

forum forum

Newsletter of the Economic Research Forum

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Editor: Mirette F. Mabrouk

Design and Layout: Namees Nabeel

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ERF Editorial offices are located at

21 Al-Sad Al-Aaly Street, Dokki, Giza, Egypt.

Tel: (202) 33318600 Fax: (202) 33318604

Email: erf@erf.org.eg

Website: www.erf.org.eg



A Word from the Managing Director

Asking the Right Questions

Readers of *Forum* will know that this newsletter gets a chance to wear two coats. The first is the informative analytical one in spring, which breaks down the preceding Annual Conference in detail. In autumn, *Forum* gets to be more introspective, taking a look at contemporary events and questions being asked in the economic fold. This year, the questions are in line with the regional political developments which are breaking new ground both in the political and economic arenas. While democratization is one commodity that is much in demand, it appears its birth carries a significant economic opportunity cost.

Forum spoke to Masood Ahmed, IMF director of Middle East and Central Asia and prominent economic historian and ERF Fellow Sevket Pamuk on how the Arab Spring was impacting countries economically. Ahmed spoke about the much-discussed role of the IMF, how he felt it might help and what reforms he thought Arab Spring countries needed. Pamuk discussed matters in a historical context noting how, after all, history might provide the best playbook.

The issue also offers all the usual news and updates about ERF. Readers will find news about all ERF's most recent workshops and events, its latest capacity-building efforts and its busy research schedule. The ERF news section contains vital information on a subject of importance to everyone in this network: the nomination of new fellows, along with detailed instructions on the process. And for those who had not heard of the independent evaluation of ERF, this is your chance to catch up. The evaluation assessment was "positive." The evaluators had the following comments to make: "We are impressed by its progress, which is due in good part to the commitment of ERF staff and affiliates, and to the soundness and efficiency of the organization." You may read the entire report, ERF's response to the report and another independent assessment of the evaluation in the news section.

Finally, do take a look at the Book Review section, featuring *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* by Daron Acemoglu and ERF Senior Associate James Robinson, reviewed by ERF Fellow Subidey Togan. The book attempts to answer the ever-alluring and elusive questions as to why some societies are prosperous, stable and democratic while others are poor, unstable and autocratic. Those intrigued by the review can ask their questions of Robinson personally. He will be a guest at several ERF-hosted events in Cairo, Tunis and Beirut in January. Be sure to keep an eye on the ERF website for more information.

Sincerely,

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AG Galal', written in a cursive style.

Facilitating the Exchange of Ideas

ERF spoke to Masood Ahmed, IMF Director, Middle East and Central Asia and prominent economic historian Sevket Pamuk about their thoughts on the Arab Spring, economics and democratic transitions.

Aid, Trade and Reform

Masood Ahmed
Director, Middle East and Central Asia Department, International Monetary Fund

What do you see as the Arab Spring countries' most pressing economic problems at the moment?

The most pressing challenge facing the Arab countries in transition is to address the economic and social demands of an impatient electorate when their margin for maneuver is reduced by heightened economic and financial pressures in a continued unfavorable external environment. While social and political instability have receded in most of these countries, continued uncertainty, high food prices and volatile fuel prices, and the weakening global economy are weighing on growth and adding to social tensions. And the conflict in Syria is leading to a serious humanitarian crisis with significant regional spillovers.

Macroeconomic stability has been maintained, but fiscal and reserve buffers have been depleted over the past year, leaving little policy space. And the medium-term structural agenda to define the economic transition accompanying the political one lies still largely ahead. Beyond the immediate stabilization imperative, this requires developing a national consensus on a future economic model—one that generates more inclusive, job-creating growth and a level playing field for all, not just the well connected. The leadership for this task must come from the countries themselves, but support from international partners in the form of financial assistance, experience sharing, and market access will also be key.

How can the IMF help?

The IMF is helping in a number of ways. We are in close discussions with governments and central banks over the direction of macroeconomic policies and helping a number of countries build better institutions through technical assistance and training. These countries face difficult macroeconomic and fiscal choices and the IMF can help to bring the shared experience from its 188 member countries. We are also providing financial assistance: to Jordan through a three-year \$2.1 billion loan and to Morocco through a \$6.2 billion two-year precautionary liquidity line. We have also supported Yemen with a rapid credit facility of almost \$100 million. In addition, the IMF is helping countries mobilize support from the broader international community through finance, technical support, and better access to export markets.



Masood Ahmed

The IMF has come under fire for pushing hard on economic reform at the expense of social justice. What is the IMF doing to ensure that the populations of these countries do not suffer as a result of economic reforms, no matter how needed?

Contrary to public perception, we are very focused on ensuring that macroeconomic adjustment is done in a way that protects the poor and vulnerable. For example, minimum spending targets on social and other priority outlays have been incorporated into many IMF supported programs. A recent study covering 140 countries over 1985–2009 found that IMF supported programs often have a positive and significant impact on social spending, particularly health care and education. To protect

the most vulnerable in the Arab countries in transition—and other countries across the world—we are advising the authorities to aim at replacing generalized subsidies that tend to benefit the better-off with more targeted social safety net instruments, particularly cash transfers and other forms of income support. We recognize that fiscal consolidation will be needed in many countries because of financing constraints, but our focus is also on making sure that this fiscal consolidation is done in a way that minimizes the negative impact on growth and on the vulnerable sections of society. Improving the quality of government expenditure will be critical to responding to the region's social needs, raising investment, and reducing fiscal deficits that are increasing debt levels and crowding out lending to the private sector. All of this will help strengthen the health of the economy and create more and better employment opportunities in the region.

The IMF has also been criticized for pursuing what many feel is a one size fits all strategy to economic reform in emerging economies. Have there been efforts to cater programs?

IMF-supported programs are always designed to address individual country circumstances. Every country must find its own path to dealing with economic and social challenges, and programs are best developed by the countries themselves. Of course, we can contribute through the experience of our 188 member countries about which policies generally work well to achieve a given objective. Another important point is that programs that are homegrown and have broad ownership of country authorities and civil society are most likely to be effectively implemented, so we encourage governments to be in the driver's seat. We also publish our staff's reports on these programs immediately after the programs have been approved by our Executive Board in the interest of maximizing transparency.

You said in May that the IMF still had about \$35 billion to give Arab Spring countries. Specifically, what is the IMF doing, for example, in Egypt, Libya and Tunisia?

