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

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ABSTRACT

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

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

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

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

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

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

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

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

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

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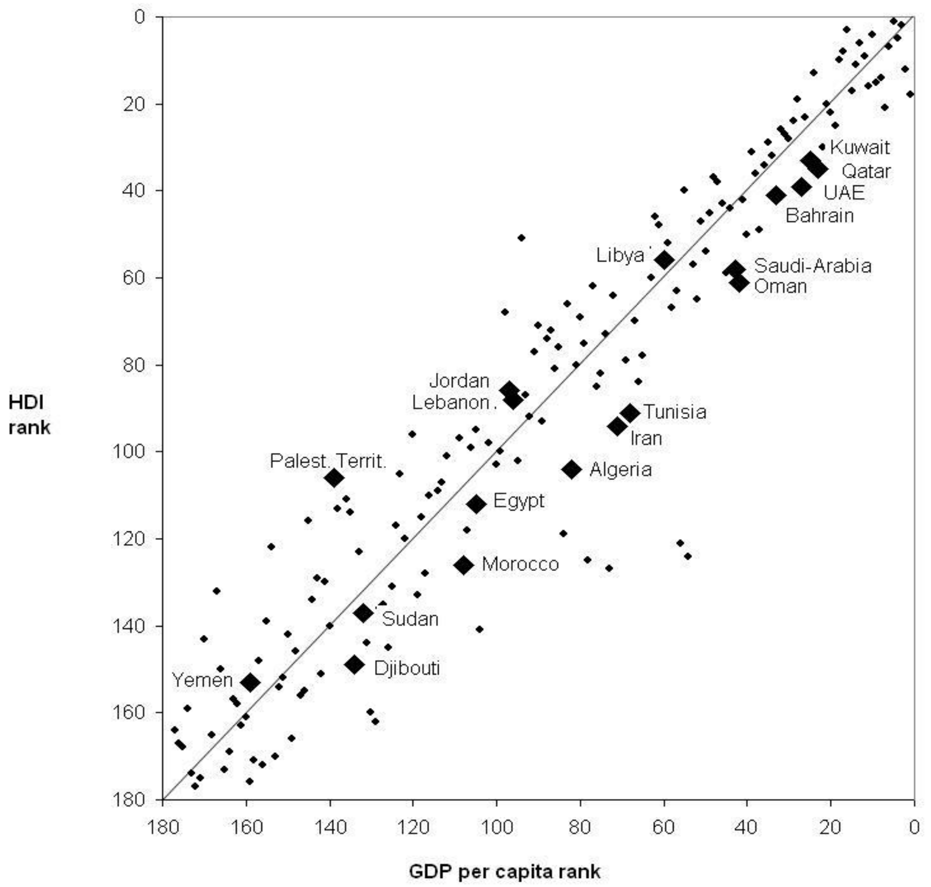
1 According to the World Bank definition, Djibouti is also part of the MENA region, as well as high-income countries such as Israel. In the following, Israel and Turkey are not part of the analysis due to their income status and differences in their respective pension schemes vis-à-vis the rest of the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

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

Source: World Bank (2008).
Note: Palest. Territ. = Palestinian Territories (West Bank and Gaza Strip); UAE = United Arab Emirates.

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

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



Source: UNDP (2007)

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

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

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

Even more noticeable is the MENA countries' employment crisis. Most suffer from very high unemployment rates ranging from an estimated 15 % in Saudi-Arabia or Tunisia to more than 30 % in Jordan, Algeria and the Palestinian Territories (UNDP / AFESD 2002, Annex Table 24). Unemployment among young labour market entrants is even higher. In addition, underemployment remains pervasive. This problem is aggravated by the fact that the labour force in the MENA countries is still growing. Birth rates have gone down with the effect that

the overall population growth has started to decline. But the labour force will continue to grow at their current pace for at least another ten years until the first smaller age cohorts will have reached the age of about 20 years. As a consequence, the MENA countries are in need of more than 1.5 million additional jobs each year to keep unemployment and underemployment ratios at least at their current levels (World Bank 2004). For this to achieve, the MENA countries must attract much more investment than today and improve the incentives for employers to create additional jobs, enhance the education of their workers and remove regulatory rigidities on labour markets such as overly complicated procedures in the registration of workers with social security and tax administrations.

Table 2: Main social indicators of the MENA countries

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

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

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

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

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

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

2 Main deficits of public pension schemes in the MENA region

All MENA countries – except Lebanon – have mandatory public pension schemes for at least part of the labour force (for civil servants only in the Palestinian Territories and in Qatar). The Algerian scheme is the oldest. It was established in 1949 by the French colonial power. The Egyptian scheme followed little later (in 1955 after the revolution, which brought Gamāl ᶜAbd an-Nāşir to power), but it was heavily overhauled in 1975. Both, Algeria and Egypt took the French statutory defined-benefit social insurance scheme as a model for their schemes, and the Algerian scheme was again copied by Morocco (in 1959) and Tunisia (in 1960), while most Mashriq and Gulf region countries imitated more or less the design of the Egyptian scheme: Iraq (which has set up its pension scheme in 1956 and reformed it in 1971), Libya (in 1957 respectively 1980), Syria (1959 / 1976), Saudi-Arabia (1962), Jordan (1956 / 1971), Oman (1975), Bahrain (1976), Kuwait (1976 as well), Yemen (1990) and finally the UAE (as late as 1999). The Palestinian Territories are a special case, since the Gaza Strip has inherited the old Egyptian pension model because it was administered by Egypt from 1948 until 1967, while the Westbank still has the Jordanian pension scheme from the same time as it was part of the Hashemite Kingdom. Lebanon still has only a defined-contribution national provident

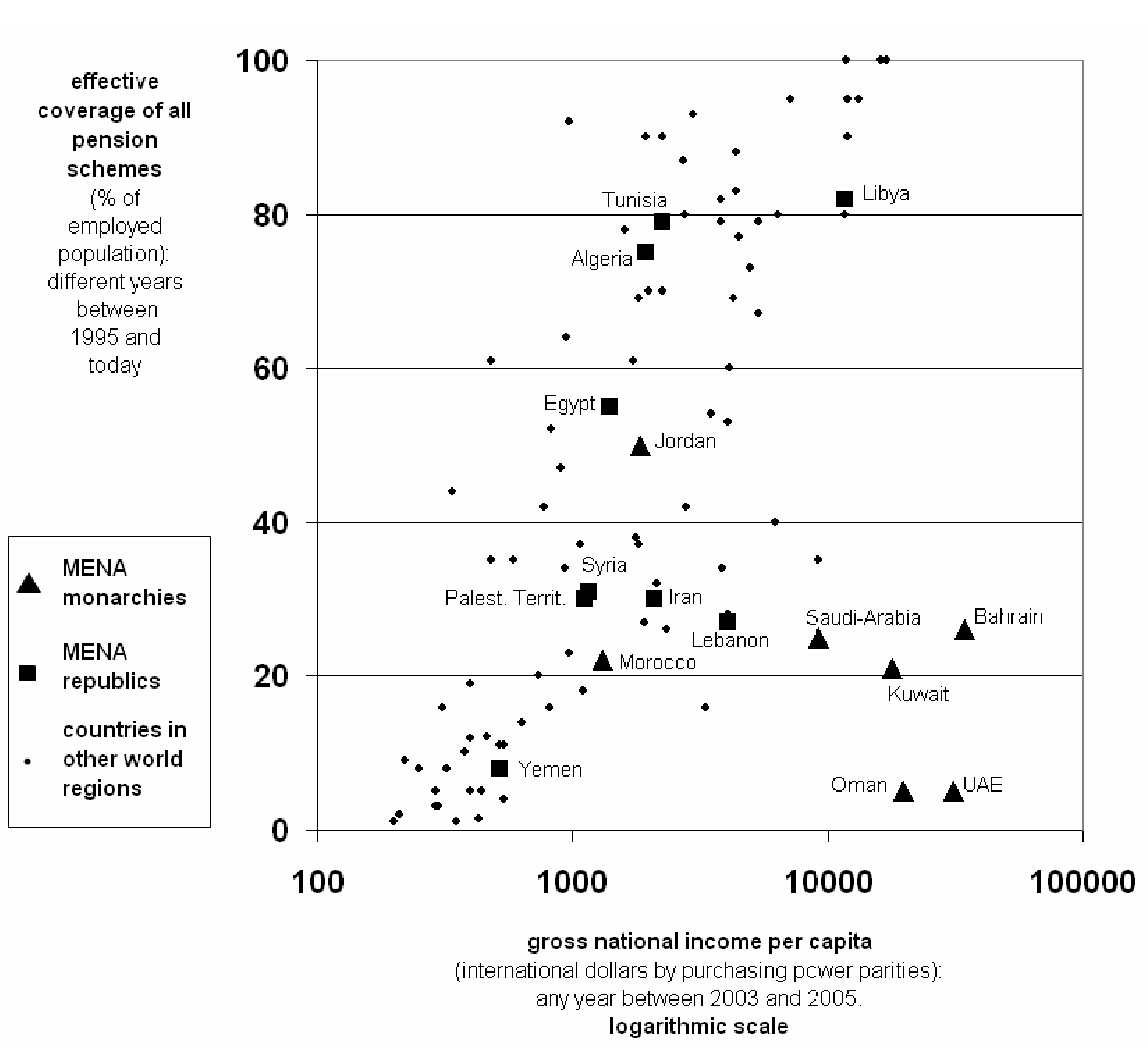
fund, which grants one-time payments after retirement rather than life-long pensions (Gillion et al. 2000:546–549; ISSA 2008: entry No. 3359).

