North Africa Economic Outlook 2018

Macroeconomic developments and poverty, inequality, and employment

Agricultural production and food security
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# Abbreviations

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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AEO</td>
<td>African Economic Outlook</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>CAPMS</td>
<td>Central Agency for Public Mobilization and Statistics, Egypt</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petrol Exporting Countries</td>
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<tr>
<td>PPP</td>
<td>Purchasing power parity</td>
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The North Africa region has recovered strongly since the Arab Spring in 2010. Indeed, real GDP growth was estimated at 4.9 percent, up from 3.3 percent in 2016, higher than the African average of 3.6 percent and second only to East Africa. But this improved performance stems largely from the greater than expected production and export of oil by Libya, which generated strong GDP growth of 55.1 percent, thanks to an improved security situation resulting from a joint regional and international assistance effort to the country. Growth in North Africa also benefited from Morocco’s better than previous year growth of 4.1 percent in 2017, up from 1.2 percent in 2016, due mainly to improved agricultural productivity resulting from the combined positive effects of a good rainy season and implementation of the Morocco Green Plan. Growth in North Africa was also boosted by Egypt’s steady positive performance (GDP growth of around 4 percent), which was fueled by the positive effects of its macroeconomic and structural reforms.

Growth prospects for 2018 and 2019 are positive given reforms undertaken in all countries. The growth outlook for the region remains favorable relative to that for other regions (except East Africa) with an average growth projected at 5.0 percent in 2018 and 4.6 percent in 2019.

Several opportunities have emerged that could propel the North Africa region into sustained growth in 2018 and 2019. First, recovering commodity prices provide much-needed fiscal space for the countries in the region that depend on commodities, particularly Algeria, Libya, and Mauritania. The recovery in prices of metals and energy started toward the end of 2016 and continued throughout 2017, picking up the pace in July 2017.

Second, improved revenues should give governments in the region, especially Algeria, Egypt, Libya, and Tunisia, the opportunity
Growth prospects for 2018 and 2019 are positive given reforms undertaken in all countries to deepen structural reforms that would have been difficult in a fiscally constrained environment. Regained stability after difficult transitions following the Arab Spring has revived investor confidence in a number of countries in the region. Additionally, reinforced efficiency in tax collection systems, notably through an expanded tax base in some countries, and an uptick in the tourism sector are providing much-needed oxygen to fuel the tepid economies. For instance, tourist traffic in Tunisia increased 32 percent in 2017. Building on these gains will require sustained political dialogue to de-escalate conflict, especially in Libya, and create a vision of shared and inclusive growth through programs to reduce unemployment.

Third, structural reforms have taken root across the region. If sustained, these reforms will lay the groundwork for long-term growth. For instance, Algeria’s new Government Action Plan, adopted in September 2017, aims to continue consolidating state finances to reduce deficits and limit new external borrowing to achieve fiscal and external balances by 2020. Egypt’s homegrown reform program, supported by the AfDB, IMF, and the World Bank through $4.5 billion in budget support, has already improved the macroeconomic environment.
THE NORTH AFRICAN ECONOMY

This North Africa Economic Outlook (covering Algeria, Egypt, Libya, Mauritania, Morocco, and Tunisia) comes as the region has weathered an intense and widespread political transition, triggered by the Arab Spring, and as the commodity price boom that had fueled the region’s economy for more than a decade ended. Most countries in the region showed signs of strong recovery and a return of investor confidence, raising expectations of a positive midterm economic outlook. Indeed, North Africa had an average human development index of 0.667, ranking first in Africa, followed by Southern Africa (0.568), Central Africa (0.503), East Africa (0.496), and West Africa (0.461). However, major gaps exist between and within countries, and regional disparities in poverty and unemployment remain pervasive. In 2013 (the latest year with data), close to 10 percent of the region’s population (about 18 million people) lived below the $2.90 a day per person poverty line (in 2011 purchasing power parity, PPP, terms). In 2016, close to 20 percent of the labor force was unemployed, and unemployment was particularly high among youth. According to the African Development Bank (AfDB), the region would need to accelerate its current pace of growth by about 4 percentage points every year for the next decade in order to alleviate poverty and reduce unemployment. However, slow economic transformation—particularly, the lack of sophistication in economic processes and products that would create progress on the value-added scale—is preventing sustained rapid and inclusive growth.

REGIONAL ECONOMIC PERFORMANCE AND OUTLOOK

Performance in 2017 and projections for 2018 and 2019

The North Africa region has recovered strongly since the Arab Spring in 2010. Indeed, real GDP growth in 2017 was estimated at 4.9 percent, up from 3.3 percent in 2016, higher than the African average of 3.6 percent and second only to East Africa (figure 1). But this improved performance stems largely from the greater than expected production and export of oil by Libya, which generated strong GDP growth of 55.1 percent, thanks to an improved security situation resulting from joint regional and international assistance to the country. Growth in North Africa also benefited from Morocco’s better than previous year growth of 4.1 percent in 2017, up from 1.2 percent in 2016, due mainly to improved agricultural productivity resulting from the combined positive effects of a good rainy season and implementation of the Morocco Green Plan. Growth in North
Africa was also boosted by Egypt’s steady positive performance (GDP growth of around 4 percent), which was fueled by the positive effects of its macroeconomic and structural reforms.

Growth prospects for 2018 and 2019 are positive given reforms undertaken in all countries. The growth outlook for the region remains more favorable than that for other regions (except East Africa) with average growth projected at 5.0 percent in 2018 and 4.6 percent in 2019 (figure 2).

Egypt, with its large economy and relatively strong growth, contributed the greatest share of the region’s GDP growth in 2016 and 2017 (figure 3). Egypt is also expected to drive regional performance in 2018, with projected growth of 4.8 percent based on sustaining its reform program. The approval of a three-year joint reform program in November 2016 by Egypt, the AfDB, the International Monetary Fund (IMF), and the World Bank was a strong sign of government commitment to adjusting its fiscal position, improving the business environment, and stabilizing the economy.

The strong expansion in Libya in 2017 also pushed the country’s contribution to the region’s average growth to 29.7 percent as it recovered from a 3 percent contraction in growth in 2016 that had dragged its contribution to the region’s growth down to −1.6 percent. Libya’s economic expansion in 2017 and large contribution to regional growth reflected a slight recovery in oil prices, attendant increases in production, and a de-escalation of political instability. As oil prices picked up somewhat, fluctuating between $52 and $60 a barrel from August to November 2017, Libya (which is exempt from OPEC oil output cuts) increased output toward the end of 2016 and throughout 2017. Oil production more than doubled from 400,000 barrels a day in 2016 to around 900,000 in September 2017. Efforts to restore peace in the country coupled with rising oil prices are expected to bolster Libya’s economy in 2018. The recovery momentum in Libya is projected to continue at a rate of 31.2 percent in 2018.

Algeria made the third largest contribution to regional growth, at 13.4 percent in 2017, down from 28 percent in 2016. The drop in Algeria’s share was due mainly to slower economic growth, which dipped from 3.3 percent in 2016 to 2.5 percent in 2017 as the government retrenched public investment when revenues declined. Revenues contracted as a result of production limits set by OPEC in 2016, which offset any gains from higher oil prices. The vulnerability of Algeria’s economy and fiscal revenues to developments in the global oil market continued to be a major concern.

FIGURE 1 Economic growth of North African countries, 2009–19

Source: AfDB statistics.
Egypt, with its large economy and relatively strong growth, contributed the greatest share of the region’s GDP growth in 2017. Oil market calls for reforming public spending, rebalancing external accounts, and diversifying sources of growth and revenue. Nonetheless, in the medium term, as the recovery in oil prices continues, Algeria’s economic outlook remains favorable, with the economy projected to grow 3.5 percent in 2018, a strong improvement over 2017.
Morocco also improved its contribution to the region’s GDP growth, from 4.7 percent in 2016 to 11.9 percent in 2017, thanks mainly to favorable agricultural output and increased productivity as result of the Morocco Green Plan. The Ministry of Agriculture announced in September 2017 final cereals production of 96 million quintals as a result of the substantial increase in agricultural productivity, three times the level in 2016, boosting agricultural sector value added by 16.1 percent against 3.1 percent in the rest of the economy, which was driven mainly by the services sector. The smallest contributions to the region’s GDP in 2017 came from Mauritania (accounting for only 0.5 percent) and Tunisia (2.6 percent).

After lackluster performance in 2017, Mauritania is expected to do better in 2018 and 2019 on the back of recovery in mineral prices, particularly iron ore, and a subsequent revival of public investment, structural reforms, and likely exploitation of recently discovered offshore gas. The economic outlook for Tunisia in 2018 and 2019 is strongly premised on successful implementation of ongoing structural reforms, which are expected to increase industrial output to boost exports. Additional effort is needed in the agricultural sector to counter the effects of the seasonality of growth. Reforms are already under way for taxes, energy subsidies, and investment rules and incentives, as well as for the banking system, particularly for public banks that have accumulated high levels of nonperforming loans.

**Opportunities for rapid and sustained growth**

Several opportunities have emerged that could propel the North Africa region into sustained growth in 2018 and 2019. First, recovering commodity prices provide much-needed fiscal space for the countries in the region that depend on commodities, particularly Algeria, Libya, and Mauritania. The recovery in prices of metals and energy started toward the end of 2016 and continued throughout 2017, speeding up in July 2017 (figure 4).

Second, improved revenues should give governments in the region, especially Algeria, Egypt, Libya, and Tunisia, the opportunity to deepen structural reforms that would have been difficult in a fiscally constrained environment. Regained stability after difficult transitions following the Arab Spring has revived investor confidence in a number of countries in the region. Additionally, reinforced efficiency in tax collection systems,

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**FIGURE 4 Monthly global commodity price indexes, January 2016–September 2017**

![Graph showing monthly global commodity price indexes from January 2016 to September 2017](http://www.worldbank.org/en/research/commodity-markets).
Structural reforms have taken root across the region. If sustained, these reforms will lay the groundwork for long-term growth. For instance, Algeria's new Government Action Plan, adopted in September 2017, aims to continue consolidating state finances to reduce deficits to achieve fiscal and external balances by 2020.

