



Social Expenditure Monitor for Arab States

Toward Making Budgets more Equitable,
Efficient and Effective to Achieve the SDGs



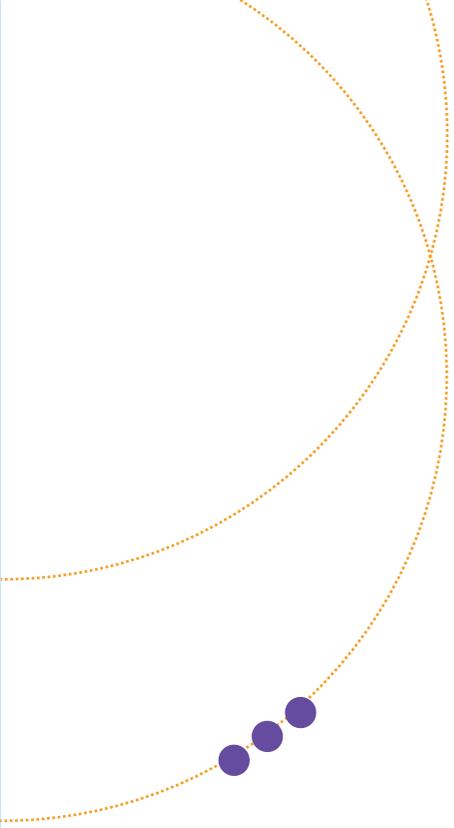
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Foreword

The 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) confirm the need to revisit and expand fiscal space, and to calibrate expenditure for effective and inclusive social programmes that “leave no one behind”. Accordingly, fiscal choices must be sustainable and responsive to societies’ changing needs starting with services critical to children and the most vulnerable populations.

The roles of government budgets became central in recovering from the COVID-19 pandemic. They are now equally imperative in mitigating complex and compounded global risks, including inflationary pressures, the spillover effects of the war in Ukraine, and the climate crisis. Unless these risks are well managed, and vulnerable segments of the population are protected with adequate social services and social protection, achieving macroeconomic and political stability and realizing the SDGs will become increasingly farfetched.

The role of public social expenditure in achieving these objectives is crucial, given that it underpins the wellbeing and economic potential of individuals and societies. It protects poor and vulnerable populations, stabilizes small and medium enterprises and economies, and enhances resilience to cope with and recover from crises. Consequently, the present report makes the case that public social expenditures should not be viewed as optional handouts from Governments to people or as a financial cost, but rather as essential investments in human capital, drivers of greater productivity and correctors of inequity.

To capture concrete evidence of how expenditure choices intersect with crucial social development priorities in the Arab region, the present report, jointly produced by the Economic and Social Commissions for Western Asia (ESCWA), the United Nations Development Programme (UNDP) and the United Nations Children’s Fund (UNICEF), provides vital information on improving policy choices across

the following seven social expenditure dimensions aligned with the SDGs: education; health and nutrition; housing, connectivity and community amenities; labour market interventions and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection.

The report offers a number of new findings that are highly relevant for policymakers at this critical juncture of the post-COVID recovery. It details how public social expenditures in Arab countries can be enhanced in terms of adequacy, equity and efficiency. Public budgets targeting vulnerable populations, including children, people living with disabilities, refugees and immigrants, are facing intense pressures, both cumulative and as a result of recent events. Moreover, little expenditure is aimed at women and young people. Addressing inequality, vulnerabilities and low productivity, and stimulating more social mobility, require expanding the coverage and quality of services, and developing social security mechanisms for workers in the informal sector and for older persons outside the formal pension system.

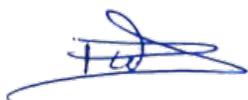
Even before the pandemic, already limited fiscal space was under increasingly intense pressure. Today, fiscal space has been further tightened by pandemic responses and by concurrent global shocks from rising inflation and interest rates. Arab countries are therefore facing difficult questions around enhancing social expenditures, while maintaining fiscal sustainability. Nonetheless, solutions that extend beyond the status quo are within reach. Based on the evidence, the report stresses that “enhancing” not only means spending more but also spending smarter. The Arab region could greatly benefit from efficiency gains in public expenditure, allowing countries to save significant resources while achieving the same outputs, or to channel savings into potentially greater results. There is also a strong call for prioritizing equity in social spending,

which entails considering the equity implications of how resources are raised and spent to benefit the poorest and most vulnerable social groups. Many of these solutions need to be developed into a comprehensive and integrated approach, encompassing all aspects of human development.

The report argues that better monitoring and assessment of social policies, improved allocation of public expenditures to vulnerable populations and overlooked sectors, and sound public finance management can all go far in steering social expenditures that contribute most effectively

to sustainable and inclusive development. The report's recommendations can support Arab countries in devising budgets equipped for making powerful and lasting contributions to recovery and the SDGs.

At a time of enormous pressures in the Arab region and worldwide, countries are looking more than ever for high-impact development solutions and tools. The present report can offer ways to make public budgets work for the wellbeing of all people across the region.



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Key messages

Chapter 1

In the wake of the devastating COVID-19 pandemic and amid global macroeconomic uncertainties, including the spillover effects of the war in Ukraine, inflationary pressures and the climate crisis, **adequate, equitable and efficient social spending is more important now than ever.**



Fiscal policy aimed at reducing poverty and inequality can both spur growth and accelerate social justice and human well-being. **SEM helps to optimize links between expenditure choices and macroeconomic objectives,** provides a basis for better statistics, and strengthens advocacy for much-needed fiscal policy reforms.



The **Social Expenditure Monitor (SEM)** presents a new framework for measuring social expenditures in the following seven dimensions by capturing critical social development priorities aligned with the SDGs: education; health and nutrition; housing, connectivity and community amenities; labour market interventions and employment generation; social protection, subsidies, and support to farms; arts, culture and sports; and environmental protection.



Arab countries face difficult questions around the fiscal sustainability of enhanced social expenditures. The present report stresses that **“enhancing” means not just spending more but spending smarter.**



Chapter 2

On average, public social expenditure in the Arab region, as a share of GDP, is lower than the global average. Arab Governments devote about 8 per cent of GDP to health, education and social protection, compared with the world’s average of 20 per cent. Total social expenditure, capturing the seven dimensions of the SEM, varies across Arab countries between 10 to 20 per cent of GDP.



Social spending is dominated by current expenditures, limiting prospects for capital spending. For countries with available data, SEM finds that about 80 per cent of public social expenditure is current expenditures, mainly in the areas of wages and salaries and public transfers. Governments need to steer resources towards improving capital spending in social policy areas to generate jobs, encourage private sector investments, and foster productivity.



SEM shows shortfalls in critical areas of social spending that build capacity among young people, promote startups through labour market support, generate jobs, incentivize creativity in arts, culture and sports, and build resilience through greening and protecting the environment. **In addition, public budgets often lack a clear framework for tagging budget lines to beneficiaries,** which risks progress on critical SDG targets including promoting gender equality, improving social security coverage, and fostering inclusive growth.



It is necessary to reprioritize public budgets and steer allocations to critical social policy areas and the neediest populations. **Governments should therefore consider a balanced mix of expenditures.** In many cases, this will involve improved targeting of public transfers to social protection programmes addressing poverty and vulnerabilities, and investing in human capital that drives greater productivity and economic growth.



Chapter 3

Arab countries are generally not spending enough on social sectors. The COVID-19 pandemic has had a mixed impact on the adequacy of social spending by sector. Where data is available, **public spending in areas such as health, education and social protection is inadequate compared with established international benchmarks** and comparable regions. Governments should urgently protect and expand, where possible, budgetary allocations to the social sector, which are critical for investment in human capital and ensuring an inclusive post-COVID-19 recovery.



Social sector financing in the Arab region depends largely on inequitable financing mechanisms, where the contribution of publicly pooled resources to social sector financing lags behind the global average. **Public funding pools should be promoted as the most equitable fundraising mechanism**, with an emphasis on progressive and effective tax systems. **Private financing mechanisms can also be utilized** to complement the drive for improved equity in access and outcomes.



Financing in sectors such as health and education is skewed, thereby reinforcing social and economic inequities. This prevents the realization of basic rights for the poorest and most vulnerable populations. Governments should seek to reallocate their education budgets towards earlier levels of education, specifically **early childhood education**. In health, **preventive care** for all diseases should be prioritized.



Distribution of social sector benefits, in terms of access and outcomes, tends to be pro-rich. **Governments should prioritize the design of social sector policies that aim to benefit poor populations the most**, by using research on the services most utilized by vulnerable groups to aid service provision decisions. Focus should be on **reducing user fees for essential services** across health and education, while **innovating social insurance schemes** for vulnerable groups.



Chapter 4

The overall efficiency of social expenditure in the Arab region is lower than the global average. Education, housing and environmental protection are identified as areas where Arab countries have significant inefficiencies that can be improved.



It is vital to assess the efficiency of public social expenditure, so as to minimize wastage and improve investment in development priorities. With greater efficiency, to the level of global benchmarks, Arab countries could spend the same as a share of GDP and either achieve greater human development gains or channel savings into other priorities.



Government effectiveness and control of corruption indicators are stronger predictors of social expenditure efficiency than the size of social expenditures. **Countries can be more efficient even without high levels of social expenditure.**



It is necessary to **improve monitoring and governance of social programmes, and modernize the public transfer system** to ensure transparency, provide efficient and quality service delivery, and better target vulnerable populations. Since insufficient data limit performance assessments of the efficiency of public social expenditure, **Governments should seek to improve data systems.**



Chapter 5

Debt and liquidity challenges are apparent in the region's inability to effectively respond to the pandemic fallout, let alone jumpstart a resilient recovery. Fiscal stimulus was low during the pandemic, both compared with the global average and given the needs arising from dramatic losses in income and jobs and from strict pandemic containment measures.



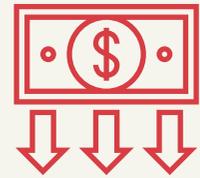
Credible fiscal frameworks should be developed over the medium term for revenues and expenditures. Debt relief and innovative financing solutions, such as debt swaps, are critical to enlarge fiscal space in the short term. Fiscal space may also grow by stabilizing debt-to-GDP at a higher rate in the medium term, in line with a requirement for social investments that enhance human capital and GDP.



Improving equity, progressivity and efficiency in revenue mobilization remains a challenge for Arab countries. Average tax-to-GDP for the region has remained at about 8 per cent since 2010. The median tax-to-GDP for Arab middle-income countries is 16 per cent, which is lower than the global averages of developed and middle-income countries.



It is important to improve domestic revenue mobilization by increasing tax collection, reassessing the tax base, enhancing tax equity and progressivity, addressing tax inefficiencies, and controlling illicit financial flows given the scale of tax revenue leakages and abuses, such as tax evasion, trade misinvoicing and tax avoidance. Increasing tax collection should involve investing in quality public services that inspire trust and create buy-in among taxpayers.



Chapter 6

Public financial management (PFM) extends to all aspects of managing public resources. It informs policymaking and provides instruments for its implementation. Strong PFM enables sustainable development and inclusive growth through reliable and well-executed budgets, greater spending efficiency, and allocative effectiveness. Because of weaknesses in PFM systems, Arab countries are at risk of misguided fiscal policy decisions and derailed implementation plans in achieving the SDGs.



PFM reform is a pressing priority for Arab countries to progressively tackle PFM system bottlenecks in accordance with a roadmap that factors in-country specificities, including the strengths and weaknesses of existing systems and national resources and capacities, noting that core PFM functions should be prioritized.



The management of assets and liabilities, accounting and reporting, and external scrutiny and audits are generally weak in the Arab region. There are also gaps on performance indicators related to budget reliability, the transparency of public finances, and policy-based fiscal budgeting. Weaknesses specific to countries with fragile and conflict-affected situations centre on payment controls and insufficient procurement mechanisms.



Key areas for PFM reform in the Arab region to enhance the management of investments in social sectors, budget execution, transparency, and oversight and accountability mechanisms depend on the country context, but generally include quality and timeliness of management and financial reporting, budget transparency and medium-term frameworks, debt and investment management processes, internal audits, role of the legislature, and independence of supreme audit institutions.



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Country groupings

All countries are classified based on World Bank definitions (2021), except the least developed countries, which are under the United Nations definition.

Country group	Country
Gulf Cooperation Council (GCC)/High-income countries (HIC)	Bahrain
	Kuwait
	Oman
	Qatar
	Saudi Arabia
	United Arab Emirates
Middle-income countries (MIC)	Algeria
	Egypt
	Jordan
	Morocco
	Tunisia
Least developed countries (LDC)	Djibouti
	Mauritania
Countries with fragile and conflict-affected situations (FCS)	Comoros
	Iraq
	Lebanon
	Libya
	Somalia
	State of Palestine
	Sudan
	Syrian Arab Republic
Yemen	

Abbreviations and acronyms

COFOG	Classification of the Functions of Government
DSSI	Debt Service Suspension Initiative
ECLAC	Economic Commission for Latin America and the Caribbean
ESCWA	Economic and Social Commission for Western Asia
GCC	Gulf Cooperation Council
GDP	gross domestic product
HES	health, education and social protection
IHDI	Inequality-adjusted Human Development Index
ICT	information and communications technology
ILO	International Labour Organization
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LPG	liquefied petroleum gas
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
SEM	Social Expenditure Monitor
SDG	Sustainable Development Goal
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WHO	World Health Organization



Why does public social expenditure matter?



01





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Public social expenditure underpins the well-being and economic potential of individuals and entire societies. As repeatedly demonstrated during the COVID-19 pandemic, it protects poor and vulnerable populations, and stabilizes small businesses and economies. It fuels progress on education, poverty and inequality that is directly linked to realizing the global Sustainable Development Goals (SDGs).

Over the last 60 years, the Arab States have used social welfare provisions to make strides towards improving human well-being. Starting from relatively weak social indicators on the eve of their independence, most leapfrogged forward on access to education and health. In the last two decades, the region has closed some gaps between the rich and poor¹ and reduced gender disparities in health and education.

At the same time, shortfalls in public social expenditure remain, sustaining poverty² and constraining more dynamic, inclusive economic growth. The Arab States not only spend less on social expenditure than the global average but also spend less efficiently. This wastes billions of dollars in some cases, adding up to a significant share of gross domestic product (GDP). In the wake of the devastating COVID-19 pandemic, and against weakening social contracts, global food and energy crises, and unsure growth prospects, adequate, efficient and equitable public social spending is more important than ever before. Recovery and resilience to future shocks will largely depend on it.

ESCWA, in partnership with Jordan and Tunisia, developed the Social Expenditure Monitor (SEM) to inform current budget choices and “smart spending” for the SDGs. UNDP and UNICEF have joined the initiative given that social policy and related fiscal aspects are placed at the heart of their daily work in the region. This report on “Social Expenditure Monitor for Arab States”, produced in collaboration between ESCWA, UNDP and UNICEF, offers a pioneering assessment of public social policy spending in the region, asking where it is and where it needs to be. Going beyond the traditionally limited arena of social services and aligned with the broader vision of the SDGs, the report maps Government-wide expenditures, providing insights on budget choices that can galvanize progress on the goals. It looks at increasing public expenditure efficiency and rebalancing priorities to improve social protection and equitably deepen human capital, productivity and growth. Through detailed data and macroeconomic modelling, the report aims to help optimize links between public expenditure choices and macroeconomic objectives and provide a basis for better statistics. All such elements can strengthen capacities and advocacy for much-needed fiscal policy reforms.

A. Lagging on development and now constrained on expenditure

Political economy factors have long explained strong social welfare provision in the Arab region. Generous social spending was part of State building and early nationalist discourse catering to a highly mobilized citizenry. Education and health services also became prime vehicles for job creation that reduced income inequality. But after the global economic downturn in 2008 and the slow recovery that followed, the cracks in the social contract accelerated amid rising demands for employment and better-quality public services.³

Today, the region faces significant development challenges exacerbated by the pandemic and the spillover effects of the war in Ukraine on food and energy prices. Poverty has increased; income and wealth inequality have risen. Economies remain poorly diversified, with large shares of informal activity. Fiscal space is inadequate to finance social and development expenditures and to meet the demands of the pandemic response. With uneven rates of SDG achievement,⁴ the region will not reach many targets under the global goals by 2030. It lags many other regions on core issues such as income poverty, gender equality, health-care coverage, social protection, peace and security, the sustainable management of natural resources, and climate change. Underperformance is worse among groups of people struggling with multiple layers of social, economic and political marginalization, such as women, persons with disabilities, migrants, refugees, and displaced persons, among others.⁵

In reaching education targets, for example, many countries, including middle-income ones, confront persistent challenges from poor-quality, outdated teaching and learning methods, and inequitable access to quality public services and infrastructure. Almost all Arab countries with available international test scores fall on the lower end of global distribution. With States increasingly

unable to provide public-sector jobs,⁶ students with educational credentials but without skills demanded by the market have little hope of finding employment in the formal private sector. Public expenditure therefore needs to be geared towards improving both educational access and quality, and to equitably reaching all social and economic groups. Evidence suggests that in most countries, including in Arab states, increased education spending, as a share of Government expenditure, raises the primary school enrolment rate (figure 1).

In health, shortfalls in service reach and quality are worse in rural areas, with noticeable disparities in rates of child stunting and infant mortality. The pandemic has further accentuated such gaps, coming at a time when many public health-care systems are fragmented and pay insufficient attention to primary care. One third of Arab countries have fewer than 10 health-care providers per 10,000 people, while the richest third have at least 50 providers per 10,000 people and in some cases more than 70. The regional physicians -to-population ratio, on average, stands at 2.9 per 1,000 people, below the world ratio of 3.4 per 1,000.⁷ Inadequate public spending is reflected in the region's low number of hospital beds per capita as well as in high out-of-pocket expenditure on health care (figure 2). The latter averages 37 per cent of total health-care costs and can soar to 80 per cent or more in poorer Arab countries.⁸

Social expenditure is important for

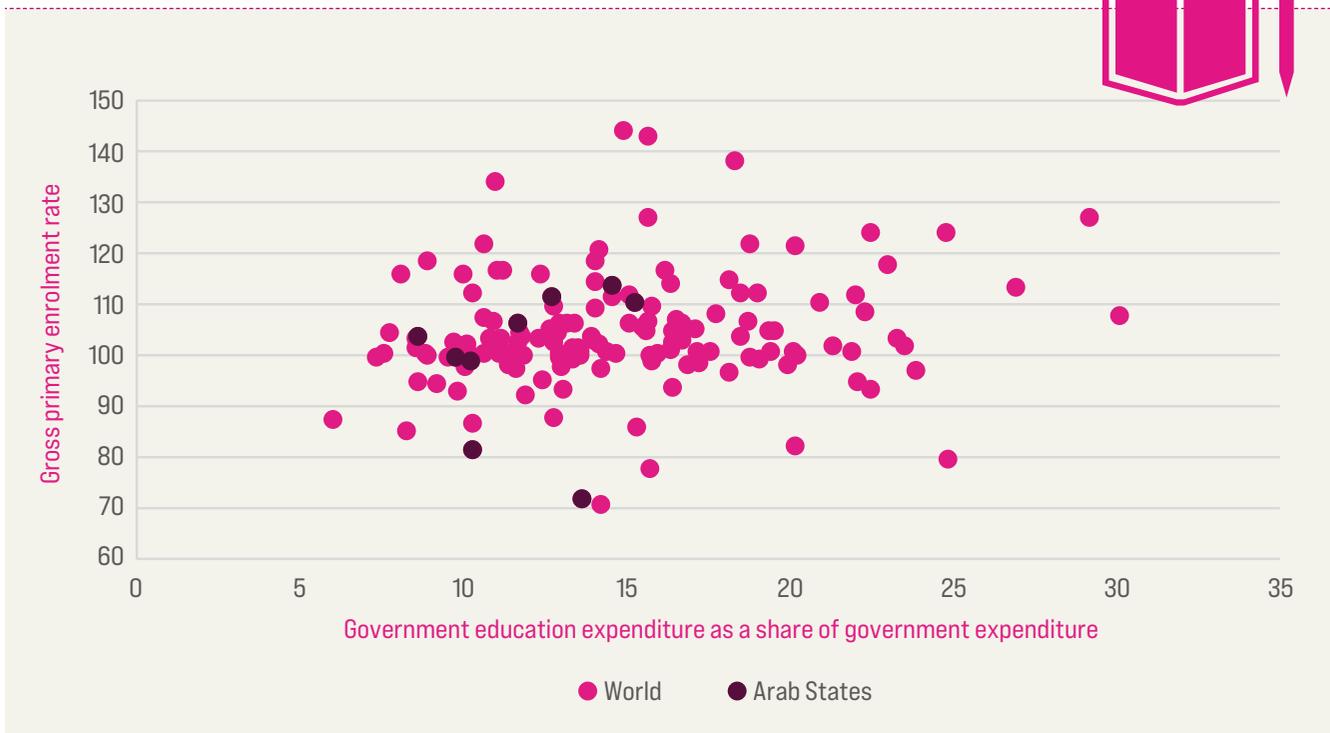


inclusive recovery from
COVID-19



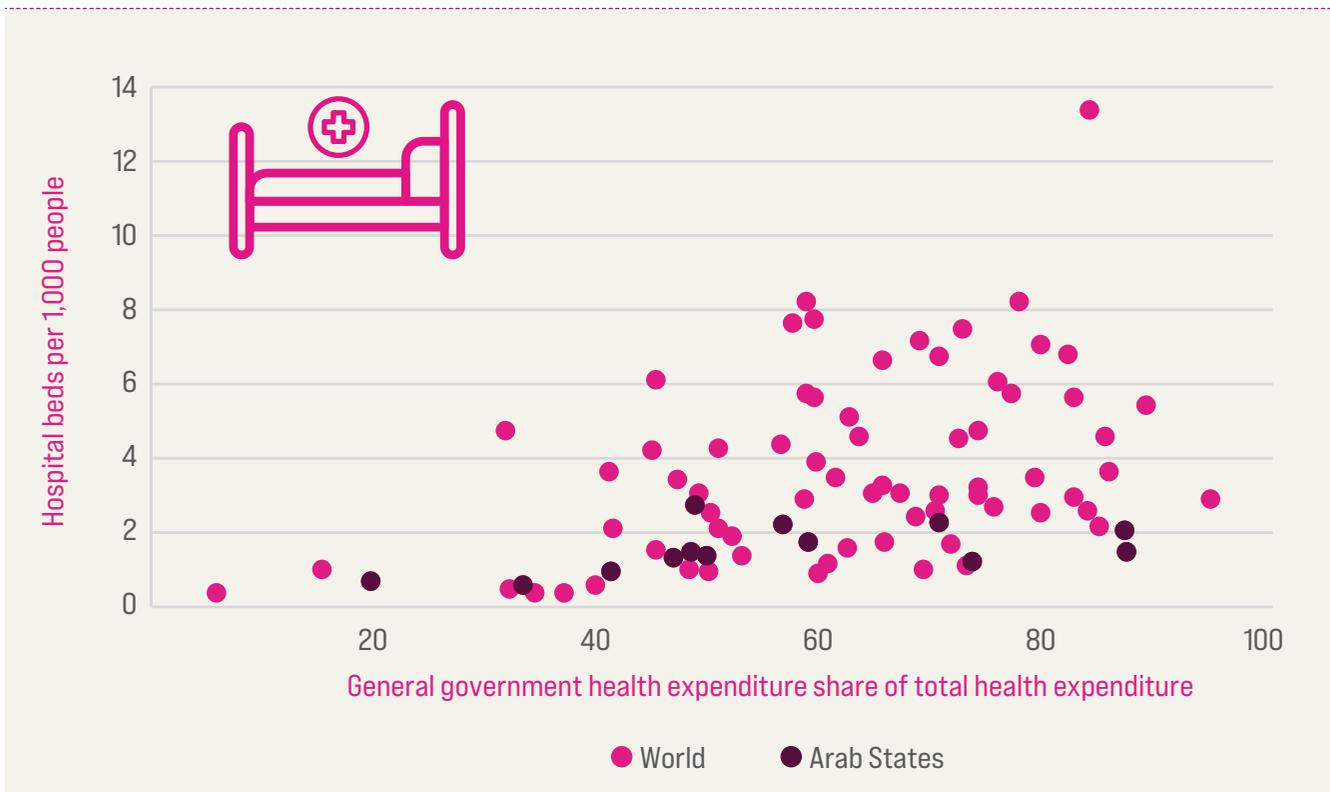
mitigating the effects of
war in Ukraine

Figure 1. Higher spending on education tends to boost school enrolment rates, average 2017-2019



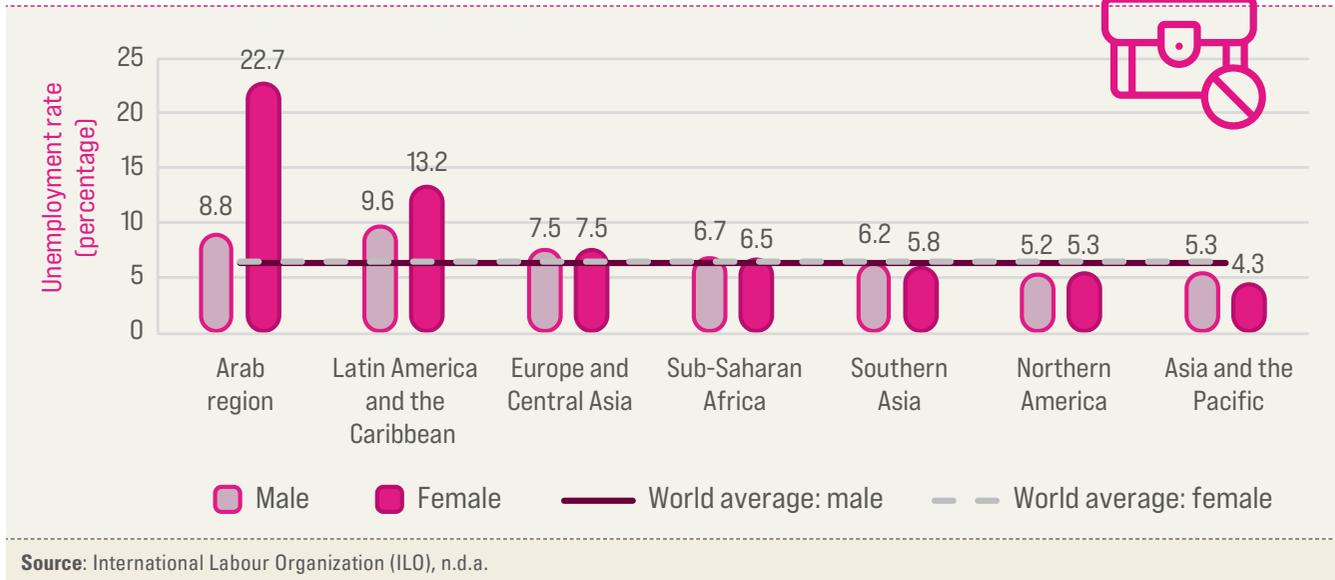
Source: Authors' calculations based on data from World Bank, n.d.c.

Figure 2. Fewer hospital beds per capita reflects inadequate public health expenditure, average 2017-2019



Source: Authors' calculations based on data from World Bank, n.d.c.

Figure 3. The region's high female and male unemployment rates reflect factors including underinvestment in active labour market policies, 2021



The region's unemployment rate continued to be the highest in the world at 11.8 per cent in 2021,⁹ putting the Arab States far off course on SDG targets. Unemployment is particularly acute in the many countries affected by conflict and/or fragility¹⁰ or that are least developed States. Across countries, women not only have lower labour force participation rates than men but are more at risk of being unemployed. The female unemployment rate reached 22.7 per cent in 2021, the highest rate in the world and far above the global average of 6.4 per cent (figure 3). A large share of employment in Arab economies is informal. The lack of structural transformation and relatively low productivity in most countries is also a major challenge. Most Governments have prioritized improving productivity and generating new jobs, yet this requires deliberate policy shifts in public social spending, such as to accelerate active labour market policies that provide incentives to start-ups and small businesses, upgrading skills and expertise, and creating provisions to increase female employment.

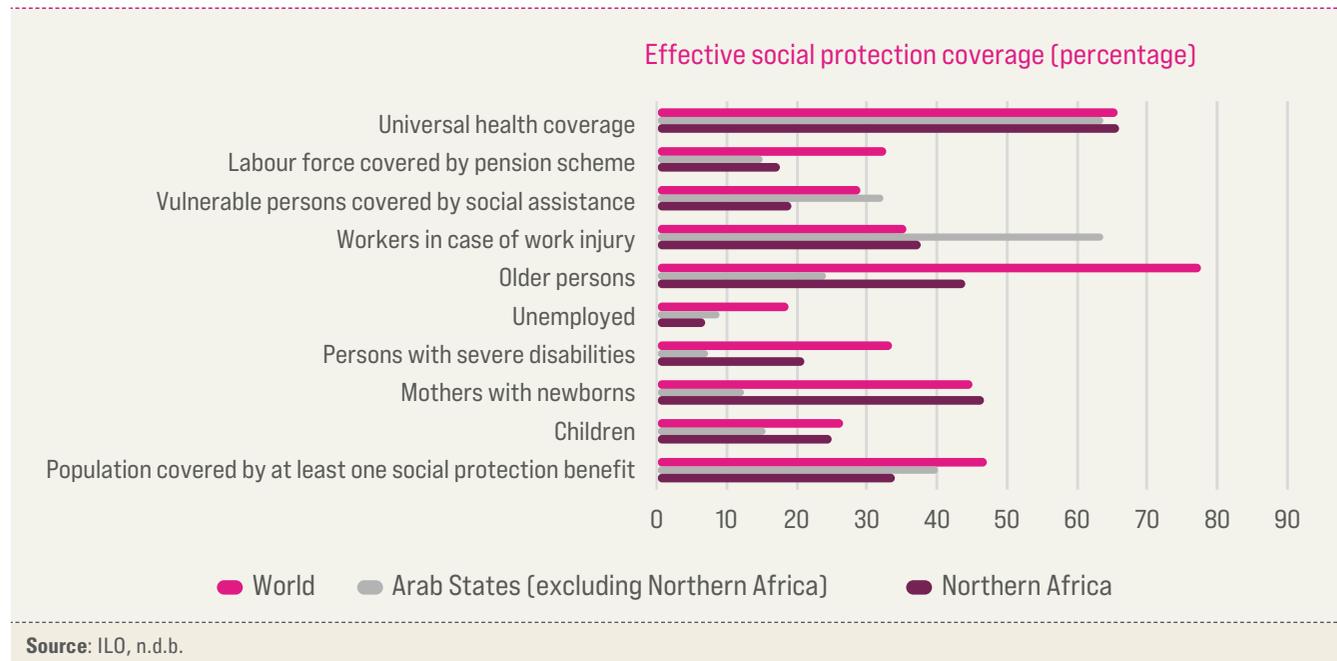
Social protection is critical to achieving the SDGs but significant coverage gaps result from segmented and exclusionary social insurance schemes and underinvestment in

non-contributory social protection. The latter remains fragmented and narrowly targeted. Just 40 per cent of people in the region is covered by at least one social protection cash benefit (figure 4). Coverage gaps are particularly large for women, youth and non-national workers, including refugees, given low labour force participation and high levels of unemployment and informal employment. Extending social protection to vulnerable populations is essential given substantial social needs and informal employment. It should be among the first steps towards the longer-term goal of universal access.



Most Governments have prioritized improving productivity and generating new jobs, yet this requires deliberate policy shifts in public social spending.

Figure 4. Many groups in the Arab region lack effective social protection coverage compared to the rest of the world, 2020 or latest available year



B. Moving beyond the trade-off mentality

One question for policymakers in recent years—and now highly relevant in mapping a post-pandemic future—has centred on the perception of a trade-off. Social expenditures have conventionally been seen as having value in reducing poverty and inequality but not necessarily in enhancing economic growth. This report argues that the notion of a trade-off between a fairer society and a more efficient economy should be put aside. Fiscal policy aimed at reducing poverty and inequality improves human well-being. It spurs economic growth. And it advances social justice. It is therefore a powerful tool to unleash progress on three fronts at once, ensuring they reinforce each other and accelerate the pace of inclusive and sustainable development.

Early studies of the impacts of aggregate public social expenditures on growth and human development yielded mixed results.¹¹ Other

research examined only specific sectors such as health and education.¹² More recent studies have convincingly affirmed, however, that targeted public social expenditure does make positive contributions to human development and human capital and therefore enhances economic growth, particularly in low- and middle-income countries.¹³

Increased social spending on education, health and social protection, for example, leads to a variety of better socioeconomic outcomes, such as lower poverty and inequality and longer life expectancy.¹⁴ Public health spending has had a greater impact than private health spending on lowering poverty, improving life expectancy and reducing child mortality.¹⁵ In broad terms, human capital investments in education, health and so on correlate with lower income inequality, strengthening the social contract and human empowerment.

Most of the top 10 countries globally in terms of human development have high human capital; in contrast, Arab countries typically have low human capital (table 1). The International Monetary Fund (IMF) suggests that to achieve five SDGs central to boosting human, social and physical

capital, the median Arab State must increase public expenditure by 5.3 per cent of GDP per year between 2020 and 2030.¹⁶ Equally important will be to ensure that expenditures are allocated efficiently and equitably, and managed sustainably, points explored throughout this report.

Table 1. Countries at high levels of human development have high scores on human capital

Country	Human Development Index (2019)	Human Capital Index (2020)	Public social expenditure, percentage of GDP, latest available figures	Public social expenditure per capita (dollars), latest available figures
Top 10 countries on the Human Development Index				
Norway	0.957	0.771	25.3	15868.8
Ireland	0.955	0.792	13.4	11125
Switzerland	0.955	0.756	16.7	11550.5
Hong Kong, Special Administrative Region of China	0.949	0.812		
Iceland	0.949	0.745	17.4	8896.8
Germany	0.947	0.751	25.9	13488.8
Sweden	0.945	0.795	25.5	13736.8
Australia	0.944	0.770	16.7	8571.5
Netherlands	0.944	0.789	16.1	9192.7
Denmark	0.940	0.755	28.3	16053.5
Arab countries				
Tunisia	0.740	0.516	23.4	691.5
Jordan	0.729	0.553	14.9	620.7
Egypt	0.707	0.494	12.5	466.2
Iraq	0.674	0.407	22.2	1370.4
Lebanon	0.744	0.515	9.9	1103.5
Oman	0.813	0.608	17.2	2644.5
Morocco	0.686	0.504	13.2	433.5

Source: Authors' compilation.

Note: Public social expenditures are compiled from OECD and ESCWA databases for OECD and Arab States respectively.

In many Arab countries, efforts to invest in development and economic progress are complicated by a shortage of fiscal space, given high public debt and budget deficits. This is a concern even in higher-income Gulf Cooperation Council (GCC) countries such as Bahrain, Kuwait and Qatar. Financial challenges due to COVID-19 have further aggravated limited fiscal space in middle-income countries, such as Egypt, Jordan and Tunisia. Countries with fragile and conflict-affected situations and the least developed

countries face the worst situations. Lebanon's severe fiscal and trade deficits and skyrocketing debt levels have resulted in the Government reducing essential services and fiscal support even during the pandemic.¹⁷

Limited fiscal space meant that in responding to the pandemic, the Arab States extended stimulus packages totaling only about 4 per cent of GDP. This was far behind the global average of 22.6 per cent, as estimated by the COVID-19 Stimulus

Tracker,¹⁸ and inadequate given the extent of socioeconomic damage. The tracker predicts that the region requires an additional \$462 billion to achieve a resilient and fast recovery on par with other regions and to surmount challenges on top of those already hindering progress on the SDGs.

At the same time, in the region and globally, COVID-19 has shifted understanding of the value of social expenditure in protecting the poorest and most vulnerable populations while sustaining people and the economy more broadly. Much depends, however, on defining public social expenditures that both meet human needs, across all social groups, and are efficient in enhancing economic growth and social equity. In this, governance plays a role; so does targeting to specific populations and using measurement capturing multiple and intersecting points of vulnerability.¹⁹ Financial inclusion, digitalization and institutional

quality in managing fiscal balances are other important factors.²⁰

The right mix of schemes and the adequacy and equity of social expenditures are key in making links to greater economic growth and more equitable outcomes. On balance, this report maintains that social assistance through cash or in-kind transfers and public social investments such as in skills development are both important for reducing poverty in the near term. They also have strong longer-term impacts as they improve opportunities for the poor and enhance upward social mobility. In Egypt, for instance, social assistance programmes improving workers' health and skills have alleviated the most frequent forms of food insecurity, while financial assistance purely to reduce food insecurity has had less of an impact over the long term (box 1).²¹ Cutting some energy subsidies could reduce poverty and market income inequality significantly in Tunisia.²²

Box 1. Human capital investments reduce vulnerabilities in Egypt

While social assistance programmes have been a central strategy in the Arab region to mitigate severe vulnerabilities, they often centre on regressive and inefficient subsidies that impose a heavy burden on the gross domestic product. By contrast, investments in human capital, such as vocational training and health insurance, tend to cost less, make more significant contributions to long-term welfare and lower vulnerabilities, as seen in Egypt.

A study assessing alternative public programmes for workers measured the effects of publicly funded vocational training, health insurance and financial assistance on employment status and deprivation. The study found that social assistance programmes targeting workers' health and skills have positive long-term effects, alleviating the most frequent forms of food insecurity. Work experience, marital status and urban residence had marginal effects on food insecurity in comparison. The impact of financial assistance in reducing food insecurity over the long term was low and unclear. While it contributes to decreasing food insecurity in some cases, it yields the opposite results in others, depending on the entity providing the assistance (figure A).

Previous or present recipients of financial assistance tend to report lower job satisfaction, although this may reflect a moral hazard, where beneficiaries may report lower levels of living conditions to meet eligibility criteria for cash handouts. In contrast, investments in human capital through higher education and vocational training as well as health tend to realize higher job satisfaction and greater prospects for career advances in the short and long run. Workers' human capital has a strong return in matching them to suitable jobs with decent working conditions (figure B).

While financial assistance is important to support the extremely poor and deprived, the findings suggest balancing it with programmes increasing human capital, skills and other capabilities with a greater long-term impact. The latter not only support the poorest but also middle-income groups and informal workers to reduce their vulnerability to poverty.



Figure A. Predicted probability of severe food deprivation, by wealth decile

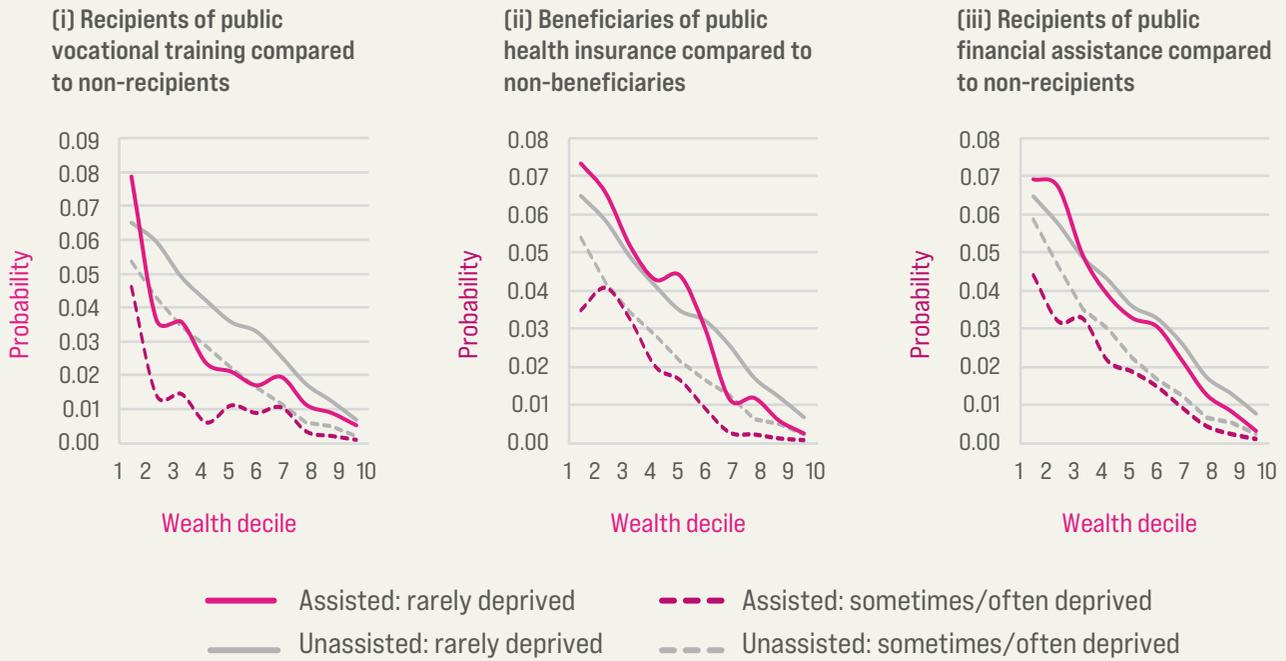
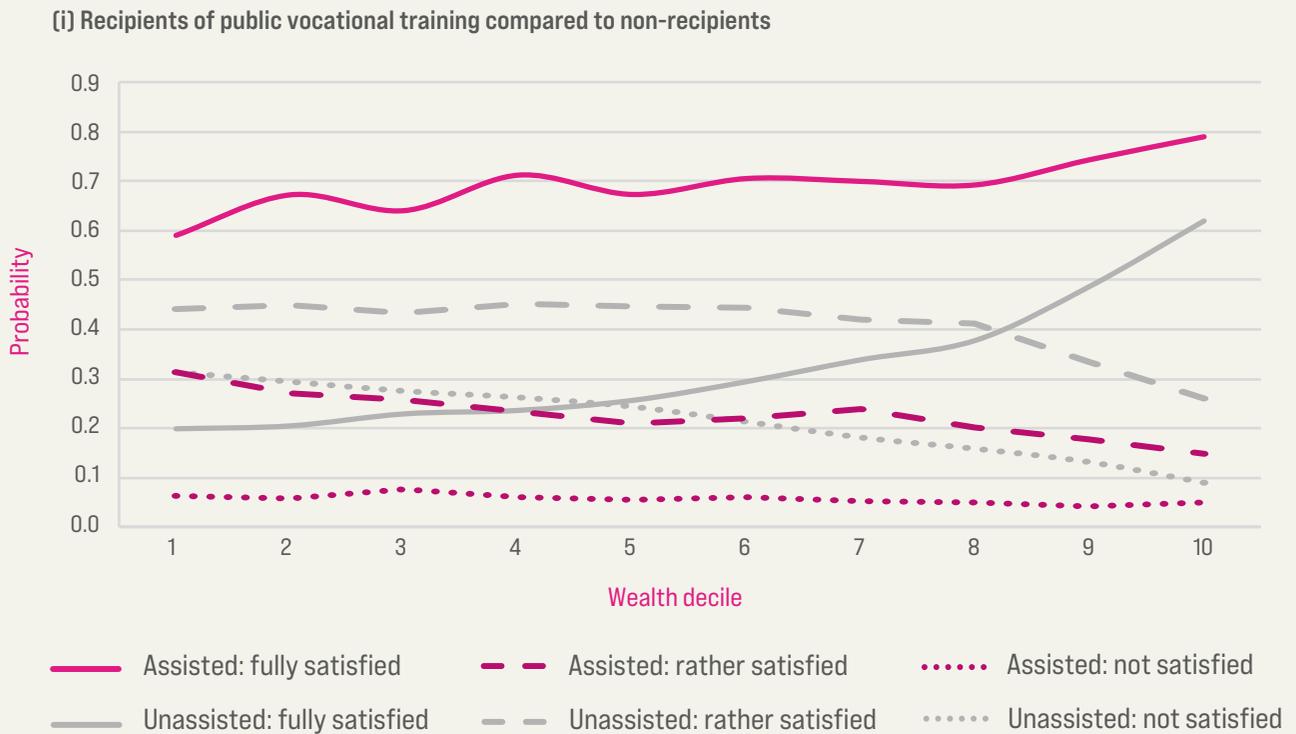


Figure B. Predicted probability of degree of satisfaction in current job, by wealth decile



(ii) Beneficiaries of public health insurance compared to non-beneficiaries



(iii) Recipients of public financial assistance compared to non-recipients



Other issues relate to whether social expenditures are countercyclical, supporting people and reviving the economy during downturns. In most Arab countries, public expenditure follows economic output, largely due to dependence on commodity prices and the rentier nature of their economies.²³ Some variations in this pattern emerged after the 2008 economic downturn as several countries increased discretionary social expenditure to prevent discontent amid losses in economic growth. A similar response took place to support people and economies to withstand COVID-19.

With limited fiscal space now under intense pressure from the demands of the pandemic, and amid spiraling uncertainty in the global economy due to factors including the conflict in Ukraine, Arab countries face many questions around the fiscal sustainability of enhanced social expenditures. This report stresses, however, that “enhancing” means not just spending more but spending smartly.

When compared to countries with similar income levels, Arab States on average lag on growth and human development as well as on social expenditure.²⁴ Reasons for the discrepancy include inefficiency in targeting and allocations, budget rigidities related to salaries and wages, and the neglect of social investments in sectors that boost productivity.²⁵ Smart policy choices would consider how to use resources most efficiently and equitably. This could mean achieving the same

outcomes while saving resources or achieving greater outcomes with the same spending.²⁶

Another consideration is that increasing social expenditure with quality public service provisions, beyond stimulating growth, can lead to more revenue generation.²⁷ Tax collection tends to be higher in countries with greater social investments, implying better public services for health, housing and education.²⁸ Raising revenues primarily through higher rates or a broader tax base may lead to resentment or tax evasion unless people trust that Governments will provide quality public services.

The COVID-19 pandemic has created a two-sided problem, increasing the need for expenditure while constraining abilities to mobilize resources. Meeting emergency health and social protection needs has consumed funds that could otherwise have been allocated to the other SDGs and imposed additional costs. Amid higher poverty rates, increased mortality and erased gains in education,²⁹ an IMF study of four countries estimated that SDG spending requirements shot up by 21 per cent due to the pandemic.³⁰ Another assessment defined \$2.5 trillion in unmet SDG financing globally prior to 2020, and projected that the gap rose by \$1.7 trillion during the pandemic.³¹ Obstacles to raising more resources are particularly acute for least developed countries dependent on official development assistance that is now in short supply amid constraints in partner countries.

C. A better means of measurement

Given the critical role of public social expenditure and the pressures on fiscal space, this report presents the SEM as a tool to align spending with progress on multiple SDGs (figure 5). Many Arab countries currently lack holistic monitoring of social expenditure, which undercuts efficient and effective budget choices. Compounding these gaps are ineffective coordination among

ministries and insufficient tools for social expenditure and fiscal sustainability analysis.

These deficits help explain the lower performance of public social expenditure in Arab countries compared to peers in other developing regions. Without quality monitoring, public social expenditure often results in inefficiencies such

as allocations to multiple and overlapping social programmes, inequities in reaching vulnerable populations, and mismatches between expenditures and needs. While public budgets are now under pressure in most Arab countries in the wake of the COVID-19 pandemic, and several face heavy debt burdens, another grave concern is the unsustainable and inefficient management of public social expenditure. This puts the achievement of all the SDGs at risk.

The SEM goes beyond traditional ways of measuring expenditures on essential services. Such approaches focus primarily on health, education and social protection, while the SEM covers the breadth of SDG targets.³² The SEM framework classifies social expenditure into seven dimensions, namely, education; health and nutrition; housing and community amenities; labour market interventions and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection.³³ These dimensions cover all public expenditure with a social purpose, and 70 out of 169 SDG targets.

The SEM helps demonstrate why fiscal policy should not be restricted to redistribution through social assistance, social insurance and transfers. It can assist in steering fiscal policy towards a much larger role in reducing poverty and vulnerabilities and ensuring inclusive development and social justice (figure 6). It supports rationalizing social expenditures and finding the right mix of social protection and social investment³⁴ to enhance human capital, kickstart opportunity and innovation, and realize the productivity and economic participation of all members of society. All these investments contribute in turn to greater macroeconomic and social stability.³⁵

One innovation of the SEM is to generate data on social expenditures based on their purpose and beneficiary populations. The aim is to create better statistics for more robust and responsive policymaking that supports the equitable and efficient targeting of priority

investments and beneficiaries, especially to reach the poorest populations and those struggling with multiple points of vulnerability.³⁶ The SEM attempts to disaggregate beneficiaries by sex to assess how public social programmes have allocated expenditures to men and women, although most public expenditure data are not currently disaggregated by sex. The SEM highlights this shortfall and suggests ways to improve social expenditure data as integral to guiding measures to achieve gender equality.

Figure 5. The SEM cuts across the SDGs and their targets



Source: ESCWA, 2019.

Figure 6. The SEM helps advance the SDGs by monitoring budgets and fiscal policy reforms



D. What is ahead in this report

Chapter 2 explores social expenditure and international measures of social spending. It highlights the importance of comprehensive measures by introducing the broader SEM framework. It analyses public social expenditure on essential services (health, education and social protection) in the Arab region, compares the findings to global averages, and discusses total public social expenditure under the broader SEM measure for eight Arab countries with available data. The chapter concludes by highlighting major trends in public social services and allocations across beneficiaries, highlighting major gaps.

Chapter 3 examines the equity and adequacy of allocations to social spending, considering

vulnerabilities faced by different population groups in the Arab region. The chapter stresses the importance of putting equity at the heart of social spending to foster empowerment, promote sustainable progress and enhance social justice.

Chapter 4 examines the need to increase the efficiency of social expenditure in the Arab region to maximize its impact, enhance social outcomes and build an inclusive society. It assesses how countries compare with peers in other regions in terms of efficiency by employing a data envelop analysis methodology. It decomposes the overall efficiency of education, health, social protection, and environmental protection expenditures into components and attempts to assess their impacts

on particular social outcomes, including through exploring underlying contexts and policies.

Chapter 5 considers the region's fiscal space challenges in enhancing social expenditure and proposes concrete solutions through a macroeconomic modelling exercise. The chapter investigates fiscal policy choices related to domestic revenue reforms, enhancing fiscal space through innovative financing instruments such as debt swaps, new debt financing in a well-strategized debt-to-GDP stabilization framework, and efficiency improvements to enlarge fiscal space.

Chapter 6 delves into improved public financial management and budgeting as a foundation

for a more just and inclusive society. It stresses effective management, which includes developing medium-term expenditure and revenue frameworks to increase expenditure effectiveness and efficiency and macroeconomic stability. It also explores key fiscal policy and budgeting reforms required to better target budgets to achieving the SDGs, promoting an inclusive society and achieving gender equality.

Chapter 7 presents key findings and recommendations for improving the equity and efficiency of public expenditure as well as public financial management. It outlines fiscal policy and budgeting reforms essential for a well-strategized social expenditure policy that fosters inclusive development.



Endnotes

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- 3 ESCWA, 2014a.
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- 14 IMF, 2020a. The findings confirmed that increased social spending led to improved socioeconomic outcomes for the following dependent variables: lowering poverty rates, boosting the Inequality-adjusted Human Development Index, improving life expectancy, and reducing child mortality. These results were established even after controlling for income, the degree of urbanization, macroeconomic stability, trade openness, domestic and external conflict, the level of financial development, and access to safe water.
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Measurement to guide smart spending



02





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Public social expenditures are not optional handouts from Governments to people. They are essential investments in human capital, drivers of greater productivity and correctors of inequity. Steered by fiscal policy, choices to allocate and spend public resources have lasting impacts on the course of each country's economy and human development and the stability of its social contract. They are in line with the SDGs and the 2014 Tunis Declaration on Social Justice in the Arab Region, in which member States reaffirmed commitment to social justice as a core value of Arab and Islamic culture and a foundation for secure, cohesive and prosperous societies. Fiscal policy should therefore play a prominent, active role in building advanced societies and economies with universal access to resources and services and equal opportunities for all.

Towards that end, the SEM supports better-informed fiscal decisions that can both efficiently and sustainably accelerate development and make benefits equitably available. To set the stage, this chapter defines public social expenditure and its measures and presents the latest data on social expenditure in the Arab region and the world. It introduces the SEM and discusses findings based on mapping trends in public budgets in eight Arab countries with sufficient data.

“

Public social expenditures are not optional handouts from Governments to people. They are essential investments in human capital, drivers of greater productivity and correctors of inequity.

A. Measuring social expenditure in public budgets

1. What is social expenditure?

The definition of social expenditure varies across countries. One global measure captures Government budget spending on health, education and social protection. Known as HES, it is produced by the IMF,³⁷ covering some core elements of the SDGs but not others. The SEM is broader in scope. Aligned with the SDGs and adaptable to national specificities, it comprehensively maps all public social services and their beneficiaries.

The SEM defines social expenditure as including goods and services provided to individuals, households or communities, primarily on a non-market basis but also through subsidies,³⁸ grants, tax relief and other transfers. It classifies on-budget social expenditure in seven dimensions (table 2).

Each dimension has a series of indicators of social policy expenditures that are essential in achieving several SDG targets. The indicators show the

purpose of expenditure (or kind of social service) and the beneficiary population. Classification of current and capital expenditures by each indicator helps analyse productivity and growth in a macroeconomic context. By capturing crucial social development priorities in the Arab region, SEM indicators represent a concrete step towards aligning thinking on social policy interventions with fiscal and macroeconomic policy.³⁹

Expenditure in the SEM is aligned with the IMF Classification of the Functions of Government (COFOG) system. Beneficiaries are classified as follows: children, young people and adults (disaggregated by sex); older persons; persons with disabilities, sickness and survivors; socially marginalized people or those at risk of social exclusion, refugees and immigrants; households benefitting from financial or in-kind support; and the community at large. The last category covers expenditures on public goods and services and investments in non-financial assets that are not exclusively for any specific population group.⁴⁰

Table 2. SEM dimensions and indicators

<p>1. Education</p> 	<ol style="list-style-type: none"> 1. Early childhood education 2. Primary education 3. Secondary education 4. Post-secondary skills training 5. Tertiary education 6. Education for adults 7. Research and use of technology on advancing education 8. Administrative and institutional support
<p>2. Health and nutrition</p> 	<ol style="list-style-type: none"> 1. Outpatient services (including residential care) 2. Inpatient hospital services 3. Reproductive health care 4. Discrimination against women and gender-based violence⁴¹ 5. Public health services 6. Expenditure on medicines, medical products, appliances and equipment 7. Research and use of technology related to health and nutrition 8. Administrative and institutional support

<p>3. Housing, connectivity and community amenities</p> 	<ol style="list-style-type: none"> 1. Housing 2. Water supply network and reservoirs 3. Quality of water supply 4. Urban commuting 5. Rural connectivity 6. Street lighting 7. Community development 8. Research on housing and amenities 9. Administrative and institutional support
<p>4. Labour market interventions and employment generation programmes</p> 	<ol style="list-style-type: none"> 1. Incentives to encourage female employment 2. Training and skills upgrading, including on technology (on the job) 3. Grants and other incentives to private enterprises/start-ups for job creation 4. Employment generation programmes 5. Research on labour market programmes and policies 6. Administrative and institutional support
<p>5. Social protection, subsidies and support to farms</p> 	<ol style="list-style-type: none"> 1. Support for achieving a basic income, housing and food security 2. Unemployment benefits 3. Support to family and children, including maternity benefits 4. Subsidies to food processors 5. Subsidies to fuel (oil and gas) 6. Subsidies to electricity 7. Subsidies and other support to farms 8. Research on social protection and food security 9. Other nationally defined sets of goods and services 10. Administrative and institutional support
<p>6. Art, culture and sports</p> 	<ol style="list-style-type: none"> 1. Cultural facilities and events 2. Promoting individuals and organizations in art and cultural fields 3. Sports facilities and services 4. Promoting athletes and teams 5. Research on advancing sports, culture and art 6. Administrative and institutional support
<p>7. Environmental protection</p> 	<ol style="list-style-type: none"> 1. Solid waste management 2. Wastewater management and sanitation facilities 3. Incentives for renewable energy supply (hydroelectricity, solar, wind, biomass) 4. Protecting biodiversity, combating desertification, land degradation 5. Research on environmental protection 6. Administrative and institutional support

2. Challenges in mapping public budgets

Producing the SEM requires identifying and mapping budget lines to social services and beneficiaries. The Arab region is widely diverse in its budget systems and reporting of Government finance statistics. Some countries follow results-based or programme-based budgets (with or without COFOG); others follow COFOG or their own classification of public expenditure. A detailed mapping encounters several issues in the identification and classification of public expenditure for social services.

First, the level of disaggregation often does not allow the clear identification of specific social services and target beneficiaries. Some countries use COFOG with data disaggregation of up to five digits, which identifies the purpose of the expenditure and helps build several indicators for the SEM. Greater disaggregation is needed for some SEM indicators, however, such as to separate expenditure on early childhood, primary and secondary education. Limited data disaggregated by sex posed a challenge for most indicators. In general, achieving the clear disaggregation of social services and their beneficiaries requires results-based or programme-based budgeting, but only a few countries practice this.

Second, the economic classification of social services is often not reported. Countries that report Government finance statistics by COFOG provide total expenditure by purpose but usually with no disaggregation by current and capital expenditure. The IMF's Government Finance Statistics Manual provides a cross-classification of economic budget classifications and COFOG. Yet, it is difficult to cross-classify available budget data without access to more detailed records.

Third, budget classifications may not be comparable over time. Government finance reporting systems may change, which requires examining

and reclassifying budget lines for comparison. Insufficient coherence between programme-based and COFOG classifications is another issue in looking at expenditure data over time.

Fourth, sources of expenditure are not consolidated in the general Government budget or central Government budget. Knowing the source is important in understanding expenditures and their comparability over time. Calculating social expenditure in the general Government budget is costly and time-intensive given the current data infrastructure. General Government entities are not consolidated in Government budgets in many Arab countries.

Finally, most countries do not make a detailed budget document publicly available. Only nine of twenty-two Arab States publish budget documents with varying details of expenditures: Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, the Sudan, and Tunisia. Few countries have records available over time. Some have published records for only one or a couple of years.

Overcoming these challenges requires working with Government authorities, including sectoral ministries, to access detailed budget records, a critical task in preparing the SEM mapping. The process drew on a pilot exercise in Jordan and Tunisia and assessment of publicly available budget documents for six other countries. SEM analysis focuses on eight countries; broader regional assessment of public social expenditure draws on the HES.⁴²

3. Adding up the numbers: comparing the SEM and other measures

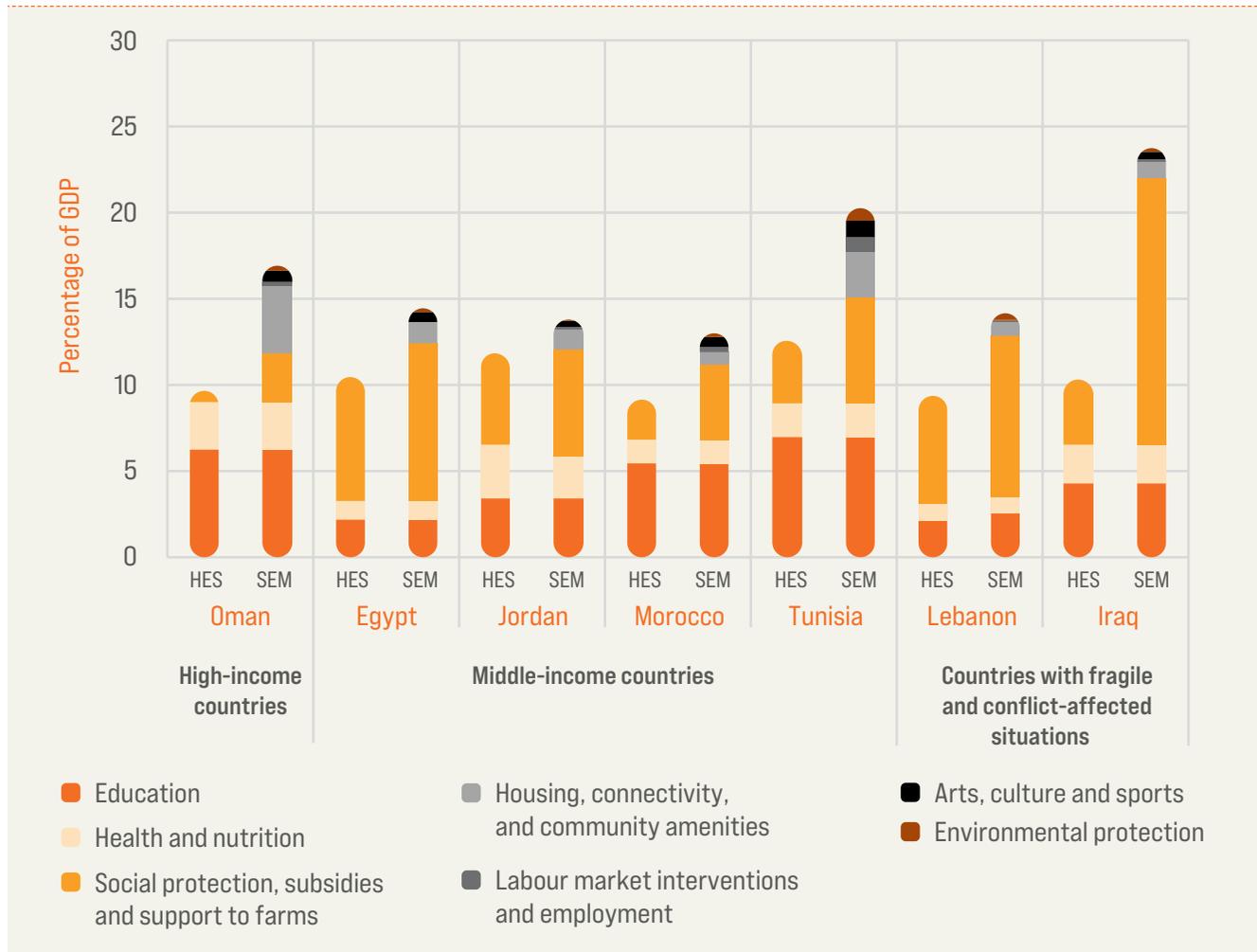
A calculation of the HES and SEM based on public budget shares in 2019 found higher total expenditure, as a share of GDP, under the SEM (figure 7). The difference was highest in Iraq (13.8 per cent) followed by Tunisia (7.8 per cent) and

Oman (7.4 per cent). The difference was lowest in Jordan and Morocco. In Iraq, the large difference was mainly due to subsidies. In Tunisia, the difference comes from expenditure on support to the labour market, housing and environmental protection, categories that also explain small differences in Jordan and Morocco. The share of health and education in the SEM matches the HES, which reflects categories with large shares of social expenditure in all countries.

On health expenditure, the SEM database tracks the HES but is consistently below the general Government health expenditure data of the World Health Organization (WHO). Two reasons

explain the difference, as shown in figure 8. First, WHO data are provided for the general Government, which includes both central and local governments; SEM data reflect only central Government expenditures. Second, WHO statistics include a component for consumption of fixed capital, also known as depreciation, which is not recorded in financial statistics reporting for the SEM or HES.⁴³ Counting depreciation is not part of Government budgets, only of national accounting systems. Health expenditure in the SEM reflects only current health expenditures from the budget, a methodological difference to consider in interpreting the results.

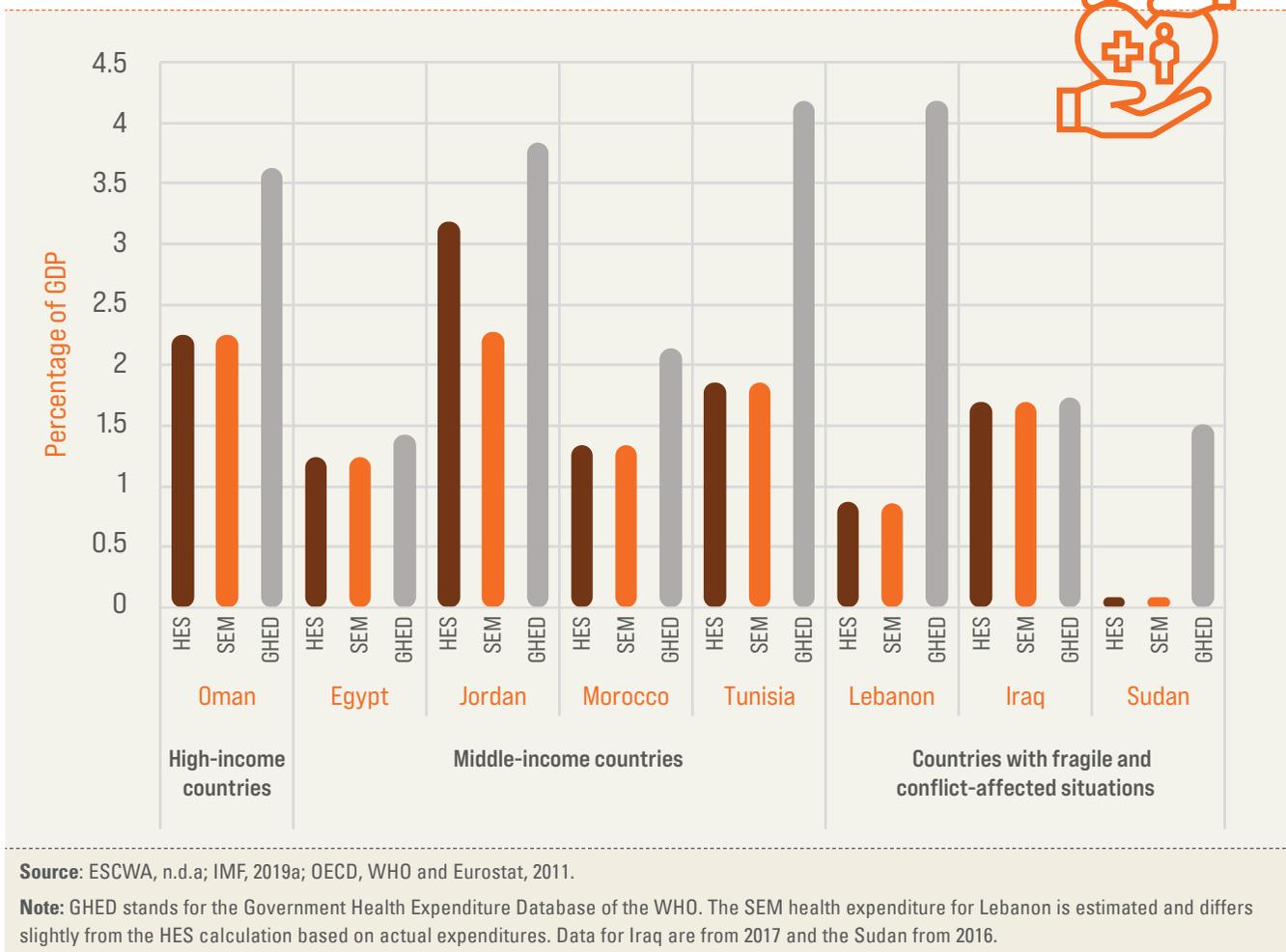
Figure 7. The SEM developed by ESCWA compared to the HES developed by IMF, 2019



Source: ESCWA, n.d.a; IMF, 2019a.

Note: In the HES, social protection does not include subsidies and support to farms. Data on SEM are from public budgets. In the case of Lebanon, subsidies to fuel and electricity are treasury advances to the electricity authority of Lebanon, which do not enter into public budgets from 2018 onwards.

Figure 8. Public health expenditure calculated by the SEM, HES and WHO



The International Labour Organization (ILO) publishes national statistics on public social protection expenditure through its World Social Protection Data Dashboard.⁴⁴ The ILO definition of social protection includes expenditure on services and transfers provided to individual persons and households and expenditure on services provided on a collective basis; it excludes expenditures on health. Data come from a variety of sources, including the ILO, the IMF, the World Bank, the Economic Commission for Latin America and the Caribbean (ECLAC), the United Nations Development Programme (UNDP), the United Nations Children’s Fund (UNICEF), and national sources, depending on the country.

In most countries, the social protection component of the HES is lower than the ILO figures for social protection (figure 9). In some countries, such as

Lebanon and Oman, the difference between the HES and ILO is small, while in others, such as Jordan and Tunisia, it exceeds 3-4 per cent of GDP. The SEM social protection component is equal to the HES, but since it adds subsidies and support to farms, it bridges the gap between the HES and



The SEM social protection component is equal to the HES, but it adds subsidies and support to farms.

ILO measures. The resulting SEM total for social protection, subsidies and support to farms is in line with the ILO social protection statistics in several countries.

Few countries show substantial differences between the SEM and ILO figures. For Lebanon, the ILO social protection data are sourced from the IMF, making the HES and ILO measures nearly identical. The SEM social protection component is very close to the IMF data (6.4 per cent versus 6.3 per cent, respectively), although to produce the dimension, the SEM added subsidies that cross 3 per cent of GDP in Lebanon. For Jordan, the SEM social protection component closely matches the HES figures produced by the IMF.

