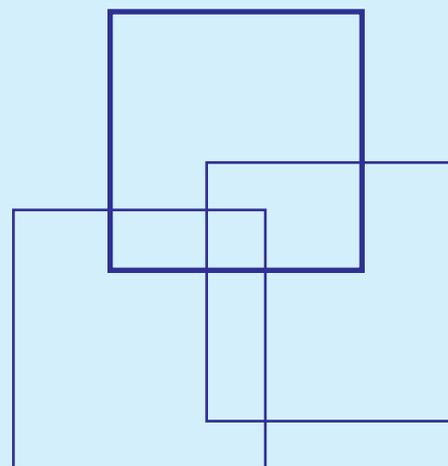




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# The impact of the financial and economic crisis on Arab states: considerations on employment and social protection policy responses

Christina Behrendt, Tariq Haq and Noura Kamel



Regional Office for Arab States

## POLICY NOTE

# THE IMPACT OF THE FINANCIAL AND ECONOMIC CRISIS ON ARAB STATES: CONSIDERATIONS ON EMPLOYMENT AND SOCIAL PROTECTION POLICY RESPONSES

Christina Behrendt, Tariq Haq and Noura Kamel

April 2009

ILO Regional Office for Arab States

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## Highlights

- Whilst most of the region's financial markets have significantly declined as a result of the global financial crisis, so far the impact on the real economy has been relatively limited. This is due in large part to mass surplus liquidity (GCC countries) from the oil boom witnessed in recent years, relative insulation (e.g. Syria and Yemen) and low market capitalization (e.g. Jordan and Lebanon).
- However, indicators of GDP growth and unemployment expected for 2009 suggest that the crisis is going to hit the region more forcefully in the near future. Real GDP growth is projected to shrink to 4 percent in 2009 (as compared to 6 percent in 2007). Unemployment rates are expected to remain largely unchanged from their 2007 levels in the best case scenario, or to climb from a regional aggregate of 9.4 to 10.8 percent in the worst case scenario. Threats from high inflation, prolonged market volatility and soaring national debt may yet take their toll in some quarters, leaving countries more vulnerable to an economic slowdown.
- In broader terms, regional economic growth has been spurred by oil revenue, real estate investment, housing, tourism and foreign assistance, rather than by productive activity. These wealth surpluses have not been channelled into building up strong industrial, infrastructural and human skills bases. Because of the region's relative incapacity to absorb income and investment on a diversified basis, economic instability may result if the global economic downturn deepens.
- Declining living standards and increasing inequality have been of concern for some time. In the absence of well-developed social security policies, the livelihoods of growing numbers of vulnerable workers may come under further threat. Vulnerable workers also include the region's large cohorts of migrant workers, who account for more than 60 per cent of the national labour force in most of the GCC countries.
- A prolonged slowdown in the international economy is likely to cause remittances, job creation, tourism and ODA to decline and unemployment to increase, particularly among the youth.
- There is now an opportunity for regional investment and socio-economic reform, which countries in the region should use to establish mechanisms to promote employment, encourage pro-poor growth, strengthen social protection mechanisms, promote gender equality and non-discrimination, and focus on human development and decent work.

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## INTRODUCTION<sup>1</sup>

Although the global financial and economic crisis has not spared the Arab states of the Middle East, its impact to date has been relatively limited to some parts of the region.<sup>2</sup> One prominent example is the Emirate of Dubai, which has been substantially exposed to global market trends. However, by and large, for the time being, the Arab world is relatively well-positioned to cope with some of the more immediate challenges that a world in economic turmoil poses in the short run. This is due to several reasons: (i) over the past years, the GCC region benefited from windfall incomes derived from high commodity prices; (ii) GCC countries managed their financial assets fairly prudently; and (iii) beyond exporting commodities, Arab economies are rather weakly integrated into the global economy.

Yet, there are reasons to believe that the simultaneous downturn of other regions, namely North America, Europe and South-East Asia, will eventually spill over to the countries in the region. A critical factor is the development of oil prices which – should current oil prices continue to hover around USD 40 to USD 50 per barrel – might affect the growth potential of the Gulf region and the Arab world at large. In addition, the region faces a number of pre-existing economic, social and political challenges, which limits the region's ability to address the current crisis.

Should this crisis continue and the global economy not pick up again, we expect that the potential of Arab states' economies to provide employment opportunities and social protection will be substantially challenged.

This policy note is purely intended to provide an assessment of the employment and social protection impact, and to suggest appropriate policy responses. There are other elements of the ILO's Decent Work Agenda, notably rights at work and social dialogue, which are not the focus of the present note. Accordingly, this policy note is organised in the following way:

The first part describes and assesses the impact of the financial and economic crisis on Arab states. It gathers the available evidence on the impact of the financial and economic crisis on the region, focusing mainly on issues with particular relevance for employment and social policies. The policy note makes use of statistical evidence, as far as available, in order to illustrate the situation before the crisis and the possible impact of the crisis. As the availability of recent information remains a major challenge, this policy note

<sup>1</sup> This policy note has benefited from inputs and commentary by Ibrahim Awad, Manal Azzi, Maurizio Bussi, Azfar Khan and other colleagues. Research assistance was provided by Dana Abdulla and Sarah Borgi. The views expressed in this policy note are those of the authors and do not necessarily reflect those of the ILO.

<sup>2</sup> This policy note focuses on the West Asian Arab states, namely Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates (UAE), Yemen, and the occupied Palestinian territories (oPt), as covered by the ILO Regional Office for Arab States in Beirut. We refer to this group of countries interchangeably as 'Arab states' and the 'Middle East'. Where some of the data sources quoted use different regional classifications, this is highlighted in the notes.

focuses more on the identification of the mechanisms by which the effects of the crisis are transmitted to the regional and country levels.

The second part reviews policy responses in the region and offers some considerations regarding possible pathways to strengthening employment and social protection policies. Such policies would address the consequences of the current crisis, while at the same time establishing resilient institutional mechanisms which contribute to promoting productive employment and providing adequate levels of social protection.

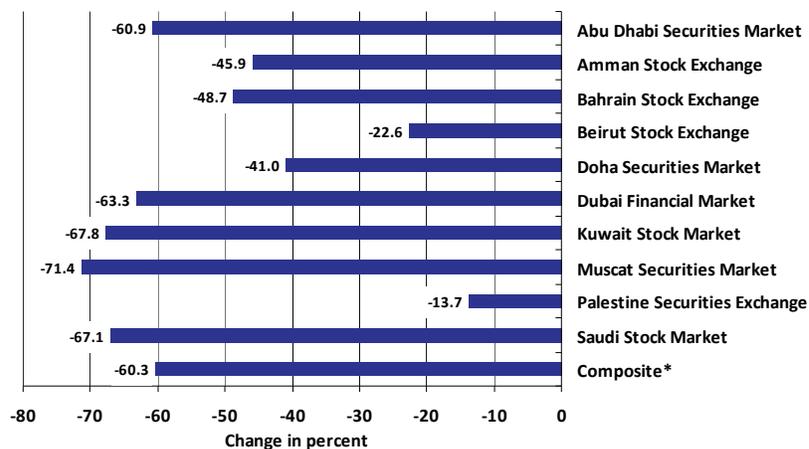
This note complements previous assessments and recommendations on the financial and economic crisis, and puts them into a regional perspective, taking into account the characteristics of countries in the region and the specific challenges they are facing.<sup>3</sup>

## REGIONAL IMPACT OF THE FINANCIAL AND ECONOMIC CRISIS

### Impact on regional growth and financial markets

The global financial crisis has strongly affected financial markets in the Middle East region. All of the region's indices of stock and financial markets have worsened, with the composite index declining by more than 60 per cent this February 2009 compared to the same month the previous year (Figure 1).

**Figure 1: Middle East markets indices (Feb 2008-Feb 2009 change in per cent)**

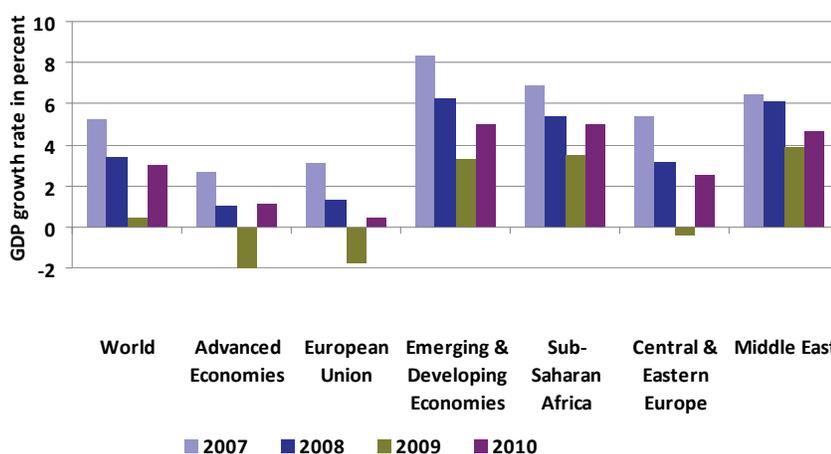


\* The composite index also includes three North African Market indices: the Casablanca Stock Exchange, Egypt Capital Market, and the Tunis Stock Exchange.  
Source: Arab Monetary Fund (AMF), March 1, 2009.

<sup>3</sup> See e.g. ILO: "A global policy package to address the global crisis" (Geneva, 2008); ILS and ILO: *The financial and economic crisis: A Decent Work response* (Geneva, International Institute for Labour Studies, 2009).

The adverse impact of the crisis on economic growth is forecasted to be felt primarily in 2009, based on the International Monetary Fund's (IMF) revised growth estimates.<sup>4</sup> Global GDP growth rates are projected to decrease to a mere 0.5 per cent in 2009, down from around 3.5 per cent in 2008 and around 5 per cent in 2007 (Figure 2). Advanced economies, including the European Union (EU), as well as Central and Eastern European countries, are all projected to face an economic contraction in 2009. Economic growth in the Middle East region is forecasted to decrease by more than 2 percentage points to reach around 4 per cent in 2009 (from approximately 6 per cent in 2008). However, this forecasted growth rate is still higher than in any other region for the same year. That said, significant improvements in economic growth rates are expected in 2010.

