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ENHANCING FISCAL CAPACITY TO ATTAIN THE MILLENNIUM DEVELOPMENT GOALS: FINANCING SOCIAL PROTECTION

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Acknowledgements

This study, produced by the Economic Development and Globalization Division of the Economic and Social Commission for Western Asia (ESCWA), notes that the Arab Spring took place despite strong progress towards the aggregate indicators of the Millennium Development Goals (MDGs) and advocates for social protection as a way to overcome the failure of previous development efforts. Using the capability approach as a theoretical framework, it argues for the linkages between social protection and MDGs. After assessing the impact of the Arab Spring on public finances, it discusses the financing of social protection in the current fiscal circumstances.

This study is the result of research undertaken by Mr. Kenneth Iversen and Mr. Khalid Abu-Ismail with contributions from Mr. Ramzi Mabsout, Ms. Heba Nassar and Mr. Abdel-Hameed Nawar. The views represented here are those of the authors and do not necessarily reflect the position of ESCWA or the United Nations.

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I. THE ARAB SPRING AND MDGs

The events that have taken place in the Arab world since the beginning of 2011 have demonstrated that the socioeconomic and political situation in the region is not sustainable. Most countries in the Arab region have witnessed social protests, demonstrations or revolutions in the previous year as the people demanded freedom, dignity and equality. The issues and slogans of the protests, particularly the demand for social justice, reflected the spirit of the Millennium Development Goals (MDGs), which focus on combating poverty and inequality and emphasize gender equality. An additional linkage between MDGs and demands of the social movements is the importance of employment.

Arab countries are characterized by immense diversity and many different challenges must be tackled to achieve MDGs. Before the Arab Spring, MDG progress in the region was uneven. Some countries recorded strong progress towards most indicators, while other countries regressed. In 2011, The Economic and Social Commission for Western Asia (ESCWA) reviewed progress towards MDGs in the Arab region. The report found that the countries of the Arab Mashreq and the Maghreb overall were on track to attain most MDGs by 2015 and that progress towards Goal 2 (achieve universal primary education) and Goal 3 (promote gender equality and empower women) was especially strong. It found that high-income countries, namely the members of the Gulf Cooperation Council (GCC), were also likely to achieve most MDGs by 2015. Finally, ESCWA reported that the least developed countries (LDCs) in the Arab region were lagging behind more developed countries regarding most MDGs and the people in those countries were suffering from multidimensional poverty.[1]

A. QUICK FIXES, NARROW INTERVENTIONS AND LOW-HANGING FRUIT

Initially, MDGs were designed as outcome indicators and did not provide recommended policies to achieve those outcomes. However, since MDGs overlap with sectoral social policies to a certain extent, many countries focused on such policies to achieve them. For example, the responsibility to attain Goal 2 was with the ministries of education, while the ministries of health were responsible for Goal 4 (Reduce child mortality), Goal 5 (Improve maternal health) and Goal 6 (Combat HIV/AIDS, malaria and other diseases). Hence, countries adopted sectoral social policies for each goal, and MDGs were no longer perceived as a package. The spillovers and interlinkages between the goals were neglected, which may have contributed to slow progress in many cases.

The global MDG numerical targets included a mixture of proportional reductions and universality. Proportional reductions included indicators such as to halve poverty (Target 1.A), reduce under-five mortality by two-thirds (Target 4.A) and halve the proportion of the population without access to safe drinking water and basic sanitation (Target 7.C). Targets directed at attaining universality include universal access to education (Target 2.A) and universal access to reproductive health care (Target 5.B). The targets that aimed for a reduction of a certain proportion created questionable incentives for policymakers because it was possible to meet the targets without improving the situation of the poorest or the most vulnerable. For example, countries could reach the target related to poverty by focusing on those just below the poverty line without making any real progress for the extreme poor. Such policies aimed to reach the "low-hanging fruit", or the easiest group to lift out of poverty, rather than the group with the greatest need.

Such issues are global in nature, but they have severely impeded progress particularly in the Arab region. Sectoral interventions and the focus on low-hanging fruit have been integral parts of MDG strategies in several Arab countries. Recently, ESCWA emphasized the importance of not interpreting the MDGs as a justification to implement new sectoral policies, and argued for a holistic approach to social development.[2]

Although it is well-known that improving child health positively impact educational progress, and that access to water decreases infant mortality, policymakers forgot the interlinkages between the goals. Complementarities between the goals make a compelling case for integrated social policies because the return from an integrated package is higher than the sum of the returns from sectoral policies. A wide range

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[1] ESCWA, 2011, p. x.

[2] ESCWA, 2011, p. 59.

of social spending measures can positively impact both economic growth and human development through several channels. It can also indirectly enhance economic growth through its impact on human capital and thus foster human development, both directly and through the trickle-down effect.

B. MDG PROGRESS: INEQUALITY, THE NEGLECTED DIMENSION

It is remarkable to observe that the two countries that were first affected by the Arab Spring, namely Tunisia and Egypt, were among the top MDG performers in the region. Nevertheless, the evaluations of national progress towards MDGs did not account for large inequalities within each country, be it between rich and poor, rural and urban or men and women. Thus there is a need to look beyond national averages of MDG indicators in order to better understand the situation on the ground.

One of the main criticisms of the MDG framework is that inequality was forgotten even though equality plays a crucial role in development. Inequality can be a barrier to economic development and it can contribute to political and social unrest. The Arab uprising is the most recent and relevant example.

Inequality is an often-overlooked indicator for monitoring progress towards Goal 1, namely the “Share of poorest quintile in national consumption”. Data on national consumption disaggregated by wealth quintile is not readily available in the region. Without that data, it is difficult to perform a serious evaluation of the indicator or to establish trends over time. Countries often measure what they judge to be important. The lack of available indicators on inequality in the Arab region is therefore in itself alarming and can be interpreted as an attempt to undermine the importance of equality.

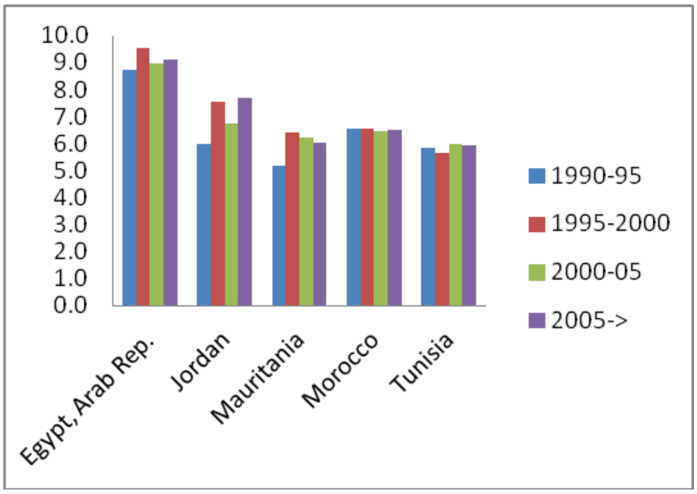
Of the 22 Arab countries, only 7 had data on consumption disaggregated by wealth quintile in the 1990s and only 13 had it after 2000. The available data, though limited, show that the share in national consumption of the lowest quintile in Arab countries is on average around 6 per cent. Since 1990, the share of the poorest in national consumption has increased in Jordan, Mauritania and Tunisia, while it has stagnated in Egypt, Morocco and Yemen.

TABLE 1. SHARE OF POOREST QUINTILE IN NATIONAL CONSUMPTION

Country	1990s	2000s
Algeria	7.0	
Comoros		2.6
Djibouti		6.0
Egypt	9.1	9.1
Iraq		8.7
Jordan	6.8	7.5
Mauritania	5.8	6.2
Morocco	6.6	6.5
Palestine		7.0
Qatar		3.9
Sudan		6.8
Syrian Arab Republic		7.7
Tunisia	5.7	5.9
Yemen	7.4	7.2

Source: World Development Indicators.

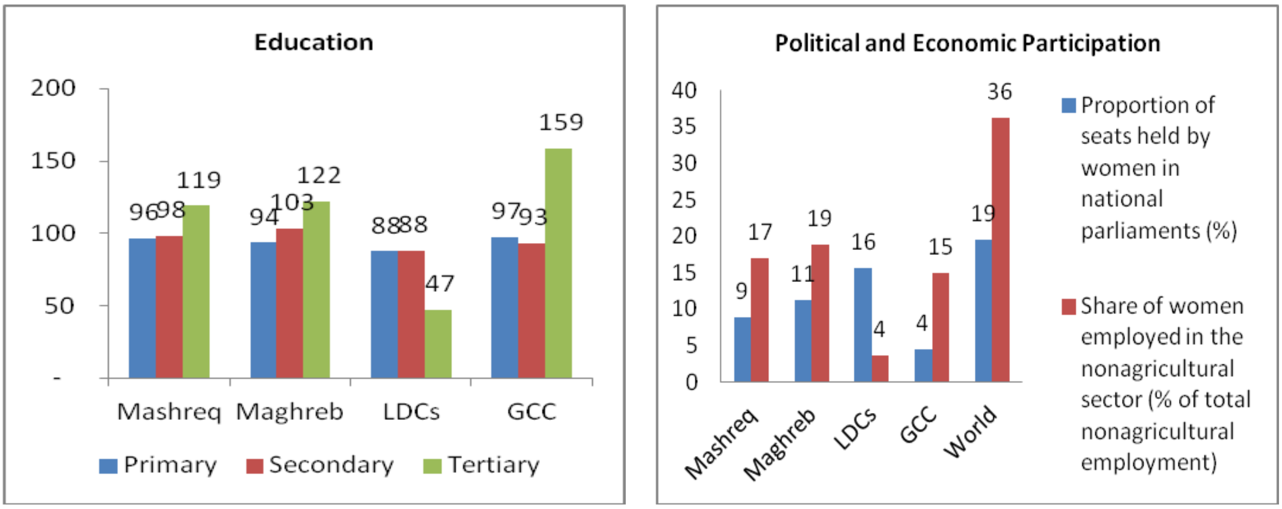
Figure I. Share of poorest quintile in national consumption, 1990-2005



Source: World Development Indicators.

Inequality is also explicitly targeted by Goal 3 (promote gender equality and empower women). Cultural, legislative and economic obstacles continue to hinder the achievement of gender equality and the empowerment of women in the Arab region. Nevertheless, the region has made significant progress towards gender parity in education. The most recent data show that gender disparity has almost been eliminated in primary and secondary education in all Arab subregions. However, in terms of economic and political participation, gender inequalities in the region remain strong. For the two MDG indicators that measure those gender dimensions, namely the proportion of seats held by women in national parliaments and the share of women employed in non-agricultural sectors, Arab countries are lagging behind the rest of the world.

Figure II. Gender parity indicators by subregion



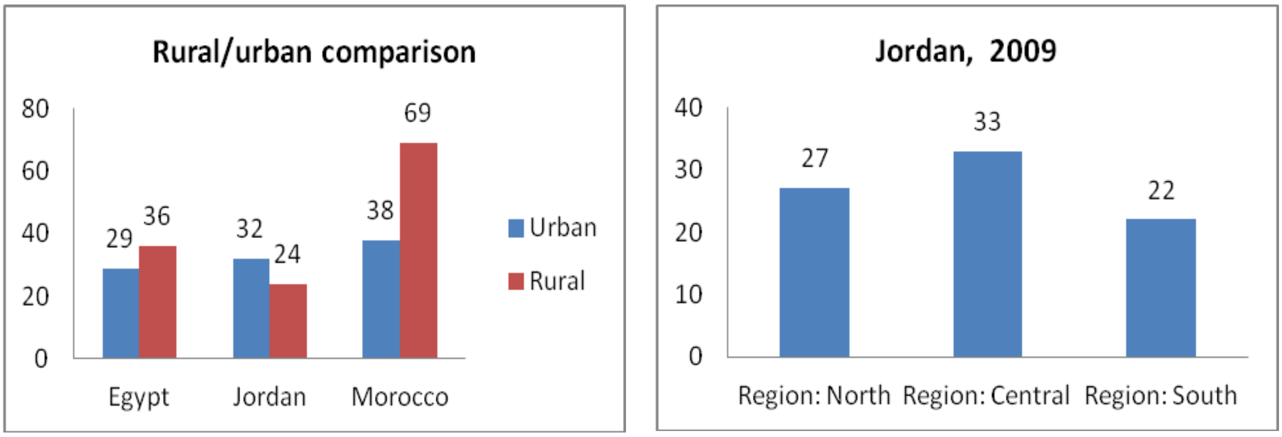
Source: World Development Indicators.

Note: Education figures are expressed as an index where 100 equals perfect parity.

National demographic and health surveys have provided further disaggregated data on MDG indicators that show the extent of inequality within a country. In the case of under-five mortality, disaggregated statistics show that rural areas are lagging behind urban areas. That is particularly the case in most Arab countries with the exception of Jordan, where under-five mortality is lower in rural areas than in urban areas.

There are also stark intracountry differences beyond the urban/rural divide. In 2008, the under-five mortality rate in Lower Egypt was 25/1,000, while it was 42/1,000 in Upper Egypt. The situation was similar in Jordan, where under-five mortality in 2009 was 22/1,000 in the south, 27/1,000 in the north and 33/1,000 in the central part of the country. In Morocco, there was a significant difference between the centre (43/1,000) and the south (65/1,000) based on data from 2003.

