TOPICS OF DISCUSSION AND THE WAY FORWARD

Over the past two years, the Arab region has faced unprecedented challenges in the political, economic and social spheres. Declining standards of living, increasing frustration due to the lack of decent employment opportunities, income inequality and social exclusion are among the causes of what is now commonly referred to as the “Arab Spring”.

While the Arab region is characterized by a wide variety of socioeconomic profiles, most Arab countries face similar challenges including high socioeconomic and geographic disparities, chronic unemployment, rural-urban divides, the marginalization of certain social groups, corruption and the deterioration of key governance indicators. The major challenge remains unemployment: it was a root cause of the popular uprisings and has in several cases increased since their eruption. Unemployment figures in the Arab region are among the highest worldwide, with youth unemployment often two to three times higher than the total unemployment rate, which contributes to the rising discontent of youth.

In light of those circumstances, job creation has become a top regional priority and Arab Governments will be judged based on their ability to reduce unemployment. Policymakers in the region, whether recently appointed or incumbent, are faced with enormous popular pressure to create immediate employment opportunities. Thus, Governments in the region are in desperate need of short-term solutions to ease social tension while putting in place the needed long-term reforms.

In addition to the problem of unemployment, many Arab countries are also struggling with increased socioeconomic vulnerability and inequality. Social protection could be an important instrument to address those issues in the short term. While social protection has gained momentum in many developing countries, it had long been rejected on the grounds of fiscal capacity, and concerns remain over the affordability of a basic set of social protection measures.

The question of affordability is even more pertinent in the post-uprisings context, as public finances have deteriorated. Fiscal space varied immensely between countries of the region before December 2010, but the outbreak of social unrest has contributed to a further constrained fiscal situation in many Arab countries and has had a profound impact on economies. In the current circumstances, addressing the longer-term challenges of a developmental transformation will require some shifts in policy. Resource mobilization reforms and the reprioritization of expenditure are crucial in most countries, but in the post-uprisings context, external financial assistance may also be required.

Given the wealth of some Arab countries and their records of generosity towards their neighbours, Arab development funds (ADFs) could play an important role in financing short-term policies to reduce unemployment and population vulnerability. They could also contribute to the long-term developmental transformation of the Arab States. However, a review of the action of ADFs shows that, despite their generosity, there is significant room for improvement in terms of channelling resources towards human development and strengthening coordination between funds.

In line with its mandate to support economic and social development in the Arab region and promote mutual cooperation and interaction between countries, the Economic and Social Commission for Western Asia (ESCWA) organized the First Arab Economics Forum in Beirut, on 23 and 24 November 2012. The
Forum discussed the following three interrelated issues: short-term economic responses to unemployment problems in the Arab region, fiscal space in the aftermath of the Arab uprisings and rethinking the role of ADFs in the region. Three background papers were presented to serve as a basis for discussion and are available from http://www.escwa.un.org/information/meetingdetails.asp?referenceNum=1990E. This document reviews the topics examined, highlights policy options to address the challenges underlined by the forum participants and sets the future research agenda of ESCWA, based on their discussions.

I. REVIEW OF THE TOPICS OF DISCUSSION

A. SHORT-TERM ECONOMIC RESPONSES TO UNEMPLOYMENT PROBLEMS IN THE ARAB REGION

A presentation was delivered by ESCWA on short-term policy options that could ease unemployment and related problems in the region by better translating growth into job creation. The proposed policies could help to alleviate pressure on the labour market in the short term, giving policymakers a much-needed opportunity to address the structural problems of the labour market. The following four distinct policy options were discussed in detail.

(a) Enhancing the impact of macroeconomic policies on the labour market

Addressing the market distortions caused by tax policies is crucial. The Arab region needs to deal with the related issues of corruption and governance. Further, Arab countries devote significant parts of their budgets to military expenditure, preventing the allocation of government resources to education and public health. A reallocation of spending would support job creation through the alignment of labour supply and demand, and improve working conditions. Finally, a large amount of government resources are spent on imported goods and little support is given to domestic manufacturing or any other kind of value-adding industry.

Figure 1. Public expenditure as a percentage of GDP* (2005-2009 average)

![Figure 1](image1.png)


* Gross Domestic Product.