Egypt’s homegrown reform program, supported by the AfDB, IMF, and the World Bank through $4.5 billion in budget support, has already improved the macroeconomic environment. The program’s main emphasis is fiscal consolidation, which includes increasing tax revenues by 2.5 percent from 2016 to 2019, reducing public expenditure by slashing fuel subsidies, and containing the public sector wage bill. Foreign direct investment (FDI) has responded to reforms in the foreign exchange market that have increased the flexibility of the exchange rate and improved competitiveness.

Mauritania has improved its competitiveness thanks to a series of reforms undertaken to facilitate the creation of new businesses and attract investment. For instance, the country adopted a law on public–private partnerships aimed at reforming public–private collaboration in public investments. Tunisia could also benefit from strategic reforms adopted since 2015, including the Public Private Partnerships Law of November 2015 and the Investment Law of September 2016. However, all these initiatives should be further pursued to ensure that the intended objectives are achieved.

The recovery of the North Africa region also depends partly on the performance of the euro zone, which represented 49.7 percent of the region’s trade flows according to the United Nations Conference for Trade and Development (UNCTAD) data for 2012. The euro zone’s recent recovery is good news for the region’s exports. Growth in France, Germany, and Spain is expected to stimulate exports from North Africa to Europe.

**Risks to growth outlook and livelihoods**

Progress toward restoring macroeconomic stability has been accompanied by a rapid rise in inflation, which poses a risk to the region’s macroeconomic environment and threatens the sustainability of the recent growth recovery. Inflation in Egypt soared to 23.3 percent in 2017, from 10.1 percent the previous year, fueled mainly by depreciation of the Egyptian pound following exchange rate adjustment. As a result, real interest rates remain negative despite steady increases in nominal rates. Debt is also rising fast in a number of countries in the region. In Egypt, for instance, foreign currency–denominated debt rose from 17.3 percent of GDP in the first quarter of 2016 to 41.2 percent in the first quarter of 2017. In Mauritania, mounting debt reached 68.4 percent of GDP in 2017. Weak debt management continues to expose the country to a high risk of debt distress. In Tunisia, public debt rose to 70 percent of GDP in 2017, up from 39.7 percent in 2010. This increase resulted from the external financing of a structural budget deficit fueled since 2011 mainly by regular increases in the cost of civil servant salaries (estimated at 41 percent of the budget in 2017). This deterioration of the public debt also reflects the depreciation of the Tunisian dinar (104 percent against the U.S. dollar since 2010), as the largest share of Tunisian debt is denominated in foreign currencies.

The security situation has improved greatly in a number of countries since the end of the Arab Spring, but it remains fragile due to periodic terrorist attacks and the ongoing conflict in Libya. This still precarious situation is inimical to tourism, which has yet to recover to its pre-2011 levels. Furthermore, the struggle for control of oil fields among warring factions in Libya could impair full recovery in oil production. The ongoing conflict has also caused further deterioration in public services. The World Health Organization has identified severe shortages in medical supplies and doctors in Libya, with some 1.3 million people having no access to basic healthcare. The
humanitarian crisis is worsened by rising casualties at migrant smuggling hubs and an estimated 400,000 internally displaced persons.

While fiscal consolidation across the region has restored macroeconomic stability in a few countries, prolonged declines in public investment could have harmful consequences. In Algeria, for instance, fiscal consolidation has led to a 28 percent reduction in capital expenditure, halting some ongoing projects initially planned for 2014–19. If sustained for too long, this interruption in public investment could worsen employment prospects for a region already suffering from high rates of youth unemployment. Aware of this potential negative impact of fiscal consolidation, the Algerian authorities decided to increase public investment by $4 billion during the second half of 2017, made possible by rising world oil prices. In Tunisia, recurrent expenditures accounted for 72 percent of the budget in 2017, while public investment accounted for 16%. Continued limitation of public investment because of the lack of fiscal space could undermine the country’s ability to maintain its long-term competitiveness in the region. In addition, the freeze in public sector wage increases and recruitment, reductions in subsidies, and increases in taxes, although necessary, could have unintended consequences if they are not accompanied by appropriate adjustments. In particular, poor and other vulnerable households could bear the brunt of the impact of the removal of subsidies. Well-targeted safety nets are therefore needed to cushion such vulnerable groups and prevent a second bout of social instability in Tunisia, which would undermine the country’s long-term competitiveness.

Finally, youth unemployment is still high in the region. Unemployment affects more than 21 percent of the youth in Tunisia and almost 22.8 percent in Egypt. In Morocco, the unemployment rate of 15–24 year olds is 20.5 percent (38.6 percent in urban areas and 8.5 percent in rural areas). A majority of youths end up in the informal economy. This sector is characterized by low incomes and lack of security and stable employment. In Mauritania, unemployment among youths of 14.6 percent is higher than the national average unemployment rate of 10.1 percent and nearly three times the 5.9 percent rate for adults. Overall, the political, economic, and social reforms introduced in the aftermath of the Arab Spring have not been converted into the more robust GDP growth needed to reduce unemployment rates, particularly among youth and women. This has exacerbated migration in the region.

**Sector contributions to regional growth in 2016**

The service sector, which grew 3.3 percent in 2016, contributed 45 percent of regional GDP growth (figure 5). The industrial sector, which grew 3 percent, contributed 46 percent of regional GDP, with the largest contribution from Algeria and the smallest from Mauritania. Growth in services and industry demonstrates the region’s strong recovery from the punishing effects experienced in the aftermath of the Arab Spring, when the two sectors made consecutive negative contributions to regional GDP growth in 2012 and 2013. In contrast, agriculture, which grew a meager 0.24 percent in 2016, contributed less than 9 percent to regional GDP growth.

**Structural transformation**

**Sector employment shares**

Trends in sector value added disclose an expansion in the share of employment in the service sector and a contraction in the agricultural sector, suggesting a shift in the structure of North African economies (figure 6). The share of labor in industry has also increased, particularly since 2005. However, industry’s recent increase in the share of employment is only a partial recovery of the ground lost since the 1990s, when industrial employment in the region was quite high. The declining share of employment in agriculture has been offset largely by an increase in the service sector, mainly in trade and transport. In addition, the pace of structural transformation from agriculture to industry and services is worryingly slow and may be contributing to the slow pace of overall growth (box 1).

**Structural transformation and labor productivity**

Decomposing labor productivity into two components—within-sector productivity growth **
and structural transformation, which is the reallocation of labor from low productivity to high productivity sectors (following McMillan and Rodrik 2011)—can elucidate the character of growth in the region and reveal whether the changing structure has affected the region’s economic growth. The first component, within-sector productivity growth, can be affected by periodic technological and price shocks, such as weather and commodity price volatility. When changes in sectoral employment shares are positively correlated with productivity levels, structural change will contribute positively to economywide productivity growth. The second component, structural
A new round of structural transformation in North African economies can enable them to respond efficiently to long-term social challenges.

BOX 1 Toward a new transformation cycle of North African economies for inclusive development

Unlike most African countries, since the early 1970s several countries in North Africa (Algeria, Egypt, Morocco, and Tunisia) have been creating the conditions for a structural transformation of their economy from domination by the agricultural sector toward a focus on industry and services. These countries benefited initially from rising global commodity prices and from a sharp improvement of their terms of trade. The rapid increase in revenues from the exploitation of hydrocarbons in Algeria and the phosphate industry in Morocco and Tunisia, together with easier access to international credit, allowed investments to rise, particularly public investments, stimulating growth (Chevallier 2012). The 1982 debt crisis and the fall in oil prices in 1986 abruptly put an end to this initial transformation cycle and forced North African countries to implement new and differentiated development strategies (development of the manufacturing industry for Tunisia and Morocco, continued exploitation of oil rents for Algeria, and rents from the Suez Canal and oil for Egypt).

After relatively weak growth at the regional level in North Africa during the 1990s, growth rebounded strongly in the 2000s as oil prices rose. This favorable context allowed a new transformation cycle to begin in the region based on major infrastructure development programs, particularly in Algeria. The financial crisis of 2009 and the geostrategic and security upheavals associated with the events of January 2011 temporarily broke this momentum by bringing to light many vulnerabilities that had been masked by good macroeconomic performance (Ould Aoudia 2006).

The traditional development model in North Africa, based on exploitation of natural resources including agriculture and the manufacture and export of finished and semifinished low added-value products, no longer appears able to create the conditions for sustained, high-level growth and to generate sufficient skilled and unskilled jobs for the population, especially young people. The International Labour Organization estimated an average youth unemployment rate in North Africa of 30.5 percent, which is twice the global average. The labor market has deteriorated overall since 2010 in North Africa. The average unemployment rate in 2016 was 12.6 percent compared with a middle-income country average of 6.2 percent. The average unemployment rate of tertiary graduates reached 26.1 percent.

The strong social demand, expressed since January 2011, for more income equity and access to employment for the poorest people, has considerably weakened the macro-budgetary situation by forcing North African countries to increase their current expenditure and social spending, leading to a sharp increase in public debt. Tunisia’s public debt, for example, rose 76.3 percent over 2010–16.

This context pushes North African economies toward a new round of structural transformation to facilitate inclusive responses and integration into the global economy. North Africa could draw inspiration from the Asian experience by implementing economic diversification policies and innovative industrial policies oriented toward upscaling production systems, increasing the sophistication of export baskets, and boosting productivity as prerequisites for a return to a high growth path. The structural transformation of North African countries also requires implementing ambitious structural reform packages, revamping education and training systems, improving the investment and business climate, upgrading enterprises, and reforming the state and its role in the economy.
transformation, captures a longer-term process. As countries grow, reallocating resources from low-productivity to high-productivity sectors is essential for determining countries’ long-term economic performance, including their capacity to reduce poverty and create jobs that pay a decent wage.

