Introduction: What Just Happened?

Sometimes there is more to an event than its immediate consequences.

The confiscation last December of the weighing scales from Mohamed Bouazizi’s fruit stand, how he was slapped by police in front of onlookers, how his attempt to complain was shrugged off, led this hurt and frustrated man to set himself on fire in public. The immediate consequence was to ignite a firestorm that engulfed Tunisia and the wider Middle East.

Through Facebook, Tweets and social media, Bouazizi’s death brought down a regime whose official media would for days refer to his tragedy only as “the incident.” Tunisia, it turned out, had tens of thousands of Bouazizis. In fact, his like can be found everywhere in the world where men, women, and children are denied opportunity and hope because of poverty, social exclusion, disenfranchisement, and the arbitrary lack of law.

But the lessons of Tunisia and the Middle East go far beyond a region, a country, or a marketplace. There is much more to the death of a fruit seller than the political convulsion shaking the region. There are lessons here for the region, for the world, for governments, for development institutions, and for economics.

Modernizing Multilateralism: Is the Arab World Different?

Since I came to the World Bank in 2007, I have argued that we must "modernize multilateralism."

That means reforming international institutions, such as the World Bank Group and IMF, to better reflect the realities of the economic power shifts that are taking place in the world today;

It means pressing our institutions to be faster, more flexible, more open and more attentive to clients;

It means focusing on solving problems pragmatically, not just discussing the poor as objects of expert policies;

It means democratizing development economics so that all can play a part in designing, executing, and continually improving development solutions;

It means recognizing that organizations designed with mid-20th Century hierarchies need now to interconnect nimbly across truly global networks—of governments, private businesses, civil society groups, other international agencies, and parliamentarians;

It means not allowing a recourse to "multilateralism" to become an excuse for group inaction; we must make multilateralism work;

And it means consigning the old labels of "first," "second," and “third" worlds to history, recognizing that presumptions that knowledge and power must flow from North to South, West to East, rich to poor, no longer hold.
But consigning old labels to history is not the same as saying all countries and regions are the same.

In 2007, attentive to just these differences, we launched an Arab World Initiative as one of the World Bank’s six strategic themes. Some questioned, why this focus?

Speaking to our Annual Meeting in 2007, I said, “One of the most notable challenges of our time is how to support those seeking to advance development and opportunities in the Arab World. In the past, these lands have been at the center of trade and learning, suggesting the potential if they can move beyond strife and barriers to growth and social development. Without broad-based growth, these countries will struggle with social tensions and a large number of young people who cannot find jobs.”

The reasons for special attention to the Arab World seemed clear then and certain now: apart from the oil sector, the region is poorly integrated into the global economy. It has the highest unemployment among developing regions; the highest jobless rates among the best educated; the lowest economic participation rates by women.

Poor and wealthier countries alike suffer from lack of economic diversity, weak public accountability, corruption, and conflict.

Economies are heavily skewed towards oil and commodity exports. In 2008, non-oil exports accounted for just 16 percent of the Middle East and North Africa region’s GDP, compared to 44 percent in East Asia.

That absence of diversification means that the region lacks vibrant manufacturing and service sectors that can provide jobs today and in the future.

With private investment averaging only around 15 percent of GDP, compared to close to 25 percent in South Asia, the region’s youth bulge has nowhere to go but into government—where new jobs are scarce—or onto the street.

Despite this, there has been progress. Indicators such as infant mortality, maternal health, literacy, and life expectancy have improved, and the share of the population living under $1.25 a day has fallen.

On the economic front, there have been gains in macro economic performance; economic growth has been steady in a number of countries, although inadequate to meet the demand for jobs; and prior to the global crisis there had been some early signs of improved foreign investment.

But institutions remained sclerotic, and modernization has been too partial, and too dependent on a small number of reformers, to take firm root. Top down efforts blocked public participation or airing of grievances. Traditional forms of societal consultation were snuffed out. Governing elites became isolated.

**What is to be Done? From Politics to Economics**

Last year I gave a speech asking where our development economics had brought us. And was it serving us well?

I urged that we make development economics of practical help to people—ministers, policymakers, community leaders, and yes, fruit vendors—not just abstractly theoretical. Streetwise economics is shrewd market economics.

Nowhere perhaps is that more appropriate than in the Middle East.

Two weeks ago we convened a conference at the World Bank to listen to Arab voices—youth groups, women’s groups, change agents.

What do they want?

They want opportunity, justice, a job.

They want rules and laws that are fair, predictable, and transparent.

They want food and shelter for their families, good schools for their children, and neighborhoods that are safe.

They want police forces that are protectors, not predators; they want governments that can be trusted.

They want voice, and accountability—and they want it in villages, towns, and neighborhoods.
They want a say over public services that have been so contorted so that they are neither open to the public nor offer real service.

They want information and the right to know, and to participate.

