# 03

## Financial sustainability

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# Key messages

- Arab countries have responded rapidly to the economic effects of the COVID-19 crisis on firms and households and to keep their financial markets in operation. By May 2021, most Arab countries committed to fiscal stimulus packages. The GCC showed the highest spending, at $69.9 billion, compared to $24.78 billion spent by the other subregions. These stimulus packages are mainly based on foregone or re-allocated funding and do not involve major reforms in the tax base.

- The average size of fiscal relief packages in the Arab region was smaller than in other regions around the world (apart from sub-Saharan Africa). This is mainly due to limited fiscal space among low- and middle-income countries that are oil importers and to the existing high rate of public economic support among the oil-exporting countries. The total fiscal support in the Arab region reached 3.9 per cent of GDP, while the world average was at 22.6 per cent.

- Globally, about 9 per cent of fiscal support was spent on social protection, 6 per cent on health-related support and some 60 per cent on economic support. In comparison, the Arab region spent, on average, double the global amounts on social protection and health-related programmes. Exceptionally, Somalia allocated 100 per cent of the pandemic fiscal stimulus to social protection, and in Iraq and Lebanon, social protection allocation accounted for 95 per cent and 96.8 per cent, respectively, of overall spending.

- The levels of spending are also significantly higher than the individual country averages for social protection spending as percentage of GDP, showing, on the one hand, to which extent Arab countries have mobilized funds during the pandemic crisis but also the extent of social needs, on the other hand, which poses a future challenge for the sustainability of pandemic-related social protection spending packages.

- Due to the absence of an adequate tax base, reduced fiscal space, high levels of debt, poor economic performance, and reduced oil revenues, most Arab countries have provided temporary consumption-smoothing programmes to vulnerable groups such as the unemployed, women and children, rather than extending social insurance and life-course programmes. These factors account for the gap in social protection coverage during the pandemic and recovery period.

- Among Arab countries for which data as at June 2021 is available, the private sector in Tunisia contributed $410 million as a response to the pandemic and, in Morocco, attracted $104.5 million. Philanthropies have played a major role in raising some $2.2 million in Morocco and the United Arab Emirates.

- Rather than putting in place new legislation, countries relied on other mechanisms to deliver the spending packages, such as extrabudgetary funds or executive decrees. While these measures facilitated the prompt disbursement of funds, they undermined accountability mechanisms of fiscal policy decisions in Arab countries.

- By making clean energy transitions central to their recovery plans, Arab oil-producing countries can pave the way for more robust structural changes to support economic recovery that is environmentally sustainable as much as it is financially sustainable.

- Stimulus measures could be an opportunity in Arab countries to invest in the real economic transformations and technological innovations (avoiding greenwashing), such as boosting technologies for solar and wind energy, for smart green cities and for seawater desalinization projects (powered by renewable energy sources) and developing and greening public transport systems.

- Possible sustainability-enhancing policies for Arab countries may include conditionalizing sector-specific financial support measures on environmental improvements. Financial support measures such as preferential loans, loan guarantees and tax abatements could be directed towards supporting stronger environmental commitments and performance in pollution-intensive sectors that may be particularly affected by the crisis.

- A major lesson learned from the COVID-19 pandemic is the importance of further investment in the emergency preparedness of the social protection system. Jordan is a noteworthy example showing crisis-preparedness despite regional volatility, fiscal constraints and economic shocks.

- The introduction of a basic income guarantee or universal child allowance would help to provide longer-term structural reform. Morocco is taking positive steps by gradually replacing its subsidies with a family allowance programme.

- To extend contributory schemes to the informal economy, countries will need to initiate wider social dialogue and coalition-building among the Government, firms and workers in the formal sector who are not part of contributory schemes and, of course, the highly diverse informal sector. These types of programmes, being universal and permanent, would constitute a major step in the right direction towards life-course-based social policy.

- Investing further in social protection and diversifying the range of financial resources, in particular, through equitable tax collection (for instance, progressive and corporate taxation) are all important lessons for Arab countries who are struggling with fiscal deficits and conflict.

- Putting in place the technical and administrative infrastructure for new schemes post-pandemic is another possible area of focus to support sustainability. This can be the foundation for social protection systems with a view to capacity-building and preparedness.

## A. Resource allocations and expenditures, ensuring access for all

This section outlines the sources and types of financial measures undertaken by the Arab countries and provides an overview, by subregion, of key sources of finance. Where available, the section refers to regulatory and institutional reforms that accompanied the financial measures and the interventions associated therewith. The provided data give an overview of key sectors and population groups that were the intended beneficiaries of the pandemic measures. It also outlines the anticipated impact of interventions in relation to vertical and horizontal coverage and of the life-course approach to social policy.

Arab countries have responded rapidly to the economic effects of the crisis on the private sector and households and to keep their financial markets in operation. The target beneficiaries of the COVID-19 interventions have been vulnerable groups such as women, the elderly, children and informal workers using a mix of social assistance and tax-relief measures. Although focusing on these vulnerable groups is important, the pandemic spending has focused on short-term relief measures which stand to increase the fiscal deficit of Arab countries.

The pandemic measures thus present risks for macroeconomic stability, with the increases in fiscal deficits and governmental debts in all Arab countries in 2020 posing an important challenge for the introduction of a sustainable life-course approach to social policy.[67] Fiscal deficits of Arab countries have increased in 2020 as a result of a decline in oil prices amidst the COVID-19 pandemic (figure 13). Highest deficit is recorded in Saudi Arabia, where the fiscal deficit widened to 16 per cent of GDP in 2020, down from 4.2 per cent in 2019 and estimated to increase to 4.7 per cent of GDP in 2021. Bahrain and Oman also recorded high deficits of nearly 16 and 17 per cent of GDP, respectively, in 2020. As shown, the fiscal position in GCC countries depends on oil revenues and its price dynamics. In Algeria, the situation has worsened notably, with the fiscal deficit reaching 18 per cent of GDP in 2020, estimated to reach a deficit of 8 per cent of GDP in 2021. Qatar, however, stands at a fiscal surplus of 5.56 per cent of GDP in 2020. The promising and stabilized fiscal position of Qatar is driven by an abundancy in natural gas reserve. It is noteworthy that Mauritania showed a slight surplus of 0.2 per cent of GDP in 2020. The country has shown resilience to external shocks compared to other countries in its subregion. The Arab country context is in line with global trends where fiscal deficits have surpassed 10 per cent of the global GDP.[68] This raises concerns regarding the sustainability of the countries' economic response given the continued social and economic needs during the recovery period.

