PANDEMIC RESPONSES IN THE MENA REGION
Lessons learned for an inclusive economic recovery
The COVID-19 pandemic exacerbated existing inequalities and poor governance practices in the MENA region and had a disproportionate impact on the most vulnerable people. These persistent and structural issues also threaten a post-COVID inclusive recovery process. Austerity steers from institutions like the IMF risk further inequality and social exclusion, as evidenced by diverse and gendered impacts on the most vulnerable, including through low public spending on health and social protection.

Economic and fiscal justice through progressive taxation and inclusive, crisis-resilient public spending are two key policy solutions to prevent future crises impoverishing the most vulnerable in the region. As the world recovers from the pandemic, now is the time for national and global policymakers – including international financial institutions – to take stock and seek policy alternatives that take a rights-based, inclusive, holistic and resilience-focused approach to recovery efforts, resourced through progressive taxation.
SUMMARY

In addition to the tragic human toll of the COVID-19 pandemic, the intersectional nature of its socio-economic impacts exposed the injustices of economic models and governance systems in the Middle East and North Africa (MENA) region. While policymakers agreed that substantive investment is needed to address the socio-economic impacts of the pandemic on lives and livelihoods, there was less consensus on the distribution of resources and a rights-based approach to care for people and the planet. The multi-dimensional inequality crises, including unprecedented food and energy price inflation, have been accelerated by the pandemic, Russia’s invasion of Ukraine and associated global shifts. The spike in food prices has intersected with climate-driven disasters and further exacerbated inequalities. Disruption in global trade and economic activity, oil price increases and lockdowns all had a negative impact on the region’s highly unequal economies – especially where informal workers constitute a large proportion of the labour force.

The pandemic’s impact worsened existing inequalities between men and women, rural and urban people, and formal and informal workers, and had a disproportionate impact on workers in some sectors. In many countries, inadequate policy responses by national governments and international institutions aggravated the impact of the current neoliberal economic model, especially on the most vulnerable populations. There are deep concerns that inequalities will continue to increase, social unrest and armed conflicts will escalate and nations will struggle to be equitable and inclusive in their aspirations towards the Sustainable Development Goals.

The International Monetary Fund (IMF) stated that most of its loans during the COVID-19 emergency response are free from typical conditionalities as they fall under emergency lending. However, austerity continued to feature in several country–IMF discussions and some countries have negotiated traditional loan programmes which include austerity-related conditionalities. Protracted national and regional armed conflicts, refugee and migratory flows, and a rise in inflation (in part triggered by Russia’s invasion and its impact on global trade) are risk factors that require the attention of national and global policymakers on fair taxation policies, inclusive recovery measures and a focus on those most in need of social safety nets.

There is also a need to shift the terms of the debate on economic recovery policies in the MENA region and address pre-existing structural root causes that tend to exacerbate inequalities and undermine resilience. Many MENA countries have been experiencing intersecting crises. In Lebanon, the government’s response to COVID-19 in terms of socio-economic recovery measures has been very limited, if not absent. The pandemic intersected with concurrent crises and had an impact on the employment and living conditions of the urban informal sector. This disproportionately affected people living in poverty, especially women and displaced people. Lebanon was already hosting large numbers of refugees from protracted crises in
neighbouring countries, as well as dealing with national economic and political crises. With jobs in the informal sector making up over 50% of the labour force before the pandemic, health and economic vulnerabilities increased. Most households (especially those without social safety nets) resorted to negative coping mechanisms, with an increase in child labour and children dropping out of school. Government intervention was limited in scope and impact and failed to alleviate the daily hardships faced by vulnerable populations due to the economic crisis and the limited economic resources that the government could commit to supporting the population.

Moreover, Lebanon is making little progress on unlocking funding as part of an IMF deal. Following several rounds of technical discussions, the IMF and Lebanon reached a staff-level agreement for a four-year extended fund facility in April 2022. However, IMF Board approval of the loan program is contingent on meeting a series of prior actions, including tackling the country’s weak governance, restructuring the financial sector, addressing losses accrued by private banks and the Lebanese Central Bank, and establishing a unified exchange system, among others. Progress in implementing these conditions has been ‘very slow’, delaying Board approval of the programme.

In Tunisia, successive shocks – from debt to the pandemic and the indirect impacts of Russia’s invasion of Ukraine – have had serious multidimensional impacts on an economy that is facing its most severe crisis yet. This situation has pushed all governments that have come to power since 2021 into negotiations with the IMF in order to access a $4bn loan programme. These negotiations have highlighted an apparent significant imbalance in negotiation power between the IMF and Tunisian governments, in addition to a lack of plans to stimulate the national economy through public investment. Instead, economic reforms currently under development in collaboration with the IMF are expected to contain a series of austerity measures, notably removing food and fuel subsidies, with public spending cuts affecting the most vulnerable.

The constitutional referendum of 25 July 2022 marked an important date in Tunisia’s history. Several months later, the drastic change of course has thrown the whole country into uncertainty and deepened divisions between the president and his supporters and a large part of the political opposition and civil society actors, some of whom considered this ‘the end of the democratic transition’ that had been launched in 2011.

