

Facing Challenges of Poverty, Unemployment, and Inequalities in the Arab region

Do policy choices of Arab governments still hold after the global economic crisis?



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And Inequalities in the Arab region
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the crisis?**

(June 2009)

Paper by the Arab NGO Network for Development and Christian Aid

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ANND is a regional network representing more than 30 member networks and non-governmental organisations that are active in 10 Arab countries. ANND focuses in its advocacy work on social and economic policies and rights in the Arab region (www.annd.org).

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I- EXECUTIVE SUMMARY A crisis of multiple dimensions; the threat of explosive vulnerabilities and increasing insecurities

The global economic and financial crisis comes at a time when countries and citizens have been trying to adjust to wildly fluctuating food and fuel prices. What started as a financial markets' crisis has turned into a fully-fledged economic and social one. As in other regions of the world, the Arab region has been witnessing serious implications reflected in shrinking economic activity, higher rates of poverty and unemployment, increasing stress on social services, and further economic insecurities and violations of economic and social rights.

Past economic crises have had disproportionate impacts on the poor, and this crisis will not differ in that regard. This means further stress on communities that have been suffering disproportionately from food and energy price fluctuations, which have pushed millions into poverty and tens of thousands into street protests. This is compounded by the fact that the Arab region is, and will be, increasingly affected by climate change with further consequences on food insecurity and poverty.

The countries of the Arab region are particularly vulnerable to the fallout from the global crisis. Recent gains in some human development indicators are fragile, and are not built on long-term government policies, which would help safeguard their sustainability. Moreover, conflict and political instability is widespread, and is prone to deterioration with the economic downturn.

The confluence of these crises exposes the explosive vulnerabilities across the region, at the centre of which are poverty and unemployment. *This calls for intervention from governments and other stakeholders; such intervention should go beyond support to various social groups on the frontline of these crises. It should include revision of the core assumptions behind policy making processes at the national and regional levels.* Responses to the economic crisis should therefore take into account the need to tackle the other crises, including the food and climate crises.

This paper, using secondary sources of information as well as indicative information from a survey¹ of Christian Aid's partners in Egypt, Lebanon, Iraq, and the Occupied Palestinian Territories, sheds light on poverty and unemployment challenges that the region is facing. It reflects on the effectiveness of policy approaches adopted so far and suggests recommendations in areas of social and economic policy making as well as regional cooperation.

¹ The survey was completed by 20 of Christian Aid's partners in the Arab region. The questions covered macroeconomic impacts of the economic crisis and responses by governments and partners themselves. The answers provide an indicative impression of impacts as perceived by professionals in the NGO sector.

II- VULNERABILITY TO POVERTY; The key challenges faced by the Arab region

Increasing numbers of people living in poverty The Arab region witnessed a noticeable reduction in the proportion of people living in poverty at both the basic \$1 and \$2 a day benchmarks from the 1980s to the early 1990s. This encouraging trend faltered during the mid 1990s when poverty rates rose but have remained stagnant since 2000. This is during a period when the human development indicators overall appeared to show continuing improvements (for statistical information, see Figure 1 on human development indicators in the Annex). Countries in conflict such as Iraq, Lebanon and the Occupied Palestinian Territories, have dropped out of the consistent trends of growth that many of the countries in the region have witnessed.

High proportion of the population on the poverty threshold The numbers living in extreme poverty in the Arab region may not compare to proportions in some other parts of the world, but a large proportion of the population is living on the poverty threshold. Raising the poverty line from \$2 a day to \$3 a day would lead to a doubling in the number of people living in poverty from 45 million to 92 million. In Egypt alone, over 70 per cent of the population lives on \$3 a day or less² (for statistical information, see Figures 2 and 3 on poverty trends and incidences in the Arab region, part of the Annex).

Consequently, large numbers of people are extremely vulnerable to poverty if they experience relatively small reductions in income or relatively small increases in prices of basic goods – both of which have been characteristics through the series of current crises.

Food dependency The Arab region faced dramatic economic and social implications as a result of the food price crisis, exposing vulnerabilities of the right to food throughout the region. Arab countries, being net food importers as well as importing more than 50% of the food consumed in the region, are highly vulnerable to world food price fluctuations. According to the Director General of the UN Food and Agriculture Organisation, there are 31 million hungry people in the Arab region that makes about 10 % of the total population. This reflects an increase of 6 million hungry persons compared to 1992, including record numbers in Yemen³. It is clear that in the context of the financial crisis the purchasing power, and therefore the capacity to live beyond extreme poverty, is particularly challenged.

² Iqbal Farrukh (2006); “Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa”

³ Director General of the UN Food and Agriculture Organization (FAO) speaking at the preparatory private sector and civil society forum to the Arab economic development and social Summit held in Kuwait.

Inequality The high degree of inequality between countries, as well as continuous inequality within many countries⁴, is another notable feature of the region that has to be taken into consideration. Whilst more wealth has been generated in the region during recent decades, this has had no direct bearing on the proportion of people living in poverty. Many people have not shared in this wealth, leaving them either poor or on the threshold of poverty and therefore extremely vulnerable to the current crisis.

Unemployment The Arab region suffers from a chronic problem of unemployment which is exacerbated as a consequence of the current crisis⁵ (for statistical information, see Figure 4 on ILO scenarios for unemployment in the Annex). Even during years of consistent growth, unemployment was high and rising. Several factors make the increasing unemployment rates one of the major concerns in light of the global crisis, including⁶: (1) the high birth rate and relatively young populations of the region, which means that many new graduates and school leavers enter the labour force with diminishing prospects for work and (2) the concentration of economic activity in sectors with low job creation capacities, such as the real estate and financial sectors.

At a time of falling output across the globe, the gap between available jobs and numbers in the labour force is likely to increase sharply. This trend is likely to be exacerbated by nationals returning from working abroad, thus further swelling labour markets, particularly in poorer countries. There is already a shift of skilled workers leaving contracting businesses in the Gulf to return to poorer homelands.

The survey of Christian Aid partners indicated grave concerns about employment prospects across the Middle East, with half of respondents saying the level of employment has decreased significantly since the start of the financial crisis, and a further third thinking employment has decreased a little.