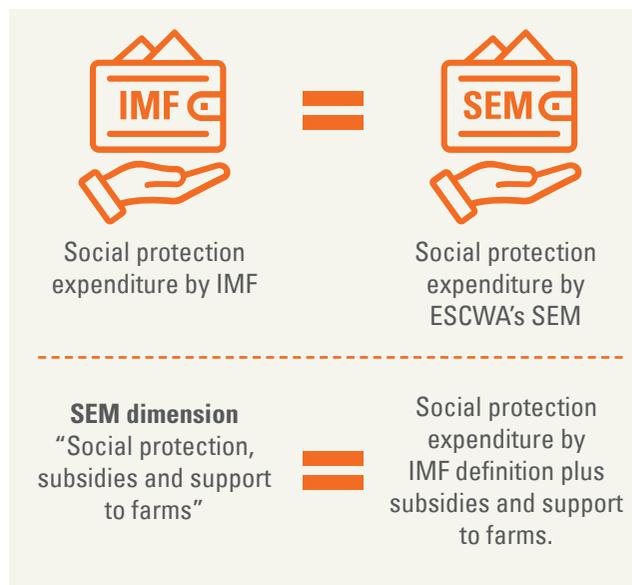
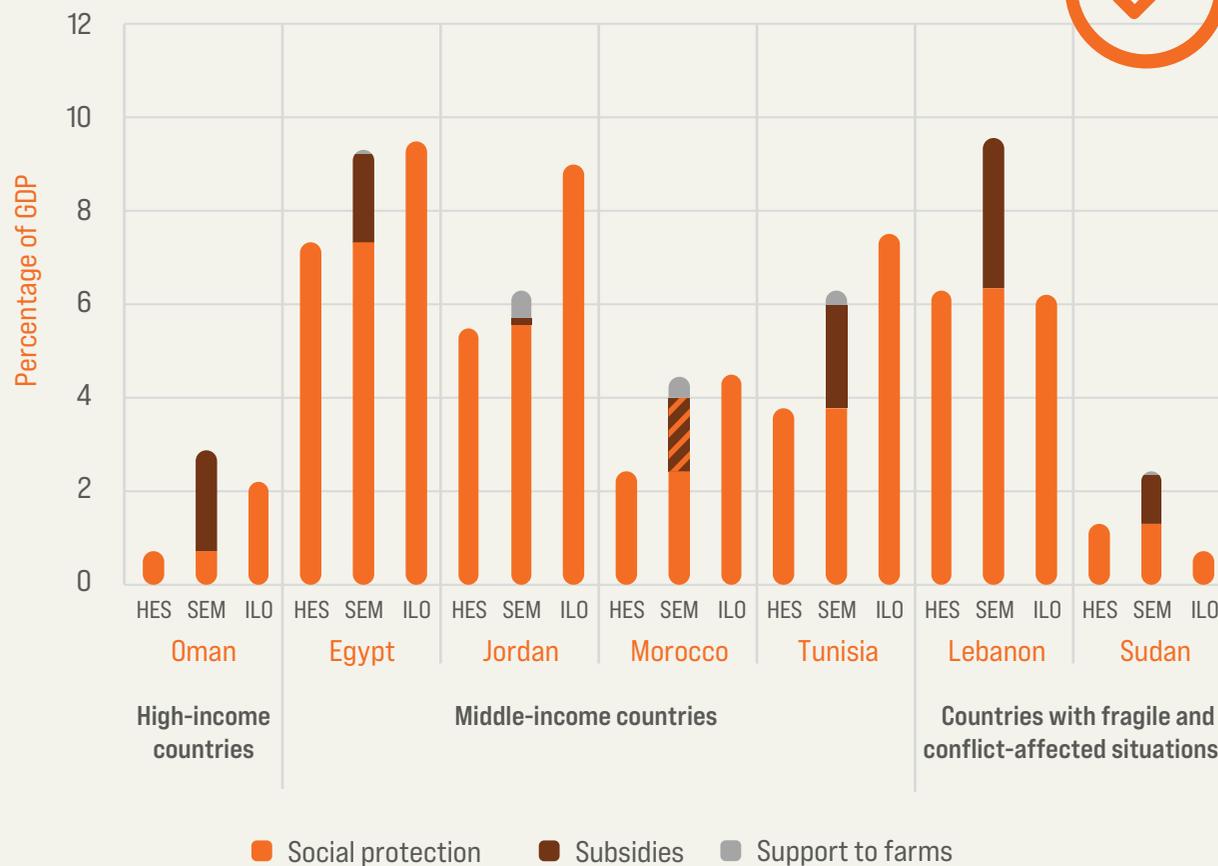


Figure 9. Social protection expenditure based on HES, SEM and ILO calculations



Source: ILO, n.d.b; IMF, 2019a; ESCWA, n.d.a.

Note: Data are from 2020 or the latest available year. Subsidies to food processors, which are considered social protection, and subsidies to fuel and energy, which are classified as subsidies, are not disaggregated in the Morocco budget data. Therefore, the orange-brown section cannot be further disaggregated.

B. How social expenditure compares in the region and with the world

Developing a regional and global comparison of social expenditures required focusing on the HES, since data on other aspects of expenditure are not available or are filtered from published Government finance reports. The HES covers 127 countries, including 14 Arab States. For analysis, countries were grouped by income and development level. High-income countries included 51 nations, of which 5 were Arab States. Middle-income countries comprised 52 countries with 4 Arab States. Of 10 least developed countries, none were in the Arab region. Fourteen countries with fragile and conflict-affected situations were included; five were Arab States.

1. The size of public budgets as a whole

From 2010 to 2019, public expenditure as a share of GDP remained almost stagnant in the Arab region at around 34.6 per cent, compared to the world average of 35.7 per cent.⁴⁵ In 2020, the world average increased to 39.5 per cent during the pandemic.⁴⁶ The Arab regional average increased to 35.9 per cent but remained lower than global average with most economies facing limited fiscal space and contraction in their incomes. The share in the region varied,⁴⁷ reaching 40.4 per cent in the high-income countries but only 30.7 per cent in the middle-income countries, 20 per cent in the least developed countries and 36.3 per cent in countries with fragile and conflict-affected situations (figure 10).

In the region's high-income countries, the expenditure-to-GDP ratio, on average, increased from 34 per cent in 2010 to 40.4 per cent in 2020, albeit with some year-to-year fluctuations. During the pandemic, most GCC countries resorted to borrowing or withdrawals from sovereign

reserves to finance Government expenditures, including fiscal stimulus measures.

The expenditure-to-GDP ratio in Arab middle-income countries increased during 2010-2014, on average, which mainly resulted from higher subsidy bills associated with rising oil imports. The share then fell to 31.2 per cent in 2019, mostly due to several measures to contain fiscal deficits, including expenditure cuts and subsidy reforms. With the adverse impact of the pandemic on the economic output, the share of expenditure to GDP further declined to 30.7 per cent in 2020, while that for global peers increased from 31.1 to 33.7 per cent. Inadequate domestic revenue mobilization, external liquidity challenges and high debt-service payments impeded increased financing for essential expenditures even during the pandemic.

In the least developed countries, the percentage remained largely stable during 2010 to 2019 at around 19 per cent, while Government spending increased slightly during the pandemic to reach 20.2 per cent mainly due to some debt relief measures for these countries during the pandemic.

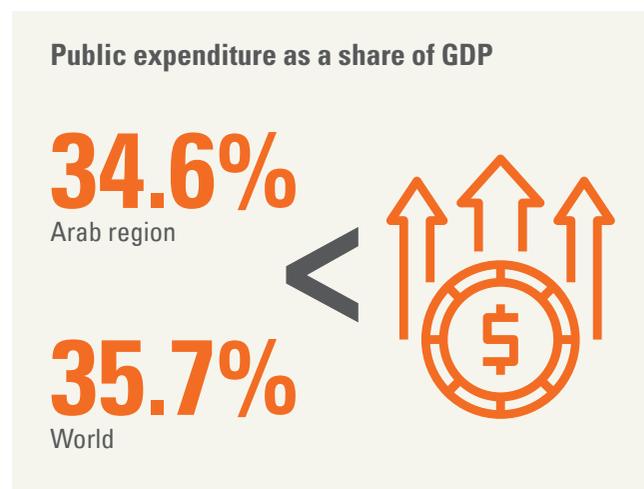
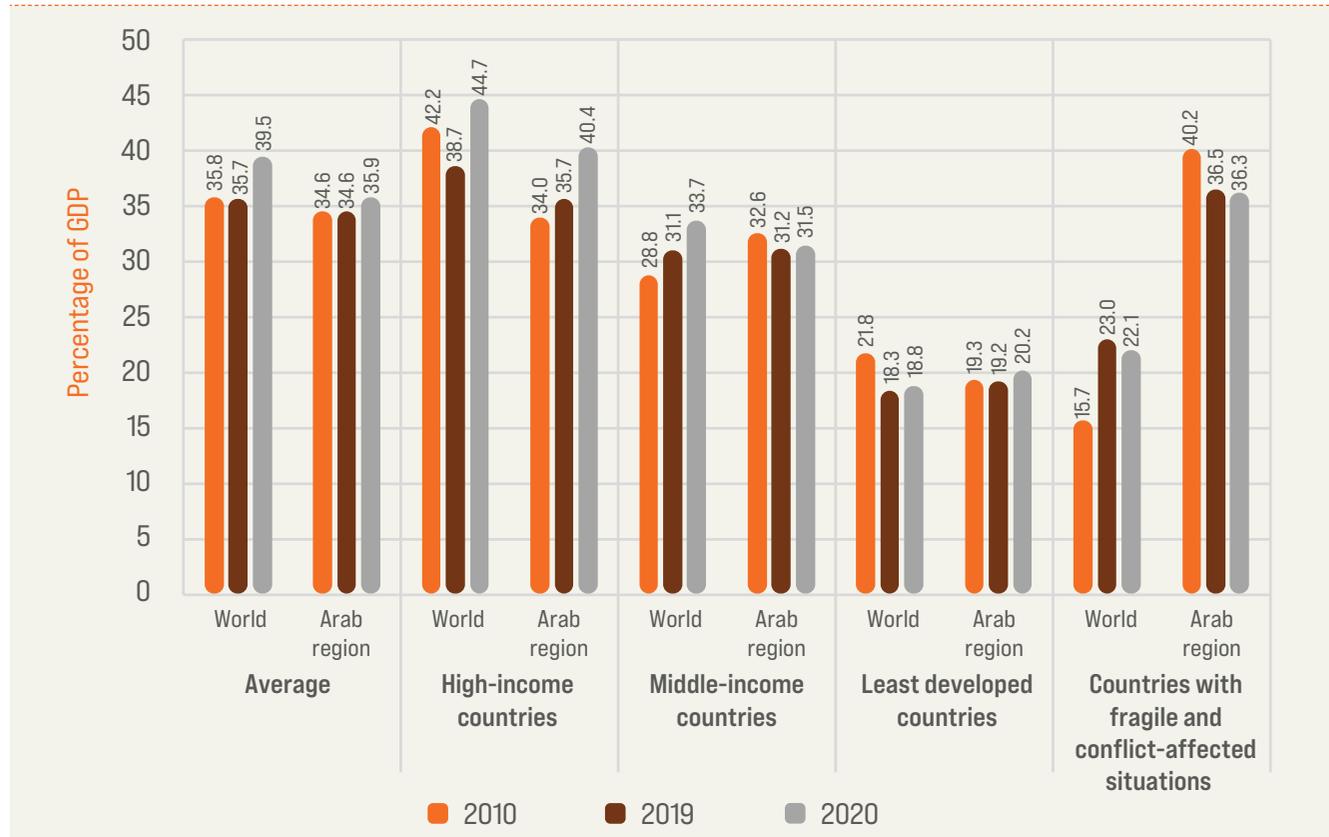


Figure 10. The pandemic pushed up public expenditure as a share of GDP globally, but not in the Arab States



Source: Sarangi and others, 2021, based on data from IMF, 2020b.

Note: Data are for 187 countries, including 58 high-income countries, 75 middle-income countries, 24 least developed countries, and 30 countries with fragile and conflict-affected situations. This includes 20 Arab countries; 6 high-income countries, 5 middle-income countries, 2 least developed countries, and 7 countries with fragile and conflict-affected situations.

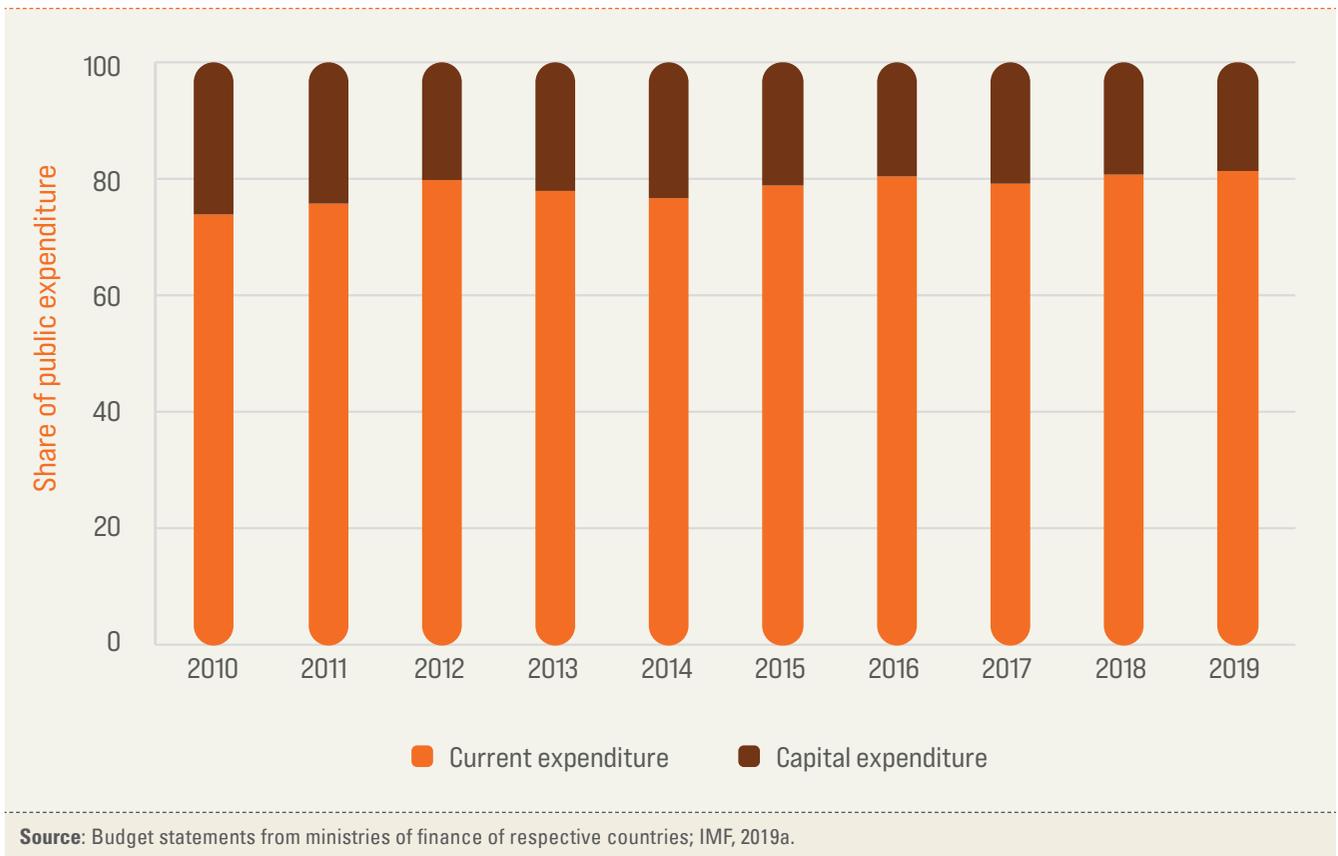
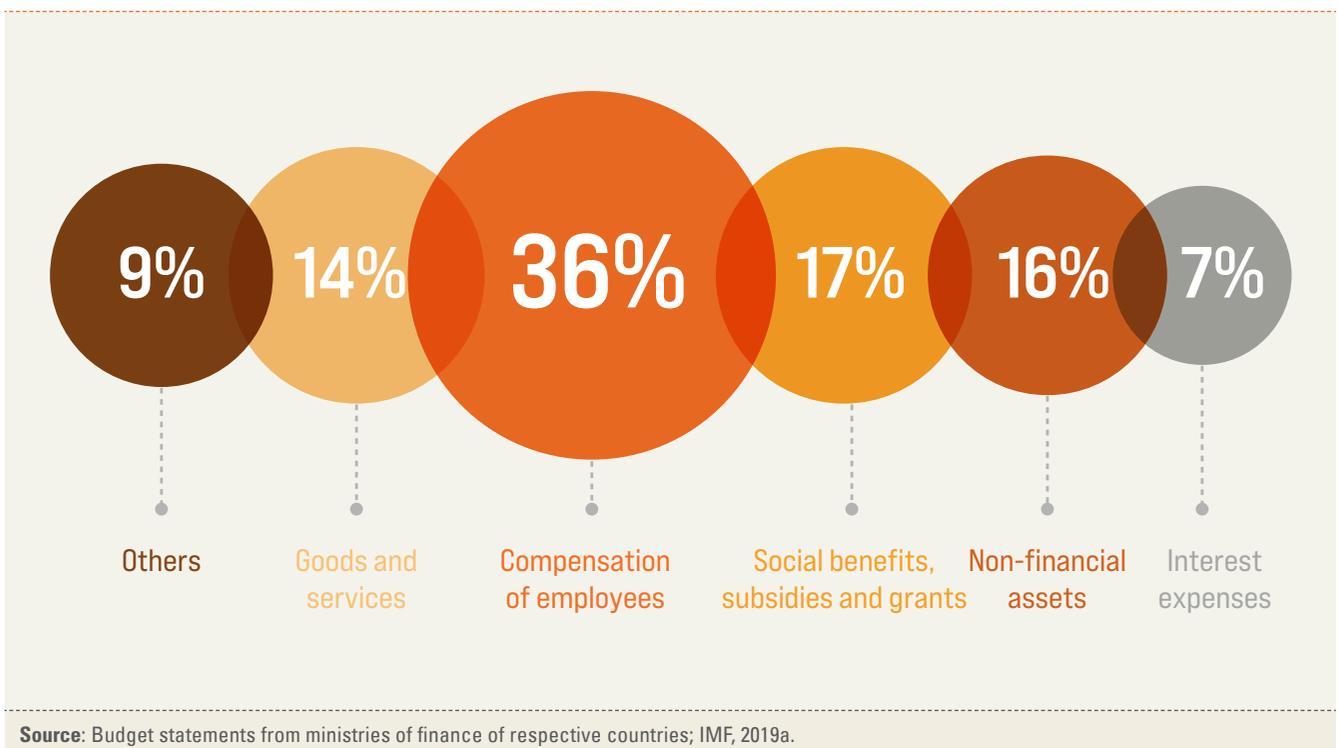
A review of the breakdown of expenditures shows that the Arab region has been spending more on running costs such as salaries than on building essential infrastructure such as schools, hospitals and roads, or on investing in productive sectors that contribute to growth and human development. Most public expenditure goes to current expenditure, with a large share for employee wages and salaries and public transfers. In 2019, current expenditure constituted around 81.5 per cent of regional public expenditure, leaving just 18.5 per cent for capital expenditure (figure 11).

Around 36 per cent of public spending, on average for 12 countries in the region with available data in 2019, went to employee salaries and 14 per cent to goods and services. Social benefits, subsidies and grants constituted 17 per

cent (figure 12). Interest payments accounted for almost 7 per cent and remaining current expenditures under the “other” category represent 9 per cent. Only 16 per cent of spending comprised investments in non-financial assets.



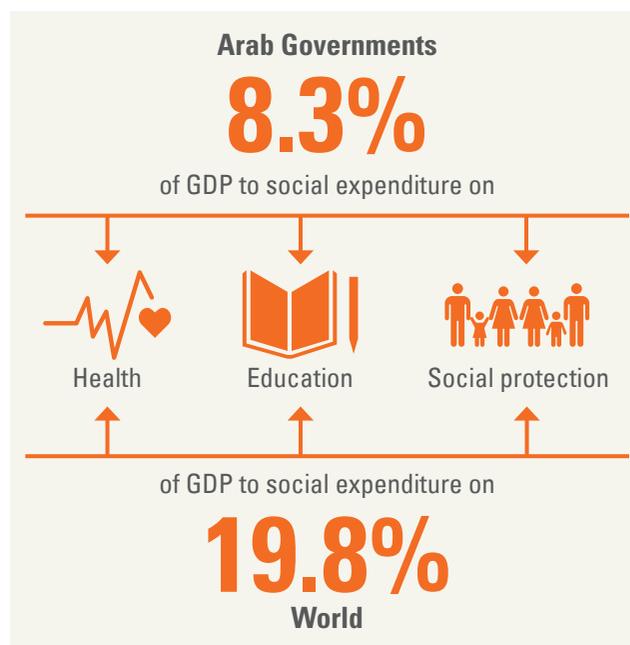
Most public expenditure goes to current expenditure, with a large share for employee wages and salaries and public transfers.

Figure 11. Current expenditure dominates Arab public expenditure**Figure 12.** The economic composition of public expenditure in the Arab region, 2019 (Percentage)

2. The size of HES expenditure in public budget allocations

Based on the HES definition, on average, Arab Governments devote around 8.3 per cent of GDP to social expenditure. This compares to a world average of 19.8 per cent drawn from the latest available data in 2018. Since the regional average for total public expenditure as a share of GDP is almost on par with the global average, the difference in public social expenditures is striking (figure 13). One explanation is that many Arab countries spend disproportionately on military investments instead of social ones.⁴⁸ Disparities are evident across country groups, however. As a percentage of GDP, the average social expenditure for the high-income countries in the region (6.1 per cent) is only about a quarter of that of these country groups globally (23.8 per cent). In contrast, the average for middle-income countries in the region is slightly higher than that of middle-income countries globally.

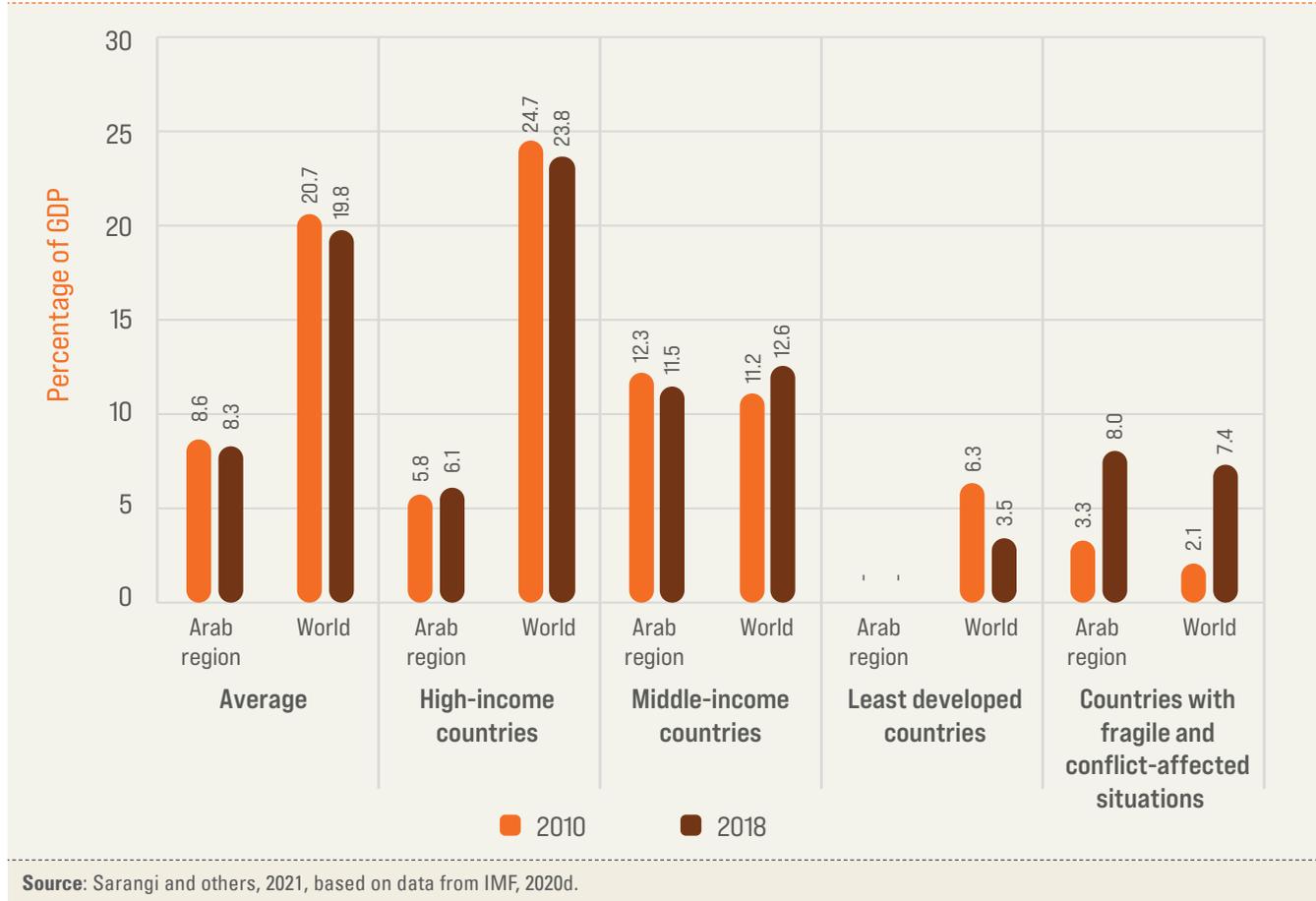
Among high-income GCC countries, some face emerging fiscal challenges to financing the SDGs. Several have undertaken major taxation reforms and turned to external borrowing, with gross public debt in the GCC countries jumping almost fivefold during the last decade, from about \$117 billion in 2008 to an estimated \$576 billion in 2020.⁴⁹ Bahrain, where public expenditure on HES exceeds 35 per cent of its budget, faces the challenge of financing other areas of the SDGs while managing public debt and reducing the budget deficit.⁵⁰ While 41 per cent of Kuwait's total expenditure is on HES, it has indicated that financing all of the 2030 Agenda is constrained by fiscal imbalances brought on by the pandemic and low oil prices between 2014 and 2020. Dwindling public revenue has required withdrawals from reserves and borrowing to finance public expenditures.⁵¹ Saudi Arabia introduced fiscal reforms, including a bump in the value added tax rate from 5 to 15 per cent in 2021, and shifted social expenditure allocations to improve its fiscal balance.⁵²



Among middle-income countries, liquidity shortages and debt are critical financing barriers to investing in the SDGs. Egypt, for example, has increased social expenditure on essential services in recent years. Government expenditure on health and education reached 6.1 per cent and 10.1 per cent of total government spending in 2020, respectively.⁵³ Further progress is hindered by limited fiscal space, however, driven by interest payments on government debt and a budget deficit. Even with recent reforms in its social protection policies, Egypt faces financial challenges that have intensified through the COVID-19 pandemic.

Governments in the least developed countries and those with fragile and conflict-affected situations face the worst obstacles in financing and delivering essential social services. Conflict both shifts resources away from social expenditure and puts additional pressure on the environment for and quality of public services. Yet, the share of GDP on social expenditure in countries with fragile and conflict-affected situations in the region is higher than that of global averages for their peers. Several oil-exporting countries contribute to pushing up the average share for this group.

Figure 13. Compared to the rest of the world, the Arab region spends much less on public social expenditure as a percentage of GDP, based on the HES



3. HES expenditure per capita

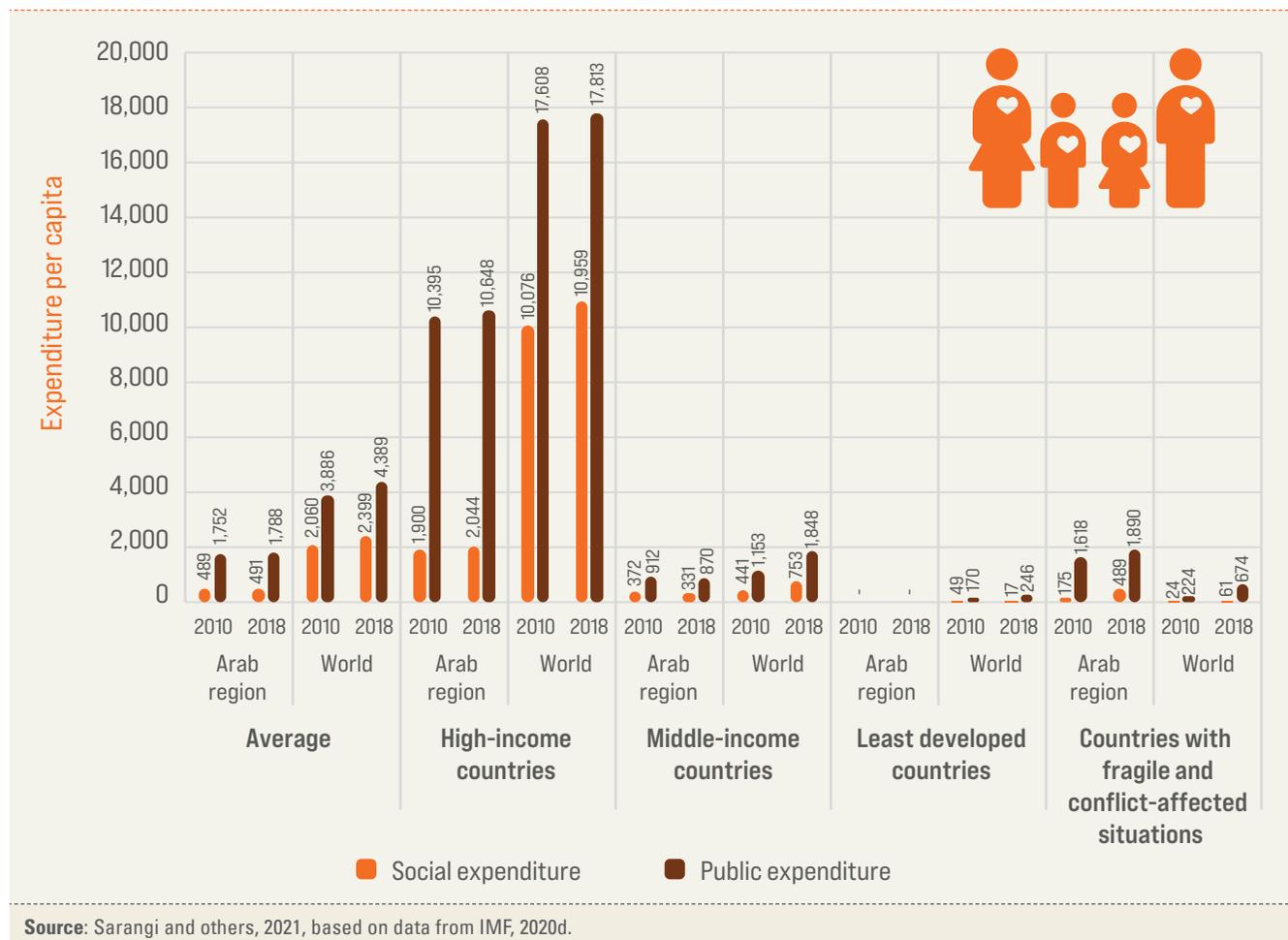
Social expenditure per capita under the HES definition constituted nearly a quarter of public expenditure per capita in the Arab region in 2018. The regional average was \$491 compared to the global average of \$2,399 (figure 14). Arab high-income and middle-income countries have significantly lower public social expenditure per capita than global peers. In 2018, social expenditure per capita for high-income countries globally was roughly five times the rate for Arab high-income countries. While these countries globally devote more than half of public expenditure to social expenditure, Arab high-income countries invest only a fifth of Government expenditure in HES categories. Middle-income countries globally spent roughly twice as much per person on public expenditure and public social

expenditure as their Arab counterparts in 2018. Arab least developed countries lack sufficient data for reliable comparison.



Middle-income countries globally spent roughly twice as much per person on public expenditure and public social expenditure as their Arab counterparts.

Figure 14. The Arab region, across country income groups, lags much of the world on social expenditure per capita (Dollars)



C. Calculating public social expenditure with the SEM

Calculating total public social expenditure across the seven SEM dimensions found that it accounts for between 10-20 per cent of GDP in most Arab countries.⁵⁴ In 2019, the highest-spending Governments were Iraq and Tunisia, which both dedicated more than one fifth of GDP to social expenditure. On the other end, the Sudan spent 3 per cent of GDP in 2016, primarily due to limited fiscal space. At the aggregate level, there is no clear rising or falling trend in overall social expenditure over time. During the last decade, three countries increased social expenditure, as a share of GDP, with an average rise of 3.4 per cent. Another three countries saw a decline of 3.3 per cent of GDP on

average. Between 2019 and 2020, two out of four countries, per available data, increased social expenditure as a share of GDP, mainly on HES (figure 15). The increase in social expenditures during 2020 was expected since Governments implemented fiscal stimulus and social protection measures to mitigate the impact of COVID-19. This included expansion of social protection measures both through setting up new temporary schemes and enlarging the coverage of pre-existing ones.⁵⁵

Among the seven SEM dimensions, the largest share, reaching 9.5 per cent of GDP in 2019, went to social protection, subsidies and support to

farms, based on eight countries with available data.⁵⁶ This dimension has seen the greatest fluctuation in expenditure over time due to significant year-to-year changes in the value of subsidy programmes. Shifts in social protection spending have driven substantial changes in overall social expenditure in Egypt and Iraq. Regional spending on education was 3.9 per cent of GDP in 2019, a figure that has remained relatively stable over time. In Morocco, Oman and Tunisia, education was the largest dimension of social expenditure in 2019; in most other counties, it was the second-largest dimension.

The health and nutrition dimension and housing, connectivity and community amenities dimension are comparable in expenditure, with both averaging around 2 per cent of GDP for countries with sufficient data. The remaining three dimensions receive considerably less support. Expenditure on arts, culture and sports consistently falls between 0.5 and 1 per cent of GDP, while labour market interventions and employment and environmental protection each received less than 0.25 per cent of GDP in 2019, on average.

Figure 15. Across Arab countries over time, there are no clear trends in public spending by SEM dimension (Percentage)

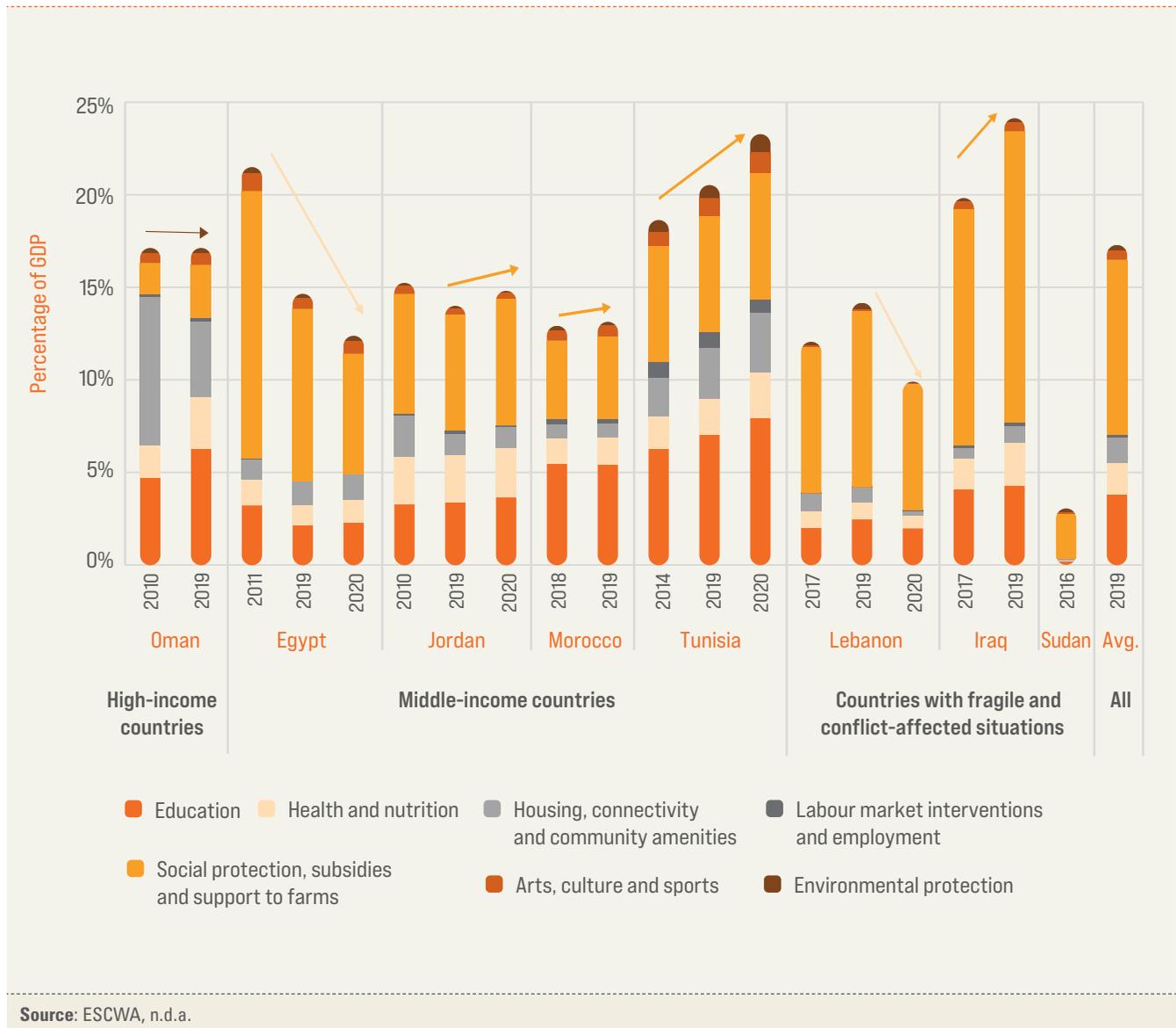
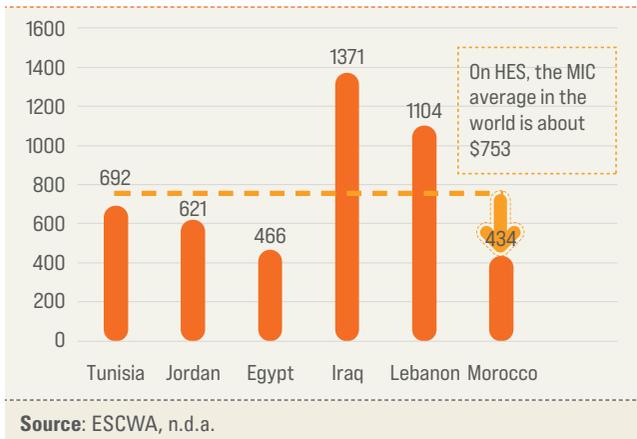


Figure 16. The SEM reveals low social expenditure per capita in Arab middle-income countries in 2019 (Dollars)



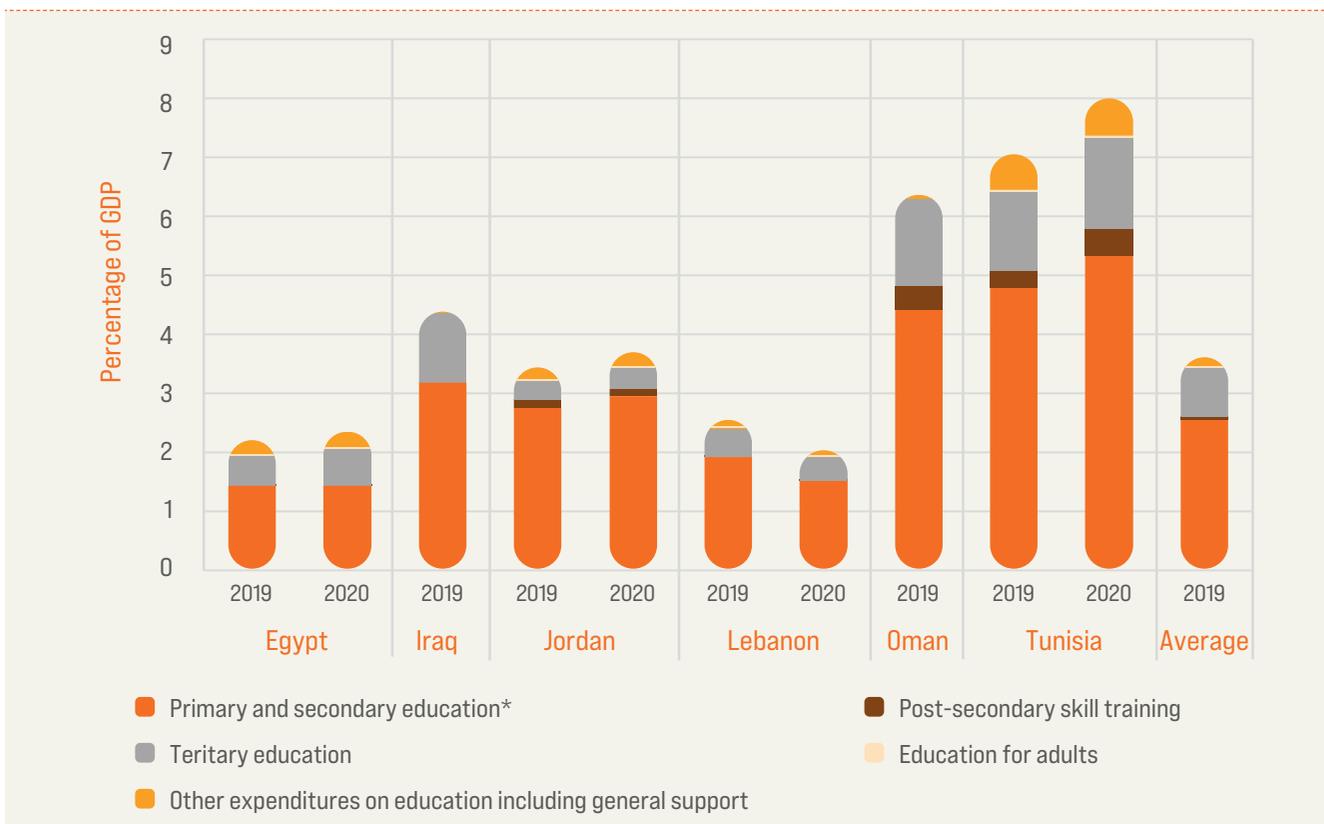
Based on SEM calculations, Arab middle-income countries have low social expenditure per capita, varying between \$434 in Morocco and \$692 in Tunisia. Taking only three dimensions of social expenditure, based on the latest HES data in 2019, the global average was about \$753 (figure 16).

A look at social expenditure by SEM dimension

(a) Education

Education expenditure represented 11 per cent of the region’s total public expenditure and 22 per cent of public social expenditure in 2019. Seventy per cent of education expenditure goes to primary and secondary education. This represents 2.5 per cent of total GDP for the countries assessed with the SEM (figure 17). Information on early childhood expenditure is available in two countries, namely Jordan and Tunisia. However, their share is too little. In 2019, it was 0.35 per cent of education expenditure in Jordan and 0.16 per cent of education expenditure in Tunisia.

Figure 17. The bulk of education spending goes to lower levels



Note: *Includes early childhood education spending for few countries with available data; however these expenditures are minimal.

Approximately two thirds of remaining education expenditure goes to tertiary education; its share has increased steadily over the last decade. By contrast, the other education expenditures indicator, which notably includes administrative expenses, declined to 4.7 per cent of total education spending in 2019, from 8.1 per cent in 2011. Post-secondary skills training accounted for 2 per cent of education spending, although this indicator varies significantly by country. Oman and Tunisia both invest substantial amounts in skills training while Egypt's expenditure is negligible.

Jordan has a low illiteracy rate of 6.4 per cent overall, or 3.4 per cent among men and 9.5 per cent among women. This explains very little spending on education for adults, less than 2 million Jordanian dinars or 0.04 per cent of total public social expenditure, although under the Education Strategic Plan 2018-2020, the Ministry of Education operates different programmes for adults and children who have dropped out of school, including an adult literacy programme. In Oman, even though the literacy rate for people aged 15-44 reached 95.7 per cent in 2011⁵⁷ and there is no explicit budget allocation on education for adults, the National Strategy for Education targets a goal of 100 per cent literacy by making adult education integral to the education system.

In Egypt, the SDS-Egypt Vision 2030 calls for developing a high-quality education and training system with efficient, sustainable and flexible institutions. While spending on post-secondary skills training tends to be negligible, the plan gives particular significance to technical and vocational training. In 2018, spending on post-secondary skills training increased to 0.55 per cent of total spending on education, up from 0.21 per cent in 2011.

Mid-term interventions in Iraq's Vision 2030 focus on early childhood, primary and higher education. As well, it aims at enhancing skills, technical and vocational education, including

teacher training, and rehabilitation and training programmes to empower the poor as productive citizens.

With the aim of reducing illiteracy among people aged 10-59 from 18 per cent to 16 per cent in 2020, Tunisia's Development Plan 2016-2020 activated the National Literacy and Adults Education Strategy. It has developed legislative and regulatory provisions to review educational programmes and cover regions with gender gaps in literacy rates.

(b) Health and nutrition

Social expenditure on health and nutrition ranged from 1.2 per cent of GDP in Egypt to 2.8 per cent in Oman, making it one of the larger SEM dimensions. In all countries with sufficiently detailed data, inpatient services comprise the largest component of this expenditure (figure 18). Outpatient and inpatient services combined absorbed 86 per cent of total spending on health and nutrition in 2019, which represented roughly one and a half percentage points of GDP. This distribution has been fairly consistent over the last decade. Most remaining spending falls in the other expenditure category, which includes administrative expenses. Expenditures on medicine, medical products, appliances, and equipment as well as reproductive health care were very limited, comprising 1.3 per cent and 0.03 per cent of total health and nutrition spending, respectively.

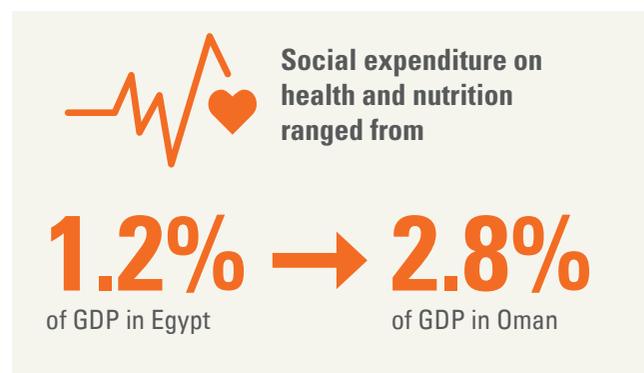
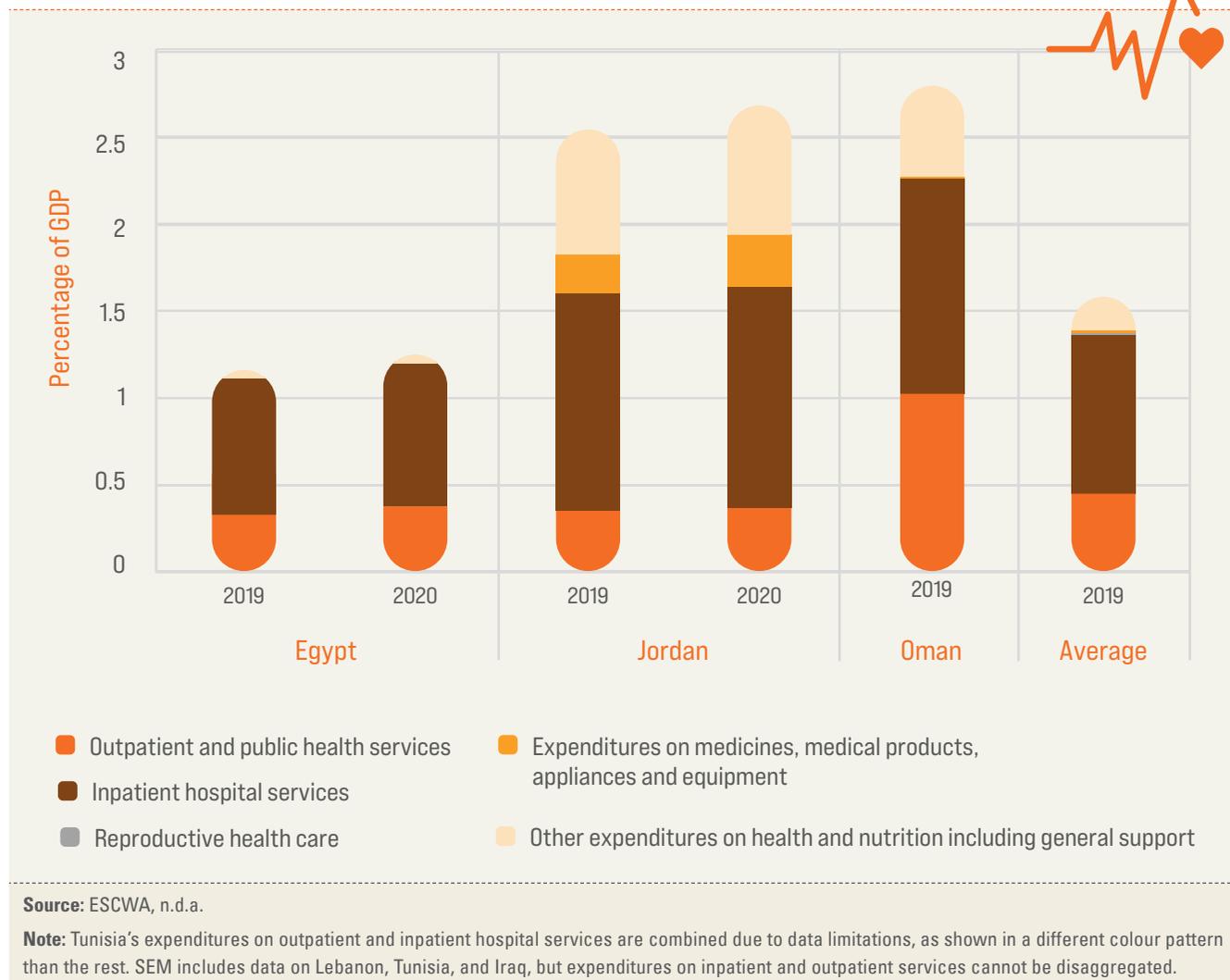


Figure 18. Inpatient hospital services consume a large share of spending on health and nutrition



Expenditure on reproductive health, a key public service to enhance gender equality, is negligible in most Arab countries. Tunisia, for instance, devotes only 0.19 per cent of total spending on health and nutrition to reproductive health care, even as the National Development Plan 2016-2020 intensified efforts to provide single mothers with training and awareness on reproductive health. Despite the diversification of expenditure on health and nutrition in Jordan, and reproductive health being key to the national population strategy, the country has spent little on the latter in the past decade. The Ministry of Health is currently implementing a national health communications strategy that includes

reproductive health and family planning, and health care for women and children.

Expenditures on reproductive health and medicines, medical products, appliances, and equipment are negligible in Egypt, although the SDS–Egypt Vision 2030 gives high priority to enhancing the quality of health care and promoting reproductive health and proper nutrition. Oman emphasizes providing comprehensive care to mothers and children to promote health and reduce morbidity and mortality. But while the Ministry of Health provides maternal morbidity indicators as part of showing efforts to realize high-quality health services, data on health and nutrition expenditures are not well disaggregated.

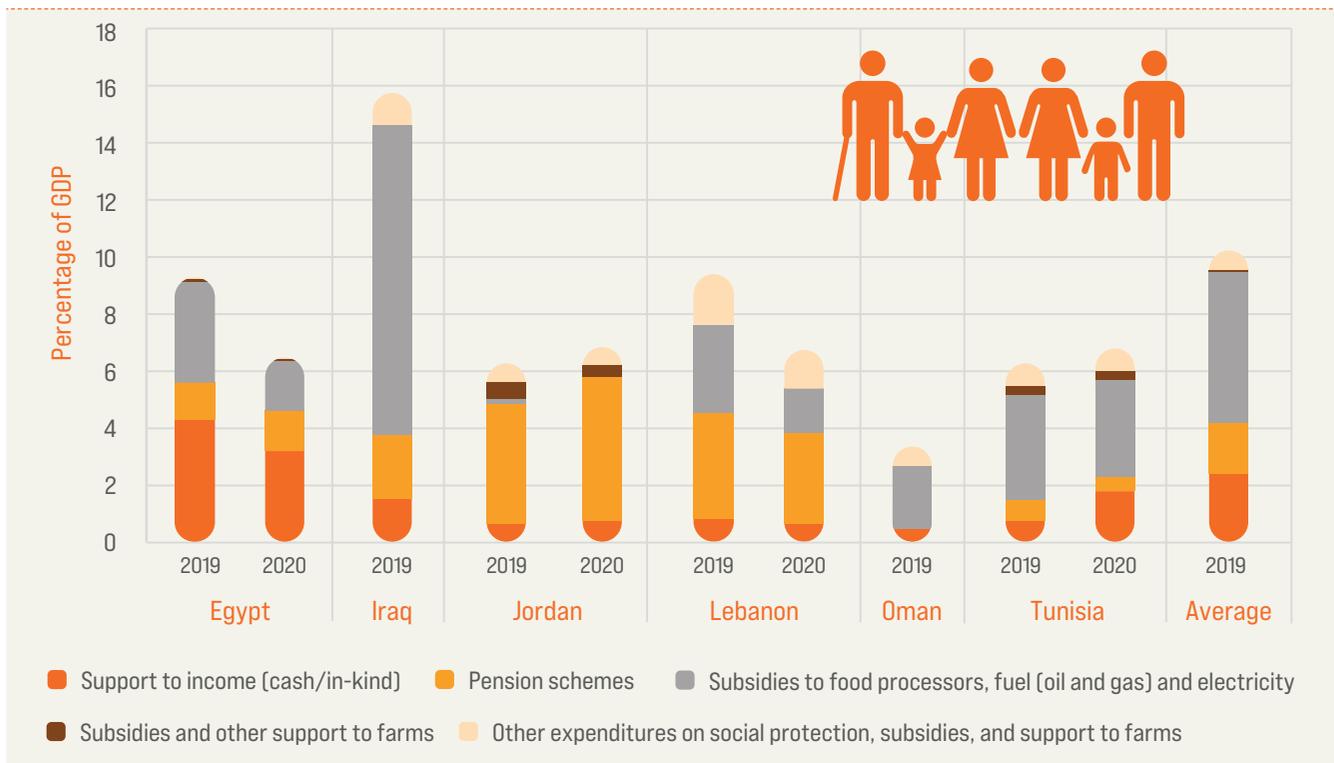
(c) Social protection, subsidies and support to farms

Food and energy subsidies and cash and in-kind benefits are responsible for most spending on social protection, subsidies and support to farms in selected countries. As this is the largest of the seven SEM dimensions, subsidies and cash and in-kind benefits represent a significant share of overall public social expenditure. Spending on energy and food-processing subsidies amounted to 5.4 per cent of GDP in 2019, on average, as an aggregate for selected Arab States (figure 19). Several countries, especially middle-income nations, have adopted fuel and energy subsidy reforms during the last decade towards improving the efficiency of public expenditure. Rationalizing food, water and energy subsidies, however, remains a challenge.

While the overall value of subsidies, as a share of GDP, does not show a uniform trend between 2011

and 2019, fluctuations in exchange rates, market prices and subsidy programmes have caused spending on subsidies to fluctuate between 3 and 7 per cent of GDP since 2011. In 2019, spending was at 5.4 per cent of GDP. By 2022, the impact of the Russia-Ukraine war on food and energy prices had increased subsidy bills in import-dependent countries trying to maintain subsidy schemes. Support for income, families and children comprised 2.4 per cent of GDP in 2019, although Egypt has an outside influence on this calculation due to its large population and related revenue and expenditure levels. Pension schemes, mainly social insurance expenditures for formal sector employees, accounted for 1.8 per cent of GDP across the selected countries but over 4 per cent in Jordan, where they are the largest component of social protection spending. Other categories such as support for housing, subsidies to farms and the other expenditures indicator receive relatively little support.

Figure 19. Food and energy subsidies are prominent in spending on social protection, subsidies and support to farms



Source: ESCWA, n.d.a.

Note: In the case of Lebanon, subsidies to fuel and electricity are treasury advances to the electricity authority of Lebanon, which do not enter into public budgets from 2018 onwards.

For certain countries, budget documents allow further disaggregation of subsidies between those to food processors and those to fuel and electricity. This shows that a vast majority of subsidies is for fuel and electricity. In 2019, roughly 85 per cent of subsidies went to energy while the other 15 per cent went to food processors.

There are significant differences across countries, as Iraq and Oman reported no subsidies to food processors. In Egypt, nearly half of total subsidies were for food in 2020, explained by declining energy subsidies coupled with constant subsidies to food processors. Food processing subsidies in Lebanon fell by 80 per cent from 2010 to 2019, starting from an already marginal share of 2.5 per cent. Given the regressive nature of energy subsidies, it is concerning that they occupy a large share of total subsidies and, therefore, public social expenditure in many Arab countries.

(d) Housing, connectivity and community amenities

Housing is fundamental to education, employment and health in addition to its significant role in citizen identity and social belonging. Social housing policies include all Government policies to increase access to adequate housing, control rents and facilitate access to finance. The SEM shows that spending on housing, connectivity and community amenities is well distributed across various components but their composition has been changing.⁵⁸ Notably, housing and community development saw increasing support over the last decade. In 2012, the first year with representative data, housing and community development together comprised 37 per cent of social expenditure on this dimension. By 2019, the proportion was 60 per cent or about 1.5 per cent of GDP on average (figure 20).

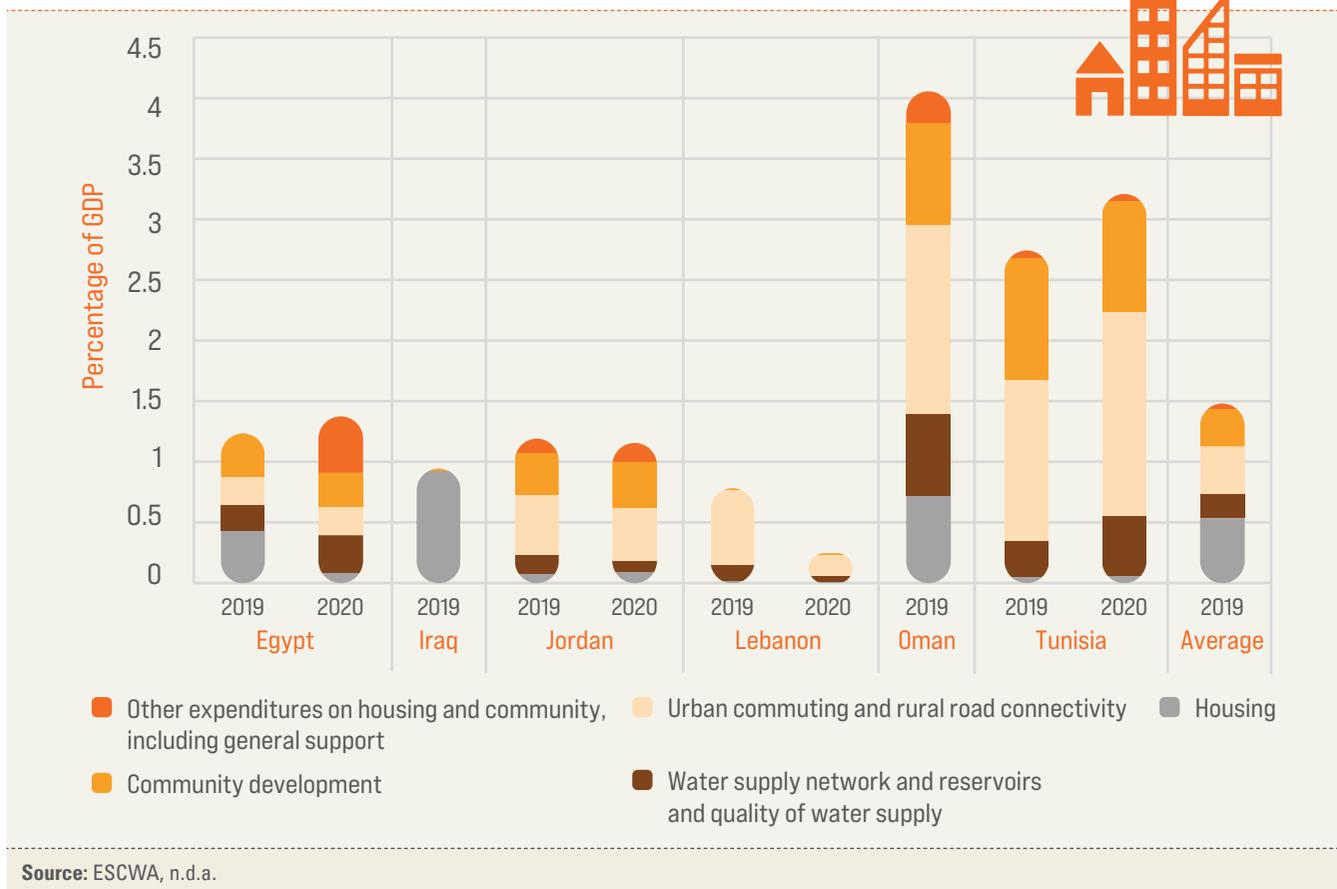
Jordan's national development plan, Jordan 2025, highlights how many households

struggle to find adequate housing, given a surplus of high-end housing and a lack of affordable housing for low- and middle-income families.⁵⁹ Programmes to provide social housing for low-income households include the Social Development and Combating Poverty scheme, where the main activity is constructing and maintaining housing for poor families. In 2016, Jordan established collective houses for persons with disabilities based on more inclusive social housing policies.

To provide a decent life for every citizen, Oman has created various social housing programmes, such as to build housing complexes for low-income people. A housing loan programme grants loans without interest to low-income people.⁶⁰ Libya, Morocco and Tunisia have all implemented Government-built social housing. Morocco and Tunisia have favoured an increased role for the private sector and have the region's most successful models of mixed Government and private sector projects where incentives and an environment for private developers exist to build housing that is means-tested for low-income households.⁶¹

Based on the SEM, expenditure on water supply networks, urban commuting and rural road connectivity has decreased. Spending on these issues was 1.15 per cent of GDP in 2012 but only 0.6 per cent more recently. With infrastructure for urban commuting and rural road connectivity a key enabler of development, some countries have bucked this trend, however. Egypt significantly increased spending on roads in 2017-2019. It then jumped 90 places on the international competitiveness classification of road quality, from 118th in 2014 to 28th in 2019. Tunisia's National Development Plan 2016-2020 emphasized infrastructure development and cost reduction through developing a road network to rural locations with ports and coastal areas, and the development and maintenance of the road and lane network.

Figure 20. Housing and community development have seen increasing investment in some countries



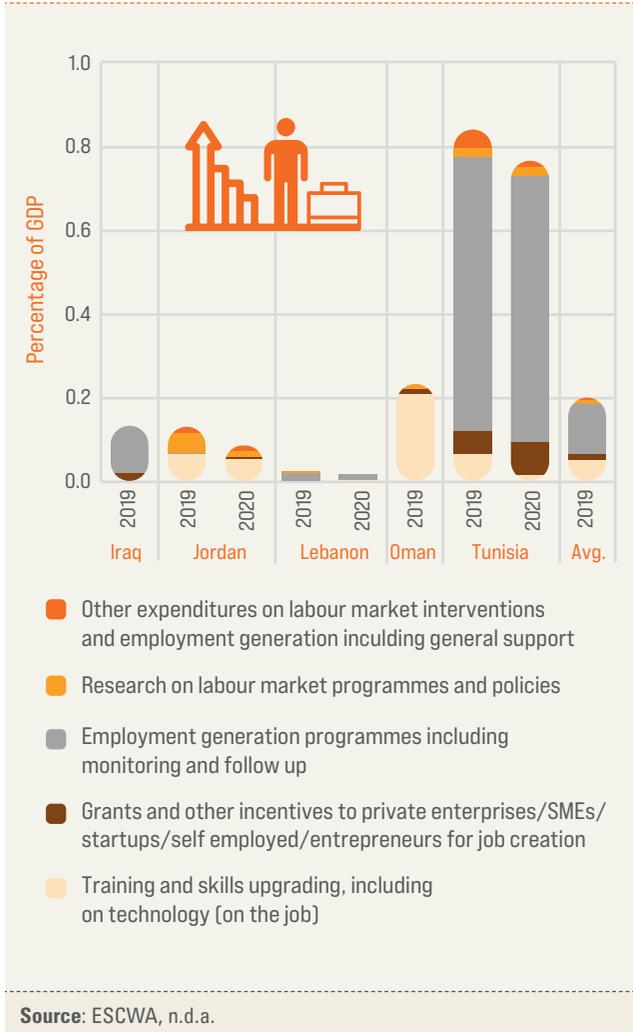
(e) Labour market interventions and employment generation

Iraq, Jordan, Oman, and Tunisia all designate social expenditure for labour market interventions and employment generation but through different strategies.⁶² Tunisia is the most committed to supporting labour markets; historically, the Government has spent close to a full percentage point of GDP on employment-related issues. In 2019 and 2020, Tunisia increased expenditure on employment generation through public sector employment creation programmes and grants and incentives to promote private enterprises. Training and skills upgrading is a primary focus in both Jordan and Oman. Investment in research on labour market programmes and policies is a substantial area of support in Jordan and, to a lesser extent, Tunisia (figure 21).

Although Arab Governments have recognized the importance of private sector-led growth and taken various measures to foster private activity, efforts to boost small and medium enterprises have been fragmented. In 2019, 41 per cent of Arab countries had laws related to such firms (on insolvency, bankruptcy, and others) but only 18 per cent had regulatory impact analysis, including Bahrain, Egypt, Jordan, and Saudi Arabia.⁶³

Several legislative and programmatic reforms have been designed to support small and medium enterprises, entrepreneurs and start-ups. In 2018, Tunisia passed Law Number 20 to provide a clear definition for small and medium enterprises and start-ups; the Ministry of Industry and Small and Medium Enterprises has continuously supported firms through a dedicated platform for finance.⁶⁴ These efforts are captured in the SEM under grants and other incentives.

Figure 21. Public budgets to support labour markets are marginal in most countries



Oman’s Five-Year Plan 2016 describes boosting the employment rate for citizens as the most pressing priority. Launched in 2018, Oman’s National Youth Programme for Skills Development is a step towards realizing ambitions for the Fourth Industrial Revolution. The programme is captured under training and skills upgrading, which constituted the largest share of expenditure on the labour market and employment dimension.

(f) Environmental protection

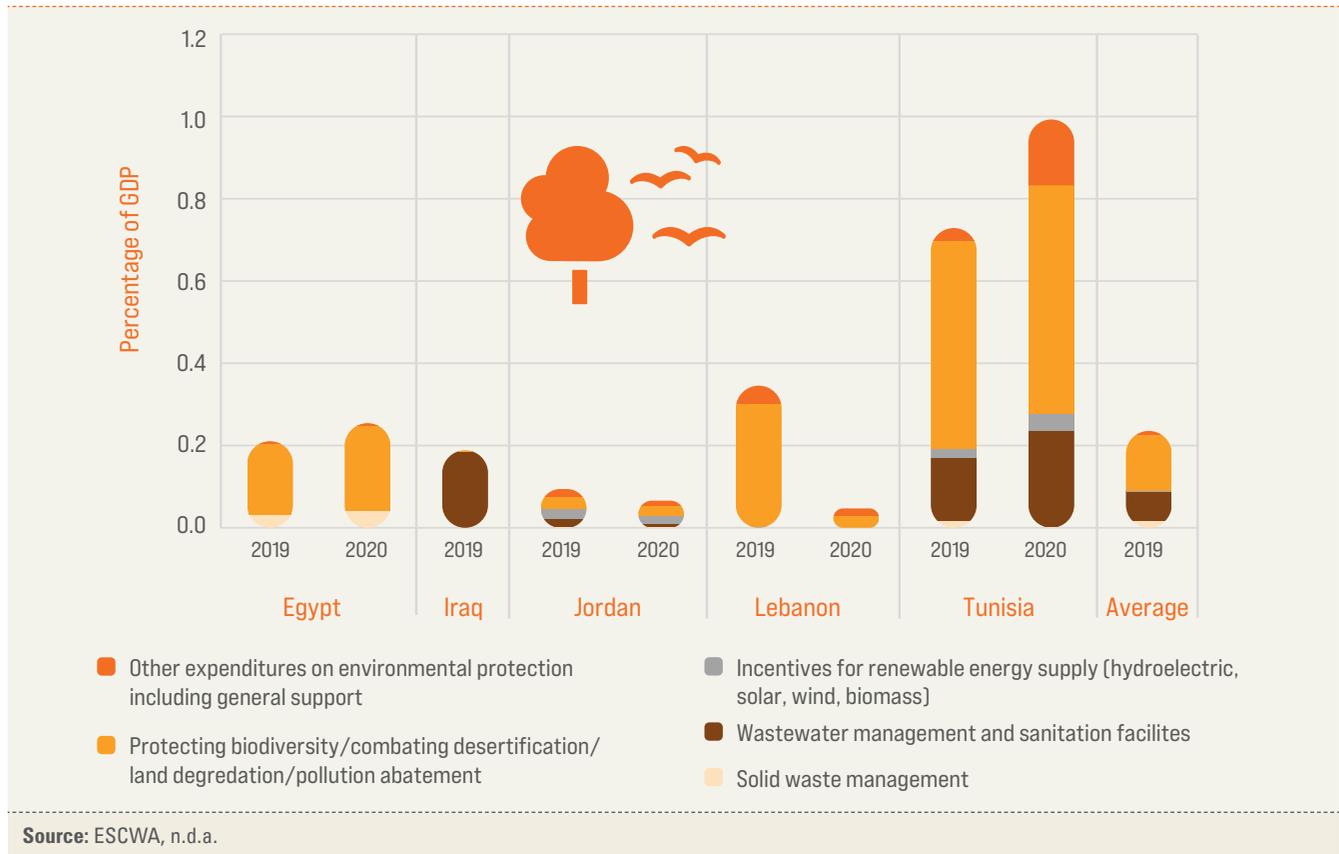
Expenditure on environmental protection has not meaningfully increased despite the growing urgency of investment in climate action,

biodiversity protection, waste management, and renewable energy.⁶⁵ Spending as a share of GDP is low and remained constrained during the last decade, ranging between 0.32 per cent in 2011 and 0.24 per cent in 2019. Few countries increased allocations in 2020 (figure 22). Roughly half of environmental protection support is for protecting biodiversity, combating desertification and land degradation, and/or abating pollution. Wastewater management is the next largest expenditure, due largely to Iraq, which put \$420 million towards this in 2019. Solid waste management accounts for 7 per cent of environmental protection expenditure based on the most recent data, though the share has declined over time. In general, spending on environmental protection depends upon a country’s exposure and vulnerability to climate change. The Arab region is highly vulnerable to climate change; projections indicate that the average increase in temperature in large parts of the region will be above the world average.⁶⁶ In this context, low spending on improved resilience and environmental protection is a concern.

Several Arab States have set ambitious targets for developing renewable energy, although related incentives represented just 1.3 per cent of spending on environmental protection in 2019. Historically, Jordan has been the only country allocating significant sums for renewable energy, peaking at a quarter percentage point of GDP in 2017. Jordan has made a substantial leap in developing wind and solar photovoltaic projects since 2014, part of continuous efforts to implement the National Energy Strategy 2015-2025. It seeks to diversify and develop domestic energy sources and promote energy conservation.

Between 2010 and 2017, Algeria, Egypt, Jordan, Morocco, Tunisia, and the United Arab Emirates all made considerable progress in installing wind and solar power generation facilities. The Sudan leads the region with renewables making up 51 per cent of its energy, mainly from its large hydro facilities.⁶⁷ These are largely funded with non-budgetary finance.

Figure 22. Overall environmental protection spending is very low and constrained



Many countries in the region are also pursuing efforts to preserve biodiversity. As such, Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia have recently updated their National Biodiversity Strategies and Action Plans. They have taken a broad range of actions to reduce biodiversity losses, ensure that biological resources and ecosystems are sustainably used, prepare for climate change, and combat desertification. These include for example the expansion of protected areas, monitoring activities and the establishment of biodiversity databases, capacity-building and education as well as institutional and legal reforms.

