

# forum forum

Newsletter of the Economic Research Forum

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## CELEBRATING 20 YEARS OF MAKING A DIFFERENCE



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## *A Word from the Managing Director*

# **ERF Celebrates its 20<sup>th</sup> Anniversary**

**T***his edition of the Forum comes at a special time in the life of ERF and the region. The ERF community celebrated the Forum's 20<sup>th</sup> Anniversary in the context of the Annual Conference. At the same time, Arab spring countries continue to navigate their transitions, with history unfolding in front of our own eyes.*

*On the occasion of the 20<sup>th</sup> Anniversary of ERF, the participants had much to feel good about. Twenty years ago, ERF was an idea, a dream. Today, it stands tall. It is recognized as the premier regional network and think-tank. It is home for the most dynamic group of researchers. It is the place where new ideas are born and nourished. And it is open, transparent and inclusive. Thanks to these qualities, ERF is ready to embark on the next 20 years.*

*As for the transition countries in the region, the search for a new political and economic equilibrium continues. As this issue of 'Forum' goes to print Egypt, since January 2011, adopted a second constitution and a second Presidential election is underway. Tunisia has similarly adopted a new constitution and a Presidential election will follow. The struggle for stability continues in Syria, Libya and Yemen.*

*Turning to the Annual Conference, which focused on Social Justice and Economic Development, this issue of the 'Forum' gives a glimpse into what transpired. It contains an exclusive interview with John Roemer and a brief account of the issues discussed in the plenary and special sessions. It also covers the 20<sup>th</sup> Anniversary celebrations. Finally, the 'Forum' will fill you in on ERF news, various research projects as well as information on recent and upcoming events.*

*Finally, one word of thanks is in order. Last year, I have been privileged to be Egypt's Finance Minister. The experience has been enriching, but it has also shown that ERF is a mature institution; it continued to function like a clock thanks to the ERF team, ERF Fellows and ERF Board of Trustees. To them all, I want to express my deepest gratitude.*

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AGalal'.



## The ERF 20<sup>th</sup> Annual Conference

# Time to Celebrate



From left to right: Abdlatif Al-Hamad, Subidey Togan, Djavad Salehi-Isfahani, Raed Safadi, Mustapha Nabli, Hanaa Kheir-El-Din, Ragui Assaad, Samir Makdisi and Heba Handoussa.

The Economic Research Forum's (ERF) Annual Conference, a tradition maintained since 1994, has become a unique vehicle for networking among approximately 250 economists from the region and outside. This year's Annual Conference was very special as it marks the 20th anniversary of ERF, a major milestone in the institution's lifetime.

During the opening plenary session, Ahmed Galal, ERF's Managing Director said, "We had a wild dream in 1993, and 20 years later that dream is for real.

It was one of the first if not the only institution to connect economic researchers from the Arab countries, Iran and Turkey. Aiming to build strong research capacity in the region, ERF has become a centre of excellence for empowering economic researchers and fostering collaborative research about the region, leading the production of independent and high quality economic research and disseminating research outcomes widely through various channels.

"ERF has become a very special place. This is just the beginning; the next 20 years are going to be even better," Galal said.

The Welcome and 20<sup>th</sup> Anniversary Celebration Dinner was held on the first evening of the conference, with Raed Safadi in place as the Master of Ceremony. He set the tone by picking up on the theme of 'the power of ideas' and reflecting that ERF started out as "an idea that turned into a conversation, and then became a leading institution for a region more known for its challenges than its successes."

He invited Galal Amin to give the keynote speech on this theme. Amin took the audience on a reflective journey. Amin borrowed from Karl Marx in drawing an analogy between the role of intellectuals in generating ideas, and midwives in delivering babies. "The midwives neither create the baby nor cause it to be born, but simply facilitate the birth."

He owned up to a certain amount of skepticism about the potential of ideas on their own to bring about change. "Before Egypt's 1952 revolution, people had



been talking about land reform very strongly and eloquently but nothing happened – until a few army officers staged a coup, and in less than two months it was implemented quite successfully. So it was not the force of ideas of the socialists and reformists (that brought about change), it was the power of the military.”

But Amin concluded on an upbeat note: “Ideas may only have little power to change our lives, but it is ideas that make it worth living.”

The keynote was followed by a public celebration of key people whose contributions have influenced the evolution and achievements of ERF over its first two decades. The Founding Managing Director Heba Handoussa and the Board’s first Chairman Samir Makdisi were honored, along with Research Fellows Ragui Assaad, Hanaa Kheir El-Din, Mustapha Nabli, Djavad Salehi-Isfahani and Subidey Togan. ERF also paid tribute to donors and partners for their continuous and firm financial support, and a special recognition award was presented to Mr. Abdlatif Al-Hamad, the current Chairman of the Board of Trustees and the chairman of the Arab Fund for Economic and Social Development.

In the same celebratory spirit ERF invited the Annual Conference participants to a classical Arabic music and song concert at the Arab Music Institute housed in a beautiful 1923 building in downtown Cairo. Those who understood the lyrics were singing along and almost danced to the tunes, while the non-Arabic speakers appreciated the music and the setting.

To cap the celebrations, on the third and final day of the conference a film was screened summing up what participants and affiliates thought of ERF. The film was shot and produced during the duration of the conference by the GNet social media team.



*Professor Galal Amin*



Watch all related videos on our youtube channel:  
<https://www.youtube.com/user/TheERFLatest>



## *Social Justice and Economic Development,* **Alternative Perspectives**



*From left to right: François Bourguignon, Marc Fleurbaey and John Roemer*

According to many, the absence of social justice is considered one of the main reasons behind the popular uprisings that took place in several Arab countries. Although some of these countries were performing well in terms of economic growth, the majority of citizens did not see an improvement in their living conditions. On the contrary, Arab societies witnessed an increasing concentration of wealth, fewer opportunities and rising corruption. Exclusion, unequal treatment before the law and limited freedoms exacerbated these problems and fueled a strong sense of social injustice.

The annual conference addressed these questions focusing on what social justice might mean, how different societies were able to bring it about, and what are the lessons from these experiences for Arab countries particularly those in transition.

The first plenary of the conference, entitled *Alternative Perspectives on Social Justice*, kicked off with opening remarks by ERF Managing Director Ahmed Galal and Sherine Ghoneim (acting Managing Director) and ERF Board of Trustees Chairman, Abdlatif Al-Hamad (Arab Fund for Economic and Social Development). Galal talked about the importance

of ideas ‘and the people who care about the value of ideas for society’. He quoted John Keynes who said: “The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves exempt from any intellectual influence, are usually the slaves of some defunct economist”. He reflected on a similar gathering of economists more than 20 years ago in Cairo who first thought about setting up ‘a forum that good economists could call home’: that idea became the institution that is ERF. Two decades later, the institution finds itself to be in robust health and boasting an impressive track record.

The first speaker François Bourguignon, Emeritus Chair of the Paris School of Economics, started out by contrasting the patterns of inequality visible in the developed world with trends within three developing continents. While two thirds of developed nations show increasing inequality in the two decades between 1980 and 2000 including Sweden and the Netherlands, countries in Africa, Latin America in the same period show increasing equality. It is only the MENA region which, surprisingly and counter



to people's perception of reality and the shocks of the last 30 years, 'shows surprising stability'.

Yet Bourguignon warned that there is no uniform definition of inequality, and that income distribution data is not always fully comparable across countries and even over time. He also pointed out that data in the developing world is less available and the quality is less reliable.

Bourguignon argued that one of the causes of increasing inequality lies in the fact that the rich are getting richer, and that putting an exact figure on the incomes of a country's wealthiest 1-5% is enormously difficult.

The speaker finished by asking the question: "Why do the common un-equalizing forces that seem to be present in developed countries, not produce the same effect in most developing and emerging countries?" He proposed the answer lies in: first, common globalization forces playing out in different ways in each country; second, factors specific to each country, such as changes in the economic environments and policies affecting income, wealth and the markets; and third a combination of both.

The second speaker, Marc Fleurbaey, Professor in Economics and Humanistic Studies, Princeton University challenged participants to reconsider the validity of using opportunity as the yardstick of social justice. Instead, Fleurbaey proposed focusing on the relationship between income levels and the quality of life. He opted for examining people's preferences in life, their values and wellbeing. Fleurbaey argued that looking at these factors would achieve a more comprehensive measurement of their situation than could be attained by focusing on opportunity alone. However, he too stressed the importance of the availability of quality data to the success of this research approach.

