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Deutsches Institut für  
Entwicklungspolitik

German Development  
Institute



## **Rationalising public transfer spending in the Middle East and North Africa: *Strategic options to deal with challenges***

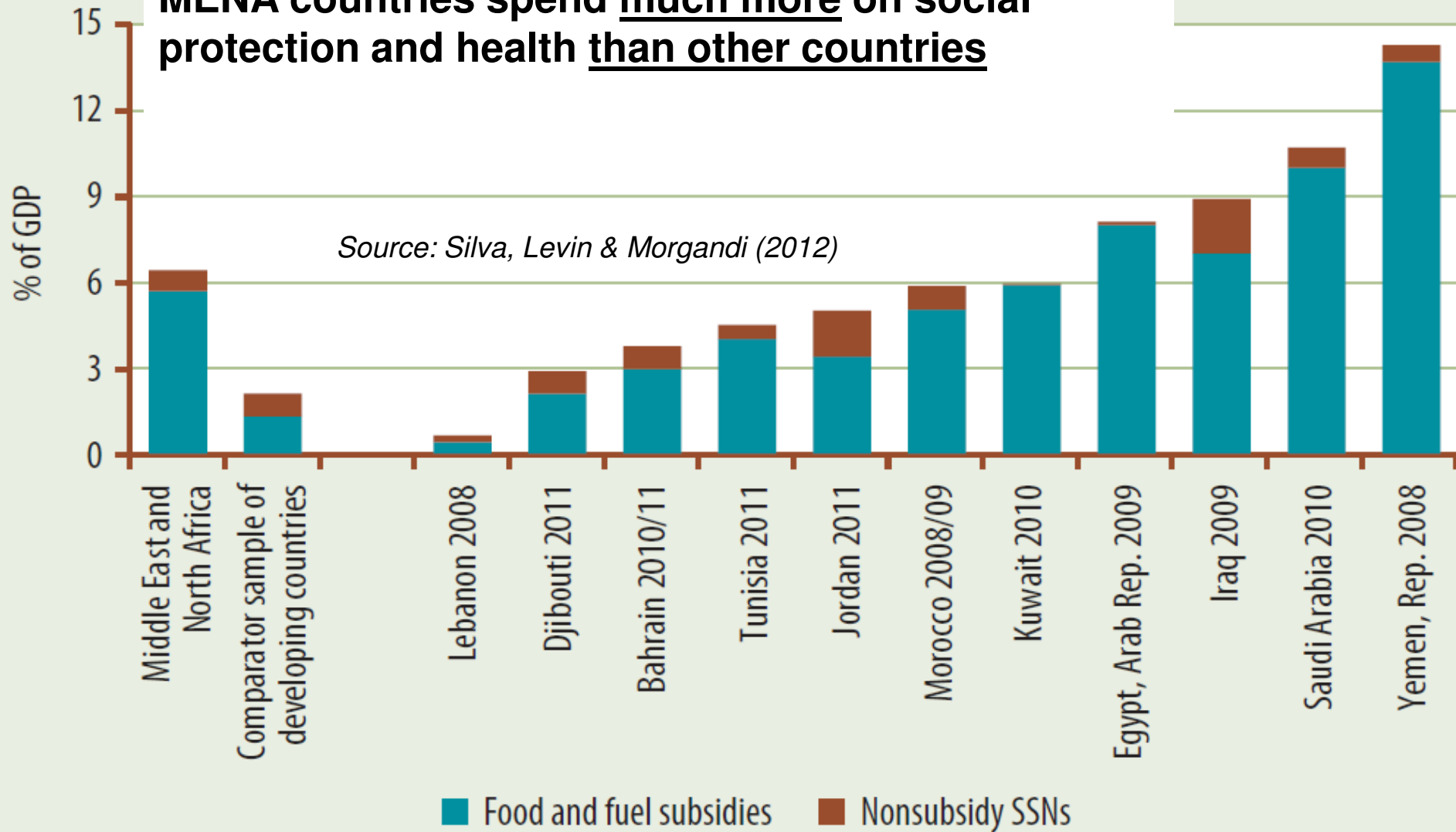
**Markus Loewe**, German Development Institute (DIE) and  
**Georgeta Auktor Vidican**, Nuremberg Institute of Technology

Panel on “*Towards New Social Contracts in MENA Countries? Prospects for Economic and Social Policy Reform, better Governance and National Dialogues*”, organised by DIE,  
Annual DAVO Conference, University of Hamburg, 03-05 October 2019

