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# SOCIOECONOMIC IMPACTS OF MACROECONOMIC REFORM POLICIES IN THE ARAB REGION

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## EXECUTIVE SUMMARY

IFI critics have alleged that the reforms had been only partially successful in macroeconomic terms, while often having severe microeconomic and social impacts (Mosallem, 2015). This technical paper aims to test that hypothesis by evaluating Tunisia and Egypt's experiences with neoliberal adjustment against the SDGs.

The UNESCWA expert group meeting "Towards Inclusive Development for Conflict Prevention", from 25 to 27 June 2019, acknowledged the need to re-examine the relationship between macroeconomic policies and their socio-economic impacts. This paper contributes to the debate and explores the tension between IFI-led reforms and the SDGs in the Arab region, using a comparative case study of Tunisia and Egypt. It is argued that both nations have faced challenges related to economic growth, job creation and wealth inequality since implementing neoliberal policies. Each country's public institutions struggled, and continue to struggle, to prevent elite capture of state resources.

The paper contends that IFIs failed to encourage sufficient spending on social welfare programs, as promoted by SDG 1, 8 and 10. The Tunisia-Egypt comparison shows that state-led mitigation initiatives can ameliorate the most harmful socio-economic impacts of macroeconomic reforms, especially increased poverty. Tunisia managed to reduce poverty during the reform period, but only because the government worked around IFI-mandated austerity measures to expand social provisioning. Egypt implemented IFI reforms without providing good welfare coverage, and poverty

increased overall. In recent years, Egypt has started to implement more promising mitigation initiatives, with some IFI assistance.

Part Three of the paper gives a general overview of IFI-led macroeconomic reforms in the Arab region, and then explores the specific policies implemented in Tunisia and Egypt. Parts Four and Five then evaluate the reforms' socio-economic impacts on both countries in terms of economic growth and decent job creation (SDG 8) and poverty alleviation and reducing wealth inequality (SDGs 1 and 10) respectively. Part Six provides several recommendations for how current IFI-led programs might better align with the SDG framework.

## 1. INTRODUCTION

International Financial Institutions (IFIs) — for this paper’s purposes, the World Bank and the International Monetary Fund (IMF) — have encouraged neoliberal macroeconomic reforms for distressed developing economies. Known as the “Washington Consensus,” this standard reform package prescribes adjustments like macroeconomic stabilisation, openness to global markets, and growing the domestic private sector. In their implementation, IFI-led policies have often clashed with the UN Sustainable Development Goals (SDGs), which promote inclusive growth, social justice and conflict prevention.

Particular inconsistencies have arisen between neoliberal theory and the SDGs on how to generate employment, alleviate poverty and reduce inequality in the Arab region. Washington Consensus reforms operate on the logic that greater global market integration will attract more financial resources, allowing local businesses to create more jobs. SDG 8 (“Decent Work and Economic Growth”) emphasises the need to produce jobs that are “decent”. This aspiration acknowledges that increased investment may well spark more employment opportunities, but — without proper oversight — those positions could subject workers to low hourly wages, minimal training, and little or no compensation for occupational injuries. On poverty and inequality, neoliberals argue that a strong private sector will eventually distribute gains throughout society. SDG 1 (“No Poverty”) and SDG 10 (“Reduced Inequalities”) reflect a level of scepticism about this proposition. Both SDGs call upon states to take active steps to ensure that economic growth is inclusive by

providing social protection systems and eliminating discriminatory laws and policies.

IFIs drew further criticism for advocating macroeconomic adjustments in Arab countries, without ensuring that domestic institutions could prevent elite capture. Endemic corruption across the region conflicted with the aims of SDG 16 (“Peace, Justice and Strong Institutions”), which encourages the establishment of “effective, accountable and transparent institutions at all levels.”

These policy debates became especially pertinent during the Arab Spring demonstrations of 2010/11, when millions openly challenged not only autocratic domestic regimes, but also the socio-economic impacts of IFI-led reform agendas. Common grievances against IFIs’ negative impact included high levels of unemployment, poverty and inequality resulting from neoliberal macroeconomic policies.

## 2. IFI REFORMS IN THE ARAB REGION

### 2.1. RENTIER STATES: A FAILING MODEL

Arab countries began adopting Washington Consensus policies in the mid-1980s when several economies across the region required comprehensive reform. The state had been the predominant driver of Arab economic development from the 1950s to the 1970s, with governments taking charge of resource allocation, management and economic outcomes (Alissa, 2007). Various Arab leaders justified extensive state intervention on the basis that the private sector was too weak; it would be unable to lead national growth, develop

strategic industries, and provide sufficient services for the people.

Many Arab countries developed rentier and semi-rentier economic models, which depended heavily on revenue from abroad — migrant remittances, foreign aid, and revenues from oil, gas and phosphate (amongst others). Some countries, like Algeria, failed in their attempts to diversify their economies from overly relying on one sector (oil, in Algeria's case) (Gasmi & Laourari, 2016). Other regimes, rather than investing rentier income in productive sectors, used rentier gains to temporarily ease economic and political pressures, preserve dominant elite privileges, and purchase “loyalty” through patronage networks (Alissa, 2007, p. 3). An implicit social contract emerged, whereby state revenues went towards subsidies, free healthcare and education and guaranteed jobs in the public sector. The rentier model typically favoured local political elites and certain private sector entrepreneurs, such as by imposing quantitative import restrictions (Harrigan & El-Said, 2009).



*“The rentier model typically favoured local political elites and certain private sector entrepreneurs.”*



The rentier model's limitations became clear when oil prices crashed in the early 1980s. The downturn prompted a decline in migrant remittances, aid from Gulf countries, and export income from oil and phosphates. A recession in Western countries further slashed the amount of export demand and foreign aid available. Rentier states had made some inroads in

terms of social welfare and poverty alleviation, but the economic downturn demonstrated that those policies were unsustainable (Harrigan & El-Said, 2009, p. 185). By the mid-1980s, these factors precipitated a public finance crisis for most Arab countries, which turned to IFIs for economic assistance.

## 2.2. NEOLIBERAL REFORM UNDER IFI LOAN CONDITIONS

IFIs correctly identified the endemic failures of the rentier model and insisted on macroeconomic reforms aimed at stimulating a stronger private sector.

Typical IFI measures included narrowing budget deficits, privatising state-owned enterprises, liberalising interest and exchange rates, and reducing trade barriers. These initiatives were predicated on a “market-led” logic that strengthening the private sector would spur economic growth, which would then enrich all levels of society over time. After implementation began, IFIs praised Jordan, Morocco, Tunisia and Egypt for improved economic growth rates and reduced foreign debt. These macroeconomic achievements marked out those four countries as the “most advanced” and “successful reformers” in the Arab region (Harrigan & El-Said, 2009, pp. 3-7).

