

MENA-OECD ECONOMIC RESILIENCE TASK FORCE

2019 Annual Meeting

The MENA-OECD Economic Resilience Task Force – co-chaired by Lebanon, Germany and the Islamic Development Bank (IsDB) – met on 2-3 December 2019 for its third annual meeting. Hosted by the German Federal Ministry for Economic Co-operation and Development in Berlin, the event gathered over 80 participants from MENA (Lebanon, Iraq, Libya, Yemen, Palestinian Authority, Jordan, Morocco, Saudi Arabia and Egypt) and OECD countries (Germany, Italy and France). International and regional organisations (World Bank, UNESCWA, Saudi Fund and AGFUND) participated together with representatives from the private sector, civil society and academia.



Moving from fragility to sustainable economic development

Fragility is a paramount concern for development and competitiveness in the MENA region. Conflicts continue to distress the Middle East and North Africa. Their negative ramifications constitute a threat to stability beyond the countries immediately affected. The

challenge of tackling fragility lies in its multidimensional nature, which creates numerous mutually reinforcing threats. For instance, forced displacement severely affects the economies of Lebanon and Jordan. At the same time, the perception of high risk impedes investment flows to reach the region. Yet, the potential of the well-educated youth cannot be exploited in the absence of a vibrant private sector, which lacks access to finance and markets. Moving from this vicious circle to sustainable development entails linking short-term crises management with long-term economic strategies. This remains an utmost priority for countries in the region and for the international community.

Inefficient economies and lack of inclusion are significant root causes of conflict and fragility in MENA.

Countries are at great risk of plunging into fragility when their economies are not working efficiently and the few are privileged over the many. Unemployment, corruption and welfare deficits, coupled with lack of economic inclusion create social frictions that can escalate into conflict. Solutions need to transform structural conditions, by shifting MENA economies away from the dominant role of state provision of jobs towards economic models where inclusive and connected private sectors create employment. This entails to link MENA economies more efficiently with the global flows of trade and investment, and to build the conditions for a strategic use of technology. Doing so, economic transformations need to build on solid social safety nets to be sustainable in the long-term. This is not a new agenda in MENA, on the contrary, consistent efforts have been invested in this direction in the past with uneven results. Moments of crises are also opportunities to promote effective economic reform.



“There will be no sustainable development without peace and no peace without sustainable development.”

Maria Flachsbarth, State Secretary to the BMZ, Germany

What to do and how to do it?

Resilience can be built by tackling fragility from different angles. The Economic Resilience Task Force prioritises two areas of action: social inclusion and private sector development.

The economic empowerment of youth, women and vulnerable populations lies at the heart of economic resilience. At present 105 million young people are transitioning to adulthood in MENA. This demographic opportunity would be missed if young adults are excluded from economic and political systems. Furthermore, women aspire a greater contribution to economic life in the region. Increasing the economic participation of youth and women is key to build resilient societies.



“Long-term stability depends on the acceptability of social contracts for all actors.”

Markus Loewe, Senior Researcher, German Development Institute



“We have to rethink the tools we are currently using (to attract investment).”

Rola Dasthi, Executive Secretary, UNESCWA

Investment can be a driver of sustainable economic development in fragile scenarios.

For this to happen, appropriate approaches need to be elaborated and implemented. Above all, countries have to create regulatory security in high-risk environments. Investment promotion can serve to identify suitable sectors, while screening for potential social and environmental impacts. Infrastructure is a particularly promising sector for investments due to its crucial contribution for long-term economic development, the reduction of poverty and job creation. Foreign Direct Investment should be part of an overall strategy for private sector development, including business linkages with local communities and determined policies to promote entrepreneurship as a critical factor for resilience.



“Instead of addressing the symptoms, we have to tackle the root causes of fragility. These concern the social needs of people.”

Abdulhussein Al-Anbaki, Economic Advisor to the Prime Minister of Iraq

Building sustainable social contracts is key to provide the basis for new economic models. Structural economic reform requires the development of broad consensus in society. However, the majority of citizens in the MENA region does not trust their government institutions to mediate these conflicts. In these contexts, social dialogue helps to identify challenges, to build consensus for reforms and to prioritise concrete actions for change. External partners should support states to create spaces for dialogue at national, regional and local levels. New social contracts should play particular attention to the concerns of youth, women and vulnerable populations.

International efforts to build economic resilience need to be reflective of the countries affected by conflict and transition. Economic development can no longer be isolated from fragility, peace-building and humanitarian concerns but must be conclusively integrated into these areas. Donors need to develop solutions in co-operation with countries concerned by fragility to mitigate negative trends and prevent future crises. By connecting the international development community with recipient countries, the MENA-OECD Economic Resilience Task Force intends to achieve a greater coordination of international co-operation.

Next steps for the Task Force

The Task Force will 1) advance policy analysis to better understand the challenges of fragility and the drivers for structural transformation; 2) engage in policy dialogue with multiple stakeholders at regional level to share good practices and create common ground, and at local level to take greater account of national contexts; and 3) support/initiate country-level projects to promote effective reform in priority areas of economic and social reform through social dialogue, consensus building, peer advice and capacity building. The ERTF constituency will keep a multi stakeholder composition, while reinforcing the leading role of strategic central institutions, such as prime minister offices, and ministries of planning or economy according to national institutional settings.