(b) Reducing labour market rigidity, while maintaining social protection and introducing social value added tax

One of the most urgent reforms to be implemented in the Arab region is that of the labour code: it currently focuses on the protection of workers by imposing important firing costs and should be rendered
more flexible. This reform must also establish a welfare programme for the unemployed. A Computable General Equilibrium model simulation was conducted, using a modified version of the MIRAGE (Modeling International Relationships in Applied General Equilibrium) model, which consisted of creating an institution to provide unemployment benefits to all unemployed persons in the region in 2013. The benefit level is assumed to be 25.6 per cent of current worker earnings (a level equal to the average calculated by the Organisation of Economic Co-Operation and Development (OECD)). According to the simulation, creating an unemployment insurance in the Arab countries will increase labour taxation and this increased labour cost is expected to generate a loss equal to 1 per cent of the Gross Domestic Product (GDP) for the whole Arab region (figure 2).

![Figure 2. GDP variation](image1)

![Figure 3. Exports variation](image2)

![Figure 4. Unskilled labour absolute variation](image3)

![Figure 5. Skilled labour absolute variation](image4)


Another option to reduce rigidity in the labour market is to introduce a social value added tax (VAT). The principle of social VAT is reducing the social contributions paid by employers and offsetting the
reduction in government revenue by an increase in the VAT rate, in order to finance social protection mechanisms. In some countries of the region, such a policy could reduce labour costs for employers without reducing wages or reducing the financial means for social protection. The economic impact of implementing social VAT was assessed using the modified version of the MIRAGE model, with a simulation that consisted of reducing labour taxation by 50 per cent while maintaining social security benefits. The gap between social security contributions and benefits would be financed by social VAT. This reform would create additional growth possibilities through a positive impact on competitiveness and new employment dynamics. The model estimates that the impact on GDP would be equal to 0.66 per cent for the whole region. In Tunisia, the impact would be more than 6 per cent (figure 6).

(c) Developing a new migration policy for the Arab region

Another proposed policy for employment generation in the Arab region is to conduct a comprehensive assessment of the opportunities and benefits of intraregional migration. Facilitating migration within the
The Arab region while upholding labour rights and decent working conditions, could alleviate short-term pressures on the domestic labour market in some Arab countries, while benefitting to both labour-importing and labour-exporting countries. Simulations are conducted based on the following assumptions: (i) all tariff barriers between Arab countries are removed in 2013; (ii) the transportation cost within the Arab region is reduced by 50 per cent; (iii) a custom union is adopted by all Arab countries, covering all non-agricultural sectors; and (iv) 20 per cent of non-Arab migrants currently working in oil producing countries and all future flows of non-Arab migrants are substituted by Arab migrants. Simulations show that, if such policies were implemented, the Arab region could register a 3.9 per cent increase in GDP (figure 10) and the level of unemployment in the whole region would be impacted (figures 12 to 15).

**Figure 10. Variation of GDP (relative to variation in 2015)**

<table>
<thead>
<tr>
<th>Arab Countries</th>
<th>Oil Producing Countries (OPC)</th>
<th>Non-Oil Producing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.9</td>
<td>3.7</td>
<td>4.5</td>
</tr>
</tbody>
</table>

**Figure 11. Variation of GDP (relative to variation in 2015)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rest of Mashrek</th>
<th>Morocco</th>
<th>Tunisia</th>
<th>Egypt</th>
<th>Algeria+Libya</th>
<th>Qatar</th>
<th>Oman</th>
<th>Kuwait</th>
<th>Bahrain</th>
<th>UAE</th>
<th>Saudi Arabia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Countries</td>
<td>4.44</td>
<td>2.39</td>
<td>3.07</td>
<td>5.48</td>
<td>1.95</td>
<td>1.18</td>
<td>0.82</td>
<td>4.65</td>
<td>6.34</td>
<td>6.02</td>
<td>4.02</td>
</tr>
</tbody>
</table>


**Figure 12. Variation of unskilled labour**

<table>
<thead>
<tr>
<th>Arab Countries</th>
<th>-3.93</th>
<th>-2.27</th>
<th>-4.8</th>
</tr>
</thead>
</table>

| Oil Producing Countries (OPC) | -3.8 |
| Non-Oil Producing Countries  | -5.1  |

(d) Reforming public employment services

The main limitations of public employment offices in the region are their low coverage and limited number of beneficiaries. The percentage of jobseekers employed through those offices is also quite low. A comprehensive package of reforms is needed in order to improve the efficiency of employment agencies and increase their rate of success. The package should feature measures such as developing an integrated approach to public employment services, promoting the role of private employment offices and upholding equality in the design of public employment services.

