



THE MIDDLE EAST AND NORTH AFRICA GAP

Prosperity for the rich, austerity for the rest

Executive summary

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This briefing paper examines growing inequality in the Middle East and North Africa (MENA) region, focusing on Egypt, Lebanon, Morocco and Tunisia in the wake of the Covid-19 pandemic and the cost of living crisis. It examines the lack of adequate and just taxation systems across the region, particularly wealth taxes. This limits governments' fiscal space and their spending on public services, resulting in gender discrimination and the widening of the MENA inequality gap to a chasm.

The rich must pay their fair share. Austerity in the MENA region cannot become the norm. Taxing the profits of the region's richest people will provide critical recourses that are currently lacking but would begin to close the chasm between the rich and the rest.

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Cover photo: A Syrian refugee boy rests after selling flowers on the Beirut corniche.

Credit: Oxfam / Christian Harb.

SUMMARY

Economies in the Middle East and North Africa (MENA) are reeling from the pandemic, a historic cost-of-living crisis and mounting public debt. While the rich have increased their wealth, the rest are struggling to recover from successive economic shocks.

In 2011, during the Arab Spring, people across the region took to the streets to demand dignity, jobs and social justice. More than 10 years later, it seems that they are left with austerity, unemployment and poverty. Already one of the most unequal regions in the world even before the pandemic, MENA has seen the inequality gap widen to a chasm. Half of total income went to the top 10%; the bottom half only received 11%.¹

Despite wreaking havoc on the world and the region, the pandemic was hailed as an opportunity to 'build back better', and for the rich, that was the case. Using their power to shape and entrench policies and practices to their own advantage, they continued to amass wealth at the expense of the rest.

In the region, billionaires accumulated more wealth during the pandemic than during the preceding decade.² In 2020 alone, 7 out of 13 billionaires in the MENA region increased their fortunes by 22% – a total of US\$6bn.³ Meanwhile, hopes that the pandemic would help free the region from the decades-long austerity drive that has stunted, exhausted and cost the lives of its people were dashed. In fact, it proved to be fuel to supercharge this trend.

Decades of austerity policies across the region have weakened public institutions and led to economies that are heavily reliant on informal labour, women's unpaid work and privatized public services, exacerbating inequality as fewer people could afford them.

Austerity has 'worked' for those with a grip on wealth and power. It has dismantled social protection systems, privatized vital public services and shielded the rich from paying their fair share of taxes. This is why it persists in MENA, despite its catastrophic social and economic consequences.

Instead of taxing wealthy individuals and corporations to fund the pandemic response, governments across the MENA region cut benefits such as maternity insurance in Jordan, pensions in Egypt and public sector salaries in Tunisia. The fragility of existing welfare and public protection programmes was laid bare as unemployment skyrocketed, and rising energy and food prices pushed more people into poverty. Public debt surged in all countries across the region, with Lebanon seeing its debt increase by a staggering 151% in 2020 and defaulting on it the same year.⁴

While Lebanon experienced an unprecedented economic collapse, the country's richest individuals doubled their net wealth between 2020 and 2022, from US\$18.7bn to almost US\$35bn. As Egypt reeled from a financial crisis, rich Egyptians saw their wealth increase more than 50%, from

US\$99.7bn to US\$153.9bn. The wealthy elite in Jordan and Morocco also experienced a boom between 2019 and 2022, with the net wealth of the richest people increasing from US\$19bn to US\$31bn and from US\$28.6bn to US\$31.5bn respectively.⁵

As these enormous financial gains in countries across the region went untaxed, people living in poverty and the middle classes paid the price through intensified austerity measures as the public purse was sucked dry under the pressure of increased debt servicing.