**Figure 2: Regional GDP growth rates in purchasing power parity terms (2007-2010)**



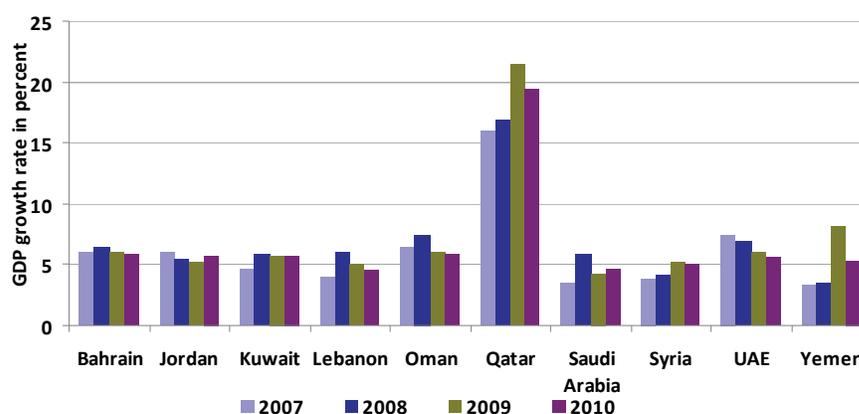
Note: The IMF World Economic Outlook classification of the Middle East region includes Egypt, Iran, and Libya.

Source: IMF, World Economic Outlook Update, January, 2009.

For the majority of Arab states, the IMF projects lower rates of real GDP growth in 2009 as compared to 2008, with the exception of Syria, Yemen and Qatar, which are expected to grow faster in 2009 (Figure 3).<sup>5</sup> Saudi Arabia is expected to witness the largest real deceleration of more than 1.5 percentage points, which would bring its real GDP growth rate to around 4 per cent in 2009, the lowest forecasted rate among all other Arab states. On the other hand, in both Yemen and Qatar, real GDP growth rates are expected to increase by over 4 percentage points between 2008 and 2009, but to later decline in 2010.

<sup>4</sup> The IMF assumes that real effective exchange rates will remain constant at their December 08, 2008-January 05, 2009 level (IMF, *World Economic Outlook Update* (Washington, DC, January 2009)).

<sup>5</sup> IMF projections assume that real effective exchange rates will remain constant at their August 18 - September 15, 2008 average level (IMF, *World Economic Outlook* (Washington DC, October 2008)). Since then, there has been a significant appreciation of the US Dollar, which may impact these projections.

**Figure 3: Real GDP growth rates in Arab states (2007-2010)**

Source: IMF, World Economic Outlook Database, October 2008.

### Growth and employment

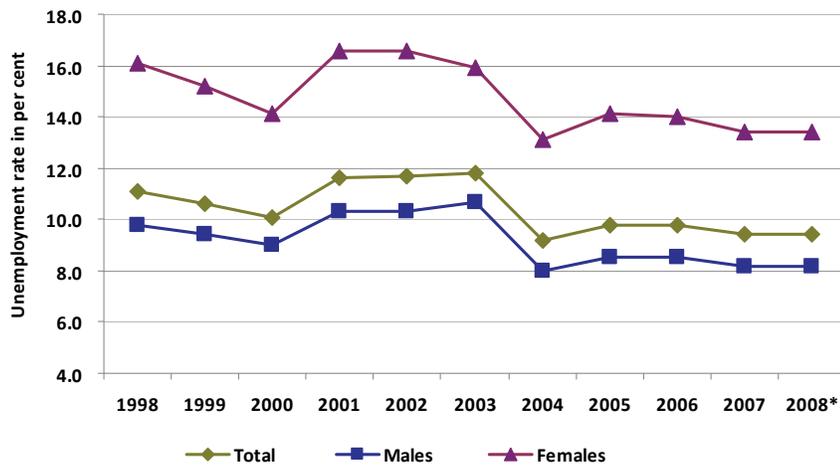
The healthy economic growth witnessed in recent years has had some positive impact on job creation in the Middle East. Total employment increased by some 45 per cent during the 1998-2008 period, whilst the working-age population increased by 39 per cent during the same period.<sup>6</sup> This is reflected in a decline in the regional aggregate unemployment rate from around 11 per cent in 1998 to an estimated 9.4 per cent in 2008 (Figure 4). The unemployment rate for women in the region is estimated at 13.4 per cent in 2008, down from 16.1 per cent in 1998. However, the regional unemployment rate still remains one of the highest in the world. Although the region is not as integrated into the international economy as are other areas of the world, Middle Eastern agriculture and manufacturing remain the main providers of job opportunities and have become less competitive because of the increasing pressure to export goods to global markets at lower prices.

The youth unemployment rate is particularly acute, at 20.4 per cent in 2007.

Moreover, it is significantly more difficult for women – and particularly young women newly entering labour markets – to find a job than for men, despite the fact that the rate of active labour force participation of women is only 25 per cent (compared to 75 per cent for men). Nearly all the countries in the region with recent data on unemployment rates exhibit higher rates for women than for men (Figure 5). In Syria, the percentage point difference in unemployment between male and female rates is more than 15. Such a difference, combined with any potential slowdown in economic activity, may easily discourage women and result in them dropping out of the labour force, thereby negating whatever progress has been made in lowering female inactivity. This would be a huge loss of investment in female education.

<sup>6</sup> ILO Trends estimate, 2008.

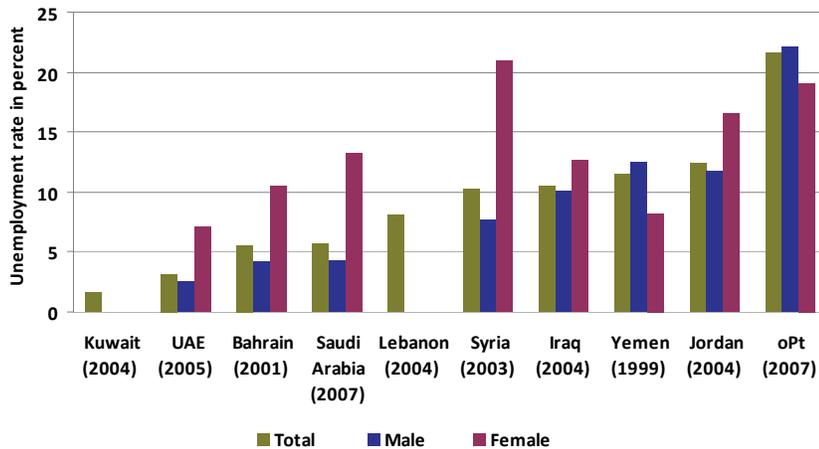
**Figure 4: Unemployment rates in the Middle East (per cent of labour force)**



Note: Figures for 2008 represent preliminary estimates.  
 Source: ILO, Global Employment Trends for Women, March 2009.

Conversely, however, it could also be argued that in times of crisis (as evidenced in the case of the occupied Palestinian territories, albeit in a conflict-ridden setting), that women’s economic activity may increase as male incomes decline – though the danger is that this increase would be in poor quality, low paid informal activities.

**Figure 5: Unemployment rates in selected Arab states (latest year)**



Note: Figures in parentheses indicate the latest year for which data is available.  
 Source: ILO, Key Indicators of the Labour Market (KILM), 5th Edition.

The ILO’s Trends Econometric Models estimate that the direct impact of the financial crisis on unemployment in the Arab states is likely to be limited relative to other regions in the world. However, there will indeed be an impact, and reverberations are already being felt in some quarters.

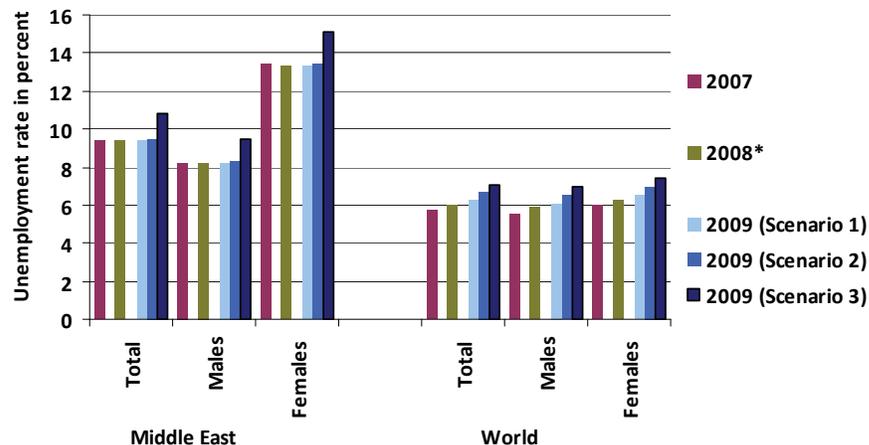
Using these models, the ILO’s 2009 Global Employment Trends report predicts three scenarios for the impact of the crisis on unemployment in 2009 (see Figure 6).

The first scenario projects unemployment using the revised economic outlook published by the IMF in November 2008. This results in the level of unemployment in the Middle East remaining relatively unchanged from its 2007 and 2008 levels of roughly six million people.

The second scenario is based on the historical relationship between economic growth and unemployment at times of economic crises. In this scenario, the negative impact on unemployment is taken in each country at the time of the largest year-on-year drop in GDP, and this relationship is used to project unemployment in 2009. This scenario becomes more realistic if the economic outlook would deteriorate beyond what was envisaged in November 2008, if it takes more time for financial markets to stabilize and if government interventions take longer to have a positive impact. In this scenario, unemployment in the Middle East would climb to around seven million.