North Africa’s total labor productivity growth has been positive overall, increasing at an average annual rate of 2.7 percent between 2005 and 2016, with a peak of 4.9 percent in 2009 (figure 7). This growth was driven mainly by within-sector labor productivity growth, which is typically much larger than the structural component. Labor productivity gains were recorded in the agriculture and services sectors, but the industrial sector’s contribution was negative. Economic growth of the region does not appear to have been meaningfully affected by structural transformation. This may be explained partly by the deterioration in macroeconomic conditions in North African economies, whose political transitions have prevented them from implementing industrial policies or structural reforms. The overall picture can be explained by several factors, the most important being the underemployment and inefficient use of human capital (Raggl 2015). There are also challenges with educational attainment in the region, including vocational education. Other potential explanations include high labor costs and the concentration of exports in low value-added activities and sectors with limited potential for technological innovation.

Demand-side drivers of growth
As in the rest of Africa, private consumption has been the main driver of growth in the North Africa region over 2000–16. Contrary to what might have been anticipated, private consumption held strong in the immediate aftermath of the 2008 global financial crisis, an effect amplified by the Arab Spring that began in 2011 (figure 8). Consumer demand has picked up in recent years and remains an important source of growth in the region. Investment has made the second largest contribution to growth but has remained flat since the Arab Spring, especially as the price of oil fell. Government consumption has increasingly been an important source of growth in the region and has not been confined to public investment.

Detracting from growth has been external trade. Due to constrained foreign demand for the region’s exports, especially in the EU, and

![FIGURE 7: Decomposition of labor productivity growth in the North Africa region, 2005–16](image-url)

**FIGURE 7** Decomposition of labor productivity growth in the North Africa region, 2005–16

- **Percent**
- **2005**
- **2006**
- **2007**
- **2008**
- **2009**
- **2010**
- **2011**
- **2012**
- **2013**
- **2014**
- **2015**
- **2016**

Source: AfDB statistics.
The region’s macroeconomic vulnerabilities were starkly exposed in an environment of falling commodity prices and growth deceleration in Europe.

Contraction in tourist revenues since 2011, external trade’s contribution to regional growth has been persistently negative. Growth driven mainly by consumption, with investment’s contribution flat and external trade’s contribution negative, is unlikely to be sustainable. Countries in the region need to stay the course on structural reforms to improve their external competitiveness and attract investment. Reducing insurgency will add further impetus to demand growth, especially in attracting high-value tourists.

At the individual country level, the sources of growth differ somewhat (figure 9). In Algeria, growth has sprung from investment, mainly public investment in infrastructure, followed by private consumption and government consumption. Until 2015, exports were a positive source of the country’s growth, making a larger contribution than in other countries in the region. Growth in Algeria has also been more balanced among the four drivers than in the other countries in the region. In Egypt, GDP growth has been driven mainly by private consumption, which accounted for more than 70 percent of growth. Government consumption and investment contributed about 20 percent, while the share of net exports was negative. Morocco and Tunisia have similar growth structures, driven mainly by private consumption and, to a lesser extent, by investment and government consumption.

MACROECONOMIC STABILITY

Price movements

The North Africa region has faced a difficult economic environment since the end of the Arab Spring, with problematic transitions in individual countries. The region’s macroeconomic vulnerabilities were starkly exposed in an environment of falling commodity prices and growth deceleration in Europe. Several countries saw declining fiscal revenues, rising public debt, and greater exposure to terms of trade shocks. Inflation almost doubled in the region, from 7.9 percent in 2016 to 14.1 percent in 2017, driven mainly by inflation pressure from Egypt and Libya. Libya’s de facto cessation of food subsidies due to lack of resources contributed to a jump in inflation to 28 percent in 2016. Inflation has been low and stable in Algeria, Mauritania, and Morocco, however (figure 10).

Instability in regional growth has been less pronounced. A majority of countries in the region also experienced low GDP growth (figure 11), an undesirable macroeconomic state for a region with so

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**FIGURE 8** Demand-side drivers of regional growth in the North Africa region, 2000–16

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross fixed investment</th>
<th>Government consumption</th>
<th>Private consumption</th>
<th>External balance</th>
</tr>
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<tbody>
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<td>2000</td>
<td>20%</td>
<td>30%</td>
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<td>2001</td>
<td>18%</td>
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<td>2002</td>
<td>16%</td>
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<td>2003</td>
<td>14%</td>
<td>24%</td>
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<td>2004</td>
<td>12%</td>
<td>22%</td>
<td>58%</td>
<td>18%</td>
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<td>2005</td>
<td>10%</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
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<tr>
<td>2006</td>
<td>8%</td>
<td>18%</td>
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<td>2007</td>
<td>6%</td>
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<td>2%</td>
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<td>2011</td>
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<td>2012</td>
<td>0%</td>
<td>6%</td>
<td>74%</td>
<td>34%</td>
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<td>2013</td>
<td>0%</td>
<td>4%</td>
<td>76%</td>
<td>36%</td>
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<td>2014</td>
<td>0%</td>
<td>2%</td>
<td>78%</td>
<td>38%</td>
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<tr>
<td>2015</td>
<td>0%</td>
<td>0%</td>
<td>80%</td>
<td>40%</td>
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<tr>
<td>2016</td>
<td>0%</td>
<td>0%</td>
<td>82%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: AfDB statistics.
much potential as well as high levels of unemployment. Median inflation was lower for the North Africa region than for Africa overall, manifesting greater stability.

Since 2015, countries in the North Africa region have experienced sustained weakening of currencies (figure 12). The Egyptian pound experienced the largest depreciation, by 76.3 percent from 2016 to 2017 on top of a 31.5 percent depreciation from 2015 to 2016. The official Libyan dinar exchange rate to the U.S. dollar depreciated toward the end of 2016 and the beginning of 2017, fueling inflationary pressures. The Tunisian dinar has also experienced increased pressure, depreciating 104 percent against the U.S. dollar between 2011 and 2017. This sharp depreciation fueled inflation by raising the cost of imports, forcing the Central Bank of Tunisia to raise the money market rate from 3.9 percent in 2012 to 5.2 percent in September 2017.

Source: AfDB statistics.
The macroeconomic environment in North Africa has been challenging since the Arab Spring.

**FIGURE 10** Inflation in North African countries, 2009–16

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
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<tbody>
<tr>
<td>2009-13</td>
<td></td>
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<tr>
<td>2014</td>
<td></td>
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<tr>
<td>2015</td>
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<td>2017</td>
<td></td>
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<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
</tbody>
</table>

Source: AfDB statistics.


- Real GDP growth (percent)
- Inflation rate

Source: AfDB statistics.

Note: Each dot represents one North African country in one year.
As commodity prices fell, so did fiscal revenues, leaving most countries with expanding fiscal deficits. Libya has the highest fiscal deficit, estimated at 43 percent of GDP for 2017, followed by Egypt at 10 percent, Algeria at 6.4 percent, Tunisia at 5.8 percent, and Morocco at 3.5 percent (figure 13). In Mauritania, however, despite the impact of lower iron ore prices on fiscal revenues, the government has managed to maintain fiscal restraint: its deficit of 0.6 percent of GDP in 2017 was one of the lowest in North Africa and across the continent.

Libya’s large fiscal deficits since 2014, recorded at 103 percent of GDP in 2016 and estimated at 43 percent in 2017, account for much of the region’s overall fiscal deficit (see figure 13). Libya’s deficit has been slowly declining, although it is projected to remain elevated in 2018 and 2019. Algeria and Egypt have also experienced larger fiscal deficits since 2014, with a peak in 2016.

Recovering oil prices coupled with ongoing fiscal consolidation programs are projected to reduce the regional deficit to 7 percent of GDP in 2018 and 7 percent in 2019. However, the projected decreases are conditional on the sustained implementation of fiscal reforms (see box 2 for details on the ongoing reforms) and fiscal consolidation in the countries. None of the countries in the region is expected to record a surplus in the medium term.

**Current account balance**

The recent declines in commodity prices and export revenues have worsened the terms of trade and weakened the current account position. Terms of trade shocks explain 42 percent of the variation in the current account balance in North Africa (figure 14). The fall in commodity prices has had a dampening effect on the current account balance in the North African countries, while the demand for imports has not changed.

All North African countries except Libya are expected to post a negative current account balance for 2017, leading to an average current account deficit of 6.7 percent of GDP. Although smaller than in 2016, the current account deficit is a substantial deterioration from the average surplus of 0.4 percent recorded during 2009–13, a
The recent declines in commodity prices and export revenues have worsened the terms of trade and weakened the current account.

**FIGURE 13** Fiscal deficits in North African countries, 2009–19

Source: AfDB statistics.

**FIGURE 14** Terms of trade shocks and current account balance in the North Africa region, 1990–2016

Source: AfDB statistics.

Note: Each dot represents one North African country in one year.
North African countries have improved domestic resource mobilization in recent years.

Box 2 Key ongoing reforms in the North Africa region countries

Several countries in North Africa have initiated reforms to improve macro stability through structural transformation and to improve the business environment. Some of these reform initiatives are highlighted here.

Algeria has embarked on fiscal consolidation and structural reforms to increase competitiveness and promote diversification. The government is determined to reduce impediments to investment and growth by improving the business climate and attracting private sector investment, especially foreign direct investment (FDI). By 2020, the government’s medium-term framework calls for reducing current spending to 20 percent of GDP; reducing capital spending to 10 percent of GDP while increasing investment efficiency by improving the selection, implementation, and assessment of projects; raising fuel prices and replacing subsidies with cash transfers to protect the most vulnerable people; increasing nonoil tax revenues through higher value added tax and luxury taxes (such as on tobacco); and reducing energy subsidies.

