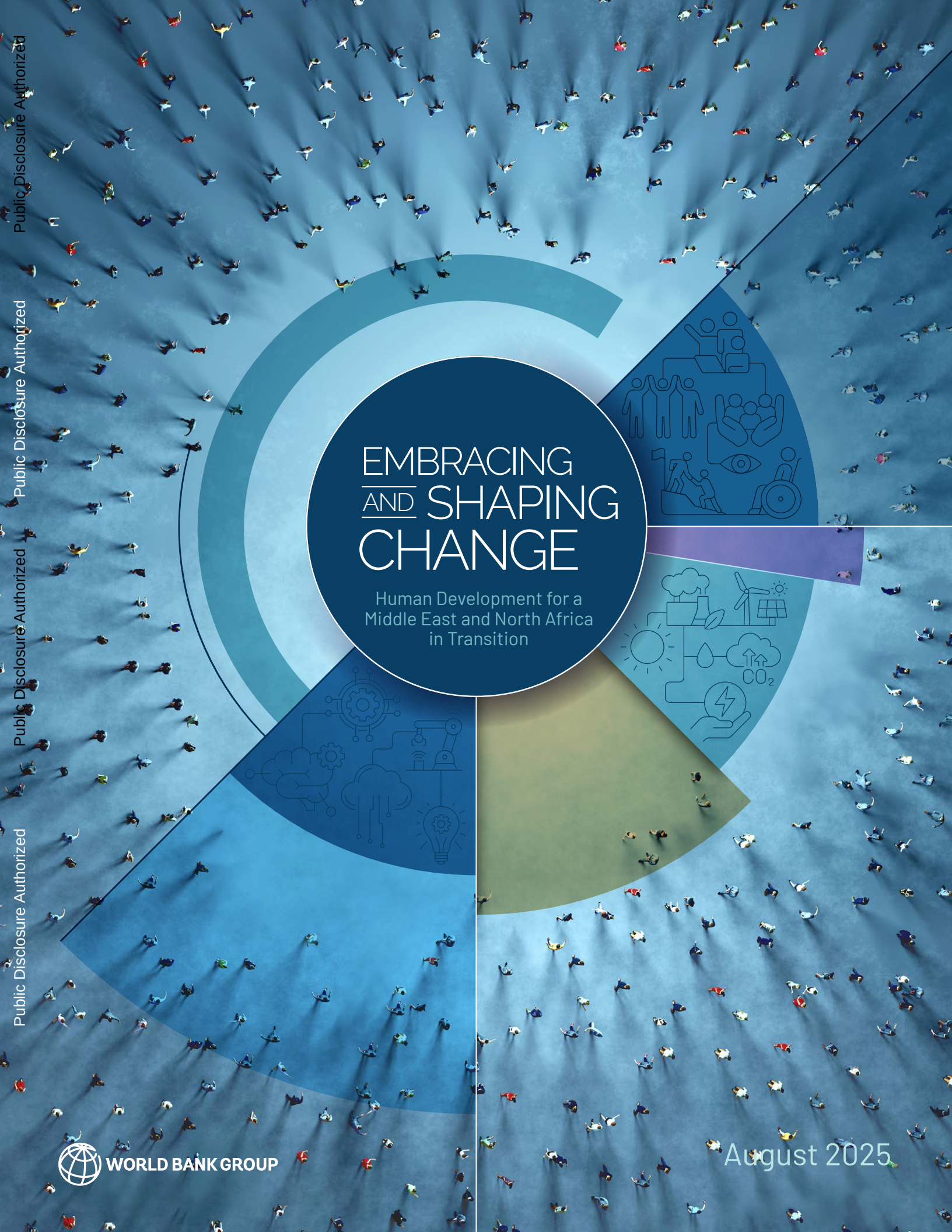

EMBRACING AND SHAPING CHANGE

Human Development for a Middle East and North Africa in Transition

WORLD BANK GROUP

August 2025

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This report is part of the task "Embracing and Shaping Change: Human Development for a Middle East and North Africa in Transition" (P502135) produced by the MENA People team.

Cover design: Dania Kibbi

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Acknowledgements

This report is the overview of the flagship report "Embracing and Shaping Change: Human Development for a Middle East and North Africa in Transition" (P502135). The flagship report is a product of the World Bank MENA People team and comprises multiple publications in addition to this report, synthetized in three **"Knowledge Packages" (KPs)** – policy notes led by multidisciplinary research groups that explored different aspects of how MENA countries can prepare human development sectors to respond to global megatrends.

The flagship publications were produced by the following teams:

- **KP1: "Global Megatrends and Human Development in the MENA Region: Preparing for Demographic, Climate and Technological Change".** Johannes Koettl-Brodmann (Senior Economist and KP lead), Sofia Gomez Tamayo (Analyst), Ramy Zeid (Economist) and Matteo Morgandi (Lead Economist). Dana Alrayess (Consultant), Gael Fostier de Moraes (Consultant), Andrea Petrelli (Consultant), Nayib Rivera (Economist), and Yara Sleiman (Consultant) provided background research. KP1 incorporates findings from the following background notes: Sabarwal, Shwetlena (2025) "Demand and Supply for Green and Digital Skills in MENA". The World Bank. Kanth, Priyanka (2025) "Estimating Demand for Long Term Care in MENA". Mimeo. Melhem, Samia and Danif Richani, Dina (2024) "Digital for Human Development in the MENA Region". Mimeo. Weedon, Emily and Giron, Liz (2024) "MENA's Human Development and Climate Nexus". Mimeo

- **KP2: "Resilient Human Development Institutions in the MENA Region: Reforming for Effective Coverage".** Denizhan Duran (Senior Economist and KP lead) and Dominique Claire Rouleau, Consultant, with inputs from: Juul Pinxten, Economist, HMNSP; Fatine Guedira, Young Professional, HEDGE; Winston Cole, Lead Financial Management Specialist, EMNGU; Yara Sleiman, Data Scientist Consultant, HMNSP; Antony Costantin, Consultant, HMNHN; Hatem Zayed, Consultant, SSIGL; Ahmet Fatih Ortakaya, Senior Social Protection Specialist, HMNSP; Ilhame Ouansafi, Senior Health Specialist, HMNHN; Katriel Friedman, Consultant, HMNHN; Ayesha Khurshid, Young Professional, EEAG1; and Turkan Mustafa Qizi Mukhtarova, Consultant, EGVPA. Background research was provided by Yara Sleiman (Consultant). KP2 includes findings from the MENA Institutional Resilience survey co-led with the MENA Institutions global practice.

- **KP3: "Investing in People: Revisiting Fiscal Options to Finance Human Development in the MENA Region.** Ugo Gentilini (Lead Economist and KP lead), drawing from following background notes: Blecher, Evan, Ozer, Ceren and Bloom, Danielle Elena (2025) "Health Taxes in the MENA Region". Coppard, Daniel and Knox, Duncan (2025) "MENA

International Development Finance Trends". Elshawarby, Amr and Guedira, Fatine (2025) "The Potential of Zakat for Human Development Policy Financing in MENA Countries". Fuchs Tarlovsky, Alan and Amjad, Beenish (2025) "The Equity Challenge: Fiscal Policies and Their Impact in the Middle East and North Africa (MENA)". Gorgens, Marelize, Dinkar Nayak, Mahesh and Friedman, Katriel (2025) "MENA Human Development Financing: Digital Issues". Lopez, Diego and Waddington, Andrew (2025) "Sovereign Wealth Funds in MENA". Modi, Arbind (2025) "Domestic Resource Mobilization in MENA". Naeher, Dominik (2025) "Revenue Efficiency in MENA: A Cross-Country Frontier Analysis". Pallares-Miralles, Montserrat (2025) "Fiscal Impacts of Pension Systems and Their Reforms in the MENA Region". Pinxten, Juul, Gentilini, Ugo and Jenzri, Wiem (2025) "Rekindling Food Subsidies in MENA". Pinxten, Juul, Gentilini, Ugo and Morgandi, Matteo (2025) "Human Development Spending in MENA". Van de Poel, Ellen and Claire Rouleau, Dominique (2025) "Key Drivers of Inefficiency in the Health Sector in MENA".

- **Overview:** Matteo Morgandi (Lead Economist), drawing from all inputs above, and under strategic guidance of Fadia Saadah (Regional Practice Director).

The flagship task was coordinated by a team composed of Matteo Morgandi (Lead Economist) and Fadila Caillaud (Practice Manager), Task Team Leaders, Emily Weedon (Senior Economist), Fatine Guedira (Young Professional), under the strategic guidance of Fadia Saadah (Practice Director for MENA People). Arwa Abdulaziz R Alhilal (Analyst), and Aya Talaat (Consultant) provided research support; Ghassan Alkhoja (Senior Operations Officer) led external engagement and partnerships with the support of Yosra Alajlan (Analyst); Trang Nguyen (Senior Program Assistant) provided administrative and publishing support; Dania Kibbi and Florencia Micheltorena designed, and Fiona Mack edited, the report.

We are grateful for comments received by the following external reviewers at different stages: Hafez Ghanem (Brookings Institution); Ammar Abdo Ahmed, Manager for Human Development (Islamic Development Bank); Dr. Merza Hasan and Dr. Ahmed Al Kawaz (Arab Fund); We also thank the following peer reviewers from the World Bank: Juan Pablo Uribe, Global Director For Health, Nutrition and Population; Joana Silva (Deputy Chief Economist for People Vertical); David Wilson (Senior Advisor); Simon Carl O'Meally, Senior Public Sector Specialist; Zeljko Bogeti, Lead Economist; Gabriel Demombynes, Practice Manager; Jamele Rigolini, Senior Advisor; Sameera Maziad Al Tuwaijri, Lead Health Specialist; Harry Patrinos (Senior Adviser); Boutheina Guermazi (Director Strategy and Operations, MENA); Nadir Mohammed (Prosperity Practice Director); Mesky Brhane (Planet Practice Director); Berq Jafer Hadi Al Yasseri (Health Specialist) Shwetlena Sabarwal, Lead Economist. Finally, Roberta V. Gatti (MENA Chief Economist), Ousmane Dione (MENA Region Vice President), Mamta Murthi (Vice President for People Vertical) provided valuable guidance as co-chairs of review meetings.

Abbreviations

GPD	Gross Domestic Product
HD	Human Development
HIC	High Income Countries
LICs	Low-Income Countries
MENA	Middle East and North Africa
MICs	Middle-Income Countries
World Bank	The World Bank Group
Arab Fund	Arab Fund for Economic and Social Development

Foreword

By Ousmane Dione, Vice President for the Middle East and North Africa, Afghanistan, and Pakistan, The World Bank

The Middle East and North Africa (MENA) region stands at a historic crossroad. It is a region of diversity -economically, socially, and politically- but also one marked by persistent fragility. In many countries, inequalities are deepening, and human development indicators remain stubbornly stagnant or have deteriorated. These realities, coupled with a rapidly changing global environment, demand nothing less than a bold rethink of how the region invests in its people and the needed reforms to the systems that shape those investments.

There are reasons for hope. Across the region, countries have sought to strengthen their human capital foundations by expanding education, improving service delivery, and leveraging digital tools. Yet, these efforts have often faced structural constraints: fiscal pressures, political instability, climate stress, and labor market barriers. Progress, while notable in some cases, has been uneven. The challenge is not only to invest more, but also to invest better—anchoring reforms in governance, institutions, and sustainable financing.

Global megatrends are reshaping how people live, learn, and work. Demographic shifts are underway, with parts of the region still enjoying a potential demographic dividend while others are progressively aging. Climate change is intensifying water scarcity, extreme heat, and coastal degradation, threatening livelihoods and the foundations of human capital. Technological disruption, particularly digitalization and artificial intelligence, offers both the risk of being left behind and the chance to leapfrog into more competitive, inclusive economies. These forces are no longer distant risks; they are present realities, intersecting with conflict, debt distress, and entrenched social challenges.

Seizing the opportunities of these megatrends requires institutions that are responsive, resilient, and accountable. Human development systems in MENA must become better coordinated, more transparent, and more data-driven. This means aligning education, health, and social protection systems with labor market needs, scaling innovations such as digital service delivery, and creating platforms for inclusive policy dialogue. Governance reform is the mechanism through which investments translate into real improvements in people's lives.

Reaching these goals will require financing models that are progressive, efficient, and sustainable. In much of MENA, per capita spending on education and health has stagnated or declined, especially in fragile states, while pension expenditures continue to rise. Fiscal systems must be adapted to free up space for future-fit human development spending—through more progressive tax-benefit frameworks, better-targeted subsidies, and spending reprioritization. Even under fiscal constraints, investments in people must remain a protected priority, not a casualty of short-term pressures.

This new report, *Embracing and Shaping Change: Human Capital for a Middle East and North Africa in Transition,* tackles these broad questions through a novel production process and structure. The overview synthesizes the findings of three companion pieces on Human Development Policies, Financing, and Institutional Reforms. Each of these companion pieces was informed by numerous background papers, novel data collection, and engagement with governments and development partners. The aim is to assist policymakers and stakeholders to identify a feasible path to renewal of human development policies and institutions, through a strong evidence basis and international experience.

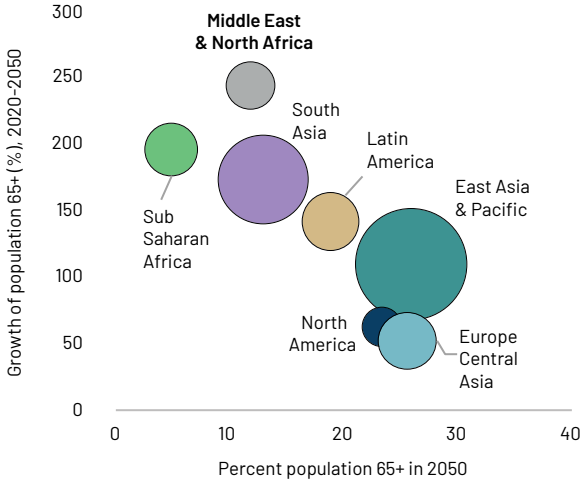
What you will see in the report is a practical and evidence-based agenda for building inclusive, resilient societies in the face of global change. The World Bank remains committed to supporting this transformation—through knowledge, financing, and partnership—because the region's greatest asset is its people. By investing in them, we can build a future where every person has the opportunity to realize their potential.

EXECUTIVE SUMMARY

Low investments in human development (HD) are both a cause and a consequence of economic performance and income growth. Thriving populations in knowledge societies are skilled, mobile, healthy, and connected. However, in most countries in the Middle East and North Africa (MENA) region, human capital development and utilization has been lagging behind countries at similar income levels elsewhere. The region's current HD outcomes are at risk of decline as MENA countries are facing some critical transitions in the span of just a few decades.

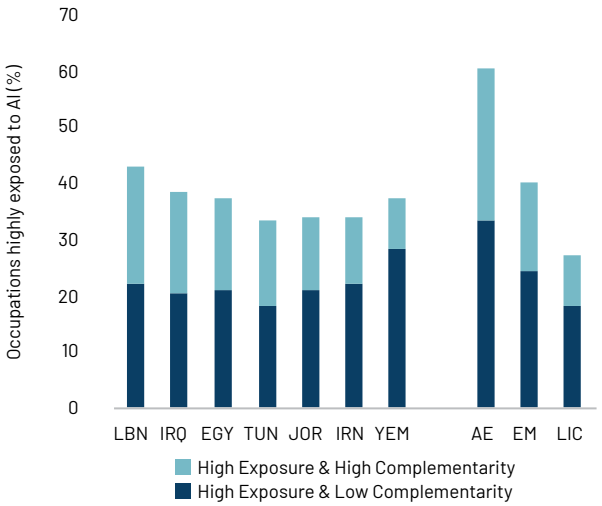
This report explores how three megatrends – aging populations, the climate crisis, and technological change – will impact the people of MENA and discusses which HD policies can shape and harness these trends as well as equip people to manage the associated risks. These megatrends are unfolding amid protracted fragility, conflict, and high debt distress in several low-income countries (LICs) and middle-income countries (MICs). Poverty remains high in LICs, and income inequality increased more in MENA between 2010 and 2023 than in any other region, which has eroded the middle class. The three megatrends could further exacerbate these challenges by fueling displacement, generating new grievances, and adding to fiscal costs. Fortunately, these megatrends also create new opportunities.

FIGURE ES.1
Share of elderly cohorts, and growth rates of elderly cohorts, in world regions



Source: Authors based on UN population statistics.

FIGURE ES.2
Percentage of occupations highly exposed to the effects of AI in select countries



Source: Team elaboration of data by Cazzaniga et al (2024).

Photo: © Dominic Chavez/World Bank

MENA societies are youthful, but they are entering the world's fastest demographic transition. While average life expectancy reached the age of 74 in MENA in 2023, the effective retirement age still hovered around age 54. The ratio of those aged 65 and over to the working-age population will increase 2.5 times over the next three decades, and the total fertility rate already dropped below three children per woman in nearly all MENA countries. If pension systems are not reformed, they could cost the region's countries an average of 3 percent of GDP by 2050. With regard to health, a quarter of all adults in Saudi Arabia, Morocco, and Lebanon have diabetes and cardiovascular diseases by the age of 55, compared to only 10 percent in Japan and Germany. In addition, estimates carried out for this report found that between 3 and 10 percent of the population in seven MENA countries will need long-term care by 2030, due to old age or disability. Despite these trends, only a small fraction of countries' expenditures on healthcare are allocated to preventive services for their adult populations.

A second major risk comes from MENA's high exposure to climate change, though the region could also benefit from the green transition. Extreme heat, coastal erosion, and severe water scarcity threaten not only livelihoods and physical safety in MENA but also the very process of accumulating human capital because

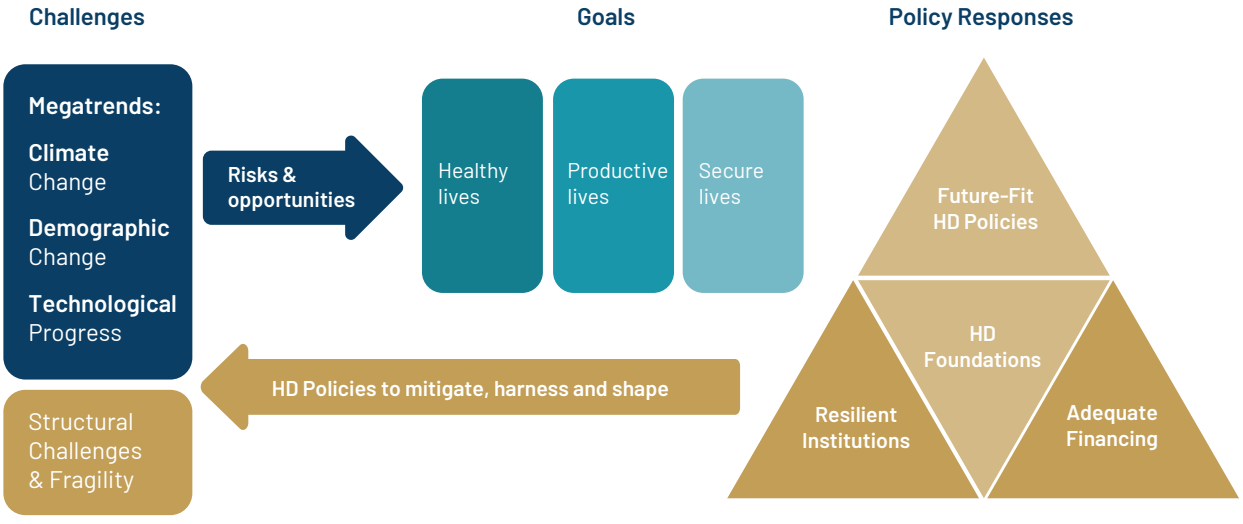
these events can reduce school attendance and learning, foster the spread of infectious diseases, and increase food insecurity. However, the emerging green transition could benefit MENA if the right policies are put in place, particularly in the education and training system, and by incentivizing technology adoption. For instance, new EU trade rules incentivize lower carbon production, while MENA countries have ample potential to generate solar and wind energy. Also, the working populations in these countries are still young and many could be trained to fulfill the rising demand for green jobs.

Finally, labor markets in MENA, especially in MICs and LICs, are less likely to be vulnerable to automation and AI than other regions. Analysis on Egypt, Tunisia, Jordan, and Iran has found that only one-third of existing jobs could be potentially affected by the forces of AI. However, most of the affected occupations are likely to be replaceable rather than being augmented by AI. How much AI will impact occupations in MENA remains uncertain, considering limited digital readiness, prevalent informality and the high costs of accessing the internet in several countries, especially outside of the Gulf Cooperation Council countries. The main risk for most MENA countries is of missing out on the productivity boost that AI can bring to its workforce and firms.

Investing in future-fit HD policies will enable people to seize emerging opportunities

The report's conceptual framework illustrates a three-pronged policy agenda to meet this formidable challenge. To mitigate the main risks and harness the opportunities associated with the megatrends, MENA countries will need to introduce "future-fit" policies across their HD sectors. Most of these programs are new to the region and will need to be built on countries' foundational human capital and their delivery systems. In parallel, it will be essential to enact institutional and governance reforms that make education, health and social protection agencies more effective and responsive to change. To meet new financing needs for HD, the report proposes several options, including reducing ineffective spending, raising revenues from untapped sources, and improving coordination with off-budget financers of HD programs.

FIGURE ES.3
Conceptual Framework



Source: Authors.

To address the challenges of an aging population, MENA countries can consider policy reform packages that support people to work longer and live healthier at an older age. Parametric reforms to pensions, including raising the effective retirement age, could become more acceptable to the public if they are accompanied by investments in preventive health services, incentives for living a healthier lifestyle, and some long-term care support. Labor regulations and taxation should be reformed to legalize part-time and flexible forms of work. It will also be critical to counter agism, by providing employers with incentives to hire older workers and changing their negative perceptions. These reforms are most needed in the GCC countries and in the fast-aging North African countries.

At the same time, the demographic dividend window remains open in several countries: realizing the dividend will depend on raising women and young people's employment rates. This will be particularly vital in LICs and MICs, where fewer than one out of every two adults is working, which is well below the rate in most other regions, even in aging societies. The care economy can play a key role in increasing female labor force participation, which is currently only around 19 percent in MENA. Also, to enable more mothers to work, MENA governments should target universal pre-school enrollment and start providing after-school care options. Expanding childcare services also requires quality assurance systems, incentives to encourage private provision, campaigns to reduce stigma, and targeted financing to ensure affordability. With respect to long-term care for the elderly, MENA countries should aim to find ways to offer limited and targeted government services within their limited public resources, while regulating the orderly growth of private provision. Governments should also invest in building the skills and qualifications of potential care workers and develop attractive career paths within the profession.

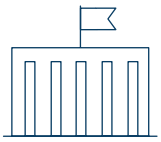
Developing education and training systems that meet the rising demand for green and digital skills is another way to support job creation. New data analysis carried out for this report shows that such skills are required at every education level and are typically better remunerated. Enabling women to acquire digital skills can enable them to engage in in home-based work. To increase the supply of these skills, a mix of formal technical and vocational education, short cycle training programs, and on-the-job learning will be needed. Both the public and private sectors have a role to play, and governments should invest in enabling infrastructure such as data-based skills observatories, career guidance services, quality assurance systems, and entrepreneurship support.

Megatrends are also likely to increase migration pressures. Demographic imbalances within MENA and between MENA and other ageing countries will add to existing drivers of migration. About 55 percent of young people surveyed in 2022/23 across MENA considered emigrating, largely in search of economic opportunities, but also to find better education, personal safety and governance. Migrant sending countries can anticipate these effects by equipping young people with technical, socioemotional and intercultural skills to succeed, and pursue bilateral partnerships with immigration destinations to finance the expansion of predeparture training, ensure safe labor intermediation and access to social protection.

The digital economy will continue to provide opportunities, and governments should build their capacity to design sound regulations. Estimates suggest that MENA countries provide four percent of the global gig workforce (Online Labor Index 2020), with Egypt in the lead. Women represent a third or more of the workforce in Lebanon, Saudi Arabia and United Arab Emirates. To fully harness the benefits of the platform economy, countries will need to acquire the capacities to monitor digital labor markets, and devise regulations that can preserve job growth opportunities, especially for women, while expanding access to social insurance, and preventing exploitative practices, such as algorithmic discrimination. Innovative forms of social dialogue with digital workers will be important to guide the improvement in work protections without hurting job creation. Careful regulation of the use of AI in the physical workplace will be also important.

Making social protection systems "adaptive" will enable governments to respond to natural disasters, economic shocks, and food insecurity. A handful of countries in MENA have already developed broad-based digital social registries and are using them to deliver social safety nets and associated HD interventions. The next frontier is to enable programs to expand in generosity and coverage in response to disasters and other shocks.

In conflict-affected countries, the priority should be to restore and protect basic services. Countries such as Yemen, Syria, the West Bank and Gaza, Iraq, and Libya have experienced long periods of human capital destruction due to school closures, hunger, disease, and violence. Unless populations can retain and build their basic human capital, it will be hard for their economies to grow or for their governments to manage the effects of the megatrends. In these conflict-affected countries, the first step must be to restore the delivery of essential education, health and nutrition services and build resilience through social protection, including through innovations and new technologies.