All pension schemes in the MENA region suffer more or less from five major deficits affecting their fairness, their efficiency and their sustainability.

Low effective coverage rates

In most countries of the MENA region, less than 40 % of the working population are covered by a public pension scheme. The average ratio is higher than in sub-Saharan Africa, but lower than in Latin America, Eastern Europe and South Eastern Asia. Only Libya, Tunisia, Algeria, Egypt and Jordan have effective coverage rates in the range between 55 and 80 %, which is completely in line with the performance of countries in other world regions on a similar per-capita income level (see Figure 2). All other MENA countries, however, score relatively bad. Especially, the effective coverage rates of the pension schemes in the Gulf States are very low (5–30 %) given that these are high-income economies. In addition, Morocco, Iran, Lebanon and Yemen also suffer from effective coverage rates that lie significantly below the coverage rates of countries in other world regions with a similar per-capita income.

Figure 2: Coverage rates of pension schemes in MENA and other countries



Source: Own design on the basis of data drawn from Gillion et al. (2000: Annex Tables A.6 and A.8); ILO (2000a: Annex Table 11); Loewe (2005: Annex Table 15); World Bank (2008).Note: Big dots stand for MENA, small dots for other countries.

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

Per-capita income and availability of oil or mineral reserves are thus no good predictors for the effective coverage rate of pension schemes in the MENA region. Its level depends much more on whether a country is a monarchy or a republic (Loewe 2005) because, as will be explained later, the stability of the republican regimes depends much more on social achievements than in the case of monarchies. On average, the effective coverage rate is 22 % in the MENA monarchies (Bahrain, Kuwait, Oman, Qatar, Saudi-Arabia, UAE, Jordan, Morocco), but 44 % in the MENA republics (Algeria, Egypt, Iran, Iraq, Lebanon, Libya, Palestinian Territories, Syria, Tunisia, Yemen) (see Figure 2).

As a result, many households in the MENA region remain vulnerable to work-disability, old-age poverty because of longevity and the death of their main bread-winners.

One reason is that large parts of the labour force are excluded by law from access to social insurance. Government employees in the public administration and in the armed forces are covered everywhere. Employees in private non-agricultural companies are also covered in the majority of countries, if they have permanent working contracts (not so in Qatar and the Palestinian Territories; and in Bahrain only, if the company has at least five employees). Employers, however, and employees in the informal and agricultural sector are only covered in some MENA countries (see Table 3). In the Gulf countries, even formal sector workers are exempted from the social insurance legislation if they are non-nationals (i.e. migrant workers, see further below), which causes serious problems as migrant workers make up 70-90 % of the respective labour force.

Table 3: Coverage of public pension schemes											
	military	civil servants	other employees in public administration	employees in state-owned enterprises	private sector employees outside agriculture with a permanent working-contract	temporary employees	employees in agriculture	employers and the self-employed	domestic workers	foreigners	estimated effective coverage of all pension schemes (% of total working population)
Algeria	x	+	+	+	+	+	+	x	+	+	70-80
Bahrain	x	x	+	+	+/– [a]	—	+/–	(+)	—	+	30
Egypt	x	x	+	+	+	x	+	x	x	+	58
Iran	x	x	x	+	+	+	(x)	(+)	(+)	+	30
Iraq	x	x	x	x	+	—	+	—	—	+	18
Jordan	+	+	+	+	+	—	—	(+)	—	+	55
Kuwait	x	+	+	+	+	+	+	(x)	+	—	21
Lebanon	x	x	x	x	+	—	+	—	—	—	25
Libya	x	+	+	+	+	+	+	+	+	+	80
Morocco	x	x	x	x	+	+/–	+/–	—	+	+	20
Oman	x	x	x	+	+	—	+	—	—	—	10
Palest. Territ.	x	+	+	—	—	—	—	—	—	—	30
Qatar	+	+	+	—	—	—	—	—	—	—	5
Saudi-Arabia	x	+	+	+	+	—	—	(+)	—	—	23
Syria	x	x	x	+	+	+/–	+	(+)	(+)	+	35
Tunisia	x	x	x	x	+	+	x	x	x	+	80
UAE	x	+	+	+	+	—	—	—	—	—	10-15
Yemen	x	x	x	x	+	—	—	—	—	+	13

Source: Ahmed (1988); Gillion et al. (2000: Annex Tables A.6 and A.8); ILO (2000a: Annex Table 11); ISSA (2008: entries No. 2164, 2520, 2604, 2991, 3593, 3633, 3752 and 3860); Jaber (1985); Loewe (2005: Annex Table 15); Robalino (2005: Table 3.1, Appendix F); USSSA (2006); USSSA (2007).

Notes:
Palest. Territ. = Palestinian Territories (West Bank and Gaza Strip); UAE = United Arab Emirates
+ covered by the general scheme
x covered by a separate pension scheme
– not covered
+/– partially/some covered
(+) may enrol on a voluntary basis, but have to pay entire contribution (employer's and employee's share) except in Iran, where the employer's share is financed by the government
a only people employed by enterprises with at least five employees
b separate scheme
c legal coverage of social insurance will be extended to this group of employees during 2009.

The other reason for the low effective coverage of pension schemes in the MENA region is that many workers do not comply although they are entitled or even obliged to contribute.

Egypt is a particularly telling example for this phenomenon. All workers are requested by law to enrol with one of the existing social insurance schemes, but only slightly more than half of them actually pay their contributions. Some people simply prefer to have their income for today's consumption instead of making provisions for the future. Others mistrust the social insurance administration and believe that the effective insurance yield is too low. Many employees, however, might be ready to make their payments if only they knew about their right to enrol. Likewise, after retirement, many people, especially the poor, find it difficult to claim their pension, because they do not know where and how to apply. Another problem is that the monitoring of the pension schemes is weak – especially in the private sector. Almost 100% of public sector employees enrol. But in the private sector, where the state does not deduct contributions itself, only 62% of the employed pay their contributions. The Egyptian social insurance administration is unable to supervise private employers in registering their employees and properly deducting their contributions. Some of these employees are ignorant about the fact that their employer does not pay insurance premiums for them. Others agree with their employers on non-registration as a means for both parties to save money (Loewe 2000:31f.).