These so-called “Washington Consensus” policies have received widespread criticism on a theoretical level. Many countries discovered that privatisation and market liberalisation could not stimulate private sector-led growth in developing countries without a substantial amount of public investment (McCord, Sachs & Woo, 2005, pp. 27-29). After privatisation, several Arab countries avoided entering high-skilled sectors, where

developed countries enjoyed established presences. Instead, they entered low-skilled industries where lower wages and weaker industrial rights increased that country's competitiveness. Moreover, IFIs failed to tailor the general Washington Consensus reform package to the specific circumstances of Arab countries, which often lacked the institutional structures to guarantee their inclusive implementation. Instead, IFIs frequently advocated a one-size-fits-all, "standard reform agenda" for distressed economies with weak private sectors, showing little regard for local differences (Rodrik, 2006, p. 2).

Under the reforms, many Arab countries had individual characteristics that necessitated a bespoke set of policies rather than adopting a universal template (Mosallem, 2015). Most did not have developed social protection systems, which exposed lower-income citizens to increased poverty and inequality under IFI-led austerity measures. Administrative bodies often lacked the capacity to deliver services to vulnerable members of the community, further burdening the poor. Separately, weak regulatory institutions failed to constrain the rapacious behaviour of regime elites. This made liberalisation and privatisation policies vulnerable to elite capture, which amplified wealth gaps and reduced the market's competitiveness (Freund, Nucifora & Rijkers, 2014).

### 2.3. MACROECONOMIC REFORMS IN TUNISIA

As in many Arab countries, the state was stifling the Tunisian economy when the government approached IFIs for financial assistance in the 1980s. Before 1970, the Tunisian private sector had been virtually

non-existent. The government controlled wholesale and retail trade, banking, transport, energy, mining, 90 percent of agriculture and 70 percent of industry (Ghali & Mohnen, 2004). The state's dominant role made it difficult for the private sector to respond to government incentives, and private investment collapsed as a result (Bechri & Naccache, 2003). Tunisia tried to address this shortcoming between 1970 and 1986, adopting an export-oriented strategy in which the private sector would drive development. Under this plan, the government removed its monopoly on foreign trade and banking, passed privatisation legislation, and implemented a business-friendly investment code. Yet state intervention increased in other respects — the government imposed price controls on almost all products, keeping interest rates low and implementing widespread credit rationing (Harrigan & El-Said, 2009, pp. 109).



*“Arab countries,  
often lacked  
the institutional structures  
to guarantee their  
inclusive implementation.”*



From IFIs' perspective, Tunisia stood out as a clear candidate for a Washington Consensus-style macroeconomic reform package. By 1986, the state-led economy was riddled with structural weaknesses — it was overly reliant on oil revenues and foreign borrowing, and 65 percent of investments were allocated to the non-tradable sector. The state had cultivated a business environment that could neither keep Tunisia's growing labour force in employment, nor produce a diversified and competitive range of

goods for export. The economy began to collapse in the 1980s; many state-owned enterprises and private firms could no longer service their outstanding debts. Tunisia responded by signing a slew of IFI loan agreements between 1986 and 2005 (Harrigan & El-Said, 2009, pp. 110-115).

IFI financing came with policy-based conditions aimed at macroeconomic stabilisation and structural reform. The IMF pushed austerity measures to reduce public expenditure, arrest inflation, and minimize Tunisia's current account deficit. Other IFI-led policies included downsizing public sector employment, eliminating price controls over essential consumer goods, lifting barriers to trade, and extensive privatisation (Mosallem, 2015). The government floated the Tunisian Dinar (TD), which triggered a gradual currency depreciation, but stabilised the exchange rate. The currency float caused a substantial drop in the current account deficit, from nearly 7 percent of GDP in 1986 to less than 1 percent in 1987. In parallel, various tax reforms took place — most notably, the introduction of a value-added tax (VAT) and a single-person income tax in 1988.

Structural reforms included liberalisation of trade and financial regulations, active export promotion, increased incentives in the offshore sector, and agricultural sector reform. These adjustments aimed to improve international competitiveness, switch incentives to the tradable sector, reduce unemployment, and incentivise private investment. Reform of the agricultural sector occurred under two loan agreements with the World Bank. Tunisia reduced subsidies to liberalise agriculture prices, privatised farmland and services such as the supply of farm inputs, collection of produce, provision of mechanised

ploughing and harvesting. Land privatisation occurred through long-term leasing contracts at preferential rates; the goal was that taxes and leasing revenues would improve public finances, while greater private initiatives would increase efficiency and employment (Harrigan & El-Said, 2009).



*“Tunisia’s experience of elite capture supports a broader critique of Washington Consensus policies, which often accommodated authoritarian regimes by overlooking the importance of regulatory institutions.”*



IFIs duly released funding tranches to Tunisia in exchange for these neoliberal reforms, but did not insist on improved institutional structures to prevent elite capture. President Ben Ali's extended family controlled the country's liberalisation and privatisation processes, without being subject to independent regulatory oversight. Those connected to Ben Ali built up pervasive holdings in sectors subject to authorisation procedures and FDI restrictions, where they were four times more likely than non-aligned businesses to receive state approvals. In these sectors, “connected” firms accounted for 43 percent of output and claimed 55 percent of net profits (Freund et al., 2014). By contrast, their market share dropped to 1.2 percent and 3.3 percent in sectors without strict regulatory requirements. Consequently, Tunisian elites came to dominate specific sectors of the economy at the expense of the market's competitiveness — a central objective of the IFI reform programme. Tunisia's experience of elite capture supports a broader critique of Washington

Consensus policies, which often accommodated authoritarian regimes by overlooking the importance of regulatory institutions (Kaufmann, 2011).

This widespread venality contributed significantly to Tunisia's Arab Spring protests in 2010/11 — along with high unemployment and poor living standards. Protesters demanded comprehensive economic reform after Ben Ali's overthrow in January 2011, which triggered an apparent reformulation of IFI policies. In 2012, a World Bank Interim Strategy Note prioritized more social and economic inclusion for Tunisia, as well as greater institutional accountability and competition (Hanieh, 2015, p. 122). In June 2013, IFIs committed new loan facilities to the post-revolutionary democracy, with the IMF agreeing a \$1.74 billion package. Yet IFIs made little substantive change to their macroeconomic proposals towards Tunisia, despite pledging to be more people-focused. That is, IFIs were still promoting a “market-first logic.” Their post-2011 loan objectives advocated revised investment laws, further integration with global markets, and increased competition — a strategy animated by sending “a strong signal to private investors that Tunisia is once again open for business” (quoted in Hanieh, 2015, pp. 122-123).