To deliver on this vision, governments should address longstanding governance gaps and ensure sustained financing of HD investments

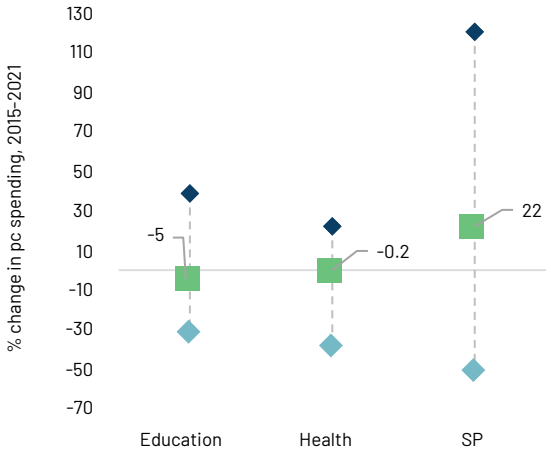
"Future-proof" policies need to build on strong HD foundations, but the effective coverage of core social services in MENA is either limited or, in conflict countries, declining. As many as 70 percent of 10-year-olds in MENA have not mastered basic literacy or numeracy. The mean score for MENA countries on the World Bank's Human Capital Index is 0.49, which is below the average of countries at similar income level. This low score is driven mainly by poor learning outcomes and malnutrition. Access to early childhood development for children aged 0 to 3 is very low, while the coverage of primary health services is below 70 percent, and social safety nets, though growing, still cover less than half of MENA's poor.

One of the root causes of this underperformance is the ineffectiveness of HD institutions. Compared to international benchmarks, MENA's HD institutions typically have few accountability mechanisms, lower transparency, and rigid resource allocation, while they provide little autonomy and few performance incentives for middle managers and frontline personnel. Another vital bottleneck is the limited production and use of data, which greatly hampers planning, management, and accountability. Governments of MENA should consider implementing incremental reforms to fill each one of these gaps and to increase the returns on HD investments. For instance, upskilling teachers, providing data, and empowering school managers was proven to yield better learning outcomes without significant cost increases. Moreover, anticipating the effects of megatrends will demand advanced capabilities in terms of scenario planning, internal experimentation and learning processes, and more flexible financial and human resource allocation.

To increase the effectiveness of their existing HD services, governments in MENA could expand digitalization and pilot AI-enabled tools. The pace of e-government development increased significantly, with countries in the GCC, followed by Jordan, Egypt and Iran, scoring high on the World Bank's GovTech Maturity Index. Important outstanding agendas include interoperability across agencies, making better use of existing data to integrate policies, closing the digital divide, and improving digitalization in health and education. AI holds promise to augment the capacity of scarce skilled personnel, for instance by providing customized tutoring and enabling delivery of primary care telemedicine.

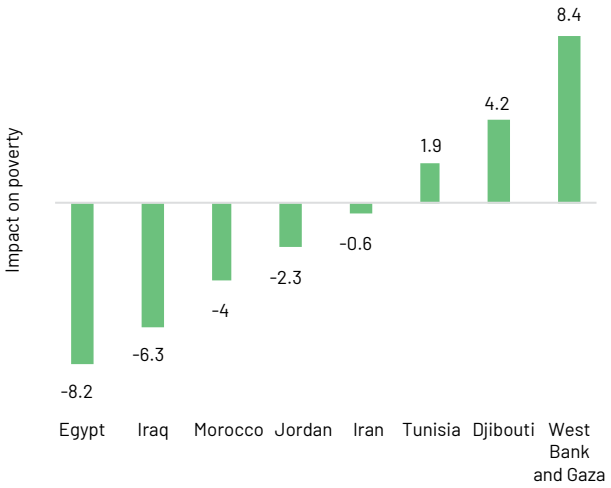
Over the last three decades, real HD expenditure in MENA countries have increased as a share of GDP but have remained unchanged in per capita terms. Moreover, this regional average masks diverging country patterns. In Saudi Arabia, Morocco, and Iran, HD spending per capita increased in real terms together with GDP growth, whereas in Egypt, Jordan, and Tunisia, per capita HD expenditures declined, while in conflict countries, they were only a fraction of prewar levels. The composition of HD spending in MENA also changed, with a rise in pensions, a slight increase in spending on safety nets, flat budgets for health, and a worrying decline in education. With a few exceptions, the region's investment in the human capital of their people is falling, due to a combination of population growth, stagnating GDP growth and policy decisions.

FIGURE ES.4
Average change in per-capita HD spending in select MENA countries, 2015-2021



Source: Pinxten et al (2025) for this flagship report.

FIGURE ES.5
Effect on poverty rates of taxes and transfers in select MENA countries



Source: Fuchs at al (2025), for this report.

A future-oriented HD financing agenda should build the fiscal space for the investments that are needed to avert the costs associated with the megatrends. This flagship report proposes a three-pronged financing agenda:

- **Increase revenue mobilization to spend on productive HD investments:** MENA's tax-benefit systems are only mildly progressive. Analysis for this report has shown that fiscal policies in Egypt and Iraq have reduced poverty significantly, while in Morocco, Jordan, and Iran, they have reduced poverty slightly, whereas in Djibouti and Tunisia they have caused poverty to increase. Greater reliance on direct taxes, such as personal income tax, or on new forms of value-added taxes that allow for personalized rebates, could mitigate income inequality and reduce the need for external support to fund HD initiatives. MENA governments can also raise their revenues and improve the population's health by introducing taxes on sugary beverages and polluting products, and by raising tobacco taxes, which are still exceptionally low in some countries in MENA.

- **Improve the allocation of HD spending in favor of more cost-effective programs.** Examples include the redesign of pension benefits, allocating more health resources to preventive services, and gradually withdrawing fossil fuel subsidies (which currently average 3.9 percent of GDP in MENA). The freed-up resources can be used to finance investments in human capital and in more robust social safety nets designed to respond to climate, health, and economic shocks.

- **Coordinate public and non-government financing sources.** Currently, private philanthropies, sovereign wealth funds, and Zakat funds finance important aspects of HD services in MENA, such as scholarships or cash assistance for the poor. Governments can coordinate with these independent entities to close outstanding coverage gaps and avoid duplications. In Egypt, for example, Zakat funds benefit low-income families who do not meet the eligibility threshold for the national cash transfer program. An important agenda in conflict-affected countries is to improve coordination between public services and donor-funded private initiatives. Moreover, reforms that allow more development assistance to be implemented nationally, such as the use of technology to reduce fiduciary risks and raise capacity of domestic HD service agencies, would strengthen the impact of aid in fragile settings.

A common direction of travel with different emphases in a highly diverse region

Within the broad reform agenda proposed by this report, it will be necessary to set priorities. The latter are country specific and vary according to the degree of exposure to specific trends, fiscal space, existing human development levels and technical capacity to seize new opportunities. A prioritization exercise can also highlight how a handful of policies could at once help address structural constraints to service delivery, prepare for the future, and serve immediate priorities.

A few examples illustrate the application of these principles. MICs facing severe fiscal tradeoffs would benefit from addressing unsustainable spending in pensions and subsidies, increasing revenue mobilization and investing in governance reforms that improve capacity and efficiency of service providers. Savings could be used to prioritize future-oriented reforms that also raise employment in the short-term, such as early childhood education, digital and green skills. In LICs and conflict-affected countries, protecting human capital starts from rebuilding foundational delivery systems, maintain the functionality of basic health and education, managing fertility, and creating nutrition and livelihood programs. The more rapidly ageing societies within MENA will reap more quickly the returns from preventive health services and NCD management, and by investing in long-term care systems. Finally, MENA's oil-rich economies have the resources tackle the full range of HD reforms while still pursuing economic diversification. Continuing to invest in the development of people's capabilities and in a competent bureaucracy that can manage this complex change process will remain critical.

The advent of the megatrends will also benefit from greater regional and international cooperation in HD policies. Issues include bilateral labor migration, international standards for skills and qualifications, strengthening preparedness to pandemics, tertiary education and skills development, and filling financing gaps for HD services in LICs and conflict-affected countries.

Discussing the social and economic effects of the megatrends will be key to building public support for reforms, especially those aimed at benefiting young people and women. Sharing information and engaging with different parts of society on how to prepare HD policies for ageing, climate change and technological change will be very important in a region where surveys report limited trust in government and where HD reforms have stalled in some areas, such as education. Governments should also encourage the robust engagement of academia, civil servants and the private sector, by making data more accessible, and by opening spaces for structured dialogue. This report and its many background knowledge products are designed to support with evidence and international experience such a dialogue within the region.

01

Introduction

INTRODUCTION

Human capital is a key cause and consequence of economic growth and wellbeing. Human capital represents the knowledge, skills, and health that people acquire throughout their lifetime, including through parenting, education, healthcare, and work experience. Two-thirds of the difference in per capita GDP between richer and poorer countries is accounted for by differences in human capital (World Bank, 2025). This relationship is also critical for MENA countries: past increases in years of education and in employment rates, which human capital also affects, were more significant drivers of income growth than investments in physical capital (World Bank 2024).

Photo: © Dana Smillie / World Bank

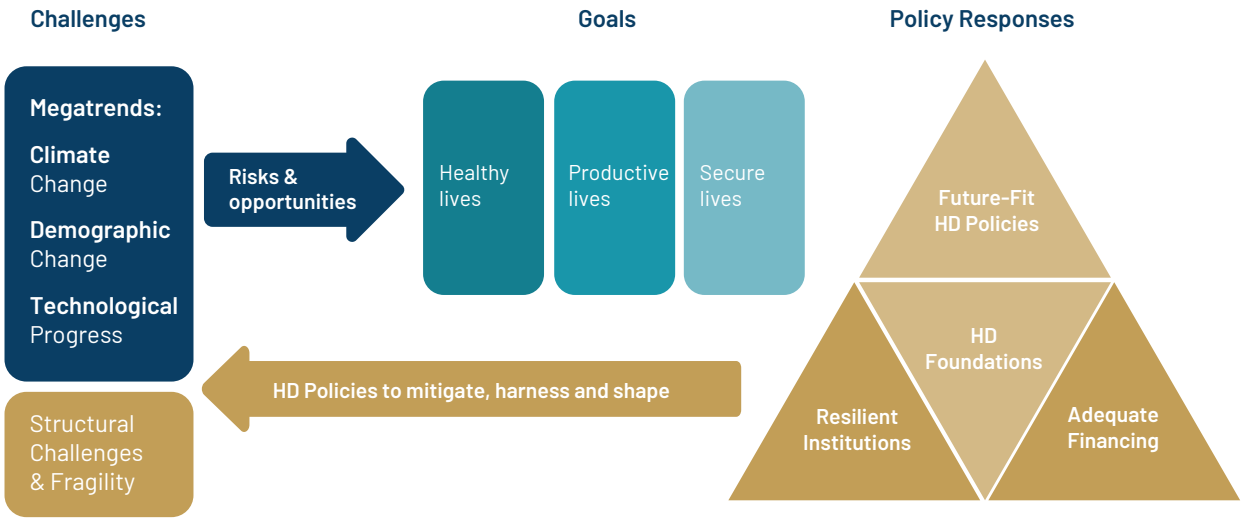
The three megatrends of aging populations, climate change, and technological progress present unprecedented challenges for human capital development and the people's future wellbeing. After many years of rapid growth, the global population is now entering a phase of falling fertility and aging. Climate change is now fully unfolding across the globe. All this is happening against the backdrop of unabated technological advancement, including the widespread adoption of AI. These forces will profoundly change human capital development, vulnerability to shocks, risk of obsolescence, and utilization to produce goods and services.

The people of the Middle East and North Africa (MENA) region will be affected in distinct ways by these megatrends.[1] While the region's 500 million people are still relatively young,[2] the population aged 65 and older in MENA will grow by 243 percent between 2020 and 2050. MENA is also one of the regions most exposed to climate change. The maximum temperature during the hottest days in the recent past was about 43°C, on average, and this could increase to almost 50°C by the end of the century (Lelieveld et al, 2016). MENA populations are also becoming highly connected, albeit at different speeds, and are digitizing part of their economies and public services.

While these long-term transformations offer opportunities, they also pose formidable challenges for the future well-being of MENA's populations. In most middle- and high-income countries, the rapid demographic transition will put great strains on public expenditures for healthcare, pensions and long-term care. Across the region, the emergence of new technologies is raising serious concerns about how education systems and an aging workforce can keep up with the changing demand for skills[3], or how to avoid missing the productivity boost enabled by AI. Changing climate patterns, natural disasters, freshwater scarcity, and the related impacts on fragility, have severely negative implications for the health, food security, and incomes.

These megatrends are unfolding in MENA amid other structural challenges. Following the fiscal expansion during the COVID-19 pandemic and sluggish recovery thereafter, most non-oil producing countries are in high debt distress. About half of all MENA countries are considered to be fragile or are directly involved in protracted conflicts, which are destroying human capital and spilling over borders. In fact, the region today hosts one-third of all world refugees, the highest number per capita in the world. Employment rates are low, especially among women and young people. And around 7 percent of MENA's population live in extreme poverty[4] (mostly in conflict and fragile countries), and only one-third of the people (mostly those in the Gulf Cooperation Council) have an income above US$10 PPP per day,[5] which is far lower than in Latin America, East Asia, or Eastern Europe.

FIGURE 1.1
Preparing to megatrends through human development policies: conceptual framework



Source: Authors.

This flagship report sets a comprehensive agenda for policymakers in MENA to harness the opportunities and manage the risks of these megatrends through human development policies, strengthened institutions, and financing reforms. The conceptual framework in Figure 1.1 illustrates the three-pronged policy agenda to face this formidable challenge. First, countries will need to roll out specific policies across the human development sectors to mitigate the main risks and harness the opportunities of megatrends, with the goal of achieving healthier, more productive and secure lives. Second, these "future-fit" policies and programs in most cases are new to the region and need to build on essential services and delivery systems, which remain incomplete in most countries. Thus, countries should in parallel embrace institutional and governance reforms that can enable their human development ministries to be more effective at providing essential services, and to be responsive and resilient to change. In the case of conflict-affected countries, this means investing to preserve basic human capital and human development institutions from the destructive effects of war. Finally, future-fit policies will require sustained financing, an additional challenge in a region with

severe fiscal constraints. Several reforms could build the fiscal space for investments that can avoid greater future costs and enhance human capital. This can be achieved through more cost-effective allocation of existing human development expenditures, better coordination of financing sources, and increased efforts to raise revenues.

The flagship report explored these questions in depth through three policy notes, which this Overview synthesizes. Every policy note is based on background research, fresh data, consultations, and expert reviews. The rest of this Overview synthesizes their main findings using our framework: Section II examines how megatrends will affect human capital in MENA; Section III illustrates the set of future-fit human development policies to help countries prepare for megatrends; Section IV focuses on the necessary governance reforms; and Section V discusses options for financing. The report concludes by reflecting on policy prioritization, considering the diverse challenges and stages of development of countries across the region.

02

Megatrends will strongly affect MENA countries

MEGATRENDS WILL STRONGLY AFFECT MENA COUNTRIES

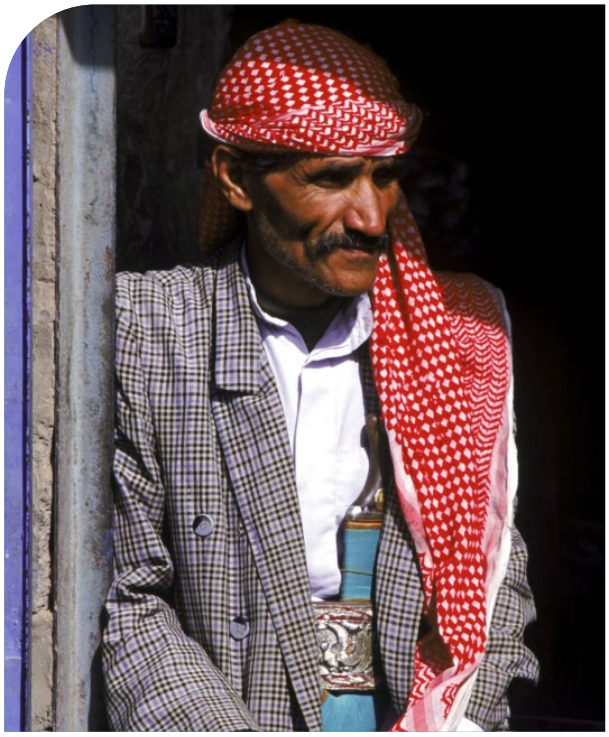


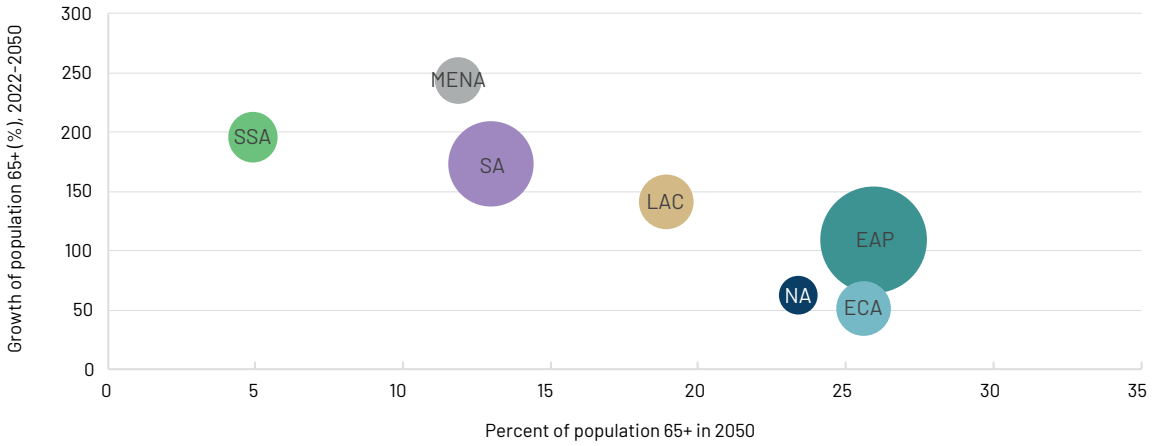
Photo: © Bill Lyons/World Bank

Demographic change is unevenly transforming MENA's population profile

MENA's demographic landscape is set to change dramatically within the next 25 years. As of today, MENA is still a youthful region, with most of the population under the age of 30 and every age cohort in its population pyramid being larger than the one born before it. In the next two decades, however, MENA will experience the highest growth rate of its 65+ age cohort in the world, which should reach 12 percent of the population by 2050 (Figure 2.1).

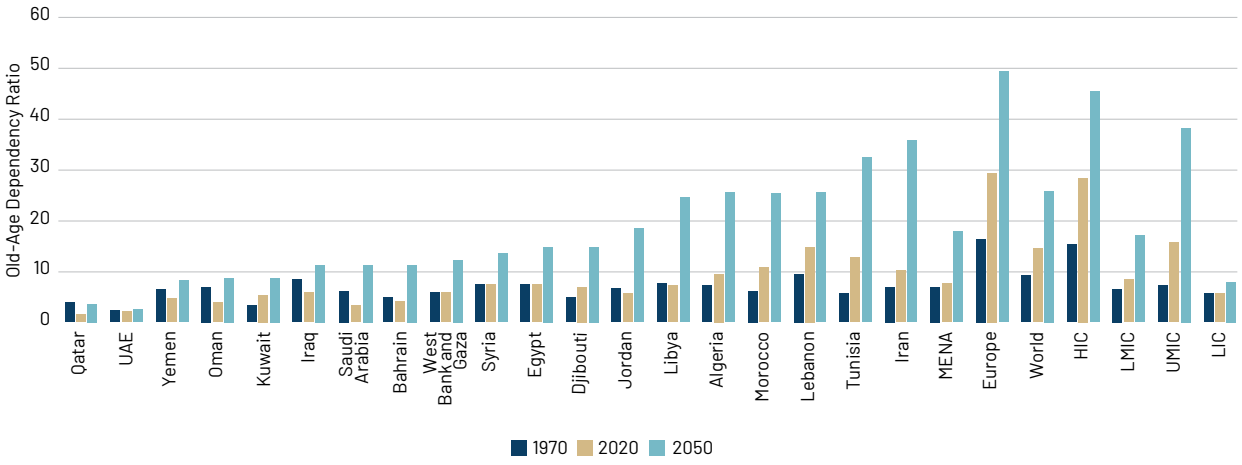
Because of falling fertility and greater longevity, the old-age dependency ratio will more than double by 2050. In all MENA countries the total fertility rate declined, from around 7 in the 1970s to 2.5 in 2023.[6] Similarly, the old age dependency ratio (the population aged 65 and over as a share of the 15 to 64 age group) will more than double from 8 to 18 by 2050 (UN, 2024) (Figure 2.2). In some countries, including Libya and Iran, the old age dependency ratio will reach 20 by 2050, which is a mark for an aging society, while Lebanon, Morocco, or Tunisia will not take much longer to reach the same ratio.

FIGURE 2.1
Elderly cohorts will grow more quickly in MENA than all other regions



Source: Recreated from Demarco and Pallares-Miralles (2023) using UN (2024) data. Note: Percentage of the population aged 65 and older in 2050 and growth rate (percent) of the population aged 65 and over between 2022 and 2050 by region. Bubble size = increase in population aged 65 and over (thousands), 2020-50.

FIGURE 2.2
MENA's old-age dependency ratio is set to more than double by 2050



Source: United Nations 2024. Note: Old age dependency ratio (population 65+/population 15–64).

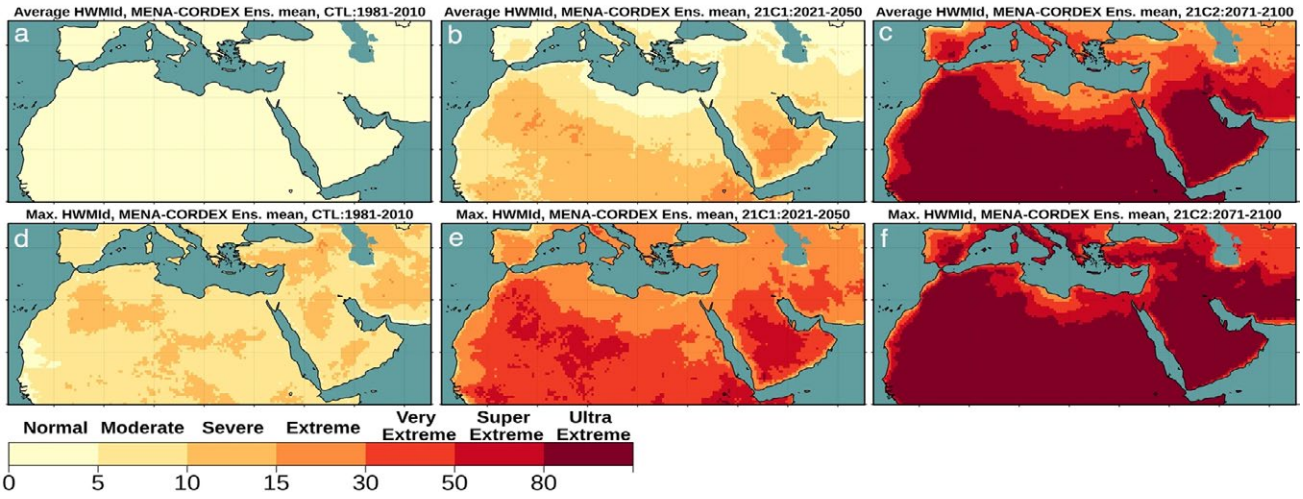
Increased longevity is a remarkable achievement, but it also involves significant risks. If this longevity is not accompanied by people having longer healthy years of life and longer working lives, it will result in extended years of dependency and retirement, placing pressure on pension and health systems. There may be also a shortage of workers, particularly in the health and care sectors, due to a declining supply of workers and a growing skills gap.

Climate change: Rising seas, extreme weather, and deepening water crises

The Middle East and North Africa (MENA) region is one of the most vulnerable regions of the world to climate change. It is facing profound environmental challenges including escalating temperatures, increasing water scarcity, and significant sea-level rise. Projections suggest that, by the end of the century, summer temperatures in parts of Algeria, Saudi Arabia, and Iraq could rise by up to 8°C, making extreme heat events commonplace (Map 2.1). Water scarcity is another critical risk. MENA has only 2 percent of the world's renewable water supplies (IWMI, 2024) and 60 percent of its population is living in areas under high or extremely high water stress.

Additionally, rising sea levels threaten MENA's coastal economies, particularly in North Africa. Cities such as Tunis could experience sea-level rises of up to 1.2 meters by 2080, which will exacerbate coastal erosion and the risk of population displacement (World Bank, 2014 and 2020a). The populations of Egypt and the UAE are particularly exposed, with 15 to 20 percent living in vulnerable coastal areas. Finally, climate change is intensifying precipitation patterns, causing severe floods and extreme droughts. While the Mediterranean coast is expected to receive significantly less rainfall (up to 20 percent) under a 2°C warming scenario, other areas will be at heightened flood risks (WEF, 2024 and World Bank, 2020a). Drought and flooding will exacerbate vulnerabilities to public health, agriculture, infrastructure and housing.

