PROVIDING FISCAL SPACE FOR SOCIAL PROTECTION – A SUMMARY OF ISSUES

Expert Group Meeting on
"Inclusive Social Development in the Arab Region"

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Economic And Social Commission For Western Asia

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OUTLINE

1. Mapping fiscal space

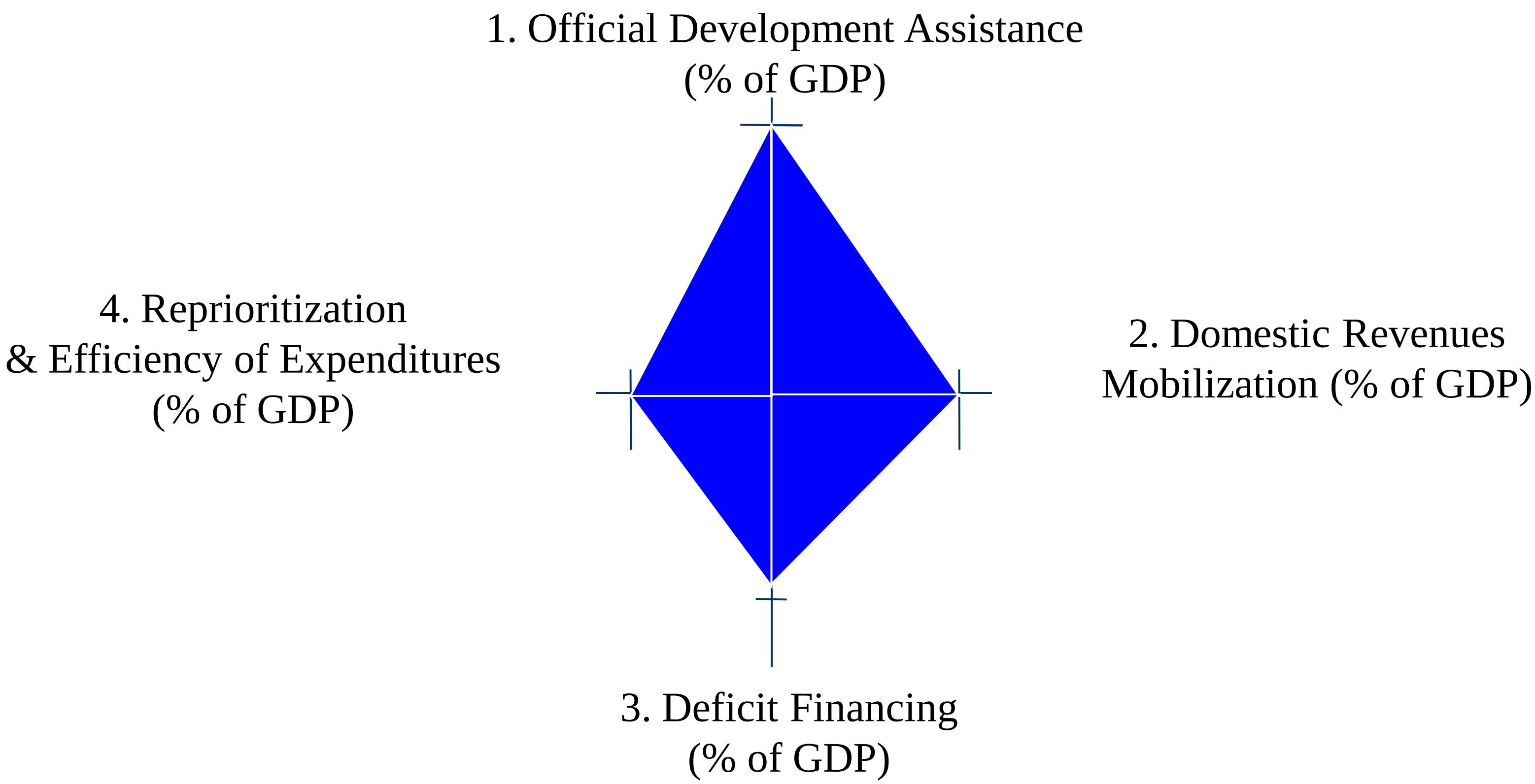
2. Fiscal space for Arab region in the current situation

