

# A SOLIDARITY TAX TO ADDRESS THE IMPACT OF COVID-19 ON POVERTY IN THE ARAB REGION




Shared Prosperity Dignified Life




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## Introduction

 High poverty rates coupled with a high concentration of wealth in the Arab region have highlighted the need for stronger civic solidarity and shared responsibility by the general public, the private sector and the State for lifting marginalized people out of poverty. ESCWA proposes a solidarity tax, independent of Arab countries' existing fiscal space, to close the poverty gap and usher in civic equity.

 The case for a solidarity tax is strong. Arab countries have some of the highest levels of wealth inequality worldwide. The regional Gini coefficient of wealth is estimated at 83.9. Even when limiting attention to within-country inequality, the average national wealth Gini is estimated at 73.6 compared with 73.1 in other countries worldwide. Two Arab countries, Lebanon and Saudi Arabia, are among the 20 most wealth-unequal countries globally.

 In 2019, the Arab region's top 37 billionaires (all of whom are men) owned as much wealth as the bottom half of the adult population, totalling about \$108 billion. In 2020, the number has fallen to 31

### Arab Countries



Highest level of wealth inequality

37 billionaires




\$108 billion  
(2019)

1/2 of the adult  
population





\$108 billion  
(2019)


billionaires holding \$92.1 billion. This wealth is more than double the annual cost needed to close the poverty gap in all Arab countries, even after the impact of COVID-19 is taken into account.


 **The wealthiest 10 per cent of adults in the Arab region accounted for 76 per cent of the region's total household wealth, totalling \$5.8 trillion in 2019.** The poorest half of the adult population held around only 2 per cent of total household wealth.


 **The wealthiest 10 per cent largely hail from Gulf Cooperation Council (GCC) countries, while the poorest half are mainly from Arab least developed countries (LDCs).** The figure illustrates significant wealth differences between GCC countries and their conflict-stricken neighbours, including the Sudan, the Syrian Arab Republic and Yemen.

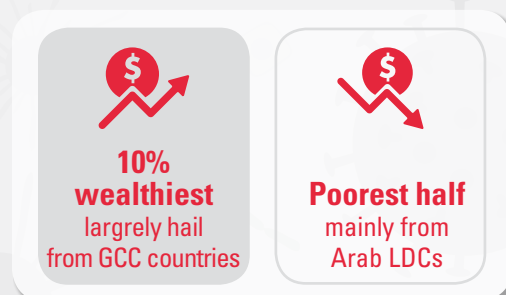
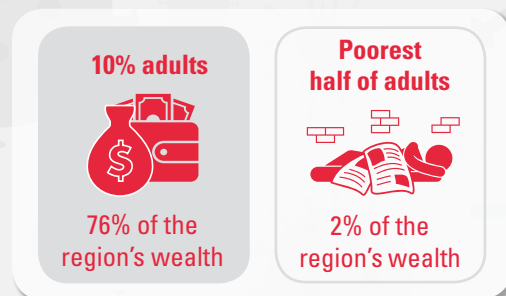
 **The current growth model in the Arab region is no longer economically feasible,** especially as the intraregional spillovers from oil-rich countries to oil-poor ones that may have relieved budget pressure in the past (official development assistance, foreign direct investment, and worker remittances) have significantly contracted for some countries since 2011, and their prospect for growth are minimal in the light of a projected decline in oil rents and the COVID-19 pandemic.

 **As a result of rentier growth patterns and lax fiscal policies, the real-estate sector attracts substantial investment, but contributes little to tax revenues.** The share of property tax to total revenue was less than 1 per cent in Egypt and Tunisia in 2016 and 2017, respectively. The higher return on property assets from low taxation gives rise to chronic balance-of-payments deficits, fiscal crises, especially in non-oil countries, and increasing inequality in income and wealth distribution.