MAP 2.1
MENA will experience an increase in average temperatures and extreme heatwaves under "business as usual" greenhouse gas emission pathways



Source: reproduced from Zittis, G., Hadjinicolaou, P., Almazroui, M. et al. 2021. "Business-as-usual will lead to super and ultra-extreme heatwaves in the Middle East and North Africa". Npj Climate and Atmospheric Science 4, 20.
Note: Maps show the average (a–c) and absolute maximum (d–f) Heat Wave Magnitude Index daily (HWMId) values for the reference period (1981–2010), the near future (2021–2050) and the end of the 21st century (2071–2100).

These environmental changes are already having profoundly negative effects on the region's economy, safety, and food security. The damage from recent natural disasters was estimated to equal US$2 billion in Benghazi, Libya, and US$50 billion in Alexandria, Egypt. Climate-induced water scarcity could potentially lead to a GDP reduction of 6 to 14 percent in MENA countries by 2050. Heat extremes and drought already affect about one-third of land areas, with consequences for food production by shortening growing periods, reducing crop yields, and altering livestock production. In a 2°C warmer world, agricultural losses could reduce household incomes by US$2billion in Syria, and up to US$9 billion in Yemen (World Bank 2020).

All such changes also pose significant threats to human capital development, especially in MENA. Climate-related mortality is expected to surge, with deaths from extreme weather potentially increasing manyfold, as well as those from heat exhaustion, respiratory issues, and chronic diseases. Climate change also has serious implications for maternal and fetal health, as natural disasters contribute to pregnancy complications. Agricultural losses will lead to greater hunger and lower food variety, in a region where about 20 percent of the population is already undernourished (FAO et al. 2019). Deteriorating water quality and vector-borne diseases such as malaria and leishmaniasis will increase as temperatures rise (World Bank, 2014). And finally, rising temperatures also affect educational outcomes because they inhibit learning (Park et al, 2020), and because of the need to close schools more often. Between January 2022 and June 2024, at least 12.3 million students experienced climate-related school closures (Sabarwal et al, 2024).

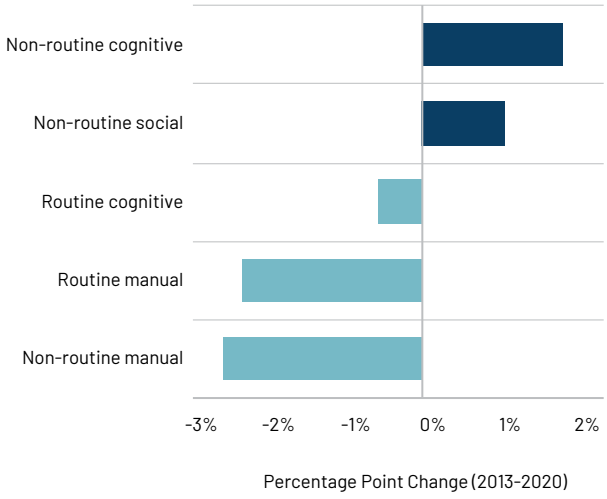
Such environmental shifts are also driving displacement, both internally between MENA countries and across the Mediterranean. Of the 38 million internal displacements recorded in 2021, 23.7 million were triggered by disasters, with floods being the most common cause of displacement in the MENA region.[7] At the same time, climate change, and the international effort to curb it, will also present countries with opportunities to seize the green transition.

The rise of technology and its uncertain impact on jobs and productivity

The effects of fast-evolving technological progress (including digitalization, automation, and AI) on jobs and human development in the MENA region are varied and, to some extent, uncertain. Whether leading technology has a positive impact on a country's production, labor markets, and service delivery depends on several factors: the existence of enabling infrastructure, the capacity of firms to adopt technology, the economic viability of adopting such technology, and the preexisting occupations and skills of the workforce (Arias et al, 2025). While the effect of digital technology and automation, including in developing countries, is better understood (where it disrupts mostly routine and manual occupations), the evidence on AI's impact around the world is still emerging. AI has the potential to replace routine tasks but also to enable medium-skilled workers to perform tasks more traditionally reserved for experts such a doctors, lawyers, and engineers (Autor, 2024). Recent evidence from the United States[8] and from digital freelancing platforms suggests that the kind of jobs that might be more automatable through AI, such as call center jobs, are decreasing, while those that AI can complement are increasing. As routine tasks are often performed by entry-level staff in industries like tech or finance, there is a concern that young people may be losing a stepping-stone to more lucrative positions. (SignalFire, 2025). In MENA's case, it is particularly difficult to make such assessments because of the limited data.

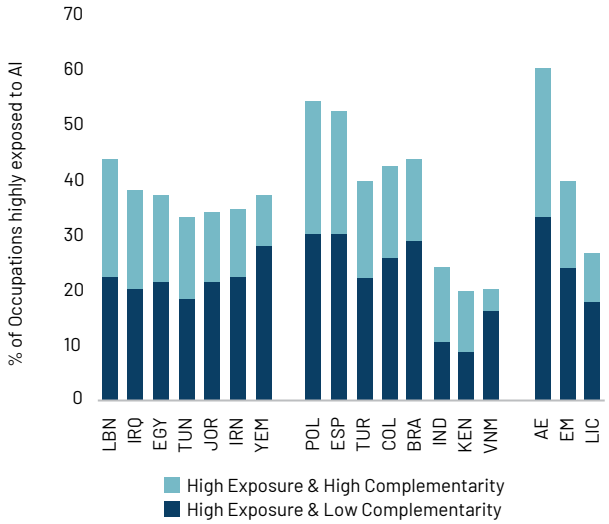
Some empirical evidence is emerging from Egypt and Saudi Arabia that the kind of occupations that are less automatable through software or robots are increasing, at the expense of occupations that involve more routine and manual tasks. Viollaz and Winkler (2021) using panel data for Egypt found that, over a six-year period, occupations involving manual tasks decreased while those requiring non-routine analytical tasks increased.[9] These changes favored the employment and wages of workers with greater educational attainment. Evidence from Saudi Arabia (Figure 2.3) also showed a significant change in the task composition of private sector employment from 2013 to 2020 towards non-routine tasks (Rivera et al, 2021). These shifts suggest that MENA labor markets are evolving at least partly in line with global trends.

FIGURE 2.3
Change in task composition of private sector employment Saudi Arabia, 2013–20



Source: Rivera et al (2021).

FIGURE 2.4
30-40 percent of current work activities are considered highly exposed to AI in MENA and select comparator countries



Source: Authors' elaboration of data by Cazzaniga et al (2024)
Note: Percentage of occupations highly exposed to the effects of AI, with either high or low complementarity to this technology. AE: advanced economies; EM: emerging markets; LIC: low income countries.

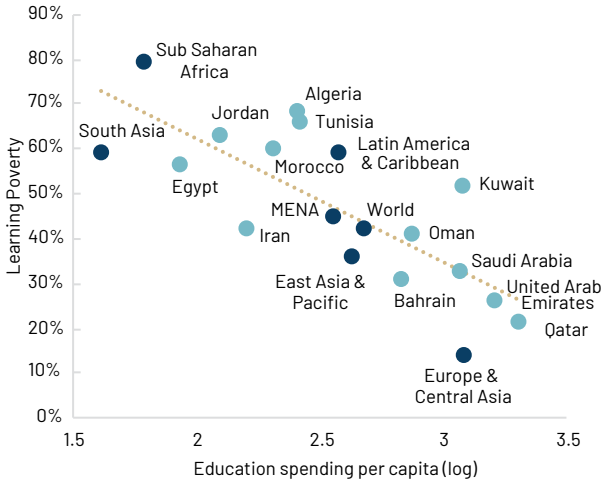
How exposure to AI might impact employment will depend on the rate at which firms adopt technology and the extent to which MENA's digital divide remains significant. Cazzaniga et al (2024) found that only one-third of jobs in Egypt, Tunisia, Jordan, and Iran are likely to be exposed to the effects of AI, and in more cases occupations could be replaced rather than enhanced, due to their low complementarity with AI (Figure II4). In addition, MENA is significantly less ready to implement AI than other regions due to a lack of digital infrastructure, human capital, and regulatory frameworks (Cazzaniga et al, 2024). Internet use is almost universal in the GCC, Jordan, Lebanon, and Morocco but is still limited in Libya, Syria, and Yemen. There are also challenges related to the affordability of and the infrastructure needed for mobile data and technological devices. In Lebanon, mobile data costs can be as high as 10 percent of monthly income (Melhem and Richani, 2024). Low-income and conflict-affected countries have the lowest penetration, lowest data usage, and highest data costs (Gorgens, 2025). In addition, there are higher economic barriers to adopting technology for small establishments and for jobs with low remuneration, both of which are prevalent in MENA's middle-income countries (MICs) and low-income countries (LICs). To date, GCC countries stand out as exceptions for their high exposure to AI and their high levels of preparedness, both of which position them to harness its benefits more effectively. The greater risk for MENA countries is thus that they miss the benefits of AI on productivity.

Megatrends are unfolding in a region already facing many structural challenges

Important efforts and investments in the past few decades have expanded the availability and accessibility of human development services in MENA. Nevertheless, gaps in the effective coverage of these services persist within countries, as reflected in lower Human Capital Index scores in MENA countries compared with those of other countries with similar per capita GDP. This is important because any new policies aimed at responding specifically to megatrends will necessarily have to build on institutions and foundational human capital that are already in place.

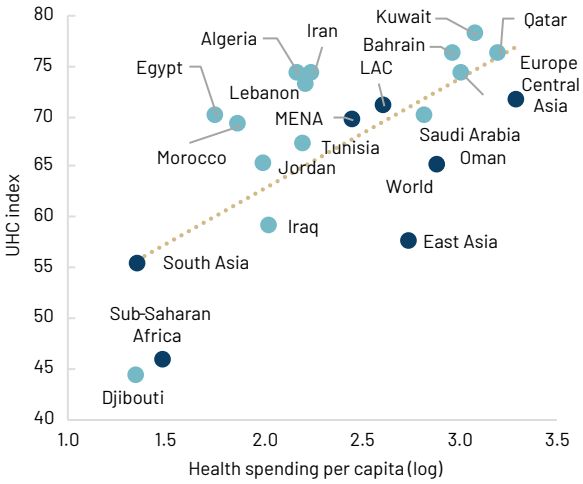
Access to education in MENA has increased at a faster rate than in other regions but learning outcomes have lagged behind. Fouty five percent of children are "learning poor" (cannot read to meaning a simple text). Countries perform worse than their income peers on international learning assessments, while learning adjusted years of school have not increased in the last decade (Figure 2.5). One key reason is that the region underinvests in early childhood education, which is critical for learning readiness, spending on it only 0.06 percent of GDP and covering less than a third of children (World Development Indicators 2019).

FIGURE 2.5
Learning poverty and education spending per capita in MENA and other regions



Source: World Development Indicators (2025).

FIGURE 2.6
Universal health coverage index and health spending per capita



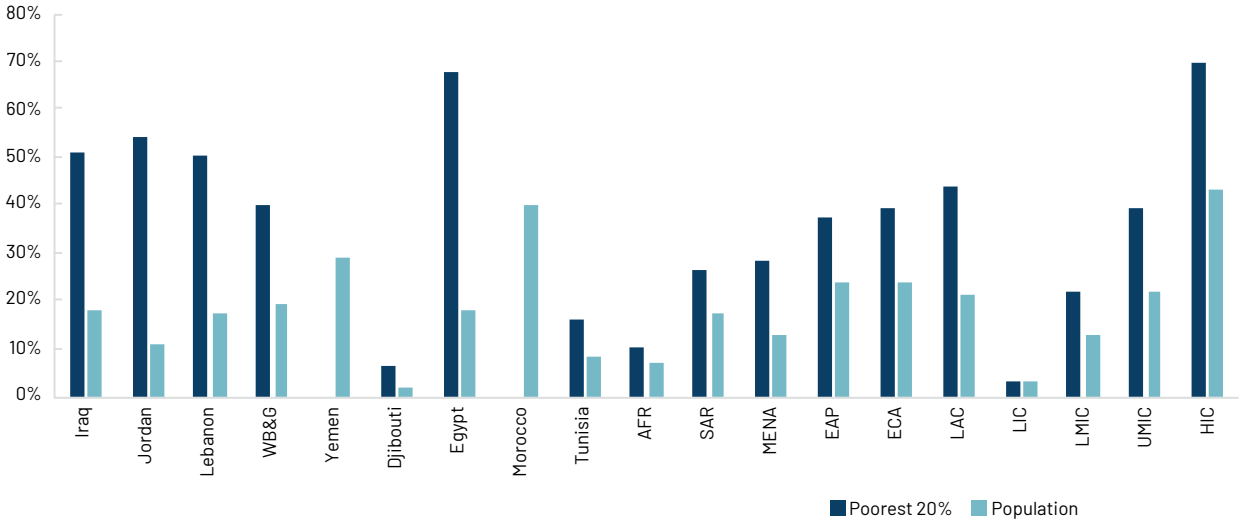
Source: World Development Indicators (2025).

MENA countries made visible progress in addressing several infective diseases, but still lag in the provision of effective coverage of primary health coverage for all. The Universal Health Services Coverage Index (UHCSI) improved across the region from 2000-2021, with most MENA countries performing as well as or better than their income peers (Figure 2.6). However, public health spending in MENA remains low at 4% of GDP (compared to 7% globally), and UHSCI scores show little correlation with life expectancy, highlighting ongoing resource efficiency issues. Additionally, the index does not measure effective coverage for noncommunicable diseases, which remain major challenge for the region (as discussed further below).

Investments in social protection delivery systems have helped expand the coverage and improve the quality of social safety nets across MENA, but many vulnerable groups are still left behind. Countries like Morocco and Egypt have introduced modern delivery systems such as digital identifications, social registries, digital payments systems, and bank accounts.[10] The coverage of cash transfer has expanded both in terms of their reach (population) and depth (benefit amount)[11] (Figure 2.7). Nevertheless, in 2022, only one-half of the region's poor were covered by social assistance, and fewer than 10 percent of unemployed people were covered by unemployment insurance in 12 out of 20 MENA countries.[12]

Fundamental human development gaps are particularly evident in MENA's conflict-affected states. Conflict depletes human capital by inflicting physical and psychological harm, displacement, livelihood loss, hunger and interruption of education and healthcare. Unfortunately, examples of this process abound in the region, in conjunction with an increased frequency and intensity of conflicts since Arab Uprisings. In Syria, net primary enrollment rates dropped from 99 percent in 2012 to 66 percent in 2013 (UNESCO). Child mortality rates rose after 2011 in Syria and Yemen and from 2019 in Lebanon (Figure 2.9). The ongoing war in Gaza set back the human development index by nearly seventy years by the end of 2024, and current levels of acute malnutrition are expected to leave lifelong physical and cognitive development scars for those who survive it[13] as economic growth depends on human capital, longer term recovery in conflict-affected states in MENA will unavoidably require protecting and restoring basic human development.

FIGURE 2.7
In MENA cash transfers cover on average less than a third of the poor, though with significant variation across countries

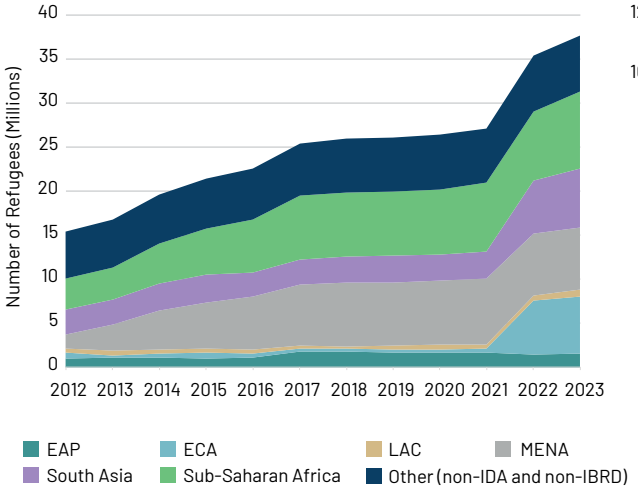


Source: ASPIRE and World Bank country task teams. Note: Coverage by at least one cash transfer program among the poorest 20 percent and in the whole population (latest available year) in MENA countries and other global regions, latest available year.

Rising fragility also led to large-scale displacement. MENA is both a major contributor to and host of a substantial portion of the global refugee population. In 2023, out of a total of 37.6 million refugees around the world, the number of refugees from MENA reached 7 million (Figure 2.8), while 9.4 million from other countries were being hosted by the MENA region (WDI 2023). The presence of large refugee populations within a country also increases competition for water, arable land, and public services, further exacerbating tensions and potential conflicts within host communities.

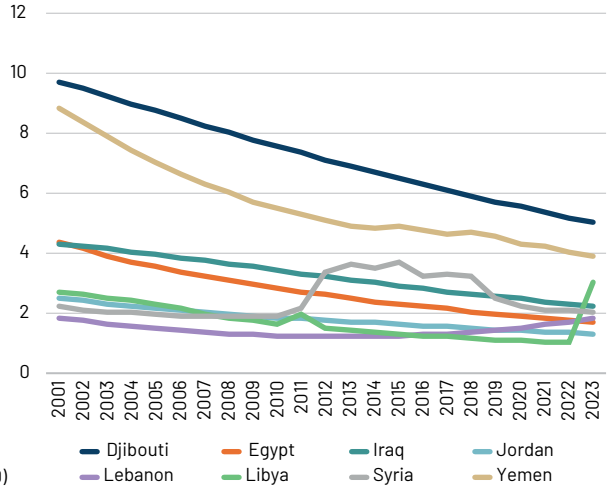
Conflict intersects with the three megatrends, in both positive and negative ways. The first and most visible effect of conflict is on long-term demographic change. The displacement of 6 million Syrians at beginning of the civil conflict changed the size and age of the populations of Lebanon and Southern Türkiye. Palestinians displaced during past conflicts in the West Bank and Gaza now form a sizable part of the Jordanian population. Egypt is experiencing a surge of refugees fleeing war-torn Sudan. Secondly, climate change increases the likelihood of local resource-based conflicts, especially over access to water, and conflict in turn has accelerated environmental degradation due to unrestrained use of natural resources and conflict-related pollution. Lastly, technology could help to overcome some of the constraints to delivering services in fragile countries in the form of telehealth, remote learning, and digital payments, but it could also increase the destructive effects of conflict on civilian populations through automation and AI.

FIGURE 2.8
The number of refugees originating from the MENA region quadrupled in a decade



Source: World Development Indicators. Note: Regions based on the World Bank classification (IDA and IBRD), except for Other.

FIGURE 2.9
Conflicts reversed progress in reducing early childhood mortality in MENA



Source: Authors elaboration based on Dattani et al (2023).

03

Responding to megatrends: shaping, embracing, and managing

RESPONDING TO MEGATRENDS: SHAPING, EMBRACING, AND MANAGING

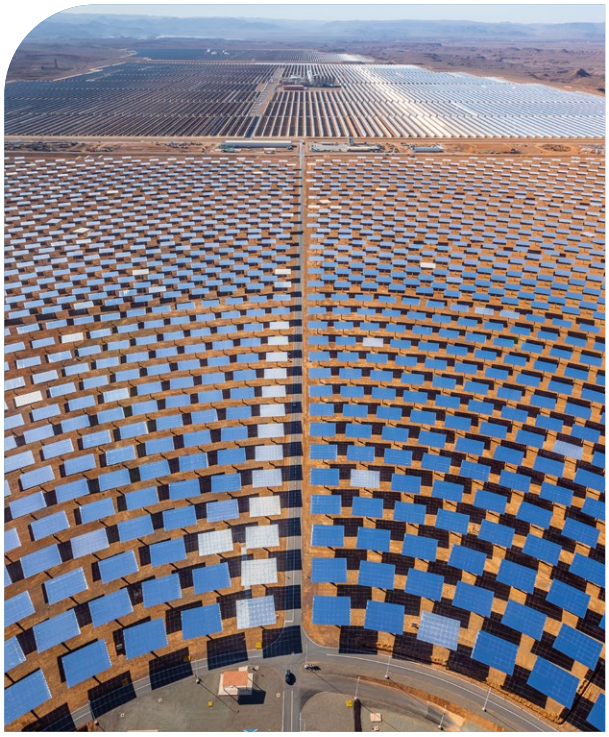
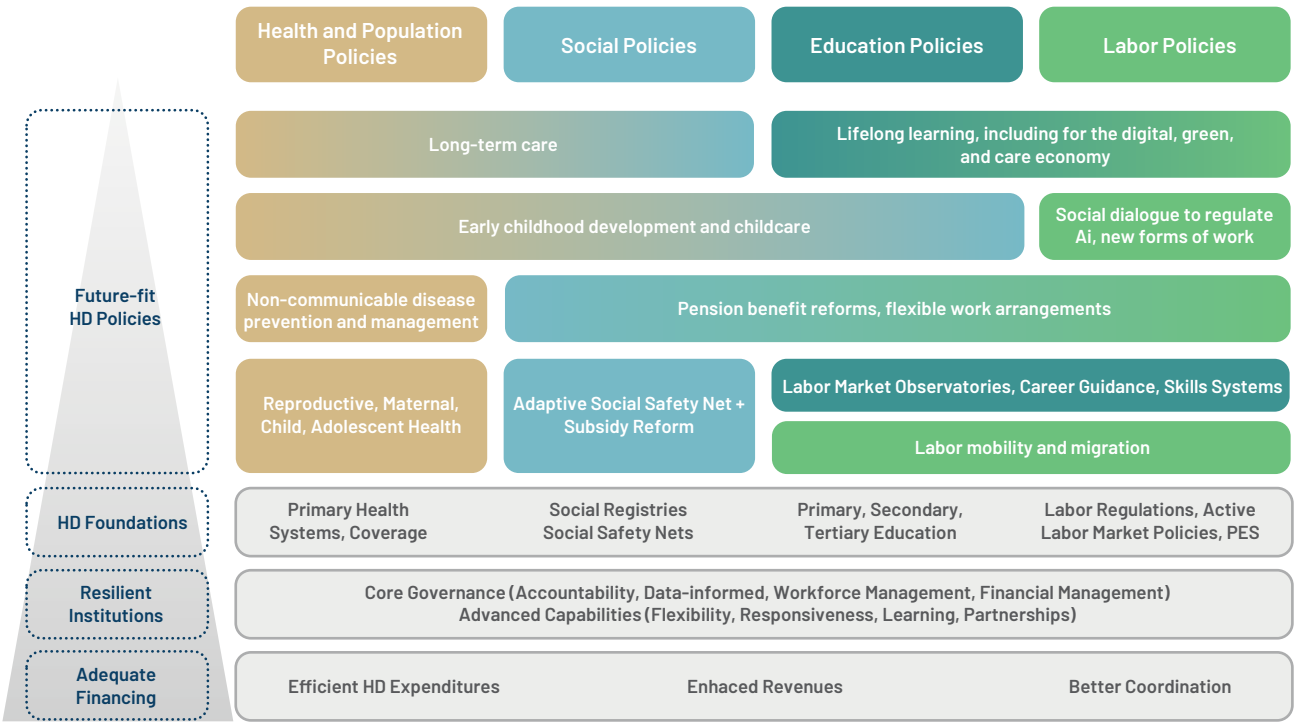


Photo: © MASEN

Among the plethora of actions that governments can take to prepare for future megatrends, this flagship report proposes a selection of novel policies in human development sectors that can drive resilience and seize opportunity. Human development policies have a particularly important role to play in helping people manage the risks associated with megatrends and can offer new opportunities and the momentum to address some of MENA's longstanding structural challenges. This will require leveraging the experience of an aging population, making the most of the demographic dividend, capitalizing on the potential for a green economy, and training the workforce to use new technologies. Similarly, managing the risks will require investments in social safety nets and infrastructure, adapting regulations in the labor market, reinforcing foundational skills, and orient health systems to new priorities. Figure III-1 presents key future-oriented policies discussed in the rest of the report. Since many of these are still developing in MENA, addressing megatrends may provide opportunities for countries to leapfrog into new implementation models informed by global experiences, including those from other developing countries.

FIGURE 3.1
Overview of human development policies to achieve healthy, productive, and secure lives in preparation for megatrends



Source: Authors.

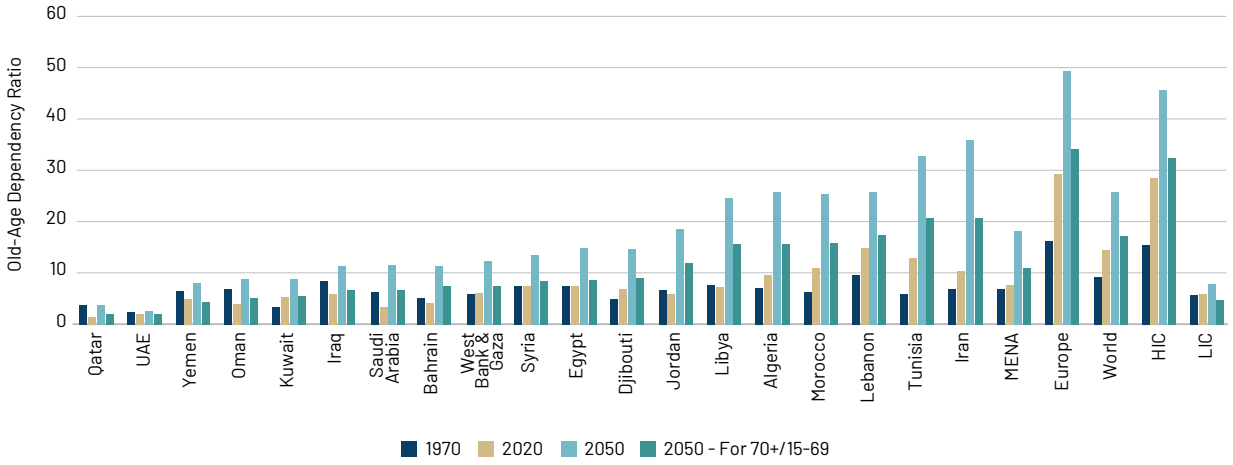
Second, megatrends are not entirely inevitable and, to some extent, can be shaped. Demography is certainly the trend that has the most potential to be shaped by human development policies, for example, by redefining old age, empowering families to achieve their desired fertility levels, and implementing well-managed migration policies. Climate change is harder to shape if policies are not in concert with global efforts, but for MENA countries, curbing emissions can reap important dividends in terms of jobs and fiscal resources. Similarly, while MENA countries – with few exceptions - adopt rather than create frontier technology, they can shape this trend by investing in local human capabilities and regulations to ensure the most appropriate technologies worldwide are infused and fairly applied by firms and public services (World Bank 2024).

