SOCIAL PROTECTION SERIES

FINANCING UNIVERSAL SOCIAL PROTECTION SYSTEMS IN THE ARAB REGION: WHAT ALTERNATIVES TO DEBT AND AUSTERITY?

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Cover photo: Family under house made of money - Concept of family, home and financial protection - Shutterstock.

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Executive Summary

This paper offers a detailed analysis of the social protection financing landscape, identifying challenges and proposing reforms. Suggested solutions include self-financed contributory schemes, fiscal and public finance reforms, debt relief and restructuring, climate finance instruments, and global funding mechanisms. The paper's added value lies in politicizing a typically technical discussion and drawing comparative insights from five national contexts: Egypt, Lebanon, Jordan, Tunisia, and Morocco.

Historically, social protection in Arab States was designed to offset political system deficits and ensure political compliance through the provision of public health, education and subsidies, and public sector employment. Over time, these systems shrank to narrow targeted safety nets influenced by foreign aid, which allowed political and religious groups to keep providing social services and maintain their constituent bases. The Bretton Woods Institutions (BWIs) have influenced Arab social protection policies, further promoting the poverty alleviation approach, as well as indebtedness and austerity, thereby shrinking the fiscal space available for social spending.

As a result, income inequality is stark, with the top 10% earning 64% of total income, while the bottom 50% earn only 9%. Poverty rates in low-income and conflict-afflicted Arab countries are alarmingly high. Despite this, there is a lack of political will to implement reforms for universal social protection, with governments claiming infeasibility without international assistance. Hence, the traditional Arab social protection model, which emerged post-World War II, is increasingly being rejected amidst compounding crises, and rising poverty, unemployment and wage gaps. This rejection has further broken down social contracts in Arab countries.

The paper in particular emphasizes the importance of contributory schemes and redistributive tax systems as alternative mechanisms to finance universal social protection, focusing on the reforms needed to put these two tools into practice. Contributory schemes face challenges due to a lack of political will, public distrust, and a large informal labor sector. They should, nonetheless, be expanded to include informal labor, migrants, and refugees, with governments and employers significantly subsidizing contributions. In turn, tax systems are weakened by evasion, avoidance, and their regressive nature. Poor tax administration and corruption also deplete public resources, which are already strained by high military expenditures and other public spending priorities.

These alternative mechanisms are rooted in the concept of Social and Solidarity Economy (SSE), which prioritizes people and social outcomes over capital. Solidarity financing, encompassing diverse initiatives, such as mutual funds and cooperatives, is thus proposed as a viable solution. Institutionalizing successful solidarity systems and tying them to good governance is likewise recommended. Moreover, climate finance and debt restructuring present opportunities to channel resources into social spending. As for fiscal decentralization, it is found to be able to strengthen local governance and community-led initiatives when demographic and sectarian hurdles are absent.

The paper suggests a comprehensive set of solutions while analyzing their feasibility in the different Arab contexts, given their specificities. The solutions are translated into a set of policy recommendations that are addressed to governments or International Financial Institutions (IFIs) for their implementation, either in the short-medium run or in the long run, depending on the current level of their political will vis-à-vis each reform. The ultimate aim of these reforms is to renew social contracts in Arab countries and achieve sustainable, inclusive, and effective social protection systems that are mostly domestically financed.

Figures

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Glossary

Arab Reform Initiative (ARI)

Average Effective Corporate Income Tax Rate (AETR)

Bretton Woods Institutions (BWIs)

Clean Development Mechanism (CDM)

Conference of the Parties (COP)

Corporate Income Tax (CIT)

Economic and Social Commission for Western Asia (ESCWA)

Egyptian Trade Union Federation (ETUF)

Emergency Social Safety Net program (ESSN)

Extended Credit Facility (ECF)

Extended Fund Facility (EFF)

Faith-based organizations (FBOs)

Financing for Development (FFD)

Flexible Credit Line (FCL)

Foreign Direct Investments (FDIs)

Gross Domestic Product (GDP)

Health Insurance Organization (HIO)

Illicit Financial Flows (IFFs)

Inclusive Social Security Policy Forum (ISSPF)

Indicative Targets (IT)

International Financial Institutions (IFIs)

International Labor Organization (ILO)

International Monetary Fund (IMF)

Joint Implementation (JI)

Least Developed Countries (LDCs)

Middle Income Countries (MICs)

Ministry of Education (MoE)

Ministry of Finance (MoF)

Ministry of Health (MoH)

Ministry of Labor (MoL)

National Aid Fund (NAF)

National Disability Allowance (NDA)

National Social Security Fund (NSSF)

Non-Governmental Organizations (NGOs)

Official Development Assistance (ODA)

Organization for Economic Cooperation and Development (OECD)

Precautionary and Liquidity Line (PLL)

Public-Private Partnerships (PPPs)

Quantitative Performance Criteria (QPC)

Rapid Financing Instrument (RFI)

Small and Medium Enterprise (SME)

Social and Solidarity Economy (SSE)

Special Drawing Rights (SDRs)

Stand-By Arrangement (SBA)

State-Owned Enterprises (SOEs)

Structural Benchmarks (SB)

United Nations (UN)

United Nations Framework Convention on Climate Change (UNFCCC)

Value Added Taxes (VATs)

Village Savings and Loans Associations (VSLAs)

Water, Sanitation and Hygiene (WASH)

World Bank (WB)

World Bank Group (WBG)

Introduction

The prospects for universal social security – a comprehensive and inclusive system of social protection schemes that include health coverage, minimum income guarantees, social insurance, and assistance to vulnerable populations across the lifecycle – are at a crucial moment in the Arab region. On one hand, the particular Arab social protection model that emerged after World War II – based on authoritarian bargains, where social services are provided in exchange for votes and political quiescence,[1] and crony-capitalist outsourcing, where the intertwined business and political elites can replace social welfare by private, elite welfare – is being increasingly rejected by populations. In the context of rising poverty rates, cascading crises, and widening income gaps, social protection has turned from being a human and socio-economic right to being a limited service, charity, aid, or relief. This has contributed to breaking social contracts in Arab countries.

On the other hand, Arab governments have also been realizing that their current approach to social protection is costly and with low return on investment, as it is failing at sufficiently alleviating poverty and is turning temporary episodes of social implosion into long-term social inertia. Moreover, the current model of short-term emergency response and narrowly targeted poverty-alleviation schemes has been proving unsustainable. In fact, the social protection sector in these countries has been predominated by humanitarian assistance and poverty-targeted social safety nets that are funded by foreign aid, mainly in the form of foreign debt.[2] Governments have started to realize the negative impact of international development financing, including the debt trap, structural public budget deficits, and fiscal imbalances.

The Arab uprisings erupted in response to rising prices, increasing poverty, inequality, and unemployment. These uprisings were followed by consecutive waves of demand-driven social movements and civil wars that continue to this day, including in Egypt, Algeria, Morocco, Tunisia, Lebanon, Iraq, Sudan, Yemen and Syria.[3] Arab governments could seize the political moment created by the recent waves of social unrest and upheavals as an opportunity to adopt the needed reforms and alternative policies in order to "finance" universal social security instead of only "fund" tangential, short-sighted, and reactive targeted safety nets. Yet, the introduction of universal and domestically financed social protection schemes is still relatively timid, as Arab States are still struggling in their politico-economic and governance structures, in their apprehension of a trade-off between coverage and adequacy of benefits, and in their understanding of efficiency being a form of effectiveness.[4] Perhaps just as importantly, their dependence on external sources of funding, and the hegemonic mantra of austerity and neoliberal reforms that the International Financial Institutions (IFIs) impose over social and economic policies, has hindered the capacity to imagine and design State-funded universal social protection.[5] This study seeks to fill this gap by proposing alternatives to debt and austerity that can not only provide social protection but also lead to a renewal of the social contract.

This report offers a close and comprehensive snapshot of the current social protection financing landscape, analyzing the challenges surrounding it and the needed reforms. It also proposes alternative financing mechanisms, delving into an in-depth examination of each and focusing on its feasibility and the available opportunities for implementation. Centered around the model of social and solidarity economy and the principle of solidarity financing, the suggested solutions encompass the adoption of self-financed contributory schemes, key fiscal and public finance reforms, debt relief and restructuring, climate finance instruments, and global funding mechanisms, among others. In addition to coming at the right moment, this paper's value-added lies in politicizing a discussion that is usually perceived and addressed as technical. The paper covers five main national contexts, namely Egypt, Lebanon, Jordan, Tunisia, and Morocco, and aggregates the findings into a comparative and regional analysis, which benefits from success stories and lessons learned from international experiences. Moreover, the paper puts the politico-economic and socio-political factors affecting social protection financing in the Arab region center stage in the analysis, thereby contributing a multidimensional take to the existing literature on the topic.

1 Loewe, Markus et al. The social contract as a tool of analysis: Introduction to the special issue on "Framing the evolution of new social contracts in Middle Eastern and North African countries." World Development, Volume 145, 2021, 104982, ISSN 0305-750X. Available at https://doi.org/10.1016/j.worlddev.2020.104982

2 Rafael Guerreiro Osorio and Fábio Veras Soares. Social protection after the Arab Spring. No. 40. Policy in Focus, 2017. Available at https://ipcig.org/pub/eng/PIF40_Social_protection_after_the_Arab_Spring.pdf

3 Elena Lanchovichina. Eruptions of popular anger: The economics of the Arab Spring and its aftermath. The World Bank, 2017. Available at https://documents1.worldbank.org/curated/en/251971512654536291/pdf/121942-REVISED-Eruptions-of-Popular-Anger-preliminary-rev.pdf

4 Howaida Adly Roman. "A Guide to Universal Social Protection in the Arab Region." Arab Reform Initiative, 2023. Available at https://www.arab-reform.net/publication/a-guide-to-universal-social-protection-in-the-arab-region-challenges-and-opportunities/

5 Tarek Radwan. "The impact and influence of international financial institutions on the economies of the Middle East and North Africa." Friedrich Ebert Stiftung, 2020. Available at https://library.fes.de/pdf-files/bueros/tunesien/16107.pdf

Social Protection in the Arab Region: How Competing Priorities and Demands Shape Policies

Social protection is an old practice that goes back centuries and is an integral part of human nature. Before the emergence of the modern State, social protection used to strictly take the form of communal, tribal, and family support and solidarity, manifesting in different forms of organization and sometimes being informally "institutionalized." In the 1930s, with the establishment of programs like the US Social Security Act of 1935, social protection gained traction as a concept instead of just remaining an ordinary practice, taking on its modern form with the birth of the welfare State in the 19th century.[6] This is when it became a political norm that social protection should be a fundamental part of the social contract that ties the State to citizens and residents. As for Arab States, they designed their social protection systems in function of their own political priorities and the economic foundations of their power structures and legitimacy logics. Initially, to offset the lack of political participation and accountability, they established free public health and education systems, generously subsidized food, energy and water, provided social insurance and assistance programs, and resorted to widespread public-sector employment. This was feasible due to oil and gas exports, Arab countries' pivotal role in trade and assets like the Suez Canal, remittances from migrant workers, and politically motivated aid, which generated outstanding national income.[7]

Over time, as Arab governments' income from these strategic sources declined and population growth increased, they had to prioritize their social spending on specific social groups. They chose the upper-middle and high-income class since this could strengthen the politicians' hold on power by serving their entangled and shared interests with the rich, and thus their crony-capitalistic regime.[8] Arab States also shrank their giveaway model to a minimum, relying on narrow poverty-targeted safety nets as foreign aid permits, to leave more room for their political parties and faith-based organizations (FBOs) to become the direct providers of social services in order to increase their constituent bases and favor their religious and sectarian groups. This is how Arab States have been able to uphold the clientelistic, nepotistic, and sectarian system sustaining their existence.[9],[10] The power-sharing existential system they have, since then, been adopting has helped them use social protection policies as a tool to regulate demographic and sectarian balances, maintain their governance and politico-economic models, and achieve both political and economic gains.[11] In fact, their version of these policies is very compatible with the neoliberal approach and the prescriptions of IFIs.

These changes further deepened in the 1970s as many economic and financial crises hit the Arab region in the aftermath of the successive Arab-Israeli wars and the global inflationary shocks, which undermined food security and caused widespread popular discontent such as the 1977 bread riots in Egypt.[12] As a result, by the 1980s, many Arab States had to find alternative sources of financing. As neoliberalism saw the light in this era, these States had no choice but to turn to the Bretton Woods Institutions (BWIs)[13] and opt for "opening their economies," in what is known as the period of

6 Lutz Leisering. "One hundred years of social protection: The rise of the social question in Brazil, India, China, and South Africa, 1920–2020." (2021): 383-428. Available at https://link.springer.com/chapter/10.1007/978-3-030-54959-6_11

7 Markus Loewe and Rana Jawad. "Introducing social protection in the Middle East and North Africa: Prospects for a new social contract?" International Social Security Review 71, no. 2 (2018): 3-18. Available at https://www.researchgate.net/publication/325041632_Introducing_social_protection_in_the_Middle_East_and_North_Africa_Prospects_for_a_new_social_contract_Introducing_social_protection_in_the_MENA_countries

8 Azza El Hajj Sleiman. "The Dynamics of the Right to Social Protection in the Arab Region: Exploring the Role of the State in Changing Times." Arab Reform Initiative, 2023. Available at https://www.arab-reform.net/publication/the-dynamics-of-the-right-to-social-protection-in-the-arab-region-exploring-the-role-of-the-state-in-changing-times/

9 Melani Cammett. "Sectarianism and the Ambiguities of Welfare in Lebanon." Current Anthropology 56, no. S11 (2015): S76-S87. Available at https://www.journals.uchicago.edu/doi/pdf/10.1086/682391

10 Farah Al Shami. "From Tangential Livelihood Programming to Integrated Social Protection: Conceiving a Long-Term Approach to Youth Economic and Social Policy in Iraq." Arab Reform Initiative, 2023. Available at https://www.arab-reform.net/publication/from-tangential-livelihood-programming-to-integrated-social-protection-conceiving-a-long-term-approach-to-youth-economic-and-social-policy-in-iraq/

11 Markus Loewe. "Caring for the urban middle class: The political economy of social protection in Arab countries." In Social Protection in Developing Countries, pp. 195-203. Routledge, 2013. Available at https://www.researchgate.net/publication/256063609_Caring_for_the_Urban_Middle_Class_The_Political_Economy_of_Social_Protection_in_Arab_Countries

12 Roger Owen. "The Arab Economies in the 1970s." Middle East Report 100, 1981. Available at https://merip.org/1981/11/the-arab-economies-in-the-1970s/

13 This year marks the 80th anniversary of the BWIs – the IMF and the World Bank – whose establishment was a direct consequence of the rise of the new global economic order in the 1930s, which coincided with the emergence of social protection as a concept and as part of the State's policy.

Infitah. This is when their social welfare policies started to be challenged.[14]

Today, social protection systems are victims of imperialist domination and BWIs' control over social and economic policies in developing countries.[15] With Arab governments relying on international assistance and the International Monetary Fund (IMF) promoting austerity measures as part of its assistance conditionality, Arab governments are lifting universal subsidies and are being supported by the World Bank (WB) to implement narrowly poverty-targeted programs that "mitigate" the acknowledged harmful impacts of austerity.[16] IFIs' loans and IMF structural adjustment programs are shrinking the fiscal space available for social spending by throwing Arab countries into chronic indebtedness and adopting bad credit risk management practices like surcharges, in addition to imposing austerity measures. Moreover, IFIs' lending is leading to cuts in the public wage bills, a reduction in employers' contributions to social insurance, and a privatization of insurance and pension systems, among other private-led development solutions, thus further informalizing Arab economies.[17]

The approach behind interventions like "emergency response" or "poverty alleviation" is well-matched with the hand-out systems adopted by Arab regimes and is imposed by the biggest donors and IFIs, on top of which the IMF and the World Bank. In this context, an oxymoron like "humanitarian loans" has become common to hear. Such programs are not only substituting universal social protection schemes but also slowing down the progressive realization of universal social security, by depleting available resources and "anesthetizing" substantial portions of vulnerable populations. IFIs' understanding of social protection and Arab social protection systems are largely limited to these programs, although they rely on expensive social registries that use targeting algorithms, which entail inclusion errors and large exclusion errors where the poorest are usually those excluded, and which are transient, ineffective, and non-integrated. That is in addition to their sociopolitical and data privacy repercussions.[18]

As a result, Arab countries currently suffer from deficient social protection systems and a lack of just socio-economic policies due to the global financial architecture and how it is projecting on Arab development paradigms, leading to poverty and "bottom-up" redistributive outcomes. An estimation of the distribution of income between 1990 and 2016 found that approximately 64% of total income went to the top 10% of income earners in the region. Meanwhile, the bottom 50% of the region's population received only 9% of total income.[19] At the end of 2020, the wealth concentration of the richest 1% of the population, reached around 42% in Arab Least Developed Countries (LDCs) and 31% in Arab Middle Income Countries (MICs).[20] As for poverty rates in Arab low-income and conflict-afflicted countries, they have reached about 63% and 50%, correspondingly, in 2023[21]. Despite this status quo, there has been a lukewarm political will by both governments and IFIs to implement the necessary reforms and shift to universal, inclusive, effective, and sustainable social protection systems. Governments still constantly claim that State-led universal social security is not possible since government-financing is not feasible and there are no feasible alternatives to international assistance.

In a personal interview with the Minister of Social Affairs in Lebanon (on May 6th, 2024), for instance, he mentioned that the ministry does not mind launching a universal program like – somehow – the National Disability Allowance (NDA) instead of a targeted cash transfer like the Emergency Social Safety Net program (ESSN) but it is the World Bank who only pushes for and financially supports the latter format. This can indicate a considerable increase in the governments' political will without it materializing in practice. The same applies to the World Bank, which has recently publicly committed to universal social protection but only in words, while the IMF is

14 Stephen Metcalf. "Neoliberalism: The Idea That Swallowed the World." The Guardian, 2017. Available at https://www.theguardian.com/news/2017/aug/18/neoliberalism-the-idea-that-changed-the-world

15 Sherif Masry. "IMF Policies and Impact in Egypt and the Arab Countries." PSI - The global union federation of workers in public services, 2021. Available at https://publicservices.international/resources/news/imf-policies-and-impact-in-egypt-and-the-arab-countries?id=12144&lang=en

16 The Centre for Social Sciences Research and Action. International Financial Institutions breaking down social contracts in the MENA, July 2022. Available at https://civilsociety-centre.org/content/international-financial-institutions-breaking-down-social-contracts-mena-0?fbclid=IwAR-1kvPa1z2_sIIriMWN1pcgpNPC612VqGPfrC9CQ8WiD14lA-kBa04NJeAg

17 Social Protection Floors Coalition. Social Security for All: Key Pillar for New Eco-Social Contract, 2023. Available at https://www.socialprotection-floorscoalition.org/campaigns/social-security-for-all-key-pillar-for-new-eco-social-contract/social-security-for-all/

18 Human Rights Watch. IMF/World Bank: Targeted Safety Net programs fall short on rights protection, 2022. Available at https://www.hrw.org/news/2022/04/14/imf/world-bank-targeted-safety-net-programs-fall-short-rights-protection

19 Alvaredo, Facundo et al. "Measuring Inequality in the Middle East 1990–2016: The World's Most Unequal Region?" Review of Income and Wealth 65: 685-711, 17 October 2018. Available at https://onlinelibrary.wiley.com/doi/full/10.1111/roiw.12385

20 United Nations Economic and Social Commission for Western Asia. Inequality in the Arab region: A ticking time bomb, May 2022. Available at https://www.unescwa.org/publications/inequality-arab-region-ticking-time-bomb

21 United Nations Economic and Social Commission for Western Asia. Survey of Economic and Social Developments in the Arab Region 2022-2023. April 2024. Available at https://www.unescwa.org/publications/survey-economic-social-developments-arab-region-2022-2023

yet to even commit.[22] However, even if this will is not genuine or serious enough, it would be strategic to capitalize on it and advocate solutions and alternatives. This is particularly important because the global South has been realizing that IFIs' support is political and thus seeking unconventional channels, which unfortunately do not solve the perils of multilateralism. For example, some North African countries have been considering joining the BRICS and resorting to them as an alternate source of aid.[23] As for GCC countries, they have been signing multi-billion US$ investment deals with Arab LDCs and MICs, such as the latest Ras El Hekma deal between UAE and Egypt.[24] Such steps are expected to perpetuate privatization and development ineffectiveness in the name of economic bailout and offsetting unmet Official Development Assistance (ODA) commitments.[25]

