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Built

*Reimagining
Social Protection
in the Middle East
& North Africa*

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to Include

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2023

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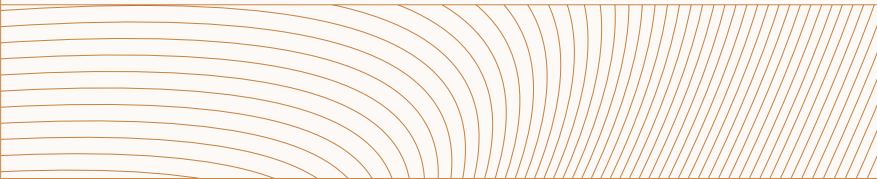
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June 2023

Include

Foreword

by Ferid Belhaj

*Regional Vice President
Middle East and North Africa*

—THE WORLD BANK

People in the Middle East and North Africa (MENA) region, and around the world, are hurting. A polycrisis, including COVID-19 and Russia's invasion of Ukraine, has had—and is continuing to have—a devastating impact on living standards. But most countries in MENA were already struggling to reduce poverty and vulnerability before this cascade of shocks.

This report argues that labor market exclusion is at the root of the problem. Many people cannot find jobs—MENA has the highest youth unemployment rate and the lowest women's labor force participation rate in the world. And most workers are stuck in low-productivity informal jobs with no social protection. This makes them extremely vulnerable to falling into poverty when a shock hits—as the recent crises have painfully shown.

Reducing labor market exclusion requires, first and foremost, a dynamic private sector that generates productive jobs. Our companion report on jobs in MENA, *Jobs Undone*, provides options to do that.

How can social protection policies help? They can play a crucial role in reducing labor market exclusion, by facilitating access to productive jobs, protecting workers, and providing a safety net for people who are left behind and are at risk of poverty. And they should do so in an efficient manner, by ensuring financial responsibility and avoiding unintended

consequences on decisions regarding work, retirement, and hiring.

This report shows that social protection policies in countries across the region are, unfortunately, falling short of protecting people. The social protection responses to COVID-19 and the war in Ukraine have been commendable, but they have also revealed the weaknesses of preexisting social protection systems. For instance, most of the poor do not receive income support, while MENA spends more than any other region on inefficient generalized energy and food subsidies. Most workers are not covered by pensions or unemployment insurance, and pension systems are unsustainable. And MENA countries impose more legal restrictions on women's employment than anywhere else in the world.

Crises are painful but they also provide a unique opportunity for reform. As MENA countries look to respond to the immediate crises and reduce labor market exclusion down the road, this report offers key insights that can help governments build inclusive and efficient social protection systems. The first order of priority is to build a shock-responsive system to deliver income support to the poor. We are pleased to see Jordan, Egypt, and, more recently, Morocco moving decisively in this direction. These efforts should be complemented by support to build the human capital and capabilities of the poor to help them eventually move out of poverty through the labor market—Egypt has started doing that.

Naturally, the next priority is to expand the coverage of social insurance among vulnerable informal workers, including by increasing access to voluntary savings schemes. That should be accompanied by expanded support to enhance the productivity of informal workers and to increase the employability of youth and women—along with the elimination of barriers to women's employment.

Building an inclusive social protection system will require more resources, but not at any cost. More resources should eventually come from direct taxes—MENA countries collect little in taxes and mostly rely on regressive indirect taxes. In the meantime, countries like Tunisia show how removing tax exemptions and improving tax administration can also increase tax revenue in a progressive manner.

Subsidy reform can also increase efficiency and provide resources for social protection priorities. While generalized subsidies are helping with food and energy inflation stemming, among other factors, from the war in Ukraine, they come at a cost that developing oil-importing MENA countries can no longer afford. Countries in the region should at least consider giving higher subsidies to those most in need at the expense of those less in need and removing subsidies for richer households.

Re-designing pension systems to support active ageing will also increase efficiency. Across MENA, people are living longer and healthier lives, yet most workers continue to retire around age 50, resulting in large productivity losses and a drain on resources. More efforts are needed to eliminate incentives for early retirement and to start incentivizing and supporting late retirement.

Undoubtedly, the proposed reforms will challenge the prevailing social contract. The good news is that countries across MENA have already started the reform journey. Moving more decisively and comprehensively toward an inclusive and efficient social protection system will require political support. Setting the vision and the roadmap to get there helps—Morocco's Social Protection Reform Program is a good example—and so does good communication—Egypt, Jordan and Morocco did just that to reform fuel subsidies. Sequencing and packaging of reforms—including of parametric pension reforms with coverage expansion—are also critical. Continuous political leadership and ownership is essential to ensuring that the reform process continues over time.

It isn't a question of if the next crisis will hit, it is a question of when. It is up to MENA countries to be better prepared for it and, more generally, to help set people up for productive and healthy lives. Building an inclusive and efficient social protection system will go miles to achieve that.

Acknowledgments

This report was prepared by a World Bank team led by Cristobal Ridao-Cano (Lead Economist, Social Protection and Jobs (SPJ)) and including Dalal Moosa (Senior Economist, SPJ), Montserrat Pallares-Miralles (Senior Economist, SPJ), and Juul Pinxten (Economist, SPJ). The extended team included Ugo Gentilini (Senior Social Protection Specialist, SPJ), Manjula M. Luthria (Senior Economist, SPJ), Nayib Rivera (Economist, SPJ), and Usama Zafar (Extended Term Consultant, SPJ). External contributors included Marian Abdelnour Atallah (Paris School of Economics) and Shereen Hussein (Professor of Health and Social Care Policy, London School of Hygiene and Tropical Medicine). The report is accompanied by background papers on social assistance (Juul Pinxten, Usama Zafar), social insurance (Montserrat Pallares-Miralles), and labor policies (Dalal Moosa). Wiem Jenzri and Sultan Khair (Short Term Consultants, SPJ) collected and updated information on key indicators on social assistance and subsidies following the Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE) framework. Graphic design by Muhammad Kamal.

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Middle East & North Africa MENA Countries

High income
countries

Bahrain

Kuwait

Malta

Oman

Qatar

Saudi Arabia

United Arab Emirates **UAE**

HIC

Upper middle
income countries

Iraq

Jordan

Lebanon

Libya

UMIC

Lower middle
income countries

LMIC

Low income countries

LIC

Algeria

Djibouti

Egypt

Iran

Morocco

Tunisia

West Bank and Gaza **WB&G**

Syria

Yemen

Regions

Middle East and North Africa **MENA**

South Asia **SAR**

Latin America the Caribbean **LAC**

Europe and Central Asia **ECA**

Sub-Saharan Africa **SSA**

East Asia and the Pacific **EAP**

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Overview

CHAPTER

Most countries in the Middle East and North Africa (MENA) are struggling to reduce poverty and vulnerability—COVID-19 and now Russia's invasion of Ukraine are making the task even harder. Labor market exclusion is at the root of poverty and vulnerability in MENA, as work opportunities are limited, particularly for women and youth, and most workers are engaged in low productivity informal jobs.

Although creating more and better jobs in MENA is mainly about revitalizing the private sector, social protection policies can play a crucial role in addressing labor market exclusion by facilitating access to productive employment, protecting workers, and providing a safety net for people who are left behind and are at risk of poverty. Social protection systems should be built to include people,

but not at any cost. Protection should be provided in a financially responsible way while avoiding perverse incentives affecting work, retirement, and hiring decisions that can exacerbate labor market exclusion.

Social protection policies in MENA are falling short of that benchmark. Most poor people do not receive income support, while inefficient energy and food subsidies loom large in the region. Also, most workers are not covered by pension or unemployment insurance (UI), and pension systems are unsustainable and encourage early retirement. Labor policies provide limited effective protection to workers and do little to facilitate employment. Population aging, technological change, and climate change will shape tomorrow's economies and increase demand for social protection—social protection systems in MENA are ill-prepared to meet these challenges.

Social protection systems in MENA are overdue for an upgrade to expand support to those excluded from the labor market in an efficient manner, and the ongoing crisis context is creating a unique opportunity for this. This requires investing in shock-responsive delivery systems, expanding the coverage and efficiency of social protection instruments—including income support and opportunities for the poor and social insurance and productivity-enhancing support for informal workers—and mobilizing additional resources to finance reform in a progressive manner. All of this requires political support to make the upgraded social protection system part of a renewed social contract. Although there is no single reform path, this report provides guidance on sequencing of reforms to move toward an inclusive social protection system.

Much of MENA is struggling to reduce poverty and vulnerability because work is limited and mostly informal

ES.1



The COVID-19 pandemic took a toll on poverty in MENA, and the war in Ukraine is making things worse. It is estimated that COVID-19 has pushed 16 million people in MENA below the \$5.50 per day poverty line. Job loss and falling earnings, especially among informal workers—not covered by social insurance—have been the greatest causes of the decline in living standards. For example, about half of informal wage workers in Egypt lost their jobs between February 2020 and February 2021. Just as the pandemic started to wane, the crisis triggered by the war in Ukraine struck. The resulting increase in global prices—particularly for food and energy—has pushed even more people into poverty.

Poverty and vulnerability were relatively high in much of MENA before the pandemic, driven by labor market exclusion. MENA is the only region where poverty increased during the 2010s, indicating that it is a persistent problem. Many people in MENA cannot escape poverty because they cannot find employment or because they are stuck in low-productivity informal jobs.

Work is limited, particularly for youth and women. Increasingly better-educated youth are joining the labor force, but many find themselves idle or unemployed; 24 percent of youth in MENA were unemployed in 2019, the highest rate in the world, and it has been so for the past 2 decades. Across the region, women are becoming just as educated (if not more so) than men and value work (almost) as much as men, yet only 20 percent of working-age women were employed or looking for a job in 2019, the lowest rate in the world.

Most private sector workers are informal—not covered by pensions. In MENA countries, not being covered by a pension typically

means having no access to other forms of social insurance and not having a legal contract (for wage workers) and thus not being protected by the labor laws. At least two-thirds of private sector workers in middle-income MENA countries for which there are data are in informal employment, and most of them are stuck in informal jobs as employees in low-productivity micro-enterprises (fewer than 10 workers). Informality is even higher among youth—more than 90 percent in Egypt and Morocco—and has increased over time as public employment has decreased. Foreign workers account for most workers in Gulf Cooperation Council (GCC) countries, and they are not covered by pensions. Although some expatriate workers have access to alternative savings instruments, half of expatriate domestic helpers—who are mostly women and account for between 13 percent (Qatar) and 27 percent (Saudi Arabia) of the workforce—are not covered by any social insurance scheme or protected by the labor code.

Creating more and better jobs in MENA is mainly about increasing market contestability. Inefficient firm dynamics—a reflection of the lack of market contestability—result in a stunted private sector dominated by small, low-productivity firms; approximately two-thirds of workers are employed in micro-firms in Egypt, Jordan, and Tunisia, and at least three-quarters of those are informal. Islam, Moosa, and Saliola (2022) identify two key reform areas to increase product market contestability: presence and preferential treatment of state-owned enterprises in the economy and price controls over services and commodities. Although creating more-productive employment is about revitalizing the private sector, social protection policies can play a crucial role in addressing labor market exclusion by facilitating access to productive employment, protecting workers, and providing a safety net for people who are left behind.

16 mil.



people fell below the \$5.50 per day poverty line due to the COVID-19 pandemic

Social protection plays a crucial role in reducing poverty and vulnerability—a framework

ES.2



Social protection is designed to protect all people against poverty and other risks affecting their well-being while ensuring financial responsibility and minimizing perverse incentives. This vision for social protection is fully aligned with the goal of universal social protection, which posits that everybody should have access to social protection when and how they need it. It also recognizes the importance of providing protection efficiently, which involves financial responsibility and avoiding perverse incentives affecting work, retirement, and hiring decisions—incentive compatibility. This report sees this vision as a benchmark that national social protection systems should be assessed against and progressively move toward. This vision is realized through an integrated system of three social protection instruments: social assistance, social insurance, and labor regulations and programs (Table ES1).

Social protection instruments can be mapped along the welfare-work distribution of the population. First, the population can be divided into three welfare groups: poor; vulnerable to poverty; and not poor, not vulnerable to poverty (Figure ES1). This distribution can be adjusted to reflect work status: not working, working informally, and working formally. This stylized distribution is largely aligned with the evidence. The stylized mapping of social protection instruments is consistent with the roles described in Table ES1. Taken together, social protection instruments cover the entire population, but the specific mix of instruments varies along the welfare-work distribution and the life cycle. This mapping can also be viewed dynamically, as social protection instruments help households move up in the welfare-work distribution, including after slipping down because of shocks. To reduce work disincentives, income support is tapered off, as opposed to being sharply discontinued, as people become non-poor but still vulnerable. The framework outlined in Table ES1 and Figure ES1 is used to benchmark social protection systems in MENA and identify reform priorities.

TAB. ES1

Social Protection: Protecting people against risks in an efficient manner

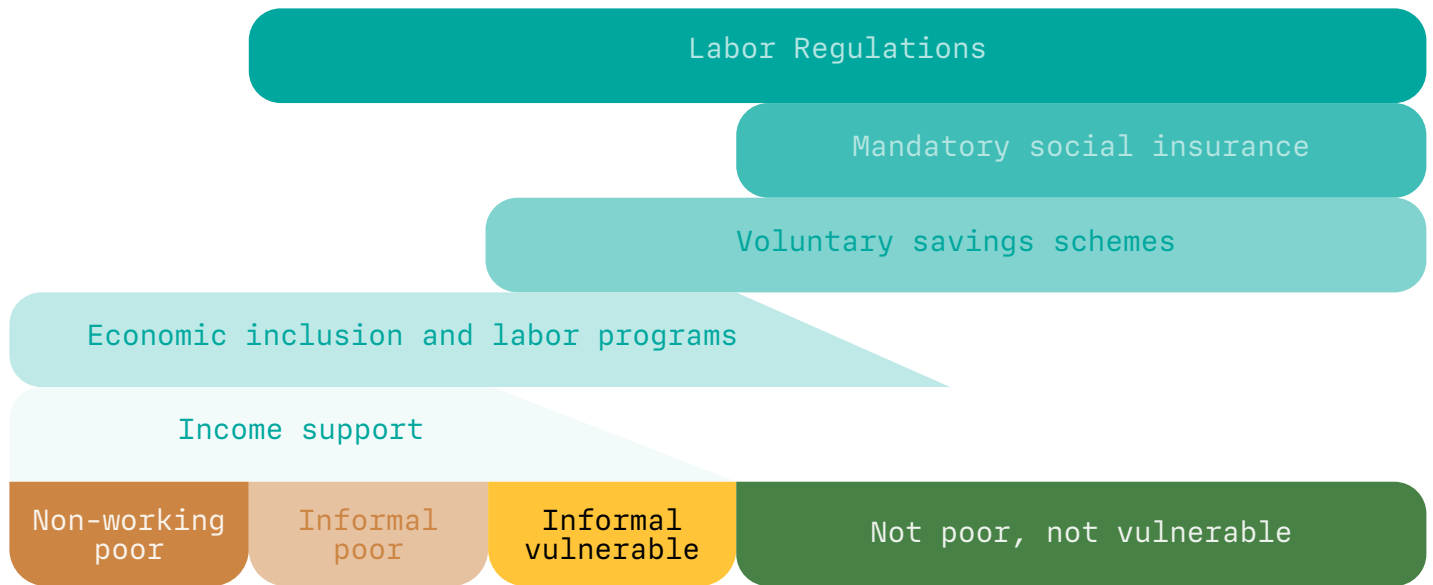
	<i>Social assistance</i>	<i>Social insurance</i>	<i>Labor regulations and programs</i>
<i>Protection</i>	Income support to address the risk of poverty	Income protection (pensions) and long-term care of workers upon retirement to avoid the risk of old-age poverty and destitution; protection against risk of injury, sickness, unemployment while active	Labor regulations: protect workers against risks such as exploitation and discrimination
<i>Financial responsibility</i>	Cost-effectiveness through modern delivery systems, linking income support with economic inclusion and human capital investments, and prioritizing the poorest	Self-financing, by aligning contributions and benefits; subsidies (to benefits or contributions) carefully designed and financed through government budget	Labor and economic inclusion programs: modern delivery systems; prioritize difficult-to-employ and low-productivity informal workers
<i>Incentive compatibility</i>	Prevent disincentives to work and become financially self-sufficient by avoiding beneficiary selection based on work status and calibrating benefits to labor income	Align contributions and benefits to prevent perverse incentives (e.g., early retirement); avoid program fragmentation; make main programs mandatory, but include voluntary schemes to help bridge the gap	Labor regulations: give firms enough flexibility to adjust to demand

“Poverty and vulnerability were relatively high in much of MENA before the pandemic, driven by labor market exclusion”

FIG.

ES1

Stylized mapping of social protection instruments along the welfare-work distribution



Social protection instruments can help address labor market exclusion. Table ES1 and Figure ES1 show that a combination of mandatory and voluntary social insurance programs can help protect all workers against short- (injury, sickness, unemployment) and long-term (old-age poverty) risks. Labor regulations can further protect workers against risks such as exploitation and discrimination, although they must be accompanied by mechanisms to ensure that they eventually provide effective protection to all workers. Labor programs can help increase access of job seekers and workers in low-productivity jobs to productive work opportunities. Income support can help poor households meet minimum consumption needs, while economic inclusion programs and investments in human capital of children in those households can help them move out of poverty for good. And to avoid exacerbating labor market exclusion, social protection instruments must be designed to avoid perverse incentives affecting work, retirement, and hiring decisions.

Social protection policies in MENA are falling short of protecting the poor and vulnerable

ES.3

The social protection response to COVID-19 was vigorous but limited by preexisting conditions. To varying degrees, all MENA countries responded to the COVID-19 crisis with social protection measures, especially income support. Most public assistance in Egypt, Jordan, Morocco, and Tunisia was well targeted to those most affected—the poorest segments of the population and informal workers—although most of them were left out, except in Jordan. The shock responsiveness of social protection systems—including the availability of UI and modern delivery systems with large social registries of households and digital payments—influenced the response. For the most part, and with notable exceptions such as Jordan, delivery systems across MENA had limited shock responsiveness. Pre-COVID-19 coverage of social protection programs also influenced the response: limited pre-pandemic coverage of income support and social insurance amplified the initial poverty impact

of COVID-19 and made the response more costly, effectively limiting it.

Despite recent expansions, most poor people do not receive income support in much of developing (low- and middle-income) MENA, while inefficient subsidies loom large. Only in Egypt and Jordan do cash transfer programs cover most of the poor. Low spending on these programs, and on social assistance in general, is the main reason for the low coverage of cash transfers for the poor. At the same time, and despite recent reforms, spending on energy subsidies in MENA is twice that on social assistance and much higher than in any other region. Energy subsidies tend to be regressive because richer households tend to consume more energy than poorer households. They are also economically inefficient and harmful to the environment. Most social assistance spending is on generalized food subsidies, not cash transfers to the poor. These subsidies tend to have a sizable impact on poverty by virtue of covering poor and vulnerable people but are less cost effective than targeted cash transfer programs in all countries analyzed because many go to non-poor, non-vulnerable households.

Most workers are not covered by social insurance schemes. Although all MENA countries except Lebanon and the West Bank and Gaza have mandatory pension schemes for private sector workers, most workers are not effectively covered—a reflection of high job informality. Low coverage of workers and low contribution histories translate into low coverage of pensions for the elderly. Only 12 MENA countries have UI, which covers less than 10 percent of unemployed people.

Pension schemes in MENA tend to be financially unsustainable because they are generous by design. Most pension schemes are defined-benefit plans, with benefits paid from current contributions. For this type of scheme to be financially sustainable, benefits, contribution rates, and retirement ages must be aligned; they are not in MENA, resulting in schemes that are in deficit or will become so in a few years. Pension schemes are financially unsustainable because promised benefits are greater than what they should be, given contributions and retirement ages. Built-in incentives to retire early are a key source of imbalance, resulting in approximately 45 percent of old-age beneficiaries receiving an early retirement pension, well above global norms. Thus, although the typical statutory retirement age in MENA is 60 for men and 55 for women, workers often retire at age 50 or earlier. MENA countries often have fragmented pension systems, including different schemes for public and private sector workers, which constrains labor mobility, increases administrative costs, and treats workers in different sectors unequally.

Labor policies provide limited protection to workers and do not facilitate employment.

Labor regulations in MENA countries mostly adhere to core international labor standards, but most workers in MENA do not directly benefit from them because they are informal workers, and weak enforcement of labor regulations makes it difficult to formalize workers and protect formal sector workers. Few MENA countries have restrictions on hiring, but most have restrictive dismissal rules. In addition, MENA countries have some of the most restrictive laws against women's employment. Across MENA, few job seekers benefit from employment support, particularly those who need it most. Economic inclusion programs are rare and cover few beneficiaries.

Social protection systems will only become less aligned with reality. Population aging—expected to be faster in MENA than any other region—technological change, and climate change will shape tomorrow's economies and increase demand for social protection. Population aging will increase demand for pensions and long-term care (LTC). Climate-related shocks related to MENA's low rainfall, high temperatures, and dry soil will particularly affect poor and vulnerable people, who will need support to prepare for, manage, and adapt to these shocks. Prevailing social protection systems in MENA are ill-prepared to meet these challenges.



Reimagining social protection in MENA

ES. 4

Social protection systems in MENA must be upgraded to expand support to those excluded from the labor market in an efficient manner. The pandemic and the crisis triggered by the war in Ukraine are exacerbating the inadequacies of current social protection systems while creating a unique opportunity for reform. This report identifies reform priorities, tailored to different groups of MENA countries, in three broad strategic policies areas: building foundational systems to deliver social protection effectively and efficiently, enhancing the protection of people along the welfare-work distribution, and increasing the efficiency of and financing for social protection. The report brings some fresh perspectives. It builds on the COVID-19 experience to highlight the role of modern delivery systems; proposes an approach to informality that focuses on protecting and enhancing the productivity of informal workers; and contributes to the debate on aging, including active aging and LTC. The report provides guidance on sequencing re-

forms to build an inclusive social protection system and gain political support for reform.

Modern delivery systems are essential to providing enhanced social protection support efficiently. They are key to delivering the right support to the right people at the right time at the least cost. Modern delivery systems are one-stop shops for providing social protection—from outreach and registration of potential beneficiaries to delivery of support. Digital technologies can be leveraged to develop modern delivery systems, including through electronic identification, online registration and data exchange, and digital payments. Shock-responsive features of modern delivery systems—including large, dynamic social registries, and digitization of processes and payments—have been critical in the response to the pandemic and the war in Ukraine. The development of modern delivery systems for social protection is a relevant reform agenda for all MENA countries, most of which have made progress on some elements of modern delivery system, with Jordan being at the forefront.



Expanding income support and opportunities for the poor and vulnerable

ES.4.1

Expanding income support to the poor is a priority for all developing MENA countries, particularly those with large coverage gaps. Funding for cash transfer programs can and should increase, but budgets will continue to be limited, so efforts should continue to increase the accuracy of methods to identify the poor. Egypt and Jordan are good examples of countries that have increased coverage to more than half of the poorest 20 percent of their populations through a combination of increased funding, better targeting of the poor, and consolidation of programs into a single cost-effective cash transfer program (Takaful and Karama Program (TKP) in Egypt; Takaful in Jordan).

Enhancing opportunities for the poor and the vulnerable is also a priority for developing MENA countries, particularly those with low levels of human capital. This can be done by complementing income support with interventions that build the human capital and capabilities of poor and vulnerable households (economic inclusion programs). Social registries are useful tools for packaging complementary interventions; Egypt, Jordan, and Morocco are emerging examples of that. Egypt is providing TKP beneficiaries with complementary support to improve children's nutrition, health, and education. Egypt also has the most-developed economic inclusion initiative in MENA (FORSA), which offers TKP beneficiaries support for self-employment or wage employment to help them move out of poverty. The self-employment package is based on the successful BRAC graduation model, a comprehensive support package provided to extremely poor people in rural areas to help them start and expand income-generating activities.

Expanding social insurance protection, particularly for informal workers

ES.4.2

This report proposes an approach to informality focused on protecting and enhancing the productivity of informal workers. That is not to say that MENA countries should not continue their efforts to formalize—bringing workers into mandatory schemes—but formalization policies are unlikely to increase coverage much in the short to medium term—particularly for informal workers employed in micro-firms, so they must be complemented by alternative instruments that do not formalize but protect informal workers. Thus, this report recommends shifting the focus of policies toward protecting informal workers—which includes but is not limited to formalization—and enhancing their productivity.

Voluntary savings schemes (VSSs) can help sustainably increase protection of informal workers in MENA. They recognize the irregular and unpredictable nature of informal income and are applicable to informal workers who have some capacity to save; those who do not are better served by non-contributory income support programs. To encourage participation in VSSs of workers with less capacity to save, VSSs typically provide incentives in the form of matching contributions. To make them more attractive, these schemes should prioritize protection against short-term risks such as unemployment, income loss, and sickness. VSSs should ultimately serve as bridges to well-balanced mandatory schemes. VSSs in countries such as China and Türkiye are already protecting many informal workers. The savings scheme for expatriate workers recently launched in the

Dubai International Financial Center (DFIC) could serve as a model to increase protection of foreign workers in GCC countries*.

Well-designed social pensions can help prevent old-age poverty for workers who do not contribute enough or at all while being fiscally responsible and minimizing perverse incentives. Social pensions are transfers to the elderly financed through general government budgets. It is good practice to target social pensions to the elderly poor, which is the approach Egypt is taking with Karama. Another good practice is to subsidize contributory pension benefits to reach an adequate minimum pension level. This is different from minimum pensions in MENA, which are often tied to early retirement. It is the approach that China adopted to complement its VSS to increase effective coverage of informal workers.

There is ample room to enhance UI in all MENA countries; options vary according to initial conditions. Countries without UI can introduce UI savings accounts with a risk-pooling component to guarantee a minimum level of benefits, as in Chile. Countries with existing UI schemes can consider reforms to enhance protection (e.g., by easing eligibility), encourage job search (e.g., by tapering benefits through the benefit receipt period), and support re-employment (e.g., by linking benefit receipt to participation in labor programs). Countries with existing severance pay can tighten it by increasing years of service required for eligibility and reducing payment per year of service, converting it to prefunded accounts, or simply phasing it out.

*The DFIC is a special economic zone in the United Arab Emirates (UAE) that has an independent regulatory and legal system. The new savings scheme for expatriate workers replaces the previous end-of-service gratuity arrangement—an unfunded defined-benefit scheme.



“Labor regulations must protect all workers equally, including by eliminating legal restrictions on women’s employment”

Expanding employment support and worker protection

ES. 4.3



Labor programs should target those who need support, including lower-skilled youth and women. Global evidence shows that labor programs can increase the probability and quality of employment but only if they target the right people with the right support. Labor programs are more cost-effective for lower-skilled job seekers—particularly youth and women. Labor programs should look beyond wage employment and support digital jobs, including online freelancing. Several not-for-profit organizations are providing such support to Gazan youth, who would otherwise have very limited job opportunities, especially women. The private sector should play a core role in the delivery of labor programs while government focuses on ensuring quality and results, including through accreditation and performance-based contracting.

Labor regulations must protect all workers equally, including by eliminating legal restrictions on women’s employment. Efforts should continue to bring informal workers under labor laws and improve compliance with labor regulations while ensuring that protections do not place a burden on businesses. Above all, MENA countries must eliminate legal restrictions on women’s employment. Saudi Arabia has been implementing reforms to reduce gender discrimination, and other MENA countries have been making progress too, but much more is needed, and those efforts should be accompanied by other measures to increase women’s employment, including through labor programs, access to finance and childcare, and the development of the care economy. Another important reform agenda, particularly in GCC countries, is to loosen restrictions on foreign workers.

Increasing the efficiency of and financing for social protection

ES. 4.4

Integration of programs. Modern delivery systems facilitate the consolidation of similar social assistance programs, generating savings and increasing cost effectiveness. Examples in MENA include the consolidation of Egypt's Daman—an old-age social pension program—into Karama and Jordan's monthly cash transfer into Takaful. Integrating pension schemes will increase equity and labor mobility and reduce perverse incentives and administrative costs. Jordan pioneered the consolidation of public and private pension schemes in the region. Many other MENA countries have integrated some schemes, rules, or administration, but significant fragmentation remains.

Reforming generalized food and energy subsidies will increase efficiency and provide financing for social protection. MENA countries such as Egypt, Iran, Jordan, and Morocco embarked on sweeping energy

subsidy reforms in the 2010s, yet significant energy subsidies remain in much of MENA, crowding out fiscal space for other development priorities, including social protection. Generalized food subsidies are still the main form of social assistance in most of MENA, and most countries rely on costly energy and food subsidies to respond to rising prices triggered by the war in Ukraine. Developing oil-importing MENA countries cannot afford to maintain current levels of spending on subsidies, particularly when targeted cash transfers are a more cost-effective alternative. The current crisis should be used as an opportunity to reform subsidies, not as an excuse not to. Global experiences offer useful suggestions for reform, including transforming in-kind subsidies into cash transfers, recalibrating subsidies to give more to the poor and less to rich people, and gradually removing subsidies for rich people—using the savings to finance social protection priorities.

MENA countries must mobilize additional tax revenue to finance social protection priorities in a progressive manner. Increasing the efficiency of social assistance and reforming subsidies might not generate enough savings to finance social protection priorities, including the expansion of cash transfers and opportunities for the poor, labor programs, and social insurance subsidies, and oil-im-

porting developing MENA countries do not have the fiscal space to increase spending without raising additional revenue. There is room to collect more tax revenue in MENA countries in a progressive manner. MENA countries rely more on indirect taxes on consumption, which tend to be regressive, than on progressive direct taxes on income, profits, or property. In addition to increasing direct taxes, MENA countries can increase tax revenue in a progressive manner by removing tax exemptions and improving tax administration—Tunisia is a reform leader in this area.

MENA governments should support active aging. Across MENA, people are living longer, healthier lives, but most workers retire too early, resulting in considerable loss of potential productivity gains and a significant drain on pension funds. MENA countries must extend working lives, which requires not only adjusting the retirement age to reflect gains in life expectancy and eliminating incentives to retire early, but also encouraging and supporting late retirement. Some MENA countries have been implementing parametric reforms that go in the right direction, including Egypt and Jordan. The Organization for Economic Cooperation and Development countries offer good examples of policies to support active aging.

Moving towards an inclusive social protection system

ES. 4.5

Addressing labor market exclusion in MENA requires a vibrant private sector that generates more-productive jobs. Growth is expected to decelerate in MENA; as the global economy slows, financing becomes more expensive, and previous windfall gains for oil exporters dissipate, leading to fewer jobs and even less fiscal space in oil-importing MENA countries for social protection and other development priorities. To accelerate growth and harness it to generate more-productive jobs, reforms are needed to revitalize the private sector by increasing product market contestability.

Although there is no single reform path, some guiding principles can be used to move toward an inclusive social protection system. Modern delivery systems are foundational and should be fit to the level of complexity of the social protection system, which should ideally be determined mainly by where the greatest needs are along the welfare-work distribution. Therefore, systems should be built to deliver income support to the poor, then to

support opportunities for the poor to move out of poverty through the labor market, and then to institute reforms to provide access to sustainable social insurance protection and enhance the productivity of vulnerable informal workers with some capacity to save. In parallel, existing mandatory social insurance programs can be reformed to increase protection of formal sector workers while ensuring financial sustainability and supporting labor market inclusion. Labor regulations are also critical for worker protection, but they must not create a burden on businesses.

The proposed reforms will challenge the existing social contract, but many MENA countries have already started the reform journey, and the social contract is already being challenged. The vision and reforms outlined in this report are a deviation from how MENA countries have traditionally thought about social protection as part of the existing social contract: governments provide citizens with social services (health care, education), public sector jobs, and subsidies for food and energy in exchange for political support and limited political participation. This contract

has been weakened over the years as citizens have grown dissatisfied with it, particularly since 2010. Whether in response to fiscal constraints or citizen demands, this report shows that many MENA countries have been moving away—slowly but surely—from the social protection model embedded in the social contract (generalized subsidies, public sector employment) toward the type of social protection system advocated for in this report—at least some elements of it.

Reform will require political support. Moving more decisively and comprehensively toward the proposed new social protection system will require political support—particularly for some of the more-sensitive reforms regarding subsidies, pensions, and taxation—so that the new social protection system becomes an integral part of a renewed social contract. Evidence from MENA countries and elsewhere suggests some useful principles to gain political support for reform, including establishing a vision and communication, packaging and sequencing reforms, and ensuring political leadership and ownership of reform.



“The proposed reforms will challenge the existing social contract, but many MENA countries have already started the reform journey”



Ending poverty remains elusive *in most of MENA*

01

CHAPTER

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Work is limited and
mostly informal across
much of MENA

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Social protection plays a
crucial role in reducing
poverty and vulnerability:
a framework

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T

he COVID-19 pandemic turned the Middle East and North Africa region (MENA), and the rest of world, upside down. In MENA, the pandemic had claimed more than 300,000 lives by May 2022 (World Bank 2022a). The region's gross domestic product (GDP) contracted by 3.3 percent in 2020. Except in Lebanon, recovery started in 2021 and continued in 2022, particularly in Gulf Cooperation Council (GCC) countries, although most MENA economies have not recovered to pre-pandemic levels, and the Russia's invasion of Ukraine poses further significant challenges and uncertainties (World Bank 2022j).

