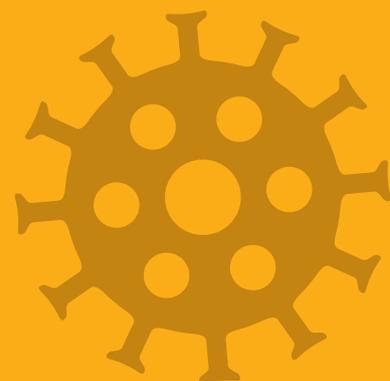
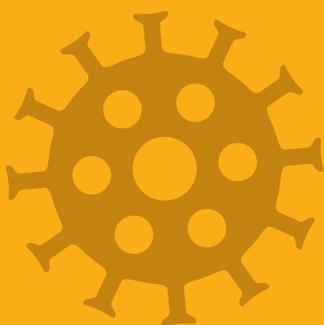
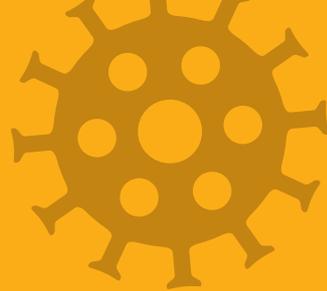
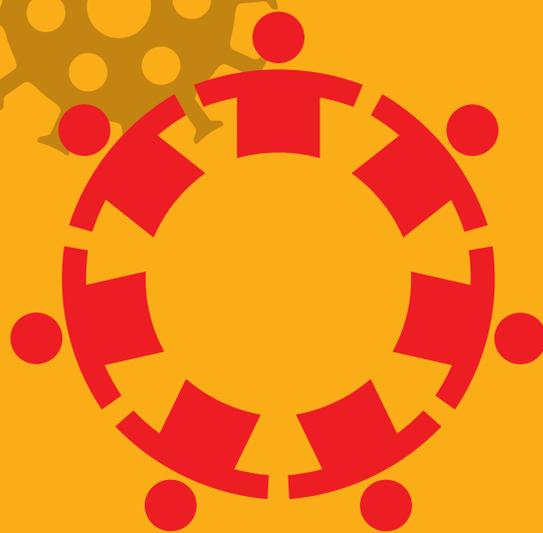
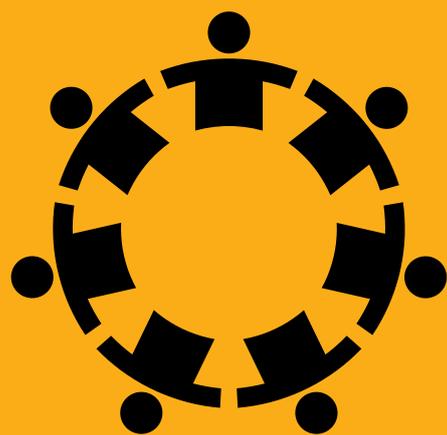
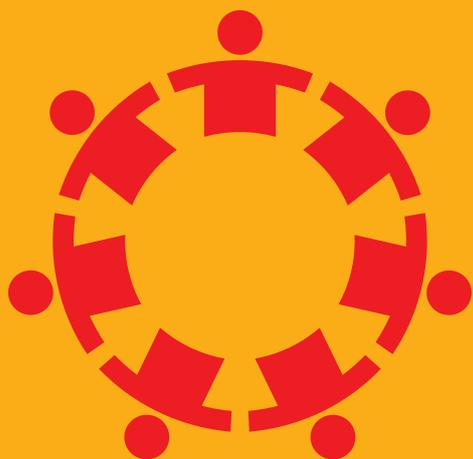


A New Development Paradigm:
What Would It Take to Achieve
a More Inclusive, Greener and
Resilient Region?



11

A New Development Paradigm: What Would It Take to Achieve a More Inclusive, Greener and Resilient Region?

COVID-19 and the Sustainable Development Goals

People, governments and businesses have struggled to address the compound crisis posed by COVID-19 and the recent drop in oil prices, which has led to sudden disruptions to income, workforce and essential supplies. They have had to balance health security imperatives against the socioeconomic fallout of social distancing measures while having to rely on digital technology and infrastructure in an abrupt way.

Households and MSMEs in most of the countries of the region often lack the financial buffers to deal with shocks and for many households this dual shock means falling into poverty or resorting to negative coping strategies such as depleting limited assets. For many MSMEs the only option left in terms of coping strategy is to increase their precautionary savings – where possible – and continue to put off buying durable goods such as new cars or the modern equipment they need for their business activity until they are confident that they can go back to “normal”.

But the old “normal” will likely not re-emerge. Indeed, given the way in which this shock has unfolded across the globe, countries will not be able to turn to exports to quickly recover for quite some time. Socioeconomic shock absorbers such as the informal economy, remittances and ODA do not provide answers either, as they are also likely to be hit hard for quite some time.

