

Author(s): Heyneman, Stephen P.

Title: Human Development in the Middle East and North Africa Region

Date of Publication: 1993

Place of Publication: Chapter 7 in Economic Development of the Arab Countries: Selected Issues Edited by Said El-Naggar
Washington, DC: Arab Monetary Fund, 1993.

Document Number:

**Economic
Development
of the
Arab Countries**
Selected Issues

Edited by
Said El-Naggar

Papers presented at a Seminar held in Bahrain
February 1-3, 1993

International Monetary Fund 1993

Contents

Foreword		
Acknowledgment		
1. Economic Development of the Arab Countries: The Basic Issues		
<i>Said El-Naggar</i>	<i>1</i>	
2. Economic Reform in the Arab Countries: A Review of Structural Issues		
<i>Mobamed El-Erian</i> <i>Shamsuddin Tareq</i>	<i>26</i>	<i>204</i>
Comment: <i>Mustapha Kara</i>	<i>51</i>	<i>227</i>
3. Investment Policies and Major Determinants of Capital Flows to Arab Countries		
<i>Ghassan El-Rifai</i>	<i>56</i>	<i>235</i>
4. Arab Capital Flows: Recent Trends and Policy Implications		
<i>Abmed Abisourour</i>	<i>94</i>	<i>267</i>
Comment: <i>Samib Masoud*</i>	<i>139</i>	<i>279</i>
5. Inter-Arab Labor Movements: Problems and Prospects		
<i>Tayseer Abdel Jaber</i>		<i>145</i>
Comment: <i>Mobamed Al-Amin Fares</i>		<i>163</i>
6. Environmental Policies and Sustainable Development in the Arab World	<i>v</i>	<i>173</i>
<i>Mostafa K. Tolba</i>	<i>vii</i>	<i>197</i>
Comment: <i>Salab El Serafy</i>		
7. Human Development in the Middle East and North Africa Region		
<i>Stephen P. Heyneman</i>		<i>204</i>
Comment: <i>Badr Malalla</i>		<i>227</i>
8. European Economic Integration and the Arab Countries		
<i>Rolf J. Langhammer</i>		<i>235</i>
Comments: <i>Assia Bensalab Alaoui</i> <i>Mabid Al-Jarbi</i>		<i>267</i> <i>279</i>
List of Participants		<i>285</i>

The following symbols have been used throughout this volume:

- ... to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 1991-92 or January-June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1991/92) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this volume, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

*This comment covers Chapters 3 and 4.

reach of public administration); and a checklist of national human development strategies and potential regional and international responses.

Shared Starting Conditions

The first major shared factor is the dynamics of demographic change. Excluding small outliers like Tunisia and Lebanon, MENA countries are still in the low mortality/high fertility transitional phase, with total fertility rates of between four and six per woman. Yemen and Jordan have still higher total fertility rates.² It is important to recognize, however, both that fertility in most MENA countries has declined dramatically in the last thirty years, especially in Tunisia, and that the effect of reduced fertility on overall population growth rates works only gradually through successive childbearing cohorts. Therefore, assuming zero net migration in the longer term, MENA population growth rates, now ranging from 2.5 percent to 3.5 percent, will fall, at most, by 1 percent a decade under the most optimistic scenario (see Chart 1). No country will attain a stationary population (replacement-level fertility and constant-age composition) before about 2025. In this respect, MENA countries are most like sub-Saharan Africa and least like their competitors in Europe and the Far East.

Fertility declines in MENA countries have three proximate determinants: age of marriage, contraceptive practice, and breastfeeding. These determinants are influenced by demand-side variables, such as rising education and employment opportunities, direct and indirect costs of childbearing, and by the supply of family planning services and products. It is important to remember that family planning will have limited effects without changes in demand. Changes in demand, however, are not always predictable. For example, spontaneous fertility reductions can be attributed to negative economic factors, such as acute housing shortages in Algeria; conversely, what would otherwise be rated as positive developments, such as increasing female employment in the modern sector, can paradoxically

²The text refers consistently to "Yemen," although charts refer to the Yemen Arab Republic and the People's Democratic Republic of Yemen separately.

7 ♦

Human Development in the Middle East and North Africa Region

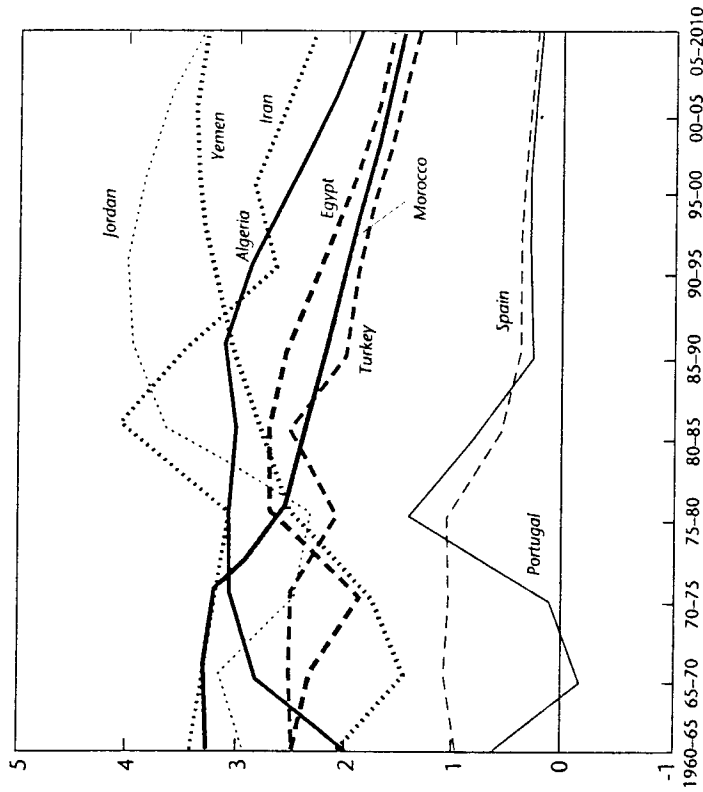
STEPHEN P. HEYNEMAN

The Cold War has ended. The distortionary environment imposed by the Cold War within and between Middle Eastern and North African (MENA) countries has also ended, providing them with the opportunity to address regional problems without being biased by externally imposed exigencies. Two major items should take priority in the regional agenda: the first is the discrepancy between rich and poor countries; the second is the challenge of competing with the new European Community for trade in the global marketplace. The key to solving both problems is to improve the region's productivity in human resources.¹

