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Pension Schemes and Pension Reforms in the Middle East and North Africa

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ABSTRACT

Most countries in the Middle East and North Africa (MENA) region spend a considerable share of their national income on social protection. In Egypt and Jordan, for example, this share ranges between 20 and 25 %. Most of the money, however, is used for social protection instruments that suffer from severe deficits with regards to equity, efficiency and financial sustainability. Especially, the public pension schemes of the MENA countries are characterised by (i) low coverage rates, (ii) regressive redistribution from the poor to the urban middle class, (iii) high administrative costs, (iv) unsustainable benefit conditions and (v) inefficient investment policies.

The question is thus what the governments in the MENA region have done so far to remove the existing deficits and how the prospects are for more profound reforms in the future.

This article discusses both questions. It shows that the MENA countries have implemented hardly any noteworthy pension reforms in the past and argues that this reluctance is mainly due to political considerations of the ruling regimes as well as to the fact that most MENA countries have until now been able to finance the deficits of their pension schemes. The article concludes that the prospects of reforms that go beyond simple changes in contribution rates or pension formulas remain bleak.

The article has five sections. Section 1 presents the economic, social and political background of pension policy and pension reform in the MENA region. Section 2 analyses the main deficits of the existing public pension schemes and their implications with regards to social and economic criteria. Section 3 looks into past efforts to reform pension policies in selected MENA countries. Section 4 is meant to explain the lack of more fundamental pension reforms until now while assumptions are formulated in Section 5 on the prospects of future reforms. Section 6 concludes with lessons to be drawn from the experience of MENA countries for pension reforms in other parts of the world.

1 Economic, social and political background of pension policies in the MENA region

In comparison with other world regions, the MENA region is characterised by a high degree of political and cultural homogeneity and a much lower degree of economic and social homogeneity. It consists of three sub-regions: (i) the Maghreb (Algeria, Libya, Morocco and Tunisia), (ii) the Mashriq (Egypt, Iran, Iraq, Jordan, Lebanon, the Palestinian Territories, and Syria) and the Arab Peninsula (Bahrain, Kuwait, Qatar, Saudi-Arabia, Oman, United Arab Emirates / UAE and Yemen).[1]

All MENA countries are governed by authoritarian regimes of the neo-patrimonial type, i.e. they pose their rule on a combination of repression, non-democratic forms of legitimisation (tradition, religion, ideology, successes achieved by the regimes in the past such as independence and increases in welfare) and informal networks of power relations. Some of the countries are monarchies, while others are republics, but none of their governments – with the partial exception of Iraq, Lebanon and Gaza – have been legitimised by democratic elections. Most countries are led by a single patrimonial leader (king, president or revolutionary leader), only some are guided by a small group of people (e.g. Algeria). These patrimonies command the army, the police, the secret services, the public administration and the mass organisations (party, trade unions, women unions etc.). However, even more important, their rule is also based on informal channels (networks) of asymmetric mutual dependencies, through which they provide material benefits to key persons and strategic groups in society against political loyalty (Pawelka 2000, Schlumberger 2002).

In cultural and social terms, the MENA countries have also many common characteristics. All are Islamic and most are shaped by a common Arab history and language (Iran being the only exception). Most MENA countries have been under European rule for some decades in the 19th or 20th century, when some have built up their first public social protection schemes, but societies have conserved next to all differences many genuine traits. Today, public notions of good social and economic policies are thus influenced by modern / secular, Islamic / religious and traditional / sometimes even pre-Islamic values and norms (Loewe 2005:211).

With regards to economic indicators, the MENA region is less homogeneous. The majority of countries are middle-income, but seven are classified high-income (Bahrain, Qatar, Kuwait, Oman, Saudi Arabia and the UAE. Only Yemen ranks low-income. The level of per-capita income ranges from 760 US$ in Yemen to more than 50000 US$ in Qatar (see Table 1). This difference is predominantly due to the uneven distribution of water and raw materials in the region. People crowd in the countries with larger supplies of fresh water (Egypt, Lebanon, Morocco, Syria, Iraq, Yemen), while the natural wealth of the region (particularly its natural gas and oil) concentrates on the desert countries (the Gulf states, Libya and Algeria) with Iran and the Iraq representing the main exception of countries with a large population along with considerable deposits of crude oil. The rich countries find it, of course, much easier to finance social protection spending as well as health, education and other social policies.