Finally, in the third scenario, the unemployment rate is projected in each country as the rate in 2008, plus the largest change in unemployment since 1991 in the Developed Economies and the EU and half of the largest increase in economies in other regions. In other words, the scenario shows what would happen if the worst impact on the unemployment rate would repeat itself simultaneously in all developed economies. In this scenario, unemployment in the Middle East is projected to climb to eight million, representing an unemployment rate of 10.8 per cent. This is 1.4 percentage points higher than the 2007 rate of 9.4 per cent.<sup>7</sup> The rationale for taking half of the worst impact in economies in other regions is that the main impact of the current crisis is not necessarily reflected in the unemployment rate in developing economies: the impact as captured in the vulnerable employment rate and changes in working poverty may be equally important.

**Figure 6: Unemployment scenarios for 2009 (per cent of the labour force)**



Note: The definition of the Middle East region includes Iran.  
Source: ILO: *Global Employment Trends for Women*, Geneva, 2009.

<sup>7</sup> ILO: *Global Employment Trends for Women* (Geneva, 2009).

The ILO Global Employment Trends report also provides scenarios for the numbers of people likely to be employed in vulnerable conditions, as well as working poverty in 2009. For the Middle East, projections for the number of people in vulnerable employment in 2009 range from 19 million in the best case scenario (unchanged from its 2007 level) to 25 million in the worst case scenario.<sup>8</sup> Similarly, projections of the number of working poor range from five million in the best case scenario (on a par with 2007 levels), to a substantially higher 14 million in the event of a 10 per cent higher poverty line in 2009 and 15 million in the event of a 20 per cent higher poverty line.

The region benefits from certain characteristics that may help it to remain somewhat protected from the depth of the crisis being felt in developed economies. These characteristics include the mass surplus liquidity built up after several years of high oil prices (e.g. the GCC countries, where the worth of Sovereign Wealth Funds was estimated to have reached USD 1.5 trillion in the summer of 2008<sup>9</sup>), the redirection of remittances to the region's own banks (as witnessed in Lebanon, where the banking system has benefited from increased liquidity since the onset of the crisis, as Lebanese expatriates and Gulf investors have been redirecting their savings) and relative insulation from global financial and capital markets in some cases (e.g. Syria, Yemen). However, the region is by no means *immune* from the crisis, and the impact of the global slowdown is already being felt in terms of lower levels of economic growth across the region and increasing redundancies, particularly in the formerly booming oil-rich Gulf states. The UAE's (and specifically Dubai's) leading growth sectors of construction, real estate and finance have all been severely hit by the global slowdown. Numerous newspaper articles from the region in recent months have reported increasing numbers of layoffs (of migrant workers) in these sectors, as well as some initial evidence of layoffs in the hotels and tourism sector.<sup>10</sup> This has resulted in migrant workers returning to their countries of origin or moving to other countries, yet the magnitude and implications of these movements remain to be assessed (see below).

Banks in the United Arab Emirates have faced liquidity problems since mid-summer 2008, following the mass exodus of short-term deposits from foreign investors who finally abandoned hopes of a revaluation of the Dirham. This squeeze prompted the UAE Central Bank to create a Dh120 billion emergency fund for domestic lenders in October. Questions over the lack of liquidity have filtered through to Dubai's property market, causing some distress and confusion amongst homeowners, prospective buyers and real estate businessmen. Tight bank liquidity, speculation-driven price increases and

<sup>8</sup> ILO: *Global Employment Trends for Women* (Geneva, 2009). The vulnerable employment indicator is defined here as own account workers and contributing family members as a share of total employment.

<sup>9</sup> This figure may have decreased significantly as a result of the global financial shocks and losses in some investments during the September-October financial crash and ongoing market downturn, but is nonetheless believed to remain substantial. Estimates suggest that the combined external value of GCC Sovereign Wealth Funds fell to USD 1.2 trillion by January 2009 (see S. Behrendt: *SWFs – Managing Wealth in Turbulent Times*, Carnegie Policy Outlook, Beirut, Carnegie Middle East Center, 2009). Indeed, GCC States have not only pledged to guarantee deposits in their own banking systems, but have also recently been injecting cash into Western banks, through purchasing of large stakes.

<sup>10</sup> For example, see (amongst others), "Job cuts on the rise in Dubai", *Gulf News*, Friday 16 January, 2009; and "Hoteliers continue to look at cutting manpower cost", *Emirates Business* 24/7, 18 February, 2009.

reduced lending to individuals (along with a recent wave of corruption investigations) have all had a marked impact on a market previously unaffected by global events. Nonetheless, in the “worst case scenario” where Dubai’s liquidity squeeze continues, cash-rich Abu Dhabi has already expressed willingness to help, via federal policy mechanisms.<sup>11</sup> It should also be noted that the Emirates’ many infrastructure projects, including real estate developments, hospitality and entertainment parks, should after five years provide the government with cash flow. However, this revenue could be delayed and there are signals indicating that the economy’s reliance on European and Asian demand for tourism and real estate could trigger problems as the global economy softens.

It is possible that the UAE’s bank liquidity gap (which is easily closed by the Central Bank), will not necessarily be translated into a sustained impact on the real economy. It is forecasted that the investment boom in the UAE and Qatar is unlikely to continue unabated in 2009, but investment flows and net migrations to these two states are still likely to be positive (and even higher than other GCC countries).

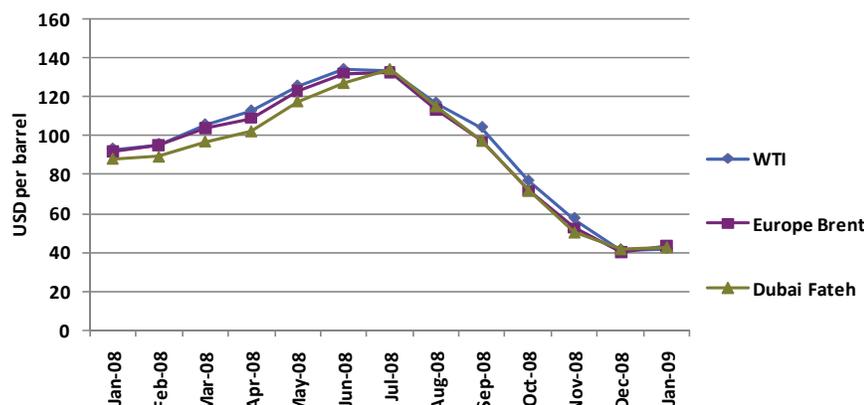
### Oil and commodity prices, and inflation

Oil prices have significantly dropped after having reached a high of over USD 140 per barrel in July 2008. Since July, oil prices have dropped sharply despite restrictions in production and stood at around USD 40 per barrel as of January, 2009 (see Figure 7). Responding to falling oil prices, the Organization of the Petroleum Exporting Countries (OPEC) has announced a cut in daily oil production by 4.2 million barrels (compared to its level in September 2008) starting January 1, 2009.<sup>12</sup> It is argued that oil exporters need on average USD 57 per barrel in 2008 in order to maintain a fiscal balance<sup>13</sup>, implying that budget surpluses are still projected in 2008 overall. Growth in GCC countries may come under stronger pressure if oil prices continue on this downward trend.

<sup>11</sup> Publicly recorded debt levels have reached 103 per cent of 2006 GDP in Dubai.

<sup>12</sup> OPEC Press Release on 151<sup>st</sup> (Extraordinary) Meeting of the OPEC Conference, Oran, Algeria, 17<sup>th</sup> December 2008.

<sup>13</sup> IMF: *Regional Economic Outlook Middle East and Central Asia* (Washington, DC, October 2008).

**Figure 7: Monthly Crude Oil Prices (USD/barrel)**

Note: Values indicate spot prices; Dubai Fateh monthly prices represent simple averages of weekly prices. Source: Energy Information Administration, February, 2009.

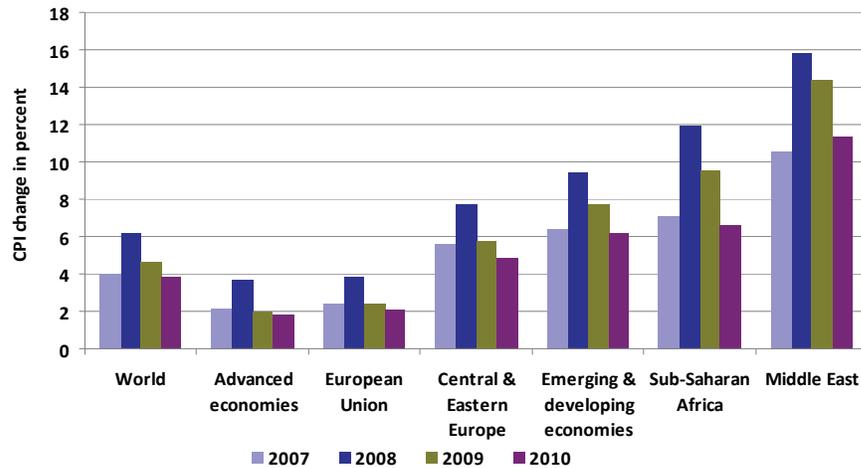
Falling fuel and commodity prices have had a positive effect on the budgets of private households and relieved some of the pressure resulting from the sharp increase of food and energy prices in 2007/08. Wage and pension levels had not increased accordingly, while at the same time some consumer subsidies were reduced or withdrawn due to budgetary pressures.<sup>14</sup> The drop in oil prices removed some of the pressure on public budgets of those countries which have used food and fuel subsidies as a substitute for more direct social protection policies.<sup>15</sup>

High inflation rates have been a cause for concern in the region for some time. Not least driven by the dramatic drop in oil prices, regional inflation rates are projected to decline in 2009 and 2010 to reach around 14 per cent and 11 per cent respectively. However, despite this projected decline, consumer price inflation rates in the region are still expected to remain the highest compared to other regions, and more than 2.5 times the world average.<sup>16</sup>

<sup>14</sup> However, there was a significant increase in civil services wages in 2007/08 in almost all countries in the region, see IMF: *Regional Economic Outlook Middle East and Central Asia* (Washington, DC, October 2008), p. 11.

