



# A future for all

From the Atlantic to the Gulf, people--women, men and children--are the real wealth and hope of Arab countries. Policies for development and growth in the Arab region must focus on freeing people from deprivation, in all its forms, and expanding their choices. Over the last five decades, remarkable progress has been achieved in advancing human development and reducing poverty. However, much still needs to be done to address the backlog of deprivation and imbalance.

Looking forward, much also needs to be done in order to empower the people of the Arab region to participate fully in the world of the twenty-first century. Globalization and accelerating technological advances have opened doors to unprecedented opportunities, but they have also posed a new risk: that of being left behind as the rate of change accelerates, often outpacing state capacity. Development is being reinvented by new markets (e.g., foreign exchange and capital markets), new tools (e.g., the Internet and cellular phones), new actors (e.g., non-governmental organizations, the European Union and World Trade Organization) and new rules (e.g., multilateral agreements on trade, services and intellectual property).

## CHALLENGES

Entering the new millennium, people in Arab countries face two intertwined sets of challenges to peace and to development. The first set has been made ever more conspicuous and pressing after the tragic events of 11 September 2001. These are the challenges to the pursuit of freedom from fear. Regional and external factors intersect in this realm of peace and security. The second set of challenges is equally important if not more critical.

It encompasses challenges to the achievement of freedom from want. These are the challenges faced by people and governments, states and societies as they attempt to advance human development. These challenges are fundamental, not only for their instrumental significance to development and growth but also for their intrinsic value. Equity, knowledge and the freedom and human rights integral to good governance matter for their own sake as well as for their critical role as enablers of development. They are both means and ends. They are central to both the process and the state of human development. Some key aspects of both sets of challenges are highlighted below.

### OCCUPATION STIFLES PROGRESS

Israel's illegal occupation of Arab lands is one of the most pervasive obstacles to security and progress in the region geographically (since it affects the entire region), temporally (extending over decades) and developmentally (impacting nearly all aspects of human development and human security, directly for millions and indirectly for others). The human cost extends beyond the considerable loss of lives and livelihoods of direct victims. If human development is the process of enlarging choices, if it implies that people must influence the processes that shape their lives, and if it means the full enjoyment of human rights, then nothing stifles that noble vision of development more than subjecting a people to foreign occupation.

Firstly, for Palestinians, occupation and the policies that support it, stunt their ability to grow in every conceivable way. The confiscation of Palestinian land, constraining their access to their water and other natural resources, the imposition of obstacles to the free

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movement of people and goods, and structural impediments to employment and economic self-management all combine to thwart the emergence of a viable economy and a secure independent state. Moreover, the expansion of illegal settlements, the frequent use of excessive force against Palestinians and the denial of their most basic human rights further circumscribe their potential to build human development. The plight of Palestinian refugees living in other countries is a further manifestation of development disfigured by occupation.

Secondly, occupation casts a pall across the political and economic life of the entire region. Among neighbouring countries, some continue to suffer themselves from Israeli occupation of parts of their lands, subjecting those people directly affected to tremendous suffering, and imposing development challenges on the rest. In most Arab states, occupation dominates national policy priorities, creates large humanitarian challenges for those receiving refugees and motivates the diversion of public investment in human development towards military spending. By symbolizing a felt and constant external threat, occupation has damaging side effects: it provides both a cause and an excuse for distorting the development agenda, disrupting national priorities and retarding political development. At certain junctures it can serve to solidify the public against an outside aggressor and justify curbing dissent at a time when democratic transition requires greater pluralism in society and more public debate on national development policies. In all these ways, occupation freezes growth, prosperity and freedom in the Arab world.

*CONFLICTS, SANCTIONS AND INSTABILITY PREVENT DEVELOPMENT*

Political upheavals, military conflicts, sanctions and embargoes have affected many economies of the region, causing declines in productivity and disrupting markets. Some countries struggling to recover from the ravages of war have emerged with substantial debts, limiting options for public expenditure. All affected countries have emerged with compounded socio-political problems that have

retarded progressive moves towards liberalization and democratization.

The direct impact of wars is registered in slowed growth, damaged infrastructure, social fragmentation and public-sector stagnation. Some countries have experienced hyperinflation, severe currency devaluations and curtailed foreign-currency earnings. Others have seen their standing in the international community collapse. Most affected countries have lost important human and capital resources critical for the renewal of stability and competitiveness.

**ASPIRATIONS FOR FREEDOM AND DEMOCRACY REMAIN UNFULFILLED**

There is a substantial lag between Arab countries and other regions in terms of participatory governance. The wave of democracy that transformed governance in most of Latin America and East Asia in the 1980s and Eastern Europe and much of Central Asia in the late 1980s and early 1990s has barely reached the Arab States. This freedom deficit undermines human development and is one of the most painful manifestations of lagging political development. While de jure acceptance of democracy and human rights is enshrined in constitutions, legal codes and government pronouncements, de facto implementation is often neglected and, in some cases, deliberately disregarded.