The ideas set forth in this paper are based on the belief that comprehensive human resource development covers universal basic education, health, nutrition and food security, and the full development of families, including security for women, children, and the elderly. This paper attempts to address these issues within the context of cultural, historical, and recent development experience, and is divided into three parts: the shared starting conditions (demography, Islam, social indicators); the key political pressure points (youth unemployment, gaps in the social safety net, over-

¹It is assumed that the reader is familiar with the major new advances in the economics of human capital—the four Nobel prizes dedicated to human capital issues (Jan Tinbergen, T.W. Schultz, Gary Becker, and Edward Deming), the four *World Development Reports* by the World Bank on human capital (1980, 1984, 1990, and 1993), and other recent reports on human capital issues by UNICEF, UNDP, UNESCO, WHO, ILO, etc.

Chart 1. Total Population Growth
(In percent per annum)



cally have the opposite effect by altering breastfeeding and weaning practices. Contraception is accepted in varying degrees by all five branches of Islamic Law.³ Contraceptive prevalence in MENA countries generally ranges between 35 and 40 percent (Yemen and Tunisia outliers), well below the 60 percent of Latin America and the Caribbean, but above the 20 percent of sub-Saharan Africa. Desired family size declined by as much as 29 percent in Egypt and 24 percent in Morocco in the 1980s. "Unmet demand" for family planning in MENA countries—the proportion of married women who want to limit or space births but do not use family planning—is still substantial (for example, 18 percent in Morocco). The unmet

³Donna Lee Bowen, *Islam and Family Planning*. World Bank, EMENA Technical Department Publication, No. 1 (1991).

demand for family planning argues for improved service delivery as a priority investment.

The unusual age structure of the MENA populations is its most problematic characteristic. The age dependency ratio is very high (see Chart 2). Approximately one person in three in Yemen, Algeria, Morocco, and Jordan is of school age (see Chart 3). This implies extreme pressures to expand the education system broadly without proper attention to quality, and schools of low quality inevitably have lower student retention rates (see Chart 4). The least "digestible" group is the huge bulge of 15- to 20-year olds, and, to a lesser degree, 20- to 25-year olds. These largely undereducated groups, moving slowly up the age pyramid, will have irreversible policy influences within this decade. These include pressures on job markets and training outlays, special preventive health care demands, different savings and consumption patterns, and, of course, the specter of political unrest. The age structure phenomenon complicates many other dilemmas faced by MENA governments, coincid-

Chart 2. Age Dependency Ratio, 1990
(Percentage of population aged 0-14/percentage of population aged 15-64)

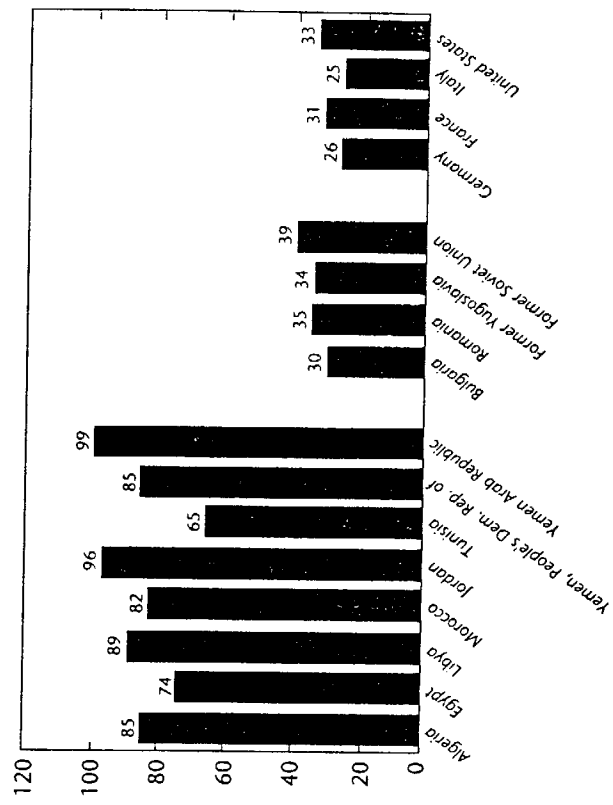
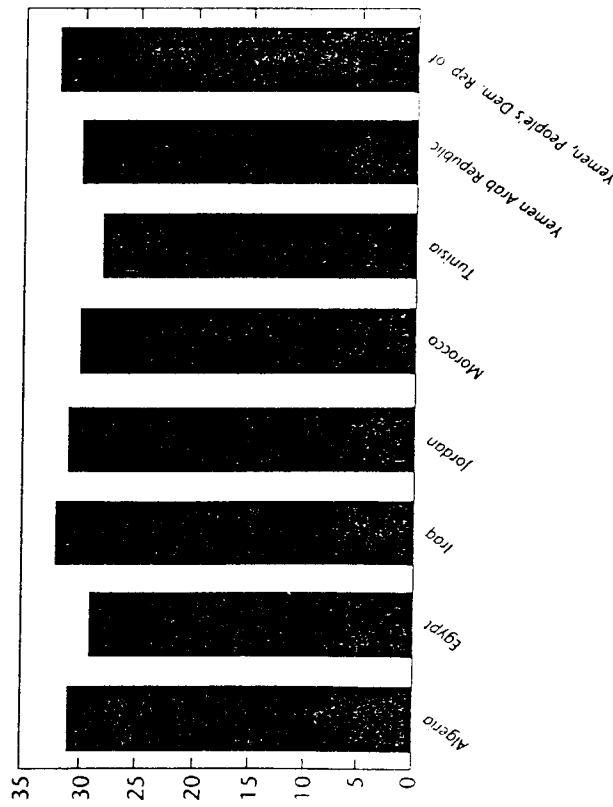


Chart 3. School-Age Population, 1991
(Percentage of total population aged 6-17)