<sup>15</sup> Although food subsidy programmes tend to be very expensive, effects on poverty reduction tend to be rather limited, and there are concerns about poor targeting and opportunities for abuse. In Syria, food and fuel subsidies reached 13 per cent of GDP in 2007 while in Jordan they reached a peak of 6.2 per cent of GDP in 2005. Recently, both countries have partly removed these subsidies, and have taken compensatory measures to protect the living standards of the population and avoid social unrest, yet have faced serious problems in this transition. See IMF: *Syrian Arab Republic: 2007 Article IV Consultation—Staff Report* (Washington, DC, 2007); IMF: *Jordan: 2008 Article IV Consultation—Staff Report* (Washington, DC, 2008).

<sup>16</sup> Recently revised data from the IMF point to a sizeable drop of consumer prices in two regions. Advanced economies and emerging and developing economies are forecasted to see more than a 3 percentage point decline in consumer prices in 2009 compared to the previous year. This would yield inflation rates of around 0.5 per cent and 6 per cent in 2009, respectively (IMF: *World Economic Outlook, January Update*, Washington, DC, 2009).

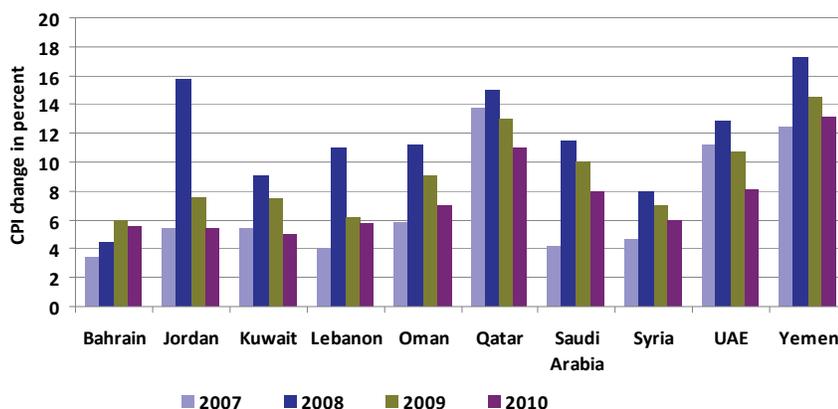
**Figure 8: Regional Average Consumer Price Inflation Rates (2007-2010)**

Note: The IMF World Economic Outlook classification of the Middle East region includes Egypt, Iran, and Libya.

Source: IMF, World Economic Outlook Database, October 2008.

Inflation rates vary greatly among Arab states. Projected average consumer price inflation rates in the region in 2008 range from around 4 per cent in Bahrain to around 17 per cent in Yemen (Figure 9). The primary drivers of such high inflation rates in the region are the high prices of food commodities and fuel, demand pressures combined with supply shortages and US Dollar depreciation (which impacts a considerable number of countries with currencies that are pegged to the US Dollar). It has been argued that increases in the prices of food commodities account for a large part of the increase in regional inflation, as food products constitute a large share of consumption baskets.<sup>17</sup> Although price increases in commodities would benefit some producers and investors, wages are not increasing fast enough to match the rising costs of food, fuel and rents. This systemic deficiency is expected to have a continuing impact on poor areas and therefore contributes to increasing social and economic disparities in the region.

<sup>17</sup> IMF: *Regional Economic Outlook Middle East and Central Asia* (Washington, DC, October 2008).

**Figure 9: Average Consumer Price Inflation Rates in Arab states (2007-2010)**

Source: IMF, World Economic Outlook Database, October 2008.

### Returning labour migrants

The region, which contains both labour-sending and labour-receiving countries, is highly dependent on labour migration. In the countries of the GCC, an overwhelming majority of workers are migrants, partly from other Arab countries, though mainly from other regions of the world, in particular South and South-East Asia. These regions are therefore likely to be affected by any economic slowdown in the GCC. Other countries of the Middle East, namely Yemen and the countries of the Levant, are characterised by high levels of out-migration to other Arab countries and other regions of the world.

Media reports of layoffs in the wake of the financial crisis in some parts of the Gulf, particularly in Dubai, suggest that terminations largely affect migrant workers. Sectors hit hardest include construction, real estate and financial services, while other sectors, also with a high proportion of migrant workers, such as health care, education and other services, are less strongly affected. Anecdotal evidence from sending countries such as Lebanon and Yemen suggests that a number of labour migrants have returned from the Gulf. However, conclusive statistical evidence has not been found.<sup>18</sup>

As reliable statistical evidence on previous levels of labour migration and recent changes is scarce, we rely on estimates of labour migration produced by the World Bank<sup>19</sup> to illustrate the possible effects of the financial crisis. While these estimates should be interpreted with the necessary caution, they constitute the most comprehensive approximation of bilateral labour migration.

Figure 10 shows the relative level of out-migration for some of the key labour-sending countries in the Middle East. As data are not available for a number of

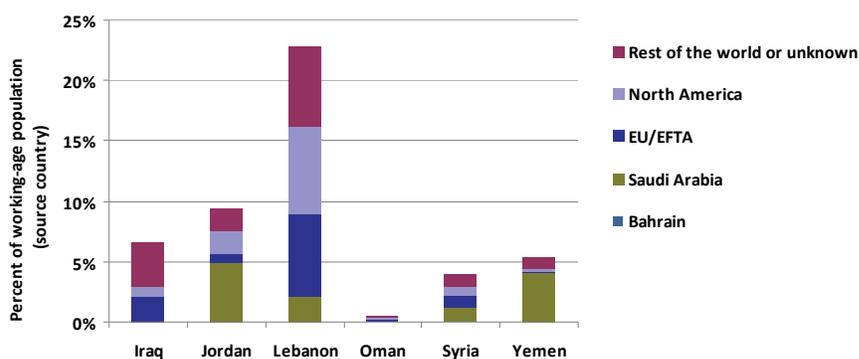
<sup>18</sup> Some of the anecdotal evidence, such as the reports about large numbers of returning doctors and engineers from Gulf countries to Lebanon, were not confirmed by the national professional associations.

<sup>19</sup> See D. Ratha and W. Shaw: *South-south migration and remittances*, World Bank Working Paper 102 (Washington, DC, 2007).

countries, these estimates should be considered as minimum levels of out-migration while the actual levels could be significantly higher. With respect to intra-Arab migration to the Gulf, the estimates show that Saudi Arabia attracted a significant number of migrants from Jordan and Yemen (equivalent to about five per cent of the working-age population in each country), and to a lesser extent also from Lebanon and Syria. Data are missing for Kuwait, Qatar and the United Arab Emirates.

In addition, the data also show that a large proportion of Lebanese migrants in 2005 were based in advanced economies, equivalent to about one sixth of the working-age population in Lebanon (Figure 10). For Iraq, Jordan, Syria and Yemen, the industrialised world is a much less common destination of migration, equivalent to roughly 2-3 per cent of the working-age population.

**Figure 10: Destination of out-migration (estimated stock of migrants; in per cent of working-age population of source country)**



Note: Due to the lack of data for a number of countries, the actual levels of out-migration could possibly be significantly higher.

Source: Own calculations based on D. Ratha and W. Shaw: South-South Migration and Remittances, World Bank Working Paper 102 (Washington, DC, 2007) and United Nations World Population Prospects: The 2006 Revision (New York, United Nations).

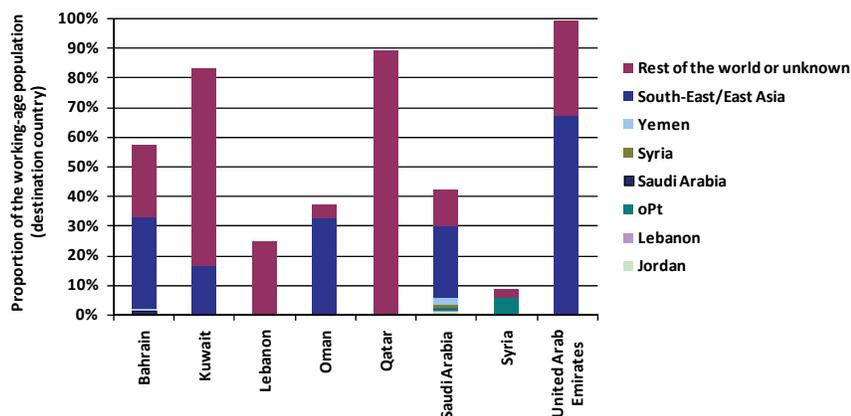
Based on this evidence, some assumptions on the potential impact of the financial and economic crisis can be deduced. Jordan, Lebanon and Yemen would be strongly affected if a rise in unemployment in the Gulf led to an increase in the number of returning migrants. Moreover, in the case of Lebanon, an even stronger impact is possible if migrants from industrialised countries were to return as a consequence of the financial and economic crisis in these parts of the world. However, these potential effects are dependent on the occupational structure of migrants in these countries, on their residency status, their degree of social integration and on the opportunity of finding alternative employment elsewhere.

Figure 11 shows the sources of migration in the Middle East for some of the main destination countries. In those Gulf countries for which some estimates are available (Bahrain, Kuwait, Oman and Saudi Arabia), a large proportion of migrant workers originate from South-East and East Asia.<sup>20</sup> Compared to this

<sup>20</sup> Most Asian migrant workers in the region come from Bangladesh, India, Pakistan, the Philippines and Sri Lanka.

group, migrants of other Middle Eastern countries account for only a relatively small proportion of the total migrant population.

**Figure 11: Sources of migration (estimated stock of migrants; in per cent of working-age population of destination country)**



Source: Own calculations based on D. Ratha and W. Shaw: *South-South Migration and Remittances*, World Bank Working Paper 102 (Washington, DC, 2007) and United Nations World Population Prospects: The 2006 Revision (New York, United Nations).