22 World Bank Group. Charting a Course Towards Universal Social Protection: Resilience, Equity, and Opportunity for All. World Bank Group, 2022. Available at http://hdl.handle.net/10986/38031

23 Ishak Benhizia. "Why Arab countries are queuing up to join BRICS." Middle East Eye, 22 August 2023. Available at https://www.middleeasteye.net/opinion/arab-countries-brics-queuing-up-join-why

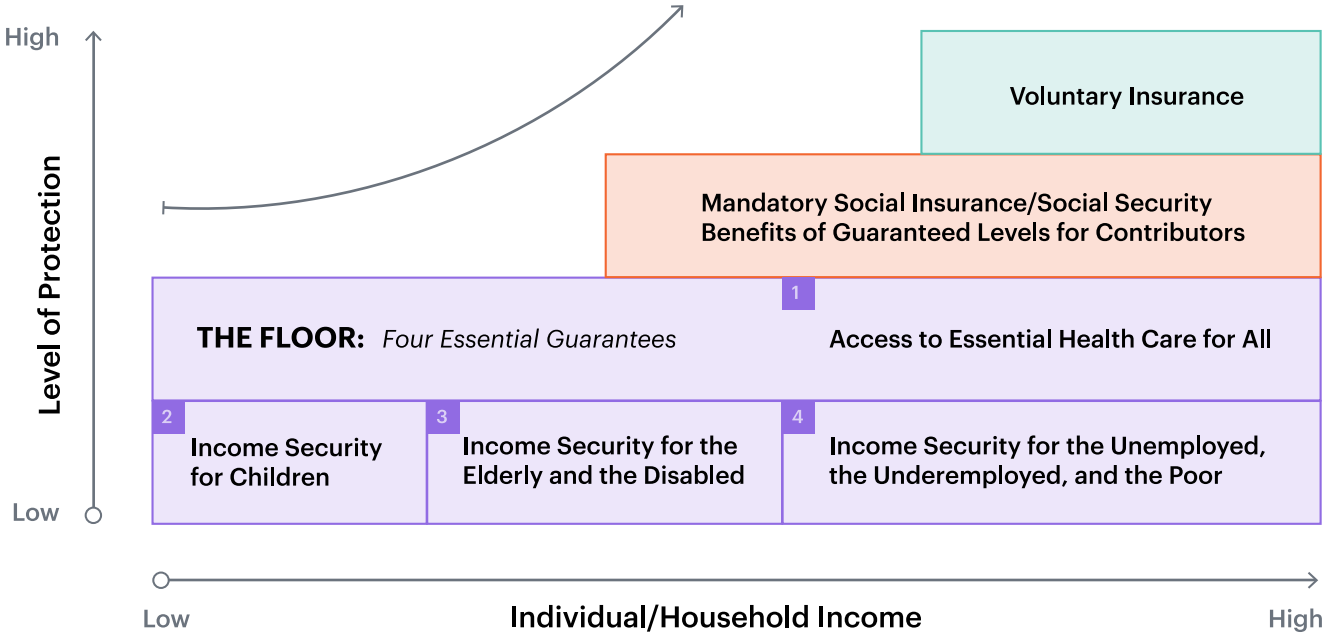
24 Kamal Tabikha. "Egypt and the West: The Colonial Echoes and Inherent Risks of Financial Aid." Arab Reform Initiative, 6 May 2024. Available at https://www.arab-reform.net/publication/egypt-and-the-west-the-colonial-echoes-and-inherent-risks-of-financial-aid/

25 Julia Ravenscroft and Matthew Simonds. "Poorest Countries Continue to Lose out as Wealthy Donors Pocket their Own Aid, According to Latest OECD Data." European Network on Debt and Development, 11 April 2024. Available at https://www.eurodad.org/preliminary_aid_2023_reaction

The Challenges of Financing Universal Social Protection in the Arab Region

According to the International Labor Organization (ILO; see Figure 1 below), a universal social protection system typically consists of a floor that comprises four minimum security guarantees: health coverage, income security for family and children, income security for older persons and people with disability, and assistance to the poor, the sick, heirs in case of death, and the unemployed or underemployed. The last three guarantees are delivered in the form of grants or allowances. The floor provides basic horizontal coverage to all citizens and residents across the life cycle, irrespective of their income level, social status, or identity. In addition to the floor, a universal system includes mandatory social insurance and social security benefits of guaranteed levels, which provide an additional layer of protection to the beneficiaries. Social insurance in the least includes health, unemployment, maternity/paternity, disability, and work injury insurance, as well as old age pension. Finally, such a system includes voluntary insurance, which is meant to offer an additional layer of protection to those who need it and can afford it. While the floor and mandatory insurance should be strictly provided by the State, voluntary insurance can be provided in collaboration with the private sector.[26]

Figure 1: The Composition of a Universal Social Security System



Source: Mabvurira, M.V. et al., "Professional Social Work in Zimbabwe: Past, Present and the Future," 2021. Adapted from: ILO, 2012.

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26 For more, please check: https://www.ilo.org/topics/social-protection#intro

The floor of social assistance should be strictly non-contributory, thus financed from the public budget, whereas public social insurance is in large part contributory. This showcases the importance of contribution-based schemes and tax systems in financing universal social protection. However, this section demonstrates how IFIs and Arab governments are evading the former method and preventing the needed fiscal reforms from occurring. It also emphasizes the impact of the IMF and World Bank's policies on this level and the channels through which these IFIs are jeopardizing public finance systems, development models, and socio-economic rights, as well as social protection systems and their financial sustainability.

Barriers to Contributory Schemes: Insufficient Political Will, Institutional Fragmentation, and Lack of Public Trust

One of the most common forms of State-led universal social protection schemes in the world are ones that are contributory. Such schemes are self-financed and self-sustained, as they rely on partial or full periodic contributions paid by the beneficiaries, sometimes subsidized by their employers or the government. Despite that, contributory schemes are rare to find or rarely effective in the region since Arab States do not have the political will to introduce them and do not manage them credibly and responsibly. On the other side, people do not trust public systems and are reluctant to enroll in such schemes, thus hampering their sustainability. In Lebanon, for example, the National Social Security Fund (NSSF)'s obligation to open departments that cover all the areas stipulated in the social security law was never met. To date, the NSSF lacks programs for old age, retirement pension, unemployment, and disability, even though such programs could have been easily launched in the past as contributory schemes because the Fund's infrastructure needed for them was there, and they are self-financed and thus do not require any special financing.[27] Moreover, Lebanon has not yet implemented Law 319, which was adopted in December 2023 by the parliament, aiming to introduce a new pension scheme within the Fund along with significant reforms to its governance structure and operational framework.[28] The reason behind this lack of advancement is the absence of political will to put such reforms into practice. A number of factors figure into these political calculations, all ultimately tied to the maintenance of the political system status quo. This includes the ruling class' priorities being in favor of the private sector, its intention to maintain the clientelistic system whereby political parties and FBOs are the direct providers of social services so as to buy constituent bases and votes, or even the elites' usual obsession to exclude certain social groups from services provision and access to rights to keep sectarian balances.

Likewise, in Egypt, Mubarak tried to enact health insurance reforms as part of his re-election bid in 2005, with the objective to universalize health insurance and reduce the deficit of the Health Insurance Organization (HIO) through a basic benefit package for all citizens with up to 30% out-of-pocket contributions. However, these attempts failed because of resistance from employers who were going to incur higher salary contributions – a concern that was also raised by State-Owned Enterprises (SOEs) and other ministries. The beneficiaries, especially the pensioners and the members of the Egyptian Trade Union Federation (ETUF), have also mobilized against this step for the same reason.[29] In this context, the Ministry of Health (MoH) was found to be in a weak position vis-a-vis other line ministries. Former Egyptian Health Minister, Awad Tag Eddin claimed that: "Money was the key issue in the failure of the health insurance reform. […] Our budget was never enough and our spending lower than needed. […] In the drafting of the budget, the Ministry of Finance (MoF) would only ever give us the 'leftovers'."[30] Neither the contributory nor the non-contributory were therefore possible to make these reforms succeed.

This fragmentation in the institutional body governing social protection policies also echoes the case of Lebanon, as that of many other Arab countries. The Lebanese Minister of Social

27 Bashir Osmat. "The Social Protection Program of the National Social Security Fund in Lebanon." Arab Reform Initiative, 11 May 2023. Available at https://www.arab-reform.net/publication/social-security-in-lebanese-political-economy-a-critical-view-from-within-the-national-social-security-fund/

28 Farah Al Shami. "Recent Social Security Reforms and New Pension System in Lebanon: Interview with ILO's Rania Eghnatios and Luca Pellerano." Arab Reform Initiative, 12 April 2024. Available at https://www.arab-reform.net/publication/recent-social-security-reforms-and-new-pension-system-in-lebanon-interview-with-ilos-rania-eghnatios-and-luca-pellerano/

29 Ferdinand Eibl. "Social Policies in the Middle East and North Africa." The New Palgrave Dictionary of Economics, 1 19, 2017. Available at https://www.ferdinandeibl.com/uploads/2/2/9/8/22989858/article.pdf

30 Ferdinand Eibl. "Squaring the circle: "Cheap social policies" in the Middle East." In "Social Policy in the Middle East and North Africa" POMEPS Studies 31, October 2018. Available at https://pomeps.org/squaring-the-circle-cheap-social-policies-in-the-middle-east

Affairs mentioned to us in the personal interview[31] that one of his major concerns regarding the improvement of the country's social protection system is this fragmentation, as the system runs under the custody of his ministry as well as the Ministry of Labor (MoL), the Ministry of Health (MoH), even sometimes the Ministry of Education (MoE), and the NSSF as an independent institution. He added that the MoF also interferes in the processes, often rejects or cuts down budget requests, and in most cases defers them.

These two national cases not only flag the significant impact of governance issues on the practicality of contributory schemes but also highlight the lack of people's trust in public systems. Due to high levels of corruption, Arab populations do not trust that their contributions will be returned to them as social benefits or services of sufficient quantity, adequate quality, and in a timely manner. Aside from fearing misappropriations and embezzlements by public entities, people fear their governments' incompetence and the subsequent mismanagement of funds. Lebanese people have lost their lifetime savings due to the severe economic and financial crisis that hit their country in 2019 as a result of a Ponzi scheme upheld by the government and the central bank.[32] They lost both their deposits in private banks and the value of their end-of-service indemnities in the NSSF, as the national currency depreciated to unprecedented levels. Similarly, as Egypt is currently swamped with a monetary crisis and Tunisia has been hedging such a crisis from happening by imposing rigid capital control, the two countries' populations cannot be expected to trust that their contributions would be managed and invested responsibly. In addition, people often do not find enough convenience or benefit in the social security or pension plans that they are offered to be incentivized to take the risk and let go of their uncertainty. For example, in Tunisia, to be eligible for pension benefits, individuals must have contributed to the scheme for a minimum of 120 months and attained the standard retirement age of 62, unless the individual has engaged in strenuous work, in which case early retirement is possible at the age of 55.[33] Imposing such difficult and rigid conditions regarding the duration of enrollment and the cash-out age, without offering flexible options even if less favorable, makes many ineligible and many others afraid of signing-up without being given the possibility to claim their money if they need it earlier than the maturity date, in cases of emergency.

Informal workers especially exclude themselves from State-led social protection systems as they do not want to be recognized, to be asked to pay taxes, and to be formalized. This desire to disappear is because of the broken social contract where the State is not perceived as a provider, which makes these workers resort to informality as a coping mechanism and find their own equilibrium there, relying on the profitability of their undeclared business and/or the support of their family and community. They even find social stigma in enrolling in formal forms of social protection.[34] They do not believe that the cost of their formalization – paying contributions and taxes – would yield any return in the form of social protection coverage or access to social services.[35] This self-exclusion from contribution as a result of a lack of public trust is further compounded by the narrow manner in which contributory schemes are conceived in the region. While contributory schemes are usually promoted as a tool to include the informal labor that would otherwise be excluded from tax-financed schemes, they are found in Arab countries to be geared towards the formally employed in the private and public sectors. In Tunisia, as in Lebanon, unemployed and informal workers are not eligible for any benefits under the NSSF or any other State-led fund. The Tunisian NSSF has even "failed to draw contributors from low-income earners, agricultural workers, and migrant workers," although these are the most needy of contributory schemes.[36] With such schemes being employment-based, informal employment constituting 68% of total employment,[37] and an increasingly aging population in the region, the contribution base becomes too tight. Contributory scheme/s for social protection can thus hardly be financially sustainable.

31 The author conducted this interview with the Minister on May 6th, 2024.

32 World Bank. "Lebanon Public Finance Review: Ponzi Finance?" Washington DC, 2022. Available at http://hdl.handle.net/10986/37824 (World Bank, Lebanon Ponzi Scheme)

33 Sahar Mechmech and Kais Attia."Failure to Protect: The Deficiencies of the Tunisian Social Protection Framework," Civil Society Knowledge Centre, Lebanon Support, 2023. Available at https://civilsociety-centre.org/paper/failure-protect-deficiencies-tunisian-social-protection-framework (Mechmech and Attia, Failure to Protect)

34 Cyrine Ghannouchi. "Social Protection under Kais Saied's Political Project: Crumbs and Clues in Search of a Vision." Arab Reform Initiative, 3 November 2023. Available at https://www.arab-reform.net/publication/social-protection-under-kais-saieds-political-project-crumbs-and-clues-in-search-of-a-vision/ (Ghannouchi, Social Protection under Kais Saied)

35 Walid Merouani and Rana Jawad. "Political Attitudes and Participation among Young Arab Workers: A Comparison of Formal and Informal Workers in Five Arab Countries." Social Sciences 11, no. 11: 503, 31 October 2022. Available at https://doi.org/10.3390/socsci11110503

36 (Mechmech and Attia, Failure to Protect)

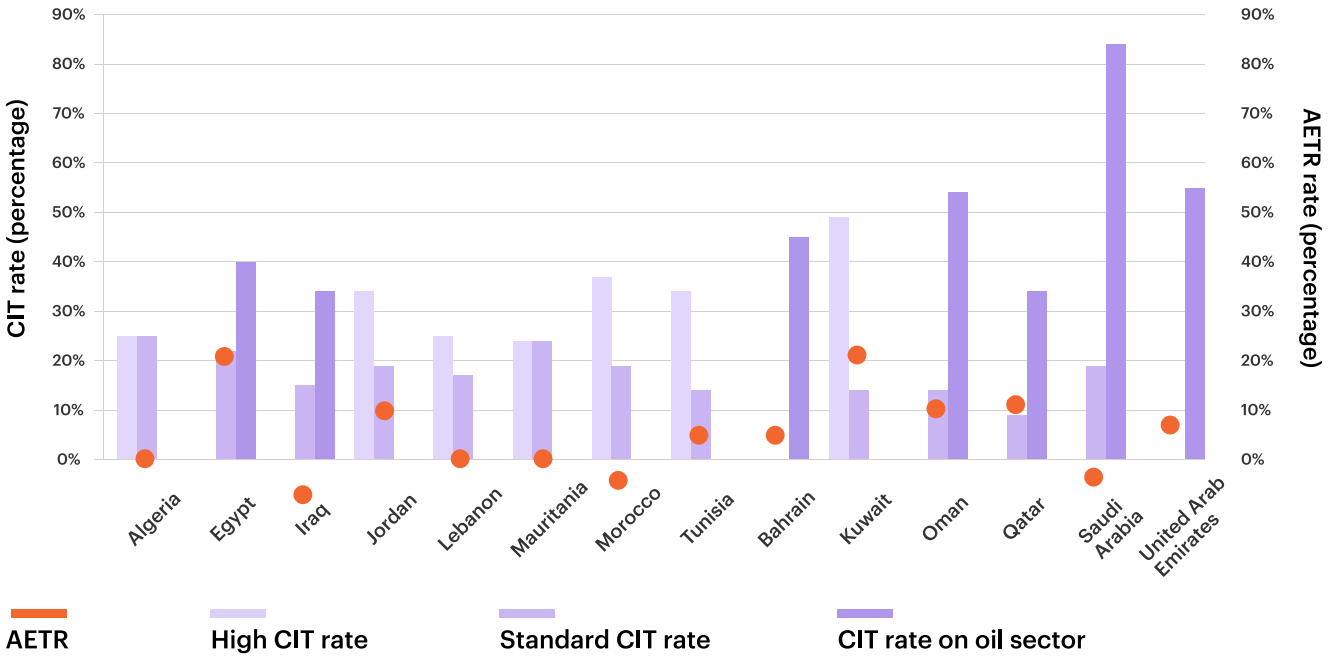
37 United Nations Economic and Social Commission for Western Asia. "The Middle Class in Arab Countries." Working Paper No. 4, 2023. Available at https://www.unescwa.org/sites/default/files/inline-files/middle-class-arab-countries-working-paper-4.pdf

Public Finance and Fiscal Policies: The Inherent Insufficiencies in Government-Financed Schemes

In fact, the whole mix of contributory and non-contributory schemes is fragmented and exclusionary. The non-contributory, government-financed segment is the victim of discriminatory practices and a myriad of issues in public finance management. As taxes make the majority of a government's revenues, non-contributory schemes are also known as tax-financed schemes. The tax base is substantially small in most Arab non-GCC countries due to the large size of the informal sector and the exclusion of migrants and refugees from the tax systems due to political redlines such as ones related to demographic and sectarian balances. Arab tax systems also suffer from high rates of tax evasion and tax avoidance in addition to high levels of unnecessary and unfair tax exemptions, deductions, incentives, and credits. As with self-exclusion from contributory schemes, tax avoidance and evasion go back to the deep problem of the broken social contract and the weak sense of citizenship. Just as Arab States do not consider themselves responsible for people's welfare, Arab people do not see themselves as citizens and as such the sense of mutual duties and responsibilities is eroded. Both the rich and the poor go by the principles of "no rights, no taxation" and "no representation, no taxation."

As a result, as shown in Figure 2 below, the Average Effective Corporate Income Tax Rate (AETR) in 14 Arab countries is lower than the world average, and in most cases than the lowest statutory Corporate Income Tax (CIT), due to corporatism and taxdodging.[38]

Figure 2: Statutory CIT Rates vs. Average CIT Effective Rate in Selected Arab Countries (2021)



Source: UN-ESCWA, "Arab Policy Choices and Financing Opportunities in a New World Tax Order," 2022. Based on: PWC World Tax Summaries and Orbis, 2021.

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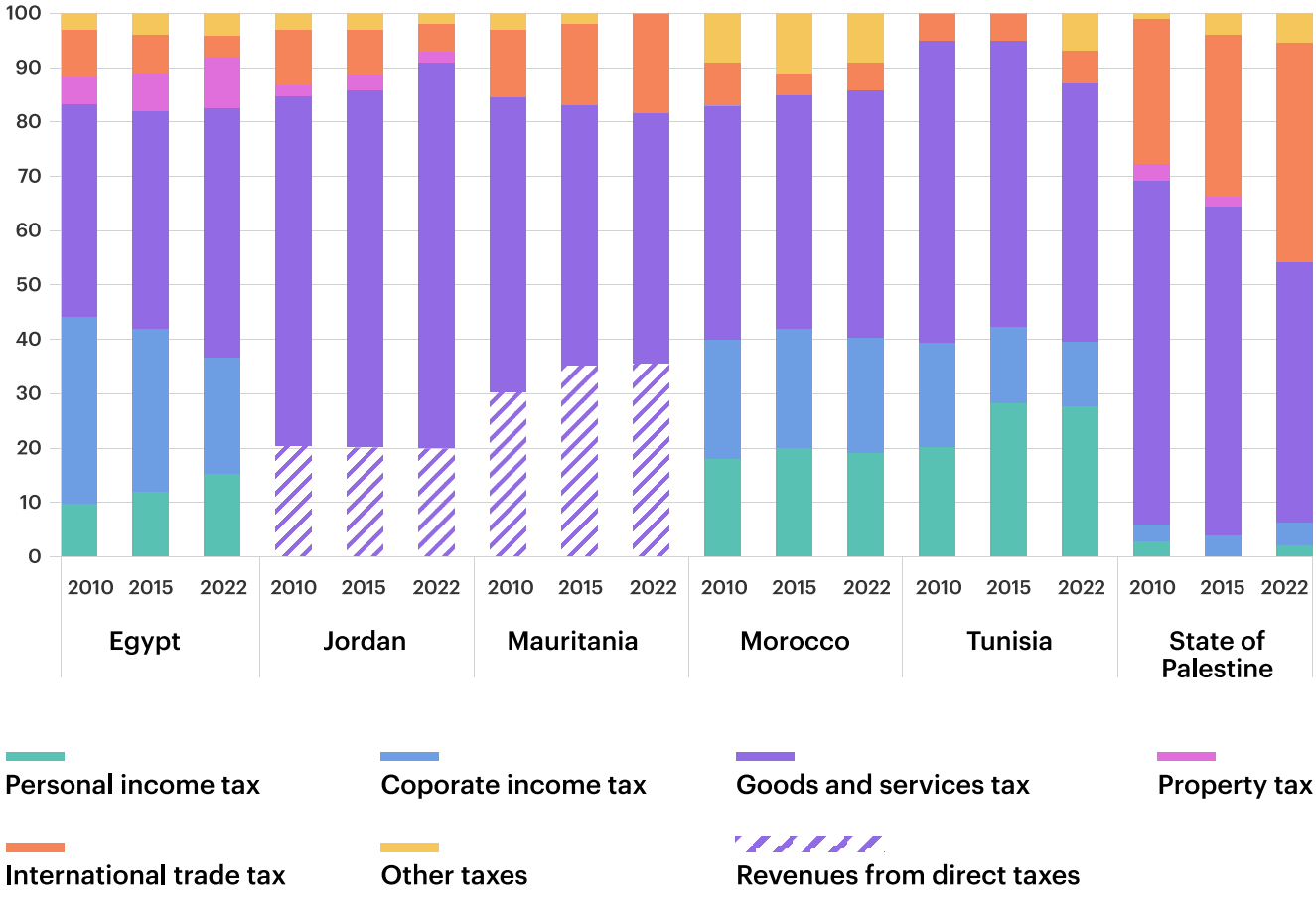
38 The Average Effective Tax Rate (AETR) is the percentage of Corporate Income Tax (CIT) that one actually owes on their taxable income. AETR therefore decreases due to exclusions, exemptions, and deductions from CIT rates along with preferential tax rates and credits. Statutory CIT rates are those that one owes as per the law.