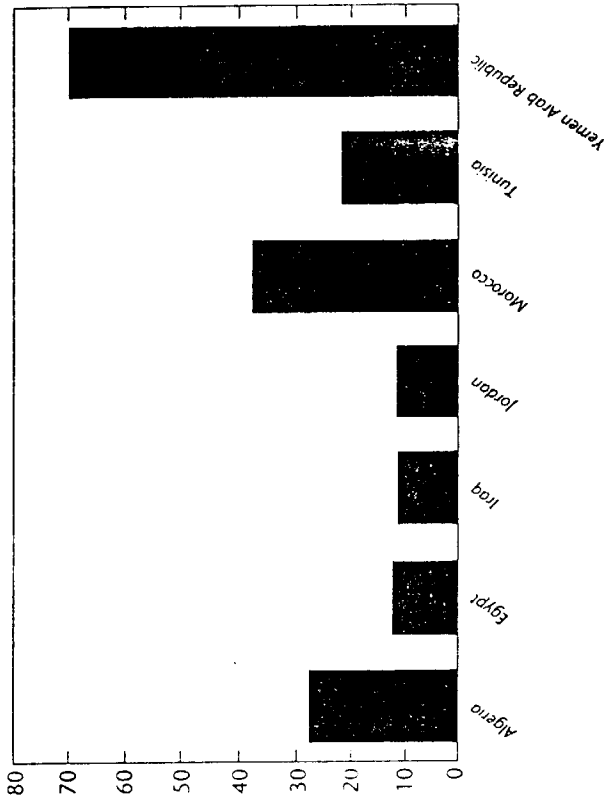


ing unhappily with the "morning-after" austerity in macrostabilization and restructuring policies.

International migration and its ramifications are a distinctive feature for MENA countries. The magnitude of the economic effects of migration is hard to exaggerate. In 1985, there were 5.1 million migrant workers in the Gulf Cooperation Council (GCC) region, constituting over 70 percent of its labor force. Moreover, in 1990, there were over 2.1 million Algerian, Moroccan, and Tunisian citizens legally employed in eight Western European countries.¹ In 1989 workers' remittance credits exceeded 6 percent of GDP in Morocco and 10 percent of GDP in the People's Democratic Republic

¹This estimate excludes undocumented Maghrebian migrants and workers who have recently entered these countries on four-month tourist visas for short-term seasonal employment.

Chart 4. Percentage of School Dropouts by Grade 6, 1988



lic of Yemen, Egypt, and Jordan.⁵ The recent changes in Europe and Central Asia have caused migrational shifts parallel to those in MENA countries. The combination of both has caused countries in the European Community to re-examine their labor and immigration policies. Policy changes have implications for MENA countries that could affect many aspects of their economies—future prospects for renewed flows of talent, the skills profiles of workers who now do not migrate, and economic relationships with the European

⁵Official inflows (credits) are those recorded in the International Monetary Fund's *Balance of Payments Statistics*. Total inflows are the sum of three categories: workers' remittances (total value of transfers from workers abroad for more than a year); migrant transfers (flows of goods and financial assets associated with an international move); and labor income (factor income of migrants working abroad for less than a year). Sharon Stanton Russell, "International Migration in Europe, the Soviet Union, Middle East and North Africa: Issues for the World Bank," ECA-MENA Technical Department, Population and Human Resources Division (1992 working paper, p. 15).

Community, including many kinds of protection such as labor, agricultural and industrial products, and services.

The rate of population growth in most major urban centers and its concentration on already congested coastal strips or water courses exacerbate infrastructure bottlenecks, increase pressure on real wages, and raise the political stakes of social ills of any origin. Between 1965 and 1988 the percentage of the labor force in agriculture in Egypt declined from 55 percent to 38 percent; in Tunisia from 49 to 22 percent, and in Morocco from 61 percent to 46 percent. The urban population increase between now and the year 2000 will range from 2.7 percent in Tunisia to 6 percent in Yemen. In each country, the urban population increase will exceed overall demographic growth by about 25 percent.

Islam is the second obvious constant. As yet, external agencies, such as ours, are ill equipped to appreciate Islam's impact on human development, and much else besides. Our brief forays into this subject have focused on the different strands of Islamic family law as they pertain to reproductive rights, land tenure, and gender differentiation in education and the workplace.⁶ We are aware of religiously anchored charitable institutions (*waqf*) supporting various social services in most MENA countries.⁷ This is promising background information, but it may be context-specific. As yet there is little immediate generalization to be drawn across countries. Stereotypes of the pros and cons of single-sex schools, for instance, or of the acceptability of different family planning methods, or of the relationship between a formally restricted public role for women and economic growth, all yield to counter examples—from the Atlas Mountains to Java.

⁶Contrary to popular western assumptions, countries with high proportions of Muslim populations are not "behind" in the rate of female school enrollment independent of GNP per capita and other measures of resources available for education. See Stephen P. Heyneman and Simel Esim, "Female Educational Enrollment in the Middle East and North Africa: A Question of Poverty or Culture?" World Bank, ECA/MENA Technical Department (December 1992 draft).

⁷Ahmed Dallal, "The Islamic Institution of Waqf: An Historical Overview," World Bank, ECA-MENA Technical Department, Population and Human Resources Division (1992 working paper); Mohammed Hussain, "The Use of Zakat, Ushr, and Waqf Resources in Pakistan," ECA-MENA Technical Department, Population and Human Resources Division (1991 working paper).

Moreover, it may be worth noting that an "Islamic" view of development priorities may be quite different from that of "the West," and equally legitimate. Desired living standards—low infant mortality, full school enrollment, etc.—may be similar to countries of the Organization for Economic Cooperation and Development (OECD), but the trade-off between those standards and societal changes that are associated with many OECD countries (for example, increased crime, changes in family structure, family breakdown) may be quite different.

Achieving the OECD's level of economic development without necessarily duplicating all of society's ills is a reasonable, even laudable, ambition. Asian and Latin American countries have chosen paths for human resource development that have not mirrored in exact terms the assumptions of Western Europe and North America. These countries are attempting to strike a balance between the individual's rights and privileges and the individual's obligations toward the family and the community. This balance is germane to this discussion because the path chosen may affect the state's role and efficiency in human resources. The extent to which MENA countries can capitalize on their traditional support for family security (for example, through *waqf*) may help determine the degree to which the state may concentrate financing for issues in which it may have a comparative advantage (for example, in health and education). MENA countries therefore may have the opportunity to choose a path for human resource development that mirrors the best attributes of their more wealthy OECD counterparts but at the same time provides a region-specific example of sustained human development.