3. Labor market outcomes in recent decades

4. Assessing fiscal space for basic social protection package

5. Summary

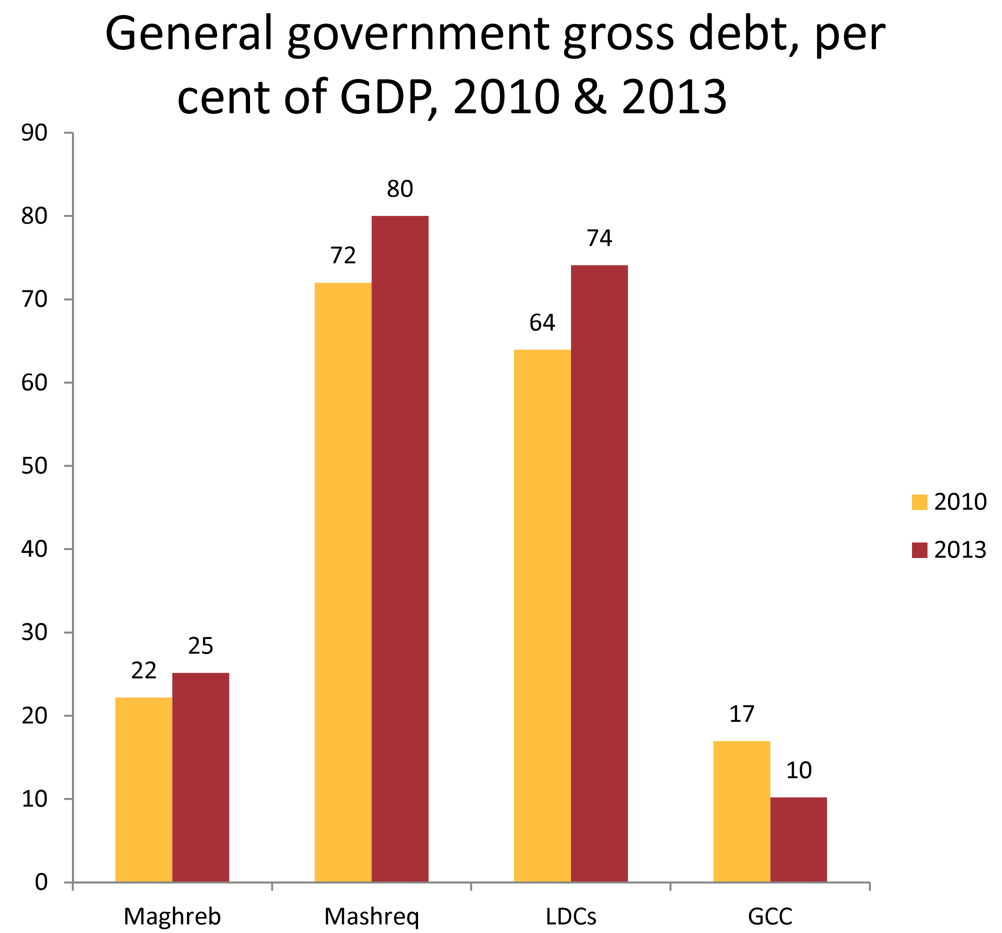
1. Fiscal space – An illustration of the Fiscal Space Diamond



Source: ESCWA 2013

2. Fiscal space in middle-income countries and LDCs is more constrained after 2010 : High and increasing debt levels

- Some middle-income countries are above the 60 per cent debt-to-GDP threshold for debt sustainability
- All LDCs are above the 40 per cent debt-to-GDP threshold for debt sustainability
- Lebanon's debt to GDP ratio is at 141.3%, followed by Sudan at 102.9%. Egypt and Jordan also have levels above 80%.
- GCC countries have ample fiscal space, but the situation in other countries is more delicate



