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Fiscal space for child-sensitive social protection in the MENA region

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Fiscal space for child-sensitive social protection in the MENA region

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International Policy Centre for Inclusive Growth (IPC-IG)

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MINISTRY OF ECONOMY

PÁTRIA AMADA BRASIL BRAZILIAN GOVERNMENT

FISCAL SPACE FOR CHILD-SENSITIVE SOCIAL PROTECTION IN THE MENA REGION

ACKNOWLEDGEMENTS

This study is the fourth in a series of four knowledge products about non-contributory social protection in the Middle East and North Africa (MENA) region, which have been produced as part of a partnership between the International Policy Centre for Inclusive Growth (IPC-IG) and the UNICEF Middle East and North Africa Regional Office (MENARO).

It assesses how MENA countries can expand financing of child-sensitive social protection programmes, discussing how reprogramming public expenditures and implementing fiscal reforms in the context of domestic resource mobilisation could act as sustainable paths to create fiscal space to invest more in child-sensitive social protection policies. The limitations of deficit financing and other revenue-increasing alternatives are also highlighted.

We would like to express our appreciation to Arthur van Diesen, Buthaina Al-Iryani and Juan Bester from UNICEF MENARO for their comments, suggestions and support throughout the elaboration of this report. We would also like to thank IPC-IG researchers Raquel Tebaldi and Anna Carolina Machado for their insightful contributions.

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ACRONYMS

GCC	Gulf Cooperation Council
GDP	Gross domestic product
GNI	Gross national income
HCI	Human Capital Index
ILO	International Labour Organization
IMF	International Monetary Fund
IPC-IG	International Policy Centre for Inclusive Growth
MENA	Middle East and North Africa
MENARO	Middle East and North Africa Regional Office
ODA	Official Development Assistance
SDG	Sustainable Development Goal
UAE	United Arab Emirates
UNICEF	United Nations International Children's Emergency Fund
VAT	Value-added taxes

EXECUTIVE SUMMARY

Social protection policies can help address the multifaceted nature of child poverty and improve children's well-being, especially in the areas of education, health and nutrition. Providing adequate social protection to children is particularly relevant in the Middle East and North Africa (MENA), as multidimensional child poverty remains a major concern in the region. Moreover, a large share of the population of MENA will soon transition into their most productive age, clearing the way for a demographic dividend. This demographic transition presents a unique opportunity for economic growth in the region, due to its larger-than-usual share of working-age adults.

Today, the scope and adequacy of the region's social protection systems remain limited. MENA countries have traditionally relied on universal subsidies and contributory insurance schemes, and, despite recent reforms in the non-contributory sector, the schemes in place are far from reaching all children in need. Compared to other regions in the world, such as Latin America, public expenditure on social protection—especially for children—is very low in MENA.

Yet social protection requires funding. Therefore, the need to expand child-sensitive social protection leads to the question of how countries can finance such an expansion. The analysis of the different fiscal contexts and possibilities in the MENA region conducted in this study concluded that the potential fiscal space in MENA countries mainly results from switching expenditures (reprioritising social spending relative to subsidies and military expenditures), rethinking fiscal policy by moving more towards a progressive and efficient tax system, and, to a lesser extent, improving debt management.

Ideally, countries should favour options to create fiscal space that ensure both macroeconomic stability and continuous investment in social protection. However, given the diversity of macro-fiscal contexts in the region, some countries may rely more on one option than others. For example, low-income countries may find Official Development Assistance or deficit financing the only options available to finance social protection in the short term. Oil-rich countries, such as those of the Gulf Cooperation Council, could focus on the diversification of domestic resources as a way to increase fiscal space, since they rely heavily on oil rents. Other countries that already have high levels of taxation and debt could explore the reprioritisation of expenditures to free up resources for social protection. Each option should, therefore, be carefully considered and adapted to each country's specific context.

INTRODUCTION

Countries in the Middle East and North Africa (MENA) vary substantially with regards to their natural resources, economy, territory and population, and level of human development. In 2011, a number of countries in the region experienced uprisings due to a combination of political, social and economic factors. Some of the socio-economic factors triggering social unrest in the region include rising unemployment and inequality, and exclusion from the labour market. In addition to the challenges posed by conflict and the political instability in the aftermath of these uprisings, oil-producing countries faced an exceptionally difficult environment due to the decrease in oil prices,[1] which continues to affect economic activity, fiscal and external balances and the financial sector (ESCWA 2017b; IMF 2017d).

Countries facing conflicts—such as Iraq, Libya, Syria and Yemen—have experienced a deep deterioration in living standards, leading to severe problems such as disease outbreaks, years of lost education, and the loss of income and livelihoods for millions of people. These conflicts have also put a strain on neighbouring countries, which have since witnessed a greatly increased influx of refugees and increased risk of political instability (ESCWA 2017b).

Some countries in the region, such as Egypt, Morocco, Tunisia and Jordan, undertook economic reform programmes with a view to achieving fiscal consolidation and macroeconomic stability, restoring public finances and improving their overall socio-economic situation. By the same token, Gulf Cooperation Council (GCC) countries such as Saudi Arabia and the United Arab Emirates (UAE) announced plans to diversify their economies away from oil and create more jobs (IMF, 2017b).

As a mitigating measure for the negative impacts of economic reforms on both the middle class and the poorest populations, social protection[2] reform and expansion are regarded as crucial complementary measures for these economic reforms (Nauk 2017). However, for this expansion to be sustainable and effective in preventing an increase in poverty and inequality in the medium and long term, it is important to analyse the current fiscal space in MENA countries and explore potential ways to free up more resources to scale up social protection expenditures.

This report takes a close look at fiscal space to identify the scope for additional and more effective spending on child-sensitive social protection, in line with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). It aims to answer the question: How can MENA countries allocate resources to new child-sensitive social protection programmes and/or increase the budgets of existing ones?

The study uses an adaptation of the fiscal space diamond framework, focusing on internal sources of fiscal space: domestic revenue mobilisation, deficit financing and reprioritisation of expenditures. As we have not included the fiscal space dimension of Official Development Assistance (ODA), our visual representation of countries' aggregate fiscal space uses a triangle instead of a diamond. The report discusses the constraints and possibilities of increasing fiscal space according to each dimension, providing a visual representation of the fiscal space triangle for each country, considering the regional situation for each corner.[3]

The next section of this report sets the scene, using select child-sensitive indicators for MENA countries and a summary of social protection interventions in the region. The second section presents the framework and methodology used to analyse the fiscal space. The third section provides an overview of the macro-fiscal context of the region. Finally, the fourth and final section of the report provides a classification of MENA countries based on the assessment of the three fiscal space dimensions and discusses options for increasing fiscal space.

1. SETTING THE SCENE: THE NEED FOR SOCIAL PROTECTION FOR CHILDREN IN MENA

1.1 Why child-sensitive social protection in MENA?

Children's experience of poverty and vulnerability differs from that of adults: not only are they more vulnerable to malnutrition and disease, they are also more dependent on others for support. Malnutrition, lack of health care and low levels of education have long-lasting detrimental consequences for children's cognitive, sensory-motor and social-emotional development, not only depriving the child of its right to survival and development, but also negatively affecting society as a whole (UNICEF and the Global Coalition to End Child Poverty 2017).

Social protection policies can help address the multifaceted nature of child poverty and improve children's well-being, especially in the areas of education, health and nutrition. UNICEF (2012) defines child-sensitive social protection as programmes that aim to maximise children's development outcomes and minimise potential unintended side effects. To this end, it is important to consider the gender-, age- and context-specific needs and vulnerabilities of children during all stages of the policy cycle. Child-sensitive social protection schemes do not need to directly target children to benefit them. Policies providing income security to households, for instance, can decrease financial barriers to the well-being of children and ensure their access to basic services. Cash transfer programmes that target poor households—now a basic element of social protection in many countries—have been shown to increase children's school attendance, improve the use of health services and increase children's dietary diversity. An ever-growing body of research has documented the positive effects of these and other social protection interventions on preventing and reducing both monetary and multidimensional child poverty (Bastagli et al. 2016).

Child poverty remains an issue of concern in the MENA region. Although the region has made significant progress in reducing extreme poverty and improving health, education and child survival rates, progress has been uneven. Middle-income countries have advanced more than lower-middle-income countries, and those impacted by humanitarian conflicts have seen reversals in child well-being indicators (UNICEF 2017a). A recent study covering 11 Arab countries has shown that one in four children suffers from acute multidimensional poverty, meaning that they are deprived of their basic rights in two or more of the following dimensions: decent housing, health care, safe water, sanitation, nutrition, basic education and information (League of Arab States et al. 2017).

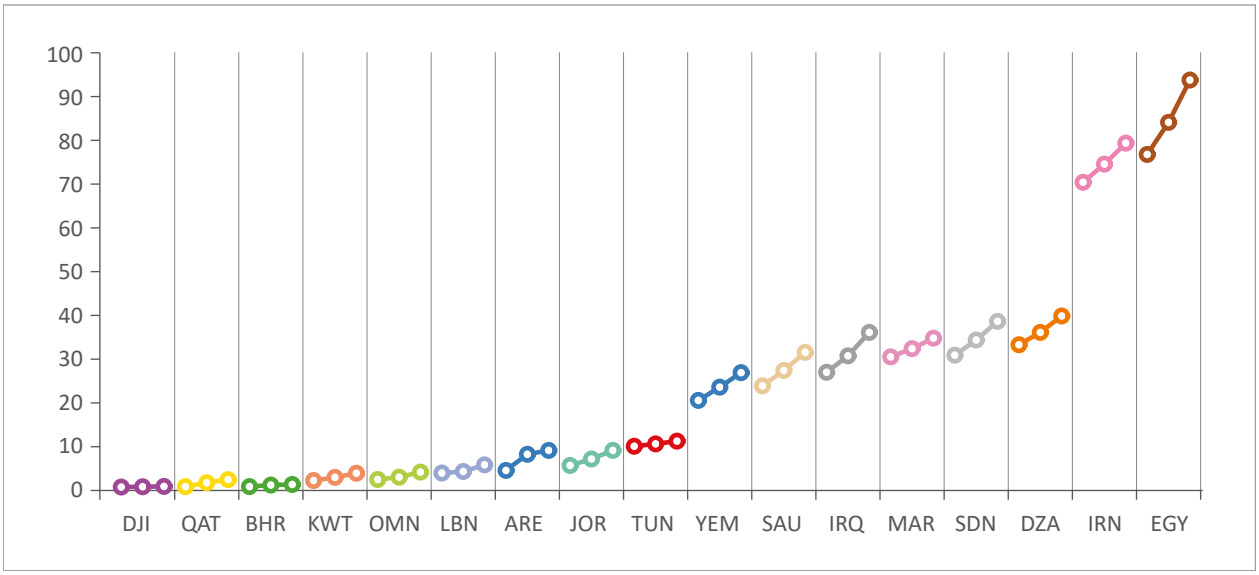
The eradication of extreme child poverty and the reduction by half of the proportion of children living in poverty in all its dimensions are at the core of the 2030 Agenda for Sustainable Development, to which MENA countries are committed. Indeed, these are the two main targets of SDG1, "end poverty in all its forms everywhere." To meet these targets, SDG1—through target 1.3—requires the implementation of "nationally appropriate social protection systems and measures for all," aiming at a significant increase in the levels of coverage of poor and vulnerable people by 2030.

1.2 The demographic transition and the window of opportunity

Providing adequate social protection to children is particularly relevant in MENA, as a large share of the population of the region will transition into their most productive age, paving the way for a demographic dividend.[4] Children represent more than one third of the region's population: 36.3 per cent (169 million) of the total estimated 459 million people living in MENA in 2015 were under the age of 18 (UNDESA 2017).

MENA countries differ significantly in terms of population size, as depicted in Figure 1. Egypt and Iran have the largest populations—93.8 and 79.4 million, respectively, in 2015. Thus, almost two fifths (around 38 per cent) of the MENA population is concentrated in these two populous countries.[5] For most countries, the absolute population growth between 2005 and 2015 was of about the same magnitude in 2005–2010 and 2010–2015 (see Figure 1).

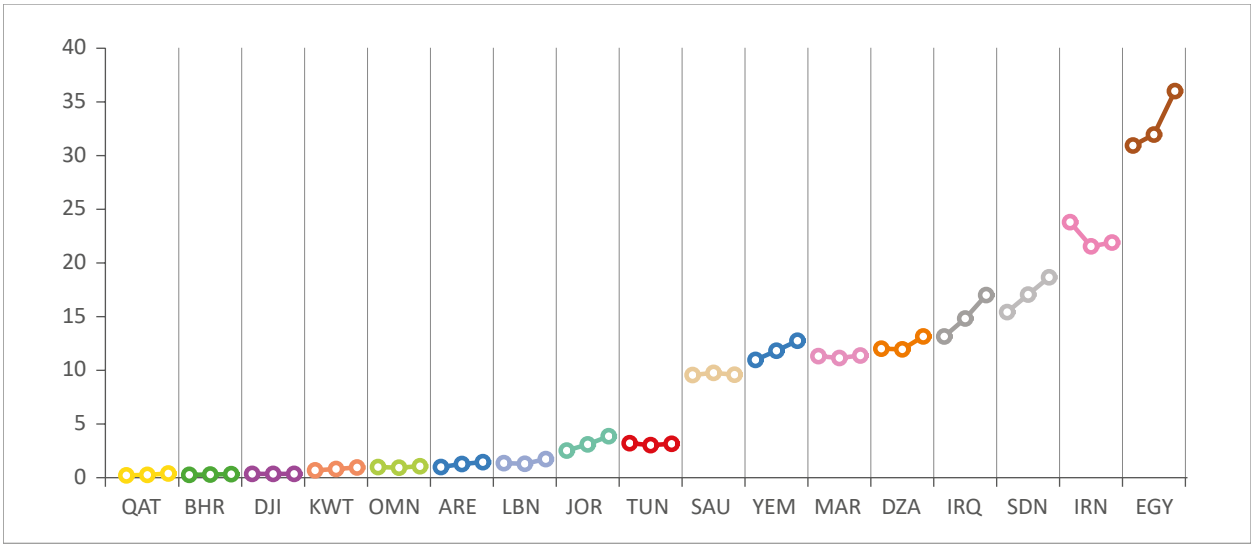
Figure 1. Population by country, 2005, 2010 and 2015 (in millions)



Source: UNDESA (2017).

The absolute number of children in some countries has also increased (Figure 2). Egypt, Iraq, Jordan, Sudan and Yemen have experienced a significant growth in their child populations due to high fertility rates: above three children per woman (World Bank 2018a). According to United Nations projections, the number of children in MENA is expected to reach 188 million by 2030 (UNDESA 2017). Not surprisingly, the countries with larger populations also have larger child populations.

Figure 2. Child population (0–17) by country, 2005, 2010 and 2015 (in millions)



Source: UNDESA (2017).

Yet, while the total population of MENA will continue to grow over the coming decades due to the combined effect of rapidly declining mortality rates and less-rapidly declining fertility rates, it will do so increasingly slowly. The size of the child population of MENA countries at more advanced stages of the demographic transition is more stable. Except for Morocco, Saudi Arabia and Iran, the child population is still growing in the most populous countries.

Box 1. 'MENA Generation 2030' report—stages of the demographic dividend and examples in MENA

Pre-dividend countries: Countries whose working-age population will increase between 2015 and 2030 have an opportunity to reap a demographic dividend. Among them, those that had comparatively high total fertility rates (four or more births per woman) in 2015 are classified as 'pre-dividend' countries, since the window of opportunity for accelerated economic growth has not yet opened, due to ongoing rapid population growth resulting in a high child dependency ratio. Only four countries in MENA—Iraq, Sudan, Yemen and the State of Palestine—are currently in this phase.

Early-dividend countries: Countries showing a relative increase in their working-age population and total fertility rates of less than four births per woman in 2015 are further along the path towards reduced fertility. Thus, they experience lower child dependency ratios and a higher proportion of working-age people in the population. These are classified as 'early-dividend' countries; half of the countries in MENA (10) fall into this category: Algeria, Bahrain, Djibouti, Egypt, Iran, Jordan, Libya, Oman, Saudi Arabia and Syria.