It is commonly perceived that development assistance agencies concerned with the region may not sufficiently appreciate the need to protect the social fabric as it is understood locally. For example, under Islamic family law a female may inherit a smaller portion than a male. Nevertheless, males are held financially responsible for children and the elderly. If one were to argue, on grounds of economic efficiency, that females ought to have parity of inheritance, one would presumably have to accept a parallel shift in family support responsibilities in the family environment.⁸ The case

⁸Under socialism (the People's Democratic Republic of Yemen, Afghanistan, Ethiopia, and the states of the former U.S.S.R.), Islamic family law was altered

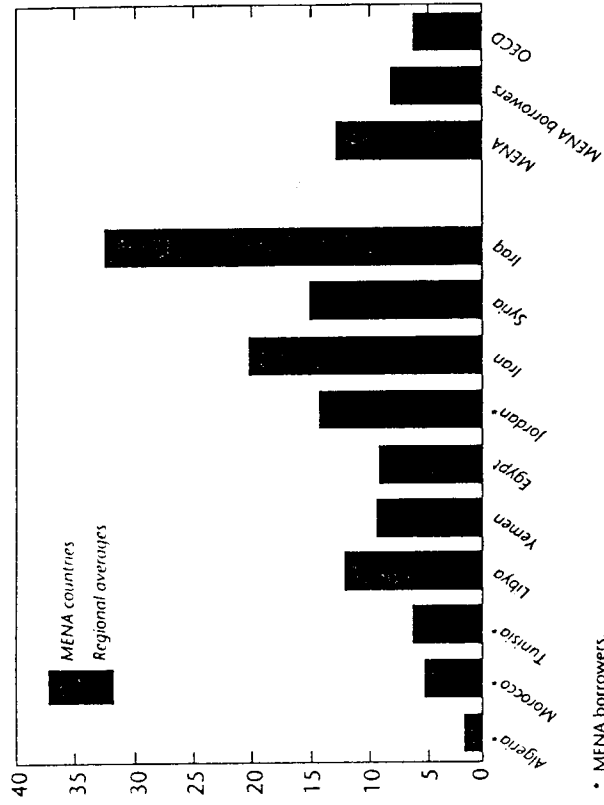
for changing such laws may very well rest on the relative economic importance attached to maintaining the stability of the social fabric.

More generally, it is necessary to be cautious about reaching premature conclusions concerning the impact of major institutions—marriage and the family—on the economy and vice versa. The pressures of urbanization, scarce housing, rising health and school costs, and changing trade, price, and wage patterns can transform the incentive landscape and, ultimately, seemingly immutable institutions in as little as one generation. And this transformation may occur ahead of enabling legislation, as witnessed by the upward trend in female labor force participation in many countries. This perspective should caution against simplistic views of “cultural factors” as being binding exogenous constraints. In my view, this seems especially worth keeping in mind when establishing a dialogue with governments, both secular and religious.

The third common feature is that MENA countries invest relatively heavily, but achieve only modest returns, in human development. As a group, the seven current MENA countries and Iraq and the Syrian Arab Republic are reasonably homogenous in terms of real per capita GDP (Yemen and the Syrian Arab Republic outliers), government expenditure share of GDP (30–39 percent, Iraq and the Syrian Arab Republic outliers), and public health and education share in GDP (6–8 percent, except Jordan and the Syrian Arab Republic). The proportion of public expenditure directed at human development is thus not out of line with OECD experience. In comparison with OECD's military expenditures, however, the contrast is more problematic (Chart 5). The proportion of GNP devoted to the military in MENA borrowers is roughly 30 percent more than in OECD countries (9 percent as opposed to 6 percent). With MENA countries in general the difference is more significant still (15 percent as opposed to 6 percent), thus suggesting that a decline in

radically to resemble western principles of individual rather than family rights and responsibilities. These alterations have been associated with atheism, and it remains to be seen whether they will survive the fall of Marxism and Leninism. For Yemen, see Maxine Molyneux, “The Law, the State and Socialist Policies with Regard to Women: the Case of the People's Democratic Republic of Yemen 1867–1990,” in *Women, Islam and the State*, ed. by Deniz Kandiyoti (Philadelphia: Temple University Press, 1991).

Chart 5. Percentage of GNP Spent on Military Expenditure, 1986



• MENA borrowers.

regional tensions could have a significant impact on human resource investments in the aggregate.

Nevertheless, the real problems of human resource development in MENA countries concern not the aggregate levels of investments but rather the intrasectoral details. Intrasectoral priorities vary widely, thus affecting the ability to increase the returns on investments in human development. For example, primary education in MENA countries may represent as little as one-third of a country's education budget. Morocco, for instance, spends about 14 percent more on an elementary school student than it spends on a student in tertiary education; Jordan spends about 12 percent; Tunisia, 8 percent. Compare this with Japan, where per pupil expenditures are roughly equal between primary and tertiary education; or the OECD average, which is 49 percent. This suggests that investment in human capital in MENA countries at the base is both weak and out of balance with other parts of the sector.

The efficiency and effectiveness of the region's aggregate spending on human resources is belied by the improving but still generally

weak social status indicators. Only two countries, Jordan and Iraq, have brought adult illiteracy below 40 percent. Four countries—Yemen, Morocco, the Islamic Republic of Iran, and Egypt—have not yet attained universal primary education, the key to closing the illiteracy door over time. Only Jordan, the Islamic Republic of Iran, Tunisia, and the Syrian Arab Republic have infant mortality (barely) below 50 per thousand (compare Mauritius at 22 and Kuwait at 17 per thousand), although they and several other MENA countries, notably excluding Yemen, have health infrastructure and personnel densities closing fast on European norms. The primary school gender gap, a predictor of the opening up of opportunities and attitudes across generations, ranges from a low 2 percent in Jordan to a high 27 percent in Yemen.

