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The Political Economy of Aid Flows to North Africa

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Abstract

This paper provides an historical overview of aid flows to North Africa. It assesses the aid allocation process and argues that past aid flows to the region have been heavily influenced by donor political interests. This has reduced the effectiveness of aid which, with the exception of Tunisia, has not been associated with sustained economic growth. The Arab Spring provides an opportunity to reappraise aid flows to North Africa and it is argued that future flows need to support the democratization process, generate pro-poor growth, support social safety nets and address the pressing issues of widening inequalities and unemployment.

Keywords: aid allocation, aid effectiveness, North Africa
JEL classification: F35, F59, O19, O55

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Tables and figures appear at the end of the paper.

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1 Introduction

The North Africa region, consisting of Algeria, Egypt, Libya, Morocco, and Tunisia, has, for many decades been the world's largest recipient of foreign aid in per capita terms. Taken along with its neighbouring sub-region, namely, the Middle East to form MENA (Middle East and North Africa),[1] the region is the third largest global recipient of aid in absolute terms, after Southern and Central Africa and Asia. However, aid to the MENA region is highly variable and much of the variation is driven by responses to conflicts within the region from bilateral donors. In addition to conflict, geopolitics more generally plays an important role in the aid allocation process to MENA. This is reflected in the fact that the share of bilateral aid to the region is comparatively high, such that the share of total aid accounted for by multilateral donors is lower in comparison to Central and Southern Africa and the largest single donor to the region is the US, accounting for on average 38 per cent of total bilateral aid between 1980 and 2006. Donor interest, in the form of geopolitical and commercial considerations, are important in the aid relationship in MENA because the region itself is considered to be so geopolitically and commercially important by Western powers—conflict ridden, the centre of the Arab-Israeli conflict, the birth place of Al-Qaeda, and the source of much of the world's oil supplies.

The fact that donor interest has played a large role in the allocation of aid to North Africa and MENA more generally means that much of this aid has been ineffective. Although the region is diverse, overall it has not opened up or globalized (with the exception of some of the Gulf Co-operation Council (GCC) states such as Dubai) in comparison to other regions and remains restrictive and controlling in terms of political rights and civil liberties, with donors in the past propping up repressive and autocratic regimes, such as the Mubarak regime in Egypt and the Ben Ali regime in Tunisia. For the North African economies, although there has been strong growth in recent years, with the exception of Tunisia, they have failed to generate sustained pro-poor growth or to diversify their narrow export base. As a result, they continue to face pressing socioeconomic problems, particularly high levels of unemployment and widening inequalities. This has contributed to the wave of political unrest sweeping the region in 2011. In light of this there is considerable scope for future aid flows to re-orientate towards providing greater support for improvements in governance, civil society, employment generation and pro-poor growth.

The next section of this paper provides an historical overview of aid flows to the MENA region, distinguishing where possible between the Middle East and North African sub-regions. Section 3 assesses the extent to which donor interest as opposed to recipient

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[1] The World Bank definition of MENA includes: Algeria, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Malta, Morocco, Oman, Palestine, Saudi Arabia, Syria, Tunisia, and Yemen. It does not include the high-income countries of the Gulf, nor Israel and Turkey, nor Sudan and Mauritania which although predominantly Arab countries face challenges more typical of sub-Saharan Africa (SSA). In our general discussions of aid allocations we use the same country grouping as the Bank, although also include reference to Israel, a major recipient of US aid. Although Turkey could be considered part of MENA in political, cultural and geographic terms, and is also one of the most important countries in the region in terms of US foreign policy, it is not generally considered part of MENA in economic terms. This fact, along with close ties with Europe and moves to join the European Union in the near future, mean we have taken the standard definition of MENA and excluded Turkey from our analysis.

need has influenced the flow of aid to the region. The literature on this subject will be briefly reviewed and an empirical investigation based on a large panel dataset using regressions for different major donors to establish to what extent different donors respond to donor interest when allocating aid to specific recipients in the region. In light of the policy reform influence and signaling role of the IMF and World Bank the paper will also assess the economic and political determinants of IMF and World Bank programme loans to the Middle East and North Africa using both a qualitative and a quantitative analysis. The section concludes that donor interest has played a major role in the aid allocation process and that this may have had a detrimental effect on aid effectiveness as well as resulting in excessive amounts of aid flows to the region in light of its predominately middle-income status outside the GCC countries.

Section 4 presents case studies of aid effectiveness in three North African recipients—Egypt, Morocco, and Tunisia and more generally reviews the record of aid effectiveness in North Africa. The case studies suggest that, with the exception of Tunisia, aid has not been associated with sustained increases in pro-poor growth. Growth has been largely extensive rather than intensive, has failed to address the region's pressing unemployment problem, and has been triggered by factors other than aid flows. Section 5 concludes by looking forward to the ways in which future aid flows could help support the current political transition in the region by allocating more aid to governance activities and pro-poor growth strategies that address the issues of widening inequalities and unemployment.

2 Historical trends in aid flows

Figure 1 shows the standing of the North Africa and Middle East regions relative to other regions in terms of Overseas Development Assistance (ODA) total net disbursements (the sum of grants, capital subscriptions and net loans—loans extended minus repayments of loan principal and offsetting entries for debt relief). For the MENA region as a whole the real value of ODA declined during the 1980s and 1990s such that by 2000 the annual average value was below that of 1980. This mirrors global trends in the flow of aid. Averages since 2000 show a recovery from the low of the 1990s. Noteworthy also is the large spike in aid to MENA in 2005-06 which is accounted for by net debt relief to Iraq in 2005 and 2006. In 2005 net debt relief to Iraq amounted to US$14 billion, 63 per cent of total net ODA disbursements to the region, and in 2006 US$3 billion, or 39 per cent of total ODA.

The historical trends in aid flows for the North Africa sub-region differ from those for MENA as a whole. North Africa has seen a trend decline in the real value of aid receipts between 1980 and 2009 such that by 2009 the annual real value of aid at US$1,971 million was significantly below the real value of US$3,822 million in 1980. The temporary spike in 1991-92, with flows reaching US$7,651 in 1991, is largely accounted for by a rapid increase in flows to Egypt. In response to supporting the allies in the first Gulf War, Egypt received a large increase in aid flows as well as massive debt forgiveness of US$15 billion from the West, the highest debt forgiveness package in the history of MENA.

The above analysis clearly shows not only that aid to the MENA region is variable but that much of the variation is driven by responses to conflicts within the region, with the two spikes in aid inflows, namely in the early 1990s and in 2005-06, largely explained by donors' response to conflict rather than being a reflection of recipient need.

Figure 1 also shows that for most of the period the MENA region was the third largest global recipient of aid, after Southern and Central Africa and Asia, overtaking Asia in 2005 to become the second largest recipient. Much of this aid flow however, is directed at the Middle East sub-region, such that North Africa, consisting of only a handful of countries, is below most other regions in terms of volume of aid receipts in the 2000s.

Another important regional indicator of aid flows is aid per capita; this is shown in Figure 2. Making a regional comparison, the Middle East and North Africa (developing countries only) received the second largest amount of aid in per capita terms (US$41) in 2009, surpassed only by SSA (US$53). Striking however, is the amount of aid per capita received by North Africa which exceeds that of any other region. In 2000 aid per capita for North Africa reached a low of US$63 (still significantly higher than for any other region). This steadily increased to reach US$100 per capita by 2009—nearly double that of SSA. The fact that North Africa receives such high levels of aid per capita suggests that aid flows are being influenced by factors other than pure recipient need, if the latter is proxied by income levels. Figure 3 shows total aid flows to MENA by income group. As can be seen, most aid flows in MENA are not to low-income countries but to lower-middle-income countries, with a not so insignificant amount also flowing to upper-middle-income countries. In terms of the North African countries, Algeria, Libya and Tunisia fall in the upper-middle-income group whist Egypt and Morocco fall in the lower-middle-income group.

Figure 4 shows net ODA disbursements to the five North African countries. As can be seen Egypt is by far the largest recipient followed by the other lower-middle-income country, Morocco. Egypt's favoured status in both absolute and per capita terms partly reflects the fact the Egypt is a key Western ally in the region and since the signing of the Camp David Peace Accord with Israel in the late 1970s has been a large recipient of aid from the US.

Considering which are the key donors to the MENA region, Figures 5 and 6 show the dominance of bilateral over multilateral aid. This is not unexpected given the role played by geopolitical factors in aid flows to MENA, which have a much greater influence on bilateral as opposed to multilateral aid institutions (Maizels and Nissanke 1984; Rodrik 1995). It also highlights that the source of variability over time is bilateral aid, as multilateral aid follows a constant, slightly increasing trend. Again, this is consistent with the fact that much bilateral aid is geopolitically motivated, responding to factors such as conflict in the region.

Between 1980-89 the US was the single largest donor to the North Africa region, accounting for 37 per cent of total ODA to the region. Since the end of the 1980s the influence of European donors as a group has increased considerably at the expense of the USA. Figure 7 and Table 1 shows European and USA aid to the region for different time periods and illustrates the fact that since the 1980s the European share of aid flows has gradually increased such that by the 2000-09 period the total European share of aid (both multi and bilateral) was 69 per cent compared to a US share of only 17 per cent. France is the largest European bilateral donor to North Africa. Since the Barcelona Accord of 1995 European Union multilateral aid to the region has also been increasing as shown in Table 1 and Figure 7, such that by the 2000-09 period EU aid to North Africa accounted for 24 per cent of total flows.

3 The aid allocation process in MENA

In terms of aid allocation MENA assumes both political and economic significance. Politically, it is arguably the epicentre of world crisis, chronically war-prone and the site of the world's most protracted conflicts (Hinnebusch 2003: 1). Economically, it owns the bulk of the world's oil reserves, driving in particular the USA economic engine. In light of the region's geopolitically and economically strategic position in the world economy it is clear that economic and political factors are inextricably linked when it comes to the manner in which the West, particularly the USA, responds to the region's needs.

There is a long and rich theoretical and empirical literature on the determinants of the geographical allocation of foreign aid.[2] It is generally accepted that this allocation is influenced by both recipient need and donor interest and that multilateral aid is less susceptible to donor interest than bilateral aid (Maizels and Nissanke 1984; Rodrik 1995). In the past donor interest has often reflected the geopolitics of the Cold War, with pro-western regimes, regardless of economic need and their record on human rights, being large recipients of Western aid.[3]

Even before the collapse of communism in the late 1980s and early 1990s, a new theory was emerging to the effect that 'Islam [is] the new Communism and [hence represents] a grave threat to Western civilization' (Niva 1998: 27). Consequently, 'rogue states' were isolated whilst pro-Western regimes, particularly if they were threatened by Islamists, were rewarded for serving Western interests (Hubbell 1998: 9). Hence, the end of the Cold War replaced the old dichotomy in the Arab World between conservative pro-Western and socialist pro-communist Arab regimes with a new and less covert formula based on 'friends or allies, or good or bad' regimes (Perthes 1998: 30).

Donor interest seems to play a particularly significant role in aid allocation to MENA. Many aid allocation studies based on models which incorporate variables representing both donor interest[4] and recipient need have reached the conclusion that donor interest is an important determinant of the geographic allocation of aid, especially on the part of bilateral donors (Jalée 1968; Frank 1969; Hayter 1971, 1981; Hensman 1971; McKinlay and Little 1977, 1978, 1979, Maizels and Nissanke 1984; McGillivray 2003; Feeny and McGillivray 2002; Berthélemy and Tichit 2002; Harrigan and Wang 2011). A number of these aid allocation studies introduce dummies to reflect specific strategic links between donors and certain recipients. This is most common in the context of MENA, where dummies are often introduced for Egypt and Israel when the database includes these two countries. Most of these studies find these dummies to be positive and

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2 For an excellent survey and methodological critique of this work see McGillivray and White (1993).

