

# Inclusive social security and the social contract: Overcoming instability and building trust in the MENA region

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## Executive summary

A strong social contract – *“the implicit agreement among members of a society that defines their relationship with each other and the state”* (Devarajan, 2015: para. 1) – is at the heart of any country’s chances of achieving prosperity and stability. The social contract is central to processes as fundamental as peacebuilding, the strengthening of democracy and domestic resource mobilisation. As with any contract, the foundation of a strong social contract is trust. Citizens must be able to trust that their governments are willing to fulfil their responsibilities to protect and provide them with key public services. In exchange, if citizens trust their governments, they are more likely to fulfil their responsibilities to the state: for example, to uphold law and order, pay taxes and, in democratic societies, to participate in democratic institutions.

Yet, countries in the MENA region struggle with low trust in government, which is weakening social contracts and undermining the prospects for stability in many countries, as demonstrated by the eruption of unrest across MENA countries during the Arab Spring of 2011 and beyond. As Devarajan (2015: para. 3) argues, widespread discontent at a time when macroeconomic indicators were misleadingly reassuring can be explained by a crumbling social contract that has *“failed to meet the aspirations of the growing middle class, and especially its youth.”*

Despite a growing body of evidence that inclusive social security is central to building the social contracts required to underpin stable and prosperous nations, social security systems in MENA countries remain generally weak. The prevailing model of social security in the region provides social insurance for an elite minority and poverty-targeted benefits or “poor relief” for a poor minority, resulting in the exclusion of “the missing middle”: the large proportion of the population living on middle – but still low and precarious – incomes. In contexts with high levels of inequality and a precarious threat of social unrest, promoting poverty-targeted schemes – which can harm trust, both in government and between citizens – is tantamount to pouring petrol onto the fire. In fragile contexts – and, in fact, in most low- and middle-income contexts – where almost everyone is living on precariously low incomes, poor relief makes little sense, even if it could be done accurately. If governments are to build the social contracts required to become peaceful and prosperous nations, they must radically shift their approach to social security as a policy priority and start to build more inclusive social security systems.

## Low trust in government and a legacy of unrest in the MENA region

Countries in the region have long been struggling with high rates of poverty, inequality, informality and unemployment. Far too many people in low-and middle-income MENA countries are experiencing low and precarious incomes, with roughly 45 per cent of persons in the MENA region living on less than USD 5.50 (in PPP terms) per day in 2018. In this context, the under-provision of core public services, including social security, has taken its toll on the prospects and living standards of the majority of citizens.

The eruption of unrest across MENA countries during the Arab Spring of 2011 and beyond can be seen, in large part, as a result of the failure of trust and social contracts within these countries. Within a context of widespread economic hardship, many people were frustrated at the way that economic and political goods were distributed in societies and lacked faith in government to address this.<sup>1</sup> Since the Arab Spring, a significant number of countries across the region have faced varying degrees of unrest. In 2019, another wave of mass popular protests shook several countries, with unrest in Sudan and Iran triggered by a sudden jump in the price of basic goods (bread in Sudan and petrol in Iran). Most recently, the COVID-19 economic crisis has put strain on existing economic hardships, activating the re-emergence of instability and anti-government protest in the region, with observers estimating that civil unrest surged by 45 per cent as a result of the crisis.<sup>2</sup> Importantly, the economic grievances at the heart of the crises of trust in government have been suffered by the middle classes across MENA countries, who have been the primary protagonists of popular unrest.<sup>3</sup>

Crucially, social contracts across the region will only continue to erode the longer the issue of trust is left unaddressed. Survey data from Arab Barometer suggests that in a number of countries and in the MENA region on average, trust in government is at even lower levels than in 2011 during the Arab Spring. As Figure 0-1 shows, trust in government in the region has been steadily declining since 2010/11. Moreover, these survey results reflect the situation before the COVID-19 crisis, which has put unprecedented economic strain on households across the MENA region and has been met with an underwhelming social security response from government.<sup>4</sup>

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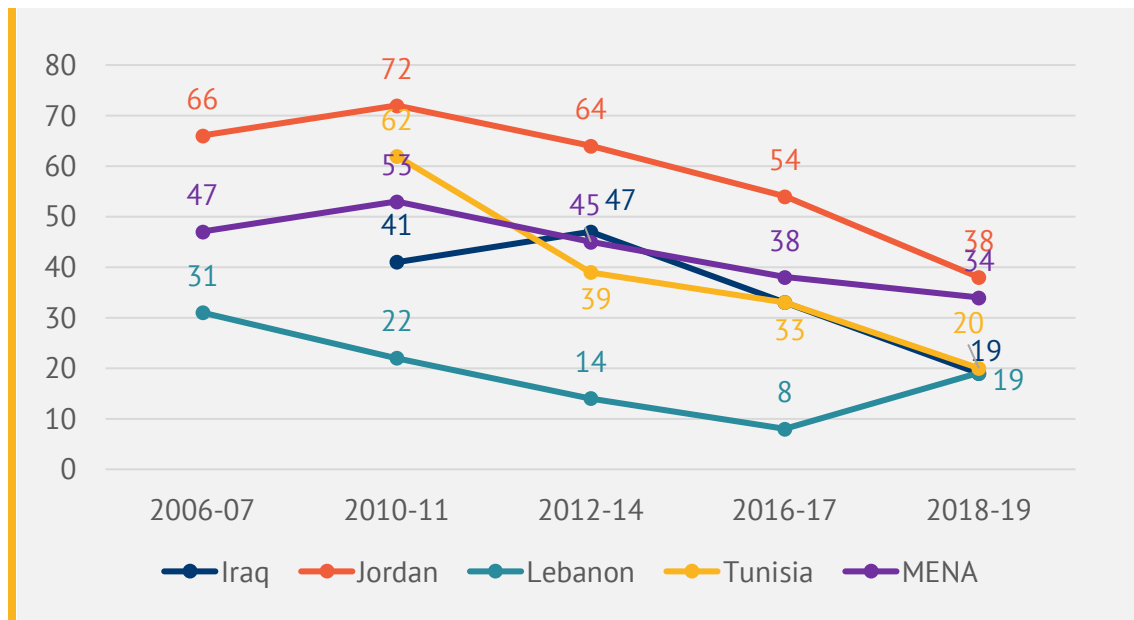
<sup>1</sup> Ianchovichina (2018); Belhaj and Hoogeveen (2020); Meskoub (2020).

<sup>2</sup> Chaucer (2021).

<sup>3</sup> Ianchovichina (2018).

<sup>4</sup> Sibun (2021); ILO (2021a).

**Figure 0-1: Trust in government in Iraq, Jordan, Lebanon, Tunisia and the MENA region on average over time (% of population who trust government to a great or medium extent)**



Source: Robbins (2020).

### The role of poverty targeting in undermining trust and weakening social contracts

Despite the need to urgently address this crisis in trust and build stronger social contracts, many MENA countries are pursuing a “poor relief” approach to social security that is entrenching this situation through the implementation of poverty-targeted programmes. There is growing evidence from around the world that poverty-targeted social security can accentuate divisions and actively weaken social contracts. Ultimately – in contexts where low incomes, insecurity and poverty are widespread – schemes that set out to identify and target only “the poorest” or “most deserving” are likely to be perceived as arbitrary and unfair in their selection of recipients. This is accentuated when targeting is implemented poorly. Yet, poverty-targeted schemes exclude most people who require support, even excluding a large proportion of their intended target population. As well as undermining trust in government through by excluding those who require support, poverty targeting can also undermine trust by: generating stigma and mistrust and undermining social cohesion within communities; generating social divisions through the reshuffling of relatively flat income distributions or “leapfrogging”; and, reinforcing clientelism by leaving discretionary decisions around targeting vulnerable to corruption.

Of course, the region is diverse and national experiences of social security differ. Yet, a common historical legacy can be broadly identified, whereby a system of high coverage subsidies that emerged under the post-colonial social contract termed the “authoritarian

bargain” was replaced with bifurcated systems.<sup>5</sup> Under these systems, social insurance is provided to a minority elite and poverty-targeted “poor relief” is sporadically provided to a small group of “the poor”, systematically excluding the vast majority of the population from accessing much-needed income support.

Donors have tended to support countries in region to introduce poverty-targeted schemes, even in fragile states. Yet, replacing high-coverage subsidy programmes with poverty-targeted schemes creates the perfect conditions for undermining trust in government. When a subsidy is taken away, those on middle incomes lose one of their main sources of support from the state. If this loss is not compensated by conventional social security benefits, those excluded can become disenfranchised, which can result in unrest.

The case of Syria provides a particularly striking example of how the use of poverty targeting may have exacerbated already low trust in government. In Syria, Arab Spring protests turned into a large-scale civil war that is ongoing today. The roots of the crises may be traced back to the failure of government to protect the wellbeing of citizens in the face of growing economic discontent, contributing to the breakdown of the national social contract.<sup>6</sup> This discontent was likely exacerbated by the removal of vital subsidies – most notably, the Government removed a fuel subsidy overnight in 2008, raising the price of diesel (an important commodity for the agricultural supply chain) by 257 per cent<sup>7</sup> – and the introduction of a proxy means test to identify recipients for poverty-targeted benefits. It is likely that the abandonment of those on middle incomes, who had previously been protected by the government and represented about 80 per cent of the population, triggered the scale of popular discontent that eventually led to civil war.<sup>8</sup>

In 2011, the National Social Assistance Fund (NSAF) aimed to cover the 6 per cent of the Syrian population then considered as “ultrapoor”<sup>9</sup>, overlooking the widespread nature of vulnerability in the country and the political importance of investing in those on middle (but still insecure) incomes. In fact, only two cash payments were ever made. By the end of July 2011, the protests that initially broke out in March had developed into a full-scale civil insurgency and the government suspended the payment of a third payment.<sup>10</sup> The removal of universal subsidies in 2008 and the introduction of small and narrowly targeted cash transfers, that were entirely inappropriate for the universal nature of the problem, is likely to have poured petrol onto the fire of an already desperate situation.

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<sup>5</sup> Loewe et al (2019); Meskoub. (2020); Ianchovichina (2018).

<sup>6</sup> Larbi (2016); Almohamed and Birner (2019); Harsch (2019).

<sup>7</sup> Almohamed and Birner (2019).

<sup>8</sup> Almohamed and Birner (2019).

<sup>9</sup> Harsch (2019).

<sup>10</sup> Abdul Aziz (2012).

Other examples in the region where subsidies have been removed and replaced with poverty-targeted schemes under the advice of IFIs, such as Jordan and Egypt, would do well to consider the tragic example of Syria when considering how to approach building social security systems to effectively support their residents.

### Moving towards universal systems to build social contracts

If MENA countries are to break this cycle of instability and build the social contracts required to become peaceful and prosperous nations, they must begin to invest in their populations by building universal social security systems as a policy priority. Building a strong social security system in line with a rights-based lifecycle model will require a fundamental shift in conceptual approach. Policymakers and donors will have to shift from the mindset of a charity or “poor relief” approach that currently dominates social security policymaking and embrace a citizenship approach, as described in Figure 0-2

**Figure 0-2: The citizenship versus the charity or “poor relief” paradigms for social security**



Source: Development Pathways

This fundamental shift in paradigm is possible and can be seen in the way that the Government of Iran approached their subsidy reform. In contrast to Syria, social unrest following subsidy reform was kept to a minimum in Iran, which implemented a universal household benefit in 2010, the *Cash Subsidy*, to compensate the population for price rises

resulting from large cuts in subsidies, mainly on fuel.<sup>11</sup> The universality of transfers resulted from a failed attempt at targeting the 70 per cent of the population below the median national income, which was the original objective. The programme provided a visible sign to the population that the government would address the economic fall-out resulting from the reform decisions on a universal basis. The immediate outbreak of protest and riots when the government signalled plans to down-size and target the programme in 2019 demonstrates well the popularity of universal benefits and their effectiveness in maintaining social order.<sup>12</sup>

Contrary to popular misconceptions, adopting a universal lifecycle approach to social security can be affordable for a variety of fiscal contexts. For example, simulations of a potential comprehensive lifecycle social security system<sup>13</sup> in Egypt, Jordan, Morocco and Tunisia would entail a collective investment of between 1.14 - 1.46 per cent of GDP for countries in 2022 and slowly rise to between 1.47 - 2.78 per cent of GDP by 2035. This would allow countries to build up their fiscal space by gradually increasing spending by 0.03 – 0.1 percentage points on average each year. Moreover, the proposed lifecycle system presented above is likely to be a more effective and value-for-money use of the savings made from subsidy reform.

The financing of greater investments in inclusive social security can largely be a question of political will, and the experience of some countries in the MENA region demonstrate that this is strongly emerging. In Morocco, for example, the country's relatively ambitious COVID-19 emergency social security response has arguably helped lay the basis for a planned permanent increase in its old age pension coverage and plans to universalise the Family Allowance Programme, a child benefit.<sup>14</sup> However, despite the Government of Morocco's clear political commitment to invest in more effective inclusive benefits, the World Bank has recommended that they reduce costs by targeting the child benefit.<sup>15</sup> Given the volatility of the current economic situation,<sup>16</sup> the decision on whether to implement universal benefits or poverty targeting could be crucial for the stability of the country.

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<sup>11</sup> UNICEF (2019a).

<sup>12</sup> Iran International (2021); Islamic Republic News Agency (2019).

<sup>13</sup> The proposed alternative lifecycle system comprises of a basic universal child benefit set at a monthly transfer of 4 per cent of GDP per capita and universal disability benefits for children and adults and a universal old age pension set at a monthly transfer of 14 per cent of GDP per capita for each. The child benefits and old age pensions are designed to grow gradually, with age eligibility for these programmes expanding over time.

<sup>14</sup> Sibun (2021); Kidd, S. D. (2022).

<sup>15</sup> Kidd, S. D. (2022)

<sup>16</sup> Chahir (2021).

