Greater concentration and relative erosion of wealth in the Arab region: the legacy of COVID-19?

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Economic and Social Commission for Western Asia

Greater concentration and relative erosion of wealth in the Arab region: the legacy of COVID-19?

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Key messages

- *Despite the economic crisis precipitated by the COVID-19 pandemic, the Arab region's economic elites have further increased their grip on the region's assets, both in terms of their share and in absolute value.*

- *While most economic groups in the region saw their holdings eroded to some degree, and those in the lower middle and the bottom of the wealth pyramid plainly backslid in terms of their holdings, a large number of individuals broke through the $1 million or higher wealth marks.*

- *From a global perspective, half of the 16 countries with the highest increase in wealth inequality have been Arab countries. Consequently, a third of the 20 most unequal countries today are Arab countries.*

- *Development has been unequalizing across all Arab subregions, but especially in Gulf Cooperation Council countries and Arab low-income and conflict-affected countries.*

- *Reducing inequality and vulnerability to poverty calls for assisting the poor in alleviating their socioeconomic challenges, and working with the rich to put their wealth to the best social use, in a sustainable and equitable manner.*

Executive summary

Wealth inequality in the Arab region is notoriously high. A small group of individuals control an extremely high share of regional wealth, while the region experiences growing poverty among the majority of the population. Despite the economic crisis precipitated by the COVID-19 pandemic, the region's economic elites have further increased their grip on regional assets, both in terms of their share and in absolute value.

While most economic groups in the region saw their holdings eroded to some degree, those in the lower middle and the bottom of the wealth pyramid plainly backslid in terms of their holdings. However, in contrast, several individuals broke through the $1 million or higher wealth marks. The region now has more – and richer – millionaires than in mid-2019. These so-called "high net worth individuals" saw their control over assets swell by 44 per cent by the end of 2020. On the other end of the wealth spectrum, significant loss of wealth occurred. The median regional resident saw a decline in their wealth of around 28 per cent. Among the poorest half of the Arab population, people's wealth fell by a third. In the middle of the wealth distribution, people's wealth stagnated, failing to even keep up with inflation.

These facts point to a dramatic increase in wealth inequality in the region since pre-pandemic times. The regional concentration of wealth has dramatically grown over the course of the past two years, even as it dipped worldwide. Half of the 16 countries with the highest increase in wealth inequality worldwide are Arab countries. Consequently, a third of the 20 most unequal countries today are Arab countries. By comparison, in 2019, only two Arab countries were among the top 20 most unequal countries globally.

Our evidence shows that the key to explaining the unequalizing development in the Arab region lies in regional disparities between high-income Gulf Cooperation Council (GCC) countries, Arab middle-income countries (MIC), and the Arab least developed and conflict-affected countries (LDCC). Inequalities between Arab countries have grown, contributing to overall inequality growth. However, regional inequality is as much due to within-country as between-country wealth gaps. Between mid-2019 and end-2020, LDCCs did not make sufficient advances to catch up with their richer neighbours in terms of wealth growth, despite starting at much lower levels. Development has been unequalizing in all three Arab subregions, but especially in GCC countries and LDCCs. Consequently, trends have not been pro-poor or pro-development, and have led to exacerbated inequality. In turn, Governments' responses have been insufficient and ineffective at tackling the crisis and lifting up the poor.

The degree of concentration of the region's wealth in the hands of a small share of its residents should be a wake-up call for a renewed regional and national policy dialogue on inclusive growth strategies, and for policy action.

To remedy the unequalizing development witnessed in regional economies since before the pandemic, a robust policy response is needed. Reducing inequality and vulnerability to poverty calls for assisting the poor in alleviating their socioeconomic challenges, and working with the rich to put their wealth to the best social use, in a sustainable and equitable manner. An integrated approach is required, based on a portfolio of complementary measures, as follows:

1. Social protection and relief efforts should be the first measures taken toward mitigating inequality and poverty.
2. Properly valuing the assets of the ultrawealthy and using the resources to introduce and expand crucial social programmes should be utilized as an explicit policy instrument.
3. Inspection and enforcement mechanisms should be implemented by tax authorities to design appropriate wealth transfer policies, with a focus on mitigating weak compliance.
4. The effective implementation of fiscal reforms should be grounded on solid governance and accompanied by wide social dialogue.

Contents

Background

Extreme wealth and destitution coexist in the Arab region owing to, on the one hand, the concentration of oil, real estate and financial market wealth in the hands of a few and, on the other hand, natural adversities and recurrent and protracted conflict. Severe wealth disparities exist between GCC countries and their conflict-stricken neighbours, including the Sudan, the Syrian Arab Republic and Yemen. Accounting for the hard-to-measure ultrawealthy, researchers have called the Arab region the most unequal region worldwide.[1] Nonetheless, wealth concentration is but one dimension of the inequalities that pose a challenge to the region's aspirations towards inclusive development.[2]

In June 2020, ESCWA tallied the stock of wealth held by residents of the Arab region, and concluded that the region had a very high concentration of wealth by global standards, in terms of its absolute size and disparities between the holdings of the wealthiest and those of the rest of the population.[3] Using data for mid-2019, ESCWA estimated that the region had $5.9 trillion in net assets in private ownership, and the regional Gini index of wealth inequality was 0.83. The wealthiest 1 per cent and 10 per cent of residents accounted for 37 per cent and 75 per cent of the region's net wealth, respectively.

