

forum forum

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A Word from the Managing Director

Sea Change

These days, sea change is taking place within ERF and in our region.

As this issue of Forum goes online, Tunisia has held democratic elections, a mere 10 months after an uprising that toppled a regime. Egypt is preparing for its own elections at the end of November while Libya and Yemen are poised on the threshold of dramatic new transitions.

Nor has life been static at ERF. This issue of Forum was produced at ERF's new premises in Cairo, finally ready after many months of hard work. The new premises is certainly beautiful but ERF is more about substance than style – the building has already seen several workshops and guest lectures.

The next few months will be just as busy; there will be several workshops and three major conferences; one on Migration in Beirut in November, another on Inequality in the Arab Region in Cairo in December and one on the Oil curse, in Kuwait at the beginning of next year. And of course, the 18th Annual Conference will be held in Cairo next March.

On the housekeeping front, ERF will see a new Board elected soon. A revised ERF Charter is being finalized after several discussions by the Board of Trustees and will be put to the vote by the Research Fellows. The revisions took into account, among other things, two major factors: adherence to the democratic nature of the ERF and the vital role played by its Research Fellows. And last, and by no means least, ERF is undergoing an independent evaluation to gauge its progress toward achieving its objectives. ERF last had an independent external evaluation in 2003.

I hope you will enjoy this issue of Forum and I look forward to seeing many of you at one of the upcoming ERF events.

Sincerely,

Ahmed Galal

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

Facilitating the Exchange of Ideas

Egypt's government and IMF answer some difficult questions

The turbulent regional political situation has had implications for the region's countries' economies, both in the short and long-term. So it was no surprise that while the International Monetary Fund's (IMF) biannual Regional Economic Outlook (REO) is often a fixture on think tank bookshelves, this latest one held heightened interest.

Certainly that appears to have been the feeling of Egypt's Ministry of Finance, which chose to hold a seminar on the report in cooperation with the IMF. In organizing and conducting the seminar, the Ministry turned to the Economic Research Forum for help. The seminar, held on October 25, 2011 at the Ministry of Finance, borrowed the title of the report: *Prospects and challenges facing the global economy and the Middle East and North Africa*. The panel comprised Deputy Prime Minister and Finance Minister, Hazem El-Beblawi, IMF Division Chief Andreas Bauer and Minister of Solidarity and Social Justice, Gouda Abdel-Khalek. It was moderated by Ahmed Galal, ERF managing director.

Galal kicked off the proceedings by saying that the Egyptian revolution would generate many benefits in the future, notwithstanding the immediate challenges concerning the financial policies and balance of payments deficit and the slowdown in economic growth and job creation. The situation is complicated by rising aspirations and the demands for immediate benefits from the revolution. "How can we minimize the trouble faced by Egyptian

citizens without burdening the economy in the long term?" asked Galal.

Bauer essentially summed up the report with a presentation of the prospects and challenges facing the oil-importing countries in the Middle East and North Africa. He stated that the global outlook has become challenging than ever before, even for the MENA region. The situation requires a set of reforms, both in the short and long term, which will lead to the inclusive growth and employment creation in the transition period. All economic forecasts have been revised over the past three months; forecasts for MENA in 2012 fell sharply, as the transition period is taking longer than expected. Recovery is no longer expected to take place in 2012, with higher risk and uncertainty level. Growth rate is around 1.5% in 2011, and 2.5% in 2012.

The IMF feels myriad challenges are ahead for MENA oil importers countries. High uncertainty



The revolution of January 25 has meant myriad economic challenges

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affects investment and tourism, in addition, space for policy reaction is tightened (especially after the depletion of foreign reserves after the financial crisis). Moreover, external financing has been constrained and more costly, and 2012 fiscal outlook has worsened (fiscal deficit forecasts increased). Spending on subsidies has increased, which will affect the growth potential, and the energy subsidies will benefit the wealthy.

Bauer also stated that policy reactions are needed in the short term to restore confidence and to clarify the rules of the game in the business environment. Subsidies need to be cut and labor market reforms are necessary. Also, he said, it is important to increase the access to finance and government services to urban and rural areas equally.

Abdel-Khalek's major concerns, not surprisingly, revolved around the situation's social implications. Egypt, he said, is currently facing two crises: the crisis of distribution—which is essentially economic—and the crisis of legitimacy, which is political. Social justice is at the core of the distribution issue, whether justice between generations or between categories.

He also pointed out that there is controversy at present about the identity of the Egyptian economy: is it, in fact, a free market economy? Or is the economy committed to achieving social justice? It's possible for the market economies to eventually achieve social justice. But in his opinion, the market economy has led to the emergence of many problems, culminating in the current state of the Egyptian economy. The economic system must achieve the two principles of efficiency and social justice. One of the mistakes previous governments made, he feels, was that they focused more on appealing to the external parties than reforming the domestic issues, causing a major internal imbalance.