The Center for Trade Unions and Workers Services, one of Christian Aid's partners in Egypt, has recently published data which details job losses across a range of sectors, such as over 3000 jobs being lost in the spinning, weaving and ready-made garments sector, as demand for goods falls globally (CTUWS; Impacts of the international financial crisis on Egyptian workers, Report II, April 2009).

⁴ Where data over time exist for countries in the Arab region, they show that the Gini coefficient values of inequality remained largely unchanged. Economic growth and structural reforms in the 1980s did not reduce inequality, as Iqbal (2006) points out. The rate of inequality in the region overall is less bad than Latin America and sub-Saharan Africa, but worse than South and South-East Asia.

⁵ A recent report by the ILO showed scenarios for unemployment in 2009, ranging from relatively static on the already high 2008 rate (about 9.4 per cent) to an increase from six million officially unemployed in West Asia (excluding Egypt) to around eight million in the region by the end of the year.

⁶ ILO Global Employment Trend Brief (2007). The report indicates very high labour force growth in the Arab region, averaging 3.7% annually between 2000 and 2005. In 2005-2007, unemployment exceeded 13%, while youth unemployment in the Middle East and North African countries rates highest in the globe and was estimated by the ILO at 25.7 percent in 2003 (ranging between 46% in Algeria and 6.3% in the United Arab Emirates). It is worth noting that these official aggregate data are likely to both underestimate the rate of unemployment in general across the region and also mask the higher rates in poorer countries such as Egypt, where a rate of 20 per cent would mean well over 10 million citizens unemployed and looking for work.

It is therefore important that governments and other institutions that poor people rely on such as families overseas, aid donors, and banks are able to fill gaps when individual incomes are under such pressure.

Declining Remittances

An important coping mechanism of the poor in the Arab region has been remittances with a substantial proportion of low-income households dependent on remittances to keep them above the poverty line. According to the Economic and Social Commission of West Asia, the rate of remittances flowing to the Arab countries increased sharply from 2003 to 2007, while at the same time remittances from within the Gulf Cooperation Council (GCC) countries began to grow sharply. According to the World Bank, workers' remittances have witnessed a rising trend in the Arab resource-poor and labour-abundant countries, including Egypt, Jordan, Lebanon, Morocco, Tunisia, the Occupied Palestinian Territories, and Djibouti. These countries saw remittances increase from 8 billion USD in 1996-99 to 13.9 billion in 2006⁷. Similarly in resource-rich and labour-abundant countries such as Syria and Algeria, remittances increased from 0.5 to 0.9 billion, and from 1 billion to 2.5 billion respectively over the same period. In 2007, remittance inflows made up around 9 % of GDP in Morocco, 5 % in Tunisia, and 2.2% in Algeria⁸.

The World Bank predicts that remittances, having risen almost 8 per cent in the previous year, will fall in 2009. The size of the fall is hard to gauge, although the worst case scenario modelled last year predicts a fall of 5 per cent from 2008 to 2009, with a further fall into 2010. At more than \$30 billion, remittances constitute a greater inflow to the Arab region than aid, and as such will have a large impact on families and communities in the region (for statistical information about remittances and related forecasts see figures 5 and 6 in the Annex).

Workers' remittances, compensation of employees, and migrant transfers, credit (US\$ million)			
	2006	2007	2008e
Egypt	5,330	7,656	9,476
Morocco	5,451	6,730	6,730
Lebanon	5,202	5,769	6,000
Jordan	2,883	3,434	3,434
Algeria	1,610	2,120	2,262
Tunisia	1,510	1,716	1,870
Sudan	1,179	1,769	1,850
Yemen	1,283	1,283	1,283
Syria	795	824	850
Oman	39	39	39
Djibouti	28	28	28
Libya	16	16	16
<i>Source:</i>	http://siteresources.worldbank.org/INTPROSPECTS/Resources/RemittancesData_February09-Release.xls		

*In Christian Aid's survey, respondents pointed to a strong perception that since the start of the global financial crisis, remittances from abroad to countries in the Arab region have fallen substantially. All except one of the respondents to this question thought that remittances have either decreased a lot (77 per cent) or decreased a little (16 per cent)*⁹.

⁷ "Economic Developments and Prospects; Job Creation in an Era of High Growth" (2007), p. 115; World Bank

⁸ Ibrahim Saif and Farah Choucair (May 2009); Arab Countries Stumble in the Face of Growing Economic Crisis; Carnegie Endowment

⁹ One respondent gave details about a son based abroad in the Gulf who used to send remittances home to his family but now has no job, leaving the family to send money the other way to him. Such circumstances point to a sharp reversal of financial flows in the region, which is expected to soon impact on living standards.

III- GOVERNMENTS' POLICY TOOLS IN LIGHT OF THE CRISIS

Arab governments are facing falling public and private revenues due to the impact of the crisis. This is negating the benefits of recent gains in economic growth and limiting the governments' capacity to implement response policies.

Over the past few decades, Arab governments in non-oil producing countries have increasingly given weight to aid flows, foreign direct investment, trade liberalization, and remittances in undertaking policy choices and designing various policies¹⁰. Oil producing countries continued to depend on rent from oil export.

In this section, we argue that the crisis has revealed the fluctuating nature of aid, remittances, oil-export earnings and the questionable returns from trade liberalisation. Accordingly, these policy options cannot be considered a stable foundation on which to build long-term sustainable development policy. Instead, such policy tools can be considered complementary to a more stable policy in which primacy is given to supporting inter-regional production cycles and trade, as well as encouraging sustainable domestic consumption based on earned individual and collective revenues. We argue that by taking such a new approach, governments can still bring in successful pro-poor policies that will have a positive impact on poverty levels.

Impact of economic reforms Since the mid eighties, Arab governments have enhanced economic reforms partly triggered by the decline in rents due to fluctuating oil prices and related shrinking remittances. Reform measures have been externally driven¹¹, focusing on programs prescribed by institutions such as the International Monetary Fund and the World Bank. These reforms focused on pro-cyclical policy recommendations, cutbacks in government spending, privatization, as well as liberalization of trade, interest rate policy, and exchange rates.

