

UK DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

REGIONAL ASSISTANCE PLAN

MIDDLE EAST AND NORTH AFRICA

Consultation draft, June 2003

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DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in the Middle East, Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

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DFID's Middle East and North Africa Department was created in 2002. It is responsible for managing DFID's programmes in Egypt, Iraq, Jordan, the Palestinian Territory (and with UNRWA), and Yemen. It is also developing a new programme of work to influence and support other development activities across the region. It is based in London, with a small office in East Jerusalem, and staff in British Embassies in Cairo, Amman and Sana'a and the British Office in Baghdad.

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Department for International Development
xxxx 2003

MIDDLE EAST AND NORTH AFRICA: REGIONAL ASSISTANCE PLAN .

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A. SUMMARY

A1 The Middle East and North Africa (MENA) **region is diverse**. But common cultural characteristics (Arabic, Islam) and development challenges (conflict, institutional problems, economic stagnation and unemployment) help define a regional development strategy which is sensitive to country circumstances yet reflects their regional context. The paradox of regionalism is that although there is a long history of aspirations to pan-Arab unity, the region has not developed effective regional institutions to address **common challenges**.

A2 While there has been **good development progress** over the last thirty years and the region is now mostly middle income, there are still significant numbers of people living in poverty, and many social indicators remain unsatisfactory. Pressures from conflict, population growth, shortage of natural resources and slow integration into the global economy create a **danger of progress stagnating or being reversed**. This situation is due largely to the failure or inability of most governments in the region to take forward the economic, political and social reforms needed to ensure continuing economic growth, job creation, more equitable income distribution, and better access to services for all their people. Much is known about what needs to be done and the long-term benefits reform would bring. But change is retarded by political sensitivity about volatile reactions from those who might lose out. Change is likely to deepen and accelerate if the right incentive framework is in place for key decision-makers. Foreign donors can contribute to this. The **greatest risks to further progress are from continuing conflict**, caused by stalling of the Middle East Peace Process, and/or failure to restore stable and accountable government quickly to Iraq.

A3 DFID's **global development policies** point to a focus on reducing poverty, conflict and increasing the impact of key multilateral agencies, particularly the EC. **Wider UK policy** includes the importance of supporting the Middle East Peace Process, sustainable reconstruction in Iraq, and nationally led political and economic reform across the Arab world. **The region as a whole is overaided**, and there is little consensus on how best that aid should be used. The EC (including the EIB), the World Bank, the USA and France are major donors. There are significant flows from Gulf countries and the Arab Funds.

A4 DFID's previous involvement in the region has been modest, although some of our technical assistance has been highly effective. We have not taken a regional approach before. **Lessons learnt** from past experience include the need to work more closely with other donors to maximise our impact, and the importance of project activities being focused around a broader strategy. We have much more to learn.

A5 Our **purpose** is to help governments, civil society and the private sector in poorer countries and across the region to drive the process of economic, political and social change needed to enable progress towards the Millennium Development Goals. We will do this by contributing to **four key outcomes**: reduction in the impact and likelihood of violent conflict; more effective, accountable and inclusive governance; economic growth benefiting all people in a sustainable way; and more equitable human development. We will work in three

complementary ways: at the **country level** (major conflict-related programmes in Palestine and Iraq, and a growing programme in Yemen, the region's poorest country), through **supporting the international system** (with a particular focus on the EC's MEDA programme, to which our declining Egypt and Jordan programmes will contribute), and through selective **analytic work on key regional development themes** (conflict, governance, migration, the environment, and trade integration). As our own programmes will generally remain modest in size, we will work closely with other donors to maximise our impact.

A6 To implement this strategy DFID is **increasing and realigning the financial and human resources** it allocates to the region. DFID's Middle East and North Africa Department (MENAD) will work closely with the Foreign & Commonwealth Office and other government departments to deliver these objectives. In the long term we hope that, subject to an absence of conflict, four of the five countries where we currently have programmes will approach **graduation** from most DFID assistance over the next decade.

B. DEVELOPMENT CHALLENGES

B1 The Middle East and North Africa (MENA) region covers over 20 countries from the Western Sahara to Iran¹. The region comprises several ethnicities, religions and languages, though Arabic and Islam play defining roles. There is **great diversity** in terms of physical features, population, economic structure, social indicators and per capita income (from almost \$20,000 in Kuwait to \$450 in Yemen²). However, there are several **common development challenges** across the region, including the need to tackle problems caused by violent conflict, and shortcomings in institutional and economic structures which constrain progress. The **paradox of regionalism** is that although there is a long history of aspirations to pan-Arab unity, the region has not developed effective regional institutions to address common challenges. These challenges help define a set of priorities on which to base a regional development strategy, which is sensitive to individual country circumstances, but also reflects their regional and international context.

B2 Over the past five decades there have been significant advances in reducing poverty and advancing human development. Several of the region's wealthier oil-rich nations are no longer defined as developing countries, and the remainder are all classified as Middle Income Countries - with the notable exception of Yemen, the only Low Income Country in the region. **Progress towards the Millennium Development Goals** (MDGs) has generally been good: in 1999, only 2% of the population in the region's developing countries lived below the internationally recognised poverty line of \$1 a day³, and the net primary school enrolment rate was 82%. Lack of reliable data remains a key obstacle in monitoring more specific progress by country or by sector.

B3 Despite past progress, **poverty reduction** trends are slowing and inequality, having decreased dramatically in the 1970s and 1980s, is re-emerging as a key issue. Since 1990 the percentage of people living on less than \$1 a day has remained constant. Those living on less than \$2 a day have increased from 21 to 23 percent of the population (comparable to Latin America) and now number 68 million – 18 million more than in 1990. Over the last decade economic growth was slower than in any region except sub-Saharan Africa and the transition economies of Europe and Central Asia. Unemployment now stands at 25 percent (second highest in the world.)

B4 The 2002 **Arab Human Development Report**, which has provoked widespread debate across the region about common challenges, notes that “deficits” in political freedoms/rights, women's empowerment and human capabilities/knowledge create serious obstacles to human development. 65 million adult Arabs are illiterate, including over half of all adult women (similar to sub-Saharan Africa). Maternal mortality is double that of Latin America and the Caribbean. Only 0.6% of the population uses the internet. Reaction to the AHDR

¹ This strategy does not consider Sudan, Djibouti or Mauritania, which although predominantly Arab countries face many challenges more typical to sub-Saharan Africa. Decisions about DFID engagement with them are taken by DFID's Africa Division, which runs a substantial humanitarian assistance programme in Sudan.

² Data (years vary) mostly from World Bank, 2003 World Development Indicators

reflects widespread popular dissatisfaction across the region with lack of economic progress and poor governance. However many Arabs pride themselves on local social stability, family values, and cultural and religious traditions.

Table 1

Country	Population (millions) 2001	GNI per capita \$ 2001	% living below < \$1 day year	% living below \$2 day year	Below national poverty line year	Primary Enrollment Ratio (% of relevant age group) 2000	Under 5 Mortality Rate per 1,000 2001	Maternal Mortality Ratio per 100,000 live births, modeled estimates 1995
Algeria	31	1,650	<2 1995	15 1995	23 1995	98	49	150
Egypt	65	1,530	3.1 2000	44 2000	17 2000	93	41	170
Iraq	24	*				93	133	370
Jordan	5	1,750	<2 1997	7 1997	12 1997	94	33	41
Lebanon	4	4,010				74	32	130
Morocco	29	1,190	<2 1999	14 1999	19 1999	78	44	390
Palestine	3	1,350					25	
Syria	17	1,040				96	28	200
Tunisia	10	2,070	<2 1995	10 1995	8 1995	99	27	70
Yemen	18	450	16 1998	45 1998	42 1998	67	107	850
MENA	301	2,220	2 1999	23 1999	na	82	54	na

* estimated LMIC (\$746-\$2975)

Note World Bank definition of MENA includes Djibouti, Iran, Libya, Malta, Oman and Saudi Arabia (but not high income countries) in addition to the countries listed above.

Source: 2003 World Development Indicators, World Bank

B5 Households rely on **extended family networks** to offset the effects of crises and to conserve or acquire resources. Sexual segregation remains ingrained; high gender inequalities retard human development. Religious charitable contributions are an important component of safety nets. Informal **social protection** mechanisms - although efficient – fall short of protecting vulnerable groups, and formal social protection measures are inefficient and poorly targeted.

B6 Population growth over the next 20 years threatens to put increasing pressure on public services and natural resources, potentially reinforcing low levels of human development. With current population growth rates (average 2.6%) and levels of life expectancy (62-65 years), the population could expand from 280 million in 2000 to 460 million by 2020. There is therefore **a danger that past progress on poverty reduction may be reversed over the next twenty years**, unless more effective strategies are developed for dealing with inter-related challenges such as conflict, governance and human rights, pro-poor economic growth, gender and the environment.

B7 Violent **conflict** remains a threat to the stability of the region, and the largest obstacle to development. International involvement over the last century has left a legacy of fragile nation states, often with imposed borders. The search for national identity and “state-building” has been hampered by disputes over borders, conflict

over access to natural resources (e.g. water and oil), ethnic and religious tensions and tribal rivalries.