Part of the problem is that MENA countries, while progressing over time, have continued to lag behind their industrialized trading partners in Western Europe. This is illustrated in Charts 6 and 7: in essence, Western Europe was able to afford an expenditure roughly seven times that of the Arab states in 1970 and eight times

Chart 7. Expenditure Per Pupil for Primary Education, 1985 (U.S. dollars)

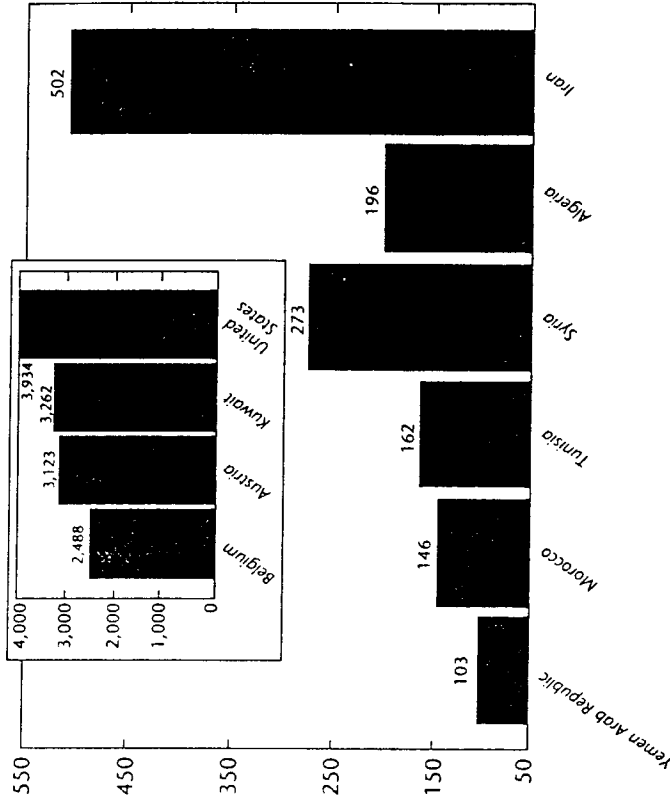
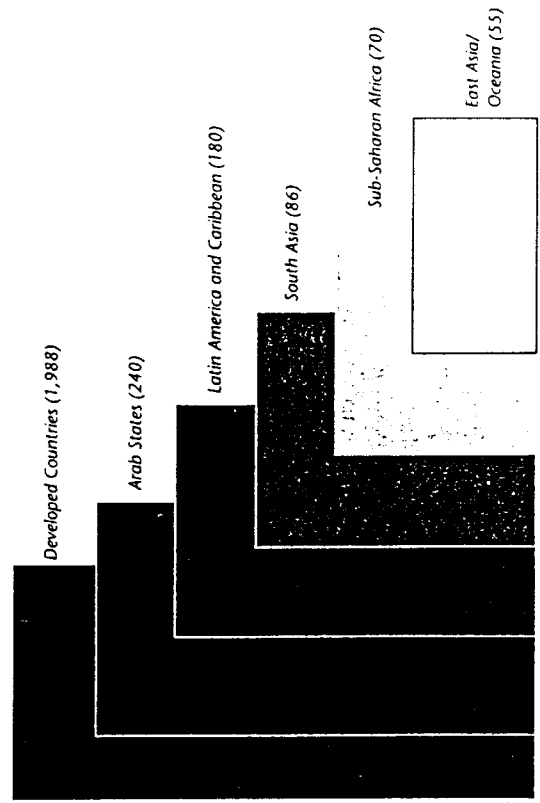


Chart 6. Public Recurrent Expenditure per Pupil in Pre-Primary, First-, and Second-Level Education, 1988



more in 1988.⁹ None of the MENA states has succeeded in joining other countries in assessing levels of math and science achievement, leaving them therefore without any source of impartial measurement of effectiveness. Nevertheless, it is quite clear that the educa-

⁹Unit expenditure figures in health, education, transport, agriculture, and other sectors are extremely difficult to interpret because of the very different prices and the methodological complexity of calculating pricing parities. The cost of a teacher's or doctor's service is very different in Cairo than it is in New York, and the value may not reflect the differences in cost. That said, there are two reasons why international expenditure figures are worth noting. Differences in expenditures are in no way correlated in linear fashion with the product (in this case educational achievement), but they are related. It is a fact that in poorly equipped schools in developing countries, children learn to read in a fashion significantly worse than in schools in OECD countries. Moreover, the pricing in OECD countries, although much higher, is based upon the demand for service in an environment where

tional systems are overburdened and are likely to produce levels of learning well below the dynamic requirements of modern open economies. But questions remain: Where are the region's most problematic areas? Are they in higher education? Are they in hospital management? Are they in migration policies? The answer, in my opinion, is that they lie in a few common pressure points.

Key Political Pressure Points

Massive youth unemployment, a political "Achilles' heel," is a symptom of both supply- and demand-side distortions. Open unemployment rates appear to be in almost all MENA countries in the high teens or above, although definitions are tricky. Given the region's unusual demography, the 15–25 age group, the largest subset of whom have never held a regular job, dominates the ranks of the unemployed, and the urban unemployed are much more visible than their rural counterparts. Moreover, given recent improvements in the coverage of general education in most MENA countries, the unemployed who are at least partially educated (grade 7 and up, but attained at around age 17 and up) form a vocal constituency. Their importance may be somewhat exaggerated thanks to family solidarity: richer/more educated people can often afford to wait for steady formal-sector employment and are more likely to claim open-unemployment status; poorer/less educated people cannot. Nevertheless, the fact remains that there is a large-scale, long-term excess supply of partially educated labor in most MENA countries.

Youth unemployment presents a dilemma for at least four reasons: because MENA governments and their reform policies can stand or fall depending on how they address it; because it is symptomatic of several underlying human development constraints; because "quick fix" approaches can actually make matters worse

education is universal, an ambition of all countries. When MENA countries achieve universal education through secondary school, and the demand for human resources is similar in structure to OECD countries, the pricing of teacher service will shift and may eventually resemble the pricing in OECD countries. In sum it is a valuable piece of information to know what is being spent on the typical pupil or patient in both MENA and OECD countries, though comparisons must be made with caution.

beyond the immediate political horizon; and because today's discouraged drifter is tomorrow's family head and potential competitive edge.