Figure III. Egypt, Jordan and Morocco: Under five mortality rates



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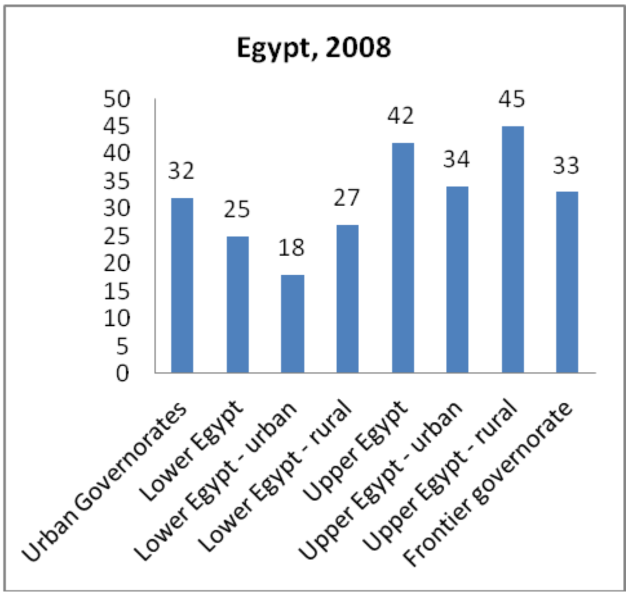
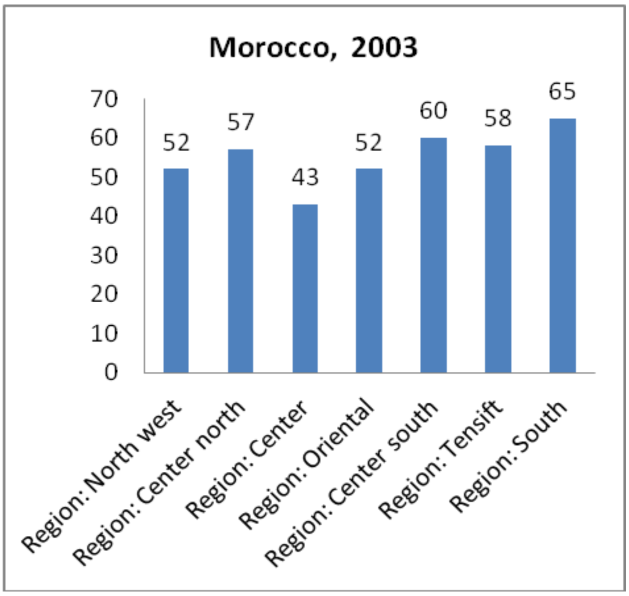




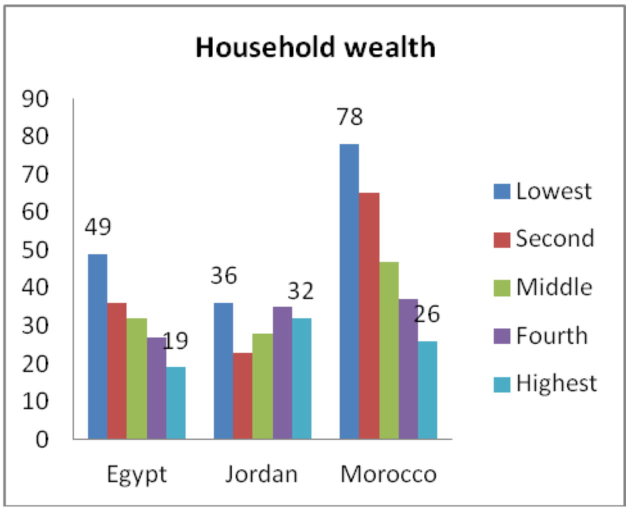
Source: Egypt (2008), Jordan (2009) and Morocco (2003) national demographic and health surveys.

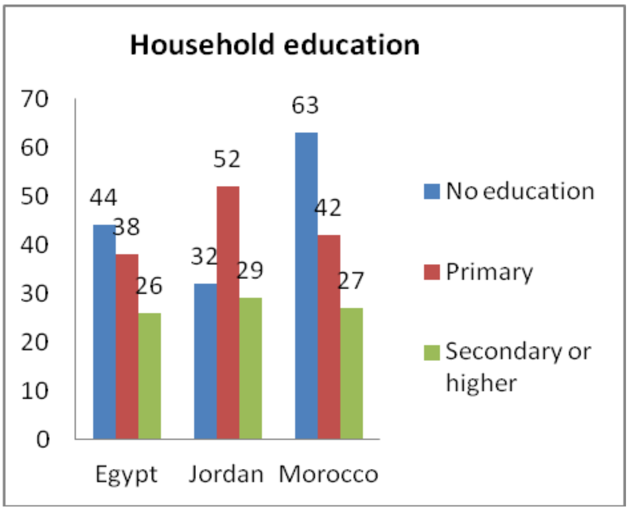
Note: All rates are per 1,000 live births.

There are also stark differences according to wealth quintile. The poorest quintile often lacks adequate access to health and education services, which leads to unequal health outcomes, as evidenced by the under-five mortality rate. In terms of national aggregate under-five mortality rates, Egypt (33/1,000 in 2008) and Jordan (31/1,000 in 2009) are comparable. However, the children in the bottom quintile in Egypt are much worse-off than the national average (49/1,000 compared to 33/1,000). In Jordan, the under-five mortality rate is also higher in the bottom quintile (36/1,000 compared to 31/1,000), but the difference is much smaller than in Egypt.

Education level, which is strongly correlated with household income, makes a big difference in terms of health outcome. In addition, families with a higher education level may have a lower level of under-five mortality because they have a better understanding of health risks.

Figure IV. Impact of wealth and education on under-five mortality





Source: Egypt (2008), Jordan (2009) and Morocco (2003) national demographic and health surveys.

Note: All rates are per 1,000 live births.

The foregoing assessment has shown that there are large disparities in progress towards MDGs between different groups within each country, but it has not provided an assessment of inequality dynamics over time.

The most common tool to assess inequality is the Gini index, a measure of wealth disparity within a country.[3] In recent years, the Gini index declined slightly in the Arab region. The average Gini score of 14 Arab countries, weighted by GDP, was 35.2 for the 1990s and 34.7 for the 2000s. However, clear manifestations of increasing inequality in the region seem to contradict that assessment.[4] In the 2011 Arab Development Challenges Report, the United Nations Development Programme (UNDP) referred to that contradiction as the "enigma of inequality" and argued that the Gini index underestimated inequality in the Arab region because it was based on consumption surveys that excluded the richest 5 per cent. That report found a significant difference between household expenditure reported by surveys and national accounts data that confirmed an underestimation of inequality in the Arab region.[5]

In the post-Arab-Spring context, there is increasing recognition that economic growth needs to be distributed in a more equitable way in order to foster inclusive development. The trickle-down effect of economic growth is often insufficient and must be complemented by concrete polices to promote social justice.

C. THE NEED FOR A COMPREHENSIVE, COHERENT AND COORDINATE APPROACH

Two key issues have been highlighted so far: (1) policies to achieve MDGs focused on quick fixes, narrow interventions and low-hanging fruit; and (2) equality has been undermined, if not neglected. Those two factors indicate the need for a comprehensive, coherent and coordinated approach, with a universal reach that will ensure the progress of everyone.

The United Nations General Assembly, in its resolution 65/1 of 22 September 2010, considered "that promoting universal access to social services and providing social protection floors can make an important contribution to consolidating and achieving further development gains". In addition, the United Nations System Chief Executives Board for Coordination endorsed the Social Protection Floor Initiative in 2009, which demonstrated the importance of social protection policies (see box 1).

Box 1. The social protection floor initiative

The International Labour Organization developed the social protection floor approach based on the experiences of extending social protection in developing countries. It was developed as an integrated set of social policies designed to protect vulnerable groups and empower people. The Social Protection Floor Initiative guarantees the following:

- Basic income security through such social transfers as pensions, child benefits, employment guarantees and income support benefits;
- Universal access to the basic social services in terms of health, education, food security, housing water and sanitation and so on.

There is no such thing as one social protection floor that can be generalized to all countries, and "social protection floors" in plural refer to the tailoring of social protection to national circumstances. Social protection floors are not a magic solution, but experience from a number of developing countries shows that they can be an important tool to reduce poverty and social exclusion.

Source: ILO, 2011, pp. xxii-5.

[3] The Gini index measures the deviation of individual or household income or consumption within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.

[4] Abu-Ismail et al., 2011, pp. 15-16. The 14 countries are as follows: Algeria, Comoros, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen.

[5] UNDP, 2011a, p. 26.

II. SOCIAL PROTECTION AND MDGs

The previous chapter demonstrated some of the drawbacks of the MDG framework, and argued for the implementation of social protection mechanism. As stated in the Arab Millennium Development Goals Report 2011, two principles should be followed to make social protection consistent with achieving MDGs. The first is the principle of comprehensive coverage which is rooted in the rights-based approach to development. Comprehensive coverage may require additional programmes for the poor or a progressive implementation given the fiscal constraints many countries are facing.

The second principle is to extend social protection systems so that they cover all aspects of life and the challenges of different population groups. Thus, social protection should not only protect the poorest people, but provide broad protection through the provision of job opportunities, insurance systems, unemployment benefits and special care for different vulnerable groups such as children, older persons and persons with disabilities.[6]

Social protection reflects national concern for fairness, dignity and the capabilities of its citizens and safeguards the capabilities of the chronically deprived and those who may only need such support temporarily. At the same time, social protection can be a capability enabler for the disadvantaged, because once their specific basic needs have been met, their capability can expand.

This chapter provides a rational for social protection for MDG achievement from the perspective of the capability approach. It will also review the current status of social protection in the Arab region.

A. SOCIAL PROTECTION FOR MDG PROGRESS: THE CAPABILITY APPROACH

The capability approach is a normative development framework based on the expansion of valuable human functions. The necessary inputs for a sustainable and inclusive capability expansion path in the Arab region require the fulfilment of all universal human rights and basic needs.

A fundamental feature of the capability approach is its multidimensional focus. Pluralism means that the different dimensions of well-being cannot always be traded for one another. The direct policy implications are that where development outcomes of different dimensions are unequal, a trade-off cannot be made. Each valuable dimension of capability expansion needs to be promoted as an end in itself for balanced and broad-based development processes and outcomes. The multidimensionality of the capability approach can be used to identify unbalanced development gaps.

1. *Capability approach for the Arab region*

The human development and capability approach paradigms can be used to guide the development process of Arab countries, including their progress on towards MDGs. During the momentous social uprising in the Arab region, claims for greater political participation, economic prosperity and social justice were made in a very explicit and radical way. Those events proved that dignity, equity, participation and empowerment are necessary rather than optional elements of development.

The Arab Spring started not in LDCs but in countries such as Tunisia and Libya with relatively high human development. In 2011, UNDP noted the unique strength of the Tunisian economy, stating that compared to other Arab countries, "Tunisia has achieved the most meaningful structural transformation whereby shares of manufacturing and services have increased and manufacturing has managed to make an average contribution of 20 per cent of GDP in the 2000s".[7]

Indeed, when compared to other Arab countries, Tunisia has had rather good economic policy, effective social policy and protection as well as average performance on health and education indicators.[8] But Tunisians also wanted dignity, fairness and freedom. The paradox was that Tunisians, far from being the

[6] ESCWA, 2011, p. 68.

[7] UNDP, 2011a, p. 32.

[8] UNDP, 2011a, pp. 17 and 29; and UNESCO, 2011, p. 27.

most disadvantaged among Arabs, were the first to demand a different political order that prioritized people first. In the Arab world, a development policy based on the capability approach would therefore prioritize all vulnerable groups, including the poor, youth, migrant workers, women, the casualties of war and their families and minority groups.

Capability expansion and human development, however, cannot be realized without the fulfilment of basic needs including adequate nourishment and health. Capability expansion and human development are applicable to developing countries and LDCs in addition to wealthier and more developed countries in the Arab region. The capability approach is expandable and can be complemented with a wide range of well-being theories. That feature of the capability approach is particularly relevant to Arab countries where, except for LDCs, extreme poverty is not widespread. In fact, the capability approach has found fertile ground in industrialized countries which rank high on the Human Development Index (HDI).

For the Arab region as a whole, given its income level, one would expect a higher level of human development, and although investment in social services since the 1970s resulted in an impressive improvement in HDI, "progress slowed down noticeably since 1990. Policies failed to effectively translate material wealth into human welfare".[9] Often, simple data comparisons between countries can shed light on underperformance in different dimensions of development. The achievement of high income does not suffice or outweigh gender imbalances in education, health, employment, politics and culture.

In the table below, selected Arab countries and four non-Arab countries have been ranked according to HDI. The selected Arab countries have a higher gross national income (GNI) per capita than HDI ranking, indicating a mismatch between their human development achievement and their economic performance and the potential for greater human development. Though Argentina is much poorer in terms of GNI per capita than either the United Arab Emirates or Saudi Arabia, it has a higher literacy rate. The two Arab countries, however, have a lower maternal mortality rate, while the United Arab Emirates has the highest life expectancy. Compared to other counties with a similar level of human development, the high maternal mortality rate of Algeria is an outlier. Vietnam, which has half the per capita income of Algeria, has a much lower maternal mortality rate (56/100,000 compared to 120/100,000). Once more, given their income level, Arab countries have underachieved in terms of human development. Bangladesh, which has a lower GNI per capita than either the Sudan or Yemen, has a higher life expectancy and a lower maternal mortality rate.