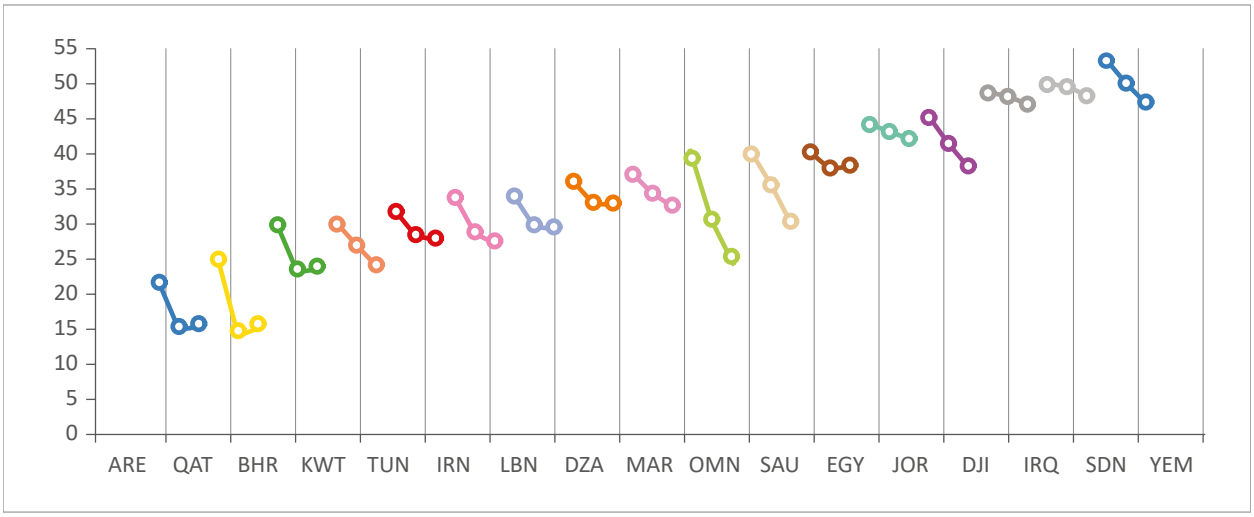
Late-dividend countries: Countries with a declining share of the working-age population between 2015 and 2030 face a closing window of opportunity for their first demographic dividend. Countries that in 1985—roughly one generation ago—had a total fertility rate above replacement level are classified as 'late-dividend' countries. Most late-dividend countries have a large share of working-age population and are in a position to continue harvesting the benefits of the first demographic dividend, but they will undergo crucial changes in coming years. Six MENA countries—Kuwait, Lebanon, Morocco, Tunisia, Qatar and UAE—are at this stage.

Post-dividend countries: 'Post-dividend' countries have experienced fertility rates below replacement level since 1985 and will face a rapidly increasing elderly population, further decreasing the already diminishing share of the working-age population. No MENA countries are in this position yet.

Source: UNICEF (2018b, 30).

Notwithstanding the absolute growth, the child share of the total population fell in all countries in the region, particularly between 2005 and 2010, as shown in Figure 3. As fertility rates decline and the birth cohorts become smaller, in a context of lower mortality rates, the share of the working-age population grows, and dependency ratios decrease. The windows of opportunity are thus opening, or are already wide open, for MENA countries. In the 'MENA Generation 2030' report (UNICEF 2018b), all 20 MENA counties were classified according to their stage in the demographic transition (see Box 1).

Figure 3. Child population (0–17) share by country, 2005, 2010 and 2015 (in %)



Source: UNDESA (2017).

For a country's economy, a lower dependency ratio means that the number of potential producers grows larger relative to the number of consumers. This phenomenon increases the tax base, as more people will be taxable, contributing to the broadening of fiscal space for social protection. The demographic transition that the MENA region is currently experiencing represents a unique opportunity for economic growth due to its larger-than-normal share of working-age adults.

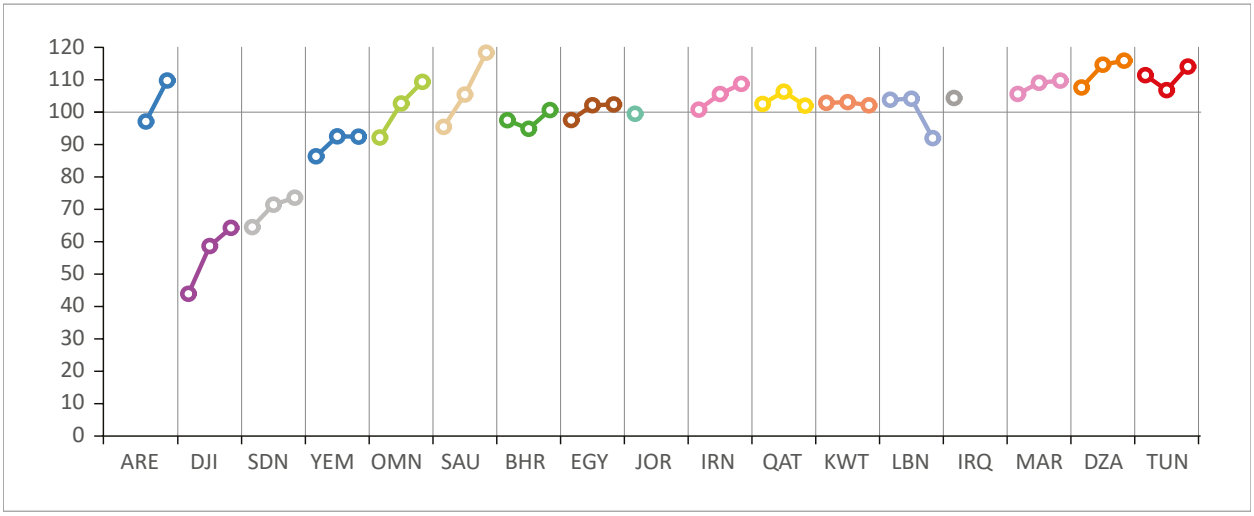
However, since the population over the age of 65 is projected to increase in the second half of the century, the dependency ratio is expected to rise again, and the window of demographic opportunity will start to close. Ageing will pose new challenges in terms of fiscal space for social protection, particularly given the gaps in pension funds in several countries. UNICEF (ibid.) estimates that the most favourable period for the region will be between 2018 and 2040, when the dependency ratio is predicted to be lowest. As stated in the 'MENA Generation 2030' report (ibid, 3), "the opportunity of a demographic dividend is an extra incentive […] to invest in a new generation of adolescents and youth that is strong, rejects violence and discrimination, and is prepared for positive engagement in lifelong learning and work."

1.3 Child health, education and well-being

Are MENA countries doing enough for children's human development to make the most of the window of opportunity afforded by the demographic transition? While significant progress has been achieved in terms of child well-being in recent decades, a closer look at some key dimensions reveals that disparities across and within MENA countries remain high.

The average under-5 mortality rate in the region more than halved between 1990 and 2015. However, only half of the countries in the region met the Millennium Development Goals (MDG) target of reducing the under-5 mortality rate by two thirds by 2015. Rates remain especially high in Sudan and Djibouti, with 70 and 65 deaths per 1,000 live births, respectively, in 2015. Morocco and Algeria also continue to bear relatively high levels of child mortality—28 and 26 deaths per 1,000 live births, respectively, in 2015. In contrast, child mortality in Lebanon was as low as 8 deaths per 1,000 live births, and GCC countries had very low rates in 2015 (UNICEF 2017a).

Figure 4. Enrolment in primary education by country (in %), circa 2005, 2010 and 2015



Source: UNESCO Institute for Statistics (2018).

Underweight remains a serious challenge in Sudan and Egypt, whose children comprise almost half of the 4 million affected children in the region. About 10 million under-5 children are estimated to be stunted (too short for their age) in MENA, 75 per cent of whom live in Egypt, Sudan, Yemen and Iraq. Countries experiencing humanitarian crises are facing reversals in progress towards reducing the chronic malnutrition of children, which is severely affecting their future development (ibid.).

Regarding education, MENA countries are progressively ensuring equitable access for all children. According to official estimates, most have reached or are at the point of reaching universal primary education, and enrolment rates in primary education have been increasing steadily in many countries since 2005. Despite overall progress in the region, Sudan and Djibouti are lagging behind in terms of access to primary education (see Figure 4.) Enrolment in lower secondary education varies significantly across countries.

The recent humanitarian crises in the MENA region have severely affected children's access to education, particularly in Yemen, Syria and Sudan, where it is estimated that over 3.8 million children of primary school age are out of school, representing 90 per cent of all out-of-school primary-school-age children in the region. In countries affected by the Syrian crisis, especially Syria, Jordan and Lebanon, the proportion of out-of-school children increased between 2005 and 2014 (ibid.). The situation also remains particularly worrisome in Yemen, where 2 million children are out of school (UNICEF 2018a). However, investments are not only needed to ensure all children's access to education, but also to improve the quality of education, so that youth are prepared for tomorrow's labour market. According to the 'MENA Generation 2030' report (UNICEF 2018b), early-dividend countries (see Box 1) in particular will need to invest in the quality of secondary education.

The figures presented above demonstrate that there is still much to do to guarantee basic child rights and human development. Therefore, investing in children's human capital will remain key. In line with this argument, the World Bank has recently launched the Human Capital Index (HCI), which tries to gauge the amount of human capital that a child born today can expect to attain by the time s/he reaches 18 years of age.[6] The average HCI for the MENA region is 0.54.[7] The interpretation is that when a child born today reaches 18, his/her productivity will be 54 per cent of the potential that would have been achieved if s/he had enjoyed full access to education and health. Despite the shortcomings inherent in indexes such as the HCI, it still provides yet another compelling argument for the importance of investing in children.

Social protection can play a key role in this regard; however, investing in childhood is not enough: a demographic dividend will not be realised without ensuring that an enabling environment is in place to promote the transition of youth into the workplace. Social protection policies can contribute to this end by fostering linkages with skills-building and active labour market policies for youth.

1.4 Social protection in MENA

In addition to the expansion of the coverage and quality of health and education services, which are clearly lacking, social protection can play a key role in increasing children's human capital and ensuring their most basic rights. Social protection schemes such as child grants, social pensions, social cash transfers and fee waivers can enable families to invest in their children's education, nutrition and health. Providing adequate social protection is, therefore, another way to invest in children and make the most of the demographic dividend. Moreover, investing in children is an obligation for States, as enshrined in several human rights instruments, including the United Nations Convention on the Rights of the Child. As put by van Diesen (2017), social protection for children and their families is, therefore, not only smart economics but also a rights issue.

However, despite recent reforms, the current social protection schemes in MENA are still far from reaching all children in need. The provision of social protection in the region has traditionally relied on universal subsidies and contributory insurance schemes for public-sector employees and those working in the formal labour market (Van Diesen 2017; Loewe and Jawad 2018). This system was bolstered by mostly free-of-charge health and education systems established during the 1950s and 1960s, when many countries in the region achieved political independence. Charities, religious and grass-roots organisations and kinship systems have traditionally played a central role in filling the gap of assistance to the poorest people (Loewe and Jawad 2018; Devereux 2017). After the events of the Arab uprisings, many countries in the region responded by increasing social expenditure. As universal food and energy subsidies became unsustainable, reforms towards targeted cash transfer programmes spread throughout the region as a mitigation mechanism. Yet recent research suggests that only a small proportion of the revenues once allocated to subsidies have effectively been diverted into targeted social protection (Nauk 2017).

An analysis of the existing non-contributory social protection programmes in MENA conducted by the International Policy Centre for Inclusive Growth (IPC-IG) and the UNICEF Middle East and North Africa Regional Office (MENARO) (Machado et al. 2018) found that cash transfer programmes are the most common programme type, offered by all countries in the region. While there is a prevalence of unconditional cash transfer programmes for poor and vulnerable populations, in recent years conditional cash transfer programmes have also become more common. In most cases, conditionalities are related to children's school enrolment and/or attendance. A few countries, such as Egypt, have established health conditionalities that apply to children. Several countries also offer unconditional in-kind transfers, often in the form of food distribution programmes, such as Iraq's Public Distribution System.

Despite reforms and the introduction of more targeted cash transfer programmes, fuel, food and housing subsidies remain a common social protection instrument. Although now widely considered a remnant of a social contract that is no longer sustainable, it is important to understand that subsidies were originally considered instruments for reducing or mitigating poverty by improving access to basic goods or services by stabilising prices. The rationale for subsidies is also rooted in the vulnerability of MENA countries to food price volatility, stemming from their high dependence on food imports (ESCWA 2014).

While there are a plethora of non-contributory social protection programmes in MENA, they tend to differ significantly in scale, benefit value and delivery frequency, and there is now growing consensus that the systems in place have limited coverage of those outside the formal labour market and cannot fully protect vulnerable people effectively against destitution. The analysis by Machado et al. (2018) shows that most non-contributory social protection programmes in the region target individuals who are unable to work, such as elderly people and those with disabilities, or who live in households without a male breadwinner, such as widows or divorced women living in poverty. Yet poor and vulnerable families of married informal workers with children often remain uncovered. Programmes targeting children are often limited to school-age children or to particularly vulnerable groups, such as orphans. Few programmes explicitly target under-5 children, and few schemes are specifically designed to ease the transition of young people into the labour market (see also the forthcoming study by the IPC-IG and UNICEF).

In addition, another study conducted by the IPC-IG and UNICEF MENARO on children's rights to social protection in MENA (Bilo and Machado 2018) found that many programmes are not (yet) embedded in legislation. Out of 154 non-contributory social protection schemes mapped in MENA, 66 are not moored in a legal framework. The lack of comprehensive legal frameworks can threaten beneficiaries' right to social protection, as schemes become more vulnerable to changes in short-term government priorities and political and partisan manipulation. Without a legal framework, governments are not bound by any compulsory action, and they are thus more likely to discontinue social protection programmes. To guarantee citizens' (including children's) right to social protection, the legal frameworks of social protection programmes should comply with a minimum set of standards, including the clear articulation of eligible groups, financing and grievance redressal mechanisms, among others. The analysis by Bilo and Machado (ibid.) revealed that many of the programmes' legal frameworks are rather limited.

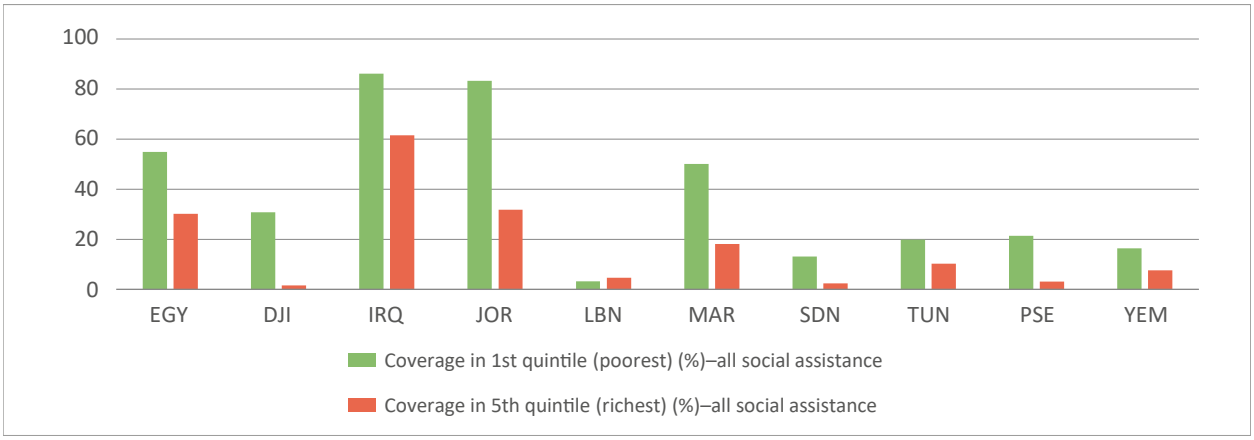
Another challenge that many social protection systems in the region face is the recurrence of human-induced and natural disasters, as well as economic crises. Though not necessarily new, large-scale conflicts currently pose unprecedented challenges due to the sheer scale of displacement they have caused, such as in the case of Syria. Moreover, the breakdown of service provision caused by conflict, as in the case of Yemen, is also leading to the escalating prevalence of malnutrition and communicable diseases. In addition to conflict, MENA countries also face the risk of various natural disasters, including earthquakes, floods and droughts. Therefore, the question of how social protection systems can be resilient and respond to covariate shocks has gained increased traction in recent years.