## Conclusion

Countries in the MENA region are facing a crossroads. They can either continue to push the same weak poverty-targeted schemes that are undermining trust in government in the face of widespread and unaddressed economic grievances. Or, they can choose to renew trust in government and build stronger social contracts by daring to imagine possibilities that go beyond the usual policy menu. Governments can do this by offering universal benefits, or combinations of benefits that together achieve near-universal or universal coverage, building systems focused on fulfilling citizens' entitlements to social security at each stage of their life as they progress across the lifecycle. If there is a political commitment to invest in building stronger social contracts, there is a range of options for countries to finance increased investments in universal social security. Instead of asking whether countries can afford to invest in their nation's future stability and prosperity, one should sooner ask whether they can afford *not* to. If MENA countries are going to break the vicious cycle of instability and generate more inclusive development, they must urgently begin to invest in their populations through universal social security that puts people at the heart of a new social contract.



## Acknowledgements

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## Table of contents

1	Introduction .....	1
2	The problem of low trust and weak social contracts in the MENA region .....	3
3	Social security, trust and social contracts: Theory and evidence .....	11
4	The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA region .....	21
5	Moving towards universal systems to build social contracts.....	32
	Conclusion.....	39
	Bibliography.....	40

## List of Acronyms

CeSSRA	Centre for Social Sciences Research and Action
CMP	Child Money Programme (Mongolia)
COVID-19	Coronavirus Disease 2019
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	Gross Domestic Product
IFI	International Financial Institutions
ILO	International Labor Organization
IMF	International Monetary Fund
MBS	<i>Mi Bono Seguro</i> (Guatemala)
MENA	Middle East and North Africa
NSAF	National Social Assistance Fund (Syria)
PMT	Proxy Means Test
PNAFN	<i>Programme Nationale d'Aide aux Familles Necessiteuses</i> (Tunisia)
PPP	Purchasing Power Parity
SWF	Social Welfare Fund (Yemen)
UCB	Universal Child Benefit
UDHR	Universal Declaration of Human Rights
UN	United Nations
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollar
VUP	Vision 2020 Umurenge Programme (Rwanda)

# 1 Introduction

A strong social contract – defined by Devarajan (2015: para. 1) as “*the implicit agreement among members of a society that defines their relationship with each other and the state*” – is at the heart of any country’s chances of achieving prosperity and stability. Indeed, the social contract is central to processes as fundamental as peacebuilding, the strengthening of democracy and domestic resource mobilisation.<sup>17</sup> Yet, in many countries in the Middle East and North Africa (MENA) region, social contracts are fragile because trust in government is low. Many countries are struggling with widespread low incomes, as well as high rates of inequality, informality and unemployment. Despite these challenges, social security systems<sup>18</sup> in most countries are weak, with bifurcated systems that provide public service pensions and contributory benefits for those working in the formal economy and badly targeted ‘poor relief’ schemes for the very poorest. This model has resulted in the exclusion of a large proportion of the population living on middle – but still low – incomes, many of whom work in precarious or informal employment. This group is often referred to as the “missing middle” since they have no access to social security at all. As a result, most people in the informal economy receive minimal support from their state, despite the fact that many are struggling to get by day-to-day. Since the provision of public social goods is an essential part of maintaining the social contract – especially in the absence of political liberties in the MENA context – weak social security has been undermining social contracts between citizens and their states, with negative consequences for social and political stability.

The depth of discontent with longstanding economic grievances and the failure of government to address them revealed itself in the wave of political unrest – the “Arab Spring” – that swept across much of the region in 2011. Since then, unrest has bubbled over to differing extents in different countries, ranging from periodic protests and riots to protracted civil war. Most recently, the universal economic crisis sparked by the COVID-19 pandemic and the weak social security response to widespread job and income loss has threatened to further stoke an already precariously dangerous situation, demonstrated by the number of protests and riots in the region increasing by an estimated 45 per cent during the crisis.<sup>19</sup>

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<sup>17</sup> Kidd et al (2020).

<sup>18</sup> The terms social security and social protection are frequently used interchangeably. Social security in this paper refers to public income transfers, regardless of how they are financed (through contributions or taxes), consistent with realizing the human right to social security. See Box 3.

<sup>19</sup> Chaucer (2021).

## 1 Introduction

If MENA countries are to achieve their goals for more inclusive development, stability and economic growth, they must find a way to strengthen social contracts. Policymakers should not let themselves be disarmed or limited by the assumption that “good policies” can only arise once a system of “good politics” has been established. This assumption overlooks the role that “good policies” can play in actively strengthening democracy and nurturing the conditions required for a more stable politics over the longer term. If countries in the MENA region hope to emerge from the COVID-19 crisis with renewed trust in government and stronger social contracts, they must radically shift their approach as a policy priority, moving away from the current bifurcated and fragmented approach to social security and towards building inclusive social security systems.<sup>20</sup> Governments can do this by designing inclusive social security systems that provide universal coverage, focused on fulfilling citizens’ entitlements to social security at each stage of their life. With a commitment to investing in building stronger social contracts, there is a range of options to finance increased investments in universal social security. Instead of asking whether countries can afford to invest in their nation’s future stability and prosperity, one should sooner ask whether they can afford *not* to.

The paper is structured as follows. Chapter 2 describes the problem of weak social contracts in the MENA region. Chapter 3 examines the theory and evidence around the role that universal social security can play in generating trust in government and strengthening social contracts, and how poverty-targeted schemes, in contrast, can undermine this. Chapter 4 examines how weak social security systems have played a role in eroding social contracts in the region and have contributed to political unrest and, in some cases, civil conflict since the Arab Spring protests in 2011. Chapter 5 proposes an alternative way to approach social security, looking at how countries might introduce universal schemes and systems to build trust and strengthen social contracts.

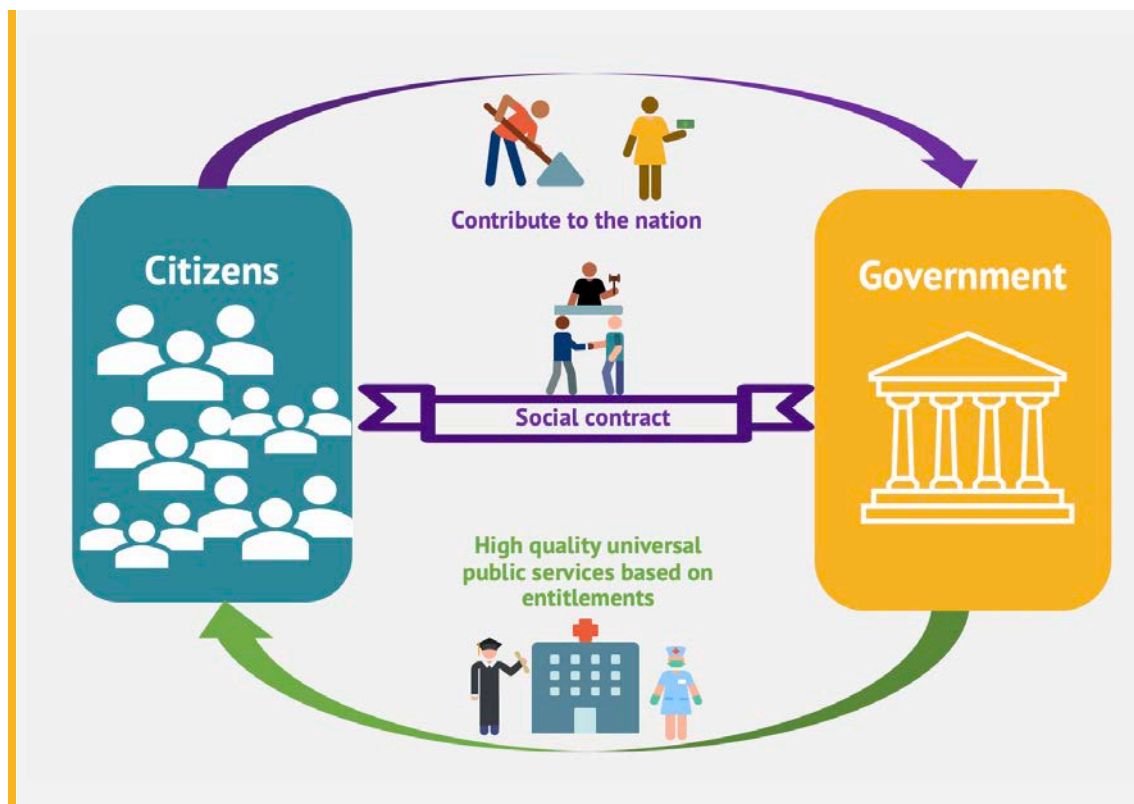
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<sup>20</sup> Sibun (2021).

## 2 The problem of low trust and weak social contracts in the MENA region

As with any contract, the foundation of a strong social contract is trust. Citizens must be able to trust that their governments are willing and able to fulfil their responsibilities to protect and provide key public services for their citizens. In exchange, if citizens trust their governments, they are more likely to fulfil their responsibilities to the state. While social contracts differ across nations, these responsibilities typically include the responsibility to pay taxes, to uphold law and order, to respect religious or cultural norms and, in democratic societies, to participate fully and transparently in democratic institutions. Figure 2-1 illustrates the basic relationship between a citizen and their government within a well-functioning social contract.

Figure 2-1: The social contract



Source: Development Pathways.

Yet, countries in the MENA region struggle with low trust in government and weak social contracts. Widespread and systemic social and economic grievances have been at the core of instability in the region. Despite seemingly strong and improving economic conditions

in a number of countries, this progress has not translated into better developmental outcomes for the majority of people.<sup>21</sup> As Devarajan (2015: para. 3) argues, widespread discontent at a time when macroeconomic indicators were misleadingly reassuring can be explained by a crumbling social contract that has “*failed to meet the aspirations of the growing middle class, and especially its youth.*” As economies have grown, they have failed to pull the majority of citizens along with them.

Countries have long been struggling with high rates of poverty, inequality, informality and unemployment. Poverty has been steeply increasing over the last decade and, according to the World Bank, extreme poverty in the region rose from 3.8 per cent in 2015 to 7.2 per cent in 2018.<sup>22</sup> The UN’s World Income Inequality Database ranks the Middle East as the most unequal region in the world, while youth unemployment rates in the MENA region have been the highest in the world for over 25 years, reaching 28 per cent in 2020.<sup>23</sup>

Far too many people in low- and middle-income MENA countries are experiencing low and precarious incomes, with roughly 45 per cent of persons in the MENA region living on less than USD 5.50 (in PPP terms) per day in 2018. This is further demonstrated by Figure 2-2, which compares the welfare distribution in Tunisia and Morocco with the welfare distribution in Sweden.<sup>24</sup> In Tunisia and Morocco, respectively, 85 per cent and 88 per cent of the population are poorer than the poorest 6 per cent of Swedes. Despite a situation where far more people are living on very low incomes, Tunisia and Morocco – like many low- and middle-income countries in the MENA region and around the world – have historically relied on a residualist approach to social policy that attempts to identify only those deemed “poorest” as deserving of benefits, while Sweden implements a range of universal social security benefits and other services as the right of all its residents and, notably, began doing so when it was much poorer than it is today.<sup>25</sup> This under-provision of core public services, including social security, has taken its toll on the prospects and living standards of the majority of citizens, breeding a sense of injustice over the way that public goods and economic opportunities are distributed within MENA societies.

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<sup>21</sup> Belhaj and Hoogeveen (2020); Devarajan (2015).

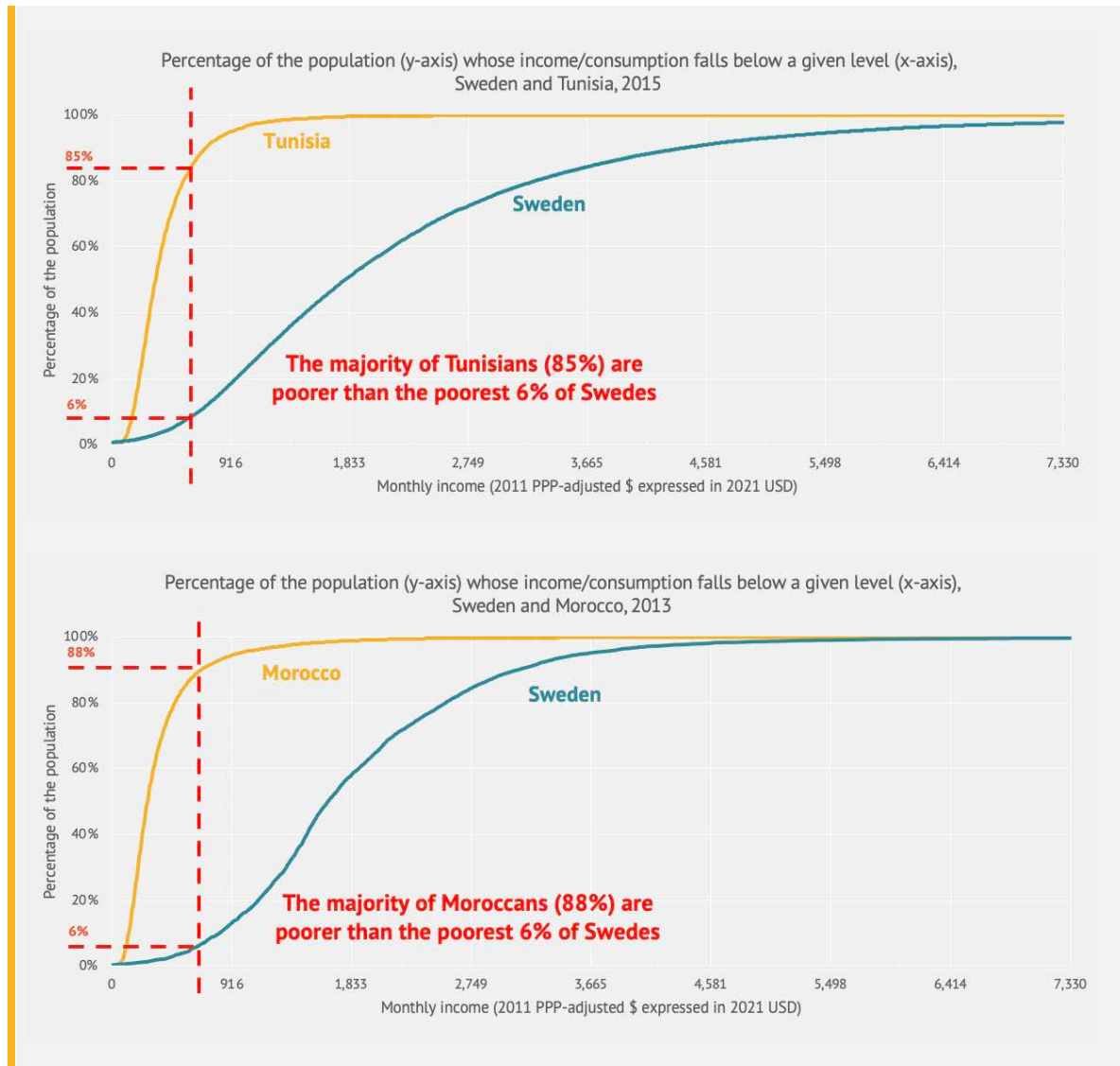
<sup>22</sup> Schoch and Lakner (2020). The World Bank uses the term ‘extreme poverty’ to describe those living on less than USD 1.90 per day (PPP)

<sup>23</sup> Kabbani (2019); World Bank Development Indicators. (2020). Percentage of total labour force (aged 15-24).