The first point does not need belaboring, especially in the wake of recent elections in the Maghreb. As to the second, the unemployed can be victims of a number of macro imbalances and distortionary government interventions in goods, labor, and money markets, including misguided efforts to increase capital intensity, and/or social protection of the few at the expense of wage or tax barriers for the many. These problems are well understood in the abstract, but are rarely linked to specific anti-unemployment initiatives, which tend to focus on incremental "job creation" expenditure.

Youth unemployment also derives from supply-side structural problems, especially insufficient job market information and failure of the educational and vocational training systems to adapt to the much changed (from the times when most education/training systems were introduced) and rapidly changing needs of the modern marketplace. This in turn is linked to credentialism and wage scales inherited from a bygone era of civil service dominance of the economy. Therefore, typical emergency programs, for example, those designed to absorb school leavers in fairly long "technical" education with no specific job in sight, or park them in ad hoc public sector jobs, are likely to compound the problem over time, as well as being fiscally counterproductive. Finally, the misery of unemployment or underemployment of long duration, especially after massive initial public and private investment in the unemployed's human capital, carries the potential for permanent damage to lifetime motivation, productivity, and incomes, and the transmission of the attendant values to the next generation.

All MENA countries espouse explicit or implicit welfare state social contracts, and none can fully afford them. As a result, the rhetoric of full employment, of unlimited free access to basic education as well as free higher education subject to merit, of free preventive and curative medical services, and of subsidized wage goods far outstrips ability to deliver; further, governments are unable to deliver basic services (potable water, rudimentary sanitation, access to minimal housing, etc.) to large segments of their populations. The political arbitrage is clear: the most visible heads of expenditure

are maintained, though not in line with demographics, and the implementation of others is quietly allowed to fall behind. Thus generalized food subsidies coexist with malnutrition, primary education enrollment and quality stagnate while public higher education expands, and new hospitals are built while primary facilities, if they exist, lack elementary inputs. Yet the "big ticket items" like universities themselves fall far short of what is demanded and needed.¹⁰ Thus, to argue for improved quality of basic service delivery solely through internal reallocation may not be realistic, unless some credible low-pain alternative is offered to satisfy middle-class expectations.

The same kind of logic applies to cash benefits and other secondary income transfers: pensions, family allowances, health benefits, open subsidies, and subsistence grants, loosely bundled under the headings "social insurance" and "social assistance." In MENA countries, especially those with a strong socialist legacy, the total flows involved are large: for example, more than two-thirds of the public health system of Algeria is financed through an arbitrary levy on the social security funds. Only a minority of the work force is insured, mostly in the sharply downsizing public sector, and yet a variety of unfunded benefits have been voted in an effort to provide off-budget assistance to this constituency. When the parastatal insurer becomes insolvent, the taxpayers will have to step in, and they tend to be poorer than the insured. In essence, this is a tacit "reverse Robin Hood" arrangement.

More broadly, there has been widespread blurring in MENA countries of the lines between (a) insurable risks, especially retirement, sickness, and disability, as the joint responsibility of employers and employees, and (b) uninsurable risks, such as morally grounded subsistence support provided by the state, designed simply to keep people, regardless of employment status, above a defined poverty

¹⁰We are well beyond the stage of emphasizing the needed quality improvements in basic education and health care and ignoring what is equally obvious: the declining state of universities and hospitals that have expanded in size without any due attention to budgetary rigidities. While direct cost recovery in these expensive institutions is low, it is also true that conditions faced by patients and university students are dismal. See, for instance, James Coffman, "Algerian Higher Education: Comments on the State of the Institution and Its Future," World Bank, Population and Human Resources Operation Division (1991 working paper).

line. Consequently the "safety net" and basic needs provision arrangements of MENA countries fall short of meeting the *equity* test, the *fiscal sustainability* test, the *microeconomic efficiency* test (minimize incentives adverse to employment), and the more limited goal of *manageability*.

Second only perhaps to countries in Europe and Central Asia (former centrally planned economies), MENA countries have deep-rooted traditions of statism and centralized decision making, although some MENA countries have started along the road to decentralization, and, to a lesser extent, decentralization, of government services. In almost all countries, private provision of social services is still rare, except for general practitioners and secondary and tertiary establishments catering to the urban elite.¹¹ Community schools, especially Quranic schools and preschools, are tolerated by the modern state but are generally restricted and not financially supported.¹² Most public health and education professionals and most ancillary workers are central government civil servants and, indeed, account everywhere for half or more of the civil service wage bill.¹³ Their recruitment, assignment, and career structure is often decided centrally, without regard to local conditions and

¹¹The Islamic Republic of Iran is a partial exception; it has initiated innovations in education and seems poised to extend innovations into other important human development sectors.

¹²Taking the Arab states as a base, the proportion of the age-relevant cohort enrolled in preschools has climbed gradually from 3.9 percent in 1970 to about 15 percent in 1988. It is fair to say that we have paid nowhere near enough attention to this mechanism in our social safety net discussions, nor have we sufficiently explored the possibilities for interlinking the all-too-often segmented objectives of better health care delivery and nutritional targeting. It remains to be demonstrated conclusively, but is not unreasonable to assume, that the experience of a solid foundation of preschool programs, as in OECD countries, adds considerably to the requisite cognitive foundation and considerably improves the effectiveness of basic education.

¹³The aggregate level of these employees should not be ignored: they constitute a considerable portion of the work force. For instance, teachers accounted for between 5 percent and 7 percent of the nonagricultural population in the Syrian Arab Republic, Jordan, and Morocco in 1988. Considering prospects for female employment, however, increases the attention to this category. Of the females employed in nonagricultural activities, 21 percent were engaged in teaching in Morocco, 28 percent in the Syrian Arab Republic and Jordan. It is true to say that we have not sufficiently focused on this element.

needs: reassignments are subject to a variety of restrictions. The link between local budget investment funding—where it exists in part, as in Morocco—and a local say in governance and personnel policy is almost totally absent.

