

## Annex IV. Measuring Inclusiveness in the MENAP and CCA Regions

*Poverty rates and income inequality have declined in the MENAP and CCA regions over the past two decades. The size of the middle class has remained significant in both regions but has grown much more slowly in MENAP oil importers than in the CCA and other countries. Access to services, including water, electricity, education, and finance, as well as employment opportunities, are also considerably lower in MENAP oil importers. Some economic groups, such as youth and women, are particularly disadvantaged in this regard. Land-based income distribution remains unequal, especially in the CCA and also in MENAP, where many countries have large rural populations.*

### Mixed Performance on Poverty, Inequality, and Middle Class Size

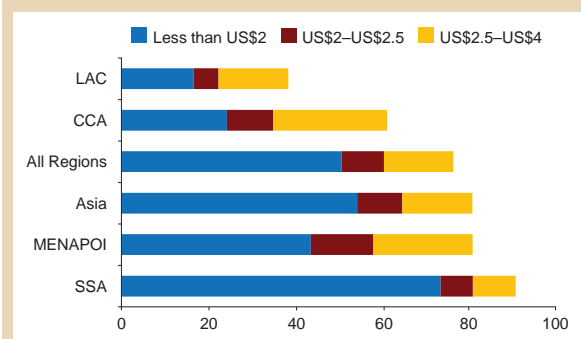
**Poverty rates in the MENAP and CCA regions have steadily declined over the past decade and are among the lowest in the developing world.** Based on the international poverty line of 2 PPP per day, poverty rates in the CCA and MENAP oil importers declined by 14 percentage points and 9 percentage points between the 1990s and 2000s, to 24.3 percent and 32.8 percent, respectively (Figure A4.1).<sup>1</sup> These rates are well below those in developing Asia and sub-Saharan Africa, but above poverty rates in Latin America. This regional assessment masks heterogeneity across countries; however, poverty rates in MENAP oil importers vary from a low of 10 percent in Tunisia to a high of 64 percent in Pakistan. In Egypt, the poverty rate increased from 16.7 percent in 2000 to 21.6 percent in 2009 and 26.3 percent in 2013. Moreover, many people in MENAP oil importers and the CCA remain at a high risk of falling into poverty, as 14.5 percent and 11 percent of populations, respectively, live on incomes that are just above the international poverty line (between US\$2 and US\$2.5).

#### Indicators of income inequality in MENAP and CCA countries have improved over the past

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<sup>1</sup> MENAP oil exporters are excluded from many cross-country comparisons because of data scarcity.

Figure A4.1  
**Population Living on \$4 or Less, 2000–10**  
(Average, percent)



Source: World Bank, World Development Indicators database.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

**decade.** The population-weighted Gini index for the CCA region decreased from 39.3 in 1990s to 35 in the 2000s, while remaining stable in MENAP oil importers at 33 (Table A4.1).

The relative income shares of the top and bottom quintiles are also the lowest in MENAP oil importers and the CCA. These data, however, may suffer from measurement problems (see Alvaredo and Piketty 2014; Verme and others 2014), for example, because upper-income households are underrepresented in the household surveys (see United Nations Development Programme 2011). The land ownership concentration measured by the Gini index points to a more unequal distribution, especially in countries with a large rural population (Figure A4.2). These findings are broadly consistent with a widely held view that high inequality and perceptions of exclusion (see more on this in the

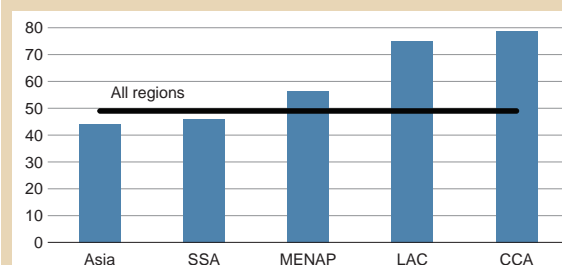
**Table A4.1. Measures of Inequality**

	Gini Index		Relative Income Shares – (P80/P20)	
	1990s	2000s	1990s	2000s
CCA	39.3	34.9	8.8	5.7
Asia	33.8	37.9	5.4	7.2
LAC	53.8	53.6	20.4	19.7
MENAPOI	33.0	32.9	5.1	5.0
SSA	44.8	42.7	10.5	9.6
All Regions	37.6	39.9	7.7	8.7