B. FISCAL SPACE IN THE AFTERMATH OF THE ARAB UPRISINGS

A second presentation by ESCWA discussed the impact of the Arab uprisings on public finances and evaluated the potential for social protection in the short term and the possibilities for financing a developmental transformation in the long term. Addressing the underlying causes of the Arab uprisings requires both short-term policies and more structural and long-term developmental transformation. Many Governments in the region operate under a severe fiscal constraint, which makes most kinds of reform difficult to implement. The fiscal space diamond is used as an operational tool to discuss fiscal space.
A diagnostic assessment conducted at the country level measured fiscal space in the Arab countries before and after the onset of the Arab upheaval. Prior to the uprisings, the region as a whole had some fiscal space. However, the events of the past two years have had a significant impact on public finances in many Arab countries. Higher discretionary government expenditures to calm social unrest and lower government revenues resulting from uncertainty have negatively impacted fiscal space. Most recent data show that in many Arab countries, especially Egypt, Syria and Tunisia, the impact on public finances has been severe. Other countries such as Jordan and Morocco have also witnessed a sharp deterioration in public finances.

**Figure 16. Illustration of the fiscal diamond**

1. Official Development Assistance (as a percentage of GDP)

2. Domestic revenue mobilization (as a percentage of GDP)

3. Deficit Financing (as a percentage of GDP)

4. Reprioritization and efficiency of expenditures (as a percentage of GDP)


(a) **Fiscal space in the aftermath of the Arab uprisings**

A diagnostic assessment conducted at the country level measured fiscal space in the Arab countries before and after the onset of the Arab upheaval. Prior to the uprisings, the region as a whole had some fiscal space. However, the events of the past two years have had a significant impact on public finances in many Arab countries. Higher discretionary government expenditures to calm social unrest and lower government revenues resulting from uncertainty have negatively impacted fiscal space. Most recent data show that in many Arab countries, especially Egypt, Syria and Tunisia, the impact on public finances has been severe. Other countries such as Jordan and Morocco have also witnessed a sharp deterioration in public finances.

**Figure 17. Relative impact of the Arab uprisings on general government budget balance, 2012, as a percentage of GDP**

**TABLE 1. RELATIVE IMPACT OF THE ARAB UPRISINGS ON PUBLIC FINANCES IN SELECTED COUNTRIES, AS A PERCENTAGE OF GDP**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>4.7</td>
<td>9.5</td>
<td>13.6</td>
<td>0.3</td>
<td>1.4</td>
<td>1.6</td>
<td>-2</td>
<td>-2.8</td>
<td>-3</td>
</tr>
<tr>
<td>Jordan</td>
<td>8</td>
<td>14</td>
<td>20.5</td>
<td>4.6</td>
<td>3.9</td>
<td>4.3</td>
<td>3.1</td>
<td>1.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0</td>
<td>-2.2</td>
<td>-1.5</td>
<td>-4.1</td>
<td>-0.5</td>
<td>-0.1</td>
<td>-0.6</td>
<td>-0.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.2</td>
<td>8.4</td>
<td>9.9</td>
<td>6.3</td>
<td>6.5</td>
<td>5.6</td>
<td>2.9</td>
<td>3.6</td>
<td>3.3</td>
</tr>
<tr>
<td>The Sudan</td>
<td>4.1</td>
<td>44</td>
<td>49.3</td>
<td>-1.4</td>
<td>-4.5</td>
<td>-3.3</td>
<td>1.8</td>
<td>-3.8</td>
<td>-3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1.7</td>
<td>3.9</td>
<td>9.8</td>
<td>4.1</td>
<td>6.8</td>
<td>4.8</td>
<td>3.3</td>
<td>2.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Yemen</td>
<td>-3.7</td>
<td>-0.8</td>
<td>0.3</td>
<td>-1.4</td>
<td>6.9</td>
<td>4.9</td>
<td>-0.7</td>
<td>5.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>


(b) Reducing the vulnerability of the population

Having the fiscal space to implement some form of a social protection programme is important to reduce the vulnerability of the population to social and economic shocks, provide it with security, and foster its capacity for an active economic participation. Experience from other developing countries has provided evidence to the positive effects of social protection, however it has often been rejected on the basis on affordability. To assess the affordability of a social protection package, a costing exercise was conducted, using a tool developed by the United Nations Children’s Fund and the International Labour Organization. It provided estimates for the cost of a basic social protection programme.