TABLE 2. HUMAN DEVELOPMENT INDICATORS, COUNTRY LEVEL COMPARISONS

Country	HDI rank	Adult literacy (percentage)	Life expectancy (years)	Maternal mortality rate (per 100,000 live births)	Gender inequality index rank	Income (GNI/PC 2005 PPP $)	GNI/PC minus HDI rank
United Arab Emirates	30	90.0	76.5	10	38	59993	-27
Argentina*	45	97.7	75.9	70	67	14527	9
Saudi Arabia	56	86.1	73.9	24	135	23274	-19
Lebanon	71	89.6	72.6	26	76	13076	-10
Turkey*	92	90.8	74.0	23	77	12246	-25
Tunisia	94	77.6	74.5	60	45	7281	2
Algeria	96	72.6	73.1	120	71	7658	-5
Syrian Arab Republic	119	84.2	75.9	46	86	4243	-5
Vietnam*	128	92.8	75.2	56	48	2805	8
Bangladesh*	146	55.9	68.9	340	112	1529	11
Yemen	154	62.4	65.5	210	146	2213	-11
Sudan	169	70.2	61.5	750	128	1894	-21

Source: UNDP, 2011b. All figures are for 2011, except as noted.

Note: See pp. 127-129 for life expectancy, GNI per capita and GNI per capita minus HDI rank. See pp. 158-161 for adult literacy (data drawn from the most recent year available during the period 2005-2010). See pp. 139-142 for maternal mortality (data for 2008) and gender inequality index rank.

* Non-Arab countries

[9] UNDP, 2011a, pp. 17-18.

Box 2. Linking social protection and the capability approach

In the 1970s and 1980s two schools of thought offered distinct foundations for basic needs development strategies. Today, the same split is being played out with more or less the same players over the foundations of social protection.

The two competing foundations for basic needs paradigms were mutually exclusive. The first, the "humanitarian" paradigm, stressed the ends of development, while the "human resource developers" paradigm focused on the productivity and income aspects of poverty eradication. The human resource school of thought was more attuned to neoclassical economics and set more weight on productivity and efficient resource use. By contrast, the humanitarian paradigm focused on poverty as a violation of human rights and saw the fulfilment of basic needs as a moral entitlement which also functioned as a prerequisite for developing countries to break out of low growth and low development. The same differential separates those who advocate for social protection based on risk management and efficiency from those who emphasize the equity, rights and needs aspects of social protection.

The capability approach does not belong strictly to either paradigm, nor is it necessary to pick a side to effectively promote the achievement of MDGs. Instead, the perspectives must be combined to reinforce support for social security and make progress towards achieving MDGs. It is possible to represent both perspectives in advocating for the implementation and expansion of social security as a necessary ingredient in development.

Social protection can offer insurance against severe capability shortfalls and be an enabler of capability expansion it operates on a range of capability inputs that support, sustain and enhance capability. Social protection is a public social good in which the State distributes capability inputs such as health, education and social protection.[a/]

In the capability expansion paradigm, such differences between individuals and groups as age, gender, ethnicity or disability provide information that should be used to assess deprivation and disadvantage. Social protection strategies account for such concerns since they are based on a life of dignity, universal protection, non-discrimination, gender equality and responsiveness to special needs while using a diversity of methods and approaches in delivery.[b/] A development approach with a contextually tailored social protection component informed by good practice can protect and enable capability expansion because it promotes a human development agenda that prioritizes people and their quality life instead of a narrow economic objective.

a/ UNESCO, 2011, p. 16.
b/ ILO, 2012, p. 8.

2. *Social protection for MDG achievement*

A social development strategy with a social protection component is closely connected to development outcome indicators such as MDGs. In 2010, UNICEF published a policy brief that described in detail how social protection strategies could accelerate MDG progress.[10] As elaborated below, there is direct evidence linking social protection to the achievement of MDGs.

The issue of distribution was absent from the initial MDG framework.[11] As the first decade following the Millennium Declaration made clear, without distribution, progress is likely to stall. Inequality within but also between countries has already delayed MDG progress. It is therefore necessary to deal directly with the inequalities of MDG progress and to shift the debate away from national and regional averages towards the most vulnerable and in need of protection. While offering short term safety net protection, social protection strategies also build the basic capabilities of the most vulnerable in the long term and enable them to escape the poverty trap.[12]

[10] UNICEF, 2010.

[11] Herfkens, 2011, p. 6.

[12] Van Ginneken, 2011, p. 1.

A cross-sectoral social development strategy that grants social protection coverage as a right to all would also be a step towards achieving equal opportunity. Equal opportunity is distinct from equal capability. Equal capability means individuals have equal power to do the same thing or that their capability sets are equal. To determine all the effective functioning in the capability set, individual (education, race, age, gender, metabolism and so on) and social factors (free markets, tax systems and so on) need to be accounted for. In a market system where there is no discrimination, any two individuals can have equal opportunity without necessarily having equal capability. Capability accounts for internal or psychological empowerment among other things. Equal opportunity is a necessary prerequisite for individual capability equality, but it is not sufficient. Without equal opportunity, especially in the labour market but also in the health and education sectors, capability equality is unachievable. Accordingly, support for equal opportunity via social protection programmes is a necessary element of any social developmental strategy that seeks to realize capability equality and achieve significant progress towards MDGs.

The relationship between social protection, MDGs and the capability approach is further elaborated below.

Goal 1: Eradicate extreme poverty and hunger

Poverty, employment, and hunger have a range of linkages with social protection. Social protection is necessary to enable capability expansion and insure a minimum capability threshold is secured for vulnerable and excluded groups. A decent working environment that insures dignity with fair earnings that are commensurate with effort is also a core feature of the capability expansion and human development paradigms.

Alongside targeted employment guarantees through public work programmes for the poorest and most vulnerable, social protection plans cover income and subsistence support. Cash transfers to the excluded and vulnerable can help raise a household out of poverty while reducing poverty depth and inequality.[13] Social protection through cash transfers, active labour market, health insurance and family support policies encourages full employment and labour-market participation in low- and middle-income countries.[14] The impact of social protection on hunger is also significant and positive as cash transfers provide protection against shocks while shielding children from the long-term developmental consequences of inadequate and insufficient nutrition. Given intergenerational bequest of poverty and its interlocking multidimensional deprivations, cash transfers can alleviate the poor and vulnerable via their agency and autonomy. Furthermore, such transfers will help stabilize the economy in an equitable way.

Goal 2: Achieve universal primary education

Social protection programmes provide income security and remove the pressure on vulnerable households to send children to work. Children who live in households with older persons or persons with disabilities, or those which experienced the loss the main bread winner will benefit from income security. According to UNICEF, cash transfers, removal of user fees, and school feeding programmes have been shown to lead to higher enrolment and attendance, and lower incidence of child labour.[15]

Goal 3: Promote gender equality and empower women

A social protection strategy that targets female heads of households and female family members can have an important impact on gender equity, poverty reduction, and human development. Social protection that is broad and inclusive will support gender equality and empowerment. A mother who is a recipient of social protection transfers can effectively use them to improve nutrition, health care, and education within her household. In addition, social protection will support the labour-force participation of women, their asset accumulation and risk management, and give them access to savings and credit. Finally, the use of conditional transfer can be helpful to counter the range of discrimination against women that includes female

[13] UNICEF, 2010, p. 2.

[14] Ibid., p. 3.

[15] Ibid., pp. 3-4.

foeticide, child marriage and dowry. Social protection has a wide range of positive impacts on mothers, women and their families. The range of instruments that could be used to support gender inclusive social protection includes (without being limited to) cash transfers, food transfers, child care support and microfinance.[16]

Goal 4: Reduce child mortality; Goal 5: Improve maternal health; and Goal 6: Combat HIV/AIDS, malaria and other diseases

One of the core components of social protection is universal access to health services. Health is also a basic capability input without which the most elementary human functions are disabled. Social protection supports better health outcomes in various ways. Cash transfers generate effective demand for health services. There is evidence from several countries that indicates health improves and is responsive to cash transfers especially when mothers are at the receiving end.

Goal 7: Ensure environmental sustainability

The environmental goal is likely to indirectly benefit from a broad based inclusive social protection programme. Arab countries face an array of environmental challenges some of which are related to the Arab region being one of the most arid in the world. Water problems are a critical long-term challenge and most Arab countries suffer from water scarcity.[17] While a social protection programme cannot directly solve those problems, it could either use conditionality for green consumption or deploy an awareness raising campaign that simultaneously encourages the adoption of sustainable consumption habits and alternative green energies.

Highlighted below are some of the key implementation options that must be discussed at the country level when designing a social protection programme. The delivery method may impact how the social protection programme builds capacities and contributes to the achievement of MDGs.

Universality versus targeting

The notion of a universal benefit, payable to all members of a scheme, fits into the concept of rights-based development. However, targeting may be needed to complement universal benefits. There are arguments for and against targeted social protection. Those who support targeting claim it minimizes waste. But others argue against the adoption of targeting to insure that all those in need can easily access the service or good in question. Targeting also demands administrative and delivery capacity which oftentimes Arab countries, especially LDCs, lack. Moreover, countries may not have a realistic choice between targeted and universal benefits when it comes to health services for women and children, primary education and gender equality.

There is no general rule, therefore, which dictates whether a country should adopt targeted or universal social protection programmes. Employment guarantees built into a social protection programme can offer targeting schemes that are neither too costly to deliver nor too administratively demanding. The unemployment benefit level must be set above a decency threshold, but not so high that it discourages labour-market participation.

To ensure universality, social protection must not be restricted to earnings-related and contributory schemes, which exclude such groups as the self-employed and workers in the informal sector. To close the gap, non-contributory provisions must be introduced.

Conditionality

The debate on whether social protection should be conditional or unconditional is not unrelated to the targeting debate. Both conditional and unconditional transfer programmes have been effective in Latin

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[16] Thakur et al., 2009, pp. 170-172.

[17] UNDP, 2011a, p. 53.

America. Conditional programmes required poor parents to send their children to schools and clinics to receive benefits.[18]

The benefits of unconditional transfers have also been reported. Research in South Africa found that unconditional cash transfers through the Child Support Grant programme "bolstered early childhood nutrition as signalled by child height-for-age"[19] and also contributed to an increase in the labour-force participation of mothers.[20]

Institutional structures

In recent years, Arab Governments have tried to reduce the high staffing levels in the public sector in order to promote private sector development. Public sector employment, however, is still more attractive in terms of wages, job security and social benefits. It is therefore important to ensure that social security covers both the public and private sectors in order to support efforts to enhance private sector employment.

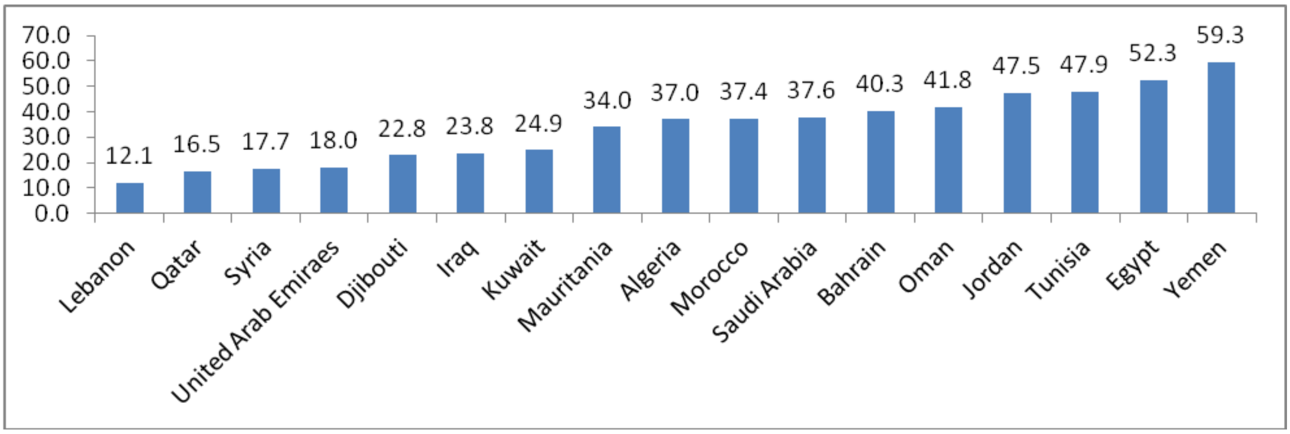
Government partnerships with non-governmental organizations and local communities may be needed to implement a functioning social protection system. No single delivery mechanism is adequate. Thus whether delivery should be made via informal channels, provided by the State, or based on the market is contingent on a host of local criteria and capacity parameters. Ideology may ultimately determine which delivery method is adopted, and the choice must insure effective delivery and safeguard the agency and dignity of the recipient.

B. CURRENT STATUS OF SOCIAL PROTECTION IN THE ARAB REGION

Social protection systems exist to varying degrees in the Arab region, however, social protection coverage is limited. A particular concern is the limited access of women to social security.