With respect to fiscal policy, it needs to be revised, particularly with respect to taxes and dealing with investment. Fiscal space should be created in order to raise the savings rate, which currently ranges between 15-17% of GDP. He added that trade policy must be adjusted and controls on imports and ex-

ports set in place, particularly for imports. This is especially important in cases of economic hardship with corresponding falls in foreign reserves. Egypt's currently stands at around \$24 billion.

El-Beblawi chose to take a more conversational approach. Egypt after the revolution, he said, is like a human body, in a fragile state after the removal of a malignant tumor. He also indicated that Egypt has been attracting foreign investments from abroad, which amounted to \$18.5 billion, after the global crisis. This amount shrank due to the financial crisis before climbing again, reaching \$8.6 billion in January 2011 before the revolution. After the revolution, the uncertainty dominating the investment climate in Egypt affects Egyptian and foreign investors alike.

A market economy, he explained, is based on two pillars: the market and the state, which provides it with the necessary protection for its functioning. Egypt's low savings rate hampered industrial and economic renaissance. The country needed to achieve an investment rate of at least 30%, which is twice the current rate. The situation isn't helped by the fact that subsidies (two-thirds of which are energy subsidies) have mutated, increasing 20 fold over the past decade.

However, there was one factor that everyone agreed upon: achieving financial and monetary stability is fundamental and necessary at this stage.

ERF facilitates brainstorming session for World Bank

ERF is fortunate enough to have a network of affiliates and friends that is as varied as it is committed. As a result, it can provide both similar organizations and individuals an opportunity to sound out new research ideas and products.

In October, ERF provided the World Bank with an opportunity to glean valuable feedback on an upcoming report: *Jobs in MENA: Opening-up Opportunities for All*. The session was led by Roberta Gatti (World Bank), at ERF premises on October 24, 2011. The purpose of this session was to brainstorm ideas and research questions that will enrich the report, benefiting from the presence of many think tanks and qualified economists in the region. The report aims to diagnose the employment status in MENA region, trying to figure out how to identify how to trigger policy reforms. The report first presents three stylized facts about the labor market in MENA: first, that unemployment rates are very high, particularly for youth, new graduates and women. Second, female labor force participation is the lowest in the world; and third, the existence of low quality jobs is reflected also by high share of labor force that doesn't have social insurance and an increasing level of informality.

The report says the private sector in MENA countries is not particularly competitive. Firms usually comprise two groups: insiders and outsiders. Insiders are formal workers, public sector employees and adult management. They enjoy many advantages including social insurance and high wages. The outsiders, including informal workers, women and youth, aren't quite as fortunate. According to the report, they suffer worse working conditions, work longer hours and are paid less. Entry barriers exist between insiders and outsiders. Contracts, labor law and hiring and firing regulations contribute in keeping the outsiders out. As well, social insurance design - the fact that it doesn't exist for some categories, like agriculture and self employed - can be one of the barriers.

The public sector terms in MENA countries is also one of the contributors, as it is considered as the main employer not only in terms of quantity of jobs, but also in terms of quality of jobs, offering higher wages and more stable jobs, with social insurance. That cushy state of affairs, however, is no longer economically feasible. The fact that insiders enjoy rents decreases the competition.



Roberta Gatti

The report seeks to discover how reforms can be triggered on the political side. First, social dialogue has to be inclusive, responding to the Arab spring demands. In the short term, access to information, especially employment relevant data is needed. In the medium term, inclusive social dialogue should be established between youth, government and entrepreneurs. Government intervention is needed to change the situation and regulations, with the idea being to redesign matters so that countries end up with one pool, in which only productive players splash around.

The brainstorming part of the session started quickly and proceeded at a brisk pace. ERF Managing Director Ahmed Galal noted that rather than merely examine it, it was vital that the report address how to avoid exclusion in the first place.

There were also concerns about the report's classifications of the insider /outsider phenomenon. ERF economist Rana Hendy noted that lumping youth, women and informal workers was a tricky proposition, since they were three different groups. The situation was further complicated by the fact that a certain amount of overlap was possible between those groups.

And bringing to light the advantages of ERF's ability to cover regional ground, one Tunisian economist present pointed out the inherent flaws of generalization. Women in Tunisia, she pointed out, would not suffer from the same exclusionary fate. Tunisian women generally received the same treatment at the workplace as Tunisian men, in most disciplines, rendering the report's logic faulty on that score.

The report also examines how to reduce barriers to women labor force participation. Women's low participation in the labor market can be attributed to a demographic fact, marriage, social norms. Some sectors forbid women's participation; and the fact that maternity leaves are paid in some countries represents an extra cost for employers. Policy intervention in this respect can include the use of public campaigns, offering women transportation to work, or to universalizing tax on maternity leaves. The report also examines the skills mismatch that exists in MENA countries, and to what extent the public sector contributes to it.

