



MENA-OECD Ministerial Conference - 1 April 2021

Where we stand

The COVID-19 pandemic has been accompanied by an unparalleled socio-economic crisis across the world, threatening lives, disrupting economic activity, public service delivery, testing public trust in governments, and hurting well-being and the jobs of millions of people. The path to recovery, and to a better future for our economies and societies, demands multilateral dialogue. Sharing experiences and identifying best practices to find solutions is indeed central to the OECD mission to deliver “better policies for better lives”. The MENA-OECD dialogue supports a roadmap for an inclusive and sustainable recovery in the MENA region.

The crisis

In response to the pandemic, MENA governments have been swift to impose containment measures, including curfews, social distancing and border closures. These measures have been rather effective in limiting human losses and mitigating the pressures on healthcare systems, but the socioeconomic consequences of confinement restrictions have put MENA economies, as well as the rest of the world, under significant stress.

The region suffers from a drop in demand at the regional and global levels. The services sector, employing large shares of the workforce in the MENA region, in particular in the tourism industry, has been severely affected by the containment measures. Remittances into the MENA region, a significant share of its overall regional GDP, have declined substantially. Bottoming crude oil prices have created additional strain, even for the region’s wealthiest countries (OECD, 2020a).

In addition to the economic impacts, the COVID-19 crisis has tested the resilience of public sectors and their capacity to ensure the continuity of service delivery when it was most needed. Reflecting a global tendency, emergency measures and mobility restrictions, also raised questions on the safeguards of the rule of law, accountability, and transparency, and on their impact on citizens’ access to key public services, such as health and justice. As a result, MENA societies expressed a low degree of satisfaction with the public response to the crisis as well as an overall lack of confidence in government performance (Arab Barometer, 2020). The pandemic thus underscored the necessity for governments to create accountable and transparent institutions and improve the efficacy and responsiveness of service delivery and good governance in order to rebuild trust.

Finally, the social consequences of the crisis cannot be overstated. Despite governments’ efforts to increase social safety nets and welfare benefits, COVID-19 has further exacerbated existing inequalities and vulnerabilities, hurting especially the most vulnerable, such as women, youth, workers and firms in the informal sector, refugees and people living in conflict areas.

The forecasts

The global economic prospects have improved in recent months, with encouraging news about progress in vaccine production and deployment and a faster-than-expected global rebound in the



latter half of 2020. Global GDP growth is projected to be 5.5 % in 2021 and 4% in 2022, but there are signs of increasing divergence in activity developments across sectors and economies (OECD, 2021).

The IMF's most recent forecast figures for the MENA region predict a rebound in GDP growth of 3.1% in 2021. Future growth has to provide jobs and opportunities to a young population that is expected to grow by 40% to almost 600 million by 2030 (Middle East Institute, 2019).

As the evolution of the virus is uncertain, new targeted restrictions on mobility and activity would influence the pace at which the most affected service sectors and tourism dependent economies can rebound. This certainly concerns the MENA region, where vaccination campaigns are also showing a high level of heterogeneity, with excellent performers, but also with dramatic deficiencies in particular in the countries suffering from war, conflict and instability.

The future we want

As second and third waves of the pandemic are hitting the world and the MENA region, there is growing urgency to design tailored roadmaps towards recovery in a way to address not only the middle to long-term consequences of the crisis, but also the structural challenges that preceded the COVID-19 pandemic. The path out of the pandemic crisis offers an opportunity to reflect on the economic model the MENA region needs and the necessary reforms. Since 2005, the MENA-OECD Initiative on Governance and Competitiveness for Development has been a major vehicle to advance and support the implementation of major public and private sector reforms in the region. Through its new Mandate for the next five years, it will contribute to the design of the region's path to recovery and future.

The roadmap to recovery and future in MENA will be discussed during the two following Ministerial Panels:

Session 1. A new growth model for the post-COVID-19 recovery: governing the investments of tomorrow in MENA will discuss the vision and action to create a fairer, greener and inclusive economy and society from the massive investments planned for the recovery.

Session 2. People-centred policies for more resilient and inclusive societies will discuss the vital importance, and the ways of engaging in an inclusive and people-centred reform agenda.

