United Nations
Economic Commission for Africa

ECA/SRO-NA/ICE/33/2

Distr. General
October 2018

English
Original: French

Economic Commission for Africa (ECA)
Sub-regional Office for North Africa

Intergovernmental Committee of Experts (ICE)
Thirty Third Meeting

Tunis, 30 October – 02 November 2018

Sub-regional profile of North Africa

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1. Summary

Economic growth in North Africa remains volatile due to the reliance of the sub-region's economies on primary resources (agriculture, mining). Following a 2.9% increase in 2016, real GDP grew by 4.8% in 2017, despite a slowdown in growth in Algeria. The increase is partly due to more favorable weather conditions in Morocco (+4.1% GDP growth, up from 1.6% in 2016), and a significant increase in oil production in Libya.

Inflation remains high in the sub-region, standing at 15.9% in 2017, up from 9.8% in 2016. This increase is due to exchange rate depreciations (Egypt, Sudan and Tunisia) and reductions in subsidies (Egypt, Libya).

The limited diversification of North African economies has an impact on the volatility of public finances and the current account balance. Thanks to the increase in oil prices, the sub-region's budget deficit dropped to -8.9% of GDP in 2017, down from -11.2% in 2016. The current account deficit decreased from -9.7% of GDP in 2016 to -5.9% in 2017. The Algerian economy significantly benefited from the increase in oil prices (-6.6% deficit, compared to -16.6% in 2016) just like the Libyan economy (2.2% surplus compared to a -48.1% deficit in 2016).

There has been undeniable social progress across North Africa, but the situation differs from one country to another. The living conditions have improved substantially and poverty has considerably declined thanks to significant investment in education, health, basic services, access to water, electricity and housing, etc. Between 2012 and 2017, the top performing countries in terms of the Human Development Index (HDI) are Sudan (20.29%), Morocco (12.86%) and Mauritania (11.35%). There was a slowdown in HDI progression in countries like Tunisia, Egypt and Libya, which experienced significant upheavals since 2011, leading to a deterioration of their global ranking. Libya, which was the top performer during the first decade of the 21st century, experienced a significant decline in human development. This shows that progress is neither linear nor guaranteed, and that crises can reverse it.

Moreover, the limited diversification of North African economies has an impact on employment. The unemployment rate remained relatively high in 2016, standing at 12%. Despite dynamic growth, job creation has not developed enough to meet the needs of a growing population.

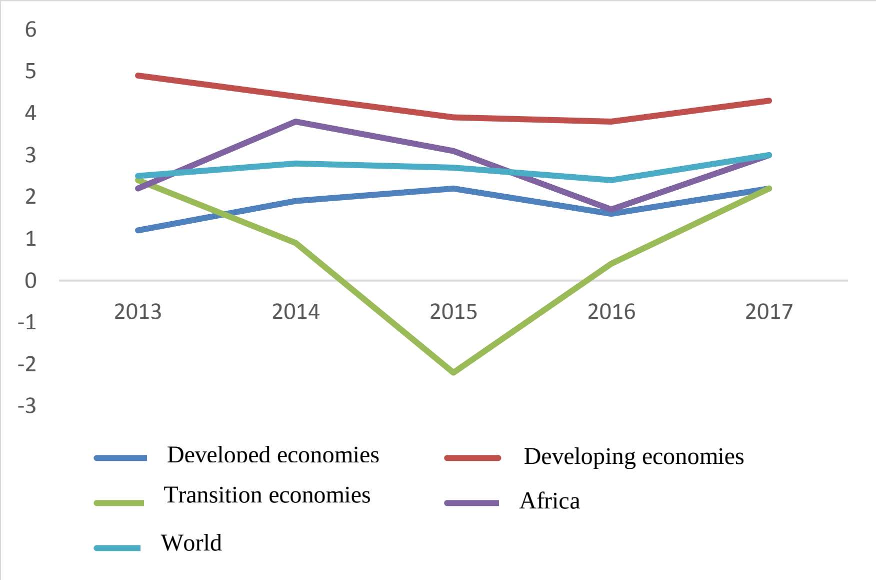
Furthermore, labor productivity growth remains slow, lagging far behind that of emerging countries, such as India and Turkey for example. One explanation for this lies in the allocation of production factors within the economy. An analysis of business productivity dispersion shows that, compared to economies in other regions, North African economies suffer from a misallocation of production factors due to the existence of significant distortions. These distortions are the result of market imperfections and of certain institutional inefficiencies in the countries of the sub-region. A significant increase in productivity and a faster structural transformation in North Africa can be achieved through the development of strong institutions that curb the discretionary power of government agencies and shield economic institutions from political influence. An effective bureaucracy, strong protection of property rights, an investment-friendly regulatory regime and the availability of public infrastructure to support private initiatives would also contribute to achieving that objective.

2. International and regional growth

2.1 International economic environment

Global economic growth in 2017 is estimated at 3.0% (Figure 1), up from 2.4% in 2016. This slight progression is due to stronger growth in several developed countries, notably in North America (2.3%, compared to 1.5%). Economic recovery has not been the same across all geographical areas. South and East Asia remain the most dynamic regions, accounting for one-third of global growth in 2017. The upswing in growth in four emerging countries (Argentina, Brazil, Nigeria and Russia) also accounted for a third of global growth.

Figure 1: Global Economic Growth (%)



Source : UNDESA 2018

In 2017, investment accounted for approximately 60% of the acceleration in global economic activity. This contribution must, however, be put into perspective, since investment had dropped significantly after two years of exceptionally weak growth.

While investment no longer constitutes a break on global growth, its recovery remains moderate and is limited to a small number of countries. A more robust pickup of investment could be jeopardized by greater uncertainty in a range of critical areas, such as the threat of a trade war looming over trade agreements between the United States and many parts of the world, bank balance sheet adjustments and levels of debt which could weaken the global financial system.

The increase in raw materials, particularly oil, caused global inflation to rise slightly (2.6%, up from 2.4%), but the underlying inflation remained stable in most countries. In developed economies, fears of prolonged deflationary pressures were dissipated by stronger economic growth. In developing economies, inflation went down from 5.2% in 2016 to 4.4% in 2017.

Given the connection between trade and investment, in 2017 global trade expanded by 3.6%, up from 2.2% in 2016. Global trade growth was driven by Asia, which accounted for 60% of the rise in the import of goods. As for the rise in exports, it was noted in all parts of the world.

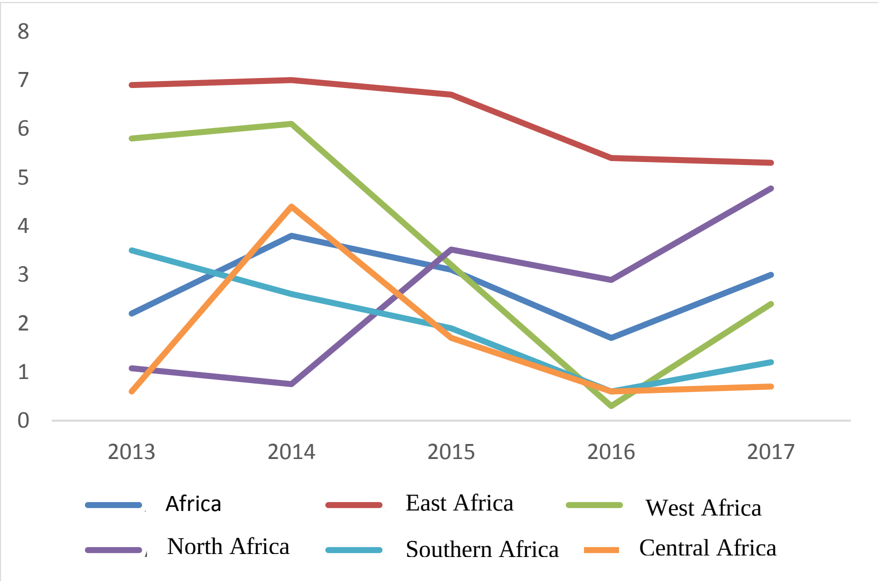
2.2 Regional economic environment

In 2017, Africa experienced growth estimated at 3.7%, up from 1.7% in 2016, mainly due to the rise in oil prices from which net exporting countries have benefited. Growth in West Africa rose sharply, going from 0.3% in 2016 to 2.4% in 2017 (Figure 2). It was driven by Nigeria, with growth estimated at 0.9 %, compared to -1.5% in 2016. In Central Africa, the growth rate stood at 0.7% (up from 0.6% in 2016), undermined by a significant contraction in Equatorial Guinea (-5.9%) and Congo (-0.6%). The economies of Equatorial Guinea and Congo have suffered since 2014 from the drop-in oil prices, in addition to a decline in production in the case of Equatorial Guinea.

In East Africa, growth continued to increase steadily, with a GDP growth rate of 5.3% in 2017, compared with 5.4% in 2016. Over the 2009-2016 period, the sub-region had an average growth rate of 6.5%. This performance was achieved thanks mostly to the dynamism of the economies of Kenya (+5.2%), Ethiopia (+6.5%), Rwanda (+6.1%) and Tanzania (+ 6.5%).

As for the South African sub-region, the growth rate doubled, going from 0.6% in 2016 to 1.2% in 2017. This increase in the growth rate was driven by growth in three countries: South Africa (+1.8%), Angola (+1.9%) and Zambia (+3%). However, growth in the sub-region has been weak due to poor growth in South Africa, which has a negative impact on neighbouring countries. Political uncertainties in South Africa continue to weigh on growth.

Figure 2: Regional economic growth (%)



Source: *UNDESA 2018*

In 2017, economic growth in North Africa stood at 4.8%, compared with 2.9% in 2016. The evolution of the economic situation in this sub-region will be examined in further detail.

3. Economic performance in North Africa

North Africa's economic performance continues to hinge on primary sectors, mainly agriculture, livestock, fisheries and mineral resources, t in terms of economic growth, fiscal balances or external accounts This could be attributed to insufficient structural transformation.

3.1 Economic growth

Economic growth in North Africa increased to 4.8% in 2017, compared to 2.9% in 2016 (Table 1). The increase in the growth rate is mainly due to a rebound in the Moroccan and Libyan economies (excluding Libya, growth remained stable at 3.3%).