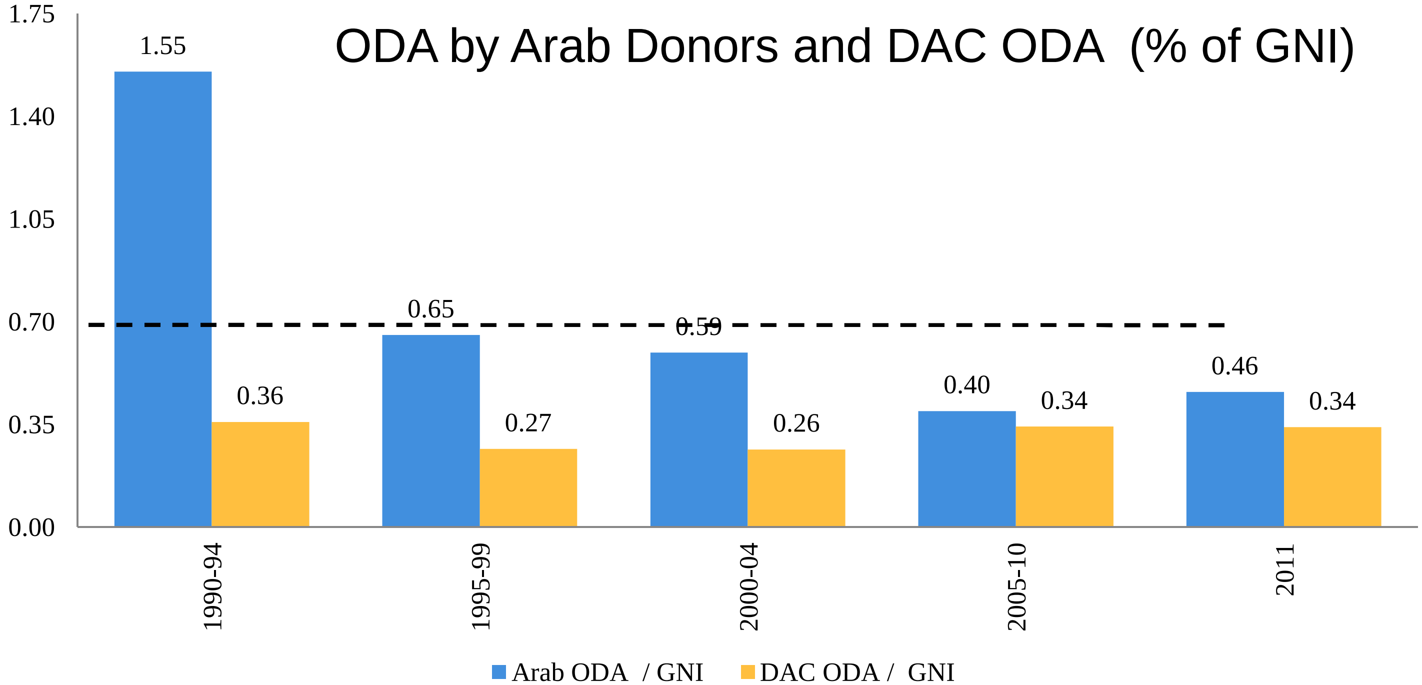
Source: ESCWA calculations based on data from WEO 2014.

2. ODA shortfalls from commitment

ODA to the region has decreased substantially.

Arab donors are still more generous than OECD-DAC countries.

