

Foreword by the Director of UNDP Regional Centre for Arab States, Cairo

This second *Development Challenges Report*, coming at a time when the region is passing through a critical historical juncture, attempts to go beyond the numbers to uncover processes that have underpinned mutually reinforcing drivers of social, economic and political exclusion. The report was led by the United Nations Development Programme's (UNDP) Regional Centre in Cairo (RCC). Its core team is composed of RCC's Poverty and Governance Practices. The report is the result of fruitful collaboration between the UNDP, International Labour Office (ILO), Food and Agriculture Organization (FAO) and OXFAM, as well as leading regional and international experts.

As in the first *Development Challenges Report*, which was published jointly with the LAS and endorsed by the Arab Economic and Social Development Summit in 2009, this report argues that the development model followed in the Arab region can be placed on a more socially just foundation. It attempts to solve 'riddles' such as whether inequality is low and fairly stable, as the data shows, or high and rising, as observed by the naked eye. It also aims to determine whether the region is truly devoid of mass poverty or if the wrong yardstick was used to measure it. On both these counts, the report casts doubt on the ability of current data to reflect the reality and offers some pointers for more in depth work to close the gap between data and reality.

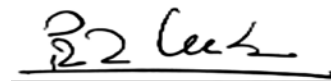
The report's main conclusion is that in order to respond to the demand for dignity, social justice and freedom, the state needs to adopt a "developmental state" model that is based on a new social contract of mutual accountability and to shed the rentier based political economy model. This would mean that the state becomes more responsive and accountable to the citizen and allows for the citizen to take a more proactive role in societal affairs and breaks the vicious pattern of dependence on the state that has been the hallmark of the Arab social contract.

The report also argues for redefining the role of the state in the region and its relationship with the market. The Arab street has made clear that it is no longer willing to accept substandard public services and a private sector made up of politically well-connected businessmen who earn huge profits by virtue of political connections, which allowing them to avoid taxes and charge non-competitive prices. Rather than considering that there is a dichotomy between the state and the market, the report emphasizes the symbiotic relationship between the two: the state provides the required support for a flourishing, inclusive private sector, which in turn exercises social responsibility by paying taxes and ensures decent working conditions for its workforce.

While capable and accountable states can change significantly through more prudent use of national resources, it is clear that regional economic cooperation is critical for allowing Arab countries to break out of their current patterns of unbalanced development, currently largely

dominated by extractive industries. Stronger economic integration can help create a market of 350 million people. It should ideally involve both private and public investment flows from oil-rich Arab countries to the lesser developed regions. The region can create structures similar to European Union structural funds that had a crucial role in facilitating the political and economic transformation of Spain and Portugal following their democratic revolutions. The free flow of goods, services, capital and sustainable migration of labour could allow the region to enhance its capacities for food production (particularly high-value crops) and selected niche- manufacturing sectors.

Public debate of what needs to change should lay the foundations for sustaining the momentum of the “Arab Spring.” There is no reason for this region not to attain the best developmental outcomes, given its substantial financial, human and natural resources. Even in the current difficult global economic and political context, an Arab resurgence is possible if only the energy of the region’s youth is marshalled to turn the region’s challenges into opportunities.

A handwritten signature in black ink, appearing to read 'Paolo Lembo', written over a horizontal line.

Paolo Lembo

Officer in Charge UNDP Regional Centre for Arab States, Cairo

Foreword by the Report Task Leader

On 29 March 2007, the Summit of the League of Arab States called for a Special Arab Summit to be exclusively devoted to the discussion of economic, developmental and social issues. The motivation for holding such a specialized Arab Summit was a widely shared consensus view that emphasis on developmental issues could substantially enhance Arab cooperation in a phase dominated by some politically divisive issues. Moreover, there was recognition among Arab policy makers that the region is passing through a critical historical juncture with threats not only to national security, but also to social and economic security.

The first report, commissioned by the LAS Ministerial Committee in preparation for the first-ever Arab Economic and Social Development Summit in January 2009, was jointly prepared by the LAS and UNDP. Entitled “Development Challenges in the Arab Region” it was divided into two volumes: the first and more comprehensive volume addressed a wide range of social and economic development challenges from a human development perspective; the second focused on the food security challenge per se. Each volume began with a review of development-related stylized facts which set the stage for the identification of the challenges and hence policy directions and options. The report was endorsed by the 2009 Arab Economic and Social Development Summit held in Kuwait and a recommendation was made to issue the report on a regular basis.

Against this backdrop, work began on producing a second Development Challenges Report initially focused on the multiple underpinnings of poverty and unemployment, particularly at their nexus with governance and environmental challenges. With the eruption of the youth uprisings in the region, the focus shifted towards exploring alternative solutions and a range of development policy options to help redress the underlying causes that gave rise to widespread popular grievances and discontent. These grievances were clearly encapsulated in the case of Egypt and Tunisia by the slogan “bread, freedom and social justice” – a slogan that underlines the interdependence of inclusive governance and economic and social inclusion.

This report analyses key interlocking development challenges in the Arab region that are the underpinnings of the growing impetus for positive transformative change. It also seeks to provide a menu of options to address the challenges in a manner that paves the way for smooth transitions and transformations that are in direct response to the aspirations of the people of the Arab region towards human dignity. Building on practical experience and knowledge at the global, regional and national levels, this report highlights our understanding of the triggers at the core of the wave of contestations in the region and the means through which Arab countries can transform themselves from “rentier” to “developmental” states. To this end, the report presents Arab decision makers with a menu of policy options to move beyond temporary “band-aid” solutions and to directly address the development challenges.