# Spending for social policies in MENA is high...



**MENA countries spend much more on social protection and health than other countries**

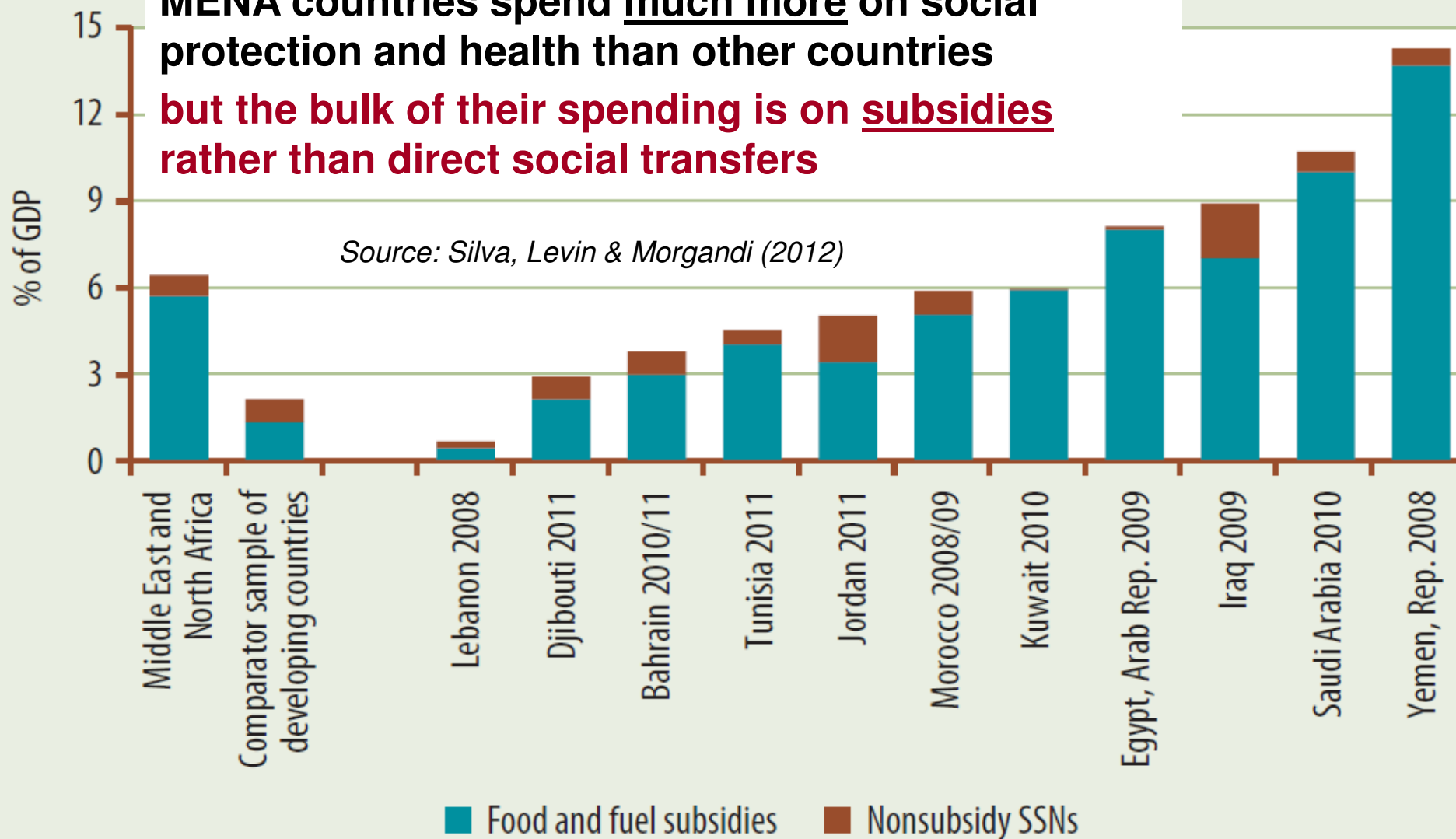


# Spending for social policies in MENA is high... ... but inefficient!

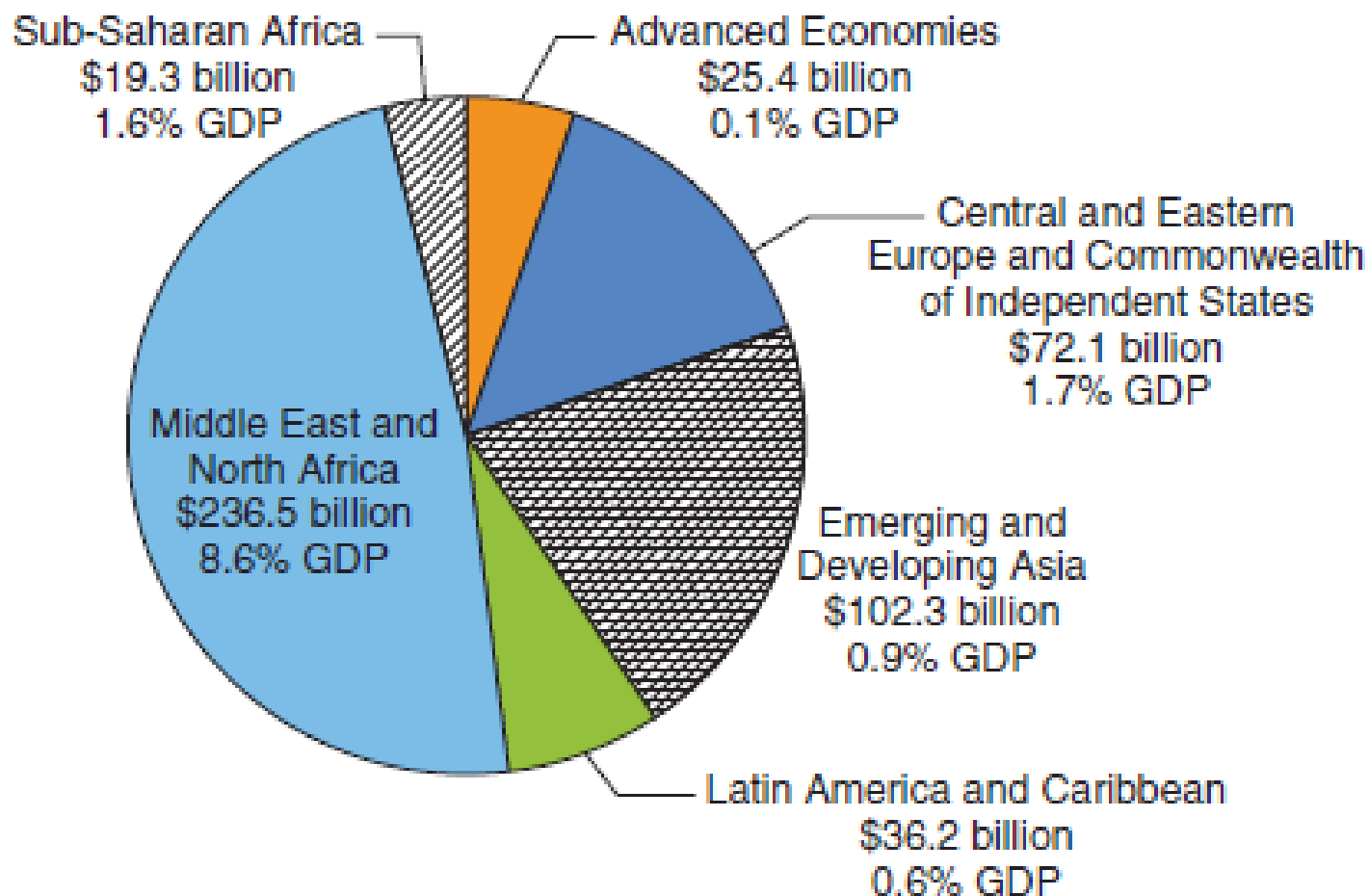


**MENA countries spend much more on social protection and health than