The third speaker of the session, John Roemer, professor of political science and economics, Yale University argued 'that the way to measure economic development was not by looking at GDP per capita increases but instead by the degree to which a country has equalized opportunities and allowed access

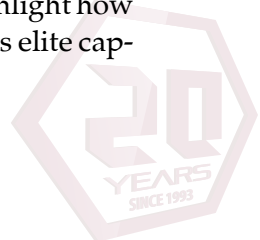


Watch all plenary speakers at:  
<http://www.youtube.com/watch?v=OnmVuriZLeg&list=PL7wPmMd4LnDB4PssQTVETu8HyFN4ryt4Y>

to service for all its citizens. For example he showed that if one lives in a rural area, they have a lower chance of improving their situation. Meanwhile, those who are well off already have circumstances to their favor.

He stressed that a family in which a person is born is outside of his/her control but just because one inherited a bad score card, he said, they should not be denied their right to have the same access to opportunity as others. In order to equalize opportunity, Roemer suggests taxing the rich and directing the revenue from those taxes towards improving public services such as primary education and health, particularly towards the disadvantaged.

The second plenary entitled "Models of Social Justice" looked at various experiences in achieving social justice. Shantayanan Devarajan of the World Bank presented the issue of capture and the failure of free public services. Around the world, countries establish constitutional rights and conditions governing the welfare of the poor and providing them with the right to basic services such as education, health and water. However, those who are rich can get such rights without constraints largely due to increased political advantage and the ability to 'capture' the distribution of public goods. Shantayanan Devarajan presented case studies that highlight how the nature of free public services promotes elite cap-



ture in the developing world – a key cause of breakdown in provision. His presentation focused mainly on African and Asian countries, namely Mali, Gabon, India and Devarajan's message was that attempts at social justice (free health, free education and subsidised public utilities) have backfired for the poor. It is backfiring because of elite capture. Governments are unable to monitor spending. They cannot hold suppliers accountable and citizens can't hold government accountable. The solution, he says, may lie in access to information so that people can hold governments to account. "Giving poor people the choice instead of forcing them to take free services, makes them active participants in the quest for social justice."



#### On capturing the failure of free public services

*Governments are financing private goods that are worth a lot, even for the rich, so they will grab these services and the poor will be left out... Giving poor people the choice, instead of forcing them to consume free education and free health care (which of course they do not seem to be getting anyway) you give them the cash and give them the choice of what to buy, empowers them and makes them active participants in the quest of social justice.*

**Shantayanan Devarajan, The World Bank**

Meanwhile, the second speaker, Mahmoud El-Gamal of Rice University examined theories of neoliberal economics and concepts of social justice from classical economics and Islamic thought. Addressing whether or not neo-liberalism is compatible with Islamic law and Islamic thought, El-Gamal challenged the assumed incompatibility between the two.

El-Gamal proposed that the majority of Muslims view Islam as favoring redistribution as a form of social justice, saying that "if the core theme in Christianity is love, in Islam it is justice". He enhanced this argument by explaining that this was not simply a call for more equality of income, but rather that the very rich should contribute more and the state should play a greater role in redistribution and provision of public goods.



#### On Neoliberalism, Islam(ism) and Social Justice.

*There is no "Islamic Economics" or "Islamic theory of justice." It is not clear that either is possible or necessary. There is a consistent egalitarian streak in Islamic history and thought; mostly implemented through posthoc redistribution. Overall, Muslim societies are likely to accept neoliberal economic policies, with greater emphasis on and scope of redistribution.*

**Mahmoud El-Gamal, Rice University**

On the recent uprisings in Arab states, El-Gamal proposed that these were not initiated by the poor in those countries, but were in fact started by a disaffected middle class whose income levels has not fared well in the last two decades. In Egypt, the middle classes were losing everything they had gained and were regressing to levels of wealth their grandparents experienced before the 1952 revolution. With more wealth being accumulated through capture and political control by the elite, the seeds were sown for widespread social unrest fuelled by anger from the middle class.

Looking at the other side of the globe Carlos Vélez (Universidad de Los Andes, Colombia) recounted the story of inequality in Latin America. Despite relatively high levels of income inequality when compared with other regions, the period between 2002

and 2010 has seen a reduction in levels of inequality in Latin American countries. In his opinion, the key factors driving inequality are factors pertaining to the distribution of human capital such as education and policies such as transfers, pensions, subsidies and taxes that benefit the rich more than the poor. There are signs that improvement in equality of opportunity for children is occurring. Vélez spoke of positive signs indicating improvements across many dimensions relating to human opportunity and economic equality. However, large gaps still exist, and some countries lag behind in development, particularly on education and food security.

On the third and final plenary, a group of distinguished experts examined “Lessons for the Arab Countries in Transition” assessing the extent to which past policies in the Arab countries succeeded in achieving social justice and what are the lessons learnt, each offering penetrating insights and unique perspectives on prevalent economic and social conditions in the Arab world and wider MENA region.

Gouda Abdel-Khalek of Cairo University kicked off the third plenary saying that building foundations for social justice in times of political turbulence is a tricky task; and one beset with challenges. Speaking about Egypt he said that very little has been done to achieve the slogan of the revolution “Bread, Freedom and Social Justice. Indicators of social injustice were featured including a falling wage share to GDP, rising unemployment especially among the youth, rising poverty levels, an increasing urban/

rural divide and a lack of social mobility. Abdel Khaled pointed out that the steady increase in wage related protests before and after 2011 reveals the link between social unrest and the poorly performing Egyptian economy.

To achieve social justice, Abdel-Khalek underlined the need for widespread reforms including subsidizing agricultural producers, increasing taxes on speculative dealing, and creating a progressive taxation system. Urban bias was also highlighted as a particular problem. He also recommended that Upper Egypt be treated as a special region by policymakers due to its serious levels of underdevelopment and poverty.

The second speaker, Georges Corm of the Corm Consulting Office asked if current economic thinking suitably situates social justice within political economy. Drawing on the experience of late industrializing countries like Japan, Corm posed the questions: ‘What happened to the region? Why is the Arab world today totally outside of the emerging markets and what are the reasons for this failure?’

Corm’s presentation argued that if an economy does not have full mobilization of its human resources, the likelihood is it will remain industrially and technologically stagnant. He pointed out that Japan’s industrialization success is due to its preparation of the rural workforce to transit progressively to urban towns and become efficient workers in industry. Conglomerates provided total social protection



From left to right: Gouda Abdel-Khalek, Georges Corm, Paul Salem and Zafris Tzannatos



to their employees and their families. In the other example, Prussia, he noted that Bismarck created similar social protection for workers.

He warned that migration of talent and skills is a financial loss for Egypt. Brain-drain cannot be a positive development. Also, no international organization is tackling illiteracy in the Arab world, which is the status of some 80m people, most of whom are women and live in the rural areas. He went further, saying that literacy should be a conditional prerequisite for donor funding. Corm's proposed that the overarching cause of poverty is having a bad development model. "The first two waves of Arab revolution were about this bad development model and, essentially, we cannot carry on like this."

Paul Salem of the Middle East Institute, also speaking at the final plenary session explained that in theory, a transition to democracy should improve social justice, but in practice this link is problematic and should not be assumed. This is because democracy can easily be captured and diverted to serve narrow interests. It can even be offered as a substitute or compromise for not having social justice.

In the broader context of MENA transitions, the breakdown of the old social contract fuelled calls for 'bread, freedom and social justice'. However, following the Arab uprisings, some regimes settled back into dynastic security or presidential states with an accompanying rhetoric or facade of democracy. Salem's wider message here is that these were uprisings with no vision of a new social contract. This absence of a clear message is even visible amongst thinkers, with no public intellectuals being associated with the vision of the uprising. Without a new social contract, it is unlikely policy makers will be able to offer the necessary solutions; indeed they may not even care in an atmosphere of non-politicization.

Overall, Salem concluded that there is a long way to go before the Arab transitions start to achieve stability and growth. In some cases social justice been overtaken by sectarian issues. A lack of political leadership combined with economic and social vision, he argued, marked the current climate in MENA as very different from the revolutions of the 1950s.

The final speaker, Zafiris Tzannatos of Silatech, offered an array of counter-intuitive arguments challenging mainstream narratives on the causes of the post-2011 Arab uprisings. His presentation built up the argument that, regionally, employment creation is not a priority: if it was, we would not have had the Arab Spring. He accused leaders of not being sincere or effective in taking into account job creation as a pathway to increased social justice.

Tzannatos reconfigured arguments surrounding the role of young people as catalysts for the Arab uprisings. In his opinion, the driving forces behind social unrest have been low labor demand and a pervasive lack of social dialogue. He further contended that contrary to popular belief, adult unemployment in the MENA region significantly outstrips youth unemployment. This, he argued, points to systemic problems in the labor market and "to say unemployment in the Arab world is a youth issue is totally misleading." The picture is evidently more complex. The brain drain of educated young people from the Arab world / MENA was indicative of low demand for high skills. "Their skills are in demand everywhere other than their own countries", he said.