Tunisia's economy has continued to falter since the revolution, leading IFIs to return to imposing strict austerity measures. In December 2016, the IMF agreed to another \$2.8 billion bailout package with the Tunisian government, but demanded a reduced budget deficit and lower spending on public wages. The monetary reforms are focused on curbing inflation and improving the current account deficit, while structural initiatives aim at improving the business climate, broadening access to finance and reducing corruption. In June 2019, the IMF agreed to release its

latest tranche of funding to Tunisia (around US\$245 million) but noted that “growth remains subdued and macroeconomic vulnerabilities persist.” (IMF, 2019a).



*“Profound structural flaws emerged in Egypt's state-led economy during the global financial downturn of the 1980s.”*



#### **2.4. MACROECONOMIC REFORMS IN EGYPT**

As with Tunisia, Egypt's economy had followed a state-led industrialisation model following independence in 1952, with the government conducting large-scale nationalisation schemes and spending heavily on public infrastructure and social services (Alissa, 2007). Private sector activity was essentially restricted to agriculture, real estate and the informal economy, though state controls constrained even those economic areas (Alissa, 2007). In 1974, President Sadat launched his “Open Door Policy,” whereby Egypt welcomed more foreign investment and introduced several deregulation and liberalisation measures (Alissa, 2007). Yet the government continued to run a vast subsidy and employment guarantee system, while also dominating the production, distribution and allocation of inputs (Harrigan & El-Said, 2009, pp. 37).

Profound structural flaws emerged in Egypt's state-led economy during the global financial downturn of the 1980s. The country had experienced considerable growth between 1974 and 1985 at an average rate of 8 percent annually (Alissa, 2007). But that growth was largely financed by external funding — migrant

worker remittances, Suez Canal revenues, foreign aid, oil exports and tourism earnings (Harrigan & El-Said, 2009, pp. 38). The 1980s oil slump seriously impacted these revenue streams. Egypt suffered from debt accumulation, increased fiscal deficits and inflation rate, a drop in exports, and a sharp decline in growth and investment (Alissa, 2007). By 1991, the government's mounting external debt obligations made it impossible to defer economic reform any longer (Alissa, 2007).

Egypt turned to IFIs for policy-based loans in 1991 and adopted neoliberal stabilisation and structural adjustment policies (Harrigan & El-Said, 2009, pp. 39). Immediate stabilisation reforms included removing interest rate ceilings, liberalising the exchange rate and introducing a new sales tax. Structural reforms aimed to increase the global integration of Egypt's economy, encourage exports, develop the private sector, and increase domestic productivity (Alissa, 2007). According to IFI-led policies, these objectives required privatisation of state enterprises, removing controls over investment, liberalising trade, eliminating most tariffs on imports and reducing consumer subsidies.

Stabilisation efforts were largely deemed a success, but structural adjustment moved at a slower and more disappointing pace (Harrigan & El-Said, 2009). Egypt saw a dramatic reduction in the fiscal deficit, a fall in inflation, and stabilisation of the nominal exchange rate. On the structural reforms, few steps were taken to further liberalise trade and the domestic market. Around one third of state assets were privatised between 1991 and 1998, but often those reforms had minimal impact on the day-to-day management of the particular firm; the state continued to play a major controlling role in many former state assets. Those organisations that

did undergo significant restructuring frequently had an anchor and / or a strategic foreign investor involved (Carana Corporation, 2002).

The government introduced a comprehensive financial reform plan in 2004, which accelerated privatisation, loosened export controls, and established an interbank market. In 2005, the Income Tax Law was revised to broaden the taxation base. The new legislation simplified the rate structure, cut down income tax rates, and set a higher minimum threshold. The government also cut subsidies, raising the price of fuel and electricity. The weighted average tariff had been cut from 14.6 to 6.9 percent by 2007. Egypt's economic growth figures improved. This drew praise from the IMF, which recommended further austerity measures to contain public wage expenditures and government subsidies in April 2010 (quoted in Mosallem, 2015, p. 12).



*“Throughout the reform period, IFIs focused on Egypt’s macroeconomic indicators rather than the country’s lack of effective regulatory institutions.”*



Throughout the reform period, IFIs focused on Egypt's macroeconomic indicators rather than the country's lack of effective regulatory institutions. Like Tunisia's Ben Ali, the Mubarak regime was able to manipulate the privatisation of state assets, converting that process into “a new source of patronage to reinforce and extend links between the political and economic elites” (Joya, 2017, p. 383). Cronyism gathered pace with the 2004 modernisation reforms. Connected

manufacturing firms enjoyed increased levels of protection from competition, preferential access to land and subsidies, and regulatory favouritism (Diwan, Keefer & Schiffbauer, 2016). Unfair energy subsidy allocations manifested in connected firms claiming an 81 percent market share of energy-intensive sectors. 82 percent of connected mining and manufacturing companies sold products that were subject to state-administered import barriers. This systemic corruption flourished in the absence of an independent, well-resourced regulatory system.



*“This systemic corruption flourished in the absence of an independent, well-resourced regulatory system.”*



As in Tunisia, Egyptian protesters drove IFIs to publicly reconsider their macroeconomic policies after the Arab Spring. Some demonstrations demanded that the state scale back aspects of the neoliberal agenda — by renationalising former state enterprises, increasing the minimum wage, and allocating more public funds to health and education. Seeing these complaints, the World Bank prioritised “building trust” in Egypt, acknowledging that IFIs had “provided large amounts of assistance ... through the previous regime” (quoted in Hanieh, 2015, p. 120). During 2011, the IMF negotiated a new loan \$3 billion loan facility with Egypt. When the IMF announced its loan conditions in November, critics noted some distinct hallmarks of neoliberal economics — cuts to subsidies and public wages, a new value added tax (VAT), and no progressive tax reform (Hanieh, 2015, p. 129).

Since 2011, successive Egyptian governments — representing generally opposed political viewpoints — have accepted neoliberal policies in exchange for continued funding from IFIs. The Muslim Brotherhood’s Freedom and Justice Party proposed austerity measures and publicly reiterated its support for the “free market” (Joya, 2017). Abdel Fattah El Sisi, Egypt’s president since June 2014, has aggressively pursued IFI-friendly policies of reducing the budget deficit, controlling inflation and attracting local and foreign investment.