ODA by Arab Donors and DAC ODA (% of GNI)



Source: UN-LAS Arab MDG Report 2013

2. Poor tax revenue mobilization

Country	Bahrain	Egypt	Jordan	Kuwait	Lebanon	Morocco	Oman	Qatar	Sudan	Syria	Tunisia	UAE	Yemen
Tax revenue (% of GDP)	1.1	13.2	15.3	0.7	15.6	24.5	2.6	14.7	6.4	14.4	20.8	0.4	9.2

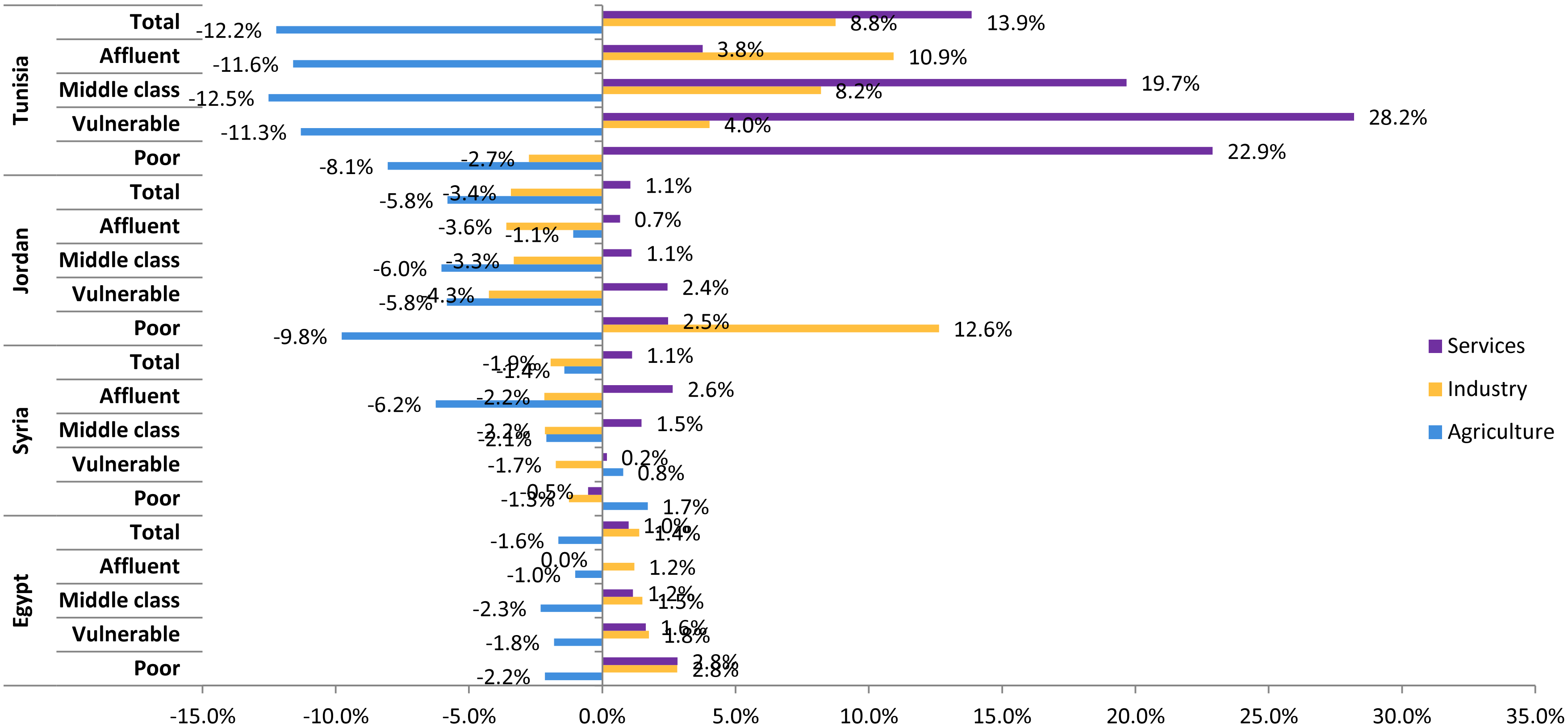
- Tax revenue as a percentage of GDP is around 15 per cent worldwide (10-15 per cent for low income countries, 20 per cent for middle income countries and 30 per cent in advanced countries)

- In Arab countries, it varies from as little as 1 per cent of GDP in Kuwait to 24 per cent in Morocco. In Libya, the Sudan and Yemen, the share is even below 10 per cent of GDP.