Moreover, poor tax administration and weak tax collection further shrink tax bases. States not only escape their responsibility to provide social protection, they are also reluctant to properly collect taxes so that they cannot be asked to provide public services, including social protection. In countries like Lebanon, for example, the government did not collect fines, car registration and maintenance fees, and electricity bills for about two and a half years after the overlapping economic and COVID-19 crises hit. Indeed, between 1994 and 2022, Lebanon did not adjust its electricity bill despite exponential changes in the inflation and currency exchange rates. This implicit subsidy (or negative tax), which came at the expense of the national debt, was the government's tool to avoid being held accountable for the meagre public electricity service. The prevalence of the cash economy and the dysfunctionality of the financial sector in the country since 2019, which are currently being replicated in Egypt amid the monetary crisis, have as well been challenging the government's ability to monitor taxpayers' behavior and enforce tax regulations. Tax administration problems are further exacerbated by the primitiveness of the e-government and the absence of digital collection and administration mechanisms in Arab LDCs and MICs.

Furthermore, the region's public budgets are reduced because of massive illicit financial flows (IFFs), stark levels of corruption among government officials, rampant misappropriations and embezzlements, and other leakages in public resources. More importantly, Arab tax systems are largely regressive. As visualized in Figure 3 below, the composition of tax revenues in a number of Arab MICs shows that these countries heavily rely on goods and services taxes. Even more, these indirect taxes mostly take the form of Value Added Taxes (VATs), which drastically inflate the end prices at every step of the full value chain, instead of sales taxes that are collected on a one-off basis at the final point of sale. Studies have shown that the incidence of indirect taxes is mainly borne by the poorest and most vulnerable population groups, as their incomes are chiefly spent on consumption,

Figure 3: The Composition of Tax Revenues in Arab MICs (%)



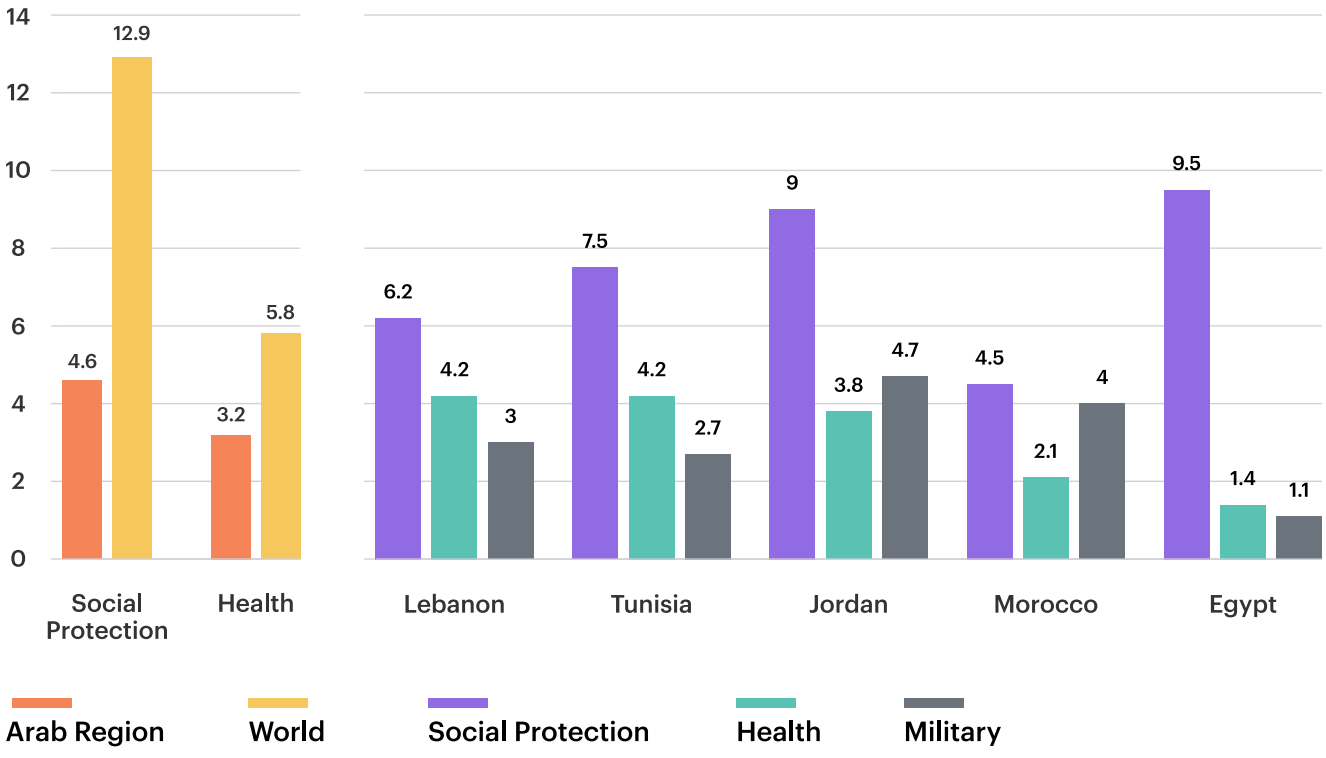
Source: UN-ESCWA, "Tax reforms in the Arab Region: Assessing equity, efficiency and progressivity toward mobilizing domestic resources," 2023. Based on: national data and IMF data, 2023.

particularly basic necessities.[39] Direct taxes come in second place in the composition of tax revenues, although they are more redistributive, and with personal income tax preceding CIT, although the latter is relatively more redistributive than the former. Regarding wealth taxes, including property taxes, they appear to be marginal, while they are absolutely the most redistributive form of tax.

Organization for Economic Cooperation and Development (OECD) countries generally refer in their tax systems to individuals' total income and wealth. Many of them also consider a family's income as one income. They therefore adopt numerous tax brackets that group taxpayers by income range, making sure that these brackets are progressive on total income, which is a proxy for total wealth. However, in countries of the global South, including Arab countries, people strongly resist personal income taxes as they only affect salaried income and are therefore unfairly borne by wage earners. This explains why health insurance is more popular than other forms of social insurance in the region, since it does not require individuals to declare their full income. This also indicates that small tax bases, similar to implicitly regressive and nominal[40] tax brackets, can aggravate inequalities. Looking at taxation in its broadest sense, we reckon that taxes on negative externalities, such as pollution and environmental damage, tariffs, and fines are similarly mediocre compared to world averages.[41] Before thinking of mobilizing or redistributing public resources, all aforementioned issues ought to be tackled in order to first augment government revenues and thus the public budget.

The result of inadequate tax systems on public expenditures on social protection in stark. As depicted in Figure 4 below, Arab countries spend only 4.6% of their Gross Domestic Products (GDPs) on social protection (excluding health),

Figure 4: Composition of Government Expenditures as a Share of GDP in 2020 (%)



Source: Compiled by the author using ILO's World Social Protection Report (2020-2022) and SIPRI's Military Expenditure Database (2024).

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39 Shakhawat Liton and Mohsin Bhuiyan. "If VAT is OK, What About the Social Safety Net?" The Business Standard, 8 June 2024. Available at https://www.tbsnews.net/analysis/if-vat-ok-what-about-social-safety-net-871681

40 Not indexed to inflation

41 World Trade Organization. "World Tariff Profiles 2022" WTO. Available at https://www.wto.org/english/res_e/booksp_e/world_tariff_profiles22_e.pdf

compared to a world average of 12.9%, and 3.2% of their GDPs on health, compared to a world average of 5.8%. The tight fiscal spaces and budget deficits resulting from the described issues on the public revenue side are especially reducing Arab countries' social and health spending. The reason behind this is that Arab States prioritize spending in areas like physical infrastructure – to serve their capital markets – and security/defense over spending on social protection and social services. Indeed, the region's average military spending as a percentage of GDP is 5.8%, which is higher than both the average social spending (4.6%) and average health spending (3.2%). Moreover, military spending outcompetes health spending in two out of five selected Arab countries and is only slightly lower than health spending in the three other countries.

This negative impact on social expenditures is especially borne by households and families, as well as vulnerable social groups like older persons, children and youth, as per UN-ESCWA's Social Expenditure Monitor for Arab States (see Figure 5 below). The same applies to the incidence of reducing or removing universal subsidies, more specifically, as part of cuts in public social spending. Recent investigations on Egypt and Tunisia, where data is available, debunked the IMF and WB's argument regarding the regressive nature of universal subsidies, especially energy subsidies. Both Ben Rouine and Chandoul (2022) and Diab (2023) show that food and energy subsidies have an effect on poverty incidence and poverty severity. While energy subsidies' effect appeared to be of only a slightly lower magnitude, it is still remarkably significant as established by correlating energy subsidization to actual

Figure 5: Distribution of Social Expenditures Among Different Social Groups in the Arab Region in 2022

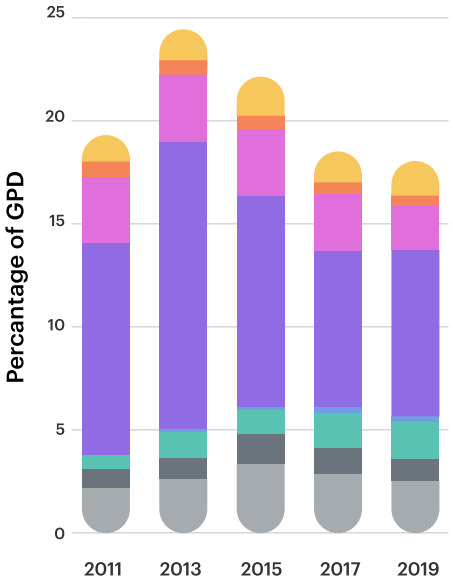
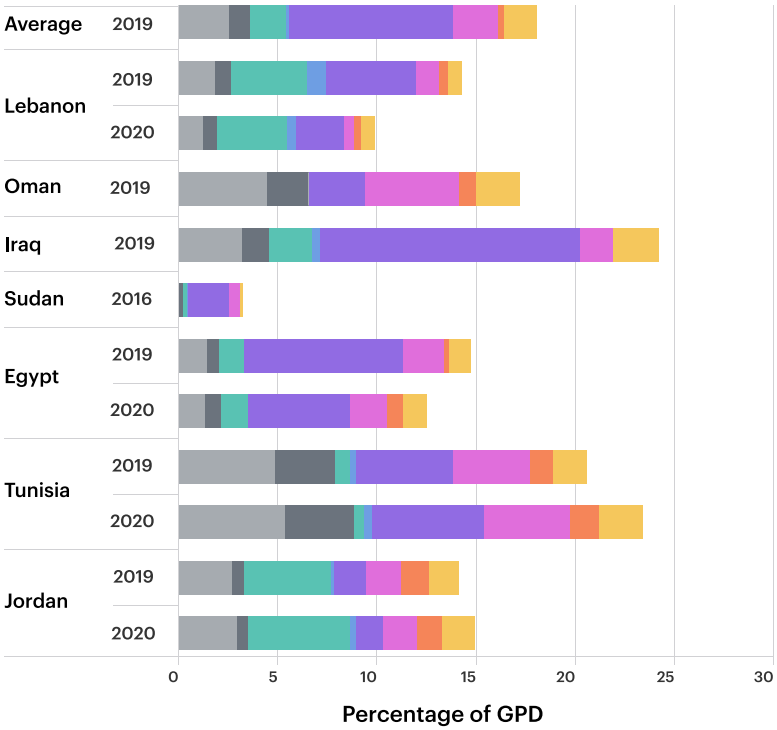


Figure 6: The Extent to Which Different Population Groups Benefit in Countries with Extensive Subsidies



Children

Households and families

Older persons

Institutional development and administrative support

Youth and adults

Community at large

Specific vulnerable populations

Multiple population groups

Source: UN-ESCWA's Social Expenditure Monitor for Arab States (2022).

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consumption levels and patterns. Depending on the food product or the energy product (diesel, kerosene, fuel oil for electricity, petrol, fuel) being subsidized, the subsidy's benefit can be differential between the poorest families/households and the middle class at large, but is definitely not exclusive for or mainly gripped by the rich.[42],[43] These findings are further reinforced by UN-ESCWA's analysis and calculations (see Figure 6 above). Therefore, incompetent budgeting and the flawed rationalization of public expenditures have direct social repercussions, affecting the poorest and the most susceptible populations to political or economic shocks.

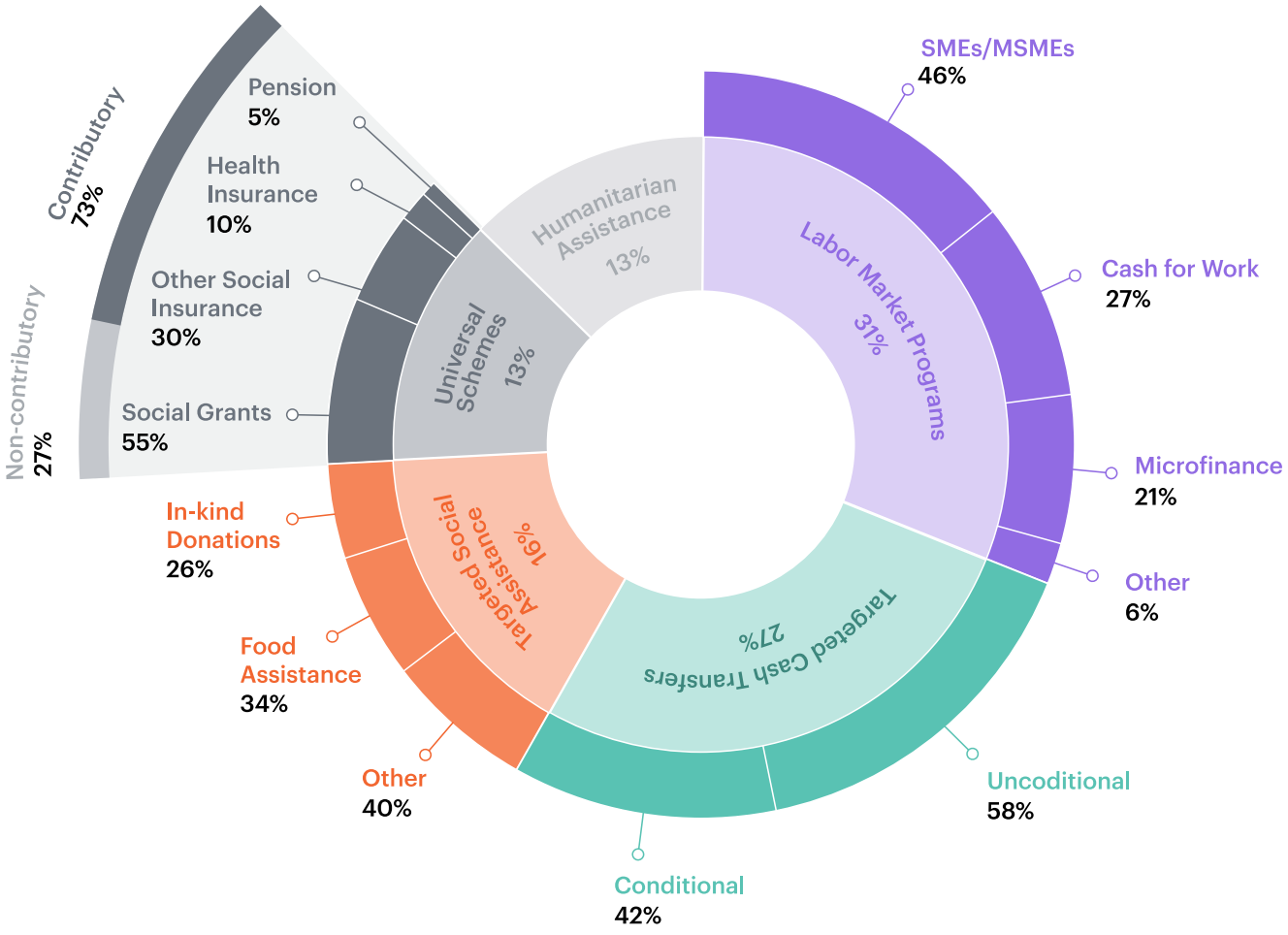
42 Chandoul, Jihen et al. "Uncovered: The Role of the IMF in Shrinking the Social Protection." Friedrich-Ebert-Stiftung, October 2022. Available at https://library.fes.de/pdf-files/bueros/tunesien/19559.pdf (Chandoul et al., Uncovered)

43 Osama Diab. "Egypt, the IMF and Three Subsidy Approaches: The Universal, the Self-Targeted, and the Targeted." Friedrich-Ebert-Stiftung, June 2023. Available at https://library.fes.de/pdf-files/bueros/tunesien/20432.pdf (Diab, Egypt, the IMF and Three Subsidy Approaches)

The Multilayered Impact of IFIs' Policies

Despite the alarming levels of poverty and inequality and the impact of conflicts and compounded crises in the region, our mapping of social protection policies, programs, and interventions that took place in twelve Arab countries between 2010 and 2023 shows that merely 13% of all these reforms were universal. Targeted cash transfers and other targeted social assistance, followed by active and non-active labor market programs, and subsequently humanitarian assistance have dominated. Regarding the universal schemes in particular, only 27% of them were non-contributory. Figure 7 below provides more detailed summary statistics from this mapping. Of all reforms, 25% focused on providing social health protection while 22% focused on livelihoods and employment. The rest covered a varied range of issues from food assistance and education support to Water, Sanitation and Hygiene (WASH) and housing, etc. (see Figure 8 below).

Figure 7: Distribution of Social Protection Reforms in 12 Arab Countries from 2010-2023, by Type of Reform



Source: Author's Calculations, using data collected by the author and the Arab Reform Initiative's Social Protection team (2024).