B8 The Arab-Israeli conflict has dominated regional politics and constrained development for the last fifty years. Civil wars have erupted in Yemen, Lebanon and Algeria, while fear of internal dissent and violence affects the domestic politics of several countries. Domestic responses to these threats, particularly from Islamist movements, have been cited as a contributory cause of the region's high level of terrorist activity. **Iraq** has been involved in three wars in the past twenty years. The consequences across the region of the most recent of these conflicts are not yet clear, but have raised widespread questions about incentives for political change, the involvement of international actors in resolving unstable situations in the Middle East, and the nature of multilateralism more widely.

B9 Whatever the cause, conflict has directly led to human suffering, displaced people, and slowed economic growth. The threat of conflict has also compromised the ability of states to pursue developmental aims, diverting public resources away from more productive or social priorities. The region has the highest military expenditure in the developing world: 7 percent of GNI, double that of Europe and Central Asia.

B10 A critical challenge is thus for key international actors – particularly the USA, UN, and EU – to help implement a **comprehensive strategy for conflict resolution**. At the heart of this strategy must be the implementation of a just, two-state solution to the Middle East Peace Process (MEPP). The EU has a key role to play through its position in the Quartet, the Barcelona Process, and through using its instruments for co-operation (trade, aid and political association) more effectively to strengthen economic growth, systems of governance and respect for human rights.

B11 In recent decades **political Islam** has emerged as an ideological and often violent challenge to the legitimacy of Arab states. While Islamic movements take varied forms, many share a dissatisfaction with existing political arrangements and a common perception that Islamic values and culture are under attack from outside (i.e. western) forces. As a result, many Arab states have not yet succeeded in developing the sense of national political community needed to allow legitimate government. This contributes to governments' concerns about the speed at which democracy can be introduced.

B12 Human and economic development are closely linked to **improved governance and active participation by citizens** to ensure the state protects rights and delivers accountable services. The limited representative government across the region contrasts starkly with the wave of democracy that has swept Latin America and Eastern Europe in the last fifteen years, despite the fact that Arab people support democratic reforms⁴. Reliance by many governments on oil revenues rather than large taxbases partly insulates them from peaceful political pressures. The AHDR notes that autocracy, nepotism and corruption are

⁴ See for example World Values Survey, which found 98% of Egyptians, 95% of Moroccans and 90% of Jordanians thought democracy better than any other form of government

characteristics of governance structures in the region and free political participation remains constrained. The principles of democracy and human rights are enshrined in constitutions and legal codes, but their implementation is often neglected and real separation of powers remains weak. Many people, particularly the poor, are denied access to justice. Women in particular do not have equal political citizenship, rights or legal entitlements. The challenge is to ensure increased and effective participation in political decision-making, strengthen democratic processes, and develop more transparent and accountable systems of governance. Global experience suggests that although the formal institutions of democracy can be developed quickly, developing the civic and political culture to make them work can take a long time – particularly where illiteracy is high.

B13 A related challenge is for **governments to deliver services efficiently and transparently**. Many still have over-staffed, unresponsive bureaucracies and weak systems of accountability. Challenges include raising productivity and efficiency in public service delivery and administration, establishing merit-based appointment and promotion, and ensuring local communities have a voice in demanding pro-poor provision of basic services.

B14 More than ten million children (and rising) under fifteen are out of school. The rural poor and girls are less likely to be educated. The quality of **educational provision** is low, despite a relatively high (but decreasing) level of funding, and there is an increasing mismatch between the output of education systems and labour market demand. The region has the world's lowest level of access to information and communications technology.

B15 The region ranks next to last (behind sub-Saharan Africa) on UNDP's **gender empowerment** measure. Whilst female literacy rates have expanded threefold since the 1970s and female school enrolment rates have more than doubled, girls' share of enrolment is still relatively low, especially at tertiary level, and the rate of growth has levelled off since the mid-1980s. More than half of Arab women are still illiterate and the number of girls out of school is increasing. Past educational achievements have not yet had a major impact in countering gender-based social attitudes and norms. MENA has the lowest rate of female labour force participation (26%) of any region in the world – including South Asia and sub-Saharan Africa.

B16 Poverty and the need to diversify incomes have had a strong impact on **regional migration**. Remittances peaked in 1990 but are still worth more than foreign aid and direct investment combined. Patterns of migration have changed particularly in response to EU developments and increasing numbers of non-Arab migrants in the oil-exporting countries. Historically the out-migration of able-bodied men has left large numbers of woman-headed households inhabited by the least mobile. International remittances can account for up to 30% of total household income; they represent an important opportunity for helping lift poor households out of poverty.

B17 Economic growth in the past has been partly dependent on oil revenues and aid flows, with much unsustainable growth promoted through public employment and subsidies. However, these revenues have not been targeted productively,

public sectors have become bloated at the expense of a vibrant, diversified private sector, and the **foundations for broad-based pro-poor economic growth have not been developed**. The region has also fallen behind in regional and global trade integration. MENA contains the highest number of countries by region that have not yet acceded to the World Trade Organisation. Throughout the 1990s, exports from the region (over 70% of which are oil and oil-related products) grew at only 1.5% per annum, far behind the global rate of 6%. The region is now facing an unemployment crisis. Around 50 million jobs will need to be created over the next decade just to keep pace with the expanding labour market – more if a higher proportion of women enter the workforce. Faster integration into the global economy and more regional trade are critical to achieve this.

B18 The primary economic challenge is to build on the reform efforts of macro-stabilisation over the 1990s to **address structural constraints to growth, increase productivity, and diversify away from oil**. This means reining in public sector spending (up to 60% of GDP in some countries) and renewing efforts to establish the right environment for private sector-led growth. Whilst governments have supplied growth-supporting physical infrastructure (eg two-thirds of roads are paved), the state's role in enabling private enterprise is less developed. This will require institutional reform (eg to labour markets, regulation, banking supervision), building human capabilities (education and training) and supporting research and development.

B19 A further challenge is to address the region's **restrictive external trade regimes**. Countries in the region cannot afford to remain outside multilateral trade negotiations, especially on critical sectors such as agriculture, services, and clothing/textiles. A key step should be to develop roadmaps for those countries that remain non-members to accede to the WTO. Regional economic co-operation, trade integration and shared infrastructure development is also required to improve the global competitiveness of domestic industry. There are some initiatives underway⁵, but progress is slow. The lack of regional integration – particularly with the richest economies in the Gulf, which import billions of dollars of goods and millions of low-skilled migrant workers from outside the region – is a missed opportunity for regional development.

B20 Most countries in the region are characterised by a poor natural resource base and weak institutional frameworks for promoting the efficient use of scarce resources and sound **environmental management**. Limited water resources⁶ constrain potential for economic growth. Some 88% of water in the region is used for agriculture, but used inefficiently, depriving industry, services and domestic consumers. Inequity in the allocation of water and land hits the poor hardest, many of whom rely upon economic sectors dependent on natural resources. This reduces their livelihood opportunities and adversely affects health. Regional tension and conflict may be fuelled by the lack of co-operation over access to natural resources, particularly water. The challenge is to ensure that economic reform and liberalisation measures are designed with sustainable management of

⁵ Through the Agadir process (involving Morocco, Tunisia, Egypt and Jordan) and the Gulf Cooperation Council

⁶ The region has 12% of the world average per capita water resources and 30 million people below the water poverty line

scarce natural resources in mind, and that regional institutions are strengthened to help deliver sustainable and pro-poor growth.

B21 Complex reforms are needed if the region is to maintain positive trends in economic development and poverty reduction over the next twenty years. Reliance on oil revenues and remittances, the traditional sources of growth, will not serve as a sound development strategy for the future. Much is known across the region about what needs to be done and the long-term benefits reform would bring. But political sensitivity about volatile reactions from those who might lose out in the short-term retards change. However political and economic change *is* occurring, and is likely to deepen and accelerate if the right incentive framework is in place for key decision-makers. The influence of the **drivers of change** – whether they be prominent individuals or groups such as reforming elites, opposition political parties, civil society, media, business groups and academics, or processes such as increasing political awareness, the globalisation of the news media and women’s empowerment - will determine how fast economic and governance reforms will move.

B22 External actors have a role in supporting the drivers of pro-poor change, and helping governments manage the transition process which reforms bring, particularly to cushion the blow to those poor people who will lose out as a result of reform. The international system has traditionally supported the region through aid, trade and economic co-operation. Large volumes of aid (relative to other middle-income regions) also flow between wealthy and poorer countries within the region. However large oil windfalls, huge aid packages (with significant grant elements), exceptional treatment for external debt, and preferential trade agreements have undermined incentives for liberalisation, reform, and increased productivity, as they shield governments from the costs of poor economic management and weak governance. The challenge for foreign donors is to ensure that **appropriate instruments and amounts of aid** are used, to provide incentives for and build the capacity of countries promoting pro-poor political change and undertaking difficult economic reforms, particularly in helping cushion the costs of transition.

B23 The greatest **risks** to the region achieving the Millennium Development Goals are from continuing conflict, most likely triggered by a stalled MEPP, or failure to restore stable and accountable government quickly to Iraq. Other significant risks are a lack of commitment from governments in the region to economic, political, and social reform; and external shocks such as a decline in the price of oil. These risks have broader implications for regional and global stability. (A more detailed risk analysis is at annex 1.)

C. POLICY CONTEXT

DFID and UK policy

C1 DFID's work is guided by two government policy documents ("**White Papers**") on international development, published in 1997 and 2000. The first commits us to the achievement of the internationally agreed **Millennium Development Goals** (MDGs), centred on reducing by one half the proportion of people living in extreme poverty by 2015. The second White Paper links this to the new challenges and opportunities presented by **globalisation**.