While economic growth has been achieved until recently alongside these economic reform policies, this growth has not addressed rising poverty, unemployment, and inequalities. Governments are now failing to sustain growth and face rising unemployment.

¹⁰ The World Bank has indicated in several of its reports that the GDP growth in resource-poor and labour-abundant Arab countries have witnessed a pickup driven by strong flows of tourism revenues, remittances and increasing FDI.

¹¹ Salah Al- Jouchi; "Economic and Social Rights: Preliminary Review of International and Regional Initiatives", prepared for the Arab NGO Network for Development (2008)

Falling fiscal revenues Economies in the Arab region have followed rentier or semi-rentier models and have been dependent on revenue from oil or other kinds of rents mainly remittances, foreign aid, and bilateral and multilateral loans¹². In oil producing countries, revenues have been generally high, but have been shown to be unstable in the context of the crisis and fluctuating oil prices.

Non-oil producing countries have seen increasing budget deficits and current account deficits in 2008, which have accounted for 1% of GDP in Egypt, 2.7% in Syria, 13.5% in

Lebanon, and 18% in Jordan¹³. Furthermore, the IMF reported between 1 and 2.6% deficit in current account for the Maghreb countries in 2008, which is expected to worsen by 2012. With export opportunities shrinking, current account deficits are expected to increase. Decreasing demand in the European market, which has historically absorbed the highest proportion of exports from Arab region, combined with reduced demand in Gulf countries that absorbed exports from other labour-abundant Arab countries, will be particularly significant.

In addition, government revenue from taxes is expected to fall as a result of anticipated falls in wages, remittances, company profits and government transfers. Many governments in the Arab region are forecasting increasing budget deficits as tax revenues decline and the need to spend for both economic and socio-political reasons remains compelling. Sources of tax revenue are therefore becoming a more important area for public debate, for responses to the current crisis, and for tackling its causes.

Aid For some Arab countries, aid has become a significant proportion of their GDP; particularly in countries affected by conflict such as Iraq, the Occupied Palestinian Territories, Sudan, and Lebanon, though amounts fluctuate greatly (for statistical information, see Figure 7 on Aid to the Arab region in the Annex). The net¹⁴ official development aid (ODA) amount given to 22 Arab countries by all the donors reached 17.1 billion dollars in 2006. This amounted to almost 20% of the total ODA donated by all donors to developing countries¹⁵.

However, this increase has been concentrated in a few countries and has reflected the geopolitical and military events occurring in the region that reflect the strategies of the main international actors rather than development-related purposes. Indeed the less developed countries in the region (including Djibouti, Comoros, Somalia, Mauritania, and Yemen) received only 25.3 % of the ODA flowing into the Arab region between 2000 and 2006. On the other hand, 46% of the assistance given to the Arab countries between 2000 and 2006 was transferred to Iraq, 9.4% to the Occupied Palestinian Territories, and 7.5% to

¹² Sufyan Allisa; "Challenges of Economic Reform in Arab World" (May 2007); Carnegie Endowment

¹³ Ibrahim Saif and Farah Choucair (May 2009); Arab Countries Stumble in the Face of Growing Economic Crisis; Carnegie Endowment

¹⁴ Calculated after paying the debts

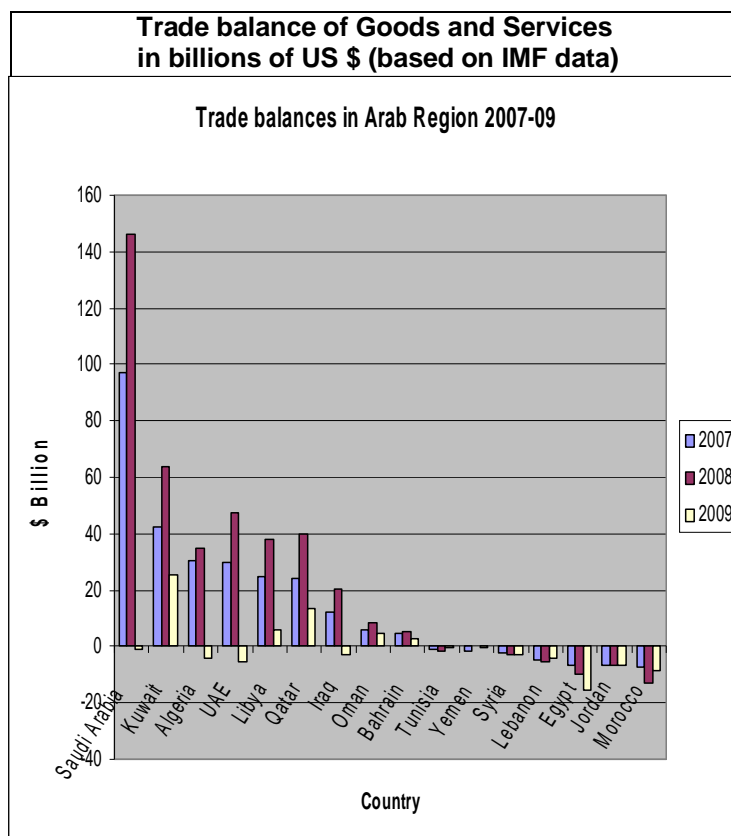
¹⁵ Azzam Mahjoub (October 2008), "Official Development Assistance in Arab Countries", prepared for the Arab NGO Network for Development, in preparation for the Financing for Development Review Conference (Doha)

Sudan. Overall, these three countries received 63% of the total assistance between 2000 and 2006. Another large recipient of aid in the region is Egypt; between 2000 and 2006 it received 10% of the ODA to Arab countries from the Development Assistance Committee (DAC). This suggests that there is a gap between the orientation of assistance flowing to the region and human development priorities (Mahjoub/ ANND 2008).

Furthermore, at a time of global tightening of budgets, it is reasonable to assume that donor countries' aid may not be delivered based on previous projections, and may even fall. This will reflect in less ODA per person at a time when falling incomes from hydrocarbons and taxes mean already tight budgets.

Respondents to Christian Aid's survey thought that since the economic crisis had started, aid budgets had tended to decrease or remain the same. Over half of respondents think aid to their country has fallen since the financial crisis started, while a further third think the level of aid has remained the same. Charities also seem to have smaller budgets to work with.