We said that the IMF can make available about \$35 billion in loans for the MENA region's oil-import-

ing countries. Normally, not all of these countries need or request our financial assistance. Such loans would be in support of the governments' and the central banks' macroeconomic policy programs and at their request and, like elsewhere, are provided on favorable terms to help countries transition to where they can once again secure financing from the market. With respect to Egypt, the IMF stands ready to support the country during its historic transition and help the authorities address the economic challenges they face. Since the start of the transition, we have maintained a close policy dialogue with the authorities and provided considerable technical assistance. In August, the authorities requested financial support from the IMF for their economic program to help the country meet its immediate economic challenges and lay the foundation for strong growth that benefits all. Discussions are now under way to agree on a concrete package.

In Libya, the IMF is engaged by providing advice on macroeconomic policies and working with the authorities to implement a comprehensive technical assistance strategy. Specifically, we have already advised on improving governance of the sovereign wealth fund, strengthening public financial management, and reforming subsidies. The IMF is supporting Tunisia through an enhanced program of technical assistance and by stepping up its advice on macroeconomic and financial policies.

Money has been given to Morocco and Jordan and the IMF is currently in talks with Egypt but there has been no news about anything to Tunisia. Is that correct? And, if so, why?

Tunisia has already mobilized all the financing it needs for 2012. The IMF stands ready to provide additional support in any way the authorities would deem appropriate, including through financing if needed in the future.

In the absence of money, is the IMF offering technical assistance, or assistance of any other kind to any Arab Spring countries?

As in Egypt, Libya, and Tunisia, the IMF is supporting capacity building—that is, technical assistance and training—in Jordan, Morocco, and Yemen. To this end, our staff has travelled to the region more

than 30 times since the beginning of the Arab awakening. We also have a few staff residing in our local offices in some of these countries. Our support covers a number of areas, including statistics, public financial management, capital market development, financial sector reform, tax administration, expenditure policy, and debt management.

In reference to Egypt, you've said "more work needs to be done before we can say to our board that this is a program that has the kind of support that we can confidently feel will lead to its implementation." What kind of work were you referring to?

We would like to support a homegrown program that addresses Egypt's economic and social challenges, is fully owned by the government, and enjoys broad-based political support. The authorities are in the process of finalizing their program and building broad-based support for it through public consultations and outreach. This is the right strategy. We believe this kind of ownership and buy-in is key for a successful program.

Dawn of an Era?

Sevket Pamuk
Professor, Economics and Economic History, Bogaziçi University, Istanbul

The Arab Spring countries are currently undergoing various forms of transition, among them economic, with much pressure to grow. In context, do you feel that in the immediate future, these countries would be better served concentrating on achieving economic growth or achieving economic stability first?

Politically accountable governments come under pressure if they do not achieve economic growth and create jobs in both the short and long term. For this reason, governments in the region cannot afford to choose between economic growth and economic stability. They have to attempt to achieve both. While creating some growth in the short term, they

also need to begin improving the quality of institutions in order to maintain growth and job creation in the longer term.



Sevket Pamuk

Much has been written and said about Turkey's possible influence on Arab Spring countries. Turkey's official policy is that it would like to maintain a 'zero problem policy' with its neighbors. How much of that do you think is economically motivated and, assuming you believe it in their favor, how easily do you believe it can be emulated by Egypt, Libya or Tunisia?

Turkey's foreign policy began to be influenced by the interests and demands of the private sector in recent decades. There is no question that the "zero problem" policy was motivated in part by those economic concerns. While that intention and vision may be applauded, the reality of implementation has not been so positive, however. Turkey's "zero problem" foreign policy is turning fast into "zero friends" policy. Other governments in the region should be inspired by the zero problems vision and pay more attention to economic factors in foreign policy. They should also take into account the potential benefits on foreign relations of stronger economic linkages with their neighbors. They should also be aware, however, this is often easier said than done.

Do you see any historic parallels between the transitions that the region is undergoing now and similar regional transitions over the past century?

There is no question this could be the dawn of a new era for many countries and possibly for the region as a whole. There have not been many examples of similar transitions in the century since the end of World War I. One can perhaps compare the current transition to the end of the colonial era and the transition to independence. In both of these cases, the potential for change was and is enormous but positive outcomes are by no means guaranteed.

Democratic transitions such as the ones these countries are passing through tend to produce populist tactics which do not always translate into sound economic policies. Do you think this is correct and if so, which countries do you feel are most vulnerable and what can they do to avoid any pitfalls?

Populist tactics may increase the popularity of the government and provide some room for maneuver in the short term but they usually backfire in the medium and longer term. Turkey's recent experience is relevant in this respect. Turkey has had many episodes of populism gone wrong since the end of World War II, most recently during the 1990s. The AKP government has paid a lot of attention to macroeconomic stability during the last decade and it retrospect that has paid off. They have achieved moderately high rates of economic growth as well macroeconomic stability as a result. Oil exporting countries with their large revenues can use populist economic policies for longer periods but the long term costs may also be more severe. The room for populism in the non-oil exporting countries appears more limited at the present because balance of payments problems emerge more quickly.

History usually gives us a blueprint to work from. In your opinion, what challenges is this period of transition likely to bring to Arab Spring countries, which do you think will weather them the best and why?

The challenge for all the governments in the region is to create economic prosperity for their people. For long term economic growth, they have to rely on the private sector and improve the quality of institutions. That would increase their legitimacy and bring about greater political stability, hopefully starting a virtuous circle. Oil revenues provide large cushions to governments and the challenges for the non-oil countries often appear to be greater. The apparent advantages of oil revenues can easily turn into disadvantages, however. Oil revenues make the non-tradable sectors uncompetitive and even more importantly, they may corrupt political as well as economic institutions. The non-oil countries need to achieve economic success the hard way but such success may turn out to be more durable in the longer term.

Research Activities

ERF has been busy since the last edition of the *Forum*, It has launched two call for papers on agriculture and rural development, and the political economy of transformation in the Arab World. The latter is part of the research agenda on the *Political Economy of Transformation in the Arab World* which was announced in the previous edition of the *Forum*.

Open Call for Papers

Agriculture and Rural Development in the ERF Region

In the context of the 13th round of the Regional Research Competition supported by the Global Development Network (GDN), ERF has launched a call for proposals under the theme of *Agriculture and Rural Development in the ERF Region*. ERF and non-ERF affiliates from the ERF region (Arab Countries, Iran and Turkey) were invited to submit proposals for original research under a variety of subthemes or related questions covering either one sector, one country or comparatively, including: rural development and poverty alleviation, rural employment, wages and quality and security of jobs, rural non-farm economy, agriculture, productivity and innovation, government support to agriculture institutions and to rural development, networking for agriculture (agricultural organizations, cooperatives networks and initiatives) and food security.