By the end of 2020, the stock of assets held by the most prosperous had grown, and the concentration of wealth has become ever more extreme in the 18 months since. The economic elites in the Arab region have therefore greatly improved their lot, although the region has experienced paralyzing crises, including the pandemic, conflict and natural disasters, and low natural-resource revenues stemming from the subdued global demand for oil since the first quarter of 2021. Furthermore, political instability, an energy crisis, a massive financial correction, and a devastating explosion at the Beirut Port have crippled the Lebanese economy.[4]

In view of the apparent between-country polarization of wealth in the region, the present paper estimates the full distribution of wealth for residents within and across Arab countries, and reports on wealth shares held by various quantile groups and on wealth incidence across countries. Chapter 2 introduces the data and methods used to estimate wealth distribution in the region and its trend over time. Chapter 3 sets out the main results of estimation, and chapter 4 concludes with a discussion of key lessons learned.

1 Alvaredo and others, 2019; Assouad, 2021.

2 ESCWA, 2019.

3 Abu Ismail and Hlasny, 2020b.

4 Abu Ismail and Hlasny, 2020a.

1. Research materials

The present paper relies on several specialized data sources on wealth distribution in the Arab region, and on an advanced parametric approach to estimating wealth distribution.

A. Data sources

Reliable information on individuals' wealth and its distribution across individuals is scant, particularly for analyses requiring harmonized data on multiple countries and years. This is because of the heterogeneity of financial, material and intangible assets that individuals amass, and because of the poor inventory of these types of capital and the lack of consensus on their value. National accounts and tax registries cannot be relied on because people's wealth transcends borders and tax jurisdictions. Different administrations use different conventions regarding the eligibility and valuation of assets, and this changes across tax years. Household budget surveys, meanwhile, are typically not designed to provide an accurate value of respondents' wealth or even a thorough inventory of households' durable assets.[5]

Given the lack of sufficient data in the public domain, existing studies on the concentration of wealth have traditionally relied on a handful of highly specialized proprietary datasets. Forbes Magazine's annual billionaire lists and lists of real-time billionaires[6] have enabled the sizing and tracking of the top of the regional and national wealth distributions. Forbes, like other wealth-data providers,[7] relies on a variety of data sources including self-reporting, and measures wealth as "all types of assets: stakes in public and private companies, real estate, art, yachts, planes, ranches, vineyards, jewellery, car collections and more. We also factored in debt and charitable giving. [...] To value private businesses, we coupled revenue or profit estimates with prevailing price-to-sales or price-to-earnings ratios for similar public companies, and applied a 10 per cent discount, or more in cases where information is scarce".[8] In the present study, Forbes data is used to comment on the Arab region's billionaire wealth over the period March 2019 – March 2021.

Limitations of the Forbes data include that they are restricted to the several dozen ultra-wealthy Arab individuals; exclude some personalities owing to political considerations; and lump some billionaires' assets in with those of their family members, making it difficult to disentangle personal and household wealth. For an accurate account of the full distribution of wealth in all Arab countries, more consistent data are needed going (vertically) down the

5 Hlasny and AlAzzawi, 2018.

6 www.forbes.com/billionaires; www.forbes.com/real-time-billionaires.

7 Other established data providers that were considered for the present study include www.bloomberg.com/billionaires and www.wealthx.com.

8 Wang, 2019.

wealth scale, and (horizontally) across individuals and countries.

In 2010, Credit Suisse began compiling distributional statistics of private wealth in all countries worldwide, including backdated estimates of the level of wealth for the years 2000–2009. This annual effort has given rise to a panel dataset tracking the year-to-year evolution of the level (2000–2020) and distribution (2010–2020) of wealth in countries globally. Credit Suisse defines wealth as the "marketable value of financial assets plus non-financial assets (principally housing and land) less debts".[9]

In the present paper, Credit Suisse (2021) data for the year-end of 2020 are used to impute the full distribution of private wealth in Arab countries. For the purposes of the present research, the Arab region is defined as comprising the following countries: Algeria, Bahrain, the Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates and Yemen.[10] The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; MICs are Algeria, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Tunisia; and LDCCs are the Comoros, Djibouti, Mauritania, the Sudan, the Syrian Arab Republic and Yemen.