other countries**  
**but the bulk of their spending is on subsidies rather than direct social transfers**

*Source: Silva, Levin & Morgandi (2012)*



# MENA accounts for almost half of global energy subsidy spending



Source: Sdrlevich et al. (2014)

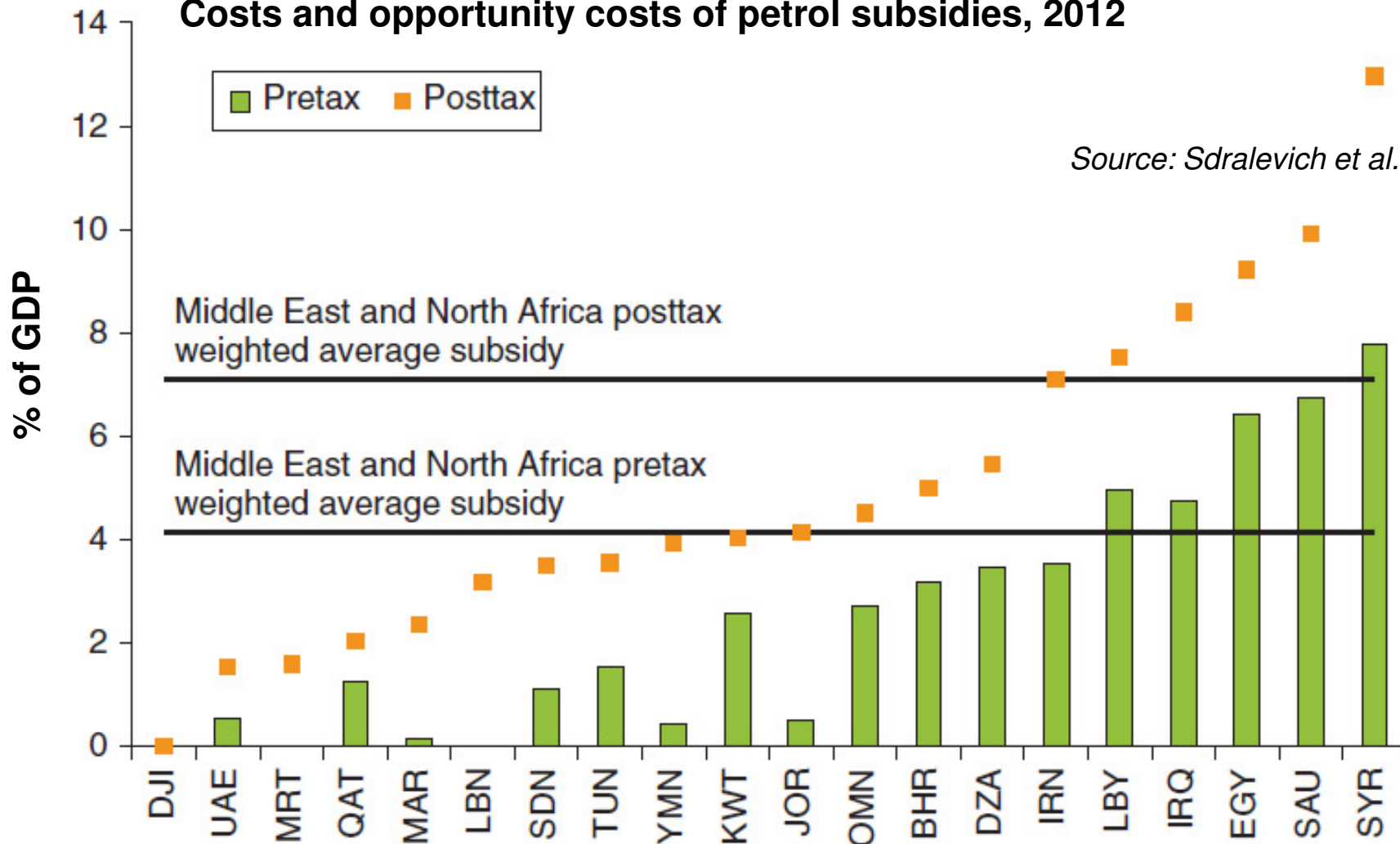


This pattern  
**produces manifold problems**  
such as for example:

# Problem 1: Huge fiscal burden



Costs and opportunity costs of petrol subsidies, 2012

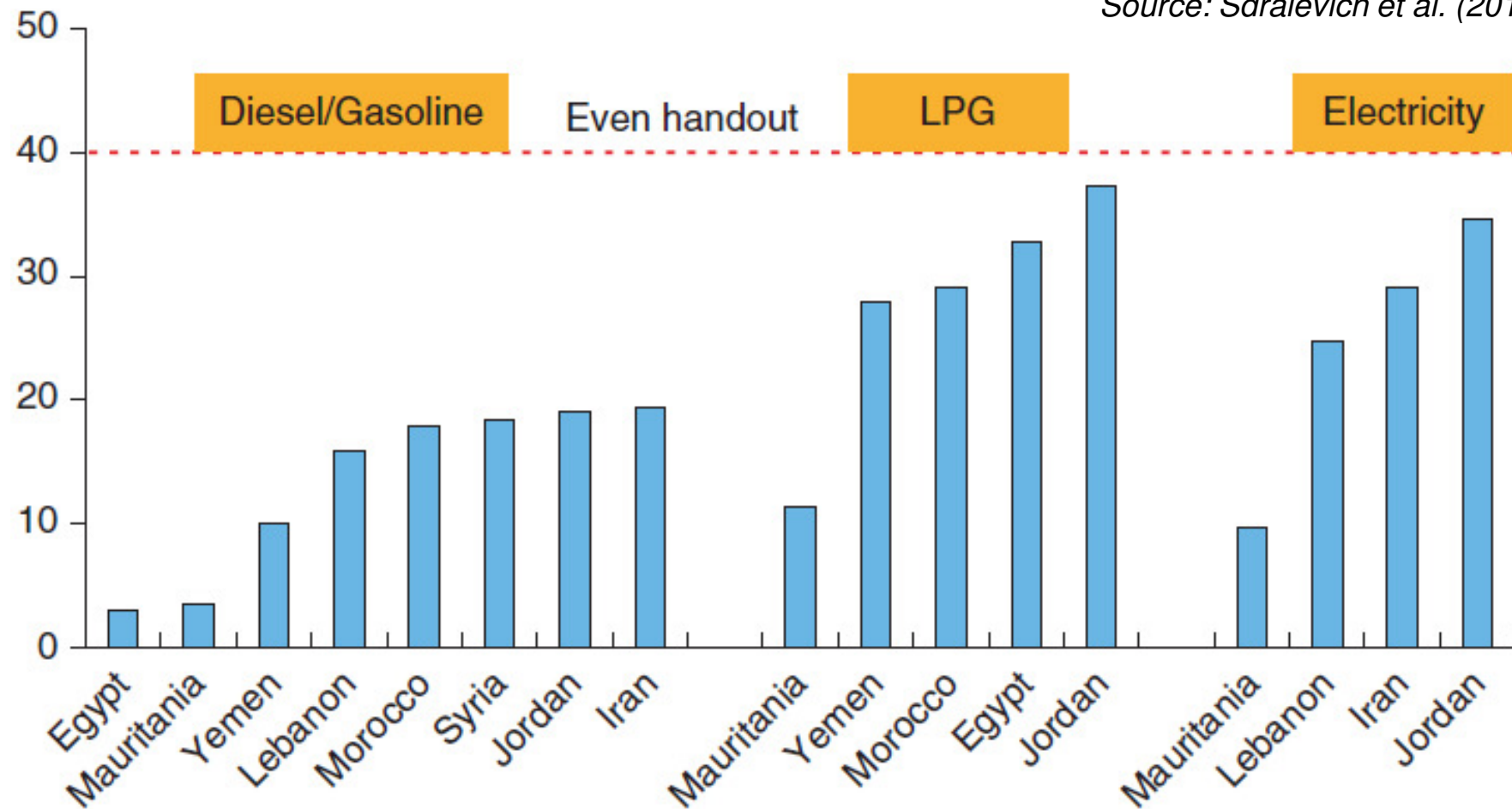


# Problem 2: Poor targeting