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SPectrum

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Opportunity, Security, and Equity In the Middle East and North Africa

Social Protection aims at promoting equitable growth

through expanding

opportunities

for good jobs, providing

security

against risks, and

enhancing equity

in a globalizing world.

◀ Cover Photo: Guillermo Hakim

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Welcome

Welcome to the SPectrum on the Middle East and North Africa (MENA) region. This edition is the third in a series that focuses on the regions where the World Bank is active in social protection. Our goal is to explore the key social protection issues in this region, and to review recent World Bank work.

The Middle East and North Africa is an economically diverse region that includes the oil-rich economies in the Gulf, resource abundant, populous countries such as Algeria and Iran, and countries that are resource scarce in relation to population, such as Egypt, Morocco, and Yemen. At the same time, MENA countries share many similarities. The region's economic fortunes over much of the past quarter century have been heavily influenced by two major factors: the legacy of economic policies and structures that emphasized a leading role for the state, and the price of oil. Today, the regions' countries face a variety of socio-economic opportunities and risks.

Perhaps the region's main assets are its people. MENA's quickly expanding work force creates an opportunity to boost growth and lift the remaining fifth of the population out of poverty. However, without the necessary conditions in place to generate sufficient jobs for the growing number of working age individuals, the region risks continuing its pattern of economic growth which is erratic and below potential, reducing the chance of further improvements in human development indicators and poverty reduction.

In this edition of SPectrum, we provide an overview of the development challenges faced by MENA, and illustrate the ways in which social protection instruments can contribute to the creation of jobs, the management of socio-economic risks, and the provision of minimum levels of subsistence to the most vulnerable.

We hope that this edition will prove valuable to our readers in shaping their perceptions of needed social protection interventions that will contribute to developing and implementing the most effective social protection strategies for the region in the short and medium term.

Finally, we welcome your feedback, and appreciate suggestions for future editions of SPectrum (socialprotection@worldbank.org). We refer to our website for further information on social protection and the MENA region (www.worldbank.org/sp).

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MIDDLE EAST AND NORTH AFRICA REGION

The countries named on the map below are those to which the Bank provides development assistance in the form of loans or advisory services, and for which the Bank has a designated official responsible for the country.



Overview

The countries of the Middle East and North Africa region are home to five percent of the world's population. They are primarily middle income countries, with an overall average income of \$3,000 per person per year. The population growth in MENA is among the highest in the world, and MENA's labor force is growing at an even higher pace. Eighty percent of men, and 30% of women participate in the labor force; the total unemployment rate is approximately 13%. Of those who are employed, almost one third works for the public sector. Around 80% of adult men, and 60% of adult women, are literate. Per 1,000 people, 900 have access to electricity, 118 use a mobile phone, 50 have a personal computer, and five have access to the internet. Almost a quarter of MENA's population lives on less than \$2 a day, and more than one out of every 10 children under the age of five is malnourished.

Aggregate figures about the MENA region mask large disparities between countries. For instance, there are no two neighboring countries in the world where the difference in average per capita income is higher than Yemen and Saudi Arabia; a Lebanese is three times less likely to be unemployed than an inhabitant of West Bank and Gaza; the life expectancy of a Kuwaiti citizen is 34 years longer than that of an inhabitant of Djibouti; a Syrian woman is twice as likely to be able to read and write than a woman in Morocco; and a child is five times more likely to die before the age of one in Algeria than in the United Arab Emirates.

Despite these differences, countries in the MENA region have developed social protection mechanisms that share a number of characteristics, and that face similar challenges in the face of changing population structures and increasingly open economies. To varying degrees, MENA's governments have begun to reform their conventional social protection models—traditionally encompassing free education and health, universal subsidies on key consumption items, large public sector employment, and restrictive labor legislation—to better and more efficiently meet the needs of the population. These reforms are mainly triggered by two developments. First, a sustained period of weak economic growth since the mid-1980s created fiscal constraints that spurred the adoption of social protection policies that are more cost effective than subsidies and public employment. Second, a major demographic transition has put pressure on the demand for social services, and has changed the type of assistance that is required; after having succeeded in making substantial improvements in the health and education of their young population, MENA's citizens are now particularly in need of employment.

Many governments, both within and outside of the MENA region, implement active labor market policies to foster employment generation. Although, if well-designed, these policies can be useful in redistributing jobs to the more vulnerable population groups, they tend to have only a limited impact on overall job creation. For structural and substantial employment generation to be achieved, a comprehensive and multi-sectoral approach is required, addressing the binding constraints within the broader framework of macro-economic stability, the investment climate, labor regulations, education and skills development, and social safety nets. Within this framework, social protection policies focus on creating more flexible labor legislation to increase job demand and labor mobility, strengthening the skills of vulnerable population groups to enhance their chances in the job market, and providing safety nets to those who are between jobs. In addition to this, social protection mechanisms aim to increase the opportunities of, and provide security to vulnerable groups in society who are either too young or too old to work, or who for other reasons are temporarily or permanently unable to provide for a living.

A number of important policy challenges can be distilled from a review of the current social protection systems in MENA:

- Social protection interventions aimed to generate employment, such as *active labor market policies*, and *vocational education and training*, need to be improved to increase their efficiency and effectiveness. Moreover, without a *multi-sectoral approach* that includes reforms on the demand side of the labor market, no significant improvements in job creation can be expected.
- *Pension systems* need to be reformed to provide adequate, affordable, and equitable protection against poverty during old age for a larger share of the population. In particular, problems regarding the financial sustainability of the existing pension systems need to be tackled.
- *Social safety nets* in most countries continue to be dominated by universal subsidies on consumption items, which are costly and inefficient. While putting in place temporary safety nets to soften the shock of subsidy withdrawal, subsidies should be replaced by better targeted safety nets, such as public workfare and conditional cash transfers.
- For *Social funds* to maintain their position as innovators and best-practice deliverers of public services, they need to continue to strengthen their performance in the areas of community participation, targeting, monitoring and evaluation, and donor coordination.
- The provision of social protection in *conflict and post-conflict environments* poses particular challenges. Long term involvement, strong cooperation between and commitment of the local population and governments, extensive donor cooperation, and a coherent country strategy linking emergency relief and reconstruction are essential elements of successful social protection interventions.
- To prevent the devastating social and economic impact of an *HIV/AIDS* epidemic, it is important to thwart the spread of the virus while the prevalence of the infection is still low. This requires an increase of HIV/AIDS awareness, the improvement of monitoring systems, multi-actor partnerships and cross-sectoral approaches for prevention, control, and treatment, and increased support to high-risk groups and those affected by the epidemic.

This issue of SPectrum is divided into four sections. Section 1 describes the framework for and objectives of social protection. It also provides a brief overview of the social protection institutions that exist in the MENA region and the socio-economic context in which they operate. Section 2 takes a closer look at a number of social protection programs and instruments: interventions to support employment creation, pension systems, social safety nets, social funds, social protection provision in (post-) conflict environments, and mechanisms to control the spread of the HIV/AIDS virus and assist those who are affected by it. Each of the articles of Section 2 illustrates the key developments and challenges in one of these areas in the MENA region, provides policy guidance, and describes the support that the World Bank offers governments to identify and make the necessary reforms. Section 3 explores new directions and emerging priorities in the area of social protection in MENA. Finally, Section 4 describes recent, ongoing, and future activities of the World Bank to support MENA governments in designing and implementing the most effective and efficient social protection mechanisms for their citizens. ▲



Photo: Curt Carmemark





Social Protection in MENA: Framework and Context

Margo Hoftijzer

Social Protection: Opportunity, Security, and Equity

Individuals, households, and communities worldwide face a range of risks. Some risks, such as economic recessions, natural disasters, or wars, affect entire societies or large groups. Others, such as the illness of a family member, may affect only individual households. Poor people are typically more vulnerable to risks, being both more exposed to them and having limited access to effective risk-management instruments. Moreover, certain groups in a society, such as children, women, the elderly, and the disabled, can be more vulnerable to risks than others (see also the text boxes in this chapter on the vulnerability of children and youth, and disability in the MENA region). Whereas poverty reflects an unacceptable level of well-being, vulnerability captures the exposure to uninsured risk of an unacceptable level of well-being in the future. A variety of instruments exists to reduce poverty and vulnerability and help people to better deal with risks, improve their opportunities to increase their welfare, and create a more equitable society. This range of interventions, both informal and formal, and especially those geared toward society's most poor and vulnerable, is called social protection.

Informal self-protection mechanisms include asset accumulation in good times, diversification of income resources, and the creation of informal family and community protection mechanisms. However, self-protection

mechanisms can be expensive and inefficient, often leaving people with reduced human capital after a shock has occurred. Formal, market-based institutions such as banks and insurance companies can also be essential in reducing vulnerability and managing risks. Market-based arrangements do not provide sufficient protection against all the main risks for all people, though. For instance, insurance may not be offered when there is too much uncertainty about the costs of providing sufficient cover for a certain risk, or when there is a high likelihood that many of the insured will claim their insurance at the same time (such as in the case of unemployment in times of recession). Access to market-based arrangements can be particularly limited for the most vulnerable due to high costs, the absence of insurances that are geared toward the needs of the poor, or simply because of the physical distance to relevant institutions. In addition, the poor are more likely to choose not to insure themselves and instead use their limited funds for other purposes.

The limitations of self-protection and market-based protection mechanisms create the need for public intervention, such as regulation, government financing, and the direct provision of services. Public social protection interventions aim to augment, not replace, family, community, and market-based protection mechanisms. Public social protection programs can compensate for the absence of self-protection or market-based instruments, or provide protection in a more efficient and equitable manner. Complementing national economic policies and supporting strategies for poverty reduction and human development, they create opportunities and incentives among the poor for increasing their investments in education and health, and for generating higher incomes.

If well-designed and comprehensive, public social protection policies alleviate poverty and reduce vulnerability through:

- expanding **opportunities** for income generation by contributing to the creation of good jobs, for instance through improving labor market regulations and active and passive labor market policies;
- providing **security** by assisting in better managing risks to reduce vulnerability, securing an asset-base, and being able to engage in higher risk / higher return activities;
- enhancing **equity** by providing minimum levels of subsistence income and helping to correct market-based distributive outcomes.

Social protection institutions in the MENA region

From as early as the 1940s, societies across the MENA region developed social contracts with a strong preference for redistribution and equity in economic and social policy, and an encompassing vision of the role of the state in the provision of welfare and social services. The archetypical social policy model that evolved in the region after the Second World War comprised three main components:

- an education and health component, in which free education and primary health care services were promised to all citizens;
- subsidies on key consumption items such as food, water and energy; and
- an employment component, in which an extensive public sector and restrictive labor legislation provided job security to many citizens.

This model was initially implemented successfully, but from the mid-1980s the combination of an economic downturn with a major demographic transition—putting pressure on the demand for social services—revealed weaknesses in the system. Redistributive commitments contributed to alarming increases in public debt in many MENA countries as governments struggled to meet public sector wage bills ranging from 6% to almost 20% of GDP. This led some governments to reconsider their policies, particularly with regard to universal subsidies and public employment.

The main shortcomings that prompted governments to review their universal subsidy programs were their substantial budgetary burden, and the difficulty to target them to the most needy. Since universal subsidies are by definition accessible to everyone in the population, and the non-poor often consume larger quantities of the subsidized goods than the poor, the better-off share of the population usually captures a significantly larger portion of the subsidies, making these schemes expensive and inefficient in reaching the poor. In Tunisia, for instance, of the 7% of total government outlays that were spent on food subsidies in 1990, 20% benefited the richest quintile

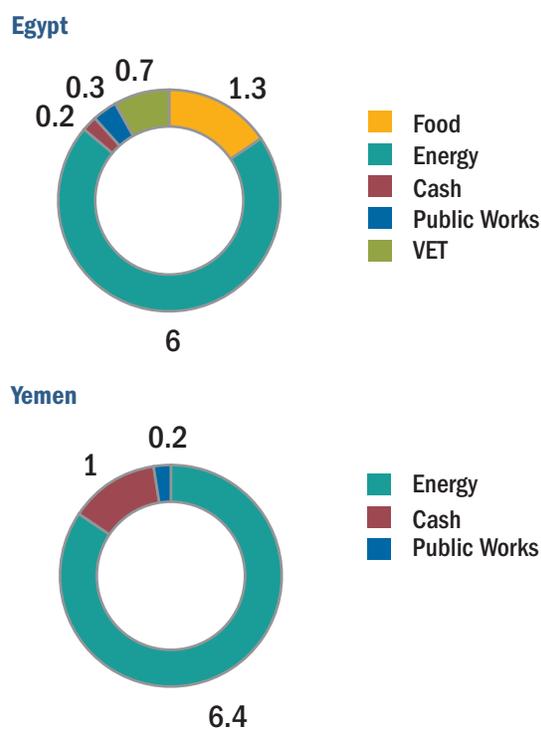
of the population, while the poorest quintile received only 17%. A comparable situation is believed to exist with regard to energy subsidies in some countries of the region, such as Egypt, Iran, and Yemen.

Constraints related to the use of public employment as a social protection mechanism became evident when the rate of recruitment started to outpace the need for new employees in the public sector. In the 1950s and 1960s, many new entrants could be absorbed in the public system due to the expansion of the public provision of social services, and the nationalization of private assets. However, as the number of higher educated young labor entrants grew, their recruitment into the public service created significant overstaffing. This resulted in economic inefficiencies, substantially higher public employment levels in the MENA region than in other parts of the world, and correspondingly high wage bills that limited governments in their budgetary flexibility. In addition, the dominance of the public sector as an employer, with its employment guarantees, high wages, and extensive social security schemes, created a strong segmentation between the public and private sector labor markets.

In response to the drawbacks of the existing social protection schemes, several governments started to consider and implement reforms. In some countries, such as Tunisia and Algeria, subsidy schemes were modified, scaled down, or removed. The Moroccan government attempted to reduce public sector employment. Spending on active labor market policies in the MENA region approximately doubled in the 1990s. Several countries also started to consider new coping mechanisms, such as targeted cash transfers and public works. In a few cases, these were implemented through social funds, which came to play an increasingly important role in the execution of social protection programs, in some instances accompanied by a growing focus on the participation of local communities and beneficiaries in project design or implementation.

Most countries in the MENA region currently have extensive social protection systems, relying on a selection of instruments aimed to increase opportunity, security, and equity. Subsidies still play a prominent part in the provision of social protection to the population (as is illustrated for the cases of Egypt and Yemen in figure 1). Other main components are active labor market programs (including job search assistance, vocational education and training, wage subsidies, and microfinance programs), social safety nets (such as cash transfers and public works programs), and social insurance (mainly pensions). In several countries, governments also responded to the increasing labor market pressures by initiating

Figure 1. Selected Social Protection Outlays in Egypt and Yemen (%GDP, late 1990s, early 2000s)



Note: Pension and unemployment benefits are excluded from the calculations as they are (partly) covered by employer/employee contributions

labor market reforms. Table 1 provides an overview of public spending on various social protection programs in selected MENA countries.

The context: growth, poverty, population, and human development indicators

The current context for social protection programs and interventions in the MENA region is defined, on the one hand, by the main socioeconomic risks that the region faces, and on the other hand by the available resources to manage them. The main risks relate to economic growth, poverty, unemployment and, despite remarkable progress in the past decades, performance in terms of education and health indicators. Several of these risks could be amplified as MENA economies further integrate with the world economy. Open economies offer higher opportunities in terms of higher economic growth, employment, and incomes, but also higher risks by increasing exposure to external shocks and volatility and turnover in labor markets.

The region's main assets to manage these risks are its growing labor force, and its increasingly healthy, well-educated, and long-lived population. The remainder of this section describes both the assets and the risks of the MENA region in further detail. The following section explores how social protection mechanism can contribute to addressing these risks and to making the best use of MENA's assets.

Table 1. Public Spending on Various Social Protection Programs in Selected MENA Countries (% GDP, late 1990s, early 2000s)

	Selected Subsidies		Cash Transfers	Public Works	VET*	Pensions**	Unemployment Insurance**
	Food	Energy					
Algeria	0.0	NA	NA	0.4	NA	3.2	0.3
Egypt	1.3	6	0.2	0.3	0.7	3.1	0.1
Iran	2.7	10	1.2	NA	NA	1.2	1.0
Jordan	0.0	NA	0.9	NA	1.6	5.7	-
Lebanon	0.1	NA	0.9	NA	0.6	2.5	-
Morocco	1.6	NA	0.1	0.2	NA	2.4	-
Tunisia	1.7	NA	0.5	0.1	0.9	4.3	-
Yemen	0.0	6.4	1.0	0.2	NA	0.8	-

* Net government expenditures.

** Gross expenditures, which are (partly) covered by employer and employee contributions.

Asset 1: Changing population structures

As a consequence of structural declines in mortality and fertility rates, MENA is currently undergoing a demographic transition which will determine the size and structure of its population well into the 21st century. Although similar demographic trends occurred in other regions that went through a phase of modernization and industrialization, the population bulge resulting from this transition in MENA is particularly large, and so are its effects on labor supply and dependency ratios.¹

Due to the exceptionally high number of children and youth, the transition initially resulted in very high dependency ratios. At its peak in 1970, there were 95 economically dependent persons for each 100 individuals of working age, and the number remained as high as 91 until 1980. Since then, the younger age cohorts have started to gradually enter the labor market, leading to rapidly declining dependency ratios. Until 2020, the growth of the economically active population will exceed that of the dependent population by much greater magnitudes than in any other region, until dependency ratios will be as low as 50 dependants per 100 working age individuals after 2025.²

The growth of the working age population, especially in the existing context of increased educational attainment, female labor participation, and longevity, provides a large pool of productive workers, and the low dependency ratios increase the scope for higher savings and investments. As the experience of East Asia has shown, these circumstances offer unique opportunities to accelerate economic growth and raise the living standards of the population across the region.

Asset 2: Human development indicators

Not only will the MENA region experience an extraordinary large labor force, this labor force will also be more healthy and educated than ever before. This development allows for higher labor productivity, and longer working lives as health and life expectancy further increase. Remarkable improvements in health and education indicators in MENA started in the 1960s, when the region easily kept pace with the human development performance of middle-income countries in other regions such as East Asia and Latin America. This strong positive trend continued even after MENA's economic downturn in the mid-1980s, in some instances even at a faster pace than in the previous decades of high economic growth. Between 1980 and 2000, the average number of years of schooling of those over 15 years of age more than doubled, to 5.5 years, and mortality rates of children under 5 years of age decreased by about two thirds, from 138 to 47 per thousand births. During the same period, life expectancy increased by ten years, to 68.³

The region's ability to continue its strong performance in education and health despite the economic downturn has been partly the result of investments that were made in the previous period. Improvements in child mortality that occurred between 1980 and 2000, for example, seem to be strongly linked to improvements in female educational attainment prior to that period. But there is also evidence that the continuing strong gains in human development indicators reflect an increased efficiency in the delivery of health and education services, for instance by better targeting of spending to deliver these services to the underserved.

Risk 1: Economic growth

When a population is growing, a certain level of economic growth is necessary just to maintain the average per capita income of a society; higher levels of growth are needed for the average income to increase. For several decades from the 1960s, countries in the MENA region experienced a period of high economic growth, as large public investments in health, education, infrastructure, and several industries helped to improve human and physical capital and provided a boost to industrialization. Rising oil prices and remittance income from migrant workers also played a role, to varying degrees in the different countries. As a result, MENA's economic growth performance in the 1960s was the highest in the world, averaging 7.1 percent a year. Output growth continued to be strong during the 1970s, but this resulted mainly from the availability of resources accrued during the oil boom. Productivity declined in this period, and together with falling oil prices, a more competitive international environment, and the strains and demands of the social contract, this helped set the stage for the more serious difficulties that emerged in the next decades. In the mid-1980s and 1990s, growth rates declined. As public revenues shrank and governments' redistributive commitments remained high, public debts increased substantially. Labor productivity and real wages stagnated or further declined, and unemployment rose.

Most countries in the region responded by engaging in gradual economic stabilization programs, cutting down public debt and inflation, and implementing structural reforms in the areas of privatization, trade liberalization and deregulation. However, partly as a result of the cautious and incomplete nature of these reforms, economic performance remained weak during the remainder of the last century, and substantial improvements in labor productivity or employment growth failed to occur. Although over the past few years the output and employment performance for the MENA region as a whole improved, this upturn has been chiefly driven by external events, rather than by structural improvements within the region. Furthermore, the upsurge was driven by only four countries, while a majority of countries in the

region actually experienced a downturn compared to the 1990s.⁴ To reinvigorate economic growth, the MENA region would benefit from the removal of structural barriers to private sector growth, in combination with a reduction in the dominance of the public sector. These would require reforms in a wide range of areas, from improving the business environment within the countries of the MENA region, to economic diversification and a deeper integration with international product and capital markets.

Risk 2: Poverty

The availability of resources and the strong policy focus on human development from the 1960s allowed for a steady decline in poverty rates in the MENA region. In Tunisia for instance, the population share living in poverty decreased from more than 50% in 1965 to only 16% in 1985. For the MENA region as a whole, the 1987 poverty rate was less than 25%, which was among the lowest of all developing regions at the time.⁵ The era of steady poverty declines came to a halt when economic growth stagnated in the mid-1980s. Poverty rates have been fluctuating between 20 and 25% ever since, and are now similar to the poverty incidence experienced in the Europe and Central Asia, and the Latin America and the Caribbean regions. Although the share of poor in MENA's population is still low compared to some other developing regions in the world, the continuing absence of progress in the elimination of poverty is worrisome. Furthermore, even though the share of the population living in poverty has remained fairly constant, due to population growth their number has risen from 41 million in 1987 to 52 million in 2001, an increase of more than a quarter in a time period of less than 15 years. Further progress on poverty reduction is largely dependant on increased, pro-poor economic growth.

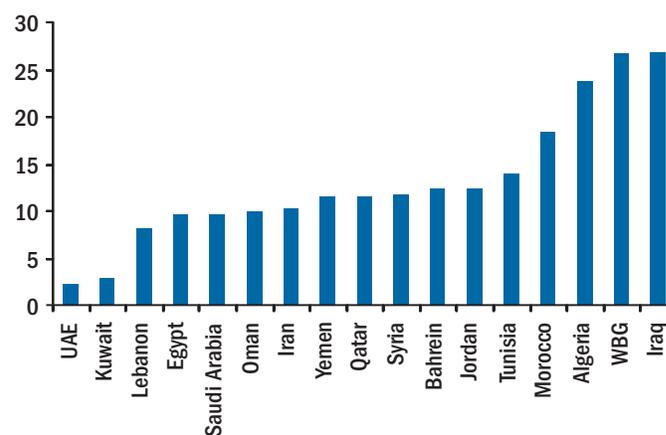
Risk 3: Unemployment

If the growing share of healthy, well-educated working-age individuals is considered to be the main asset of MENA countries, the possibility that this growing population group is not able to find jobs can be regarded as their main risk. Unemployment in the MENA region is already among the highest in the world, affecting almost all countries in the region, and with particularly high rates in Algeria, West Bank and Gaza, and Iraq (figure 2). An estimated 17 million workers, or 12% of the total work force, were unemployed in 2001.⁶ Unofficial estimates of unemployment can be much higher.