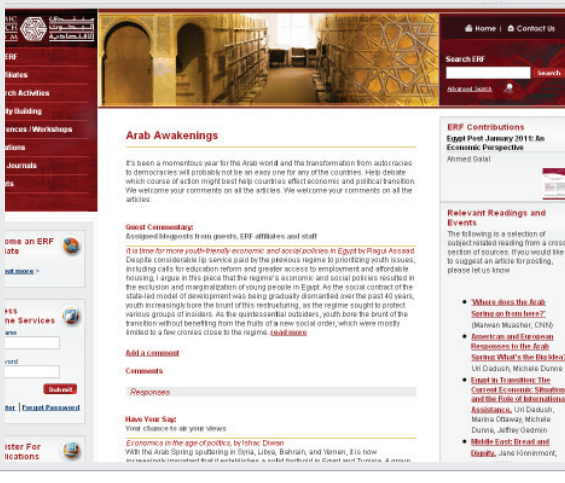
Finally, the last chapter of the report is on *Leveraging innovation and knowledge for added value and quality jobs*. Innovation is crucial for growth and creation of quality employment. However, the innovation level is low in MENA countries, with the existence of varieties within countries. Bridge institutions, like venture capital networks are needed to increase the level of innovation.

Talking about a Revolution

As the Arab world changes, so does ERF. One of the ways we're changing is by becoming more active and relevant to the debate on the region's dramatic transformation.

That's why we've created a new page where ERF guests and affiliates can share views and engage in a discussion about how they view the region's political and economic transition to democracy.

To participate in the debate, visit <http://www.erf.org.eg/cms.php?id=ArabSpring>



Why governance matters

When the people of country after country in the Middle East decided to make a stand and declare the dissatisfaction with their regimes and their desire for democratic change, the countries of the West were largely supportive. In Tunisia, Egypt, Yemen, Syria and Libya, the populations demanded democracy. What they meant, of course was they wanted a say in the way their countries were run and they needed to see that the governments that they had elected were accountable to them.

Governance had not been a strong facet of the characters of regional governments. Given that there were almost no democracies in the region, the lack of accountability often led to chronic mismanagement. However, all the evidence points to the fact that the very international community that so hailed what became known as the Arab Spring consistently ignored misgovernance in the region and continued to provide ever-increasing amounts of international aid, despite the fact that the standards of voice and accountability continued to show decline.

Last September, ERF hosted Daniel Kaufmann, a senior fellow at the Brookings Institution who spoke about governance (or the lack of it) in the Arab World.

A former director at the World Bank, Kaufmann is an expert on governance and anti-corruption, leading the work at the Bank in that area. His areas of expertise are public sector and regulatory reform, development. His insights were based on a paper that he had authored; *Governance and the Arab World Transition: Reflections, Empirics and Implications for the International Community*. The talk was attended by ERF staff and guests. It focused on the relevance of governance factors (including voice and democratic accountability) and also corruption and capture in the Arab transition and their implications for strategies and initiatives for the international community.



Daniel Kaufmann

Essentially, said Kaufmann, both the regional politics and economies were subject to elite capture. It's a technical term for what the populations of much of the region understood to be a fact of life: institutions, indeed, the entire system was geared toward the benefit of a select few. In Egypt, for example, economic reform led to privatization of moribund public companies. However, carefully managed privatization and public procurement processes ensured that it was those close to the regime who benefitted. The revolutions were important in bringing to light old grievances and to enable their populations to be in a position to demand reform. However, the damage had well and truly been done and much needs to be done to rethink aid strategies during the transition.

The question, really, was why international financial institutions (IFIs) and other donor organizations had continued to fund countries where flawed assistance strategies tended to benefit the authoritarian regimes.

That question kicked up a healthy discussion among those present. One point of view was that the job of such institutions is merely to disburse funds un-

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der certain criteria. International politics is not their mandate and it would be tricky, if not dangerous, for them to start playing at being politicians.

This view was counteracted, rather forcefully, by those who insisted that such organizations had a legal and moral obligation to be involved in such decisions. As is often the case, the International Monetary Fund came off rather badly in the discussion; few forget that Egypt was an IMF darling during the Economic and Restructuring Program of the early 1990s despite a less than stellar record on human rights, democratic reform or social equality.

There were also questions about the viability of the data, with some enquiring why, for example, countries like Algeria, Gaza and the West Bank and Djibouti ranked above Egypt and Tunisia in Voice and Accountability. Kaufmann pointed out that any good research is essentially at the mercy of the data and that as such, it needed to be viewed as trend indicators rather than absolutes.

He stressed, though, that it was impossible at this stage of matters to have economic and governance challenges compete for priority since it was impossible to put one above the other.

Aid strategies need to be revamped. Both donor countries and donor institutions need to pay significantly more attention—and set more store by—democratic reform and transparency. Concrete efforts to involve civil society must be made. More importantly, reforms must mitigate and capture corruption. He presented eight concrete suggestions on how to go about reassessing and amending the situation.