Note: The relative income shares are calculated as a ratio of the income share of the top quintile to that of the bottom quintile. Population-weighted averages. LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.2

### Land Gini Index (Weighted average)



Source: United Nations Food and Agriculture Organization.  
Note: Regional averages based on one observation per country, obtained between 1996 and 2006. LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

**Table A4.2. Size of the Middle Class Using Alternative Definitions**

(Percent of population)<sup>1</sup>

	Ravallion (2009) <sup>2</sup>	Asian Development Bank <sup>3</sup>	African Development Bank		Ferreira and Others (2001) <sup>6</sup>	Birdsall, Graham, and Pettinato (2000) <sup>7</sup>
			“Lower Middle” <sup>4</sup>	“Upper Middle” <sup>5</sup>		
<b>1990s</b>						
CCA	59.6	61.3	24.6	3.8	4.1	31.2
Asia	21.9	22.2	4.3	0.5	0.6	35.7
LAC	65.3	71.6	33.8	12.1	17.4	22.4
MENAPOI	39.4	40.2	12.4	1.8	2.2	41.6
SSA	22.2	22.8	6.3	1.2	1.7	26.9
All Regions	29.0	30.1	9.0	2.1	2.9	33.3
<b>2000s</b>						
CCA	83.2	86.3	44.7	7.5	8.7	36.4
Asia	51.5	53.4	20.0	4.2	5.2	31.2
LAC	67.9	78.4	39.2	20.0	28.6	22.6
MENAPOI	59.1	60.2	18.2	2.6	3.1	40.8
SSA	30.3	31.1	8.2	1.6	2.4	28.9
All Regions	51.9	54.6	21.1	5.6	7.4	30.6

Source: IMF staff calculations based on World Bank Poverty database.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

<sup>1</sup> Regional averages weighted by population.

<sup>2</sup> Daily income between US\$2 and US\$13 in 2005 PPP\$.

<sup>3</sup> Daily income between US\$2 and US\$20 in 2005 PPP\$.

<sup>4</sup> Daily income between US\$4 and US\$10 in 2005 PPP\$.

<sup>5</sup> Daily income between US\$10 and US\$20 in 2005 PPP\$.

<sup>6</sup> Daily income between US\$10 and US\$50 in 2005 PPP\$.

<sup>7</sup> Income between 75 percent and 125 percent of the national median.

next section) were a key cause of the social turmoil in the Arab Countries in Transition.

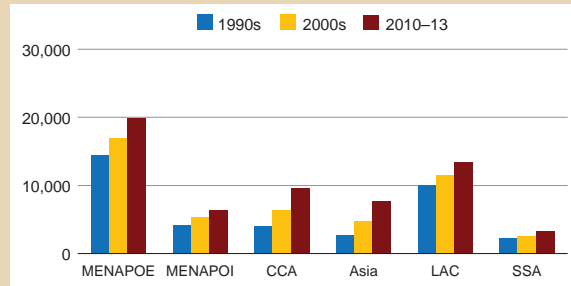
**The middle class has remained significant in MENAP oil importers and the CCA, despite a slower expansion during the past decade in MENAP oil importers than in the CCA and other regions of the world.** There is no strong evidence that the middle class has been “hollowing out” over the years in MENAP oil importers and

the CCA. By most common measures,<sup>2</sup> the middle class in the CCA, and to a lesser extent in MENAP oil importers, comprises the largest proportion of the population (Table A4.2). However, the middle class in MENAP oil importers has been growing at a slower rate

<sup>2</sup> See Abu-Ismaïl and Sarangi (2013) for a brief overview of alternative measures of the size of the middle class.

Figure A4.3

### GDP per Capita (PPP, Constant 2011 International Dollars) (Average)



Source: World Bank, World Development Indicators database.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

than that in the CCA and developing Asia. The upper middle-income class has remained small in MENAP oil importers while expanding significantly in other regions.