Budgeting systems will need to adapt and progress based on the lessons learned to cope with demands and challenges brought about by the COVID-19 crisis. An issue of concern for Arab countries which could weaken the base of a more sustainable social protection system after the crisis is that few Arab countries have published or announced supplementary budget laws to their legislature. Rather than putting in place new legislation, countries relied on other mechanisms to deliver the spending packages, such as extrabudgetary funds or executive decrees. Example Government legislation introduced in other regions includes deferral of tax filings and payments, payroll tax and social security deferral or reduction as well as low-interest financing. In other middle-income regions such as Latin America, example legislation has included new decrees and reformulated laws in Peru and Chile allowing formal workers to make one-off emergency cash withdrawals.[69]

While temporary extrabudgetary measures facilitated the prompt spending on social protection programmes during the crisis, they undermined accountability mechanisms of fiscal policy decisions, further confirming the temporary and reflexive approach to financing the COVID-19 response.

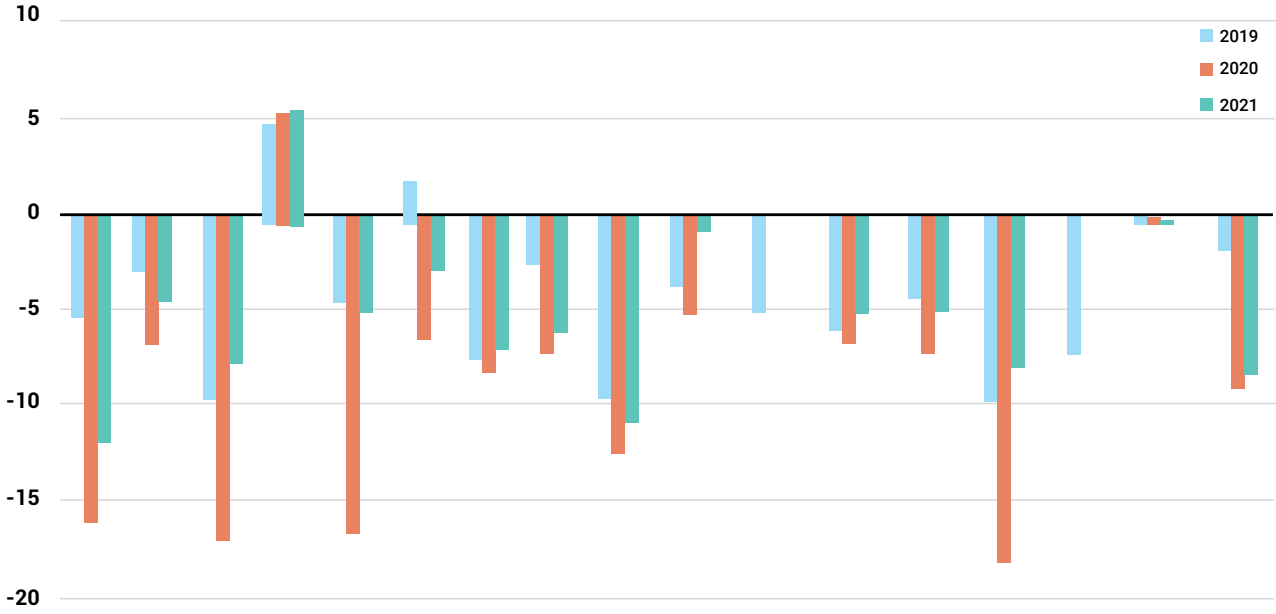
Out of the total fiscal support in the Arab region of $94.8 billion, $70 billion were provided by GCCs whereas middle-income countries, LDCs and countries affected by conflict spent only $19.4 billion, $4.1 billion and $1.3 billion, respectively (figure 14). The total global fiscal support was $18.7 trillion, most of which came from high-income countries.

This discrepancy between Arab countries and the global average reflects wider inequalities in Government fiscal support to alleviate the impact of the pandemic.[70] The Arab countries are not alone in this regard as low- and middle-income countries, globally, also had low levels of spending.

The average size of fiscal relief packages in the Arab region was smaller than in other regions around the world, apart from sub-Saharan Africa (figure 15).This is mainly due to limited fiscal space among low- and middle-income countries that are oil importers and the existing high rate of public economic support among the oil-exporting countries. Arab States extended 3.9 per cent of their GDP of 2020 to fiscal support compared to the global average of 22.6 per cent of GDP of the same year.

The discrepancy in spending shows the tight fiscal scope Arab countries are already operating in, with some countries acutely dependent on donor support to finance social protection packages. Oil-importing countries focused their spending on health and targeted social transfers, while oil- exporting countries prioritized temporary tax reductions, extended payment deadlines and increased other spending such as partial salary payments to preserve jobs.