An initial indicator of the scope of social protection is public spending on social services, because that is the key tool for Governments to support social outcomes. In the Arab region, government spending as a share of gross domestic product (GDP) is relatively high when compared to most other regions and the share of social spending is relatively high. However, it is important to note that the amount of public spending on social services differs from efficient social spending. In many Arab countries the allocation and distribution of funds are the main challenge and not necessarily the amount.

Figure V. Government spending on social services, 2010
(*Percentage of total expenditure*)



Source: Arab Monetary Fund, 2011, p. 109.

Note: Data are preliminary figures and estimates based on the Joint Arab Economic Report Questionnaire of 2011 and other national and international data sources.

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[18] Barrientos, 2007.

[19] Aguero et al., 2006, p. 32.

[20] Williams, 2007, p. 35.

Pension schemes

In the Arab region, the most common social protection policy is social insurance for older persons and persons with disabilities. Those insurance programmes cover workers in the public sector, the military and the formal private sector in most Arab countries. Many other categories of workers including those in the informal sector and temporary and domestic workers are excluded from coverage. Estimates show that around one third of workers in the region are covered by pension schemes. There is large variation within the region as coverage rates range from 8 per cent in Yemen to 87 per cent in Libya.[21]

Unemployment benefits

Unemployment schemes help to reduce the vulnerability of households and thus alleviate poverty. However, only a few Arab countries have implemented unemployment insurance schemes. Table 3 describes the unemployment schemes in selected Arab countries.

TABLE 3. UNEMPLOYMENT BENEFITS IN SELECTED ARAB COUNTRIES

Country	Description of unemployment benefits
Algeria	50 per cent of the average wage received during the 12 months preceding termination. The worker qualifies for benefits if the following criteria have been met: - Unemployment is involuntarily and the worker has contributed for at least three years (including the six months before unemployment); - The worker does not receive income from any professional activity; - The worker has been looking for employment for at least three months; - The previous employer made all required social security contributions.
Bahrain	Insurance is provided to the unemployed, including support for the integration new entrants to the labour market. The benefits cover both national and foreign workers and are financed by contributions from workers, employers and the Government. Assistance rates are based on previous employment history: those who have completed the minimum contribution period receive compensation related to their prior earnings; and new entrants to the labour market are paid a flat rate.
Egypt	Only those who have paid contributions for at least six months, among which three months should be before unemployment, are covered. Consequently, new entrants to the job market are not covered. To be insured, the unemployed must report regularly to the employment office. Those who qualify receive 60 per cent of their last monthly wage. The benefit can be paid for up to 16 weeks.
Jordan	Those who have paid a minimum of 12 quarters of contributions are eligible for insurance. Unemployment must be involuntary and the worker must register at an employment office. The salary of the unemployed worker is paid up to 12 months.
Tunisia	Employees over age 16 working in private establishments with at least 5 workers are included, while self-employed persons, voluntary contributors and certain categories of Government and public-sector employees are excluded. Cash benefits are paid for up to 3 months for the unemployed who made contributions for fewer than 180 months and up to 6 months for the unemployed who made contributions for 180 months or more. 75 per cent of the covered wage is paid for the first month; 65 per cent for the second month; 55 per cent for the third month; and 45 per cent for the fourth to sixth months.

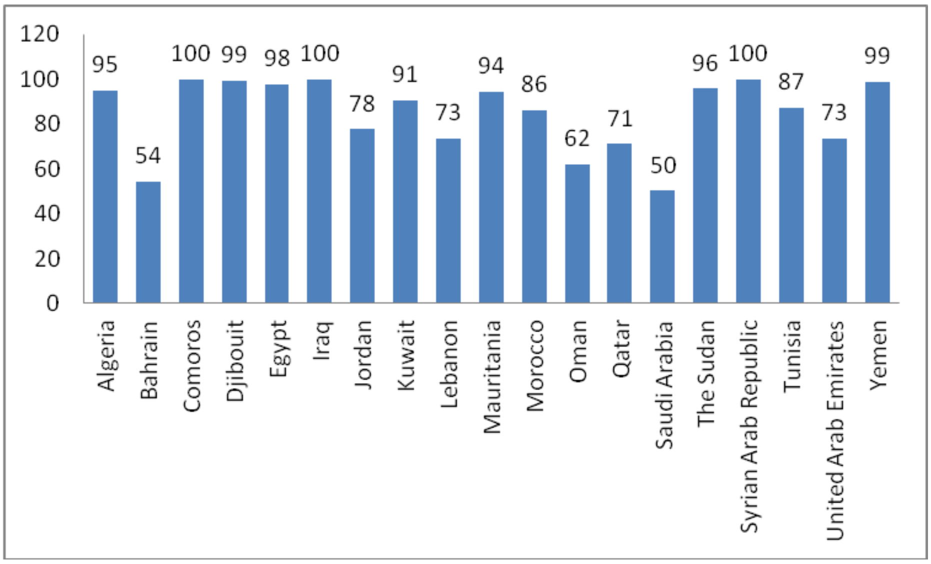
Source: International Social Security Association Country Profiles available from http://www.issa.int/Observatory/Country-Profiles.

[21] ILO, 2009, p. 2.

Health care and health insurance

In recent years, a number of Arab countries have raised their per capita health spending and increased their efforts to improve the quantity and quality of health-care services, nevertheless, growth in per capita health expenditure did not keep pace with GDP growth. Low income countries have the biggest challenge in providing sufficient health care for their population, but even in middle-income and high-income Arab countries, basic health-care services remains out of reach for vulnerable groups. The lack of health insurance in the region leads to higher out-of-pocket spending. Substantial out-of-pocket payments can push vulnerable families into poverty.[22] Out-of-pocket expenditure on health as a percentage of total private expenditure on health is close to 100 per cent in Arab countries with the exception of GCC countries (see figure VI).

Figure VI. Share of out-of-pocket expenditure on healthcare
(*Percentage*)



Source: Global Health Observatory Data Repository, http://apps.who.int/gho/data/node.main.

Child benefits

In the Arab region, only a few countries (Algeria, Lebanon, Morocco and Tunisia) offer child benefits (see table 4).

TABLE 4. CHILD BENEFITS IN SELECTED ARAB COUNTRIES

Country	Description
Algeria	Child benefits are accorded the children younger than 17 (21 if student or disabled). To qualify for the benefit, the insured must earn less than half the legal minimum salary, have a disability or illness, or receive unemployment benefits or pension.
Lebanon	Children under age 18 are eligible. Maximum monthly allowance is 75 per cent of the minimum wage, including a lump sum of approx. US$40 (LL 60,000) paid to the wife and approx. US$22 (LL 33,000) for each child.
Morocco	Children under 12 are eligible. The child must reside in Morocco. To be insured, the person must have at least 108 days of contributions in the previous six months of coverage, and earnings should be more than 60 per cent of minimum wage. The benefits for insured workers are around US$24 (DH 200) a month paid for each of the first three children and additional US$4.30 (DH 36) a month for up to three additional children.

[22] ILO, 2009, p. 6.

TABLE 4 (*continued*)

Country	Description
Tunisia	Children younger than 16 are eligible and the benefits are paid for up to three children. For the first child, the amount is 18 per cent of the earnings of the insured, 16 per cent for the second and 14 per cent for the third.

Source: International Social Security Association Country Profiles available from http://www.issa.int/Observatory/Country-Profiles.

Informal protection mechanisms

A significant proportion of social protection in the region comes from informal rather than formal or state-supported sources. The structure of protection measures in the Arab region is characterized by kinship-based networks. Those networks are of vital importance in times of shock or crisis.

Informal sources of social protection also include remittances, which are often essential for many poor households. Remittances play a particularly important role in poor, rural areas that are not well-covered by formal protection schemes.

Non-governmental organizations also provide programmes funded by foreign or local donors. Those programmes are likely to become increasingly important as many countries are expected to withdraw State support for formal protection schemes and informal employment continues to rise. Coordination between different schemes is a major concern, because in the absence of coordination, support for certain populations may be duplicated while other groups receive no support.

III. CAN ARAB COUNTRIES AFFORD SOCIAL PROTECTION?

The previous chapter discussed the linkages between social protection and MDGs through a capability approach. It discussed how social protection can foster MDG achievement from a theoretical perspective. It also discussed current social protection measures in the region and highlighted some of the drawbacks such as limited coverage and the lack of protection of the most vulnerable people.

This chapter will discuss the possibility of financing a social protection package under the current fiscal circumstances. It begins with a review of the concept of fiscal space and assesses the fiscal space in Arab countries before and after the Arab Spring. It presents the results of a costing exercise, a crucial input to determine if a certain social protection programme is affordable in a particular country. The chapter concludes with a new typology to assess development challenges and fiscal space in the Arab region.

A. DEFINITION OF FISCAL SPACE

There are clear differences between the definitions of fiscal space used by various organizations. The International Monetary Fund (IMF) has defined fiscal space as “the difference between the current level of public debt and the debt limit implied by the country’s historical record of fiscal adjustment”,[23] while others have emphasized the need “to look at the country’s development model and to understand the way in which it addresses the role of fiscal constraints and the need to mobilize resources for economic growth”.[24]

The present paper will use the definition put forward by Roy, Heuty and Letouzé, namely that “Fiscal space is the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives”.[25]

According to that definition, fiscal policy is sustainable if it is not based on external sources of finance such as official development assistance and borrowing. The present study approaches fiscal space as a long-term issue, endogenous to the policies that are adopted. It is critical to consider how fiscal space is achieved and for what purpose. Different countries will have unique structures of spending and fiscal instruments.

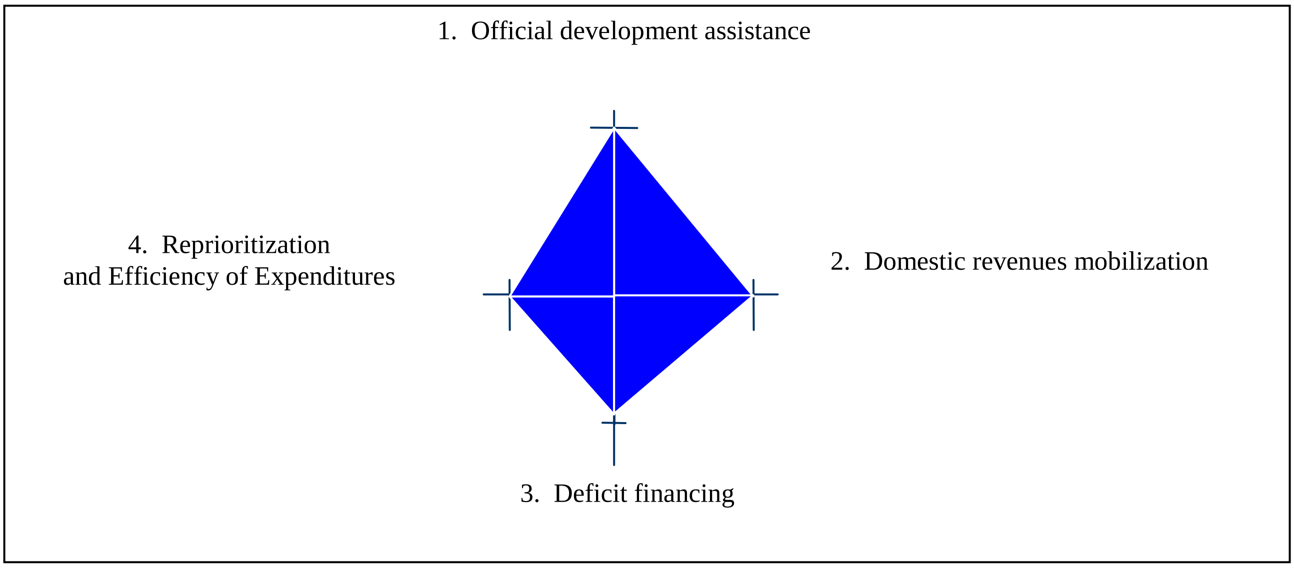
Figure VII illustrates the fiscal space diamond and its four axes, which represent the availability of resources expressed as percentages of GDP. The fiscal space diamond can be used to assess a country’s capacity to raise fiscal space. The greater the area of the diamond, the greater the available fiscal space in a country. The diamond can be used as an operational tool in many different contexts and to answer a number of questions. For example, it can be used to evaluate the potential for expenditure-switching policies compared to measures that makes expenditure more efficient.

[23] Ostry et al., 2010, p. 6.

[24] Roy and Heuty, eds., 2009, p. 4.

[25] Roy et al., 2007, p. 2.

Figure VII. The fiscal space diamond



Source: Development Committee, 2006, p. 18.

The present study encourages the expansion of fiscal space to enact social protection policies and address the long-term challenge of economic and social developmental transformation. One of the main challenge to achieving long-term economic growth and sustainable development in Arab middle-income countries is inequality. To address inequality, the distributional impact of all four dimensions of the diamond must be reviewed. For example, progressive domestic resource mobilization may be needed to achieve equality, by directing expenditure towards strengthening social protection to reduce inequality.