C2 DFID's strategy for the Middle East and North Africa flows from these policies, and draws heavily on our wider experience of working with **middle-income countries**, where skewed income distributions and rights problems leave many people in poverty. Our approach in such countries focuses on policy engagement through multilateral institutions, backed by targeted technical assistance.⁷ UK ministers have committed DFID to spending 90% of our bilateral programme in Low Income Countries by 2005/6, which will require reductions in what we spend in Middle Income Countries. DFID is withdrawing from several MICs over the next few years.

C3 Other DFID policies guiding our work in the region include those for the European Community and the World Bank, both of which transfer significant financial resources to MENA, and as a result have substantial policy influence. With these institutions our central concern is to increase the poverty focus of their programmes, and make their developmental impact more effective. With the EC, we also work for its trade policies to help developing countries benefit from growth in the world economy. Other strategy papers – on empowerment of women, education for all, good governance, human rights, conflict, access to water, the environment - help guide our approach in relation to the achievement of individual MDGs.

C4 These long term policy objectives are summarised in a set of three year corporate targets, currently covering 2003/4 – 2005/6. Objectives relevant to the Middle East and North Africa include:

- **reducing poverty in the region**
 - working to improve the impact on poverty of EC assistance programmes in the region through effective implementation of existing and negotiation of new regulations governing the EC programmes
- **increasing the impact of key multilateral agencies in reducing poverty and effective response to conflict and humanitarian crises**
 - working to resolve existing conflicts and prevent new conflicts in priority countries and regions
 - working to address the national and regional causes of conflict by strengthening local conflict management systems
 - promoting increased access to markets for developing countries and enhanced capacity to exploit trade opportunities

⁷ See *Eliminating Global Poverty: the Middle Income Countries*, November 2001

- **developing evidence-based, innovative approaches to international development**

C5 Achieving these targets involves working closely with other government departments: the Foreign and Commonwealth Office and the Ministry of Defence on reducing conflict; the Department for Trade and Industry on increasing market access; the Treasury on international finance for development and debt; and the Department for Environment, Food and Rural Affairs on environment.

C6 Other **UK government foreign policies** influence our approach:

- A successful **Middle East Peace Process** is one of the UK's highest priorities. The Arab-Israeli conflict destabilises the whole region. Some Arab governments cite it as a reason why they are unable to undertake wider reforms urgently needed in their own countries. The UK is a leading supporter of the clear international consensus that now exists on the need for a comprehensive negotiated peace settlement resulting in the establishment of a viable Palestinian State alongside the State of Israel, both with secure and recognised borders.
- The UK's overall objective in **Iraq** is to help it become a stable, united and law-abiding state, within its present borders, cooperating with the international community, no longer posing a threat to its neighbours or to international security, and abiding by all its international obligations. This will require a full, democratically-elected government with control over a unified and transparent budget, free from sanctions and integrated into the international economy, pursuing a programme of sustainable economic growth and poverty reduction.
- The UK's long-term **strategy for the Arab world** seeks a partnership with the region to promote economic, social and political progress, cultural and religious tolerance, and an end to extremism. The UK is strongly committed to the war against terrorism.

Other donors' policies

C7 The region receives significant amounts of official development assistance from developed countries and international organisations. In comparison to other developing regions, it is overaided on a per capita basis, even more so in relation to the number of poor people in the region. But poverty reduction is not the primary motivation for many donors' assistance to MENA. The international consensus on development priorities and processes – a focus on the Millennium Development Goals, backing country-owned poverty reduction strategies, harmonising donor procedures to coordinate aid more effectively – is not emerging in this region in the way it is in many low-income countries (although some North African countries are active participants in the New Partnership for African Development). Aid allocations and choices of instrument are still substantially influenced by domestic political considerations, including commercial advantage and concerns about foreign policy objectives such as migration and terrorism. Lack of financial resource is often not the problem – for example public spending on education is higher than in any other developing region, but quality remains notoriously low. Effective donor coordination is a challenge in these circumstances – for donors and recipient governments.

C8 The region is of vital strategic importance to the **EU**, and is a key external relations priority. Policy towards the Mediterranean area is governed by the “**Barcelona Process**”, providing a framework of bilateral and multilateral relations between the EU and ten partner countries in the region. Its objectives are to:

- establish a common Euro-Med area of peace and stability based on respect for human rights and democracy;
- create an area of shared prosperity through the progressive establishment of a free trade area, accompanied by substantial EU financial support for economic and social transition in the partner countries;
- develop human resources, promote cultural understanding, and develop free and flourishing civil societies.

C9 The **MEDA**⁸ programme is the principal instrument for the implementation of the Euro-Med partnership, and comprises financial and technical assistance for economic and social reform. The programme spent nearly €700 million in 2002, all on grant terms. A third of this is essential support to UNRWA and the Palestinian Territory. But poverty reduction is not a primary objective of the Barcelona Process. MEDA funds are used primarily as a development tool to implement a political and economic agenda agreed by EU ministers. There is some additional support to the region outside the scope of the MEDA programme.

C10 The Commission’s proposed policy on **Wider Europe** sets out a common approach to the EU’s new neighbours (once candidate countries accede), including the Mediterranean partners. This is based on working with partners to reduce poverty through a differentiated framework of incentives (particularly faster and deeper integration into the EC single market) which responds to progress made by partners in political and economic reform.

C11 In 2002 the European Investment Bank (EIB) launched a Facility for EuroMediterranean Investment and Partnership (**FEMIP**) which will build on existing EIB lending to the region. A key objective is to increase the amount of investment finance available to small and medium sized enterprises, leading to increased private sector job opportunities.

C12 The **World Bank** recognises the challenge of poverty reduction in the region. Its engagement is strongly linked to helping MENA countries achieve the MDGs. Its strategy is to use a combination of knowledge and finance (about \$1 billion of lending a year) to strengthen the process leading to policy reform and institution building, improving the investment climate, job creation and sustainable growth, and empowering the poor to participate more fully in the development process. The Bank’s programme is focused on five strategic areas: public sector efficiency and governance; private sector development and employment creation; education; water resources; and gender.

C13 The **USA** is by far the largest bilateral donor to the region. Historically most assistance has gone to Israel (where around \$700 million a year is provided in the form of direct budget support, though this figure is now starting to reduce in recognition by Congress of the increased prosperity of the economy), and Egypt,

⁸ From the French, “**mésures d’accompagnement**”

which receives around the same amount to support economic growth and the economy, health and population programmes, the environment, and governance. In the immediate future, post-war reconstruction in Iraq will become the major focus of US development assistance in the region. The US has also launched a Middle East Partnership Initiative to focus its commitment to democracy, education and the development of the private sector, and is exploring opening up more free trade agreements with the region.

C14 Significant lending and grant funding is provided to the poorer countries in the region by **regional institutions** such as the Islamic Development Bank and the various Arab funds, and by the richer Gulf countries. This has been particularly important in supporting the budget of the Palestinian Authority, and Yemen.

C15 Other bilateral donors with substantial programmes include Germany, Japan and France.

D. WHAT WE HAVE LEARNT

D1 DFID has been working in some countries in the region for many years. But until we created a Middle East and North Africa Department in 2002, we had no clearly articulated regional analysis or approach. One lesson learnt is that **we need to think regionally** if we are to maximise the synergies between our activities and our influence on development outcomes. Regional analysis highlights key regional themes, helps formulate appropriate responses to cross-border challenges, promotes lesson learning between countries, facilitates engagement with other donors who take a regional approach, and encourages resource allocation in line with DFID policy.

D2 At the project level our technical assistance is often welcomed for its quality, targeting and poverty focus. We have built flexible and robust partnerships, and usually been able to respond quickly to new requests, which is highly valued. However, **we have not been good at learning - or disseminating - lessons**. Learning has been hindered by the lack of a clear programmatic focus to our work. We have failed to develop monitoring and evaluation techniques to turn assessments of how well specific projects have achieved their objectives into useful knowledge for dissemination to others (rather than to comply with internal DFID systems).

D3 DFID is, and will remain, a relatively small player across the region in terms of our direct assistance. We are **starting from a relatively low base of knowledge** outside our core areas of project activity in five countries. We are still building the level of expertise needed to engage effectively on macro-policy with both national governments and other donors. We need to allocate staff time to such activities, which rarely involve spending much money.

D4 At the country and regional level, we have not addressed **performance measurement** of our assistance and progress against the MDGs adequately. There are severe problems in doing this regionally, but at country level it should be easier to assess what contribution our assistance is making.

D5 We have however learnt lessons from activities which have had a particular **impact** against our previous objectives. Examples include:

- Support in establishing a Palestinian Negotiations Support Unit has significantly improved the Palestinians' prospects of negotiating effectively in final settlement talks – and getting to that stage. Other donors have added their support. The project is a good example of a high risk strategic activity which has no immediate impact on poor people's lives, but could address a root cause of poverty (conflict).
- We supported the work of the ICRC, CARE and UNICEF in Saddam's Iraq when some donors would not (for political reasons). This ensured some continuing humanitarian assistance and enabled these organisations, particularly ICRC, to be well-prepared when conflict broke out.
- Our work with the IMF and UNDP on economic and financial management in Yemen has used good practice from the region and elsewhere to build capacity, and linked technical assistance to policy dialogue on reform.