efficiency



## Share of energy subsidies benefitting the bottom 40% of the population, 2011

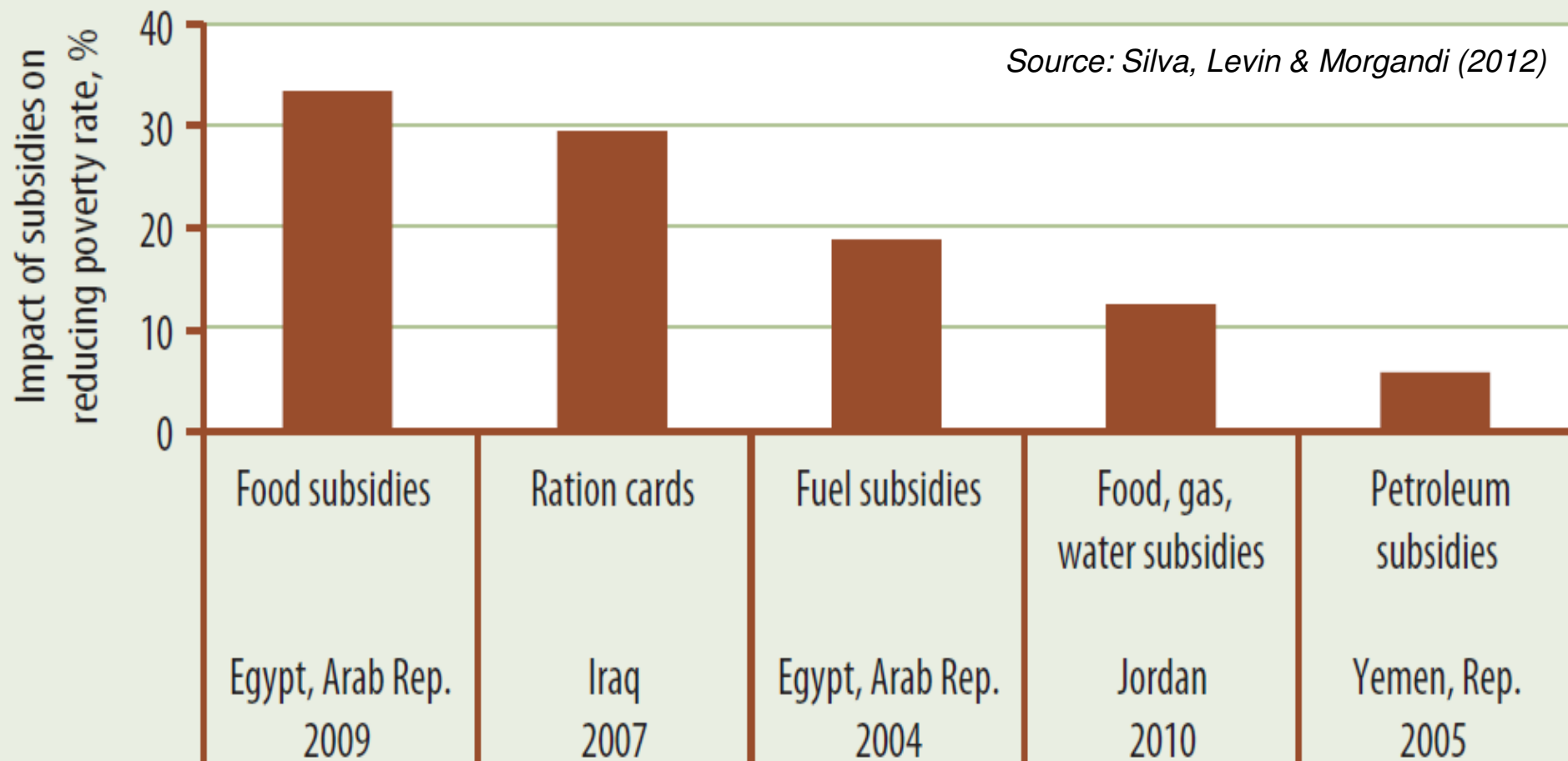
Source: Sdravovich et al. (2014)