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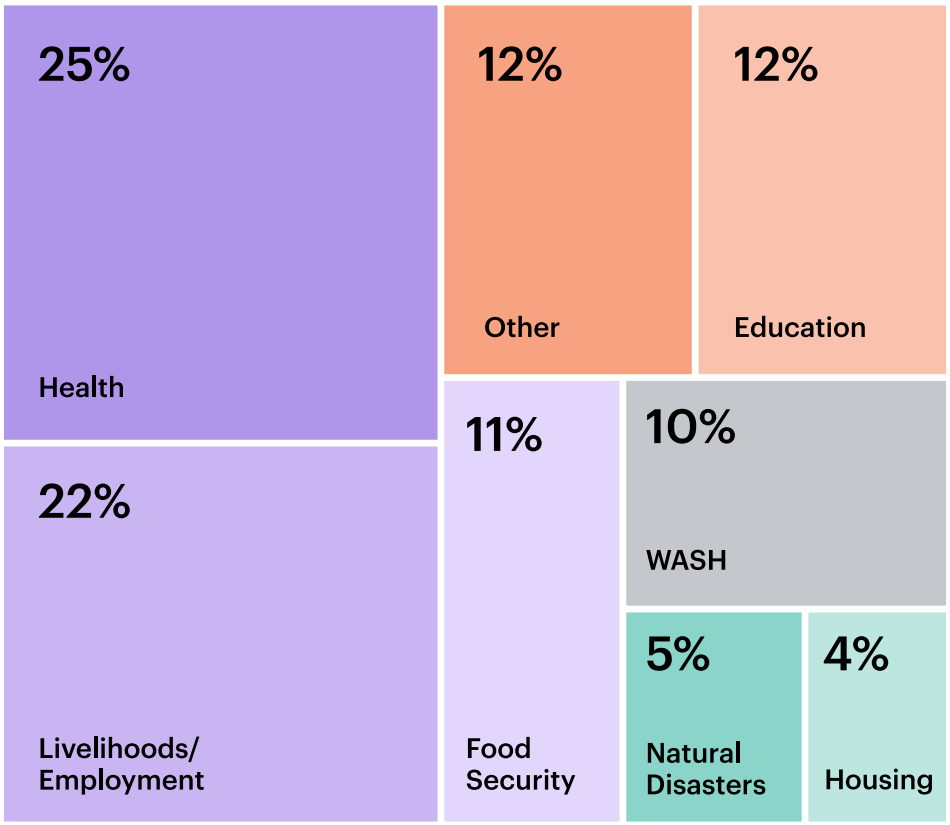
This mapping of social protection policies, programs, and interventions covers 12 Arab countries: Lebanon, Tunisia, Egypt, Jordan, Morocco, Algeria, Iraq, Yemen, Sudan, Palestine, Syria, and Libya. The provided summary statistics are the result of preliminary tabulations undertaken in January 2024, where the data stopped. The final, complete dataset will be published in a live dashboard on the Arab Region Hub for Social Protection's website in the coming year.

Figure 8: Distribution of Social Protection Reforms in 12 Arab Countries from 2010-2023, by Function



Source: Author's Calculations, using data collected by the author and the Arab Reform Initiative's Social Protection team (2024).

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Same note as for Figure 7.

These results can be explained by the fact that the IMF and the WB have been very active in the region since 2010, thus recommending, funding, and implementing the targeted and labor market activation approaches to social protection. The World Bank stood out as the biggest actor and donor in the above-mentioned mapping of social protection policies and programming that we conducted. When confronted with the downside of these policies and programs, the Bank argues that the intention is for these to expand over time and become universal. In addition, they argue that feasible alternatives do not exist. Nevertheless, a thorough global study conducted in 2023, covering the biggest social safety nets in the world such as Bolsa Familia (later Auxilio Brasil) in Brazil and Prospera (later Progresa and Oportunidades) in Mexico, found no evidence globally that programs supposedly targeted at the poorest can or will later expand to become universal. Instead, the study ascertains that in the few cases where poverty-targeted programs have become universal, like in Mongolia and Kenya, this has not been because of incremental progress but rather the product of a paradigm shift in policy thinking and a radical change in political power.[44]

44 Kidd, Stephen et al. "Affordable and Feasible Pathway to Universal Social Security." Development Pathways, June 2023. Available at https://www.developmentpathways.co.uk/wp-content/uploads/2023/06/Affordable-and-feasible-pathway-to-universal-social-security.pdf

Yet, the WB has been ignoring all caveats. In the past decade, it has supported – fully or partially – extensive targeted safety nets, including Lebanon's Emergency Social Safety Net Program (ESSN), Egypt's Takaful and Karama Program, Jordan's Takmeely Support Program, and Tunisia's Amen Social Safety Net Program. Moreover, it has been invasive in digitalizing social services and delivery systems while being oblivious to data privacy infringements as well as to issues of financial and digital literacy and inclusion, alongside uneven access to electricity and telecommunications infrastructures. Examples include the automated Takaful cash transfer program in Jordan and the unified social registry and revamped social protection system in Morocco. In the former case, Jordan's National Aid Fund (NAF), the social protection agency administering Takaful, stressed that no single indicator will exclude a household from Takaful as each is given a weight indicating its importance in the targeting process. However, families owning cars less than five years old or businesses worth 3,000 dinars (US$ 4,200) or more are automatically disqualified. Human Rights Watch found that these indicators often fail to fully capture the economic complexity of people's lives, as they reduce hardships to a ranking system that pits households against each other for support, thus increasing social tensions and perceptions of unfairness. [45] In the case of Morocco, people living in remote and rural areas, as well as those with a modest level of education have been struggling to cope with the recent wave of public service digitalization and local centers have not been able to compensate for that. [46] A forthcoming study by the Arab Reform Initiative (ARI) also shows that many poor and marginalized communities are finding themselves excluded from the nascent social health insurance and family allowance programs, despite all praises to the new social registry so far.[47]

Arab States, meanwhile, feel comfortable spending development aid on such assistance programs instead of building a solid infrastructure for a universal social protection system because the former is more compatible with their spending rationale, which favors consumption over production and investment, and reflects in current government expenditures always dominating capital government expenditures. The IMF further encourages the WB, as its sister organization, to promote and support such programs to both deploy the fiscal savings resulting from the elimination of universal subsidies and other austerity measures, and to compensate for the social impact of public spending reduction. However, solely looking at the reallocation of monetary amounts in Egypt, for instance, is enough to realize that only a small fraction of the savings is actually to expand cash transfer schemes, which – at any rate – are ineffective at alleviating poverty.[48] As Figure 9 below indicates, the IMF, for its part, has approved since 2010 a total of 24 loans in the region, making more than US$ 161 billion of debt to just 8 Arab countries within a period of 13 years.

45 Human Rights Watch. "World Bank/Jordan: Poverty Targeting Algorithms Harm Rights." 13 June 2023. Available at https://www.hrw.org/news/2023/06/13/world-bank/jordan-poverty-targeting-algorithms-harm-rights

46 Abderrafie Zaanoun. "Morocco: The Impact of the Digitization of Public Services." Arab Reform Initiative. 19 April 2023. Available at https://www.arab-reform.net/publication/morocco-the-impact-of-the-digitization-of-public-services/https://www.arab-reform.net/publication/morocco-the-impact-of-the-digitization-of-public-services/

47 The study is still in mimeo and is titled "Political and Technical Interconnections in the Design of the Social Targeting System in Morocco." It is conducted by Abderrafie Zaanoun for ARI and is expected to be released online on ARI's website shortly.

48 (Diab, Egypt, the IMF and Three Subsidy Approaches)

Figure 9: IMF Loan Agreements in the Arab Region (2010-2024)

Country	Year of Loan	Loan Type	Amounts (Billion US$) – Approx.
Egypt	2016	EFF	12
	2020	SBA	5.2
	2020	RFI	2.8
	2022	EFF	3
	2024	EFF	5
Jordan	2012	SBA	2
	2016	EFF	0.7
	2020	EFF	1.3
	2024	EFF	1.2
Iraq	2010	SBA	3.7
	2015	RFI	0.8
	2016	SBA	5.3
Morocco	2012	PLL	6.2
	2014	PLL	4.6
	2016	PLL	3.4
	2018	PLL	2.9
	2023	FCL	5
Mauritania	2023	ECF/EFF	87
Sudan	2021	ECF (frozen)	2.47
Tunisia	2013	SBA	1.7
	2016	EFF	2.9
	2020	RFI	0.7
Yemen	2010	ECF	0.4
	2014	ECF	0.5
Total: 24			**161**

Source: Compiled by the author, using IMF data (2024).

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This table lists all IMF loan agreements with Arab countries between 2010 and 2024.[49] The table does not include staff-level agreements and current negotiations between the IMF and Arab governments like the ones that have been taking place in Tunisia and Lebanon over the past couple of years.

49 **Stand-By Arrangement (SBA):** A loan program that provides financial assistance to countries facing short-term balance of payment problems.
Extended Fund Facility (EFF): A loan program that supports medium-term economic programs and structural reforms.
Rapid Financing Instrument (RFI): A rapid disbursement loan to meet immediate balance of payment needs.
Flexible Credit Line (FCL): A pre-cautionary credit line that provides insurance against potential future shocks.
Extended Credit Facility (ECF): Medium-term support for low-income countries with protracted balance of payment problems and structural weaknesses.
Precautionary and Liquidity Line (PLL): Precautionary credit line for countries with strong fundamentals but facing potential external shocks.

In the name of "fiscal consolidation," which mainly signifies reducing public budget deficits and has lately been replaced by the appellation "credible fiscal framework," the IMF imposes alongside every loan program austerity measures such as reducing public spending, including health and education expenditures, eliminating energy, food, medicine and agriculture subsidies, cutting or capping the public wage bill, and rationalizing and narrow targeting social safety nets. Additionally, the IMF recommends pension and social security reforms that entail reducing benefits and entitlements for beneficiaries, tax reforms that entail increasing consumption taxes, especially VAT, and/or reducing corporate and wealth taxes, and labor flexibilization reforms that entail reducing employment protection.[50] In fact, the IMF recommends waiving or reducing employers' contributions to social security, considering this as a "tax wedge" to support businesses, although these contributions are not taxes but deferred workers' wages and are important to be paid to social security funds to ensure their sustainability and protect workers' rights and compensations. In the name of reforming SOEs, the IMF also pushes for the initiation of privatization or public-private partnerships (PPPs), thus commercializing key public services like energy, water, transportation education, and health. Social insurance and pension systems are often privatized as well. In doing so, the IMF is further informalizing Arab labor markets since the private sector has been increasingly opting for informal employment because it is cheaper, especially following the surge in the digital economy in the aftermath of the COVID-19 pandemic. Hence, private sector workers become more prone to job and social insecurity.[51]

The IMF prescribes this same recipe to all client member States requesting its financial assistance, especially countries of the global South. As evident in Figure 10 below, these recommendations are mainly given to low and low-middle-income countries, even in the midst of a global health crisis like in 2020. Looking at the IMF loan agreements that have been approved in 2020, given how critical this year was for the world and regional economies, we note, in the Arab region, the approval of a US$ 5.2 billion SBA for Egypt, a US$ 1.3 billion EFF for Jordan, and a US$ 0.7 RFI billion for Tunisia. In reviewing the IMF documents corresponding to this selection of agreements, we find that all of them involved calls for fiscal consolidation, and that Jordan and Tunisia's agreements specifically involved calls to reduce public wages and subsidies (see Figure 11 below). Jordan's agreement involved a call to reduce the scale of social safety nets and to implement regressive tax reforms as well. These recommendations have therefore been provided irrespective of the severity of the crisis and its social repercussions. IMF agreements are also typically accompanied by a set of conditionalities, whether in the form of Quantitative Performance Criteria (QPC), Indicative Targets (IT), or Structural Benchmarks (SB).[52] These consist of financial and trade liberalization, unifying and floating exchange rates, openness to Foreign Direct Investments (FDIs), and market deregulation. While these recommendations can sometimes be sound in certain contexts, such as in the case of Lebanon where no official capital control rule has been set since the beginning of the economic crisis and where parallel exchange rate markets persist, they usually do more harm than help.

For example, the IMF recommended exchange rate flexibilization for Tunisia in all years spanning 2012-2019, except in 2015, as a form of monetary austerity. As a result, the Tunisian Dinar has lost over 72% of its value between 2013 (the date of approval of the US$ 1.7 billion SBA) and 2021 (the year following the approval of the last US$ 0.7 billion RFI).[53] As for the Egyptian Pound, it has lost over 374% of its value between 2016 (the date of approval of the US$ 12 billion EFF) and today, following the approval of the last EFF earlier this year.[54] The devaluation of the local currency causes a mix of demand-pull and cost-push inflation, thus acting as a negative redistributor of resources where some people get better-off and others worse. By increasing the cost of living, especially amid price liberalization as likewise recommended by the IMF, and depreciating wages, the purchasing power of the low and middle-income class severely decreases. The devaluation of the exchange rate also leads to fiscal imbalances and widens the debt. In Tunisia, the devaluation increased debt payments by 13.02%, 14.63%, and 19.88% in 2016, 2017, and 2018, respectively.[55] On the other side, the IMF suggests increasing the interest rate as a way to combat inflation, although high interest rates were one of the main

50 Ortiz, Isabel et al. "The decade of adjustment: A review of austerity trends 2010-2020 in 187 countries." (2015) Available at https://spf.org.uk/wp/wp-content/uploads/2017/03/15-53.pdf

51 Isabel Ortiz and Matthew Cummins. "The age of austerity: a review of public expenditures and adjustment measures in 181 countries." SSRN 2260771, 2013. Available at https://resistir.info/livros/age_of_austerity_ortiz_and_cummins.pdf

52 For more about these forms of conditionality, please check: https://www.hrw.org/report/2023/09/25/bandage-bullet-wound/imf-social-spending-floors-and-covid-19-pandemic

53 Author's calculation using the Trading Economics database https://tradingeconomics.com/tunisia/currency

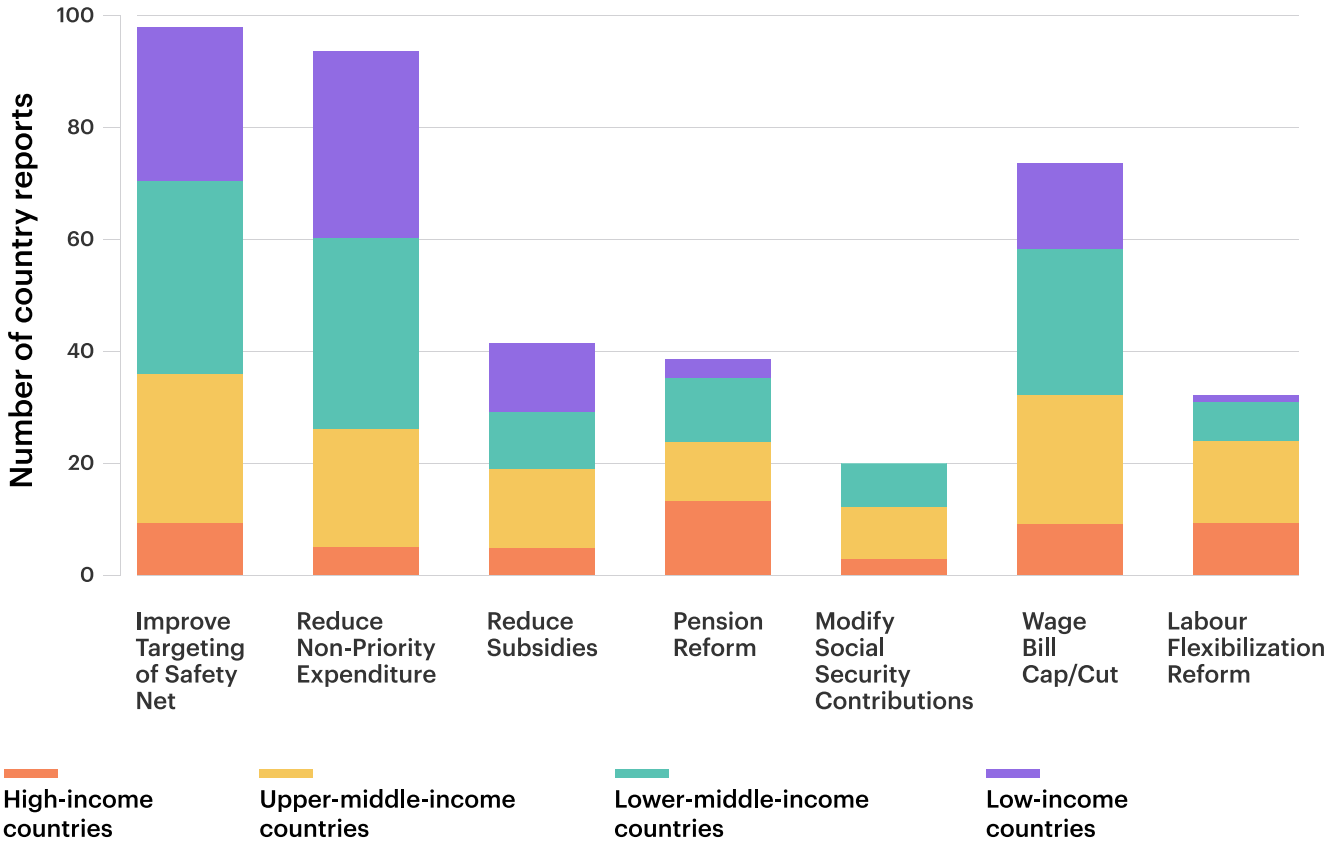
54 Author's calculation using the Trading Economics database https://tradingeconomics.com/egypt/currency

55 Kais Attia and Sahar Mechmech. "A Decade of Austerity." Al Bawsala, November 2022. Available at https://www.albawsala.com/files/2022/11/A-decade-of-austerity-en-f.pdf

reasons behind the Ponzi scheme in Lebanon and evidence has shown their ineffectiveness at tackling inflation in many countries, including in Egypt, where they had a reverse effect.[56]

As Ortiz (2021) writes, "This advice and conditionality have been part of the Washington Consensus blueprint." The IMF is not being true to its own assessments either, as it devises policies which contradict many of its reports' findings and its analyses in Article IV consultations[57] as well as in other consultative processes. [58] As it began to assimilate the notorious impact of austerity, the IMF resorted to solutions like introducing social spending floors. However, these spending floors are ineffective at countering this impact, as they are not disaggregated by sector to ensure that spending on social protection does not mean less spending on other social services.[59] As they currently are, for every $1 increase

Figure 10: Incidence of Austerity Measures Recommended by the IMF in 2020 (Number of Country Reports)



Source: Ortiz and Cummins, "Global Austerity Alert: Looming Budget Cuts in 2021-25 and Alternative Pathways," 2021. Based on: IMF fiscal projections in the IMF World Economic Outlook, 2020.

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56 Hussein, Salma et al. "Egypt's Successive Economic Crises: The IMF's Impact and Pathways to Just Monetary, Food, and Social Policies." Arab Reform Initiative, 12 April 2024. Available at https://www.arab-reform.net/publication/egypts-successive-economic-crises-the-imfs-impact-and-pathways-to-just-monetary-food-and-social-policies/

57 The IMF conducts annual consultations with each member government, referred to as "Article IV Consultations," to evaluate the economic health of each country and prevent future financial issues. The IMF published its assessments in so-called Article IV Staff Reports.

58 Razavi, Shahra et al. "Social policy advice to countries from the International Monetary Fund during the COVID-19 crisis: Continuity and change." International Labour Organization (ILO). December 2021. Available at https://www.ilo.org/wcmsp5/groups/public/---ed_protect/--soc_sec/documents/publication/wcms_831490.pdf

59 Alexandros Kentikelenis and Thomas Stubbs. "IMF Social Spending Floors: A fig leaf for austerity?." Oxfam International, 13 March 2023. Available at https://policy-practice.oxfam.org/resources/imf-social-spending-floors-a-fig-leaf-for-austerity-621495/

in social spending, $4 less is spent on other public expenditures.[60] These floors do not consistently promote universal social security and universal quality public services and do not ensure that spending on health, education, and social security meets, at a minimum, international benchmarks as a percentage of GDP and national budgets. They are checked on an ad hoc basis in each review and are not framed as goals to be achieved by the end of a certain program, which prevents them from setting specific benchmarks and working towards them by the next review.[61]

Figure 11: Summary of IMF Recommendations in Selected Arab Countries in 2020

Country	Egypt	Jordan	Tunisia
IMF Loan	US$ 5.2 Billion SBA	US$ 1.3 Billion EFF	US$ 0.7 Billion RFI
Reducing or Reallocating Public Expenditures	×	×	×
Reducing Subsidies		×	×
Wage Bill Cap or Cut		×	×
Tax Reforms		×	
Safety Net Targeting		×	

Source: Author, based on IMF documents (2024).