The economic contraction had a devastating impact on the living standards of people in MENA, especially the poorest. It is estimated that household incomes declined between February 2020 and June 2021 across the income distribution, but the impact was most severe among the poorest 25 percent of households (Figure 1). The incomes of at least half of the poorest households in Egypt, Jordan, Morocco, and Tunisia declined, causing some to fall below the poverty line. The World Bank estimates that COVID-19 pushed 16 million people in MENA below the \$6.85 per day poverty line, with 6 million falling below the \$2.15 per day poverty line (Mahler et al. 2021). The poverty impact was severest in Iran, Iraq, and Lebanon, where other crises compounded the effects of COVID-19.

Job losses and falling earnings, especially among informal workers, have been the greatest causes of the decline in living standards. Unemployment shot up across the region. New labor market entrants could not find jobs, and many workers lost their jobs. Between one-quarter (Morocco) and half (Egypt) of wage earners in February 2020 had lost their jobs (main transmission channel) or had their wages cut by February 2021

(Figure 2). Informal wage workers, defined as wage earners without social insurance, were most affected in the four countries analyzed because informal workers were more concentrated than their peers in formal employment in sectors more affected by the crisis, such as retail trade, construction, and tourism; they lost employment first; and they were not eligible for unemployment benefits or COVID-19 remediation measures that formal sector workers received. This is important because, as shown later, informal workers account for most of the workforce in MENA, and they are vulnerable to shocks. As economies in the region began to recover, so did labor markets, although employment rates have not reached pre-pandemic levels.

As the pandemic began to wane, the war in Ukraine triggered another global crisis. Disruptions in the supply of food, fuel, and fertilizers from two major producers, Ukraine and Russia, has led to sharp increases in global prices that were already rising before the invasion (World Bank 2022a). Globally, it is estimated that the crisis triggered by the war has pushed approximately 7 million people below the \$1.90 poverty line, increased malnutrition, and reduced use of education and health services and productive assets by the poor. This is a significant setback to COVID-19 recovery efforts, including in MENA countries.

Poverty and vulnerability were high before the pandemic. Figure 3(Panel A) compares poverty rates in developing (low- and middle-income) MENA countries in 2018 with those of their income peers using various international poverty lines: \$2.15 per day (extreme poverty, most relevant for low-income countries), \$3.65 (moderate poverty, most relevant for lower-middle-income countries), and \$6.85 (moderate poverty, most relevant for upper-middle-income countries). Poverty



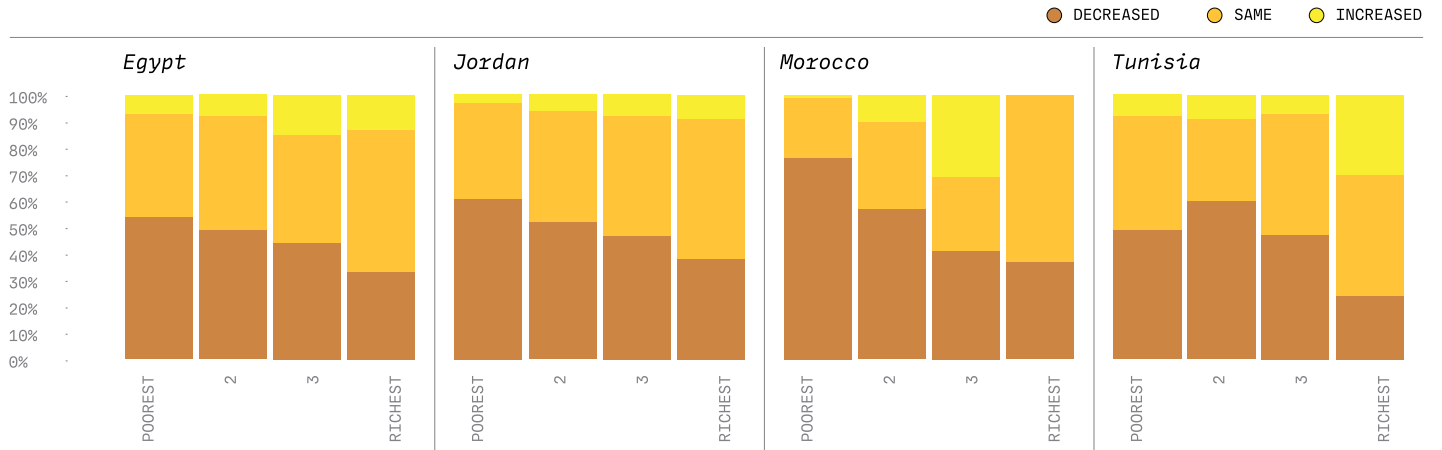
6 mil.

people fell below the \$2.15 per day poverty line

FIG. 1

COVID-19 impacted the poorest households the most

Changes in household income between February 2020 and June 2021, percentage of households, by household income per capita quartile in February 2020

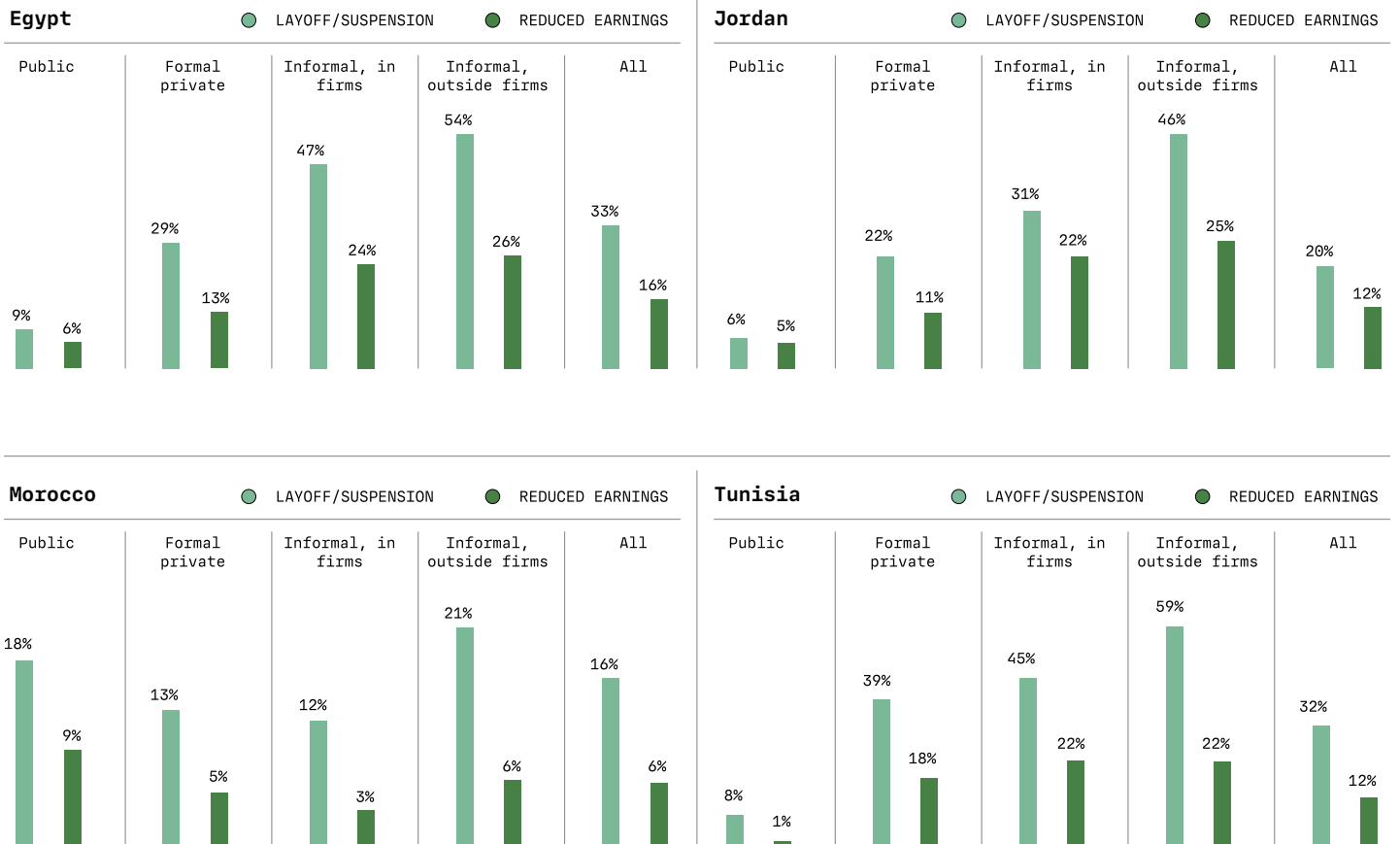


Source: Krafft, Assaad, and Marouani 2022.

FIG. 2

COVID-19 had a major impact on workers across MENA, particularly the informal

Percentage of wage workers reporting layoff/suspension and reduced earning between February 2020 and February 2021, by type of worker in February 2020



Note: Informal workers are private sector wage workers without social insurance working within or outside firms.

Source: Krafft, Assaad, and Marouani 2022.

is rampant in many developing MENA countries, although poverty levels tend to be lower than those of income peers. MENA is the only region where poverty increased during the 2010s (Figure 3, Panel B), indicating that it is a persistent problem in most developing MENA countries. The pandemic and now the war in Ukraine are making the goal of ending poverty even more elusive. The situation in Yemen, where it is estimated that half of the population is facing acute food insecurity, is especially desperate.

Across the region, high levels of poverty are accompanied by low levels of human capital. Although levels are generally comparable with those of income peers, the productivity—as a future worker—of a child born in a country such as Iraq, Egypt, and Yemen is less than 50 percent of the productivity that could be achieved with complete education and full health (Figure 4). The main constraint on human capital in MENA is poor learning outcomes. There are also large differences according to the socioeconomic level, indicating inequality of opportunities; the human

capital level of a child born in the poorest 20 percent of the population in Egypt, Jordan, or the West Bank and Gaza is at least 10 percentage points lower than that of a child born in the richest 20 percent, suggesting that lack of opportunities for poor households to build human capital partly explains the persistence of poverty.

Labor market exclusion is the main cause of poverty and vulnerability—work is limited and mostly informal across much of MENA.

The next section shows that high levels of poverty and vulnerability are linked to poorly performing labor markets, which tend to be characterized by a large share of working-age individuals, particularly youth and women, who are unemployed, underemployed, or out of the labor force and a large share of workers in low-productivity informal jobs. Thus, many people in MENA cannot escape poverty and vulnerability because they cannot find employment or are stuck in low-productivity informal jobs. Labor market exclusion has been a persistent impediment to shared prosperity in MENA (Gatti et al. 2013).

A child born today in a poor family in Egypt can only achieve

50%

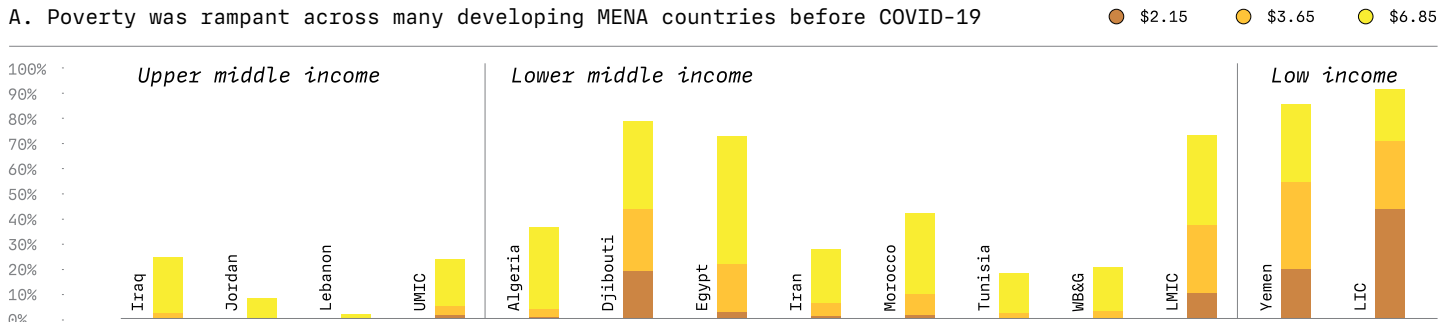
of her economic potential because of inadequate health and education investments



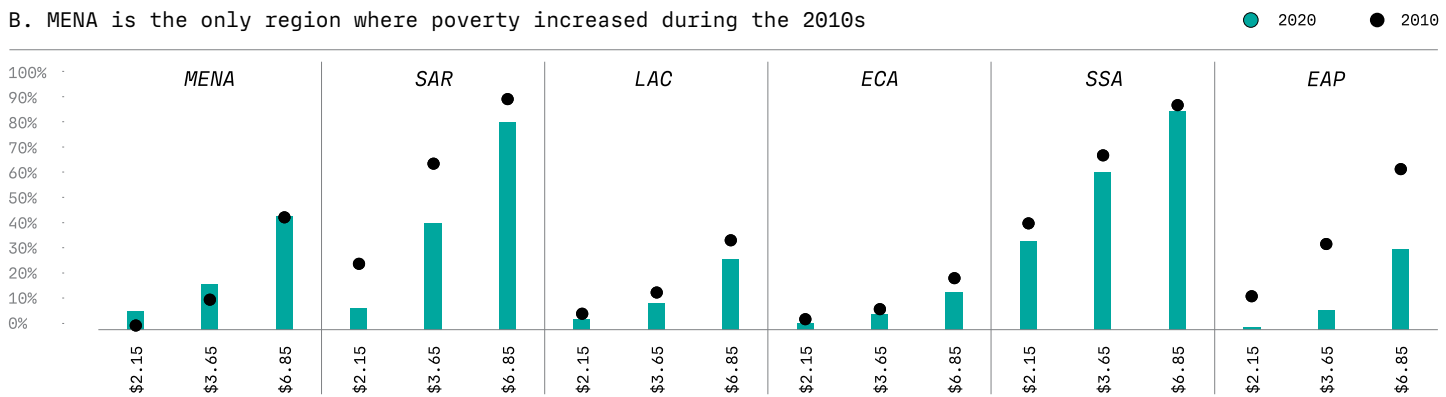
FIG. 3 Poverty and vulnerability were already relatively high in much of MENA before COVID-19

Percentage of population living below \$2.15, \$3.65 and \$6.85 a day at 2017 international prices, by region and year (Panel A), and by country (2018 or latest) (Panel B)

A. Poverty was rampant across many developing MENA countries before COVID-19



B. MENA is the only region where poverty increased during the 2010s



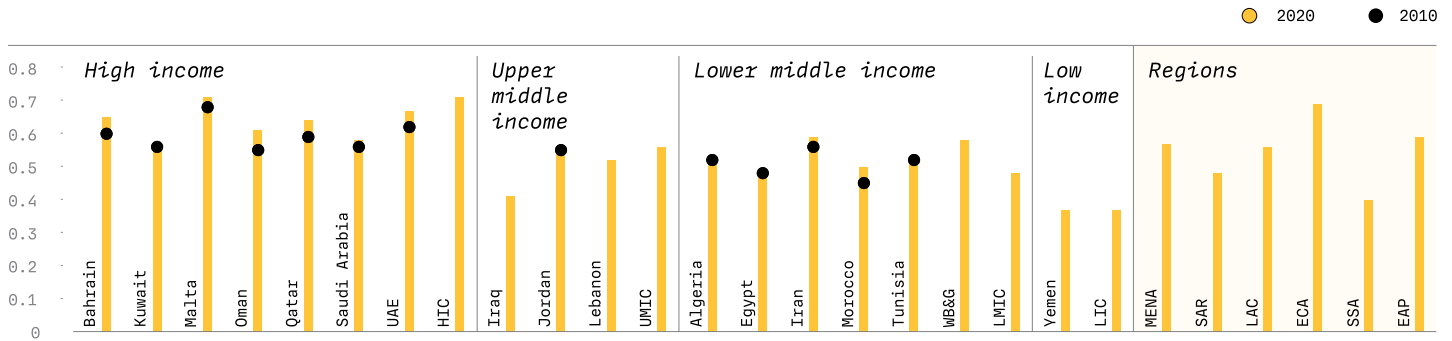
Source: World Bank 2022c.

FIG.

4

Poverty goes hand in hand with low levels of human capital

Human capital index, 0-1 scale, by country, region and income group, 2010-2020



Source: World Bank 2022d.

Work is limited & mostly informal across much of MENA 1.1

Work is the main way out of poverty, but it does not guarantee it, especially if it is informal. Across developing MENA countries with data, except Egypt and Syria, the overwhelming majority of workers live in non-poor households, defined as having an income per capita greater than \$5.50 per day (Figure 5). Even in Egypt and Syria, most workers live in non-poor households when poverty is defined relative to the relevant income poverty line for each country. Also, poverty rates among workers are lower than for the general population (Figure 3, Panel B). Work helps move people out of poverty, but many workers still live in poor households—not all work is created equal. Formal sector workers enjoy the de jure protections of the labor law and social insurance; informal workers do not. Formal sector workers typically have higher earnings and more stable employment than informal workers. Informal workers are more likely to be poor than formal workers. Thus, work helps people move out of poverty but informal work less so, which is important because work opportunities are limited and mostly informal in MENA.

“Work helps move people out of poverty, but many workers still live in poor households—not all work is created equal”

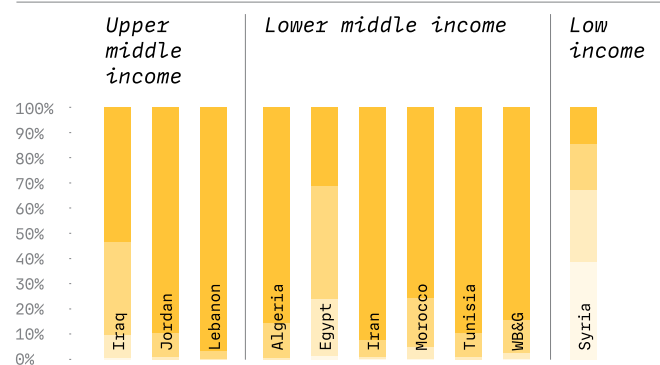
FIG.

5

Work helps, but it does not earn a safe passage out of poverty

Percentage distribution of workers along the welfare distribution of the households they live in, latest year

○ < \$1.9 ● \$1.9 - \$3.2 ● \$3.2 - \$5.5 ● > \$5.5

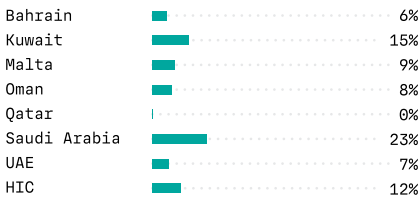


Source: ILO 2022.

Youth unemployment has been persistently higher in MENA than anywhere else

Percentages, 2019

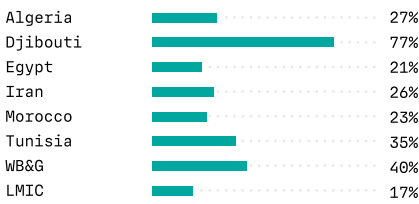
High income



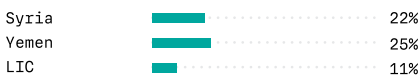
Upper middle income



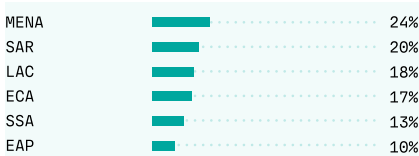
Lower middle income



Low income



Regions



Source: ILO 2022.

Work is limited, especially for youth & women

1.1.1



Educated youth are increasingly joining the labor force, but many find themselves idle or unemployed. At 27 percent, the population share of individuals aged 20 to 34 in MENA is the highest in the world after South Asia. Younger cohorts are also increasingly educated; MENA has had the highest rates of intergenerational education mobility in the world over the past few decades (Narayan et al. 2018), yet many young people in MENA find themselves idle, unemployed, or stuck in informal jobs, making intergenerational income mobility particularly low in the region (Narayan et al. 2018). Twenty-nine percent of individuals aged 15 to 24 in MENA were not employed or in school or training in 2019 (the highest rate in the world after South Asia), ranging from 10 percent in Qatar to 44 percent in Iraq. Many of these idle youth want to work but cannot find employment; 24 percent of youth in MENA were unemployed in 2019, the highest rate in the world, as has been the case for the past 2 decades (Figure 6).

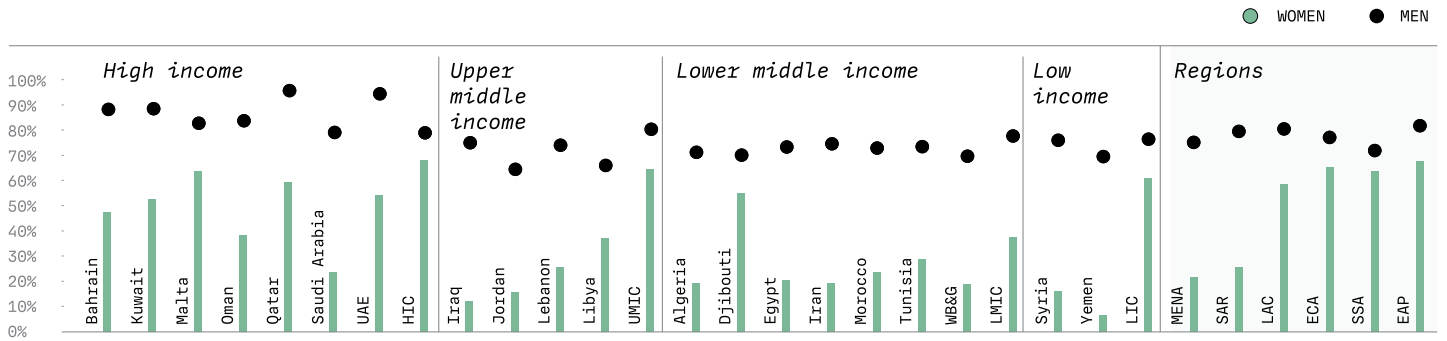
Most women in MENA are jobless—more so than anywhere else in the world. Across the region, women are becoming as educated as

men (if not more so) and value market work almost as much as men (World Value Survey 2022), yet only 20 percent of working-age women were employed or looking for a job in 2019, the lowest rate in the world. Across MENA countries, labor force participation rates are lower than in their income peers (Figure 7), and progress over time has been limited, except in Saudi Arabia where reforms to reduce restrictions on women’s employment have facilitated a remarkable increase in participation rates between 2016 (21 percent) and the third quarter of 2022 (37 percent). Labor force participation rates typically peak around marital age (mid-20s) and decline thereafter. In contrast, the much higher men’s participation rates in MENA countries compare well with those of income peers. The few women who enter the labor market are more likely to be unemployed than men. The average gap between the women’s unemployment rate (17 percent) and the men’s unemployment rate (8 percent) in MENA in 2019 is the largest gap of any region and has increased over time as the public sector has become a less-viable employment option for women, more so than for men.

FIG. 7

Women’s labor force participation has been persistently lower in MENA than anywhere else

Percentages, 2019

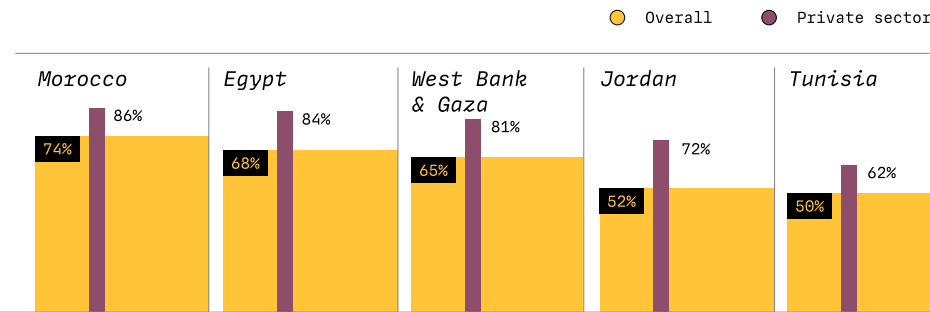


Source: ILO 2022.

FIG. 8

Most workers in middle-income MENA countries are informal

Share of informal employment in total employment and private sector employment, percentages, latest year



Note: Informal employment is defined as not contributing to a pension. Surveys include nationals and non-nationals aged 15 to 64.

Source: Labor Market Panel Survey for Egypt (2018) and Tunisia (2014); Labor Force Survey for Jordan (2018), the West Bank and Gaza (2018), and Morocco Labor Force Survey (2019).

Most workers are informal

1.1.2

Most private sector workers in middle-income MENA countries are informal. This report defines an informal worker as someone who is not covered by pensions (Box 1). Using this definition, most workers in all five middle-income MENA countries with data are working informally (Figure 8). For private sector workers—public sector employees tend to have pensions—informality ranges from 62 percent in Tunisia to 86 percent in Morocco. Informality is even higher for youth; more than 90 percent of working youth in Egypt

and Morocco are informal. Job informality in MENA has not changed much over time (Gatti et al. 2014). If anything, informality has increased as public employment has receded.¹ Also, many informal workers are stuck in informality; in Egypt, 68 percent of informal workers in 2012 were still informal in 2018 (19 percent became unemployed or left the labor force), and in Jordan, 52 percent of informal workers in 2010 were still informal in 2016 (31 percent became unemployed or left the labor force).²

1 The probability of a 25-year-old university-educated men finding a job in the public sector in Egypt, Tunisia, and West Bank and Gaza has decreased over the past few decades while the probability of informal wage employment has increased (Islam, Moosa, and Saliola 2022).

2 See Lopez-Acevedo et al. (forthcoming) for a detailed analysis of informality in Egypt, Morocco, and Tunisia.

BOX 1

Defining informal work

This report defines an informal worker as someone who does not contribute to pensions, whether working for a wage or self-employed. Although a broader definition that includes other forms of social insurance protection would be appropriate, only information on pension coverage is consistently available across the five MENA countries with data. Nevertheless, pensions are the most common social insurance program in MENA, and not being covered by a pension typically means not having access to other forms of social insurance.

Lack of pension coverage of private sector wage workers in countries where contributions are mandatory (most MENA countries), also often means working without a legal contract and hence not being protected by labor laws and regulations in general. In GCC countries, while foreign workers are not covered by mandatory pensions, most of them have written legal contracts.

Although lack of pension coverage means that workers are unprotected, it is important for policy to distinguish between situations in which contributions are mandatory according to law or voluntary (as in many MENA countries with self-employed workers) or there is simply no pension scheme workers can contribute to (see chapter 2 for details). It is also relevant for policy to differentiate between informal private sector wage workers employed in informal (unregistered) versus formal firms.

Foreign workers constitute most of the workforce in GCC countries, and none have access to pensions. GCC countries rely on expatriate workers, ranging from 73 percent of the workforce in Saudi Arabia to 95 percent in Qatar (Figure 9). These expatriate workers come from various countries around the world, but mostly from South and East Asia. Foreign workers often have insurance against work injury, but no GCC country provides retirement income for foreign workers, regardless of how many years they work in the country. For most workers, it is not possible to stay in the country after retirement age.³ Some expatriate workers have high incomes and alternative instruments to save for retirement, but half of expatriate domestic helpers, who account for between 13 percent (in Qatar) and 27 percent (in Saudi Arabia) of the workforce, are not covered by any social insurance scheme or protected by the labor code. Almost all expatriate domestic helpers are women, who are vulnerable to abuse.

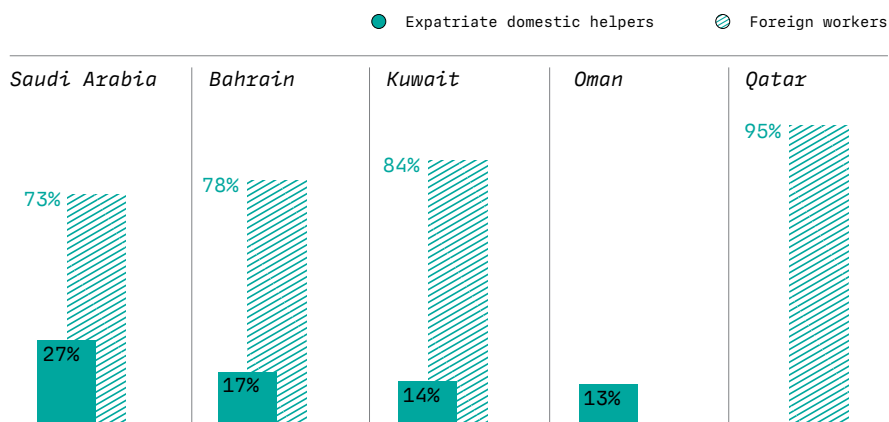
Most informal workers in middle-income MENA countries are employed in micro-enterprises. In Egypt, Jordan, Tunisia, and the West Bank and Gaza, most informal workers are employees (Figure 10, Panel A). In Morocco, informal employees are the largest group of informal workers (38 percent), followed by self-employed informal workers. This is different from the profile of informal workers in two regions where informality is also rampant (South Asia and Sub-Saharan Africa), where most informal workers (and workers in general) are self-employed (Güven, Jain, and Joubert 2021). More than three-quarters of informal employees in Egypt, Jordan, and Tunisia work in micro-enterprises (fewer than 10 workers) (Figure 10, Panel B), which has important implications for social protection (see Chapter 3).

Although many informal workers are poor, most are not—even if they are vulnerable. Many informal wage workers in Egypt, Jordan, Tunisia, and the West Bank and Gaza live in households that are among the poorest 40 percent of the population (Figure 11). Average income per capita of these households is at or below the international poverty line for each country,⁴ meaning that they are likely to be poor. Still, most informal wage workers in these countries are not among the poorest 40 percent of the population; in Jordan, informal wage workers are underrepresented in this segment of the population (35 percent). As the COVID-19 experience has shown, most non-poor informal workers are vulnerable to shocks. The fact that most informal workers are not poor, and have some capacity to save, has important implications for social protection (see Chapter 3).

FIG. 9

Foreign workers make up the bulk of the workforce in GCC countries

Share of foreign workers and expatriate domestic helpers in total employment, percentages, latest year



Source: Data on expatriate domestic helpers are from Saudi Arabia's Labor Force Survey (2019), Bahrain's Labor Market Regulatory Authority (2019), Kuwait's Labor Force Survey (2015), and Oman's National Centre for Statistics and Information Data Portal (2019). Data on foreign workers are from Saudi Arabia's Labor Market Survey (2021), Qatar's Labor Force Sample Survey (2019), and Bahrain's Labor Market Indicators Dashboard (2021).

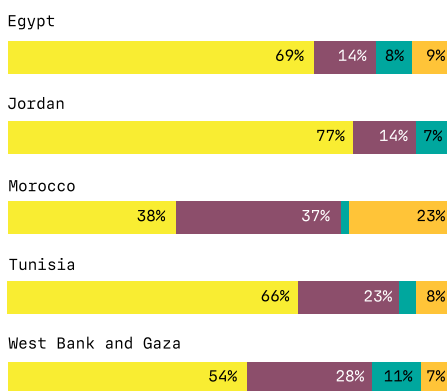
FIG. 10

Most informal workers are employed in micro-enterprises

Percentage distribution of informal workers, by type of employment and firm size, latest year

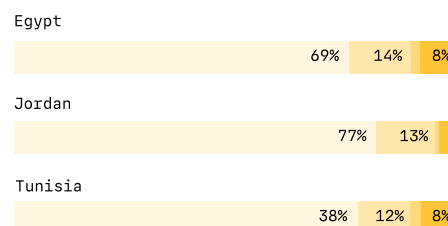
A. Most informal workers are employees

Wage (yellow), Own-account (purple), Employer (teal), Unpaid family worker (orange)



B. Most informal employees work in micro-enterprises

Micro (1-9) (light yellow), Small (10-49) (yellow), Medium (50-99) (orange), Large (100+) (dark orange)



Note: Firm size is defined by the number of employees of private and public enterprises. Informal employment is defined as not contributing to pension.

Source: Labor Market Panel Surveys for Egypt (2018), Jordan (2016), and Tunisia (2014); Labor Force Surveys for the West Bank and Gaza (2018) and Morocco (2018).

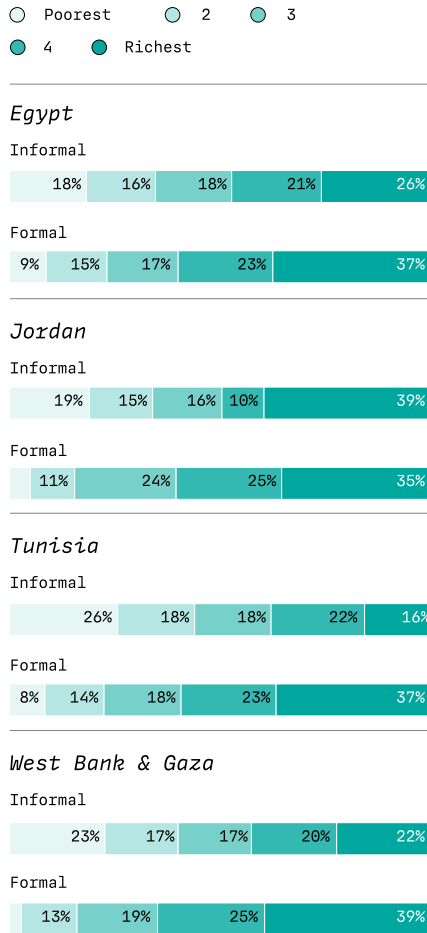
³ The only exception is the emirate of Dubai in the United Arab Emirates, which approved a law in 2018 to allow foreigners to stay in the country after retirement age through a specific visa, with some conditions such as a minimum amount of savings in the bank. Saudi Arabia has now a similar provision, called "Premium Residency", which is also subject to conditions and the payment of a one-time fee of over \$210,000 (permanent residency) or an annual fee of over \$25,000 (temporary residency).