Harnessing demographic change through healthy and productive longevity

Making the best of demographic change depends on taking several simultaneous actions: seize the demographic dividend by investing in the human capital of young generations and increasing women's employment rates, enabling aging cohorts to live a healthy and productive longevity, and managing migration flows for the benefit of both sending and receiving countries alike. Developing the care economy remains an untapped opportunity to support several of these objectives.

First, changing the social and legal definitions of "old age" while also taking actions to increase healthy and productive years of life can alter the socioeconomic effects of aging. The definition of old age has remained unchanged for 90 years. In fact, the use of the age of 65 as the threshold to old age first appeared in the Social Security Act of 1935 in the U.S. Since then, healthy life expectancy has increased globally from 58.3 years in 2000 to 63.7 years in 2019, including in all MENA countries. Adopting a more current concept of old age could yield significantly lower old-age dependency ratios, as shown in Figure 3.2.

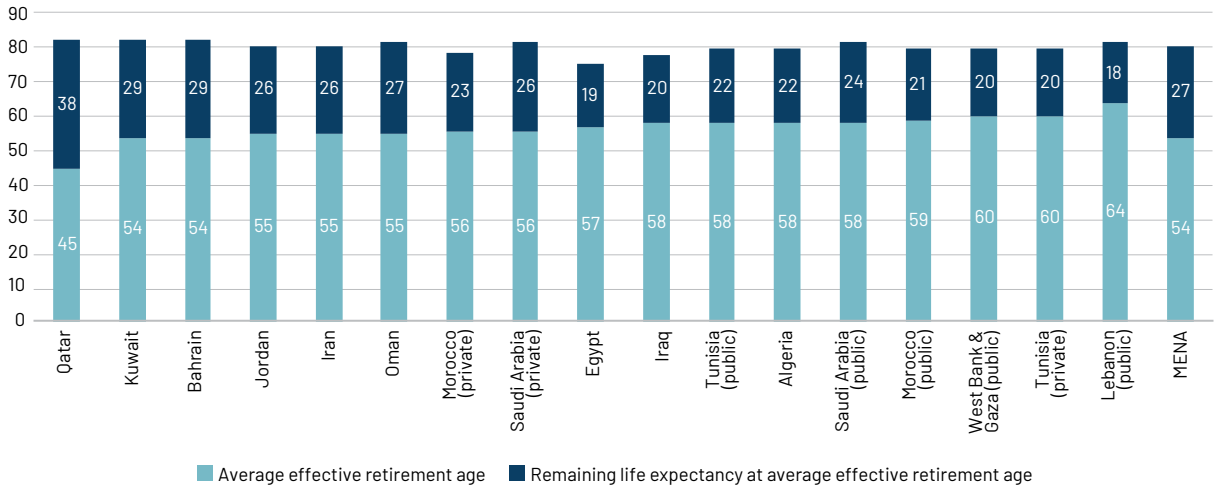
FIGURE 3.2
Setting the "old age" threshold to 70 rather than 65 years reduces significantly the risk of rising old-age dependency ratios in MENA countries



Source: United Nations (2024). Note: Figure shows old-age dependency ratios in different years, under two definitions of old age: 65+ (ratios shown for 1970, 2020, 2050); and 70+ (ratios shown for 2050 only).

Second, MENA countries should do more to encourage older workers to work longer. Each extra year of work provides them with more income and boosts their retirement savings. Delaying retirement increases benefits and preserves capital. Achieving this will require reforming social insurance benefits and progressively introduce active labor market policies to facilitate transition between jobs. OECD countries have managed to achieve an increase in the length of the working life of their populations since the 2000s, especially by raising their retirement age, which currently average 64. MENA's average effective retirement age is as low as 54 years, which is disproportionate when compared to workers' mean remaining life expectancy of 27 years (Figure 3.3). To help to keep older people in the workforce, governments should also fight stigma, reform regulations to allow for more part-time employment, and help firms to leverage the experience and unique skills of older workers. In fact, older and younger workers often complement rather than substitute for each other. Older workers excel in problem-solving and are knowledgeable about their industries, which is beneficial for strategic planning and mentorship. One country that is a good international example of a comprehensive and proactive aging strategy is Japan (see Box 1).

FIGURE 3.3
In MENA the average effective retirement age is 54, twenty-seven years before the remaining life expectancy



Source: Pallares-Miralles et al (forthcoming). Note: Average effective retirement age and remaining life expectancy at retirement age in MENA countries in 2021 (years). World Bank estimates based on average effective retirement age for 2021. Life expectancy at the effective retirement age is based on UN World Population Prospects for 2021, retrieved in 2024.

BOX 1: Japan's Comprehensive Approach to Healthy and Productive Longevity

Japan, the world's most rapidly aging society, has pioneered comprehensive strategies to manage the socioeconomic impacts of the demographic transition. Facing a rapidly declining workforce, Japan implemented targeted policies to extend the healthy and productive longevity and to ensure the sustainability of its social protection system. Key reforms included raising the retirement age gradually from 60 to 65, combined with incentives for delayed retirement. The government also encouraged flexible and part-time employment for older workers. It also significantly strengthened healthcare systems by enhancing preventive healthcare, providing routine screenings for non-communicable diseases, and establishing community-based elder care services. Additionally, Japan developed an innovative long-term care insurance (LTCI) system, membership of which is mandatory for all individuals aged 40 and over. This system provides members with comprehensive coverage for elderly care services, thus reducing the financial burden on families and improving quality of life for seniors. As a result of these efforts, Japan has achieved one of the highest healthy life expectancies in the world (74.1 years as of 2022). Japan's approach highlights the importance of adopting proactive aging policies, embracing community integration, and coordinating healthcare and social protection systems to manage aging-related challenges effectively.

To extend the number of healthy years of life, countries should especially invest in preventing and managing non-communicable diseases (NCDs). By age 55, a quarter of adults in Saudi Arabia, Morocco, and Lebanon suffer from diabetes and cardiovascular diseases, compared to ten percent in Japan and Germany. High prevalence of NCDs are driven by several factors, including poor dietary habits, a high rate of smoking, low levels of physical activity, and air pollution. These conditions not only reduce quality of life but also increase the need for continuing medical support and caregiving. In Saudi Arabia NCDs are estimated to cost today 14% of annual health expenditures and account for 4.5 percent of GDP in lost workforce productivity (Malkin et al. 2025). The cost of NCDs is projected to rise as the MENA population ages. Thus, preventive measures,

such as integrating NCD screening into primary care, lifestyle coaching, and chronic disease management programs have high projected returns[14]. Taxing sugar-sweetened beverages and subsidizing nutritious foods can also encourage healthier eating habits. Urban planning can prioritize walkability, green spaces, and active transportation. One inspiring initiative that is taking an ambitious approach to nationwide NCD prevention through a digital platform is Indonesia's PKG program (see Box 2).

BOX 2: Indonesia's national program to control NCDs

In 2025, Indonesia launched its first nationwide health screening initiative, Pemeriksaan Kesehatan Gratis (PKG), to strengthen disease prevention and improve long-term health outcomes. Aimed at screening all 280 million Indonesians, the program covers a broad range of health risks including metabolic conditions, cardiovascular diseases, cancer, mental health, and other major illnesses. PKG is linked to individuals' birthdays to encourage participation and is fully integrated with the SATUSEHAT digital health platform, which has already surpassed 100 million downloads. Through early detection and proactive health education, the program seeks to empower citizens to manage their health risks and aims to achieve equitable access to preventive services, regardless of income or location.

Inspired by similar models such as the UK's NHS Health Check, the PKG has the potential to reduce the national burden of non-communicable diseases. However, it also faces challenges such as overdiagnoses, financial inefficiency, and the risk of prompting unnecessary interventions. To remain cost-effective and impactful, the program must be carefully monitored. The Indonesian government is collaborating with researchers and public health experts to evaluate its outcomes, effectiveness, and implementation strategies. The success of the PKG will depend on ensuring sustainable financing, investing in workforce development, promoting inclusive digital access, and coordinating service delivery across Indonesia's 38 provinces. If well executed, the PKG could become a transformative public health tool for reducing preventable deaths across the country.

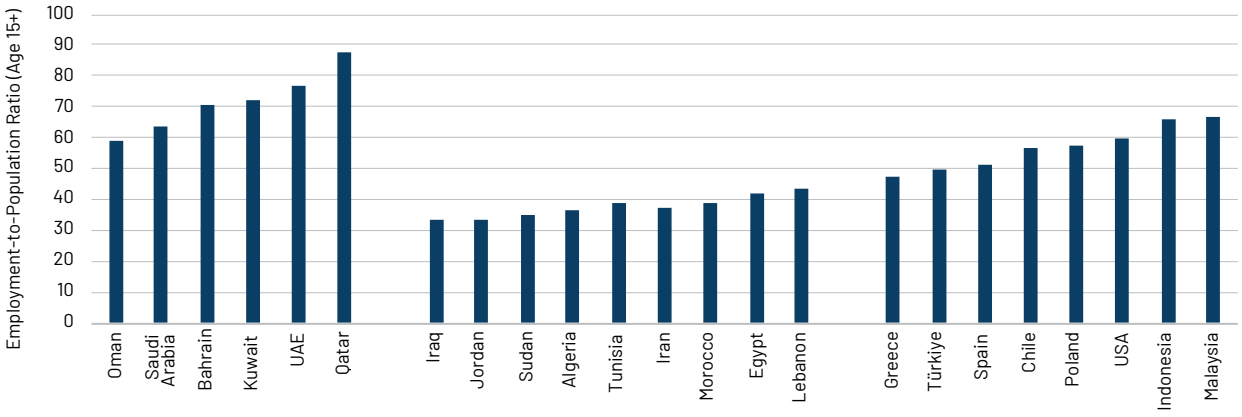
Source: Nur and Harbuwono (2025).

Shaping and maximizing the benefits of the demographic dividend

Policies that affect fertility can help to shape the demographic dividend. Reducing fertility rates will be crucial for achieving a demographic dividend, but this should be accompanied by efforts to enable families to make their own decisions. In MENA, promoting the economic empowerment of women, increasing their access to reproductive health services, and changes in social norms is helping to reduce fertility rates (Poureza et al. 2021). However, there is emerging evidence that by 2050 fertility declines in MENA could fall below the replacement rate. Therefore, implementing policies that enable families to achieve their "wanted fertility," which is around the replacement rate of two children according to Demographic and Health surveys in MENA countries, should help to strike the right balance for achieving the demographic dividend.

Turning favorable demographics into economic growth, however, will also require increasing total employment rates, especially among women and young people. The Asian Tigers benefited from demographics during their remarkable growth period in the twentieth century (Mason and Kinugasa, 2004). However, MENA countries exhibit lower employment rates of their 15+ population than ageing European societies (see Figure 3.4). GCC countries, where migrants represent most of the workforce, are the exception. As such MENA societies miss the returns of prior educational investments and the human capital enhancements that occur with work experience. This low-level equilibrium is especially due to joblessness among women and young school graduates. There is an ample reform agenda that MICs and LICs in MENA should pursue to increase economic growth and job creation, though not discussed in detail in this report. Human development policies can support this structural reform agenda through active labor market policies, education and labor market reforms.

FIGURE 3.4
While still young, MENA's LICs and MICs have lower employment rates of their 15+ population than demographically ageing societies in other regions



Source: Authors based on ILO labor market statistics, latest available year. Note: Chart plots the share of individuals 15+ in employment.

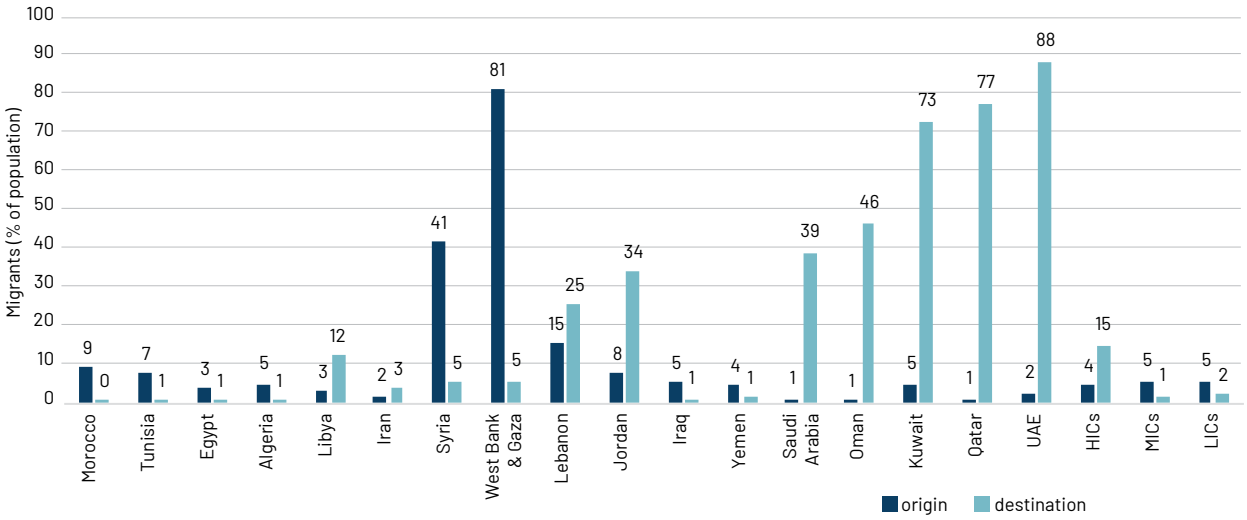
Despite women having reached gender parity in education in many MENA countries, on average only between 15 and 20 percent are using their human capital in the labor market. In value survey (such as the Arab Barometer), women report the lack of childcare as the main barrier to employment. In 2018, women in MENA committed 4.8 times more of their daily time to housework and family care or to unpaid care work than men (Kanth et al, 2025). Legislation in 14 MENA countries requires families to be responsible for elder care, which disproportionately affects women, who are usually the primary caregivers (ILO, 2023). Increasing women's employment rates will require a whole-of-society approach to change family, social, and legal dynamics, but it is possible, as shown by Saudi Arabia's success in doubling women's labor force participation rates to about thirty five percent over two decades through concerted efforts. Key policies include providing family planning, affordable childcare, making school opening hours compatible with work schedules, providing safe transportation, changing social norms among employers, and helping society to change expectations about who should carry the burden of caregiving within the family.

The more youthful countries can also benefit from their demographic transition through international migration. Cross country value surveys show that more than 50 percent of MENA's young people consider emigrating, mostly for economic reasons (Arab Barometer, 2021-2022). If managed carefully, supporting this migration to wealthier, labor-scarce countries can foster individuals' well-being and advance sending countries' development. In fact, demographic arbitrage is already underway within the MENA region. As of 2024, GCC countries (including Saudi Arabia, the UAE, Kuwait, Qatar, Bahrain, and Oman) collectively hosted about 28 million labor migrants, of which 10 million in Saudi Arabia, and with a substantial share originating from Mashreq countries (UN DESA, 2024; World Bank, 2023). In contrast, migration to the European Union encompasses a mix of economic, family, and refugee migration. As of 2022, Germany, France, and Spain together hosted an estimated 19 million foreign-born residents (UN DESA, 2022). Morocco alone had approximately 3 million nationals living in abroad; Tunisia and Egypt each had between half a million and a million citizens residing in Europe (World Bank, 2023). Due to conflict, 40 and 80 percent of the population in Syria and West Bank and Gaza respectively emigrated to neighboring countries or to the EU. These trends underscore the importance of tailoring migration and labor policies to these different destinations.

Effective migration management requires collaboration between sending and receiving countries to adopt a comprehensive policy framework that balances the needs of migrants and host communities. Key policies include developing the human capital of migrants before their departure, protecting migrants' rights in transit and at arrival, and integrating migrants into local economic systems. "Bilateral skills partnerships" coordinate

training providers and labor demand across borders, develop common certification standards, enable work visas. They also require destination countries to invest in the education systems of sending countries (Acosta et al.2025), which allows to expand the number of skilled workers and, in turn, to lower brain drain. To make migration socially sustainable, technical training is accompanied by integration training (language, culture awareness). Receiving countries should plan for tailored services for social and cultural integration of workers and family members, including at predeparture level. Lessons from the positive experience of a recent skill partnership between Spain and Latin American countries are also relevant to MENA.

FIGURE 3.5
Demographic arbitrage is already ongoing in MENA countries, which exhibit high migrant flows relative to their population



Source: UNDESA (2020). Note: International migrant stocks, as a percentage of the total population, by country of origin or destination. 2020 estimates.

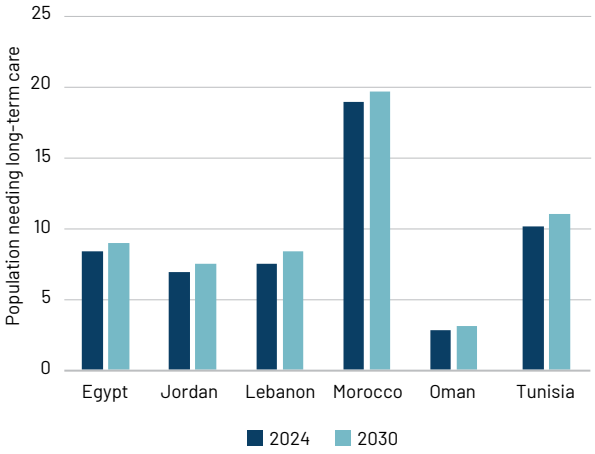
Addressing the unmet demand for care – opportunity to increase jobs and human capital

Developing a care economy can have many benefits. It can generate new jobs with varying skill requirements, it can provide opportunities for entrepreneurship, and, if properly implemented, it can also improve the quality of care for elderly, the severely disabled, and children. Childcare services in MENA could generate nearly 6 million jobs by 2035 with a significant portion being direct jobs in childcare (Addati et al, 2022). The demand for long-term care (LTC) is projected to increase significantly as the populations of MENA grow older. Simulations for eight MENA countries for this report (Kanth et al, forthcoming) suggest that from 2.8 percent of the population in Oman to 18.8 percent in Morocco need LTC, due to disability, chronic disease or old age (Figure 3.6). These needs are projected to rise by an additional 0.3 to 0.9 percent of the population in the same countries by 2030. In addition, the demand from Europe, the region with the oldest population in the world, will continue to grow.

Developing a care economy starts with creating policy pillars for care systems, with residential and non-residential LTC options. Countries can start to reduce coordination, trust, and institutional barriers by reviewing their current regulations and by creating new policy frameworks. Since private provision (formal and informal) of care is already widespread, governments can focus on enforcing standards through licensing,

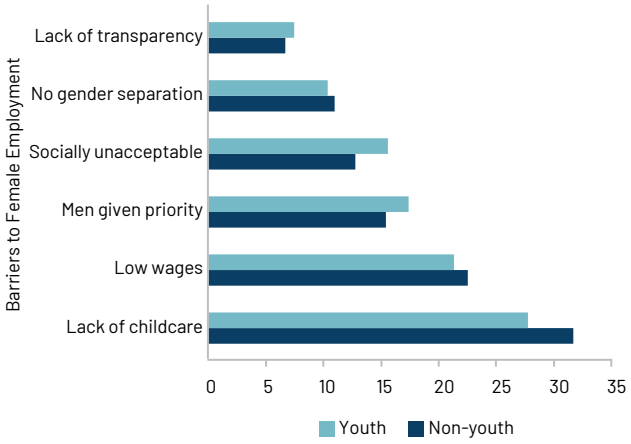
accreditation, inspections, and accountability. Second, the government should develop mechanisms for coordinating the LTC activities and policies of the health and social sectors. While many countries in MENA have very limited public healthcare budgets, they can learn an important lesson from mature LTC systems, which is that, for some families, the lack of services is more of a constraint than their inability to pay. For instance, in parts of MENA that are experiencing outmigration, remittances received from migrated family members might enable households to finance LTC costs. Financing models also need to be designed to protect the most vulnerable and to prioritize essential needs. Such systems will need to be coupled with training programs in nursing and geriatric care, while governments can also provide training to informal caregivers through community workshops or digital learning platforms.

FIGURE 3.6
The need for long-term care ranges from 2.8 percent of the population to 18.8 percent and is projected to rise



Source: Kanth et al (2025), prepared for this report. Note: Figure reports the Projected share of the population in need of long-term care for select MENA countries.

FIGURE 3.7
Lack of childcare is the principal barrier reported by women in MENA to participating to the labor force



Source: Arab Barometer. Note: Self-reported barriers to female employment. Average of seven survey participant countries of the MENA region (2021–22 wave).

In the case of childcare, reducing affordability and supply constraints must go hand in hand with efforts to change social norms. By prioritizing early childhood development (ECD) and education, governments can lay an equitable foundation for making children prepared for school and, ultimately, for a more productive adulthood. Survey data have shown that few children aged 0 to 5 attend early childhood education in MENA: only 11 percent in Jordan, 25 percent in Egypt, and 36 percent in Lebanon (Redaelli et al, 2023). In several countries, there is a strong correlation between the use of childcare services and women's labor force participation. However, affordability remains a major challenge because there is limited public provision of such services. In Egypt, for example, the average monthly cost in 2023 amounted to 40 to 50 percent of the minimum monthly wage for jobs with a 48-hour work week, which few working women are able to access.

MENA governments have several options for expanding ECD access. These include expanding public provision, supporting private institutions through subsidies, vouchers, and financial incentives, and promoting community-based childcare solutions that bridge access gaps and offer opportunities for local entrepreneurship. These efforts must be complemented by investments in quality training for childcare workers to ensure adequate standards of care. One notable example is Morocco's National Initiative for Human Development, which expanded the provision of ECD services through partnerships with private and non-profit providers (see Box 3).

BOX 3: Effective Public-Private Partnerships: Improving Early Childhood Outcomes in Morocco

Launched in 2005 by King Mohammed VI, Morocco's National Initiative for Human Development (INDH) aims to reduce poverty among vulnerable populations and improve their living conditions. Managed by the Ministry of the Interior, INDH works with ministries, local governments, and civil society through decentralized committees. The third phase (2019-2023), with a budget of DH18 billion (around US$2 billion), shifted its focus from infrastructure to collaborative service delivery, especially in early childhood development (ECD).

The program targets improving maternal and child health, nutrition, cognitive development, and reducing school dropout rates. Implemented jointly with key ministries, the program promotes the provision of integrated ECD services and strengthens coordination, governance, and service quality across sectors. INDH's participatory and decentralized model empowers local actors and ensures that actions are coherent and data-driven.

A strong monitoring and evaluation system underpins INDH's efforts, including a dashboard aggregating health, nutrition, and preschool data from ministries and household surveys. This tool helps decision-makers to identify priorities, guide interventions, and align services with needs. A new version of the dashboard will be launched in 2025 to provide local committees with enhanced support for their evidence-based planning.