3 Western aid to Mobuto's Zaire or Marcos's Philippines designed to bolster anti-communist pro-Western regimes are good examples.

4 Donor interest includes pursuit of commercial interests via the promotion of donor trade or investment opportunities by allocating aid to countries most likely to absorb donor exports and investment. It also includes the pursuit of political, diplomatic and strategic objectives in order to create an international environment, which favours the donor. According to Feeny and McGillivray (2002: 3): 'This can involve allocating aid to countries which are in a strategic geographic location or which have particularly close diplomatic ties with the donor. It can even involve rewarding countries for particular actions with increased aid or punishing others with reduced or continually low or zero levels of aid'.

significant; e.g. Alesina and Dollar (2002); Berthélemy and Tichit (2002); Feeny and McGillivray (2002) among many others.[5] The Egypt and Israel dummies reflect the fact that these two countries are key strategic allies to the West, especially the USA, such that donor interest is likely to have a positive influence on aid allocations.

A recent study (Harrigan and Wang 2011) goes beyond simple dummies for Egypt and Israel and makes more country-specific observations regarding the influence of donor interest in aid allocations to MENA countries. The study conducts empirical investigations based on a large panel dataset. In the base regression, it applies a fixed effects model to panel data to analyse the determinants of aid allocations by various class of donor (USA, Canada, France, Italy, Japan, UK, and multilateral organizations) covering the period 1966-2008 for 138 recipients. The study finds that all the donors respond to recipient need in their allocation of aid, but that the USA puts less emphasis on this than the other donors with the exception of Japan. It also finds that the USA puts more emphasis on donor-recipient linkages than do the other donors suggesting that the USA attaches greater importance to issues of donor interest e.g. geopolitical, commercial, and other links with specific recipients.

Of interest to this paper are the results derived from the above study in terms of donor-recipient fixed effect coefficients for the MENA countries in the sample. These coefficients capture the linkages between donor and specific recipients, which include long-term strategic relations, economic linkages, colonial ties, etc. Table 2 presents a ranking of the ten most favoured recipients for each donor based on the fixed effect coefficients. The number of times a North African country appears in these lists is noteworthy, given that there were only four North African countries in the sample (Egypt, Morocco, Tunisia and Algeria). Egypt appears as a nation favoured by the multilaterals, whilst France favours Tunisia, Algeria and Morocco and Italy favours Tunisia and Morocco. The French link with North Africa in terms of aid flows is particularly strong, which reflects both past colonial ties and current economic and migration ties.

Table 3 presents a ranking of MENA countries according to the fixed effect coefficients for each class of donor. As can be seen from the Table, the North African countries appear quite high up on the list for most donors, particularly for the multilaterals, France and Italy.

Another study of aid allocation, which enables conclusions specific to North African countries, is that of Collier and Dollar (2002). In their paper they compare the actual allocation of aid with an optimal poverty-efficient allocation of aid, with the latter assumed to depend on each recipient's level of poverty, the elasticity of poverty with respect to income, and the quality of its policies. Comparing actual 1996 aid allocations with the optimum they find that a large number of middle-income countries with poor policy receive excessive amounts of aid. As shown in Table 4 the significance of their results in the context of North Africa is that all of the North African countries in their sample of 59 developing countries should not receive any aid on the poverty-efficient criteria. Egypt in particular stands out as a country receiving aid equivalent to 1.31 per

5 The US-Egypt dummy parameter in Berthélemy and Tichit's study was particularly large in the 1980s sub-period following the Camp David Peace Accord between Egypt and Israel and the analysis suggested the privileged assistance enjoyed by Egypt from the US translated into an aid bonus of US$49 per capita.

cent of its GDP as opposed to zero per cent under the optimal Collier and Dollar allocation.

Much of the literature on aid allocation suggests that bilateral donors are much more susceptible to the influence of donor interest in their aid allocation decisions than the multilateral donors (Maizels and Nissanke 1984; Rodrik 1995). However, a study of the economic and political determinants of IMF and World Bank lending to countries in MENA (Harrigan et al. 2006), found that these two important IFIs were not immune to the influence of Western powers, particularly the US, when granting programme loans to MENA countries. The study identified important reasons why the major Western shareholders might be able to influence the flow of funds from the two major Washington-based multilaterals. Given its voting power in both the Bank and the Fund, the US is in a particularly influential position. A combination of qualitative and quantitative analysis leads to the conclusion that both recipient need and donor interest influence the granting of IMF and World Bank programme loans to countries of the MENA region. The qualitative analysis focused on the five major MENA recipients of IMF and World Bank programme loans—Algeria, Egypt, Jordan, Morocco, and Tunisia, four of which are in North Africa. Looking at each country's macroeconomic performance in the year in which they commenced their first of a phase of IMF programme loans the study finds very little evidence of economic need. Only in the case of Jordan in the late 1980s and Egypt in its first phase of loans during the mid-1970s was there any clear sign of recipient economic need in terms of a significant deterioration in the macroeconomic indicators the IMF is usually concerned with. The study argues that other factors explain the IMF and World Bank engagement with Egypt in the 1980s and with Morocco, Tunisia and Algeria. In all cases a cursory political analysis indicates that a shift towards a pro-Western foreign policy, peace overtures to Israel, domestic political liberalization and the often related challenge to the regime by Islamic opposition, prompt an inflow of funds not just from the USA but also from the Bank and Fund. For example, important changes in Algeria's domestic politics and foreign policy rather than the state of its macro economy seems to explain the granting of a large IMF loan in 1991 and the largest ever World Bank loan to the MENA region in 1991 and the 1994 IMF loan.[6] Egypt in 1991 received an SDR234 million IMF Standby Loan and a US$300 million Bank Structural Adjustment Loan as well as more than US$15 billion of debt write off from the West and this seemed to be more related to her support for the allies in the first Gulf War than the state of her economy.

The above findings are further supported by a more formal quantitative analysis. Using a Probit model to estimate the determinants of IMF lending in the region Harrigan et al. (2006) found that a model that only includes variables representing recipient need performs very poorly. However, once foreign policy and political variables are included the model performs extremely well. In this supplemented model the only economic variables that help to predict whether a MENA country will be granted an IMF loan are a change in foreign reserves and total debt service—a decline in reserves or a high debt service ratio are good predictors of an IMF programme. Signing a peace treaty with Israel improves a country's chance of a loan as does improving democracy. Related to

6 President Benjedid's political liberalization backfired in 1991 producing unexpected support for the Islamic opposition. The country had also recently signed up to the Arab Maghreb Union which was committed to preventing the spread of radical Islam and fostering closer links with the West.

the latter, the study also found that holding an election is likely to be followed by an IMF loan in the post-election year.

The above types of aid allocation studies have led to the general conclusion that MENA, including North Africa, is over-aided. In the words of DFID:

> In comparison with other regions, it (MENA) receives substantially more aid per poor person … but poverty reduction is not the primary motivation for many donors' assistance to MENA … aid allocations are substantially influenced by donors' domestic political considerations, including commercial advantage and foreign policy objectives such as migration and terrorism. (DFID 2003: 11)

The fact that both bilateral and multilateral aid flows to North Africa seem to be orientated towards middle-income pro-western but repressive regimes that adhere to US foreign policy interests in the region suggest that factors other than recipient need are influencing global aid allocations. This has two important implications, the first of which goes beyond the scope of this paper. First, it may well reduce the developmental impact of a scare resource, namely aid. Low-income countries or those that can use aid to the best effect may not receive as much aid as wealthier countries or countries with weak policies, where aid has been shown to be less effective (Burnside and Dollar 2000). As Collier and Dollar (2002) have argued a more poverty-efficient allocation of aid has the potential to double the number of people lifted out of poverty from 10 to 20 million.

Second, the politically motivated flow of funds to North Africa has helped to trigger adverse social and political effects (Harrigan and El-Said 2009a; Harrigan and El-Said 2011; Harrigan 2010). Programme loans from the IMF and World Bank have economic liberalization conditions attached to them. Such reform conditions, although they often have the potential to bring significant economic gains, may well have negative social ramifications in the recipients unless adequate social safety nets are in place. For example, reforms such as privatization, removal of state subsidies on foodstuffs, devaluation, and trade liberalization can potentially increase unemployment and income inequality as well as reduce real incomes of the poor. This, in turn, may lead to the growth of anti-reform movements challenging incumbent regimes. There is already ample evidence that this has occurred. The 1990s and the first decade of the twenty-first century have witnessed a rise in the number and forms of distributive conflicts in the Arab World, including riots, demonstrations, strikes, violence, assassinations, clashes with labour unions and university students in addition to an increase in crime rates (Ayubi 1995a, 1995b; Richards and Waterbury 2006; El-Ghonemy 1998; Shafiq 1998; *The Economist*, 5 September 2002).

More recently, the political events of the first half of 2011, which have witnessed a wave of political unrest sweeping MENA, resulting in the downfall of two regimes in North Africa—the Mubarak regime in Egypt and the Ben Ali regime in Tunisia, show how aid flows to prop up repressive pro-Western regimes can backfire if the aid does not deliver sustained pro-poor growth and genuine democracy. We take up this issue of aid effectiveness in the next section.

4 Aid effectiveness in North Africa

4.1 Aid and policy reform in North Africa

In the past three decades a number of countries in North Africa have undertaken economic reform programmes with the assistance of both the World Bank and the International Monetary Fund (IMF). Assistance has included both finance from the international financial institutions (IFIs) along with policy advice and policy conditionality offered to countries such as Algeria, Egypt, Morocco, and Tunisia. These reform programmes have also been supported by complimentary aid flows from other multi- and bilateral aid agencies

It is generally acknowledged that the reform process in North Africa, as with the broader MENA region, has been both slow and disappointing in terms of results (Pfeifer 1999; Nabli 2005; Harrigan and El-Said 2009a; Harrigan 2010; Hammoud 2011). This can be attributed to two factors: the local political economy context of the reform process and the nature of the relationship between reforming countries and aid donors. It is also accepted that the region needs further reform efforts if it is to tackle its acute unemployment problem and benefit more fully from the process of economic globalization and from the recent movements to enhance democracy in the region.

Egypt's economic liberalization process can be traced back to the 1970s when President Sadat launched the 'infitah' or 'opening-up' programme with brief support from the IMF, whilst Algeria, Morocco, and Tunisia, adopted reform initiatives during the 1980s with support from both the IMF and World Bank. The development paradigm of the IFIs applied in North Africa, has taken the form of fairly standard economic liberalization and macroeconomic stabilization programmes (Harrigan and El-Said 2009a). Standard IMF programmes in the region are focused around stabilizing the macro economy. This essentially involves reducing aggregate demand in the economy in order to quell inflationary pressures, and reduce the fiscal deficit and balance of payments current account deficit. Demand reducing policies have generally consisted of a tightening of monetary policy through, for example, credit ceilings and liberalization of interest rates combined with fiscal policies to reduce government expenditure and increase government revenue and savings. In addition, IMF programmes in the region also often involved exchange rate devaluation to overcome the problem of misaligned i.e. overvalued, exchange rates. More recently the IMF has shifted its attention to reforms of a more structural nature that traditionally had been under the auspices of the World Bank. These involve market-orientated economic liberalization designed to boost economic growth by increasing the efficiency of economic activity. Reforms include privatization of public sector enterprises, price liberalization and deregulation, liberalization of the financial sector, trade liberalization, and a down-sizing of the public sector, including removal of state subsidies and tax reform to improve the budget.