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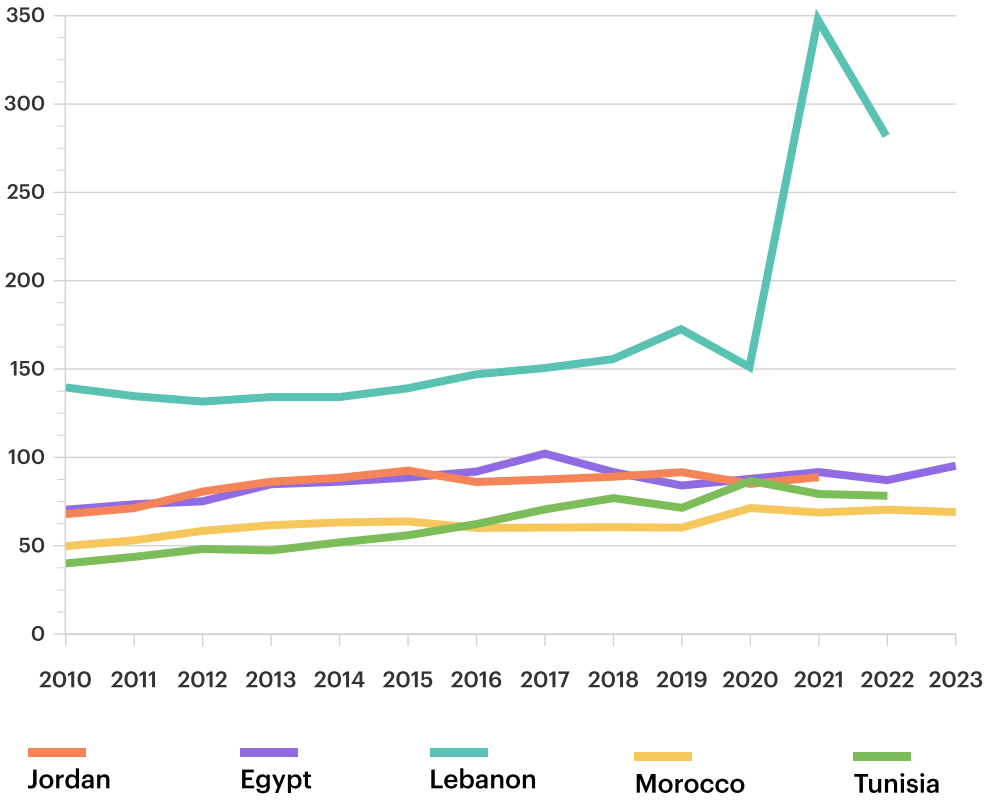
60 Oxfam International. "For Every $1 the IMF Encouraged Set Poor Countries to Spend on Public Goods, It Has Told Them to Cut 4 Times More Through Austerity Measures." 13 April 2023. Available at https://www.oxfam.org/en/press-releases/every-1-imf-encouraged-set-poor-countries-spend-public-goods-it-has-told-them-cut

61 Human Rights Watch. "A Bandage on a Bullet Wound: IMF Social Spending Floors and the COVID-19 Pandemic." September 25, 2023. Available at https://www.hrw.org/report/2023/09/25/bandage-bullet-wound/imf-social-spending-floors-and-covid-19-pandemic

The impact of IFIs' policies is evident through fundamental economic indicators. Looking at indicators corresponding to Lebanon, Tunisia, Morocco, Jordan, and Egypt, and especially observing 2016 as the cut-off point, being the year when four of these countries (all but Lebanon) engaged in new IMF loan agreements, we notice common patterns that back up our analysis. As Figure 12 below shows, the government debt to GDP ratio is overall upward sloping across the years, presenting a spike for Egypt and a significant increase for Tunisia right after 2016. Jordan's ratio especially increased after the 2012 loan agreement while Morocco's ratio especially increased after the 2018 loan agreement. The rise in total government debt is expected as a consequence of borrowing, however, it is worth noting that this rise is accentuated by the fact that, in addition to debt settlements, governments pay high debt servicing fees, interest rate payments, and surcharges in the case of delayed installments. In Figure 13 below, it is apparent that the rate of debt servicing (as a % of GDP) is considerably higher than the rate of government health spending (as a % of GDP) for Egypt, Morocco, and Tunisia in both 2020 and 2022. In Egypt, the second largest IMF debtor in the world,[62] where the debt to GDP ratio is over 95%, the government spends much more on interest rate payments alone than on social and environmental interventions.[63] Evidence from Egypt and Tunisia, among other countries, shows that vulnerable populations are the main bearers of debt burdens.[64,65]

Figure 12: Total Government Debt (% of GDP)



Source: Author compilation using multiple sources (IMF, Central Banks of Egypt, Tunisia and Morocco, and Jordan's MoF), 2024.

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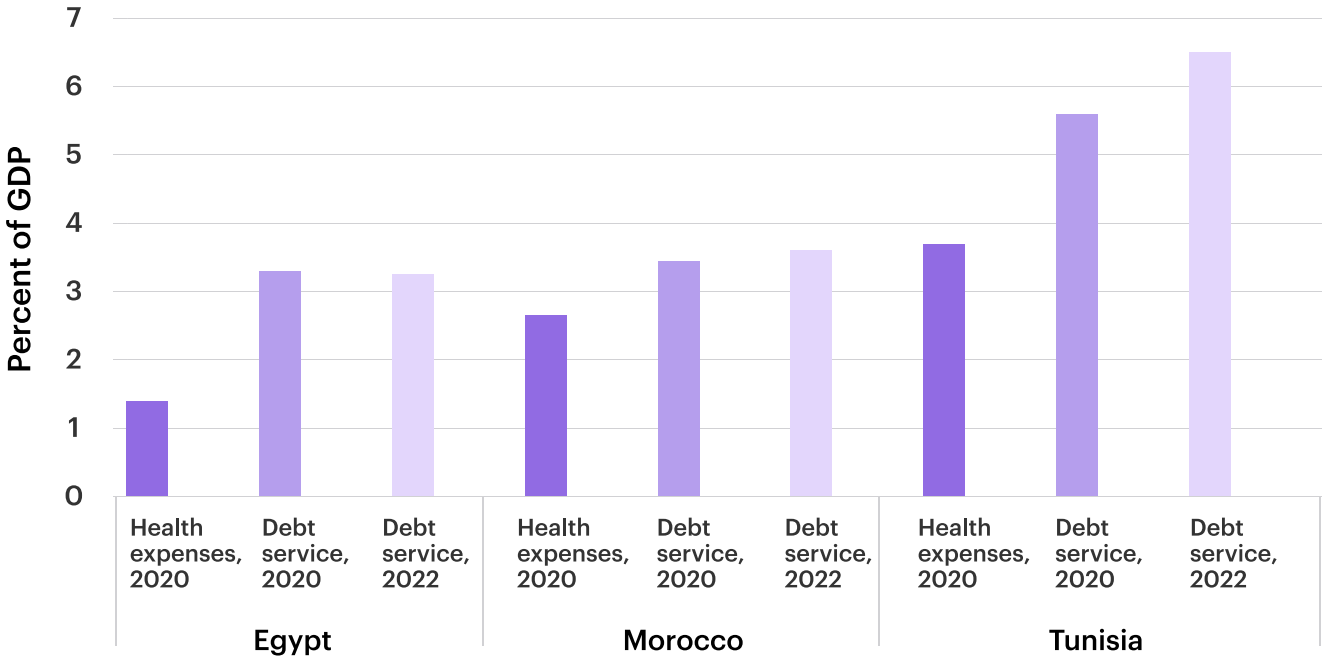
62 Jiyeong Go and Alex Irwin-Hunt. "The IMF's Top 10 Biggest Debtors." FDI Intelligence, 3 April 2024. Available at https://www.fdiintelligence.com/content/news/the-imfs-top-10-biggest-debtors-81405

63 (Diab, Egypt, the IMF and Three Subsidy Approaches)

64 Osama Diab. "Debt as Exploitation." Progressive International. 13 March 2021. Available at https://progressive.international/blueprint/0a00500c-e145-477a-a5e5-55d74772a3e0-debt-as-exploitation/en

65 Friedrich-Ebert-Stiftung. "The Tunisian Debt Crisis in the Context of the Covid-19 Pandemic: Debt Repayments Over Human Rights?" Tunisia, August 2021. Available at https://library.fes.de/pdf-files/bueros/tunesien/18186-20210910.pdf

Figure 13: Debt Service and Government Health Spending (% of GDP)



Source: Oxfam International, "The Middle East and North Africa Gap: Prosperity for the Rich, Austerity for the Rest," 2023. Using IMF and World Bank data.

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Surcharges aggravate this reality.[66] From the region, Egypt, Jordan, and Tunisia are among 22 countries worldwide that pay high surcharge fees, making a sum of US$ 2 billion per year.[67] Surcharges are "fees levied by the IMF on loans to countries whose outstanding credit to the IMF exceeds certain time-based and/or level-based thresholds. The fees add two to three percentage points to lending rates, on top of regular interest rates and service fees."[68] Yet, the IMF is not willing to let go of this bad credit risk management tool. Moreover, loans sold by the IMF as "soft" or "concessional," as well as global issuances of Special Drawing Rights (SDRs)[69] in response to crises and emergencies, are a major contributing factor to this debt trap. Regarding SDRs, they are promoted as being debt-free while they are not. They entail interest payments as well and have inadvertent negative economic consequences. SDRs are issued to all IMF member States, in amounts that are proportionate to their voting shared at the Fund. This ironically means that, while they are issued amid crises, they mostly benefit countries of the global North who need it less and who are only given the option to give their SDRs away to countries of the South – an act that has happened only occasionally.[70]

66 Daniel Munevar. "A guide to IMF surcharges." Eurodad, 2 December 2021. Available at https://www.eurodad.org/a_guide_to_imf_surcharges

67 Merling, Lara et al. "The Rising Cost of Debt: An Obstacle to Achieving Climate and Development Goals." Center for Economic and Policy Research, 30 April 2024. Available at https://cepr.net/report/the-rising-cost-of-debt-an-obstacle-to-achieving-climate-and-development-goals/

68 Vasic-Lalovic, Ivana et al. "A Broader Impact Than Ever Before: An Updated Estimate of the IMF's Surcharges." Center for Economic and Policy Research, 11 April 2024. Available at https://cepr.net/report/a-broader-impact-than-ever-before-an-updated-estimate-of-the-imfs-surcharges/

69 The SDR is an international reserve asset created by the IMF in to supplement its member countries' official reserves. Its value is based on a basket of five major currencies, including the US$, at a certain point in time. During global crises, like the COVID-19 pandemic, the IMF issues SDR allocations to its member countries to supposedly support them.

70 Farah Al Shami. The Trap of Pinning Hope on the IMF's Special Drawing Rights (SDR) in Lebanon. Arab NGO Network for Development and Arab Reform Initiative, 2021. Available at https://www.annd.org/en/publications/details/the-trap-of-pinning-hope-on-the-imfs-special-drawing-rights-sdr-in-lebanon

Additionally, climate finance, as it has been understood and deployed, resides in countries of the North paying the debt they owe to Southern countries for all the environmental damage the former have caused in the form of loans instead of grants – either explicitly or implicitly.[71] The South has also been deprived of debt cancellations in return for its mitigation and adaptation efforts, which is rather replaced by green debt swaps that benefit industrial countries. An investigation by Reuters (2024) found that wealthy nations have loaned at least US$ 18 billion at market interest rate to fight the effect of climate change, of which US$ 2.1 billion went to Egypt, US$ 1.5 billion to Tunis, and US$ 1.1 billion to Iraq. On the other hand, the grants received by these Arab countries are negligible. Instead, conditions imposed by Western countries, such as contracting their national companies for various projects, have funneled billions of dollars back to them, namely more than US$ 10.8 billion back to Japan and more than US$ 3 billion back to the USA.[72]

Consequently, Arab countries are grappling with acute public budget deficits (see Figure 15 below) of stagnant-growing trends, making their governments hospitable to austerity advice. As per Figure 14 below, public spending, in terms of government final consumption expenditures, which is sometimes considered as a proxy for social expenditures, has been generally steady for Tunisia, Jordan, and Morocco between 2010 and 2023, showing slight falls following the 2016 agreements and during most other loan agreement episodes. Egypt exhibited a tremendous fall in its public spending as of 2016 whereas Lebanon exhibited a major decrease in its public spending starting the 2019 economic crisis and amid the COVID-19 pandemic. As for social spending, it appears to be co-trending with overall government consumption while exhibiting more pronounced fluctuations. In Tunisia, the IMF remains optimistic in its reviews about the government's uptake of energy subsidy reduction. In 2016, it even called to virtually abolish subsidies, keeping a designated budget of merely around TND 166 million, without any plans to restore it in the future.[73] In Egypt, spending on energy subsidies decreased from about 40% of total social expenditures in 2017 to 30% of total social expenditures in 2019.[74]

Furthermore, while the IMF claims that it aims at maximizing economic growth and job creation, it seems that it is rather engaging in an act of de-growth. As Figures 16 and 17 show, Arab countries' GDP growth rates depict nonlinear flats with remarkable volatilities following major crises or shocks. Trends in personal income can be inferred from this observation. The five countries' unemployment rates are, in turn, also flat to downward sloping. Notable increases in this rate can be seen for Jordan following the 2016 EFF, for Morocco following the 2012 PLL, and for Tunisia following the 2013 SBA. The quality of education and health services has been similarly decreasing over the years, while health out-of-pocket expenditures and expenses on private tutoring or supplementary education have been increasing in the countries at hand, especially in Morocco and Egypt.[75,76]

71 Since climate finance began to get more traction following the COVID-19 pandemic, the global North started to provide more loans to the South, overtly framing this act as paying the climate debt it owes. This approach has been enshrined in many fora such as the Paris Finance Summit. Additionally, the North has been implementing green projects that are debt-based in implicit exchange for climate debt forgiveness. The loss and damage fund, whose traits have not yet been delineated, is widely expected to perpetuate this impasse.

72 Irene Casado Sanchez and Jackie Botts. "A Program Meant to Help Developing Nations Fight Climate Change is Funneling Billions of Dollars Back to Rich Countries." Reuters, 22 May 2024. Available at https://www.reuters.com/investigates/special-report/climate-change-loans/?fbclid=IwZXh0bgNhZW0CMTAAAR2WRmMI4RXwrzU6B5l1ZWvSlDT_z-d9hxpQJQjViCqkLbFniVdexwHYZcs_aem_6IwWcSq-0hMMRfACcChR4A (Casado and Botts, A Program Meant to Help)

73 (Chandoul et al., Uncovered)

74 United Nations Economic and Social Commission for Western Asia. "Social Expenditure Monitor: An Integrated Framework for Supporting Macro-Fiscal Policies and the SDGs." United Nations, July 2020. Available at https://www.unescwa.org/sites/default/files/pubs/pdf/social-expenditure-monitor-budgets-sdgs-english_1.pdf

75 (Chandoul et al., Uncovered)

76 (Diab, Egypt, the IMF and Three Subsidy Approaches)

Figure 14: Public Spending: Government Final Consumption Expenditure, and Social Spending (% of GDP)

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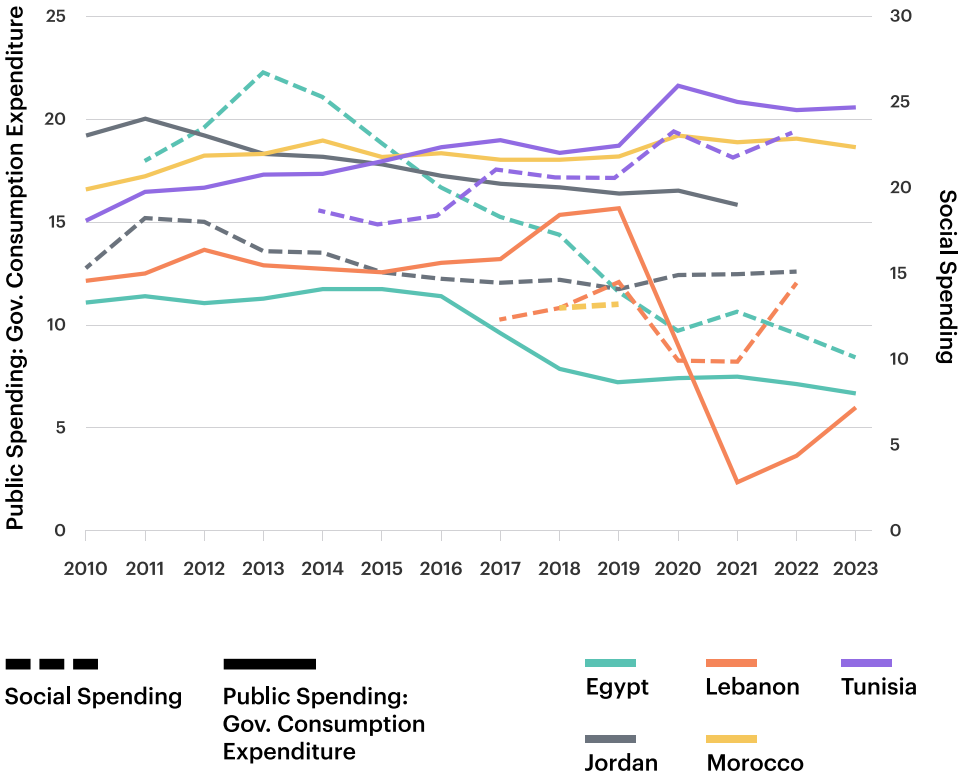

Source: Author, using World Bank data (2024) and UN-ESCWA's Social Expenditure Monitor's Data Dashboard (2024).

Figure 15: Total Budget Deficit (% of GDP)

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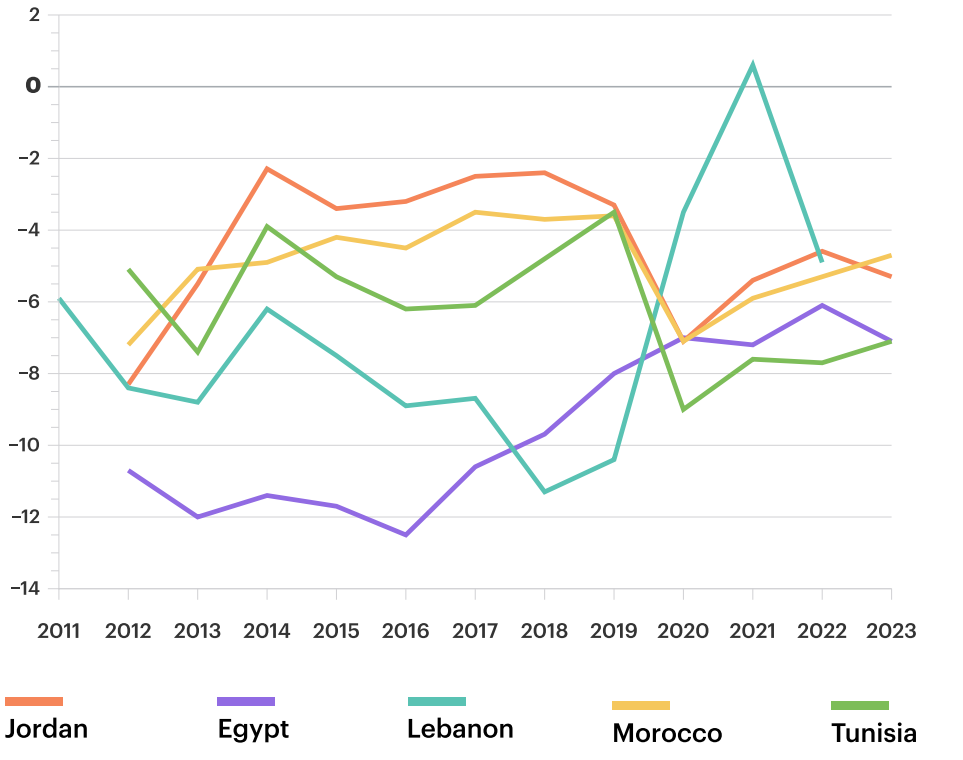

Source: Author compilation using multiple sources (IMF, Central Banks of Jordan, Tunisia and Morocco, and Egypt's MoF), 2024.

Figure 16: GDP Growth Rate (%)

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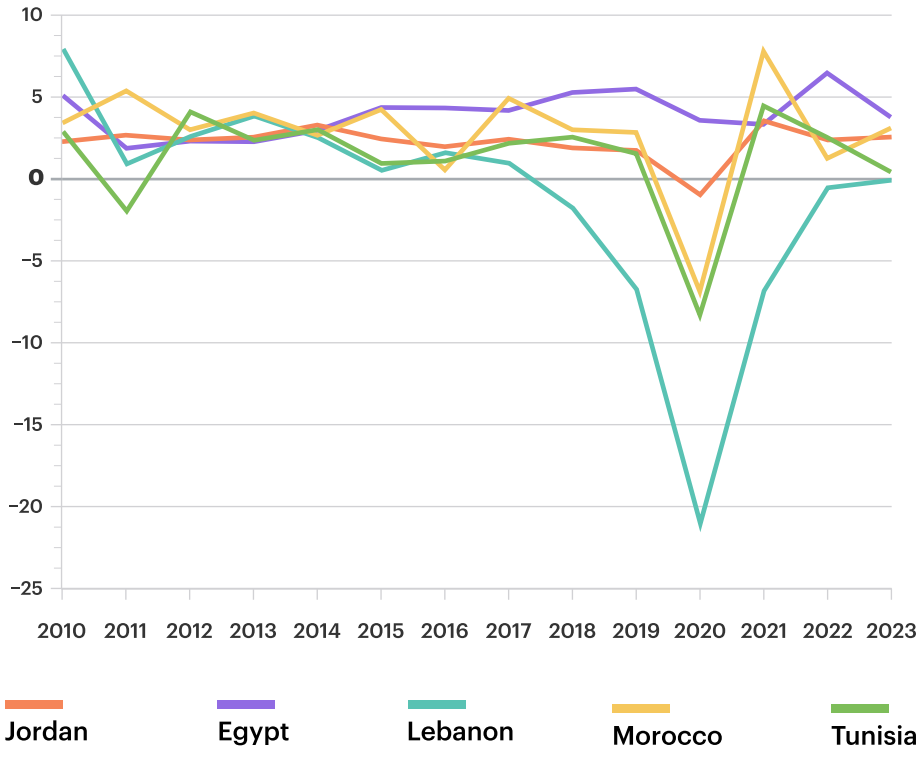

Source: Author, using World Bank data (2024).