In 2016, GDP growth in Morocco dropped to 1.2% due mainly to adverse climate conditions for agricultural production. 2017 is one of the best years in terms of cereal harvest since the launch of the Green Morocco Plan (PMV). The average quarterly growth in the value added of the agricultural sector was 14.8%, compared with a decrease of 12.8% in 2016. Non-agricultural sectors recorded a 2.8% growth in value added, up from 2.2% in 2016.

In Libya, after recording -8.1% in 2016, the growth rate was more than 46% in 2017, driven by an increase in oil production. Growth continues to be inconsistent in Libya due to security situation. There was also a slowdown in the Algerian economy: growth fell to 1.6% from an average of 3.4% over the 2010-2016 period. This slowdown is due to the fiscal adjustment made by the country to cope with the decline in hydrocarbon revenues. The country initially reacted to the external shock through a price adjustment via the exchange rate.

Table 1: GDP growth rate (%)

	2013	2014	2015	2016	2017
Algeria	2.8	3.8	3.7	3.3	1.6
Egypt	2.2	2.9	4.4	4.3	4.2
Libya	-52.1	-67.2	-10.1	-8.1	46.2
Morocco	4.5	2.7	4.5	1.2	4.1
Mauritania	6.1	5.6	5.0	1.6	3.1
Sudan	2.2	3.2	3.0	4.9	4.5
Tunisia	2.4	2.3	0.8	1.0	1.9
North Africa (excluding Libya)	2.8	3.1	3.8	3.3	3.3
North Africa	2.7	3.0	3.7	2.9	4.8
Africa	4.0	3.9	3.7	1.7	3.7

Source: National data, UNDESA, ECA calculations

Growth in Egypt was steady, where GDP growth in 2017 was estimated at 4.2compared with 4.3% in 2016. Growth was driven by manufacturing, construction and real estate, retail trade, transportation and telecommunications. In Mauritania, the growth rate stood at 3.1%, up from 1.6% in 2016, thanks to public investment and the impact of structural reforms. Finally, the Sudanese economy grew by 4.5% in 2017, slightly less than in 2016 (4.9%), mostly due to a drop in the production and export of hydrocarbons and a contraction in domestic demand.

3.2 Public finances

With regards to public finance, North Africa had a budget deficit of -8.9% of GDP in 2017 (Table 2), compared with -11.2% in 2016. This improvement is the result of a reduction of budget deficits in Algeria, Egypt, Libya and Morocco. Algeria introduced budgetary adjustments to cope with the drop-in revenue from gas and oil taxes, reducing the budget deficit from -13.2% of GDP in 2016 to -8.8% in 2017. Public spending-to-GDP dropped from 46.3% in 2015 to 41.5% in 2017. However, the reduction in public spending was achieved by resorting to unconventional financing., The Bank of Algeria purchased treasury securities for an amount of AD 570 billion for the year 2017 (approximately US$4.6 billion). In Libya, thanks to the rise in oil production, the budget deficit went from -53.8% of GDP in 2016 to -43.2% in 2017.

Table 2: Budget deficit as a percentage of GDP

	2013	2014	2015	2016	2017
Algeria	-12.8	-7.3	-15.3	-13.2	-8.8
Egypt	-13.0	-12.2	-11.5	-12.3	-10.5
Libya	-6.2	-40.3	-52.6	-53.8	-43.2
Morocco	-5.2	-5.5	-4.9	-4.0	-3.5
Mauritania	-0.9	-3.4	-3.5	-3.3	-3.9
Sudan	-2.3	-1.2	-1.6	-1.5	-1.8
Tunisia	-6.8	-5.0	-4.8	-6.1	-6.1
North Africa	-10.0	-9.2	-11.5	-11.2	-8.9
Africa	-4.5	-5.4	-6.3	-6.6	

Source: National data, UNDESA, ECA calculations

In Egypt, the budget deficit was brought down from -12.3% of GDP to -10.5% in 2017 thanks to the subsidy reform (including a decrease in energy subsidies), new taxes (such as VAT) and a reduced increase in the public sector's wage bill. The budget deficit also contracted in Morocco, dropping from -4.0% in 2016 to -3.5% of GDP in 2017,this is due to the improvement in tax revenues up 5.6% compared to 2016, and the control of ordinary expenses, with an increase of 1.6% compared to 2016. In Tunisia, despite a 13.3% increase in revenue in 2017, the budget deficit remained at -6.1% of GDP. Government spending jumped by 17%, up from 9.1% in 2016, mainly because of continued increase in operating expenditure. In Sudan, the budget deficit widened slightly (-1.8% in 2017, up from -1.5% in 2016) due to the decline in oil revenues and the stable level of public spending.

3.3 Inflation

Inflation in the sub-region was 15.9% in 2017, compared with 9.8% in 2016 (Table 3). This increase is due to a higher inflation rate in Egypt, Libya, Sudan and Tunisia. In Egypt, inflation jumped from 14.0% in 2016 to 29.8% in 2017 due to the devaluation of the Egyptian pound, the rise in VAT and higher energy prices. In Libya, inflation rose from 25.9% in 2016 to 28.5% in 2017, due to continued reduction of food subsidies. In Sudan, inflation increased significantly, standing at 25.1% in 2017, up from 17.8% in 2016, due to the depreciation of the exchange rate on the informal market, its impact on import prices and the monetization of the budget deficit. In Tunisia, inflation went up from 3.7% in 2016 to 5.3% in 2017, with price increases affecting all products, fuelled in particular by the depreciation of the dinar.

Table 3: Annual inflation rate (%)

	2013	2014	2015	2016	2017
Algeria	3.3	2.9	4.8	6.4	5.6
Egypt	6.9	8.2	11.4	14	29.8
Libya	2.6	2.4	9.8	25.9	28.5
Morocco	1.9	0.4	1.6	1.6	0.7
Mauritania	4.1	3.5	0.5	2.8	1.2
Sudan	36.5	36.9	16.9	17.8	25.1
Tunisia	5.8	4.9	4.9	3.7	5.3
North Africa	7.4	7.4	7.8	9.8	15.9
Africa	7.1	6.9	6.9	12.0	13.4

Source: National data, UNDESA, ECA calculations

On the other side, Morocco held reduction in inflation in Morocco, which stood at 0.7% in 2017, against 1.6% in 2016, a slowdown in food price inflation (+0.1% in 2017, against +2.7% in 2016) and an increase in the inflation rate of non-food products (+1.4% in 2017, up from +0.7% in 2016). In Algeria, the inflation rate remained high (5.6%), which is nonetheless lower than in 2016 (6.4%). From the short-term perspective, it seems inflation does not follow the evolution of the money supply. Other factors, such as the flawed functioning of the goods market, seem to influence price evolution. Finally, it should be pointed out that unconventional financing did not have an impact on inflation since public spending did not increase.

3.4 Current account

From the structural standpoint, the countries of the sub-region remain in a position of external deficit (excluding hydrocarbon exports).

In 2017, the North African current account deficit was reduced to -5.9% of GDP, compared to -9.7% in 2016 (Table 4). This improvement is mainly due to a reduction in the current account deficit in Algeria and Libya. In Algeria, the current account deficit dropped from -16.6% of GDP in 2016 to -6.6% in 2017. Despite a 2.88% decline in the volume of hydrocarbon exports in 2017, the rise in oil prices resulted in an 18.42% improvement in hydrocarbon exports in value terms. As for non-hydrocarbon exports, they stagnated in 2017, amounting to US$1.37 billion. The decrease in imports, which started in 2015, slowed down in 2017. Imports amounted to US$ 48.7 billion, down from US$ 49.4 billion in 2016. The drop-in imports is mainly due to a reduction in capital expenditure and the measures taken by the government to reduce imports. With regards to Libya, the current account balance went from a deficit of -48.1% of GDP in 2016 to a 2.2% surplus in 2017. This development is due to a resumption of oil exports, with an estimated increase of 83% in 2017.

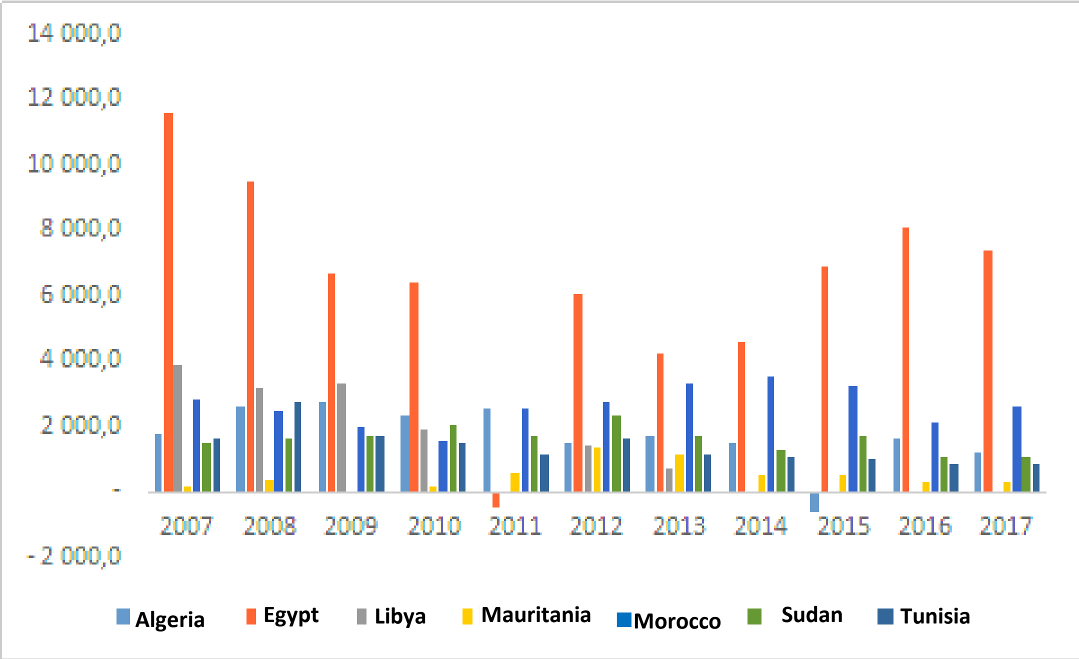
Table 4: Current account balance as a percentage of GDP - North Africa

	2013	2014	2015	2016	2017
Algeria	5.8	0.6	-4.4	-16.6	-6.6
Egypt	-3.7	-0.9	-3.6	-5.9	-6.6
Libya	29.1	13.5	-27.8	-41.8	2.2
Morocco	-11.2	-9.3	-7.1	-2.5	-3.6
Mauritania	-23.4	-23	-27.8	-20	-10.9
Sudan	-10.3	-8.1	-5.6	-4.27	-4.1
Tunisia	-8.3	-8.4	-9.1	-8.8	-10.2
North Africa	-2.3	-2.7	-6.0	-9.7	-5.9
Africa	-2.5	-4.7	-6.9	-5.6	-4.5

Source: National data, UNDESA, ECA calculations

Foreign direct investment inflows (FDI) reached US$ 13,520.6 million in 2017 (Figure 4). Average FDI inflow decreased after 2011, going down from an average of US$ 19,949.6 million between 2007 and 2011 to an average of US$ 13,970 million during the 2012-2017 period. This is mainly due to the decline of FDI in Libya.