1. In-depth and neutral assessment of the governance challenges and domestic policies of each country.
2. Selectivity in aid flows.
3. Support for an integrated package of transparency-led reforms.
4. Privatization and revamped procurement systems.
5. Supporting the competitive small and medium scale private sector.

6. Support for a more decentralized approach, including civil society groups and a multi-stakeholder national consensus-building and action program on good governance.
7. Come up with an illicit and stolen assets initiative.
8. Support the collaborative twinning of countries.

Governance issues will not be solved overnight. However, work needs to be done both in those countries in question and in those countries and institutions that invest in, and aid them. Enabling a problem is an indirect contribution. The Arab Spring needs to bring about a spring-cleaning.

Research Activities

Since the last edition of the *Forum*, ERF has been busy initiating new research activities dealing with several areas including a research competition on Urbanization, three research projects on the environment, exchange rate and manufactured exports and growth and firm dynamics. In addition, ERF has been engaged in the formulation of a research agenda on the *Political Economy of Transformation in the Arab World*.

Open Call for Papers

The Challenge of Urbanization in the ERF Region

In the context of the 12th Round of the Regional Research Competition supported by the Global Development Network (GDN), ERF has launched a call for proposals under the theme of *The Challenge of Urbanization 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: Urban poverty and slums, urban infrastructure finance, urban employment and labor markets, and political economy of urban policy.

Industrial Policy, Product Space and Diversification in Arab Economies

Of the 22 members of the League of the Arab States, 11 are oil exporters. This group accounts for approximately 55 percent of global oil reserves and 29 percent of natural gas reserves. The hydrocarbon sector dominates these economies, contributing about 50 percent to GDP and 80 percent to government revenues. The challenge they face is how to diversify away from the heavy dependence on the hydrocarbon sector so as to achieve sustainable economic growth while enhancing their job creating capacity. For the remaining Arab countries, the diversification challenge is no less important, given that development and diversification are inseparable. To address these challenges, ERF launched a call for proposals under the theme of Industrial Policy, Product Space and Diversification in Arab Economies. ERF received six proposals, which were subjected to refereeing by an independent review committee. The final selection is ongoing.

Structured Research

The Political Economy of Transformation in the Arab World

In light of the recent events in the Middle East, ERF is launching a new research theme on *The Political Economy of Transition in the Arab World* under Ishac Diwan. These are new but vital waters for ERF. ERF held a workshop on this theme on July 16, 2011, in Cairo, to discuss the building blocs and to identify the priorities for a research program for this theme. As a result, a research agenda for a first stage has been put together. The proposed agenda would be organized around three research axes: The fall of the autocratic bargain and the evolving political settlements, transitional challenges and dilemmas and the political economy of reform.

The first phase will focus on an exploration of the main cross-cutting issues, through a set of invited thematic papers as follows:

- 1) **Evolving political settlements and transitions:** This paper will explore the idea that countries are organized to prevent violence through the systematic creation of political, economic, and social rents, arranged in such a way that powerful individuals and organizations in the dominant coalition enjoy privileged access to resources and control over social functions. How to characterize the political and economic evolution of the Arab Autocratic State? What has recently changed and led to a tipping point? How is regional contagion working? What are possible good and bad closures (democracies, fragmentation, extremism, military regimes) in light of lessons from elsewhere? The impact of external influences.

2) **The macroeconomics of the revolutions in Egypt and Tunisia:** This paper will deal with the important questions on what is the impact of the revolutions on the macro environment. What are the short term challenges, dilemmas, and choices? Is there a trade-off between the short and medium term, or can they be supportive?

3) **Understanding corruption in the past and the future:** This paper will study the role of exclusionary mechanisms in fostering grant corruption in relation to public contracting, and in the workings of financial sector regulation and competition policies. How corruption evolves in young competitive democracies and measures to control it.

4) **Labor and growth:** Covering the evolution of public sector pay, and its effect on the quality of social services in the region. In parallel, the review will also look at private wages in the formal sector, and the reasons for the constitution of large informal sectors over time. Unions have also been important players in the recent revolutions in Tunisia and Egypt and there are pressures for higher wages, but an assessment of both the states capacity to pay, and the impact on competitiveness is needed to form judgment on the way forward. The paper will need to resolve the apparent contradiction between the usual descriptions of labor elites in Arab countries, especially in the public sector, with the apparent very low civil service wages they seem to receive.

Environmental Challenges in MENA: Toward a Research Agenda for ERF

In light of the current pressing need to address environmental concerns in MENA, the Economic Research Forum (ERF) is conducting a new research project on *Environmental Challenges in MENA: Toward a Research Agenda for ERF*. This project falls under the umbrella of the Research Initiative for Arab Development (RIAD) research program, which aims at enhancing the quality of economic research in the Arab World in order to bridge the knowledge gap and ultimately help reform efforts in the region. The project involves the preparation of two approach

papers. One is written by Hala Abou Ali and Alban Thomas and the other is by Atif Kubursi and Benoit Laplante. Both papers will be subject to a discussion in a workshop which will be organized in November, 2011.