Key Messages from the Economic Resilience Task Force

1. Transforming social contracts for long-term economic resilience

The concept of the social contract is key to understand the root causes for conflict and fragility. A social contract describes the entirety of explicit and implicit agreements between societal groups and the sovereignty. The state has to ensure protection, provision and participation for its citizens. In return, it receives loyalty and taxes from the society. Broken social contracts exacerbate the root causes of forced migration and displacement, especially state repression, inter-communal conflict and injustice. Current instability in Lebanon and Iraq illustrates the incapacity of existing institutions to cope with social demands, external shocks or economic volatility. Social dialogue is an important tool to address these challenges and to build consensus for reforms that are reflective of the need of all societal actors. Examining the example of the Economic, Social and Environmental Council (CESE) of Morocco, participants discussed the practical details of social dialogue.

2. Technology and access to finance as enablers for entrepreneurship in fragile situations

Small and Medium Enterprises (SMEs) account for nearly two-thirds of GDP and almost three-quarters of employment in the MENA region. Fragile contexts present SMEs with challenges such as lacking access to finance, the fragmentation of markets and low quality infrastructure. Policy makers need to develop targeted solutions to enable entrepreneurship in these situations. Through the *Sanad Fund*, the KfW provides debt and equity supported by multi-faceted technical assistance to support SMEs in the Region. The Jordan Enterprise Development Corporation (JEDCO) is working to improve the integration of smallholder farmers in value chains as means to reduce vulnerability and inequality in rural areas. Technology can complement these efforts by allowing entrepreneurs to access markets when local demand is low and supply of skills is limited.

3. Supporting the youth building their future

MENA economies hosts a young and increasingly well-educated population. At the same time, the region suffers from the highest youth unemployment rates in the world. Those in employment often work in the informal sector, with no access to social security. In fragile situations, the youth lacks access to economic opportunities and public services. Participants highlighted the need for MENA governments to implement cross-sectional youth policies to engage the youth in the economy, society and public life. This requires to adapt public services to young people's needs, to further their participation in decision making and to enable the development of skills.

4. Sustainable infrastructure grounded in local socio-economic contexts

Infrastructure is crucial for long-term economic development, the reduction of poverty and job creation. In fragile MENA countries, demand for the reconstruction or upgrade of infrastructure largely exceeds existing supply. There is thus a need for the private sector to step in and to support infrastructure development. However, the private sector has to follow the right provisions so that infrastructure makes lasting and inclusive contributions to economic growth. Participants underlined that infrastructure projects tend to contribute more to long-term economic development when they are economically viable, politically supported and locally sustained.

5. Investments in fragile contexts are drivers for long term development

Investments in fragile MENA countries remain concentrated in sectors with little contribution to long-term economic development. Participants underlined the need to understand investment as a driver of sustainable economic development. However, there are important disagreements regarding the tools to attract investment in fragile contexts. Participants highlighted the need for accessible risk insurances for investors. They discussed the role of Special Economic Zones (SEZs) and Public-Private Partnerships (PPPs) to achieve greater private sector participation in risk-bound environments. Investment Promotion Agencies (IPAs) play a special role in fragile environments. Where access to markets is difficult, IPAs can identify suitable sectors and specific projects with promising opportunities for long term development. However, IPAs often function more as an information platform but lack political support needed for the conclusion of concrete projects.

6. Empowering women in fragile contexts

Women in fragile contexts are frequently exposed to sexual violence, social and economic marginalisation and the violation of basic human rights. The gendered division of labour and care responsibility typically intensifies the burden placed on women as fragility and insecurity increase. In countries such as Lebanon, women account for more than half of registered refugees and often constitute the primary financial contributor in households. These circumstances often lead to the marginalization of women and their exclusion from political and economic decision-making. Participants agreed that the integration of women into the economy is key to build resilience societies. Donors have to undertake further efforts to streamline gender perspectives. Furthermore, development also has to engage with masculinities to enable gender equality in settings where male social norms remain unquestioned.

7. Reconstruction and recovery: moving beyond physical infrastructure

To reach sustainable peace, processes of recovery from conflict have to go beyond the rebuilding of what was destroyed. Conflicts in the MENA region are increasingly protracted, involving different communities within and across countries. The lack of data on the local development of conflicts prevents development efforts to unfold. Participants emphasised that rebuilding has to encompass human and social capital through the development of skills, health and wellbeing. Following the principle “build, not re-build”, development actors should focus on conscientious building, rather than rebuilding old structures that led to conflict in the first place. Therefore, rebuilding efforts need be based on an understanding of past reasons for conflict to provide a solid plan for the future. This includes to take greater account of local contexts and to adopt a people-centred approach.

8. The role of international co-operation in crisis and transition

Development policies can no longer be isolated from fragility, peace-building and humanitarian concerns but must be conclusively integrated into these areas. Many countries are adopting ad hoc development instruments to respond to issues of fragility and conflict. For instance, through its approach of Transitional Development Assistance (TDA), Germany aims to improve socio-eco conditions, implement changes locally and strengthen decentralisation to enhance the resilience of countries to respond to shocks. However, international co-operation has to include not only donors. It needs to be reflective of the countries affected by conflict and transition themselves to mitigate negative trends and prevent future crises. Participants agreed that by connecting international development community with receiving countries, the MENA-OECD Economic Resilience Task Force can play an important role to achieve a greater coordination of international co-operation.