⁴ Except in the West Bank and Gaza, where average income per capita is above the \$3.20 poverty line.

FIG. 11

Many informal workers are poor, but most are not—even if they are still vulnerable

Percentage distribution of informal and formal sector wage workers by household income per capita quintile of the households they live in, latest year



Note: Informal employment is defined as not contributing to pension. Only households that derive their income solely from wage work are included in the analysis.

Source: Labor Market Panel Surveys for Egypt (2018), Jordan (2016), and Tunisia (2014); Labor Force Surveys for the West Bank and Gaza (2018) and Morocco (2018).

50%

of expatriate domestic workers in the GCC are not covered by any social insurance scheme or protected by the labor code

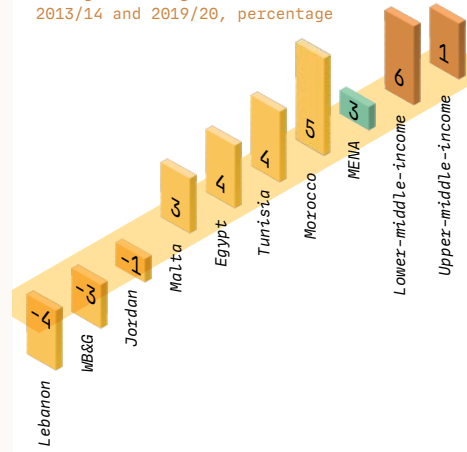


FIG. 12

The formal private sector in MENA has created little employment

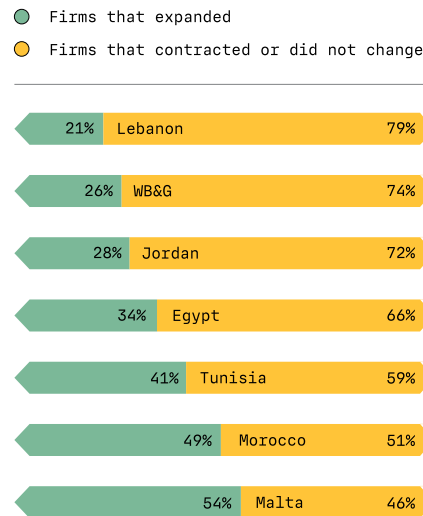
A. Little employment growth

Average annual growth rate between 2013/14 and 2019/20, percentage



B. ...as most firms contracted or stayed the same

Percentage of firms that expanded or contracted between 2016 and 2019



Note: Annual employment growth is calculated using employment from the last fiscal year and employment recalled 2 fiscal years ago. There are several limitations to this measure. First, firm entry and exit are not considered. Second, this employment growth is narrowly defined for formal firms with five or more employees that are not fully government owned.

Source: Islam, Moosa, and Saliola 2022.

Limited work and high informality are the result of a stunted private sector

1.1.2

The limited capacity of the private sector to generate more and better jobs is the main source of unemployment and informality. The formal private sector is unable to absorb the increasing workforce, particularly as the primacy of public employment has receded, pushing people into the informal sector or unemployment or out of the labor force. The average growth rate of employment within formal firms between 2013/14 and 2019/20 was only 1 percent per year for MENA economies, which is markedly lower than 5 percent for middle-income peers (Figure 12, Panel A). Between 2016 and 2019, employment in most firms in MENA economies contracted or remained the same; the few expansions have mostly happened in large firms (Figure 12, Panel B). In addition, the limited jobs being created have tended to be concentrated in lower-productivity sectors, slowing labor productivity growth (Islam, Moosa, and Saliola 2022).

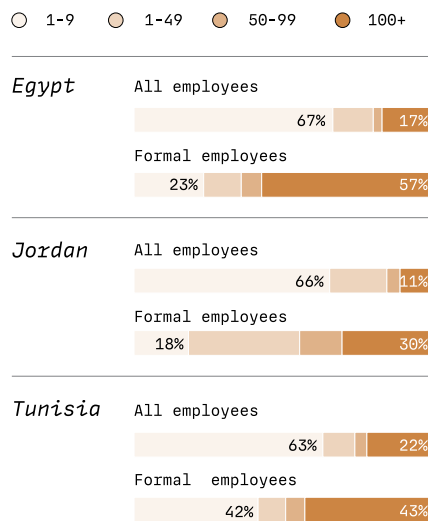
Inefficient firm dynamics result in a stunted private sector dominated by small, low-productivity firms. There is a persistently low rate of firm entry in MENA, the most productive firms do not drive firm growth, and firms exiting the market are not always the least productive (Islam, Moosa, and Saliola (2022)). Inefficient firm dynamics have resulted in a productive structure dominated by small and micro, low-productivity firms; approximately two-thirds of workers are employed in micro-firms in Egypt, Jordan, and Tunisia (Figure 13), and at least three-quarters of those are informal workers. In addition, there is little mobility; almost all firms that were small in 2016 were still small in 2019 (Islam, Moosa, and Saliola 2022).

This is not a productive structure that will allow MENA countries to compete with the rest of the world or provide opportunities to their people. With accelerating technological change and globalization, the prevailing productive structure in MENA countries will cause them to diverge further from other competing countries because technological change and globalization are rewarding frontier firms and not lagging firms (Berlingieri, Blanchenay, and Criscuolo 2017) and rewarding countries with a high share of productive firms (Ridao-Cano and Bodewig 2018).

FIG. 13

Microenterprises employ most workers, and they are mostly informal

Percentage distribution of employees by firm size, latest year



Note: Firm size is defined by the number of employees in private and public enterprises. Informal employment is defined as not contributing to social insurance (pensions).

Source: Labor Market Panel Surveys for Egypt (2018), Jordan (2016), and Tunisia (2014).

Technological change is also making jobs in high- and upper-middle-income countries more intensive in nonroutine, cognitive and interpersonal tasks—high-skill jobs. These are also the jobs that the increasingly educated youth in MENA are demanding, as well as the jobs that help move people out of poverty and vulnerability. Private sector workers in Egypt, Jordan, and Tunisia perform significantly fewer of these tasks than in other upper-middle-income countries such as Türkiye, and high-skill occupations are growing much less in MENA countries than in their income peers (Figure A1).

Creating more and better jobs in MENA is mainly about increasing market contestability. This involves reforms to ease firm entry and ensure efficient growth and exit of firms so that more-productive firms are the ones growing and creating jobs while the least-productive contract or exit the market. A comparison of product market regulations in MENA with those of 37 high-income and 14 upper-middle-income countries identified two areas that must be reformed to increase product market contestability:⁵ presence and treatment of state-owned enterprises in the economy and price controls on many services and commodities, including gas, electricity, and food staples such as bread (Islam, Moosa, and Saliola 2022).

Social protection policies can play a crucial role in addressing labor market exclusion. Whereas creating more-productive employment is mainly about revitalizing the private sector, social protection policies can play a crucial role in addressing labor market exclusion by facilitating access to productive employment, protecting workers, and providing a safety net for people who are left behind and are at risk of poverty.

Social protection plays a crucial role in reducing poverty & vulnerability: a framework 1.2

Social protection is designed to protect all people against poverty and other risks affecting their well-being while ensuring financial responsibility and minimizing perverse incentive. This vision for social protection is fully aligned with the goal of universal social protection, which posits that everybody should have access to social protection when and how they need it (World Bank 2022e).⁶ It also recognizes the importance of providing protection efficiently, which involves financial responsibility and avoiding perverse incentives affecting work, retirement, and hiring decisions—incentive compatibility. This report sees this vision as a benchmark that national social protection systems should be assessed against and progressively move toward. This vision is realized through an integrated system of three instruments: social assistance, social insurance, and labor policies. These instruments, and the systems built around them, are collectively referred to in this document as social protection. The contribution of each instrument to the three elements of this vision—protection, financial responsibility, incentive compatibility—is described below and summarized in Table 1.

TAB. 1

Social protection: Protecting people against poverty and other risks in an efficient manner

	Social assistance	Social insurance	Labor regulations and programs
Protection	Income support to address the risk of poverty	Income protection (pensions) and long-term care of workers upon retirement to avoid the risk of old-age poverty and destitution; protection against risk of injury, sickness, unemployment while active	Labor regulations: protect workers against risks such as exploitation and discrimination
Financial responsibility	Cost-effectiveness through modern delivery systems, linking income support with economic inclusion and human capital investments, and prioritizing the poorest	Self-financing, by aligning contributions and benefits; subsidies (to benefits or contributions) carefully designed and financed through government budget	Labor and economic inclusion programs: modern delivery systems; prioritize difficult-to-employ and low-productivity informal workers
Incentive compatibility	Prevent disincentives to work and become financially self-sufficient by avoiding beneficiary selection based on work status and calibrating benefits to labor income	Align contributions and benefits to prevent perverse incentives (e.g., early retirement); avoid program fragmentation; make main programs mandatory, but include voluntary schemes to help bridge the gap	Labor regulations: give firms enough flexibility to adjust to demand

⁵ Product market regulations directly affect market contestability through the costs that firms face when they enter the market and the degree of competition between firms that are already in this market. The rigidity or flexibility of product market regulations affects the number of firms that operate, their growth, and their ability to create jobs.

⁶ The focus is on ensuring protection against risks; actual support is provided when the risk is realized (e.g., poverty, unemployment) or before it to prevent the risk from materializing in the first place (e.g., productive inclusion support to prevent the risk of poverty).

Social assistance: Protecting people against poverty

1.2.1

Protection

Social assistance encompasses benefits provided to individuals and households without requiring any financial contribution from them. It can have several forms and functions (Grosh et al. 2022), but its main goal is to protect people against poverty, defined as being unable to meet basic needs. Because those are mostly monetary, social assistance should focus on providing income support to the poor. This can be complemented by support to address other vulnerabilities, such as psychosocial support.

Financial responsibility

Social assistance is non-contributory and thus, by definition, not self-financing, although it can and should be cost-effective, aiming to maximize impact on poverty of every dollar spent. Global evidence suggests that this can be achieved by developing modern delivery systems that provide the right support to the right people at the right time, including in response to shocks; linking income support with economic inclusion programs and human capital investments in children to help poor and vulnerable people move out of poverty; and prioritizing support to the poorest people.

Incentive compatibility

Social assistance programs should be designed to avoid disincentives to work and to become financially self-sufficient by not tying beneficiary selection to work status and ensuring that social assistance benefits are set below the income that people can make by working.

Social insurance: Protecting workers throughout their careers and upon retirement

1.2.2

Protection

Social insurance protects workers against the risk of old-age poverty by ensuring an adequate pension and long-term care (LTC) upon retirement, as well as against the risks of work injuries, sickness, unemployment, and income loss while working.

Financial responsibility

Social insurance is financed through contributions from workers and their employers (on workers' behalf), and it should be self-financing. Defined-contribution schemes are self-financing because benefits are paid from contributions and investment returns. In contrast, in defined-benefit schemes—most public pension programs in MENA—benefits are determined using a formula that considers factors such as salary history and length of employment. Defined benefits can and should be designed to be financially sustainable by balancing benefits and contributions, in an actuarial sense, at the system level. This does not prevent cross-subsidization between individuals, as social insurance programs pool risks that not all individuals realize equally (e.g., people who die sooner subsidize those who die later). Nor does it preclude providing subsidies to guarantee a minimum benefit level or encourage certain groups to contribute. These subsidies should be carefully designed and financed through the general government budget, not social insurance schemes (Packard et al. 2019).

Incentive compatibility

Aligning contributions and benefits also prevents perverse incentives to retire too early to collect relatively generous pension benefits, possibly complemented with income from informal work; contribute to pension schemes only in the last few years before retirement; and misreport earnings. Social insurance schemes should treat private and public sector workers equally to avoid distortions. Unemployment benefits should be calibrated over time to encourage beneficiaries to look for work. Workers tend to underestimate risks, particularly over a longtime horizon, so social insurance programs should be mandatory at their core. But voluntary savings schemes can be used to complement benefits of mandatory schemes and protect informal workers who are not covered by mandatory social assistance and have some capacity to save (Guyen, Jain, and Jouvert 2022). These schemes can include subsidies (financed by the government) and be based on capacity to save to encourage enrollment, but they should be designed to eventually have these workers join mandatory schemes.

“Social protection instruments cover the entire population, while the mix varies along the welfare-work distribution and the life cycle”



Labor policies: *Protecting workers and facilitating employment*

1.2.3

Protection

Labor policies include labor regulations and non-contributory labor and economic inclusion programs.⁷ The main goal of labor policies is to protect workers and facilitate access to employment. Labor regulations include provisions related to hiring and dismissing workers and basic conditions for employment. They are designed to protect all workers against risks such as exploitation and discrimination based on characteristics such as gender and race. To be effective, labor regulations must be complied with, which requires adequate awareness and enforcement. Labor and economic inclusion programs are designed to connect people to the labor market through employability support (e.g., job search assistance, skills training, productive assets) and job placement support (e.g., wage subsidies, business financing). Labor programs are directed at job seekers and workers in general, while economic inclusion programs are focused on the most vulnerable and put more emphasis on employability support.

Financial responsibility

As with social assistance, labor and economic inclusion programs are non-contributory, and thus financial responsibility comes down to cost-effectiveness. Modern delivery systems, matching job seekers to vacancies, and employment support programs based on profiling can help, as can a focus on programs with demonstrated impact that are delivered by, or at least in partnership with, the private sector. As with social assistance, prioritizing those most in need is crucial for cost-effectiveness. Labor programs should prioritize job seekers who are harder to employ, and workers who are stuck in low-productivity informal jobs. Economic inclusion programs should focus on the poor and vulnerable.

⁷ Unemployment insurance is covered under social insurance.

Incentive compatibility

Labor regulations regarding hiring and dismissing workers and setting a minimum wage should not only protect workers, but also give firms enough flexibility to adjust employment and wages in response to changes in demand (World Bank 2013; 2019). They should also be neutral as to where and how workers earn a living. Job placement support should be designed to avoid worker replacement, and whenever relevant, receipt of income support should be linked to participation in economic inclusion programs.

Social protection instruments can be mapped along the welfare-work distribution of the population. The population is first divided into poor; vulnerable to poverty; and not-poor, not-vulnerable to poverty (Figure 14). The distribution is then adjusted to reflect work status: not working, working informally, and working formally. For ease of exposition—and largely supported by evidence—it is assumed that all nonworking households are poor, households mostly relying on informal income are poor or vulnerable, and households mostly relying on formal income are not poor and not vulnerable to poverty. The stylized mapping of social protection instruments is aligned with the roles described for each instrument. Taken together, social protection instruments cover the entire population, and the mix of instru-

ments varies along the welfare-work distribution and the life cycle. This mapping can also be viewed dynamically: social protection instruments help households move up in the distribution, including after slipping down because of shocks. To reduce work disincentives, income support is tapered off as people become non-poor but are still vulnerable, as opposed to being abruptly discontinued. The framework outlined in Table 1 and Figure 14 is used to benchmark social protection systems in MENA (Chapter 2) and identify reform priorities (Chapter 3).

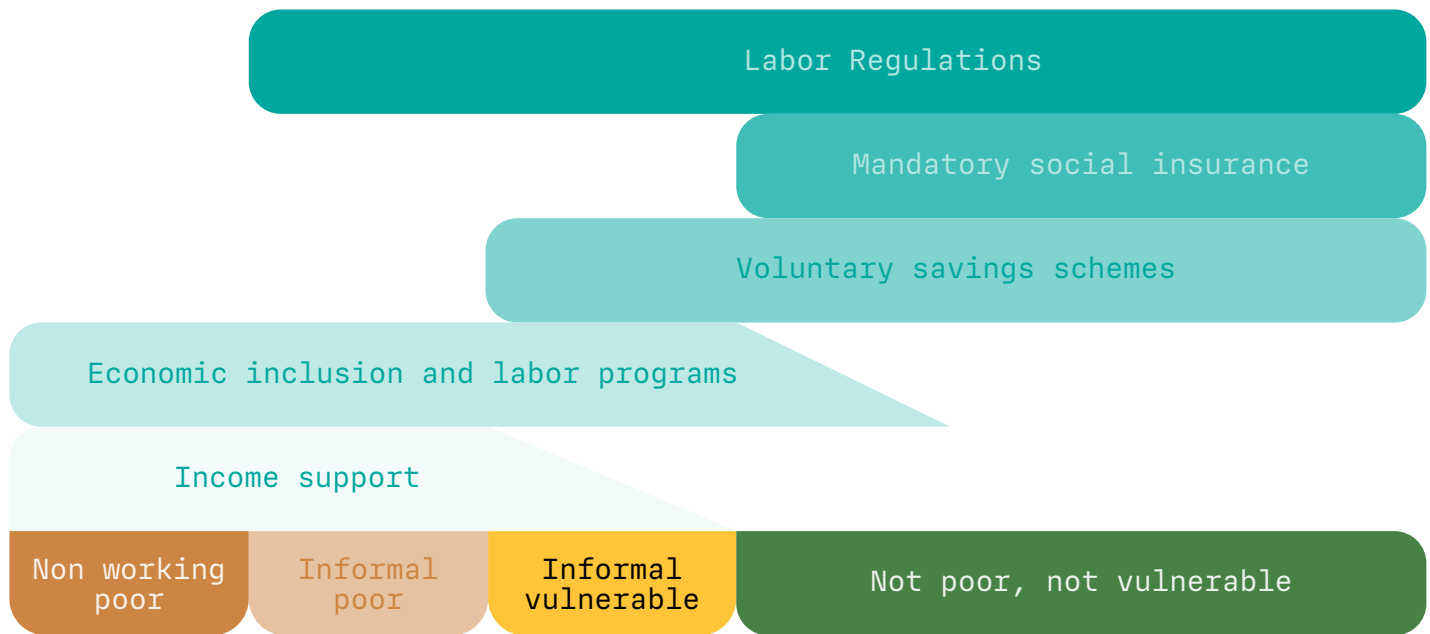
Social protection instruments can help address labor market exclusion. The combination of mandatory and voluntary social insurance programs can help protect all workers against short- (injury, sickness, un-

employment) and long-term risks (old-age poverty). Labor regulations can further protect workers against risks such as exploitation and discrimination but must be accompanied by mechanisms to ensure that they provide effective protection to all workers. Labor programs can increase access to productive work opportunities for job seekers and workers in low-productivity informal jobs. Income support can help poor households meet minimum consumption needs, while economic inclusion programs and investments in human capital of their children can help them move out of poverty for good. To avoid exacerbating labor market exclusion, social protection instruments must be designed to prevent perverse incentives affecting work, retirement, and hiring decisions.

FIG.

14

Stylized mapping of social protection instruments along the welfare-work distribution



2.1 The COVID-19 response was constrained by 'pre-existing conditions'

27

2.2 Social assistance does not protect most of the poor, while inefficient subsidies loom large

29

2.3 Social insurance does not cover most workers and schemes are financially unsustainable

34

2.4 Labor policies provide limited protection to workers and do little to facilitate employment

38

2.5 Social protection systems will only become more out of sync with tomorrow's reality

41

Social protection policies *in* MENA are falling short



CHAPTER



2.1

The COVID-19 response was constrained by 'pre-existing conditions'

1.1%

AVERAGE

of GDP spent on social protection measures by MENA countries



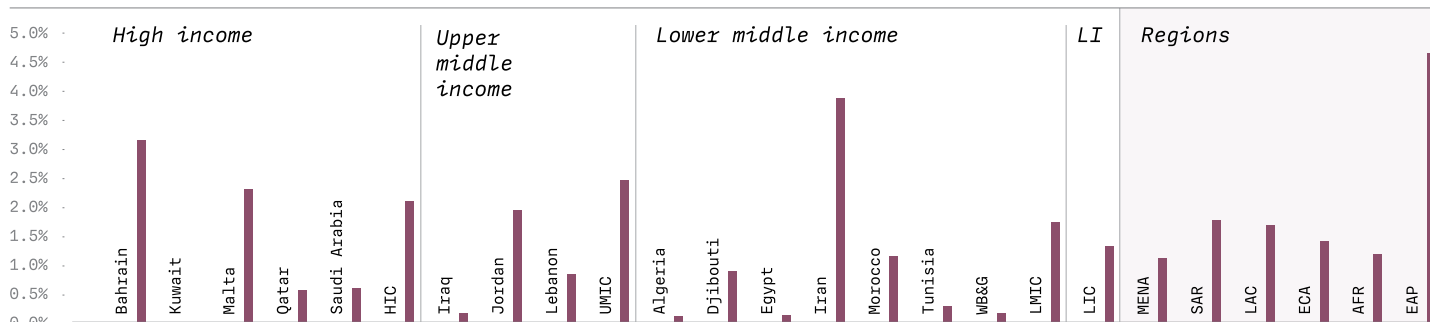
All MENA countries responded to the COVID-19 crisis with social protection measures to varying degrees, especially social assistance. COVID-19 triggered the largest fiscal stimulus in history. Globally, social protection spending accounted for 18 percent of the total fiscal stimulus package and was nearly 5 times the spending level during the 2008 financial crisis. MENA countries spent an average of about 1.1 percent of GDP on social protection measures, which is lower than in other regions and just over half of the global average of 2 percent, with Iran and Jordan spending at or above that level (Figure 15). Social assistance measures were the preferred response in MENA and around the world, mostly in the form of cash transfers, which covered approximately 23 percent of the population in MENA. MENA countries also used social insurance and labor market measures, particularly waivers of social security contributions, wage subsidies, and liquidity support to firms (Figure 16). Globally, the use of social insurance and labor measures increased with income level, with high-income countries relying on them as much as on social assistance.

FIG.

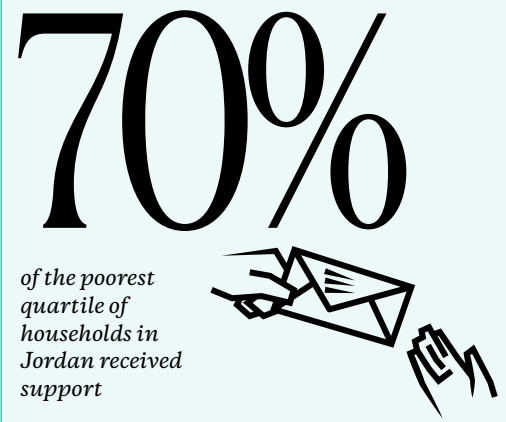
15

The social protection response to COVID-19 was vigorous in MENA

Social protection expenditures in response to COVID-19 during 2020-21 as a percentage of GDP



Source: Gentilini et al 2022.



“...most of the poor in developing MENA countries, except Jordan and Egypt, were **not receiving cash transfers** when the pandemic hit, which tended to amplify the initial poverty impact of COVID-19...”

Most public assistance went to the poor and vulnerable, although many were left out. In Egypt, Jordan, Morocco, and Tunisia, government assistance benefited the poorest 25 percent of households the most (Figure 17, Panel A). Because they suffered the greatest income losses from COVID-19, public assistance was thus well targeted, but except in Jordan—where 70 percent of the poorest quartile of households received support—government assistance did not cover most of the poorest households. Similarly, most assistance to workers was well targeted to informal workers, but except in Jordan, most informal workers did not benefit from support (Figure 17, Panel B).

The shock responsiveness of social protection systems partly influenced the response. Availability of instruments determined type of response. For example, many MENA countries do not have unemployment insurance (UI); workers in those countries who lost their jobs had no access to unemployment benefits. Globally, the response was larger and faster in countries with modern social protection delivery systems that included shock-responsive elements such as digital identification, large social registries of poor and vulnerable households, and digital payments (Gentilini 2022; Beazley, Marzi, and Steller 2021). Some of these elements were present in some MENA

countries. For example, Djibouti, Egypt, and Jordan had social registries that covered half or more of the population, and many MENA countries were already delivering cash transfers digitally, but delivery systems across MENA had limited shock responsiveness. A notable exception is Jordan, where a preexisting shock-responsive delivery system facilitated the largest, best-targeted, fastest response in MENA.

Coverage of social protection programs before the pandemic influenced the response. Countries with cash transfer programs covering most of the poor only had to worry about those households that become poor with the pandemic. As shown in the next section, most of the poor in developing MENA countries, except Jordan and Egypt, were not receiving cash transfers when the pandemic hit, which tended to amplify the initial poverty impact of COVID-19 and made the response more costly, effectively limiting it because of fiscal constraints. Similarly, most workers in developing MENA countries are informal, and they were the most affected and had no automatic form of protection (e.g., UI) and could not benefit from COVID-19 measures for formal sector workers such as wage subsidies. Some informal workers benefited from COVID-19 support but, except in Jordan, most did not.

FIG. 16

The social protection response to COVID-19 was diverse

Number of measures across MENA countries

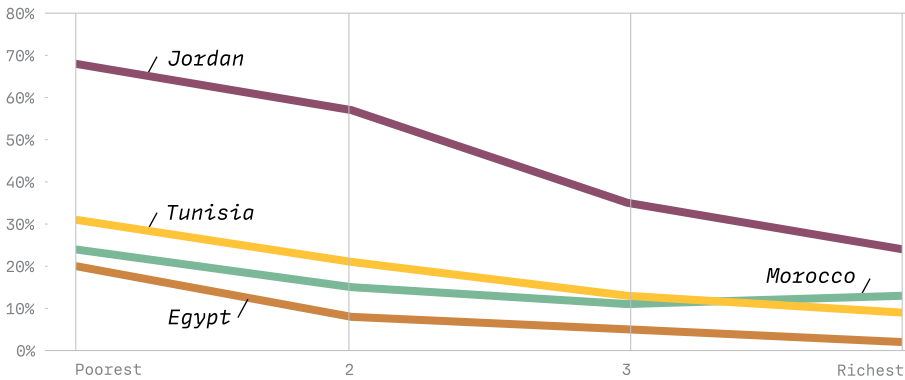


Source: De la Flor et al. 2021.

Most government support went to those who were most impacted by COVID-19, but many were left out

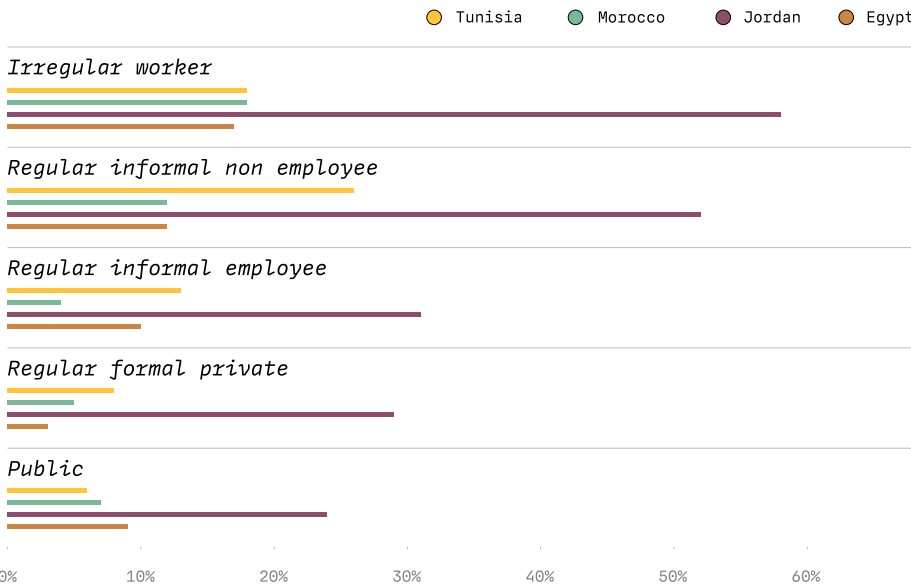
A. Most informal workers are employees

Percentage of households receiving government assistance by February 2021, (by income per capita quartile of the household in February 2020)



B. Most government support went to wage workers that were most impacted by COVID-19

Percentage of wage workers receiving government assistance by February 2021, by type of wage work in February 2020



Note: Informal employees are private informal wage workers working in establishments; informal non-employees are private wage workers working outside of establishments.

Source: Krafft, Assaad, and Marouani 2022.

> 90%



of the population of Egypt receives some type of food subsidy

Social assistance does not protect most of the poor, while inefficient subsidies loom large

2.2

Despite recent expansions, most poor people do not receive income support in developing MENA countries.⁸ Egypt, Iraq, and Jordan significantly expanded coverage of regular cash transfer programs before and after COVID-19 (Figure 18, Panel A). Coverage of Egypt’s TKP is five times as large as it was 2015, and the introduction of the Takaful program in 2019 almost tripled the coverage of cash transfers in Jordan by 2022. Despite these expansions, only the cash transfer programs in Egypt and Jordan cover most of the poorest 20 percent of the population (Figure 18, Panel B). When using national poverty lines, Egypt’s TKP covers 50 percent of the poor (up from 21 in percent in 2016), and Jordan’s cash transfers cover 62 percent of the poor (up from 21 percent in 2018). The introduction of a new poverty-targeting mechanism in 2016 is estimated to have increased coverage of Iraq’s cash transfer program from 20 percent to 51 percent of the poor.⁹ Similarly, the good poverty targeting of West Bank and Gaza’s Cash Transfer Program allows it to cover a relatively large share of the poor despite its small size.¹⁰

Low spending on cash transfer programs, and on social assistance more generally, is the main reason for the low coverage of the poor. MENA spends the least of all regions on cash transfers as a percentage of GDP, and all MENA countries (except Iraq and Jordan, which are also the only two MENA countries that spend more than 1 percent of GDP on cash transfers) spend significantly less than their income peers (Figure 19). Low spending on cash transfers generally parallels low spending on social assistance more generally. Only South and East Asia and the Pacific spend less on social assistance than MENA, although Algeria, Egypt, Iraq, Libya, Morocco, and Tunisia spend more than 2 percent of GDP on social assistance—more than their income peers.

⁸ For a more detailed analysis of social assistance in MENA, see companion paper by Pinxten and Zafar (forthcoming).

⁹ Based on simulated coverage of the 2016 poverty-targeting model. Actual coverage would be lower because of errors in implementation of the targeting mechanism.

At the same time, spending on generalized energy subsidies is high in the region. Despite recent reforms, MENA countries spend 2 times as much on energy subsidies for consumers as on social assistance and much more than in any other region. Energy subsidies tend to be regressive (because richer households tend to consume more energy than poorer households), economically inefficient, and harmful to the environment (IMF 2013). Temporary cash compensation schemes sometimes accompany energy subsidy reforms such as those in Egypt, Iran, Jordan and Morocco, but only in Egypt were savings from the subsidy reform used to expand regular cash transfers for the poor (Mukherjee et al. 2022).

Most social assistance spending is on generalized food subsidies not cash transfers for the poor. Cash transfers are the main social assistance instrument in Djibouti, Iraq, Morocco and Jordan, whereas in Tunisia, Egypt and Lebanon, generalized or quasi-generalized food subsidies are the main social assistance program (Figure 20). Egypt's quasi-universal food subsidy program is the largest social assistance program in the country and the largest food subsidy program in the region, providing subsidized baladi bread to more than 64 million people and food ration cards to more than 90 percent of the population receives some type of food subsidy (World Bank 2022h). Although the richest 20 percent of households benefit less than poorer households, approximately three-quarters of rich households benefit from food subsidies. Fee waivers¹¹ are less used than generalized food subsidies in MENA.

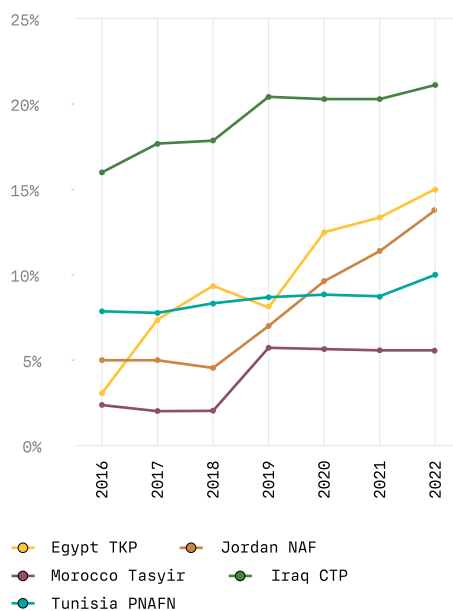
Generalized food subsidies are significantly less cost-effective than cash transfers for the poor. Generalized food subsidies are often inadequate for the needs of the poor,¹² but they tend to have a sizable impact on poverty by virtue of covering almost all poor and vulnerable people. For example, Egypt's food subsidy program has a larger impact on poverty than any other social assistance program, including TKP (Figure 21, Panel A), but the cost-effectiveness (impact per dollar spent) of food subsidies is much lower than that of TKP—the most cost-effective program—because food subsidies are far more costly than TKP, and many of the benefits go to non-poor, non-vulnerable households (Figure 21, Panel B). In Jordan, Takaful is the most redistributive, cost-effective item in Jordan's budget (Figure A3) (Rodriguez-Takeuchi and Wai-Poi 2021). Its impact on poverty is even larger than the (now discontinued) bread subsidy compensation because, although the latter reached 80 percent of the population, benefits were small.¹³ The relative cost-effectiveness of generalized food subsidies versus targeted cash transfers is similar in Morocco and Tunisia (Figure A3) (AFD 2020; World Bank 2022f).

FIG.