At first glance, the cost of a social protection package only seems intolerably large in Yemen; in most other Arab countries, the cost appears reasonable. It is around 5 per cent of GDP, which is similar to the cost of fuel subsidies in several countries. Most countries could go a long way towards financing this protection package through domestic reforms of expenditure and domestic resource mobilization. Only in Yemen and some other Arab countries would some external financial aid be required, given the current fiscal circumstances.

**TABLE 2. OVERALL COST OF A SOCIAL PROTECTION PACKAGE, AS A PERCENTAGE OF GDP**

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2015</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>5.3</td>
<td>5.6</td>
<td>6.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>6.5</td>
<td>7.4</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Lebanon</td>
<td>4.8</td>
<td>5.1</td>
<td>5.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.7</td>
<td>5.3</td>
<td>5.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Syria</td>
<td>5.8</td>
<td>8</td>
<td>8.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.8</td>
<td>5.7</td>
<td>6.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Yemen</td>
<td>10</td>
<td>12.1</td>
<td>12.7</td>
<td>11.8</td>
</tr>
</tbody>
</table>


(c) Financing a developmental transformation

The real demands underlying the Arab uprisings go beyond improved social protection; indeed, the demand of the people is for a total socioeconomic and developmental transformation. The magnitude of the problems differs within countries in the region even if they face many of the same challenges. Similarly, fiscal space in the various countries is also characterized by a great diversity. There is an inverse relationship between the level of fiscal space and the gravity of the human development challenges: the countries with the most significant human development challenges have the most limited fiscal space. Countries will have to balance the four components of the fiscal diamond, namely foreign aid, new borrowing, expenditure...
switching and domestic resource mobilization, according to their distinct characteristics. In order to structure the discussion on regional policy, the paper proposes a new typology of Arab countries based on two dimensions: the level of the human development challenge and the level of the fiscal challenge.

**Figure 18. Illustration of the new typology**

Based on a preliminary assessment of data on those two dimensions, the categorization of Arab countries is summarized in table 3. The fiscal space dimension is calculated by using revenue, deficit and debt as a share of GDP. The human development dimension is calculated by using the Human Development Index and the unemployment rate. The table below provides preliminary findings, but more research is needed in order to quantify both dimensions of the new typology.

**TABLE 3. SUMMARY OF THE PROPOSED TYPOLOGY**

<table>
<thead>
<tr>
<th>Very constrained fiscal space</th>
<th>Limited fiscal space</th>
<th>Ample fiscal space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large human development challenges</td>
<td>Sudan</td>
<td>Egypt</td>
</tr>
<tr>
<td>Very constrained fiscal space</td>
<td>Yemen</td>
<td>Jordan</td>
</tr>
<tr>
<td>Medium human development challenges</td>
<td>Syria</td>
<td>Morocco</td>
</tr>
<tr>
<td>Very constrained fiscal space</td>
<td>Tunisia</td>
<td>Tunisia</td>
</tr>
<tr>
<td>Low human development challenges</td>
<td>Lebanon</td>
<td>Bahrain</td>
</tr>
</tbody>
</table>


C. **RETHINKING THE ROLE OF REGIONAL DEVELOPMENT FUNDS IN THE ARAB REGION**

A third presentation by ESCWA reviewed the literature about aid and growth, and analysed Official Development Assistance (ODA) in Arab countries, considering them as both donors and recipients. Arab assistance is channelled through ADFs, which are described in detail in the forum background paper on the topic, including their resources, how they work and their operations by sector.
(a) **Arab Official Development Assistance**

ADFs have provided financial resources to the Arab region and beyond since the early 1970s. Arab aid has played an important role in global development finance. Several features can be highlighted to assess the importance of Arab ODA. First it can be said that, overall, Arab donors are generous compared to the members of the OECD Development Assistance Committee (DAC), but the importance of Arab ODA has decreased considerably over time. Another key feature of Arab development aid is that it is untied, meaning that there are no conditions imposed on spending by donors.