(g) Art, culture and sports

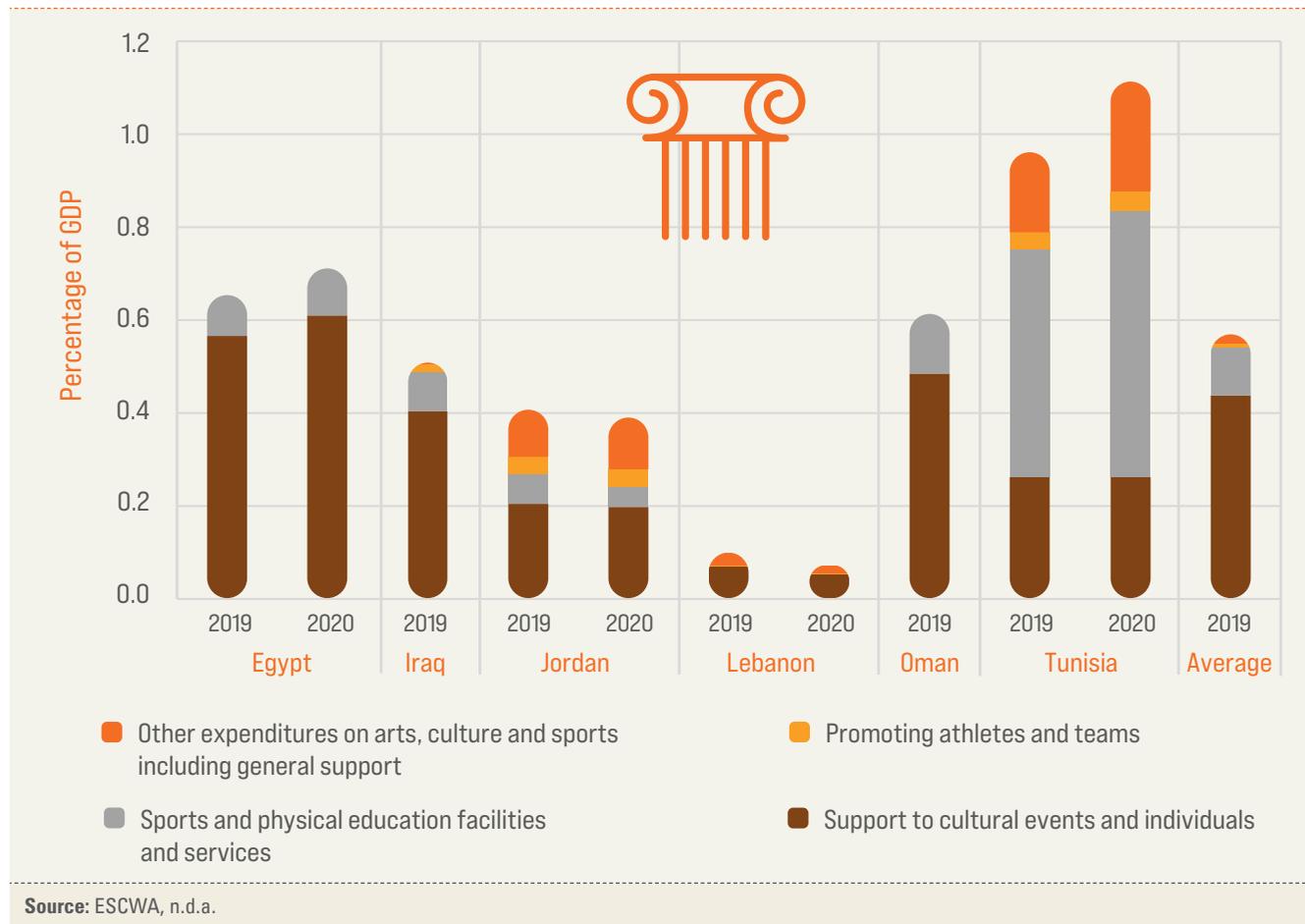
Expenditure on arts, culture and sports has decreased modestly in recent years, from 0.80 per cent of GDP in 2011 to 0.64 per cent in 2019, based on countries with available data in both periods. More than three quarters of this spending goes to supporting cultural

events and individuals. The remaining expenditure is primarily dedicated to sports and physical education facilities and services. Promotion of athletes and teams and the other expenditure category combined make up only 4 per cent of overall arts, culture and sports expenditure, although spending on both has increased steadily over time (figure 23).



Expenditure on arts, culture and sports has decreased modestly in recent years, from 0.80 per cent of GDP in 2011 to 0.64 per cent in 2019.

Figure 23. Arts, culture and sports spending has contracted slightly in several countries



Tunisia leads in spending on arts, culture and sports as a share of GDP, especially in support to sports and physical education, which aligns with strategic priorities to encourage young people to develop as productive citizens. Arts and culture featured prominently in the 2016-2020 National Development Plan, which

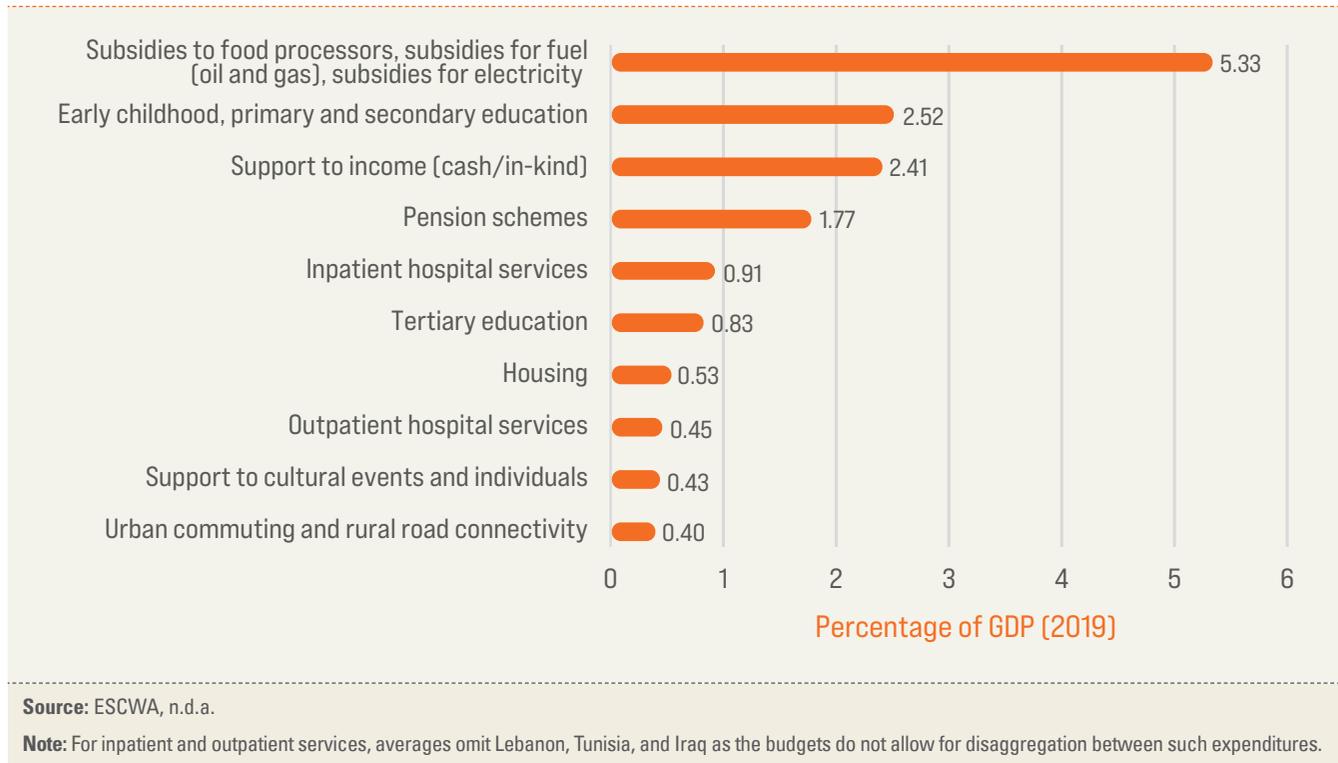
stressed cultural innovation, among other issues. Jordan’s National Vision 2025 also emphasizes promoting cultural development and cultural industries, especially among youth. Programmes include maintaining archaeological sites and museums and spreading the use of the Arabic language.

D. Subsidies top social policy expenditure, innovation and investment lag

The Arab region’s often short-term perspective on public social expenditure has undercut investment in human capital and economic transitions. This is evident from a look at the top 10 expenditure categories across the SEM dimensions. A

considerable sum goes towards subsidies for energy and food, more than the next two largest spending categories combined. No element of environmental protection or labour market and employment spending makes the top-10 list (figure 24).

Figure 24. The top 10 social expenditures in the Arab region reveal a short-term perspective, 2019



1. Few funds go to research and development

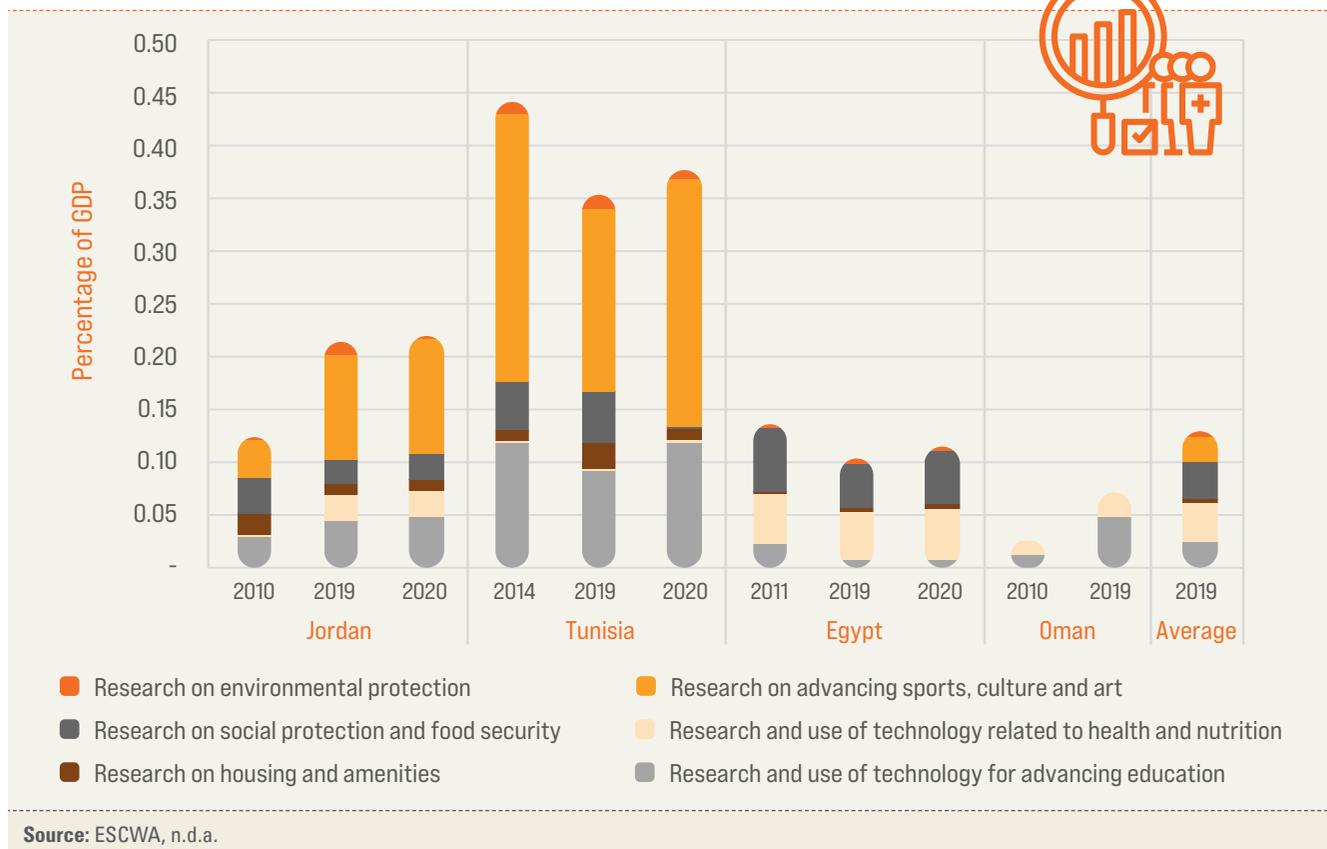
One indicator of a lack of a long-term investment vision is the marginal amount spent on research and development on social issues, which is classified under other expenditures for each relevant dimension. This limits prospects for developing new and lasting solutions to development challenges in the region. Arab countries in general are behind their peers in research and development and innovation. On average, high-income Arab economies spend only 0.5 per cent of GDP on research and development while the average is 2 per cent for advanced economies.⁶⁸

Social-related expenditure on research and development has increased as a share of GDP in Jordan and Oman but decreased in Egypt and Tunisia. Of countries with available data, Tunisia invests most heavily in research and development, despite a decline in expenditure in the last five

years. The two largest dimensions for research and development are health and nutrition, which accounted for 27 per cent and 25 per cent of total spending on research and development, respectively. These areas covered issues such as disease and drug control and social protection research on vulnerable populations. Egypt focuses on these dimensions and weighs heavily on aggregate calculations due to its large size and population. In percentage terms, Oman has seen the greatest increase in expenditure on research and development but remains behind its peers (figure 25).

The past five years have witnessed significant expansion in higher education, but despite generous public funding for universities, the share for research and development remains low. Consequently, innovative technologies have not developed. Even the region's most prosperous economies largely rely on purchasing technology from abroad. This suggests a need to prioritize developing endogenous research communities where output is determined by societal demand.⁶⁹

Figure 25. A few categories dominate social sector research and development expenditure



Source: ESCWA, n.d.a.

Research and development spending on environmental protection and housing is minimal. Of the four countries with data, Tunisia spends the highest share of GDP on each of these dimensions. Research and development related to employment and the labour market was not included due to comparability issues across countries.

GDP and 35 per cent of total social expenditure. Conversely, Egypt, Jordan and Lebanon saw the highest concentrations of current expenditures, at around 90 per cent of social expenditure. Based on the timeframe for available data, five countries increased capital social expenditure and two had a decline (figure 26).

2. Current expenditure takes a dominant share in social expenditures

Another indicator of a limited perspective on the longer-term investment role of social spending is the heavy concentration of current expenditure, which is a structural challenge of the region. On average, capital expenditure made up only around one fifth of social expenditure in 2019 in countries with SEM data. In 2019, Iraq invested the highest share in capital expenditure at 8.5 per cent of



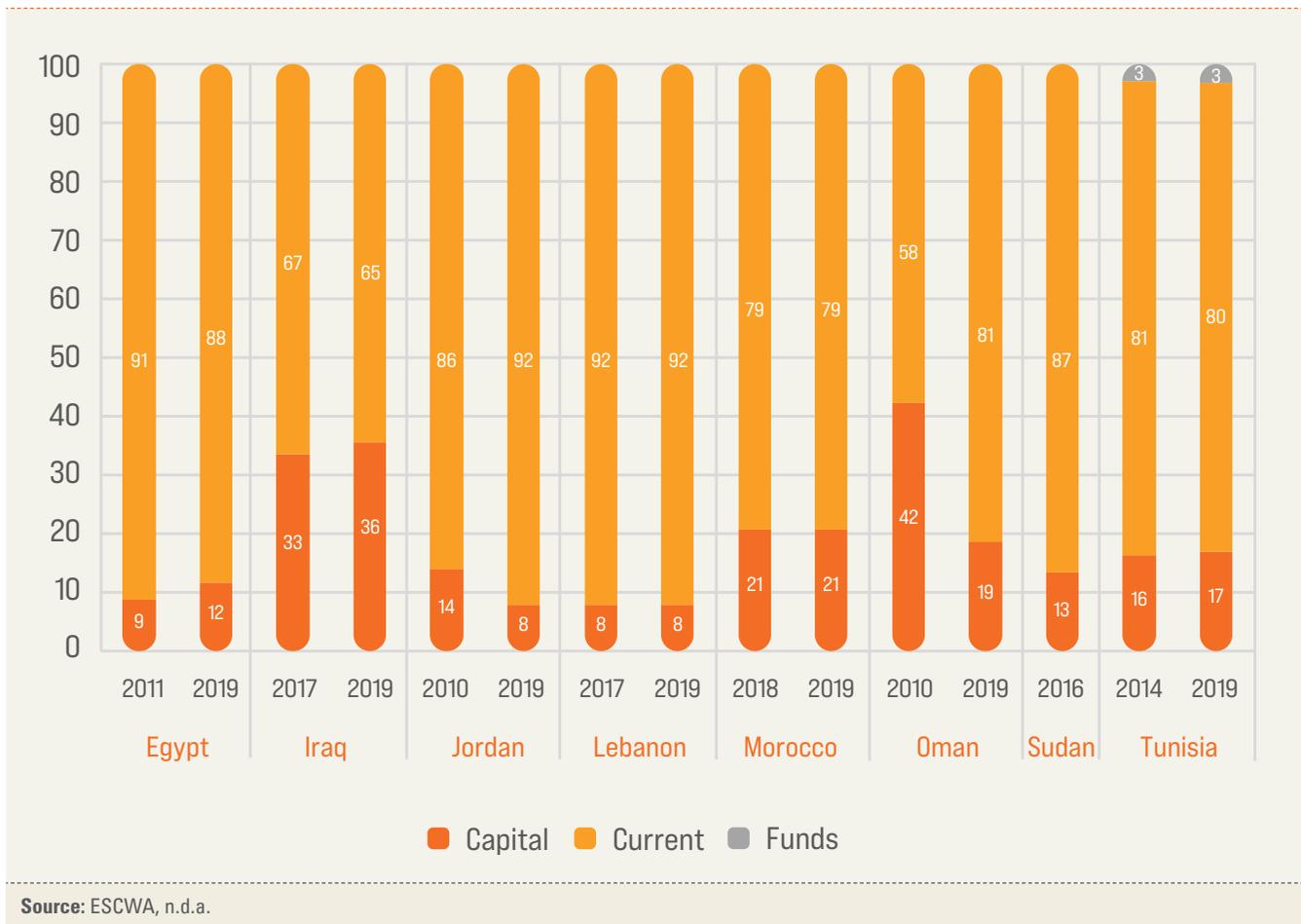
Capital expenditure made up only around

1/5 of social expenditure in 2019 in countries with SEM data



Current expenditure takes a dominant share

80% in social expenditures

Figure 26. Current expenditure dominates social expenditure

E. Who benefits and how much from social expenditure?

To better understand the distribution of social expenditure, the SEM offers an innovation by classifying expenditures across broad categories of beneficiaries,⁷⁰ namely, children, young people and adults disaggregated by sex; older persons; persons with disabilities, sickness and survivors; socially marginalized people or those at risk of social exclusion, refugees and immigrants; households benefitting from financial or in-kind support; and the community at large. Examining spending by beneficiary showcases considerable differences across Arab countries. There are dramatic variations in the distribution of beneficiaries, most notably for households and

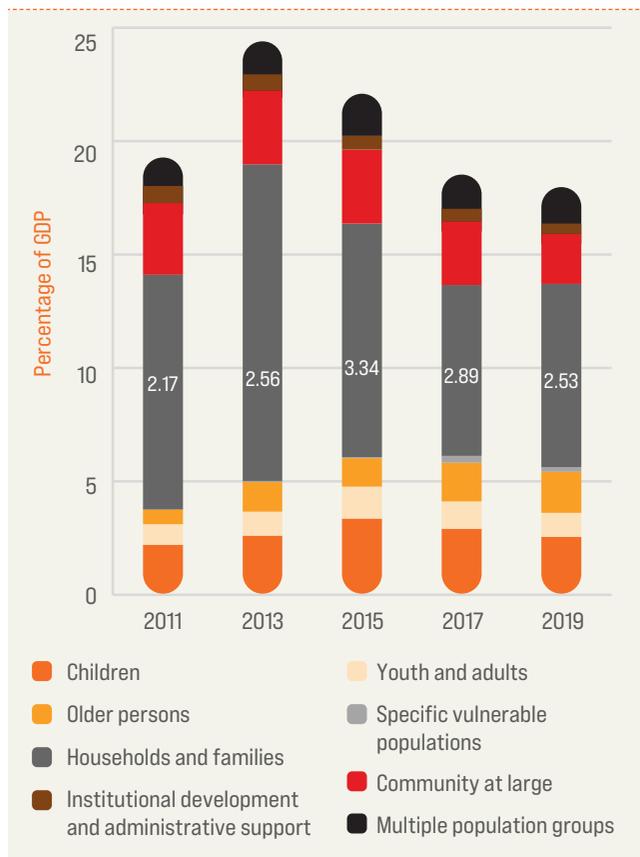
families, older persons and the community at large. These variations reflect not only the relative size and the features of national social policies and programmes, but also other contextual factors, in particular the demographic structures.

1. Support to households and families dominates but is trending down

Households and families benefit from various social policy spending such as social assistance; subsidies for food, fuel and electricity; and

other support to farms. A large share of social expenditure is classified as targeted at households and families;⁷¹ on average, 16 per cent of GDP and 42 per cent of total social expenditure in 2019. Support to households and families increased from 2011 to 2013, reaching a peak of 14 per cent of GDP, but has since generally trended downwards as the value of subsidy expenditures has declined (figure 27). In terms of the distribution of social expenditure, the share accruing to households and families has declined from a peak of 57 per cent in 2013 to 42 per cent in 2019.⁷² A lack of clear targeting mechanisms and reporting is a barrier to identifying types of households or actual beneficiaries within households.

Figure 27. On average, a large share of social expenditure is targeted at households and families, although with a downward trend

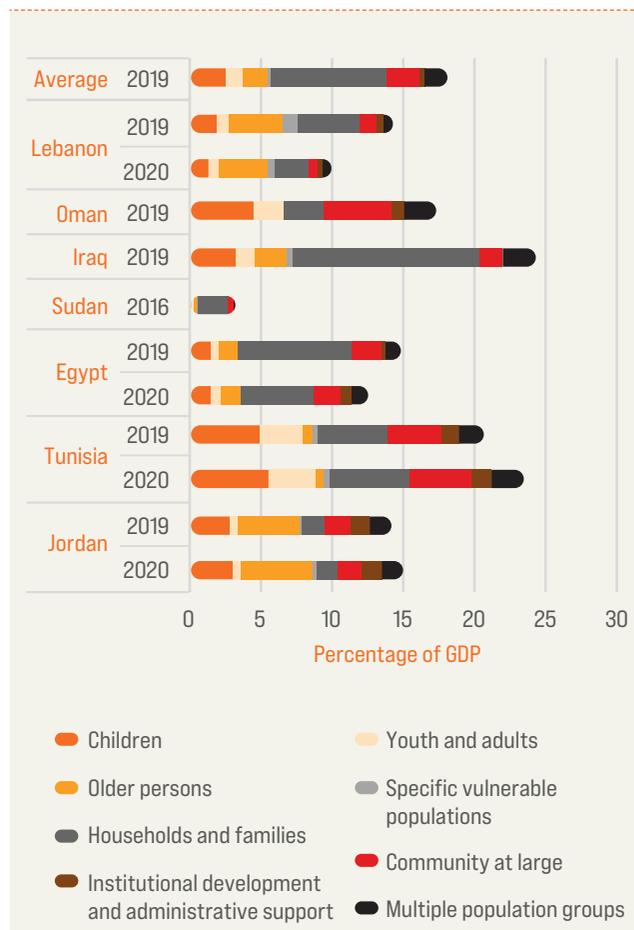


Source: ESCWA, n.d.a.

Note: Weighted average of eight countries, as per data available for the SEM. Multiple population groups are a category where social programmes benefit more than one population category and data are not disaggregated.

In countries with extensive subsidy systems, such as Egypt, Iraq and the Sudan, support to households and families constitutes a majority of social expenditure. More than two thirds of the social expenditure of the Sudan, or about 2 per cent of GDP, goes to households and families while the share is 54 per cent or 8 per cent and 13 per cent of GDP respectively in Egypt and Iraq (figure 28). No other country devoted more than one quarter of social expenditure to households and families (figure 28). The overall pattern suggests that subsidies are a substantive aspect of spending on households and families, while much needed support, such as social assistance, is significantly lower.

Figure 28. Households and families benefit particularly in countries with extensive subsidies



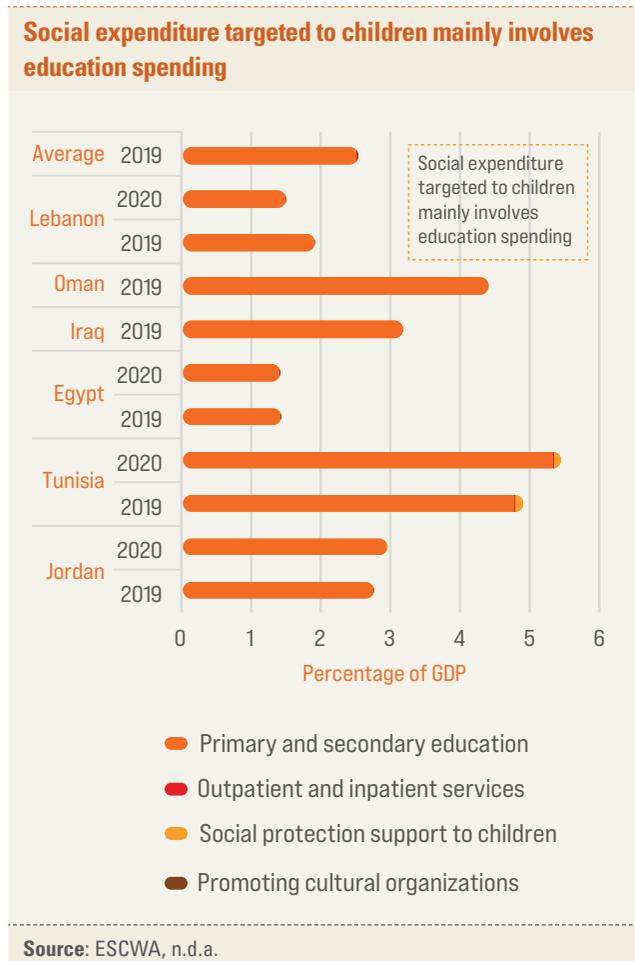
Source: ESCWA, n.d.a.

Note: Multiple population groups are a category where social programmes benefit more than one population category and data are not disaggregated.

2. Varying shares to children, youth and the elderly

Children represent the main beneficiary of education expenditures, particularly from public education systems. They also benefit from certain social protection spending targeted at them.⁷³ Public social expenditure specifically supporting children, on average, accounted for 2.5 per cent of GDP and 14 per cent of total social expenditure in 2019 (figure 29). The bulk of social spending targeted at children is represented by public expenditure on primary and secondary education. However, these remain below the international benchmarks. Across the region, social assistance expenditure targeted at children is low. For instance, the proportion of children or mothers with newborns covered by social assistance programmes is among the lowest in the world.⁷⁴

Figure 29. Breakdown of public social expenditure on children



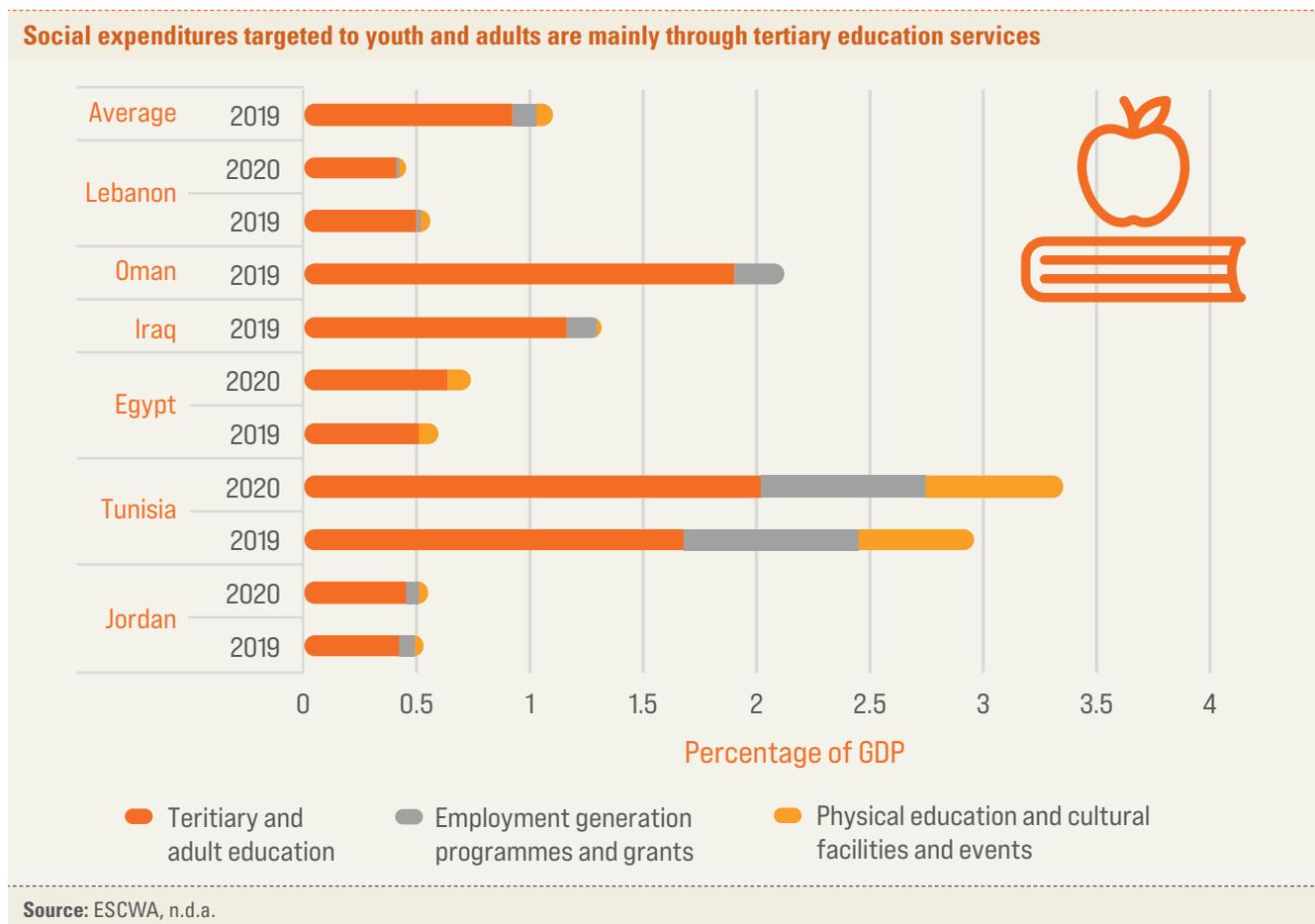
Based on the most recent data, education expenditure on youth and adults made up 1 per cent of GDP and 5.5 per cent of social expenditure; a majority of spending went to tertiary education (figure 30). The second-largest expenditure targeting youth and adults is employment generation programmes and grants, which saw \$1.1 billion in support in aggregate for the countries, approximately \$800 million of which came from Tunisia.

Older persons benefit primarily from spending on social protection as they represent the main beneficiaries of Government pension schemes. In total, social spending on older persons amounted to 1.6 per cent of GDP in 2019. Lebanon and Jordan, which have large Government-funded pension schemes, allocate 35 per cent and 34 per cent of social expenditure, respectively, to older persons. All other countries spend less than 10 per cent on older persons. Oman does not have any social support specifically for older persons under the SEM classification. As the region's demographics evolve and populations include greater shares of older persons, a crucial challenge becomes how to support ageing populations without compromising contributions to other groups.



The bulk of social spending targeted at children is represented by public expenditure on primary and secondary education. However, these remain below the international benchmarks.

Figure 30. Breakdown of social expenditure on youth and adults



3. Spending targeted to women is shockingly low

Expenditures on programmes and services targeted to women are almost non-existent, accounting for only \$10 million in 2019, less than 0.01 per cent of total social expenditure.⁷⁵ Only four of the eight countries had disaggregated data to show expenditure targeted specifically towards supporting women. In each of the last two years, roughly 70 per cent of spending on women has been related to health and nutrition, comprising expenditures on reproductive health care, and other health-related programmes including combating discrimination against women and gender-based violence, which inflicts harm on women, girls, men and boys. Spending on social protection programmes and labour market programmes targeting women is relatively low.

In Lebanon, which has a relatively higher share of expenditures targeted to women than other countries in the sample, the spending is mainly through reproductive health care and support through family and maternity benefits (figure 31). Recently, Tunisia began investing in labour market programmes for women. Prior to 2017, this dimension represented less than 3 per cent of total support to women but in the last two years, the proportion has approached 30 per cent. Labour market support to women mainly covers spending on programmes encouraging female employment and promoting equal opportunities for women in higher positions through developing national plans for economic and social empowerment of women, specifically those in rural areas. In 2020, expenditure on labour market programmes fell in Tunisia primarily due to the COVID-19 pandemic.

Figure 31. Breakdown of social expenditure on women

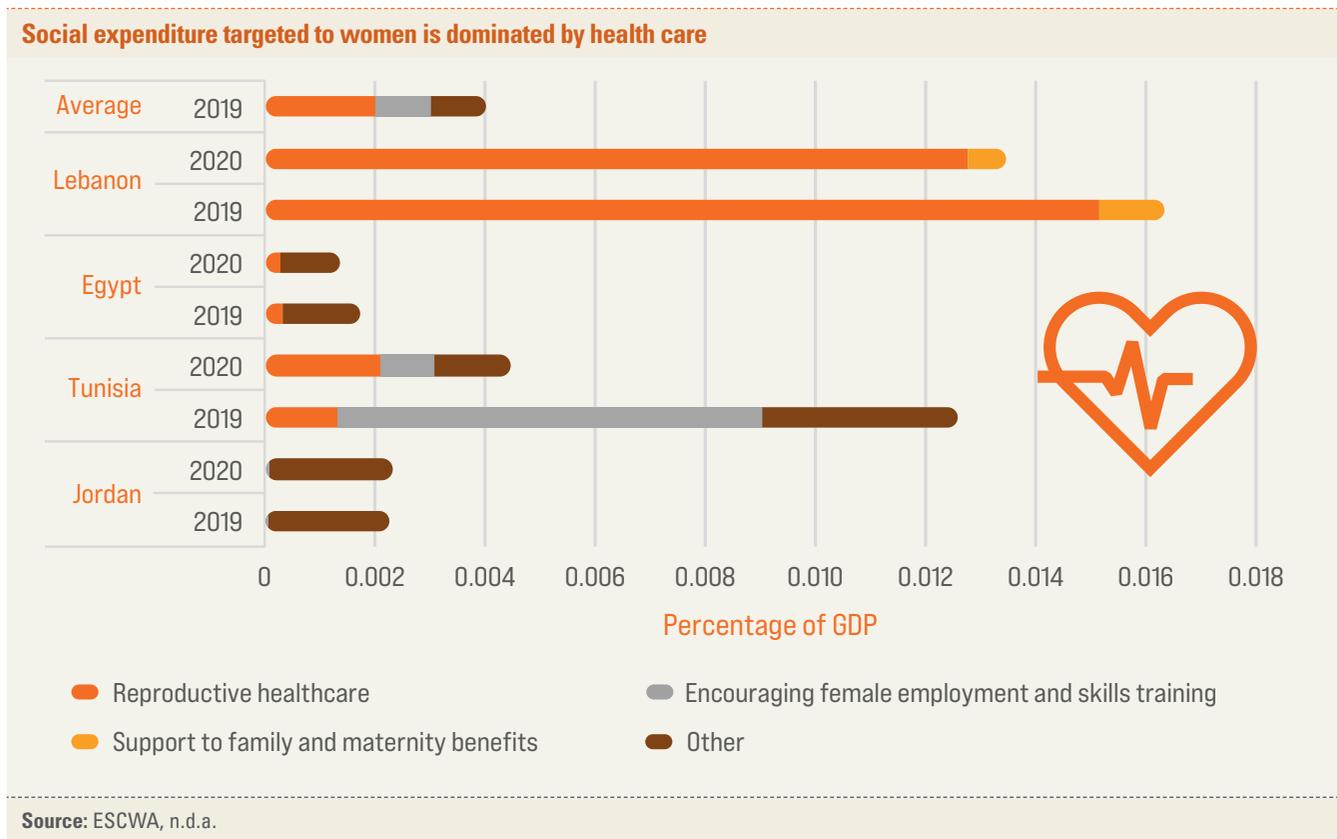
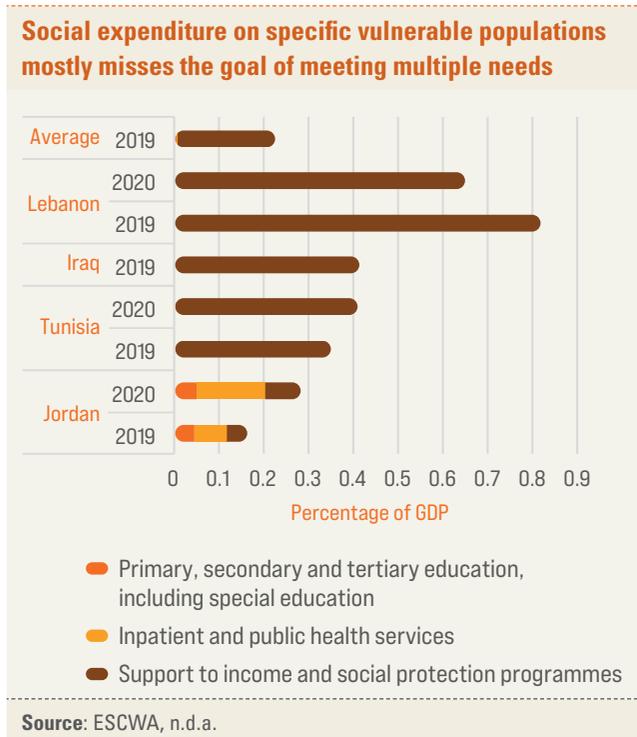


Figure 32. Breakdown of social expenditure on specific vulnerable populations



4. Vulnerable populations remain on the fiscal margins

Vulnerable populations include persons with disabilities, sickness and survivors, as well as socially marginalized persons or those at risk of social exclusion, refugees and immigrants. Expenditure on these groups generally constitutes less than half a percentage point of GDP and entails education, health and social protection spending. For several countries, well-disaggregated expenditure data are not available under the SEM classification to assess expenditure benefitting socially marginalized persons.

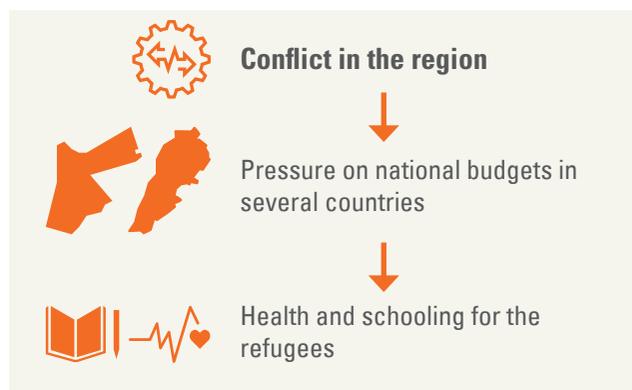
In Jordan, expenditure on vulnerable populations is roughly equal across health and nutrition, social protection and education. In all other countries, support occurs only through social protection. During the pandemic, several countries extended support through increased social protection,

such as Iraq and Jordan. The latter also expanded public health services. It is important to increase expenditure on vulnerable populations. Equally critical is providing a comprehensive and well-organized array of programmes for education, social protection and health that uphold their rights and meet their needs (figure 32). Conflict in the region has also created an additional unexpected pressure on national budgets in several countries, such as Jordan and Lebanon, to provide health and schooling for the refugees.

5. A wide range for the community at large

The community at large benefits from spending that is not exclusive to a particular population group. It generally includes investments in non-financial assets and public goods and services and constitutes spending on housing and community amenities as

well as environmental protection. Expenditures for the community at large range from 10.5 per cent of social expenditure (1.2 per cent of GDP) in Lebanon to 27 per cent of social expenditure (4.8 per cent of GDP) in Oman. Lebanon’s low spending is in part due to the structure of its health-care system, which depends heavily on private health providers. The figures might be changing quickly, given the economic hardship situation that the people are facing in Lebanon.



F. Spending choices fall short

Achieving the SDGs and productive, just societies and economies depends on public social expenditure. Sufficient investment protects the poorest and most vulnerable, builds human capital and infrastructure to drive growth, and corrects imbalances in society. The effectiveness of social expenditure, however, depends on informed public expenditure choices grounded in comprehensive monitoring and analysis. The SEM presents a holistic assessment of public social expenditure that goes beyond the traditional emphasis on health, education and social protection to encompass the array of social services necessary to realize the SDGs.

The Arab region is lagging on public social expenditure compared to other parts of the world. While data limitations meant that the SEM could only examine eight countries, this still revealed several striking patterns. Social protection, subsidies and support to farms is the largest dimension of social

expenditure, followed at a distance by education. Very little spending goes to labour market support; the arts, culture and sports; or environmental protection. Employment generation programmes, incentives for business start-ups, social insurance, early childhood development, and social-related research and development get short shrift in budgets.

These findings are concerning, because the level and the right mix of social expenditures determine human capital as well as links, such as between education and productive sectors of the economy, that determine economic dynamism and inclusion. Further, with 80 per cent of social expenditure in the region going to current expenditures on wages and salaries, and only 20 per cent on capital expenditures, prospects to dramatically enhance productivity are limited. The region already struggles with stagnant economic and social structures and will continue to do so unless it invests in a course correction.

Endnotes

- 37 IMF, 2019a.
- 38 Irrespective of poor targeting of general subsidies, these are from public budgets for a social purpose. Rationalizing subsidies and targeting them to people in greatest need is key to social expenditure reform but not a sufficient reason to discount subsidies as social expenditures. See ESCWA, 2017a.
- 39 ESCWA, 2019c.
- 40 Sarangi and others, 2021.
- 41 Sexual and gender-based violence (SGBV) refers to any act that is perpetrated against a person's will and is based on gender norms and unequal power relationships. It encompasses threats of violence and coercion. It can be physical, emotional, psychological, or sexual in nature, and can take the form of a denial of resources or access to services. It inflicts harm on women, girls, men and boys (UNHCR).
- 42 At the time of the report's preparation, data on Kuwait was not available.
- 43 OECD, World Health Organization (WHO) and Eurostat, 2011.
- 44 International Labour Organization (ILO), n.d.b.
- 45 Historical trends since 1990s suggest a decline in public expenditure as a share of GDP, part of increasing privatization and liberalization. The quality of public institutions has also declined, with particularly striking impacts on public services for the poor. See Diwan and Akin, 2015.
- 46 The increase in the ratio of expenditure to GDP is influenced partly by the fiscal stimulus extended by countries to support their people and economies, and partly by GDP losses, as discussed in chapter 5.
- 47 High-income countries in this analysis included Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Middle-income countries included Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, the State of Palestine, and Tunisia. Least developed countries included the Comoros, Djibouti, Mauritania, the Sudan, and Yemen.
- 48 ESCWA, 2014b; UNDP, 2016.
- 49 ESCWA, 2021a.
- 50 Bahrain, 2018.
- 51 Kuwait, Supreme Council for Planning and Development, 2019.
- 52 Saudi Arabia, 2018.
- 53 Egypt, Ministry of Planning and Economic Development, 2021.
- 54 All SEM data are from public budgets and refer to the fiscal years of respective countries. Most countries use the calendar year as the fiscal year. Egypt's fiscal year is July-June; 2019 refers to the 2018-2019 fiscal year.
- 55 United Nations, 2021a.
- 56 Analysis of the social protection, subsidies and support to farms dimension is restricted to the following countries with available, sufficiently disaggregated and internationally consistent data: Egypt, Iraq, Jordan, Lebanon, Morocco, Oman, the Sudan and Tunisia.
- 57 United Nations Educational, Scientific and Cultural Organization (UNESCO), 2011.
- 58 Analysis for the housing, connectivity and community amenities dimension is restricted to the following countries with available, sufficiently detailed and internationally consistent data: Egypt, Iraq, Jordan, Oman, and Tunisia.
- 59 ESCWA, 2017b.
- 60 The official portal for e-government services in Oman is available at <https://omanportal.gov.om/#p15>.
- 61 ESCWA, 2017c.
- 62 Analysis for the labour market intervention and employment generation dimension is restricted to the following countries with available, sufficiently detailed and internationally comparable data: Iraq, Jordan, Oman, and Tunisia.
- 63 IMF, 2019a.
- 64 ESCWA, n.d.b.
- 65 Analysis for the environmental protection dimension is restricted to the following countries with available, sufficiently detailed and internationally consistent data: Egypt, Iraq, Jordan, Lebanon, and Tunisia.
- 66 Intergovernmental Panel on Climate Change (IPCC), 2022.
- 67 International Renewable Energy Agency (IRENA), 2016.
- 68 IMF, 2019d.
- 69 Lemarchand, 2021.
- 70 The classification of expenditure by beneficiary population is based on tagging the budget line to the main beneficiary that benefits directly from the expenditure policy. Certain expenditures may indirectly benefit different population age groups within and across households or within and across communities but such disaggregated data are unavailable to undertake equity analysis.
- 71 In the context of public social expenditures, households and families are used interchangeably due to lack of adequate distinction in policy targets.
- 72 Sarangi and others, 2021.
- 73 Children may profit from benefits to households and families but intrahousehold distribution of benefits is not available, which makes it difficult to disaggregate certain benefits to children exclusively.
- 74 ILO, 2021.
- 75 Expenditure refers to programmes targeted to women only. Women may also benefit from expenditure on programmes related to youth and the elderly, and on households and families.



**Do spending choices
add up to equity –
or stand in the way?**



03





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Over the past two decades, nearly all Arab countries have made significant investments in improving health and education and reducing poverty. Yet, development gains have not reached all members of societies. The region is among the most unequal in the world,⁷⁶ with dramatic differences in wealth and well-being.⁷⁷ Decades of providing welfare entitlements in exchange for political acquiescence⁷⁸ largely produced a situation where development “enhances access but undermines agency, expands consumption possibilities but impairs human capabilities.”⁷⁹ The weaknesses of this approach are increasingly evident in both the region’s yawning development gaps and the calls for justice and a new social contract echoing from its citizens.⁸⁰

Improving the equity of public social expenditure in terms of amounts and spending choices would go far in rectifying some of the most troubling disparities and accelerating social justice.⁸¹ Social justice ensures equal rights and access to resources and opportunities for all. It pays particular attention to removing barriers to disadvantaged groups and their abilities to make decisions about their lives,⁸² in line with the principle of equity enshrined in seminal international human rights conventions. The SDGs are grounded in equity and equality considerations, with their explicit call to ask who is benefitting and who is left behind (box 2). Further, strong, sustained economic growth depends on reducing inequality to expedite social mobility and develop all sources of human capital.

The equity of social expenditure can be assessed in four stages: how revenue is raised, how it is allocated among sectors, how it is spent within sectors, and how it contributes to equitable outcomes (figure 33). This chapter considers the allocation, spending and outcome stages in particular. It argues that the quality of social spending determines its potential to mitigate societal inequalities and help overcome systemic barriers for marginalized population groups.



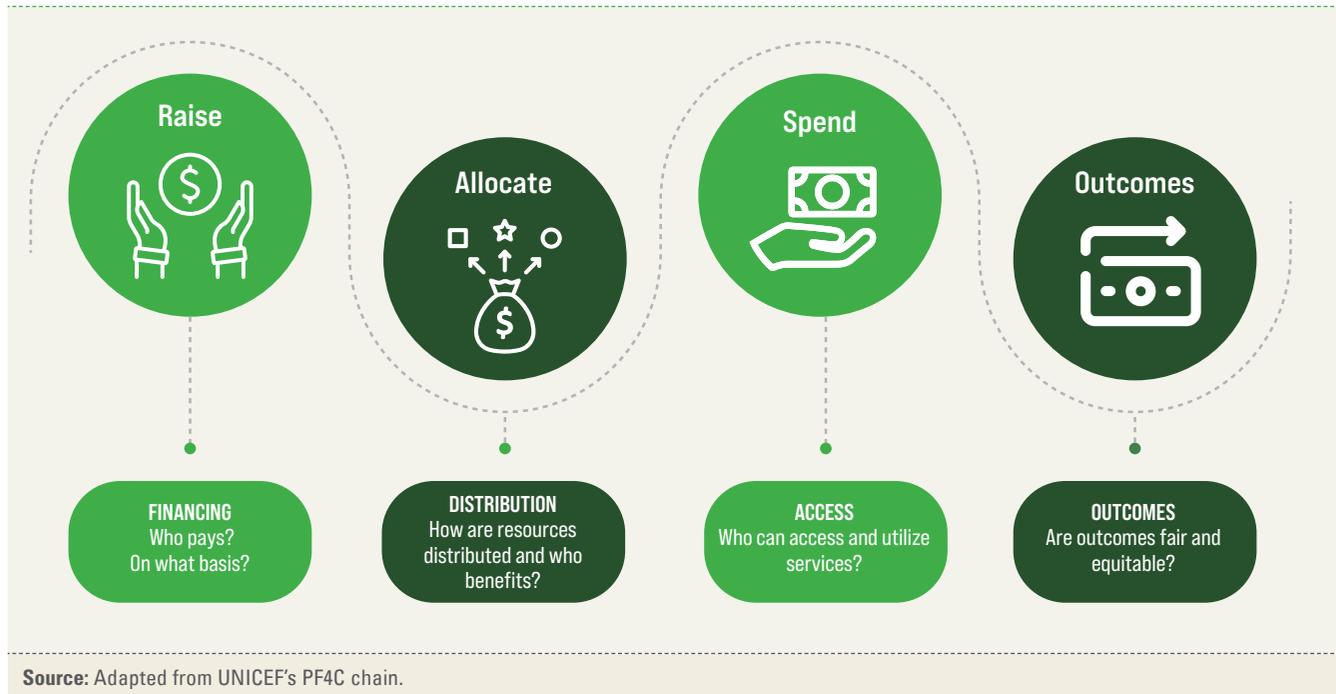
Box 2. Equality and equity: What's the difference?

Equality is concerned with all individuals receiving equal treatment regardless of need or any other difference. Inequality at a societal level is often replicated through disparities in access to social services and related social outcomes.

Equity denotes fairness and centres on ensuring that all individuals have what they need to succeed. In recognizing that individuals do not all start from the same place, equity requires adjustments to imbalances. Since equity may involve “positive” discrimination against certain groups that were better off prior to an intervention, pursuing it may prove controversial and encounter pushback.

3

Figure 33. Four stages for assessing the equity of social expenditure



A. Finance must be adequate and reach people furthest behind

From an equity perspective, achieving efficiency in expenditure entails not just ensuring that resources produce intended broad development outcomes, such as health and education goals, but that they are intentionally distributed to prioritize accelerated advances for population groups furthest behind.⁸³ Understanding the degree of support for equity requires looking at how

expenditures are distributed across different social sectors and across spending choices within each sector, as well as how policy choices translate into the distribution of spending across beneficiary groups. A look at allocations across and within sectors considers three primary spending categories – health, education and social protection – to shed light on the current situation in Arab countries.

1. Linking spending adequacy and equity

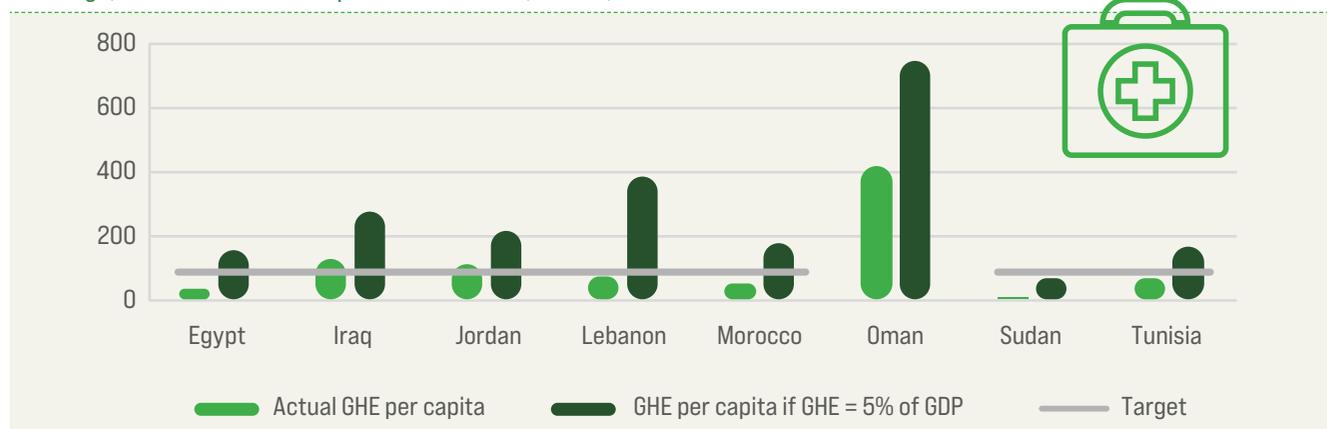
Analysing allocations among sectors reveals the link between the adequacy and equity of spending. If social spending is inadequate, critical services will be short-changed. Populations will either have to go without access to these services or pay privately for them. Privileged groups will have a greater ability to pay privately, and, therefore, will be less likely to forgo essential services. If disadvantaged groups do access private services, they are at greater risk of experiencing catastrophic expenditure, such as for a health crisis. As the relative contribution of regressive direct payments is directly related to the adequacy of public expenditure, there is a clear connection between equity and adequacy.

Social spending in many Arab countries remains insufficient. The region consistently fails to meet international benchmarks such as for Government health expenditure to constitute 5-6 per cent of GDP as a path towards realizing the SDG commitment to universal health coverage.⁸⁴ None of the low and middle-income Arab states with available SEM data reach even 5 per cent. They also score poorly on public health spending per capita. Iraq and Jordan exceed an \$86 per capita

benchmark (2018 dollars) considered a minimum for providing essential services in low-income and lower-middle-income countries.⁸⁵ Yet, Jordan, as an upper-middle-income country, likely has higher health-care costs. Egypt, Morocco and Tunisia, all lower-middle-income countries, would reach the \$86 per capita target if they allocated 5 per cent of GDP to public health spending. Prospects for the Sudan are less promising given the limited size of its economy and fiscal space. Even if it met the 5 per cent target, it would still fall short of delivering essential health interventions (figure 34).

Arab countries perform better on education allocations, based on benchmarks set in the Education 2030 Framework.⁸⁶ This aims for education expenditure to account for 15-20 per cent of overall public spending and between 4-6 per cent of GDP (figure 35). Morocco and Tunisia meet or exceed both benchmarks. Oman also performs well. Egypt and the Sudan allocate the smallest proportion of their budgets and GDP to education, despite large shares of children in their populations. More than 50 per cent of population of the Sudan is under 19 yet it spends less than 1 per cent of GDP on public education. In general, countries with the highest commitments to public education have the smallest school-age populations, defined as the share below age 19 (figure 36).

Figure 34. Government health expenditure per capita falls short of the level required to move towards universal health coverage, a fundamental for equitable societies (Dollars)



Source: ESCWA, n.d.a.

Note: Data are from 2019 for all countries except the Sudan, where they are from 2016. The authors used SEM data for converting spending into dollars per capita, except for the Sudan, where they used World Bank data for GDP per capita. GHE stands for Government health expenditure.

Figure 35. Some countries meet international benchmarks for public educational expenditure

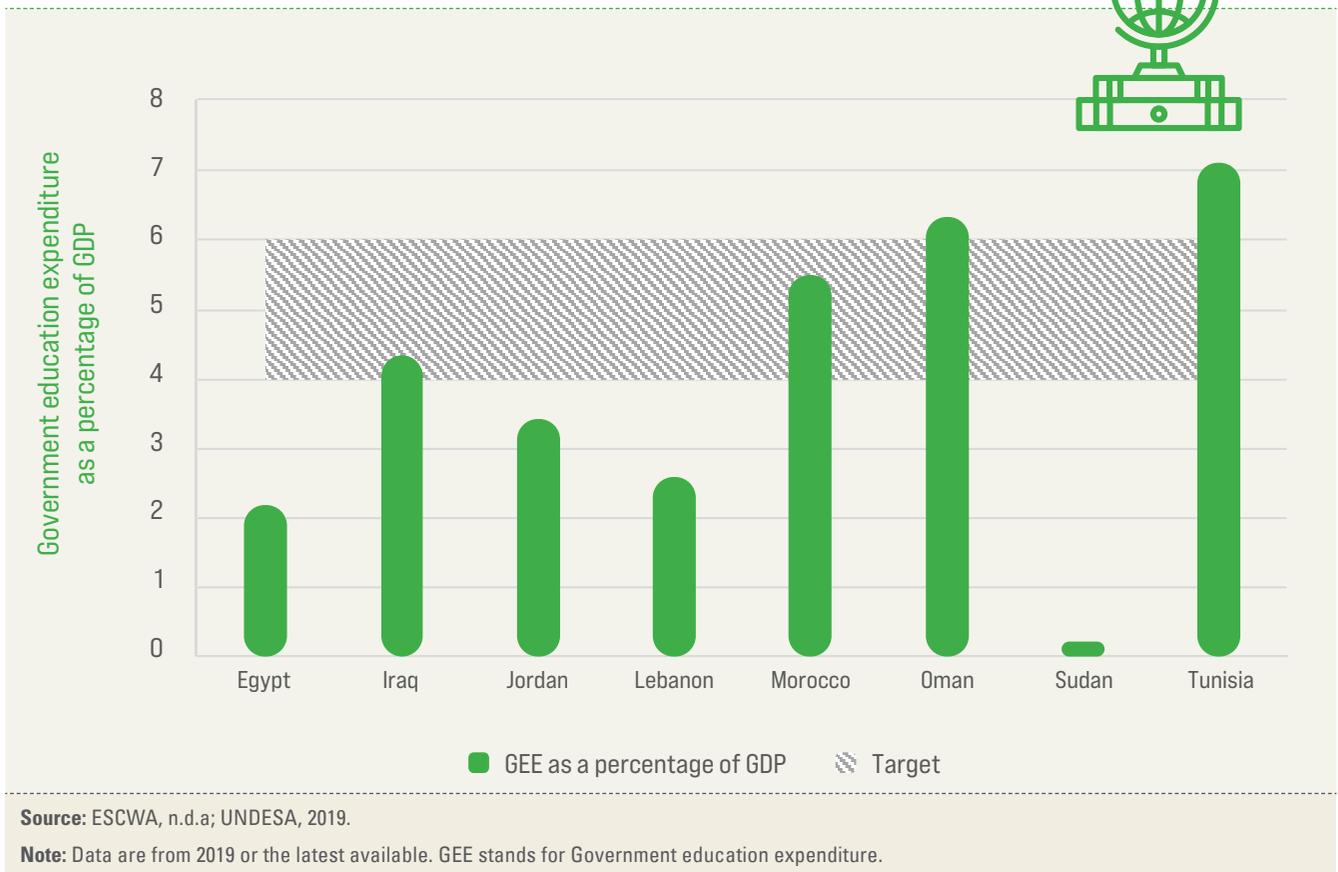
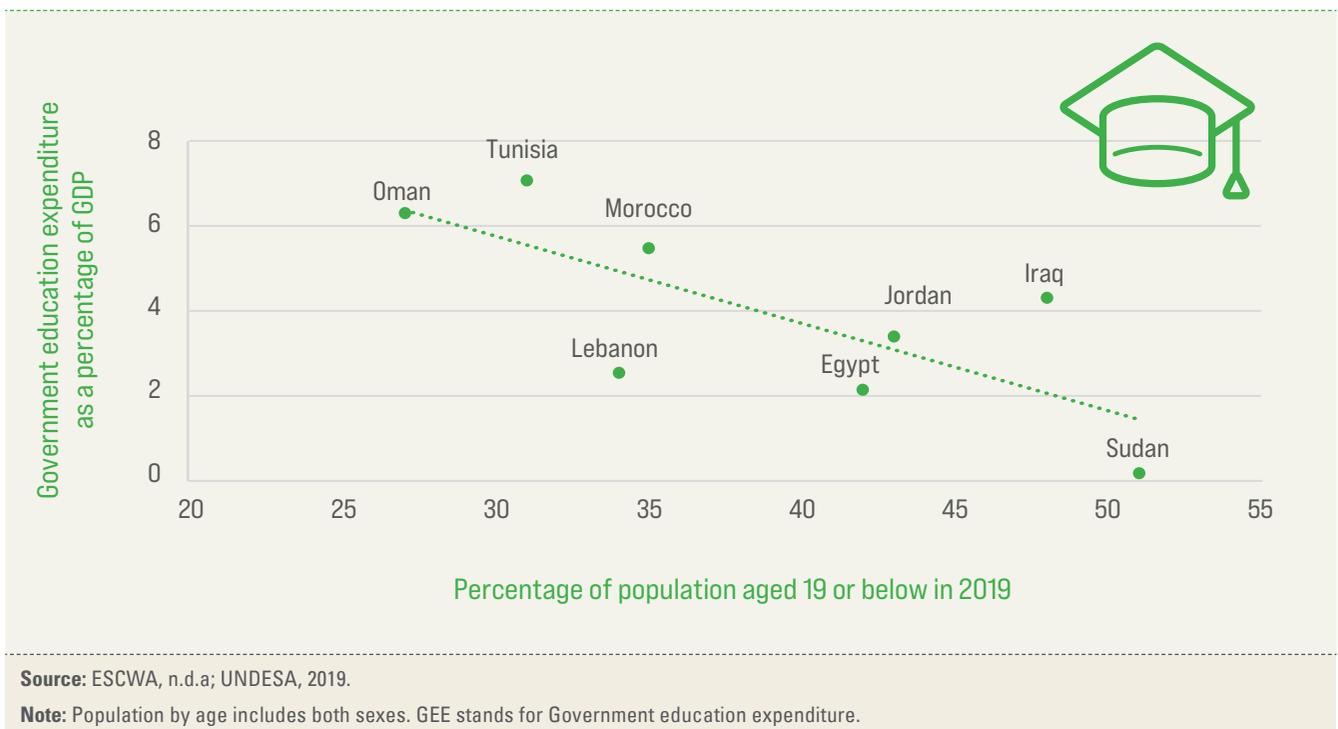


Figure 36. Countries with higher commitments to public education have smaller shares of people aged 19 and below



Insufficient public spending on education has similar impacts to those seen in health, leading to potential forgone service use or regressive household expenditure on private services. Further, as education is an important catalyst of socioeconomic equality, inadequate expenditure deprives children of a fairer start in life. Long-term intergenerational implications include trapping poorer and disadvantaged children in cycles of poverty.

International benchmarks for spending on social protection have not been broadly adopted by countries, largely due to shortfalls in resources to meet expenditure needs. For the Arab region as a whole, public expenditure on social protection is just 4.6 per cent of GDP, among the lowest levels in the world.⁸⁷ The only region with a lower allocation is Africa, at just 3.8 per cent. According to SEM data, only Iraq at 16 per cent exceeds the world average allocation of 12.9 per cent, largely due to energy subsidies. Limited fiscal space in the Sudan is a challenge to allocate higher public social protection expenditure, a real concern given high levels of poverty and vulnerability. Constrained investment in social protection across the region likely fuels stubbornly high inequality and low levels of social mobility.

2. Investing first in services to dismantle barriers to rights and development

Spending choices within sector budgets can support equity by investing first and most in services most likely to be used by people who are poor and vulnerable. Such expenditure choices are more likely to dismantle barriers from underdevelopment and discrimination and are often highly cost-effective. Primary health care, for instance, is well placed to improve equity in health⁸⁸ if it is readily available to all. Such services cover not only broad swathes of populations, including vulnerable populations such as children, but also tend to be heavily used by poorer people.

They facilitate access to generalist and life-saving care, including immunizations, as well as referrals to specialist care.

Egypt, Jordan and Tunisia have data on allocations to primary health care as a proportion of Government health expenditure. Only Jordan, with half of health expenditure going to primary care, is in line with the global average of 51 per cent.⁸⁹ Egypt allocates 46 per cent of health expenditure to primary care; Tunisia provides 44 per cent. While Egypt and Tunisia do not fall very far short of global averages, the adequacy and equity of their allocations must be considered in terms of broader health commitments. Against the \$86 per capita spending threshold for essential health services, for instance, many of which fall in the realm of primary care, Egypt spends only \$17 per person on primary care and Tunisia spends \$29. In contrast, Jordan spends \$55. In other words, not prioritizing services most likely to benefit the poorest translates into underfunding basic benefit packages.

A study that established investment guideposts and projected health-care resource needs for 67 low- and middle-income countries, including Egypt and Tunisia,⁹⁰ found that on average, if countries implemented a basic package of health-care measures by 2030, 30.6 million deaths would be averted and four years of life expectancy gained. Between 2020 and 2030, Egypt would need to spend an additional \$31 per capita per year to provide basic services. Tunisia would need to spend an extra \$33 per capita per year.⁹¹

In education, investment in different levels of schooling has implications for equity. In particular, investments in early childhood education can achieve high health, economic and social outcomes⁹² and mitigate early disadvantages related to poverty and gender.⁹³ But the Arab region broadly fails to allocate sufficient proportions of education budgets to early childhood education. The latest data suggest that the Governments of Bahrain, Djibouti, Morocco, Oman, and the Syrian Arab Republic spend

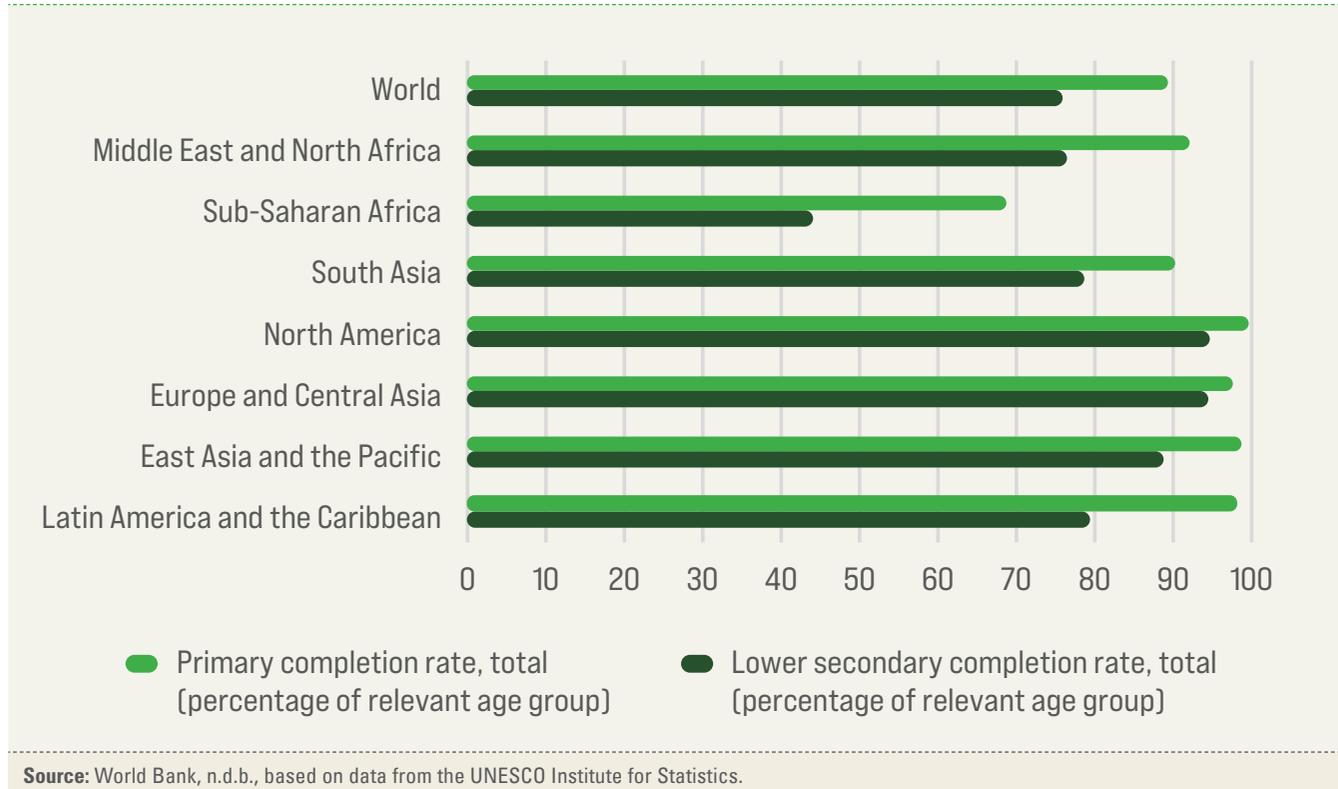
very little if anything on pre-primary education. In Jordan and Tunisia, expenditure on early childhood education is less than 1 per cent of that for primary and secondary education.

Many Arab countries do not deliver public early childhood education through the Ministry of Education. The United Nations Educational, Scientific and Cultural Organization (UNESCO) found that among 19 Arab States, only Algeria had legal provisions for free early childhood education. No country had compulsory provisions for it.⁹⁴ Some countries have begun adopting positive reforms, such as Morocco, which in 2020 made it mandatory for children to attend preschool for one year. The Ministry of Education is expected to become more involved in supervising services provided by private institutions, in addition to increasing public provision of preschool services.⁹⁵ For children from poorer families in Morocco, the absence of free or subsidized public provision of early childhood education is an obvious barrier. Fees for private sector alternatives, which

currently account for over 80 per cent of Moroccan children enrolled in early childhood education,⁹⁶ may simply be out of reach.

Arab countries also vary in the sufficiency of secondary school expenditure compared with the size of the relevant age group, generally from ages 10-19. Public spending on secondary education in Djibouti, Lebanon and Qatar exhibits this misalignment. Djibouti displays the worst allocation, with the share of spending almost 40 times smaller than what would be expected based on the secondary school-age population share. For some Arab countries, publicly provided education does not extend to the completion of secondary school, leaving poor households facing a large financial burden to continue their children's education. This means that while the region does relatively well on its average primary school completion rate, its average secondary school completion rate lags almost all regions except Africa (figure 37).

Figure 37. The region lags almost all other regions in lower secondary school completion, 2019



In contrast to secondary education, the share of public expenditure on tertiary education is equal to or greater than the population share of the relevant age group. Only Bahrain, Morocco and Oman have near parity between expenditure and age shares. Expenditure is strongly skewed in Djibouti, Jordan, Lebanon, Qatar, and the Syrian Arab Republic. Without specific provisions for poor and vulnerable populations to access tertiary education, however, such as through scholarships or affirmative action, tertiary education services tend to deliver higher benefits to people in upper-income quintiles. Overprioritizing tertiary education in public education budgets without specific provisions for the poor may exacerbate inequity by consuming resources that could otherwise be targeted towards more inclusive earlier levels of schooling, including early childhood and secondary levels, where appropriate.