In a region with high labour market segmentation and where most workers find jobs through informal relational networks, losing a job can turn into long-term unemployment or underemployment, resulting

in an overall loss of aggregated productivity for the region’s economies.

Therefore, the crisis is also expected to fuel further poverty and income inequality, as other pandemics have in the past, further lowering the share of incomes for the unskilled workforce.¹ Meanwhile, governments are under pressure to achieve national self-sufficiency in the provision of essential goods, such as food and medical equipment, which threatens to translate into higher costs and higher final prices.

In this context of lack of liquidity, precautionary savings, weak investment and lower productivity, fiscal stimuli are likely to be needed for an extended period – beyond a few months – even though there will be a temptation to turn off the fiscal tap as soon as possible given the limited fiscal space in most Arab countries. In short, the “old normal” is no longer tenable.

COVID-19 is also having impacts on many different groups beyond those that are traditionally vulnerable. For example, the middle class is increasingly showing emerging traits of vulnerability. Indeed, the concept of vulnerability itself has taken new forms and pervaded new and larger segments of Arab societies and economies.

In times of a crisis such as these, people usually turn to their leaders for comfort and reassurance; but the role of the state has been decreasing as a result of enduring global and regional tendencies, decreasing resources, increasing fragility and conflict, and the limited social protection provided to the neediest segments of society.

¹ Furceri, Davide, Prakash Loungani and Jonathan D. Ostry, How Pandemics Leave the Poor Even Farther Behind, IMFBlog, 11 May 2020 (https://blogs.imf.org/2020/05/11/how-pandemics-leave-the-poor-even-farther-behind/?utm_medium=email&utm_source=govdelivery).

COVID-19 has hit the region in a time of crisis and political and social polarization in which there is a persistent trend of decreasing trust in state institutions.²

Several countries in the region lack the requisite institutional capacity to deal with such extreme events. This leaves governments with limited policy options. The absence of appropriate tools for managing external and domestic risks exacerbates the costs of some of the adopted measures. Indeed, the latest data on government effectiveness³ – among other critical governance dimensions – across the Arab region could be used to provide a proxy indicator of countries' administrative capacity to respond to the impact of COVID-19 and low oil prices on their health systems and economies. As expected, fragile and crisis-affected countries (Iraq, Libya, Palestine, Somalia, Sudan, Syria and Yemen) rank low in government effectiveness (in the 25th percentile compared to worldwide scoring). These countries are likely to have insufficient capacity to handle the consequences of the COVID-19 outbreak due to their lack of medical facilities, necessary equipment and limited information dissemination to citizens.

Countries with higher ranking government effectiveness (Algeria, Egypt, Lebanon, Morocco and Tunisia) between the 25th and 50th percentiles are likely

to have the ability to organize more effective short-term/immediate responses to the public health threat and immediate economic issues through emergency allowances for those most vulnerable, special funds to manage the pandemic and financial relief to formal and informal workers. Jordan and members of the GCC countries, with the highest rankings in the region (50th percentile and above) are more likely to be able to reduce the impact of the virus on public health and support economic recovery if at the same time they manage to heighten their social policies including health, education and social assistance.

Even before the impact of the COVID-19 and oil price crises, existing structural challenges implied that the region was not on track to achieve the SDGs.⁴ To illustrate this, Annex V shows the SDG progress in the Arab States pre-COVID 19. The short-term transmission pathways of the dual crisis imply the risk of reversals in SDG progress, as summarized in the Table 11.1. In the long-term, the dual crisis may produce some long-lasting reversals of the development gains seen in the region and is likely to have profound and negative effects on sustainable development efforts unless explicit measures are taken to build back better and achieve long term resilience, as embedded in the Agenda 2030.

Table 11.1 SDGs directly affected by the double shock in the region

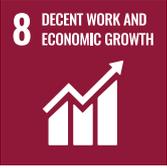
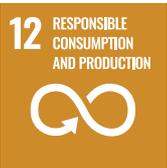
SDG	Impact			
	Whole region	Fragile and crisis-affected countries (FCC)	Oil-importing MICs	Oil exporters
 1 NO POVERTY	Estimates of the increase in income poverty range from 2.8 million to 14.3 million people.	FCCs are most affected due to poor and/or volatile economic performance in recent years, as well as their extra vulnerability and dependence on external humanitarian support.	Informal workers just above the poverty line are likely to fall below as a result of the crisis.	Some migrant workers who have lost their jobs may fall into poverty.
	COVID-19 is likely to affect both those who are income poor and those who are multi-dimensionally poor.	School closures will likely lead to a growth in multidimensional poverty gaps in both poor and middle-income countries.		
 2 ZERO HUNGER	1.9 million additional people become undernourished, mainly in FCCs.	People living in FCCs are hit especially hard by food-driven inflation.	Suspension of schools and universities results in limited access to food assistance programs among the many children who depend on them.	