In most cases, the governance pattern is characterized by a powerful executive branch that exerts significant control over all other branches of the state, being in some cases free from institutional checks and balances. Representative democracy is not always genuine and sometimes absent. Freedoms of expression and association are frequently curtailed. Obsolete norms of legitimacy prevail.

*DEVELOPMENT NOT ENGENDERED IS ENDANGERED*

Gender inequality is the most pervasive manifestation of inequity of all kinds in any society because it typically affects half the population. There have been important quantitative im-

improvements with respect to building women's capabilities in recent years. For example, Arab countries have shown the fastest improvements in female education of any region. Women's literacy rates have expanded three-fold since 1970; female primary and secondary enrolment rates have more than doubled. However, these achievements have not succeeded in countering gender-based social attitudes and norms that exclusively stress women's reproductive role and reinforce the gender-based asymmetry of unpaid care. As a consequence, more than half of Arab women are still illiterate. The region's maternal mortality rate is double that of Latin America and the Caribbean, and four times that of East Asia.

Women also suffer from unequal citizenship and legal entitlements, often evident in voting rights and legal codes. The utilization of Arab women's capabilities through political and economic participation remains the lowest in the world in quantitative terms, as evidenced by the very low share of women in parliaments, cabinets, and the work force and in the trend towards the feminization of unemployment. Qualitatively, women suffer from inequality of opportunity, evident in employment status, wages and gender-based occupational segregation. Society as a whole suffers when a huge proportion of its productive potential is stifled, resulting in lower family incomes and standards of living.

#### *BRIDLED MINDS, SHACKLED POTENTIAL*

About 65 million adult Arabs are illiterate, two thirds of them women. Illiteracy rates are much higher than in much poorer countries. This challenge is unlikely to disappear quickly. Ten million children between 6 and 15 years of age are currently out of school; if current trends persist, this number will increase by 40 per cent by 2015. The challenge is far more than overcoming the under-supply of knowledge to people. Equally important is overcoming the under-supply of knowledgeable people, a problem exacerbated by the low quality of education together with the lack of mechanisms for intellectual capital development and use.

A major mismatch exists between the output of educational systems and labour-market needs. The mismatch is compounded by the increasingly rapid change in these needs brought about by globalization and the needs of accelerating technology.

Arab countries' access to and use of cutting edge technology, exemplified by information and communication technology (ICT), is very limited. Only 0.6 per cent of the population uses the Internet and the personal computer penetration rate is only 1.2 per cent. More generally, investment in research and development does not exceed 0.5 per cent of gross national product, well below the world average. Moreover, while the production of scientific papers in the Arab region is within the range of leading third-world countries, the use of national scientific expertise is at much lower levels.

Addressing the knowledge challenge matters critically, both because knowledgeable people and a knowledge society are worthy objectives in themselves and because education and knowledge, as aspects of human capability and as proxies for increased human choice, are intrinsically linked to growth and equity. Failure to address capability deficits holds back human development in the larger sense of the concept. While the human development index (HDI) of the United Nations Development Programme (UNDP) measures some aspects of capability, it does not embrace other, wider variables such as freedom and human rights (or others such as knowledge acquisition, the institutional context and environmental responsibility). Yet the relationship between human development and human rights is of fundamental importance. It is a mutually reinforcing relationship where the common denominator is human freedom. Human development, by enhancing human capabilities, creates the ability to exercise freedom, and human rights, by providing the necessary framework, create the opportunities to exercise it. Freedom is the guarantor and the goal of both human development and human rights.

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Improving economic governance, including management of development, is a primary challenge for Arab countries. Despite largely successful stabilization in the 1990s, evident in modest subsequent levels of inflation and budget deficits, growth continues to stagnate and to be overly vulnerable to fluctuations in oil prices. The quality of public institutions, as measured by poor cost-effectiveness and heavy regulatory burdens, is low. Critical macro variables are still under-performing, including employment, savings, productivity and non-oil exports. At about 15 per cent, average unemployment across Arab countries is among the highest rates in the developing world. Unemployment is a human-development tragedy as well as a drag on economic progress. Restoring growth will be critical to attacking it, but the economies in the region would have to grow at a minimum annual rate of five per cent to absorb the currently unemployed and provide jobs for new labour-market entrants.