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1 According to the World Bank definition, Djibouti is also part of the MENA region, as well as high-income countries such as Israel. In the following, Israel and Turkey are not part of the analysis due to their income status and differences in their respective pension schemes vis-à-vis the rest of the region.

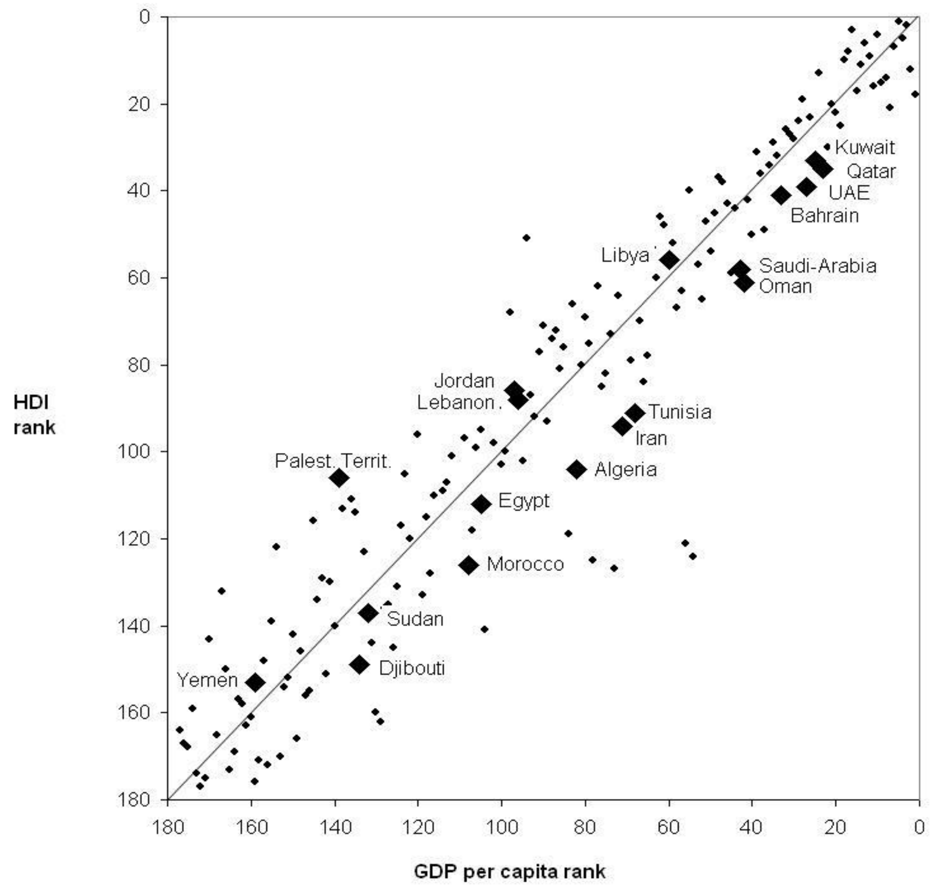
Table 1: Main economic indicators of the MENA countries									
2006/2007	Population (million inhabitants)	Surface area (thousand sq. km)	Agricultural land (% of total land area)	Population density (inhabitants per sq. km)	GNI per capita, Atlas method (current US$)	GNI per capita, PPP (current international US$)	Gross capital formation (% of GDP)	Inflation, GDP deflator (annual %)	Foreign direct investment, net inflows (% of GDP)
Algeria	32.85	2382	17	13.8	3030	5940	30	16	1.6
Bahrain	0.72	0.7	14	1020.8	19350	34310	16	33	...
Egypt	72.85	1001	4	72.7	1360	4940	19	6	9.3
Iran	69.09	1745	29	39.6	2930	9800	34	17	0.4
Iraq	…	438	23	…	…	…	..	…	...
Jordan	5.41	89	11	61.0	2650	4820	27	3	22.8
Kuwait	2.54	18	9	142.3	33000	..	30	24	...
Lebanon	4.01	10	38	385.6	5580	9600	12	- 1	12.3
Libya	5.92	1760	9	3.4	7290	11630	..	29	0.0
Morocco	30.14	447	68	67.5	2160	3860	32	2	4.1
Oman	2.51	310	6	8.1	11120	19740	..	18	...
Palest. Territ.	3.63	6	62	602.3	1230	3720	27	5	0.0
Qatar	0.80	11	6	72.4	52000	…	35	26	...
Saudi Arabia	23.12	2000	..	11.6	13980	22300	18	19	0.2
Syria	18.89	185	76	102.0	1560	4110	16	13	1.8
Tunisia	10.03	164	63	61.3	2970	6490	24	2	10.8
UAE	4.10	84	7	49.1	27000	..	24	14	...
Yemen	21.10	528	34	40.0	760	2090	…	20	5.9
MENA region	**305.23**	**9087**	**22**	**33.6**	**2507**	**6710**	**26**	**6**	**3.7**