Tzannatos argued that democracy is not the only formula for social justice, giving the dysfunctional example of Greece as a warning. "Democracy", he said, "will not always improve the interface between the citizens and the rulers." The message that bad politics leads to bad economics was central. Denationalization, economic growth driven by bubbles, and wage share decline were all illustrated as examples of underlying bad politics.



Read more about all the plenary sessions on our blog: <http://erfblog.org>



## Special Events

The 20th Annual Conference was special not only because it marks the 20<sup>th</sup> anniversary, but because of the substance behind it. Besides the plenary sessions and the parallel sessions where over 60 papers were presented covering the six broad economic themes, two special sessions were also held; the first on “Micro Data Accessibility: Efforts to Impact” and the other on Structural Transformation and Jobs in MENA: The Role of Privileges”

### Micro Data Accessibility

In the context of its continued efforts towards collecting, harmonizing and publishing data new data as part of its Open Access Micro Data Initiative (OAMDI), the ERF held a special session on the fringe of the Annual Conference showcasing efforts to-date on data collection and promotion of free access to researchers.

Chaired by Mustapha Nabli, the speakers included His Excellency Abou Bakr El-Gendy of the Central Agency for Public Mobilization and Statistics (CAPMAS), Hala Abou-Ali of Cairo University and ERF and Shantayanan Devarajan of the World Bank.

They showed attendees, many of whom represented regional statistics bureaus, what type of micro data is made available through OAMDI and how data is processed before it is made public. The aim of the

seminar was to encourage more regional statistics offices to join hands with ERF to make more data available.

### Structural Transformation and Jobs in MENA

ERF offered a venue to disseminate a World Bank report on “Structural Transformation and Jobs in MENA: The Role of Privileges.” Using firm-level data, the report investigates the pattern and drivers of firm dynamics in MENA countries in order to understand structural change and aggregate employment outcomes. Moreover, it focuses on the role of privileges in shaping MENA’s private sector dynamics and whether they suppressed structural transformation in MENA.



Hala Abou-Ali



H.E. Abou Bakr El-Gendy



## *Pre-conference Seminar on*

# Firm-Level Export Diversification in the ERF Region

In an attempt to find out why the Middle East and North Africa region is underperforming its potential in terms of exports, ERF embarked on a project jointly with the World Bank aimed at finding out more about the characteristics of the region's exporters.

The results of this project were disseminated during a one-day seminar held ahead of the 20th Annual Conference.

The research carried out in the framework of this project is unique in that it is the first to be based on a cross country exporter-level dataset which provides a closer look at exporting firms' characteristics and performance.

The research team for this project made use of the data to try to understand the region's low export growth and diversification.

The issues discussed included how trade facilitation measures, such as administrative barriers, affect trade margins and to what extent harmonization of trade standards promotes trade.

In addition, some of the research looked into how political connections and tariff evasions affected the performance of exporting firms.

To learn more about the seminar visit the ERF blog <http://erfblog.org/2014/03/21/exporters-in-mena-finding-the-superstars/#more-1282>



*Caroline Freund and Mustapha Nabli*



*Participants at the pre-conference seminar*

## Celebrating Excellence

# Best Paper Awards

The papers submitted to the conference are assessed by a committee of internationally recognized academics from the ERF network, who judge them on the following criteria: whether the paper adds substantially to existing research in its field, sound methodology, meticulous research execution and finally, policy relevance. The awards are presented to authors of the best papers presented in each theme. The winners of the ERF 20th Annual Conference Best Paper Awards are listed below, along with abstracts of the papers.

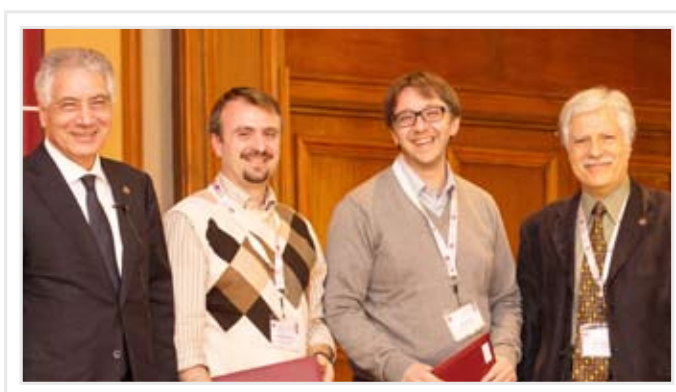
## Institutional Economics (Shared)

- *Trust and Prosocial Behavior in a Process of State Capacity Building: the Case of the Palestinian Territories*, Luca Andriani and Fabio Sabatini

This paper contributes to the literature by conducting the first empirical investigation into the determinants of prosocial behavior in the Palestinian territories, with a focus on the role of trust and institutions. Drawing on a unique dataset collected through the administration of a questionnaire to a representative sample of the population of the West Bank and the Gaza Strip, we have found that institutional trust is the strongest predictor of prosociality. This result suggests that, in collectivist societies with low levels of generalized trust, the lack of citizens' confidence in the fairness and efficiency of public institutions may compromise social order. The strengthening of institutional trust may also reinforce prosocial behavior in individualist societies, where a decline in generalized trust has been documented by empirical studies

- *Efficiency in Public Procurement Auctions*, Bedri Kamil Onur Tas

This paper empirically investigates the optimal number of bidders to achieve the lowest procurement prices in public procurement auctions. We use a unique data set provided by the Public Pro-



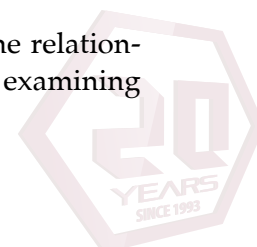
From L to R: Ahmed Galal, Bedri Onur Tas, Luca Andriani and Hadi Esfahani

curement Authority of Turkey that covers all government procurement auctions for the years 2004-2010, 472560 auctions. We conclude that there is an optimal number of bidders and this number vary for different types of products. These results indicate that auctioneers should promote competition in public procurement. The optimal number of bidders can be used by the authorities as focal points to analyze whether competitive efficiency is achieved in the public procurement auctions.

## Finance

- *Is There an Oil Risk Premium in Oil Exporting Stock Markets? An Asset Pricing Perspective*, Rıza Demirel, Shrikant Jategaonkar and Ahmed Khalifa

This study extends the literature on the relationship between oil and stock markets by examining

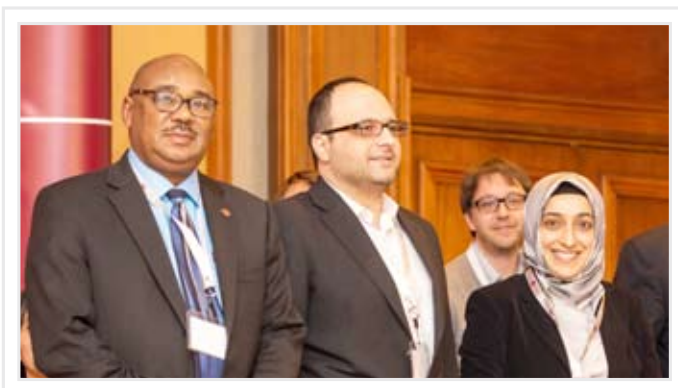


whether oil price risk is systematically priced in the cross-section of stock returns in net oil-exporting countries. Using firm-level data from the stock markets in the Gulf Cooperation Council (GCC), we examine whether oil price exposure of stocks carries a significant price of risk in the presence of market and firm level risk factors. Our tests yield no evidence of a significant risk premium in the cross-section of stock returns associated with the exposure of stocks with respect to oil prices. On the other hand, we find a significant and positive idiosyncratic volatility effect in which stocks with high firm-specific risk yield higher returns. We argue that the idiosyncratic volatility effect controls for the oil price exposure along with other undiversifiable risk factors associated with firms, rendering the oil factor to be insignificant in our tests.

## Macroeconomics (Shared)

- *Income Transfers and Human Capital: Application to Resource Rich Countries*, Salim M. Araji and Hamid Mohtadi

We present a new mechanism for the curse of natural resources, i.e., “why natural resource rents if distributed as transfers to individuals’ income might retard economic growth and development: their effect on incentives to invest in human capital”. Extending an OLG model for this purpose, We show that the windfall rents from natural resources, when transferred directly to citizens distort their incentives away from accumulating the optimum level of human capital and thus from economic growth. This increases the chance of a



From L to R: Ibrahim Elbadawi, Salim Araji and Serife Genc

low-level equilibrium trap and reduces the chance of converging to a higher income per capita in the long run. We empirically support our theoretical findings.