# Problem 3: Limited effectiveness

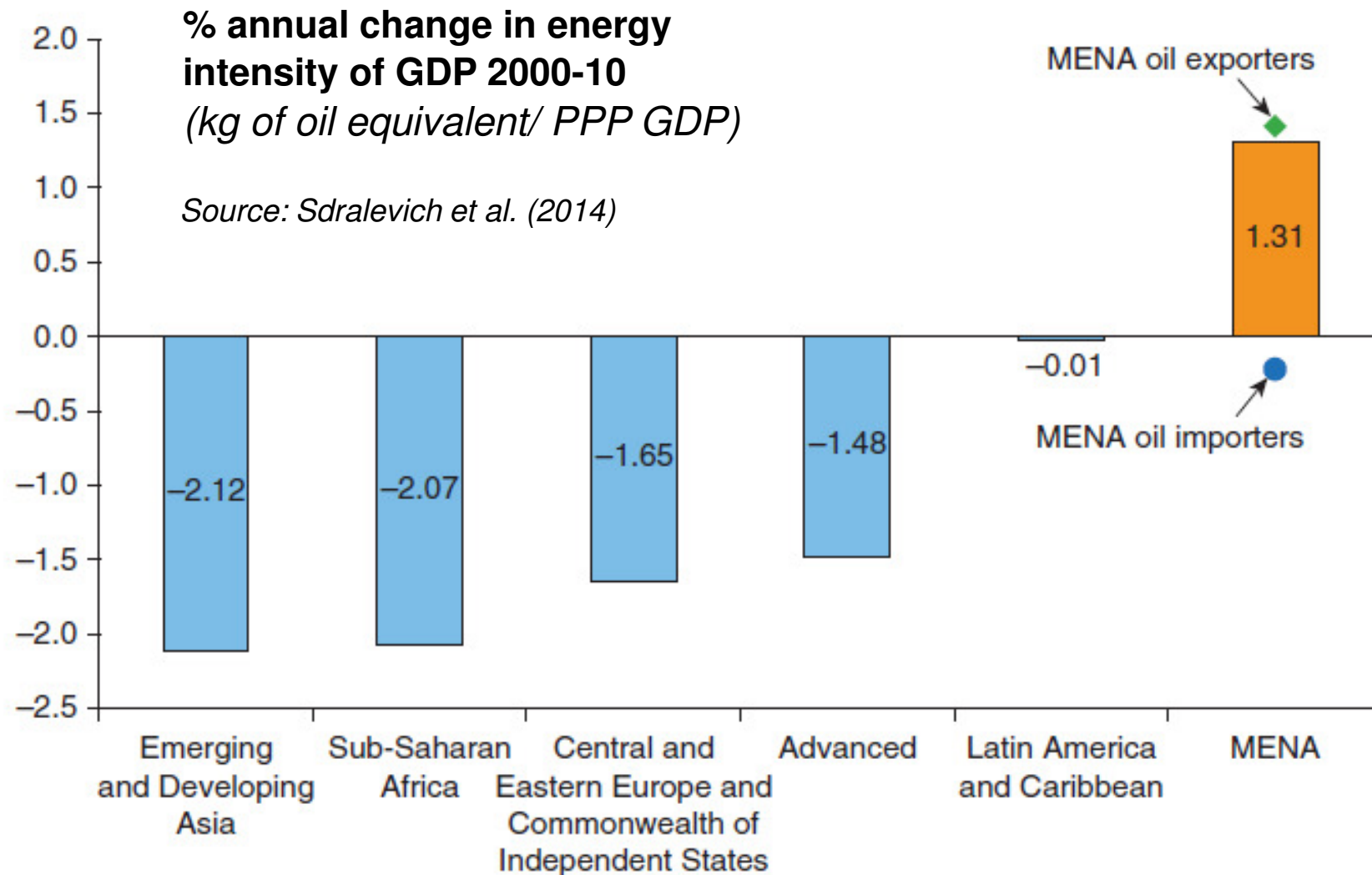


## Poverty Impact of Subsidies





# Problem 4: Adverse effects



# These issues raise questions:



- 1. Why do MENA countries spend so much on subsidies?**
- 2. What can be done about it?**
- 3. How are MENA countries actually dealing with the problem?**
- 4. And why are they going different ways?**

# Our research starts with four hypotheses:



## Questions:

- 1. Why do MENA countries spend so much on subsidies?**
- 2. What can be done about it?**
- 3. How are MENA countries actually dealing with the problem?**
- 4. And why are they going different ways?**

## Hypotheses:

- 1. MENA countries are still coined by a very specific form of populist-authoritarian social contract that prevailed in the 1950s-1980s in all countries in the region**
- 2. MENA countries could replace subsidies by direct cash transfers**
- 3. Many MENA countries are in fact taking action to reduce subsidies – but not all are setting up direct transfer schemes instead**
- 4. MENA countries are developing different new social contracts**

# What is a social contract?



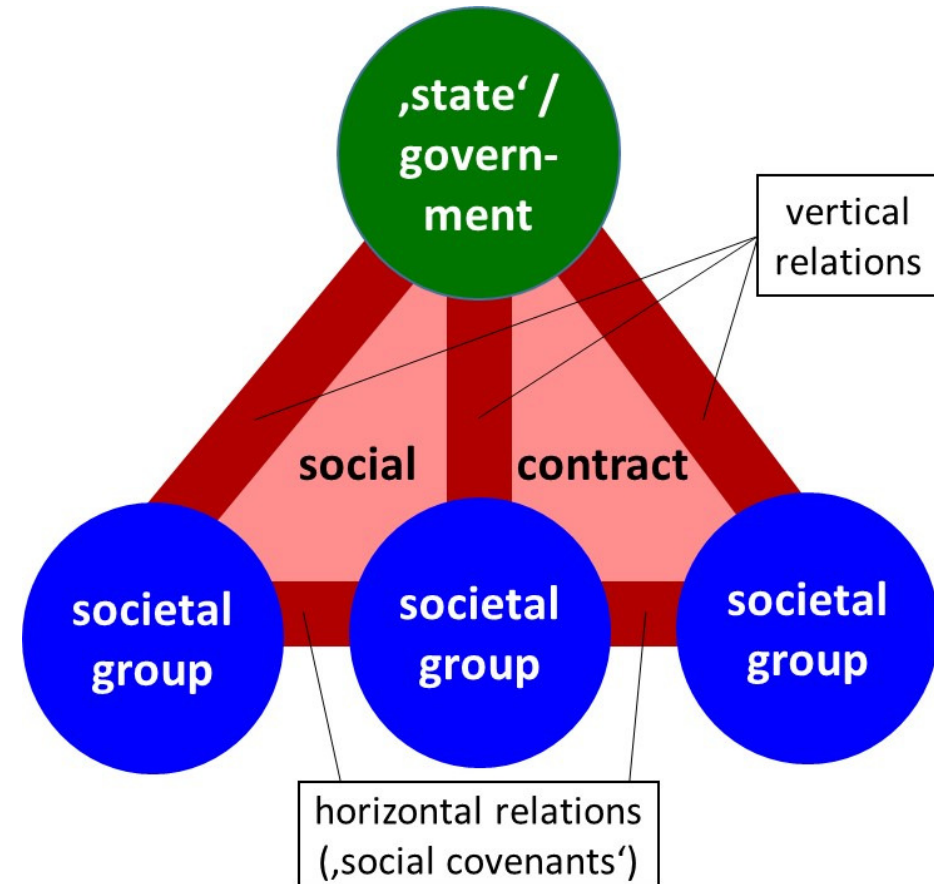
*“set of **explicit and implicit, agreements of the various groups of society***

- *with each other*
- *and with the **government** (or any other actor in power)*