Regressive redistribution

Many pension schemes in the MENA region redistribute resources bottom-up, i.e. from lower-income to middle- or even higher-income groups. The schemes are financed or co-financed by the government from general tax revenues, although only parts of the working population have access to them. In most MENA countries, the bulk of tax revenues comes from indirect taxes, which are paid by the rich and the poor (normally, the poor even spend a higher share of their income on indirect taxes than the rich). Thus, the poor help to finance pension schemes that they cannot access themselves because they are working in the agricultural or informal sector, which are not covered by the schemes.

The phenomenon is aggravated by the fact that some MENA countries have several pension schemes, each covering only one segment of the labour force. This fragmentation conserves and reinforces existing income differentials because the contribution and benefit conditions of the schemes for the better-off and well-connected social groups are more generous than those of the schemes targeted to lower-income groups.

Egypt, for example, has five pension schemes for different groups of the employed (Loewe 2000:26-32):

- Members of the armed forces, security services and top-bureaucracy are covered by the 'c*ollective social security schemes'*, which are administered by some of the ministries and financed by the government budget. Although their members pay no more than symbolic contributions, they are entitled to most generous old-age and work-disability pensions and free medical treatment in the best hospital of Egypt. In addition, not only their wives and children, but also, under certain circumstances, their parents and grandchildren benefit from a survivors pension.
- Public and private sector employees with an indefinite working contract (about half of the labour force) are required to enrol with the 'general scheme' of the National Social Insurance Organisation (NSIO). It is financed by contributions from employees (up to

13 % of labour income) and their employers (15–17 % of labour income). The treasury is adding another 1 % of labour income and covering possible deficits of the scheme.

- Professional associations and certain categories of commercial enterprises may opt out of this scheme with their employees and conclude group insurance contracts with private insurance companies providing higher pensions and better medical treatment.
- Employers and the self-employed have their own public pension, which is financially independent from the 'general scheme' but also administered by NSIO. Membership is compulsory but the level of contributions can be determined by members within a certain interval. The internal rate of return is somewhat better than in the general scheme, but the scheme does not provide health, maternity or unemployment benefits.
- All workers not covered by any of the other pension schemes are expected to enrol with the *'comprehensive scheme'*. Contributions are paid through the monthly purchase of a tax stamp for 1 Egyptian Pound (about € 0,15). The scheme only provides for a flat rate old-age, invalidity and survivors pension of 63 LE per month.

High administration costs

Pension schemes in the MENA region are characterised by a poor transfer efficiency. Their administrative costs consume a considerable portion of revenues: for example, 11 % in Jordan, 14 % in Morocco, 25 % in Bahrain and even almost 50 % in Oman and Yemen (see Table 4). For comparison: Administrative costs constitute only 1 % of total spending of the pension scheme in Canada, 2 % in Argentina or Croatia, 4 % in Mauritius and 8 % in the Philippines, but also, for example, 24 % in Benin (Gillion et al. 2000: Annex Table A.11).

Table 4: Contribution rates and benefits of MENA countries' main public pension schemes

	contribution rate (% of relevant income)				qualifying conditions for old-age pension				old-age pension level			budget		
	total contribution	employee's share	employer's share	government's share	normal age of retirement (men)	normal age of retirement (women)	minimum age of retirement for full pension (men)	minimum number of contribution months for full pension (men)	replacement rate after 30 years' coverage [a]	automatic adjustment of pensions	minimum pension (% of last income)	total receipts (% of GDP)	total spending (% of GDP)	administrative costs (% of total spending)
Algeria	12.5	7	10	0 [a]	60	55	50	180	75	yes [d]	yes [c]	...	...	...
Bahrain	12	5	7	0	60	55	40	180	60	–	yes [c]	1.9	1.1	25
Egypt	31	13	17	1 [a]	60	60	40	120	67	–	50	2.3	1.3	4
Iran	30	7	20	3	60	55	50	168	100	–	yes [c]	...	...	7
Jordan	14.5	5.5	9	0 [a]	60	55	45	180	75	–	50	3.4	0.7	11
Kuwait	25	5	10	10 [b]	50	50	47	180	95	–	65	8.8	4.9	3
Libya	15	3.75	10.5	0.75 [b]	65	60	62	240	70	–	yes [c]	...	...	3
Morocco	11.89	3.96	7.93	0	60	60	55	107	70	–	50	2.2	1.2	14
Oman	18	6.5	9.5	2	60	60	45	180	75	–	yes [c]	0.2	0.1	48
Saudi-Arabia	18	9	9	0 [a]	60	55	43	120	75	–	yes [c]	0.3	0.2	...
Syria	21	7	14	0	60	55	43	180	75	–	yes [c]	0.9	0.7	...
Tunisia	15.5	7.74	7.76	0	60	60	50	120	80	yes [d]	yes [c]	4.5	3.3	6
Yemen	12	6	6	0	60	55	50	180	85	yes [d]	50	...	...	50

Source: Gillion et al. (2000: Annex Tables A.5, A.7, A.8, A.9); ISSA (2008: entry No. 2793); Loewe (2005: Annex Tables B14, B16); Robalino (2005:135).

Notes:

a In Egypt, Jordan and Saudi-Arabia, the state is obliged by law to cover all possible deficits of the pension schemes. In addition, the Saudi government must finance all administrative costs. The Algerian state finances the minimum pension provisions.

b The Kuwaiti and Libyan pension schemes are co-financed by the government. This subsidy makes up almost half of the Kuwaiti pension scheme's entire receipts.

c In some MENA countries, the minimum pension is defined in absolute values (about 405 US$ in Bahrain, 210 US$ in Oman and 460 US$ in Saudi-Arabia), while in others, they depend on the respective level of minimum wages (100 % of the minimum wage in Algeria, Iran and Syria, 80 % in Libya and 67 % in Tunisia).

d In Algeria and Tunisia, pensions are adjusted by 100 % of any change in the legal minimum wage. In Yemen, they are raised by 50 % of the value of increases in public sector employee pays.

Table 5: Effective and projected age dependency ratios of MENA countries 1970-2040								
	1970	1980	1990	2000	**2010**	2020	2030	2040
Old-age dependency ratio (inhabitants age 60 or more / inhabitants age 15–59) (%)								
Algeria	9	8	7	7	**7**	9	14	20
Bahrain	5	3	3	4	**5**	9	18	26
Egypt	8	7	7	8	**8**	11	14	16
Iran	7	7	7	8	**7**	9	13	18
Iraq	6	6	6	5	**5**	6	8	10
Jordan	6	7	7	5	**6**	7	10	16
Kuwait	3	2	2	2	**3**	6	13	24
Lebanon	10	10	9	11	**12**	13	18	24
Libya	5	4	5	5	**7**	9	12	20
Morocco	9	8	7	8	**8**	11	16	20
Oman	6	5	4	4	**5**	7	11	16
Palest. Territories	7	7	7	7	**6**	6	7	9
Qatar	3	2	2	2	**2**	4	9	17
Saudi-Arabia	6	5	4	5	**5**	6	10	16
Syria	6	6	6	5	**5**	7	9	14
Tunisia	8	7	8	9	**9**	12	18	26
UAE	5	2	2	1	**2**	3	6	16
Yemen	5	5	4	5	**5**	5	6	7
Total age dependency ratio (inhabitants age 60 or more or below 15 / inhabitants age 15–59) (%)								
Algeria	121	107	95	68	**51**	54	55	59
Bahrain	100	61	54	48	**42**	46	54	63
Egypt	92	90	89	75	**66**	64	60	61
Iran	101	100	102	71	**47**	52	49	55
Iraq	110	108	98	89	**80**	67	63	59
Jordan	103	117	107	81	**65**	57	55	57
Kuwait	85	74	63	40	**38**	41	48	64
Lebanon	98	86	77	68	**59**	57	60	64
Libya	98	103	90	60	**58**	57	52	59
Morocco	116	95	85	69	**56**	59	59	61
Oman	110	97	89	68	**55**	55	56	58
Pal. Terr.	101	111	107	106	**96**	80	70	63
Qatar	66	53	42	39	**32**	35	40	52
Saudi-Arabia	98	95	83	72	**59**	56	56	57
Syria	111	115	111	83	**65**	60	53	55
Tunisia	111	92	83	63	**48**	52	57	65
UAE	66	44	47	35	**28**	29	32	48
Yemen	111	119	121	108	**91**	83	70	61
Source: own calculations on the basis of data from UN (2006).								