D6 As we have not been organised to think regionally or influence other donors before, lessons learnt here are sporadic. But there are some pointers for the future:

- We have been a major donor to UNRWA, one of the most important regional organisations. As well as helping UNRWA address its chronic funding problems, we have supplied targeted technical assistance to support UNRWA's efforts to improve its effectiveness and efficiency.
- Our environmental management work in Egypt has generated many exemplary project design features, particularly how to use participatory techniques and work at many levels of government, which are now being looked at by other donors (notably the EC) more widely across Egypt and other parts of the region.
- Where we are working on key issues in more than one country – eg public sector reform in the Palestinian Territory and Jordan - there is scope for us to promote regional learning, and to work more closely with other donors in other countries.

D7 More general lessons on how we work include:

- We have developed a scattering of often unconnected project activities in response to pressure to spend rather than a strategic agenda. **We need to focus more.**
- Bilateral project work enables us to develop country knowledge, trial innovative techniques, and catalyse larger-scale assistance. A regional approach without the **credibility that comes from bilateral work** will be hard to sustain.
- Such bilateral work will not on its own lead to the significantly strengthened partnerships with multilateral agencies that we are now seeking. We need to have **something else to offer other donors** if we are to support their work.
- **Well-targeted technical assistance** can produce impact disproportionate to financial commitment, particularly if linked to larger donors' spending plans.
- **Joint donor funding** of one partner is potentially an efficient form of donor coordination, but can impose extra administrative burdens on the recipient if procedures are not sufficiently harmonised.
- When we work directly with government partners, we need to be sure the **ministries we work with have the capacity and authority** within government to advance the objectives we have agreed with them.
- We often work in uncertain and fast-changing environments. **Flexible project design** is needed to take account of these changes. This usually involves taking risks. We need to be better at managing risk, as well as assessing it.
- Some projects take a long time to mature and deliver. Building trust and understanding institutional constraints takes time. It is best done by **long-term in-country consultants and staff**. Cultural and political awareness, language and interpersonal skills are often more important than technical knowledge.
- Rapid staff turnover, both in the region and in London, has depleted institutional memory of working in a difficult policy environment. **More locally recruited professional staff** is one response.

E. STRATEGY FOR ASSISTANCE IN THE REGION

FRAMEWORK

E1 The overarching goal for the region to which our activities contribute is the achievement of the Millennium Development Goals by the year 2015.

E2 Achieving this goal requires progress against the challenges described in Section B. **Our purpose is to help governments, civil society and the private sector in poorer countries and across the region to drive the process of economic, political and social change needed to enable progress towards the Millennium Development Goals.**

E3 On the basis of our analysis of the challenges facing the region, what others are doing to address them, the lessons we have learned from past experience and DFID's comparative advantage and policies, we have identified four outcomes to which we think we can contribute – either directly ourselves or through support to other donors and regional organisations.

1. Reduction in the impact and likelihood of violent conflict

We will contribute by: (a) supporting reduction, mitigation or prevention of conflicts in individual countries, (b) integrating conflict prevention principles into our own development programmes and encouraging other development actors to do so, (c) responding to humanitarian needs arising from conflicts.

2. More effective, accountable and inclusive governance

We will contribute by: (a) supporting governments to develop efficient, effective and transparent public administrations serving the needs of their citizens, (b) encouraging the participation of a wide cross section of society, including poor and vulnerable groups, in political and development processes, (c) promoting the development of an active civil society which can hold governments to account for their performance in a range of areas, including service delivery and human rights.

3. Economic growth benefiting all people in a sustainable way

We will contribute by helping governments and other donors to analyse and implement the reforms needed to generate jobs through increased investment and trade, and to mitigate the social costs and potential inequalities of such transition.

4. More equitable human development⁹

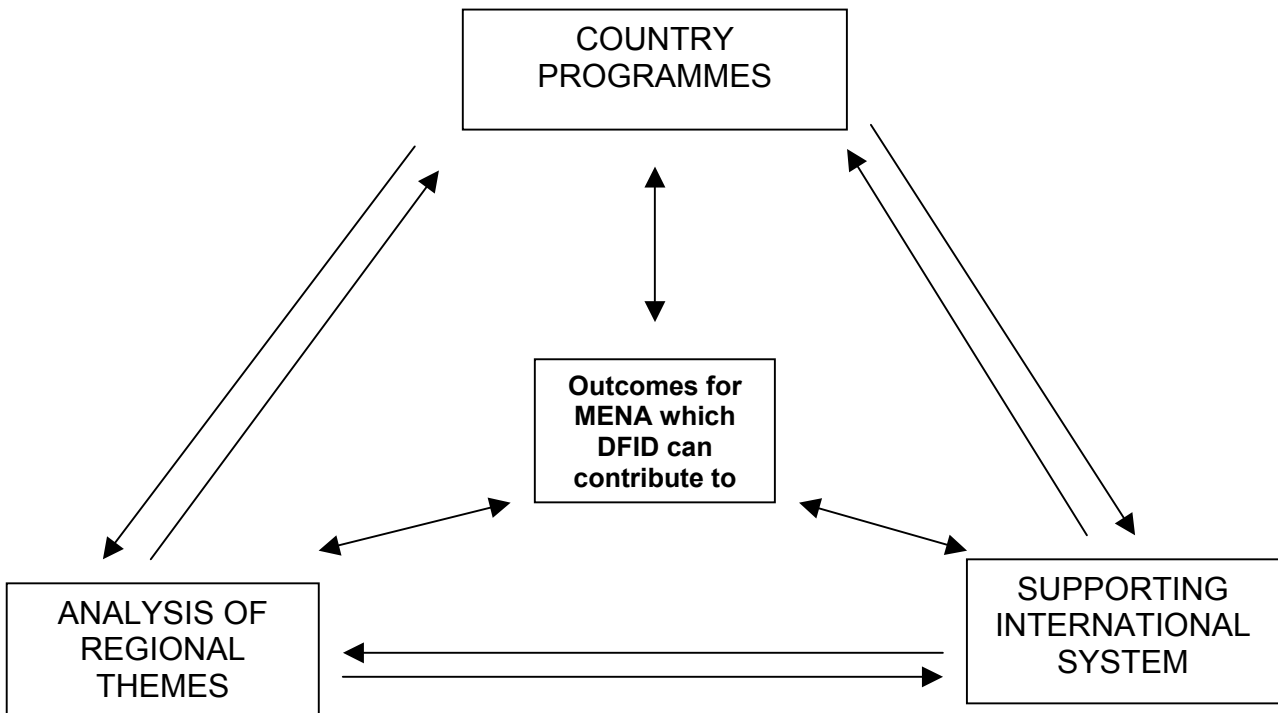
We will contribute by helping governments formulate and implement strategies for regulating and investing in basic service delivery, particularly education and health, as a way to accelerate the realisation of human potential, economic growth and political reform.

[Boxed text]

E4 Governments in the region are primarily responsible for progress against these outcomes in their own countries. As a relatively small donor working in a

⁹ Human Development is customarily measured through the UNDP Human Development Index (HDI) which covers life expectancy, adult literacy, education enrolment ratios and GNI per capita.

predominantly over-aided middle income region, we will increasingly **focus on expanding international understanding of what is needed to achieve the outcomes** above. We will undertake a programme of analytic work on key development themes in the region important for achieving these outcomes. This will complement our continuing modest provision of direct assistance, and our work with other donors to support the international system. We will develop this strategy at both regional and country level. We will not work on all outcomes in all our focus countries or with all our major donor partners, but will be selective.



E5 The three ways of working will be mutually supporting - we will use our **knowledge, experience and influence** to contribute to these outcomes. For example, our choice of regional themes has been influenced by indications of where we can collaborate with other donors on shared agendas, our analysis of these themes will be informed by our existing knowledge of the countries we work in, and our support for the international system will include joint work with other donors in specific countries.

E6 In implementing this strategy we will focus in particular not just on what needs to be done but on **what will drive change** – and on who are the agents of change wanting international support. But we will also encourage the active **participation of poor people** in development and political processes and decision-making – including the projects we fund.

E7 We will contribute to the formulation and revision of other **UK and EU policies** which affect the development prospects of countries in the region.

ANALYSIS OF REGIONAL THEMES

E8 Much is known across the region about what needs to be done to make progress against the MDGs. But there remain knowledge gaps, and gaps in the dissemination of existing knowledge. There is scope to adapt successful lessons in implementation learnt from other developing countries to the particular circumstances of this region. There is a need for developed countries to better understand the links between poverty and some of their foreign policy concerns in MENA. Many of these lessons are applicable to several countries across the region, justifying a regional approach to the analysis of key constraints.

E9 DFID is at an early point on our learning curve across the Middle East and North Africa. Our lack of recent involvement in several key countries restricts where we can add value. We need to increase our knowledge of the cultural and political context of development in the region, both to inform our own programming, and how we work with other donors and regional institutions.

E10 Given the outcomes to which we aim to contribute, we will undertake analytic work on the following five themes. (The themes do not map directly onto the outcomes – some are relevant to more than one.)