The Political Economy of Transformation in the Arab World

ERF announced a call for papers under its latest theme of Political Economy of Transformation in the Arab World, which ERF initiated in response to the recent political changes in ERF's region. The papers answered key questions such as what drives political economy changes in the Arab world? How are the existing political settlements likely to be transformed, and what does this imply for political, social, and economic reforms? And more normatively, are there ways to improve the evolution towards democracy and developmental outcomes, for example, by fostering particular coalitions of social forces, or by designing policies in a particular way? ERF received 16 proposals and the refereeing process is still unfolding.

ERF received 15 proposals of which 5 have been selected.

Rise and fall of Representative Institutions in Egypt, Sudan, Levant, and Iraq: Role of Geopolitics and Domestic Political Economy, *Sami Atallah*

This project will examine how political institutions in Egypt, Sudan, Levant, and Iraq were shaped and reconfigured since 1860s. To this end, the project will investigate the geopolitical interests of Britain and how this has shaped the political institutions in these countries by forming alliances with local elites or subjugating local populations for its own interest. It will also examine the domestic political economy factors which existed during the period of intervention including the opposition groups, their interests, economic strengths, and ability to credibly threaten the existing regime, and how, in some cases, their challenge was impeded by colonial power who perceived power sharing as a threat to its economic and political interests.

Capital Flight and Conflict: The Case of Syria, *Samer Nassif Abboud*

This project aims at understanding how the post-conflict authorities can mobilize domestic resources, capital, and expertise toward reconstruction. For example, the desire or ability of business people to return to Syria once the conflict subsides could have significant implications for investment and external debt accrued by the authorities, which will have to rely on a combination of external support and domestic investment to reconstruct the country. What policies can incentivize the return of Syrian capital once the conflict ends? What role will the business community play in reconstruction? Second, this project can help identify key segments of the busi-

ERF Research Activities

ness community and their commercial activities that were affected by the conflict, and, in turn, what policies may be needed to rebuild their productive capacities.

The Political Economy of Transformation in the Arab World, *Eberhard Kienle*

The project seeks to examine the economic and social policies that key political actors in Tunisia and Egypt have advocated, debated and partly implemented since the departure of the former authoritarian rulers, Zein Al-Abdin Bin Ali and Hosni Mubarak. The analysis will be guided by the overarching objective to gauge the degree to which these policies may contribute to general welfare and social justice and address socio-economic grievances like youth unemployment that contributed to the downfall of the old regimes. Emphasis will be placed on medium and long term strategies that relevant actors envisage or already began to implement to shape the economic future of their countries and to resolve distributional conflicts. As a matter of course, the absence of medium or long term strategies is equally significant.

A time to throw stones, a time to reap: How long does it take for democratic reforms to improve institutional outcomes? *Khalid Sekkat and Pierre-Guil-laume Meon*

The project aims at addressing two questions in turn: the first one being “Do democratic reforms result in an improvement in institutional outcomes?” The second asks “How long does it take for democratic reforms to improve institutional outcomes?” To this end, the project will analyze measures of democratic reforms and of institutional outcomes

Political Economy of Fiscal Policy and Decentralization in the Arab Countries, *Mehmet Serkan Tosun*

This project examines the overall government structure in the Arab countries, focusing specifically on the political, economic and demographic determinants of fiscal policy (both the expenditure and taxation branches) and decentralization. Based on data availability, the project will examine the case of 12 Arab countries: Bahrain, Egypt, Jordan, Kuwait,

Lebanon, Libya, Morocco, Oman, Syria, Tunisia, United Arab Emirates and Yemen.

Natural Resources and Economic Diversification

ERF is embarking on a joint project with the World Bank on Exporter Competitiveness in the Middle East and North Africa under the above theme. The purpose of this project is to examine export diversification and industrial policy in the Middle East and North Africa (MENA) using multi-country exporter-level data. The project will use firm-level export data collected in eight countries in the region – namely Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Tunisia and Yemen. The report will be organized in three parts, with part one will examine export growth at the firm margin that is via new firms and expansion of existing firms. Part two will examine export growth at the product and destination margins that is via new products and new destinations. And finally, part three will evaluate the role of industrial policy based on impact evaluations of specific export promotion programs.

Microdata Documentation and Dissemination

ERF is currently working on data documentation, as part of a research project on inequality of opportunity which ERF is sponsoring under the Research Initiative for Arab Development (RIAD). Last October, in answer to a request by ERF, the World Bank offered a training about the Data Documentation Initiative (DDI) toolkit for data documentation and dissemination. The training, which was offered to ERF staff as well as non-ERF statisticians.

Recent Events

Seminar on *Efficiency and Equity of Utilities in the ERF Region*

October 11, 2012, Cairo, Egypt

In a governmental monopoly of utilities, competition is limited and the government plays the dual role of both operator and regulator of the sector. Due to fiscal pressure and modest outcomes, some countries have begun to rely on the private sector for the management of some of these utilities. Consequently, governmental regulatory bodies were created to protect and regulate the interests of both consumers and the producers. The problem is that these experiences have not been evaluated systematically to explore whether these reforms have been welfare improving and whether the regulatory regimes have been effective. Accordingly, ERF held a seminar, attended by around 40 participants under the theme of Efficiency and Equity of Utilities in the ERF Region. In response to the call for papers, ERF had received 16 proposals, 4 of which have been peer reviewed and selected.



Simon Neaime and Sam Hakim

Workshop on *Capital and Labor Mobility with- in the ERF Region*

October 14, 2012, Cairo, Egypt

Regional integration in the ERF region constitutes an important challenge for the concerned countries. To date, almost all research on the outcomes has exclusively focused on goods markets. However, integration of the goods market is not the only form of economic integration and is not a prerequisite for other forms of integration. Available evidence points to important potential welfare gains from integration of capital and labor markets in the Region. ERF held a workshop to air the findings of two projects, under the theme of *Integration of the Arab Region*. Integration is seen as covering any or all types of regional exchange (i.e. goods, services, or factors) and their interactions. Moreover, it covers various dimensions; i.e. intra-Arab, integration in the world economy and/or preferential trading agreements (PTA) with any other non-Arab countries.



