The Arab Spring Five Years Later
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The international community is interested in inclusive growth in the Arab world because it would contribute to peace and stability. And peace and stability in the Arab world are global public goods. Instability in the Arab region spills over to the rest of the world through refugees, illegal migration, and, of course, terrorism.

Many analysts, for example, Wittes (2008), go a step further and argue that it is in the interest of the international community, and particularly the United States, to promote democracy in the Arab world. The rise in violence and extremism is viewed as a reaction to the lack of democratic governance. Hence those analysts call for an active policy of supporting democratization to contribute to peace and stability. Of course, democracy and human rights also impact economic development, and there is a growing literature on the role of human rights in development.¹

But can the international community really influence short-term political developments in the region? Probably not. Nevertheless, it is important that the international community remain engaged in the region. However, it may also be necessary to reexamine the nature of this engagement and reorient aid flows toward areas and sectors that directly enhance economic and political inclusiveness. Examples of such areas would be institution building, support for small-scale enterprises, agriculture and rural development, and education.²

¹. For example, see World Bank and OECD (2013).
². This chapter is based on the analysis in Ghanem and Shaikh (2013).
Adopting a Long-Term View: Can the West Be Patient?

Achieving the goal of a stable democracy requires peace. It also requires building important institutions (such as a free press, independent judiciary, political parties, and so on) that ensure transparency, voice, and accountability. Most important, it requires a change of political culture toward greater inclusion and acceptance of the other. Those changes take years to materialize. Therefore, patience and a long-term vision are needed. International aid could be used strategically and be combined with knowledge sharing and technology transfer to influence the path of the transition and help achieve greater inclusion and social justice.

Economic support to the region could focus on fixing the problems with the growth model adopted before the Arab Spring. It could tackle questions of social justice and inclusiveness. Achieving inclusive growth that is associated with the development of institutions that provide for transparency, voice, and accountability in decisionmaking, an expansion of the middle class, and the growth of small businesses would be important for the democratization process. International economic support for the region could prioritize inclusiveness and social justice by supporting institutional development, helping small businesses, and investing in agriculture, rural development, and education.

Developing Inclusive Economic Institutions: How Can Donors Overcome Political Sensitivities?

Inclusive institutions are important for democracy, and they are important for social justice. Most Arab governments over the past four decades have at least given lip service to the goal of social justice and have taken some symbolic steps toward implementing parts of this agenda. However, there has been no serious attempt made so far to fully implement an agenda for achieving social justice and economic inclusion. Even after the revolutions, transition governments did not take any significant moves toward achieving this key goal.

Arab governments’ failure to act decisively on social justice issues could be explained by the fact that the lower middle class and the poor who would benefit from such an agenda have little or no voice in the economic decisionmaking process. This could explain why their interests were not served by economic policies, while a system of crony
capitalism flourished. Inclusive economic institutions that would give voice to ordinary citizens in economic policymaking and empower them to hold government officials accountable would increase the probability that an agenda for achieving social justice is actually adopted and implemented. It would provide important support for the democratization efforts.

The allocation of public investment is often biased toward relatively better-off regions and groups, which reflects the noninclusive nature of the planning and economic decisionmaking process. Sakamoto (2013) analyzes Egypt’s planning system and finds that lack of a structured dialogue among key stakeholders is a key feature of the planning process in Egypt. Six five-year development plans were prepared during the Mubarak era. Budget allocations were determined before determining economic goals and strategies. The first planning step was the production of the investment budget allocation sheet by the Ministry of Planning, based on the line ministries’ investment budget requests. The five-year development plan was then drafted by the Ministry of Planning based on the budget allocation sheet. This system was simple, with drafting being fully completed inside the Ministry of Planning without official outside contacts. Thus the system excluded major stakeholders, such as the private sector, civil society organizations, labor organizations, and farmer organizations. Even line ministries had little voice in the preparation of the plan document.

Kharas and Abdou (2012) look at the role that civil society organizations could play in achieving inclusive growth and social justice. They argue that such organizations can make four important contributions to inclusive growth. First, they can play an advocacy role for small businesses, the informal sector, and other marginalized groups, ensuring that government takes their concerns into account when formulating policies and programs. And they can also act as whistleblowers, denouncing corruption and other unfair practices that harm small or weak economic agents. Second, they could provide important economic services that the public sector is unable to provide (or provides inefficiently): for example, by helping small enterprises get access to finance and to technical assistance. Third, they can act as think tanks, developing ideas and promoting best practices that support inclusive growth. Fourth, they can be an important source of employment opportunities for youth. Kharas and Abdou (2012) conclude that the legal framework
governing civil society organizations needs to be reformed to provide them with greater flexibility and incentives to expand their activities.

Farmer organizations and cooperatives are a special type of civil society organization that can play an important role in strengthening the governance system of the agriculture sector, particularly in developing and supporting family farmers. Problems caused by the large number of family farms with very small holdings can be tackled through the development of strong producer organizations that group farmers together to ensure that their voice is heard in policy discussions and also help enhance access to technology, inputs, and markets. Existing farmer organizations and cooperatives are weak and are overly dependent on government for financial and technical support, which erodes their independence and limits their areas of action. Cooperatives and farmer organizations sometimes act more as government agencies, informing farmers of policy decisions that are taken at the central level and helping implement them, rather than as bodies that represent farmers and advocate for policies that protect their interests.

These are just three examples of areas where support for institution building is badly needed. International support to institution building could be a sensitive subject as it may raise political issues. Experience with U.S. funding for Egyptian civil society organizations is an example of how things can go wrong. But this should not be an argument for doing nothing. Instead, it should be an argument for engaging the governments of the region in a serious dialogue on the issue. Inclusiveness and social justice cannot be achieved without institutions that ensure transparency of decisionmaking, provide voice to all stakeholders, and hold government officials accountable.