Fiscal space in the Arab region reflects severe vulnerability to such external shocks as oil prices and the impact of the political situation on tourism and remittances. The region should adopt a long-term perspective on finance. Long-term fiscal sustainability must account for the endogenous impact of policy on fiscal space through growth and capital accumulation. Hence, the role of fiscal expansion must be evaluated based on the short-term cost versus the long-term benefit. That can be difficult, particularly in terms of social investments where the returns are often delayed and underestimated. That has been labelled the fiscal space conjecture.[26]

B. FISCAL SPACE BEFORE THE ARAB SPRING

Having provided the theoretical background of the concept of fiscal space, a review of the fiscal space in Arab countries before the Arab Spring is needed. The review will account for the major pillars of fiscal space, particularly mobilizing additional domestic revenue and reprioritizing government expenditure. Tax revenue as a percentage of GDP has been used to analyse the capacity of a country to mobilize additional tax revenue and the economic classification of expenditure has been used to analyse the potential to reprioritize expenditure. The assessment was carried out according to the latest IMF Article IVs consultation reports and data from IMF Government Financial Statistics.

Adequacy of current revenue

Fiscal space depends on the adequacy of current revenue to finance current expenditure. Before the Arab Spring, there was a comfortable positive balance across the region, indicating that there was sufficient fiscal space. On average across the region, current revenue covered current expenditure, but the balance varied across countries. Some countries, mainly the major oil exporters, had positive balances while other countries, Egypt and Lebanon in particular, had a negative but sustainable fiscal balance.

[26] Roy et al., 2006, p. 19.

TABLE 5. NET REVENUES OF PRIVATIZATION MINUS GOVERNMENT EXPENDITURE
(*Percentage of GDP*)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
Algeria	-	8.3	8.1	13.5	14.4	23.5	25.1	20.5	26.4	13.1	12.5	16.5
Djibouti	0.4	0.8	0	4.2	5.6	9.2	4.8	8.2	8.1	9.8	9.8	5.5
Egypt	-	-	-	-	-	-5.8	-2.1	-2.9	-2.4	-5.1	-5.3	-3.9
Jordan	-	-3	-1.4	2.6	5	-2.7	-0.4	-1.7	-1	-2.7	-3.3	-0.9
Kuwait	40.1	20	24.3	22.6	29.1	55.1	37.3	46.6	18.6	24.1	22.7	31
Lebanon	-	-	-12	-10.2	-5.5	-5.9	-8.8	-8.4	-8.4	-9.4	-7	-8.4
Libya	24.6	8.4	24.3	19.6	30.1	49	49	46.6	48.5	38.3	39.6	34.4
Morocco	1.6	1.5	2	0.9	1.2	-0.6	3.7	5.7	3.5	3.9	4.8	2.6
Qatar	-	-	12	8.5	19.8	18.6	15.6	22.9	20.9	22.7	-	17.6
Sudan	-	1.5	2.1	3.8	6.1	1.5	-0.2	-1.6	0.7	-2.8	-0.8	1
Syrian Arab Republic	8.9	13.2	9.9	11.1	8.3	5.7	9.2	5.6	-0.5	4.8	5.1	7.4
Tunisia	-	4.3	4.3	4.1	3.9	3.2	3.5	3.7	4.8	4.7	3.7	4
United Arab Emirates	7.8	0.7	-2.3	7.9	13.5	24.2	32.6	26.8	29.5	11.3	17.6	15.4
Yemen	-	-	-	6.7	7.6	8.1	10.5	1.7	2.9	1.3	2.3	5.1
Average	13.9	5.6	5.9	7.3	10.7	13.1	12.8	12.4	10.8	8.1	7.8	9.9

Source: IMF Article IV consultation reports.

Given the prominent role of oil and gas in the region, it is logical to disaggregate government revenue. Conventional wisdom indicates that government expenditure should be covered by non-oil revenue. However, another approach is to consider non-oil revenue as permanent and compare government expenditure to oil revenue.

Table 5 shows that government expenditure in Kuwait and the United Arab Emirates was larger than non-oil revenue, particularly during the economic slowdown. However, table 6 shows that oil revenue was much larger than government expenditure. Other countries, particularly Libya and Qatar, have managed to keep government expenditure below non-oil revenue.

TABLE 6. NON-OIL REVENUE MINUS GOVERNMENT EXPENDITURE
(*Percentage of GDP*)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
Algeria	-	0.9	2.3	1.4	0.9	1.1	1.4	0.7	0.6	1.4	-1.2	0.9
Egypt	-	-	-	-	-	12.6	13.4	12.9	15.4	7.8	11.3	12.2
Kuwait	1.1	-5.5	-9.9	-10.4	-5.1	10.6	5.1	3.7	-2.5	-9.9	-9.4	-2.9
Libya	2.9	1.3	0.6	-2.3	-1.3	-2.7	-1.7	-2.1	-0.2	1.9	1.8	-0.2
Qatar	-	-	-5.2	-5.8	-4.6	-6	-6.4	2	0.6	6.9	-	-2.3
Syrian Arab Republic	9.2	6.2	7.3	7.1	9.1	10.1	11.3	11.6	6.7	10.1	9.3	8.9
United Arab Emirates	-9.6	-11.4	-11.2	-11.6	-8.3	-2.7	0.1	0.9	-3.7	-9.1	-8.3	-6.8
Yemen	-	-	-	-4.9	-3.7	-3.7	-4.4	-5.4	-4.3	-3.3	-2.2	-4
Average	0.9	-1.7	-2.7	-3.8	-1.9	2.4	2.3	3	1.6	0.7	0.2	0.3

Source: IMF Article IV consultation reports.

TABLE 7. OIL REVENUE MINUS GOVERNMENT EXPENDITURE (*Percentage of GDP*)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average
Algeria	-	13.6	11.4	15.8	16	22.6	24.4	21	27.6	12.6	11.8	17.7
Egypt	-	-	-	-	-	-7.9	-7.8	-6.3	-7.6	-8	-9.5	-7.8
Kuwait	30.8	17.1	22.4	20.9	28	40.3	35.3	40.2	36.2	30.9	32.6	30.4
Libya	20.1	16.5	30.2	38	37.9	51.3	51	46.2	50.5	41.9	42.8	38.8
Qatar	-	-	-	-	9.5	10.1	4.9	10.4	6.1	-0.1	-	6.8
Syrian Arab Republic	6.7	11.9	6.2	7.7	4.2	0.4	0.5	-1.2	-2.2	-2.6	-1.4	2.7
United Arab Emirates	2	-1.7	-5.5	4.1	8	18	26.6	19.3	24.8	7.8	13.8	10.7
Yemen	-	-	-	8.8	10.2	14.1	15.1	7	13.6	1.4	1.9	9
Average	14.9	11.5	12.9	15.9	16.3	18.6	18.7	17.1	18.6	10.5	13.1	15.6

Source: IMF Article IV consultation reports.

Potential for the expansion of current revenues

Governments can expand current revenue primarily through domestic resource mobilization by raising taxes. This can be done through imposing new taxes, increasing tax rates, broadening the tax base or improving enforcement to reduce tax evasion. Globally, there is a strong relationship between tax revenue and the level of development. Most middle income countries have tax to GDP ratios of around 20 per cent, while it is often between 10 and 15 per cent in most low-income and lower middle-income countries.[27]

There are no definitive targets for "tax effort", or tax revenue as a share of GDP, because it depends on a number of structural economic variables. Nevertheless, tax effort below 15 per cent is considered low[28] and the West African Economic and Monetary Union has set a target of 17 per cent.[29] Table 8 presents the tax effort of selected Arab countries.

TABLE 8. TAX EFFORT OF SELECTED ARAB COUNTRIES, 2000-2010

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Algeria	-	9.4	10.6	10	9.5	8.5	8.5	8.1	8.7	11.2	11.4
Djibouti	21.4	20.5	21	20.5	19.9	20	20.3	20.4	18.4	18.6	19.1
Egypt	-	13.4	13.4	13.9	14	15.8	15.4	15.4	15.7	12.4	14.9
Lebanon	-	-	14.4	15.1	15.7	14.5	14.6	14.8	16.5	17.4	18.4
Libya	11.6	11.4	4.6	2.4	3.7	2.6	2.5	2.9	3.1	5.6	5
Morocco	24.1	22.8	22.9	19.7	19.9	21.4	22.2	24.8	25.5	25.9	26.1
Sudan	-	5.6	5.3	5.8	7.4	7	6.3	6.9	6.2	-	-
Syrian Arab Republic	9.8	9.1	10.2	10.6	11.6	10.8	11.6	10.9	8.4	12.2	11.6
Tunisia	-	21.6	21.5	20.6	20.7	21	20.5	20.8	-	-	-
Yemen	-	-	-	7.1	7.3	7.4	7.2	7.3	7.1	7.4	7.8

Source: IMF World Economic Outlook.

Comparing tax revenue trends in Arab countries with the benchmarks discussed above shows significant scope for tax revenue expansion in most Arab countries. In lower and upper middle-income countries, tax effort varied from 14.9 per cent in Egypt to 26.1 per cent in Morocco. It is notable that tax effort was decreasing in Egypt and the Syrian Arab Republic even before the Arab Spring. The decrease in tax effort indicates a possible weakness of the tax system, as tax revenue is not able to keep up with GDP growth. Therefore, the potential may exist for further fiscal or tax reform in an attempt to create fiscal space.

However, in addition to tax effort, the distributional impact of the tax structure must be investigated. Different tax revenue sources have different distributional impact and certain taxes are more pro-poor than others. Box 3 summarizes the redistributive impact of taxes.

Box 3. Redistributive impact of taxes

Tax policy consists of many different instruments as follows: (i) consumption (value added tax, sales tax, excise taxes and trade taxes); (ii) labour income (wage taxes and social security taxes); (iii) business and investment income (corporate income taxes and taxes on income from capital); (iv) wealth and inheritance; and (iv) property and land. The relative mix of taxes depends on revenue estimates from each instrument (according to the economic structure and demographic profile of the country) and administrative, equity and political consideration in preparation and implementation. The mix of taxes is relevant to poverty tax instruments have different redistributive impacts. Most case studies show that personal income taxes, wealth and property taxes are often progressive, while consumption taxes often are regressive. Corporate income taxes are first regressive then progressive.[a/]

[27] Roy et al., 2011, p. 6.

[28] Heller, 2006, p. 75.

[29] Gottschalk et al., 2009, p. 10.

Box 3 (*continued*)

The redistributive impact of taxes in low- and middle-income-countries can be limited for several reasons. First, the consumption taxes contribute the largest share of revenue. Second, weak tax administration, corruption and poor governance limit the effectiveness of taxes. Third, little fiscal redistribution is achieved because little is attempted for political reasons.[b/] Fourth, the tax base is smaller due to a larger informal sector, which provides an incentive for Governments to rely on consumptions taxes.[c/]

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a/ Gemmell and Morrissey, 2002, p. 39.

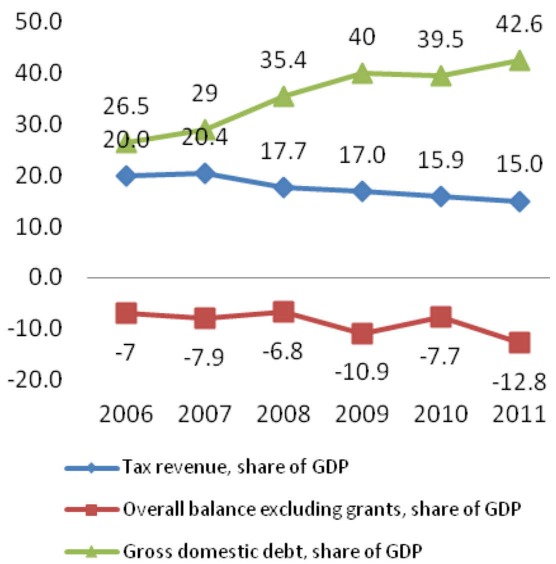
b/ Tax policy is not just about economics; politics and political economy are equally important. Tax reform ultimately depends on how different groups perceive the proposed changes.

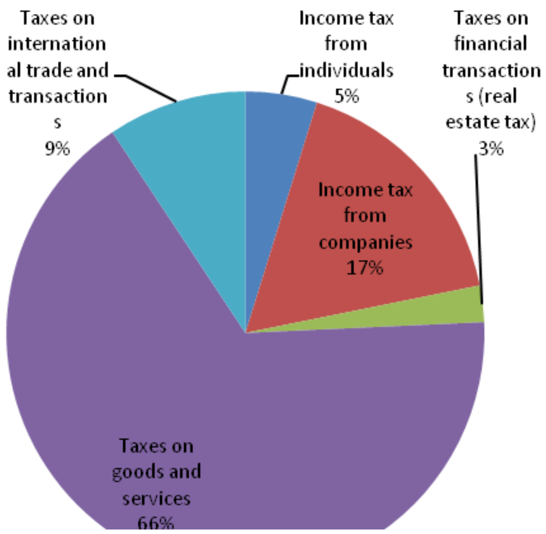
c/ It is important to take the informal sector into account when assessing the equity effects of different tax policies.