From left to right: Hanaa Khier-El-Din, Alia El-Mahdi and Khalid Sekkat

Recent Events

Workshop on *Structural Transformation and Industrial Policy in Selected MENA Countries*

September 30, 2012, Istanbul,
Turkey

Despite the importance of structural transformation in the process of economic development, there is no consensus on how to achieve this objective or about the appropriate role of government. Views range from advocating neutrality of incentives fearing government failure to advocating various forms of selective interventions to compensate for incidents of market and coordination failures. In the ERF region (Arab countries, Iran and Turkey), this debate is compounded by the scarcity of systematic evidence regarding the merits of past industrial policies and the role the EU-Med partnerships may have played in the process. Accordingly, ERF has initiated two research projects on economic diversification and structural transformation. The aim of the two projects was to assess the industrial policy experience of selected countries in the ERF region and whether these policies were effective in promoting structural transformation and economic diversification. The first of these projects was com-



Participants at the workshop on *Structural Transformation and Industrial Policy in Selected MENA Countries*

missioned by FEMISE and funded by the European Investment Bank (EIB), focusing on Egypt, Morocco, Tunisia and Turkey. The second was conceived as part of the Research Initiative for Arab Development (RIAD) under the theme of Natural Resources and Economic Diversification, focusing on the GCC countries of Kuwait, Qatar and the UAE. The workshop convened around 25 regional and international researchers.

Upcoming Events

Workshop on *The Challenge of Urbanization in the ERF Region*

December 23, 2012, Cairo,
Egypt

In the context of the 12th round of the Regional Research Competition supported by the Global Development Network (GDN), ERF will be holding a workshop on *The Challenge of Urbanization in the ERF Region* on December 23, 2012. Although cities have long been considered the hubs of economic growth and development opportunities, rapid urbanization creates many challenges for developing countries including rising poverty, unemployment and investment needs for expanding infrastructure. According to UN projections the MENA population will reach 430 million by 2020, of which 280 million are expected to be urban. That is an urban population increase of over 65%, compared to the projected rural population increase of 8.5% (World Bank). Against this very high rate of urbanization, the provision of adequate infrastructure and public services is clearly the key urban challenge. To try and address this issue, ERF launched a call for proposals, in response to which it received 11 proposals, 6 of which have been peer reviewed and selected. The objective of the workshop is to provide a platform for discussing draft papers and preliminary findings of the six projects, to benefit from the input of experts in the field, and to receive feedback and suggestions to improve the output.

Training Workshop on *Measurements of Inequality of Opportunity and Inequality of Outcomes*

January 13-15, 2013, Cairo,
Egypt

Gathering around 20 participants, this training will cover techniques of measuring inequality of income, health and education status using a variety of survey datasets collected by ERF from Arab countries. It will cover both parametric and non-parametric methods of linking inequality of outcomes to underlying inequalities of circumstances, such as family background, ethnicity, gender, and place of origin. The training is part of a research project on inequality of opportunity ERF is sponsoring under its Research Initiative for Arab Development (RIAD).

50 papers under the themes of: macroeconomics, finance, labor and human development, international economics, microeconomics and institutional economics. Parallel session papers are selected on the basis of a rigorous refereeing process in response to an open call for papers, hence their diversity. The closing session celebrates the six winners of what has become a regional institution: the Best Paper Award.

For more information on this important event, please visit

http://www.erf.org.eg/cms.php?id=conferences_details&conference_id=48

ERF 19th Annual Conference *Economic Development and the Rise of Islamist Parties*

March 3-5, 2012, Kuwait

The Annual Conference of the Economic Research Forum (ERF) has evolved over the past 18 years to become one of the most important regional platforms for ERF and non-ERF affiliates to discuss frontier thinking about economic development, learn from one another and interact with international scholars. The upcoming conference comes at a time when the region is undergoing significant political transformation and will focus in its plenary sessions on a pertinent issue: *Economic Development and the Rise of Islamist Parties*. The plenary sessions will feature renowned economists and opinion makers. Besides the plenary sessions, there will be six parallel sessions, involving the presentation of more than

Network and Capacity Building

Training Workshop on Writing Winning Research Proposals and Papers

September 28-30, 2012, Istanbul, Turkey

ERF receives many research proposals annually under various competitions or call for papers. In recent years, the following pattern has emerged: many proposals address policy relevant questions but are judged weak on their methodological approach, while others use strong analytical tools but don't always ask the right questions. This training workshop was intended to help both types of researchers develop proposals that ask policy relevant question, while ensuring that these proposals are implemented using rigorous techniques. The main objectives of this module were to train researchers on how to Identify research questions that are both relevant to policy making while contributing to the generation of new knowledge, and selecting and adopting a proper analytical methodology to tackle these questions. The targeted trainees were a chosen sample of 12 researchers who submitted proposals for papers to be presented at the ERF 19th Annual Conference in Kuwait, March 3-5, 2013. Their proposals are under the themes of *Labor and Human Development*.



Participants of the workshop on Writing Winning Research Proposals and Papers

Training Workshop on Microdata Documentation and Dissemination

October 21-24, 2012, Cairo, Egypt

In answer to a request by ERF, the World Bank offered a training about the Data Documentation Initiative (DDI) toolkit for data documentation and dissemination. The training, which was offered to ERF staff as well as non-ERF statisticians, is part of a research project on inequality of opportunity which ERF is sponsoring under its Research Initiative for Arab Development (RIAD).

ERF visit to Minnesota Population Center- Integrated Public Use Microdata Series (IPUMS)

August 12-16, 2012, Minnesota, USA

In August 2012, three ERF staffers, Economist Rana Hendy, Senior Communications Officer Namees Nabeel and Statistician Christiane Wissa flew to Minnesota, U.S. to visit the Minnesota Population Center. The aim of the visit was to learn about the IPUMS successful experience with regards to data harmonization and dissemination in hopes that it might be useful on the ERF Mega data project on Household surveys. This project will collect household survey data in Arab region and construct a regional harmonized database that will enable researchers to conduct quality research on inequality and related topics.

ERF News

A rundown of news of interest to the ERF community, including the nomination of new fellows and ERF's evaluation.

Nominate New Affiliates

Research Fellows are invited to nominate new Research Associates and/or Research Fellows to join the ERF network no later than December 15th 2012.

The nomination process is as follows:

- The nominator should explain why the proposed candidate is eligible for affiliation with ERF.
- The candidate who receives two letters of recommendation should provide ERF with a letter of intent indicating the reasons for his/her desire to join ERF and the role he/she would play as an ERF affiliate in promoting ERF's activities and dissemination efforts.
- The Advisory Committee will screen the proposed candidates according to established criteria and make a recommendation to the Board of Trustees.
- The Board of Trustees will make a final decision on accepting/rejecting proposed candidates.

