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Opportunity Youth

Imagining a bright future for the next generation

August 2021

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Contents

Imagining a bright future for the next generation

Today, young people make up 60% of MENA's population; they face several structural barriers to sustainable socioeconomic development

Poor job prospects

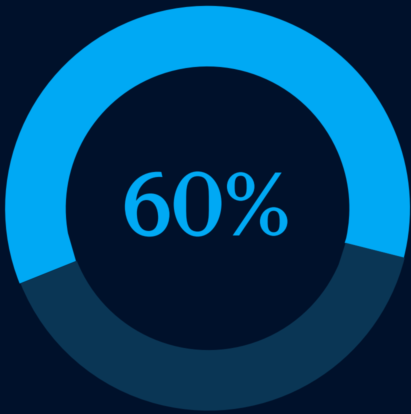
127m

People entering a labor market with 23% youth unemployment (ages 15-24)

Government services and delivery are challenged

59%

Of countries rank in the bottom half of the World Bank's World Governance indicators for government effectiveness



Conflict and instability

21m

People physically displaced, and 1/3 children under 10 have grown up in a conflict zone

Ill-equipped learning institutions

93m

Children at risk of missing out on early childhood education

Poor health and health systems

72%

Of countries spend less than half per capita on healthcare (PPP adjusted) relative to OECD averages

However, 7 game-changers could lead to creating 100m+ new jobs and doubling the region's economic output

Game-changer	Initiatives	Potential impact
Develop globally competitive talent	Expand early-childhood education Introduce upskilling vouchers	Educate **100m** additional children
Develop superstar firms	Reduce intra-region trade barriers Reconsider intra-region trade and intra-regional capital flow barriers	Build **30** global superstar firms
Unleash entrepreneurship in innovation-intensive industries	Embrace rise of automation and digitization, enable R&D ecosystems in emerging technologies, facilitate best environment for entrepreneurship	Establish **2m** new enterprises
Boost workplace gender diversity	Set up inclusion commissions Enhance flexible working	Create **$1.9tn** in additional economic value
Future proof healthcare services	Adopt a healthier in-all-policies governance approach Push virtual and digital health technology adoption Induct 8 million healthcare workers in 20 years	Save **4.8m** life-years Add **$420bn** to GDP
Rebuild conflict zones	Consider opportunities to rebuild conflict zones, for example, a region-wide joint reconstruction fund	Rebuild **$200bn** in damaged infrastructure
Govern transparently and effectively	Publish government performance report cards and establish two-way communications with citizens	Improve government efficiency Reduce public employment

Executive summary

The Middle East, North Africa, and Pakistan (MENAP) has a rapidly-growing population with the region's youth growing up facing a raft of social and economic challenges—obstacles that limit opportunities and hinder their potential to compete with global peers.[1] We recognize that the region is not a monolith in terms of the challenges it faces—for example, there are countries in the region that are global leaders in public service access and delivery, and others on the other end of the spectrum. In this report, however, we highlight challenges that are common in most of the countries we cover and propose solutions we believe will have an outsized impact on all countries if implemented. We also recognize that the COVID-19 Pandemic has created both headwinds and tailwinds for many of the solutions outlined. As we enter the third decade of the 21st century, MENAP faces five broad challenges that the region needs to confront to change its trajectory.

— **Job prospects are low, unemployment is high.** The region's youth are entering the labor market in increasing numbers, but unemployment is high compared to global norms, while automation and technology create additional risks in the future. The region also faces a huge challenge to bring more women into the workforce. Although women make up nearly half the region's population, female participation in the labor force lags far behind that of men.[2] This is an enormous missed economic and social opportunity.

— **Learning institutions leave youth unequipped for the labor market.** The region ranks low on global educational outcomes compared to leading countries. There is a notable lack of children going through early childhood education—which affects their skills later in life—while the skills of the region's graduates are not aligned with needs of a new and highly-digitized labor market. This is a big challenge, especially given MENAP's high unemployment levels.

— **Populations' health levels are poor, and health systems do not meet international standards.** The region's population has some of the highest disease burdens globally and the issue is expected to worsen as the median age of the population increases. Additionally, except for a handful of countries, COVID-19 has exposed the vulnerabilities in health systems in the region where supply of healthcare services is neither adequate nor affordable.

— **Conflict and challenges undermine opportunities.** Armed conflict and geopolitical turmoil have closed the door on many opportunities for youth growing up in these environments. Many people have been killed, displaced, left vulnerable, left in need of humanitarian assistance, or left without education. Conflict-hit countries have suffered collective losses of approximately $175 billion in GDP and have seen their per capita income, on average, cut in half[3].

— **Government services and delivery are challenged, lagging behind global standards.** Some of the region's governance mechanisms lag behind global standards, hindering their ability to create jobs and drive economic development. MENAP governments score poorly across a range of indicators measuring the effectiveness of governance and are behind others in adopting digital technology, , although COVID-19 has accelerated progress.

Much has been written about these challenges and the growing sense of urgency for the trajectory to change. It's easy to feel pessimistic - the facts don't paint a positive picture. We believe, however, that these narratives miss the big picture – the one that focuses on the

[1] Countries covered in this report include Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen. Countries have been selected based on shared geopolitical, economic, and ethnoreligious ties.

[2] Labor force is defined as the total number of people above age 15 who are economically active, that is, either employed or unemployed but seeking employment.

[3] Figures do not include recent escalations in the Israel-Palestine conflict which, at the time of writing, have killed over 212 people, destroyed 132 buildings and left over 2,500 people homeless.

incredible opportunity hovering at the surface, waiting to breakthrough. This is where we choose to focus our energy.

This report first briefly highlights a set of foundational actions that have consistently been identified to tackle the region's big challenges. We then propose a set of game-changers that could have an outsized impact on creating a better future for youth in the region. Finally, we look at what a reimagined region might look like if it rises to the challenge.

Foundational actions are needed for countries to become competitive

The region faces foundational challenges across three areas: economic opportunities, infrastructure and social services, and stability and governance. Many changes across these areas have been proposed by national leaders, international development organizations, and regional experts, and in previous studies and reports, that will help countries in the region address these challenges.

— **Economic opportunities:** The region needs measures to develop a supportive business environment, improve financial infrastructure, promote economic diversification, and reform the labor market.

— **Infrastructure and social services:** In countries where it is needed, national governments should prioritize access to basic utilities such as electricity, water, public infrastructure, and the internet, and promote sustainability in urban growth, the environment, and natural resources. Additionally, MENAP needs to improve education quality, outcomes and access; train student workers for the changing labor market; improve healthcare outcomes and access; and pursue inclusive development.

— **Stability and governance.** The region should take measures to increase stability for citizens where it is needed and resistance to risk, manage resources effectively, and develop citizen-centric governments.

Bold action across most aspects of society is required to shift the region into a higher trajectory

1. Globally competitive talent
2. Homegrown global firms
3. Innovation industries
4. Gender parity in the workforce
5. Healthy populations and resilient health systems
6. Rebuilt conflict zones
7. Governments focused on performance and delivery

Ideas outlined in this report could have an outsized impact on the opportunities available to youth over the coming two decades and are not meant to be exhaustive. As such, these ideas cannot remedy the full spectrum of issues in the region. However, implementing these ideas could help solve some of the biggest challenges facing youth in MENAP and help them achieve their aspirations for the future region they hope to create and live in. Economic dividends of this shift could double the region's current GDP by 2040 and increase employment in the region by more than 100 million.

127m

young people are expected to enter the region's labor force

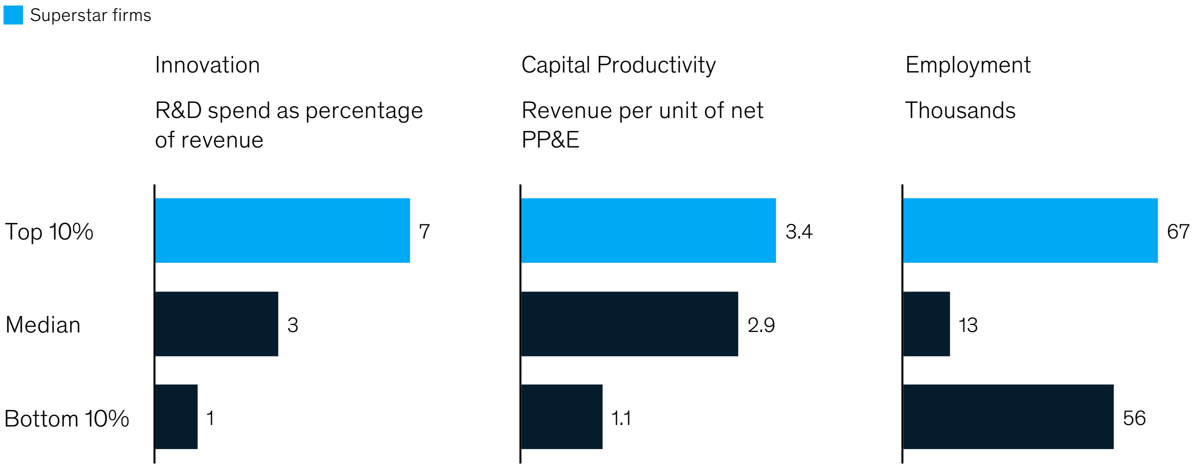
1. Globally competitive talent

The next generation of youth in MENAP will enter work at a time when the labor market is radically changing. The emergence of new technologies will change the skill sets needed to succeed at work: by 2030, a higher share of professions will require university degrees, and more work activities will require socio-emotional and technology skills. Over the next two decades, around 127 million young people are expected to enter the region's labor force.[4] Nearly 29 million jobs—about 17 percent of current jobs—are at risk of being displaced by 2030 because of automation. This trend has been accelerated by the COVID-19 pandemic, where many of these low-skilled occupations are being automated at a faster rate.

Exhibit 1

Superstar firms are key to driving innovation, employment and productivity in the economy

Performance of firms in top, bottom, and middle deciles of economic profit, average per firm



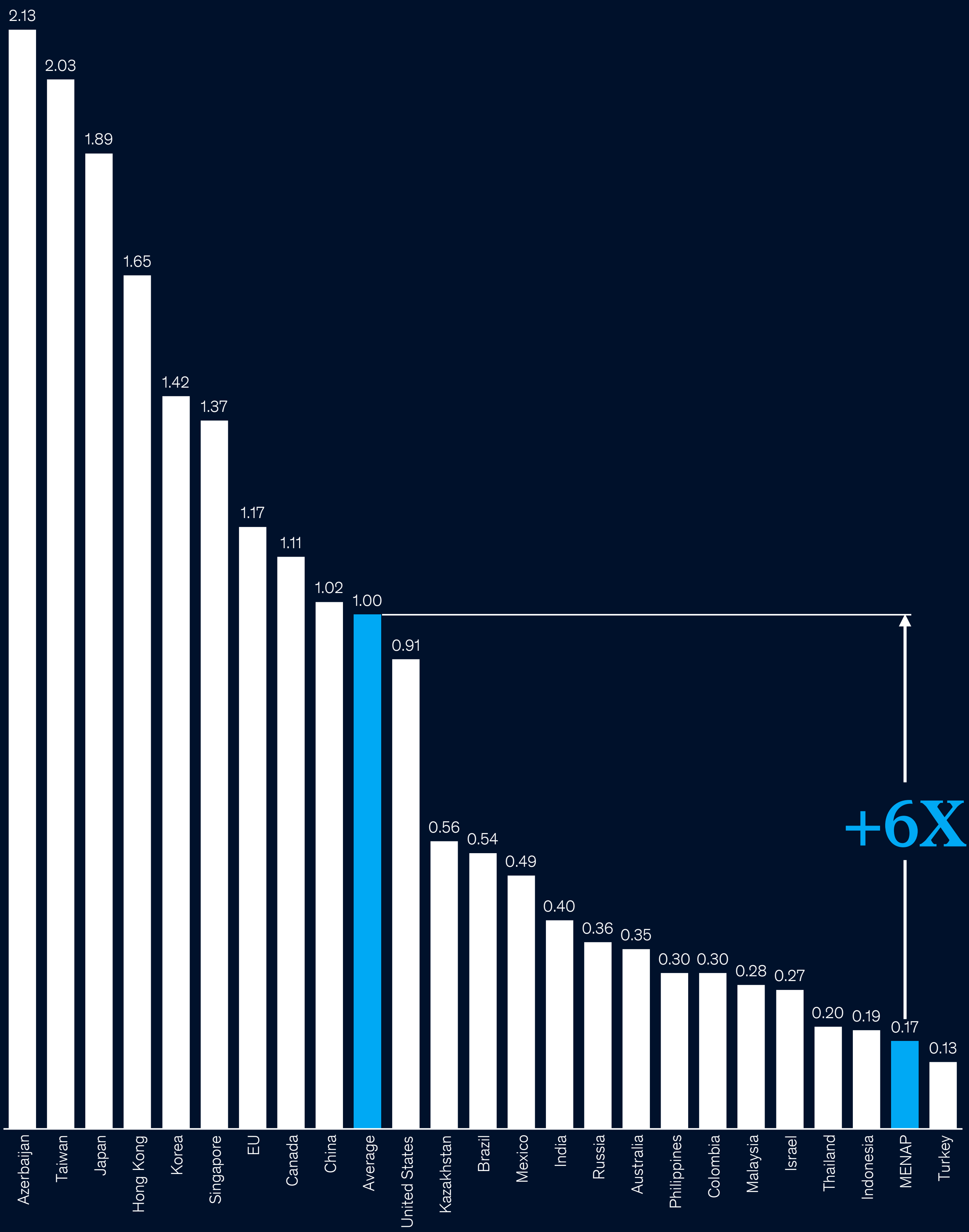
Source: McKinsey Global Institute

[4] Based on International Labor Organization (ILO) estimates of labor force aged 15–64 for all countries in the region between 2020 and 2040, https://ilostat.ilo.org/topics/population-and-labour-force/.

Exhibit 2:

An integrated region would create the scale required to increase the number of superstar firms

Number of superstar firms per 100 Bn USD of GDP



Source: McKinsey Global Institute

Addressing this issue through these game-changers can mean an additional economic output of $197 billion to the region by 2040.[5]

Game-changer: Increasing early childhood education enrollment. Starting education in early childhood has a major impact on a child's cognitive abilities later in life and subsequently on their long-term economic future.[6] Early childhood education (ECE) reaps the biggest returns of any investment in the education journey. Studies show that the outcome return on ECE programs is up to seven times higher than investment in any other stage of education.[7]

Governments in the region could provide financial and regulatory incentives to help increase ECE enrollment, with success shown in many other countries. This includes vouchers or tax reductions for parents, and various incentives to reduce the costs and increase the supply of care centers. We explore the range of measures that countries have at their disposal to raise the availability and quality of ECE.

Game-changer: Reskilling and upskilling existing workers. Youth today will grow up to hold multiple careers in their lifetime, requiring them to constantly reskill themselves even after they finish school. Like many countries, the region could adopt an approach where workers receive credits to use with authorized education providers.

Countries have two potential methods of funding learning credits: funding citizens directly through accredited providers, and collaborating with large companies to fund the reskilling of their workforces. We learn from success stories in Singapore and Malaysia, while exploring how MENAP initiatives could track and measure effectiveness and impact.

2. Homegrown global firms

Building homegrown superstar firms creates a wealth of opportunities for any economy: the largest firms globally account for a disproportionate share of economic profit and act as important drivers of innovation, employment, and productivity (Exhibit 1).

Superstar firms require large markets built on large populations, putting MENAP at a disadvantage. For example, 82 percent of superstar firms operate in countries with a population of more than 50 million and most of the rest are in open economies with wide-ranging regional trade agreements.[8] Countries in the region, individually, generally do not provide the scale necessary for large industries and firms to form and grow and have relatively poor levels of intra-regional trade integration. As a result, the region's share of superstar firms is significantly lower than its fair share when compared to benchmarks (Exhibit 2). A more integrated market in the region could have a region-wide GDP of approximately $3 trillion and a fair share of around 30 superstar companies. However, trade barriers, and a lack of standards, procedures, and documentation hold back the region's firms, while restraints on labor movements limit firms' access to the right talent. Published research suggests relaxing restrictions between the region's markets can yield as much as 4 percent in additional economic output for the region annually, or $1.8 trillion by 2040.[9] (Exhibit 2)

Game-changer: The region could increase openness and trade by collectively reducing trade barriers. MENAP could reduce barriers to trade in regions such as the European Union and Association of Southeast Asian Nations (ASEAN). It could also introduce a region-wide product standardization, launch a pre-arrival goods, processing scheme, reduce the overall volume of documentation required for import/export clearance checks for intraregional trade, and introduce free movement of services to GAFTA, guaranteeing business mobility.

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5 Assuming an additional 0.5 percentage point of economic growth for each country compared to baseline projections. Estimates do not cover Algeria, Iraq, Lebanon, Libya, Palestine, Syria, and Yemen, as estimates of GDP growth for these countries are not available.

6 We define early childhood as ages 0–5.

7 Pedro Carneiro and James Heckman, "Human Capital Policy," NBER Working Papers number 9495, National Bureau of Economic Research, 2003, ideas.repec.org; Lawrence Schweinhart et al, Lifetime Effects: The High/Scope Perry Preschool study through age 40, High/Scope Press, 2005.

8 Capital IQ, IHS, 2018; Jacques Bughin, Jonathan Woetzel, Michael Birshan, and Zubin Nagpal, "'Superstars': The dynamics of firms, sectors, and cities leading the global economy," October 2018, McKinsey.com.

9 Assuming region integration by 2030 and an additional economic output due to integration of 4 percent annually.

Game-changer: The region has relatively strict rules on inter-regional capital movement and could reconsider these barriers. The average MENAP country ranks 80th globally for easy access to capital.[10] The lack of credit access hinders the ability of firms in the region to grow, as do widespread restrictions on foreign ownership. MENAP governments could increase regional capital movement to enhance the private sector's access to finance and drive the growth of superstar firms, relax regulations on capital movement to allow large firms to expand to all markets in the region, and alter restrictions on majority foreign ownership. The region's financial sectors need to have transparency and depth to enable additional growth. In addition, the regions' sovereign wealth funds (SWFs) can potentially direct a portion of their funds into the region.

Game-changer: Reconsidering labor-movement restrictions for highly-skilled workers would give superstar firms access to a large pool of talented workers. This could be achieved by introducing licensing for highly skilled workers in each profession and giving those who qualify a "talent visa", letting them work, live, and invest anywhere in the region. Canada and Singapore have implemented similar skill-based visa systems with strong results. In the region, some countries are already implementing mechanisms to increase attraction of skilled workers. For example, the United Arab Emirates (UAE) has included a skilled-worker category to the Golden Visa program.

3. Innovation industries

Going forward, the region will not be able to create opportunities for its youth by continuing 'business as usual' working practices. Growing populations and the resulting government fiscal burden will limit the ability of governments to create jobs for the next generation of workers. More of these opportunities will have to come from youth themselves, enabled by an ecosystem that facilitates innovation and entrepreneurship – the primary driving forces of growth and development worldwide. In OECD countries, firms younger than five years old contributed to around 35 percent of net job creation between 2002 and 2011.[11] However, the region has a weak entrepreneurial environment: the start up ecosystems of the region's countries rank on average 75th globally.

Additionally, MENAP has low new business startup and tech development activity. The region registers 0.9 new businesses for every 1,000 people compared to 5.3 in the EU. If the region matched the European Union's rate, MENAP would have 2.3 million new businesses entering the market each year (Exhibit 3). MENAP also produces less than its fair share of disruptive and scalable technologies, has very low commercialized R&D activity, and has produced few private research-based firms with a global footprint.

Despite these challenges, the good news is two-fold. First, COVID-19 has enabled a strong tailwind in technology adoption of individuals, companies and governments alike. And the rise in digitization, emerging technologies, and datafication are just a few of the technology megatrends that are encouraging young people to pursue innovation industries. In a region unencumbered by legacy constraints, without pre-set pathways for industries like AI, fin-tech, bio-tech and more, the opportunity for young people to leapfrog to these innovative technologies and industries is ripe. Their competitive advantage is in fact their youth.

In addition to unlocking the potential of creating two million new enterprises across MENAP, Governments can address three main obstacles to multiply the region's traditional business activities.

Game-changer: Facilitate best environment for entrepreneurship. As emerging technologies give rise to new ideas and opportunities for new enterprises, countries must help make it easy for young people to take the leap. Countries can consider offering government workers approved leave for starting new businesses since the share of people in the region employed in the public sector is much higher than average. Moreover, changing

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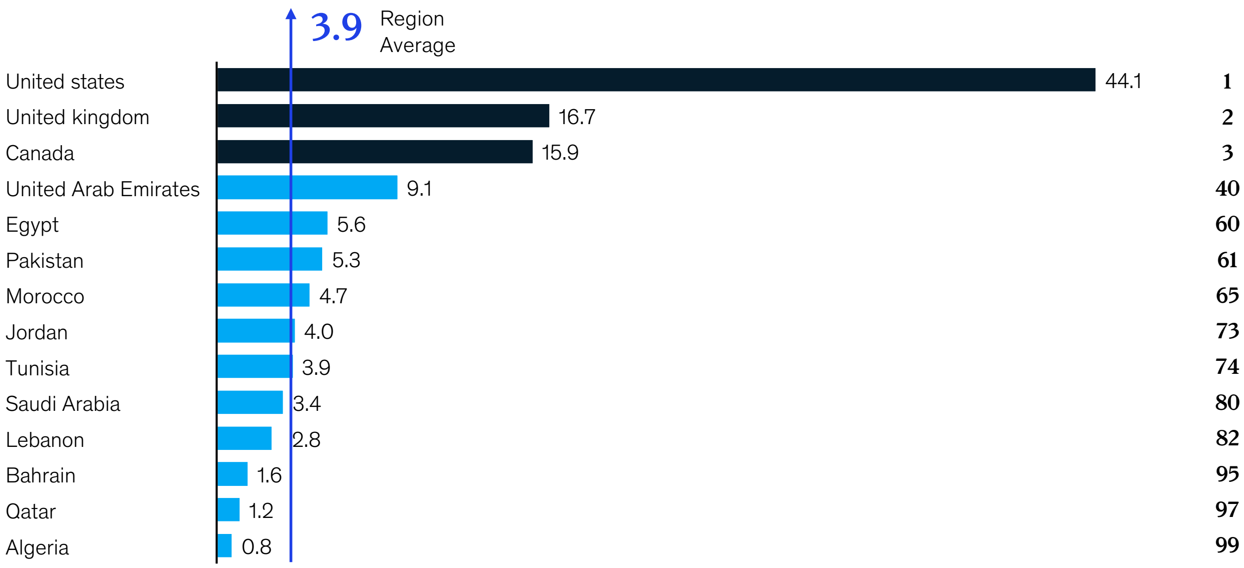
10 Ease of access to capital, World Bank.
11 Chiara Criscuolo et al., "DynEmp: New cross-country evidence on the role of young firms in job creation, growth, and innovation," VOxEU, 2014, voxeu.org.

Exhibit 3:

MENAP has a weak start-up environment; the region's startup ecosystem is ranked 77th globally

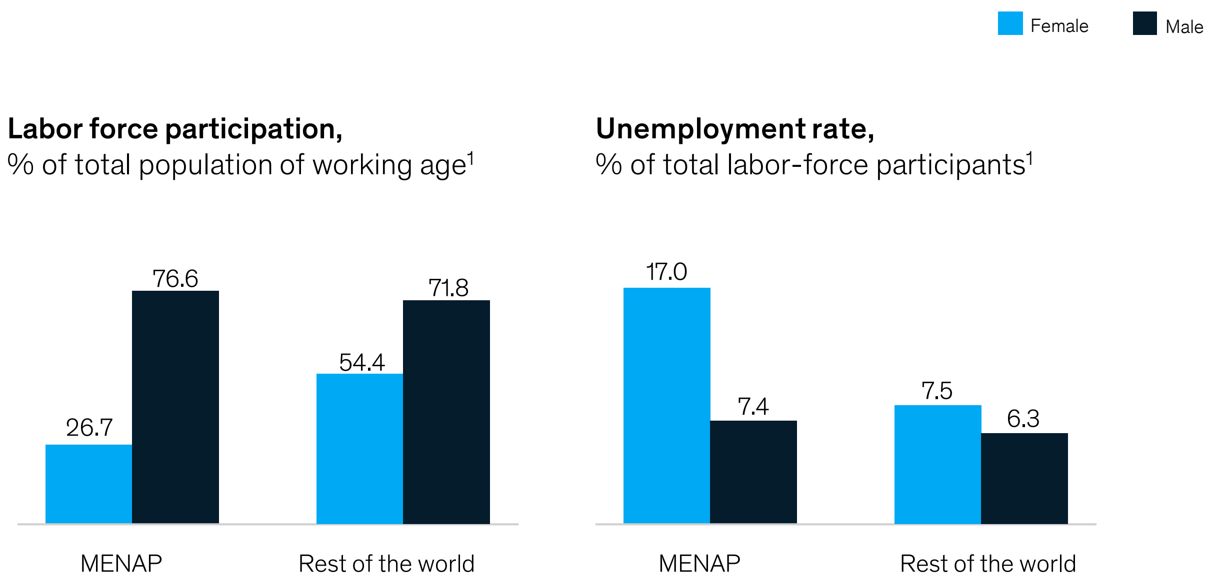
Startup Blink Countries Startup Ecosystem Index
Startup Ecosystem score, 2019



Source: Startup Blink

Exhibit 4:

Female labor-force participation and employment rates in MENAP are low



1. Ages 15+.

Source: Startup Blink

societal perceptions around failure in business—accepting it and celebrating its learnings —could drive a new culture of entrepreneurship. Governments should aim to improve exit options to reduce entrepreneurship risks by improving bankruptcy laws and initial public offering (IPO) regulations. In addition, societal perceptions and acceptance of failure in business and celebrating it could drive a new culture of entrepreneurship.

Game-changer: Promote increased access to startup capital. Countries should have the opportunity to focus on four actions to try and close the SME-financing gap and increase access to capital for new businesses: government funding, attracting private banks and investors, debt financing, and crowd funding. The region currently covers only 16 percent of its SMEs' financing demand and would require both public and private supply to close the financing gap.[12] In this report, we take a close look at how this can be achieved.

Game-changer: Enable R&D ecosystems in emerging technologies. These research centers would play a major role in fueling innovation industries like AI, Space, and Renewable Energy. Worldwide, government-funded basic research is responsible for about 61 percent of patents. In the United States, for example, government support has been critical to achieving breakthroughs in science and technology, such as the GPS navigation system and MRI medical technology. The region could focus its funding on research into specific strategic topics; either areas where it can address critical challenges and mitigate risks, or areas where it has competitive advantages. We will explore how governments can approach achieving these goals.

4. Gender parity in the workforce

By 2040, achieving gender parity in the workplace in the region would contribute to economic output by an additional

$1.9tr

Women in the region are unequally represented across the economy, society, and politics with female youth facing even lower representation. These factors are on top of lower access to education in many countries in the region and fewer leadership opportunities that MENAP women experience.[13] Regional gender disparity in the workplace is vast, with only one woman participating in the labor force for around every four men (Exhibit 4).

The COVID-19 crisis has also been a regressive force on the path to gender parity in the workforce. It is estimated that women's jobs were 1.8 times more likely to be in professions that require close contact with others the burden of unpaid care for children who stayed at home due to the pandemic is disproportionately borne by women.[14] Our analysis estimates that achieving gender parity in the workplace in the region would contribute nearly $1.9 trillion in additional economic output by 2040.

Game-changer: Large institutions committing to gender equality. Governments and companies in the region can launch mechanisms to ensure that women are well represented in the economy and society. One specific mechanism that can be deployed is to launch country-specific inclusion commissions at the highest level of government to ensure society and the workplace are more gender inclusive. Commissions can help women get equal access to social- and work-life opportunities and raise awareness to change mindsets around women's disproportionate unpaid care-work burden. Additionally, new supportive legal frameworks would influence women's decisions around entering and staying in the workforce.

Game-changer: Flexible work creates a more supportive environment for female workers. Introducing and supporting flexible work can alleviate around 60 percent of issues stopping women from participating in the labor force. This helps women overcome challenges such as limited work-life balance policies, the inability to commute, and the lack of infrastructure or essential services at work (Exhibit 4).

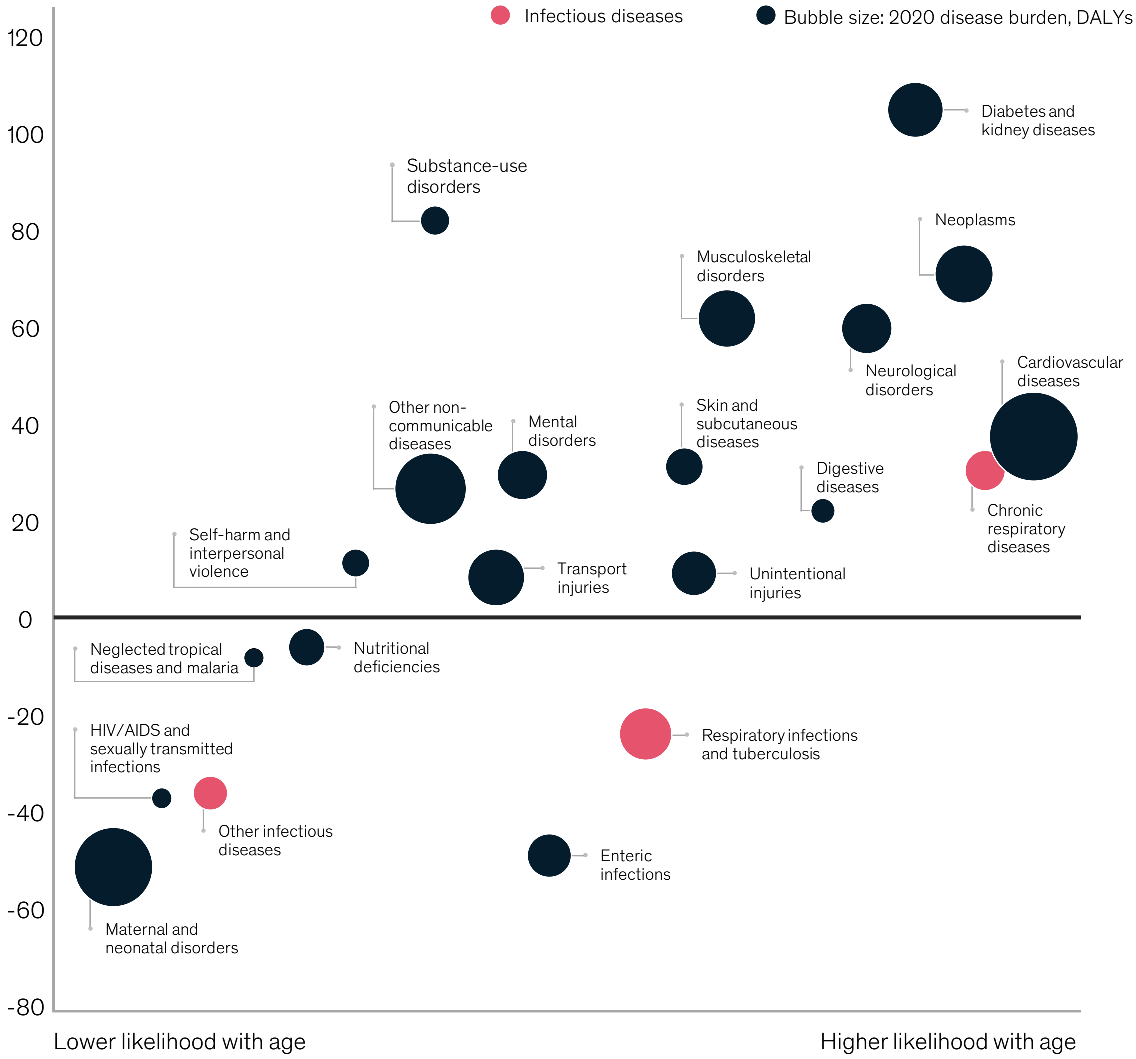
The gig economy provides an opportunity to solve many of the issues stopping women from entering the labor force. As emerging technology disrupts the boundaries of traditional employment, we explore how gig-economy workers can be supported to ensure their financial stability.

[12] International Finance Corporation, World Bank.
[13] "Youth and Innovation," UN Women, Arab States, arabstates.unwomen.org.
[14] Anu Madgavkar, Olivia White, Mekala Krishnan, Deepa Mahajan, and Xavier Azcue, "COVID-19 and gender equality: Countering the regressive effects," July 2020, McKinsey Global Institute, McKinsey.com.

Exhibit 5:

Forecasted change in disease burden by 2040

Change in disease burden between 2020 and 2040 in MENA (percentage change in disease burden measured in DALY[1])



1. DALY = Disability-adjusted life year.

Source: Global Disease Burden Database 2016 Institute for Health Metrics and Evaluation (IHME), University of Washington (this view excludes "Other non-communicable diseases"), MGI Analysis

5. Healthy populations and resilient health systems

Despite their young populations, countries in the region are expected to face a rise in age- and lifestyle-related diseases (Exhibit 5). This trend will be partly driven by demographic shifts that, in mature economies, are already causing a surge in healthcare demand. It is also driven by the changing lifestyle habits of the region's populations.

Across MENAP, the population aged 65+ will more than double over the next 20 years, from approximately 27 million today to over 63 million in 2040.[15] As people get older, they tend to consume a disproportionate amount of healthcare owing to age-related conditions. This demographic change could overwhelmingly increase demand for treatment services for lifestyle- and age-related diseases from now until 2040.

[15] "World Population Prospects," UN Department of Economic and Social Affairs, June 2019, un.org.

Despite the expected increase in demand, supply and access to healthcare in many areas of the region are inadequate to deal with the emerging challenge. COVID-19 has exacerbated these healthcare issues with policy makers, healthcare providers, and individuals facing immense stress as they weather the pandemic and plan for the future of healthcare.

Game-changer: Adopt a "Health in All Policies" (HiAP) approach. Ministries and entities at the highest levels of government should have health agendas aiming to proactively improve health outcomes, avoid detrimental health consequences, appropriately assess the health implications of decisions, and seek synergies across sectors.

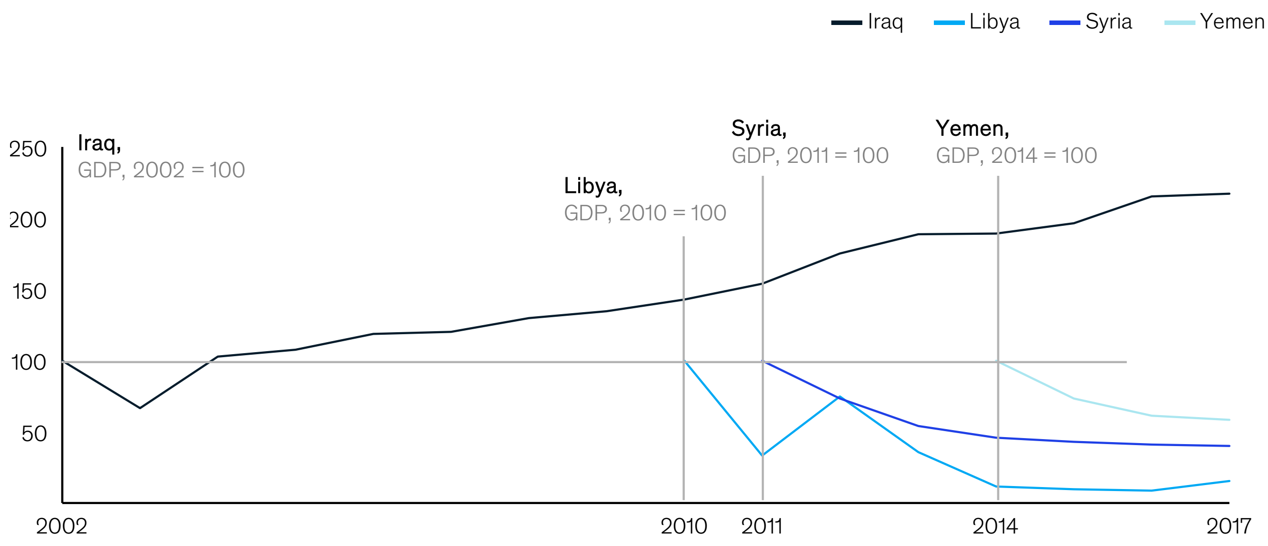
Applying an HiAP approach requires at least three shifts in government detailed later in the report: (a) develop an overarching health strategy and objectives, (b) activate enabling mechanisms to support health in all policies, and (c) support cross-sector collaboration to implement policies and programs.

Game-changer: Push the adoption of virtual health and digital to boost efficiency. Governments can use the power of digital to manage costs and accelerate the shift to online-offline integration of health services. The current healthcare system is costly and inefficient, and COVID-19 has exacerbated existing weaknesses in healthcare planning, information sharing, and resource allocation. Healthcare systems can adopt virtual health to boost the quality of care, reach more optimal efficiency levels, and realize positive fiscal benefits.

Exhibit 6:

Economic output in conflict countries dropped significantly after the start of conflicts

Economic output, USD bn



Libya

-84%

-$136 bn

Syria

-60%

-$23.5 bn

Yemen

-42%

-$15 bn

Source: IHS Global Market database

Game-changer: Induct 8 million more healthcare service professionals over the next years.[16] Health systems can create a sustainable healthcare workforce by establishing a recruitment pipeline, optimizing the distribution of tasks, and adopting new technologies to supplement healthcare resources. Additionally, countries can use a population health-management strategy as a basis for informed decision making and to understand the future burden of disease, as well as the resources required across geographies and populations. This situation also presents an opportunity and is a call for the region's youth to join the health professions to meet the growing demands of the region.