The growth of the MENA labor force in the next decades is difficult to predict, and estimates of the number of job opportunities that need to be generated in the next decades vary. A 2003 estimate indicates that up to 100 million new jobs need to be created between 2000 and 2020 to provide

employment for both new entrants and those who are currently unemployed. This would entail a doubling of the level of employment at the start of the 21st century. However, projections indicate that unemployment will rise significantly across the region if countries do not improve their job-creation record of the 1990s, and continue to rely on public sector employment and migration as the main sources of employment creation.

Figure 2. Unemployment rates in MENA countries (% of labor force, 2004)



Notes: (1) UAE: United Arab Emirates; WBG: West Bank and Gaza; (2) Data for Gulf Countries are for nationals only. (3) Most recent data for Djibouti (not depicted): 43.5% (1990)

Some population groups—particularly young new entrants to the labor market with middle and upper levels of education, and women—are disproportionately affected by unemployment. Unemployment rates for youth and young adults are more than twice the rate of overall unemployment in many countries, and female unemployment is nearly 50% higher than male unemployment in the region as a whole. There is also an education dimension to the unemployment pattern, with unemployment rates highest for groups in the middle and upper end of the education distribution. In addition to the disadvantage that first-time jobseekers have on the labor market, the concentration of unemployment among the higher educated new entrants is related to the fact that the public sector can no longer absorb large shares of these population groups. Unfortunately, the decline in public sector employment opportunities is as yet not being offset by sufficient increases in labor demand by the private sector.

The low private sector demand for higher educated workers is a consequence of slow private sector growth (in some countries), but also of the limited interest of private sector employers in acquiring the skills and knowledge of those who have essentially been educated to spend their working life in the public sector.

To some extent, unemployment of the higher-educated young, and women, appears to be voluntary. Presumably, after having failed to acquire the expected employment in the public sector, many of the unemployed in this segment choose not to work, and are supported by their families as they wait for employment that meets their expectations. This phenomenon of ‘queuing’ for public sector jobs seems to be particularly strong among the labor-importing countries where high youth unemployment co-exists with a large inflow of foreign workers. Job opportunities in both the public and the private sector are likely to remain scarce, however, as long as these jobseekers do not lower their expectations or attain additional skills.

For individuals without (substantial) formal education, the situation is generally very different. Having neither the expectation of public sector employment, nor the option to be voluntarily unemployed (as lack of education is closely related to poverty), they are likely to accept whatever employment is available or to create their own jobs. For this reason, unemployment in this segment of the labor market is relatively low, although the incidence of underemployment is higher.

MENA’s poor labor market outcomes are not limited to unemployment. Poverty and vulnerability are associated with unstable or inadequate employment (underemployment), rather than with an absolute lack of work. Casual workers, self-employed and individuals who work for family-run enterprises can be just as likely (or even more likely) to be in the bottom of the income distribution as those who are unemployed or out of the labor force altogether. Although the levels of informal sector employment are moderate compared with other developing regions, they are high considering the large share of public sector employment in MENA. Moreover, as a result of the lack of job opportunities in the formal sector, the size of the informal sector is rising. In Egypt, the share of new entrants whose first jobs were in the informal sector increased from less than 20% in the 1970s to 60% in the 1990s, and there are indications that informality is not just a transient state for new entrants on their way to a formal job. Increases in informality between 1990 and 1998 have been largest for women and for individuals with intermediate schooling. This seems to suggest that, at least in Egypt, the slowdown in public sector hiring has led more of those persons

who had expected to be employed by the government to move into the informal sector rather than into formal employment in the private sector.^{7,8}

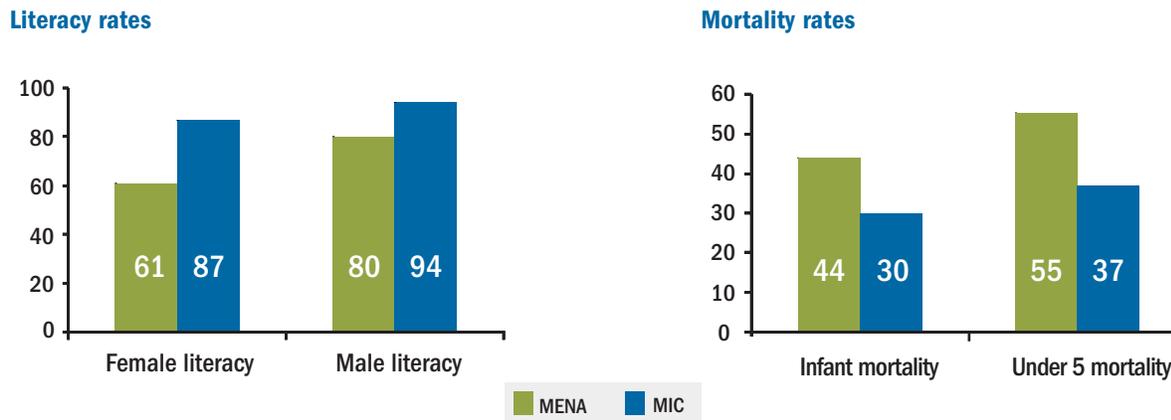
It is neither likely nor desirable that the public sector remain a leading source of employment creation in the MENA region; and migration, the other traditional engine of job creation, is unlikely to substantially alleviate labor market pressures. The solution to reducing unemployment and underemployment is two-pronged, and requires a multi-sectoral approach. First, from the viewpoint of the (potential) employer, the private sector needs to be provided with an environment that promotes job creation, through macro-economic stability, a favorable investment climate, and flexible labor market regulations that provide incentives to hire workers. Second, from the workers’ viewpoint, individuals should be encouraged to participate in the labor market, and be provided with the incentives and opportunities to acquire the education and skills that are demanded by the private sector, while adequate social protection mechanisms should be in place to cushion transitions between jobs.

Risk 4: Further improvements in human development indicators

A recent World Bank study comparing the development of MENA’s human development performance with those in a comparative set of countries found that, by the year 2000, the MENA region had eliminated the gap that existed in the 1960s in key health indicators, and had significantly reduced the gap in education indicators.⁹ Nevertheless, MENA’s current performance in health and education compares less favorably with the average performance of middle-income countries worldwide, to which most countries in the MENA region belong. For instance, the average child and infant mortality rates in middle-income countries are only two thirds of the rates experienced in MENA, and the literacy rate in the MENA region as a whole, particularly for women, is still substantially lower than the middle-income-country average (figure 3). Furthermore, regional indicators do not capture existing large differences between MENA countries. The literacy rate among women in Yemen and Morocco, for example, is 29% and 38%, respectively. This is only one third to half of the female literacy rates in Jordan (85%) or West Bank and Gaza (87%).¹⁰ The infant and under-five mortality rates in the region’s low-income countries—Djibouti and Yemen—are more than twice as high as the MENA average.

This implies that despite past performances the region as a whole, and several countries in particular, need to continue to focus on improving a number of important human development indicators. This need is exacerbated by the appearance of relatively new risks, such as the spread of the

Figure 3. Human Development Indicators for MENA and Middle Income Countries (2002, 2004)



Source: World Development Indicators; UNESCO. MENA literacy rates: 2002. All other data: 2004

HIV/AIDS infection and related diseases such as tuberculosis. Although HIV/AIDS prevalence in the general population remains low in the region, Djibouti is already facing an HIV/AIDS epidemic and, unless strong and decisive preventive measures are taken, the rest of the MENA region will likely face a rapid spread of HIV/AIDS into the general population in the near future. ▲

Endnotes

- 1 The dependency ratio is defined as the ratio of the economically dependant part of the population to the working age population.
- 2 World Bank. 2004.
- 3 Iqbal. 2006.
- 4 Of the economic recovery in the 2003-2004 period, 97% originated from Saudi Arabia, Iran, Algeria, and the United Arab Emirates. Source: World Bank. 2005. "2005 Economic Developments and Prospects—Oil Booms and Revenue Management." Washington, DC
- 5 These data assume a poverty line of US\$2 per day. When using a US\$1 per day poverty line, the regional poverty ratio was well below 5%.
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The Vulnerability of Children and Youth



Children and youth under the age of 24 make up two thirds of the total MENA population, and their numbers will continue to grow rapidly over the next 20 years. Children and youth are not only the largest, but also the most vulnerable population group in MENA.

Poverty rates among children are generally higher than those among adults in all countries in the region, and can be as high as 40% in some countries. In the region as a whole, an estimated 34 million children live below the poverty line.

Children and youth are particularly vulnerable to risk exposure, as it may critically impact their health and nutritional status, their school enrollment, and their preparedness for higher education and entry into the labor market. Their sheer numbers highlight the cumulative benefits that can be gained if governments succeed in improving the socio-economic status of children and youth, which can be largely achieved through general education and health programs.

Although the status of children and youth has improved over the last decade, 15 to 20% of school-aged children in MENA still do not go to school and enter the labor market below minimum age. Children and youth living in rural areas, in places without access to health care, or in areas of conflict, are especially prone to illness and premature death, and socio-cultural factors such as early marriage of girls and early pregnancy, contribute to high infant-mortality rates and low birth-weights of infants. Children and youth also face risks in terms of juvenile delinquency and exposure to political and regional conflicts.

Certain categories of children and youth, such as school drop-outs, working children, orphans, disabled, and street children, are more exposed to risks than others. The region's further progress in key human development indicators towards the attainment of poverty-reduction and the Millennium Development Goals depends largely on reaching the most disadvantaged children and their families—those who have not been reached by traditional public services. Until now, however, they have been relatively neglected by mainstream public responses to improving the situation of children and youth in general, and civil society and informal networks have picked up much of the burden of their support, either through family networks or through various charitable organizations, many of which have religious connections. These targeted programs tend to be small and piecemeal, however, and are seldom incorporated into the major protective structures of either government or civil society. Reaching these children on a larger scale will require innovative, multi-sectoral policies and programs that are low-cost, effective, and build on the strengths of families and communities.

Several countries in the MENA region have intensified their efforts to reach those at the bottom of the poverty scale and those with special needs, with an underlying approach of mainstreaming the needs of disadvantaged children and youth across sectors, starting with education. Activities are concentrating in the three areas of (1) analytical and policy work to increase the understanding of age-specific risks (Morocco, West Bank and Gaza, and Yemen); (2) projects to mainstream activities to improve the situation of vulnerable children and youth into general education work programs (Egypt, Jordan, and Yemen); and (3) raising awareness and building capacity of policy makers by addressing the specific needs of vulnerable children and youth through regional conferences and workshops. ▲

Disability in the MENA Region

Disability cuts across key development themes such as poverty reduction, economic growth, and reaching the Millennium Development Goals by 2015. Disability and poverty are inextricably linked and form a vicious cycle, in which barriers to health and rehabilitation services, education, employment, and other aspects of economic and social life can trap individuals and their families in a life-long cycle of poverty.

There is no single definition of disability or single method of drawing boundaries between disabled and non-disabled people in social policy. Nevertheless, rough estimates of the prevalence of disability in a selection of MENA countries puts the share of disabled in the population at between 3.5% and 10% of the total population, totaling between 9 and 27 million people.¹ The causes of disability in the MENA region are manifold and include high rates of birth-related disabilities, communicable and chronic diseases, weak access to and availability of health services, poor nutrition, accidents and violence. The region has among the highest rates of traffic accidents in the world. Poverty, political instability and conflicts are also taking a toll on the physical and mental health of the population. The overall patterns of disabilities and the type of interventions required to address them are likely to change over the next decades, as in most countries ongoing epidemiological and demographic transitions lead to an increase in non-communicable diseases as well as injuries and work-related diseases. This provides MENA with the twofold challenge of addressing the persistent and continuing risks of disabilities prevalent in lower-income settings, and the need to respond to the changing causes of disability that are driven by these transitions.

To lift the barriers that persons with disabilities face, policies and programs should be in place to integrate them into all aspects

of social and economic life, including access to health services, education, employment, and participation in civil society. This would be beneficial not just for the disabled person and his or her household, but also contribute to social and economic development in general. Despite some progress over the last decade, and increasing interest in inclusive development within governments and civil society, public policies in most MENA countries do not yet promote this inclusive environment for persons with disabilities. Policies and programs on disability tend to be random and marginal, leading to prevention or mitigation programs that are underdeveloped or not implemented. It also leads to the exclusion of many disabled from education systems, health services, social security arrangements, and the labor market. Governments in the region could undertake many concrete and immediate steps for mainstreaming disability in their policies. They could engage in regional and national dialogues, and build a shared vision and partnerships among local, national and international stakeholders. Each country would then need to develop and implement its own strategy based on its own particular circumstances, policy environment, and preferences of the various stakeholders.

The World Bank is in the early stages of assisting MENA governments in managing the risks associated with disability and providing security and opportunities to the disabled. In Egypt, the experience gained through the Social Protection Initiatives Project—financed by the World Bank—demonstrated that a community-based, inclusive education model is a feasible entry point for the inclusion of disabled children in the education system. In West Bank and Gaza and Yemen, NGOs have delivered or improved services to disabled. In Iraq, a comprehensive national policy for the disabled has been developed, and a new model of community-based care is being implemented to benefit over 100,000 of those in need of prostheses. ▲

(1) Metts. 2000. "Disability Issues, Trends And Recommendations For The World Bank." *Social Protection Discussion Paper No. 7*, Washington, DC. Selected MENA countries include Algeria, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, West Bank and Gaza, and Yemen.

Social



Programs and Instruments: an Assessment

This section describes the public social protection mechanisms that are currently in place in the region, explores options to improve their efficiency in dealing with the main socioeconomic risks that individuals and households face, and illustrates the type of assistance that the World Bank can provide to help.

In the area of employment, MENA countries make extensive use of active labor market programs. However, a more comprehensive, multi-sectoral approach to job creation is required, taking into account both the supply and the demand side of the labor market. Within this framework, social protection measures aim to increase the earning capacity and reduce the risk of unemployment of vulnerable groups, and provide income protection for workers who are in between jobs. At least as important as managing risks related to unemployment are systems that deal with the risk of the loss of labor income due to old age. Few countries in the region have entered the phase of preparing and implementing reform strategies to address problems related to, among others, financial sustainability and equity of their pension systems. In the area of social assistance, the level of public spending in MENA as a whole corresponds fairly

well with that in middle income countries worldwide. However, as a large share of expenditures does not reach the poor, various governments are exploring options to improve targeting mechanisms. In several countries, social funds were established to implement social protection programs, notably public works and community development programs. Increasingly, social funds are improving their participatory approaches and their targeting and monitoring and evaluation systems, and are becoming more integrated in national poverty programs. Finally, this chapter reviews ongoing activities of both governments and the World Bank concerning social protection interventions aimed at managing two particularly destructive risks: conflicts and the HIV/AIDS epidemic. ▲

MILES: A Multi-Sector Approach to Job Creation

David A. Robalino, Margo Hoftijzer,
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Given the unprecedented labor force pressures facing the MENA region, governments have launched a variety of labor policy initiatives to increase job opportunities and strengthen job creation. These interventions have, by and large, focused on active labor market strategies, including public works projects, and vocational education and training programs. Some countries in the region have also made an effort to make labor market regulations more flexible in order to encourage the private sector to hire more workers. However, there are questions about the effectiveness of current labor market interventions in MENA. Creating truly effective labor policies requires a multi-sectoral approach that simultaneously addresses incentives to job creation on the supply side and binding constraints on the demand side of the labor market. The World Bank is developing the so-called MILES framework, which provides a comprehensive analytical framework that captures the five key, interlinked sectors which are crucial to labor market outcomes: the Macroeconomic framework, the Investment climate, Labor market regulations, Education and skills development, and Social protection. The main elements of importance to job creation of each of these sectors are described in the remainder of this article. The focus is on the areas which are most directly related to social protection: labor market policies and institutions, vocational education and training, and social insurance.

A sound macroeconomic framework

A sound and stable macro economic framework is an essential prerequisite for job creation, as it provides entrepreneurs with an enabling environment to expand their business and to create new jobs.

At first sight, MENA's overall macroeconomic performance over the past years has been impressive. Economic growth has been high and accompanied by a decrease in unemployment. However, the improved economic performance has mainly been driven by external events, the rise in oil prices and oil

production being the most important ones, and not by structural improvements of the macroeconomic framework. The lion's share of the recent economic recovery in the region originates from a limited number of oil-exporting countries. Furthermore, as economic growth rates moderate from these high levels, they will nonetheless remain insufficient for creating enough jobs to keep pace with the burgeoning labor force and to absorb the currently unemployed.

For the MENA region's employment-creating growth potential to be strengthened, three fundamental and interrelated structural transitions are required: (1) a change from closed to more open economies, to create more competitive industries, benefit from international best practices, and gain access to new technology; (2) a move from public sector dominated to private sector led economies, providing the basis for improved efficiency and expansion of employment; and (3) a shift from oil dominated to more diversified economies, to reduce the region's dependence on volatile sources of growth, maintain fiscal stability, and preserve important social expenditures.

Compared with previous oil booms, the region's oil producers are increasingly demonstrating impressive fiscal restraint. They are building up liquidity and are pursuing common strategies for diversification of the oil wealth into foreign assets. They have also worked to develop trade ties and to encourage greater foreign participation in their economies. With diminishing positive links to the oil economies and increasing negative impacts from higher oil prices, MENA's resource poor economies have maintained a solid pace of reform. They have made, on average, stronger progress in trade reform over the last five years than all other regions of the world. Nonetheless, much stronger progress can take place, particularly with regard to trade liberalization. For example, the resource poor economies as a group continue to maintain some of the highest tariffs in the world.

Investment climate, institutions and infrastructure

Firms will expand and create formal sector jobs when the costs of doing business (including from regulation, corruption, and poor infrastructure) are low and predictable.

International experience overwhelmingly suggests that the most important engine for rapid and sustainable economic growth is a dynamic and competitive private sector, free from excessive regulation. Private sector development and job creation are of particular importance for MENA, as the private sector still accounts for less than 50% of GDP in the region, and the public sector remains a major source of employment with limited potential for expansion. In addition to a stable macroeconomic environment, private sector growth requires the basic protection of property rights, an adequate legal and regulatory framework, and a broader governance environment that does not deter investment with unnecessarily cumbersome procedures and costs.

After having been among the weakest reformers worldwide for several years, MENA's pace of reforms to improve the business climate has recently picked up, particularly among the resource poor economies with regard to business environment reform. In MENA's resource rich countries, the large oil related budget surpluses appear to have delayed the imperative for reform. When looking at the current status of the business climate, both resource rich and resource poor economies are ranked around the 50th percentile worldwide, similar to the Europe and Central Asia and the South Asia regions, and well below East Asia and the high income OECD countries.

Among the main remaining regulatory hurdles in many MENA countries are high minimum capital requirements to start a business (exacerbated by a generally underdeveloped and publicly led banking and financing sector), and burdensome and time-consuming contract enforcement mechanisms. Although many governments have started to address long-needed financial sector reforms, private sector access to bank finance remains limited, particularly in the non-Gulf countries.

Labor market regulations

When employment regulations are flexible, and non-wage costs of labor are low, firms have more incentives to hire new formal sector workers. However, in a more flexible labor market workers may be more likely to spend periods of time in-between jobs, so adequate income protection mechanisms are necessary.

Labor market regulations—including legal protection for workers, mandated severance packages, minimum wages and occupational health and safety measures—are important

means by which governments affect labor market outcomes (e.g., the level and distribution of wages and the level and composition of employment). They also help workers manage risks such as those related to economic shocks or occupational hazards. However, overly restrictive regulatory environments place strains on firms struggling to compete in the global economy. International evidence suggests that rigid employment regulations are harmful, especially in countries undergoing economic restructuring. Firms face constraints to allocate resources efficiently, which increases production costs and reduces their competitiveness. Rigid regulations can also discourage the entry of new firms, resulting in lower levels of investment and job creation.

In MENA, there has been a tendency to avoid job destruction rather than to promote job creation. In particular, governments have provided workers with lifetime job security and generous job-related benefits through restrictive hiring and dismissal procedures and mandated severance packages (see below). Rigid regulations can protect “insiders” (older, established workers), but at the expense of “outsiders” (young labor market entrants) who are then often pushed into the informal sector, where they are not covered by any social protection mechanisms.

Under current regulatory conditions in most MENA countries, many contracts are long-term and open-ended. This limits the ability of firms to adjust their workforce for economic reasons and typically requires the payment of expensive severance packages that are often open to lengthy and uncertain legal reviews.

Several countries have made efforts to decrease the restrictiveness of labor regulations by reducing hiring and firing restrictions, at least for new entrants. This is generally done by allowing short-term and more flexible contracts for new hires which reduce the perceived risk by the employers. For instance, Morocco and Tunisia have passed legislation that expands the possibilities for part-time work and fixed-term contracts. Egypt's 2003 Labor Code allows for defined-term contracts to be renewed an unlimited number of times without being made permanent contracts. The problem with this approach, however, is that it promotes the proliferation of jobs where workers do not receive social security coverage and therefore are ill prepared to manage income shocks.

In general, moves towards more flexible labor regulations have been limited in the region. Even in countries where there has been added flexibility in regard to hiring, the procedures for dismissing workers remain convoluted and expensive, particularly in regard to possible legal actions following dismissal. This asymmetry in hiring and firing regulations means that firms still face uncertainties in

regard to future non-wage labor costs associated with dismissing workers. Such uncertainty keeps firms from hiring new workers and from restructuring in ways that would make them more productive engines of job creation.

Education and skills

Good education and appropriate skills strengthen individuals' productivity and employability, thereby improving their opportunities for finding and retaining (better) jobs.

People acquire education and skills both prior to and after entering the labor market. Within the formal education system, MENA's governments have succeeded in providing basic education to the great majority of the eligible population. They now face a number of remaining challenges, from ensuring that schools and universities effectively convey socially and economically useful skills and competencies to those who attend, to extending meaningful educational opportunities to children and youth who have been left out of initial efforts to provide basic education.

Vocational Education and Training Programs

Vocational education and training (VET) can improve an individual's productivity and employability by enhancing his or her skills set and adjusting it to employers' demands. To the extent that VET programs are used to improve job opportunities for vulnerable groups in society, they can be considered part of a social protection system. At their best, VET programs are vehicles for the generation and transmission of knowledge within a lifelong-learning perspective, providing workers with training that is relevant to the needs of a labor market in the global economy, emphasizing adaptability and applicable skills. At their worst, VET serves as a last resort for young workers who have not been adequately prepared for a role in the labor market by the traditional education system.