Figure 17: Unemployment Rate (%)

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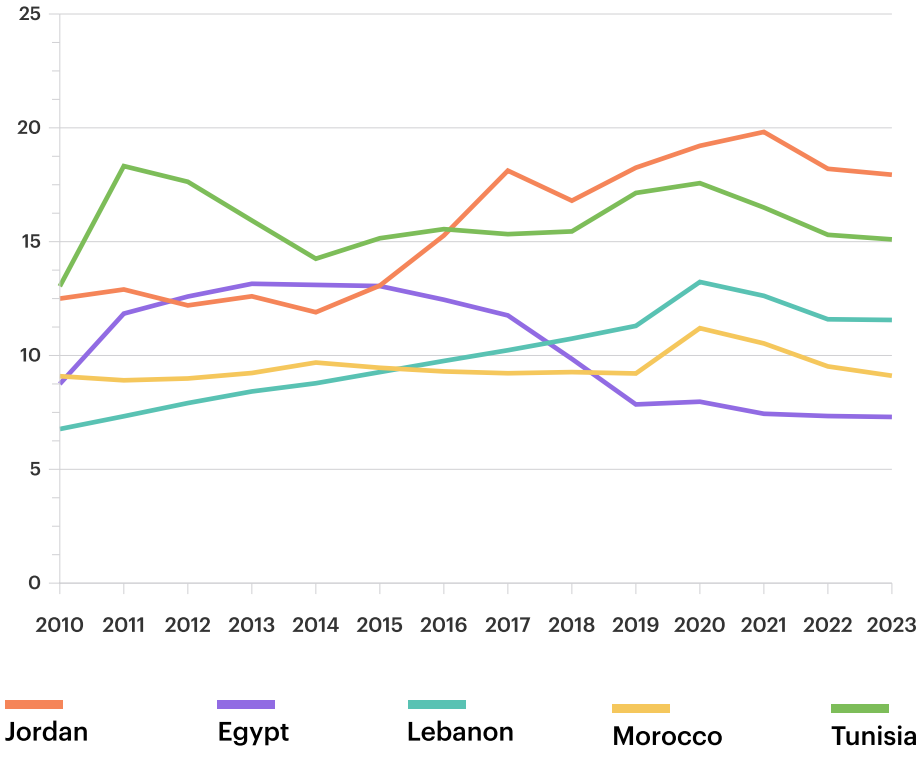


Source: Author, using World Bank data (2024).

Apart from shrinking the fiscal space available for public and social spending, IFIs are shaping Arab development paradigms and economic models by prioritizing resource mobilization over redistribution, and economic growth and job creation over the quality and distribution of national income and employment. IFIs adopt the "cascade approach" that intends to maximize finance for development by prioritizing private solutions wherever possible.[77] IFIs and Arab States reckon that the political cost of increasing taxes/revenues, which they think of as large-scale riots, is much higher than that of reducing spending/ austerity since the former echoes as having a more direct impact on people's income. On the contrary, the IMF often advises lowering corporate income taxes, which is always a welcome step by Arab States as it feeds their power-sharing system and their conflict of interest with capital owners. In Jordan, companies in the industrial sector pay a preferential rate of 14%, as compared to the minimum corporate tax rate of 35%. Other sectors, including the financial and mining sectors, pay 24%, whereas many other activities, particularly in the services industry and amongst self-employed professionals, pay 20%.[78] In Tunisia, corporate income tax has witnessed two major decreases in the past decade: the first in 2014, when it dropped from 30% to 25%, and the second in 2020, when it dropped from 25% to 15% (the lowest rate possible for a country without being classified as a tax haven by the Financial Action Task Force).[79] In Egypt, between 2014 and 2018, the share of total taxes on goods and services increased from 42.8% to 48%, while the share of corporate income tax decreased from 35.9% to 24%.[80] Overall, income tax in the region yields less than 2% of GDP, while it accounts for 8.31% in OECD countries.[81]

Tax exemptions are usually granted to corporations to attract FDIs, as investments supposedly bring tax returns that outweigh the exemptions. However, this is not usually happening because corporations do not typically invest for tax exemptions but based on other factors like the ease of doing business, business climate, geographic location, and promisingly high return on investment, etc. In fact, favoring private corporations, especially multinational ones, is one way through which multilateralism informalizes and thus cheapens labor in the global South to achieve massive appropriations through the trade of goods and services.[82] The IMF has also been unintentionally misleading the South through its "rosy forecasts," emanating from confidence regarding the success of its bailout programs. Such forecasts have often incentivized countercyclical economic policies at the wrong time and place.[83]

With Arab States refusing to consider the IMF as a lender of last resort, despite all conundrums, they have had to deal with mass protests against austerity, fiscal injustice, and lack of adequate social protection or other repercussions. This phenomenon has manifested and grown over history and all over the world, as illustrated in Figure 18 below. The majority of anti-austerity protests in the world have focused on the impact on work/livelihoods, public service reforms, privatization and deregulation, tax/fiscal justice, and inequality. We mapped out 214 protest movements in seven Arab countries (Egypt, Jordan, Lebanon, Tunisia, Sudan, Iraq, and Algeria) in the period spanning 2011-2023 by looking at published scholarly and news articles. As indicated by Figure 19 below, we found that around 90% of these protests included demands related to social protection reforms. Out of these last protests, 25% also included demands calling out austerity and asking for fiscal justice. As Figure 20 disaggregates these protests and demands by country, we realize that Egypt, followed by Jordan, Tunisia, and then Sudan, was home to most social protection-centered protests, whereas Lebanon, followed by Iraq, was home to most protests with mixed demands, covering social protection, austerity, and fiscal reforms.

77 Paddy Carter. "The World Bank's Preference for Private Finance Explained." Center for Global Development, 27 March 2018. Available at https://www.cgdev.org/blog/world-bank's-preference-private-finance-explained

78 Nasser Abdel Karim. "Tax Justice and Sustainable Development in the Arab Region." Ford Foundation and Arab Network for NGO Development, December 2018. Available at https://www.fordfoundation.org/wp-content/uploads/2019/07/tax-justice-and-sustainable-development-in-the-arab-region-final-1.pdf

79 Oxfam International. "The Middle East and North Africa Gap: Prosperity for the Rich, Austerity for the Rest." October 2023. Available at https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621549/bp-mena-gap-prosperity-for-the-rich-austerity-for-the-rest-051023-en.pdf?sequence=13 (Oxfam International, The MENA Gap)

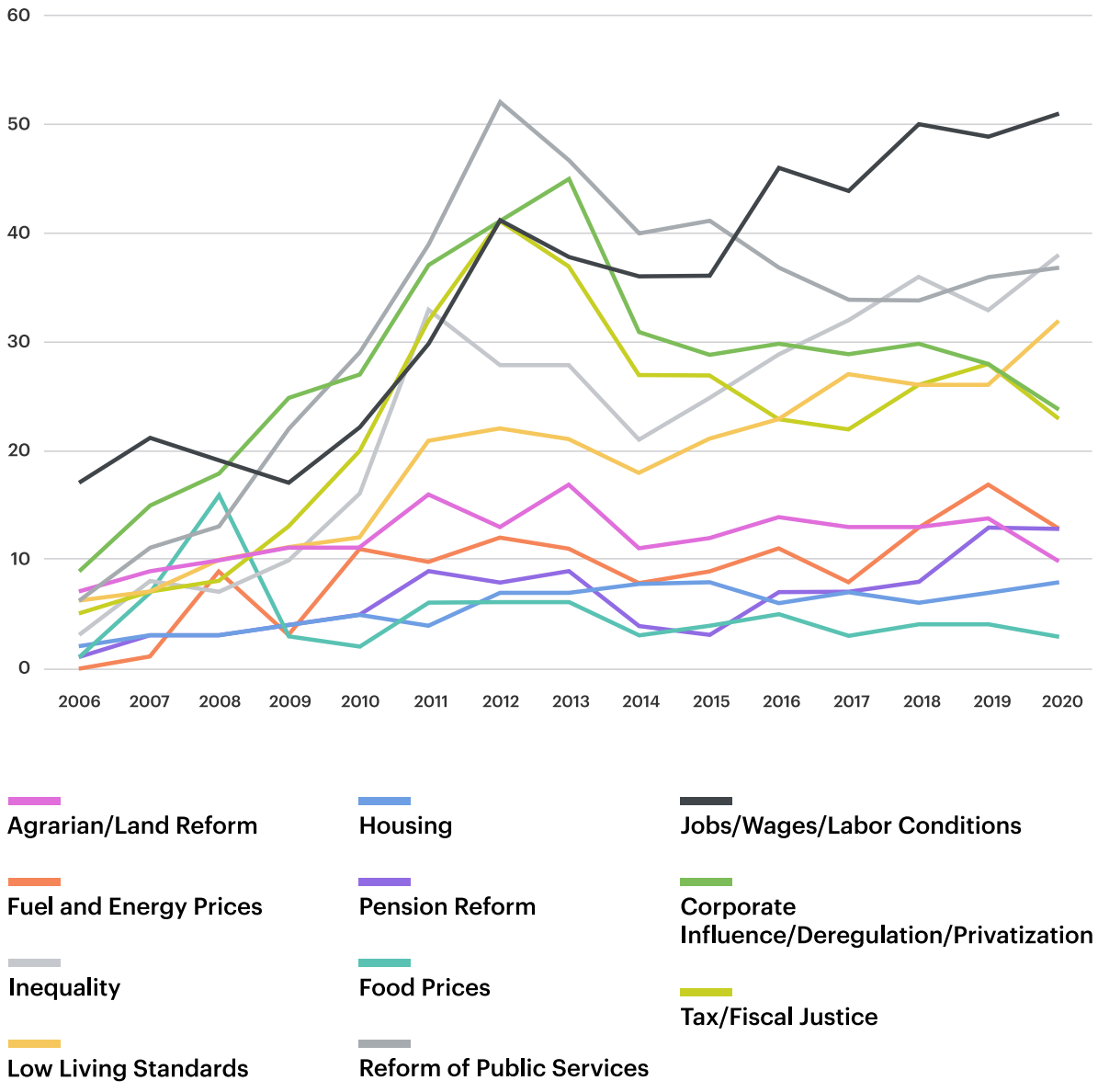
80 (Oxfam International, The MENA Gap)

81 OECD (2021). Tax - Tax on Personal Income - OECD Data. Available at: https://www.oecd.org/en/data/indicators/tax-on-personal-income.html

82 Hickel, Jason et al. "Rich Countries Drained $152tn from the Global South Since 1960." Al Jazeera, 6 May 2021. Available at https://www.aljazeera.com/opinions/2021/5/6/rich-countries-drained-152tn-from-the-global-south-since-1960

83 Kristina Rehbein. "A Decade of Rosy Forecasts: How the IMF Underestimated Debt Risks in the MENA Region." Friedrich-Ebert-Stiftung, September 2022. Available at https://library.fes.de/pdf-files/bueros/tunesien/19552.pdf

Figure 18: Rising Discontent and Conflict: Anti-Austerity Protests in 101 Countries, 2006-2020 (in Number of Protests/Year)



Source: Ortiz et al., "World Protests: A Study of Key Protest Issues in the 21st Century," 2022.

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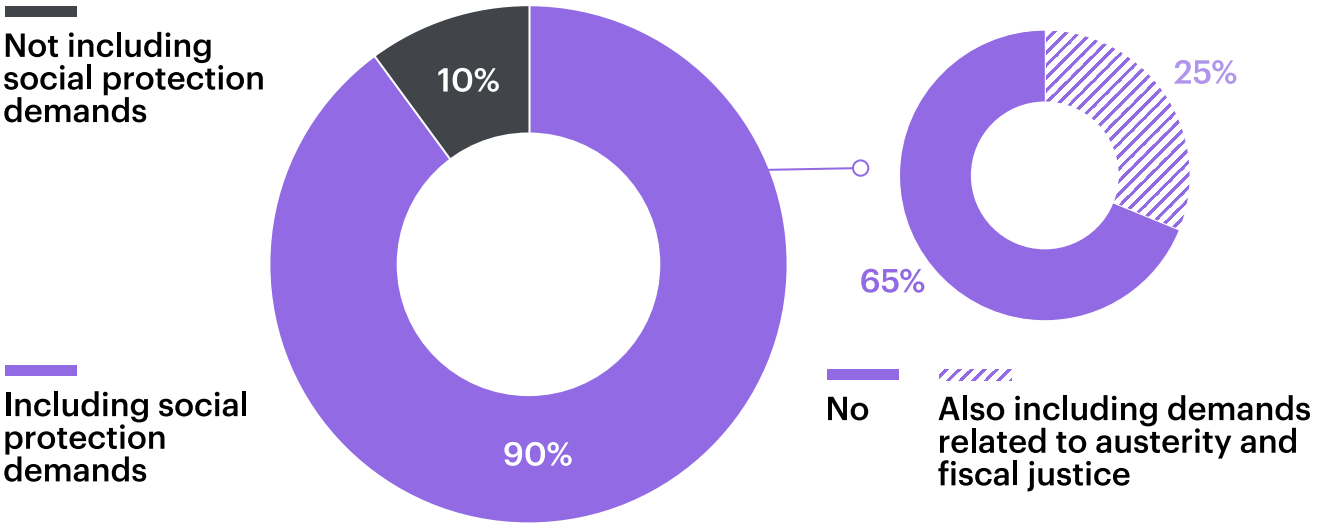
Figure 19: Frequency of Social Protection and Fiscal Justice Demands in 214 Mapped Social Movements in the Arab Region (2011-2023)



Source: Author's Calculations, using data collected by the author and the Arab Reform Initiative's Social Protection team (2023).

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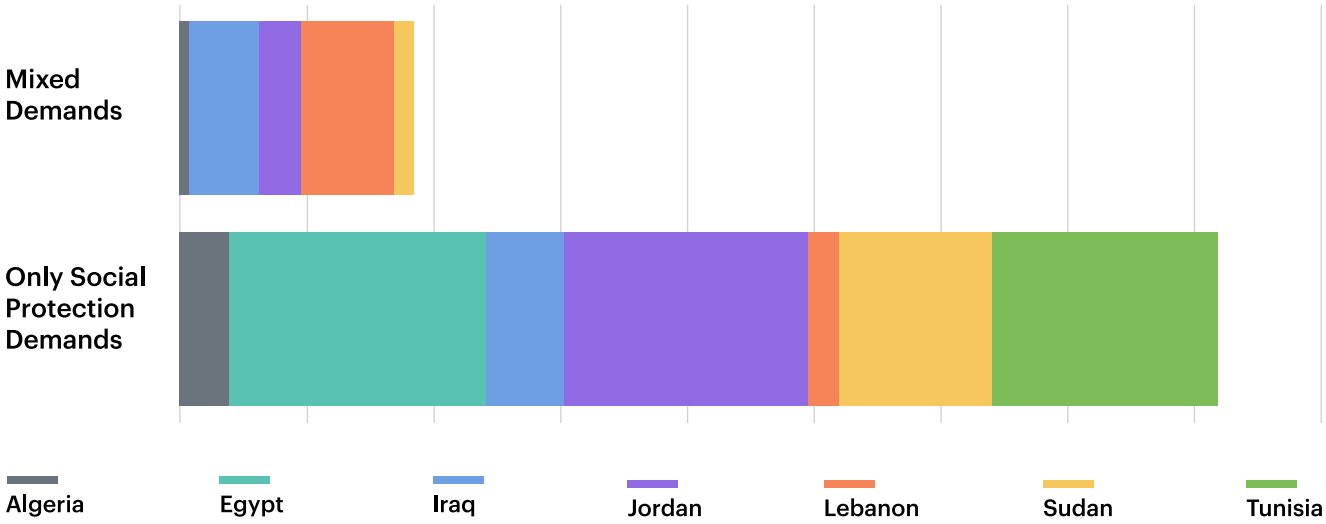
We mapped out 214 protest movements in 7 Arab countries (Egypt, Jordan, Lebanon, Tunisia, Sudan, Iraq and Algeria) in the period spanning 2011-2023 by looking at published scholarly and news articles on the web. This mapping is still a work in progress. The provided summary statistics are the result of preliminary tabulations undertaken in March 2023, where the data stopped. The final, complete dataset will be published in a live dashboard on the Arab Region Hub for Social Protection's website in the coming year.

Figure 20: Frequency of Social Protection and Fiscal Justice Demands per Country (Number of Demands) – Follow-up to Figure 19



Source: Author's Calculations, using data collected by the author and the Arab Reform Initiative's Social Protection team (2023).

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Same note as for Figure 19.

Our mapped-out movements belong to various forms of mobilization and collective action, from big protests by coalitions and trade unions to "non-social movements" or "everyday movements," as coined by Assef Bayat, such as smaller syndicate sit-ins and petitions.[84] We also noticed that the "social field"[85] in question is predominated by actors asking for socioeconomic justice, equality, and redistribution. The actors that would engage in counter-movements, such as chambers of commerce, industrialists, creditors, and business/capital owners, were nearly absent from the field. This could be an indicator that, indeed, the overall economic system fits their interests and looks promising to them.[86]

Evidence from Latin America shows that politicians become interested in expanding social protection, particularly to workers in the informal sector, when their existence is threatened by nationwide social movements and high

84 When mapping these social movements in the region, we stayed mindful of Olivier Fillieule (1993)'s view suggesting that they are undefinable because associating them with specific criteria and defining them a priori can contaminate our perceptions of them, while they should rather branch from the subjects themselves - be it individuals, initiatives, or organizations.

85 Referring to Pierre Bordieu's field theory, which considers the "field" as an environment where agents and their social positions are situated, and where each agent's position is determined by the interaction between the field's specific rules, the agent's habitus, and his/her social, economic, and cultural capital.

86 Ketchley, Neil et al. "Anti-austerity riots in late developing states: Evidence from the 1977 Egyptian Bread Intifada." Journal of Peace Research, 2 July 2023. Available at https://journals.sagepub.com/doi/full/10.1177/00223433231168188

levels of electoral competition for these workers' votes.[87] In the Arab region, such movements and competitions need to be relatively very intense to make a difference given the complex politico-economic structures of Arab regimes, which can easily keep dragging them into their business-as-usual. However, despite Arab States' fluctuating or feeble political will for social protection reforms, there remain some low-hanging fruits to seize especially if we tackle one policy at a time or take one step at a time. This should be taken into consideration as we think of the alternative financing mechanisms in the next section, following on from the current state of play that we dissected so far.

87 Candelaria Garay. "Including Outsiders in Latin America." In Social Policy Expansion in Latin America. Cambridge University Press; 2016:1-27. Available at https://www.cambridge.org/core/books/abs/social-policy-expansion-in-latin-america/including-outsiders-in-latin-america/B60A78BD7242174DE7B92A3D43E9ED84

Alternatives and Missed Opportunities

Unlike what IFIs and Arab governments claim, alternative financing mechanisms for universal social protection are numerous. Most of them are deeply rooted in the concept of Social and Solidarity Economy (SSE), which is defined by the ILO as an economy that "encompasses enterprises, organizations and other entities that are engaged in economic, social, and environmental activities to serve the collective and/or general interest, which are based on the principles of voluntary cooperation and mutual aid, democratic and/or participatory governance, autonomy and independence, and the primacy of people and social purpose over capital in the distribution and use of surpluses and/or profits as well as assets."[88] SSE has been getting more global recognition for its positive role in ensuring just transition, decent work, and sustainable development amid rapid digital and environmental transformations. In the same framework, solidarity finance is considered a key component of SSE and can be defined as using financial tools to ensure even development and the equitable distribution of wealth and public resources, with a long-term vision to increase social capital. However, solidarity financing has unfortunately been thought of as limited to initiatives like credit care funds, crowd funding, mutual savings banks, ethical banks and credit unions, microfinance programs such as Village Savings and Loans Associations (VSLAs), trade fairs and Small and Medium Enterprise (SME) festivals, as well as other forms of organization of social and solidarity services such as mutual funds, cooperatives, and associations.