In Egypt, the IMF’s new $3bn loan agreement, contracted in January 2023, is the country’s fourth loan since 2016. While the inflationary wave following the 2016 structural reform package helped ameliorate the burden of internal debt, it worsened the foreign debt burden. Egypt’s foreign debt portfolio has steadily grown from $468bn before the crisis to more than $134.8bn in 2021. The currency mismatch, the result of the exchange rate decreasing as the value of the currency continues to decline due to the structural adjustment policies associated with the loan, puts Egypt in a vulnerable position: the current account deficit rose to $18.4bn in 2021, a 60% increase on the previous year. Egyptians are facing a cost-of-living crisis that has left millions struggling to afford food and other necessities. The expansion of the cash transfer programme under the new IMF agreement,
while positive, does not do nearly enough to protect people from spiralling costs exacerbated by the IMF programme.\textsuperscript{15}

In the light of consecutive economic crises with multidimensional impacts, it is essential to adopt alternative, just fiscal policies to reduce economic and social inequalities. Governments in the MENA region – the most unequal region in the world – need a paradigm shift in their fiscal policies. Competitiveness, heralded by international financial institutions as the be-all-and-end-all of economic growth, must leave room for socio-economic justice and equity. This should be done through reshaping MENA countries’ capacities to mobilize their own resources in order to face crucial budgetary, economic, social and ecological challenges.

Governments should adopt more progressive tax policies to collect more from those who have more, whether individuals or large corporations. It is critical to rebalance the weight of regressive taxation like VAT and other consumption taxes within the total revenue collection, that tend to fall more disproportionately on the most vulnerable. It is time to introduce fairer, more progressive taxes, to make the richest 1% pay more on their income (including capital income) and their wealth (on all their assets and inheritance). Such reforms should be accompanied by a review and limitation of tax incentives, taxation of corporate super profits and a commitment to increase transparency and address the abuse of tax havens.

The additional resources collected should be directed towards curbing the chronic underinvestment in public services, particularly in education, health and public transport. Resources should also be used to build universal social protection systems, including for the most vulnerable people – citizens, migrant workers and refugees engaged in the informal economy. Furthermore, it is vital to finance plans that will stimulate the national economies in the MENA region. There should be public investment in the agricultural and renewable energy fields, allowing for ecologically responsible energy transitions, meeting populations’ needs and promoting local development for the most disadvantaged communities.
1 INTRODUCTION

In a region already characterized by high levels of horizontal, vertical\textsuperscript{16} and regional inequalities,\textsuperscript{17} as well as several protracted international and local armed conflicts, COVID-19 presented a serious socio-economic threat. The MENA region is considered the most unequal in the world, with inequalities driving and exacerbating armed conflicts and other violence.\textsuperscript{18}

The neoliberal economic model in the MENA region has manifested as decades of high debt and austerity. Limited public spending and regressive taxation have impacted the most vulnerable, who are left to shoulder the burden of austerity without adequate access to public services or social protection.\textsuperscript{19} Government responses to the pandemic have risked exacerbating this trend.

The COVID-19 pandemic in the MENA region began in late January 2020, with the number of reported cases growing and national governments adopting a variety of approaches with little regional cohesion. The pandemic came at a time of widespread protests against the injustice of inequality in Lebanon, Iraq and Tunisia.\textsuperscript{20} The nature of elites and how they exercise power (in repressing protests and social movements) has been linked to protests and organized violence across a range of countries.\textsuperscript{21} Civil society actors were already working to challenge the dominant narratives that promote economic growth at the expense of state institutions and basic societal services.

The pandemic’s impact was felt unequally, widening gender inequalities and disproportionately affecting displaced people. Urban and rural divides grew, and inequalities in access to public services (health, education, social protection) were laid bare.\textsuperscript{22} Its socio-economic impacts varied by sector, with particularly negative impacts on sectors where informal employment dominates. Public services and national social protection systems were not adequate to support those most vulnerable to the primary (health) and secondary (economic) impacts of the pandemic.

In response to economic challenges exacerbated by the pandemic, many governments are looking to implement further austerity measures. Given that the pandemic spread at a time of popular mobilizations in MENA against inequality, corruption and authoritarianism, policies aimed at recovery should seek to change the status quo\textsuperscript{23} rather than promote the same economic models through further austerity. Austerity is not only a gendered policy, but one that blends patriarchy and neoliberal ideology to further exploit the most oppressed people in society.\textsuperscript{24} The prevailing neoliberal economic model amounts to a form of gender-based violence in itself; policy choices, especially in times of crisis, disproportionately affect women, girls and others excluded from decision-making structures.\textsuperscript{25} For a region already considered one of the most unequal, fragile, conflict-affected and climate-vulnerable, with a high degree of informality in its labour markets, these austerity measures are particularly harmful in both the short and longer term.
The key trends outlined below draw on regional analysis and country-specific evidence generated by national civil society stakeholders in Lebanon, Egypt and Tunisia. The uneven impacts of the pandemic were driven by a range of factors, including the nature and sector of the work, type and degree of formality of contracts (and associated labour and social protection), displacement status and socio-economic gender dynamics. The informal sector tends to recover more slowly, and there is an associated risk that pandemic recovery will further increase inequalities.

2 SAME STORM, DIFFERENT BOATS: INEQUALITIES OF IMPACT

The impact of the pandemic in the MENA region has been highly unequal, affecting poor and vulnerable people disproportionately, particularly women, migrants and refugees. In a region where the social contract tends to be characterized by elite capture and political coercion, inequalities in access to services rose sharply during the pandemic, while pandemic responses exposed the social protection gap in the most unequal region in the world. Inequalities within and between countries increased during the pandemic, as elites continued to be served by private healthcare and expedited access to vaccines while others made do with reliance on strained public health systems. Inequalities manifested in vaccine distribution, with sizeable vaccine inequalities and vaccination rates as high as 50% in Saudi Arabia and 37% in Morocco, to lows of less than 1% in Yemen and Syria, 2% in Iraq, and 4% in Egypt.