Many analysts (Pfeifer 1999; Nabli 2005; Harrigan and El-Said 2009a; Harrigan 2010) of the North African reform experience agree that the region has had a degree of success with the early IMF stabilization programmes but has made less progress with the structural reforms designed to tilt the economy in favour of the private sector as opposed to the public sector and the tradable sector as opposed to the non-tradable sector: 'On the macroeconomic stabilization front, the region has achieved a lot … In terms of accompanying structural reforms, the results have been more mixed … by and large, the pace and intensity of the reform effort has been weak'. (Nabli 2005: 2).

Pfeifer (1999) argues that the four countries singled out by the IMF as star performers in the MENA region, namely, Egypt, Tunisia and Morocco in North Africa along with Jordan in the Middle East successfully stabilized their macro economy in the 1990s, bringing down inflation, government deficits and balance of payments current account deficits. Egypt had a particularly successful stabilization experience in the first half of the 1990s (Harrigan and El-Said 2009a: 39–49). In terms of structural reform designed to boost export-led economic growth, the region has been less successful with a mixed impact. Between 1990-2004 the region experienced patchy economic growth with growth spurts in each country which, with the exception of Tunisia (which is discussed further in Section 4.5), were not sustained and were partly generated by factors which had little to do with the reform effort (ibid.). Much of the growth in Egypt, for example, was concentrated in the non-tradables sector of the economy and fuelled by domestic demand, especially in the construction sector, and buoyed up by large capital inflows in the form of aid flows along with debt relief packages. In addition, again with the exception of Tunisia, the growth that did occur in the North African economies tended to be extensive (due to factor accumulation) rather than intensive (due to productivity gains) (ibid.). In particular, labour productivity remained low in the region reflected in low levels of real wages outside the public sector.

More recently, North Africa, along with the wider MENA region, has experienced a period of strong economic growth. Between 2004-06 real average annual GDP growth for MENA was around 6.0 per cent (see Table 5), whilst between 2000-10 real average annual growth for the region was 4.8 per cent with many North African countries averaging growth rates of 4-5 per cent for the period (see Figure 8). Much of this growth has come on the back of increasing oil prices, which benefits not just the oil exporters of the MENA region, but also the resource-poor countries of the region who receive investment, migrant remittances, trade and aid from their oil-rich neighbours. The World Bank, however, has argued that some of this growth can be explained by the delayed reform dividend: 'During the last few years, MENA has turned in strong economic performances, driven to a large degree by high oil prices and a favourable global environment, but also by reform policies that, though gradual, are generally on the right track'. (World Bank 2007)

However, a disaggregation of the growth performance of MENA reveals a slightly different picture to that portrayed by the Bank. Much of the recent growth has been concentrated in the GCC oil exporters, classified by the Bank as the resource-rich, labour-importing countries (see Table 5) who in 2005 and 2006 registered real annual GDP growth in excess of 7 per cent. In addition, if we compare the growth performance of reformers in the MENA region and some of the North African countries who have been reforming under the auspices of the IMF and World Bank, namely, Egypt, Morocco and Tunisia with the aggregate MENA regional growth rates it seems that in most cases the reformers have been underperforming compared to the region as a whole (see Table 6). This casts doubt on how much of the improved growth can be ascribed to the dividends of aid supported reform as opposed to the dividends of oil prices.

There are two reasons why aid-supported reform may have had a disappointing impact in North Africa. First, the very slow rate of structural reform in the region: 'Implementation of these reform measures has been uneven, hesitant, and incomplete'. (World Bank 2003: 3)

Second, the fact that the reform programmes themselves, albeit only partially implemented, may have been inappropriate. In terms of the first factor, compared to regions such as Asia, Latin America and Eastern Europe, even perhaps SSA, the pace of reform in North Africa has been slow. This can be ascribed to two factors: the political economy context in which reforms have been implemented; and the nature of the relationships between reforming countries and their aid donors, including the IFIs.

4.2 The domestic political economy context of reform

Both prior to and during the reform efforts of the North African economies, the political economy of the region is best described as one involving a strong implicit social contact, a high level of state intervention in the economy, a corporatist form of government in which the state co-opts the business elites and labour unions and a strong co-dependency between the state and the private sector. Powerful business elites monopolized access to government whilst smaller scale enterprises were largely left to fend for themselves. In addition, many economies had rentier characteristics, heavily reliant on windfall inflows in the form of oil and oil-related revenues (and other natural resources such as gas in Algeria and phosphates in Morocco), migrant remittances and aid flows.

The implicit social contract involved an interventionist government providing a range of benefits to different groups in society in return for support for largely undemocratic incumbent regimes. Benefits included: subsidies on basic food stuffs, housing, fuel and utilities; employment on good terms in the public sector and public sector enterprises; free health care and education; and protection against imports and favoured contracts with government for the business elite. In addition, the development paradigm followed by the post-independence North African states included: a concern for redistribution and equity in economic and social policy; a preference for states over markets in managing the economy; import substituting industrialization; the use of state planning; state provision of welfare and services to most of the population; and a vision of politics centred around nation state building rather than competitive politics (World Bank 2003: 2). This development model has been described as one with a strong interventionist-redistributive orientation (Richards and Waterbury 2006). While many other states in the developing world adopted similar policies in the post-independence period, North Africa and MENA as a whole was exceptional outside the communist bloc for the scope of state regulation of the economy and the extent to which state welfare policies were used as an instrument of redistribution (Yousef 2004).

The above political economy model reaped dividends between 1940-70 with rapid improvements in social welfare, equity and poverty and healthy rates of economic growth which exceeded most regions apart from East Asia and the Pacific region. However by the late 1970s and early 1980s the model came under strain. As sources of economic rent started to decline in the 1980s, with a fall in oil prices, migrant remittances and aid and deep recession in the West, the North African economies struggled to meet the expectations of their rapidly growing populations. By the end of the 1980s the strains had become a major economic crisis for most countries. The subsequent reforms which were advocated by the World Bank and the IMF represented a major challenge to the political economy model that had become firmly established in the region: ‘The social contracts established in the post-independence era have given rise to enduring institutions, interests, norms and practices—structuring the constraints

and incentives governments now face as they contend with demands for and against policy reform'. (World Bank 2003: 1-2)

The poor were threatened by the removal or reduction of food subsidies; the urban population by the reduction of subsidies on fuel, housing and utilities; the elite labour force was faced with job losses in the public sector as the government limited recruitment and privatized state enterprises; the favoured business elite was faced with a removal of protection on competing imports and loss of favoured contracts with the government. Carrying out a rapid economic liberalization programme that threatened vested interests in society also threatened the legitimacy of incumbent regimes. The primacy of the political economy context has led many to argue that economic performance in the North Africa region can best be explained, not by issues of culture and claims of exceptionalism, but by the interplay of politics and economics and state-society relations (Vandewalle 1996).

As a result many governments in the region, although they signed up to IMF and World Bank programmes of reform in return for financial support, were reluctant to implement the reform programmes. An enduring feature of reform in the MENA region has been its slow and hesitant pace compared with other developing and transitional regions. This is reflected by a comparison of indicators between MENA and other regions in 2005. Weighted average tariffs in MENA at 15 per cent were well above those in East Asia (9.4 per cent), Europe and Central Asia (7.0 per cent), Latin America (10.6 per cent) and even SSA (13.0 per cent). Non-oil exports accounted for only 8 per cent of GDP (with the exception of Tunisia) compared with an average of 27 per cent among low- and middle-income economies. FDI inflows into the region were only 0.7 per cent of GDP compared to 2.5-3.0 per cent in most other developing regions and the public sector continued to account for 33 per cent of employment well above that of East Asia (9 per cent excluding China) and Latin America (13 per cent). In addition, MENA countries ranked below all other regions apart from SSA in overall rankings for ease of doing business (Nabli 2005: 2).

Obviously there are nuanced differences between the political economy structures of the various countries that make up the North Africa region, and some have progressed further than others with their reform efforts. In Morocco, for example, reforms have progressed fairly quickly compared with many other countries in the region. This can be explained by the fact that those who benefited from many of the reforms were wealthy industrialists, rural notables in rain-fed agriculture and the beneficiaries of large-scale irrigation projects, all of whom were staunch supporters of the monarchy. Traditionally, the opponents of the monarchy were organized labour, petty functionaries and school teachers and they tended to be harmed by many of the reform efforts but were not politically strong enough to oppose them. By contrast Arab socialist republics like Egypt have found it politically much harder than the monarchies to reform. This is because the regime's power base tends to be government and state enterprise employees, bureaucrats, party political hacks and the business elite. They all tended to be threatened by reform and hence the Mubarak regime was, until very recently, slow to carry out economic liberalization.

Despite the nuanced differences, a common assessment is that the reforms actually undertaken can be seen as a process whereby the state, rather than retreating from economic activity, simply repositions itself to safeguard the positions of its major

interest groups (Knowles 2011; Demmelhuber 2011). Richards and Waterbury (2006) likewise explain many of the reform efforts as part of a strategy of regime survival.

4.3 Relations with aid donors and the IFIs

A second explanation of the slow pace of reform in North Africa centres on the relationship between reforming governments and both their aid donors and in particular the two Washington-based international financial institutions. This has two related dimensions. First, the geopolitics of aid flows to the region, and second the leverage capacity of the IMF and World Bank to secure policy reform in the region.

It has already been argued in Section 3 that the granting of policy-based reform loans by the IMF and World Bank was influenced by geopolitical considerations. This has meant that both organizations tended to be lax when it came to monitoring reform implementation. Hence, recipient governments were able to get away with high levels of slippage in the reform agenda. Of all the countries in North Africa where geopolitics and Western foreign policy have influenced the flow of funds, Egypt stands out as the most significant. For the past two and a half decades the officials of the IMF and World Bank knew that compliance rates with reform conditions were very low yet Western funds continued to flow into Cairo.

A second factor that has influenced reform in the region is the lack of Bank and Fund leverage over policy reform. This is not just a self-imposed lack of leverage due to the desire to prop up pro-Western regimes with loans, but also due to the more general picture of aid flows into the region. The easy access to geopolitically and commercially orientated aid flows—with Egypt for example receiving huge amounts of aid from the USA and European aid to North African countries like Algeria, Morocco, and Tunisia—increasing rapidly over the past decade means that ready access to alternative sources of funds on concessional terms makes North African countries both able and willing to violate the conditions of IMF and World Bank loans without being fearful of consequences in the form of loan disruption. Harrigan and El-Said (2009a) provide detailed case studies of declining bank leverage in the last decade and a half in both Egypt and Morocco.

A more recent phenomenon which has reduced the leverage of the Bank and the Fund in the MENA region is the recovery of oil prices and the region's ability to ride out the global recession. This has boosted growth in the region and removed the pressure to reform (Nabli 2005: 2).