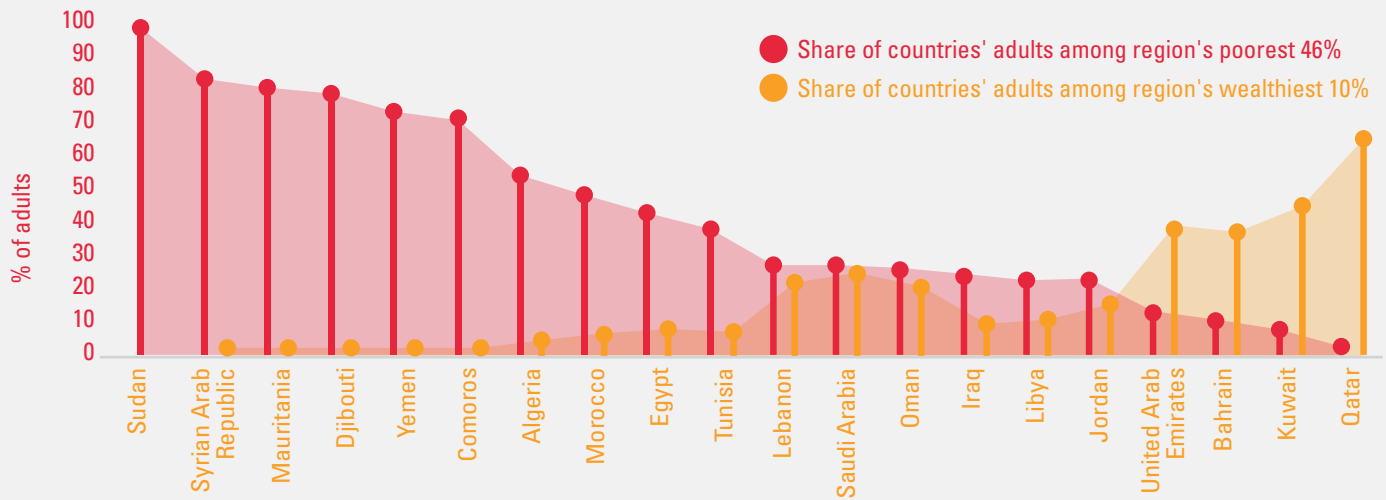
 **The proposed solidarity tax may have a positive impact on the economic growth, social cohesion and decent work in the Arab region, all of which enhance prospects for peace and stability.** In particular, this proposal could significantly empower the middle class in Arab countries, thereby raising domestic consumption and investment, which would lead to higher and more sustained economic growth.

 **Implementing the solidarity tax will require a shift in fiscal policies and practices.** Efforts to mobilize revenues in Arab countries have largely relied on regressive indirect taxation or broadening the tax base. Moreover, tax policies do not target wealth, and tend to burden the poor and the middle class more than the richest part of the population. On the positive side, this implies that the potential contribution of solidarity taxation is still largely untapped, since wealth and property taxes constitute a negligible share of total tax revenue in the Arab region, even in oil-poor countries.


 **Furthermore, implementing a solidarity tax cannot take place in a vacuum; it needs strong societal buy-in and political will.** However, this buy-in requires a high level of confidence in the State's institutional capacity, which is hampered in many Arab countries by poor tax records and by complex tax procedures that complicate tax compliance and tax-fairness analyses.




## Share of countries' adults among the Arab region's wealthiest 10 per cent and poorest 46 per cent (% of countries' adult population)



## Rising poverty

 **Measures to address extreme wealth inequality in the Arab region are more pertinent than ever given the social impact of the pandemic.** As the economic slowdown negatively impacts employment, real wages and the flow of remittances, the consequences of this crisis could be particularly severe on vulnerable groups, especially women and young adults, and those working in the informal sector who have no access to social protection schemes and unemployment insurance.


 **These challenges are further compounded by high vulnerability to poverty and a lack of effective social protection floors in many Arab countries.** In 2020, the headcount poverty rate using national poverty definitions is projected to reach 32.4 per cent, or 115 million people, in the 14 Arab middle-income countries (MICs) and LDCs. In 2010, the headcount poverty rate was 22.8 per cent in these countries, totalling 66 million people. The Arab region is the only developing region where income poverty rose over the period 2010-2019, regardless of how it is measured. Owing mainly to conflicts and economic recession, poverty represents a major development challenge that is accentuated, but not caused, by the COVID-19 pandemic.