In countries like Lebanon, the pandemic’s impacts intersected with other crises (economic, humanitarian and political), causing particular hardship for the most vulnerable people. Events such as the Beirut port explosion in August 2020 further exacerbated socio-political tensions, strained health services in the capital and conflated the causes of fragility in Lebanon. The pandemic had an impact on most of the population, with declining living standards and negative coping mechanisms increasing – especially among the most vulnerable (both Lebanese and non-Lebanese). Lockdowns and other social distancing policies at the onset of the pandemic led to significant loss of income among workers in the informal sector and small businesses, especially in the service and hospitality industry. Alarmingly, the deteriorating economic conditions – resulting in triple-digit annual inflation recorded for more than two years on the back of a depreciating local currency, rising unemployment and removal of fuel and medicine subsidies – drastically reduced households’ purchasing power and significantly increased the number of people at risk of food insecurity.

An IPC analysis showed that 1.98 million people (including Lebanese...
residents and Syrian refugees) were facing high acute food insecurity between September and December 2022, and projected that this number would increase. In addition, a national survey by Oxfam in Lebanon found that only 8% of respondents residing in Oxfam’s areas of operations reported that their income is sufficient to cover their food expenditure. Facing these economic hardships, households had to adopt negative coping mechanisms and cut their spending on essential goods and services – including food, medicine and chronic disease treatment, children’s education, electricity bills, rent payments and maintenance expenses. Other mechanisms were adopted including selling assets, accruing debts or asking for financial help from families and friends living abroad. In the absence of a rights-based, universal social protection system, Lebanon became heavily dependent on foreign aid and humanitarian support including meals, food stamps and medical services provided by local non-profit organizations.

In Tunisia, austerity policies and budget cuts pursued by successive governments since the structural adjustment programme of 1986 have progressively dismantled access to, and the quality of, public services, leaving the country vulnerable to the COVID-19 pandemic. The pandemic has exposed the stark reality of the overall decay of the public health system and its collapsing infrastructure. The central pharmacy of Tunisia has seen its debt rise to nearly 500m dinars (€156m). The decline in public sector services has led to the significant privatization of healthcare. With higher private and out-of-pocket expenditure, healthcare became increasingly inaccessible, especially to vulnerable groups, deepening geographic and socio-economic inequalities.

Since 2011 in Egypt, demands for economic and social justice have remained unfulfilled, while poverty rates continue to rise. Horizontal and vertical inequality trends persist, while opportunities for accountability through human rights and civic space are closing. Civic space in Egypt is currently rated as ‘closed’ by the CIVICUS Civic Space Monitor.

INCREASED GAPS IN ACCESS TO HEALTH SECTOR

In Tunisia, poverty rose to 21% of the population during the pandemic, up from 14% before. The health crisis has also accentuated inequalities, with the Gini index increasing from 37% to 39.5% between 2019 and 2020. In Lebanon, the pandemic exacerbated prevalent inequality by pushing the majority of the population below the poverty line. An ESCWA survey indicated that the multidimensional poverty rate in Lebanon doubled from 42% of the population in 2019, to 82% in 2021, with nearly 4 million people now living in multidimensional poverty. In Egypt, according to the most recent data, the national poverty rate was 29.75% in 2020, down from 32.5% in 2018, but still significantly higher than in 2015 (27.8%).

While governments in developed countries managed to implement economic and financial support packages to mitigate the impact of COVID-
Workers in low- and middle-income countries suffered significantly due to the pandemic. Rising poverty and the financial burden of medical services, combined with a lack of adequate social protection, led to an increased gap in accessing health services – especially among the most vulnerable. Lebanon had historically high levels of out-of-pocket health expenditures, with no updated figures since the beginning of the financial crisis in 2019. The deterioration of living conditions further limited the access and affordability of medicine and treatment for poor households, with a disproportionate impact on children and on refugees hosted in the country without social protection coverage. Access to healthcare services and medicines became even more expensive following the government’s removal of subsidies, which also caused a shortage in medicines across the country.

The COVID-19 crisis also exposed the Lebanese healthcare system’s over-reliance on private hospitals and medical centres, with public health under-resourced. The public health sector struggled to meet escalating health needs, despite international assistance. At the beginning of the pandemic, private hospitals were reluctant to commit resources, medical staff and beds in response to the crisis, straining public hospital capacities. The sector was also suffering from doctors and nurses leaving due to the economic crisis, with the World Health Organization estimating in 2021 that 40% of Lebanon’s doctors and almost 30% of nurses had left the country since October 2019.

In Tunisia in the year before the pandemic, the Ministry of Health budget was 2.055bn dinars (5.04% of the state budget), which was the average of the previous decade and considered extremely low. Despite the dramatic impact of the pandemic and major shortcomings in human and material resources, the health budget only increased to 2.544bn dinars in 2020, though the finance law for 2023 foresees an increase in the share of public health in the state budget (to 6.79%). Private sector incentive policies resulted in an increase of private healthcare establishments by 23.69% between 2011 and 2019, from 2,406 to 2,976. In the same period, public sector establishments stagnated, rising only 3.66%. The number of specialist doctors working in the Tunisian public sector declined sharply between 2017 and 2019, from 3,339 to 2,318 (0.19 per 1,000 inhabitants). These shortages are inequitably distributed between regions, with non-coastal regions having significantly fewer doctors per person. Access to the private sector is also severely regionally inequitable as 90% of private clinics are in coastal regions. The percentage of pregnant women receiving prenatal care decreased with the lack of access to services linked to higher maternal mortality rates, especially in interior regions.