Firm Dynamics in the ERF Region

This new research initiated by ERF is part of its efforts to find a niche for itself in the area of firm level. ERF has previously produced a paper on Firm Level Data in the ERF Region: Research Questions, Data Requirements and Possibilities by Izak Atiyas. The current research is complementary to that paper with a focus on firm dynamics. The new research aims at exploring the literature as well as the different theories and measures of firm dynamics. In addition, it takes stock of the availability of firm-level data in the ERF region and its suitability for conducting research on firm dynamics as well as identifying the research gaps that should be targeted. This research also presents detailed information on new sources of firm-level data that have recently been gathered by the ERF.

Exchange Rate Management, Manufactured Exports and Growth in the MENA Region

This project, led by Khalid Sekkat, examines how exchange rate management can contribute to fostering manufactured exports and growth in MENA countries. More concretely, the research will analyze the potential positive effect of REER undervaluation on manufactured exports and growth taking into account the above criticism. The aim is provide policy recommendations on how exchange rate management can contribute to fostering manufactured exports and growth in MENA countries. The analysis will be conducted in a comparative perspective by including countries from other regions.

Recent Events

Seminar on *The Jordanian Labor Market in the New Millennium*

June 1-2, 2011, Amman, Jordan

This event was organized in cooperation with the Jordanian Department of Statistics (DOS) and the National Center for Human Resource Development (NCHRD). The seminar's objectives were to present the results of the research and the survey to Jordanian policymakers, researchers and the media; in addition to launching the public availability of the dataset for further analysis by Jordanian and international researchers. The seminar aired various important issues on the Jordanian labor market.



From left to right: Najib Harabi, Mahmoud El-Gamal, Jeffrey Nugent and Hasan Ersel

Workshop on *Political and Economic Transformation in the Arab World: Towards a Research Agenda for ERF*

July 16, 2011, Cairo, Egypt

In light of the current regional political changes, it has become increasingly evident that an explicit effort is needed to better understand the nature of the interaction between economic and political developments. Accordingly, The Economic Research Forum organized a workshop on Political and Economic Transformation in the Arab World: Toward a Research Agenda for ERF, in Cairo, on July 16, 2011. The objective of this workshop was to brainstorm over research priorities under the theme of The Political Economy of Transformation in the Arab World. These priorities will shape the ERF research agenda over the next three to five years. The workshop included 15 participants who discussed how best to frame this new effort.



Ahmed Galal and Ishac Diwan

Recent Events

Workshop on *Understanding and Avoiding the Oil Curse in the Arab World*

October 8-9, 2011, Cairo, Egypt

Building on the research agenda of the natural resources and economic diversification theme, ERF has initiated a project on Understanding and Avoiding the Oil Curse in the Arab World under the RIAD initiative. The project seeks to produce quality research work on avoiding the oil curse in the Arab region. Research in this area is not only critical to its development but also extremely challenging for its public policy and institutions.

The primary objective of this workshop was to help both thematic and case study authors to present the first drafts of their research work. Six thematic papers were presented, addressing implications of oil dependency on:

- (i) oil optimum savings-investments decisions
- (ii) economic growth
- (iii) financial sector development
- (iv) exchange rate and monetary policy issues
- (v) fiscal issues
- (vi) A final paper tackling the political economy of oil rents and governance.

Five case studies were presented including Saudi Arabia, United Arab Emirates, Sudan, Yemen and Algeria. The case studies are expected to address oil-related issues taking into account that depending on the country in question, some issues are more relevant than others, in terms of the degree of oil dependence and implications for long-term diversification. In addition, a paper addresses the implications of the region's oil on for the non-oil or labor-exporting Arab economies. These countries are indirectly impacted



From left to right: Abeer El-Shenawy, Rania Al-Mashat, Mona Said and David Cobham



Participants at the workshop

Upcoming Events

Toward a Research Agenda on the Environment

November 19, 2011, Beirut, Lebanon

In light of the current pressing need to address environmental concerns in MENA, the Economic Research Forum is organizing a workshop on Environmental Challenges in MENA: Toward a Research Agenda for ERF. The workshop will be held in Beirut, Lebanon on November 19, 2011.

The purpose of the workshop is to define a research agenda for ERF that will help identify a research gap in the area of Environmental economics research in the Arab World. Two approach papers will be presented with the aim of

- (i) motivating research in the thematic area for the Arab countries
- (ii) making a critical overview of existing research
- (iii) identifying knowledge gaps and a suggestion of priority research questions for the region over three to five years.

