Implications of the coronavirus crisis in the Mediterranean and in the Middle East

by Dr. Constantin Tsakas

1. Summary

The recent coronavirus crisis threatens the health, economies and societies of any country, regardless of its level of development. In the countries of the Middle East and of the Southern Mediterranean the fight against the pandemic is even more complicated. It must be done with limited healthcare and economic resources compared to other regions. In addition, it takes place in a social and geopolitical context which is unique in its divisions. This Brief suggests relaunching cooperation in the Mediterranean following the crisis and developing EU-Med strategies in key sectors. In this context, it provides reflections, on the short term and long term, to prevent a «pandemic of inequalities» in the region. It suggests opening-up access to healthcare for informal workers, investing in digital technology, rethinking production chains intelligently, supporting social entrepreneurship and reviewing the conditions for debt repayment for countries in the region. The purpose of this Brief is to pave the way for more thematic analyzes and prescriptions, which can be explored throughout this series produced jointly by the CMI and FEMISE.

2. General vulnerabilities caused by the Covid-19 crisis in Europe

In Europe, the coronavirus pandemic has brought to light many vulnerabilities in our systems and societies.

- In terms of health, the crisis has revealed gaps in hospital systems. This is evident in more advanced countries, where healthcare systems have been overloaded due to the shortage of hospital beds and basic equipment. The epidemic has shown how dramatically difficult it was for these countries to obtain enough masks and hydro-alcoholic solutions within health establishments.

- On the economic level, models of production outsourcing such as «Just in time», which minimizes storage in space and time, did not work when facing an unexpected shock, with a considerable impact in chemical, automotive and medical equipment. The current pandemic shows that it might be useful for firms to be able to shorten value chains and bring production spaces closer, especially when it comes to basic necessities, something which would also be more consistent with environmental concerns.

- On the social and human level, the Covid-19 pandemic accentuated existing inequalities which should have been treated, caused massive unemploy-
ment to surge, and put social ties under pressure. Social cohesion could be seriously threatened in the medium term.

- On the environmental level, the crisis reminds us that our arrogant relationship with nature must end. Climate change, loss of biodiversity, emergence of pathogens are all interdependent.

- Finally, on the political level, coordination will have taken time and it has proven difficult to collaborate and find regional solutions. It will remain to be seen, in the coming months, whether it will be up to the challenge.

3. Economic, social and political vulnerabilities specific to the South and East of the Mediterranean

The vulnerabilities discussed above are further aggravated in the eastern and southern Mediterranean countries, whose pre-existing conditions are exacerbating the crisis. Although there are differences from country to country, the region as a whole is not sufficiently prepared to deal with the impact of such a pandemic. A large share of people lives in places where public health services are poor or almost non-existent. Among the explanations one finds: the lack of material resources, public spending absorbed by other sectors, institutional dysfunctions, brain drain, lack of transparency in crisis communication and forced displacement of populations resulting from conflicts.

- Looking at the number of deaths linked to Covid-19 in the region, the first impression would be rather reassuring. As of May 12th, there have been just 533 deaths in Egypt, a country with a population of 100 million. Jordan, which hosts close to 10 million people, had only 9 deaths. These figures, far from those observed in most European countries, could be explained by the fact that the crisis is still in its infancy. Demographic factors could also explain this, as they are countries with extremely young populations. However, another explanation could be found in the very low level of testing and reporting. Indeed, if we look at the number of tests performed per million inhabitants, the situation in most countries of the region becomes more worrying. The number of people tested per million is currently of only 879 in Egypt, 473 in Libya and 148 in Algeria, ranking them respectively at the 146th, 165th and 173rd positions worldwide [1]. Each country may have a different strategy compared to who should be tested. However, it cannot be ruled out that based on figures, which potentially underestimate the impact of the pandemic, some countries would be minimizing its extent and impact.