<sup>24</sup> Welfare is measured by consumption for the MENA countries and by income for Sweden, given the data available.

<sup>25</sup> Kangas and Palme (2005).

Figure 2-2: Comparison of welfare distribution in Tunisia and Morocco with welfare distribution in Sweden



Source: PovcalNet API (accessed in May 2022). Notes: for Sweden welfare is defined as income, and for Tunisia and Morocco it is consumption

Under such conditions, uprisings across MENA countries during the Arab Spring of 2011 were seen, in large part, as a result of the failure of trust and social contracts within these countries. Within a context of widespread economic hardship, many people were frustrated at the way economic and political goods were distributed in societies and lacked faith in government to address this.<sup>26</sup> This is consistent with a strong body of global evidence which establishes a link between economic grievance and inequalities

<sup>26</sup> Ianchovichina (2018); Belhaj and Hoogeveen (2020); Meskoub (2020).



and incentives for violence or civil unrest.<sup>27</sup> The Arab Spring followed the global financial crisis of 2008, which had put further strain on governments' ability to provide social policy and led to a period of subsidy reform in many countries around the region, which (as discussed in Section 4) was not accompanied by any alternative social provisioning to address the aftershock of these reforms on household wellbeing and, as a result, their trust in government. Since the Arab Spring, a significant number of countries across the region have faced armed conflict and/or a fall in oil prices (as notably happened in 2014), which have continued to stifle economic growth and political stability. In 2019, another wave of mass popular protests shook several countries, with unrest in Sudan and Iran triggered by a sudden jump in the price of basic goods (bread in Sudan and petrol in Iran). This protest in Sudan eventually toppled the dictatorship of President Omar al-Bashir.

This sense of injustice that the current system was failing the majority of people largely applied to both the political and the socio-economic systems which, in most countries in the region, have historically been very much intertwined within kleptocratic and authoritarian political economies. The accumulation of capital by a small political elite and the narrowing of economic opportunities for the vast majority of citizens led to increased disillusionment. The precarious “authoritarian bargain” that emerged as the dominant social contract in post-independence states – whereby social goods compensated citizens for political acquiescence to authoritarian governance – began to break down when governments were no longer able to provide public sector jobs and started to cut subsidies without introducing viable alternatives.<sup>28</sup> There were not enough jobs provided by the private sector to absorb the surplus of demand in the labour market, as many governments had assumed there would be when they had shifted to a market-led strategy and adopted radical economic re-structuring plans. At the same time, the youth population in many countries was growing. A “youth bulge” emerged: the proportion of young adults aged under 24 years in the population of MENA countries reached 50 per cent on average in 2015.<sup>29</sup> Many of these young people were educated but disenfranchised and frustrated at the lack of jobs available to them in highly unequal societies.<sup>30</sup> Therefore, a lack of economic opportunities and the (current and planned) removal of subsidies led many people to question what their governments were providing for them, especially in the absence of political freedoms or an unrestricted civil society.

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<sup>27</sup> Koubi. and Böhmelt (2014); Deraniyagala (2005); Stewart et al (2005); Stewart (2008); Murshed and Tadjoedin (2009); Keen (2007).

<sup>28</sup> Loewe et al (2019); Meskoub. (2020); Ianchovichina (2018).

<sup>29</sup> Daffron (2016).

<sup>30</sup> Daffron (2016).

## 2 The problem of low trust and weak social contracts in the MENA

Importantly, these economic grievances have been suffered by the middle classes across MENA countries, who have been the primary protagonists of popular unrest. Data from Arab Barometer found that, during the Arab Spring, it was mainly middle-class and relatively affluent people who rose to protest the status quo (who represent the same “missing middle” largely excluded from social security systems, as discussed further in Section 4).<sup>31</sup> Further, in all countries other than Tunisia (where the protest participation rate was highest among students), most protesters were fully employed, suggesting that protesters had a wider set of economic grievances beyond solely labour market concerns, and, as Ianchovichina (2018: 117) summarises, were from “*a diverse group of mostly young people who were middle class or affluent*”.

Loewe et al (2019: 3) note that, in the uprisings of the 2011 Arab Spring, many protesters did not share the same end goals: “*some called mainly for more social justice and political freedom, while others called for a return to the old service-oriented populist social contracts*”. Still, while some wanted to move forward into a new democratic social contract and others were happy to repair the old post-colonial social contract, the common thread was that the old social contract was, and remains, demonstrably broken. Whatever the specific demands and visions of the protesters, there can be no doubt that the protests reflected a deep and widespread dissatisfaction in living standards and the way economic opportunities were distributed.

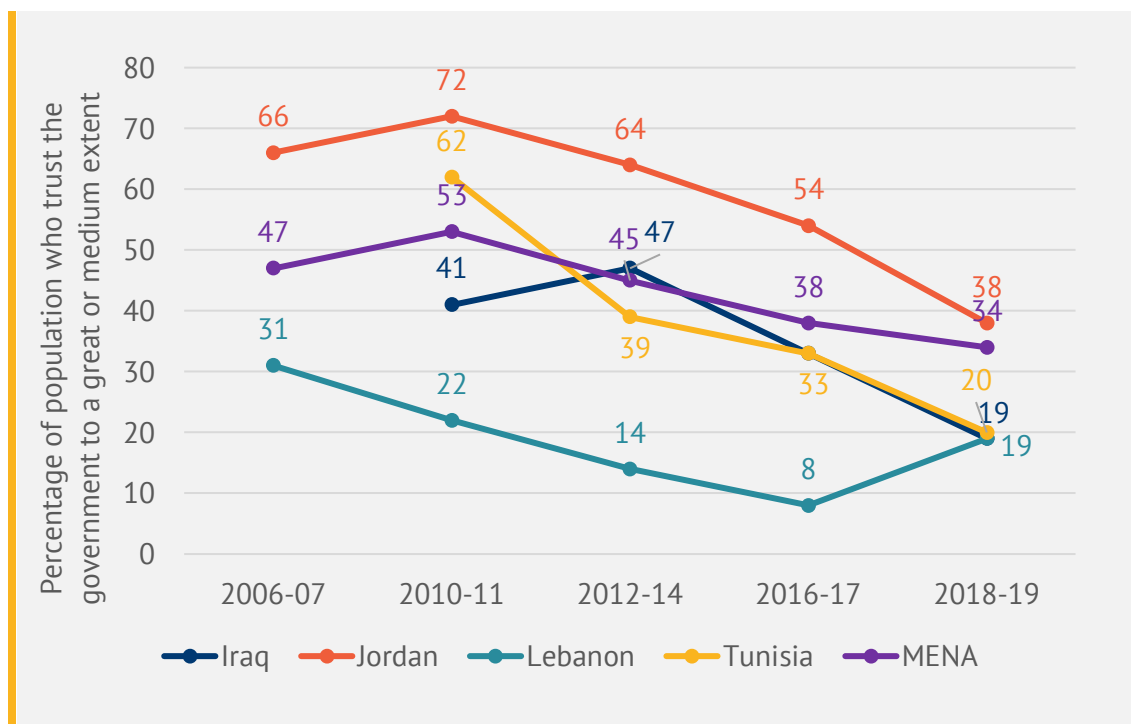
Crucially, social contracts across the region will only continue to erode the longer the issue of trust is left unaddressed. Survey data from Arab Barometer suggests that in a number of countries and in the MENA region on average, trust in government is at even lower levels than in 2011 during the Arab Spring. As Figure 2-3 shows, trust in government in the region has been steadily declining since 2010/11, with the proportion of people who trust in government to a great or medium extent plummeting by 19 percentage points in 2018/19 compared to 2010/11, from 53 per cent to 34 per cent. Moreover, these survey results reflect the situation before the COVID-19 crisis, which has put unprecedented economic strain on households across the MENA region and has been met with an underwhelming social security response from government.<sup>32</sup>

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<sup>31</sup> Ianchovichina (2018).

<sup>32</sup> Sibun (2021); ILO (2021a).

**Figure 2-3: Trust in government in Iraq, Jordan, Lebanon, Tunisia and the MENA region on average over time (percentage of population who trust the government to a great or medium extent)**



Source: Robbins (2020).

The recent economic crisis generated by the COVID-19 pandemic has sorely highlighted how the threat of unrest from the unravelling of weak social contracts is just as present as ever, activating the re-emergence of instability and anti-government protest in the region. It has demonstrated with a new vigour the inability of existing social security systems in the region to respond adequately to grievances (as outlined in Section 4).<sup>33</sup> In the MENA region, where the self-employed (both formal and informal) and micro-enterprises account for 70 per cent of total employment, the unprecedented disruption to businesses led to major income and job loss. For example, in Morocco, the average monthly income of individuals halved during lockdown.<sup>34</sup> Overall, the ILO estimates labour income losses of 8.4 per cent for Arab states, the equivalent of five million full-time (48-hour working week) jobs lost.<sup>35</sup> The IMF warned in 2020 that the widespread income and job loss precipitated by the COVID-19 crisis – and the resultant worsening of inequalities within societies – threatened to exacerbate social unrest globally if left unaddressed by

<sup>33</sup> Sibun (2021).

<sup>34</sup> Morocco Employment Lab (2020).

<sup>35</sup> ILO (2021a).

governments.<sup>36</sup> Indeed, this has proven true in the MENA region perhaps more than anywhere else, with observers estimating that civil unrest surged by 45 per cent as a result of the crisis.<sup>37</sup>

Low trust in government can also undermine the capacity of governments to generate public revenues. When members of society do not trust the government to protect their rights and offer good quality public services for everyone, they have less incentive to meet their corresponding responsibilities to the state, including to pay taxes (see Box 1) Low trust can negatively impact on the ability of governments to mobilise the revenues needed to realise

developmental outcomes, which can trigger a vicious cycle of low trust in government and a weak social contract. Data on government revenues since 2010 (presented in Figure 2-4) suggests that this has been happening in MENA countries. As a general rule,

### Box 1: Tax and trust

As Rothstein (2018) points out, the willingness of citizens to pay taxes is conditioned on a number of leaps of faith: trust in the impartiality and fairness of tax collection; trust that the taxes collected will be spent with transparency on public goods instead of disappearing to corruption; trust that a service or benefit will be delivered when one needs it; and, crucially, trust that when a service or benefit is delivered, it will be done in a way that respects their integrity and dignity. If citizens are disinclined to pay taxes due to their low trust in government, this leads to low government revenues and, therefore, low investment in public services, which further undermines trust, leading to a vicious cycle.

government revenues have declined between 2010 and 2020 in countries across the region, in some cases significantly so, and indeed only Morocco and Tunisia saw slight improvements over this critical decade. This trend reinforces that countries across the MENA region are suffering from weak social contracts. The next section lays out theory and evidence around the role that social security can play in either exacerbating or addressing this problem, depending on the approach that countries choose in designing programmes.

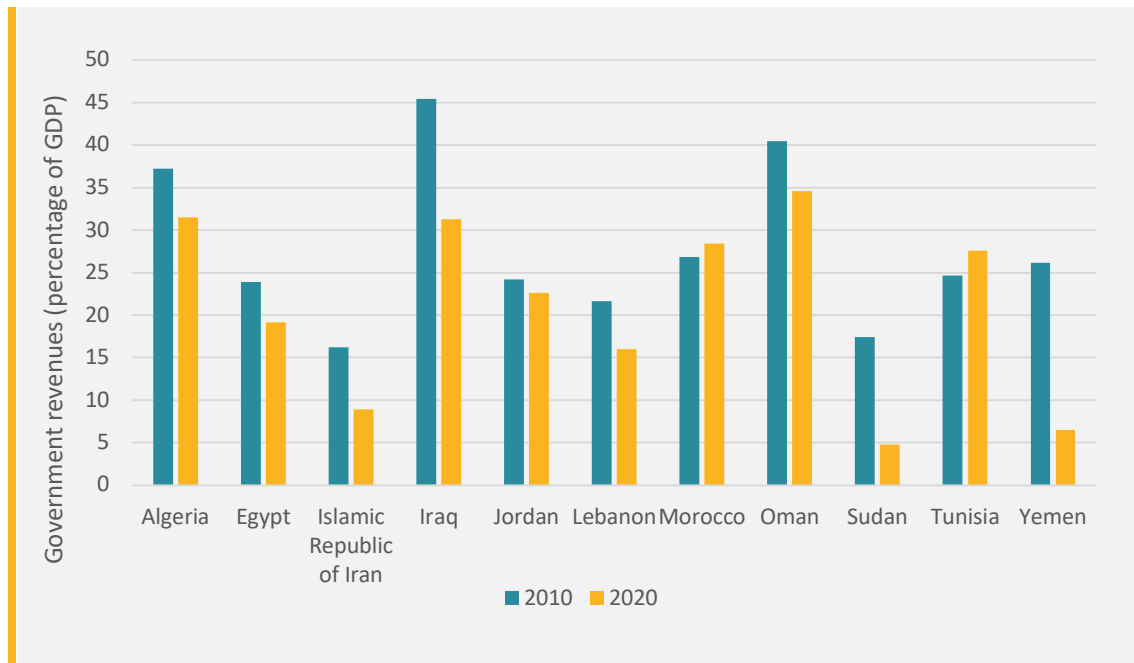
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<sup>36</sup> IMF (2021).