- *Government Subsidized Individual Retirement System*, Okan Eren and Serife Genc

A new private pension scheme where the government makes direct contributions to the retirement accounts has been effective in Turkey since 2013. In this paper we examine quantitatively the impacts of the new individual retirement system on the savings rate, capital stock and welfare of the individuals. We build a multi-period OLG model and simulate an economy with a pension scheme similar to the one observed in Turkey. Our simulation results reveal that the introduction of a private pension scheme increases the net saving rate by 0.1% points. Around 8% of the increase in individual retirement assets constitute incremental saving. The impact of the new system on physical capital stock is a 5% rise. The welfare analysis reveals that individuals face a 12% reduction in their permanent consumption levels with the introduction of the new system.

## International Economics

- *Sanctions and Trade Diversion: Exporter-level Evidence from Iran*, Jamal Haidar

Drawing on a rich customs data set, this paper uncovers that sanctions triggered Iranian exporters to divert more than half of their trade to - and create new trade relationships with - other destinations. On the intensive margin, exporters enhanced their export volumes to other destinations that they were already exporting to when a certain destination imposed sanctions on them. On the extensive margin, the probability of an exporter to divert exports to a new destination rose if the exporter was existing in the new market too, suggesting that reduced costs of exporting matter for trade diversion to and creation of new export markets. By exploiting and tracking the universe of customs daily disaggregated transactions, this paper shows how larger and more experienced exporters were less affected by sanctions and more able to divert their exports than smaller and less experienced peers;



L to R: Caroline Krafft, Safaa El-Kogaly, Meltem Dayioglu Tayfur, Jamal Haidar, Subidey Togan, Mohamed Ayadi and Hala Abou-Ali

exporters diverted firstly their core and homogeneous products; exporters reduced their product prices as they diverted trade to new destinations; and the new destinations, which diverting exporters targeted, are more politically-friendly to Iran.

## Labor and Human Development

- *Inequalities in Early Childhood Development in the Middle East and North Africa*, Caroline Krafft and Safaa El-Kogaly

Early childhood is the most important and sensitive time for human development. However, countries tend to under-invest in this stage of development, particularly in the Middle East and North Africa. Additionally, children may face unequal opportunities to grow and thrive based on their circumstances. This paper analyzes inequality of opportunity in early childhood development in twelve countries in the Middle East and North Africa, assessing development along a variety of dimensions and across the early lifecourse. We quantify inequality from in utero to age five in terms of health, nutrition, social-emotional development, early learning, and early work and decompose inequality into the shares related to different circumstances. The findings demonstrate that there is substantial inequality of opportunity starting early in life, and that inequality of opportunity is particularly high in early learning and in activities that support early cognitive development. A variety of circumstances impact early inequality, with wealth, mother's education, and geographic differences all contributing substantially. Our analysis suggests that ensuring equality of opportunity in school and adult life

will require redressing the causes of inequality of opportunity in early childhood.

## Microeconomics

- *From Productivity to Exporting or Vice Versa? Evidence from Tunisian Manufacturing Sector*, Mohamed Ayadi and Wided Mattoussi

In this paper we explore the link between firm's productivity and exporting using firm level data on 1323 Tunisian manufacturing firms from 2004-06. We in particular examine whether more productive firms self-select into exporting markets, and whether exporters achieve productivity improvements through learning-by-exporting effects. We then explore the link between innovation (as a channel linking productivity to exporting) and exporting. The analysis is conducted on two clusters of firms. The first cluster distinguishes exporters from non-exporters; and the second distinguishes fully exporting firms from others. The results suggest that fully exporting firms self-select much more often into exporting markets; In turn they have much less to gain from exporting because of their likely longer previous exporting experience. The analysis has then been extended to deal with sectorial studies. Among our various findings is the decline of the scope for learning in the long term perspective for fully exporting firms of sectors characterized by subcontracting regimes as textile and electronic sectors. Moreover, the scope for learning might also be influenced by export destination as the case of agro-food industries.



## *An Interview*

# Understanding Equality of Opportunity

*John Roemer, Professor of Political Science and Economics, Yale University is concerned with building a just society. He is known for his innovative work on equality of opportunity. He believes that an individual's chances in life are influenced not only by his/her effort but also by circumstances beyond their control such as their gender, place of birth, education of their parents... etc. He argues that societies should equalize opportunity for everyone. Below, he explains how this concept may be translated into actions.*

**In the context of your work on inequality of opportunity and the distinction you make between effort and circumstances, how do you measure effort?**

There are several ways. One is to take the approach that after you delineate the circumstances; you assume that whatever remaining differences in outcomes are due to effort. However, differences could also be due to some other circumstances that have not named or they could just be due to luck.

The best way to solve this problem is to have a comprehensive list of circumstances. Alternatively, another possibility is to directly measure effort, for instance the number of school years that an individual finishes. However, a person's effort, say his years of education, must not be measured by his absolute years of education but by his rank among children within his age group and circumstances. For example, on average poor children will go to school less than rich children; it does not mean that they exerted less effort.

**How do you reduce the massive accumulation of inequality over time?**

There are all kinds of policies that can be adopted. In developing countries, it is particularly important to focus on achieving universal primary school education, and then secondary schooling, focus on the education of women, health provision especially for disadvantaged people, ensure access to clean water as well as focus on making credit markets available to poor people. The idea is to ensure that policies provide greater public access of these services to poor people to improve their situation.

**How long a process is that?**

I don't know. It could be many generations but I think things can improve pretty dramatically if there are good social policies.

**How do you reconcile de facto inequality and perception of inequality?**

I do not think there is a lot of work on perception of inequality. I think people generally perceive that there is less inequality than there actually is. In the surveys I have seen in the US, people are asked how high they think the salaries of CEOs are and they will say \$1 million while in fact they are \$20 million. I think people cannot conceive of the wealth of the wealthy; ordinary people can't believe it is that high.



**Do you perceive that the recent uprisings in the region as a result of inequality of opportunity?**

I do, very much so. People cannot get ahead; educated people cannot get jobs, uneducated people cannot get educated. The uprisings are also a response against an arbitrary lack of freedom and oppression.

**If you would like to advice policymakers in the region today, what do you think the priorities should be in order to achieve distributive justice?**

I think the main problem is political in the sense that Middle East governments are controlled by the wealthy; whether or not they call themselves democracies, and the main awaited transformation has to be to take away power from the wealthy and give it to the people through some kind of democracy. That is difficult to do; you saw in your own revolution [Egypt] that you can have a very effective revo-

lution, you got rid of two leaders in the space of two years, but what difference has it made in society? There isn't a well organized popular party which prevents representatives from the same economic class from coming back in.

The problem seems to me, as an outsider, is that the only party that was well organized was Mubarak's party which was destroyed, presumably, and the Muslim Brotherhood. But there was not a party representing ordinary people; and without that party, the vacuum is going to be filled by the people who are well organized. It seems to me you have a long hard struggle which is to develop representative parties of the masses of people. I would advocate social democratic parties that want to build a welfare state and want to have real power for ordinary people. If that does not happen, there will just be another leader who represents the same rich economic classes and I do not think it will make a fundamental difference.



## New ERF Affiliates

### *New Research Fellows*

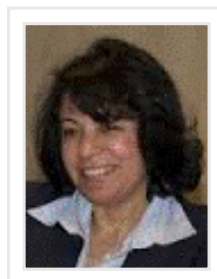
#### **Basel Awartani, Palestine**

holds a Ph.D. in economics from Queen Mary College, University of London. Currently, he is an Associate Professor in Finance at Plymouth University in the UK. Before moving to the UK he was an Associate Professor in Financial Economics at the New York Institute of Technology in Abu Dhabi; and before that at the United Arab Emirates University in Al Ain. Dr Awartani has also worked as a part time consultant for Sybil Fund. His research focuses on risk measurement, model comparison, banking and financial markets' interdependence. He has publications that appeared in energy economics, the journal of international financial markets, institutions and money, the international journal of forecasting, the journal of forecasting, and the journal of business and economic statistics. Additionally, Dr. Awartani is a Certified Financial Risk Manager (FRM), and has been training professionals and bankers for the last 5 years.



#### **Mina Balamoune-Lutz, Morocco**

is Professor and Kip Fellow of Economics in the Coggin College of Business. She holds an MBA and a Ph.D. in Economics from Northeastern University. She has been at UNF since fall 2000, teaching undergraduate and graduate courses in macroeconomics, international trade, the global economy, and economic policy. Prior to that she was program coordinator and Associate Professor of Economics at al Akhawayn University in Ifrane, Morocco. Her empirical work on the effect of policy and institutional reforms in Africa (including North Africa) has received international recognition. She has been a regular contributor to research themes debated at the United Nations World Institute of



Development Economics in Helsinki, the United Nations Economic Conference on Africa, the African Development Bank and the European Report on Development. Her has numerous publications including over a dozen book chapters and articles with recent publications in Applied Economics, the Journal of Policy Modeling, Contemporary Economic Policy, the Journal of African Economies, the Review of Development Economics, and the Journal of socio-Economics.