6. Rebuilt conflict zones

Numerous geopolitical shifts and conflicts have impacted the region over the last two decades with significant humanitarian and economic consequences for its population. Several countries in the region are in or recovering from conflicts, the most prominent being the wars in Libya (2011–present), Syria (2011–present), Iraq (2003, 2014–2017), and Yemen (2015–present). These conflicts have had significant humanitarian implications on the region, including an estimated 800,000 casualties, 43 million vulnerable people, 9 million refugees, and 12 million internally displaced persons. The situation also affects other regions, with most of the world's growth in refugees coming from MENAP. These conflicts have harmed the region's economic growth: Yemen, Syria, and Libya have lost between 42 and 84 percent of their pre-conflict GDP (Exhibit 6). Iraq's economy shrunk immediately after the 2003 war but the country has been able to rebound to its pre-war GDP levels owing in part due to the strong oil markets of the 2000s. In total, recent and ongoing conflicts in the region have since 2010 cost the region approximately $175 billion—about 7 percent of region's total GDP in 2010.

Conflicts have also impacted neighboring countries' economies as they accommodate an influx of refugees and feel the effect on job opportunities. It is estimated that only one in three adults in conflict zones will be employed by 2040 if conflicts in the region persist (Exhibit 6).

Game-changer: A joint recovery fund and mechanism could be considered to help overcome the impact of conflicts, as seen in other recovery countries. However, for the region to initiate a comprehensive and effective reconstruction campaign, it must first consider several challenges, including the geopolitical environment, construction fundraising, and weak investment institutions. Total reconstruction costs have been estimated to be as high as $800 billion. A regional recovery and development plan, funded by members from inside and outside the region, could be implemented to aid the recovery of conflict zones in the region. The fund will amount to a total investment of $6,850–8,700 per capita, which is comparable to the foreign aid Western Europe received from the United States after World War II, adjusted for inflation. The successful reconstruction of conflict zones could potentially add $175 billion to the regions GDP. This section of the report looks at how five major challenges have been overcome in international reconstruction programs.

7. Governments focused on performance and delivery

Countries with effective governance in place have a considerable advantage over their peers in the pursuit of economic growth. A government that enforces a high-quality and competitive operating environment and maintains stability for its citizens will find it easier to create a platform for the economy to thrive. A McKinsey report found a positive correlation between high-performing economies and their respective increases in most of the Worldwide Governance Indicators (WGI) between 1996 and 2018.

Surveys show that the region's youth have less trust in government than their parents and older generations. Since the youth constitute 60 percent of the region's total population, governments must direct their efforts to renewing the social contract and engaging youth

[16] The Middle East, North Africa, and Pakistan (MENAP) will need to add eight million more health service professionals (doctors, nurses, and midwives) over the next two decades (adjusting for population growth) to reach current Organisation for Economic Co-operation and Development (OECD) levels. "Population Prospects," 2019; WHO data on number of healthcare service professionals (2008–18 data); number of healthcare professionals based on latest available data between 2014 and 2018.

in the economy and society. The region scores low across all dimensions of the globally recognized governance indicators. Addressing the region's governance effectiveness challenges will require large-scale reforms.

Game-changer: Governments could produce annual report cards to boost government effectiveness and accountability. Annual reporting on progress and performance can enhance government effectiveness, legitimacy, and accountability. This initiative involves governments setting targets with respect to access, quality, and cost of services, and then producing a yearly report card to track performance. It can also improve the success rate of governments taking on different change efforts, pursuing large-scale improvements in performance, or revamping the delivery of their public services.[17] This can be accentuated by publishing social, economic, infrastructure, and legal information to enable data-driven policy making and strengthen citizen engagement, transparency, and government accountability.

A reimagined region fit for the youth of today

The ideas compiled in this report, put together, have the potential to turn the regional trajectory and secure a brighter future for young people from Morocco to Pakistan. A reimagined region can be a place where:

— educational outcomes are on a par with the highest-performing countries

— young people enter the workforce equipped with the skills to thrive

— the private sector provides a wealth of promising opportunities for youth entering the labor force

— the region creates and exports innovation

— women play a more significant role in the economy

— economies are more connected than ever

— populations are healthier and their healthcare systems sustainable and resilient

— the vicious cycle of conflict has ended as countries integrate into the global economy

— governments are more transparent and attuned to the needs of their youthful populations

The region's leaders owe it to their youth and to future generations to make these aspirations a reality. We have already seen promising bright spots, but there is still more to be done. Continuing down the same path will only entrench these challenges, making them even more difficult to address in the future.

[17] Tera Allas, Martin Checinski, Roland Dillon, Richard Dobbs, Solveigh Hieronimus, and Navjot Singh, "Delivering for citizens: How to triple the success rate of government transformations," May 2018, McKinsey.com.

Preface

In the 20 years since McKinsey & Company set up its first office in the Middle East, we have had the honor of serving exceptional organizations and inspiring individuals, from governments to private companies and nonprofit entities. We take pride in the depth and scale of our work as we aim to help our clients tackle some of the region's biggest challenges. We believe that our broad range of work—spanning many countries and all major sectors—gives us a unique outlook on the region. We have pooled this experience to attempt to identify the major challenges emerging in the next two decades, how they might be overcome, and how this could be helped by removing long-term barriers to progress.

This report was written as the region, along with the world, is grappling with the human and economic costs of COVID-19. The pandemic will have implications on economic and health policy in the short and medium term and has exacerbated some of the long-standing issues and headwinds we highlight in this report. It has also enabled some tailwinds like catalyzing e-commerce and the start-up ecosystem. This report, however, takes a longer-term view of the most critical issues facing the Middle East, North Africa, and Pakistan (MENAP) as we look ahead to the next two decades and try to find practical answers to some of the region's biggest questions:

— How can MENAP spur the creation of jobs for the nearly 130 million young people set to enter the labor market in the next two decades?

— What can MENAP do to boost education outcomes for its young population to compete with advanced economies and develop a high-skilled workforce?

— What does it take to make governance more effective and attuned to the aspirations of the region's youth?

— How can we help the next generation of women enter and thrive in the workplace, bringing a wealth of untapped skills and potential?

— What does the region need to help it build its fair share of superstar global firms and in the process increase opportunities for its youth?

— How can the region help its conflict zones move to a trajectory of economic progress?

This report puts forward a vision for a reimagined region, where major challenges are addressed to create an environment where youth have access to opportunities and are equipped to take advantage of them. Through our work on the region, we have come across numerous individuals and organizations who are working on addressing these challenges and some are becoming global references in solving these challenges. However, more is needed to turn the trajectory and to secure a brighter future for young people in the region. And while some may say the outlook is bleak, we are optimistic about the future. Because youth in this region are as talented as youth anywhere in the world – they just don't have as many opportunities.

This is what this report is about — opportunity creation for the next generation. We hope to provide government and business leaders with fresh insights into solving some of these challenges to drive economic prosperity and social progress over the coming decades.

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1 A window of opportunity

The Middle East, North Africa, and Pakistan (MENAP) is one of the world's youngest regions with almost 60 percent of its population under the age of 30—that is nearly 350 million young people.[18] The region's youth represent a new generation of leaders, entrepreneurs and inventors, engineers and scientists, doctors and teachers, musicians and artists who, given the right environment, will contribute to an increasingly productive and prosperous region. Their contribution, innovation, and full participation in the economy could lead to doubling the region's economic output and increasing job opportunities by 50 percent.

MENAP is known across the world as a region reliant on vast natural resources and mired in conflict, but this new generation aims to change both the perception and the reality. They aspire to create a stable region, a thriving middle class, stronger economic and social institutions, and a new class of homegrown, globally competitive companies. This will give rise to a more prosperous, stable region and, in turn, a more prosperous and stable world. However, the road to achieve these ambitions is filled with obstacles. This year has also been especially challenging for the world and for the region. COVID-19, and its humanitarian and economic implications, has exacerbated the challenges that youth in the region are facing. Other humanitarian crises have also made the future bleaker for youth and amplified the urgency for the region's leaders to act to change the region's trajectory.

Today, unemployment, slow growth, and inequality are limiting the prospects for many in the region's young and growing population. Given the right opportunities, investments, and stability, this youth bulge could be a blessing, as a new generation of skilled professionals enters the labor market, and increased disposable income gives rise to a new middle class. The economic opportunity offered by integrating almost a quarter billion young people into the global economy is not to be understated.

The region's youth are growing up facing a raft of social and economic challenges; obstacles that limit their opportunities and hinder their potential to compete with their peers outside the region. As we enter the third decade of the 21st century, MENAP faces five broad challenges that the region needs to confront to change its trajectory.

1. Job prospects are low, unemployment is high

The region's youth are entering the labor market in increasing numbers but unemployment is alarmingly high compared to global norms. At current labor-force participation rates and population-growth estimates, 127 million young people are set to enter the region's labor market by 2040.[19] MENAP governments will not find it easy to create jobs for this rapidly expanding working-age demographic, especially with average unemployment estimated at 9.2 percent—higher than the global average of 5.4 percent—according to International Labor Organization (ILO) data. The situation is worse for those between the ages of 15 and 24, for whom unemployment is 22.8 percent, or close to 6 million young people, far higher than the global average of 13.5 percent.[20]

To add to this demographic pressure, the nature of the region's labor market is shifting as technology and automation pose the risk of displacing jobs. McKinsey Global Institute (MGI) estimates that 17 percent of all jobs in the region could cease to exist by 2030 as tasks are automated across a range of professions and industries.[21]

[18] Countries covered in this report include Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Pakistan, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen.
[19] McKinsey research, based on International Labor Organization–modeled estimates of labor force participation for all 18 countries between 2020 and 2040.
[20] ILO-modeled estimate for all 18 countries, 2018.
[21] Automation potential for midpoint adoption timeline scenario is available only for United Arab Emirates, Bahrain, Egypt, Kuwait, Morocco, Oman, Qatar, and Saudi Arabia. Approximately 17 percent of jobs by 2030 can be displaced in a midpoint scenario in these countries. Same average is assumed for other countries in the region owing to lack of data on these countries.

Additionally, the region faces a huge challenge to bring more women into the workforce. Although women make up nearly half of the region's population, female participation in the labor force lags far behind that of men in the region and of women in other parts of the world. Of the nearly 180 million women in the region aged above 15, only 37 million (approximately 27 percent) are active in the labor force; the rate for the region's men is almost three times higher at around 77 percent. Female labor-force participation in the rest of the world is more than twice as high, at approximately 54 percent.[22]

Of the 37 million women in the region's labor force, around 32 million are employed; this is a stark contrast to the approximately 143 million men employed in the region.[23] The potential economic dividend of empowering women to enter the world of work is enormous: if the region's female labor-participation rate and productivity equaled that of men, MENA would add an estimated $1.9 trillion in economic output.[24]

2. Learning institutions leave youth unequipped for the labor market

A strong education system provides the right foundations to build a highly skilled and dynamic workforce, but MENAP's educational outcomes do not match its economic ambitions. The region ranks low on global educational outcome: countries in the region that took part in the 2018 PISA test scored approximately 20 percent lower than the OECD average.[25] Contributing to this disparity is the lack of children going through early childhood education (ECE): only around 48 percent of MENAP children benefit from ECE compared to more than 80 percent of children in OECD countries.[26] Enrollment is also a challenge for higher school grades, especially in conflict zones. Additionally, the COVID-19 pandemic has led to school closures in every country in the region with most students in the region left with limited or no access to live instruction while countries were in lockdowns and students not able to physically attend schools.[27, 28] We are yet to know the true implications of learning losses during COVID-19 and unequal access to remedial solutions and distance learning, but they will likely have a long-term impact on learning outcomes.

While basic educational outcomes are disappointing, aligning graduates' skills to the needs of a new and highly digitized labor market is also a big challenge, especially given MENAP's high unemployment levels. Some countries in the region have nascent efforts to match national educational outcomes with the future requirements of the labor market but—given the backlog of unemployed people and rate of entry of youth into the labor force—these efforts must be scaled.

3. Populations are increasingly unhealthy and health systems are overburdened

MENAP has been facing long-standing issues in terms of efficiency and effectiveness of healthcare systems. Most countries in the region are increasingly facing shortages of facilities, funding, and workers to meet the growing healthcare demands of their populations. The region's current healthcare spend, except for the Gulf Cooperation Council (GCC) countries, is comparatively low—the average current health expenditure (CHE) for the region is approximately $1,336,[29] only one-third of the OECD average of approximately $3,940.[30]

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22 ILO-modeled estimates, April 2019, ilostat.ilo.org; Rima Assi and Chiara Marcati, "Women at work in the Middle East," March 2020, McKinsey.com.
23 ILO 2018 estimates, ilostat.ilo.org.
24 By 2040. Estimated by comparing forecasted gross domestic product (GDP), GDP for each country in the region (forecast by Information Handling Services (IHS) versus GDP, of the region if female labor force participation rate (LFPF) was the same as male in each country.
25 Countries include Jordan, Lebanon, Morocco, Qatar, Saudi Arabia, and the United Arab Emirates. These countries' average score was 399 while the OECD average was 488.
26 According to UNESCO. Out of a population of 27 million children, roughly 13 million are enrolled in some early childhood education; most of the enrolled, around 8.6 million, are in Pakistan alone. The rest of the region has only four million enrolled out of the total population in the age group of roughly 17 million.
27 With no ready digital infrastructure capable of delivering live remote instruction to students during COVID-19 school closures, many countries in the region relied on ad hoc methods to deliver instruction, such as television broadcasts of school lessons; "Education: From disruption to recovery," UNESCO, unesco.org.
28 COVID-19 impact on education, UNESCO, https://en.unesco.org/covid19/educationresponse.
29 WHO database; 2017 data for all countries except for Yemen (2015), Syria (2012), Libya 2011; Palestine data not available
30 "World Population Prospects, 2019," United Nations, https://www.who.int/data/gho/data/themes/mortality-and-global-health-estimates.

In addition, the region is increasingly dealing with high rates of age- and lifestyle-related diseases.

Across MENAP, the population aged 65-plus will more than double over the next 20 years, from approximatley 27 million today, to over 63 million in 2040.[31] As people get older, they tend to consume a disproportionate amount of healthcare owing to age-related conditions. This demographic change could overwhelmingly increase demand for treatment services for lifestyle and age related diseases from now through to 2040 - increasing the overall healthcare cost burden borne by the population.

4. Conflict and instability undermine opportunities

MENAP remains a region challenged by conflict and instability; this upheaval closes the door on many opportunities for the youth growing up in these environments. Nine out of the 18 countries covered in this report have experienced active conflict or serious geopolitical instability in the last two decades. Active wars in the region have destroyed human and physical capital and, in many countries, have set back economic development by years, if not decades. Around 21 million people in the region have been physically displaced, 43 million people need humanitarian assistance, and one out of every seven people is directly affected by war. One out of every three children under ten in the region has grown up in a conflict zone, with war leaving around 12 million children with either limited access to education, or no education at all.[32]

War has also taken a huge toll on the region's infrastructure: more than $200 billion worth of physical assets have been damaged.[33] Conflict-hit countries have suffered collective losses of approximately $175 billion in GDP and have seen their per capita income, on average, cut in half. This has further exacerbated the issue of extreme poverty in these countries—the latest estimates show that nearly 40 percent of the population in these countries live in poverty.[34]

5. Government services and delivery are challenged

Many governments lack effectiveness when compared to high-scoring international counterparts, hindering their ability to create jobs and drive economic development. Even though many governments in the region are undergoing significant transformation plans and there are positive success stories happening which governments can learn from, there is still a wide gap between the region and the rest of the world. MENAP governments score poorly across a range of indicators measuring the effectiveness of governance, such as the World Bank's WGI. For example, ten MENAP countries rank in the bottom half on economic governance, which is defined as the capacity of government to effectively design and deliver services. Moreover, ten countries rank in the bottom half on institutional governance, defined as how governments and citizens regard institutions that govern economic and social interactions. Additionally, many governments in the region have few mechanisms to engage with their citizens and lack the digital technology needed to drive effective services and citizen engagement. Out of the 183 countries tracked by the Government Digital Adoption Index, only three countries in the region rank in the top 50.[35]

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31 "Population Prospects," 2019.

32 United Nations Office for the Coordination of Humanitarian Affairs, United Nations Humanitarian Needs Overview Report, The Armed Conflict Location & Event Data Project, United Nations High Commissioner for Refugees.

33 For Syria, the UN Economic and Social Commission for Western Asia (ESCWA) estimates the cost of the material destruction in Syria—damage to roads, infrastructure, homes, and other physical objects—to be $120 billion. For Iraq, assessment by experts at the World Bank and the Iraqi government estimated $46 billion in damage to the country's houses, power plants, schools, and other civilian infrastructure – "Defeat of ISIS in Iraq Caused $45.7 Billion in Damage to Infrastructure, Study Finds", Wall Street Journal, 11/02/2018. For Libya, the Libyan Trade Chambers Association estimates $20 billion in infrastructure cost – "Egypt seeks opportunities in Libya's reconstruction", The Arab Weekly, 03/08/2019. For Yemen, Yemen's Ministry of Planning and International Cooperation estimates $28 billion in infrastructure damage – "$28 Billion Needed for Short-Term Reconstruction Plans", Asharq Al-Awsat, 10/05/2019.

34 The CIA World Factbook estimates that 23 percent of Iraq's population live under the poverty line, 33 percent in Libya, and 82.5 percent in Syria, cia.gov/the-world-factbook/. The UN estimates that 48 percent of the Yemeni population lived under the poverty level in 2017. The poverty level varies from country to country; however, the official figure used by the World Bank is $1.9 per day.

35 In its latest ranking (2016), only United Arab Emirates (5), Bahrain (25), and Egypt (38) are in the top 50 countries. Worldbank.org.

We decided to develop this report because we believe the region has the opportunity, and the capability, to turn its trajectory around. Current challenges not only present a bleak view of the current state but also show that the opportunity for impact is significant and the stakes for change are even more critical. The region needs to continue its path toward resolving the most pressing issues facing its youth. We believe that there is indeed significant potential for the region, seen firsthand from our work with clients in the region and the numerous success stories we see, from NGOs to the private sector to governments taking on these challenges with ambition. These efforts need to be scaled and accelerated to cover all countries and sectors in the region to turn its trajectory.

As we enter a new decade, how can the region address its enduring challenges? Then, this report seeks to start a conversation that addresses this fundamental question. We propose a set of game-changers that could have an outsized impact on creating a better future for youth in the region. This will take reforms across almost every aspect of society, it will require regional companies to take a stronger role, and it will take a generation of youth deciding to take their fate into their own hands. These game-changers cover seven topics:

- Globally competitive talent
- Homegrown global firms
- Innovation industries
- Gender parity in the workforce
- Healthy populations and resilient health systems
- Rebuilt conflict zones
- Governments focused on performance and delivery

In addition to these game-changers, we believe MENAP must also address more fundamental issues to build the foundations for these initiatives. We have briefly highlighted a set of foundational actions that have consistently been identified in the plans of the region's governments, and in the work of international development organizations.

2 Foundational actions

The region faces several foundational challenges across areas of (1) economic opportunities, (2) social services, (3) infrastructure, and (4) governance, which each country must address with foundational actions to become globally competitive.

This brief section of the report outlines a list of foundational actions proposed by national leaders, international development organizations, and regional experts, and in many previous studies and reports. This is not an exhaustive list of recommendations proposed by other experts and the limited length in this section is not an indication of diminished importance. Rather, this section aims to complement the game-changing initiatives we propose throughout the rest of the document, so as not to overlook the fundamental and ongoing challenges already addressed in more detail elsewhere.

Box 1

MENAP could implement foundational actions to address the key challenges it is facing

A. Economic opportunities

Business environment	**Supportive business environment:** Reduce red tape, ensure that regulations are enforced fairly, and develop business-friendly regulations to attract private-sector growth, investment and Foreign direct investment (FDI), and innovation; encourage competition through regulating anti-competitive behavior, building strong enforcement institutions, and limiting regulatory regimes that make it difficult for firms to enter the market
Finance infrastructure	**Financial environment:** Improve overall financial environment through more accurate credit information via improved credit-information systems, enforcement of creditor rights, and higher competition among financial providers **Firm financing:** Improve firms' access to finance and funding, especially for lower served-firms
Economic diversification	**Economic diversification:** Move economies away from single or limited number of sectors toward multiple and higher value-add sectors to spur private sector growth, create jobs, and grow the economy
Labor-market reforms	**Labor-market reforms:** Reconsider labor-market regulations and programs to (1) protect employees, those searching for employment, and employers and (2) increase flexibility and matching between labor and employers and reduce search costs for both

B. Social services

Education	**Education quality and outcomes:** Improve education outcomes by regularly evaluating outcomes and results to identify gaps, prioritizing literacy and numeracy, and incorporating technology to improve teaching methods; improve quality of teachers through developing in-service training programs, systematically measuring teachers' performance, and attracting higher-quality professionals. **Access to education:** Increase access to education by building facilities, lowering or subsidizing fees, and utilizing IT to broaden reach (e.g., remote teaching) **Training students and workers for the labor market:** Develop relevant skills and vocational training, internships, and job placements to facilitate education to employment; partner with the private sector to provide training, and ensure that the education system prepares women with skills necessary for the 'future of work'; incentivize and encourage women to choose degrees or areas of study that will be in demand (e.g., STEM and digital)
Healthcare	**Healthcare outcomes:** Improve current healthcare outcomes and prepare for imminent healthcare risks (e.g., research demographic changes and shifts in disease trends to target accessing the required resources, infrastructure, and specialized support) **Access:** Increase access to healthcare through increasing number of healthcare professionals; ensuring adequate coverage of facilities and affordable care to patients; and utilizing technology to facilitate broader and more effective access to care **Pandemics:** increase health systems' readiness for future pandemics to ensure prevention and effective management of any potential future threats
Inclusive development	**Social safety nets:** Expand social safety nets by increasing coverage and level of support (monetary or service levels) to provide access to basic services for vulnerable segments of population **Support for rural communities:** Secure financing for projects targeting rural communities to lift standards of living; implement policies to strengthen quality of, and access to, jobs, public infrastructure and public services **Support for refugees:** Launch initiatives and raise awareness around programs to protect refugees from poverty and violence; provide them with access to basic services **Financial inclusion:** Increase financial inclusion of individuals by raising financial literacy through financial literacy programs, increasing access to finance for individuals, and leveraging technology to increase access to financial services and products

C. Infrastructure and sustainability

Access to basic utilities	**Electricity:** Ensure reliable and financially sustainable access to electricity **Water:** Strengthen water governance to efficiently manage supply and consumption of scarce freshwater resources (e.g., modernizing irrigation systems, reducing water losses in supply chain) and ensure access to water supply and sanitation **Public infrastructure:** Improve and modernize public infrastructure to support economic growth and improved liveability **Internet:** Improve network reach and connectivity; lower internet costs to decrease business costs, and expand ICT adoption
Sustainability	**Urban growth:** Ensure that urban growth plans and policies are in place to manage growth of cities in order to ensure needs are met sustainably **Environment and natural resources:** Ensure environmental protection and sustainable consumption of natural resources (e.g., increasing shares of renewables and introducing energy- efficiency reforms)

D. Stability and governance

Stability and resilience	**Peace and security:** Strive towards long-lasting stability in conflict-afflicted countries, safeguard civilians' access to security and critical goods and services and facilitate populations' return to normal life **Resilience:** Build country resilience for cybersecurity risks, environmental risks (such as climate change), and other potential adverse phenomena
Effective management of government resources	**Public-sector productivity:** Improve public-sector productivity through effective management of public-sector employment practices (e.g., introduce accountability mechanisms to monitor hiring, productivity, and performance) and public sector wage bill **Private-sector involvement:** Foster further private-sector investment in infrastructure and involvement in public service delivery **Effective fiscal management:** Improve fiscal management to channel public resources more efficiently, increase transparency in use of public funds, and introduce mechanisms to fight corruption (e.g., anti-corruption laws and commissions)
Citizen-centric governments	**Citizen engagement:** Enable citizen engagement (especially target involving youth) and ensure evidence-based policymaking by understanding needs and sentiments of the public **Rule of law:** Strengthen the rule of law through more efficient regulatory framework and higher-quality and more effective judicial system

3 Game-changers

In this section, we highlight ideas across the seven topics outlined in Chapter 1 of this report. These ideas can have an outsized impact on the opportunities available to youth over the coming two decades and are not meant to be exhaustive. As such, they cannot remedy the region's challenges in its entirety. However, implementing these ideas will help solve some of the biggest challenges facing youth in MENAP and help them achieve their aspirations for the future region they hope to create and live in.

1. Globally competitive talent

Over the next two decades, around 127 million young people are expected to enter the region's labor force. As youth enter the labor market in increasing numbers, the nature of available jobs is drastically changing owing to technological disruptions. Nearly 29 million jobs—about 17 percent of current jobs—are at risk of being displaced by 2030 because of automation. Moreover, if automation is adopted at a faster rate, as many as 46 million jobs—27 percent of current jobs—could be at risk of displacement by the end of the decade. Many more jobs will be affected as specific work activities are automated: in an additional 60 percent of occupations, at least 30 percent of work activities are automation-prone.[36]

By 2030, the occupational mix could shift toward more professions requiring university degrees, and more activities requiring technological and socio-emotional skills. This means new workers will need capabilities different from the ones required in historical labor markets, and many existing workers will need to retrain to stay in the labor force.

The COVID-19 crisis has exacerbated the urgency to act by accelerating this trend to automation—especially for low-skilled labor. Additionally, the long-term trends toward more automation and more digitization are now compounded by a shift to remote work and changing health and safety standards. It is likely that youth will need both digital and knowledge-based skills to ensure success in the post-pandemic economy.

Two stages in the education-to-employment journey provide the biggest opportunity to help address these challenges, but they are the two stages receiving the least attention in the region: (1) early childhood and (2) lifelong learning.

Game-changer: Increasing early childhood education enrollment reaps the biggest returns of any education investment. Starting education in early childhood has an outsized impact on a child's cognitive abilities later in life. Studies show that the outcome return on early childhood education ECE programs is up to seven times higher than investment in any other stage of education.[37] More specifically, students enrolled in more than one year of ECE score 70 percent higher on Program for International Student Assessment (PISA) scores and are more than twice as likely to attend college for four years and end up in a skilled job.[38] Countries with higher ECE enrollment tend on average to score better on PISA assessments (Exhibit 7). Specific to the region, students with some ECE scored, on average, 27 points higher on the PISA science test than their peers with no ECE on the PISA science test; the equivalent of a full school year.[39] In addition, this increase in educational outcomes can result in long-term economic growth: one study has found that an increase of 50 points

[36] James Manyika, Susan Lund, Michael Chui, Jacques Bughin, Jonathan Woetzel, Parul Batra, Ryan Ko, and Saurabh Sanghvi, "Jobs lost, jobs gained: Workforce transitions in a time of automation," McKinsey Global Institute, December 2017, McKinsey.com.

[37] Pedro Carneiro and James Heckman, "Human Capital Policy," NBER Working Papers number 9495, National Bureau of Economic Research, 2003, ideas.repec.org; Lawrence Schweinhart et al, Lifetime Effects: The High/Scope Perry Preschool study through age 40, High/Scope Press, 2005.

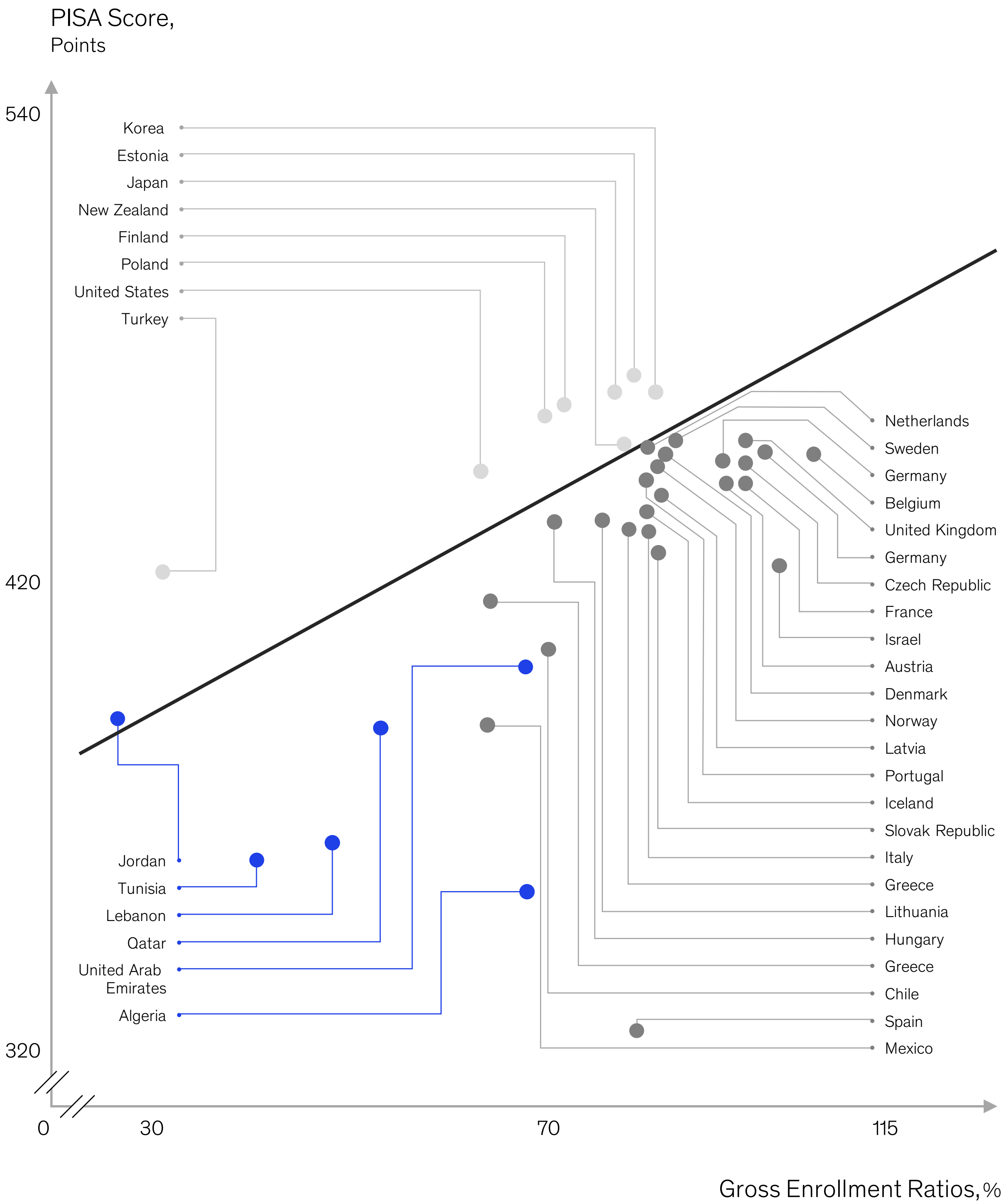
[38] Schweinhart, Lawrence, The Carolina Abecedarian Project 2005– https://abc.fpg.unc.edu/scholarly-publications.

[39] Based on 2015 PISA scores of the United Arab Emirates, Qatar, and Tunisia.

Exhibit 7:

Countries with higher enrollment rates in ECE tend to do better in standardized test

Correlation of ECE enrollment and PISA scores[1]



1. 2018 PISA scores. MENA and OECD average PISA scores were used along with World Bank/UNESCO reported gross enrolment ratios, Algeria and Tunisia have not participated in 2018 PISA and therefore 2015 scores were used.

Source: Source: McKinsey, PISA

in the OECD's PISA score translates to roughly a one percentage-point-higher long-run growth rate.[40] Assuming an additional 0.5 percentage point increase in growth starting in 2030 for the region could mean an additional $197 billion additional economic output for the region by 2040.

However, despite these proven benefits, the region still lags behind other countries in ECE enrollment: only 48 percent of the region's children are enrolled in ECE compared to nearly 80 percent for OECD economies.[41] Around 9 million ECE-age children are currently not enrolled and, if this low enrollment rate persists, an additional 95 million children will miss out on ECE by 2040.[42] ECE funding is essential to increase enrollment as there is a direct correlation between ECE funding and enrollment rates.

Countries typically increase enrollment by providing financial and regulatory support directly to parents or the education provider. Governments can provide several financial and regulatory incentives to help increase ECE enrollment (Exhibit 8). To stimulate demand and to reduce the burden of ECE on parents, governments apply a range of financial incentives, which include vouchers redeemed by parents paying for childcare or schooling—either with licensed professionals at home or at licensed institutions—and tax deductions for parents for ECE and care expenses. On the other hand, governments apply a range of incentives to help reduce costs and increase the supply of care centers. These include reduced corporate taxes and fees for childcare and kindergarten providers; special arrangements regarding land such as public land leases to kindergarten or childcare operators and facility developers; subsidies for private kindergartens or childcare centers to admit additional students or reduce fees; and employer-incentive models, where a partnership is forged between government, employers, and the private sector to offer subsidized childcare and kindergarten for employees' children.

Many countries begin by providing funding for children under the age of three and, in some cases, as early as the child is born (Exhibit 9). For example, Finland mandates that local municipalities provide ECE services to all children aged 0 to seven years old. Funding is provided through a mix of government transfers to municipalities, municipal funding, and fees paid by families. Fees collected from families make up the smallest contribution among all funding sources to keep ECE affordable to all parents.[43]

$197 bn

in additional GDP could be added by 2040 with expanding early childhood education

[40] Ludger Woessmann, "The economic case for education," European Expert Network on Economics of Education, report number 20, December 2014.
[41] The region has roughly 13 million children enrolled in some ECE, 8.6 million of which are in Pakistan alone.
[42] Difference between current enrollment rates in each country and target enrollment rate of approximately 80 percent; based on population aged under five from 2018 to 2040, continuing with the same enrollment rate for each individual country.
[43] European Commission, EACEA National Policies Platform, Eurydice: Finland, Early Childhood and School Education Funding, March 2021, eacea.ec.europa.eu.

Exhibit 8:

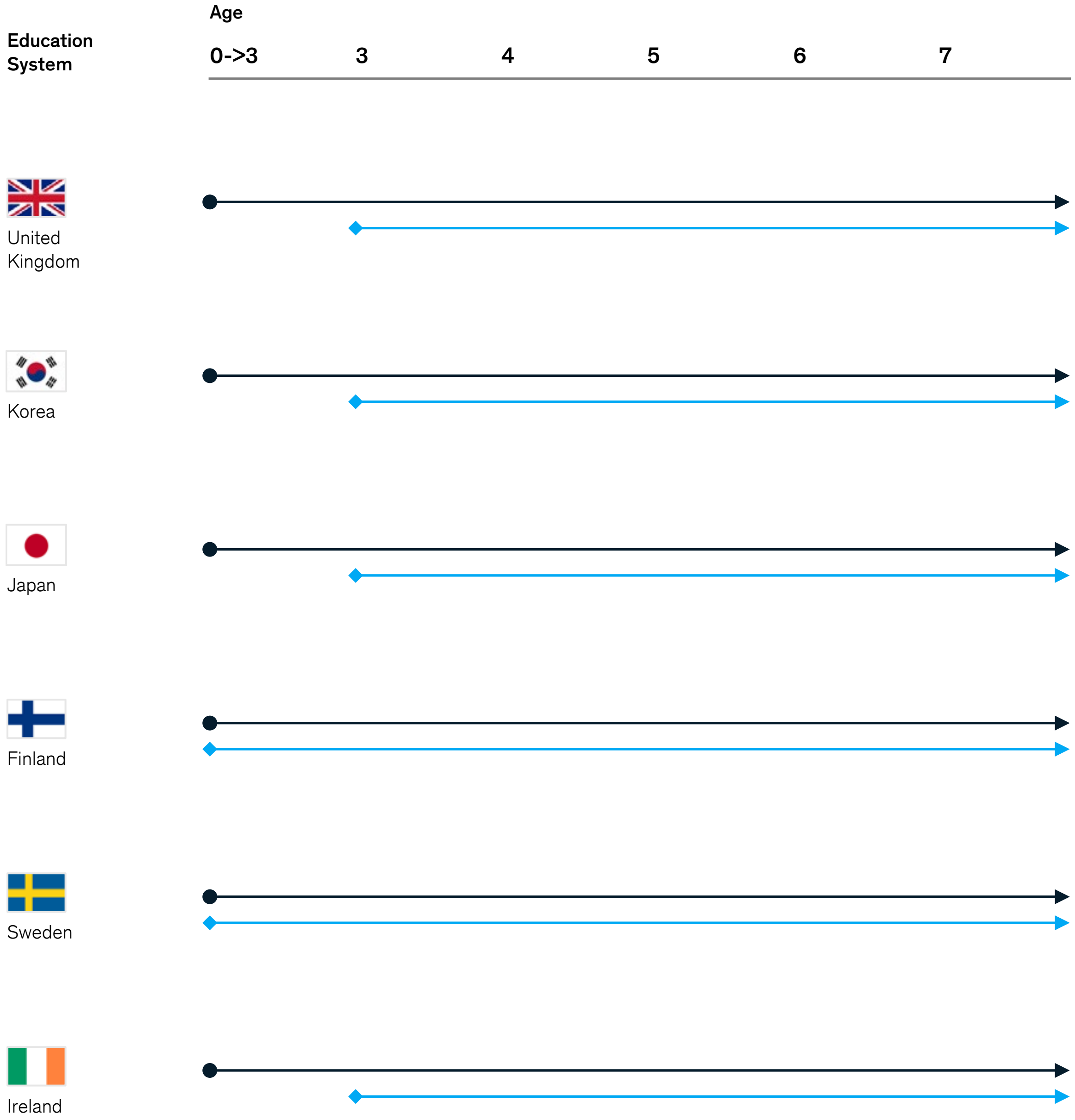
Countries adopt different mechanisms for financial support and funding of ECE

	Financial incentives	Regulatory incentives
Parents	 Vouchers to be redeemed by parents paying for childcare or schooling (with licensed professionals at home or at licensed institutions)  Expenses towards care for children can be deducted from taxes	
Childcare and education providers	 Reduced corporate taxes and fees for childcare and kindergarten providers  Low corporate loan rates  Special deals on land; e.g., public land lease to KG or childcare operators or facility developers  Subsidies for private kindergartens or childcare centers to admit additional students or to reduce fees  Employer-incentives model[2] - Partnership between government, employers, and private sector to offer subsidized childcare and KG for employees' children	 100% foreign company ownership for childcare centers or KGs  Streamlined visa processes for knowledge/care workers  Streamlined and simplified licensing and registration processes
Other Capex enablement	 Government to build new nurseries and kindergartens and operate them publicly	

1. Attached KGs are KGs utilizing idle space in existing elementary schools with minimal refitting required.
2. Potential partners include, but are not limited to: Universities, Medical cities, Military cities, residential compounds, large employer campuses, employers with available land and non-profit organizations.