Figure 3: FDI inflows 2007-2017 (Millions US$)



Source: UNCTAD

(Algeria Egypt Libya Mauritania Morocco Sudan Tunisia)

It should be noted that three countries from the sub-region (Egypt, Morocco and Algeria) are among the top 10 FDI receiving countries in Africa (Table 5). The three countries accounted for 83.15% of FDI received by North Africa in 2017.

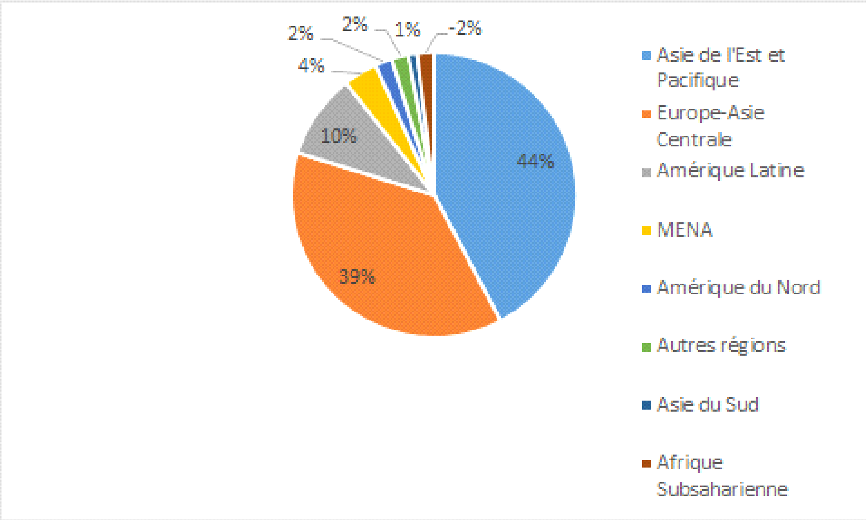
Table 5: Top 10 FDI receiving countries in Africa in 2017 (Million US$)

Egypt	7391.7
Ethiopia	3586.4
Nigeria	3503
Ghana	3255.0
Morocco	2651.0
Mozambique	2293.1
Gabon	1498.0
Democratic Republic of Congo	1340.2
South Africa	1324.7
Algeria	1203.0

Source: ECA

In 2017, the trade balance for the sub-region was US$ -76.5 billion, or -10.15% of GDP. East and South Asia and Europe-Central Asia accounted for 53% and 39% respectively of the sub-region's trade deficit (Figure 5). North Africa has a trade deficit with all regions except sub-Saharan Africa, with which it has a surplus of US$ 1.04 billion. It should be pointed out that sub-Saharan Africa accounts for only 1% of North African imports and 4% of the sub-region’s exports, respectively.

Figure 4: Breakdown of North Africa's trade deficit by geographical area, 2017



East Asia and the Pacific

Europe-Central

Asia

Latin America

MENA

North America

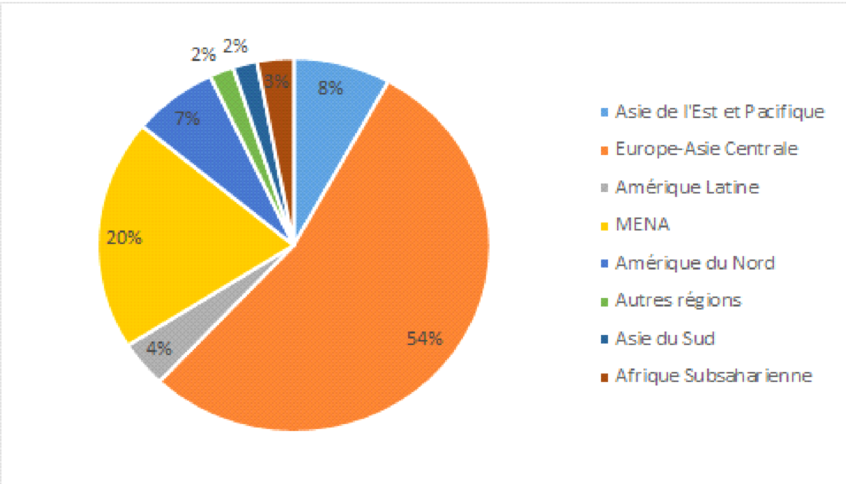
Other regions

South Asia

Sub-Saharan Africa)

Source : COMTRADE

Figure 5: Regional breakdown of North Africa exports, 2017



East Asia and the Pacific

Europe-Central

Asia

Latin America

MENA

North America

Other regions

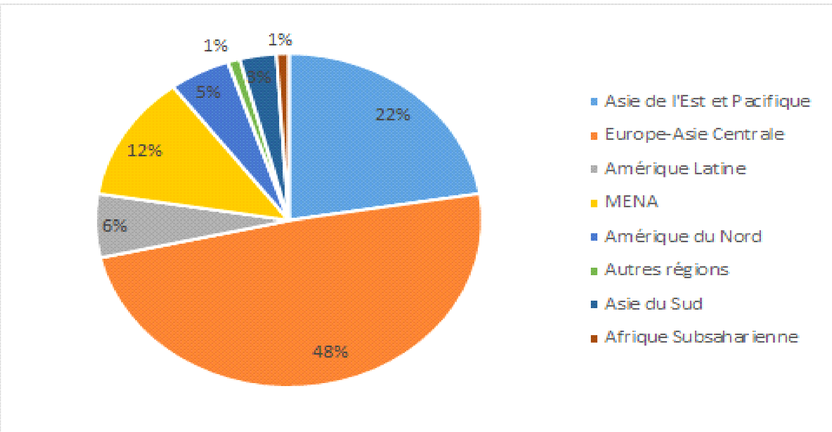
South Asia

Sub-Saharan Africa)

Source : COMTRADE

(East Asia and the Pacific Europe-Central Asia Latin America MENA North America Other regions South Asia Sub-Saharan Africa)

Figure 6: Regional breakdown of North Africa imports - 2017



East Asia and the Pacific

Europe-Central

Asia

Latin America

MENA

North America

Other regions

South Asia

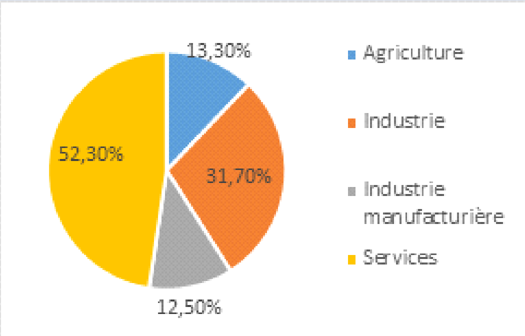
Sub-Saharan Africa)

Source : COMTRADE

(East Asia and the Pacific   Europe-Central Asia   Latin America   MENA   North America   Other Regions   South Asia   Sub-Saharan Africa)

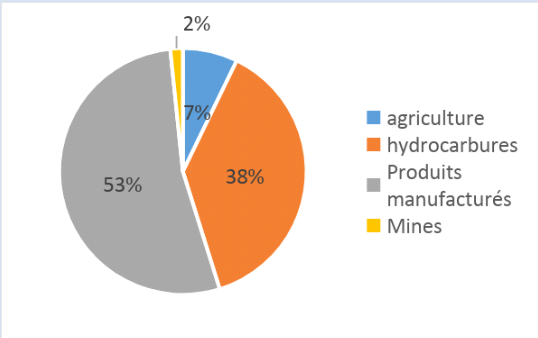
In terms of structure, manufacturing accounts for 12.5% of the sub-region's GDP and for 53% of its exports (Figure 9). As for hydrocarbons and mining, they represent 31.7% of GDP and 38% of the sub-region's exports (Figure 8). However, there are substantial differences between the countries concerned. If the manufacturing industry (excluding hydrocarbons) represents only 5% of Algerian exports, its share is 90.6% in the case of Tunisia, 78% for Morocco and 77.3% for Egypt.

Figure 7 : GDP structure - 2016



Source : ECA

Figure 8 : Sectoral breakdown of exports - 2017



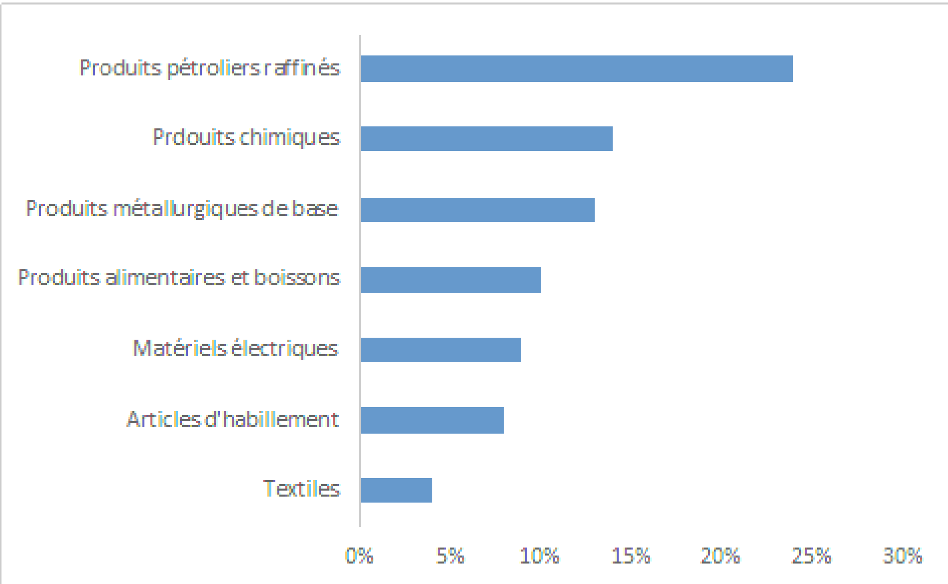
Source : COMTRADE

(Agriculture   Industry   Manufacturing industry   Services)

(Agriculture   Hydrocarbons   Manufactured goods   Mining)

An examination of the structure of manufactured exports shows that 7 product categories account for 81% of the sub-region's exports (Figure 10).