- a. Violent **conflict** overshadows other challenges in the region. There is a question as to how far the region's conflicts can be compared, as each has occurred for different reasons. We will explore the links between conflict and poverty – both causes and consequences - across the region. This will inform specific measures we and other donors could take to mitigate the effects of conflicts in individual countries, and/or better integrate conflict prevention principles across our development programmes. We will work particularly closely with our FCO and MoD colleagues on conflict.
- b. **Governance** problems are at the root of many of the region's development challenges, with inefficient bureaucracies constraining the effective delivery of services and unrepresentative political systems abusing citizens' rights. We already have some experience of public sector reform as a way to improve service delivery and accountability. We will increase our understanding of political processes and what drives their change, from political elites to the grass roots of civil society. We will explore with the EC the extent to which human rights could play a fuller part in the EuroMed dialogue, leading to better outcomes in line with existing agreements.
- c. **Migration** is a large and growing phenomenon across the Middle East and North Africa, with a complex series of causes and a high level of domestic political interest across Europe. Remittances from workers in the Gulf States and Europe can constitute a significant element of income at the national and household levels in MENA and contribute to economic growth. Temporary migration can also play a role in transferring skills and ideas. The trade-off is a loss of skilled workers, with a consequent risk to long-term development. A better understanding of the links between poverty and migration, and migration as a driver of change, would help policy makers design responses. The EC is beginning to look at this.

- d. In a region with scarce natural resources - particularly water - better management of the **environment** can promote equitable growth, improve its sustainability and potentially help avoid conflict. Many environmental issues are by their nature cross-border or regional and require coordinated responses. Connections between the environment, poverty, growth, governance and conflict could be better understood. We will promote the further integration of environmental issues into the development programmes of governments and multilateral institutions. Our approach will be multidisciplinary, linking with other themes and contributing to the conflict and growth outcomes.
- e. MENA countries have been slow to integrate into the global economy, and barriers to increased **trade** remain high across the region. This threatens to stifle future growth prospects, employment creation and poverty reduction. We will develop a better understanding of the links between trade liberalisation (including within the region), private sector development, employment creation and the impact on poorer people. This analysis should help inform the international community's trade and aid policy for the MENA region. We will also look for opportunities to assist with domestic trade policy within MENA, to support export-oriented growth, increased productivity and help governments work out how best to cushion any negative costs of transition. We have already started looking jointly with the European Commission at the impact of liberalisation on national economies, strategies for private sector development and the prospects for subregional trade integration.

E11 In undertaking regional analysis on these themes, we will seek to work particularly closely with the EC and the World Bank, and other donors, adding value and filling knowledge gaps. We are at an early stage in our analysis of some of these themes, and may conclude for one or more that there is no strong case for us to develop more detailed work at this stage.

E12 An important part of promoting improved regional learning will be capitalising on experience already within the region, including through the commissioning of analytic work from institutions in partner countries. We will look for opportunities to support targeted transfer of expertise from one MENA country to another.

SUPPORTING THE INTERNATIONAL SYSTEM

E13 The international system collectively provides a very generous package of assistance to the Middle East and North Africa. But it is not used as effectively as it could be. This is partly because of the priorities and ways of working of some partner governments, and partly because of the objectives, instruments and procedures of the donors providing it. In the light of the large amounts of aid provided by the EC, the EIB, the World Bank, the Islamic Development Bank, the several Arab funds, and to a lesser extent the African Development Bank and other bilateral donors, some of DFID's money and time is best used at the margins supporting other donors to spend their large budgets more effectively. **Our overall objective in supporting the international system will be more**

effective and coordinated use of existing aid resources in support of key development outcomes.

E14 The **EC** is the highest priority for such cooperation, on the grounds that its programmes are large, the UK pays for 19% of them, its dual role in aid and policy dialogue gives it additional leverage, and member states and the Commission have agreed there is scope to improve the focus and quality of its work. In the long term our objectives for EC assistance to the region should be a **greater focus on poverty reduction**, and an **allocation of resources and blend of instruments more appropriate to the region's needs**. This needs to be tied into the UK's wider approach to reform of the EC external assistance programme.

E15 But given that progress against these objectives is more likely to be substantial in the run-up to the renegotiation of the current MEDA regulation in 2006, in the short to medium term we will put staff time and some money into developing **constructive collaboration with the Commission to improve the quality of MEDA and its focus on reform** over the next few years. This is an opportune time, with the Commission making a concerted effort to address some of MEDA's previous shortcomings (lack of strategic focus in country programmes, poor dialogue with partner countries, high levels of financial commitment relative to capacity to spend, unclear staffing arrangements, limited authority for in-country staff). However the Commission still faces capacity constraints, which member states can help with.

E16 We are looking at a variety of **instruments** to advance this collaboration. We will support the Commission's work both through **specific project collaboration** in selected countries (for example in Egypt, where we are building on our expertise in environmental management to help with a major regional development programme in South Sinai), and through **analytic work to support MEDA programming** across the region (for example a joint study we have started on the legal aspects of transition required by the Association Agreements between EuroMed partners and the EU). We will consider making available a small amount of unearmarked technical assistance funding to enhance the Commission's ability to design better targeted programmes and evaluate their success. We could consider one or two secondments to the Commission in Brussels and/or a delegation in the region. We will play a constructive role at formal meetings such as the MED committee, promoting discussion of strategic priorities over debate about project micromanagement. We will participate actively in EC coordination in-country, particularly over the discussion of National Indicative Plans and Country Strategies, while encouraging donor-wide and country-led processes.

E17 The **European Investment Bank** has been lending to the region for many years. In 2002 it launched the **Facility for EuroMediterranean Investment and Partnership (FEMIP)**. This will increase EIB lending to the region from 1.4 billion euro a year to over 2 billion euro a year by 2006 (ie triple MEDA's grant funds), with a new focus on promoting private sector development. The launch of FEMIP has been overshadowed by a debate about whether it should be converted into a separate EuroMed Bank, which the UK opposes. But whatever FEMIP's status, increased lending to the region is in line with DFID's Middle Income Country policy

policies that well-targeted loans (accompanied by some technical assistance) are often a more appropriate aid instrument than grants for MICs. We will thus look for ways to support FEMIP achieve its objectives and press for close alignment between its activities and the Commission's.

E18 We will develop a regional dialogue with the **World Bank**, with whom we already work closely on some country programmes and who share a similar analysis of the region. Their approach to knowledge management as a catalyst for policy and institutional change (including on priority areas such as trade integration, migration and conflict) suggests scope for cooperation. The instruments for collaboration could be similar to those identified for the EC. We will work closely with the **IMF** on economic and financial reform in Iraq and Yemen.

E19 We will investigate whether we can work more closely with the large intraregional donors, particularly the **Islamic Development Bank and the various Arab funds**. We will also explore the scope for promoting regional partnerships with regional organisations such as the Arab League, and regional civil society networks.

E20 We will try to build closer relationships with other **bilateral donors** who have a large or influential presence in the region, such as the USA, France and Spain (with whom DFID has a wider partnership on Middle Income Country work). We will discuss the EC's programmes more closely with the southern European member states, who are often perceived as having different views to us, as well as those who are more like-minded.

E21 We will work with **UN agencies** where they have a particular role or comparative advantage (eg UNRWA for Palestinian refugees and UNSCO in the Palestinian Territory, OCHA/OHCI and OIP in Iraq).

E22 We will **work with other donors to improve the mechanisms** through which international assistance is given, and increase knowledge and understanding about the effectiveness of different aid instruments in the region. We will do this through active and constructive participation in donor coordination, joint evaluations with other donors and some general work on aid effectiveness. Such work will need to respect the different political agendas underlying aid programmes in the region. Where possible we will work with other donors to assist governments to put themselves more at the centre of the aid coordination process, and to develop the planning capacity to use donor and domestic resources more efficiently and effectively.

COUNTRY PLANS

E23 DFID currently has five bilateral programmes in the twenty or so countries in the region – Egypt, Jordan, Iraq, assistance to Palestinians, and Yemen. We also fund small grants schemes administered locally by British Embassies in Syria and Lebanon (and Yemen, Egypt and the Palestinian Territory). Total spend has been £40- 50 million a year.

E24 The policies and priorities above suggest four main thrusts to our country programme work in future. We will contribute generously to the urgent post conflict priorities in Iraq. We will expand our programme in Yemen to reflect its poverty and commitment to reform. We will maintain a continuing commitment to help with the Palestinian people's humanitarian needs and their political aspirations. We will gradually reorient our small programmes in Egypt and Jordan into a regional approach supporting the work of other donors, particularly the EC.

EGYPT

Context. Egypt is the most populous country in the region (and, after Nigeria, in Africa). Its economic potential is huge and parts of its economy vibrant. But unequal human development and governance problems threaten its progress in reducing poverty. While population growth has been checked in recent years (now 1.8% per annum), 40% of the population is under 15, reflecting a high dependency ratio and putting heavy pressure on the country's ability to develop sustainably. Unemployment is 9%, and the country needs sustained economic growth of at least 6% to absorb new entrants into the labour market. 55% of adult females are illiterate. Egypt is a middle-income country but its high dependency on receipts from tourism, remittances from workers in the Gulf, and revenues from the Suez Canal make the economy highly vulnerable to external economic shocks. A skewed income distribution means that 44% of the population lives on less than \$2 per day. Poverty is unequally spread across the country, with a much higher incidence in Upper Egypt¹⁰.

The main objectives for Egypt's National Development Plan for 2002-2007 are reducing poverty, improving the quality of life and standards of living; reducing unemployment; increasing rate of economic growth, increasing female participation in development; improving human resources; and preserving the environment. Improving the quality of life for the poor and marginalised requires cultural as well as structural changes, with greater levels of participation and decentralisation, but this process is hindered by historical factors that include an entrenched, non-responsive, and hierarchical state bureaucracy; and passive acceptance of the status quo. Some parts of the government are unwilling to engage in explicit discussions about poverty and how to address it.