**Figure 13.** General Government fiscal deficit, 2019-2021 (Percentage of GDP)

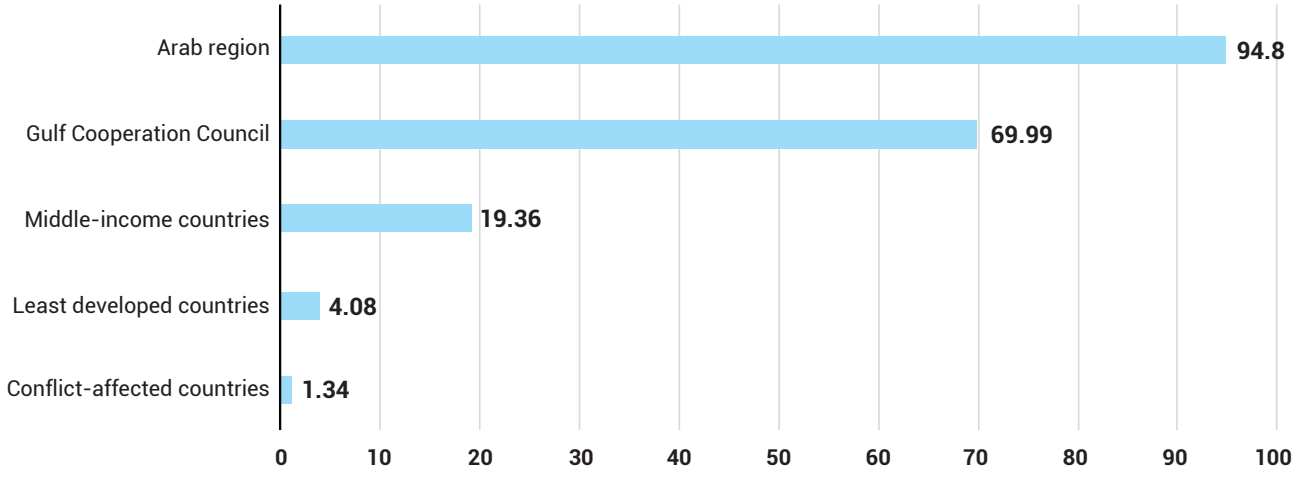



| | Bahrain | Kuwait | Oman | Qatar | Saudi Arabia | United Arab Emirates | Egypt | Jordan | Lebanon | Iraq | State of Palestine | Morocco | Tunisia | Algeria | Lybia | Mauritania | Sudan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | -4.9 | -2.5 | -9.2 | 5.1 | -4.18 | 1.9 | -7.07 | -2.13 | -9.15 | -3.3 | -4.67 | -5.53 | -3.9 | -9.27 | -6.89 | 0.38 | -1.74 |
| 2020 | -15.65 | -6.29 | -17.12 | 5.56 | -16.25 | -6.06 | -7.79 | -6.75 | -12.09 | -4.74 | | -6.32 | -6.78 | -17.81 | | 0.19 | -8.6 |
| 2021 | -11.45 | -4.16 | -7.36 | 5.66 | -4.65 | -2.45 | -6.62 | -5.66 | -10.43 | -0.41 | | -4.72 | -4.6 | -7.55 | | 0.04 | -7.94 |

Source: Compiled from E/ESCWA/CL3.SEP/2020/1.

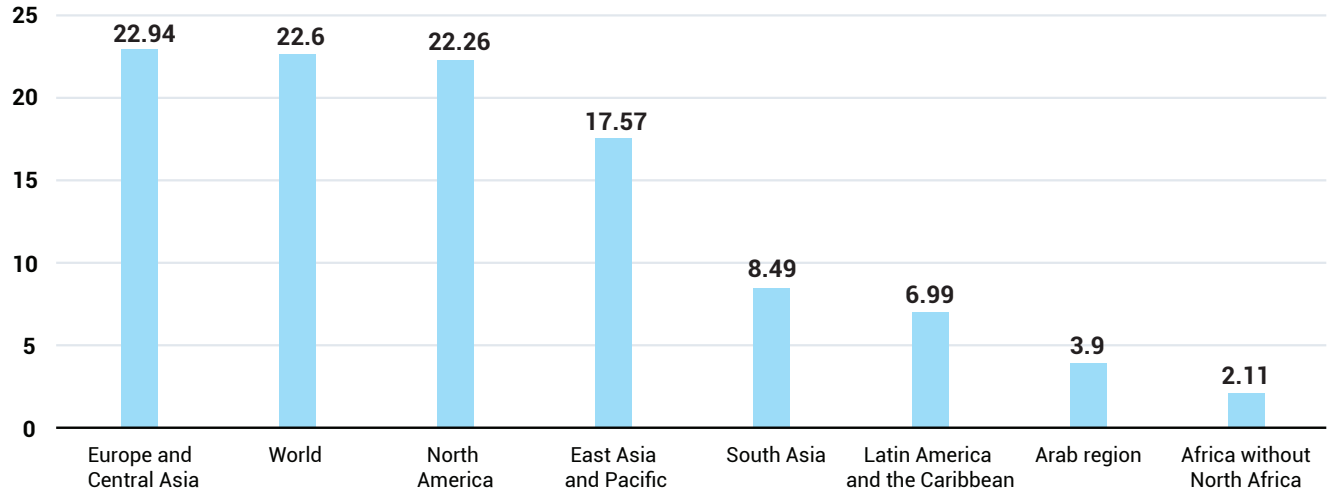
**Note:** Figures for 2021 are estimations.

