



Fact Sheet

PENSION IN THE MIDDLE EAST AND NORTH AFRICA: TIME FOR CHANGE

The report

This is the first comprehensive assessment of pension systems in the Middle East and North Africa (MENA), compiling a wealth of information regarding the institutional, demographic, and financial situation of more than 30 pension schemes in the region, which are benchmarked against those in other countries in the world.

The pension myth in MENA

Most MENA countries have been lagging behind in reforming their pension systems, partly because of the myth associating pension crisis to aging populations. There is a general belief that because demographics remain favorable (young countries with rapidly expanding labor force), financial problems are still far in the future.

The problem is structural not demographic

Pension systems in the region are in crisis and most countries are facing important structural problems:

- Pension promises in the Middle East and North Africa are large and unaffordable.
- Pension systems are financially unsustainable as a result not of future aging population, but of poor system design: There is a disconnect between the pension benefits on one hand and the contribution rate, the retirement age and life expectancy at retirement on the other hand.
- Pension schemes have badly designed rules that damage incentives and arbitrarily redistribute income between members.
- Administration of pensions is fragmented, often with two or more schemes for different groups of workers.
- Much of the workforce remains uncovered by a formal pension scheme, reflecting the structure of labor markets.
- Governance and administration of pension schemes are weak. In particular, pension reserves are not managed in the best interest of their members.

Now is the time to change

- If nothing is done now, pension expenditures will continue to grow. At some point in the future, generations will have to face either drastic reductions in benefits, higher taxes, or reductions in other non pension expenditures, like education or health.
- There is no universal model for pension reform. Countries can choose between different pension system designs based on their social preferences and their economic realities.

MENA's response

- Some countries in the region are taking the problem seriously and have already started to analyze what are the possibilities to introduce changes. This is the case for Egypt, Morocco, Lebanon, Jordan. Other countries are not even aware of the problem and they're not doing anything. This is the case of Algeria, Syria, Libya.
- Estimates show that in most of the countries within the next decade, pension funds will not have resources to pay pensions. The problem is that if interventions are not introduced today, it will be too late in the future, since it takes time for a reform to display its full effects.

Demographic and Financial Data on Pension Funds in MENA

| <i>Country</i> | <i>Total Contributors (thousands)</i> | <i>Total beneficiaries (thousands)</i> | <i>Labor force (thousands)</i> | <i>Coverage %</i> | <i>Total pension expenditures as a % of GDP</i> | <i>Revenues as a % of GDP</i> | <i>Reserves as a % of GDP</i> | <i>Total GDP (local currency, millions)</i> | <i>GDP per capita</i> |
|-----------------------------|---------------------------------------|--|--------------------------------|-------------------|---|-------------------------------|-------------------------------|---|-----------------------|
| <i>Algeria</i> | 4,400 | 1,600 | 11,000 | 40 | 3.2 | 3.4 | -- | 4,455,300 | 2,073 |
| <i>Bahrain</i> | 94,5 | 23.1 | 319 | 29.7 | 2.5 | 4.3 | 52.5 | 3,177 | 13,934 |
| <i>Djibouti</i> | 34,5 | 9.1 | 116 | 27.7 | 4.0 | 3.8 | 5.7 | 105,210 | 1,373 |
| <i>Egypt</i> | 17,860 | 5,028 | 19,339 | 92.4 | 3.1 | 3.1 | 35.6 | 358,700 | 1,036 |
| <i>Iran</i> | 7,668 | 1,626 | 17,908 | 42.8 | 1.2 | 1.7 | 6.1 | 645,855,000 | 2,061 |
| <i>Iraq</i> | 1,121 | 1,073 | 6,100 | 18.4 | 4.6 | -- | -- | 30,660,000 | 547 |
| <i>Jordan</i> | 583 | 248 | 1,619 | 36.0 | 5.72 | 3.0 | 25.0 | 6,260 | 1,858 |
| <i>Lebanon</i> | 406 | 39.1 | 1,646 | 24.7 | 2.5 | 0.2 | 9.2 | 28,643,000 | 4,224 |
| <i>Libya</i> | 1,401 | 236 | 1,604 | 87.3 | 2.2 | 1.69 | 8.3 | 30,300 | 4,245 |
| <i>Morocco</i> | 2,337 | 682 | 11,684 | 20.0 | 2.4 | 3.8 | 11.8 | 397,782 | 1,477 |
| <i>Tunisia</i> | 2,000 | 504 | 4,050 | 49.4 | 4.29 | 4.3 | -- | 31,287 | 2,454 |
| <i>West Bank & Gaza</i> | 116 | 11.6 | 700 | 16.6 | 0.78 | 1.0 | 4.4 | 18,905 | 1,026 |
| <i>Yemen</i> | 711 | 96 | 5,371 | 13.1 | 0.84 | 0.6 | 3.6 | 1,162,900 | 565 |

Source: Author's calculations