4.4 The social and political implications of economic reform

To the extent that economic liberalization has been implemented in North Africa, it has challenged the old implicit social contract embedded in the region's political economy without replacing it with a new social contract. This has meant that in some cases economic liberalization has been accompanied by worsening social welfare and poverty. Harrigan and El-Said (2009b) have analysed the social impact of reform in three North African reformers, namely, Egypt, Morocco, and Tunisia, as well as in Jordan. They find that the social impact of reform has been mixed and varies over time. Generally, however, periods of IMF austerity in the region have led to increased poverty and unemployment, whilst brief bursts of growth in the 1980s and 1990s—such as in

Morocco between 1985 and the early 1990s and in Egypt in the second half of the 1990s—led to poverty reduction via labour-intensive growth. However, growth was not sustained and as it collapsed poverty again increased in both countries. In Egypt for example, the recession of 2000-04 and the effects of devaluation and subsidy reduction on prices all led to an increase in poverty.

The events of the Arab Spring in early 2011, with political unrest sweeping North Africa, clearly indicate that aid has not been effective in helping regimes satisfy the aspirations of their citizens. In recent years North Africa has experienced satisfactory rates of economic growth and has weathered the global recession well. As shown in Figure 8, economies in the region grew on average by 4-5 per cent a year in real terms between 2000 and 2010. These figures compare favourably with those of regions with similar income levels (Hakimian 2011), with the growth rate of Latin America and the Caribbean in the same period averaging only 3.4 per cent. However, the last decade of growth in North Africa did not take the form of labour-intensive pro-poor growth with benefits trickling down to the masses. Rather, in many countries poverty, unemployment and income inequality has worsened over the past decade. For example, in Egypt the poverty headcount increased from 16.7 per cent in 2000 to 21.6 per cent in 2009 as shown in Table 7, and these figures are likely to be underestimates, partly because the national poverty lines underestimate living costs (Sabry 2010).

Two factors have contributed to increased poverty in North Africa despite healthy economic growth. First, high levels of inflation in recent years, driven partly by increasing food costs and high levels of unemployment. Although the Western media has portrayed the Arab Spring as a predominantly political uprising by populations fed up with repressive regimes, there are strong socioeconomic factors underlying the discontent, including the rising cost of food (Harrigan 2011) and unemployment.

The MENA region is one of the most food insecure regions in the world, relying on food imports for nearly 50 per cent of its calorie intake (IFPRI 2010). The global increase in food prices in 2007-08 and again in the latter part of 2010 and early 2011, have contributed to domestic food price increases and widespread unrest in the MENA region (Harrigan 2011). For example, living standards in Egypt have been reduced by double digit inflation, including food price inflation running at over 20 per cent. This affects not just the poor but also the middle classes, who spend a large proportion of their incomes on food (the average person in North Africa spends between 35-44 per cent of their income on food compared to 7 per cent in the US).

In addition to declining living standards due to inflation, unemployment is another pressing problem in the region. As shown in Figure 9, unemployment in 2010 ranged from 8-13 per cent in North African countries. A particular problem is youth unemployment, which ranged from 17.6 per cent in Morocco to 29.4 per cent in Tunisia. Many of these unemployed youth are high school or university graduates and their economic discontent played a major role in the political unrest of the Arab Spring.

One of the reasons why unemployment, particularly youth unemployment, is so high in North Africa is the fact that the region has a demographic profile incorporating a large youth bulge combined with the fact that aid flows and reform in the region have failed to generate adequate employment generation. Two factors help explain the lack of employment creation. First, the failure to generate labour-intensive export-led growth, which is reflected in the fact that the MENA region generally has failed to fully

participate in the economic globalization of the past three decades, as shown by declining trade to GDP ratios and disappointing inflows of DFI (Harrigan and Tilley 2011). And second, the failure of the private sector to adequately respond to the reform effort by creating jobs as public sector employment contracts. Part of the reason for the lack of job creation is the unfavourable business environment in North Africa and MENA more generally, as illustrated in Table 8 which provides data on the ease of doing business, comparing MENA with other regions.[7]

Aid to North Africa has clearly done little to help solve the region's pressing socioeconomic problems such as poverty, inequality and unemployment. In addition, until very recently, aid flows have contributed to the propping up of autocratic regimes. This is reflected by the fact that overall, according to different sources (World Bank; Freedom House; Almounsor 2005; Abed and Davoodi 2003; United Nations 2002) MENA performed worse on governance, democracy and press freedom indicators than other developing countries. In particular the region performed badly in terms of voice and accountability and corruption. This is illustrated in Table 9 from the World Bank's World Governance Indicators (WGI) which shows the percentile scores[8] for regions in terms of the different governance categories. In terms of voice and accountability, the North African countries stand out as being particularly poor within the already poor MENA region as a whole.

Table 10 shows the countries of North Africa ranked by political rights and civil liberties using the Freedom House rankings and indicates that all score poorly, with only Morocco ranked as partly free, and all countries falling below the global average of 3 for both categories. The data from Freedom House also finds that the MENA region continues to be the worst performing region in terms press freedom indicators, with particularly low levels of press freedom in Tunisia and Libya.

The above analysis indicates that the record of aid effectiveness seems poor in North Africa. Despite recent economic growth, problems of poverty, declining living standards and unemployment persist and until recently donors have willingly supported corrupt and autocratic regimes which have resulted in a severe regional freedom deficit. These factors, along with the recent spread of the electronic media and satellite television, have all contributed to the recent political uprisings. As a result, citizens in the region are no longer willing to support corrupt undemocratic regimes that have failed to deliver on the social contract over the past two decades.

4.5 The unusual case of Tunisia and lessons for donors

It was stated in Section 4.1 that Tunisia is somewhat of an exception amongst the North African countries in that it has managed to experience fairly sustained economic growth over the past few decades. Indeed, since the adoption of stabilization and structural reforms in 1986 under IMF and World Bank auspices, Tunisia has been hailed as a

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7 The starting a business indicators identify the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm: the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per capita gross national income (GNI).

8 Percentile rank indicates the percentage of countries worldwide that rate below the selected country. Higher values indicate better governance ratings. Percentile ranks have been adjusted to account for changes over time in the set of countries covered by the governance indicators.

model student (Pfeifer 1999; Dasgupta et al. 2002; Nabli and Véganzonès-Varoudakis 2007). The country has never defaulted on its debt repayment, has managed to sustain a healthy economic growth rate, has significantly diversified its production base away from natural resources, has stabilized its macroeconomic indicators, and substantially reduced poverty rates (Lamloun and Hibou 2002). Although aid flows to Tunisia played a role in the country's success, other supporting factors were also important, as well as the fact that the country's aid supported economic reform programme deviated in significant ways from the usual IMF and World Bank orthodoxy (Harrigan and El-Said 2009a: 105–47).

Important historical, institutional, political and socioeconomic factors underpin Tunisia's recent success with economic diversification and growth. First, prior to the launching of the IMF and World Bank supported economic reform programme in 1986, the country had already put in place the foundations for economic diversification and export-led growth via a partial opening up of the economy under a dirigiste framework. From the first development plan launched shortly after independence, the official discourse was that the economy would work based on three sectors: state, co-operatives and private, where the state was seen as a partner to the private sector providing the capital, cadres and infrastructure necessary for private sector development (Bellin 1991). The regime combined import substituting industrialization along with promotion of industrial exports in a manner not dissimilar to the East Asian NICs (Colman and Nixson 1994; Kiely 2001), as well as a strong focus on education, social welfare, female empowerment and family planning (Bechri and Naccache 2003). The state picked winners in the employment-creating transformative industries (textiles, clothing, leather, wood, furniture), supported and developed them and when profitable handed them over to the private sector (Ben Romdhane 1981). This mixed approach, supported by an investment code providing incentives for private initiatives and special advantages to exporting firms, helped develop a strong entrepreneurial class and set the foundations for successful further liberalization in the 1990s. The fact that economic transformation began in the 1970s prior to the IMF and World Bank programmes, and the fact that this gradual home-grown and home-owned process of reform continued after 1986[9] was one of the reasons why Tunisian reform has been so successful; i.e. gradualism and ownership of the reform process.

The second historical factor that helped the aid-supported reform programme was the fact that Tunisia had a strong and effective bureaucracy. The post-independence establishment of the Ecole Nationale d'Administration to provide high-quality training for civil servants along with good civil service renumeration and the generally high levels of education produced an effective embedded administration with low levels of corruption (Bellin 1994). This meant that the administration could effectively bargain with the aid donors. Consequently, Tunisia was able to implement a somewhat unorthodox economic reform programme, often to the displeasure of the IMF and World Bank. For example, in the area of trade liberalization, the government insisted on a gradual approach. Inputs to the productive process rather than consumer goods were liberalized first and whilst quantitative restrictions were progressively removed tariffs

9 Often the gradualism annoyed the IMF and World Bank, but the Tunisian authorities stuck to this approach and the Bank and the Fund were forced to compromise and accept it.

were often used in their place to protect domestic industry during the transition phase.[10] In addition in 1994 a foreign trade law introduced countervailing duties to protect Tunisian producers against import dumping. This gradual transition whereby firms were temporarily protected during a transition period is very different from the normal method of trade liberalization. Despite the fact that Tunisia still retains relatively high levels of tariffs, it is one of the most open economies in the MENA region in terms of outcome indicators such as trade to GDP ratios and diversified export performance.[11]

One of the reasons Tunisia has performed well in terms of promoting export-led growth, is not only an unorthodox trade liberalization programme but also because the state has played an active role in promoting a strong industrialization strategy. In 1987, a manufacturing investment law was introduced which offered generous investment incentives for specific sectors, as well as preferential interest rates and export promotion schemes for favoured activities. Aid played an important role in facilitating the state-led industrialization strategy via the *Mise à Niveau* programme which was launched in partnership with the European Union and the African Development Bank. The *Mise à Niveau* programme was implemented to help specific manufacture industries and service activities to prepare themselves for the increasing competition they faced as a result of Tunisia's Association Agreement with the EU and the ending of the Multi-Fibre Agreement. The programme offered a comprehensive set of investment incentives to help manufacturing industries upgrade managerial and organization structure, innovation, training, technology, distribution, marketing, telecommunication and R&D, but also to improve infrastructure and institutions. The programme had a strong sectoral bias in favour of export sectors focusing on firms that had been performing well in the past.

Despite the support from the EU and ADB, it is interesting to note that the World Bank has criticised the programme for supporting selective industrial policy (World Bank 2000, 2004). The Bank has also argued that the capacity of picking winners was undermined by the distortions created in the domestic market through protectionist barriers and that there was no guarantee that the sector/firms selected would be those with highest growth effect (World Bank 2004). More generally the Bank has argued that Tunisia's pro-export bias led to misallocation of resources and encouraged private debt (World Bank 1995). However, a study by Nabli et al. (2005) shows that credit allocation in Tunisia has been biased in favour of tradable activities, and in particular tradable activities that had been identified as being those in which Tunisia had a comparative advantage. As a result the extent of resource misallocation might not be as severe as the World Bank suggests.

Finally, in negotiating with donors, the Tunisian state has been adamant that economic liberalization should not jeopardize social welfare. To this effect, government social expenditures have been protected and the privatization programme has been gradual with measures put into place to ensure that the programme does not increase unemployment.

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10 Provisional complementary duties were introduced in 1991 to protect local firms as they adjusted to the removal of quantitative restrictions. These temporary tariffs ranged from 10-30 per cent and were meant to last for a maximum of 10 years.

11 This illustrates the importance of distinguishing between openness in terms of policy measures, such as tariff levels, and openness in terms of performance measures, such as exports to GDP.