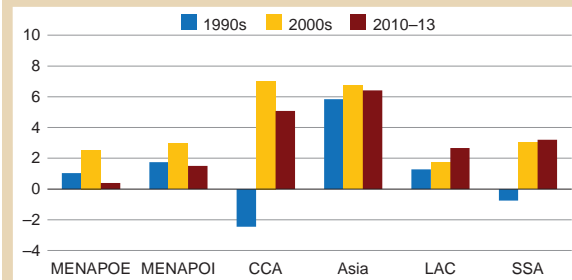
## Low Growth and Access to Services in MENAP Oil Importers

**Lackluster growth in MENAP oil importers hurts inclusiveness by hampering social development, poverty reduction, and improvement in living standards.** Despite increasing by about 50 percent between the 1990s and 2010s, GDP per capita (based on 2011 PPP) in MENAP oil importers has been well below levels observed in other regions, except sub-Saharan Africa (Figures A4.3 and A4.4). This underperformance reflects both low economic growth and rapid population growth. By comparison, during the same period, GDP per capita more than doubled in the CCA, allowing this region to catch up with Latin America. While GDP per capita is the highest in MENAP oil exporters, its growth rate is the lowest, in part reflecting these economies' dependence on oil and gas.

**Access to services such as water and electricity is low in MENAP oil importers, and the region lags behind its peers in educational attainment and access to finance.** The share of the population deprived of access to education and health and experiencing low standards of living—also known as

Figure A4.4

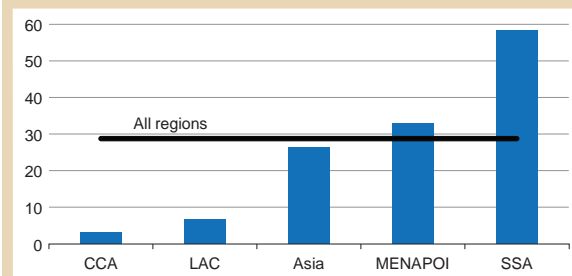
### GDP Per Capita Growth (PPP, Constant 2011 International Dollars) (Percentage change)



Source: World Bank, World Development Indicators database.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.5

### Population Living in Multidimensional Poverty (2013; percent)



Source: United Nations Development Programme, Multidimensional Poverty Index.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

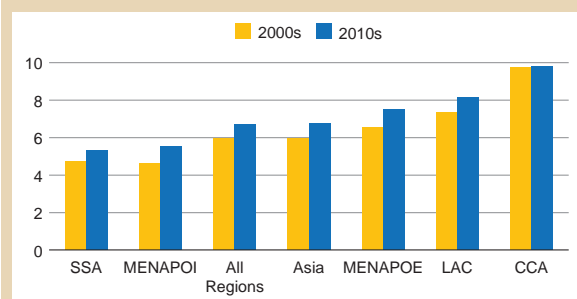
“multidimensional poverty”<sup>3</sup>—stayed at 33 percent in MENAP oil importers during 2000–10, among the highest in the world, and well above the levels observed in the CCA (3.1 percent), Latin America (8.3 percent), MENAP oil exporters (23.5 percent), and developing Asia (26.7 percent) (Figure A4.5). MENAP oil importers are also performing poorly in educational attainment; despite some progress, average years of schooling stand at 5.5 years, only slightly better than in sub-Saharan Africa and much worse than in other regions of the world (Figure A4.6). Low access to bank services, with the number of bank branches per 100,000

<sup>3</sup>The “multidimensional poverty” index uses 10 indicators to measure the degree of deprivation with respect to three key welfare dimensions: education, health, and living standards. That latter measure includes access to cooking fuel, toilets, water, electricity, and assets.

Figure A4.6

### Educational Attainment

(Average years of schooling for population age 15+)



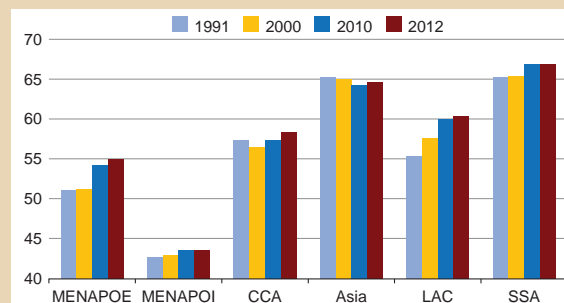
Source: Barro-Lee dataset.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.8

### Employment-to-Population Ratio

(Regional average for corresponding years using available data)