- The progress made during the preceding decades in public services of several countries in the region has overall been affected after the economic crisis and the revolutions which followed. The share of GDP devoted to health stands currently around 5% in countries of the South and East of the Mediterranean (compared to 12% in Europe) and we also observe a relatively low share of health expenditure in their budgets [2]. One of the main manifestations of this deterioration is the sharp decline in the quality of healthcare. For instance, we note that the availability of hospital beds has been reduced in countries such as Egypt, Jordan and Lebanon which, after 2008, experienced a drop in avail-

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Figure 1. COVID-19 Cases and Deaths, by country

![COVID-19 Cases and Deaths, by country](https://www.worldometers.info/coronavirus/)

Figure 2. Tests per 1 million of the population

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lable beds of 24%, 22% and 15% respectively (WHO stats). Tunisia was the only country that experienced growth in available beds during the same period. The financing of health expenditure is largely undertaken by households (45% compared to 12% in OECD countries) as well as by resorting to expensive private healthcare. The share of public insurance (social security) financing in total public health expenditure remains very low, at 17% in Lebanon, 12% in Algeria and 9% in Egypt [3]. According to the latest surveys carried out by the Arab Barometer, the majority of the region’s populations declare that they are dissatisfied or very dissatisfied with health services. In Lebanon, Libya and Morocco, less than 30% of the population state they are satisfied.

- Also, countries in the region have not been spared by conflicts and the refugees crisis, which add additional pressure on health systems. From Libya to Syria, conflicts prevent many countries from effectively testing their entire population for the Covid-19 virus, which may explain, in part, the figures above. At least 12 million refugees and displaced persons live in Iraq, Jordan, Lebanon and Turkey (Refugees International 2020) [4]. Nevertheless, “overworked” health systems have little room for sick refugees and illegal migrants who are at increased risk of contracting the coronavirus (United Nations, 2020). The consequences for Syrian refugees, who face obstacles to movement and increasing poverty, can be fatal [5]. The movement of refugees in search for a better situation (and in hope of accessing health care) could be a factor of aggravation of the health crisis for the MENA region but also potentially for immediate neighbors such as the European Union.

- On a social level, as highlighted in a recent FEMISE Med Brief, even in the most stable countries large fractions of the population are traditionally deprived of access to healthcare, mainly because they work in the informal sector (Makhloufi, Abu-Zaineh and Ventelou, 2019). MENA countries have very high unemployment
and informality rates (see figure 5) that surpass those of any other region in the world. This is partly due to strong demographic growth and to having favored the creation of jobs in sectors with low added value that are associated with high informal employment (eg construction sector). On average, a country in the MENA region produces around a third of its GDP and employs 65% of its workforce informally (Gatti et al, 2014) [6]. This means that about two-thirds of workers in the region may not have access to health insurance.

- On the economic level, finally, most activities were quickly interrupted. Authorizations were put in place for strategic activities such as in the food sector and in certain industries. But as of May, restrictions began to be partially lifted in some countries. Lebanon gradually began to open up the various economic sectors over a period of five weeks. In Algeria, the complete lockdown of certain cities has ended, while curfews, notably in Algiers, have been relaxed. Jordan has lifted all restrictions on economic activity and reopened all economic sectors. In general, countries in the region can hardly afford to shut down their economies for long periods of time. This is a problem faced by middle-income countries, especially those in a region with the highest youth unemployment rate in the world. Preliminary ESCWA estimates suggest that Arab countries could lose about $42 billion in gross domestic product [7]. In addition, they could lose at least 1.7 million jobs in 2020.