Exhibit 9:

Some countries have funding committed from birth



- **Universal Access Commitment:** Start of government commitment to facilitate access to education and care to all. Universal access to education also begins at an early age in most of the education systems.
- **Funding Commitment by Government:** Start of government commitment to grant direct funding to all who wish to attend school (regardless of their social class, gender, background, or physical and mental disabilities). For most countries that this study analyzed, early childhood education funding commitment starts at a very early age (at less than 3 years for most countries).

1. Refers to Nationals only.

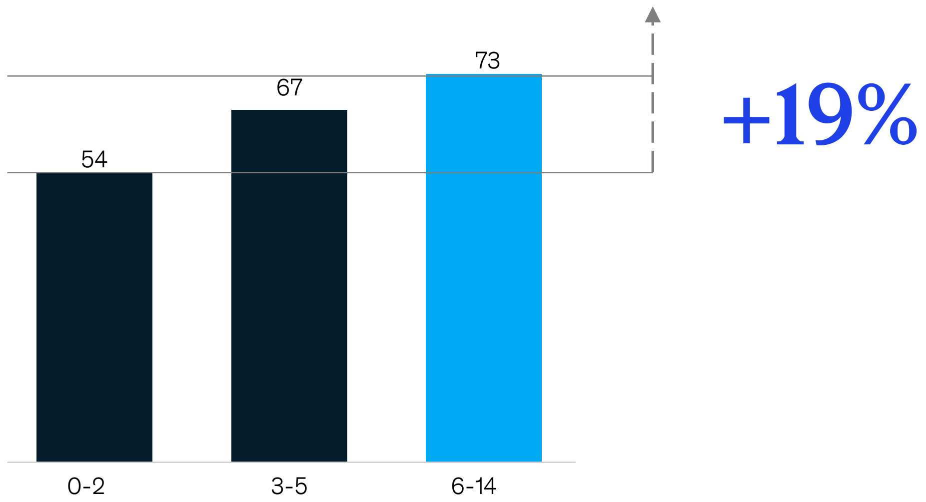
Source: International Organization Publications on ECE OECD

Ramping up ECE participation until elementary school also helps solve another issue faced by women in the region: low labor-force participation owing to the burden of caring for young children. The OECD's Social Policy Division analyzed women across 40 countries and found that mothers with children 0–2 years old have much lower employment rates than women with children aged 6–14. [44] The difference between the two groups is, on average, 19 percentage points (Exhibit 10). Moreover, in the McKinsey Middle East female employment survey, 43 percent of respondents stated that a lack of work-life balance kept them away from the labor force, identifying demands at home like childcare as key hurdles.[45] Financial support to families to help alleviate childcare and the ECE burden would enable more mothers to feel they have the option to enter the labor force.

Exhibit 10:

Mothers with younger children tend to have lower employment rates

(Range of maternal employment for mothers with youngest child aged 0-2, 3-5, and 6-14)



Source: OECD – Social Policy Division – Directorate of Employment, Labour and Social Affairs

While ECE programs are effective, they are costly. This cost could be partially offset by the long-term economic benefits provided by ECE. First, children enrolled in ECE typically have a higher lifetime socioeconomic return, estimated to be four to eight times the investment over the life of the child[46]. Second, ECE boosts the employment of women with young children. Reducing women's childcare burden is an important factor in raising female participation in the labor force, a goal which could have an estimated economic impact as high as $1.9 trillion across MENAP, according to a recent McKinsey report.[47]

In some cases, especially for countries with small populations, the government can fully bear this burden given the low cost relative to the return on investment. In other countries with large populations and therefore large investment requirements, the government can play a role in catalyzing the initiative and providing the right and targeted incentives for the private sector to support the provision of care.

While high rates of enrollment, driven primarily by affordability, are important, successful ECE programs need to aim for equity in educational outcomes regardless of students'

[44] Organisation for Economic Co-operation and Development (OECD) Family Database, "LMF1.2: Maternal employment rates," September 2016, oecd.org.
[45] Rima Assi and Chiara Marcati, "Women at work in the Middle East," March 2020, McKinsey.com.
[46] Carneiro and Heckman, "Human Capital Policy"; Lawrence Schweinhart et al, High/Scope.
[47] By 2040 assuming female LFPR is on par with male LFPR in the region. Significant portion of females are assumed to enter the labor force and are employed due to reduced burden of childcare.

socioeconomic status. PISA data from the region currently indicate that children from high-income families benefit disproportionately from ECE enrollment, which may be due to a relationship between ECE cost and educational quality. Research shows that students from the richest quartile of families had an additional seven percentage points increase in their PISA scores later in life when compared with students with a similar number of years in ECE, but who came from the poorest families in the sample.[48] Therefore, as the region scales up ECE enrollment, it is important to ensure that steps are taken to put more focus on increasing the quality of ECE offerings across the socioeconomic spectrum to ensure that all children are able to equitably reap the substantial developmental benefits of ECE enrollments. Governments across the world have shown that there are several measures to raise the quality of ECE, including the following:

— setting a coherent, central framework that helps outline ECE policy

— surveying parents frequently to get feedback on the level of ECE services

— developing a self-assessment process in which ECE institutions or staff members evaluate their own performance against certain goals

— providing a formal review and accreditation system for teachers to highlight areas for improvement or further action

— monitoring practices conducted by evaluators, assessors, and actors who are not part of the ECE service being monitored

— providing a list of tasks, skills, and abilities to assess children's development or knowledge

The COVID-19 crisis has also exposed the vast divide in access to ECE among children of different economic backgrounds. As learning moved online, many children of lower economic backgrounds were completely cut off from access to high-quality education. In a study of 21 European countries, children from lower economic backgrounds were half as likely as other children to have reliable internet access.[49]

Game-changer: Lifelong learning credits help workers reskill and upskill
At the other end of the education-to-employment journey, workers, once they enter the labor market, have limited opportunities to upskill or reskill. Learning new skills will become increasingly important as automation's impact on the labor market deepens, as an estimated 17 percent of workers in the region are at risk of being displaced by automation in the next ten years.[50] Going forward, individuals will have to learn new skills throughout their lifetimes as automation and technology advance.

Countries and employers around the world are identifying ways to help their citizens and employees adapt to this changing environment. Many are offering or subsidizing learning credits to help upskill and reskill their workforces. The region could adopt a similar approach whereby workers receive credits to use with authorized education providers.

There are three important building blocks to setting up a successful program: (1) setting the appropriate funding mechanism; (2) ensuring measurement and management of impact; and (3) establishing wider acceptance of nontraditional degrees and credits.

1. Setting the appropriate funding mechanism: Countries have funded learning credits through various ways, e.g., through government-sponsored vouchers and through mechanisms that involve private employers. An example of government-sponsored vouchers is the 'SkillsFuture' program in Singapore to encourage citizens to learn new skills. Each Singaporean aged 25 and older is given an initial credit of 500 Singaporean dollars toward courses; an investment that represents 0.33 percent of its GDP.[51] The government can

[48] Emma Dorn, Marc Krawitz, Chadi Moujaes, Mona Mourshed, Stephen Hall, and Dirk Schmautzer, "Drivers of student performance: Insights from the Middle East and North Africa," October 2017, McKinsey.com.
[49] "Policy Brief: Education during COVID-19 and beyond," United Nations, August 2020, un.org.
[50] Automation potential for midpoint adoption timeline scenario is available only for United Arab Emirates, Bahrain, Egypt, Kuwait, Morocco, Oman, Qatar, and Saudi Arabia. Approximately 17 percent of jobs by 2030 can be displaced in a midpoint scenario in these countries.
[51] Based on the population aged 25+ out of approximately 2.9 million and a 2017 nominal GDP of approximately $324 billion.

provide periodic top-ups and citizens can accumulate the credits. To finance these programs, employers pay 0.25 percent of their employees' monthly remuneration, with a set maximum contribution per employee. More than 500,000 Singaporeans have tapped into their credits since the program's inception in 2016—around 17 percent of the eligible population. In a survey conducted by SSG, 86 percent of 43,000 Singaporeans surveyed who attended SkillsFuture—funded courses said their training helped them in their work.[52]

There are examples where private employers are engaged to provide upskilling or learning programs for their employees. For example, if a corporation foresees a new technology coming into play that could render certain roles redundant or require different skill sets, they can offer to upskill or reskill employees through learning credits, tax credits, grants, or other government-backed incentives.

An example of this approach is seen in Malaysia. The Malaysian Human Resources Development Fund (HRDF) supports companies and encourages employers to retrain and upskill their local employees. The HRDF provides companies with access to training programs and training grants to reimburse a major portion, or all, of the 'allowable costs' of training attended by employees.[53] Companies can also contribute to the retraining and reskilling of workers. An example of this is AT&T's Workforce2020 program to support AT&T's tenured workforce to retrain and obtain new skills in new growing fields for the company. The company spent more than $250 million on employee-education programs and more than $30 million on tuition assistance programs as of late 2016.[54]

In planning the funding of this learning-credit program, countries must also consider the range of eligible credentials and eligible educational institutions and training providers. Qualifying credentials can be defined based on at least two criteria—degree type and course subject. The learning credit could help pay for postsecondary education, including academic and professional degree courses, as well as for micro credentials aimed at building job-related skills. It could also be used to direct students toward the study of specific subjects in priority skill areas to ensure that credits provide impactful training and knowledge that will remain economically valuable for the foreseeable future. For example, the Malaysian HRDF focuses on developing human capital in two priority economic sectors—manufacturing and services, including over 63 subsectors.[55] Optimizing the range of credit-eligible credentials thus requires proactive assessment of employment trends and continuous forecasting of the supply and demand dynamics related to the domestic market for skills.

Institutions eligible for learning-credit schemes should include only those meeting a specific standard or accreditation type. Eligibility criteria can leverage existing accreditation mechanisms such as in the case of the US Federal Lifetime Learning Credit Program,[56] which leverages Department of Education accreditation to determine institutional eligibility. In other cases, new accreditation criteria may be developed for the learning-credit program, especially in cases where baseline educational standards are weak, or learning credits target nontraditional trainings likely to operate outside of the scope of academic certification. For example, Malaysia's HRDF provides a financial grant for training at HRDF-registered providers, who all go through accreditation and/or training. Nonetheless, while rigorous certification programs standardize quality, they cannot close national gaps in specialized know-how and advanced expertise.

Governments can use the funding behind credit schemes to close domestic skills gaps by engaging in strategic knowledge-transfer partnerships with foreign companies and institutions. For example, SkillsFuture Singapore supported the Singapore Polytechnic (SP) in partnering with German engineering firm Bosch Rexroth to set up the Bosch Rexroth Regional Training Center to transfer advanced industrial know-how to SP faculty, who in turn

52 SkillsFuture Singapore, "500,000 individuals and 14,000 enterprises benefitted from SkillsFuture programmes in 2019," skillsfuture.gov.sg.
53 HRDF website, hrdf.com.my.
54 John Donovan and Cathy Benko, "AT&T's Talent Overhaul," HBR Magazine, October 2016, hbr.org.
55 HRDF website, hrdf.com.my.
56 "What is an eligible educational institution?" Internal Revenue Service, irs.gov.

help train a pipeline of Industry 4.0 specialists to fill the talent needs of Singapore's advanced manufacturing sector.

2. Ensuring measurement and management of impact: Regulators could play a role to ensure that learning programs are effective, as has proven successful in other countries. Malaysia's HRDF introduced the HRDF Training Effectiveness Evaluation process, while Singapore's SkillsFuture training programs have evaluation processes to help continuously improve the schemes they offer.[57] Studying these program evaluation processes shows that three areas must be evaluated and tracked for training programs to succeed: the courses and curricula, the educators' effectiveness, and the trainees' learning outcomes. For all three, the appropriate key performance indicators KPIs need to be identified and tracked, with data and surveys continuously collected and analyzed. Based on the outcomes of these evaluation and assessment processes, plans must be designed to help continuously improve outcomes and boost impact.

3. Establishing wider acceptance of nontraditional degrees and credits: It will take a shift in mindset for employers and society to recognize and accept nontraditional degrees and credits. There are various ways to incentivize and encourage this shift in acceptance. Governments could incentivize employers who hire those who have undertaken training under this new program or incentivize employers who have financially recognized this type of training through a higher salary or a promotion. For example, Malaysia's HRDF has set preferences for their funding program for employers who can provide upskilled workers with a salary raise on return. In addition, employers must start accepting nontraditional programs to tap into a more agile labor dynamics.

Global firms are also increasingly open to nontraditional career paths. For example, Google has introduced Google Career Certificates where candidates are able to land jobs with the company after completing the certification with the company without the requirement of a specific college degree.[58] Global initiatives like this are likely to expand and MENAP could adopt similar efforts to increase the competitiveness of its youth and expand their career access options.

Note on K-12 schooling and higher education

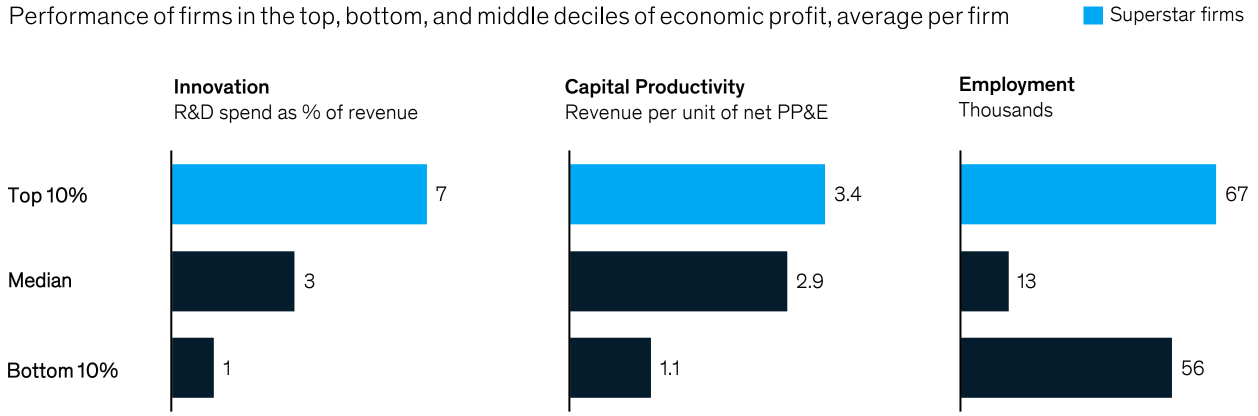
K-12 and higher education remains a critical determinant of individual outcomes well into adult life. Research from the Brookings Institution shows that increased participation in traditional education generates positive returns to health, wealth, and happiness for individuals and wider society.[59] With one out of five children currently not in school, MENAP currently faces significant challenges in this regard, many of which have been worsened by conflict. As of 2017, the crises in Syria, Iraq, and Yemen brought the number of regional out-of-school children up to 14.3 million, effectively wiping out a decade of progress in educational enrollments.[60] However, the topic has been extensively covered to try to identify challenges in K-12 education. While continuous improvement in the quality and coverage of K-12 and higher education remains a crucial component of development, solutions presented in this report focus on understudied areas of the education ecosystem that represent potential opportunities for outsized impact.

57 Ibid.
58 Lydia Dishman, "'No college degree required': Google expands certificate program for in-demand job skills," Fast Company, July 2020, fastcompany.com.
59 Michael Greenstone et al, A dozen economic facts about K-12 education, The Hamilton Project, 2012.
60 As per UNICEF MENA estimates, UNICEF, "Education," unicef.org.

Exhibit 11:

Superstar firms are important to drive innovation, employment and productivity in the economy

Performance of firms in the top, bottom, and middle deciles of economic profit, average per firm



Source: McKinsey Global Institute

2.Homegrown global firms

MENAP's young people perceive unemployment and a consistent lack of viable economic opportunities as one the region's most pressing challenges.[61] Our research suggests that building large, 'superstar' firms represents a proven pathway to unlocking value-add and job creation at the scale required to move the needle on unemployment amongst the region's youth. A 2018 McKinsey Global Institute report analyzed nearly 6,000 global companies and found that 'superstar' firms—defined as the top 10 percent—accounted for around 80 percent of total economic profit, in effect indicating that the largest firms also capture a disproportionate share of global value creation.[62] These firms are in turn important drivers of innovation, employment, and productivity in the global economy (Exhibit 11). Compared to the sample median, superstar firms on average employ five times more people, spend double on R&D, and extract up to 20 percent more from deployed capital.[63]

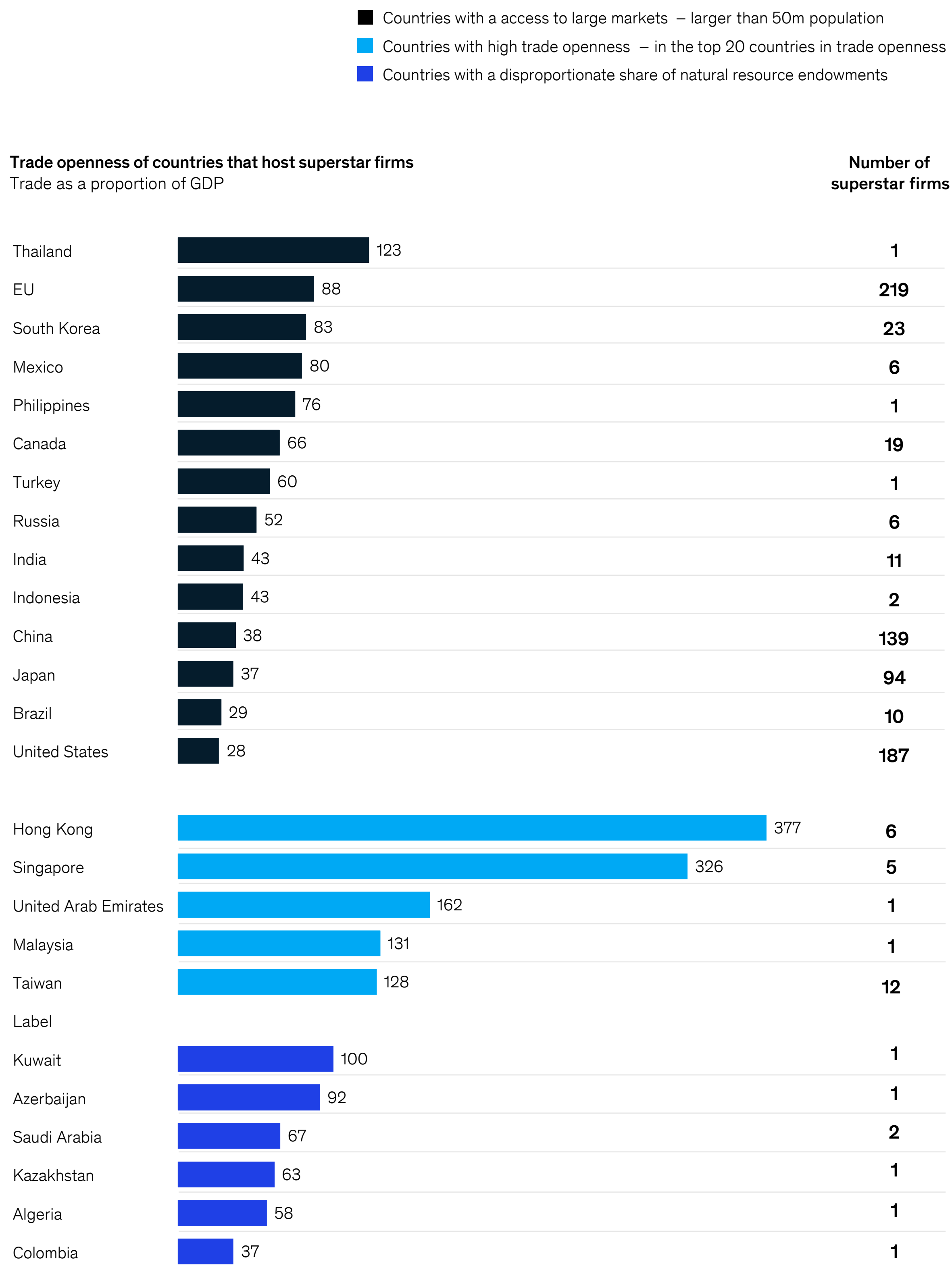
However, sustaining superstar firms requires large markets built on large populations; eighty-two percent of superstar firms operate in countries with a population higher than 50 million.[64] Out of the 134 superstar firms that operate in countries with populations smaller than 50 million, 77 are located in the European Union and have access to its single market, 19 are in Canada with access to the United States and Mexico under the USMCA Agreement, 25 are in countries with high trade openness where trade as percentage of GDP is higher than 125 percent, and seven are oil and gas producers in countries with substantial natural resource endowments (Exhibit 12).[65]

Individually, countries in the MENAP region do not provide the scale necessary for large industries and firms to form and grow. Aside from oil and gas and airlines—sectors where the product is a commodity with an integrated global market—no other sector has the scale necessary for creating superstar firms. Looking at the size of sectors in the region relative to other leading markets of the same sector, only mining and quarrying sectors in Kingdom of Saudi Arabia and the UAE, which include oil and gas extraction, are among the top 10 markets globally.[66] All other sectors in the region are not among the top markets globally in terms of size (Exhibit 13).[67] On the other hand, if the region were more connected and sectors in the different countries were merged, over 40 subsectors would be in the top 10 markets globally.

[61] 2015, 2016, 2017, 2018 Arab Youth Survey, arabyouthsurvey.com.
[62] Analysis includes only global firms with over $1 billion in revenues; "'Superstars," 2018, McKinsey.com.
[63] As measured by revenue per unit property, plant, and equipment (PP&E).
[64] Capital IQ, IHS, 2018; "Superstars," 2018.
[65] The World Bank trade openness – 2017.
[66] World Integrated Trade Solution database, World Bank, wits,worldbank.org.
[67] The region is home to just 5 superstar firms, including 3 oil and gas companies—Saudi Aramco, Kuwait Petroleum Corporation, and Algeria's Sonatrach—the Saudi petrochemical manufacturer SABIC, and United Arab Emirates–based airline The Emirates Group.

Exhibit 12:

Most superstar firms are in large markets. Those that are in small markets are either in very open economies or in resource-rich one



Source: World Bank – World Integrated Trade Solutions (WITS) database

Removing barriers that limit firms from accessing markets across borders could create the scale required for superstar firms to form and grow. The region's share of superstar firms is significantly lower than its fair share when compared to benchmarks (Exhibit 14). A more integrated market in the region will have a region-wide GDP of approximately $3 trillion, creating the scale necessary to help the region achieve its fair share of superstar firms, which is around 30 companies—or up to a million jobs directly and much more in indirect jobs added to the broader economy.

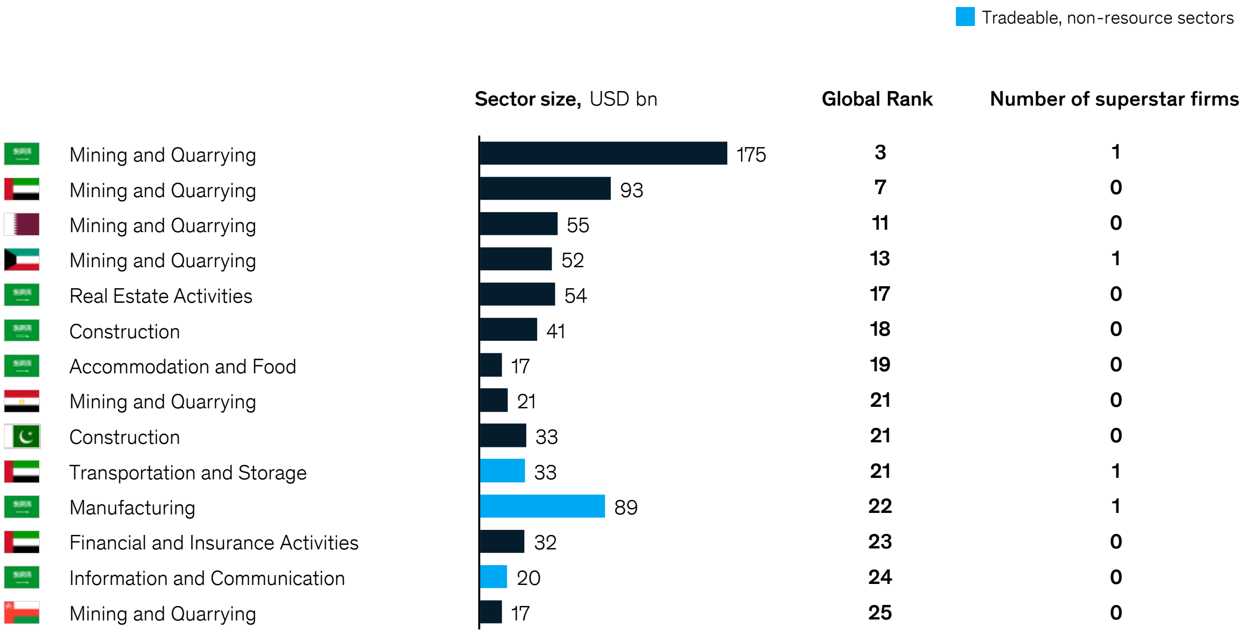
Many firms in the region find it difficult to move beyond their borders because of restrictions on the mobility of goods, services, and capital. This can be seen in the low intra-trade activity between countries in the region when compared to other more integrated economic blocs such as the European Union (Exhibit 15). Firms in the region face additional constraints on labor movements, which limit their ability to tap into talent from other parts of the region. Not only do most workers in the region need visas and work permits to work in other countries in the region, but they also must go through lengthy processes to obtain visas; a process that can take, at times, months to complete. A recent report published by Dubai-based retail group Majid Al Futtaim shows that on average, countries in the region require entry visas in advance from seven other countries within the region, while other blocs (i.e., European Union and ASEAN) have complete free movement of workers. The report also shows that It takes up to 24 weeks to process a working visa for high-skilled labor in the region, significantly higher than global benchmarks (Exhibit 16).

In this section, we identify three initiatives the region could take to integrate its markets and support the development of a new generation of superstar firms by granting them greater access to local markets and talent: (1) free movement of goods and services; (2 free movement of capital; and (3) high-skilled labor mobility.

Exhibit 13:

Outside of primary extractive industries, no sector in MENAP is ranked in the top ten markets globally

Largest 15 sectors in MENAP relative to sector size globally

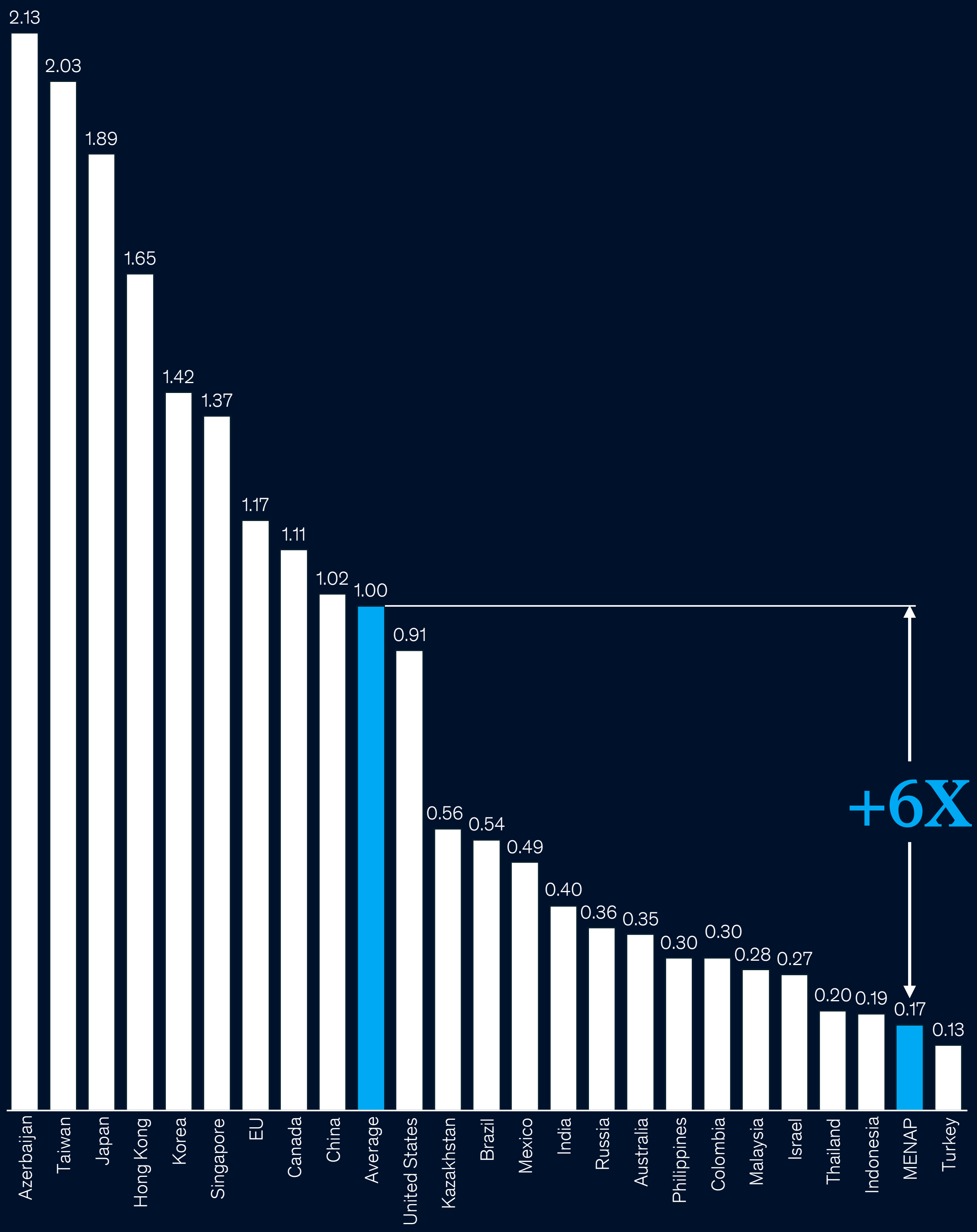


Source: IHS Global markets, CapitalIQ

Exhibit 14:

An integrated region would create the scale required to increase the number of superstar firms

Number of Superstar firms per 100 bn USD of GDP

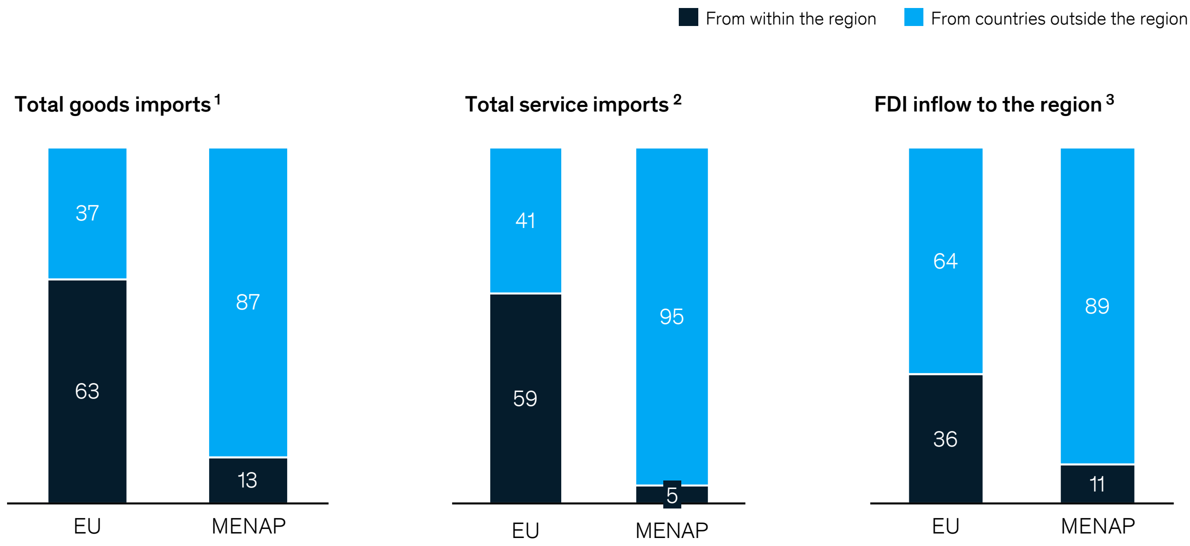


Source: McKinsey Global Institute

Exhibit 15:

Firms in MENAP find it difficult to move beyond their borders

Level of intra-trade between countries in the region, %



1. United Nations Conference on Trade and Development, 2018.
2. International trade in services statistics - OECD, 2012.
3. United Nations Conference on Trade and Development, 2012.

Game-changer: Reduce trade barriers to foster openness and boost manufacturing
Trade blocs around the world provide their member countries with many advantages, including low or zero tariff rates, shared common standards, effective procedures and documentation for imports, and advanced trade infrastructure and logistics. Although there are several sub-region trade agreements (e.g., GCC customs union, Greater Arab Free Trade Agreement [GAFTA] and the Agadir treaty) MENAP still lags behind many regions on these measures and could improve its trade environment by taking gradual steps to decrease or eliminate tariff and non-tariff barriers for the intra-trade of goods and services as has been successful in other sections of the region. Challenges facing companies in the region when it comes to trade includes the following:

— **High intra-regional tariffs:** Countries in the region apply, on average, an effective tariff rate of 7.6 percent on products imported from other countries in the region, while the rate between ASEAN member countries is 3.8 percent. USMCA and the European Union both have zero tariffs between member countries (Exhibit 17).[68] There are, however, countries in the region with zero tariffs between them through current agreements, for example the GCC.

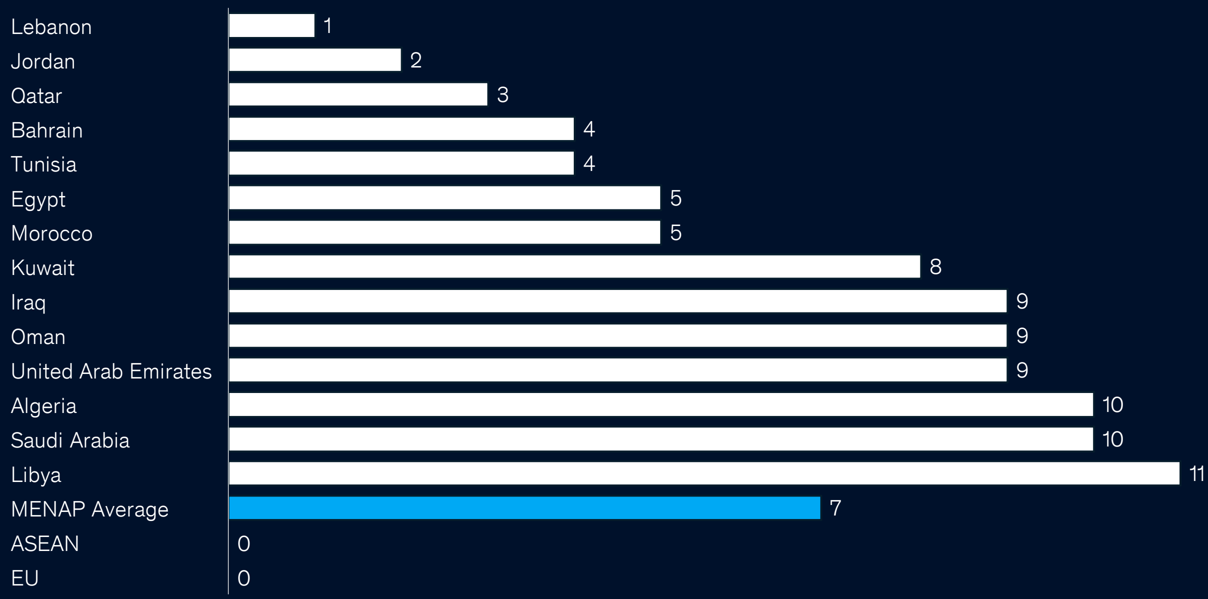
[68] WTO Integrated Database (IDB) Catalog, WITS, World Bank, wits.worldbank.org.

