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. Government 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.