In November 2016, the Sisi administration secured \$12 billion in additional IMF funding by agreeing to implement increased austerity measures. These included floating the Egyptian pound, withdrawing state energy subsidies, and reducing public debt through consolidation. Under the arrangement, Egypt reached the IMF’s target of 4.8 percent economic growth in FY 2017/2018, but failed to reduce inflation to the proposed single-digit levels (EIPR, 2018, pp. 36-39). In February 2019, the IMF agreed to release Egypt’s penultimate tranche of funding (around US\$2 billion). The IMF Executive Board commented that Egypt’s macroeconomic outlook is favourable, despite likely challenges ahead due to tightened global financial conditions (IMF, 2019b).

### 3. IMPACT ON GROWTH AND UNEMPLOYMENT

#### 3.1. CASE STUDY: TUNISIA

##### BEN ALI ERA:

##### DECEPTIVE ECONOMIC GROWTH?

IFIs frequently praised Tunisia during the 1990s and 2000s as a model example of how to attract

economic growth successfully. They argued that neoliberal structural and fiscal policy adjustments had helped Tunisia to diversify its economy, stabilise government finances, and create a balance of payments surplus (Harrigan & El-Said, 2009). The Tunisian economy had reached its modern-day nadir in 1986, when annual GDP growth was -1.4 percent. The macroeconomic reforms coincided with sustained years of positive growth, with an average annual increase of approximately 3.4 percent in real per capita terms between 1990 and 2010 (World Bank, 2015). The figure remained at 3.5 percent in 2010, the year that Arab Spring protests began against the Ben Ali regime.

These demonstrations — and the general discontent they represented — forced widespread re-assessment of whether Tunisia’s growth figures had actually improved the country’s socio-economic outlook. While Tunisia did experience reasonable growth before 2010, that growth did not translate into widespread job creation. SDG 8 recommends that countries increase their economic productivity by focusing on high value-added, labour-intensive sectors. Tunisia attracted significant levels of FDI under the macroeconomic reforms, but those funds mainly went towards the capital-intensive natural resources sector. Investment was much lower in labour-intensive industries like manufacturing, which plummeted by half from 2000 to 2006 (World Bank, 2015). Domestic investment also struggled. Too often, private investors focused on non-productive sectors like real estate, hoping to shield their capital from rapacious Ben Ali-connected elites.

This lopsided economic situation contributed to high rates of unemployment. Jobs were scarce in

under-developed rural communities, especially in the country’s northwest and central south. More surprisingly, unemployment also mounted amongst Tunisian university graduates. The government aggressively promoted access to higher education from 1990-2010, during which tertiary enrolment rates jumped from 8 percent to 34 percent (World Bank, 2015). But the private sector was not creating enough jobs for students after graduation, leaving the state to employ more than 60 percent of degree-holders. Unlike Morocco, Tunisia did not benefit from strong FDI in the services sector, a key employer of that country’s educated youth. The high number of long-term unemployed graduates — not typically a socio-economic group vulnerable to unemployment — laid bare the limitations of the IFI-led neoliberal agenda.



*“Tunisia’s economic performance did not justify its supposed pre-revolution status as a “model student” of neoliberal macroeconomic reform.”*



In any event, Tunisia’s pre-2011 economic growth did not measure up favourably to countries in the same income category on a GNI per capita basis. Tunisia was the second-fastest growing economy in the MENA region between 1990 and 2010, but it lagged well behind growth figures in other upper-middle income countries. For example, Bosnia and Herzegovina recorded double-digit increases during that period. Overall, upper-middle income countries experienced growth rates 1.5 times higher than Tunisia’s in those two decades (World Bank, 2015). Measured against this standard, Tunisia’s economic

performance did not justify its supposed pre-revolution status as a “model student” of neoliberal macroeconomic reform.

#### POST-2011:

#### STAGNATION AND CONTINUED NEOLIBERALISM

Since the revolution, Tunisia has stagnated in terms of both GDP growth and job creation, despite receiving billions in loans from IFIs. The economy suffered on both metrics after Ben Ali’s overthrow in 2011, as unemployment spiked to 18.3 percent and growth slumped into negative territory: -1.9 percent. One might expect these short-term outcomes amid post-revolutionary uncertainty, but the Tunisian economy has continued to struggle while democracy has become more entrenched. As at 2018, the World Bank observed a “modest economic recovery” in Tunisia, with growth accelerating from 2 percent in 2017 to 2.8 percent for Q2, 2019 (year-on-year). Nevertheless, unemployment remained high by the end of 2018: 15.5 percent, where it has roughly hovered since 2014. 29.9 percent of university graduates were unable to find work as at Q1, 2018. Their plight had barely improved — if at all — since the revolution (World Bank, 2015).



*“The IFI policies continued to influence how these post-Arab Spring policies sought to achieve economic growth and job creation.”*



The IFI policies continued to influence how these post-Arab Spring policies sought to achieve economic growth and job creation. The World Bank emphasised

strengthening the Tunisian private sector, while also championing the “competitive edge” offered by the country’s “moderate” wage levels (Hanieh, 2015, p. 123). Another goal sought labour market deregulation, as opposed to “protecting particular jobs” (ibid). This second proposal was not without merit – rigid Tunisian labour laws had made dismissing employees virtually impossible, blocking potential new entrants to the job market (Harrigan & El-Said, 2014). But such neoliberal concepts undermined the notion that IFIs were sincere about significantly modifying their strategic approach in Tunisia.

For its part, the Tunisian government has contributed to the country’s economic malaise. The European Bank for Reconstruction & Development (2018) praised pluralism and freedom of expression evident in Tunisia’s nascent democracy, but noted that political indecision has slowed down the pace of macroeconomic reform. Nine different cabinets have served since 2011, leading to inconsistent handling of Tunisia’s relationship with its international creditors. The government has acceded to some proposals from IFIs, including passing an investment law in 2016 aimed at attracting greater FDI for Tunisia. At other times, it has failed to implement macroeconomic reforms. Last year, the public wage bill still accounted for 15.5 percent of the country’s GDP — one of the highest rates in the world (Al-Jazeera, 2018).

The government is now caught in an unenviable bind: state employees are protesting stagnant incomes, while IFIs are demanding that Tunisia slash its public wage bill to 12.5 percent of GDP by 2020. After three decades of neoliberal reforms, Tunisia has an inefficient economic composition and severe difficulty creating new, decent jobs. In this

precarious economic climate, IFIs must ensure that the impacts of austerity measures do not outpace mitigation policies, which would expose many Tunisians to severe hardship.