What others are doing. The largest bilateral donor is the USA (\$2.9 billion commitment for 2002-2004), whose programme focuses on promoting economic growth and human resource development. The multilaterals are also significant donors, with the EC expected to provide \$0.9 billion and the World Bank \$0.5 billion over the same period. Other donors (such as the UN, the African Development Bank, and Arab development funds, and smaller bilateral donors) are expected to provide \$0.7 billion.

History of DFID engagement. DFID has been a minor donor in bilateral terms, but the long-term nature of our involvement and carefully targeted interventions

¹⁰ World Bank, 2000 figures from 2003 WDI.

have enabled us to have a significant impact on environmental management, and to a lesser extent on social reform. We are currently working primarily in the areas of environment and adult (particularly women's) literacy. An underlying theme in our work is to demonstrate the value of the participatory approach to development in service design and delivery, rather than the top-down methods common in most Egyptian organisations. Our work in both environmental planning and management, and in female literacy, has demonstrated that the participatory approach can work in Egypt to reduce poverty. The environment programme has also convinced policy-makers, especially at Governorate level, of the importance of integrating these concerns into mainstream planning. Our work has influenced the design of future projects in this sector by other donors (particularly, the Danes, Dutch, and the US), and lessons are being taken further afield (eg Yemen).

Future programme. Our bilateral programme will wind down over the next few years, in line with DFID's undertaking to concentrate our resources on the poorest countries. The future focus of our activities will be to identify areas where DFID inputs might improve planned EC, and other donor programmes, particularly in the education and environmental sectors, to contribute to *economic growth benefiting all people in a sustainable way and more equitable human development*. We are already building on our expertise in environmental management in Egypt to help the EC develop its €65 million programme in South Sinai, and are investigating opportunities for joint work on adult literacy. We will continue work with the World Bank to support the Nile Basin Initiative (which brings together Egypt and the other nine basin states to develop win-win solutions for the use of Nile waters, and stronger regional trade links), and look for lessons from it for cross-border environmental issues across the MENA region.¹¹

IRAQ

[To be updated in early July prior to publication]

Context. The recent conflict in Iraq is the third the country has undergone since 1980. Conflict, the repression and under-investment of Saddam's regime, and thirteen years of sanctions have caused a sharp economic and social decline from the relatively affluent middle-income years of the late 1970s. While reliable data remain difficult to obtain, GNI per capita has fallen dramatically and may now be below \$1,000. A majority of the Iraqis are entirely dependent for food on the UN Oil For Food Programme. Maternal mortality has reached levels comparable with the poorest African countries. The fall of Saddam's Ba-ath party regime in April 2003 provides an opportunity for new social, political and economic structures to be developed to address the huge challenges the country faces, in addition to meeting the immediate humanitarian and rehabilitation needs arising from the recent conflict.

What other donors are doing. At the time of writing, the major donors in Iraq are the UN agencies, who have issued a Flash Appeal for \$1.2 billion to meet immediate needs, and USAID. By mid 2003, USAID had issued contracts totalling up to \$980m over 18 months, covering capital reconstruction, education, public

¹¹ This work is led by within DFID by the Africa Great Lakes and Horn Department

health and local governance. The US is likely to remain the largest bilateral donor in Iraq. We are keen to see strong engagement in Iraq from the multilateral agencies, especially the World Bank, IMF, UNDP and the European Commission. Many bilateral donors are contributing humanitarian funding and have reconstruction plans; effective coordination of these inputs is an increasing challenge.

History of DFID engagement. From 1991 until early 2003, DFID provided more than £100m in humanitarian assistance to Iraq through the UN, Red Cross and non-governmental organisations, particularly in the north. In response to the 2003 conflict DFID committed £115m through these agencies to respond to immediate humanitarian needs, and a further £95m has been set aside to respond to further needs as they arise. Particular areas of focus included supporting medical services and the distribution of supplies; maintaining distribution arrangements for food; protecting and maintaining water and sanitation services; and promoting effective international co-ordination.

During 2003 DFID has also been playing a role as part of the UK Government in helping the US and UK meet their obligations as Occupying Powers under international law, as set out in the Geneva Convention and Hague Regulations and in accordance with UN Security Council Resolution 1483. These include obligations to establish and preserve law and order, ensure basic civil administration is up and running, and facilitate delivery of humanitarian aid, before a progressive handover of responsibilities to representative Iraqi authorities. DFID has provided a number of humanitarian staff and other experts to help the UK military and the Coalition Provisional Administration fulfil these obligations.

Future programme. DFID will help Iraq reach its development potential, and secure a stable future where the needs of the whole population are met equitably and sustainably. In 2003, initial priorities have been identified as:

- Reducing dependence on emergency assistance as quickly as possible
- Creating transparent economic, governance and legislative structures which support broad-based economic development
- Ensuring the full participation of the Iraqi people – including women – in defining their own governance structures
- Ensuring continued delivery of essential public services (such as health and education).

DFID will focus its efforts according to emerging developments in Iraq, and its experience in other post-conflict countries. We are likely to consider contributions in the areas of economic management, security sector reform, public administration reform, and the political transition process. This strategy is likely to contribute to all four of DFID's regional outcomes.

This approach is set out in more detail in an Iraq Interim Strategy published in May 2003 (which can be found at www.dfid.gov.uk). Events in Iraq will move quickly during the life of this Regional Assistance Plan. We expect to produce a longer-term Country Assistance Plan for Iraq by early 2004.

JORDAN

Context. Jordan is a small middle-income country which attracts high levels of donor funding because of its strategic significance and vulnerability to regional events, rather than its high levels of poverty. Jordan suffered a series of economic shocks during the 1990s, including the Gulf War and its aftermath, a collapse in oil prices, decline in worker remittances and regional instability. Iraqi sanctions and the recent conflict in Iraq have also affected Jordan, whose economy has significant ties to Iraq, particularly for oil supply. All of this has taken its toll on economic growth, which has remained sluggish. 11.7% of the population fall below the official poverty line of US\$1.2 a day¹². Poverty tends to be caused by low wages rather than unemployment, and is characteristically higher among households in rural areas, and those with a large number of children and a low level of education. Jordan's government is a monarchy moving gradually towards greater democratic freedom. It has a reputation for faster reform in some areas than other countries in the region. The Government, aware of the potential political implications of economic decline and increasing social unrest, has made substantial efforts to address poverty and worked closely with donors in planning its poverty strategy.

What other donors are doing. The principal donor agencies working in Jordan are USAID, the EC, World Bank, GTZ and the UN (including UNDP and UNICEF). The \$250 million per year USAID programme includes activities in the social sectors, public sector reform and economic support (with an exceptional additional US\$1.1 billion in 2003 for military and economic assistance to Jordan to counter the negative impact of the conflict in Iraq). The World Bank's primary involvement is in public sector reform and education reform, and to a lesser extent on encouraging private sector development for job creation. The EC's MEDA programme is focused on supporting the EU-Jordan Association Agreement to create the right economic, institutional and (to a lesser extent) social conditions to enable Jordan to make the most of the new economic opportunities created through closer co-operation with the EU. How MEDA will make strategic links between poverty reduction and economic development in Jordan is not yet clearly defined.

History of DFID engagement. DFID's recent modest engagement in Jordan has focused on support for economic reform and human development, particularly through capacity building in education, and pro-poor social policy development with both government and Jordanian NGOs. These programmes are now reaching their conclusion, allowing us to redirect our engagement in Jordan towards greater collaboration with other donors. Our overall objective has been to help reduce poverty in a sustainable way over the medium term, and we have sought to achieve this by helping the Government build its planning and operational capacity to reduce poverty and social exclusion; supporting the Government's economic reform process; and deepening our existing partnerships with multilateral donors¹³. Concentrating on a small number of projects to achieve this has had mixed results – but in general it would seem that greater impact has

¹² Household Income and Expenditure Survey (HIES) 1997

¹³ DFID Jordan Country Strategy Paper, 2000

been gained when those at the centre of Government's policy-making have been involved as key stakeholders.

Future programme. Our bilateral programme will wind down over the next few years, in line with DFID's undertaking to concentrate our resources on the poorest countries. Our remaining activities will support *more effective, accountable and inclusive governance*. Our main bilateral engagement over the next three years will be in public service reform, where we will support the Government in strengthening service delivery through central capacity development and selected pilot initiatives in individual ministries. This initiative will complement and support the objectives of the World Bank's Public Sector Reform loan programme (and has been informed by the activities of other donors in this area, particularly GTZ and USAID). This project is part of a UK commitment to spend £5m on public sector reform in Jordan over the next few years.

The other focus of our future programme activities will be to identify and develop areas where DFID inputs might improve planned EC programmes. Particular attention will be given to working with the EC in assessing the social and institutional aspects of economic developments. Initial discussions with EC staff suggest that the most promising areas for future collaboration will be in social development, and public sector reform. Public sector reform is not a traditional area for the EC's MEDA programme. However, there are important links between institutional strengthening for service delivery, particularly in education, and MEDA's objective of building social capabilities to make the most of new economic opportunities. The EC has expressed an interest in this aspect of public sector reform. We will look for opportunities to develop such links.

The Jordan MEDA budget currently includes a substantial amount of funding for social sector work, but so far ideas on how to use those funds are fairly broad. We are discussing with EC staff ways in which we could inform their allocation of these funds with our experience of working in pro-poor social policy development in Jordan over several years.