- Tax structures vary across countries.

3. Shifting occupation from agriculture to services, but they are mostly low-value added

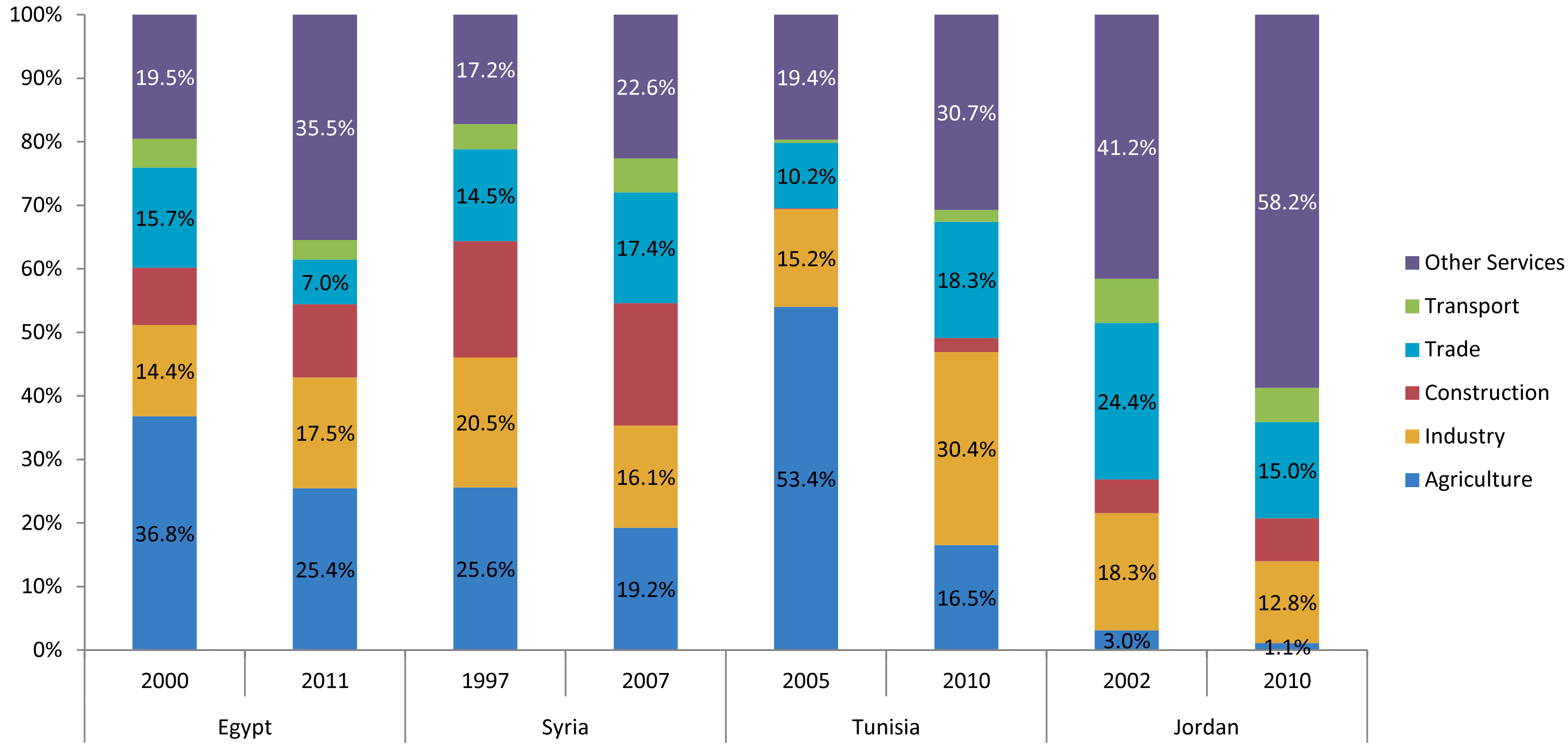
Average percentage change in share of employed people by economic sectors, years closest to 2000-2011