**Figure 14.** Fiscal response by Governments in the Arab region (Billion dollars)



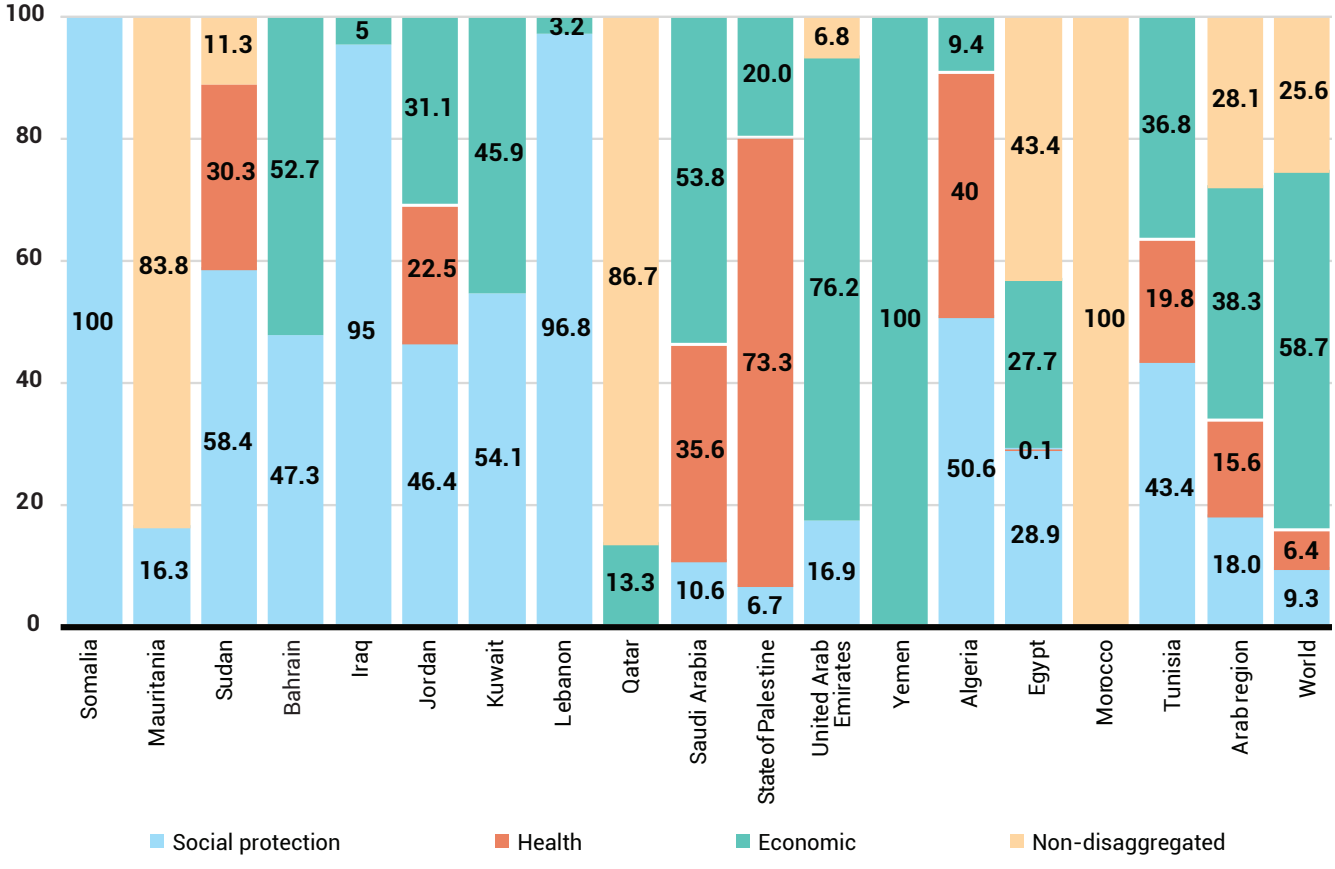

Source: Compiled from United Nations, n. d.

**Figure 15.** Comparative fiscal support, globally, by region (Percentage of GDP)




Source: Compiled from United Nations, n. d.

**Figure 16.** Share of fiscal stimulus in Arab countries, by policy type (Percentage)



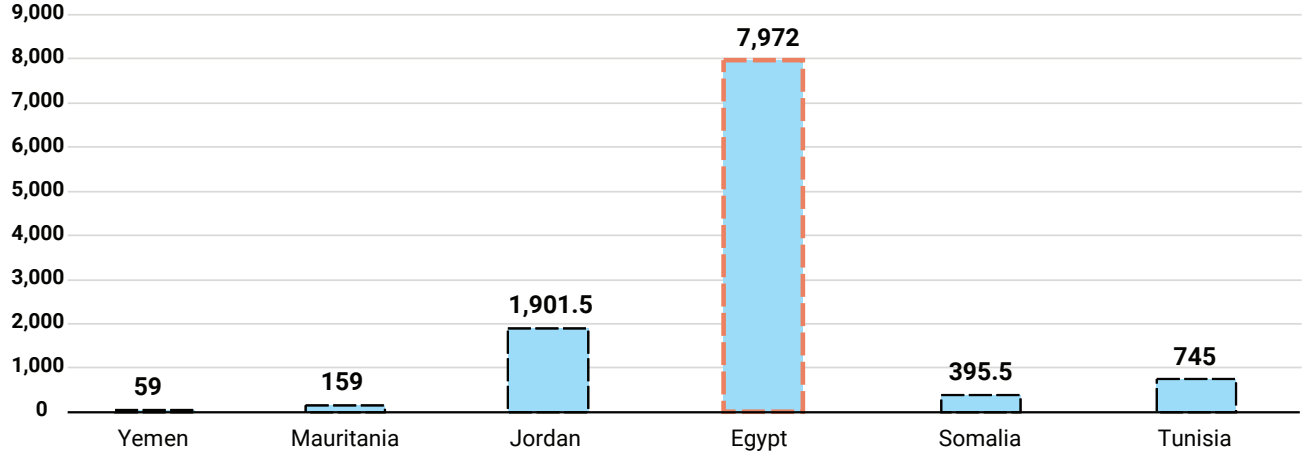

Source: Compiled from United Nations, n. d.