Some members of the international community are particularly well equipped to provide support to the development of inclusive economic institutions. The United Nations Development Program, which has a strong presence in the region, has a clear mandate in the area of human rights that includes the principles of transparency, voice, and accountability. Moreover, it is a neutral UN agency that can provide needed

3. Egyptian authorities closed down a number of U.S.-supported NGOs and started legal proceedings against their staff on the grounds that they were not registered and were illegally receiving funding from abroad.

4. For more on the role of institutions in development, see Acemoglu and Robinson (2012).
support to nongovernmental organizations, legislatures, and the free press without necessarily being accused of political meddling. Another UN agency, the Food and Agriculture Organization, has a long experience of working with farmer organizations. The International Monetary Fund and the World Bank have vast experience in the area of public financial management, procurement policies, and civil service reforms. The Japan International Cooperation Agency has experience in the area of inclusive planning. The European Commission, Canada, and the United Kingdom have experience in supporting organizations that promote transparency, voice, and accountability, including in the Arab world.

Supporting Small Business: Could Donors Move beyond Simple Credit Programs?

The expansion of the small and medium-size enterprise sector would help promote economic inclusiveness as it would provide greater opportunities especially for youth. It would also contribute to a gradual democratic transition. When the private sector consists of a small number of large firms they tend to build special links to government. Those connected firms are happy to support autocratic regimes that provide them with protection and other privileges such as access to financing, government contracts, and public infrastructure. Thus a system of autocracy and crony capitalism grows and tends to perpetuate itself. The owners of large businesses have no interest in promoting democracy, as it could disrupt their special relations with government. In his study of Egypt, Rutherford (2008) argues that autocracy can be countered by supporting a large number of small business owners who would normally exert pressure to institute legal and institutional reforms that would level the playing field and break the link between powerful capitalists and autocratic governments. They would also call for democratic reforms so as to use electoral politics to push for policy reforms to support small businesses.

Most donors have programs to support small and medium-size enterprises and youth entrepreneurship, and they need to be refined and scaled up. In addition to providing access to financing, those programs need to prioritize technology transfer and market access. Vocational and entrepreneurship training programs are also important to correct
some of the weaknesses of the Arab education system. Successful programs for the development of small and medium-size enterprises are usually based on partnership between governments (that provide funding), civil society organizations (that provide training), and the organized private sector (that provides technology and markets). In the case of most Arab countries, those partnerships still need to be developed. In particular, donors can help connect domestic small and medium-size enterprises with foreign investors and export markets.

Access to regional and international markets is important for business development and job creation. The international community could make a huge contribution to the development of exports and job creation. It could facilitate exports of manufactured goods from Arab countries, especially for mechanical and electrical industries and construction materials, by negotiating mutual recognition agreements to reduce technical barriers to trade. Agriculture and agro-processing is an important sector for many Arab countries (for example, Morocco, Tunisia, and Egypt), and it is also a sector where small and medium-size enterprises could easily develop. The international community could improve Arab countries’ access to agricultural markets by removing nontariff barriers to agricultural trade. This would require, among other things, the abolition of quotas, reference prices, and seasonal restrictions, especially for exports of fruits and vegetables.\(^5\)

**Support to Backward Regions and the Rural Poor: Is It Possible to End Decades of Neglect?**

A strategy to achieve inclusive growth will have to deal with the problems of regional inequalities and rural poverty. For many years no real action has been taken to develop backward regions or support the rural poor. This had serious political consequences as some backward regions became centers of extremism and sometimes even violence. It also had serious social and economic consequences. Illiteracy, child malnutrition, and even stunting continue to be unacceptably high in rural areas, particularly in Upper Egypt. Intervention is needed in two

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5. For more on the importance of opening up developed country markets to Arab country exports, see Chauffour (2013).
areas: social protection for the rural poor and development of agriculture and agro-industries.

In most Arab countries, social protection has been provided to the populations of large cities through a system of untargeted price subsidies. In the rural areas, social protection is usually project based and therefore fragmented. There is a need to move to a systems-based approach to social protection. Arabs can benefit from Latin America’s experience in this area, especially Brazil’s Bolsa Familia and Mexico’s Progresa-Oportunidades. This experience shows that direct cash transfers can be used to achieve poverty reduction as well as development objectives. By providing cash to poor families those programs help raise their consumption and get them out of poverty. It is a much more direct method than generalized price subsidies for products that can be consumed by the poor as well as the nonpoor. By making part of the transfer conditional on school attendance or immunization the programs also encourage investment in human capital and thus help achieve long-term development objectives. There is also some evidence that recipients of cash transfers in rural areas tend to save part of it and use it for investments in productive physical capital.

Agriculture is crucial for many Arab economies and particularly for poor households. All of the poor in rural areas are either directly or indirectly affected by agriculture. Therefore, agriculture growth and the resulting growth in the nonfarm rural economy would have significant poverty-reducing effects. It would also have strong equalization effects as it reduces the large income gaps between urban and rural areas.

The international community has a great deal of experience in social protection and agriculture development and could provide important support to achieving inclusive growth through financing and knowledge sharing. The World Bank has done extensive work on social safety nets and can support reforms in this area. Several donors are funding agriculture development, and UN agencies (mostly the Food and Agriculture Organization) are providing technical assistance and knowledge sharing. They could scale up their interventions and focus them on supporting smallholder farmers, particularly in the poorest areas.