Source: ESCWA Report on Arab Middle Class 2014 (forthcoming)

3. Growing labor market informalization affecting middle class youth (and women)

Occupation of youth in the middle class households



Source: ESCWA Report on Arab Middle Class 2014 (forthcoming)

3. Poverty increased and the middle class people became vulnerable and reduced in size in the post-2010 period

Majority people became poor and vulnerable in Egypt, Syria, Yemen

Middle class size in the Arab world remained almost unchanged around 45 per cent of Arab population between 2000-2011 but their size declined since then significantly to 37 per cent in 2013 (taking into account impact of crises in Syria and Yemen).

The share of professionals, those having secondary education and employed in formal sector, increased among the poor and the vulnerable in most countries during 2000-2011.

Social protection is essential for both helping the mobility of the poor as well as sustaining the middle class of today.

Source: ESCWA Report on Arab Middle Class 2014 (forthcoming)

4. Social protection floor in the Arab region

Social protection systems exist by varying degrees in the Arab region. However, the primary limitation is **coverage** as these schemes reach less than 40 per cent of the working population.

Basic package

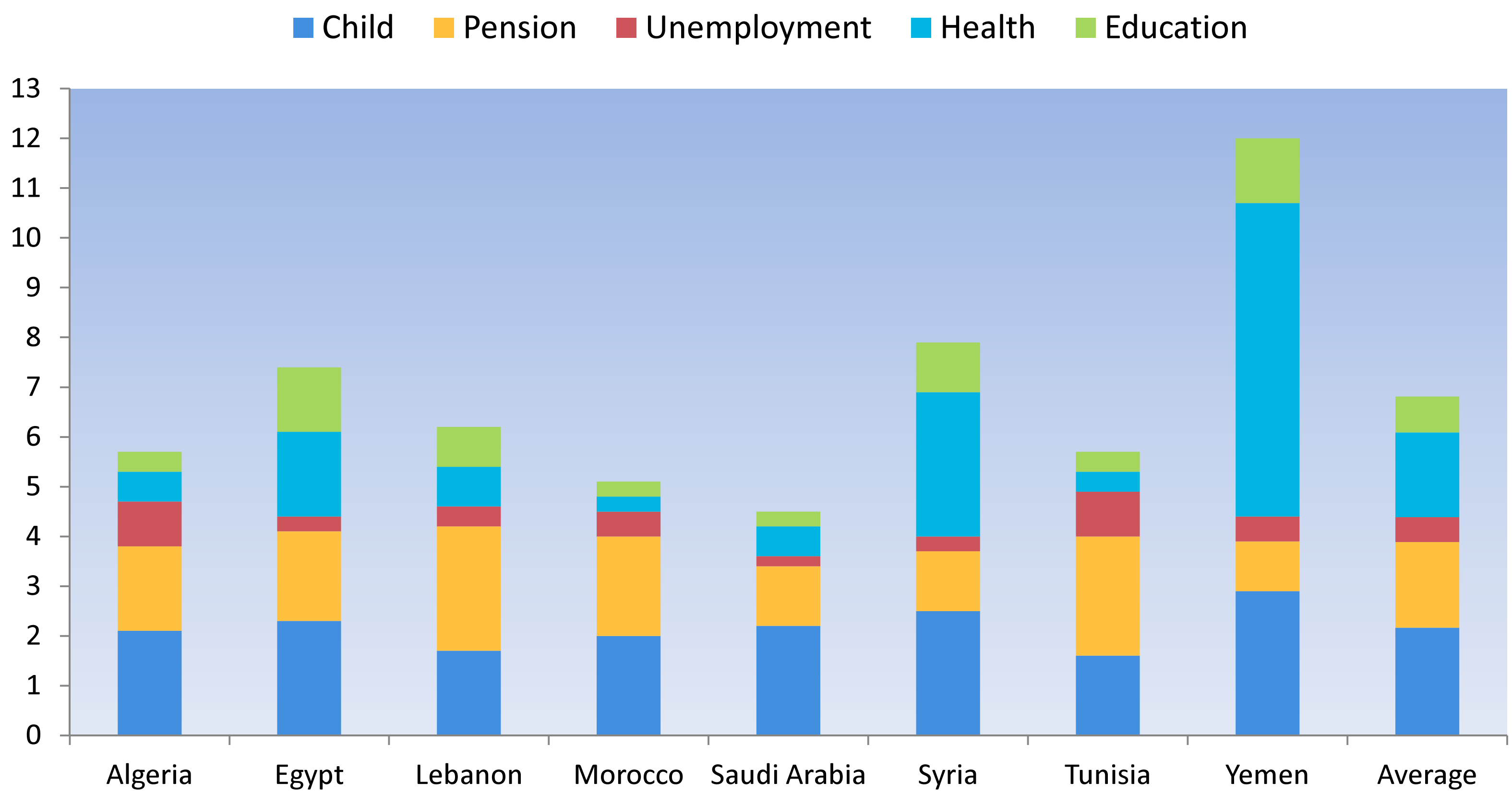
- Child benefits
- Social assistance for the unemployed
- Pensions and disabilities
- Essential healthcare
- Education