Existing VET programs in the MENA region are generally characterized by outdated curricula, and tend to absorb considerable funds without producing effective results. They are primarily directed at serving the needs of young dropouts from the school system, and the bulk of their activities are oriented toward pre-employment training in narrowly defined skills. Employers often complain that graduates from these programs do not possess entry-level qualifications and are not employable. Thus, regional VET programs largely fail to provide targeted workers with the skills they need to be successful in the current labor environment, let alone the adaptability to compete in a more dynamic, knowledge-based labor market.

One challenge of increasing global competition and the development of a knowledge-based economy is prompting

countries in the region to review the relevance and cost effectiveness of existing training programs. Most countries have adopted a gradual, piecemeal approach to strengthening their VET programs, but few have embarked on substantial reforms. Jordan, Lebanon, Morocco and Tunisia have successfully introduced changes to curricula, and VET programs in these countries are implemented in cooperation with the private sector to transform the labor skills needed by firms into training content for VET programs. Some countries have also taken steps to improve the qualification and certification frameworks used to assess students. For instance, Egypt is piloting a qualification framework that will establish skill standards for VET graduates. Jordan has bolstered national standards by implementing common national curricula and exit examinations for VET schools, and private vocational centers have become subject to review by the Ministry of Education. Tunisia is experimenting with a new management model for training centers in which school autonomy and private sector participation are promoted. While it is still too early to assess the outcomes in Tunisia, the reforms in Egypt and Jordan are likely to have increased the employability of VET graduates.

To further improve the effectiveness of vocational training programs, MENA countries need to address four key areas: greater focus on VET for workers rather than for those who have not yet entered the labor market; increased public-private cooperation; revised funding mechanisms; and improved quality and expansion of learning opportunities. The focal point of VET programs should be on the *retraining and the productivity improvement of workers*. For the young who have not yet entered the labor market, the formal education system—rather than VET—should provide a solid basis of knowledge and competencies. With respect to *public-private cooperation*, countries should secure more balanced partnerships, strengthening the private role in advising public VET programs on curricula and in the provision of training. The private provision of training can, in a properly regulated environment, provide more efficient and targeted training. The current strong role of governments in VET may be crowding the private sector out of the training market. In terms of *funding mechanisms*, there is currently a marked segregation between private and public VET programs. Private VET programs are largely financed through fees and tuition. Public programs, on the other hand, are funded by direct budget allocations, modest fees and, in some countries, the collection of a training levy from firms. However, mechanisms to fund, for example, private training through a government-mandated training levy could result in better outcomes by promoting more effective public/private partnerships in training. In the area of the *quality and scope of learning opportunities*, to avoid VET becoming a dead-end with low social acceptance, countries could

adopt competency-based approaches for curricula development and continue to develop testing and certification standards for students that are appropriate to desired educational outcomes.

Social protection

A well designed social protection system can contribute to both job creation and enhanced worker protection. It can increase the acceptance of more flexible labor regulations by increasing labor mobility and by providing protection and opportunities to vulnerable groups. If not well designed, the social protection system can reduce the level of employment while offering only limited protection.

This article focuses on the role of active labor market programs and social insurance. Social safety nets, described in a separate article, can also contribute to job creation by providing income protection and incentives to invest in human capital.

Active Labor Market Programs

Active labor market programs (ALMPs) are designed to reduce the risk of unemployment and increase the earning capacity of vulnerable groups. They can target young, poor, or displaced workers, or the long-term unemployed. At their narrowest definition, ALMPs consist of public works projects and government-run workshops targeting workers with special needs.¹ Under a broader definition, ALMPs include incentives such as wage subsidies to the private sector to hire new workers or grants to firms to relocate to regions with high unemployment. They may also include credits for small enterprises, as well as vocational counseling and placement services, and retraining. ALMPs can also help workers manage cyclical downturns. In that regard, they are an attractive policy option in that they provide results without the political liabilities of labor market deregulation. These programs, however, can be expensive and require careful design, comprehensive monitoring, and effective targeting to ensure that they reach those truly in need of their services.

International evidence suggests that the overall impact of ALMPs on job creation and wage improvements is at best limited.² Wage subsidies, for instance, can be useful for providing some re-entry opportunities to older workers and the long-term unemployed, but do not have broader positive impacts as they recycle the supply side and can be abused by the demand side. Public works projects create short-term jobs, but they do little to develop skills or sustainable employment. Although training of the unemployed generates some benefits, particularly if it is on-the-job with active employer involvement, training for youth is very often unsuccessful, and it makes much more sense to invest ear-

lier in the education system to reduce drop-outs and other schooling problems. Job search assistance, on the other hand, can have positive impacts on both employment and earnings capacity to the extent that there are relevant information failures in the labor market, and can be implemented at relatively low cost.

In all, ALMPs impact on overall job creation and wage growth is rather limited. They are therefore not a substitute for massive employment generation, but should rather be viewed as a complementary mechanism to help vulnerable groups benefit from private sector growth. In fact, the effectiveness of ALMPs is usually higher when they are implemented in a period of economic growth.

Most MENA countries have long turned to ALMP-type activities to assist vulnerable workers, including public works programs and wage subsidies to encourage firms to keep workers and create additional jobs. More recently, some countries have turned to micro-credit programs to encourage self-employment and small enterprises. While these programs have benefited workers struggling in the current labor environment, their impact seems negligible compared to the amounts that governments spend on them. Moreover, considering the relatively high amount that MENA governments spend on ALMPs, the number of participants in this type of programs has been low by international comparison.

Most spending on ALMPs in MENA focuses on programs for young, urban workers. Given the demographic trends in the region over the past decade, this focus is understandable. However, jobs provided under these programs are short-term in nature and do little to reduce long-term challenges to young workers competing in the job market. Furthermore, MENA's focus on youth has meant that spending is relatively low on programs that aid at-risk adults. This is particularly true for women. Female participation in regional ALMPs is low, while female labor force participation and female unemployment rates are rising. Furthermore, evidence suggests that poorly educated workers, who account for most of the unemployed, are underserved by these programs.

To improve the performance and cost-efficiency of ALMPs in MENA, regional governments could consider lessons learned from international experience. A common recipe for successful ALMP intervention includes: careful targeting of those needing and receiving assistance; a comprehensive package of ALMP services with, importantly, feedback into vocational education programs; and an orientation to existing labor demand through links to firms and inputs from the private sector. Most importantly, MENA countries

need to improve their monitoring systems, in order to use past experiences to improve their programs, particularly in terms of targeting and design. Impact evaluations are key in this regard, as they allow administrators to identify the effects and cost effectiveness of various programs. Program effectiveness will become even more important as an increasing number of workers are affected by MENA opening up to the global economy.

Social Insurance

The role of the social insurance system is to help individuals to smooth consumption over their lifetime. Standard components of the social insurance system include: unemployment insurance, end-of-service indemnity programs, individual unemployment savings accounts, health insurance, and old-age, disability and survivorship pensions. These programs are important because, by pooling risks, they provide a mechanism to mitigate the income effects of various shocks and thus give more flexibility to workers to move across jobs. The need for these programs is particularly important as MENA countries introduce structural reforms to diversify their economies, improve competitiveness, and penetrate foreign markets. As these reforms are bound to generate “winners and losers” in the labor market, this makes the need for well-designed income support programs for those whose employment is terminated all the more important. This will both reduce opposition to reforms and help workers to better manage the risks associated with employment termination. In many developing countries, the task of cushioning adjustment costs for workers is hampered by a narrow tax base. Even with limited resources however, improving the insurance component of income support schemes and pooling risks across individuals can go a long way in smoothing the adjustment costs for workers.

Social insurance systems, however, can preclude job creation when policies are badly designed and distort incentives. To start with, these programs are generally financed through a pay-roll contribution. When benefits are not closely linked to contributions, at least part of this contribution can be perceived as a tax that can reduce the level of employment. In the case of pension systems that are financed on a pay-as-you-go basis, even when benefits are related to contributions in a transparent manner, solvency requires the existence of an implicit tax.³ In addition to reducing the level of employment, a social insurance system that is too generous and requires a high contribution rate to be financed can also create incentives to move to the informal sector as individuals with limited capacity and small firms might not be able to afford the contribution rates. Furthermore, the social insurance system can reduce labor participation rates, for instance when a pension system provides incentives for early retirement.⁴

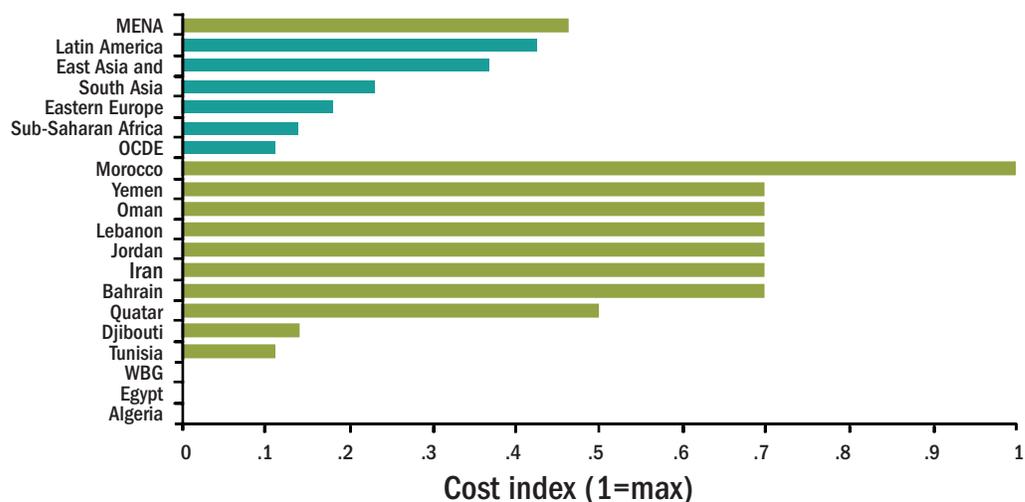
The two most common income protection programs in the case of job loss are severance pay and unemployment benefits (in the form of unemployment insurance, assistance or savings accounts). In MENA, the two programs that exist are severance pay and unemployment insurance.⁵

All MENA countries have provisions for severance pay in the case of arbitrary dismissal. Most also allow for end-of-service payments. Very few, however, allow dismissals for economic and technical reasons. As in the case of pensions, (see following article) severance programs in the MENA region share some common problems. First, severance payments are among the most generous in the world, even more generous than in Latin America and East Asia (Figure 1). Second, their generosity and the fact that the programs are unfunded leave workers exposed to risk (that is, non-payment at the time of separation partly because it is often those employers who should pay severance benefits that are also the ones facing most financial difficulties). Third, in some countries, all employment contracts—even in small establishments—are subject to severance awards and this can limit enforcement. Finally, redress in the case of non-payment often requires lengthy legal procedures that can leave workers without income protection for an extended period of time. As a result, the current systems reduce incentives both to dismiss and to hire workers, amounting to protection for insiders at the expense of outsiders.

Only three countries in the region have put unemployment insurance (UI) schemes in place: Algeria, Egypt and Iran. In Algeria, the introduction of unemployment insurance was accompanied by a phase out of the severance pay system. In Iran and Egypt, the two systems coexist.

As in the case of pension and severance benefits, formulas and eligibility conditions for UI tend to be *ad-hoc* in the sense that the contribution rate does not reflect the risk and cost of unemployment. There are also issues with the financing mechanisms and the management of the funds that compromise the financial sustainability of the schemes while creating uncertainty among employers regarding the future evolution of contribution rates. In Iran, the unemployment fund is already running a deficit which is being covered by the surplus of the pension fund. At the other end, Algeria's unemployment insurance scheme is over-funded and has accumulated sizable reserves that are in turn used to finance various training and job placement programs. Though this practice is not necessarily without merit, it is not subject to proper evaluation, raising concerns about the desirability of the system. Furthermore, in all cases incentives for re-employment are weak. This is true even in the case of Algeria where the benefit replacement rate decreases during the first year, but then remains constant at 50% for the next two years.

Figure 1: Severance pay in MENA is higher than in other regions



Source: Robalino, Mataoanu. "Severance Pay Programs in the Middle East and North Africa" (forthcoming)

There is no universal protection system against income loss that can be recommended for all countries. The design needs to adapt to local economic and social conditions and take into account political constraints. When determining the optimal balance of programs that protect against loss of labor income, policy-makers would benefit from informed analyses that alert them to the possible trade offs of various programs. For example, the costs of severance pay may be two to three times higher than the cost of providing unemployment insurance, implying that a shift from severance pay to unemployment insurance could provide the same overall level of worker protection at significantly lower costs.

As the policy dialog in the area of income protection programs for workers intensifies, countries could consider an integrated assessment of income protection programs for workers. A first set of questions that need to be addressed regarding each program include: (i) how well they protect individuals' incomes; (ii) how efficient these programs are; (iii) how they respond to various shocks; and (iv) how robust they are in the face of political pressures. Policy decisions also need to be based on an assessment of initial conditions: (i) the structure of labor markets (e.g., the size of the informal sector); (ii) the types of informal protection mechanisms that are available; (iii) the nature of unemployment; and (iv) institutional constraints.

In this context, the current severance schemes seem to be "over-designed" for the economic conditions facing the MENA economies and one could argue that, rather than having a system that is not enforced, it is better to have a more moderate scheme that is enforced. This would provide more certainty to workers and more flexibility to employers, and thus contribute more to social protection and faster economic growth.

In the case of unemployment insurance, a first constraint concerns the size of the informal sector and the nature of unemployment. In countries with large informal sectors, rigid labor markets, and a high unemployment rate among first-time job seekers, unemployment insurance may not be an immediately appealing policy option. There are also questions regarding the institutional capacity to properly design and manage this type of scheme that requires advanced administrative systems for monitoring employment and wage history of workers. In most of today's OECD countries, unemployment insurance was the last of three measures to be introduced (in addition to severance and pensions). MENA may therefore want to focus for the time being on pensions while adjusting its severance schemes, bearing in mind both the equity and efficiency objectives as the region becomes more affected by globalization.

World Bank Assistance

The World Bank actively assists regional governments as they move toward creating more efficient policies to strengthen employment generation. Since the launch of the MENA Regional Employment Report, *Unlocking the Employment Potential in the Middle East and North Africa* in 2004, the World Bank has held a number of conferences on the development of comprehensive job creation strategies, both at the regional level and in various client countries. To disseminate the findings of the MENA Regional Employment Report and three related reports on gender, governance and trade, World Bank staff held several roundtables on the reports' main themes, including the Yemen Roundtable in Sana'a and the Maghreb Roundtable in Tunis. More recently, the World Bank held a major conference on regional employ-

ment issues in Cairo (see the text box on the Regional Conference on Job Creation and Skill Development below).

For individual countries, the World Bank provides tailored analytical activities, including reports, policy notes, and technical assistance. In Tunisia, the World Bank established a long-term analytical partnership to work on employment with the government (see the text box on Programmatic Economic Sector Work in Tunisia).

Other countries where the World Bank provided assistance on labor market related social protection issues include Iran, Iraq, Morocco, and Yemen. The Bank has also provided lending in support of VET programs to among others Jordan, Morocco, Tunisia, and Egypt. ▲

Endnotes

1 Due to their limited impact on employability and long term earning capacity of participants, public works and workfare programs are regularly classified as social safety nets, rather than as ALMPs.

2 See Abrahart, Kaur, Tzannatos. 2002. "Government Employment and Active Labor Market Policies in the Middle East and North Africa in a Comparative International Context." Chapter 2 in Handoussa, Tzannatos (eds.). 2002. "Employment Creation and Social Protection in the Middle East and North Africa." American University of Cairo Press, Cairo; Tzannatos. Dar . 2001. " Programmes actifs pour le marché du travail : Un aperçu général des évidences Résultant des évaluations." Social Protection Discussion Paper Series No. 0105, World Bank, Washington, DC; and Betcherman, Olivas, Dar.

2004. "Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries." Social Protection Discussion Paper Series No. 0402, World Bank, Washington, DC

3 Robalino. 2006. "Pension Systems and the Labor Market: Why reforms can help both."

4 The labor force participation rate is defined as the share of the working age population who are either employed or looking for employment. By reducing the pool of potential workers, a lower participation rate implies lower output to distribute among the population.

5 For a review of these programs, see Robalino, Mataoanu. "Severance Pay Programs in the Middle East and North Africa" (forthcoming). World Bank. Washington, DC.

Regional Conference on Job Creation and Skill Development

In December 2005, the World Bank held a regional conference on job creation and skill development in Cairo, Egypt. The conference was attended by representatives of the majority of MENA governments, World Bank staff working in the region, and a wide range of international experts, regional private sector representatives, and regional researchers. The primary mission of the conference was to highlight the necessary policies and reforms needed to facilitate job creation in the region, to provide participants with concrete examples of successful efforts to create jobs and develop labor skills in non-MENA countries, and to provide a platform for participants to voice their concerns and plans regarding their individual efforts to combat unemployment.

The conference's key outcome was that the most pressing issue in the MENA region, the lack of job creation, cannot be solved by labor market policies alone. There is a need for a comprehensive job creation and growth strategy, with an important role for increased private sector development and the alignment of education and training systems with labor

demand, whereas labor market programs and interventions can facilitate labor reallocation and provide a safety net for the most vulnerable. The importance of the broad range of areas involved in developing a comprehensive job creation and growth strategy was reflected in the presence at the conference of government representatives of a variety of ministries, such as Labor and Social Welfare, Education, Planning, Investment, Industry, and Finance.

The environment of knowledge sharing allowed the attendees to share best practices and lessons learned from the context of their common challenges. It also helped World Bank staff to better grasp the complexities and challenges facing client countries in regard to employment, and so help better tailor future World Bank assistance to country needs. ▲

Tunisia

The World Bank's Programmatic Economic Sector Work on Employment Strategy

Tunisia is among the most diversified countries in the MENA region and maintains a well-established economic reform effort. But the situation in Tunisia is still far from ideal. Unemployment is nearly 13.5%, and unemployment among its young people is nearly 27%. To more effectively address the continuing employment challenge, the Tunisian government has joined the World Bank in a multiyear effort to improve the government's labor market policies and the quality of its related reforms. This Programmatic Economic Sector Work (PESW) includes a series of targeted studies and training for Tunisian officials that will allow them to increase the effectiveness of their overall job creation strategy.

The PESW program started in 2004, following the successful delivery of a World Bank report on the Tunisian Employment Strategy. In response to this report, the government committed itself to a collaborative effort in which a joint team would develop macroeconomic tools to better evaluate the impact of various policies on employment, improve the technical capacities of the government and the World Bank to assess the business climate and its impact on employment, and strengthen the data collection and analysis capabilities of those working on Tunisian employment research. These activities will help the Government of Tunisia to establish sound economic policies which promote competitive product markets and private sector led growth, particularly in the services sector.

One area of focus has been improving the quality and efficiency of Tunisia's active labor market programs and training programs. Work is ongoing to build a stronger monitoring and evaluation system, and to review these programs in the context of international experience. Related studies will address micro-enterprise programs and pre-employment training programs, and include a longitudinal study on university graduates. These studies will allow the Tunisians to refine their employment and training programs in order to strengthen their effectiveness and make them more cost efficient.

Another aspect of the programmatic work in Tunisia is to better understand how the business climate impacts employment, especially in regard to small and medium sized enterprises (SMEs). In support of this, the Tunisian government has prepared a revised competitiveness survey, the results of which are currently being reviewed with the support of the World Bank. This will be supplemented by a World Bank study of the investment climate and the characteristics and constraints of SMEs in Tunisia. The study will provide a more comprehensive view of the role SMEs play in the Tunisian labor market, and how government can assist SMEs in playing a more dynamic role as an engine of job creation.

Many countries in the region are hindered by the quality and scope of available labor market data. Such information is vital to any effective, well-targeted approach to employment policy. With this in mind, the Bank program in Tunisia is providing important technical training and advice on data collection at the household and enterprise levels in Tunisia. This includes a diagnosis of the existing labor market information system, and technical support on how to improve surveys and projections methods.

One of the most important outcomes of the PESW has been Tunisia's development of stronger inter-ministerial cooperation. Such cooperation is necessary for positive employment outcomes because of the varied policy implications and the need for timely, cooperative implementation. The Tunisian government is developing an integrated employment strategy across a number of ministries, and has already established a small technical steering committee to facilitate the coordination of employment-related activities.



Pensions: Making Pay-as-you-go Systems Work

David A. Robalino

It is common to hear that the crisis of defined benefit pension systems financed on a pay-as-you-go basis (DB-PAYG) is due to the aging of the population. Under DB-PAYG schemes, the contributions of active members are used to pay the pensions of those who are retired, and as the number of retirees increases relative to the number of contributors, so the story goes, the finances of the system worsen, and because adjustments to contributions and retirement ages are politically difficult the crisis emerges. DB-PAYG systems are victims of other evils as well. The way benefit formulas and eligibility conditions are usually set reduces incentives to work, contribute, and save on the side. This problem is aggravated because the benefit formulas and eligibility conditions tend to be subject to political discretion that makes the system risky and unpredictable. Also, and contrary to common belief, DB-PAYG tend to redistribute income from low- to high-income workers.

Some countries in the Middle East and North Africa are showing that, with appropriate reforms, pay-as-you-go systems do not have to follow this path. Most reforms under consideration maintain a pay-as-you-go pillar at the core of the new pension system, but focus on adopting benefit formulas, eligibility conditions, and rules that: (i) make the system financially self-sustainable over the very long-term, even in the presence of an aging population; (ii) reduce political discretion; (iii) respond to the needs of different population groups, including the poor and individuals with limited savings capacity; (iv) provide incentives to work and to make pension contributions; (v) allow for transparent and progressive redistribution; and (vi) provide incentives to diversify sources of income for retirement. This article discusses the motivations for reform and how the new pay-as-you-go systems would work. It summarizes the main lessons from the policy dialogue that took place in the majority of countries during the past four years.

Why the need for reform?

All countries in MENA adopted DB-PAYG pension systems early in the second half of the last century. Since then, these

have remained essentially untouched—except for discretionary adjustments to contribution rates and/or eligibility conditions. The systems differ in terms of design and institutional structure (see Table 1) but all are vulnerable to the problems discussed above.

Most pensions systems in MENA offer retirees a share of their pre-retirement income that is too large. Gross replacement rates¹ for the average full career worker² are often above 70%, among the highest in the world (see Figure 2). At the same time, very few countries impose a ceiling on the wage on which contributions are paid and pensions are calculated. Without such a ceiling, even high-income workers receive high replacement rates. A first obvious problem with high replacement rates is that they are costly to finance. For instance, the contribution rate necessary to finance an 80% replacement rate at age 60 would be in most cases above 25% of wages. Economies cannot afford this level of taxation as it can reduce labor demand, expand the informal sector, and affect competitiveness. In addition, high ceilings and high replacement rates induce an inefficient diversification of savings for retirement, because individuals do not have incentives to save outside of the public system. Yet, there is little rationale for having the public system as the only source of income for retirement.