2 Arab Barometer.

3 World Bank Group, Worldwide Governance Indicators, 2018 (<https://info.worldbank.org/governance/wgi/Home/Reports>). The government effectiveness indicator captures "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies".

4 <https://data.arabdevelopmentportal.com/Sustainable-Development-Goals/>.

 <p>3 GOOD HEALTH AND WELL-BEING</p>	<ul style="list-style-type: none"> • Over 500,000 reported cases and more than 10,000 deaths (as of June 22). • 5.2% of GDP health expenditure; 16 hospital beds per 10,000 people available in the region. • 29.9 nurses and midwives per 10,000 people available in the region. 	<ul style="list-style-type: none"> • Increased risk of contagion in FCCs due to limited access to handwashing facilities • Inadequate capacities of health system to respond to crisis. 	<ul style="list-style-type: none"> • Overwhelming of health systems resulting in increased non-COVID related deaths. • Secondary health impacts due to limited access to health facilities and closure of SRH facilities for women. • Disruptions in routine child immunization. 	<p>Migrant workers are disproportionately impacted due to their living and working conditions.</p>
 <p>4 QUALITY EDUCATION</p>	<p>Suspension of schools and universities has disrupted learning for the year.</p>	<p>E-learning, used to mitigate school closures, is not accessible to many middle class and poor children or to those living in refugee camps and ITS.</p>		
 <p>5 GENDER EQUALITY</p>	<ul style="list-style-type: none"> • Increase in disproportionate unpaid care burden. • Increase in domestic violence. • Already limited labour force participation further reduced. • Limited participation in key decision making. • Limited access to reproductive health care. 	<ul style="list-style-type: none"> • Palestine has reported a 69% increase in reports of GBV cases with emphasis on psychological harassment. • Data from Lebanon points to a 54% increase in levels of harassment and abuse. • Anecdotal reports of increases in child marriage and female genital mutilation. • Girls disproportionately affected by failure to access education. • Informal workers left without any support. 	<ul style="list-style-type: none"> • In Jordan women are now carrying out 22 times as much unpaid care work in the household than men, compared to 17.1 times in 2016. • Reduction in income as a result of hit on informal economy 	<ul style="list-style-type: none"> • concerns of impact on female migrant domestic workers. • As elsewhere, reports of increased levels of domestic violence but very limited support mechanisms.
 <p>6 CLEAN WATER AND SANITATION</p>	<ul style="list-style-type: none"> • 74 million people at risk of COVID-19 due to lack of basic handwashing facilities. • Increased water demand stresses infrastructure, leads to temporary disruptions and increases water scarcity. 	<p>Increased risk of contagion due to limited access to handwashing facilities.</p>	<p>COVID -19 impacts limit capacity to repair water infrastructure disruptions, which are under increasing stress due to public cleaning and handwashing requirements.</p>	
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	<ul style="list-style-type: none"> • Reduced oil prices pose risk to sustained solar transition. • Greater understanding of the role of chronic air pollution from energy use in generating underlying respiratory disease. 	<p>Reduced fiscal space to expand energy access for poor and crisis-affected communities, with particular risks to MSMEs, health facilities and social services dependent on energy access.</p>	<p>Economic crisis threatens to slow down the recent trend of accelerating foreign investments into low carbon solar economy.</p>	<p>Reduced oil price leads to increased consumption, reducing incentives for energy efficiency measures.</p>