Trade performance has remained sluggish and the region is still relatively closed. In some countries, tariffs are high and non-tariff barriers remain important. Throughout the 1990s, exports from the region (over 70 per cent of which are accounted for by oil and oil-related products) grew at 1.5 per cent per year, far below the global rate of six per cent. Manufacturing exports have remained stagnant and private-capital flows have lagged behind those of other regions. Arab governments are taking steps to improve this state of affairs through policy initiatives to promote trade expansion as an engine of economic (including technological) development. The creation of the Arab Free Trade Area, expanding accession to the World Trade Organization and association with the European Union are formal expressions of policies that promote trade and move towards greater integration with the global economy.

Governments have had considerable success in providing growth-supporting physical infrastructure. On the other hand, the state's role in promoting, complementing and regulating markets for goods, services and factors

of production has been both constrained and constraining. Partly as a consequence, the formal private sector's contribution to development has often been hesitant and certainly below expectations. While the share of the private sector in total investment has increased, its performance with respect to job creation and exports remains unduly limited. Markets remain incomplete. Uncorrected market failures result in inefficient outcomes.

Both growth and equity considerations make promoting dynamic private-sector development a critical priority of economic governance in Arab countries. Most countries in the region formerly adopted, and some long adhered to, now discredited statist, inward-looking development models. These models may have been appropriate in early post-independence years, but they now serve neither governments (which need rapid economic growth in order to achieve policy objectives, including human-development objectives with respect to, e.g., health care, education and provision of social safety nets) nor people (who seek more good jobs with decent wages and working conditions).

Governments in many countries have taken important steps to liberate the private sector, but a large unfinished agenda remains. Sound macroeconomic policies need to be maintained; adequate economic space needs to be provided for private initiative; central banks, banking systems in general, and financial services need to be strengthened; bureaucracy needs to be streamlined and red tape minimized. In addition, a transparent rule of law, a visibly fair and appropriately swift legal system, and an efficient and professional judiciary need to become universal; and public-sector reform needs to be designed in terms of providing incentive structures to encourage private-sector investment and growth.

At the same time, beneficial regulation--for example, measures to curb monopoly, whether in the public or the private sector--needs be strengthened and enforced; graft and cronyism need to be firmly and comprehensively addressed. These and other distortions of incentive systems have human-development as well as economic-development costs in terms of denying merit its appropriate reward and discouraging human initiative.

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Another area for exploration is greater regional economic cooperation. Domestic markets in many Arab economies are too small to provide the basis for dynamic, diversified and sustainable growth based on vibrant private manufacturing and services sectors. The Arab Free Trade Area is a step in the right direction, provided it lives up to its promise. However, countries may need to consider deeper integration both among themselves via moving towards a customs union or a common market and with external partners through, for example, the association agreements with the European Union that several countries have already signed. These two trends can be mutually reinforcing; the returns from association agreements can be multiplied if regional integration arrangements are in place. Finally in this connection, regional associations that address economic cooperation or shared infrastructure development need to be revitalized and supported.

The capacity of the state has fallen short of the requirement to foster rapid growth, just as it has fallen short of the demands of human development in key areas such as health and education. Financial resources have not been the binding constraint: government spending as a percentage of gross domestic product is higher than in other developing regions. While policy changes, supported by inter- and intra-sectoral reallocation of public spending, would certainly enhance effectiveness, institutional arrangements and human resources are more binding constraints. They are evident in lack of accountability, transparency and integrity, along with ineffectiveness, inefficiency and unresponsiveness to the demands of peoples and of development.

The challenge of addressing these impediments and achieving better governance increases with the strains imposed on institutional structures and mechanisms by the combination of the expectations of a better-informed and more knowledgeable public at home together with external forces such as globalization and increasingly rapid technological progress. These changes have transformed the role of the state and its relationship with markets and civil society. Governments have only begun to adapt: state-NGO relationships, for example, are often managed as a

zero-sum game.

The technological revolution has also changed key determinants of production and growth, placing more emphasis on the acquisition of knowledge and its application to social and development goals. At a time when the development prospects of Arab countries are increasingly linked to the capabilities of their work forces and the quality of their intellectual capital, addressing the knowledge gap is a critical challenge.

*THE CURSE OF POVERTY: DENYING CHOICES AND OPPORTUNITIES, DEGRADING LIVES*

Meeting the challenge of achieving more equitable societies, politics and economies requires a determined effort to attack poverty. While the Arab countries have the lowest level of dire poverty in the world, it remains the case that one out of every five people lives on less than \$2 per day, according to World Bank estimates for the Middle East and North Africa. Moreover, income poverty is only part of the story. Poor or unavailable health care or opportunities for a quality education, a degraded habitat--whether a polluted urban slum or a rural livelihood eked out on exhausted soil--scant or non-existent social safety nets: all form part of the nexus of poverty and are widely prevalent in Arab countries.

Inequality of capabilities and of opportunities is actually more pronounced than income poverty and economic inequality. Deprivation in terms of basic human-development parameters is about 32.4 per cent as measured by the human poverty index (HPI), which defines deprivation in terms of short lives, illiteracy and lack of basic services.