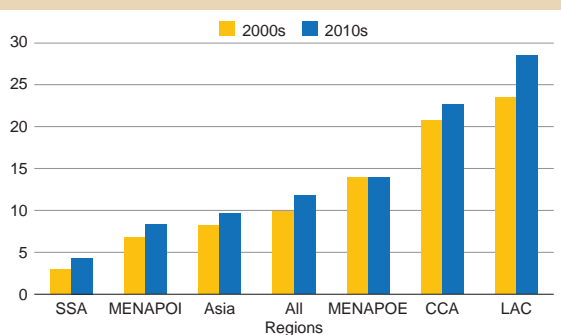
Source: International Labour Organization, Key Indicators of the Labor Market.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.7

### Access to Bank Services

(Number of commercial bank branches per 100,000 adults)



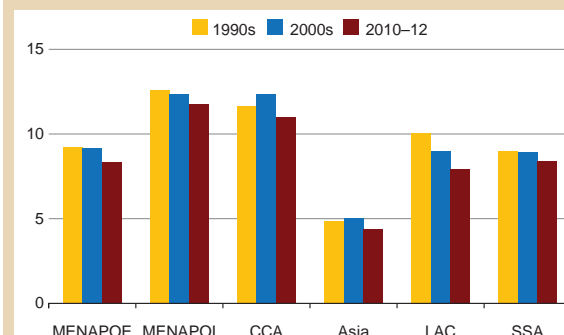
Source: World Bank, World Development Indicators database.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.9

### Unemployment Rate

(Decade averages, percent)



Source: International Labour Organization, Key Indicators of the Labor Market.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

adults averaging less than a third of that in Latin America, continues to hamper social and economic development in MENAP oil importers (Figure A4.7).

## Lack of Employment Is a Key Inclusiveness Problem

The MENAP and CCA regions have some of the lowest employment-to-population ratios in the world. In MENAP oil importers, in particular, employment rates hover at about 43 percent at present. This compares poorly with other developing regions, where similar ratios range between 60 percent (Latin America) and 67 percent (sub-Saharan Africa) (Figure A4.8). There is, however, considerable variation within both the CCA and MENAP regions. In the CCA, employment-to-population ratios range

from 54 percent in Turkmenistan to 68 percent in Kazakhstan, whereas in the MENAP they range from 32 percent in Jordan to 86 percent in Qatar. In addition, more than one-third of those employed in MENAP oil importers are “vulnerable” (either self-employed or working as contributing family workers) (Hakimian and others forthcoming), contrasting with the almost negligible share of “vulnerable” employed in MENAP oil-exporting countries such as Kuwait, Qatar, and the United Arab Emirates.

High unemployment rates, particularly among the youth, mirror low employment rates. In MENAP oil importers and the CCA, unemployment rates have been consistently in double digits during the past 20 years, and they continue to exceed the rates for other developing regions (Figure A4.9). For the youth, they are

particularly high, persistently exceeding 20 percent in MENAP and the CCA—well above the rate in other regions such as developing Asia (10 percent) and sub-Saharan Africa (15 percent) (Figure A4.10). These statistics have not improved significantly in recent years, in part because the recovery has been weak. Youth unemployment rates are highest in Mauritania (45 percent) and above 30 percent in many MENAP and CCA countries, particularly Armenia, Egypt, Georgia, Iraq, Jordan, and Yemen.

**The previous evidence suggests that labor market performance in the MENAP and CCA regions—particularly in MENAP oil importers—remains weaker than in other regions of the world.** These economies have not been able to translate economic growth into employment opportunities. This conclusion is corroborated by evidence on the employment-output elasticities (that is, the net new job creation for each percentage point change in GDP). In particular, the evidence presented in Crivelli, Furceri, and Toujas-Bernaté (2012) suggests that the employment intensity of growth in MENAP oil importers has been among the lowest in the world (0.1)—only a notch higher than in sub-Saharan Africa.

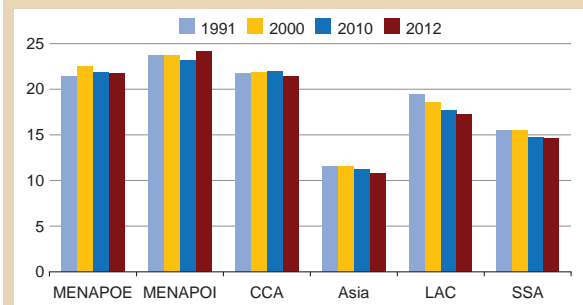
## Acute Gender Inequality in MENAP

**Labor force participation rates in MENAP are among the lowest in the world** (Figure A4.11).<sup>4</sup> Within the region, there is significant heterogeneity. Labor force participation rates in MENAP oil exporters have been rising and currently stand at the levels of other developing regions (about 60 percent). In MENAP oil importers, they have remained stable at about 50 percent. By contrast, participation rates in the CCA have been in line with those of developing Asia and Latin America.