- While their European neighbors have unveiled ambitious support programs for their enterprises, the eastern and southern Mediterranean countries have offered more modest support. Tunisia is among those who have announced a series of fiscal and financial measures aimed at preserving jobs and the sustainability of enterprises. The 23 measures announced on March 22 include the possibility for the most affected businesses to reschedule their tax debts over a period of up to 7 years, the creation of a support fund for SMEs in the amount of 300 MTD or the creation by the CDC of an investment fund of 500 MTD which will be intended to strengthen the equity of enterprises for the safeguarding of jobs [8]. In Morocco, the authorities created a special fund dedicated to managing the pandemic, amounting to 2.7% of GDP, financed by the government and by voluntary contributions which will be tax deductible. The budgetary authorities of other countries in the region have also announced financial support and tax assistance programs for businesses and individuals, in order to mitigate economic and social risks, guarantee the sustainability of jobs, the viability of businesses and protect the most vulnerable. However, in general, room for maneuvering in terms of fiscal and budgetary revenue is very limited in the region, which makes it particularly difficult to define economic and health recovery plans, unless they receive external financial support, which is already underway with the IMF and the World Bank. Moreover, the collapse of tourism alone could reduce GDP this year by 2 to 3% in Jordan, Egypt, Morocco and Tunisia [9]. Remittances from the Gulf countries and Europe, a vital source of foreign exchange, will also be severely affected.

In the MENA region, a contraction of 10% could exacerbate the upward trend in poverty and result in poverty levels similar to those recorded 30 years ago...[10] The economic burden of confinement weighs disproportionately on the poorest, including on farmers in rural areas. Many households cannot afford to
run out of income for weeks or months. There is also no doubt that human development indicators such as infant mortality, malnutrition and educational attainment will also be severely affected. In countries where informal employment accounts for two thirds of labor income and cannot be maintained at distance, the current emergency could also transform the various health, social and economic challenges into a humanitarian crisis. It could also transform them into (new) political crises and bring about an unprecedented wave of revolutions. Until a global solution, such as a vaccine, becomes available, the cost of the drastic restrictions imposed by the Mediterranean countries could become unbearable for their populations.

4. Reflections to prevent a «pandemic of inequalities»

It is far too early to know the exact extent of the impact of the coronavirus in the Mediterranean region. Faced with global economic uncertainty, it is difficult to predict which countries will be most affected and which indirect channels will cause more economic, social, health and political vulnerabilities.

At the end of this crisis, the countries in the region will have to carry out an in-depth examination of the social disparities which will have caused the most devastating impacts on their societies. Then, it will be a question of treating them effectively and of reviving their economies. Coordination, sharing of information and of resources could be very beneficial to them in this process. Choosing the route of enhanced cooperation, with an emphasis on intelligent regional integration, could be beneficial as well.

In this logic, some reflections on the short term and long term after Covid-19 in the Mediterranean deserve to be mentioned. They could give rise to more thematic analyzes and reflections in the context of this series of Policy Briefs.

A necessary economic revival and a need to think about its financing

**Short term**: For those who have not already done so, governments could consider setting up solidarity funds to offer aid to companies particularly affected by the consequences of Covid-19 and by confinement measures. It would be interesting to reflect on the concrete solutions that could be offered to businesses, especially exporters, farms and households. In particular, the informal sector has been severely disrupted and yet this is where a large majority of the region’s population draws a source of income. Governments could set up a reconstruction plan for small businesses to revive their activity at the end of the pandemic.

**Long term**: Countries will need real stabilization and recovery plans. Reflection on the issue of funding will be crucial, especially when one considers the tight budgetary and financial limitations of countries in the region.

At the plan macroeconomic level:

- **First, central banks will have to continue playing their role.** So far, they have generally responded well, injecting the liquidities at their disposal. For example, in Tunisia, the central bank injected 9.9 billion dinars to remedy the shortage of bank liquidity. In Morocco, Bank-Al-Maghrib injected more than 87 billion dirhams to support the economy and also took measures to support credit institutions on a prudential level, covering the requirements in terms of liquidity, equity and for provisioning loans [11]. The Central Bank of Egypt (CBE) has also announced measures, including that it will provide tourist establishments with two-year loans with a 6-month grace period.