18

Some impressive expansions, but most of the poor are still not covered by cash transfers

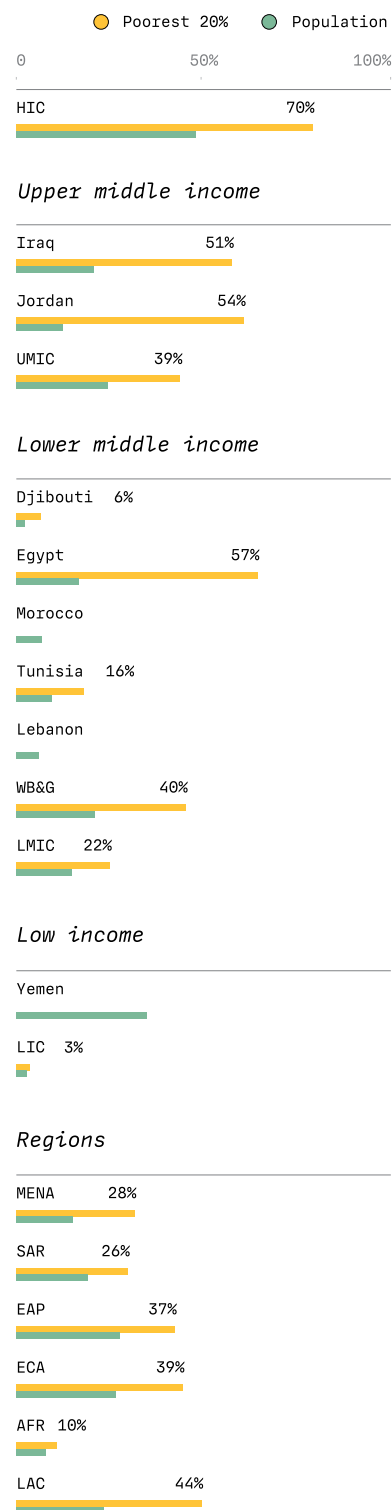
A. Cash transfer beneficiaries as a percentage of the population



Note: Panel A: Jordan's National Aid Fund (NAF), Iraq's Cash Transfer Program (CTP), Tunisia's National Program of Assistance to Needy Families (PNAFN). Panel B: coverage for each country is calculated by adding up the coverage of the main cash transfer programs; coverage of Iraq's CTP is estimated using the poverty-targeting model.

Source: Panel A: World Bank 2022g; Panel B: household surveys, latest year.

B. Cash transfer beneficiaries as a percentage of total population and the poorest 20% of the population, latest year



10 However, the program is subject to frequent interruptions due to lack of funding—benefits were discontinued for most of the year in 2022.

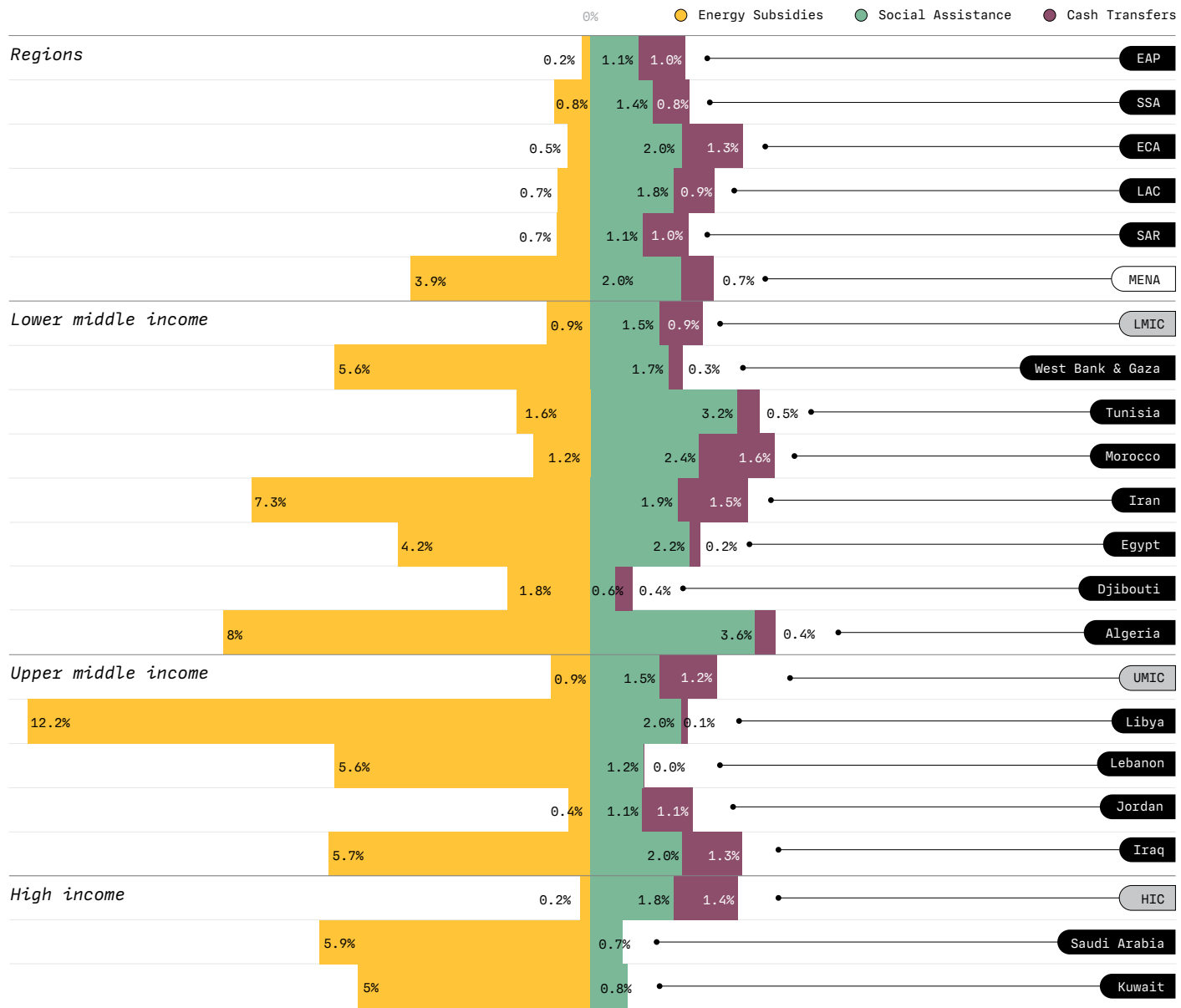
11 Fee waivers include waivers or reductions in fees for publicly provided services such as health care, electricity, and water.

12 For example, Egypt's baladi bread subsidy provides each beneficiary with up to five loafs per day for a subsidized price of 5 piasters (\$0.26); the full cost per loaf is 60 to 65 piasters per loaf. The subsidy is about 1 percent of the median income of the poorest 40 percent of the population. Food ration cards provide a monthly cash allowance of 50 Egyptian pounds (~\$2.50), about 6 percent of the median income of the poorest 40 percent, to buy goods from among more than 100 products sold in administered outlets with monitored prices (World Bank 2022h).

13 About \$38 per person per year for Jordanian households earning less than \$25,000 per year. Beneficiaries of the old National Aid Fund cash transfer program qualified automatically and received \$46 per person per year.

Low spending on cash transfers and social assistance, while energy subsidies loom large

Spending on energy subsidies, social assistance and cash transfers as a percentage of GDP, 2021 or latest year



Note: Spending on social assistance and cash transfers excludes COVID-related spending and health fee waivers. Generalized food subsidies are included in social assistance spending for MENA countries but not for regional and income group averages. Energy subsidies are explicit subsidies on fossil fuels for consumers in 2021.

Sources: World Bank 2022g for spending on social assistance and cash transfers; IMF for spending on energy subsidies: (<https://www.imf.org/en/Topics/climate-change/energy-subsidies>).

“MENA countries spend 2 times as much on energy subsidies for consumers as on social assistance”

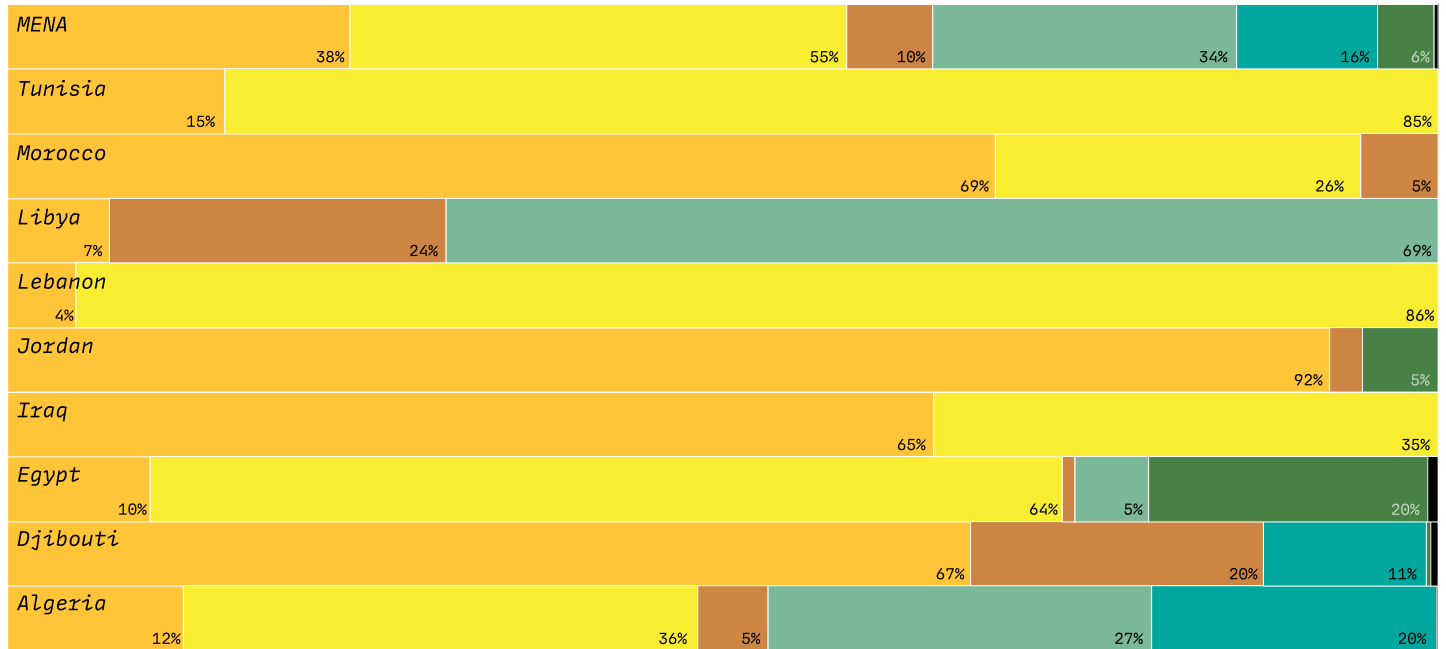
FIG.

20

Generalized food subsidies account for the lions share of social assistance spending

Percentage shares of social assistance spending by main type, latest year

- Cash transfers
- Generalized food subsidies
- Targeted food & in-kind
- Social pensions
- Public works
- Fee waivers
- Scholarships



Note: Generalized food subsidies include quasi-generalized subsidies. Targeted food and in-kind subsidies include school meals.

Source: World Bank 2022g.

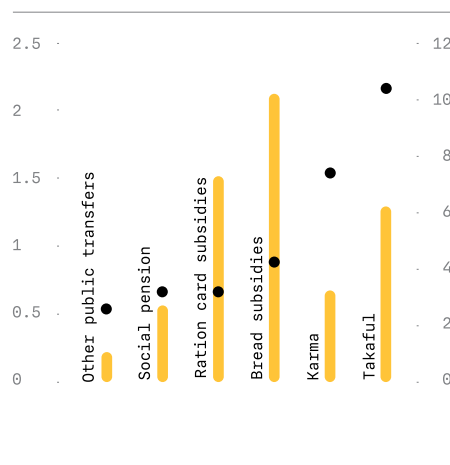
FIG.

21

Egypt's Takaful and Karama are much more cost-effective than bread subsidies

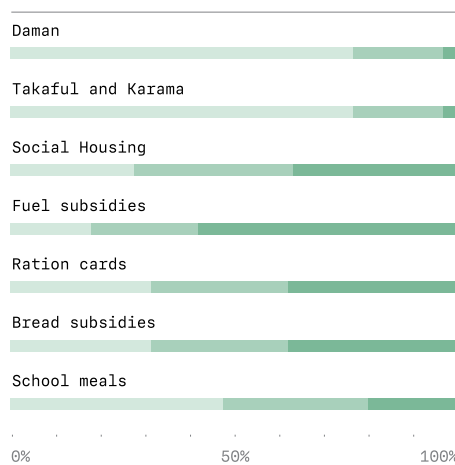
A. Poverty impacts (percentage point reduction) and cost-effectiveness (impact/cost) of programs

- Poverty impact (LHS)
- Effectiveness index (RHS)



B. Share of program expenditure spent on each welfare group, percentages

- Poorest 30%
- Next 30%
- Middle class and above (top 40%)



Source: World Bank (2022h).

TKP has been shown to reduce poverty and improve human capital. It is a rare example in the region of a social assistance program that has undergone rigorous evaluations that have found strong positive impacts and have informed expansion and improvement of the program. The evidence shows that TKP is not only reducing poverty, but also building and protecting human capital and productive assets in the face of shocks (Box 2). Lack of impact on school enrollment in the first evaluation of the program led to enforcement of education conditionalities, which increased school enrollment.



RIGOROUS EVALUATIONS HAVE SHOWN STRONG IMPACTS OF TKP AND INFORMED THE EXPANSION AND IMPROVEMENT OF THE PROGRAM OVER TIME

Since its inception in 2015, TKP has delivered poverty-targeted conditional cash transfers to a growing number of poor households in Egypt. Several rounds of rigorous evaluations have found strong positive impacts and helped inform the expansion and improvement of the program.

The first evaluation in 2018 revealed that beneficiary households were 11.4 percentage points less likely to be poor thanks to the program. The program also increased spending on food by more than 8 percentage points—particularly on fruit and meat—and on school supplies and transportation to school.

The second evaluation was conducted during the COVID-19 pandemic (2022) and showed more muted impacts of the program on spending over the longer term, including on nutritious food, although it had a significant impact on total household assets, driven by household investment in productive assets. This positive impact did not prevent COVID-19 from damaging beneficiaries' welfare, but it reduced the probability that they resorted to negative coping strategies, such as taking children out of school. Debt levels have also fallen.

The first evaluation showed no impact on school enrollment, although the lack of enforcement of education conditionalities explained that. The second evaluation, after conditionalities were enforced, found that the program increased primary school enrollment by 6 to 8 percentage points and preparatory school enrollment by 2 to 3 percentage points. The first evaluation found that the program reduced the probability of being treated for malnutrition but had no impact on health care use. The second evaluation showed some positive impacts on health, such as less of a tendency for children aged 6 to 23 months to be wasted (too thin for their age). Lastly, there were small but significant impacts on gender equality in beneficiary families.



Social insurance does not cover most workers & schemes are financially unsustainable

2.3



All but two MENA countries have regular pension schemes for private sector workers, but only half have UI.¹⁴ Pension schemes are the most common social insurance program. They provide income to workers upon retirement (or their survivors) and to people with disabilities. All MENA countries except Lebanon and the West Bank and Gaza have mandatory-contribution pension schemes for private sector wage workers (Table 2),¹⁵ but self-employed workers are excluded from pensions in many more countries (Djibouti, Iraq, Lebanon, Oman, Qatar, Syria, United Arab Emirates (UAE), West Bank and Gaza, Yemen) and are not required to contribute in Bahrain, Morocco, and Saudi Arabia.¹⁶ Most schemes are designed as defined-benefit and pay-as-you-go schemes—current pensions are financed from current contributions.¹⁷ Most countries with pensions also offer protection against work injuries, but only 12 have UI. All UI schemes are based on mandatory contributions from workers and their employers, except in Bahrain (the government pays the employer contribution) and Egypt and Iran (only contributions from employers). All UI schemes are defined benefit.

Although all but two countries in MENA have pension schemes for private sector workers, most workers are not effectively covered by pensions—a reflection of the high degree of job informality across MENA. Coverage, defined as the ratio of active contributors to the labor force, is 50 percent or higher only in Algeria, Egypt, Jordan, and Tunisia and is particularly low in GCC countries because expatriate workers are excluded from pensions (Figure 22). Coverage has changed little across MENA countries (and globally) since 2010. Low coverage among workers translates into low coverage of pension benefits for elderly adults (Figure 23), although many countries are using non-contributory programs (social pensions) to increase coverage of elderly adults. Pension coverage is low not just because many private sector workers never contribute to pensions, but also because those who contribute tend to do so for only a portion of their working lives, typically one-third or less (Forteza and Mussio 2012). Low contribution density means that some workers do not reach minimum years of service required to qualify for pensions, and others receive low benefits.

¹⁴ For a more detailed analysis of social insurance in MENA, see companion paper by Pallares-Miralles (forthcoming).

¹⁵ Like the other MENA countries, Lebanon and the West Bank and Gaza have pension schemes for civil servants and members of the military.

¹⁶ Even in countries where contributions are mandatory for self-employed workers, there tends to be more legal restrictions on access to other forms of social insurance programs for self-employed workers than for wage workers.

¹⁷ Reserves are accumulated when contributions are higher than pension expenditures and drawn from when contributions are lower than pension expenditures.

TAB.

2

All but two MENA countries offer pensions to private sector wage workers

De jure social insurance coverage of private sector workers, by type of social insurance scheme

Income group	Country	Pensions	Sickness & maternity	Work Injury	Unemployment	Family allowances
High income	Bahrain	✓		✓	✓	
	Kuwait	✓			✓	
	Malta	✓	✓	✓	✓	✓
	Oman	✓		✓		
	Qatar	✓				
	Saudi Arabia	✓		✓	✓	
	UEA	✓				
Upper middle income	Iraq	✓	✓	✓		
	Jordan	✓	✓	✓	✓	
	Lebanon		✓	✓		
	Libya	✓	✓	✓		
Lower middle income	Algeria	✓	✓	✓	✓	✓
	Djibouti	✓	✓	✓		✓
	Egypt	✓	✓	✓	✓	
	Iran	✓	✓	✓	✓	✓
	Morocco	✓	✓	✓	✓	✓
	Tunisia	✓	✓	✓	✓	✓
	WB&G					
Low income	Syria	✓		✓		
	Yemen	✓		✓		

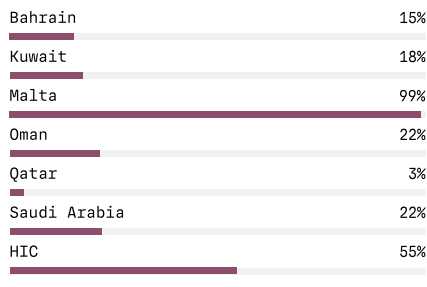
Source: Pallares-Miralles (forthcoming) and ILO (2022).

FIG. 22

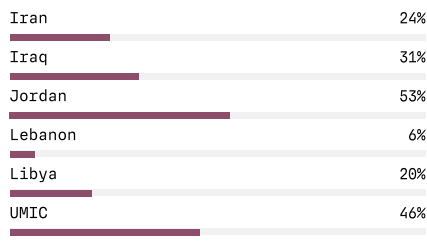
Most workers in MENA are not covered by pension schemes

Ratio of active contributors to the labor force, percentage, 2020 or latest

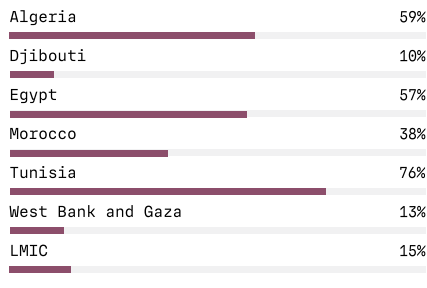
High income



Upper middle income



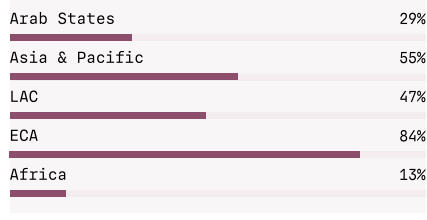
Lower middle income



Low income



Regions



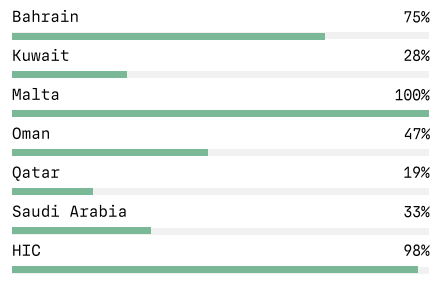
Source: ILO (2022); and Pallares-Miralles (forthcoming).

FIG. 23

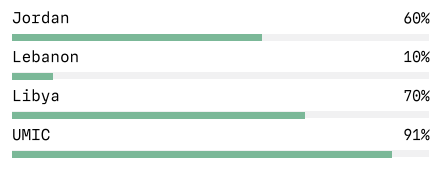
Most of the elderly are not receiving pensions

Ratio of persons above statutory retirement age receiving an old-age pension-contributory or non-contributory-to the number of persons above statutory retirement age, percentage, 2020 or latest year available

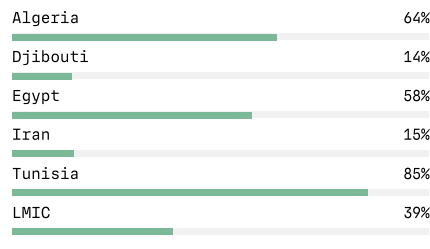
High income



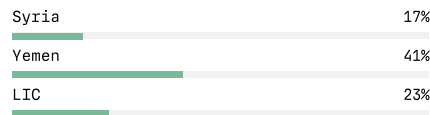
Upper middle income



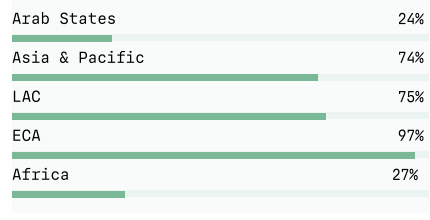
Lower middle income



Low income



Regions



Source: ILO (2022).

Many individuals, especially low-income workers, receive low pension benefits because of low contribution densities and a lack of pension indexation. At the same time, pension schemes in MENA countries tend to provide more generous pension benefits for full-career workers (approximately 80 percent of earnings before retirement) than in most other countries, although most private sector workers who qualify for a pension are not full-career contributors typically only contributing for the minimum length of service required to qualify for a pension (Figure A4), particularly low-income workers. In most MENA countries, pensions are indexed in only an ad hoc manner, meaning that the nominal value of pensions increases only sporadically and is not linked to price or wage changes. Ad hoc changes also make pension income less predictable, and lack of pension indexation to inflation—the most common practice globally—decreases the purchasing power of pensions over time, as lower pensions for older than younger pensioners illustrate (Figure A5).

Few workers are protected against unemployment. Only 12 MENA countries have a mandatory-contribution UI scheme. Until 2022, the UAE did not have UI but provided non-contributory assistance to unemployed people, as do other GCC countries for workers that do not qualify for UI. In 2022, the UAE launched a new UI scheme as part of reforms aimed at attracting talent and investments. The scheme offers compensation for up to 3 months for national public and private sector employees. Although it varies across countries with UI schemes, workers typically qualify after 1 year of contributions, on par with global practice. The lack of UI (or unemployment assistance) and high job informality means that few workers in MENA having access to unemployment benefits, resulting in fewer than 10 percent of unemployed people receiving unemployed support, except in Bahrain (Figure 24). For those receiving support, benefits tend to be more generous than the global norm, with an average 83 percent replacement rate of employment income during the initial unemployment spell.

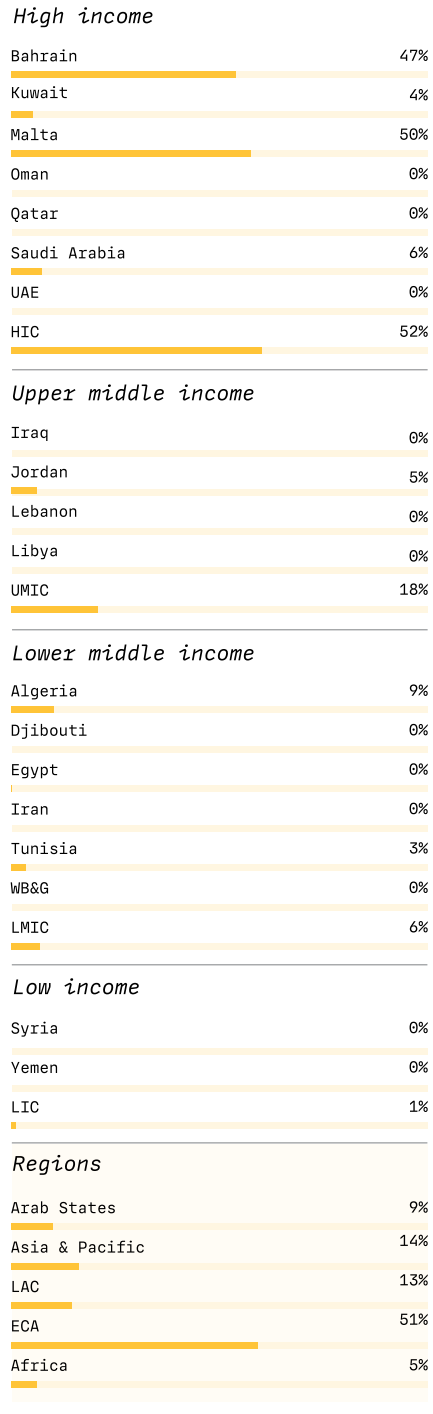
Pension schemes in MENA tend to be financially unsustainable. For defined-benefit pay-as-you-go schemes to be financially sustainable, benefit promises must be aligned with contribution rates and retirement ages, which means that policy makers can choose only two of three parameters (benefits, contribution rates, retirement age) and let the third parameter balance the system. When parameters are not aligned, the schemes eventually run cash flow deficits (pension expenditures higher than contributions). Reserves may initially cover these deficits, but once those are depleted, deficits become a fiscal liability. Pension systems in MENA countries tend to be financially unsustainable. Some countries, such as Jordan (Figure 25, Panel A), have a

few years before they run into deficits, whereas others, such as Tunisia (Figure 25, Panel B), are already in deficit.

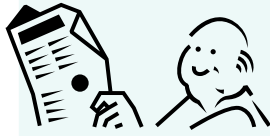
FIG. 24

Most of the unemployed are not receiving unemployment benefits

Ratio of recipients of unemployment cash benefits to the number of unemployed persons, percentage, 2020



Source: ILO (2022).



500%

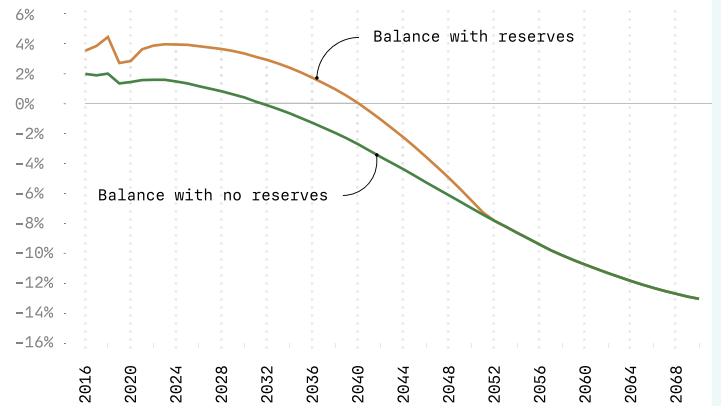
private sector pension coverage is 50% or higher only in Algeria, Egypt, Jordan and Tunisia



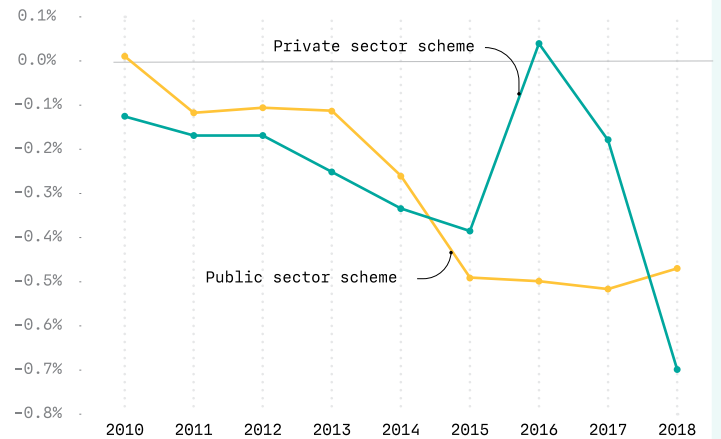
FIG. 25

Pensions schemes tend to be financially unsustainable

A. Financial projections of the balance of Jordan's pension scheme as a percentage of GDP



B. Financial balance of Tunisia's pension schemes as a percentage of GDP



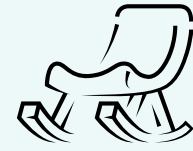
Source: Pallares-Miralles (forthcoming).

“Pension schemes are financially unsustainable because promised benefits are above what they should be given contributions and retirement ages.”

Pension schemes tend to be financially unsustainable because they are ‘generous’ by design. Pension schemes are financially unsustainable because promised benefits are above what they should be given contributions and retirement ages. First, in all MENA countries with data except Egypt, accrual rates are above what they should be given contribution rates and the typical retirement age (55) in MENA (Figure 26). The second source of imbalance is the low statutory retirement age and, especially, built-in incentives to retire before that (Table 3); all countries allow early retirement with little or no penalty,¹⁸ with approximately 45 percent of old-age beneficiaries receiving an early retirement pension in MENA, well above non-MENA countries (20 percent). Thus, although the typical statutory retirement age in MENA is 60 for men and 55 for women, workers often retire at 50 or earlier. Another source of imbalance

is survivor pensions, which are typically 100 percent of the deceased’s entitlement, well above the global norm.

Early retirement and low coverage—particularly at younger ages—make pensions systems look much older than the population. Most workers do not contribute to pensions, and those who do tend to do so later in their working lives and retire early. (Figure A6, Panel A, shows a typical example in MENA) This is reflected in system dependency ratios (pensioners to contributors) that are much higher than population dependency ratios (population aged 65 and older to population between aged 15 to 64) (Figure A6, Panel B). Thus, even when pension schemes run surpluses thanks to relatively young populations, those will turn into deficits quickly even while population dependency ratios are still low because schemes are much older than the population.



45%

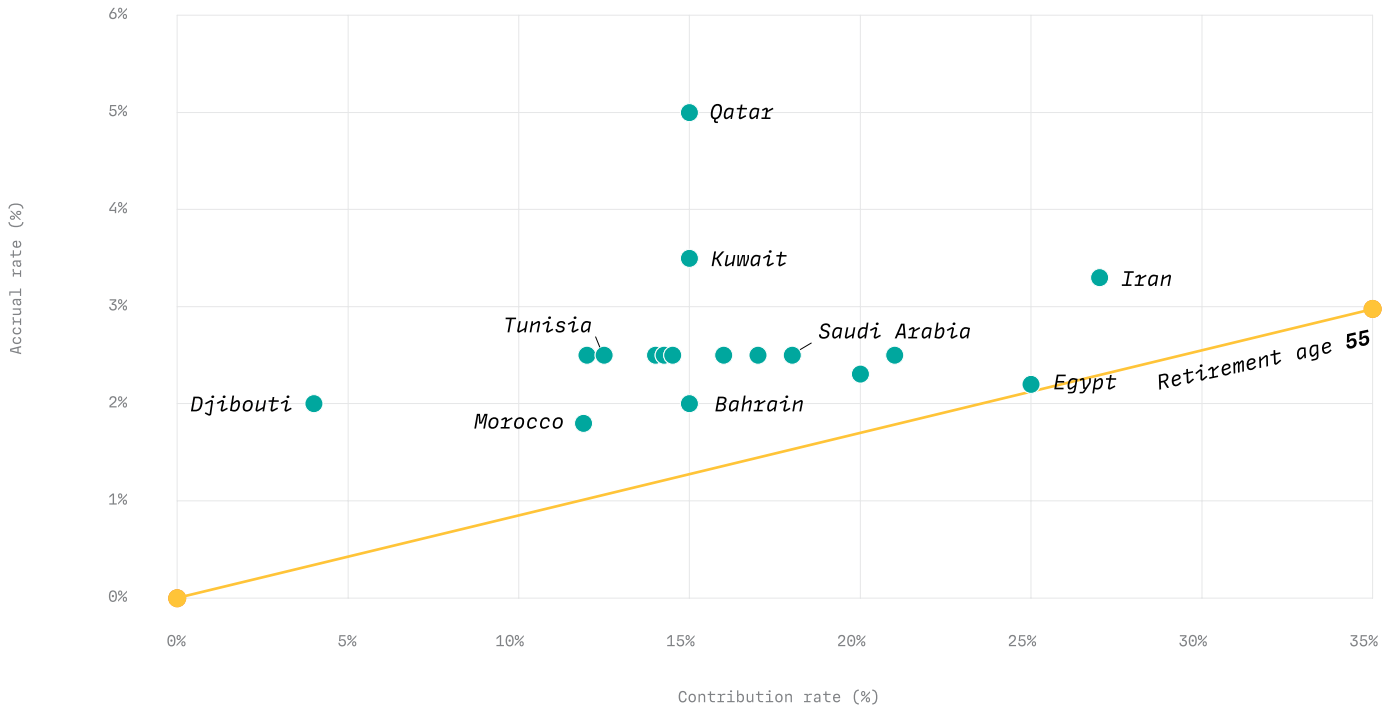
of old age beneficiaries receive an early retirement pension in MENA

¹⁸ This means that no benefit reduction factor is applied for early retirement or that the reduction factor is less than the cost of paying the pension for a longer period of time.