A number of lessons for donors emerge from the Tunisian case study, which are relevant to their future dealings with North Africa. First, the need to help promote a developmental state, which can be defined as a centralized state in interaction with the private sector, and intervening within the economic structure to promote development (Wade 1990; Evans et al. 1985). A successful developmental state is one that is capable (i.e. with a skilled and well developed bureaucracy), autonomous from dominant interests, embedded in society, benefiting from international support, and composed of skilful leaders with an ideology of a strong state. Its actions should concentrate on capital accumulation and it should be able to 'pick winners', i.e. promote efficiently the appropriate sectors and industries (Wade 1990). Important state intervention is required, and the state should provide discipline within a reciprocal relationship with the private sector, while education and knowledge are promoted. Particularly important is the need for an active state role in designing and implementing a clear industrialization strategy. Cavallo (2002) supports this stance with his argument that important aspects of strong government intervention help to explain the Tunisian success.

The Tunisian government also had ambitious but clear developmental objectives which remained relatively consistent, with gradualism and social policy as the core elements of the reforms (Bellin 1994). Development objectives remained rooted in open economic policies mixed with strong government intervention. The government of Tunisia planned the development of the economy from the start, using its control over society and the economy together with the promotion of the private sector to reach its development (and political) objectives. As a result, the reforms have been implemented gradually and have been well sequenced building upon and consolidating past progress. Hence there has been little reversal and the reforms have credibility. Gradualism has involved the careful phasing of reforms; e.g. liberalizing the import of capital goods and intermediate goods and raw materials first, protecting local industries with compensatory tariffs for a temporary period when quantitative import restrictions; i.e. licences were removed.

Although we have argued above that historical factors combined with a degree of unorthodoxy help explain the Tunisian success, this is not to deny that aid has played an important role. Harrigan and El-Said (2009a) detail the vast number of economic reforms undertaken in Tunisia with support from the IMF, World Bank and other donors, with the country receiving nine World Bank Structural and Sectoral Adjustment Loans between 1986 and 2001, various IMF loans as well as support from the EU and ADB. Many of these aid-supported reforms have undoubtedly contributed to Tunisia's strong economic performance since the mid-1980s.

Despite the portrayal of Tunisia as an economic success story, several major problems persist and these have contributed to the downfall of the Ben Ali regime during the events of the Arab Spring. First, economic growth has been accompanied by a form of clientelism whereby a few business families close to the Ben Ali family have systematically been benefiting from big contracts and personal favours (for example the privatization deals) (Hibou 2006). In addition, while macro fundamentals are right, Tunisia's economy continues to suffer from three important structural weaknesses: low levels of private investment, excessively high levels of unemployment and political repression. As discussed in the next section of the paper, these problems are not unique to Tunisia but characterize the North Africa region more generally and they constitute the critical areas that donors need to address in the future.

5 Conclusion: the future of aid to North Africa

The Arab Spring provides an opportune moment to reappraise aid to North Africa. It is clear that if future aid flows are to promote genuine political and economic development in the region they need to be decoupled from the past donor tendency to support pro-western regimes regardless of their record on political and socioeconomic development. Future aid flows need to focus on three critical areas. First there is an urgent need to promote new employment opportunities especially for the youth. With a young population and increased female labour force participation it is estimated that by 2020 the MENA region as a whole will need to create 100 million new jobs to absorb new entrants to the labour force and bring down unemployment (World Bank 2003). This will entail not only creating a better business environment for the private sector but also unravelling the cosy relationship which existed in the past between incumbent regimes and the business elites so as to create a more inclusive and competitive system for the region's potential entrepreneurs. In the past it has been too difficult to create business opportunities and employment outside of patronage networks and a Leviathan state. In addition to providing supporting aid for such a process, there is an urgent need for greater opening up of European markets to exports from North Africa, including in particular agriculture-based exports.

Second, given the recent prediction that global food prices are set to double in the next twenty years (Oxfam 2011) and given the reliance of the region on global food markets and the role played by rising food prices in triggering the Arab Spring (Harrigan 2011) aid donors need to look at creative ways in which they can enhance the region's food security (World Bank 2009).

Finally, there is need for the aid community to help foster the development of genuine democracy and accountability in the region, with aid programmes designed to enhance civil society, the role of elected legislatures and press freedom. As can be seen by comparing Figures 10 and 11, between 2005-09 only a small share of aid to North Africa was allocated to 'governance and civil society' compared to the much larger share allocated to this sector in SSA. Hence, there is clearly scope to refocus the sectoral allocation of aid to North Africa to support the development of democracy and civil society.

Whilst the above three areas should be prioritized, at the same time it is essential that the governments of North Africa as well as their donors ensure that adequate social safety nets are in place and that a rapid shrinking of the state in terms of welfare provision does not occur in the name of economic liberalization.

Not only is there a need to refocus aid programmes to North Africa, but in the immediate aftermath of the Arab Spring, increased funding is needed to help smooth the political transition. North African economies, particularly Tunisia and Egypt, have been hit by high inflation, unemployment, loss of tourism revenues, declining exports and foreign investment, and declining growth. Egypt for example saw its exports decline by 40 per cent in February 2011 whilst public spending and the balance of payments deficit both increased sharply. As a result the country used up more than 20 per cent of its foreign reserves (US$8 billion) between January and April 2011. It is predicted that for 2011 the Egyptian economy will shrink by 3 per cent and the budget deficit will increase to 11 per cent of GDP. In addition, in countries like Algeria, Morocco and Egypt, the Arab Spring has encouraged workers and trade unions to become increasingly vocal, forcing wage increases with a minimum wage to be introduced in

Egypt and Morocco increasing public sector wages. More generally, the IMF has estimated that oil-importing Arab nations will need US$160 billion in external financing over the next three years.

There are encouraging signs that the donor community is willing to provide increased aid to North Africa to aid the political transition. The G8 meeting in France in May 2011 pledged over US$20 billion of additional funding for Tunisia and Egypt to be delivered by 2013. The money is to be provided by multilateral development banks, with the European Investment Bank to contribute one quarter. In addition, the US and other OECD countries have also promised additional bilateral resources. At the so-called Deauville Declaration, G8 leaders said that the political movements of the Arab Spring 'are historic and have the potential to open the door to the kind of transformation that occurred in Central and Eastern Europe after the fall of the Berlin Wall'. In addition to the G8 pledge, the IMF has recently agreed to lend Egypt US$3 billion to help it through the crisis whilst the African Development Bank announced a US$500 million loan to Tunisia as part of a US$1.4 billion emergency package provided by the World Bank, the European Union and the French Government. However, it is important that donors do not concentrate their resources just on very broad balance of payments support or budgetary support. In the past such an approach has enabled state elites to simply get on with business as usual. Instead, more aid needs to be channelled through well thought out sector support in areas such as democratization and social protection.

There are also encouraging signs that the political unrest of the past six months has forced the donor community and its critics to reappraise the past nature of aid efforts in North Africa. With the wisdom of hindsight, many donors are now admitting that past efforts have been disappointing and misguided in their support of the old regimes in countries like Egypt and Tunisia. President of the World Bank, Robert Zollick at a recent World Bank conference on Arab Voices and Views (21 March 2011) stated 'Our record of action has been spotty. Like others we have much to learn'. The European Union also announced in March 2011 that it will revamp its European Neighbourhood and Partnership Instrument (ENPI) through which it has committed US$18.6 billion in aid to MENA. This is in response to criticisms from politicians such as David Cameron and think tanks such as Open Europe which claim that the ENPI has failed to deliver democracy and development to the region. The think tank has argued that aid needs to foster greater transparency, accountability, civil liberties and human rights in the region as well as promoting greater economic liberalization and regional trade. The EU has issued a new communication on Partnership for Democracy and Shared Prosperity with the Southern Mediterranean in which it has committed to refocus US$5.5 billion in grants for the period 2011-13 towards democratic transformation, institution building, support to civil society and youth, and economic development and job creation. The European Investment Bank has also voiced readiness to lend more support to democratic transition in North Africa and to prioritize projects that create youth employment. In response the European Parliament voted in February 2011 to increase by €1 billion the EIB's lending ceiling for infrastructure and small and medium enterprise development in the Mediterranean until the end of 2013.

Likewise, the African Development Bank's President Donald Kaberuka has stated that the ADB will 'completely' review its aid programme and strategy in North Africa and will focus assistance in the future on projects that promote job creation, poverty reduction and reduced social exclusion. The ADB has already pledged an extra US$2 billion to Tunisia which will be focused on development of agricultural industries and

small and medium-sized businesses which the Bank believes are 'high multipliers for job creation'.

It remains to be seen, however, whether the new aid flows to countries like Egypt and Tunisia, albeit accompanied by rhetoric on democratization, simply accelerate the neoliberal economic agenda of the past which will consolidate and reinforce the power of the dominant classes, such as the military and business elite, rather than supporting the interests of the masses involved in the uprisings. Hanieh (2011) has argued that there are already worrying signs that this may be the case. He states that the World Bank's flagship report of 2009 'From Privilege to Competition: Unlocking Private-led Growth in the Middle East and North Africa' favours opening up sectors to foreign investors, liberalizing foreign trade, removing protection of state-owned firms, eliminating the anti-export bias and promoting privatization. This hardly differs from the neoliberal agenda of the past few decades which, as we have shown above, has failed to produce pro-poor growth. Hanieh (2011) has argued that although many of the demands of the recent uprisings suggest a strong dissatisfaction with the way capitalism has been promoted in the region, new aid flows look like furthering the neoliberal agenda, particularly through the promotion of privatization via Public-Private Partnerships (PPIs). For example, President Obama's promise of US$1 billion of relief on debt owed to the USA by Egypt was tied to conditions such as 'integrating competitive markets' whilst at the same time US$1 billion in new investment was promised via the Overseas Private Investment Corporation (OPIC). The objective of OPIC is to promote US investment in emerging markets partly via accelerating privatization and OPIC has stated that this will occur in Egypt via PPIs. Likewise Hanieh argues that the European Bank for Reconstruction and Development (EBRD) is contemplating extending its activities to Egypt by providing €1 billion to encourage privatization and PPI initiatives.

Tellingly, under pressure from activists, the Egyptian finance ministry announced on 24 June that it would reject the IMF and World Bank offer of new loans totalling US$6 billion, due to conditionalities, including privatization and PPI initiatives, but not before budget cuts under IMF advice of US$4.6 billion, including a 50 per cent cut to unemployment benefit and reductions in energy subsidies (Hanieh 2011).

In summary, a scenario of rapid privatization and neoliberalism along with restrictions on the state's ability to protect the poor does not augur well for the ability of the new regimes of North Africa to meet the aspirations of their citizens. The old orthodox World Bank and US approach to the region is ill-equipped to deal with the current challenges in countries such as Egypt.[12] Instead, much could be learnt from the Tunisian experience with reform discussed above. As argued in Section 4.5, Tunisia over the past two decades provides an alternative development strategy to the excesses of neoliberalism. In a manner not dissimilar to the old East Asian model, Tunisia has

[12] This conclusion is supported by Addison and Baliamoune-Lutz (2006), who empirically analyse the relationship between economic liberalization and institutional quality in the Maghreb. They argue that trade liberalization and financial sector reform may have unintended negative effects if carried out during a time of transition from low institutional quality to partial improvement, partly because the associated uncertainty can lead to a muted investment response to reform leading to unemployment and income loss. This seems very pertinent to the current situation in the Maghreb and suggests that overhasty and zealous economic liberalization applied in classic IMF and World Bank models may not be appropriate at a time of gradual transition to genuine democracy with the simultaneous requirement of gradual institutional strengthening.

diversified her export base and generated labour-intensive growth whilst maintaining high levels of public expenditure on social welfare. This has been done, not via rapid liberalization, but via selection and protection of key industries which have benefited from state support and directed finance. In addition, a strong state has regulated and controlled the privatization process in a manner which has protected workers' and consumers' interests. Although this was not enough to prevent the overthrow of the Ben Ali regime or to prevent high levels of youth unemployment, it did help produce one of the most successful countries in the MENA region in terms of sustained economic growth, economic diversification and improvements in social welfare (Harrigan and El-Said 2009b). The reappraisal of aid flows to the region needs to take on board the Tunisia experience and avoid the promotion of excessive economic liberalization that simply supports the entrenched vested interests of the existing elites.