They want a new social contract.

They want dignity.

They want respect.

And if they are women, they want these same things.

There are some in this audience who will say: Yes, that may be what they want, but that's politics not economics.

I am here to say: Some of that may be what we think of as politics, but most of it is also what we know is good economics; most of it is what we know is good for fighting corruption; most of it is what we know is good for inclusive and sustainable development.

**Doing Development Differently: A New Social Contract**

Twenty years ago, the World Bank did not talk about corruption. The staff called it the c-word, our shareholders and Board said it was too political, and we self-censored it out of our documents. Today fighting corruption is a key part of World Bank projects and programs. Our shareholders know corruption is a drag on economies, taxes the poor, and strangles opportunity.

Eighteen years ago the World Bank rarely talked about gender. Some said it was too political. Today we know that gender equality is smart economics. That countries with greater gender equality tend to have lower poverty rates; that a child's chance of survival is 20 times greater if income goes into the hands of the mother; that simply by giving women more control over agricultural inputs, agricultural productivity can be as much as 20 percent higher in some countries.

Ten years ago, we were only starting to speak about transparency. Today, the World Bank is the only multilateral institution with a wide-ranging Freedom of Information policy; we have thrown open the doors on our research and released over 7,000 data sets; we are designing software applications and creating contests to invent applications so that researchers, practitioners, and civil society can crunch their own numbers—and double check ours.

Anti-corruption, gender, transparency. It is vital that the World Bank Group continually challenges itself to refresh our development thinking.

It is vital that a modernized multilateralism be open to new ideas.

We must not stop there.

We know that whether a country publishes its economic statistics, whether its audit functions are independent, how transparent its public finances are, all these matter.

We know that in Egypt, for example, even many basic economic statistics have not been public. A few years ago, we worked with Egyptian reformers to draft a Freedom of Information Act, only to have it stuck in a sluggish system.

The transition government has now revived the draft. And it wants the World Bank's help in bringing greater transparency to revenues in the oil and gas sectors.

In Tunisia, authorities are now taking steps to recover stolen assets, domestically and internationally, and to enhance freedom of association and access to information.

We know that transparent procurement systems matter. That how a country handles procurement can fight corruption, create competition, save money, and lead to improved public services. We have now worked with 41 countries around the world on improving the transparency, competitiveness, and efficiency of government procurement.

We have worked with 34 countries on improved citizen access to public information.

And our International Finance Corporation is currently working on Corporate Governance in 64 countries and with more
than 3,200 firms.

These are not dry technical issues. These are not luxuries reserved only for developed countries. They reflect on the quality of governance. They improve public policy. They signal integrity. They communicate respect for the public. They treat public office as a trust. They may sound political, but they are certainly economic.

These topics are part of the economics of public choice. The public choice theorists cautioned us to think about how governments really work, compared with how we might wish them to work. The public choice advocates have called for better incentives and opportunities for citizens to monitor government more effectively. They are right.

**Institutions Matter**

Today's events in the Middle East are momentous.

But they echo the past.

The indignity suffered by a fruit seller in Tunisia recalls the harassment of an ethnic Hungarian priest in Romania in 1989. Protests back then spread into a bloody uprising that ended the 22-year rule of dictator Nicolae Ceausescu, just as protests in Tunisia closed the era of President Ben Ali.

Yet while the spark may be similar, the path that a revolutionary conflagration takes is unpredictable.

We do not know yet whether 2011 is like 1989, 1979, 1968, 1848, or ....

We do know—and our World Development Report on "Conflict, Security, and Development," which will be published next week underscores this—that strengthening legitimate institutions and governance for citizen security, justice and jobs is crucial to avoid repeat cycles of instability and violence.

Heroic individuals are not enough. Reformed bureaucracies are not enough. Citizens’ participation—and clear communication between society and government—matter.

The World Bank will work with governments in the region and around the world to help strengthen their effectiveness and their accountability. Our success will vary, depending on the willingness of governments to relinquish their command and control and move towards greater openness.

If governments will free the way for private sector opportunity, if governments will move beyond oligarchies and oligopolies, if governments will tap the energies of their societies, and respect public choice, there is much that can be done.

And no country can reach its potential if it ignores the abilities of half its people, women and girls.

Our message to our clients, whatever their political system, is that you cannot have successful development without good governance and without the participation of your citizens.

We will encourage governments to publish information, enact Freedom of Information Acts, open up their budget and procurement processes, build independent audit functions, and sponsor reforms of justice systems.

We will not lend directly to finance budgets in countries that do not publish their budgets or, in exceptional cases, at least commit to publish their budgets within twelve months.

We will share the examples of how better governance and greater citizen participation have worked successfully in other developing countries.