### 3.2. CASE STUDY: EGYPT

#### MUBARAK ERA:

##### PRIORITISING ECONOMIC STABILISATION

Like Tunisia, Egypt quickly impressed IFIs upon implementing neoliberal macroeconomic reforms during the 1990s. The Mubarak regime stabilised the faltering Egyptian economy under IMF-directed policies, which included slashing government debt and tackling inflation. The country also enjoyed two notable periods of sustained growth — annual GDP increased by steadily higher amounts between 1993 and 2000, and then averaged around 7 percent from 2006-08. Before the Arab Spring, Egypt had become a kind of “poster child” for the success of neoliberal economic policies.



*“Before the Arab Spring, Egypt had become a kind of “poster child” for the success of neoliberal economic policies.”*



Yet critics have pointed out that Egypt’s high growth rates under Mubarak were ultimately unsustainable, as they were driven by domestic rather than foreign demand. Washington Consensus logic dictated that fiscal stabilisation and labour deregulation should result in Egypt becoming an export-led economy. In practice, Egypt’s export value remained flat at

around 21 percent of GDP, and private investment was just 10 percent. Instead, the state drove economic growth by investing in massive public infrastructure projects throughout the 1990s. By the end of the decade, Egypt was still an “inward-looking economy” — despite the IFIs’ ambition of better integrating Cairo into the global market (Harrigan & El-Said, 2009).

Moreover, crony capitalism limited the amount of economic growth and job creation achieved in uncompetitive sectors. In those industries, connected firms gained an unfair advantage over would-be competitors through access to preferential subsidy allocations and other policy privileges. These benefits allowed connected firms to create more jobs, but that increase was offset by negative employment growth at non-connected firms, which struggled to turn profits and thus hire staff. In this setting, Egypt did not achieve observably higher employment growth in “politically connected sectors” between 1996 and 2006. These findings support the hypothesis that “less neck-on-neck competition within sectors leads to lower growth.” (Diwan et al., 2016, p. 1)

The World Bank has since conceded that market-led initiatives under Mubarak did not solve Egypt’s serious unemployment problem (World Bank, 2014b). On bare statistics, the unemployment rate dropped steadily during the mid-to-late 1990s, and then fell again during the years of high annual growth from 2006-08. These figures obscured the reality that most new jobs arose in the informal sector, where Egyptians were forced to accept low wages, poor working conditions and high levels of worker abuse. If private companies created formal

jobs, those positions were often poor quality as well, offering low wages, short-term contracts, and no benefits (Diwan et al, 2016). Low-quality jobs increased even during the apparent boom period of 2006-08, challenging the neoliberal conviction that high growth begets decent job creation (Joya, 2017).

#### POST-2011: THE TROUBLED FUTURE OF JOB CREATION

The IMF and the Sisi administration have worked together to implement neoliberal policies for several years now, identifying improved economic growth as evidence of their success (EIPR, 2018). Growth increased from 2.9 percent in 2014 to a Sisi era-high of 4.3 percent in 2015, and has remained at just above 4 percent for each year since. Yet these growth patterns seem no more sustainable than those experienced under Mubarak. Last year, the IMF found that the key drivers of Egypt's economic growth are the tourism, construction and natural gas industries. Construction jobs are often short-term and poor quality, while natural gas is a capital-intensive sector that does not require much labour. Moreover, total investments remain low at 15 percent of GDP; the average ratio across the MENA region is between 26 and 33 percent. Just 2.3 percent of GDP from 2014-2017 came from FDI, most of which went towards the natural gas and construction sectors (EIPR, 2018, pp. 15-17). These indicators do not sit easily with SDG 8.2, which aims for higher economic productivity based on high value-added, labour-intensive sectors.

The current economic outlook has raised concerns about the future of job creation in Egypt. Under Sisi, the official unemployment rate has dropped slightly from 13.1 percent in 2014 to last year's 11.4 percent. While this might suggest that the

reforms are succeeding, a fall in workforce size also contributed to the lower unemployment rate, as some working-age Egyptians stopped looking for jobs. Moving forward, the Egyptian economy will need to absorb an estimated 3.5 million new entrants to the job market from 2018-2023, at a rate of 700,000 each year, despite its persistent struggle to create employment outside sectors that are extractive, volatile and / or short-term.



*“The current economic outlook has raised concerns about the future of job creation in Egypt.”*



## 4. IMPACT ON POVERTY AND INEQUALITY

### 4.1. CASE STUDY: TUNISIA

#### BEN ALI ERA: POVERTY DOWN, INEQUALITY UP

Tunisia made significant progress in reducing the national poverty rate while implementing IFI-led reforms. By 2015, 15.2 percent of Tunisians were living in poverty, a figure that had dropped from 23.1 percent in 2005. Certain pockets of poverty still exist, especially in the North West (28.4 percent) and Centre West (30.8 percent) regions. Poverty also decreased more in urban areas (65 percent) than rural areas (56 percent) from 1985-2000 (Harrigan & El-Said, 2014). Despite these important qualifications, Tunisia's success tackling poverty under the IMF reforms set it apart from Egypt, Morocco and Jordan — the region's other “good students of the IMF” (Harrigan & El-Said, 2014).

Unlike those countries, Tunisia managed to increase the amount of social provisioning available during the macroeconomic reform period. From 1987-2005, Tunisia consistently directed around 19 percent of GDP towards the country's social safety net. The allocation per citizen rose by 55 percent, from 386 TD in 1987 to the 2002 figure of 599.3 TD (1.2 times the minimum wage). State spending occurred across various sectors during this period — funding doubled for both health and education, while social welfare increased by 214 percent. These social spending rises occurred alongside IFI-mandated cutbacks on major universal aid measures, including food subsidies and health compensation. In this way, Tunisia balanced satisfying its IFI creditors with ensuring adequate social protection for its citizens.

The government achieved these two objectives by reorganising the structure of its social provisioning network. After reducing food subsidies, the state introduced programs for direct targeted aid, which “systematically compensated those who lost due to the reforms” (Harrigan & El-Said, 2014, p. 114). From 1986, the National Programme for Aid to Needy Families provided cash transfers to those citizens most affected by the rise in basic food prices. The government also introduced schemes for maintaining access to public hospitals, either free of charge (under the AMG1 program) or at a reduced rate (under AMG2). Admittedly, these programs have suffered from a “severe lack of both transparency and accountability,” which reduced their effectiveness (Ben Brahman & Dia, 2014). Nevertheless, targeted aid initiatives did allow Tunisia to maintain a social safety net while also cutting back on universal aid transfers.