Exhibit 16:

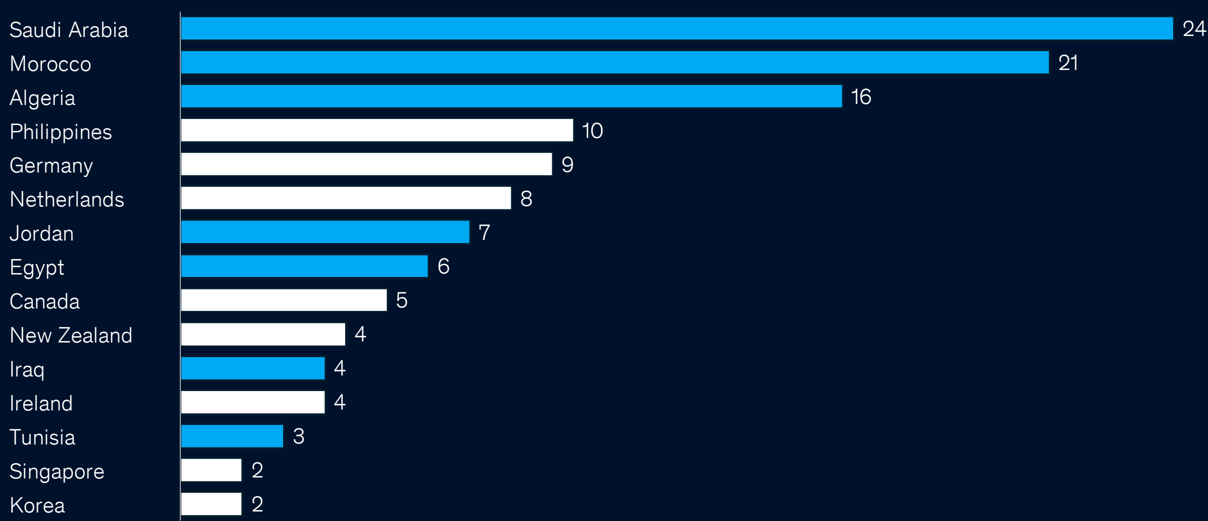
Movement of labor is highly restrictive in MENAP

MENAP countries

Number of countries that need entry visa in advance within the region



Number of weeks needed to obtain a working visa for high-skilled labor



Source: World Bank Employing Skilled Employees, Embassy and Consulates Websites, Press Search

- **Lack of common standards:** While the European Union and ASEAN regions have shared common standards for products and services, the region, outside of the GCC, does not have common standards for products and services.[69] For example, in importing electronics, the region has different plug, voltage, and frequency requirements, while the European Union has unified electronics standards.

- **Lengthy and sophisticated trade procedures and documentation:** Countries in the region lag behind the EU and USMCA countries in the effectiveness of trade procedures and documents, according to the OECD Trade Facilitation Index (Exhibit 18).[70]

The region can increase openness and trade between its member countries by collectively considering measures to decrease or eliminate tariff and non-tariff barriers for the intra-trade of goods and services. This process could begin with the following steps:

Reconsider intra-regional tariffs: GAFTA eliminated tariffs among its members in 2005. Yet today the region still applies an average tariff of 7.6 percent on products imported from within the region. The region could look to activate the 2005 terms of GAFTA, with the inclusion of Pakistan, and remove tariffs on goods and services traded within the region.

Consider a region-wide unified standardization for all products: MENAP could consider creating a region-wide intergovernmental standardization agency to unify health, safety, and quality standards and codes for all products and services and apply them on a national level across the region.

Create a pre-arrival processing scheme for goods imports and exports: MENAP governments could create a digital platform with cross-border coordination to electronically communicate relevant goods for declaration prior to their arrival at the port of entry/exit, so that goods can be released immediately upon arrival. Numerous countries globally, and some in the region, accomplish this via 'single trade windows' – integrated (often digital) platforms that give businesses a single regulatory touch point to provide all information required by various officials (such as customs declarations, certificates of origin, and trading invoices). Intra-region interoperability between single trade windows can further streamline procedures and significantly reduce trade frictions.

Reduce the overall volume of documentation required for import/export clearance checks for intraregional trade: The World Bank's Doing Business Index shows that document preparation is the most costly factor in the trade process. The region can streamline the process by introducing a single-window platform to digitize requirements and submissions across all government agencies and simplify the process for the most trusted and frequent traders.

Consider introducing free movement of services to GAFTA, guaranteeing business mobility: Current GAFTA terms do not include free movement of services. Introducing this freedom to the agreement would give businesses established in the region the freedom to operate and provide services across the region, which would imply eliminating any barriers or discrimination directed at regional firms on the grounds of nationality.

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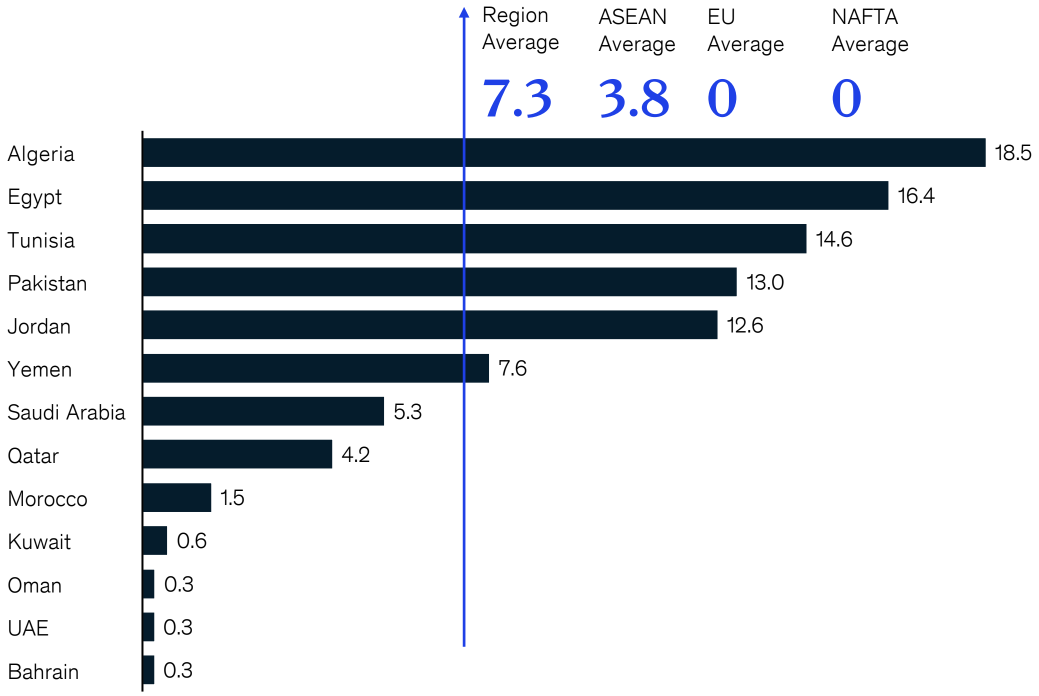
[69] "At national level, standardization is managed by national standardization bodies (NSBs) who adopt and publish national standards. The NSBs also transpose all European standards as identical national standards and withdraw any conflicting national standards," Your Europe, "Standards in Europe", europa.eu; "The ASEAN Consultative Committee on Standards and Quality (ACCSQ) has endeavored to harmonize national standards with international standards and implement mutual recognition arrangements on conformity assessment to achieve its end goal of "One standard, one test, accepted everywhere," "ASEAN cooperation on standards and conformance to facilitate trade in the region," Association of Southeast Asian Nations (ASEAN), asean.org.

[70] The TFI trade procedures metric assesses pre-arrival processing, average clearance time, and physical inspections, while the documentation metric assesses import documents, documents review, and import documents time.

Exhibit 17:

Intra-trade tariffs in MENAP are higher than those of other economic blocs

Average effective tariff rate levied on other countries within same region, percentage (2018)

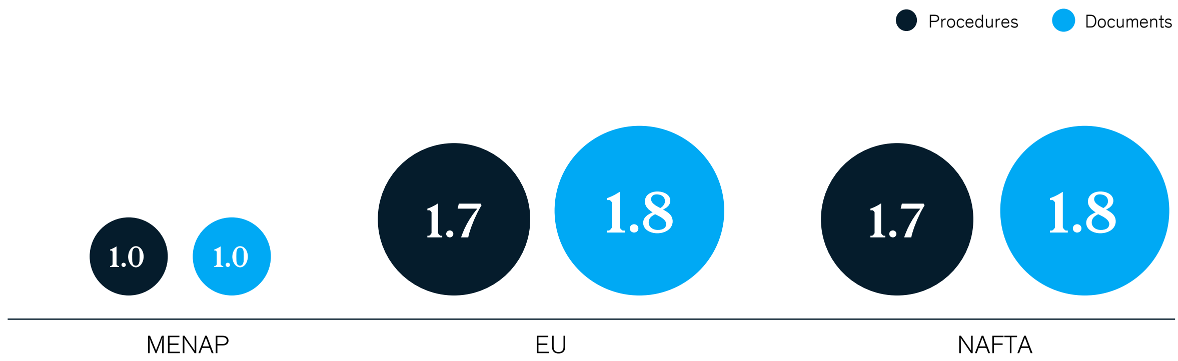


Note: figures are a simple average of applied tariffs
Source: World Trade Organization Integrated Database

Exhibit 18:

Region has less efficient trade-processing and documentation procedures

Trade Facilitation Index – Procedure and Documents Pillars[1]. (2 = Highest, 0=Lowest)



1. The TFIs take values from 0 to 2, where 2 represents the best performance that can be achieved. The Procedure pillar measures Pre-arrival processing, Average clearance time and Physical inspections, while the Documents Pillar measures import documents–number, Documents review, and Import documents–time.

Source: OECD TFI ranking

Reconsidering tariffs and other barriers for goods and services trading in the region would increase the region's GDP by around 4 percent, according to MGI estimates, with the largest impact coming from the removal of non-tariff barriers. Industries benefitted the most would include food processing, paper manufacturing, fabricated metal products, and motor vehicles and parts manufacturing.[71] The outbreak of COVID-19 provided a greater need for countries in the region to relax trade restrictions as firms in the region, as with global firms, will try to diversify, near-shore, and regionalize their supply chains. In a survey conducted by McKinsey's Operation Practice, 40 percent of supply chain leaders plan to near-shore and increase their supplier base while 38 percent intend to regionalize their supply chains.[72]

Game-changer: Clearing capital- and credit-access barriers drives private-sector growth. MENAP has relatively poor access to capital and credit, with an average country ranking of just 80th globally.[73] This lack of credit access hinders the ability of firms in the region to grow. The region should increase regional capital movement to enhance the private sector's access to finance and drive the growth of superstar firms.

While the European Union has no restrictions on foreign ownership and investments from member states, and the ASEAN region is planning to implement the same freedom in 2020, most of MENAP maintains restrictions on foreign ownership. Foreign-investment legislation across the region often mandates that international businesses set up joint ventures with local partners as a precondition for market entry. This undermines free competition, is a barrier to FDI, and can backfire on host economies by facilitating the creation of a rent-seeking local business culture. The region could consider relaxing regulations on capital movement to allow large firms to expand to all markets in the region. Removing blanket bans on majority foreign ownership would enable firms across the region to compete on fair terms, lowering prices faced by consumers, increasing production efficiency, and stimulating intraregional investment flows

For example, in the European Union, clearing the barriers for the free movement of capital by allowing full foreign ownership, lifting the barriers around intra-EU foreign investment, and introducing the euro currency has increased intra-EU FDI flow as a percentage of GDP from 7 percent in 1993 to 51 percent in 2015.[74]

Game-changer: Reconsidering labor-movement restrictions for highly skilled workers will help attract top global talent. Firms in the region face a challenge to attract and hire foreign talent from other MENAP countries and further overseas: the process of hiring and onboarding often takes months. While over 20 million workers in the region hold advanced degrees, more than 1.7 million workers with advanced degrees had moved to work in OECD countries as of 2010—a number that has likely increased owing to recent conflicts.[75,76] Reconsidering labor-movement restrictions for highly skilled workers would give superstar firms access to a large pool of talented workers. This could be achieved by giving qualified highly skilled workers a 'talent visa', letting them work, live, and invest anywhere in the region. This has been a successful way to attract talent in other countries.

Canada and Singapore have implemented similar skill-based visa systems with strong results. For example, Canada issues a Global Talent Stream visa for highly skilled labor, which is based on a list of highly skilled professions and is updated annually based on job demand.[77] The visa processing time is less than ten days, and some 40,000 people have moved to Canada under the system, which is also a pathway to pursue Canadian

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[71] McKinsey Global Institute estimates.
[72] Knut Alicke, Richa Gupta, and Vera Trautwein, "Resetting supply chains for the next normal," July 2020, McKinsey.com.
[73] World Bank – Ease of access to capital.
[74] Eurostat.
[75] ILO Labor Data.
[76] IAB Brain-drain dataset.
[77] Employment and Social Development – Canada.

permanent resident status. Singapore's Employment Pass is offered to executives, managers, directors, and those with exceptional skills and experience in their field of work.[78] Applicants must have a higher education degree or comparable work experience and, in some professions, specialist licensing. As with Canada, Singapore's program is a pathway to becoming a permanent resident.

Altogether, more flexibility in the movement of goods, services, and capital, and higher mobility of skilled workers, should move the region toward a more integrated market. This will help create an environment for the region's firms to expand across borders and reach the scale needed to rise to superstar status and contribute to greater innovation, employment, and economic output for the region.

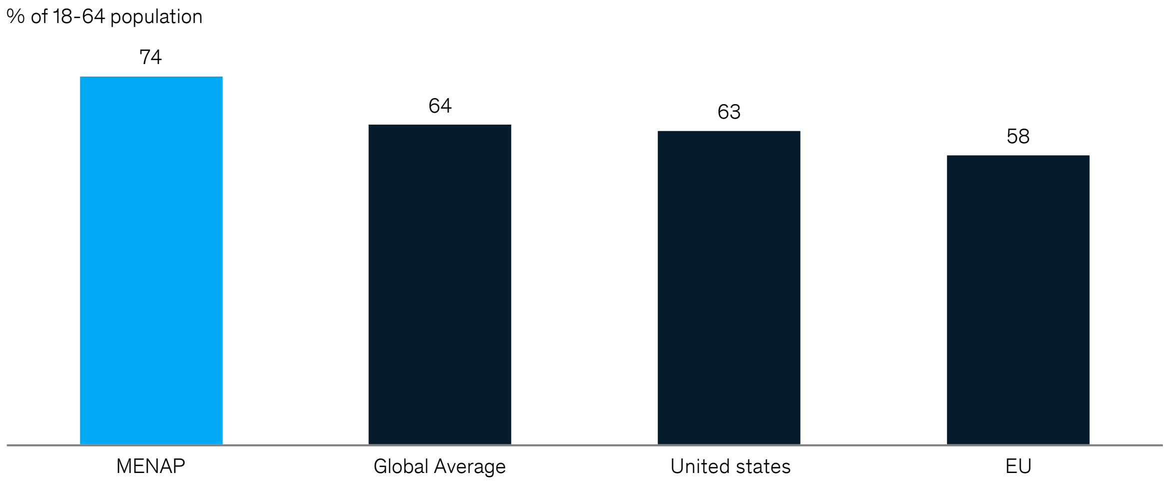
3. Innovation industries

Going forward, the region cannot create opportunities for its youth solely by continuing 'business as usual' working practices. Growing populations and the resulting fiscal burden will limit the ability of governments to create jobs for the next generation of workers. In addition to creating the scale needed for existing businesses to thrive, young people will need to take an active role in creating economic opportunities for themselves, enabled by an ecosystem that facilitates innovation and entrepreneurship. Technology is of course changing the game for unlocking opportunities. The rise of automation and digitization, AI and emerging technologies are all creating more tech-enabled businesses. And without the legacy constraints of old systems, countries with large tech-savvy young populations are those that will have the ability to leapfrog and stand to benefit the most from these major trends. And lLuckily, the vast majority of the region's population view entrepreneurship as a desirable career choice (Exhibit 19).

Exhibit 19:

MENAP views entrepreneurship positively

Entrepreneurship as desirable career choice



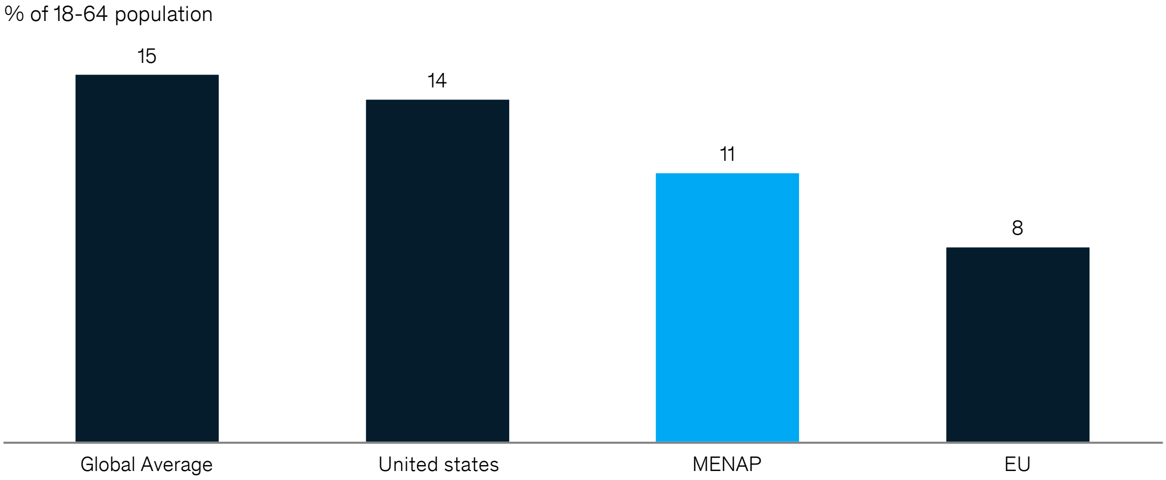
Source: World Bank, Ease of Doing Business Database

[78] Ministry of Manpower, Singapore, mom.gov.sg.

Exhibit 20:

MENAP's entrepreneurship rate is lower than the global average

Total early-stage Entrepreneurial Activity (TEA)



Source: World Bank, Ease of Doing Business Database

There are also many success stories already in the region, such as Careem acquisition by Uber, Souq acquisition by Amazon, and increased venture capital activity during and after the COVID-19 pandemic. These examples need to be multiplied to help the region bridge the gap to the global average (Exhibit 20).

Innovation and entrepreneurship are driving forces of growth and development, diversifying and strengthening economies the world over. In OECD countries, firms younger than five years old contributed to around 35 percent of net job creation between 2002 and 2011.[79] At the same time, a 10 percent increase in the birth of small businesses was found to boost employment by 1.3–2.2 percent, annual payroll by 2.4–4.0 percent, and wages by 1.2–2.0 percent over a period of 10 years. In the United States, firms younger than five years old contributed to around a quarter of productivity growth in the 1996–2012 period.[80]Despite entrepreneurship's outsized impact on the economy and job creation, the region has a weak entrepreneurial environment: the start-up ecosystems of the region's countries rank on average 75th globally, according to the CrunchBase Countries Start-up Ecosystem Index (Exhibit 21).

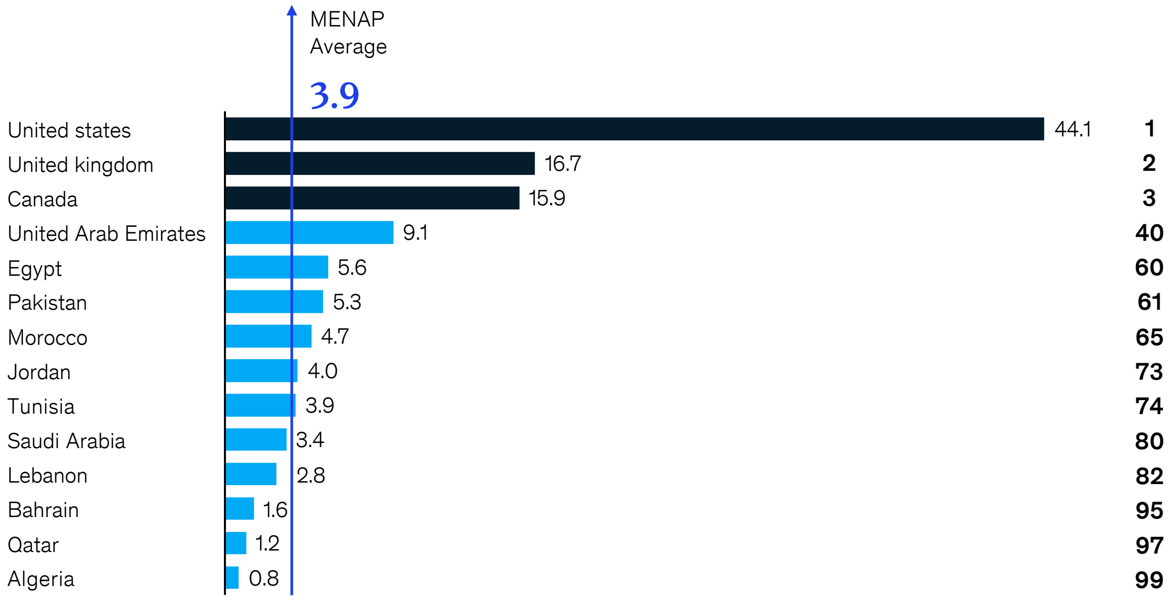
MENAP's weak entrepreneurship ecosystem manifests itself in the low number of new businesses started compared to other regions: the region creates 380,000 new businesses each year, with 0.9 new businesses registered for every 1,000 people, according to the World Bank. This creation rate pales in comparison with the European Union, for example, which has an annual business entry rate of 5.3 per 1,000 people. If the region matched the European Union's rate, MENAP would have 2.3 million new businesses entering the market each year (Exhibit 22).

[79] Ministry of Manpower, Singapore, mom.gov.sg.
[80] Yong Suk Lee, "Entrepreneurship, small businesses and economic growth in cities," *Journal of Economic Geography,* Volume 17, Issue 2, March 2017, pp. 311–343; Manuel Adelino and David T. Robinson, National Bureau of Economic Research (NBER), Entrepreneurship and Economic Growth Conference, Fall 2016.

Exhibit 21:

MENAP has a weak startup environment; the region startup ecosystem is ranked 77th globally

Startup Blink Countries Startup Ecosystem Index
Startup Ecosystem score, 2019

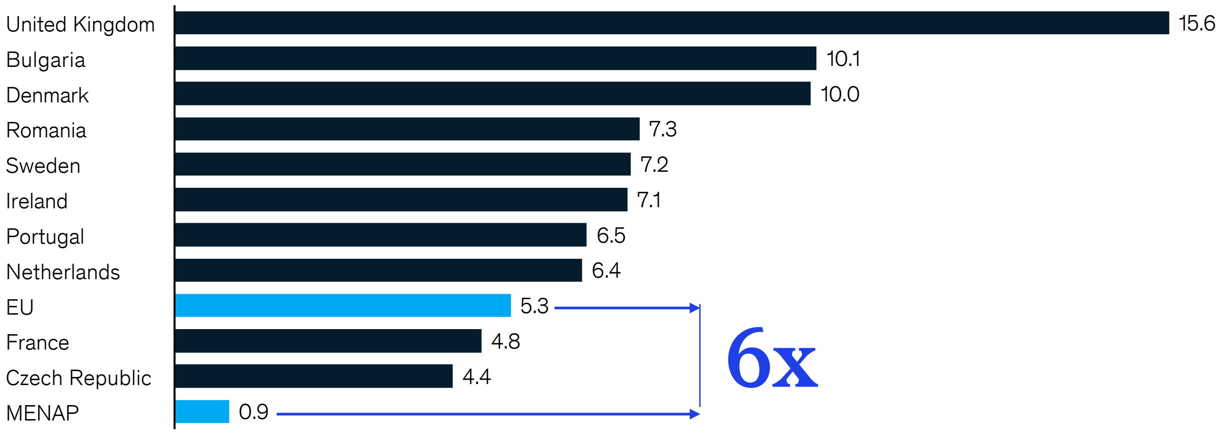


Source: Startup Blink

Exhibit 22:

MENAP lags behind EU in new business entry-rate

Annual entry rate of business per country, number of new business per 1,000 people

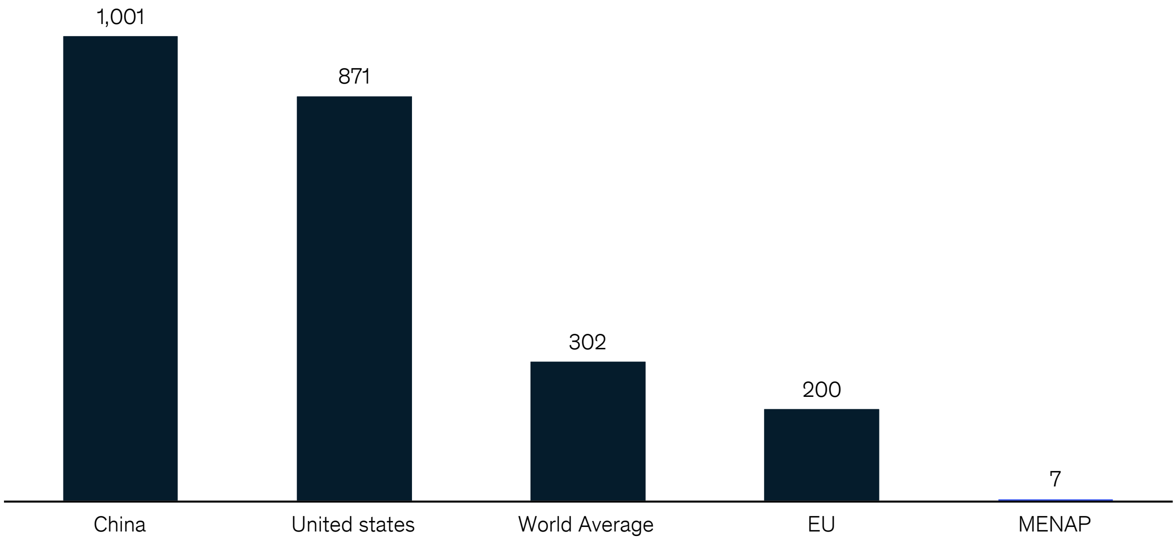


Source: World Bank

Exhibit 23:

MENAP produces very low patent applications compared to the global average

Patent application per 1 million population

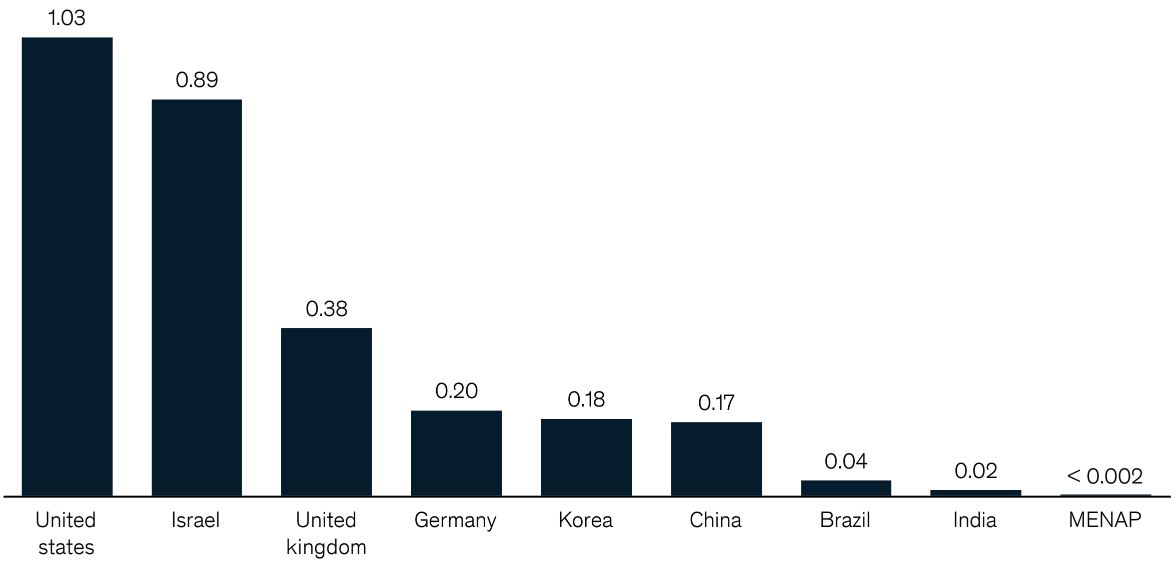


Source: World Bank

Exhibit 24:

There's a gap in quality too; MENAP produce fewer unicorns per capita than global benchmarks

Unicorns rate per capita
Number of unicorns per 1 million people



Source: CrunchBase

The region hosts fewer business startups than other regions but that is not the only challenge: there is also a gap in quality. The region also produces less than its fair share of disruptive and scalable technologies. MENAP has very low commercialized R&D activity and, outside of state-affiliated entities, has produced few research-based firms with a global footprint. In 2018, the region had around 3,900 patent applications, which is around seven patents for every million people. The global average is approximately 300 patent applications for every million people (Exhibit 23).

The COVID-19 crisis provides a chance for youth in the region to bridge the start-up gap as the crisis expands opportunities for creating or scaling existing technology startups and firms. The crisis was an accelerant to many digital technologies that were already underway—2020 saw venture funding rise by 13 percent across the MENAP region as a whole, with much of it directed toward digital disrupters in e-commerce and FinTech.[81] Data on consumer and business sentiment and activity during the pandemic have shown we have vaulted five years forward in consumer and business digital adoption in a matter of eight weeks.[82] Areas where the biggest digital adoption and shift took place were education, grocery stores and food delivery, education, medicine, and financial services. This digital adoption trend is likely to continue as 75 percent of consumers using digital channels for the first time say they will continue to use them post pandemic.[83]

The region should inspire its youth to exercise their entrepreneurial drive and innovate new technologies and businesses through three avenues: creating new, scalable, technology-enabled businesses; efficiently multiplying traditional business activity—aspiring to add another 2 million SMEs annually in the region; and catalyzing existing business activity with new ideas and technology.

The prevalence—and nascent opportunity—of entrepreneurial white-space in MENAP economies is further evidenced by the lack of globally scaled startup companies in the region, which produces far fewer unicorns per capita than global benchmarks. Out of the approximately 3 million new businesses established in the region in the past 15 years, only one start-up had a valuation of $1 billion or more, with a rate of less than 0.002 unicorns per 1 million people. By contrast, the United States produces 1.03 unicorns per 1 million people—more than 100 times higher than MENAP (Exhibit 24).

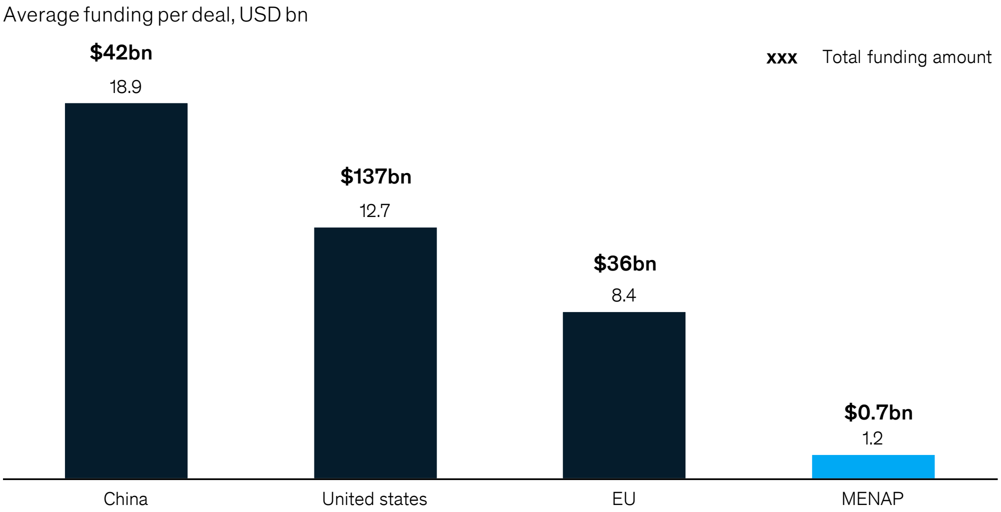
Multiple factors constrain the region's ability to produce scalable startups, chief among which are uncompetitive talent, small (individual) country-level markets and limited late-stage funding. Initiatives targeting the first two issues are covered in other sections of the report. Our focus in this section is on limited late-stage funding—an important funding source for growing technology startups, which provides capital to proven successful startups with plans to expand and scale up. Uber, the ride-sharing company, raised $350 million in 2013 in a late-stage Series C funding round in August 2013 that was crucial to its growth plans, although the company did not record any profit at the time. Tesla is another good example of the importance of late-stage financing for startups. The electric car manufacturer was on the verge of bankruptcy in 2008 but raised $40 million in a late-stage funding round valuing the company at $500 million. The funding was vital to Tesla producing its first electric-car model. Today, Tesla is valued at over $570 billion.[84]

[81] 2021 MENA Venture Investment Report, January 2021, magnitt.com.
[82] "Consumer sentiment and behavior continue to reflect the uncertainty of the COVID-19 crisis," Special Report, October 2020, McKinsey.com.
[83] Aamer Baig, Bryce Hall, Paul Jenkins, Eric Lamarre, and Brian McCarthy, "The COVID-19 recovery will be digital: A plan for the first 90 days," May 2020, McKinsey.com.
[84] Yahoo Finance, April 8, 2021.

Startups based in the region attracted approximately $700 million in 2019 in approximately 550 deals with an average investment per deal of $1.2 million. By contrast, average funding per deal in the United States is $12.7 million, with an annual total of $137 billion invested in United States startups (Exhibit 25).

Exhibit 25:

There is a big gap in venture capital investment in MENAP compared to global benchmarks



Source: CrunchBase, MAGNiTT, National Venture Capital Association

To encourage the establishment and scaling of technology startups, the region could aim to establish a region-wide venture capital (VC) bank that provides startups with late-stage funding, including innovative VC financing, filling a major financing gap. The bank could target local startups with the potential to grow at a global scale and provide them with the capital needed. While several regional governments have taken steps at a global level toward deploying public investment to close VC funding gaps, the nascent nature of the region's start-up ecosystem could provide a potentially lucrative opportunity for the region's financial sector to take a leading role in providing the financial ammunition needed to kick-start a future wave of economic development. A good example of a successful private-sector VC bank is the Silicon Valley Bank (SVB). Established in California in 1983, SVB was created to cater to the unique financial needs of Silicon Valley's emerging technology scene. With traditional banks hesitant to lend to promising, but as-yet unproven, technology startups with limited assets and typically negative cash flow, SVB stepped in to capture the market opportunity, offering innovative late-stage venture financing such as venture debt, direct equity investment, growth capital, and working capital. Today, SVB serves over 50 percent of technology startups in the United States, as well as over 60 per cent of startups that managed successful IPOs in 2019. The bank is now a $70 billion commercial enterprise with branches around the world—highlighting the outsized returns available to first movers in the VC funding space.[85]

Beyond technology startups, the region can support its SME entrepreneurs and help create two million new enterprises annually by addressing three main obstacles and challenges faced by potential SMEs, inhibitive regulations, limited funding; and a fear of failure.

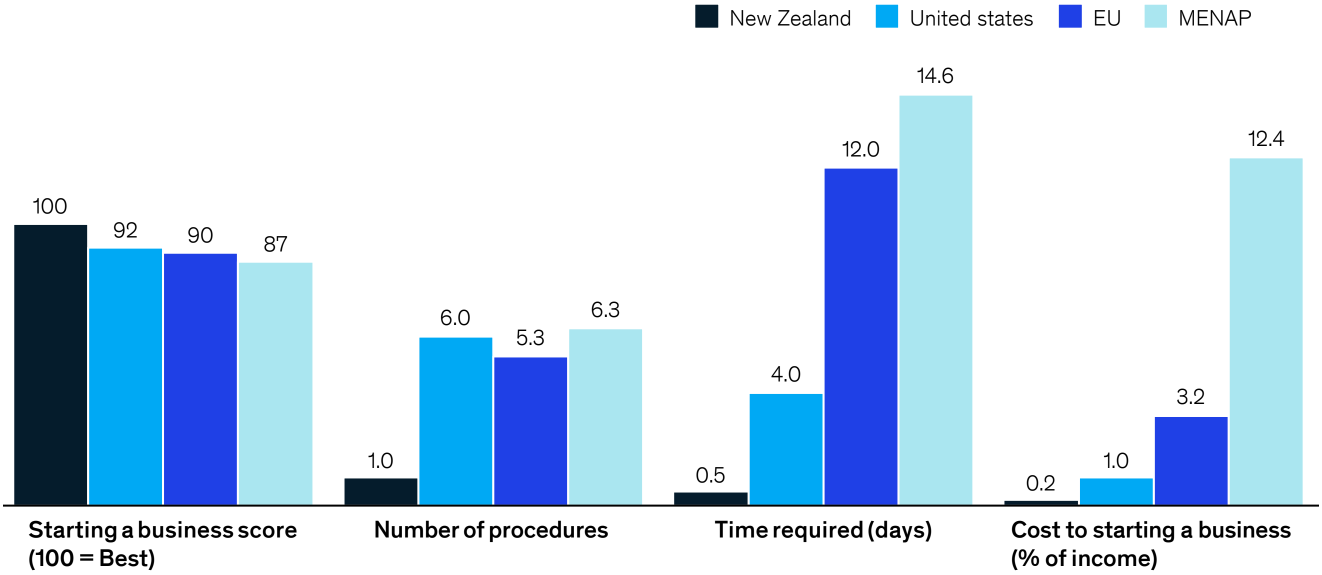
Regulations and corruption impede the establishment of new businesses: The region is ranked 102nd on average by the World Bank for the ease of starting a business. MENAP lags behind global benchmarks in all aspects of regulations—number of procedures, time, and cost—according to the bank's Ease of Doing Business report (Exhibit 26). In addition, the region suffers from high perceptions of endemic corruption, placing 99th on Transparency International's Corruption Perception Index[86]

[85] SVB website, svb.com.
[86] Transparency International's Corruption Perceptions Index, 2019, transparency.org.