Figure 9: Main products exported, 2017

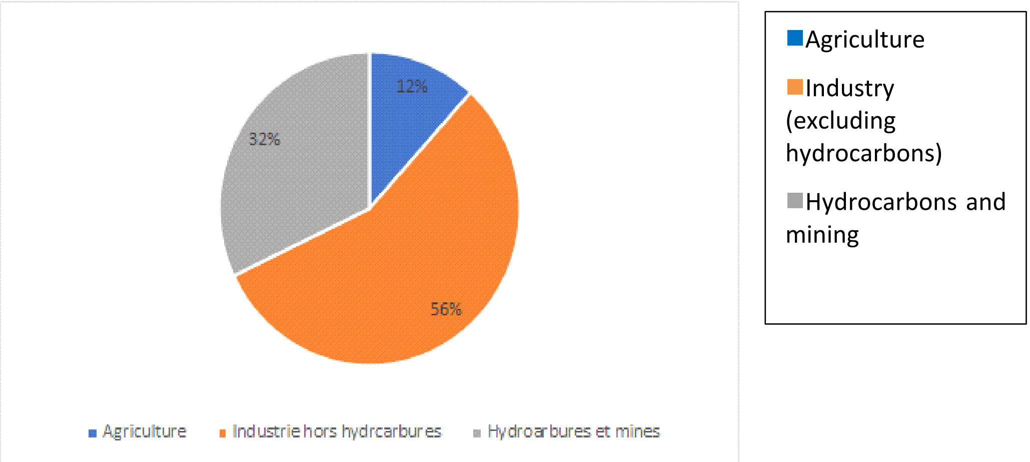


Source: COMTRADE

(Refined oil products   Basic metals   Food and beverages   Electrical equipment   Clothing products   Textiles)

With respect to intra-regional trade, industry (excluding hydrocarbons) accounts for 56% of intra-regional exports in North Africa (Figure 11).

Figure 10: Sectoral breakdown of intra-North African exports



Source: COMTRADE

4. Social and human development in North Africa

4.1 Implementation of Agendas 2030 and 2063

All North African countries have started to embrace and implement the 2030 Agenda (United Nations) and Agenda 2063 (African Union). The two Agendas currently constitute the main roadmaps for sustainable development and structural transformation on the continent. Countries use their national growth and development strategies to operationalize the two Agendas on the ground. Algeria is doing this through the 2016-2030 economic growth model; Egypt through the strategy for sustainable development (Egypt Vision 2030); Libya through the Renewable Energy Strategic Plan 2013-2025; Mauritania through the 2016-2030 National Strategy for Accelerated growth and Shared Prosperity; Morocco through the 2016-2030 National Strategy for Sustainable Development; Sudan through the 3rd 2017-2020 development plan falling under the National Strategic Plan 2007-2030, and Tunisia through the Five-Year Development Plan 2016-2020.

North African countries embarked upon an assessment of their national statistical systems in light of needs for SDG monitoring. The conclusion made in this regard is that some sustainable development indicators (education, health, poverty, etc.) are available and are produced on a regular basis by national statistics institutes, while others still need to be developed, such as those on objectives relating to governance and the environment.

The High Level Political Forum on Sustainable Development (HLPF), which is the UN's central platform for follow-up and review of the 2030 Agenda, meets annually and considers voluntary national reviews concerning different countries as well as thematic reviews to assess progress towards the SDGs. As part of this process, three-member countries presented their national reports: Egypt (2016 and 2018), Morocco (2016) and Sudan (2018). Algeria, Mauritania and Tunisia volunteered to present their report at the 2019 HLPF.

4.2 Demographic trends

North African countries have made notable progress in terms of improving the living conditions of the population, especially through efforts to improve access to health services, water, electricity and housing. These investments in human development have led to a reduction in the crude death rate and an increase in life expectancy at birth. However, this demographic transition has not been the same in all countries: Algeria, Egypt, Libya, Morocco and Tunisia are currently completing their transition, whereas Mauritania and Sudan still have a relatively strong population growth.

Table 6: Demographic indicators

	Population growth (%)	**Number of children per woman (average)**	**Crude death rate (number of deaths per 1000 births)**	**Life expectancy (Number of life years)**
Algeria	1.92	2.93	5.1	74.42
Egypt	2.18	3.38	6.2	70.84
Libya	0.04	2.53	5.3	71.45
Morocco	1.37	2.56	5.7	73.61
Mauritania	2.49	4.69	8.1	62.78
Sudan	2.21	4.46	7.9	63.08
Tunisia	1.12	2.16	6.6	74.60

Source: ECA: Country Profile, National Statistics Office, United Nations Population Division, 2013 -2015

4.3 Human development

Human development in North Africa is presented through the Human Development Index (HDI). Accordingly, Algeria ranks first in North Africa (Table 7). With an HDI of 0.754, the country is ranked 85th in the world. It is followed by Tunisia, which ranks 95th with an HDI of 0.735, next is Libya, with an index of 0.706 (108th), Egypt, in the 115th place with an HDI of 0.696, followed by Morocco, which ranks 123rd with an HDI of 0.667. With an HDI of 0.520, Mauritania ranks 159th, and Sudan is 167th with an index of 0.502.

Table 7: Evolution of the Human Development Index

	2012 world ranking	2017 world ranking	2012 HDI	2017 HDI	HDI evolution between 2012 and 2017
Algeria	93	85	0.713	0.754	5,75%
Egypt	112	115	0.662	0.696	5,14%
Libya	64	108	0.769	0.706	-8,19%
Morocco	130	123	0.591	0.667	12,86%
Mauritania	155	159	0.467	0.520	11,35%
Sudan	171	167	0.414	0.502	21,2%
Tunisia	94	95	0.712	0.735	3,23%

Source: UNDP, Human Development Indices and Indicators: 2018 Statistical Update.

Table 7 shows that between 2012 and 2017, the countries that have made most progress are Sudan (20.29%), Morocco (12.86%) and Mauritania (11.35%). Countries like Tunisia, Egypt and Libya, which have been deeply troubled states since 2011, have experienced a slowdown in their level of human development, a fact that has adversely affected their global ranking. Libya, the top performer during the first decade of the 21st century, experienced a significant decline in human development. This shows that progress is neither linear nor guaranteed, and that crises can reverse a trend.

4.4 Gender Inequality Index (GII)

Reducing gender inequalities is one of the major challenges in the sub-region. Although considerable progress has been made in the education of girls and women, they still suffer from unequal treatment with regard to health care, employment and participation in decision-making.

Table 8: Gender Inequality Index (GII)

	GII	Global rank
Algeria	0.442	100
Egypt	0.449	101
Libya	0.170	38
Morocco	0.482	119
Mauritania	0.617	147
Sudan	0.564	139
Tunisia	0.298	63

Source: Human Development Report 2018, UNDP.

The main indicators allowing the GII to reflect significant inequalities are maternal mortality, the number of seats held by women in national parliaments and finally women's participation rate in the labor force. The Gender Inequality Index (GII) shows how persons of one sex are at a disadvantage compared with persons of the other sex in three areas, namely:

- Reproductive health, measured by the maternal mortality ratio and adolescent birth rates;
- Empowerment, measured by the proportion of parliamentary seats held by women and the level of education achieved in secondary and higher education;
- The labor market, measured by labor force participation of female and male populations.

The GII score range is between 0 (equality between women and men) and 1 (when women fare worse than men in all measured aspects). As far as the sub-region is concerned, GII values vary considerably from one country to another. Table 8 shows that it is in Libya (38th in the world) and Tunisia (63rd in the world) that gender inequalities are the least significant, whereas it is in Mauritania (147th position) that they are the most pronounced.

4.5 Poverty trend

poverty has declined significantly in North Africa (see Table 8). However, the poverty situation varies from one country to another as well as within the same country (according to sex, age and region). While poverty has declined in terms of the number of people affected, particularly by extreme poverty, the issue of inequality in this regard remains a matter of concern.

Table 9: Poverty evolution

	Relative poverty rate	Relative poverty rate
Algeria	14.1% (1995)	5.5% (2011)
Egypt	37.3% (1996)	27.8% (2016)
Libya	1.4% (2009)	N/A
Morocco	15.3 (2001)	4.8% (2014)
Mauritania	51% (2000)	31 % (2014)
Sudan	46.5% (2000)	36.1% (2014)
Tunisia	25.4% (2000)	15.2% (2015)

Source : ECA : Country Profile, National Statistics Office, UNDP Country Office.

All member countries have social policies designed to combat poverty. They are mainly based on blanket consumer price subsidies, social transfers and free access to basic services such as education and health. These policies, which lay emphasis on investment in human capital development, which have contributed to reducing poverty and have moderately eased social pressure, are increasingly difficult to sustain financially. Their cost is very high for the countries concerned and they are not effective, given their generalized character. In general, those who consume the most are the ones who proportionally benefit the most from these subsidies. Countries have therefore started to reform the tools and mechanisms they use in connection with subsidies and social transfers. They plan to replace the current system of blanket subsidies with a targeting system that allows for direct transfers in the form of cash payments or subsidized prices for the neediest families.