*defining rights and obligations towards each other.”*

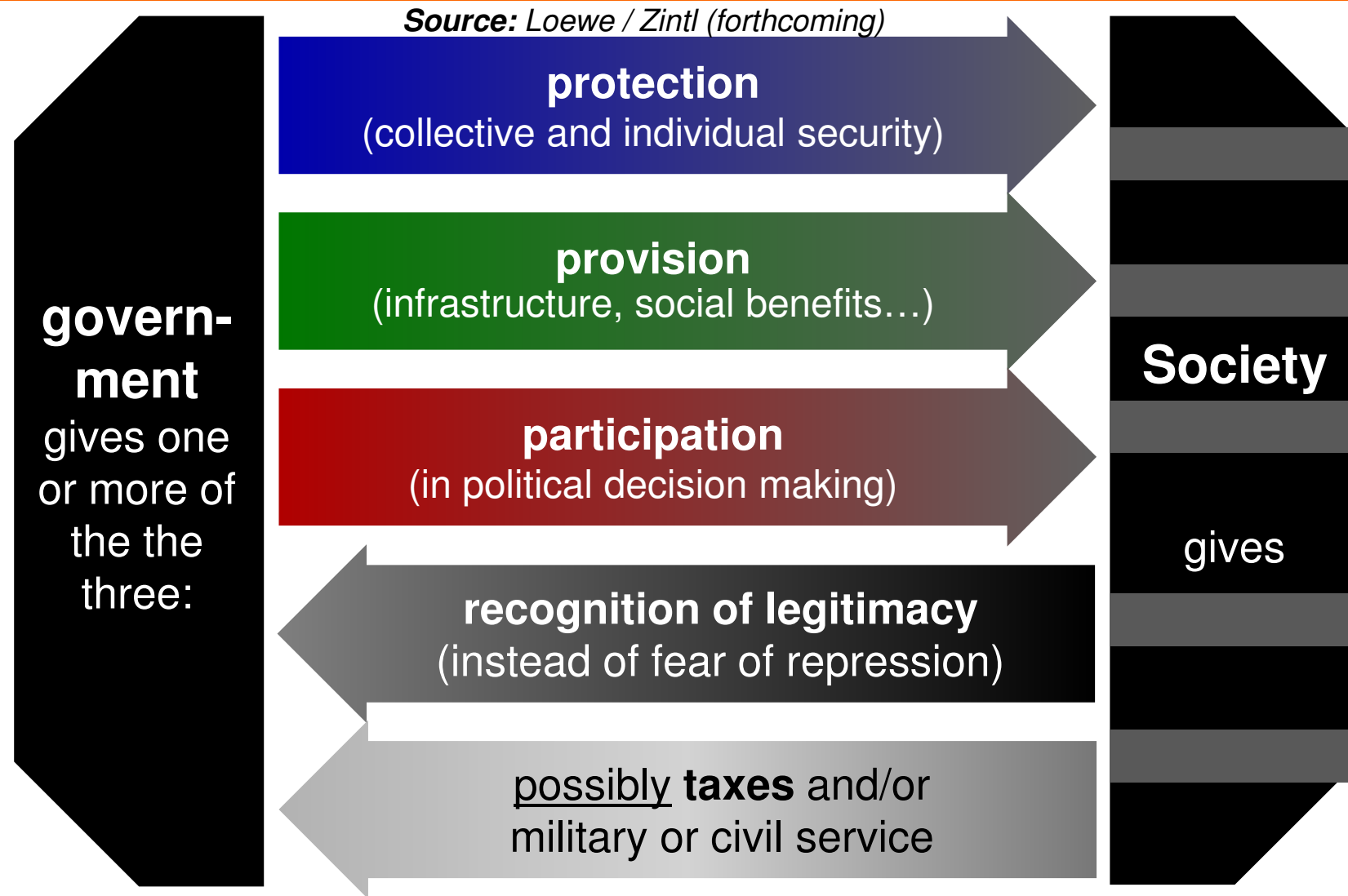
Every country with government has a social contract

- but these are all quite different



Source: Loewe / Zintl (forthcoming)

# What are the deliverables?



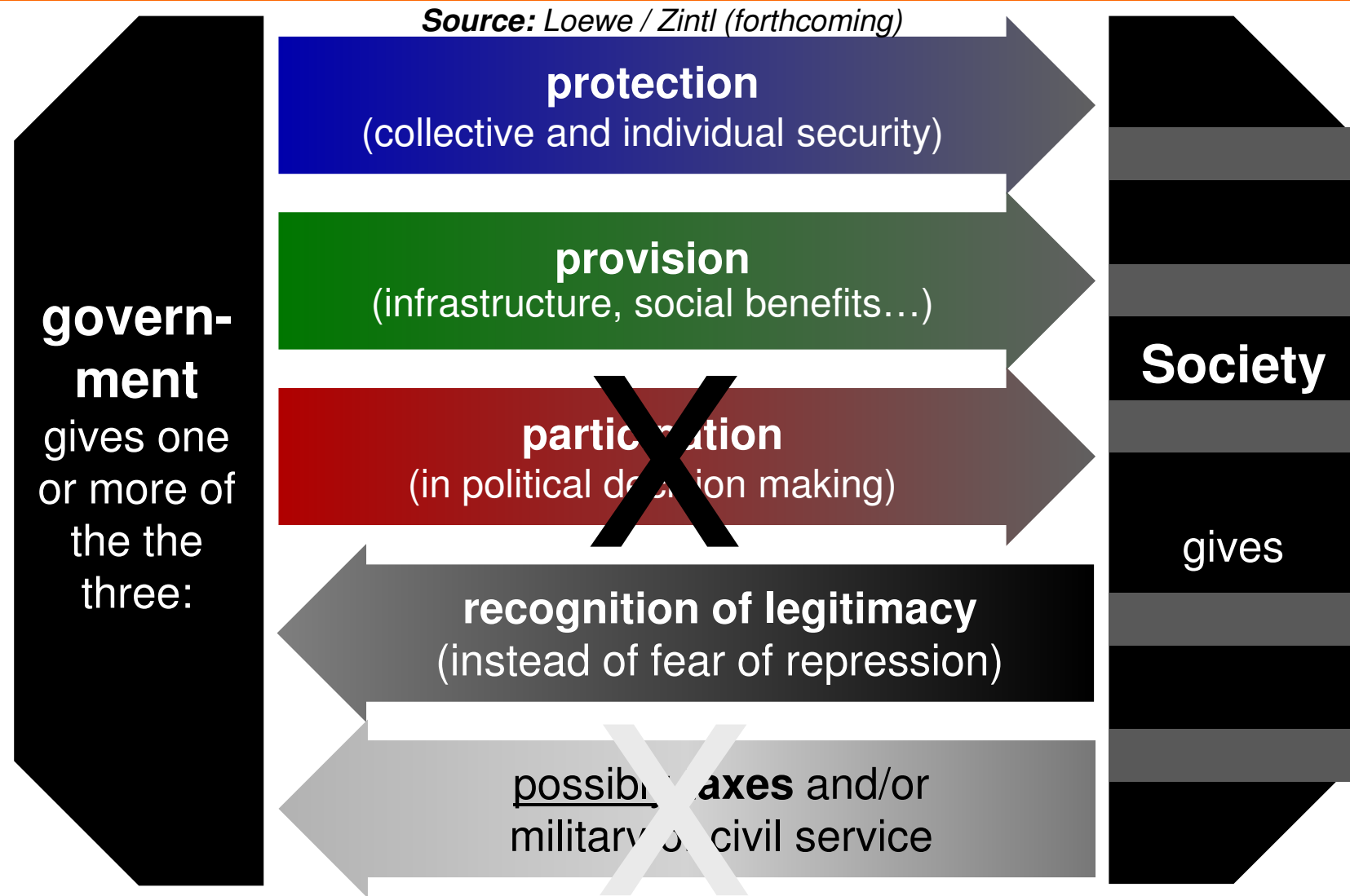
# What was the social contract in MENA?