**The low labor force participation rates in MENAP mainly reflect very low female labor force participation rates**—the lowest among

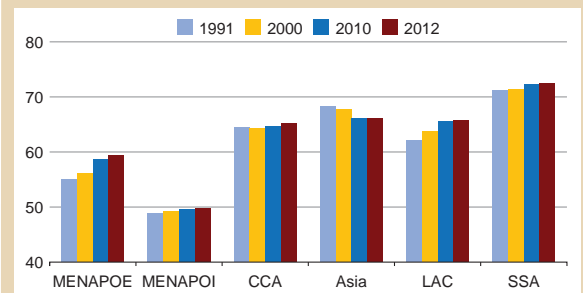
<sup>4</sup> For more detailed analysis of female labor force participation in MENAP, see Box 1.3, in the November 2013 *Regional Economic Outlook*.

Figure A4.10  
**Youth Unemployment Rate**  
(Regional average, percent)



Source: International Labour Organization, Key Indicators of the Labor Market.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.11  
**Labor Force Participation Rate**  
(Regional average for corresponding years, percent)



Source: International Labour Organization, Key Indicators of the Labor Market.  
Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

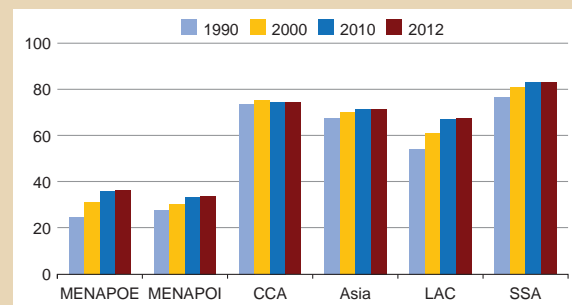
developing regions. In particular, the female-to-male labor participation rate in MENAP, even though it has been improving over the past two decades, is only about 27 percent compared to more than 65 percent in other regions (Figure A4.12). Extremely low female-to-male labor participation rates are recorded for Afghanistan and Syria (less than 20 percent), followed by Algeria, Iran, Iraq, Jordan, and Saudi Arabia (all below 35 percent).

**Gender disparities are also evident in women's access to health, education, and economic opportunities more broadly.** These different aspects of gender disparities are summarized in the World Economic Forum's Gender Gap Index (see Figure A4.13).<sup>5</sup> Two striking features emerge:

<sup>5</sup> See the World Economic Forum's Global Gender Gap Report (2013) for details on the construction of the index.

Figure A4.12

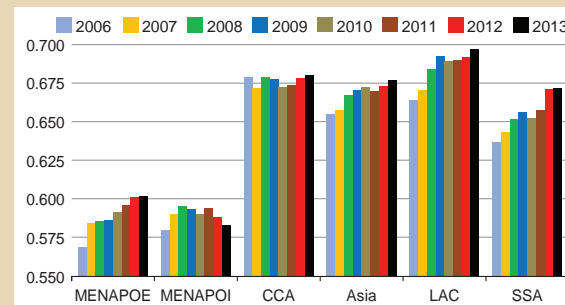
**Female-to-Male Labor Force Participation**  
(Number of females participating per 100 males)



Source: International Labour Organization, Key Indicators of the Labor Market. Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

Figure A4.13

**Global Gender Gap Index, 2006–13**  
(Average)



Source: World Economic Forum, Global Gender Gap Report (2013). Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

- Gaps in the MENAP regions are among the widest in the world—the index score is well below that of other developing regions, including the CCA.<sup>6</sup>
- Gaps for MENAP oil importers have widened in recent years. There is, however, important heterogeneity within the region: (1) gaps are particularly wide in Pakistan, Syria, and Yemen, whereas in Jordan and Lebanon they are not significantly different from those of other regions; and (2) gaps have widened in Syria over the past decade, and improved markedly in some countries (for example, Egypt).