FIG. 26

Pension benefit promises cannot be afforded given contribution rates and retirement ages

Accrual rates given different contribution rates for a retirement age of 55, percentages



Note: The line represents the accrual rate needed for each contribution rate to keep the pension system in balance for a retirement age of 55, assuming an individual starts working at age 25 and dies at age 80.

Source: Pallares-Miralles (forthcoming).

Design imbalances and system fragmentation also generate perverse incentives and inequalities. Built-in incentives for early retirement make people retire early and unfairly favor them over those retiring at the statutory age. Also, most pension schemes in MENA tie pension benefits to earnings in the last few years before retirement, creating an incentive for workers to collude with employers to underreport earnings early in their careers and inflate them in the last few years. They also unfairly favor workers with steep earning profiles (high- and middle-income workers) over those with flatter earning profiles (low-income workers). MENA countries often have multiple pension schemes for public and private sector workers, or multiple institutions collecting contributions or making payments (Table A1). Fragmentation constrains labor mobility, increases administrative costs, and treats workers in different sectors unequally. In Morocco, for example, the maximum replacement rate is 100 percent for public sector workers but only 70 percent for private sector workers. This is not only unfair, but also creates an incentive to work in the public sector and makes it more costly for the private sector to attract workers. These challenges have been documented for some time (e.g., Robalino 2005), yet there has been little progress in addressing them.

Labor policies provide limited protection to workers and do little to facilitate employment

2.4

Labor regulations provide limited protection to workers across MENA while constraining employment in some cases.¹⁹ Labor regulations in MENA countries mostly adhere to core international labor standards, but most workers in MENA do not directly benefit from them by virtue of being informal, and weak enforcement of labor regulations makes it difficult to formalize workers and protect formal sector workers. As shown below, few MENA countries have restrictions on hiring, but most have restrictive dismissal rules, and although minimum wages are only high in a few countries, no MENA country has a mechanism to prevent minimum wages from escalating. In addition, MENA countries have some of the most restrictive legislation against women's employment in the world.

TAB. 3

Workers in MENA retire too early because of built-in incentives

	Early retirement	Reduction factors	Legal retirement age	Effective retirement age (average)
Algeria	59 (LOS: 32 years)	1%	60/55	58
Bahrain	Any age (LOS: 20/15)	2%	60/55	54
Djibouti	50	5%	60/56	-
Egypt	Any age (LOS: 20)	Set by law	60	57
Iran	50/45 (LOS: 30)	No reduction	60/55	55
Iraq (public)	Special cases only	No reduction	50a	58
Iraq (private)	Any age (LOS: 30/25)	No reduction	60/55	59/57
Jordan	50	Set by law	60/55	55
Kuwait	Specific conditions	No reduction	55	54
Lebanon (public)	Special cases	No reduction	64	64
Libya	-	-	65/60	-
Malta	61	No reduction	65	64
Morocco (public)	Any age (LOS: 24/18)	6%	63	59
Morocco (private)	55 (LOS: 3240 days)	No reduction	60	56
Oman	45	3%	60	55
Qatar	40	2%-2.5%	60	45
Saudi Arabia (public)	Any age (LOS: 25)	No reduction	60	58
Saudi Arabia (private)	Any age (LOS: 25)	No reduction	60/55	56
Syria	55/50 (LOS: 20)	No reduction	60/55	-
Tunisia (public)	55 (LOS: 30)	0.50%	62b	58
Tunisia (private)	55 (LOS: 30)	2.00%	62c	60
West Bank and Gaza (public)	-	-	60	60

Note: LOS, minimum required length of service (years of contributions) to qualify for early retirement; X/X refers to men/women.

a. Mandatory retirement age 60.
b. Mandatory.
c. Gradually increasing to 62.

Reduction factor is the percentage used to reduce early pensions for each year prior to the normal retirement age

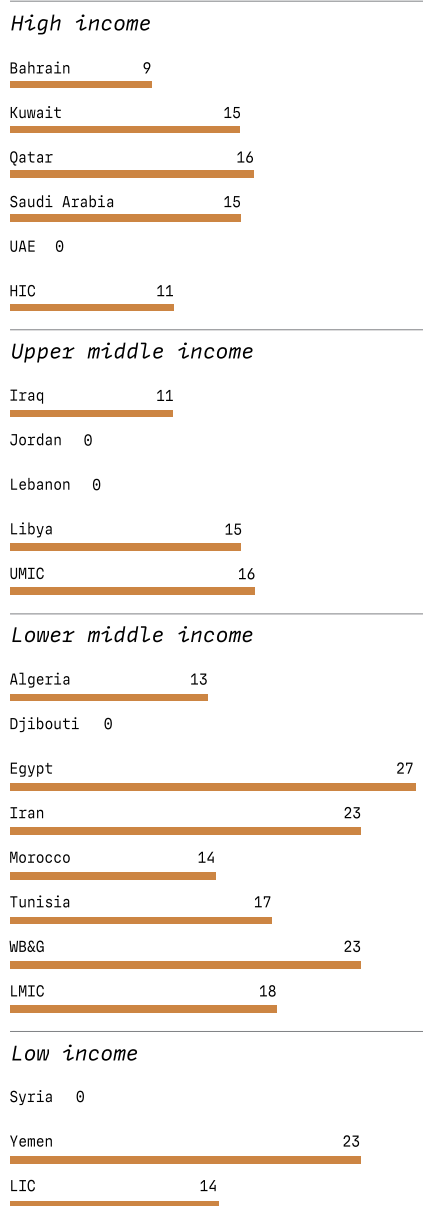
Source: Pallares-Miralles (forthcoming).



¹⁹ For a more detailed analysis of the labor market and policies in MENA, see companion paper by Moosa (forthcoming) and Hatayama, Li, and Osborne (2022).

Severance pay in MENA is the most generous in the world

Severance pay, averaged over workers with 1, 5 and 10 years of tenure, in weeks of salary, latest year



Source: World Bank Employing Workers 2020 database: <https://www.worldbank.org/en/research/employing-workers/data>. <https://www.worldbank.org/en/research/employing-workers/data>.

Although only a few MENA countries have restrictions on hiring, most have high dismissal costs. High dismissal costs and strict labor regulations can reduce formal employment—particularly among youth and low-skill workers—and productivity.²⁰ Most countries have flexible hiring regulations; only Algeria, Djibouti, Iraq, and Morocco have laws restricting fixed-term contracts. In Morocco, for example, the maximum cumulative duration of a fixed-term employment relationship is 12 months. Severance pay (end-of-service compensation) is higher across the region than in income peers—almost 27 weeks of salary in Egypt (Figure 27)—and procedures for dismissal are burdensome in developing MENA countries.²¹ In many MENA countries, severance pay is used as a substitute for UI. Whereas UI is designed to protect workers who lose employment, severance pay acts as a deterrent to employers firing workers in the first place. Also, unlike UI, severance pay relies on an employer’s liability and pools financial risk at the firm level, so it is often not paid when firms have liquidity constraints, and compliance is limited (Kuddo, Robalino, and Weber 2015).

The minimum wage is relatively high in a few countries, and no MENA country has a mechanism to prevent it from becoming a binding constraint. Bahrain, Egypt, Saudi Arabia, and the UAE have no minimum wage protection in the private sector.²² In countries that do, the ratio of the minimum wage to the value added per worker tends to be comparable with that of income peers, but it is high in Jordan, Morocco, Tunisia, and the West Bank and Gaza (Figure A7). However, even in those

countries the minimum wage does not appear to be too binding (yet)—most workers (including informal workers) earn more than the minimum wage. Revisions to the minimum wage tend to be rare and ad hoc. No MENA country has a mechanism for automatically adjusting the minimum wage based on objective criteria such as changes in the cost of living and productivity growth, which would prevent the minimum wage from becoming a binding constraint on formal employment.

Legal restrictions on women’s employment are still widespread across MENA, more so than in any other region. Laws and regulations that discriminate based on gender restrict women’s participation in the labor market and result in wage gaps between men and women (Islam, Muzi, and Amin 2019; World Bank 2021). Although some MENA countries, such as Saudi Arabia, have undertaken some notable reforms recently, women in MENA face unfair laws that economically disempower them. MENA has the lowest average Women, Business, and the Law index in the world (Figure 28),²³ with all MENA countries except Morocco falling well below their income peers. The greatest barriers include restrictions on employment in certain industries and at night, need for permission from a husband or legal guardian to work, limited maternity leave, and lower retirement ages than men. Algeria, Iran, Jordan, Oman, and Qatar do not have laws prohibiting gender discrimination in employment, and fewer than half of MENA economies have legislation mandating equal remuneration for work of equal value.



Photo: UN Women/Christopher Herwig

²⁰ See, for example, Bassanini, Nunziata, and Venn (2009); Harasty (2004); and Kugler and Saint-Paul (2004).

²¹ All developing MENA countries and Bahrain require employers to notify a third party and obtain approval from that third party before an employer can let a worker go or issue collective dismissals.

²² In Bahrain and Egypt there is a minimum wage for the public sector. In Saudi Arabia, there is a policy through the Nitaqat quota system that amounts to (essentially) a minimum wage for Saudi workers.

²³ The Women, Business, and the Law index measures legal differences between men’s and women’s access to economic opportunities across 190 economies. It is the average of eight indicators, representing different phases of a woman’s career, scaled to a maximum score of 100.

Across MENA, few job seekers benefit from employment support, particularly those who are excluded from the labor market, nor are they provided with the right support. Most MENA countries offer some type of labor program to job seekers, although less so than in Europe and Central and South Asia (Figure 29). The most common type of support is job-matching services, mostly through online platforms. Most countries also offer training programs and job placement support such as wage subsidies and stipends. Only half of MENA countries provide counselling services, and apprenticeship and internship programs are rare (Angel-Urdinola and Tanabe 2012). Although data on labor programs are limited, there is evidence of weaknesses. First, coverage of these programs tends to be limited relative to the number of job seekers. Second, from wage subsidies to training, programs tend to target college-educated job seekers (Angel-Urdinola and Tanabe 2012). Few programs target the poor or those more in need of support, such as people who are difficult to employ and workers in low-pro-

ductivity informal jobs, nor are they provided with the right support to include them in the labor market. Third, training programs tend to be of poor quality and irrelevant to market needs. Fourth, the provision of labor programs tends to be highly fragmented across several government agencies.

Economic inclusion programs for the poor are rare and tend to cover few beneficiaries.

Despite the increasing importance and proven results of these programs around the world, only a few of these programs are provided in MENA, and a smaller share of beneficiaries is covered than in other regions. In 2020, only 1 percent of the total number beneficiaries of these programs in the world came from the region (Andrews et al. 2021). Only nine countries have some type of economic inclusion program (Djibouti, Egypt, Iraq, Jordan, Lebanon, Morocco, Syria, the West Bank and Gaza, Yemen). Few of these programs are linked to social assistance. A notable exception is FOR-SA in Egypt, an incipient economic inclusion program tied to TKP.

“Across MENA, few job seekers benefit from employment support, particularly lower skilled, youth and women”

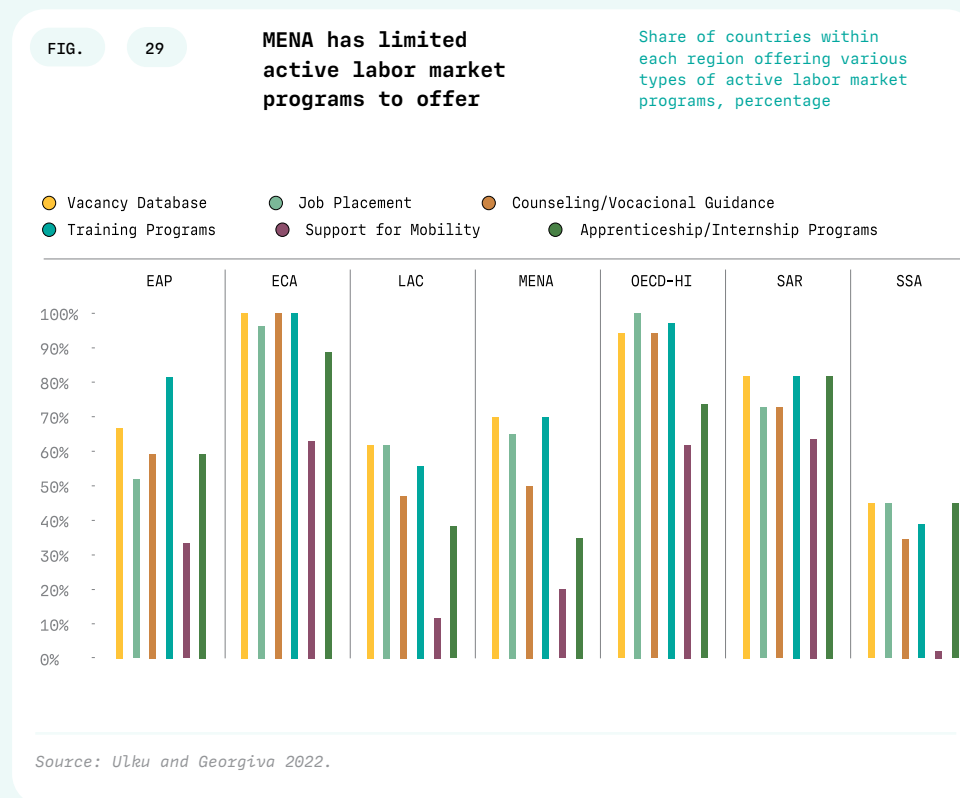
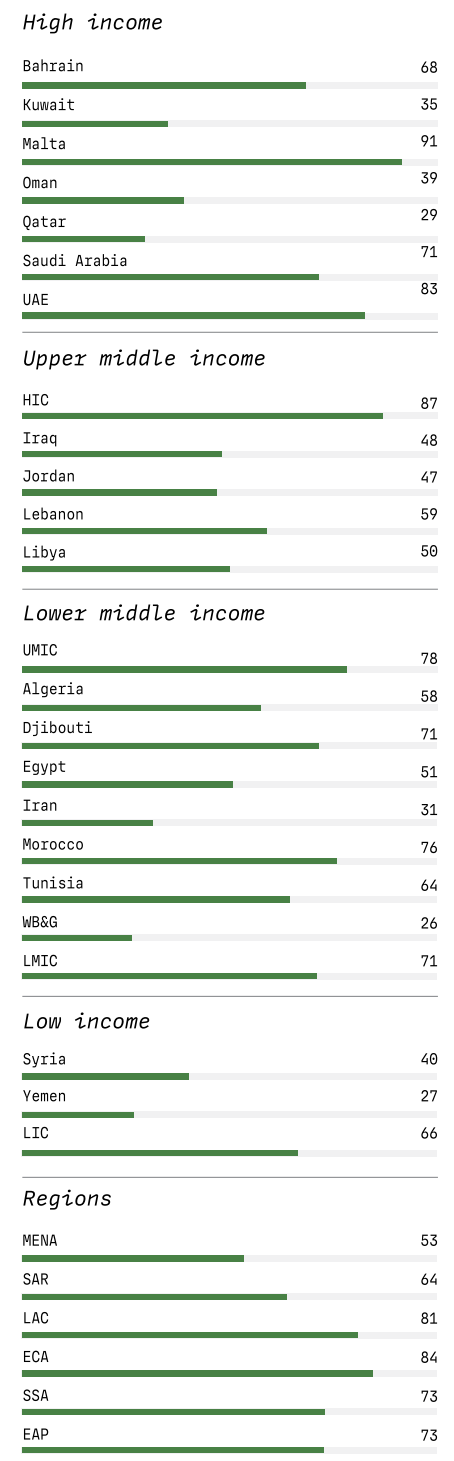


FIG. 28

MENA has the most legal restrictions on women’s employment

Women, Business and the Law Index, 2023



Source: World Bank 2023a.

Social protection systems will only become more out of sync with tomorrow's reality

2.5

Population aging, technological change, and climate change will shape tomorrow's economies and increase demand for social protection. Although populations in MENA are young, they are expected to age faster during this century than in any other region of the world (Figure 30). Population aging will increase demand for pensions and LTC. Technological change is accelerating and making jobs more skill intensive, increasing demand for high-skill workers at the expense of low-skill workers (Ridao-Cano and Bodewig 2018). Although this shift is happening more slowly in MENA countries than in their income peers (Figure A1), low- and medium-skill jobs will increasingly be lost, increasing the demand for so-

cial assistance, unemployment support, and employment support to reconnect workers to jobs. Climate change will make MENA's low rainfall, high temperatures, and dry soil become more pronounced, further stressing water supplies and food production systems. Climate-related shocks will particularly affect poor and vulnerable people, who will need support to prepare for, address, and adapt to these shocks.

Prevailing social protection systems in MENA are ill-prepared to meet these challenges. Pensions and unemployment schemes do not cover most workers, and formal LTC is almost nonexistent. Population aging will make financially unsustainable pension schemes go bankrupt faster. Cash



→ Although populations in MENA are young, they are expected to age faster during this century than in any other region of the world

transfer programs tend to have limited coverage, delivery systems are unprepared to accommodate large expansions or respond to large shocks, labor programs tend to be small, and supporting delivery systems are not ready to accommodate large expansions.

Beyond the ‘hard data’, people in MENA are becoming dissatisfied with existing social protection systems. Most want more income equality and redistribution, and they are dissatisfied with the social protection instruments that governments use to redistribute income and wealth. According to data from Wave 7 (2017-2020) of the World Values Survey, all surveyed MENA countries except Iraq (Egypt, Iran, Jordan, Lebanon, Tunisia) prefer greater income equality and

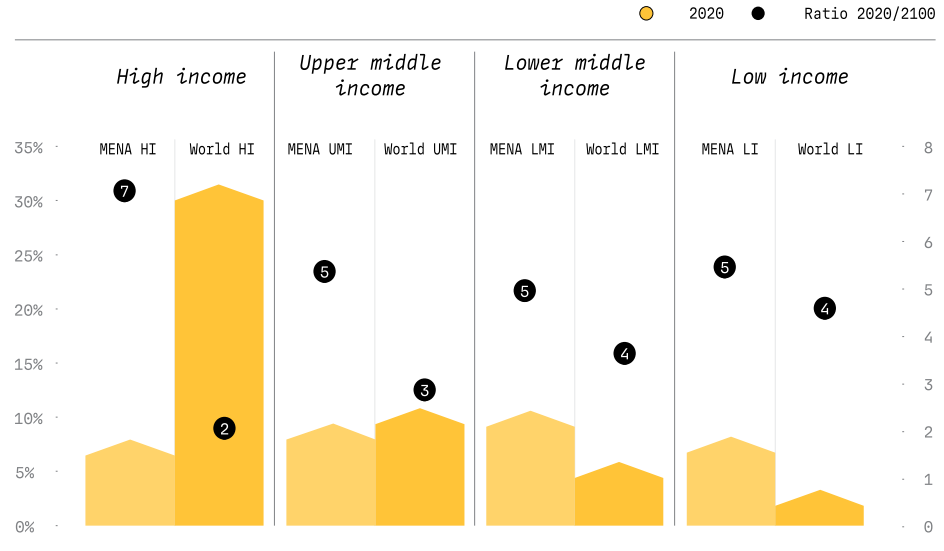
redistribution, more so than any other surveyed region except Eastern Europe (Figure A8). The same data show that most people are worried about losing jobs or not finding them.²⁴ At the same time, most people are unhappy with government efforts to reduce the gap between the rich and poor (Figure 31, Panel A) and to create jobs (Figure 31, Panel B), as well as with social security systems (Figure 31, Panel C). Overall lack of trust in governments—mostly associated with perceptions of corruption—may partly explain this (Diwan, Tzannatos, and Akin 2018), but part of the dissatisfaction with redistributive policies is genuine, as most people are satisfied with other government services such as education and health care.

“Population aging, technological change, and climate change will shape tomorrow’s economies and increase demand for social protection”



²⁴ Although 78 percent of respondents in MENA are better educated than their parents, only 44 percent said that they are better off than their parents, highlighting that intergenerational income mobility is more limited than intergenerational educational mobility.

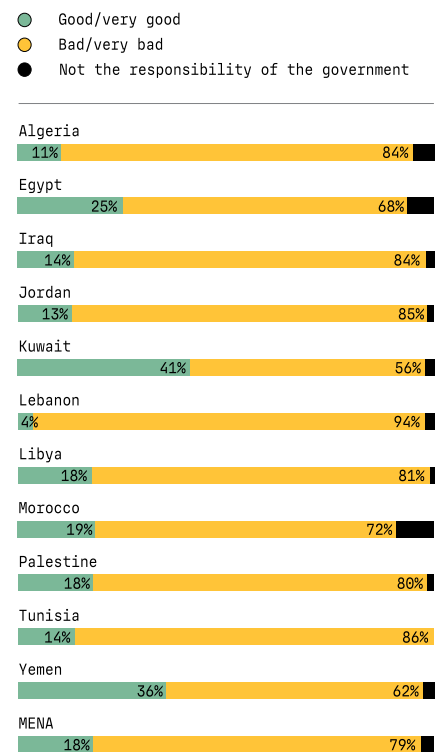
FIG. 30 MENA is ageing faster than any other region
 Shares of the population 65 years-old and older in 2020—bars (left axes)—and ratio of the projected share in 2100 to the share in 2020—dots (right axes)



Source: United Nations (2022).

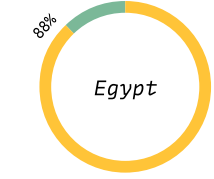
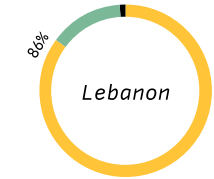
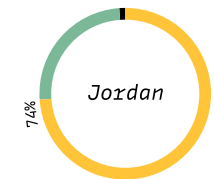
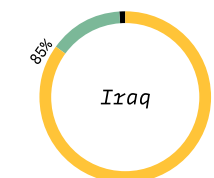
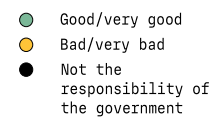
Most people in MENA are unhappy with policies to redistribute and to create jobs

A. Satisfaction with policies to reduce the gap between the rich and the poor, percentages

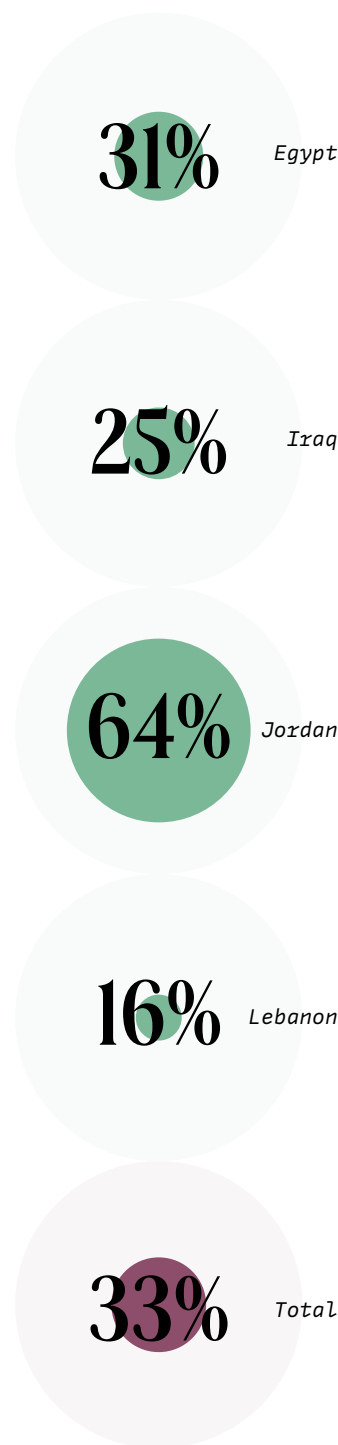


Source: Panel A: Arab Barometer Wave 5 (2018-19): <https://www.arabbarometer.org/surveys/arab-barometer-wave-v/>; Panel B and C: Haexpfer et al. (2022).

B. Satisfaction with policies to create jobs



C. Satisfied with social security systems



“Most [people of MENA] want more income equality and redistribution, and they are dissatisfied with the social protection instruments that governments use to redistribute income and wealth.”



Reimagining social protection in MENA



CHAPTER

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ocial protection systems in MENA are overdue for an upgrade. Social protection systems can play a crucial role in reducing poverty and vulnerability, mainly by addressing labor market exclusion, but social protection systems in MENA often provide limited protection to people in need, and inefficiencies abound. Most people in MENA are growing dissatisfied with these systems, which are becoming less adequate as countries grapple with the impacts of population aging, technological change, and climate-related shocks. The pandemic and the crisis triggered by the war in Ukraine are making the inadequacies of social protection systems more apparent than ever while creating a unique opportunity for reform.

Social protection in MENA must be reimagined to make it more inclusive. This requires expanding and increasing the level of protection of those in need while ensuring financial responsibility and minimizing perverse incentives. This report identifies reform priorities tailored to different groups of MENA countries in three broad strategic policies areas: building the foundational systems to deliver social protection effectively and efficiently, enhancing the protection of people along the welfare-work distribution, and increasing the efficiency of and financing for social protection. The policy areas and reform priorities are closely aligned with the strategic priorities in the SPJ Compass. This report brings some fresh perspectives. It builds on the COVID-19 experience to emphasize the importance of building modern delivery systems; proposes an approach to informality that focuses on protecting and enhancing the productivity of informal workers; and contributed to the debate on ageing, including active aging and LTC. The report also provides guidance on sequencing of reforms to build an inclusive social protection system and how to gain political support for reform.



Building foundational systems for social protection 3.1

Social protection strategies need to be accompanied by modern delivery systems to implement them. Social protection strategies are needed to set the vision and framework for a coherent package of social protection instruments along the welfare-work distribution, but to implement them successfully, modern systems to deliver the right support to the right people at the right time and the least cost must accompany them. Modern delivery systems are one-stop shops for providing social protection (World Bank 2020). They include an assessment phase that is common to all programs and addresses outreach, registration, and assessment of needs of potential beneficiaries. Based on that, eligible households and individuals are enrolled in programs, and benefits are delivered through a common platform (for payments) or by program-specific service providers. This is accompanied by continuous monitoring of beneficiaries and management of grievances. Digital technologies have facilitated the development of modern delivery systems, including through electronic identification systems, online registration and data exchange, and digital payments. Key objectives and features of modern delivery system include:



1 Inclusiveness

To reach as many people who need support as possible. Key features of modern delivery systems that contribute to this goal include outreach, such as the deployment of social workers, to ensure that people are aware of programs and how to seek support, especially the poorest and most vulnerable segments of the population; social registries that cover a large portion of the population (as in Egypt, Jordan, and Saudi Arabia) are dynamic (on-demand registration) (as in Türkiye’s Integrated Social Assistance System), and include multiple ways to access them (online, in-person, over the telephone) (as in Jordan); robust grievance redress mechanisms with multiple access channels to ensure that everybody is treated fairly and errors are corrected; and common systems to deliver support to nationals and non-nationals, regardless of funding source (as in Türkiye’s Integrated Social Assistance System).²⁵

2 Effectiveness

To identify the right support package for the right people and deliver it at the right time, including through social registries with comprehensive, up-to-date information; robust tools to assess needs and conditions and prioritize support to the most in need; use of social workers to help develop and implement support packages for the poorest and most vulnerable populations (e.g., *Chile Solidario*); and digitization of delivery processes and payments.

3 Efficiency

To reduce administrative costs, redundancies, and errors, including through consolidation of processes across programs and of programs (facilitated by common processes for intake and assessment of needs); robust tools to assess needs and conditions; and digitization of processes, including payments and verification of identification and data.

4 Shock-responsiveness

To identify and provide support to people affected by shocks quickly, including through large, dynamic social registries; tools to assess needs and conditions quickly; and digitization of processes and payments. These shock-responsive features have proven their value during COVID-19 and the war in Ukraine.

5 Complementarity of social protection instruments

Different platforms to deliver social assistance, social insurance, and labor programs need to talk to each other (through interoperable systems) to ensure the complementarity of social protection instruments.

Development of modern delivery systems for social protection is a relevant reform priority for all MENA countries. Modern delivery systems are the backbones of enhanced social protection systems. Most MENA countries have made progress on some elements of these systems, including unique identifications, social registries, and digital payments, and countries such as Egypt, Jordan, and Morocco are already developing integrated delivery systems for social protection. Jordan is building interoperable delivery systems for social assistance, social insurance, and labor programs (Box 3). Egypt’s TKP exchanges data with the Unified National Registry—the largest federated social registry in MENA, covering the entire population—for automatic data cross-checking and to help identify complementary (to cash) human capital and economic inclusion support to the poor. Morocco’s Unified Social Registry is a one-stop shop for social assistance programs that will be used to implement an ambitious social protection reform program.

²⁵ In response to the Syrian refugee crisis, international and government actors are increasingly working to align and integrate systems, with Türkiye’s Integrated Social Assistance System serving as a successful model (Seyfert et al. 2019).

JORDAN: BUILDING INTEGRATED DELIVERY SYSTEMS FOR SOCIAL PROTECTION

Jordan's National Aid Fund (NAF) built a modern delivery platform for its new cash transfer program, Takaful, in 2019. The platform uses digital technologies to automate processes, including for household registration, data verification, assessment of needs and prioritization for support, enrollment of beneficiaries, and digitization of payments through basic bank accounts and e-wallets. To ensure access, NAF conducted outreach at the national and local levels, and households can be assisted with registration in person at a NAF office or over the telephone. Much of the registration information is pre-filled and verified against databases from more than 30 government agencies, including the Social Security Corporation (SSC) and the Ministry of Labor, through the National Unified Registry (NUR) data aggregator. Interoperability with SSC and other agencies allows NAF to ascertain formal income and assets, which are used as inputs into a tool measuring the welfare level of households. Administrative data are updated regularly. Most households are enrolled through beneficiary sessions in which basic information about digital payment options is also provided. NAF considers applications through the year, replacing households who are no longer eligible with new eligible households according to their welfare levels.

The shock-responsive features of the Takaful delivery, including a social registry that covers more than 70 percent of the Jordanian population, facilitated the largest (in terms of coverage), best-targeted, fastest response to COVID-19 in MENA. The government launched Takaful 2 in the first half of 2020, providing 3 months of emergency cash transfers to 237,000 households relying on informal income that had become poor. In December 2020, the government launched Takaful 3, providing emergency cash transfers to 160,000 households over 12 months. For Takaful 3, all potential beneficiaries were subject to virtual home visits to verify some of the data, which have now become a regular option for data verification. All payments for Takaful 2 and 3 were delivered through e-wallets and in parallel to the main Takaful program.

The Takaful platform set the basis for NUR, an integrated delivery system for all social assistance programs. The Takaful platform was already being used in 2019 to provide complementary services to poor and vulnerable households, including health insurance, electricity support benefits, transportation subsidies, and the bread subsidy.

Jordan's SSC used its modern platform for social security benefits to deliver a large-scale wage subsidy program in response to COVID-19, covering more than 100,000 workers in firms most affected by COVID-19 between December 2020 and June 2022. Through its data exchange platform, SSC was able to identify beneficiary firms and workers quickly. SSC opened joint bank accounts with beneficiary firms for each worker and made subsidy payments after it had been verified that firms had paid their shares.

Jordan's Ministry of Labor launched a digital platform called Sajjil to match job seekers to vacancies and refer them to appropriate employment programs based on statistical profiling. Regional employment centers are also supporting registration in person or over the telephone. The platform is being used to implement the National Employment Program, which provides financial support to firms to pay for wages and to train new workers. Conditional payments are made using the SSC platform described above, and Takaful beneficiaries are targeted for support using the interoperability with the Takaful platform.



Enhancing protection along the welfare-work distribution

3.2

Expanding income support and opportunities for the poor and vulnerable

3.2.1

Expanding income support to the poor is a priority for all developing MENA countries, particularly those with large coverage gaps. Funding for cash transfer programs can and should increase, but budgets will continue to be limited, so efforts should be made to increase the accuracy of methods used to identify who is poor (Grosh et al. 2022). As discussed above, except for Egypt and Jordan, all developing MENA countries cover significantly less than half of the poorest 20 percent of the population with cash transfers. Egypt (Box 5), Iraq, and Jordan have significantly increased the coverage of cash transfers to the poor by increasing funding and improving targeting. In Jordan, the introduction of a much better poverty-targeted program, Takaful, tripled the coverage of NAF cash transfers to the poor between 2018 and 2021, despite only adding twice the number of beneficiaries. The ongoing consolidation of the old NAF cash transfer program into Takaful (now renamed as the Unified Cash Transfer Program) could further increase coverage to 71 percent of the poor at no additional cost.

Cash transfer benefits should be calibrated to needs and their purchasing power protected. Ideally, cash transfer benefits are linked to some minimum income level—such as the poverty line—and calibrated to the gap between the income per capita of beneficiary households and that minimum level. This design ties benefit amounts to needs while reducing work disincentives. It is built into guaranteed minimum income schemes, which are popular in Europe and are being implemented in Saudi Arabia (Coady et al. 2021),²⁶ But guaranteed minimum income schemes require good income-verification systems, and in developing MENA countries, most income is informal.²⁷ Benefits can still be linked to some minimum income level and calibrated using observable, objective measures of need, such as the presence of pregnant and lactating women, small children, or elderly or disabled people. It is important to maintain the purchasing value of cash transfers, which requires some regular indexing to inflation. When donors fund cash transfers, as in Yemen, fixing the hard-currency value of benefits can help prevent loss of purchasing power due to local currency depreciation (Box 4).