 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<ul style="list-style-type: none"> • Due to slowing of economic activity in the region, 17 million lost working hours. • COVID-19 has increased exclusion of refugees from formal employment. Women are doubly excluded as they are particularly vulnerable to discrimination, exploitation, violence and abuse. • Loss in real GDP of US \$80 billion. • Loss of 23% in Arab stock markets. 	<p>Drastic increase of unemployment rate (Sudan: unemployment rate is expected to reach 25%).</p>	<ul style="list-style-type: none"> • Drastic increase of unemployment rate (in Tunisia the unemployment rate increased from 15 % in 2019 to 21% in 2020). • In Jordan and Egypt, a large share of SMEs reported halting operations, shortages of liquidity and the need to fire employees. • UNDP Jordan Survey of Households: 58% said they have lost their income from employment. 	<p>Increased job losses among migrant workers.</p> <p>In UAE and Algeria, 3% unemployment rate increase in 2020.</p>
 <p>10 REDUCED INEQUALITIES</p>	<p>Existing structural inequalities are being exacerbated.</p>	<p>Further deterioration in access to basic services likely to increase medium term inequalities.</p>		<ul style="list-style-type: none"> • To reduce the impact of school closures e-learning has been used, impacting children from lower middle class and among the poor who have limited access to computers and internet connections. • School closures also deprive vulnerable and poor children from school feeding programs.
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>People in slums at high risk of contagion due to high population density and lack of proper water or sanitation.</p>	<p>FCCs have double the regional average living in slums, ranging from 47 to over 90% (most recent data, 2014, WDI).</p>	<p>Crowding in highly dense refugee camps and prisons increases the risk of contagion for these communities.</p>	<p>Crowding in migrant worker camps and prisons increases risk of contagion for these communities.</p>
 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<ul style="list-style-type: none"> • Rapid escalation of medical waste and plastic pollution. 	<p>Already destroyed or damaged waste management facilities result in very limited capacity to manage medical and plastic waste.</p>	<p>Already strained waste management systems come under greater pressure.</p>	
 <p>13 CLIMATE ACTION</p>	<ul style="list-style-type: none"> • Risk of reduced commitment to climate action and NDCs. • Reduced economic activity and transport has led to temporary reduction of CO2 emissions, which are expected to rise quickly upon economic recovery. • Region experiencing one of the hottest years on record. 	<p>Convergence of COVID-19 with onset of climatic events such as droughts and flooding generate greater fragility of pandemic-impacted communities.</p>		

 <p>15 LIFE ON LAND</p>	<ul style="list-style-type: none"> • Greater understanding of the nature of zoonotic outbreaks and the important nexus between ecosystem health and human health 	<p>Convergence of COVID-19 with locust outbreaks – with serious multi-dimensional risks in terms of food security and ecosystem stability.</p>
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<ul style="list-style-type: none"> • Access to justice limited due to restrictions in movement and service provision. • Increased levels of domestic violence. • Limitation of liberties and increased emergency powers. • High levels of corruption hinder effectiveness of COVID-19 response. 	<p>Conflict-affected countries are at higher risk of a devastating outbreak, due to conflict preventing effective measures to combat COVID 19.</p> <ul style="list-style-type: none"> • Increased instability and delayed/hindered political and economic reforms. • Threats to social cohesion and rising social unrest; and eventually the risk that violent extremism will rise.
 <p>17 PARTNERSHIPS FOR THE GOALS</p>	<ul style="list-style-type: none"> • Remittances to the region are projected to fall by 19.6 percent in 2020. • ODA expected to fall. 	<ul style="list-style-type: none"> • International support required by conflict-affected countries to respond to the crisis, given their limited existing capabilities. • Yemen, with an estimated annual remittance inflow of 12.6 percent of GDP in 2019, has seen the number of remittances drop by as much as 80 percent between January and April of 2020. • Egypt estimates a remittance decline of 13.5 percent. • Morocco and Tunisia have projected remittance declines of 17–18 percent.

A new development paradigm

In the preamble to the 2030 Agenda for Sustainable Development, Member States expressed their determination “to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path”. Responding to fast-moving trends in the 21st century, the 2030 Agenda pursues the fundamental goals of securing ‘decent work, ‘quality education’ and ‘effective, accountable and inclusive institutions’ by 2030.

COVID-19 has brought a new sense of urgency to this push for transformational change on a systems level. The shock of the pandemic has made even more evident the complexity and interconnectedness of development issues and the need to address them through integrated solutions. It has illustrated both the volatility and uncertainty of the policy implementation environment and the need to be resilient and adaptive;

and the changing nature of the relationship between citizens and state and the demand for more citizen involvement. The crisis has accelerated previously slow-moving change on a number of issues, therefore, presenting an opportunity to rethink and reimagine our lives and actions before settling into a ‘new normal’.

The crisis has not only highlighted the systemic nature of existing risks, but also provides the first indications of various new, lasting social, economic, environmental and technological risks and opportunities. These extant and emerging risks linked to the repercussions of the pandemic include:⁵

- Another global outbreak of COVID-19 or different infectious diseases.
- Prolonged global and regional recessions leading to:
 - a surge in bankruptcies (big firms and SMEs) and a wave of industry consolidation;

5 World Economic Forum (WEF), COVID-19 Risks Outlook: A Preliminary Mapping and Its Implications, 2020.

- the failure of industries or sectors in certain countries to properly recover; and
- the weakening of fiscal positions and ballooning public debt.
- Increasing inequalities, such as:
 - uneven internet access that exacerbates digital divides, which in turn entrenches long-term inequality of opportunity; and
 - fragile progress towards gender equality.
- High levels of structural unemployment (especially among women and youth) and underemployment.
- Tighter restrictions on the cross-border movement of people and goods.
- Protracted disruption of global supply chains and their potential regionalization.
- Increased risk of political suppression due to extended emergency powers.
- Increased risk of polarization and sectarianism due to lack of appropriate government responses for vulnerable populations.
- The role of ecosystem disruption in generating zoonotic outbreaks and pandemics.
- Converging threats from the climate crisis, with those communities most impacted by the economic crisis also facing more frequent and severe climate impacts.
- Systemic implications of chronic air and water pollution, generating underlying risks for human health and social vulnerability.