Making the best of the green transition while managing risks arising from climate change

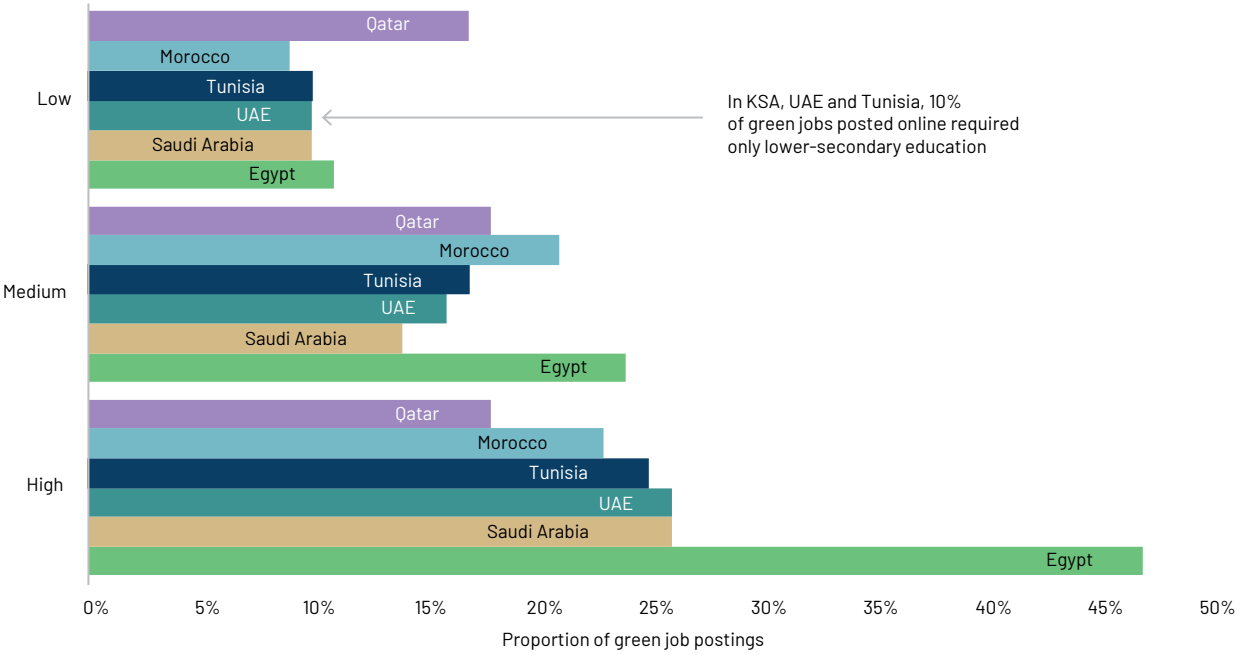
Contributing to global efforts in curbing climate change can bring immediate and long-term economic benefits for MENA's economies. MENA's economies are among the world's highest per capita carbon emitters. While the green transition is expected to create net new jobs, the MENA countries may face net job losses if their economies continue along historical trends (ILO, 2018b). Thus, decoupling regional economic growth from finite fossil fuels will be critical for long-term regional prosperity. Doing so also can yield shorter-term benefits. Existing climate and trade cooperation frameworks (such as the European Union's Carbon Border Adjustment Mechanism) incentivize reducing production-related emissions, and solar-rich MENA is making the production of renewable energy an important source of growth in jobs requiring medium and high skills. Egypt, Morocco, and Tunisia have also some of the world's highest wind speeds, making them ideal for wind energy development (World Bank, 2020a).

The transition to a greener economy will lead to the creation of jobs in multiple sectors and increase the demand for green skills. Shifting to renewable energy could generate approximately 67,000 net new jobs annually in Egypt and 28,000 in Morocco by 2030, while creating 220,000 direct jobs in the GCC countries (IRENA, 2019 and Deloitte, 2022). Greening the economy will require expanding the workforce's skillset, as green skills cut across all skill levels (See Box 4). In Egypt, for example, sectors with the highest share of green skills include not only construction, water supply, and waste management but also wholesale and retail trade (Sabarwal, 2025). India's Sector Skills Councils are a promising model of how targeted public-private partnerships can help to align workforce readiness with green job creation and the needs of industry (see Box 5).

BOX 4: Demand for green skills in MENA countries

The green transition in MENA will increase the demand for green skills to different degrees. First, there will be a surge in pivotal roles for creating the green economy, such as energy engineers. These occupations are not new, but demand for them is expected to surge. For instance, in the five years up to 2022, there has been a dramatic 237 percent increase in jobs related to renewable energy and the environment in the United States, in stark contrast to the 19 percent growth in jobs in the oil and gas industries (LinkedIn, 2022). Second, a significant number of jobs that may not be highly specialized or entirely green will still require new skills that the current workforce does not possess. These include compliance and facility managers, technical sales representatives, sustainable finance specialists, urban planners, and data scientists (LinkedIn 2022). This will require a major program of upskilling to enable workers to acquire the specialized knowledge needed for these occupations. Third, there will be expanding demand for entirely new skills and job roles such as sustainability managers, wind turbine technicians, solar consultants, and environmental health and safety specialists. With the demand for green jobs rising faster than the existing supply, workers with these skills are likely to receive higher wages. In Egypt, the average monthly earnings for salaried workers with post-secondary education are about 3,200 Egyptian pounds for non-green roles. However, they are 5,250 Egyptian pounds for those in highly green occupations, in which green skills constitute over 15 percent of the job's total skill set (Sabarwal, 2025). The job listings for green positions in MENA is nearly double the numbers of workers who are qualified to fill these roles. And green skills and associated jobs have demonstrated remarkable resilience during periods of economic instability. During general hiring slowdowns, vacancies requiring at least one green skill increased by more than 15 percent (Willige, 2024).

FIGURE 3.8
Green skills are widely sought after across various levels of education



Source: Sabarwal et al (forthcoming). Note: Distribution of green jobs by skill level according to online job postings (January 2022-March 2023).

BOX 5: Sector Skills Councils in India and Saudi Arabia

India's National Skill Development Mission (NSDM), launched in 2015, coordinates the effort to train and upskill the workforce to be able to meet new labor demand. India's target of net zero emissions by 2070 will require the creation of an estimated 30 to 35 million green jobs by 2047. The Ministry of Skill Development and Entrepreneurship oversees quality assurance, while the National Skill Development Corporation (NSDC) establishes Sector Skill Councils (SSCs) to persuade industry to provide in-house training and to develop standards for key occupations. The Skill Council for Green Jobs (SCGJ), established in 2016, focuses on providing training in renewable energy, transportation, waste, construction, and water management sectors. Through 200 training centers and 400 certified trainers, the SCGJ has created standards for 77 green occupations. Although there has been remarkable progress in this area in India, several key challenges remain, including the need to reduce fragmentation in the green skills sector, particularly by coordinating the training offered by public and private training providers. Another challenge is the lack of data to track the subsequent employment of graduates of skills development programs (Sabarwal et al, 2024 and Yanez-Pagans, 2024).

Saudi Arabia's Sectoral Skills Councils, founded by the Ministry of Human Resources and Social Development in 2023, is an example of institutional development to enhance the effectiveness of training systems. These 12 councils, covering key industries such as digital technology, logistics, healthcare, and manufacturing, align the skills of the workforce with emerging labor market needs. The SSCs are a collaboration between the government, employers, and training institutions aimed at ensuring that technological change does not outpace workforce development. By identifying skill gaps and setting sector-specific training standards, they provide a structured approach to reskilling and upskilling in response to automation and AI (MHRSD, 2023).

Given the climate crisis, the next frontier for MENA social protection systems is to become climate and disaster responsive. Social registries can be equipped with disaster risk management features to identify and include people affected by shocks quickly and remotely. Safety net programs can include financing, delivery and design features that allow them to expand in both generosity and coverage in response to disasters or other crises (Ridao Cano et al, 2023). These shock-responsive features have already proven their value during the COVID-19 pandemic and in conflict situations. Broadly targeted safety nets will be also critical to maintain social and political support for subsidy reforms.

Embracing technology to enhance opportunity while managing major risks

Successful middle-income countries that were able to rise to high-income status invested in policies to adapt and integrate leading innovations into their economies (World Bank, 2024). Rodrik (2022) argues that, in the era of artificial intelligence, it is especially important to promote technologies that complement and enhance labor. Governments in MENA can achieve this by encouraging foreign direct investment, by implementing reforms to strengthen digital infrastructure and regulatory systems, and by supporting the training and movement of workers with specialized skills across sectors and borders.

The gig economy has expanded platform-based work opportunities across MENA. Egypt is leading the region and ranking ninth globally for online gig workers, supplying about 2% of the global workforce. Morocco, UAE, Lebanon, and Algeria are also major contributors, bringing MENA's share of the digital labor market to around 4% (Online Labor Index 2020). Global surveys show that many gig workers value these jobs for their flexibility (Datta et al., 2023), a feature that is especially important for women and individuals with disabilities, particularly in secondary cities where skilled job opportunities are limited. Online gig workers tend to be younger than those engaged in traditional services or in the informal sector. Moreover, women represent 28

percent of online gig workers in the region, with peaks in Lebanon (38 percent), Saudi Arabia (33 percent), and the United Arab Emirates (32 percent). This reflects the appeal of flexible work arrangements for women.

Some countries in the region, particularly GCC members such as the UAE and Saudi Arabia, are also becoming regional hubs for digital labor demand. Across all major MENA countries, the dominant online gig occupation is software development and technology, engaging between 38 and 50 percent of gig workers, while other fields—including creative and multimedia services, clerical work, and professional services—also have a notable but smaller presence.

Platform-based work and more broadly the use of AI to manage workers should be regulated carefully to avoid exploitative practices, without stifling jobs growth. Labor regulations for the formal wage economy are often not appropriate for digital jobs, but those for the self-employed are also not sufficient to protect digital workers from new risks or to increase contribution rates to social insurance. Governments should avoid regulatory vacuums that leave workers completely unprotected and should pay particular attention to new risks, such as algorithmic management, unregulated disconnection, discrimination, and opaque payments (Morgandi and Alzate, 2025 and Datta 2024). Instead, MENA governments will need to find a good balance that enables new forms of work to flourish while enforcing fundamental labor protections. It will be critical to protect and enable new forms of social dialogue, through which job-related benefits can be further enhanced in consultation with workers.

To fully benefit from AI and other opportunities arising from structural change, MENA countries should create systems that provide training in in-demand skills to young people and adults, while continuing to strengthen foundational education in schools. While AI is powerful in processing data, human analysts remain essential for interpreting patterns and guiding strategic decisions. Workers' social, emotional, and advanced cognitive skills will grow in importance as AI reshapes industries. Educational curricula and training programs must evolve to reflect these changing skill demands (Deranty and Corbin, 2022). Building strong foundational skills during childhood and the formal education process is a prerequisite for enabling lifelong learning and upskilling. For instance, accountants can apply their numerical and analytical abilities to roles in financial technology such as blockchain-based accounting or digital financial management. To achieve this in scale, most MENA countries need to develop relevant and scalable training systems, including short-cycle and modular programs.

Gross enrollment in tertiary education is already at medium or high levels in the region, but so is the unemployment rate of tertiary graduates in several MENA countries. Tertiary gross enrollment ranges from 33 percent in Jordan to 73 percent in Saudi Arabia, but many of these graduates are not finding work. Therefore, the governments must focus on improving the quality and increasing financing and governance mechanisms that incentivize academia to seek relevance of skills taught to changing demand in the marketplace, including through labor market observatories (See Box 5 above), and partnerships with the private sector for on the job learning and curriculum development. To encourage students to pursue degrees in STEM fields, government can integrate cost-effective career guidance and counselling in upper secondary schools, especially tied to data-based web portals that disseminate recent information on university degrees' completion rates, placement and returns (Sharapova et al. 2023). Many of these features were developed in Tunisia through the World Bank financed Tertiary Education for Employability Project (Promesse), as an example. In addition, education systems can introduce recognition of workers' prior learning, expanding work-based learning opportunities, as means to facilitate reskilling and career shifts after structural changes of the economy. Online learning platforms, micro-credentials, and modular training options offer flexible paths for individuals to build new skills without leaving the workforce.

In addition, governments in MENA can start piloting the use of AI to foster innovative and cost-effective ways to deliver services. Providing customized tutoring or designing a primary care telemedicine system involves high development costs, yet the marginal cost of deploying them at scale is low and can augment or complement skills gaps in the public sector workforce. Moreover, AI makes it possible to segment tasks requiring different skill levels and to automate the most routine ones, which can improve how services are delivered in remote or fragmented service points. Technologies can also be used to expand effective coverage by facilitating the identification and enrollment of new beneficiaries. As a result, advanced technologies increase the return on investment from investing in human capital formation (Gorgens, 2025).

04

Preparing Human Development Institutions for Change

PREPARING HUMAN DEVELOPMENT INSTITUTIONS FOR CHANGE

Beyond individual policies, facing the megatrends will require governments to adapt their human development institutions to drive change and close pre-existing coverage gaps. Public institutions are at the core of service delivery in health, education, and social protection, yet they underperform in terms of providing effective coverage in most of the MENA region. Public institutions play a twofold role of direct service provision, and stewardship of the quality of other nongovernment providers. Effective service coverage and provision, which is a combination of access, quality, and outcomes, is the ultimate metric by which to measure performance. Although there have been successes in the past decades in MENA in terms of increasing the availability and accessibility of human development services, gaps in effective coverage remain significant, especially in low income and fragile countries.

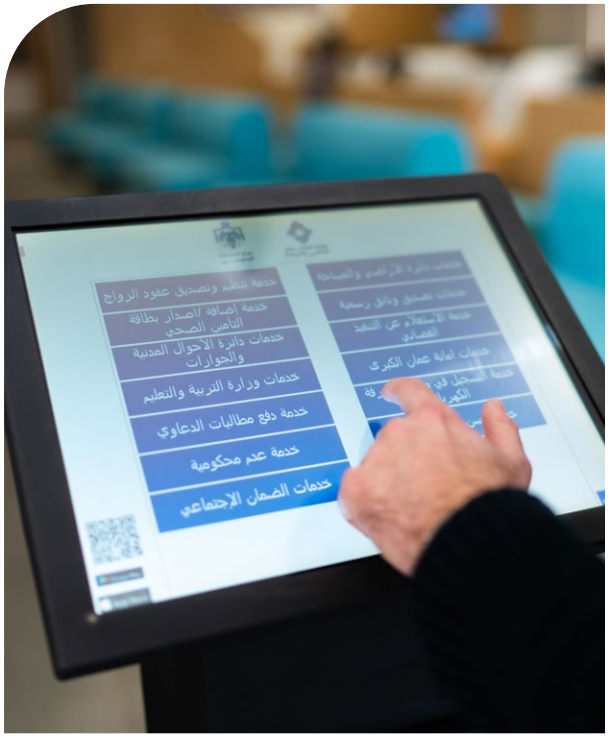


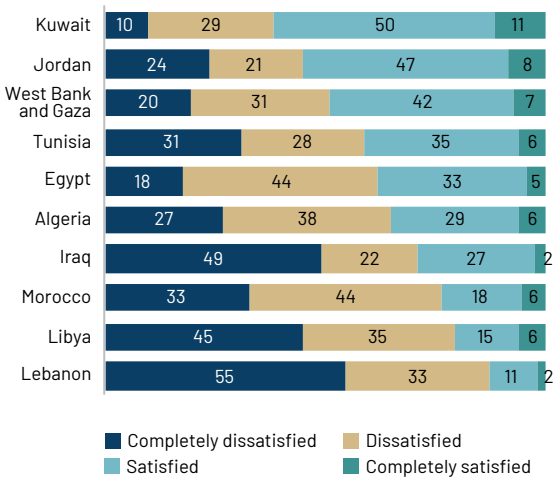
Photo: © Nabeel Darweesh/World Bank

MENA citizens demand better human development service delivery

Trust and satisfaction in public institutions and services across the MENA region are at low levels, which is undermining the social contract between citizens and governments. According to Arab Barometer surveys, only about one-third of citizens felt satisfied with their government's performance, with particularly low ratings for education and health systems, despite the high expectations that the public has for those sectors (see Figure IV1 and Figure IV2). The region's post-independence social contracts, which prioritized generous benefits and state involvement in providing services over democratic participation, have weakened under demographic pressures and declining revenues. Following the 2011 Arab Uprisings, the region's performance

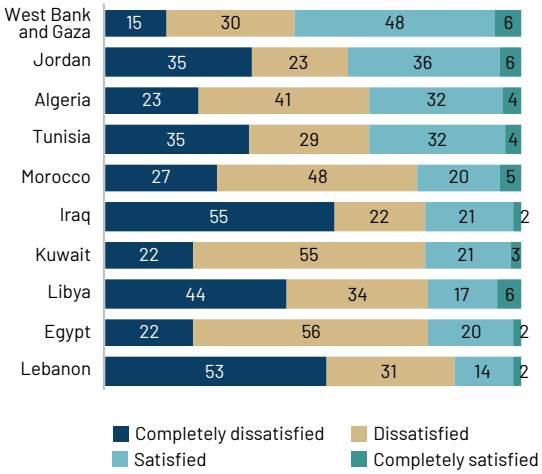
on a range of metrics of governance quality and political stability has been declining and lagging behind other regional peers, which underscores the importance of creating renewed, more inclusive social contracts to be executed by improved public institutions.

FIGURE 4.1
Citizens' satisfaction with healthcare system by country (%)



Source: Arab Barometer 2021-2022.

FIGURE 4.2
Citizens' satisfaction with educational system by country (%)



Source: Arab Barometer 2021-2022.

Achieving effective coverage of human development services will not be possible without better performance in core governance functions

Institutional capabilities will become increasingly critical to make service delivery resilient to shocks and responsive to megatrends. Megatrends can put additional pressure on already under-performing systems, for instance due to climate disasters, increasing dependency, new conflicts, and skills obsolescence. At the same time, future changes also bring new opportunities. For example, digital transformation can enhance service delivery in education and health, through e-learning and telemedicine, and improve trust by increasing transparency. However, realizing these benefits will require institutional renewal, underpinned by a capable and accountable bureaucracy.

This report identifies four core aspects of governance and four new capabilities that MENA's human development institutions should focus on to be ready for the future (Figure IV3). This represents the first dedicated examination of human development institutional capacity in MENA in over a decade. A systematic literature review distilled four "governance fundamentals" where MENA institutions continue to lag: accountability, capable public workforce, data, and public financial management (Duran and Rouleau (2025)). In addition, the authors propose four "resilience capabilities" that agencies and ministries should develop to face megatrends.

Accountability is MENA's first critical governance gap. MENA government institutions are ranked the lowest in the world in all dimensions of nationwide accountability in the V-Dem index (Belhaj, Gatti, Lederman et al. 2022). The political accountability relationship between citizens and decision-makers is weakened by restricted civic liberties and declining voter participation in elections. Weaknesses in transparency and responsiveness of public institutions can lead to a cycle of worsening performance and diminishing trust, but there are possible remedies, either by strengthening horizontal or vertical accountability.

FIGURE 4.3
Key features of effective and resilient human development institutions

Source: Duran and Rouleau (2025) for this report.

Governments can address this by strengthening internal and external accountability systems. Internal accountability relies on independent functions or institutions within government that promote overall transparency and responsibility of executive agencies. For instance, accreditation systems ensure minimum quality standards of private and public health providers using an insurance system (Kruk, Gage, Arsenault et al. 2018). Performance-based financing at the organizational or provider-level creates incentives for program administrators to achieve targets, such as coverage of vaccines in specific communities, or registration of low-income households in a social registry. In MENA, such functions are often underdeveloped, either because they are missing or because their action is not consequential. Without more accountability for results, governments are less prone to offer the needed flexibility. This is evident in the education sector, which in MENA is over-centralized in resources and methods, including at secondary and tertiary levels, and with little space for innovation and customization of approaches.

External accountability mechanisms rely on citizens' feedback and require transparent information. MENA countries do not publish routinely information. Some countries have been making progress, such as Tunisia, which has enshrined access to information as a constitutional right and established an open government data portal and a budget transparency platform. In education, Saudi Arabia now shares data on school performance and student results with families via new digital applications launched by the Education and Training Evaluation Commission (see Box 6). Other examples of external accountability include community score cards, and evaluations by actual or potential beneficiaries on the quality of services provided. Tunisia's "Digital Transformation for User-Centric Public Services" project incorporated civil society and citizen feedback on education and social services and resulted in increased satisfaction (Davenport, Kumagai, Syalla et al. 2023).

The second core area of governance is the civil service workforce, particularly how it is hired, trained, and managed. The MENA region has the highest rate of public sector employment globally, accounting for more than one-third of all paid jobs on average. While public employment in MENA has long served as a cornerstone of the social contract, offering job security and benefits in countries with few formal private sector jobs, this political objective has often been at odds with the requirements for developing a professional civil service. Hiring practices are influenced by nepotism and political considerations. To make bureaucracies more effective, countries will need to adopt merit-based recruitment systems, invest in foundational training and continuing education, and develop performance management. However, many countries in MENA still do not collect basic data on staff, job descriptions, or payroll, which undermines workforce planning. Efforts to reform the civil service have often faced political resistance by unions, a pillar of support in many authoritarian systems, while attempts to reduce public sector size have sometimes led to the unintended consequence of losing the most qualified employees. However, some MENA countries have begun to make progress. Egypt has established the Capability Assessment and Competition Center to standardize recruitment by requiring applicants to take and pass digital exams. In Morocco, expanding merit-based hiring in the national social security agency (CNSS) has led to notable improvements in performance and allowed to introduce e-government services.

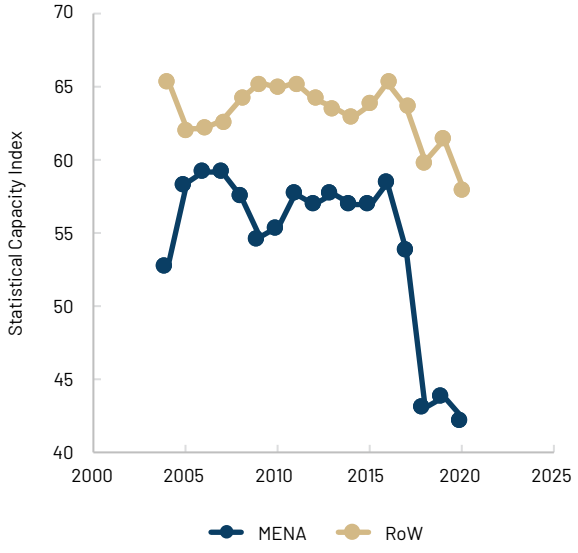
BOX 6: Improving the Quality and Increasing the Accountability of Education in Saudi Arabia and Bahrain

The Saudi Arabian Education and Training Evaluation Commission (ETEC), established in 2016, plays a key role in improving the quality of education and training. Its flagship initiative, the National Assessment for Schools (NAFS), assesses student performance in reading, math, and science. The results are shared through the Tarteeb Index, which ranks educational administrations and schools, which promotes transparency and competition. In 2024, NAFS assessed over 1.2 million students in 25,000 schools. ETEC also introduced digital tools like the Tamiz platform and Mustaqbalhum app that enabled over 2 million parents to track their children's results. By 2024, 95 percent of schools had completed self-evaluations, and 10,000 had undergone evaluations by external independent inspectors, which strengthened accountability at the school level.

Bahrain's Education and Training Quality Authority (BQA), established in 2008, oversees educational quality through national exams, institutional reviews, and checking alignment of curricula to the labor market. In 2023-24, BQA reported a 34% increase in the number of Vocational Education and Training institutions that respected the National Qualifications Framework and an 84% rise alignment with foreign qualifications. Despite this progress, performance disparities persist, particularly between boys' and girls' schools and between general and vocational education tracks.

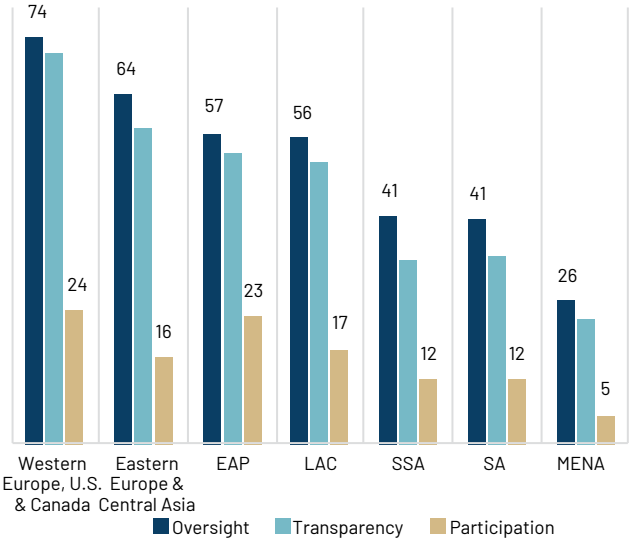
The third core area of governance consists of data and data systems, which are essential for supporting decision-making, strengthening accountability, optimizing resource allocation, and tracking quality improvements. The MENA region has the lowest overall level of statistical capacity in the world, and this has further declined in recent years (Figure 4.4). Duran and Rouleau (2025) found that only one-third of the typical national surveys are available in MENA countries and on average data exist on only half of all priority human development indicators. Health data are particularly limited, and education is lacking data on student learning and financing. The absence of data is most stark in fragile countries, but it is a concern even in the high-income GCC countries where what data is available but often not published. Countries lacking a population census or digital identity systems are further constrained in effective planning for the future.

FIGURE 4.4
Statistical capacity in MENA has declined relative to the rest of the world



Source: World Bank Statistical Capacity Index, World Development Indicators, 2025.

FIGURE 4.5
MENA is the region with the lowest scores in the Budget Openness Index (2023)



Source: Authors elaboration, based on the Open Budget Index 2022.

An example of the intensive application of data to steer public policies are labor market observatories. As the skills and occupations in demand on the labor market change, labor market observatories maintain education and training systems relevant by collecting and digesting the data needed to provide quality guidance to private and public training providers. Being responsive also means that institutions need to build their capacity for intersectoral coordination, which is a typical weak spot in MENA's vertically organized ministries. Within the MENA region, Saudi Arabia's National Labor Gateway (Jadarat) platform and its National Labor Observatory are examples of initiatives that help to fill data gaps and to link job seekers with training and prospective employers.

The fourth and final core area of governance is public financial management (PFM), which is essential for increasing the effective coverage of human development services. Well-governed PFM systems ensure that funds are allocated and spent efficiently and ideally reach frontline providers with enough flexibility to enable them to meet local needs. Overall, MENA's PFM systems have strong internal financial controls but perform worse than all other regions in in terms of external oversight and transparency (Figure 4.5). PFM in MENA also displays limited flexibility at the level of frontline service providers – and this centralization increases the likelihood of poor alignment between resource allocation and outcomes. The World Bank's FinHealth and FinEd asssement methodologies identified poor budget execution, fragmented information systems, and insufficient payroll controls are major issues in Lebanon and Tunisia. In contrast, countries with stronger PFM systems, such as Morocco and Jordan, have demonstrated more efficient resource allocation. Argentina's experience with using results-based financing in the health sector demonstrates how flexible, performance-linked PFM systems can strengthen accountability and drive measurable improvements in service delivery (see Box 7).