It is now well established that economic growth is not a sufficient condition for eliminating income poverty but that it is certainly a necessary one. The same applies to capability poverty, which leads to inadequate human development. However it is defined, poverty retards growth prospects. Income poverty acts as a dead weight on an economy; human-development poverty limits people's and countries' capacity to make the best use of their resources, both human and material. The fact that income poverty is relatively low in Arab countries should be no cause for complacency

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when other dimensions of poverty remain substantial.

### STRATEGY

The core peace and development challenges facing the Arab people are interlinked. While issues of occupation and conflict are beyond the purview of this Report, the subsections that follow synthesize aspects of a strategy for enhancing human development.

Given the importance of capturing broader challenges to human development in its fullest sense, challenges related to increasing freedom, gender equality, knowledge acquisition and environmental choice, the Report poses the question: is it not now time to look beyond the limited measurement of human development, as reflected in the HDI? In a personal contribution to the Report, its lead author explores the parameters, methodology and impact of an alternative index that could be the starting point for further research into a more insightful approach to measuring human development.

The Arab region is living in a time of accelerating change against a backdrop of increased globalization. Success in meeting today's challenges will depend on the ability to shape, and adapt to, the demands of the new economics and the new politics. Enhanced knowledge development, broadly defined, and advances in human freedom, exemplified by political and economic participation, along with a proper appreciation of the role of culture and values, could together form the foundation of a human-development path for the Arab region that responds creatively to people's aspirations for a better life and effectively taps the forces shaping the twenty-first century.

### TOWARDS A KNOWLEDGE SOCIETY

Knowledge is a cornerstone of development, and its importance is increasing in an age of accelerating technological change and globalization. It is a public good that underpins economies, politics and societies, permeating all aspects of human activity. This Report suggests that Arab countries face a significant knowledge gap. Overcoming it will not be

easy because knowledge, broadly defined, is a moving target; its frontiers are constantly expanding. To address the knowledge gap, it will be necessary to take simultaneous action in three linked and potentially synergistic areas: knowledge absorption, acquisition and communication.

The value of knowledge for development depends on its effective application. Therefore, working towards a knowledge society requires multisectoral strategies that integrate absorption, acquisition and communication -- for example, through links among education systems, training systems and public- and private-sector labour-market demand. Similarly, innovators, researchers and policy analysts need to be connected with producers and policy-makers. Knowledge-development strategies need to be seen as being the concern of society as a whole and of socio-economic actors across the board -- government agencies, the private sector and civil society, particularly in local communities -- thus promoting better alignment of the structure, inputs and outputs of education, training and research systems with the requirements of production, human welfare and the development process as a whole.

Knowledge absorption involves providing people with the capacity to use knowledge via education. Despite the problems noted earlier, Arab countries have made major progress in expanding education and literacy over the years. By 1995, over 90 per cent of males and 75 per cent of females were enrolled in primary schooling, and nearly 60 per cent of males and nearly 50 per cent of females were enrolled in secondary education. At the tertiary level, Arab countries outperformed all developing regions except for Latin America and the Caribbean in terms of enrolment levels for both males and females. Total enrolment for all levels rose from 31 million in 1980 to approximately 56 million in 1995. Literacy rates improved by nearly 50 per cent between 1980 and the mid-1990s. Female literacy rates have trebled since 1970.

These achievements reflect Arab governments' long-term commitment to building education systems that respond to the needs of new generations. Taken as a group, Arab countries spend a higher percentage of GDP

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on education than any other developing region, registering a 50 per cent increase (at current prices) between 1980 and 1995. Per capita spending on education is substantially higher than the developing-country average. Several countries in the region are undertaking major programmes of education-system reform.

Nevertheless, much remains to be done. Priorities include, inter alia, securing universal, high-quality basic education, especially for girls and other currently under-served groups; strengthening tertiary education, particularly in science and engineering; and eliminating illiteracy at one end of the education spectrum while also providing opportunities for lifetime learning for education-system graduates at the other. Lifetime learning is not a luxury; it is critical for knowledge absorption in a world of exploding new knowledge, rapid technological change and intense international competition.

Education is a basic human right and an end in itself; through its impact on productivity and other dimensions of life such as health, it is also a critical means of enhancing human well-being. In the economic sphere, research has underscored the benefits of the formation of human capital. A study of 192 countries concludes that human and social capital explain no less than 64 per cent of growth performance. By contrast, physical capital--machinery, buildings and infrastructure-- explains only 16 per cent of growth. The remainder is explained by natural capital. More specifically, global estimates show that a one percentage-point increase in the share of the labour force with secondary education is associated with a 6 to 15 percentage-point increase in the share of income received by the poorest 40 per cent. Thus, education serves both growth and equity. While the costs of improving education systems may be substantial, the costs of perpetuating ignorance are incalculably greater.