Prof. Balamoune-Lutz has an extensive record of service to the national and international community and to the Economics Profession. She served as President (2013-2014) of the African Finance and Economics Association (AFEA), and as Associate Editor of the Journal of African Development, the Journal of Business and Behavioral Sciences, and Information Technology for Development. She currently serves on the Editorial Board of Feminist Economics, the Journal of Business and Behavioral Sciences, and the Journal of Business and Accounting, and she served on the Board of Directors of the Eastern Economic Association (2009-2012).

#### **Hassan Mohammadi, Iran**

is Professor and Director of Graduate program in the Economics Department at Illinois State University, Normal, Illinois. He joined Illinois State University in 1988 after receiving his PhD in Economics from Washington State University. His areas of specialty include applied econometrics, macroeconomics, economics of financial markets, and energy economics. His research on business cycles, fiscal and monetary policies, and energy markets have appeared in Southern Economic Journal, Quarterly Review of Economics and Finance, Economics Letters, Journal of Economic Studies, several issues of Energy Economics and a number of other academic outlets. He teaches graduate courses in econometrics and time-series forecasting, as well as undergraduate courses in macroeconomics, money and



banking, and principles of economics. He is on the editorial board of the *Energy Economics*. He has done collaborative work with the United Nations, the US Department of Agriculture, and the Central Bank of Iran. He has taught graduate economic courses in several institutions including Allameh Tabatabaie University, Mazandaran University, and Center for Banking Research (Central Bank of Iran) in Iran, and Istanbul University in Istanbul, Turkey.

### **Caglar Ozden, Turkey**

is senior economist in the World Bank Development Research Group's Trade and Integration team. He received his undergraduate degrees in economics and industrial engineering from Cornell University and his Ph.D. in economics from Stanford University. Prior to joining the World Bank, he was on the faculty of the economics department at Emory University. His research explores the nexus of globalization of product and labor markets, government policies and economic development. He has published numerous papers in leading academic journals, such as the *American Economic Review*, *Economic Journal* and *Journal of Development Economics*. These papers explore the dynamics of protectionist trade policies, adverse consequences of unilateral trade preferences, placement of highly educated migrants in unskilled jobs in the US labor market - the brain waste effect. His most current research explores the role of diasporas and social networks on migration flows and patterns, performance of migrants in the destination labor markets, linkages between migration, trade and foreign direct investment flows and causes of the migration decisions of physicians from sub-Saharan Africa. He is a Research Fellow of IZA (Institute for the Study of Labor) and External Fellow of CReAM (Centre for Research and Analysis of Migration) at University College London.



## *New Research Associates*

### **Ebaidalla M. Ebaidalla, Sudan**

is an Assistant Professor at the department of Economics, Faculty of Economic and Social Studies, University of Khartoum. He got his PhD in Economics from University of Khartoum in 2013. He also holds a B.Sc (honors) and master degree in Economics from the same university. Prior to joining University of Khartoum in 2014, he worked for twelve years at Faculty of Economics and Administrative Sciences, University of Kassala, Sudan. Between 2008 and 2010, he was the head of the department of Economics, University of Kassala. His fields of specialization are in the areas of Macroeconomics, Labour Economics and International Economics. He has published several works in national and international journals.



### **Khaled Guesmi, Tunisia**

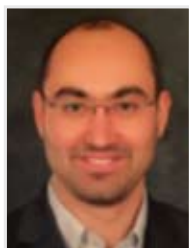
holds a MSc in Corporate Finance from the University of Tunis El Manar (Tunisie) in 2002 and MSc in Money and Finance from the University of Paris I, Panthéon Sorbonne, (France) in 2004 and obtains his Ph.D. from the University of Paris West, La Défense) in 2011. In April 2012, he joined IPAG Business School as Professor of Finance. Before joining IPAG Business School, he served as Assistant Professor of Finance in University of Paris West (2006-2011), as Financial analyst at department of Risk Control, Caisse des dépôts et consignation Bank (2007-2008, Paris), and as research Manager at the Department of Economics, UNESCO (2003- 2006, Paris). Dr. Guesmi is also an Associate Researcher at the Department of Finance, EconomiX (Research laboratory of the University Paris West, La Défense in economics combines empirical approaches to theoretical developments). His principal research



areas concern emerging markets finance, energy finance, volatility modeling and risk management in international capital markets. His most recent articles are forthcoming and published in refereed journals such as *Economic Modelling*, *Energy Economics*, *Energy Policy*, *Journal of International Financial Markets, Institutions and Money*, *Journal of International Money and Finance*, *Journal of Applied Business Research*, *Applied Economics*, *International Economics*, and *Journal of Economic Integration*.

**Amr Hosny, Egypt**

He is currently an Economist at the Middle East and Central Asia Department at the International Monetary Fund. He holds a PhD in Economics from the University of Wisconsin-Milwaukee. His research areas are in the fields of open economy macroeconomics and economic development, with a focus on developing countries and the MENA region.



**Fadhel Kaboub, Tunisia**

graduated in 2006 with a Ph.D. in economics from the University of Missouri-Kansas City (UMKC), where he also earned a masters degree in economics in 2001. His undergraduate degree in economics was completed at the University of Tunis in 1999. Fadhel taught economics as a visiting faculty at Simon's Rock College (MA) and Denison University (OH) in 2004 and 2005 respectively. He then took a tenure-track position at Drew University (NJ) where he also directed the Wall Street Semester program. In 2008, Fadhel returned to Denison as an Assistant Professor and was awarded tenure in 2013. Fadhel is a Research Associate with the Levy Economics Institute (NY) and the Center for Full Employment and Price Stability (MO). He also held a Research Associate affiliation with the John F. Kennedy School of Government at



Harvard University in 2012. Fadhel's research focuses on the Political Economy of the Middle East and on job creation programs to address youth unemployment in the region. He currently serves on the editorial board of the *Review of Radical Political Economics* and is the book review editor of the *Heterodox Economics Newsletter*. Fadhel is a widely published author and his recent work has been presented at many prestigious institutions including the Harvard Kennedy School of Government, Harvard Law School, Cornell University, and Columbia University. Some of his recent media commentaries on employment, development, finance, and the Middle East economies have appeared in the *Financial Times*, *Al-Ahram Weekly*, *Radio France Internationale*, *National Public Radio*, *Saudi Gazette*, *New Inquiry*, *BBC Mundo*, *Carta Maior*, *Diwan TV*, *Le Quotidien*, and *La Presse*. His work is available online at [kaboub.com](http://kaboub.com)

**Yilmaz Kilicaslan, Turkey**

is an Associate Professor of Economics at the Department of Economics of Anadolu University, Eskisehir, Turkey. After He graduated from the Department of Economics of Anadolu University with B.Sc. in Economics in 1993, He went to Northeastern University, Boston, MA, USA with a government scholarship in 1995. He received an M.A. degree in Economics at Northeastern University in 1997. In 1999, He started his Ph.D. study at the Department of Economics of the Middle East Technical University in Ankara, Turkey where he also worked as a Research Assistant during his Ph.D. study. After completing his Ph.D. in 2005, he started to work as an Assistant Professor of Economics at the Department of Economics of Anadolu University. During 2007-2008, he worked at the Working Lives Research Institute (WLRI) of London Metropolitan University, London, UK as a Research Fellow. At WLRI, Finally, he worked as a visiting professor at the Department of Economics of Rice University, Houston, TX, USA during the summer of 2013. His main research areas include



economic growth and development, labour markets, industrial development, productivity in manufacturing and other industries, ICT and innovation. He's been teaching economic growth and development, econometrics, microeconomic theory at both undergraduate and graduate level at the department of economics of Anadolu University.

He has published in internationally refereed journals and he is a reviewer for journals like

Applied Economics, Iktisat Isletme and Finans, METU Studies in Development, Review of Urban and Regional Development Studies, International Journal of Emerging and Transition Economies. He is also a member of Editorial board of Iktisat isletme Finans and International Econometric Review journals.