Any understanding of the decline in the region's progress towards achieving sustainable development and the SDGs must be informed both by the structural weaknesses shown in the previous chapters of this report as well as the risks reported above.

New models have emerged showcasing different scenarios for 'recovery' and a 'return to normal' from policy analysts. A common theme across all these models is that they contain trade-offs between effectiveness of health responses on the one hand, and the effectiveness of economic responses on the other. In the responses to the 2008 financial and 2011 Eurozone crises, countries did not build back better, even though a long-lasting depression was averted in both cases, as critical indicators such as inequality, indebtedness, environmental degradation and measures of citizen happiness, all continued to deteriorate. Therefore, the philosophical challenge today

concerns the critical variables we choose for the axes charting the Arab region's future.

At the heart of putting the region on track to achieving the SDGs is the need for a renewed and more balanced state–market relationship that boosts productivity, economic transformation and competitiveness to benefit all its people, ensuring no one is left behind. To this end, countries in the region will need to strengthen the role and capacities of the state to achieve:

- greater regional integration;
- more state capacities in critical areas providing public services (health, education, water, sanitation, energy, waste management, urban planning, etc.) and as COVID-19 has shown, affordable access to the internet;
- more appropriate skills to enable the population to participate in the digital, sharing and circular economies;
- improved risk management;
- increased local capacities to deliver services;
- better provision of social protection and health services; and
- statistical capacity to identify and target vulnerable groups.

Meanwhile, countries must strengthen the role of the market to achieve:

- better market efficiency with an improved level playing-field, more competition; and
- a better business environment.

The report proposes an example of framework for policy implications to address structural and emerging challenges in the medium-term, which vary with respect to the stage of economic development and could be summarized as belonging to one of three types of policies, as illustrated in Table 11.2. Policies focused on the pre-market stage aim to shape the endowments that prepare people to enter the workforce, such as education, health and basic services that eventually affect people's capabilities. Policies focused on the market stage help determine incentives in hiring, investment and innovation decisions in line with the relative prices of factors of production and the required inputs. They may also affect bargaining power based on market and development potential rather than on rentier positions. Examples of such policies could be minimum

wages, investment, trade agreements, R&D and other types of industrial policies. Finally, policies that focus on the post-market stage aim to redistribute income and wealth by utilizing progressive income taxation, wealth taxation, income support policies, VAT, among others.

A second dimension of the proposed policies focuses on income distribution to address inequality. In this case, policies that target the bottom end of income distribution are typically poverty reduction policies, including those favouring basic income support. Policies that attempt to lift incomes in the middle level of the distribution may target better service provision and more effective social support. Finally, some may focus on redistributing incomes at the top to the benefit of the groups in the lower end of the distribution.

The proposed approach could form the core of a broader policy framework to mitigate the economic impact of the dual crisis, as well as future shocks, which will need to include a complex menu of health, fiscal, monetary, financial, industrial, ICT, trade, environmental and social protection policies, paying special attention to their sequencing and potential medium-term trade-offs.

Public investment in the care economy; education; digital services⁷ such as remote working and learning, telemedicine and other critical services; and low-carbon infrastructure, can form the backbone of stimuli that reduce inequality. ICT will be increasingly critical in sustaining societies and economies beyond the lockdown phases (see Box 11.1). In this way, the COVID-19 pandemic offers the possibility of investing in more cohesive, inclusive and sustainable societies.

Stimuli to sustain livelihoods can be implemented via the removal of perverse subsidies and by resisting the temptation to initiate mega projects that often overstate the role of construction in development. Green stimulus programmes have the potential to fundamentally change the way economies and industries operate. Economic diversification, including digitalization, presents the region with the potential for a new era of innovation, growth and e-governance in the service of societal and environmental goals.