Investment in physical resources for education needs to be complemented by enhanced attention to quality, e.g., by emphasizing standards, by improving curricula and assessment, and by better training, managing and motivating teachers. It can also be complemented by cross-fertilization of

ideas, experience, technologies and methodologies among Arab countries, backed by policy analysis and dissemination of relevant information, which are also critical for building and sustaining consensus on education and training reforms at the national level.

Effective *knowledge-acquisition strategies* may need to begin with attitudinal change, involving across-the-board commitment at all levels of society, from respect for science and knowledge, to encouraging creativity and innovation, to applying new discoveries to raise productivity and income and enhance human welfare. Attitudinal change can be supported by policies that provide incentives for enhancing both the social status and the opportunities for profit of workers in the fields of science, knowledge and innovation. Public policy also has a key role in fostering potentially productive research and development (R & D) and in supporting an environment that enables the private sector to apply new knowledge in response to market forces, e.g., by corporatizing research institutes, by offering companies incentives to contract relevant activities with public laboratories or one another, and by relying more on appropriately skilled and efficient Arab consultancy, engineering and development firms.

Knowledge acquisition entails not only building on a country's own knowledge base to generate new knowledge through R&D but also harnessing and adapting knowledge available elsewhere through openness, broadly defined, including, e.g., promoting the free flow of information and ideas, establishing constructive engagement in world markets, and attracting foreign investment. A commitment to openness is particularly important in view of the current weakness of technological development in Arab countries. This means that importing and adapting technology and internalizing it by learning-by-doing may be the most practical approach in this area, pending the establishment of the necessary conditions for dynamic local technological development, namely, a large, diverse and vibrant production system and a market large enough to justify the costs of technological development. This should not prevent undertaking work on areas of technology of special importance for the region (e.g., ICT, solar energy, and water

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desalination), which could be supported in the wider context of enhanced Arab cooperation.

Beyond the Arab world, knowledge acquisition could be enhanced through links with advanced international research centres and other R&D institutions, provided that such links help to further scientific and technological development at home rather than deepening dependency on external sources. Learning from other developing countries with experience in capacity-building in science and technology may also pay dividends and form the basis for future South-South networking.

Arab countries could also capitalize on the expertise of the one million highly qualified Arabs working in industrialized countries. Linkages could be reinforced by, e.g., building systematic databases of external Arab experts, setting up efficient channels of communication with them, providing facilities for visits to Arab countries and arrangements for consultations or temporary work assignments, using ICT to facilitate knowledge transfer, and supporting associations of highly qualified Arabs abroad. Meanwhile, efforts might be made to stem the current brain drain of highly qualified Arabs by seeking to offer them viable alternative opportunities at home, where their work contributes to building domestic human capabilities.

*Knowledge communication.* The convergence of telecommunications and computing has vastly expanded the ability to disseminate information and reduce costs. Broadening access for all, including poor people, to ICT can greatly facilitate the acquisition and absorption of knowledge in Arab countries and offer unprecedented opportunities for education, policy formulation and implementation, and services to businesses and the poor. Strategies for knowledge communication need to be multisectoral, sensitive to the interrelationships between the sectors of communication, media and information, and open to ICT applications in fields such as education, culture and general health. Lowering the cost of Internet access is a high priority, achievable through regulatory arrangements that promote competition and prevent monopoly—factors that are also of special importance in the telecommunications sector, whether public or privatized. With respect to human re-

sources, computer-training specialists are a priority, as is training generally, especially for women, along with professional upgrading. Finally, coordination among Arab countries is important, both to ensure compatibility and connectivity among various systems and to exploit the economies of scale of regional rather than national solutions.

#### *AN OPEN CULTURE OF EXCELLENCE*

Culture and values are the soul of development. They provide its impetus, facilitate the means needed to further it, and substantially define people's vision of its purposes and ends. Culture and values are instrumental in the sense that they help to shape people's daily hopes, fears, ambitions, attitudes and actions, but they are also formative because they mould people's ideals and inspire their dreams for a fulfilling life for themselves and future generations. There is some debate in Arab countries about whether culture and values promote or retard development. Ultimately, however, values are not the servants of development; they are its wellspring.

Values play an especially critical role in social achievements that are not driven by narrowly economic forces, from the simple (prevention of littering) to the complex (community support for the disadvantaged and the impetus to eliminate socio-economic exclusion). Governments—Arab or otherwise—cannot decree their people's values; indeed, governments and their actions are partly formed by national cultures and values. Governments can, however, influence culture and values through leadership and example, and by shaping education and pedagogy, incentive structures in society, and use of the media. Moreover, by influencing values, they can affect the path of development.