The consequences of this “imperial overstretch” are well understood in most countries. They include centrally imposed rationing of opportunities, lack of user involvement, critical lack of credibility, a chronic squeeze on nonsalary operating budgets, and gender and urban-rural discrimination in recruitment and assignment. Most seriously, perhaps, for those countries like Morocco whose social expenditures have reached a saturation share of the central budget, there is simply no feasible way to attain universal access to basic education with an unchanged cost structure, 90 percent of which is civil service salaries. Most likely, the same will apply to secondary education for all countries in the group, of which only three have over half of the secondary age group enrolled. And the congestion in public universities cannot be alleviated without diversifying both the providers and the funding base. The lack of autonomy in resource allocation decisions at the university level, in a world so dependent on rapid technological change and information flows, is particularly striking.

National Strategies and Suggested Operational Responses

No single policy menu can painlessly free MENA countries from the kinds of tough trade-offs just reviewed. *Every* MENA country has developed unique policy packages, especially in the sensitive area of human resources. This said, it is worth attempting to distill two or three overarching objectives from the first two sections. The objectives in the table below appear to be unexceptional: who can quarrel with generalizing basic services, improving quality at all levels, or implementing effective safety nets? The acid test will lie in the transparency of the process used to establish firm priorities and ensuring the fiscal sustainability of resulting choices. The operational relevance of this list, as it is fine-tuned, will stem from (a) the proposed vertical ranking, wherein basic service coverage precedes everything else; and (b) the horizontal correspondence between each goal and its specific associated policy reforms, especially those designed to mobilize savings internal to the human resources sector. This table might be used as a crude but useful set of benchmarks,

Objectives	Accompanying/Enabling Policies
Attain general basic coverage ¹ <ul style="list-style-type: none"> ♦ primary health care ♦ family planning ♦ basic education ♦ clean water and proper sanitation ♦ quality improvement of services approaching status of MENA's trading partners 	<ul style="list-style-type: none"> ♦ Financial diversification: local governments, private voluntary and community organizations, and well-chosen user fees ♦ Raising efficiency: management and merit incentives, civil service pay reform, privatization of production and distribution of health and education supplies ♦ Retrenchment (narrowing of objectives): curriculum breadth, transport, and lodging facilities, etc.
Improve and rationalize higher-level services: <ul style="list-style-type: none"> ♦ universities competitive with MENA trading partners ♦ hospitals provide appropriate, cost-effective care ♦ vocational training systems driven by marketplace needs 	Diversification of fiscal burden through: <ul style="list-style-type: none"> ♦ educational vouchers for private sector provision, deferred payment and work-study schemes ♦ corporatized (internal market) provision of higher education, vocational training, hospital care ♦ spreading risk via health insurance
Effective employment and social assistance policies: <ul style="list-style-type: none"> ♦ increase labor mobility and versatility ♦ implement an effective safety net based on a poverty line ♦ alleviate the political tension over youth unemployment 	<ul style="list-style-type: none"> ♦ eliminate critical barriers to employment—wage regulations, capital subsidies, taxes on labor ♦ limit state responsibility for employment, develop selective labor market interventions—information, counseling, employer-driven training and re-training ♦ rationalize social insurance benefits and ensure actuarial viability ♦ establish well-targeted poverty relief programs in cash or in kind

¹For practical purposes, the term “general” means universal. However, providing coverage to the remaining 5–10 percent of the population might require unrealistic per capita investments, or involve intractable demand-side constraints (e.g., formal rural education for the seriously handicapped). Thus, 100 percent coverage might, of economic necessity, exclude some of the population in favor of quality improvements for the vast majority already reached.

when calibrated for country circumstances, against which to gauge the “commitment” to human development.

Development Assistance Agency Responses

Family Security. Development assistance agencies can assist the populations of MENA countries, as quickly as feasible, to achieve

their desired levels of fertility. These efforts will require the strengthening of existing, well-developed programs (for example, in Tunisia). In most other countries, comprehensive efforts are needed to coordinate two sets of activities. First, maternal and child health programs, including promotion of breastfeeding, and assistance for family planning and nutrition, need to be expanded. Second, this cluster of activities should be related to and coordinated with related social marketing/mass media programs, and with universal basic education activities that place emphasis on female education.

Youth Unemployment. Agencies can also be more proactive in investment projects, not excluding support for workforce schemes, but concentrating on long-term development of employment services and systems of contract training aimed at specific private sector jobs. These operations face serious absorptive capacity limits, however. In particular, skill mismatches originating in excess public sector employment are unlikely to be remedied by training schemes designed entirely by civil servants. I believe we should be prepared to cover very high shares of local costs and finance subsistence grants for trainees on a large scale. And we should put priority on parallel reform of secondary and postsecondary education systems. These responses may seem less glamorous than a "war on unemployment" centered on wage subsidies and artificial public sector employment, but they are a more effective application of scarce resources.

There is no single solution to be offered. We should therefore be wary of single project level solutions, particularly where the employment policy environment is heavily distorted. In future, as a minimum, we should be serious about labor market analysis, requiring an adequate policy framework based on agreement of what distortions really matter. If it is judged that public sector wage/hiring policies are a major barrier, for example, they should figure prominently in discussions of adjustment loan conditionality. For countries with good macro and micro policies, we should consider adjustment lending that indirectly channels budgetary resources toward public works employment to targeted groups.

Basic Needs and Social Safety Nets. In addressing the understandable political pressure to provide high-end services at the expense of improvements in low-quality universal basic coverage, the only logical response is to encourage new funding and management

strategies. These include the expansion of health insurance coupled with cost controls, a facilitating environment for private education, including state-supported deferred financing options (student loans, national service, or graduate taxes), and corporatization, against performance criteria of the relevant publicly provided services. That is, in most MENA countries, devising and testing alternative ways of funding programs that compete for resources with critical public goods, such as preventive health care, may be at least as important as supporting the latter's delivery systems directly.