## **MENA countries 1960s-1970s: populist-authoritarian social contracts**

- little political participation
- ideological or religious legitimisation combined with “material legitimisation”: sharing of external rents with society

# What was the social contract in MENA?



# Why did they set up subsidy schemes?



- **Reduce poverty and income inequality**
- Enable / incentivise purchase of **certain commodities**
- **Enable local industries** to compete on world markets
- **Create rents** for cronies



# But today:



## Subsidy programmes:

- constitute **huge fiscal burdens**  
(are no longer affordable)
- have **low effectiveness**
- have even **regressive effects** on income distribution
- have **multiple adverse effects:**  
e.g. **over-consumption and waste**

# What is the dilemma of reform?



## Reforms constitute a severe challenge:

- regimes are afraid to **delegitimise** themselves
- **lock-in**: large parts of society benefit from subsidies today, not only the poor – and **no group wants to give away a benefit once it has got it**
- **many citizens are not even aware** of subsidies' negative effects
- **administrative difficulties** to replace subsidies by direct transfer schemes

## So: What can governments do to overcome the challenges?

- **communication**: explain problems and need to reform to the public
- **dialogue & participation**  
work out reform strategy with representatives of society
- **compensate losers of reform**, e.g. with direct cash transfers (**go for universal transfers if targeting is too difficult**)
- **make proof of government's commitment** in order to discourage possible protestors
- **repress opposition**

	<b>Egypt</b>	<b>Morocco</b>	<b>Iran</b>
<b>Per-capita income</b> (USD in PPP 2017)	13000	9000	20000
<b>Pre-reform subsidies</b>	10-14% of GDP	5-7% of GDP	10-14% of GDP
<b>Subsidy reduction</b>	2-5% of GDP: <b>all energy, most food</b>	1-2% of GDP: <b>energy and food but excluding the key commodities of the poor</b>	2-5% of GDP: <b>only energy</b>
<b>Information</b> on rational, goal and strategy of reform/ <b>Dialogue</b> with citizens	Information always late / s.t. wrong or revoked little late	++	+
<b>Intimidation</b> of possible reform opponents	+++	0	+
<b>Compensation of losers:</b> (direct transfers pre/ post reform)	1% of GDP / <b>1.5% of GDP</b>	1% of GDP / <b>2% of GDP</b>	1% of GDP/ <b>7% of GDP</b>
(targeting)	<b>means-tested</b>	<b>means-tested / categorical</b>	<b>quasi-universal</b>
<b>New social contract?</b>  <i>Source: Auktor / Loewe (forthcoming)</i>	<b>build “<u>stability contract</u>” instead</b>	<b>attempt to <u>preserve</u> ‘old’ contract</b>	<b>make “old” social contract <u>more inclusive</u></b>



Source: Loewe / Zintl (forthcoming)

**‘old’,  
populist-  
authoritarian  
social  
contracts**



**post-  
populist,  
„un-  
social“  
contracts**

**ARAB SPRING**

**more participatory / liberal  
social contract  
(Tunisia)**



**„stability contract“  
(e.g. Egypt)**



**no country-wide social  
contract / state failure  
(Libya, Yemen, Iraq, Syria)**



**reconstructed social contract  
(Jordan? Morocco?)**



**reinvented, more inclusive  
populist provision contract?  
(Iran)**



**anything else? (still in flux)  
(i: Saudi-Arabia, Qatar, Bahrain)  
(ii: Algeria)  
(iii: Sudan)**

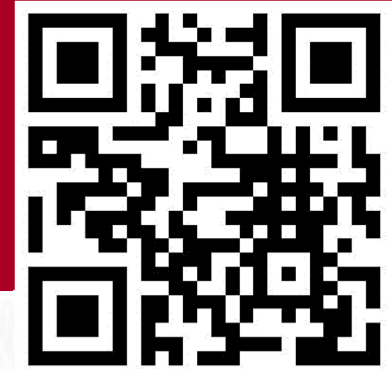


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**Thank you very much  
for your attention!**

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