Traditional culture and values, including traditional Arab culture and values, can be at odds with those of the globalizing world. Given rising global interdependence, the most viable response will be one of openness and constructive engagement, whereby Arab countries both contribute to and benefit from globalization. The values of democracy also have a part to play in this process of resolving differences between cultural traditionalism



and global modernity. Different people will have different preferences, some welcoming global influences, others resenting their pervasive impact. In a democratic framework, citizens can decide how to appraise and influence cultural changes, taking account of a diversity of views and striking a balance between individual liberty and popular preferences in the difficult choices involved.

Several other values deserve special emphasis from a human development perspective, e.g., tolerance and respect for different cultures; respect for the rights and needs of women, young people and children; protection of the environment; support for social safety nets to protect the vulnerable; refusal to tolerate excessive unemployment; reverence for knowledge and education; and other concepts conducive to human dignity and well-being. Of these, respect for other cultures is particularly important in countries with minorities, as is the case in most Arab countries. Such respect needs to go beyond mere tolerance and incorporate a positive attitude to other people. States can neither legislate nor enforce such attitudes. They can, however, enshrine cultural freedom as a human right.

Values relating to gender equality and interdependence are important for human development. Respect for the rights and duties of children and young people are another value of particular relevance for dynamic and sustained human development in Arab countries. No generation of young Arabs has been as large as today's. Their vast and rapidly growing numbers, coupled with their vulnerability, make it essential to protect and nurture them. This is both their basic human right and Arab societies' best investment in the future.

#### *A FUTURE BUILT BY ALL*

Human development is development of the people, for the people and by the people. If development is to be people-centred, then participatory processes need to be central to its evolution. Participation takes many forms: political, economic, social and cultural. Freedom, basic human capabilities and competitive markets are critical conditions for participation. Moreover, recognition of the multidimensional nature of the development

process and the multi-stakeholder nature of societies and economies argues for strong support for pluralism and inclusion.

Political participation in Arab countries remains weak, as manifested in the lack of genuine representative democracy and restrictions on liberties. At the same time, people's aspirations for more freedom and greater participation in decision-making have grown, fueled by rising incomes, education, and information flows. The mismatch between aspirations and their fulfilment has in some cases led to alienation and its offspring —apathy and discontent. Remedying this state of affairs must be a priority for national leaderships.

Moving towards pluralism, which is more conducive to genuine sustainable participation and in tune with the requirements of today's and tomorrow's world, needs to become a priority for Arab countries.

The weakening of the position of the state relative to its citizens is supporting such a shift. Two simultaneous processes are taking place. The position of the state as patron is diminishing partly as a result of the reduced benefits it can now offer in the form of guaranteed employment, subsidies and other inducements. By contrast, the power position of citizens is increasing as states increasingly depend on them for tax revenues, private-sector investment and other necessities. Moreover, human-development accomplishments that have endowed citizens, particularly the middle classes, with a new range of resources have put them in a better position to contest policies and bargain with the state.

The shortcomings of current social and economic arrangements with respect to the status of women represent a major issue for Arab countries. Women remain severely marginalized in Arab political systems and broadly discriminated against in both law and custom. Women need to be politically empowered by far greater participation. In addition, a timetable to eliminate legal discrimination should be established and followed. Adoption of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) would be an important step in this regard. The eight Arab countries that have neither signed nor acceded to CEDAW account for nearly one third of all the countries

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that have not ratified the Convention. Greater transparency, disclosure and accountability can also help to advance women's political participation and reduce customary or legal discrimination.

Finally, the discrimination imposed by sexism has parallels in the prejudice implied by ageism. Both types of bias curtail the participation of two majorities in the Arab region: women and the young. Both also emanate from patriarchal dominance that exploits divergence with respect to gender and age. Predictably, discrimination is worst when the two biases overlap--in the case of young females. Ageism runs counter to the needs of the current era when technology and globalization reward innovation, flexibility and dynamism, and it deprives young people in the Arab world of opportunities to participate in and contribute to their societies' development.

People's participation in the economy also needs to be improved. Labour-force participation in the Arab countries as a group is lower than in other regions. Among the relatively small proportion of the population in the labour force, 20 million are unemployed. These problems are even more extreme with respect to women. Those fortunate enough to participate in the economy through their labour have seen its returns decline as real wages have fallen and its contribution to output fall with dwindling productivity.

Job creation, although rapid in some Arab countries from the mid-1980s to the early 1990s, has not matched the growth of the work force. Population growth is adding about six million labour-force entrants every year, a flow that is proportionately greater than in any other region. Since the unemployment rate is also one of the highest among all regions, the task of job creation is probably more formidable in the Arab region than in any other.