**Figure 19.** Arab and DAC ODA relative to their Gross National Income (GNI)

**Figure 20.** Arab ODA relative to DAC, Non-DAC and Total ODA

**Figure 21.** Total ODA to Arab countries (millions of current and 2010 constant United States dollars, net disbursements)


It is also necessary to review the development of ODA in the Arab region from the perspective of aid recipients. While in terms of current United States dollars (US$) the trend seems positive, when those are replaced by constant 2010 US$, the overall trend is slightly negative, especially when it is taken into account that the amount of aid per capita remained fairly stationary. The structure of ODA has shifted in the last decade. Since 2000, the share of grants has dropped from around 65 per cent to 40 per cent. Most aid is now taking the form of soft loans. The sectoral concentration of Arab ODA has also evolved, moving from predominantly infrastructure projects towards social sectors such as education.
(b) Arab development funds

Beginning in the mid-1960s, Arab donors established a number of specialized financial institutions to provide development assistance to a large number of developing countries across the world. Assistance through those institutions increased by over 4 per cent per year in real terms over the past 20 years. ADFs have progressively extended their assistance beyond Arab and predominantly Muslim countries, and now support more than 100 countries, primarily poor nations in sub-Saharan Africa and Asia.

(c) Assessment of available financial resources

The funds available to ADFs were assessed against the challenges of the Arab region. The financial resources available to ADFs reached US$79 billion in the form of authorized capital by the end of 2011. Those resources are smaller than those available to other counterpart organizations such as the Asian
Development Bank (with a capital base of US$165 billion) and the Inter-American Development Bank (authorized capital of US$105 billion to be increased to US$175 billion by 2015).

The financing capacity of ADFs must increase, especially given that ODA in the region is in decline. In order for ADFs to continue playing a significant role in this critical time of major economic challenges, and assuming that all financial resources were to be allocated exclusively in the Arab region, the authorized capital of those funds should be tripled in the coming five years to reach the range of US$200 to US$240 billion.

(d) The way ahead

Challenges in terms of water scarcity, food security and infrastructure point to some of the urgent needs of Arab countries. Each of those fields requires substantive investments to mitigate the current and future challenges. First, in terms of water scarcity, modern irrigation is required to boost the efficiency of the fragile water sector in the region. Second, in terms of food security, Arab countries have a considerable potential for contributing to their self-sufficiency in food. The proposal of establishing an arab food security fund is crucial to fill the financial gap in the agriculture sector, where food security at the country level is a complex target that requires collective efforts. Third, in terms of investment, The Middle East and North Africa region should invest between US$75 and US$100 billion a year in infrastructure to sustain the growth rates achieved in recent years, and to boost economic competitiveness. The Arab Infrastructure Fund launched last year is an important step towards filling the existing financial gap.

II. POLICY OPTIONS AND FUTURE RESEARCH AGENDA

Participants in the forum discussed some of the main challenges and issues confronting the ESCWA region in 2012 and highlighted in the three background papers, namely unemployment, social protection, fiscal space and the role of Arab development assistance. A number of items for the future research agenda were set based on the discussions.

Below is a list of the key policy options in both the short term and the long term. The main topics of the future research agenda of ESCWA in other related fields are also highlighted for further discussion. During the forum, it was agreed that ESCWA would conduct that research in cooperation with other United Nations agencies and regional organizations and institutions, and in close cooperation with its member countries.

A. POLICY OPTIONS FOR THE SHORT TERM

(a) Policies to enhance the role of Small and Medium Enterprises to address employment challenges

The role of Small and Medium Enterprises (SMEs) in reducing unemployment and underemployment can be very important, provided that appropriate political, economic, fiscal and monetary policies create the proper environment for their action. Fostering and promoting SMEs and start-ups is also important to tackle the specific issue of youth unemployment and meet the expectations of youth.

(b) Unemployment insurance and social VAT: options for social security?