An analysis by Tebaldi (2019) of the social protection systems in MENA showed that many countries in the region still need to improve their preparedness for eventual shocks. The lack of emergency or contingency funds, comprehensive national social registries and emergency preparedness measures represent some of the key challenges to improving the shock-responsiveness of the region's systems. The case of Yemen's Emergency Cash Transfer project provides an

interesting case, showing how parts of an existing programme (the Social Welfare Fund) can be used to provide cash transfers during a humanitarian crisis.[8]

The rather limited size of most social protection programmes in MENA is another key problem. According to the ASPIRE database, 57.4 per cent of the poorest quintile in MENA receive some form of social assistance benefit. This is higher than in sub-Saharan Africa but considerably lower than in Latin America and the Caribbean (8.6 per cent and 66.7 per cent, respectively). Coverage rates in the region vary widely, ranging from 75.8 per cent in Iraq in 2012[9] and 65.7 per cent in Jordan in 2010 to 7.4 per cent in Sudan in 2009. A comparison between the coverage of the poorest and richest quintiles from the ASPIRE database is presented in Figure 5 (World Bank 2018b).

Figure 5. Coverage of the poorest and richest quintiles by social safety nets, by country (in %), latest data available



Source: World Bank (2018b).

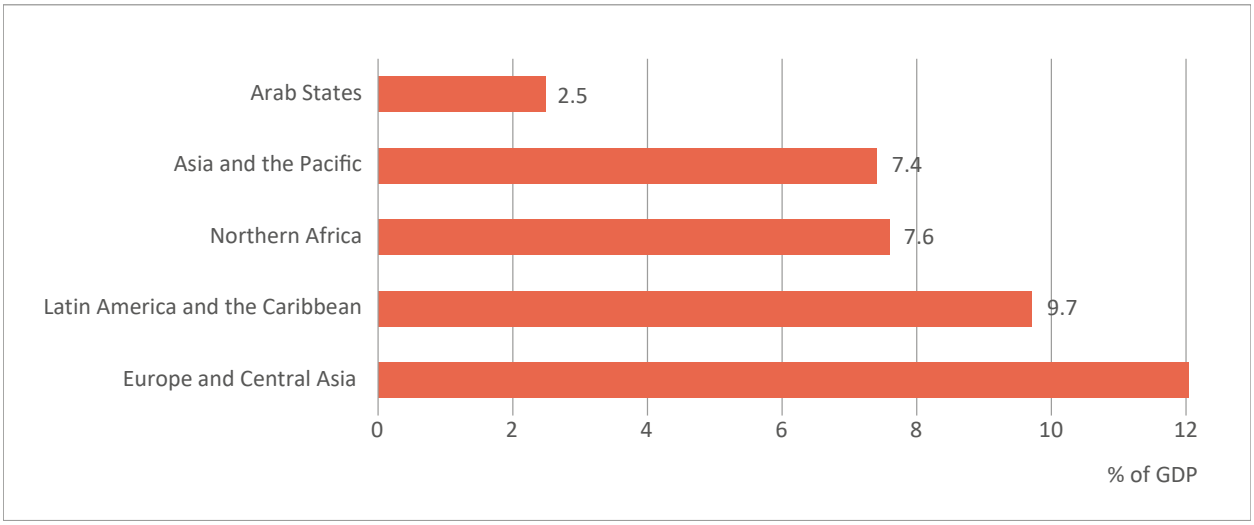
Given the lack of data, it is very difficult to calculate reliable coverage rates of the child population. Based on a comparison between the estimated number of child beneficiaries and overall population and poverty estimates, Machado et al. (2018) found that the region's social protection programmes are often not large enough to reach all vulnerable children. Assuming that the programmes achieved perfect targeting of multidimensionally poor children, the authors estimate that more than half (15) of 23 cash transfer programmes would only reach less than 35 per cent of the multidimensionally poor children in their respective countries, with nine programmes reaching less than 8 per cent of the multidimensionally poor children.

The low level of coverage of non-contributory social protection is exacerbated by the fact that, except for the rich GCC countries, MENA economies have not been able to create employment opportunities for the many young people entering the labour market, and informality remains high. A look at the current labour market situation highlights once again the need to invest in job-intensive growth to provide employment opportunities for the current and the upcoming generations. The productive inclusion of youth can help broaden the base of contributory social protection as well as the tax base for non-contributory programmes.

1.5 Social protection expenditure

The generally low levels of social protection coverage in the MENA region call for the need to scale up existing programmes and increase social protection expenditure. While many countries scaled up social protection interventions as a response to the 2008 economic crises and the Arab uprisings in 2011, in recent years governments in the region have been more reluctant to do so in a context of fiscal consolidation.

Figure 6. Public social protection expenditure, excluding health, selected regions (% of GDP)



Source: ILO Social Protection Database (Figures 6.8, 6.17, 6.21, 6.31, 6.40).

Table 1. Public social protection expenditure, latest available year (% of GDP)

Country	Total social protection expenditure, including health	Year	Total social protection expenditure, excluding health	Year
Algeria	8.5	2011	4.8	2011
Bahrain	4.0	2010	1.4	2010
Djibouti	7.3	2007	2.0	2007
Egypt	11.2	2015	10.1	2014
Iran	12.5	2010	10.1	2010
Jordan	8.9	2015	4.7	2014
Kuwait	11.4	2011	9.2	2011
Lebanon	2.1	2015	-	-
Libya	6.6	2010	4.4	2010
Morocco	6.6	2010	4.5	2010
Oman	3.8	2013	1.4	2013
Saudi Arabia	3.6	2011	1.1	2011
Sudan	2.3	2010	-	-
Syria	1.9	2010	0.4	2010
Tunisia	10.4	2011	6.2	2011
Yemen	9.6	2012	8.0	2012

Source: ILO Social Protection Database (based on Table B.17 and Figures 6.8, 6.21, 6.31).

Data on social protection expenditure in MENA are generally either scarce or outdated. There are three main data sources that provide social protection expenditure figures for the region—namely, the International Labour Organization (ILO), the Word Bank and the International Monetary Fund (IMF). Yet these data are presented in different formats and use distinct data sources (see Table 2 in the annex for a short description). It should be noted that expenditure figures vary, largely due to the use of different definitions and data sources. The figures presented in this section are mainly based on ILO consolidated data, as they include most countries in the region and more recent figures.

According to the ILO Social Protection Database, the North Africa region and the Arab States spend 7.6 per cent and 2.5 per cent, respectively, of gross domestic product (GDP) on social protection (excluding health and including both social assistance and social insurance). Notably, the Arab States rank the lowest of all regions (see Figure 6).

Table 1 shows that individual countries' social protection expenditure as a share of GDP varies significantly across the region. While Egypt spent 10.1 per cent of GDP on social protection in 2014, other countries present significantly lower levels, such as the GCC countries, all showing expenditure levels below 1.5 per cent of GDP (except for Kuwait). However, it should be noted that these figures do not differentiate between spending on contributory and non-contributory social protection. Table 2 displays the latest available figures by type of social protection. For countries with available data, one can see that pension schemes (both contributory and non-contributory) consume a significant share of the total expenditure compared to other types of social protection (such as unemployment or children/family grants).

Table 2. Public social protection expenditure by guarantee (% of GDP)

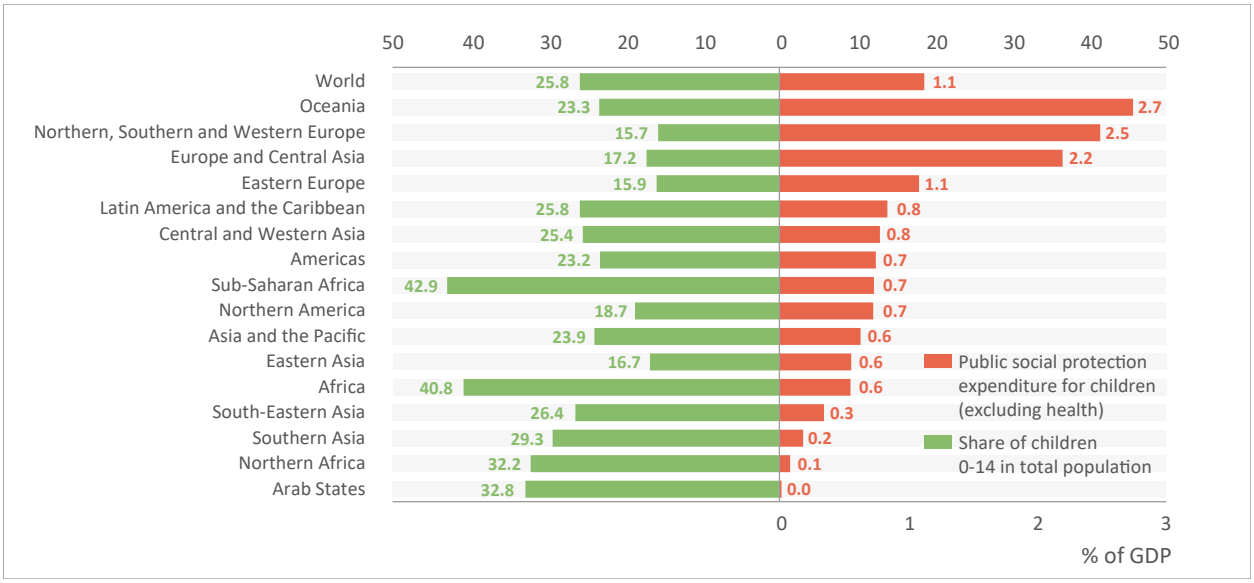
	Public social protection expenditure for older persons (% of GDP, without health care)		Public social protection expenditure for persons of active age (% of GDP, without health care)										Public social protection expenditure for children (% of GDP, without health care)	
			Social benefits for persons of active age (excluding general social assistance)		Unemployment		Labour market programmes		Sickness, maternity, employment injury, disability		General social assistance			
Country		Year		Year		Year		Year		Year		Year		Year
Algeria	5.6	2016	0.3	2009	0.0	2009	...	...	0.3	2009	0.9	2016	0.1	2016
Bahrain	1.0	2010	0.5	2010	0.0	2010	...	...	0.5	2010	0.1	2010	0.0	2010
Djibouti	1.5	2007	...	...	n.a.	2010	...	...	...	...	...	...	...	...
Egypt	3.0	2010	...	...	...	...	...	...	...	...	...	...	...	...
Iran	5.9	2013	1.8	2009	0.3	2009	...	...	1.5	2009	5.0	2010	1.0	2010
Jordan	4.4	2015	0.7	2010	n.a.	2010	0.0	2010	0.7	2010	0.6	2010	0.0	2010
Kuwait	3.5	2011	...	...	n.a.	2011	...	...	...	...	...	...	...	...
Lebanon	2.7	2013	...	...	...	...	...	...	...	...	...	...	...	...
Libya	2.1	2010	...	...	n.a.	...	...	...	...	...	...	...	...	...
Morocco	3.0	2012	1.5	2010	n.a.	2010	...	...	1.5	2010	0.1	2010	0.1	2010
Oman	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Saudi Arabia	0.3	2013	...	...	...	...	...	...	...	...	...	...	...	...
Sudan	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Syria	1.3	2004	...	...	...	...	...	...	...	...	...	...	...	...
Tunisia	5.2	2015	3.4	2010	...	...	...	...	2.4	2010	0.7	2010	0.2	2010
Yemen	0.5	2010	0.2	2010	n.a.	2010	...	...	0.2	2010	0.1	2010	0.0	2010

Note (1): According to the ILO, differences in global estimates from Table 1 result from differences in reference years and in the number of countries considered.

Note (2): The term 'guarantees' refers to the four social security guarantees that national social protection floors should encompass. As laid down in Article 5 of the Social Protection Floors Recommendation of 2012 (No. 202), these are: (a) access to essential health care, including maternity care; (b) basic income security for children; (c) basic income security for persons of active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and (d) basic income security for older persons.

Source: ILO Social Protection Database (Table B. 17).

Figure 7. Public social protection expenditure (excluding health) on children (% of GDP) and share of children 0–14 in total population (in %)



Source: ILO World Social Protection Database (Figure 2.4, based on Table B.17).

Table 3. Annual spending as a percentage of GDP by programme type for selected countries

		Annual spending as a percentage of GDP										Annual absolute spending per capita (2011 USD PPP)	
Country	Year	Total	CCT	UCT	Social pension	School feeding	Public works	Food and in-kind	Fee waivers	Other social assistance	Total excluding health fee waivers	Total	Total excluding health fee waivers
Djibouti	2013–2015	0.18	0.07	0.07	–	–	..	0.04	..	–	0.18	6	6
Egypt	2010	0.17	–	0.17	–	–	–	–	–	–	0.17	17	17
Iraq	2012–2013	2.56	–	0.36	–	–	–	2.2	–	..	2.56	368	368
Jordan	2009	0.68	–	–	–	–	–	–	–	–	0.68	68	68
Kuwait	2010	0.8	0.02	0.19	0.18	–	–	–	0.41	–	0.8	525	525
Lebanon	2013	1.04	–	0.4	0.04	–	–	–	0.61	–	0.44	157	66
Morocco	2014–2016	1.09	0.1	0.01	–	0.1	–	0.02	0.14	0.72	0.95	80	70
Saudi Arabia	2012	0.71	..	0.35	0.36	..	–	–	–	–	0.71	352	352
Sudan	2016	1.02	0.02	0.5	–	0.01	0.01	0.13	0.35	–	0.67	42	28
Tunisia	2013–2015	0.76	0.03	0.54	–	–	–	–	0.16	0.02	0.59	79	62
West Bank and Gaza	2013–2014	2.34	–	1.13	..	–	0.17	0.9	0.15	–	2.24	106	102

Note: CCT = conditional cash transfer; UCT = unconditional cash transfer; fee waivers include education and health insurance waivers; – = not available; .. = value was very close to zero (less than 0.001 per cent).

Source: ASPIRE.

The share of expenditure on child and family benefits is only available for very few countries in the MENA region. In those where it is available, the figures are all below 0.2 per cent of GDP (see Table 2). ILO estimates indicate that the MENA region spends very little on these benefits compared to other regions, particularly when considering that children represent a greater share of their population. While Europe and Central Asia as well as Oceania spend more than 2 per cent of GDP on child benefits, the expenditure levels of the Arab States and North Africa are the lowest in the comparison, at less than 0.1 per cent of GDP (see Figure 7).

In addition to the ILO database, the World Bank ASPIRE database provides a breakdown of governments' annual spending on non-contributory social protection (social safety nets as per the World Bank classification) as a percentage of GDP by programme type. Most data are available for unconditional cash transfer programmes. For countries that also provide data on other programme types, figures show that unconditional cash transfers comprise the largest share of spending, followed by fee waivers. According to ASPIRE, Iraq and the State of Palestine are the countries that spend the most on social protection (2.56 per cent and 2.34 per cent of GDP, respectively). These numbers differ significantly from the ILO estimates, likely due to the use of different data sources and definitions. According to the ASPIRE calculations, Kuwait is the country that spends the most per capita (USD525 purchasing power parity—PPP), while Djibouti is the country that spends the least (USD6 PPP).

2. FRAMEWORK TO ANALYSE FISCAL SPACE

The previous section highlighted that social protection will be key to fighting multidimensional child poverty, which remains high in MENA, and it showed that the current demographic window represents a unique opportunity—and pressing need—for MENA countries to invest in child-sensitive social protection. The need to invest in the expansion of existing schemes is particularly imperative given the large share of children in the population and the fact that the existing programmes are still far from covering all vulnerable children in the region (ibid.).

Yet, to achieve the desired positive outcomes such as fostering children's human capital, social protection programmes need to be well designed across all dimensions. This means that resources are not only required for the actual payment of benefits but also for programmes' running expenses, including human resources—such as case workers—and the maintenance of management information systems, among others.