Trade liberalization has been one of the major policy recommendations promoted and adopted within the region as a tool for further growth and attraction of foreign direct investments. Arab countries have been active in expanding and deepening trade agreements among themselves and with countries in other regions of the world; they have significantly opened their economies to trade, investment, and capital flows. As multilateral¹⁶, regional, and bilateral trade agreements proliferate, countries of the region have significantly reduced most non-tariff barriers (NTBs)¹⁷. The GCC Custom Union members have a simple tariff average that is around 5 percent, while ten other Arab countries have also drastically reduced the simple tariff average to below 12 percent in 2006¹⁸ (UNDP paper, Mustafa/ Abu Ghattas). Overall, the region ranks



¹⁶ Twelve Arab countries are members of the WTO while six others are in the accession process.

¹⁷ For an analysis of trade policy in the countries of the region refer to World Bank (2008), World Trade Indicators 2008, Washington DC.

¹⁸ In Lebanon, the simple tariff average is 5.4 percent, in Yemen 7 percent, in Egypt just over 9 percent, and in Jordan it is 11.8 percent. Other countries in the region have also reformed their trade policies significantly reducing tariffs, maintaining however higher simple tariff average levels. This is the case of Algeria (18.7 percent), Djibouti (31 percent), Libya (17 percent), Sudan (24.1 percent), Morocco (26.6 percent), Syria (26.9 percent) and Tunisia (26.9 percent).

second among developing regions on tariff reforms carried out since 2000, trailing only Europe and Central Asia¹⁹.

Yet, these trade liberalization measures have not been reflected in enhanced trading capacities. Total trade of the Arab countries does not make more than 4.5% of world trade, and only 5.5% of global exports, of which 90 per cent are oil exports²⁰. Moreover, intra-Arab trade ranges between 10% and 13% of overall

Arab countries' trade volumes; which is a slight increase from the 9% achieved in 1997- the year in which the Pan-Arab Free Trade Area (PAFTA) was launched²¹.

Both oil-exporting countries and other Arab countries will see a shock to trade accounts as a result of the crisis.

The former have been hit by oil price fluctuations and the fall in the demand for oil due to the global recession. The latter will see their exports to Europe and countries of the Gulf decreasing with shrinking demand; they will be forced to limit imports. Together with the higher relative costs of necessary imports such as foodstuffs, this is impacting drastically on trade balance in countries of the region.

Response to food price rises In response to the food crisis, governments have implemented a variety of measures, including direct provision of basic foods or increasing food subsidies. Together with controls on exports, these measures have done little to ensure that prices will not rise considerably in the future or more fundamentally, that supplies of basic foods will be sufficient. Core issues including increasing production of food, supporting small farmers selling their products and accessing markets, ensuring poor consumers have access to affordable food, and addressing the imbalance in the global trade system and agreements on agriculture, have not been adequately addressed.

¹⁹ World Bank report 2007; Relative to the world, tariff_reform by MENA since 2000 ranks on average in the top 62nd percentile of countries worldwide, higher than any other region but Europe and Central Asia

²⁰ Joint Arab Economic Report 2006 (in Arabic), September 2006.

²¹ Since 2005, 19 out of 22 Arab countries so far have removed tariffs on the movement of goods between them. The lack of agreement regarding rules of origin for products that are important from an intra-regional trade perspective is one of the major obstacles currently confronting PAFTA.

IV- RESPONSES TO THE CRISIS; Demonstrate a persistent lack of coordination and comprehensive policy making

The diverse nature of the Arab countries' economies and differentiated capacities means that there will be varying responses to the crisis and with varying timeframes. No substantive cooperation or common responses have been undertaken at the regional level.

The Gulf countries' responses came more quickly and more extensively than the other countries of the Arab region. At the sub-regional level, the GCC countries agreed to coordinate their fiscal, monetary, and financial policies and to set in place measures to help ease inter-bank lending rates and add new regulations to their stock markets²². At the national level, GCC countries relaxed monetary policy and led expansionary fiscal policies in a few sectors. In other countries of the region, governments were late to respond; many insisted at the early stages of the crisis on being isolated from its implications. With little room for manoeuvre within their fiscal policies, these countries were cautious to take any expansionary policy decisions, and their interventions lacked planning and focused on the short-term stabilizations.

Actions taken by individual governments in the region²⁴

- **Saudi Arabia:** An investment spending plan and capital to Saudi Credit Bank to secure credits to low income households has been announced.
- **Egypt:** a fiscal stimulus package geared toward job-creating infrastructure investment has been announced.
- **Jordan:** guaranteed deposits in domestic banks were made and a fiscal stimulus package was announced.

Overall, the needed sense of urgency and the longer term clear and comprehensive vision that pays careful attention to social policies have been absent in the responses to the crisis.

Problems related to social policy extend from making available affordable quality social services, access to these services, plus the scope of social protection measures that are available for various social groups. Even in a country like Tunisia, where the social security fund is considered a model for success, the government is facing problems in responding to the needs of the newly unemployed as a result of the crisis²³.

Furthermore, social policies do not address the informal sector, which already employs a large segment of the population in the Arab countries and is expected to expand further in light of the crisis. Indeed, negative implications on the labour market and employment conditions have surfaced within the region, reflected in violation of labour rights.

²²Ibrahim Saif and Farah Choucair (May 2009); "Arab Countries Stumble in the Face of Growing Economic Crisis"; Carnegie Endowment

²³ Ibrahim Saif and Farah Choucair (May 2009); Carnegie Endowment

²⁴ World Bank; Interview with Auguste Kouame, Acting Chief Economist for the MENA region

The deficiency in the area of social policies is in part a reflection of lacking satisfactory levels of participation in the process of developing policy responses or rescue schemes, including for various social partners and civil society stakeholders. In addition, it is a general reflection of limited capacities of official institutions to develop comprehensive economic and social policies. At a time when budgets are squeezed and some prices of

staples have fallen, there is a need for considerable work to identify with greater certainty how scarce resources should be spent to ameliorate the effects of the crisis amongst different social groups and to start tackling its causes.