With one or two exceptions all pension systems are making promises that they will not be able to keep—even if the population stops aging. This is simply because the benefits are too high relative to the contributions. Indeed, a pay-as-you-go pension system operates in a way similar to a bank account: individuals “deposit” contributions and when they retire they “withdraw” pensions. It is therefore possible to compute the implicit interest rate on these contributions. It turns out that a pay-as-you-go system has a maximum interest rate that it can afford to pay to its members. A good proxy for this maximum interest rate is the long term real growth rate of the economy, say 3% to 4% per year. In MENA countries, unfortunately, pension systems implicitly pay real rates of return on contributions above 5% or 6% per year; in some cases even above 10% per

Table 1: Pension Systems in MENA countries

Country	Number Of Funds ¹	Integrated Regimes—Civil Servants and Private Sector	Contractual Workers in Public Sector Join:	Military Join:	Workers in State Owned Enterprises Join:	Self-Employed And Others Join:	Coverage (%)
Algeria	2	Yes	General	General ³	General	Own fund	40
Bahrain	2	No	Public Sector	Public Sector ³	Public Sector	Not Covered	30
Djibouti	3	No	Private Sector	Own Fund	Private Sector	Not Covered	28
Egypt	3	No	Private Sector	Own Fund	Private Sector	Private Sector ³ (3 schemes)	92
Iran	3	No	Public Sector	Own Fund	Private Sector	Private Sector ³	43
Iraq	2	No	Public Sector	Public Sector ³	Public Sector	Not Covered	18
Jordan ²	2	Yes	General	General	General	Not Covered	36
Lebanon	2	No	Public Sector	Public Sector ³	Public Sector	Not Covered	25
Libya	1	Yes	General	General ³	General	General ³	87
Morocco	3	No	Own Fund	Public Sector ³	Contractual W	Not Covered	20
Tunisia	2	No	Public Sector	Public Sector ³	Pub. or Private	Private Sector ³ (3 schemes)	49
West Bank & Gaza	2	No	Not covered	Not covered ⁴	Not covered	Not Covered	17
Yemen	4	No	Public Sector	Own Fund ⁵	Public Sector	Private Sector	13

(1) Refers to institutions managing pension schemes. It excludes occupational funds in public and private companies but includes the pension funds for the military and security forces; (2) Schemes for civil servants and the military are closed to new entrants; (3) Indicates that within the fund plan members have a special scheme; (4) New law has just been promulgated; (5) There are two separate funds—one for the military and another for the security forces.

Source: Robalino et al. 2005. "Pensions in the Middle East and North Africa—Time for Change." World Bank, Washington, DC

year! (Left panel Figure 3.) Moreover, interest rates tend to be higher for individuals whose wages are growing fast (usually skilled workers) than for individuals with flat wages (usually unskilled), which results in the problem of adverse redistribution.

To continue with the bank account metaphor, the pension systems are “borrowing” contributions at an interest rate that is too high and that they cannot afford to pay. Accumulated debts are already very large—larger than the public debt and, in some instances, larger than the size of the economy (see right panel in Figure 3).

The pension funds, from time to time, try to address the financial problem by adjusting the parameters of the system by, for example, increasing the contribution rate. Which parameter is adjusted and by how much usually depends on the discretion of policy-makers and is the result of political negotiations. It is difficult or impossible to predict what type of adjustments will take place in the future, and this exposes plan members to high levels of uncertainty and risk.

Without reforms, the large debts that the pension systems are accumulating will have to be paid by future

generations, either through higher taxes, lower benefits, and/or lower expenditures on non-pension items (such as, for example, on education and health). This seems unfair, particularly given that only a modest part of the current population is benefiting from the pension system—usually workers in the formal private sector and civil servants. On average, pension systems in MENA cover only 30% of the labor force and pay pensions to less than 10% of the elderly population. Coverage rates reflect to a large extent the productive structure of the economy as well as prevailing institutional arrangements. Consequently, countries with large public sectors (such as Algeria and Libya) tend to have higher coverage rates. Also, countries that have set up special programs to reach vulnerable groups (such as Egypt and Tunisia) have higher coverage rates. At the other extreme, countries with a high share of the labor force employed in the agricultural sector (Morocco) and/or the informal sector (Djibouti, Yemen) have lower coverage rates. This is because administratively it is more difficult to reach these individuals, but also because saving capacity tends to be lower among these groups. Ultimately, pension systems should strive to increase their coverage to encompass as many individuals as possible. However, as

Figure 2: The mandates of the system in terms of income replacement are often ambitious and not affordable



Source: Robalino et al. 2005. "Pensions in the Middle East and North Africa—Time for Change." World Bank, Washington, DC

increased coverage under a flawed pension system might only exacerbate the pension crisis, this expansion should be accompanied—or preceded—by appropriate pension-system reforms.

What would the new pay-as-you-go systems look like?

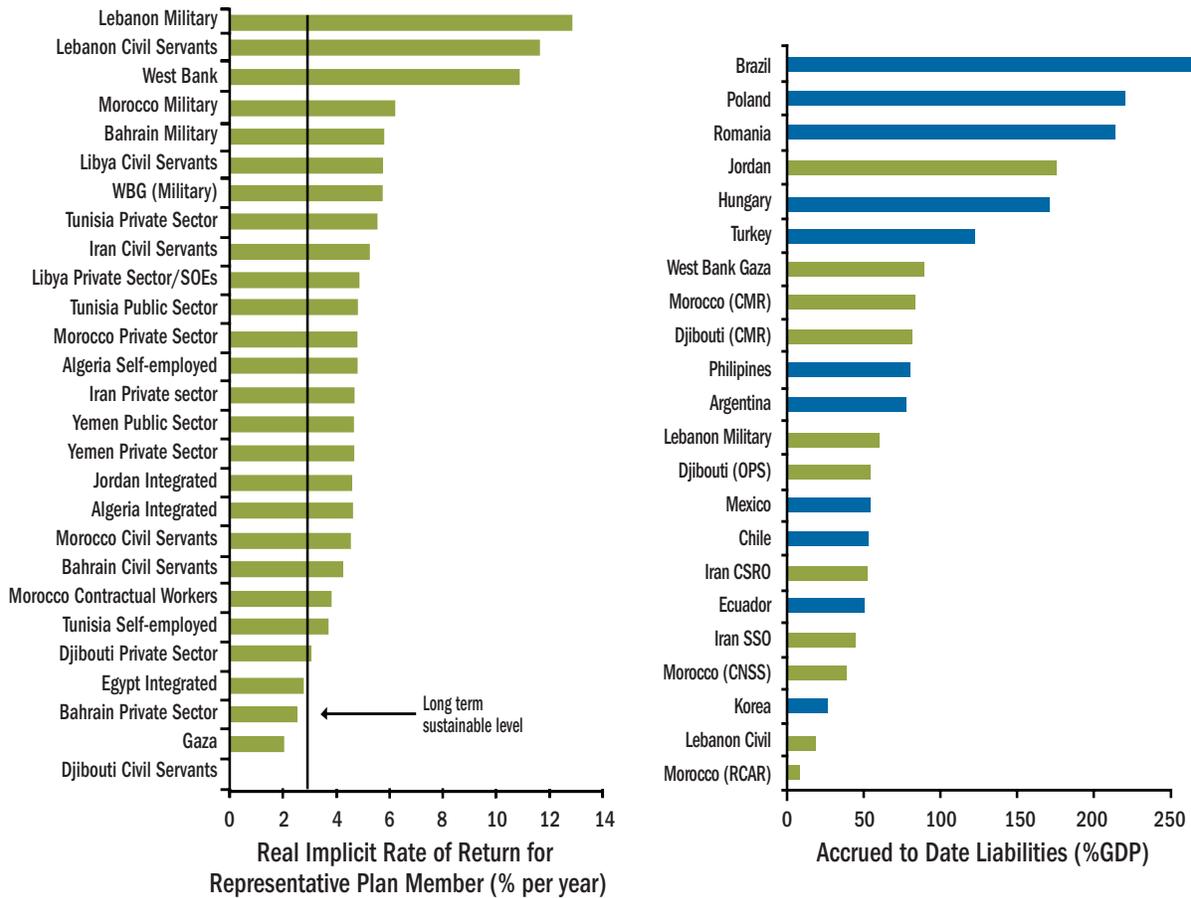
The first step in the design of new pension systems is to agree on how much income will be replaced upon retirement. This implies making explicit choices regarding the role of the government and the role of the individual in securing savings for old-age. If standards of living after retirement can be maintained with say 80% of pre-retirement income, how much should come from the public system? Should it be the same for all levels of income or should the targets for high-income workers be lower? How much should the government guarantee to those with limited savings capacity? The answers to these questions necessarily reflect social preferences. In all cases, however, choices need to be affordable. Affordable means that individuals and firms are able to support the tax burden that is associated with financing the targeted benefits. It is also important to allow middle- and high-income individuals to diversify their sources of income for retirement by capping the salary that is subject to social security contributions and developing the necessary regulatory and supervisory framework for the development of voluntary long-term savings instruments.

Once these choices have been made, countries maintaining an earnings-related pension system with pay-as-you-go financing have two main avenues. One is to keep current defined benefit formulas but introduce special rules that guarantee financial sustainability, address problems in terms of incentives and equity, and reduce political discretion. Key measures are:

- to include all salaries in the calculation of the pension, indexed to the growth rate of the average covered wage;
- to mathematically link the retirement age to the level of the targeted replacement rate, the contribution rate, life expectancy, and the mechanism used to adopt pensions (see below);
- to adjust this retirement age periodically—say every five years—to take into account changes in life expectancy;
- to introduce fair penalties for individuals retiring before this age and fair compensation for individuals retiring after this age; and
- to adopt an automatic mechanism to index pensions—say by the growth rate of the consumer price index.

Jordan and Morocco are countries in the region following this path.

Figure 3. Systems that pay high implicit rates of return on contributions and have large pension debts



Source: Robalino et al. 2005. "Pensions in the Middle East and North Africa—Time for Change." World Bank, Washington, DC

Another avenue has been recently followed by countries such as Sweden, Poland, and Latvia, and is now being considered in Egypt (see the text box in this article). It involves the introduction of the so-called Notional Accounts (NA) system.³ The NA system remains financed on a pay-as-you-go basis but uses a different benefit formula. This benefit formula is mathematically equivalent to the defined-benefit formula discussed above, yet it is simpler and more transparent. The system operates as follows. Individuals contribute and their contributions are registered in personalized accounts. These accounts are called "notional" because they do not actually contain savings—the system is pay-as-you-go—they are simply records in a computer. The system credits notional interest to these accounts. Upon retirement, the balance in the account is used to compute the value of the pension that the individual will receive for the rest of his/her life. This calculation takes into account how long, on average, the individual can be expected to live,

as well as the method of indexation. The older the individual when he retires, the higher the pension that is paid for a given account balance.

The critical issue in the NA system is how to define the notional interest rate that is credited to the accounts. Different countries have followed different approaches. In general, a good proxy is the growth rate of the covered average wage. To guarantee the financial sustainability of the system, however, this notional interest rate needs to be adjusted as a function of the liabilities of the system (i.e., the pension promises) and expected contributions, net of the pension payments accruing from them.⁴ The end result is a system that is financially self-sustainable, where benefits are linked to contributions in a transparent way—improving the incentives to contribute and reducing distortions in labor supply and savings decisions—and that is not subject to political discretion, at least when well designed.

The system also provides flexibility to devise special arrangements for individuals with limited savings capacity. Indeed, because benefits reflect contributions, it is possible to have multiple contribution rates. Thus, casual workers or the self-employed can be allowed to contribute at lower rates. The pension system can then offer a minimum pension guarantee financed either through additional contributions from plan members or from general revenues. The system could also use general revenues to match the contributions of low-income individuals to guarantee an adequate pension upon retirement. Hence, NA systems combined with non-contributory pensions or matching public contributions could help solve the problem of coverage.

What about fully-funded schemes?

Whether countries should increase the level of funding of the pension system depends on expected costs and benefits. The benefits of higher levels of funding are related to potentially higher rates of return on contributions⁵ (and therefore higher pensions for the same contribution rate), as well as positive effects on the financial sector and, through this channel, on economic growth. These benefits, however, do not come automatically. Higher rates of return require appropriate governance structures, accountability, and investment policies. Whether higher levels of long-term savings contribute to financial sector development also depends on existing institutions and market structure. In financial sectors where a core of sound banks and insurance companies does not exist, where the government is a dominant player, where the appropriate regulatory framework is not in place, and where erratic public debt management has not contributed to the emergence of a yield curve, the benefits of higher funding can be overshadowed by the costs. The latter are not only related to the transition costs—since new contributions can no longer be used to pay the pensions of current beneficiaries—but also to the risk of capital loss and/or net rates of return on investments below wage growth.

What lies ahead?

While it is clear that most countries in the MENA region face problems with their current pension systems, many governments still need to determine how to solve them. Although funded pension schemes may generate higher rates of return on pension contributions, well-designed pay-as-you-go systems can also achieve all the objectives of a pension system. The Notional Account system could be a promising model of a financially sustainable, transparent, and non-distortionary pay-as-you-go system, particularly in environments where the conditions for more funded schemes are not sufficiently met but where the administrative capacity is relatively high.

The World Bank provides substantial support in the area of pension reforms to a large number of countries in the MENA region. Currently, the greater part of World Bank assistance involves helping governments to analyze the extent of the problems, and identify and design possible policies to address them. Governments have been—and are being—assisted through knowledge sharing, training, analytical services and policy advice in among others Algeria, Djibouti, Iran, Iraq, Jordan, Lebanon, Libya, Morocco, and Yemen. The scope of this cooperation is expected to increase as more countries become aware of the need to reform their pension systems. The focus of World Bank support is likely to gradually shift from analysis and policy advice to implementation support as governments move toward the actual execution of reform plans, such as currently is the case in Egypt and West Bank and Gaza. ▲

Endnotes

- 1 'Gross Replacement rate' is the ratio between the gross (before tax) pension that an individual receives upon retirement and his/her last gross salary.
- 2 For comparison purposes, replacement rates across countries are computed for an individual who is assumed to earn economy-wide average earnings and contribute continuously from age 20 until the statutory retirement age or the maximum replacement rate is reached.
- 3 See Holzmann and Palmer (eds.). 2002. "Pension Reform. Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes." World Bank, Washington, DC
- 4 See Robalino, Bodor. 2006 (forthcoming). "On the Financial Sustainability of pay-as-you-go systems and the role of government indexed bonds." World Bank. Washington, DC.
- 5 This assumes that funds are invested in a well diversified portfolio of financial assets and that this portfolio generates a rate of return that is higher than the sustainable rate of return of the pay-as-you-go system—which as discussed above is close to the growth rate of wages.

Sources

- Holzmann, Hinz. 2005. "Old Age Income Support in the 21st Century: an International Perspective on Pension Systems And Reform." World Bank, Washington, DC.

Notional Accounts in Egypt

Egypt is adopting a Notional Account (NA) system complemented by a fully-funded defined-contribution system. The new pension system targets a 65% gross replacement rate at age 60. It imposes a ceiling of 2.5 times the economy-wide average earnings and offers a minimum pension guarantee equivalent to 15% of economy-wide average earnings (close to the individual poverty line).

The current pension schemes are closed to new entrants who join the new NA system. Plan members in the closed schemes, however, are free to switch to the new system if they desire. Those individuals who do not switch to the new system will face gradual adjustments in benefits in order to contain the accumulation of unfunded liabilities.

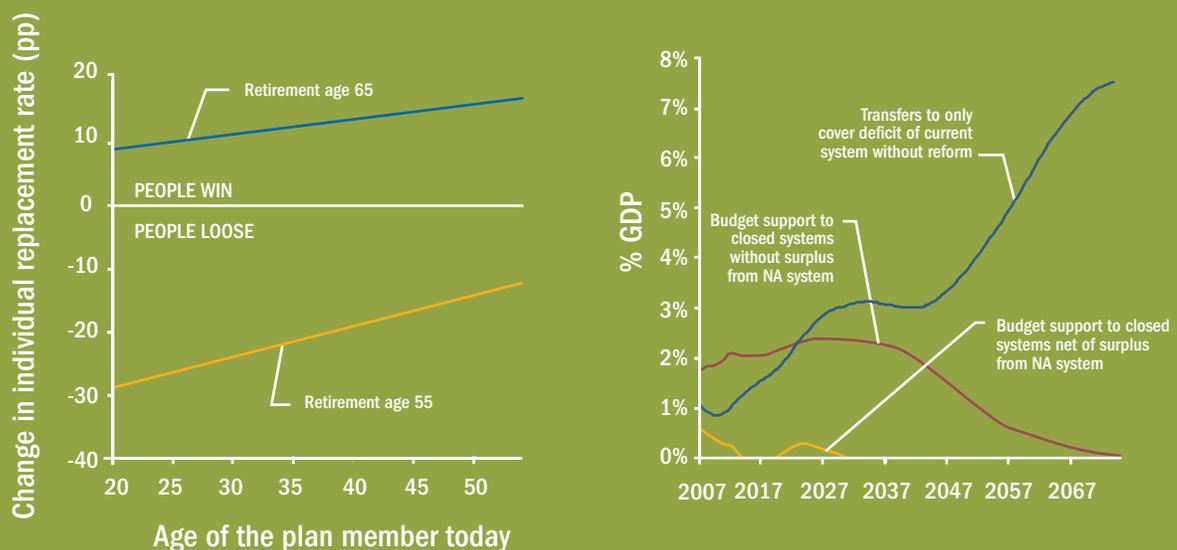
To finance the implicit pension debt of the closed systems, the government will use the surplus from the new NA system, but in a transparent way. Basically, the government will issue government bonds appropriately indexed in exchange for the contributions that it borrows. These bonds will have long maturities and could eventually be traded.

The new system also considers mechanisms to cover individuals with limited savings capacity and the long term poor—the latter through the introduction of a basic pension for individuals of age 65 and older that is financed out of general revenues.

What are the welfare and fiscal implications?

Figure 4 shows that the new system considerably reduces pension benefits for individuals who retire early (before age 55), but can even increase replacement rates for individuals who delay retirement (at age 65 or later). Thus, the new system provides incentives to work. The reform also dramatically improves the financial position of the public system and therefore the welfare of future generations. Budget transfers to the pension system could be halved over the short term. Over the long-term, savings could be in the order of 8% of GDP. ▲

Figure 4: The new pension system in Egypt provides adequate benefits and is sustainable



Source: World Bank. 2006. "Egypt: Improving the Welfare of Future Generations through Pension Reform." Volume I. Washington D.C.

Social Safety Nets

John Blomquist



Photo: Guillermo Hakim

Social Safety Nets are non-contributory transfer programs targeted to the poor or those vulnerable to poverty and shocks. Some people refer to such programs as social assistance or social welfare programs. Countries in the Middle East and North Africa provide a range of public social safety net programs. They include subsidies on important commodities and both cash and in-kind transfers such as cash assistance for the poor, food and nutrition programs for mothers and young children provided through schools or as part of other services, and housing and support services for the poor and orphans.¹ Recently, the need for greater economic growth in the face of a more competitive, globalizing world has stimulated vigorous debate within MENA on how and whether to renegotiate the social contract between citizens and the state. Three issues dominate the policy discussion with respect to social safety nets: (i) defining the appropriate role of the public sector in providing safety nets; (ii) enhancing the longer-term value of safety net programs in building physical and human capital and reducing poverty; and (iii) exploring the potential for social assistance to permit the reform of commodity subsidies.

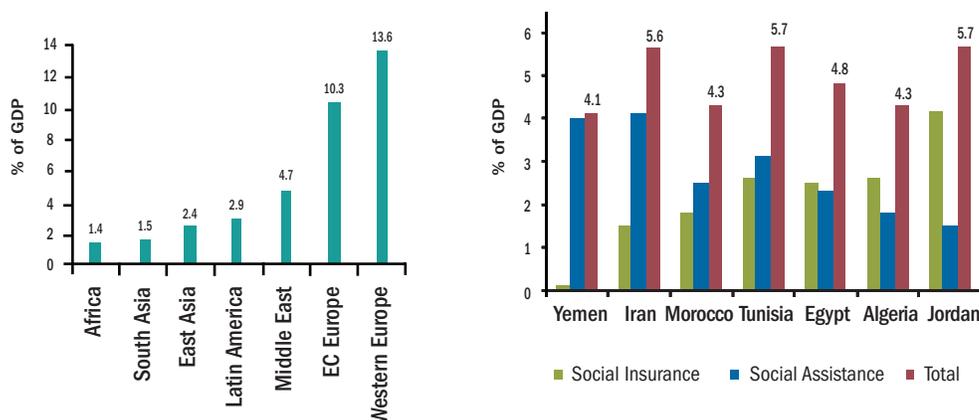
Safety Nets and the Public Sector

Is there a role for social safety nets, and should governments be involved? These questions have elicited significant controversy among policymakers and the general publics of many countries. It is argued that safety nets, appropriately designed, contribute to both the equity and efficiency with which economies operate.² Above all, and most commonly understood, safety nets can have an immediate impact on poverty and inequality. That is, they contribute to a more equal distribution of resources among the population. Further, safety nets can contribute to the efficiency of an economy in at least three important ways. First, they can facilitate macroeconomic and structural changes, allowing sustainable and faster growth to occur. Latin American governments have used safety nets to ease the effects of structural changes following the debt crises, including public workfare and social fund instruments. One of the lessons of the East Asian crisis has been the need to build effective safety nets during good times that can be expanded during crisis periods. Second, safety nets can also be used as an instrument of reform to replace inefficient redistributive elements of other programs, such as price subsidies. And, third, they can serve as springboards, contributing to the formation of human or physical capital that allows recipients to improve their prospects and contribute to overall growth.

Most countries in the region followed a state-dominated path of development following independence, leading to large public-sector employment, generous public pensions and low-priced health and education services along with pervasive controls on certain commodity prices and other goods. Under such conditions, the need for cash social assistance in particular was considered small. Stagnant growth through the 1980s and 1990s forced many countries to consider economic reforms that give the private sector a more prominent role and reduced the involvement of the state.³ These reforms, from streamlining public-sector employment to reducing price subsidies, imply that some families will be more vulnerable to joblessness and poverty, at least in the short term until the structural changes result in sustainable growth. How best to provide assistance to the needy becomes increasingly relevant.