PALESTINIAN TERRITORY and UNRWA

[To be updated in early July prior to publication]

Our programme of assistance to Palestinians seeks to help improve the lives of Palestinians during the process towards statehood. We provide assistance to the Palestinian Authority, civil society, and to the United Nations Relief and Works Agency for Palestinian refugees.

Context. The potential for Palestine is considerable, but the conflict with Israel for over 50 years has severely constrained natural economic growth. Following the Oslo Accords in 1993 and 1994, the area enjoyed a period of relative peace and prosperity. But since September 2000 there has been a continuing cycle of violence and closures, which have badly affected Palestinian livelihoods. Poverty has increased dramatically with some 60% of Palestinians now living on less than \$2 a day. Unemployment stands at 53% and many families are now dependent on food aid. Families have sold their assets, borrowed from friends and

neighbours and cut their intake of food. Palestinian refugees are often among the most disadvantaged communities. The key, overriding, challenge for Palestinians is a just settlement to the Middle East Peace Process, and the creation of a viable, democratic Palestinian state. Without peace, the prospects for economic growth and improved quality of life are negligible.

What others are doing. The major donors are the Arab League states, the European Community and the USA, together accounting for over 70 percent of commitments and disbursements. If EU member states are added to the EC's contributions Europe overtakes the Arab states to become the largest donor to Palestinians in 2002 in disbursement terms (with US\$371 million or 35.3 percent of the total).

One of the many frustrations of the *intifada* has been the erosion of the development effort financed by the international community, and the loss of time, effort and capital associated with this. With the significant exception of the PA reform programme, the overwhelming emphasis in most donor work is now directed towards mitigating the impact of the economic and social crisis. Despite a significant increase in donor commitments in 2002 compared with 2001, commitments to infrastructure and capacity-building work with a medium-term focus continued to decline.

UNRWA's annual budget, and more lately its emergency appeals for the West Bank and Gaza Strip fields, is funded by voluntary contributions. The European Union (EC plus member states) and the US are the largest contributors accounting for two thirds of needs. A core group of donors provides complementary technical assistance and project funding to support UNRWA's efforts in seeking greater effectiveness and efficiency.

History of DFID engagement. Along with the rest of the international community DFID re-engaged significantly in the immediate post-Oslo period when Israel granted the Palestinians a degree of autonomy, and allowed the creation of the Palestinian National Authority. Prior to that development partnerships were exclusively with Palestinian civil society, and the Israeli government provided basic government services. Since Oslo, expenditure on our bilateral aid programme to the West Bank and Gaza Strip has grown from £3 to £14 million a year. We have funded a range of development initiatives which aim to help the PA to build its capacity as an efficient and accountable government, while also promoting the development of a vibrant civil society. Our assistance has predominantly focused on institutional strengthening and capacity building rather than the development of infrastructure. Since October 2000 we have responded substantially to the urgent needs arising from the *intifada*.

The UK has provided core funding for UNRWA since its creation shortly after the 1948 war and the exodus of Palestinian refugees from their homes in what is now Israel. Over the last five years we have sought to develop a positive and productive partnership that encourages UNRWA to increase its efficiency and

effectiveness and stabilise funding¹⁴. UK annual contributions have risen commensurately.

Future support. Lately the international development effort has been forced to concentrate on shorter term support for the immediate needs of the PA, and of Palestinian refugees. The International Financial Institutions and the European Community have played a lead role in determining and supporting strategic responses as the conflict has deepened. Key activities have included EC budgetary support for the PA and employment generation and basic services support programmes. But despite the short term pressures efforts have been maintained to ensure that longer term capacity and institution building continues. Consensus exists that this twin-track approach is essential; to provide immediate needs, and maintain medium term development efforts in anticipation of peace. It is equally clear that there is no humanitarian solution to the current suffering of the Palestinian people. Only a political solution will provide the environment to reverse the severe social and economic decline.

Our programme must remain responsive to the changing political, social and economic environment. Various scenarios will be considered based on which the likely balance of our programme will be assessed. Support for the implementation of the roadmap is a key current priority. But we are guided too by the Palestinian Emergency Investment Plan and the priorities it sets for the urgent needs of the people.

We remain committed to support UNRWA in alleviating the plight of Palestinian refugees, whose future is a key issue within the Peace Process. We will continue to work closely with UNRWA and international partners to help ensure appropriate levels of support, and to encourage strongly UNRWA's institutional reform, and to improve its effectiveness.

A Country Assistance Plan for DFID support to Palestinians is being prepared in parallel with this document, and will be published later in 2003 (also at www.dfid.gov.uk).

YEMEN

Context. Yemen is the only low-income country in the Middle East and North Africa, with social indicators reflecting very low levels of human development. The country is ranked 144 out of 173 countries in the 2002 Human Development Index. The poverty level in Yemen is high (GNI per capita of US\$450 per annum, 16% of population below US\$1 a day and 45% below US\$2 a day¹⁵). Female primary school enrolment and completion rates¹⁶ and adult illiteracy rates¹⁷ are

¹⁴ DFID Institutional Strategy Paper, *Working in Partnership with UNRWA*, November 1999

¹⁵ Data from World Bank World Development Indicators (2003) unless stated otherwise

¹⁶ Gross primary enrolment rate in 2000 was 52% for girls compared with 81% for boys, whilst the retention rate was 33% for girls compared with 68% for boys (Ministry of Education 2002).

¹⁷ Illiteracy among adult females is 74.7% compared to 32.5% for males (Global Education for All Monitoring Report 2002)

among the worst in the world, as are infant and maternal mortality rates¹⁸. The fertility rate is one of the highest in the world¹⁹. Lack of water contributes to the high poverty level²⁰. Yemen is one of the most democratic countries in the Middle East, with fair and free elections successfully concluded again in April 2003. However some groups feel excluded from the political process, reflected in the localised conflicts and terrorist activities seen in some areas.

Yemen has a long history of conflict and civil war which continues to threaten development. Although general levels of security have improved since September 2001, it remains difficult to operate in some of the poorest areas of the country that have traditionally been outside central government control. This is at present a serious constraint on donors seeking to respond to the country's needs – and reinforces the need for development to reduce rather than contribute to the underlying sources of conflict.

The Government of Yemen's Poverty Reduction Strategy Paper (PRSP) was approved by the World Bank and the IMF at the end of July 2002. The donor community is committed to supporting its implementation. The PRSP targets four key areas for support – achieving economic growth, human resources development, improving infrastructure, and ensuring social protection. Of the key issues for Yemen's development plans over the next three years, the most critical is a decline in oil revenues, predicted to begin in 2005 as resources start to run down. The impact may be accelerated if there is a sharp decline in oil prices as Iraqi oil production increases. Access to water by poorer communities and the availability of water for economic growth is a potential constraint. Any decline in remittances from Yemeni workers abroad would have a direct impact on household incomes. Development of the coastal areas, although perceived as a key source of future economic growth, may be more difficult as a result of the negative impact of terrorist actions and regional conflict on shipping revenues. A further constraint is the high level of corruption throughout government and low levels of human capacity. Recent proposals to devolve power to local councils could offer an opportunity to bring about more accountable government acting in poor people's interest.

What others are doing. The largest bilateral donor is Saudi Arabia. Among OECD countries, the growing US programme will be the biggest in 2003. The Dutch and the Germans also have largest programme. Prominent amongst the multilateral agencies are the World Bank and the Islamic Development Bank, UN agencies including UNDP, UNICEF, and WFP, and the EC. Donor co-ordination has improved since the PRSP process got underway, helped by the fact that the donor community in Yemen is fairly small. Civil society is also active in Yemen – there are a large number of local NGOs, and a few international NGOs with programmes focusing on health, education, agriculture and water.

¹⁸ Under 5 mortality in 2001 was 107/1000 live births, maternal mortality 850/100,000 in 1995

¹⁹ 6.2% in 2000 but higher in rural areas (World Bank Development Data 2000)

²⁰ Per capita share of water in Yemen is less than 2% of world average. Recoverable water is currently estimated around 2.5 billion m³, but total water usage is around 3.4 billion m³ and rising (Poverty Reduction Strategy Paper 2002)

History of DFID engagement. Over the past five years our objective has been to provide support which works closely with the wider reform agenda to ensure strategic, well targeted and effective inputs.²¹ We have sought to achieve this by focusing a very small programme on supporting the Government's economic and financial reform programme, in co-operation with the IMF and UNDP. Such an approach has proved worthwhile in seeking to deliver on this objective, in spite of the fact that this is a complex and difficult policy area, and progress has been slow. Capacity building and institutional strengthening to improve Yemen's rudimentary financial systems are prerequisites for successful PRSP implementation, most notably in the Government's ability to deliver effective and efficient basic services, especially in health and education. Our ongoing support for strengthening economic and financial management will be an important part of developing an effective means of implementing and monitoring the PRSP.

Future programme. Our priorities will be *more equitable human development and more effective, accountable and inclusive governance*. We plan to continue supporting the PRSP process by working with other donors and civil society to strengthen its impact through monitoring and evaluation, as well as looking at ways to enhance the quality of programme delivery. More specifically, we will support the PRSP by developing programmes in basic education and possibly reproductive health. In line with our regional objectives, we aim to strengthen the basis of our relationship with multilateral donors, particularly the EC and World Bank, and will look for opportunities for collaboration on programmes through co-financing, and carefully targeted technical assistance.