A glimpse into possible good practices in responding to the crisis

Bahrain The establishment of the Creativity Bank or the “Bank of the Poor,” with \$5 million in capital to provide small loans to small enterprises in order to involve them in the development process. Such initiatives could help address poverty and unemployment if they are part of appropriate support packages specifically designed to assist people in poverty; and are properly targeted and widened in scope, offered under flexible loan criteria, and made available as subsidies to support capacities of small and medium enterprises in the productive sectors, including services, industry, and agriculture.

Oman Official calls from the Omani minister of trade and industry have focused on encouraging industrialists to enhance their efforts to develop new marketing and management strategies and become more competitive by enhancing quality and more competitive prices. Campaigns have been promoting purchase of local commodities in support of the local industrial sector. In order to be beneficial in facing the crisis, such initiatives need to be implemented quickly and with vital participation of the productive and business sector. Clear mechanisms of implementations are needed. Furthermore, such initiatives need to avoid being protective against other developing countries.

V- RECOMMENDATIONS Towards an active role for the Arab countries in protecting the poor and marginalized in light of the crisis

In light of the crisis, Arab governments need to prioritize long-term structural changes while addressing short-term needs. Governments should respond according to the following principles:

- (1) Work together and capitalize on their regional added-value, capacities, and cooperation in facing the crisis.
- (2) Afford the poor and marginalised greater protection for their economic and social rights in light of the current crisis.
- (3) Make available spaces for active participation of various social stakeholders, including civil society and women's groups, in drawing up economic and governance frameworks that prioritize social equity, decent work, gender equality, and environmental sustainability.

Addressing the root causes of the crisis and its implications on the region

The crisis is intertwined with the food and climate crisis and responses to one must be the others. Poor people already have to cope with the effects of fluctuating food prices and will be less able to cope with significant climatic changes. The economic crisis adds more pressure on those with least resources to mobilize. Social dialogue is a necessary part of any response, ensuring spaces for various social stakeholders to participate at the global, regional, and national levels.

Recommended action:

A global response is required to tackle the intertwined crises. Arab governments should **support the UN** as the only forum that has the broad ownership, knowledge and political support required to provide a comprehensive response to the global crisis. Arab governments and institutions should play a positive and active role in the high level meeting on the financial and economic crisis and its follow-up mechanisms.

ESCWA Secretary General: "...efforts will only bear fruit if the crisis is dealt with by effectively dealing with differences between developed and developing countries ensuring a periodic review of essential policies and increased social security and prioritizing job creation and poverty alleviation. It is also very crucial to establish the right bases for true sustainable development".

Syrian Deputy Prime Minister for Economic Affairs Abdullah Al Dardari: "the power of countries is no longer appraised by the size of their economies in the global markets...rather this power is measured by their success in managing their national economies and upholding their responsibilities within the new global economy both on the economic and social levels, especially when they place the individual as the starting and end points of development".

UNCTAD report "The Global Economic Crisis; Systemic Failures and Multilateral Remedies" The crisis dynamics reflect failures in national and international financial deregulation, persistent global imbalances, absence of an international monetary system, and deep inconsistencies among global trading financial and monetary policies.

- Arab governments should **revise the policy assumptions behind socio-economic policy making and re-orient their development priorities in a sustainable way**, including revising relations between the economy, finance, and production and consumption patterns. Accordingly, governments should give priority to building sustainable development through supporting stable long-term growth in the productive sectors, developing comprehensive policies to address poverty eradication and generation of decent work opportunities, and enhancing inter-regional cooperation and related mechanisms.
- Arab leaders should **play a more proactive role, coordinated with other developing countries, in the run-up to the Copenhagen negotiations on climate change** in December. New ways of production, consumption and trading in an environmentally sustainable way should be at the core of responses for reforms to the global economic system.
- Responses to the economic crisis should **address the ongoing food crisis**, which demonstrates the vulnerability of those who pay a large proportion of their income on food to fluctuating prices. Responses should include greater support for food production, small-scale producers, as well as poor consumers.

Recommendations on Social Policies

Poor people need protection from impacts of the economic crisis to prevent it becoming a human development crisis of vast proportions in the Arab region. Automatic macroeconomic stabilisers are very weak and in many cases lacking, in terms of effectiveness, participation in design, and use by poor communities. Consequently, many more people will fall into poverty unless urgent action is taken to ameliorate the worst effects of the crisis. At the same time, longer-term reforms are necessary to ensure that such a crisis does not recur and that poor people have greater capabilities to cope with shocks in the future.

Recommended action:

- Arab governments need to seek **counter-cyclical policies and adopt pro-poor human development policies**, in which social infrastructure investments are strengthened and citizens have greater participation in setting national and local priorities and budgets.
- **Social priorities must be at the centre of policies to address the global crisis and prevent future ones.** Particular attention and additional resources must be directed to support women, people with disabilities, migrants, and those below or around poverty lines and low human development indicators.
- **Social insurance systems should be more widely available** and should encourage individuals to work or be recognised for the role played within families and households.
- **Employment creation should be central to short-term and long-term policies**, with an emphasis on decent work in sustainable productive sectors; furthermore, properly targeted social policy packages should be employed to help limit implications of rising unemployment and related incidences of poverty.

Recommendations on economic policies

Economic policies are currently not pro-poor and do not protect poor or vulnerable groups in times of crisis. Policy space and tools are increasingly becoming restricted and unreliable in pursuing development goals. Poor people lose out relatively more when states cannot collect revenue to the same extent as previously and have less to spend on

social priorities. Therefore, governments' revenue systems should be oriented to fair and sustainable revenue generation.