In terms of the broader safety net, there should be ample scope for intervening with adjustment or sector lending predicated on rebalancing the welfare state, that is, in moving toward broader off-budget social insurance coverage of a more limited but sustainable kind, and reshaping budget-financed social assistance based on the poverty line. Depending on country circumstances (food subsidies are complex enough in their own right), this kind of policy conditionality could be combined or, at any rate, coordinated with the labor market support loans discussed above. In some country settings, especially during emergencies, "social fund" investments can close critical gaps in basic services or social assistance. In considering options, we should be clear about the relative importance of two different project rationales that are combined in practice: (a) the need to repair or recapitalize minimum nutrition, health, and basic education services, if necessary, by bypassing established funding and implementation channels, and (b) the workforce approach to transitional unemployment and income support (see below). The social funds undeniably have a "kill two birds with one stone" appeal to external donors—they recapitalize and retarget. However, underlying problems might be papered over with this approach: for example, if budget discipline and/or government administration of social services has effectively collapsed, then a one-shot injection of working capital will not be sustainable; conversely, if labor market problems are paramount, they have to be addressed in their own right.

Public Administration. The first set of policy responses has been mentioned above, that is, off-budget financing and/or cost recovery of hospital and higher education, through insurance and time-deferred payment mechanisms. This should be carried further, to support nongovernment secondary schools' development, includ-

ing through partial investment subsidies and even operating subsidies (as in the Chilean voucher programs), at least on a pilot basis. Next, local government financing and governance options for primary facilities need to be developed actively. Initially, the possibilities of establishing community-based institutions under centrally agreed regulation, but without civil service status, should be exploited to the maximum. (Regional equity and religious freedom issues inevitably surface in these areas.) Finally, consensus will need to be reached on civil service reform, encompassing the entire web of service conditions and conducted as a search for greater motivation for productivity. Civil service reform will not work if it is viewed as "punishment for the unproductive." Systemic changes, such as the deceptively simple one of paying teachers based on current responsibilities, not years of pre-service education, need apply only to future recruits. But the effort required of MENA countries and donor agencies in mobilizing the requisite skills would be considerable under any scenario.

Regional Responses—Cooperation and Applied Research

Many responses can be implemented immediately by individual countries with or without donor participation without much fanfare. However, extending beyond the single-country context may be more efficient in the following two areas. In these instances high-level political commitment is a necessity.

Theme 1: Employment and Growth. We share the urgent concern of MENA governments for reabsorbing unemployment, not just the concern for "getting the prices right." The intent is to close the big gap between, on the one hand, macroeconomic remedies that are widely perceived as treating employment as a residual, and, on the other, popular transitional solutions with little explicit economic content, that is, the caricature of social safety nets as a thinly disguised political bandage. I believe we should acknowledge the real hardship and human waste of unemployment, even for the nonpoor, trace its demand-side and supply-side origins, and highlight the limits of (positive) government responsibility in a market economy. From that base, we should be committed to supporting cost-effective short-term relief on a substantial scale, within longer-range structural reforms of the "productive" sectors and the education and training systems.

Theme 2: Achieving Better Coverage Through Nongovernmental Involvement. As a first step, countries in the region may want to facilitate the broadest possible coverage of basic services. The limiting factor is the capacity of the public sector to do everything—plan, allocate, finance, and provide. The challenge is how to expand and diversify opportunities by leveraging public funds, but without central authority governance. For our part, we will be ready to help design and finance joint-venture initiatives at all levels.

In education, joint ventures should be created between governments and enterprises, as users of skills and technology, and between governments and communities, nonprofit groups, and proprietary establishments, as service providers. Governments, perhaps aided by the donor agencies, can provide indirect incentives—underwriting student loans, providing targeted subsidies and tax benefits—as well as a share of investment costs. The main parallel in the health field is supporting the spread of (modest) national health insurance systems, thereby releasing public resources for preventive services and coverage of vulnerable groups. Care should be taken to distinguish this call for collaborative public and private efforts from the negative stereotype of "privatizing" public activities at all costs, including imposing cost recovery without regard for equity.

Back to the Drawing Board. Without further dialogue, it would be premature to advance specific suggestions in two critical areas. The first is the broad heading of "sense and nonsense in employment creation." A consistent framework does not exist for guiding countries in how to organize transitional anti-unemployment programs. One option is to provide indirect budget assistance for possible use in work relief, public works, wage subsidies, conversion grants, etc. However, with none of these do we have confidence in their being fiscally efficient. Another option, with proportionally greater institutional ramifications, usually involves the "emergency social fund" paradigm, which MENA countries need to evaluate carefully. These demand-driven instruments, based on funding contracts between a high-powered new central entity and participatory local interest groups, are not easily replicated; some attempts to simulate them in more authoritarian contexts have backfired.

Further down the road, countries need to consider how, and how far, they should press the issue of civil service reform, which goes far beyond health and education. What successful strategies—direct and indirect—have been adopted elsewhere? What are the risks and the payoffs? Both donor agencies and MENA countries can benefit from the exchange of dialogue as they search for solutions to pressing problems.

Demographic Change Revisited. This paper concludes where it began—with the concern that the dynamics of demographic change be understood and internalized not just as a “sectoral” issue. Or is this issue given, and should the focus be primarily on providing best-practice support to meet locally determined demand, plus the long-term change in desired family size that comes from education, urbanization, and economic growth? Or, finally, is this issue rooted in the “administrative overreach” syndrome—in the failure, to date, of the public sector to be clear about *any* limited set of priorities?

Opportune moments in history rarely reveal themselves with such clarity as this moment. The end of the Cold War has awakened and strengthened desires for constructive social change. The conscientious improvement in human resources in real terms is the key to alleviating regional inequalities and restoring regional economic and trade competitiveness. We have the opportunity to strive for consensus on many sensitive points: in the reallocation of resources away from unproductive sectors and the military, in the courageous re-examination of current ineffective public sector strategies, and in the significant increases in targeted external assistance programs both from within the region and from international institutions. Development banks concerned with the region should be ready to provide assistance that reinforces the strengths of cultural norms—the stability of the family, the security of youth and the elderly, and the interconnection between social cohesion and sound social development.¹⁴

¹⁴ Human resources lending in MENA is currently projected to reach \$1.2 billion in new commitments in the fiscal year 1993–95 period. This represents only 18 percent of total World Bank lending in the region. Increases are certainly possible, and depend, in the human resources sector as in other sectors, on strong sectoral policy dialogue and effective implementation.