GCC countries can consider alternative income support instruments to support low-income workers. For example, a negative income tax provides a transfer to households that file taxes but do not earn enough to pay taxes, with the transfer amount diminishing and eventually disappearing as earnings approach and surpass the threshold. Although a pure negative income tax has never been implemented anywhere beyond some experiments in the United States, the earned income tax credit—a form of negative income tax that provides a subsidy to people with taxable earnings below a certain level, with the subsidy typically depending on income and number of children—has been a popular tax instrument in the United States and other OECD countries (Moffitt 2003). Negative income tax schemes require good systems to verify income, which GCC countries mostly have, and well-functioning personal income tax systems, which they do not. In-work benefits schemes that do not operate through the tax system and provide income support to working families—popular in most OECD countries—are an alternative (OECD 2005).

Enhancing opportunities for poor and vulnerable people should also be a priority for many MENA countries, particularly for people with low levels of human capital. This can be done by complementing income support with interventions that build the human capital and capabilities of poor and vulnerable people (economic inclusion programs). There is growing evidence of the positive impact of combining cash transfers with complementary interventions to improve children's nutrition, health, and education (Banerjee et al. 2018). For example, the receipt of cash transfers can be tied to use of education and health services—such as school attendance by children and visits to health facilities by pregnant mothers and small children—and participation in education sessions to improve health and nutrition practices (e.g., Yemen's Cash for Nutrition program) (Kurdi et al. 2019). Social registries can also be used to bundle income support with human capital investments, as in Egypt (Box 5). Bundles of support for the poorest segments of the population can also be provided through social workers (Box 6).

BOX

4

YEMEN: FIXING THE DOLLAR VALUE OF CASH TRANSFERS IS HELPING TO PROTECT THEIR VALUE

A World Bank-financed cash transfer program has been providing life-saving payments to the poorest one-third of the population in Yemen since 2017. The government of Yemen had implemented the program, but it was discontinued soon after the civil war erupted at the end of 2014.

Cash transfer benefits were originally denominated in Yemeni rials and had been losing purchasing value as the cost of the minimum food basket increased, but in late 2019 the rial began to depreciate sharply, particularly in the south of the country, triggering a tripling of the cost of the minimum food basket in the south (40 percent increase in the north) by November 2021 (more than 90 percent of the food consumed in Yemen is imported.) As a result, the number of people facing high acute food insecurity increased from 13.5 million (45 percent of the population) in December 2020 to 17.4 million (54 percent of the population) by January 2022.

In response to the loss of purchasing power of cash transfer benefits and the implications for food insecurity and malnutrition, the benefit level was fixed in dollars in November 2021 and then converted to rials at market rates in the south and the north before each payment cycle. As a result, in January 2022, the average cash transfer beneficiary saw their benefit double from the original rial-denominated benefit.

²⁶ An interesting feature of the guaranteed minimum income program in Saudi Arabia is that, to further reduce work disincentives, benefits are decreased, but not totally discontinued, once households earn more than the minimum income.

²⁷ Although there are methods to impute informal income, those are better used for assessing relative needs and prioritizing support than for estimating income gaps and calibrating benefits accordingly.



EGYPT: EGYPT HAS MADE REMARKABLE PROGRESS TO IMPROVE THE PROTECTION AND OPPORTUNITIES FOR THE POOR

TKP was introduced in 2015. The Takaful component is designed to reach poor families with children (0-18 years). It requires 80 percent school attendance and four health care visits for mothers and children below the age of six per year. Karama provides benefits to the elderly poor, poor orphans, and poor people with disabilities. TKP's coverage of the population quintupled between 2016 and 2022 (from 3 percent to 15 percent), and thanks to its good targeting mechanism, expansion of the program has increased coverage of the poor (according to the national poverty line) from 21 to 50 percent.

TKP is by far the most cost-effective program in reducing poverty in Egypt, far exceeding the largest social assistance program (food subsidies) because it costs much less than food subsidies (0.3 percent versus 1.4 percent of gross domestic product), and although it covers less of the poor population (50 percent versus virtually 100 percent), it delivers five times as many benefits. In addition, it has proven impacts on household welfare and human capital generation (IFPRI 2018; 2022). In recognition of this success, the government of Egypt has expanded the program nationally. It is estimated that TKP is reaching up to 5 million households in 2023, making it the largest poverty-targeted conditional cash transfer in the Middle East and North Africa (MENA).

TKP has a strong delivery system that is inclusive and efficient, often well beyond the program itself. Beneficiaries are increasingly able to choose to receive their benefits digitally; all TKP households have been issued debit cards. The program also

provides SIM cards to beneficiaries for communication and outreach. A robust grievance redress mechanism is used to receive and respond to queries and complaints about the program through in-person and web-based channels. Program applicants' data are cross-checked against Egypt's Unified National Registry, the largest social registry in MENA, covering the entire population. The program uses proxy means testing to prioritize support for the poorest households, and targeting accuracy is in line with the best-performing cash transfer programs around the world.

The TKP registry, which covers approximately 30 percent of the population, is being used to provide complementary human capital support to TKP beneficiaries, including to combat illiteracy, facilitate access to reproductive health care and family planning services, and improve child nutrition and well-being and housing conditions. The registry was also used to introduce a new economic inclusion program in 2019 called FORSA, which is being piloted in eight of 27 governorates and targets TKP beneficiaries who have been in the program for longer than 1 year (or in families close to the TKP eligibility line). The program offers two alternative packages: one for self-employment and one for wage employment. With the first package, beneficiaries receive a productive asset to start income-generating activities, along with financial literacy training and technical training on how to start the activity. With the second package, beneficiaries receive job matching and skills training for employment in the private sector. Both packages include behavioral interventions.

SOCIAL WORKERS CAN HELP PROVIDE BUNDLES OF SUPPORT FOR THE POOREST SEGMENTS OF THE POPULATION

Programs like *Chile Solidario*, *Puente* (Costa Rica) and *Unidos* (Colombia) use social workers to develop and implement bundles of support for the poorest segments of the population. Similar programs are being developed in the West Bank and Jordan. These programs are built on the premise that the poorest households require a tailored, intensive approach to social protection. Evaluations of these types of programs show positive, long-lasting impacts (e.g., Neidhöfer and Niño-Zarazúa 2019).

Social workers work with target families to assess needs, conditions, and capacities and establish priorities; develop a plan of action, with expected results associated with set priorities and specific tasks and services to accomplish those results; and support implementation of the action plans, including by delivering some support services directly (e.g., psychosocial support), helping families obtain basic paperwork (e.g., identification cards, birth and marriage certificates), facilitating access to referral services and programs (e.g., cash transfers, subsidies for health insurance or utilities, programs to support employability, social care services), and monitoring progress.

Economic inclusion programs can help lift poor and vulnerable people out of poverty. Economic inclusion programs are designed to increase the income-generating capacity of poor and vulnerable households (Andrews et al. 2021). These programs typically include a package of interventions that vary in composition and intensity according to the level of poverty and context (e.g., rural versus urban). The BRAC graduation model—first implemented in Bangladesh—which has been replicated in about 50 countries (Martin, Sulaiman, and Rabbani 2008), focuses on extremely poor rural people. It is a high-intensity, time-bound support package to start and expand income-generating activities, including technical training, high-value asset transfers (grants, interest-free loans, in-kind transfers such as farm animals), coaching, and financial inclusion. The model has positive long-lasting impacts (Banerjee et al. 2015). Economic inclusion programs in urban areas tend to focus on helping moderately poor and vulnerable people access wage employment. They are typically part of larger labor programs—to which poor and vulnerable people have preferential access—and are linked to cash transfer programs. Most advanced cash transfer programs (e.g., Mexico’s *Prospera*) include an economic inclusion component.

Although incipient, there are some promising economic inclusion initiatives in MENA. The most developed initiative is FORSA in Egypt (Box 5), which is being piloted in eight of 27 governorates, targeting all working-age individuals in TKP families that have been in the program for longer than 1 year (or in families close to the TKP eligibility line). It offers two alternative packages: one for self-employment, based on the BRAC model, and the other for wage employment. Jordan’s Economic Empowerment Strategy uses the interoperability between the Takaful and Sajjil platforms to give selected Takaful beneficiaries preferential access to employment support programs, such as the ongoing National Employment Program, although coverage is limited. To maximize cost-effectiveness, selected Takaful beneficiaries include 18- to 40-year-olds in households that are close the poverty line, have at least basic education, and are unemployed or informally employed.²⁸ Developing MENA countries must invest much more in economic inclusion programs for poor and vulnerable people. The above examples provide some suggestions, including leveraging existing cash transfer programs.

Expanding social insurance protection, particularly for informal workers

3.2.2

Evidence from MENA and elsewhere shows that efforts to formalize workers are unlikely to make a big difference in informality. As discussed in Chapter 1, the main way to reduce informality is for the private sector to generate more productive jobs. Social protection policies can help protect and support informal workers. The most popular policy in MENA is to formalize workers, that is, to bring informal workers into mandatory social insurance schemes and keep them there. This policy is implemented through incentives (e.g., subsidized contributions), enforcement (e.g., inspections, penalties), and awareness rais-

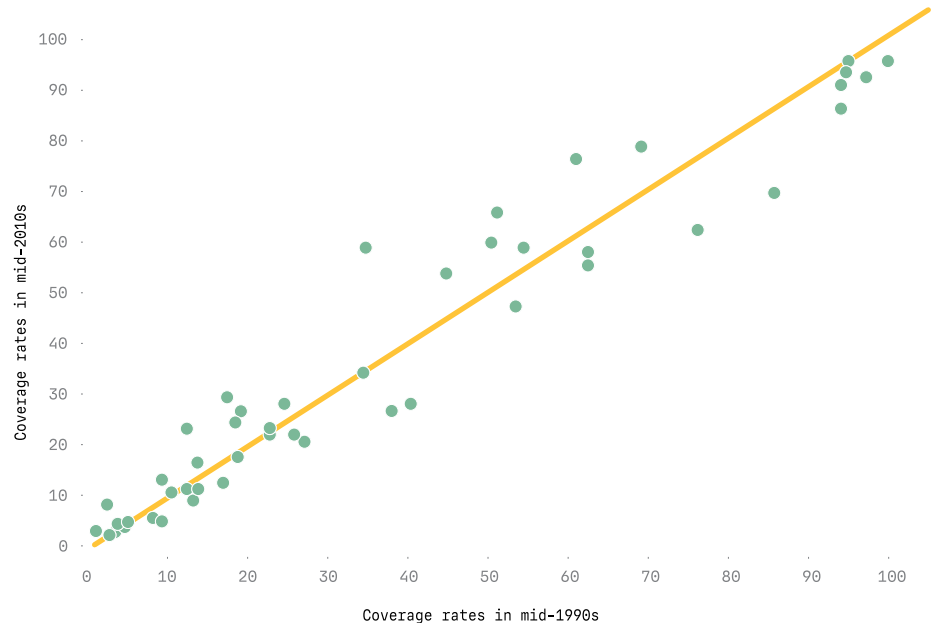
ing. Globally, these efforts have made little difference in coverage (Figure 32) (Palacios and Robalino 2020). This is particularly the case in developing countries in MENA, where most informal workers are employed in micro-enterprises, which labor inspections tend not to reach. That said, greater enforcement, including through risk-based labor inspections,²⁹ can increase coverage in larger firms. Also, simplification of administrative processes has attracted self-employed workers (Price et al. 2017), and access to registries of self-employed workers (e.g., farmers in Egypt and Tunisia, taxi drivers in Jordan) has made it easier to formalize them.

FIG.

32

Globally, pensions coverage has not changed much over time

Ratio of active contributors (to pensions) to the labor force in the mid-2010s (vertical axis) and mid-1990s (horizontal axis) across 47 countries, percentages



Source: ILO (2022).

²⁸ Only one qualifying individual can be selected from each Takaful household. Qualifying individuals in households that are not benefiting from Takaful but are close to the poverty or eligibility line are also considered for support.

²⁹ Inspections target firms and own-account workers at high risk of noncompliance with labor regulations. Labor inspections are more effective when they provide support to comply with regulations.

Developing MENA countries are also struggling to keep workers actively contributing throughout their careers. As shown in Chapter 2, a distinctive feature of pension systems in MENA is low contribution densities, the result of workers coming in and out of informality and contributing for only a portion of their careers. As a result, many workers are not able to reach the minimum number of years of service required to qualify for a pension or end up with low pension benefits. Pension design parameters tend to make tenures in the formal sector short. In Egypt, for example, workers can receive a minimum benefit of 65 percent of the minimum wage after 15 years of service.³⁰ For workers earning the minimum wage, there is little incentive to contribute beyond that because it would take close to 30 years of service to receive a benefit equal to the minimum wage. Also, in many MENA countries, pension benefits are calculated based on one's salary from the last few years before retirement, which gives workers an incentive to contribute only later in their careers. As discussed in more detail later in this chapter, these perverse incentives to contribute late and retire early must be eliminated.

Bringing informal workers into unbalanced mandatory schemes can decrease sustainability. Simulations conducted for several MENA countries show that increasing the coverage of unbalanced schemes increases revenue for a while and delays when schemes go into deficit but eventually makes deficits larger because the additional workers covered retire with generous pensions. Thus, reforms to balance mandatory schemes and eliminate perverse incentives—discussed later in this chapter—must accompany efforts to formalize workers. Schemes that offer lower contribution rates for informal workers to join mandatory programs must also adjust benefits accordingly, although that may result in low benefits, making them less attractive to workers. Morocco's new scheme for self-employed workers is an example of that. It sets a minimum contribution according to the sector (workers can contribute more), and benefits are tied to contributions, but benefits tend to be too low for low-income workers. Contribution subsidies can help address that problem, but they must be targeted to workers for whom such subsidies are likely to make a difference and financed by general government budgets—not by the schemes.

This report suggests an approach to informality focused on protecting and enhancing the productivity of informal workers. This approach moves away from formalization as the main objective of social protection policies for informal workers. That is not to say that MENA countries should not continue their efforts to formalize workers. They should, and the above paragraphs offer some guidance on how to do it, but formalization policies are unlikely to increase coverage

much, particularly for informal workers employed in micro-firms, and should thus be complemented by alternative instruments to protect informal workers. This report recommends shifting the focus of policies toward protecting informal workers, which includes but is not limited to formalization, as well as enhancing their productivity—covered later in this chapter. Also, any instrument to protect informal workers should be easily accessible; mobile payment technology can help, as can deployment of mobile social security units in remote areas, as in Morocco.

VSSs can increase protection of informal workers in MENA. VSSs are defined contribution programs and thus are self-financing by design, with contributions being voluntary. These schemes recognize the irregular, unpredictable nature of informal income, but they work only for informal workers with some capacity to save; non-contributory income support programs better serve those who do not. To encourage workers with less capacity to save to participate, VSSs typically provide incentives in the form of matching contributions.³¹ VSSs should ultimately serve as a bridge to well-balanced mandatory schemes. To make them more attractive, these schemes should first protect against short-term risks such as unemployment, income loss, and sickness and gradually add old-age insurance. VSSs can also be used to provide complementary benefits to workers already contributing to mandatory schemes. VSSs are a promising complementary instrument to increase coverage of informal workers in MENA.

A growing number of countries are adding VSSs to their suite of social insurance programs. VSSs are increasingly part of the effort to enhance protection while ensuring financial sustainability. As benefits of traditional mandatory pension systems have been cut substantially since the 1990s, VSSs have increasingly filled the gap, accounting for 20 percent of retirement income in OECD countries (OECD 2019a). New Zealand's Kiwi Saver and the United Kingdom's NEST are examples of well-established VSSs, but there are also initiatives in developing countries (Rudolph 2019; World Bank and DFAT forthcoming). Although these programs are mostly designed for formal workers, some are open to informal workers and have significantly increased coverage, as in China (Box 7) and Türkiye (Rudolph 2019). Both countries provide sizable matching contributions, particularly China, and Türkiye makes enrollment automatic when workers change jobs, which reduces transaction costs. Most of these schemes include measures to discourage opt-outs, such as linking contributions to other benefits. Other developing countries are taking advantage of financial technology to introduce specific VSSs for informal workers, including in Colombia, India, Kenya, Nigeria, Rwanda, and Thailand (Guyen et al. 2021).³²

³⁰ It was 10 years before the new Social Security Law was passed in 2019.

³¹ Targeting of subsidies should not be based on self-reported (informal) income but on reliable methods to estimate the capacity to save.

³² Rwanda's Ejo Heza Long-Term Savings Scheme, which allows for short- and long-term savings, covers 1.4 million people, about 18 percent of the working-age population.

Retirement savings accounts can help protect foreign workers. Expatriate workers do not have access to social insurance schemes in GCC countries. At best, they are given a lump-sum payment at the end of their service. Retirement saving accounts and linking workers automatically to their home country pension systems, whenever relevant, can increase protection for foreign workers in GCC and other MENA countries with many expatriate workers. Dubai International Financial Center launched a savings scheme for expatriate public sector employees in July 2022—the Savings Scheme for Employees in Government of Dubai—with plans to extend it to private sector employees. The scheme is designed to increase savings and protection of foreign workers while helping attract talent to Dubai. The previous end-of-service benefit will be folded into the new savings scheme. In countries where national social insurance schemes cover expatriate workers, there is room to increase portability of pensions through bilateral agreements with sending countries. Such agreements already exist in some MENA countries for their nationals who emigrate abroad.³³ A MENA-wide agreement could also be considered to facilitate mobility within the region.³⁴

Pension benefits need to be adequate to ensure effective protection. Pensions are adequate when they prevent old-age poverty (main objective) and ensure a reasonable standard of living during retirement relative to before retirement (consumption smoothing). As shown in Chapter 2, although pension schemes in MENA are generous by design, many workers contributing to these schemes end up with low benefits, particularly low-income earners, partly because many workers do not contribute for long enough. To the extent that perverse built-in incentives to retire early drive this, those incentives should be removed and replaced with incentives to retire later (discussed later in this chapter), but

³³ Bilateral special security agreements have been reached between Tunisia and France, Tunisia and Belgium, Morocco and Spain, Morocco and France, Egypt and the Netherlands, and Egypt and Sudan.

³⁴ GCC countries already have such an agreement. Examples of regional agreements include the Ibero-American Multilateral Convention on Social Security, the Inter-African Conference on Social Insurance, the Caribbean Community, and the European Union.

³⁵ As noted earlier, these minimum pensions are defined as a share of the minimum wage for a minimum service period that is typically short (as short as 5 years in Tunisia). These shares tend to be higher than what minimum wage workers can receive if they have a full career; they are subsidized. This creates an incentive to retire early, particularly for low-wage earners. The pension systems bear the subsidies, making them less financially sustainable. Also, the shares often vary according to sector, generating inequalities.

even without perverse incentives and with the availability of VSSs, there will be workers who do not earn enough or contribute long enough to claim an adequate pension or any pension at all. Another common reason for inadequate benefits is lack of pension indexation, which particularly affects older pensioners. Policy options to address inadequate pensions or no pensions at all are presented below.

Well-designed social pensions can help prevent old-age poverty among workers who do not contribute enough or at all while being fiscally responsible and minimizing perverse incentives. The number of countries implementing social pension programs has increased rapidly (World Bank 2022e), including in MENA. Social pensions are transfers to elderly adults financed by general government budgets. At one extreme, social

pensions can take the form of a flat transfer to all elderly adults regardless of contribution history, with the possibility of adding contributory pension benefits. This type of social pension is beyond the fiscal means of developing MENA countries. Transfers can also be calibrated to account for contributory pensions or be targeted to noncontributors. Although this model reduces fiscal costs, it discourages contributions. A preferred approach is to target social pensions to poor elderly adults. This is the approach that Egypt is taking with Karama. Another good practice is to subsidize contributory pension benefits to reach an adequate minimum pension level. This is different from the minimum pensions in MENA, which are tied to early retirement.³⁵ It is the approach China adopted to complement its VSS to increase effective coverage (Box 7).



CHINA IS USING SUBSIDIES TO VOLUNTARY SAVINGS AND PENSION BENEFITS TO MAKE REMARKABLE GAINS IN EFFECTIVE COVERAGE OF INFORMAL WORKERS



Like many countries, China struggled for years to expand coverage of its contributory pension system to workers outside formal employment. Although some progress was made between 1997 and the late 2000s, coverage of rural workers stalled at around 55 million (of 469 million rural workers). In response (and informed by lessons from extensive subnational pilot programs), the central authorities designed a scheme for informal workers that was expanded nationally for rural workers in late 2009 and for urban informal workers in 2011. The plan's design is an innovative, and successful, example of blurring of the lines between contributory social insurance and social assistance.

The basic design, common to the rural and urban plans—and, more recently, the basis for a merged rural and urban plan—is as follows. It is a voluntary plan in which informal workers are required to make a modest annual contribution to an individual account. (When introduced, the minimum annual contribution was around \$15, although workers could choose to contribute more.) The local government matches this contribution, which is typically invested in low-return term deposits. After a minimum of 15 years of contributions, the worker is entitled at age 60 to a basic monthly pension, a minimum of approximately \$11 per month. The central government in western and most central provinces finance the basic benefit entirely, with a higher share of subnational financing in coastal and some other central provinces. The design combines a matching defined-contribution voluntary pension scheme in the accumulation phase and a heavily subsidized minimum pension in the payout phase; the subsidy is approximately 80 percent of the total pension received on average.

The increase in coverage of informal sector workers because of this plan has been impressive. By 2018, approximately 360 million rural and urban informal workers were contributing to the plan, and 150 million elderly people were receiving payments. Although the high level of subsidization is a major factor in this success, the approach is still more cost-effective than a fully subsidized social pension for informal workers. At the same time, concerns remain about the adequacy of benefits, especially compared with those that the formal sector pension plan provides for urban workers and, especially, pension plans for the public sector.

Source: Packard et al. 2019.

36 In practice, many of these countries have frozen benefits or capped benefit increases since 2010.

Pensions must be automatically and fairly indexed if they are to provide effective protection. Most MENA countries only adjust pension benefits in an ad hoc manner. No MENA country has a pension indexation mechanism whereby pension benefits are automatically updated based on objective economic variables, typically changes in prices (price indexation) or average earnings (earnings indexation). Pension indexation makes benefits more predictable and transparent. Table 4 shows the indexation policies in 35 OECD countries.³⁶ Price indexation is the most common policy. In some cases, a discount factor, cap, or affordability condition is applied to price indexation (Greece, Netherlands, Portugal). The second most common policy is a combination of price and wage indexation, followed by wage indexation only—some countries use discount factors (Germany, Latvia, Norway) or affordability conditions (Luxembourg). Price indexation guarantees the purchasing power of pensions

TAB.

4

Most OECD countries index pensions to inflation

TYPE OF INDEXATION	COUNTRY
<i>Price (P) only</i>	Belgium, Canada, Chile, Costa Rica, France, Korea, Mexico, Spain, Türkiye, United States, Italy, Austria, Greece, Hungary, The Netherlands, Slovak Republic, Portugal
<i>Wage (W) only</i>	Ireland, Australia, New Zealand, Germany, Luxembourg, Norway, Sweden, Denmark, Latvia, Lithuania
<i>Price and wage</i>	More weight to P (Finland, Poland), more weight to W (Slovenia, Estonia), equal weight to W and P (Switzerland, Czech Republic), United Kingdom (maximum of P, W or 2.5%), Japan (W until age 68, P after that)

Source: OECD 2021.

“Pensions must be automatically and fairly indexed if they are to provide effective protection”

during retirement. Full earnings indexation can be very costly, but some earnings indexation allows pensioners to share some gains from productivity growth.³⁷

There is ample room to enhance UI protection in all MENA countries; options vary according to initial conditions. Five of the eight MENA countries without mandatory UI have severance pay (Iraq, Libya, Qatar, West Bank and Gaza, Yemen), and three do not (Djibouti, Lebanon, Syria). All countries with UI schemes except Jordan, Oman, and UAE also have severance pay. As shown in Chapter 2, severance pay imposes high liability on employers and is a bad substitute for or complement to UI in terms of effective protection of workers and efficiency. All UI schemes in MENA are designed as defined-benefit pay-as-you-go schemes, although Jordan has individual virtual unemployment accounts. Although it varies across countries with UI schemes, workers typically

qualify after 1 year of contributions, on par with global practice, although low coverage of unemployment benefits among the unemployed suggests that there is room to ease eligibility for UI. Benefits tend to be more generous than the global norm, and there is no sliding scale to encourage job search, nor are benefits linked to participation in labor programs, except in Oman.

Countries without UI can introduce UI savings accounts with a risk-pooling component to guarantee a minimum level of benefits. UI savings accounts are defined contribution schemes with contributions from workers and employers. Employer contribution can be seen as a pre-funded form of severance pay. The risk-pooling component is a budget-financed contribution from the state to individual accounts to guarantee a minimum level and duration of benefits when the worker becomes unemployed, regardless of savings accumulated. These minimum ben-

efits must be carefully designed so that they provide adequate protection to unemployed individuals while retaining the incentive to look for employment. Job search can be further encouraged and re-employment supported by linking benefit receipt to participation in labor programs, at least for unemployed people relying on the risk-pooling component. The best example of such scheme is Chile's *Seguro de Cesantia* (Box 8). Countries with existing severance pay programs can tighten them by increasing years of service required for eligibility and reducing payment per year of service or simply phase them out.

³⁷ This is particularly the case when real earnings are growing very rapidly, as happened in Eastern Europe during the transition to market economies, when real earnings growth at times reached 20 percent per year.

BOX

8

CHILE'S SEGURO DE CESANTIA HAS EXPANDED COVERAGE OF UNEMPLOYMENT INSURANCE WHILE INCENTIVIZING JOB SEARCH AND RE-EMPLOYMENT



After a decade of historically low unemployment, Chile faced the effects of the Asian Crisis in 1999, with unemployment rates rising above 10 percent. Existing non-contributory unemployment assistance was inadequate, as it targeted only low-income people and covered only 2 percent of unemployed people in 2001. Severance pay was generous and available only for workers with open-ended contracts.

The priority of the new government was to introduce an income protection mechanism to respond to shocks without increasing labor costs and to safeguard incentives for re-employment.

The *Seguro de Cesantia* scheme was launched in 2002 and has undergone subsequent reforms. The scheme is open to all private sector formal workers and combines unemployment insurance savings accounts to which workers and employers contribute with a state-financed solidarity (risk-pooling) component that kicks in when individual savings are insufficient to finance a minimum benefit that declines over 5 months.

After 20 years, *Seguro de Cesantia* is widely regarded as a model for providing effective financial support to unemployed people while encouraging job search and re-employment. Program coverage (46 percent of

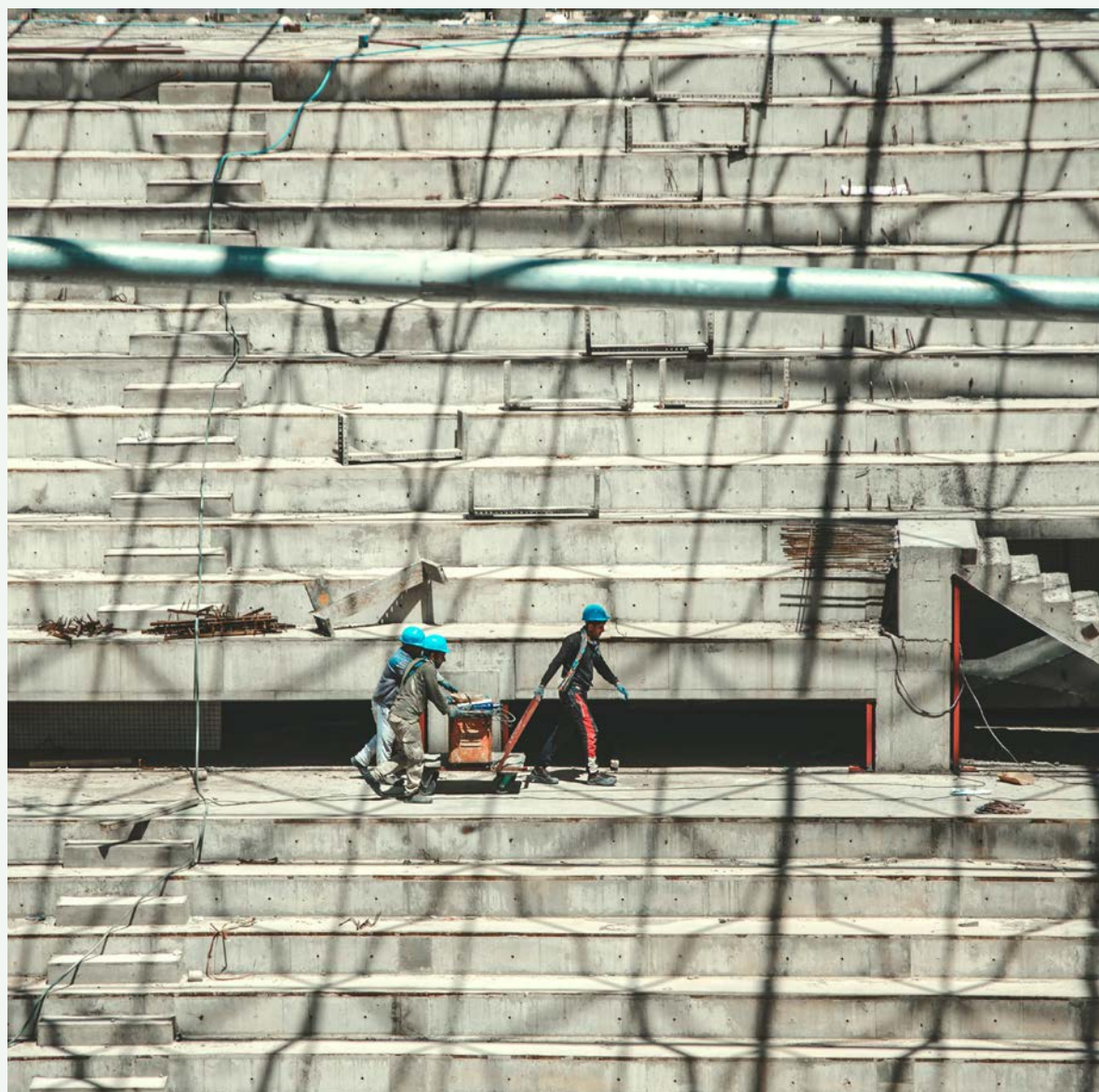
the unemployed) is comparable with that of programs in Europe. Several features of its unemployment insurance system are particularly attractive:

- The hybrid insurance model that combines individual savings with risk pooling is better able to address the needs of workers who change employment frequently, as well as long-term unemployed individuals.
- The new system is better at smoothing consumption than Chile's purely non-contributory unemployment benefit.
- Benefits are indexed to protect their value from inflation and stabilize replacement rates.
- The system is financially sound and compatible with incentives. Benefits are limited to 5 months at a time, a worker may draw upon the pooled fund only twice every 5 years, and the overall payout rate from the pooled fund is capped at one-fifth of its current balance in any given month. Unemployed people who rely on the risk-pooling component are required to receive additional training and job search assistance.
- The system has evolved with features to extend coverage to people with temporary employment contracts and other forms of nonstandard employment.

Countries with existing UI schemes can also consider reforms to enhance protection, encourage job search, and support re-employment. Given the low coverage of the unemployed, eligibility requirements must be eased, and benefits can be decreased over time to encourage job search and be linked to participation in labor programs (Martin 2014). Traditional UI schemes can also be reformed to allow partial withdrawals from unemployment accounts to address short-term emergencies, as is the case in Bahrain and Jordan; virtual individual accounts can facilitate that. To complement the reform of defined-benefit pay-as-you-go UI schemes, prefunded severance pay accounts (to which employers contribute) could be considered in lieu of the existing system to increase effective protection and efficiency.

Although the priority is to protect workers now and prevent old-age poverty in the future, MENA countries must also start thinking about LTC for elderly adults. In a few decades, the current youth bulge will move into old age, providing a potential second demographic dividend, but to reap it, MENA countries must start working on policies to maximize the economic contribution of older people—discussed later in this chapter—and ensure access to adequate social protection, health care, and LTC services to enable older people to live longer, healthier lives and continue being economically active. MENA countries have not paid enough attention to this agenda.

Formal LTC mechanisms must start being developed now. The region's LTC model relies mostly on informal care provided by families or community groups. This model is increasingly breaking down as social norms regarding the role of women change and people move to cities. It also continues to be an obstacle to women's employment. Global experience shows that a LTC model relying on residential care institutions is not the solution either, as it tends to be unsustainable and is not what most older people want (Rofman and Apella 2020). A family-based, holistic LTC model, with the assistance of professional LTC services, support (e.g., training, assistive technology), and relief (e.g., cash benefits), would be best suited for the region in terms of sustainability and cultural context. Within such a framework, older people are empowered, and healthy behavior and self-care are promoted. Professionalization of LTC services will create good job opportunities for women. Countries can use a combination of social insurance mechanisms and the budget to finance LTC (Rofman and Apella 2020). This agenda is most relevant for high- and upper-middle-income countries, particularly those with rapidly aging populations.



Expanding employment support and worker protection

3.2.3

Enhancing employment support requires building a robust delivery system. Labor programs are the least developed social protection instrument in MENA. Very few people benefit from labor programs, and they are often not those most in need. Labor programs are no magic bullet, but if well designed, they can facilitate access to productive employment. This requires a robust delivery system, including a platform that collects information from job seekers, employers, and employment service providers and uses it to match job seekers

to vacancies and employment support programs based on the job seeker's profile. The principle should be that all job seekers can benefit from job-matching services and that other publicly funded support should be reserved for those who need it, especially people who are difficult to employ. Job counselors also play a crucial role in directing job seekers to the right type of support, providing counseling, and monitoring progress (case management). Jordan is building such a system, which has been operational for a while in high-income countries such as Australia and the United Kingdom.