In providing social protection, the share of spending going to the poorest quintile of a given population has a direct impact on reducing poverty and inequality.⁹⁷ A 1 percentage point increase in the share of social protection spending reaching the poorest quintile can deliver a 0.34 percentage point reduction in the poverty headcount⁹⁸ and a 0.44 percentage point reduction in the Gini index.⁹⁹ The IMF has suggested that raising per capita social protection spending by 10 per cent in purchasing power parity dollars for three years could close 20-40 per cent of the human development gap between countries in the Middle East and North Africa and comparator economies outside the region.¹⁰⁰

In Arab countries, the beneficiaries of public social protection generally differ between social insurance and social assistance. On average, in non-GCC Arab countries, almost two thirds of the labour force do not contribute to social security and are not covered by any pension or health insurance scheme.¹⁰¹ The largest excluded groups in most countries are agricultural workers, household and family workers, and foreign migrant workers.

Most Arab countries have minimum pension arrangements that entail redistribution within pension funds in favour of those covered with the lowest incomes. Such programmes have mostly benefited the urban lower-middle class, however, since rural populations and poorer urban groups are not covered by the contribution-based social insurance that predominates. This exacerbates inequities.¹⁰²

The second tier of social protection is social assistance, a diverse range of cash transfers and subsidies that are part of social protection systems.¹⁰³ Most countries combine general price subsidies and targeted social assistance. Subsidies apply to a range of commodities, including fuel, food and housing, with the main objective being to reduce poverty by improving access to goods and services.¹⁰⁴

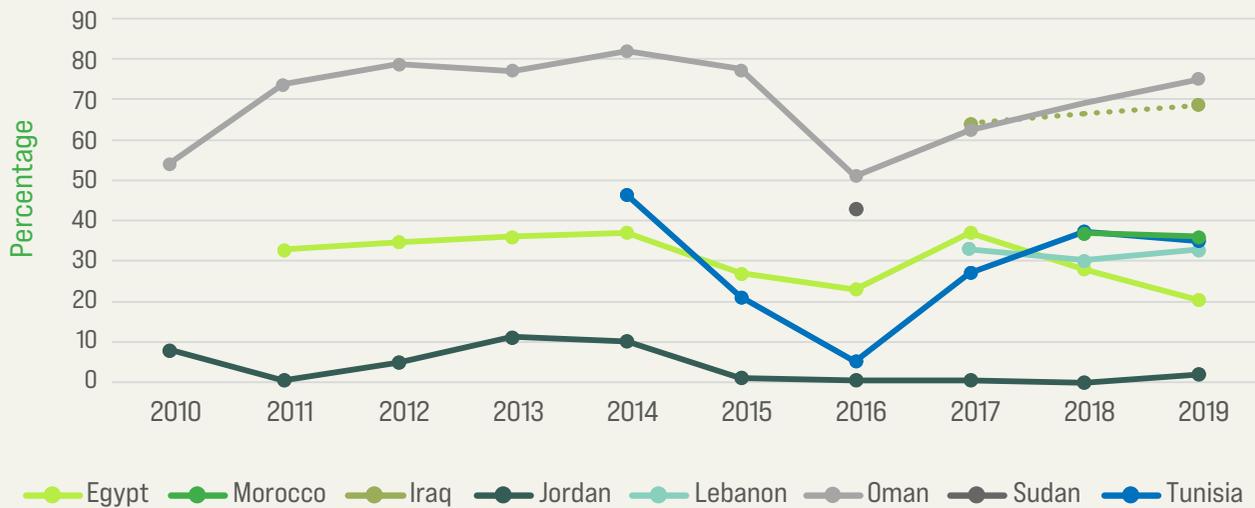
In the share of overall public expenditure on social protection, subsidies and support to farms that is spent on fuel and electricity subsidies, Jordan has the lowest share; Iraq and Oman the highest. Egypt has also had significant subsidies over the past decade, but often with a regressive nature. This is particularly the case with energy subsidies, where richer households benefit more than the poorest households, for reasons that include greater consumption of the subsidized goods.¹⁰⁵ Of all forms of energy subsidies, those for gasoline, diesel and electricity – the focus of the SEM data – are the most regressive (figure 38 and box 3).



Social spending in the Arab states is lower than established international benchmarks.

Figure 38. Spending on fuel and electricity subsidies as a share of the social protection, subsidies and support to farms dimension of the SEM

Spending on subsidies for fuel and electricity is often regressive, with richer households consuming and benefiting more



Source: ESCWA, n.d.a.

Note: Dotted trendlines indicate missing data points.

Box 3. A look inside energy subsidies and the impact on poverty in Tunisia

Fiscal reforms have impacts on inequality and poverty through what people pay and receive for different subsidized products and services. In Tunisia, energy subsidies constitute the main component of total subsidies, including food and transport. They are also the country's most controversial fiscal policy tool. Initially designed to protect the most vulnerable households and foster domestic industrial growth, the subsidies can in fact increase inequality and poverty.

Fiscal incidence analysis is a way to examine the direct impact of subsidies, taxes and transfers on poverty and inequality. It compares disposable income (net of income after paying direct taxes and receiving direct transfers) with the post-fiscal income (disposable income plus net of indirect taxes and indirect subsidies from consuming goods and services) using the commitment to equity assessment methodology.

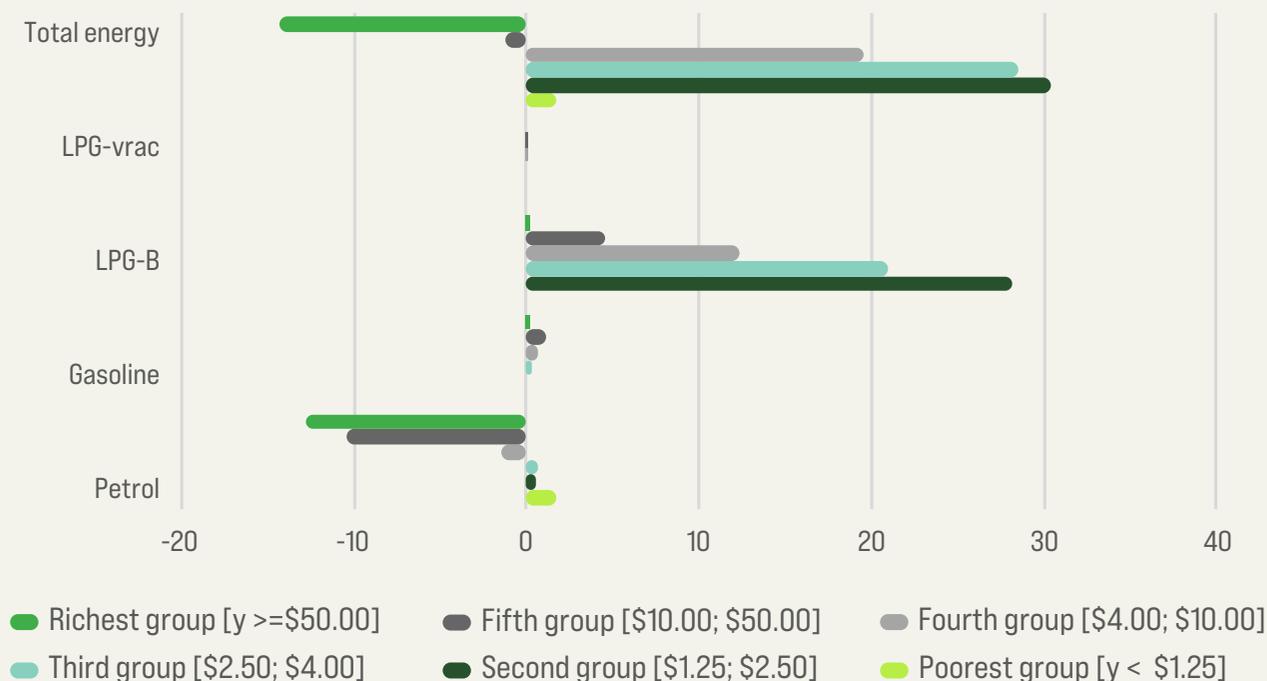
In Tunisia, based on this analysis, net impact of indirect taxes (on goods and services) and indirect subsidies (on energy and food) result in poverty and income inequality reduction. In 2018, the Gini coefficient for post-fiscal income was lower, at 0.31, compared to 0.33 for disposable income. Similarly, considering all taxes, direct cash transfers and indirect subsidies, the national poverty rate for post-fiscal income would decrease to 11.6 per cent compared to 15.2 per cent for disposable income.

Energy subsidies are significant in Tunisia. They are estimated at 8.8 per cent of household expenditures. Cutting energy subsidies could impact poverty and income inequality in different manners, depending on the type of subsidy. The per capita consumption of energy (quantity) and spending (prices) varies across quintiles, with high consumption in the richest quintile. Variations in consumption also depend on the type of energy product. The largest consumption differences are for gasoline, followed by diesel and electricity. A richer individual consumes 4.5 times more electricity and 1.4 times more LPG than an individual from the poorest household. For electricity, increases in prices for consumption above 400 kilowatt hours per month have reduced shares going to upper quintiles, an example of a policy to promote greater equity.



In terms of spending, the richest quintile of households spends six times more on residential energy than that of the average household in the poorest quintile. Variations across quintiles are less acute for LPG and electricity. The distributive impact of energy subsidies is heterogeneous, with LPG in bottles (LPG-B) being the most influential among the lower income population. The incidence of subsidies net of taxes (percentage of disposable income) is more pronounced for LPG-B for the lower second and third group of population (figure). Consequently, removing LPG subsidies will have a huge impact on the poor, given that LPG comprises 90 per cent of the energy they use. This would raise the poverty headcount by an estimated 0.7 percentage point.^a Such an outcome underlines the value of energy subsidy reform that targets the type of energy and its distributional impact in addition to fiscal savings.

Incidence of energy subsidy net of tax by socioeconomic group



Source: Moumimi, 2021.

Note: Groups are classified by disposable income per day per capita thresholds.

^a World Bank, 2020.

Food subsidies may support equity, in contrast, as the poor spend a higher share of their income on food. Many food subsidies in Arab countries reach the poor through ration cards, such as in Egypt,¹⁰⁶ or through subsidies aimed at lower-quality products less likely to be consumed by the rich. Despite efforts to target such support to the poor, however, the rich often reap benefits disproportionate to their food needs. In Egypt, more than 88.5 per cent of all families benefit from the food subsidy system, for instance.¹⁰⁷ The leakage rate to non-poor households is approximately at 78 per cent, and the undercoverage rate of poor households

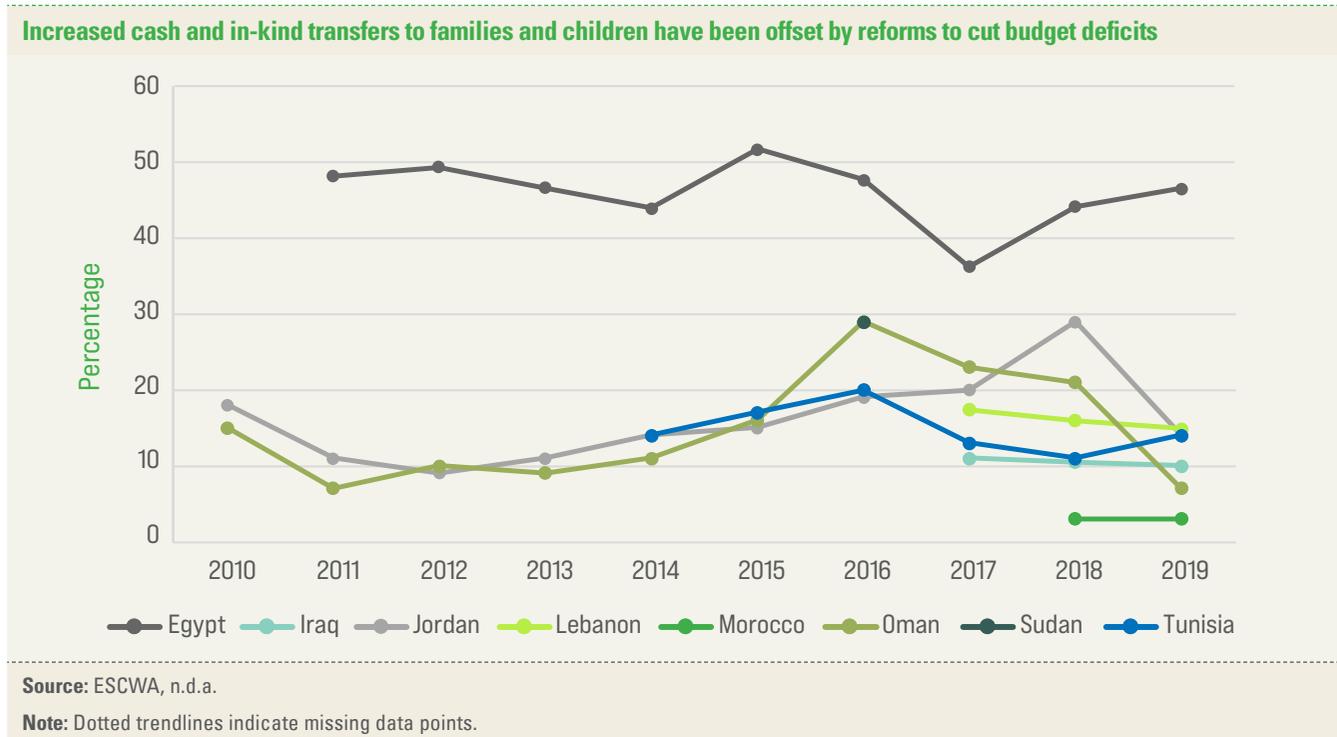
is at around 9 per cent.¹⁰⁸ Some Arab States are attempting reforms of food subsidy systems to improve efficiency and reduce leakages¹⁰⁹ but these have received less attention than reforms to change fuel prices and electricity tariffs. This reflects the comparatively small fiscal cost of food subsidies and their high social sensitivity as demonstrated by the ongoing food inflation trends.¹¹⁰

Targeted support constitutes the other key part of social protection systems in the Arab region, through various cash or in-kind transfer programmes as well as housing support and

other benefits.¹¹¹ Data from almost 10 years ago suggested comparatively high absolute expenditures on social assistance relative to other regions, driven mainly by fuel and food subsidies, which constituted 5.7 per cent of GDP.¹¹² Since then, most Governments have increased the prioritization of cash transfers within social

protection. However, since a key objective of major reforms has been to reduce budget deficits overall, only a share of savings goes to new cash transfers (figure 39). In Egypt, almost half of public spending on social protection and food security is for cash or in-kind transfers that support income or families and children.

Figure 39. Cash and in-kind transfers as a share of total public expenditure on the social protection, subsidies and support to farms dimension of the SEM



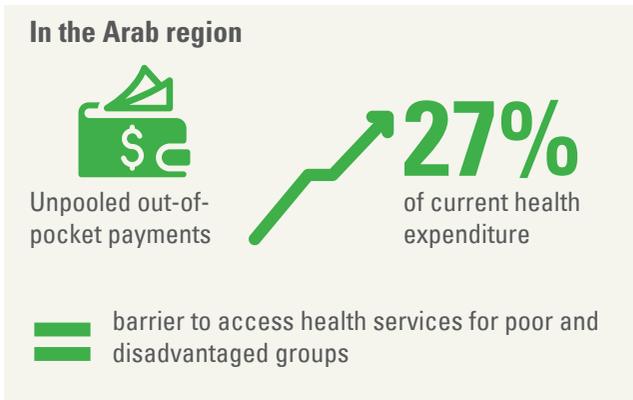
B. Too often, spending reflects and reinforces inequities

Public social expenditure amounts and choices influence which services are provided, to which groups and in which locations. If out-of-pocket costs are high, making up for shortfalls in public funds, financing may embed inequities (box 4).

Various indicators for access to health care reveal inequities within countries, and these are tied to country classification. Countries were grouped in the following three sets for comparison: low-income countries, middle-

income countries, and countries with fragile and conflict affected situations (figures 40 through 42).¹¹³ With a few small exceptions, even the richest quintile of people from the low-income countries with fragile and conflict-affected situations has less access to health care than the poorest quintile in the middle-income countries. Inequity in the second set of countries is also high but slightly less pronounced. The wealthiest populations in countries with fragile and conflict-affected situations are better able to maintain

access to health care during crises compared to other income groups in the same country and compared to wealthy groups in low-income countries with fragile and conflict-affected situations. This likely relates to the proliferation of private health care in countries with fragile and conflict-affected situations for those who can afford it. The absence of a functioning State allows private provision to evolve without regulation or integration into either provincial or national strategies.¹¹⁴

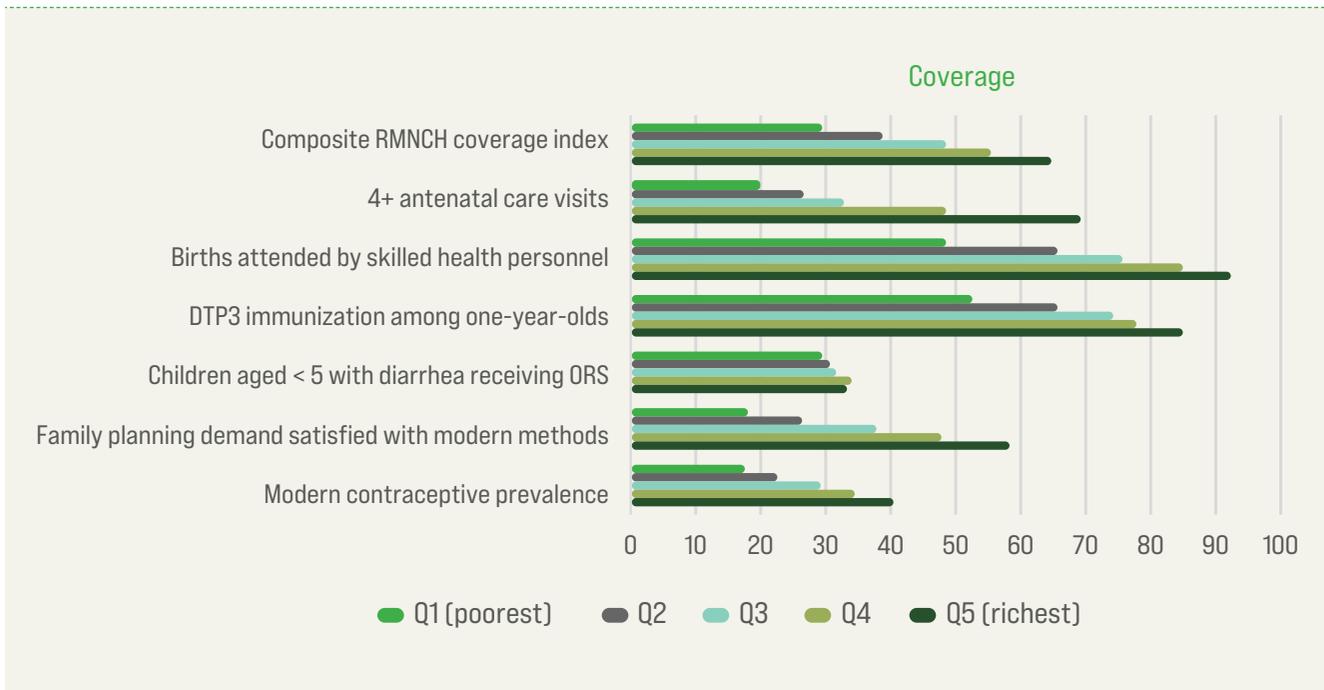


Box 4. Out-of-pocket payments and equity

Direct or out-of-pocket payments for a service are usually at a flat rate without considering the ability to pay. They are the most common form of private financing for social services but directly contradict the principle of equitable financing, where the burden of financing is spread equitably across the population through some form of pooled funding. Out-of-pocket payments mean access is determined by the ability to pay rather than need, a significant barrier especially for poor and disadvantaged groups.

An average of 27 per cent of current health expenditure in the Arab region is raised through unpooled out-of-pocket payments; the share is 46 per cent when excluding the GCC countries. This compares poorly against the world average of 18 per cent. Some of the poorest Arab countries have the highest rates of out-of-pocket payments in health, such as the Sudan at a 66 per cent share of current health expenditure. Egypt's share is 62 per cent.

Figure 40. Health-care indicators in low-income Arab countries by wealth quintile (Percentage)



Source: WHO, n.d.b.

Figure 41. Health-care indicators in middle-income Arab countries by wealth quintile (Percentage)

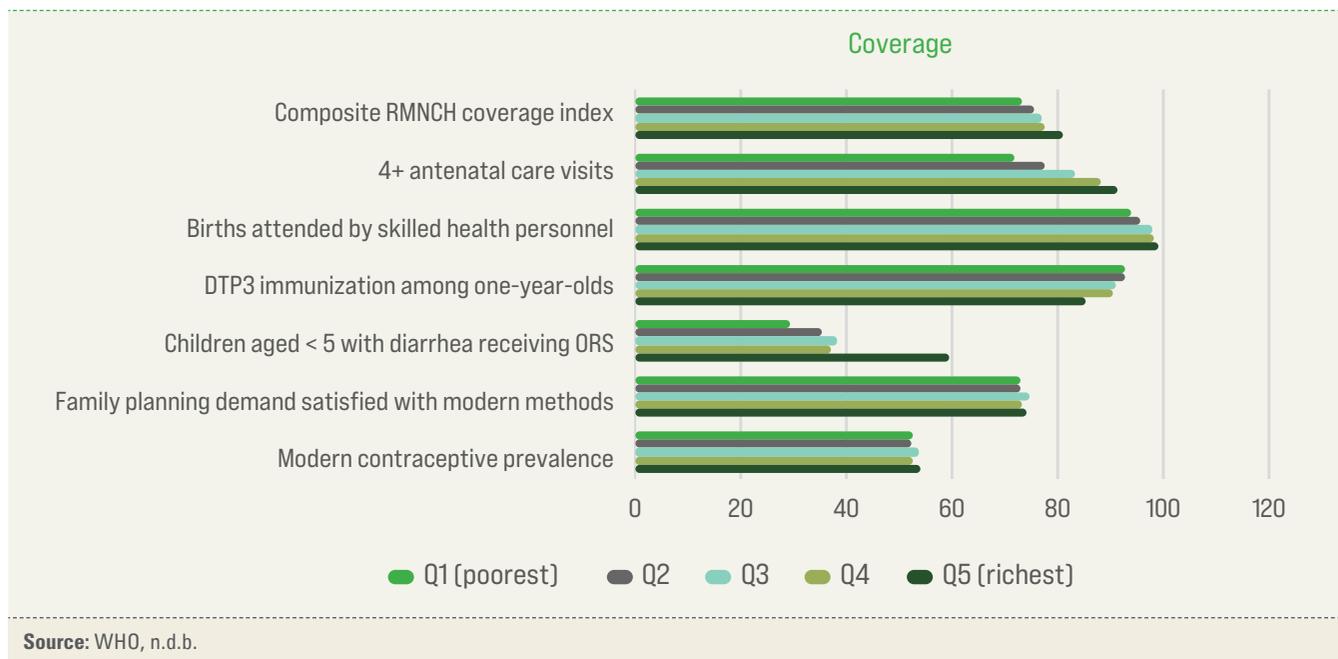
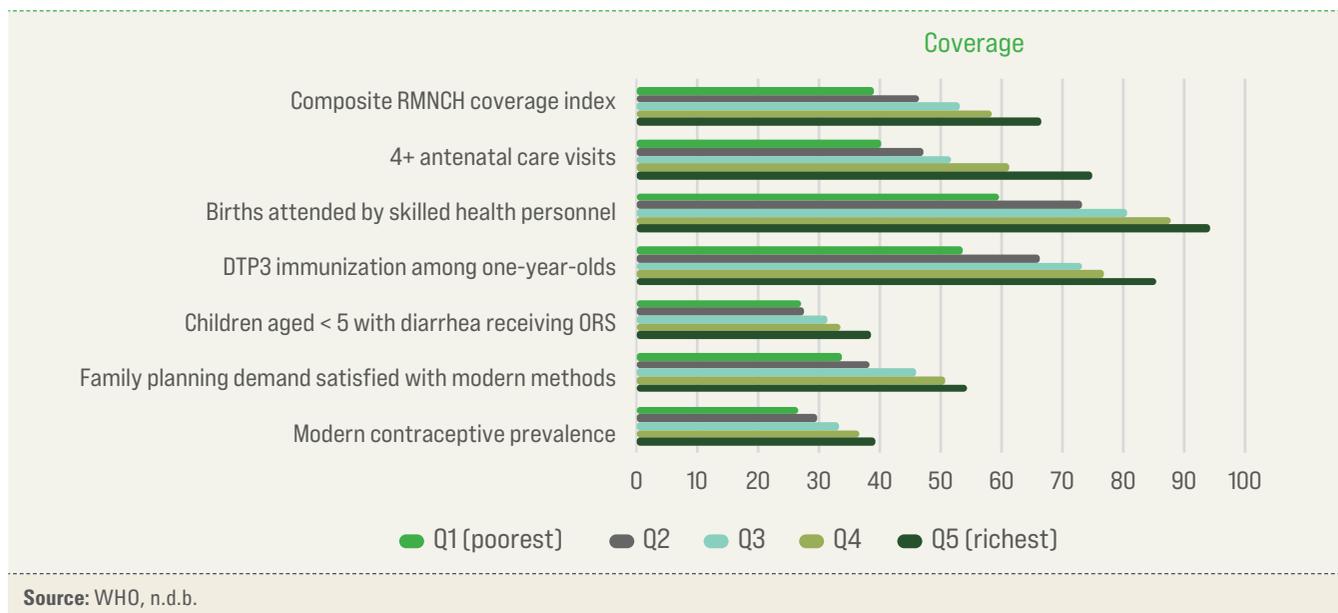


Figure 42. Health-care indicators in Arab countries with fragile and conflict-affected situations by wealth quintile (Percentage)

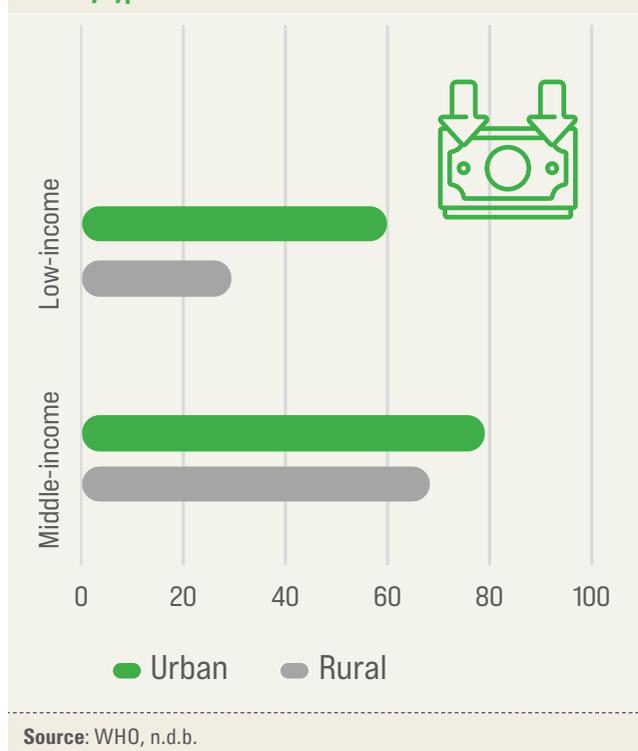


A composite reproductive, maternal, newborn, and child health index¹¹⁵ finds access aligned with wealth in all three country types. Inequity between the richest and poorest groups is higher in low-income countries with a 35 percentage point coverage gap compared to a 9 percentage point gap in middle-income countries. In principle, wealthier countries are better equipped to meet

per capita spending targets and more likely to achieve more equitable distribution in health care. Similar trends are seen in indicators of maternal health care in urban and rural areas. In low-income countries, antenatal care coverage is 30 percentage points higher for urban households. In middle-income countries, the gap is 11 percentage points (figure 43).

Figure 43. Antenatal care coverage of at least four visits (Percentage)

Rural-urban disparities in antenatal care emerge in all country types but are worse in low-income countries



Discrepancies in expenditure on different levels of education are readily apparent, intersecting with household income. Inequities in educational access according to wealth, as measured by the net attendance rate in figure 44, are lowest in children of primary age, since primary enrolment is near universal. Iraq is an exception with a 13 percentage point gap between the richest and poorest quintiles. Countries with the highest inequities in primary school enrolment – the Sudan and Yemen – are among the poorest in the region.

Inequities are far higher in early childhood education than at the primary level. Underinvestment in early childhood education has produced a situation where richer populations can afford to send their children to private schools while barely half of children in the poorest quintile are able to attend. This sets off a spiral of inequities where poorer children are less prepared for primary school. If they

reach secondary school, they may run into a second drop-off in public investment at that level and be unable to complete their education. At that point, inequities begin to spill beyond education to the wider world as young people leave school, attempt to find employment and otherwise transition into adult life.

In social protection, data on benefit incidence¹¹⁶ allow assessment of whether allocation decisions have improved or worsened equity. A lack of recent data limits analysis reflecting reforms,¹¹⁷ but available data suggest that benefit incidence is inequitable in every country except Djibouti (figure 45). In most instances, benefits captured by the richest quintile are equal to or greater than those reaching the poorest quintile, likely due to the longstanding focus on subsidizing costly commodities used more by richer groups.¹¹⁸ Egypt, Iraq, Jordan, the Sudan, and Tunisia have both benefit incidence data and SEM data. Among them, Jordan displays the lowest relative allocations to fuel and electricity subsidies and the most equitable targeting of social assistance to the poor. Iraq commits the highest share of social protection expenditure to fuel and electricity subsidies and has the lowest benefit incidence of social assistance for the poorest quintile. These trends indicate a potential relationship between allocative inefficiency in social assistance and fiscal inequity.



Inequities are far higher in early childhood education than at the primary level.

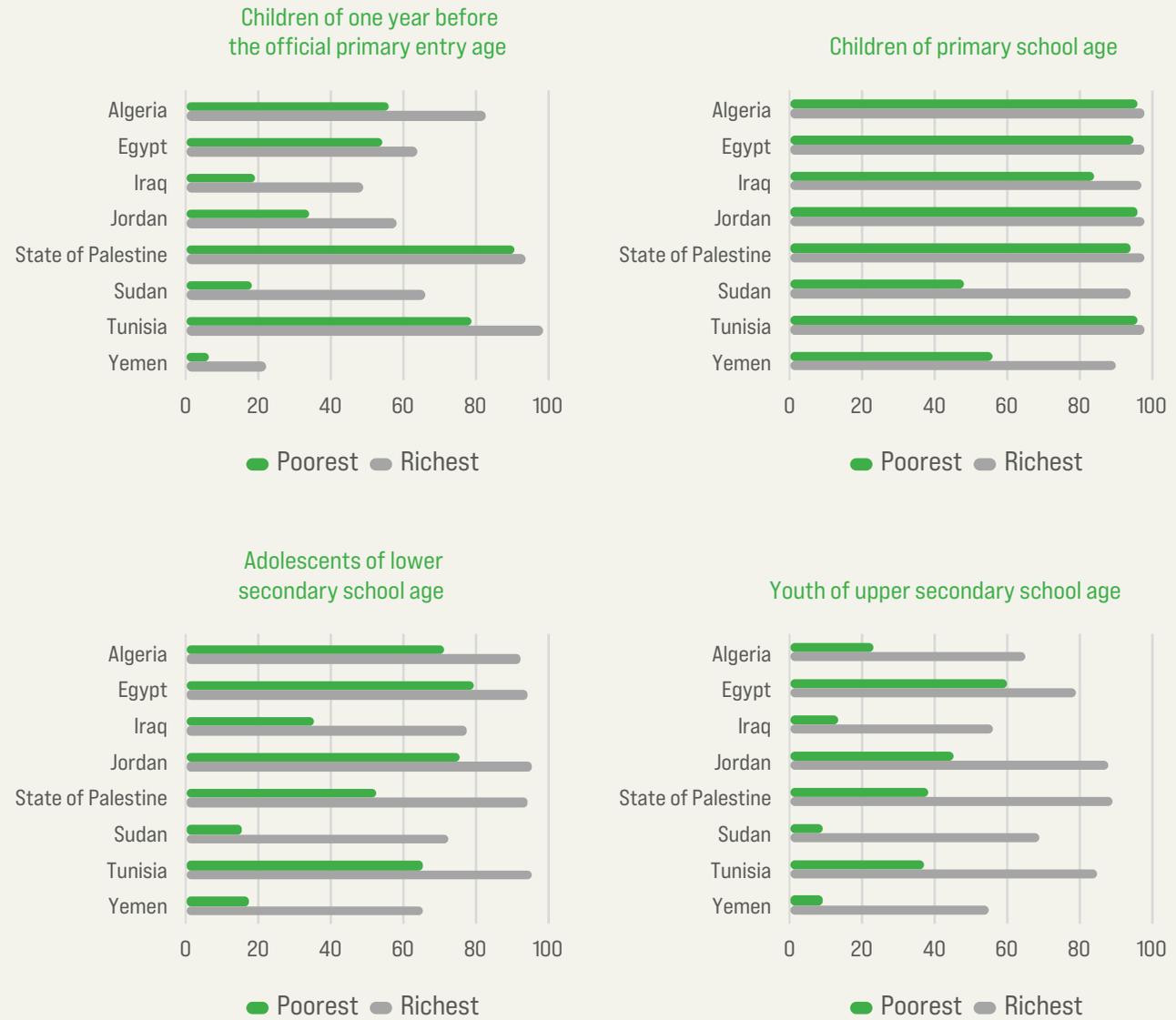
Disaggregation of the benefit incidence of different social assistance programmes shows similar patterns for most Arab countries, with some notable exceptions. The benefit incidence of cash transfers in Jordan suggests higher allocative efficiency, since the poorest quintile receives the most benefits, and benefits progressively fall for higher-income quintiles.

Djibouti and Jordan demonstrate moderately efficient allocations for social assistance and cash transfers (figure 46). But for in-kind transfers, it reverses to a pro-rich benefit incidence that stands as the most inefficient allocation among all the countries reviewed, beyond even Iraq, which is inefficient across cash and in-kind transfers.

Figure 44. Adjusted net attendance rate of the poorest and richest wealth quintiles (Percentage)



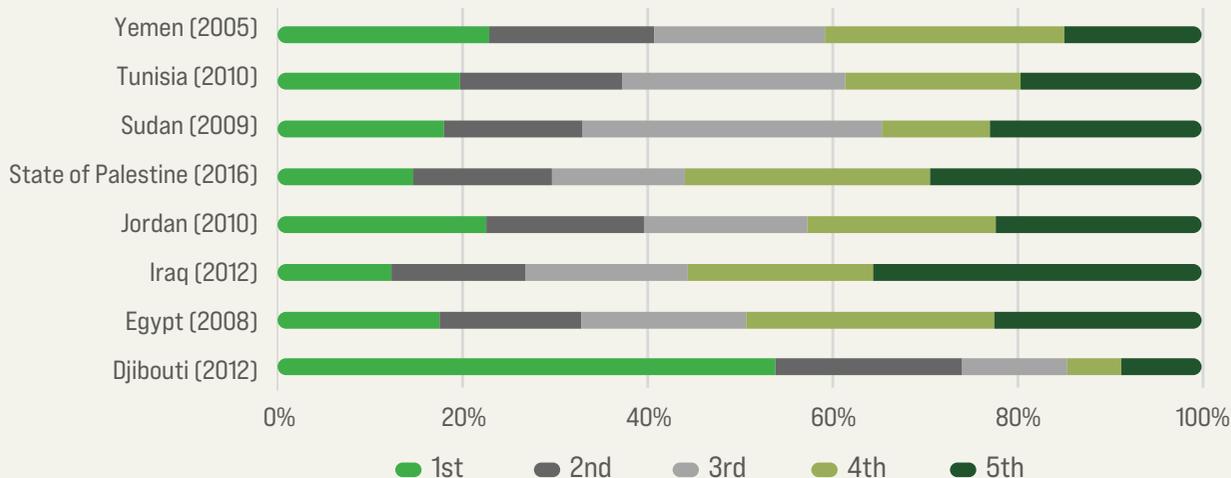
Net attendance rate differs across household income levels



Source: World Bank, n.d.c.

Figure 45. Benefit incidence of social assistance by quintile of income distribution

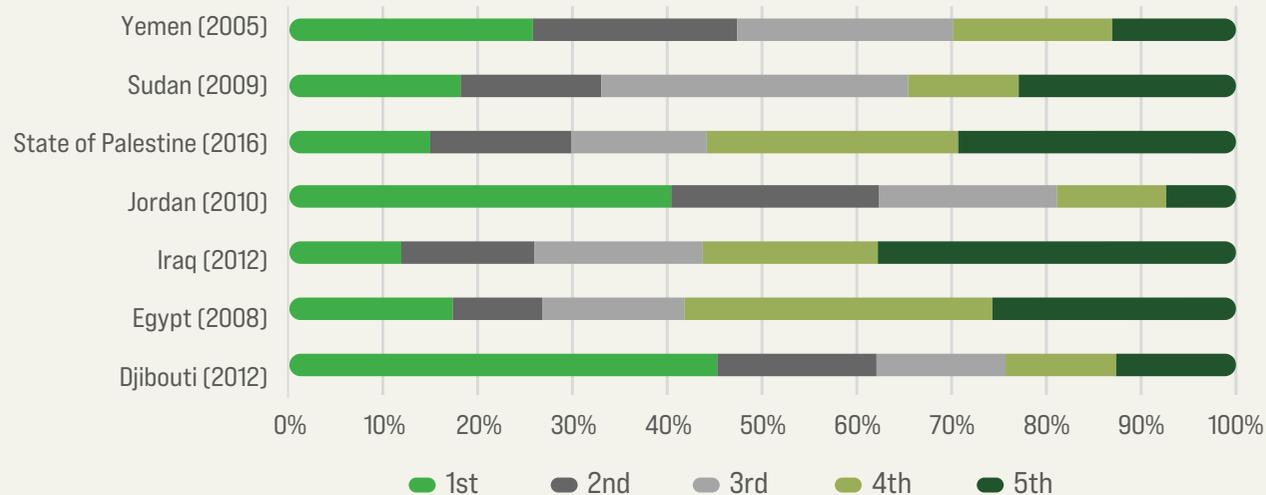
Social assistance benefit incidence is inequitable in almost every country



Source: World Bank, n.d.c.

Figure 46. Benefit incidence of cash transfers by quintile of income distribution

Cash transfer benefit incidence also tends to be inequitable, with some exceptions



Source: World Bank, n.d.d.

Another form of assistance entailed increased distribution of in-kind transfers to beneficiaries of existing cash transfer programmes, as in Iraq and Yemen (figure 47). In Djibouti, for example, such targeting may have improved equity. Nonetheless, this kind of horizontal expansion cannot be assumed to be wholly inefficient, given a crisis where large swathes of populations experienced

falling incomes and living standards, and increased risks of poverty and vulnerability.

The inadequacy of targeting, however, was evident in the fact that every Arab country assessed showed a pro-rich trend in benefit incidence for social insurance. The steepest inequities were in Djibouti, Egypt and the State of Palestine where the

benefit incidences for the richest quintiles were 10 times (in Djibouti and Egypt), and 36 times (in the State of Palestine) greater than that for the poorest quintile (figure 48).

The COVID-19 pandemic fiscal stimulus packages changed social spending in the Arab world, with the most profound shifts involving increased investment in and the changing nature of social protection. Most Arab States announced a range

of social protection measures covering social assistance, social insurance, loans and tax benefits, and labour market support.¹¹⁹ Among 200 COVID-19 social protection responses in the region, unconditional cash transfers, recognized as a pro-poor mechanism, have been the most common single intervention, with 16 countries adopting them.¹²⁰ While in-kind vouchers ranked as the second most common policy measure globally, the Arab region relied more on waivers of utility bills.

Figure 47. Benefit incidence of in-kind transfers by quintile of income distribution

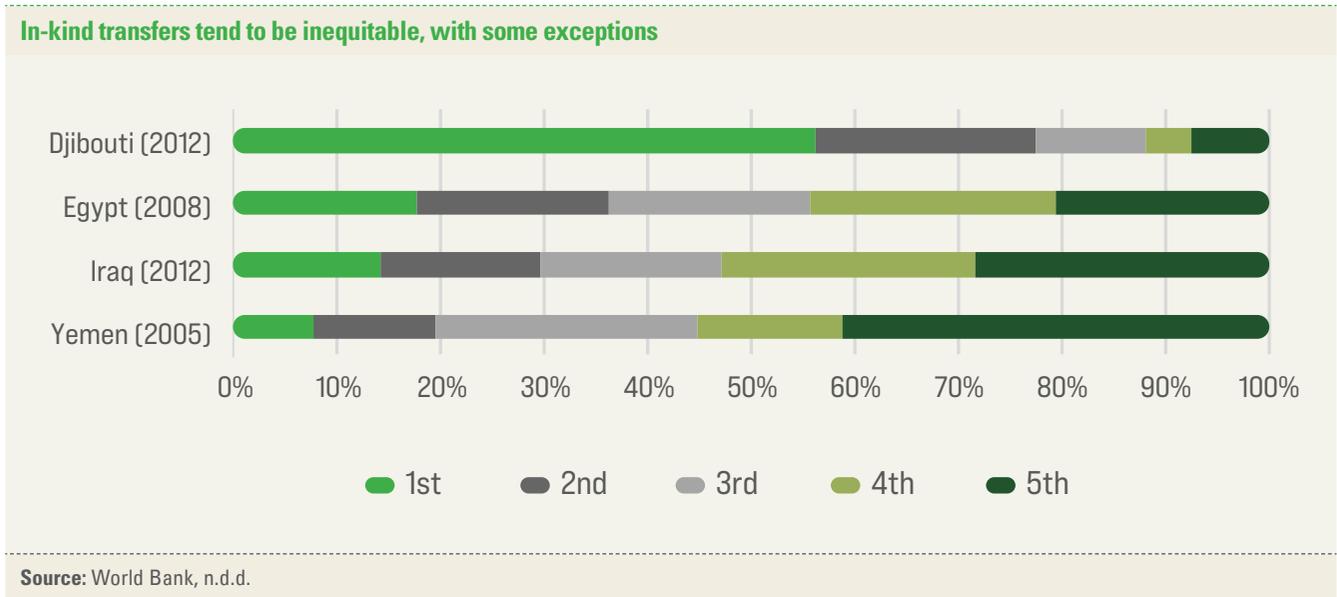
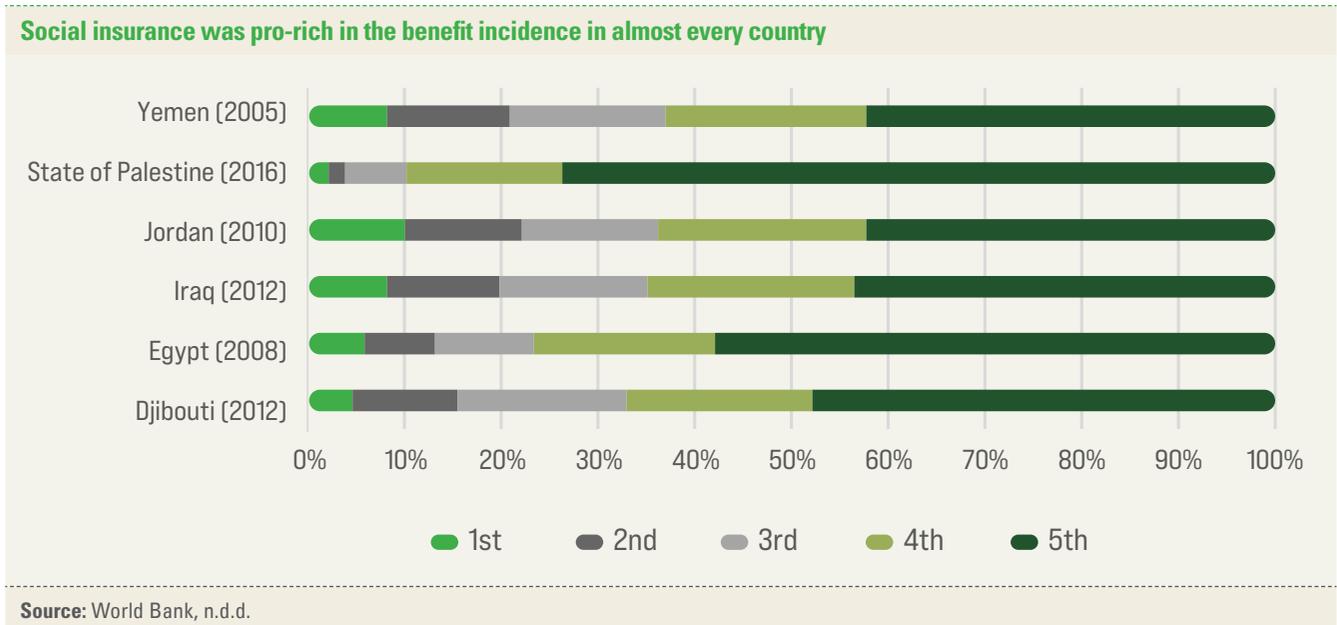


Figure 48. Benefit incidence of all social insurance by quintile of income distribution



Most countries announced initiatives to provide temporary income to households and individuals who became vulnerable during the pandemic. The overall adequacy of these efforts has been a concern for vulnerable populations, however, given a low amount of fiscal stimulus. Just 11 per cent of stimulus packages in the region targeted people through social protection and health measures.¹²¹ The equity impact of in-kind transfers depended on targeting. Nine Arab countries provided food baskets and hygiene materials for vulnerable families, likely improving equity.¹²²

The expansion of existing social insurance schemes and the introduction of new ones in response to the pandemic had potentially positive implications for equity in access. Four Arab countries provided additional health insurance, 16 offered leave benefits and 10 provided unemployment insurance and/or wage subsidies.¹²³ Morocco allowed the renewal of health insurance for those made redundant due to the crisis, targeting a subpopulation with newly increased vulnerability. Across countries, the most common measures targeted people working in non-essential public services and those belonging to social insurance organizations.

Despite the nature of the crisis, not all countries pursued policy measures related to health insurance or extended coverage. The Sudan did extend coverage; Saudi Arabia renewed health insurance for families for free. Egypt has provided COVID-19 related treatment without any user fees to ensure equity and quality in service delivery for all.¹²⁴ But in general, inequitable access to health services made the impacts of COVID-19 highly unequal. Waiving fees and subsidizing health insurance are two fundamental measures to ensure that the poorest and most vulnerable people can access health care.

At a regional level, 57 per cent of additional social assistance measures were aimed at employees and self-employed persons, while 12 per cent targeted specific vulnerable populations and 8.5 per cent were intended for the unemployed. The

last two categories will likely contribute to equity or at least constrain further inequities as a result of the pandemic. It is unclear how programmes aimed at employed or self-employed persons will impact equity. Reaching self-employed persons in the informal sector would likely mitigate inequity. In Egypt, informal workers who registered with the Ministry of Manpower gained access to unemployment benefits as did workers who became temporarily unemployed in Tunisia.

Most policy measures targeted individuals and families but it is less clear how consistently they benefited the poorest and most vulnerable people. Many countries stumbled in implementing social insurance policies given their lack of preparedness. This was especially the case for informal workers, where Governments resorted to social assistance rather than social insurance. In some cases, cash aid was extended to unemployed informal sector workers at a rate far lower than the minimum wage.

Some new cash transfer schemes targeted marginalized individuals and groups, such as informal sector workers in Morocco, persons with disability and homeless people in Tunisia, and women aged 65 and above in nursing homes under the umbrella of social protection for elderly women in Egypt. In Morocco, households with non-contributory health insurance received a mobile payment of 800-1,200 Moroccan dirham (\$80-120), depending on household composition. In the State of Palestine, the Ministry of Labour provided cash assistance to COVID-19-affected workers as a temporary form of unemployment support.

Several policy measures sought to reach female-headed households and women employees. Bahrain, Egypt, the Sudan, and the United Arab Emirates provided paid leave or work from home options for women employees to take care of their families. Care services were enhanced through cash transfer mechanisms in Mauritania, where a national solidary fund provided \$135 million to 30,000 households headed by women and other vulnerable populations.

C. Fair or unfair, spending defines development outcomes

Another perspective on equity in public financing considers the results of investment, measured by key indicators of health, education and social protection. This highlights how skewed financing reinforces social and economic inequities, and prevents the realization of basic rights for the poorest and most vulnerable populations. Comparing current health expenditure with maternal mortality shows a correlation between higher expenditure and fewer deaths in Arab countries, for example (figure 49).

There is also an association between maternal mortality and sources of funds. Arab countries with higher Government health expenditure as a proportion of all health expenditure tend to have fewer deaths (figure 50). Higher out-of-pocket spending as a share of current health expenditures also results in higher rates of maternal mortality (figure 51). In short, countries with the best maternal outcomes spend more per capita on health, draw a significant proportion of at least 50 per cent of financing from Government public expenditure and maintain low levels of out-of-pocket spending.

Figure 49. Higher per capita current health expenditure correlates with fewer maternal deaths

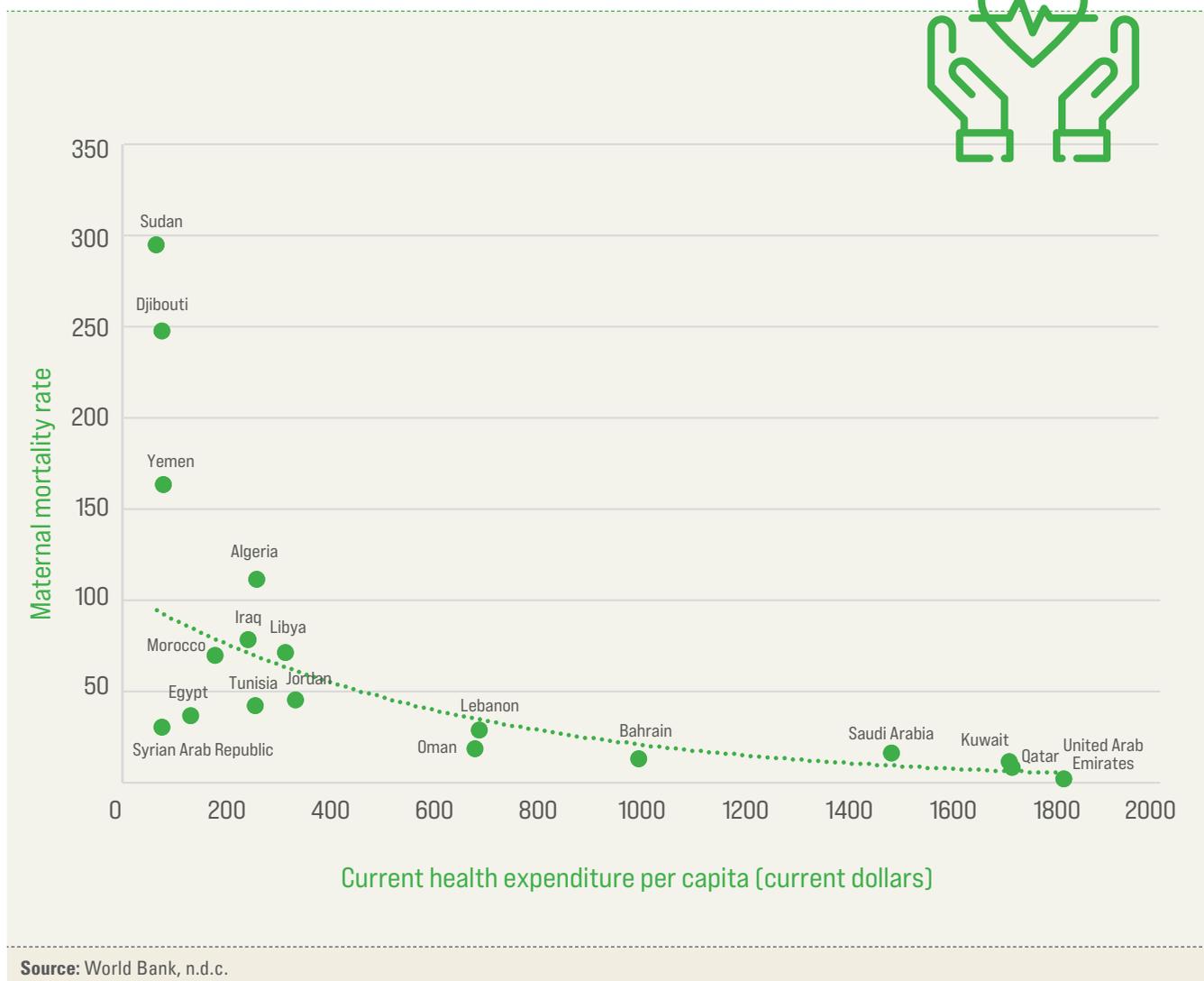
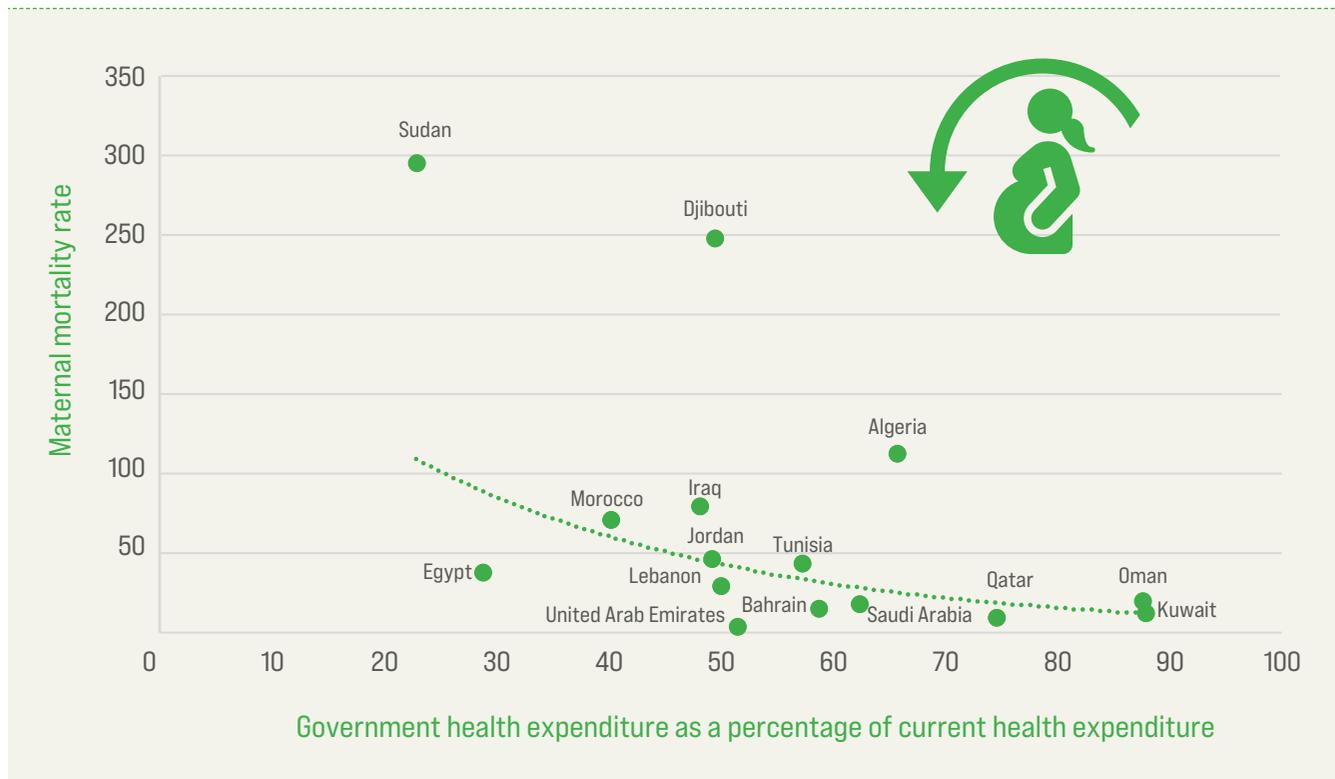
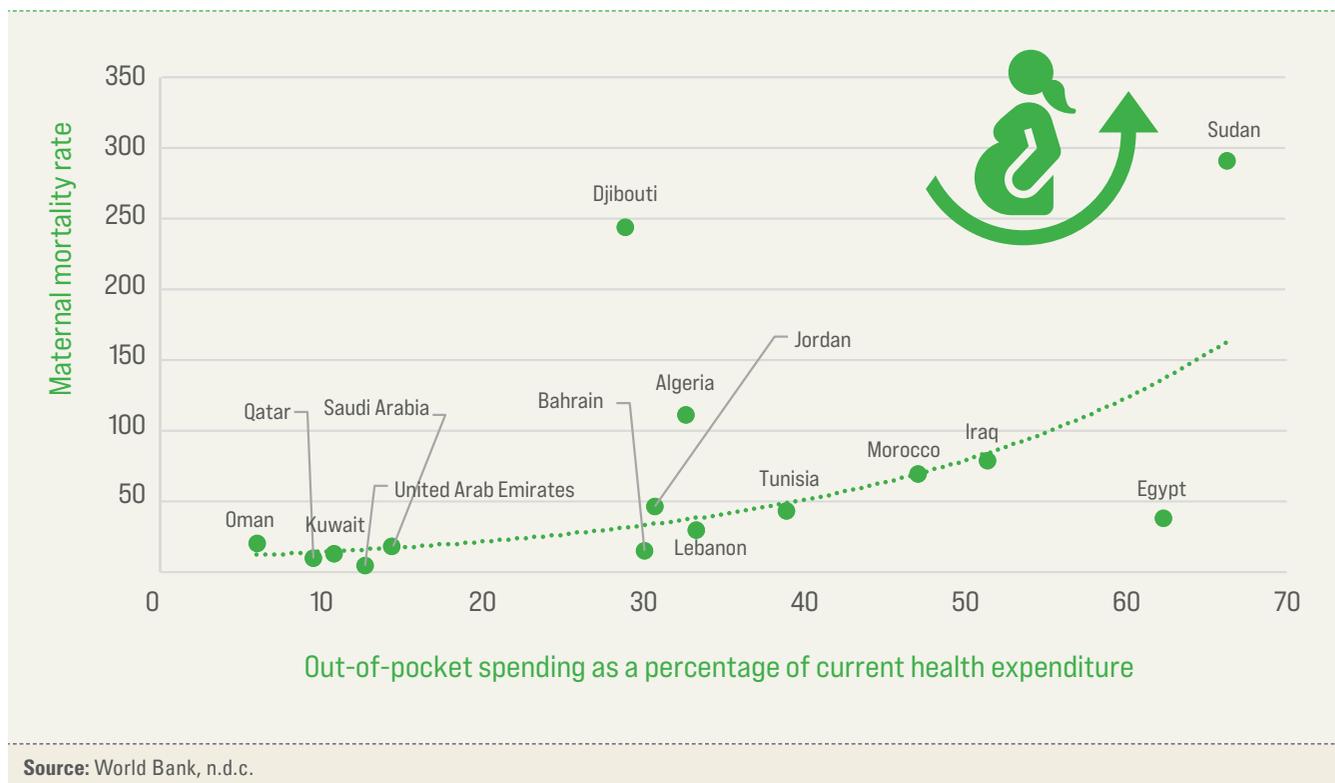


Figure 50. Where Government expenditure is a greater share of total health spending, maternal deaths decline



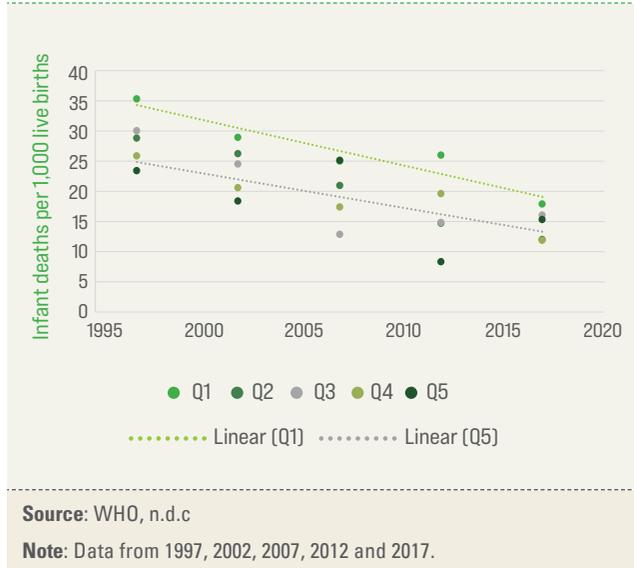
Source: World Bank, n.d.c.

Figure 51. When people spend more from their own pockets, maternal deaths rise



Source: World Bank, n.d.c.

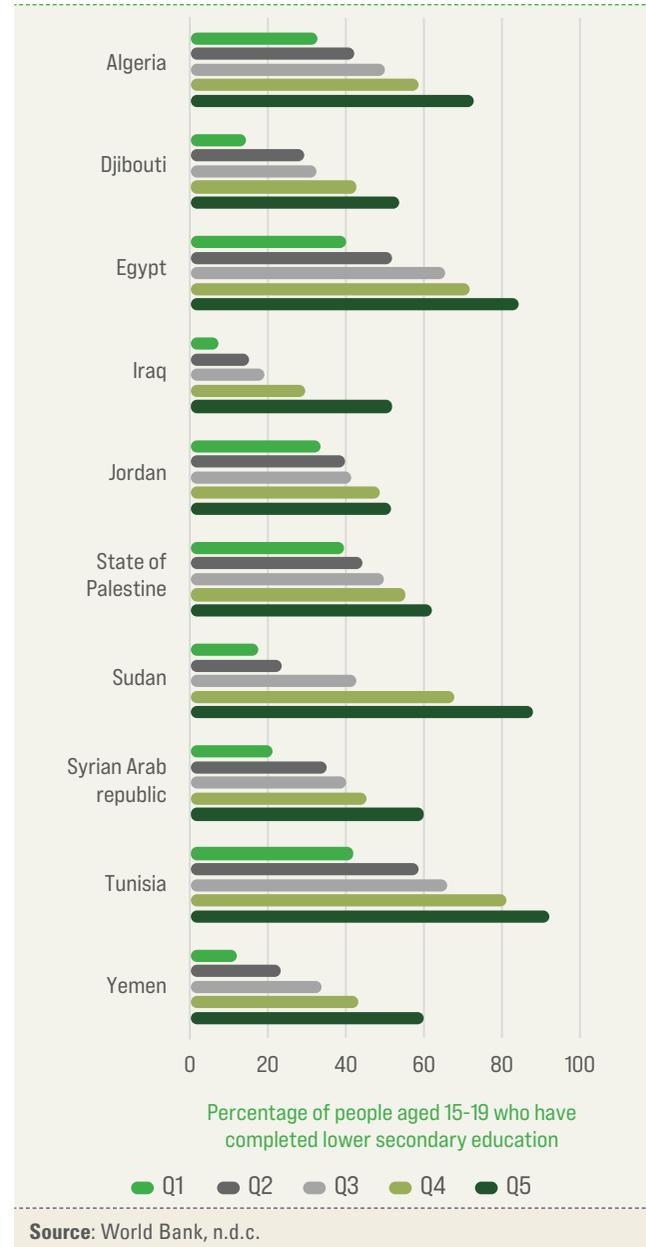
Figure 52. In Jordan, higher infant mortality rates in poorer communities reflect gaps in essential health care



While health financing structures determine outcomes at a national level, they also affect different groups unevenly. Disaggregating data by income quintile, sex or geographic location reveals disparate outcomes. In Jordan, poorer populations suffer more from infant mortality than their richer counterparts. While recent years have seen declining inequalities among wealth quintiles, infant mortality is highly sensitive to life-saving service provision so remaining gaps indicate that poorer groups still face greater barriers to essential health care. These obstacles might not all be financial; geographic, administrative or psychosocial issues may also be in play. Health financing that is adequate and well targeted, however, generally mitigates at least some of these disparities (figure 52).

Similar issues are at work in education, where gains are hindered by inequity in financing. Over the past decade, expected years of schooling in the Arab region increased by 0.458 years and harmonized test scores improved by 0.443.¹²⁵ These advances have not been universal, however. Without sufficient public expenditures to correct disparities resulting from income, students in the wealthiest quintile often score close to advanced international benchmarks in literacy and numeracy.¹²⁶ The poorest students have yet to achieve even the lowest international standards.

Figure 53. Poorer people in low-income countries and those with fragile and conflict-affected situations have the lowest secondary school completion rates (Percentage)



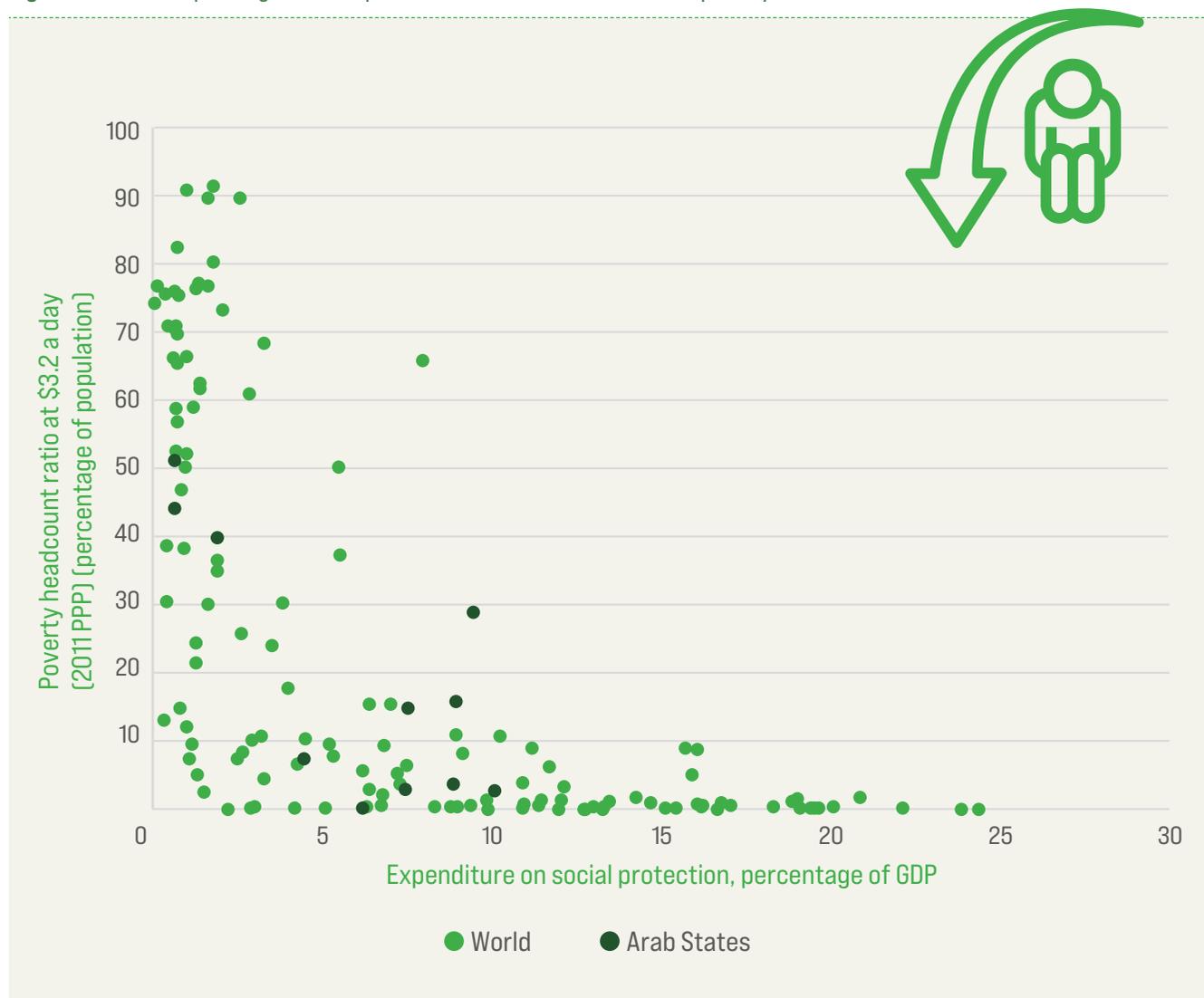
Critically, inequality in lower secondary completion rates becomes more pronounced in low-income States with constrained fiscal space. Some of the poorest educational outcomes are in countries with fragile and conflict-affected situations (figure 53). In 2017, 3.5 million children were out of school in the Sudan, the Syrian Arab Republic and Yemen,¹²⁷ where conflicts reduced social spending, suppressed economic growth and diminished Government capabilities to collect taxes.

Social protection outcomes, represented by the poverty headcount rate, are also associated with social spending. Where public spending on social protection as a proportion of GDP is higher, poverty tends to be lower, at poverty headcount rates of \$3.20 per day (figure 54). This association would likely be even stronger when considering the share of spending that benefits the poorest in society. In Egypt, for example, social protection spending is high, but since benefits flow disproportionately to the rich, the impacts are muted in terms of achieving lower poverty rates (figure 55).



The COVID-19 pandemic fiscal stimulus packages changed social spending in the Arab world.