Source: World Bank (2008).

Note: Palest. Territ. = Palestinian Territories (West Bank and Gaza Strip); UAE = United Arab Emirates.

Intra-regional differences with regards to human development are smaller than one might expect. Most MENA countries have made considerable achievements – even in comparison with countries on similar per-capita income levels in other world regions – towards social goals such as reducing income poverty, raising life-expectancy or improving education. These achievements, however, still fall short of the progress most of the MENA countries have made during the last decades in terms of per-capita growth. All Gulf countries and most of the region's middle-income countries – rank far better with regard to their per capita income level than with regard to the Human Development Index (HDI). Iran is a particularly striking example: it holds position Number 71 globally according to its per capita GDP but only Number 94 according to its HDI value. Only the Palestinian Territories, Jordan and Lebanon fare better with regard to the HDI than with regard to their per capita income (see Figure 1).

Figure 1: HDI and GDP per capita rank of MENA and other countries



Source: UNDP (2007)

Note: Big dots stand for MENA, small dots for other countries.

Palest. Territ. = Palestinian Territories (West Bank and Gaza Strip); UAE = United Arab Emirates.

Extreme income poverty is less wide-spread than in other regions. The number of people living on less than 1 international dollar in purchasing power parities (PPP) is very low but has risen from 2 to 3 % between 1990 and 2005. In addition, moderate income poverty is still considerable. When measured by the share of people living on less than 2 PPP-dollars, it ranges between 1 % in some Gulf countries to 47 % in Yemen and even 65 % in the Palestinian Territories (see Table 2). Likewise, many inhabitants still suffer from malnutrition in several MENA countries such as Yemen, Iraq and Morocco (Loewe 2006). This raises questions about the effectiveness of basic commodity subsidies programmes that are very wide-spread and important in size in many MENA countries and consume more than 8 % of GDP in Egypt and even more than 12 % of GDP in Yemen (Loewe 2005).

Even more noticeable is the MENA countries' employment crisis. Most suffer from very high unemployment rates ranging from an estimated 15 % in Saudi-Arabia or Tunisia to more than 30 % in Jordan, Algeria and the Palestinian Territories (UNDP / AFESD 2002, Annex Table 24). Unemployment among young labour market entrants is even higher. In addition, underemployment remains pervasive. This problem is aggravated by the fact that the labour force in the MENA countries is still growing. Birth rates have gone down with the effect that the overall population growth has started to decline. But the labour force will continue to grow at their current pace for at least another ten years until the first smaller age cohorts will have reached the age of about 20 years. As a consequence, the MENA countries are in need of more than 1.5 million additional jobs each year to keep unemployment and underemployment ratios at least at their current levels (World Bank 2004). For this to achieve, the MENA countries must attract much more investment than today and improve the incentives for employers to create additional jobs, enhance the education of their workers and remove regulatory rigidities on labour markets such as overly complicated procedures in the registration of workers with social security and tax administrations.