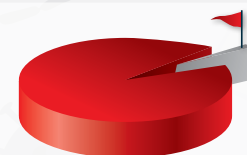
**115 million people will live in poverty in 2020**



**in the 14 Arab MICs and LDCs**

## A solidarity tax

 **ESCWA proposes a solidarity tax in MICs to mitigate the expected rise in poverty as a result of the COVID-19 pandemic.** The proposal for a solidarity tax is supported by the relatively



**1.2% solidarity tax**  
will close the poverty gap  
in Arab MICs in 2020



modest cost of poverty eradication in these countries compared with the estimated wealth of the top decile. The cost of covering the poverty gap in 2019 was estimated at \$12.9 billion for the seven Arab MICs. Taking into account the impact of the COVID-19 pandemic, the cost of closing the poverty gap in these countries rises to \$15.6 billion in 2020.



**The total wealth of the top national decile in Arab MICs in 2020 is estimated at \$1.3 trillion.**

Consequently, if there was perfect targeting of the poor in these countries, an average solidarity tax of 1.2 per cent in 2020 would suffice to close their poverty gap.



**The top wealth estimate for Arab LDCs and the Syrian Arab Republic is far less (\$66.8 billion), while the annual poverty gap cost is relatively higher (\$29.5 billion), making the proposal of a**

solidarity tax more difficult to implement since it would amount to an average of 44.1 per cent of top-decile wealth. For example, in the Sudan, the country with the lowest top-decile wealth per adult, and second highest cost of poverty reduction (\$10.2 billion), the required solidarity tax would reach 166.2 per cent of top-decile wealth in 2020.



**As such, emergency regional support is needed for the Arab LDCs and the Syrian Arab Republic.** There

simply is not enough wealth at the top in these countries to cover the cost of eradicating poverty, thus raising the need for other fiscal and tax revenue generation policies and, more importantly, for foreign assistance. Arab Governments are therefore called upon to establish a regional social solidarity fund to ensure a rapid response, and to address humanitarian needs and food shortages in these most vulnerable countries.

## Policy response

### 1. Policy responses to the pandemic in Arab countries should focus first and foremost on the need for enhanced food security and social protection,

by ensuring adequate access to affordable food, especially in the Arab LDCs, and by extending the coverage of existing schemes, including access to health care, cash transfers, food aid and unemployment benefits, some of which are already in place in many MICs.

### 2. A fair and progressive taxation system, supported by political will and strong institutional capacity, can raise the revenues required to meet the financing needs of these poverty reduction interventions, without imposing additional fiscal burdens in many Arab countries.

Moreover, the notion of a solidarity tax should be rooted in a commitment to wealth redistribution, reflected in pro-poor initiatives that are supported by the top decile and that have a direct positive impact on the most vulnerable social groups.

### 3. The solidarity tax may have many other positive spillover effects.

In addition to its positive impact on poverty and several other social indicators, it would dampen rent-seeking and speculative activities, and channel funds to more productive investments that increase decent employment and growth. It could also improve tax and customs administration, simplify coding and regulation, and strengthen investment in technology. Over time, these efforts

will support a broader culture of tax compliance and greater revenues, which are top priorities in Arab countries. ESCWA estimates that direct tax collection could increase by 2 to 4 per cent of GDP in Arab countries that effectively monitor income and wealth and tackle tax evasion.

### 4. One practical way to improve transparency and accountability is requiring all citizens and residents to file income tax returns,

even if not all actually pay tax – an approach encouraged recently in many developing countries such as India. More transparency on income and wealth would also allow ministries of finance, social affairs and related institutions to improve poverty targeting practices.

### 5. To gain public confidence, it is essential to have a wide public policy dialogue on the appropriate tax rate.

A variable tax rate can be useful to mitigate land and real-estate speculation, which is rampant in some Arab countries. However, introducing variable tax rates can, like exemptions, increase the complexity of tax systems, and raise associated administrative costs in implementation.

### 6. Since the solidarity taxation is not an adequate policy option for all Arab countries, especially the Arab LDCs, the ESCWA proposed Emergency National Policy Response is a more realistic short-term solution.

Arab Governments are called upon to establish a regional social solidarity fund

that supports vulnerable countries, including the Arab LDCs, particularly during times of crisis. The fund should target the poor and vulnerable, ensure a rapid response, and provide relief during

food shortages, health emergencies and other disasters. For it to succeed, it is vital that the richer GCC countries fully support this proposed emergency fund.



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**MISSION:** Committed to the 2030 Agenda, ESCWA's passionate team produces innovative knowledge, fosters regional consensus and delivers transformational policy advice. Together, we work for a sustainable future for all.

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