Tunisia further supplemented social welfare in Tunisia by finding new, non-governmental sources of funding. In 1993, Ben Ali created the National Solidarity Front (NSF), a presidential welfare initiative that drew most of its funding from private contributions. The regime replicated the same model in 2000 for the National Job Fund (NJF), which provided investment for job creation and microfinancing. Tunisian wage-earners donated to the NSF and NJF as a “quasi-mandatory obligation,” which drew upon “an ethos of solidarity [that had been] institutionalised in the whole country” (Sadiki, 2008). The government even introduced a National Day of Solidarity, an annual fund-raising drive for fund-raising and donation activities. This grassroots model reduced pressure on the state's social welfare budget, while likely having a positive impact on living standards and the poverty rate (Harrigan & El-Said, 2014).



*“Tunisia has made far less headway in terms of combating wealth inequality under the neoliberal programs.”*



Tunisia has made far less headway in terms of combating wealth inequality under the neoliberal programmes. When carrying out privatisation reforms, Ben Ali ensured that many benefits from former state assets accrued to their associates. This trend led to rampant wealth inequality within the governorate of Tunis, where regime networks were particularly dominant (Ayadi & Mattoussi, 2014). Factories tended to be built in Tunisia's wealthier coastal regions, which excluded inland regions not only from job opportunities, but also from access to crucial infrastructure, transport and information networks.

The Ben Ali regime also allocated more social spending to coastal rather than interior regions. By 2010, Tunisia's nationwide Gini coefficient was 0.36 (where 0 represents total equality, and 1 represents total inequality); the Gini coefficient for Egypt was 0.28. Certain regions (Grand Tunis, Centre East and Southeast) had smaller populations, but accounted for greater shares of total expenditure than more populous regions (Northeast, Northwest and Centre West). (Abid, O'Donoghue & Sologon, 2016) This trend demonstrates that Tunisians living in wealthier regions could spend more money than those based in less developed areas. Tunisia did not have strong public institutions that could monitor and prosecute corrupt, discriminatory and anti-competitive behaviour.



*“Corruption aside, IFIs backed certain initiatives that had the practical side-effect of amplifying wealth inequality.”*



Corruption aside, IFIs backed certain initiatives that had the practical side-effect of amplifying wealth inequality. For example, the World Bank aimed to create more jobs by supporting several farmland distribution projects (for property formerly held in state co-operatives) in favour of large-scale farmers (King, 1999). World Bank loans, below-market input prices and technological support gave bigger primary producers a powerful competitive advantage over peasant farmers. The underlying rationale for this initiative — that supporting more efficient farms would create more jobs in agriculture — did not come to fruition. There was no net increase in farming jobs, with managers moving quickly to

dismiss labourers en masse, while small-scale outfits could not match the advanced technology of former state-owned farms.

#### POST-2011: THE NEED TO SUPPRESS RISING INEQUALITY

Tunisia remains committed to high levels of social spending, even as economic pressure mounts from the nation's creditors. At present, around 8 percent of Tunisians receive unconditional cash transfers, and 28 percent benefit from subsidised medical care. The system is far from perfect; the World Bank (2018) has raised concerns about the “targeting, information and monitoring of [the social safety] programs.” Yet, Tunisia stands out from other countries in the region, including Egypt, because “it refused to compromise on the social aspect” during IFI-led reforms. Tunisia's poverty alleviation achievements — which occurred by working around neoliberal policy dictates — arguably demonstrate that “the reduction in social spending under IFI-administered reforms exacerbates rather than reduces poverty levels.” (Harrigan & El-Said, 2014)

Yet, ESCWA (2017) has recently warned against overstating Tunisia's success in reducing all forms of poverty. As at 2017, a very low 0.6 percent of Tunisians suffered from acute multidimensional poverty, but “a relatively high share” (17.8 percent) experienced non-acute multidimensional poverty. Location also affects which communities suffer most from poverty, with lower proportions of destitute citizens in coastal regions than non-coastal regions. ESCWA also found that 31.9 percent of Tunisians were at risk of falling into poverty. This is a worrying statistic considering the ongoing challenges of unemployment and job creation, along with IFI demands for public spending cuts.



*“Tunisia will also need to mitigate a potential increase of inequality under the latest round of IFI-mandated austerity measures.”*



Tunisia will also need to mitigate a potential increase of inequality under the latest round of IFI-mandated austerity measures. Since the revolution, IFIs have promoted reforms that prioritise reducing public debt and strengthening the private sector. In June 2013, the IMF made its \$1.74 billion loan facility subject to proposals like cutting subsidies and raising certain consumer taxes — including, most controversially, an increased vehicle tax. Tunisians had already protested earlier that year against austerity measures, which they blamed for the spiralling average cost of living (Harrigan & El-Said, 2009). Moreover, the IMF asked the government to lower corporate taxes, hoping to foster a more competitive private sector. This regressive overall tax regime conflicts with SDG 10.4, which calls for countries to adopt fiscal policies that “progressively achieve greater equality” (emphasis added).

The government does claim to be moving towards addressing a key historical contributor to inequality in Tunisia — corruption. Since Ben Ali’s overthrow, the state has created regulatory bodies aimed at satisfying this objective. The most notable of these institutions are the National Anti-Corruption Authority (INLUCC) and the Financial Judiciary Pole. In practice, neither institution has sufficient resources to carry out its work. INLUCC, for example, was only able to investigate 400 from a total of 9,000

cases of alleged corruption from 2014-15. In 2016, INLUCC’s president secured “significant” financial contributions from overseas donors for 2017. In general, however, “the government does not seem to prioritise the INLUCC’s work and has failed to provide adequate budgetary or human resources,” (Yerkes, 2017). Concerningly, Tunisia’s rating dropped on Transparency International’s Corruption Perceptions Index, from 59 out of 178 countries in 2010 to 73 out of 180 countries in 2018.

## 4.2. CASE STUDY: EGYPT

### MUBARAK ERA: “HAVES” AND “HAVE-NOTS”

Unlike Tunisia, Egypt did not maintain a strong social welfare programme while implementing IFI-led economic reforms from 1991 onwards. The Mubarak regime prioritised the IMF’s proposals for stabilising the economy and restoring equilibrium to the nominal exchange rate. These initiatives proved effective in macroeconomic terms, but had a detrimental effect on Egypt’s poorest communities. Poverty increased from 1990/91 to 1995/96 according to two measures — the \$2 per day standard, and the national poverty line head count. Critics assessed this focus on market-led economics as follows:

*[I]t was clear that the decision was made to push for liberalisation despite the immediate negative social consequences, with the expectation that growth would eventually trickle down. (Harrigan & El-Said, 2014)*

The situation eased somewhat in the late 1990s, when Egypt experienced stronger economic growth levels, more jobs were created and unemployment

figures began to fall (except in Upper Egypt). Yet, this growth period proved to be short-lived, and national poverty levels again increased from 2000-2014.