In Algeria, official data on poverty dates back to 2011. Estimates for relative poverty dropped from 14.1% in 1995 to 5.5% in 2011. Extreme poverty is almost insignificant (0.4%). The current economic slowdown - due to lower hydrocarbon revenues, persistent lack of jobs, reforms of the social subsidy system planned for 2019 and 2020 and inflationary pressures - raise particular concern about the number of households in vulnerable situations and the rise of the poverty rate in the country in the coming years. The significant regional disparities in poverty also need to be underscored: in the Sahara region, the poverty level is twice the national rate, and in the Highlands, it is three times the national rate. According to 2011 estimates, income inequality as measured by the Gini coefficient was 27.7%. During the same year, total Algerian household expenditure was estimated at DA 4,489.5 billion, of which DA 3,194.1 billion concerned urban settings (i.e. 71% of total expenditure) against only DA 1,295.4 billion in rural areas (less than 30%).

The economic slowdown, which is due to the decline in hydrocarbon revenues that started as of 2014, has had an impact on the country's social policy. Algeria is finding it increasingly difficult to continue applying its policy of blanket consumer price subsidies, increasing wages and making social transfers. According to the Finance Act for 2017, subsidies and social transfers accounted for almost 24% of the budget. As of 2019, the government plans to apply "a gradual adjustment" of social subsidies and transfers "through specific targeting" that requires regularly updated data on consumer spending. In 2016, for the first time since 2005, the government took steps to increase the price of gasoline and other energy products.

In Egypt, the proportion of people living in relative poverty dropped from 37.3% (1996) to 27.8% (2016). This figure still represents a sharp increase compared to 2005, when the rate was 16.7%. This is mainly due to the very significant slowdown in economic growth since the 2011 revolution. Poverty is more prevalent in rural areas (in Upper Egypt for instance), which are home to three-quarters of the country's poor population. This is mostly due to the lack of adequate public infrastructure, insufficient job opportunities, limited investment in human capital and a relatively ineffective social transfer system. Nevertheless, the gradual development of grant programs, such as *Takaful* and *Karama*, to better target the poor, in addition to geographically targeted programs, such as "inclusive and sustainable cluster development in Upper Egypt", and the efforts made to implement constitutional commitments to increase health and education spending, are likely to help reduce poverty in the future.

The welfare and social protection policy in Egypt includes several components such as subsidies, direct cash transfers as well as income-generating programs that enable the country to combat poverty and the erosion of consumer purchasing power. This is a very important policy for the population. However, it is costly for the country since it absorbs nearly 25% of public expenditure and amounts to 13% of GDP. In this regard, the Egyptian government has embarked on a reform of its subsidy system with a view to bringing the total amount of subsidies for oil products to E£ 110 billion (US$ 6.09 billion) by 2019, compared with E£ 145 billion (US$ 8.02 billion) in 2016.

Before the political uprise,Libya had all but eradicated poverty (1.4% of the population). It ranked 64th in the world and 2nd on the continent as per the Human Development Index (HDI). However, the socio-economic situation and the living conditions of the population have deteriorated considerably as the country has been engulfed, since 2011, in endless political divisions. The deterioration is also due to the precarious situation in terms of management of oil revenues, the decline in foreign exchange reserves, the lack of funds to maintain the country's very advantageous subsidy system and the destruction of most of the country's infrastructure and basic services.

The elimination of direct subsidies to food supplies resulted in a 25.4% decrease in subsidy-related expenditure. As a result, the purchasing power declined and was further damaged by a considerably higher inflation rate, which reached an all-time high of 31.1% in the second quarter of 2017.

In Morocco, the efforts exerted made it possible to reduce the poverty rate to less than 5% of the population, or 1.6 million individuals. In 2014, monetary poverty seemed to be mostly a rural phenomenon, since the geographical distribution of poverty shows that 79.4% of the poor live in rural areas. The incidence of poverty is higher than in urban areas: 9.5% compared with 1.6%. However, region-specific analysis of poverty indicates significant geographical disparities. In this respect, with a poverty rate of 14.6%, the Draa-Tafilalet region is the poorest, compared with the Casablanca-Settat region, which has only a 2% poverty rate. 74% of the country's total poor population are concentrated in 6 of Morocco's 16 regions.

In Morocco as well, the subsidy system (food and oil products) constitutes a very heavy burden for the state. However, it does help preserve the purchasing power of the population. In 2012, expenditure on subsidies amounted to 53 billion dirhams, or 18% of total public spending. This induced the government to seek, as of 2013, to reform the *Caisse de Compensation* (the national subsidy fund), which is the entity in charge of managing and distributing subsidies. This reform led to the elimination, , of subsidies on oil products in 2015. Their prices are now set by the market. Nevertheless, the government continues to subsidize butane gas and sugar for household consumption. The budget allocated to these products is still significantly high, standing at nearly DH 15 billion in 2017, or 7% of total public expenditure.

In Mauritania, as well, the poverty rate decreased, going from 51% in 2000 to 42% in 2008 and 31% in 2014. This reduction, was more significant between 2008 and 2014, was accompanied, for the first time, by a decline in the number of poor people, which dropped from 1.4 million to less than 1.1 million over the same period. Extreme poverty dropped from 29.2% in 2000 to 25.9% in 2008 and 16.6% in 2014. However, these positive figures conceal significant spatial disparities: 49% in Tagant and Guidimagha, compared with 14% in Nouakchott and Nouadhibou. Also hidden are socio-economic disparities: a poverty rate of 59.6% among farmers and 41.8% among breeders. Moreover, according to the 2014 EPCV data (permanent survey of household living conditions) - evolution of inequality among the poor - it is indicated that its depth dropped from 17% in 2000 to 14.5% in 2008 and 9.4% in 2014. The severity of poverty has remained fairly stable, standing at 6.9% between 2004 and 2008, and 4.1% in 2014.

In Mauritania, over the last five years, social protection has evolved favourably from an institutional standpoint with the adoption, in 2013, of the National Strategy for Social Protection (SNPS) and of operational measures, notably through actions like the implementation of the EMEL program. The latter has two components designed to combat poverty: first through the rescue of livestock and, second, by ensuring the availability of basic necessities for needy populations in order to mitigate the impact on children's nutrition and health. There is also the school canteen program and the establishment of funds (cash transfer) to provide care and support to destitute sick people suffering from chronic diseases. However, these efforts remain fragmented and scattered. Several constraints exist, including, in particular, a relatively inadequate coverage, insufficient and inefficient coordination, the lack of balance between supply and demand for social services and the lack of financial means and technical skills.

In Sudan, the situation has improved significantly, poverty dropped from 46.5% nationwide in 2000 to 36.1% in 2014. A quarter of the population (25.2%) still live in extreme poverty. Inequalities between different regions - for example, between the capital, Khartoum (where a quarter of the inhabitants are considered poor) and North Darfur (two-thirds of whose inhabitants are considered poor) - attest to a real problem in the distribution of the benefits of growth and oil revenues. It should be pointed out, as well, that the two regions of Kordofan and Darfur, which account for 34% of the population, are the poorest in the country and are considered priority regions for government interventions.

To help the poorest families, the Sudanese government has developed a number of mechanisms such as: the direct cash transfer program to the poorest households, the national health insurance fund, which covers healthcare costs for poor households that cannot pay their contribution to the scheme, scholarships to students from poor households to enable them to go to university, and the rural women empowerment fund, which runs microfinance and capacity building programs for women in disadvantaged rural areas.

Nevertheless, many actions were taken by the government, such as the sharp reduction in oil product subsidies and the gradual increase in the price of electricity, have had a negative impact on the purchasing power of the population. In 2016, as soon as the partial elimination of subsidies was announced, the prices of diesel, gasoline and cooking gas jumped by 65%, 68% and 67%, respectively, triggering social tensions in the country.

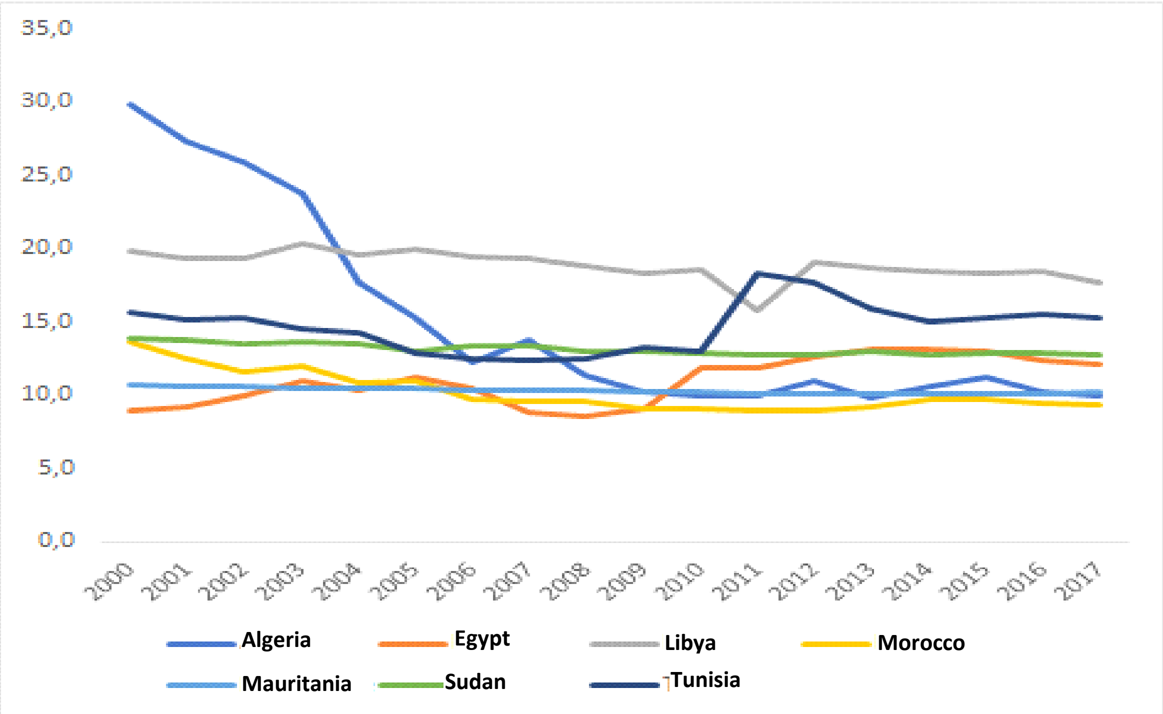
In Tunisia, the latest survey on household expenditure and consumption (2015) concluded that the national poverty rate was 15.2%, 10.1% in municipal districts (cities), and 26% in rural areas. Extreme poverty affects almost 3% of the population, with a distinct difference between urban centers (1.2%) and rural areas (6.6%). Disparities between rich regions - often in metropolitan areas where economic activity is concentrated - and poor regions - generally peripheral and rural areas - are a major problem plaguing social progress in Tunisia.