These estimates support the assumption that the strongest effects of crisis-induced redundancies in the Gulf will strongly affect workers from Asia and other parts of the world. Some observers suggest that, given the different skills profiles and sectors of employment, workers from other Arab countries are less strongly affected by the repercussions of the crisis as compared to South Asian workers.

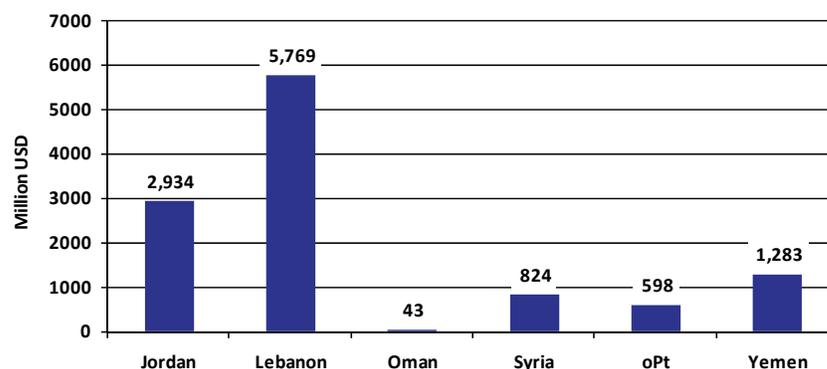
### Possible reduction in the level of remittances

Some of the countries in the Middle East are highly dependent on remittances. In fact, for many families remittances are one important source of income, which partly compensates for a lack of access to formal social protection mechanisms. If this stream of income should be severed by the repercussions of the global financial and economic crisis, the livelihoods of parts of the population in Arab countries will be affected.

The lack of reliable data on remittances makes it difficult to gauge the effect of the financial crisis. Some clues on the possible magnitude of crisis effects may be deduced from World Bank estimates of labour migration and remittances.<sup>21</sup>

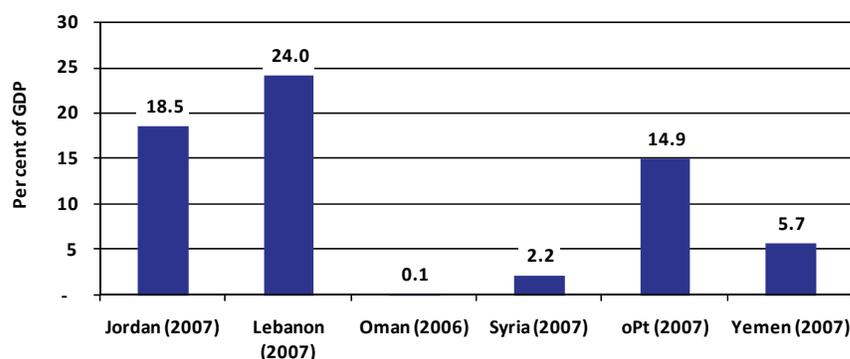
The volume of remittances received in some of the countries is substantial, reaching almost USD 6 billion in Lebanon and USD 3 billion in Jordan (Figure 12).

<sup>21</sup> D. Ratha and W. Shaw: *South-south migration and remittances*, World Bank Working Paper 102 (Washington, DC, 2007); building on C. R. Parsons, et al.: *Quantifying the international bilateral migration movement of migrants*, Globalisation and Poverty Working Paper T13 (Brighton, University of Sussex, 2005).

**Figure 12: Total remittances received in million USD (2007)**

Source: World Development Indicator Database.

Comparing the level of remittances received to national GDP, it becomes clear how dependent some of the economies are on this type of transfer (Figure 13). In Lebanon, it was estimated that well over one fifth of GDP was received in remittances in 2007, followed by Jordan with 19 per cent, the occupied Palestinian territories (15 per cent), Yemen (8 per cent) and Syria (3 per cent).

**Figure 13: Total remittances received as a proportion of national GDP (latest year)**

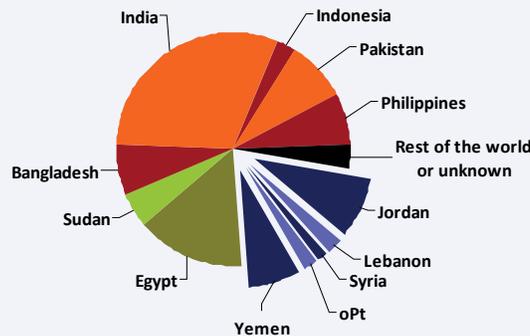
Source: Own calculations based on World Development Indicator Database. Data are not available for the other countries in the region.

Remittances are considered an important *de facto* informal social protection mechanism in countries with insufficient formal social security systems. While acknowledging the role of remittances in this respect, it is important to note that remittances cannot replace formal social protection mechanisms for a number of reasons. First, as the financial and economic crisis itself shows, remittances are strongly dependent on economic conditions, as well as on personal relationships, and therefore do not offer the same level of reliability as social security benefits based on clear rights and entitlements. Second, there is some evidence that remittances correlate with the level of welfare of the recipients; that is, the most vulnerable groups of the population may not be likely to benefit from remittances as compared to others.

**Box 1: Remittances in the Middle East: The example of Saudi Arabia**

The importance of remittances for some Middle Eastern economies can be demonstrated using the example of Saudi Arabia, which is the only Gulf country for which bilateral estimates of remittance flows exist. Slightly more than one fifth of total remittances from Saudi Arabia are directed towards other Middle Eastern countries, most importantly to Jordan, Yemen, Lebanon, the occupied Palestinian territories and Syria (Figure 14). The bulk of the remaining remittances go to India and other South-East Asian countries, as well as Egypt.

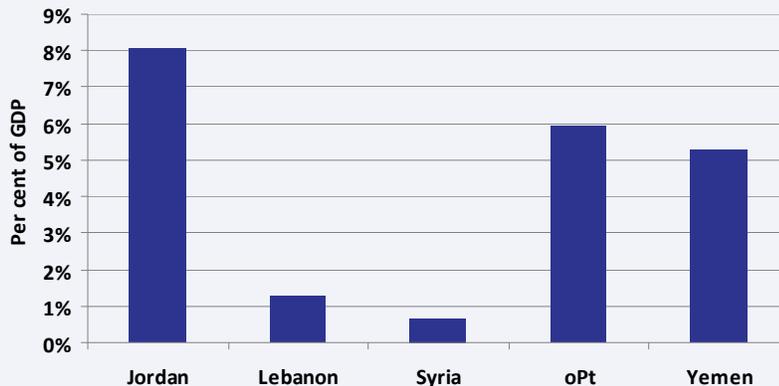
**Figure 14: Estimated distribution of outgoing remittances from Saudi Arabia (2005)**



Source: D. Ratha and W. Shaw: South-South Migration and Remittances, World Bank Working Paper 102 (Washington, DC, 2007).

Remittances from Saudi Arabia contribute significantly to some of the receiving countries' economies. Looking at the Middle Eastern countries, the remittances from Saudi Arabia are equivalent to more than 8.0 per cent of the GDP in Jordan, 5.9 per cent in the occupied Palestinian territories, 5.3 per cent in Yemen, 1.3 per cent in Lebanon and 0.6 per cent in Syria (Figure 15).

**Figure 15: Estimated size of remittances from Saudi Arabia to other Arab countries as a percentage of GDP of receiving country (2005)**



Source: Own calculations based on D. Ratha and W. Shaw: South-South Migration and Remittances, World Bank Working Paper 102 (Washington, DC, 2007) and World Development Indicators.

A drop in the volume of the remittances of one single country will therefore have a major effect on economies and societies of receiving countries.

While remittances have proved to be relatively resilient against economic downturns in the past - where downturns in one region of the world could be offset by growth in others - the impact of this global crisis might be much stronger due to the simultaneous downturn in most remittance-sending regions. The World Bank estimates a substantial growth in the outflow of remittances from GCC countries of 38 per cent in 2008, but a contraction by 3 per cent in 2009. With regard to the inflow of remittances, the estimates suggest that remittances received in the Middle East and North Africa continued to grow in 2008, yet at a much lower level than in previous years, but might decline by 1.4 to 5.2 per cent in 2009.<sup>22</sup>

### Increasing pressures on formal and informal social protection mechanisms

The impact of the financial and economic crisis is likely to increase pressure on formal and informal social protection mechanisms. This particularly affects reserves of pension funds.

Pension funds are vulnerable to fluctuations in financial markets depending on their investment strategy. In many parts of the world, the financial crisis has markedly reduced the value of pension funds, especially for those funds which invest a significant proportion of their funds in equity.<sup>23</sup> The World Bank has estimated that the real return of mandatory pension funds in a sample of countries has decreased between 8 and 48 per cent between autumn 2007 and autumn 2008.<sup>24</sup>

The available evidence on investment strategies of pension funds in the Middle East suggests that the financial and economic crisis has had an impact on the value of pension reserves, yet this impact is likely to have been mitigated by two factors. First, the proportion of foreign investments in the portfolio of many pension funds is very limited. This limits their exposure to the downturn in international financial markets, yet leaves funds exposed to a decline in domestic markets.<sup>25</sup> Second, exposure to financial markets is limited for some pension schemes in the region. These pension scheme reserves are used to fund the government budget or national development projects, and are affected differently by the financial and economic crisis.<sup>26</sup>

<sup>22</sup> D. Ratha, et al.: *Outlook for remittance flows 2008-2010: Growth expected to moderate significantly, but flows to remain resilient*, Migration and Development Brief 8 (Washington, DC, World Bank, 2008); D. Ratha and S. Mohapatra: *Revised outlook for remittance flows 2009-2011: Remittances expected to fall by 5-8 percent in 2009* (Washington, DC, World Bank, 2009).

<sup>23</sup> Organisation for Economic Co-operation and Development (OECD): *Pensions in a financial crisis: How should retirement income systems respond to financial-market turmoil* (Paris, 2008); OECD: *Private Pensions Outlook 2008* (Paris, 2008).