Nominated candidates for the Research Associate category should meet the following criteria:

- The candidate should originally be from the ERF region.
- The candidate must have a PhD in economics or closely related fields.
- The candidate should be a promising researcher in economics or closely related fields.
- The candidate should have completed no more than 10 years after obtaining their PhD at the time of appointment.
- Active participation in ERF activities is desired.

Nominated candidates for the Research Fellow category should meet the following criteria:

- The candidate should originally be from the ERF region.
- The candidate must have a PhD in economics or closely related fields.
- The candidate should currently be an active researcher in economics or closely related fields.

- The candidate must have at least two articles published in refereed journals cited in the Social Science Citation Index (SSCI) or equivalents in languages other than English.
- Active participation in ERF activities is desired.

RIAD Scientific Committee (SC)

Meeting

July 8, 2012, Cairo

While ERF holds refereeing committees for various proposals in response to calls for papers and external reviewers of proposals, it also engages a high caliber Scientific Committee (SC) in the process of identifying research priorities, assessing submitted proposals and offering guidance on the research agendas of the RIAD initiative. This SC meets twice a year. The most recent meeting was held in Cairo on July 8, 2012. The committee reviewed progress to date and gave feedback on the work plans received under the different themes, as well as ERF data initiatives and efforts.

ERF Evaluation

ERF management and staff, in cooperation with its affiliates, are all deeply dedicated to its mission; producing high quality research to further regional development. While success is often its own reward, recognition of hard work can also be especially gratifying.

This summer saw the release of an independent evaluation of ERF. The report had been initiated by the Board of Trustees to assess the extent to which it is making progress toward achieving its core objectives over time. The evaluation, undertaken by three external evaluators, also looked at the structure and functioning of ERF (including the Board, Management and affiliates) and their interaction. The report combined both quantitative and qualitative analysis

in accordance with generally accepted principles and standards. The process was led by the BOT, which formed a subcommittee to oversee the process. The resulting report was very favorable of ERF's organization, efforts and results.

In essence, the report said its assessment of ERF was "positive." The following sums up the results: "We are impressed by its progress, which is due in good part to the commitment of ERF staff and affiliates, and to the soundness and efficiency of the organization."

ERF management and staff were generally pleased with the evaluation, particularly with the overall conclusion of the report. It felt that it was a valuable exercise all round and should be repeated at periodic intervals. However, management thought it important that the readers of the evaluation have a balanced picture. Accordingly it presented a response to the evaluation to the BOT, to be shared with the evaluators. This document included specific responses to the recommendations made in the report and pointed out a series of factual discrepancies that it suggested the evaluation team might want to take into account before the report was published. We would like to share the report with you and we look forward to continued cooperation and joint success.

[Please read the report, ERF's Response, and an independent evaluation of the report](#)

Workshop: The Second Authors' Meeting at the Rockefeller Foundation's Bellagio Center

April 30-May 4, 2012, Italy

Ahmed Galal (ERF MD) and Hoda Selim (Economist at ERF) participated in the second authors' meeting at the Rockefeller Foundation's Bellagio Center. The purpose of the workshop was to provide a venue for authors to present their draft contributions for an edited handbook on development thought entitled *Development: Ideas and Experience*. The handbook will examine various, sometimes

clashing, perspectives on development as refracted through different sectors, policies and actors as well as the historical successes and remaining challenges of developing countries.

Galal and Selim's contribution to the handbook relates the development experience in Arab countries entitled *Economic Development in the Arab Region: A Tale of Oil and Politics* (also forthcoming in ERF working paper series). The paper reviews the development experience of the Arab countries since World War II, arguing that extractive economic and political institutions are the primary cause for the current state of underdevelopment in the region. While macroeconomic mismanagement and oil abundance are important determinants of performance, these factors are shaped primarily by the prevailing political institutions which predate the discovery of oil. In the oil-poor Arab countries, limited progress is attributed to an authoritarian bargain in which the rulers exchanged economic benefits to the poor and the middle class for political acquiesce. The workshop convened around 30 people from diverse backgrounds including academics and practitioners drawn from five continents. The agenda consisted of six panels in which nearly 20 papers were presented, as well as break-out sessions and group discussions.

Mirror Portal on the ERF website

To help facilitate researchers' access to population census data, ERF is working with the Minnesota Population Center to construct a mirror portal that will allow easy access to population census micro data for Arab countries, Turkey and Iran. This mirror portal is expected to be ready for use by the annual conference in March 2013.



Book Review

Why Nations Fail: The Origins of Power, Prosperity, and Poverty

By Daron Acemoglu and James Robinson

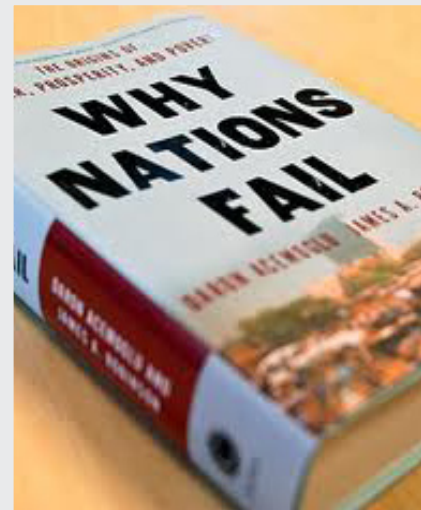
Crown Business; 1 edition (March 20, 2012) ISBN: 978-0307719218.

Reviewed by Sübidey Togan

The question of why some societies are prosperous, stable and democratic while others are poor, unstable and autocratic is an intriguing one. Daron Acemoglu, a professor of economics at the Massachusetts Institute of Technology, and James Robinson, a professor of government at Harvard University, take a stab at answering this question in their book *Why Nations Fail*. They're hardly the first scholars who have struggled for decades to find a convincing answer to this problem. Lately, J. Diamond in *Guns, Germs and Steel: The Fates of Human Societies* emphasizes the role of geography; D. S. Landes in *The Wealth and Poverty of Nations: Why Some are so Rich and Some so Poor* the role of culture; D. C. North, J. J. Wallis and B. R. Weingast, in *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* the role of organization of society; and Niall Ferguson in *Civilization: The Six Killer Apps of Western Power* the role of competi-

tion, science, property, medicine, consumption and work ethic. But according to Acemoglu and Robinson the answer is not geography, nor culture nor ignorance of domestic leaders and technocrats. The real reason according to the authors lies in the role of political and economic institutions.