Session 1: A new growth model for the post-COVID-19 recovery: governing the public and private investments of tomorrow in MENA

To fight the pandemic, MENA governments, just like many worldwide, have allocated additional resources to the health care sector. They also directed specific support to mitigate the economic impact of the crisis on the business sector, in particular small and medium-sized enterprises, and extended social assistance programmes to support workers in the informal sector and the most vulnerable households. Budget deficits are indeed projected to be significantly larger in 2020 than in 2019 and will increase the public debt (IMF estimates). For certain countries, this additional, necessary spending is increasing pre-existing fiscal imbalances or threatening previous consolidation efforts, and consequently generating further fiscal sustainability challenges.

Further fiscal stimulus is likely to continue in virtually all countries of the region in 2021, as the effects of the pandemic will continue unfolding. MENA societies are faced with similar challenges to those of other countries across the world - namely identifying where spending can be cut and allocating resources to high-priority policies to support the economy and households. At the same time, the



massive public investments can help attract new foreign direct investment (FDI), to support fairer, greener and more inclusive economies and societies.

In the past decade, many MENA governments have advanced important reforms to improve the investment climate, including measures to ease the entry of foreign business and to streamline regulations for investors. Still, further efforts are required to leverage investment that can support job creation, productivity improvements and economic diversification, enabling a shift to an economic model supporting a more sustainable and inclusive recovery.

Yet, following the pandemic, a sharp decline in FDI was registered in the MENA region, where in eight economies the total value of Greenfield investments in the first half of 2020 was 80% less than in the same period in 2019. The reduction of Greenfield investment affected crucial sectors, including tourism, energy and manufacturing. In some cases, though, the slowdown in investment in the region resulted in projects being put on hold, rather than divestments or cancellations of projects (OECD, 2020a). At the global level, the reduction of FDI was 50% in the first half of 2020 compared to the second half of 2019, the lowest half-year level since 2013 (OECD, 2020a).

Investing in digital, connectivity and green to boost growth and help addressing inequalities and inclusion

Recovery measures are an opportunity to invest in public and private sector transformation and innovation, with systematic integration of sustainability and green considerations, such as support to technologies for solar and wind energy, smart green cities and green public transport systems. Innovation was crucial in the development of epidemiologic and immunological solutions in the face of the COVID-19 crisis and will be necessary for the post-pandemic recovery process to be successful and achieve impact.

Planned public infrastructure investments in digital networks to accelerate the digital transformation of public and private sector activities, as well as investments in transportation and energy, can help support demand, improve productivity and service delivery. They can also be an important source of new jobs for workers displaced by the business closures or downsizing (OECD, 2021). Digital tools and services are an opportunity for governments to reach out to all strata of societies, even the most marginalised, and make the dividends of recovery efforts more widely accessible to all. Hence the need for enhanced connectivity, especially for poorer households, disadvantaged groups, small firms and remote regions. By leveraging technology and digitalisation in public institutions, governments could help promote innovative, citizen-centric services and ensure greater resilience and preparedness.

In the private sector many firms, especially small and medium-sized enterprises in less digital-intensive sectors, find the digital transformation difficult also because of the growing complexity of digital technologies. However, investments in advanced, productivity-enhancing digital tools and applications, such as cloud computing, are critical to boost productivity growth. Digital transformation requires also complementary investments by the business sector in digital skills, organisational change, process innovation, as well as business models (OECD, 2019).

Investing in and for regional integration

The COVID-19 crisis has driven attention to the importance of enhancing Euro-Mediterranean integration and the potential of developing regional value chains as well as deepening the process of industrial diversification in MENA countries to enter higher-value segments of supply chains.



The pandemic crisis may affect multinational enterprises' (MNEs) decisions to reorganise the geographical and sectoral distribution of their production activities, providing opportunities for the MENA region. MNEs in the Euro-Mediterranean could decide to shorten their supply chains and reduce the distance between suppliers and clients (*nearshoring*) or even chose to move manufacturing activities back to the home country (*back shoring*). Similarly, some companies may diversify their supply networks in order to increase resilience to shocks, which will involve divestments from some locations but expansion in others (OECD, 2020a).

Investing with public-private dialogue

To respond to the concerns investors are facing during the crisis, most Investment Promotion Agencies (IPAs) in the region have refocused on aftercare services to support and retain existing investors. Some governments are also considering revising incentives to attract investment in sectors vulnerable to supply chain disruptions, including agriculture.

The moment calls for a pro-sustainability approach to governing investments, where a constructive and inclusive public-private dialogue informs the reform agenda and facilitates the attraction of quality FDI.

Session 2: People-centred policies for more resilient and inclusive societies

COVID-19 is causing serious human suffering with long-term implications for people's health and life prospects. Governments across the MENA region have taken unprecedented steps to expand bailout plans as well as welfare programmes and social safety nets in an effort to support households and businesses throughout the crisis. Even so, vulnerable and disadvantaged groups continue to be severely impacted by the crisis.