“Labor programs are more cost-effective for lower skilled and less experienced job seekers, particularly youth and women”

Labor programs should target those who need support, including lower-skilled youth and women. Global evidence shows that labor programs can increase the probability and quality of employment but only if they reach the right people and provide them with the right support. Labor programs are more effective and cost-effective for lower-skilled and less-experienced job seekers, particularly youth and women, and especially if they provide services that improve human capital (Escudero 2018; Escudero et al. 2017). That group includes first-time entrants, long-term unemployed people, and workers stuck in low-productivity informal jobs. Successful youth programs in the United Kingdom, United States, and several Latin American countries target disadvantaged out-of-school youth (typically aged 15 to 29 with less than secondary education), providing them with a comprehensive support package that includes vocational training, socioemotional skills training, job search assistance, and internships. The main impact of these programs is on formal employment and salaries (quality of employment) (Attanasio et al. 2015; Ibarra et al. 2015). Impacts tend to be larger for young women, particularly when programs are designed to recognize women’s mobility and time constraints, for example by providing additional subsidies to women to cover transportation expenses.

Labor programs need to support new forms of employment in the digital economy. Labor programs should look beyond wage employment and support digital jobs, including online freelancing. Digital technologies have enabled large projects in some parts of the world to be broken down into small tasks that can be outsourced to firms and individuals elsewhere. Tasks can be complex (e.g., software development, translation) or simple (e.g., labelling photos, describing products, gathering data, answering calls), providing opportunities for high- and low-skilled youth alike. Global online freelancing support is growing, including a small but growing number of platforms serving the Arab world. Organizations such as Gaza Sky Geeks and Gaza Gateway provide online freelancing support to Gazan youth, who would otherwise have limited job opportunities. Support programs typically include some initial training, followed by incubation support for a specified period. Most graduates of these programs end up as independent freelancers, employees, or entrepreneurs. Online freelancing can be particularly beneficial for women, as it can be done from home. As MENA countries invest in innovative programs such as online freelancing support, they should also evaluate such programs.

The private sector should play a core role in providing employment support. Labor

programs that are contracted out to the private sector deliver better results than those delivered directly by government agencies, particularly when there is more competition (Hirshleifer et al. 2016). The private sector is more efficient and better equipped to know what the labor market wants than the public sector. The main role of governments should be to ensure quality and results, including through accreditation and performance-based contracting. Australia, Chile, and the United Kingdom have successfully implemented that approach (Finn 2020).

Labor regulations must protect all workers in a neutral way. Efforts should continue to bring informal workers under the protection of labor laws and provide effective protection to all workers by increasing compliance with labor regulations. Protection should not place a burden on businesses. MENA countries must reform severance pay (or replace it with UI schemes) and introduce mechanisms to adjust minimum wages automatically based on objective criteria, such as changes in the cost of living and productivity growth. Above all, MENA countries must eliminate legal discrimination against women. Saudi Arabia has been implementing reforms to reduce gender discrimination, including removing restrictions on movement, prohibiting dismissal of pregnant women and discrimination in employment and in accessing financial services, and criminalizing sexual harassment (World Bank 2020a). These reforms have contributed to a remarkable increase in women’s labor force participation between 2016 (21 percent) to the third quarter of 2022 (37 percent). Other MENA countries have been making progress too, but much more is needed to eliminate legal restrictions on women’s employment, and other measures to increase women’s employment, including through labor programs, access to finance and childcare, and development of the care economy, should accompany those efforts.

Although significant barriers remain, some MENA countries are loosening restrictions on foreign workers. All GCC countries have recently eliminated the requirement for migrant workers to obtain their employer’s permission to leave the country. Qatar and Saudi Arabia have introduced other measures, including allowing migrant workers to change jobs before the end of their contract without requiring a no objection from employers. Jordan has been introducing measures to increase access of Syrian refugees to employment, including issuing work permits in sectors in which they were not previously permitted to work, granting work permits in some sectors on a seasonal basis or without tying them to a specific employer, and extending the policy for home-based business registration to cover Syrian refugees.

Increasing efficiency of & financing for social protection

3.3

This section discusses options to increase the efficiency of social protection beyond the efficiency gained from adopting modern delivery systems, including reforms to increase financial responsibility and minimize perverse incentives and options to increase financing for the reform priorities identified in the previous section, including expansion of cash transfers and opportunities for the poor, labor programs, and social insurance subsidies.



Integration of programs

3.3.1



Common delivery systems facilitate consolidation of similar social assistance programs, generating savings and increasing cost-effectiveness. A recent example was the consolidation of Egypt's Daman, an old-age social pension program, into Karama. In Jordan, qualifying beneficiaries of the NAF's monthly cash transfer program are being migrated to Takaful. The old program will be discontinued within a few years, and an analysis of the remaining caseload is being conducted to identify alternative forms of support. Remaining funds will be used to further expand Takaful. Because of Takaful's improved targeting methodology, it is estimated that this reform will reduce inequality and poverty by 0.4 percentage points each (Rodriguez-Takeuchi and Wai-Poi 2021).

Integrating pension schemes will increase equity and labor mobility and reduce perverse incentives and administrative costs. Many countries, including MENA countries, have historically had separate schemes for different types of workers, but as schemes have grown, labor market conditions changed, and mobility increased, the rationale for this separation has disappeared, and challenges have accumulated (limits to labor mobility, high administrative costs, perverse incentives, inequalities), which has led to reform efforts to integrate schemes or harmonize their rules at different levels: design (e.g., establishing the same rules for public and private sector employees), administrative (e.g., making

registration systems compatible, integrating pension payments, cross-verifying eligibility), financial (e.g., unifying pension funds, analyzing assets and liabilities of each scheme and the financial situation of the integrated system), and governance (e.g., establishing an institution to manage the system with adequate representation of stakeholders in the governing bodies).

Despite progress in some MENA countries, more is needed to integrate pension schemes. Jordan pioneered consolidation of public and private pension schemes in the region in 1995 (for new civil servants) and 2003 (for new members of the military). In Bahrain, the pension system has been integrated administratively, but civil servants and private sector employees are still subject to different rules. The two public sector schemes in Morocco are being integrated. Egypt merged its public and private sector schemes in 2019, but separate schemes for various groups remain. In 2021, Saudi Arabia approved the merger of the public pension agency with the General Organization of Social Insurance. These reform efforts are commendable, but they fall short in most cases, and more MENA countries must join. International experience shows that integration is most successful when schemes are sustainable and credible, which is hardly the case in MENA. Also, integration creates new budgetary outlays. Thus, the pace of integration and its sequencing with complementary reforms (e.g., to make schemes financially sustainable) must be carefully considered.

Reform of generalized subsidies

3.3.2

Reforming generalized food and energy subsidies will increase efficiency and provide financing for social protection. MENA countries such as Egypt, Iran, Jordan, and Morocco embarked on sweeping energy subsidy reforms in the 2010s, yet significant energy subsidies remain in much of MENA. Energy subsidies tend to be regressive (because richer households tend to consume more energy than poorer households), economically inefficient, and harmful to the environment (IMF 2013), and as discussed earlier, they crowd out other budget priorities, including social protection. Only temporary compensation schemes, not expansion of regular cash transfers for the poor, often accompanied past reforms. Today, generalized food subsidies are still the main form of social assistance in most of MENA despite evidence that they are significantly less cost-effective in reducing poverty and inequality than cash transfer programs for the poor.

Most MENA countries have relied on costly energy and food subsidies to respond to rising prices triggered by the war in Ukraine. Since February 2022, Iraq and all developing oil importers except Lebanon have increased food and fuel subsidies. Although that has contained some of the increase in domestic prices, it imposes substantial fiscal costs on already constrained budgets and rising public debt (World Bank 2022i). Analyses conducted for Egypt, Morocco, and the West Bank and Gaza show that providing cash transfers to the poor is more cost-effective than increasing generalized subsidies (World Bank 2022i, World Bank, 2022f). Therefore, developing oil-importing MENA countries cannot afford to maintain current levels of spending on subsidies, particularly when there are more cost-effective alternatives. The current crisis can be used as a unique opportunity to reform subsidies rather than an excuse not to do so.

Examples from MENA and elsewhere provide useful guidance for reforming food subsidies. Between 2016 and 2020, Indonesia moved gradually from an in-kind rice subsidy that covered 50 percent of the population to a food voucher system for rice and other, more nutritious, foods that covers the poorest 25 percent of the population with three times the benefit value of the old program (Holmemo et al. 2020). An expansion of the cash transfer program for the poor accompanied this reform. In 2018, Jordan replaced a universal in-kind bread subsidy with a small cash com-

pensation program, removing the richest 20 percent of the population and giving slightly greater benefits to NAF beneficiaries. The program was discontinued in 2021 as the government continued to expand Takaful and had to finance the response to COVID-19. Egypt has been considering re-calibrating benefits to give more to the poor at the expense of richer households, which could pave the way to replacing the in-kind bread subsidy with a cash payment. These reforms must happen and be accompanied by gradual removal of the subsidy for richer households, using savings to expand programs such as TKP and FORSA (World Bank 2022h). Although the reform is yet to be defined, Morocco would like to reform food subsidies to finance expansion of family allowances.


Mobilization of additional revenue in a progressive manner

3.3.3

MENA countries must mobilize additional tax revenue to finance reform priorities in social protection. Increasing the efficiency of social assistance and reforming subsidies may not generate enough savings to finance reform priorities. Oil-importing developing MENA countries do not have the fiscal space to increase spending without raising additional revenue. Structural factors, COVID-19, and the war in Ukraine have stressed public finances, increasing deficits and public debt to alarming levels, including in Egypt, Jordan, and Tunisia (Table A2); higher interest rates make debt servicing more expensive. Continuous borrowing can eventually make debt burdens unsustainable (World Bank 2022h). Thus, developing MENA countries, particularly oil importers, must raise additional tax revenue to increase funding for social protection and other development priorities. Aid must also be provided to low-income countries.

Tax revenue remains low. On average, MENA collects only about 12 percent of GDP in taxes, less than half of what OECD countries collect on average and less than any other region (Figure A9, Panel A). It is mostly oil producers that collect little in taxes because they collect revenue from oil, whereas Morocco and Tunisia collect more than 20 percent of GDP in taxes. There is room to increase tax collection in MENA, particularly in oil-importing countries, as the gap between potential and realized tax revenue accounts for 14 percent of GDP (IMF 2022a).





“Bringing wealthy and high-net-worth individuals into the tax net may be one of the most progressive & effective ways to increase tax revenue in MENA”

Taxation is mostly focused on regressive levies. Indirect taxes on consumption of goods and services, such as a value-added tax (VAT), account for more than half of tax revenue in MENA, and direct taxes on income, profits, capital gains, and property account for less than one-third (Figure A9, Panel B); the share of indirect and direct taxes in OECD countries are one-third and 40 percent, respectively. Indirect taxes are highly efficient but tend to be regressive because the poor spend more of their income than wealthy people. Take the example of Jordan; indirect taxes, which account for 8 percent of GDP, increase the Gini Inequality Index by 0.5 points. The personal income tax is highly progressive, but it reduces inequality by only 0.1 points because it accounts for less than 1 percent of GDP (Rodriguez-Takeuchi and Wai-Poi 2021). Evidence from Morocco also shows that VATs are regressive and increase poverty (AFD 2020).

The focus on indirect rather than direct taxes is often based on the wrong arguments. MENA governments often wrongly blame the reliance on indirect taxes on the informal sector. Instead, the main problem is that tax systems are skewed toward richer people. Most Egyptians working in the informal sector should pay no income tax or a top marginal rate of 2.5 percent; and the top income tax bracket (25 percent) is very low according to international standards. In countries such as Jordan, there are good property registries, yet property taxes account for only 0.3 percent of GDP. Also, it is easier to collect taxes from corporations than individuals, yet Egypt's corporate income tax rate (22.5 percent) is

5 percentage points below the African average. Thus, there is ample room in MENA to collect more direct taxes from higher-income and wealthier individuals and corporations.³⁸

Bringing wealthy and high-net-worth individuals into the tax net may be one of the most progressive and effective ways to increase tax revenue in MENA. Offshoring of wealth by high-net-worth individuals, coupled with other forms of evasion, is an enormous loss of public revenue (Dom et al. 2022). This is particularly relevant in MENA. According to a lower-bound estimate (Alstad-sater, Johannesen, and Zucman 2018), the equivalent of 10 percent of world GDP is held as financial wealth in offshore tax havens outside the reach of national tax authorities. In MENA, it is estimated to be a staggering 40 percent of the region's GDP; at 15 percent, Latin America and the Caribbean comes in a distant second place.

Removing tax exemptions and improving tax administration can also increase tax revenue. Tunisia has been removing exemptions from VAT and rationalizing rates, as well as reducing tax evasion by increasing tax transparency, strengthening revenue data collection, and facilitating international exchange of information, which alone increased tax revenue by 54 percent (OECD 2019a). Those measures have helped Tunisia become the leading country in MENA in tax collection. Morocco has also strengthened tax administration by simplifying taxation and rationalizing tax exemptions, although exemptions from VAT and corporate tax remain, and it is

estimated that 1 percent of GDP is lost to tax evasion in Morocco (IMF 2022). Thus, efforts to remove exemptions, rationalize rates, and improve tax administration should continue in Morocco and elsewhere in MENA. In Jordan, eliminating general sales tax exemptions that unify rates for all items could raise an additional 5 percent of indirect taxes, which can be used to fund progressive expenditures to more than compensate for the small increase in poverty (0.2 points) (OECD 2019a).

Eliminating special tax regimes for small firms can increase tax revenue and remove barriers to productive job creation. Many MENA countries, such as Egypt, Morocco, and Tunisia, give favorable tax treatment to self-employed people and micro-firms in terms of lower income taxes and VAT exemptions. Although these special tax regimes tend to be well intended to bring small firms into the tax and social security systems, they help generate a productive structure dominated by small, low-productivity firms (Lopez-Acevedo et al. forthcoming) because they create disincentives for small firms to expand beyond the qualifying thresholds and help small, low-productivity firms survive. Operating at such small scale also reduces tax enforcement authorities' likelihood of catching firms that cheat the system, encouraging fraudulent behavior and informality.

³⁸ See, for example, the simulated impacts of an expanded income tax for in the West Bank and Gaza the top 10 percent of income earners in the West Bank and Gaza (currently are only paying only 1.1 percent of their income in income taxes) (World Bank forthcoming).

Support active aging

3.3.4

Active aging is central to maximizing the economic contribution of older people and making pensions more sustainable. Across MENA, people are living longer, healthier Lives, but most workers retire too early, when they are healthy and most productive. This results in considerable loss of potential productivity gains and is a significant drain on pension funds. MENA countries must support active aging, which requires adjusting the retirement age to reflect gains in life expectancy, eliminating incentives to retire early, and encouraging and supporting late retirement. Adjustments are also needed for two other sources of unsustainability and inefficiency in MENA's pension systems: accrual rates and the earnings history used for pension calculation. All these reforms must be well aligned and packaged with reforms to integrate pension systems and increase effective protection.

A growing number of countries have been implementing measures to support active aging. In the context of population aging, mobilizing the potential labor force more fully and sustaining high productivity at an older

age are critical. People are staying healthy until much later in life, and jobs are becoming more intensive in cognitive, nonroutine tasks that older people are more able to do, which is why most OECD countries are going beyond increasing retirement ages and eliminating incentives to early retirement to supporting active aging. Measures include financial incentives for older people to retire later (beyond the statutory retirement age) and ways to help them do so, including encouraging employers to retain and hire older workers and promoting the employability of workers throughout their working lives (OECD 2019b). There is evidence showing the benefits of hiring and retaining older workers and providing programs to encourage senior entrepreneurship. For example, mixed-age teams in the workplace are more productive than teams of workers of the same age (Zwick, Göbel, and Fries 2013). Working conditions should be adapted to the capacities and changes in circumstances of older workers.

Important lessons can be learned from parametric reform efforts in MENA. In most cases, they have been minor, ad hoc, and focused on short-term gains, which has had little impact on long-term sustainability of pensions and, in some cases, has created harm in other areas. For example, in 2017, Tunisia increased the retirement age by 2 years, but it also increased contribution rates, which were already among the highest in MENA. These measures generated only short-lived financial

gains at the cost of increasing the disincentive for firms to hire workers formally, undermining coverage. Recent reforms in Iraq increasing the minimum pension and decreasing the retirement age from 63 to 60 have undermined the financial position of pensions.

Although limited in scope, a few MENA countries have been implementing parametric reforms that go in the right direction. The 2019 reform in Egypt was the most ambitious of all. It included parametric reforms to improve financial sustainability, including increasing the retirement age and reducing incentives for early retirement (e.g., increased minimum years of service, larger benefit reduction factors). The reform also included some measures to improve effective protection (e.g., expanded scope of pensionable earnings, pension indexation to inflation), but it also reduced pension adequacy, as the valorization of earnings was linked to inflation instead of growth in average earnings. Morocco has also improved the financial position of its pension scheme for civil servants through a well-aligned, albeit limited, reform of benefits, contribution rates, and the retirement age. Jordan has also been making incremental changes to its social security law. In 2020, it increased the minimum early retirement age and minimum length of service required for retirement and applied higher reduction factors for early retirement pensions.³⁹ Recently approved reforms in Bahrain and Saudi Arabia also go in the right direction.



Moving toward an inclusive social protection system

3.4

Addressing labor market exclusion in MENA requires a vibrant private sector that generates more productive jobs. Growth resumed strongly in MENA in 2022 (by an estimated 5.7 percent, the highest rate in a decade) but was mostly driven by oil exporters, who enjoyed windfalls from high oil and gas prices and rising production. Growth is expected to decelerate to 3.5 percent in 2023 and 2.7 percent in 2024 as the global economy slows, financing becomes more expensive, and previous gains for oil exporters dissipate (World Bank 2023b). This will mean fewer jobs and more-limited fiscal space in oil-importing MENA countries for social protection and other development priorities. To accelerate growth and generate more productive employment, reforms are needed

to revitalize the private sector by increasing product market contestability.

Although there is no single reform path, there are some principles to guide sequencing of reforms to move toward an inclusive social protection system. Modern delivery systems are necessary to deliver social protection effectively and efficiently. They must be continuously upgraded and adjusted to the level of complexity of the social protection system. Although there is no single reform path (see Reform Journeys below), where the greatest needs are along the welfare-work distribution should be the main determinant of the level of complexity of the social protection system at each point in time (political economy considerations aside—see below).

1

Systems should be built to deliver income support to the poor and those who become poor. This is what Egypt and Jordan (and Iraq to a lesser extent) have done and continue to do (see Reform journeys below). Most other low- and middle-income MENA countries are moving in the right direction, but progress must be accelerated.

2

As that basic safety net becomes more widely available, support can be added to enhance opportunities for the poor to move out of poverty through the labor market. Although still incipient, the best example of that is Egypt.

3

That can be followed by reforms to provide access to sustainable (even if subsidized) social insurance protection and enhance the productivity of vulnerable informal workers with some capacity to save while making social pensions available to elderly adults who do not have sufficient savings to reach a minimum income level. This is a policy gap in most middle-income MENA countries

4

At the same time, existing mandatory-contribution social insurance programs can be reformed to increase protection of formal sector workers—including through UI—while ensuring financial sustainability and supporting labor market inclusion. Although some MENA countries are improving protections and adjusting parameters to make pensions more sustainable, none have approached social insurance reform holistically.

5

Labor regulations are also necessary to protect workers. More efforts should be made to ensure that they provide effective protection to all workers while avoiding placing a burden on businesses. Basic labor protections are largely in place, but legal restrictions on female employment remain in much of MENA, compliance tends to be weak, and dismissal costs and minimum wages are high.

³⁹ Because only new entrants are affected, no impact of these changes is expected for at least 20 years.

Upgrading social protection systems in MENA will require political support. The vision and reforms proposed in this report are a deviation from how MENA countries have traditionally thought about social protection as part of the social contract between the state and the people. MENA's social contract was built around the idea of *asabiyya* (solidarity between individuals) with the patronage of a just ruler (Krieg 2017). It translated into a commitment by governments to provide citizens with access to social services (health care, education), public sector jobs, and food and energy subsidies, all in exchange for citizens' political support and limited political participation. This contract has been weakened as citizens have grown dissatisfied with it, particularly since 2010. This is partly about the diminished ability of governments to deliver on their promise as public employment receded, the quality of services deteriorated, and some benefits were curtailed, but it is also about citizens becoming increasingly aware of the social contract benefiting a few at the expense of the majority,⁴⁰ the inequalities resulting from it, and dissatisfaction with government policies to address it, as well as citizens demanding more political participation.

Evidence from MENA and elsewhere suggests some principles to help gain political support for reform. Whether in response to fiscal constraints or citizen demands, this report shows that many MENA countries have been moving away from the social protection model embedded in the social contract (generalized subsidies, public sector employment) toward the type of social protection system advocated for in this report—at least some elements of it. Moving decisively and comprehensively toward that system will require political support, particularly for some of the more sensitive reforms regarding subsidies, pensions, and taxation, so that the new social protection system becomes an integral part of the renewed social contract. Experiences of MENA countries and others suggest principles that can be used to help gain support for reform, including vision and communication, packaging and sequencing of reforms, and political leadership and ownership of reform. These principles are illustrated below using examples of key reforms.

It is important for MENA governments to initiate a conversation with their citizens about the vision for social protection in the context of a renewed social contract, as well as the roadmap that can be followed to move toward that vision. That process can lead to a compact for social protection that includes measurable indicators of progress that people can monitor and hold governments accountable to. Such compact would put specific reforms in a larger context and facilitate communication about them.

Communication of sensitive reforms requires explaining the costs of keeping the

status quo, who benefits from it, and who benefits from reform. Communication regarding fuel subsidy reform in Jordan (2012) is a good example; the prime minister led a massive campaign to explain the risks to the economy of keeping fuel subsidies, the unequal way in which rich and poor households benefited from them, and how a temporary cash transfer program could mitigate the impact on vulnerable people.⁴¹ Good communication has also facilitated implementation of a reforms of social security in Jordan; the Social Security Corporation widely disseminated a set of publicly oriented materials to deliver a key message: the system is going bankrupt because of incentives, gaming, and evasion that benefit mainly a minority of high-income earners.⁴² That has translated into good public perception of social security in Jordan (Figure 31), but there is room to improve communication about other social protection policies. Although most Jordanians want to reduce inequality and criticize current policies, only a few can identify specific programs such as Takaful, despite its success.

Communicating the progressive nature of direct taxes increases compliance and support for reform. Lack of equity in taxation undermines the social contract. A sense that the wealthiest people in society do not pay their fair share can undermine compliance of taxpayers and weaken support for tax reform. By increasing efforts to tax wealthy people, governments may be able to build broad-based trust in the system, ultimately generating even greater revenue gains over time (Dom et al. 2022). A randomized experiment with more than 30,000 respondents from eight developing countries showed that people are more willing to pay taxes when they are told that taxes are progressive and less willing when told that they are regressive. Respondents for whom the information received was counter to their prior beliefs were the main drivers of these results, suggesting that communication of progressive tax reform can help gain public support for it (Hoy 2022).

Sequencing sensitive reforms and packaging them with compensatory measures increases the chance of success. Morocco's energy subsidy reform is a good example of a well-sequenced reform that allowed markets and individuals to adjust to higher prices. The government announced in 2013 an automatic mechanism for partial fuel price indexation, followed by full indexation in 2014 and full liberalization of prices by the end of 2015. The government also recently announced an ambitious social protection reform agenda. Although the full details are yet to be developed, the reform package includes improvements in health insurance, pensions, UI, and family allowances and reform of food subsidies to finance the expansion of family allowances. Indonesia provides a good example of sequencing and packaging of hard reforms; temporary cash transfers and the

“It is important for MENA governments to initiate a conversation with their citizens about the vision for social protection in the context of a renewed social contract, as well as the roadmap that can be followed to move toward that vision”

⁴⁰ Hertog (2023) argues that the coalition between a big state and firms and workers benefiting from its policies (insiders) is behind the low dynamism of developing Arab economies and resistance to change.

⁴¹ See Inchauste and Victor (2017) for details on Jordan's experience and, more generally, lessons from international experience on the political economy of energy subsidy reform.

⁴² For example, the use of the “Olive Tree Analogy” sparked public debate. The analogy focuses on the consequences of misusing olive trees by not limiting the use to reaping the fruits but using the wood for heating and other purposes. Although such behavior maximizes today's benefits, it will prevent coming generations from benefiting tomorrow.

⁴³ World Bank Statistical Capacity Indicator, <https://datatopics.worldbank.org/statisticalcapacity/>.

introduction of a new conditional cash transfer program for poor families accompanied removal of fuel subsidies in 2005. Between 2016 and 2020, Indonesia gradually replaced the inefficient rice subsidy program with a modern, better-targeted voucher program that enhanced benefits to poor households (Holmemo et al. 2020).

Packaging taxation with other compensatory measures is important. Raising taxes is rarely popular, but showing that the money will be used for purposes that society values can ease the path of reform. Brazil introduced a tax on financial transactions to cover the cost of its conditional cash transfer and other non-contributory social protection programs (Chowdhury 2016). Colombia's 2019 tax reforms, which included reductions in VAT exemptions, were packaged with compensatory cash transfers (Londono-Velez and Querebin 2022).

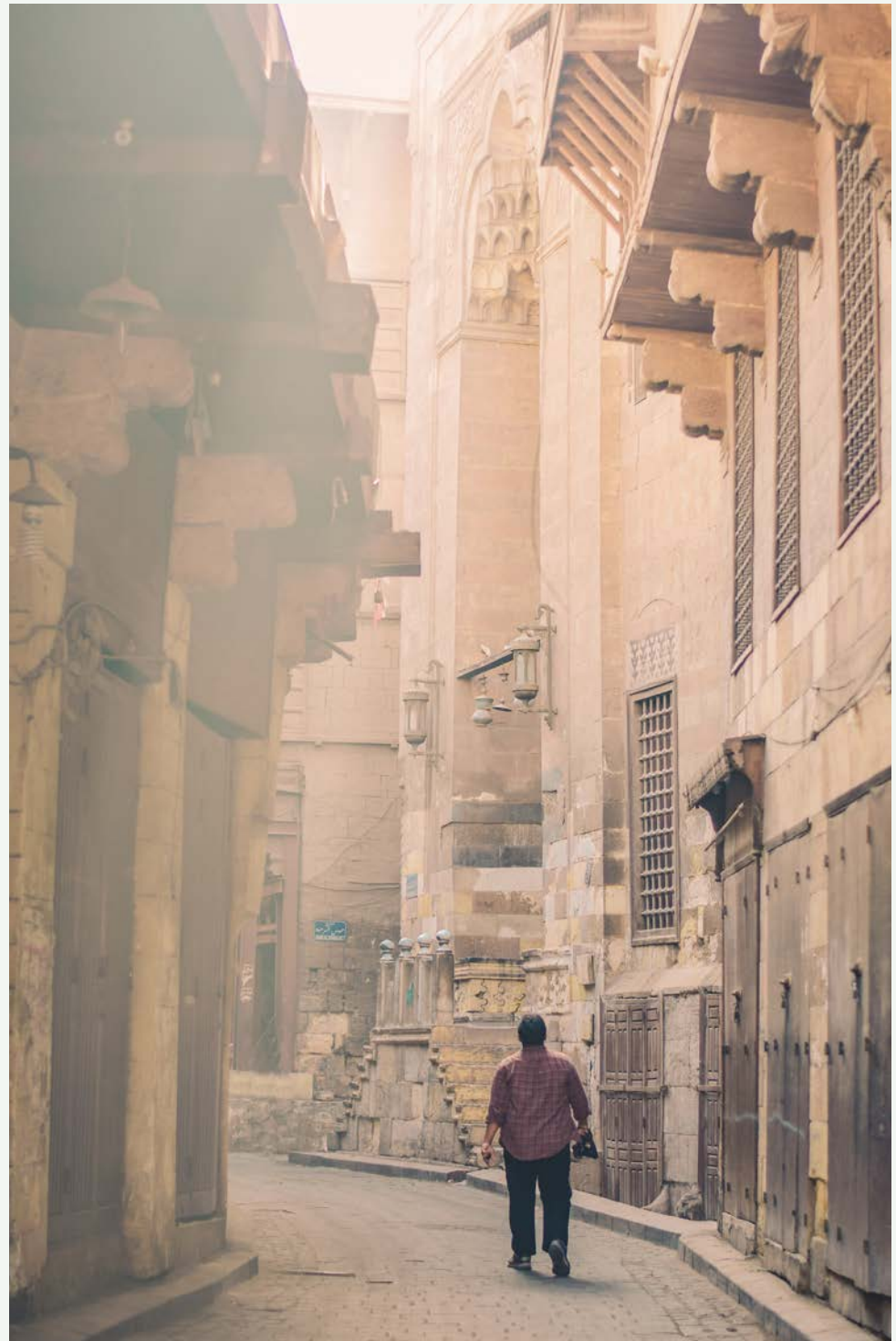
Packaging of reforms is particularly appropriate for pensions. Attempts to undertake parametric reforms often fail because they are typically put forward alone and perceived as failure of the state to fulfill promises because of fiscal constraints as populations age. Thus, in addition to communication and education, it becomes crucial to establish parametric reform as part of a larger old-age reform package that includes measures to support active aging and enhance old-age protection. Also, people are more willing to join social insurance schemes when they can also use them to address short-term shocks such as unemployment, income loss, and emergency health care and education expenditures, which is why access to UI is so important. VSSs should be designed to address these risks, and people should be able to withdraw some social security funds to respond to emergencies.

Leadership and continuous ownership are essential elements of successful reforms. Big reforms typically need a strong leader and government to be initiated and continuous ownership to be carried forward, adjusting as needed and informed by evidence. These features are well illustrated in Brazil's *Bolsa Familia* program. In 2003, the federal government merged four cash transfer programs into one conditional cash transfer program, *Bolsa Familia*, to increase the impact on the poor and efficiency. This program benefited from rigorous evidence of what does and does not work with Brazil's own cash transfer programs and Mexico's cash transfer program (now called *Mexico Prospera*). *Bolsa Familia* was launched under the leadership of President Lula da Silva, who made it his administration's flagship program to reduce poverty and inequality. The program continued through Presidents Dilma Rousseff and Jair Bolsonaro, who renamed it *Auxilio Brasil* and significantly expanded coverage and benefits after unanimous approval from parliament. Throughout the years, the program's impact

has been rigorously evaluated, reinforcing its national and global status as best practice and informing its expansion.

Better data and transparency must be provided to support social protection reform. As the example of Brazil with *Bolsa Familia* shows, good data and transparency are key to informing policy reform and ensuring political support for it, yet rigorous evaluation of social protection programs in MENA is rare, with the evaluation of TKP being one of few

exceptions. Labor force and household survey data are key to analyzing labor market exclusion, poverty and vulnerability, and the benefit incidence of major social protection programs, yet these surveys are widely unavailable, inaccessible to researchers, or outdated in several MENA countries. Also, program administrative data are often limited and difficult to access. MENA has the lowest statistical capacity of all regions around the world, and it has declined since 2005.⁴³





“There is no single reform path but the reform journeys of some countries in the region illustrate how it could look like”

S

ome guiding principles can be followed to move toward a more inclusive social protection system. Modern delivery systems are critical and should be fit to the level of complexity of the social protection system, which should ideally be mainly determined by where the greatest needs are along the welfare-work distribution. Therefore, systems should first be built to deliver income support to the poor and then to support access to opportunities for them to move out of poverty through the labor market, followed by reforms to provide access to sustainable social insurance protection and enhance productivity of vulnerable informal workers with some capacity to save. In parallel, existing mandatory-contribution social insurance programs can be reformed to increase protection of formal sector workers while ensuring financial sustainability and supporting labor market inclusion. Labor regulations are also crucial, but increasing efforts must be made to ensure that they are applied and do not place a burden on businesses.

There is no single reform path. The examples below illustrate the reform journeys of some countries in the region that have been at the forefront of reform in recent years. They are not presented as best practices but rather to illustrate the different entry points and paths that some proreform MENA countries have adopted, as well as the unfinished reform agenda. To various degrees, Egypt, Jordan, and Morocco have used subsidy reforms as entry points for reforming their social protection systems, built solid delivery systems to provide income support and access to opportunities to an expanding number of poor and vulnerable households, and introduced parametric reforms of public pensions while still struggling with limited coverage and protection of informal workers. Saudi Arabia has developed a sophisticated safety net system for the poor and the unemployed, is at the forefront of reforms in MENA to reduce legal restrictions on women's employment, and has embarked on an ambitious pension reform process, but it is struggling with restrictions on and limited protection of foreign workers.

The removal of energy subsidies between 2014 and 2016 marked a turning point for social protection in Egypt. The reform momentum and savings that the reform generated helped launch TKP in 2015. Takaful provides benefits to poor families with children (0-18) conditional on school attendance and health visits for beneficiary mothers and children. Karama provides benefits to the elderly poor, poor orphans, and poor people with disabilities, replacing a social pension. Expansion of the program has enabled coverage to increase from 21 percent to 50 percent of the poor population. Benefits are distributed digitally through debit cards that can be used for purchases. Several impact evaluations have informed the expansion of and improvements in the program, more so than any other social program in MENA.

A modern delivery system was built around TKP and linked to the Unified National Registry, the largest social registry in MENA, covering the entire population. The TKP registry, which covers about 30 percent of the population, is being used to provide complementary human capital support to TKP beneficiaries and was used in 2019 to introduce an economic inclusion program called FORSA (the largest such initiative in MENA); a housing initiative in 2017; and more recently, a comprehensive village development initiative (*Hayat Kareema*).