Unsustainable benefit conditions

Pension schemes in the MENA region are on average more generous than those in OECD, Eastern European and Latin American countries. This is mainly due to low effective ages of retirement, high minimum pension levels and unsustainable benefit formulas (Robalino 2005:64).

Especially early retirement pensions are set at a very high level and often granted too early in life. The normal retirement age is 60 years for men and 55-60 years for women in most countries of the region (see Table 4). Some countries, however, allow social insurance members to retire as early as at an age of 50, 45 or even 40 years without any reduction in their old-age pension, if they have contributed for at least 10 or 20 years. In addition, many schemes have maximum pension provisions punishing those who contribute for a large number of years. In Algeria, for example, pensions are calculated as 2.5 % of the last wage / salary of a retiree, but they are capped at 75 % with the effect that only the 30 years of contributions are rewarded. Whatever a pension scheme member contributes after that period is lost (some pension schemes grant a moderate lump-sum payment after retirement to compensate their members at least partially for that loss).

As a result, pension scheme contributors have an incentive to retire early. For male Bahrainis joining the general pension scheme at age 25, the return on contributions is more than 8 % annually if they retire at age 45 but only 4 % if they retire at 65. Likewise, the internal rate of return of the Jordanian social security scheme decreases steadily from 7 % for males retiring at age 45 to 3 % for males retiring at age 70. For Egyptians who retire at age 70, the rate of return is even negative. Likewise, contributors yield higher returns, when they join pension schemes later in their career. A male Bahraini who starts to pay contributions at age 25 and retires at age 60 can expect a rate of return to contributions of 6 %. Another Bahraini, however who delays enrolment with the pension scheme by 10 years (until age 35) but also retires at age 60 will have a rate of return of almost 8 % (Robalino 2005:70–73).

In addition, if an employer wants to cut back on employment, he can shift substantial costs to the pension systems by using the early retirement provisions and paying his former employees the difference between their last salary and the early-retirement pension. Members of the armed forces in Jordan can even retire with 33 years if they have started their military service at the age of 17 years; in this case, they are receive an old-age pension equal to 40 % of their last wage (Loewe et al. 2001:29).

Likewise, minimum pensions are set at very high levels in many MENA countries (see Table 4). They are granted to every pensioner whose regular pension would be less. On average, they are equal to 30 % of average earnings in the respective country. Iran provides the highest minimum pension level (66 % of average wages), followed by Bahrain (44 %), Egypt (42 %) and Jordan (37 %), while the respective level is only 23 % in Mexico, 26 % in Poland and 13 % in the UK. As a consequence, for example, 80 % of retirees in Jordan receive a pension amounting to the minimum pension level. Their benefits exceed accumulated contributions. The difference can be interpreted as a direct subsidy financed from the reserves of the social insurance scheme and thus by future generations (Loewe et al. 2001:28; Robalino 2005:65).

Finally, the benefit factors are very generous as well. After a full career (40 years of contributions), retirees receive a pension that is equal on average to about 80 % of their last wage or salary (75 % in Jordan, 95 % in Kuwait and 117 % in Iran). The same gross replacement rate is only about 56 % on average in the OECD countries as well as in Eastern Europe and Central Asia and 57 % in Latin America and the Caribbean (Robalino 2005:68). Few people in the MENA region work and contribute to social insurance for as long as 40 years. However, even gross replacement rates after only 30 years of contributions range between 70 and 80 % for most of the MENA countries (only 60 % in Bahrain and 67 % in Egypt, but 95 % in Kuwait and even 100 % in Iran; see Table 4).

In this aspect, Jordan's pension scheme is typical for other pension schemes in the MENA region. It is financed by contributions paid by employers and employees that are currently set at 14.5 % of the wage bill. After 30 years of contributions, retirees receive a pension that is equal to 75 % of their last earnings. However, if we assume that the total wage bill in the country has grown by 5 % annually during this period (e.g. 2.5 % per capita income growth plus another 2.5 % growth of the labour force), that career-related wage increases have added another 1.5 % annually and that pensioners can expect to live another 15 years after retirement, a gross replacement rate of 55 % after 30 contribution years would be more appropriate (which corresponds to a benefit factor of 1.5–1.8 for each contribution year instead of the current 2.5 %).

In addition, calculating pensions on the basis of an insured person's last salary constitutes an incentive for employers and employees to manipulate income declarations. They can agree, for example, to underreport salaries during most of the employee's working life so as to lower contributions, while overstating salaries during the last two contribution years, upon which basic pensions are calculated (Robalino:62–63).

As a result, none of the pension schemes in the MENA region is financially sustainable. Their pension promises exceed by far their income generated from contributions and invested reserves. Even if the schemes could expect real rates of return to invested reserves of 2-4 % annually (which is not the case now in any MENA country, see below), they would reach the point over the next decades that their expenses rise above their proceeds, because they are granting real rates of return to their members that are well above 5 % (ibid.:79–81).

Most schemes have already accrued pension liabilities that exceed by far invested reserves. The World Bank assumes that this implicit gross pension debt is equal to 96 % of GDP in Iran, 130 % of GDP in Morocco and 175 % of GDP in Jordan, while the assets of the pension schemes are just 5 % of GDP in Iran, 12 % of GDP in Morocco and 25 % of GDP in Jordan. The total implicit pension debt of all MENA countries is estimated at 50 % of regional GDP, while the reserves are standing at 14 % of regional GDP only (ibid.).

Inefficient investment policies

Also, the social insurance administrations of the MENA countries tend to invest their reserves inefficiently and therefore yield very low capital income. Most pension systems in the MENA region had originally been designed as partially funded schemes. But they were forced by governments, in many countries, to lend their reserves in one or another way to the state at unfavourable interest rates. The governments used these funds to finance social and

infrastructure projects – such as social housing in Tunisia, social assistance in Algeria, credit schemes for small and medium entrepreneurs in Libya and infrastructure upgrading in Egypt.[2]

Such use of pension funds is problematical not only in terms of return on capital, but primarily because of the difficulty of turning the investments back into liquid assets. If at any stage the expenditure of a pension scheme exceeds contributions received, it must resort to its reserves or at least use the income from them if it is to be able to pay the pensions due. The state is then forced to repay the loans, and to this end, it must either reduce government spending or increase taxes. In either case, those who are not covered by the pension schemes are ultimately compelled to help finance the pensions of those who are covered – although, on average, the non-members are poorer than the members of the schemes. Algeria has already reached this point during the late 1980s, its treasury having since made substantial contributions to the revenues of the social insurance scheme. In other countries, the same situation will arise during the coming three decades from now: in Tunisia and Kuwait (only the basic scheme) before 2015, in Egypt and Morocco until 2020, in Jordan and Bahrain between 2020 and 2025 and in Iran by 2030.[3]

3 Past efforts to reform pension schemes in the MENA countries

Most MENA countries have submitted their pension schemes during the last fifteen years to financial and administrative assessments by independent experts. Especially the International Labour Office (ILO) has produced a number of reports[4] on pension schemes in the MENA region clearly pointing to the deficits of these schemes. Most of them conclude that the reserves of the respective scheme will sooner or later be depleted because of the scheme’s overly generous benefits and its inefficient investment policies. Similar comments were written by the United States Agency for International Development (USAID 1999) and by Maait, Ismail and Khorasanee (2000) on the Egyptian scheme and by Muhanna &Co. (1997) and by Khalaldeh (2000) on the Jordanian scheme.