Figure 16 shows the share of fiscal stimulus by type of policy area among Arab countries compared to the rest of the world. Countries in the Arab region spent 18 per cent of fiscal support on social protection, with Somalia reaching 100 per cent, followed by Lebanon with 96.8 per cent and Iraq with 95 per cent. These levels of spending show the extent to which Arab countries have mobilized resources during the pandemic crisis but also the extent of social needs, which poses a future challenge for the sustainability of pandemic social protection spending packages. On average, 15.6 per cent of fiscal support was spent on health-related support, with the highest spending reported in the State of Palestine at 73 per cent; 38.3 per cent went into economic policy support,[71] with the highest spending reported in Yemen; and approximately 28 per cent goes to non-disaggregated support,[72] which refers to lumped up policy measures announced by the government which makes it hard to compare data between countries. Exceptionally, Morocco reveals that 100 per cent of the pandemic fiscal stimulus was allocated to multiple measures such as unemployment benefits, social insurance contributions and cash transfers. In comparison, globally, some 9 per cent of fiscal support was spent on social protection, 6 per cent on health-related support and approximately 60 per cent was spent on economic support.[73]

Philanthropy, the private sector, multilateral[74] and bilateral [75] donors aimed at reducing the negative impact of COVID-19 through contributing money, equipment and expertise; yet, there is major room for improvement. Among Arab countries for which data is available as at June 2021, the private sector in Tunisia contributed $410 million as a response to the pandemic, and Morocco attracted $104.5 million. Philanthropies also have played a major role in the financing of approximately $2.2 million in each of Morocco and the United Arab Emirates. Donations by the private sector and philanthropy are considered a long-standing feature of Arab social solidarity, but comparable global data is not available to better gauge the significance of these contributions. Dependence on donor funding as response to COVID-19 is a double-edged sword for low- and middle-income countries since, on the one hand, it provides an important support in times of crisis but stands in the way of sustainable institutional development in the domestic context to take control of the social protection agenda, on the other.

To respond to the COVID-19 pandemic, the International Monetary Fund (IMF) has pledged a $1 trillion lending capacity and, by October 15, 2021,[76] IMF responded to unprecedented calls for emergency financing from 89 countries, meeting the demand of about $117 billion worth of financial assistance, more than three times than for the same period of the global financial crisis. Of the $117 billion, the Arab region received approximately $10 billion, with Egypt and Jordan receiving the highest share of $,7972 million and $1,901.5 million, respectively (figure 17).

**Figure 17.** Financial assistance by IMF as response to COVID-19 (Millions of dollars)




Source: Compiled from United Nations, n. d. and IMF, n. d.

## B. Shortcomings in responses to COVID-19 to ensure sustainability and how to overcome them

The focus on short-term measures to smoothen consumption means that vulnerable populations still do not have long-term guarantees of income. Middle-class households suffering from job or income loss have not been directly supported either. Hence, important gaps remain in protecting populations in the long term, with important implications for the introduction of a sustainable life-course approach.

Social protection spending is often the first casualty in times of financial pressure. In Arab countries, the overall investment related to COVID-19 responses ranges between roughly 0.05 per cent of GDP in Algeria,[77] where a one-time transfer was provided to just over one million households during the month of Ramadan, to around 2 per cent of GDP in Morocco, where two new temporary emergency programmes are estimated to reach 79 per cent of households. Beside Morocco, none of the Arab countries is anywhere near a level of investment that would be able to stimulate consumption enough to significantly speed up economic recovery. In Jordan, the social protection response – consisting predominantly of a temporary six-month payment to around 250,000 informally employed persons and a top up to some existing recipients of the NAF programme – has cost an estimated 0.63 per cent of GDP. Jordan's emergency support is mainly funded by the World Bank, through a loan by the International Bank for Reconstruction and Development with co-financing from a grant by the Department for International Development and other donors under the Joint Financing Agreement. In the other countries with a social protection response, the level of spending was minimal. Generally speaking, the responses to COVID-19 did not build life-course programmes within a consolidated social protection system. This is due to the lack of an existing tax-financed system to scale up effectively, with the result that most countries' responses covered very few people. The presence of a large informal sector in middle- and low-income Arab countries also makes it less likely that social insurance or active labour-market policies can be mobilized as shock-response tools.

Other key factors that influence sustainability are the political will for longer-term financing of life-course-based social protection. Although Arab Governments have responded to COVID-19, the pandemic measures undertaken so far do not reveal any wider societal mobilization around breakthrough social protection measures such as a minimum income guarantee. Further advocacy and coalition-building among civil society actors such as in Jordan and Lebanon might be able to nudge the political will further. A global example is the civil society movement around the introduction of a basic minimum income in South Africa, which has gained momentum due to the COVID-19 pandemic. Some observers have advocated for a universal child allowance, and there is evidence that Morocco is seeking to establish such a scheme which would support the well-being of children and families into the future. The maturity of the social protection system is another key factor that can support a stronger response to COVID-19 and include new populations to benefit from the social protection system against the impact of the crisis on their income.

Legislative or regulatory reforms to extend social rights and access to social protection also play an important role in ensuring sustainability. Some Arab countries experienced gaps in the timely procurement of equipment and supplies and associated budget pressures.[78] Although essential COVID-19 commodities and supplies are covered under various COVID-19 response plans, sufficient budgets are needed to ensure timely procurement and distribution of equipment and supplies to facilities and health workers in need.

Hence, the COVID-19 crisis has highlighted the importance of policy structures and institutions such as transparency and anticorruption measures, effective public procurement, strength and capacity of digitalization, open-government approaches, and a greater role for civil society. The collaboration of Governments with civil society has been essential for effective crisis responses in many Arab countries. Therefore, more effective governance measures should be put in place to support the sustainability of responses and essential services by public institutions, while also developing public-sector resilience and adaptability. Together, these measures can enhance public support for Arab Governments.

In this respect, the crisis presents an opportunity for Governments to build bridges of trust by accelerating public administration reform to create a more efficient and transparent public sector.[79]

While spending should remain financially tenable, higher levels of spending during a crisis can provide urgent economic stimulus (countercyclical spending). A fiscal stimulus package can indeed enable countries to lower the recession they are facing and, importantly, to recover more quickly. For example, in Sri Lanka,[80] projections suggest that investing 1.5 per cent of GDP over six months in a series of life-course transfers would have provided an impressively effective stimulus during the crisis, cutting the severity of the recession projected for 2020 in half, from an 8.3 per cent fall in the predicted economic growth to 3.9 per cent. None of the low- and middle-income countries in the Arab region is at this level of investment in expanded or new non-contributory benefits for affected populations. Overall, across all low- and middle-income Arab countries that have introduced emergency social protection, the average investment is at only 0.5 per cent of GDP.[81]

Use and extension of digital data systems to identify and reach households in need are also proving to be significant means to achieve innovative and sustainable changes to social protection following the COVID-19 response. The experience of Pakistan is a good example and will be further elaborated on below. Arab countries having made use of these data registries include Egypt, Morocco and the United Arab Emirates, yet to a varying extent. Further investment into these systems is needed as they can help to cut costs and provide the financial sustainability for more comprehensive and effective social protection systems.