Exhibit 26:

MENAP lags behind global benchmark in all dimensions of ease of regulations to start a business

World Bank Starting a business score

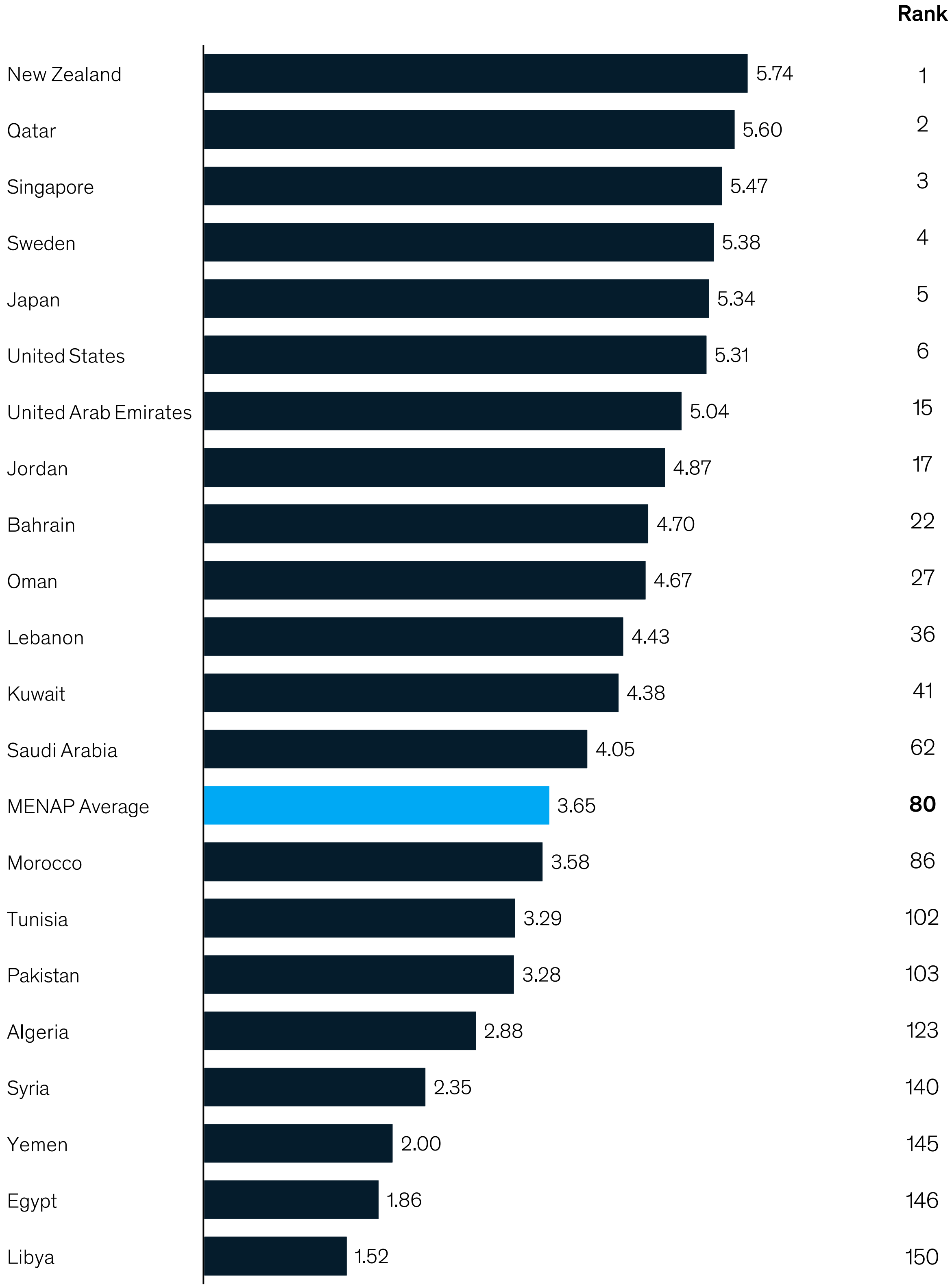


Source: World Bank

Exhibit 27:

MENAP ranks low in global indices of access to finance

Ease of access to finance, Index, 1-7 (Best)



Source: World Bank

SMEs have limited funding options: Another major challenge facing startups in the region is a lack of access to capital—a critical factor in the success of new business and SMEs. A 2019 study by CB Insights shows that 29 percent of startups fail due to a lack of funding, and the region ranks just 80th on average in the World Bank access-to-capital index (Exhibit 27). As a result of inadequate funding, the region's SME financing gap—the unmet funding demand by SMEs—grew in 2018 to $260 billion, or about 10 percent of the region's GDP. This is a stark contrast to the EU, which reduced its SMEs' financing gap to 3 percent, while the US gap sits at just 2 percent (Exhibit 28).

Fear of failure by entrepreneurs: While the vast majority of the region's adults view entrepreneurship as a desirable career choice, there is a relatively high fear of failure compared to the EU, the US, and the global average. This fear of failure contributes to a relative lack of entrepreneurial activity, with the region's Total Entrepreneurial Activity (TEA) at 11 percent compared with the global average of 15 percent (Exhibit 29).

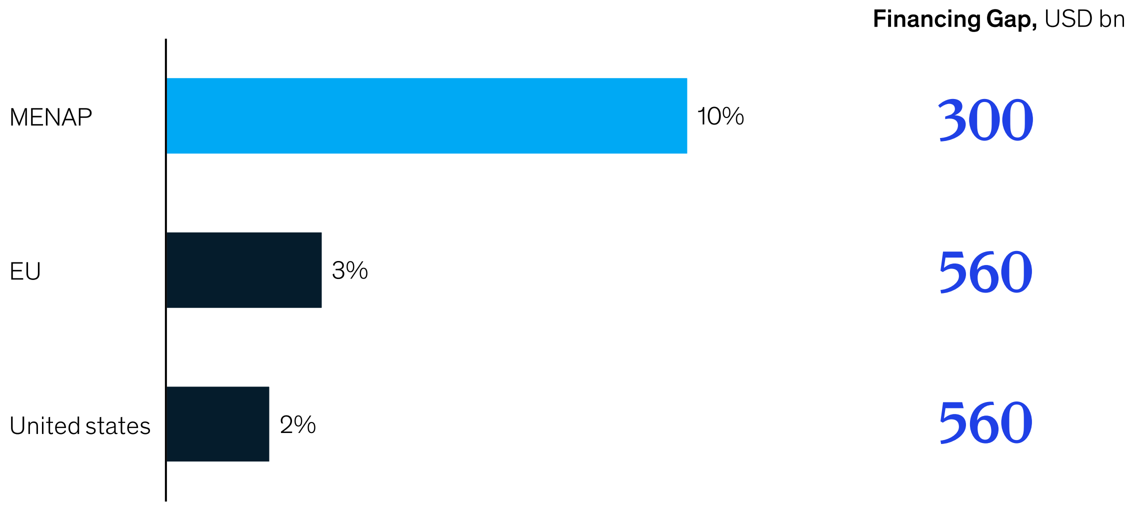
The region's fear of failure is partly justified: starting a business in the region is risky and carries a much higher risk than in the US, for example. In the US, half of new businesses fail within the first five years, but the success rate in the MENAP is much lower. For example, in the UAE—the region's top country for ease of doing business—it takes only three years for 50 percent of newly-established businesses to fail (Exhibit 30).

Game-changer: Facilitate best environment for entrepreneurship. Since there is already enthusiasm for entrepreneurship across the region, both MENAP governments and wider society should work toward reducing both the fear of failure and risk of starting a new business. Countries could offer government workers approved leave for starting up a new business. The region has a higher-than-average share of people in public sector employment, with 18 percent of employees working in government jobs compared to only 11 percent

Exhibit 28:

MENAP SMEs finance gap is 10 percent of the region's GDP, five times as high as the US gap

SMEs Financing Gap to GDP Ratio



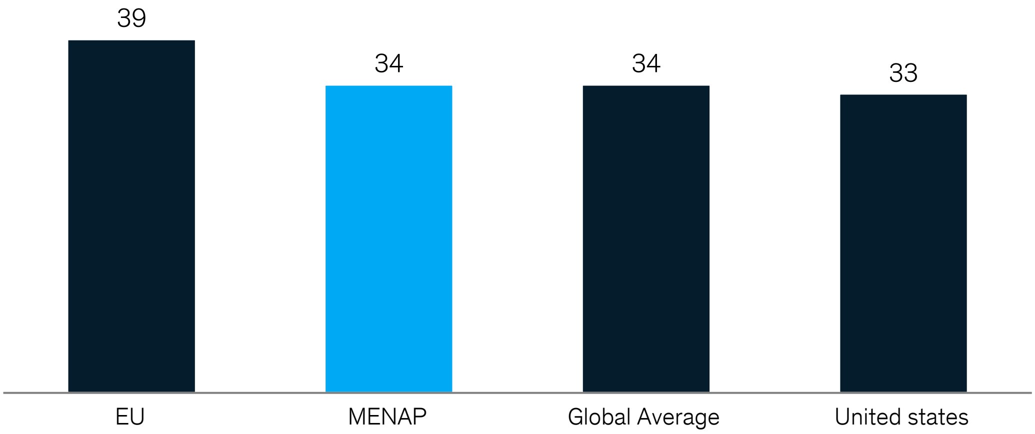
Source: European SMEs: Filling the bank financing gap, EULER HERMES. World Bank, International Finance Corporation

Exhibit 29:

Fear of failure has held back MENAP's entrepreneurship rate

Fear of Failure Rate

Percentage of 18-64 population

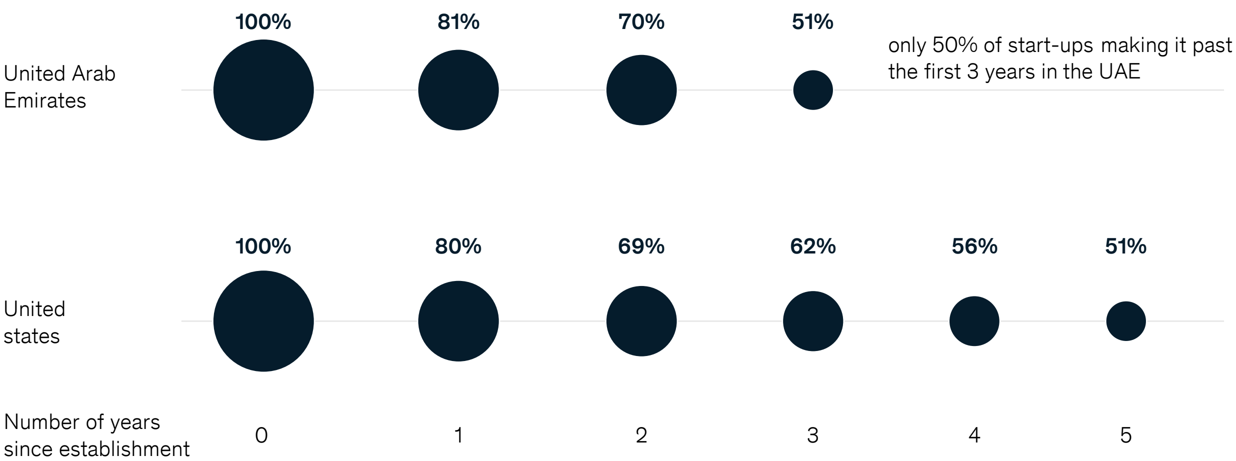


Source: World Bank, Ease of Doing Business Database

Exhibit 30:

Survival Rate is worse for MENAP, with only 50 percent of startups making it past the first 3 years in the UAE, a leading country in the region in entrepreneurship

Survival rate for newly established business in the UAE and US



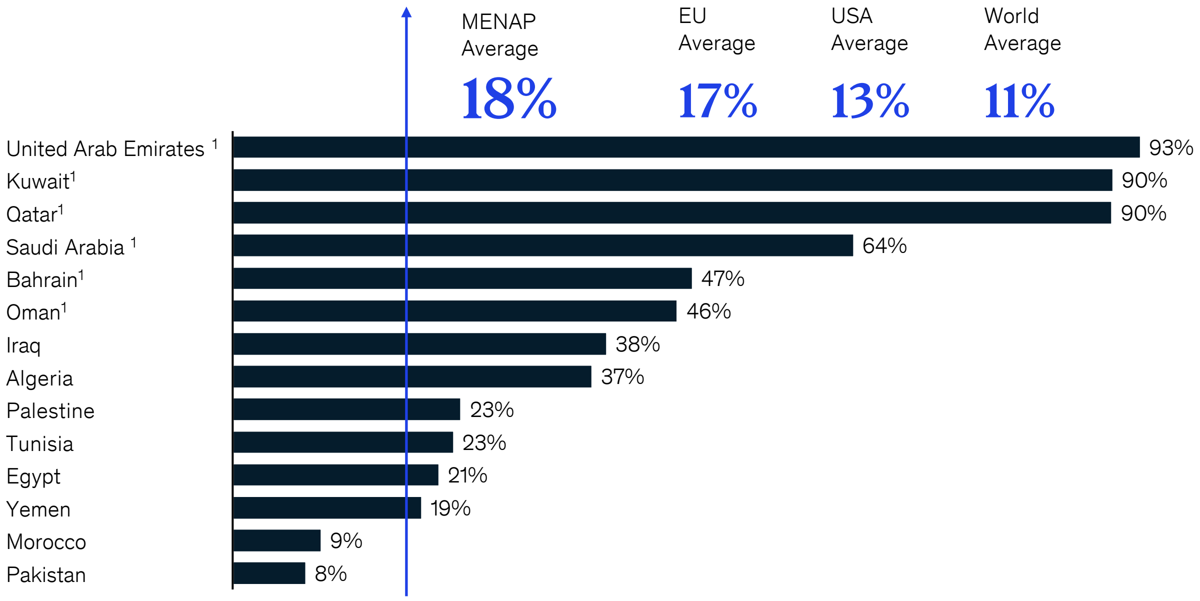
Source: U.S. Bureau of Labor Statistics

globally. This is most pronounced in some GCC countries, where over 90 percent of working citizens are employed by the government (Exhibit 31).

Exhibit 31:

MENAP has a high share of public employment

Share of government employment, percentage of total employment



1. Nationals only.
Source: ILO, GCC Stat

A leave of absence for government employees starting a new business would help both eliminate the risk of entrepreneurship and reduce dependence on the government to provide jobs in the region. Governments could structure this initiative in different ways based on local laws and regulations. For example, in one approach, the employee must provide a business case to be vetted and approved for a subsidized leave period of up to six months. The employee can then return to their previous position with the same salary and position. To increase the business chance of success, in parallel to the leave of absence, governments can launch coaching programs to develop beneficiaries' technical and business skills, with the potential to extend the program to the private sector.

In addition, governments should aim to improve exit options to reduce entrepreneurship risks by improving bankruptcy practices and IPO regulations. An OECD study[87] showed that it takes 3.5 years for a company to go through bankruptcy with 30 percent value recovery in the region, while in the OECD, it only takes 1.7 years to go through bankruptcy proceedings with 68 percent of the company value recovered (Exhibit 32).

A similar concept is enshrined in national law in Sweden; a country well known for promoting entrepreneurship and innovation. In Sweden, there are 20 startups for every 1,000 employees compared to just five in the US, according to the OECD. Sweden's 'right to leave to conduct business' act gives government and private sector employees the right to leave work to start

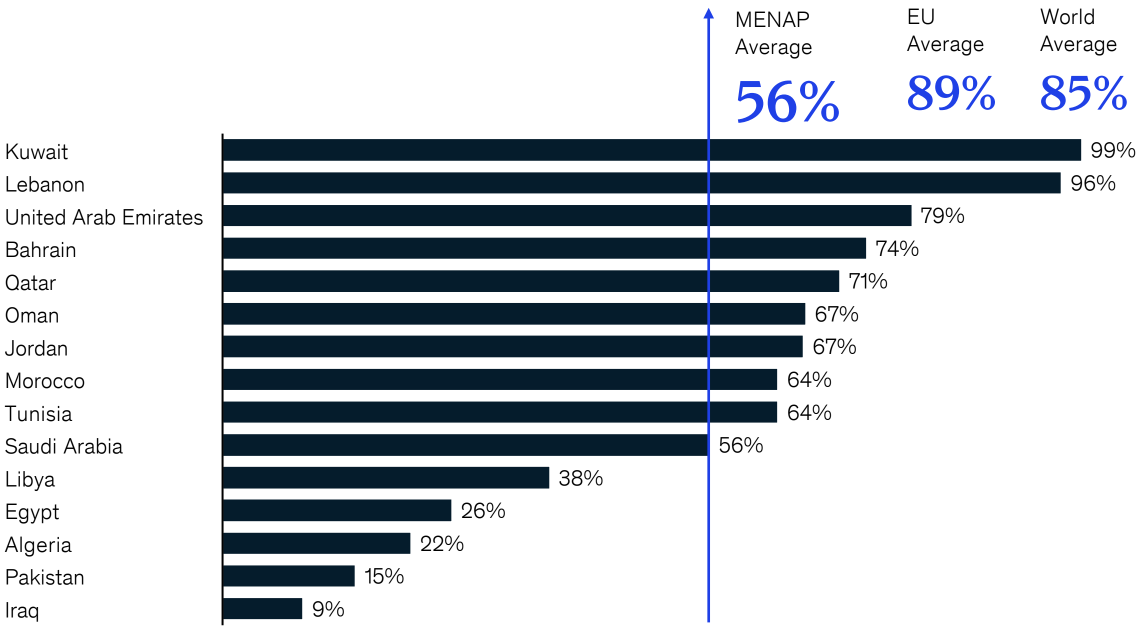
[87] Survey on insolvency systems in the Middle East and North Africa, Hawkamah/World Bank/OECD/INSOL International, oecd.org.

their own business. There are no direct costs for the government associated with the right; neither the government nor the company is obliged to pay the employee's salary during the vacancy period, and employees cannot start a business that would compete with the employer's business. An employee has the right to cancel the vacancy period and return to the same position and at the same conditions as before.

Exhibit 32:

MENA banks take on a limited role in financing the private sector relative to global averages

Bank credit to the private sector, percentage of GDP (2015)



Source: World Bank

Game-changer: Promote increased access to capital. Traditional attitudes to debt finance and the crowding-out effect of government spending mean that MENAP banks play a relatively limited role in financing private sector development. Unlocking capital stored within the banking system and directing it toward SMEs and other high-growth areas of local economies could both support growth and lower the financial burden placed on government budgets.

Countries can focus on four actions to try and close the SME financing gap and increase access to capital for new businesses: expanding government funding, attracting private banks and investors, increasing debt financing, and facilitating crowd-funding. India and Indonesia, for example, have banking schemes that take all four approaches (Exhibit 33).

Indonesia's SME credit program distributes over $12 billion annually to SMEs' applying a variety of financing methods. MENAP should follow this example by establishing SME banks with the aim of improving startups' access to capital and closing the financing gap. SME banks can be initially funded by the government with the goal of attracting private investors by offering risk guarantees on their investment in local startups and SMEs. Government-backed SME banks should match any foreign investments attracted by local businesses, and any profit that the banks generate should be reinvested in funding new startups. The banks should also focus on microfinancing; providing small loans to new entrepreneurs to help them get their business started. The region currently covers only 16 percent of its SMEs' financing

Exhibit 33:

Examples of other governments collaborating with the private sector to increase SME financing

Characteristics	BRI Micro credit programme and Bank Danamon in Indonesia	Small Industries Development Bank of India
Government funding	60% of the SME loans programme is funded through the government	Small Industries Development Bank of India is owned and funded by the government of India and state-owned institutions
Attracting private banks and investors	The funds are allocated via private venture capital firms to start-ups, and will be considered as investment, not as loan	In addition to direct loans, the bank extends Term Loan assistance to banks, small finance banks and non-banking financial companies
Debt financing	**Microfinancing:** Micro new business are the main target of the fund, over 8,000 outlets providing financing products to micro business	**Microfinancing:** Micro units development and refinance agency (MUDRA): a subsidiary of SIDBI which funds micro enterprises up to US$ 15,000 through micro financial institutions
	Credit Guarantee Scheme: The government provides a guarantee of 70 percent of the total loan amount to banks disbursing loans to businesses under the scheme	**Credit Guarantee Scheme:** Credit Guarantee Scheme offers a guarantee of up to 85% of the total loan to financial institutions lending to SMEs
Innovative financing	**Crowd-funding: The** Indonesian Financial Services Authority has issued regulatory approvals for a private peer-to-peer crowdfunding platform for SMEs	**Crowdfunding:** Private crowdfunding portals for SMEs have been approved

Source: BRI Annual Report, Factiva, Bank Danamon Annual Reports, SIBI Website, Economic Times, IDFC India, Press Search

demand and would require both public and private supply to close the financing gap. SME banks should aim to link new business with external investors through a crowdfunding portal. The banks would also serve as an intermediary between SMEs and private banks, offering guarantees and collateral to private banks to help SMEs.[88]

Another service SME banks could offer is supply-chain financing, where the SME bank can finance SMEs supplying to larger companies. Through this process, an SME can sell its invoices or receivables to the bank at a discounted rate to get its money faster and manage its working capital better.

Game-changer: Enable R&D ecosystems in emerging technologies. Research and development are key drivers for economic growth and sustained job creation. Countries that invest in research enjoy significant returns in the form of new economic activity, new firm creation, and new jobs. The region significantly underspends on R&D and innovation compared to the world's leading R&D countries. Countries in the region spend an average of 0.45 percent of GDP on R&D—around $11.25 billion—whereas countries ranked in the Global Innovation Index's top five have an average gross expenditure on R&D (GERD) of approximately 2.7 percent of GDP (Exhibit 34).[89] To put the region's R&D spend figure into perspective, the United States's National Laboratories alone, which makes up a small fraction of the country's R&D spend, has annual expenses of around $13 billion.[90] If the region's research centers are to compete with global centers, the region will need to increase its overall spend on R&D from around $11.25 billion to $66.5 billion.[91]

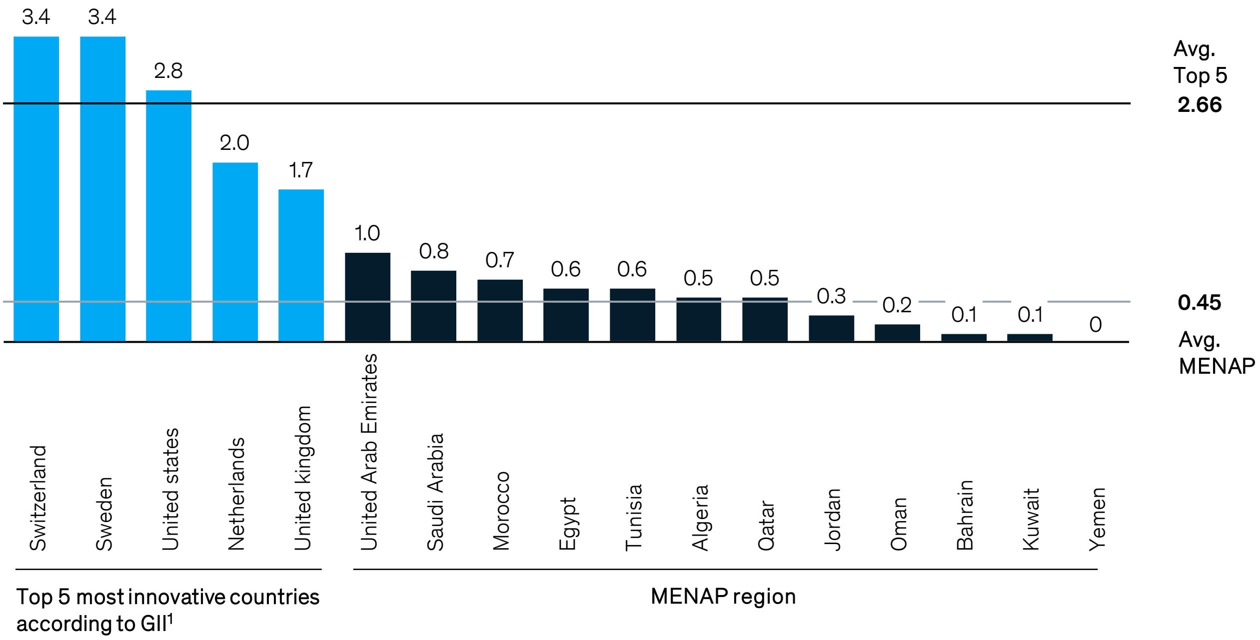
The region places low on the GII—an index measuring countries' innovation capabilities and results—with countries ranking on average around 80th (Exhibit 35).[92] The overall GII score is

[88] World Bank, International Finance Corporation.
[89] This is based on taking GERD of 0.45 percent of regional GDP.
[90] This is based on the average amount from 2008 to 2012 for the 16 National Labs which are federally funded, while 2015's figure was around $13.8 billion, energy.gov.
[91] This is based on taking GERD of 0.45 percent of regional GDP and increasing the GERD level to 2.7 percent of GDP for the region.
[92] "The Global Innovation Index (GII) 2019: Who will finance innovation?" Global Innovation Index, globalinnovationindex.org.

Exhibit 34:

Countries in MENAP lag behind leading countries on R&D spend (2019)

Gross expenditure on R&D for countries in the region vs top five countries, percentage of GDP



1. Includes the five countries with the highest ranking on the overall GII (Switzerland, Sweden, USA, Netherlands, and UK).
Source: Global Innovation Index

the average of input and output sub-index scores. The input sub-index covers the five pillars which enable innovation: institutions, human capital and research, infrastructure, market sophistication, and business sophistication. The output sub-index covers two pillars that result from innovation: knowledge and technology outputs, and creative outputs.[93]

MENAP has an average ranking of 85 across the output sub-index and 79 for input. While the input and output are below global benchmarks, the region also underperforms when it comes to the actual impact and output of R&D and innovation. To improve the regional ecosystem for innovation, governments could enable, R&D ecosystems in emerging technologies.

Most of the innovation and advanced technology available today is a result of government-funded basic research: around 61 percent of patents registered in the United States between 1976 and 2015 can be linked directly to nonprofit basic research.[94] Because of the long-term process of commercializing basic research, government support is critical to achieve breakthroughs in science and technology. For example, the US Department of Defense funded a research project to study the concept of a space-based navigation system with $100 million, resulting in the invention of the GPS system. Another example of the importance of government support for basic research is the development of magnetic resonance imaging (MRI), which was supported by the US National Science Foundation with over $90 million.[95]

The role of the government is to fund and support basic research to produce findings that the private sector can further develop to produce innovative products. In the United States,

93 Ibid.
94 Mohammad Ahmadpoor and Benjamin F Jones, "The dual frontier: Patented inventions and prior scientific advance," *Science*, 11 August 2017, Volume 357, Issue 6351, pp. 583–7.
95 Peter L Singer, "Federally supported innovations," Information Technology & Innovation Foundation, 2014, itif.org.

the Bayh-Dole Act was passed in 1980, placing the intellectual property of government-funded research into the hands of the universities and research institutions which developed the studies. A technology transfer office established in universities acts as a channel between academia and industry.

Governments in the region can support breakthroughs in sectors critical to the region by setting up government-funded research centers and partnering with academia. The region should focus its funding on basic research on specific strategic topics, either areas where it can address critical challenges and mitigate risks, or areas where it has competitive advantages. Some of these strategic topics include the following:

— **Environment:** Environmental topics include R&D on climate change, extreme weather, natural disasters, pollution, and overall sustainability. The region is vulnerable to the potential impact of climate change as its lands already face harsh climate conditions and very high temperatures.[96] Models forecast that the average temperatures in the region will increase by 1–3°C by 2030 and 2050.[97]

— **Energy:** R&D in this space can cover renewable energy, electricity, and natural gas. Many countries in the region are looking for more sustainable and cost-effective ways to source natural gas, while moving away from reliance on fossil fuels and toward other sources of energy.

[96] Simone Borghesi and Elisa Ticci, "Climate change in the MENA region: Environmental risks, socioeconomic effects and policy challenges for the future," IEMed Mediterranean Yearbook, 2019.
[97] Jonathan Woetzel, Dickon Pinner, Hamid Samandari, Hauke Engel, Mekala Krishnan, Brodie Boland and Carter Powis, "Climate risk and response: Physical hazards and socioeconomic impacts," McKinsey Global Institute, January 2020 , McKisey.com.

Exhibit 35:

MENA countries have an average ranking of #80 in 2019's Global Innovation Index

Global Innovation Index (GII) in MENA vs. top 5 innovative countries

00 Ranking above 50 00 Ranking below 50

Pillar of GII		MENA countries' avg. ranking[1]	Top 5 innovative countries'[2] avg. ranking	Areas covered
	Institutions	82	11	Political environment Regulatory environment Business environment
	Human capital & research	66	10	Education Research & Development Tertiary education
	Infrastructure	67	10	General infrastructure Information & communications technologies (ICTs) Ecological sustainability
	Market sophistication	84	10	Trade, competition, and market scale Investment Credit
	Business sophistication	96	6	Innovation linkages Knowledge workers Knowledge absorption
	Knowledge & technology outputs	86	4	Knowledge creation Knowledge impact Knowledge diffusion
	Creative outputs	80	7	Creative goods & services Intangible assets Online creativity

1. This is the average ranking of all countries in the MENA region excluding those which GII does not include (Palestine, Syria, Iraq, and Libya).
2. This includes the five countries with the highest ranking on the overall GII (Switzerland, Sweden, USA, Netherlands, and UK).

- **Water:** Water scarcity is a major issue in the region owing to limited groundwater and precipitation, and the lack of quality agricultural and arable land. The World Resource Institute (WRI) claims that 17 of the world's most water-stressed countries are in the region. While natural water supply is low, rising demand has pushed countries further into critical states of water scarcity.[98] The World Bank found that the region has the world's highest expected economic losses from climate-related water scarcity, estimating losses of 6–14 percent of GDP by 2050.[99]
- **Life Science:** R&D in this space can study diseases common in the region such as diabetes, high blood pressure, and genetic diseases, in addition to nutritional genomics research.

Governments could partner with regional private-sector champions to identify problems facing the private sector to be studied by government-funded basic research centers and university labs, and to further develop the basic research products to lead innovation and advanced technology. The region is underperforming in collaboration between academia and industry in R&D, ranking 63rd on average in a World Bank's university—industry collaboration in R&D index (Exhibit 36).

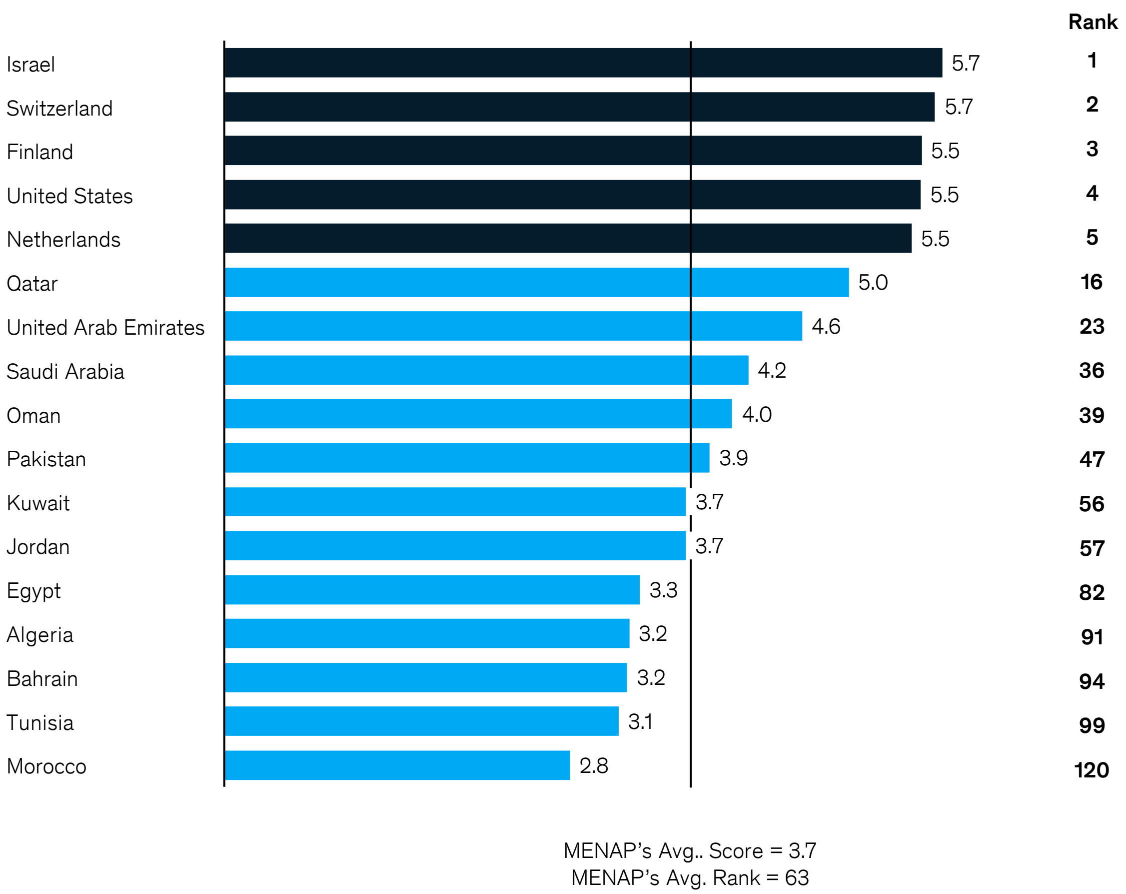
The success of basic research and its translation into innovation and advanced technology depends on several factors being in place, including having long-term time horizons for

[98] Rutger Willem Hofste et al., "17 countries, home to one-quarter of the world's population, face extremely high water stress," World Resources Institute, August 2019.
[99] "Beyond scarcity: Water security in the Middle East and North Africa," World Bank, August 2017, openknowledge.worldbank.org.

Exhibit 36:

MENAP is ranked 63rd in collaboration between academia and industry in R&D 2019

University—industry collaboration in R&D Score—7 = Best

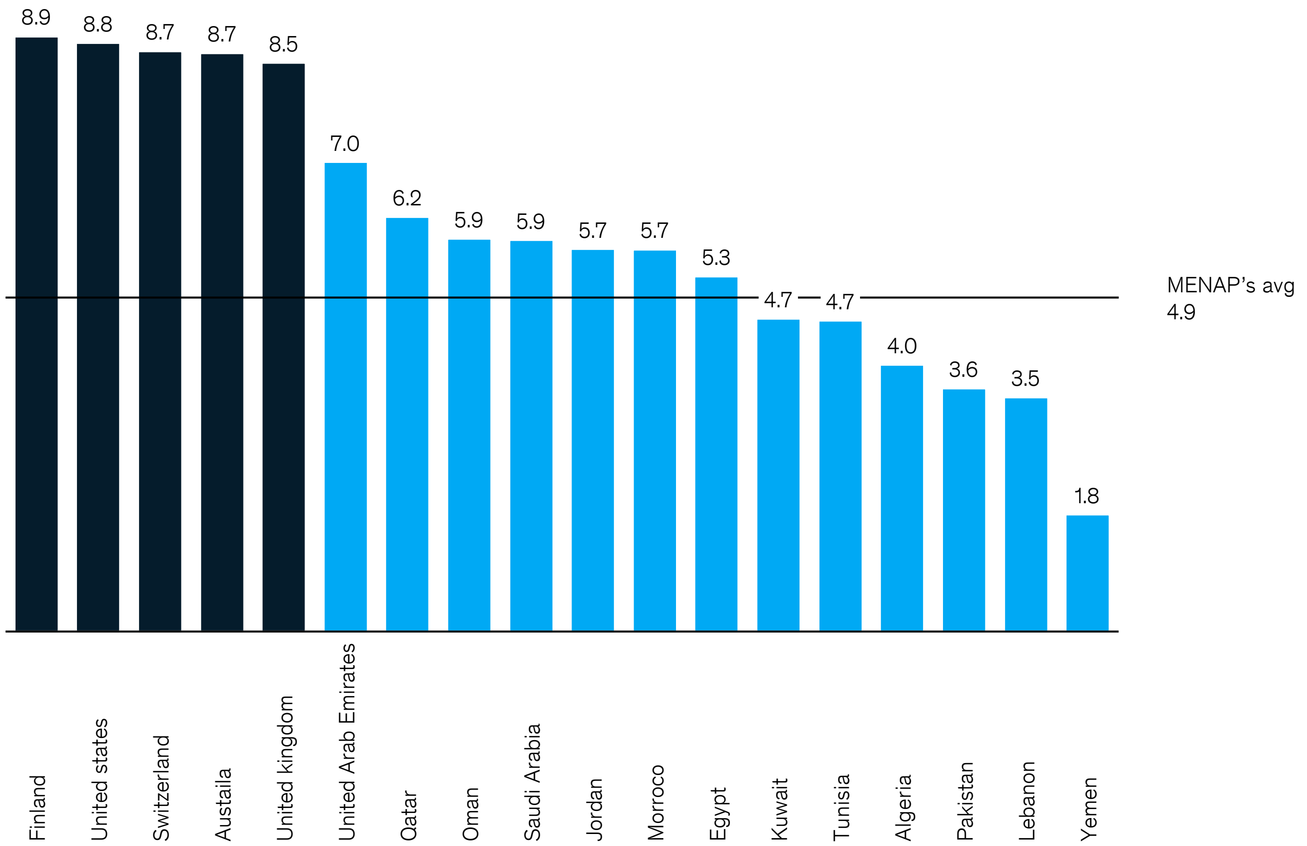


Source: International Property Rights Index

Exhibit 37:

MENAP lags behind global benchmark in Intellectual Property Rights Protection

Intellectual Property Rights Protection score–10 = Max



Source: International Property Rights Index

potential returns from R&D, matching research efforts with unique regional challenges (such as water scarcity, energy supply, and the environment) to both tangibly improve citizens' lives, and give MENAP companies innovative products tailor-made for local markets, and extending R&D support funding which should not be exclusive to public research centers and universities.