Despite the scale of the task, securing people's economic participation requires a clear political commitment to full employment as a national (and regional) priority. While there is a place for special employment-generating projects, programmes and funds, broad-based growth is the major determinant of job creation. Globally, employment generation is strongly and positively correlated with growth

in per capita income. However, this generally positive relationship is not automatic. Growth can also be jobless, as the experience of some Arab countries that have enjoyed significant income growth has shown. In these cases, growth was not able to create enough jobs to match the expansion of the labour force and unemployment rose.

Where employment creation has been most successful, it has resulted from the concerted application of a deliberate, informed strategy rather than the simple assumption that employment will increase automatically with growth. Most successful job-creation policies have deliberately targeted sectors in which growth could be labour-intensive, but typically low-skill labour-intensive sectors cannot sustainably improve productivity and incomes. Long-term strategies must therefore aim to move from employment in low-skill, low-productivity sectors to more skill-intensive, higher-productivity jobs. Such strategies should exploit the opportunities and niches that globalization offers.

Policies that discourage employment creation must be reversed. Perversely, some past economic policies, such as overvalued exchange rates and artificially low or negative real interest rates, have favoured capital-intensive industry. Government intervention in labour markets, traditionally geared towards regulation, should be designed to help people to adapt to market needs and markets to adapt to human needs. In the past, some well-intentioned regulatory interventions have also had the perverse effect of discouraging employment. Several Arab governments have started reforming labour laws in areas such as job security, separation awards and wage regulations (collective bargaining and minimum wages).

In the wake of public-sector downsizing, governments need to continue to intervene to smooth the labour-market transition for those left without jobs. This is a special problem for the region because of the large share of government employment in Arab countries (much higher than in other developing regions) and the large number of redundancies needed for an efficient outcome. In some cases, the costs of massive downsizing can be unaffordable; here, multilateral agencies should continue

their support for retrenchment. In addition, so-called active labour-market policies can help on the demand side (e.g., through public works programmes), on the supply side (e.g., through training and re-training), and by matching demand and supply through labour-market intermediation (e.g., through job-search assistance).

Labour is not the only means by which people can enhance their economic participation. They can also participate using capital (often combined with labour) to set up small businesses. Credit is critical for these forms of participation. However, formal credit is often available only to those who are better off; the less well-off are often asset-deprived and hence cannot offer the collateral that lenders require. Formal credit-allocation mechanisms in the Arab region tend to be overly concentrated on larger enterprises, which are often capital- rather than labour-intensive. As a result, millions of people lack the opportunity to participate in the economy by combining their innovation, skill and hard work with capital.

Microfinance is potentially useful in addressing these missed opportunities. The bottleneck that needs to be addressed is not lack of funds for on-lending but rather the lack of local capacity to deliver microfinance services efficiently. Institutional and human capacity is needed to expand outreach beyond the less than two per cent of poor households that currently have access to financial services. Estimates of the outreach gap-people needing financial services and willing to pay for them but who nevertheless lack access-range from two million to four million households. The funding gap-funds needed for on-lending-ranges from US\$750 million to US\$1.4 billion, less than one per cent of total lending of the formal financial sector

The market is the central arena for economic participation. Free, open, competitive markets provide efficient mechanisms for economic exchange between buyers and sellers, producers and consumers, employers and workers, creditors and borrowers. Participation through free enterprise unleashes innovation and entrepreneurship. To maximize effective operation and participation, markets need to be free from arbitrary government actions and operate in the context

of macroeconomic stability and an undistorted incentive system. Some Arab governments are moving in this direction by changing their roles from participants in markets to referees and by reducing public deficits and price distortions. To date, however, the pace has been slow. Governments should consider accelerating their disengagement from productive activities while strengthening their regulatory role to ensure openness and competitiveness. They should also take steps to modernize the delivery of essential public services.

As with political participation, women's economic participation remains unacceptably low, even though their capabilities have grown significantly (although still far less than is desirable). Their opportunities both to contribute to and to gain from such participation remain circumscribed by convention and legal restrictions. With respect to employment, mainstreaming gender in national development strategies and plans can set the stage for greater female participation. The feminization of unemployment can be reversed by removing gender bias in labour markets, including gender-based occupational segregation and unequal returns on education. Women's capabilities can be better matched with labour-market demand by effectively addressing gender gaps in the quality and relevance of education and skill-training programmes.

Evidently, much remains to be done to broaden both political and economic participation in Arab countries. Some countries are already taking positive steps to increase aspects of participation; others are moving slowly, if at all. Fundamentally, raising political and economic participation is not a technical problem. Progress will depend on attitudinal change at all levels of society, from top levels of government to local communities and individual households.