<sup>24</sup> World Bank: *The financial crisis and mandatory pension systems in developing countries* (Washington, DC, 2008).

<sup>25</sup> See e.g. D. A. Robalino, et al.: *Pensions in the Middle East and North Africa: Time for change* (Washington, DC, World Bank, 2005).

<sup>26</sup> Issues of accountability, transparency and governance of pension fund reserves are certainly of relevance in this respect.

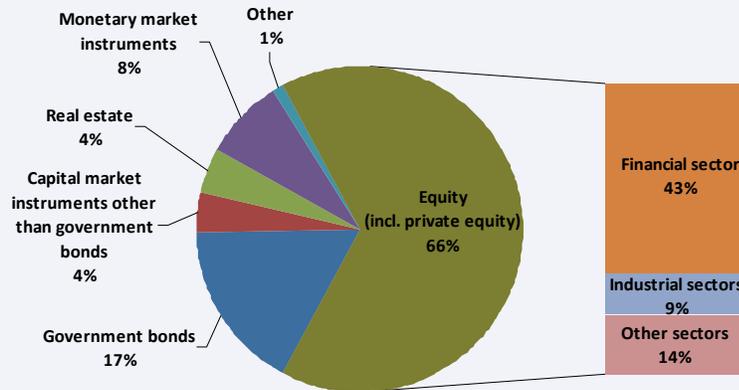
Clear evidence on the impact of the financial and economic crisis on pension fund reserves in the region is not yet available. The investment strategies of pension funds may provide some clues as to the possible impact of the crisis on pension funds. An example is outlined in Box 2.

**Box 2: Investment strategies of pension funds: The example of the Jordanian Social Security Corporation**

The pension fund of the Jordanian Social Security Corporation amounted to 3.7 billion JD in 2006, equivalent to 37.3 per cent of Jordanian GDP. Overseen by a tripartite Board of Directors, the Social Security Investment Unit restructured its investment portfolio in recent years and has markedly increased the proportion of funds invested in equity. Figure 16 shows the structure of the investment portfolio of the Fund in 2006 in order to illustrate its risk exposure prior to the financial and economic crisis.

The financial and economic crisis may affect the value of the pension fund at least for some time. While international investment of the Fund is very limited, the Fund is vulnerable to a downturn in domestic equity markets. Despite the crunch of the Amman Stock Exchange Index, the total assets of the Fund have suffered a relatively moderate decrease of 5 per cent during the year 2008.<sup>27</sup> The future outlook for pension reserves will depend on the degree by which the Jordanian economy, namely the financial services and tourism sectors, will be affected by the repercussions of the crisis.

**Figure 16: Investment portfolio of the Jordanian Social Security Corporation, 2006**



Source: Based on SSC, 2006: Annual Report 2006, Amman: Social Security Corporation, p. 44.

Pension funds are likely to come under additional stress as contribution revenues shrink as a consequence of a possible decline in employment and wage levels in the wake of the financial and economic crisis. In addition, the crisis may affect public and private pension levels, including personal savings for retirement. This could jeopardize retirement incomes notably for cohorts

<sup>27</sup> See Social Security Investment Unit: *Preliminary financial statements of December 31, 2008* (Amman, 2009).

of workers who are close to retirement and who are not able to defer retirement until economic recovery, particularly in countries which lack a pension scheme for employees in the private sector and in countries where pensions are not regularly adjusted to the development of wages and prices.

Moreover, as most countries in the Middle East do not offer comprehensive social security systems, the living standards of large groups of the population are poorly shielded from the immediate effects of economic shocks.<sup>28</sup> Social insurance schemes, largely confined to workers in the formal economy, face serious challenges in terms of financial sustainability, governance, incomplete coverage and deteriorating real values of pensions due to a lack of indexation mechanisms. In addition, the relatively high standard of social protection for workers in the public sector, as compared to workers in the private sector, has contributed to labour market distortions and fiscal pressures. These challenges may be further exacerbated if lower (formal) employment levels should lead to a decline in contribution revenue, and if a marked reduction in the value of investments of social security funds in the region should occur.

Rising levels of unemployment, underemployment and informality, as a result of the financial and economic crisis, are likely to increase demand for social assistance and other safety net benefits. Many of the existing programmes are not well equipped to deal with rising demand, as these programmes are designed to provide relief for selected groups of the population. Benefits tend to be low and poorly targeted, and not based on clear rights and entitlements. Therefore, they have a limited impact on the reduction of poverty.

Informal social protection mechanisms, provided by families and communities, partly compensate for the lack of formal structures, yet these mechanisms are also likely to come under strain as a consequence of higher levels of unemployment and informality, lower levels of remittances and higher poverty levels which could result from the financial and economic crisis.

The slowdown could also have an adverse impact on occupational safety and health due to increasing cost pressures for enterprises, which may lead to deteriorating working conditions and psycho-social stress for workers. Moreover, a squeeze on public expenditure could result in the allocation of fewer resources to inspectorate bodies and other occupational safety and health services.<sup>29</sup>

<sup>28</sup> A regional initiative on Gender Equality and Workers' Rights in the Informal Economies of Arab States addressed some of these challenges for a number of countries in the region, see e.g. J. Hilal, et al.: *Unprotected Employment in the West Bank and Gaza Strip: A Gender Equality and Workers' Rights Perspective* (Beirut and Tunis: ILO and CAWTAR, 2008); S. Eşim and M. Omeira (ed.): *Understanding Employment in the Informal Economies of Arab States: Gender Equality and Workers' Rights Perspectives* (Beirut, ILO Regional Office for Arab States, forthcoming).

<sup>29</sup> See ILO: *Health and life at work: A basic human right* (Geneva, forthcoming), available at: [www.ilo.org/safeday](http://www.ilo.org/safeday).

## Possible drop in official development assistance and international aid

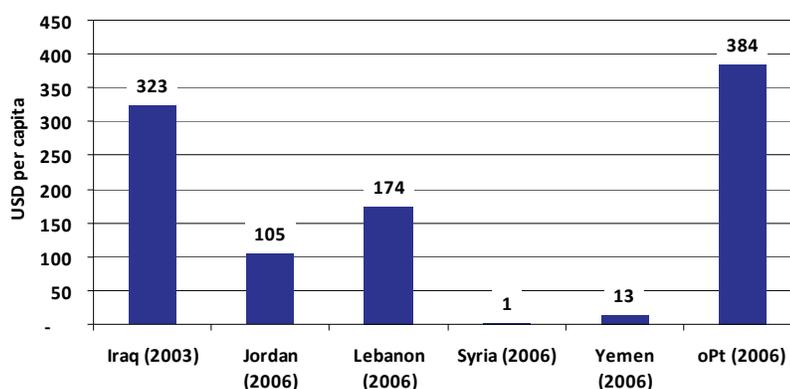
As some major donor countries are moving into recession and increasingly face domestic fiscal pressures, there are strong concerns that the levels of official development assistance (ODA) and international aid cannot be maintained.

Some countries in the Middle East are heavily dependent on external assistance (see Figure 17). Yemen is the only low-income country in the region, yet external assistance accounts for only a relatively small proportion of GDP. In other countries, the provision of aid has been related to major conflicts and political crises, as is the case for Iraq, Lebanon, the occupied Palestinian territories and, to some extent, also Jordan. These countries received much higher levels of official development assistance and official aid, reaching up to USD 384 per capita in the case of the occupied Palestinian territories in 2006 (data for Iraq not available).

For the case of Yemen, a recent IMF simulation of expected impact of the financial crisis on international aid found that international aid might drop from a projected level of 1.1 per cent of GDP in 2008 to 0.7 per cent of GDP in 2009, which is being classified as low vulnerability, given Yemen's relatively weak dependence on aid as compared to other low-income countries.<sup>30</sup>

While Yemen is the only low-income country in the region, other countries including Iraq, Jordan, Lebanon, and the occupied Palestinian territories, are much more dependent on international assistance. International assistance to these countries is to a large extent driven by political factors, which may or may not be subject to revisions in the wake of the financial and economic crisis.

**Figure 17: Official development assistance and official aid (USD per capita), latest available year**



Source: Own calculations based on World Development Indicators, UN World Population Prospects, 2008 Revision.

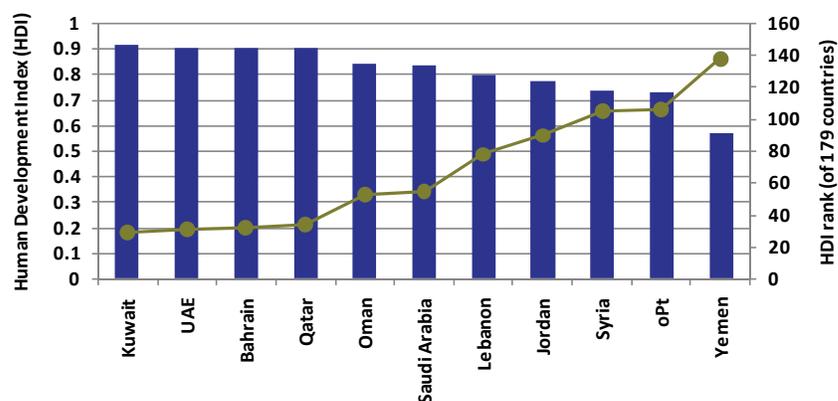
<sup>30</sup> IMF: *The implications of the global financial crisis for low-income countries* (Washington, DC, 2009), p. 56.

## Increased poverty and vulnerability

Despite the relative wealth in parts of the region, poverty and vulnerability are a major concern in many countries, including in some GCC countries although statistical evidence is scarce. Based on national poverty measures, the latest studies found that 8.0 per cent of the population live in extreme poverty in Lebanon, 14.2 per cent in Jordan and 11.4 per cent in Syria.<sup>31</sup> Yemen, the only low income country in the region, stands out with a poverty rate of close to 35 per cent of the population. Income poverty in the occupied Palestinian territories reached 28 per cent of the population.<sup>32</sup> The most recent human development index data (Figure 18), which are more readily available than poverty headcounts, illustrate the wide range of standards of living in the region.