<sup>37</sup> Chaucer (2021).

## 2 The problem of low trust and weak social contracts in the MENA

**Figure 2-4: Government revenues across MENA countries as a percentage of GDP in 2010 and 2020**



Source: IMF Economic Outlook Database

## 3 Social security, trust and social contracts: Theory and evidence

This section sets out the theory and evidence around the impact of social security on building trust between people and governments as the basis for strong social contracts. A first sub-section considers the evidence of how choosing to narrowly target social security to very small segments of the population can actively undermine trust and weaken social contracts. A second sub-section considers the role that inclusive social security can have in building trust, examining how this happened in Western Europe following the Second World War.

### 3.1 Poverty targeting can undermine trust in government and weaken social contracts

There is growing evidence from around the world that poverty-targeted social security can accentuate divisions and actively weaken social contracts. Ultimately – in contexts where low incomes, insecurity and poverty are widespread – schemes that set out to identify and target only “the poorest” or “most deserving” are likely to be perceived as arbitrary and unfair in their selection of recipients. This is accentuated when targeting is implemented poorly. Yet, poverty-targeted schemes frequently exclude the majority of people who require support, even excluding a large proportion of those among their intended target population due to a mixture of design and implementation

#### Box 2: Proxy means testing (PMT)

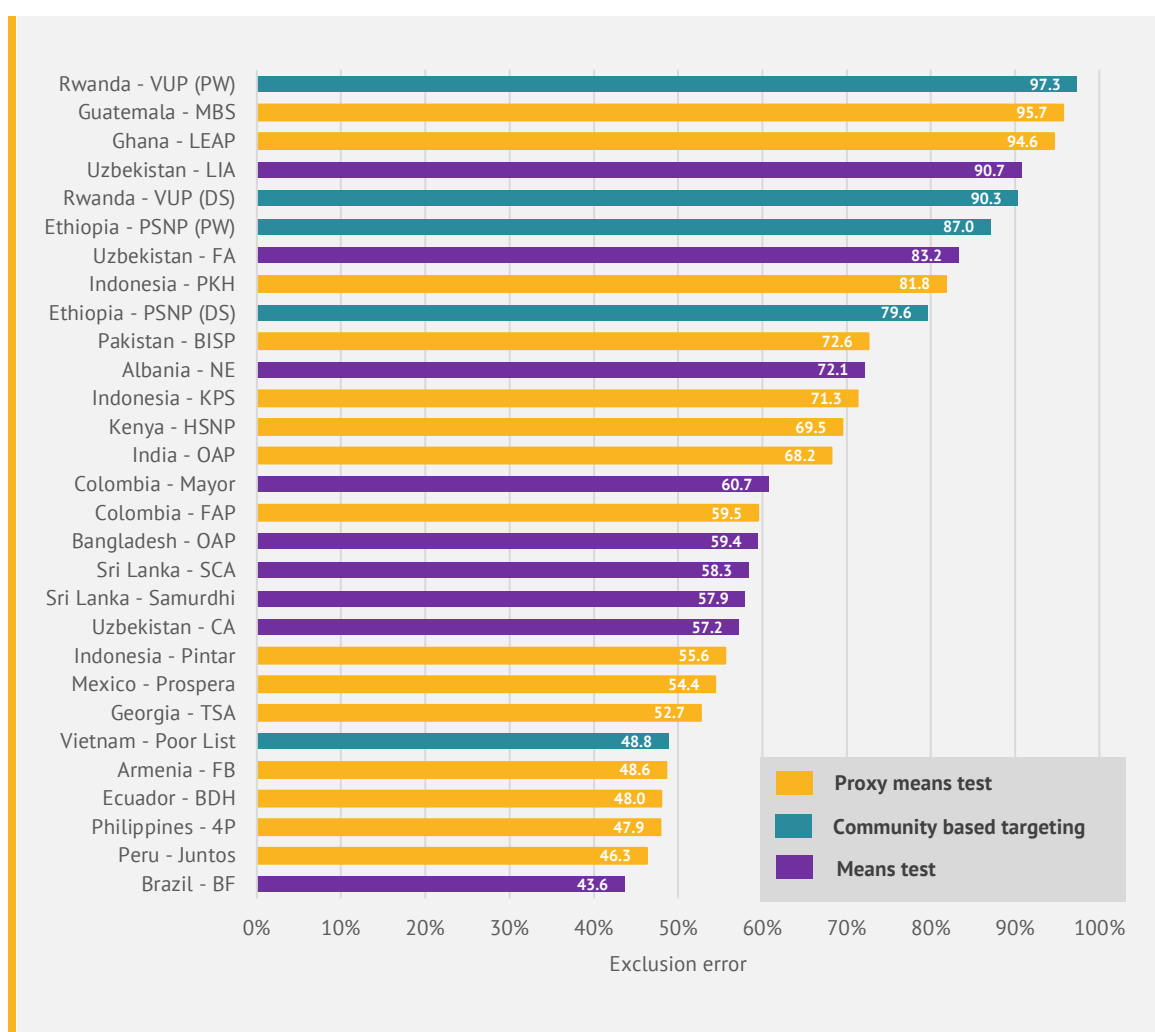
Poverty targeting is often undertaken using a proxy means test (PMT), which utilises a household survey to develop a number of proxies to statistically predict a household’s income and therefore determine eligibility for a poverty-targeted scheme. However, PMTs are highly inaccurate for several reasons which include both design and implementation errors. Firstly, in contexts where low incomes are widespread and dynamic it can be extremely difficult to differentiate among potential recipients. This is particularly the case in countries experiencing financial crises, war, conflict and other shocks, as many countries in the region are (Kidd, S. D., 2022). Secondly, for a PMT to be accurate, it must utilise up-to-date data.

Yet, many countries in the region (as elsewhere in the world) are not in a strong position to update household surveys and keep the data current, lacking the sufficient human resources to do so. For example, in Yemen, no improvements have been made to the PMT in a decade due to ongoing conflict, yet the use of the PMT to identify beneficiaries for the Social Welfare Fund (SWF) is still promoted by the World Bank as an efficient way to target the poor. Thirdly, PMTs are not an accurate indicator of wealth, particularly when beneficiaries are assessed at the household level, which can exclude individuals with no access income that may be living within wealthier households. The challenges of using PMTs are well presented in [this infographic by the Centre for Social Sciences Research and Action \(CeSSRA\)](#). Despite growing evidence of inaccuracies and other disadvantages, countries in the region are increasingly adopting PMTs, often supported by the World Bank (see Kidd, S. D. (2022) for further details).

### 3 Social security, trust and social contracts: Theory and evidence

errors (see Box 2). As Figure 3-1 shows, global experience demonstrates that poverty-targeted schemes are unable to accurately identify and reach “the poor”. Even the poverty-targeted programme that performs best in terms of reaching intended recipients, Brazil’s *Bolsa Familia*, still excludes nearly half (roughly 44 per cent) of intended recipients. Other poverty-targeted programmes exclude upwards of 90 per cent of the population they target and intend to reach.

**Figure 3-1: Exclusion of intended recipients by social security programmes targeting the poorest 25 per cent of their intended category or less**



Source: Kidd and Athias (2020)

The seemingly arbitrary exclusion of large sections of the population who require support from their state can accentuate divisions rather than fostering national unity and trust, both among members of society and between society and the state. The targeting of groups based on an often almost-random assessment that they are “the poorest” – especially in contexts where widespread and dynamic low incomes mean that it can be

extremely difficult to differentiate among potential recipients – can perpetuate notions of stigma and shame around accessing benefits. In Mongolia, for example, the stigma experienced by beneficiaries of the Child Money Programme (CMP) when it was targeted was identified as an important reason for moving towards a universal approach to the scheme.<sup>38</sup> As a result of this stigma, such assessments of who is and who is not “deserving” of the benefits can have harmful impacts on cohesion within communities, fostering division and feelings of exclusion. In Peru, for example, a study looking at the poverty-targeted *Juntos* programme found that the targeting of benefits eroded trust within communities, with non-beneficiaries perceiving beneficiaries as undeserving and accusing them of lying to get onto the programme and misusing the transfers.<sup>39</sup>

Another consequence of seeking to target transfers to “the poorest” in countries with relatively flat income distributions is the problem of social ordering or “leap-frogging”, which can also harm trust at both the community- and national-level. If there is little difference between the income of most people, providing one group with benefits set at a value sufficient to raise them out of poverty but excluding everyone else is likely to result in the “reordering” of society. This can generate resentment among those who lose their relative position within society as a result of the elevation of “the poorest” and this tumultuous reshuffling of relative status can fuel social divisions.<sup>40</sup> For this kind of “*socially invidious reshuffling of the income distribution*” to be avoided by the use of poverty-targeted schemes, Ellis (2012: 201) found that the value of benefits must be kept too low to achieve the welfare impacts they seek to achieve, thereby precluding their effectiveness and indicating that alternative approaches might instead be considered.

Another way in which poverty targeting can undermine trust is through its tendency to reinforce clientelism and the susceptibility of targeting methodologies to co-optation by existing networks of power. Importantly, although poverty targeting is often presented as a purely technical exercise, it is inevitably embedded within the politics of the context or setting it takes place in. Poverty targeting creates a situation whereby discretionary decisions must be made around the distribution of resources in the absence of any clear-cut or immediately-obvious means of identifying “the poorest”. This makes the process vulnerable to corruption and makes it difficult to hold decision-makers in responsible for targeting to account.<sup>41</sup> Many studies have raised concerns about the influence of corruption and clientelist political structures on the distribution of benefits under

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<sup>38</sup> Hodges et al (2007).

<sup>39</sup> Camacho (2014).

<sup>40</sup> Ellis (2012); Lavers (2022).

<sup>41</sup> Lavers (2022).



poverty-targeted schemes.<sup>42</sup> Other studies have identified the clientelist co-optation of targeted benefits more explicitly. This dynamic is seen in India, for example: in West Bengal, Das (2015) found that clientelism is used to secure party political support and, in Uttar Pradesh, Marcesse (2018) found it was used to consolidate the position of local elites. Similarly, in Bangladesh, Galasso and Ravallion (2005) found that elite manipulation of targeting was a common feature in the distribution of benefits under the Food-For-Education programme.

In contexts with high levels of inequality and a precarious threat of social unrest, promoting poverty-targeted schemes which perpetuate these kinds of harmful impacts on trust is tantamount to pouring petrol onto the fire. In fragile contexts – and, in fact, in most low- and middle-income contexts – where almost everyone is living on precariously low incomes, poor relief makes little sense, even if it could be done accurately.

## 3.2 Universal social security can promote trust in government and strengthen social contracts

Universal rights-based social security, on the other hand, can play a vital role in promoting trust in government. This approach to social security focuses on building systems using universal programmes – or combinations of programmes that together achieve universal coverage – that address lifecycle contingencies. Universal access to social security has been regarded as a basic human right ever since the Universal Declaration of Human Rights (UDHR) was agreed in 1948 (see Box 3). Fast forward to 2012,

### Box 3: The human right to social security

- **Article 22:** “Everyone, as a member of society, has the **right to social protection**”
- **Article 25:** “(1) Everyone has **the right to a standard of living** adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the **right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.** (2) Motherhood and childhood are entitled to special care and assistance. **All children**, whether born in or out of wedlock, shall enjoy the same **social protection.**”

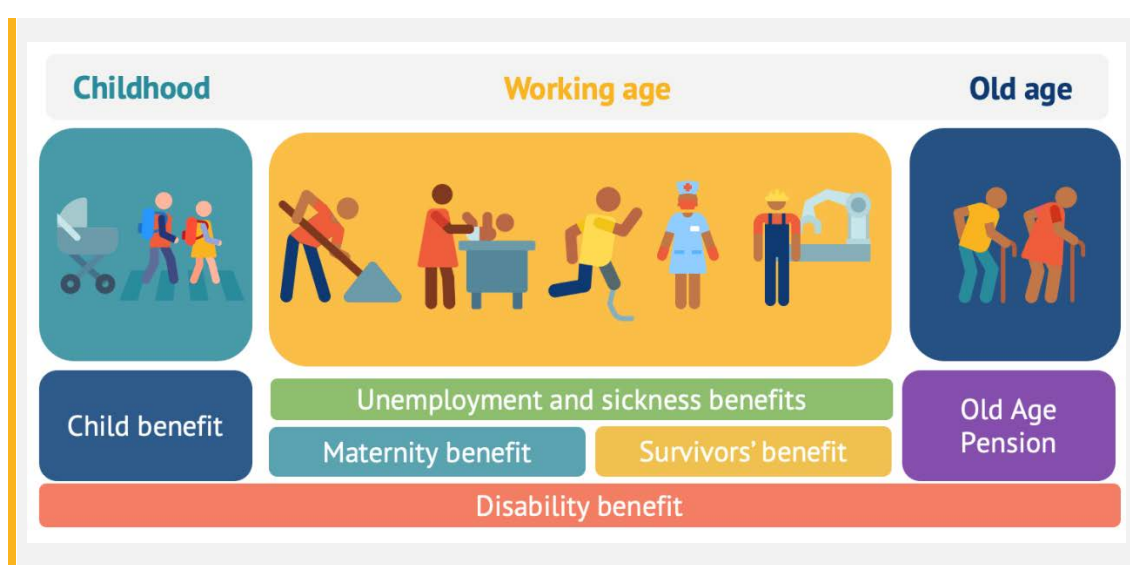
The right to social security is repeated in a range of other international conventions.

In this sense, contrary to some conventional understandings of social security that conflate social security with contributory financing instruments like social insurance or even with specific institutions that deliver contributory benefits, social security is best conceived of as an outcome to be achieved – a human right – through the most appropriate means of financing available. See “Glossary” in ILO (2014).