Wealth inequality increased during the structural adjustment period, in part because IFIs did not insist on strong institutional safeguards for the corrupt Mubarak regime. This institutional vacuum allowed crony capitalism to flourish as Egypt implemented privatisation and liberalisation reforms. Separately, the Mubarak regime cemented unequal wealth distributions through its policies on taxation, rents and prices. This lopsided development period resulted in “the creation of gated cities, lush green lawns and golf courses for the rich... and dilapidated public housing and crumbling infrastructure for most Egyptians” (Joya, 2017, p. 343). Arab Spring protesters sharply criticised IFIs for not appropriately monitoring corruption under Mubarak-era officials; rather, IFIs had often praised Egypt for achieving key macroeconomic targets. This contributed to a bifurcated economy, where property owners prospered “while forcing workers and peasants to carry the social costs of neoliberal reforms” (Joya, 2017, p. 343).

The World Bank did propose a “well-planned” programme for poverty alleviation during Egypt’s structural adjustment period. The strategy included safeguarding some public spending on health and education, maintaining subsidies and social welfare for the poorest Egyptians, and creating a social fund. But the Mubarak administration did not implement the World Bank proposal in full. Moreover, a regional poverty divide emerged, which reflected the uneven distribution of economic growth during this period. For instance, poverty rates fell in Greater

Cairo, and improved reasonably in Lower Egypt, between 1995/96 and 1999/2000. But Upper Egypt, historically the country’s poorest region, suffered due to “the regionally biased pattern of growth during the late 1990s” (Harrigan & El-Said, 2014). Poverty rates in Upper Egypt jumped from 29.3 percent to 34.2 percent in rural areas, and 10.8 percent 19.3 percent in urban areas.



*“IFI-mandated fiscal reforms have further embedded income inequality in Egyptian society, despite wealth disparity being a major grievance of the Arab Spring protests.”*



#### POST-2011:

#### REGRESSIVE POLICIES AND EMBEDDING INEQUALITY

In the Sisi era, IFI-mandated fiscal reforms have further embedded income inequality in Egyptian society, despite wealth disparity being a major grievance of the Arab Spring protests. In 2016, Egypt replaced its Goods and Services Tax with another broad-based levy, the Value Added Tax (VAT). This regressive, flat tax disproportionately affects less wealthy consumers, and accounted for 37.73 percent of national tax revenue as at 2017. By contrast, high-earning individuals and corporate entities pay little tax, and in some cases pay none at all. The financial sector does not pay capital gains tax, and corporations can avail themselves of tax holidays and customs exemptions. These regressive tax policies conflict directly with SDG 1 and SDG 10’s emphasis on inclusive growth, by charging lower-income Egyptians at a proportionally higher rate.

Inequality has also proliferated due to the Sisi administration's handling of the latest subsidy cuts, which IFIs demanded in order to drive down public expenditure. Sisi announced food and fuel increases of up to 78 percent in July 2014, while simultaneously reducing subsidies on the same commodities. This policy served the neoliberal aim of sending — in Sisi's words — “a clear signal to global markets and investors that Egypt is finally serious about addressing a longstanding structural weakness” (quoted in Joya, 2017, p. 353). Again, however, Egypt's masses are bearing the main brunt of these austerity measures. For instance, subsidy cuts have jeopardised the livelihoods of peasant farmers struggling to meet the input costs of agriculture. Some farmers are being forced from their land through accumulated debt, adding to the already vicious poverty cycle in rural areas. More generally, the state is increasing energy prices for consumers but keeping subsidies in place for energy-intensive industries.

IFIs have set certain policy objectives aimed at protecting those communities most affected by the austerity measures, but concerns remain about their implementation. Under the current IMF loan conditions, Egypt must spend the equivalent of 1 percent of GDP on social protection policies. As at December 2017, the Sisi administration had achieved this goal by funding a range of mitigating measures — raising cash subsidies on energy supply cards, increasing insurance pensions, and boosting monthly benefits under the Takaful and Karama welfare programmes. These are positive steps towards sustainable development, but cash transfers alone will not make inroads into Egypt's poverty rate of 30 percent. On a practical level, the mitigation policies are not reaching all Egyptians in need of

assistance as living costs rise. At present, a rather grim assessment is that “more people are harmed by the IMF program than benefit from the network of cash subsidies and pensions” (EIPR, 2017, p. 10).



*“These ongoing anti-corruption measures will need to achieve concrete results, which will require determined and sincere implementation efforts.”*



For its part, the Sisi administration has ostensibly moved towards tackling corruption since announcing its National Anti-Corruption Strategy in 2014. The World Bank hailed the initiative's introduction, arguing that “corruption halts growth” and has a negative impact on poverty levels (World Bank, 2014a). The Strategy calls for enacting anti-corruption legislation, establishing transparency principles in administrative offices, and enhancing judicial procedures, amongst other reforms. By the government's admission, the Strategy encountered challenges during its first phase (2014-18). These included a lack of financial resources for strengthening the judiciary, and the failure of some regulatory bodies to file reports under the transparency-promotion programmes (Arab Republic of Egypt, 2018).

These ongoing anti-corruption measures will need to achieve concrete results, which will require determined and sincere implementation efforts. After all, the Strategy is not Egypt's first comprehensive reform programme for tackling corruption. The Mubarak regime created its own Transparency and Integrity Committee and joined Egypt to both the

MENA-OECD Task Force on Anti-Bribery and the Arab Anti-Corruption and Integrity Network. Despite these reforms, corruption under Mubarak was still “perceived to be a major problem in Egypt” (Kassem, 2014, p. 4).

Perceptions of corruption in Egypt persist until this day. Egypt ranked 105 out of 180 countries on Transparency International's Corruption Perceptions Index for 2018. Critics allege that the Sisi administration's main anti-corruption body, the Administrative Control Authority (ACA), lacks the necessary institutional safeguards to carry out its duties effectively. The ACA follows opaque internal procedures, answers directly to the president, and does not have jurisdiction to investigate the military – a key economic player in Egypt. The Project on Middle East Democracy (2019) concluded that “the ACA does not meet minimum standards of political independence, transparency and accountability.”

## 5. RECOMMENDATIONS

The central hypothesis tested in this paper is that IFI-led reforms in the Arab region were only partially successful in macroeconomic terms, while often having severe microeconomic and social impacts (Harrigan & El-Said, 2009). The foregoing analysis has found strong evidence to support that proposition in relation to Tunisia and Egypt. In both countries, IFIs focused on improving macroeconomic indicators without placing due weight on building public institutions capable of preventing corruption, promoting market competition, alleviating poverty and reducing inequality. This approach resulted in vast numbers of Tunisians and Egyptians not benefiting from

realisation of the SDGs, even at times when the national economy was performing well.

