

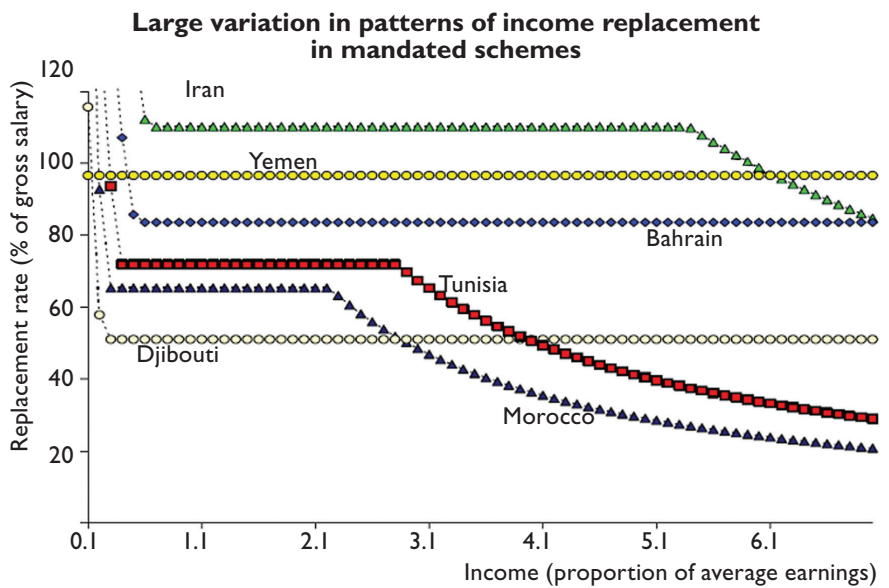
# Pensions in MENA: Potential for reform

Pension systems in the MENA region remain at an early stage of development, with retirement provisions remaining largely in the realm of the family. However, demographic developments are bringing about changes and reforms in various countries. This article briefly sets out the state of pension systems in the regions, the drivers and barriers to their development and some of the reforms currently underway.

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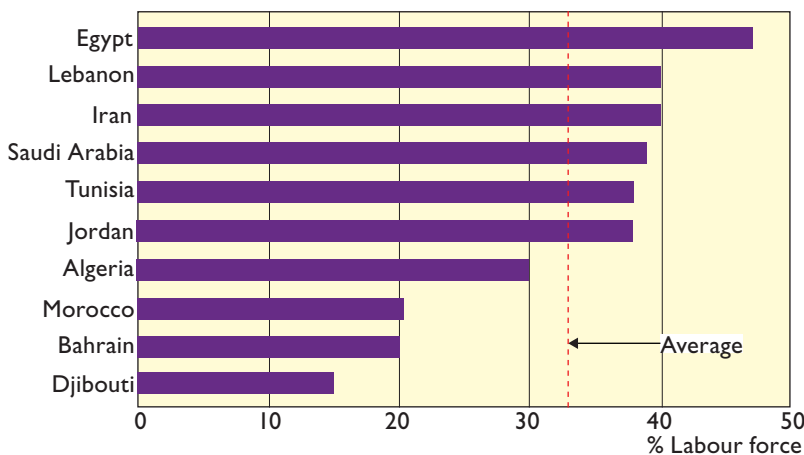


The World Bank produced a comprehensive publication on pension systems in the MENA region in 2005. The report notes that the region has been lagging behind in terms of structural pension reform, with national pension systems set up in the 1970s remaining largely untouched. Countries in the region all have earnings-related, pension schemes, which are basically pay-as-you-go (PAYG) financed. These generally favour middle and high-income workers, covering only around one-third of the labour force (mostly public and formal private sector workers).



Source: Muhanna Foundation

**Coverage rates are modest (mostly wage-earners)**



Source: Muhanna Foundation

## Challenges and barriers to reform

In addition to a low coverage rate, pension systems in these countries remain highly fragmented, with different schemes for civil servants, military, employees of state owned enterprises, self-employed and private sector workers.