The main instrument for maintaining the populations' standard of living is the subsidy program. It includes, in particular, three mechanisms which weigh heavily on government spending: (i) The *Caisse Générale de Compensation* (general subsidy fund), which subsidizes basic foodstuffs, such as wheat, oil and milk, (ii) the energy subsidy, which covers the various types of fuels in addition to electricity, and (iii) the transport subsidy, whereby the state pays for transport costs between production sites in landlocked areas and ports. Subsidy expenditures for 2017 are estimated at DT 3.5 billion, of which 1.5 billion for basic foodstuffs, DT 1.55 billion for fuel and DT 450 million for transport.

4.6 Employment trends

As regards the employment situation, the unemployment rate in the sub-region has remained high, standing at 12.5% in 2017 (Figure 3). Job creation has been relatively dynamic, with an average growth of 2.6% over the period 1990-2015. However, during the same period, population growth has remained high, standing at 2.47%.

Figure 11: Unemployment rate (%)



Source: ILO

The issue of employment is of paramount importance in North African countries. More specifically, the unemployment rate of young people and women remains a key issue in the development policies of the countries in the sub-region.

In Algeria, the unemployment rate was 12.3% in April 2017, up 1.8 points from 10.5% in September 2016 (National Statistics Office - ONS, 2017). Concealed in these data are significant differences across population groups. The unemployment rate for young people aged 15 to 24 has stood at about 29%. According to April 2017's figures, the unemployment rate among unskilled youth was 10%, compared with 14.8% among vocational training graduates, and 17.6% for people with a post-graduate degree. The unemployment rate is lower among people with little education, and that rate increases with educational attainment, reaching 15.4% for those with a higher education diploma (ONS). Four factors seem to determine the profile of the unemployed in Algeria: to be young, female, university-educated and urban. Some reforms have been introduced to improve the quality of the education system, but they are yet to improve the employability of students dropping out of the system.

The Algerian government is banking on the new model of economic growth (2016-2030) to promote employment, especially that of young people, by diversifying the country's economy to reduce dependence on hydrocarbons. The program of the new growth model, whose first phase concerns the 2016-2019 period, aims to promote several industrial sectors and initiate a recovery as well as industrial integration. The country also aims to boost private investment to replace public investment.

In Egypt, the unemployment rate is structurally high, but it has been slightly decreasing since 2016. It fell from 12.4% in the last quarter of 2016 to 12.0% in the second quarter of 2017, standing at 9.9% in the second quarter of 2018. The unemployment rate in urban areas concerned 11.9% of the total urban labour force in the second quarter of 2018, compared with 13.6% in the second quarter of 2017. As for the unemployment rate in rural areas, it was 8.5% of the total rural labour force, down from 10.7% in the second quarter of 2017.

Youth unemployment remains a major concern for the government. It went up 50% over the last decade, going from 28% in 2000-2002 to 42% in 2012-2014 due, in particular, due to weak economic prospects. Significant progress was made regarding the enrolment rate, including for girls, but the unemployment rate rose as the level of educational performance increases. This may point to a mismatch between the needs of the business community and the education and training system (including technical and vocational education).

The precarious security situation, together with political divisions, have led to a significant deterioration of socio-economic conditions in Libya. Unemployment continues to be a major challenge for the Libyan economy, which relies heavily on hydrocarbons. The economic recovery, following the revolution, was mainly based on the growth of the capital-intensive energy sector, which does not contribute to promoting employment. The estimated unemployment rate was 15% (50% of young people). The country's volatile political and security situation in 2013 prevented the emergence of a new framework for growth and development which would have targeted economic diversification, the creation of productive jobs and an inclusive development agenda. Statistical data have not been officially updated since the revolution, and no employment survey has been carried out in the country.

In Morocco, the national unemployment rate fell from 9.3% in the second quarter of 2017 to 9.1% over the same period in 2018, (from 14% to 13.7% in urban areas, and from 3.2% to 3% in rural areas). The most significant decreases in the unemployment rate were among young people aged 15 to 24 (-0.5 points) and persons with a diploma (-0.4 points). In contrast, the largest increases were among adults aged 25 to 34 (+0.3 points) and urban youths aged 15 to 24 (+0.2 points). The underemployed population was 1,064,000. The underemployment rate declined by 0.3 points compared with the second quarter of 2017, passing from 9.9% to 9.6% nationwide, from 9.1% to 8.7% in urban areas, and from 10.8% to 10.6% in rural areas. The country developed a 2015-2025 national employment strategy which builds on a new approach to employment aimed at going beyond classical active labor market policies. The aim is to put employment front and center of public action, using a crosscutting approach involving, in particular, the economic, financial, budgetary and institutional dimensions, and taking into account all employment gaps as well as the segments of the population affected by these gaps. The government has also created employment programs targeting young people: support for business start-ups (*Moukawalati* program), vocational training assistance, a first labor market entry contract (*Idmaj* program) and *Taehil* program (contract training).

In Mauritania, the latest official figures on unemployment are those of the 2014 permanent survey on household living conditions. At the national level, the unemployment rate was estimated to be 12.85%, and 10.1% in 2012 (ENRE -SI). Unemployment is more of an urban phenomenon (17.2%) than a rural one (6.9%). Female unemployment (19.28%) remains higher than male unemployment (9.92%). In urban areas, the unemployment rate of urban women, estimated to stand at 24.76%, is higher than that of men (13.7%). In rural areas, the situation is not any different, with a female unemployment rate estimated at 11.72%, against 4.65% for men. In terms of age, unemployment disproportionately affects young people (14 to 34) with an estimated rate of 21.01% in 2014, compared with 3.44% for people aged 35 to 64. Youth unemployment in urban areas is even more acute, with a rate of 27.43%, compared with 11.32% in rural areas.

At the regional level, youth unemployment is more pronounced in large urban centers like Nouadhibou (34.64%) and Nouakchott (31.62%). Unemployment among young women (24.6%) is higher than among young men (19.5%). This relatively moderate unemployment rate conceals high rates of underemployment and vulnerability. The rate of vulnerable employment was 54.62% in 2014, compared with 54.1% in 2012. Paradoxically, it affects the urban population (51.58%) more than the rural population (48.42%).

Although job opportunities have been created in recent years in the mining sector and in government agencies, unemployment remains a major challenge. The unemployment problem raises issues relating to qualification and training, the regulation of the labour market, developing the potential of major employment-generating sectors and support for self-employment. The implementation of the National Strategy for Accelerated Growth and Shared Prosperity (SCAPP) for 2016-2030 aims to rise to all these challenges, create more than 120,000 jobs in 2016-2020 and bring unemployment below the 10% mark by 2030.

With regards to Sudan, there are no recent data on the labor market. However, IMF estimates indicate an unemployment rate of approximately 19.6 percent in 2017, and 22.4 % for people aged 15 to 24. The labor market participation rate indicates a considerable difference between men (79%) and women (20%). The breakdown of active population by sector of activity shows that 44.6% work in the agricultural sector (39.8% for men, compared with 60.7% for women), 15.32% in the industrial sector (15,7% for men, and only 3.8% for women) and 40.1% in the service sector (44.5% for men, and 35.5% for women). Estimates also show that having a job does not necessarily mean that the person concerned has escaped poverty. Indeed, 30% of Sudan's employed people live in households that are considered poor, despite earning income from employment. Public employment services in Sudan face critical challenges regarding their ability to promote an active employment policy. Inefficiencies are the result of both structural and functional shortcomings.

In Tunisia, the unemployment rate remains structurally high. According to data published by the National Statistics Institute (INS), the unemployment rate stood at 15.4% in the second quarter of 2018, unchanged from the first quarter of the same year. Data show significant disparities according to age and sex. Indeed, over the same period, the youth unemployment rate (16-24-year olds) is almost 35%. More than one person in three young people is affected. Moreover, unemployment affects almost twice as many women (22.7%) as men (12.5%).

Tunisia has invested heavily in education. However, workforce skills are a major concern in a country that is achieving some of the highest levels of secondary education in the region.

The Tunisian government is banking on the five-year development plan for 2016-2020, which provides, in particular, for a significant reduction in the unemployment rate from 15.2% to 11% thanks to a series of reforms. This Development Plan revolves around five priority areas: good governance, reform of government agencies and the fight against corruption, the transition from a low-cost economy to an economic hub, human development and social inclusion, the fulfilment of regional ambitions and the green economy. This plan also builds on implementing large-scale projects in all regions, including in interior regions, and in all sectors, including road infrastructure, ports, express railways, industrial zones, airports, dams and urban sanitation.

4.7 Health

Evolution of infant and child mortality

The health sector is another area in which all countries have made significant efforts. . As a result, the number of deaths of children under the age of five is decreasing. Table 10 indicates that these results vary from one country to another. There have been significant decreases for countries like Morocco (27 deaths per 1,000 births), Algeria (25 deaths per 1,000), Egypt (23 deaths per 1,000), Libya (15 deaths per 1,000), and Tunisia (14 deaths per 1,000). The situation is still cause for concern in Mauritania (81 deaths per 1,000 births) and Sudan (65 deaths per 1,000).

Table 10: Number of deaths among children under five years per 1,000 births

	1990	2016
Algeria	49	25
Egypt	86	23
Libya	43	15
Morocco	80	27
Mauritania	117	81
Sudan	131	65
Tunisia	57	14

Source: UNICEF report: State of the World’s Children 2017

Evolution of maternal mortality

Despite the significant investments made, maternal and reproductive health remains, to some extent, a cause for concern. Table 11 shows that maternal mortality rates remain unnaturally high for all countries.