Austerity, informality, lack of social protection and, ultimately, poverty go hand in hand. The prevalence of informal employment in the region – accounting for about 60% of total employment⁶ – is directly linked to the meagre share of economic growth captured by the bottom half of the population. Austerity measures resulting in a shrinking public sector have pushed millions of people into informal and precarious jobs that leave them with little or no social protection, pushing more and more people into poverty. One-third of Egyptians, up to 16% of Tunisians and 82% of Lebanese live below the poverty line or in multidimensional poverty,^{7,8} while massive wealth and income concentration are enjoyed by a very few wealthy individuals and their families.

Social protection is a fundamental human right and acts as a vital cushion in a crisis. However, across the region, social protection schemes that were already underfunded and underdeveloped before the pandemic have been unable to provide that safety net when people needed it. Only 14% of Lebanese and 50% of Tunisians were covered by at least one social protection benefit in 2020,⁹ and in Egypt, less than two-thirds (60%) of people in poverty have access to any social safety net measures.¹⁰

International financial institutions have contributed to this bleak picture in the MENA region; they pushed for 'belt-tightening' measures through their lending conditionalities, backing governments to dismantle universal schemes in favour of targeted safety nets that exclude most of the population. For their part, governments – in their quest to fulfil policy conditions to access international financing – have underfunded public services such as healthcare and education. This has created a two-tier system, whereby rich families have better access to private healthcare and education, while others are left with crumbling hospitals and crowded classrooms. In Tunisia, for example, school infrastructure is deteriorating; there are 1,415 elementary schools without a water connection, and it is estimated that more than 100,000 students drop out of school every year.¹¹

Women are paying the highest price for the austerity catastrophe in MENA and absorb many of its negative impacts, as their unpaid care work fills the gaps created by deteriorating public services. Women in the region spend up to 34 hours a week doing unpaid work, compared with up to 5 hours for men.¹² Women are also notably absent from the paid workforce; the region has the lowest female labour income share in the world, at 12%.¹³ Women also occupy the bulk of care jobs in the public sector: 67% in Egypt, 72% in Jordan and 52% in Tunisia. This means that when austerity measures such as those backed by the International Monetary Fund (IMF) are implemented, which typically involve the loss of many public sector jobs, women are

disproportionately affected.

In the absence of a wealth tax, governments in the region have relied on harmful austerity over inequality-busting policies. The IMF itself has estimated that 'the difference between actual and potential tax collection equals about 14 percent of GDP [gross domestic product] (excluding oil and gas), on average'.¹⁴ This is triple what the region spent on healthcare alone in 2020.

Overall, income tax in the MENA region yields less than 2% of GDP; in comparison, it accounts for 8.31% in OECD (Organisation for Economic Co-operation and Development) countries.¹⁵ Additionally, personal taxation trends have increasingly seen tax rates fall for high earners but climb for low earners, further deepening the region's gross levels of inequality. This has also been the case for corporations, with MENA leading the way on tax breaks for big business.

Currently, Tunisia is the only country in the region that taxes net wealth, albeit a meagre 0.5% on value of assets of above 3 million dinars, while progressive taxation is still an unfulfilled promise. With this resource of tax revenue untapped, the burden of public debt falls on the majority of people in society. Instead of investing in public services that can help reduce inequality, tax payers' money is spent servicing the public debt held by the wealthy. A disproportionately taxed middle class, taxes on people earning the minimum wage, and tax privileges for the rich underpin income inequality in the region and thwart opportunities for economic transformation and recovery.

The MENA region is also a haven for corporations who receive substantial tax incentives, at the expense of growing the public purse. The total cost of tax incentives in Morocco in 2021 was the equivalent of the entire health budget for that year,¹⁶ while in Tunisia, the US\$7.75bn cost of tax incentives for corporations was higher than the spend on education and double the health budget.¹⁷

These unfair and uneven taxation systems underline the IMF's broken promise of supporting fair taxation and equitable tax systems through its repeated loan programmes with countries in the region. While its policy advice to these countries often calls for equitable tax systems that effectively monitor high net-worth individuals and corporations, its own measures often do not take these recommendations into account. Where the IMF had initially advocated for personal or corporate income tax reforms in MENA countries, the policies introduced were either haphazard, half-hearted or evaded by those they targeted. Nevertheless, the IMF's enthusiastic efforts to spread value added tax (VAT) and lift subsidies have seen much more sweeping uptake – with the poorest people feeling their negative impacts most keenly.