In addition, in the Arab States, building back better requires addressing long-standing structural development

Table 11.2 Example of taxonomy of potential medium-term policies supporting a more sustainable, resilient and fair society

		Market stage in which policies may intervene		
		Pre-market	Market	Post-market
Socio-economic groups that policies may intend to address ¹	Bottom	Asset-based (human capital) policies including early childhood development, quality services (e.g. universal WASH, healthcare and education); nutrition; infrastructure and ICT	Decent labour conditions and protection, formal work; active labour market policies; basic and digital infrastructures; green economy and social works; trade, business environment; financial inclusion	Well-targeted social transfers (e.g., universal pension, disability benefits); lower VAT rates for essential goods and services; financial inclusion; healthcare and social care services
	Middle	Asset-based (human capital) policies including quality vocational and higher education as well as specialized healthcare; ICT	Participatory industrial relations; comprehensive labour laws; active labour market policies; business environment; digital infrastructures; regional trade integration; innovation and R&D policies; green economy; financial inclusion	Social insurance and pension, disability benefits; income tax credit; policies in support of sustainable consumption (subsidy reforms); financial inclusion; healthcare and social care services
	Top	Inheritance taxes; specialized higher education and healthcare	Financial and market regulations, antitrust laws; progressive income taxation; incentives for green innovation and R&D; digital infrastructures	Wealth and capital gains taxes, environmental taxes; philanthropy incentives

Source: Elaboration from UNDP HDR (2019) and Blanchard and Rodrik (2020).

Note: ¹specific group definitions are context dependent and could include vulnerable categories such as migrants, minorities, etc. based on countries' specificities and priorities.

⁷ During the pandemic, telecom operators have moved quickly to make ICT services more affordable. While connectivity in remote and rural areas remains a critical issue, it has been supported using various technological options such as 3G and 4G, high-altitude balloons and satellites. Governments in the region have also made available resources to facilitate access, such as the purchase of SIM cards and tablets in Egypt and Saudi Arabia, financial assistance to help retail ISPs support their customers, and price relief for access to the national broadband network.

challenges, organized according to the UNDP's four focus areas presented in the Corporate Offer 2.0,⁸ such as:

Governance

- De-escalation of conflicts in FCCs and restoration of peace.
- Effectively incorporating the private sector, civil society and citizens in the development process.
- Developing the capacities of governments to be flexible in their policies and budget allocations to allow for quick responses to emerging risks.
- Promoting democratic governance as a fundamental base for development, including fighting corruption, increasing transparency and accountability, ensuring peaceful and regular rotation of power, and applying the rule of law while defending human rights, and fighting repression and exclusion.
- Increasing popular participation to enhance political legitimacy.
- Enhancing the capacity of governments to deliver common goods, such as health and education at the central and local levels.
- Carrying out a long needed public sector reform for efficiency and effective distribution of services, including by developing public sector capacities to collaborate across siloes and sectors, engaging and partnering with a variety of stakeholders and disciplines.
- Strengthening local government to play a significant role in providing more efficient services and effective participation in development.
- Increasing transparency and accountability, including by explicitly linking strategic planning to budget allocations, and monitoring and evaluation of the achievement of targets.
- Empowering women and increasing their participation in economic activities as well as in all decision-making processes.

Social protection

- Strengthening social protection policies to manage existing problems such as poverty, marginalization of groups, food security and unemployment.
- Addressing structural inequalities to promote social mobility and reduce vulnerabilities. The informal sector bears the biggest burden of the shock in the private sector (some SMEs, daily wage earners and

some migrant workers). As a result, they often fall through social safety nets. Hence, there is a need to redesign social protection so that it includes informal workers. This should be accompanied by the development of digital, mobile or other forms of payment delivery to the unbanked.

Green economy

- Rethinking conventional development policies to reset the balance between humans and nature and reset growth towards green, low carbon, climate resilient pathways, closing the region's gap in green finance, innovation and technology.
- Reversing the loss of biodiversity and reducing pressures on critical ecosystems to prevent future zoonotic outbreaks in the region and achieve the post-2020 Global Biodiversity Framework.
- Enhancing local environmental governance and regulatory frameworks to reduce levels of air pollution in cities and the prevalence of respiratory disease, particularly among the poor.
- Closing the water access gap in the region through new fiscal policies and regulatory measures that incentivize water conservation and wastewater reuse, and build capacities for integrated water management to expand water access for poor and crisis-affected communities.
- Initiating a new green fiscal policy capable of addressing the deficits and debt increase in OIMICs in order to restore economic growth towards goals of inclusivity and sustainability, and to manage social crises.
- Increasing collaborative policies integrating green industrial development, innovation, digital transformation, human capital and education policies linked with increasing job opportunities, especially for young people.
- Introducing qualitative improvements in agricultural production and decrease food import dependency.
- Economic transformation to reduce dependence on oil and other commodities.
- Sharing risk between the private and the public sectors.

Digital disruption

- Digital transformation to diversify the economy and reduce dependency on oil and other commodities.
- Establishing digital infrastructure that reaches the most vulnerable, reducing inequalities and enhancing financial inclusion and digitalization in

8 <https://www.undp.org/content/undp/en/home/librarypage/hiv-aids/beyond-recovery--towards-2030.html>.

the provision of public services, as well as access to technologies.