It also remains to be seen whether the reassessment of aid to North Africa by the donor community will genuinely shake free of the excessive influence of donor interest in the aid allocation process to the region, which has done much to undermine aid effectiveness in the past. The acid test will come if countries such as Tunisia and Egypt elect new governments which do not display the same pro-Western tendencies as their predecessors.

Finally, it is important that both donors and the new regimes of North Africa do not see foreign aid either as the main cause of past disappointing performance or as a future panacea for the region's socioeconomic and political difficulties. Although North Africa has the highest level of aid per capita, aid flows as a percentage of GDP and as a percentage of government expenditure are very low. In the past, for example, migrant labour remittance flows have often made a much greater contribution to these economies than aid. Hence, opening up Western economies to both trade and migrant labour flows from North Africa are likely to be more important than aid flows particularly in dealing with the region's pressing unemployment problem.

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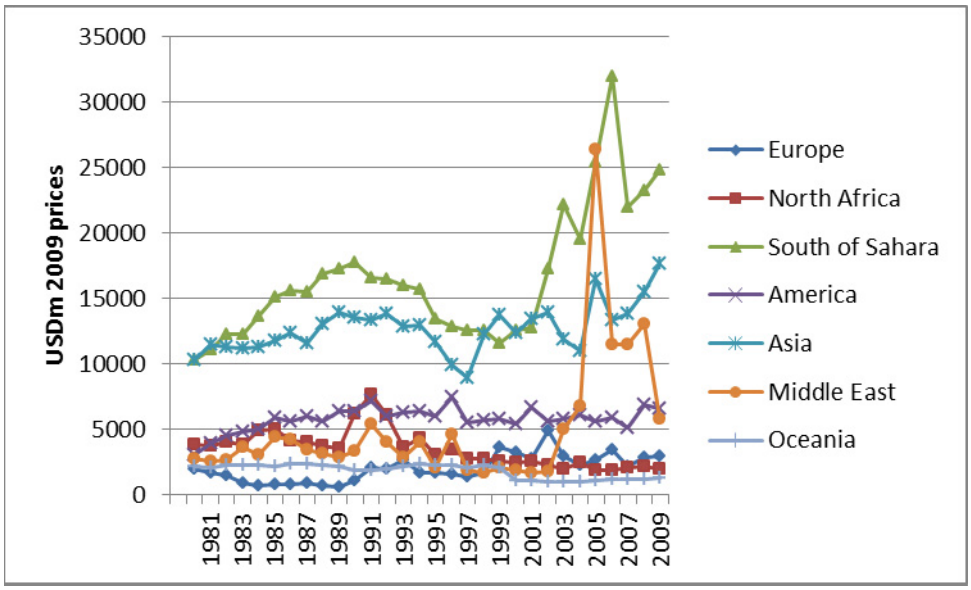
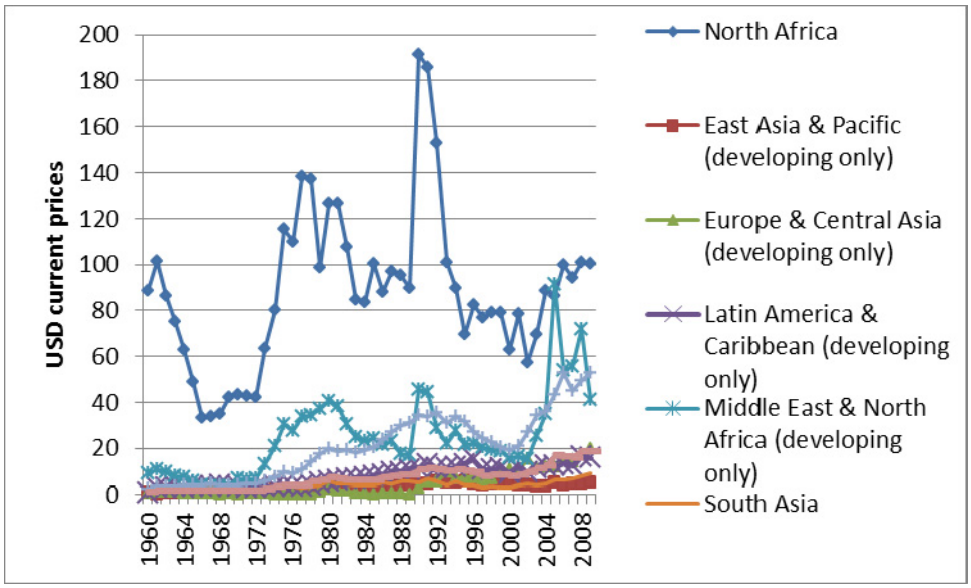
Figure 1: Net ODA disbursements by region 1980-2009



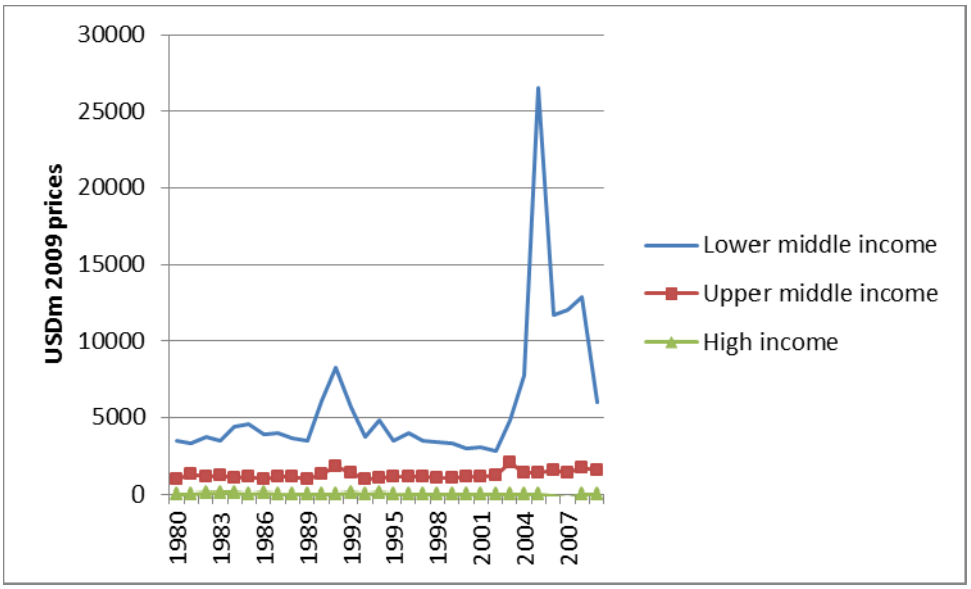
Source: OECD DAC database.

Figure 2: Net aid per capita by region 1960-2009



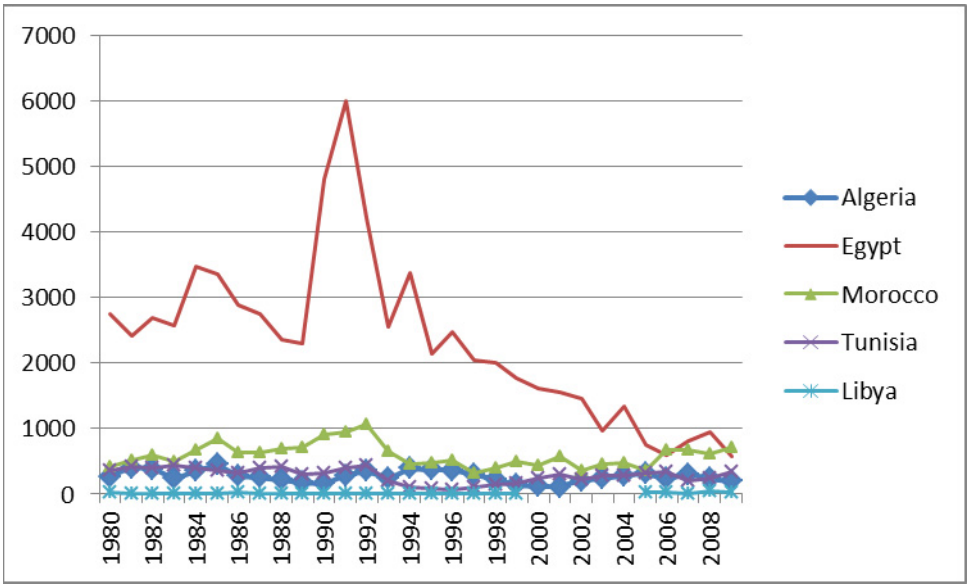
Source: OECD DAC database.

Figure 3: Total ODA to MENA income groups 1980-2009



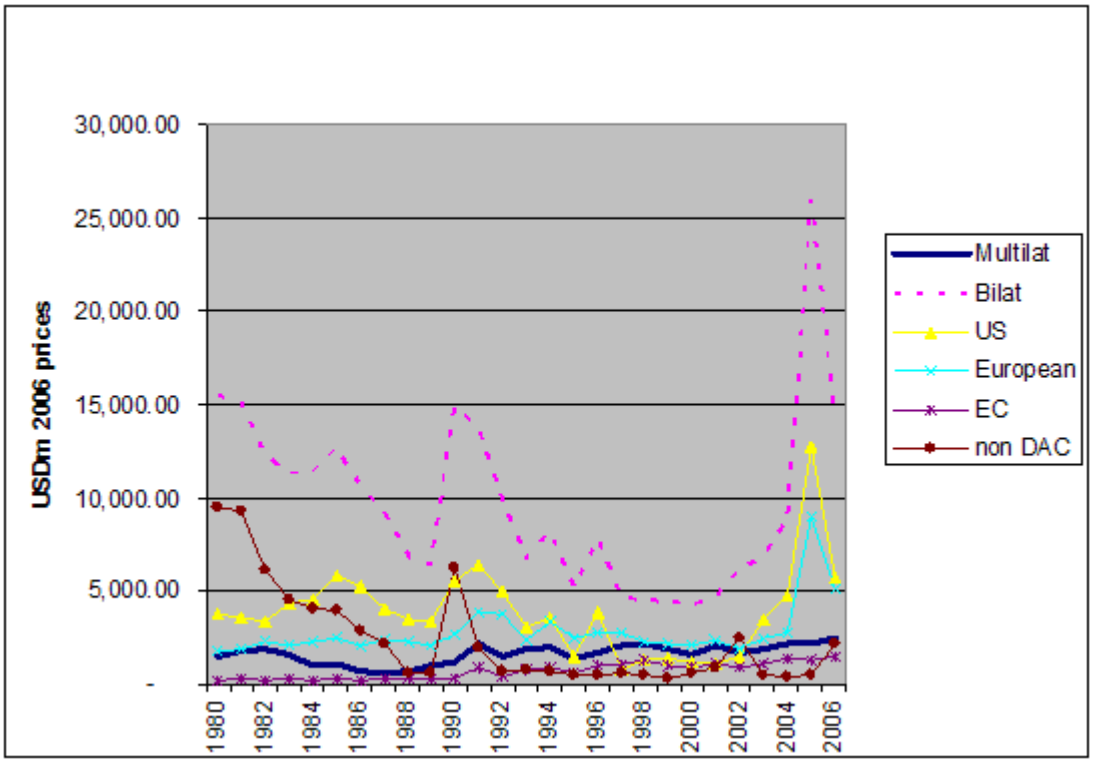
Source: OECD DAC database.