Acemoglu and Robinson point out that for nations to achieve prosperity, the political system has to be inclusive. According to the authors the defining characteristics of political inclusiveness are a combination of centralization and pluralism. The state must be strong enough to keep the political power of different interest groups in check with a system of widely shared political authority. The authors emphasize that inclusive political institutions lead to inclusive economic institutions which may be defined as laws and practices that motivate people to work hard and become economically productive. Among the factors



that motivate people to become productive are the protection of their property rights, predictable enforcement of their contracts, and opportunities to invest and retain control of their money. Hence, the rule of law turns out to be of prime importance for attaining prosperity. Noting that prosperity is generated by investment and innovation, the authors emphasize the role of 'creative destruction' for achieving sustained economic growth, where creative destruction is defined as

the replacement of old technologies with new but more productive ones, and also destabilizes established power relations in politics. The inclusive economic systems make it easier for people to turn ideas into businesses and enable entrepreneurs to conduct business without fear of their ideas, property or profit being stolen. Thus, inclusive economic systems which protect individual rights lay down the foundations for sustainable economic growth, and achieve both prosperity and growth for the masses and sustained development. Since it is in general the state that will prevent theft and fraud, enforce contracts and impose law and order, power needs, as emphasized above, to be centralized. In the absence of centralized power we may end up with disorder which is anathema for investment and innovation. Since people controlling political institutions will generally try to rig the system in their favor, this rigging could be avoided by having pluralistic political institutions.

On the other hand, extractive political institutions are characterized by the absence of centralized political power and/or the absence of pluralism. Such institutions, focusing on grabbing wealth and resources away from one part of society to benefit another, lead to exclusive economic institutions protecting the interests of the elite at the expense of the interests of the masses. The system, by not incentivizing the people and putting barriers to new entry by political and economic actors, discourages investment and innovation. While

extractive institutions increase elite's wealth, they impede and even block economic growth and thus generally lead to poverty, privation and stagnation for the majority.

In order to make the point that nations with extractive political institutions are likely to be poor, whereas those with inclusive institutions are likely to be rich, the authors consider a wide variety of striking historical cases. Most of these cases considered in the book are on extractive institutions leading one to conclude that extractive institutions have been the historical norm. Furthermore, the authors show that extractive as well as inclusive rules are self-reinforcing. Once in place exclusive as well as inclusive institutions tend to create a virtuous circle making it likely that these institutions will persist and expand over time. A final point concerns the possibility of shifting from extractive to inclusive institutions. The authors show that this shift is not easily attained. In the United Kingdom the shift was made possible through the occurrence of 'critical junctures' in history such as the Black Death, discovery of the Americas, and the 1689 Glorious Revolution. These events disrupted the then prevailing political and economic balance and led to adoption of inclusive institutions only over a relatively long period of time.

This is an excellent book. It is thought-provoking, readable and engrossing. It is a must-read for anyone interested in economic growth. To show how thought-

provoking the book is we shall consider from the wide variety of historical cases the case of the Ottoman Empire.

Acemoglu and Robinson state that "the Ottoman State was absolutist, with the Sultan accountable to few and sharing power with none. The economic institutions the Ottomans imposed were highly extractive. There was no private property in land, which all formally belonged to the state. Taxation of land and agricultural output, together with loot from war, was the main source of government revenues. It (the Ottoman regime) lacked not only the ability to impose a stable order in much of the Middle East but also the administrative capacity to collect taxes. So it "farmed" them out to individuals, selling off the right to others to collect taxes in whatever way they could. These tax farmers became autonomous and powerful. Rates of taxation in the Middle Eastern territories were very high, varying between one-half or two thirds of what farmers produced. Much of this revenue was kept by the tax farmers. Because the Ottoman state failed to establish a stable order in these areas, property rights were far from secure, and there was great deal of lawlessness and banditry as armed groups vied for local control... Extractive economic institutions in the urban areas of the Ottoman Empire were no less stifling. Commerce was under state control, and occupations were strictly regulated by guilds and monopolies." According to the authors the Middle East today is poor because most of the Middle Eastern countries

were all provinces of the Ottoman Empire, which heavily and adversely shaped the way they developed. Acemoglu and Robinson maintain that it is the institutional legacy of the Ottoman Empire that keeps the Middle East poor today. The Ottoman rulers, because of fear of creative destruction, not only neglected to encourage economic progress but also took explicit steps to block the spread of industry and the introduction of new technologies that would bring industrialization.

These statements are indeed thought-provoking. According to the authors the Ottoman State was absolutist. But Togan (1991) maintains that the Ottomans shared the power among various groups in the society, and that they introduced the sultan law (*kanun*), the aim of which was to provide justice for everyone. In addition, the system of sharing (*ülüs*) was an essential part of Turkish and Ottoman administration as without it the right incentives would not have been provided to masses of people to co-operate with the rulers. Thus, Togan claims that the Ottoman State was not absolutist. So who is right?

Probably, it must be up to the historians to decide whether the Ottoman State was absolutist or not. On the other hand, the claim of the authors that there was no private property in land in the Ottoman Empire is also disputable. This was indeed the case on lands conquered from the Christians such as Balkans and Anatolia, but not on lands con-

quered from the Muslims such as Basra, Mesopotamia and Egypt as emphasized by Inalcık (1954, 1997), Faroqhi et al. (1997) and Cune (1980). Finally, Acemoglu and Robinson claim that the Ottoman regime farmed the right to collect taxes to others as it lacked the administrative capacity to collect taxes, that tax farmers became autonomous and powerful over time keeping much of the tax revenue to themselves, and that rates of taxation in the Middle Eastern territories were very high, varying between one-half or two thirds of what farmers produced. This statement is also disputable. Çizakça (1989) and Pamuk (2012) maintain the opposite view. According to them the tax farming system, introduced in a country where Islamic law prohibited the interest and usury, served the purpose of allocating resources over time. Tax farming was used as a substitute for domestic borrowing with the expected tax revenues forming the collateral. Again, the decision on accuracy has to be settled by the historians.