<sup>42</sup> Wanyama and McCord (2017); Abdulai (2019; 2020); Hickey and Bukenya (2021); Pruce and Hickey (2019); Galasso and Ravallion (2005); De La O (2013); Das (2015); Maiorano et al. (2018); Marcesse (2018).

when the concept of the social protection floor was endorsed globally, through [Recommendation No. 202 of the ILO](#), which called for basic income and health security for everyone during childhood, working age and old age. Historically, social security systems have been designed to cater for a common set of core lifecycle or labour market contingencies, as depicted in Figure 3-2. In the most successful systems, these benefits cover all individuals – regardless of their income or labour market status – during these periods and may be financed by taxes or contributions, or a combination of the two.

**Figure 3-2: Model of a universal lifecycle social security system**



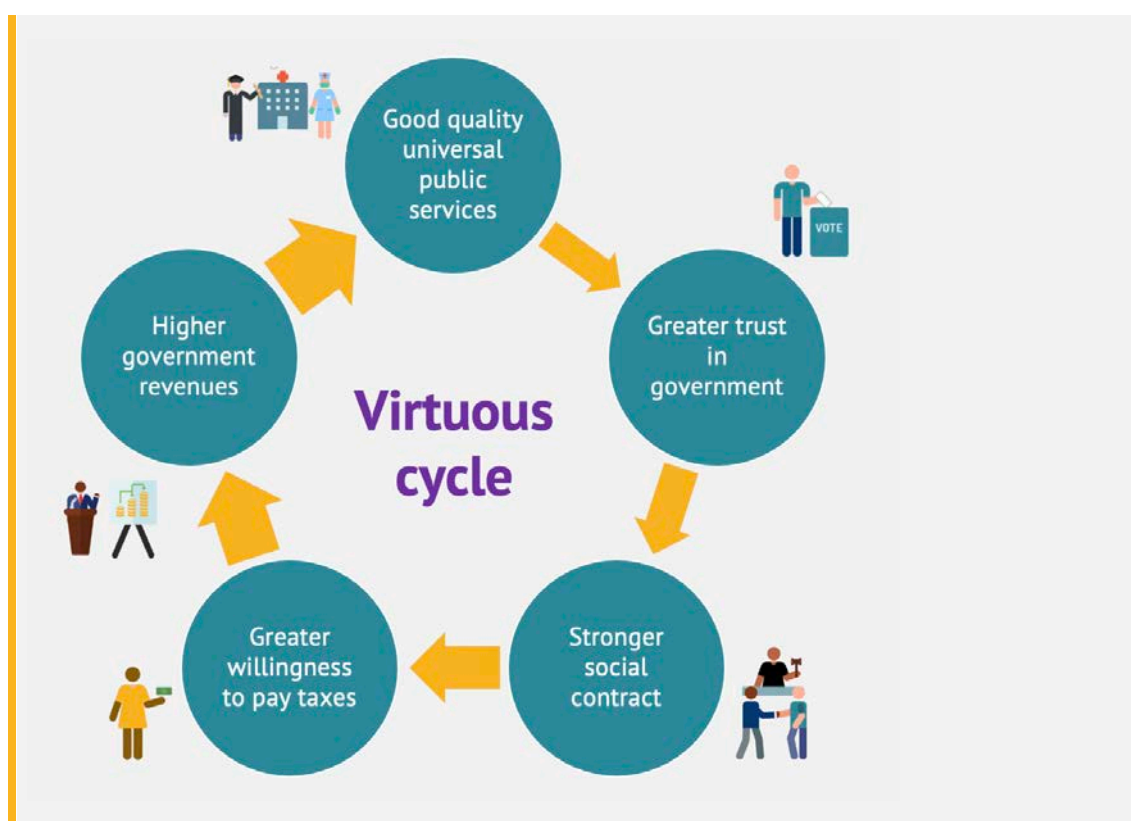
Source: Development Pathways

Investing in *good quality universal public services* – which include healthcare, education and social security – is a clear demonstration that governments are willing to invest in the wellbeing and prosperity of their populations. Yet, good quality health and education services cannot be established quickly, since improvements in the quality of these services tend to happen gradually over time. It takes a long time to construct the necessary infrastructure, to build schools, clinics and hospitals, train teachers and medical staff and transform service delivery cultures.<sup>43</sup> Increasing investment in universal social security, on the other hand, can reap benefits that are more instantly visible to citizens. The cash they receive in their hands each month would be visible proof that the government is delivering on its word and providing a high-quality public service. This can set in motion a virtuous cycle of generating higher government revenues and strengthening the social contract, as set out in Figure 3-3. Once citizens have greater trust

<sup>43</sup> Kidd et al (2020).

in government, the social contract becomes stronger and people are likely to be more willing to pay their taxes, generating higher government revenues which can, in turn, be invested in building higher-quality public services for all, and so the positive cycle can continue.

**Figure 3-3: The virtuous circle of investing in universal social security to generate higher government revenues**



Source: Kidd et al (2020a).

Historically, universal social security has played a key role in strengthening national social contracts and facilitating inclusive development, as happened after the Second World War in Europe.<sup>44</sup> Prior to the Second World War, social security in much of Europe was characterised by a “poor relief” model, which centred on the provision of limited social assistance to the poorest members of society through hand-outs, regarded not as an entitlement or a right guaranteed by the state but rather as “charity”.<sup>45</sup> For those of working age regarded as the “underserving poor”, receiving assistance was made

<sup>44</sup> Sweden’s Ministry of Finance (2017); Rothstein (2018); Kidd et al (2021).

<sup>45</sup> Kidd et al (2020).

conditional on participation in workfare programmes, the most famous of which were the punitive workhouses of 19<sup>th</sup> Century England.

The devastation inflicted by the Second World War, however, provided a catalyst for the complete transformation of approaches to social policy across Western Europe. Countries recognised that widespread extreme poverty and inequality were key underlying drivers of the war and began to address them, moving away from a social model based on poor relief. Instead, political parties were voted into power based on their promises to reduce poverty and tackle inequality through the national redistribution of wealth and the provision of universal public services.<sup>46</sup>

Throughout Western Europe, progressive policymakers established universal public services, gradually building comprehensive welfare states. In 1948, the Universal Declaration of Human Rights (UDHR) was established, capturing the aspirations of governments and their citizens to achieve more inclusive development on the global stage. At the heart of the UDHR was a commitment to the universal provision of public services, including social security. Innovative, universal, lifecycle social security schemes sprung up across the continent, including universal child benefits in Finland (1948), Sweden (1948) and the United Kingdom (1946) while universal old age pensions became increasingly common.<sup>47</sup> Over time, European countries built large-scale inclusive, and often universal, lifecycle social security systems, focused on providing protection against the contingencies that people would face across their lives, in line with the stipulations in the UDHR.<sup>48</sup> These rights were further encapsulated in Convention 102 of the International Labour Organization, in 1952 and a range of other international social security, labour and international human rights frameworks.

As the social contract was strengthened, members of society became more willing to pay higher taxes in exchange for better quality public services. As a consequence, higher revenues were generated across Western Europe. For example, in France, Sweden and the UK, government revenues soared between 1945 and 1950, as shown by Figure 3-4. In many countries, government revenues continued to grow: in France and Sweden, for example, they reached 50 per cent of GDP by 2000 and, in the UK, revenues plateaued at around 35 per cent of GDP from the 1970s. This was also partly because these countries simultaneously implemented mandatory payroll taxes to finance the benefits within

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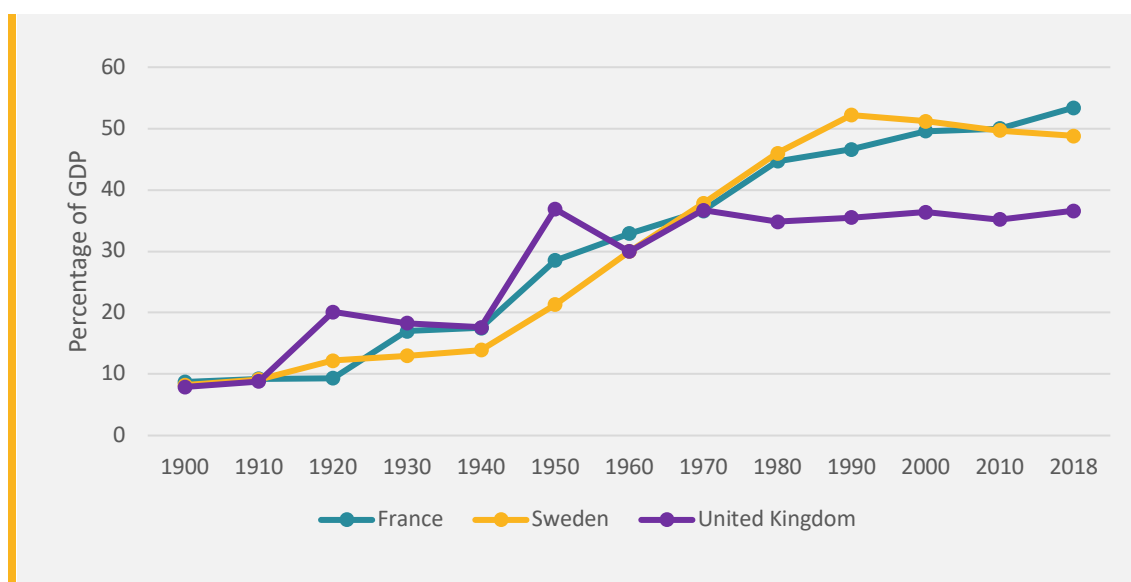
<sup>46</sup> Kidd et al (2020).

<sup>47</sup> In the United Kingdom, the child benefit introduced in 1946 was only for the 2<sup>nd</sup> child onwards. It only became truly universal for all children in 1977.

<sup>48</sup> Prior to the Second World War, some European countries had begun investing in small universal schemes – such as Sweden's universal old age pension which began in 1913 and may have played a small role in the overall increase in government revenues at the time.

mutually reinforcing systems that respected the tax-benefit principle. The resultant increase in revenues enabled many public services – including core lifecycle social security schemes such as child, old age and disability benefits – to be sustained and enhanced by successive governments on a universal basis, irrespective of their ideological tendencies. Importantly, these higher revenues boosted post-war economic growth, consolidating the advantageous position of forerunners in the global economy that high-income Western European countries enjoy today.

**Figure 3-4: Government revenues as a percentage of GDP in France, Sweden and the United Kingdom (1900-2018)**



Source: <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>. For some years, the information for Sweden is given for the closest year.

Crucially, universal or broad-based benefits and the greater trust that they generated helped drive the higher revenues from tax that helped countries strengthen social cohesion and maintain long-term peace in Europe following the Second World War.<sup>49</sup> With greater revenues, governments could invest further in good-quality public services and other public goods, further strengthening social contracts, boosting more inclusive economic growth and consolidating stable and peaceful nations. It is well-established that economic hardship and inequalities exacerbate social tensions, acting as a key driver of unrest and, ultimately, conflict.<sup>50</sup> By directly addressing economic grievances and

<sup>49</sup> Although Europe has enjoyed relative peace since 1945, there are some exceptions: for example, the war resulting from Russia's invasion of Ukraine in February 2022 and conflicts in Georgia, Macedonia and Kosovo in the last two decades highlight that there continue to be challenges in some countries.

<sup>50</sup> Koubi, and Böhmelt (2014); Deraniyagala (2005); Stewart et al (2005); Murshed and Tadjedin (2009).

redistributing wealth in a clear and fair way, universal or broad-based benefits are an important tool for nurturing social cohesion.

Universal social security systems, and especially inclusive tax-financed benefits that ensure everyone is covered regardless of connections to the labour market, can be used to build nation-states and repair social contracts, especially in fragile contexts where there is the threat of unrest or conflict. Arguably, over the past 30 years, the provision of universal old age pensions has contributed to stronger national social contracts in a range of previously fragile low- and middle-income countries, such as Bolivia, Georgia, Kosovo, Mauritius, Nepal, South Africa and Timor-Leste.<sup>51</sup> In South Africa, the provision of near-universal lifecycle benefits following the fall of apartheid in 1994 played a fundamental role in laying the foundations to build a new post-apartheid social contract.<sup>52</sup> The 1996 Constitution promulgated by the new post-apartheid government mandated the State to protect the welfare of its citizens, establishing in Section 27(1) that every citizen has the right to “*health care, food, water and social protection*”. This clear commitment by the state to tackle inequalities and promote the welfare of all citizens played a fundamental role in establishing the legitimacy of the post-conflict social and political order.

Similarly, in Nepal, universal social security has played an important role in building a national social contract capable of fostering greater social cohesion following civil conflict. As Druzca (2016: 253) has argued in Nepal: “*Giving excluded citizens access to government benefits enables them to feel part of the system of the state and to have a relationship with the government. It gives them a sense of citizenship, rights consciousness, and of feeling included, respected, and cared for.*” Establishing a relationship of mutual trust between citizens and the state is essential to breaking the vicious cycles of unrest and conflict that countries in the MENA region have struggled with for decades. Introducing a national old age pension and/or child benefit in fragile countries such as Lebanon, Iraq, Syria or Yemen could be a game-changer in building national social contracts and in signalling to everyone that they are part of a nation-state that they can trust to protect their rights.

If countries continue to rely only on poverty-targeted programmes, the systems will continue to undermine trust in government. If they choose to invest in building universal systems which centres the state as the key provider of good-quality public services, they can instead nurture a healthier relationship between people and their governments, in

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<sup>51</sup> See Kidd, Axelsson et al (2020) for more information.

<sup>52</sup> Seekings (2020; 2021). While the immediate post-apartheid government did not fully embrace social grants, the turning point came in 2000 where the links between structural widespread poverty, social grants and development objectives were acknowledged and coalesced.

### *3 Social security, trust and social contracts: Theory and evidence*

turn fostering a culture of reciprocity, solidarity and mutual understanding of rights and responsibilities, while also promoting stronger economic growth, all of which are essential ingredients to finance and drive the expansion of social security. In doing so, governments can put people at the heart of a new social contract and grow peaceful and prosperous nations across the MENA region.