- National private banks will also have to accept their social responsibility. This can include measures such as postponing loan repayments for businesses, relays with government measures (e.g. postponement of social or tax deadlines), increasing loans to local businesses, etc. The important questions of transitional relief for prudential arrangements also come into play here.
- Finally, the countries in the region need **debt relief and of the conditions for its repayment**. The IMF and the World Bank have already jointly called on March 25, 2020 for a moratorium on debt payment for poorest countries. The latter threatens to create a global development emergency in the same way that the pandemic creates a health emergency. Both could cause serious social unrest and widespread instability in the region and in all developing countries. If the pandemic lasts too long, MENA countries may soon run out of foreign currency to repay their debt, being heavily dependent on tourism receipts and remittances. Development finance institutions (DFIs) will therefore have a key role, both during the crisis and afterwards. The World Bank has already activated the contingent emergency response component (CERC), for example, as part of the “Transformation of the health system in Egypt” project of $ 7.9 million to finance response activities linked to the Covid-19 epidemic in the country. The activation of the CERC will support the Egyptian government in the implementation of a preventive plan to deal with the pandemic [12]. Meanwhile, the International Monetary Fund (IMF) recently granted Jordan a loan of $ 400 million [13].

Regarding **sector dynamics**:

- Firstly, the time seems appropriate to **intelligently rethink production chains and give ourselves the chance to go more towards South-South integration and for EU-Mediterranean chains**. Regional trade integration is still far too weak (Figure 6) as suggested by a recent study by Ecorys, CASE and FEMISE [14]. The post-coronavirus era could be an opportunity for authorities and businesses to rethink these chains within the region (from the Mediterranean to the Mediterranean), by considering regional integration as a factor of integration into the global economy. In general, lessons will be learned in terms of selecting new sectoral trends and development strategies. Some of these trends will emerge as a result of the health and economic crisis, and will aim at securing the supply of food and the productive supply in the event that certain enterprises / production chains have been seriously disrupted by the lack of inputs. The regionalization of production and of supply chains could also help expand storage space. Cities / territories with a port, a rail link, an airport could be reborn, assume a new identity and a new dynamic. The potential for regional integration is also high in the production of renewable energy, given the abundant solar and wind resources, unused flat land and proximity to the EU. Here, the CMI’s Mediterranean Forum on Electricity and Climate Change, created in 2015, could prove useful in discussing the benefits of integrating the regional renewable energy market post Covid-19.

- Second, investing in the **digital sector** could be a strategic choice. Digital technology opens up more inclusive and more sustainable growth prospects, helping to open up the most disadvantaged regions and to integrate a larger part of the population into economic life. If we take the health system for instance, which faces a lack of infrastructure and a lack of staff, particularly in rural areas, digital technology could allow: (i)
remote consultations and prescriptions for simple diagnoses, prevention and detection of serious illnesses; (ii) the dissemination of basic care and of practices to be respected; and (iii) expanding and improving medical care despite economic and geographic barriers, by connecting healthcare centers with large hospitals and hospitals between them (Augier and François, 2019) [15]. The gains would also be very significant in terms of access to financial services and education. Reforms in education and vocational training will be necessary to develop among young people new skills, digital but also interpersonal ones, to better respond to the mismatch between graduates and the needs of the labor market. All of these questions deserve further studying.

- Thirdly, it is finally time to **bet on Social Entrepreneurship (SE) and Social Impact Finance in the region**. A main characteristic of SE is its ambition to find innovative answers to socio-economic questions neglected by the market sector due to their low profitability, as well as by the public sector in a context of budgetary austerity (Tsakas and Moukaddem, 2019) [16]. Innovative social entrepreneurs are active in the region in home-care services, health, vocational integration, agriculture, culture and even social housing. For SE to become an essential element of economic and social development policy in the Mediterranean countries, it is necessary to develop, even reinvent, the social innovation ecosystem. In particular, «social finance» is necessary, allowing access to liquidity and credit as social entrepreneurs often fail to finance their project. This implies generalizing the presence of financial institutions managing «social finance». These can assume a triple role by acting as i) an intermediary between the State and social enterprises, ii) a mediator between social enterprises and local institutions (such as Islamic banks, microfinance institutions and iii) an intermediary between social enterprises and international financial institutions. A range of tools is also available and deserves to be better supported by the authorities. It includes Islamic finance, microfinance, crowdfunding or even Social Impact Bonds which allow social programs to be financed by private investors. All these instruments can be a support, but not a substitute, for inclusive public sector development initiatives.