#### **Diaa Noureldin, Egypt**

currently Assistant Professor of Economics at the American University in Cairo, obtained his D.Phil. (2011) in Economics from the University of Oxford, where he also studied for the M.Phil. (2009) degree. He holds a B.A. (2000) and M.A. (2004) in Economics from the American University in Cairo. Before joining AUC, he worked as Postdoctoral Research Fellow at Oxford, jointly in the Department of Economics and the Oxford-Man Institute of Quantitative Finance. Diaa's research interests are in the fields of econometric theory and its applications for time series data, as well as forecast evaluation methodology. His current focus is on financial econometrics, particularly modelling and forecasting volatility and dependence in financial markets. He is also interested in methods that are suitable for large-dimensional systems as well as high-frequency data. Some of the methods he developed with his co-authors have had a noteworthy impact on recent research in volatility forecasting based on high-frequency-data, and his recent publications appear in top-tier econometrics



journals. Diaa previously taught undergraduate and graduate students at AUC (2002-2007) and Oxford (2009-2013). His current teaching at AUC is in the areas of statistics, econometrics and mathematics for economists. He also previously worked and consulted for the government of Egypt, as well as UN agencies (the United Nations Industrial Development Organization and the United Nations Conference on Trade and Development) involved in economic research and policy.

#### **Mesbah Sharaf, Egypt**

is an Assistant Professor of Economics at Concordia University in Montreal, Canada. In July 2014, he will join the Department of Economics at the University of Alberta, Canada. He holds a B.A. and an M.A. in Economics from Alexandria University, Egypt; and a Ph.D. in Economics from Concordia University, Canada. His research interest lies in applied econometrics and ranges across topics in Health Economics and Labor Economics. He has recently published in refereed journals including Health Economics Review, Addictive Behaviors, Preventive Medicine, IZA Journal of Migration, Nicotine and Tobacco Research, International Journal of Public Health, BMC Public Health. He has served as an ad hoc reviewer for several academic journals such as Forum for Health Economics & Policy; Health Economics Review; Cancer Causes & Control; Nicotine and Tobacco Research. He has presented his research work in several international conferences such as the 47th Annual Conference of the Canadian Economics Association at the HEC Montréal, Quebec, 2013; the Statistics Canada Socio-economic Conference, Gatineau, Quebec, 2011 and the REGI Conference on the Economics of Immigration, University of Ottawa, 2010. Some of his research findings have attracted wide international media coverage such as:



The Independent (U.K.); The New York Daily News; The Los Angeles Times; Cosmopolitan; Toronto Telegraph, The Times of India; The Gazette; and the Chicago Tribune.

**Suliman Zakaria, Sudan**

graduated in 2011 with a Ph.D. in Econometrics and Social Statistics from Khartoum University in Sudan with joint supervision with Justus-Liebig University of Giessen in Germany. His Ph.D. focused on modelling and forecasting stock market volatility for the Sudanese stock market; it was financed by the German Academic Exchange (DAAD Scholarship). He also holds a masters degree with distinction in Econometrics and Social Statistics form Khartoum University in 2006. He was the head of the Self-evaluation and Accreditation Unit at the University of Bakht Al-Ruda where he was also worked as a Lecturer and Assistant Professor during the period 2005 – 2011. He joined King Saud University in Saudi Arabia for two years (2011-2013) as an Assistant Professor in Quantitative Analysis Department at College of Business Administration and also worked as the head of Document and Information Unit at the college level. In July 2013, he moved back to Sudan and joined Khartoum University where he is currently working as an Assistant Professor at the Faculty of Economic and Social Studies. He has published in nationally and internationally referred journals and he is a reviewer for some university journals in the region like the Scientific Journal of Shaqra University in Saudi Arabia and the Scientific Journal of Bakht Al-Ruda University in Sudan. His research interests are within the areas of Econometrics, Finance time series analysis and Applied Statistics. Recently, Suliman joined the Institute of Developing Economies in Japan as a Visiting Research Fellow; his research project is on modelling the sources and impact of macroeconomic fluctuations in Sudan.



## Research Activities

Since the last edition of the Forum, ERF has been busy initiating new research activities. During the past six months ERF initiated four structured projects. In addition, it launched two open calls for papers resulting in the initiation of eight projects out of one call while the reviewing process is still unfolding for the other. Irrespective of their inception modality; all the initiated projects have gone through a thorough peer review process by external reviewers. A brief description of these projects is presented below:

### *Equity and Inequality*

#### **The Human Opportunity Index in the Middle East,**

*Djavad Salehi Isfahani*

This project attempts to examine sources of inequality of opportunity that arise from inequitable access to basic services such as electricity, water, sanitation, and education. While trying to figure out whether the authoritarian bargain struck between populist autocrats and the masses in MENA countries have resulted in a more even access to infrastructure for health and education, the project will measure the Human Opportunity Index (HOI) for a number of countries and over several years using the household Income and Expenditure Surveys data.

#### **Inequality Trends and Determinants in the Arab Region,**

*Mustapha Nabli and Rana Hendy*

This project aims at measuring inequality trends across regions as well as understanding the magnitude, trends and evolution of inequality in Arab countries. To this end, the project will be carried out using the micro data from various household income and expenditure surveys gathered by the ERF from several national statistical offices.

### *Natural Resources and Economic Diversification*

#### **Fiscal Institutions and Macroeconomic Management in Resource-rich Arab Economies,**

*Jeffrey Nugent*

This project seeks to examine the role, if any, of budgetary institutions and procedures in resource-rich Arab economies and their implications on fiscal management and short-run macroeconomic stabilization. The project aims to produce seven case studies and one comparative paper. The case studies will cover

four GCC countries namely: Bahrain, Kuwait, Oman, and Saudi Arabia in addition to Algeria, Sudan and Yemen.

#### **Undervaluation and firm-level exports diversification in Arab countries,**

*Khaled Sekkat*

The recent literature suggests a real exchange rate (RER) undervaluation strategy as a means to foster export diversification. This newly initiated project conducts a thorough analysis of the interaction between real exchange rate undervaluation, the quality of domestic institutions and the development of the financial sector in promoting exports diversification in Arab countries. Moreover, exploiting a new data set available for four countries (Egypt, Jordan, Kuwait and Yemen) for the period of 2003-2010, the project will assess whether real exchange rate undervaluation may be a counter-productive strategy in promoting exports at the extensive margin.

### *The Political Economy Determinants of Private Sector Dynamism in the ERF Region*

As part of the ERF's work under the theme of the Political Economy of Transformation, ERF launched a call for papers on the political economy determinants of private sector dynamism in the ERF region, led by Ishac Diwan (Harvard University), Izak Atiyas (Sabanci University) and Adeel Malik (Oxford University). The region suffers from a fragile private sector that is weakly connected with global markets and thrives largely under state patronage. The weak and dependent private sector is one of the most pressing development challenges. A robust private sector is connected both with the challenge of job creation and the creation of an independent constituency for socio-political change. While private sector develop-

ment has been traditionally viewed through a narrow economic lens, this call for proposals aimed at attracting rigorous submissions in the political economy tradition.

ERF and non-ERF affiliates were invited to submit proposals addressing issues such as the mechanisms used to provide privileges and restrictions, the impact of privileges and cronyism on the dynamics of the private sector, the impact of labor regulations, political risk, the growth of the informal sector and the impact of mechanisms of inclusion and exclusion such as entry barriers, privileges, regulatory capture as well as the role of the financial markets in fostering inclusion/exclusion and other political economy factors influencing private sector development. ERF received 15 proposals that are currently undergoing the review process.

### *The Economics of Informality in the ERF Region*

As part of the 14th round of the Regional Research Competition supported by the Global Development Network (GDN), ERF has launched a call for proposals under the theme of “Economics of Informality in the ERF Region.” ERF received 12 proposals of which eight have been selected after rigorous screening by a refereeing committee. The selected projects cover the following topics:

#### **Transitions across Formal / Informal Divide in the Labor Markets in Egypt and Jordan, *Aysit Tansel***

The dynamics of the informal sector are largely unknown in many developing countries. This is something that this project is out to investigate. One dynamic aspect of the labor market is the mobility across different sectors, in particular across the formal/informal divide. It will address this issue in the context of both the individual workers and firms. This is the first study on transitions of individual workers and firms between formal and informal sectors using panel data from Egypt and Jordan. The results will be very important for designing policies to address labor informality and its adverse impacts on the labor markets in Egypt and Jordan.

#### **The Pros and Cons of Formalizing Informal MSMEs in the Palestinian Economy, *The Palestinian Economic Policy Research Institute (MAS)***

The transition of firms from the informal to the formal sector will be investigated in this project. According to expert opinion, the transition of firms from the informal to the formal sector in Palestine is very limited. That being the case, the project will investigate the perceived advantages of remaining in the informal sector which might include tax evasion and/or incompliance with the labor law, as examples. It will then examine the opportunity lost from not operating in the formal sector, including access to finance and protection of legal rights. It will also look into the costs of transitioning into the formal sector. Finally, it will briefly investigate the extent to which existing laws discourage formalization. The project will offer a set of practical policy solutions that aim to encourage and assist informal enterprises to become formal.