Cost + financing

- Total cost would range from **4.6% to 9.5% of the GDP** of Arab countries
- Fiscal space exists in most Arab countries for financing this package

Source: ESCWA 2013

4. Cost in 2015 (% GDP)



Source: ESCWA 2013

4. Overall cost of social protection package, per cent of GDP, projections

Country	2015	2020	2030
Algeria	5.6	6.1	6.9
Egypt	7.4	7.5	7.5
Lebanon	5.1	5.4	6.8
Morocco	5.3	5.7	6.7
Syria	8.0	8.1	8.1
Tunisia	5.7	6.3	7.4
Yemen	12.1	12.7	11.8

Source: ESCWA estimations using the UNICEF-ILO costing tool

4. Where will money come from?

Tax finance or social contributions

- Oil revenues: Norway to fund Government
- The UK imposes a bank levy of 0.05 to 0.1 % to finance social protection.
- Brazil imposes a bank tax of 15% on financial institutions (instead of 9% for other corporations)
- Gabon imposes a 1.5% tax on companies that transfer and handle remittance money and a 10% tax on mobile phone companies to finance its social protection
- Costa Rica uses several taxes to finance its pension system: a sales tax (48.3%), payroll tax (46.2%), alcohol and cigarette tax (5.4%) and accrued interest on judicial deposits and bank accounts (1.7%)
- Ghana levies an additional 2.5% VAT to finance its national health insurance
- Brazil's social pension is funded by a corporate tax (1% on rural produce) and a 2.5% payroll tax on urban enterprises.
- Bolivia used proceeds from the privatization of its State-owned enterprises to finance its social pension together with the use of a Direct Hydrocarbon Tax (from gas resources).

Reforming (subsidies), prioritising spending

4. Other policies

- Administrative reforms – reduce corruption, attract FDI, Remittances
- Military expenditures reforms – expenditure switching policies
- Reallocated, these resources would suffice to finance the social protection floor package in almost all Arab countries

Summary

Fiscal space in the Arab region varies substantially between countries in the Arab region.

The economic and financial crisis and the political situation in some Arab countries had profound influence on the fiscal space.

The cost of a basic social protection package is relatively low. Introducing expenditure switching policies such as phasing out energy subsidies could be in the right direction to finance SPP, but success depends in large part on the quality of governance and institutions to guide the process.

There is also a need in the Arab region for a developmental and economic structural transformation, for which fiscal space is little. Filling the financing gap represents a real challenge and requires a combination of financial flows.

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