These elements are particularly important to ensure that social protection systems in MENA are made resilient, integrated with other sectors and able to respond to covariate shocks. This is especially relevant against a background of multiple shocks and complex emergencies that characterises the MENA region, including violent conflicts, which have resulted in an unprecedented level of human displacement. These shocks not only directly impact the provision of social protection services but also increase the number of people in need of social protection. Thus, fiscal space will be needed for national emergency/contingency funds that can be allocated, among other sectors, to social protection, which in turn can finance potential scale-ups of programmes during times of crisis (Tebaldi 2019).

Moreover, adequate long-term financing is needed to ensure the adequacy and predictability of benefits, as also foreseen in a human rights-based approach to social protection. It will also be necessary to ensure the functioning of other important programme features that are key to promoting social protection as a right, including functioning complaints and grievance redressal mechanisms (Bilo and Machado 2018).

The need to expand social protection in the MENA region leads to the question of how countries can allocate resources to new child-sensitive social protection programmes and/or increase the budget of existing programmes. From this perspective, the remainder of this study will explore the different ways to increase resources allocated to social protection. It will also analyse the main constraints facing each option. The next section will explore the concept of fiscal space in further detail and explain the methodology used in the study.

2.1 What is fiscal space?

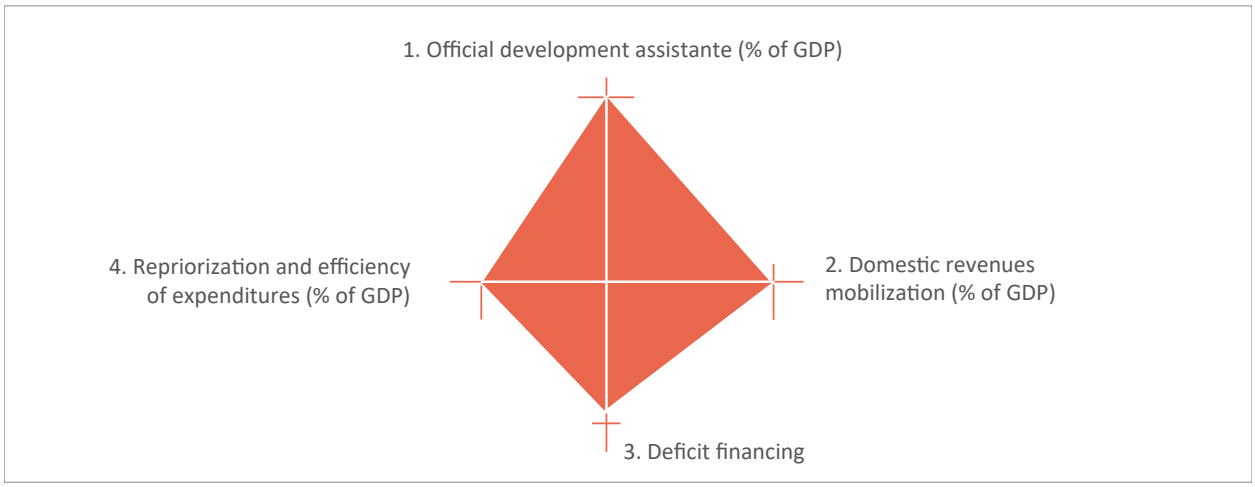
The Fiscal Affairs Department of the IMF defines fiscal space as "the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position" (IMF 2015). The United Nations Development Committee follows a somewhat different approach, defining fiscal space as "the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives" (Roy et al. 2007).

The IMF definition emphasises fiscal responsibility and sustainability. It draws attention to the fact that not all alternatives for creating fiscal space are commendable. If a country is highly indebted, for instance, increasing debt will most likely not constitute a wise approach to creating fiscal space. The World Bank framework for the analysis of fiscal space is close to the IMF perspective, as it focuses on debt indicators: it is concerned with debt sustainability, the composition of the balance sheet, the size of external and private-sector debt, and the market perception of the country's ability to repay its creditors (Kose et al. 2017).

The United Nations Development Committee definition is not only concerned with the macroeconomic situation but also considers policies, institutions and the governance environment, assessing the extent to which a government can mobilise resources to achieve a certain set of development goals. Macroeconomic indicators, for instance, might point out that a country can create fiscal space by increasing taxation or terminating subsidies. However, if the government is unpopular or does not have congressional support, it is unlikely that it will succeed in raising taxes or in phasing out subsidies.

A framework to visually represent the aggregate fiscal space available in a country was developed by the United Nations Development Committee (2006) and later discussed by Roy et al. (2007). This framework is known as the 'fiscal space diamond' and represents a tool for assessing the different fiscal instruments a country can use to finance a national development strategy. The fiscal space diamond maps out how to finance development through: (a) external grants in the form of aid or debt relief; (b) domestic revenue mobilisation through improved tax administration or tax policy reforms; (c) deficit financing through domestic and external borrowing; and (d) reprioritisation and efficiency of expenditures.

Figure 8. The fiscal space diamond



Source: Roy et al. (2007).

2.2 Methodology

To paint a clearer and more realistic picture of the aggregate fiscal space available in MENA countries, we have decided to adapt the fiscal space diamond framework by focusing on the options for countries to raise fiscal space internally, which meant leaving out ODA. Though some countries in the region rely on external aid to finance part of their development expenditures (see Section 3), ODA is not a sustainable solution for fiscal space (Roy and Heuty 2005). ODA funds are insufficient, as they depend on the political will of donor countries to direct domestic resources to developing countries, and the target of 0.7 per cent of donor countries' gross national income (GNI) is still far from being honoured: today, the share of ODA as a percentage of GNI in Organisation for Economic Co-operation and Development (OECD) countries is around 0.3 per cent, according to the OECD (2018a). Furthermore, ODA is known to be unstable and not always directed at expenditures that are in line with the receiving country's development needs. In this sense, there is a fair debate on whether foreign aid can end up hindering a country's development instead of fostering it (Deaton 2013). However, we will discuss ODA as an initial solution for countries where other options for increasing fiscal space are limited, such as Djibouti and Yemen.

Our analysis of fiscal space in MENA countries starts by discussing the constraints and possibilities linked to the three main solutions to direct more funds towards a comprehensive child-sensitive social protection system: domestic revenue mobilisation, deficit financing and reprioritisation of government expenditures. The visual representation of fiscal space proposed in this report is an adaptation of the framework presented above; as we only use three dimensions of fiscal space, we represent the aggregate fiscal space of each country through a fiscal space triangle instead of a diamond.

For the visual representation of the fiscal space triangle, it was necessary to stick to one indicator (see Section 2.3), which means that many sources of fiscal space, such as sovereign wealth funds, *zakat* and off-budget state expenditures, are not represented. Some of these alternative ways to finance social protection will be further discussed in the following sections of this report.

2.3 Indicators

The indicators used to represent each dimension of fiscal space were chosen according to data availability and pertinence. We also based our decisions on the recency of indicators and the number of countries covered.

Each corner of the triangle represents one dimension of fiscal space. The indicator for each dimension of the triangle is a score set between 0 and 1 and is computed so as to give an idea of the country's potential to increase fiscal space through that particular option. The final indicators should be understood as scores, not as the total available resources as a percentage of GDP, which might be the case in other studies. The subsections below explain how the indicator for each dimension of fiscal space was elaborated.

2.3.1 Domestic revenue mobilisation

Domestic revenue mobilisation can be understood more broadly as the different mechanisms that the government of a country uses to finance its expenditures. The fiscal space diamond framework suggests that countries can create fiscal space through domestic revenue mobilisation by implementing tax reforms, which is why we chose to represent this dimension using data on tax revenues as a percentage of GDP.

Each country's tax revenues are normalised by the region's top end (Algeria's tax revenues, equal to 26.8 per cent of GDP). The final indicator for this corner of the triangle is thus computed as:

$$1 - \frac{\text{country's tax revenues as a percent of GDP}}{0.268}$$

For example, if a country's total tax revenues are equal to 15 per cent of GDP (as in the case of Lebanon), the final indicator of domestic revenue mobilisation will be equal to $1-\frac{0.15}{0.268}=0.44$. Algeria's score is equal to $1-\frac{0.268}{0.268}=0$, as it has the highest tax revenues of the region. The lower the country's tax revenues as a percentage of GDP, the higher the value of the score, and thus the more fiscal space a country can create by increasing tax revenues.

2.3.2 Deficit financing

The country's potential to increase fiscal space through deficit financing (i.e. engaging in borrowing to finance expenditures) is measured using the country's debt-to-GDP ratio, which is the reference indicator in similar studies.

Instead of using the region's top end, we normalise debt ratios using a benchmark of 40 per cent debt-to-GDP ratio, which is the limit that the IMF suggests for developing countries. The indicator for deficit financing is equal to:

$$1-\frac{country's\ gross\ debt\ as\ a\ percent\ of\ GDP}{0.4}$$

The lower the debt-to-GDP ratio, the higher the score. For example, Kuwait has debt equal to 9.9 per cent of GDP; therefore, its score is equal to $1-\frac{0.099}{0.4}=0.753$. Djibouti has a debt-to-GDP ratio of 31.7 per cent; therefore, its score is computed as $1-\frac{0.317}{0.4}=0.21$.

For countries with debt-to-GDP ratios exceeding 40 per cent, the score is negative, but for the visual representation we have set it to zero, indicating their limited potential to increase fiscal space through deficit financing.

2.3.3 Reprioritisation of expenditures

The reprioritisation corner represents the option for a country to create fiscal space by increasing the efficiency of government spending. To support development through more efficient expenditures, one can either reallocate resources across sectors and/or programmes, ensuring that the most efficient programmes receive more resources, or improve the efficiency of current expenditure through better management and operational reforms. Here, the indicator of reprogramming of expenditures is computed using each country's spending on energy subsidies. Energy subsidy reforms are a common policy recommendation in the context of fiscal consolidation in the MENA region (examples are available in Box 2 in Section 3), and part of the savings from these reforms could be used to finance social protection. However, any indicator that aims to measure the efficiency of government expenditures could be used to assess the fiscal space that can be created by reprioritising resources. For instance, military expenditures and the size of civil service wage bills can be considered excessive in some countries, but there is little consensus about the weight they should have in government spending.

The indicator of reprogramming for the fiscal space triangle is measured using countries' spending on energy subsidies as a percentage of GDP (data were taken from the IMF Energy Subsidies Template).[10] To reduce the influence of outliers in the distribution, the indicator is normalised by the 75th percentile (equal to 0.07, meaning that the spending on energy subsidies for the country corresponding to the 75th percentile of the distribution is equal to 7 per cent of its GDP). The score for reprogramming is thus computed as:

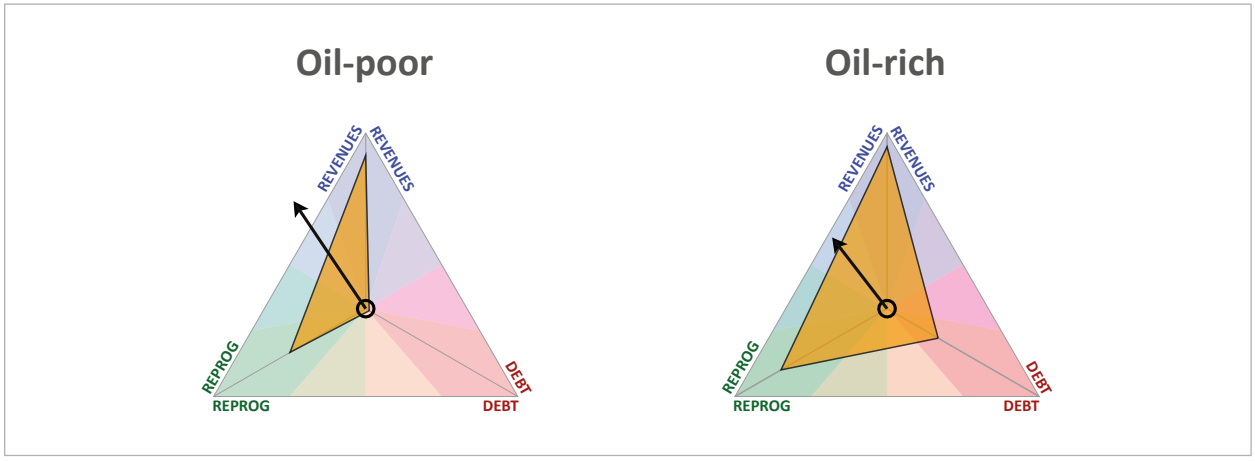
$$\frac{Country's\ spending\ on\ energy\ subsidies\ as\ a\ percentage\ of\ GDP}{0.07}$$

The higher the country's spending on energy subsidies, the higher the score. For example, Lebanon's spending on energy subsidies is equal to 5 per cent of its GDP; therefore, its score is equal to $\frac{0.05}{0.07} = 0.7$. For countries whose spending on energy subsidies exceeds the 75th percentile, the final indicator is set to 1, although the actual score is above 1.

2.4 Fiscal space triangles

Figures 9 illustrates the fiscal space triangles using the example of oil-poor and oil-rich countries[11] (the triangles of each country are presented in Section 4 of the report).

Figure 9. Fiscal space triangles: examples of oil-poor and oil-rich countries



Source: Authors' elaboration.

The size of the internal triangle with a solid colour gives an idea of the overall fiscal space in the country: a large area means that the country has ample fiscal space. Moreover, the corners of the internal triangle indicate the potential for fiscal space in each dimension: the higher the score for a given axis (i.e. the closer the corner of the internal triangle is to the external corner), the greater the potential to increase fiscal space in this dimension. Finally, the arrow in the figure represents the 'path' for the country to take to create fiscal space. It is set by adding the three vectors of the triangle, which means that one dimension can offset another: a larger arrow indicates a clearer path, whereas a small arrow indicates a less clear solution to increase fiscal space (which can mean that the country has many options to do so, as the sum of three large vectors will also result in a smaller arrow).

In the example above, it possible to see that oil-rich countries have, on average, greater potential for fiscal space overall (the area of the internal triangle is larger than for oil-poor countries) and in each dimension (the corners are closer to the external triangle). For both categories of countries, the arrow points towards a mix of domestic revenue mobilisation and reprogramming of expenditures as ways to increase fiscal space. The arrow is larger for oil-poor countries (indicating a clearer path), because they are more restricted than oil-rich countries regarding debt financing.

3. MACRO-FISCAL CONTEXT OF THE MENA REGION

Fiscal space analysis cannot be conducted in a vacuum, without assessing key aspects of a country's macroeconomic and fiscal context. Accordingly, this section entails an overview of selected indicators that will be linked to the fiscal space analysis in the next section.

Countries in the MENA region vary substantially in terms of GNI per capita, as can be seen in Table 4, which shows their World Bank classification by income group.[12]

Table 4. Classification of MENA countries by income group

Country	Income group
Yemen	Low income
Djibouti	Lower middle income
Egypt	Lower middle income
Morocco	Lower middle income
Sudan	Lower middle income
Tunisia	Lower middle income
Algeria	Upper middle income
Iran	Upper middle income
Iraq	Upper middle income
Jordan	Upper middle income
Lebanon	Upper middle income
Bahrain	High income
Kuwait	High income
Oman	High income
Qatar	High income
Saudi Arabia	High income
United Arab Emirates	High income

Source: World Bank (2019).

The countries classified as high-income are the GCC countries. As we will see in the following sections, these countries have a favourable macro-fiscal context, as they benefit from oil rents and their level of debt is generally very low. They have the potential to increase tax revenues, given their low rates expressed as a percentage of GDP. Exceptions are the UAE, which is the only country with a higher level of tax revenues, and Bahrain, which has lower oil revenues as a share of GDP, as well as a high debt-to-GDP ratio.

Upper-middle-income countries are less uniform in their characteristics. Algeria, Iran and Iraq seem to be in a more comfortable situation, as they benefit from oil rents and have relatively low debt-to-GDP ratios. Algeria has the highest tax revenues as a share of GDP in the region, while Iran and, especially, Iraq have lower levels. Lebanon and Jordan, on the other hand, do not export oil, relying more on tax revenues to finance government expenditures, and have very high debt ratios.