Figure 4: ODA disbursements to North African countries 1980-2009



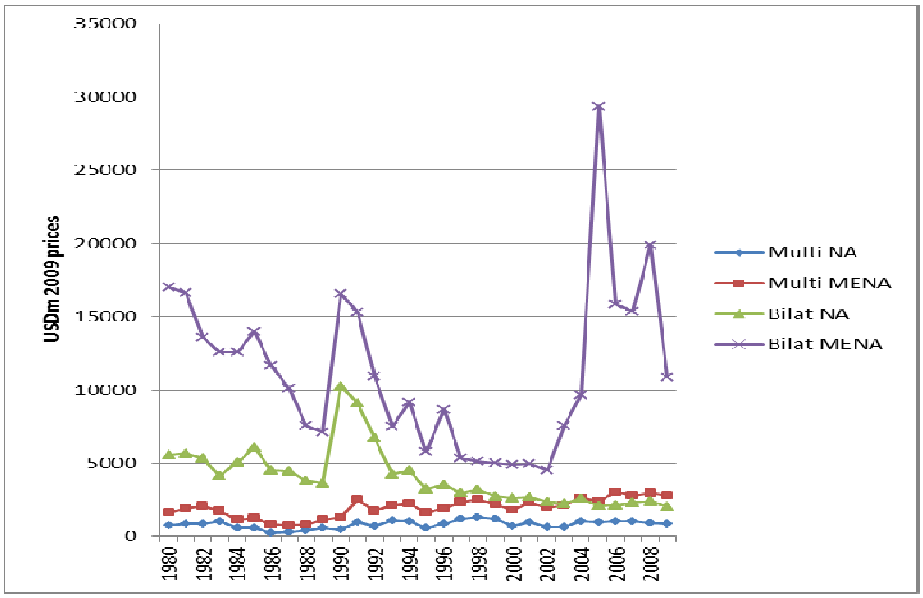
Source: OECD DAC database.

Figure 5: Total ODA to MENA by donor 1980-2007



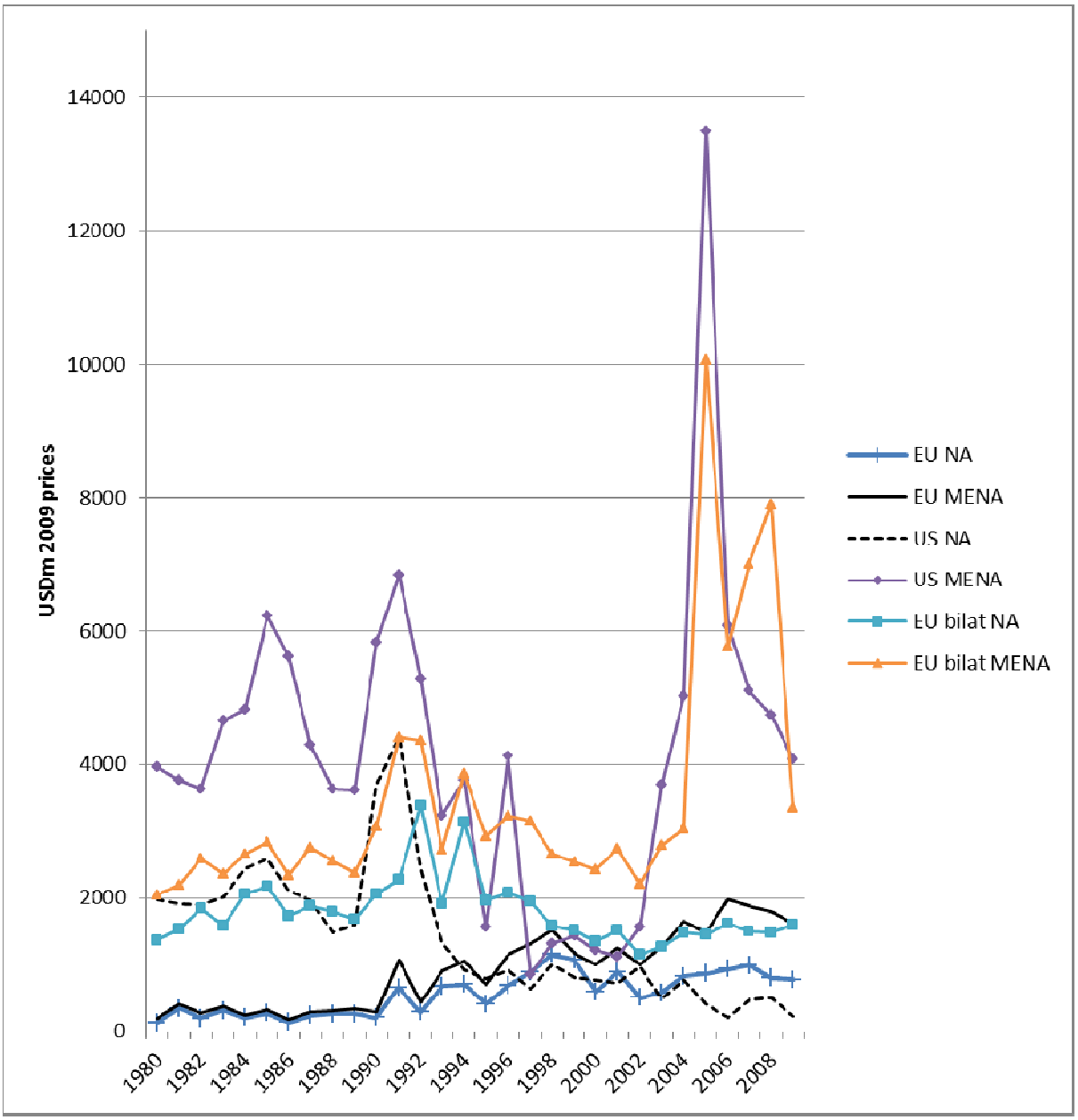
Source: OECD DAC database.

Figure 6: Multilateral and bilateral aid to North Africa and MENA 1980-2009



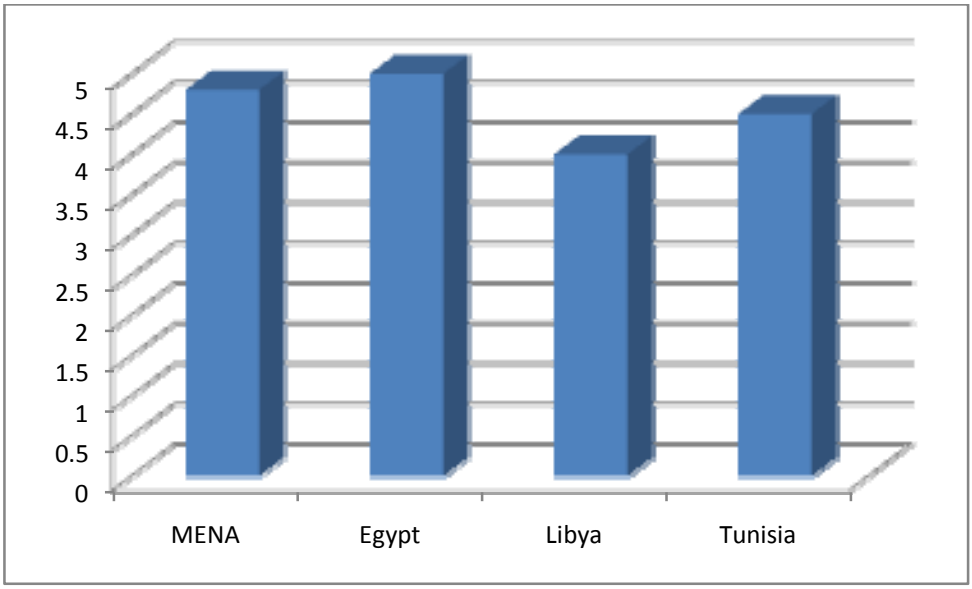
Source: OECD DAC database.

Figure 7: European and American aid to the Middle East and North Africa regions 1985-2009



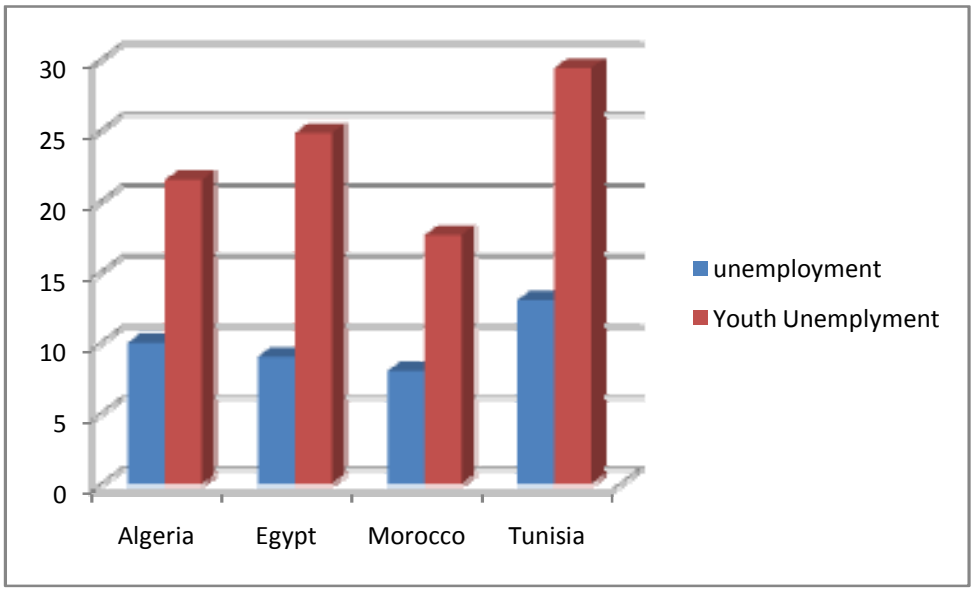
Source: OECD DAC database.

Figure 8: Real annual average GDP growth rates, %



Source: Hakimian (2011) Figure 1.