- Finally, in the health sector, governments could guarantee **equal access to care during this emergency period**, where everyone in need should have access to basic care, regardless of their place of residence and legal status. Then, in the **long term**, we should think of a more inclusive paradigm. More precisely:
  - an effort will be necessary **to map** the vulnerable groups (eg the undocumented, the homeless) who are evolving because of the pandemic, and to then design specific policies for access to care.
  - The large number of **informal workers** will have to be taken into account. As FEMISE researchers have shown (Makhloifi, Abu-Zaineh and Ventelou, 2019) when studying the Tunisian case, the majority of the population not covered by social security seems to be willing to subscribe to unsubsidized health insurance which operates on a voluntary and contributory basis, but which exacerbates income disparities. Informality, in and of itself, should not be an incurable obstacle to achieving universal health coverage.
  - in their quest for universal health coverage (UHC), countries must explore **alternative funding strategies**. Given the limited fiscal space, policies could have different implications for fiscal sustainability and could worsen intergenerational inequalities, depending on their effects on the public debt-to-GDP ratio.

**EU-Med cooperation, a key to regional development**

In recent weeks, we have seen a number of **regional projects come together** to put in place collective measures. In Africa in particular, where the **African Union** has launched a continental strategy, providing training and strategic expertise to its member states.

In the Mediterranean, **cooperation with the EU could be a key factor for development**:

- **First**, **by directing part of development aid**, directly or through international organizations. A first initiative was taken by the European Commission on April 22, 2020, adopting a proposal to grant € 3 billion in macro-financial assistance (MFA) to ten enlargement and neighborhood partner countries. These funds
will be «made available to beneficiary countries for twelve months in the form of loans granted on very favorable terms». Among the countries are Tunisia (600 million euros) and Jordan (200 million euros). This laudable first step will have to be followed by other support measures, in collaboration with other donors, so that the countries in the region can consolidate their macroeconomic stability.

- Secondly, by engaging in a concerted diplomatic effort, to develop cooperation strategies in health and all key sectors for dealing with the repercussions, using as a basis the Euro-Mediterranean Partnership and the Union for the Mediterranean (UfM) which is already following developments closely, evaluating the repercussions by sector and contributing to the protection of populations [17]. It should be noted that, within the framework of blue economy, more than 100 experts and representatives of international organizations participated in the online consultation of the UfM, formulating nearly 350 recommendations in areas such as governance, tourism, renewable energies and blue jobs [18]. Also, within the framework of its civil and social initiatives, the UfM participated in a dialogue with EU mayors and other authorities on the challenges posed by the pandemic [19]. It has also contributed in the educational field, on the digital transformation of post-Covid-19 education and training [20]. This type of regional initiatives deserves to be reinforced, because it helps countries to jointly tackle the challenges posed.

- Third, by providing financial and technical support for socio-economic research work and initiatives in the above identified sectors. This would allow identifying i. what is done (and should be done) to limit the economic and social impacts in the region and ii. the post-CoVid-19 realities of the EU-Med region. This research would offer a reflection on best practices to mitigate the spread, but also on how to coordinate fiscal measures, stimulate trade and investment.

The objective of this Policy Brief was to set the tone and pave the way for more thematic analyzes and prescriptions, highlighting the key role of cooperation in the Mediterranean. The various issues related to Covid-19 in the region can be explored throughout this series of Med Briefs, produced jointly by the CMI and FEMISE.

Notes

1. Au 12 Mai : https://www.worldometers.info/coronavirus/
3. id.
9. Financial Times (2020), Arab world’s middle-income nations face tough coronavirus choices https://www.ft.com/content/13f690dd-ce12-4c20-a158-630911befb53


17. https://ufmsecretariat.org/fr/consequences-economiques-covid/

* The author thanks Patricia Augier, Maryse Louis, Blanca Moreno-Dodson and Sami Mouley for their comments and suggestions.