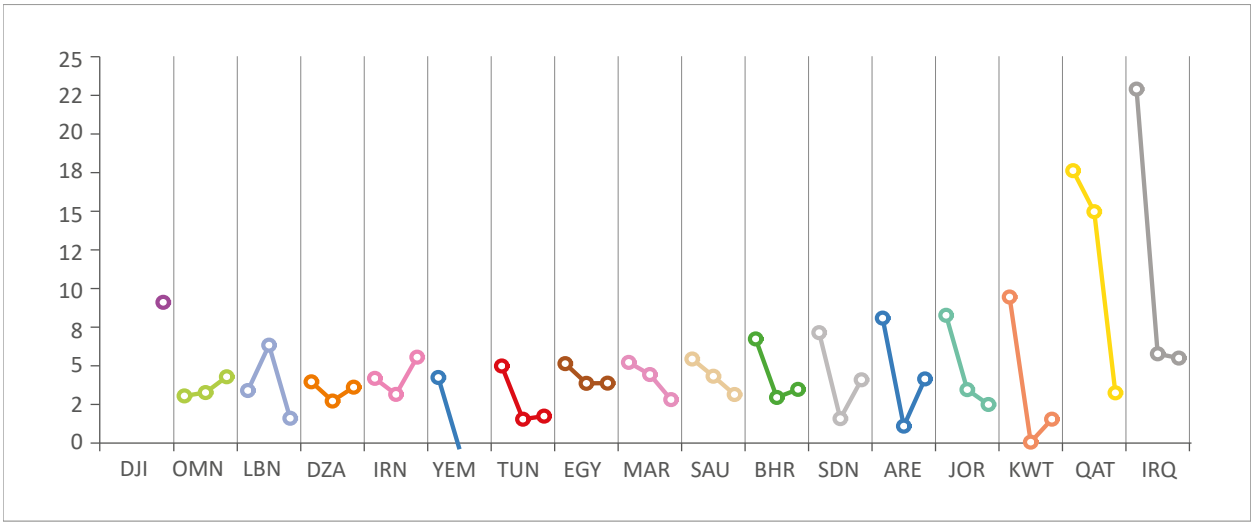
Djibouti, Egypt, Morocco, Sudan and Tunisia are in the lower-middle-income category. They are mainly oil-importing countries, though Egypt, Sudan and Tunisia do have some oil resources. Many of these countries are constrained by high debt ratios, especially Egypt and Sudan. Tunisia, Morocco, Djibouti and Egypt have higher tax revenues than average for the region, while Sudan has the lowest share of tax revenues among oil importers.

Only Yemen is categorised as a low-income country. It has specific development challenges, as it is facing major conflict and a deterioration of infrastructure, which severely undermines the country's ability to mobilise domestic resources.

3.1 General macroeconomic context

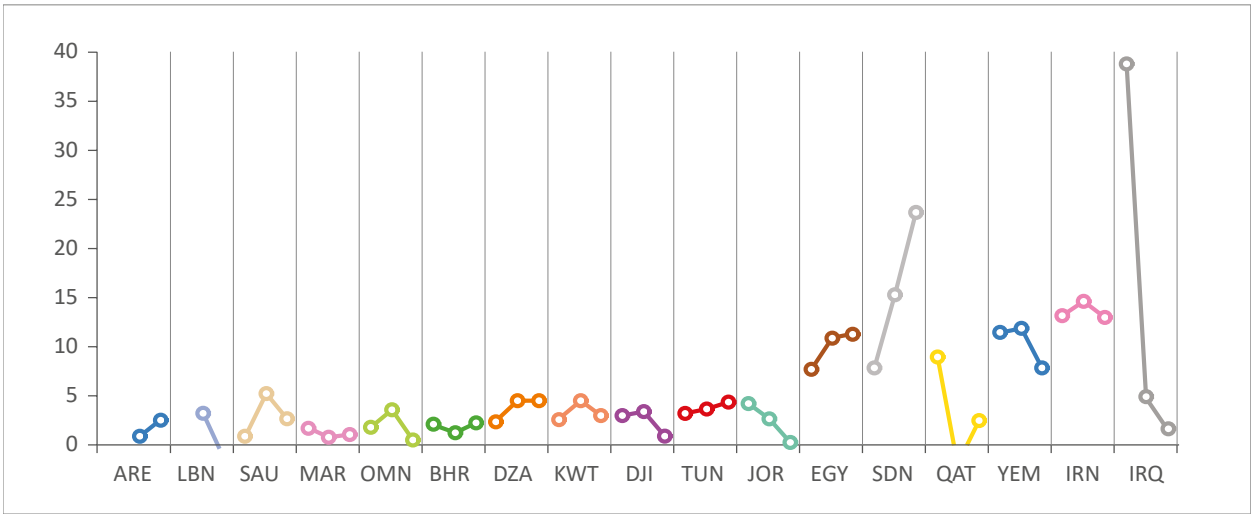
Since 2011, the MENA region has been undergoing unprecedented changes. Political transition, pressing social demands, geopolitical tensions and rapidly increasing numbers of refugees have amplified the risks to macroeconomic and social stability. Figure 10 shows the average GDP growth for three three-year periods, circa 2005 for the 2004-2006 period, circa 2010 for the 2009-2011 period and circa 2015 for the 2014-2015 period. Except for Lebanon and Oman, the average annual GDP growth rate fell in all countries in the region between the circa 2005 and circa 2010 periods (including 2011). Some countries such as Algeria, Tunisia, Egypt, Bahrain, Sudan, UAE, Kuwait and Iran managed to increase their GDP growth in the following period (circa 2015), but only Iran reached a higher average growth rate relative to the initial period (circa 2005). Morocco, Saudi Arabia, Iraq, Jordan, Qatar and especially Yemen continued to experience a fall in GDP between 2010 and 2015.

Figure 10. GDP growth (annual change, %), circa 2005, 2010 and 2015



Source: World Bank (2018c).

Figure 11. Inflation, consumer prices (mean annual inflation rate for each period, %), circa 2005, 2010 and 2015



Source: World Bank (2018c).

In addition to volatile economic growth, most countries experienced an increase in inflation rates between 2005 and 2010 (Figure 11). More recent data show that most countries managed to keep inflation rates under 5 per cent on average around 2015, though Sudan, Iran and Egypt continue to experience annual price increases of above 10 per cent. Keeping inflation under control is paramount to limiting its negative effects on household purchasing power, as well as its eroding effects on government budgets.

In the years following the uprisings, some MENA countries have started a series of economic reforms to achieve fiscal consolidation and improve economic competitiveness (see Box 2).

The IMF estimated that the region's growth rate would improve by 2017-2018, given the economic reform programmes adopted by some countries (IMF 2017c; 2017d). On the same note, the most recent Global Economic Prospects released by the World Bank (2018d) showed that policy reforms in the region have boosted domestic business confidence and foreign investment. Coupled with an improvement in net exports, foreign reserves have risen, and current account deficits appear to have remained stable in 2017.

Box 2. Economic reform programmes in selected MENA countries

Egypt: Starting in 2014, the Government of Egypt announced an economic reform programme that included the liberalisation of the exchange rate, gradual removal of energy subsidies, the introduction of value-added taxes (VAT) and the strengthening of social protection. The programme's main objectives are to address macroeconomic imbalances and achieve fiscal consolidation. In December 2016, the IMF granted a loan of USD12 billion to Egypt over three years to endorse its economic reform programme.

Tunisia: The government is working on different structural economic reforms, including reducing energy subsidies, reforming the tax system, passing new investment and competition legislation, boosting the tourism sector and improving the performance of public banks that had a high level of non-performing loans.

Jordan: The country was granted a USD732 million loan by the IMF in August 2016 to boost economic growth and reduce public debt by reforming the energy sector.

Morocco: After significant external shocks in 2011, the government implemented a package of economic reform policies, supported by the IMF, to help address economic vulnerabilities. This package included reforming the energy sector and reducing subsidies. The IMF is also supporting the transition to a flexible exchange rate system.

Saudi Arabia: A USD72 billion national transformation programme was launched in 2016 with the aim of diversifying the economy to reduce oil dependence, increase GDP and foreign direct investment, as well as reducing unemployment rates and increasing cash transfers.

Source: IMF (2017a).

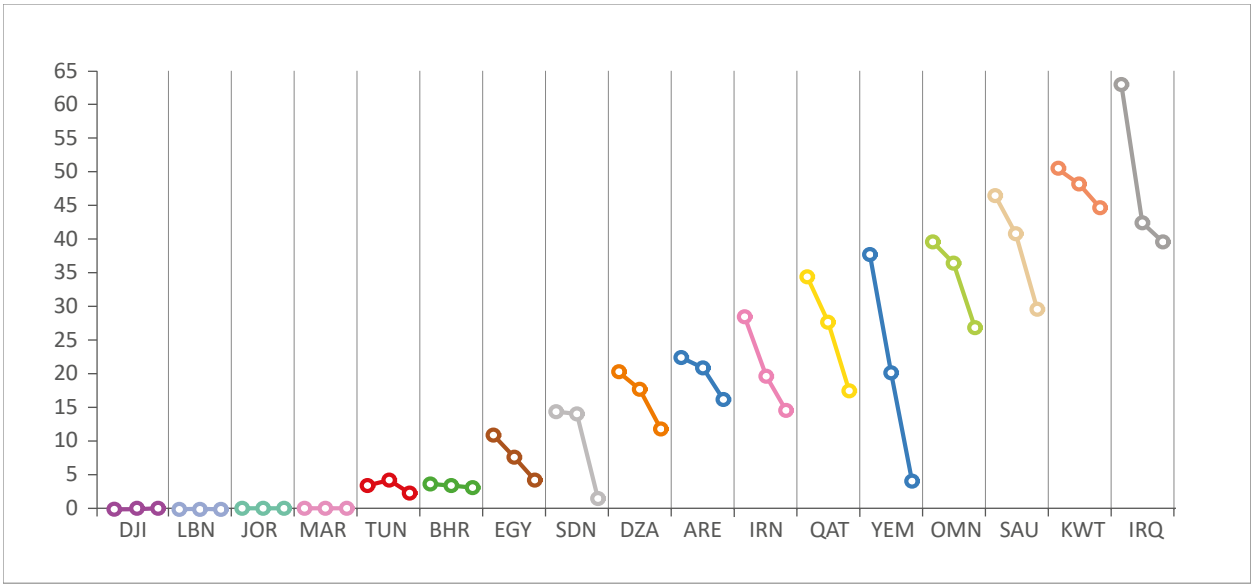
It is expected that these reforms will gradually strengthen the economy and free up resources that could be used for increasing social spending, including the expansion of social protection programmes. Here, it is important to keep in mind that investing in human development, including social protection policies, can contribute to macroeconomic stability in the long term. There is a growing body of research that shows the positive impacts of social protection on household productivity and labour market participation. Both productive programmes, such as asset transfers, and protective programmes, such as child grants and social cash transfers in general, can help promote investment in livelihoods and local economies, generating important spillover effects. Moreover, as discussed before, child-sensitive social protection policies can translate into investments in nutrition, health and education, which will contribute in the long term to a workforce that is better skilled and healthy, and able to pay tomorrow's taxes. Without such a workforce, countries will not be able to sustain economic growth, as the World Bank's HCI so clearly underlines. Further, by

providing buffers in case of shocks, such as natural disasters or ill health, social protection policies can play an important role in avoiding coping mechanisms that are negative for overall growth, such as selling assets or taking children out of school (Mathers and Slater 2014).

3.2 Domestic resource mobilisation

Given the nature of the region's domestic resources, it is important to remember that they vary in composition and size. While some countries benefit from revenues from natural resources (Figure 12), others rely strongly on tax revenues (Figure 13).

Figure 12. Oil revenues (% of GDP),[13] circa 2005, 2010 and 2015



Source: World Bank (2018c).

Box 3. Economic crisis in Sudan

Sudan has been suffering from decade-long conflicts and governance challenges, coupled with the effects of long-term international economic sanctions and embargoes. The economic situation has deteriorated with the secession of South Sudan in 2011 and the loss of more than 80 per cent of Sudan's oil fields. Despite numerous economic reform measures undertaken since 2012 and the lifting of US sanctions in 2017-2018, Sudan has been unable to secure sustained macroeconomic stability and broad-based growth. Inflation increased from 18.3 per cent in September 2016 to 68.6 per cent in September 2018—the highest since the secession. Gross international reserves dropped from USD1.6 billion in 2013 to about USD800 million in 2017.

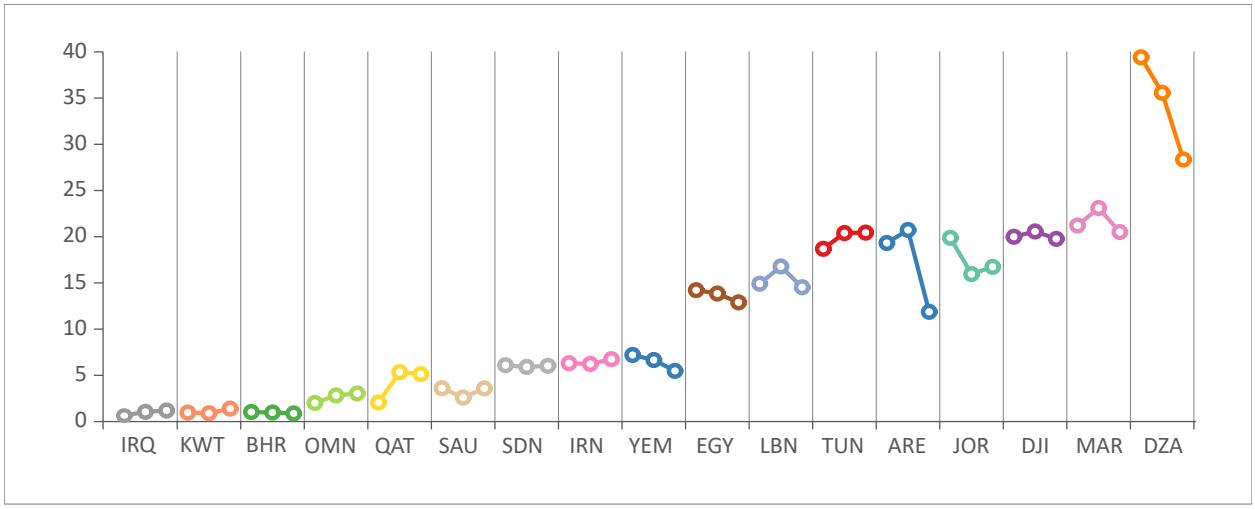
Precisely in the year the US embargo was lifted, Sudan experienced the worst inflation since the secession. In addition, the prices of electricity and wheat skyrocketed due to the removal of subsidies, a rising fiscal deficit and a lack of foreign currency, with the subsequent effect of limiting imports and exports, leading to a severe deterioration in the already precarious well-being of the population. As a consequence, protests began in December 2018 and have been increasing ever since.

Source: UNICEF (2018c).

Some countries, such as Sudan, Iran and Bahrain, have relatively small domestic resources (less than 20 per cent of GDP) (World Bank 2018c). This is especially problematic in the case of Sudan, given the high incidence of child poverty, where 87 per cent of all children live in moderate multidimensional poverty (UNICEF 2018c). The government still faces immense challenges in raising the necessary resources to adequately redistribute wealth and deliver services that will address the many social problems still facing the country, whose economic situation deteriorated even further in 2018 (see Box 3).

Figure 13 shows that tax policies in MENA countries are very heterogeneous. GCC countries (except for the UAE and, to some extent, Qatar) receive almost no tax revenues, while countries such as Jordan, Djibouti, Morocco, Tunisia and Algeria have higher shares of tax revenues, exceeding 15 per cent of GDP, in line with the world average (World Bank 2018c).

Figure 13. Tax revenues (% of GDP), circa 2005, 2010 and 2015



Source: IMF (2019).

One way of expanding current revenue is by mobilising additional tax revenues to improve tax effort given maximum tax capacity.[14] Tools to raise resources include imposing new taxes, raising tax rates, broadening the tax base or improving tax administration to avoid tax evasion. According to the Platform for Collaboration on Tax (PCT),[15] tax revenues below 15 per cent of GDP are considered low, as this is the minimum required to provide basic services such as infrastructure, health care and public safety to all citizens.