## 4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA region

Despite a growing body of evidence that inclusive social security is central to building the social contracts required to underpin stable and prosperous nations, social security systems in MENA countries remain generally weak and under-funded. Of course, the region is diverse and national experiences of social security differ across countries. Yet, a common historical legacy can be broadly identified, whereby a system of high coverage subsidies was replaced with bifurcated systems. Under these systems, social insurance is provided to a minority elite and poor relief is sporadically provided to a small group of “the poor”, systematically excluding the vast majority of the population from accessing much-needed income support. This legacy of weak and low coverage social security is actively undermining social contracts between citizens and states in MENA countries.<sup>53</sup>

In some countries in the region (Iraq, Palestine, Syria, Yemen), protracted conflict has been an enduring reality, and, in others, waves of protest and political unrest have brought precarity and recurrent instability (Algeria, Egypt, Lebanon, Morocco, Tunisia, Sudan). Across the region, many people are dissatisfied with endemic inequalities and widespread low incomes and, by failing to address these grievances adequately, governments are stoking a precariously dangerous situation. This chapter outlines how weak social security is undermining trust in government and stoking high levels of inequality, which risks seriously compromising social and political stability in the region. A first section briefly contextualises the broad historical legacy of approaches to social security in the region and a second section outlines how the failure of social security systems to incorporate the “missing middle” is exacerbating instability in the region.

### 4.1 The historical legacy of social security in the region

Across the region, national social security and broader social security systems are incomplete and inadequate. This is partly due to the historical origins of their

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<sup>53</sup> In some contexts, weak social policy provision also provides an opportunity for sectarian and religious groups to gain legitimacy by meeting demand through the informal provisioning of social assistance, further weakening social contracts between the state and its citizens. For example, in Palestine, many scholars have argued that Hamas’ effectiveness at providing social welfare support played a fundamental role in its rise in popularity and support as a legitimate political actor, even among those who do not identify fully with its ideology (Malika, 2007; Levitt, 2007; Szekely, 2015; Grynkeiwich, 2008).



#### 4 *The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

development, whereby the “authoritarian corporatist” model that characterised social policy provision in MENA countries in the post-colonial period between the 1950s and 1970s began to break down and was replaced with poverty-targeted schemes for the poorest and social insurance for the better off, resulting in a system with high rates of exclusion.<sup>54</sup>

In most MENA countries, as post-colonial nations were built, authoritarian governance structures were established.<sup>55</sup> Despite the restriction of political and civil rights, most regimes implemented social policies, with most providing free schooling, subsidised healthcare, subsidised food staples and public utilities and pensions for state employees.<sup>56</sup> In MENA countries, instead of being motivated by grassroots demands from democratically mobilised social movements as was the case in Western industrialised countries, these social reforms were a core part of the nation-building process for post-colonial states and, over time, became key to legitimising state power. In fact, the provision of subsidies, other social policies and good public-sector jobs were a key part of a new and politically precarious post-colonial social contract. Often dubbed the “authoritarian bargain”, this social contract provided key social goods in exchange for political acquiescence to authoritarian governance.<sup>57</sup> In effect, these social goods compensated citizens for tacit recognition of a regime’s legitimacy to govern in the absence of political participation or civil society engagement.

By the mid-1990s, most of the large and diversified MENA countries had some form of social security in place for formally employed workers, including old age, disability, survivorship and work injury programmes. However, the scope of these systems was very limited, with programmes extended only to those in formal employment.<sup>58</sup> This was mainly public sector employees, who were predominantly male, and their families, thereby excluding the majority of populations from much-needed support. The legacy of this particular variety of corporatism has meant that, while most countries have social insurance schemes in place today, they are limited to those in the formal economy, with a disproportionately high share employed in the public sector.

Beyond social insurance, there is also a small, fragmented collection of targeted programmes in MENA countries, characterised by low transfer values and high exclusion

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<sup>54</sup> See Moghadam *et al* (2014).

<sup>55</sup> Political rights were severely constrained and civil rights largely limited to those circumscribed by religious laws. Where political and civil rights were present, these were generally reserved for men and were further restricted for women. Indeed, these post-colonial nations were characterised by a high degree of religious conservatism, reflected in Muslim family law and social norms which regarded men as breadwinners and women as homemakers. (Moghadam *et al*, 2014; Joseph, 2000).

<sup>56</sup> Moghadam *et al* (2014).

<sup>57</sup> Loewe *et al* (2019); Ianchovichina (2018).

<sup>58</sup> Moghadam *et al* (2014); Selwaness and Sieverding (2012); Al-Hawarin and Selwaness (2018).

#### 4 *The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

errors. From the early 1980s, especially in the wake of oil crises that reduced revenues for oil-producing economies and had knock-on impacts for other MENA countries, budgetary and balance-of-payments imbalances made it clear that the high costs associated with the post-independence “authoritarian bargain” social contract (e.g., expensive energy and food subsidies and an overstuffed public sector) were becoming unsustainable. As a consequence of this fiscal crisis, and under pressure from International Financial Institutions (IFIs), many MENA countries turned to new economic strategies, with most shifting toward a market-based economy and increasing private sector involvement.<sup>59</sup> This change involved fiscal and structural reforms to encourage private investment, revive growth and create jobs. Yet, in the decades that followed, unemployment soared and living conditions plummeted, further eroding the precarious post-independence social contract.

Despite these changing conditions, governing regimes failed to recognise the need for a new social contract, and in line with global trends, social policy was increasingly treated as a residual safety net for those facing poverty in the aftermath of the radical structural reforms to economies.<sup>60</sup> However, even though the provision of subsidies was inconsistent with this new market-based model, they played an important role in maintaining the old social contract. As such, the region’s authoritarian regimes were largely unable to reform them due to the threat of popular resistance, choosing instead to preserve the power of the established regimes in the immediate term as a political priority.<sup>61</sup>

It was in response to strong fluctuations in food prices between 2007-2009 that several countries across the MENA region finally underwent subsidy reforms, from around 2010 onwards. In this last decade or so, some countries started phasing out these subsidies and “replacing them with well-targeted social safety nets.”<sup>62</sup> These countries include Egypt, Morocco, Tunisia and Yemen, which have introduced poor relief programmes with donor support that, in reality, reach very few people and use methodologies which target “the poor” inadequately in a context of widespread low incomes. For example, in Egypt, while spending on subsidies had previously been high (estimates range from 8.7–12.5 per cent of GDP), a decision was made in 2014 to eliminate all energy subsidies and nearly all food subsidies within just five years. These drastic subsidy cuts were not met with greater spending on social security transfers that would provide replacement support for those

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<sup>59</sup> Larbi (2016).

<sup>60</sup> Moghadam *et al* (2014) ; Mkandawire (2005) ; Tendler (2004).

<sup>61</sup> Larbi (2016); Moghadam *et al* (2014); Meskoub (2020).

<sup>62</sup> Sdralevich *et al.* (2014: 50). Iran provides an example of an alternative approach to subsidy reform, with the government choosing to implement a universal household benefit scheme before the cuts were made, leading to a significant reduction in poverty and the strengthening of the social contract.

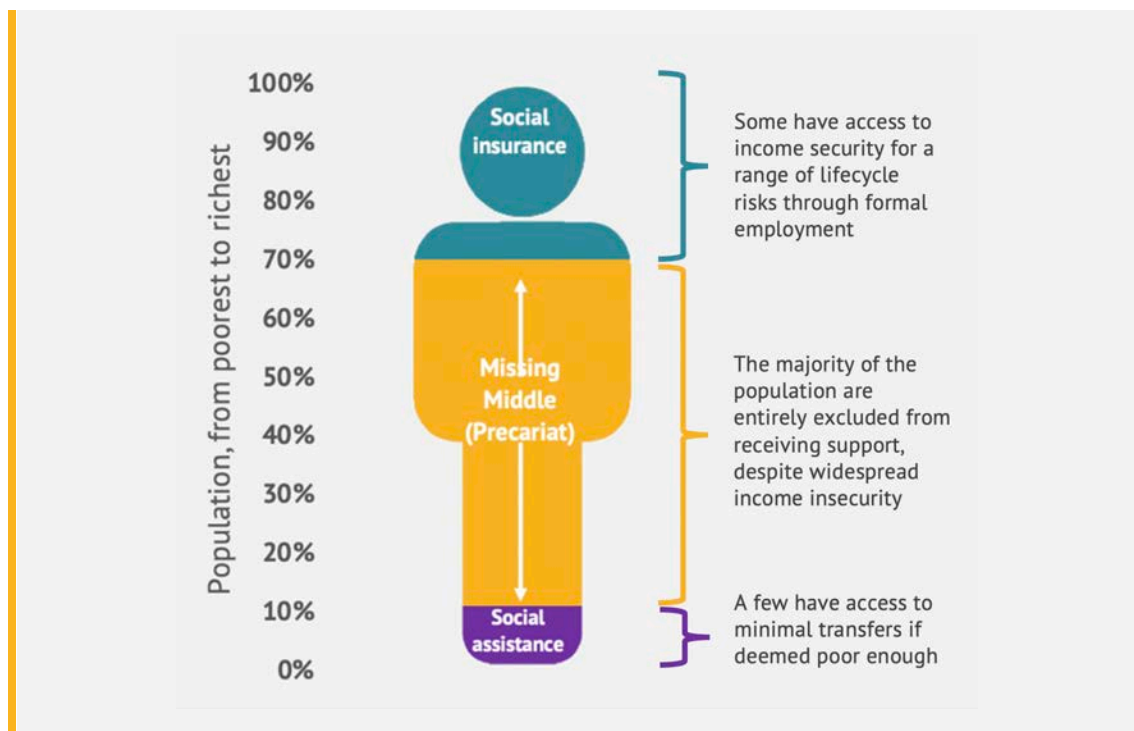
#### 4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA

living on low or insecure incomes. Instead, the only immediate measures following the subsidy reform was the introduction of the *Karāma* and *Takāful* programmes, both poor relief schemes based on a proxy means test, which collectively covered just ten per cent of the population and, as a result, have been found to have limited impacts on poverty.<sup>63</sup>

Overall, this historical context has resulted in the dominant social security paradigm across the region being a bifurcated model offering social insurance for the better-off and limited social assistance for the poor. As depicted in

Figure 4-1, this model has resulted in the exclusion of a large proportion of the population living on middle incomes, often referred to as the “missing middle”.<sup>64</sup> As a result, most people are not receiving any support from their state. Since the provision of social goods is an essential part of maintaining the social contract – especially in the absence of political liberties in the MENA context – this has been seriously undermining social contracts between citizens and states.

**Figure 4-1: Idealised depiction of the type of bifurcated social security system found in many low- and middle-income countries, including across the MENA**



Source: Development Pathways

<sup>63</sup> Loewe & Vidican Auktor (2021); Breisinger et al (2018).

<sup>64</sup> For a more detailed analysis of social security systems in the region, see McClanahan and Ishak (forthcoming).

#### 4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA

As a result of their limited coverage and adequacy, poverty-targeted tax-financed social security in the region has generally had a limited impact on poverty and vulnerability. For example, analysis in Jordan and Lebanon shows that existing poverty-targeted social security schemes contribute a reduction of only 1.5 and 0.5 percentage points, respectively, in nationwide poverty rates.<sup>65</sup> In Iran, however, where an alternative approach has been adopted and a universal *Cash Subsidy* programme was introduced from 2010, the impacts appear to be far more substantial. While no systematic impact evaluation has been conducted, simulations by Salehi-Isfahani et al (2015) found that the net effect of price reform and the cash transfer programme was a reduction in income inequality, and a 4.7 per cent decline in poverty by the third month of the programme compared to the same period a year earlier. In addition, in the first year of the programme, the Gini coefficient of expenditure distribution in the country as a whole declined from 0.41 in 2010/11 to 0.37 in 2011/12.<sup>66</sup> There is unfortunately a lack of evidence on people's satisfaction with the programme. However, in contrast to the norm of bifurcated systems in the region with low-impact poverty-targeted programmes, this more significant impact on poverty and inequality at the national-level generated by Iran's universal programme is more likely to have laid a stronger basis for the strengthening of the social contract.

### 4.2 The failure of social security systems to incorporate the “missing middle” and the dangers of poverty targeting

The outbreak of unrest in 2011, and its re-emergence since, can be partly explained by the failure of social security systems in the region. In many countries, key support was removed from those on middle incomes – via the removal of subsidies – and replaced by inadequate poor relief, which meant that governments failed to offer the majority of populations – the “missing middle” – any support or income security in the face of deepening economic discontent.

The dangers of failing to incorporate the “missing middle” is illustrated by the sheer scale of unrest: in Libya and the Republic of Yemen, where protest participation rates were highest in 2011, roughly a third of the entire population took part in the Arab Spring demonstrations.<sup>67</sup> As the former Chief Economist for the European Bank for Reconstruction and Development (EBRD), Sergei Guriev, notes: “*the main frustration was*

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<sup>65</sup> (Alam et al (2017) and Silva-Leander et al. (2021), cited in ILO (2021a).

<sup>66</sup> Statistical Centre of Iran (2016).

<sup>67</sup> Ianchovichina (2018).

#### 4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA

*coming not from the very poor or left behind, but rather from the educated middle class...the current problem is to a great extent the legacy of not reforming the system for many years.”*<sup>68</sup>

Replacing high-coverage subsidy programmes with poverty-targeted schemes creates the perfect conditions for undermining trust in government. While most universal or near-universal subsidies disproportionately benefit the rich, they are also important for those on middle incomes, as a proportion of their overall consumption. Therefore, when a subsidy is taken away, those on middle incomes lose one of their main sources of support from the state. If this loss is not compensated by conventional social security benefits, those excluded can become disenfranchised, which can result in unrest. Crucially, as Section 3.1 explains, poverty-targeted programmes produce high rates of exclusion meaning that, when they are introduced to replace large-scale subsidy programmes, only a small subsection of the population is compensated for this loss.