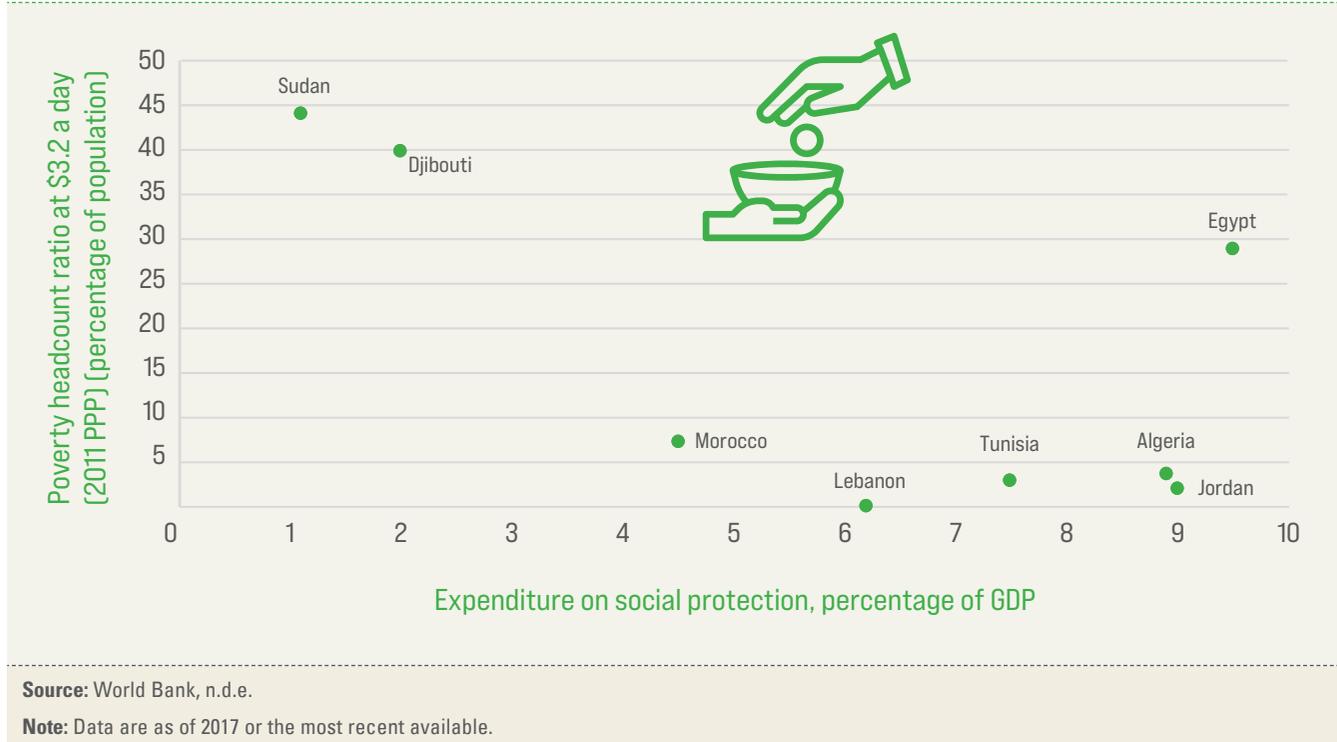
Figure 54. Greater spending on social protection is associated with lower poverty headcount rates



Source: ILO, 2021; World Bank, n.d.e.

Note: Data are as of 2017 or the most recent available.

Figure 55. Spending on social protection as a proportion of GDP compared to the poverty headcount rate in Arab countries with available data (Percentage)



D. Rethink and reform for improving equity, lessening inequality

Tackling inequity inherently requires new political choices. Across the Arab region, equity has not historically been at the forefront of decision-making, which explains regressive policy choices reflected in disparities in access to essential social services. Inequities in sourcing, allocating and spending public funds compound shortfalls that sustain deeply rooted development deficits for the most vulnerable populations.

The economic shocks triggered by COVID-19 have laid bare how these are disproportionately born by more vulnerable households, and that existing social protection, health and education systems are not necessarily equipped to mitigate fallout for those in most need. A torn safety net meant that 16 million additional people in

the region were expected to fall into monetary poverty in 2021 due to the pandemic; half would be children.¹²⁸ Inequitable financing for social services means they also face the longest road to recovery. Pre-existing trends of privatization in health and education, high out-of-pocket spending and flawed targeting mechanisms are prime concerns. Mounting pressures now come from contracting economic growth and high debt burdens, which could force sharp cuts in public social expenditure. This would be catastrophic in terms of equity, hopes to achieve the SDGs and the realization of human rights.

It is now more important than ever to redress inequities in the allocation and spending of public funds, between and within sectors,

across population groups and in light of development goals. The urgency of the need to strengthen social protection systems and protect the most vulnerable in society is further underlined by the expectation that future economic shocks will be more frequent in the era of climate change, with projections for the most of Arab region showing higher increase in temperatures than the global average.¹²⁹

Better understanding of the value of fiscal equity should prompt a rethink leading to reforms that put equity and the universal

realization of rights at the forefront of policy design. Fiscal equity reinforces other core principles such as budgetary adequacy, efficiency and effectiveness. It implies prioritizing adequate allocations, in absolute and proportionate terms, to social sectors and ensuring that budgets are financing services most important to the poorest and most vulnerable populations. Such efforts may be initially controversial but could form the backbone of a new social contract built on justice and human well-being.



Endnotes

- 76 Alvarado, Assouad and Piketty, 2018a. This paper finds that the Middle East and North Africa region is the most unequal region in the world when top income deciles are used to analyse income inequality both within and between countries.
- 77 ESCWA, 2019a.
- 78 Malik, 2016.
- 79 Malik, 2014.
- 80 UNDP, 2011; ESCWA, 2014a.
- 81 ESCWA, 2014d.
- 82 ESCWA, 2014a.
- 83 Drummond, 1989.
- 84 McIntyre, Meheus and Røttingen, 2017; WHO, 2014.
- 85 McIntyre, Meheus and Røttingen, 2017.
- 86 UNESCO, 2015.
- 87 ILO, n.d.b. This calculation applied the World Bank definition of world regions.
- 88 Chetty and others, 2016.
- 89 WHO, n.d.a. The global data set on primary health-care expenditure as a percentage of Government health expenditure includes 65 countries.
- 90 Stenberg and others, 2019.
- 91 Authors' calculations, drawing on country projections in Stenberg and others, 2019.
- 92 Heckman, 2017; 2008.
- 93 Gertler and others, 2014.
- 94 UNESCO, 2021.
- 95 Hatim, 2020; El Attaq, 2021.
- 96 World Bank, n.d.a.
- 97 Popova, 2021.
- 98 Ibid. Calculated by authors at \$1.90 per day.
- 99 Ibid.
- 100 IMF, 2020a.
- 101 ESCWA, 2013a; UNDP, 2021a.
- 102 Jawad, 2015.
- 103 ESCWA, 2013a.
- 104 Ibid.
- 105 Cockburn and others, 2014.
- 106 Talaat, 2018.
- 107 Central Agency for Public Mobilization and Statistics (CAPMAS), 2020.
- 108 Talaat, 2018.
- 109 Verme and Araar (eds.), 2017.
- 110 Megersa, 2020.
- 111 UNDP, 2021a.
- 112 ESCWA, 2013a.
- 113 This draws on health data from household surveys conducted in Algeria (2018), Egypt (2014), Iraq (2018), Jordan (2017), the State of Palestine (2018), the Sudan (2014), Tunisia (2018), and Yemen (2013). Classification of country groups: Low-income countries with fragile and conflict-affected situations include: the Syrian Arab Republic, the Sudan and Yemen. Fragile and conflicted-affected situations include Iraq, the State of Palestine, the Sudan, the Syrian Arab Republic, and Yemen. Middle-income countries include Algeria, Egypt, Jordan, and Tunisia.
- 114 Hill and others, 2014.
- 115 The composite coverage index is a weighted score reflecting coverage of eight interventions along the continuum of care, as follows: demand for family planning satisfied (modern methods); antenatal care coverage (at least four visits); births attended by skilled health personnel; BCG immunization coverage among 1-year-olds; measles immunization coverage among one-year-olds; DTP3 immunization coverage among 1-year-olds; children aged less than 5 years with diarrhoea receiving oral rehydration therapy and continued feeding; and children aged less than 5 years with pneumonia symptoms taken to a health facility.
- 116 The OECD glossary of statistical terms defines benefit incidence analysis as computing the distribution of public expenditure across different demographic groups. The procedure involves allocating per unit public subsidies according to individual utilization rates of public services. Such analysis usually relates to public expenditure and is concerned with how effectively Governments target limited resources to meeting the needs of the poor.
- 117 The data in this section fail to account for social assistance reforms in some countries. For example, since the benefit incidence analysis in Egypt in 2008, the country has introduced two major cash grant programmes, Takaful and Karama, which directly target the poorest two quintiles.
- 118 Silva, Levin and Morgandi, 2013.
- 119 As mapped by the COVID-19 Stimulus Tracker (United Nations, n.d.).
- 120 United Nations Issue-based Coalition on Social Protection, 2020.
- 121 Ibid.
- 122 World Bank, n.d.d.
- 123 United Nations, n.d.
- 124 Duran and Menon, 2020.
- 125 World Bank, 2021e.
- 126 UNICEF Middle East and North Africa Office (MENARO), 2015.
- 127 UNICEF MENARO and International Policy Centre for Inclusive Growth (IPC-IG), 2018.
- 128 Abu-Ismaïl, K., 2020.
- 129 ESCWA and others, 2017.



Making money work efficiently



04





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The impact and reach of social expenditure vary across countries. Understanding the degree of efficiency in achieving desired results helps policymakers steer allocations to sectors and population groups that are most in need and where returns will be greatest.

Compared to countries at similar income levels, Arab countries lag on socioeconomic outcomes as well as on social expenditure. The region's average efficiency in social expenditure is below global benchmarks; the same applies to averages for high- and middle-income countries. By achieving better efficiency, Arab countries could improve social development outcomes without more public expenditure. Where outcomes are already adequate, countries could achieve the same results at lower spending levels, generating substantial savings.

This chapter examines the efficiency of public social expenditure in driving progress towards development objectives within the region and compared to global benchmarks. It uses SEM data to relate social expenditures to achievements under selected SDG indicators, and develops efficiency scores for Government expenditures on health, education, social protection, housing, and environmental protection.¹³⁰ A decomposition exercise highlights specific inefficiencies. Case studies from Jordan and Tunisia demonstrate how to use efficiency scores to perform policy simulations and evaluate potential changes in expenditure or efficiency.

An efficiency analysis of 127 countries globally included 15 from the Arab region, based on data availability for a set of input and output variables (table 3).¹³¹ Statistical analysis constructed a "frontier" of the most efficient countries, which have high outputs relative to expenditure inputs. Countries at or close to the frontier have high efficiency; countries far from the frontier are relatively inefficient.



Table 3. Variables for assessing the efficiency of social expenditures

	Input variable	Output variable (performance measure)
Social expenditure	Total social expenditure	Inequality-adjusted Human Development Index
Education	Overall education expenditure	Expected years of schooling
	Primary and secondary education	Pupil-teacher ratio, primary
	Tertiary education	Pupil-teacher ratio, tertiary
	Research and use of technology in advancing education	Harmonized test scores
Health	Overall health expenditure	Life expectancy at birth, total years
	Outpatient services	Mortality from cardiovascular diseases, cancer, diabetes or chronic respiratory diseases between ages 30-70 (percentage)
	Hospital services	Infant mortality rate, infant deaths per 1,000 live births
	Public health services	Prevalence of anaemia among pregnant women (percentage)
Housing and community amenities	Overall housing and community amenities expenditure	Population living in slums (percentage of urban population)
Social protection	Overall social protection expenditure	Prevalence of undernourishment (percentage population)
	Older persons	Proportion of population above statutory retirement age covered by benefit
	Sickness and disability	Proportion of population with severe disability covered by benefits
	Families and children	Prevalence of anaemia among women of reproductive age (percentage of women aged 15-49)
Environmental protection	Overall environmental protection expenditure	Environmental Performance Index

Source: Gaska and others, 2021.

Note: The choice of indicator and its link to an output or outcome are driven partly by conceptual analysis and partly by data coverage. For example, the performance measure of education expenditures relating to the quality of schooling is unfortunately not available or not adequate for such assessments. Therefore, the teacher-pupil ratio was taken as a proxy to indicate that higher public expenditure on education would improve the teacher-pupil ratio, which improves the quality of education in general. Similarly, indicators such as poverty rate, poverty gap and coverage of social protection benefits for children are critical to assess efficiency but lack adequate data. These are discussed in box 5 as a robustness check. Efficiency scores for components are not additive. For example, a country's overall health efficiency score is not necessarily an average of its scores in outpatient services, hospital services, and public health services. This is because each input variable is linked to its own performance measure.

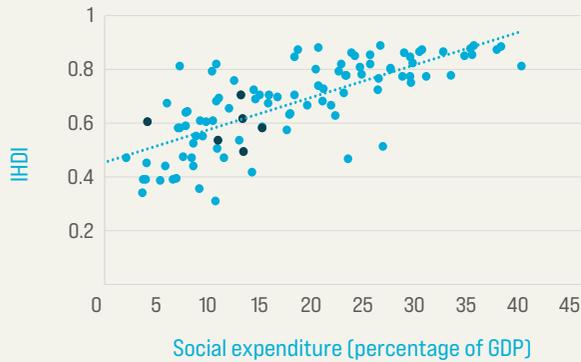
A. How far does expenditure go in achieving social aims?

In broad terms, public social expenditure has a strong positive correlation with the Inequality-adjusted Human Development Index (IHDI) (figures 56(a)-56(f)), which captures advances in education, health and income as well as how evenly achievements are distributed. In the Arab region, human development advances have slowed markedly since the 1990s, partly because incremental progress is harder but also largely because the budget share going to health and education has remained almost stagnant or declined.

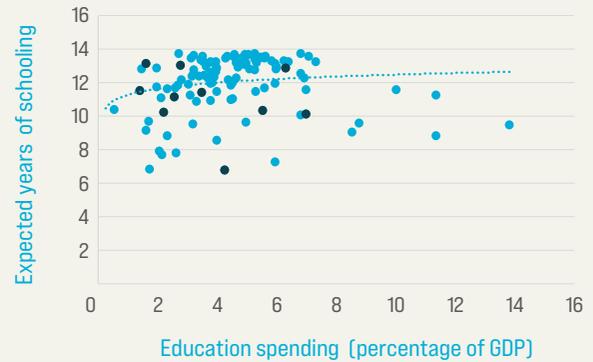
The correlation of social expenditure with education outcomes globally is positive. On average, countries with higher public expenditure on education have higher educational achievements. In the sample of Arab countries used in this report, however, correlations between public education expenditure and expected years of schooling are somewhat ambiguous. There is a positive association between achievements and expenditure in low-income countries. But some middle- and high-income countries have achieved high education outcomes despite stagnating public expenditures.

Figure 56. Several performance indicators reflect the role of public social expenditure

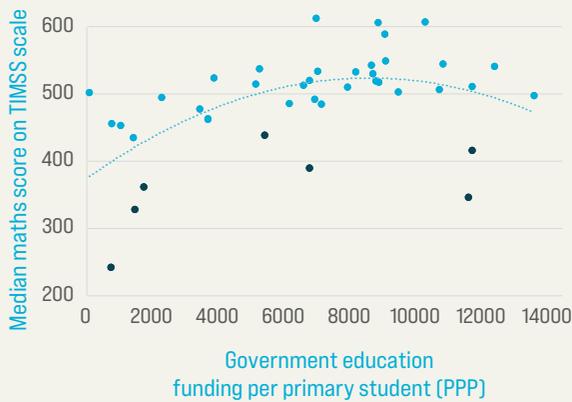
(a) Social expenditure compared to the Inequality-adjusted Human Development Index



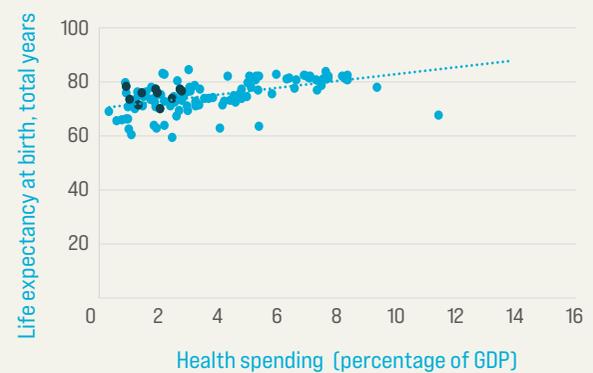
(b) Education spending compared to expected years of schooling



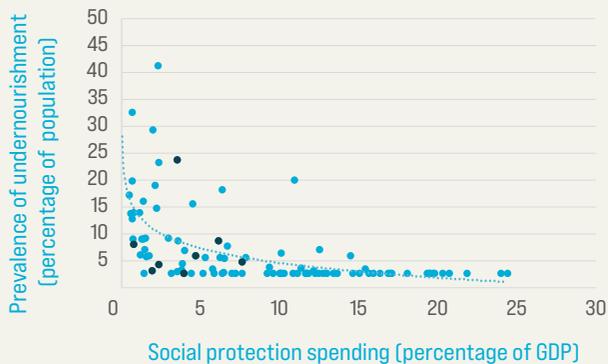
(c) Education spending and quality of education



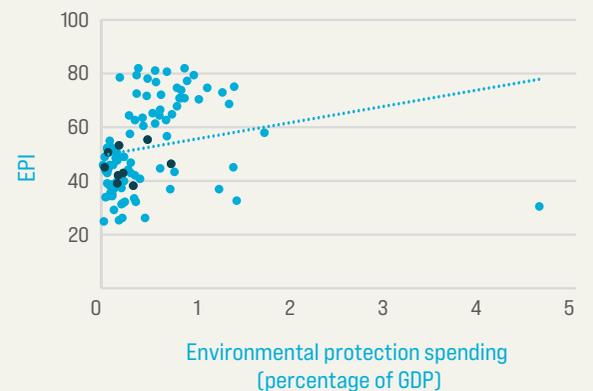
(d) Health spending compared to life expectancy at birth, total years



(e) Social protection spending compared to the prevalence of undernourishment, percentage of population



(f) Environmental protection spending compared to the Environmental Performance Index



● World ● Arab States

Source: Gaska and others, 2021; Patel and Sandefur, 2020.

The results may not be a surprise. Cross-country data on private finance are lacking but a look at the share of enrolment in private institutions gives an approximation. In several countries in the region, the share of students enrolled in private educational institutions is noticeably high. For instance, enrolment in private schools in Lebanon, Qatar and the United Arab Emirates, particularly at the primary level, surpasses 50 per cent, compared to the world average of about 19 per cent.¹³² Such tendencies have produced substantial differences in the effects of public social expenditure on education.¹³³

A positive correlation between life expectancy and public health spending operates in Arab countries and worldwide. On average, countries with higher public health expenditure have higher life expectancy. The positive correlation in Arab countries is less pronounced, however. One reason may be an unusually large share of out-of-pocket expenditure in total health expenditure; private households carry a high financial burden. An average of 27 per cent of total health expenditure in the Arab region is through out-of-pocket payments, against the world average of 18 per cent.¹³⁴ Private expenditure helps explain advancement in health outcomes despite low public expenditure in health. Within the region, the share of out-of-pocket payments is negatively associated with national income, where some of the poorest countries have the highest rates of these payments.

Social protection expenditure shows close correlation with declining undernourishment. A weaker correlation is evident between the Environmental Performance Index, a combined measure of environmental indicators, and expenditure on environmental protection.

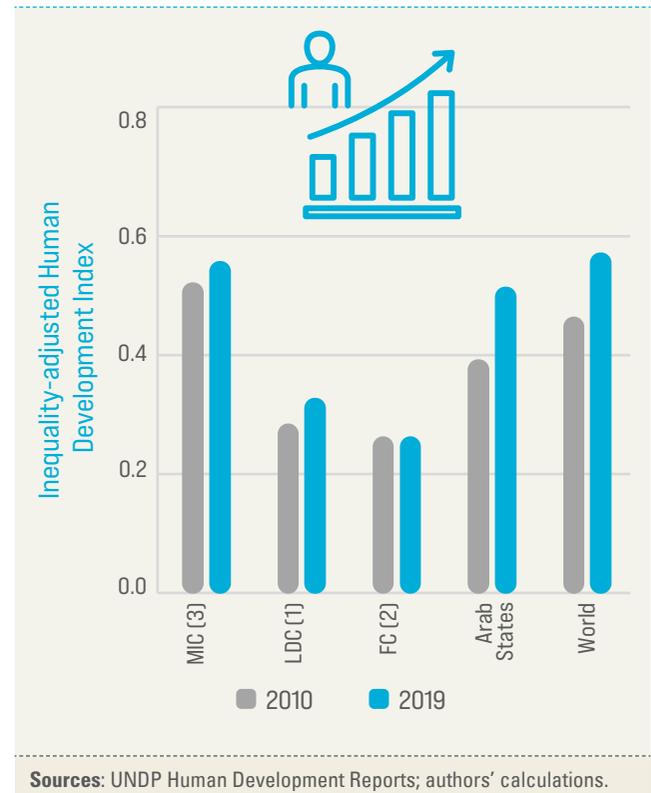
1. Falling behind on human development

While Arab countries have achieved substantial improvements on several key indicators of progress over the last decade, the region falls behind world averages on most measures of

human development. On the IHDI, the region's score was significantly below the world averages in both 2010 and 2019, although the comparison is not necessarily representative as none of the six Arab high-income countries received a score in 2010 and only Oman did in 2019. Because GDP per capita is a major component of the index, Arab high-income countries would likely achieve high scores and raise the regional average.

The middle-income and least developed countries achieved gains from 2010 to 2019, with Jordan, Mauritania and Tunisia making the greatest strides. Yemen fell on the index as the lone case of a fragile and conflict-affected situation, based on available data. To ensure reliable comparisons and avoid changing the country composition, figure 57 only includes middle-income countries, least developed countries and countries with fragile and conflict-affected situations with scores on the index for both 2010 and 2019. Values for the Arab States and the world are published averages.

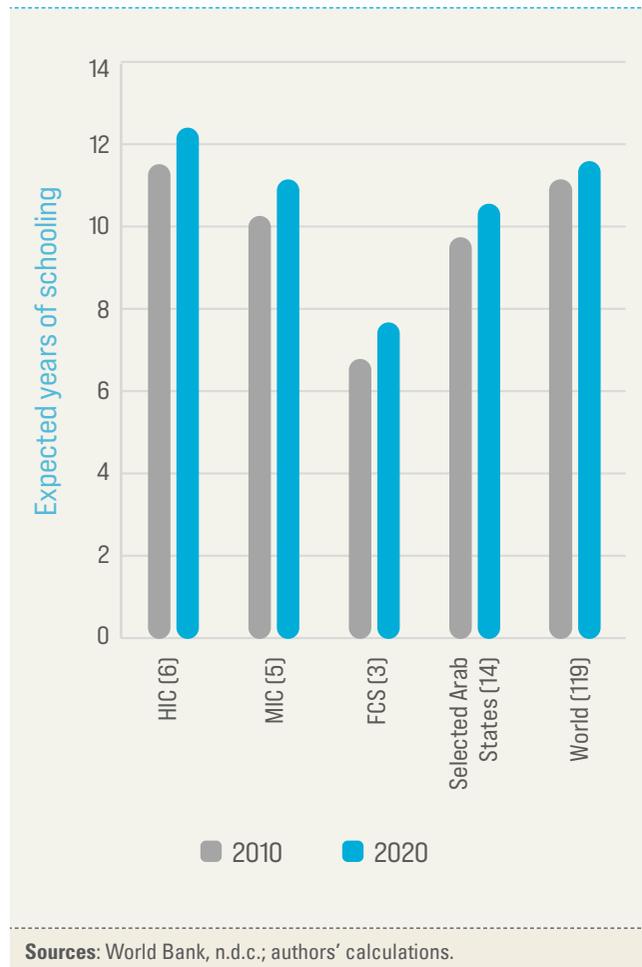
Figure 57. A mixed picture of gains and slow progress is evident from the Inequality-adjusted Human Development Index



2. More schooling but lower performance

In education, the Arab States have generally increased expected years of schooling and reduced pupil-teacher ratios but failed in better performance on international standardized exams. The regional average for expected years of schooling was 10.7 in 2020 for countries with available data, lower than the global average of 11.8 (figure 58). Arab States are “catching up” by improving at a faster rate, however. Egypt, Iraq, Saudi Arabia, the State of Palestine, and the United Arab Emirates all improved by more than one year of schooling over the last decade. Jordan, Kuwait and Qatar saw declines. While the Comoros, Lebanon and the Sudan did not have data for 2010, expected years of schooling fell from 2016 to 2020.

Figure 58. Arab States are catching up on expected years of schooling



Low pupil-to-teacher ratios indicate better outcomes as students receive more individualized instruction. Around 2010 and 2016, high-income countries in the region recorded the fewest students per teacher, but they did not demonstrate improvement at either the primary (figure 59) or tertiary level (figure 60). For example, the primary pupil-to-teacher ratio in the United Arab Emirates increased significantly, from 16 in 2010 to 25 in 2016. Middle-income countries improved their primary pupil-to-teacher ratio but not the tertiary pupil-to-teacher ratio during the same period. The latter was solely due to Morocco’s ratio increasing from 21 to 29 and was not necessarily indicative of a broader trend. The four least developed countries and those with fragile and conflict-affected situations with available data, namely, Lebanon, Mauritania, the State of Palestine, and Yemen, saw improvement on both ratios.

Figure 59. Primary pupil-teacher ratio

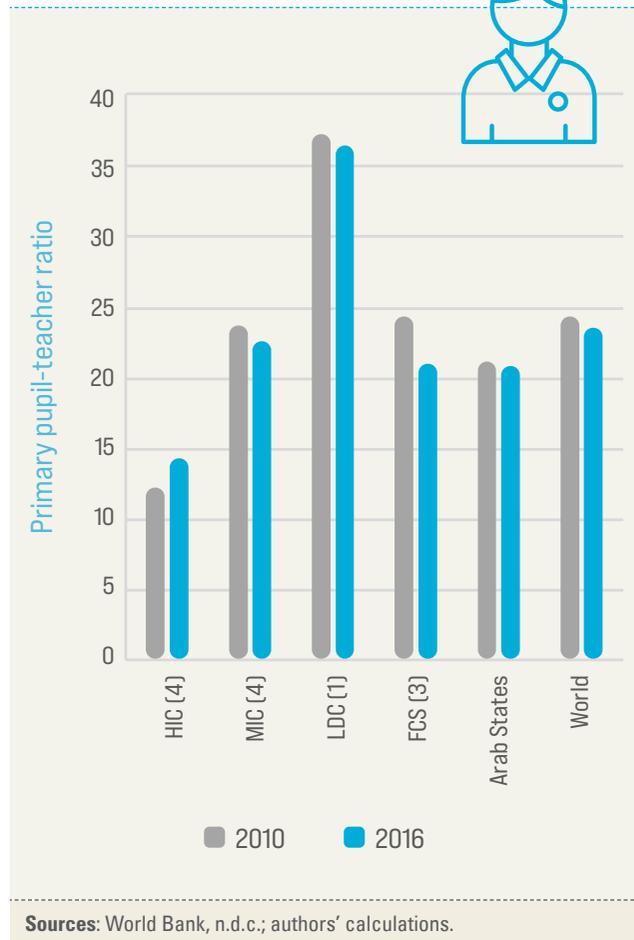
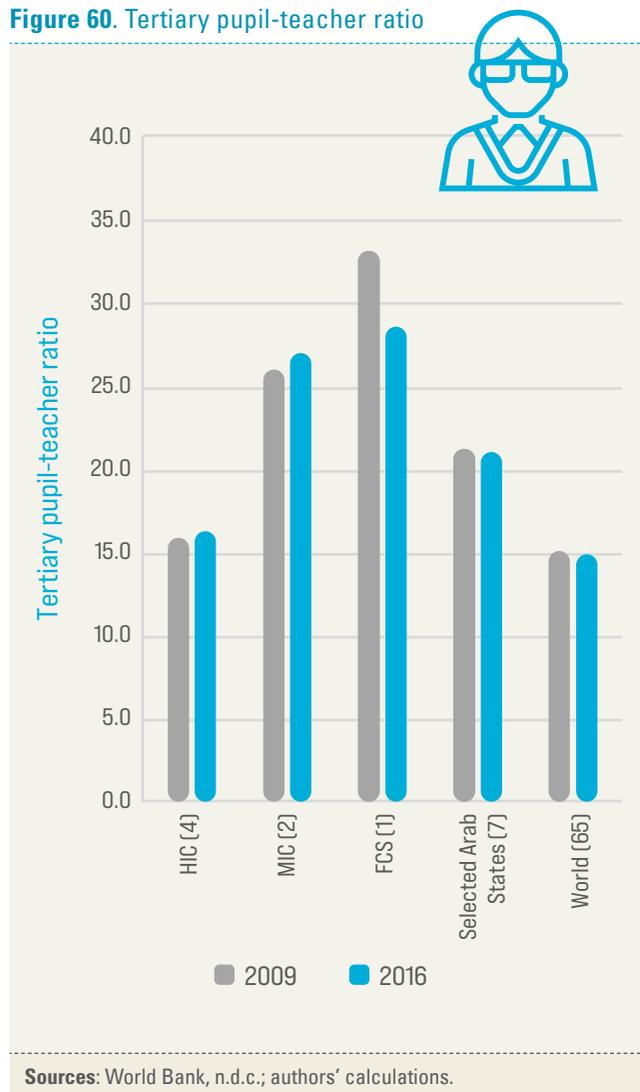
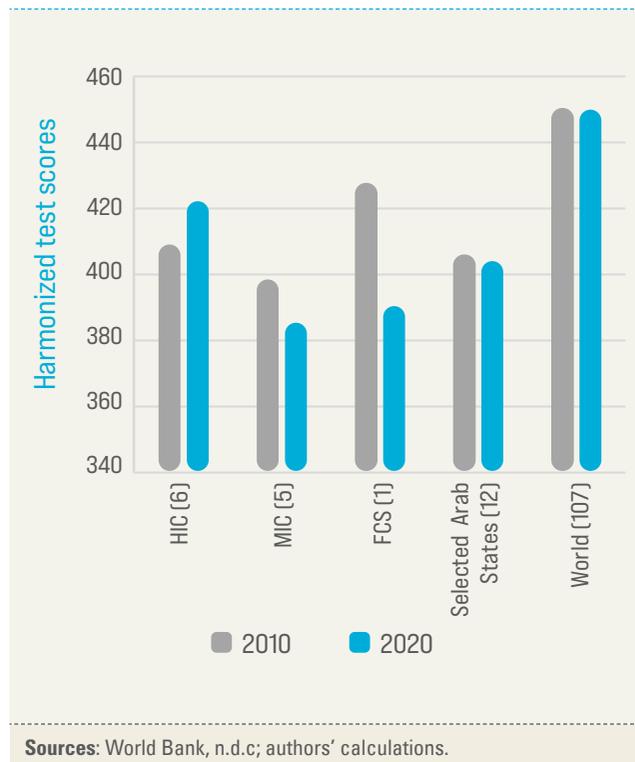


Figure 60. Tertiary pupil-teacher ratio

Despite progress on some education-related indicators, Arab countries failed to achieve better harmonized test scores (figure 61). Seven Arab countries saw an increase from 2010 to 2020 but six saw a decrease. Algeria, Egypt and Tunisia in 2020 all saw declines as reflected in the substantial drop for middle-income countries. Bahrain was the only Arab country to exceed the world average in 2020 but since this indicator covers only 107 countries and omits many least developed countries, it is not a representative average.

The harmonized test score indicator was computed from scores on various international student achievement tests that were converted to a scale ranging from 325 to 650.

Figure 61. The region does not fare well on harmonized test scores

3. People are living longer but the disease burden remains high

Health outcomes have improved across the region in the last decade. From 2010 to 2019, the Arab States raised average life expectancy from 70.3 to 71.8 years. Globally, on average, life expectancy increased from 70.6 years to 72.6 years (figure 62). High-income Arab countries tend to have the highest life expectancies, led by Qatar, the region's only country with life expectancy greater than 80 years. On the other end are the least developed countries with an average life expectancy of 63.5 years. Of 22 Arab States, only the Syrian Arab Republic experienced a decline in life expectancy from 2010 to 2018. The greatest improvements were in the least developed countries, such as Djibouti, where life expectancy rose by 6.5 years, and Somalia, which gained 3.1 years. Morocco was the sole middle-income country to achieve a surge in life expectancy greater than two years.

Figure 62. People in almost all countries are living longer



Health outcomes improved region-wide for infants and children. All subregions reduced their infant mortality rate and boosted the probability of survival to age 5. Arab States achieved better outcomes than world averages for both these indicators (figure 63). Substantial differences persist across subregions, however, with the least developed countries achieving far worse outcomes. Their infant mortality rate fell from 62 deaths per 1,000 live births in 2010 to 51 in 2018. High-income countries performed best with 7 deaths per 1,000 live births.

The maternal mortality rate exhibited a similar pattern, where maternal deaths in the least developed countries vastly exceeded those in other subregions (figure 64). They recorded 507 deaths per 100,000 live births, roughly 2.5 times the number of the next closest group, fragile and conflict-affected situations. When aggregated, all four subregions recorded improvements in the indicator but with setbacks in a few countries. The maternal mortality rate increased from 70 to 79 in Iraq, from 23 to 29 in Lebanon, and from 53 to 72 in Libya.

Figure 63. Children have a better chance at survival, infant mortality rate per 1,000 live births



The region's mortality rate from cardiovascular disease, cancer, diabetes, and chronic respiratory disease decreased substantially over the last decade but remains elevated compared to the rest of the world (figure 65). Of 22 countries in the region, 19 achieved improvements; exceptions were Libya, the Syrian Arab Republic and Yemen, all with fragile and conflict-affected situations. The high-income countries have seen the greatest reduction in mortality since 2010, with a decline of 5 percentage points.

The region's mortality rate decreased over the last decade



from cardiovascular disease, cancer, diabetes, and chronic respiratory disease.

exceptions were countries with fragile and conflict-affected situations

Figure 64. Maternal mortality rates remain high in the least developed countries, maternal deaths per 100,000 live births



Figure 65. Mortality rates from non-communicable diseases have declined but remain above the global average, between the ages of 30 and 70 (Percentage)



4. Progress on social protection is mixed

Arab States were on par with the rest of the world in the prevalence of undernourishment in both 2010 and 2018 (figure 66). All States with sufficient data except Iraq and Mauritania saw declines over the past decade. Undernourishment rates are now below 5 per cent for the high- and middle-income countries. Improvement for fragile and conflict-affected situations largely stemmed from the Sudan nearly halving its undernourishment rate from 22 per cent to 12 per cent. Concerningly, undernourishment increased from 7 per cent to 11 per cent in Mauritania, the lone least developed country in the sample. Iraq has the highest prevalence of undernourishment in the region at 24 per cent, according to the latest data from 2018.

Other indicators for social protection lacked sufficient data to analyse progress over time so findings are based on the most recent data and need to be interpreted with these constraints in mind. Disability benefits cover no more than 10 per cent of the population with severe disabilities in each of the Arab States with available data (figure 67). Statutory pension rates for persons of pensionable age are also low (figure 68) at an average of 37 per cent compared to 71 per cent on average globally. The world average is unrepresentative, however, because it includes only 62 countries with available data, and they tend to be more developed countries.

CC

Disability benefits cover no more than 10 per cent of the population with severe disabilities in each of the Arab States with available data.

Figure 66. Declining undernourishment is associated with the reach of social protection (Percentage)

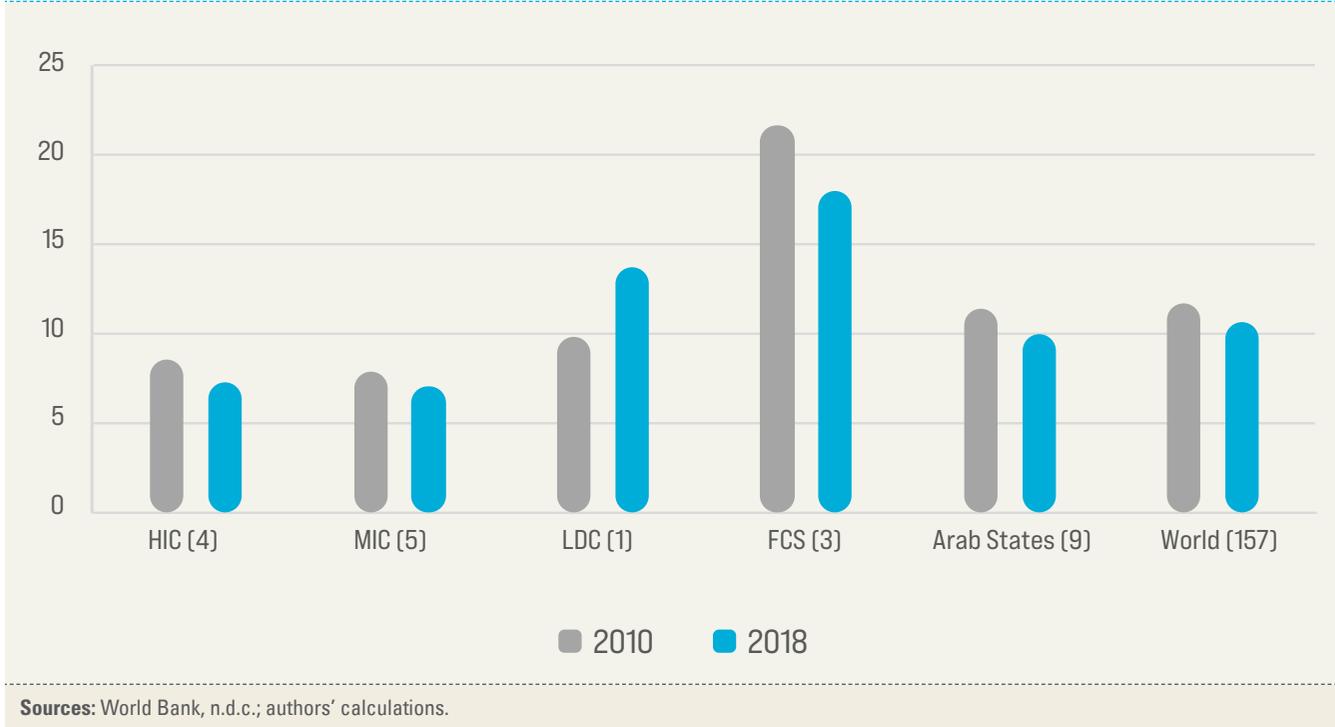


Figure 67. Low benefits coverage for people with severe disabilities (Percentage)

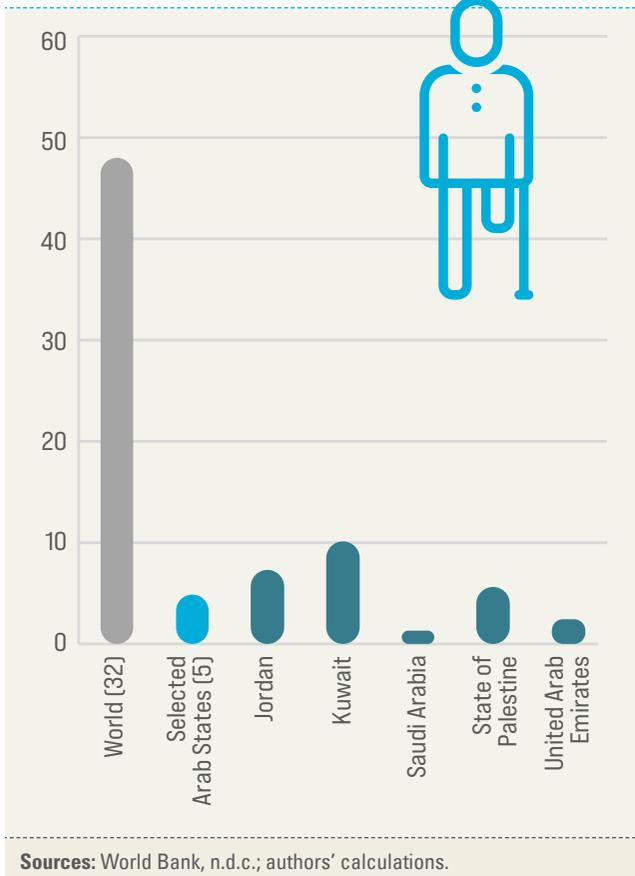
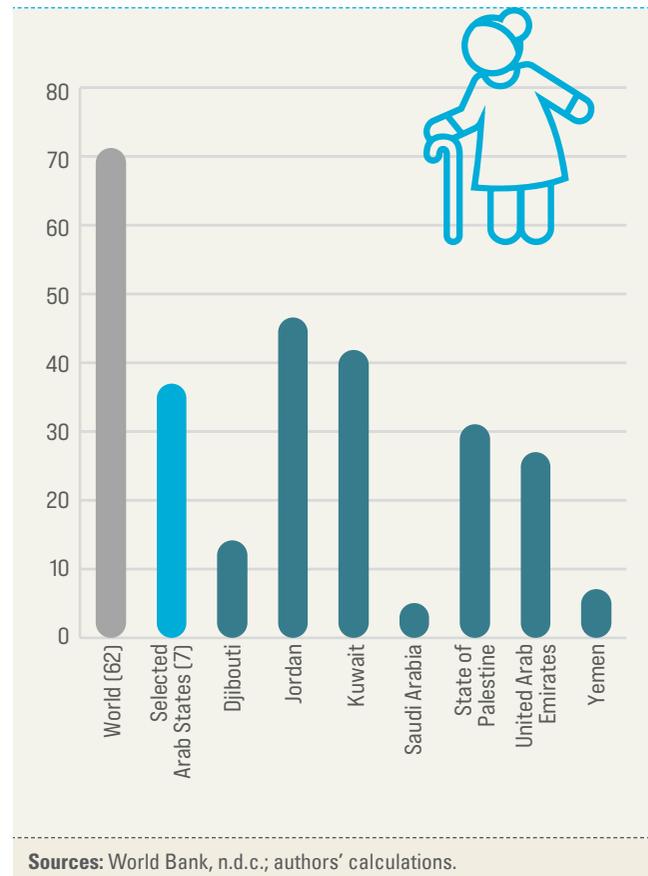


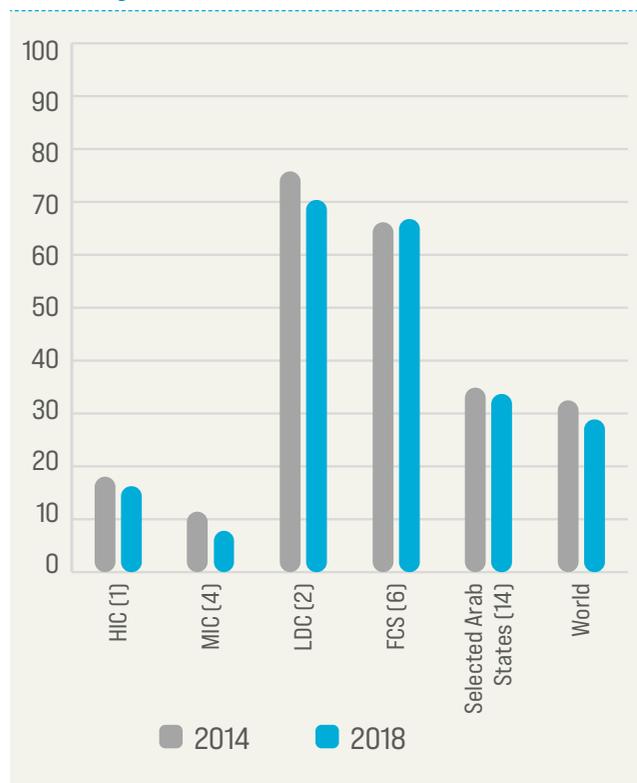
Figure 68. Only small shares of older people receive a pension (Percentage)



5. Fewer people are living in slums

From 2014 to 2018, most Arab States reduced the share of urban populations living in slums, indicating better housing and community amenities (figure 69). Middle-income countries had the lowest shares, at less than 10 per cent in Egypt, Morocco and Tunisia, based on the most recent data. Lebanon, Somalia and Yemen had rates over 50 per cent. The Sudan had the most elevated share of slum-dwellers in the region at 88 per cent, down from 92 per cent in 2014. The Syrian Arab Republic notably saw its rate double from 19 to 38 per cent in just four years.

Figure 69. Better housing and community amenities are associated with reduced urban populations in slums (Percentage)



Sources: World Bank, n.d.c.; authors' calculations.

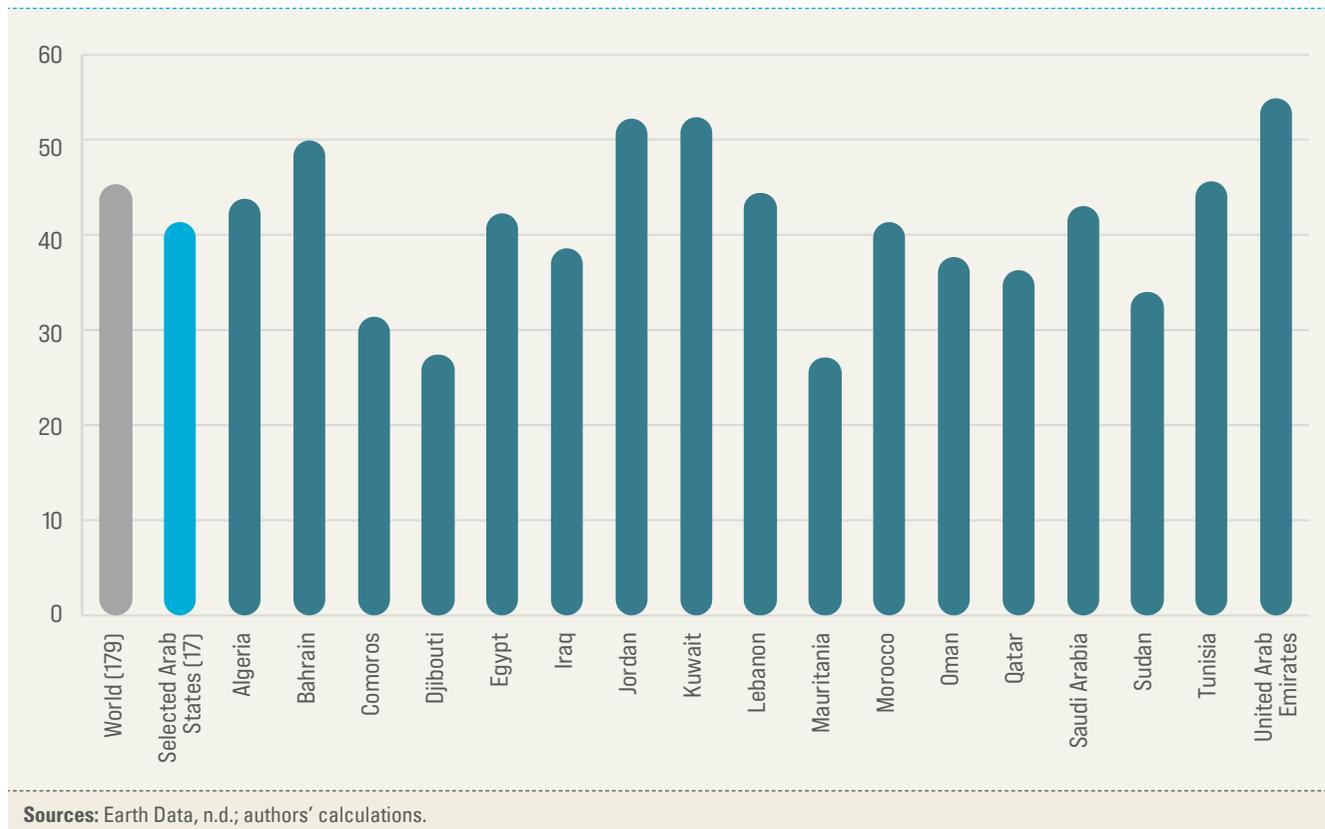
Note: Data were available for 13 Arab States. Calculating aggregations for the region and income groups required information on the size of the urban population. This was only available for eight countries. To show the greatest possible number of countries, we used total population as a proxy for urban population and weighted by that metric. Total population had a correlation of 0.95 with urban population in the countries with both figures available.

6. Performance on environmental protection varies

The Environmental Performance Index is based on 32 indicators covering a variety of environmental issues. Globally, the index ranges from a maximum value of 82.5 for Denmark to a minimum value of 22.6 for Liberia. The average for the Arab region was 42.2, slightly below the world average of 43.6 (figure 70). The best-performing Arab States were mainly high-income countries such as Bahrain, Kuwait and the United Arab Emirates, with scores over 50. High-income countries such as Oman and Qatar, however, received considerably lower scores. Middle-income countries generally performed close to the regional average, except for Jordan, which was one of the highest achievers in the region. The lowest scores were in the least developed countries and those with fragile and conflict-affected situations, including the Comoros, Djibouti, Mauritania, and the Sudan.



The Environmental Performance Index is based on 32 indicators covering a variety of environmental issues. The average for the Arab Region was 42.2, slightly below the world average of 43.6.

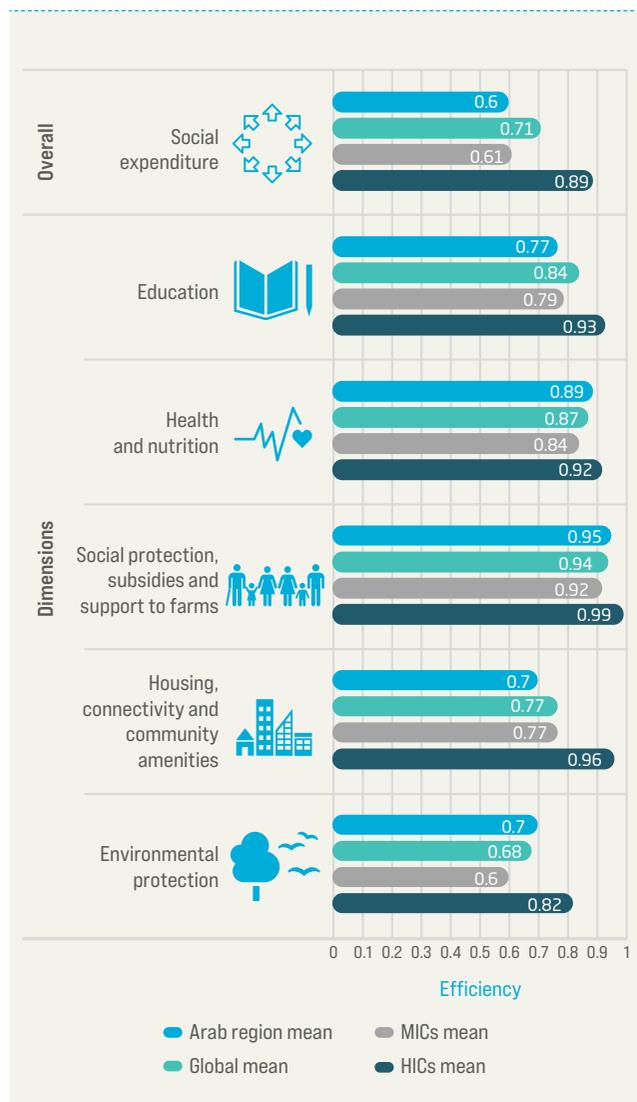
Figure 70. The region is slightly behind the world on the Environmental Performance Index, 2018

B. Social expenditure efficiency: how the Arab region compares to the world

The mixed contributions of public social expenditure to social outcomes in the Arab region underline the need to look at expenditure efficiency. An assessment based on input and output indicators suggests substantial scope for improvement in allocating and using funds in the region. The selection of the estimation method and the choice of indicators are the most relevant for the exercise, given the conceptual linkages and limitations of cross-country data coverage which restricts the estimation of efficiency to selected performance indicators.¹³⁵ As a performance measure of overall social expenditure, the report uses the IHDI as a broad measure of human well-being.¹³⁶ The IHDI measures a country's achievements in education, health and income as well as how evenly those

are distributed in a population. The index value equals the human development index value when there is no inequality but falls below the latter as inequality rises. Well-targeted public social expenditure programmes correct imbalances in society and improve overall achievements in human development, including in education, health and income. The correlates of performance measures are also discussed in later part of the chapter. For the Arab region, the overall social expenditure efficiency (0.61) is below the global average (0.71) and below the average of high-income countries (0.89) between 2016 through 2018 based on the model (figure 71). Major inefficiencies appear in education, housing and environmental expenditures.

Figure 71. Low social expenditure efficiency is driven by inefficiency in spending on education, housing and the environment



Sources: Gaska and others, 2021.

Note: MIC stands for middle-income country; HIC stands for high-income country.

Computing public social expenditure efficiency scores for nine Arab States found that seven are less efficient than the global average; about 15 per cent lower on average. This amounts to a loss of at least \$30 billion or nearly 4 per cent of aggregate GDP of the seven countries (table 4). The efficiency loss varies between nearly 1 per cent of GDP in the Sudan and Lebanon to over 5 per cent in Egypt. Some countries in the region, such as Oman and the State of Palestine, are more efficient overall than the global average.



Public social expenditure efficiency scores for nine Arab States show that seven are less efficient than the global average; about 15 per cent lower on average. This amounts to a loss of nearly 4 per cent of GDP of the seven countries.

Looking at specific sectors, in education expenditure, Arab countries are significantly less efficient than the global average. They achieve fewer expected years of schooling than global peers relative to spending levels. Average overall education expenditure efficiency is 0.77 compared to the global mean of 0.84. Considering components of education expenditure, Arab countries fare better, especially on primary and secondary education spending. Regional efficiency here was 0.94 compared to the global mean of 0.92. Efficiency in tertiary education is lower than the global average (figure 72).

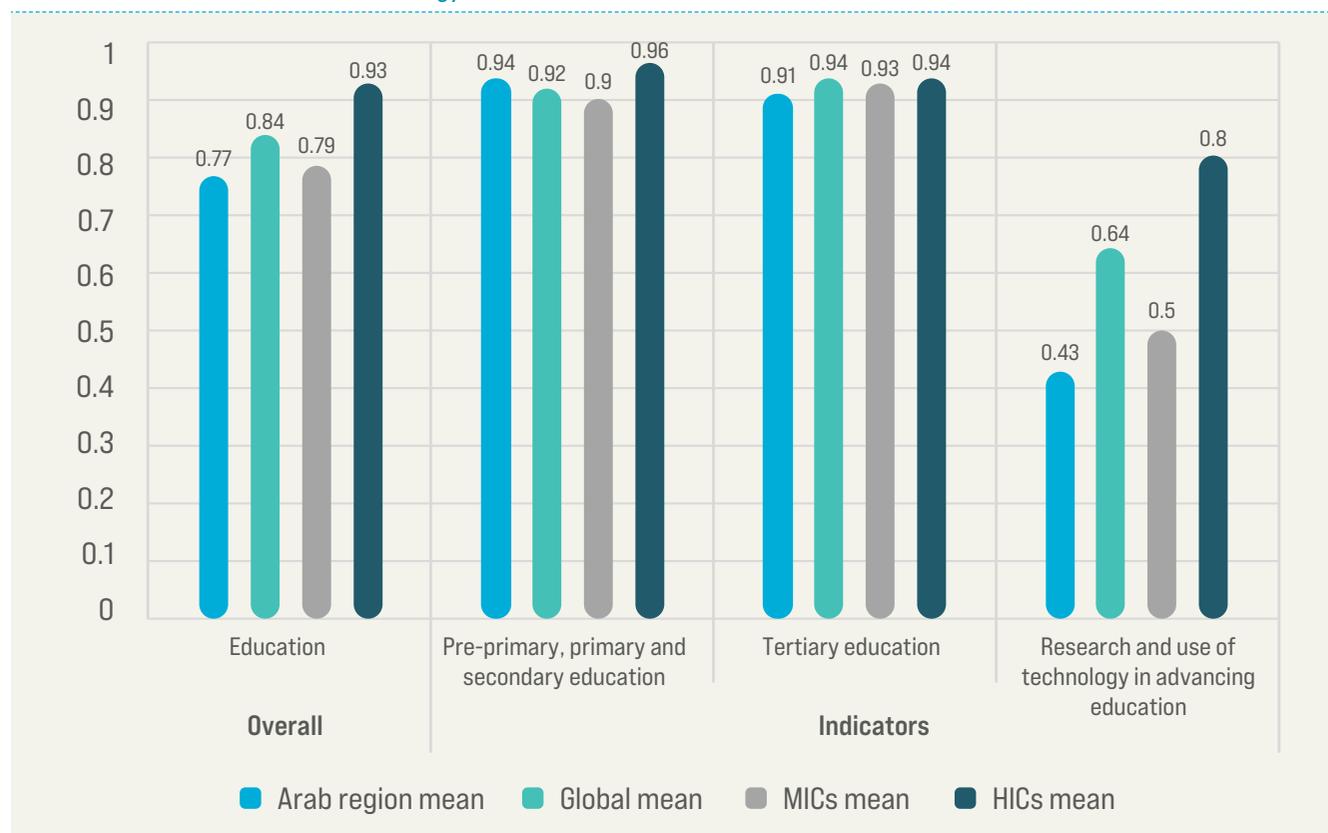
Arab countries have managed to reach relatively good pupil-to-teacher ratios given their level of public education expenditure. Private educational finance influences these outcomes, however, allowing high efficiency scores despite low public expenditure. A particularly weak point is expenditure on research and use of technology in education, where Arab countries are considerably below global, middle-income and high-income country averages.

Table 4. Arab countries lose billions of dollars through inefficient social expenditure

	Efficiency score	Efficiency gap compared to the global average ^a (percentage)	Efficiency loss (billions of dollars)	Efficiency loss (percentage of GDP), 2019
Egypt	0.44	-37.7	-18.92	-5.20
Iraq	0.52	-26.4	-4.77	-2.82
Jordan	0.64	-10.2	-0.60	-1.36
Lebanon	0.62	-12.5	-0.27	-0.97
Morocco	0.41	-42.1	-4.71	-4.10
Sudan	0.46	-35.3	-0.23	-0.67
Tunisia	0.57	-19.2	-1.20	-2.83
Oman	0.78	10.3	0.00	0.00
State of Palestine	0.98	37.8	0.00	0.00
Arab States (aggregate)	0.60	-15.0	-30.70	-3.70

Source: Gaska and others, 2021.

Note: The choice of indicator and its link to an output or outcome are driven partly by conceptual analysis and partly by data coverage. For example, the performance measure of education expenditures relating to the quality of schooling is unfortunately not available or not adequate for such assessments. Therefore, the teacher-pupil ratio was taken as a proxy to indicate that higher public expenditure on education would improve the teacher-pupil ratio, which improves the quality of education in general. Similarly, indicators such as poverty rate, poverty gap and coverage of social protection benefits for children are critical to assess efficiency but lack adequate data. These are discussed in box 5 as a robustness check.

Figure 72. Education expenditure efficiency in the region is dragged down by inefficiencies in tertiary education and education research and use of technology

Source: Gaska and others, 2021.

Note: MIC stands for middle-income country; HIC stands for high-income country. Efficiency scores of components are not additive. See the note in Table 3 of the chapter for explanation.

Arab countries are relatively efficient in turning health expenditures into better health outcomes, represented by overall life expectancy. Health expenditure efficiency in Arab countries is 0.89, higher than the global mean of 0.87 (figure 73). This is mostly due to above-average efficiency in outpatient spending and expenditure on public health (0.86 and 0.96 compared to 0.85 and 0.95, respectively). For inpatient expenditure, efficiency is in line with the global benchmark of 0.96. A limitation of health efficiency scores, however, is that they include only Government health expenditures. Outpatient and public health spending are often financed by out-of-pocket expenditure, which in the region shot up from \$43 per capita in 2000 to \$103 in 2018.

The overall efficiency of social protection expenditure in Arab countries is relatively

good if measured based on the prevalence of undernourishment (figure 74). Arab countries are almost at par with the global mean. For different subcategories of social protection expenditure, however, the situation looks much worse. For expenditure targeted to older persons, the average efficiency score is just 0.54 compared to the global average of 0.89. Despite spending on old-age benefits, the proportion of people above statutory retirement age and covered by benefits is still very low. Even worse is the coverage of disability benefits, which reach a very small proportion of the disabled population. The efficiency of expenditure on family benefits, where the outcome indicator is the prevalence of anaemia among women of reproductive age, is 0.76 compared to a global mean of 0.82.

Figure 73. The region's health expenditure efficiency is higher than the global mean but does not reflect high levels of out-of-pocket spending

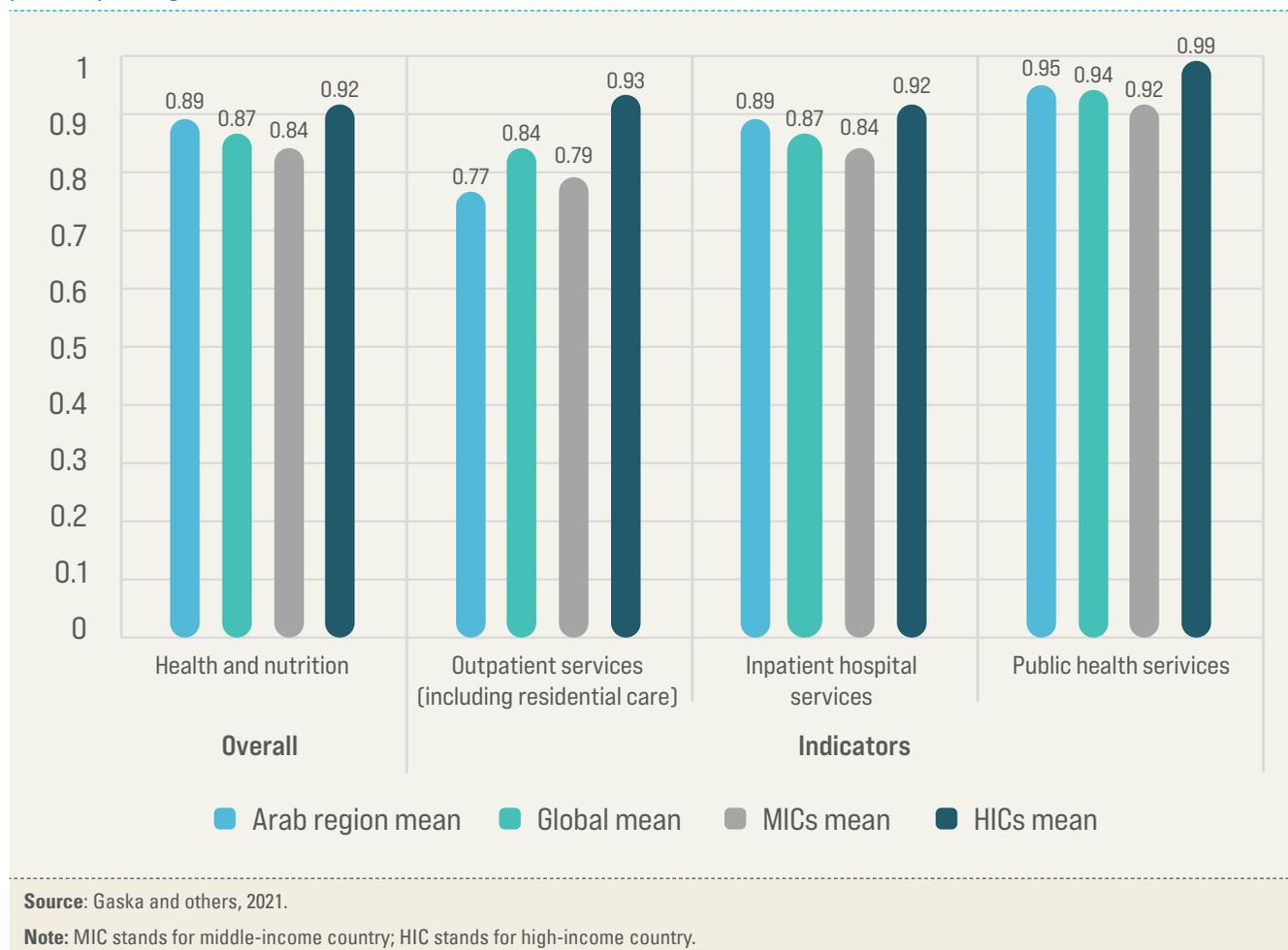
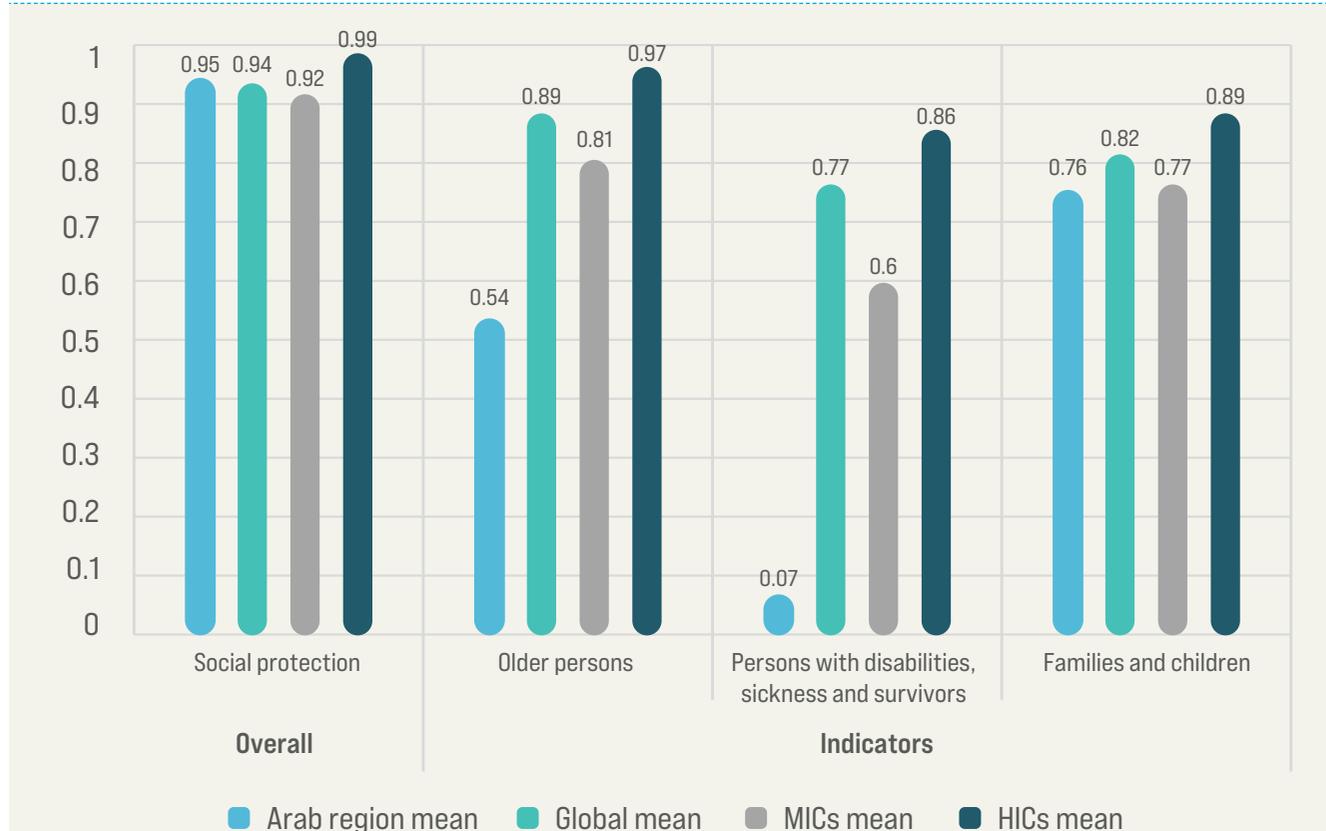


Figure 74. Social protection expenditure efficiency is relatively good overall but lags on several subcategories

Source: Gaska and others, 2021.

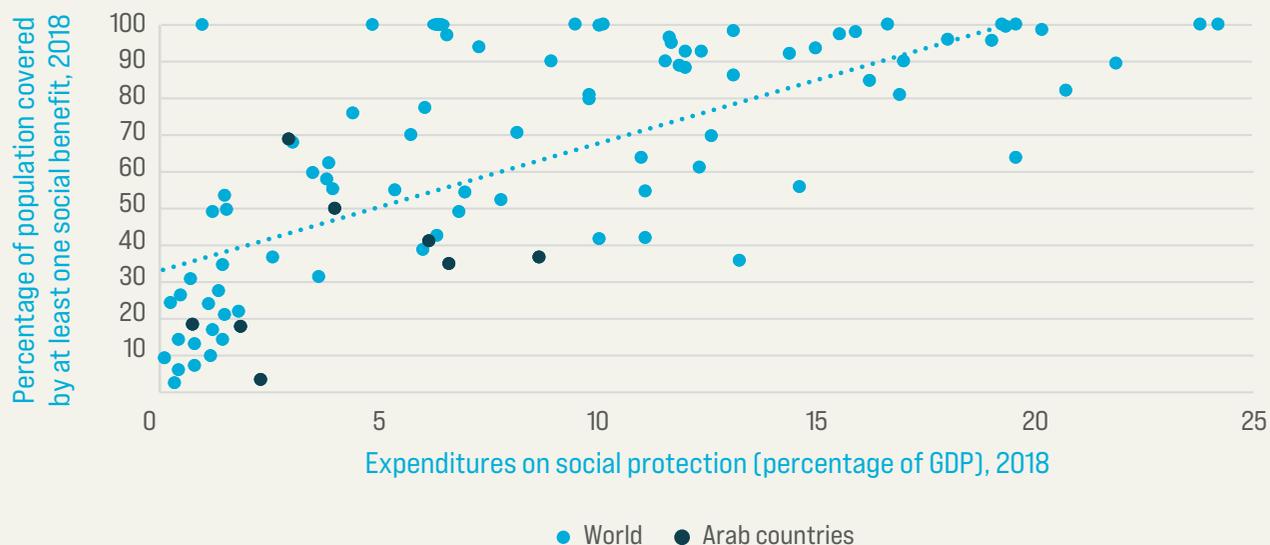
Note: MIC stands for middle-income country; HIC stands for high-income country. Efficiency scores of components are not additive. See the note in Table 3 of the chapter for explanation.

Box 5. Lack of adequate data limits assessment of the efficiency of social protection expenditure in relation to poverty rates

Social protection programmes have direct impacts on reducing poverty. An ideal performance measure of the efficiency of social protection expenditures is therefore the poverty rate. Yet, cross-country and temporal data coverage of poverty measures – income poverty based on international poverty lines or multidimensional poverty rates – are inadequate for efficiency estimations. Given the limitations of these measures in capturing low poverty rates in the Arab States, their use for efficiency analysis becomes questionable. National poverty measures, based on national poverty lines, are non-comparable across countries; hence, they are also not suitable for cross-country efficiency analysis.

The percentage of the population covered by social protection benefits, published by the International Labour Organization, is another indicator for consideration in assessing efficiency although it does not provide information about income poverty or multidimensional poverty. In general, there is a positive correlation between public expenditure on social protection as a share of gross domestic product and the percentage of the population covered by at least one social protection programme (figure A). Some countries, such as Kazakhstan and Singapore, achieve 100 per cent coverage with very little spending, which could be linked to their identification of the targeted population. Since the methodology for identification of the needy population for social protection support varies across countries, using top performers as a benchmark would be questionable. The interpretation of efficiency scores using the social protection coverage indicator becomes difficult.