The project also falls under the Research Initiative for Arab Development (RIAD) research program. This initiative aims at enhancing the quality of economic research in the Arab World in order to bridge the knowledge gap and ultimately help reform efforts in the region.

Conference on Migration in the Arab Region: Determinants and Consequences

November 20, 2011, Beirut, Lebanon

ERF has carried out a structured research project analyzing the economic and non-economic consequences of intra-Arab and extra-Arab migration. The draft papers were presented and discussed in a workshop, which was held in Istanbul on April 16 & 17, 2011. This conference will be a follow-up to present and to disseminate the results and the outcomes of the research to policymakers, researchers and the media.

The issues that will be presented regarding the economic impacts cover remittances and return migration. As for the non-economic impacts, the research focuses on the relationship between the diasporas, brain drain and the quality of institutions at home. All these issues are examined from both the efficiency and redistributive angles and situated in the context of the global and the Euromed contexts.

Conference on Inequality in the Arab Region

December 10-12, 2011, Cairo, Egypt

Three years ago, ERF made it its business to tackle issues surrounding inequality in the Arab world, both in terms of inequality of outcomes and inequality of opportunity. A serious effort has been made to collect and harmonize household survey data for as many countries in the region as possible and over as many years also as possible.

Various research projects were initiated, engaging

researchers from the region and abroad. This regional conference is intended to share the findings of this work with a wide audience. Not only does the coverage of the conference span measurements of inequality, but also the policies that may be used to ameliorate its intensity without penalizing hard work.

Conference on *Arab Passenger Airlines' Framework and Performance* December 19, 2011, Cairo, Egypt

This conference is under the theme of regional integration, under the RIAD initiative which began in 2009. The purpose of the conference will be to disseminate the results of the paper produced in the context of this structured research project analyzing the impact of the current Arab passenger airlines frameworks on the performance of the industry in selected Arab countries (Egypt, Jordan, Morocco and UAE) to various stakeholders including policy-makers and researchers.

Understanding and Avoiding the Oil Curse in the Arab World January 15-16, 2012, Kuwait

Organized jointly by the Economic Research Forum and the Arab Fund for Economic and Social Development, the conference will convene around 100 regional and international researchers.

Bringing together renowned academics and policy makers, the primary objective of this conference is to initiate discussions on the macroeconomic challenges posed by oil dependency in Arab countries, and of policies for harnessing the power of natural resources. The conference was preceded by a workshop, which was held in Cairo on October 7- 8, 2011 to discuss draft papers.

ERF 18th Annual Conference: *Corruption and Economic Development*

March 25-27, 2012, Cairo, Egypt

ERF's Annual Conference 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 ERF's region is undergoing significant political transformation and will focus in its plenary sessions on a pertinent issue, namely Corruption and Economic Development. The plenary sessions will feature renowned economists and opinion makers.

Network and Capacity Building

Training Workshop on *Macroeconomic Management in Natural Resource Countries in the MENA Region*

July 4-8, 2011, Cairo, Egypt

This workshop was organized as part of ERF's continuous effort to enhance research capacity in the MENA region. Following an open call for participation which attracted 35 applications, 17 were selected. The workshop covered both theory and empirical evidence related to savings and investment decisions in commodity exporters, rule-based macroeconomic policymaking (with a focus on monetary and fiscal institutions) and exchange rate management, as well as fiscal policies and management of resource booms. The objective of the workshop was to expose the participants to the most up-to-date theory and analysis of macroeconomic policies in natural resource countries in MENA.

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

October 17-20, 2011, Cairo, Egypt

In the context of a large research project on inequality of opportunity in the ERF region, ERF organized a training workshop involving 30 participants on the basis of an open call for participation. The workshop was held in Cairo October 17-20, 2011 and covered techniques of measuring inequality of income, health and educational status using a variety of survey data sets from Arab countries. It also covered both parametric and nonparametric methods of linking inequality of outcomes to underlying inequalities of circumstances, such as family background, ethnicity, gender, and place of origin.

Training Workshop on *Writing Winning Research Proposals and Papers*

October 23-25, 2011, Cairo, Egypt

The success of previous sessions of this training workshop has ensured repeat performances. The training, led by two experienced economists—Hadi Esfahani, University of Illinois and Ishac Diwan, Harvard University—was held over a period of three days. Researchers benefitted both from the detailed constructive feedback provided by the instructors and from sharing their experiences with their peers.



Participants of the workshop.

Workshop on *ELMPS Questionnaire Design*

October 27, 2011, Cairo, Egypt

As part of its continuous effort to enhance research capacity in the MENA region and in the spirit of making micro data available to researchers, ERF is holding a third round of the Egyptian Labor Market Panel Survey (ELMPS 2012). Having planned to go to the field for data collection by mid January 2012, a workshop was arranged to get the input of the survey's local most intensive users on any modifications or additions to improve the ELMPS questionnaire. The objective of the workshop was to gather all feedback and comments needed to improve this valuable public good.