Recommended action:

- Arab governments should **resist policy conditionalities** as part of agreements with international financial institutions and other donors. Multilateral agreements should be based on rules and principles which promote the rights and needs of local communities and should proceed on the basis of partnership.
- Governments should look to **increase their stable sources of revenue through enhancing a fair, effective, and progressive means of taxation** as the most sustainable source of financing development. This needs to be complemented by efficient, effective, transparent, and accountable public finance management systems and practices.
- Governments should address **the issue of international tax evasion and aggressive tax avoidance** through greater transparency in tax payments. This includes supporting a country by country reporting standard for multinational corporations, and a truly multilateral agreement on the automatic exchange of tax information.
- Governments should set in place **clear policies that allow them to enhance aid and foreign direct investments in areas and sectors with social and environmental added value**, which directly contribute to poverty eradication, increase in employment opportunities, progress of gender equality, and support of human development priorities.
- Arab governments should ensure that international trade and other economic cooperation should be conducted within the context of comprehensive development strategies, on the basis of **special and differential treatment** and choice by countries based on development achievements
- Arab governments should seek to **assess the impact on human rights and sustainability resulting from liberalization undertaken in the context of the WTO memberships and other regional and bilateral free trade agreements**. Where trade and investment agreements limit policy space and impede governments' ability to effectively respond to the crisis, governments should consider steps to review them. This is especially the case in the area of capital flows and financial services liberalization.

Recommendations for enhanced regional cooperation

The magnitude of the crisis has not been matched by the action taken so far. As the crisis is global in nature, no single country can face its ramifications alone; hence the added value of more collective effort in the Arab region, at both governmental and private levels. Re-thinking regional integration as a solution to the crisis can give a powerful impulse to building an alternative development project within the Arab region, which is more sustainable and equitable.

Recommended action:

- Arab countries are encouraged to **enhance cooperation in promoting a development architecture** that is based on inter-regional cooperation and recognition of the special needs of less developed countries in the region. This should
- include establishing time-bound implementation mechanisms for decisions undertaken at the Arab Economic, Social, and Development Summit²⁵ and enhancing coordination of labour policies.
- Arab governments should revise and reform the **mandates and mechanisms of existing regional institutions**, including the Economic and Social Council of the League of Arab States and the regional development banks. In addition, Arab governments are invited to address the role of the Arab Monetary Fund and its capacity to contribute to financial stability and reform of the financial system. Such reform should serve towards achieving stronger links between finance and the needs of the real economy.
- **Intra-regional cooperation, including trade** and other economic cooperation, should be conducted on the basis of special and differential treatment and choice by countries. Limitations and barriers to such cooperation resulting from the overlapping membership of Arab countries in multiple regional economic blocks should be addressed, including urgently needed coordination and harmonization of inter-Arab economic integration policies.
- **Regional financial resources** need to be mobilized through regional channels towards sustainable development aims, particularly access to quality basic economic and social infrastructure. Regional cooperation arrangements can be particularly effective because of a greater recognition of cross-border externalities and greater sensitivities to the distinctive conditions in neighbouring countries.

²⁵ This includes implementation of agreed upon projects, such as the emergency program on food security, a program for common railways among the Arab countries, a program for water security, a common electricity project, a program on limiting unemployment, a program on implementing the Millennium Development Goals in least developing countries of the region, and programs on education and health care.

VI- FACING CHALLENGES OF POVERTY, Unemployment, and Inequalities in the Arab region- Statistical Annex

The analysis in the main report is derived from a range of secondary sources and qualitative results from a survey of Christian Aid partners in Egypt, Lebanon, Iraq, and the Occupied Palestinian Territories. 20 partner organisations gave their views about the impacts of the financial crisis on the economies in their countries and their work as organisations working with poor and marginalised groups. Putting together the data on long-term economic trends in the Arab region with emerging information and perspectives on the fallout from the economic crisis, we attempt to provide an informed indicative picture of what changes are occurring and what policy-makers should be doing about it.

This annex provides more detailed data and information, following the same structure as the main report. For further details, please contact the authors, Kinda Mohamadieh (kinda.mohamadieh@annd.org) of ANND; and Oliver Pearce (opearce@christian-aid.org) of Christian Aid.

HUMAN DEVELOPMENT

Figure 1: Human Development in the Arab region

	1980	1985	1990	1995	2000	2003	2004	2005	2006
Kuwait	0.812	0.828	..	0.852	0.876	0.914	0.912	0.915	0.912
United Arab Emirates	0.743	0.806	0.834	0.845	0.852	0.897	0.898	0.901	0.903
Bahrain	0.769	0.793	0.838	0.858	0.873	0.886	0.889	0.896	0.902
Qatar	..	..	..	..	..	0.889	0.89	0.895	0.899
Libyan Arab Jamahiriya	0.622	0.653	..	..	0.806	0.828	0.831	0.836	0.84
Saudi Arabia	..	..	0.742	0.764	..	..	0.828	0.832	0.835
Lebanon	..	..	..	..	..	..	..	0.795	0.796
Jordan	0.63	..	..	..	..	0.753	0.76	0.763	0.769
Tunisia	..	0.603	0.625	0.653	0.677	0.743	0.749	0.756	0.762
Algeria	..	0.626	0.645	0.652	0.712	0.727	0.732	0.745	0.748
Syrian Arab Republic	0.601	0.623	0.625	0.648	0.714	0.724	0.724	0.731	0.736
Occupied Palestinian Territories	..	..	..	..	..	..	..	0.728	0.731
Egypt	0.483	0.539	0.572	0.628	0.665	0.704	0.709	0.712	0.716
Morocco	0.471	0.497	0.516	0.56	0.582	0.626	0.631	0.638	0.646
Yemen	..	..	..	0.478	0.497	0.549	0.553	0.561	0.567

Source: *UNDP*

Although data availability is a problem in some countries (and one reason why other similar composite indices cannot be used to study over time trends), there are year-on-year increases in the value of the HDI for all countries in all years, except minor