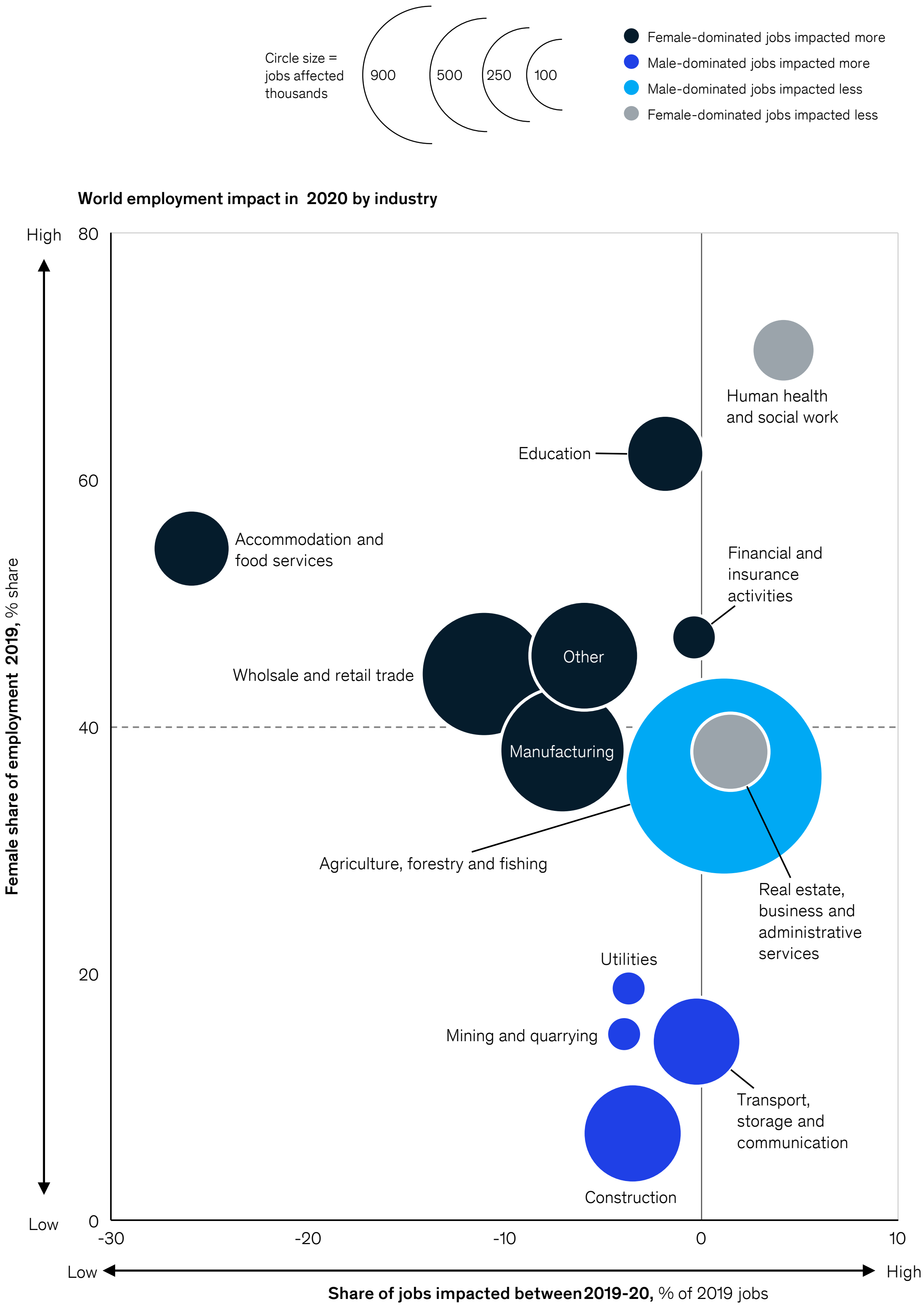
4.Gender parity in the workforce

Closing the gender gap and including more women in the economy is an enormous source of unrealized economic potential globally and in the region. Women in the region are unequally represented across the economy, society, and politics with female youth facing even lower representation. These factors are in addition to the relative marginalization, lower access to education, and fewer leadership opportunities that MENAP women experience.[100] Regional gender disparity in the workplace is vast, with only one woman participating in the labor force for around every four men. The COVID-19 crisis has also been a regressive force on the path to gender parity in the workforce. It is estimated that women's jobs were 1.8 times more likely to be at risk than men's jobs.[101] This is largely to the concentration of women jobs in professions that require close contact with others and also because of to the burden of unpaid care for children who stayed at home due to the pandemic, which is disproportionately borne by women. Exhibit 38 shows that industries dominated by women have been harmed more by the pandemic than male-dominated industries.

[100] "Youth and Innovation".
[101] "COVID-19 and gender equality: Countering the regressive effects," McKinsey Global Institute, July 2020.

Exhibit 38:

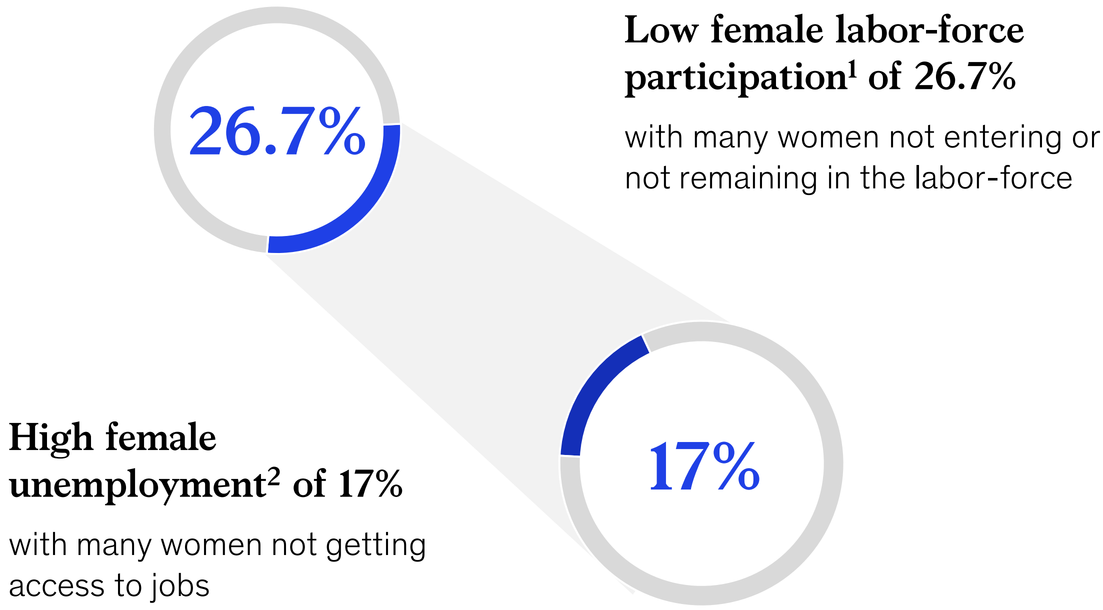
Women are disproportionately represented in industries that were expected to decline the most in 2020 due to COVID-19



Source: McKinsey Global Institute

Exhibit 39:

Share of women active in MENAP's workforce is very low by global standards (Nov 2019)



1. Percentage of females employed or actively seeking employment out of total female population (age 15+).
2. Percentage of females unemployed out of total female labor-force (those employed and actively seeking employment).

Source: ILO modeled estimates

MENAP societies can benefit tremendously by closing this gender gap, while the region's economy can realize up to an additional $1.9 trillion in incremental GDP in 2040 through boosting female employment.[102] In addition, increased female labor participation would likely improve the quality of MENAP human capital—women in the region typically have higher educational achievement across the region, outperforming men in PISA scores for science, mathematics, and reading by 5 percent, 2 percent, and 11 percent respectively.[103] Given the regressive impact that the COVID-19 crisis has had on both gender parity and general economic growth, there is a pressing need for both governments and society to take decisive action to increase economic participation among women. Failing or delaying to act could significantly reduce the $1.9 trillion economic dividend that the region could realize.

On the positive side, there have been significant regional achievements and improvements in women's lives, especially in the areas of health and education.[104] In terms of life expectancy, fertility, and maternal mortality rates, the trend across healthcare indicators is positive and shows improvement at a regional level. In education, the trends are also positive with improvements in literacy rates and access to formal education for girls and women. While there has also been improvement in women's employment, it is more limited.[105] The share of women active in the region's workforce rose by between 2000 and 2019 but today's female labor force participation rate (LFPR) is still very low by global standards—only 26.7 percent of women participate, with many women never entering work or dropping out of the labor force after a short period.[106] Moreover, the region has a high female unemployment rate of

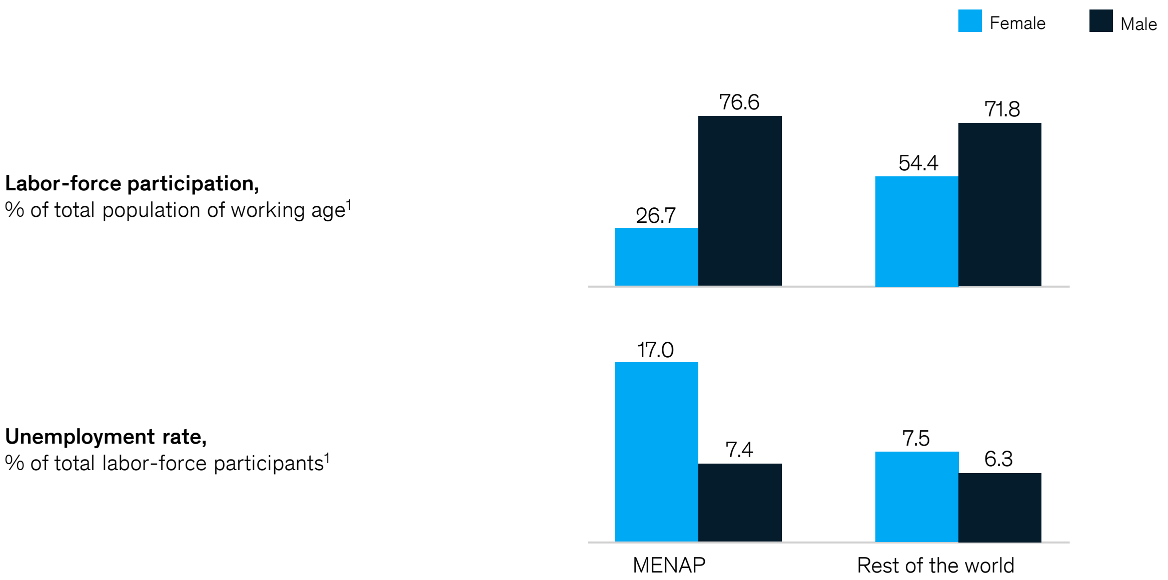
[102] Full-potential scenario assumes that women participate in the workplace to an identical extent as men, erasing the current gaps in labor force participation rates; this is modelled based on historical data and forecasts available as of January 2019 from sources including IHS, ILO, and UN; takes into account and reflects non-oil GDP forecasts.
[103] World Bank, 2018 or latest year available; analysis covers Algeria, Jordan, Lebanon, Morocco, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.
[104] Katerina Dalacoura, "Women and gender in the Middle East and North Africa," MENARA Final Reports Number 3, March 2019.
[105] Ibid.
[106] McKinsey analysis based on ILO-modelled estimates (November 2019) of female labor force participation rates for ages 15+ across the region.

17 percent with many women experiencing limited access to jobs (Exhibit 39). The region's 26.7 percent female LFPR is among the lowest globally being less than half the 54.4 percent average for the rest of the world. When we compare the region's participation rates by gender, there is an even starker contrast—female LFPR is just over a third of the LFPR for men, which stands at 76.6 percent. Moreover, the region's female unemployment rate of 17 percent is more than double the rest-of-the-world average of 7.5 percent and the male unemployment in the region, which stands at 7.4 percent.[107]

Low female LFPR and high female unemployment are caused by many underlying issues, but three broad factors have an outsized effect: unconducive social mindsets, an unsupportive work environment and regulations, and limited role modelling and support. This is backed by research conducted in McKinsey's 2020 Middle East ***Women at Work*** report, which found that these factors are the three main leakages in a woman's education-to-employment journey. These leakages form the basis of our recommendations in this section of the report. (Exhibit 40).

Exhibit 40:

Female labor force participation and employment rates in MENAP are low (Nov 2019)



1. Ages 15+.

Source: ILO modelled estimates

[107] Ibid.

Boosting female labor-force participation and employment has high impact on the economy, corporations, and society

Helping more women into the world of work would have a big impact on the region's economy. The Middle East would add an estimated $1.9 trillion to its annual GDP in 2040 if women's participation in the workforce were to become identical to that of men (Exhibit 41).[108]

Previous McKinsey work has studied how the employment of more women affects corporations. We found big areas of impact: better organizational performance, a larger talent pool to benefit from, and increased financial performance.

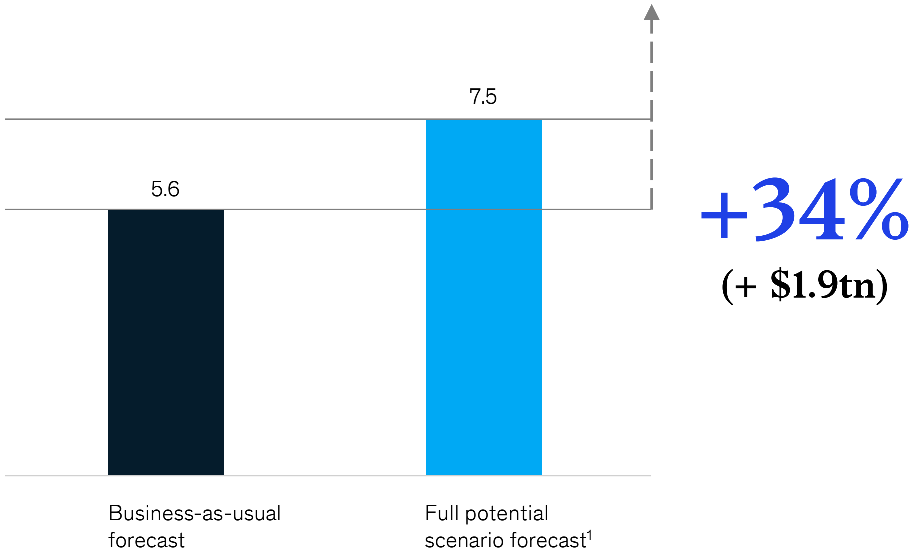
1.Improves organizational performance: McKinsey's Organizational Health Index (OHI) measures organizational performance using nine dimensions: direction, accountability, coordination and control, external orientation, leadership team, innovation, capabilities, motivation, and work environment and values. We found that, across all nine dimensions, companies with over three women on their board performed better than firms with fewer or no women on their boards.[109]

2.Expands skill sets and talent pool: Increasing female employment directly expands a country's talent pool and the range of skills available to employers in both the public and private sectors.

[108] For model methodology, see appendix.
[109] McKinsey OHI, 2007, 60,000 respondents in 100 companies via "Women matter: Ten years of insights into gender diversity," October 2017, McKinsey.com.

Exhibit 41:

Region's incremental GDP potential in 2040 if female LFPR matched male LFPR in each country (Jan 2019), USD tn



1. Full-potential scenario assumes that women participate in the workplace to an extent identical to that of men—erasing the current gaps in labor-force participation rates; modelled based on historical data and forecasts available as of January 2019; takes into account and reflects non-oil GDP forecasts.

Source: McKinsey analysis, IHS GDP data, UN Population Prospects, ILO employment data

3.Boosts financial performance: Companies with a higher proportion of women in executive committees perform better financially. Looking at 2011–2015 data, we found that companies in the top quartile of gender diversity were 21 percent more likely than fourth-quartile companies to outperform national industry peers on their earnings before interest and tax (EBIT) margin, and 27 percent more likely to achieve higher profits (Exhibit 42).[110]

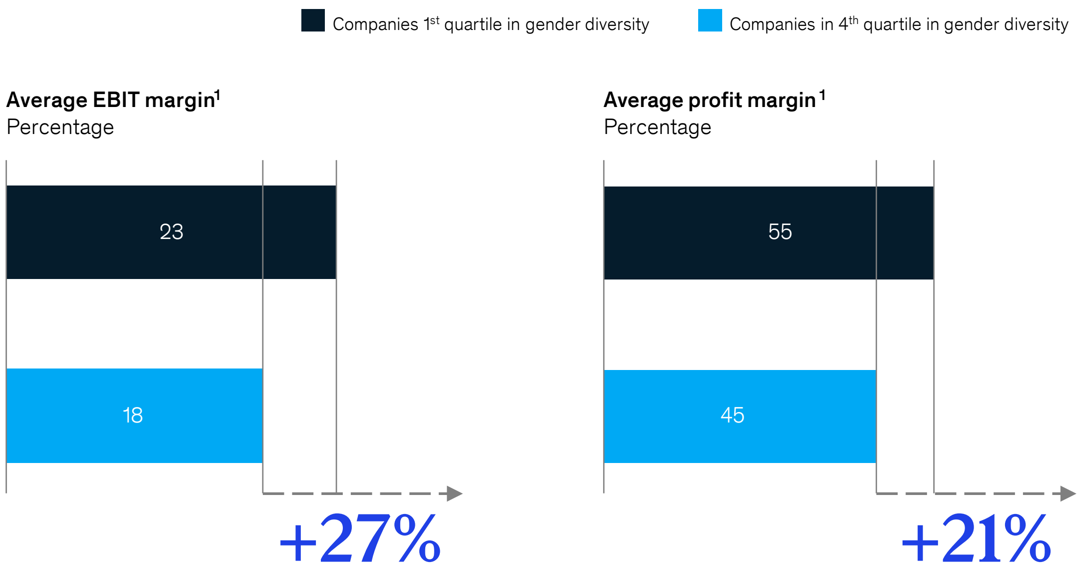
To understand the issues leading to the region's disparities in labor-force participation and employment, we looked at the full journey starting from education to and including employment and identified three major leakages in this pipeline: (1) social mindsets, (2) work environment and regulations, and (3) role modelling and support (Exhibit 43).

In order to study the drivers of these leakages and their respective level of disparity, we drew upon three McKinsey analyses: the 2020 Middle East Women at Work report; a survey launched across Egypt, Kingdom of Saudi Arabia, and UAE in April 2019 on access to support, experience, and opportunities in the workplace; and the McKinsey Global Institute (MGI) Gender Parity Score (GPS) model, which looks at gender equality in work and society.[111] This GPS model was also used in the McKinsey global Power of Parity report published in 2015.

[110] Vivian Hunt, Sara Prince, Sundiatu Dixon-Fyle, and Lareina Yee, "Delivering through Diversity," January 2018, McKinsey.com.
[111] "Women at work in the Middle East".

Exhibit 42:

Companies with a higher proportion of women in executive committees perform better financially



1. 2011-2015 https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx.

Source: McKinsey analysis, IHS GDP data (accessed Jan 2019), UN Population Prospects (accessed Jan 2019), ILO employment data (accessed Jan 2019), McKinsey's Women Matter Report (2008), McKinsey Quarterly – "A Business Case for Women" (2008)

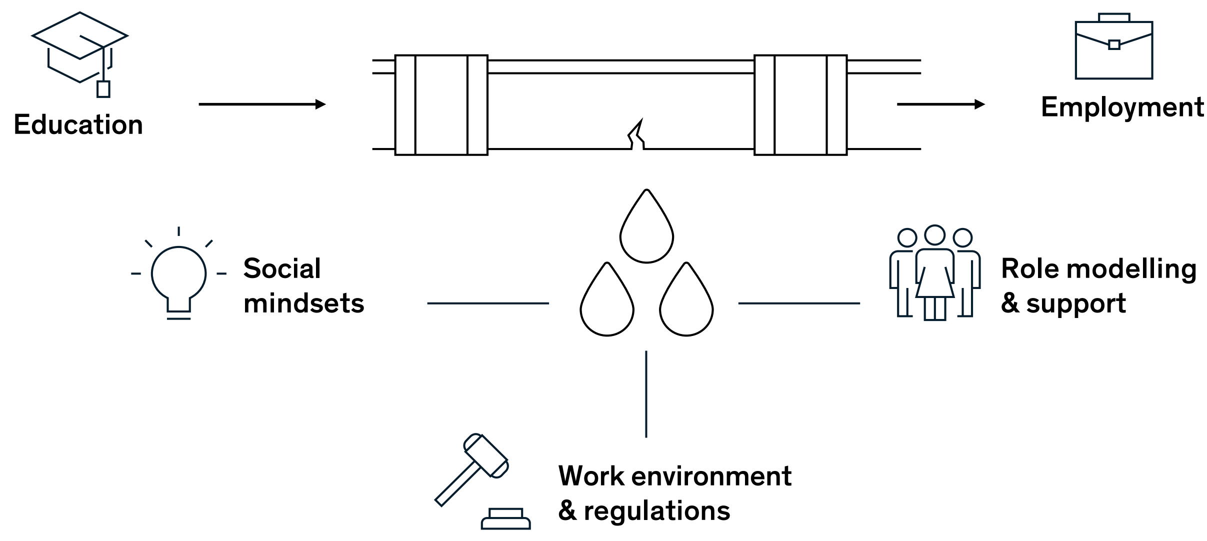
Social mindsets: This issue is driven by three main factors: the double-burden syndrome, biases in the workplace, and job-search tendencies. Double-burden syndrome is the burden that individuals, usually women, carry when they need to balance work with other responsibilities for unpaid domestic labor, creating a high barrier of entry to the workforce. Women globally take on 76 percent of total unpaid care work (over three times more than men) and the situation is slightly worse within the region.[112] For MENAP countries where ILO data is available, the proportion of total unpaid care work taken on by women is close to 86 percent.[113] Workplace biases have lessened over the years; however, women still face them at every stage of their careers.[114] A quarter of entry-level women and 31 percent of management-level women report that the main bias they face is being asked to provide more evidence of competence than others. At the same time, 64 percent of senior-level women report that the main issue is colleagues questioning their judgment in their area of expertise.[115] Finally, on average, women and men take very different approaches to looking for a job. A gender-insights report by the social network LinkedIn shows that women apply for 20 percent fewer jobs than men on average.[116] Studies also show that women are 26 percent less likely than men to ask for referrals online, which could potentially prevent them from obtaining a role.[117]

Work environment and regulations: This leakage stems from a lack of supportive work policies and weak legal protection. Women are more likely than men to be affected by unsupportive or inflexible work policies. For example, 43 percent of women surveyed in the McKinsey Middle East employment survey said that a lack of policies on work-life balance was a major barrier to starting a job or remaining in a role.[118] Additionally, the region has extremely high levels of gender disparity in legal protection, with an average GPS of 0.28.[119] Legal protection across social and work-related themes remains low. Moreover, most

[112] ILO, 2018, via OECD's "Breaking down barriers to women's economic empowerment: Policy approaches to unpaid care work," 2019.
[113] Including Algeria, Iraq, Morocco, Oman, Qatar, Pakistan, Palestine, and Tunisia; "How much time do women and men spend on unpaid care work?" ILO, ilo.org.
[114] "Women at work in the Middle East".
[115] Women in the Workplace 2018, Lean In and McKinsey & Company, womenintheworkplace.com.
[116] LinkedIn Talent Solutions, "Gender Insights Report: How women find jobs differently," business.linkedin.com.
[117] Ibid.
[118] "Women at work in the Middle East".
[119] GPS average for the region covers 13 countries: Algeria, Egypt, Jordan, Kuwait, Lebanon, Oman, Pakistan, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and Yemen.

Exhibit 43:

Education-to-employment leaking pipeline



Source: McKinsey

countries' labor laws do not address workplace discrimination.[120]

Role modelling and support: This leakage is caused by a lack of female political representation, women in leadership positions, and support for women in the workplace. Women are not highly represented in leadership positions across the region: leadership scores an average GPS of just 0.11. The region shows high levels of disparity in female political representation. Globally, female representation in national parliaments increased from 11.8 percent in 1998 to 23.5 percent in 2018. While a similar, but relatively weaker, trend has been witnessed in the region, political representation currently shows an average GPS of just 0.16 with very low representation of women in ministerial positions In addiontion, a fifth of women surveyed said that the lack of support from mentors or sponsors was a major barrier to starting a job and remaining in work.

This range of issues hinders female employment in the region. Gender disparity in the workplace can be addressed through introducing two game-changing initiatives: country-specific inclusion commissions, and flexible working models.

Game-changer: Increasing commitment to inclusion by institutions can help address low female employment. Institutions, both public and private, should institute mechanisms to ensure greater female participation and representation in the economy. One mechanism commonly seen in other countries is launching country-specific inclusion commissions at the highest level of government to ensure that society and the workplace are more gender inclusive. This commission will tackle the key areas of disparity that prevent women from full inclusion in the workplace, including weak legal protection, unconducive work policies, and the double-burden syndrome.

Inclusion commissions in the region can help address several key drivers of low female employment. First, to address the double-burden syndrome, commissions can help women get equal access to social- and work-life opportunities and raise awareness to change mindsets around women's disproportionate unpaid care-work burden. Second, inclusion commissions can drive workplace human resources policies through new legal frameworks, which can influence women's decisions around entering work and staying. For example, these commissions can study the potential to introduce policies to promote a better work-life balance, such as lengthened paid parental leaves. Finally, inclusion commissions can address the issue of weak legal protection by pushing to fill legal gaps that have an unfair impact on women. For example, commissions can look to address equal pay, non-discriminatory hiring practices, and other laws that protect and empower women. Research shows that, when gender parity becomes reflected in law, female LFPR increases by at least five percentage points in the following five years.[121]

Inclusion commissions in the region can encourage legislation and its enforcement across various issues affecting female inclusion in the workforce and in society. Analyzing the legislative framework across a range of work-related and social issues identifies several gaps in female legal protection across MENAP countries (Exhibit 44).[122] Although these countries have significant room for improvement in their legislative protection of women, it is important to note that Bahrain, Jordan, Saudi Arabia, Tunisia, and United Arab Emirates were amongst the 10 countries which saw the greatest improvements in their legislation in 2019.[123]

We reviewed regulating bodies from four countries with some of the world's lowest gender disparity levels in legal protection, according to the GPS model, in addition to the UAE's Gender Balance Council (Exhibit 45).

Commissions globally reinforce gender parity at different levels of intervention and across

[120] Women, Business, and the Law Database (2019 release of 2018 data), datacatalog.worldbank.org; "The power of parity: Advancing women's equality in Africa," McKinsey Global Institute, November 2019, McKinsey.com; legal input from law firm; McKinsey analysis.
[121] C Gonzales et al., "Fair play: More equal laws boost female labor force participation." IMF Staff Discussion Note, International Monetary Fund, 2002.
[122] Women, Business, and the Law Database, 2019; "The power of parity", 2019; legal input; McKinsey analysis.
[123] Rita Ramalho and Tea Trumbic, "Women business and the law 2020: How does the law affect women's economic opportunity?" World Bank Blogs, January 2020, blogs.worldbank.org.

Exhibit 44:

Inclusion legislation gaps across work-related and social-related issues in MENAP

● Existence of legislative framework ○ Absence of legislative framework

Themes	Sub-questions	Algeria	Bahrain	Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Morocco	Oman	Pakistan	Palestine	Qatar	Saudi Arabia	Syria	Tunisia	United Arab Emirates	Yemen
Starting a job	Can a woman get a job or pursue a trade or profession in the same way as a man?	●	○	○	●	○	○	●	●	●	●	●	○	○	●	○	●	○	○
	Does the law mandate non-discrimination based on gender in employment	○	●	●	●	○	○	●	●	●	●	○	●	○	●	●	●	●	●
	Is there legislation on sexual harassment in employment	●	●	●	●	○	○	○	○	●	●	●	○	○	●	○	●	●	○
	Are there criminal penalties or civil remedies for sexual harassment in employment?	●	●	●	●	○	○	○	○	●	●	●	○	○	●	○	●	●	○
Running a business	Does the law prohibit discrimination by creditors on the basis of gender?	○	○	○	○	○	○	○	○	●	○	○	○	○	●	○	○	○	○
	Can a woman register a business in the same way as a man?	●	●	●	●	●	●	●	●	●	●	○	●	●	●	●	●	●	●
Getting paid	Does the law mandate equal remuneration for work of equal value?	●	○	○	●	●	○	○	●	●	○	○	○	○	●	○	○	○	○
	Can women work the same night hours as men?	○	○	○	○	●	○	●	●	●	○	○	○	●	○	○	○	●	○
	Can women work in jobs deemed hazardous or morally inappropriate in the same way as men?	○	○	○	○	●	○	●	○	○	○	●	○	○	○	○	●	●	○
	Are women able to work in the same industries as men?	●	○	○	●	○	○	○	●	○	●	○	○	●	○	○	○	●	●
Having children	Is there paid leave of at lest 14 weeks available to women?	●	○	○	●	○	○	○	●	●	○	●	○	○	○	●	○	○	○
	Does the government pay 100% of maternity leave benefits (where maternity leave is unavailable)?	●	○	○	○	●	○	○	○	●	○	○	○	○	○	○	●	○	○
	Is there paid paternity leave?	●	●	○	○	●	○	○	○	●	○	○	○	○	●	○	●	○	○
	Is there paid parental leave?	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
	Is dismissal of pregnant workers prohibited?	○	●	●	○	○	○	●	●	●	○	○	○	○	●	●	●	●	○
Getting a pension	Are the ages at which men and women can retire with full pension benefits equal?	○	○	●	○	○	●	○	○	●	○	○	○	○	●	○	●	●	○
	Are the ages at which men and women can retire with partial pension benefits equal?	○	●	●	●	●	●	○	●	●	●	○	○	●	●	●	●	●	○
	Is the mandatory retirement age for men and women equal?	○	●	●	○	●	●	●	○	●	●	●	●	●	●	●	●	●	●
	Are periods of absence due to child care accounted for in pension benefits?	●	○	●	●	●	○	○	○	○	○	●	○	○	●	○	●	●	○

Source: Women, Business, and the Law Database; McKinsey Middle East Power of Parity Report; Legal input from Law firm; McKinsey analysis

Exhibit 45:

Example inclusion commissions

Commission type	Finland's Ombudsman for Equality	Spain's Institute of Women and for Equal Opportunities	Ireland 's Human Rights and Equality Commission	Sweden's Equality Ombudsman	UAE's Gender Balance Council
Mandate	Tribunal-type (quasi-judicial) body	Promotion-type and legal support body	Promotion-type and legal support body	Promotion-type and legal support body	Promotion-type and legal support body
	Fights discrimination and promotes equality with respect to gender, gender identity, and gender expression	Promotes gender equality and equal gender participation in all areas of public life	Protects and promotes human rights and equality and builds culture of respect for human rights, equality, and intercultural acceptance	Oversees compliance with Discrimination Act and promotion of equal rights and opportunities across gender, ethnicity, religion, and other matters of identity	Works to expand the role of Emirati women in the workplace and in society; oversees and consolidates initiatives by government entities to protect women's social and financial welfare

Source: equineteurope.org; mof.gov.ae

various issues.[124] For example, Spain's Institute of Women and for Equal Opportunities promotes gender equality and equal gender participation in all areas of public life.

The inclusion commissions being proposed for the region would have a clear mandate and an underlying set of functions to have a significant impact on some of the greatest challenges faced by women in the region. Across several of the functions of this commission, the government can partner with the private sector to support female inclusion (Exhibit 46).

As we see in the above exhibit, an inclusion commission cannot survive and thrive without forces in society cooperating to see the mandate through. The government's role is to safeguard and empower women through enacting policies, monitoring the compliance of employers and other actors in society, and publishing their findings to create transparency. The role of the private sector is to collaborate with the government, implement the proposed policies, and promote conducive work environments for females. This can include making gender parity part of a company's performance management; producing regular reports on gender parity metrics; actively fighting gender discrimination; providing training on unconscious biases toward females and female empowerment and 'grit'; and providing support systems for women requiring mentorship.

Game-changer: Flexible work creates a more supportive environment for female workers. As revealed by McKinsey's education-to-employment pipeline assessment and the McKinsey Middle East employment survey, a lack of flexible and supportive work policies is a major barrier faced by women entering the world of work.

McKinsey's employment survey launched in 2019 explored the potential factors preventing women in the region from joining the workforce or staying in long-term jobs. We found that introducing and supporting flexible work can alleviate around 60 percent of issues stopping women from participating in the labor force. This helps women overcome challenges such as

[124] Equinet, European Directory of Equality Bodies, equineteurope.org/what-are-equality-bodies/european-directory-of-equality-bodies.

Exhibit 46:

Inclusion commissions' mandate and functions

The public sector and private sector can partner to deliver this function

Mandate	Functions
Identify issues limiting female inclusion and find solutions to empower them	Study the society and workplace to uncover issues limiting female inclusion, e.g., through commissioned studies or surveys
	Ensure women that have strong support systems at work, at home, and in society; this can include creating a network of mentors
	Ensure women are equipped with the right skill sets (including digital technologies and STEM) for the future of work and represented in sectors with low risk to job losses
	Handle citizen complaints and provide assistance Audit compliance of rules and regulations
Propose policies and initiatives to the government to solve identified issues	Define targets for female employment (e.g., a law introduced in Tunisia in 2014 requires political parties to alternate members of candidate lists between men and women, and to have half of their lists headed by women.[1] This helped result in women holding 47% of seats in 2018 municipal assembly elections) [2,3]
	Mandate transparency around female hiring and employment
	Reform discriminatory laws, e.g., allow women to pursue jobs in the same professions and industries as men, and allow women to work the same night hours
	Address the absence of laws to protect women, e.g., non -discrimination in employment, sexual harassment legislation, and equal remuneration for work of equal value
	Introduce enforcement mechanisms
Publish reports on findings and performance and raise awareness on female inclusion	Publish reports on inclusion to build transparency on gender -diversity metrics; these publications can highlight the following: ▪ Firms' performance, e.g., firms with workplace flexibility policies, equal gender representation, and conducive environments that promote female employment ▪ Country-wide performance, e.g., statistics on level of female inclusion and female representation in leadership roles
	Run awareness campaigns
	Launch training and counselling to support women and employers

1. https://carnegieendowment.org/2018/11/30/what-tunisia-can-teach-united-states-about-women-s-equality-pub-77850.
2. As of July 2019.
3. https://www.washingtonpost.com/politics/2019/07/06/tunisia-more-women-office-can-make-all-difference/.

Exhibit 47:

Potential reasons preventing women from joining the workforce or staying long-term 2019

Respondents selecting each factor as a reason they have left, or have not joined, the workforce
Percentage of respondents selecting option (total women surveyed[1]: 322)

1. Women at Work in the Middle East, McKinsey Survey.

limited work-life balance policies, the inability to commute, and the lack of infrastructure or essential services at work (Exhibit 47).

According to the OECD, flexibility and choice over where, when, and how to work can be helpful to women and may boost female employment rates—countries with the highest share of women working from home also have the highest maternal employment rates.[125] Additionally, UK data show that women with children have the highest uptake of flexible work.[126]

We have also found that flexible work has the potential to boost the female LFPR. Data from the Netherlands shows that female employment doubled between 1980 and 2016, driven by an increase in part-time employment, with around 60 percent of employed women now working part-time.[127] We have also seen that flexible work makes women less likely to leave the workforce once they join: trials show that employees are half as likely to leave a job if given the option to work flexibly.[128]

To this end, the COVID-19 crisis for many employers has in effect been an extended trial of remote and hybrid working models. With government support, the post-COVID-19 era could represent a historic opportunity to permanently change attitudes toward flexible work and make significant strides toward reaping the economic dividend of bringing women into the workplace en masse. Institutionalizing flexible work arrangements requires two different, yet complementary, efforts to be carried out: (1) employers and governments should support flexible work arrangements; and (2) governments should support gig-economy workers.

1. Employers and governments could incentivize, encourage, and enable female

[125] "Going digital: The future of work for women," OECD, July 2017, oecd.org.
[126] "Megatrends: flexible working," CIPD, 2019, cipd.co.uk.
[127] "The pursuit of gender equality: an uphill battle," OECD, 2017, oecd.org.
[128] Amna Silim and Alfie Stirling, "Women and flexible working," Institute for Public Policy Research, December 2014, ippr.org.

and male employees who want to pursue flexible work arrangements. Employers can provide certain categories of employees with the right to flexible work and governments can encourage the right to flexible work (job and industry-permitting) through providing employees with the right to request flexible work (employers can only deny requests with strong reasons), incentives for employers providing flexible work options, such as exclusive benefits like corporate tax benefits and access to priority government services, and training on implementing flexible work and raising awareness of its benefits to employees, employers, and society.