The World Bank and the International Monetary Fund (IMF) have also commented on the pension schemes in several of their reports.[5] In addition, the World Bank (2005) has published a special report on *Pensions in the Middle East and North Africa*. Proposing concrete reforms, these reports clearly go beyond the scope of the ILO reports. In addition, the World Bank reports state that purely parametric reforms might not suffice to solve the problems of public pension schemes in the MENA region and take a systemic change towards

2 Cf. Ayachi (1999:17); Gillion et al. (2000:164f.); ILO (1998); Loewe (2004:8); Loewe (2005:249–250); World Bank (2002:69–72).

3 Cf. ILO (1991); ILO (1995); ILO (1998a); ILO (1998b); Muhanna & Co. (1997).

4 Bahrain in 2002, Egypt in 1998, Iran in 1997, Jordan in 2000, Kuwait in 1998, Libya in 1988 and 1990, Morocco in 1995, 1997 and 1998, Oman in 1997, Tunisia in 1991, the UAE in 1988 and Yemen in 1992.

5 For example: World Bank (1993) and World Bank (1997) on Egypt; World Bank (1986), World Bank (1999) and IMF (2004) on Jordan; World Bank (1995) on Tunisia.

full funding into consideration. Some even recommend MENA countries to privatise their pension schemes arguing that such a step would increase the return to workers upon their contributions, strengthen national capital markets and boost economic growth. Of course, one should doubt whether privatisation would really have such effects –especially in the MENA countries. Here, financial markets are still small, weak and particularly volatile and therefore little appropriate for the investment of pension funds by privately managed schemes.

However, none of the authoritarian regimes in the MENA region has ever taken the privatisation of pension schemes even just into consideration. Some have not even acknowledged that fundamental reforms would be needed to preserve the financial sustainability of their pension schemes (especially Algeria, Libya and the Gulf countries. Others have started to discuss the issue in the public but not yet taken action (Egypt, Iraq, Iran, the Palestinian Authority). A few have implemented some parametric reforms such as establishing an independent investment unit within the pension scheme administration, raising retirement ages or capping pension levels. Jordan has made an essential step to overcome the fragmentation of its pension schemes. But most reforms have concentrated on raising the legal and the effective coverage rates of pension schemes.

Conducting systemic reforms: Only three MENA countries have until now taken a more systemic change in their pension policies into consideration and none has realised it yet. All three countries have a comparatively close co-operation with the World Bank and implement many development strategies proposed by the donor community on other policy fields as well, while many other MENA countries are known to be particularly reluctant in taking over economic, social or political concepts from outside. The Palestinian Authority had developed a plan in 2005 to establish a three-tier pension scheme for all workers in the private and public sector replacing the existing separate schemes for civil servants in the Westbank and in the Gaza Strip. The first tier was meant as a flat-rate, tax-financed social pension programme, the second as a contributory defined-benefit scheme and the third as a funded defined-contribution fund. This plan has been put on hold, however, after the defeat of the Fatah in the 2006 parliamentary elections. At the same time, the Lebanese government had drafted a new social security law providing for the establishment of a comprehensive, fully funded, defined contribution pension scheme in lieu of the country's old provident fund. The law has been approved by parliament but not yet been implemented. Morocco, finally, is also intending to set up two separate fully funded schemes for public and private sector employees, but this plan has not concretised yet (ISSA 2008: entries No. 3035, 3469 and 3359; Robalino 2005:176–178).

Reforming investment policies: Even the need to reform benefit conditions and investment strategies has not been discussed in public in many MENA countries, and only Oman and Kuwait permit their pension scheme organisations to invest more than 30 % of their funds on stock markets (ISSA 2008: entry No. 1993).

The Egyptian government was the first to raise the issue. In the late 1990s, the then Minister for Insurance and Social Affairs had plans to allow the National Social Insurance Organisation (NSIO) to invest its surpluses on the national capital market. Until then, all reserves had to be given to the government-owned National Investment Bank at a very unfavourable interest rate (5 % on surpluses accrued until 1992 and 11 % on surpluses accrued after that date, although inflation peaked to 18 % during several years and hardly ever

was below 4 %). El-Tellawy explicitly mentioned that her reform plans were intended not only to raise the capital income of Egypt's public pension fund but also to boost the national stock market and to foster the development of the country's private sector. Economists praised her move as a "*benchmark towards liberalising the economy*" (The Egyptian Gazette: 08 October 1997) and representatives of the multilateral donor organisations seconded: "*Our securities market functions very well in serving the pension schemes of the United States and Latin America. It's time we started doing the same for ourselves*" (ibid.).

However, the minister was dismissed after only 2 years in office. Her initiative got stuck at a moment when Egypt's economic reform process lost pace as well. In the end, the NSIO got permission to invest a mere 1 % of its annual surplus on the capital market, but the investment unit of the NSIO is still appointed by the government; its members can be replaced at any point of time and are therefore not independent in its investment decisions (ILO 1998:64; World Bank 1997, Vol. III:59–62; Robalino 2005:85).

Only very recently has the debate on pension reform in Egypt gained momentum again. The cabinet has drafted a new social insurance law in early 2008, which allows for the investment of up to 25 % of the public pension fund's surplus in stocks, real estate or directly in new or existing companies. It is not by surprise that the initiative has come at this point of time, since the Egyptian stock market has experienced a unique boost during the last five years with the effects that the 2 billion Egyptian Pounds that the NSIO has invested on the capital market since 1999 have generated a 23 % annual return while the 250 billion Pounds that were deposited with the National Investment Bank yielded far less than the 11% that commercial banks offered at the same period for savings accounts (Daily News Egypt: 27 March 2008).

The government intends to seek parliament's approval for the new law by the end of 2008, which is, however, all but certain. Many deputies as well as ordinary citizens of Egypt look at the idea of investing pension funds on the national capital market with scepticism. They fear the value of pensions to erode as a result of mismanagement in the investment board of the NSIO as well as of a stock market crash once the country's current boom phase comes to an end. Some would accept the new law if it provided for more diversified investments of pension funds on the capital markets of different countries world-wide while others would oppose to transfer the reserves of the NSIO abroad even more (KAS 2008), and the weight of the latter group has probably grown even further since the beginning of the global financial crisis in summer 2008.

Syria has recently made the step to allow its public pension scheme administration invest 50 % of its funds on the capital market or in government bonds. The scheme's investment board, however, is not really free from government intervention (ISSA 2008: entry No. 2919).

Lebanon and Jordan have started their reforms from a different point. They have established (in 2001, respectively 2004) investment units that are relatively autonomous in managing the pension funds but not yet entitled to invest them on the stock market (ISSA 2008: entries No. 2720 and 3191). The Palestinian Authority had similar plans before the Hamas won the parliamentary election in 2006 (Robalino 2005:178).

