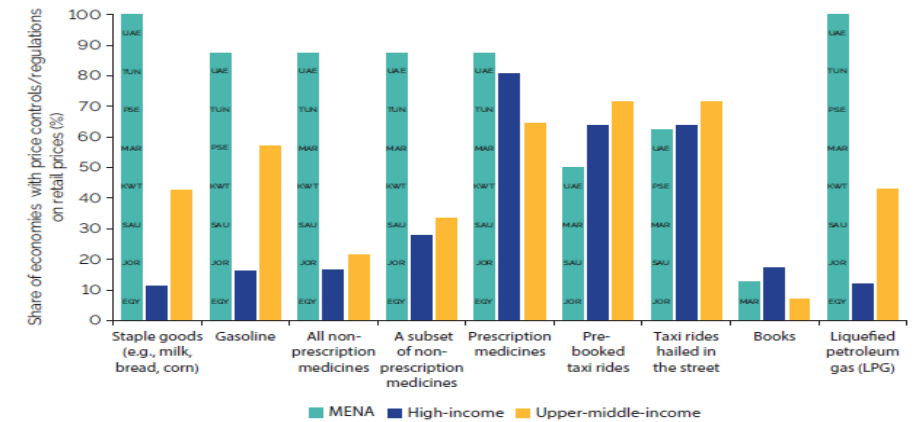
- Comparison with 37 high-income countries and 14 upper middle-income countries
- PMRs measure: scope of SOEs (ownership and control), governance of SOEs, public procurement, government involvement in business operations (price controls), regulations that relate to market contestability, etc.



# Reshaping the role of governments toward markets and workers in MENA

- Most SOEs in MENA benefit from favorable rules: preferential access to credit, subsidies (and loans) to support provision of public services, exemptions from competition law, and preferences in public procurement, all of which distort the environment and affect the ability of private firms to remain competitive and expand.
- Retail price controls also remain prevalent in many Middle Eastern and North African economies.

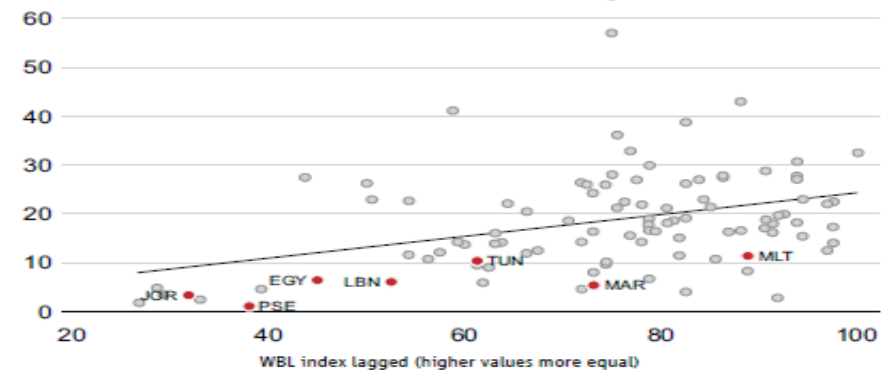
## Retail Price Controls and Regulations in the Middle East and North Africa and Income Peers



**Labor regulations** and related **taxes** and **gendered laws** are complementary policy dimensions to reshape the relationship between the **government and workers**.

- Labor regulations remain limiting and costly in some MENA economies.
- There is ample scope to reform the laws that affect women's relationship to market activities