#### *A FUTURE FOR ALL*

Securing a better future for all requires putting the attack on poverty at the top of national agendas in Arab countries. The Arab region has dramatically reduced poverty and inequality in the twentieth century; it can do so again in the twenty-first. Given the political commitment, Arab countries have the resources to

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eradicate absolute poverty in less than a generation. Commitment, not resources, is the binding constraint. A solid, unequivocal political commitment--based on ethical, social, political and moral imperatives as well as the region's religious and cultural traditions--to well-articulated human development objectives, including poverty reduction, is the critical ingredient for securing a brighter future for all the people of the Arab region.

The challenge of reducing poverty and inequality has become more daunting following the slowdown in economic growth since the mid-1980s and the fiscal retrenchments associated with the shift from a state-led economic model based on import substitution to a private-sector-led, outward-looking model. If poverty is to be reduced, economic growth must be accelerated. The impact of rapid growth on poverty should be particularly effective in the Arab context, where low inequality suggests that the character of growth in the past has generally been pro-poor. Nevertheless, promoting growth needs to be complemented by concerted public action if poverty-reduction efforts are to succeed. There are two reasons for this. First, such action is needed to strengthen the synergy between growth and poverty reduction, i.e., to help to increase the efficiency of translating growth into poverty reduction. Second, while growth has generally been pro-poor, it has not been automatically or consistently so.

Public action has supported pro-poor growth in the past, when a public-investment boom and rapid expansion of the public sector, coupled with large subsidy outlays financed by strategic rents from oil and geopolitics, helped to reduce poverty by increasing real wages for unskilled labour and lowering prices. Public policy also has a major role to play with respect to critical factors such as the state of the macroeconomy and the functioning of labour markets.

Another key area for public policy is the provision of social safety nets. Spending on transfer programmes needs to grow beyond its current level, which ranges from 0.2 per cent to about 1 per cent of GDP. Arguments for additionality need to be supported by greater efficiency. Transfer programmes need to be coordinated with other social programmes to

avoid overlaps. Better management is needed to improve administration. Combined with better targeting, this can reduce leakage of benefits to the non-poor and cut administrative costs for needy beneficiaries.

Features of market-driven regional integration, such as migration and remittances, also have an important role. These flows have disproportionately benefited poor people, either directly through transfers or indirectly through the labour market. They need to be nurtured and sustained.

Poverty reduction will require drawing on the strengths and capabilities of a broad network of actors in government, the private sector and civil society. The role of public policy in building, utilizing and liberating people's capabilities remains critical. Governments need to provide an enabling environment for broad-based political support and mobilization for pro-poor policies and markets. This environment can be enhanced by research and policy analysis that identifies problems, diagnoses their causes and presents options for policy-makers, highlighting the tradeoffs and costs of each option. An increasingly dynamic and constructive civil society in the Arab region, including public and non-governmental think tanks and research institutions, has the potential to provide intellectual and analytical ammunition for operationalizing the commitment to a future for all, based on a comprehensive, multifaceted strategy for poverty reduction. Many of these institutions contribute to studies, reports and publications and undertake advocacy that seeks to influence national debates and impact policy. The 13 national human development reports that UNDP has supported in the region since 1994 are a case in point.

Finally, effective strategies for attacking poverty must focus not only on what needs to be done in principle but also on how to ensure that action is taken in practice. This means implementing improvements in such basic areas as promoting broad-based political participation, ensuring accountability and transparency in government, promoting a free flow of information and freedom of the press, and ensuring a strong role for community groups and NGOs in policy-making and legislative decision-making.

The legitimacy and strength of states and their institutions are inextricably linked to their capacity to mobilize and be mobilized in the fight against poverty. This implies that it will be essential to mainstream human development and poverty reduction within national economic policy, which in the past has too often sidelined them, especially in the context of structural adjustment. Countries that have reduced poverty while adjusting have shown that poverty reduction can be integral to the process and central to the goals of structural adjustment. This has now been accepted as a principle of international policy on adjustment although it is not yet always practised.

The basic priority for policy in Arab countries needs to be to create a virtuous cycle whereby economic growth promotes human development and human development in turn promotes economic growth. The starting point for this process must be a focus on people. The backlog of deprivation must be tackled if growth is to be restored on a sustainable basis. Tackling deprivation is a particularly urgent task for Arab countries with low levels of human development. The Human Development Report 1996 demonstrated that every country that succeeded in sustaining both rapid human development and rapid economic growth did so by accelerating advances in human development first, or by pursuing both objectives simultaneously. By contrast, countries that relied primarily on economic growth to reach the point where growth and human development become mutually reinforcing failed in the attempt because shortcomings in human development kept undermining their growth process.

In sum, human development is essential for sustained economic growth, and poverty reduction—the promise of a better future for all—is central to both. For Arab countries, such a future is both a moral imperative and an attainable goal as they move into the twenty-first century.

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