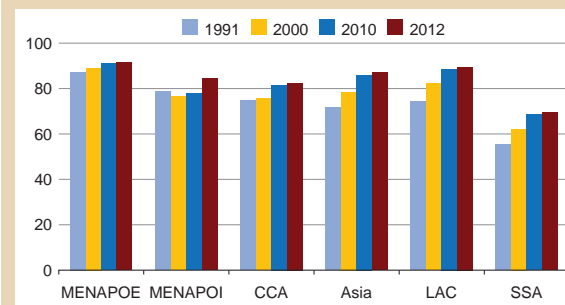
**Regional inequality in access to basic services is also present in the MENAP region.** One important aspect of inclusiveness is how access to basic services (water and sanitation) is shared across regions in a given country:

- **The rural-to-urban ratio for access to improved water sources** is, on average, similar in the MENAP and CCA regions to that in most other developing regions, and is significantly better than in sub-Saharan Africa (Figure A4.14). However, these broad trends mask important differences across countries, particularly in the MENAP oil-importers group, where the ratio of rural-to-urban populations with access to improved water sources ranges from less than 62 percent in Afghanistan to 100 percent in Lebanon.

<sup>6</sup> A lower score on the index indicates larger gender gaps.

Figure A4.14

**Rural-to-Urban Access to Improved Water Source**  
(Number of rural persons with access for every 100 urban persons with access)



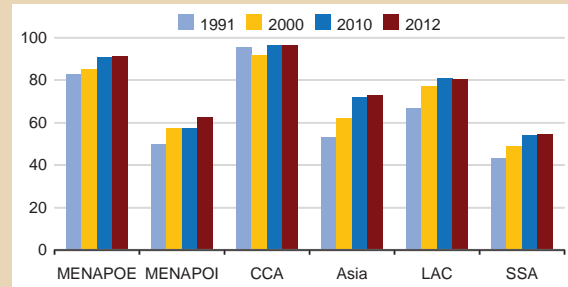
Source: World Bank, World Development Indicators database. Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

- **The rural-to-urban ratio for access to improved sanitation facilities** is among the lowest in the world for MENAP oil importers, and is higher only than that in sub-Saharan Africa (Figure A4.15). This contrasts with the experience of MENAP oil exporters and the CCA, where significant improvements have been made over the past two decades and the rural-to-urban ratio of access to improved sanitation facilities is now among the highest in developing regions.

## Toward Better Outcomes

Although the diagnostic shows many encouraging outcomes, there is a clear need for policies to address areas in which inclusiveness

Figure A4.15

**Rural-to-Urban Access to Improved Sanitation***(Number of rural persons with access for every 100 urban persons with access)*

Source: World Bank, World Development Indicators database.

Note: LAC = Latin America and the Caribbean; SSA = sub-Saharan Africa.

**can be improved.** Poverty rates have been falling and income inequality has declined, but high unemployment and low labor force participation remain areas of concern in many countries. In addition, access to services such as electricity, water, education, and finance is lagging. Some groups, such as women, youth, and rural populations, remain particularly disadvantaged.

**Raising economic growth would strengthen employment prospects.** Higher rates of sustained economic growth would generate more jobs and provide incentives to enter the labor force, including for women and youth. Policies to strengthen growth will vary among countries but would often include creating fiscal space to increase priority spending (health, education, infrastructure),

and policies to increase trade integration, improve the business climate, and reform labor markets.<sup>7</sup>

**Special emphasis is needed to promote wider access to services.** A strengthened focus on the quantity and efficiency of public investment is needed to address major gaps in the provision of electricity, water, and education (Annex II). Access to finance can be improved by expediting reforms of legal and financial infrastructures, developing customized products for small and medium-sized enterprises, expanding the nonbank financial sector, and providing carefully designed credit guarantee schemes (Annex III).

**Countries need to give particular attention to excluded groups.** For instance, female labor participation can be encouraged by improving access to, and quality of, education for girls, legislative reform to ensure equal opportunity in employment, ensuring equal pay for equal work, and providing adequate parental leave and affordable childcare facilities (see Box 1.3 in the November 2013 *Regional Economic Outlook*). Policies to ease youth unemployment can include targeted active labor market policies, including training and counseling for labor market entry and internship schemes to smooth the transition from school to work. Where gaps between rural and urban populations regarding access to services are wide, public investment can be targeted to disadvantaged regions.

<sup>7</sup> For a detailed discussion of policy issues, see Annexes I, II, and V; IMF 2014b, 2014e.