Lost revenue is not only due to broken, antiquated and inequality-increasing tax systems; tax fraud and tax evasion are also rife across the region. 'Leaky' tax systems come as a result of understaffed and underfinanced tax administrations, complex regulations and the abuse of tax havens. In 2018, Lebanon alone lost tax revenues worth an estimated

US\$5bn due to evasion.¹⁸

People in the region with a net wealth of more than US\$5m have seen their combined wealth grow from US\$1,684bn in 2019 to almost US\$3,000bn by the end of 2022. Whereas other governments around the world took to implementing progressive tax reforms, governments in the MENA region stuck to old paradigms – with disastrous outcomes for many of the poorest people in those countries.

In the four countries analysed in this report – Egypt, Jordan, Lebanon and Morocco – a 5% wealth tax on individuals with fortunes of US\$5m and above would generate a combined US\$10bn revenue. These funds could be used to strengthen and extend public services and policies to those who need them most. They would, for example, allow Egypt to double its health spending, while Jordan could double its education budget. Lebanon could increase its combined health and education spending sevenfold.

While ultimately it is the responsibility of governments in the region to reform the tax system to benefit their citizens, international actors must play a key role to ensure that such reforms are implemented and successful. The IMF has been an enabler of the inequalities that are now pervasive, as the catalyst for many of the harmful policies that have allowed the richest individuals in the region to become even richer. The institution shapes national economic agendas and stipulates the conditionalities that can right many of its own wrongs; it could dismantle rather than engrain the policies that deepen inequalities. Most critically, the IMF could propose anti-austerity, inequality-busting measures that encourage progressive taxation and wealth taxes that can repair broken social services and safety nets.

RECOMMENDATIONS

Austerity in the MENA region cannot be allowed to become the norm. Taxing the profits of the region's richest people could provide vital recourses to begin to narrow the chasm that has developed between the rich and the rest.

RECOMMENDATIONS FOR GOVERNMENTS IN THE REGION:

SET NATIONAL GOALS TO REDUCE INEQUALITY

- Collect and publish data on people's incomes and wealth on an annual basis.
- Use this data to analyse the distributional impact of all proposed policies.
- Work with civil society and other actors to develop national plans to reduce inequality.
- Set clear timebound goals to reduce inequality, aiming for the income of the top 10% to be no more than that of the bottom 40%, a Palma ratio of 1.

TAX THE RICH – NOW

- Impose a one-off solidarity tax on net wealth for the richest 1%, of at least 5%.
- Impose permanent progressive taxes on wealth, with at least a permanent 2% tax on net wealth.
- Enhance progressivity in personal income tax regimes ensuring effective taxation on the super-rich is much higher than on average workers and middle class.
- Institute progressive inheritance taxes that allow for the fair contribution of major estates to governments' revenue collection efforts.
- Introduce progressive real-estate taxes that guarantee the equitable contribution of major land and real-estate owners to the efforts of domestic resource mobilization.
- Make corporate income tax more effective and eliminate preferential tax regimes, particularly for special and qualified zones, and reconsider current tax incentives and exemptions through the lenses of equity and social justice, gender justice and tax justice.
- Tax passive income stemming from tangible and intangible assets at rates significant enough to allow for the mobilization of domestic resources, by eliminating tax incentives on passive income and aligning them to the rates on personal income from labour.