Unemployment insurance and social VAT can be important tools to protect the population and are expected to have a positive impact on the labour market. However, operational difficulties of unemployment insurance reduce its scope: it cannot be applied to youth unemployment for example, as young people are mostly new entrants to the labour market. In addition, there are usually not enough funds contributed by potential beneficiaries to provide all the unemployed with financial support. The relationship between social VAT and employment generation must be further investigated and understood.
(c) Assessing the economic and social repercussions of lifting subsidies

Subsidies take a heavy toll on the fiscal balance in a number of Arab countries. Moreover, most research shows that they are costly and inefficient. However, lifting subsidies is a sensitive action that can have important social, economic and political repercussions. Research is needed to understand the impact of lifting subsidies on poverty, inequality and population vulnerability and the implications for the cost of social protection, in order to provide appropriate policy recommendations for the sequencing of subsidy reforms.

B. POLICY OPTIONS FOR THE LONG TERM

(a) Reviewing the role of the state

The role of the state in development is increasingly debated worldwide. It is important to evaluate that role in the Arab region, where economical planning is systematically undermined. Essential questions related to the involvement of the state in taxation, social protection and investment must be discussed. In the countries that have witnessed uprisings, there is now a chance for tax reform and the political protection of those who evaded tax under previous regimes could be lifted. The issues of centralization and decentralization and their respective impact on fiscal space must also be discussed. It is important to understand their crowding-in and crowding-out effects and the impact of governmental choices pertaining to those issues in terms of investment.

(b) Rethinking the regional financial architecture

Arab donors and ADFs have played a key role in the past, and that role could be further enhanced. It is important to determine ways to increase the impact of ADF aid and to rethink funding forms (loans, grants or technical assistance). It is also crucial to review the existing operating models of ADFs, the complementarity of ADFs with Sovereign Wealth Funds and the involvement of the state in building the institutional capacity of recipient countries to absorb aid. The potential for a regional development bank must be examined and an analysis of the establishing modalities must be conducted. There are also lessons to be learned from other experiences, such as that of the bank of the five emerging economies, Brazil, Russia, India, China and South Africa, known as the BRICS bank.

(c) Addressing mismatches in the labour market

There are a number of mismatches in the labour market, particularly a mismatch between aspirations and reality that was discussed at the Arab Economics Forum. Indeed, there is a large discrepancy between the expected returns from education and the actual ones. Also, the preference for work in the public sector and the false expectations of youth in that regard are creating a number of issues that should be addressed, including through educational reform and information campaigns.

C. RESEARCH AGENDA

(a) Understanding growth and employment elasticity

It is crucial to have a better understanding of the relationship between growth and employment. Examining the issue of non-linearity, for instance, would help to determine whether unemployment estimations based on income elasticity would be scale-effect free or not. The role of potential GPD rather than GDP levels and the direction of causality (the relevance of Okun’s law) in the Arab countries must be analysed, as well as the relevance of Phillip’s curve in the context of the Arab region.
(b) **Defining and quantifying fiscal space**

In order to have a concrete debate on policies about fiscal space, it is necessary to formulate a clear definition of fiscal space in the context of the Arab region and to set a quantifiable indicator that takes into account the endogenous and dynamic natures of fiscal space. Fiscal space is the result of governmental choices, and such a fiscal space index could help Governments to evaluate the sustainability of spending. It would also help in determining the role of assets in measuring fiscal space.

(c) **“Fiscal space for what?”: measuring developmental challenges**

When discussing fiscal space, it is of utmost importance to consider its purpose, as underlined by Roy, Rathin and others in their paper entitled “Fiscal Space for What? Analytical Issues From a Human Development Perspective” (presented at a Workshop on Fiscal Policy in Istanbul in 2007). Determining and quantifying developmental challenges are therefore essential steps, as they allow to set priorities for the use of available fiscal space. Highlighting the differences between economic and social investment, and the differences in spending and return patterns is also needed. Finally, it is important to estimate the opportunity cost of not investing in the social field.

(d) **Finding innovative sources of financing, tailored to the needs of the Arab region**

Participants in the forum discussed a number of innovative financing sources in the Arab region. Ideas requiring further investigation included: the Tunisian Generational Fund, common investment laws, national investment banks, innovative financing vehicles, a legal framework for transparency, linking capital markets and creating an Arab debt purchasing fund.