Despite the enormity of those challenges, the report is generally optimistic. The authors repeatedly make the case that the main goals of poverty reduction, economic diversification, employment generation and food security are attainable and that social

justice and equity, voice and accountability are intrinsic to reaching these goals. This region is well equipped with a large and youthful labour force hungry for decent employment. It has industrial and agricultural potential, knowledge and expertise and the financial resources to use the most up-to-date technologies to overcome water scarcity problems and raise manufacturing productivity that sustains the natural resource base. It is invested in promoting the region's own scientific and technological innovations and in delivering high quality health, education and social services to everyone. As in the first report, the authors note that the attainment of these development goals hinges to a large extent on a higher level and a more concerted effort of intra-Arab regional cooperation.



Report Task Leader and
Former Deputy Director UNDP Regional Bureau for Arab States

Acronyms and Abbreviations

| | |
|-------|------------------------------------------------------------|
| AC | Arab Countries |
| ADI | Arab Democracy Index |
| AfDB | African Development Bank |
| AFED | Arab Forum on Environment and Development |
| AHDR | Arab Human Development Report |
| ALO | Arab Labour Organization |
| AMGDR | Arab Millennium Development Goals Report |
| ANC | Antenatal Care Visits |
| AOHR | Arab Organization for Human Rights |
| APRM | African Peer Review Mechanism |
| ASEAN | Association of Southeast Asian Nations |
| BNDES | Brazil's National Bank for Economic and Social Development |
| BRAC | Bangladesh Rural Advancement Committee |
| CIS | Commonwealth of Independent States |
| CoV | Coefficient of Variation |
| CSO | Civil Society Organizations |
| DHS | Demographic and Health Surveys |
| DR | Developing Region |
| EAP | East Asia & Pacific (developing countries only) |
| ECA | Europe & Central Asia (developing countries only) |
| ESCWA | Economic and Social Commission for Western Asia |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FDI | Foreign Direct Investment |
| GCC | Gulf Cooperation Council |
| GCF | Gross Capital Formation |
| GDP | Gross domestic product |
| GET | Global Employment Trends |
| GFS | Global Finance Statistics |
| GNI | Gross National Income |
| HCE | Household Consumption Expenditures |
| HDI | Human Development Index |
| HDR | Human Development Report |
| HIC | High Income Countries |
| HIES | Household Income and Expenditure Survey |
| HPI | Human Poverty Index |
| ICRC | International Committee of the Red Cross |
| ICT | Information and Communication Technology |
| IFAD | International Fund for Agricultural Development |
| IFPRI | International Food Policy Research Institute |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPCC | Inter-Governmental Panel on Climate Change |
| ITCB | International Textile and Clothing Bureau |
| LAC | Latin America & Caribbean |
| LAS | League of Arab States |
| LDC | Least Developed Countries |
| LEED | Leadership in Energy and Environmental Design |
| LICs | Low Income Countries |

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|----------|------------------------------------------------------------------------|
| MD | Multi -Dimensional |
| MDG | Millennium Development Goals |
| MERCOSUR | Southern Common Market (Latin America) |
| MIC | Middle Income Countries |
| MICS | Multiple Indicator Cluster Survey |
| MPI | Multi-Dimensional Poverty Index |
| NGO | Non-Governmental Organization |
| NPL | National Poverty Line |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Co-operation and Development |
| OLS | Ordinary Least Squares |
| OPHI | Oxford University Poverty and Human Development Initiative |
| OP-HIC | Oil-poor high income countries |
| OP-LIC | Oil-poor low income countries |
| OP-MIC | Oil-poor middle income countries |
| OPT | Occupied Palestinian Territory |
| OR-HIC | Oil-rich high income countries |
| OR-LIC | Oil-rich low income countries |
| OR-MIC | Oil-rich middle income countries |
| PCBS | Palestinian Central Bureau of Statistics |
| PCE | Per capita consumption expenditures |
| PL | Poverty Line |
| POPs | Persistent organic pollutants |
| PPP | Purchasing power parity |
| R&D | Research and Development |
| RCCE | Recurrent consequences of capital expenditure |
| RPL | Regression-based poverty line |
| SAS | South Asia |
| SFD | Social Fund for Development |
| SSA | Sub-Saharan Africa |
| SSR | Self Sufficiency Ratio |
| SWFs | Sovereign Wealth Funds |
| UAE | United Arab Emirates |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDESA | United Nations Department of Economic and Social Affairs |
| UNDP | United Nations Development Programme |
| UNECA | United Nations Economic Commission for Africa |
| UNEP | United Nations Environment Programme |
| UNICEF | United Nations Children's Fund |
| UNIDO | United Nations Industrial Development Organization |
| UNOCHA | The United Nations Office for the Coordination of Humanitarian Affairs |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees |
| UNSD | United Nations Statistics Division |
| USD | United States Dollar |
| VATs | Value-Added Taxes |
| WDI | World Development Indicators |
| WEO | World Economic Outlook |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WHS | World Health Survey |
| WTO | World Trade Organization |

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