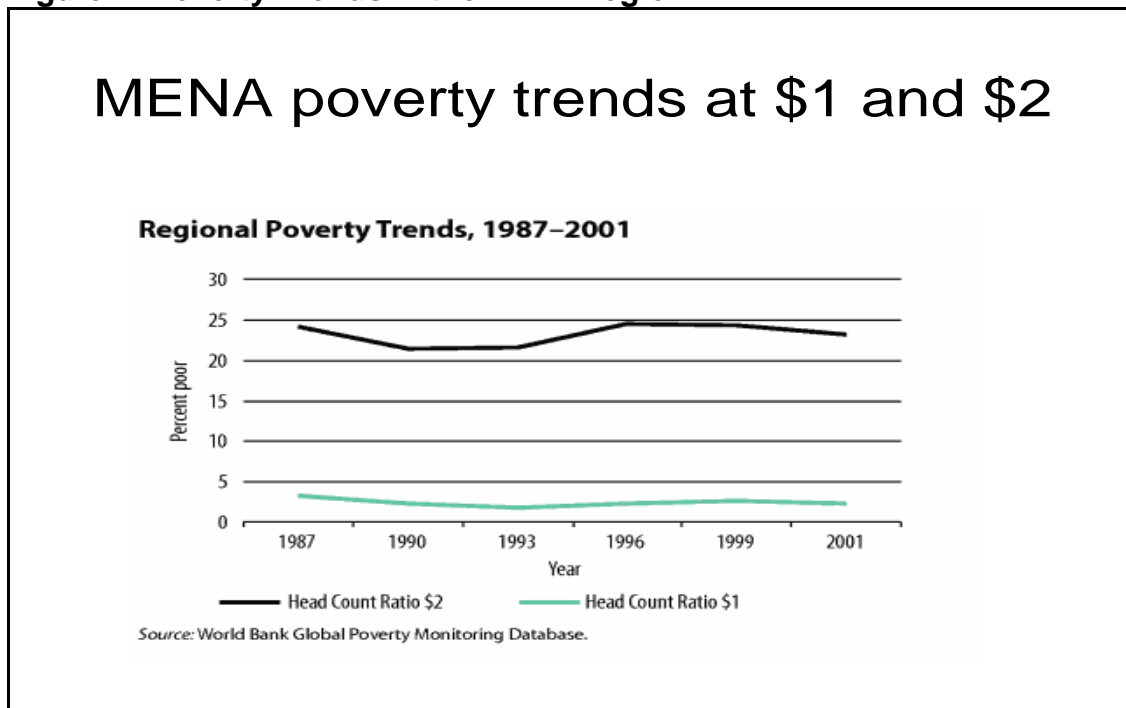
reversals in Kuwait and Bahrain, two relatively developed countries, where indicators essentially show a plateauing of high development scores.

POVERTY IN THE ARAB REGION

Figure 2 below shows that there is a large proportion of people in the Arab region who live on between \$1 and \$2 a day, something around one in five. When these data are computed with the population trends in the region, it can be seen that the numbers of people living in extreme poverty according to these stark benchmarks has actually increased. As well, the numbers living in extreme poverty in the Arab region may not compare to proportions in other parts of the world, but when poverty lines are raised a little, for example from \$1 to \$2 a day, or from \$2 to \$3 or \$4 a day, the numbers living in poverty in the Arab region doubles from 45 million to 92 million.

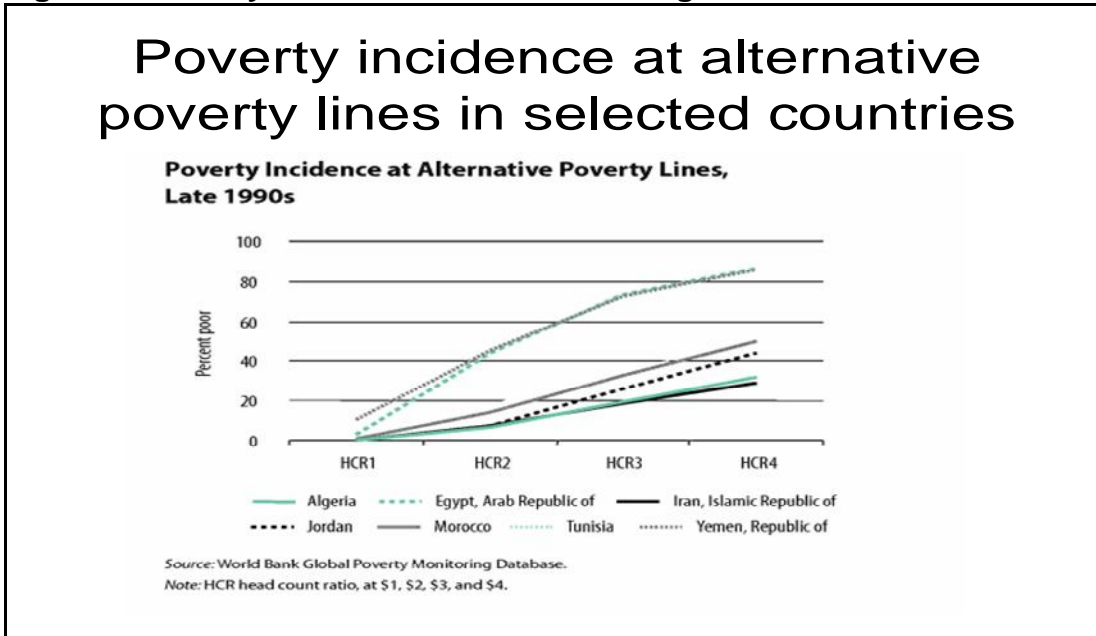
Given the overall human development indicators, this becomes a deep concern. It suggests that many people are vulnerable to changing circumstances and will be in danger of being pushed into more extreme poverty if external provision of services deteriorates or other coping mechanisms become more fragile.