In recent years, spending on social protection in MENA has been fairly comparable with other middle-income countries (left panel of figure 1). MENA countries spend on average less than 5% of GDP for social insurance and social assistance combined, slightly above the levels in other developing regions but well below the levels observed in much of Europe, including the European Union member states. The averages

Figure 1. Regional Spending Patterns on Social Protection (late 1990s)



Note: Figures use IMF definitions. Public expenditure on social security and welfare includes compensation for loss of income to the sick and temporarily disabled; payments to the elderly, the permanently disabled, and the unemployed; family, maternity, and child allowances; and the cost of welfare services, such as care of the aged, the disabled, and children. It excludes expenditures on some safety nets, such as subsidies and public works program costs.
 Source: Besley, Burgess. 2003. "Benchmarking Provision of Social Safety Nets." Social Protection Discussion Paper No. 0315. World Bank. Washington, DC. World Development Indicators, various years.

mask considerably variation across countries, reflecting however, a different balance between spending on social assistance and spending on social insurance and other social programs (right panel of figure 1).⁴ Regardless of the country, spending on social assistance accounts for a small portion of resources, with cash transfers ranging from about 0.1% of GDP to 1.2%. Commodity price subsidies by far dominate public assistance in terms of expenditure as shown in table 1 in the first section of this issue.

Non-government and informal transfers among households constitute a vital safety net in MENA, dwarfing public sector assistance in nearly every country for which there is evidence. Religious and charitable contributions make up a significant portion of non-government assistance (see the text box in this article on Islamic Social Welfare in the Palestinian Territories). *Zakat* is an Islamic obligation to provide for those in need, with the exact amount depending on a family's wealth. Some countries enforce *Zakat*, even treating it as a tax managed by the government, responsible for allocation to the poor, while other countries rely on private, informal collection and administration. *Waqfs* are charitable foundations set up by wealthy individuals to provide particular goods or services, such as schools for the poor.

There is a broad range of non-government assistance. In Iran, religious foundations, or *Bonyads* provide most of the social assistance to the poor. There are nearly 30 foundations and charities with a combined annual budget amounting to half the general government budget and 30% of national revenue.⁵ There are more than 800 officially registered charities in Syria that disburse an amount equal to nearly 90% of the total budget of the Ministry of Social Affairs and Labor

(US \$20.5 million in 2004). Foreign remittances are an important source of assistance in all countries. For example, remittances from abroad comprised more than 63% of total transfers received by the poorest decile of the population in Yemen in 1998.⁶

By contrast, the coverage among the poor and the adequacy of benefits of public safety nets tend to be insufficient to have much effect on poverty across most social assistance programs in the region. Most programs, including cash transfers, do not target the poor per se, but provide benefits based on membership in a category of families or individuals presumed to be vulnerable. Others do not have verifiable measures of incomes and assets for targeting purposes. In Egypt for example, cash assistance is provided categorically to groups such as orphans, widows, unmarried women without means of support, divorcees and their children, the disabled, and prisoners' families. The assistance is intended to be means-tested, requiring application at a local welfare office, supported with documentation including family birth certificates and salary records from employers or pension statements as well as a national identification card. Eligibility determination is hampered by the fact that many poor individuals do not possess identification cards, and incomes often cannot be verified.

As a consequence, many beneficiaries are not considered poor according to national poverty lines. Less than 12% of the poor are reached by the main public social assistance programs in Egypt, providing an average benefit of slightly more than 8% of the poverty line for a family with two adults and three children in Upper Rural Egypt. Social assistance is estimated to have raised about half a percent of the population

above the poverty line in 2004. Morocco's *Entraide Nationale* reaches under 2% of the poor. The Social Welfare Fund in Yemen provided transfers to 15 different target groups in the late 1990s. Only 20% of the poor were covered, with the cash benefit to a family of average size amounting to about 10% of the poverty line.

It is not immediately evident whether the public sector should increase its provision of assistance, or whether reliance should be placed mainly on the private and nongovernmental sectors. Current targeting of public benefits is not effective, and there is evidence that public sector resources may reduce the level of private resources going to the poor.⁷ Yet, if the targeting and efficiency of public safety nets can be improved, there are several reasons for increasing the role of the public sector. First, providing targeted assistance in an objective and unbiased manner may be preferred to providing it on a potentially subjective basis, determined perhaps by religious affiliation, geographic location or proximity, or the likelihood of having a family member who can provide adequate remittances. Second, crowding out some non-government assistance may be useful if those resources can be spent more productively on other investments. And the government may be in the best position to effect efficient redistribution of resources from richer to poorer segments of society. The targeting outcomes associated with nongovernmental assistance are virtually unknown. Finally, the political economy of making hard reform decisions suggests that governments will need to be involved in providing assistance to those for whom reforms may have a negative short term impact. While the appropriate role of the public sector in providing assistance will vary by country and circumstance, the extent to which the public sector is involved has important ramifications for the design of social assistance in MENA.

Developing Physical and Human Capital

Policy makers want social safety nets to contribute more to reducing poverty over the long term. They are also anxious not to create a dependency on state handouts or to discourage looking for work. Public workfare and conditional cash transfers are two program options that deserve consideration for wider application in this context.

Public workfare provides temporary low wage jobs to able-bodied poor individuals. Income is transferred in a self-targeted manner while ideally achieving useful projects such as road construction and maintenance, irrigation infrastructure, reforestation, and soil conservation. These schemes do not create permanent employment, but can provide temporary income to smooth consumption over a short period. The programs can be scaled-up quickly, and

they can be targeted to specific areas of high poverty with high unemployment. They vary in size, but typically cover only one or two percent of the workforce, providing three or six months of continuous employment.

Workfare programs are a well-established safety net component in many MENA countries, and have been adopted in Asia, Africa, and Latin America. The largest programs are found in India and Bangladesh. Morocco and Tunisia have long-established programs, while Algeria and Egypt have tended to use them in response to economic adjustment measures. Many of the programs are operated within larger social fund frameworks that have multiple objectives, often focused more on generating infrastructure than providing transfers to the poor.

International evidence indicates that in order to be considered good investments, both the public works infrastructure created and the extent of pro-poor labor content must be carefully designed. Important design features have been found to include: (i) requiring high labor content of projects; (ii) setting the wage rate for participants low enough to ensure self-targeting and not to compete with private sector opportunities; (iii) ensuring that projects produce high-quality assets demanded by local communities; and (iv) having in place administrative capacity at the local level where projects are run. Some efforts are underway to redesign programs with these principles strongly in mind, notably including the newest phase of Egypt's Social Fund for Development.

Conditional cash transfer programs (CCTs) are a relatively new instrument that seeks to foster human capital development and help break the cycle of poverty. Cash assistance is provided to poor families conditional on behavior, often including keeping children in school and maintaining health regimes. The cash helps reduce poverty in its own right and compensates families for the opportunity cost of changing behavior; the changed behavior is expected to contribute to long-term human capital development for the young. They operate by stimulating demand for existing health and education programs. In several cases, CCTs have also been a means to consolidate disparate cash transfer programs into more efficient, effective targeted interventions to support human capital formation. Mexico replaced the tortilla subsidy with a CCT and Brazil consolidated four cash transfer programs into the Bolsa Familia program, creating the largest CCT in the developing world. CCTs have seen increasing application in Latin America and are becoming popular elsewhere, including Turkey and West Bank and Gaza.

The preliminary evidence on the longer-term benefits of CCTs has been impressive. Gains in children's education, health and family consumption have been recorded in Latin American programs that have been rigorously evaluated such as the interventions in Mexico and Nicaragua. CCTs are not

a panacea for poverty, however, and they are not applicable in all cases. It is important that there be access to education and health facilities, and that limited use among the poor results from a lack of demand rather than supply. However, the positive evaluation results suggest possible applications within MENA.

Social Assistance and Reform of Subsidies

In most of the region, subsidies remain a burden on economies (see also the textbox on commodity subsidies in this article). Cash transfers are being examined as a possible way to reduce harmful subsidies while preventing the poor from suffering from higher prices. In principle, a well-designed cash transfer could compensate the poor for the loss in purchasing power from higher commodity prices. A universal transfer given to everyone would directly compensate all individuals equally in absolute terms. Whether the replacement of subsidies by a transfer would generate significant resources depends on the level of the cash benefits and on whether or not they are phased out over time. It is also necessary to consider the mechanism by which cash would be transferred. It can be very difficult to operate a universal program if the administrative and payment infrastructure are not in place to monitor and deliver huge numbers of cash transfers. Despite these difficulties, the option of universal cash transfers to compensate for subsidy withdrawal can be worthwhile considering. For example, a recent study conducted for the case of Egypt reveals that, if only half of the savings from a 50% reduction in energy subsidies are used to compensate via an untargeted cash transfer program, most of the negative impact of the subsidy withdrawal on the poor can be eliminated.

Indonesia, with a rich history of safety nets, is trying a universal cash transfer to compensate for fuel price increases. The program was introduced together with price increases in the fall of 2005. It covers about 30% of the population, some 15.5 million near-poor families, making it the largest cash transfer program in the world in terms of coverage. Targeting cash only to the poor would expose the non-poor to higher prices without compensating them but would be a progressive transfer and would save resources for other public investment. In the longer term, developing targeted transfers, perhaps as CCTs, would help compensate the poor and may encourage human capital development.

World Bank Involvement

The World Bank is engaged with governments on social assistance issues through a sequentially staged approach. In the first stage, the Bank primarily provides technical assistance and sector work to assist in the analysis of issues and potential implications of alternative policy choices. Examples include:

- **Egypt:** Assessment of benefit incidence and targeting options in the context of subsidy reform;
- **Iraq:** Provide international experience with social assistance design and targeting methods;
- **Syria:** Assist in design of a social protection strategy, including studying role of informal assistance mechanisms and targeting approaches for public cash social assistance in conjunction with reduction in subsidies; and
- **Jordan:** Develop a proxy-means test for targeting public assistance.

As a second stage, the Bank has provided grant and loan funds to support implementation of reforms or further capacity development. Two current examples of ongoing activities are:

- **West Bank Gaza:** Changing the main social assistance program to a conditional cash transfer program conditioned on education attendance and medical checkups for children;
- **Iraq:** Strengthening policy, management and administrative capacity at the Ministry of Labor and Social Affairs to administer a new national safety nets program. ▲

Endnotes

- 1 For many countries in the region, including Algeria, Tunisia, Egypt and Iran, expenditures on housing and shelter assistance typically exceed those for other in-kind and cash transfers for the poor. See World Bank. 2002. "Reducing Vulnerability and Increasing Opportunity: Social Protection in the Middle East and North Africa." Orientations in Development Series. Middle East and North Africa Region. Washington, DC.
- 2 See Ravallion. 2003. "Targeted Transfers in Poor Countries: Revisiting the Trade-Offs and Policy Options." Social Protection Discussion Paper No. 0314. World Bank. Washington, D.C.
- 3 Iqbal. 2006. "Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa." World Bank, Washington, DC
- 4 International evidence shows little correlation between countries' wealth reflected in GDP per capita and the level of spending on social assistance (Besley, Burgess. 2003. "Benchmarking Provision of Social Safety Nets." Social Protection Discussion Paper No. 0315. World Bank. Washington, DC)
- 5 Iran Daily, September 2004.
- 6 Van de Walle. 2002. "Poverty and Transfers in Yemen." Middle East and North Africa Working Paper No. 30. World Bank, Washington, DC
- 7 Crowding out private transfers to the poor when public resources are increased is documented in some countries. See Conning, Kevane. 2001. "Community Based Targeting Mechanisms for Social Safety Nets." Social Protection Discussion Paper No. 0102. World Bank. Washington, DC; Schoeni. 2000. "Does Unemployment Insurance Displace Family Assistance?" Rand Papers 00-05. Labor and Population Program; Cox, Jimenez. 1992. "Social Security and Private Transfers in Developing Countries: the Case of Peru." World Bank Economic Review Vol 6(1): pgs. 155-69. World Bank, Washington DC. Recent research disputes this claim with regard to conditional cash transfers, however. See Teruel, Davis. 2000. "Final Report: An Evaluation of the Impact of Progresa Cash Payments on Private Inter-Household Transfers. International Food Policy Research Institute."

Migration

Migration is a structural feature of MENA's socio-economic landscape. An estimated 5% of the population of Algeria, Morocco, and Tunisia are temporarily or permanently residing abroad. In Lebanon, this share is as high as 10%. More than half of MENA's emigrants reside in Europe, while about one third found temporary employment within the region, in the Gulf Countries. Immigrants also make up an important share of workers within some MENA countries: foreign workers from within and outside of the region make up 60% to 90% of the total work force in the Gulf States.

Migration can have deep economic, social, human, and political consequences, not only for the migrants and their households, but also for their countries of origin and their host countries. In countries of origin, migration can relieve unemployment pressures and provide an economic lifeline for millions of men and women. In the non-Gulf countries within the region, remittances sent home by MENA's migrants by far exceed the amounts of Official Development Assistance received. In Jordan, the level of remittances received is as high as 22% of GDP. In receiving countries, migrant workers may take on jobs that are not attractive to national workers or take up specialized positions for which no national supply exists.

But not all implications of migration are beneficial. The departure of highly skilled workers may lead to a loss of productivity in both the private and the public sector in the country of origin. The departure of as many as 25% of university graduates from the Arab world to Western countries in 1995 and 1996 seems to signal that this is indeed the case in MENA. In receiving countries, an influx of foreign workers may defer necessary labor market and social policy reforms, and the downward pressure on labor income of national workers with complementary skills to those of migrants may increase the risk of political tensions concerning migration. Migrants themselves may be subject to unfair or discriminatory treatment compared to national workers.

Despite the notion that migration has important socio-economic consequences, its extent and its implications for the MENA region are not well studied. The implications and possibilities of migration are not consistently integrated into development and poverty-reduction strategies, and there is very little cooperation between sending and receiving countries to ensure a well-managed migration process that seeks to generate the highest mutual benefits for countries of origin, receiving countries, migrants, and migrants' households.

In cooperation with the European Commission, the World Bank has started to fill the information gap with regard to the main migration movements from MENA to EU Member States. Over a period of three years, a comprehensive program of studies will be carried out on the extent, nature, causes and consequences of migration flows. The program will study the poverty, social and labor impact of migration, and will identify good practices in the area of labor migration management and social protection arrangements for migrant workers and returnees. The main objective of the work is to identify and support the implementation of projects, policies, regional arrangements, and institutional reforms that will maximize the benefits of international migration flows and reduce their costs for all stakeholders. ▲



Sources:

- (1) Esim, Smith (eds.). 2004. "Gender and Migration in Arab States: The Case of Domestic Workers." ILO, Beirut, Lebanon;
- (2) International Financial Statistics, IMF, Washington, DC;
- (3) World Development Indicators; (4) Friedman. 2005. "The World is Flat (A Brief History of the 21st Century)."

Commodity Subsidies in MENA

Price and ration subsidies remain common in the region, but are costly, distort economic incentives and usually function inefficiently as safety nets.

Large-scale subsidies are very costly in terms of resources that could be used for potentially more productive investments in health, education, infrastructure, or social protection. In Iran, subsidies topped 16% of GDP in 2001. The Public Distribution System (PDS) food ration subsidy alone costs more than 15% of GDP in Iraq. Subsidies on food and energy in Egypt are currently nearly 10% of GDP annually. In addition, the artificial price distorts incentives to both consumers and producers resulting in underproduction and overconsumption of subsidized goods. And finally, subsidies tend to be an inefficient mechanism to help the poor. In the case of universal price subsidies, the benefits of the lower prices are distributed among the population in proportion to the consumption of the subsidized good. For many staple goods, the well-off capture a larger share of the value of the subsidy than poorer groups because they consume more. Ration subsidies are often inefficient safety nets as well. In Iraq, the PDS subsidy costs about \$6.30 to transfer \$1 worth of food to a poor Iraqi citizen, while it costs \$5.40 to transfer \$1 worth of food to the poor using Egypt's food subsidies.

Options for reform include:

- Improving the targeting of existing subsidies.
 - Changing the mix of the subsidized ration, removing items consumed more heavily by the rich and replacing them with or keeping items consumed more exclusively by the poor (e.g., coarse flour, broken rice). Such an approach was followed in Tunisia in the early 1990s;
 - Improving household targeting through identification of the poor. Alternatives include direct means testing for eligibility, using a proxy-means approach that is less data intensive, using some form of categorical targeting, or excluding certain groups from eligibility that are known to be better off (such as higher income civil servants). Lifeline or block tariffs are common approaches for electricity

and other commodities, in which a low price is charged for the use of an initial quantity or block of the utility, while subsequent blocks are charged at progressively higher rates; and

- Reducing or removing the subsidy and replacing it with another program. A universal cash transfer program has been adopted in Indonesia to compensate for fuel price increases, covering nearly 30% of the population. Transition to conditional cash transfers is now under consideration.

These options are not mutually exclusive, and could be used in combination with one another.

Reform is difficult. There are many examples in which subsidies have been removed too quickly without alternative safety net mechanisms in place. Rioting in Yemen in 2005 forced a reconsideration of announced fuel price increases. Street protests in 1996 in Jordan followed a 200% increase in the price of bread and other items; a similar attempt to increase fuel prices in 1989 led to rioting and helped bring down the government. Despite political pressures, Jordan, Egypt and Syria are among the countries actively considering ways to free prices while effectively assisting the poor with alternative safety nets.

Lessons from international experience underscore the importance of:

- Understanding the effects of subsidy reforms on the poor before changing policy;
- Building political support for change through public education campaigns;
- Reducing subsidies gradually unless political will exists for one-time change; and
- Having alternative safety net interventions in place before reducing subsidies. Despite their inefficiency as a safety net instrument, removal of subsidies will harm the poor if there are no compensating mechanisms. ▲

Sources: Alderman. 2002 "Subsidies as a Social Safety Net: Effectiveness and Challenges." *Social Protection Discussion Paper No. 0224*. World Bank, Washington, DC; Arulpragasam, Alatas, Aran. 2006. "Indonesia: Fuel Subsidy Reallocation - Note on the Poverty and Social Impact Analysis." Indonesian Poverty team INDOPOV. World Bank. 2005. Washington, DC; World Bank. "Iraq: Social Protection in Transition - Labor Policy, Safety Nets and Pensions." Human Development Group, Middle East and North Africa Region. Washington, DC; World Bank. 2005. "Egypt: Toward a More Effective Social Policy: Subsidies and Social Safety Nets." Report No. 33550-EG. Social and Economic Development Group. Middle East and North Africa Region. Washington, DC.

Photo Credit: Save the Children Iraq Field Office



Islamic Social Welfare in the Palestinian Territories

It was in 1967 that the Islamic Muslim Brotherhood started to found Islamic charity organizations in the Palestinian occupied territories. The activity of these organizations was initially limited to the management of religious schools, nurseries and kindergartens, which were usually attached to mosques. Very quickly, however, these organizations expanded their programs to include regular support to needy families, including women-headed households, the disabled, the unemployed and orphans. By the late 1990s, Islamic organizations represented 10% to 40% of social institutions in Gaza and the West Bank. In Gaza alone, they accounted for 65% of educational institutions below the secondary level.¹ Funding for Islamic charity organizations and service providers came from local and foreign sources, largely in the form of donations from charitable societies in the Gulf, Europe and North Africa.

*Zakat*² committees are amongst the most established of Islamic welfare institutions and they exist throughout the Arab and Muslim world. In the West Bank and Gaza, these committees operate under the supervision of the Ministry of Religious Affairs. They are typically governed by a board of local community and religious leaders, providing cash and in-kind assistance to low income households, orphans, the chronically ill and the disabled. Some *Zakat* committees are registered as charities but most are regulated by law deriving from the Jordanian and Egyptian legislation.

The role of Islamic organizations rose significantly following the outbreak of the *intifadah* in 2000. According to a study by the United Nations, by 2002, the beneficiaries of *Zakat* committees increased to 6,550 families, up from 450 families before

the *intifadah*. The same study estimated that one Islamic organization accounted for a total of 33% of cash assistance in the territories, and the various *Zakat* committees to an additional 21% of total cash assistance. More recent studies, however, have shown that the level of food and cash assistance accounted for by Islamic charitable organizations has dropped, with the Palestinian Authority and United Nations Relief and Works Agency (UNRWA) acting as the main source of this form of direct assistance.

As a rule, assistance from Islamic charity organizations is provided to families as opposed to individuals and is allocated on the basis of socio-economic rather than religious or political criteria. Islamic charity organizations enjoy the trust of the communities they serve; they have strong links with grassroots organizations; they are recognized for their professionalism and are known for their effective targeting of assistance towards the poorest. A recent survey undertaken by the World Bank on the role of Palestinian non-governmental organizations (NGOs) as service providers showed that Islamic NGOs were particularly successful in diversifying their sources of income, and in relying on donations and volunteer work. ▲

¹ Roy, 2000. "The Transformation of Islamic NGOs in Palestine." *Middle East Report*, 214

² *Zakat (Alm)* is one of the five pillars of Islamic and it is a form of charity paid by Muslims. It provides a mechanism for redistributing wealth and is calculated as a percentage of personal income/assets. While according to the rules of Islam, the *Zakat* is obligatory; its payment is essentially voluntary.

Source: International Crisis Group. 2003. "Islamic Social Welfare, Activism in the Occupied Palestinian Territories; A Legitimate Target?" *Middle East Report No. 12*, Amman/Brussels.



Social Funds in MENA: Localizing the Global Experience

Yasser El-Gammal

Several countries in the MENA region rely on social funds to provide a variety of public services to disadvantaged communities. Social funds continue to lead the way in innovative approaches to efficiently providing well-targeted and effective services.

Social Funds in MENA

Social funds are intermediary organizations that finance multi-sectoral programs. These include small-scale public investments targeted at meeting the needs of poor and vulnerable communities, and that contribute to social capital and development at the local level. After the first social fund was established in 1987 in Bolivia, their numbers increased dramatically first in Latin America and then in other developing regions worldwide, particularly in Africa. Gradually, the focus of social funds worldwide has shifted from providing short-term safety nets to soften the impact of structural adjustment policies on the poor, to longer term efforts aimed at empowerment, capacity building, and sustainability goals. They have played an important role in catalyzing community participation, engaging various

stakeholders in project identification, implementation and monitoring, and designing a blueprint for a community led risk management approach. Recently, social funds have become involved with implementing decentralization approaches, being tried by many governments around the world. International evidence suggests that social funds can be more cost efficient in delivering services than other national programs and that social fund-supported facilities perform as well as or better than similar facilities without social fund involvement, particularly if there is significant input and control by beneficiary communities.¹

The first social fund in the MENA region was founded in Egypt in 1992, followed by Algeria (1994), Yemen (1997) and Morocco (2002). Initially, the social funds in Egypt and Yemen addressed the possible negative social impacts of economic reform and stabilization programs, and included programs designed to deal with specific economic shocks that led to pressures on the social protection system, such as the inflow of Egyptian and Yemeni returnees from the Gulf region after the 1991 Gulf War. Later these social funds, along with those in Morocco and Algeria, started to focus more on the long-term strengthening of the poor's social and economic capital.