BOX 7: Argentina's Programa Sumar: Accountability Through Flexible PFM of health

Programa Sumar (originally Plan Nacer) was launched in Argentina in 2004 to extend healthcare coverage to vulnerable populations using results-based financing. Starting with maternal and child health in the poorest provinces, it expanded nationwide by 2007, eventually covering 15 million people, including adolescents and adults. The program used a two-tier PFM model: the federal Ministry of Health funded 85 percent of the cost of program via capitation payments, while provinces contributed 15 percent. Provincial management units acted like health insurers by purchasing services from public providers, who gained financial autonomy within basic limits. Accountability focused on outcomes, not processes, to allow for flexible local implementation. Providers received the funds based on their results, with 60 percent of the funds being conditioned on enrollment and 40 percent on health outcomes. Standard agreements and tailored performance contracts governed the federal-provincial cooperation, and these were monitored by an independent auditor. With less than 1 percent of provincial health budgets being committed to the program, prenatal checkups rose by 17 percent, neonatal mortality in large facilities dropped by 32 percent, and national infant mortality fell by 40 percent between 2003 and 2015).

Sources: Sabignoso et al (2024) and Sabignoso et al (2020).

Future-ready institutions: adding responsiveness and resilience features

In addition to strengthening their core governance, MENA institutions will need to build the capacity to withstand shocks and adapt to megatrends and fragility. To achieve this, they must develop a key set of advanced capabilities (Figure 4.3). The governance literature indicates that the most important of these are: responsive decision-making, adaptive service delivery, institutional learning and innovation, and the ability to build effective partnerships and exercise strong stewardship of the private sector.

Responsive decision-making is made possible by collecting reliable and accurate data and by effective cross-sectoral coordination. The COVID-19 pandemic exposed critical weaknesses in the responsive capacity of MENA's human development sectors, but those countries that had integrated social registries (such as Egypt, Morocco, Jordan, Lebanon, and Saudi Arabia) were able to provide a more effective response. Responsive institutions are critical for dealing with shocks caused by different megatrends. Malaysia's Performance Management and Delivery Unit (PEMANDU) is an excellent example of how units dedicated to monitoring the performance of institutions can enhance accountability and improve outcomes (see Box 8). To steer intersectoral programs, some countries have established expert-staffed delivery units, with Morocco's National Initiative for Human Development (INDH) being a good example in the domain of ECD programs.

Another key aspect of responsive decision-making is to ensure the interoperability of government systems. Only a handful of countries in MENA have introduced interoperability frameworks enabling data sharing across government systems, in the GCC, West Bank and Gaza and Lebanon (Figure 4.6). Interoperability offers many advantages to develop integrated services. For instance, connecting the social assistance and health insurance systems has increased efficiency and coverage of programs in both sectors in Lebanon, Jordan, and Morocco. Integrating the West Bank and Gaza's health and financial systems has enhanced budget management transparency. Türkiye's dynamic and integrated social registry represents an international reference (Box 9).

BOX 8: Malaysia – PEMANDU's Performance and Delivery Approach

Malaysia's Performance Management and Delivery Unit (PEMANDU), established in 2009 under the Prime Minister's Department, was created to bridge the gap between the formulation of policy and its implementation. Led by a prominent private sector executive, PEMANDU combined private sector discipline with public sector accountability, which made it possible to offer flexible hiring and competitive salaries to attract external talent.

PEMANDU used collaborative "labs" or intensive workshops bringing together government officials, civil society, and private-sector stakeholders to create detailed action plans for each ministry that included clear, measurable key performance indicators (KPIs). The PEMANDU provided ministries with targeted technical assistance and tracked their performance using ministerial scorecards, with any unresolved issues being referred directly to the Prime Minister via a structured mechanism.

The adaptive, iterative approach taken by the PEMANDU meant that the KPIs and action plans were continuously refined based on feedback from their implementation. The creation of PEMANDU resulted in some significant improvements. Preschool enrollment increased from 67 percent to 85 percent, crime rates steadily declined from 2010 onwards, and 3.5 million Malaysians benefited from improved rural infrastructure. The example of PEMANDU underscores the value of strong political backing, adaptive governance, and transparent accountability in delivering complex reforms effectively.

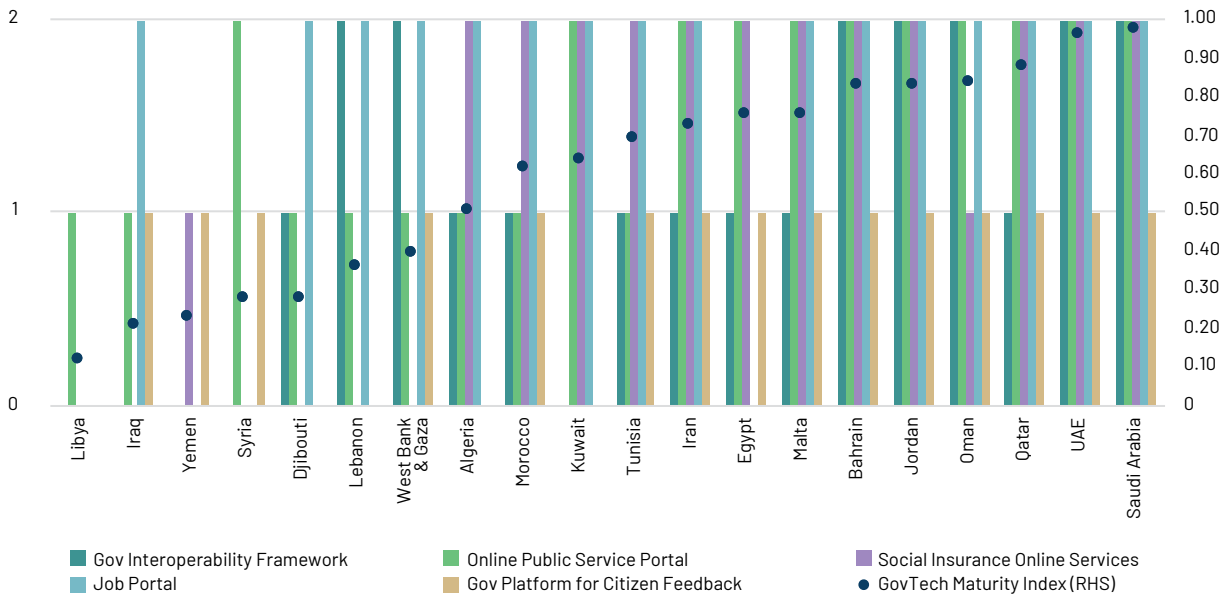
Sources: CPI (2016), Iyer (2011), Sabel and Jordan (2015), and World Bank (2017).

BOX 9: Türkiye's Integrated Social Assistance System for Smarter Social Protection

Türkiye's Integrated Social Assistance System (ISAS), launched in 2010 and managed by the Ministry of Family and Social Services, is a leading example of digital innovation in social protection. ISAS connects 50 national programs—covering income support, housing, food, education, and healthcare—through real-time data sharing by leveraging Türkiye's national ID and address systems. The system has streamlined eligibility assessments, cutting application times from month to days and removing the need for 5 million paper documents monthly.

By linking databases across ministries, Türkiye strengthened transparency and removed ineligible beneficiaries, which strengthened the targeting of benefits to the poorest 20 percent. During COVID-19, ISAS enabled over 1 million online applications for support per week, reaching 7.2 million households and averting a potential threefold rise in poverty. The platform reduced the number of required documents from 17 to just a national ID card, while also strengthening digital payments and public trust in social assistance (Lindert et al, 2020; World Bank, 2022a; and World Bank and MoFSP, 2018).

FIGURE 4.6
Countries in the GCC and a few MICs in MENA score well in the GovTech Maturity Index and in the digital delivery of select HD services



Source: World Bank GovTech Maturity Index. Note: The dots represent the value of the aggregate GovTech index, ranging from 0 to 1 and composed of forty-eight indicators. Select indicators of the index are reported in the bar chart. Value 2 indicates the feature is developed, 1 is under development, 0 is absent.

A second feature of resilient institutions is flexibility in service delivery, necessary to achieve good results in fast-changing and uneven conditions. Key features are the ability to adapt and differentiate delivery methods and to empower those on the frontlines of service delivery to choose their own implementation modalities. Flexibility is even more important in challenging environments such as in conflict countries to maintain the continuity of service coverage and delivery. In the area of PFM, Morocco, Egypt, and Tunisia have

adopted outcome-based rather than input-based budgeting, while Morocco, Yemen, and Libya have recently demonstrated their emerging capabilities in using flexible financial mechanisms to respond to disasters. Tunisia's internationally recognized National Authority for Assessment and Accreditation in Healthcare demonstrated valuable flexibility during the pandemic by developing new systems to scale-up delivery of essential services through non-government actors.

Third, resilient institutions should have the capacity to learn and innovate. Innovation in institutions is enabled by identifying problems, testing solutions, and incorporating feedback. These approaches are particularly effective for addressing complex challenges in unpredictable contexts with limited state capacity, but to be feasible, they require a culture of continuous improvement. Iterative learning by institutions has yielded strong results in contexts like Sobral, Brazil, where education reform has significantly increased literacy rates. In MENA, such practices are still nascent, as top-down approaches and a strong resistance to risk and failure continue to prevail. Nevertheless, some promising examples are emerging. Egypt's Takaful and Karama conditional cash transfer programs and Saudi Arabia's overhaul of its social protection systems all used data-driven diagnostics and piloting to guide implementation. In Morocco's National Initiative for Human Development, several initiatives were incubated and piloted in the education and health ministries before being scaled up. Also, the "Teaching at the Right Level" approach was implemented iteratively in both Morocco and Lebanon. Internal leadership is critical to shifting institutional mindsets toward embracing evidence-based innovation, learning, piloting, and evaluation.

Finally, partnerships with non-state entities and capable regulation of private provision enables effective coverage in different circumstances. Creating effective partnerships requires formal agreements, clear accountability mechanisms, and strong regulatory oversight. MENA governments can identify areas where contracting with private providers to deliver services or facilitating the provision of services by non-state actors through supportive regulation can complement public service delivery. This is especially relevant for expanding the provision of long-term care, quality childcare, and social services for vulnerable populations. Involving non-state actors in the delivery of human development services is particularly critical in fragile and conflict-affected settings where public services are limited. Some successful examples of private sector involvement include Lebanon's contracting of private hospital services, Egypt's 100 Million Healthy Lives campaign to combat hepatitis C, and NGO-led education programs for refugees in Jordan and Lebanon (see Box 10). Governments can also form strategic non-financial partnerships with the private sector, for instance to advance the definition of skills to be taught by education systems, through skills councils (described in Box 5).

BOX 10: The Role of Nongovernmental Organizations in Education Services for Refugees in Jordan and Lebanon

Two educational initiatives in Jordan and Lebanon are important examples of how multi-stakeholder engagement can support refugee education. Jordan's "Strengthening Inclusive Education in Host Communities" initiative was a collaboration between civil society organizations (CSOs) and the Ministry of Education to enhance the provision of education in refugee-hosting communities. Implemented by Partners-Jordan with international support, the project built capacity by holding training workshops, provided subgrants to CSOs, and created stakeholder dialogue platforms. The initiative implemented School Development Plans in 30 schools in six governorates and established a replicable model for using government-civil society cooperation to improve educational systems (Partners Jordan, 2023; World Bank, 2019a; and GPSA, 2024).

Lebanon's "Reaching All Children with Education" (RACE) initiative increased and improved education for marginalized Lebanese children and Syrian refugees in two phases: (i) enrollment expansion (2014-16) and (ii) quality improvement (2017-21). The program engaged diverse stakeholders, including the UN's Committee on the Elimination of Racial Discrimination (CERD), UNICEF, UNHCR, and NGOs. Despite economic challenges, RACE successfully enrolled over 500,000 children, increased student grade progression, and introduced early-grade assessments, thus demonstrating the effectiveness of inclusive, multi-stakeholder governance (Ministry of Education and Higher Education Lebanon, 2014 and World Bank 2016c).

Overcoming the political economy constraints to reform: the virtuous cycle of accountability relationships and incremental actions

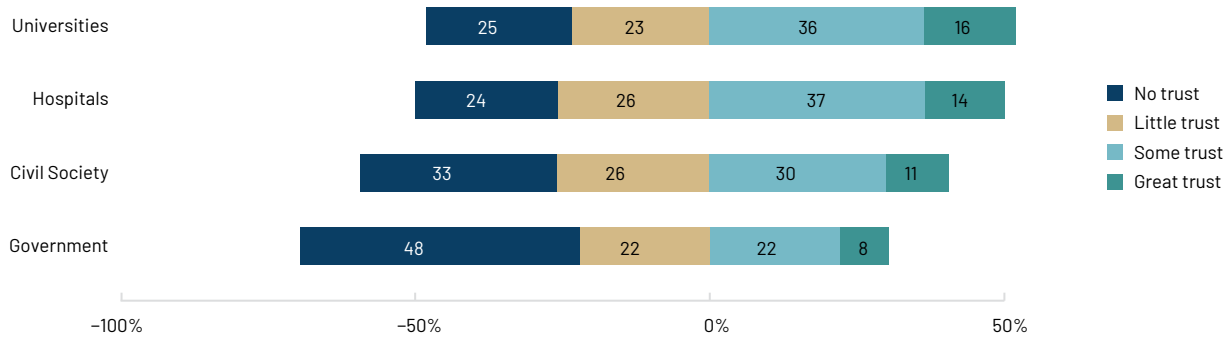
MENA countries have historically been slow in implementing policy reforms relative to other regions. The MENA region is a diverse mosaic of political systems, with many countries still in transition since the Arab Uprisings and with fragile political settlements, and other countries with greater stability. While the reasons are always very country specific, the political economy literature relates reform impasse to political orders where ruling elites require the support of select groups that may have greater interest in preserving the status quo (North 2007; Gatti et al, 2011Diwan et al, 2015). Moreover, in countries where organized civil society, information flows, data and bottom-up channels for voice are restricted, reform-oriented policymakers are deprived of the typical tools to mobilize broad support for reforms that can overcome vested interests (Cammett et al. 2015; Alaoui and Springborg 2021). In addition, bureaucracies have few incentives to seek complex reforms in contexts where the political cost of failed reforms are concentrated on the present, while the benefits take longer to materialize.

Despite these and other challenges, in the last decade a few countries diversified more markedly in terms of reform momentum, with some entering a steady reform path. Several approaches were used to build an internal and popular buy-in for change, typically through a combination of top-down leadership initiative and technically sound design that incorporates global knowledge. Moreover, even in top-down approaches, institutional and governance renewal in the axes discussed in former sections was central to reform success. In some cases countries adopted a virtuous cycle of accountability relationships to build incremental support for institutional reform, as illustrated in Figure 4.7 below. When service providers feel a stronger sense of responsibility toward the public, and are given the means to perform, they can become more responsive and engaged. Table 4.1 below shows examples of incremental institutional reforms that took place in MENA countries and show that enacting the governance reforms described in this chapter is possible in the right context. The UAE and Saudi Arabia's use of digital technologies to collect population feedback (box 6 above) are such examples.

FIGURE 4.7
Virtuous cycle of strengthened accountability

Source: Authors.

FIGURE 4.7
Trust in non-government institutions relative to government in MENA



Source: Team elaboration based on Arab Barometer 2021-2022 for MENA countries.

BOX 11: Mobilizing support for reform. The role of data, civil society organizations, and structured civil servants' consultations in human development reforms in Tunisia and Egypt

Civil society role in shaping social protection reform in Tunisia. Building an inclusive social policy benefits citizens and civil society to shape the direction. In Tunisia (Geary et al. 2022), civil society has emerged as a meaningful force in shaping national policy since 2011. A broad-based dialogue launched in the wake of the revolution, convened by labor unions, professional associations, and human rights groups, served as a foundation for reshaping social policy. This effort, which involved extensive public engagement and sustained deliberation, culminated in the drafting of a National Social Contract that helped inform constitutional and social protection reforms. Over time, structured engagement processes have continued to anchor Tunisia's reform efforts in citizen voice and accountability. The impact of these initiatives was internationally recognized, earning the dialogue's conveners the Nobel Peace Prize in 2015. The Tunisian case shows that when civic engagement is enabled by clear legal protections and supported by functioning institutions, it can build trust, foster public legitimacy, and sustain reform momentum. Strengthening the role of civil society in policymaking, especially in human development sectors, requires removing legal barriers, ensuring access to information, and embedding civic input into the policy cycle.

Education Reform in Egypt. The post-revolution constitution of 2014 tried to address popular demand for greater inclusion through education by raising universal compulsory attendance to upper secondary and enshrining a commitment to spend at least 4 percent of GDP on education. However, while the number of pupils did grow, the expenditure mandate remained unfulfilled. Egypt's second-to-last ranking in the 2016 PIRLS assessment served to build broad demand for change. The government responded by introducing an ambitious education reform in 2019. The latter implied the renewal of education curricula and teaching methods, integration of education technology, and significant retraining of teachers. However, resource constraints – including persistently high student-teacher ratios and falling real teacher wages - set a difficult stage to implement it. After the COVID-19 crisis, the reform implementation resumed in gradual steps on the wave of learning recovery, and it included improved dialogue with teachers through national consultations, additional feedback mechanisms, and targeted professional development programs (World Bank, 2022; UNESCO, 2023). This resulted in adjusting curricular requirements and assessment strategies based on input from educators and school leaders. To foster community engagement, communication with parents was enhanced via digital platforms, SMS alerts, and awareness campaigns—ensuring that families remain informed about reforms, student attendance, and learning progress (MoETE, 2022). Egypt also advanced in open data initiatives: the Ministry of Education publishes more granular school-level statistics, learning outcomes, and attendance records online, providing stakeholders with increased transparency (World Bank, 2023). In addition, the government has invested in digital tools to track and improve student attendance, which improved the visibility of absenteeism and allowed for more targeted interventions (UNESCO, 2023). These combined efforts—strengthening partnerships with teachers, engaging parents, increasing transparency, and leveraging technology—have helped Egypt gradually recover reform momentum and build a more resilient, responsive education system.

Other factors influencing reform progress in MENA included the use of new data to inform the public about the benefits of change. Citizen monitoring of independent data, and participatory design can be important tools to restore trust. Citizens' scorecards and initiatives like participatory budgeting are some of the most frequently used tools. These are especially helpful in MENA, where the public trusts non-government entities more than the government, (Figure 4.7). Demand for education reform in Egypt was in part galvanized by disappointing results in the 2016 PIRLS learning assessment (Box 11). Quantitative surveys can be also helpful tools to engage internal stakeholders, civil servants of different ranks, around the scope and priorities for reform: these tools were also piloted to gain insights on governance renewal for this report (Box 12).

BOX 12: The World Bank's Survey of Civil Servants and its application to MENA

The World Bank's Survey of Public Servants (SPS), conducted in two countries selected MENA ministries in 2023-2025, assessed employee perceptions of their own institutions' responsiveness to emerging megatrends. The results uncovered areas of innovation, including digital tools for service delivery, interdepartmental collaboration, and early efforts to integrate megatrends into planning. They also shed light on civil servants' cautiously optimistic views of their organizations' adaptive capacity, tempered by persistent institutional constraints.

On average, 77% of respondents identified digital transformation as a key driver of change, and 58% flagged economic challenges such as unemployment and inequality, yet 62% believed their organizations were prepared to respond. While 89% reported regular collaboration across teams and exposure to new challenges, (which are key enablers of adaptive capacity), civil servants also pointed to persistent bottlenecks: skills gaps (52%), excessive administrative burden (51%), lack of strategic foresight (54%), and weak incentives for innovation, with just 34% saying staff are rewarded for new ideas.

This data points to the value of investing in institutional enablers of adaptability, including targeted training for digital and technical skills, platforms that reward internal innovation, and mechanisms to address observed disparities in service delivery. While many civil servants feel prepared for megatrends in principle, their organizations often lack the tools or flexibility to act. Bridging this gap requires shifting to a more continuous, data-driven model of institutional learning and capacity building. In the absence of broad-based civic engagement or strong external accountability mechanisms, leveraging the internal voice of public servants offers a viable, politically feasible entry point for reform.

Crises can also serve as an opportunity. In Morocco, the pandemic has reportedly accelerated progress toward universal health coverage, including the consolidation of previously fragmented health insurance schemes and the expansion of financial coverage to an additional 11 million individuals (Belhaj & Gatti, 2021). This reform had long been discussed through a consultative process before the pandemic, but possibly the health crisis stimulated the momentum for change.

Despite the complex political economy of reforms, multiple country examples show that there is value in pursuing incremental reforms through steady leadership. The table below summarizes findings from a stocktaking of case studies in Duran and Rouleau (2025) for this report. It shows specific actions that governments in MENA can take to advance across the eight governance domains discussed above. Given the complexity of reforming institutions in MENA, these examples reinforce the value of making incremental changes.

TABLE 4.1: Strengthening institutions through incremental actions is possible in MENA

Action	Operational steps	Relevant examples
Strengthening core governance functions		
1. Invest in well-governed, high-quality data systems	• Prioritize the availability of core surveys and population- and facility-level data. • Define key indicators and routinely measure them using digital systems. • Invest in digital public infrastructure (e.g., unique digital IDs, digital payments, data sharing) that can serve as the foundation for integrated data systems, and public/private innovation.	• Scale-up of social and beneficiary registries in Jordan and Egypt. • Scale-up of patient-level medical records in Saudi Arabia. • Comprehensive and coordinated data collection of Early Childhood Development (ECD) indicators in Morocco.
2. Identify and tackle PFM bottlenecks	• Deploy core, integrated financial management information systems. • Conduct diagnostics and design PFM reforms with a focus on empowering frontlines. • Move towards budgets linked to national strategies and organized around reaching key objectives with improved flexibility.	• Lebanon and Tunisia's use of FinHealth and FinEd diagnostic tools for reform planning.
3. Engage with citizens to improve HD service accountability	• Enable citizen access to information on service standards and performance. • Create routine mechanisms to seek user feedback at local service delivery points. • Incorporate learning from population engagement and oversight into the policy cycle; create more mechanisms for coordinated action (e.g., participatory budgeting)	• Right-to-Information (RTI) laws and data portals in Tunisia; education transparency for parents in Saudi Arabia. • Egypt's Fiscal Transparency and Citizen Engagement (FTCE) unit. • Tunisia's "Life Event Action Plan" approach.
4. Develop minimum service standards and align incentives	• Define a minimum set of cost-effective HD services and ensure their quality provision prior to expanding to other services. • Build regulatory capability alongside standards. • Align financial flows and incentives with efforts to improve effective coverage.	• Egypt's health accreditation system (GAHAR). • Measurement and improvement of education quality in Morocco, Saudi Arabia, Bahrain.
5. Strengthen civil service management	• Generalize merit-based recruitment into the civil service and regular performance measurement. • Strengthen training and capacity-building initiatives for HD workforces, emphasizing digital and adaptive skills. • Develop dynamic human resource information systems in HD sectors to facilitate management and planning.	• Egypt's Capability Assessment and Competition Centre. • Improved workforce management and training in Morocco's Caisse Nationale Securité Sociale.

TABLE 4.1: Strengthening institutions through incremental actions is possible in MENA

Action	Operational steps	Relevant examples
Building resilience towards new challenges		
6. Integrate data systems and use evidence routinely	• Prioritize building interoperable, integrated digital data systems across sectors and functions, linked at an individual level for integrated service delivery - leveraging national registries • Establish cross-functional data governance committees and formal data-sharing. • Develop early warning systems for crises and anticipatory programming.	• Command and Control Center of Saudi Arabia for the health sector. • Data exchanges and integrated social registries in Egypt, Morocco, Jordan, Saudi Arabia. • Health insurance and social registry integration in Morocco. • Integrated fiscal management in West Bank and Gaza.
7. Strengthen cross-government coordination	• Ensure intersectoral coordination bodies or delivery units are in place with financing, data, and a clear mandate focusing on megatrend adaptation and mitigation. • Create incentives for cross-agency collaboration.	• INDH in Morocco. • Evidence-based planning in Kuwait, the United Arab Emirates, Saudi Arabia.
8. Improve flexibility of investments	• Establish budgets organized around key outcomes regardless of the line ministry in charge and performance-based budget transfers. • Prioritize preventive, anticipatory investments, leaving room for surge financing when fiscal space permits. • Contingency frameworks for emergencies. • Create innovation funds with simplified approval process.	• Program-based Budgeting (PBB), decentralization, and flexible budget experiences in Egypt, Tunisia, and Morocco. • Dynamic targeting reforms to social programs in Egypt, Iraq, Jordan. • Rapid and flexible modern SP delivery systems in Jordan. • Tunisia's INEAS.
9. Innovate, learn, adapt, and scale	• Adopt a problem-driven iterative adaptation approach: design programs based on an analysis of the problem to solve, and scale them up iteratively with formalized experimentation and learning. • Incentivize and build capacity for data use, innovation, and adaptation among civil servants and policy makers.	• Adaptive management of Egypt's TKP social protection program. • INDH's incubation and scale up approach in Morocco. • Teaching at the right level approaches in Morocco
10. Scale partnerships with nonstate actors	• Determine which services can be best delivered by private or NGO actors, especially in hard-to-reach areas and FCV contexts. • Develop capacity for effective contract management — including clear pathways, quality standards, and supervision.	• Strengthened contracting standards in Lebanon. • Egypt's "100 Million Healthy Lives" project. • INDH's third party provider outsourcing for health and pre-school education in Morocco.
11. Private sector stewardship	• Define whole-of-sector "rules of the game" for the non-public provision of health and education services.	• Training and job market interventions in Saudi Arabia. • Government-facilitated PPPs to align training and employers in Egypt and Tunisia.