Changing unsustainable benefit conditions: Hardly any MENA country has made significant efforts to overhaul the benefit conditions of its pension schemes and thereby improve its

financial sustainability. Iran had the intention a decade ago to raise the minimum effective age of retirement for early pensioners. Egypt's new draft social insurance law provides that pensions are set according to average life-time's earnings rather than on the basis of a pensioner's salary during the last year before retirement. However, only Jordan and Yemen have actually implemented reforms. Jordan has raised contribution rates and capped military pensions. In addition, early pensions are now subject to a scaled reduction depending on the gender and age of retirees. For men, for example, the reduction ranges from 1 % (if they retire at age 58 or 59) to 18 % (if retiring at age 45 or 46). Finally, a restriction has been implemented in Jordan and Yemen in the calculation of pensions to avoid that workers manipulate their income declaration (understate their salary during most of their but overreport it during the last years before they retire in order to maximise their rate of return). Since 2001, the last wage may not be higher than 1.6 (Jordan) respectively 1.5 (Yemen) times the wage declared five years earlier; otherwise the difference will not be accounted for.[6]

Algeria has also considered preparing a financial valuation of its pension schemes and eventually adjusting the benefit conditions. However, because of poor record keeping it could not generate the data needed to conduct an analysis and design a reform package. In addition, the labour unions have taken up a position against any reform. As a result, the Algerian government has given up its plans and established a 'reserve fund' to cover the chronic deficits of the pension schemes. The fund is financed by a 2 % levy on all proceeds from the sale of oil (ISSA 2008: entry No. 3759).

Limiting regressive redistribution: Jordan is the only MENA country to have subjected its pension schemes to a more profound restructuring. Before, only private sector employees had to contribute to a social insurance scheme, while the pensions of military and civil servants were financed by the government budget, i.e. by taxes. In 1995, however, the government realised that pension payments accounted for up to 15 % of total government spending and would have risen in weight even further without reform. As a result, it decided that all new civil servants would from then on enrol on equal terms with private sector workers with Jordan's Social Security Corporation (SSC). Military recruits followed only 8 years later in 2003. As a result, the two separate pension programmes for civil servants and the armed forces are slowly phased out. Only those recruited before 1995, respectively 2003, are still covered by the old tax-financed schemes, i.e. they will receive their pension from the state rather than SSC (ISSA 2008: entries No. 3190 and 3287)

Morocco has also integrated some occupational pension plans of state-owned enterprises into the general pension scheme for the public sector, but these plans were comparatively small and the country still has three different pension systems. Likewise, Algeria has merged a large number of pension plans (for civil servants, top-bureaucrats, farmers, employees in agriculture, miners, industrial workers etc.), but it still has separate schemes for the military and for the self-employed. Iran is only discussing the merger of different schemes and Yemen had integrated its public and private sector pension schemes in 2000 but then faced

6 Cf. Daily News Egypt (27 March 2008); ISSA (2008: entries No. 2322, 2793 and 3831); Robalino (2005:72), 175; USSSA (2006); USSSA (2007).

administrative problems and ultimately reversed the merger again (Ayachi 1999:13; Robalino 2005:171–173, 177).

Raising effective coverage rates: At the same time, a number of MENA countries have taken measures to address another problem: low effective coverage rates. Bahrain, Jordan, Libya, Saudi-Arabia and Syria have opened their general pension scheme for additional groups of workers (mainly employers and the self-employed), while Algeria, Egypt, Iran, Kuwait and Tunisia have built up separate schemes (see Table 3).

In the following, we look into more detail of five of these countries (Algeria, Bahrain, Egypt, Libya and Tunisia) to assess how successful they were in raising the effective coverage of their pension schemes and why some were more successful than others.

Libya and Bahrain have made an attempt to integrate workers in the informal sector into the same universal pension scheme that had originally been established for formal sector employees. The example of Libya shows that such an attempt can be successful – the effective coverage rate of Libya's pension scheme is estimated to be no lower than 80 % of the employed population.[7] Both countries benefit from favourable framework conditions: thanks to their huge oil revenues, their governments are able to finance all possible deficits resulting from particularly generous benefit conditions accorded to one or another group of social insurance members. Nevertheless, Bahrain was much less successful in raising the overall effective coverage rate of its pension scheme (26 % in 2002) (Loewe 2005:330; Robalino 2005:54).

This difference can be explained by five factors:

- Most important is that non-nationals are excluded from the benefits provided by Bahrain's pension scheme. 56 % of all employees in Bahrain are migrant workers who have to pay payroll taxes just like Bahrainis but are entitled to paid sick leave only, while foreigners in Libya enjoy the same rights as nationals.
- Enrolment with the general pension scheme is facultative for employers and the self-employed in Bahrain but mandatory in Libya, and it is obviously well enforced in Libya, as well.
- Temporary employees are covered in Libya but not in Bahrain.
- The Libyan social insurance system also provides for free medical treatment in the public health system, a maternity pay and a family allowance for each child –an important incentive for workers to contribute. The Bahraini scheme grants only old-age, work-disability and survivor pensions and a compensation in case of work-related injuries and illnesses.
- The Libyan pension scheme is substantially subsidised by the state while in Bahrain, the government does not provide any funds. As a result, the rate of return to contributions is

7 The World Bank even assumes that almost 90 % of the Libyan labour force enrol with the general pension scheme, and this figure does not yet include the armed forces (another 5 % of the labour force), which are covered by separate old-age protection systems (Robalino 2005:54).

much higher for contributors in Libya and the pension scheme thus more attractive to them than the pension scheme for contributors in Bahrain (Loewe 2005:330–331).

Algeria, Egypt and Tunisia have taken a different approach. During the 1950s and 1960s, they had established a standard scheme for typical formal sector employees in addition to a special scheme for the armed forces (also covering civil servants and other public sector employees in Tunisia). Then, they decided to build up additional separate pension schemes for other groups of employees. In 1976, Egypt started by founding a special scheme for employers and the self-employed – a step that was followed by Algeria in 1983 and by Tunisia in 1995. In 1981, Egypt established another pension scheme where enrolment is mandatory for all employees that are not covered by law by any of the other schemes (e.g. domestic workers, day labourers, seasonal workers). Tunisia, however, went furthest. Over the years, it has set up ten different schemes (i) for civil servants, the military and employees in state-owned enterprises, (ii) for employees in the electricity, gas and transport sector, (iii) for employees in the private non-agricultural sector, (iv) for agricultural workers in co-operatives, (v) for wage earners in the agricultural sector, (vi) for employers and the self-employed, (vii) for Tunisians working abroad, (viii) for students, (ix) for low income earners such as domestic workers, persons employed in the public sector and not covered by another scheme, independent fishermen, employed fishermen working on boats with a gross tonnage of less than 5 tons, independent farmers and small-scale craftsmen, and (x) for artists, creators and intellectuals. The last two schemes have been established only very recently in 2002 and 2005. Each of these schemes has its own membership conditions, contribution rates and benefit provisions.[8]

Such fragmentation of pension schemes bears several problems: First, administrative costs are high because each scheme has its own management. In addition, running a pension scheme involves economies of scale, so the relative weight of administrative is lower in large schemes. Second, workers find it easier to evade contributions when several schemes exist that are not well harmonised and do not synchronise their membership data. Third, the existence of two or more different pension schemes limits the mobility of workers across sectors. Often, it is impossible or at least difficult to transfer pension rights from one scheme to another. Fourth, inequalities may be reinforced because the benefit provisions of pension schemes targeted to better-off and influential social groups tend to be more generous than those for the poor.

The great advantage of a variety pension schemes, however, is that they can be fine-tuned to the needs and possibilities of different groups of employees. In Algeria, Egypt and Tunisia, almost every employed person is covered by law by one of the existing pension schemes (see Table 3).