Table 11: Number of deaths per 100,000 live births

	1995-2000	**2010-2015**
Algeria	117.1	60.3
Egypt	63.0	45
Libya	43	15
Morocco	47	27.6
Mauritania	116	118
Sudan	700	216
Tunisia	130	44.8

Source: MDG country assessment reports, ECA Country Profile, National statistics offices data.

4.8 Education

Education is one of the priority sectors in which all the countries of the sub-region have made significant progress, particularly with regard to school enrolment of children. Several countries have achieved universal primary education, with a gross enrolment rate for six-year-olds exceeding 100% (Table 12). That rate is 113.6% in the case of Algeria, 101.1% for Egypt, 109.3% for Libya, 110.2% for Morocco and 114.7% for Tunisia. Mauritania and Sudan have also made significant efforts to substantially improve the gross enrolment rate of children between 1990 and 2015; that rate went up from 49% to 93.8% and from 59% to 73.5% respectively.

Table 12: Gross enrolment ratio by country (%) between 1990 and 2015

	1990	2015
Algeria	92	115.7
Egypt	89.1	103.6
Libya	108.8	109.3
Morocco	67.2	109.3
Mauritania	48.8	93.8
Sudan	59.7	73.5
Tunisia	114.2	114.3

Source: World Bank country data.

It should also be pointed out that enrolment rates are improving in secondary and higher education and that, as regards higher education, gender disparities have virtually disappeared in Algeria, Egypt, Libya, Morocco and Tunisia. In some branches, the proportion of girls has exceeded that of boys. These improvements in enrolment rates and gender gaps are also observed in Mauritania and Sudan.

Nevertheless, these accomplishments in the education sector in terms of increasing the enrolment rate conceal a problem of the quality of teaching and of alignment with labour market needs. For decades, educational systems in North African countries have favoured a quantitative rather than a qualitative approach. Despite further university studies, young people are proportionally more likely to be unemployed. This raises the problem of their employability because of the mismatch between university education and labour market needs.

Given the above, all North African countries have started reforming their education system to bring education in line with economic needs. These reforms are mostly aimed at improving the quality of training to better meet the needs of the job market, thus providing the latter with more suitably qualified human resources that are capable of driving innovation and creativity.

Algerian universities have been reformed in the light of the European and American systems: 3 years for a bachelor’s degree and 2 years for a Master's degree. Several reforms have shaped the current academic environment. Termed the “LMD reform” (for Bachelor’s, Master’s, Doctorate), this was a major project launched in 2004. Its priority objective was to build the education and training system on international qualifications and skills requirements. The 2014-2018 government plan provided a more recent platform for the reform of the education and training system, which expanded access to training modules and improved their quality. Today, there are more than 1,400 training centers offering more than 400 courses. They are meant to broaden the range of skills offered to meet the needs of the labor market. Under the 2010-2014 plan, DA 178 billion (US$ 1.9 billion) was allocated to vocational training, the revamping of infrastructure and the construction of new institutes.

In Egypt, the Sustainable Development Strategy: Vision 2030 addresses 12 pillars, including education, with in-depth reforms of curricula and training programs, teaching methods and the higher education system. Current academic programs do not adequately prepare young

Egyptians for meaningful jobs, nor do they meet the needs of the country's rapidly changing economy and labor market. The objectives sought through the 2030 Vision include the following:

- Zero-illiteracy;
- Be one of the 30 countries with the highest basic education quality index;
- A net enrollment rate of over 80% for children aged 4 to 6;
- At least ten Egyptian universities among the top 500 universities in the world;
- Egyptian universities among the top 20 higher education institutions with publications in international periodicals;
- Be among the top 10 countries in mathematics and science studies.

In Libya, the ministries of education, higher education and scientific research were entrusted with preparing and implementing strategic plans for immediate or short-term goals, namely:

- Maintenance of schools damaged during the 2011 uprising and the ensuing civil war;
- Housing the children of displaced families in schools located in their original areas of residence;
- Revisit curricula, especially for history, civic education and the Arabic language.
- Formulate new education policies and sectoral vocational training plans;
- Establish a regulatory framework for private education, the introduction of e-learning, teacher training and institutional capacity building.

In Morocco, the objectives set by the government constitute the main lines of action for the reform of the education sector under the strategic vision 2015-2030. They include the following: improving the quality of education infrastructure, which creates an environment conducive to learning, and enhancing teacher pedagogical skills through the implementation of training programs (both initial and continuing) to enable teachers to gain more experience and resources to teach.

Furthermore, the National Strategy for Vocational Training 2021 is one of the 23 priority measures for the reform of the education and training system. It was developed in such a way as to allow for the participation of all stakeholders and relevant public and private actors. Its goal is to train about 10 million citizens and provide them with labor market skills between 2015 and 2021, with a total budget of DH 66 billion.

As part of preparing the 2016-2030 Accelerated Growth and Shared Prosperity Strategy, Mauritania developed its second education sector reform plan (PNDSE II) for the period 2011-2020. It set the following objectives with a view to meeting the challenges faced in the sector and achieving a more effective connection between education and job-readiness:

- Broaden access by disadvantaged groups in urban and rural areas to public and community pre-school education;
- Promote access to education for out-of-school children and keep children in the school system to achieve universal primary completion by 2020;
- Seek to achieve universal completion of secondary education and reduce disparities relating to gender, geographical and socio-economic conditions;
- Regulate the number of students and teachers in secondary education to better align school outcomes with market needs;
- Devise technical and vocational training programs suited to social demand and to the needs of the formal and informal sectors;
- Establish a balanced development system and promote scientific research;

- Combat illiteracy through functional literacy and post-literacy programs;
- Develop and implement a new human resources and materials management strategy to achieve equitable distribution of educational opportunities and ensure effective conversion of inputs into results;
- Consolidate the sector's management by pressing ahead with the decentralization process and by involving all stakeholders and developing management tools.

In Sudan, the third development plan (2017-2020) has set several major objectives for the reform of national education, namely:

- Improve and expand the education infrastructure, particularly in rural areas;
- Improve the quality of the education system, laying emphasis on teacher training, consolidation of scientific and technical education and upgrading of curricula;
- Ensure better alignment between technical training and labor market needs,
- Improve the standing of Sudanese universities in global ranking systems.

Improving socio-economic conditions requires more rapid structural transformation and greater labor productivity. The following section looks at obstacles hindering that objective.

5.Theme: Resource allocation, distortions and structural transformation in North Africa

Understanding why there has been no dynamic growth in North African economies to create enough jobs is a key issue. Unemployment in the region remains relatively high: 12% in 2016. Moreover, there is a high unemployment rate among young people in the region (25.4% in 2014) and among women (17.1% in 2013). There is also a low participation rate (47.5% in 2015, compared with a global average of 62.8%). What is called "growth without jobs" in North Africa constitutes a fundamental issue.

The process of economic growth can be influenced by resource allocation between sectors, with productivity being boosted by the reallocation of resources from the least productive sectors to the most productive ones. This reallocation is called structural transformation or structural change. Effective resource allocation is crucial for growth and job creation in North Africa. The sub-region is suffering from major distortions that lead to a misallocation of resources in the economy.

Poor resource allocation is a main reason for low growth in productivity

The first point to underscore is that a number of North African countries have experienced dynamic growth, with very strong employment growth, GDP per capita increase and a significant improvement in living conditions during the past decade. Libya is the main exception because the country became engulfed in a civil war during the past decade. However, Tunisia, for instance, increased its GDP per capita by an average of 2.87% in a decade. Between 2007 and 2017, Morocco increased its HDI by 12%, bringing it to 0.667 in 2017, just like Sudan, whose HDI jumped by 11% over the same period, reaching 0.502.

Although employment seems, on average, to be growing to offset labor force growth (with an average increase of 2.6% and 2.47% respectively over the 1990-2015 period), the employment growth curve has flattened in recent years. The growth in labor productivity remains insufficient. There was negative labor productivity in Algeria and Libya, just over -1.24% and -9.05% respectively. This is in sharp contrast with the 6.2%, 5.4% and 5.4% noted in Egypt, Morocco and Tunisia respectively. Countries outside the region, such as Turkey and India, have achieved productivity growth rates of 7.9% and 16.8% on average over the same period.

How can productivity growth be improved? To understand this, it is possible to break down the growth of labor productivity into a “within” (intra-sectoral) component, and a “between” "inter-sectoral" component. The “within” component reflects a variation (an increase or a decrease) in productivity resulting from the reallocation of work between firms in the same sector. The “between” component results from the reallocation of work between sectors (between firms belonging to different sectors).

Sectoral productivity growth in North Africa is relatively high (averaging about 2.1%) but is lower than in other regions. In India and Turkey, for example, the "within" productivity growth is about 15% and 11%, respectively.

This means that a misallocation of factors of production within sectors could be key to understanding the productivity growth - or lack of it - in North Africa. The misallocation of labor and capital between firms may be captured through analysis of the dispersion of firm productivity estimates based on World Bank enterprise surveys. Productivity dispersion in North Africa is slightly above 1 (Table 13). This figure is relatively high relative to other countries; it points to a relatively high potential for productivity and production gains that could result from the reallocation of labor and capital.

Table 13: Productivity dispersion

	Observations	Productivity dispersion (Std. Dev.)
North Africa	2 311	1.03
Rest of the world	51 971	0.95
Egypt	1721	1.01
Tunisia	323	1.09
Morocco	169	1.09
Sudan	98	1.55
China	1657	0.77
India	6815	0.85
Sweden	311	0.89
Turkey	1126	1.37

Source: ECA calculations based on World Bank Enterprise Surveys

There are two basic components to poor resource allocation. Labor market distortions are significant. In this respect, 32.8% of businesses in Tunisia, and 30.5% in Morocco, indicate that access to a suitably trained workforce is a major or serious constraint. One issue which seems to be particularly urgent in North Africa is that of women's participation in the labor market; the issue reduces the effective supply of labor.

Women have been at the forefront of structural transformation and economic development in other countries. Their relative absence from the North African labor market is hindering the optimal use of human resources. A second major distortion in labor markets is due to excessive employment in the public sector. In Egypt, for instance, the public sector accounts for almost 30% of total employment, nearly twice as much as in the formal private sector. Moreover, wage premiums in the public sector distort the labor market, and inflexibilities in terms of hiring and dismissal undermine job creation and boost informal employment.