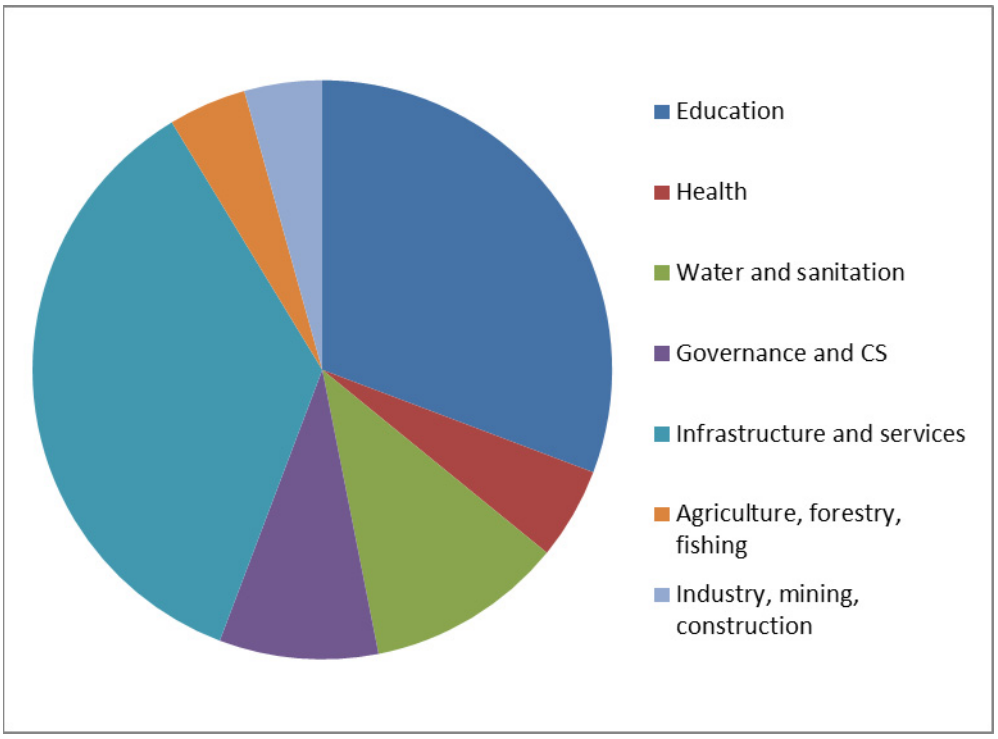
Figure 9: Unemployment rates, % 2010



Note: Youth unemployment is for those aged 15-25 years.

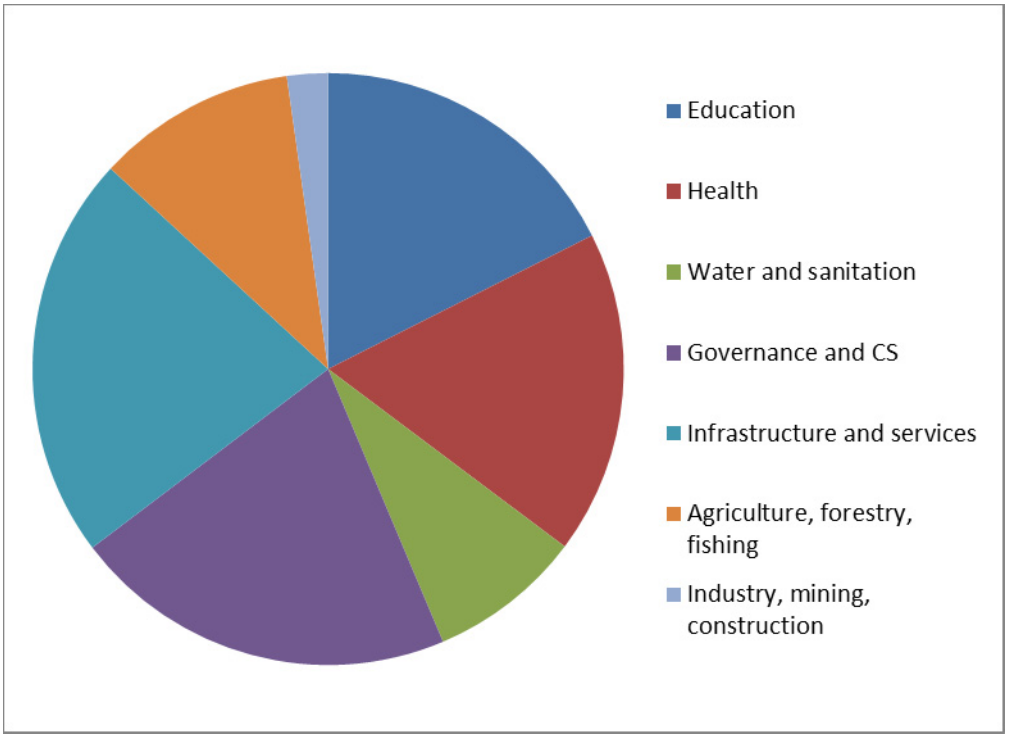
Source: Hakimian (2011) Figure 1.

Figure 10: Aid Allocations to North Africa by Sector 2005-09



Source: OECD DAC database.

Figure 11: Aid allocations to SSA by sector 2005-09



Source: OECD DAC database.

Table 1: European versus US shares of total ODA to North Africa 1980-2009

	US	European Union	European bilateral	European total
1980-89	37%	4%	32%	36%
1990-99	28%	11%	37%	48%
2000-09	17%	24%	45%	69%

Source: OECD DAC database.

Table 2: List of countries with largest fixed-effect coefficients

	Multilateral aid	USA	Canada	France	Italy	Japan	UK
				Most favoured recipients			
	Turkey	Grenada	St.Vincent & Grenadines	Mali	Tunisia	Malaysia	St.Vincent & Grenadines
	Viet Nam	Cyprus	Seychelles	Tunisia	Morocco	India	Grenada
	Ethiopia	Bahamas	Guyana	Madagascar	Turkey	Pakistan	Vanuatu
	South Africa	Antigua and Barbuda	Belize	Algeria	Indonesia	Korea	Bermuda
	Brazil	Seychelles	St. Lucia	Cameroon	Mozambique	China	Belize
	Indonesia	Israel	Grenada	French Polynesia	Ethiopia	Sri Lanka	Antigua and Barbuda
	Egypt	St. Kitts-Nevis	Bermuda	Senegal	India	Bangladesh	Kiribati
	Pakistan	Micronesia	Barbados	Morocco	Argentina	Thailand	Dominica
	Bangladesh	Marshall Islands	St. Kitts-Nevis	New Caledonia	Brazil	Philippines	Seychelles
	India	Palau	Dominica	Côte d'Ivoire	Egypt	Indonesia	St. Kitts-Nevis
s.d.	2.077	3.516	2.057	2.391	2.729	1.947	3.312
US	-0.745						
Canada	-0.503	*0.760*					
France	0.675	-0.633	-0.391				
Italy	0.792	-0.550	-0.358	0.611			
Japan	0.573	-0.471	-0.397	0.301	0.282		
UK	-0.702	*0.802*	*0.793*	-0.635	-0.572	-0.440	

Source: Harrigan and Wang (2011: Table 2).

Table 3: Rankings of MENA countries according to fixed-effect coefficients

	Multilateral Aid	USA	Canada	France	Italy	Japan	UK
Most favoured to Least favoured Countries	Egypt	Israel	Lebanon	Morocco	Egypt	Egypt	Jordan
	Turkey	Jordan	Jordan	Algeria	Turkey	Jordan	Lebanon
	Morocco	Lebanon	Tunisia	Tunisia	Morocco	Morocco	Iraq
	Sudan	Iraq	Israel	Egypt	Tunisia	Turkey	Sudan
	Algeria	Egypt	Morocco	Lebanon	Algeria	Yemen	Yemen
	Tunisia	Tunisia	Iraq	Turkey	Lebanon	Tunisia	Tunisia
	Yemen	Morocco	Egypt	Syria	Sudan	Syria	Turkey
	Lebanon	Turkey	Algeria	Yemen	Iraq	Sudan	Israel
	Syria	Yemen	Sudan	Jordan	Iran	Iran	Egypt
	Jordan	Sudan	Turkey	Sudan	Jordan	Algeria	Syria
	Iraq	Syria	Yemen	Iran	Yemen	Lebanon	Algeria
	Iran	Algeria	Syria	Iraq	Syria	Israel	Iran
	Israel	Iran	Iran	Israel	Israel	Iraq	Morocco
s.d.	1.104	3.488	1.882	1.486	1.467	1.767	1.930

Source: Harrigan and Wang (2011: Table 3).

Table 4: Optimal versus actual 1996 aid allocation in selected North African countries

Country	Poverty-efficient allocation	Actual aid
Egypt	0.0	1.31
Morocco	0.0	0.70
Tunisia	0.0	0.29
Algeria	0.0	0.22

Source: Collier and Dollar (2002: Table 3), (in % of GDP).

Table 5: GDP and per capita income growth, (1996-2006)

Country group	1996-99 Average	2000-03 Average	2004	2005	2006
MENA region					
Real GDP growth (%)	3.6	4.6	5.9	5.9	6.3
GDP per capita	1.7	2.6	3.9	4	4.2
Resource-poor, labour abundant					
Real GDP growth (%)	4.7	3.9	4.8	3.8	5.6
GDP per capita	2.7	2	3.1	2.1	3.6
Resource-rich, labour abundant					
Real GDP growth (%)	3.8	5	4.9	4.6	4.3
GDP per capita	1.9	3.1	3.1	2.9	2.5
Resource-rich, labour importing					
Real GDP growth (%)	3.3	4.7	6.9	7.5	7.5
GDP per capita	0.4	1.5	3.6	4.2	4.2

Source: World Bank (2007).

Table 6: Reformers real GDP growth rates (1996-2006)

Countries	1996-99 Average	2000-03 Average	2004	2005	2006
MENA region	3.60	4.60	5.90	5.90	6.30
Reformers simple average	4.16	4.06	5.82	3.76	4.06
Egypt	5.20	3.80	4.20	4.60	6.90
Morocco	4.20	4.00	4.20	1.70	7.30
Tunisia	5.90	4.20	6.00	4.20	5.30

Source: World Bank (2007).

Table 7: Poverty headcount in Egypt

	2000	2005	2010
Poverty headcount ratio, urban	9.3	10.1	11.0
Poverty headcount ratio, rural	22.1	26.8	28.9
Poverty headcount ratio, total	16.7	19.6	21.6

Source: Sabry (2010).

Table 8: Ease of doing Business Indicators 2008

Region or economy	Procedures (number)	Duration (days)	Cost (% GNI per capita)
OECD	6	14.9	5.1
Eastern Europe & Central Asia	8.8	26.2	11.1
South Asia	7.6	33.4	40.7
Middle East & North Africa	**9.7**	**38.5**	**66**
East Asia & Pacific	8.7	46.8	34.7
SSA	10.8	56.3	148.1
Latin America & Caribbean	9.8	68.3	43.6
Mean	**8.8**	**40.6**	**49.9**

Source: World Bank's Ease of Doing Business Survey http://www.doingbusiness.org/

Table 9: World governance indicators: regional average percentile ranks (0-100)

	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Rule of Law	Control of corruption	Average
MENA	23.7	35.7	44.9	45.2	49.6	50.7	41.6
Caribbean	67.5	66.8	67.8	64.8	64	67.9	66.5
East Asia	49.4	59.7	48.1	45.2	54.9	45.2	50.4
Eastern Europe & Baltics	64	55.1	62	68.1	54.4	56.9	60.1
FSU	21.2	32.8	27.4	30.4	21.4	20.6	25.6
Latin America	51.6	36.6	43.9	46.1	33.9	44	42.7
OECD	91.4	81.4	88.7	91.1	90.3	90.5	88.9
South Asia	28	19.3	36.5	31.9	38.3	33.9	31.3
SSA	33.2	34.2	26.8	27.8	28.3	30.7	30.2

Source: Kaufmann et al. (2008).

Table 10: North Africa political rights and civil liberties

Country	Political rights	Civil liberties	Status
Morocco	5	4	PF
Algeria	6	5	NF
Egypt	6	5	NF
Libya	7	7	NF
Tunisia	7	5	NF

Note: Rankings are from 1-7, with 1 being the best ranking. PF = partially free, NF = not free.

Source: Freedom House (2008).