Egypt is engaged in an ambitious fiscal consolidation program to increase tax revenues 2.5 percent over 2016–19 and reduce public expenditure by eliminating fuel subsidies and containing the budget wage bill. To improve its business climate, Egypt is reducing red tape in industrial licensing, easing access to finance for small and medium-size enterprises, and improving the climate for foreign investment through its 2017 Investment Law and exchange rate flexibility policy. These measures are expected to boost economic growth and job creation. Egypt has also introduced a new value added tax, increased luxury taxes and taxes on salaries and profits, reduced energy subsidies, and introduced cash transfers for the most vulnerable.

Libya is removing subsidies on food items and introducing cash transfers to prevent more citizens falling into poverty.

Mauritania’s National Strategy for Accelerated Growth and Shared Prosperity (2017–30) is intended to accelerate growth through structural reforms and a wide range of investments and infrastructure programs to promote employment, growth, and economic diversification. The country has also embarked on a fiscal consolidation program, strengthening of banking supervision, gradual depreciation of the currency against the U.S. dollar, and discontinuation of foreign exchange sales on the parallel market. Mauritania is also using targeted cash transfers to support the most vulnerable.

Tunisia has embarked on an exchange rate flexibility program but still lags behind in making substantive progress on the fiscal consolidation and structural reforms needed to boost economic growth and address youth unemployment in a sustained manner.

Other key fiscal reforms throughout the region include widening the tax base (Egypt and Morocco). On the expenditure side, reforms include containing and reducing public wages (Algeria, Egypt, Morocco, and Tunisia) and improving the efficiency of investment expenditures (Algeria, Mauritania, and Morocco).

time of fairly buoyant export revenues. In coming years, the external current account deficit is expected to gradually narrow, to 2.5 percent in 2018 and 2.3 percent in 2019. Algeria and Mauritania are projected to record the highest current account deficits in 2017, while Libya is expected to be in surplus, boosted by increased oil exports and declining imports. All countries in the region except Morocco have experienced weakening currencies since 2016, reflecting the positive correlation between terms of trade and real exchange rates (figure 15). Adverse terms of trade shocks explain about 32 percent of the depreciation in real exchange rates across the region. Macroeconomic stability could be greatly improved through policies that encourage economic diversification to cushion against adverse terms of trade shocks.
Moving more firms into the formal sector is an important step for raising government revenues and making growth more stable.

Domestic resource mobilization
North African countries have experienced improved domestic resource mobilization in recent years, with rising tax to GDP ratios (figure 16). At about 20 percent in 2012/13, most ratios are above the African average of 17 percent. Algeria’s is highest, at more than 30 percent, and Egypt’s is lowest, at 12 percent, with a slight decline in 2013. One challenge facing the North Africa countries is the large size of the informal sector, estimated at 30–40 percent of GDP in Algeria, Egypt, Morocco, and Tunisia. Low tax compliance among informal firms reduces government revenues. Moving more firms into the formal sector is thus an important step for raising government revenues and making growth more stable.

Domestic resource mobilization is positively associated with GDP per capita and thus is higher in the more developed countries in the region (figure 17). Countries with lower per capita incomes have a more constrained capacity to mobilize domestic resources.

Debt dynamics
Public sector debt has risen in North African countries, reflecting limited fiscal space and rising needs for development spending. Mauritania has the highest external public debt, estimated at 66 percent of GDP in 2015, followed by Tunisia at 64 percent and Morocco at 43 percent; Egypt’s public external debt is 14 percent and Algeria’s is 2.5 percent (figure 18). Morocco’s external public debt rose from 43 percent of GDP in 2015 to 63 percent in 2017.

Vulnerability to external indebtedness in the North Africa region has been worsened by countries’ weak economic performance. The growth slowdown in the region has been associated with increased accumulation of external debt (figure 19). Low-income countries, in particular, have difficulty mobilizing adequate sources of finance during times of economic distress.

Fiscal and current account deficits explain close to 56 percent of the variation in the accumulation of external debt. Thus, it is not that surprising that recent terms of trade shocks would trigger macroeconomic instability. That in turn has required governments to accumulate debt to maintain key public spending and to stabilize domestic demand through increased imports, while trying not to erode the nation’s reserves excessively.


Source: AfDB statistics.
Note: Each dot represents one North African country in one year. Increase in value of the real exchange rate denotes an appreciation.
Financing long-term public investments in infrastructure, education, health, and other sectors in order to boost the efficiency and competitiveness of the overall economy can also escalate debt accumulation. The correlation between investments and residuals generated from the regression of the external debt to GDP ratio of North African countries on the fiscal deficit and current

Vulnerability to external indebtedness has been worsened by countries’ weak economic performance.
Financing long-term public investments in infrastructure, education, health, and other sectors can also escalate debt accumulation.

**FIGURE 18** External debt accumulation in five North African countries, 2008–15

External debt (percent of GDP)

- Mauritania
- Tunisia
- Morocco
- Egypt
- Algeria

Source: AfDB statistics.

**FIGURE 19** Relationship of external debt to economic growth in the North Africa region, 2008–15

Real GDP growth

- \( R^2 = 0.06527 \)

Source: AfDB statistics.

Note: Each dot represents one year.
Debt sustainability concerns are under control in the region.

Account deficit shows that close to 30 percent of the variation in external debt is driven by investment needs (figure 20). The relationship shows that the debt accumulated in the region helped build capital that could promote long-term growth.

While public debt is high in some North African countries, such as Egypt, the debt is mainly domestic. Domestic debt is not exposed to the same finance risk as external debt, although it may crowd out private sector borrowing if relied on too heavily. Debt sustainability concerns are therefore under control in the region given the levels and composition of the debt and the countries’ level of development, but government vigilance is required.

POVERTY, INEQUALITY, AND EMPLOYMENT

Trends in poverty and inequality

The North Africa region experienced one of the fastest reductions in extreme poverty in the last two decades in Africa.

While the number of people living on less than $1.90 a day (in 2011 PPP terms) rose in Africa, it declined in North Africa from about 13 million in 1981 to 3 million in 2013. The rapid reduction in extreme poverty, from 13 percent in 1981 to less than 2 percent in 2015 (figure 21), was due in part to faster growth in per capita consumption, which increased at an average annual rate of about 3 percent from 1980 to 2013, doubling in about two decades.

A more appropriate measure of poverty in North Africa, with its moderately high standard of living, might be $2.90 per person per day. By this measure, the poverty rate for the region was 10 percent in 2013, implying that close to 18 million people were below the poverty line. Eliminating poverty would require an estimated 4 percent additional growth in GDP each year (box 3). The policy question is how to enable such growth in the context of some of the challenges facing the region. Countries including Egypt, Mauritania, and Tunisia have managed to sustain a 6.5 percent annual growth rate in the past, nearly eliminating extreme poverty ($1.90 a day).
Structural change and employment are of paramount importance to speed up economic transformation.

Despite indisputable progress in reducing inequality (figure 22), the region has suffered serious political upheaval and economic setbacks in the wake of the Arab Spring, which still reverberate in some countries, delaying achievement of stability and peace. From the perspective of social development, the main issues that sparked the Arab Spring were chronic youth unemployment in the midst of growing economies, and low productivity in rural areas, mainly among farmers. The perception of disfranchisement among people living in economically lagging regions also fueled social unrest, sending a clear message to all countries that inclusive growth and sustained job creation are as important as growth measured by per capita GDP. Structural change and employment are of paramount importance in public policy to speed up economic transformation on a sustained basis.

**Trends in employment**
Job creation is crucial for growth and stability and vice versa. Since 2011, countries in the

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<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of population below poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>15</td>
</tr>
<tr>
<td>1984</td>
<td>10</td>
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<tr>
<td>1987</td>
<td>5</td>
</tr>
<tr>
<td>1990</td>
<td>0</td>
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</tbody>
</table>


**BOX 3 What would it take to eliminate poverty in North Africa?**

As a policy exercise, consider what additional resources would be needed to completely eliminate poverty in the North Africa region. The first step is to calculate the average per capita deficit per day needed to bring everyone up to the $2.90 poverty line. This comes to about $0.54 ($0.51 in 2011 PPP terms) per person per day or $196 per poor person per year. With 18 million poor people in 2013, the North Africa region would need 4 percent additional GDP growth each year to eliminate poverty, assuming that the population growth rates of the poor and the nonpoor remain unchanged in the next decade. Thus, eliminating poverty is feasible with sustained and rapid growth. As countries become richer, however, it becomes harder to sustain rapid growth without a continuous process of structural transformation. More important, countries also need to attend to inequality to accelerate poverty reduction. Income inequality, as measured by the Gini coefficient, has declined steadily in the region, from about 40 percent in 1980 to 32 percent in 2013, even as it increased for Africa overall (see figure 22 in the main text).
North Africa region have been designing and implementing strategies that encourage youth employment and entrepreneurship. Countries are undertaking labor-intensive projects and introducing incentives for small and medium-size businesses with the aim of lowering unemployment and creating wealth. The employment rate (ratio of employment to the working age population) averaged 42 percent for the North Africa region in 2016, ranging from 39 percent in Algeria to 44 percent in Egypt and Morocco (figure 23). Vulnerable employment (contributing family workers and own-account workers as a percentage of total employment) was high, at almost 50 percent.

FIGURE 22 Income inequality in North Africa, 1980–2020

FIGURE 23 Trends in employment in North African countries, 2010–17


Source: ILOSTAT.
in Morocco in 2014 and close to 25 percent in Algeria and Egypt.

Unemployment has been on the decline in North Africa, with a slight stall after the Arab Spring that began in 2010. Revolutions and social unrest led to a steep rise in unemployment in 2011, especially in Egypt and Tunisia (figure 24).