However, the constraints imposed by the labor market, or by the labor market regulatory framework, are less often blamed by companies than the constraints they face in accessing credit or financing. About 31% of Moroccan companies, and 26% of Tunisian businesses, report that financing is a major or serious constraint. It seems, however, that this is a general problem. This observation is fully in line with the particularly low scores of North African countries on the "access to finance" component of the World Bank's Doing Business index. Similarly, moderately developed stock markets or equity markets imply that capital markets continue to play a limited role in the capital structure of firms. There is a strong connection between reporting financing as a constraint and low productivity at firm level. ECA simulations suggest that the easing of capital constraints could increase production by 9 to 22 percentage points through a significant increase in labor productivity and capital inflows.

However, establishing a stable environment based on formal rules for companies is a prerequisite for optimal capital allocation. The ability of markets to ensure access to capital depends mostly on the capacity of the state to protect property rights, on the existence of an effective judicial system and on adequate laws regarding firm bankruptcy. Such an environment should also attract foreign companies, and this would in turn stimulate competition and further improve resource allocation, thereby leading to an increase in productivity growth.

Rather than stimulate the growth of the private sector, the public sector is seen as an obstacle to the development of that sector because of the excessive bureaucracy it generates. Indeed, according to World Bank Enterprise Surveys, companies report that corruption and the incompetence of government agencies are significant hurdles in North Africa. However, a review of Doing Business ranking revealed that Morocco, in particular, has significantly improved its performance, and that Tunisia is also catching up. As for Egypt, Mauritania, Sudan and Libya, their ranking is still low.

This trend is largely in line with a direct measure of budget capacity, the share of tax revenue in GDP, which is relatively high in Morocco and Tunisia, but is much lower in other countries (apart from Algeria, because of hydrocarbon revenues). Two factors affect the performance of government agencies: first, the selection and promotion of public servants and, second, the funds available to pay salaries. There are major variations in this regard between the different countries in North Africa. According to the IMF, public sector wages represent 13% of Morocco's GDP, compared with an average of 5% for OECD countries.

An underlying problem in North African countries was the market distortion caused by protracted political instability. The business surveys carried out in 2013 suggest that this was an extremely important issue; the report estimates that the economies of the countries concerned, and which are included in the sample (Tunisia and Egypt) paid a heavy price as a result of that uncertainty.

Having said that, the problem of political uncertainty goes beyond mere visible instability. The lack of pressure on the executive, which results from the absence of a strong legislative power and an independent judiciary, leads to a sharp increase in political uncertainty and to the ‘predictable’ volatility that follows. In this regard, Tunisia has considerably improved its situation. As for the situation in Morocco and Algeria, it has slightly improved. In Egypt, despite considerable political change, there has been no stronger pressure on the executive, and in Libya, Mauritania and Sudan, that pressure is almost non-existent. This entails very real and significant economic costs in terms of these countries' ability to attract foreign capital, since investors seem to be aware of the risks associated with the lack of pressure on the executive. ECA has conducted simulations which suggest that FDI could increase by 45% to 99% if countries applied strong pressure on their executive branch.

However, the most important underlying distortion in North African economies is perhaps created by public enterprises and institutions wielding political leverage. It is difficult to obtain reliable data on the subject, but recent academic research suggests that the economic benefits achieved through political connections are considerable in the region. The significant advantages reaped from political connections mean that companies that do not have access to these connections cannot be competitive or even access the market. Such a situation jeopardizes innovation, dynamism and, ultimately, even the ability of these economies to export. In Egypt, the government directly controls a significant part of the economy. This complicates the flow of capital and skills to new, more productive enterprises. In Algeria, as well, the economy is dominated by the public sector, and the state controls large corporations and public banks. In Tunisia, the government effectively controls the credit market by exerting direct control of the three largest banks and holding minority stakes in nine smaller banks. This creates distortions because the banking sector supports loss-making publicly owned enterprises and grants credits on non-market terms or based on political affiliation, thus aggravating an already poor allocation of capital.

- Public policy recommendations

The most important lesson to be learned from poor resource allocation is the hidden and nonetheless significant cost of resources allocated to companies benefiting from political connections. The cost of resource misallocation does not stop at the resources themselves. Costs, in fact, include what a more productive company could have achieved with the said resources. For example, if a credit of US$ 1 million is given to a company for political consideration, the cost of that allocation is what the most productive company in the economy could have generated with that US$ 1 million. This simple idea should inform and guide the policy of North African governments. In the following section, we introduce three priority areas to improve the long-term effectiveness of resource allocation.

- **Labor market reform, flexibility and security**

The flexibility of the labor market has often been presented as a prerequisite for better labor market performance. It is important to ease the constraints faced by firms to adjust their workforce. However, this should be done together with the consolidation of protective measures for workers, knowing that most countries in North Africa do not have of a social and unemployment insurance scheme that provides sufficient worker protection.

- **Strengthen constraints on the executive**

A certain form of separation of powers is a prerequisite for consolidating constraints on the executive (accountability). Excessive control of policy-making by a single entity can lead to significant political uncertainty, especially if transparency and communication are lacking.

Judicial capacity building

Strengthening the independence of the judiciary is a key measure in developing the pressure to be exerted on the executive branch. Improving the justice system can promote the development of the private sector as well as foreign investment since it can help reduce perceived risks in each country. Transitioning towards a system which fully supports the rule of law, and which is recognized as such, is a slow process: the reputation capital must be built up over time.

Incorporating checks and balances into local and national systems

Another option is to introduce checks and balances at different levels of local and national government. In Brazil, for instance, the anti-corruption program randomly audited municipalities about their use of federal funds. The impact on corruption was considerable. Research strongly suggests that an effective means for ensuring long-term stability would be to allow political grievances to be expressed within state institutions. The local level can serve as the perfect test ground for this.

Developing effective capacity at state level

State capacity building is crucial to enable the market to play its role fully in the efficient allocation of resources. Fighting corruption and honing skills within the government are key to building state capacity.

Improving selection and motivation of civil servants

Given that government agencies in North Africa are relatively well-funded, the selection and motivation of civil servants is key to ensuring the effectiveness of government agencies. The reform of the civil service is an important means whereby to help the public sector fulfill its role in terms of complementing and supporting the development of the private sector. Some of the important aspects of this reform include strengthening a merit-based recruitment process which is free from any political interference, improving recruitment standards in general, ensuring the transparency of recruitment processes and addressing professional concerns by strengthening, for example, the link between performance and promotion.

Settling conflicts of interest

Combating the distortions caused by government agencies also means fighting conflicts of interest that can lead to corruption. A common example, in this regard, is public procurement - a process during which public contracts with private sector companies can be diverted to firms owned or controlled by close relatives or family members of civil servants. Just as important is the need to adopt codes of conduct with which public servants must comply.

Increasing transparency and strengthening civil society

Greater transparency in decision-making processes within government agencies can strengthen civil society. The adoption of freedom of information laws can enhance the ability of civil society and the media to access public data and challenge decisions. The main aspects determining the effectiveness of resource allocation are the budget process, tendering and purchases, contracts with the private sector and investment companies. Greater accountability and the threat of reporting related practices can reduce the extent of abuse of discretion by local officials and agents. As they facilitate interaction between citizens/businesses and the government, e-government platforms can reduce bureaucratic inflexibilities and limit the discretionary power of government agencies. Improving data collection capacity is also critical to making informed, evidence-based public decisions.

- **Easing credit constraints**

Access to finance plays an important role in the development of the private sector, and significant gains can be made if capital goes to the most productive companies.

Guaranteeing property rights

According to economic studies, there is broad consensus on the protection of property rights as a precondition for the elimination of the financial constraints facing companies. Property rights directly affect credit markets and improve business self-financing. Upholding the rights of creditors and simplifying bankruptcy procedures can contribute to the development of financial markets and entrepreneurship.

Expanding access to capital

According to Doing Business surveys, credit institutions in North Africa are vastly underdeveloped. Boosting these institutions is likely to improve corporate access to financing, which is perceived as a major hindrance by companies throughout the region. Businesses' access to capital at the national level can be further expanded through an effective deepening of financial markets. To date, stock markets are only moderately developed, which means share capital is not a commonly available source of capital. Reforms designed to strengthen financial market development are important in order to improve private companies' access to finance through different financial instruments (debt-to-equity). At the institutional level, stronger competition laws, bankruptcy laws and insolvency regimes can curb non-competitive practices and further improve private sector access to finance.

Reducing the public sector footprint in credit markets

The public sector's footprint in bank loan provision in North Africa is still significant. This may potentially lead to considerable distortions since government-controlled banks do not adhere strictly to market terms in granting credit; as a result, inefficient public companies have access to finance and credit granted for political considerations. Because of this situation, the reform of financial systems is crucial.

Reducing barriers to FDI

Access to capital can be expanded by facilitating and vigorously supporting foreign direct investment. To attract FDI, instead of opting for direct financial incentives - which have proven to be rather ineffective in addition to involving a high tax burden - the focus should be on developing a broader regulatory and trade environment conducive to foreign investment. It is important to make sure investors have nothing to fear as far as their assets are concerned. This can be done by effectively enforcing property rights and upholding the rule of law, due process and transparency. In addition, capital flows can be boosted by the promotion of a streamlined bureaucratic process. India's adoption of a two-way system, under the ‘Make in India’ initiative, can serve as a model, as it effectively grants automatic authorizations for investment in many sectors.

In conclusion, state capacity building should not be accompanied only by the introduction of targeted benefits for a few sectors or even some enterprises, although history shows that industrial policy is a solution which can work. The reason for this is that industrial policies are often difficult to change once they are in place. This inertia can translate into well-intentioned policies that nonetheless have significant long-term adverse effects on overall production and productivity. Under such scenarios, industrial policies lead to idiosyncratic distortions that can disproportionately affect the most productive firms, resulting in short-lived miracles of growth followed by failures. Therefore, instead of simply engaging in an active industrial policy, public authorities should concentrate fully on developing strong institutions, effective government agencies, solid protection of property rights, a supportive regulatory regime and good public infrastructure to support private initiatives.