IFIs cannot effect meaningful change without strong support from within both countries. Key Tunisian and Egyptian stakeholders must have the political will for good governance, sincere in their desire to tackle problems like corrupt and anti-competitive behaviour. Nevertheless, implementing the following recommendations would help IFIs to better align macroeconomic reforms in Tunisia and Egypt with the SDGs, with particular reference to SDGs 1, 8, 10 and 16.

### MITIGATION ALONGSIDE AUSTERITY

IFIs must ensure that well-administered mitigation policies go hand-in-hand with austerity measures imposed on Tunisia and Egypt. There are compelling economic reasons for several aspects of the ongoing structural reforms, and many are necessary for achieving sustainable growth. But strong mitigation policies must accompany these changes.

Universal aid transfers, such as state subsidies, impose a burden on public spending, do not efficiently alleviate poverty, and can exacerbate (rather than reduce) wealth inequality. But withdrawing universal welfare disproportionately harms the community's poorest members, unless the government has a targeted, well-resourced and competently run social welfare program in place. As noted above, Tunisia did manage to expand social provisioning during the IFI reform period, but those systems have suffered from a lack of transparency and accountability. Egypt has recently introduced the Takaful and Karama welfare programmes, but these initiatives require

significant improvements to reach all of Egypt's most vulnerable citizens.

IFIs should continue investing in domestic institutions that can identify “at-risk” people and deliver adequate mitigation services, such as cash transfers. Administrative bodies need support in obtaining statistical and disaggregated data that can accurately identify deserving welfare recipients. Since 2014, the World Bank has made steps towards this objective with its Urban Development and Local Government Program for Tunisia. The \$300 million initiative aims to strengthen institutional capacity at the municipal level, focusing on implementing mitigation programmes in disadvantaged neighbourhoods. These projects must be prioritised, in terms of both attention and funding, in Tunisia and Egypt. If properly implemented, they can ensure that potential improvements to the countries' macroeconomic outlooks do not come at the expense of the most vulnerable.

IFIs can encourage more sustainable funding for social welfare programmes by supporting progressive tax reforms in Egypt and Tunisia. Under the current reform packages, IFIs have proposed increases for both countries' value added tax as a way to boost state revenues. Value added tax is regressive in nature, and rate increases worsen rather than ease the plight of vulnerable citizens. Both governments can adopt more progressive measures, which redistribute wealth rather than imposing more burdens on the poor. In Egypt, for instance, reforms might include: implementing a real estate tax; amending the capital gains tax definition to include real estate and M&A transactions; eliminating unproductive tax exemptions; and broadening the reach of income tax, while increasing its progressivity (EIPR, 2018, p. 14).

The World Bank has already identified the importance of improving institutional capacity to collect tax effectively. Last year, it recommended that Egypt accelerate plans to improve tax administration. This demonstrates a recognition that — just like with delivering mitigation measures — tax policy reform can only succeed if the government has the capacity to implement those laws.

### **STRONG JUDICIAL AND REGULATORY INSTITUTIONS**

Elite capture has stymied job creation and increased inequality in Tunisia and Egypt under the macroeconomic reforms. Respectively, the Ben Ali and Mubarak governments manipulated privatisation and liberalisation reforms, which facilitated monopolies and cartels in the private sector for “connected” political and economic elites. Both countries now have anti-corruption institutions in place, but these bodies suffer from a lack of human and financial resources. In Egypt, critics have raised additional concerns about the institutional integrity of the ACA, the administrative body tasked with leading the Sisi administration's “fight on corruption.”

IFIs should provide strong financial and technical assistance for Tunisia and Egypt to make these regulatory institutions better resourced and truly independent. In 2017, the IMF conceded that it had paid “limited attention” to corruption in Tunisia until the Arab Spring protests, and had not made Egyptian loan packages conditional on implementing anti-corruption measures. In global terms, the IMF has prioritised corruption-related reforms depending on their likely macroeconomic impact, and whether or not the World Bank is also willing to support the initiative financially (IMF, 2017).

IFIs have previously led meaningful change in terms of combating corruption — notably, with a 1998 reform package in Indonesia. That country’s banking sector had suffered from inadequate monitoring, which led to “widespread corruption and political interference from well-connected bank owners” (Abonyi, 2005, p. 14). IFIs, including the IMF, sponsored generally successful policies of improved corporate governance, auditing state-owned enterprises, and ensuring transparency when privatising state assets. These initiatives could help inform the content of similar programmes for Tunisia and Egypt.

More recently, IFIs might take guidance from IMF engagement with Ukraine on corruption from 2014-16. The IMF commissioned a diagnostic study in July 2014, and then recommended extensive engagement with civil society to create the National Anti-Corruption Bureau of Ukraine. The IMF also promoted “ambitious” legislative reforms, simplified regulatory laws and administrative procedures, and the enhancement of judicial independence. The Ukrainian reform package is “noteworthy for its openness, depth, and consistency” (IMF, 2017, p. 42).

## **ENERGISING THE PRIVATE SECTOR**

Under IFI-led reforms, Tunisia and Egypt have both failed to realise the full economic potential of their populations. First, IFIs should promote education and training better attuned to the business needs of local industries.

South Korea has attracted widespread praise for comprehensive education reforms that were implemented over decades. Investment in primary schooling readied workers for a labour-intensive manufacturing boom during the 1960s. Improving

secondary education standards fuelled capital-intensive growth during the 1970s and 1980s (Jones, 2013). Until today, the South Korean government works closely with industry to ensure that students are receiving appropriate vocational training for the economy’s present and future needs (Patrinos, 2016).

Specific policies will naturally vary from Tunisia to Egypt, a process that will require extensive consultation with private sector stakeholders to determine the most appropriate initiatives. For instance, Tunisia might emphasise training programmes suited to its high number of unemployed university graduates, while Egypt could pivot towards labour-intensive industries like manufacturing by promoting better primary education and vocational training. IFIs can also support skill development indirectly. For example, the government might require businesses to spend a certain amount on research and development. Such a measure would increase the local workforce’s competitiveness in the global market.

In addition to education, local entrepreneurs need incentives and support to lead Tunisia and Egypt’s strategy for digital transformation. Private actors will be more likely to invest in future-oriented sectors under policy measures that encourage a healthy level of commercial risk-taking and investment. IFIs have encouraged Egypt to introduce promising legislative reforms in recent years, including a law relaxing the penalties for declaring bankruptcy. More work remains ahead, however – Tunisia ranked 80 out of 190 countries for “ease of doing business” in 2018, while Egypt finished at a lowly 120th place.

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