These initiatives are generally community-led and can in many cases offer a certain level of social protection to those enrolled. However, they are not inclusive, not structural, not systematic, not sustainable, and therefore largely ineffective in the medium-long run. Many of them also promote indebtedness at the micro individual or household levels, while focusing on providing access to finance instead of access to livelihood opportunities and income transfers. More importantly, they are not rights-based as they rely on informal forms of solidarity, both providing parallel systems to public ones and helping States evade their responsibilities while remaining in power. As such, they are harming the progress towards effective, State-led systems by offering informal forms of social protection and economic resistance that people can rely on. In many contexts, these initiatives have been found to reproduce power and gender dynamics at the community/family level, in terms of who gets what and why.[89],[90] For example, in Tunisia, old rural women selling handicrafts as a form of economic survival during the COVID-19 were victims of abuse by International Non-Governmental Organizations (NGOs) who were buying their products as a presumed form of support to later find out that they were reselling these crafts at significantly higher prices, without channeling any profits to the women.[91] In Lebanon, a microcredit firm named Al-Qard Al-Hassan was found to be run by and supporting one of the country's political parties (Hezbollah), which is internationally labeled as a terrorist group.[92] Most solidarity initiatives in the country are used as tools by political groups and FBOs, to serve their interests. Examples include the "Loyalty" card that Hezbollah has conceived for its followers to get medicine from pharmacies at discounted rates.[93] In Jordan, a forthcoming case study analysis of two associations "Tekyet Em Ali" and "Rahaba" showed the narrow scale and insufficient level of social protection that such solidarity initiatives are characterized by, especially when compared to needs at the national level.[94]

88 For more, please check: https://www.ilo.org/topics/social-and-solidarity-economy

89 (Ghannouchi, Social Protection under Kais Saied)

90 Miriam Younes. "Solidarity as Resistance. Multidimensional Fears, Vulnerabilities and Coping Mechanisms Among Women Leading Households in Lebanon." The Centre for Social Sciences Research and Action, 2023. Available at https://civilsociety-centre.org/resource/solidarity-resistance-multidimensional-fears-vulnerabilities-and-coping-mechanisms-among

91 Farah Al Shami. "Arab Region Social Protection Systems: Research and Policy Design Challenges." IDS Bulletin 54, no. 2 (2023). Available at https://doi.org/10.19088/1968-2023.135

92 Tony Badran and Emanuele Ottolenghi. "Hezbollah's Al-Qard Al-Hassan and Lebanon's Banking Sector." Foundation for Defense of Democracies, 11 May 2021. Available at https://www.fdd.org/analysis/2021/05/11/hezbollahs-al-qard-al-hasan-and-lebanons-banking-sector/

93 Johny Fakhri. "Details: How Hezbollah Expands Its Mini-State and Extends Its Economy." Al Arabiya, 17 April 2021. Available at https://www.alarabiya.net/arab-and-world/2021/

94 The study is still in mimeo and is titled "The Role of Associations and Cooperatives in Social Protection: A Close Look at the Jordanian Context." It is conducted by Mohammed Bani Amer for ARI and is expected to be released online on ARI's website shortly.

Another forthcoming study shows the importance of institutionalizing solidarity systems like the Zakat (religious tax) system while detangling them from all political and politico-economic intricacies, in addition to tying them to good governance and rational spending.[95] In fact, studies have shown the importance of institutionalizing effective solidarity systems and gradually making them State-led.[96] The principle of solidarity financing, as defined by the ILO, includes more systematized initiatives such as sovereign wealth funds, solidarity equalization funds for aid distribution like the one that was launched in Tunisia for rural women during the COVID-19 pandemic,[97] foreign aid funds to support imports using foreign currency like in Yemen,[98] and the Himat Watan fund, which is one of the best practices from the region as a State-led initiative in Jordan during the pandemic.[99] The would-be global solidarity funds could constitute a good practice on the global level.[100] The institutionalization of such initiatives, among other grassroots and local forms of organization (e.g. social development centers) is important to generalize and expand community-based and informal good practices at the meso and macro levels. Some Arab countries have a strong basis for such a step, including Tunisia, which launched a social and economic solidarity law during the pandemic that only needs amendment and activation.[101] In cases where institutionalization at the governmental level is not possible or desirable, an alternative would be to resort to the level of national trade/labor unions, especially if they are independent.

Nevertheless, solidarity financing, as defined by the ILO, is much broader than this. First and foremost, it should revolve around sound Financing for Development (FFD) practices, which replace debt, austerity, and targeted cash injections. This definition sees solidarity financing as a combination of non-contributory/ tax-financed schemes that allow the inclusion of the unemployed, the poorest, informal labor, and refugees, as inspired by the Beveridge model;[102] and contributory schemes, following the Bismarckian welfare state model of intra-generational (i.e. among those currently living) internal redistribution of resources, whereby those of working age finance children and the elderly, those who work finance the un/underemployed, the rich finance the poor, and the healthy finance the sick.[103] This combination provides a perfect balance between the interests of the beneficiaries and the responsibilities of the financers, which largely overlap. In such a model, the concept of citizenship is no more subordinated to the group, family, tribe, sect, party, or any other supra-individual entity or unit. Social protection rather becomes a cornerstone for social and political contracts. This model offers many alternative financing mechanisms for rights-based, universal social security, which would be a missed opportunity if not pursued. These alternatives are diverse and indicative of the fact that universal social protection reforms do not need special government financing to become feasible. All they need – contingent on political will and resolving governance issues such as corruption and incompetent finance management – is the introduction of new redistributive sources of revenues and a reallocation, rationalization, or reprioritization of public expenditures. Indeed, Development Pathways and Act Church of Sweden (2024) found that, globally, 52 low and middle-income countries, constituting 39% of all low and middle-income countries, are implementing universal, lifecycle social security benefits. They found that universal programs are not only feasible in theory, but also do exist in the global South. In the 52 countries, they found over 88 social programs that are universal or benefit-tested.[104]

95 The study is still in mimeo and is titled "The Roles of Zakat in Social Protection in Sudan (1980-2021): A Critical Study." It is conducted by Medani Abbas for ARI and is expected to be released online on ARI's website shortly.

96 The Centre for Social Sciences Research and Action. "The Precarity Gender Gap and Non-Institutional Forms of Solidarity in Social Protection in Lebanon." March 2023. Available at https://civilsociety-centre.org/content/precarity-gender-gap-and-non-institutional-forms-solidarity-social-protection-lebanon-0

97 Afef Hammami Marrakchi. "Local Authorities in Tunisia Face Challenges of Post-COVID Economic Recovery." Arab Reform Initiative, 21 August 2020. Available at https://www.arab-reform.net/publication/local-authorities-in-tunisia-face-challenges-of-post-covid-economic-recovery/ (Marrakchi, Local Authorities in Tunisia)

98 Alex Harper. "Two Birds with One Stone: Using Aid Transfers to Support Stable Commodity Prices in Yemen." Sana'a Center for Strategic Studies, 4 August 2023. Available at https://sanaacenter.org/publications/main-publications/20561

99 The Jordan Times. "Gov't Approves Allocation of JD10m to Himmat Watan Fund to Equip Field Hospitals." November 2020. Available at https://jordantimes.com/news/local/govt-approves-allocation-jd10m-himmat-watan-fund-equip-field-hospitals

100 Nimeh, Zina et al. "A proposed Global Funding mechanism for Social Protection." Social Protection.org, 3 March 2022. Available at https://socialprotection.org/discover/blog/proposed-global-funding-mechanism-social-protection

101 (Marrakchi, Local Authorities in Tunisia)

102 The Beveridge model is a healthcare system where the government ensures healthcare for all citizens, funded through income tax payments.

103 The Bismarck model, also known as the Social Health Insurance Model, is a healthcare system where individuals pay fees into a fund that covers healthcare services. These services can be provided by SOEs, other government-owned bodies, or private institutions.

104 Daisy Sibun and Holly Seglah. "Taking stock of progress A compilation of Universal Social Security Schemes in Low- and Middle-Income Countries." Development Pathways, February 2024. Available at https://www.developmentpathways.co.uk/wp-content/uploads/2024/02/Taking-stock-of-progress_Feb2024-1.pdf

Contributory Schemes: Redesigning What Is Possible

Contributory schemes are the easiest to establish or reform, as long as there is policy determination in this direction. Crucial reforms on this level include widening the base of contributions by including informal labor, migrants, and refugees, thus making up for the lack of sufficient contributions due to high dependency rates caused by a mix of youth bulge and aging population. Contributions should be sufficiently subsidized by the government and employers, especially for the most in-need. The benefits, conditions and entitlements of contributory schemes should also be made favorable to attract more subscriptions and encourage people to allocate larger portions of their earnings to insurance or long-term saving accounts.

Argentina, Brazil, and Uruguay have had exemplary experiences in increasing social protection coverage, and therefore the collection of contributions is a reliable way to finance universal schemes and formalize workers in the informal economy with decent contracts, thereby challenging tax wedges/ labor taxes.[105] Lebanon should be following suite if Law 319 regarding the new mostly contributory pension systems makes it to the executive level. Incentives that can be used to encourage enrollment also include providing a percentage match when contributions reach a certain threshold or offering higher interest rates for consistent contributions. Pilot programs that were successful at tackling these issues have been put in place in countries such as Thailand and Rwanda.[106]

Finally, it is of utmost importance that contributions are managed responsibly, largely dollarized, and invested in diversified portfolios that spread the risk. Hence, the money is less likely to lose its value amid local or international currency depreciations, the money can be cashed out when beneficiaries need it and is not stuck in the stock markets, and the financial sustainability of the contributory system is maintained. It is particularly important to limit the amount of money invested overseas in sovereign wealth funds. Iraq, for instance, is among the countries of the world with very low human development but with a rich (US$ 18 billion) sovereign wealth fund, the Development Fund for Iraq, that is based on fiscal revenues from oil.[107]

Taxation and Fiscal Reforms: Increasing the Tax Base and Revenues from Progressive Fiscal Tools

Taxes are an indirect form of contributions, since – in other terms – taxpayers pay implicit contributions through their taxes. Fiscal reforms and taxation constitute the biggest opportunity for alternative social protection financing. Increasing the tax base by including excluded population groups and improving tax collection mechanisms can be a strong first step. National resources, more broadly, should also be augmented by improvements in public finance management, thus fighting illicit financial flows, stopping tax dodging, avoidance, and evasion, and removing unnecessary tax exemptions, deductions, credits, and incentives. Reducing tax evasion, in particular, needs restored trust in public systems, which can be possible by starting to provide social protection and quality social services before enacting new tax reforms. Fighting corruption and consequent misappropriations, embezzlements, and leakages in public finance resources is also essential to augment the national pie before starting to think of reallocating, reprioritizing, and rationalizing public expenditures in favor of more social spending.

Arab States should begin by making their fiscal systems more progressive and redistributive, so that they can collect additional revenues without adding more economic burdens on poor and vulnerable communities. To do that, indirect taxes, especially VAT and pink taxes[108] should be reduced, and

105 Isabel Ortiz and Matthew Cummins. "End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25." European Network on Debt and Development, 28 September 2022. Available at https://www.eurodad.org/end_austerity_a_global_report

106 (Mechmech and Attia, Failure to Protect)

107 Ortiz, Isabel et al. "Fiscal Space for Social Protection: A Handbook for Assessing Financing Options." UNWOMEN and International Labor Organization, 2019. Available at https://www.social-protection.org/gimi/Media.action;jsessionid=CIUPSdBP5TQRiIEWBhvzKkFCviq5cf1_nRUPz2VNtRvt-PebZ-TI0!-1975053523?id=16957 (Ortiz et al., Fiscal Space for Social Protection)

108 The pink tax is a type of gender-based discrimination where products and services marketed towards women or labeled as feminine typically cost more than those marketed for men.

VAT should be replaced with more progressive sales taxes. We acknowledge that this might not be possible in Arab countries dealing with a cash economy and a weak digital economy, but as structural macroeconomic transformations take place, this reform should be given serious consideration. Direct taxes should also become more genuinely progressive by increasing the number of tax brackets and their level of positive discrimination by income. This includes both personal income taxes and corporate income taxes, noting that the second should certainly be more significantly increased given that it targets profit-oriented businesses, which expressively make more income. Indexing these brackets to inflation is also very crucial. Most importantly, wealth taxes should be introduced or increased. These include capital taxes, capital gain taxes, property taxes, real estate gain taxes, real estate vacancy taxes, and Robin Hood taxes (targeting money in international financial markets), among others. This ensures a reduction in the level of wealth accumulation, while offering substantial resources to finance social spending. Argentina, Iceland, and Spain are some of the international experiences to follow on this front.

Oxfam (2023) estimates that in four Arab countries – Egypt, Jordan, Lebanon, and Morocco – a 5% wealth tax on individuals with fortunes of US$ 5 million and above would generate a combined US$ 10 billion in revenue. "These funds could be used to strengthen and extend public services and policies to those who need them most. They would, for example, allow Egypt to double its health spending, while Jordan could double its education budget. Lebanon could increase its combined health and education spending sevenfold."[109] Even globally, major improvements have recently occurred that could be capitalized on. Earlier this year, the United Nations (UN) has started the negotiation of the terms of reference for a new Framework Convention on International Tax Cooperation. The new tax convention is key for essential tax administration reforms on the global level, including combatting tax dodging by big and multinational corporations and overcoming the challenge of the lack of binding extraterritorial obligations systemically across the world, especially in countries of the global South. This convention will pave the way to implement meaningful global tax reforms such as introducing the long awaited 2% global wealth tax,[110] and Brazil's proposal to the G20 to set a 15% global minimum tax on corporations and billionaires, under the UN's administration.[111] This proposal is currently being discussed and seriously considered, and it involves a reciprocity mechanism in tax collection between multinational corporations' home and host countries, which ensures the success of the initiative and reduces tax evasion to a minimum.

Other fiscal reforms can include introducing a monotax, as a way to subsidize benefits and simplify procedures. A monotax is a single payment covering taxes and contributions collected by the government with the intention to extend social security coverage to the self-employed, workers in microenterprises, and other informal workers. Uruguay, followed by Brazil and Argentina, is one of the success stories in this regard.[112] Export taxes and tariffs have also been introduced or increased in many Latin American countries for the purpose of trade justice and to finance the gradual introduction of specific universal social protection schemes (a children's grant, an elderly grant, or a disability grant). Other tax reforms can include using sin taxes[113], taxes on digital services, or remittance taxes (like in Colombia and Georgia) to finance such schemes. Taxing negative externalities, such as natural resource extraction, can also be opportune. In 2007, Bolivia introduced a universal social pension for individuals aged 60 and above, funded through revenues and taxes from natural resources.[114] Mongolia and Zambia have also financed universal social protection schemes using the same type of tax.

In fact, countries of the global South have increasingly been launching tax-financed universal social protection schemes. As recent examples, Mongolia currently provides a tax-financed child assistance program with a monthly benefit for all children aged 0-17 years and has recently increased the level of benefits in this program.[115] In 2018, Kenya introduced

109 (Oxfam International, The MENA Gap)

110 Jessica Corbett. "Ministers from Four Major Economies Call for Wealth Tax on the Rich." Common Dreams, 25 April 2024. Available at https://www.commondreams.org/news/wealth-tax#:~:text=Ministers%20from%20four%20major%20economies,the%20environment%2C%20and%20infrastructure.%22

111 Richard Partington. "'A historic step': G20 discusses plans for global minimum tax on billionaires." The Guardian, 29 February 2024. Available at https://www.theguardian.com/news/2024/feb/29/taxation-worlds-billionaires-super-rich-g20-brazil

112 International Labour Organization. "The Impact of COVID-19 on the Health and Economy." ILO Social Protection Department, 2014. Available at https://www.social-protection.org/gimi/Media.action?id=14451

113 A sin tax is an excise tax on particular goods and services considered harmful or costly to society. This tax is applied at the time of purchase. Common items subject to a sin tax include tobacco products, alcohol, and gambling.

114 UDAPE. 2013. "El impact de la renta dignidad." https://www.udape.gob.bo/evaluaciondeimpacto/12_Documento_Impacto%20Renta%20Dignidad.pdf

115 Development Pathways. "Universal Child Benefits: The Curious Case of Mongolia." 18 March 2019. Available at https://www.development-pathways.co.uk/blog/universal-child-benefits-the-curious-case-of-mongolia/

the Inua Jamii Senior Citizens' Scheme, a tax-financed pension for all citizens aged 70 or above.[116] As for the Arab region, Oman introduced a universal social protection floor by establishing a consolidated fund aimed at enhancing the financing and coverage of social security by merging contributory and non-contributory schemes. The tax-funded initiatives include a universal child benefit, a universal pension for individuals over 60, and a universal disability allowance. It also has planned reforms to bolster the existing social insurance framework and introduce new benefits, such as parental leave, sickness, occupational injury, and job security insurance.[117]

A new costing tool developed by the Inclusive Social Security Policy Forum (ISSPF) and an upcoming edited volume by ARI showcase that the adoption of a certain new tax or a tax increase can be an effective way to finance a specific universal social protection scheme, which means that such fiscal reforms can be a robust tool to make the progressive realization of universality feasible.[118] The multidimensional challenges that could hinder such strategies in the Arab region should be deconstructed along with all biases and discussed with IFIs and governments with an open mind. It is necessary to detangle these problems and localize their understanding instead of merely projecting international experiences on national contexts. However, as explained earlier in this paper, there has been a strong leverage point to make small wins, on a reform-by-reform basis, and to sit with the decision makers in order to unlearn our fiscal issues, politicize them, and explore ways to solve them based on international success stories or lessons learned.

Climate Finance: The Missed Opportunity

The current climate change crisis can be turned into a unique opportunity to explore innovative venues to channel resources into social spending. While climate finance has been a co-optation tool in the hands of a neoliberal multilateralism paradigm, it could be seized as a chance to redistribute financial resources within and between countries. Such beneficial changes can be precipitated by linking green financing to social financing, and using the grandfathering of greenhouse emission responsibilities by industrial countries to secure benign development financing to the most indebted countries that happen to be also exposed to high risks in terms of climate change and environmental damage.

The United Nations Framework Convention on Climate Change (UNFCCC) established in 1992, which subsequently led to the Conference of the Parties (COP) meetings, has served as a key driver for international climate action. The Kyoto Protocol, adopted at COP 3 in 1997, and the Paris Agreement in 2015 represent significant milestones in this process.[119] Within this framework, two prominent mechanisms have emerged to foster international cooperation on greenhouse emissions' reduction: the Joint Implementation (JI) and the Clean Development Mechanism (CDM). JI facilitates collaboration between Annex I countries (developed nations with emissions reduction obligations) and Annex II countries (developing nations) on projects that demonstrably reduce greenhouse gas emissions. The CDM, on the other hand, allows Annex I countries to invest in emission reduction projects in Annex II countries.[120] This approach leverages the potentially lower costs of emission reductions in developing nations while generating tradable credits, like Certified Emission Reductions, that Annex I countries can utilize to meet their emissions targets. Proponents view these mechanisms as a cost-effective strategy for developed nations and a potential win-win scenario, promoting both sustainable development in developing countries and emissions reductions to fulfill Paris Agreement commitments.

However, this rationale is centered on cost-effectiveness for developed nations and has significantly shaped the international architecture of climate finance under the UNFCCC so far. This is reflected in the various funds established, which primarily focus on mitigation such as reducing emissions, and adaptation to the inevitable consequences of climate change such as building dams for increased resilience. This prevailing approach of channeling climate finance through investments in so-called "environmental/ developmental" projects has been criticized for disproportionately benefiting developed nations and the private sector, often with the involvement of

116 International Labour Organization. "Inua Jamii Senior Citizens' Scheme." 2019. Available at https://www.social-protection.org/gimi/ShowRessource.action?id=55525

117 International Labour Organization. "Far-reaching Reforms in Oman Set New Benchmark for Social Protection in the Region." 20 July 2023. Available at https://www.ilo.org/resource/article/far-reaching-reforms-oman-set-new-benchmark-social-protection-region

118 To check the costing tool: https://isspf-mena.com/costing-tool/ The study is still in mimeo and is titled "Missed Opportunities for Protection. Property Tax: The Fairest and Most Accessible Tax to Provide Social Protection for Millions. Case Studies from Lebanon, Morocco, and Jordan." It is conducted by Osama Diab et al. for ARI and is expected to be released online on ARI's website shortly.