ERF News

This year is witnessing several activities on the ERF Institutional front: Elections of the ERF Board of Trustees (BOT), voting on adoption of the revised ERF Charter, and an independent external evaluation of ERF.

Board Elections

The current BOT has been elected in 2006, which means that Board elections are due this year. The BOT is composed of 13 members: up to four representatives are from donor institutions and seven members are elected by ERF's Research Fellows. The remaining two members are appointed by the board for the purpose of maintaining regional, gender and academic and non-academic balance. Research Fellows have nominated candidates for the seven elected seats on the BOT. Voting is expected to take place during November – December 2011 for new BOT members to assume posts at the next BOT meeting in March 2012.

ERF Charter

The revised ERF Charter is being finalized for ERF Research Fellows to vote on the modifications of the ERF 1993 Charter. In revising the Charter, the BOT was guided by both the following principles: adhering to the democratic nature of the ERF and the vital role played by its Research Fellows. It was also guided by compliance with the laws governing ERF in Egypt. Several developments have occurred since the creation of ERF in 1993 that have made revising the ERF Charter imperative. These developments include a change in the legal status of ERF since 2005 and its independence of UNDP in 2010. Second, based on the recommendations of the Advisory Committee, the BOT has taken decisions regarding the introduction of new categories of affiliates and the criteria by which they are accepted and renewed, which needed to be reflected in the Charter. Equally, if not more importantly, there were several instances where the original Charter was either silent or vague, for example, regarding the location of ERF, the roles and responsibilities of the BOT, the General Assembly of Research Fellows and the Managing Director, code of conduct of members of ERF,

sources of funding and the event of liquidation, etc. The Board has attempted to remedy all these shortcomings in the newly revised Charter that will be put forward for electronic voting by the Research Fellows in January 2012.

Evaluation of ERF

ERF agreements with its various donors call for an independent evaluation to understand the progress which ERF is making towards achieving its objectives. ERF last had an independent external evaluation in 2003. The main objectives of this year's evaluation are to assess the progress ERF is making towards achieving its four overarching objectives since the last review, with particular attention to activities since the 2007 approval of the New Strategy and to assess the structure and functioning of ERF, including the Board, Management and affiliates (e.g. Fellows), and how they interact together; and the nature of their contributions to the achievement of ERF objectives. It will rely on quantitative and qualitative analysis in accordance with generally accepted principles and standards of development evaluation. The evaluation is expected to be completed in March 2012.

New Auditors

ERF has been audited since 1998 by Hazem Hassan KPMG, to the satisfaction of the Board. However, since it is healthy practice to introduce new blood, as of this year, ERF will be audited by Ernst & Young. The company's Middle East and North Africa chapter was established in 1984 and is based in Egypt.



Book Review

Money in the Middle East and North Africa: Monetary Policy Frameworks and Strategies

Edited by David Cobham, Ghassan Dibeh
Routledge, November 2010. ISBN: 978-0-415-58768-6.

Reviewed by Mahmoud El-Gamal

This volume of twelve chapters was motivated by the relative dearth of systematic research and policy analysis on monetary policy in the Middle East and North Africa region. In large part, the editors confess, this has been justified by the fixed-exchange-rate policies pursued by most countries in the region until very recently, which limited the scope of discretionary monetary policy very severely. Some countries in the region, most notably in the Gulf Cooperation Council (GCC), have continued to employ nominal anchors (fixed exchange rates), and two chapters in the volume are dedicated to measurement of GCC-country inflation and its sources, and discussion of transmission mechanisms that may facilitate alternative monetary policies. Two other chapters on Lebanon and Jordan focus on stabilization-seeking fixed exchange rate policies and the (necessarily limited) flexibility in monetary policy under the latter, and one chapter studies

the institutional evolution of the Palestinian Monetary Authority, a prototype central bank for an eventual Palestinian state, with an even more limited set of tools. The remainder of the volume consists of three chapters on the history and ongoing evolution of Egyptian monetary policy, one on post-reform Turkish banking and fiscal and monetary policy, and two comparative chapters on monetary policy frameworks and strategies.

Brief summaries of the twelve chapters are provided in the editors' Introduction, which is fortunately accessible freely online, thus saving me the effort and space to repeat their summaries. The twelve chapters are divided in two parts, and each part is led by a synthetic chapter that aims to frame the issues – on institutional and market preconditions for various strategies in the first, and on effects of various monetary policy strategies in the second. The constant theme in most



chapters is the existence of a continuum of monetary policy choices, with fixed exchange rates and very limited domestic monetary-policy discretion at one extreme and “modern” inflation-targeting-style monetary policies on the other. The authors seem to agree that the latter policies are more desirable in the long term, and therefore countries that currently use fixed exchange rates or a middle-way mix with managed pegs or floats with some degree of monetary-policy discretion are assessed on their success in

building the institutional and economic conditions – including everything from laws and practices that ensure central bank independence to development of deep financial markets for open market operations – eventually to enable fully floating their currencies and implementing an inflation-targeting strategy.