The authors' treatment of the Ottoman Empire is too harsh. The Ottoman Empire was a multi-ethnic, multireligious and multicultural entity, and it survived for more than 600 years. The Empire would not have survived for such a long period if the political system had been irresponsible to the demands of the majority of the people. Another positive aspect concerning the Ottomans although not mentioned by the authors is the fact that the Ottomans have given minority communities considerably more running

room than their European counterparts. In the Ottoman Empire communities of religious minorities were granted autonomous rule with minimal interference from the Ottoman government. Under this system non-Muslims (*Dhimmis*) were allowed to retain their traditions and legal systems.¹ Three religiously based communities called 'millets' were established by Mehmed the Conqueror soon after he made Istanbul his capital in 1453. They were the Greek Orthodox, Armenian Gregorian and Jewish 'millets' represented by their own leaders. People interacted with the state through the leaders of their own 'millet' through a hierarchy leading up from local representatives to greater ones. While the Greek Orthodox included in addition to ethnic Greeks all Slavs and Romanians living in southeastern Europe, the Armenian Gregorian 'millet' included besides Armenians also the Nestorians, Copts and other Eastern Christians. As emphasized by Yıldırım and Curtis (2010) autonomy for these groups in the Ottoman Empire included local governance over finances and welfare institutions, local control of educational systems, collection of taxes by locally appointed collectors, and ability of community leaders to negotiate taxes with the central government. In addition 'millets' were allowed to maintain a separate court system where legal disputes not pertaining to matters with the central government could be decided.

In light of the above considerations the claims that Middle East is poor today because most of the

provinces of the Ottoman Empire, and that the institutional legacy of the Ottoman Empire keeps the Middle East poor do not seem to be very convincing. Besides the points raised by the authors there must have surely been other factors in play. This raises also questions about the reliability of other historical cases considered in the book. It would be appropriate to double check the historical cases by regional specialists.

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Analysis of the Millet System in Light of Contact Theory, in *The Ottoman Mosaic: Exploring Models for Peace by Re-Exploring the Past*, edited by K. Karpat and Y. Yıldırım, Cune Press.

¹ Under Islamic Law the non-Muslims called 'Dhimmis' after the conquest of a country by the Muslim state made a Dhimmis agreement with the state allowing them to continue living in the country under the conditions specified in the agreement. The agreement made for unrestricted period of time guarantees the security of their lives and property. They are not forced to convert to Islam, and they are allowed to retain their churches and synagogues. For this protection provided by the state they had to pay a tax called 'cizre'.

Subidey Togan is an ERF Fellow and Board member and Professor of Economics and Director of Center for International Economics at Bilkent University, Turkey.



Book Review

Economic Incentives and Environmental Regulation: Evidence from the MENA Region

Edited By Hala Abou-Ali

Cheltenham, UK: Edward Elgar, 2012 ISBN: 978-1781002377.

Reviewed by Tom Tietenberg

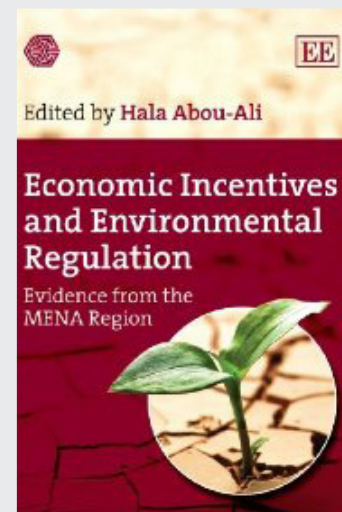
Given the dearth of published environmental economics research on the Middle East and North Africa (MENA) region, this path-breaking book is a welcome addition. MENA is an economically diverse region that includes both the oil-rich economies in the Gulf and countries that face more serious resource scarcities. This book, the result of a project by the Economic Research Forum, focuses more on the resource-scarce countries within MENA. Editor and contributor Hala Abou-Ali (Associate Professor, Faculty of Economics and Political Science at Cairo University) has assembled a global team of academics and consultants who have a deep familiarity with the region.

After an introductory chapter the volume opens with a data-rich overview that quantifies and monetizes the degree of environmental degradation in the region. It is, not surprisingly, substantial. Air pollution, crop yield losses

from land degradation and water contamination are found to be imposing particularly large losses.

The remaining chapters, which largely focus on case studies, contain a mixture of *ex ante* and *ex post* analyses. Topics addressed by the case studies include:

- Estimating willingness to pay for improving land and water conditions for agriculture in Damietta, Egypt
- Mitigating climate change emissions in the MENA region
- Reducing mobile source air pollution in Cairo, Egypt
- Regulating cement industry pollution in Morocco
- Managing solid waste in Tunisia
- Dealing with water scarcity in Jordan
- Creating incentives for improving wastewater reuse in the MENA region, and
- Managing the Atlantic blue-



fin tuna fishery, focusing on the stock in the Mediterranean Sea.

As the editor of this volume points out the traditional argument that poorer countries in MENA cannot afford to check environmental degradation must be contrasted with the other reality, namely that these countries are bearing a high cost from the degradation that remains unchecked.

Does poverty preclude environmental improvement? Not necessarily, according to the evidence in this book. In some cases environmental improvement represents a good economic investment for those most affected by the degradation. As one example, a choice experiment to elicit farmer willingness to pay for improving the land and water quality faced by agricultural producers in Damietta, Egypt, finds a significant willingness to pay for these productivity-improving strategies.

In addition some environmental challenges actually become opportunities when viewed from a regional perspective. While conventional wisdom suggests that the costs of carbon mitigation in the MENA region would exceed any benefits, this book finds that climate change policy can actually be a boon for the region. Positive welfare effects can result, for example, from selling carbon credits under the Clean Development Mechanism. These credits would be created by reducing the large amount of energy inefficiency (and associated emissions) in the current system at a relatively low marginal cost, while using the revenue from the sale of these credits to foreign buyers to finance the productivity-enhancing investments.

Posing even a greater challenge to conventional wisdom, this analysis suggests that even a domestic carbon tax could actually be welfare enhancing to the implementing countries if the revenue from the tax were used

appropriately. Two positive welfare effects accrue to the region in addition to the benefits from fewer climate impacts: (1) the effects from using the revenue to reduce existing growth-retarding distortionary taxes and (2) the effects from improvements in air quality that result from reducing the pollutants other than carbon that would have been associated with the inefficient energy use (SO_x, NO_x and VOCs). When these effects are included, the regional benefits are estimated to outweigh the costs.

Water is, of course, a crucial, but scarce resource in this region. The book notes that of the 22 countries designated by the World Bank as “water poor”, 15 are in the MENA region. The Jordan case study finds that water withdrawals from underground aquifers currently exceed the recharge rate while population growth is driving demand still higher. This current and growing scarcity is intensified by (1) irrigation methods that waste a significant amount of water and (2) an inefficient and aging infrastructure, which results in some 56% of the total production of water for municipal uses to be unaccounted for.