Figure A. Association between social protection expenditure and social protection coverage rates



Using the prevalence of undernourishment as an outcome indicator of social protection expenditures overcomes these limitations. It is a clear outcome indicator with national coverage. Much evidence suggest that undernourishment is a direct manifestation of poverty. It is also negatively correlated with social protection coverage; countries with higher coverage tend to have lower rates of undernourishment (figure B). While the indicator is not perfect in directly measuring the outcome of social protection expenditure, it can be used to compute efficiency scores for nine countries in the region (figure C). However, outcomes such as undernourishment or poverty have other correlates that may influence outcome over time as well.

Figure B. Association between undernourishment rate and social protection coverage rate

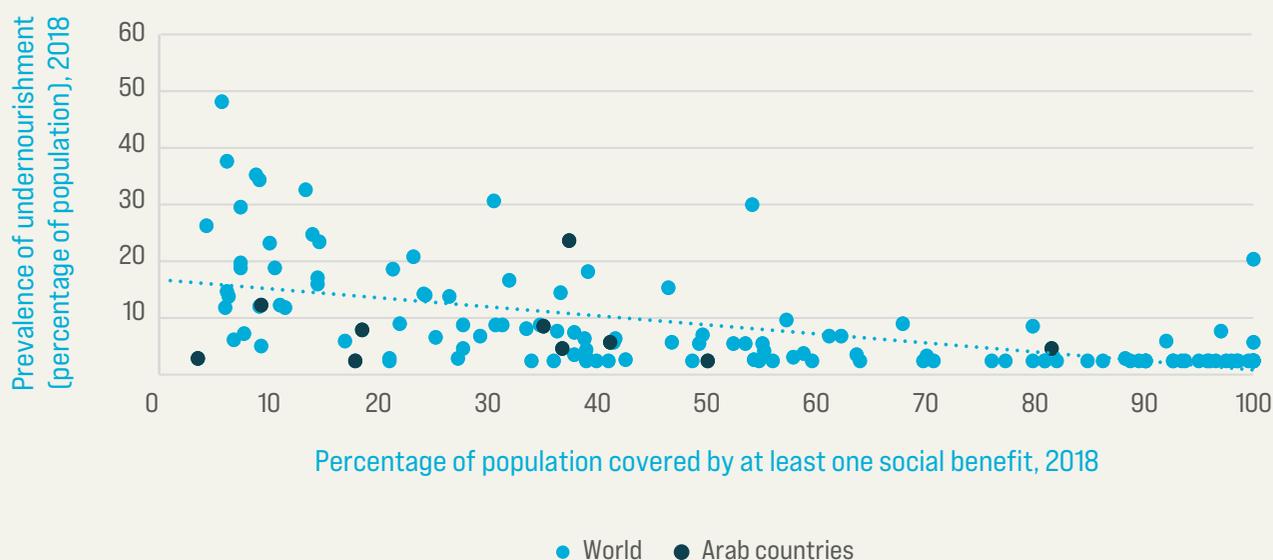
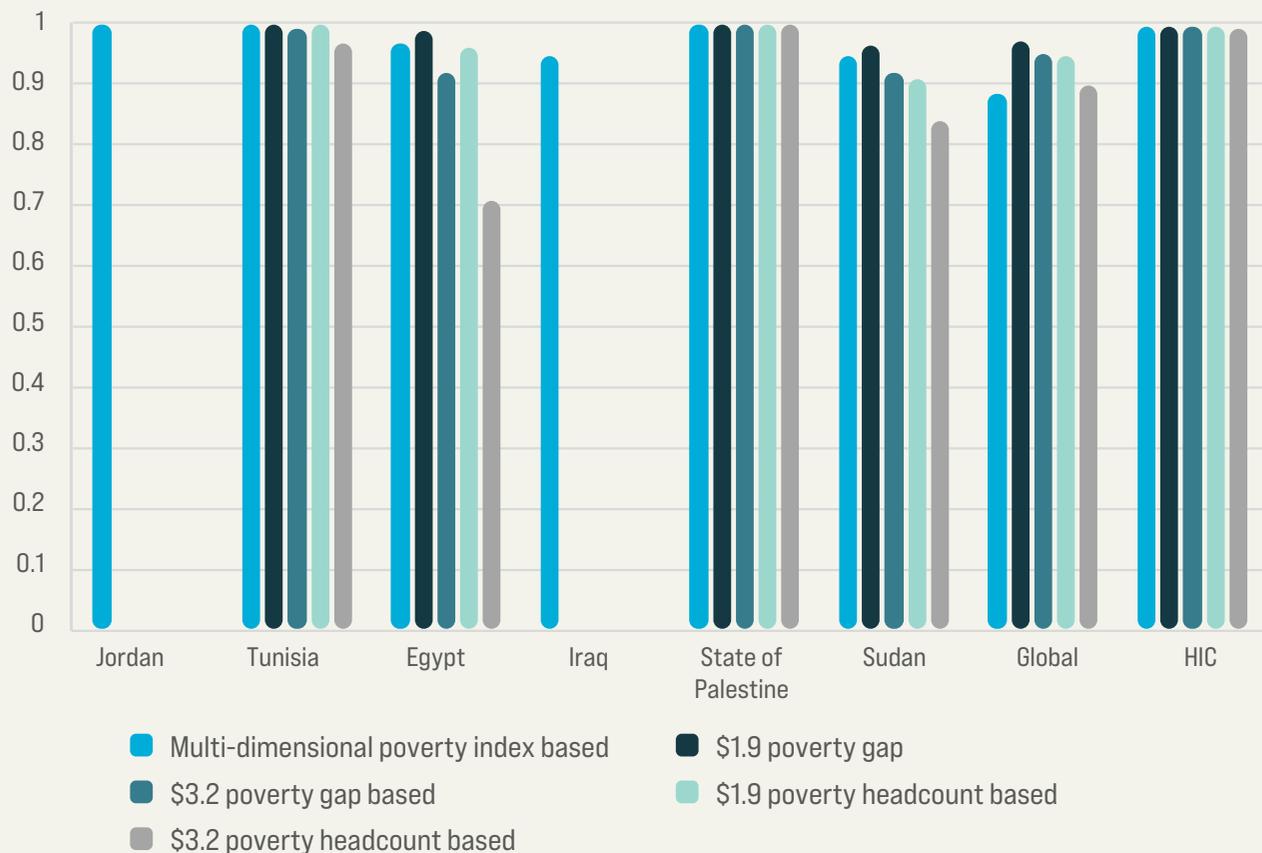
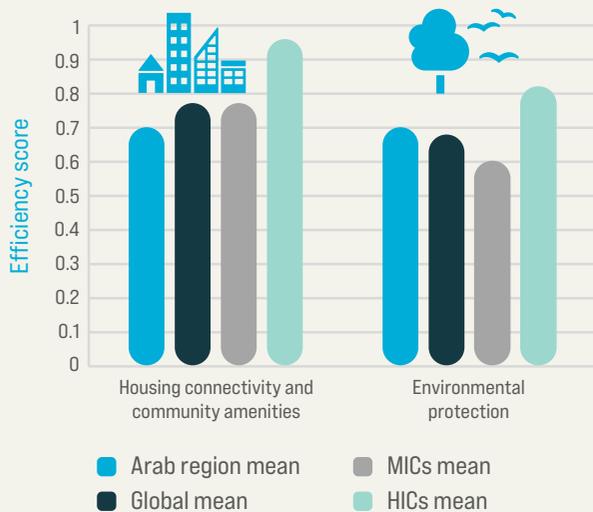


Figure C. Efficiency scores based on different indicators associated with social protection expenditures, as a share of GDP



Sources: Author's calculations, based on data from World Bank, n.d.e.; ESCWA, 2015.

Figure 75. The region does well on environmental protection expenditure efficiency, less so for housing expenditure efficiency



Source: Gaska and others, 2021.

Note: HIC stands for high-income country.

In environmental protection, based on the Environmental Performance Index, the average efficiency of Arab countries is higher than the global average, at 0.70 compared to 0.68, respectively. Efficiency is lower for housing, at 0.70 compared to 0.77, respectively, based on the share of the urban population living in slums (figure 75).



Even States that cannot afford high levels of social expenditure, due to negative fiscal balance, can be efficient.

C. Contributions to efficiency across and within sectors

Overall efficiency in social expenditure builds on efficiency in different dimensions, such as education, health, social protection, housing, and environmental protection. In turn, efficiency in each sector derives from various components. This is illustrated here through decomposing spending on education, health and social protection, where expenditure subcomponents are available.

Across all countries in the sample, on average, the efficiency of expenditures on social protection, education and health makes significant contributions to the overall efficiency of social expenditure. Social protection is slightly ahead, followed by health and education. Housing and environmental protection do not make a statistically significant contribution.

Across the social services, in education expenditure, primary and secondary spending exert the most influence on efficiency. A 1 per cent increase in efficiency in this category would translate into a 0.38 per cent increase in the efficiency of overall education spending. This

is followed by tertiary education and education research and use of technology in advancing education. For health expenditures, improvement in efficiency in one category has only a limited impact on overall efficiency. Inpatient health outlays make the greatest contribution. For social protection, old-age benefits make a significant difference; improvements in other categories do not translate into substantial changes.

A decomposition of efficiency at the country level assessed drivers of changes in efficiency at two points of time, a three-year average around 2013 and a three-year average around 2018, for overall as well as education and health expenditures. In the Arab region, only Egypt, Jordan, Morocco, and Tunisia have enough data to track links between changes in the overall efficiency of social expenditure between 2013 and 2018. The most visible positive impacts come from changes in education expenditure efficiency, such as in Egypt and Morocco.¹³⁷ The influence of other factors is relatively minor. More research is needed to fully understand how efficiency relates to changes in particular spending components.

D. Context makes a difference

Several factors linked to country context can determine the efficiency of social expenditure. As a starting point, globally, the correlation between overall efficiency and total expenditure as a percentage of GDP is positive although not very strong. In figure 76(a), a visible cluster of high-efficiency countries in the upper right corner indicates that almost all countries with social expenditures exceeding about 25 per cent of GDP are relatively efficient. The notion that countries with more fiscal space will likely be more efficient is only partially confirmed by data, however. Fiscal space explains only about 9 per

cent of overall variation across countries. Even States that cannot afford high levels of social expenditure, due to negative fiscal balance, can be efficient (figure 76(b)). The State of Palestine is an example, with an overall efficiency score exceeding 97 per cent even as total public social expenditure stands at 4.2 per cent of GDP.

Compared to fiscal balance or total social expenditure, a Government effectiveness score, based on the World Governance Indicators, better predicts overall efficiency.¹³⁸ The World Governance Indicator on controlling corruption

has a strong positive association with efficiency (figure 76(c)) but is less strong than that of the Governance Effectiveness Indicator (figure 76(d)).

Efficiency is weakly associated with sectoral expenditure (figure 77). The most significant association is for social protection, where sector expenditure explained 22 per cent of differences in efficiency scores. There was no significant relationship between fiscal balance and sectoral efficiency. This suggests that factors other than fiscal variables determine efficiency in education, health, social protection, and environmental protection.



As with overall social expenditure, efficiency at the sectoral level positively correlates with Government effectiveness.

Figure 76. Overall social expenditure efficiency correlates with several fiscal and governance variables

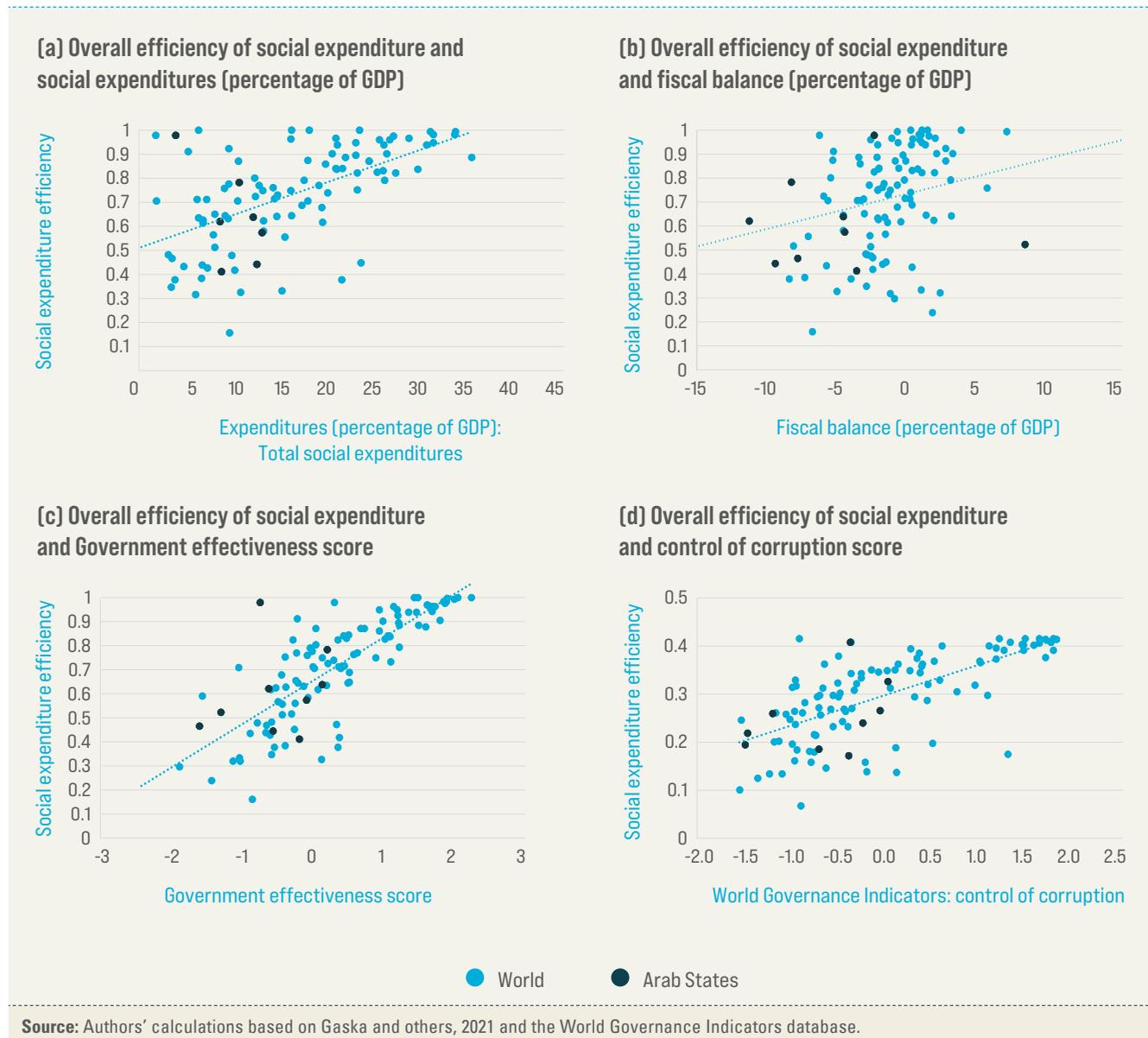


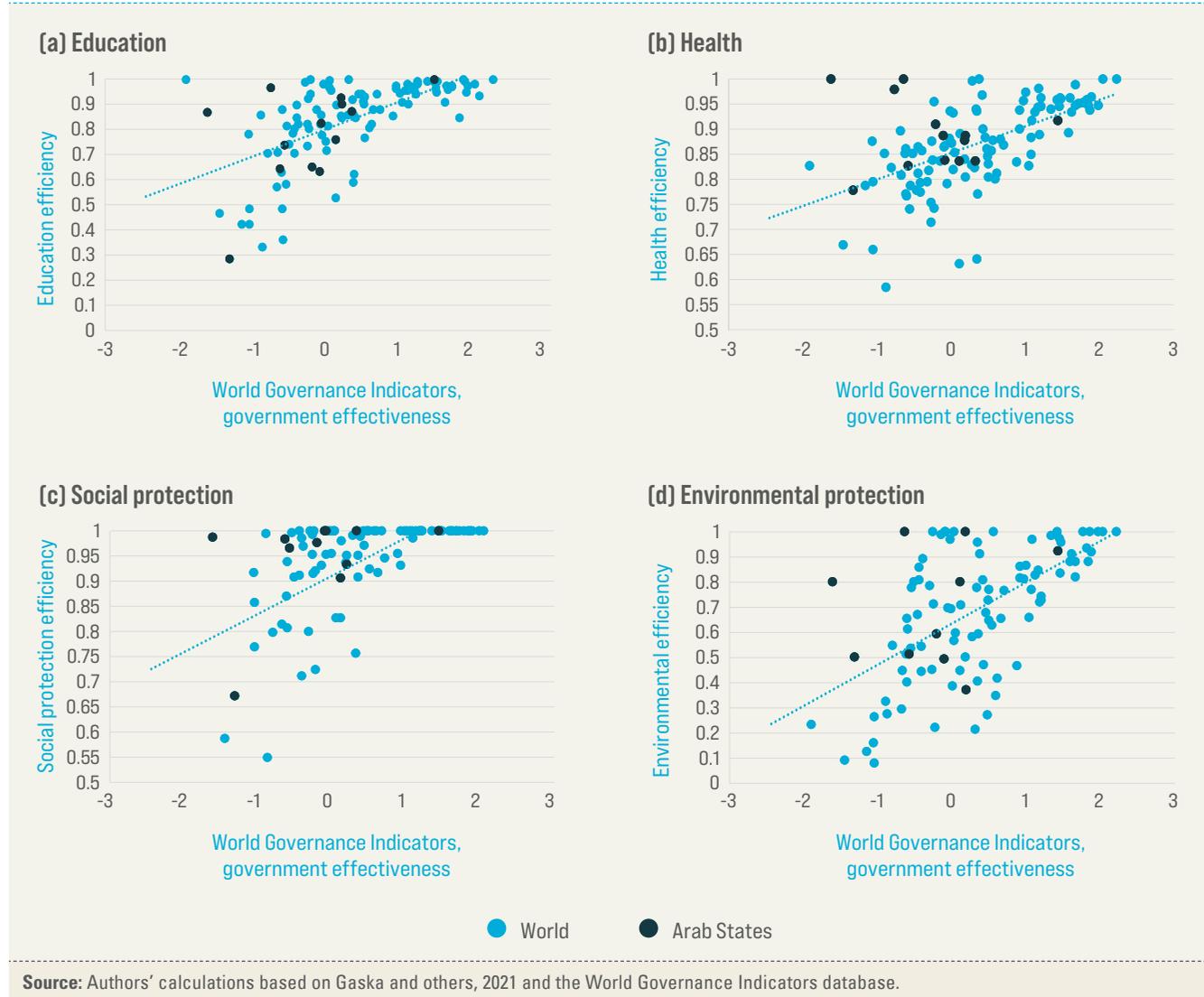
Figure 77. Individual sectors show limited correlation between expenditure efficiency and amount, except for social protection



As with overall social expenditure, efficiency at the sectoral level positively correlates with Government effectiveness (figure 78). The relationship is quite strong and similar across education, health, social protection, and environmental protection. Sectoral efficiencies also fall in a narrow range when considering the World Governance Indicator on corruption, again indicating that Government capacity is a more significant determinant of efficiency than the size of spending.

Within but also beyond sectors, research and development plays a key role in improving

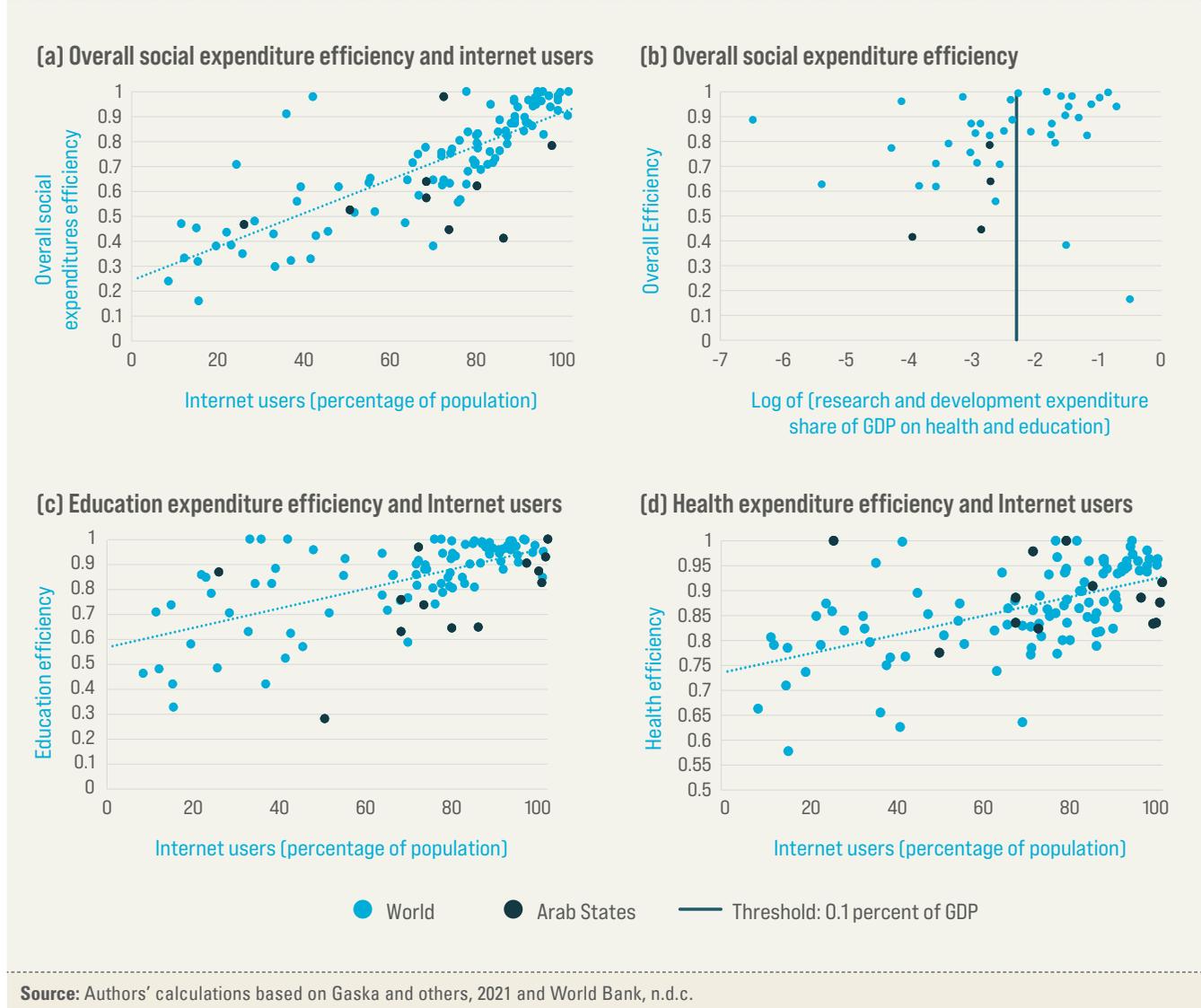
productivity and driving higher efficiency of public social expenditures. Countries that spend higher shares of GDP on research and development in the health and education sectors are more efficient (figure 79(b)). While there are a few outliers, most countries spending more than 0.1 per cent of GDP on education and health research and development, represented by the black/dark blue (depending what color is used) line, have efficiency scores greater than 0.8, while less than half of countries spending less than this threshold have achieved this level of efficiency.

Figure 78. Government effectiveness has a strong impact on the efficiency of sectoral expenditure

Research and development is an important propeller of digital transformation, which can improve the social expenditure coverage of individuals, allow better data collection and monitoring of programmes, and reduce administrative expenses. It enables Governments to respond more quickly and efficiently to critical needs. In improving efficiency, digitalization can spur economic growth, increase the impact of social expenditure, and lead to both a broader tax base and more efficient tax collection. During the COVID-19 pandemic, digital connectivity and services became central to economic and societal activity. Such measures are not universally accessible, however, with nearly 150 million people in the Arab region still unconnected.¹³⁹

Correlation analysis confirms the social impact of information and communications technology (ICT) investment in education (figure 79). When Governments increase spending on research and development and provide a conducive environment for innovation, such as through technology incubators, young people gain abilities to produce advanced technological products, establish their own companies and ultimately drive output growth. Increasing GDP leads to greater revenue collection and expenditure on Government-funded education, health care and other programmes with a social impact. This is an argument for continually increasing expenditure on research and use of technology in advancing education in the Government budget.

Figure 79. Associations between internet users and research and development expenditures and efficiency scores



E. Efficiency and outcome simulations in Jordan and Tunisia

The efficiency scores developed in the previous sections can be used to perform policy simulations over time. Since outcomes are defined as a product of efficiency and social expenditures, both overall and in a particular sector, altering the inputs provides insights on projected changes to outputs. For example, a Government may want to determine the effect on expected years of schooling of a 20 per cent hike in educational spending. It might also want to

know the potential for better outcomes through efficiency improvements. The best results occur when spending increases are combined with efficiency improvements but this is not always possible. Efficiency simulations help countries prioritize their efforts.

One type of policy simulation involves fixing the output indicator at a predetermined level and assessing the possible combinations of

spending and efficiency required to achieve the desired output. This approach was applied to policy simulations using Jordan and Tunisia as examples. Generally, the simulations assessed improvements on SDG indicators if both countries increased social expenditure to global averages and raised efficiency to the average of high-income countries. They also considered potential savings from increasing efficiency alone.

1. Jordan

In Jordan, the simulation determined that improving efficiency to the benchmark level would advance overall human development without increasing social expenditure. If Jordan increased overall social expenditure by 24 per cent from current levels to match the global average of 16.6 per cent of GDP, its IHDI score would increase from 0.622 to 0.628. If Jordan kept its current level of social expenditure, as a share of GDP, and improved its efficiency to match the average of high-income countries, its score on the index would increase from 0.622

In reaching the efficiency of high-income countries, Jordan could reduce

total public social expenditure by **↓ 28%**

a saving of **1.1** billion Jordanian dinars

without seeing a loss in human development

to 0.774 (figure 80). This would raise Jordan’s world ranking from 72 to 38 out of a total of 152 countries. The magnitude of the estimates may vary depending upon the change in influence of correlates of IHDI over time, but the direction points to the importance of improving efficiency and spending levels toward improving IHDI. In reaching the efficiency of high-income countries, Jordan could reduce total public social expenditure by 28 per cent, a saving of 1.1 billion Jordanian dinars,¹⁴⁰ without seeing a loss in human development (figure 81).

Figure 80. By improving expenditure efficiency, Jordan could attain higher human development for the same costs

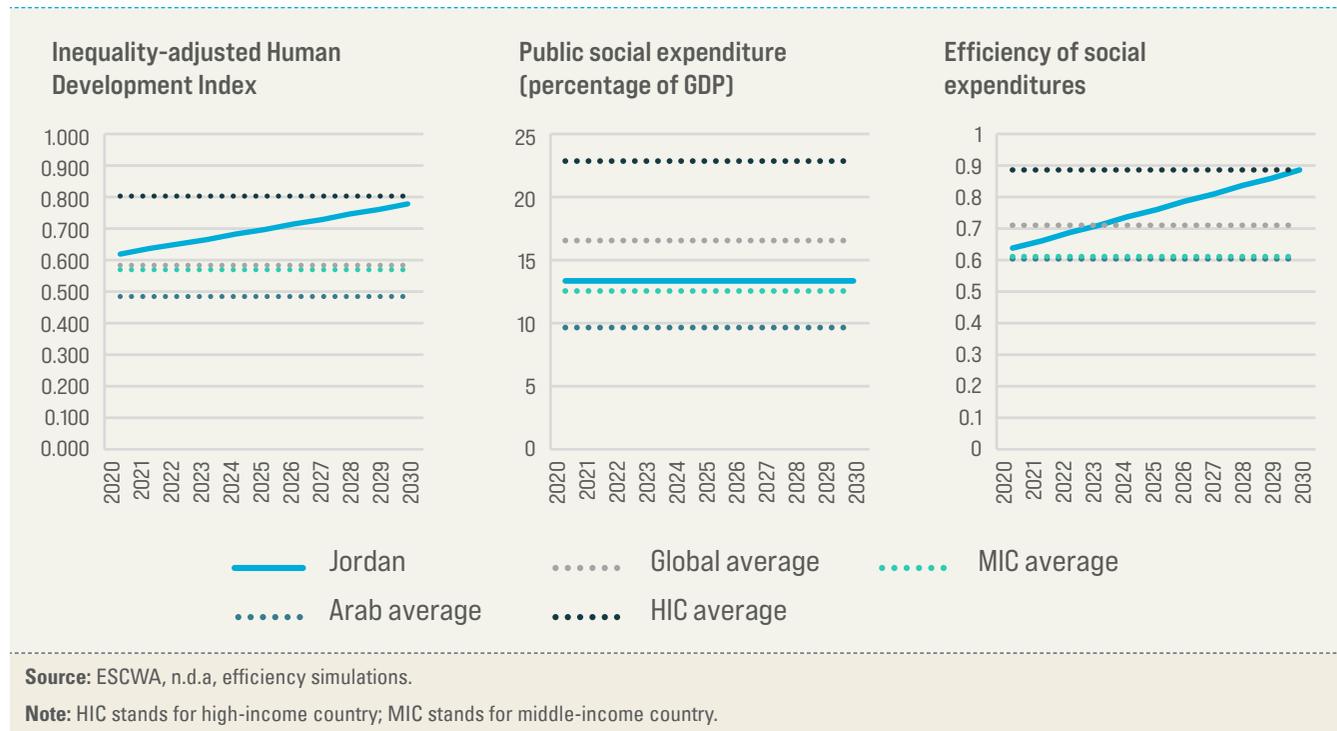


Figure 81. By improving expenditure efficiency, Jordan could achieve the same human development outcomes at lower costs



At the sectoral level, improved efficiency would lead to greater outcomes without any change in the level of expenditure or alternately could help save resources if Jordan maintains the same outcome. For instance, keeping the same level of expenditure, if Jordan improved primary education spending efficiency to match the high-income country average, the primary pupil-to-teacher ratio would decline from 19.37 to 12.39. If it increased primary education spending by 5 per cent in line with the global average, the pupil-to-teacher ratio would fall from 12.39 to 12.34. In this example, efficiency enhancements are a more effective means of improving outcomes than allocation of additional resources. If Jordan achieved the overall education efficiency of high-income countries, education expenditures could be cut by 20 per cent from current levels, saving 220 million Jordanian dinars, without reducing expected years of schooling.

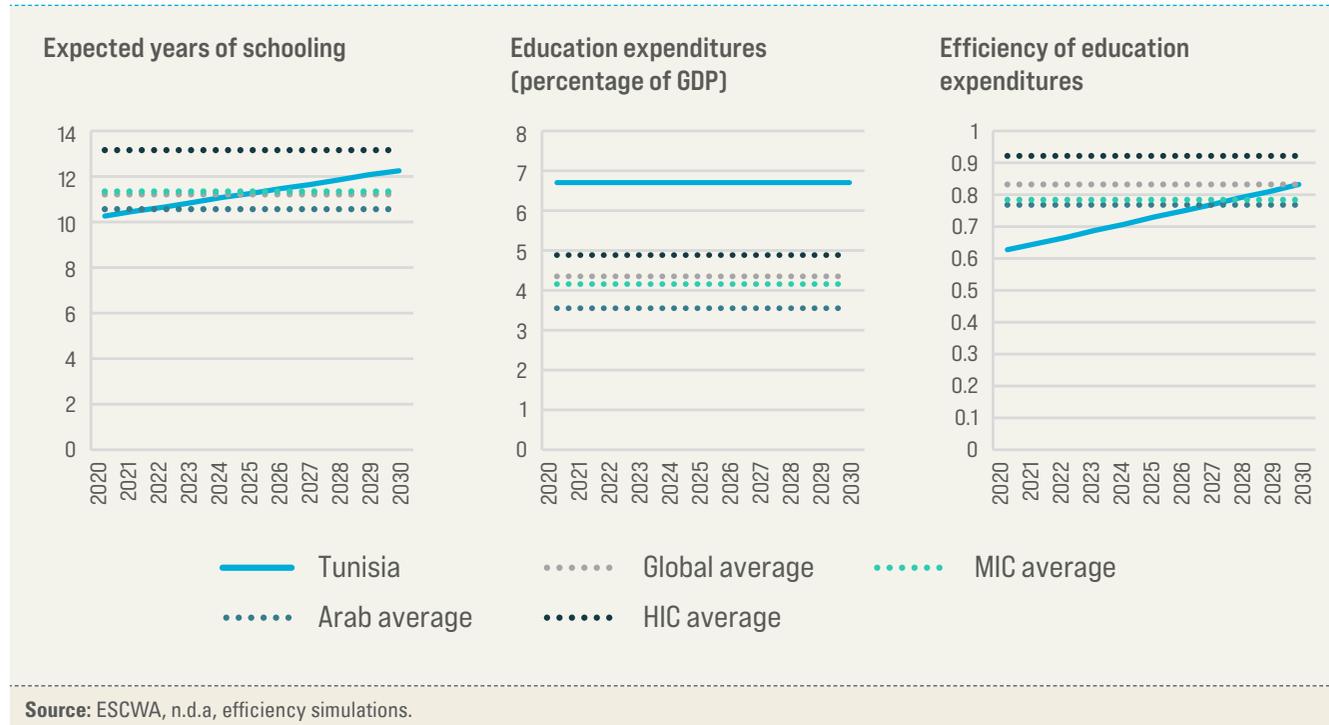
In health, increasing efficiency to match the high-income country average would allow Jordan to maintain its current years of life expectancy while reducing health expenditures by 10 per cent or 73

million Jordanian dinars. Increasing the efficiency of overall social protection spending to the high-income country average would mean that Jordan could lower social protection expenditures by 10 per cent, saving 199 million Jordanian dinars without triggering greater undernourishment.

2. Tunisia

If Tunisia holds total social expenditure unchanged and improves its efficiency to match the global average, its score on the IHD index would increase by 34 per cent, from 0.580 to 0.668. Based on the simulations, if the level of social expenditure is raised to the global mean of 16.6 per cent of GDP in combination with improved efficiency, its index score would increase further to 0.675. This would raise Tunisia's world ranking on the index from 77 to 60 out of 152 countries. Alternately, if efficiency meets the global average and Tunisia stays at the same level on the IHD index, it can reduce total public social expenditure by 19 per cent, an annual savings of 3.1 billion Tunisian dinars.

Figure 82. Improving education expenditure efficiency in Tunisia could boost expected years of schooling to top levels globally



Improving overall social expenditure has a positive impact in any situation but without improvement in efficiency, the effect is limited. If Tunisia just increased its total expenditure on health, education and social protection by 13 per cent from current levels to match the global average of 16.6 per cent of GDP, its score on the IHDl would increase from 0.580 to 0.586.

years of schooling would increase by two years, from 10.3 to 12.3 years, with unchanged expenditures. Meeting the global average could also reduce education expenditures by 27 per cent or 2 billion Tunisian dinars while maintaining current expected years of schooling (figure 83).

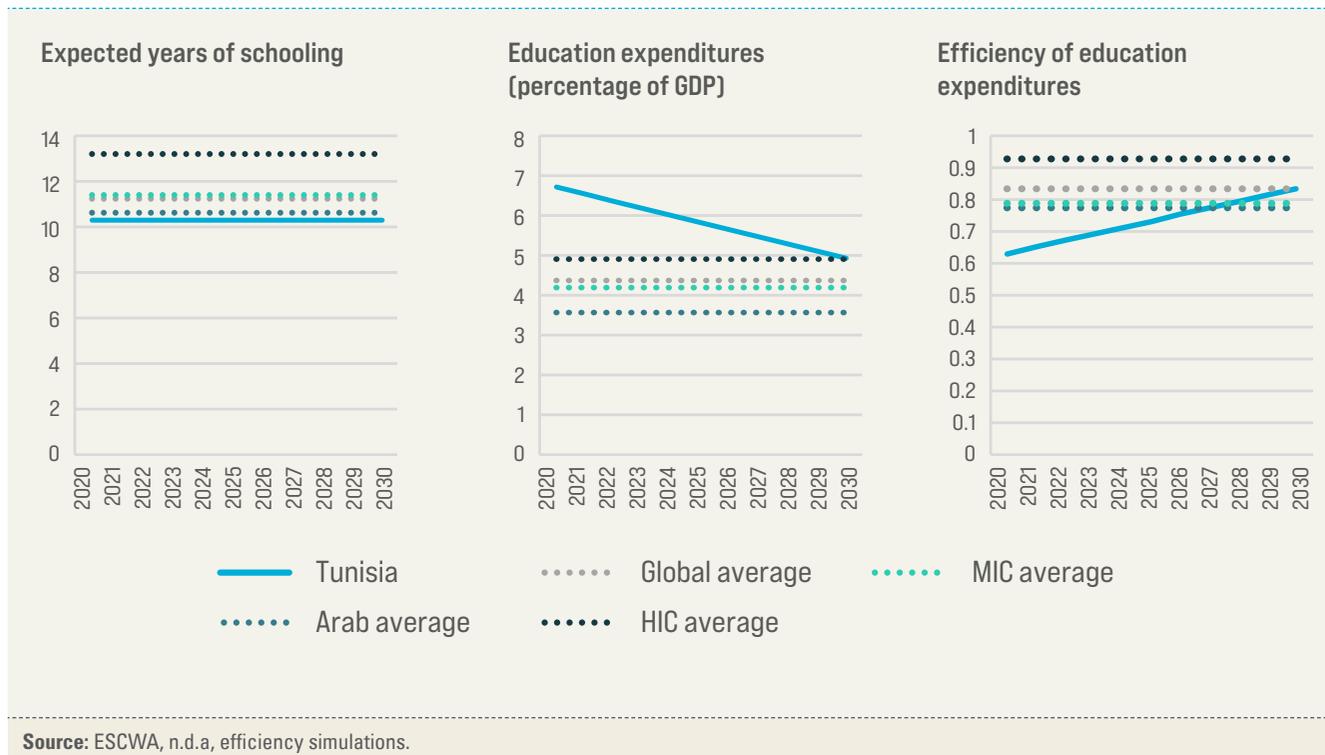
At the sectoral level, improving efficiency in education expenditures can save 2 billion Tunisian dinars without any change in outcome. Tunisia has high expenditure on education, which comprises 6.7 per cent of GDP, exceeding the average share for high- and middle-income countries (4.9 per cent and 4.2 per cent, respectively) as well as the global average of 4.3 per cent. If Tunisia keeps the same level of overall expenditure and improves its efficiency to match the average efficiency of middle-income countries, expected years of schooling could increase by more than one and a half years, from 10.3 to 11.9 years (figure 82). If Tunisia meets the global average for efficiency in education spending, its expected

If Tunisia keeps the same level of overall expenditure and improves its efficiency to match the average efficiency of middle-income countries

expected years of schooling could increase by more than one and a half years

from **10.3** years to **11.9** years

Figure 83. Tunisia could reduce significant wastage in education spending without affecting expected years of schooling



In health, an increase in efficiency to match the high-income country average would allow Tunisia to maintain its current life expectancy while reducing health expenditures by 4 per cent or nearly 80 million Tunisian dinars. On overall social protection, Tunisia is on the “efficiency frontier” for expenditure, given its achievements in reducing undernourishment. There are gaps in performance regarding the coverage of older persons getting social support,

however. If efficiency improved to match the high-income country average, Tunisia could cut social expenditure on older persons by 26.5 per cent, annual savings of 257 million Tunisian dinars, without reducing pension coverage. On environmental protection, by increasing efficiency to the high-income country average, Tunisia could reduce expenditures by 41 per cent or 333 million Tunisian dinars without a negative impact on environmental outcomes.

F. Adequate spending, more efficient choices

The most powerful development outcomes occur when public social expenditure is both adequate and efficient. The Arab region has made investments but without maximizing the returns, a tendency that countries and their citizens can no longer afford. In education, for example, low average efficiency means that Arab countries reach fewer expected years of education than global peers relative to spending levels. In health,

efficiency scores are higher and lag only the global high-income country average. But since this is due to very low public expenditure and high out-of-pocket expenditure, it raises inherent questions around equity and affordability.

While regional spending on housing is higher than relevant global benchmarks, inefficiency is evident in the very high share of urban residents

living in slums in some cases. Public social protection expenditures are relatively efficient on the measure of low levels of undernourishment. Lack of adequate data, however, is a barrier to assessing the efficiency of social protection expenditure in relation to poverty reduction. In addition, outcomes such as undernourishment or poverty have other correlates that might impact the outcome over time as well.

Realizing better outcomes now depends in part on greater efficiency in these and all other

issues central to sustainable development and the SDGs. This is particularly the case given the current budget rigidities, limited fiscal space and shortage of liquidity faced by most countries in the region. Assessing and closing efficiency gaps can minimize waste and ensure that resources reach population groups and areas of development where needs are greatest. In doing so, countries can achieve better outcomes without spending more or achieve the same outcomes by spending less.



Endnotes

- 130 Two SEM dimensions were not included. The arts, culture and sports dimension lacks robust data. Assessing labour market expenditures and employment generation requires using microlevel data such as on participants of labour market support programmes.
- 131 For a detailed methodology, refer to Gaska and others, 2021.
- 132 UNESCO, 2020.
- 133 Sarangi and von Bonin, 2017.
- 134 World Bank, n.d.c.
- 135 The efficiency scores are based on the data envelopment analysis (DEA) method using data from 127 countries globally, including 10 from the Arab region, which sets performance benchmarks (top performers) relative to inputs (at any given level of expenditure). The period for efficiency calculation refers to available data for the most recent years using a three-year average for the expenditure indicator (input) and three-year average for the performance indicator (output). Limited cross-country availability of data restricts the efficiency analysis to selected indicators only, as stated in table 3 (Gaska and others, 2021).
- 136 UNDP, 2020b.
- 137 Gaska and others, 2021.
- 138 A similar positive and strong relationship holds between efficiency score and Regulatory Quality Index score. The latter strongly correlates with the Government Effectiveness Index.
- 139 International Telecommunication Union (ITU) DataHub, n.d.
- 140 Savings calculations are based on the most recent available budget data and GDP estimates IMF, 2021i.



Enhancing social expenditure and fiscal sustainability



05



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How much does public social expenditure translate into economic growth? That remains a central question for policymakers and researchers. The results depend on factors such as the quality of governance, and macro-level savings and investment.¹⁴¹ But in broad terms, targeted public social expenditure can enhance human development, speed the accumulation of human capital and enhance growth at a macro level, especially in low- and middle-income countries.¹⁴² In the wake of the pandemic, such considerations are more urgent than ever, with the Arab region requiring an additional \$491 billion to achieve a resilient, fast recovery on par with other regions.¹⁴³ These challenges come on top of those that already exist in realizing the SDGs.

Following a decade of stops and starts in the region after the 2008-2009 global financial crisis, the pandemic has exacerbated existing concerns around low growth and mounting deficits and debt that constrain already tight fiscal space. Strategies to enhance fiscal space are critical to sustain public social expenditure and the continued pandemic response. This chapter examines different options for generating greater fiscal space, including through tax reforms and debt relief. Macroeconometric models help map well-strategized debt finance scenarios that consider debt-to-GDP stabilization in the medium term while factoring in fiscal sustainability and macroeconomic stability.

“

Targeted public social expenditure can enhance human development, speed the accumulation of human capital and enhance growth at a macro level, especially in low- and middle-income countries.

A. A decade of pressure on fiscal space

The COVID-19 crisis, coming after a decade of economic and political shocks and downward pressure on growth and Government finances, has widened fiscal deficits and spurred debt growth that in some cases teeters on unsustainability. Strains on public budgets make resources for essential social expenditures difficult to find. Since an inclusive recovery from the pandemic and continued progress on the SDGs require bolstering Government finances in general and social expenditure in particular, Governments need to consider fiscal strategies geared towards efficiency, equity and sustainability, and built around smart investments.

1. COVID-19 made economies even more vulnerable

Since the global economic slowdown in 2008-2009, economic and political shocks in the Arab

region have generated continuous pressure on growth, with further weakening from the oil price plunge in 2014 and the slow recovery since then. While growth forecasts were slowly moving up in 2018 and 2019, the pandemic and the collapse of oil prices derailed prospects for 2020. Data for 2020 indicate a contraction of economies of around negative 6 per cent compared to the pre-pandemic projection¹⁴⁴ of 2.5 per cent growth.¹⁴⁵ Equivalent to a loss of about \$159 billion in real GDP, the drop-off comes from combined negative fallout on oil markets, tourism receipts, trade, and investment flows.

Impacts vary, however, by different subregions and country groups (figure 84).¹⁴⁶ Economies vulnerable before the pandemic became even more so. A rebound in growth in 2021 depended on a global rebound and increased demand for oil and on the reasonable success of vaccination campaigns.¹⁴⁷

Figure 84. Forecast annual GDP growth rates show slow recovery in the Arab region, 2020-2023

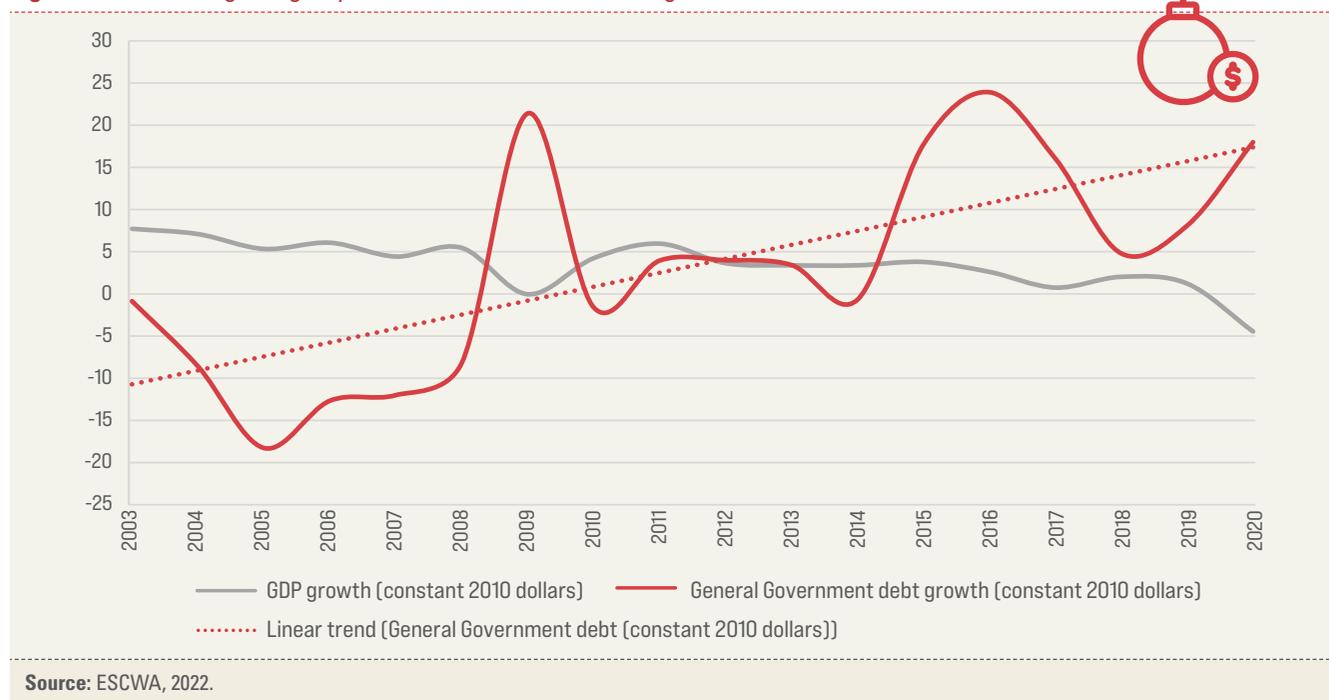


2. More debt, less liquidity

The region has faced rising public debt since the beginning of the 2010s, putting it in the territory of debt unsustainability (figure 85). COVID-19 amplified already heavy debt burdens, complicating recovery and social expenditure for several low- and middle-

income countries. Debt in the region reached an estimated 60 per cent of GDP in 2020 (equivalent to \$1.4 trillion), up from 25 per cent in 2008 (figure 86). Rapidly escalating debt has resulted from a combination of factors, including a general lack of adequate fiscal and monetary policy responses, recurrent trade and fiscal deficits and low economic growth.

Figure 85. GDP is stagnating as public debt soars in the Arab region



Source: ESCWA, 2022.

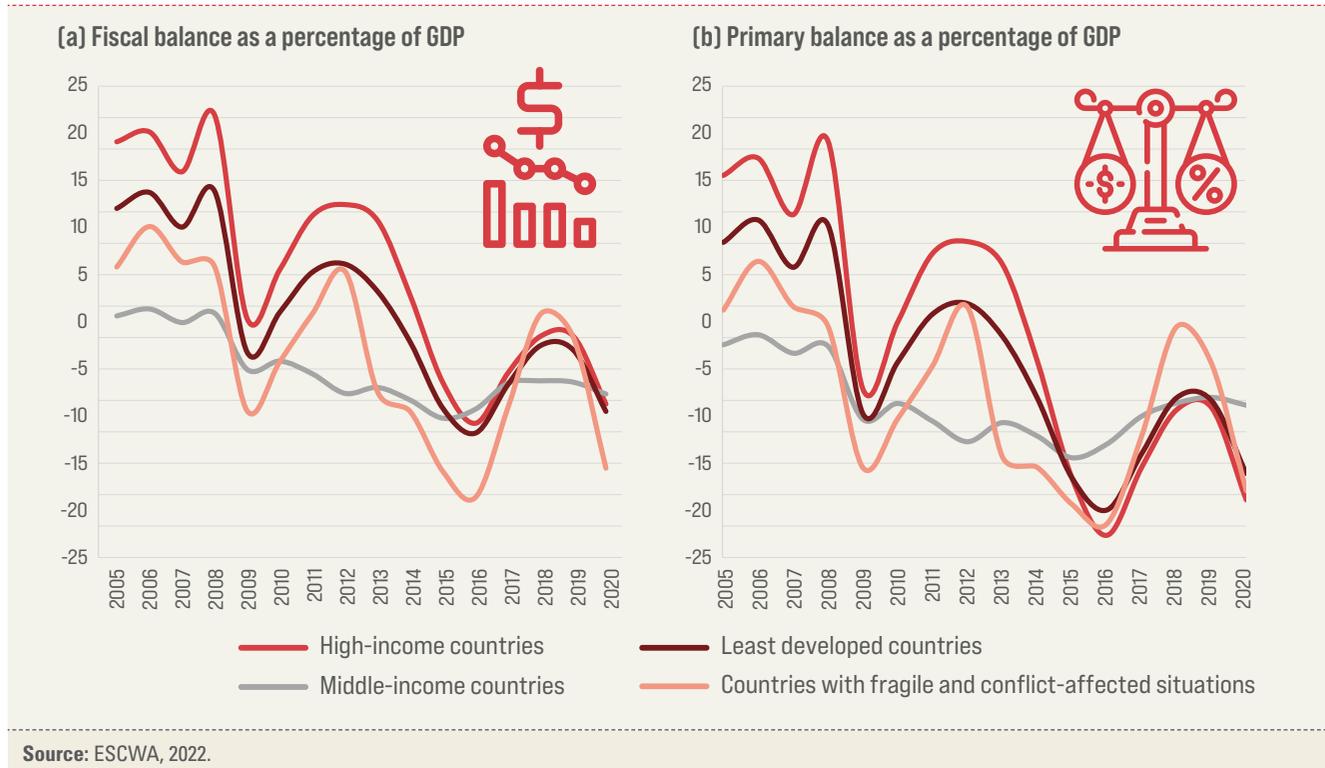
Figure 86. Public debt-to-GDP is rapidly escalating across the region



Source: ESCWA, 2022.

Note: The aggregate for the conflict-affected countries excludes the State of Palestine and the Syrian Arab Republic. The aggregate for the least developed countries excludes Somalia and the Sudan.

Figure 87. The region has seen continuous declines in fiscal balances



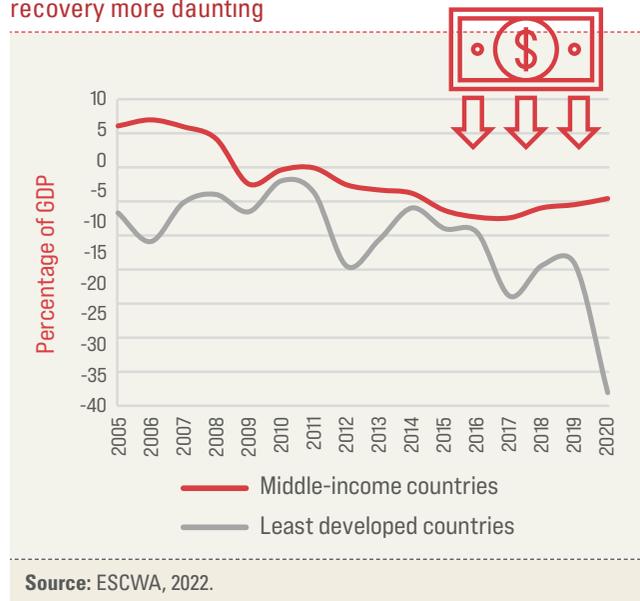
High-income countries are relatively better off, although they are increasingly using debt financing for expenditure as oil revenues remain volatile. Fiscal pressure is high for most middle-income countries, least developed countries and those with fragile and conflict-affected situations with heavy debt burdens. The least developed countries experienced a threefold increase in debt between 2008 and 2020, from \$2.4 billion (33 per cent of GDP) to nearly \$7 billion (52 per cent of GDP). For them, grant finance and debt relief measures, including those under the Group of 20 (G20) Debt Service Suspension Initiative and the Heavily Indebted Poor Countries Debt Relief Initiative, are essential to counter the adverse impacts of the pandemic and finance social expenditure. Current initiatives are not enough, however. Somalia, the Sudan and Yemen are in debt distress, and Djibouti and Mauritania are at risk of debt distress¹⁴⁸ having experienced severe output contractions even as pandemic relief and recovery demanded a massive infusion of funds.

Middle-income countries carry nearly half of the region's debt burden. In 2020, large fiscal

shortfalls due to COVID-19 pushed their public debt to \$575 billion (81 per cent of GDP), up from \$205 billion (41 per cent of GDP) in 2008. Egypt, Jordan and Tunisia together borrowed more than \$10 billion in April-May 2020 under the IMF's short- and medium-term lending mechanisms.¹⁴⁹ While the economic downturn has increased debt risks for the middle-income countries, they are not eligible for current forms of debt relief.

Beyond the sheer amount of debt, its composition has been changing. For middle-income countries, a larger share comes from private creditors at higher costs, given reduced concessional borrowing from official creditors.¹⁵⁰ Tunisia spent more than 20 per cent of its revenues; Egypt, Jordan and Morocco spent more than 10 per cent of their revenues on external debt service. While expanding fiscal space to mitigate the medium to long-term impacts of COVID-19 is imperative, debt servicing presents a major impediment to releasing resources for essential social support.

Figure 88. Current account deficits make the path to recovery more daunting



High and persistent fiscal deficits drive debt accumulation and liquidity challenges that constrain social and economic investments. Middle-income countries have witnessed a continuous decline in fiscal balances as a percentage of GDP since 2008. COVID-19 further widened fiscal and primary balances to minus 8 per cent of GDP and minus 2 per cent of GDP in 2020, respectively (figure 87). Average fiscal and primary balances in the least developed countries remained mostly negative after 2013. In 2020, their average fiscal and primary balances reached minus 9.5 per cent and minus 7.9 per cent, respectively, due to the pandemic.

For high-income countries, average fiscal and primary balances as a percentage of GDP turned negative from 2015 onwards given the 2014 oil price plunge. This led them to issue sovereign bonds in international capital markets to meet expenditure needs. They also introduced new value added taxes and cut subsidies. In 2020, as COVID-19 caused significant oil revenue losses, these countries pushed their fiscal and primary deficits to minus 8.8 per cent of GDP and minus 10.2 per cent of GDP, respectively. Recurring negative primary balances in several countries have led to increased debt finance and the rollover of outstanding debt.

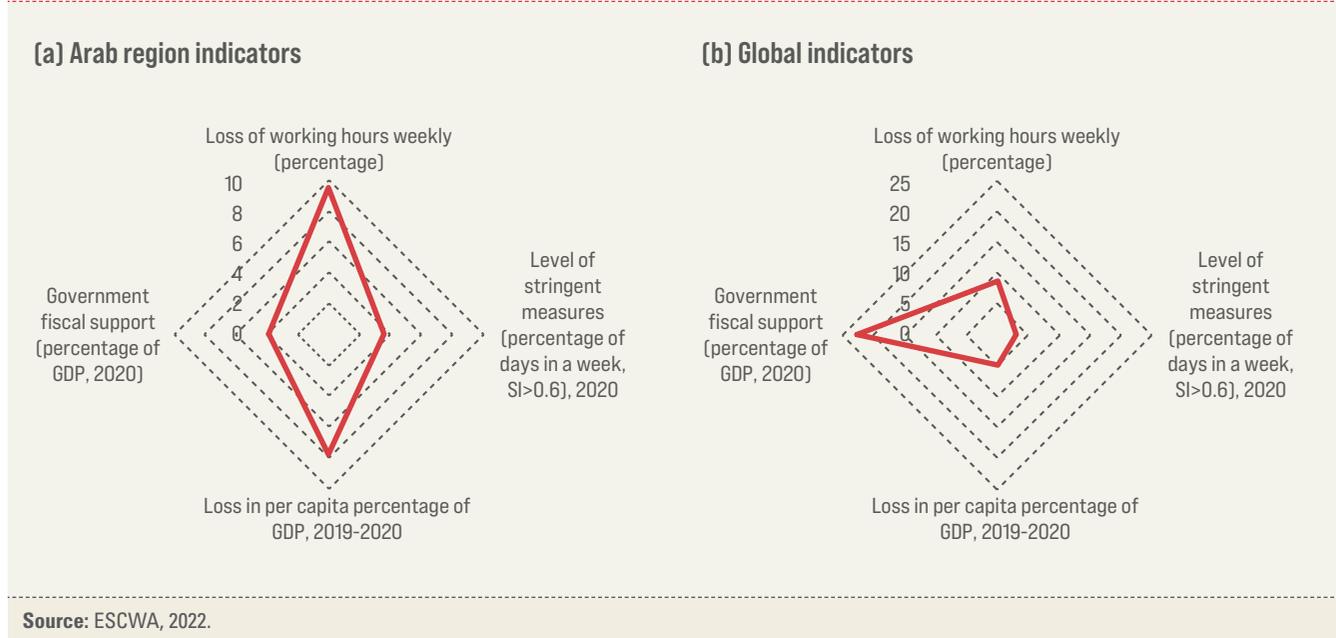


High and persistent fiscal deficits drive debt accumulation and liquidity challenges that constrain social and economic investments.

Persistent current account deficits in the middle-income and least developed countries constrain liquidity in foreign currency and drive external borrowing. Current account deficits are a major concern because these countries heavily rely on imports for local consumption while their exports are largely limited to primary products. In 2020, the current account deficit reached 6 per cent of GDP for the middle-income countries and around 37 per cent of GDP for the least developed countries (figure 88). The associated liquidity constraints will make the path to recovery from COVID-19 more challenging and likely obstruct financing for the SDGs and social investments.

3. Fiscal constraints undercut recovery and the SDGs

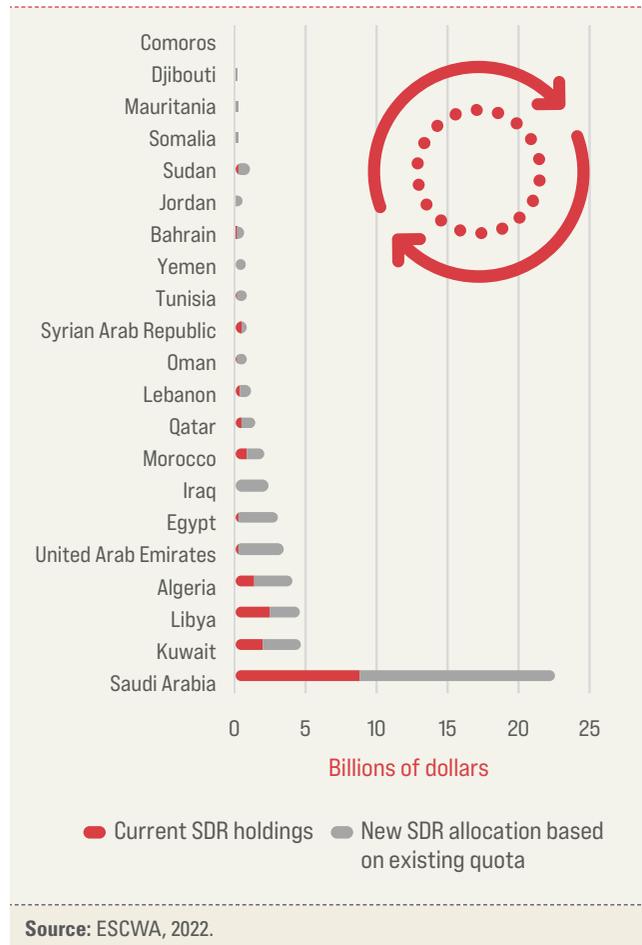
Constrained fiscal space and liquidity challenges are apparent in the Arab region's inability to respond to pandemic fallout much less jumpstart a resilient recovery. Fiscal stimulus in the region was low both compared with the global average and given needs arising from dramatic losses in income and jobs, and strict pandemic containment measures (figure 89).

Figure 89. Fiscal stimulus remained limited even as needs escalated**Figure 90.** Stimulus packages fell far below the global average in 2020 as a percentage of GDP

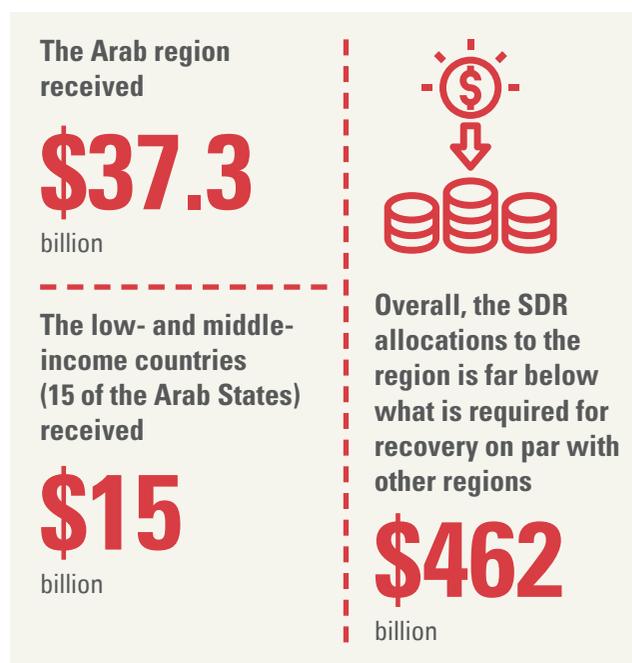
Of total global fiscal support of \$18.7 trillion, Arab countries allocated only \$94.8 billion, around 4 per cent of GDP in 2020, compared with a global average of 22 per cent (figure 90).¹⁵¹ Governments provided support quite differently, largely in line with available fiscal space. Mauritania and the Sudan stand out among the least developed countries, where the fiscal response was otherwise marginal. Mauritania created a special \$800 million fund for social solidarity, a large proportion of a stimulus that reached 11 per cent of GDP. The Sudan allocated significant fiscal and monetary resources to social safety net measures but mainly to shore up the health-care system.

The IMF's new issue of Special Drawing Rights is potentially a useful liquidity support measure, but it remains skewed towards high-income countries based on existing quotas for distribution. Out of \$650 billion in total, the share of the Arab region was \$37.3 billion, with the low- and middle-income countries (15 of the Arab States) receiving only about \$15 billion (figure 91). Overall, the allocation to the region is far below what is required for recovery on par with other regions, an estimated \$462 billion.

Figure 91. Current and new Special Drawing Rights do not meet recovery needs



These challenges are on top of those the region already faces in progressing towards the SDGs. The Arab Sustainable Development Report 2020¹⁵² and the Arab Human Development Report 2022¹⁵³ showed uneven and worrying trends, with the region likely to fall short



on many key indicators by 2030. It lags in addressing income poverty, gender equality, health-care coverage, social protection, peace and security, the sustainable management of natural resources, consumption and production, and climate change. The estimated \$3.6 trillion that Arab countries need for achieving the 17 SDGs between 2018 and 2030 goes beyond their own means.¹⁵⁴ At the same time, the slowdown in economic activity has made financing more difficult on multiple fronts. External private financing fell by \$700 billion in 2020 globally.¹⁵⁵ Declining official development assistance (ODA) is particularly concerning for the least developed countries, which rely on it for essential social services.

B. Fiscal strategies for enhancing social expenditure

To secure adequate public finance and meet current needs, many Arab countries will need to turn to domestic revenue mobilization. This may entail improving tax collection, widening the tax base and/or enhancing tax progressivity. But it will not be sufficient given the scale of funds required. Debt relief and innovative financing solutions,

including debt swaps, are other options to enlarge fiscal space in the immediate term. Fiscal space may also grow by stabilizing debt to GDP at a higher rate in the medium term, in line with a requirement for social investments that enhance human capital and GDP. Such a strategy can ensure both debt sustainability and higher output.

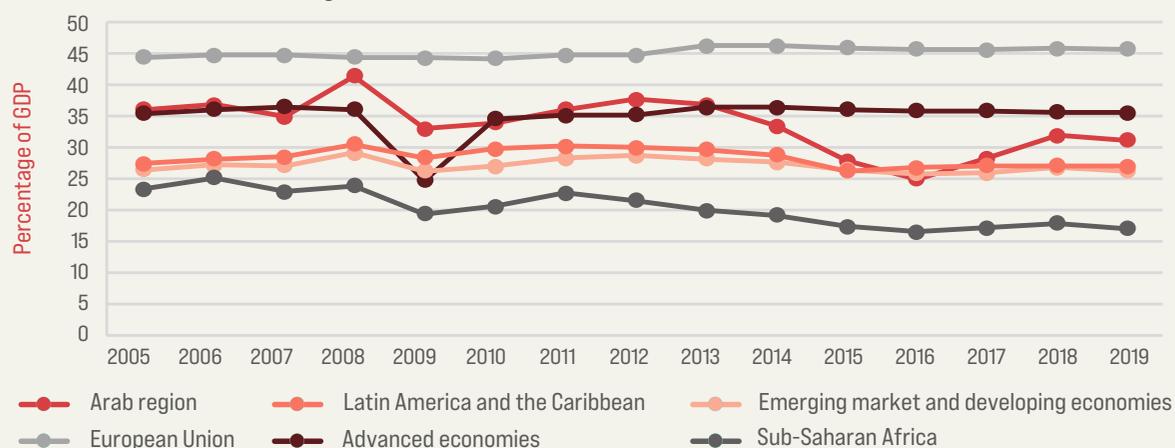
1. Total revenues vary widely across the region

Public revenue as a share of GDP has dropped over time, from a peak of 42 per cent in 2008 to 31 per cent in 2019 (figure 92). Widely varying shares across countries track differences in natural resources and income. The share in middle-income countries was about 25 per cent, compared to

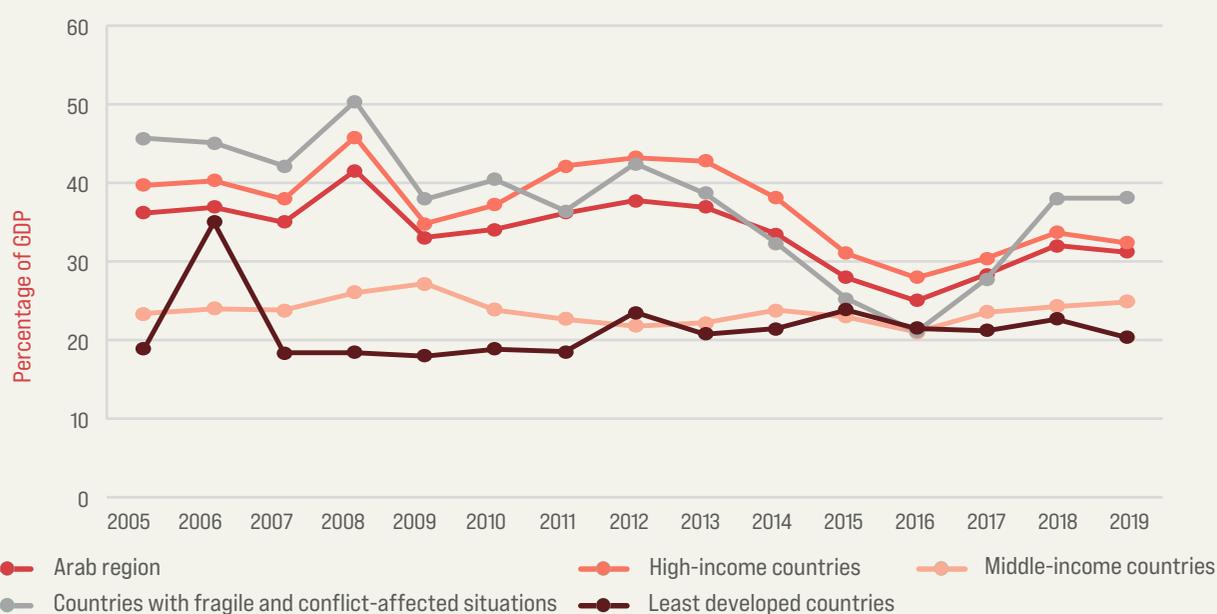
32 per cent in the high-income countries and 20 per cent in the least developed countries. The high-income country share fell from 46 per cent in 2008, a sharp decline that drove the regional trend and was strongly associated with changes in international oil prices.¹⁵⁶ Countries with fragile and conflict-affected situations, such as Iraq, Libya and Yemen, have experienced significant losses of revenues over the same period.