Most funds are accumulating large and unsustainable unfunded pension liabilities, due to high replacement rates, low contribution rates and increasing life expectancy at retirement. Concerns have been raised regarding the equity, efficiency, governance patterns and administration capacity of both social security and occupational pension schemes.



## Pension developments in MENA

### Egypt

Different mandatory, defined benefit schemes exist for workers from different sectors, including civil servants, public and private enterprises, self-employed, overseas workers, casual workers and the military.

In addition, over 600 voluntary, employer sponsored schemes also operate. Reforms have been proposed to address the issues of low funding rates, incomplete regulatory standards and low coverage rates (including a system of a universal basic pension and individual pension accounts).

### Oman

Parametric reforms to the Public Authority for Social Insurance (or PASI, a defined benefit scheme covering workers in sectors including the civil service, military and police) were introduced in 2005.

A new, independent regulatory authority will be set up to cover all pension schemes.

### Qatar

A mandated private pensions law is being planned for a country which has one of the most generous social security systems in the region, and consequently has few occupational pensions.

### Saudi Arabia

In recent years, it has undertaken parametric reforms of the private sector scheme, General Organisation for Social Insurance (GOSI) and reformed portability rules between public and private schemes.

### Sudan & South Sudan

A major review of both the public and private pension system is underway.

Barriers to pension system reform and development are widespread – including a lack of education and awareness on the part of the population, who may suspect that pensions do not fit with the cultural and religious background of the country. Financial barriers also need to be overcome, from a lack of mortality tables and annuity products to non-existent tax incentives and poor supervisory oversight.

Regulatory reforms are also required in terms of funding and investment rules, transparency and information disclosure and proper governance rules. Generous social security arrangements in some countries mean that there is little room for private pensions to develop.

### Time to act

That said, the region does have some strengths when it

comes to reform potential. To start with, the favourable demographics in the region mean that countries have time to act.

In addition, IMF studies argue that pension systems in the region score high on the counts of adequacy (pension eligibility for short contribution periods, several risks are covered) and some aspects of robustness (strong social security institutions, still significant reserves). They also observe that overall, MENA countries show relative financial sector strength, though they need to do more to reinforce the institutional environment and promote non-bank financial sector development.

The IMF report also notes that the MENA region performs better than most other developing country regions, but ranks far behind the industrialised countries and East Asia. However, within the MENA region there is substantial variation in the degree of financial development: some countries have advanced financial sectors, while for others progress in this area has been limited.

The countries which now have well-developed financial sectors, particularly banking sectors, include the countries of the Gulf Cooperation Council (GCC), Lebanon, and Jordan. Others, such as Egypt, Morocco, and Tunisia, have made important advances over the past three decades.

However, overall, more remains to be done. In terms of the non-bank financial sector – comprising the stock market, corporate bond market, insurance companies, pension funds, and mutual funds – further development is needed in most of the region. Where such markets exist, trading is usually quite limited. The development of these markets is complicated by legal limitations on ownership and the need for a clear and stable legislative framework.

Reforms in the region will need to take account of the demographic and financial characteristics of the countries. These include strong family support and young populations – which creates the problem of myopia, with individuals finding it difficult to plan for the future and having other financial priorities, and an orientation towards shorter-term consumption needs. Other attitudes also need to be taken into account, including religious barriers and the view that the state should provide. In terms of labour market issues, unemployment and early retirement rates, the growth in the working population and the increasing participation of women in the workforce need to be considered.

### The World Bank's recommendations

The World Bank recommends the following reforms:

- Improve financial sustainability, incentives, and equity of current earnings-related schemes;
- Mitigate the impact of reforms on women and review policies that discriminate against them;
- Identify mechanisms to finance the current implicit pension debt in a transparent manner while making future liabilities explicit;
- Improve governance and administration;
- Expand coverage; and
- Diversify retirement-income provision. 