Egypt’s Vision 2030 goal is to reduce out-of-pocket expenditure on health to 40% by 2020 and 28% by 2030. Current figures suggest it is way off track to meet these targets, with the latest statistics in 2019/20 showing out-of-pocket spending on health reaching 63%. According to research by CAPMAS for 2019/20, the expenditure rate of the average Egyptian household on healthcare services makes it the third-most important item after food and drink and housing, reaching 10.4% of total expenditure annually. This high rate is a reflection of the health system’s inefficiency.
and the disarray and lack of regulation in the medical market’, which leads many to resort to private sector providers for their healthcare needs.61

Average family expenditure decreased by 1.8% in real terms between 2015 and 2020, while average family income decreased by 4.3%.62 Average incomes are therefore falling quicker and more significantly than the rate that households are able to cut back on their expenses.

SOCIAL EXCLUSION: IMPACT ON THE MOST VULNERABLE POPULATIONS

Social protection gaps for the most vulnerable populations (women, informal sector workers, displaced people, care work/domestic workers) were particularly extreme.

Several countries in the MENA region, including Lebanon, host a large number of refugees and migrants. In Lebanon, refugees were particularly exposed to the pandemic, with vulnerabilities varying across age, gender and access to resources.63 Vulnerable groups reported accruing large amounts of debt and not having clear or feasible repayment plans.64 While the Lebanese population relies heavily on remittances, Syrian refugees in Lebanon tend to come from distressed areas and are less able to rely on remittance networks. Research by the American University of Beirut reported a greater propensity to seek social protection and employment abroad – among both Lebanese and non-Lebanese refugee populations.65 The national social security fund in Lebanon does not cover refugees, migrants, unemployed and older people, workers in the informal sector or workers in some other sectors, including agriculture.66 The absence of safety nets was exacerbated by the pandemic, where many who have lost their jobs have not found another source of income. Both Lebanese and non-Lebanese workers lost income due to lockdowns, temporary or permanent closure of businesses, and the currency devaluation resulting from the financial and banking crises. Some municipalities and local authorities also host greater numbers of refugees and other vulnerable populations but receive insufficient resources from the capital to cope with stresses on essential services during crises.67

In Tunisia, direct cash transfers such as the National Programme of Assistance to Needy Families (PNAFN) have been ineffective in reaching the targeted households. Only 12% of poor people in Tunisia (based on a threshold of $2 per day) benefit from the national cash transfer programme for needy families; of those receiving benefits, nearly 23% of all Tunisians, only 40% are in the lowest income quintile.68 Even if targeted households are identified, many of them would still be unable to access social transfers due to the very low rate of banking. In 2021, barely one-third (32%) of the poorest 40% had an account with a financial institution.69 This rate is even lower for women, at 28.7%.70

Egypt’s economy continues to be primarily driven by household consumption, which made up 85.8% of its GDP in 2020, compared with a
global average of 64.36% for 129 countries.\textsuperscript{71} While the proportion of consumption taxes (VAT) to the overall tax revenue has decreased to 41.5% for 2020/21, down from 48.5% in 2019/20, this continues to compromise the fairness of the Egyptian tax system.\textsuperscript{72} An overreliance on consumption taxes and lack of progressive personal income tax increases the burden on Egypt’s diminishing middle-class and working-poor population, ultimately having an impact on citizens’ wellbeing.

The COVID-19 crisis revealed the critical situation of the 5.6 million workers in Egypt’s informal sector.\textsuperscript{73} Despite a lack of reliable data on the number of workers in the informal sector (a recent official estimation put this at 10 million),\textsuperscript{74} different categories of informal workers\textsuperscript{75} have faced enormous challenges due to the impact on the leisure sector, including street vendors affected by the closing of open-air markets. Domestic workers were one of the most affected sectors because most households asked them to stop working for fear of contracting COVID-19.\textsuperscript{76}

The pandemic highlighted the degrading living conditions of the entire informal sector, suffering from poverty, unemployment, and struggling with the exorbitant price of health services and a lack of legal protection. Public social and health security only cover workers in the formal sector.

**GENDER INEQUALITIES EXACERBATED**

Feminist economists warn that the current global economic system is violent toward women and girls. Across the globe, 54% of the countries planning further cuts to social protection already offer minimal to no maternity and child support.\textsuperscript{77} The intersection of gender and economic injustice combined with patriarchal social norms reflected through laws and practice is felt particularly strongly in the MENA region.\textsuperscript{78}

Women, youth, refugees and migrants, as well as other groups traditionally marginalized by social norms and deprioritized by public policies, tend to be the most affected and least consulted in such planned austerity packages. The degradation of public services and even elimination of vital services would further disenfranchise them and exacerbate social and gender inequalities.

The maintenance and escalation of austerity policies in, for example, health or education, further excludes women from the workforce in addition to violating their basic rights to access health or education.\textsuperscript{79} Oxfam research on Tunisia, Jordan and Egypt showed that austerity policies implemented between 2011 and 2019 have contributed to significant decreases in spending on health and education, with women most affected including in their participation in the workforce.\textsuperscript{80} Austerity measures reduced the size of the public sector (the main formal employer of women in the region) disproportionally affecting women, including many who found themselves allocating more time to unpaid care work to compensate for the impact of these social spending cuts. The absence or inadequacy of social protection programmes such as insurance coverage (which disproportionately affects women, especially during economic crises) or cash transfer programmes
targeting women (to help them escape poverty and violence) is further evidence of austerity measures failing to create inclusive and sustainable economic growth.