While statistical evidence on recent changes in poverty levels is not available, anecdotal evidence suggests that the level of vulnerability has increased as a consequence of the food and energy price crisis, even in relatively rich countries of the Gulf where migrant workers would be particularly affected. Systematic evidence on a possible rise of poverty levels as a consequence of the financial and economic crisis is not yet available, but the incidence and depth of poverty is likely to increase in the event of a further decline of real wages and incomes, a rise in unemployment, a decline in remittances, a reduction in public expenditure and a reduction in external aid.

**Figure 18: Human Development Index, most recent data**



Source: UNDP, December 2008.

<sup>31</sup> H. El Laithy, et al.: *Poverty, growth and income distribution in Lebanon*, International Poverty Centre Country Study 13 (Brasilia, 2008); World Bank: *Jordan Poverty Assessment* (Washington, DC, 2004); H. El Laithy and K. Abu-Ismael: *Poverty in Syria 1996-2004* (Damascus, UNDP, 2005).

<sup>32</sup> Government of Yemen, et al.: *Yemen poverty assessment* (Sanaa, UNDP, 2007); UNDP: *Poverty in the occupied Palestinian territory 2007*, Development Times (Jerusalem, UNDP, 2007).

## NATIONAL RESPONSES AND POLICY RECOMMENDATIONS

The scope and complexity of the financial and economic crisis requires a coordinated and forward-looking policy package which simultaneously aims at stabilising the financial system, promoting employment and enhancing social protection.<sup>33</sup> Such a policy package should aim at not only mitigating the immediate effects of the crisis, but also help to rectify some of the pre-existing imbalances, including high levels of income inequality and economic insecurity.<sup>34</sup>

The specific challenges faced by the Arab states of the Middle East require a coordinated policy response which takes account of national conditions and resources. This region is in a relatively favourable position compared to other regions of the world due to the aforementioned mitigating factors, including the relative economic insulation of some of its countries and the availability of substantial current account surpluses in others. These factors should encourage countries to take the crisis as a chance to implement policy reforms with a view to strengthening employment and social protection policies.

### Developing employment policies

In the face of a global economic downturn that will inevitably carry employment and social consequences for the region, there is a stronger need than ever before for Arab states to develop coherent economic, employment and labour market policies. Effective policy reforms would allow states to mitigate the negative short-term impact of the crisis and, in the medium-term, to institutionalise employment as an integral element of socio-economic development, revitalized economic growth and poverty reduction.

As increasing numbers of jobs are lost, macroeconomic policies must factor in employment considerations. Monetary policies should focus on ensuring the continued availability of credit as lending shortages will impede recovery prospects. At the same time, further counter-cyclical fiscal stimuli should be explored to help steer the region's economies in the desired direction. Direct support to enterprises (and particularly SMEs) could be considered to help them access credit and overcome immediate cash-flow problems. Public investment in infrastructure and housing, including through labour intensive techniques, can also create important opportunities for employment generation. In addition, a wide range of active labour market policies and programmes can be developed and strengthened to support employment and earnings. These could include wage subsidies and training provision for jobseekers. Implementation of unemployment insurance schemes could be considered, and employment services could be strengthened to function as a

<sup>33</sup> See ILO: A global policy package to address the global crisis (Geneva, International Institute for Labour Studies, 2008).

<sup>34</sup> ILO: *World of Work Report: Income inequalities in the age of financial globalization* (Geneva, International Institute for Labour Studies, 2008).

delivery vehicle for these instruments (see below). All such measures should be developed through dialogue between the government and social partners.

In the Arab states, Jordan, Lebanon and Yemen have ratified the ILO Employment Policy Convention, No. 122. In addition, Jordan and Yemen have developed draft national employment policies through tripartite consultative processes. Iraq is also presently following suit. Adoption of these agendas and their integration into the broader economic and social policy making framework will help to ensure a consistent commitment to achieving full, productive and decent employment as a central objective of consecutive Governments over time.

Additionally, some GCC states have attempted to implement legislation to protect their nationals from layoffs in the private sector. For instance, in November 2008, Kuwait's government raised the mandatory quota for national labour in private institutions in a number of key sectors.<sup>35</sup> More recently, the Ministry of Labour of the UAE issued a decree in February 2009 regulating the termination of Emirati nationals in the private sector, putting the onus on the company to prove that the workers are inefficient and have violated labour laws. It should be noted that no such protection is applied to foreign workers. The employment impact of such measures is uncertain (and could even be detrimental if businesses are unable to bear the strain under adverse economic conditions, unless they are supported in so doing). More sustainable measures may perhaps focus on supporting the private sector and sustaining demand in the economy, coupled with pursuit of economic diversification, as well as improving skills and mobility of the workforce.

### Strengthening employment services

Employment services exist to facilitate the adjustment of firms and individuals to changing labour market conditions. Through provision of job broking services, generation of labour market information, administering of labour market adjustment programmes (including job search assistance programmes, training and education programmes, and direct job creation programmes), and administering of unemployment benefits (where they exist), public employment services can play a crucial role in helping people adjust to change. As workforce mobility increases in times of economic downturn and crisis, well-functioning employment services become more important than ever.

Historically, employment services have not played a strong role in the labour markets of the Arab states. The absence of unemployment insurance/benefit schemes, coupled with the predominance of informal job search methods and a longstanding dependence of citizens on the public sector for provision of employment (that has only recently begun to change in some economies), has led to a chronic underinvestment of governments in their public employment services. This is starting to change in parts of the region, notably in the GCC countries, where the public employment services provided by Oman and

<sup>35</sup> National Bank of Kuwait: *Weaker outlook for private sector employment in 2009*, GCC Brief (Kuwait, 17 February 2009).

Bahrain (the latter having recently introduced the first unemployment insurance scheme in the region) are increasingly recognized as good practice references. In Lebanon, the ILO has recently launched a technical cooperation initiative with the Ministry of Labour, funded by the Canadian International Development Agency (CIDA), to strengthen the capacity of the public employment services, which would enable them to better deal with returnee Lebanese jobseekers, particularly from the Gulf countries. Similar initiatives could be pursued in other countries requiring reform of their equivalent institutions.

### Improving labour market monitoring mechanisms

It is imperative to have a sound and regular flow of national and regional labour market information, in order to better understand how the crisis is affecting labour markets, to allow for a constructive, informed and transparent debate on employment at the national level, and to ensure the ability to monitor and evaluate the impact of employment and labour market policies. Compared with other regions, labour market data is weak and relatively sparse in the Arab states, though there has been some improvement in recent years. Annual Labour Force Surveys (LFS) are now conducted in the occupied Palestinian territories, Jordan and Syria (all quarterly rounds), Saudi Arabia (semi-annual rounds), Qatar and Iraq. However, in the rest of the region LFS tend to be conducted only on an irregular, ad-hoc basis. Moreover, in some countries, even when surveys have been conducted, the information generated is not necessarily made public or shared with data users. National commitments to the improvement of collection and timely dissemination of labour market information are crucial to enable effective labour market monitoring. Moreover, resources should be channelled towards developing national mechanisms to analyse and monitor labour market developments using the information generated through LFS and other relevant sources. This could be pursued at relatively low cost through the establishment of small in-country task teams that support the national labour market and planning infrastructures. Such teams could include producers of LMI, policy makers, local academics and/or think tanks, and the social partners.

### Providing better protection against the risk of unemployment

Unemployment protection schemes act as automatic stabilizers for the economy and have a direct countercyclical effect when unemployment rises in times of economic distress. International experience shows that automatic stabilizers tend to be more effective than discretionary increases of fiscal expenditure during economic downturns.<sup>36</sup> The combination of temporary cash benefits and measures to quickly reintegrate jobseekers into the labour market through job placement and training measures can effectively prevent

<sup>36</sup> IMF: *World Economic Outlook: Financial stress, downturns, and recoveries* (Washington, DC, 2008), pp. 160-195.

jobseekers from slipping into informal employment, while helping to maintain and upgrade their skills.

As the experience from the Asian financial crisis of 1997/98 shows, the availability of formal income maintenance mechanisms are of key importance during economic crisis in preventing poverty, smoothening consumption, fostering social justice and encouraging rapid recovery.<sup>37</sup>

Bahrain is the only country in the Middle East which provides unemployment insurance benefits.<sup>38</sup> The scheme was implemented shortly before the onset of the financial and economic crisis in the context of its labour market reform (see Box 3).

The Bahraini unemployment insurance provides income support to the unemployed, including first-time jobseekers, and facilitates their reintegration into productive employment, and as such, provides an essential safeguard against the repercussions of economic shocks. The Bahraini experience has provided a noteworthy model for the region, and there are already some indications that other countries are considering following this example.

### **Box 3: Unemployment insurance in Bahrain: A pioneering scheme in the Middle East**

In 2006, the Kingdom of Bahrain became the first country in the Middle East to implement an unemployment insurance scheme, within the context of broader labour market reform. The ILO has provided technical assistance with respect to the assessment of the feasibility of such a scheme, drafting the legislation and supporting its implementation. The scheme covers all workers, national and foreign alike, and is financed by contributions of 1 percent of the wage paid each by workers, employers and the Government. The unemployment insurance scheme provides two types of benefits to jobseekers who are actively looking for employment: (1) unemployment compensation, which is paid to jobseekers who have fulfilled the minimum contribution period, and which replaces 60 per cent of the insured's average wage during the last 12 months of employment up to a maximum of BD 500 (USD 1,326) for a maximum period of six months; and (2) unemployment aid, which is paid for first-time jobseekers and those jobseekers who have not fulfilled the minimum contribution period, which amounts to BD 150 (USD 398) for university graduates or BD 120 (USD 318) for others for a maximum period of six months.