Building more open and transparent institutions

There is an increased call for more openness in governments, and thus for public administrations to promote transparency, integrity, accountability and stakeholder participation. Open government can support the co-creation of solutions for recovery and is an essential prerequisite for rebuilding citizens' trust. Indeed, OECD evidence shows a positive correlation between engagement, trust in public institutions and satisfaction with the quality of public services (OECD, 2020b). There is also increasing recognition that Open Government initiatives can play a pivotal role in supporting good governance, democracy and inclusive growth.

Putting citizens and businesses at the centre of government action for recovery

Public budgeting and financial schemes, regulatory reform and public procurement systems are powerful government tools, governing the allocation of public priorities and resources, that can be leveraged as part of the recovery process to deliver on the promises of the post-pandemic recovery for the collective well-being. For example, regulatory policy can be improved to cut administrative red tape in the delivery of assistance funds (OECD, 2020c). Public budgeting and tax policies can be leveraged to support a more sustainable and green transition for future generations (OECD, 2020d).

Risk management and strategic foresight capabilities will also need to be deployed to ensure the sustainability and relevance of this effort. Mainstreaming a people and user-centric approach across the machinery of government in the implementation of recovery plans will also create more inclusive public administrations, capable of ensuring whole-of-government coordination and public services tailored to the needs and aspirations of citizens.



Advancing women's empowerment and gender equality in the recovery effort and leveraging the important contribution of youth and future generations

Women and youth continue to represent an untapped potential and resource for the MENA region. Promoting women and youth empowerment and participation is critical to stimulating inclusive growth and social development. According to OECD evidence, youth-led organisations in the MENA region actively contributed to the pandemic response providing services to youth and support to the most vulnerable (OECD, 2020e).

Yet, youth and women continue to face structural obstacles to their political and economic integration. Regional youth unemployment rates are the highest in the world and youth's trust in public institutions remains conspicuously low (OECD, 2020a) while women's limited labour force participation represents an estimated loss of US\$1 trillion in cumulative output (World Bank, 2019). Women and youth are also over-represented in the informal sector, which accounts for 68% of total employment in the MENA region (ILO, 2018). During the COVID-19 crisis, they have been more exposed to poverty due to their lack of formal social protection coverage, a condition typically associated with informality (Oxfam, 2020).

Governments should make use of strategic and policy tools to make women and youth empowerment a cornerstone of recovery and create opportunities for greater gender and youth engagement to foster the integration of their concerns and perspectives in the design of recovery plans. Women must have an equal access to decision-making processes and institutions if the benefits of recovery are to be truly sustainable and equitable. The design and implementation of recovery plans should therefore embed and mainstream gender issues to ensure that initiatives fostering women's access to decent jobs and career opportunities are an integral part of the plans. Similarly, youth employability and acquisition of relevant skills to support the green and digital transitions should be central to the recovery. Promoting age diversity in decision-making, public consultations and institutions will also help better reflect the needs and concerns of different age groups in recovery plans and ensure the well-being of future generations.

Moving away from informality, creating greater social resilience

Given the significant costs of crisis relief efforts and the relatively narrow formal tax bases in the MENA economies with high prevalence of informality, governments would need to raise additional revenue. This should involve creating incentives to formalise the informal sector, via a comprehensive set of policy actions, i.e. improving awareness of the benefits of formalisation, simplifying administrative procedures, reducing tax compliance costs, and bridging the skills gap for workers in the informal economy.

As mentioned above, informality is widespread in the MENA region and is often the result of public administrations' inability to deliver. Usually, the informal sector serves as a buffer to negative shocks, temporarily absorbing the workforce that is pushed out of the formal sector. However, during the COVID-19 crisis, the buffer effect did not happen and instead, social distancing policies and confinement measures have reinforced the vulnerabilities of informality. For most informal sector jobs, working remotely is not a feasible option and many people have lost their livelihoods due to the containment measures.

Moreover, informal workers generally do not benefit from the basic social protection that allows for resilience and stability during unforeseen disruptions such as the COVID-19 crisis. Risks of poverty for individuals with no livelihood were further amplified in the MENA region, characterised by low levels of social protection expenditure, varying on average between 2.5% and 7.6% of GDP.



As MENA economies prepare their post-COVID-19 crisis response, they have an opportunity to bolster social resilience by strengthening their social protections systems and encouraging a move away from informality.

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