Austerity measures intersect with the wider care economy — which is largely run by women. To maintain an adequate standard of living, women subsidize the care economy through unpaid work, reinforcing inequalities in gender roles. Combined with other macroeconomic indicators such as the gender wage gap, inadequate minimum wages and low participation in the labour market, austerity measures have a disproportionate impact on women and undermine their economic and social rights. The failure to adopt gender-responsive budgeting in areas such as infrastructure, employment policies and public investment financing also contributes to women’s exclusion from labour markets and growth-enhancing activities. Economic exclusion necessarily feeds women’s political exclusion.

Lebanese women are twice as likely as men to find themselves unemployed, underpaid or working in unfavourable conditions, while being under-represented in politics. Vulnerable and marginalized groups including women and members of the LGBTQIA+ community, migrant workers and refugees suffered disproportionally during the pandemic. The pandemic exposed women to increased risk of physical or emotional abuse by household and non-household members — with non-Lebanese women particularly at risk. Physical abuse included domestic violence and attacks by landlords around delays in rent payments.

In Tunisia, access to public facilities is deeply regionally and gender inequitable. The shortage of human resources also affected nurses. WHO recommends a ratio of 4 nurses per 1,000 inhabitants. The world average was estimated at 3.816 in 2018. However, in Tunisia, this was 2.51 in 2017, a drop from 2.65 in 2015. The percentage of pregnant women receiving prenatal care has slightly deteriorated, from 98.1% in 2012 to 95.3% in 2018. This lack of access to services is linked to higher maternal mortality rates, especially in interior regions. The governorate of Tatooine, for instance, had 80 deaths per 100,000 births in 2013, more than double the national average of 36 deaths per 100,000 births.

While poverty rates are rarely desegregated by gender, it is likely that poverty in Egypt is feminized as it is across the globe. Economic, demographic, and socio-cultural factors overlap and contribute to the disproportionate impact that poverty has on women. Women commonly have less access to power, education, productive resources and decision-making processes that affect their lives. Because of the gendered division of labour and responsibilities for caregiving, women also bear a greater burden in managing domestic work and household expenses.

**IMPACTS ON THE INFORMAL SECTOR AND FRAGILE EMPLOYMENT**

Across the Global South, the majority of workers depend on informal sectors
for their livelihoods, often in ways that are not protected, regulated, well recognized or valued – leaving workers vulnerable to shocks and rarely prioritized by policymakers. While there is substantial variation among countries and contexts, the informal economy and poverty are closely linked and at times of crisis, informality tends to expand.\textsuperscript{90} Globally, a significant proportion of people living in poverty are in the informal economy, with intersecting vulnerabilities including precarious housing, low-quality nutrition, and a lack of access to drinking water, sanitary facilities and basic health services.\textsuperscript{91} The pandemic added to the precarious conditions of households depending on the informal economy, having a disproportionate impact on some sectors and groups.

The MENA region’s highly informalized labour force (accounting for 56.3% of employment in North Africa and 63.9% in the Middle East) left millions vulnerable to income losses and with little or no social protection. The pandemic had a disproportionate impact on women and displaced people, who were particularly exposed to the direct and indirect effects of the health crisis.\textsuperscript{92}

In Lebanon, workers in the informal sector (including refugees and migrants) were particularly vulnerable to the initial impacts of pandemic, as they tended to live in more crowded spaces with less access to clean water, medical services and personal protective equipment. Workers in the informal sectors suffered job losses at greater rates than their counterparts in the formal employment sector. More than 89% of those identifying as self-employed reported earning less income and 69.8% attributed this income loss to the compounded effect of the economic crisis and the pandemic.\textsuperscript{93} Reverse migration, from major urban centres into rural areas, may have further contributed to an increase in informality for some groups. Even after most health-related movement restrictions were lifted in Lebanon, workers continued to face difficulties securing new employment comparable to the period before the pandemic. Some sectors were particularly affected, as employers offered weaker labour contracts, including increased reliance on precarious work and the expansion of tip-based jobs.\textsuperscript{94} Many of those traditionally engaged in the informal sector lacked the skillset to transition to new types of jobs that became available (i.e. teleworking). Low-cost training programmes were in short supply, and out of the reach of many workers in the informal sector.\textsuperscript{95} Extremely high rates of informality among Syrian refugee populations, as well as Lebanese and non-Lebanese young people, left these workers at risk.\textsuperscript{96} There was a notable shift to unlawful and illegal professions including drug trafficking, cross-border smuggling, and sex work and the unlicensed sales of regulated products, subsidized products or unlicensed currency exchange. These activities put individuals at a higher risk of physical harm, exploitation, arrest and prosecution.\textsuperscript{97}
3 INADEQUATE POLICY RESPONSE BY GOVERNMENTS AND INTERNATIONAL FINANCIAL INSTITUTIONS

Governments across the region have committed to guaranteeing the human rights of their populations, including economic, social and cultural rights, which affirm that everyone is entitled to the material conditions essential for dignity, freedom and well-being. To guarantee these rights, governments must take concrete steps using all their available resources. There’s wide agreement that this obligation has three dimensions:

- Resource generation (how governments raise money);
- Resource allocation (what governments earmark money for in their budgets); and
- Resource expenditure (how allocated money is actually spent and who benefits from this).

In an unequal globalized economy, some countries have more resources than others to invest in relief and recovery from COVID-19. As outlined below, the steps taken in the MENA region were inadequate. In large part, this was because of fiscal constraints resulting from loan conditions and policy advice of international financial institutions. Looking ahead, the outlook across the region shows that an urgent change in direction is needed to ensure an inclusive, fair and rights-based recovery.