2.Governments and the private sector could find ways to support gig-economy workers. As emerging technology disrupts the boundaries of traditional employment, gig- economy workers are being supported by governments in two primary ways: providing financial-stability support for gig workers and adapting labor practices to protect gig economy workers. Governments and the private sector can support mechanisms to help gig-economy workers manage periods without work and/or income, this could include help with financial management, a more inclusive welfare system, access to pension schemes and severance payments, and access to healthcare coverage through subsidized healthcare or insurance. In addition, governments are now revisiting labor practices to ensure that they remain fit for purpose in the gig-economy – i.e., that they fairly protect workers' interests without imposing substantial overheads on employer profit and loss statements that disincentivize hiring gig workers in the first place. Actions have included definition of the contractual and operational distinction between gig and full-time employment, and potential extension and adaptation of minimum wage provisions to cover gig employment.

Research has shown that adjustment of statutory protections related to termination and benefits for gig workers relative to full-time employees can boost labor-market flexibility. We see similar mechanisms to support flexible work in practice across different countries. For instance, in 2014 the United Kingdom enacted the statutory right to request flexible work, identifying specific business reasons employers can give to reject an application.[129] UK data from 2018 show that women with children now have the highest uptake of flexible work across types of flexi-work, including flexi-time, job sharing, reduced working hours, compressed work week, working at or from home, and term-time working.[130]

Singapore offers government incentives to encourage employers to move to flexible work models. Singapore's Ministry of Manpower offers a Work-Life Grant to incentivize flexible work. Companies can apply for grants and incentives of $2,000 per local employee per year to implement flexible work arrangements.[131] This type of incentive is being proposed in the US state of Massachusetts: in 2019, the state government proposed a tax break of $2,000 per employee for organizations allowing employees to telecommute.[132]

The US government offers training on the implementation of flexible work. The Office of Personnel Management's Telework Exchange program works to increase adoption of and raise awareness on the benefits of telework in the federal government. The office provides studies, reports, guidance, and training to help federal employees become effective teleworkers.[133]

Meanwhile, the EU Parliament in 2019 approved a new law to protect workers in the gig economy through new rules, including the right to compensation when work is cancelled at late notice, a maximum of probationary period of up to six months, and the right for employees to have other jobs, banning any 'exclusivity clauses'. [134]

Countries in the region are also starting to embrace flexible work. For example, Kingdom of Saudi Arabia has introduced regulations governing flexible and hourly work in a program

[129] "Megatrends: flexible working".
[130] CIPD UK Working Lives survey 2018 via "Megatrends: flexible working".
[131] Singapore Ministry of Manpower, "Work-Life Grant (WLG) for flexible work arrangements," mom.gov.sg.
[132] "Gov. Baker proposes telecommuting tax break for companies," Boston.com, July 2019, boston.com.
[133] See telework.gov.
[134] Includes those who work a minimum of 3 hours per week on average, over 4 weeks; "EU law fixes minimum rights for 'gig economy' workers," BBC, April 2019, bbc.com.

called Marn. The program aims to encourage more people to enter the labor force and to ensure that the rights of hourly and flexible workers and employers who employ them are protected.

This initiative could have wide-ranging impact and significant economic and social implications. It can help more women consider entering the labor force, open more job opportunities for women to consider, and keep female retention rates up. Flexible work can address major barriers to female employment in the region by allowing a better work-life balance, erasing challenges to commuting, and allowing women to work in offices or firms which otherwise might not have had the required infrastructure or services to meet their needs.

While there are several challenges to perfect gender parity in the region, our research from other countries indicates that some of the greatest challenges can be alleviated by the two game-changers proposed: creating inclusion commissions and supporting flexible work arrangements. If the region's governments and private-sector firms were to consider these initiatives, countries would have a golden opportunity to significantly improve women's lives and reap the economic benefits of a fully integrated and empowered female population.

5. Healthy populations and resilient healthcare systems

Countries in the MENAP region have been facing long-standing healthcare issues in terms of both the health of the populations and the efficiency and effectiveness of healthcare systems. The COVID-19 crisis has exacerbated these healthcare issues, with policymakers, healthcare providers, and individuals facing immense stress as they weather the pandemic and plan for the future of healthcare. Healthcare faces both demand-side and supply-side challenges.

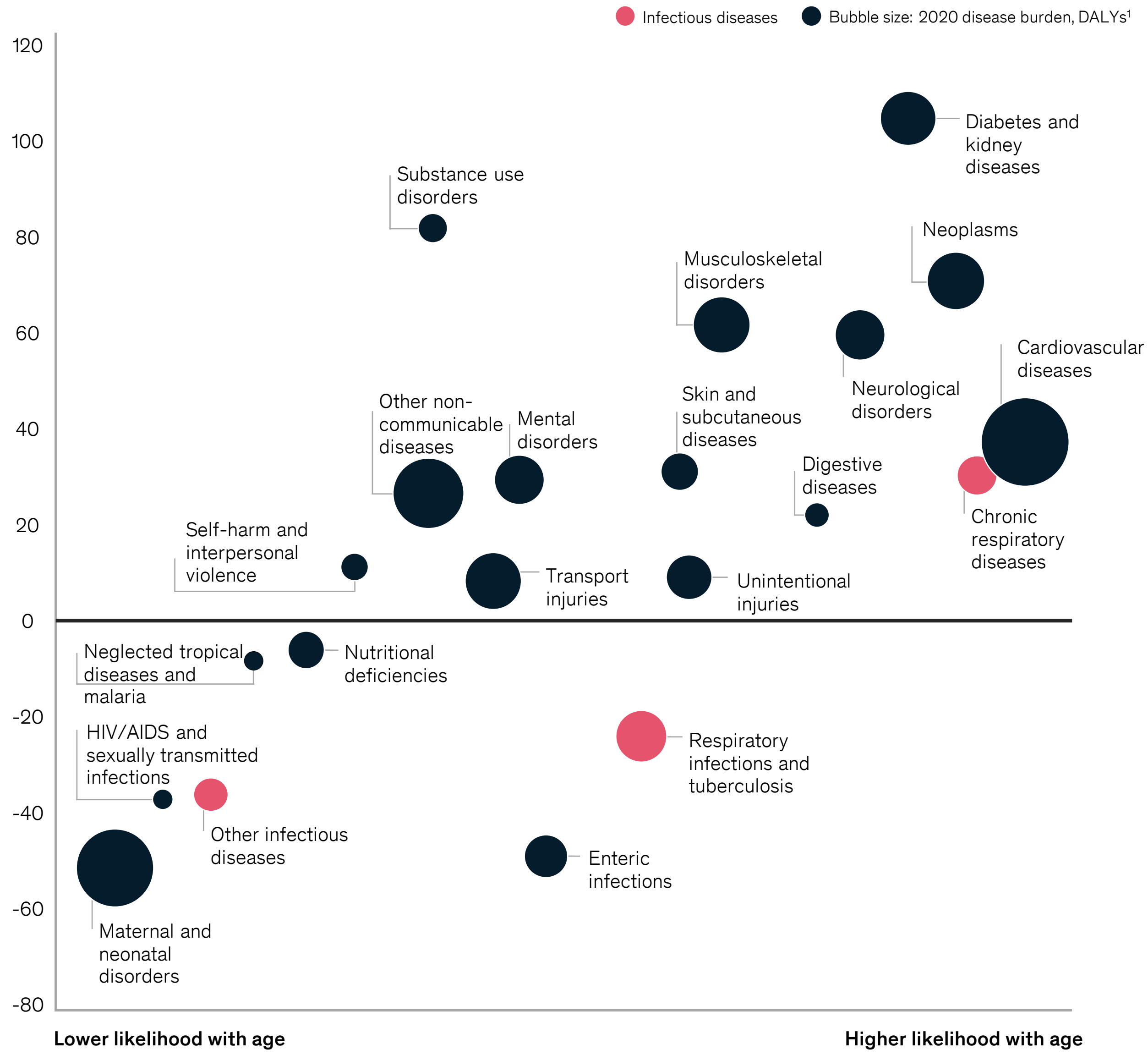
Expected demand-side shifts

The MENAP region is expected to face an increase in age- and lifestyle-related diseases (Exhibit 48). This trend will be partly driven by demographic shifts, which in mature economies are already causing a surge in health demand, but also by people's changing lifestyle habits.

Exhibit 48:

Forecasted change in disease burden by 2040

Change in disease burden between 2020 and 2040 in MENA, (percentage change in disease burden measured in DALY[1])



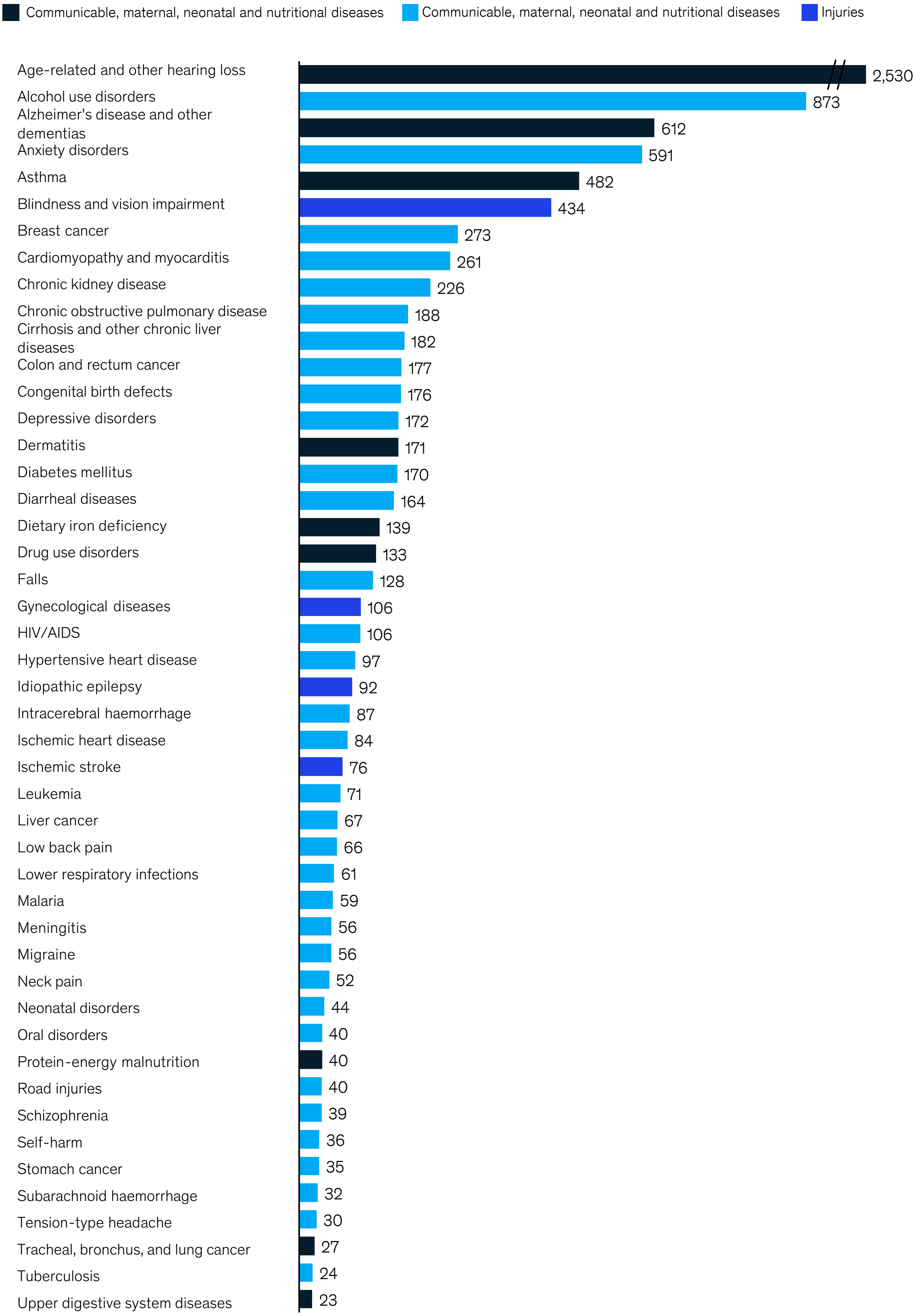
1. DALY = Disability-adjusted life year.

Source: Global Disease Burden Database 2016 Institute for Health Metrics and Evaluation (IHME), University of Washington (this view excludes "Other non-communicable diseases"), MGI Analysis

Exhibit 49:

Top causes of disease burden in MENAP

Top causes of disease burden (Reported in DALYs millions; total = 1.8 million DALYs), 2017



Source: Global Disease Burden Database IHME

Across MENAP, the population aged 65 and over will more than double over the next 20 years, from approximately 27 million today to over 63 million in 2040.[135] As people become older, they tend to consume a disproportionate amount of healthcare owing to age-related conditions. This demographic change could overwhelmingly increase demand for treatment services for lifestyle- and age-related diseases from now until 2040.

Problems could potentially worsen, especially in the GCC, which has high rates of noncommunicable diseases (NCDs). (NCDs), conditions resulting from environmental, behavioral, genetic, and physiological factors.[136] By 2040, NCDs could account to approximately 87 percent of the disease burden in the GCC countries (Exhibit 49), making prevention crucial to reducing the overall disease burden.[137]

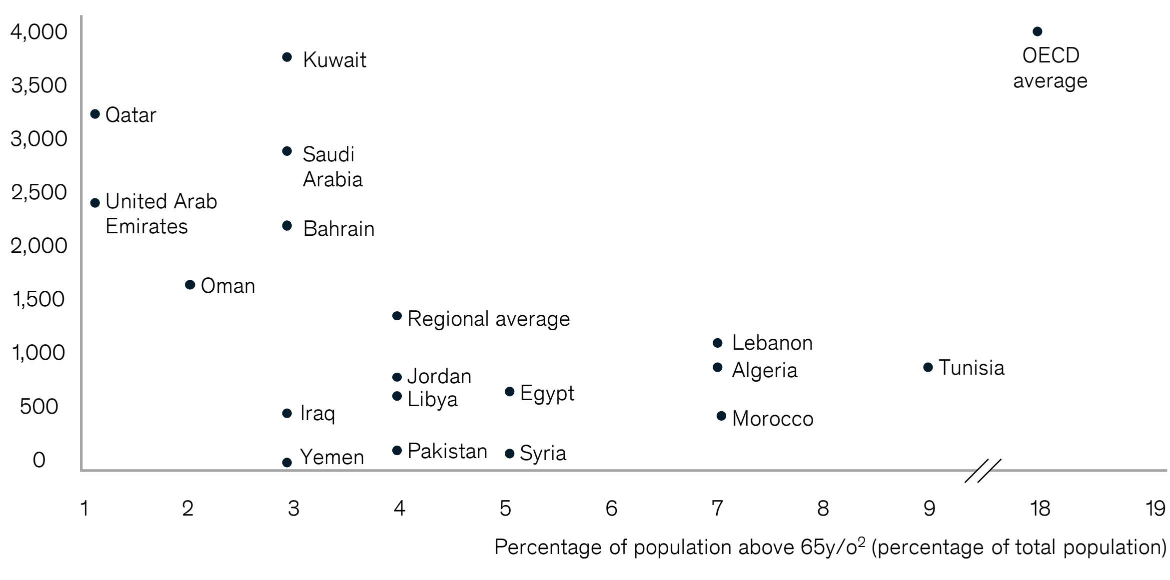
Supply-side challenges
MENAP governments will find it increasingly difficult to sustain funding for population's needs over time. To add to this challenge, the region's current healthcare spend, except for the GCC countries, is comparatively low—the average current health expenditure (CHE) for the region is approximately $1,336, only one-third of the OECD average of approximately $3,940.[138, 139, 140] CHE varies widely across countries in the region, with the highest per-capita spend in Kuwait ($3,797) and the lowest in Yemen ($139). This is not surprising, given that many of the countries in our sample are relatively poor when compared to OECD countries. However, the need for increased spend on healthcare will only continue to increase for most countries in the region. Considering the per capita healthcare spend of each country in relation to the size of its population over-65s, we can get a better perspective on how age demographics influence CHE (Exhibit 50).

[135] "World Population Prospects," 2019.
[136] The main types of NCDs are cardiovascular diseases, cancers, chronic respiratory diseases, and diabetes, www.who.int.
[137] Global Burden of Disease Study 2017, Institute for Health Metrics and Evaluation; MGI analysis.
[138] WHO database; 2017 data for all countries except for Yemen (2015), Syria (2012), Libya 2011; Palestine data not available.
[139] 2017 data for OECD countries.
[140] WHO database, 2017.

Exhibit 50:

Healthcare spend per capita and portion of population above 65 years

CHE per capita in purchasing power parity (current international $)[1], 2017



1. 2017; World Bank and WHO.
2. UN Population Prospects.

Inequality in healthcare access is growing in the region—besides the GCC countries—owing to the lack of public healthcare cost coverage and the cost burden of high-quality healthcare. Although MENAP populations have access to healthcare coverage (be it through subsidized government services or through social security schemes), out-of-pocket (OOP) health payments are still relatively high for all countries in the region compared to OECD countries, with the exception of the GCC. This indicates a potential lack of confidence in the quality of covered services or problems related to service accessibility and availability.[141] GCC populations had the lowest share of OOP payments in the region, with each GCC country spending less than the per capita OECD average (Exhibit 51).

While healthcare quality and access have improved, there are not enough healthcare service professionals in the region. The density of healthcare service professionals in many MENAP countries is lower than average when compared to other countries with similar income statuses.[142] This is down to several factors:

1. Lack of action to strengthen the region's health workforce

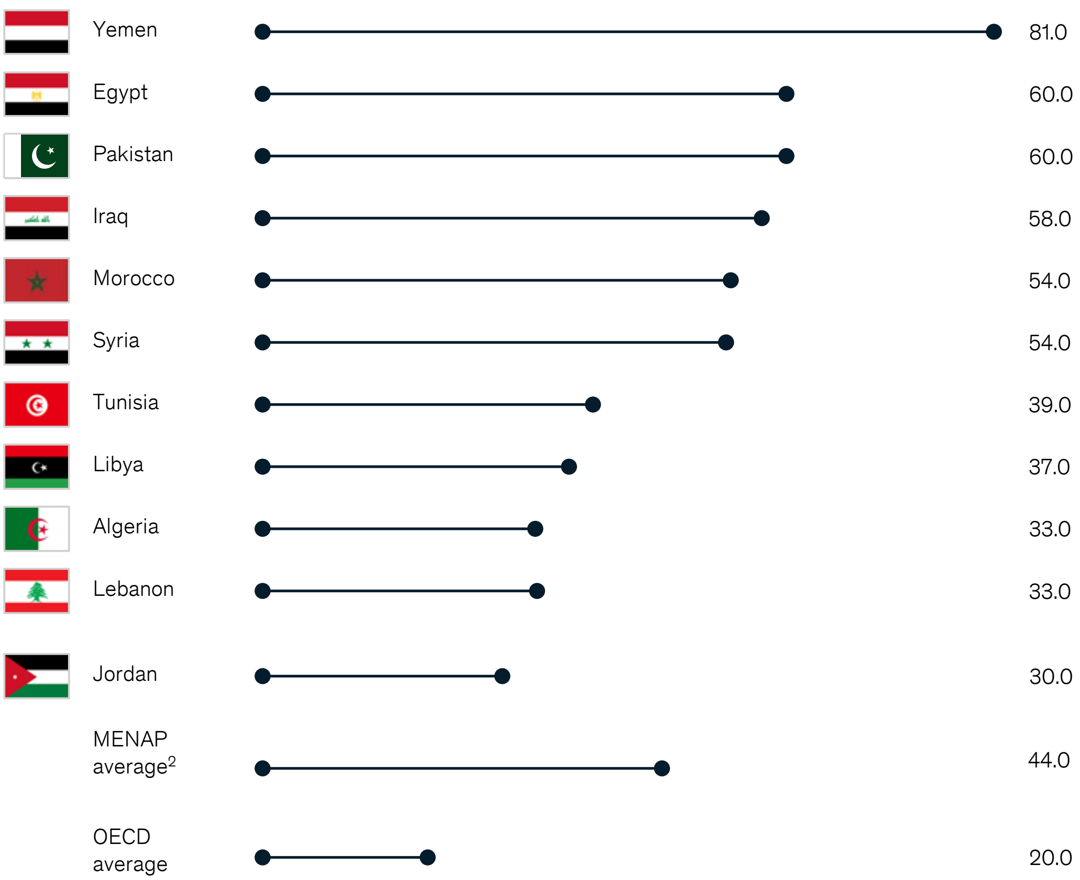
[141] Heba Elgazzar et al., "Who pays? Out-of-pocket health spending and equity implications in the Middle East and North Africa," November 2010, World Bank, openknowledge.worldbank.org.

[142] 17 countries of the MENAP region are included in this study based on availability and comparability of data: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates and Yemen.

Exhibit 51:

Out-of-pocket expenditure on health

Out-of-pocket expenditure (percentage of current health expenditure) , 2017[1]



1. 2017 data except for the following countries: Libya (2011), Syria (2012), Yemen (2015).
2. Palestine excluded owing to lack of data.

Source: World Bank Open Data

2. Challenges in recruiting and retaining healthcare workers, and high workforce churn
3. Limited availability of medical schools and training opportunities
4. Rapidly growing demand for healthcare workers driven especially by the rise in NCDs
5. Shortages in the more remote areas of upper-middle-income and high-income countries in MENAP[143]
6. Lack of research and academia to attract top talent

The lower density of healthcare service professionals could be partly driven by young age demographics in MENAP and the resulting healthcare needs, but this will need to be addressed in the future as the region's population ages (Exhibit 52).

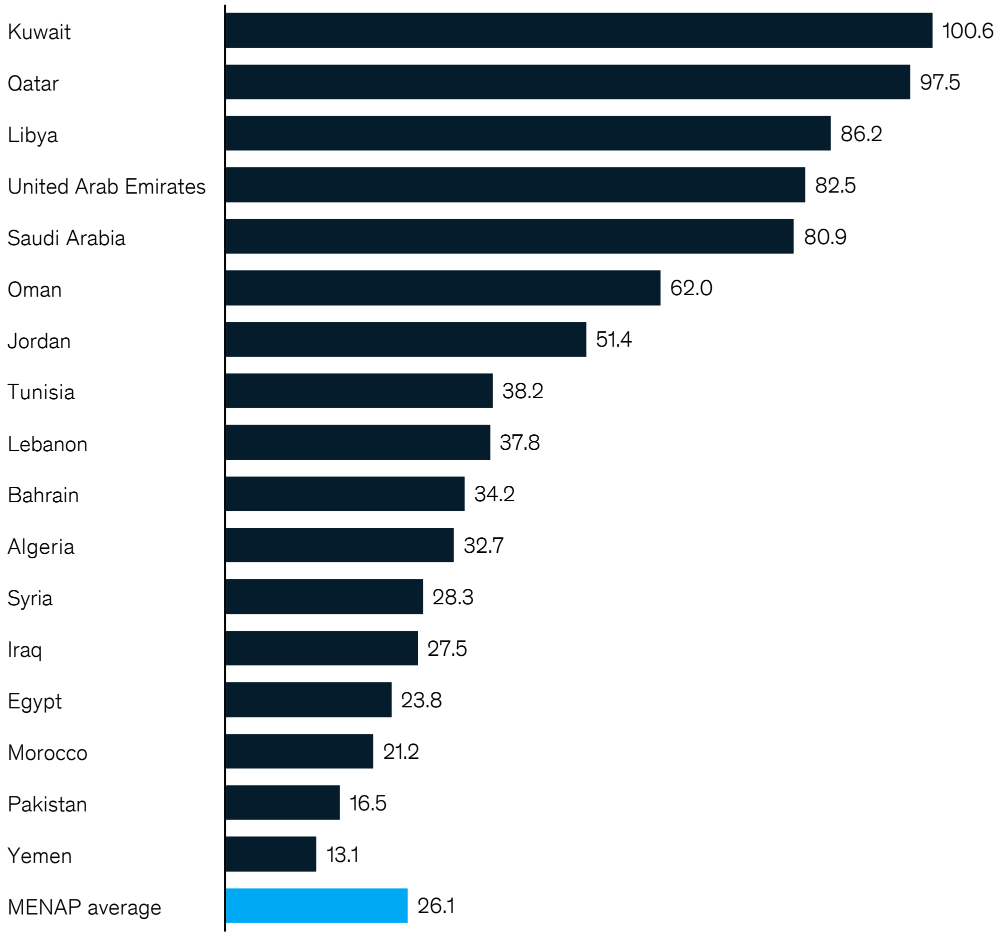
One factor exacerbating the shortage of limited human resources is a lack of transparency, measurement, and data to track this trend, which hinders the optimal allocation of resources.

[143] "MENA Generation 2030," UNICEF, April 2019, data.unicef.org. (And move this footnote to the left.)

Exhibit 52:

Healthcare service professional density

Number of health service professionals (doctors, nurses, midwives), (per10,000 pop.), latest year available[1]



1.Data as per latest year available from WHO 2018; excludes Palestine due to lack of data.
Source: WHO

The COVID-19 pandemic highlighted this lack of transparency and information sharing across healthcare systems—several countries struggled to identify basic needs and information, showing a clear shortfall in infectious-disease surveillance and response capabilities. Countries also faced difficulties in detecting and responding to the early-warning signs of COVID-19 for many reasons, one of which was a lack of data. Once countries started responding, several nations faced difficulty in scaling up public communications, testing, contact tracing, critical-care capacity, and other measures to control the outbreak.[144]

Several foundational healthcare issues have an impact on the region, including some unresolved public healthcare issues such as polio in Pakistan, low rates of vaccinations, and high rates of child obesity, maternal mortality, and tuberculosis. This section presents three game-changing initiatives aimed at tackling the issues that present a high risk to the region over the next 20 years. (Foundational issues are addressed in the opening chapter of the report.)

The following three game-changers can transform the region's healthcare systems and have an even wider impact on the MENAP's economy and society.

Improved health in the region can add several healthy life years to each age group, driving a knock-on effect on GDP growth. For example, individuals in their 60s can live an additional 4.8 million healthy life years in 2040, boosting GDP by an additional $83.4 billion. Moreover, about 80 percent of these healthy life years are added to those under 70, who contribute strongly to the economy (Exhibit 52).

The economic impact of improving health can be quantified across three channels: a larger and healthier workforce, expanded participation, and increased productivity. These three channels could increase GDP by approximately $420 billion in 2040—a ~7.7 percent boost in GDP for that year (Exhibit 52). At the same time, health improvements could boost MENAP labor supply by ~5.8 percent, or ~13.3 million individuals, in 2040. 14.3 million lives could be saved in 2040 with improved health in the region. Based on the additional years lived and healthy years lived, we estimate that the social value boost from this could amount to $7.8 trillion in 2040.

Game-changer: Adopt a "Health in All Policies" (HiAP) approach. Ministries and entities at the highest levels of government should have health agendas aiming to proactively improve health outcomes, avoid detrimental health consequences, appropriately assess the health implications of decisions, and seek synergies across sectors.

Applying an HiAP approach requires at least three shifts in government:

— **Develop an overarching health strategy and objectives.** Governments could develop an integrated agenda on lifestyle disease prevention, instead of ministry- or department-level planning, on issues such as traffic, city design, and municipality planning. Government efforts to weave health into policy agendas can ramp up impact if they influence—either by statute or example—the incorporation of health and wellness objectives into regional private-sector human resource practices, as is increasingly prevalent globally. For example, Microsoft runs CARES, a comprehensive employee wellness program which provides holistic physical and mental health support for employees and their family members to increase employee welfare – and by extension, productivity.[145] Rolling out such programs in the region at-scale through the integration of public, private, and non-governmental actors could support the prevention of lifestyle diseases among young people.

— **Activate enabling mechanisms to support health in all policies.** Governments should consider whether all the required human resources and skills are in place to implement HiAP. This can include employing individuals with health-policy backgrounds across all ministries, while health practitioners can serve as advisers to senior government officials. Governments could potentially also pursue a digital agenda for healthy

[144] Matt Craven, Adam Sabow, Lieven Van der Veken, and Matt Wilson, "Not the last pandemic: Investing now to reimagine public-health systems," July 2020, McKinsey.com.
[145] Microsoft CARES employee assistance program, mslwhc.com.

lifestyle management.

— **Support cross-sector collaboration to implement policies and programs.** Governments could partner with the private sector, non-governmental actors, and citizens, launching initiatives to promote healthy environments and behaviors. Policies and programs could be implemented to support dietary interventions, promote behavioral change, and help people stop smoking.

In addition, governments could introduce audit and accountability mechanisms to measure and improve the health and equity impacts of decisions.

Case study: The South Australian HiAP approach

In 2008, the state of South Australia's Cabinet endorsed HiAP as a cross-government process to improve the health and wellbeing of its population. The initiative's overall governance is connected to the State Strategic Plan and implemented with a methodology called the Health Lens Analysis (HLA).[146]

The HLA's five elements aim to effectively deliver beneficial outcomes for the Strategic Plan and HiAP:

i. Develop and maintain working relationships across sectors, and agree on a policy focus

ii. Gather evidence: Understand the health impact of policies being studied, and identify evidence-based solutions and policy options

iii. Generate: Develop policy recommendations that are jointly owned by all stakeholder entities

iv. Navigate: Push recommendations through the decision-making process

Evaluate: Determine the effectiveness of the health lens process[147]

HiAP pushed a health lens across public service through helping government entities understand the second-degree impact of their policies on health and wellbeing and taking steps to increase health benefits. The majority of public servants reported that they could see clear links between their department's work and the social determinants of health, and agreed or strongly agreed that collaborating with HiAP had increased their understanding of the social determinants of health and equity.[148]

Game-changer: Push the adoption of virtual health and digital to boost efficiency. Governments could use the power of digital to manage costs and accelerate the shift to online-offline integration of health services. The current healthcare system is costly and inefficient, and COVID-19 have exacerbated existing weaknesses in healthcare planning, information sharing, and resource allocation.

Over the last decade, virtual health was expected to disrupt the healthcare industry, but adoption by providers, payors, and consumers was slower than expected. However, the demands of managing COVID-19 has sped up the adoption process.[149]

Investment growth in virtual health systems is expected to accelerate over the next decade.

[146] A Lawless et al., "Health in all policies: Evaluating the South Australian approach to intersectoral action for health," *Canadian Journal of Public Health*, 2012.
[147] Health Lens Analysis projects, Government of South Australia. sahealth.sa.gov.au.
[148] Fran Baum et al., "To what extent can the activities of the South Australian Health in All Policies initiative be linked to population health outcomes using a program theory-based evaluation?" *BMC Public Health* Volume 19, 2019.
[149] Jennifer Fowkes, Caitlin Fross, Greg Gilbert, and Alex Harris, "Virtual health: A look at the next frontier of care delivery," June 2020, McKinsey.com.

A 2019 McKinsey survey[150] of health system leaders showed that the adoption of virtual health is highly concentrated in synchronous telemedicine, with limited investment across other virtual health technologies (Exhibit 53). However, remote monitoring is cited by the most leaders as an area ripe for future investment.

Healthcare systems can adopt virtual health to boost the quality of care, reach more optimal efficiency levels, and realize positive fiscal benefits. They can promote adoption by focusing on the following five dimensions.[151]

— **Strategizing for growth.** Build strategies to scale virtual health and leverage applications beyond only telehealth and synchronous telemedicine to drive growth. For example, the European Commission published a Communication on enabling the digital- and analytics-led innovation in healthcare, laying out the strategic approach for the meaningful use of digital innovation across a range of healthcare uses.[152]

— **Redefining system inefficiencies and cost structures through innovation.** Segment patient groups and specialties whose remote interactions could be scaled (e.g., specific chronic diseases) and supported by home-based diagnostics and equipment. This can be done by introducing innovative sites of care built on virtual applications and embedding applications of virtual care into ambulatory and acute workflows. For example, China-based Ping An's online health management platform, Good Doctor, is the largest globally, with over 300 million users. The company used its insurance customer base and data to build a health ecosystem connecting patients, payors, hospitals, and other care providers.

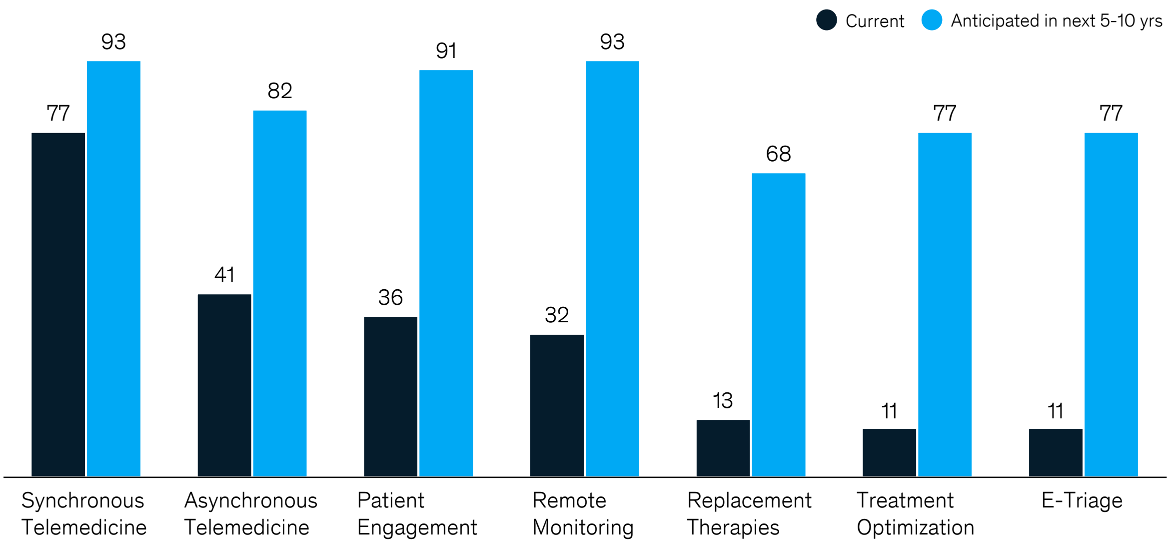
— **Optimizing consumer experience and health outcomes.** Develop a consumer-focused digital 'front door' that provides patients with an end-to-end digital channel to access

[150] McKinsey Virtual Health Provider Survey, November 2019, via "Virtual health", 2020.
[151] Ibid; Oleg Bestsennyy, Greg Gilbert, Alex Harris, and Jennifer Rost, "Telehealth: A quarter-trillion-dollar post-COVID-19 reality?" May 2020, McKinsey.com.
[152] Digital Europe Program: a proposed €9.2 billion of funding for 2021–2027, European Commission, June 26, 2019, ec.europa.eu; Digital education action plan, European Commission, via Angela Spatharou, Solveigh Hieronimus, and Jonathan Jenkins, "Transforming healthcare with AI: The impact on the workforce and organizations," March 2020, McKinsey.com.

Exhibit 53:

Current and anticipated investments in virtual health

Provider investment in virtual health applications (percentage of providers surveyed) (n = 60)



2020 McKinsey Virtual Health Provider Survey, n = 60 Health system executives providers. A patient starts their journey online and is redirected to an optimal care setting, including home-based care supplemented by AI, virtual care, phone-based diagnostics, and other virtual patient-engagement platforms; optimal use of specialist skills is prioritized through a 'virtual gatekeeper' to redirect health concerns. Virtual health can also be integrated into new product designs, such as insurance plans

— **Aligning the workforce with the shift to virtual care.** Design operations, capabilities, and incentives for the provider workforce to support virtual care; e.g., workflow design, education, training.

— **Building the technology infrastructure.** Strengthen the technology, R&D, and analytics capabilities required to reach virtual health's full potential.[153] Governments can build the infrastructure required to integrate virtual applications with systems of engagement (e.g., electronic health records, revenue cycles, digital front doors), and define an approach to move to a sustainable and integrated virtual health platform.[154]

Game-changer: Induct 8 million more healthcare service professionals over the next 20 years[155]. Health systems can create a sustainable healthcare workforce by establishing a recruitment pipeline, optimizing the distribution of tasks, and adopting new technologies to supplement healthcare resources.

Additionally, countries can use a population health-management strategy as a basis for informed decision making and to understand the future burden of disease, as well as the resources required across geographies and populations.

Governments can pull various levers along the journey of a healthcare professional to make the right resources available.

— **Education and training.** Build the human and institutional capacity to design, build, and deliver university education and in-service education of health workers to scale up human resources in the required specialties.[156]

— **Attraction and retention.** Facilitate the exchange of international talent, set policies to facilitate the movement of people, and coordinate with the rest of the region across work-exchange programs and training.

— **Optimal distribution of healthcare tasks.** Effectively distribute resources across geographies to align access to quality care across specialties to population needs. This can be done by reorganizing the workforce to manage NCDs and adopting new technologies to supplement healthcare resources.

[153] "Telehealth," 2020.
[154] "Virtual Health," 2020.
[155] Shows the gap in healthcare professionals between MENAP and OECD. MENAP will need to add 8mn more health-service professionals over the next two decades (adjusting for population growth) to reach current OECD levels of healthcare service professionals (doctors, nurses, and midwives). "Population Prospects," 2019; WHO (2008–2018 data); number of healthcare professionals based on latest available data between 2014 and 2018. Excludes Palestine due to lack of data.
[156] WHO, "Global strategy on human resources for health: Workforce 2030," who.int.

6. Rebuilt conflict zones

Numerous geopolitical shifts and conflicts have hit the region over the last two decades with significant humanitarian and economic consequences for its population. Several countries in the region are in or recovering from conflicts, the most prominent being the wars in Libya (2011–present), Syria (2011–present), Iraq (2003, 2014–2017), and Yemen (2015–present).