A renewed social contract should be informed by mutual trust, a common “vision” – or at least a shared understanding of the acceptance of basic rules – and mutual recognition of reciprocal duties and responsibilities. To achieve all of this, an open debate on the most appropriate objectives and roles of the state and the market in the region is needed, based on which, markets should strive to reward merit whilst the state should strive to protect citizens from risks and be a fair custodian of the rules of the game, ensuring a ‘level playing field’ and maintaining a healthy and dynamic tension between the two. This calls for a deeper reform of the fundamental institutions that should result from a renewed social contract where citizens’ energies are promoted while their social and economic rights are protected. This could be the right moment for such a discussion, as crises are defining moments for the relationship between the state and its citizens, especially because people look at governments for information, direction and protection.⁹

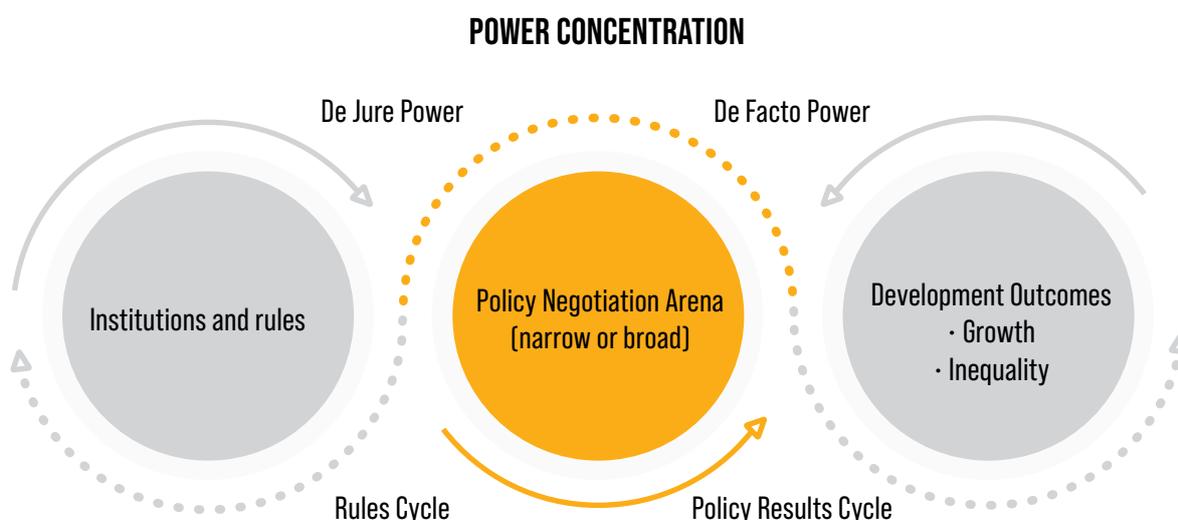
In the region, this issue is associated with the continuous use of the state by the ruling elites as means of political mobilization and to keep the status quo in the national political and economic power structure. Such practices decrease the capacity of the state as a supplier of public goods and increase its rentier functions (see Figure 11.1). This disincentivizes market

competition, reduced innovation, diversification, and long-term productivity, and the ability of these firms to compete globally. Most importantly, this has generated a crisis of legitimacy and deepened inequality leading to instability and increased conflict. Indeed, the Fifth Wave of the Arab Barometer Survey, in 2018 and 2019, found that trust in government in most Arab countries had decreased over the previous decade.

Conversely, a new development model in the Arab region requires states, business and citizens to confront the existing system of patronage and influence that weaken institutions, provide inadequate public services to the most vulnerable, distort markets and suppress job creation. For decades, rentierism, and then crony capitalism, have maintained the political and economic status quo in the region. As a result, the Arab countries have failed to match the performance of South East Asian countries, which have grown at a speed above three percent over the last half century. The policies implemented by the latter have fostered macroeconomic stability, strong education systems, sizeable investment plans, reformed legal and regulatory frameworks, and the creation of a cadre of qualified technocrats in public administration. Unlike many Arab states, the Southeast Asian economies have gradually moved toward manufacture-based exports, regional economic integration and free trade.

The dual shock, combined with structural trends such as growing populations and urbanization have shown this model to be unsustainable. Economic diversification

■ Figure 11.1 The inequality and rentier state loop



Source: UNDP.

9 UNDP, *Leaving No One Behind: Towards Inclusive Citizenship in Arab Countries*, Arab Human Development Report Research Paper, 2019.

has been a catchphrase of Arab policy makers and economists for many decades, particularly during oil price bust cycles such as this. But these ideas have never translated into coherently implemented medium-term policy reform programs.