Despite this, donors have tended to support countries in the region to introduce poverty-targeted schemes, even in fragile states. Most programmes that have emerged over the last decade in MENA countries have pre-dominantly been narrowly targeted at the poorest. Small poverty-targeted programmes have popped up in countries such as such as Egypt (*Takaful and Karama*), Jordan (National Aid Fund) and Lebanon (*National Poverty Targeting Program*). Proxy means tests have been employed as a means of identifying the poorest in the population across a number of MENA countries, for example in Morocco, Algeria, Jordan, Egypt, the Kingdom of Saudi Arabia, Palestine, Tunisia, Yemen and Lebanon.<sup>69</sup> In addition, targeted humanitarian cash transfer schemes have operated for a prolonged period in several fragile and conflict-affected countries in the region (Lebanon, Jordan, Palestine, Yemen), becoming the primary mechanism for providing social security.<sup>70</sup> Donors have also supported several poverty-targeted COVID-19 emergency response programmes. These programmes tend to be the default policy option pushed by powerful international actors, often accompanied by the argument that there is not enough fiscal space for universal transfers.<sup>71</sup>

Contrary to these claims, there are nearly always options for financing universal social security (albeit gradually) if there is the political will. Yet, the heavy involvement of external agencies in the formulation and funding of social security policies often prevents states from claiming ownership over programmes and using them to foster a relationship of mutual trust with their citizens. Indeed, in some cases, the heavy involvement of

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<sup>68</sup> EBRD. (2017: no page).

<sup>69</sup> World Bank, (2020f)

<sup>70</sup> ILO (2021a).

<sup>71</sup> Kidd, S. D. (2022).

#### 4 *The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

donors in designing and financing can shift accountability required to build strong social contracts away from governments and towards the donors themselves. This key tension is identified by Molyneux et al (2016: 1094), who explain that social security in aid dependent countries “tends to be driven by external agencies which limits the opportunities for strengthening the social contract between the state and its citizens and inhibits the emergence of coalitions across different social groups who collectively may be better placed to hold the state to account”. In bypassing the state, donors effectively, even if inadvertently, preclude countries from accessing the manifold political economy benefits that investments in inclusive social security can bring about and sparking the virtuous cycle depicted in Figure 3-3.

IFIs have played a role in promoting the use of poverty targeting and proxy means tests across MENA countries, despite evidence around their ineffectiveness at reaching even their intended target population. When promoting structural adjustment measures – especially subsidy reform – the IMF and World Bank generally advise that part of the savings should be re-allocated to “well-targeted”, “pro-poor”, “efficient” social security schemes.<sup>72</sup> However, the social security schemes that are developed in the aftermath are generally much smaller than the subsidy programmes that they are designed to replace, which is no accident, since IFIs are often more focused on advising countries to reduce spending than to fix the distributional “inefficiencies” they highlight. Indeed, Alston (2018: 15), writing as the Special Rapporteur on Extreme Poverty, states: “many subsidy reforms lead to significant net reductions in social protection spending.” In some cases, the provision of loans from IFIs to support national governments in building their social security systems has been made conditional on the implementation of proxy means tests. In Egypt, for example, the Government was only able to access financing under the “Egypt Strengthening Social Safety Net” project if they fulfilled the Disbursement Linked Indicator set by the World Bank: to design a proxy means test that would be used to identify beneficiaries.<sup>73</sup>

The case of Syria provides a particularly striking example of how the use of poverty targeting may have exacerbated already low trust in government. In Syria, as has also been the case in Libya and the Republic of Yemen, Arab Spring protests subsequently turned into a large-scale civil war that is still devastating the country today. A substantive literature suggests that the roots of this conflict can be traced back to the failure of

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<sup>72</sup> Kidd, S. D. (2022).

<sup>73</sup> Kidd, S. D. (2022); World Bank, (2015)

#### 4 *The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

President Asaad's regime to protect the wellbeing of citizens in the face of growing economic discontent, contributing to the breakdown of the national social contract.<sup>74</sup>

In Syria, as part of a series of reforms undertaken between 2000-10 to transition from a centrally planned to a liberal market economy (based on recommendations of the IMF), the government reformed subsidies, which had played an important role in balancing the post-independence social contract.<sup>75</sup> In May 2008, the Government completely removed a fuel subsidy overnight. This raised the price of diesel by 257 per cent. Diesel was an essential commodity for many people: for example, farmers in Syria relied on diesel for most parts of their supply chain and the price hikes forced many farmers in the whole country to cease irrigated agriculture.<sup>76</sup>

Despite such a radical cut to social spending and the obvious impacts of this on the welfare and food security of the population, the government failed to replace the subsidy with any alternative viable social policy, introducing a small, poverty-targeted scheme instead. It is likely that the abandonment of those on middle incomes, who had previously been protected by the government and represented about 80 per cent of the population, triggered the scale of popular discontent that eventually led to civil war. As Almohamed and Birner (2019: 512) highlight: *“during the economic reform, the government abandoned this class when it cut the diesel subsidy without any compensation or protection program and this class has clearly been vulnerable to poverty”*.

In this context of widespread vulnerability, the poverty-targeted programmes provided by the government may have exacerbated feelings of mistrust and anger at the government. Cash transfers narrowly targeted at “the poorest” within society were introduced under the Tenth Five-year Plan. Targeted cash transfers were first distributed in the late 2000s, attempting to select recipients using a proxy-means test that was plagued with implementation challenges. These transfers were eventually replaced by a National Social Assistance Fund (NSAF) introduced in 2011.<sup>77</sup> Backed by the World Bank, UN and EU donors, the NSAF was created to provide nation-wide cash transfers to poor and vulnerable groups using a proxy-means test developed with the World Bank.<sup>78</sup> In its early phase in 2011, the NSAF aimed to cover the 6 per cent of the Syrian population then considered as “ultrapoor”, an ambition that fatally overlooked the widespread nature of

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<sup>74</sup> Larbi (2016); Almohamed and Birner (2019); Harsch (2019).

<sup>75</sup> Harsch (2019). Almohamed and Birner (2019). There is a broad consensus that these liberalisation reforms had adverse socio-economic impacts on the Syrian people and deepened the overall impact of food price spikes and the global recession experienced in 2008. (Rocchi et al, 2013; Azmeh, 2016; Nasser et al, 2013).

<sup>76</sup> Almohamed and Birner (2019).

<sup>77</sup> Harsch (2019).

<sup>78</sup> Harsch (2019).

#### 4 *The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

vulnerability in the country and the political importance of investing in those on middle (but still insecure) incomes. In fact, only two cash payments were ever made, in February and July 2011, respectively. By the end of July 2011, the protests that initially broke out in March had developed into a full-scale civil insurgency and the government suspended the payment of a third payment which had been scheduled for October 2011.<sup>79</sup> Therefore, removal of universal subsidies in 2008 and the introduction of small and narrowly targeted cash transfers, that were entirely inappropriate for the universal nature of the problem, is likely to have poured petrol onto the fire of an already desperate situation.

A similar example can be found in Yemen, where the unequal provision of social security and other public goods appear to be undermining efforts to negotiate a new social contract in a context of political instability.<sup>80</sup> Loewe and Zintl (2021) argue that the failure of government to provide social goods to the entire population – through the corrupt misuse of state structures for clientelist purposes and, importantly, the narrow and inaccurate poverty targeting of key social protection programmes such as the Social Welfare Fund (SWF) – contributed to the breakdown of the national dialogue process and the country's descent into civil war in 2014.

Given the widespread nature of low incomes in Yemen, the decision to poverty-target key benefits provided under the SWF – using proxy means testing which was introduced by the World Bank in 2007<sup>81</sup> – is likely to have appeared deeply arbitrary and unfair, particularly in a context where corruption among political elites was already undermining trust in government. It is likely that the failure of government to address the widespread nature of grievances, and instead pursue a narrow strategy of poor relief, exacerbated a lack of trust in government to a breaking point, with dangerous consequences that are still being suffered today. Other examples in the region where subsidies have been removed and replaced with poverty-targeted schemes under the advice of IFIs, such as Jordan and Egypt, would do well to consider the tragic examples of Syria and Yemen when considering how to approach building national social security systems to effectively support and protect their residents.

##### **4.2.1 The failure of social security to respond to the widespread impacts of COVID-19**

As a consequence of systemically low spending, low coverage and poor design, social security systems in the region have generally been poorly equipped to adequately

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<sup>79</sup> Abdul Aziz (2012).

<sup>80</sup> Loewe and Zintl (2021).

<sup>81</sup> PROMAN (no date).



#### 4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA

respond to the major economic crisis generated by the global COVID-19 pandemic. This has put further strain on trust in government and resulted in a new wave of protests and unrest, providing the trigger for long-standing and unaddressed discontent to bubble over with a new intensity.

In the face of this economic crisis and its devastating impacts on the majority of households, social security systems – with an approach focused on fragmented, piecemeal systems within the bifurcated model described previously – were poorly equipped to respond appropriately. While eight out of the eleven low- and middle-income countries in the MENA region (73 per cent) implemented some kind of emergency social security response, most of these responses were not large enough in scope or adequacy to meet the scale of the crisis.<sup>82</sup>

Most countries responded by introducing small, piecemeal programmes, rather than building on core lifecycle programmes within a consolidated social security system. As a consequence, despite the universal nature of the crisis, all low- and middle-income countries in region that introduced a response – except for Morocco – reached less than one-quarter of their population with emergency support.<sup>83</sup> Largely, this is due to the general absence of a tax-financed lifecycle system prior to the crisis that reached large numbers of households and could be scaled up effectively without complex household assessments. If countries in the region were to undergo a fundamental shift in their approach to social security towards inclusive lifecycle social security systems that offer social security to everyone, from the cradle to the grave, they would have been far more able to respond effectively to the crisis.

In the absence of an adequate social security response, grievances generated by the crisis were left unaddressed and sparked a wave of anti- government and/or anti-system demonstrations, which have frequently been met with heavy- handed state repression.<sup>84</sup> In Tunisia, for example, civil unrest broke out across the country on the 14<sup>th</sup> of January 2021 after the government imposed a new lockdown, which protesters saw as a tactic to prevent mass protest at the government’s inadequate handling of the ongoing crisis. Demonstrators chanted “*bread, freedom, national dignity,*” and other slogans from Tunisia’s 2011 uprising. Protests and riots broke out to differing extents in almost all countries across the MENA region. In Algeria, Iraq, Lebanon and Sudan – where mass protests in the months prior to the COVID-19 crisis seemed to foreshadow a second Arab Spring – the crisis exacerbated already active fragility. In other countries, such as Egypt, Tunisia and

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<sup>82</sup> Sibun (2021).

<sup>83</sup> Sibun (2021).

<sup>84</sup> Tarawnah (2021).

#### *4 The role of weak social security in eroding social contracts and exacerbating political unrest in the MENA*

Morocco, COVID-19 has triggered the re-emergence of protest and unrest.<sup>85</sup> In countries already experiencing protracted conflict – such as Syria, Iraq and Yemen – the crisis has exacerbated the urgency of receiving humanitarian aid for many countries in the region but, at the same time, has created new challenges in delivering it, due to breakdowns in supply chains and the sudden increase in demand. This, in turn, is likely to aggravate the existing conditions for conflict and the radicalisation of disenfranchised youth.<sup>86</sup>

The COVID-19 crisis has tested the broken social contracts of MENA countries even further and, unfortunately, they seem to have failed the test so far. If governments want to avoid political instability escalating further and aid the post-crisis recovery of economies and societies, they must urgently heed the recommendation issued by the IMF during the crisis in implementing universal or broad-based transfers. The next section will discuss how countries can move towards universal benefits to strengthen social contracts.

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<sup>85</sup> Schaer (2021).

<sup>86</sup> Karasapan (2020); Mulroy et al (2021).

## 5 Moving towards universal systems to build social contracts

If MENA countries are to break this cycle of instability and build the social contracts required to become peaceful and prosperous nations, they must begin to invest in their populations by building universal social security systems as a policy priority and put people at the heart of a new social contract. Policymakers should not let themselves be disarmed or limited by the assumption that “good policies” can only arise once a system of “good politics” has been established. This assumption overlooks the role that “good policies” can play in actively strengthening democracy and nurturing the conditions required for a more stable politics over the longer term. In fact, if countries in the MENA region hope to emerge from the COVID-19 crisis with renewed trust in government and stronger social contracts, they need to imagine possibilities that go beyond the usual policy menu. Countries must radically shift their approach as a policy priority, moving away from the current bifurcated and fragmented approach to social security and towards building inclusive social security systems. This section demonstrates how governments can do this by designing inclusive social security systems that provide universal coverage, building systems focused on fulfilling citizens’ entitlements to social security at each stage of their life as they progress across the lifecycle.<sup>87</sup>

Building a strong social security system in line with a rights-based lifecycle model will require a fundamental shift in conceptual approach. Policymakers and donors will have to shift from the mindset of a charity or “poor relief” approach that currently dominates social security policymaking in the MENA region and embrace a citizenship approach, the main characteristics of each are broadly outlined in Figure 5-1. As previously described, small schemes designed from the charity approach are generally unlikely to provide the popularity and incentive structures required to expand over time. This means they are likely to stagnate (i.e. in terms of coverage and/or the value of the transfer) or even disappear completely. In contrast, programmes designed from a citizenship approach tend to be highly popular since they include citizens on a universal basis, strengthening the social contract and making populations more willing to pay their taxes and contribute to higher government revenues and the continuation of universal programmes. Indeed, according to McClanahan et al. (2021), lifecycle schemes built around individual

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<sup>87</sup> While universal benefits are the most effective means of guaranteeing access to everyone, universal coverage can also be offered through a multi-tiered system, via both tax-financed and social insurance schemes.

entitlements are far more likely to be grounded in legislation – a marker of permanence – than means-tested household-based transfers.