Social funds in the MENA region were designed taking into account global experiences and lessons learned initially from Latin America and other regions. Later on, countries within the MENA region learned from each other. The Funds' designs were adapted to the specific economic and social environment of the region, including the expanding need for employment and income generation due to the rapid increase of the labor force, the ongoing transition from public sector to private sector led growth, and a relatively



Table 1: Features and Main Activities of Social Funds in MENA

Country (start)	Country features	Social fund characteristics	Main social fund activities
EGYPT (1992)	<ul style="list-style-type: none"> ■ Weak civil society base ■ High unemployment 	<ul style="list-style-type: none"> ■ Strong partnerships with regional and local governments, and public and private financial institutions 	<ul style="list-style-type: none"> ■ SME development ■ Public works ■ Community Development ■ Training and retraining
ALGERIA (1994)	<ul style="list-style-type: none"> ■ Post-conflict environment ■ High unemployment 	<ul style="list-style-type: none"> ■ Social centers in service-deprived areas for violence affected populations 	<ul style="list-style-type: none"> ■ Public Works ■ Community Development ■ Institutional Development
YEMEN (1997)	<ul style="list-style-type: none"> ■ Low local government capacity ■ Weak NGO base ■ Rural poverty 	<ul style="list-style-type: none"> ■ Strong partnership with local communities ■ Focus on rural areas, education, and water 	<ul style="list-style-type: none"> ■ Community development ■ Micro enterprise development ■ Capacity building, and institutional support
MOROCCO (2002)	<ul style="list-style-type: none"> ■ Rural poverty ■ Relatively strong NGO base 	<ul style="list-style-type: none"> ■ Strong partnerships with NGOs ■ Helped establish linkages between civil society and government 	<ul style="list-style-type: none"> ■ Community development and social infrastructure ■ Support to economic infrastructure and income generation ■ Institutional development for intermediaries ■ Studies and capacity building

weak base of civil society organizations. They have all been leaders in improving services and employment opportunities for women. Regional and country specific events, such as the 1991 Gulf War and the civil war in Yemen in 1994, further affected the scope and focus of the region’s social funds. Despite a number of shared characteristics in design and environment of operations, MENA’s social funds have developed differently in response to their countries’ specific needs and vulnerable population groups, and their particular comparative advantages (table 1).

Yemen: innovator

Given the low capacity of local governments and the weak base of NGOs, the Social Fund for Development (SFD) in Yemen relies heavily on partnering directly with local communities and on helping to formalize informal structures at the village level. Although the Yemen SFD was established less than ten years ago, it has already emerged as a best practice institution for two reasons: it has successfully scaled up its provision of infrastructure and service delivery, and it has been a tremendous catalyst for innovation by using new approaches, partnering with communities to ensure sustainability, and shaping government policies with these innovations. With poverty

concentrated mostly in rural areas, programs focus on delivering better services in rural areas in response to shocks, and on contributing to longer-term objectives of upgrading human capital. Education activities have been consistently at the top of Yemen SFD supported activities, reflecting the country’s low literacy rates and the fact that female literacy rates fall way behind those of males². The SFD has introduced more cost effective designs to school buildings, which were adopted by the Ministry of Education. It also helped the Ministry of Education to establish a community participation unit with the objective of involving the local population in the education process, and helped establish hundreds of parent-teacher associations. Water comes second in terms of supported activities, as Yemen has among the world’s lowest per capita water consumption and availability rates. The SFD built on old techniques by revitalizing old Yemeni water-harvesting schemes in rural areas, participated in developing a new water law in the country, and provided technical support to the newly established Ministry of Water and Environment. Over its 10– year life, the SFD has financed over US\$315 million worth of sub-projects. In 2005, SFD programs accounted for over 40% of government spending on social protection, or about 0.5% of GDP. They have been subjected to rigorous evaluation and are cost-effective

and efficient, particularly in the case of subprojects that were either directly implemented or contracted by beneficiary communities. The Yemen SFD was showcased as best practice globally at the 2004 Beijing poverty conference.

Egypt: SME developer

Egypt's SFD is characterized by a strong Small and Medium Enterprise (SME) development program and, due to Egypt's still relatively weak civil society base, a strong reliance on partnerships with regional and local governments. In 1992, with over one million workers returning to Egypt after the 1991 Gulf War, the first phase of the SFD focused on employment generation and labor mobility of public-sector workers. For a time it was the largest social fund in the world and it remains among the largest today. Given increasing pressure on the economy to generate jobs, SME development became increasingly important, absorbing over 55% of available funding by the late 1990s. Presently, this component continues to absorb over 50% of funds. Micro finance was introduced during the SFD's second phase, to provide support to the lower end of those who are economically active amongst the poor. The social fund also supports public works, community development and labor mobility activities to: a) respond to impacts of immediate policies like privatization; b) help build human and economic capital; and c) contribute to enhancing the social infrastructure with investments in education and health. In addition to using local governments as intermediaries to implement public works activities, the SFD cooperates with a combination of public and private financial institutions to implement its SME development component, while NGOs play an increasingly active role in the implementation of community development activities. Overall it has been effective in meeting its program objectives, and continues to attract a lot of donor support. It accounts for about 13% of government spending on social protection, about 0.2% of GDP.

Morocco: NGO partnerships

As in Yemen, the Social Development Agency (SDA) in Morocco has a rural focus, given the nature of poverty in the country and the large discrepancy between rural and urban areas in their access to social services. Building on the rich cultural heritage of Morocco, the social fund supports rural economic development in areas like rural tourism, women's cooperatives, and income generating activities. The SDA has taken advantage of a relatively strong NGO base in Morocco and has channeled the majority of its resources through national, regional and local organizations. It has

developed linkages between local NGOs and community groups on one hand, and local government and elected officials at the village and higher levels on the other. The SDA has innovated in the area of income generating activities to support small local economic infrastructure in rural areas. The fund provides loans to local cooperatives that use them for productive assets in the local communities. This money is then paid back to local NGOs to be recycled in some social development activities. This relatively new organization at present represents about 4% of government spending on social protection, or 0.5% of GDP.

Algeria: reaching out

One of the more distinctive offerings of the Algerian Social Development Agency (SDA), established in 1994 in the aftermath of a decade of economic decline and the outbreak of terror campaigns in 1991, was a program to develop social service centers in some of the most deprived slums. The social fund created these social centers to provide a caring face of government in communities that had no social services of any kind, including some of the first psychotherapy programs in Algeria. Although the program still faces serious problems, the social centers now offer a variety of services, including social intermediary activities, such as awareness programs, and direct services, such as immunization and cultural programs. The Algerian SDA finances substantial small scale public works and employment programs. An evaluation in 2000 concluded that it was playing a consequential role in delivering improved social protection programs. Government contributions to the SDA amounted to almost 5% of total social transfers in 2005.

Lebanon: community development

Some governments in the MENA region, notably in Lebanon and West Bank and Gaza, carry out programs which share similarities with social fund activities, particularly in the area of community development. In Lebanon, the Council for Development and Reconstruction (CDR) started to implement a Community Development Project in 2002. The CDR is an autonomous institution through which World Bank and other donor funds are channeled for safety net programs. The project promotes a participatory, community-driven approach to improve the living status and economic conditions of disadvantaged communities. Results to date have been mixed. Achievements include the start-up of some sub-projects in the areas of skills development activities for youth, agriculture, health and education. However, implementation has been hampered by unresolved questions, among others on how to best use NGOs in this context. The World Bank and CDR have been exploring ways to speed up implementation.

The experience so far suggests that donors and the government need to continue to consider what is the most appropriate way to implement community driven development programs in the Lebanese context.

The Road Ahead

Social funds have a built-in contradiction. They tend to operate outside the direct scope of responsibility of line ministries, yet they provide services that, in theory, could be carried out by them. The justification for social funds' relative independence is the assumption that they are better able than line ministries to allocate public goods and services efficiently, transparently, and in a way that fits local preferences. However, this institutional set-up may weaken line ministries in the performance of their tasks, and undermine sectoral coordination. So the continuation of social funds is only justified if they deliver benefits to final beneficiaries that outweigh the possible adverse affects that they may have on the functioning of line ministries. This calculation depends both on the comparative advantage that social funds have in delivering public goods compared to line ministries, and on the extent to which the good practices and innovative approaches of social funds can be used to strengthen the performance of line ministries, rather than undermine them.

MENA's social funds must strengthen their performance in a number of areas if they are to continue to serve as innovators and demonstrators of new ways to deliver services and of methods of decentralized participatory decision-making, management and accountability that may be adopted for broader application by other public sector organizations:

More Integration in Poverty Programs: MENA's social funds need to become increasingly integrated in governments' overall poverty programs, and their roles and responsibilities within that larger framework should become clearer. In Egypt, the SFD is now charged with implementing the country's micro-finance strategy. In Yemen, the SFD is well-incorporated into the government's five-year development plan, as one of the government's main instruments for poverty reduction. In Morocco, the SDA is a main pillar supporting the country's new social inclusion approach.

Better Targeting: All MENA's social funds are working to enhance their targeting mechanisms to ensure that the bulk of their resources reach the poor and the most vulnerable. The Egypt, Yemen and Morocco social funds are either directly supporting the development of poverty targeting toolkits or are/have been major contributors to the development of poverty maps.

Monitoring and Evaluation: The global Aid Effectiveness Agenda and the importance of solid Monitoring and Evaluation arrangements emphasize the need for efficiency and effectiveness in program implementation. Social funds in MENA are paying more attention to setting up monitoring and evaluation systems that will help them to enhance their programs. This is another area in which they can show leadership to help more of an evaluation culture to take hold in the public sector in MENA along the lines of what has already happened in Latin America for example. In Yemen, a best-practice impact evaluation was concluded in 2003 and a new one is under preparation. The Egypt SFD has recently conducted its first impact evaluation.

More Innovations: The MENA social funds should continue to experiment with different implementation approaches on various levels. These could include policy level innovations that are coordinated with line ministries, providing an integrated multi-sector approaches to delivering services, or innovations that aim to enhance the efficiency of delivering services, for instance by relying more extensively on decentralized and participatory processes.

Better Donor Coordination: Donor preferences for financing social funds have not always resulted in good coordination, despite earnest efforts. Under Phase III of the Yemen SDF, donors agreed to streamlined procedures for reporting and procurement. Joint missions have been successfully carried out by a number of donors. Donors have conducted two independent and in-depth reviews of the Egypt Social Fund in the last six years, which pointed to a variety of improvements that needed to be made in donor coordination. The issue is for donors to model consistent behavior over the long term, otherwise the benefiting agency can be pulled in several different directions at once. More joint work from the donors' side and a more results-oriented approach will be required to facilitate the communication between social funds and donors.

World Bank Support

The World Bank has been instrumental in introducing the concept of social funds to MENA, and in mobilizing donor support for this new instrument in the region. The World Bank disseminated the lessons learned from social-fund experiences in Latin America, and later on led a process of intra-regional knowledge sharing through which MENA's more recent social funds benefited from the lessons learned by those that were founded at an earlier stage.

In addition to facilitating knowledge sharing and providing technical assistance, the World Bank also provided

financial support to all four social funds in the MENA region, totaling US\$530 million to date. Today, the World Bank's support is concentrated mainly on providing technical and financial assistance to the SFDs in Egypt and Yemen. ▲

Endnotes

1 Rawlings, Sherburne-Benz, Van Domelen. 2003. "Evaluating Social Funds—A Cross-Country Analysis of Community Investments." World Bank, Washington, DC.

2 Yemen's female literacy rate was 26.9% in 2002, compared to 69.5% for males.

YEMEN SOCIAL FUND FOR DEVELOPMENT-SUPPORTED AL-GUAIRI WATER PROJECT

Water springs from dunes

Al-Guairi village, located in Rudoum district (Shabwa governorate), lies amidst dunes and shadows of palm trees. The village's sole source of water used to be the natural springs running beneath the dense sandbanks. Dwellers suffered much in the past to collect enough water for their household use and animal watering.

Notwithstanding this, the local community had identified schooling as its top priority. Therefore, the Yemen Social Fund for Development (SFD) supported the area with the reconstruction of a co-education school, grades one through eight. After this became a reality, the people in the community—along with the SFD—started thinking of an appropriate way to access water easily. A simple idea sprang from community discussions under the palm trees, and the first steps for its realization immediately took off.

Making use of the flowing springs, the SFD financed the construction of small water tanks at levels lower than the running water's. Water started to collect into these reservoirs, which, in turn, poured the accumulated water into a larger tank (sited at a still lower level than the small basins). From this tank, water flows through pipelines to the village.

By the beginning of 2004, Al-Guairi village had begun reaping the fruits of this successful subproject, and later on the nearby villages benefited from piped water access.

Some of the members of the local community met to tell the SFD of the effect of the project on their lives. All of them expressed favorable opinions towards the project and its benefits. They said that they now have trouble-free access to sufficient amounts of safe water. They added, "In the past, we were compelled to cross the sand dunes to reach the springs to fetch water. But nowadays, thanks to the SFD-supported project, water currently flows into the taps inside our houses..." ▲

Source: Yemen Social Fund for Development, Newsletter—Edition No. 31, July-September 2005



Photo Credit: Alan Gignoux

Addressing Needs in Conflict Situations

John Blomquist

Sustainable social and economic recovery from serious conflicts requires a long term commitment from all stakeholders. This is never easy, considering the overwhelming challenges that societies face when they emerge from conflict, including poverty, ongoing ethnic, political or religious rivalry, and weak governmental structures and infrastructure. Within a comprehensive framework involving cooperation and coordination from donors, country authorities, and civil populations, social protection interventions can make a valuable contribution to post conflict reconstruction efforts. Along with other international aid agencies, the World Bank is attempting to incorporate the lessons learned from previous experience into ongoing social protection activities in conflict-affected environments.

The devastating effects of conflict

The MENA region contains a large number of conflict-affected countries and regions, from Iraq, West Bank and Gaza, and Lebanon currently, to Djibouti, Yemen and Algeria in the recent past. Worldwide, more than 50 countries have experienced significant periods of conflict since 1980, often resulting in complete breakdowns of the state. Most have been intrastate conflicts. The transition to peace is often characterized by insecurity, uncertainty, and repeated cycles of violence before lasting stability prevails. Recent research suggests that nearly half of post-conflict countries will experience further violence within the first five years following the initial peace settlement.

Conflicts produce a range of economic and social problems that are not easily addressed by traditional health, education and social protection services alone. The ongoing struggle in Iraq, combined with the effects of two decades of conflict and economic decline, have led to increases in poverty, unemployment rates in excess of 25%, and large numbers of disadvantaged and vulnerable groups, including jobless former military personnel and members of private militias, disabled war victims and internally displaced persons. It has been estimated that there are between 20,000 and 135,000 disabled war victims, and up to 550,000 internally displaced persons in Iraq. West Bank and Gaza continues to experience the oppressive effects of political unrest, a tight system of internal and external closures and an economic depression at an unprecedented level. In just over five years, the poverty rate has reached almost 50% of the population and unemployment is estimated at 28%. According to a recent World Bank report, if existing condition persist, amidst a serious fiscal and budget crisis, poverty and unemployment rates are likely to rise to 67% and 40%, respectively, by the end of 2006.

Post conflict: (re)creating the framework for a functioning society

Post-conflict reconstruction aid is a unique form of development assistance, generally combining the objectives of providing short-term humanitarian relief and reconstructing the physical and institutional infrastructure to support the long term economic development of an affected

society. Particularly in the immediate post-conflict phase, reconstruction activities can be a key to preventing a recurrence of conflict.

Selected social protection interventions can be a valuable part of an integrated package of activities to (re)create the enabling conditions for a functioning peacetime society. Among other possibilities, counseling and other social services can benefit former combatants and their families; social funds and public works can help build infrastructure and provide reintegrating employment; microcredit and small business opportunities can help foster growth; targeted conditional cash transfers may encourage school attendance and health maintenance to enhance children's human capital; and revitalizing unemployment assistance and pensions can contribute to stability and prevent the expansion of poverty among the vulnerable.

The commitment of the World Bank to assist countries emerging from conflict is confirmed through its involve-

ment with more than 30 conflict-affected countries and areas worldwide, including several in the MENA region. In the aftermath of conflicts in Bosnia and Herzegovina, Rwanda, and East Timor among other examples, the international community, including the World Bank, has gained significant experience in post-conflict reconstruction. The World Bank strives to consolidate the lessons learned from these experiences, and to define an appropriate role in emerging situations to ensure that comparative advantages are put to best use within the international community to best help affected societies. The often simple, but important lessons include:

- **Reintegration takes time.** Following internal conflict or civil war, it is unrealistic to expect opposing sides to reintegrate simultaneously. Reintegration into individual communities must precede assimilation into wider groups. It is important to treat each side equitably.
- **Policy reform is critical.** Post-conflict approaches need to be part of a coherent country strategy in which attention is given to policy reform in addition to physical

Social protection in conflict affected areas in MENA

ALGERIA: SOCIAL SAFETY NET SUPPORT PROJECT (1996-2001)

This project assisted in the establishment of the Algerian Social Fund in 1994 and provided: (i) small scale public works projects with local work requirements; (ii) the first community development program; and (iii) social service centers in "bidonvilles" to provide services including immunization, health and education awareness programs, home medical visits for the disabled and psychological and physical rehabilitation services.

DJIBOUTI: EX-COMBATANTS REINTEGRATION PROJECT (1999-2003)

The project sought to facilitate the social and economic reintegration of some 3,000 ex-combatants into civilian life through targeted, multi-sectoral assistance on a pilot basis. The project components included: (i) social mobilization through the creation of veteran's associations; (ii) economic reintegration primarily through training and small business development; and (iii) assistance to the disabled. A Learning and Innovation Credit supported part of an integrated program to demobilize and reintegrate veterans into Djiboutian society and its economy. This was complemented by demobilization/separation payments, largely funded by France and the European Commission.

PALESTINIAN NGO PROJECT (PHASES I AND II, 1998-2005)

This project was initially launched to help finance and sustain the provision by NGOs of essential services to poor and marginalized Palestinians. Moving into its second phase, the Project was developed to include an integrated effort at capacity building and institutional development to enhance the quality, impact and sustainability of NGO services while, at the same time, supporting the overall professional and strategic development of the Palestinian NGO sector. Through a proposed third phase, the Bank will support the establishment of an NGO Development Center. (See text box on the Palestinian NGO Project.)

reconstruction and institutional development. Reintegration and moving from a post-conflict situation requires more than demobilization.

- **The local populations determine success.** The commitment of the populations at the local levels, including central and local government and civil society, ultimately determines the effectiveness and sustainability of the reconstruction effort. Increasingly, international actors are reaching out to local organizations in partnership for their reconstruction efforts.
- **Presence and partnerships improve performance.** Where conditions permit, field presence and the ability to directly work with counterparts to monitor activities and maintain coordination with other donors allows a flexible and timely response to changes and improved performance of project activities. The World Bank mission in West Bank and Gaza is a case in point.
- **Establish linkages between relief and reconstruction.** The World Bank can assist in making the transition from humanitarian relief to longer term development. A clear

view of how World Bank activities will engage and take over from emergency operations should be present, and cooperation should be established with relief and other international agencies such as the Office of the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC) in the early phases of humanitarian assistance.

- **Donor coordination will help maximize the impact of available funds.** Effective coordination requires both cooperation and leadership. Early agreement should be reached at a high level on the respective roles of the main players in the sectors being addressed. There are strong indications that the overall response of the international community would be enhanced by cohesive funding strategies such as multi-donor trust funds. ▲

WEST BANK AND GAZA: EMERGENCY SERVICES SUPPORT PROJECTS (2002-2004)

The objective of these projects was to mitigate the deterioration of basic social services brought on by the conflict and the effects of limited economic activity and public revenue. They provided support for basic health, education and social assistance services and selected operating budget items for other ministries to continue services. Bank funding was complemented by other donor grants from the European Commission, the United Kingdom's Department for International Development (DFID), and the governments of Finland, Italy, Denmark, Switzerland and Sweden.

WEST BANK AND GAZA: SOCIAL SAFETY NET REFORM PROJECT (2004-2008)

This project seeks to mitigate the impact of the social and economic crisis on the most vulnerable. It aims to reform the existing social safety net program to achieve better targeting of conditional cash transfers, conditioned on the health and nutrition of children under the age of six and the education of youth up to the age of 18. A second component will strengthen institutional capacities, through technical assistance for policy planning, training provision and equipment, provision of computer hardware and software, and medical equipment and supplies. The last component provides for administrative, consulting, and monitoring and evaluation aspects of the project.

IRAQ: EMERGENCY SOCIAL PROTECTION PROJECT (2006-2007)

The objective is to strengthen the capacity of the Ministry of Labor and Social Affairs to more effectively develop, manage and deliver social safety net and pension programs. The safety-net component will focus on providing core information and technology systems and computers to process applications for the expanded safety net program. It will set up a basic monitoring and evaluation system and it will provide technical assistance and training in safety-net implementation management, monitoring and evaluation, and examining targeting and eligibility options to improve future program performance. The pension component will prepare baseline information and information technology support for future policy analysis, including surveys of pension beneficiaries, current contributors and employers.

The Palestinian NGO Project

THE PALESTINIAN NGO PROJECT IS THE FIRST AND ONLY PROJECT IN THE MENA REGION WHERE WORLD BANK FUNDS, COMBINED WITH FUNDING FROM VARIOUS OTHER DONORS, ARE DIRECTLY CHanneled TO NGOS.

The Project is implemented by a consortium of NGOs including, as lead agency, the Welfare Association (a private nonprofit foundation established to support Palestinian society in sustainable development), the British Council, and the Charities Aid Foundation. The project serves as a grant-making facility, providing grants to NGOs to finance essential services in the sectors of health, education and agriculture, paying particular attention to youth, community development and people with special needs. Since its inception, and over a period of almost eight years, the project has contributed to building classrooms, clinics, youth and community centers, providing training and tools to children with disabilities, creating jobs for unemployed women, rehabilitating land and providing income-generating activities.

The project finances grants through two types of programs: i) The development grants program supports service delivery by well established NGOs based on their successful track record. ii) Partnership grants provide funding on a programmatic basis, through partnerships between large NGOs and smaller NGOs and community-based organizations. The partnership grants program is particularly aimed at reaching out to smaller organizations, which typically do not have access to funding, and promoting the transfer of knowledge and expertise within the sector, thereby bridging the gap between NGOs at different capacity levels. Since the outbreak of the Palestinian *intifadah* in late 2000, the Project has also served as a mechanism for creating jobs and providing emergency services to NGOs. This component was fully financed by donors with a budget that reached over US\$10 million. The project's regular programs attracted more than US\$35 million since 1998.