Table 2: Main social indicators of the MENA countries

2006/2007	GNI per capita, PPP (current international US$	Poverty headcount index (% with less than 2 international $ per day)	Income share held by bottom 20%	Life expectancy at birth, total (years)	Mortality rate, under-5 (per 1,000)	Immunisation, measles (% of children ages 12-23 months)	Net enrolment ratio in primary education (%)	Literacy of adults (% age 15 and above)	Fixed line and mobile phone subscribers (per 100 people)
Year(s)	**2006**	**1995-2000**	**1995-2000**	**2006**	**2006**	**2006**	**2001**	**2002**	**2006**
Algeria	5940	10	7.8	72	38	91	97.2	68.9	71
Bahrain	34310	1	9.3	76	10	99	94.0	88.5	148
Egypt	4940	44	8.6	71	35	98	92.3	56.9	39
Iran	9800	12	6.8	71	34	99	74.6	78.1	51
Iraq	…	…	…	63	...	60	93.1	40.1	…
Jordan	4820	7	7.6	72	25	99	93.6	90.9	90
Kuwait	…	…	…	78	11	99	66.4	82.9	…
Lebanon	9600	18	4.0	71	…	…	70.9	86.9	…
Libya	11630	…	…	74	18	98	…	81.7	73
Morocco	3860	14	6.5	71	37	95	74.5	50.7	57
Oman	19740	…	…	76	12	96	65.1	74.4	82
Palest. Territ.	3720	65	…	73	22	..	99.1	...	31
Qatar	…	…	…	75	21	99	...	82.1	140
Saudi Arabia	22300	…	…	73	25	95	57.9	77.9	100
Syria	4110	…	…	74	14	98	...	76.1	41
Tunisia	6490	12	5.7	74	23	98	98.2	73.2	85
UAE	…	…	…	79	8	92	78.2	77.3	161
Yemen	2090	47	7.4	62	100	80	...	49.0	…
MENA region	6710	…	…	70	42	92	78.9	65.4	53

Source: Own design on the basis of data drawn from World Bank (2008).

Note: Palest. Territ. = Palestinian Territories (West Bank and Gaza Strip); UAE = United Arab Emirates.

At the time being, MENA economies are dominated by huge public and informal sectors. State-owned enterprises and the public administration still account for more than a quarter of total employment and the informal sector contributes another 50 % of all jobs. This shows that the formal private sector is very small and rather labour-extensive (Loewe 2005).

Wide-spread unemployment and the large size of informal sectors limit, of course, the possibility for MENA countries to extend the coverage of their pension schemes to the entire population. Normally, social pension insurance is linked to wage employment. Special schemes can theoretically be created for self-employees and other groups of informal sector workers, but it is even more difficult to cover the unemployed who have no income from labour to finance contributions. As a result, even an effective coverage rate of 100 % (which usually refers to the employed population) leaves a considerable part of the population without protection against old-age, death and work-disability.

Another limiting factor to the development of the pension schemes in the region is the limited size of the capital markets in the MENA countries, as most of these schemes are partially funded and therefore accumulate reserves that ´have to be invested somewhere and somehow under preferably safe and beneficial conditions. The region's stock exchange markets have seen a furious boom during the last years. Some large financial investors – most of them from the Gulf countries – have bought into Arab stock companies thereby raising the market capitalisation of the MENA countries. But the number of listed companies remains limited and many are overrated now in relation to their turnover and expected profits. The possibilities to invest additional funds on the financial markets of the region are thus limited (Al-Asrağ 2004).

2 Main deficits of public pension schemes in the MENA region

All MENA countries – except Lebanon – have mandatory public pension schemes for at least part of the labour force (for civil servants only in the Palestinian Territories and in Qatar). The Algerian scheme is the oldest. It was established in 1949 by the French colonial power. The Egyptian scheme followed little later (in 1955 after the revolution, which brought Gamāl ʿAbd