Although unemployment has started to decline again, it is still higher than in other regions in the world, particularly for youth, women, and university graduates. The youth unemployment rate now stands at nearly 30.5 percent in the region, twice the global average. Only 17 percent of young women and 47 percent of young men are economically active. An estimated 25 percent of working youth are living in poverty. Female unemployment is at 20 percent. Unemployment among university graduates is particularly high in the region, at 60 percent in Egypt and 31 percent in Tunisia (box 4).

**KEY POLICY RECOMMENDATIONS**

North African countries have different economic structures and different levels of economic complexity. Some countries have more diversified economies with a sizable manufacturing sector (Egypt, Morocco, and Tunisia), while some are natural resource-dependent (Algeria, Libya, and Mauritania). This diversity calls for differentiated policies to deal with the challenges facing individual countries. Resource-rich countries need, especially, to introduce policies aimed at increasing economic diversification. Nevertheless, countries in the region face some common challenges, for which common policy responses may be appropriate, although implementation will need to consider each country’s specific context. Common challenges include weak structural transformation, high youth unemployment, and low intraregional trade.

**Policies for oil and gas producing countries**

For resource-rich countries, the recent partial recovery in world commodity prices should improve prospects for increasing economic diversification and enable economic transformation.

- **Rebalancing public spending toward productive investments and human capital building could unlock the region’s immense economic potential and spur employment.** The recent recovery in world commodity prices, albeit at lower than pre-crisis levels, will likely boost

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*FIGURE 24* Trends in unemployment in four North African countries, 2000–14

<table>
<thead>
<tr>
<th>Year</th>
<th>Algeria</th>
<th>Regional average</th>
<th>Morocco</th>
<th>Egypt</th>
<th>Tunisia</th>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<tr>
<td>2014</td>
<td>5</td>
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</tbody>
</table>

*Source: World Bank, World Development Indicators.*
Box 4 Youth unemployment in North Africa

Youth unemployment in North Africa presents both challenges and opportunities for reaping a demographic dividend. North Africa is affected by unsustainable levels of youth unemployment and low economic participation among youth. The quality of jobs is fairly low, because of the large portion of informal sector firms. There is a mismatch between the education and skills of the youth population and demand for labor outside the public sector. Gender gaps in labor participation are wide.

Youth demographics

The youth population (ages 15–24) in North African countries has declined over the last decade, largely because of conflict and famine, and now ranges from 15.5 percent of the total population in Tunisia to 19.4 percent in Mauritania. As a result, dependency ratios (population ages 0–14 and 65 and older as a share of the working age population, ages 15–64) have also declined, falling from an average of 77 percent in the 1980s to 55 percent in the past decade. These declining dependency ratios offer a demographic dividend, in terms of a growing labor force and increased savings. Nevertheless, to take advantage of it, the youth population needs adequate employment to support the older population and their own eventual retirement.

Educational attainment and youth unemployment

Although a large share of the unemployed in North Africa are uneducated, unemployment rates are also high among the well-educated. Several factors may help explain the high unemployment rates among educated youth in North Africa. First, it may simply be that jobs that meet the high expectations of educated youth are not available. Highly educated youth may also have support mechanisms that allow them to search for jobs longer. Or there may be a mismatch between the skills acquired by highly educated youth and the skills sought by employers (Barsoum 2015). There are also cultural barriers, especially for highly educated women because of the limited number of “acceptable” occupations for women in the region.

Gender and youth unemployment

The North Africa region has the second highest gender unemployment gap in the world, after the Middle East. Female unemployment is about double male unemployment in Algeria, Egypt, and Tunisia. Morocco is an exception, with nearly equal unemployment rates for men and women (ILO 2017). And although female primary and tertiary enrollment rates have exceeded male enrollment rates in recent years, this higher educational attainment has so far failed to translate into improved labor market participation or attachment for women in North Africa. Women’s participation in the labor force in North Africa was less than 16 percent in 2016, compared with 52 percent in the rest of Africa and 37 percent globally. The main explanation for the discrepancy is the structural constraints related to cultural barriers and limited access to social services for women in North Africa.

Informal work and self-employment

Informality and the low quality of jobs for youth are major concerns in North Africa. Young people and entrants into the labor market are more likely to face informality and vulnerability. Some 40 percent of nonagricultural jobs in North Africa are in the informal sector (ILO 2016). Self-employment rates (continued)
The North African Economy

Increasing public current expenditures could pave the way for another boom-bust cycle. Instead, any expansion of public spending should turn toward investing in infrastructure and strategic sectors, with the aim of promoting diversification.

- **Introduce sectoral reforms to promote economic diversification.** The North Africa region has the largest oil and gas resources in Africa. Libya has the largest oil reserves (48 billion barrels), followed by Algeria (12 billion) and Egypt (3.5 billion). Algeria has the largest proven gas reserves in Africa (159 trillion cubic feet) after Nigeria, followed by Egypt (65 trillion) and Libya (53 trillion). These resources have resulted in a dependence on the petroleum sector to finance the government budget. The volatility of petroleum prices is transferred to government revenues, upsetting budget planning and social and economic development.

  - A first step would be to develop a regulatory and policy environment that defines the mission of national oil companies and promotes their managerial independence, similar to Statoil and Petoro of Norway and Petronas of Malaysia.

  - Second, opening the sector to foreign private investment could increase development in the sector. In Egypt such policy reform recently led to several new gas discoveries; the government also plans to partially privatize several companies to allow them to raise capital to finance their operations rather than use public funds.

  - Third, oil and gas producing countries could share the costs of petroleum transport infrastructure for trade within the region and for export to Europe, which has many shared pipelines. Building and managing these pipelines requires a conducive business environment that defines transit rights, interconnections, and security issues. Finally, countries in the region can learn from countries such as Norway, Qatar, and United Arab Emirates how to use oil and gas industry revenues to develop other sectors of the economy. Recognizing that a petroleum fund is no substitute for sound fiscal management, Norway’s fund follows strict savings rules and sets expenditure priorities within an open budget process. Oil and gas producing countries in the region could decide to use oil and gas revenues solely for

**BOX 4 Youth unemployment in North Africa (continued)**

Youth unemployment in North Africa presents both challenges and opportunities for reaping the demographic dividend. Public revenues and improve countries’ fiscal situation. Increasing public current expenditures could pave the way for another boom-bust cycle. Instead, any expansion of public spending should turn toward investing in infrastructure and strategic sectors, with the aim of promoting diversification.

- **Introduce sectoral reforms to promote economic diversification.** The North Africa region has the largest oil and gas resources in Africa. Libya has the largest oil reserves (48 billion barrels), followed by Algeria (12 billion) and Egypt (3.5 billion). Algeria has the largest proven gas reserves in Africa (159 trillion cubic feet) after Nigeria, followed by Egypt (65 trillion) and Libya (53 trillion). These resources have resulted in a dependence on the petroleum sector to finance the government budget. The volatility of petroleum prices is transferred to government revenues, upsetting budget planning and social and economic development.

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investment in selected areas, such as strategic infrastructure, human resource development (including research), and industrialization, and not for consumption.

**Common policy measures**

For the region as a whole, it will be important to continue to pursue prudent macroeconomic policies to reduce macroeconomic imbalances, and to promote more inclusive growth. During the early years of transition in the region, countries prioritized political objectives over macroeconomic ones. For instance, fiscal expansion (food and energy subsidies, safety nets, and recruitment of youth in public enterprises in several countries) was used to appease popular demands (Egypt and Tunisia) or maintain social peace in countries that did not experience heightened political unrest (Algeria and Morocco). Eventually, however, fiscal consolidation became inevitable. Many North African countries concluded adjustment agreements with international financial organizations. The pace of adjustment depended on individual factors such as the severity of unrest, initial conditions, and access to external finance. For example, in the face of high public debt, a widening current account deficit, and declining official reserves, Egypt embarked on a major AfDB, IMF, and World Bank–backed economic reform program consisting of exchange rate liberalization, fiscal consolidation including energy subsidy cuts, reduced expenditures for wages, business climate measures, and targeted cash transfers for the most vulnerable.

- **Improving domestic resource mobilization.** North African countries should rely more on domestic resources for their economic development to avoid debt accumulation, which reduces the benefits of higher growth. This objective could be reached through establishing rule-based fiscal policy and embracing countercyclical and transparent budgeting, aiming to further strengthen fiscal buffers to external shocks, especially in resource-based economies of the region. On the monetary policy side, it would be useful to adopt exchange rate regimes that are responsive to shocks and to announce new nominal anchors for monetary policy. It is also recommended that countries establish rules about government borrowing from the central bank and avoid fiscal dominance (Galal et al. 2017). Additionally, governments should put in place ambitious savings mobilization policies in order to reduce the investment–savings gap.

- **Reducing and containing fiscal imbalances.** All North African countries face major macroeconomic challenges and need to initiate or strengthen policies aimed at reducing and containing fiscal imbalances. These imbalances have widened greatly due to a variety of causes that led to a collapse of revenue and excessive expansion of current expenditures. The reduction of imbalances needs a three-track approach, following each track depending on country circumstances.
  - The first track is to rebalance the composition of public expenditures, by containing the rapid expansion of current expenditures, especially wages and nontargeted subsidies, and protecting or expanding investment expenditures and social expenditures targeted to the poor.
  - The second track is to expand and diversify tax revenue through reforms aimed at broadening the tax base and strengthening tax collection.
  - The third track is to develop a medium-term fiscal framework that would determine the time path for reducing fiscal deficits and for achieving and financing sustainable public debt. This last track may include any appropriate fiscal rules that the country may choose, including, for natural resource–rich countries, rules for managing volatile revenue from natural resources. In all cases, countries should avoid excessive domestic borrowing, which is likely to crowd out private investment, and the temptation of monetary financing of budget deficits, which may open the way for major macroeconomic instability.