It is also important to consider how GCC and other oil-producing States can cope with the impact of the oil-price fluctuation. There is no doubt that the energy sector has been essential for supporting health care, remote working and many other needs which arose during the pandemic. Arab countries can overcome the challenges by ensuring that their recovery plans are better aligned with long-term national and global objectives on energy resilience and sustainable development. As part of this, it is essential that they focus on clean energy transitions.[82] By making clean energy transitions central to their recovery plans, Arab oil-producing countries can pave the way for more robust structural changes to support economic recovery that is both environmentally and financially sustainable.

Many countries around the world are making green measures a central part of stimulus packages in the wake of COVID-19. Stimulus measures could be an opportunity in the Arab region to invest in real economic transformations and technological innovations (avoiding greenwashing), such as boosting technologies for solar and wind energy, smart green cities, seawater desalinization projects (powered by renewable energy sources), and developing and greening public transport systems.[83] This could help the GCC countries reduce their carbon footprint and energy demand while diversify their economy away from fossil fuels. Public and private support should also be enhanced for investments in water and waste infrastructure development and modernization, especially in poorer Arab countries. Enhanced levels of environmental health will strengthen the resilience of societies against pandemics and other emergencies.

Sustainability-enhancing policies in Arab countries may include to make sector-specific financial support measures conditional on environmental improvements. [84] Financial support measures such as preferential loans, loan guarantees and tax abatements could be directed towards supporting stronger environmental commitments and performance in pollution-intensive sectors that may be particularly affected by the crisis. Hence, the pandemic offers the opportunity for Arab Governments to ensure that their stimulus measures and policy response align with global climate change and wider environmental protection goals. Countries would do well to evaluate possible unintended negative environmental impacts of new short-term recovery measures (such as fiscal and tax provisions), ensure policy coherence and avoid the creation of harmful and unintended environmental consequences that might damage the future resilience and environmental health of societies.[85]

## C. Spending on social protection: global and regional success stories

This section highlights successful regional and global experiences to learn from or to further develop. Success is measured in terms of governmental capacity to reallocate spending for more effective social protection during the pandemic rather than the introduction of a life-course-based approach to overall social protection. Although some caution should be exercised in judging the success of responses to COVID-19 because no robust impact studies have yet been conducted, the cases illustrated here provide important food for thought based on existing evidence of what works well in supporting effective and efficient life-course-oriented social protection. This section thus showcases a range of stimuli, reallocations and cost-saving measures that show the commitment of Governments to mobilizes resources in defence of their populations. One emerging key factor is the contribution of digitization to these resource-allocation efforts, which reconfirms the increasing opportunities digital social protection offers to Governments around the world. In addition, some analysts focus on social insurance and tax-financed schemes, arguing that these are the most significant in terms of long-term extension of social protection to all.

### 1. Jordan

The Central Bank of Jordan made available $705 million by reducing compulsory reserves of commercial banks, allowing banks to postpone loan repayments in impacted sectors and extending guarantees on loans for small and medium-sized enterprises. The Government also put in place various tax and social contribution relief measures, including social measures targeting the most vulnerable households. Elderly insurance coverage was increased among other in-kind services. Specific measures were put in place to support the tourism sector. Jordan is a noteworthy example showing crisis preparedness despite regional volatility, fiscal constraints and economic shocks. A major lesson learned from the COVID-19 pandemic is the importance of further investment in the emergency preparedness of the social protection system. This may include greater sensitivity of gendered needs and vulnerabilities and greater focus on system preparedness as well as more durable solutions for all three pillars of the national system outlined in the National Social Protection Strategy 2019-2025, which are as follows: (i) decent work and social security; (ii) social assistance; and (iii) social services. Analyses should be provided of the existing situation and challenges in each of those pillars and high-priority actions for each of the sectors identified. This will also require continued efforts to enhance coordination and cooperation between the humanitarian and national social protection systems.

### 2. United Arab Emirates

The Government of the United Arab Emirates allocated a flexible stimulus budget amounting to nearly 256 billion Emirati dirhams, or $70 billion. All banks operating in the United Arab Emirates were granted access to loans and advances at zero cost against collateral provided by the Central Bank of the United Arab Emirates. Banks in the United Arab Emirates deferred payments due for a period of six months for their corporate and individual clients. They granted temporary relief from payments of principal and interest on outstanding loans for all affected private-sector companies and retail customers in the United Arab Emirates. They reduced electricity and water bills for customers in the tourism, hospitality and trade sectors by 20 per cent for a period of three months – equivalent to a total amount of 86 million dirhams, or $23 million.[86]

### 3. Mauritania

Mauritania is an example of a lower-income country that has taken innovative financial measures. A special fund for social solidarity was created through governmental contribution of $170 million. This helped supports 206,000 households with a cash transfer of $60 per person. The extension of the fund by an additional $13.5 million is possible.[87]

### 4. Pakistan

The main response strategy of the Government of Pakistan was the launch of the *Ehsaas* Emergency Cash (EEC) programme, allocating 203 billion Pakistani rupees (approximately $1.2 billion) to deliver one-time emergency cash assistance to 16.9 million families at

risk of extreme poverty. Each low-income household received a one-time payment of 12,000 rupees ($75) to buy staple food items for three months.[88] The EEC programme was unique in its response because it used its already existing digital capabilities as part of *Ehsaas*, its flagship social protection programme to combat poverty and inequality. The EEC programme demonstrates how cash transfer programmes can be used to combat the socioeconomic harms caused by external shocks such as the COVID-19 pandemic. The EEC programme marks a major breakthrough in how the Government of Pakistan designs and administers social protection services in the long term. The response showed a high degree of Government agility and incorporation of data and digital policy measures. The programme forms the basis of a rehaul of the *Ehsaas* system because it accelerated the integration of cost-effective, digital initiatives that made possible new forms of coordination across a wide range of stakeholders.