Box 4. Assessment of tax structure in Jordan

In Jordan, tax revenue has increased in absolute terms and as a share of domestic resources in the last five years. However, a more suitable benchmark for the dynamic performance of a tax system over time is its ability to grow at the same rate as GDP, the so-called 'tax effort'. Tax effort decreased from 20 per cent in 2006 to 15 per cent in 2011. Despite notable reforms, tax revenue has not been able to keep up with the growth in GDP and this has contributed to increasing fiscal deficits and the increasing debt level (figure below). The Jordanian tax system is heavily reliant on consumption taxes (taxes on goods and services) that generated 66 per cent of tax revenue in 2011 (figure below). In the past five years, this reliance on consumption rather than income taxes has been accentuated. Income taxes (personal and corporate) are very limited and generated only 22 per cent of tax revenue. Within the income tax, corporate income tax revenue is dominant. Other taxes, including those on international trade and transactions and on financial transactions (real estate tax) are limited. In 2011, as social unrest spread in the Arab region, Jordan suspended the personal income tax to minimize unrest in the country.

Trends and distribution of tax revenue in Jordan





Economic theory does not provide a clear prescription for the appropriate level of tax effort, yet a frequently used approach is to compare the tax effort to that of other countries, taking country characteristics into consideration. A panel data regression of tax effort on the key country characteristics shows that overall tax effort in Jordan was 87 per cent of potential. If we disaggregate the tax effort by instrument, we find that taxes on income, profit and capital gain were 80 per cent of potential, while taxes on goods and services were 95 per cent of potential. That demonstrates that there is a fairly substantial gap in tax effort in Jordan, and taxes on income, profit and capital gain are particularly far below potential.

Box 4 (*continued*)

From a revenue productivity perspective, Jordan shows mixed performance. Corporate income tax revenue productivity is slightly above the worldwide average, but lower than the average for the Middle East and North Africa (MENA) region. General sales tax productivity is comparable to regional and international averages. Personal income tax productivity is extremely low. Other tax indicators show that the tax-wedge in Jordan is low, which indicate that the tax system is "labour-friendly".[a/] Another major factor is related to tax administration productivity. One issue is the staffing of the tax department is very low in Jordan. In Jordan there are 0.27 tax administration personnel per 1,000 inhabitants, compared to around 0.51 in the MENA region and 0.48 in low-middle-income countries. Nevertheless, the number of active taxpayers per tax administration staff is very low at 56, compared to 389 in the MENA region and 260 in low-middle-income countries.

Given the increasing debt and deficit, tax reform in Jordan must pursue gains in efficiency and equity and aim to increase the level of tax effort. At a minimum, tax revenue should keep pace with the growth of the entire economy, in order for the Government to maintain if not increase, the current level of social spending. As stated above, the tax effort is currently below potential. Tax revenue, which was 15 per cent of GDP in 2011, is only 87 per cent of its potential. Fulfilling the tax effort potential in Jordan implies increasing taxation to 17.2 per cent of GDP ratio to 17.2 per cent, and the economy would benefit from positive spillovers. Time-series analysis shows that in Jordan there is a strong causal relationship between tax revenue and other economic variables. As a direct result of the higher tax revenue, the estimate shows that GDP per capita will increase by approximately 5 per cent, employment will grow by 3 to 9 per cent, and household consumption will increase 10 to 15 per cent.

Source: Based on ESCWA, *Should the Government of Jordan Reform Tax to Be Pro-Poor? If So, How?* Policy Option Paper No. 17, Unpublished. Prepared for the Poverty Reduction Strategy of Jordan.

a/ The tax wedge, which comprises mandatory social security contributions (employer and employee) and the personal income tax imposed on average working salaries, is a widely accepted indicator of the tax burden on labour.

Potential for expenditure switching policies

Expenditure switching policies can be another source of fiscal space and require an in-depth investigation of government expenditure. Government expenditure could be reprioritized in order to create fiscal space for national objectives. For example, a Government that aims to reduce inequality and vulnerability can shift expenditure from the military to social protection measures.

Table 9 presents outlays by function for a number of Arab countries and shows differing trends. Based on the functional classification of expenditure in Egypt, social protection represents the largest share of expenditure. However, the definition of social protection includes food and fuel subsidies among other things. The high cost and the low efficiency of subsidies suggests that reform is needed. It is also notable that health expenditure is smaller than defence expenditure in each of the selected countries except Tunisia. The provision of such social services as health and education has been a low priority and has generally decreased over time. Exceptions to that trend are found in Kuwait and Qatar where education spending has increased, and in Kuwait and Tunisia where health spending has increased.

In Jordan, the largest share of expenditure was on general public services, defence and social protection. Spending on economic affairs, health and education was relatively low and it is notable that the share of social protection has decreased over time.

In Tunisia, expenditure on education, general public services and economic affairs was higher than the average for Arab middle-income countries. However, social protection expenditure was relatively small at less than 1 per cent of GDP during the past decade.

Kuwait and Qatar, two oil-exporting countries, have high expenditure on general public services and economic affairs. Social protection in Kuwait accounted for a big part of expenditure, while social protection expenditure in Qatar was less than 1 per cent of GDP. Education and health expenditure amounted to around 6 per cent of GDP in both countries.

TABLE 9. OUTLAYS BY FUNCTION, 2006-2010
(*Percentage of GDP*)

(a) *Egypt*

	2006	2007	2008	2009	2010
Total outlays	32.1	29.2	34.5	36.1	30.3
General public services	7.8	7.3	8.8	8.5	8.7
Defence	2.8	2.6	2.5	2.3	2.0
Public order and safety	1.8	1.6	1.6	1.7	1.5
Economic affairs	2.0	2.0	2.3	2.4	2.2
Environmental protection	0.1	0.1	0.1	0.1	0.1
Housing and community amenities	1.0	1.3	1.7	1.9	1.7
Health	1.7	1.5	1.6	1.6	1.4
Recreation, culture, and religion	1.3	1.3	1.3	1.4	1.2
Education	4.5	4.0	4.1	4.1	3.7
Social protection	9.8	7.9	10.5	12.1	7.8

(b) *Jordan*

	2006	2007	2008	2009	2010
Total outlays	37.2	37.7	31.5	36.2	29.4
General public services	6.5	6.1	5.1	5.8	4.2
Defence	4.8	6.3	5.9	6.0	5.0
Public order and safety	3.2	3.3	3.4	4.2	3.9
Economic affairs	3.1	2.8	2.7	3.3	2.3
Environmental protection	0.1	0.0	0.0	0.0	0.0
Housing and community amenities	0.3	0.3	1.0	1.8	1.3
Health	4.1	2.7	3.3	4.2	3.2
Recreation, culture, and religion	0.5	0.3	0.6	0.6	0.6
Education	4.9	5.2	3.7	3.8	3.3
Social protection	9.7	10.5	5.7	6.6	5.5

(c) *Kuwait*

	2006	2007	2008	2009	2010
Total outlays	42.2	34.8	51.6	32.4	43.2
General public services	3.9	4.2	4.6	3.8	8.5
Defence	4.0	3.9	3.3	3.5	3.6
Public order and safety	2.4	2.3	2.6	2.5	2.6
Economic affairs	5.3	6.3	11.1	6.6	9.8
Environmental protection	0.0	0.0	0.0	0.0	0.0
Housing and community amenities	3.5	2.5	3.2	1.8	1.8
Health	2.0	1.9	3.0	2.4	3.0
Recreation, culture, and religion	0.7	0.7	0.9	0.8	0.9
Education	2.9	2.7	3.0	3.1	3.4
Social protection	11.2	3.6	20.0	4.4	9.6

(d) *Qatar*

	2006	2007	2008	2009	2010
Total outlays	38.9	36.1	30.9	29.2	37.0
General public services	14.8	14.2	9.8	9.0	14.1
Defence	2.2	2.4	2.6	1.8	1.8
Public order and safety	2.0	2.2	1.7	1.6	1.7
Economic affairs	7.4	7.7	7.4	7.2	9.1
Environmental protection	0.1	0.1	0.1	0.1	0.2
Housing and community amenities	0.8	0.8	0.7	0.6	0.5
Health	2.2	1.7	1.9	1.7	1.8
Recreation, culture, and religion	6.5	4.4	2.6	3.4	3.4
Education	2.8	2.5	4.0	3.6	4.1
Social protection	0.1	0.1	0.2	0.2	0.3

(e) *Tunisia*

	2006	2007	2008	2009	2010
Total outlays	24.9	24.7	25.4	25.6	25.3
General public services	4.8	4.5	4.2	4.4	4.2
Defence	1.6	1.4	1.4	1.4	1.4
Public order and safety	2.3	2.2	2.1	2.2	2.2
Economic affairs	5.4	6.1	7.2	6.4	6.0
Environmental protection	0.5	0.4	0.4	0.4	0.4
Housing and community amenities	0.9	1.0	1.2	1.5	1.9
Health	1.6	1.5	1.4	1.5	1.6
Recreation, culture, and religion	0.8	0.8	0.8	0.8	0.8
Education	6.5	6.4	6.1	6.4	6.1
Social protection	0.5	0.5	0.6	0.6	0.6

Source: IMF, Government Financial Statistics.

Note: "Economic Affairs" includes agriculture, communications, fuel and energy, transportation, tourism and research and development.

Even though more in-depth analysis at the country level is needed, the foregoing snapshot showed that there was potential fiscal space in the Arab region between 2006 and 2010. In particular in non-oil exporting countries, greater fiscal space could have been created through expenditure switching policies. A number of countries also had the potential for increased resource mobilization through tax reform. Relatively high levels of social protection expenditure did not yield the expected returns in terms of development. In many cases, social protection expenditure in the Arab region was inefficient and the benefits accrued to the non-poor. Social protection programmes suffered from poor programme design, particularly in the case of fuel subsidies in Egypt[30] and Jordan.

Based on the assessment of those indicators, current revenue in the Arab region was adequate to cover expenditure before the Arab Spring. Certainly, discussions of fiscal space must consider the major differences between oil-exporting and oil-importing countries. Nevertheless, the Arab region had the potential, before the Arab Spring to devote larger portions of their expenditure to health, education and other social protection mechanisms to reduce the vulnerability of the population.

C. Fiscal space after the Arab Spring

The Arab Spring has had a severe impact on the public finances of many Arab countries. Increased tension and social unrest have had a negative impact on the growth rates of most Arab countries, with the exception of oil-exporting countries where high oil prices ensured high growth rates. Lower growth rates have an adverse impact on government revenue, which has had adverse impact on the fiscal situation in many countries.

In addition to the effect on revenue, the fear of the Arab Spring forced policymakers in most Arab countries to increase social spending. Even in countries that were not severely affected by social unrest, discretionary social spending measures were introduced to stem the fear of contagion. The favoured polices included hand-outs, increased public work programmes and increased subsidies. Many of the policies adopted in 2011 will be difficult to reverse in the short term, and therefore the fiscal outlook in the region in 2012 and 2013 will be marked by high social spending.[31]

Fiscal expansion continued in GCC countries and was exacerbated by a number of discretionary social spending measures introduced to halt the spread of political unrest. Despite the expansion, high oil prices have ensured that GCC countries are posting positive fiscal balances. However, break-even oil prices have increased which might be a source of vulnerability in the long run. The break-even oil price is highest in Bahrain at US$112 per barrel, while it is around US$80 per barrel in the other GCC countries.

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30 Roy et al., 2011, p. 9.

31 ESCWA, 2012, p. 28.

Non-oil exporting Arab countries also increased social spending as a result of social tension. Such action can be problematic in the short run because the fiscal balance was already strained. Discretionary social spending can also be detrimental in the long term if it comes at the expense of more productive investment.

Despite anecdotal evidence of fiscal expansion through discretionary social spending, lack of timely and comparable fiscal data in many countries makes it difficult to assess the real magnitude of the expansion. Estimated and projected data from IMF World Economic Outlook, October 2012 provided an indication of the magnitude of the fiscal impact of the Arab Spring. The tables below provide the estimations and projections for four key variables of public finance.

Government spending between 2010 and 2011 increased in a number of Arab countries such as Algeria, Jordan, Morocco and Tunisia. For Egypt, Lebanon, Tunisia and Yemen, IMF projected an increase between 2011 and 2012, in the aftermath of the social unrest. The projected increase in Government spending was strongest in Tunisia where it increased from 31 per cent in 2010 to a projected level of 37 per cent in 2012.[32]

There was also an impact on Government revenue, as Egypt, Libya, the Syrian Arab Republic and Yemen experienced a significant drop. Between 2010 and 2011, Government revenue in Egypt is estimated to have fallen from 25.1 per cent of GDP to 22 per cent, while it fell from 26 per cent to 24.6 per cent in Yemen.

As a result, the general government fiscal balance worsened in a number of Arab countries, especially the ones directly affected by some form of social unrest. The deficit in Egypt is projected to have increased from 7.8 per cent in 2010 to 11.1 per cent in 2012. In Tunisia, the deficit increased from 1.3 per cent in 2010 to 6.3 per cent in 2012.

In Egypt, Jordan, Morocco, the Sudan, Tunisia and Yemen, government gross debt is projected to have increased quite dramatically in 2011 and 2012. In Tunisia, government gross debt is expected to reach 51.5 per cent of GDP in 2013, compared to 40.5 per cent in 2010, before the Arab Spring. Similarly, in Egypt and Morocco debt has increased and is expected to reach 81.1 and 58.9 per cent, respectively.