In December 2008, the unemployment insurance scheme paid unemployment assistance benefits to 2,555 jobseekers, 47 per cent of whom are in possession of a university degree. Since the implementation of the scheme, more than 6,000 registered jobseekers have found new jobs. Reflecting their higher

<sup>37</sup> See e.g. H.-j. Kwon: "The economic crisis and the politics of welfare reform in Korea", in Thandika Mkandawire ed.: *Social Policy in a Development Context* (Basingstoke: Palgrave Macmillan, 2004), pp. 262-283.

<sup>38</sup> In Jordan, the draft Social Security Law, which is currently under discussion in Parliament, includes unemployment insurance savings accounts. If implemented, this programme may eventually provide some protection in case of unemployment to those workers who have built up sufficient savings in their individual accounts. It should be noted, however, that unemployment insurance savings accounts tend to have a less strong automatic stabilizer effect as compared to a social insurance solution.

unemployment risks, women are more strongly represented among registered jobseekers and make up 78 per cent of recipients of unemployment benefits, yet only 49 per cent of those who have found a job.

Owing to the low number of terminations until late 2008, the scheme has had to deal with few cases of unemployment compensation so far. However, if the number of terminations should increase in the future as a result of the financial and economic crisis, a system is in place which provides income security for jobseekers while actively supporting their return into employment by linking cash benefits to participation in training, job matching and career guidance through employment offices.

### Ensuring sustainability and extending coverage of social security

In recognition of the importance of increasing social security coverage<sup>39</sup>, some countries in the Middle East have taken bold steps to improve their social security systems in recent years by extending social insurance coverage and reforming social assistance programmes. For example, a draft social security law currently under discussion in the Jordanian Parliament would extend mandatory social insurance coverage to workers in small enterprises, and would introduce a maternity insurance branch.

Pension policies need to be designed in a way that ensures sustainable, adequate and equitable income security for workers and their families. Taking into account lessons learnt from this and other economic crises, financing, investment governance and management strategies and mechanisms need to be reviewed in order to ensure effective and efficient provision of social security to workers and their families in line with international social security standards and best practices.

Some pension schemes in the region have reacted to the recent financial and economic crisis by adopting measures to lessen the immediate negative impact. For example, the Jordanian Social Security Corporation offers small loans to its pensioners.<sup>40</sup> While such measures contribute to facilitating access to credit and promoting income-generating activities for pensioners and their families, it is essential to ensure that pension reserves are not exposed to undue risks.

Ensuring access to quality health care for the population is also one of the essential preconditions for promoting a skilled and productive workforce.<sup>41</sup> In addition, a review of social policies should identify areas where policy reforms

<sup>39</sup> See e.g. ILO: *Report: Interregional Tripartite Meeting on the Future of Social Security in Arab States, Amman, 6-8 May 2008* (Geneva, 2008).

<sup>40</sup> See "SSC to finance retirees' small, medium projects", *Jordan Times*, 9 March 2009.

<sup>41</sup> See ILO: *Social health protection: An ILO strategy towards universal access to health care*, Social Security Policy Briefings 1 (Geneva, 2008).

can help promoting a fuller engagement in productive employment for both women and men. The introduction of a maternity insurance, as proposed in Jordan, is one positive example. By shifting the responsibility for funding women's salaries during their maternity leave from individual employers to social insurance, this reform contributes to removing obstacles to the employment of young women. Another example is the introduction of unemployment insurance (see above).

Extending the scope of social insurance is one important measure to enhance social protection coverage. However, this measure might not be sufficient in the short-term in countries with a large population of workers in the informal economy, or for social insurance branches which require long contribution periods (such as old age pensions). Governments should therefore consider strengthening minimum pension benefits or guarantees in order to ensure that pensioners are not left with insufficient incomes during old age. This should include measures to secure a minimum standard of living during old age for those women and men who have not been able to build up sufficient pension entitlements during their working life, and similar measures for persons with serious disabilities which prevent them from engaging in productive activity. Experience from other parts of the world has shown that such programmes are feasible even in low income countries, and that they contribute significantly to social development and poverty reduction.<sup>42</sup>

Such considerations have important implications for the existing social assistance and other safety net schemes. Traditionally, such programmes in this region tend to focus on specific groups of the population deemed to be in particular need of support, such as female-headed households or persons with disabilities. While many safety net programmes are run by non-governmental organisations, coordination mechanisms are lacking - resulting in the duplication of support to some groups of the population, while others are hardly covered at all. Several countries in the Middle East have started to reform their social assistance programmes by reviewing targeting mechanisms, increasing administrative capacities and merging some of the existing schemes into unified social assistance programmes with a view to enhancing effectiveness and efficiency. Greater transparency of these safety net programmes, better administration and coordination will help to facilitate access to benefits for those in need, and will help to promote a rights-based approach to social security.

While the financial and economic crisis has not yet fully manifested itself in the region, it is hoped that policymakers make use of this window of opportunity to improve social safety net programmes so as to equip them to address rising levels of poverty and vulnerability, and to establish better links with social insurance programmes including health insurance. If well-deployed, these

<sup>42</sup> ILO: *Can low-income countries afford basic social security?*, Social Security Policy Briefings 3 (Geneva, 2008), F. Gassmann and C. Behrendt: *Cash benefits in low-income countries: Simulating the effects on poverty reduction for Senegal and Tanzania*, Issues in Social Protection Discussion Paper (Geneva, ILO, 2006).

measures should help build an effective social floor which would guarantee at least a basic level of social security to all members of society.<sup>43</sup>

### Strengthening national social protection strategies and monitoring mechanisms

It is increasingly acknowledged that effective social protection policies require a coordinated and comprehensive approach which takes account of the complexity of social policies and its interlinkages with related policy areas.<sup>44</sup> Historically, social protection policies in Arab states tend to be fragmented between different types of programmes (social insurance, social assistance/safety nets and medical care), target groups (employees in the public and private sector, and various vulnerable groups) and public and private provision. Coordinating mechanisms between the responsible ministries<sup>45</sup> and social security institutions tend to be weak, and dedicated national social protection strategies are rare. While such fragmentation may lead to inefficiencies and coverage gaps under normal circumstances, the effects of a major crisis is likely to aggravate such dysfunctionalities.

Effective monitoring and planning mechanisms can help to improve coordination between different programmes and ensure that resources are allocated in the most effective and efficient way. The ILO has developed number of policy tools to assist in this process, including better regular monitoring of social security programmes, examples of smart use of survey data for monitoring and planning purposes and social budgeting as a tool to assess and project social expenditure. International social security standards and international best practices provide useful guidance in this respect.<sup>46</sup>

The impact of the financial crisis on pension funds raises questions as to whether the financing, management and governance mechanisms embodied in national pension policies and regulations, including the ones currently being designed and implemented in the framework of ongoing reforms, are adequate to protect workers' incomes at present and in the future.

Social dialogue between the government, workers, employers and other stakeholders is essential to progressively developing a national social protection strategy in order to ensure a balanced and sustainable approach.

<sup>43</sup> ILO: *Social Security for All: Investing in global social and economic development*, Social Security Policy Briefings 7 (Geneva, 2008); ILO: *The financial and economic crisis: A Decent Work response* (Geneva, International Institute for Labour Studies, 2009).

<sup>44</sup> ILO: *Report: Interregional Tripartite Meeting on the Future of Social Security in Arab States*, Amman, 6-8 May 2008 (Geneva, 2008).

<sup>45</sup> Responsibility for social insurance programmes lies with Ministries of Labour, Finance or Civil Service and Insurance; social assistance programmes are overseen by Ministries of Social Affairs, and health care is in the realm of Ministries of Health. Ministries of Finance, Planning and Economy are also important players.

<sup>46</sup> ILO: *Setting social security standards in a global society: An analysis of present state and practice and of future options for global social security standard setting in the International Labour Organization*, Social Security Policy Briefings 2 (Geneva, 2008).

## CONCLUSIONS

In conclusion, most of the region's financial markets have declined significantly as a result of the global financial crisis, but the real economy so far has remained relatively sheltered, in large part due to mass surplus liquidity from the oil boom witnessed in recent years, relative insulation and low market capitalisation. However, indicators of GDP growth and unemployment expected for 2009 suggest that the crisis is going to hit the region more forcefully in the near future. Threats from high inflation and prolonged market volatility may also take their toll in some quarters. Declining standards of living and increasing inequality have already been of concern for some time, and are likely to deteriorate. In the absence of well-developed social security policies and mechanisms, the livelihoods of growing numbers of vulnerable workers, including the region's large cohorts of migrant workers, may come under further stress.

The financial and economic crisis has added to pre-existing economic, social and political challenges in the region. The Gulf countries are still strongly dependent on production of natural resources, and they now see their diversification efforts threatened by the effects of the current crisis. Across the region, employment levels are relatively low, especially among women, and youth unemployment is a major challenge for these young societies.

Looking ahead, the global financial slowdown should be used as a unique opportunity for regional investment and socio-economic reform in Arab states, encouraging national authorities to strengthen national economic and social policies and to benefit from closer regional and international cooperation. Countries in the region should use this window of opportunity to establish mechanisms to promote employment, encourage pro-poor growth, strengthen social protection mechanisms, promote gender equality and non-discrimination, and focus on human development and decent work. International experience has shown that such mechanisms will be most effective if developed through a process of social dialogue between governments and strong, independent organisations of workers and employers.

Better solutions have to be found with respect to ensuring that the fruits of globalisation are more equally distributed across the Arab world. The ILO Declaration on Social Justice for a Fair Globalisation (adopted 10 June 2008), and the ILO's Decent Work Agenda provide a useful framework for balanced economic and social policies, grounded in international labour standards, which help to promote productivity, growth and social cohesion.<sup>47</sup>

<sup>47</sup> ILO: *The financial and economic crisis: A Decent Work response* (Geneva, International Institute for Labour Studies, 2009).