Major new innovations will include a one-window *Ehsaas* – a single-window information and service approach for better access to multiple *Ehsaas* programmes, and the 'One Woman, One Bank Account' initiative, whereby limited bank accounts are created for all women as part of the Kifalat programme using mobile wallets. Pakistan's cost-saving approach deployed telephones, Internet connectivity and unique national identification numbers to develop a more digitized and innovative demand-based social protection system. A key factor facilitating the success of this intervention was an intense public campaign asking all individuals nationwide who wanted emergency relief to send in requests to an SMS short-code service.

### 5. Indonesia, the Philippines, South Africa, and Uzbekistan

These countries deployed their financial reserves and reprioritized spending – the most common approach used by many countries. Indonesia and the Philippines reallocated funds from non-urgent and not yet programmed goods expenditures. South Africa announced an emergency spending package of $30 billion, about 29 per cent of which came from spending reprioritization and the Unemployment Insurance Fund's surplus. In South Africa, as in other countries (such as Finland, Kenya, Namibia and the United States), policy support and civil society advocacy of a basic income guarantee is gaining momentum. Several policy proposals, including for a basic income grant, a minimum wage and the introduction of a national wage subsidy, have been put forward in South Africa to expand income support to vulnerable populations, especially those between the ages of 18 and 59 years. Uzbekistan used $324 million from the sovereign wealth fund (the Fund for the Reconstruction and Development of Uzbekistan) and restructured their budget, for instance, by postponing non-priority projects and expenditures to the post-crisis period, to finance COVID-19 responses.

### 6. Hong Kong, Serbia and Singapore

These are good examples of how high-income countries can provide universal cash transfers. Hong Kong spent $9.16 billion for cash payouts through deficit spending. In Serbia, the universal cash benefit cost $712 million, which was part of the 3.9 billion stimulus package. Half of that was financed by a Eurobond valued at €2 billion, reprioritized existing budget and currency reserves. Singapore provided a one-off cash transfer of $1.1 billion financed from reserves and contingent budgets. Singapore also utilized its reserves: it deployed 900 million Singapore dollars from past reserves to fund its $1.1 billion solidarity payment response (universal one-off cash transfer).

Other countries around the world showed that cost-saving measures can have a range of cost-benefit effects. For example, spending can result in cuts of other key governmental social services, as was the case in the Ukraine, which cut subsidies, regional budgets, social services, and the planned census, among others to finance its COVID-19 response. To meet higher expenditures, the project budget deficit was increased to 7.5 per cent of GDP. In addition, the budget of most ministries in the Ukraine was reduced. It is important to note that social insurance programmes have a part to play as countercyclical responses because they are designed to cover loss of income automatically in times of contingency.[89] They are also less likely to be removed after the crisis ends.

## D. Implications for the sustainability of resource allocations in social policy: structural changes for the post-COVID-19 recovery period

In line with the current thinking, this chapter has highlighted the immense fiscal efforts of Arab countries in combatting the economic impact of COVID-19. This statement applies for high-, middle- and low- income countries in the Arab region. The United Arab Emirates, for instance, made available a $27 billion stimulus package that includes water and electricity for households and firms. Egypt put in place a $6 billion economic relief plan, and Qatar and Saudi Arabia deployed $23 billion and $13 billion, respectively, to support their small and medium-sized enterprises and the private sectors.[90] Most countries in the region will likely recover their GDP during the post-recovery period.

In terms of the main implications for the future sustainability of resource allocation and financing of social protection, most Arab countries have deployed short-term measures to smoothen consumption such as tax relief and cash transfers. This means that such measures are not permanent especially given fiscal deficits. Struggling households received one-off payments only with no guarantees of income or work for the future. Introducing basic income guarantees or universal child allowances would be more in line with longer-term structural reforms. As to informal workers, some Governments, such as Morocco, sought to extend social insurance coverage, implying that they will require measures to extend contributory schemes to the informal economy in the long run. To do this, countries will need to initiate a wider social dialogue and coalition-building among the Government, firms and workers in the formal sector who are not part of contributory schemes and, of course, the highly diverse informal sector. Developing such a system requires recognition of the transitory nature of informal work[91] and the assessment of current and future contributions and current revenues and expenditures but also of the relevant socioeconomic profile of workers. The key messages for sustainable financing are as follows:

### 1. Ensuring regular financing in the future

The coverage gaps that are seen in the responses to COVID-19 are largely the result of a lack of adequate finances and institutional capacities. The report has highlighted how Governments undertook a range of new financial measures that were, in many cases, temporary. Various strategies were deployed by different Governments including budget reallocations, national debt and deficit measures, and the use of State reserves and contingency funds, in addition to external sources of financing, such as loans and grants from international financial institutions. The experience of countries will need to be monitored over time, but they set the stage for the formulation of future interventions and policies to strengthen the financial resilience and responsiveness of social protection systems to future shocks. One way of ensuring the sustainability of finance for social protection is to connect it with disaster-risk financing mechanisms so that, if a future shock were to happen, Governments can quickly mobilize the desired resources.[92] However, the availability of resources does not guarantee timely and effective delivery of services, and this is a matter for the governance capacity of Arab States to address.