## Removal of legal restrictions is positively correlated with the share of women in managerial positions globally



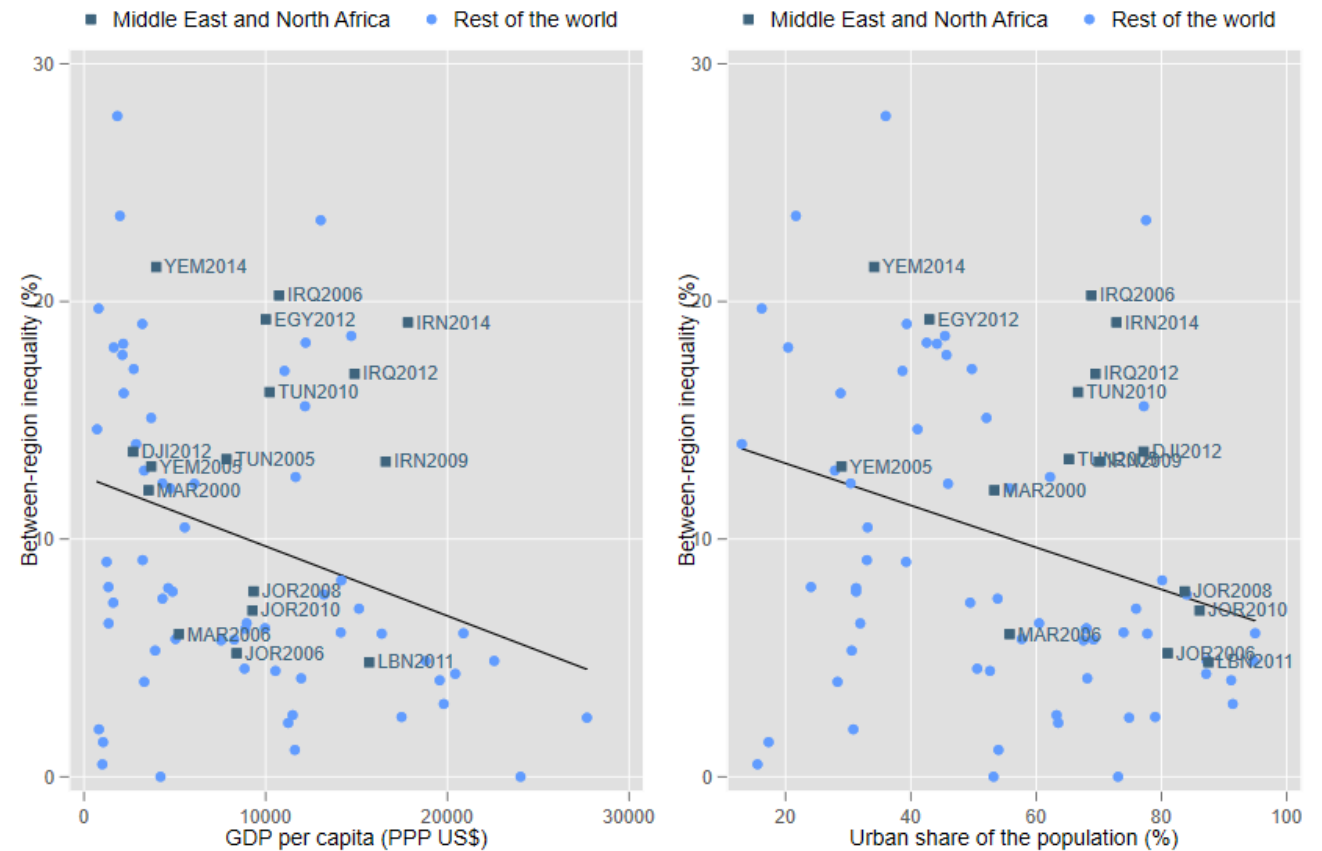
# Spatial Inequality

Somik Lall

# Rising Spatial Inequalities undermine social stability and economic growth

- Highest Spatial Inequality in MENA when compared with the rest of the World
- Differences in living standards across sub national regions in MENA contribute 63% more to total inequality than elsewhere in the world.