The readers of this volume are likely to include a mix of researchers at universities, think tanks, and national and international financial institutions, as well as some policy analysts. Because of the lack of sufficient extant research on the subject, this volume will be a valuable reference for all these categories of readers. There is substantial overlap in the introductions and literary reviews of the various chapters, for example in their summaries of the current received wisdom on institutional and economic preconditions for success of inflation targeting policies. That makes reading the volume linearly as a book somewhat repetitive, and cross-references between chapters is lacking. However, that is a desirable feature because the volume's price (even for online rental) is sufficiently high that most readers are likely to read only one or two chapters at a library – rather than read a personal copy of the entire book in the order presented. It is also a desirable feature that some chapters have focused on providing a linear historical narrative of monetary policy evolution, while others have a broader analytic focus, almost treating the specific country or countries of analysis as case studies, and a third set have pursued synthetic cross-

country comparisons, thus catering to different types of readers.

In light of this nature of the volume, my own linear reading of the volume is likely to be atypical. However, I feel compelled to make two sets of remarks. The first is to express my favorable impression of the very high quality of all chapters – a testament that the region has developed ample human resources in the fields of economic research and policy analysis. This is strongly related to some of the preconditions for pursuing a modern monetary policy, which requires both the availability of high quality data sources, regrettably still a serious deficiency in most countries in the region, as well as the ability to employ state-of-the-art economic models and econometric tools to make forecasts and formulate coherent policy choices, for which the remarkable human capital in the region is impressively displayed in this volume.

My second point, however, is that this high degree of economic sophistication in the region may prove detrimental, because talented economists want to practice what they have learned and researched, even if the economic conditions do not allow it. Indeed, David Cobham, co-Editor and author of Chapter 2, warns that building the institutions needed for a modern monetary policy may require costs that outweigh the benefits of such a policy. There is some discussion in the book about second best monetary policy tools, and the chapter in Turkey even tries to address political economy issues through a

fiscal-and-monetary-policy game theoretic framework. However, the full power of the human capital exhibited in this volume has not been utilized to formulate an out-of-the-box monetary policy framework under fiscal dominance (due to populist subsidies and employment policies that are likely to continue for the foreseeable future), geopolitical currency-peg decisions, especially as they pertain to the Dollar, and region-specific resource-based factors. This is not a criticism of this volume: Not only has reading this book enriched my understanding of the monetary policy challenges and opportunities in the region, in light of theory and developments in other regions, but it has also raised my level of optimism that the remarkable group of researchers represented here can produce the intellectual foundations for pragmatic region-centered research and policy advice.

Mahmoud El-Gamal is an ERF Fellow and Chair of Islamic Economics at Rice University

Latest ERF Publications

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. 3, No. 1.
June 2011



In Honor of Christopher Pissarides: Professor of Economics, Norman Sosnow Chair in Economics, London School of Economics

The Relevance of Christopher Pissarides Contribution To MENA Labor Markets
Ragui Assaad

The Unending Search for A New Global Monetary And Financial Architecture?
Gerardo Della Paolera

Trade Openness and Co₂ Emissions in Tunisia
Houssein Eddine Chebbi, Marcelo Olarreaga And Habib Zitouna

From Bilateral Trade to Multilateral Pressure: A Scenario of European Union Relations With Sudan
Khalid H. A. Siddig

Intra-Firm Diffusion of Innovation: Evidence From Tunisian SMEs Regarding Information And Communication Technologies
Adel Ben Youssef, Walid Hadhri And Hatem Mhenni

Decomposing Monetary Inequality in The Arab Region
Sami Bibi And Abdelrahmen El Lahga

Policy Perspective Egypt Post January 2011: An Economic Perspective

Ahmed Galal

Policy Perspective 3



This paper offers a road map for future economic development in Egypt post-January 25th Revolution. It attempts to answer the following questions:

- Which development model should Egypt follow in the wake of the revolution?
- What can be done in the short-run to deal with the economic downturn while ensuring that measures adopted do no harm to future economic reform efforts?
- Finally, once the dust settles and a new political system emerges, what can be done to achieve faster economic growth with greater equality among all Egyptians?

It argues that success on the political front is what will make it possible for Egypt to make progress on the economic development front.

This Policy Perspective is also available in Arabic

Latest ERF Publications

ERF Working Papers Series

Since the last issue of *Forum*, 67 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:

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Hala Abou-Ali and Yasmine M. Abdelfattah

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Majdi Anwar Quttainah

Working Paper 645

Regional Impact of the Climate Change: A CGE Analysis for Turkey

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Poverty Alleviation in Southern Sudan: The Case of Rank County

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Working Paper 640

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Amine Chamkhi and Aomar Ibourk

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Nese Erbil

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Rim Chatti

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