119 Lindsay Maizland. "Global Climate Agreements: Successes and Failures." Council on Foreign Relations, December 5 2023. Available at https://www.cfr.org/backgrounder/paris-global-climate-change-agreements#:~:text=The%20Kyoto%20Protocol%20required%20only,countries%20to%20set%20emissions%20targets.

120 United Nations Framework Convention on Climate Change. "The Kyoto Protocol – Mechanisms." UNFCCC, 2022. Available at https://unfccc.int/process/the-kyoto-protocol/mechanisms

IFIs like the World Bank Group (WBG).[121] These projects are argued to be limited in scale, inadequate for their intended purposes, and potentially linked to human rights violations. Developed countries are seen as favoring this approach not only for cost savings but also to maintain their current economic practices with unaddressed domestic emissions.[122] Furthermore, some propose utilizing climate finance as a debt relief strategy for developed countries through "debt-for-climate swaps."[123] This approach is unfair as the historical debt burden was accumulated through unequal economic practices.

An alternative perspective should emphasize the concept of climate debt in the sense that developed nations owe a historical debt to developing countries for the environmental damage caused by their past emissions. Settling this debt could provide significant financial and structural reparations for developing nations, creating fiscal space for investments in public services and social welfare. Momentously, this debt should not be repaid through additional loans, but rather through grant-based climate finance. The current reality is different: the OECD estimates that wealthy nations funneled at least US$ 164 billion toward the climate finance pledge via multilateral institutions, of which 80% was loaned, between 2015 and 2020, in addition to countries' direct contributions.[124] This reality can be described as a "dual abuse," where extractivism comes with indebtedness. Additionally, debt cancellation for developing countries must be advocated for as their right, regardless of any requirements for adaptation measures or other actions.

As debt cancellation emerges as a critical element in fostering climate action, particularly for developing nations in the global South, it requires comprehensive solutions encompassing not only traditional creditors like the IMF, WBG, European Union, and OECD, but also private creditors through legislative interventions in key jurisdictions. The urgency for debt cancellation is underscored by the dire situation faced by over 54 heavily indebted countries. These nations are disproportionately burdened, allocating a staggering five times more resources towards debt servicing than climate action and needed social protection reforms.[125] This burden often compels them to exploit natural resources, such as fossil fuels, thus further perpetuating the climate crisis. Furthermore, a significant portion of this debt stems from fraudulent projects that have inflicted environmental and human rights violations. The vulnerability of Southern nations is exacerbated by the need to borrow for adaptation and mitigation efforts, along with addressing issues of loss and damage. This cycle of debt intensifies the "debt trap" and hinders imperative debt restructuring, therefore further limiting fiscal space and public spending.

Recent geopolitical events, exemplified by the war in Ukraine, have provided an unfortunate pretext for OECD countries to regress on climate and ODA targets, and perpetuate the fossil fuels industry.[126] The Arab region faces a particularly acute situation, being one of the most severely impacted by climate change in terms of rising temperatures, altered precipitation patterns, air pollution, water scarcity, energy insecurity, and food insecurity.[127] In Arab countries, adaptation is unfortunately taking precedence over mitigation, with countries like Libya experiencing significant economic hardship due to inadequate adaptation efforts.[128] The current model of international and neoliberal multilateralism has demonstrably hindered the implementation of local solutions, such as environmental taxes, fiscal decentralization initiatives, and robust legal frameworks. A paradigm shift is required towards "glocal" solutions that initiate at the municipal level and subsequently scale up through governorates, nations, regions, and ultimately, the global stage. The current model creates a false dichotomy between environmental stewardship and development. A more holistic approach that leverages public and climate finance can enable nations to achieve both objectives, ultimately

121 Rumney, Emma et al. "Rich nations say they're spending billions to fight climate change. Some money is going to strange places." Reuters, 1 June 2023. Available at https://www.reuters.com/investigates/special-report/climate-change-finance/?fbclid=IwZXh0bgNhZW0CMTAAAR03DDJyG43nskNkEY2pc2VYkckMAFBbrqlhbM-vfjT09HxD-CNY9VL-2x2A_aem_3fFOUZd5Nzfrk9KLvOO7yA

122 Ibid.

123 United Nations Economic and Social Commission for Western Asia. "Civil Society and Climate/SDGs Debt Swap Initiative." UNESCWA, 21 August 2023. Available at https://www.unescwa.org/events/civil-society-and-climatesdgs-debt-swap-initiative

124 (Casado and Botts, A Program Meant to Help)

125 Arab NGO Network for Development. "Cancel the Debt Now to Deliver Climate Justice." ANND, July 10 2023. Available at https://www.annd.org/en/publications/details/cancel-the-debt-now-to-deliver-climate-justice

126 Carey, Eleanor et al. "Tracing the impacts of Russia's war of aggression against Ukraine on official development assistance (ODA)." OECD Development Co-operation, 30 July 2024. Available at https://www.oecd-ilibrary.org/sites/2dcf1367-en/images/pdf/dcd-2023-413-en.pdf

127 Habib Maalouf. "Origins and Prospects of Climate Change Activism in the Arab Region: Rethinking the Development and Market Economy Model." Arab Reform Initiative, 22 April 2022. Available at https://www.arab-reform.net/publication/origins-and-prospects-of-climate-change-activism-in-the-arab-region-rethinking-the-development-and-market-economy-model/

128 Malak Altaeb. "Water Politics in Libya: A Crisis of Management, not Scarcity." Arab Reform Initiative, 29 June 2021. Available at https://www.arab-reform.net/publication/water-politics-in-libya-a-crisis-of-management-not-scarcity/

realizing the interconnectedness of debt justice and climate justice. In the Arab region, with its relatively underdeveloped energy infrastructure, a unique opportunity exists to leapfrog directly to a green transition. This path, also contingent upon political will, can generate employment opportunities, strengthen social protection, and ultimately promote genuine sustainable development.[129]

Debt Restructuring and Other Potential Alternatives: A Range of Options to Choose from as Feasible

Debt restructuring presents a great opportunity to increase the fiscal space. It entails revisiting the debt architecture to cancel debt payments or debt service fees, negotiate interest rates, and reschedule debt by increasing its maturity/duration, with or without penalty. Debtors can also ask for debt relief, hoping for their debt to be written-off as a form of aid during a crisis, shock or emergency, or can default on their insolvent debt.[130] However, it is important for this default to be organized and examined with the lender before it takes place, as it can otherwise distort financial institutions, investors, and even individuals' trust in the economic and financial market, as happened in Lebanon in 2020, and thus cause a detrimental impact on both economies and societies.[131] Alas, in some cases, default would be a better option than economic rectifications that put heavy tolls on poor and vulnerable people. IFIs have a tremendous role to play on this level, including being indulgent in debt terms' negotiations and the writing-off of settlements for debt-distressed countries. Their role is even more important in ensuring borrowing countries accept debt or additional debt that does not look sustainably solvent, as per economic and financial indicators. Since 1980, more than 50 countries have also opted for debt swaps/conversions as a way to restructure their sovereign debt. Since 1990, more than 60 countries have renegotiated debt, and since 1999, more than 20 countries – including Russia and Argentina – have been successful at defaulting on debt. Iraq and Iceland have notably repudiated debt as well.[132] Savings made from such measures can considerably alleviate balance of payment problems and restore the amount of public funds available to spend on public and social services.

Other alternatives include fiscal decentralization. However, this approach can only be effective in contexts that do not entail sectarian and identity-based demographic divisions across geographic compositions. It therefore should not be adopted in countries like Lebanon and Iraq. Where this solution is healthy to implement, its value-added would be to strengthen the role of local governments and social development centers, thus inducing even development and social protection coverage – in both quantity and quality – and leveraging the role of community-led solidarity initiatives through formal or quasi-formal channels. This is one way to guarantee that grassroots forms of organization get considerable support by the State. Alternatives can also include global funding mechanisms, like a global social protection fund and global solidarity fund. While the implementation and administration of these mechanisms is not set in stone, options to ensure that they meet their intended purpose are many. A study aimed at demonstrating the potential cost, social impact, and resilience impacts of such funds in two country contexts, Nepal and Uganda, shows how different simulated benefit packages can highly contribute to reducing poverty and inequality. It also highlights the importance for such funds to operate from their inception on the principle of national ownership to be impactful.[133]

A major but radical alternative would be to shift from traditional social-democratic welfare systems, other welfare systems defined by Esping-Andersen,[134] and elite/private welfare systems to common welfare systems. Such systems also do not work in all contexts and are very ambitious to achieve, as they necessitate fundamental transformations in political dynamics and balances of power. Common welfare systems are owned and governed by those who use them: the people. They have been seen in many countries of the world and the region, on a micro level, such as that of off-

129 International Labour Organization. "Just Transition Policy Brief." January 2023. Available at https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_867426.pdf

130 Chafik Ben Rouine. "Fiscal space for social protection in the MENA region." ISSPF Working Paper Series: Shifting the Paradigm, July 2023, Issue: 10. Available at https://isspf-mena.com/wp-content/uploads/2023/11/ISSPF-Fiscal-Paper.pdf

131 (World Bank, Lebanon Ponzi Scheme)

132 (Ortiz et al., Fiscal Space for Social Protection)

133 Nimeh, Zina et al. "Global Solidarity Funding for Social Protection: A Brief Case of Uganda and Nepal." FES and UN-MERIT, September 2022. Available at https://library.fes.de/pdf-files/iez/19515-20221103.pdf

134 In his political theory book, "The Three Worlds of Welfare Capitalism" (1990), Danish Sociologist Esping-Andersen presents a typology of 18 OECD welfare States, inferring three main models: Liberal, like in USA and Canada; Conservative, like in France and Germany; and Social Democratic, like Sweden and Norway. For more: https://lanekenworthy.net/wp-content/uploads/2017/03/reading-espingandersen1990pp9to78.pdf

the-budget funds and credit unions. However, commonning a country's full welfare system is a far-reaching change that would require political and popular will. Yet, it is important not to overlook it when enumerating available alternatives. Against all odds and challenges, it would be a welfare system governed by the people and for the people, thus stripped of many considerations of those in power.[135] As inspired by elements of common law, it can help us overcome the legalistic approach that has emerged with the rise of neoliberalism, whereby there are wide gaps between the legal, legislative, and executive levels. Many laws and law proposals pass but only a few see the light.

Ortiz et al. (2019) compiled in the table below (Figure 21) examples of fiscal space strategies for social protection that have been adopted by global South countries in the past decade.[136] The matrix includes strategies that have been addressed in this paper and additional ones that have not. This table further supports the view that universal social protection systems are possible in developing countries and that alternative financing mechanisms to the current state of play are numerous. Whether these reforms are feasible in the different Arab contexts is to be determined on a case-by-case basis, depending on multidimensional factors that combine various political, economic, and social specificities.

Figure 21: Country Examples of Fiscal Space Strategies for Universal Social Protection from the South

	Bolivia	Botswana	Brazil	Costa Rica	Indonesia	Lesotho	Namibia	South Africa	Thailand
Expanding social security contributions			✕	✕	✕	✕	✕	✕	✕
Increasing tax revenues	✕	✕	✕			✕	✕		
Curtailing illicit financial flows									
Expenditure reallocation				✕	✕	✕		✕	✕
Tapping into fiscal reserves	✕	✕	✕				✕		
Reducing debt/ debt service	✕	✕	✕	✕				✕	✕
Accommodative macroeconomic policies	✕		✕		✕	✕			✕
Increasing aid						✕	✕		

Source: Ortiz, Isabel et al., "Fiscal Space for Social Protection: A Handbook for Assessing Financing Options," 2019.

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135 Jad Mezher. "Lebanon Needs to Shift from Elite Welfare to Common Welfare." Arab Reform Initiative, 16 May 2023. Available at https://www.arab-reform.net/publication/lebanon-needs-to-shift-from-elite-welfare-to-common-welfare/

136 (Ortiz et al., Fiscal Space for Social Protection)

Conclusion and Policy Recommendations

Failing to finance universal social protection systems is the responsibility of both IFIs and Arab States. IFIs are driven by their hegemony and neoliberal understanding of development effectiveness whereas Arab governments struggle with their incompetence and the enormous conflict between their political interests and the public good. The crony capitalist agenda that IFIs' policies are serving globally is being projected on national levels and is perfectly matching the politico-economic models that Arab regimes have been surviving on. Arab social protection systems are victims of these dynamics. They are restricted by the lack of sufficient fiscal space for social spending due to the effect of indebtedness, nefarious credit risk management tools by lenders, austerity, and other forms of aid conditionality that distort the accommodative nature of macroeconomic policies. They are therefore being limited to narrow poverty-targeted social safety nets and humanitarian assistance that leave vulnerable groups behind and leave enough room for private and elite welfare to dominate.

This paper demonstrates the negative impact of IFIs' policies on social protection systems through the channels of public finance management, fiscal justice, key macroeconomic indicators, governments' policy choices, and demand-driven social movements. These parameters reflect Arab States' priorities that are translating in insufficient political will for reform, major governance problems such as institutional fragmentation and irresponsible management of funds, and a glaring lack of public trust in State systems. The paper highlights how these predicaments add to a wide array of inadvertent challenges that generally afflict social protection policies and programs, irrespective of any specific social, economic, or political circumstances. The paper also emphasizes the socio-economic repercussions of IFIs' policies on the poorest and most vulnerable social groups, whether directly or through the intermediary impact on social protection. In doing so, it explains the root causes of the recent waves of public dissent that are rejecting the current status quo and the different faces of Arab governments' authoritarian bargains.

More importantly, the paper delves deeply into the examination of available alternatives to the present financial architecture, scrutinizing international best practices – whether in the form of success stories or lessons learnt – of fiscal space strategies for universal social protection. It also taps into the feasibility of these alternatives in the different Arab contexts, given their specificities that are laid out throughout the analysis. It proves that alternatives are copious, ranging from increasing the tax base and revenues from progressive fiscal tools to expanding contributory schemes, and from rethinking the way climate debt is interacting with the global order to revisiting the debt architecture, as well as other options like fiscal decentralization. By politicizing its assessment of the current social protection financing mechanisms, using empirical evidence that is based on qualitative and quantitative data, the paper is able to offer a multidisciplinary analysis that helps determine the level of feasibility of each alternative in a particular Arab country.

Accordingly, the following set of policy recommendations can be deduced, presenting solutions that could be implemented by IFIs and/or governments and others that can actually be implemented by these two chief actors, depending on their level of political will for the suggested reform:

1. Short-Medium Term Solutions: What Can Be Done

a. For IFIs

i. Incrementally phase out poverty-targeted social safety nets and humanitarian assistance programs, and use the saved financial resources to gradually introduce universal social protection schemes until the full floor and social security system are established. Invite governments to use single national registries instead of resorting to unified social registries.

ii. Stop recommending austerity measures of all kinds, including reducing or removing universal subsidies, and recommend instead redistributive and progressive tax reforms that do not favor the rich and the private sector.

iii. Provide technical support for Arab governments to increase their tax and contributory bases, end leakages in public financial resources, and manage these resources soundly. In addition to the technical support,

governance support – including institutional, legal, and legislative support – and engagement capacity-building to enhance social dialogue would be crucial.

iv. Disaggregate social spending floors by sector, set benchmarks for these floors that meet international standards, and enforce the floors through more assiduous follow-up and review processes.

v. Ensure that public service digitalization and financial inclusion projects are accompanied by plans to improve digital and financial literacy, as well as access to electricity and telecommunication infrastructures, especially in urban slums and in rural and remote areas.

vi. Exert "positive conditionality" on Arab governments by imposing requirements for politico-economic reforms, transparency, and accountability to be eligible for aid and continuous disbursements.

b. For Governments

i. Simplify the tax code to include all citizens and residents – irrespective of their identity or employment status – and therefore increase the tax base. Implement progressive fiscal reforms and introduce taxes on negative externalities, which create double dividends, to further increase public revenues and reduce the dependence on international financing.

ii. Reallocate, rationalize, and reprioritize public expenditures, making sure social protection spending does not fall below a minimum threshold and does not crowd out other social and public spending.

iii. Propose legislative reforms to introduce universal social protection schemes and especially contributory schemes, and take concrete steps for implementation.

iv. Increase the contributory base, make conditions and benefits more favorable to incentivize enrollment, and keep private employers and SEOs' contributions beyond a considerable threshold.

v. Resort to earmarking revenue collection for the financing of universal social security, and establish independent investment committees, as needed, to ensure the credible management of revenues and contributions.

vi. Address the duplication of responsibilities among ministries and centralize the custody of the social security system and database to avoid information siloes, inefficiencies, and other consequences of institutional fragmentation.

For these reforms to be achievable, there is a dire need to first restore public trust in State systems. The government should therefore provide inclusive and high quality services before introducing significant tax reforms or contributory schemes in order to reduce the risk of tax evasion and make sure people do not exclude themselves.

2. Long-Term Solutions: What Could Be Done

a. For IFIs

i. Support the implementation of the UN Tax Convention and the global personal and corporate wealth taxes to halt tax evasion and tax havens, and to promote the redistribution of resources between countries. Espouse other global funding mechanisms such as a global solidarity fund.

ii. Support the enactment of necessary treaties and the enforcement of extraterritorial obligations to stop IFFs, prevent multinational corporations from tax dodging, and activate tax collection across the digital economy and e-commerce.

iii. Overhaul the current approach to climate finance, making sure debt from the North is paid to the South in the form of unconditional grants and not additional loans or so-called green projects.

iv. Become true to Article IV assessments and consider a country's ability to take-up more debt when approving a structural adjustment program or a concessional loan.

v. Stop surcharges, write-off insolvent debt to needy governments, and facilitate public debt restructuring efforts.

vi. Refrain from policies that hamper the accommodative nature of macroeconomic systems, such as privatization, labor market flexibilization, trade liberalization, and currency floating.

b. For Governments

i. Leverage high internet penetration to introduce e-government in order to combat corruption and enhance transparency and accountability.

ii. Tackle structural barriers to fiscal reforms such as the cash economy and weak digital economy, which can improve tax collection and increase tax revenues.

iii. Implement intra-regional and international tax treaties to counter tax evasion until global mechanisms are put in place.

iv. Restructure the debt architecture to avert unorganized defaults and rather increase the horizon of debt maturities.

v. Consider decentralizing fiscal systems, when demographic and sectarian hurdles are absent. Involve local governments in climate action, empowering them to impose taxes/fines and spend on local projects and infrastructure, with the ultimate aim of increasing the fiscal space for social spending.

vi. Institutionalize successful solidarity initiatives, making sure they get up-scaled to the national level, while shielding them from litigation and isolating them from politico-economic dynamics.

vii. Introduce a monotax to ensure a smoother and more legitimate inclusion of informal labor in both contributory schemes and tax systems.

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About the Arab Region Hub for Social Protection

We are a space in and through which professionals dedicated to exploring, understanding and advocating for better social protection in the Arab region exchange ideas and explore and initiate collaborative action. We envision an Arab region in which all people, regardless of their identities, are guaranteed social protections that secure their access to the essential goods and services needed to ensure their well-being and decent standards of living, which in turn gives them the opportunity to prosper and contribute as active members of society. We aim to facilitate the development of equitable and sustainable social protection systems in the region by: executing, encouraging and facilitating the production, analysis, collation, and dissemination of interdisciplinary knowledge about the topic; facilitating dialogue within professional spheres and awareness raising among the wider public; and enhancing collective action that amplifies advocacy efforts with the different stakeholders and decisionmakers.

About the Social Protection Program

The Arab Reform Initiative's Social Protection Program, which gave birth to the Arab Region Hub for Social Protection, aims to place social policy and its impact on the socio-economic rights of citizens and residents in Arab countries center stage in the research and advocacy efforts seeking to achieve social justice and social equality. By mobilizing and coordinating a community of practice and knowledge on social protection, the program aims to create a safe space for regular and systematic dialogue between the different stakeholders, in order to help addressing the problem of fragmented, non-inclusive, ineffective, and unsustainable social protection systems in the region. While doing so, the program adopts different perspectives – from addressing the necessary policy, programmatic, institutional, financial, legal and legislative reforms; to the political economy involved in the feasibility of these reforms; passing by social activism around welfare policies.

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About the Arab Reform Initiative

The Arab Reform Initiative is an independent Arab think tank working with expert partners in the Middle East and North Africa and beyond to articulate a home-grown agenda for democratic change and social justice. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality, and gender equality.