05

Financing Future-Fit Human Capital: Effective Spending, Enhanced Coordination, Expanded Revenues

FINANCING FUTURE-FIT HUMAN CAPITAL: EFFECTIVE SPENDING, ENHANCED COORDINATION, EXPANDED REVENUES

Photo: © Zurijeta/ Shutterstock.com

Reimagining human development in ways that would enable MENA countries to manage future risks and embrace opportunities will require fiscal systems that can support sustained reform efforts. The advent of the megatrends will require the development of new policies, and a general shift on the part of governments in the region from curative spending to preventive investments. The list of what is needed is substantial, and each country's priorities will depend on its own situation, risk exposure and development level. Many changes will not be fiscally neutral, which raises the question of how MENA countries can raise more financing for the human development sectors. This section summarizes key findings from the third knowledge package of this flagship report on financing, which uses new data and cross-sector expertise to suggest ways MENA countries can improve expenditure and revenue policies for human capital development.

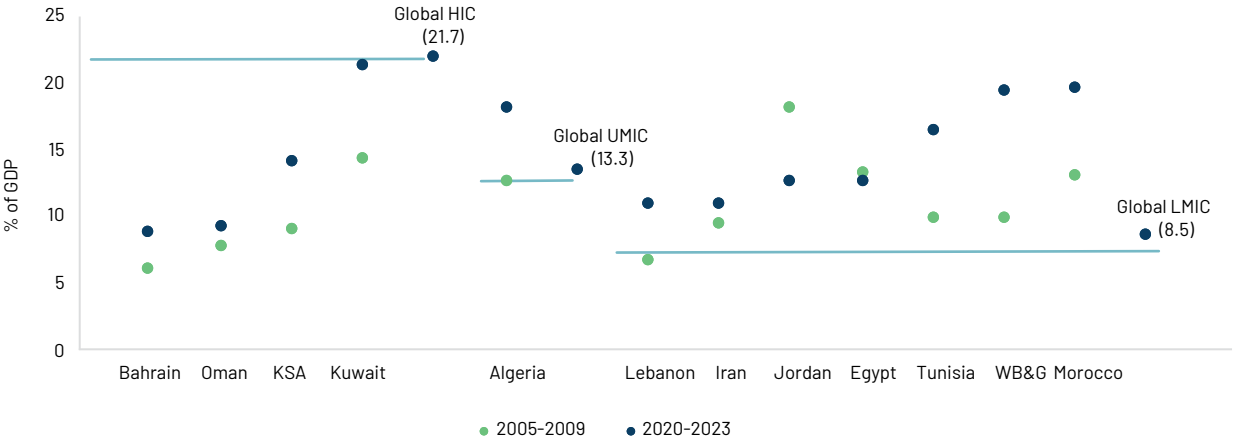
Megatrends will put considerable pressure on human development expenditures. For instance, all countries except those with the most youthful populations already face the need to revisit unsustainable features of their social insurance systems. Paillares (2025) estimates that the region will incur a deficit of over three percent of GDP by 2050 unless reforms are made. The high rate of unmanaged NCDs in an aging population can cost countries several points of GDP in lost productivity and higher health spending. Climate-related shocks are bound to increase public and private losses, for which adequate provisions should be made upfront.

Nevertheless, human development reforms and investments can also have a positive impact on countries' spending trajectories. Technology opens opportunities to deliver human development services more cost-effectively. Preventive primary care and behavior change interventions can save health costs down the line. Reforming regressive tax systems can enable families to retain extra income to enhance their future human capital accumulation. Proper regulations and better enforcement capacity could extend social insurance to transnational platform workers. In many cases, upfront financing is one of the bottlenecks to making these cost-reducing public investments, but not acting is even more costly.

Human development expenditures in MENA increased little over the last decades

Average spending on human development by MENA's HICs and MICs rose by around 30 percent over the past two decades, but in several countries spending actually fell when expressed in per capita terms. Between 2005-09 and 2020-23, GCC countries increased their expenditure on human development, albeit remaining at levels below those of their global income peers. MICs devoted larger shares of GDP to human development than global benchmarks (Figure 5.1) but such increase was lower in per capita terms. Beyond this trend, countries took different pathways in terms of their human capital investment. Only Morocco, Saudi Arabia, and Iran experienced economic growth and increased spending in per capita terms. Other countries spent less per capita, but for different reasons. In Lebanon and Oman, it was due to declines in overall government spending, while in Jordan, Tunisia, Egypt, and Bahrain, it was due to human development being a lower priority than other sectors. Underpinning much of this sobering narrative is MENA's sluggish economic growth. Between 2015 and 2021, per capita GDP in MENA grew only by an anemic 0.7 percent on average, with MICs experiencing -0.7 percent and conflict countries suffering a deep collapse in GDP.

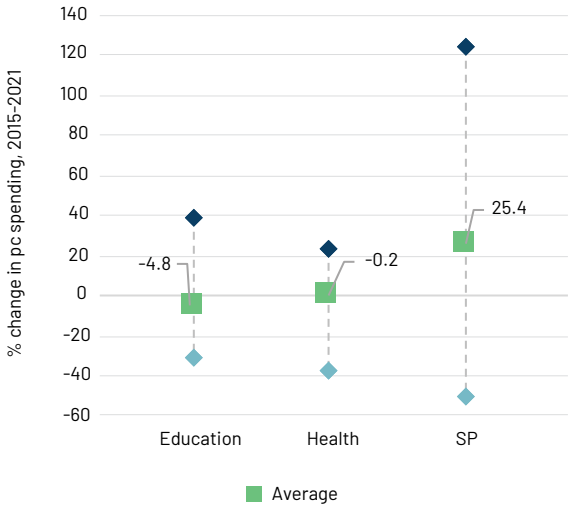
FIGURE 5.1
Human development spending as a percentage of GDP, 2005-09 and 2020-2023



Source: Pinxten et al (2025) for this flagship report.

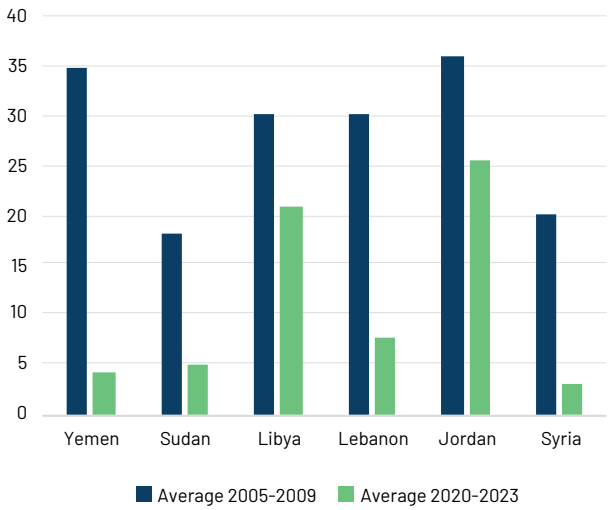
Such trends, however, mask different trajectories for different sectors. Social protection spending in MENA increased by 40 percent between 2005 and 2023 (Figure V-2). This was largely driven by pensions, which consume around 80 percent of the total. On the other hand, average spending on education declined by nearly 5 percent despite significant population growth, leading to a worrying fall in resources. Meanwhile, there was no real increase in average health spending. Between 2020 and 2023, health and social protection budgets were increased to cushion the impact of the COVID-19 pandemic. However, since then, only a few countries such as Tunisia, Morocco, Iraq, Saudi Arabia, and Iran increased spending on education and health.

FIGURE 5.2
Only social protection grew in per capita terms between 2015 and 2021



Source: Pinxten et al (2025) for this flagship report. Note: Calculations by IMF, WDI, UNESCO, ASPIRE, and World Bank country task teams.

FIGURE 5.3
Government spending (as a % of GDP) severely declined after the Arab Uprisings in Fragile and Conflict affected MENA countries



Source: Pinxten et al (2025). Note: Pre-crisis is average expenditure for 2005-2009. Post-crisis is average of for 2020-2023.

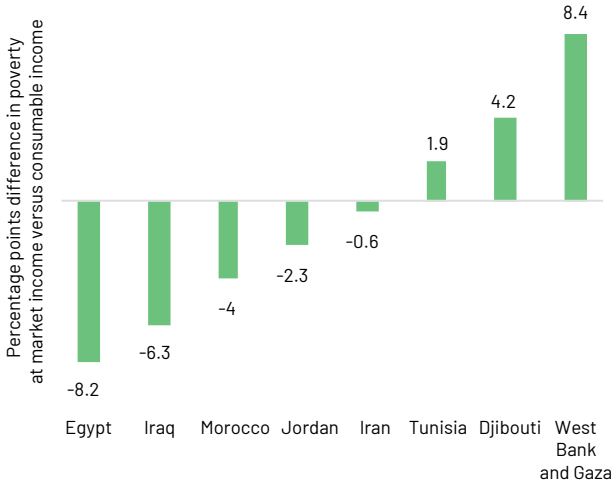
In countries affected by conflict human development spending has greatly diminished when compared to the levels preceding the Arab Uprisings. Real spending on human development fell to less than a quarter of the levels observed before 2010 in Syria, Yemen and Lebanon (Figure 5.3), and declined, less severely, in Jordan and Libya. Such declines had major negative effects on salaries, supplies, and infrastructure, and prompted a large-scale exodus of skilled professionals and public servants. For these countries in conflict, building resilience to the megatrends in the medium term must start with protecting existing human capital today.

Fiscal systems reduce inequality but do not alleviate poverty, and still depend on non-tax revenues

The share of income received by the bottom half of MENA's population has decreased by 5 percent since 2010, which is the single largest income contraction recorded worldwide. Limited fiscal investments in human development in MENA have eroded social mobility, particularly for the middle class (Figure 5.5). The region's daily median income grew at the slowest rate in the world by only 1.4 percent between 2010 and 2024. Reduced investments in human development are both a cause and a consequence of a shrinking middle class and its economic potential.

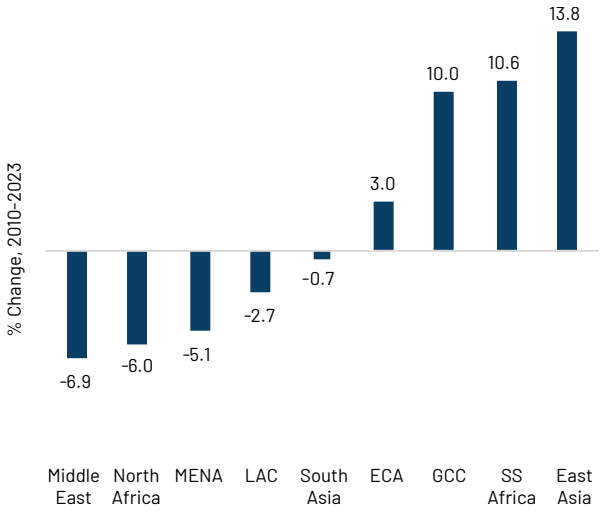
Countries make limited use of direct taxation for raising revenue, relying more on indirect taxes, natural resource rents or international aid. GCC countries rely heavily on non-tax revenues and have some of the lowest tax-to-GDP ratios globally at below 5 percent. Oil importing countries such as Egypt, Morocco, and Tunisia have tax-to-GDP ratios ranging from 15 to 25 percent, relying mainly on VAT, income taxes, and excise taxes for revenue (Figure 5.6). Compared to countries with similar economic fundamentals, MENA countries collect only between 36 and 51 percent of their potential revenue. In fragile countries, international aid continues to play a prominent role in financing expenditures, particularly so in countries with protracted conflicts (Coppard 2025).

FIGURE 5.4
MENA's fiscal policies reduce poverty in most countries, but modestly in some and even augments poverty in others



Source: Alan Fuchs at al (2025), for this report. Note: Figure simulates change in poverty rates due to tax and benefit policies (market income versus consumable income).

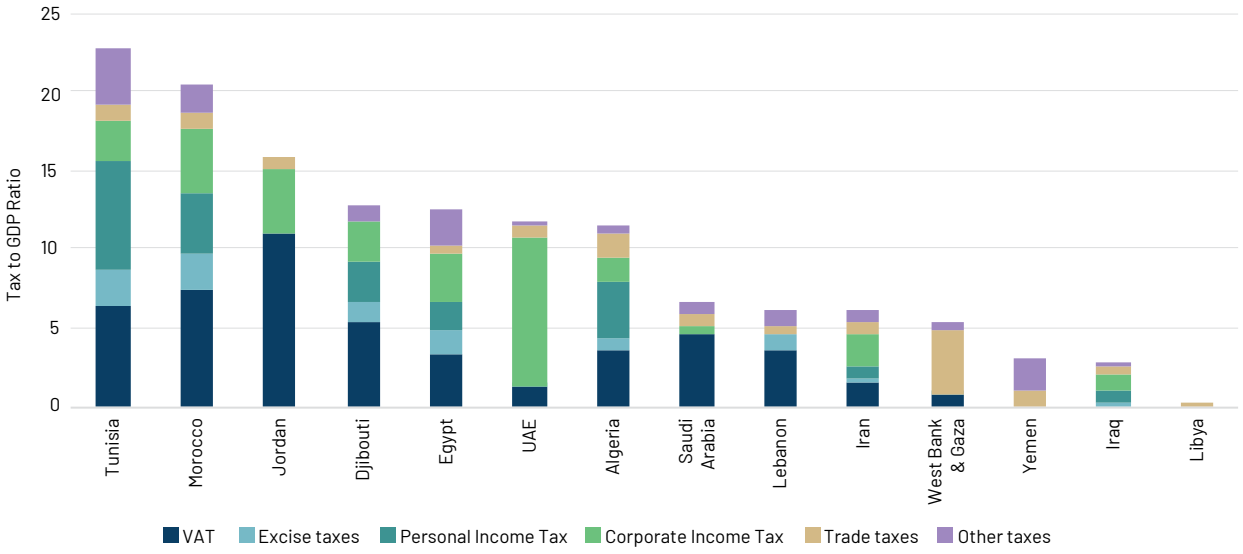
FIGURE 5.5
MENA saw the greatest decline in the income share of the bottom 50% of the population



Source: World Inequality Database (figure 1). Note: The figure is the average income share for bottom 50 percent for "Middle East" (-4.8%) and "North Africa" (-5.3%).

As a result of this revenue mix, tax-benefit systems mitigate only part of the increasing income inequality in MENA, and only in some countries they alleviate poverty. Fuchs et al (2025) estimated the effects of fiscal systems, including taxes and cash benefits, on poverty and inequality for eight MENA countries using the "Commitment to Equity" methodology. They found that fiscal policy reduces inequality across all sampled countries in the region (Figure 5.4). However, the net effect of fiscal policy on poverty is mixed: in Egypt and Iraq poverty is reduced significantly, while in the remainder countries poverty is reduced slightly (Morocco, Jordan, and Iran) or even increased (Djibouti and Tunisia). This is largely due to the regressive impact of indirect taxes, the limited reach of social insurance for the low-income families, and the existing gaps in social safety nets.

FIGURE 5.6
Tax-to-GPD ratios vary significantly across MENA countries



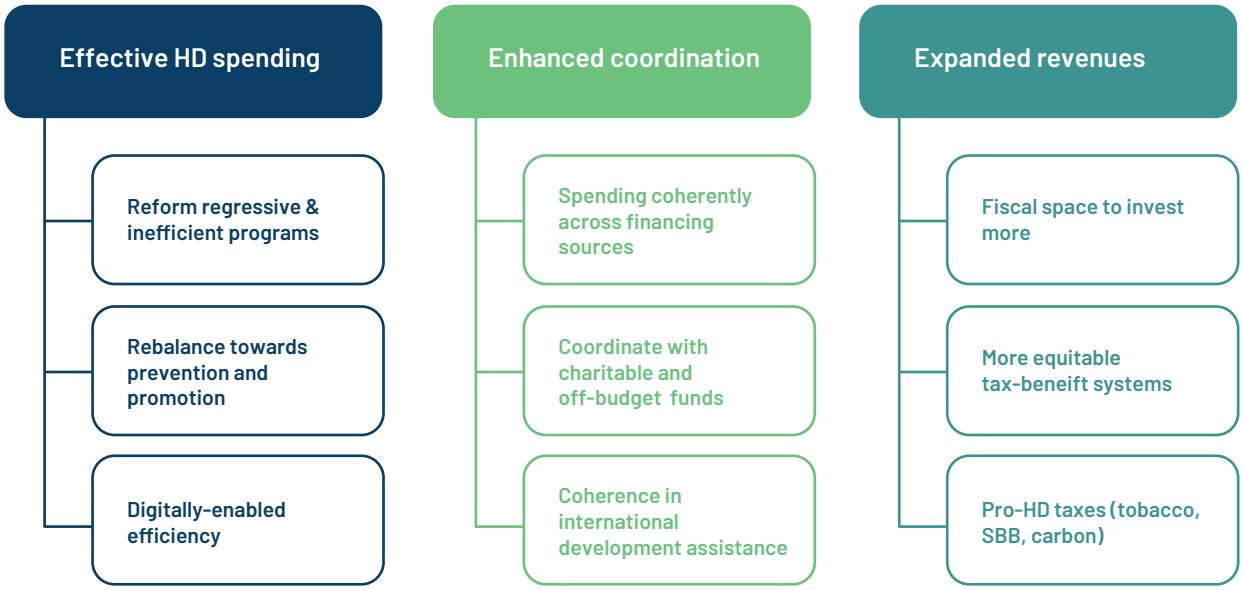
Source: Arbind Modi (2025), for this flagship report.

A fiscal agenda for better human capital investments

A future-oriented fiscal agenda should give governments the space to make investments that can generate more human capital, efficiency, and avoid future costs. Governments in the region face trade-offs between maintaining their current service delivery or investing in efficiency, prevention, and resilience-building. Financing new expenditures, particularly in MICs and LICs facing debt distress, will require a robust fiscal agenda that identifies new sources of revenue, improves the quality and efficiency of existing spending, and enhances coordination between public and private sources of human development financing (Figure V-7).

The emphasis will depend on each country's specific circumstances. However, there are several common traits in MENA human development spending that call for redirection and rebalancing. This section proposes examples of "big-ticket items" among human development expenditure and revenue policies that governments could consider. Moreover, information technology and digitalization, increasingly with the support of AI, can revolutionize the quality of service delivery across human development programs and increase the value for money.

FIGURE 5.7
A Pro-HD Fiscal Agenda -conceptual framework



Source: Gentilini (2025).

Making human development expenditures more cost-effective

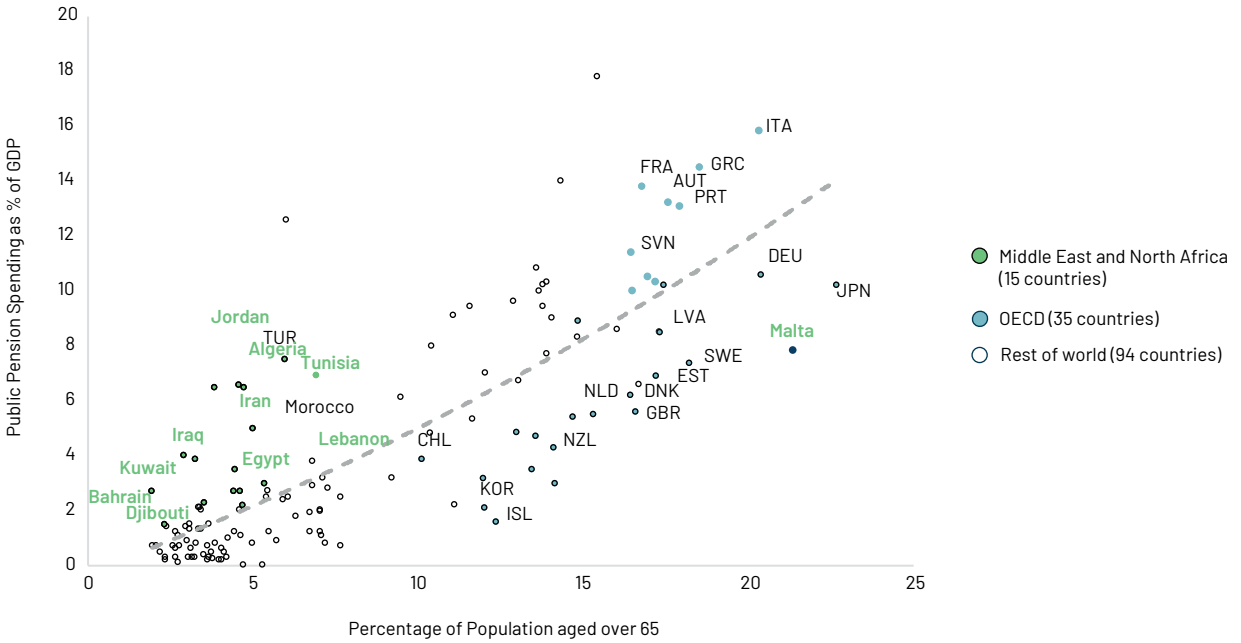
Pensions, which in principle should be contributory and self-financed, increasingly rely on the general budget, generating a regressive subsidy detrimental to future generations. Most MICs and LICs in MENA spend a similar share of GDP on pensions compared to demographically older societies in Eastern and Western Europe (Figure 5.8). The review of pension systems in six middle- and high-income MENA countries found that, except for one case, pension spending as a share of GDP increased by an average of 25% from 2017 to 2021. General budget transfers increasingly plug the financing gap. The fiscal unsustainability of the region's current pension systems has several reasons: generosity (particularly for civil servants), unsustainable implicit rates of return,[15] prevalent early retirement, and high numbers of survivors who continue to receive benefits after

the death of the contributing beneficiary. Astonishingly, over one-third of all pension beneficiaries are under the age of 50. Unless these pension systems are reformed, the next generation will face an average pension deficit of over 3 percent of GDP, which will divert resources away from other human development priorities.

Demographic change presents an opportunity to recast unavoidable pension reforms as part of the productive longevity agenda. Several countries in the MENA region, including Saudi Arabia, Egypt, Lebanon, and Jordan, have implemented pension reforms by increasing contributions, extending retirement ages, and creating a defined contribution component. Despite these efforts, challenges remain, particularly regarding the adequacy of the benefits in absence of transitionary measures. More importantly, pension reforms still need to be integrated into a wider longevity reform agenda (discussed in Section II), which should also encourage longer working lives, reskilling, healthy aging, and some targeted financing for long-term care.

In the health sector, while spending has room to grow, there is also scope to make significant efficiency gains, especially in favor of greater preventive care. Analysis of health systems expenditures for this report shows that there is an imbalance in funding areas in the health sector across MENA, with too little being allocated to reducing and preventing non-communicable diseases (Van de Poel, 2025). Preventive and primary healthcare (PHC) are cost-effective when compared to expensive curative care. For example, Tunisia has a consistently low share of spending on PHC facilities, while many services are being delivered in higher-level hospitals or tertiary institutions that could be delivered at a lower cost with the same quality at the community level. In Jordan, hospital unit costs for outpatient visits average about US$82 while the average cost of a PHC visit is 5.5 times less (less than US$15). Furthermore, the under-use of PHC is evident in the over-use of costly emergency departments. In Saudi Arabia, emergency room visits in 2020 accounted for an average of 67.9 healthcare visits per 100 people, double the OECD average. Moreover, drug prices in MENA are often higher than international benchmarks, due to inefficient procurement practices or protection of vested interests. The priority for LICs on the other hand remains to increase fiscal resources for maternal and child health and nutrition, including in conflict-affected areas.

FIGURE 5.8
MENA countries are still youthful but already spend on pensions as much as many ageing societies



Source: Pallares-Miralles (2025) for this report.

Food and energy subsidies in most countries continue to crowd out investment in human capital and in more efficient social protection. The region still allocates 3.9 percent of its GDP to energy subsidies, while a new database compiled for this report has shown that spending on food subsidies was 1.3 percent of GDP in 2023, down only very slightly from 1.4 percent in 2011. At least 315 million people were covered by food subsidies in the eight countries for which administrative data were available.[16] Surprisingly Tunisia, Morocco, Lebanon, and Iran have increased their food subsidy spending in the past several years despite increasing their coverage of safety nets, suggesting that there is still room for cash transfers to gain the full trust of MENA societies as an equivalent substitute.