NATIONAL RESPONSES

National responses did not adequately respond to the COVID-19 shocks: ineffective cash transfer programmes and gender-blind approaches exacerbated inequalities across sectors, austerity trends continued despite the crisis (e.g. the public sector hiring freeze), while responses failed to tackle increasing inflation and living costs. In many countries, the private medical (private clinics and laboratories) and banking sectors have had record profits and dividends in the last few years, directly and indirectly benefiting from the pandemic. States may have missed an opportunity to finance their populations’ needs through the introduction of windfall profit taxes or one-off solidarity taxes on pandemic-related wealth increases.

Already suffering from economic, financial and political crises, Lebanon struggled to muster an adequate response to the pandemic. While the government seemed to take the health-related threats seriously – working across governmental agencies to try and stem the spread of COVID-19 – the
wider economic impacts of the pandemic were overlooked. Measures to ensure equitable access to healthcare, education and livelihoods were not enough. The government came under heavy criticism for poor consultation with key stakeholders, including trade unions and other civil society groups, and not prioritizing essential services and compensating livelihood losses for the most vulnerable. The government had limited ability to create subsidy programmes or financial support and resorted to incentivizing employers to preserve and/or compensate their workforce and to expanding existing (and flawed) safety net programmes.

Most of the Lebanon government’s incentive packages focused on trying to alleviate or delay business costs – including income taxes, social security payments and rents. In absence of further solidarity tax reforms, such measures were insufficient to provide the necessary incentives and buy in from stakeholders. Due to a protracted political and governance crisis, bureaucratic impediments rendered even the more well–intentioned initiatives ineffective, and it soon became clear that substantive cash transfer programmes would be needed. The government did not adequately consider the gaps in its social protection and therefore failed to take a fully inclusive approach, excluding many vulnerable and crisis–exposed groups from its pandemic response considerations.

The lack of political will to focus on social protection was compounded by poor crisis management and lack of data on vulnerabilities among the population residing in Lebanon. State actions during the crisis did not reflect awareness of their impact on the informal workforce and did not account for dimensions of vulnerability, including gender, age and citizenship status. For example, Lebanon does not have comprehensive, reliable databases, and the partial ones that exist, such as the National Social Security Fund (NSSF), exclude workers in the informal sector. Moreover, there is not enough information on micro, small, and medium enterprises, most of which are informal.

Even before Tunisia felt the effects of the pandemic and Russia’s invasion of Ukraine, it was already in a structural and multidimensional crisis. The new IMF loan programme will likely exacerbate Tunisia’s social crisis if it continues down the same austerity path (such as the 1986 structural adjustment plan) as is expected, based on the scant available information. For decades, the government has continued to implement these damaging and inequality–fuelling austerity measures despite popular protests, expressed most vehemently during the December 2010 revolution against social and regional inequalities, which culminated in the 2011 uprisings in the region.

At the outset of the pandemic, the Government of Egypt announced an emergency response package of EGP 100bn (1.7% of 2019/20 GDP or $6.3bn) to mitigate its negative effects, half of which was dedicated to the tourism industry. It also created a council responsible for collecting data about workers who were economically affected by the pandemic. A fund was established to provide financial aid and subsidies to employees who had not received salaries from companies facing total or partial closure due to economic crisis or declines in production. The decree also targeted women...
heads-of-households through cash transfer payments during the first three months of the pandemic. However, many workers failed to register with the platform due to ambiguity around the eligibility conditions.

In Egypt, the labour law explicitly excludes domestic workers from its scope of regulation, singling them out as an ‘exception’ because of ‘the strong relations that grow between the servant and the employer’. In framing this relationship as a personal and private bond rather than a conventional labour relationship, the law implies that domestic work is not ‘proper work’. As a result, domestic workers are denied legal protection and the right to an employment contract guaranteeing them adequate remuneration, specific working hours and tasks, rest periods and vacations.

Similarly, a new draft labour law under discussion in parliament does not cover domestic workers but thanks to civil society efforts, a separate bill regulating domestic work was submitted to parliament in March 2021. If passed, this will be the first time that domestic work is recognized as work subject to state regulation, a decade after ILO Convention 189 placed domestic work on a par with all other paid labour and granted domestic workers the same rights as all other paid workers. Despite this expected improvement, all rights remain subject to the homeowner’s discretion. As most domestic workers are illiterate women, their capacities to negotiate are further undermined by imbalanced power relations.

**FISCAL CONSTRAINTS AFFECTING NATIONAL RESPONSES**

Already very fragile, the Tunisian economy recorded a negative growth rate of 8.6% in 2020, exacerbating a tense social situation. Despite the urgency of the situation, the Tunisian authorities made no significant effort to mobilize its own fiscal resources to address the looming crisis. On the contrary, the 2021 finance law granted huge tax cuts to large companies and the richest, including a 10-point reduction in corporate tax from 25% to 15%, compounding an eminently unfair tax policy. Neither was a stimulus plan based on public expenditure adopted. Instead, the Tunisian government hastened into discussions with the IMF for a new loan programme at the beginning of 2021, which culminated in a staff-level agreement on 15 October 2022. Spread over three years, this programme may include severe austerity demands to constrain the civil service wage bill, particularly through freezing recruitment and salaries, according to the government’s commitments to the IMF in April 2020. It is expected that the government will also remove food and fuel subsidies, replacing them with direct cash transfers to targeted households.

These measures are likely to exacerbate poverty and inequality. The bill of austerity will be paid by the most vulnerable.

Over the last decade, the Egyptian government has taken on an unprecedented amount of foreign debt. It has also implemented austerity measures from 2014 onwards, and IMF loan programmes that began with
the 2016 IMF loan that saw the devaluation of the Egyptian pound.