TABLE 10. ABSOLUTE IMPACT OF THE ARAB SPRING ON NATIONAL FINANCE: ESTIMATIONS AND PROJECTIONS (*Percentage of GDP*)

Expenditure

Country	2010	2011	2012	2013
Algeria	37.4	39.8	41.4	36.4
Bahrain	34.2	30.7	34.7	35.1
Djibouti	36.0	35.2	35.1	34.8
Egypt	33.0	32.0	33.6	33.2
Iraq	81.7	70.5	76.0	71.8
Jordan	30.4	33.2	31.7	31.3
Kuwait	43.1	38.5	39.4	42.9
Lebanon	30.6	29.6	31.8	32.2
Libya	48.0	63.0	50.0	55.3
Mauritania	27.5	29.0	34.5	31.1
Morocco	31.9	34.5	34.4	33.3
Oman	33.6	31.7	32.6	33.6
Qatar	28.4	26.5	29.5	29.9
Saudi Arabia	44.6	39.3	37.4	40.6
Sudan	19.6	20.0	16.9	18.0
Syrian Arab Republic	26.6	27.0	24.6	n/a
Tunisia	31.0	34.9	37.3	35.0
United Arab Emirates	25.7	23.9	24.1	23.2
Yemen	30.1	28.9	35.6	31.8

Revenue

Country	2010	2011	2012	2013
Algeria	36.5	39.6	37.5	35.1
Bahrain	27.2	28.3	30.8	31.5
Djibouti	35.5	34.5	35.6	35.6
Egypt	25.1	22.0	22.4	23.4
Iraq	72.8	78.1	74.1	74.9
Jordan	24.9	26.4	25.2	25.8
Kuwait	68.4	67.6	69.6	69.3
Lebanon	22.9	23.5	23.9	23.9
Libya	66.0	38.5	70.4	64.0
Mauritania	26.0	27.5	32.1	28.9
Morocco	27.5	27.6	28.3	28.1
Oman	39.0	41.4	41.1	40.7
Qatar	30.9	38.6	39.1	38.3
Saudi Arabia	48.1	53.3	54.1	51.7
Sudan	19.3	18.7	12.9	14.1
Syrian Arab Republic	23.1	18.9	12.0	n/a
Tunisia	30.1	31.7	31.0	29.8
United Arab Emirates	30.0	35.0	36.1	35.0
Yemen	26.0	24.6	29.9	25.8

[32] Government expenditure as a share of GDP in oil-exporting countries decreased after the Arab Spring, which is contradictory to the perception of large discretionary spending. The impact of high oil prices on GDP explains this apparent contradiction.

Budget balance						Gross debt				
Country	2010	2011	2012	2013		Country	2010	2011	2012	2013
Algeria	-0.9	-0.2	-3.9	-1.3		Algeria	10.9	9.5	8.6	7.9
Bahrain	-7.0	-2.4	-3.9	-3.6		Bahrain	35.6	36.8	36.0	37.1
Djibouti	-0.5	-0.7	0.4	0.8		Djibouti	56.1	52.3	51.1	53.2
Egypt	-7.8	-9.9	-11.1	-9.8		Egypt	73.2	76.4	79.7	81.1
Iraq	-8.8	7.6	-1.9	3.1		Iraq	116.7	88.7	77.7	25.5
Jordan	-5.6	-6.8	-6.5	-5.5		Jordan	66.8	70.4	75.0	79.6
Kuwait	25.3	29.1	30.2	26.4		Kuwait	10.9	8.1	7.2	7.1
Lebanon	-7.7	-6.1	-7.9	-8.3		Lebanon	141.7	137.4	135.2	135.6
Libya	18.0	-24.5	20.3	8.7		Libya	0.0	0.0	0.0	0.0
Mauritania	-1.5	-1.5	-2.5	-2.3		Mauritania	86.1	79.4	85.1	80.0
Morocco	-4.4	-6.9	-6.1	-5.3		Morocco	51.3	54.3	58.1	58.9
Oman	5.4	9.6	8.5	7.1		Oman	5.3	5.0	5.5	6.1
Qatar	2.4	12.1	9.5	8.4		Qatar	38.7	32.3	35.3	32.5
Saudi Arabia	3.4	14.0	16.6	11.2		Saudi Arabia	9.8	6.1	5.5	5.3
Sudan	-0.4	-1.3	-4.0	-3.9		Sudan	74.0	74.1	112.1	116.3
Syrian Arab Republic	-3.8	-8.6	-10.1	n/a		Syrian Arab Republic	23.0	31.0	40.0	n/a
Tunisia	-1.0	-3.2	-6.3	-5.2		Tunisia	40.5	44.4	46.3	51.5
United Arab Emirates	4.3	11.2	12.0	11.8		United Arab Emirates	22.3	17.8	16.5	16.4
Yemen	-4.0	-4.3	-5.7	-6.0		Yemen	40.9	42.4	44.9	45.1

Source: IMF, World Economic Outlook Database; Syrian Centre for Policy Research, 2013, p. 42.

IMF projections as of October 2012 provided the first estimations of the impact of the Arab Spring on public finances. Annual data from 2010 to 2013 have shown the absolute change in the projected fiscal indicators before, during and after the Arab Spring. However, to complement the above analysis, another analytical exercise is needed to assess the impact of the Arab Spring on fiscal parameters.

The fiscal projections by IMF as of October 2010 before the start of the revolution in Tunisia that triggered the Arab Spring is compared with the most recent projections as of October 2012. The difference between those projections can largely be attributed to the Arab Spring, and thus the comparison will provide an alternative measure of its impact on public finance.[33]

In Egypt, there has been an increase in the projected budget deficit in the aftermath of the Arab Spring. In 2010, IMF projected that the deficit in Egypt would be 7.6 per cent in 2011, 6.9 per cent in 2012 and 5.2 per cent in 2013. However, in 2012, all of those projections were increased significantly to 9.9 per cent in 2011, 11.1 per cent in 2012 and 9.8 per cent in 2013. Thus, the difference between the projections were 2.3 percentage points in 2011, 4.3 in 2012 and 4.5 in 2013. IMF also increased their debt projections for 2013 by 13.6 percentage points for Egypt.

In Tunisia, the impact of the Arab Spring on the government fiscal balance was similar. In 2012 the deficit was projected to be 4 percentage points higher than projected before the Arab Spring. There is a noticeable difference between the Egyptian and the Tunisian case, namely that the projections of the Egyptian deficit increased due to a fall in revenue, while the projections of the Tunisian deficit increased due to a substantial increase in the projected expenditure. As in Egypt, the gross debt projection for Tunisia increased and debt is now expected to reach 51.5 per cent in 2013, an increase to the projection of 9.8 percentage points (see table 11).

Even in countries that did not witness a revolution, public finances have been impacted by the Arab Spring. Two examples are Jordan and Morocco. In Jordan the projected Government deficit increased by around 2 per cent per year, while in Morocco it increased 2 to 3 per cent per year. Debt levels in those countries are also expected to be higher than projected in 2010. In Jordan, the 2010 projected debt level for 2013 was 59 per cent of GDP, but it has now been projected to reach 79.6 per cent, a dramatic 20.5

[33] The Arab Spring was the major economic shock of the past couple of years, but there may be other factors that led to changes in projections, such as the continued economic slowdown in Europe. Thus, the approach has a number of weaknesses and the data must be carefully investigated.

percentage points increase. During the same period, the debt projection for Morocco increased 9.9 percentage points from 49 to 58.9 per cent of GDP.

Although Yemen has been affected by social unrest and the Arab Spring, the adjustments to financial projections from 2010 to 2013 are less striking. The projected deficit in 2013 has been adjusted upwards by 2 per cent, while the debt projection for 2013 from 2010 and 2012 were both 44.8 per cent of GDP.

TABLE 11. RELATIVE IMPACT OF THE ARAB SPRING ON GOVERNMENT FINANCES IN SELECTED COUNTRIES

	Budget balance			Gross debt			Expenditure			Revenue		
Country	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Egypt	-2.3	-4.3	-4.5	4.7	9.5	13.6	0.3	1.4	1.6	-2.0	-2.8	-3.0
Jordan	-1.5	-2.3	-2.1	8.0	14.0	20.5	4.6	3.9	4.3	3.1	1.6	2.2
Lebanon	3.5	0.3	-0.4	0.0	-2.2	-1.5	-4.1	-0.5	-0.1	-0.6	-0.3	-0.5
Morocco	-3.4	-3.0	-2.3	4.2	8.4	9.9	6.3	6.5	5.6	2.9	3.6	3.3
Sudan	3.2	0.7	0.3	4.1	44.0	49.3	-1.4	-4.5	-3.3	1.8	-3.8	-3.0
Tunisia	-0.7	-4.0	-2.9	1.7	3.9	9.8	4.1	6.8	4.8	3.3	2.9	1.9
Yemen	0.7	-1.0	-2.6	-3.7	-0.8	0.3	-1.4	6.9	4.9	-0.7	5.9	2.3

Source: ESCWA calculations based on IMF, World Economic Outlook Database October 2010 and October 2012.

Box 5. Impact of the crisis in the Syrian Arab Republic on public finances

Even before the current crisis, the Syrian Arab Republic faced a severe fiscal challenge due to reduced oil revenue, increased demand for oil imports and an increasing subsidy bill. The current crisis has accentuated the deficiencies in the country's public finance system. Before the crisis, the taxation system was highly regressive with a declining share of non-oil direct taxes. A large informal sector was also a constraint for potential revenue collection. Thus, the crisis has presented a serious challenge to policymakers because fiscal space was already limited before the crisis.

The impact of the crisis and the policy response to it is summarized in the table. It shows that revenue was projected to decline by around 10 per cent, reflecting reduced oil revenue, non-oil tax revenue and non-tax revenue. Development expenditure is expected to drop from 8.7 per cent in 2010 to 5.3 per cent in 2012, while current expenditure is expected to increase from 17.9 per cent to 19.3 per cent as a response to sanctions and economic contraction.

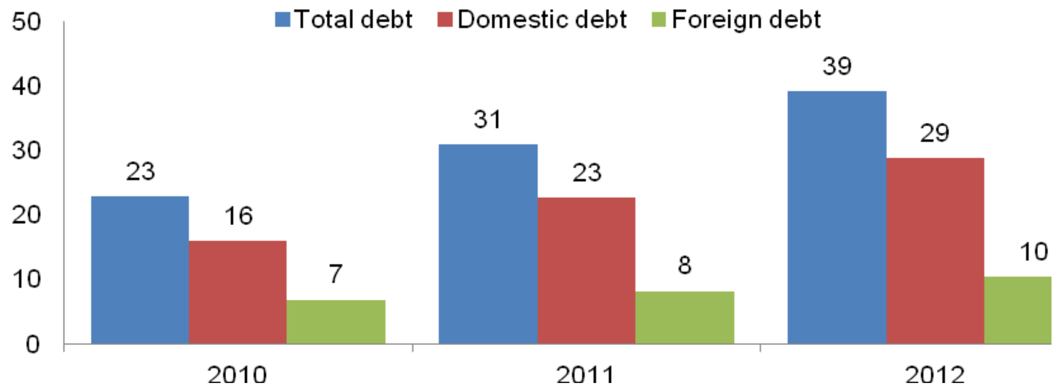
REVENUE, EXPENDITURE AND BUDGET DEFICIT, 2010-2012
(*Percentage of GDP*)

	Preliminary 2010	Projected 2011	Projected 2012
Revenue	23.1	18.9	12.0
Oil-related proceeds	4.4	3.8	1.9
Non-oil tax revenue	11.5	9.9	6.7
Non-oil non-tax revenue	7.1	5.2	3.4
Expenditure	26.9	27.6	22.1
Current expenditure	18.1	20.9	18.5
Wages and salaries	11.3	14.4	14.7
Goods and services	1.2	1.2	0.7
Interest payments	1.1	1.2	0.7
Subsidies and transfers	4.3	4.1	2.4
Development expenditure	8.8	6.6	3.5
Budget balance	-3.8	-8.6	-10.1

The result was that the budget deficit increased from 3.8 per cent in 2010 to 13.1 per cent in 2012 and the total public debt rose from 23 per cent of GDP in 2010 to 39 per cent in 2012 (see figure). Thus, fiscal space created by debt reduction between 2004 and 2010 has been eroded.

Box 5 (*continued*)

Total debt by domestic and foreign component, 2010-2012
(*Percentage of GDP*)



Source: Nasser et al., 2013, pp. 41-42, based on preliminary data from the Planning and International Cooperation Commission. Reproduced with permission.

D. Cost of social protection

There is no single social protection package that is relevant to all countries. Unique development situations will require customized social protection packages that include those elements of social protection that are valued most. Thus, each country will also have different kinds of social protection spending. However, a cost estimate of a specific social protection package allows for the evaluation of the affordability of social protection in general.

The evaluation is based on a rough estimate and more precise estimates must be developed at the country level through in-depth actuarial studies. The parameter assumptions are similar in all countries, but to generate more precise estimates, they should be defined according to national fiscal space, demographic structure, income distribution and poverty gaps that result from political choices.