Patron–client networks can only be unwound through a new relationship between governments, businesses and citizens. The long-term demand for these reforms will depend on the mobilization of a new constituency to support them. To this effect, almost two decades on from the 2002 Arab Human Development Report, two groups remain particularly important: young people and women. Together, they account for the vast majority of Arab populations. Yet, as the Report noted, they do

not have significant economic and political influence in their societies.

As a result of these underlying regional patterns combined with the dual shock, the region is also set to witness increasing inequality within middle- and high-income countries as low-wage and more vulnerable workers lose out and middle-class incomes stagnate, building on the 2008–9 financial crisis and the 2014 oil shock. Another crisis in twelve years is difficult to bear unless the institutional fundamentals – before the economic – are set right. Otherwise, the region is likely to witness increased social unrest that will compound the many existing conflicts and crises. In short, this is not about how bad the virus is, but rather how

■ Box 11.1

Are there lessons we can learn from other countries?

There are two dimensions to consider with regard to global experiences in addressing the COVID-19 crisis. On the health side, there are good examples of countries minimizing the number of deaths, preventing their health systems from being overwhelmed and reducing the time to relaxing strict containment measures. On the economic side, countries that are providing economic stimulus have focused on building forward better.

Countries such as Costa Rica, New Zealand, South Korea, Uruguay and Vietnam seem to have managed to control the spread of the virus and minimize deaths. All these countries have in common the early adoption of containment measures, including border closures, social distancing, aggressive testing and contact tracing, clear official communication and affordable test kits. Noticeably, these are countries with higher levels of trust in their governments' actions.

South Korea and Vietnam learned from recent viral outbreaks such as SARS and MERS, and developed systems, procedures and capacities to face new viral outbreaks. These included capacities to quickly develop tests and make protective equipment locally, which helped the rapid response. The lockdown in Vietnam lasted barely a month.

Uruguay is the country with the lowest levels of inequality in Latin America and

the Caribbean, and the highest levels of trust in government in the region. It did not impose mandatory lockdowns, but asked the population to follow social distancing rules and remain inside their houses unless travel was absolutely necessary. Despite being sandwiched between two giants – Brazil, with the largest outbreak in the region, and Argentina – Uruguay's economic slowdown has been the smallest in the region.

Regarding minimizing the impact on livelihoods, Germany announced a €130 billion coronavirus recovery package, which includes:

- A temporary VAT cut from 19 percent to 16 percent, from 1 July until 31 December.
- A €300 one-off payment for every child in the country.
- A €50 billion fund to address climate change, innovation and digital technology.
- A €25 billion loan support programme for small firms that have seen their sales drop by more than 60 percent for June to August.
- €10 billion for municipalities struggling with lower tax receipts, with public spending on infrastructure and housing.
- A state financial incentive to buy an electric car has been doubled to €6,000.

fragile and unprepared the underlying economies and institutions in the region are to cope with an increasing number and types of risks and manage shocks.

The transformative route will depend on achieving a deep understanding of the complex challenges that COVID-19 has brought into stark relief, as well as designing system-level responses that enable governments to not only react or respond to shocks but also to begin shaping their societies' futures. Delivering single-point solutions that act on small aspects of socio-economic challenges will not suffice (if, indeed, they ever have done); for transformational change on a systems level, national partners must strengthen their capabilities to explore, identify and analyse a full range of policy options in face of increasing complexity.

This institutional transformation and the new social contract that it entails will also imply changes in the fiscal relationship between businesses, citizens and the state. People should be made increasingly aware that a fair taxation plays an important role in this current stage of the crisis in helping to sustain universal access to basic goods and services. Moreover, countries are likely to see a significant decline in their tax collection – this may have lasting implications as it normally takes many years for public revenues to recover after an economic crisis. Finally, tax avoidance and evasion by large taxpayers

will become even more intolerable to public opinion in times of economic crisis. This increases the importance of international tax cooperation. Aside from affecting equality, the policy response to the crisis will be a good moment to also “green” our tax systems. In short, taxes will play a key role in shaping the “new normal” in the region.

In the end, the alternatives boil down to two scenarios: either countries start a long process of institutional transformation that puts the 2030 Agenda at the centre, together with the ensuing roles for the state and the market; or business-as-usual will accelerate the social, economic, environmental and political vulnerabilities in the region making it even more exposed to prolonged stagnation on the socioeconomic front, and instability and conflict on the political front.

Finally, it is time for a renewed model of international cooperation in the region whereby short-term donors' interests are replaced by long-term regional interests. With interest rates as low as they are now, it is hard to imagine a more opportune moment in which to make such a commitment to the region. The current crisis is a global challenge that requires a global response, but it is also a regional challenge that will require a coordinated response in the Arab region.