- **Adopting pragmatic exchange rate policies.** The move to more flexible or floating exchange rate regimes in North Africa led to depreciation of domestic currencies, improved external competitiveness, and increased FDI. This policy facilitates the macroeconomic adjustments
needed to contain the large current account deficits. But it is not sufficient and may lead to continuous depreciation and inflationary pressures if not accompanied by appropriate fiscal policies and more restrictive monetary policies.

- Implementing policies aimed at attracting FDI. Proximity to the European Union gives North African countries a unique advantage in attracting FDI. Morocco’s political stability, strategic location, and good infrastructure (including the Tanger-Med port, located less than 10 miles from Europe and connected by rail and highway to free zones and industrial parks) has been instrumental in attracting considerable FDI in recent years. French automaker Renault inaugurated a $1.5 billion car factory in Meliloussa in 2012. PSA Peugeot Citroën, another French automaker, has plans to open a plant in Kenitra on Morocco’s Atlantic coast by 2019, manufacturing mainly for export to African markets. Since 2000, Morocco has also become a major aerospace industry manufacturing platform. The aerospace manufacturers that have established operations in Morocco instead of in Asia or Eastern Europe include Boeing, Bombardier, Daher, Safran, and Thales.
This part of the North Africa Economic Outlook analyzes food security and rural poverty in North Africa. Viewing these two problems as linked, it proposes a strategy to enhance food security while also reducing rural poverty and rural–urban inequality by increasing farmers’ share of value added.

North African countries depend on food imports for about 50 percent of their calorie consumption, and, given land and water scarcities, this dependence is likely to continue in the foreseeable future. Nevertheless, a sustainable food security strategy should include increases in domestic food production to gradually decrease import dependence. Higher domestic production would require a policy package that increases incentives to local producers, the vast majority of whom are smallholders and family farmers.

Small family farmers in North Africa can increase food production and raise their contribution to national food security if they are better connected to national and international markets and value chains and if they have improved access to credit, land, inputs, and technology. Moreover, women and youth farmers need special programs to raise their productivity. Supporting smallholders with incentives to increase their productivity and share in value added will obviously enhance national food security because more food will be available domestically. Doing so will also reduce rural poverty and rural–urban inequality by leading to an increase in farmer income.

The approach to food security and rural poverty reduction proposed here would also require a change in social safety net programs. Social policies in North Africa have been too dependent on maintaining low prices through a mix of price controls and subsidies. This may not always be consistent with the goals of food security and rural poverty reduction. Social policies that rely less on price controls and subsidies and more on direct cash transfers to poor households would be more appropriate.

This part of the outlook first describes the important role of agriculture in food security, poverty reduction, and economic inclusion in the North Africa region. It next describes the main characteristics of North African agriculture, focusing on water scarcity and vulnerability to climate change, the preponderance of small family farmers, and the important role of women in agriculture. Finally, it presents a possible strategy to enhance food security, develop agriculture, increase value added, and improve rural standards of living.

AGRICULTURE’S ROLE IN THE ECONOMY

Agriculture’s role in the region’s economy and society is much more important than is revealed simply by its contribution to GDP, which varies from as low as 2 percent in Libya.
Agriculture’s role is much more important than is revealed simply by its contribution to GDP. But these numbers mask agriculture’s important contribution to employment. About 40 percent of Mauritania’s and Morocco’s labor force and 30 percent of Egypt’s are employed in agriculture. Moreover, more than 40 percent of the region’s population (56 percent in Egypt and 47 percent in Mauritania) lives in rural areas, and their livelihoods are therefore either directly or indirectly affected by agriculture.

North African agriculture has three main characteristics: it faces a serious water constraint and has low productivity, most agricultural producers are smallholder family farmers, and women constitute a third of family farmers—and their share appears to be rising. Family farming is a type of agricultural production system managed by one or more members of a family and primarily reliant on nonwage family labor (Abbaab 2000). Family farming includes agricultural, forestry, fisheries, pastoral, and aquaculture activities. It is often characterized by multiple activities as the family tries to increase its income and diversify income sources to protect itself from shocks.

**Family farmers and smallholders**

While not all family farmers are smallholders (though many are), nearly all smallholders are family farmers. That is why most empirical work on the subject has used the size of landholding as a proxy measure for family farming. On average, about 84 percent of holdings fall under family farming (Ghanem 2014). About 55 percent of agricultural land holdings in Algeria and Tunisia fall under family farming, as do nearly 70 percent of holdings in Morocco and 98 percent of holdings in Egypt (table 2).

This underlines the importance of family farming for poverty reduction but also for increasing growth. Family farms in North Africa tend to be very small, ranging from 0.7 hectare on average in Egypt to 2.2 hectares in Tunisia (figure 25).

While the majority of holdings fall under family farms, these farms account for only a small proportion of total agricultural land. About 90 percent of agricultural land falls under large corporate-type

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**TABLE 1** Relative importance of agriculture in North African countries, 2012 (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Rural population as share of total population</th>
<th>Agricultural employment as share of total employment</th>
<th>Agriculture share of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>27</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Egypt</td>
<td>56</td>
<td>29</td>
<td>15</td>
</tr>
<tr>
<td>Libya</td>
<td>22</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Mauritania</td>
<td>47</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>Morocco</td>
<td>43</td>
<td>40</td>
<td>15</td>
</tr>
<tr>
<td>Tunisia</td>
<td>34</td>
<td>16</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: AOAD 2012.
While family farmers tend to produce for their own consumption, large modern farms produce for national and international markets.

A large number of people work on family farms across North Africa, making family farming a major source of household income and probably the most important source in some countries (table 3). About 16 percent of the population is engaged in family farming in Egypt, about 10 percent in Algeria and Morocco, and not quite 5 percent in Tunisia.

**Female farmers**

Women provide 23–35 percent of the labor on family farms (table 4). They tend to be responsible for food production and for animal husbandry. They plant food crops for family consumption, and they look after small and large ruminants and specialize in the production of eggs and milk and dairy products. They also participate with all family members in harvesting activities. They are usually helped by their children, who take small ruminants to water and pasture and work alongside their parents at harvest time. The role of women in family farming is increasing, as more and more male family members migrate to oil-rich countries and to cities to earn a better living and send remittances to their families who remain on the farm. Women are left to look after the family farm. Consequently, a process of feminization of family farming in North Africa seems to have started.

Women small farmers suffer from lack of access to land, credit, and technology. Women landholders generally represent less than 5 percent of landholders in the region. The small size of farms and land fragmentation pose a special problem for women, who are hampered by social norms from moving among plots that may be far from one another. Women have great difficulty

<table>
<thead>
<tr>
<th>TABLE 2 Agricultural holdings of less than five hectares in four North African countries (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Egypt</td>
</tr>
<tr>
<td>Morocco</td>
</tr>
<tr>
<td>Tunisia</td>
</tr>
</tbody>
</table>

Source: FAO Agriculture Census data.

<table>
<thead>
<tr>
<th>TABLE 3 Role of family farming in employment in four North African countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Egypt</td>
</tr>
<tr>
<td>Morocco</td>
</tr>
<tr>
<td>Tunisia</td>
</tr>
</tbody>
</table>

Source: FAO Agriculture Census data.
Food prices will continue to be high and volatile over the medium term.

Agricultural livelihoods and poverty

Although representing a limited share of North African GDP, agriculture is important because it provides a livelihood for the majority of the poor. Poverty in North Africa is largely a rural phenomenon (table 5). Rural poverty is about three times higher than urban poverty in Mauritania and Morocco and about twice as high in Egypt and Tunisia.

Vulnerability to food price volatility

Agricultural production is also critical to ensure food security. North African countries depend on food imports for about half of their calorie consumption, and land and water scarcities mean that this import dependence is likely to continue in the foreseeable future. Meanwhile, the Food and Agriculture Organization (FAO) and the Organisation for Economic Co-operation and Development expect that food prices will continue to be high and volatile over the medium term. This should negatively impact the balance of payments of developing countries for three main reasons (OECD and FAO 2010).

- First, the link between food and fuel markets is getting stronger as a result of the development of biofuels. Since world fuel prices tend to be more volatile, this would mean that food prices would also be more volatile.

### TABLE 4 Family workers on family farms by sex in three North African countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Male workers (thousands)</th>
<th>Female workers (thousands)</th>
<th>Total (thousands)</th>
<th>Share of women (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>2,580</td>
<td>769</td>
<td>3,349</td>
<td>23.0</td>
</tr>
<tr>
<td>Egypt</td>
<td>8,227</td>
<td>4,420</td>
<td>12,647</td>
<td>34.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>334</td>
<td>155</td>
<td>489</td>
<td>31.7</td>
</tr>
</tbody>
</table>

Source: FAO Agriculture Census data.

### TABLE 5 Rates of rural poverty in four North African countries, 2014 (headcount index, percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>National poverty</th>
<th>Rural poverty</th>
<th>Urban poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>25.2</td>
<td>32.5</td>
<td>15.3</td>
</tr>
<tr>
<td>Mauritania</td>
<td>42.0</td>
<td>59.4</td>
<td>20.9</td>
</tr>
<tr>
<td>Morocco</td>
<td>9.0</td>
<td>14.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Tunisia</td>
<td>15.5</td>
<td>22.6</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Source: World Bank World Development Indicators.  
Note: Based on national poverty lines.
Increasing the efficiency of irrigation systems would boost agriculture production, farmers’ incomes, and food security.
A sustainable food security strategy should include increases in domestic food production to gradually decrease import dependence. Raising yields per hectare and per unit of water used would be another way of increasing incomes and food security. With the exception of Egypt, yields per hectare for major groups of food products in North Africa are much lower than world averages (table 8). For example cereal yields in Algeria and Mauritania are around 14 hectograms per hectare, while the world average is about 36. This yield gap could be considered “good news” as it means that there is room for higher production.