#### **Informality and Poverty: A Causality Dilemma with Application to Egypt, *Hanan Nazier***

This project seeks to tackle the link between informality and poverty and the theoretical assumption of the relationship between them. It tries to answer two main questions: Is informality in Egypt a major reason for falling into poverty? And could being poor be considered as a main factor for accepting informal jobs?

#### **The Micro Determinants of Selection into Self-employment in Sudan, *Kabbashi M. Suliman***

Whether self-employment in Sudan is a choice or a form of disguised unemployment is a question at the heart of this piece of research which also examines the extent to which self employment, poverty and gender overlap. The results are expected to inform the government’s human resources policy.

#### **Rethinking the Distribution Effects of Informality in Egypt: A Micro-simulation Analysis, *Reham Rizk***

The project hypothesizes that “enforcement” of regulations that promote formalization will increase the average quality of the labor force; with a positive ef-



fect on job creation, hence, better levels of productivity and output. However, the government should do its part by decreasing the cost of formalization and supporting informal projects with the needed trainings and non-wage benefits. This research project also identifies the effect on welfare, male/female wage gap and employment opportunities for both genders. Finally, the project aims at identifying the best tools that the government should put in effect to eliminate regulatory burdens that hinder the chances of these informal projects growing through economies of scale.

**Formal-Informal Gap in Return to Schooling and Income Penalty to Education-Occupation Mismatch: A Comparative Study for Egypt, Jordan, and Palestine,** *Tareq Sadeq*

This research project analyzes the return to schooling in the formal and informal sectors. It tries to answer two questions: How large is the education-occupation mismatch in the formal and informal sectors? And how different are the income penalties to education-occupation mismatch in the formal and informal sectors. A comparison of these features is carried out for Egypt, Jordan and Palestine, each of which has a labor market that is different in characteristics.

**Trade Liberalization and the Costs and Benefits of Informality: An Intertemporal General Equilibrium Model for Egypt,** *Abeer Elshennawy*

The purpose of this project is to highlight the interaction between trade liberalization and labor market rigidities as drivers of informality. The project will look into the extent to which informality reduces the short run unemployment which accompanies trade liberalization due to wage rigidities in the formal sector coupled with adjustment of contracting and expanding sectors. It also looks at the implications for welfare given the lower productivity associated with increased informal employment. In this respect the project will seek to assess the overall balance of the costs and benefits of informality, filling in an important gap in the empirical literature on trade liberalization and informality in general and Egypt in particular. It also examines the implications of trade liberalization for informal employment and the formal-informal wage gap in the presence of rigid wages in the formal labor market.

**The Nexus between Informal Credit and Informal Labor for Micro and Small Enterprises (MSEs) in Egypt,** *Mohamed El Komi and Mona Said*

Micro and Small Enterprises (MSEs) in Egypt still rely heavily on informal credit. They also rely on informal labor to a great extent. This project examines the relationship between informal credit and the formalization of MSEs, in general, and, in particular, their employment characteristics. To do that it attempts to find out what effect informal credit has on the performance, risk and return to capital of MSEs and how it affects the employment profile and the use of informal labor. It also looks into whether informal credit provides a disincentive for the formalization of MSEs and whether the sources of informal credit have different effects on the formalization of MSEs.



## Recent Events

### Workshop on Political Economy of Transformation October 27-28, 2013, Tunis, Tunisia

A workshop on The Political Economy of Transformation in the ERF Region was held to discuss the outcome of the 13th Round of the Regional Research Competition supported by the Global Development Network (GDN). Within the framework of this competition and after a peer-review process, ERF selected six out of 16 research proposals. The selected papers tackle a multitude of issues that should provide a better understanding of how a few powerful groups, be they the local rulers and their crony capitalists, or foreign colonialists driven by their geopolitical interests in the region, have interacted to shape political and economic outcomes. The papers also explore the impact of domestic politics on fiscal decentralization and fiscal accountability and the impact of authoritarianism on governance outcomes. Moreover, the economic policies of transitional governments, which have mainly been of Islamist inclinations, is also assessed in the papers. The workshop was followed by a policy seminar on “The Performance of the Tunisian Economy in light of the Ongoing Political Transformations”. The Seminar also looked into the reforms needed to enhance growth, improved public services, and inclusion.



From left to right: Hadi Esfahani, Ishac Diwan and Sami Attallah

### Workshop on Women Economic Empowerment November 29, 2013, London, UK

The Middle East Center of the London School of Economics hosted an ERF workshop on Women Economic Empowerment on November 29, 2013 on its premises in London. The workshop is part of a research project on women economic empowerment that ERF is managing under an International Development and Research Center (IDRC) grant. The workshop provided a forum for researchers to disseminate the preliminary results of the seven proposals that have been selected under an ERF competitive call for papers.

### Conference on The Egyptian Labor Market in A Revolutionary Era

December 7-8, 2013, Cairo, Egypt

Based on the data collected under the Egypt Labor Market Panel Survey (ELMPS) 2012, ERF had initiated a structured research project that aimed at providing a detailed understanding of how political instability and challenging economic conditions have affected the performance of the Egyptian labor market. The primary objective of this conference was to disseminate the results of the ELMPS 2012 survey and present the findings of the research papers to the audience of academia, policy makers and media. The conference also aimed at providing a platform to discuss and assess how the Egyptian labor market has responded to demographic changes and economic crises in the past several years.

Follow the link below for more details on this conference  
[http://www.erf.org.eg/cms.php?id=conferences\\_details&conference\\_id=87](http://www.erf.org.eg/cms.php?id=conferences_details&conference_id=87)

## Workshop on Incentives for Better Quality Higher Education in Egypt & Jordan

December 12, 2013, Cairo, Egypt

**B**uilding on ERF's previous work on financing higher education and in continuation of its partnership with the Ford Foundation, ERF organized a workshop on Incentives for Better Quality Higher Education in Egypt and Jordan. The objective of the workshop was to share and discuss the findings of a number of research studies that were carried out based on surveys tracking graduates from the business and information technology schools into the labor market in both Egypt and Jordan. The papers attempted to explain variations in the performance of the graduates in the labor market in light of information about the institutional framework governing higher education in different types of higher education institutions in both countries.

## Second Expert Group Meeting on "Sharing Micro Data in the ERF Region"

December 20, 2013, Tunis, Tunisia

**C**apitalizing on its know-how in data collection and harmonization, ERF held an Expert Group Meeting on Sharing Micro Data in the ERF Region: Investing into the Research Infrastructure of the Future. The meeting, organized in partnership with the Higher School of Economic and Commercial Sciences (ESSECT), University of Tunis, brought together around 30 representatives of statistical offices from around the region. The expert group meeting has several objectives: (i) promote cooperation and foster relationships between National Statistical Offices and the research community in the ERF region, (ii) encourage more statistical offices to

participate in ERF's data initiative, (iii) showcase ERF recent efforts in data harmonization and OAMDI's impressive progress to date, and (iv) provide a platform to stimulate the exchange of good practices among national statistical offices in data access and sharing especially in the context of preserving user confidentiality and maintaining the integrity of statistical systems and legal requirements.

## Workshop on The Pulse of the Arab Streets

April 3-4, 2014, USA

**I**n collaboration with the Harvard's Kennedy School of Government in Cambridge, ERF organized a workshop to discuss the draft papers of the project on "The pulse of the Arab Street: Understanding the Political Economy of the Arab Uprisings Using Novel Public Opinion Data". Throughout two days, the research team, led by Ishac Diwan, presented their rigorous, quantitative, evidence-based research on the political economy of contemporary Arab societies. The objective of the workshop was to provide a platform for discussing the draft papers and their preliminary findings among authors and experts in political economy in order to improve the final output.



## *Upcoming Events*

### **Barriers to Structural Transformation in North Africa: An ERF Parallel Session at GDN's 15<sup>th</sup> Annual Conference**

June 18-20, 2014, Accra, Ghana

**E**RF is set to organize a parallel session in the upcoming GDN's 15th Annual Conference scheduled to take place in Accra June 18-20, 2014. The theme of the conference is "Structural Transformation in Africa and Beyond", an issue of relevance to the ERF region. Despite having undergone various degrees of structural transformation, the productive and export structures of several MENA countries remain relatively undiversified and are dominated by the traditional sectors. And although these countries have implemented a wide range of industrial policies be it import substitution or more market-oriented mechanisms coupled with selective intervention of traditional sectors, there has not been a significant change in outcomes. The purpose of this session is to attempt to explain the reasons behind the disappointing structural transformation outcomes in the region and to what extent overvaluation has hindered firm-level exports in North African economies in the last few decades. Moreover, the session will attempt to show how politics shaped industrial policy outcomes and how crony alliances contributed to promoting economic and social exclusion.