Effective coverage rates, however, differ substantially. In Tunisia, 80 % of all employees enrol with any of the nine pension schemes. In Algeria, the respective rate is only slightly lower (70–80%). However, like elsewhere, the unemployed are not covered in any of the countries, and unemployment is much more wide-spread in Algeria (30 %) than in Tunisia

8 Cf. Bouslah (1992); Chaabane (2002); ILO (1998b); ISSA (2008: entries No. 2520, 2604 and 2991); Loewe (2000); Loewe (2005); USSSA (2006); USSSA (2007).

(16 %). As a result, the ratio of pension scheme contributors to the entire labour force is only about 50 % in Algeria but 67 % in Tunisia. At the same time, only 58 % of the employed and only 45 % of the labour force enrols in Egypt (Loewe 2005:461–473).

Apparently, Algeria and Tunisia have been more successful than Egypt in integrating certain groups of employees into public pension schemes. In all three countries, almost 100 % of public sector employees and about 60 % of the employers and the self-employed enrol with their respective schemes. However, only about 25 % of employees working in private companies in Egypt are actually contributing to a pension fund, while the respective share is about 90 % in Algeria and Tunisia (ibid.).

The reason for this difference is three-fold:

First, different degrees of awareness: Many workers in Egypt do not know about their right and duty to enrol. Others are not well informed about the advantages of contributing to a public pension scheme. In addition, illiterates cannot fill in the application forms for membership or to claim their pension after retirement. And sometimes even, casual workers are unable to pay their contributions because there is no tax stamp (documenting contribution payment) left with the offices of the National Social Insurance Organisation (Rieger 1996:36; Loewe 2005:335–336).

Ten to fifteen years ago, Algeria and Tunisia suffered from similar problems. The governments of both countries, however, have launched intensive public awareness campaigns during the 1990s to make citizens conscious about the need to provide for old-age and to inform them about the membership conditions and benefit provisions of the different public pension schemes. As a result, workers' attitudes towards contributions to social insurance have changed; providing for old-age and times of ill health has become very important for the majority of employees (CASNOS 2001; Chaabane 2002:14).

Second, uneven capabilities to monitor and sanction the non-payment of due contributions: 30 % of all workers in Egypt are not registered with the National Social Insurance Organisation. Some are ignorant about the fact that their employer does not pay insurance premiums for them. Others, however, reach an agreement with their employers on non-registration as a means for both parties to save on contributions. Apparently, the Egyptian National Social Insurance Organisation is either unable or unwilling to properly supervise private employers in registering their employees and deducting their contributions (Loewe 2004:7–8).

Again, the situation used to be the same in Algeria and Tunisia until a decade ago or so, when both countries have made substantial efforts to strengthen the monitoring capacities of their pension scheme administration. Both have established small and flexible inspection units, which are entitled to show up at working places to detect non-registered employees without giving prior notice to the employers. They may interview the workers, ask for their social insurance cards and view the books of the enterprises to verify whether the declaration of employers with regards to the wages of their employees is plausible. In addition, the social insurance inspectors make regular visits to selected quarters of towns to find non-registered workers in the informal sector. Also, the penalties for non-registration and under-declaration of wages have been tightened considerably (CASNOS 2001; Chaabane 2002:15).

In addition, Tunisia has established a mechanism for employees to defend their rights vis-à-vis their employers. They are regularly informed about the wages declared and the contributions paid by their employers. When their employer has understated their income and thus paid too low contributions, they can take legal action against him not only until they quit their job but for another year after their employment relationship has come to an end in order to encourage workers to claim their rights who might hesitate to do so as long as they are employed for fear of retaliation (e.g. dismissal by their employer).

Third, divergence in the attractiveness of membership and benefit conditions: Differences in contribution rates, the quality of customer service and the composition of the entire social insurance package constitute a third major reason for the variation in enrolment ratios between the Egyptian pension schemes on the one hand and the Algerian and Tunisian schemes on the other. Employers and the self-employed in Egypt contribute 15 % of their income, but they are entitled to old-age, work-disability and survivor pensions only. Employers and the self-employed in Tunisia pay 11 % of their income only, and they receive wage-replacement benefits not only in the cases of old-age, work-disability and survivorship but also during illness and maternity (67 % of their declared normal income). Employers and the self-employed in Algeria also have to contribute 15 % of their income, but they are entitled to old-age, work-disability and survivor pensions and free medical treatment in the public health system in case of illness (80 % cost recovery in the private health system) and free medical treatment in the public or private health system during maternity and delivery (Loewe 2005:462–463, 468–469).

Likewise, the insurance scheme for casual workers in Egypt grants pensions only, while casual workers in Algeria and Tunisia are covered on equal terms by the respective standard schemes for salaried employees, which also provides for wage replacement benefits and free medical treatment in case of work injury, illness and maternity, unemployment pay and child allowances (ibid.).

Especially workers in the informal sector highly appreciate such extended benefit packages. Many consider health insurance as more important than pension insurance, because they still rely on support from their children at old-age and underestimate the threat emanating from the risks of work-disability and early death of the main bread-winners of a family. This perception is very wide-spread all over the world and could be due to the fact that work-disability and early deaths have very serious effects on the well-being of a household but occur much less frequently than health risks (Loewe et al. 2001:59).

Many employees are also very keen on the family allowances granted by almost all social insurance schemes in Algeria and Tunisia. Only the Tunisian scheme for employers and the self-employed does not provide for this of benefits. Mouelhi (1990:83) posits that this is a major reason why the enrolment of employers and the self-employed in Tunisia with social insurance is particularly low (only about 55 % compared to about 65 % in Egypt and 60 % in Algeria, although the enrolment of most other groups of employees is higher in Tunisia than in Egypt or Algeria). Especially poor households in Tunisia and Algeria consider the family allowances as the main gain from social insurance. This point of view is reflected by the fact that the Tunisian social insurance organisation is often called 'dār l'awlād' (children's house) by the man on the street. Another sign is that the enrolment of wage earners in the agricultural sector has substantially risen after 1990 when a new social insurance scheme was introduced

for this group of employees. The contribution rate of the new scheme is 15 % (almost double the rate of the old scheme) but it provides for family allowances (in contrast to the old scheme). Today, the majority of workers in agriculture opts for the new scheme.

4 Obstacles for pension reform in the MENA region

Governments that initiate pension reforms are motivated by either social or economic or political goals.

- *Social goals* would be, for example, to reduce old-age poverty or to establish fairness, i.e. equal opportunities for different groups of society to protect against risks.
- *Economic goals* include, inter alia, encouraging the engagement of low-income households in productive activities and thereby boosting private investment and income growth. The idea is that social protection reduces everybody's risk aversion. Especially poor people without access to social protection are very averse towards risks. They keep their savings in cash or on bank accounts in order to be able at any moment to withdraw the savings easily and quickly and without a loss when a risk has occurred. The weakness of such a limitation of risks is that it usually goes along with a limitation of possible yields with the result that many of the poor have no means to escape from poverty. Poor people, however, who are protected against their most serious risks, tend to be more willing to take additional risks in exchange for higher yields. They are ready to invest their extra-income in human capital (education and health), productive assets or innovation. These investments may become a failure but promise higher expected (average) yields as well and could therefore allow a household to escape from poverty.

  Another economic goal could be to mobilise the savings of households for either public investments or capital market development. In the first case, pension schemes would have to be compelled to lend their reserves to the state to finance infrastructure projects (which is the case in many MENA countries), while in the second case, they would have to be allowed to invest into a certain range of financial products.
- Examples for *political goals* are to contain opposition movements, to legitimise the rule of the political regime or to favour its clientele. A way to achieve such goal is to enhance the benefits provided to key groups in society such as large entrepreneurs, the army or the urban middle-class (physicians, teachers, advocates etc.). A completely different but likewise political goal is to appease workers not yet covered by a pension scheme and thereby prevent social unrest. A way to reach it clearly is to extend the legal coverage of pension schemes to additional groups of employees.