In Mexico, a group of six NGOs used a right to information law to learn about the arbitrary reallocation of $3 million in government funds away from an HIV/AIDS prevention. This discovery was shared with government reformers, prompting the enactment of formal accountability mechanisms, including regular audits of budget allocations.

In South Africa, a Public Service Accountability Monitor, run by Rhodes University, in co-operation with the Supreme Audit institutions, has used transparency to improve the implementation of public financial regulations, improving service delivery.
Citizens Matter

Institutions matter, but so do citizens.

A robust civil society can check on budgets, seek and publish information, challenge stifling bureaucracies, protect private property, and monitor service delivery. Civil society can insist on respect for the rights of citizens. And civil society can assume responsibilities, too.

An empowered public is the foundation for a stronger society, more effective government, and a more successful state.

We have the evidence from investments around the world in community driven development, where money is given directly to local communities so they can decide on their own priorities, oversee their own projects, and track their own funds. While not perfect, empowering citizens can be powerful. Over the last ten years, the World Bank has supported tens of thousands of villages and neighborhoods with community-driven projects in over 100 countries.

We saw the effects in Uganda when local school budgets were posted on schoolhouse doors so that parents could track whether the textbooks or the teachers actually arrived—and outcomes improved.

In China, "deliberative polling" has been used in rural communities to consult on the price of water, or electricity, or the relocation of farmers. Some Chinese officials have instituted polls to assess performance. The Bank is funding a poverty project in 70 poor Chinese villages that draws on elements of community driven development to support collective decision making, management, and monitoring of local development.

New technology enables more effective, customized feedback in real-time.

Take Senegal, where a community program is planning to monitor child nutrition using ICT-text messages on children's weight and health.

Or Ushahidi—meaning testimony—first launched in Kenya by young Africans, but now a global phenomenon. This open-source and publicly accessible platform enables users around the world to submit various kinds of information, digital images, and video recordings through SMS-enabled mobile phones, smart phones, and the Ushahidi website.

Originally created to report on, monitor, and respond to post-election events in Kenya in 2008, Ushahidi has grown to enable users across regions to track the global swine flu outbreak, or observe earthquake relief in Chile and Haiti.

The World Bank is supporting similar initiatives to strengthen social accountability.

In Africa we are catalyzing the formation of in-country "contract watch" coalitions of civil society, government, and the private sector to advocate for transparency and to monitor the award and implementation of contracts—including concessions for extractive industries.

Through our "Mapping for Results" program, we are aiming to reach out to beneficiaries via mobile phones and hand held devices to get their feedback on projects so that together we can check the real outcomes—and improve them.

And, we are working with ANSA—the Affiliated Networks for Social Accountability—including helping to launch and support a new ANSA–Arab World: a regional network of practitioners on participatory governance and social accountability across the Arab World, which will be launched this year.

A Modernized Multilateralism Must Evolve

In 1944, the World Bank was established by governments to lend to governments.

In 1956, our shareholders established the International Finance Corporation, IFC, to invest in the private sector.

Now it may be time to invest in the private, not-for-profit sector—civil society—to help strengthen the capacity of organizations working on transparency, accountability, and service delivery.

Our own Governance and Anti-Corruption Strategy, supported by our Board, highlights the importance of scaling up our work with engaged citizens, including by strengthening transparency, participation, and third-party monitoring of our operations.
A recent review of the World Bank's Japan Social Development Fund found that projects performed better when Civil Society Organizations—CSOs—were involved. Outside studies have shown that when CSOs participate in the design, monitoring, evaluation, and management of public services, budgets are better used, services are more responsive, and there is less corruption.

Already we are working with civil society and beneficiaries in over half of our new operations.

But to participate effectively, civil society groups need to build capacity. The UK's Governance and Transparency Fund has been a pioneer in offering public support.

I suggest it is now time for the World Bank to examine, with its Board and shareholders, whether the Bank needs new capabilities or facilities that could leverage support from countries, foundations, and others to strengthen the capacity of CSOs working on accountability and transparency in service delivery. We could give priority to countries in the Middle East and North Africa, and in Sub-Saharan Africa. We could back this work with seed capital, and with knowledge exchange and research aimed at improving the enabling environment for social accountability.

Too political?

In one way or the other, a modernized multilateralism needs to recognize that investments in civil society and social accountability will be as important to development in the Middle East and beyond as investments in infrastructure, firms, factories, or farms.

Jobs, Jobs, and More Jobs

Legitimate institutions and empowered citizens can make a big difference. But citizens still need jobs.

In the Middle East, regimes have tried to keep a lid on rising unemployment with a mix of political repression, public sector jobs, and subsidies on food, fuel and other necessities.

These measures bought time, but little else.

Expensive and inefficient, they have fed nepotism not need; cronyism not competitiveness; corruption not capitalism.

The International Labor Organization estimates that the unemployment rate for 15 to 24 year olds in the Middle East is 25 percent. Our survey of 1,500 youth found that the self declared or perceived jobless rate was even higher, at 35 to 40 percent. Young women in Egypt and Jordan confront unemployment of 40 percent.