Inequality measured by the Theil Index



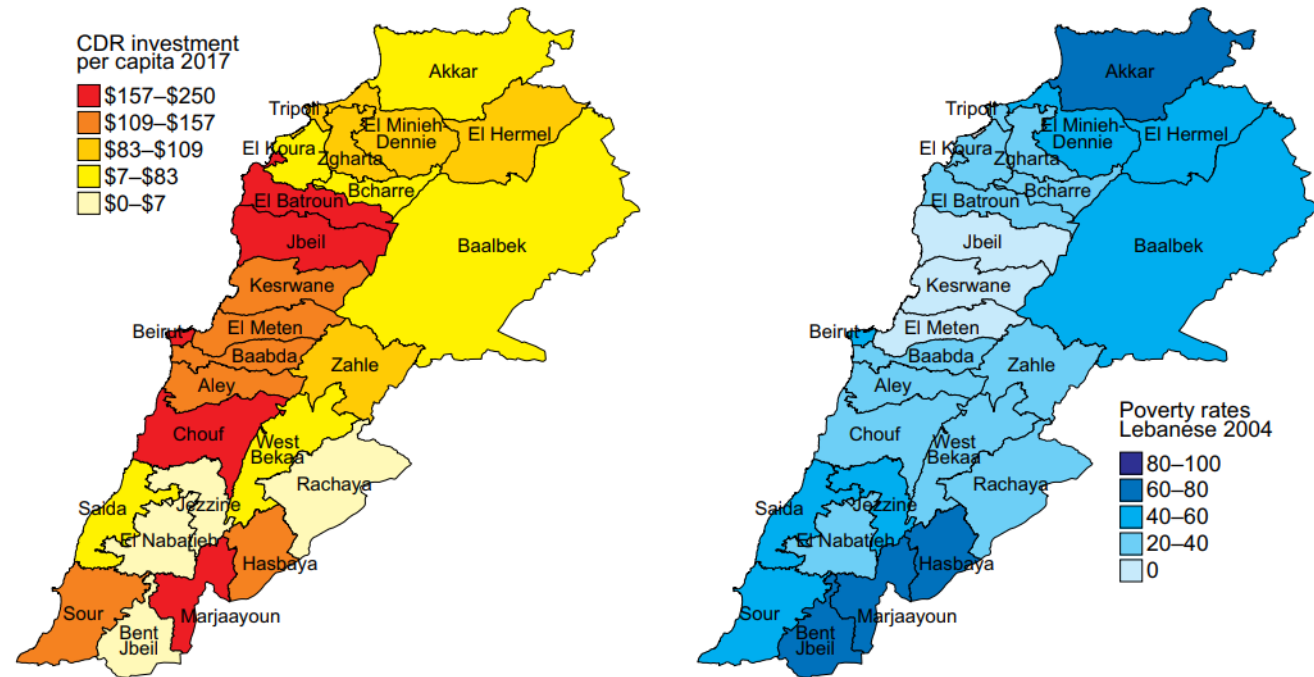


## Weak governance exacerbates spatial inequalities

- **Excessive centralization** of public resources, decision-making, and service delivery mechanisms stand in the way of spatial convergence.
- **‘Building Monuments’** is the norm – large scale public infrastructure investments have been a hallmark of spatial policies
- Decisions regarding the geographic allocation of investment expenditure are taken by sectoral ministries within the central government, with little agency at the local level
- Frontline service providers have little real agency

# Unpredictable and Regressive Subnational Resource Transfers amplify lagging area challenges

- Political bias in spatial allocation of central government grants across regions skew resources towards places with greater bargaining power
- Egypt uses no official formula or consistently applied set of criteria for making resource allocation decisions
- Iraq allocated central government budgets based on past spending, population, and a petro-dollar formula, favoring wealthy regions
- Lebanon made the highest per capita investments in leading areas of Batroun, Beirut, Chouf, Jbeil, and Marjaayoun



# From monumental to incremental - Reforming governance to enable convergence

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- Move away from large-scale capital investments (building monuments)
- Focus on identifying local needs and tailoring solutions to address local market and coordination failures (incremental approach).
  - This will require incorporating feedback, having local service providers accountable to the local residents, and building local governance capacity in human and financial resources.
- The hard stuff will be the soft stuff.
  - Building monuments is straightforward --
  - Listening to local residents and incrementally changing incentives is challenging – changing motivation of service providers so that they are agents of local residents and not only of their line ministries



Central government provides ingredients...

Local governments bake their own cakes





**OFFICE OF THE CHIEF ECONOMIST**  
MIDDLE EAST & NORTH AFRICA  
THE WORLD BANK

**THANK YOU!**

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