There are broad discussions on the positive and negative effects of increasing taxes, often boiling down to the discussion on trade-offs between growth and equity. It is important to keep in mind that the implementation of ineffective or poorly designed tax reforms can have negative economic and political risks. Governments should, therefore, look at the different types of taxes separately and carefully consider the consequences of raising direct and indirect taxes. On the one hand, increasing direct taxation such as income taxes is considered to have a redistributive effect, but it also bears the risk of encouraging tax evasion (Roy et al. 2007). On the other hand, raising consumption-related taxes (such as VAT) is usually regarded as regressive, as it tends to disproportionally affect poor households, which spend much larger shares of their income on consumption than those that are better off (Ortiz et al. 2015). However, some taxes applied to goods considered harmful to health, such as tobacco, alcohol and sugar, could contribute to increase domestic revenues and are easier to justify politically (ibid.).

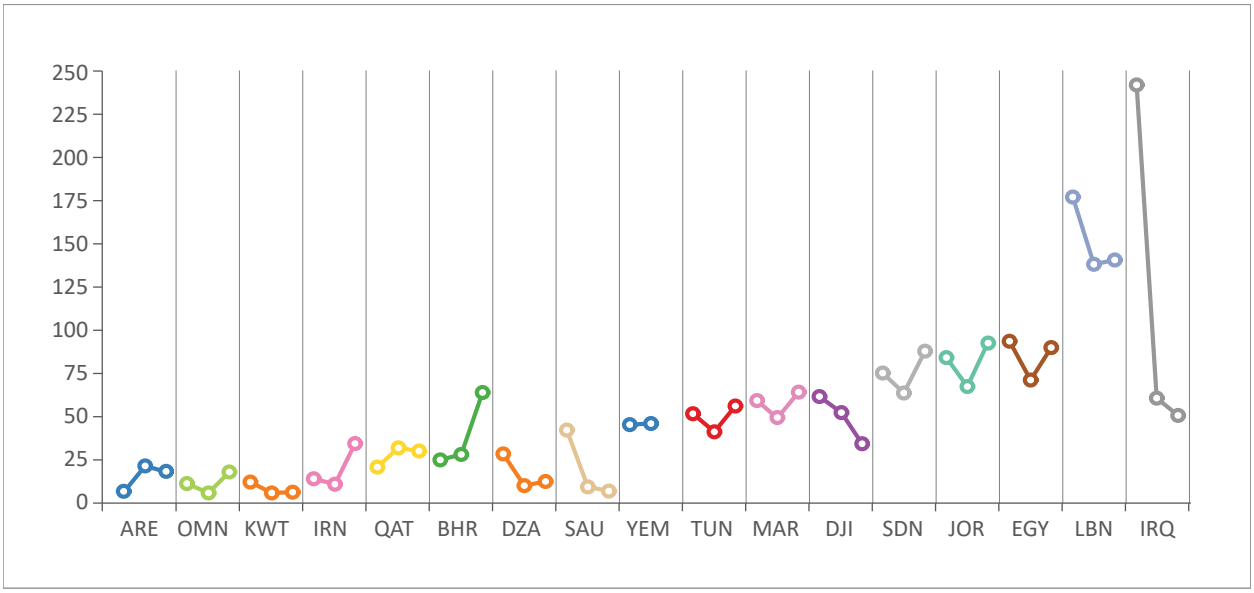
In the case of MENA, the share of direct taxation in total tax revenues is particularly low (Sarangi 2017; ESCWA 2017b), especially in GCC countries, where direct taxation comes mostly from corporate taxes. Even in oil-poor countries with higher tax revenues, such as Jordan, Tunisia, Morocco and Egypt, individual income taxation

represents less than 20 per cent of total tax revenues. These countries have high shares of indirect taxes, which weigh more on low-income and middle-income households. Most fiscal systems in the region lack redistribution mechanisms, such as progressive income taxes, to fight inequality. Alvaredo, Assouad, and Piketty (2017) bring attention to the severely high levels of inequality in the MENA region: the top 10 per cent of people in the income distribution earn 64 per cent of total income. The authors also highlight the high concentration of GDP in the region, especially among oil exporters, and mention that loans from richer to poorer countries and the development of regional investment funds could help balance intra-regional inequalities.

3.3 Debt

One pattern that fits many countries of the MENA region is that, on average, government gross debt as a percentage of GDP decreased in the first period and then increased again (Figure 14), some to an even higher level than before (as in Oman, Iran, Tunisia, Morocco, Sudan, Jordan and Egypt). Few countries experienced a continuous fall in their debt-to-GDP ratio: Saudi Arabia, Djibouti and, especially, Iraq (which went from a ratio of almost 250 per cent on average to 50.5 per cent). The only countries that increased their debt-to-GDP ratio during the first period were some of the GCC countries (UAE, Bahrain and Qatar) and Yemen. It is worth noting that Lebanon's debt-to-GDP ratio is particularly high, reaching 140 per cent around 2015, with a high share of short-term external debt (ESCWA 2017b).

Figure 14. General government gross debt (% of GDP), circa 2005, 2010 and 2015



Source: IMF (2017d).

The option of deficit financing to increase fiscal space is at the root of the debates on the trade-off between the macroeconomic benefits of fiscal discipline and those arising from increasing investment in human development, particularly social protection.

There is no fixed rule about how much debt is acceptable, though in most regions there is a ceiling (such as the 60 per cent of GDP in the European Union)[16] above which debt levels are considered unsustainable. The IMF (2010) encourages developing countries to limit their public debt to 40 per cent of GDP. Yet these ceilings can be considered arbitrary, as it is important to consider long-term development objectives; a short-term increase in the deficit may be considered acceptable if it used to finance countercyclical expenditures, or policies that will lead to greater payback in the long term, including in terms of fiscal sustainability. Borrowing in the short term for child-sensitive social protection,

while simultaneously preparing structural reforms to mobilise domestic resources more efficiently, can be a solution for governments to create fiscal space in the short term through increased public spending, while strengthening fiscal conditions in the long term (ESCWA 2017b). This approach was adopted by Egypt, for example, which financed the introduction of *Takaful* with a loan from the World Bank, while subsidy reforms—whose partial savings are now being used to finance the programme—were still being implemented.

However, whenever the option of creating fiscal space through deficit financing is considered, it is important to keep in mind that high fiscal debts may deteriorate macroeconomic stability—for instance, by increasing interest and inflation rates—and eventually lead the country into a debt crisis. Negative effects from fiscal imbalances can thus offset gains from economic growth and reduce the capacity of countries to engage in structural transformation to achieve development objectives such as expanding social protection.

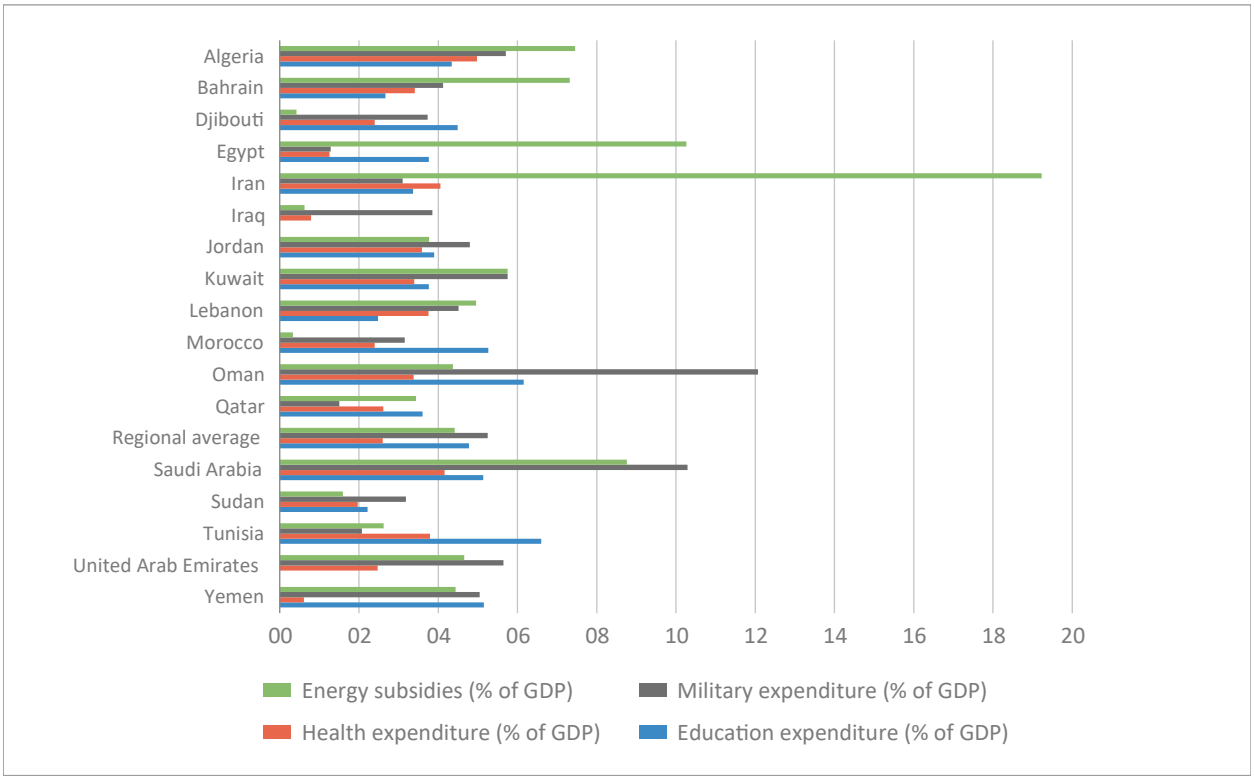
Other elements such as the composition of public debt should also be considered when discussing debt sustainability. Debt owned by domestic investors or concessional loans are considered better options for financing social expenditures than external borrowing, especially if the country has low foreign reserves (ibid.).

Overall, better debt management and improvements in macro-fiscal conditions (such as policies incentivising domestic savings or strengthening financial markets) can ensure a more favourable framework for a country to borrow in the future.

3.4 Reprogramming of expenditures

Another way to achieve inclusive fiscal consolidation is to address equity, efficiency and effectiveness issues on the spending side of the budget, including better-targeted and more cost-efficient government expenditures.

Figure 15. Education, health, military expenditures and energy subsidies (% of GDP)[17]



Source: World Bank (2018c).

Figure 15 highlights that, on average, countries in MENA spend a higher percentage of GDP on their military than on health and education (except for South Asia, whose regional average military expenditure is higher than health spending, MENA is the only region where this is the case). Examples include Algeria, Bahrain, Jordan, Kuwait, Oman, Lebanon, Saudi Arabia and Sudan. In contrast, Tunisia is one of the few countries that spend relatively more on education and health compared to the military (and even energy subsidies).

These high levels of spending on energy subsidies and the military, relative to investments in health and education, suggest that countries could consider switching expenditures as a way to create fiscal space for social protection. Moreover, targeting is generally not very effective, because fuel subsidies favour the richest quintile of the population, who consume more energy. Errors of inclusion and exclusion are also high in MENA countries. Generally, it is estimated that 70 per cent of the poorest households in the region receive no income support transfers (ESCWA 2014).

Energy subsidies and military expenditures are only two examples of expenditures that governments should reconsider. All government expenses that seem excessive should be carefully evaluated to identify inefficiencies and redirect funds to higher-impact expenditures. In this sense, efforts to increase transparency and accountability would also increase efficiency in gathering data, assessing budget allocations and evaluating existing policies. Information on government expenditures is essential to divert resources from excessive and inefficient spending, to enable the creation of fiscal space for increasing investment in social expenditures with a larger impact in terms of human development.

Good governance and strong budgeting and planning institutions can assist countries in demonstrating the distributional impacts of current budgetary allocations. Tools such as public expenditure reviews and thematic budgets can support governments in their reprioritisation efforts—for instance, from a child-sensitive perspective to ensure the efficient targeting of vulnerable groups as well as equitable health and education outcomes (Ortiz et al. 2015).

This solution requires that governments make careful decisions on budget priorities and discuss with different political groups whose agendas might suffer with the reallocation of resources to new policies. Political negotiations, budget assessments and policy evaluations can take time; therefore, it is important to keep in mind that reprogramming expenditures might not be the fastest way to increase fiscal space.

4. FISCAL SPACE ANALYSIS

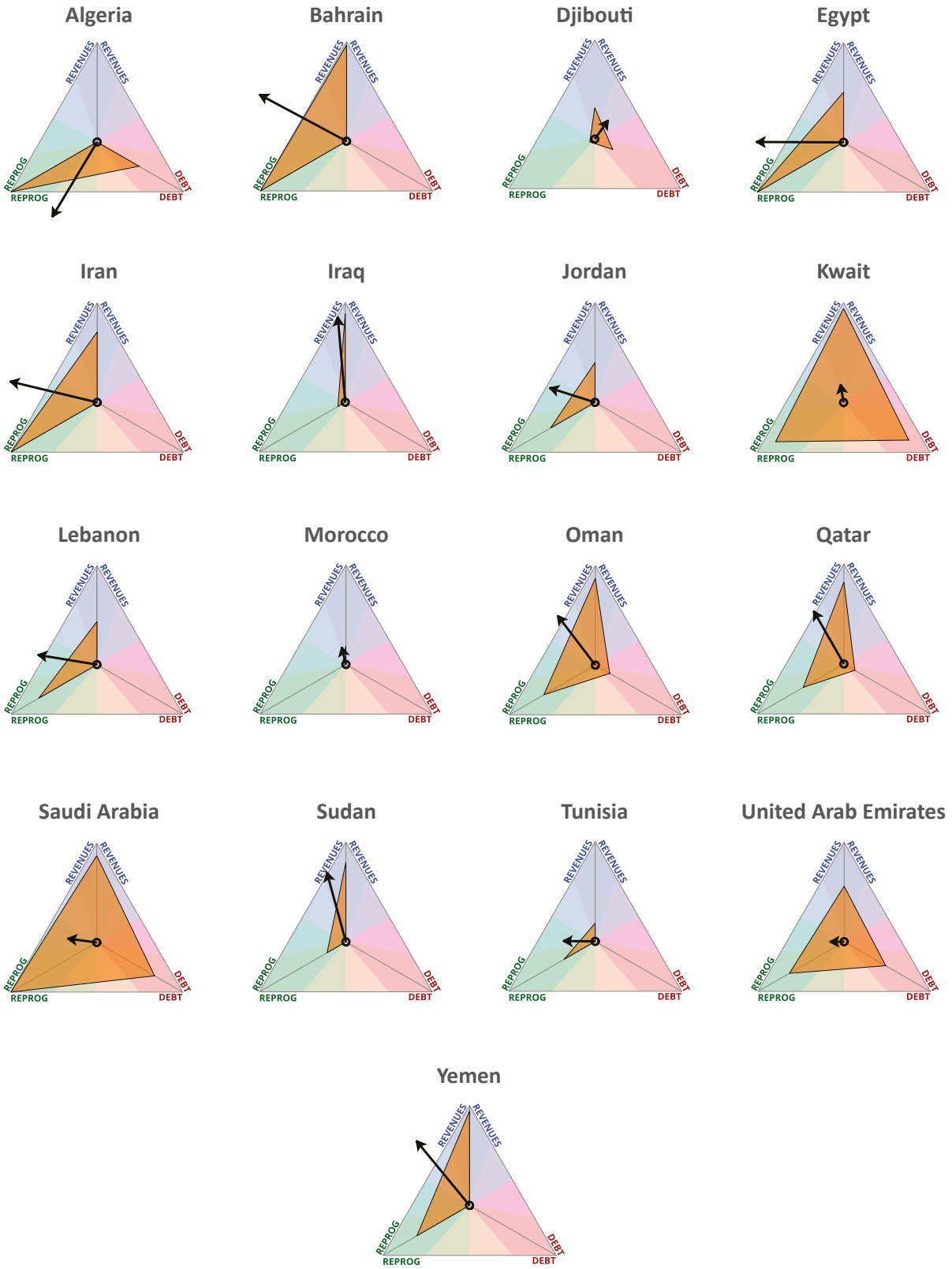
Child-sensitive social protection programmes should be prioritised, since one of the main targets of SDG1, "End poverty in all its forms everywhere," is to eradicate extreme child poverty (target 1.1) and reduce at least by half the proportion of children living in poverty in all its dimensions, according to national definitions, by 2030 (target 1.2) (United Nations 2018). But how can MENA countries do more to create the necessary fiscal space to invest in child-sensitive social protection?