The Global Wealth Report states that Egypt’s wealth Gini coefficient rose to 79.2% in 2020 from 75.6% in 2019. This rapidly growing inequality is the natural result of decreasing shares of labour income despite GDP growth. Between 2018 and 2020, GDP-compounded growth amounted to nearly 15% while average family income decreased by 4.3%. This suggests an economic orientation that favours wealth accumulation at the top and sees little of that wealth trickling down to the average citizen. This pattern is accelerated by austerity measures implemented by the government and put forward by the IMF that saw cuts to basic subsidies relied on by poorer people, and increased prices for water and electricity.

Despite changes in governments, Egypt’s unprecedented amount of debt – coupled with strict austerity measures, including cuts to key subsidies – suggests an overall policy of elite capture favouring wealth accumulation at the top with little redistribution. Combined with shrinking civic space, accountability in the social contract is particularly unlikely.

In March 2020, the Lebanese government defaulted on a Eurobonds payment, limiting its ability to borrow funds on the international markets. The national financial system, including the Central Bank and local private banks, was in a state of undeclared bankruptcy as a result of huge losses accumulated over time that led to the progressive depletion of foreign currency reserves.

**A GRIM OUTLOOK AHEAD**

With global crises (the Russia-Ukraine war and related global food insecurity and inflation due to get worse) combined with climate-related changes and other fragility, the MENA region will struggle to be resilient in the face of future shocks and crises. The medium-term outlook for Lebanon is not optimistic. Political instability, social tensions, and sustained economic deterioration are exacerbating the country’s fragility and humanitarian crisis. Inadequate investment in effective social protection is likely to worsen persistent inequalities and vulnerabilities. Lebanon is food-insecure and imports most of its food, with most of its wheat from Russia and Ukraine. Negative macro-economic trends are likely to continue in 2023. With tax revenue dramatically decreasing in recent years, the taxation system is in urgent need of reform. Rising poverty rates and inequalities amid political tensions are likely to trigger further humanitarian challenges for both the Lebanese and non-Lebanese populations. The combination of pandemic and economic response policies (e.g. removal of subsidies and social protection gaps) that do not take increasingly vulnerable populations into account are likely to intensify Lebanon’s intersectional crises.

In Tunisia, there are concerns about political and economic risks. Given global trade (supply) and post-pandemic economic recovery challenges, the IMF is putting increasing pressure on the government to implement
economic reforms. Tunisia’s civil society has highlighted concerns around future subsidies reform, as well as other austerity measures which have been continued by successive governments and encouraged by international institutions. As of May 2023, Tunisia’s outstanding debt to the IMF is $2bn. Large trade deficits depreciate the value of the local currency against foreign currency, which in turn increases inflation.

With inequalities and economic vulnerability persisting in Egypt since the 2008 financial crisis, resourcing state revenue to provide essential services to the population of over 100 million people will be a key policy challenge for the government. While some aspects of inclusive recovery are promising, wealth inequality, tax revenue and debt servicing are of particular concern. Egypt’s public debt, both internal and external, continued its inexorable rise during 2021. This trend is reflected in Egypt’s annual debt servicing. Egypt’s debt service first crossed the trillion Egyptian pounds mark in 2019/20. By 2021/22 this had risen to EGP 1.17 trillion, of which EGP 579.6bn went to interest payments while EGP 593bn paid back principals. This EGP 1.17 trillion bill represented 47.6% of the Egyptian government’s public spending for the year.

Like most other countries, Egypt is expected to face economic challenges in its post-COVID-19 recovery, including in meeting its development goals and applying human rights-based approaches to inclusive recovery. Egyptian civil society continues to raise concerns around civic space and accountability, given the state’s low tolerance of criticism.

4 POLICY RECOMMENDATIONS

Governments and international financial institutions must work together to invest in an inclusive, fair and rights-based COVID-19 pandemic recovery in the MENA region. This should not only address the immediate tangible impacts of the pandemic and associated crises but also build back stronger, more equitable and better public services in the region.

Drawing on human rights standards and principles can help determine both the standards of provision and how the resources necessary for such investment can be raised and distributed in a just and gender-responsive manner.

In particular, the norms of equality and non-discrimination place an obligation on governments to close the gap between groups: rich and poor, differing genders, different racial and ethnic groups. These norms demand redistributive policies, including by tackling the concentration of wealth at the top. Policies should secure the resources necessary to invest in inclusive rights-based recovery, including emergency tax responses like one-off solidarity taxes and taxing the windfall profits of corporations during crises. This would include broadening the tax base, including addressing tax avoidance by wealthy individuals and corporations.
There is also a need to allocate public resources to fund social investments, instead of the reliance on burdensome external debt. Resources could be mobilized through taxation on the capital income on the richest 1%, including a net wealth tax. In addition, the IMF should end the practice of demanding regressive tax policy reforms as part of their loan conditionalities for low- and middle-income countries.\textsuperscript{132}

TO NATIONAL AND LOCAL GOVERNMENTS

OVERALL RECOMMENDATIONS

• Reconsider national crisis approaches to the social contract to address structural imbalances through tax justice and social protection. Shift current economic models away from the status quo and focus policy and practice on inclusion and social protection.

• Move from debt-reliance toward more progressive taxation and fiscal policies to expand fiscal space and increase social spending on health and education, as an effective way to redistribute wealth.

• Move away from rentier economies towards fair and productive economies; shift national economic models toward inclusive economies that benefit everyone, not just the privileged few.

• A rights-based approach to recovery demands greater transparency and accountability. This implies that policy-making spaces must be opened up to democratic deliberation and the participation of marginalized groups at all levels.

