

## OVERVIEW

## THE ROLE OF THE WORLD BANK GROUP IN IMPLEMENTING SDGs IN ARAB COUNTRIES

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### Introduction

The world has made major strides in improving social, economic, and human development in recent decades, but progress has been uneven. The share of people living in extreme poverty<sup>1</sup> dropped from 36 percent in 1990 to 11 percent in 2013<sup>2</sup>, accounting to over 1 billion fewer people. Moreover, the share of children out of school halved, from 18 percent in 1990 to 9 percent in 2016, and access to electricity increased from 71 percent in 1990 to 87 percent in 2016. But despite significant progress, many countries are lagging and several goals have seen less improvement than anticipated.

Looking ahead, several global trends may pose challenges to development efforts: inequality is high; the traditional model of growth is being reconsidered due to changes in technology; demographic change, urbanization, climate change, conflicts, and other forces continue to create pressing needs and influence the migration of people; and public and private debt levels have affected many countries' ability to react to crises and invest in their futures. Much remains to be done at the local, country, regional, and global level if we want to meet the ambitious Sustainable Development Goals (SDGs) that countries committed to meeting by 2030.

The SDGs are cross-cutting, which means they take into account the complexity and interconnectedness of the challenges countries face. Each national and local government must define their SDG implementation plans based on their circumstances. It is equally important for them to devise corresponding financial plans and budgets.

Given their integrated nature, SDG targets address a specific goal while also reaching across others. Progress on one target, such as SDG 9.1 on infrastructure, would enable progress on others, such as improving access to quality education, health, water, and sanitation, among others. The complexity and interconnectedness of challenges confronting Arab countries requires alignment of national development plans to the integrated SDG framework or its equivalent.

### Regional Context

The Arab world is comprised of a diverse set of countries. The region includes some countries with the highest per capita incomes in the world as well as some of the poorest. While some countries are trying to manage the economic effects of persistently low oil prices, high public debt and sluggish growth, others are tackling the effects of fragility, conflict, and violence, or a multitude of other challenges.

However, the past year has also seen several positive developments in the region. Iraq has begun to focus on recovery and reconstruction; major economic and social reforms have continued in countries ranging from Egypt to Saudi Arabia; Syrian refugees and host communities in Lebanon and Jordan – with support from the international community – have continued to show resilience; and Libya has seen a renewed push for solutions to its crisis.

These challenges will impact Arab countries' ability to achieve the SDGs. In 2015, the World Bank Group (WBG) developed a strategy to foster economic and social inclusion in support of regional peace and stability in the region. As discussed in the AFED Annual Report 2016 chapter, this strategy is comprised of four pillars. The first two address the underlying causes of violence and conflict – they focus on improving governance and inclusion, and enhancing regional cooperation. The latter two tackle the urgent consequences by strengthening resilience to shocks caused by forced migration and increasing recovery and reconstruction work.

The areas of focus for this chapter are 1) economic challenges and opportunities; and 2) fragility, conflict, and violence. To mitigate and balance their effects, while implementing the extensive workplan needed to meet the SDGs, will require a significant increase in finance, particularly from the private sector.

### Economic Challenges and Opportunities

Short-term economic prospects in the region are brighter than they appeared a year ago. Fiscal and energy pricing reforms are gaining momentum as countries consider new sources of revenue. Remittances and tourism are expected to grow and some conflict-

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affected countries are slowly recovering. In this context, economic recovery is expected to continue. The positive outlook reflects improved prospects for fiscal and external account positions, reconstruction efforts, structural reforms, and stronger global growth.

However, refugees and people displaced by conflict still face significant challenges and strain the resources of their host communities. Job growth will remain weak and many countries in the region have suffered from persistently low oil prices<sup>3</sup>. For many oil-exporters, the price decline has turned fiscal and current account surpluses into deficits. Even though the positive effects of reforms have begun to be felt, growth is still slow and challenges posed by the forced displacement crisis weigh heavy on the short-term. Thus, effective reconstruction and reform are essential to sustaining growth and creating jobs, both of which depend significantly on how Arab countries respond to their challenges.

Economic concerns are exacerbated by rising youth unemployment, public debt levels, and the effects

of major conflict. To address lower oil prices, many Arab countries have undertaken bold reforms such as eliminating fuel subsidies, cutting capital and current expenditures, and introducing revenue-generating measures such as value-added taxes. These measures have helped stabilize their economies by reducing deficits and have even moved some countries back to small surpluses.

While stabilization policies have helped countries adjust in recent years, a second phase of transformative reforms is needed if the region is to reach its potential. In the medium-run, oil exporters need to create the conditions to foster risk-taking and entrepreneurship in the private and public sector to absorb the 100 million young people who will enter the labor market in coming decades.

The traditional path to diversification in developing countries – investment and growth in manufacturing – has not happened in the Arab world. Studies have shown that the gap between Arab economies and others experiencing faster growth is due to the performance

of the services sector. Rapid technological change provides new opportunities for boosting private-sector-led growth through the enhancement of high-tech jobs in the services sector. Several Arab countries have developed strategies to transform their economies and take advantage of disruptive technology, but more action is needed to capture the opportunity.

The Arab world has a fast-growing pool of university graduates and is seeing increased penetration of social media and smartphones. GSMA estimates that by 2020 the region will have 463 million smartphones, up from 319 million in 2017. Combining improvements in education and technology could serve as the foundation of a digital sector that could create much-needed private sector jobs for youth over the next decade.