**Figure 5-1: Main characteristics of the citizenship paradigm versus the charity or “poor relief” paradigm for social security**



Source: Development Pathways

This fundamental shift in paradigm is possible and can be seen in the way in which the Government of Iran approached their large-scale subsidy reform, with positive results for political stability. In contrast to Syria, social unrest following subsidy reform was kept to a minimum in Iran, which implemented a universal household benefit in 2010, called a *Cash Subsidy*, to compensate the population for price rises resulting from massive cuts in subsidies, mainly on fuel. The benefit entitles every child and adult to a fixed sum of 455,000 rials per month—equivalent to USD45 per person per month in 2018— paid to household heads.<sup>88</sup> The universality of transfers resulted from a failed attempt at targeting the 70 per cent of the population below the median national income, which was the original objective.<sup>89</sup> The programme provided a visible sign to the national population that the government cared for their wellbeing and would address the economic fall-out resulting from the reform decisions on a universal basis. The immediate outbreak of protest and riots when the government signalled plans to down-size and target the

<sup>88</sup> UNICEF (2019a).

<sup>89</sup> UNICEF (2019a).

programme in 2019 demonstrates well the popularity of universal benefits and their effectiveness in maintaining social order.<sup>90</sup> More recently, there have been further indications that the Government of Iran plan to replace the universal programme with targeted assistance to the poorest which, especially in the context of the universal economic crisis generated by COVID-19, threatens to seriously undermine stability in Iran.<sup>91</sup>

### 5.1 The affordability of universal schemes

Contrary to popular misconceptions, adopting a universal lifecycle approach to social security can be affordable for a variety of fiscal contexts. When lifecycle social security systems are strategically designed to be implemented gradually over time, options for financing become much more achievable. Lifecycle programmes can maintain the principle of universality but be introduced gradually, by increasing or decreasing the age eligibility for lifecycle benefits over time. This will maximise the inclusion of citizens and manage costs but, importantly, ensure that the programme retains its popularity and increases trust in government. Increases in real economic growth and a gradual increase in tax revenue as a proportion of GDP means that, over time, significant additional revenue would become available to absorb the gradual expansion of the programmes.

To demonstrate this, we can consider a proposal for introducing a comprehensive lifecycle social security system across several low- and middle-income MENA countries: Egypt, Jordan, Morocco and Tunisia. Details of this proposal for an alternative lifecycle system – which comprises of a basic universal child benefit, universal disability benefits for children and adults and a universal old age pension for each country – are outlined in Table 5-1. The child benefits and old age pensions are designed to grow gradually, with age eligibility for these programmes expanding over time.<sup>92</sup>

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<sup>90</sup> Iran International (2021); Islamic Republic News Agency (2019).

<sup>91</sup> Iran International (2021).

<sup>92</sup> In addition to progressive expansion of age eligibility, another option when resources are limited would be to introduce benefit-testing, whereby all those who are not enrolled in the social insurance system receive a tax-financed benefit. This type of high-level design allows for universal coverage of the whole system with a simple administrative test that is far superior to poverty targeting. In all cases, in multi-tiered designs (whether universal or benefit-tested), incentives to join social insurance must be preserved. See ILO (2021b) for further explanation of benefit-testing and see Anderson and Pop (2021) for an example of costed options for benefit-tested lifecycle programmes for Jordan.

5 *Moving towards universal benefits to build social contracts*

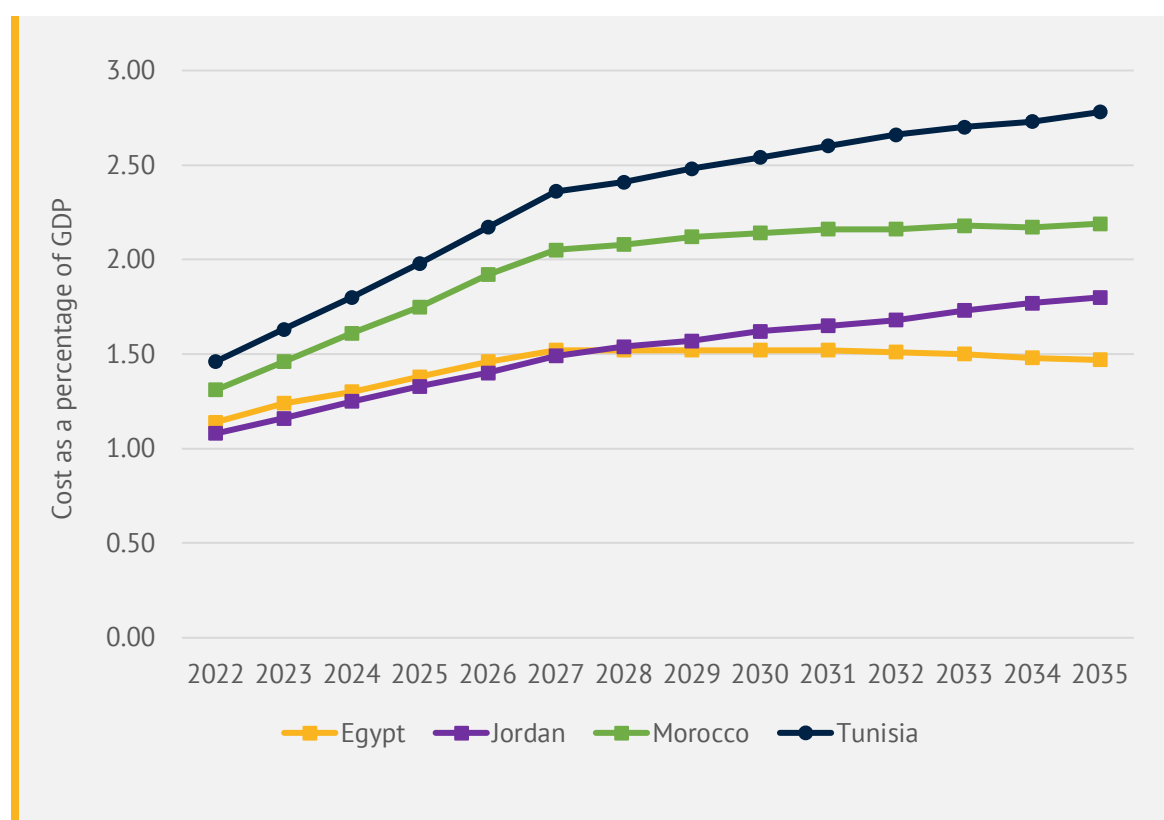
**Table 5-1: Proposal for an alternative lifecycle social security system in Egypt, Jordan, Morocco and Tunisia**

Universal child benefit			Universal disability benefit			Universal old age benefit		
Age eligibility in first year of programme	Expansion of the programme over time	Amount (% of GDP per capita)	Age eligibility in first year of programme	Expansion of the programme over time	Amount (% of GDP per capita)	Age eligibility in first year of programme	Expansion of the programme over time	Amount (% of GDP per capita)
0-4	Children stay on the programme as they age, until all children 0-17 are reached	4	0-69	Decreases in line with the decrease in age eligibility for the old age benefit so that recipients of the disability pension convert to the old age benefit at normal retirement age	14	70+	The age eligibility reduces by one year each year, until all older persons aged 65+ are reached	14

## 5 Moving towards universal benefits to build social contracts

The costs of introducing this proposal for a full universal lifecycle system are relatively low, considering the significant impacts it would have on national wellbeing and trust in government. Through the progressive roll out, the potential costs of these core social security components would entail a collectively investment of between 1.14 - 1.46 per cent GDP for countries in 2022 and slowly rise to between 1.47 - 2.78 per cent of GDP by 2035, as shown by Figure 5-2. This would allow countries to progressively build up their fiscal space by gradually increasing spending by between 0.03 – 0.1 percentage points on average each year.

**Figure 5-2: Cost of proposed lifecycle systems for each country over time**



Source: ISSPF costing tool

The proposed lifecycle systems presented above are likely to be a more effective and value-for-money use of the savings made from subsidy reform. In Tunisia, for example, UNICEF (2019b) estimated that fiscal space would increase by an additional 2.5 percentage points of GDP as a result of the gradual phasing out of energy subsidies. The study estimated that a universal child benefit (UCB) would require just 37 per cent of this budget in 2023, meaning that a high proportion of the population would receive income support while still making substantial savings. Despite the fiscal feasibility of this more inclusive option – which would have been more effective at capturing the “missing

middle” and, in doing so, been more likely to strengthen Tunisia’s social contract<sup>93</sup> – the poor relief option supported by the World Bank was chosen in the form of the poverty-targeted Family Allowance at a cost of 0.03 per cent of GDP.<sup>94</sup>

The financing of greater investments in inclusive social security can largely be a question of political will, and the experience of some countries in the MENA region demonstrate that this is strongly emerging. In Morocco, for example, the country’s COVID-19 emergency social security response – which was the only MENA country response to spend 2 per cent of GDP as a minimally adequate stimulus to address the impacts of the crisis – has arguably helped lay the basis for a planned permanent increase in its old age pension coverage and plans to universalise the Family Allowance Programme, a child benefit.<sup>95</sup>

However, as argued by Kidd, S. D. (2022), despite the Government of Morocco’s clear political commitment to invest in more effective inclusive benefits, the World Bank (2020: 45) has recommended that they reduce costs by targeting the child benefit: *“another alternative, even more progressive, would be to attempt to reach the poorest in the first phase, for example, starting from the families with children in the bottom 40 per cent of the distribution.”* By encouraging the Government to scrap the universal benefits they have already committed to and poverty target the benefit instead, the World Bank could be undermining the Government’s efforts to build trust and strengthen the social contract. The stakes of seriously investing in the welfare of Moroccans are particularly high in this post-crisis political moment, with soaring food and energy prices (coupled with narrowing democratic space) driving widespread popular discontent and new waves of social unrest.<sup>96</sup> In this context, the decision on whether to implement universal benefits or employ poverty targeting could be crucial for the stability of the country.

Choosing to build inclusive social security systems is the most cost-effective option in the longer term and represents a strategic investment, since it can contribute to building more stable nations capable of pursuing stronger and more sustainable economic growth strategies. These increases in economic growth can then be re-invested in continuing to

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<sup>93</sup> Györi and Soares (2018). UNICEF (2019b) also found that the UCB would be the most cost-effective option and generate the best value-for-money: “The cost of achieving a one percentage point reduction of the child poverty headcount is less through the UCB than through the existing poverty-targeted social assistance programme, the PNAFN (*Programme Nationale d’Aide aux Familles Necessiteuses*)...partly because the latter focuses on households headed by elderly persons and others without labour capacity, who tend to have fewer children, but also due to serious inclusion and exclusion errors in the PNAFN’s poverty targeting”.

<sup>94</sup> World Bank (2021); Kidd, S. D. (2022).

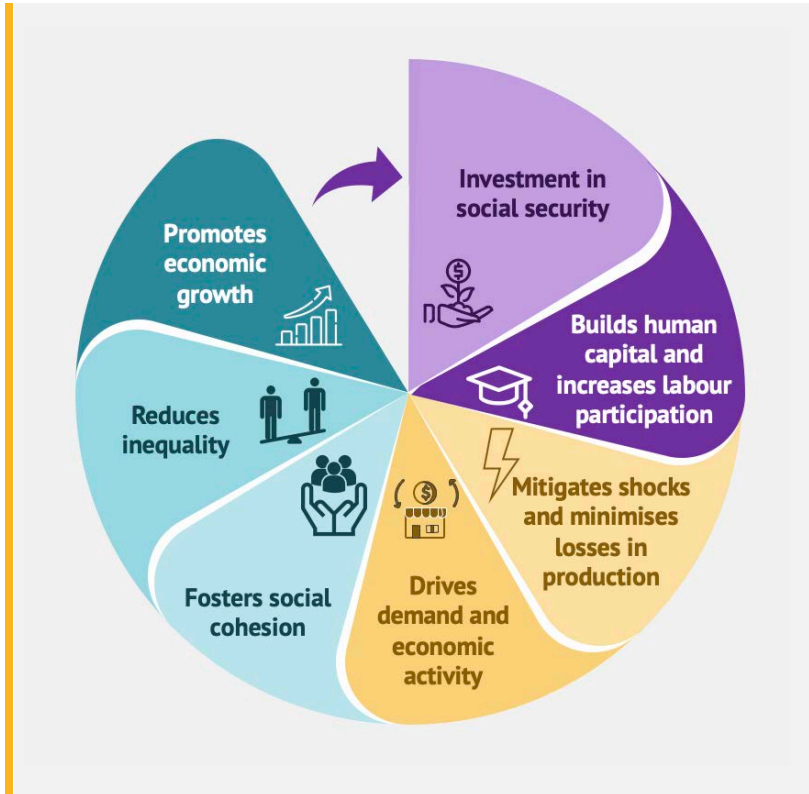
<sup>95</sup> Sibun (2021); Kidd, S. D. (2022).

<sup>96</sup> Chahir (2021).



expand the social security system, in a positive cycle of self-financing.<sup>97</sup> Inclusive social security boosts economic growth through a number of channels, as depicted in Figure 5-3.

**Figure 5-3: A virtuous circle of social security and economic growth promoting each other**



Source: Tran (2021)

<sup>97</sup> The economic rewards of investing in universal lifecycle social security for the region are discussed in greater detail in Tran et al (2021).

## Conclusion

Countries in the MENA region are facing a crossroads. They can either continue to push the same weak poverty-targeted schemes that are undermining trust in government in the face of widespread and unaddressed economic grievances. Or, they can choose to renew trust in government and build stronger social contracts by daring to imagine possibilities that go beyond the usual policy menu. If governments are to build the social contracts required to become peaceful and prosperous nations, they must radically shift their approach as a policy priority, moving away from the current bifurcated and fragmented approach to social security and towards building inclusive social security systems. Governments can do this by offering universal benefits, or combinations of benefits that together achieve near-universal or universal coverage, building systems focused on fulfilling citizens' entitlements to social security at each stage of their life as they progress across the lifecycle. If there is a political commitment to invest in building stronger social contracts, there is a range of options for countries to finance increased investments in universal social security. Instead of asking whether countries can afford to invest in their nation's future stability and prosperity, one should sooner ask whether they can afford *not* to. If MENA countries are going to break the vicious cycle of instability and generate more inclusive development, they must urgently begin to invest in their populations through universal social security that puts people at the heart of a new social contract.

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