INCLUSION AND SOCIAL PROTECTION

• Strengthen public provision of education and health services to address the consequences of the pandemic and readiness for subsequent pandemics. Appropriate measures also need to be put in place to regulate non-state actors that are active in education and health.

• Implement universal social protection programmes that ensure gender and geographic inclusion to protect against poverty, especially in times of sweeping economic crises.\textsuperscript{133}

• Develop economic recovery plans that include financial sustainability plans for universal social protection and provide adequate financing through yearly government budgets rather than explicitly relying on grants and international financial support.\textsuperscript{134}

• While taking steps towards universal social protection coverage, government should also seek to improve and strengthen the government’s statistical capacity to enhance data quality and availability. Where universal coverage (the most equitable approach) is absent, governments should ensure that support is reaching all
populations in need.

- Develop and/or revise relevant national legislation to include informal and migrant workers in gender and age-sensitive social protection schemes.
- Conduct periodic evaluations of the impact of cash programmes on poverty levels, to ensure that future planning safeguards results that go hand-in-hand with socio-economic development priorities.

**INFORMAL ECONOMY AND EMPLOYMENT**

- Improve national labour policies to better recognize informal sector workers, particularly the most vulnerable such as domestic workers, as undertaking work subject to state regulation.
- Create and maintain a census on the country’s workforce (employed and unemployed) by sector that includes the informal sector, to inform crisis support and future reforms, including an annual nationwide labour force survey.\(^{135}\)
- Apply a gendered approach in countries where a significant number of self-employed and small-business owners are women, including providing additional support to women-owned businesses to help them recover from socio-economic shocks.\(^{136}\)

**TAXATION**

- Adopt emergency tax responses in times of crisis, such as one-off wealth taxes or taxing corporate windfall profits and use the revenues in mitigation and anti-poverty programmes.
- Engage in an in-depth and comprehensive review of national tax systems to increase sustainability and revenue collection through a more progressive system.
- Adopt a permanent taxation package on the richest, including a permanent taxation of the wealth of the super-rich at rates high enough to systematically reduce extreme wealth and decrease the concentration of power and inequality. This would include a review of inheritance, property and land taxation systems.
- Conduct in-depth analysis of tax incentives’ efficiency, retaining only those incentives with proven social and/or ecological effectiveness, not those that unfairly benefit large corporations and the wealthy.
- In Tunisia, improve wealth taxation by abandoning proportional taxation of successions, in favour of progressive taxation, allowing large successions to be targeted with much higher rates. A similar approach should be taken to improve the tax contribution of large real estate, under property taxation\(^{137}\) with the proportional taxation of real estate wealth at 0.5% replaced by progressive taxation allowing for a greater solidarity of the most fortunate. Similarly, wealth taxes should be adopted and expanded to make them a real lever for social and economic solidarity. The tax base should include not only real estate, but also financial and other assets.
• Revise the regressive nature of VAT. In this sense, it is necessary to attenuate the regressive character of the taxation of consumption. Reduce VAT rates on essential products, especially those affected by the current global inflation trend, and introduce a higher rate of VAT on products consumed by wealthy households.

TO THE INTERNATIONAL MONETARY FUND

At this critical juncture, governments should undertake redistributive measures and fund recovery through progressive efforts to reduce inequalities. The IMF should encourage and support countries to increase social spending to secure universal social protection.\textsuperscript{138} International human rights law can also apply to international financial institutions in several ways.\textsuperscript{139} At a minimum, they must respect human rights by taking measures to ensure they ‘do no harm’. This can be interpreted to include not interfering with governments’ ability to invest in rights, given the severe harm such measures can cause. Loan conditions that constrain fiscal space, regressive policy advice that fails to assess social impacts, and onerous debt burdens that squeeze public budgets are examples of such interference.

In line with the duty to do no harm, the IMF should:

• Promote just and sustainable debt resolution through a human rights lens, including considering national plans to achieve the Sustainable Development Goals in debt sustainability analysis, and undertake regular human rights impact assessments, including of the impact on gender equality and inclusion,\textsuperscript{140} of loan conditions or policy advice.\textsuperscript{141}

• Suspend austerity conditions on existing loans and increase access to emergency financing.

• Support and encourage governments to build the necessary fiscal space to recover from the ongoing crises through progressive policies. Austerity should not be the default policy framework for IMF loan programmes. There are alternative measures that the IMF should be recommending that countries adopt to ensure a more people-centred recovery.

• Avoid putting pressure on countries to cut public services, increasing taxes paid by the poorest people, and undermining labour rights and protections.

• Support countries reforming revenue generation structures and spending in a more equitable and inclusive manner through progressive tax reforms and optimizing internal resource mobilization. Allow more flexibility on macroeconomic targets such as inflation and fiscal deficits, including the speed at which they must be reduced and what level should be targeted. The optimal level of foreign exchange reserves should also be discussed, with the trade-offs of different scenarios.
transparency laid out.

- Support countries’ efforts to fight tax fraud and evasion (for example, the Tunisian government estimates its losses of earnings due to tax evasion and fraud to be around 25bn dinars, or about 36% of the state budget in 2023).

- Ensure that core macroeconomic decisions are not made by IMF mission chiefs behind closed doors with finance ministers. They should be part of an inclusive and transparent national dialogue, where different options are discussed, and where there is broad agreement on the appropriate economic and fiscal strategy.
NOTES


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139 While the listed policy recommendations apply to Tunisia and Egypt, which have ongoing programmes with the IMF, they are also relevant to Lebanon as the country still has to implement recommendations identified by the IMF to unlock funding as part of a financial programme.


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