However, there has been positive reform momentum in a few countries. Since 2010, Iran has eliminated $50–60 billion in annual energy subsidies and offset this with direct cash transfers to households (Guillaume et al, 2011). Egypt's subsidy reform in 2014 allowed the government to double the coverage of Takaful and Karama, the country's flagship conditional cash transfers. Future reform attempts, especially food subsidies, should be approached carefully, as these are one of the most tangible and most direct ways in which the state supports households. Lessons from past experience indicate the importance of piloting and operational learning, of offering various kinds of compensation (such as "digital food," e-vouchers, or cash), and of clear communication about the objectives of the reform. Moreover, evidence from Jordan shows that middle class citizens are more likely to accept replacement of in-kind subsidies with cash transfers if transparency features are added to the programs (Silva et al 2016). The experience of Peru's Juntos program shows that integrated human development interventions that use cash transfers as their delivery platforms can lead to visible improvements in reducing chronic malnutrition (see Box 13).

BOX 13: Peru – An integrated human development strategy halved malnutrition in less a decade

Peru's conditional cash transfer (CCT) program, Juntos, launched in 2005, successfully reduced chronic malnutrition among rural children in less than a decade. Managed by Peru's Ministry of Development and Social Inclusion, Juntos provided monthly cash transfers to families living in poverty contingent upon pregnant women and young children going for regular health check-ups, children attending school, and family members going to nutrition awareness sessions.

The program created protocols for close collaboration between the ministries responsible for health, education, and social development in target communities. This cross-sectoral approach significantly enhanced the success of the program in increasing households' access to essential health services and nutritional education and in changing behavior at the family level.

As a result, chronic malnutrition rates among children under the age of 5 dropped dramatically from 28.5 percent in 2007 to 19.5 percent by 2011, particularly in rural areas. Juntos also increased school attendance rates and use of prenatal care. The key lessons from Peru's experience are the importance of clear incentives, inter-ministerial collaboration, and robust monitoring to ensure that tangible improvements are made in human development outcomes.

Source: World Bank (2018).

When used judiciously, digital and data technologies in health, education, and social protection can also yield fiscal benefits. A literature review and case studies were conducted to identify relevant digital solutions in the MENA region that are supporting human development. To unlock the full cost-saving potential of these technologies, countries in MENA region can pursue six policy directions: (i) continue building a strong digital foundation; (ii) focus on the low hanging fruit first (such as simplifying workflows, supporting frontline staff, and digitizing routine tasks); (iii) amplify value that digital and AI technologies bring in terms of human capital

gains and delivery system efficiencies; (iv) encourage data interoperability across the health, education, and social protection sectors; (v) adopt a balanced approach to the use of AI solutions, including recognizing the significant potential risks of digital systems (in terms of exclusion, privacy, misinformation, and mental health); and (vi) cultivate partnerships with the private sector, academic institutions, and civil society organizations.

Innovating revenue collection to afford future-fit human development policies

Equity-enhancing tax reforms are an untapped way to reinforce the social contract and invest in citizens' long-term capabilities. More robust tax benefit systems can finance governments' human development policies and increase the protection of individual assets and incomes that are disproportionately vulnerable to climate change and other shocks. They will be also essential for redistributing the productivity gains and returns to capital deriving from technological change. The potential for increasing non-resource revenue is high, as shown by frontier analysis carried out for MENA relative to other countries (Figure 5.9)

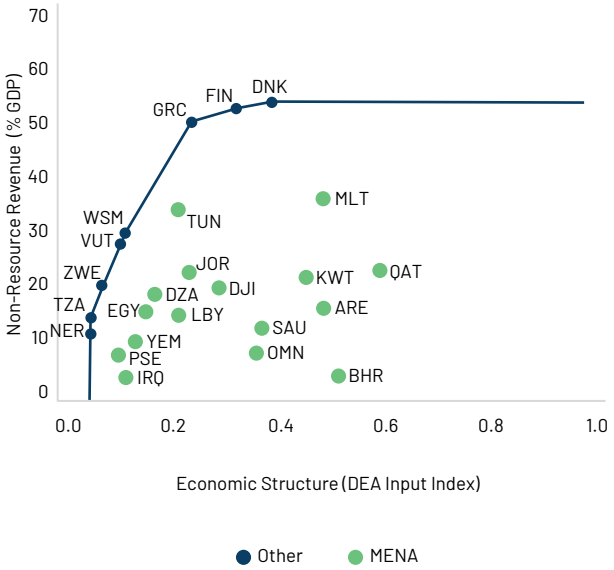
Personal income tax reforms can immediately increase the fairness of tax benefit systems. In most advanced economies, personal income tax (PIT) raises revenues that often exceed 10 percent of GDP that plays a key role in funding human development and promoting equity. However, few countries in the MENA region impose PIT. In the GCC, the PIT rases only minimal revenue and has limited redistributive effects. In Morocco, the PIT raises substantial amounts, whereas Egypt's PIT has limited coverage and is administratively inefficient. Tunisia's system encompasses both salaried and business incomes but is not enforced in the informal sector. Reforming PIT can make MENA's current tax benefit systems more progressive and can help to restore the public's trust and sense of equity that rising inequality has eroded. It can also enable governments to ease the burden of high indirect taxes on the poor and the middle class, which can negate the redistributive efforts of social assistance programs. Investing in stronger tax administration, communication and transparency can enhance the legitimacy of these reforms, especially if additional revenues are linked to sectors that people deeply care about such as those promoting human development.

Similarly, governments can make better use of the corporate income tax. Resource-rich countries like Saudi Arabia and Qatar use corporate income tax (CIT) minimally, often applying it only to foreign firms or non-oil sectors. In contrast, diversified economies such as Morocco, Tunisia, and Egypt are more reliant on CIT. Morocco benefits from significant CIT contributions from manufacturing and tourism, while Tunisia has streamlined its tax structure to increase compliance. Recent reforms, like the UAE's introduction of a 9 percent CIT in 2023, indicate a shift toward revenue diversification and alignment with global tax practices.

Imposing carbon taxes, levying excises on environmentally harmful products, and offering incentives to renewable energy companies can all align countries' fiscal policies with their sustainability objectives. Tunisia's plastic bag tax is a promising example of a fiscal measure used to advance environmental goals. However, overcoming hurdles such as public resistance and administrative inefficiencies require phased reforms, transparent public engagement, and regional collaboration.

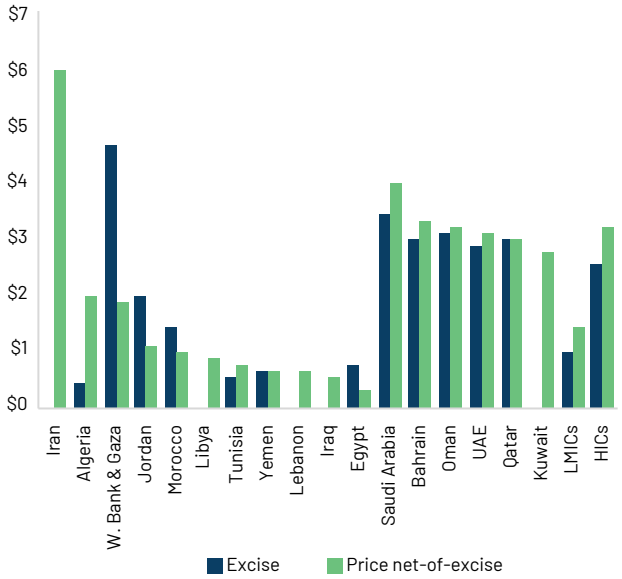
VAT also has the potential to generate revenue, and innovative features can mitigate its regressive aspects. Countries such as Saudi Arabia, the UAE, and Qatar began adopting VAT to reduce their budget deficits and replace their declining hydrocarbon income.[17] VAT can also be used to collect revenues in contexts of high-income tax evasion and informality. In the three countries in question where citizens were accustomed to subsidies and minimal taxation, VAT was initially met with skepticism due to its negative impact on lower-income households. To mitigate these effects, several countries have introduced VAT exemptions or reduced rates on essential goods. However, this limits VAT's overall effectiveness as a fiscal tool. Meanwhile, Morocco, Tunisia, and Egypt have long relied on VAT to fund public services, though enforcement remains uneven. As digital records and registries become more common in MENA countries, governments can consider introducing a "personalized VAT" that taxes goods uniformly but offers also tax refunds to well-identified low-income or vulnerable groups. Several countries in Latin America have institutionalized this approach after successful piloting.[18]

FIGURE 5.9
Frontier analysis of revenue collection not based on natural resources



Source: Dominik Naeher (2025), for this report. Note: The Economic Structure index ranks countries according to their enabling conditions to revenue collection. The vertical axis displays revenue collection. The blue line represents the frontier, revenue that countries could collect.

FIGURE 5.10
Cigarettes are exceptionally inexpensive in most MENA LICs and MICs



Source: C. Ozer (2025). Note: Figure shows taxes and prices of the Most Sold Brand of cigarette packs for 2022 in US$.

Taxes aimed at improving the population's health can yield short-term fiscal benefits, and medium-term savings on health spending and premature deaths. Revenue from tobacco taxes in the MENA region is already significant, averaging about 0.7 percent of GDP. Variation in prices and revenues across low- and middle-income countries is high, however. In Jordan, tobacco taxes raise 2.2 percent of GDP, while in Egypt, where cigarettes are far less costly, revenue is about half the amount. Increases in cigarette prices have indeed led to reduced consumption in some MENA countries, and countries like Egypt, Iraq, Libya, and Tunisia have yet to take advantage of their full potential (Figure 5.10). On the other hand, taxes on sugar-sweetened beverages (SSBs) are still rare in MENA, even if the consumption of SSBs has grown in most of the region. In the context of rising obesity rates, there is a strong argument for targeting the sugar content in SSBs more directly. Tying price reforms to visible improvements in public goods delivery, such as health, and sensitizing the population on the benefits is essential to make price reforms politically sustainable.

Enhancing coordination with off-budget financing sources

Several domestic actors other than human development line ministries are also making considerable investments that directly impact human capital outcomes. Notable examples that are unique to the MENA region are sovereign wealth funds (SWF) and charitable institutions that deliver Zakat donations. Countries around the world use a variety of tools including tax rebates and local coordination bodies to harness the potential of private or semi-private philanthropy to complement state services. An analysis of how these funds operate in the human development sectors in MENA shows that there is untapped potential to increase the effectiveness of this spending through more deliberate coordination with government agencies.

As sovereign wealth funds increasingly finance human development initiatives, governments must ensure these resources effectively complement public provision. There are 28 SWFs in MENA collectively managing US$5 trillion in investments. A stocktaking of their portfolio for this flagship report revealed that SWFs are

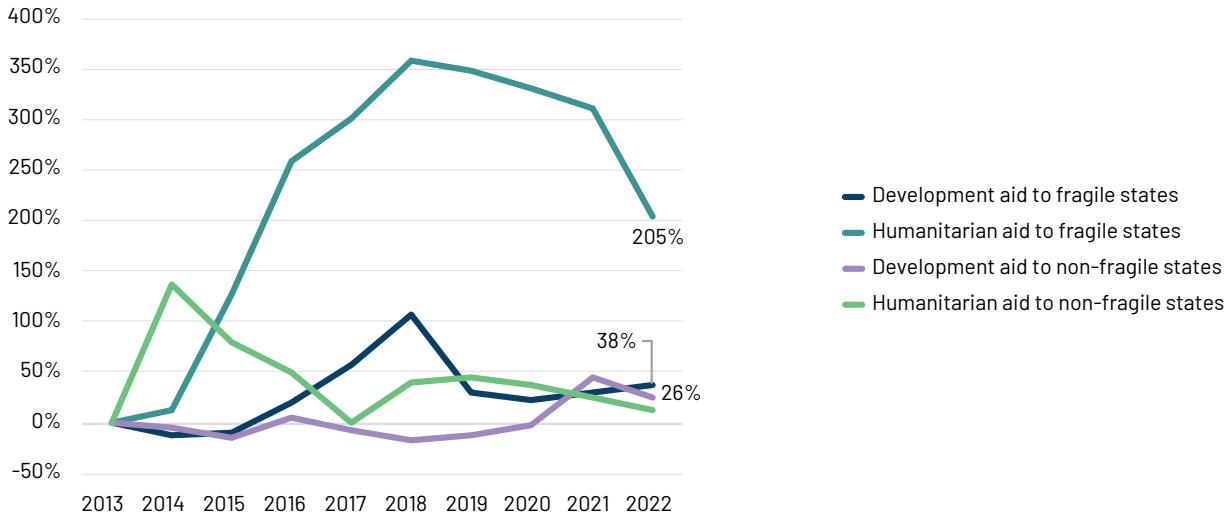
involved in delivering human development services, though not always in coordinated ways (Global SWF 2025). Some provide direct cash transfers to beneficiaries, some provide earmarked funds to finance government services, some finance philanthropic foundations that invest in the human development sectors, and some invest directly in social service delivery. This will require taking stock of all current philanthropic activity in the human development sectors and developing a coordination mechanism to identify the specific roles to be played by SWF as part of the government's delivery planning.

Zakat and private philanthropy can complement state efforts and fill gaps in human development financing left by limited public finances. Zakat, Islam's mandatory charitable giving for those in need, has been estimated to range from US$76 billion to US$1 trillion per annum. Zakat assistance can be rendered in cash or in-kind as well as through voluntary contributions, state-controlled channels, or within the givers' own networks. Many of these systems use a hybrid approach where central Zakat Funds collaborate with local committees to distribute the resources. In Libya, uniform eligibility criteria for recipients are applied nationwide. Despite their operational independence, state-led Zakat Funds are often administered by the same government ministry as Fatwa-making bodies as in Oman. Morocco, Tunisia, and Türkiye have no state-run Zakat Funds, and donations are managed exclusively by citizens and NGOs.

When the state is involved in collecting and distributing Zakat, it can strike a balance between the public's preferences for direct giving at the local level and the need for coordination and equity. However, the review of experiences carried out by Katriel and Elshawarby (2025) has shown that collaboration among government agencies, Zakat authorities, and NGOs can enhance the efficiency and reach of these initiatives while minimizing duplication of efforts. The case of Egypt is notable. Zakat donations can compensate those who are vulnerable according to Islamic norms but are not eligible for the Takaful and Karama conditional cash transfer program. It is essential to have a robust monitoring and evaluation (M&E) in place to track the collection, distribution, and overall impact of Zakat funds on human development outcomes.

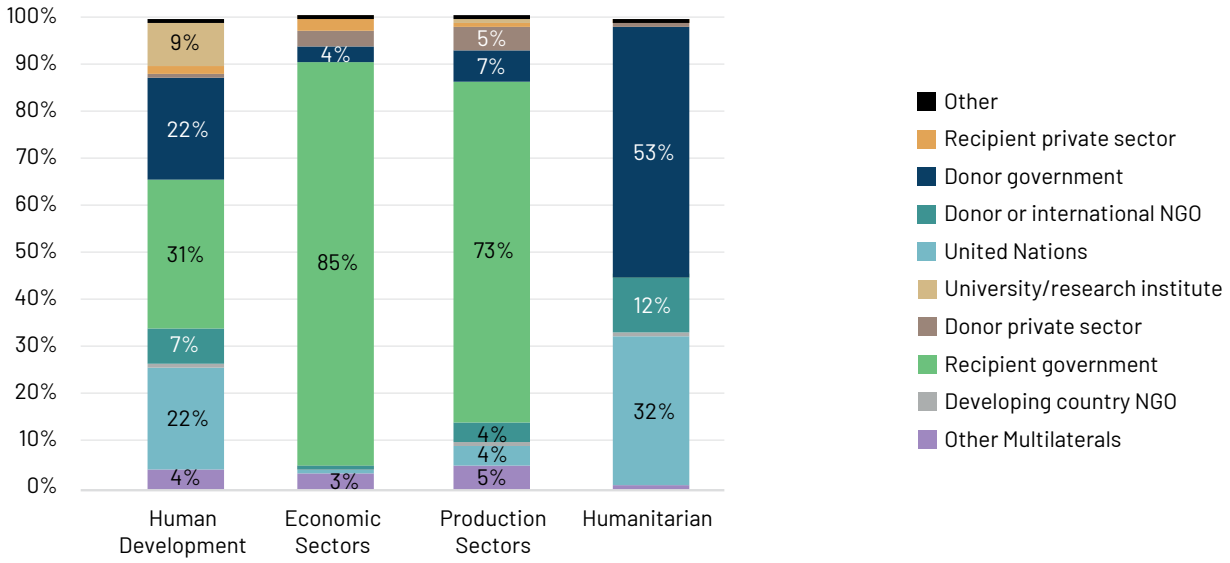
For fragile countries, finding cost-efficient ways to execute aid will be critical to mitigate the impact of falling official development assistance (ODA). Over the last decade, ODA to MENA grew by 55 percent in real terms to US$33 billion by 2023. Most of this growth was humanitarian assistance to fragile countries (Figure 5.11). Such flows, however, were also remarkably fragmented: none of the humanitarian assistance was channeled through government systems, and rather executed by bilateral agencies, NGOs or the UN agencies (Figure 5.12). On the other hand, most development assistance (60 percent) was executed by the recipient government and its agencies, although less so in the case of human development sectors (31 percent).

FIGURE 5.11
Development assistance to MENA's fragile states has risen but less so than humanitarian assistance



Source: Coppard (2025) for this report, based on OECD data for MENA countries.

FIGURE 5.12
Humanitarian aid and development assistance to the human development sectors are largely executed outside government systems in MENA recipient countries



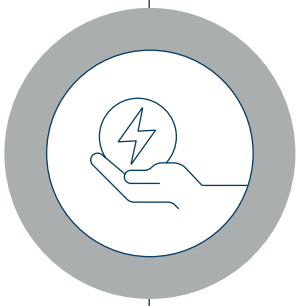
Source: Coppard Daniel and 2025, for this report, based on OECD data. Note: Figure shows the share of development assistance to MENA countries executed by different entities. Human Capital Sectors include health, education and social protection.

Delivering more aid without bypassing national systems would help preserve or build institutional capacity in the recipient countries. This requires delivery systems, personnel hiring practices, and institutional arrangements that enable local nongovernment actors or government agencies to execute aid with accountability. In addition, governments and donors can promote "framework approaches", funding vehicles that reduce transaction costs and can pool different sources of funding, allowing authorities to increase predictability their capacity for service delivery. This flexibility is a vital consideration in protracted conflict situations, when institutions need to restore services both rapidly and uniformly across the country to mitigate the immediate destructive effects of conflict on human capital. In countries where reputational or fiduciary risks may prevent a direct channeling of resources to central governments, there is a case for donors to support "independent service agencies" that can meet fiduciary requirements and deliver social services across territories controlled by different factions (Bold et al 2009). The Social Fund for Development in Yemen has played this role over the years, guaranteeing service continuity and mitigating in part the devastating effects of the war.

Finally, donors can promote human development in countries in high debt distress through debt cancellation agreements in exchange for domestic financing in health or education. "Debt-for-development swaps" are an interesting new option for MENA countries to consider alleviating fiscal pressure and redirect resources towards crucial social investments like education. For example, in 2005 the Government of Spain cancelled US$10 million of El Salvador's debt in return for El Salvador constructing rural schools and purchasing textbooks. In 2000 and 2002, the Government of Germany canceled about Euro 20 million of debt to Indonesia in return for providing teacher training and building schools.[19] These arrangements can be particularly important for conflict countries that have deficits in both public trust and transparent spending.

06

A shared direction of travel with different policy priorities in a diverse region



A SHARED DIRECTION OF TRAVEL WITH DIFFERENT POLICY PRIORITIES IN A DIVERSE REGION

Within the broad agenda laid out in this report, countries should prioritize and sequence human development reforms based on principal challenges, impact, and capacity. There are several potential ways to approach this question, but generally policymakers will need to consider the country-specific opportunity and risks of the three megatrends, technical capacity to delivery specific programs, fiscal space to introduce new policies, and the potential opportunity cost of not attending to immediate human development needs. Prioritization is particularly necessary for governments facing steep fiscal tradeoffs and limited capacity.

Selectivity is important, yet specific policies may at once help address structural constraints, prepare for the future, and serve immediate priorities. Moreover, some investments may address one specific megatrend but have positive spillovers for other ones (see table 6.1). Some examples follow below:

- Several MICs in MENA are under significant debt distress and must balance pressures to support underfunded existing services with investments that offer long-term benefits. In these countries, priority can be given to reducing inefficient spending in ways that also prepare for the future, such as by curbing energy and food subsidies or reforming unsustainable pensions. For instance, social safety nets can support those immediately affected by these reforms, but also with added features to strengthen climate resilience or to help workers cope with higher retirement ages. Direct tax reform can be combined with strengthening of social registries and, measures to support social insurance collection among the (digital) self-employed. Pro-health excise taxes are additional ways to raise financing for underfunded sectors.

- In countries at more advanced stage of demographic change, reforming social protection benefits can help extend working life, female labor supply and fertility. Strengthening NCD prevention and detection, and fostering the care economy, can have more immediate returns in terms of fiscal savings and female employment, including women entrepreneurship opportunities.

- Investing in labor market observatories and skills systems is crucial in countries where the green and digital transition are already ongoing and employers and investors' demands can be clearly identified. These institutions will be more impactful if combined with governance and financing reforms of education and training providers, so they can become better responsive. Targeted incentives to enroll vulnerable young people increases social returns from such investments.

Photo: © Nile Delta/ World Bank

- Governance reforms tend to be particularly needed in MENA's resource-rich MICs, which are still fragile and where public employment has been a tool for social cohesion. In some areas institutional reforms may be a pre-condition to building more advanced policies. For instance, countries where basic learning outcomes are very low, investments in digital technologies, teacher training, school management and adult education can provide the necessary foundational skills for graduates to absorb specialized training.

- MENAs high-income countries, which have large investment capacity, can pursue the full range of HD policies that respond to megatrends while advancing economic diversification and broadening their revenue bases. There, investing in people's capacities and competent bureaucracies, and communication is particularly critical to sustain the rapid reform pace.

- Conflict affected countries face the greatest risks for long-term recovery. They should prioritize human capital preservation and restoration, basic education, basic health, and safety nets. Reforms that reduce fiduciary risks and enable transparent execution of aid through local agencies and entities would help strengthening local institutional capacity for the future.

Addressing megatrends will also benefit from greater regional and international cooperation in HD policies. Issues include bilateral labor migration, international standards for skills and qualifications, strengthening preparedness to pandemics, tertiary education and skills development, and filling financing gaps for HD services in conflict affected countries.

Finally, discussing the social and economic effects of the megatrends will be key to building public support for reforms. Sharing information and engaging with different parts of society on how to prepare HD policies for ageing, climate change and technological change will be very important in a region where surveys report limited trust in government and where HD reforms have stalled in some areas, such as education. Governments should also encourage the robust engagement of academia, civil servants and the private sector, by making data more accessible, and by opening spaces for structured dialogue. This report and its many background knowledge products are designed to support, through evidence and international experience, such a dialogue within the region.

TABLE 6.1: Future-fit policies can help prepare for multiple transitions: some examples

Policies ...	Help Prepare for Transitions...			And advance...	
HD Policy Priorities	**Climate & Green Transition**	**Demographic**	**Digital & AI**	**Institutional Capacity**	**Financing & efficiency**
Skills Development systems	■	■	■	■	
Long term care		■			
Pension benefit reforms		■			■
Adaptive Social Protection	■				■
Maternal, child, reproductive health	■	■			
NCD detection, management		■			■
Digitalization of HD services				■	■
Labor regulations for digital jobs, AI			■	■	
Early childhood education		■	■		
Energy Subsidy Reform	■				■
Firm technology adoption policies	■		■		
Resilient HD infrastructure	■				
Aid domestic execution				■	■
Pro-health excise taxes		■			■
Progressive tax reforms	■	■			■
Workforce development			■	■	
Resource flexibility (Human, FM)	■	■			■
Data production, use and openness	■	■	■	■	■

Source: Authors. Note: Dark blue represents primary policy goal, lighter blue additional areas benefitting from it.

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Endnotes

1 In line with World Bank terminology, the MENA region comprises Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

2 World Development Indicators.

3 These figures include only Egypt, Iraq, Jordan, Lebanon, Tunisia, United Arab Emirates, and Yemen.

4 Extreme poverty is defined as less than US$2.15 per day (World Bank Poverty and Inequality Platform, 2024). Data are expressed in international $ at 2017 prices.

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6 Authors calculation for 18 MENA countries based on World Development Indicators 2025.

7 Internal Displacement Monitoring Centre (2022).

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9 Aus dem Moore et al. (2018).

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12 Ridao-Cano, Moosa, Piralles-Miralles et al. (2023).

13 UNRWA (2025). Situation Report #182 on the Humanitarian Crisis in the Gaza Strip and the West Bank, including East Jerusalem; UNESCWA. UNDP (2024). Gaza war: Expected socioeconomic impacts on the State of Palestine.

14 For the ample growth and jobs agenda in MENA see Gatti et al (2011) and World Bank, 2022.

15 Meaning that the benefit promises made by most pension schemes in the region are not in line with contribution rates and retirement ages (Montserrat Pallares-Miralles, 2025).

16 Most food subsidies are universal, including in Morocco, Tunisia, Egypt, Lebanon, Libya, Algeria, and Iran. The Iraq PDS and Egypt's main food subsidies (ration cards and baladi bread) are quasi-universal.

17 In response to fiscal pressures during the COVID-19 pandemic, Saudi Arabia raised its VAT rate to 15 percent in 2020.

18 Pineda et al (2024) and Rasteletti (2021).

19 UNESCO (2011).


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