But those low yields also reflect water scarcity and difficult climate conditions that may be hard to overcome. Investments to increase irrigation efficiency and improve yields are needed urgently, because climate change is making the situation in North Africa even more difficult. Average temperatures in North Africa increased 1–2 degrees Celsius between 1970 and 2004 (IPCC 2007), and they could increase by an additional 0.9–4.1 degrees by the end of the century (IPCC 2014). According to two Intergovernmental Panel on Climate Change reports, rainfall in the region could decline by 25 percent by the end of the century (IPCC 2007, 2014). The higher temperatures could lead to an increase in evaporation by 25 percent. This means that rainwater availability could fall by 50 percent, making a very difficult water shortage situation more dire. Unless urgent action is taken, climate change could result in a further 15–25 percent decline in cereal yields in North Africa.

### TABLE 7 Annual renewable water resources per capita in North African countries, 2011 (cubic meters)

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual renewable water resources per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>682.5</td>
</tr>
<tr>
<td>Algeria</td>
<td>319.8</td>
</tr>
<tr>
<td>Libya</td>
<td>108.2</td>
</tr>
<tr>
<td>Mauritania</td>
<td>3,147.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>889.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>429.2</td>
</tr>
</tbody>
</table>

Source: AFED 2014.

### TABLE 8 Yields of major crops in North African countries (hectograms per hectare)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cereals</th>
<th>Oil crops</th>
<th>Vegetables</th>
<th>Fruits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>14.4</td>
<td>4.6</td>
<td>181</td>
<td>74.0</td>
</tr>
<tr>
<td>Egypt</td>
<td>72.5</td>
<td>5.9</td>
<td>244</td>
<td>202.1</td>
</tr>
<tr>
<td>Libya</td>
<td>7.5</td>
<td>1.6</td>
<td>149</td>
<td>62.0</td>
</tr>
<tr>
<td>Mauritania</td>
<td>13.9</td>
<td>1.9</td>
<td>31</td>
<td>26.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>16.1</td>
<td>3.6</td>
<td>292</td>
<td>99.5</td>
</tr>
<tr>
<td>Tunisia</td>
<td>17.1</td>
<td>0.7</td>
<td>206</td>
<td>56.3</td>
</tr>
<tr>
<td>World</td>
<td>36.6</td>
<td>6.4</td>
<td>192</td>
<td>112.6</td>
</tr>
</tbody>
</table>

Source: FAOSTAT.
• Supporting smallholders and family farmers to link them to markets and thus increase domestic food production while raising their incomes.
• Promoting the development of independent producer organizations that provide voice for smallholders and help them gain better access to input and output markets.
• Introducing social protection systems that target the rural poor through conditional or unconditional cash transfers.

Increasing food reserves and using financial markets for risk reduction
North African countries will remain highly dependent on food imports for the foreseeable future. Consequently, they need to develop import strategies to protect their food security in a world of high and volatile prices. Holding larger physical food reserves is an option. Countries need to maintain food security emergency reserves to assist the most vulnerable without disrupting normal private sector market development, which is needed for long-term food security. The size of such emergency reserves depends on countries’ specific circumstances. Holding food stocks can be expensive. The FAO and World Bank estimate that storage of one metric ton of wheat costs $2.15 per month. Therefore, there is a need to weigh the costs and benefits of holding larger emergency reserves.

Pooling reserves is one way of controlling costs and making use of economies of scale. Thus one policy option would be to create a regional emergency reserve. This would require agreement among the countries on the size of the reserve, its location, rules for releasing food stocks, and the allocation of costs. The initial costs for setting up a regional facility might be high because of the complicated negotiation that would be required. However, the benefits over the medium and long term may outweigh those costs. Another area that deserves special attention by North African food importers is the use of financial markets to reduce risk. Countries around the world are increasingly using financial risk-hedging instruments to insure against volatility. For example, Mexico has used those instruments to fix the price of its corn imports and avoid another “tortilla crisis.” Futures contracts are one way of managing commodity price risk. Another alternative, which is particularly attractive to countries with less easy access to credit, is option contracts. These contracts act like an insurance against high prices because if prices fall, the buyer can decide not to use the option and thus lose only the premium.

Supporting smallholders and family farmers to increase domestic food production and raise their incomes.
Vulnerability to international market volatility in North Africa could also be lowered by reducing dependence on those markets through higher domestic production. Since a large proportion of food in North Africa is produced by smallholders and family farmers, increasing food production would imply helping those small producers increase their productivity. This is particularly true since yields on small farms are often lower than those on large modern farms. By supporting small family farmers, and helping them fill the yield gap, governments would be fighting rural poverty and making economic growth more inclusive while reducing import dependence and enhancing food security. Six areas where governments could intervene to support small family farmers and help increase their yields are discussed below.

Linking small farmers to national and international markets
Linking farmers to markets is essential to raising their productivity and standards of living, and raising their share in value added is an important way to improve family farmers’ income. Family farmers tend to retain a very small share of value added from their products. For example, a study by the Egyptian Ministry of Agriculture found that for many vegetables, the farmer’s share of the market price is only about 20 percent. Not having access to markets, whether domestically or for export, is a serious constraint to agriculture development and to increasing farmers’ incomes. A majority of family farmers in Egypt use the traditional marketing system, kerala, selling their crop in the field at a set price per hectare. The buyer takes control of the product in the field and handles the harvesting, selection, grading, and transportation. An obvious problem with this system is that it does not allow for much price differentiation to reflect...
quality. This also means that the farmer gets a lower share of the market value of the product because the buyer needs to be compensated for harvesting and grading.

New marketing techniques could reduce the role of intermediaries through better organization of family farmers. For example, governments can help farmers promote the products of family farms through special labels and information campaigns about the benefits of local products. Moreover, family farmers’ incomes can be raised by linking family farmers with small and medium-size enterprises to process the farmers’ products or with traders to reach national and international markets through contract farming or out-grower schemes. The West Noubaria rural development project in Egypt linked small family farmers to the international market by helping establish contract farming arrangements between family farmers producing organic potatoes and an Italian trading company. Once linked to the international market, family farmers started receiving better prices for their products (Ghanem 2014). To fully benefit from market linkages, smallholders need to become more competitive, which in turn requires better access to financing, land, and technology. It also requires special measures to adapt to climate change and to support youth and women farmers.

**Improving financial and investment services**

Lack of access to financing and investment resources is perhaps the most important constraint facing family farmers. Agriculture’s share of financing is extremely low compared with agriculture’s contribution to the economy. In Egypt and Morocco, two large agricultural countries, agriculture’s share of credit (adjusted for its contribution to GDP) is about one-fifth of the average for the whole economy (table 9). In Algeria and Tunisia, it is about one-half, and in Mauritania only 7 percent.

These data probably underestimate the financing problem facing family farmers, because a large proportion of agricultural credit goes to big modern farms. Financial institutions, credit instruments, and bank procedures are ill-adapted to the needs of family farmers. Farmers are not able to provide the kind of guarantees that banks require to lend, since many family farmers do not have notarized land titles. The amount of credit required by individual family farmers is usually too small to interest banks, and many banks consider agriculture to be too risky to lend to farmers.

To improve the situation for family farmers, governments could create new institutions or reinforce existing ones with incentives to offer simplified lending procedures that are adapted to the realities of family farmers. They could also put in place government lines of credit to encourage banks to lend to family farmers and develop insurance and guarantee facilities to reduce the risk of lending to agriculture. And they could encourage the development and expansion of rural microcredit facilities and farmer-centered financial institutions (in which farmers would have a stake).

There is also a need to increase public investment in the social and physical infrastructure necessary for the development of family farming.

<table>
<thead>
<tr>
<th>Country</th>
<th>Credit to agriculture (percent of agricultural GDP)</th>
<th>Credit to the economy (percent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>14.2</td>
<td>30.4</td>
</tr>
<tr>
<td>Egypt</td>
<td>7.9</td>
<td>36.8</td>
</tr>
<tr>
<td>Mauritania</td>
<td>2.0</td>
<td>29.2</td>
</tr>
<tr>
<td>Morocco</td>
<td>7.4</td>
<td>64.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>27.5</td>
<td>54.2</td>
</tr>
</tbody>
</table>

*Source: AOAD 2012; AMF 2011.*
Governments could boost investment in agriculture by facilitating land titling.

Several initiatives to enhance financing for smallholders and family farmers offer examples. Sudan’s Micro Finance Development Facility, owned by the Central Bank and the Ministry of Finance, is funded largely by donor resources. It has supported the creation of 16 new microfinance institutions that have reached nearly half a million people. About 80 percent of funding is directed to agriculture activities. The facility funds small investments by family farmers and gives preference to women and young graduates from agriculture and veterinary colleges. Lebanon’s Disaster Fund for Agriculture provides guarantees to reduce the riskiness of family farming by providing financial compensation to farmers suffering the impacts of bad weather or other natural disasters. Half the resources are provided by the government and half by farmers. Reducing farmers’ risks also helps them obtain credit. Algeria’s Plan for Agriculture and Rural Renewal contains special provisions to facilitate access to credit. It provides farmers with interest-free crop financing and reinforces the system of leasing to facilitate the purchase of farm machinery. The plan also includes an insurance scheme to protect farmers from the impact of natural shocks.

**Enhancing access to land**
Land is another constraint for small family farmers. The average size of a family farm in North Africa is less than 2 hectares (see figure 25), and the size is shrinking steadily as the population increases. The problem is compounded by inheritance laws that divide land among surviving children and by the absence of well-functioning land markets that would allow consolidation of farm land. The small size of family farms impedes their access to technology, inputs, and markets. Many family farmers in North Africa do not have a title to their very small farms. In some countries, land is legally owned by the state, and farmers are considered tenants; even then, farmers often lack a legal document proving this relationship. In addition to making it difficult to obtain credit, this uncertainty about their ownership of land discourages farmers from investing. Governments could boost investment in agriculture by facilitating land titling and, in some cases, distributing public and collective land to small family farmers. Laws and regulations would need to be amended to protect the rights of small tenants.