A costing tool developed by the United Nations Children's Fund and the International Labour Organization was used to calculate the cost of a social protection floor in the Arab region. The costing tool incorporated a number of parameters along with demographic, labour-market and economic data. The cost estimate of implementing a social protection programme was calculated based on those data.[34]

The table below outlines the data used and its sources:

Variable	Description	Source
Population	Number of males and females (between 0 and 100 years of age) that lived or are expected to live in the years 1980-2030.	United Nations Population Division
Labour-market participation rates	Disaggregated by age group and gender for the most recent year available and projected rates until 2030.	ILO Labour Market Data
Unemployment rates	Disaggregated by age group and gender for the most recent year and expected rates at 2015 and 2030	ILO Labour Market Data
Economic data	GDP in local currency units, real GDP growth rate, inflation (consumer price index) projected to 2030.	World Bank World Development Indicators, IMF International Financial Statistics
Public finance data	Public revenue (tax, non-tax and grants) and public expenditure (recurrent, capital and other) for the most recent year and projected share of GDP in 2030.	IMF Government Finance Statistics, IMF World Economic Outlook

[34] More information on the tool is available from http://www.socialprotectionfloor-gateway.org/24.htm, see explanatory note.

The table below outlines the assumptions and benefits parameters for each of the components of the social protection programme and the rationale for its inclusion.

	Assumptions and parameters	Rationale
Pension and disability benefits	- Delivered to all persons above 65 years of age and persons with disabilities of working age; - 30 per cent of GDP per capita; - Administrative cost at 10 per cent of benefit; - Coverage of targeted population: 70 per cent in 2011, 85 per cent in 2015 and 100 per cent in 2030.	Older persons and persons with disabilities are often vulnerable and a pension can significantly reduce the vulnerability of those groups.
Child benefits	- Beginning at birth and continuing to age 14; - 15 per cent of GDP per capita; - Premium for children with disabilities and orphans: 5 per cent; - 100 per cent of benefit paid to households with 1 or 2 children. 50 per cent of benefit paid to households with 3 or more children; - Administrative cost at 10 per cent of benefit; - Coverage of targeted population: 70 per cent in 2011, 85 per cent in 2015 and 100 per cent in 2030.	Children are often vulnerable and the first to suffer during economic downturns, social instability and so on. For example, an economic downturn can force parents to withdraw children from school. A child benefit may help children stay in school and reduce intergenerational poverty.
Unemployment programme	- 30 per cent of GDP per capita; - Administrative cost at 10 per cent of benefit; - Coverage of targeted population: 70 per cent in 2011, 85 per cent in 2015 and 100 per cent in 2030.	Unemployment is often a source of immediate vulnerability. Unemployment benefits can reduce vulnerability and help quickly reintegrate workers into the labour market. That would reduce long-term unemployment.

The following section outlines the cost of each components of the social protection package and a rough figure of the total cost estimate for each country.

Universal disability benefits and pension

Although the cost of a universal pension and disability benefits was relatively affordable in 2011, demographic trends indicate that the cost will increase rather dramatically towards the end of the projection period. In 2011, the cost of universal disability benefits and pension ranged from 0.9 per cent in Yemen to 2 per cent in Lebanon. However, by the end of the projection period, the cost of those benefits could reach as much as 4.2 per cent in Lebanon and 4.3 per cent in Tunisia.

Universal child benefits

Estimates show that the cost of universal child benefits in the selected Arab countries (based on data from 2011) would range between 1.4 per cent of GDP in Tunisia and 2.5 per cent in Yemen. The cost of universal child benefits is below 2 per cent for six of the eight countries in the sample. Only the Syrian Arab Republic and Yemen have a cost higher than 2 per cent of GDP. The cost of universal child benefits is expected to increase in all countries during the projection period. In Yemen, the cost of universal child benefits could reach 3 per cent of GDP by 2030.

Unemployment programme

The cost of unemployment benefits is the most difficult to estimate because many social and economic trends impact unemployment. Nevertheless, the projected cost would be relatively limited in most countries. In 2011, the cost ranged from 0.2 per cent of GDP in Saudi Arabia to 0.7 per cent in Tunisia and Algeria. By the end of the forecast period, the cost is expected to have increased slightly in the latter two countries, to around 0.9 per cent of GDP.

TABLE 12. COST OF BENEFITS IN SELECTED ARAB COUNTRIES
(*Percentage of GDP*)

	Disability and pension				Child benefits				Unemployment			
Country	2011	2015	2020	2030	2011	2015	2020	2030	2011	2015	2020	2030
Algeria	1.4	1.7	2.1	3.2	1.8	2.1	2.2	2.3	0.7	0.9	0.9	0.9
Egypt	1.4	1.8	2.1	2.9	1.9	2.3	2.3	2.3	0.3	0.3	0.3	0.4
Lebanon	2.0	2.5	2.9	4.2	1.5	1.7	1.7	1.8	0.3	0.4	0.5	0.5
Morocco	1.6	2.0	2.4	3.6	1.7	2.0	2.1	2.0	0.4	0.5	0.5	0.5
Saudi Arabia	1.0	1.2	1.5	2.6	1.9	2.2	2.2	2.2	0.2	0.2	0.2	0.2
Syrian Arab Republic	1.0	1.2	1.5	2.3	2.0	2.5	2.6	2.3	0.3	0.3	0.3	0.4
Tunisia	1.9	2.4	2.9	4.3	1.4	1.6	1.7	1.8	0.7	0.9	0.9	0.9
Yemen	0.9	1.0	1.2	1.6	2.5	2.9	3.0	3.0	0.4	0.5	0.6	0.7

Source: Author estimations using the UNICEF-ILO costing tool.

The overall cost of the social protection programme covering those three dimensions based on data from 2011, range from 3.1 per cent in Saudi Arabia to 4.0 per cent in Tunisia. By the end of the projection period, the cost will have increased in all countries, but most dramatically in Tunisia, where it is expected to reach 7 per cent of GDP. Between 2015 and 2030, the cost of the social protection programme is expected to increase from 4 to 5 per cent of GDP in the Syrian Arab Republic and from 4.4 to 5.3 per cent of GDP in Yemen.

TABLE 13. OVERALL COST OF THE SOCIAL PROTECTION PACKAGE
(*Percentage of GDP*)

Country	2011	2015	2020	2030
Algeria	3.9	4.7	5.2	6.4
Egypt	3.6	4.4	4.7	5.6
Lebanon	3.8	4.6	5.1	6.5
Morocco	3.7	4.5	5.0	6.1
Saudi Arabia	3.1	3.6	3.9	5.0
Syrian Arab Republic	3.3	4.0	4.4	5.0
Tunisia	4.0	4.9	5.5	7.0
Yemen	3.8	4.4	4.8	5.3

Source: Author estimations using the UNICEF-ILO costing tool.

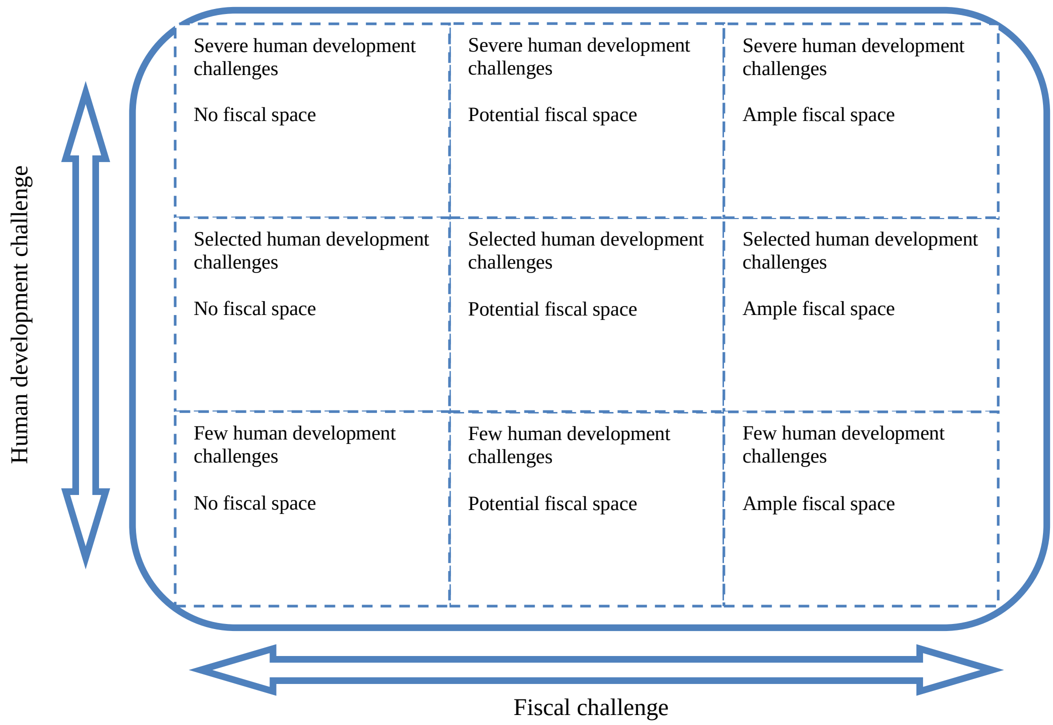
The costing exercise is a valuable input in determining whether a set of social protection measures is affordable in a particular country. The cost of the social protection package, as estimated above, must be compared with the overall fiscal challenges facing each country. At a first glance, the cost of the social protection package does not seem intolerably large. However, to answer the affordability question, the fiscal space in those countries must be taken into consideration. Affordability depends on the fiscal space, political decisions and the financing options available in each country.

E. NEW TYPOLOGY OF ARAB COUNTRIES

Fiscal space in Arab countries is characterized by strong heterogeneity. To better understand the challenges that face Arab countries and to structure the policy discussion, a new typology is needed, based on fiscal and human development challenges (see figure VII). The horizontal axis represents the level of fiscal challenge, while the vertical axis measures the level of human development challenge.

To categorise the Arab countries in the new typology, concrete quantifiable measures of human development and fiscal challenges were needed. Thus, three indicators were used to measure the human development challenge facing the countries; the human development index ranking, the unemployment rate and the poverty rate. Fiscal challenges were measured as a share of GDP with reference to national fiscal balance, revenue, gross debt, debt servicing and current account balance.

Figure VIII. The new typology



Based on the indicators of human development and fiscal challenges, the proposed typology of the Arab countries is described in table 14.

Two countries, namely the Sudan and Yemen, are facing severe human development challenges and lack fiscal space. Djibouti is also facing severe human development challenges, but has the potential to create fiscal space. Given the recent escalation of the conflict in the Syrian Arab Republic, it is likely that human development challenges in the country will increase and fiscal space will be further constrained.

TABLE 14. ARAB COUNTRIES IN THE NEW TYPOLOGY

	No fiscal space	Potential fiscal space	Ample fiscal space
Severe human development challenges	Sudan Yemen	Djibouti	
Selected human development challenges	Egypt Jordan Syrian Arab Republic Morocco	Tunisia	Algeria Iraq Oman
Few human development challenges	Lebanon	Bahrain	Kuwait Qatar Saudi Arabia United Arab Emirates

The new leaders of Tunisia and Egypt are facing important human development challenges, especially in terms of unemployment. The Governments of those countries must respond to the expectations of the public. While Jordan and Morocco have avoided the Arab Spring so far, they are facing increasing human development challenges but lack fiscal space. After the Arab Spring, it is likely that some Arab countries are drifting in the wrong direction towards increasing fiscal and human development challenges.

Algeria, Iraq and Oman have different human development challenges, but all have ample fiscal space which, if used correctly, could help to address most of those challenges. Kuwait, Qatar, Saudi Arabia and the United Arab Emirates have few human development challenges and ample fiscal space. The fiscal situation in Bahrain is slightly more constrained, but the country still has the fiscal space necessary to address the remaining human development challenges if efficient policies are put in place. Finally, although Lebanon has few human development challenges, the country lacks fiscal space.

IV. CONCLUSION

Although significant progress has been made towards achieving MDGs in the last decade, the Arab Spring has demonstrated that much remains to be done. Progress towards MDGs is measured at the country level, which hides large inequalities within each country. Countries cannot achieve substantial progress without improving the situation of the most vulnerable population. Social protection can therefore be an important tool to overcome exclusion and include vulnerable groups in development and to ensure broad progress towards MDGs. That has been recognized increasingly in recent years, and social protection has been promoted at the highest level of the United Nations.

Social protection in the Arab region has a number of challenges, particularly related to coverage. Subsidies have been the favoured approach in the region, but that approach has proven costly and inefficient. Few Arab countries have established non-contributory transfers and services, and the vast majority of people in the region do not have access to social security of any kind. Given that context, the challenge for Arab countries is to build coherent social security systems that bring together a number of programmes and target groups under a common policy framework to ensure that social protection contributes to the achievement of MDGs and builds on capabilities in the region. Social protection can enhance income security, education and health outcomes and encourage productive activities, all of which contribute to progress towards MDGs.

In the aftermath of the Arab Spring, fiscal space has become more constrained than it was before beginning of 2010. Constrained fiscal space resulted from increased expenditure in a number of countries and reduced revenues as a result of the economic slowdown. High oil prices have spared oil-rich countries from challenges related to fiscal space even though break-even oil prices have increased in recent years.

The estimate of the cost of a basic social protection package for selected Arab countries showed that the cost is not overwhelming. Indeed, the estimate showed that cost of universal disability and pension, unemployment and child benefits in the Arab region would range between 5 and 7 per cent of GDP. Those countries with ample fiscal space have the capacity to implement social protection packages to safeguard the capabilities of their people. However, several Arab countries are facing human development challenges without sufficient fiscal space and the capacity to create fiscal space for social protection may remain limited in the short term.

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