In addition to providing grants, the Project has built the capacity of NGOs in essential project-management skills. The project financed the establishment of an interactive NGO portal, implemented capacity-building programs for Palestinian umbrella organizations, financed the development of standard NGO financial and accounting guidelines, and established a unified health insurance program for NGO staff. The project is based on the principle of fostering partnerships between NGOs at different capacity levels, thereby contributing to transfer knowledge and expertise within the NGO sector.

A comprehensive impact assessment of the project is underway which will complement the activity monitoring that has been conducted throughout the project. A follow up project will focus on establishing an NGO Development Center that will continue to mobilize and channel financial support to NGOs while providing capacity building and developing standards for NGO service delivery. ▲

Sources:

- (1) World Bank. 2004. "Semi-Annual Monitoring Report on Conflict-Affected Countries: October 2003-March 2004";
- (2) World Bank. 1998. "Post Conflict Reconstruction: The Role of the World Bank." Washington, DC;
- (3) Palestinian NGO Project. "Activities Report 2004: Working Towards a Better Future for Palestine."
- (4) Anderlini and El-Bushra. 2004. "Post Conflict Reconstruction." In *International Alert/Women Waging Peace*. 2004. "Inclusive Security, Sustainable Peace: A Toolkit for Advocacy and Action" London, Washington, DC.

HIV/AIDS in MENA: Making the Case for Prevention

Francisca Ayodeji Akala

The economic impact of HIV/AIDS is primarily linked to its effect on morbidity and mortality which makes it particularly devastating for the population of a country. Since the disease typically affects the working-age population and those of the child-bearing and child-rearing age, the disease leads to a loss of workers (skilled and unskilled) as well as the breadwinners and caretakers of the family. With the reduction in revenue from the reduced labor force and the increase in AIDS-related expenditures, fewer resources are available for investments and this reduces the long-term economic growth of a country. While the economic effects of HIV/AIDS may take time to manifest (especially when the epidemic is in the early stages), they are inevitable; therefore, efforts to control the spread of the infection should be a priority.

HIV/AIDS Situation in MENA

The current HIV/AIDS prevalence in the MENA region is low and the infection is largely confined to the high risk groups. UNAIDS data¹ indicates that the regional HIV prevalence rate is 0.2% and about 440,000 people were living with HIV/AIDS in the region at the end of 2005 (although estimates range from 250,000 to 720,000 people). For a number of countries of the region, the percentage increase in the number of people living with HIV from year to year is significant (figure 1) and it is evident that the epidemic is growing and action must be taken to limit the economic and social consequences. Experiences from other regions demonstrate the need to prevent the spread of the virus in the early stages of the epidemic because the costs of prevention, control and treatment increase exponentially as the epidemic spreads, and because the cost of treating the disease is significantly higher than the cost of its prevention.

Even with the current low prevalence rates in MENA countries, the financial cost of treating AIDS cases can be substantial. The average annual cost of HIV/AIDS prevention, treatment and care in the MENA region could reach 1.5% of GDP by 2015² (Figure 2). When taking into account the broader spectrum of economic losses that are associated with HIV/AIDS—such as declining productivity

and reduced savings—the expected costs of HIV/AIDS will be much higher. Even under conservative assumptions, the total economic loss incurred between 2000 and 2025 is estimated to be in the order of 35% in terms of today's GDP. The MENA region therefore has a rare opportunity to respond early and effectively to prevent a widespread HIV/AIDS epidemic and the consequent negative economic impacts.

While the HIV prevalence rates are low in the region, the risk for transmission of the infection is not. The risk factors that exist in the region for HIV transmission include:

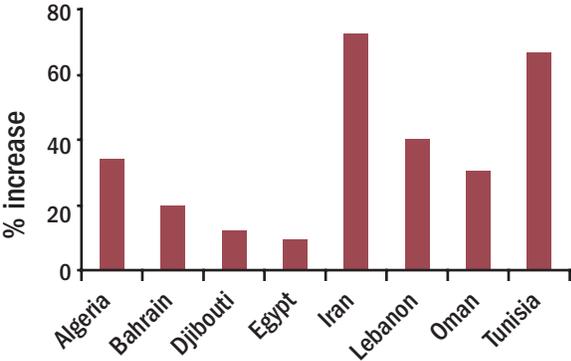
- behavioral factors (such as injecting drug use, commercial sex work, men who have sex with men and those who have multiple sexual partners and unprotected sex);
- a rising youth population which has a higher propensity to engage in risky behavior;
- an increasing incidence of sexually transmitted infections and low condom use; and
- the existence of a number of structural factors such as poverty, unemployment, gender inequalities, migration, conflict situations and refugees and internally displaced persons.

Government Action to Address HIV/AIDS

Many challenges to addressing the epidemic currently exist in the region and they include:

- the weak and ineffective HIV/AIDS surveillance systems for tracking the epidemic;
- the general lack of HIV/AIDS awareness;
- the high levels of stigma and fear associated with the condition;
- the perception of the epidemic as primarily a health issue rather than an integrated developmental issue requiring multi-actor partnership and coordinated cross-sectoral actions;
- the limited interventions for high-risk groups primarily affected by the epidemic (see figure 3);
- the lack of social support systems for the families affected by the epidemic; and
- the limited local capacity for HIV/AIDS programming.

Figure 1. Increase in the Numbers of Adults and Children Living with HIV in selected MENA Countries (% , 2001-2003)

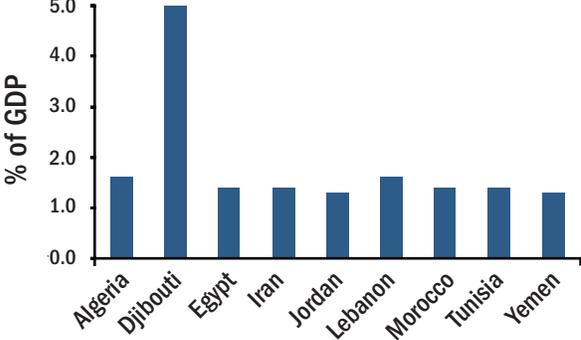


Source: Based on UNAIDS estimates of HIV prevalence rates for 2001 and 2003.

The lack of accurate information on the nature and dynamics of the HIV epidemic in the region is a key impediment for developing effective measures of prevention and control. Despite these challenges, many MENA countries are already implementing programs to address the epidemic and a number of countries have prepared national HIV/AIDS strategic plans. (For additional information on prevalence and governments’ actions by country, see table 1). Most of the national plans being implemented are still in the early phases and it is difficult to assess their impact on the epidemic. However, a review of the plans indicates that they are too generic and/or more appropriate for countries with much higher HIV prevalence. Prevention services are also more geared to the general population than targeted at the high-risk groups (which are mainly the infected and therefore a source for further transmission).

To date, the Governments of Algeria, Djibouti, Iran, Jordan, Morocco and Yemen have either received grants or been approved to receive HIV/AIDS grants from the Global Fund to Fight AIDS, TB and Malaria. The Government of Iran has also been implementing programs to address the growing epidemic related to injecting drug use such as needle exchange programs, and these programs have been cited as best-case examples worldwide. Despite these commendable initiatives by governments, much more still needs to be done in a more effective and coordinated manner to address the epidemic.

Figure 2. Projected HIV/AIDS-Related Health Expenditures in 2015 (% GDP)



Source: Jenkins, Robalino. 2003. "HIV/AIDS in the Middle East and North Africa: The Costs of Inaction". World Bank, Washington, DC.

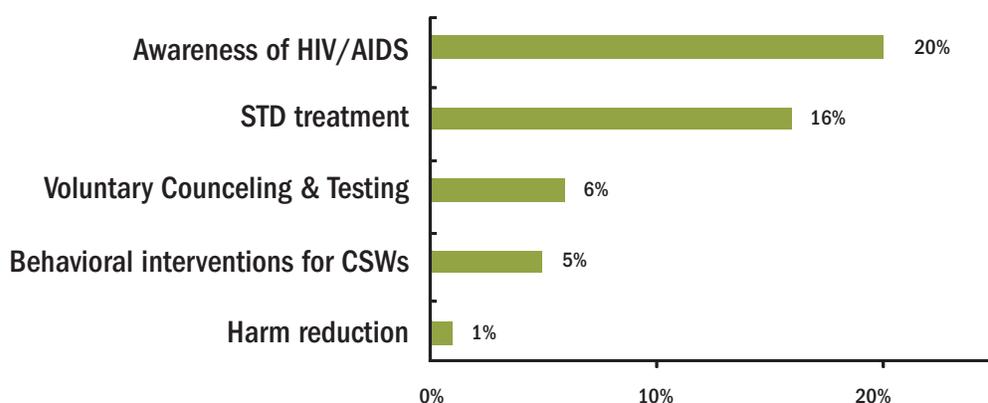
World Bank Support to Governments

Recognizing the developmental significance of HIV/AIDS in the MENA region, the World Bank carried out a situational and economic analysis of the epidemic in 2003³ and more recently in 2005 developed a regional strategy⁴ which highlights the following areas of support to strengthen national and regional HIV/AIDS policies and programs:

- Engage political leaders, policy makers, and key stakeholders to raise awareness and attention given to HIV/AIDS programs within national and regional policies and strategies;
- Upgrade the surveillance systems and strengthen research and evaluation of epidemiological, economic, and behavioral aspects of HIV/AIDS in order to enhance the effectiveness of HIV/AIDS policies and programs;
- Develop national HIV/AIDS strategies and programs, based on specific epidemiological, social, and economic conditions and context of each country; and
- Enhance national capacities and promote knowledge sharing on the comprehensive management of HIV/AIDS programs.

In addition to this analytical work, the World Bank has provided technical assistance to the Governments of Morocco and Lebanon in the development of national HIV/AIDS strategic plans. It is financing HIV/AIDS proj-

Figure 3. Individuals at Risk with Access to Interventions in UNAIDS-MENA Region* (%)



**The UNAIDS includes Sudan and Turkey but excludes Djibouti in its definition of the MENA region. The percentage figures should therefore be interpreted with caution, but the general trends remain valid.*

Source: "Access to HIV Prevention: Closing the Gap." Report by the Global HIV Prevention Working Group convened by the Bill and Melinda Gates Foundation and the Henry J. Kaiser Family Foundation, May 2003

ects and activities in Djibouti (see text box in this article for more information on this project) and Lebanon. Also, the World Bank organized an inter-regional consultation on HIV/AIDS and injecting drug use in April 2006 attended by participants from Iran, Afghanistan, Tajikistan, Pakistan, Uzbekistan, and the Kyrgyz Republic.

Keeping in mind the early stage of the epidemic, the low prevalence and the socio-cultural context in the region, the World Bank proposes the following framework of strategic interventions:

- raising political and social awareness of the risks associated with HIV/AIDS among the key policy makers to create the enabling environment for effective actions;
- introducing research and effective surveillance systems to monitor the dynamics of the epidemic particularly among high-risk and vulnerable groups; and
- implementing prevention and treatment programs that are accessible to high-risk and vulnerable groups. ▲

Endnotes

- 1 UNAIDS. 2006. "2006 Report on the Global AIDS Epidemic: A UNAIDS 10th Anniversary Special Edition."
- 2 Jenkins, Robalino. 2003. "HIV/AIDS in the Middle East and North Africa: The Costs of Inaction." World Bank, Washington, DC.
- 3 Jenkins, Robalino. 2003. "HIV/AIDS in the Middle East and North Africa: The Cost of Inaction." World Bank, Washington, DC.
- 4 World Bank. 2005. "Preventing HIV/AIDS in the Middle East and North Africa: A Window of Opportunity to Act." Orientations in Development Series, No. 34348. Washington, DC.

Table 1. HIV/AIDS Data for MENA Countries

Country	Prevalence rate (%) by end of 2003	Adults (15-49) living with HIV/AIDS by end of 2003 (and range of estimates)	HIV/AIDS related deaths by end of 2003	Government actions/programs
ALGERIA	0.1	9,000 (3,000-18,000)	<500	<ul style="list-style-type: none"> ■ NSP (2003-06) ■ GFATM Grant (US\$9 million)
BAHRAIN	0.2	600 (200- 1,100)	<200	<ul style="list-style-type: none"> ■ No Information
DJIBOUTI	2.9	8,400 (2,100- 21,000)	7,500 (2,200-21,000)	<ul style="list-style-type: none"> ■ Multi-sectoral National HIV/AIDS Strategic Framework 2003-07 ■ IDA Grant for HIV/AIDS, TB & Malaria (US\$12 million) ■ GFATM Grant (US\$7.2 million) ■ IDF Grant with other Horn of Africa Countries for HIV/AIDS M&E ■ AFD Grant for HIV/AIDS (US\$5 million) ■ Other multilateral donors supporting health sector including HIV/AIDS
EGYPT	<0.1	12,000 (5,000-30,000)	700 (200-1,600)	<ul style="list-style-type: none"> ■ HIV/AIDS situation assessment, no NSP yet ■ USAID/FHI supported activities ■ Role of civil society has increased since 2004
IRAN	0.1	14,000 (6,800-22,000)	200	<ul style="list-style-type: none"> ■ NSP (2002-06) ■ GFATM Grant (US\$9.7 million)
IRAQ	0.1	<500	<200	<ul style="list-style-type: none"> ■ No Information
JORDAN	<0.1	<500	<200	<ul style="list-style-type: none"> ■ GFATM Grant (US\$2.5 million) ■ USAID/FHI supported activities
LEBANON	0.1	2,800 (700 – 4,000)	<200	<ul style="list-style-type: none"> ■ NSP ■ IDF Grant (US\$350,000) to strengthen HIV/AIDS M&E and surveillance systems
LIBYA	0.3	10,000 (3,300-20,000)	Not Available	<ul style="list-style-type: none"> ■ No Information
MOROCCO	0.1	15,000 (5,000- 30,000)	Not Available	<ul style="list-style-type: none"> ■ NSP (2002-04, new one being developed) ■ GFATM Grant (US\$4.7 million)
OMAN	0.1	1,300 (500- 2,900)	<200	<ul style="list-style-type: none"> ■ No Information
TUNISIA	<0.1	1000 (400-2300)	<200	<ul style="list-style-type: none"> ■ Mid-Term Plan 2002-2005 ■ Process for NSP 2006-09 commenced ■ National response essentially funded by Government
YEMEN	0.1	12,000 (4000-24,000)	Not Available	<ul style="list-style-type: none"> ■ NSF (2002-05) ■ GFATM Grant (US\$5.5 million)

Source of prevalence data: UNAIDS 2004.
 NSP: National Strategic Plan for HIV/AIDS.
 GFATM: Global Fund to Fight AIDS, TB and Malaria.
 AFD: Agence Francaise de Developpement.

Djibouti AIDS Project

Despite its relatively high nominal per capita income of US\$780 (compared to an average of US\$510 for Sub-Saharan Africa and US\$320 for Yemen), Djibouti has one of the poorest sets of social indicators in the world and its health indicators are below regional averages.

In 2001, the HIV/AIDS prevalence rate is estimated at 2.9% for the whole population. However, it is higher than 5% among persons aged 20-35, indicating that HIV infects the economically productive and sexually active persons.

To meet these challenges, the Government of Djibouti requested the assistance of the World Bank through the Multicountry HIV/AIDS Program for the Africa Region (MAP) and was able to meet the eligibility criteria including the development of a strategic approach to HIV/AIDS, the establishment of a high-level HIV/AIDS coordinating body, and the channeling of funds to NGOs and the private sector. In 2003, the Djibouti HIV/AIDS, Malaria and Tuberculosis Control Project became effective. Its development objective is to contribute to the change in behavior of the Djiboutian population in order to contain or reduce the spread of the HIV/AIDS epidemic, to mitigate its impact on infected and affected persons, and to contribute to the control of malaria and tuberculosis.

In the last two years, the project successfully implemented its planned activities in all its four components:

(1) Capacity Building and Policy Development in support of the national coordinating structure including the Interministerial Committee (IC) chaired by the Prime Minister and including eleven ministries, the Technical Intersectoral Committee (TIC), and the Executive Secretariat (ES) as well as the strengthening of public, private, and non-governmental institutions.

(2) Public Health Sector Response to HIV/AIDS, Sexually Transmitted Infections (STIs), Malaria and Tuberculosis including: the prevention and management of these diseases through voluntary counseling and testing; diagnosis and case management of STIs; distribution of condoms; strengthening TB screening and treatment; strengthening the detection, prevention, and response to malaria; and strengthening of the health system.

(3) Multisector Responses to reinforce health education, counseling, and prevention activities in eleven ministries to better target priority vulnerable groups.

(4) Community Response to strengthen community-based initiatives, associations, and NGOs so that they can implement essential activities for the reduction of the vulnerability to HIV/AIDS, malaria and tuberculosis and mitigate the impact of the epidemic.

The project achieved several key results including the provision of integrated social, psychological, nutritional and clinical care for about 400 persons living with HIV/AIDS, including treatment with anti-retroviral drugs, and social support to their families. The distribution network of condoms reached 300 sales points, and a total of 1 million condoms have been distributed. Moreover, most of the planned activities in the multisectoral component were realized and about 75 community-based projects were successfully implemented in all the districts of the country.

The successful implementation of this project may be attributed to a number of key factors, particularly, the political commitment at the highest level, the introduction of an integrated package of care, the involvement of all relevant government sectors, the capacity strengthening of the community-based associations through umbrella NGOs, the rigorous criteria used in selecting the community-based projects, and the establishment of a rigorous monitoring and evaluation system. ▲



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New Directions and Emerging Priorities

Margo Hoftijzer



*Interview with Michal Rutkowski,
Director of the World Bank's Human Development
Sector for the Middle East and North Africa Region*

Mr. Rutkowski, what do you consider to be the main priorities for the MENA region in terms of providing social protection to its citizens, and how do you think that the various countries are dealing with these challenges?

MENA governments do provide social protection, but they provide it in the wrong way. There is a lot of waste in the systems. A large part of social protection funding reaches parts of the population that do not need it. On the other hand, parts of the population that do need it do not receive anything, or at least not enough. This imbalance needs to be restored. Most important are the subsidies on food and energy, especially on fuel. They are highly regressive, meaning that the better-off in the population receive more of them than the poor do. Governments should embark on a path of abolishing these subsidies, while at the same time building safety nets to soften the effects of the price shock of the withdrawal of subsidies in the short run, and creating well targeted social assistance systems to replace the subsidies.

Second is the functioning of labor markets. They do not function well, primarily because of the dominance of the public sector, and the absence of a business environment that is conducive to private sector development and job creation. This is unlike in Europe, for instance, where many problems of the labor market are significantly related to the way labor markets are regulated and to the manner in which active labor market policies are organized, although also in these areas there is scope for improvement in the MENA region.

Third are the largest cash-benefit systems that the MENA countries have, pensions. Very large parts of the population

are not able to participate in existing pension systems. Except in Egypt, coverage does not exceed 50%. Moreover, pension systems impede job mobility, as they are fragmented and generally not portable. Countries should increase coverage, consolidate the various systems, make them more transparent and conducive to the functioning of the labor market, and achieve the appropriate balance between the adequacy of pension benefits and the financial sustainability of the systems.

You mentioned the need to design well targeted safety nets. What should they look like?

There are two aspects to this. First, temporary safety nets to soften the shock of price increases after subsidies are withdrawn. The optimal design may differ between countries, but what could be appropriate is a monthly cash allowance, which would be the same for all members of the population regardless of their income. If the amount is uniform across income groups, the allowance would help the poor more than the better-off, since the allowance would mean a higher relative addition to a poor person's income than to the income of the rich. This type of allowance is also simple to administer and can be easily phased out, for instance by simply not adjusting it to inflation. This system was used in many countries, from Indonesia and Iran to Eastern European countries, and worked rather well. The subsidy level in Eastern European countries, for instance, was similar or perhaps somewhat lower than in the MENA region, and they managed to abolish them very quickly. They proved that it is possible to get rid of subsidies, and they used the uniform monthly cash allowance to achieve this.



Second, given the vulnerability levels in the MENA countries, the savings from the elimination of subsidies should be used to expand social assistance systems. The key issue here is targeting. Targeting can never be perfect, particularly in environments with high administrative limitations, but the choice of the targeting method is critical in the design of an effective and efficient safety net. Both governments and the World Bank need to test more methods to get a better feel of which targeting systems work well in certain environments. One mechanism that seems promising is proxy means testing, whereby administratively less cumbersome information than actual income or wealth is used to determine eligibility for social assistance. It is widely used in countries in Latin America and in poorer European countries, such as Armenia. In the MENA region its use is currently being tested in West Bank and Gaza. It may not be the right method for each country, but it is promising where administration is weak, and no actual means testing can be carried out.

How would you compare the social protection systems in the MENA region to those in other parts of the world?

Most MENA countries are middle income countries. Spending on social protection worldwide increases with the income level of a country. When looking at social protection spending as a share of income, the MENA region fits the curve well, hence no substantial change in spending level seems needed. The MENA region needs to deal simultaneously with challenges that are typical for Latin America, and with challenges that the Europe and Central Asia region has been facing. Just as in Latin America, MENA must deal with pre-reform pension systems with low coverage and significant fragmentation. At the same time, MENA has similar issues to Europe and Central Asia in the area of subsidies on food, energy and others. In addition, the poorest MENA countries such as Yemen and Djibouti have several problems similar to those in Africa, having such limited resources and institutional capacity that any properly functioning cash assistance program is in question. This requires the governments and the World Bank to put more focus on involving communities in delivering assistance to the most vulnerable, for instance via social funds, because they cannot be identified from the top. This is a challenge for many African countries, just as for the poorest MENA countries.

Would you say that MENA is behind in pension reforms compared to Latin America, and behind Europe and Central Asia when it comes to subsidy reform?

Absolutely. Very much so. It is extraordinary to see how difficult it is for MENA governments to implement subsidy reforms. I don't want to overstate the Eastern European

experience, but their subsidies were phased down quickly. I am told that in MENA the need to reduce subsidies was already actively debated in the 1970s. I am often reminded about the 100.000 people demonstrating in the streets of Cairo against subsidy withdrawal in 1977. It is now almost 2007, and the share of subsidies as a share of GDP has actually increased since that time. This is an example of a complete lack of action for many, many years, and there is no question that they are lagging behind European and Central Asian countries in this regard. When it comes to pensions, MENA is also behind, but somewhat justifiably as demographic developments were postponing the problems for this region. MENA is just entering what could be called the European malaise in terms of demographic transition and growing dependency ratios, which make it impossible to sustain the current pension systems. This motivation is just kicking in and some countries are tackling the issue. So even if they are not as advanced in their reforms as in Europe and Central Asia, the delay can be justified by demographic developments, and I am noticing a growing commitment of governments to engage in reforms.

MENA countries will experience unprecedented inflows of young entrants to the labor market, while the region is already facing very high unemployment levels. How can social protection systems help to ensure that those currently unemployed and the new entrants find employment?