**Adapting research and extension services to the needs of small farmers**
The productivity of North African family farmers is lagging partly because of lack of access to appropriate modern technology. Regional institutions need to conduct their own agricultural research on how current practices and techniques can be adapted to local ecological, social, and economic realities. Studies typically find that the return to investment in agricultural research is very high; it is estimated at 36 percent for Arab countries. North Africa’s investment in research, at 0.4–0.9 percent of agricultural GDP, is far below the rate of about 2.4 percent in OECD countries and of 1.6 percent in Latin American countries where farming is successful (figure 26).

Perhaps more important, many extension services in North Africa are underfunded and ineffective. Extension workers are often not trained to communicate effectively with family farmers, so the information they deliver is not convincing or helpful. A study in Jordan compared the productivity of olive farmers who received support from extension services with those who did not and found that extension services had no impact on productivity (Al-Sharafat, Altarawaneh, and Altahat 2012). There appears to be a need to consider innovative types of research and extension institutions, as well as new instruments for delivering information to family farmers. New institutions could be based on government partnerships with the private sector, family farmer producer organizations, and civil society. Many civil society organizations have earned the trust of family farmers, because they have deep knowledge of the sector and long experience working with family farmers. They increasingly use modern technologies, modern communication platforms such as mobile phones, and the internet to deliver information to family farmers. Television programming is used in Egypt to convey information to farmers.

**Adapting to climate change**
Better research and extension services are also needed to help family farmers adapt to climate change. Higher temperatures, less rainfall, and...
Laws on access to land and credit need to be reviewed and revised to remove biases against women farmers.

Increased land salinity in a region that is already very hot and arid and where per capita water availability is among the lowest in the world do not augur well for the future of agriculture unless action is taken now. Family farmers should be at the center of such efforts. They are the largest food producers and creators of rural employment, and their small size and lack of investment resources make them particularly vulnerable to the impacts of climate change and other types of shocks. Some farmers are already adapting to higher temperatures by adjusting planting times. Research and extension can be helpful by introducing new varieties that are more heat resistant and by informing farmers about new cropping patterns to reflect changes in climatic conditions. North Africa’s biggest challenge will remain water shortages. Again, research and extension can play an important role introducing more drought-resistant varieties. They need to be accompanied by new investments in better irrigation systems to ensure the most efficient use of limited water resources.

**FIGURE 26 Investment in research in selected middle-income countries**

![Figure 26](image)


Supporting women farmers

Particular attention needs to be paid to the needs of women farmers, who play such an important role in agriculture and food and nutrition security (FAO 2016). To support women farmers, governments could consider a three-pronged approach. First, laws on access to land and credit need to be reviewed and revised to remove biases against women farmers. So do procedures concerning titling land and obtaining microfinance, so that they reflect the realities of rural women. Second, governments could put in place programs to provide financial services for rural women. Third, research and extension services should be revised to better reflect women’s increased participation in family farming, such as through women farmer schools, which deliver training to rural women on agricultural production and animal husbandry as well as on health and nutrition issues.

Implementing special programs for rural youth

Youth unemployment rates of around 25 percent are a major challenge in all North African countries. Youth are increasingly losing interest in agriculture and are looking for jobs in urban areas. This is putting pressure on urban infrastructure and depriving rural areas and family farms of important labor resources from youth, who are generally more educated and dynamic than their parents. The availability of adequate goods and services and job opportunities could convince...
more youth to stay closer to the family farm. To encourage youth to remain in rural areas and in agriculture, governments need to invest more in rural infrastructure to attract new businesses and create more opportunities for off-farm employment. Youth would benefit from the opportunity of an off-farm job that also allows them to continue supporting the family farm. There is also a need for programs that target young farmers and provide them with access to land, credit, and technical knowledge.

**Promoting inclusive producer organizations**

In addition to better policies and programs, improving rural livelihoods requires more inclusive institutions. Producer organizations and cooperatives can strengthen governance in the agriculture sector and, by developing and supporting family farmers, can increase productivity. Strong producer organizations can overcome some of the problems resulting from having large numbers of small dispersed family farms in North Africa by letting farmers’ voices be heard in policy discussions and by enhancing access to technology, input and output markets, information, communication, and natural resources. Producer organizations, as well as other civil society organizations that operate in rural areas, are still weak in North Africa and do not yet fully play their roles in support of family farming.

North Africa’s many weak producer organizations are highly dependent on governments, and their autonomy and ability to support family farmers is restricted. Many producer organizations lack the human, financial, and material resources needed to participate effectively in agricultural and rural development. Lack of training and knowledge among grassroots actors limits the organizations’ ability to identify issues and mobilize expertise at different levels to deal with them.

Producer organizations and cooperatives should also play an important economic role, organizing family farmers to enhance their access to technology and inputs, improve their market access, and get them a larger share of value added. Such organizations could encourage the exchange of experience and know-how among farmers, encourage programs for applied agricultural research to support family farmers, and improve extension services and adapt them to the needs of family farmers. When adequately supported, family farmers are able to meet quality standards and sell for export, thus considerably increasing their incomes.

**Reinforcing social protection and safety nets for food and nutrition security**

Improving rural livelihoods and making growth more inclusive through rural development also require an overhaul of social protection systems. Social safety net systems currently reach only a small fraction of the extremely poor people in North Africa, who are concentrated mostly in rural areas. The region’s social safety net systems take a substantial share of public spending, but do not have a commensurate impact on poverty and human development. Much of the spending goes to universal food and fuel subsidies. The fuel subsidies benefit mostly the rich, who consume much more fuel than the poor. Food subsidies are better targeted to the poor, but they are not very efficient.

A study by the African Development Bank in Tunisia in 2013 concluded that the universal nature of Tunisia’s food subsidies undermines their effectiveness in poverty alleviation (AfDB and Tunisian National Institute of Statistics 2013). Of the 888 million dinars’ worth of food subsidies in 2013, it found that only 12 percent went to poor households. Similarly, Tunisian data show that only 9.2 percent of subsidies go to the poorest households, 60.5 percent go to the middle class, 7.5 percent go to rich households, and 22.8 percent are diverted outside the households sector. Moreover, food subsidies do little to promote good nutrition. Subsidies go mainly to bread, sugar, oil, and tea instead of to healthy fruits and vegetables.

A better approach would be to give poor people cash transfers that they can use to buy any food instead of providing price incentives for consuming the wrong types of food. Currently, there is no cohesive social safety net system that adequately protects the growing number of the poor, cushions some of the adverse impacts of economic reform program, and can be scaled up in times of crisis. North African governments need to consider replacing untargeted subsidies with
Successful programs to reduce energy subsidies have usually included compensatory measures to help the most vulnerable and well-targeted social safety nets, while providing immediate protection to the poor and the vulnerable hard-hit by deteriorating economic conditions. The objective should not be to eliminate universal subsidies to reduce overall spending but rather to replace them with more effective mechanisms that target the extremely poor. Some governments in the region (Egypt, Morocco) have already started reducing or phasing out fuel subsidies. This is not a new problem.

A change in the social protection system from untargeted subsidies to targeted social protection requires a broad national dialogue and consensus building. A study of 20 developing countries found that they had reduced the average cost of energy subsidies in their budgets from 1.8 percent of GDP in 2004 to 1.3 percent in 2010, which also reduced energy intensity and increased energy efficiency (Vagliasindi 2012). Successful programs to reduce energy subsidies have usually included compensatory measures to help the most vulnerable and a strong communications strategy to teach the public about the benefits. North African countries may consider expanding the use of targeted cash transfer mechanisms. The North African programs could be tailored to regional needs within each country but should initially focus on rural areas, where the extremely poor are concentrated (Ghanem 2014). Such programs could be conditional or unconditional depending on the region’s context. For example, they could be conditional on receiving education on proper child nutrition. Or they could be unconditional, based on means testing.

The idea is to move away from fragmented, project-based social protection to a systemized approach. This means using common administrative mechanisms, unique beneficiary identification, common targeting techniques, common monitoring and evaluation systems, and integrated transfer modalities. Naturally, such a system needs to be implemented gradually while building administrative capacity. A mechanism will need to be built into the design of the new system to avoid leakages and corruption, perhaps through a partnership with civil society.
NOTE

1. Many observers also argue that increased “financialization” of commodity markets and the rise in speculation have contributed to higher food price volatility. The returns on commodity futures seem to be negatively correlated with the returns on stocks and bonds. Thus, they are an attractive vehicle for portfolio diversification.

REFERENCES


This *North Africa Economic Outlook* (covering Algeria, Egypt, Libya, Mauritania, Morocco, and Tunisia) examines the macroeconomic performance of the region and the outlook for 2018 and 2019 and explores the relationship between food security and rural poverty. Part I looks at the key drivers of regional GDP growth and its sectoral decomposition, price movements, fiscal and current account balance, domestic resource mobilization, and debt dynamics. It also identifies common structural issues facing North African countries and analyzes trends in poverty and inequality and how they relate to unemployment and growth. Part II explores food security and rural poverty in North Africa, viewing them as interlinked. It proposes a strategy to enhance food security while reducing rural poverty and rural–urban inequality by increasing farmers’ share of value added.

The North Africa region has recovered strongly since the Arab Spring in 2010. Indeed, real GDP growth was estimated at 4.9 percent, up from 3.3 percent in 2016, higher than the African average of 3.6 percent and second only to East Africa. But this improved performance stems largely from the greater than expected production and export of oil by Libya, which generated strong GDP growth of 55.1 percent, thanks to an improved security situation resulting from a joint regional and international assistance effort to the country.

Growth prospects for 2018 and 2019 are positive given reforms undertaken in all countries. The growth outlook for the region remains favorable relative to that for other regions (except East Africa) with an average growth projected at 5.0 percent in 2018 and 4.6 percent in 2019.