One might imagine that the existing water scarcity would be a driving force for recycling wastewater, but another case study finds that is not generally the case. Although nearly all countries in MENA have some wastewater reuse projects, with the exception of Israel and the rich Gulf States most have not moved past

pilot programs. Barriers include the perception that any recycled wastewater would be of low quality and the rather large amounts of revenue that would be needed, not only to adequately collect and treat the wastewater, but also to maintain the treatment and distribution infrastructure as it ages as well.

Prices that neither reflect the scarcity of the water nor adequately internalize the externalities associated with wastewater disposal are found to bear some of the responsibility both for the lack of revenue and the lack of incentives for wise use. Additionally some countries in the region subsidize both the installation of pumping equipment and the fuels used to power the pumps. So while recognizing the nature of the problem is not difficult, implementing the correct prices and providing the requisite infrastructure could prove to be politically quite difficult.

The book also reminds us that choosing the right policy instrument will not prove to be sufficient if the chosen instrument is not implemented correctly. The study of the Atlantic bluefin tuna fishery in the Mediterranean, for example, points out that despite the fact that the fishery employs catch limits, the stock continues to decline. It turns out that not only have the implemented catch limits been systematically higher than the sustainable catch levels proposed by scientists, but also many harvesters are covered by the regulations

In their role as pioneers in applying this form of analysis to the MENA region the authors faced a number of challenges, not the least of which was the paucity of high-quality data. Data limitations are lamented with some frequency in these chapters. Yet despite these analytical barriers the available data are put to very good use in this book. This analysis provides a solid foundation not only for initiating a data-based discussion of some intriguing policy reform proposals that have been tailored to this region, but also for laying the groundwork for future research.

Tom Tietenberg is Mitchell Family Professor of Economics, Emeritus at Colby College in Waterville, Maine, USA

Latest ERF Publications

Edited Volume: *Economic Incentives and Environmental Regulation: Evidence from the MENA Region,*

Edited by: Hala Abou-Ali

This unique book explores a wide range of environmental issues centered on the Middle-East and North Africa region, where environmental degradation and impacts of climate change are known to be more critical than in others parts of the world.



Business Environment Constraints on Growth in the MENA Region

Rina Bhattacharya and Hirut Wolde

Has Egypt's Exchange Rate Policy Changed After the Float?

Hoda Selim

Book Review: "Inflation Targeting In MENA Countries — A Unfinished Journey", Edited By Mongi Boughazala and David Cobham

Magda Kandil

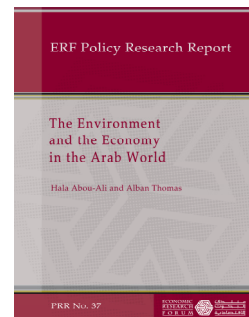
Policy Research Reports

The Environment and the Economy in the Arab World

Hala Abou-Ali and Alban Thomas

Policy Research Report 37

Environmental concerns in the Arab world are very rarely taken into consideration when designing public policies or setting priorities, despite the fact that most Arab countries have established a ministry or specialized body responsible for environmental affairs. [Read the full report online](#)



The Middle East Development Journal (MEDJ)

The Economic Research Forum is proud to announce the publication of the third issue of the Middle East Development Journal (MEDJ).



Vol. 4, No. 1. June 2012

Editorial Team Update
Lyn Squire

The Impact of Migration on the Labor Markets in the Arab Mediterranean Countries
Francesca Marchetta

Is the Announced Monetary Union in GCC Countries Feasible? A Multivariate Structural VAR Approach
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Saving and Growth in Egypt
Constantino Hevia and Norman Loayza

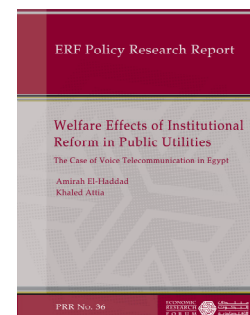
Revisiting the Finance-Growth Nexus: Further Evidence from Tunisia
Riadh Ben Jelili

Welfare Effects of Institutional Reform in Public Utilities: The Case of Voice Telecommunication in Egypt

Amirah El-Haddad Khaled Attia

Policy Research Report 36

Many countries, including Egypt, have undergone significant utility sector reform since the 1990s. This case study assesses the institutional reforms initiated in 1997 in Egyptian telecommunications, ending 40 years of state dominance over the sector. [Read the full report online](#)



ERF Working Papers Series

Since the last issue of *Forum*, 60 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: www.erf.org.eg. The recently published papers are listed below:

A Multidimensional Analysis of Water Poverty at A Local Scale: Application of Improved Water Poverty Index for Tunisia

Hatem Jemmali and Mohamed Salah Matoussi
Working Paper 730

Macro-Financial Vulnerabilities and Economic Downturns: A Comparison Analysis Between Cost-Sensitive Learning and Markov-Switching Approaches

Meriem Djennas, Mohamed Benbouziane and Mustapha Djennas
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Has the UAE Escaped the Oil Curse?

Raimundo Soto and Ilham Haouas
Working Paper 728

Arab Passengers' Airlines Framework and Performance: Jordan Case

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Working Paper 727

Understanding Revolution in the Middle East: The Central Role of the Middle Class

Ishac Diwan
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Moroccan Passenger Airlines Framework and Performance

Brahim Morchid and Khalid Sekkat
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The Performance of the Airline Passenger Market in the United Arab Emirates

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Are Jordan and Tunisia's Exports Becoming More Technologically Sophisticated? Analysis Using Highly Disaggregated Export Databases

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The Elusive Quest for Arab Economic Development

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Ilham Haouas, Mahmoud Yagoubi and Sergio Guirrerri Salvino
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On Informality and Productivity of Micro and Small Enterprises: Evidence from MENA Countries

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Financial Cascades in The MENA Region: Theory, Empirics and Policy

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Rethinking Social Insurance in Egypt: An Empirical Study

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Are International Food Price Spikes the Source of Egypt's High Inflation?

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Florian Misch and Atilim Seymen

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The Political Economy of Petroleum Wealth in Low-Income Countries: Some Policy Alternatives

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An Applied Endogenous Growth Model with Human and Knowledge Capital Accumulation for the Turkish Economy

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Agricultural Transformation and Labor Mobility During the ARIP Period in Turkey: Evidence from Micro-Data, 2000-2002

Hüseyin Ikizler and Insan Tunali

Working Paper 706

Does Institutions Quality Matter for Financial Development and Economic Growth Nexus? Another Look at the Evidence from MENA Countries

Housseem Rachdi and Sami Mensi

Working Paper 705

Institutions and the Finance-Growth Nexus: Empirical Evidence from MENA Countries

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Ibrahim Al Hawarin
Published: May 2012 | Number: 677

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