Despite being significantly less cost-effective in reducing poverty and inequality, Egypt's quasi-universal food subsidy program far outspends TKP to remain the largest social assistance program in the country. The program provides subsidized baladi bread and food rations to more than 90 percent of the

population. The program has been reformed to increase efficiency, including by replacing subsidies of inputs to bread with subsidies of bread itself and by introducing smart cards. There have been limited efforts to reduce the benefit for the richest households. Egypt can no longer afford to keep the food subsidy program in its current form, particularly given high food prices, tight fiscal space, and high borrowing costs. It could consider converting all in-kind subsidies to cash and using the Unified National Registry to recalibrate benefits to give more to poor households and less to wealthy households and then gradually removing subsidies for wealthy households; savings could be used to expand programs such as TKP and FORSA.

The 2019 Social Security Law marked a significant milestone in Egypt's social insurance system—possibly the most ambitious reform effort in the region so far. The law consolidated administration of the social security system, unifying a fragmented set of social insurance schemes under one framework. It included parametric reforms to increase financial sustainability, including increasing the retirement age and reducing incentives for early retirement (e.g., by increasing minimum years of service and benefit reduction factors). The reform also included measures to improve effective protection (e.g., expand the scope of pensionable earnings, pension indexation to inflation, a new complementary defined contribution scheme with individual savings accounts), but it also reduced pension adequacy, as the valorization of earnings was linked to inflation instead of growth in average earnings. Additional reforms are under discussion to increase the adequacy of pensions and extend coverage of social insurance to informal workers; a defined-contribution VSS could be considered as an option.



An important recent milestone that Jordan reached in its social protection reform journey was removal of fuel subsidies in 2012, accompanied by a temporary compensation scheme, along with a first attempt at building a social registry around it, but savings from the subsidy removal were not used to expand programs for poor and vulnerable people, which continued to be small and mostly channeled through the NAF monthly cash transfer program.

Takaful was launched in 2019 to expand income support for the poor. Takaful continued to expand, and by 2021, it had tripled coverage of cash transfers to 62 percent of the poor, despite less than doubling the number of beneficiaries. Ongoing consolidation of the NAF monthly cash transfer program into Takaful, now called Unified Cash Transfer, is expected to increase coverage to 71 percent of the poor

population at no additional cost—thanks to Takaful’s superior poverty targeting.

Reform of bread subsidies facilitated expansion of Takaful. The universal in-kind bread subsidy was replaced in 2018 with a small cash benefit, removing the richest 20 percent of the population and giving slightly higher benefits to NAF beneficiaries. The program was discontinued in 2021 as the government continued to expand Takaful and had to finance the response to COVID-19.

The state-of-the-art delivery platform that was built around Takaful was pivotal to the COVID-19 response and set the basis for the National Unified Registry. The shock-responsive features of the Takaful delivery, including a social registry that covered more than 70 percent of the Jordanian population and digital payments (mostly through e-wallets), facilitated the largest (in terms of coverage), best-targeted, fastest response to COVID-19

in MENA. The Takaful platform was used in 2019 to provide some complementary services to poor and vulnerable households, including health insurance, and is being used as the basis for developing the National Unified Registry, an integrated system for all social assistance programs that will be used to bundle income support with human capital investments and economic inclusion support to poor and vulnerable people.

The labor and economic inclusion agenda is new but moving in the right direction. The Economic Empowerment Strategy lays out the approach to providing economic inclusion support to poor and vulnerable people and employment support to job seekers in general. A platform (Sajjil) has been built to match job seekers to vacancies and refer them to appropriate employment programs based on statistical profiling. Sajjil is being used to implement the National Employment Program, and Takaful beneficiaries are being prioritized for support using interoperability between Sajjil and the Takaful platform.

Jordan’s social insurance reform journey started with the integration of public and private pension schemes in 1995 (for new civil servants) and 2003 (for new members of the military). The 2014 Social Security Law introduced new protections—UI, maternity, and inclusion of self-employed workers—and some parametric adjustments to increase the financial sustainability of pensions. Subsequent amendments to the law introduced more parametric adjustments, including more recently (2020) the increase in the minimum retirement age and the reduction factors applied to early retirement. Also, in an effort to attract self-employed workers, alternative regimes (with lower contributions but also lower benefits) are now offered to self-employed workers.

Efforts to bring informal workers into mandatory social insurance programs have had limited success. A defined-contribution VSS is under consideration. Such a scheme would protect informal workers while being a bridge to mandatory schemes and could provide additional benefits to those already contributing to mandatory schemes. Also, bolder parametric adjustments are needed to ensure the financial sustainability of pensions, along with support of active aging. Although UI is available, and partial withdrawal is possible from virtual individual accounts for short-term emergencies, eligibility could be eased and job search incentives increased.



Morocco has been providing income support and health insurance to an expanding but still limited share of poor families. *Tayssir* provides cash transfers to poor families with children conditional on school attendance. It was piloted in 2008 and has been expanding in recent times but still covered only approximately 6 percent of the population in 2022. There is room to improve targeting of the poor. The Régime d'Assistance Médicale (RAMED), a subsidized health insurance scheme for poor and vulnerable people, was piloted in 2008 and expanded nationally in 2012 as part of the effort to achieve universal health coverage. By the end of 2022, RAMED covered about 27 percent of the population.

Morocco has been developing an integrated delivery system for social assistance since 2017. The Unified Social Registry will serve as a single point of entry and registration for all applicants for social programs and be used to cross-check information, assess needs using a common targeting method, and refer applicants to qualifying social programs. A better method to target poor and vulnerable households has also been developed and approved. The Unified Social Registry is operational and will be used to expand income support and health insurance to poor households.

Coverage of pensions and UI has been low because most workers are informal, and reform efforts have been limited until recently. There have been reforms to harmonize the two public pension schemes (for civil servants and employees of public companies) and increase their financial sustainability. The private sector scheme has been limited to salaried workers and not recently subject to any significant reform, although in 2022, a new scheme for self-employed workers was introduced.

In 2020, the government embarked on an ambitious social protection reform program, which is to be completed by the end of 2025 and has four pillars: universalize health insurance coverage around the Assurance Maladie Obligatoire (AMO); universalize the family allowance program, which currently provides income support to children of formal salaried workers and is financed in part by employer contributions; expand coverage of pensions and increase their financial sustainability; and expand UI. The National Social Security Fund will manage all programs except public sector pensions. The four pillars are in different stages of development, but they signal a

strong commitment to reforming the social protection system to make it more inclusive and sustainable.

Expansion of income support and health insurance will be financed through a combination of budget-financed subsidies and contributions. The reformed AMO also includes self-employed workers, sets insurance premiums for 30 different professions, and extends coverage to the non-working spouses and children of workers. RAMED will be replaced by a new sub-program under AMO called TADAMON, which will pay premiums for the poorest 27.5 percent of the population. For family allowances, although the details have not been worked out, the logic is the same: benefits will be fully subsidized for poor households and partly financed through contributions for everybody else. The government plans to finance all subsidies through the reform of generalized flour and sugar sub-

sidies, which garnered almost 0.3 percent of GDP each in 2022.

Pension reform began with introduction of a new scheme for self-employed people in 2022. As with AMO, different contribution rates are established for different professions, and contributions are translated into pension rights using a point system. Contributions are voluntary until 2025, when they will become mandatory. One challenge for this new scheme is ensuring that point-based benefits are adequate. Another challenge is attracting informal workers with limited capacity to save to the program. A possible solution is to introduce matching contributions for these workers. It may be too soon to make the scheme mandatory by 2025; informal incomes are often irregular and unpredictable, and it may take some time for informal workers to gain confidence in the program.



Saudi Arabia

3.5.4

Saudi Arabia has made significant reforms to its social protection system in recent years. Much of it was kick-started following the launch of Vision 2030 in 2016. A vision for social protection and evidence-based reforms to realize it—covering social assistance, pensions, labor and migration—were put forward by an inter-government social protection task force.

The protection and economic inclusion support to the poor have been significantly enhanced. In 2017, the government linked the

beneficiaries of the social assistance program (Damman) to a labor activation program (Tamkeen). Damman beneficiaries that are ready to enter the labor market can receive job search assistance or business start-up support (for those with capacity to start a business), while skills training is offered to beneficiaries that need support before entering the labor market. To this day, 160,000 beneficiaries have found jobs and 35,000 started a business. Also, a Guaranteed Minimum Income (GMI) program was established in 2021—the first and only such program in MENA, targeting Damman beneficiaries who live below

the poverty line. Benefits are calibrated to the gap between household welfare, measured through a hybrid means-test, and the poverty line. To minimize work disincentives, benefits are reduced—but not discontinued—once households start earning an income.

The pension system has also been undergoing important reforms. In 2021, civil service pensions law was amended to introduce parametric reforms to increase sustainability, and the administrators of public and private pensions—the Public Pension Agency (PPA) and the General Organization of Social Infrastructure (GOSI)—were merged.

Saudi Arabia has been at the forefront of reforms to reduce legal restrictions to women's employment in MENA. Over the period 2017-18, the government removed restrictions to free movement of women, abolished the guardianship law, prohibited the dismissal of pregnant women, equalized pay regulations and access to financial services, criminalized sexual harassment and expanded maternity leave. In 2018, the government began to provide transportation subsidies to working women through an active labor market program called Wusool as well as childcare subsidies through another program called Qurrah. Although much remains to be done, these reforms have contributed to a remarkable increase in women's labor force participation between 2016 (21 percent) and the third quarter of 2023 (37 percent).

Labor market reforms have been introduced to assist new entrants and the long-term unemployed. In 2018, the government began to provide recent school graduates with on-the-job training support through a wage subsidy program called Tamheer, and it introduced three new types of work modes: a flexible hourly work contract called "MRN"; certificates for freelancers, including gig economy workers; and telework contracts that allow remote work. An unemployment assistance program (Hafiz) was reformed in 2021, providing non-contributory, income-tested assistance for up to 15 months to new graduates and people who have been out of the labor force for at least two years—including women re-entering the labor market after childbirth. The benefit is scaled down over the receipt period to incentivize job search. Although significant restrictions on foreign workers remain, the employer-sponsored khafala system was abandoned in 2021, allowing migrant workers to freely choose their employers one year after arrival in the country and completion of the original contract.



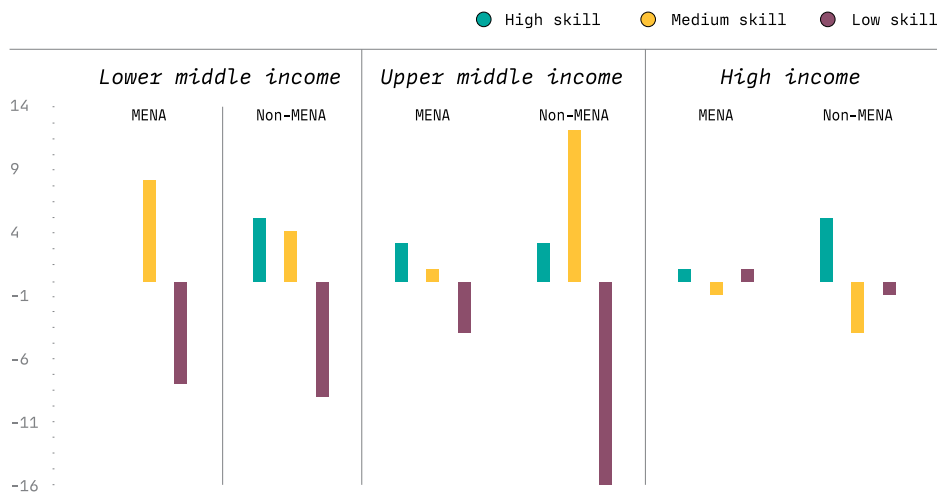
Annex

FIG.

A1

MENA is growing its high-skill occupations much less than its income peers

Change in the share of occupations between 2000 and 2018, by occupation type, percentage points



Note: High-skill occupations include managers, professionals, associate professionals, and technicians. Medium-skill occupations include clerical support workers; service and sales workers; craft and related trades workers; plant and machine operators and assemblers; and skilled agricultural, forestry, and fishery workers. Low-skill workers include elementary occupations.

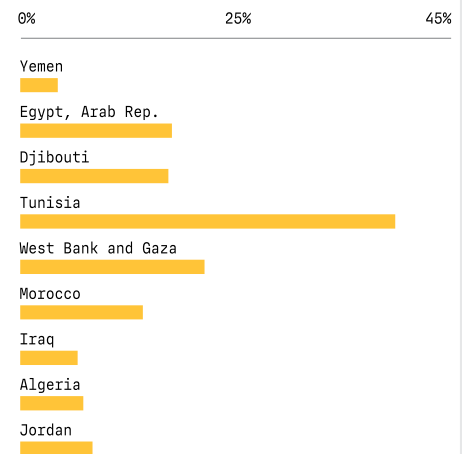
Source: ILO (2022).

FIG.

A2

Adequacy of regular cash transfer benefits is relatively low

Cash benefits per capita as a percentage of relevant international poverty line for each country



Source: Gentilini 2022; World Bank 2022g

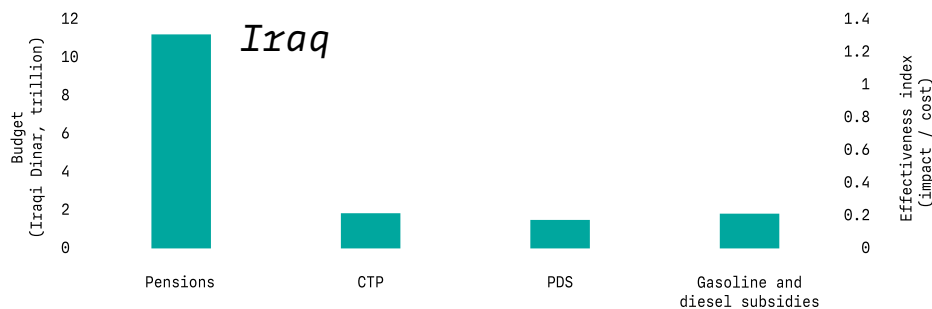
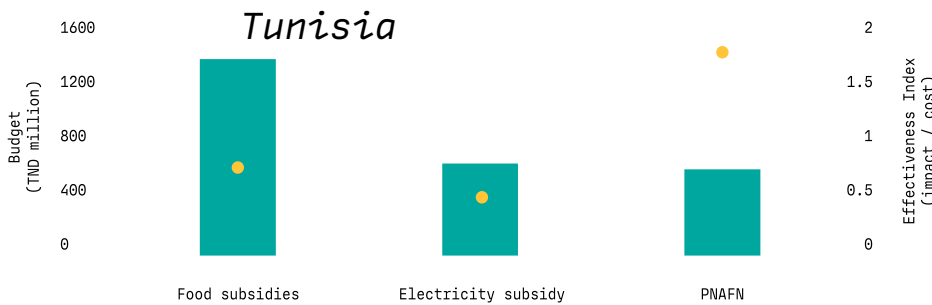
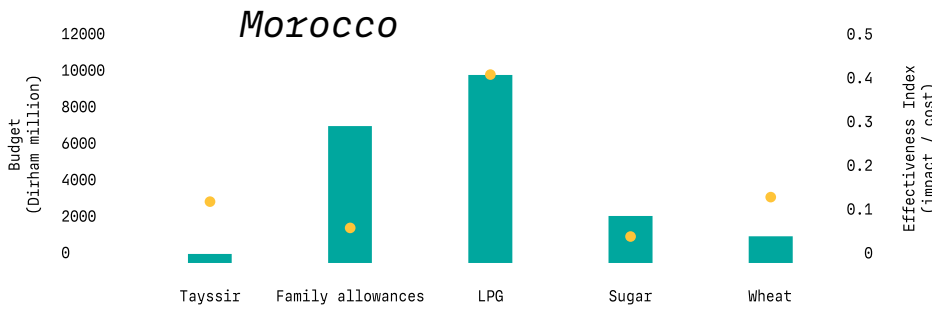
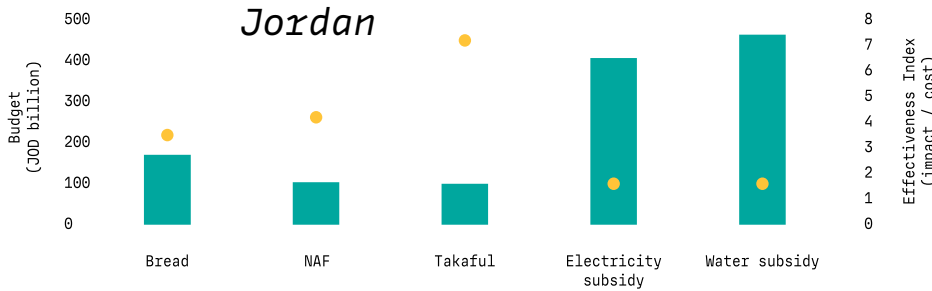
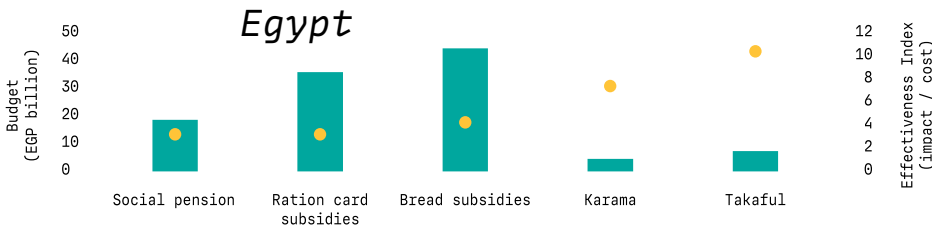
FIG.

A3

Targeted cash transfers are more cost-effective than generalized subsidies

Budget in local currency units (blue bars) and cost effectiveness (orange dots) in reducing poverty, most recent year

● Budget ● Effectiveness Index



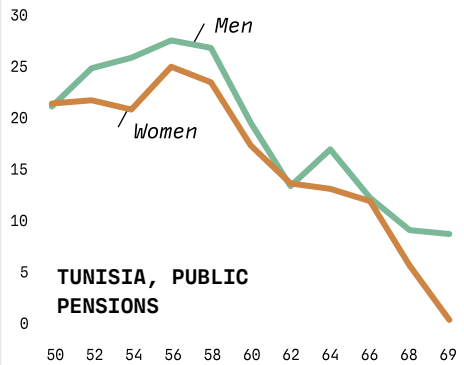
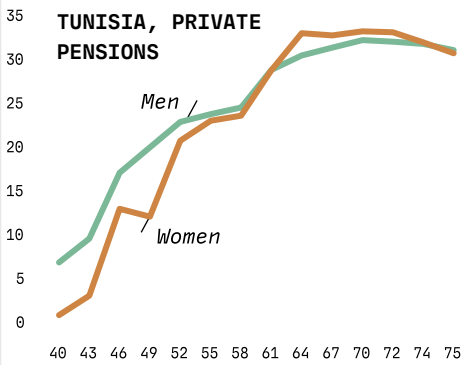
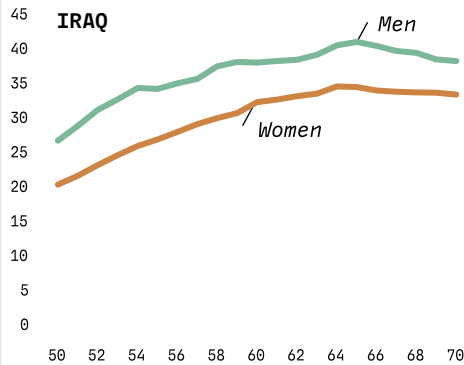
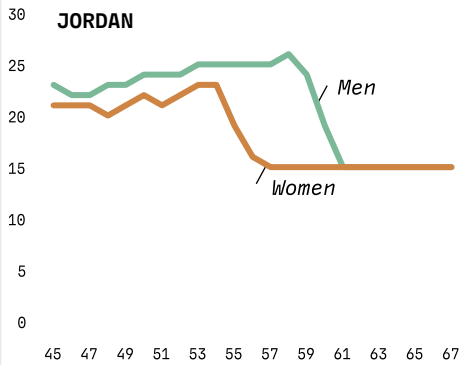
Note: National Aid Fund (NAF, Jordan); Liquid Petroleum Gas (LPG), Public distribution system (PDS, Iraq), Cash Transfer Program (CTP, Iraq). Programme National d'Aide aux Familles Nécessiteuses (PNAFN, Tunisia).

Source: AFD (2020), World Bank (forthcoming).

FIG. A4

Workers contribute to pensions for a portion of their working lives

Average number of contributory years at the time of retirement, by retirement age



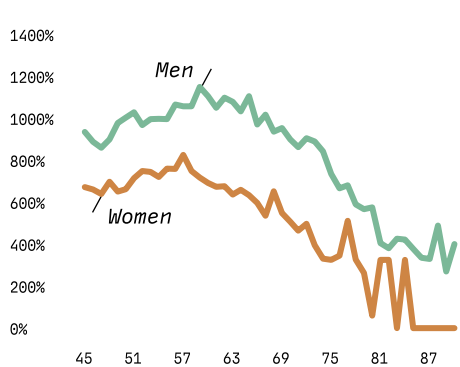
Source: Pallares-Miralles (forthcoming).

FIG. A5

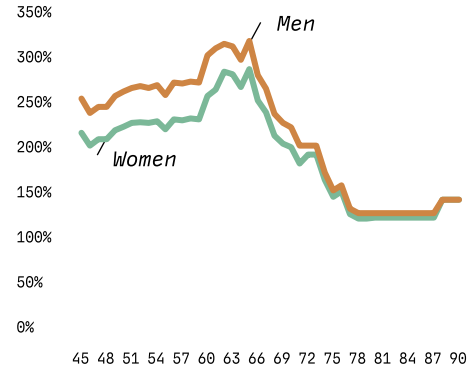
Older pensioners tend to have much lower benefits than younger pensioners

Average pension benefit as a percentage of the minimum wage, by age and sex, percentage

JORDAN



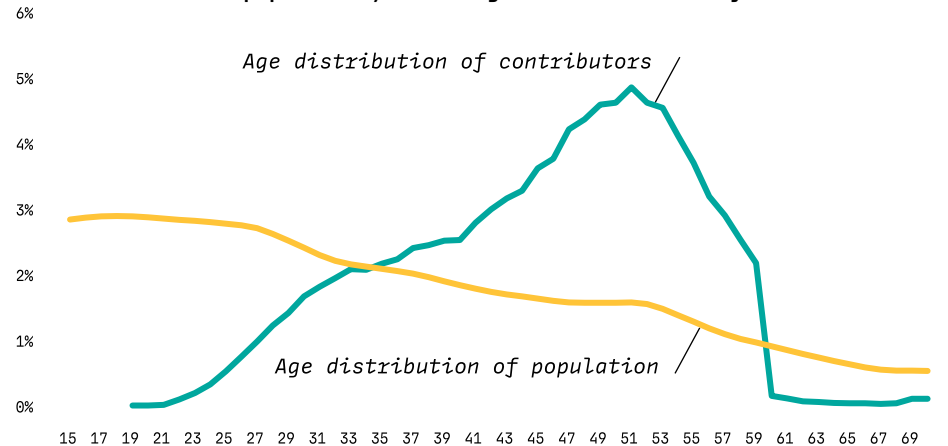
EGYPT



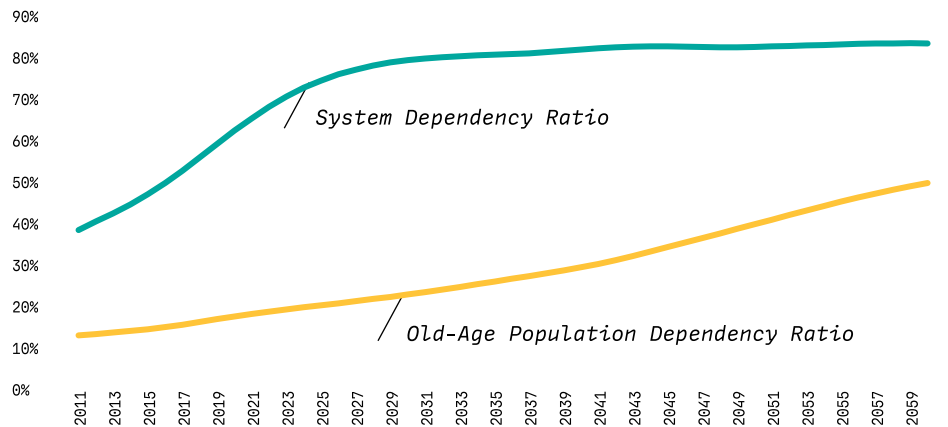
Source: Pallares-Miralles (forthcoming).

FIG. A6

Pensions systems look much 'older' than the population, creating deficits too early



B. ...that is making pensions systems look much older than the population (System and population dependency ratios in Morocco, percentages)



Note: System dependency ratio is the ratio of pensioners to contributors; population dependency ratio is the ratio of the population aged 15 to 64 to the population aged 65 and older.

Source: Pallares-Miralles (forthcoming).

TAB.

A1

Most pension systems in MENA are fragmented

	Mandatory pension schemes and institutions	Current status
Algeria	5 institutions; 3 schemes	Public and private sector employees covered under same scheme and institution, but self-employed people and members of military covered under separate institutions
Bahrain	1 institution; 2 schemes	Assets merged into single fund; royal decree harmonizing rules yet to be implemented
Djibouti	1 institution; 2 schemes	Partially integrated
Egypt	1 institution; 1 scheme	Law passed in 2019 to consolidate administration and unify parameters of two previously separate funds for public and private sector employees
Iran	2 institutions; 18 schemes	Various categories of public and military personal, rural sector, etc. covered under separate schemes
Iraq	2 institutions; 2 schemes	Integration under consideration
Jordan	1 institution; 1 scheme (2 old schemes phasing out)	Fully integrated system
Kuwait	1 institution; 1 scheme	Fully integrated system
Lebanon	1 institution; schemes	Military and civil servants covered
Libya	1 institution; 1 scheme	Fully integrated system
Malta	1 institution; 1 scheme	Fully integrated system
Morocco	3 institutions; 3 schemes	Two public schemes and institutions being integrated
Oman	10 institutions; 11 schemes	Merger of all funds under consideration
Qatar	1 institution; 2 schemes (1 old scheme phasing out)	Public and private sector employees covered under same scheme and institution with slightly different rules
Saudi Arabia	1 institution; 3 schemes	Institutions for public and private sector pensions merged in 2001 (join assets), but schemes have slightly different rules
Tunisia	2 institutions; 7 schemes	No discussions on integration or harmonization of rules
United Arab Emirates	2 institutions; 2 schemes	Abu Dhabi, Dubai, and others have separate schemes (public and private sector employees are covered by same scheme)
West Bank and Gaza	1 institution; 4 schemes (3 old schemes phasing out)	Public sector and security service employees covered
Yemen	3 institutions; 3 schemes	Public, private, and military are covered under different schemes

Source: Pallares-Miralles (forthcoming)

FIG.

A7

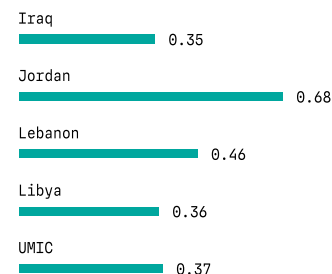
Minimum wages are relatively high in a few MENA countries

Ratio of statutory minimum wage to the value-added per worker, latest year

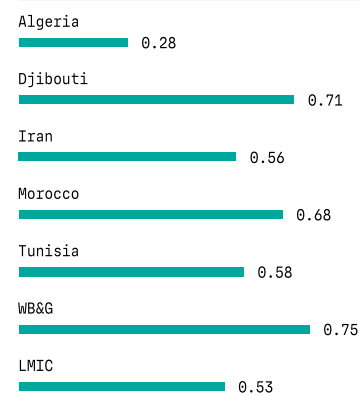
High income



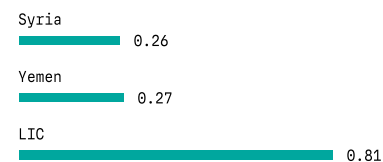
Upper middle income



Lower middle income



Lower income



Source: World Bank Employing Workers 2020 database: <https://www.worldbank.org/en/research/employing-workers>.

FIG.

A8

Most people in MENA want more redistribution

Preference for redistribution index, scale 1-10, 2017-2020

Egypt
6.36

Iran
5.51

Iraq
4.69

Jordan
5.54

Lebanon
5.66

Tunisia
6.07

Note: Following Diwan, Tzannatos and Akin (2018), the preference for redistribution index is the average of the answers to two questions in the World Values Survey that are scaled between 1 and 10: "We need larger income differences as incentives for individual effort" (1) vs. "Incomes should be made more equal" (10); and "People should take more responsibility to provide for themselves" (1) vs. "Government should take more responsibility to ensure that everyone is provided for" (10).

Source: Haerpfer et al. (2022).

TAB.

A2

Developing oil-exporting MENA countries are running out fiscal space

	Fiscal balance				Public debt			
	%GDP							
	2019	2020	2021	2022a	2019	2020	2021	2022a
Gulf Cooperation Council								
<i>Bahrain</i>	-9	-17.7	-11.3	-3.3				
<i>Kuwait</i>	-11.1	-31.2	-9.6	2.2	11.6	11.7	8.7	5.3
<i>Oman</i>	-5.0	-16.4	-3.3	5.4	53.3	71.0	63.2	42.7
<i>Qatar</i>	1.0	-2.1	0.2	8.4				
<i>Saudi Arabia</i>	-4.6	-11.5	-2.4	2.6	23.0	34.0	30.8	25.7
<i>United Arab Emirates</i>	0.4	-5.2	0.3	7.4				
Developing oil exporters								
<i>Algeria</i>	-9.6	-12	-7.2	-0.9	45.5	52.1	63.0	51.8
<i>Iran</i>	-4.5	-5.8	-5.3	-2.3	42.7	44.7	40.8	38.0
<i>Iraq</i>	1.3	-5.8	4.0	12.5	44.7	64.7	53.2	57.5
<i>Libya</i>	1.7	-64.4	10.6	2.5	106.7	238.2	87.0	70.4
<i>Syria</i>	-8.1	-8.4	-7.5	-9.3				
<i>Yemen</i>	-5.9	-4.8	-2.2	-2.2				
Developing oil importers								
<i>Djibouti</i>	-0.9	-1.7	-3.3	-1.5	70.3	75.9	71.7	71.8
<i>Egypt</i>	-8.1	-7.9	-7.4	-6.2	90.2	87.0	92.4	88.3
<i>Jordan</i>	-4.9	-7.3	-6.4	-5.4	97.4	109.0	113.7	114.1
<i>Lebanon</i>	-10.5	-3.3	0.7	0.3	171.1	179.2	172.5	162.6
<i>Morocco</i>	-3.7	-7.1	-5.9	-5.1	60.3	72.2	68.9	69.4
<i>West Bank and Gaza</i>	-7.5	-7.5	-5.7	-1.8	39.5	53.9	54.9	52.6
<i>Tunisia</i>	-2.8	-8.6	-7.2	-6.6	68.0	77.8	82.4	79.3

Source: World Bank (2023c).

a=Estimated.

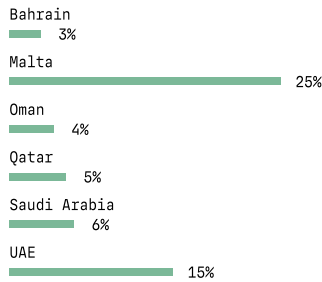
FIG.

A9

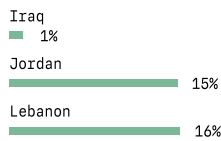
Most MENA countries still collect little in taxes and rely too heavily on indirect levies

A. Tax revenue as a percentage of GDP, 2019

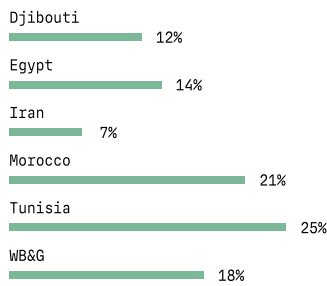
High income



Upper middle income



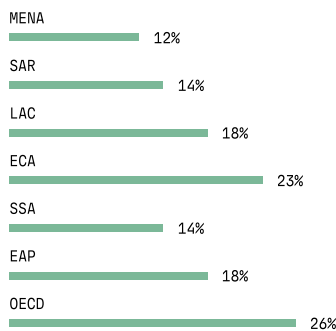
Lower middle income



Lower income



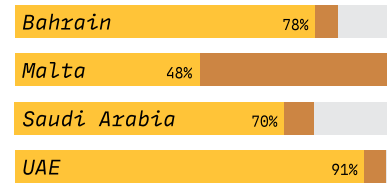
Regions



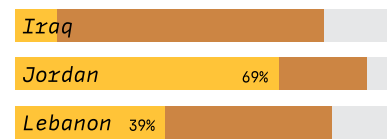
B. Composition of tax revenue, 2019

● Indirect taxes ● Direct ○ Other

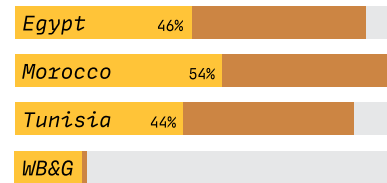
High income



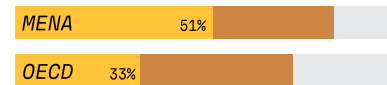
Upper middle income



Lower middle income



Regions



Note: Indirect taxes: taxes on good and services; direct taxes: taxes on income, profits, capital gains, and property.

Source: IMF (2022b).

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