Figure 2: Poverty Trends in the MENA region



Source: *Iqbal (2006)*

Figure 3: Poverty Incidences in the MENA region



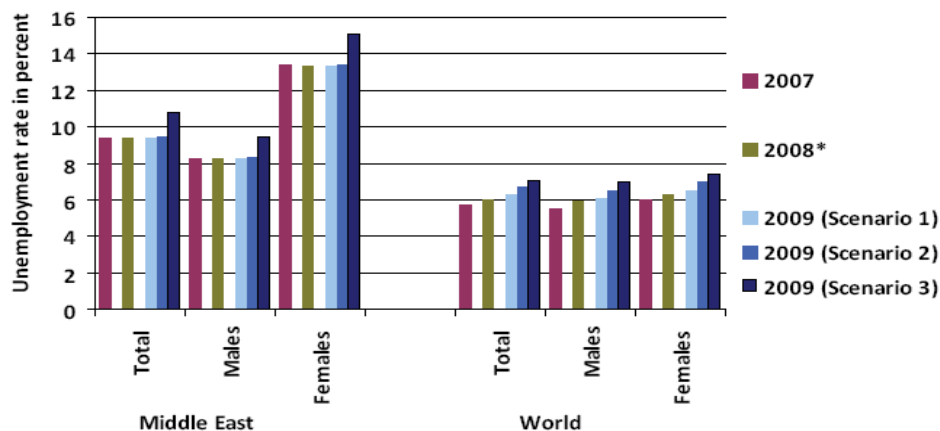
Source: *Iqbal (2006)*

HIGH UNEMPLOYMENT

One of the reasons for the persistent proportion of people living in poverty in the Arab region is the sustained level of unemployment across the region. In fact, even during the years when economies were growing consistently and individual incomes seemed to be rising too, unemployment was high and rising, as can be seen from Figure 4 below. Over one in ten people were officially unemployed in 1990 across the Arab region, but this rate grew by half as much again by 2000. These official aggregate data are likely to both underestimate the rate of unemployment in general across the region and also mask the higher rates in poorer countries such as Egypt where a rate of 20 per cent would mean well over 10 million citizens unemployed and looking for work.

Figure 4: Unemployment scenarios in 2009

Figure 6: Unemployment scenarios for 2009 (per cent of the labour force)

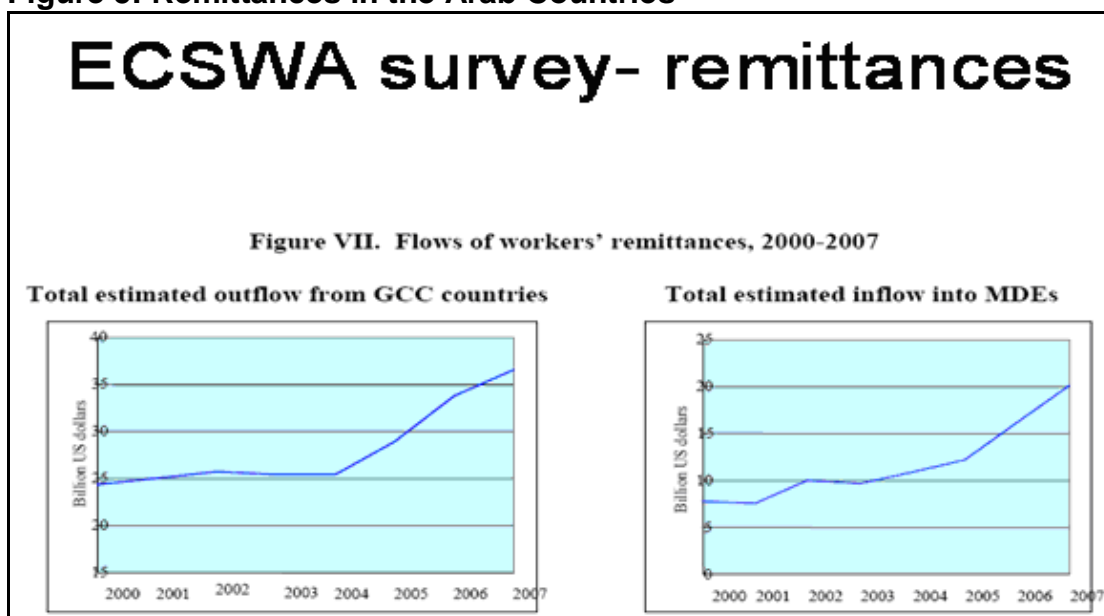


Note: The definition of the Middle East region includes Iran.
Source: ILO: Global Employment Trends for Women, Geneva, 2009.

FINANCIAL FLOWS- REMITTANCES

For most citizens in the Arab region, remittances from workers abroad represent a more direct and substantial financial flow than aid. Figure 6 below shows that the rate of remittances flowing to Arab region countries was increasing sharply from around 2003 to 2007, whilst at the same time remittances from within Gulf Cooperation Council member countries began to grow sharply from around the same time. A significant proportion of the remittances flowing into Arab region countries come from the Gulf, but there are already reports of reduced remittances as companies there cut costs and lay off migrant workers first.

Figure 5: Remittances in the Arab Countries



Source: *ECSWA report 2007-08*

The World Bank is forecasting a drop in remittances during 2009, and in its low case forecast, global remittances do not reach the level of 2008 by 2011. In the Arab region and North Africa region, the low case scenario is not initially as severe but the trough is anticipated to last longer, as can be seen from Figure 7 below.

Figure 6: Forecast of remittances in MENA region

World Bank remittances forecast

Area	Base forecast					Low case forecast		
	2007	2008	2009	2010	2011	2009	2010	2011
LDCs (\$bn)	281	305	290	299	317	280	280	289
Annual change %		8.8	-5.0	2.9	6.3	-8.2	-0.2	3.2
MENA (\$bn)	31	34	33	34	36	32	32	32
Annual change %		7.6	-1.4	2.9	5.6	-5.2	-0.9	2.1

Source: *World Bank (2008)*

FINANCIAL FLOWS- AID

For some countries in the Arab region, aid accounts for a significant proportion of their GDP and government budgets. But it is a volatile source of revenue, particularly in the Arab region where donor priorities are intensely political, and where conflicts mean quickly changing support. Figure 5 below shows that for most countries, the proportion of their GDP derived from aid has fallen significantly in the last 15 or so years but the major exceptions are notable, particularly Iraq which is not covered in these data. Furthermore, it can be seen from the first column that aid is not neatly correlated to poverty levels in terms of HDI rank and that the variations between countries is large.

Figure 7: Aid as proportion of GDP

Aid as proportion of GDP				
Country	HDI rank (2005)	Aid % GDP (1990)	Aid % GDP (2005)	Aid \$ per capita (2005)
Jordan	86	2.2	4.9	115
Lebanon	88	8.9	1.1	68
Tunisia	91	3.2	1.3	38
Algeria	104	0.2	0.4	11
OPT	106	?	27.4	304
Syria	108	5.5	0.3	4
Egypt	112	12.6	1	13
Morocco	126	4.1	1.3	22

Source: *UNDP (2008)*

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