4.1 Fiscal space triangles for the MENA region

Figure 16 presents the fiscal space triangles for 17 countries in MENA, highlighting the myriad challenges and opportunities: while some enjoy a favourable situation in different dimensions, other countries seem to have limited options for increasing fiscal space.

An analysis of the fiscal space triangles shows that many countries have room for increasing tax collection. This option is particularly recommended for GCC countries and for those with high debt-to-GDP ratios and low tax revenues, such as Iraq, Iran and Sudan. Algeria, Morocco, Tunisia, Djibouti, Jordan and Lebanon have relatively high tax revenues that exceed 15 per cent of GDP; therefore, these countries should emphasise equity and efficiency in their tax reform, more than revenue mobilisation. Except for Algeria and Djibouti, these countries all have a relatively high level of public debt; thus, the main challenge is to seek fiscal consolidation, improve public debt profiles and strengthen buffers.

Figure 16. Fiscal space triangles for MENA countries, latest available data



Source: Authors' elaboration.

Finally, the high scores in the dimension of reprogramming for Iran, Egypt, Algeria, Bahrain and Saudi Arabia suggest that these countries have the most potential to free up resources through subsidy reforms. However, it seems important to highlight that excessive spending on high-cost and low-impact policies is a problem that affects the entire region, which means that all countries should consider reprioritising expenditures as a way to increase fiscal space for child-sensitive social protection. On the same note, one should keep in mind that, as the dimension of reprogramming is represented by only one indicator, some countries might appear to have limited fiscal space (as in the cases of Morocco and Iraq). In these cases, other indicators would be more appropriate to illustrate expenditure inefficiencies in countries with lower spending on subsidies.

In the following section, each of the options presented in the fiscal space triangle is discussed in greater depth.

4.2 Options for increasing fiscal space

4.2.1 Domestic resource mobilisation

Fiscal space depends on the adequacy of revenues to finance expenditures. Since social protection for children requires stable and considerable sources of financing, MENA countries could consider the option of creating fiscal space through sustainable and equitable revenue mobilisation.

Tax policy reforms in MENA over the past two decades have had a marginal impact, suggesting that more fundamental reforms should be considered, particularly in the area of income and wealth taxes, as they constitute a negligible share of total tax revenues in the region (Mansour 2015; Sarangi and Abu-Ismail 2018).

Box 4. Fiscal policy reforms in MENA countries

Some countries in the MENA region have recently started to reform their tax administration.

The UAE prepared for the introduction of VAT and excise taxes in 2018, in coordination with other GCC countries. Also, Egypt and Algeria increased excise taxes on tobacco and other luxury products in 2015.

In Morocco, the national conference on taxation held in 2013 highlighted new priorities to make the fiscal framework more equitable and facilitate the enforcement of fiscal policy by simplifying tax administration. Examples of tax reforms following these new guidelines for fiscal policy include VAT reform, aiming to reduce exemptions and modernise collection mechanisms, and the increased progressivity of corporate taxes to broaden the tax base.

Source: IMF (2018).

In addition to freeing up resources to invest in social policy for children, these reforms could contribute to the reduction of inequality in MENA countries if they take place in the context of a progressive tax system (ESCWA 2017b; Sarangi and Abu-Ismail 2018). There is significant room to increase personal taxes in MENA and to improve their progressivity, especially for income taxes due to the low top-tier rates. Some countries, such as Jordan, Lebanon, Sudan, Tunisia and Yemen, have even reduced income tax rates for the top income categories (Ortiz et al. 2015). Likewise, corporate income taxes and VAT have relatively competitive rates but suffer from widespread exemptions, opaque collection methods and high collection costs. Therefore, increasing the progressivity of tax systems (particularly personal income taxes), enforcing property taxes, strengthening tax administration and eliminating exemptions will be key to improving equity and will facilitate compliance and administration (Jewel et al. 2015; Sarangi and Abu-Ismail 2018).

Enforcement of fiscal policies is still a problem in many countries in the region, since governments struggle with the high level of informality and tax evasion by individuals and corporations. Policies aiming to improve efficiency in collecting and managing fiscal resources could come as a complement to MENA governments' efforts to increase tax revenues.

Natural resources are important sources of revenue for many governments in the region. However, these resources are vulnerable to price fluctuations, as illustrated by falling global oil prices and the evolution of oil rents that followed (see Figure 12). Oil rents could be an interesting way to establish and feed sovereign wealth funds, as governments could draw from these funds to invest in social protection to realise higher levels of growth in future. Due to their vulnerability to oil price changes, sovereign wealth funds are not a stable source for fiscal space, but they could be used to finance countercyclical measures and ensure that social expenditures remain constant if the macroeconomic situation deteriorates (ESCWA 2017b; Ortiz et al. 2015).

Additional sources of revenue in MENA countries are *Waqf* and *zakat*. The former is a permanent endowment of personal assets or other belongings made by a donor, who usually also determines its purpose and beneficiaries. *Waqf* has great social significance in Muslim societies, as it finances important social services, such as hospitals, orphanages, schools and sanitation systems. Yet for the financing of social protection, *zakat* is maybe of even greater importance.

Zakat is one of the five pillars of Islam and considered a religious duty for wealthy people to help those in need through financial or in-kind contributions. The amount of *zakat* is usually defined as 2.5 per cent of all productive wealth accumulated over a year. In the Quran, eight categories are listed as being eligible to receive *Zakat*, the two most common being poor and needy people.[18]

Zakat Funds are important institutions providing social protection in the region, which despite some efficiency challenges could be considered mostly welfare-oriented. In some countries, such as Sudan, Saudi Arabia and Yemen, *zakat* collection and administration is handled by the State, and payments are made on a regular basis. In other countries, such as Lebanon, Egypt, Morocco and Tunisia, the fund is managed by civil society or charitable organisations, and payments are voluntary (Devlin 2010; ESCWA 2014).

Box 5. *Zakat* as a tool for maximising social protection expenditure by integrating it into the social protection system—the case of Sudan

Zakat has been recognised as the most important source of social protection in Sudan. It aims to: i) provide a safety net against disasters; ii) mitigate poverty by providing cash and in-kind support; iii) establish projects for the benefit of poor and needy people; and iv) tackle unemployment by providing training and supporting small projects. In addition, the Zakat Fund also provides student support grants and contributes to the National Health Insurance Fund to include poor families. The Sudan Poverty Reduction Strategy explicitly mentions that *zakat* committees should be strengthened, and one of the targets of the Five-Year Economic Reform Programme (2015–2019) aims to raise *zakat* assistance.

The Zakat Fund in Sudan is managed by the Zakat Chamber, which operates as a semi-autonomous agency affiliated with the Ministry of Security and Social Development. *Zakat* resources are generated by in-kind and cash contributions collected throughout the country. The *zakat* budget is separate from the budget of the Ministry of Finance.

In 2012, *zakat* resources funded about 87 per cent of the government's social assistance interventions in Sudan (excluding subsidies). In 2016, a total of SDG2.574 billion was collected, an increase of 22.6 per cent over 2015, and 71 per cent of this total went to poor and needy people. In total, 2.16 million households benefited from *zakat* in 2016.

Source: Machado, Bilo, and Helmy (2018); Machado et al. (2018).

Integrating *zakat* into the formal social protection system can be one way of increasing the fiscal space for social protection, as demonstrated by the example of Sudan (see Box 5). Sudan is an interesting case; *zakat* collection has been managed in such a way as to constitute a crucial source of revenue to finance not only in-kind and cash transfers but also health insurance. Sudan's creation of a decentralised collection system has helped ensure a steady increase in *zakat* collection. Moreover, *zakat* in Sudan reaches proportionally more households than in Jordan, where it is voluntary (Machado, Bilo, and Helmy 2018). Yet the incorporation of *zakat* into the formal social protection system comes with its own challenges. While the Sudanese Zakat Fund has established clear criteria for the selection of beneficiaries and created a database providing disaggregated data, local committees do not have ready access to it. There are also challenges in terms of coordination with other initiatives in the country, given the lack of a unified registry. Lastly, non-standardised benefit levels pose a challenge to transparency (ibid.).

4.2.2 Reprogramming of expenditures

Despite significant gaps in data on public expenditure for MENA countries, our analysis showed excessive military spending relative to social spending, especially in Algeria, Bahrain, Jordan, Kuwait, Oman, Lebanon, Saudi Arabia and Sudan (see Figure 15). Energy subsidies—proven to be costly and regressive—continue to receive a disproportionate share of social expenditures in most countries in the region, in particular in GCC countries as well as Iran, Egypt, Algeria, Lebanon, Yemen and Jordan. Subsidy reforms are, therefore, a common policy recommendation from international organisations such as the IMF and the World Bank, which also advocate the use of some of the budget savings yielded by these reforms to implement compensatory measures—usually conditional or unconditional cash transfer programmes targeting poor people (IMF 2017b**)**.

Such reforms present an opportunity to implement more progressive social expenditures. Looking at primary micro and macro data, authors of different studies collected in the book *The Quest for Subsidies Reforms in the Middle East and North Africa Region* (Verme and Araar 2017) simulated the partial and full removal of subsidies in selected MENA countries (Djibouti, Egypt, Iran, Jordan, Libya, Morocco, Tunisia and Yemen). The simulations of a partial reduction in subsidies showed that these reforms could reduce household welfare of the poorest quintiles by 2–5 per cent. Nevertheless, the impact on the poverty gap is small, and the impact on inequality is negligible. Instead, the benefits to government budgets are quite large, even if countries decide to compensate households with a universal transfer that would offset the increase in poverty.

A closer look at the Moroccan example shows that the elimination of subsidies would save the government the equivalent of MAD23.6 billion. However, the cost of providing a universal cash transfer to all households that would maintain the pre-reform poverty level is estimated at MAD12 billion, which would result in MAD11.6 billion in savings for the government (ibid.). Another paper, by El-Lahga (2017), simulated energy reforms in Tunisia to assess the distributional impact of the system. The author argues that reducing energy subsidies will adversely affect poor households. The paper simulated additional compensation mechanisms and found that universal transfers would reduce post-reform poverty levels by 2.5 percentage points.

Some countries have recently introduced reforms to move away from universal food and energy subsidies towards more targeted forms of social assistance, such as cash transfers. For instance, in 2015, Iraq and several GCC countries (Oman, Bahrain, Kuwait, Qatar, Saudi Arabia and UAE) started to adjust fuel prices and increase electricity tariffs. Algeria increased tax rates on fuel and electricity in 2016 and 2017, in addition to a general increase in the VAT rate by 2 percentage points. Morocco, Egypt, Sudan, Tunisia and Jordan have reduced fuel subsidies. Jordan has completely phased out electricity and natural gas subsidies, while countries such as Egypt have embarked on a more gradual medium-term process covering the next five years (Verme and Araar 2017; ESCWA 2017a; IMF 2017b).

However, since the implementation of social policies takes time, subsidy reforms need to be carefully planned in advance. Compensatory measures should be in place concomitantly with the phasing-out of subsidies, considering the negative social impacts (such as sudden price increases) that will disproportionately affect poor and vulnerable households. For this reason, countries such as Saudi Arabia, Sudan and Bahrain increased the budget allocated to cash transfer programmes while reducing subsidy expenditures. Tunisia introduced a new social housing programme, increased tax exemptions for poor households and expanded cash transfers. In the same vein, Morocco expanded the subsidised health insurance programme RAMED (ibid.) and plans to expand the expenditures of its education-focused conditional cash-transfer programme, *Tayssir*.

In Jordan, a system was introduced to link social assistance to energy expenses, so that households earning less than USD14,100 per year receive cash transfers if the price of oil rises above USD100 per barrel. The country is also improving the targeting of food subsidies and increasing wages and pensions for poor households. In 2010, Iran introduced one of the largest cash transfer programmes in the region, reaching almost universal coverage—the Targeted Subsidies Reform Act—to compensate for the impacts of its subsidy reform. Banks opened around 16 million new accounts, and new automated teller machines (ATMs) were installed in remote poor areas.

Box 6. Reprogramming of expenditures—the case of Egypt

After the Arab uprisings, the Government of Egypt created the Economic Justice Unit in the Ministry of Finance to review public expenditures using three principles: participation, distribution and redistribution (Ortiz et al. 2015).

In 2014, the government launched substantive energy price reforms and announced the allocation of nearly 50 per cent of the savings (USD3.6 billion) to social spending on health, education and social protection programmes, including *Takaful* and *Karama* (World Bank 2015), designed by the Economic Justice Unit in cooperation with the Ministry of Social Solidarity (Egyptian Ministry of Finance n.d.).

A recent evaluation (Breisinger et al. 2018) found that the programme had had overall positive impacts on beneficiary households, including increased household expenditure and improved diet quality and child nutrition (weight-for-height). Although most beneficiaries are considered poor, the evaluation also showed that only 20 per cent of people in the poorest quintile are covered by the programme.

In its 2018-2019 budget, the government announced it would further reduce energy subsidies by 1.3 per cent of GDP. Fuel and electricity prices are planned to increase further towards cost-recovery levels. Some of the savings from the subsidy reform are to be used to increase social spending by 0.3 per cent of GDP (IMF 2018).

Source: Authors' elaboration.

4.2.3 Deficit financing

Some MENA countries, such as Kuwait, Saudi Arabia, Algeria, UAE and, eventually, Djibouti, seem to have enough room to increase fiscal space through deficit financing, as they all have debt ratios around 30 per cent of GDP or below.

Some governments in the region have started to take concrete steps to better manage their debts. Examples include the establishment of macro-fiscal units in Kuwait, Oman, Qatar and Saudi Arabia, the creation of a debt management and liquidity committee in Oman and a debt management office in Saudi Arabia, as well as the expansion of the debt management office in Bahrain (IMF 2017a).

Box 7. The increase in social spending in Tunisia

According to the IMF, the Government of Tunisia recently started increasing the budget allocated to social expenditures (in June 2018, this increase amounted to TND200 million per year). One example of this expansion is the decision to broaden the coverage and increase the benefit levels of the National Assistance Programme for Vulnerable Families (*Programme National d'Aide aux Familles Nécessiteuses*—PNAFN), expected to reach 285,000 households in 2019.

Other recent efforts in social protection include improving the identification of poor and vulnerable households and expanding social safety nets.

Though this increase in expenditure is expected to contribute to an increase in the country's debt-to-GDP ratio, providing social protection remains one of the country's top priorities, following the ILO's recommendation on national social protection floors to ensure universal access to health care and basic income security to vulnerable categories of the population, such as children or elderly people.

Moreover, Tunisia remains on the path towards fiscal consolidation and macroeconomic stability, with support from the IMF to implement economic reform programmes that should eventually stabilise public finances without sacrificing investment in human development.

Source: IMF (2018).

4.2.4 Official Development Assistance

As assistance levels in MENA countries are low (World Bank 2018c) and mostly destined for countries facing humanitarian crises, ODA cannot be considered a reliable way to increase fiscal space for child-sensitive social protection. Nevertheless, it can be a starting option for countries where other options would require significantly more time, such as those with lower levels of development or that have been affected by conflict. In these countries, ODA can help finance programmes as part of an emergency response and support a future expansion of social protection coverage based on other pillars of fiscal space to ensure sustainability.

Box 8. ODA for the Social Safety Net Project in Djibouti

In Djibouti, the implementation of a social registry and the scale-up of the Social Safety Net Project was supported by an International Development Association grant of USD5 million from the World Bank (World Bank 2018e). The Social Safety Net Project was launched in 2013 and consists of a public works programme coupled with a nutrition programme for households with pregnant women and children under 5, which are selected by geographical targeting. The programme includes community services and light labour with a focus on hygiene and access to water; it is conditional on attendance at nutrition training (World Bank 2016). The female caregiver in the household can decide whether she or someone else in the household takes on the work (World Bank 2014). By 2016, over 4,500 households had benefited from the public works programme, and over 10,000 beneficiaries had attended the nutrition sessions (World Bank 2016).