- Overhaul existing tax systems to ensure fairness and the redistribution of wealth and income, and to finance universal and transformative public care and social protection systems. Also, redirect resources to lay the foundations for productive, inclusive and greener economies through appropriate systems of incentives and disincentives, in order to restructure economies away from an over-reliance on tourism, rentier and low-end services.
- Ensure that revenues raised through fiscal policies and taxation follow gender-sensitive budgeting principles that combat inequality and promote gender justice.
- Establish tax transparency and accountability by making tax data available, especially for personal and corporate income taxes.
- Decrease reliance on unfair and regressive consumption taxes by:
 - Refraining from increasing the general rates of VAT;
 - Exempting basic necessity goods and services from VAT;
 - Increasing VAT on products and services exclusive to consumption of wealthy households.
- Empower national tax administrations and provide them with the financial, human, technical and logistical resources necessary to fight tax fraud and track the fiscal contributions of the richest individuals and corporations.
- Work towards regional and international cooperation to:
 - Set a minimum effective corporate tax rate above the 15% rate to be collected domestically;
 - Tackle profit-shifting.
- Support the establishment of a United Nations Tax Convention to comprehensively improve coordination and effective coordination on tax issues and address tax havens, tax abuse by multinational corporations and other illicit financial flows that obstruct redistribution and drain resources that can be crucial to tackle gender inequalities.

INEQUALITY-BUSTING POLICIES

- Provide free, universal, good-quality gender-transformative public services that are publicly financed and delivered, and provide universal social protection – to all, without discrimination including migrants and refugees – as a tool for reducing inequalities and building social cohesion.
- Increase public investments in water and electricity, as well as safe transportation systems; this would reduce the amount of unpaid care work done by women and benefit vulnerable and marginalized communities.
- Ensure that high-quality childcare is universally available, and that it is accessible to vulnerable communities. Policies should go beyond childcare and be based on the principle of co-responsibility; this

includes care for elderly people, people with disabilities or illnesses, and any other person in need of care, especially people from the poorest households.

IMF TO BE A PARTNER IN REDUCING INEQUALITIES ACROSS THE REGION

The IMF has long been an influential actor in the MENA region. It currently provides financial assistance to at least three countries, with at least two others negotiating for a loan programme.

There are alternative measures that the IMF should be recommending countries adopt to ensure a more people-centred recovery from the pandemic and economic crises. It should:

- Insist that governments measure inequality and collect and publish data on wealth and income on an annual basis.
- Work with authorities to agree clear, timebound targets to reduce inequalities.
- Ensure that all macroeconomic targets and other structural reforms in loan programmes are subject to distributional impact analysis, to ensure that they are reducing and not increasing inequality.
- Integrate into their analysis other macroeconomic targets in programmes such as inflation and fiscal deficits. This should include the speed at which they have to be reduced and what level should be targeted. The optimal level of foreign exchange reserves should also be discussed. There should be a transparent analysis of the trade-offs of the different scenarios involved.
- Core macroeconomic decisions should not be 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 presented and discussed, and where there is broad agreement on the appropriate economic and fiscal strategy to be pursued.
- Halt all efforts to promote regressive taxation policies in recommendations to governments, including by removing proposals to introduce or increase consumption taxes.
- Replace the disproportionate emphasis on indirect taxation with stepped-up support for designing and implementing progressive direct taxation policies, including:
 - Fostering recruitment and financing of tax administrations; and breaking away from promoting recruitment freezes in public services;
 - Providing technical assistance in the design of wealth and corporate taxation.
- Break away from austerity measures in favour of support for more gradual and inequality-reducing paths of economic adjustment and progressive taxation.

- Live up to the IMF’s own narrative on combating inequalities by meaningfully implementing its organizational guidelines for engagement with economic inequality and gender inequality.
- Prioritize public services and universal social protection in its loan programmes to countries, by:
 - Ensuring adequate fiscal space for maintaining and increasing public service provision, and removing all barriers to public spending, such as wage caps;
 - Supporting universal, good-quality, free public services, which clearly reduce inequality and poverty – for example, by increasing spending on health and education to put them on track to reach internationally agreed levels. This should include the removal of all user fees and the use of tax-based financing for health and education. It should also include recruiting adequate numbers of teachers and health workers and paying them a living wage.

NOTES

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