## *ERF Network and Capacity Building*

### **Training Workshop on Situational Leadership II** November 19-20, 2013, Cairo, Egypt

This year the ERF staff received their first Situational Leadership II (SLII) training at the ERF premises in Cairo. SLII is a framework for employee development. It teaches leaders to diagnose the needs of an individual or a team and then use the appropriate leadership style to respond to those needs.

### **Training Workshop on Analysis of Panel & Retrospective Household Survey Data**

December 9-11, 2013, Cairo, Egypt

This three-day training workshop covered techniques for analyzing panel and retrospective data using data from the Egypt Labor Market Panel Surveys conducted in 1998, 2006 and 2012. Organized for the first time, the training focused on retrospective data, which are data for which there are multiple observations at different points in time for the same individual or information. Retrospective data are essential to analyze change over time.

### **Training Workshop on Addressing Educational Challenges in the Arab World: the Role of Media** December 11-12, 2013, Cairo, Egypt

Over the span of two days ERF held its first-ever training workshop for journalists. The main objective of the workshop was to enhance the capacity of young journalists to write about socioeconomic and development related issues more knowledgeably, specifically the issue of education in the Arab world. A group of 10 journalists from Egypt, Jordan and Tunisia had the opportunity to be trained by distinguished journalists and researchers. The trainees were also given tips on how to turn written pieces into social media-friendly content to extend online outreach. This workshop falls within the framework of ERF's recognition that good.

### **Training Workshop on Measuring Inequality of Opportunity & Outcomes Using Household Data** January 13, 2014, Khartoum, Sudan

This one-day workshop, led by Rana Hendy, was conducted for some 20 Sudanese researchers. It covered techniques of measuring inequality of income, health and education status using a variety of survey data sets from Arab countries. It also covered both parametric and non-parametric methods of linking inequality of outcomes to underlying inequalities of circumstances, such as family background, gender and place of origin.



## ERF News

### Ahmed Galal Returns to ERF

**D**r. Ahmed Galal, ERF Managing Director is back at the helm of the ERF after spending eight months as Finance Minister in Prime Minister Hazem El Beblawi's Interim government which took office July 15, 2013. During the transition Dr. Sherine Ghoneim was Acting Managing Director.

### ERF Present in Full Force at the 17<sup>th</sup> World Congress of the International Economic Association

June 6-10, 2014, Jordan

ERF will organize four sessions in the upcoming 17<sup>th</sup> World Congress of the International Economic Association (IEA) scheduled to take place June 6-10, 2014 in Jordan. Presentations during the four sessions will be made by distinguished ERF experts and affiliates as well as other international experts.

ERF will first hold a special Policy Session on "The Dilemma of Subsidy Reform and Equity in MENA". Chaired by Ahmed Galal (ERF), the speakers include Sherine El Shawayby (Egyptian Ministry of Finance), Djavad Salehi-Isfahani (Virginia Tech and ERF), Ibrahim Saif (Minister of Planning and ERF) and Paolo Verme (World Bank).

Three other sessions are also scheduled. These will present the latest findings of recent ERF research projects on issues pertinent to the region's problems. During the first session on "The Political Economy of Change in the Middle East -What is Driving Change?" papers will be presented by Caroline Freund (Peterson Institute), Adeel Malik (Oxford), Ishac Diwan (Harvard Kennedy School) and Ibrahim EBadawi (Dubai Council).

The second session on "Challenges and Dilemmas of Policy-Making after the Arab Spring" will include presentations by Daniela Gressani (World Bank), Mustapha Nabli (ERF) and Jihad Azour (former Minister of Finance in Lebanon).

During the third session on "Inequality of Opportunity in Education in Middle East and North Africa" presentations will be made by Ragui Assaad (University of Minnesota), Rana Hendy (Economic Research Forum) and Caroline Krafft (University of Minnesota) and Djavad Salehi-Isfahani (Virginia Tech University).

The World Congress of the IEA aims to promote the interaction between prominent economists, including several World Bank Chief Economists, as well as several Nobel Laureates, on issues of global importance. The upcoming World Congress will cover all aspects of economics. Program highlights include numerous keynote addresses as well as a series of plenary and policy sessions, with a number of leading economists already committed to attending. Participants comprise leading academics and policymakers.



## Latest ERF Publications

### Two Edited Volumes

#### The Jordanian Labor Market in the New Millennium, Ragui Assaad (ed.)

Oxford University Press

This collection is the first to analyze the results of the Jordan Labour Market Panel Survey of 2010 (JLMPS 2010), a major household survey of labor market conditions carried out in Jordan by ERF.

The chapters cover topics that are essential to understanding the conditions leading to the Arab Spring, including the persistence of high youth unemployment despite fairly healthy economic growth, the coexistence of immigration, high unemployment, and outmigration, the very low and stagnant female participation rates despite rapid increases in educational attainment and delayed marriage among Jordanian women, and the unusually early retirement among prime-age male workers.

The chapters make use of this unique data set to provide a fresh analysis of the Jordanian labour market that was simply

not feasible with previously existing data. The book proves to be essential reading for anyone interested in the economics of the Middle East and the political economy of the Arab Spring.

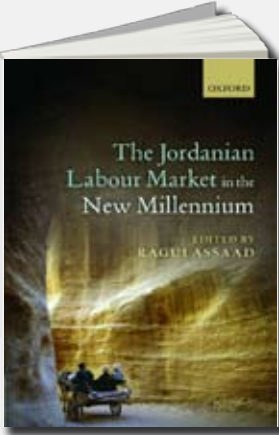
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## Latest ERF Publications

### Understanding the Political Economy of the Arab Uprisings, *Ishac Diwan (ed.)*

World Scientific Press

This volume provides the socio-economic and political-economic aspects of the uprisings.

It features contributions from Middle East academics across the world. It examines four broad themes: the reasons behind the uprisings, how democratic transitions transpire, the role of Arab capitalism in the crises, and how the experiences of other countries such as Indonesia, Turkey and Iran, can forecast where these uprisings may lead the Middle East. This book will persuade readers to reassess the interests, potential and constraints of various sociopolitical players and show how important these considerations are in the building of a constructive environment for democratic progress in the Middle East.

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Connecting Great Minds

### Understanding the Political Economy of the Arab Uprisings

edited by  
**Ishac Diwan**  
*Harvard Kennedy School of Government, USA  
and Economic Research Forum, Egypt*

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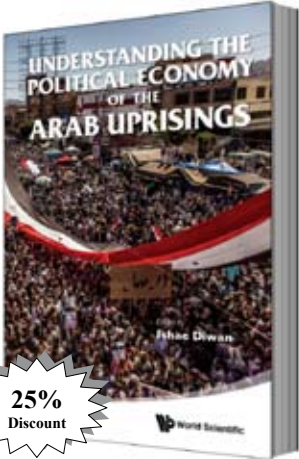
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The Economic Research Forum is proud to announce the publication of the fifth volume of the Middle East Development Journal (MEDJ).



#### Vol. 5, No. 3. December 2013

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*Ibrahim Ahmed Elbadawi and Raimundo Soto*

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*Santiago Herrera and Karim Badr*

Book Review: "Poverty and Social Exclusion Around The Mediterranean Sea (Economic Studies in Inequality, Social Exclusion and Well-Being, Vol. 9)", Edited By Valérie Bérenger and Florent Bresson

*Djavad Salehi-Isfahani*

### Working Papers Series

Since the last issue of Forum, 40 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: [www.erf.org.eg](http://www.erf.org.eg). The recently published papers are listed below:

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*Jackline Wahba*

Working Paper 830

Pérennité Et Efficience Des Institutions De Microfinance Dans La Région MENA

*Sanae Solhi and Sidi Mohamed Rigar*

Working Paper 829

Differences in Pedagogy, Accountability, and Perceptions of Quality by Type of Higher Education in Egypt and Jordan

*Ragui Assaad, Eslam Badawy, and Caroline Krafft*

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The Work-Life Conflict and Well-Being of Turkish Employees

*Cem Baslevent*

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Does the Type of Higher Education Affect Labor Market Outcomes? A Comparison of Egypt and Jordan

*Ragui Assaad, Caroline Krafft, and Djavad Salehi-Isfahani*

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Trade Volume and Economic Growth in the MENA Region: Goods or Services?

*Fida Karam and Chahir Zaki*

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The Labor Mobility-Employment Nexus: A General Equilibrium Analysis for Jordan

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The Impact of Labor Mobility on Unemployment: A Comparison between Jordan and Tunisia  
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