The direct opportunity cost of youth unemployment in the Arab world is estimated at up to $50 billion a year.

Governments in the Middle East now face huge expectations from their young populations—they want jobs now. Inaction poses risks. So will the wrong actions.

Policy reform will be as important as money.

But policy reforms must be underpinned by a broad-based and inclusive consultative process—including with young stakeholders. And reforms must be transparent and must be fast.

Policymakers need to think over the short, medium and long term—and in an integrated manner.

Over the short term, the priority may be quick wins to build confidence and political buy-in.

That may mean short-term, labor-intensive projects. It need not mean a more bloated public sector. It should not mean job creation that undermines medium and long-term private sector employment.

A 2009 World Bank review of labor-intensive initiatives in 43 low and middle-income countries over 20 years shows that well-run programs, with wages that don't discourage private sector jobs, can offer help to poor and vulnerable people.

In Liberia, an Emergency Employment plan created 90,000 jobs in two years. Afghanistan's National Rural Access Program generated 12.4 million labor days building or rehabilitating 10,000 kilometers of roads. Both helped quickly stabilize fragile situations.

In Tunisia, Jordan, and Lebanon there are services programs for young people that could be scaled up, for example to
employ university graduates to teach in poor communities.

Quick wins can also include early signals to the private sector to show commitment to entrepreneurs, small business, and investors.

Such things as cutting red tape, speeding licensing approvals, reforming bankruptcy laws, and easing regulators' rigidities could be transformative signals. Remember the frustrations of a Tunisian fruit seller trying to make a living without licenses, with constant fights over location, constant petty officials harassing him? The governments of the region would do well to remember him too.

And if governments lead in those reforms, the World Bank Group and others can amplify gains by encouraging some high profile investments. In Korea in the early 1960s, conditions were similar. Like Korea then, the countries of the Middle East today need to facilitate a rapid expansion of labor intensive exports.

Quick wins are by their nature short term. But the Middle East faces a long-term employment problem.

Over the next decade the region will need to create at least 40 million jobs. Marcus Noland's and Howard Pack's book, *The Arab Economies in a Changing World*, published right here by the Peterson Institute in 2007, described some of the policies that are necessary.

To create jobs, add to productivity, and better integrate with the global economy, countries will need to be open to importing know-how, technologies, and manufacturing and logistics systems, whether through foreign investment, licensing, or other business ties to overcome insularity.

New circumstances could lend new impetus to reducing barriers to regional integration, which has lagged far behind other parts of the world.

Education will need to match with jobs. Technical education can quicken the pace of absorption of ideas and best practices.

With the right incentives, public policies can enable private action: IFC is launching a new E-4-E investment program, Education for Employment, to advance public-private partnerships for demand-driven vocational and technical training.

The economic choices that countries make will be crucial. Vietnam and Algeria were both French colonies that endured years of civil strife. Vietnam took the initiative and seized opportunities to open to international markets and technologies, drawing on Asian models. Models of success in some Arab countries will show others. There are many roads to prosperity, but one must be taken. Inaction leads nowhere.

**And Safety Nets**

The reality is that jobs will be scarce in the short term, while politics will be plentiful.

We know that over time the best safety net is a job.

But in the short-term the best safety net is a safety net that works—effectively, efficiently, and without crippling the economy.

With high food and fuel prices, high unemployment, and under political pressure, governments will be tempted to continue to support universal subsidies rather than targeted transfers.

Yet for many countries, with such a large share of households living precariously near the poverty line, it is the poor and vulnerable who need protection most.

In Djibouti the Bank is working on workfare to improve nutrition and on community development driven by citizens' demand; in Jordan and for the Palestinians on a stronger safety net to prepare for bad times; in Lebanon and Jordan on improved information and transparency with central registries of beneficiaries. This is a start and can be built on. Egypt very much needs to consolidate fragmented safety net programs to reach the vulnerable.

Information, Community, Citizens, Participation. We have come full circle.

**Conclusion: What We Need to Learn Going Forward**
Few can claim to have predicted today’s events in the Middle East and North Africa. We must be careful about what we assume might happen next. We must approach development with the same humility.

Rather than just talk about what we do know, we should worry about what we do not know.

Rather than focus on what we got right, we should worry about what we got wrong. What we missed; when we did not speak loudly enough; where we self-censored—citizens’ voices, yes, but also our own.

Politics and economics are different. But in many areas they are also much the same. People, incentives, psychology, human nature, governance, choices, results, accountability, transparency, security, gender, participation, voice. Are these politics or economics? Or maybe both?

Will this be 1848, 1968, 1979, or 1989? Or will it be 2011, the year we learned that civic participation matters to development, and that, in addition to regimes, something more has changed.