These conflicts have had significant humanitarian implications on the region.[157]

- **800,000 casualties:** The Syrian Observatory for Human Rights estimates that there have been 570,000 casualties in Syria since the start of the conflict, The Armed Conflict Location & Event Data Project (ACLED) estimates 90,000 casualties in Yemen since 2015, and Iraq Body Count Project estimates 70,000 casualties as a result of Iraq civil war, while ACLED, the World Health Organization, and Human Rights Solidarity estimate 18,000 casualties in Libya.
- **43 million vulnerable people:** There are around 43 million people in desperate need of food, healthcare, education, and housing across the region. The United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA) estimates that there are 11.7 million people in need in Syria, 24 million in Yemen, 6.7 million people in Iraq, and around 900,000 people in Libya.
- **9 million refugees:** The United Nations High Commissioner for Refugees estimates that there are 5.6 million refugees from Syria, 200,000 from Yemen, 3 million from Iraq, and 15,000 from Libya.
- **12 million internally displaced persons (IDPs):** UN OCHA estimates there are 6.2 million IDPs in Syria, 1.8 million IDPs in Iraq, and 3.6 million IDPs in Yemen, while the International Displacement Monitoring Center estimates 200,000 IDPs in Libya.

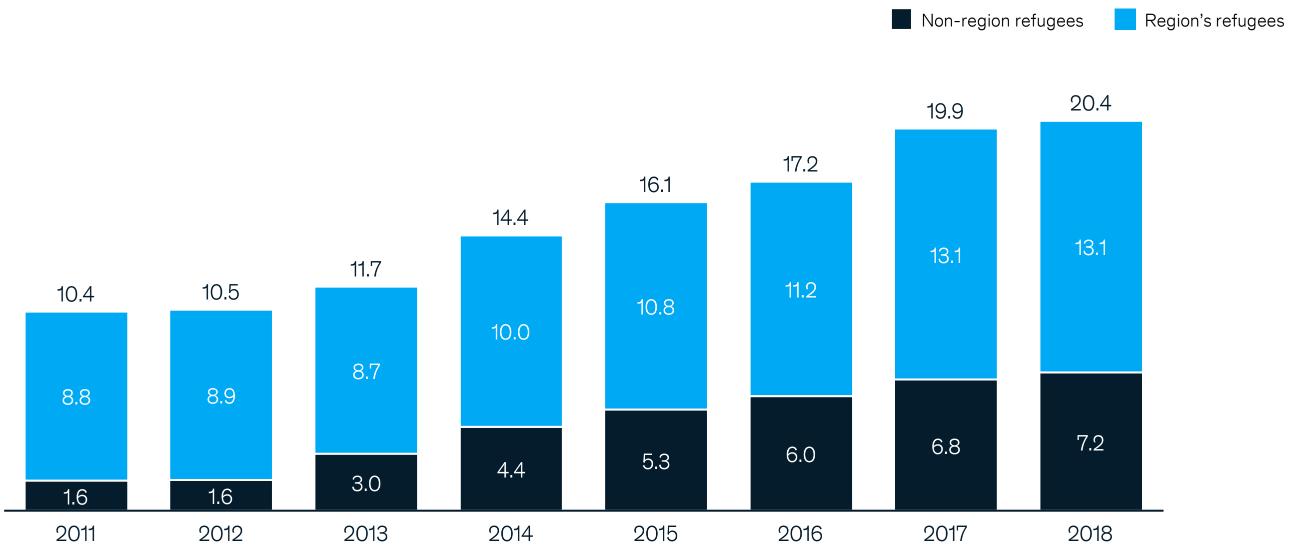
The impact of conflict goes beyond the region: the number of refugees in the world has grown significantly in the past eight years, in part owing to the region's conflicts, increasing from 10.4 million in 2011 to 20.4 million in 2018. Close to 70 percent of this increase comes from refugees originating from the MENAP (Exhibit 54).[158]

[157] United Nations Office for the Coordination of Humanitarian Affairs.
[158] United Nations High Commissioner for Refugees; the figures included in this report are not inclusive of all humanitarian. and economic impacts of the conflicts.

Exhibit 54:

Outflow of refugees from MENAP has contributed to growing number of refugees globally

Global refugee population, millions



Source: United Nations High Commissioner for Refugees Database

In addition to direct humanitarian impact, conflicts have affected the region's economic growth, with Yemen, Syria, and Libya losing between 42 and 84 percent of their pre-conflict GDP (Exhibit 55). Iraq's economy shrunk immediately after the 2003 war, but the country has been able to rebound to its pre-war GDP levels primarily owing to the increase in oil prices and production during the same period. Iraq's income per capita, however, is still far behind that of other oil-producing countries in the region, which have enjoyed relative political stability over the last two decades.

In total, recent and ongoing conflicts in the region have since 2010 cost the region approximately $175 billion—about 7 percent of region's total GDP in 2010 (Exhibit 55).

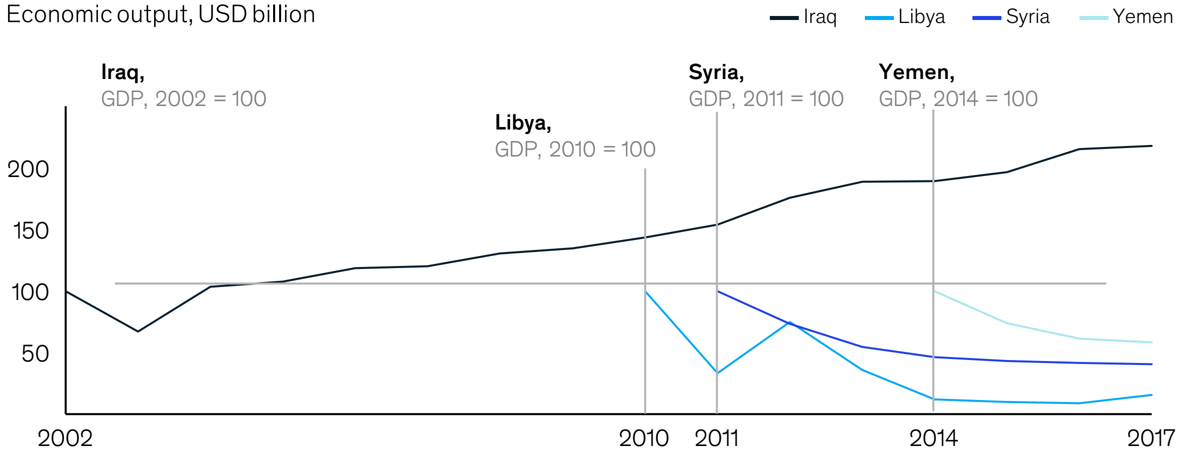
Conflicts have also had an impact on the economies of neighboring countries. Countries bordering a war zone in the region have lost, on average, nearly two percent of their output because of these conflicts.[159] Jordan has experienced an influx of more than 630,000 Syrian refugees, costing its economy more than $2.5 billion a year. This amounts to 6 percent of GDP, and a quarter of the government's annual revenues, with Jordan's average per capita income estimated to be 1.1 percent lower now than it would have been without the impact of the conflict.[184] In addition, Lebanon hosts more than a million Syrian refugees. The World Bank estimates that this has dragged real GDP growth by 2.9 percentage points each year from 2012 to 2014, pushing more than 170,000 Lebanese citizens into poverty. The impact has also led to doubling of the country's unemployment rate to above 20 percent, with average per capita income estimated to be 1.1 percent lower now than it would have been with no conflict in surrounding countries.[160]

[159] Florence Gaub, "Arab wars: calculating the costs," EU ISS, October 2017.
[160] World Bank, "By the numbers: The cost of war & peace in the Middle East," February 2016, worldbank.org.

Exhibit 55:

Economic output in conflict countries dropped significantly after start of conflicts

Economic output, USD billion



Libya

-84%

-$136 bn

Syria

-60%

-$23.5 bn

Yemen

-42%

-$15 bn

Source: IHS Global Market database

Conflict in the region has significantly depressed the population's job opportunities. It is estimated that only one in three adults in conflict zones, the equivalent of 4 million adults, will be employed by 2040 if conflicts in the region persist (Exhibit 56).

The region could consider opportunities to rebuild conflict zones, for example, a region-wide joint reconstruction fund. However, for the region to initiate a comprehensive and effective reconstruction campaign, it will be important to consider how ongoing challenges could slow its reconstruction, including the following:

— The ongoing economic and humanitarian situation in several countries

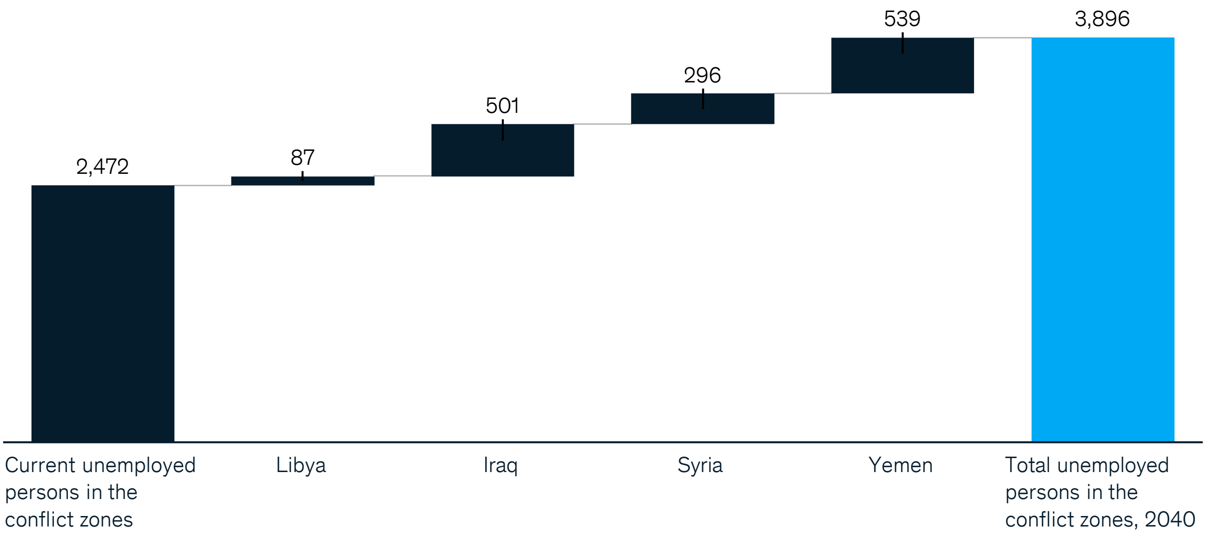
— The level of fundraising required for reconstruction

— The limited institutions on the ground to deploy and manage investments effectively

Exhibit 56:

Continued conflict will result in increasingly larger numbers without jobs in MENAP

Unemployed persons in 2040[1], thousands



1. Assuming 2040 estimate of 16-64 population of conflict zones from the UN and assuming labor-force participation and unemployment rates stay constant at 2018 levels.

Source: ILO Labor Data

~$790bn

Could bee needed to fund post-conflict reconstruction across the region

Game-changer: A joint recovery fund and mechanism could be considered, as seen in other recovery countries. The total reconstruction costs for the four conflict countries could be as high as almost $800 billion, according to various estimates[161]. The United Nations estimates that Syria needs $250 billion for reconstruction, while the Syrian government estimates a higher cost of $400 billion.[162] In Iraq, the government estimates that the balance needed for reconstruction is $90 billion.[163] In Yemen, research by the Sana'a Center for Strategic Studies has estimated the reconstruction cost to be around $80 billion, while official government estimates give the cost as around $100 billion.[164] In Libya, a UN study estimates the cost of reconstruction at about $200 billion (Exhibit 57).[165]

Altogether, these four countries need between $620 billion and $790 billion of investment to return to their pre-conflict economic growth levels. A regional recovery and development plan, funded by members from inside and outside the region, could be considered to aid the recovery of conflict zones in the region. The fund will amount to a total investment of $6,850–8,700 per capita which is comparable to the foreign aid that Western Europe received from the US after World War II—including immediate after-war aid, the Marshall Plan, and the Mutual Security Act—which was around $7,200 per capita.

The region can look to previous large-scale reconstruction and recovery efforts in other parts of the world to inform and support the successful execution of the recovery plan.[166] First, the recovery plan should prioritize humanitarian needs in conflict zones, attending to the population's immediate need for food, housing, medical support, and education. This would be similar to the Marshall Plan, in which the United States first addressed humanitarian needs in Western Europe—mainly food shortages and housing— two years before the Marshall Plan started. The region's immediate humanitarian needs[167] are as follows:

— 35 million people have no access to healthcare

— 31 million people do not have access to sufficient food

— 12 million children have no or limited access to education

— 12 million people need shelter

The recovery plan could also reconstruct damaged infrastructure; repairing and rebuilding assets such as roads, airports, and seaports damaged by conflict is a prerequisite for the successful recovery of the impacted economies. In addition, the recovery plan should support and promote productive economic activities. It should be.

— Country-specific and based on a full assessment of each country's characteristics and potential

— Accompanied by a technical assistance program to ensure that conflict zones have all the resources they need to recover

— Aimed at building institutional capacity to support sustainable post-plan economic gains

— Focused on promoting trade and integration with the rest of the region

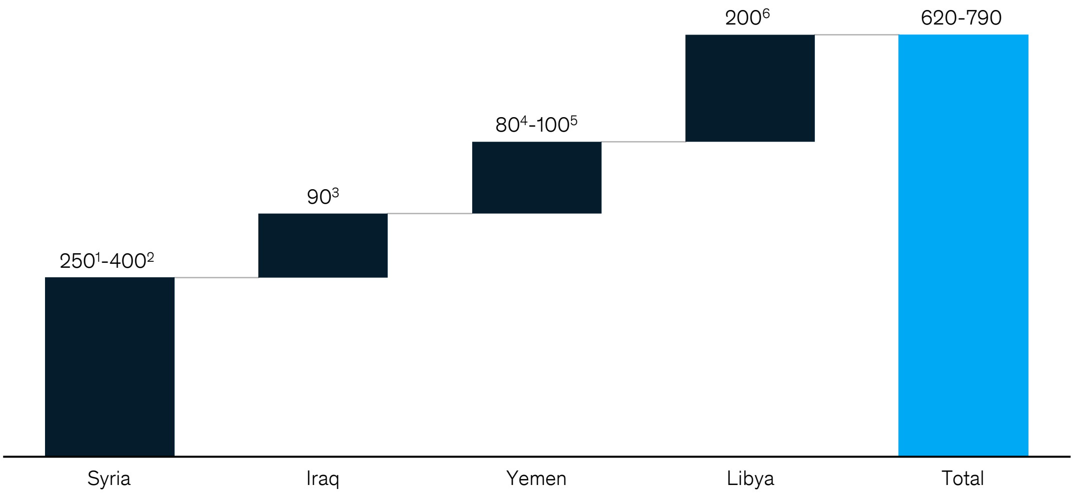
— Monitored and revised depending on progress

[161] Figures do not include recent escalations in the Israel-Palestine conflict which, at the time of writing, have killed over 212 people, destroyed 132 buildings and left over 2,500 people homeless; according to reporting from the New York Times.
[162] Security Council Briefing on the Situation in Syria, Special Envoy Staffan de Mistura, November 2018, dppa.un.org; "Syrian President predicted that the process could last 10–15 years with a cumulative cost of $400 billion," Associated Press, 2018.
[163] Planning Minister Salman Aljumaili said an assessment by Iraqi and international experts put reconstruction costs at $88.2 billion, 2018.
[164] Osamah Al-Rawhani, "Yemen's state (re)building: A tale of too many obstacles," The Sana'a Center for Strategic Studies, 2018; Vice President of the Yemen's "legitimate" government, Salem Alkhanbashi, estimates that the reconstruction of what has been destroyed by the 4-year-old war in Yemen will cost about $100 billion.
[165] "The economic effects of war and peace", UN Mena Quarterly Economic Brief, 2016.
[166] Tigran Hasic, "Reconstruction planning in post-conflict zones: Bosnia and Herzegovina and the international community," Stockholm: Infrastruktur, 2004.
[167] United Nations Humanitarian Needs Overview.

Exhibit 57:

Reconstruction of conflict countries can cost up to $800 billion

Estimated reconstruction cost, USD bn



1. Security Council Briefing on the Situation in Syria, Special Envoy Staffan de Mistura.
2. Syria president Assad predicted that the process could last 10–15 years with a cumulative cost of $400 billion. Associated Press, 2018.
3. Planning Minister Salman al-Jumaili said an assessment by Iraqi and international experts put reconstruction costs at $88.2 billion, 2018.
4. "Yemen's State (Re)building: a Tale of Too Many Obstacles" Osamah Al-Rawhani, the Sana'a Center for Strategic Studies, 2018.
5. Vice-President of the Yemen's "legitimate" government, Salem al-Khanbashi estimates that the reconstruction of what has been destroyed by the four-year-old war in Yemen is about $100 billion.
6. "The Economic Effects Of War And Peace", UN Mena Quarterly Economic Brief, 2016.

Conducting a large reconstruction effort covering a significant part of the region will undoubtedly come with hurdles and risks to effective execution. Exhibit 58 highlights the major risks identified and global historical examples of mitigation efforts.

Exhibit 58:

Examples of recovery plans risks and potential mitigation efforts

Risks	Mitigation
Corruption and fraud: Corruption is considered the biggest challenge to the effectiveness of foreign aid. A World Bank analysis of cases between 2007 and 2012 found sanctionable fraud or corruption in 157 contracts globally worth $245 million.[168]	**Marshall Plan:** As part of the Marshall Plan, bilateral agreements were concluded in which the United States sent permanent representatives to Europe and set up a special agency in each of the countries involved to oversee funded projects.[169]
Environmental impact: Development banks and funds can be criticized for focusing on mega-infrastructure projects without environmental considerations, and for financing carbon-intensive developments such as coal production.	**World Bank introduced:** safeguard policies addressing environmental and social issues in project design, implementation, and operation. Examples of these requirements include conducting environmental and social-impact assessments, consulting with affected communities about potential project impacts, and restoring the livelihoods of displaced people.[170]
Political interference: Given the fund's dependency on donor states for capital and credit, development banks are vulnerable to being used to promote donors' political interests without effective safeguards.	**IMF:** Political neutrality is a guiding principle which aims to keep the IMF legally obligated to remain politically neutral and base their decisions only on economic grounds.[171]
Limited development in the private sector: Historically, most foreign assistance goes into public-sector projects such as infrastructure, healthcare, and education, limiting the private sector's development.	**Marshall Plan:** Aid was used to establish counterpart funds which were obligated to invest 60 percent of their capital in private-sector development.[172]

A successful reconstruction of conflict zones could potentially recover the economic damage—up to $175 billion to the region's GDP—and, if the region returns to its pre-conflict growth rates, improve overall employment levels. This impact is likely to touch all sectors of the economy not only for conflict countries but also for other countries in the region. One sector in particular, construction, is expected to have an outsized impact owing to the scope of the reconstruction effort. If construction firms in the region lead the construction then the impact on this sector in the region, and the economies of those firms, will be significant.

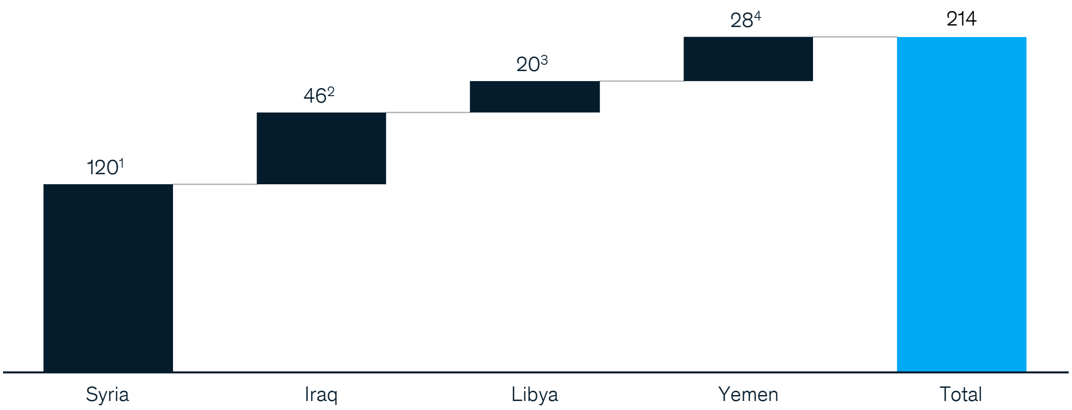
[168] Charles Kenny, "How much aid is really lost to corruption?" Center for Global Development, 2017, cgdev.org.
[169] "The Marshall Plan and the establishment of the OEEC," University of Luxembourg, cvce.eu.
[170] Environmental and social policies, World Bank, worldbank.org.
[171] Manuel Guitián, *The unique nature of the responsibilities of the International Monetary Fund, IMF, 1992.*
[172] Nicholas Crafts and Gianni Toniolo (eds), *Economic growth in Europe since 1945*, Cambridge University Press, 1996.

The infrastructure market size in the region is around $82 billion annually and conflict zones will require an estimated $214 billion's worth of infrastructure projects to recover (Exhibit 59).[173] This additional demand will present an enormous opportunity for existing infrastructure companies in the region to grow and create scale, and there will be knock-on effects on the region's broader economy. Knock-on effects would be similar to those of the Marshall Plan, where US food-processing companies and machinery manufacturers benefitted by increasing their exports to recipient countries in Europe.

Exhibit 59:

A significant part of the reconstruction effort will be on infrastructure

Total infrastructure cost needed for reconstruction, USD bn



1. The UN Economic and Social Commission for Western Asia (ESCWA) estimates the cost of the material destruction in Syria — damage to roads, infrastructure, homes and other physical objects — to be $120 billion.
2. Assessment by experts at the World Bank and the Iraqi government estimated 45.7 billion in damage to the country's houses, power plants, schools and other civilian infrastructure – *WSJ*.
3. Libyan Trade Chambers Association estimate of infrastructure cost – *The Arab Weekly*.
4. Yemen's Ministry of Planning and International Cooperation estimates – *Ashraq Al-awsat*.

7. Governments focused on performance and delivery

Countries with effective governance in place have a considerable advantage over their peers in the pursuit of economic growth. A government that enforces a high-quality and competitive operating environment and maintains stability for its citizens will find it easier to create a platform for the economy to thrive. The OECD has found in surveys that the region's youth have less trust in government than their parents and older generations. Since the youth constitute 60 percent of the region's total population, governments should direct their efforts to renewing the social contract and engaging youth in the economy and society.[174]

Governance can be examined through three different, yet interrelated, dimensions—political, economic, and institutional governance. Countries in the region face challenges across each of these areas. These three dimensions of governance can each be mapped to the World Bank's WGI.[175] Bank's WGI, which provides us with a comprehensive method of assessing the quality of governance across countries.

More effective governance in the region could create potential for growth and transformation

[173] IHS Global economy database.
[174] "World Population Prospects," 2019.
[175] Koen Berden et al. (2014) grouped the WGI into 3 different concepts. "Governance and globalization," The World Economy, 37(3), 353–386.

but MENAP is relatively weak across most of the World Bank's WGI (Exhibit 60). Looking at the latest data from 2018, we see that most countries in the region fall in the bottom 50th percentile across indicators.

When we analyze governance across developing economies, we see that countries with effective governments typically outperform their peers. The 2018 McKinsey report, *Outperformers: High-growth emerging economies and the companies that propel them* classified economies into five performance categories: long-term outperforming economies, recent outperformers, 'middlers', high income, and underperformers. In studying these classifications of economies, a positive correlation emerges between high-performing economies and their respective increases in a majority of the WGI scores between 1996 and 2018 (Exhibit 61).

Governments should consider reforms to address the challenges to effective governance in the region. Some of these reforms are mentioned earlier in this report (Chapter 2: Foundational reforms). The objective of this section, however, is to outline immediate ideas with the potential to make a large impact on the state of governance in the region.

Achieving significant improvements will be a long journey but a game-changing initiative can have the potential to catalyze this transformation: publishing annual government report cards to transparently and systematically track government progress and performance.

Game-changer: Annual government report cards encourage government effectiveness and accountability. Annual reporting on progress and performance can enhance government effectiveness, legitimacy, and accountability. This initiative involves governments setting targets with respect to access, quality, and cost of services and then producing an annual report card to track performance.

This initiative can also improve the success rate of governments taking on different change

Exhibit 60:

State of governance in MENAP 2018

	World Governance Indicators	Definition	Number of region's countries (out of 18) in bottom 50th percentile
Political governance	**Voice and accountability**	Extent of citizen participation in selecting their government, freedom of expression, and free media	17
	Political stability/ no violence	Likelihood of political instability and/or politically motivated violence	14
Economic governance	Government effectiveness	Quality of public services, civil service, policy formulation and implementation, and credibility of government commitments	12
	Regulatory quality	Government ability to formulate and implement policies and regulations that promote private sector development	10
Institutional governance	Rule of law	Extent of confidence in, and obeying rules of, society (e.g., contract enforcement, property rights, and safety from crime and violence)	10
	Control of Corruption	Extent to which public power is exercised for private gain	10

Source: World Bank Worldwide Governance Indicators efforts, pursuing large-scale improvements in performance, or revamping the delivery of their public services. In its 2018 report, titled *Delivering for Citizens: How to triple the success rate of government transformations*, McKinsey Center for Government (MCG) studied how governments carry out these change efforts.[176]

Given the current state of governance across the region, it will take sweeping improvements in government performance for the region to be on par with leading economies. MCG research has shown that governments taking on these large-scale improvements have a much better chance of succeeding when there are regular public updates on progress with channels for citizen communication and feedback (Exhibit 62).[177]

MCG also found that successful government change efforts require communication with citizens which has to be continuous (not a one-off message), compelling, inclusive of all people affected by the change (employees and citizens alike), and two-way, not only top-down.

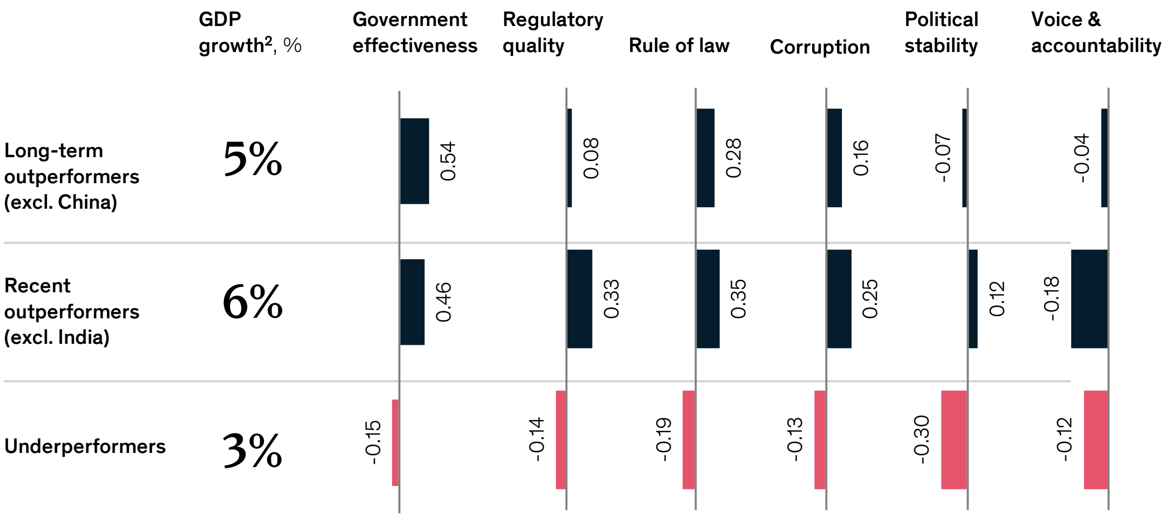
There are already some existing examples of this type of two-way communication happening in the region. For example, some Gulf countries have the traditional concept of a Majlis, or council, which serves as a forum for government leaders to discuss important matters with community members. Entire communities are invited to attend these Majalis (plural of Majlis) to hear important news and relay their opinions and concerns.[178] Another more contemporary example of this type of communication with citizens takes places in Saudi Arabia, where there are efforts by the National Center for Performance Measurement, Adaa, to track the progress of government programs. Adaa prepares quarterly reports on progress made toward

[176] MCG studied 80 government cases, conducted 30 interviews with leaders of these change efforts, and surveyed around 3,000 public servants involved in these efforts across 18 countries.
[177] McKinsey Center for Government Transformation Survey, 2019; Tera Allas, Martin Checinski, Roland Dillon, Richard Dobbs, Solveigh Hieronimus, and Navjot Singh, "Delivering for citizens: How to triple the success rate of government transformations," McKinsey Center for Government, May 2018.
[178] "Intangible Cultural heritage: Al majlis," Abu Dhabi Culture, abudhabiculture.ae.

Exhibit 61:

Absolute change in Worldwide Governance Indicators' (WGI) scores, 1996–2018

Average absolute change[1] across archetypes, scores range from -2.5 (weak) to 2.5 (strong)



1. Changes show only the difference in WGI scores between 1996 and 2018 and do not reflect declines early in that period or steady scores more recently.
2. Compound annual growth rate of GDP between 1996 and 2018 (rounded up to nearest unit).

Source: World Bank Worldwide Governance Indicators; IHS GDP data; McKinsey Global Institute analysis, McKinsey Outperformers Report achieving Vision 2030's main KPIs and objectives.[179] Another regional example is seen in Qatar, where the Ministry of Development Planning and Statistics established committees to monitor progress and prepare periodic reports on the implementation of objectives for the National Development Strategy (2018–2022) and the 2030 UN Agenda for Sustainable Development. One of the resulting reports was made public and released as part of a voluntary national review in 2018.[180]

Governments in the region can make this process more systematic, inclusive, and engaging by launching this proposed initiative on annual report cards. This can help build two-way communication with citizens and raise transparency on progress and performance. Governments can implement these annual report cards in three steps:

— Set targets: Set one- to three-year targets for program milestones and outcomes each year for services, programs, and initiatives

— Establish venues: Create venues for citizens to have a say in assessing performance and progress, either via technological platforms or other forums

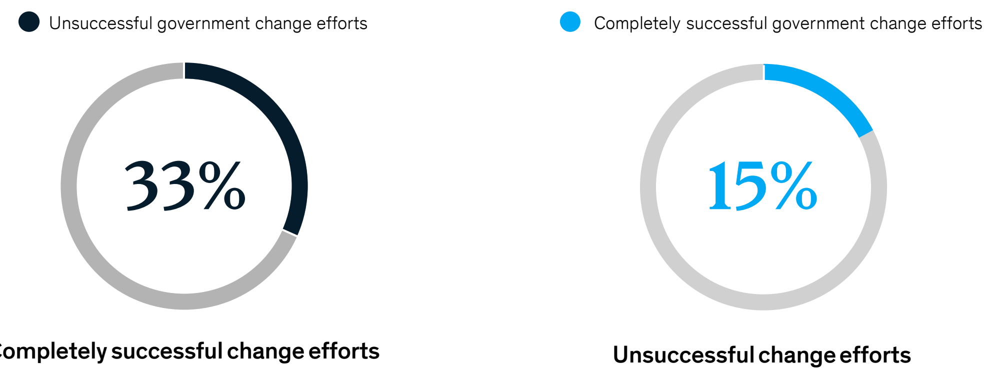
— Run appraisals: Run annual appraisals to measure progress and performance, then publicly release audited annual results through online dashboards or performance reports

[179] Adaa, The National Center for Performance Measurement, adaa.gov.sa.
[180] The State of Qatar Second Voluntary National Review, July 2018, sustainabledevelopment.un.org.

Exhibit 62:

Communication efforts in successful vs unsuccessful government change efforts

Respondents indicating that, during major government change efforts, there were regular public updates on progress with channels for citizen feedback, weighted percentage of total respondents



Source: McKinsey

The exhibit below (Exhibit 63) considers examples of countries outside the region, looking at how they approached each of these three actions. Each of these steps can help improve overall government effectiveness and encourage governments to follow through with their commitments. Setting targets can improve service delivery by defining and prioritizing objectives. It can also increase transparency of government actions, plans, and objectives for the year. By gathering citizen feedback and providing a platform for citizen engagement and participation, government report cards can also increase government legitimacy. By understanding citizens' needs—and aligning government efforts to meet those needs—report cards can drive citizen-centric policymaking and more inclusive growth.

The region can enhance the positive impacts of the report cards by publishing and making more data available to citizens. Governments can publish open data on social, economic, infrastructure, and legal information to enable data-driven policy making, and strengthen citizen engagement, transparency, and government accountability. Open data also offer ample opportunity for governments to collaborate across a range of stakeholders to tackle society's greatest challenges.

The COVID-19 crisis has shown that sharing timely and accurate data is crucial, especially in times of crises. Countries that had the infrastructure and willingness to readily collect, analyze, and disseminate information and data were better equipped to confront the health and economic consequences of the crisis. Lack of transparency and clarity of action from some governments early on in the pandemic led to the virus spreading faster and higher case growth levels while countries that were transparent from the outset were able to manage the contagion and the case spread much earlier in the pandemic.

The impact on the region from executing this game-changer on governance would be deep. If executed at a mass scale, it can help to improve the mechanism by which citizens are engaged and governments are monitored, the capacity for governments to deliver inclusive and quality services, and the respect for, and upholding of, the country's institutions.

Exhibit 63:

Example mechanisms for government report cards in other countries

Implementation mechanism

Key actions	Examples
1 **Set targets**	In 2010, the United States adopted the Government Performance and Results Act, which sets the process for federal agencies to set performance objectives and the performance management system. This act included the creation of COOs, Performance Improvement Officers in federal agencies, and the Interagency Performance Improvement Council (IPIC).[1]
2 **Create venues for citizen feedback and input on progress**	In 2014, the Indian government launched MyGov. an online platform for citizens to share input, ideas, and concerns. By 2018 approximately two milllion citizens had participated, submitting different suggestions across policy areas.[2]
	Colombia's Minister of Education held discussion forums, including regular meetings with approximately 1,500 teachers to discuss the progress and challenges of the ongoing education transformation.[3] These dialogues helped the government keep track of progress and challenges, building trust with stakeholders.[2]
3 **Run yearly appraisals and publish annual reports**	Kerala's Chief Minister, Pinaryi Vijayan releases annual progress reports, reporting on the progress of up to about 600 promises made to the public.[3,4]
	The US website Performance.gov reports on progress made towards goals and objectives for different government departments (e.g., progress made per KPI in meeting IT modernization objectives).[5] The Obama administration published "Year of Action" reports, highlighting areas of progress and key executive decisions taken.[2]

1. https://www.performance.gov.
2. McKinsey center for government: delivering for citizens how to triple the success rate of government transformations (2018).
3. Kerala CM: Official website of Kerala Chief Minister, https://keralacm.gov.in.
4. "Pinarayi Vijayan to release govt's progress report on Monday," *The New Indian Express*, 8 June 2019.
5. https://www.performance.gov.

4 A reimagined region

MENAP is a region with significant promise, core to which is its vibrant and youthful population. Unlocking the true potential of the region's youth would yield significant dividends for future generations. Through our work in the region over the past two decades, we have come across numerous inspiring stories of positive change led by individuals, businesses, governments, and NGOs. We believe that scaling and diffusing these stories across the region can drive significant growth and foster sustainable prosperity. In this report we have compiled ideas that, put together, have the potential to turn the regional trajectory and secure a bright future for young people from Morocco to Pakistan. Executed well, these ideas could potentially more than double the region's economic output and create millions of jobs over the next two decades. Below we outline how a reimagined MENAP could look like if these game-changers and foundational reforms achieved best-case outcomes:

— **Bridging the global education gap.** The region's educational outcomes are on a par with the world's top-performing countries in the world, becoming ever more competitive as the interconnectedness in the global education economy increases.

— **Equipping youth for jobs of the future.** The region's young people enter the workforce equipped with the skills to thrive in a jobs market increasingly transformed by emerging technology. Public and private-sector skills programs nurture an agile labor force, where workers can easily reskill and upskill to meet rapidly changing economic demands.

— **Providing a wealth of work opportunities.** The region is creating promising work opportunities for youth entering the labor force—nearly 150 million young people over next two decades. The region's youth are empowered to be part of creating their own opportunities, and are not over-reliant on governments to find them direct employment.

— **Empowering women to thrive in the workforce.** The region has fully supported women entering the workforce. An expected additional 70 million women—equivalent to the United States' entire female labor force,—are expected to become economically active by 2040, boosting the region's economic output by almost $2 trillion.

— **Removing the economic barriers between countries.** The region's economies are more connected then ever since barriers to intraregional integration have been removed. The larger, more open MENAP economy has provided the foundations for businesses to achieve scale globally, giving rise to 30 global superstar companies that make an outsized contribution to regional innovation and economic output.

— **Becoming a center of innovation.** The region has transitioned to become one of the world's primary innovation hubs. While previously the region was mainly a consumer of technology and innovation produced elsewhere in the world, MENAP's youth are now empowered to create world-leading products and services.

— **Providing high-quality healthcare to everyone.** The region's healthcare systems have moved beyond fighting conditions long resolved in advanced economies and are now able to provide adequate and sufficient healthcare to all of the population. The region's populations are reversing recent trends of increases in chronic lifestyle diseases.

— **Engaging with citizens to meet their needs.** The region's governments are attuned to the needs of their youthful populations, delivering services efficiently and effectively. Citizens are broadly engaged, and government trust has strengthened, with mechanisms put in place to provide transparency on government performance.

— **Moving beyond conflict and turmoil.** The region has moved beyond the vicious cycle of conflict and has come together to help war-impacted countries move beyond conflicts and integrate further into the global economy

The region's leadership owe it to their youth and to future generations to make these aspirations a reality. Continuing down the same path will only entrench existing challenges, making them even more difficult to address in the future.

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