This is a complex challenge, and primarily related to job creation. The public sector is not only an employer of last resort, but also often a dominant employer compared to the private sector, particularly for the higher educated. It is very difficult to lay off civil servants, and there is little turnover between the public and the private sector. There is a need to reduce job protection in the public sector, to accelerate private sector development, and to improve labor mobility between the public and private sectors, as well as within these sectors. This would open up labor markets both for those who are currently employed, and to new entrants who can then really compete for jobs.

The role of social protection is mainly in the area of labor market policies. For instance in the design of policies that are conducive to job creation, such as increasing the flexibility of the labor market by easing hiring and firing conditions. Also, social protection concerns the mechanisms which facilitate the movement between jobs, especially considering that increased labor mobility can mean that people more often experience periods of unemployment in between jobs. The more prosperous countries in the region might choose to deal with this by creating an unemployment benefit system, which in my view should rather be designed as a social assistance system than as an insurance scheme. But it could also entail

the improved provision of job search assistance, or more public involvement in the financing of training. It is important to note, though, that these types of activities need to be preceded by the liberalization of the labor market, and this liberalization needs to accompany changes in the business environment to enhance private sector development. There is a clear sequence from private sector development, through labor market liberalization, to strengthening active and passive labor market policies. Without private sector development, there is no chance of improving job creation in the MENA countries.

A different topic of concern is that some parts of the MENA region suffer or are recuperating from conflict. What is the best way to provide social protection to these areas?

Conflict and post-conflict areas pose a major challenge for social protection interventions. Social protection activities should reach both the population that is affected by the conflict, and population groups such as the military and militia, who so to speak depended on the conflict for their income. Affected areas must be assisted through relatively quickly disbursed aid, and those who were actively engaged in the conflict must be moved quickly to civilian jobs. Two types of intervention can achieve these goals particularly well. First, workfare programs are the quickest way to maintain or increase the income of affected people. By offering relatively low wages, these programs have a built-in self-targeting system which is inexpensive and efficient. Workfare programs have the additional benefit that they help rebuild infrastructure, which is a very important aspect in a post-conflict environment. Second, moving members of armies and militia to civilian jobs requires intensive assistance for those who were de-skilled, in terms of job assistance and retraining. Given the importance of providing this type of activity as quickly as possible, and its transitory nature, I would be inclined to use somewhat less stringent criteria in terms of effectiveness and impact evaluations than we would apply to programs in different circumstances. We should also not forget that this type of intervention is very much about signaling, about giving people a perspective and an appetite for being engaged in activities that are not war or conflict related. These programs were provided in post-conflict Bosnia and Herzegovina, where the World Bank was intensively involved alongside other donors, and they are relevant for post-conflict areas in MENA too.

What kind of support can MENA countries expect from the World Bank regarding their social protection policies in the near future?

The World Bank should be guided by the reform programs of the various countries' governments. We should provide assistance in those areas where we have a comparative advantage, based on our experiences in working on various

topics worldwide. I particularly see four areas in which we can provide useful support.

The first one is the nexus between subsidies and cash assistance programs, in particular the redirection of funding for subsidy schemes toward better targeted assistance programs, which could for instance be implemented by existing institutions such as social funds. The World Bank already provides a lot of assistance in this area to various MENA countries, based on our experiences with similar programs in Latin America and Eastern Europe.

The second area is pension reform. We already provide substantial support to a number of countries in the region on this topic. I expect that our engagement will increase, as the current systems in most countries are not sustainable and will need to be reformed sooner or later. Pension reform is extremely complex, and I believe governments can greatly benefit from the world expertise and experience that we can share with them regarding this issue.

Labor market interventions are a third area where I think we can provide useful assistance, both by advising on necessary reforms to liberalize labor markets and, related to that, by helping to restructure the current social protection mechanisms to better assist those who are adversely affected by this liberalization.

The last area where I see our continued involvement is in providing social protection in post-conflict areas. I would be very happy if there would be no need for our involvement in this particular area, but it seems that some of our activities will remain related to conflict and post-conflict type interventions, as currently in Iraq and West Bank and Gaza, and upcoming in Lebanon. I wish the necessity of this type of intervention would disappear quickly, but unfortunately this does not seem likely.

What are the main instruments that the World Bank will use?

It is a truism that the World Bank's comparative advantage is the simultaneous transfer of money and knowledge, and this is the case for our social protection activities as well. No institution can better provide this combination of knowledge and money, and the main vehicle through which to deliver these are our projects. I expect that we will have an increasing number of projects in the future. We used to have quite a few projects with social funds, but along with the needed reforms that I described before, I also see a growing need to improve social protection systems with respect to the management and administration of the implementing institutions. The World Bank has a lot of expertise to offer in this area which it can provide, in combination with fund-

ing, through sector investment loans. This type of loan has the advantage that there is strong ownership by the sectoral departments with whom we primarily deal, such as the ministries of labor or social policy, which I feel is particularly important when working on institutional reforms. I must admit that it is much harder to achieve this benefit of ownership by sector ministries if we bundle a number of interventions into one larger, omnibus type of project, as we are currently encouraged to do.

As for development policy lending, I see little scope for that in the near future, although this may change over time when some of the countries in the MENA region can rely to a lesser extent on income from their hydrocarbon resources.

Another main instrument to provide assistance is our analytical products, both country specific and regional. As for regional work, we notice a huge positive impact of our regional pension study. It has made governments more aware of the problems they face, and of our intellectual leadership on this issue. For these reasons, regional studies are extremely important. After the pensions study, and the employment study of several years ago, we might need to start looking from a broad regional perspective at the nexus of subsidies and social assistance. We already started working on regional studies on youth and on migration, and our activities in this area are likely to increase. We are taking an integrated approach concerning youth, looking from both the labor market angle and the viewpoint of pre-labor market education and vocational education and training. Migration is also a growing agenda, not only concerning migration between the MENA region and Europe, but also between MENA and Asia, and within the MENA region towards the Gulf countries. At the country level, I see an increasing role for programmatic economic and sector work, establishing long-term outcome-related partnerships with governments. This reduces the risk that the World Bank and governments cooperate in studying a certain topic, which is subsequently more or less ignored as time moves on and agendas change. Instead, we should move to these lasting relationships, such as the Programmatic Economic Sector Work we are carrying out with the governments of Tunisia and Jordan on employment and pensions, respectively. In the area of employment promotion, which is a particular challenge for the region, we do need a comprehensive approach, such as the one we have in Tunisia. It is essential to see employment outcomes as a function of the MILES framework, and work accordingly across sectoral boundaries.

Finally, let me mention our Reimbursable Technical Assistance (RTA), which allows us to provide technical and policy advice on a reimbursable basis to the Gulf countries, whose high levels of income make them ineligible for lending. I believe there are important externalities to RTA, because the reforms that spring from our work in these countries can serve as example to the other, lower income, MENA countries. The pension work that we are starting in Saudi Arabia may be a good example. I am also very pleased that we recently signed our first RTA agreement in MENA with a borrowing country, Egypt. The Egypt RTA consists of a two year, US\$600,000, assistance program in the field of pension reform. This is really a precedent, as it is the first time that a borrowing, middle-income country purchases technical assistance from us in recognition, unfortunately, of our resource constraints but also, more importantly, of our expertise and knowledge in the area. I see more room for RTA programs with borrowing countries in the future, particularly with those countries where knowledge, not donor funding, is the binding constraint. Egypt is one of these countries, but this could also apply for Jordan and West Bank Gaza.





Photo Credit: Curt Carnemark



World Bank Assistance in Social Protection in MENA

Margo Hoftijzer

Guided by national and regional priorities and strategies, the World Bank continues to assist governments in the MENA region in improving their social protection mechanisms. World Bank support is provided through both lending operations and the provision of analytical and advisory services and technical assistance. For the latter, an increased focus on forming long-term and outcome-focused partnerships with governments through programmatic economic and sector work is anticipated.

Several social protection topics are expected to receive increasing attention in the MENA region in the near future. One area is the much needed shift from universal subsidies on consumption items to targeted social safety nets. Second, the number of lending operations to implement pension reforms will likely rise, as governments gradually become ready to move from the analysis of reforms to their implementation. At the same time, analytical services regarding pension systems are expected to start or continue in those countries that have not yet reached the implementation phase. Third, continuing labor force growth will spur reforms to increase employability and job creation. Fourth, due to the life-long impact that adverse risks have on children and youth, more attention is expected to be directed to addressing these risks. Finally, and unfortunately, several countries in the region are expected to continue to have to provide social protection in a conflict or post-conflict environment.

Recent and expected lending operations

Between 1999 and 2006, the World Bank approved 17 lending operations in social protection in the MENA region, totaling US\$343 million.¹ These projects also generated a significant amount of co-financing from other multilateral and bilateral agencies and donors, amounting to roughly double the amount of World Bank lending. Both in terms of the number of projects and the amount of lending, social funds and community development projects, particularly in Egypt and Yemen, dominated the lending portfolio in this period. Other projects were carried out mainly in the areas of post-conflict interventions, vocational education and training and skills development, and overall social protection initiatives.

Figure 1. World Bank Lending for Social Protection in MENA (US\$ million, 1999-2007)

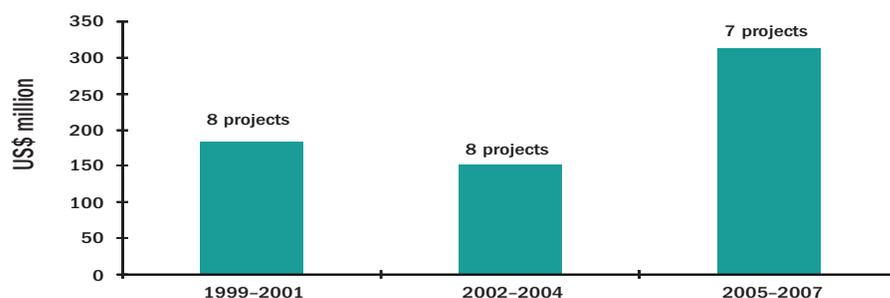


Table 1. World Bank Social Protection Lending Projects (1999-2008)

Country	Subject	Amount (US\$ million)	Start year*
DJIBOUTI	Ex-Combatants Reintegration	2.7	1999
	Social Development and Public Works	14.8	1999
EGYPT	Flood Emergency Rehabilitation	6.5	2004
	Social Fund for Development III	50	1999
	Social Protection Initiative	5	1999
IRAN	Community and Local Development Project**	50	2007
	Local Development Fund Project**	75	2007
	Vocational Training**	150	2007
IRAQ	Emergency Social Protection	8	2006
JORDAN	Social Protection Enhancement**	10	2007
	Employer Driven Skills Development**	5	2008
LEBANON	Community Development Project	20	2001
MOROCCO	Social Development Agency	5	2002
WEST BANK AND GAZA	Community Development II	8	1999
	Palestinian NGO II	8	2001
	Emergency Services Support Project	20	2002
	Integrated Community Development	10	2002
	Emergency Services Support II	25	2003
	Social Safety Net Reform	10	2004
	Emergency Services Support II supplemental	15	2004
	Pension Reform**	7	2007
YEMEN	Social Fund for Development II	75	2000
	Social Fund for Development III	60	2004
	Second Vocational Training Project**	15	2007

* The start year is the fiscal year in which the project was approved by the World Bank Board of Governors.

**Expected

Table 2. World Bank Social Protection Analytical and Advisory Services (2005-2008)

	Social Protection Strategy	Pensions	Labor	Skills Development	Children and Youth	Other
Bahrain	2007	2006 2008				
Djibouti	2005					
Egypt		2005 2006 2008			2007 2007	
Iran	2002-2007	2002-2007				
Iraq	2007					
Jordan	2007	2002-2007		2007		
Kuwait	2005		2007	2007		
Lebanon	2007	2005				
Morocco	2007	2004-2006	2007	2007		
Qatar			2006 2008			
Saudi Arabia		2006				
Syria	2007		2007			
Tunisia			2004- 2007, 2005 2005	2004-2007, 2005		
West Bank and Gaza		2005				
Yemen	2005 2007				2005 2006	2006 (disability)
Regional	2006	2005 2005 2007	2006	2006 2006 2006	2006 2007	2005 (disability) 2007 (social insurance)

Notes: (1) Year indicates fiscal year of delivery to client. (2) Analytical services covering more than one area are mentioned under each topic. For example, the 2007 Morocco ESW on Skill Development, Social Protection, and Employment is indicated under social protection strategy, labor, and skills development.

■ Economic Sector Work ■ Technical Assistance ■ Reimbursable Technical Assistance ■ Conference



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The largest number of projects was implemented in West Bank and Gaza, while Yemen received the highest amount of lending, through two social fund projects. Seven new projects are expected to be approved in 2007 and 2008 for Egypt, Iran, Jordan, West Bank and Gaza, and Yemen. These projects—totaling US\$312 million—concern a variety of topics including community and local development, VET and skills development, and pension reforms (Figure 1, Table 1).

Recent and Expected Economic Sector Work and Technical Assistance

In addition to lending operations, the World Bank's social protection activities in the MENA region include a wide range of analytical and advisory services to client countries. These are intended to provide information for policy

discussions, assist in the development and implementation of country strategies and reform programs, build institutional capacity, and share knowledge. This work is growing in importance compared to lending, as middle-income countries in particular demand more policy advice in the sectors covered by social protection. Table 2 depicts the analytical and advisory services to the MENA region for the period 2005-2008 and includes Economic and Sector Work (ESW), Technical Assistance (TA), Reimbursable Technical Assistance (RTA) to high-income countries that are ineligible for lending, and conferences. The ongoing analytical support reflects the region's perceived reform priorities, notably in the field of pensions, employability and labor market reform, children and youth, and governments' overall social protection strategies, including the re-evaluation of universal subsidies. ▲

Endnotes

1 These figures include vocational education and training projects, which in some instances can also be considered as education interventions, rather than social protection activities.

Annex 1: Selected indicators in MENA countries

	POPULATION		GDP		GDP PER CAPITA		LIFE EXPECTANCY	UNEMPLOYMENT RATES				PUBLIC SECTOR EMPLOYMENT
	MILLION (2004)	GROWTH RATE (% PER YEAR, 2001-2004)	CURRENT US\$ BILLION, 2004	GROWTH PER YEAR, %, 2001-2004	CURRENT US\$, 2004	GROWTH, % PER YEAR, 2001-2004	AT BIRTH (YEARS) 2003	TOTAL, %, 2004	FEMALE, %, MOST RECENT	MALE, %, MOST RECENT	YOUTH, %, MOST RECENT	% OF TOTAL EMPLOYMENT, MOST RECENT
MIDDLE EAST AND NORTH AFRICA	328.0	2.0	998.9	4.9	3,044	2.9	69.0	13.1	20.8	11.2	..	31.2
GCC	34.0	3.3	470.4	5.0	13,844	1.6	74.0	7.9	15.0	6.4	..	80.8
NON-GCC	227.2	2.0	365.7	4.2	1,610	2.2	68.1	14.6	22.6	12.3	31.7	27.3
MAGHREB	78.6	1.6	192.0	4.9	2,441	3.3	70.4	20.3	23.7	19.5	39.7	20.0
MASHREQ	148.6	2.3	173.7	3.5	1,169	1.3	66.8	10.6	21.7	7.4	25.3	34.2
LABOR IMPORTING, RESOURCE RICH	39.7	3.1	499.5	5.1	12,597	1.9	73.8	7.9	15.0	6.4	..	80.8
LABOR ABUNDANT, RESOURCE POOR	164.9	1.9	283.3	5.6	2,070	3.8	67.4	14.0	19.5	12.9	29.4	28.7
LABOR ABUNDANT, RESOURCE POOR	123.6	1.8	190.5	3.8	1,542	2.0	69.5	12.7	23.5	9.8	25.3	28.4
ALGERIA	32.4	1.6	84.6	5.4	2,615	3.7	70.9	23.7	25.4	23.4	47.8	29.0
BAHRAIN	0.7	2.0	11.0	5.9	15,178	3.9	73.4	12.4	31.9	7.8	..	79.7
DJIBOUTI	0.7	1.7	0.7	3.0	927	1.3	43.0	..	..	..	..	..
EGYPT	68.7	1.8	75.1	3.6	1,093	1.7	69.1	9.5	26.4	5.6	27.1	38.5
IRAN	66.9	1.2	162.7	6.8	2,431	5.5	69.4	10.3	17.8	9.0	24.0	31.3
IRAQ	28.1	2.8	25.5	-7.5	910	-10.0	63.1	27.0	15.0	29.0	50.0	..
JORDAN	5.4	2.6	11.2	5.4	2,058	2.7	72.1	12.5	16.5	11.8	25.8	35.8
KUWAIT	2.5	2.6	51.9	5.4	21,102	2.7	77.0	2.8	3.8	2.2	..	73.8
LEBANON	4.6	1.3	21.8	4.7	4,780	3.4	70.9	8.2	11.0	7.4	20.9	..
LIBYA	5.7	2.0	29.1	5.6	5,132	3.5	72.7	..	..	..	..	..
MOROCCO	30.6	1.6	50.1	4.0	1,637	2.3	68.6	18.4	24.3	16.6	33.2	9.9
OMAN	2.7	2.4	24.3	2.3	9,133	-0.1	74.2	10.0	..	..	..	77.6
QATAR	0.6	2.1	28.5	6.6	44,650	4.4	75.0	11.6	28.1	7.6	..	..
SAUDI ARABIA	23.2	2.9	250.6	4.1	10,793	1.3	73.3	9.6	15.8	6.8	..	81.8
SYRIA	17.8	2.3	23.1	3.1	1,301	0.7	70.5	11.7	24.1	8.3	26.3	..
TUNISIA	10.0	1.1	28.2	4.3	2,851	3.1	73.2	13.9	15.9	15.1	27.1	21.8
UNITED ARAB EMIRATES	4.3	6.9	104.2	7.3	24,324	0.2	75.4	2.3	2.6	2.2	..	..
WEST BANK AND GAZA	3.5	4.2	3.5	-4.9	985	-8.8	73.0	26.6	..	..	34.2	..
YEMEN	19.8	3.0	12.8	3.3	649	0.2	57.7	11.6	8.2	12.5	18.7	15.9
EAST ASIA AND PACIFIC	1,870.2	0.9	2,367.5	7.9	1,266	7.0	69.6	9.2	10.9	8.6	12.3	33.8
EUROPE AND CENTRAL ASIA	472.1	-0.1	1,768.1	5.9	3,745	6.0	68.5	9.7	9.8	9.0	24.6	..
LATIN AMERICA AND CARIBBEAN	541.3	1.4	2,018.7	2.3	3,729	0.9	70.9	10.0	11.8	8.0	17.8	12.6
SOUTH ASIA	1,447.7	1.6	878.8	6.1	607	4.4	63.5	9.3	11.1	8.3	12.1	..
SUB-SAHARAN AFRICA	719.0	2.2	544.0	4.0	757	1.8	45.6	29.1	..	..	..	..
LOW AND MIDDLE INCOME	5,344.3	1.3	8,183.0	5.2	1,531	3.9	64.7	10.3	..	..	..	..
HIGH INCOME	1,000.8	0.6	32,715.8	2.4	32,689	1.7	78.3	6.8	7.0	6.8	13.7	13.5
WORLD	6,345.1	1.2	w	2.9	6,444	1.7	66.9	9.6	..	..	..	27.0

Sources: World Development Indicators (2005), Live Database (December 2005), ILO Laborsta Database (December 2005).

Notes: Per capita GDP for Bahrain, Kuwait, and Oman are from 2003. Non-MENA aggregates for unemployment and public sector employment are staff estimates. Regional and sub-regional aggregates do not include Iraq. Unemployment numbers in italics indicate countries for which data do not exist for the stated period. Unemployment figures for GCC are nationals only. Unemployment figure Saudi Arabia is staff update. Unemployment figures by age and sex may not be comparable to most recent unemployment figures due to data availability. Youth unemployment refers to ages 15-24, except for Tunisia (ages 15-29).

Annex 2: Millennium Development Goals Performance in MENA countries (2003)

	GOAL 1		GOAL 2		GOAL 3		GOAL 4		GOAL 5	GOAL 6	
	ERADICATE EXTREME POVERTY AND HUNGER		ACHIEVE UNIVERSAL PRIMARY EDUCATION		PROMOTE GENDER EQUALITY AND EMPOWER WOMEN		REDUCE CHILD MORTALITY		MATERNAL MORTALITY RATION IN 2000	COMBAT HIV/AIDS, MALARIA AND TUBERCULOSIS	
	Prevalence of underweight in children (under 5 years of age)	Share of population below minimum level of dietary energy consumption (%)	Net primary enrollment ratio	Primary completion rate, total (% of relevant age group)	Ratio of girls to boys in primary and secondary education (%)	Ratio of young literate females to males (% ages 15-24)	Infant mortality rate (per 1,000 live births)	Under 5 mortality rate (per 1,000)	Model estimate (per 100,000 live births)	Contraceptive prevalence (rate of women 15-49)	Incidence of tuberculosis (per 100,000 people)
ALGERIA	10 (2002)	5.0	94.9	96.0	98.6	91.1	35.0	41.0	140.0	57.0	52.8
DJIBOUTI	-			35.0	71.2	91.2	97.0	138.0	730.0		733.4
EGYPT, ARAB REP.	8.6	3.0		91.0			33.0	39.0	84.0	60.0	28.1
IRAN, ISLAMIC REP.	-	4.0				95.6	33.0	39.0	76.0	60.0	28.2
IRAQ	16 (2000)				79.9	50.1	102.0	125.0	250.0	44 (2000)	157.1
JORDAN	4.4	7.0				100.3	23.0	28.0	41.0	56.0	4.9
LEBANON	-	3.0	90.6	68.0	101.9	96.1	27.0	31.0	150.0	63 (2000)	12.3
LIBYA	-	2.5			103.2	94.2	13.0	16.0	97.0		20.8
MOROCCO	10 (2004)	7.0	89.6	75.0	87.8	79.2	36.0	39.0	220.0	63 (2004)	112.3
OMAN	-		71.9	73.0	97.3	97.7	10.0	12.0	87.0	32 (2000)	10.8
SAUDI ARABIA	-	3.0	54.4	61.0	93.5	96.1	22.0	26.0	23.0		40.3
SYRIAN ARAB REPUBLIC		4.0	97.9	88.0	93.5	84.2	16.0	18.0	160.0		42.4
TUNISIA	4 (2000)	2.5		101.0		82.5	19.0	24.0	120.0	66 (2000)	22.1
YEMEN, REP.	46	36.0	71.8	66.0	60.8	60.3	82.0	113.0	570.0	23.0	92.5

Data are for 2003, unless another year is depicted.
Source: World Development Indicators 2004

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