Djibouti's Unified Social Registry (RSU) was created to facilitate people's access to multiple programmes. As of 2017, the RSU serves four programmes and covers about 25 per cent of the population (Leite et al. 2017). According to the World Bank (2016a), the system collects biometric information and provides a unique social identity number. Furthermore, it should combine proxy means-tested targeting in urban areas with universal enrolment in rural areas.

Source: Authors' elaboration.

Box 9. Countries providing ODA in MENA

The MENA region comprises both ODA-receiving countries and ODA-providing countries. Although not an official members of the OECD Development Assistance Committee (DAC), the contributions of the GCC countries have increased significantly over recent years.

According to estimations by Casado-Asensio and Piefer (2018), the eight Arab countries and institutions that report to the OECD (or for which the OECD makes estimates) disbursed a total of USD13.1 billion in ODA in 2015, a six-fold increase compared to 2011. Saudi Arabia, the UAE and Qatar ranked among the largest bilateral providers in 2015 in both absolute terms (ranking 7th, 9th and 22nd, respectively) and relative terms (ratio of ODA to GNI) (ranking 4th, 2nd and 7th, respectively). All three countries provided more than the target of 0.7 per cent of GNI. The UAE is of particular interest due to its significant increase in ODA over the past few years. In 2017, the UAE provided 1.31 per cent of its GNI as ODA (USD4.6 billion in total), the highest of all reporting countries, presenting an increase of 6.5 per cent over 2016 (OECD 2018b).

In addition, other Arab regional and multilateral institutions are also significant providers of development cooperation, such as the Arab Bank for Economic Development in Africa (BADEA), the Arab Fund for Economic and Social Development (AFESD), the Islamic Development Bank (IsDB) and the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development (OFID) (Casado-Asensio and Piefer 2018).

Most of the ODA provided by Arab countries and institutions remains limited to the MENA region. About 81 per cent of their geographically allocated ODA between 2011 and 2015 went to countries in the region, compared to 9 per cent of DAC members' net ODA over the same period. Egypt, Morocco, Jordan and Yemen combined received almost 50 per cent of all Arab ODA flows to MENA. The largest share (33.5 per cent) went to Egypt, followed by Morocco, Jordan, Yemen and Sudan (5.8 per cent, 5.3 per cent, 5.0 per cent and 2.8 per cent, respectively) (ibid.).

ODA grants are the most important assistance instrument used by Arab countries and institutions (representing 58 per cent of the total). Between 2011 and 2015, most of the ODA-contributing countries in MENA focused their ODA interventions on economic infrastructure and services, such as transport, energy, industry and construction, accounting for 43 per cent of their total ODA. These are considered areas where GCC countries can add value. In comparison, DAC members place greater emphasis on social infrastructure and services (57 per cent of their ODA) (Ibañez, Casado-Asensio, and Nicolazzo 2017). Yet several triangular cooperation projects in MENA were in the area of social protection.[19]

Despite the strong focus on economic infrastructure, there are also some non-contributory social protection programmes that have been supported by the ODA provided by MENA countries. Examples include the Social Welfare Fund (SWF) in Yemen, which, until its disruption, was supported by the AFESD, and the Social Fund for Development (SFD), also in Yemen, which in the past received funding from the Saudi Development Fund, the AFESD, Kuwait, OPEC and the Abu Dhabi Fund for Development (Machado et al. 2018).

Source: Authors' elaboration.

In her analysis of the shock-responsiveness of social protection systems in eight MENA countries (Egypt, Iraq, Jordan, Lebanon, Palestine, Sudan, Syria and Yemen), Tebaldi (2019) found that all of them received some form of external support to establish national non-contributory social protection programmes. Yet the level of reliance on this support and national ownership of programmes varies significantly across countries. According to the INFORM risk index (2019), Palestine, Syria and Jordan are particularly dependent on aid (measured by public aid per capita and net ODA received as a percentage of GNI). The INFORM risk index is a composite indicator that identifies countries at risk of humanitarian crisis or disaster that would overwhelm national response capacity, providing important insights into the dynamics between exposure to natural and human-induced hazards, vulnerability and lack of coping capacity. A higher aid-dependency ratio is an indicator of elevated socio-economic vulnerability,

referring to the (in)ability of individuals or households to afford safe and resilient livelihood conditions and well-being (INFORM 2017).

Moreover, as the MENA region continues to experience deep humanitarian crises, the flow of internally displaced persons and refugees has revealed the limits of social protection systems in host countries. On the one hand, internally displaced persons may lose access to social protection benefits due to the lack of portability of benefits. On the other hand, refugees are generally ineligible for social protection benefits as non-nationals in foreign countries, nor are they legally entitled to work, which in a context of protracted crisis puts pressure on host countries and may negatively affect their relationship with local host communities, with the potential to generate tension.

In this context, ODA can be a way to support the costs associated with a high inflow of refugees. This is the case in Lebanon and Jordan, where international organisations such as the Office of the United Nations High Commissioner for Refugees (UNHCR), UNICEF and the World Food Programme provide cash transfers or in-kind assistance to refugees (International Conference on Social Protection in Contexts of Fragility and Forced Displacement 2017a; 2017b). The refugee crisis prompted some countries in the region to enhance their pre-existing social assistance programmes to ensure that their own citizens can also cope with the crisis. In Lebanon, for example, the NPTP received assistance from the World Bank (World Bank n.d.). However, criticisms have been raised over the lack of government ownership of the programme (Bastagli, Holmes, and Jawad 2018).

The main challenge of ODA pertaining to social protection regards how it can contribute to durable solutions that can enhance social protection systems over the long term. One important aspect relates to alignment, which can be defined as the "development of one or more elements of a parallel humanitarian response that align as best as possible with those used in a current or possible future social protection programme" (O'Brien et al. 2018b). This means, among other things, that benefit values across different interventions—whether provided by governments or humanitarian agencies—should ideally be harmonised. This requires coordination and alignment between multiple actors. For example, in Mali, humanitarian programmes have deliberately been aligned with the local social protection programme (*Jigisèmèjiri*) in the following areas: geographical targeting, household listing, ID code and selection, and setting the benefit level. This alignment is considered a useful step in a longer-term perspective of transitioning beneficiaries into a full social protection system (O'Brien et al. 2018a).

In particular, ODA for countries in the region that need external assistance could come from the GCC countries, which are important ODA providers in the region. The UAE, for instance, provided the most ODA in 2016 as a share of GNI among all reporting countries. Most of the ODA provided by the GCC countries tends to focus on infrastructure projects, although some non-contributory social protection programmes have also been supported (see Box 9).

5. FISCAL SPACE AND CHILD-SENSITIVE SOCIAL PROTECTION: CONCLUDING REMARKS

The large proportion of children in the population of the MENA region reinforces the importance of understanding and combating child poverty. Child-sensitive social protection programmes have been receiving growing attention and focus, as these policies can translate into investments in nutrition, health and education and, additionally, contribute to long-term macroeconomic stability. The region has recently witnessed the introduction of new flagship programmes such as Egypt's *Takaful* programme, Morocco's *Tayssir* and Tunisia's *Programme d'Allocations Scolaires* (PPAS). However, comparing coverage estimates of social protection programmes with the incidence of children's multidimensional and monetary poverty reveals that hardly any of the programmes are large enough to cover all vulnerable children. As introducing or broadening child-sensitive components in social protection schemes requires funding, governments of MENA countries should consider different options to finance such an expansion.

The present report showed that MENA countries do have a number of options for creating fiscal space to address child poverty and vulnerability:

- Governments in the region can increase the efficiency of their social protection systems by redirecting funds from high-cost, regressive expenditures (such as energy subsidies) towards expanding the coverage and increasing the benefit levels of child-sensitive social programmes, particularly for under-5 children. In addition to subsidy reforms, systematic budget assessments and policy evaluations can help governments identify inefficiencies in public spending and create fiscal space for higher-impact policies.

- Another option for increasing fiscal space sustainably and equitably is the implementation of fiscal reforms to increase domestic resource mobilisation. For instance, MENA countries can increase government revenues by introducing progressive tax policies and by broadening their tax base through measures aiming at bringing people and corporations to formality.

- Finally, as these two paths require structural reforms, they might take some time to become sustainable sources of revenue to finance child-sensitive social protection. MENA countries can, therefore, consider additional ways to enhance fiscal space in the short and medium terms, including deficit financing (with better debt management), Zakat Funds, sovereign wealth funds and international assistance.

This report discussed the importance of creating fiscal space for social protection for children and the different paths MENA countries can take to finance these policies. Given that the MENA region is ranked second in the world in terms of the ratio of younger dependents under 15 years old, and given the growing number of vulnerable children in the region, there is a lot to be done regarding child-sensitive social protection interventions, since their return on investment is higher than investing in any other phase of life.

It seems important to highlight that as every country has its own development model, they differ regarding the design and scale of their social protection programmes; therefore, so does the level of resources needed and the possible options for expanding them. Governments can consider the different ways proposed in this report to expand child-sensitive social protection and adapt them to their specific contexts, keeping in mind that increasing fiscal space is inherently linked to a country's political will, its policy priorities and other factors beyond government control, such as macroeconomic imbalances caused by external shocks. Therefore, it is important to consider the specificities of each country when assessing their fiscal space options. In this sense, MENA governments should weigh up long-term benefits of child-sensitive social protection against the short-term objectives of fiscal consolidation.

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ANNEX

Annex Table 1. Public social protection expenditure, 1995 to latest available year (% of GDP)

Country	1995	2000	2005	2010	2011	2012	2013	2014-2015	Latest available	Year	Source
Algeria	4.5	6.3	7.4	...	8.5	...	...	...	8.5	2011	ILO/WHO
Bahrain	3.6	3.3	2.9	4.0	...	...	...	...	4.0	2010	IMF
Djibouti	...	...	...	...	...	...	...	...	7.3	2007	World Bank/ WHO
Egypt	5.3	8.6	8.4	12.0	12.6	12.0	11.8	11.2	11.2	2015	IMF
Jordan	7.4	8.4	16.2	9.0	12.1	12.6	9.8	8.9	8.9	2015	IMF
Kuwait	11.1	13.5	6.5	...	11.4	...	...	...	11.4	2011	IMF
Lebanon	3.2	2.3	1.3	1.0	0.8	0.7	0.9	2.1	2.1	2015	IMF
Libya	...	...	2.5	6.6	...	...	...	...	6.6	2010	ILO/WHO
Morocco	3.5	3.9	4.8	6.6	...	...	...	...	6.6	2010	ILO/WHO
Oman[4]	3.7	3.8	4.0	3.1	4.1	3.5	3.8	...	3.8	2013	IMF
Qatar	...	...	2.3	1.7	...	...	...	...	1.7	2010	IMF
Saudi Arabia	...	...	...	...	3.6	...	...	...	3.6	2011	IMF/WHO
Syria	...	3.2	3.1	1.9	...	...	...	...	1.9	2010	IMF/WHO
Sudan	1.5	1.4	1.7	2.3	...	...	...	...	2.3	2010	ILO/WHO
Tunisia	7.5	6.9	8.1	...	10.4	...	...	...	10.4	2011	IMF
UAE	2.3	2.1	...	...	3.9	4.8	5.0	5.0	5.0	2015	IMF
Yemen	...	1.4	1.4	1.9	6.4	9.6	...	...	9.6	2012	IMF

Source: ILO Social Protection Database, Table B. 16. <https://www.social-protection.org/gimi/ShowWiki.action?id=594#tabs-3>. Accessed 16 May 2019.

Annex Table 2. Datasets about social protection expenditure

Name of dataset	Type of data provided	MENA countries included	Data sources used	Limitations	Links
ILO Social Protection dataset	Provides data on social protection and health expenditure (as a percentage of GDP) for 16 MENA countries. Data are provided by guarantee (elderly people, of working age, children)	Algeria, Bahrain, Djibouti, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Saudi Arabia, Sudan, Syria, Tunisia, Yemen	Total expenditure and health figures are based on different sources, such as Social Security Inquiry (SSI) and the World Health Organization (WHO) Global Health Expenditure Database. Figures per guarantee are taken from different data sources, including SSI, the World Bank Pensions Database, IMF government statistics, national sources (Ministry of Finance), ISSA and SSA social security programmes throughout the world (various dates)	Does not provide one database from which one can download selected micro data	ILO Social Protection Database (Data/ Statistical Annexes): <https://bit.ly/2XkFXCV> ILO SSI: <https://bit.ly/2XiP4nL> ILO Stats (Social Protection): <https://bit.ly/30yCU8j>
World Bank ASPIRE	Provides data on annual spending on social protection (as a percentage of GDP), disaggregated by programme type (UCT, CCT, social pension, fee waivers etc.)	Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Saudi Arabia, Sudan, Tunisia, West Bank and Gaza	Based on administrative data, including official/government data and information collected by local consultants	Data are only presented as a table (micro data cannot be downloaded from ASPIRE datasets).	ASPIRE Social Safety Net Expenditure indicators: <https://bit.ly/2JkpNje>
IMF	Provides data on social protection expenditure (as a percentage of GDP, and as a percentage of government expenditure)	Egypt, Iran, Kuwait, Tunisia, UAE, Yemen	Based on figures reported by countries using the Government Finance Statistics Manual 2014	Few MENA countries included	Government Finance Statistics: <https://bit.ly/306UwXC> Government Finance Statistics Manual 2014: <https://bit.ly/2e6tlUI>

NOTES

1. In oil-importing countries, falling oil prices facilitate subsidy cuts to ease fiscal imbalances (Nauk 2017).

2. UNICEF (2012) defines social protection as a "set of public and private policies and programmes aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation."

3. Libya, the State of Palestine and Syria were not included in the fiscal space analysis due to missing or insufficient data.

4. For an in-depth analysis on the demographic dividend in the MENA region, see the 'MENA Generation 2030' report (UNICEF, forthcoming).

5. Three countries in the MENA region, as defined by UNICEF, are not included in the analysis due to the restricted availability of updated indicators: Syria, Libya and the State of Palestine.

6. The five indicators used for the HCI are: i) the probability of survival to age five; ii) a child's expected years of schooling; iii) harmonised test scores as a measure of quality of learning; iv) adult survival rate (proportion of 15-year-old children who will survive to age 60); and v) the proportion of children who are not stunted (World Bank 2018a). For more information, see <http://www.worldbank.org/en/publication/human-capital?CID=HCP_TT_HCPChamp2018%20_EN_EXT>.

7. An average of 16 UNICEF MENA countries, as the HCI is not available for Djibouti, Libya, the State of Palestine or Syria (calculated from World Bank 2018a).

8. For more information, see Tebaldi (2019).

9. Note that the latest MICS 2018 in Iraq found that only 35 per cent of all household members received any type of social transfers and benefits in the last three months (UNICEF, forthcoming).

10. The authors thank David Coady and Baoping Shang of the Expenditure Policy Division (IMF) for their support with the Energy Subsidies Template.

11. Oil-rich countries are: Algeria, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Oil-poor countries are: Bahrain, Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, Sudan and Yemen. The fiscal space triangles for oil-poor and oil-rich countries were elaborated by aggregating the indicators for each category (computing the simple average across countries).

12. The World Bank classifies as low-income countries those with a GNI per capita of USD995 or less in 2017; as lower-middle-income economies those with a GNI per capita of between USD996 and USD3,895; as upper-middle-income economies those with a GNI per capita of between USD3,896 and USD12,055; and as high-income economies those with a GNI per capita of USD12,056 or more.

13. Oil rents represent the difference between the value of crude oil production at regional prices and total production costs.

14. Tax capacity is defined as the maximum level of tax revenue that a country can achieve, while tax effort is the ratio between actual revenue and tax capacity (Fenochietto and Pessino 2013).

15. The PCT is a joint initiative of the IMF, the Organisation for Economic Co-operation and Development (OECD), the United Nations and the World Bank Group, launched in April 2016 to strengthen collaboration on domestic resource mobilisation.

16. Stability and Growth Pact, European Commission.

17. Education, health and military expenditure: latest data available from the World Development Indicators database; subsidies: 2013, from the IMF subsidies template.

18. The other zakat beneficiary categories include those employed to administer the Zakat Fund, new converts to Islam, those in bondage, those in debt, those committed to some act of service or devotion, and wayfarers.

19. See Casado-Asensio and Piefer (2018, Annex 1).

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