### **Fragility, Conflict, and Violence**

Sustainable growth will not be possible without addressing the tensions and conflicts spilling across borders which have a devastating impact on human lives and physical infrastructure. Parts of the region risk losing a whole generation of out-of-school children. These conflicts also prevent investment in a country's people and economy, and impose a heavy financial burden.

A testament of our commitment to improving the trajectory of the region will be our ability to mitigate against and manage the consequences of fragility, conflict, and violence. Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict is a joint study of the UN and the World Bank Group which originates from the idea that the international community's attention needs to be urgently refocused on prevention and early action, with the SDGs being at the core of this approach. Growth and poverty alleviation are crucial but will not suffice to sustain peace. Prevention is cost-effective, saves lives, and safeguards development gains, but it requires departing from traditional economic and social policies when risks are high or growing. The best way to prevent societies from descending into crisis is to ensure that they are resilient through investment in inclusive and sustainable development.

It is critical for countries to seek inclusive solutions through dialogue, adapted macroeconomic policies, institutional reform in core state functions, and redistributive policies. The involvement of young people as well as of the organizations, movements, and networks that represent them is also crucial. When

women participate meaningfully in all aspects of peace and security, including in peace processes, agreements have been shown to be more sustainable.

The interconnectedness between peace and development is explicitly recognized by the SDGs, in particular through SDG 16 on peace, justice and strong institutions. Considering the cross-cutting nature of these challenges and their impact, the global community has to work together towards meeting the SDGs. The World Bank Group has been actively engaged through financing, data and analytics, and operations, working in complementary ways with the UN agency for refugees (UNHCR) and humanitarian-development partners.

More and better financing is needed to enhance effectiveness in the most insecure environments. For middle-income countries for example, the Global Concessional Financing Facility, launched in partnership between the World Bank Group, the UN, and the Islamic Development Bank, has unlocked USD 1.4 billion in concessional financing for Jordan and Lebanon, promoting job creation and expanding vital public services and infrastructure for refugees.

In Yemen, the World Bank Group mobilized USD 1.3 billion in emergency grants from IDA (its fund for the poorest nations), and partnered with UN agencies to help the 75 percent of the population in need of assistance. To respond to the risk of famine, the World Bank Group partnered with UNICEF and private actors to implement a USD 200 million emergency cash transfer program. The delivery of cash transfers has been rolled-out nationally in all 333 districts in Yemen, and has so far reached 1.33 million poor and vulnerable households, of which 44 percent of the direct recipients are women.

Harnessing the potential of digitization will have a major impact on our ability to respond to and address fragility, conflict, and violence. For example, the Government of Iraq, with support from the World Bank Group, used social media and satellite imagery for a Damage and Needs Assessment, which estimated the cost of reconstruction and recovery in affected governorates to be around USD 88 billion. In Syria and Yemen, the World Bank Group uses similar methods to continue to monitor developments on the ground.

### **Finance**

Meeting the SDGs will require a change in how Arab

countries finance their development and complementary efforts to mitigate the risks of external shocks. It will also require putting in place a comprehensive SDG financing framework. Public-private partnerships can play an important role, not only in providing an alternative source of financing but in helping change the role of the state from the main provider of employment to a facilitator of private sector activity.

Infrastructure needs in the region are large, with an estimated cost of USD 100 billion annually. Most of the needs are in electricity generation and transportation, followed by water and sanitation, and information and communication technology. Infrastructure is traditionally financed and managed by governments with little private sector involvement. Because of tighter budgets, there will likely be underinvestment in maintenance of infrastructure that is publicly owned and operated. This is what led to privatization of infrastructure in several countries in the 1980s.

Countries' resource needs surpass their own budgets and available donor funding, but there is potential to expand the range of options, which has resulted in a global push among countries, international organizations, and the private sector to work together to shift development finance. The World Bank Group's Maximizing Finance for Development (MFD) framework proposes a method for multilateral development banks to help countries systematically leverage all sources of finance, expertise, and solutions for development.

The MFD approach entails assessing the financing needs of each development project and asking the following questions: "Is there a sustainable private sector solution that limits public debt and contingent liabilities?" If the answer is 'yes', then promote these solutions. If the answer is 'no', then ask whether it is because of policy or regulatory gaps or weaknesses? Is it because of the risk profile? If so, seek support for policy and regulatory reforms, or consider risk mitigation instruments and tools". If none of these options are possible, then public funding should be pursued. While every country has unique needs, the right mix of public and private funding can be identified to meet their objectives. Egypt, Iraq and Jordan have been identified as pilots for this approach.

There are three main advantages to this approach: The first is the potential efficiency gains associated with involving the private sector. Many governments have a

poor track record of delivering and managing public utilities, so the private sector can potentially step in if the right incentives are in place. The second advantage is the ability of governments to share some of the risks associated with implementing projects; the third is that it addresses rising borrowing costs in Arab countries.

## Conclusion

With mixed progress on key development indicators, a diverse set of challenges to overcome, and a range of opportunities to capitalize on, the Arab world must make transformative changes to successfully implement the ambitious SDGs. The World Bank Group is supporting countries in their efforts to foster economic and social inclusion in support of regional peace and stability. Arab countries can capitalize on these opportunities and mitigate risks by using the SDG framework, as long as implementation is country-driven, evidence-based, and focused on results at the local level.

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## NOTES

1. Defined as living under USD 1.90 a day
2. Latest poverty data available is for 2013
3. Which are at about half of 2014 levels