### 2. Strengthening digital and data capacities

Where already available, Arab countries have made use of household and poverty databases to reach large swatches of their populations affected by the pandemic. These digital and data capacities have proved their worth in terms of supporting an effective and efficient social protection response. The COVID-19 pandemic also has helped show how many countries can make better use of beneficiary registries, social registries and other information sources such as civil registration and vital statistics, in addition to data on informal worker organization, tax and social insurance, mobile money providers, and many others – often with identification systems acting as a support network. These measures helped to ensure that services were targeted accurately. Countries have also set up innovative mechanisms to facilitate the registration of beneficiaries while respecting social distancing. This has been done using online platforms, helplines, service data technology and local government offices. This digital development resulting

from the pandemic shows promising possibilities for more efficient use of resources through increased electronic transfers.[93]

### 3. Financing life-course-based social protection measures

If Arab countries are to commit to providing more comprehensive social protection for their citizens against contingencies, they need to find the fiscal means to do so. The analyses undertaken here and in the existing literature show that countries with a strong starting position, for example with sufficient financials reserves or a strongly performing economy at the time of the outbreak, have been in a better position to weather the pandemic storm. Globally, less than 3 per cent of the total global stimulus was reported in lower-middle-income and low-income countries.[94] This is also the case for the Arab countries who are mostly in the low-middle income group, which are among the countries already facing weak fiscal capacities.

The estimated additional resources needed to bridge the global financing gap in social protection has increased by around 30 per cent following the outbreak of COVID-19.[95] Developing countries would need to invest an additional amount equal to about 3.8 per cent of their average GDP to meet the annual financing required to close coverage gaps in 2020, while for low-income countries, the additional resources required are about 16 per cent of their GDP. These issues underscore the importance of access to a diverse range of financial resources and, in particular, the need for equitable tax collection by means of progressive and corporate taxation, for instance.[96] These are all important lessons for Arab countries who are struggling with fiscal deficits and conflict.

Emphasis needs to be placed on domestic resource mobilization as the main source of social protection funding since this is the most sustainable and surest source, whereas data show a heavy reliance on bilateral and multilateral funding. Low-income Arab countries need the help of international financial actors especially given the current context of falling commodity prices, interruptions in export revenues and declining remittances. In addition, it is important for countries to maintain their levels of social spending once the immediate health crisis fades away to ensure that local populations are protected against the economic and social consequences that are likely to continue in the medium and long terms.

### 4. Strengthening public trust in Government and public administration

States that enjoy the trust of their populations are in a better position to deal with crises and external shocks. The COVID-19 pandemic has given Arab Governments the chance to build bridges of trust with their societies by adequately addressing the arisen challenges; however, this trust can easily again be lost if the previously offered support is withdrawn during the recovery period. Enhancing the public administration system and improving policy accountability by working with civil society and citizen groups, in addition to undertaking essential governance reforms, contribute to a stronger structural base of sustainable social protection in Arab countries. Countries should avoid compensating for the costs invested due to the COVID-19 pandemic by another round of austerity. Rather, they should streamline the policy frameworks of all relevant actors, including the international financial institutions, with the principles set out in international human rights instruments and social security standards. This is particularly relevant for fiscal policies so that they can accommodate, rather than undermine, much-needed investments in universal social protection systems.[97]

In sum, Arab countries have responded rapidly to deal with the economic effects of the crisis on firms and households while keeping their financial markets in operation. On average, 2.7 per cent of GDP was allocated to fiscal measures, and 3.4 per cent of GDP was delivered by Central Banks through liquidity injections across the Middle-East and North Africa (MENA) region during the first weeks of the pandemic.[98]

Most Arab countries have provided temporary programmes to smoothen consumption such as cash assistance or tax relief to vulnerable groups, including, among others, the unemployed, women and children, rather than extending social insurance and life-course programmes. This is because of the absence of an

adequate tax base and reduced fiscal space resulting from high levels of debt, poor economic performance and reduced oil revenues. This accounts for the gap in coverage and could be addressed through more sustainable life-cycle approaches to the funding and provision of social protection.

A better way to achieve sustainability is by strengthening governance structures and institutions such as transparency and anticorruption measures, effective public procurement, the strength and capacity of digitalization, and open-government approaches, as well as by increasing the role of civil society. Based on regional and global success stories such as Morocco, the use and extension of digital data systems to identify and reach households in need is a significant means to achieve innovative and sustainable changes to social protection following COVID-19. To better understand which mix of social protection financing works sustainably, Arab countries need to strengthen their capacities to record, monitor and evaluate data.

Concerns regarding the fiscal space, sustainability and financing sources for pandemic measures, including for social protection, are not yet a top priority for Governments. In general, most Arab countries have scaled up social protection in order to combat the effects of the pandemic effect.[99] However, the extent of this scale-up, the comparative significance of different types of social protection in the emergency response, and the sources of financing of this scale-up differ between countries. This poses the important question whether temporary responses seen in Arab countries will become permanent, which itself also depends on the future interaction between different sources of finance; for example, if a country has a large deficit now, this might decrease the prospects of future expansion. Additionally, some financing becomes available only when cuts are made in other areas. Hence, the reprioritized spending lines will only become fully clear over time.[100] In relation to the pandemic, financing also tends to be combined with broader stimulus financing and, therefore, not easily identifiable. Hence, Arab countries would do well to strengthen now data collection, monitoring and evaluation capacities which can help them better understand how a sustainable mix of social protection financing can be achieved.

## Key recommendations for sustainability thus include the following:

- Improved macrofinancial planning for the social protection sector.
- Institutional capacity for sustainable fiscal policies based on taxation including progressive taxation and corporate taxes that can redistribute income and provide essential public services for all in an improved manner.
- Monetary policy to influence inflation and unemployment levels through the availability and cost of credit to firms and households. For example, the control of interest rates influences levels of confidence and, therefore, spending in the economy which, in turn, has an impact on the demand for goods and services, and consequently, jobs.
- Putting in place the technical and administrative infrastructure for new schemes after the pandemic. This can be the foundation for social protection systems to build capacity and preparedness.
- Exploring the possibility of minimum wage or basic income guarantees and technological innovations.