Figure 92. The region experienced downward trends in public revenues

(a) Total revenue across world regions

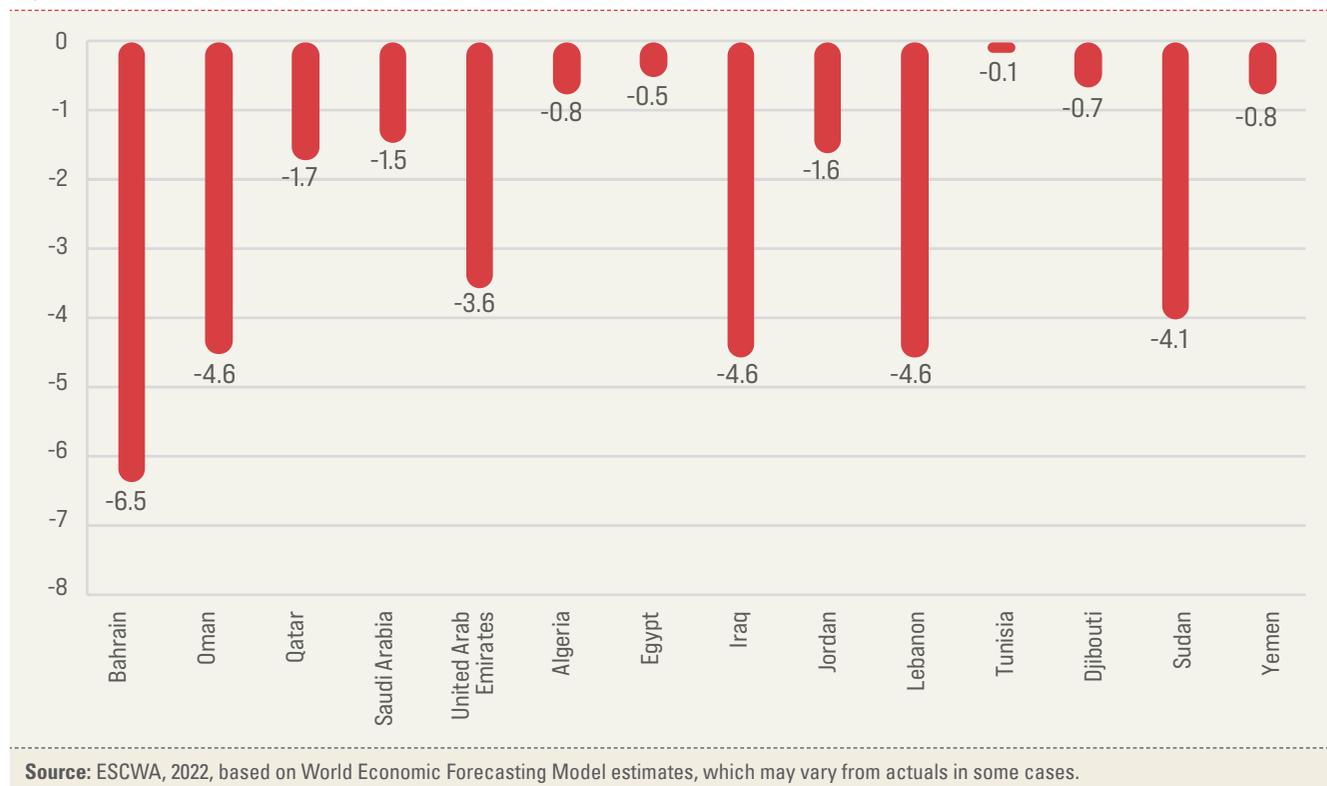


(b) Total revenue in the Arab region and subregions



Source: ESCWA, 2022.

Note: Regional and subregional aggregates are weighted averages. The averages exclude Somalia, the State of Palestine and the Syrian Arab Republic due to unavailable data. The classification of emerging market and developing economies follows that of the IMF World Economic Outlook.

Figure 93. Revenues as a percentage of GDP plunged during the pandemic: percentage point difference between 2019 and 2020

Public revenue in the middle-income countries, which rely mainly on taxation, has remained largely unchanged and below the 30 per cent average of emerging market and developing economies globally.

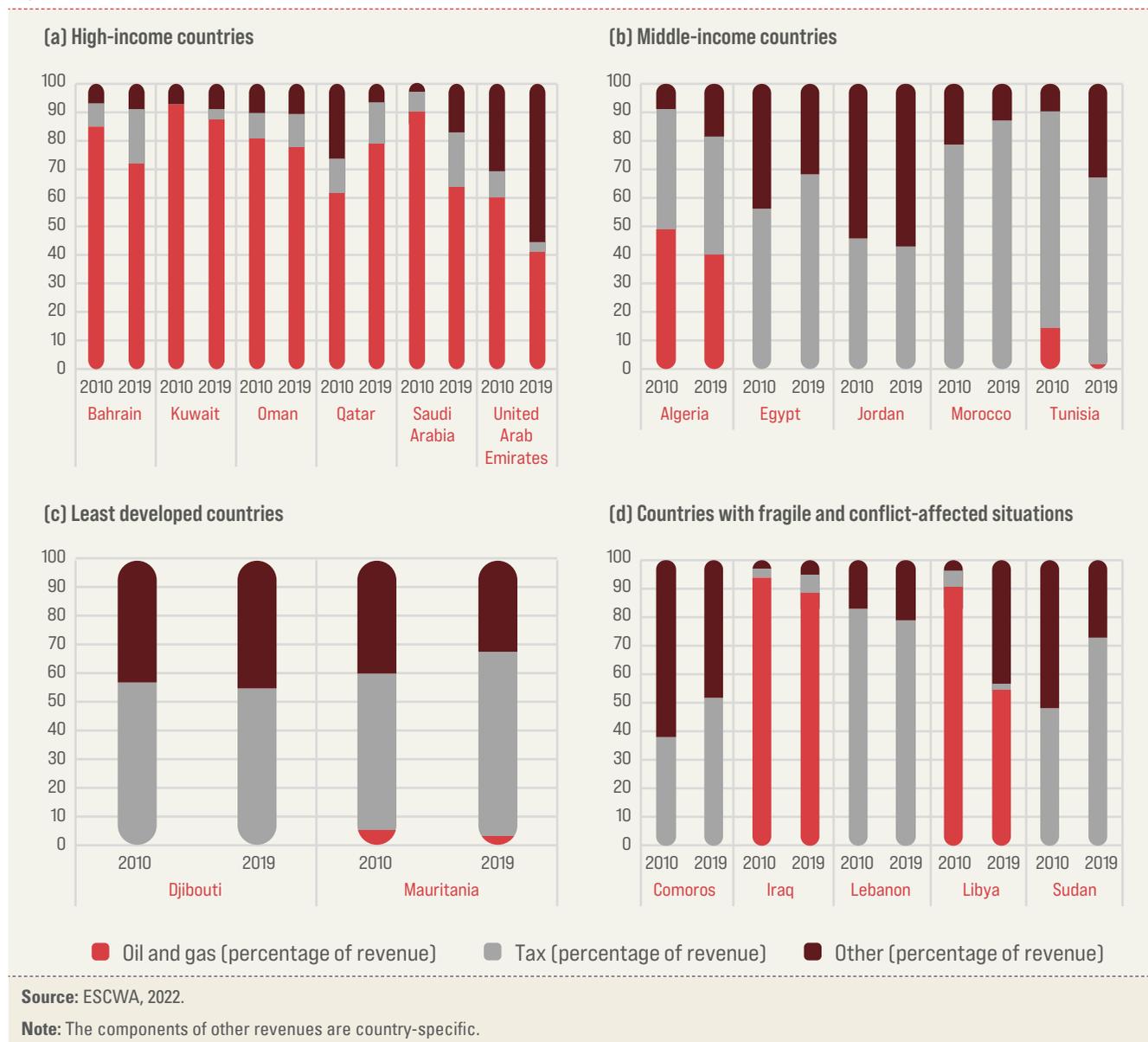
COVID-19 cost the Arab region nearly \$150 billion in lost revenues. By 2020, the share of revenues to GDP had dropped to 27 per cent (figure 93). Downward pressure came in part from tax relief measures to relieve financial distress for individual taxpayers and businesses. These have included tax exemptions, deferment of tax collection and waivers or reductions of customs duties. Egypt increased personal deductions and reduced the tax burden on transactions executed on the Egyptian Stock Exchange, for example, towards promoting investment and stimulating economic activity. Morocco introduced tax exemptions for individuals who lost their jobs because of the crisis.

Revenue sources differ widely (figure 94). Oil and gas comprise the main share in GCC countries.

In recent years, tax revenues increased in several countries, including Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia, which introduced value added or customs and excise taxes as oil revenues plummeted.

The middle-income countries depend mainly on taxes and excise duties for public revenues, except Algeria, which relies on oil. Morocco and Tunisia are relatively good performers in mobilizing more than three quarters of their revenues from taxes. In recent years, Egypt and Morocco have increased customs duties or used mechanisms such as privatizing public investments to boost revenues.

Taxes and foreign grants constitute major revenue sources for the least developed countries, although the share of taxes in total revenue increased from 2010-2019 in the Comoros, Mauritania and the Sudan. Among the conflict-affected countries, Iraq and Libya remain heavily dependent on oil revenues.

Figure 94. Revenue sources vary widely (Percentage of total)

2. Tax equity and efficiency need to improve

Improving tax revenues remains a challenge for most countries in the region. Total tax revenues in the region as a share of GDP have remained at around 8 per cent since 2010 (figure 95). The share in 2019 ranged from a low of 1 per cent in one oil-exporting country, the United Arab Emirates, to 25 per cent in one oil-importing middle-income country, Tunisia. Although middle-income countries

depend mainly on taxes for public revenues, a steady decline in the taxes-to-GDP ratio between 2009 and 2016 has come from the global economic slowdown combined with conflicts in the region. Middle-income countries have introduced several reforms to increase tax revenues in the last five years, which explains a slightly increasing trend in taxes to GDP between 2016 and 2020. But the median ratio remains low, at around 16 per cent in 2019 compared to 25 per cent in the world's developed countries and around 18 per cent in the

world's middle-income countries.¹⁵⁷

Figure 95. Improving tax revenues remains a challenge given a relatively stagnant share of GDP

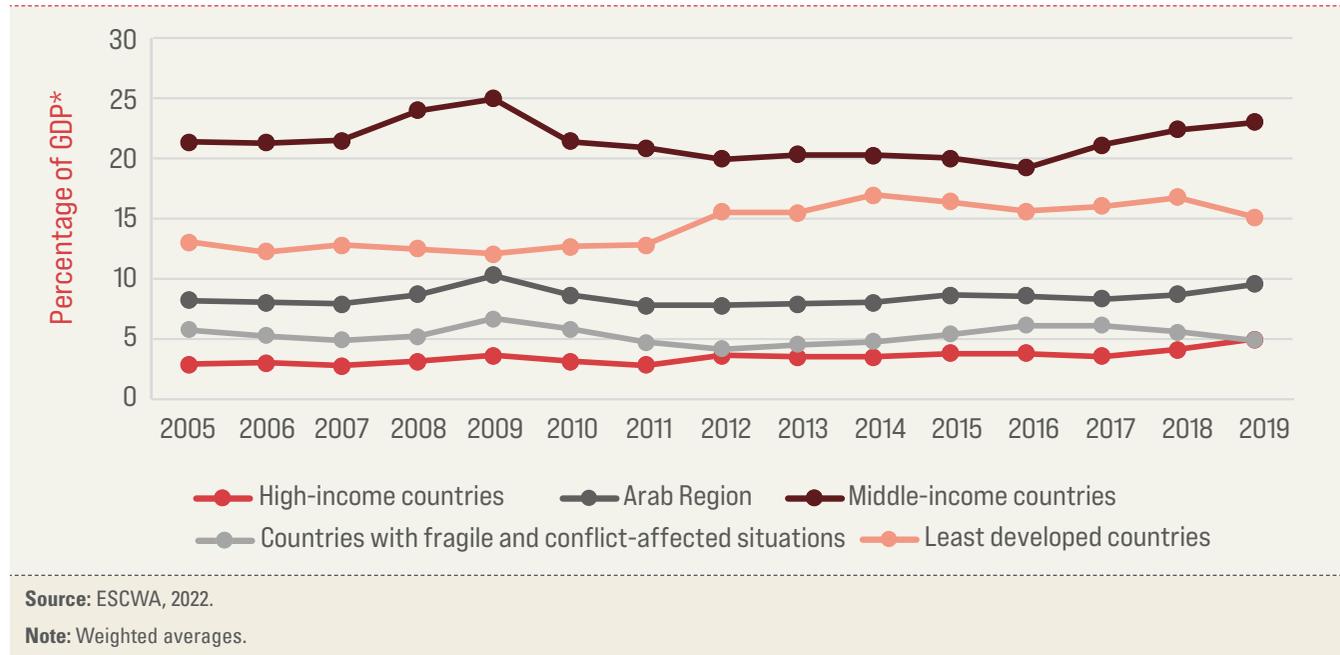
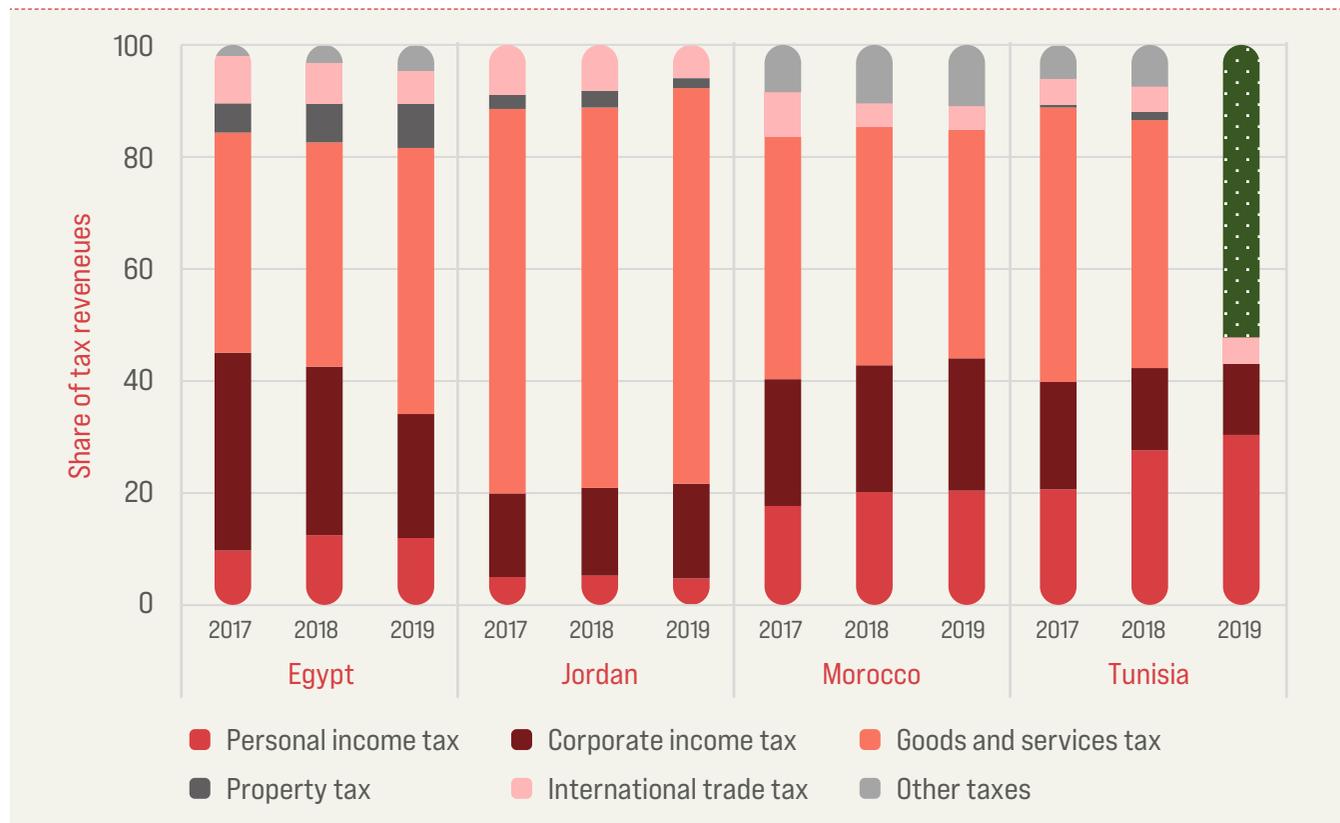


Figure 96. Personal and corporate income taxes are low in most middle-income countries (Percentage)

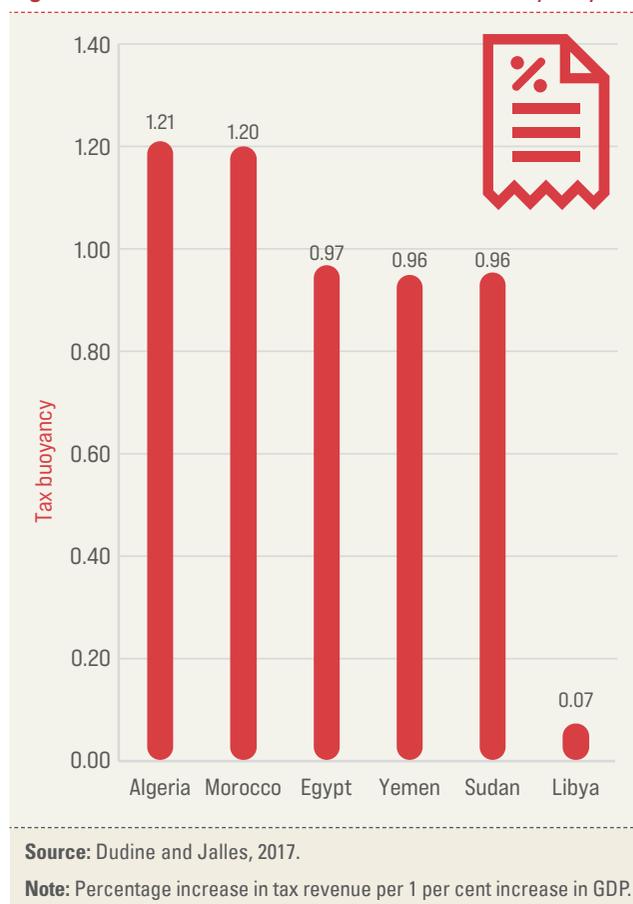


The high-income countries have not historically imposed taxes on individuals and goods and services, which explains their low tax-to-GDP ratio. Their tax systems mainly rely on corporate income taxes. Since the 2014 plunge in oil prices, they have increased their focus on fiscal policy reforms, mainly concentrating on introducing taxes on goods and services, such as value added and excise taxes, as part of efforts to diversify the revenue base and improve revenue collection. The low tax-to-GDP ratios of the least developed and conflict-affected countries reflect their development challenges.

Several tax reforms in the last decade have aimed to improve revenue mobilization but have not spurred the desired increase in public revenues. This is due, not least, to significant leakages that undermine the integrity of tax systems. Furthermore, reforms mostly fell short in improving tax equity and progressivity. The contribution of personal and corporate income taxes is low for most middle-income (figure 96) and least developed countries. Despite recent efforts to mobilize higher income tax revenues in several countries, the share of income tax in total taxes is generally 20 per cent at most. Tunisia is an exception with a share of around 30 per cent in 2019. Wealth taxes constitute a negligible part of total tax revenue despite the region's high concentration of wealth among the top 1 per cent of people.¹⁵⁸

The high share of taxes drawn from goods and services indicates the regressive nature of tax systems, since the burden of indirect taxes falls more on the poor and the middle class than the rich.¹⁵⁹ The recent introduction of value added taxes is also problematic as multiple tax exemptions and rates typically reduce equity and again are felt more by the poor and middle class.¹⁶⁰ The rationale for exemptions is often unclear and unfair, such as when tax exemptions are granted for luxury items only consumed by the wealthy.

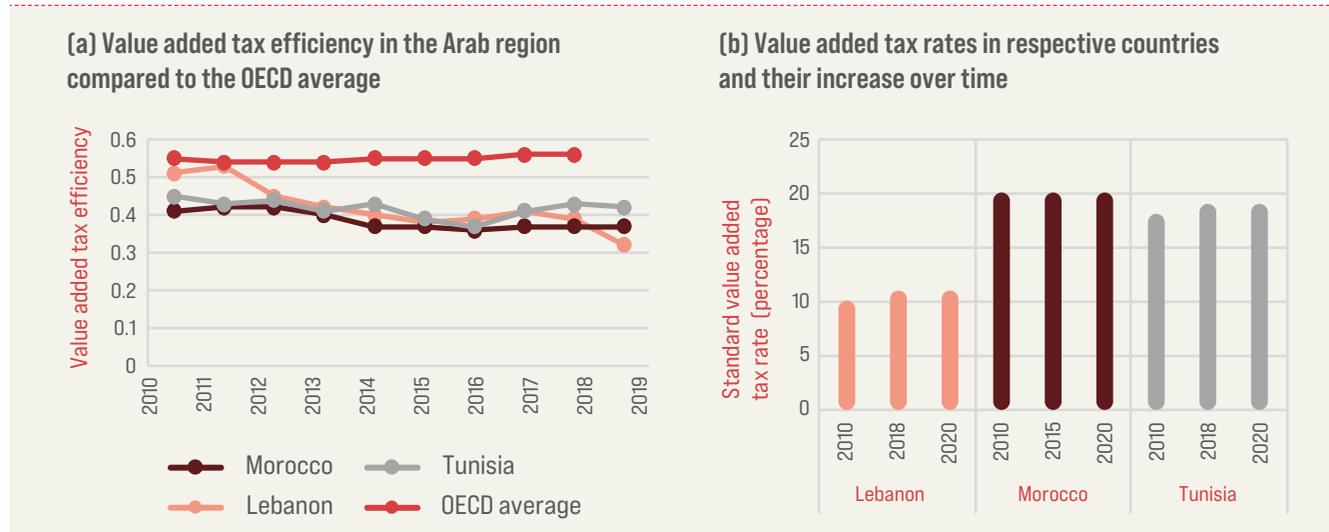
Figure 97. Most Arab countries suffer low tax buoyancy



Outside Algeria and Morocco, most Arab countries still suffer from low tax buoyancy as GDP growth does not trigger a proportional rise in tax revenues. Weak tax administration and leakages explain this performance. While it is typical in settings where large parts of the economy are informal, much of the tax loss comes from high-net-worth individuals and hard-to-tax professional services (figure 97).

Despite reforms, value added tax efficiency remains low in the region, varying between 0.32 and 0.42, compared to global benchmarks such as the Organisation for Economic Co-operation and Development (OECD) average of 0.55. And efficiency is declining for most Arab countries, even those that increased value added tax rates, such as Lebanon and Tunisia (figure 98). In this context, revenue reforms should target tax leakages and tax system efficiency to improve revenue mobilization and open fiscal space.

Figure 98. Higher value added tax rates are not enough to improve tax efficiency



Source: ESCWA, 2022, based on data from ministries of finance of respective countries, IMF and OECD.

Note: The value added tax efficiency represents the ratio between collection measured as a percentage of GDP and the tax rate.

3. Official development assistance commitments must be met

ODA is critical in realizing several SDG targets. The ODA to Arab countries has steadily increased since 2011, following sharp declines during 2008-2010. In 2019, total ODA to the region was \$33.9 billion, approximately 10 per cent below 2018, the peak within the past decade. Of the ODA provided by all sources to developing countries in 2019, 17.6 per cent went to Arab States.

Increasing ODA to the region is largely influenced by in-country “refugee” costs and humanitarian aid (figure 99). About 90 per cent of ODA to the Syrian Arab Republic in 2019 was humanitarian aid. Among the least developed countries, Somalia and Yemen received a higher ODA inflow in the past five years, largely from humanitarian aid. In contrast, ODA to the Sudan declined significantly. Flows to middle-income countries, including Egypt, Jordan, Morocco, and Tunisia, appear to have increased during the past decade but remained volatile, fluctuating year to year.

This inconsistency remains problematic, coming alongside the failure of developed countries to keep their commitment to disburse 0.7 per cent of gross

national income as ODA to developing countries. Other concerns centre on the low shares provided to essential services integral to realizing human rights. The share of ODA for education has declined, to about 7 per cent in 2019. The shares for health and water and sanitation remained negligible at 3 per cent and 4 per cent, respectively, in 2019. Together, water and sanitation, education, health, and commodity aid accounted for only 21 per cent of total ODA in 2019. The share for the production sector has contracted (figure 100). Significant resources are needed in all of these sectors to improve the quality and accessibility of public services, towards making societies more inclusive and sustainable.¹⁶¹



Together, water and sanitation, education, health, and commodity aid accounted for only 21 per cent of total ODA in 2019.

Figure 99. Increasing ODA to the region largely goes to humanitarian aid: ODA going to humanitarian aid (Percentage)

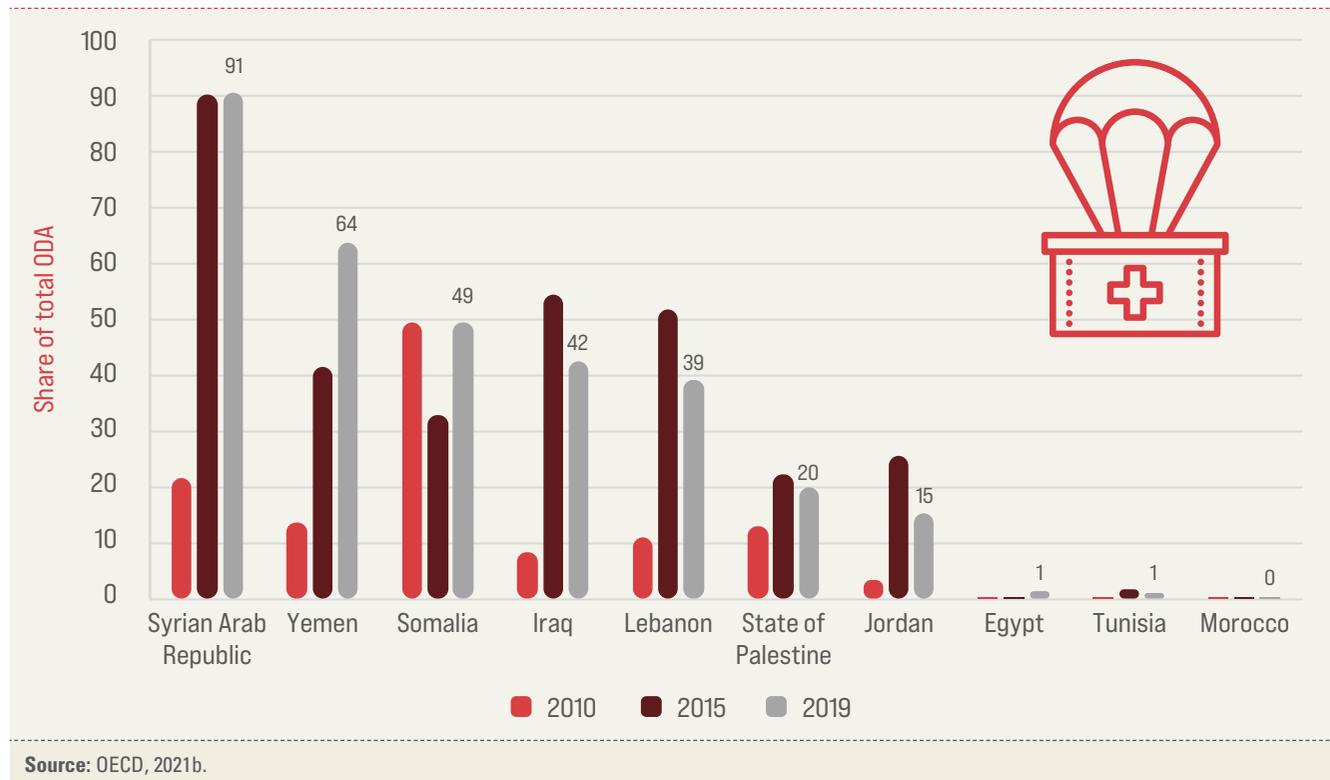
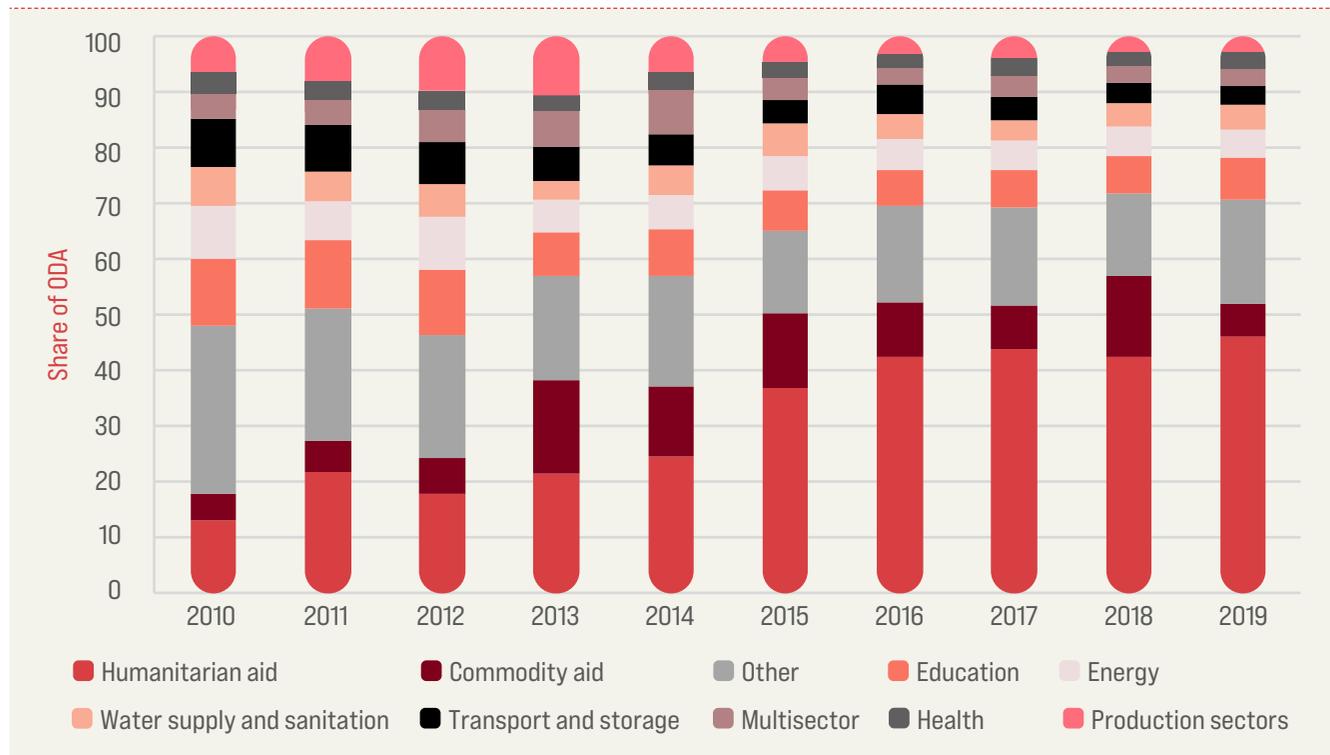


Figure 100. Low shares of ODA fund services integral to human rights: share of total ODA (Percentage)



Note: The other category includes unallocated or unspecified aid, government and civil society, banking and finance, and other social infrastructure and services, among other categories.

The share of ODA allocated “on-budget” or directly to recipient Government social sector budgets remains very low, despite the fact that a single revenue pool is vital for a coordinated national funding strategy (figure 101). Governments also need relative autonomy in deciding how and where finance is used. In 2019, only Egypt, Jordan and the State of Palestine received on-budget ODA for education, health and/or social protection. On-

budget flows for education reached just over 4 per cent of the education total for the region, with Egypt at 18 per cent, the State of Palestine at 10 per cent and Jordan at 7 per cent. On-budget health ODA amounted to a mere 2.6 per cent of the total, with Jordan and the State of Palestine at approximately 20 and 6.5 per cent, respectively. Only Egypt received on-budget funding for social protection at approximately 20 per cent of ODA in this area.

Figure 101. ODA is more likely to support projects than public budgets, undercutting coordinated national financing strategies



4. Swapping debt for more fiscal space

High debt burdens and insufficient finance in many Arab countries not only limit inclusive recovery from the pandemic but also could lead to deep and long-term social and economic scarring. Weak fiscal positions also severely constrain abilities to manage growing climate challenges and a green transition. Debt relief through innovative financial instruments, such as debt swaps, is one promising avenue to create fiscal space for investment in a sustainable, inclusive and green recovery.

The G20's Debt Service Suspension Initiative (DSSI) and subsequent establishment of the Common Framework on Debt Treatments Beyond the DSSI are important initial steps towards debt relief and increased fiscal space in many vulnerable countries. But middle-income countries with high debt burdens are not eligible for these. Further, no clear incentive or mechanism exists to encourage or compel private creditors to participate in debt relief. More comprehensive relief is needed, encompassing a wider group of countries and circle of creditors, particularly given the urgent need to finance recovery, the SDGs and climate action (box 6).

Climate and SDG debt swaps can provide debt relief and fiscal space for social and climate aims, especially for countries where debt burdens are high but have not yet become unsustainable. In 2020, the United Nations High-level Meeting on Financing for Development highlighted debt swaps,¹⁶² which have historically been used for social or environmental objectives. Official creditors may cancel debt under such arrangements. If private creditors are involved, grant funding is used to purchase commercial debt in the market, where it is generally traded at a discount. Both cases involve using resources freed by debt relief to invest in agreed priorities.

At the 2021 global climate talks, developed countries reiterated a commitment to improve climate finance for developing countries and reach a \$100 billion annual target. The Arab region, however,

receives climate finance mostly through external debt instruments, which exceed grant finance by a factor of 8.5.¹⁶³ Any new borrowing will add to the already heavy debt service burden, with risks amplified by the sharply increasing share of external debt held by the private sector.¹⁶⁴ New financing instruments need to be innovative because new debt is now a less viable option. Solutions to debt sustainability also require working out improved debt management strategies.

In 2020, ESCWA launched the Climate/SDGs Debt Swap–Donor Nexus Initiative to assist countries in improving fiscal space for financing the SDGs and climate action while reducing their debt burdens.¹⁶⁵ This initiative and the UNDP work in related field to improve SDG finance¹⁶⁶ create a next-generation debt swap instrument that considers the scalability of the swap amount, donor support and key performance indicators to maximize impact. They address the limitations of traditional swaps that were mainly implemented ad hoc with a marginal impact on development objectives.¹⁶⁷

Swaps offer significant opportunity for middle-income Arab States, where external debt servicing consumes about \$20 billion of their expenditures, equivalent to 11 per cent of their export earnings or nearly double the global middle-income country average.¹⁶⁸ Furthermore, climate finance in Arab countries lags the volume of other regions, particularly in water and agriculture where adaptation needs are greatest. Moving forward, success of the debt swap initiative will depend on developed country action on climate finance pledges to developing countries.

ESCWA launched the Climate/SDGs Debt Swap–Donor Nexus Initiative to assist countries in improving fiscal space



for financing the SDGs and climate action



while reducing their debt burdens

Box 6. Improving the management of debt and debt relief

Medium-term debt-stabilizing scenarios are important in countries still within the bounds of sustainable debt. They are not permanent solutions for countries staggering under high debt burdens. Adopting austerity measures and fiscal consolidation are not solutions either, given recovery needs. In these cases, debt restructuring is an alternative.^a Following standard principles,^b this requires agreement by the debtor and its creditors and carries potential sovereign credit rating risks. It also takes time to work out debt restructuring arrangements, which often makes this option difficult for debtor countries. The process has only become more complicated with the increasing share of private creditors in sovereign debt.

The United Nations Secretary-General has called on the international community to consider debt relief initiatives that build on and complement the G20 Common Framework for Debt Treatment.^c The focus would be twofold: debt management combined with debt relief mechanisms for freeing resources for investment in more inclusive and sustainable societies. Developed countries can draw on existing initiatives, such as the United Nations Basic Principles on Sovereign Debt Restructurings and the G20 Common Framework. Establishing a multilateral sovereign debt forum would foster greater coordination among creditors and debtors, back sustainable sovereign debt resolution and link debt relief to SDG financing.^d

^a Stiglitz and Rashid, 2020. ^b United Nations, 2015. ^c United Nations, 2020b. ^d ESCWA, 2021a.

5. Mobilizing debt finance through debt-to-GDP stabilization

Reducing the ratio of debt to GDP is an important challenge for several Arab middle-income countries facing urgent needs to recover and invest in the SDGs. Even where debt burdens are high, however, additional debt finance may be necessary. Monetary policy has a key role in influencing debt sustainability gaps based on an assessment of the difference between the actual primary balance and the required debt-stabilizing primary balance. For many countries in the region, the interest rate and growth differential are not favourable, implying adverse consequences of a debt rollover.¹⁶⁹ Governments can borrow more, and debt is more sustainable, if interest rates are low and economic growth is high.¹⁷⁰ While there is no suggested threshold for debt, Governments need to be mindful of additional interest burdens.

One option is a debt finance strategy to stabilize debt to GDP in the near to medium term to open fiscal space for public expenditure on recovery and the SDGs.¹⁷¹ An accounting exercise can guide the adoption of a debt-to-GDP stabilizing threshold, either maintaining the current ratio or any change in that ratio. Such an exercise can thus estimate how

much fiscal space can be released or generated through debt finance without affecting solvency.¹⁷²

A debt-stabilizing threshold above the baseline target in nominal terms over the medium term would imply increased fiscal space through more debt finance. A critical issue is that the share of interest payments to revenue flows should remain at an acceptable level while additional finance should be channelled to investments that generate the greatest productivity and growth and improve revenues. Ideally, these principles should be reflected in any medium-term framework for expenditures and revenues.



One option is a debt finance strategy to stabilize debt to GDP in the near to medium term to open fiscal space for public expenditure on recovery and the SDGs.

C. One way forward: modelling debt stabilization in Tunisia

The following case study of Tunisia demonstrates how debt stabilization works. It applied a structural macroeconomic modelling and forecasting framework, based on the World Economic Forecasting Model, to assess the impact on macroeconomic performance.¹⁷³ While Tunisia is a leader among Arab middle-income countries in increasing taxes as a share of GDP and has potential to improve tax collection, it still suffers from underlying inefficiencies and leakages.¹⁷⁴ Debt financing through stabilizing the debt-to-GDP ratio is also a viable option.

Baseline forecasts until 2030 used actual data through 2020, including the deep contractionary effect on Tunisia's economy from COVID-19. However, the estimates were undertaken prior to the war in Ukraine and do not consider the effects of inflationary pressures and monetary tightening around the world. Growth declined to minus 7.2 per cent in 2020. Forecasts show the economy bouncing back by 5.3 per cent in 2021 and improving by 3.2 per cent in 2022¹⁷⁵ with subdued growth thereafter ranging between 1.5-2 per cent annually. The pandemic increased the fiscal deficit to minus 7.4 per cent of GDP in 2020, worsening the negative 3.9 per cent deficit in 2019. The fiscal deficit is expected to narrow slightly to negative 6.8 per cent in 2021 and gradually shrink to minus 2.4 per cent at the forecast horizon in 2030. The share of debt to GDP, having climbed to 83 per cent in 2020, is forecast to fall to 78 per cent by 2030.

Stabilizing debt at about 85 per cent until 2030 (Scenario 1), instead of reducing it to 78 per cent as implied in the baseline scenario, can generate additional fiscal space for government expenditure of 21.2 billion TD from 2022 to 2030. This scenario would push government expenditure above the baseline from 2025 onwards. GDP growth would be above the baseline by 0.2-0.4 per cent from 2025 onwards, with output higher than the baseline starting from

2025. Additional nominal GDP generated between 2022 and 2030 would amount to 14.1 billion TD.

Private consumption,¹⁷⁶ as a proxy for improving socioeconomic outcomes at the household level, would rise from 67.5 billion TD in 2022 to 75.8 billion TD in 2030 and remain above the baseline level from 2025-2030. The share of interest payments in total revenues would go up initially to over 15 per cent, as expected with higher debt levels, before declining to just above 14 per cent by 2030. This share is on the high side but within reasonable limits as it remains below 15 per cent of revenues.¹⁷⁷

An alternative scenario entails improving fiscal space through debt financing and domestic resource mobilization, namely, by raising taxes by 1 per cent of GDP (Scenario 2). This would generate an additional 40.7 billion TD in fiscal space between 2022 and 2030, which is more than Scenario 1. Higher GDP growth in the first half of the projection interval would yield slightly better results in terms of output (nominal GDP) and private consumption. The current account would see a slight deterioration while the primary balance would be close to that of the debt financing solution in Scenario 1. Increased fiscal space would be directed towards government expenditure in general, which by default is mostly current expenditure, and not towards productive and social investments. This might explain why increased fiscal space would not translate into much improved growth or socioeconomic outcomes, as reflected by private consumption trends.

Two additional modifications to Scenario 2 produce a third scenario. The two modifications comprise additional fiscal space of 38.8 billion TD allocated specifically to social sectors such as education, health and housing according to their relative shares within total social spending, and a phased-in increase in total factor productivity of 4 per cent¹⁷⁸

by 2030. Monetary policy intervention would be delayed, minimizing the adverse impact on the demand side. Additional fiscal space for government expenditure under Scenario 3 would amount to 42.2 billion TD from 2022 to 2030, an 8.3 per cent increase above the baseline, which compares to 8.0 per cent in Scenario 2 and 4.1 per cent in Scenario 1.

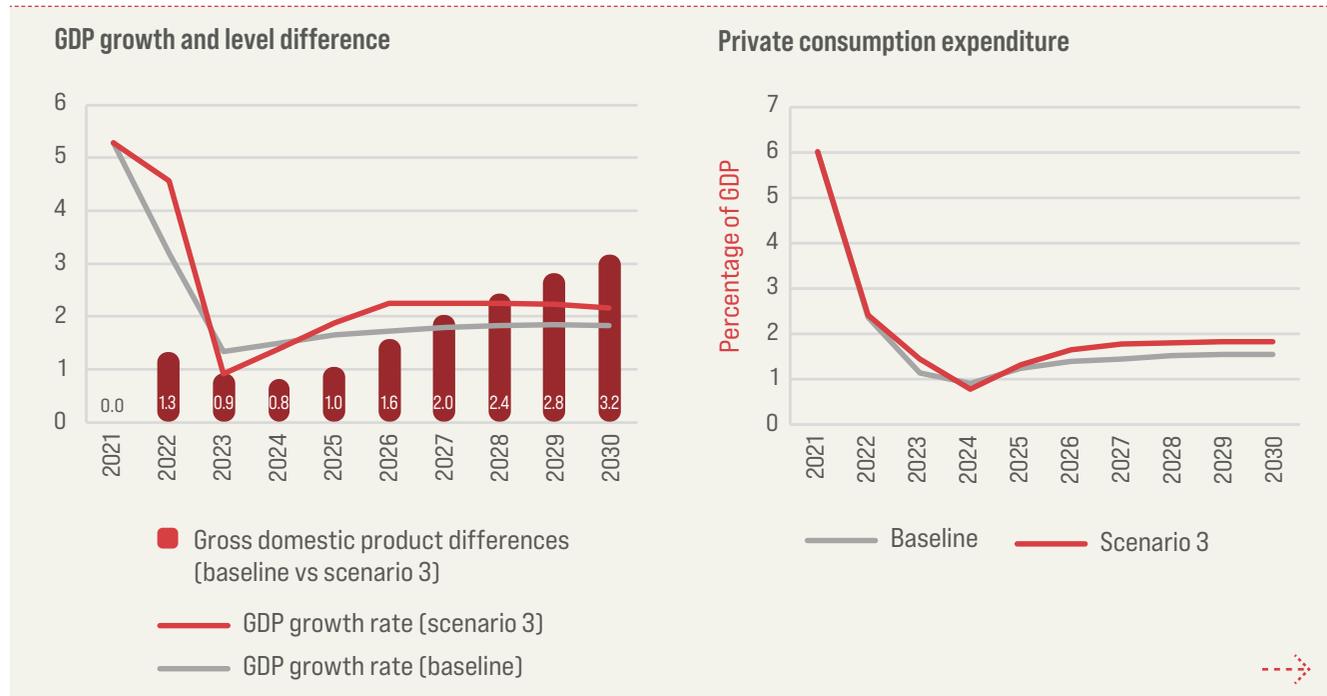
GDP growth under this scenario would remain similar to but slightly above the previous scenarios and more so above the baseline, stabilizing above 2 per cent. Output would remain above the baseline throughout the projection interval. A cumulative increase in nominal GDP of 29.2 billion TD would exceed previous scenarios. Private consumption would increase by 4.7 billion TD over the baseline between 2022 and 2030. This compares to approximately 2.3 billion TD under Scenarios 1 and 2, suggesting that Scenario 3 would be most effective in improving people’s welfare. In short, Scenario 3 is the most efficient in increasing output and private consumption as well as maintaining macroeconomic stability with the share of interest payments in total revenues remaining at acceptable levels (figure 102).



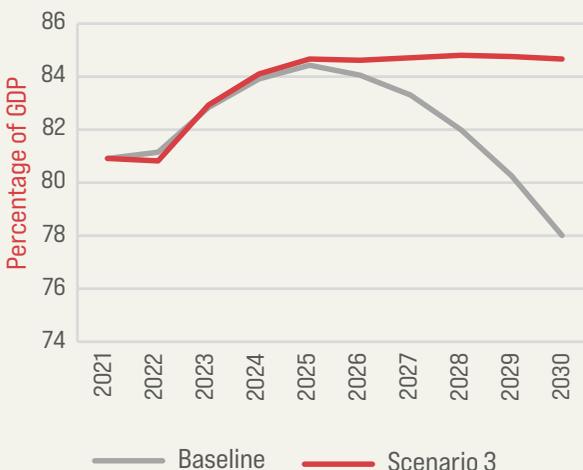
Increasing public expenditure is critical to building both human and physical capital stock and easing supply side constraints. This then drives growth, especially when the private sector is weak.

As the Tunisia case shows, increasing public expenditure is critical to building both human and physical capital stock and easing supply side constraints. This then drives growth, especially when the private sector is weak. While debt finance is important, it should be accompanied by a strategic fiscal policy for allocating funds efficiently and effectively to improve growth and achieve the SDGs.

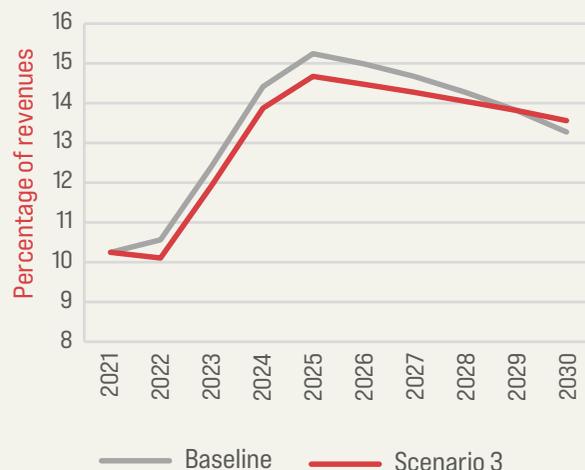
Figure 102. GDP growth and level differences



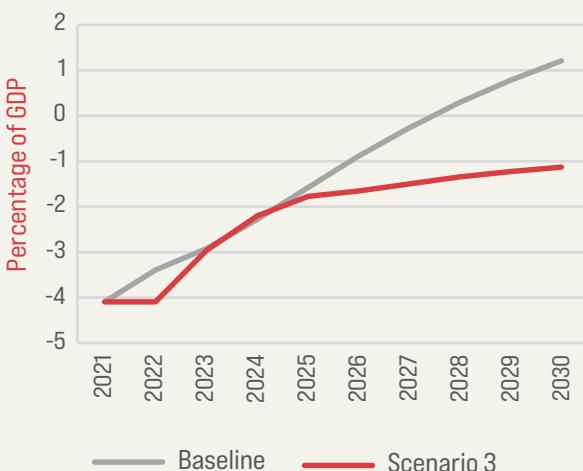
Debt-to-GDP ratio



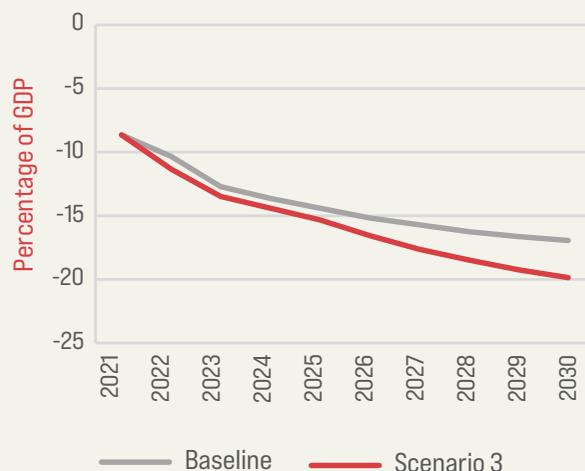
Interest payments



Primary balance



Current account balance



Source: Altshuler and Sarangi, 2021, simulations based on the World Economic Forecasting Model.

D. Managing for the future

On the heels of a turbulent decade in the Arab region, COVID-19 compounded challenges and hindered progress towards the SDGs. The pandemic erased \$159 billion in GDP as regional debt rose to \$1.4 trillion. With large fiscal shortfalls, the response to the crisis has been largely inadequate, leaving the region

in a position of considering all options to enhance fiscal space.

Countries face increasing the efficiency, reach and equity of tax systems, considering that improving tax efficiency to the average OECD level would lead to a spike in revenues of as much as 45 per

cent in some cases. A wealth tax on the top ten percentile of the wealthiest people in the region could contribute to bridge the gap in finance for mitigating poverty caused by COVID-19 in low- and middle-income countries.¹⁷⁹ Much depends not just on tax reforms alone, however, but also on investing in quality public services that build trust and social cohesion and leave taxpayers at all levels of income willing to pay higher taxes.

One key to plugging gaps in fiscal stimulus packages for recovery and the SDGs is for developed countries to fulfil ODA commitments and climate pledges. Another is for IMF member States to channel unused Special Drawing Rights from advanced to developing countries based on indicators of vulnerabilities and needs, including in terms of trade and balance of payments imbalances, crises and financial shortfalls stalling recovery.

Innovative financing instruments such as debt swaps should be used to alleviate mounting pressures on public finance and release funds for the SDGs. Improved debt management practices could come from developing medium-term debt-stabilizing scenarios¹⁸⁰ that consider needs to finance the SDGs and boost economic growth. For countries on the brink of unsustainable debt, establishing a multilateral sovereign debt forum can help move creditors and debtors towards relief that promotes SDG financing.

All fiscal strategies discussed here lead in a common direction – towards more careful and comprehensive management of public resources that can be sustained for the long term. Only then can countries reach their most vulnerable citizens, uphold their social contracts and invest in a future that is more developed and just, realizing the vision of the SDGs.

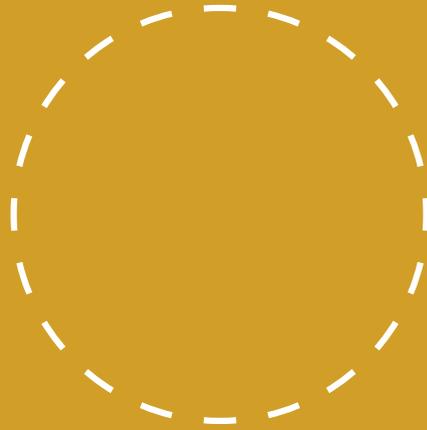


Endnotes

- 141 Sala-i-Martin, 1992; Atkinson, 1995; Filmer and Pritchett, 1999; Gupta, Verhoeven and Tiongson, 2003; Rajkumar and Swaroop, 2008; Khan and Bashar, 2015; among others.
- 142 Bellettini and Berti Ceroni, 2000; Baldacci and others, 2004; Sarangi and von Bonin, 2017; Haile and Niño-Zarazúa, 2018; Cammeraat, 2020.
- 143 United Nations, n.d.
- 144 The rate of growth and fiscal forecasts may vary by different estimates. For instance, according to IMF estimates, the rate of growth for the Arab region was -4.4 between 2019 and 2020 (IMF, 2022).
- 145 United Nations, 2020a.
- 146 Classification of country groups: High-income countries are the GCC countries, which include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates; middle-income countries include Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia; conflict-affected countries are Iraq, Libya, the State of Palestine, the Syrian Arab Republic, and Yemen; the least developed countries are the Comoros, Djibouti, Mauritania, Somalia, and the Sudan. See ESCWA, 2022.
- 147 ESCWA, 2022.
- 148 World Bank, 2021d.
- 149 IMF financial assistance for emerging and advanced market economies comprises stand-by arrangements to address short-term or potential balance-of-payments problems; the Extended Fund Facility as medium-term support to countries facing protracted balance-of-payments problems because of structural weaknesses that require time to address; and the Rapid Financing Instrument to provide rapid assistance to countries with urgent balance-of-payments need to cope with shocks (see IMF, 2021b).
- 150 Sarangi, 2020; UNDP, 2020a.
- 151 United Nations, 2021a.
- 152 ESCWA, 2020a.
- 153 UNDP, 2022.
- 154 ESCWA, 2017c.
- 155 OECD, 2021b.
- 156 Sarangi, 2020.
- 157 United Nations, 2021b.
- 158 Alvaredo, Assouad and Piketty, 2018b.
- 159 Sarangi, Bhanumurthy and Abu-Ismaïl, 2015.
- 160 ESCWA, 2019a.
- 161 Sarangi and von Bonin, 2017.
- 162 United Nations, 2020a.
- 163 Sarangi and Griswold, 2020.
- 164 Sarangi, 2020; UNDP, 2020a.
- 165 Ibid.
- 166 UNDP Sustainable Finance Hub, n.d.
- 167 Sarangi and Griswold, 2020.
- 168 ESCWA, 2021a.
- 169 Sarangi, 2020.
- 170 Blanchard, 2019.
- 171 Sarangi, 2020; ESCWA, 2020a.
- 172 The stabilizing debt-to-GDP solution would not work in a case where debt is unsustainable and the default risk is high or a default has already occurred. In such cases, the approach is to restructure debt. See Stiglitz and Rashid, 2020.
- 173 See the detailed methodology in Altshuler and Sarangi, 2021.
- 174 ESCWA, 2017a.
- 175 In October 2021, the IMF published its latest version of the World Economic Outlook together with an updated database and figures for Tunisia. The current exercise does not consider the revised data; however, the intuition behind the results remains applicable.
- 176 The scenarios do not take into consideration any change of consumption pattern in imports of goods due to switching expenditures more to the social sectors (import elasticities are assumed to be same as before).
- 177 The interest payment to revenues ratio for developing countries of Latin America, on average, is around 15 per cent; this ratio is between 15-20 per cent for South Asia. The global average of interest payments to revenues was around 8 per cent in 2018. Therefore, the ratio of interest payment to revenues at around 15 per cent is high but reasonable for developing countries.
- 178 The increase in total factor productivity is based on the 10-year global average increase in productivity as a bare minimum achievement.
- 179 ESCWA, 2020b; 2020e.
- 180 Sarangi, 2020.



Managing public finances to achieve social goals



06





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The shocks of the COVID-19 pandemic have left the Arab States facing the monumental task of spending heavily¹⁸¹ on recovery while getting back on track to achieve the SDGs. For these countries to have a chance at shaping their future, they must pursue urgent reforms backed by well-run public financial management (PFM) systems. This chapter explores the relevance of such systems to achieving the SDGs. It demonstrates the significant PFM weaknesses that impede pandemic recovery and progress on the goals and underlines how reforms could accelerate momentum through greater spending efficiency and allocative effectiveness, freeing fiscal space to scale up and improve social expenditure.



“

By making the best use of public finance, PFM enables sustainable development and inclusive growth. It is the basis for creating fiscal space to deliver on the SDGs [...]

A. PFM steers social spending in the right directions

PFM makes fiscal policy operational. It extends to all aspects of managing public resources, including raising taxes and other revenues, and managing expenditure, debt, cash, and fiscal risks. It supports reporting and monitoring. A key aspect of strong PFM is its medium-term budget framework,¹⁸² which offers “a natural institutional arrangement for prioritizing, sequencing, planning, and managing revenue and expenditure over a rolling period of three-to-five years.”¹⁸³ Since a budget is a Government’s primary fiscal policy document, it is central to PFM.

By making the best use of public finance, PFM enables sustainable development and inclusive growth. It is the basis for creating fiscal space to deliver on the SDGs, informing policymaking and providing instruments for implementation. Weaknesses in it will most likely result in misguided fiscal policy decisions, SDG-related or otherwise, and derail implementation plans, leading to less than desired outcomes. Given PFM’s focus on resource management and allocation, it also has a central role in promoting equity in the collection and distribution of public resources. Checks and balances operate through fiscal reporting requirements, transparency standards and oversight mechanisms. These institutionalize accountability and build trust among citizens that money has been properly spent.

Direct relationships between specific PFM reforms and service delivery improvements in any sector are difficult to identify. The reasons include the fact that efficient and effective service delivery depends on a variety of public management processes, such as human resources, supply chains and policy development. It is also determined by how well these processes interact within the broader space of governance.¹⁸⁴ That said, recent research suggests a positive correlation between health service delivery and the strength of PFM.¹⁸⁵ There is substantial

evidence that PFM is a significant driver of spending efficiency and is linked to transparency and accountability.¹⁸⁶

Since spending efficiency and allocative effectiveness are two primary objectives of PFM, where it is practiced well, it enhances any form of public expenditure, including social expenditure. In health, for instance, sound PFM would channel funds from less to more cost-effective treatments. In education, it might shift some spending on salaries towards classroom materials, new programmes or new schools.¹⁸⁷

Similarly, well-performing PFM guides better public investments in economic infrastructure such as airports, railways, water, electricity, and telecommunications, and social infrastructure such as schools and hospitals.¹⁸⁸ Investment in quality infrastructure is fundamental for sustainable and inclusive economic growth but returns on investments are critically contingent on how efficiently and effectively they are planned, allocated and implemented. Inefficiencies in public investment management generally cost a nation an average of 30 per cent of returns. Up to two-thirds of this efficiency gap may be bridged by appropriate public investment management reforms.¹⁸⁹

Where PFM is weak, it constrains all areas of public policy and social spending, including climate action, gender equality, social protection, health,¹⁹⁰ and education. While significant attention has gone towards mobilizing resources for development, how such finance is managed and how well it achieves desired outcomes has drawn much less notice.¹⁹¹ Outcomes will not necessarily be achieved with more money. In many cases, the primary issue is to use funds properly.¹⁹² This thinking is behind a strong push to make PFM systems more sensitive to development priorities through “priority-based budgeting” linked to the SDGs, gender equality, children, and climate, among other examples.¹⁹³

B. A challenging region for reforms

PFM systems reflect their context. Fragility and corruption typically undermine them, issues at work in many Arab States. Transparency International's 2020 Corruption Perception Index found that the oil-exporting countries are generally perceived to be the least corrupt in the region, followed by the middle-income countries and lastly by countries with fragile and conflict-affected situations, which rank as among the most corrupt countries globally.

High debt levels, fiscal deficits and lagging social outcomes also create challenging environments for PFM. COVID-19 hit at a time when most Arab countries were facing strenuous fiscal circumstances. By the end of 2019, except for Iraq and Mauritania, countries with fragile and conflict-affected situations, middle-income countries and four out of the seven oil-exporting countries (Algeria, Bahrain, Oman, and Saudi Arabia) had fiscal deficits, which have grown worse during the pandemic.

Even before the pandemic, the Arab region was grappling with economic and gender inequality, youth unemployment¹⁹⁴ and refugee movements, and had fallen behind on health and education outcomes. As a result, several Arab States launched efforts to create fiscal space for social spending. These included tax reforms (Mauritania), efforts to enhance tax administration and rationalize tax exemptions (Djibouti and Morocco), attempts to mobilize and diversify revenues (Bahrain, Saudi Arabia and the United Arab Emirates), and the better targeting of social safety net spending. The pandemic derailed many of these initiatives while imposing limits on essential services, increasing mortality and boosting unemployment levels and poverty. The ensuing hardships have fallen disproportionately on small firms, youth and women, among other vulnerable populations. The pandemic has brought to a halt and in some

cases reversed prior progress, while amplifying pre-existing challenges.¹⁹⁵ Several countries that should be increasing their social spending, given their inadequate progress on the SDGs, have cut expenditure relative to pre-pandemic forecasts.

Significant budget deviations in terms of actual and estimated expenditures in social spending are a critical issue. In 2019, examples of large social expenditure variances, where spending does not always reflect the amounts originally approved, included 16 per cent for education in Lebanon; about 9 per cent and 12 per cent for health in Tunisia and Jordan, respectively; and about 33 per cent for environmental protection in Jordan and Tunisia.¹⁹⁶ These figures speak to the weak reliability of social expenditure budgets either because budgets are not realistic or are not implemented as intended.

Stronger PFM is clearly needed for the Arab region to secure adequate social expenditures and select the most strategic mix of investments. It can help open fiscal space by mobilizing additional revenue, through borrowing and/or via reallocations within existing budget envelopes that are more in line with development priorities.



Stronger PFM is clearly needed for the Arab region to secure adequate social expenditures and select the most strategic mix of investments.

C. Breaking down the shortfalls in PFM performance

An annual budget law is the ultimate expression of a Government's political, economic, social, and other development priorities. The budget is a fundamental tool for planning, risk management, authorizing expenditure, assessing performance, communicating, transparency, and accountability (figure 103).¹⁹⁷

Within the budget cycle, the Public Expenditure and Financial Accountability (PEFA) framework is the most common comprehensive diagnostic of PFM quality.¹⁹⁸ It identifies the following seven core components: budget reliability, the transparency of public finances, management of assets and liabilities, policy-based fiscal strategy, budgeting predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. These pillars are disaggregated into 31 indicators and 94 dimensions to assess PFM performance.¹⁹⁹

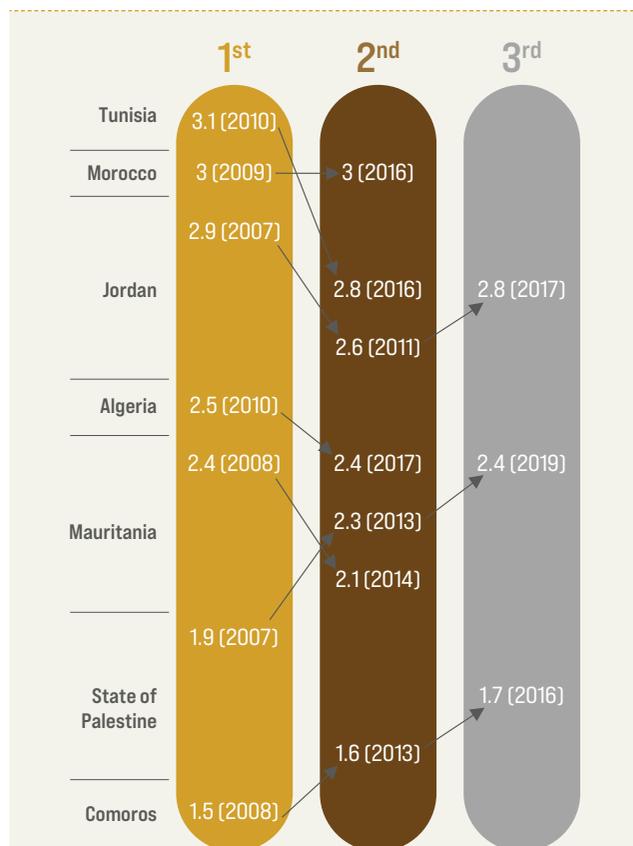
While the budget is typically prepared on an annual basis, a year is generally insufficient to make visible progress on a nation's strategic objectives. Medium-term planning is fundamental to strong PFM because it enables high-quality, forward-looking decision-making and risk management, and therefore enhances macroeconomic stability, sustainability and attainment of development objectives.

Figure 103. The key stages of the budget cycle



Source: Gonguet and others, 2021.

Figure 104. Repeat PEFA assessments in the Arab region, based on the 2011 framework



Source: PEFA, 2020a.

Note: These scores denote the overall aggregate PFM performance per country per assessment. The letter PEFA scores "D" to "A" were first converted into numerical scores from "1" to "4" respectively. The simple average of these numerical scores was then computed and used as a proxy for overall PFM performance notwithstanding certain limitations.

To develop an understanding of PFM performance in terms of broad social expenditure categories in the Arab region, this report drew on a set of diagnostic tools,²⁰⁰ namely, PEFA assessments using the 2011 and 2016 PEFA frameworks,²⁰¹ relevant public expenditure reviews and the Open Budget Survey.

For the Arab region, there are five publicly available national PEFA assessments using PEFA's 2016 framework and nine others using PEFA's 2011 framework. Two of the eight countries with fragile and conflict-affected situations in the region have

never undergone a PEFA assessment (Libya and Somalia). The same applies to four out of the seven oil-exporting countries (Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates). Seven countries have undergone repeat assessments, some of which suggested regressions in performance that may be explained by external shocks, governance changes and/or political economy factors (figure 104).²⁰²

Three main observations seem to apply to the region.²⁰³ First, three PFM system pillars are

significantly weak, where inadequate collective performance across indicators weighs down performance on each pillar as a whole.²⁰⁴ Second, several pillars are undermined by weak performance on certain indicators.²⁰⁵ Third, some indicator-level PFM weaknesses are specific to countries with fragile and conflict-affected situations. Observations by pillar follow. Given the sample size, there was little scope to identify discernible trends across country classifications unless otherwise stated.

D. Significantly weak PFM system components show multiple points of poor performance

1. Management of assets and liabilities, Pillar III

Within PEFA Pillar III, on management of assets and liabilities, public investment management appears to be a major challenge, primarily due to weaknesses in investment project costing (table 5). Ideally, major investment projects should be analysed based on cost projections across an

entire life cycle. These projections should include both capital and recurrent costs, broken down by year and included in the budget documents. At the very least, projections of capital costs should be included in the budget documents in total and for the upcoming budget year. Only two of the five countries assessed meet basic levels of performance, however, while two out of five do not. For the fifth country, this indicator was not used.

Table 5. Pillar III PEFA scores

	Country	Year	PI-10	PI-11	PI-12	PI-13	Total number of scores	20
			Fiscal risk reporting	Public investment management	Public asset management	Debt management		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	NU	C+	D+	D, not applicable scores	55
	State of Palestine	2019	D	D+	D+	C+	C scores	25
Least developed countries	Mauritania	2020	D+	C	D+	D+	B scores	15
Middle-income countries	Morocco	2016	B	C	B	C	A scores	5
	Jordan	2017	B	D+	D+	A	Total	100

Source: PEFA, n.d.a.

Prevalent weaknesses include the lack of total life cycle costing (Jordan, Lebanon, Morocco, and the Sudan), insufficient rules or procedures for project execution (Jordan), inadequate monitoring (Lebanon), and the absence of appropriate or clear guidelines for conducting economic analysis and project appraisals (Jordan, Lebanon, Morocco, the State of Palestine, and the Sudan). In Mauritania, formal project appraisals are seldom conducted unless by a development partner.

A second problematic area is public asset management given difficulties in financial asset monitoring. For example, in Jordan, information on financial assets is only partially available. There are no clear regulations on the disposal of Government-owned assets. In Lebanon, Morocco and Tunisia, there are no comprehensive lists of financial and/or non-financial asset holdings. Records of holdings in all financial assets categories should be maintained and recognized at fair or market value, in line with international accounting standards (a point that ties in with the discussion of accounting standards under Pillar VI). In addition, relevant information on the portfolio's performance should be published annually. At the very least, records of major financial assets should be maintained. Only one of the five countries assessed meets basic levels of performance, however, while three out of five do not. Morocco is the only country that scored "B" in this area, which implies that it maintains records of its major financial assets, recognizes them either at acquisition cost or fair value and publishes relevant information annually.

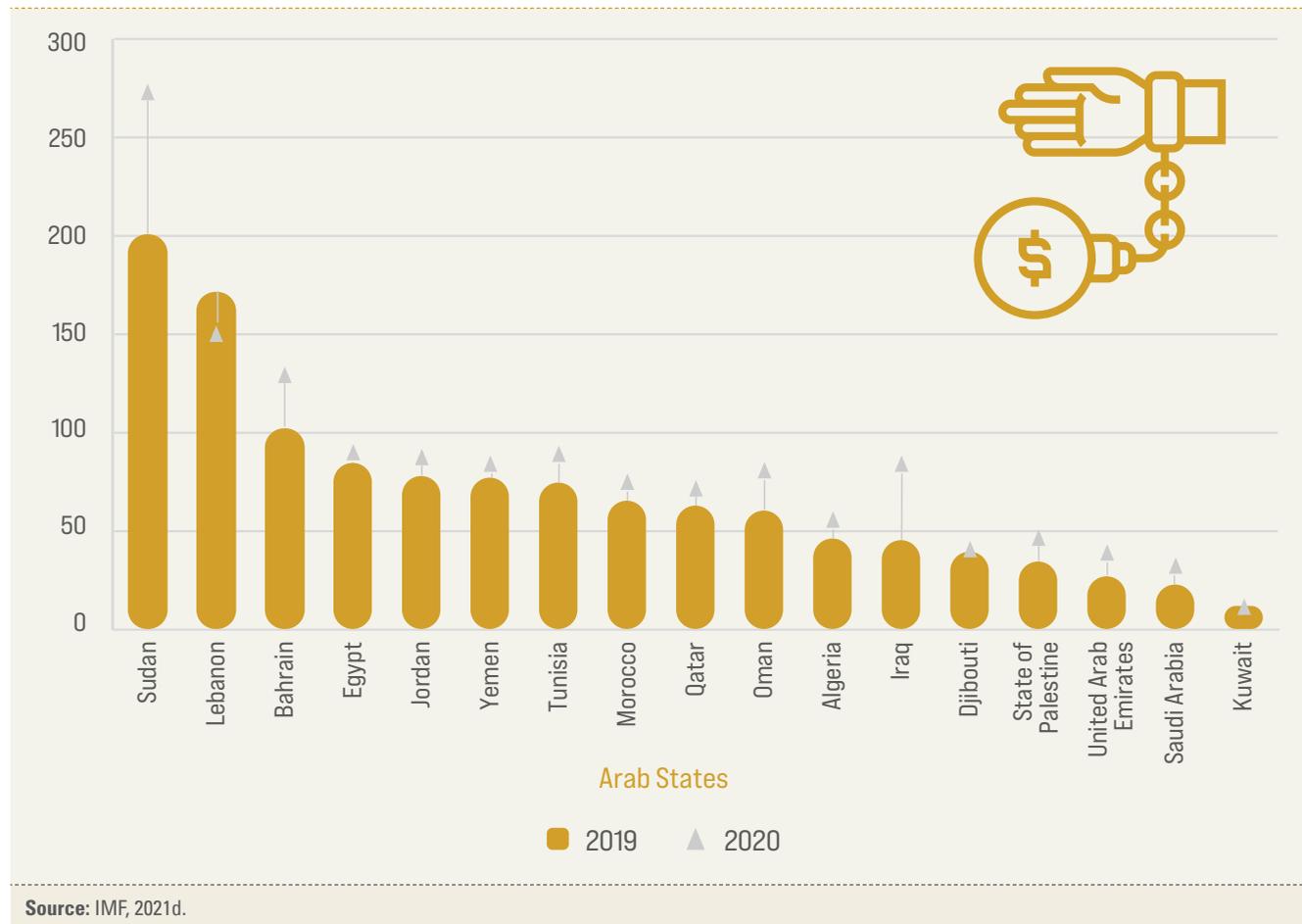
Fiscal risk reporting considers adverse macroeconomic conditions, natural disasters and financial leverage and/or contingent liabilities of the activities of the central government, extrabudgetary units, subnational governments or public corporations.²⁰⁶ Performance on this indicator falls below the basic level for more than half of the assessed countries (Iraq, Mauritania and the State of Palestine). Jordan and Morocco perform just above the basic level. While Jordan identifies fiscal risks based on assessments

conducted by international organizations such as the IMF, however, these risks are not systematically accounted for because they are not integrated in published financial reports. Similarly, Tunisia does not report on fiscal risks related to public corporations or contingent liabilities from Government guarantees, insurance programmes or public-private partnership projects.