Basic education provision in rural areas of Yemen is particularly poor, especially for girls, and there are significant links between high levels of illiteracy among rural women and high birth rates in these areas. The PRSP places emphasis on the importance of getting girls into school, as well as the need for reform in the education sector in general. The recent Basic Education Development Strategy of the Ministry of Education has received endorsement from the donor community under the global Education For All Fast Track Initiative. The PRSP also puts an emphasis on the importance of raising awareness of population issues alongside improving maternal and child healthcare – difficulties of access to health clinics by poor rural women and shortage of female healthcare workers exacerbate these problems. An important element of this engagement in human development will be to promote capacity building in social protection measures that ensure policies make a contribution to the reduction of poverty, inequality and social inclusion.

DFID's bilateral programme to Yemen will increase substantially over the next three years. We will need to manage this expansion carefully given present restrictions on visiting the country and possible continuing security concerns. A greater understanding of conflict and terrorism will be needed to ensure our programmes (and those of other donors) help address the root causes and reduce the likelihood and impact of conflict.

We expect to start preparing a longer-term Country Assistance Plan for Yemen in late 2004.

²¹ DFID Yemen Country Strategy Paper, 2000

OTHER COUNTRIES

We will review the DFID-supported Small Grants Schemes for Lebanon and Syria (run by the British Embassies in Beirut and Damascus) in 2003/4 in the light of the FCO's plans to programme new activities in the region (through the Global Opportunities Fund). Our support to UNRWA includes activities with Palestinian refugees in Syria and Lebanon (as well as the Palestinian Territory and Jordan). We have provided limited support to NGOs working with Iraqi refugees in Iran.

We have no plans to provide direct assistance or establish a DFID presence in any other country in the region. We will increase our knowledge of one or two poorer countries – perhaps Syria or Morocco - whose progress or significance could inform how we work with other donors and other parts of the UK government to implement this strategy. We will develop and maintain a dialogue with British Embassies in poorer countries across the region, and work with FCO colleagues on links between this strategy and their own plans to support economic and political reform throughout the Arab world through the Global Opportunities Fund. We may provide ad hoc humanitarian assistance to any country in the region facing severe emergency needs.

F. IMPLEMENTING THE STRATEGY

F1 To implement this strategy DFID is increasing and realigning the financial and human resources it allocates to the region. Future bilateral spending plans are (in £m):

Country \ Year	2001/2 (spent)	2002/3 (spent)	2003/4 ²² (plans)	2004/5 (plans)	2005/6 (plans ²³)
West Bank/Gaza ²⁴	14.4	15.0	15.5	11.5	11.5
UNRWA	25.4	18.8	14	15	15
Iraq	7.5	8.6	210 ²⁵	tbc	tbc
Yemen ²⁶	2.0	2.2	4	6	10
Egypt ²⁷	1.9	2.1	3	2	2
Jordan	4.3	3.0	3	3	2
Regional	0.2	0.2	0.5	1	1

F2 These plans reflect i) the urgent post conflict priorities in Iraq, ii) Yemen's status as the only low income country in the region, iii) a continuing commitment to the Palestinian people, including where necessary to additional emergency needs arising from the intifada and opportunities to support the Middle East Peace Process, and iv) a reorientation of our small bilateral programmes in Egypt and Jordan into a regional approach supporting the work of other donors, particularly the EC.

F3 In addition, DFID contributes the UK share towards EC spending in the region. In 2002, the EC spent almost 1 billion euro in the Middle East and North Africa, of which the UK share (about 19%) was approximately 190m euro, or £130m. We

²² Plans for 2003/4 and future years rounded to nearest £0.5m

²³ Plans for 2005/6 are provisional.

²⁴ In 2001/2, 2002/3 and 2003/4 spending plans for West Bank/Gaza and UNRWA have been supplemented by additional contingency resources made available in-year in response to emergency needs.

²⁵ Published plans for 2003/4 (£6m) have been supplemented by an additional £84m of DFID's own resources (of which £10m was committed in March 2003), and £120m from the Treasury central reserve in response to humanitarian needs during and following the conflict. **[As of 30 May 2003, £115m of this £120m has been committed to humanitarian agencies and £95m has been set aside to support emergency relief, recovery and reconstruction needs. The Treasury has set aside a further £60m for relief and reconstruction, which has not been allocated to DFID.]** Plans for future years are yet to be confirmed.

²⁶ In DFID's published aid framework, Yemen allocations were recorded under the regional line in 2001/2 and 2002/3.

²⁷ In DFID's published aid framework, Egypt and Jordan are included in the regional line in 2003/4 and subsequent years.

also contribute financially to World Bank and United Nations agency programmes in the region.

F4 DFID's Middle East and North Africa Department (MENAD) will take the lead in implementing this strategy, working closely with our Conflict and Humanitarian Affairs Department (particularly on Iraq), Information and Civil Society Department (who support UK some NGO work in the region), European Union Department and other relevant departments. We will coordinate our spending activities and political dialogue with those of the FCO in the region and London.

F5 Unlike most other DFID geographical departments, MENAD will remain based in London in the short-medium term. This is necessary to allow us to work closely with colleagues from other government departments, and to ensure the flexibility to work across five countries and develop a regional agenda with a relatively small core staff. However we will continue to strengthen our presence in the region, including through the recruitment of more local professional staff. We will expand our small office in Jerusalem, are establishing a presence in Baghdad as circumstances permit, and are gradually building up staff in the British Embassy in Sana'a. We will maintain one or two staff in Amman and Cairo. We will also increase our professional advisory capacity in London.

F6 In the medium term we will look at the options for delegating more authority to our in-country offices and further increasing staffing levels there, to ensure we remain sufficiently flexible to respond to changing circumstances and coordinate effectively with our partners locally. We will also explore whether it would be possible for us to move MENAD, or parts of it, to the region.

F7 In the long term we hope that, subject to an absence of conflict, four of the five countries where we currently have programmes will approach graduation from most DFID assistance over the next decade. The exception is Yemen, which is likely to need substantial donor support for many years.

Annex 1

Risk Analysis

Risk	Impact	Probability	Mitigation open to DFID
<i>Countries in region resent what they perceive as the imposition of a western political agenda.</i>	High Reduced willingness of Arab countries to engage in constructive dialogue on development issues with donors.	Medium Continuing perception by some countries in the region that US and others taking insufficient account of their views, for reasons of self-interest.	DFID becomes directly engaged in increased diplomatic efforts. Greater openness and transparency. More and closer consultation.
<i>Iraq remains destabilised due to flawed or incomplete reconstruction process.</i>	Medium Continuing instability in the region. Increased migration, reduced livelihoods opportunities, damage to infrastructure, lower growth, lower foreign investment, skewed government spending on security measures. Western involvement discredited.	Medium In short-medium term, military and donor support likely to ensure stability. Internal parties and groups to be accommodated in political structures. Longer-term prospects will depend on the inclusivity and sustainability of process.	DFID contribution to large-scale, ongoing, military, political and donor effort to re-establish and underpin security, governance structures, accountability and respect for the rule of law.
<i>Failure of Middle East Peace Process.</i>	High Continued violence in Palestinian territories, and generally throughout the region through terrorist networks. Inability or unwillingness of governments in the region to focus on other pressing issues, including those related to development.	High Domestic and international parties appear to have varying levels of commitment to implement the proposals set out under the "Road Map". International community unable effectively to influence parties.	Continued DFID support to Palestinian reform agenda. Continuing input into diplomatic efforts.
<i>External shocks, in the form of declining world oil prices, and ongoing regional instability.</i>	Medium Economic growth stagnates, incomes decline, poverty increases. Reform agendas derail.	High Strong impacts already evident in the tourist sectors, and in levels of foreign direct investment. Failure of the MEPP process and increased regional tensions due to war in Iraq likely to further undermine international confidence.	DFID plays part in diplomatic process, and engages in security sector reform. Plays constructive role in World Bank and IMF to encourage appropriate policies to mitigate effects.
<i>Failure of governments in the region to commit to economic, social or governmental reform.</i>	High Reduced growth, increased poverty and inequality.	Medium Historically there has been patchy commitment to reform. Vested interests of ruling elites remain. Continuing US financial and military support for Egypt and Israel, and income from oil, cushion governments from the need to implement reforms.	Main focus of DFID regional strategy. Identify, support, and work through drivers of change. Dialogue with recipient governments and other donors. Realistic agenda adopted by DFID and others, sensitive to the socio-political and historical context of the region.
<i>Volume and type of development finance for the region remains inappropriate in terms of regional income levels, and reform objectives.</i>	Medium Poor utilisation and targeting of some donor funds. Ready availability of grant aid will not provide the right incentives for reform.	High Difficult for some donors to separate political and developmental objectives. Competing pressures – migration, security, agriculture vs. wider developmental agenda.	Carry out survey of aid effectiveness in the region. Encourage other donors to carry out objective evaluations, and utilise lessons learned in developing new programmes. Press for closer harmonisation of EC policies (e.g. trade, migration, development).
<i>Failure to integrate vulnerable groups effectively into mainstream development efforts. Governments fail to uphold their human rights obligations.</i>	Medium Increasing inequality. Resentment leading to internal conflict, reduced investment.	Medium Region not performing well on a number of inequality/rights indices highlighted in the Arab Human Development Report. Gender inequality remains particularly acute. While governments have expressed interest in effecting change, serious challenges remain.	Identify incentives for reform. Work closely with drivers for change. Support for reformers, encourage cross regional learning networks leading to replication of best practice around the region.