Until now, economic goals have not played an important role for pension reforms in the MENA countries. The previous chapter has shown that most substantial reform packages have focussed on limiting regressive redistribution and extending both the legal and the effective coverage of pension schemes. They are thus contributing, first of all, to social goals. In addition, some minor reforms have been implemented to tighten overly generous benefit conditions and thereby preserve the efficiency and financial sustainability of the existing pension schemes. They are contributing only indirectly to the same goals as the pension

schemes themselves. Only Oman and Kuwait have effectively opened the way for pension funds to be invested on the private capital market thereby pursuing predominantly economic goals.

Most MENA countries are not in a need to follow economic goals although their private sectors are underdeveloped. The sale of crude oil or raw gas allows many MENA countries to cover the deficits of their pension schemes as well as to balance the lack of capital accruing from national savings for private sector investments. This phenomenon is most obvious in the Arab Gulf states, Libya and especially Algeria, where the government has decided to cover the current deficit of the pension scheme from oil and gas revenues rather than to go for reforms to close the deficit.

At the same time, the sale of oil and gas has enabled many MENA countries to make some considerable progress towards social goals. Libya, for example, would not have been able to raise the effective coverage of its pension scheme to at least 80 % if it did not grant substantial subsidies to it. On the other hand, the Gulf countries, which generate an even higher income from oil and gas, do not use it in the same way (except Kuwait). The most extreme case is Qatar, which has not even established a pension scheme for private sector employees yet. Tunisia, on the other hand, has also been very successful in achieving social goals with its pension reforms, although it has only very limited oil reserves.

Especially the rulers of the republics in the MENA region are comparatively committed to improving the socio-economic well-being of their citizens. They have all come to power by revolutions, coups d'état or wars of independence rather than democratic elections. Their political programmes, which are all based on a combination of goals such as freedom, autonomy and social justice, are their sole source of legitimacy, while the monarchs in the MENA region refer to their descent from the prophet Muhammad or the long tradition of their family's rule. The stability of the republican regimes therefore depends much more on social achievements than the stability of the monarchies.

We can therefore assume that political decision-makers in the MENA region – like in many other parts of the world – have not only social goals in mind when they implement pension reforms. Instead, they are more likely to be motivated by political goals. In addition, when governments in the MENA region refuse to implement pension reforms with a negative impact on social goals, this might be based on popularity concerns. The Algerian regime, for example, had plans to tighten the benefit conditions of the country's pension scheme in order to restore the scheme's financial balance and it did not mind to hit households from all income strata until the labour unions launched a massive campaign against the initiative.

However, social, economic and political goals are not always compatible. In this case, the regimes of the MENA countries clearly decide in favour of their political goals. This propensity is reflected, for example, in the unequal treatment of different population groups by the pension schemes of many MENA countries. They benefit urban middle-income earners rather than the poor (see above). Thereby, they cater for a segment of the population, which is most likely to develop its own political ideas and can therefore be strong supporters or firm opponents of the government. Political rulers have good reason to care for the well-being of this segment, although it is not particularly poor and vulnerable.

Another indication is that the pension reforms pursued with the highest degree of determination and success in the past have focussed on rescuing the preferential pension schemes for public sector employees from ruin. This was the case in Jordan, Lebanon and the Palestinian Territories (Robalino 2005:178).

5 Prospects for pension reforms in the future

Social policies in general and pension schemes in particular are an essential instrument for the regimes in the MENA region to legitimise their rule. Pension reforms will therefore continue to be very unlikely to happen if they go against this political goal.

In the authoritarian context of the MENA countries, parametric reforms are possible if they do not worsen the position of politically influential social groups leaders are considering important in terms of support, and therefore come at no political cost. This includes measures that are merely meant to improve the efficiency of the existing pension schemes such as cutting their administration costs (for instance through the computerisation of bureaucratic and financial procedures). Some countries might revise the way pension are calculated; they could, for example, change to a formula, which makes the level of pensions be based on life-time income rather than only the income during the last years before retirement. Some countries might even consider tightening early retirement conditions.

Also, some countries might take measures to extend the coverage of their pension schemes to more and more groups of employed persons – as long as they are able to finance such steps.

In any case, systemic changes are very improbable to occur. No government in the MENA region (with the possible exception of Lebanon) will in the foreseeable future privatise a pension scheme because it would thereby give away an important instrument of legitimisation. This does not constitute a problem, because a privatisation of pension schemes would be very unpopular among MENA country citizens as well. They tend to expect the state to safeguard their socio-economic well-being rather than private enterprises or unions.

However, MENA countries are also very reluctant in reforming the investment strategies of their public pension schemes. Only few are in fact ready to establish an autonomous investment board within their pension scheme administration and to entitle this board to invest at least a small percentage of pension fund reserves in real estate, on the domestic stock and equity market and to some extent in investments abroad.

Likewise, more substantial cuts in pension scheme benefits are improbable as long as the MENA countries are able to pay for the growing deficits of their pension schemes. This is the case in the oil-exporting countries but also to some degree in most other countries in the region. Only when the pension scheme deficits become too big, there is some chance for a true reform. This is exactly what happened in Jordan in 2001, where government spending for military and civil service pensions reached levels of more than 20 % of total public expenditures. In this situation, the government decided that new recruits would from then on be covered under the same conditions which are ruling the private sector pension scheme, which means at much less favourable conditions than the cohorts before.

6 Conclusions to be drawn for pension reforms in other parts of the world

The experience of the MENA countries shows that the availability of oil and mineral reserves allows for the establishment of generous pension schemes and their extension to large parts of the population, although it is by no means a guarantee for it. At least in this part of the world, political factors have a stronger influence on the shape and out-reach of pension schemes than economic factors. For example, the effective coverage rates of the pension schemes in the MENA republics are considerably higher than those in the MENA monarchies.

Particularly, the republics are more disposed to open their pension schemes for migrant workers – perhaps because they are based on progressive ideologies rather than tradition. These are excluded from access to any branch of social insurance in five out of the six Arab monarchies in the Gulf although these countries would have the financial and administrative capacities needed to incorporate a majority of people from all groups of employees.

A high number of unemployed and informally employed people constitute another challenge for making pension insurance universal. The unemployed are not covered in any of the MENA countries (and they are not either in almost all countries elsewhere in the world). A majority of MENA countries has opened their pension schemes to at least some fractions of informal sector workers, but only three have succeeded in effectively integrating at least half of these employees into one of their pension schemes.

The story of these three countries shows, as well, that five factors can play an essential role for the success of efforts to make effective pension scheme coverage universal: (i) There must be a strong will among political decision makers. (ii) Raising public awareness and monitoring compliance is very important for raising not only legal but also effective coverage rates. (iii) Offering a broader package of social protection benefits beyond pensions or a better customer service encourages workers to comply even further. (iv) Financial incentives (such as the subsidisation of contributions rates of low-income earners) are equally helpful. (v) A fragmentation of pension schemes bears a risk of raising administrative costs, to ease contribution evasion, to reduce the mobility of workers and to reinforce social inequalities. At the same time, however, the existence of several distinct pension schemes also allows for a fine-tuning of contribution and benefit conditions to the needs and possibilities of different groups of employees.

Finally, we have also learned that parametric reforms are possible and politically less controversial than systemic reforms. Steps such as lowering early retirement ages, strengthening contribution-benefit links in benefit formulas, reducing administration costs and improving investment policies and regulation could be done almost everywhere in the MENA region, even though policy-makers have until now been reluctant to implement even these minor reforms. Privatising existing pension schemes, however, is neither a realistic nor a recommendable option.

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