Perhaps the best example of unreported fiscal risks is Lebanon's sizeable off-budget spending, which amounts to approximately 16 per cent of total expenditure. Hundreds of public entities operate independently and do not have their budget approved by Parliament, although they are required by the Ministry of Finance to report their spending as part of public accounting. The national electricity company, for instance, is not part of the annual budget and is financed through long-term treasury advances or loans. In the Sudan, information on the risk exposures of State-owned enterprises and State governments is not available.

Debt management is another weakness. Although it appears to be less so in the five 2016 framework assessments (the 2011 assessments did not evaluate assets and liabilities management), empirical performance suggests otherwise. Debt levels have grown over the past 10 years at a higher rate than GDP. In many countries, gross public debt grew by more than 100 per cent between 2008 and 2018, as compared to nominal GDP growth of 30 per cent (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia).²⁰⁷ By the end of 2019, more than half the countries in the region had public debt-to-GDP ratios above 50 per cent, with Egypt, Jordan, Tunisia, and Yemen closer to or higher than 70 per cent, and Bahrain, Lebanon and the Sudan with debt levels soaring between 100-200 per cent (figure 105). For Djibouti and Mauritania, debt distress is considered a high risk. Somalia, the Sudan and Yemen are already in debt distress. Lebanon has defaulted, while Somalia qualified for relief under the Heavily Indebted Poor Countries initiative.²⁰⁸

Figure 105. High levels of public debt as a percentage of GDP suggest poor management



Trends in debt levels are affected by spending composition. When borrowing is coupled with asset accumulation that increases the country’s net worth and productive potential, it creates growth. When it finances consumption spending, the added burden of servicing the debt without increased earnings potential will ultimately choke growth and render debt unsustainable. In many Arab countries, spending is oriented towards recurrent expenditures dominated by a very high public sector wage bill (Iraq, Lebanon, Mauritania, Somalia, the State of Palestine, and Tunisia). Such recurrent expenditures limit the space available for public investment, including in social sectors. In the Comoros, domestic funding of investments has generally been at approximately 1 per cent of GDP. In 2018, the debt service burden in Lebanon amounted to 42 per cent of revenue, and in Egypt, Jordan and Tunisia, debt financing covered,

directly or indirectly, approximately one third of current expenditures.

Public social expenditure relative to GDP and growth in real per capita social expenditure have both been on a downward slope in the region. In Tunisia, creating more fiscal space to finance important development needs requires reducing the debt-to-GDP ratio from 70-60 per cent over a five-year period, which in turn requires reducing the primary balance (equal to the overall fiscal balance excluding net interest payments on public debt) by 3.5-4 per cent of GDP as compared to the recent historical average.²⁰⁹

Moreover, increases in social expenditure have often gone towards salaries and impromptu subsidies to quell public frustration and protests as opposed to strategic investments in health,

education or productive sectors that enhance growth and human development. For example, in Jordan, 2013 capital spending on education comprised a mere 5.7 per cent of total education spending, compared to the OECD average of 7.4 per cent. In Tunisia, while wage bill spending increased between 2012 and 2017 from 88 to 93 per cent, investment spending dropped to a mere 4 per cent. Such past and current inefficiencies will eventually be shouldered by future generations, which translates into intergenerational inequity.²¹⁰

2. Accounting and reporting, Pillar VI

Within PEFA Pillar VI, two of the three indicators in the 2016 framework assessments appear problematic. Annual financial statements seem to be the primary issue, where three out of five countries do not meet minimum standards with a score of “D+” (table 6). A pervasive problem is the submission of reports for external audits typically beyond nine months of the end of the fiscal year. This ideally should happen within three months.

The accounting standards used to prepare financial statements are another significant concern with two dimensions. First, the accrual basis of accounting is far superior to a cash basis because it records the economic substance of transactions irrespective of when the cash settlement takes place. It systematically reflects a comprehensive, coherent picture of Government finances through an articulated set of financial statements. Accrual basis accounting is core to truly informed decision-making, transparency and accountability. Similarly, accrual-based budgeting enhances cost information and promotes discipline in budget execution as well as performance monitoring, particularly when accrual reporting has been adopted.²¹¹

By 2025, 50 per cent of jurisdictions globally are expected to be reporting on an accrual basis.²¹² According to the International Public Sector Financial Accountability Index,²¹³ out of eight

Arab States with available data, only the United Arab Emirates uses partial accrual as its reporting basis. By 2025, two others are expected to have shifted to partial accrual and another two to full accrual (table in the annex).

The second dimension is standardization. Harmonious accounting treatment across government levels, within and across countries, is a significant challenge. All financial reports should be prepared in accordance with accounting standards that are broadly consistent with international standards. If a national reporting framework is used, it should incorporate most international standards. Any remaining differences should be disclosed and explained, and in all cases, the reporting framework should be disclosed in the notes to the financials. The International Public Sector Accounting Standards (IPSAS) is the point of reference. According to the International Public Sector Financial Accountability Index, out of eight Arab States with available data, three use IPSAS with no modification (Jordan, Somalia and the State of Palestine), one uses national standards with reference to IPSAS (the United Arab Emirates) and the remaining four use their own national standards (Lebanon, Saudi Arabia, the Sudan, and Tunisia). While there are plans to move further toward IPSAS by 2025, the question of implementation remains (table in the annex).

Another issue in this pillar entails the coverage, classification, accuracy, and timeliness of in-year budget reports, as suggested by the fact that three out of five countries do not meet minimum standards with a score of either “D” or “D+” (table 7). These 2011 framework assessments also highlight accounting-related issues in the quality and timeliness of annual financial statements. They flag weaknesses in the collection and processing of information to determine resources, both cash and in-kind, received by the most common front-line service delivery units, namely, primary schools and primary health clinics. Weak accounting and recording functions have caused significant data gaps and unreliable financial reporting in the electricity sector in the Comoros.²¹⁴

Table 6. Pillar VI PEFA scores

	Country	Year	PI-27	PI-28	PI-29	Total number of scores	15
			Financial data integrity	In-year budget reports	Annual financial reports		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	D+	D+	D, not applicable scores	60
	State of Palestine	2019	B+	B+	D+	C scores	20
Least developed countries	Mauritania	2020	D+	D+	C	B scores	20
Middle-income countries	Morocco	2016	B+	D	D+	A scores	0
	Jordan	2017	D+	C+	C+	Total	100

Source: PEFA, n.d.a.

3. External scrutiny and audit, Pillar VII

For PEFA Pillar VII, on external scrutiny and audit, performance is poor on both indicators. The legislative scrutiny of audit reports was assessed at either not applicable or “D+” for the majority of countries on both the 2011 and 2016 framework assessments (table 7). This means that legislative scrutiny is either not applicable to the government system or does not meet basic levels of performance. The main issues pertain to the timing and transparency of audit report scrutiny, hearings on audit findings and recommendations on audits made by the legislature.

These findings are consistent with the 2019 Open Budget Survey findings, which indicate that none of the legislatures in the region meet the minimum requirements (a score of 61) as overseers of the budget cycle. Their role ideally encompasses a spectrum of activities, including debating and approving recommendations on budget priorities prior to the drafting of the budget proposal, approving the budget, monitoring budget implementation, scrutiny of audit reports, and following up on the executive’s response to audit recommendations. The best performers are the middle-income countries with limited legislative oversight (scores from 41-60). All oil-exporting countries and those with fragile and conflict-

affected situations except Iraq (score 58) show weak legislative oversight (scores from 0-40). Saudi Arabia’s score is zero suggesting that this critical function is non-existent in its PFM system (table 8).

As a whole, external audit function performance is relatively weak. Under the 2016 framework, three out of five countries do not meet overall basic levels of performance and have a score of “D+” (Iraq, Jordan and Mauritania). The State of Palestine just meets basic levels with a score of “C+”. The region scores the lowest globally on the submission of audit reports to the legislature (PI-30.2 dimension). Delays in submitting audit reports, generally close to nine months instead of three as an ideal, might be associated with the interference that Arab supreme audit institutions generally face in deciding the timing and content of their reports. Another important issue involves restrictions on accessing documents and information.²¹⁵



None of the legislatures in the region meet the minimum requirements as overseers of the budget cycle.

Table 7. Pillar VII PEFA scores

	Country	Year	PI-30	PI-31	Total number of scores	10
			External audit	Legislative scrutiny of audit reports	Breakdown of scores, percentage	
Countries with fragile and conflict-affected situations	Iraq	2017	D+	Not applicable	D, not applicable scores	70
	State of Palestine	2019	C+	Not applicable	C scores	20
Least developed countries	Mauritania	2020	D+	D+	B scores	10
Middle-income countries	Morocco	2016	B	Not applicable	A scores	0
	Jordan	2017	D+	C	Total	100

Source: PEFA, n.d.a.

Table 8. Transparency, public participation and oversight scores

	Country	Transparency (Open Budget Index)	Public participation	Oversight			Independent fiscal institution
				By legislature and supreme audit institution	By legislature	By supreme audit institution	
Countries with fragile and conflict-affected situations	Lebanon	6	0	18	14	28	No
	Iraq	9	0	63	58	72	No
	Yemen	0	0	7	6	11	No
	Sudan	2	0	33	22	56	No
	Comoros	0	0	35	28	50	No
	Somalia	3	2	28	33	17	No
Middle income countries	Morocco	43	6	44	44	44	No
	Tunisia	35	17	45	53	28	No
	Egypt	43	15	50	53	44	No
	Jordan	61	7	43	50	28	No
Oil exporting countries	Algeria	2	0	35	39	28	No
	Saudi Arabia	18	0	11	0	33	No
	Qatar	1	0	6	6	6	No

Source: International Budget Partnership, 2019.

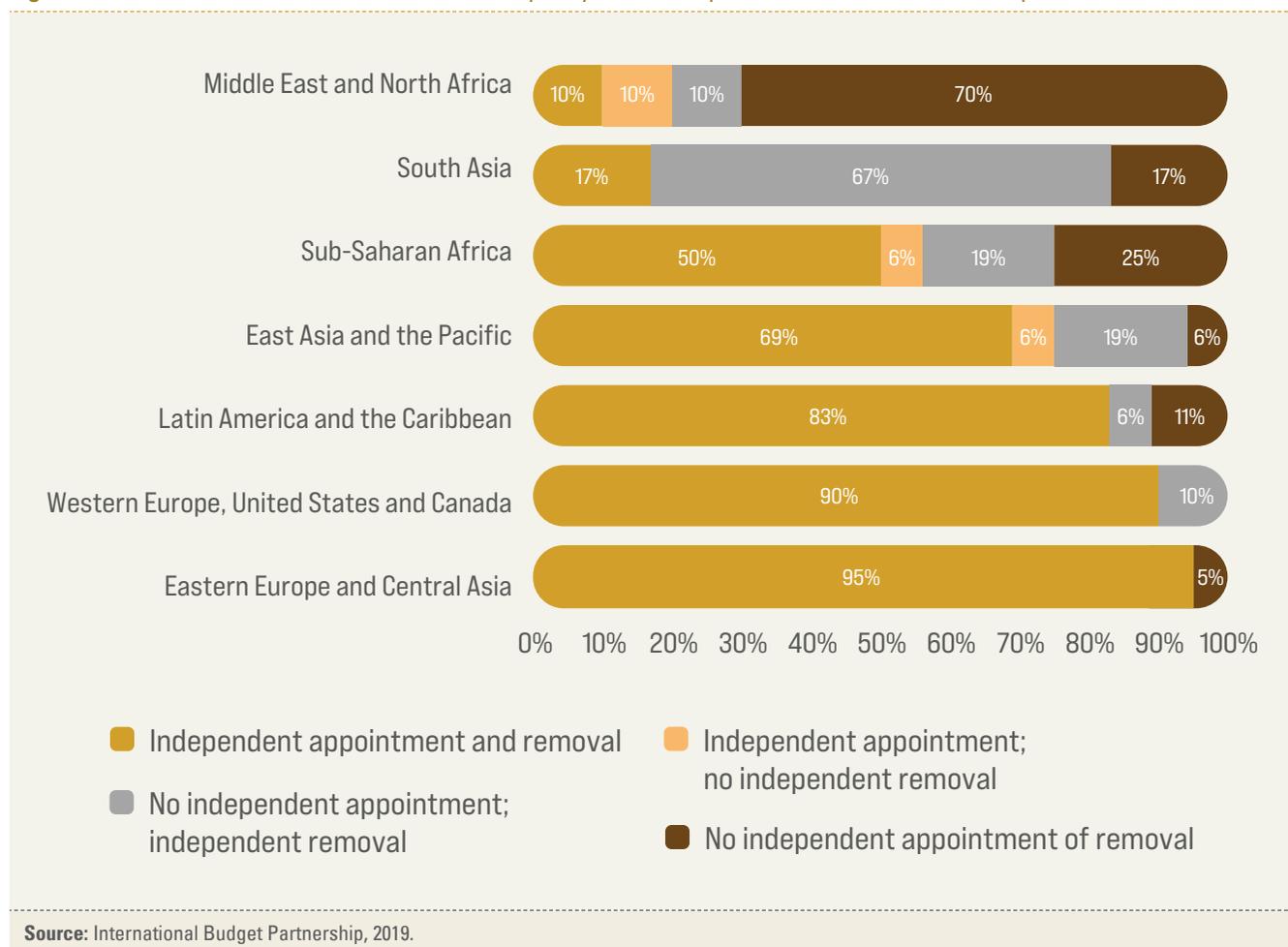
According to the 2019 Open Budget Survey index, the only country that meets the minimum adequate level of budget oversight by the supreme audit institution, is Iraq, which scores 72. Countries with fragile and conflict-affected situations generally have weak oversight (scores range from 0-40), except the Sudan with a score of 58, indicating a limited level of oversight. The middle-income countries are equally divided between weak and limited. Oil-exporting countries are reportedly weak (table 8).

Another critical challenge is the limited independence of supreme audit institutions. They are generally among the lowest performers on the recently launched Supreme Audit Institution Independence Index. Eleven Arab countries have been assessed; only the Sudan enjoys a high level of independence. Morocco and Tunisia

warrant a score of substantial. The rest are at a moderate (Djibouti, Iraq, Jordan, and the State of Palestine) or low level (the Comoros, Egypt, Lebanon, and Yemen).²¹⁶

These findings are consistent with the 2019 Open Budget Survey findings, which show that in over two thirds of the countries in the region, supreme audit institutions do not have legal independence or the legal protection that comes from requiring an external body (typically the legislature) to approve the appointment or removal of the head of the institution. This share significantly exceeds those in other parts of the world (table 9).²¹⁷ In addition, during 2014-2016, more than half of Arab supreme audit institutions reportedly went through budget cuts, leaving them with insufficient resources, which adversely impacts their financial independence.²¹⁸

Figure 106. The Middle East and North Africa score poorly on the independence of the head of the supreme audit institution



E. Weak PFM components have gaps on some indicators

1. Budget reliability, Pillar I

Within the PEFA budget reliability pillar, expenditure composition outturns are the weakest indicator. Most countries score “D+” on this indicator in the 2016 framework assessments (table 10). This is due to relatively significant variances, above 10 per cent, between actual and budgeted expenditures at the subaggregate or functional level.

This issue is evident in the region’s social spending. Health care is a good example, where budget deviations for Tunisia and Jordan amounted to about plus 9 per cent and minus 12 per cent, respectively, in 2019. In Iraq, budgeted-to-actual variances in fiscal health-care expenditure are significant between expenditure categories and over time.²¹⁹ Since

2015, Iraq’s execution rate for investment in education has regularly been below 40 per cent of the budgeted envelope, with significant repercussions for performance in education. Lebanon’s education spending was overestimated by 16 per cent in 2019.

In Mauritania, overspending of subsidies and transfers was as high as 266 per cent in 2011.²²⁰ Reallocations among budget lines in the Comoros have typically been biased against economic and social sectors and in favour of “non-priority administrative and remuneration spending”.²²¹ When funds are channelled towards different programmes and/or in different proportions than the budget stipulates, even if the bottom line remains the same, the budget is unlikely to achieve its goals. This effectively comprises budget reliability.

Table 9. Pillar I PEFA scores

	Country	Year	PI-01	PI-02	PI-03	Total number of scores	15
			Aggregate expenditure outturn	Expenditure composition outturn	Revenue outturn		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	D+	D+	D, not applicable scores	33
	State of Palestine	2019	B	D+	C	C scores	27
Least developed countries	Mauritania	2020	B	D+	C	B scores	27
Middle-income countries	Morocco	2016	A	B+	B+	A scores	13
	Jordan	2017	A	C+	C+	Total	100

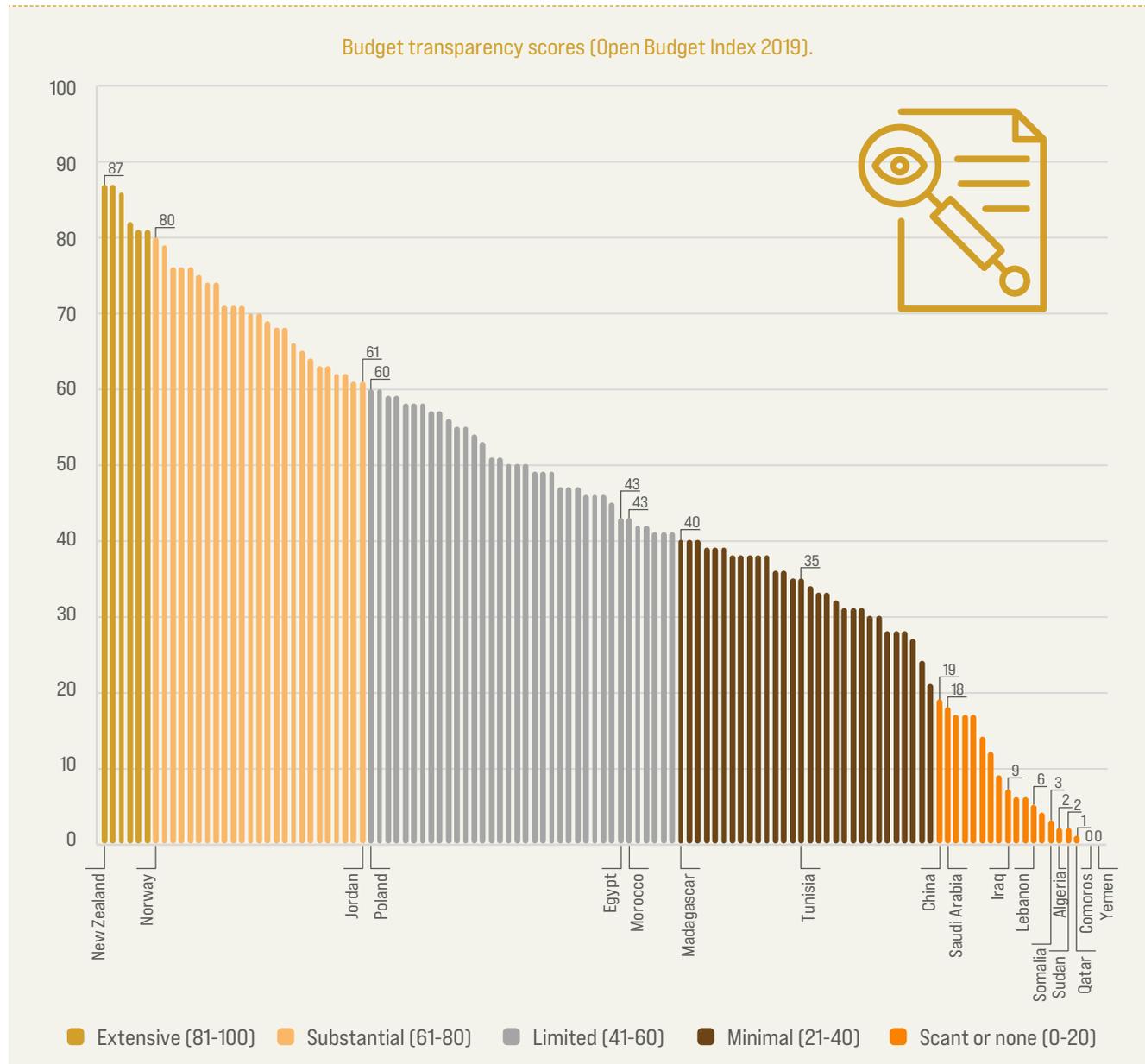
Source: PEFA, n.d.a.

2. Transparency of public finances, Pillar II

Public access to comprehensive fiscal information undermines transparency in the 2016 framework assessments. Three countries scored a “C” and the remaining two fell below “D” (table 11). A lack of transparency is even more blatant in the 2019 Open Budget Survey, which delves deeper into different aspects of budgets.²²² During 2008-2019,

the region was the lowest scoring globally on budget transparency – with no improvement.²²³ The oil-exporting countries and countries with fragile and conflict-affected situations tend to have “scant” transparency; all fall in the lowest-performing category (figure 107). Among the middle-income countries, Egypt and Morocco exhibit “limited” transparency and Tunisia shows “minimal” transparency. Jordan was the only Arab country with adequate budget transparency (a score of at least 61) in the 2019 survey.

Figure 107. Most Arab States fall on the low end of budget transparency scores

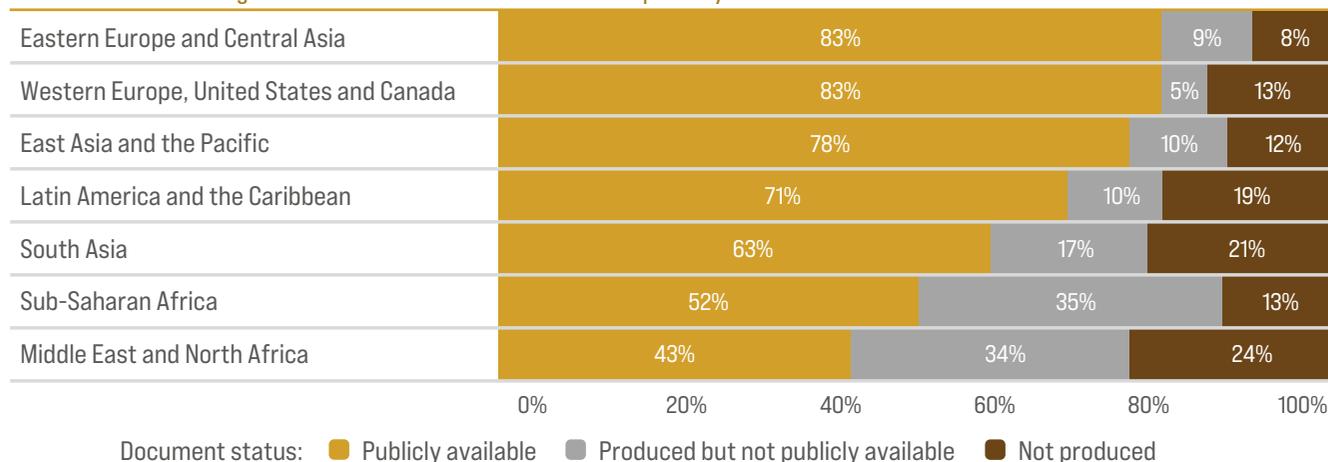


Source: International Budget Partnership, 2019.

Table 10. Pillar II PEFA scores

	Country	Year	PI-04	PI-05	PI-06	PI-07	PI-08	PI-09	Total number of scores	30
			Budget classification	Budget documentation	Central government operations outside financial reports	Transfers to subnational governments	Performance information for service delivery	Public access to fiscal information	Breakdown of scores, percentage	
Countries with fragile and conflict-affected situations	Iraq	2017	C	B	D	C+	D+	D	D, not applicable	30 scores
	State of Palestine	2019	A	B	A	C	B	C	C scores	37
Least developed countries	Mauritania	2020	C	D	C+	C+	D	D	B scores	20
Middle-income countries	Morocco	2016	A	D	B	D+	B	C	A scores	13
	Jordan	2017	D	B	C+	A	C	C	Total	100

Source: PEFA, n.d.a.

Table 11. The Arab region has the world's smallest share of publicly available documents

Source: International Budget Partnership, 2019.

Fully transparent budgets are an important stride towards mending social contracts and inclusive public participation, which is associated with effective public service delivery, increased willingness to pay taxes, enhanced oversight, and better accountability. Higher transparency correlates with enhanced PFM through lower deficits, borrowing costs, perceived corruption and inequality, among other factors, along with improved tax

collection, resource allocation and accounting, all of which support development more broadly. A simple way to enhance transparency is to publish documents in a timely manner. The Sudan's 2018 approved budget was published online almost 11 months after its enactment, rendering it of little value in terms of public oversight or participation. Producing but not publicly sharing documents is unfortunately a common practice in the Arab region (table 11).

3. Policy-based fiscal budgeting, Pillar IV

On PEFA Pillar IV, out of five countries, Iraq, Jordan and Morocco are at a basic level of performance on the macroeconomic and fiscal forecasting indicator, with scores of “C” or “C+” (table 12). Mauritania and the State of Palestine scored a “D+”. Macroeconomic sensitivity analysis across the region typically entails a qualitative assessment of the impact of potential changes in economic circumstances. Ideally, a range of fiscal forecasts based on alternative macroeconomic scenarios is prepared and published, together with the main forecast. This speaks to the country’s potential to develop healthy forecasts that are core to a sustainable fiscal strategy and more predictable budget allocations.²²⁴

Iraq, Jordan and the State of Palestine scored “C” on the ability to develop and implement a clear fiscal strategy and develop and assess the fiscal effects of suggested revenue and expenditure policies. A key issue involves reporting on fiscal

outcomes. Governments typically prepare an internal report on their performance on the fiscal strategy. Such reports should be submitted to the legislature and published with the annual budget. They should explain the reasons for variances and plans to address them.

In the 2011 framework assessments (table 13), the majority of countries scored between “D” and “C+” on the extent to which medium-term expenditure budgets are developed with explicit spending caps, and the extent to which the yearly budget derives from medium-term estimates and aligns with strategic plans. The main issue pertains to expenditure ceilings. A Government should approve, prior to issuing the first budget circular, both the aggregate and ministry-level expenditure ceilings for the budget year as well as the two following fiscal years. The trend in the Arab region is to secure such approval only for aggregate expenditure caps. Ministry-level ceilings are approved, if at all, only for the budget year. Other weaknesses involve costed sector strategies and links between investment budgets and forward expenditure estimates.

Table 12. Pillar IV PEFA scores

	Country	Year	PI-14	PI-15	PI-16	PI-17	PI-18	Total number of scores	25
			Macroeconomic and fiscal forecasting	Fiscal strategy	Medium-term perspective in expenditure budgeting	Budget preparation process	Legislative scrutiny of budgets		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	C+	C	B	B+	C+	D, not applicable scores	36
	State of Palestine	2019	D+	C	D	C	D+	C scores	36
Least developed countries	Mauritania	2020	D+	D+	D+	D+	D+	B scores	24
Middle-income countries	Morocco	2016	C	B	D+	A	B+	A scores	4
	Jordan	2017	C+	C+	B	B	C+	Total	100

Source: PEFA, n.d.a.

Table 13. 2011 framework PEFA scores of comparable indicators of policy-based budgeting

	Country	Year	PI-11	PI-12
			Orderliness and participation in the annual budget process	Multi-year perspective in fiscal planning, expenditure policy and budgeting
Countries with fragile and conflict-affected situations	Yemen	2008	A	B
	State of Palestine	2013	C	D
	Comoros	2016	B	C+
	Sudan	2010	B	D+
Least developed countries	Mauritania	2014	D+	C+
Middle-income countries	Morocco	2009	A	C+
	Tunisia	2010	B	C+
	Jordan	2011	C+	A
Oil-exporting countries	Kuwait	2010	C+	D

Source: PEFA, n.d.a.

An indicator on the legislative scrutiny of budgets examines its nature and extent. This is more of an issue in the 2016 framework assessments, where the primary weakness was the timing of the budget approval. This should happen before the budget year starts but that is not always the case in the region. The 2019 Open Budget Survey also detected weak legislative oversight throughout the budget process. In Lebanon, there was no budget approval during 2006-2016. In years where the budget was approved, delays of 4-11 months prevented the parliamentary Budget and Finance Committee from having sufficient time to analyse and properly discuss the proposals. In Iraq, the budget was not approved in 2014 and 2020.

4. Predictability and control in budget execution, Pillar V

Across both groups of assessments, the stock of arrears often goes beyond 10 per cent of total expenditure. The monitoring of such arrears is also weak (tables 14 and 15). Expenditure arrears are overdue obligations and effectively a form of non-transparent financing that masks the true size of Government debt. Their accumulation speaks to systemic budget execution weaknesses and/

or a lack of budget credibility. This adversely impacts fiscal discipline and space because future budgets will have to shoulder the unauthorized or excessive obligations of prior years. Expenditure arrears also imply a liquidity problem and as such might slow economic growth, reduce or interrupt public service delivery or increase its cost. The 2013 arrears of the State of Palestine amounted to more than half the spending by the Ministry of Health. Large arrears owed to suppliers in part impaired the ministry's ability to negotiate lower prices and thereby increased costs for pharmaceuticals.²²⁵



Expenditure arrears are overdue obligations and effectively a form of non-transparent financing that masks the true size of Government debt.

Table 14. Pillar V PEFA scores

	Country	Year	PI-19	PI-20	PI-21	PI-22	PI-23	PI-24	PI-25	PI-26	Total number of scores	40
			Revenue administration	Accounting for revenue	Predictability of in-year resource allocation	Expenditure arrears	Payroll controls	Procurement	Internal controls on nonsalary expenditure	Internal audit	Breakdown of scores, percentage	
Countries with fragile and conflict-affected situations	Iraq	2017	D	C+	C+	D	D+	C+	D+	C+	D, not applicable scores	30
	State of Palestine	2019	C+	C+	C+	D+	D+	D+	B	C+	C scores	30
Least developed countries	Mauritania	2020	D+	C+	B	D	D+	B+	B	D+	B scores	28
Middle-income countries	Morocco	2016	B	B+	A	D	B+	B+	A	C+	A scores	13
	Jordan	2017	C	A	B	B+	A	B	A	C+	Total	100

Source: PEFA, n.d.a.

Scores on the internal audit indicator in both assessments suggest that this critical function at best meets basic levels of performance (table 16). In Lebanon, this function is non-existent.²²⁶ There are two main reasons for low scores. First, internal audits in the region are primarily focused on financial compliance so they overlook the adequacy and effectiveness of internal controls. Second, management responses to findings and recommendations tend to be insufficient. An internal audit, as a critical assurance and consulting function, should assist managers in discharging their duties by providing information on organizational risk management, control and governance processes. The scope of work should extend to all financial and non-financial operations and controls and is effective only if management appreciates and responds to recommendations. Anything short of this undermines budget execution as well as the implementation of plans and directives.

Predictability in the availability of funds for commitment of expenditures is another challenge in budget execution picked up by the 2011 framework assessments. Marginal performance stems from weaknesses in the extent to which cash flows are projected and monitored, the reliability and horizon of periodic in-year information on caps for expenditure commitment provided to spending units, and the frequency and transparency of budget allocation adjustments decided above the level of the spending unit's management (including ministries, departments and agencies). Weaknesses in budget execution impede progress towards outcomes. For example, Iraq's education budget has been substantially underexecuted (less than 40 per cent) since 2015.²²⁷ In Jordan, actual expenditure on the social sector remains lower than budgeted expenditure.²²⁸

Table 15. 2011 framework PEFA scores of comparable indicators of predictability and control in budget execution

Credibility of the budget			
			PI-04
	Country	Year	Stock and monitoring of expenditure payment arrears
Countries with fragile and conflict-affected situations	Yemen	2008	D+
	State of Palestine	2013	D
	Sudan	2010	D+
	Comoros	2016	D
Least developed countries	Mauritania	2014	A
Middle-income countries	Morocco	2009	C+
	Tunisia	2010	A
	Jordan	2011	D+
Oil-exporting countries	Kuwait	2010	D+

Source: PEFA, n.d.b.

Table 16. 2011 framework PEFA scores of additional comparable indicators of predictability and control in budget execution

Predictability and control in budget execution						
	Country	Year	PI-16	PI-18	PI-19	PI-21
			Predictability in the availability of funds for commitment of expenditures	Effectiveness of payroll controls	Transparency, competition and complaints mechanisms in procurement	Effectiveness of internal audit
Countries with fragile and conflict-affected situations	Yemen	2008	D+	D+	D+	D+
	State of Palestine	2013	D	B+	C+	C+
	Sudan	2010	D+	D+	D	D+
Middle-income countries	Morocco	2009	C+	B+	B	C+
	Tunisia	2010	C+	B+	B	B
	Jordan	2011	A	C+	C+	D+
Oil-exporting countries	Kuwait	2010	C+	B+	D+	D+

Source: PEFA, n.d.b.

F. PFM weaknesses specific to countries with fragile and conflict-affected situations

In the 2011 and 2016 framework assessments (table 14 and table 16), Iraq, the State of Palestine, the Sudan, and Yemen, all with fragile and conflict-affected situations, scored “D+” on payroll controls. This means that they generally do not achieve basic performance in managing public wages, maintaining the consistency of personnel records and handling changes. The Sudan has no reportage of direct linkages between personnel records and payroll data, and payroll changes are not implemented promptly. There have not been any payroll audits for the past couple of years. Control weaknesses are generally fertile grounds for error, waste, fraud, and corruption.

In the public sector, payroll costs are typically material, and therefore strong internal controls provide reasonable assurance that these large sums of public money are spent effectively and efficiently, in compliance with applicable laws and authorizations. This prevents unwarranted growth in the wage bill, unmet payroll obligations, payments to ghost employees, and others. In

contrast, weak payroll controls adversely impact efficiency, effectiveness, budget execution, and budgetary outcomes.

In both groups of assessments, countries with fragile and conflict-affected situations²²⁹ generally had less than adequate procurement mechanisms. Iraq was the only exception; it met the basic level of performance as of 2007. Even so, procurement bottlenecks are a major cause for the country’s low execution rate for its education investment budget. In all countries, a sizeable share of GDP goes into public procurement, where the Government purchases private sector goods and services to deliver public services. The World Trade Organization estimates this share to be 10-15 per cent globally. Accordingly, public procurement is important not just in terms of the large sums of public monies that go into it and make it an inherently risky area for fraud and corruption, but also given its impact on the quality of public services and the creation of business opportunities for the private sector, including small and medium enterprises.

G. Steps towards greater inclusion and gender-responsive budgeting through PFM

While the Arab States face numerous challenges in PFM, social spending and the dynamics between them, there have been some efforts to use PFM instruments to enhance social spending that supports inclusive development. One example is gender-responsive budgeting. It seeks to bring gender concerns into public policymaking and implementation by evaluating the different effects of public expenditure and revenue policies on men and women, and the ensuing impacts on gender equality.²³⁰

In the Arab States



Efforts to use PFM instruments



Enhance social spending that supports inclusive development

One example is gender-responsive budgeting

Gender-responsive budgeting initiatives are in progress around the Arab region, although they are often limited to one aspect – sex-disaggregated performance information for service delivery – out of nine that align with the gender responsive PFM framework.²³¹

This tendency, grounded in the notion that it is enough to target women and girls with existing services, overlooks ways that budget processes, seen more comprehensively, may deliberately trigger measures to overturn gender discrimination. These might include choices to close gaps in care services so that women can earn an income or to create new forms of skills training in promising sectors of the economy to improve employment opportunities.

All potential social expenditures can have gender implications, for better or worse; understanding these is the path to managing them. Reproductive health care, for instance, is not exclusive to women but they may be more likely to use it and face health consequences if this area of care is shortchanged in the health-sector budget.

The Arab region in general lacks important practices that would take it to a more robust application of gender-responsive budgeting, such as through gender audits, gender provisions in public finance and budget laws and ex-post gender impact assessments of budget expenditures. But some countries have moved forward, to varying degrees, on three stages of gender-responsive PFM. These include building awareness and knowledge, transitioning from analysis to allocations and mainstreaming to make budgetary systems gender-responsive.

Among the Arab countries that have adopted gender-based budgeting, Morocco was the first. In 2002, it began assessing women's needs in education, health, the judicial system, infrastructure, and employment. It then developed fiscal policies to ensure women's equal access to education and health care and expand their labour market opportunities. By 2014, Morocco had approved an organic finance law that requires



Gender-responsive budgeting initiatives are in progress around the Arab region, although they are often limited to one aspect out of nine that align with the gender responsive PFM framework.

6

considering gender equality across all budget lines and in defining performance objectives, results and indicators. Since 2009, a gender report has been part of the annual finance bill.

Similar efforts are underway in Tunisia, which created a gender-responsive budgeting pilot committee in 2015. Gender dimensions, such as the economic and social empowerment of women and the reduction of violence against women, were integrated in the 2016-2020 development plan. Tunisia also issued an organic budget law that institutionalizes gender-responsive budgeting and produces a gender report as part of the annual financial bill. Jordan included a gender lens in its budget circular and statement for the first time in 2013. It appointed gender focal points and developed capacities for designing gender-responsive plans and budgets.

Egypt established the Equal Opportunity Unit in the Ministry of Finance in 2005 to promote gender equality and monitor progress. Its first gender-responsive performance-based budgeting exercise took place in 2010-2011. Other efforts have included assessing services needed by women, mainstreaming gender in the 2002-2007 and 2007-2012 national socioeconomic plans and developing gender indicators. The main sectors

targeted by these initiatives have been education, health, water, human resources, food security, and social security.

While middle-income countries have evidently been gaining GRB momentum, GRB initiatives in oil exporting countries have been seemingly shy – at least based on the limited information in this regard. A few examples are Bahrain, which introduced GRB in its budget circular in the 2011-2012 Fiscal Year, and the United Arab Emirates, which established the Gender Balance Council in 2015 to promote gender equality.

GRB initiatives which have been rolled out by countries with fragile and conflict-affected situations include: gender budgeting statements (Iraq), performance indicators relating to gender equality goals (the State of Palestine), national gender equality strategies (Lebanon and Yemen), parliamentary committee devoted to promote and strengthen gender equality (Lebanon and Yemen), establishment of female quotas in parliaments (Iraq and the State of Palestine).

Looking forward, the SEM could provide a valuable tool to enhance gender-responsive budgeting, helping to define and rationalize public expenditures most likely to realize gender

equality. The SEM can be part of evaluating gender-differentiated impacts of policy choices, advocating for more and better sex-disaggregated data, tracking the alignment of expenditures with gender objectives and scrutinizing their impacts on actual advances.

Similar issues apply to child-budgeting, adopted by a few Arab countries to highlight and monitor budget allocations that benefit children directly or indirectly through allocations for their families. In Egypt, the 2019-2020 State budget recognized the importance of enhancing and monitoring child allocations. These are to be published annually by the Citizen Engagement and Fiscal Transparency Unit of the Ministry of Finance in its “Budget Transparency Series” report.²³²

Since 2012, Jordan has required accounts of expenditures benefiting children. Child-related allocations in the budgets of key ministries, particularly those pertaining to social sectors, are reported in the main budget law. Child allocations per se do not necessarily respond to all children’s needs, however. Maximizing the benefits for children requires targeting spending to improve equity, inclusion and outcomes such as advances in learning.

H. A roadmap to PFM reform is more vital than ever

The policy reform path for the Arab region is a daunting one. It must continue to manage the pandemic recovery as an immediate priority and chart a course towards well-prioritized and more effective and efficient social spending to achieve the SDGs. PFM systems are fundamental in ensuring that sound systems and processes support informed decision-making.

Given that a PFM system integrates a number of elements, a roadmap for reforms should be well articulated and carefully orchestrated.²³³



PFM systems are fundamental in ensuring that sound systems and processes support informed decision-making.

The process of PFM reform requires:

the coming together of various endeavours including upgrading PFM institutions, overhauling the regulatory framework or upskilling budget institutions



Ministries



Supreme audit institutions



The staff within them

The process of PFM reform requires the coming together of various endeavours including upgrading PFM institutions, overhauling the regulatory framework or upskilling budget institutions such as ministries, supreme audit institutions and the staff within them, which normally cannot happen in the short-term especially where capacities are very limited. A published, well-designed reform plan should establish a sequencing process that factors in the strengths and weaknesses of existing systems, resources and capacity constraints, as well as the interdependence between policy design and implementation. No “one-size-fits-all” approach works. But three important points can guide reforms.

First, the plan should refer to the theory of constraints,²³⁴ an approach that identifies the most significant bottleneck in the system, alleviates it and then moves on to the next most significant bottleneck. This is appropriate for PFM systems given their interrelated components. For example, there is little point in enhancing the external audit function as an added layer of control if the original system of operations and controls is impaired. An effective external audit function would certainly pick up on the problems but cannot fix them.

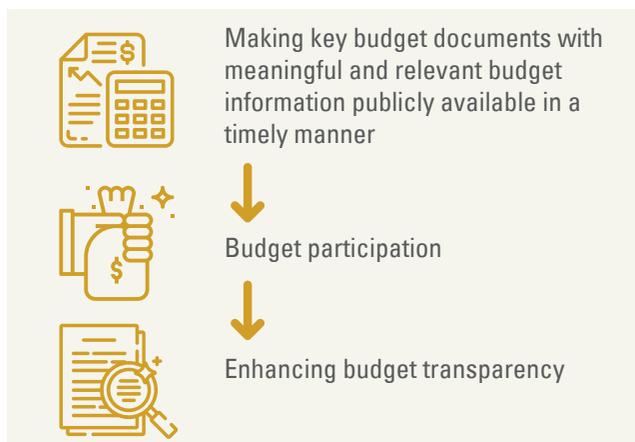
Second, core PFM functions should generally be prioritized. These focus on financial compliance (for example, for revenues, expenditures, assets, and liabilities), fiscal control (such as to

ensure compliance with laws and regulations) and budget reliability. Operationalizing these functions lays the groundwork for all other PFM functions and reforms because they ensure that the Government can adopt a reliable plan and stick to it. After these core functions are in place, consideration may be given to more advanced reforms and innovative practices such as climate, gender-responsive and SDG budgeting.

Third, huge benefits may come from working collectively and coordinating efforts across the Arab States. Cooperation generates opportunities for learning and sharing experiences, saving time and effort, and avoiding the mistakes of learning single-handedly. Coordination reinforces efforts and awareness. For instance, if the entire Arab region decides to adopt accrual-based IPSAS, training centres, programmes and costs could be shared, needed skillsets would develop faster, and the comparability of financial reporting across the region would improve alongside stock market efficiency and liquidity.

One example of coordination is the Collaborative Africa Budget Reform Initiative. It works with finance and budget ministries in Africa, including North African Arab countries, to develop and implement PFM reforms.²³⁵ Its programmes include a repository of published budget documents, a platform for sharing debt and debt management-related information, capacity development in collaboration with Harvard’s Center for International Development and a peer learning platform for practitioners from finance and budget ministries and some line ministries.

A similar case could be made for coordinating investments in health care, education and climate adaptation and resilience. The returns of moving away from fossil fuels and investing in green projects would be far greater if these efforts were replicated and greenhouse gas emissions reduced across the region rather than a single country.



Several key PFM reform targets are priorities, keeping in mind that their relevance may differ by country. These start with the management of assets and liabilities (Pillar III), where there is a need to enhance investments in social development and climate-resilient infrastructure. Debt management and annual borrowing should be anchored in a debt management strategy that covers existing and forecast Government debt for at least three years; factors in interest rates, refinancing needs and foreign currency risks; and ensures debt sustainability.

The quality and timeliness of management and financial reporting should be enhanced in accounting and reporting (Pillar VI). The ultimate objective should be to increase coverage of reporting to include the general Government and to adopt accrual-basis IPSAS budgeting and reporting to enhance Government decision-making and monitoring. This would enable the Arab countries to improve comparability of financial information within the region and with other regions. IPSAS may be used²³⁶ directly with no modifications, indirectly through a national endorsement process and with modification of the standards for any jurisdictional requirements, or as a reference point for developing national standards.

The role of the legislature through the budget cycle should be significantly strengthened. Legislative oversight should encompass debating and approving recommendations on budget priorities prior to the drafting of the budget proposal,

approving the budget, monitoring budget implementation (Pillar VII), scrutiny of audit reports, and following up on the executive's response to audit recommendations (Pillar IV). Anything short of this undermines accountability. Moreover, inadequate scrutiny of audit reports and follow-up on recommendations undermines the entire audit function. After all, the auditor has no command authority – only the authority to advise. Given that auditing is a function that consumes resources financed by public funds, if its recommendations are not seriously considered, its presence risks to have limited impact.

Greater legal, financial and organizational independence of supreme audit institutions is imperative (Pillar VII). This implies legal protection, usually by the legislature, for the institution to hire or fire its head; sufficient financial resources; reviews of its processes and performance by external parties; unrestricted access to people, documents and information; and no interference in the discharge of its duties or the content or timing of its reporting.

Expenditure controls should be enhanced to limit variance in expenditure composition by programme, administrative or functional classification to ideally no more than 5 per cent (Pillar I) and the stock of expenditure arrears to preferably no more than 2 per cent of total expenditure (Pillar V). There should be an effective system to monitor, on a quarterly basis, data on the stock, age and composition of expenditure arrears.

Enhancing budget transparency (Pillar II) is a first step towards budget participation. It entails making key budget documents with meaningful and relevant budget information publicly available in a timely manner. Examples of documents include the pre-budget statement, the executive's budget proposal, the enacted budget, the citizens' budget, in-year reports, mid-year reviews, year-end reports, and audit reports.²³⁷ A quick win would be to publish documents that have already been produced.

Expenditure budgets should be developed for the medium term (Pillar IV) in alignment with the Government's long-term strategy, with explicit medium-term expenditure caps. These budgets should set the terms for the annual budget.

A sufficiently resourced and organizationally independent internal audit function (Pillar V) should be in place and operational for all central government entities. Its scope of work should cover evaluations of the adequacy and effectiveness of internal controls and risk management. Management must follow up on audit recommendations.

For countries with fragile and conflict-affected situations specifically, controls for payroll and procurement processes (both in Pillar V) are a priority for greater predictability and control in budget execution. The payroll should be linked to

the personnel database and the approved list of personnel. Personnel records and payroll should be updated at least monthly, and the authority to make these changes should be restricted and documented. Retroactive adjustments should be made only sparingly, and payroll audits should be conducted annually.

Procurement practices should be transparent, open and competitive and supported by a monitoring process based on properly maintained databases as well as a well-functioning complaints system.

In conclusion, given multiple shocks and levels of vulnerability in the Arab region, it is more vital than ever to have solid PFM systems. They can ensure that budgets efficiently contribute to SDG achievement and help prepare for future shocks in a time of fiscal constraints and increasing debt.



Endnotes

- 181 The definition of social expenditure adopted in this chapter is the one put forth by the SEM, which aligns with the SDGs and comprises the seven areas of social development, as follows: education; health and nutrition; housing and community amenities; the labour market and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection.
- 182 The literature establishes three PFM objectives, namely, maintaining a sustainable fiscal position, allocating resources effectively and delivering public goods and services efficiently.
- 183 IMF, 2019b.
- 184 Public Expenditure and Financial Accountability (PEFA), 2020a.
- 185 Gurazada, 2019.
- 186 Rajkumar and Swaroop, 2008; Albino-War and others, 2014; IMF, 2018. World Economic and Financial Survey. Washington, D.C.; IMF, 2020a; IMF, 2021c.
- 187 PEFA, 2020b.
- 188 Robinson and others, 2021.
- 189 IMF, 2019b.
- 190 PEFA, 2020a.
- 191 Bird, 2015.
- 192 PEFA, 2020b.
- 193 SDG budgeting, gender-responsive budgeting, child budgeting, and climate budgeting evaluate different impacts of public expenditures and revenue policies on these issues.
- 194 AlAzzawi, 2021b.
- 195 Sachs and others, 2021; IMF, 2020a.
- 196 Boustany, Hatem and Salameh, 2022.
- 197 Underpinned by the legal framework, the budget cycle comprises four key stages. These start with strategic planning and a fiscal framework where fiscal policy is set based on which budget aggregates and borrowing targets are determined for the upcoming year. In budget preparation, the executive branch drafts coordinated budgets for the different ministries and departments and fleshes out spending composition based on consistent macro-economic assumptions (for instance, inflation rates). The budget is then submitted for approval by the legislature. Budget execution and accounting entail implementing plans, effectively authorizing spending, managing cash, and collecting and reporting information on actual performance. Finally, control and audit are the stage when information is examined to assure its credibility and performance against the budgets for different budget entities as well as for the State as a whole.
- 198 PEFA, 2018.
- 199 PEFA, 2016.
- 200 To assess PFM in the Arab States, this research collected and analysed data from global, regional and individual country reports. The PEFA Secretariat's 2016 stocktaking identified 45 PFM assessment tools that may be classified as follows: those that are broad and cover "all aspects of the PFM systems"; those that are centred on "individual PFM elements, institutions or sub-systems"; and those that are "used by development partners to assess fiduciary risk" (PEFA, 2018).
- 201 PEFA is acknowledged as the primary tool for PFM assessments. Its institutional coverage includes both national and subnational governments. It uses an ordinal scale against detailed parameters and is supported by a central repository of assessments that are published based on the consent of concerned countries. The Open Budget Survey is similar to PEFA with some differences. Most importantly, it is focused on the transparency in all PFM, which is why it is classified as a broad tool despite its transparency focus. The added value of drawing on public expenditure reviews is the narrative that complements the ordinal evaluation of expenditure policies and administration, especially where they relate to social expenditures. As for the rest of the broad diagnostics, they have been excluded because they only apply to subnational governments, they are not common to the region and/or information is unavailable. This evaluation of PFM in the region also draws on other reports and indices, such as by the International Organization of Supreme Audit Institutions, International Federation of Accountants, Chartered Institute of Public Finance and Accountancy, and Transparency International. These have an institutional emphasis but pertain to a PFM function.
- 202 PEFA, 2020a.
- 203 The conclusions are drawn based primarily on the 2016 framework group of assessments and, wherever possible, the 2011 framework group of assessments.
- 204 At least 50 per cent of scores in the 2016 framework assessments are "Ds" and/or "not applicable".
- 205 At least 50 per cent of scores in the 2016 framework assessments are "Ds", "not applicable" and/or "Cs".
- 206 IMF, n.d.
- 207 ESCWA, 2020d.
- 208 World Bank, 2017a.
- 209 World Bank, 2020.
- 210 ESCWA, 2020d.
- 211 Dees, 2020.
- 212 International Federation of Accountants (IFAC) and Chartered Institute of Public Finance and Accountancy (CIPFA), 2021.
- 213 IFAC, 2020; 2021.
- 214 World Bank, 2017b.
- 215 World Bank, 2021b.
- 216 World Bank, 2016b.
- 217 The observations in the 2019 Open Budget Survey on the Middle East and North Africa are generally understood to apply to the Arab countries, including Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the State of Palestine, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, and Yemen.
- 218 World Bank, 2021b.
- 219 World Bank, 2021b.
- 220 World Bank, 2016b.
- 221 World Bank, 2017b.
- 222 The PEFA assessment of transparency (Pillar II) focuses on more technical aspects across six indicators pertaining to, for instance, the consistency of budget and account classification with international standards, budget documentation relative to a benchmark list of 12 items and transactions outside financial reports. The sixth indicator within the PEFA transparency pillar, public accessibility to information, is most comparable to the Open Budget Survey Transparency Index as it also very specifically addresses public accessibility to specific information within specified timeframes. It follows a different measurement process, however, which is focused more on form than on function

compared to the Open Budget Survey Index. The latter also evaluates the comprehensiveness of the information contained in the documents.

223 International Budget Partnership, 2019.

224 Independent fiscal institutions are non-partisan public entities set up in either the legislative or executive branch to evaluate and advise on issues such as the costing and sustainability of new policies prior to approval and the reasonableness of macroeconomic and fiscal forecasts. Effective institutions enhance the credibility of the budget and the budgeting process, which is why they are a burgeoning practice globally. Not a single independent fiscal institution was identified in the Arab States participating in the 2019 Open Budget Survey, however.

225 World Bank, 2016b.

226 World Bank, 2017c.

227 World Bank, 2021a.

228 ESCWA, 2022.

229 This observation is based on additional analysis of

non-published PEFA assessments of Lebanon (2010) and the Sudan (2019).

230 Much of this section is drawn from ESCWA, 2021b.

231 Gender-responsive PFM, which is grounded in the PEFA framework, involves the following nine different practices: gender impact analysis of the budget proposal, gender-responsive public investment management, a gender-responsive budget circular, gender-responsive budget proposal documentation, sex-disaggregated performance information for service delivery, tracking budget expenditure for gender equality, gender-responsive reporting, evaluation of gender impacts of services delivery, and legislative scrutiny of gender impacts of the budget.

232 UNICEF, 2021.

233 Egypt and UNICEF, 2020; UNICEF, 2019.

234 Magnacor Mfg, 2021.

235 CABRI, n.d.

236 IFAC and CIPFA, 2021.

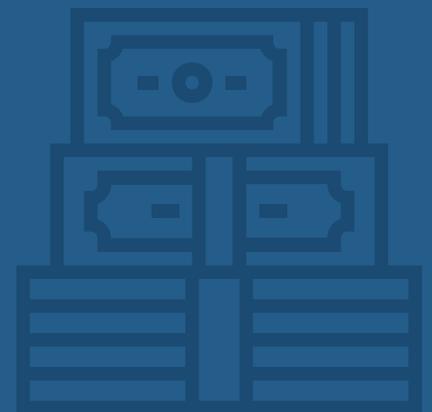
237 International Budget Partnership, 2019.



An agenda for equipping budgets to achieve the SDGs



07





Across the Arab region, reforms in both mobilizing revenues and spending for social purposes can drive a virtuous cycle of inclusive growth, decent work and poverty reduction. They can guide smart investments in economic transformation and social capital that many countries must make to attain the SDGs. Public social expenditure plays an essential role in enhancing the social welfare and economic potential of individuals. As revealed during the COVID-19 pandemic, it also protects poor and vulnerable populations and buoys small businesses during downturns.

Managing budgets equitably, efficiently and effectively, however, has remained a major challenge for most Arab Governments. This is due to low-quality monitoring, ineffective coordination among ministries and a lack of effective PFM. It also stems from shortfalls in political vision and will that have often favoured short-term fixes over longer-term investments leading to more inclusive societies and robust economies.

With already limited fiscal space under intense pressure from the demands of the COVID-19 pandemic, Arab countries now face difficult questions around social expenditures. Based on the findings of the SEM, this report stresses that in some cases there is a need to spend more but that much could also be achieved by spending smarter, building on more efficient and equitable spending choices.

The following 11-point agenda for action offers some general starting points that can be tailored to specific national circumstances. It calls for Governments to take the lead but also for international support to help strengthen capacities and develop tools to enhance fiscal space for social expenditures. Civil society has a critical role in deepening research on social expenditure equity, efficiency and effectiveness; conducting social policy evaluations; and recommending ways to improve policy choices and outcomes.



A. Reprioritize public budgets and increase allocations to critical social policy areas

Governments need to consider a balanced mix of expenditures. In many cases, this will involve increasing public transfers to targeted social protection programmes addressing poverty and vulnerabilities and investing in improved human capital and economic growth. There are two main priorities.

First, several social policy areas have remained at the margins of public budgets, such as expanding capacities among youth, particularly through art and sports, and increasing research and development. Labour market support is also limited, such as through employment generation programmes, incentives for start-ups, support to small and medium enterprises, and female employment. Another concern entails building resilience among the most vulnerable, including through early childhood development and social insurance for informal workers. Environmental protection programmes receive short shrift. In each of these areas, budget expenditure is less than 1 per cent of GDP, which severely undermines the effectiveness of public programmes. It often leaves

poor and middle-class people at the mercy of costly private-sector service providers.

Second, better targeting of social protection expenditures improves effectiveness and can save resources that can be redirected to marginalized areas of social policy. Social protection expenditures comprise up to 16 per cent of GDP in some countries but largely entail inefficient and often unfair subsidies for fuel and electricity. Rationalizing subsidies can potentially free resources although should be done carefully. Subsidy reforms mainly for fiscal consolidation could have a contractionary effect on growth and an adverse impact on social development.

As a general principle, reducing social expenditure and thereby diminishing the quantity and quality of public services can have adverse impacts on tax collection since it tends to break the social contract between States and citizens. In contrast, more effective social expenditure policy tends to draw in more tax revenues, based on global experiences.

B. Enhance social expenditure effectiveness through more allocations to social investments with long-term positive impacts on human development and economic growth

The effectiveness of social expenditure depends on how well each unit of expenditure increases social welfare in the short term and adds to economic growth in the long term. This requires improving and sustaining quality public services and quality infrastructure that catalyse the mobility of people and the workforce. It calls for evidence-based monitoring of social

expenditures, policy impact evaluations and assessments of the economic growth multiplier effects of social expenditures. Without the insights gained from these exercises, critical challenges are often ignored.

For instance, cash transfers or public in-kind transfers have a short-run effect in stimulating

demand in the economy, in addition to protecting the poor and the vulnerable. These expenditures should not replace investments in human capital that deliver a long-run return by creating a quality labour force and enhancing productivity, however. An average of 80 per cent of social expenditure in the Arab region goes to current expenditures, mainly wages, salaries and public transfers, while only 20 per cent goes to capital expenditures. While rebalancing expenditures requires structural reforms in Arab economies, Governments also need to better balance spending to support short-term needs while making social investments that generate long-term growth.



Allocate resources towards services mostly used by poor and vulnerable populations to improve development outcomes, realize human rights, and uphold social justice.

C. Improve social expenditure monitoring in all areas that directly support achieving the SDGs, including by applying the SEM

Many Arab countries lack comprehensive monitoring of their expenditures on social programmes, which is an obstacle to understanding how well budget choices contribute to the SDGs. Without quality monitoring, public social expenditure often results in inefficiencies such as allocations to multiple and overlapping programmes or mismatches between expenditures and needs. The SEM can help fill the

monitoring gap since it comprises more than 50 indicators in seven dimensions aligned with the SDGs. It goes beyond the traditional emphasis on health, education and social protection to capture social policy areas that are essential, such as the labour market, housing and connectivity, arts and sports, and environmental protection, but that remain on the margins of most public budgets.

D. Make “smart” investments to enhance equity

Arab States have devoted important social expenditures to expanding access to education and health care. Yet, these gains have not reached all members of Arab societies, leaving barriers to equity. Governments need to allocate resources towards services most frequently used by poor and vulnerable populations. This is essential not only to improve development outcomes but also to realize human rights and uphold social justice.

Some issues arise from inadequate social expenditure, particularly when it short-changes public services for the poor and the most vulnerable. A low share of GDP for spending on health and education in the Arab region, compared to international benchmarks, is likely a barrier to equity.

Beyond spending, accurate data on beneficiaries of public expenditure need to improve to better analyse equity. Existing information suggests

that households and families benefit from public transfers but it is not clear how equitably distributed these are. One obviously regressive pattern is when significant spending goes towards subsidies used primarily by richer households. Other discrepancies are evident in marginal shares of public expenditures for programmes targeted to women, at 0.1 per cent of GDP on average for the selected countries in the SEM, and specific vulnerable populations (including people living with disabilities, refugees and immigrants), at 0.2 per cent of GDP. Limited coverage of services for children, a lack of social security for workers in the informal sector and insufficient social security for older people not in the formal pension system are other critical shortfalls in targeting public expenditures.

Most Arab countries are performing below average in terms of the efficiency of social expenditure



Reaching the global average would free resources amounting to

1.5%
of GDP

Increasing efficiency to that of high-income countries would save up to

3.5%
of GDP

E. Assess the efficiency of public social expenditure to minimize wastage and improve investment in development priorities

Most Arab countries are performing below average in terms of the efficiency of social expenditure. With greater efficiency, to the level of global benchmarks, they could spend the same as a share of GDP and either achieve greater human development gains or channel savings into other priorities. Reaching the global average would free resources amounting to as much as 1.5 per cent of GDP. Increasing efficiency to that of high-income countries would save up to 3.5 per cent of GDP.

In education, for example, low efficiency means that Arab countries reach fewer expected years of education than global peers relative to spending levels. Jordan's overall efficiency in education expenditure is 0.76 compared to the top-performing high-income countries at 0.93. Improved education spending efficiency to meet the high-income country level would boost Jordan's expected years of schooling from 11.5 to 12.1 years.

Many Arab countries are relatively efficient in public social protection expenditure as measured by reducing the undernourishment rate. In reducing poverty, however, inadequate social protection spending, outside subsidies, coupled with inefficient targeting to the poorest and most vulnerable, remain major challenges. Low public social expenditures on health, housing and environmental protection force people to rely on out-of-pocket expenditures and private service providers, with adverse implications for equity and broader development outcomes.

Since insufficient data limit performance assessment of the efficiency of public social expenditure, Governments should seek to improve data systems. These should capture expenditures at disaggregated levels (inputs) and associated performance (outputs), since understanding both is crucial for evidence-based decision-making.

F. Improve fiscal sustainability and deliver quality, inclusive public services

With limited fiscal space, many Arab states face the difficult challenge of spending more without breaking their budgets. This calls for improving efficiency through a combination of policies associated with overall public financial management. Examples include assessing strategic areas of public expenditure with transformational impact, periodic evaluation of public social programmes to identify areas of improvement across ministries, and modernizing the public transfer system to ensure transparent, efficient and quality service delivery, and better targeting to vulnerable populations.

Greater fiscal discipline can come through simulation exercises informing policymakers of how public social expenditure policies align with macrofiscal policies. Countries with more fiscal discipline, measured by stabilizing the Government debt-to-GDP ratio over the medium term and managing the primary balance and fiscal balance ratios, may be more efficient as they watch their expenditures more closely and have more fiscal space to allocate funds where they are needed most.

G. Improve domestic revenue mobilization by increasing tax collection, reassessing the tax base, enhancing tax equity and progressivity, and addressing tax inefficiencies

Several tax reforms in the last decade have aimed to improve revenue mobilization but have not spurred the desired increase in public revenues. This is due, not least, to significant leakages that undermine the integrity of tax systems. Estimates indicate a loss of about \$7.5 billion in annual revenues due to corporate tax abuse, for instance. Furthermore, reforms have mostly fallen short in improving tax equity and progressivity.

Across the region, tax systems heavily rely on indirect taxes, which impose a greater tax burden on the poor and the middle class than on the rich. Income tax out of total tax revenue remains low, at 20 per cent at most. Property tax is almost negligible in most cases. In Arab middle-income countries, the median taxes-to-GDP ratio remained at around 16 per cent in 2019, compared to an average of 18 per cent in middle-income countries globally. Regionally, tax revenues as a share of GDP have hovered around 8 per cent

since 2010. This is due to the continued reliance of GCC countries on oil for most of their revenues, although some have started imposing value added taxes.



Countries with more fiscal discipline may be more efficient as they watch their expenditures more closely and have more fiscal space to allocate funds where they are needed most.

Improving tax efficiency is another important consideration for most Governments. If this reached the average level of OECD countries, revenues could rise by as much as 45 per cent in some countries. Increasing tax collection should be seen as not just about passing tax reforms alone but about making social investments in quality public services. This in turn builds trust in the Government and creates buy-in among taxpayers.

Improving tax efficiency is another important consideration for most Governments

Revenues could rise by as much as

45%
in some countries



Increasing tax collection



making social investments in quality public services

H. Work out credible fiscal frameworks over the medium term, for revenues and expenditures

Improving domestic revenue mobilization is essential in many Arab countries but will not be sufficient given the scale of funds required. Fiscal frameworks should consider needs for augmenting existing borrowing or pursuing new borrowing to finance the SDGs and boost economic growth. Medium-term debt-stabilizing scenarios are important in countries still within the bounds of sustainable debt. These should stipulate that debt needs to be channelled to productive sectors to generate growth and improve revenues, and that the share of interest payments to revenues should remain at an acceptable level. Conducive monetary policy should maximize the value of fiscal measures and be closely coordinated with fiscal policy.

Moratoriums on debt service payments under the G20 Debt Service Suspension Initiative are important initial actions that have temporarily helped some least developed countries facing unsustainable debt burdens. But putting payments on pause will not be enough to mitigate debt distress, given the prolonged impact of COVID-19, the emergence of the conflict in Ukraine and the ripple effects through the global economy. Middle-income countries are not eligible to benefit from the initiative even as many carry high debt burdens, and the scope of temporary relief was limited to official creditors with no mechanism for private creditors to participate. The international community and creditor countries need to consider more ambitious and fair methods of debt relief.

I. Operationalize innovative debt relief instruments such as climate and SDG debt swaps to improve financing for public goods

Swaps offer significant opportunities for middle-income Arab States, where external debt servicing consumes about \$20 billion of expenditures, equivalent to 11 per cent of their export earnings. In 2022, debt service burden and budgetary pressures

increased further due to high interest rates and the spillover effects of the war in Ukraine on food and energy prices. They could alleviate mounting pressures on public finance, enlarge fiscal space and release funds for social and environmental aims.

In 2020, ESCWA launched the Climate/SDGs Debt Swap–Donor Nexus Initiative. This is especially helpful for countries facing tighter fiscal space but not yet unsustainable debt burdens. This initiative creates a next-generation debt swap instrument that considers the scalability of the swap amount, donor support and key performance indicators to maximize impact. It addresses the limitations of traditional swaps

mainly implemented ad hoc with limited impact on development objectives. Ultimately, the success of this initiative will depend on the support of donor countries as well as creditor coordination. UNDP’s Sustainable Finance Hub (SFH) provides technical support to the development of debt solutions that are linked to SDG specific commitments and indicators such as thematic bonds and debt-for-nature swaps.

J. Developed countries can help bridge the inequality gap in fiscal stimulus between developing and developed countries

This requires fulfilling commitments to finance the SDGs and contribute to an inclusive global recovery. Constrained fiscal space and liquidity challenges are apparent in the Arab region’s inability to effectively respond to pandemic fallout let alone jumpstart a resilient recovery. Its fiscal stimulus was low both compared with the global average and given needs arising from dramatic losses in income and jobs. Arab countries allocated only around 4 per cent of GDP to fiscal stimulus in 2020 compared with a

global average of 22 per cent. Other issues requiring attention relate to the low share of ODA allocated “on budget” or directly to recipient Government budgets, which limits the more strategic and responsive use of funds. Another proposal is for member States of the IMF to channel unused Special Drawing Rights from advanced to developing countries in the Arab region and elsewhere more effectively, based on indicators of vulnerabilities and financial shortfalls stalling recovery.

K. Develop a carefully designed PFM reform roadmap and tackle key PFM challenges

A PFM reform roadmap entails carefully sequencing reforms that factor in the strengths and weaknesses of existing systems, resources and capacities. Significant PFM system bottlenecks should be prioritized, including assets and liabilities management, accounting and reporting, the legislative role throughout the budget cycle, the independence of supreme audit institutions, expenditure controls, budget transparency, medium-term frameworks, internal audit functions, and payroll and procurement controls for countries with fragile and conflict-affected situations.

Reforms should start with core functions for financial compliance, fiscal control and budget reliability as these lay the groundwork for all other PFM functions and reforms. Improved PFM should build on effective medium-term expenditure and revenue frameworks and become more sensitive to development priorities through “priority-based” budgeting. This could be linked to the SDGs, gender equality, children, and climate, among other examples. Across the Arab region, multiple benefits may come from working collectively to share resources to develop PFM, including to develop skills quickly and improve the comparability of financial reporting.



Annex

Financial reporting bases and frameworks

	Country	2020 financial reporting basis	2020 financial reporting framework	2025 reporting basis forecast	2025 reporting framework forecast
Countries with fragile and conflict-affected situations	Lebanon	Cash	National standards: other	Cash	IPSAS with no modifications
	Iraq	No data yet	No data yet	No data yet	No data yet
	Libya	No data yet	No data yet	No data yet	No data yet
	Comoros	No data yet	No data yet	No data yet	No data yet
	Yemen	No data yet	No data yet	No data yet	No data yet
	Syrian Arab Republic	No data yet	No data yet	No data yet	No data yet
	State of Palestine	Cash	IPSAS with no modifications	Cash	IPSAS with no modifications
	Sudan	Cash	National standards: other	Partial accrual	IPSAS modified for the local context
	Somalia	Cash	IPSAS with no modifications	Cash	IPSAS with no modifications
Middle-income countries	Morocco	No data yet	No data yet	No data yet	No data yet
	Tunisia	Cash	National standards: other	Accrual	National standards with reference to IPSAS
	Egypt	No data yet	No data yet	No data yet	No data yet
	Mauritania	No data yet	No data yet	No data yet	No data yet
	Jordan	Cash	IPSAS with no modifications	Partial accrual	IPSAS with no modifications
	Djibouti	No data yet	No data yet	No data yet	No data yet
	Bahrain	No data yet	No data yet	No data yet	No data yet
Oil-exporting countries	Algeria	No data yet	No data yet	No data yet	No data yet
	United Arab Emirates	Partial accrual	National standards with reference to IPSAS	Partial accrual	National standards with reference to IPSAS
	Saudi Arabia	Cash	National standards: other	Accrual	IPSAS modified for the local context
	Qatar	No data yet	No data yet	No data yet	No data yet
	Oman	No data yet	No data yet	No data yet	No data yet
	Kuwait	No data yet	No data yet	No data yet	No data yet

Source: IFAC, 2021.

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The Social Expenditure Monitor report offers a pioneering assessment of social policy spending in the Arab region to galvanize progress across the Sustainable Development Goals (SDGs). The report looks at ways to enhance public expenditure equity and efficiency, and rebalance priorities towards better public finance management, so as to increase human capital, productivity and growth and realize human rights.

The report presents a new framework for measuring social expenditures in seven dimensions, by capturing critical social development priorities aligned with the SDGs. Through detailed data, macro-econometric modelling, and analysis of public financial management diagnostics, the report aims to optimize links between expenditure choices and macroeconomic objectives, provide a basis for better statistics, and strengthen advocacy for much-needed fiscal policy reforms to meet various objectives crucial for macroeconomic and social stability. The report's recommendations, summarized in an 11-point agenda, support Arab countries in devising strong budgets and in making expenditure choices more equitable, efficient and effective to ensure that no one is left behind.