As a reference for the most recent COVID-era data for the year-end of 2020, we also analyse pre-pandemic mid-2019 data.[11] Prior vintages of the database, from 2010–2019 year ends, are used to estimate time trends going as far back as end-2000. Imputed wealth is reported in current international dollars, that is, year-2020 dollars for the COVID-era estimates, year-2019 dollars for the mid-2019 pre-COVID estimates, and so on. The present paper does not attempt to control for inflation, because wealth is thought to originate from individuals' savings not intended for financing immediate local consumption; and proper deflators for income or wealth vary by the socioeconomic membership and region of the individual, which cannot be applied given the nature of data used here. (For reference, United States dollar price inflation during mid-2019–end-2020 was 2 per cent, according to the United States GDP deflator:[12] 114.439 in the fourth quarter of 2020 compared with 112.152 in the second quarter of 2019).

In line with the Credit Suisse methodology, the unit of analysis in the present study is taken to be adults aged 20 or above, since personal assets and debts are typically owned by named individuals, and may be retained by those individuals if they leave the household; household members may have an unequal say in the management of assets; and children have little formal or actual wealth ownership.[13]

The imputed distribution for 2020 is linked to the Forbes actual observations for ultrawealthy individuals in the region, to provide some validation of the estimates. Forbes annual figures for March 2020, March 2021 and February 2022 are assessed.

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9 Credit Suisse, 2021.

10 The State of Palestine is notably missing from the Credit Suisse data for 2017–2020, without explanation. In data for 2000–2016, the State of Palestine is included among MICs.

11 Credit Suisse, 2019.

12 https://fred.stlouisfed.org/series/GDPDEF.

13 Credit Suisse, 2021.

B. Imputing the wealth distribution

Using the Credit Suisse distributional statistics for countries' net wealth in private ownership, we can approximate the entire distribution of wealth across all adults in each Arab country, and in selected country groupings or region-wide. This is done by through parametric modelling of the wealth distribution in a country using a two-parameter a lognormal distribution function.

A lognormal distribution function is commonly used to approximate empirical size distributions in wealth inequality research.[14,15] This distribution is suitable for the task, as it is fully characterized by two statistics describing the empirical level and dispersion of wealth, such as the mean ($\overline{w}$) and the Gini coefficient (G) of wealth, or the mean and the median ($\widetilde{w}$).

In comparison, our initial study of the distribution of Arab region's wealth assumed the lognormal distribution for the bottom 99.5 per cent of wealth values, and the Pareto (type I) distribution for the top 0.5 per cent.[16] The present study reverts to using the lognormal distribution function alone, because this requires fewer assumptions regarding how the function behaves in all ranges of wealth; it is smooth and continuous everywhere; and it reproduces the same distributional statistics as in the source data (namely, $\overline{w}$, and G or $\widetilde{w}$) by design.

The estimation involves imputing wealth ($\widehat{w}$) for individuals at each quantile of the wealth distribution, $x \in \mathbb{R}(0;1)$, using the inverse lognormal cumulative distribution function $F'_{lognormal}(x,\mu,\sigma)$, which is a function of the standardized mean μ and the standard deviation σ. This standard deviation can be estimated from the inverse standard-normal cumulative distribution function $F'_{normal}(x)$:

$$\hat{\sigma} = \sqrt{2}\,F'_{normal}\left(\frac{G+1}{2}\right),$$

and the mean is derived as

$$\hat{\mu} = \log(\overline{w}) - {\hat{\sigma}^2}/{2}$$

These expressions are used for data for year-ends 2010–2020, where G is reported. For year-ends 2000–2009, where only $\widetilde{w}$ is available, we use:

$$\hat{\sigma} = \sqrt{2(\log(\overline{w}) - \log(\widetilde{w}))}\,,$$

$$\hat{\mu} = \log(\widetilde{w})\,.$$

Lastly, individuals' wealth is imputed as $\widehat{w} = F'_{lognormal}(x,\hat{\mu},\hat{\sigma})$. In these expressions country and year subscripts are omitted for clarity of presentation. To estimate various inequality measures, and the wealth levels and aggregate wealth shares at various quantiles of the distribution, a smooth distribution is generated in each country using a large number N of equally spaced synthetic observations.

14 Aitchison and Brown, 1957; Sargan, 1957; Brzezinski, 2014; Hruschka and others, 2015; Jäntti and others, 2015; Hlasny, 2020a; Patrício and Araújo, 2021.

15 Hruschka and others (2015) use the geometric mean of the Pareto and the log-normal (Cobb-Douglas function with exponent 0.32). However, this mixed distribution function tends to underestimate the dispersion of values at the bottom of the wealth scale. Instead, we use the lognormal distribution alone, for consistency across all wealth ranges, and for clarity of exposition. For completeness, Pareto (type I) distribution function has been found to fit well the empirical income distributions in some Arab countries, but not in others (Hlasny, 2020b).

16 Abu Ismail and Hlasny, 2020a; b.

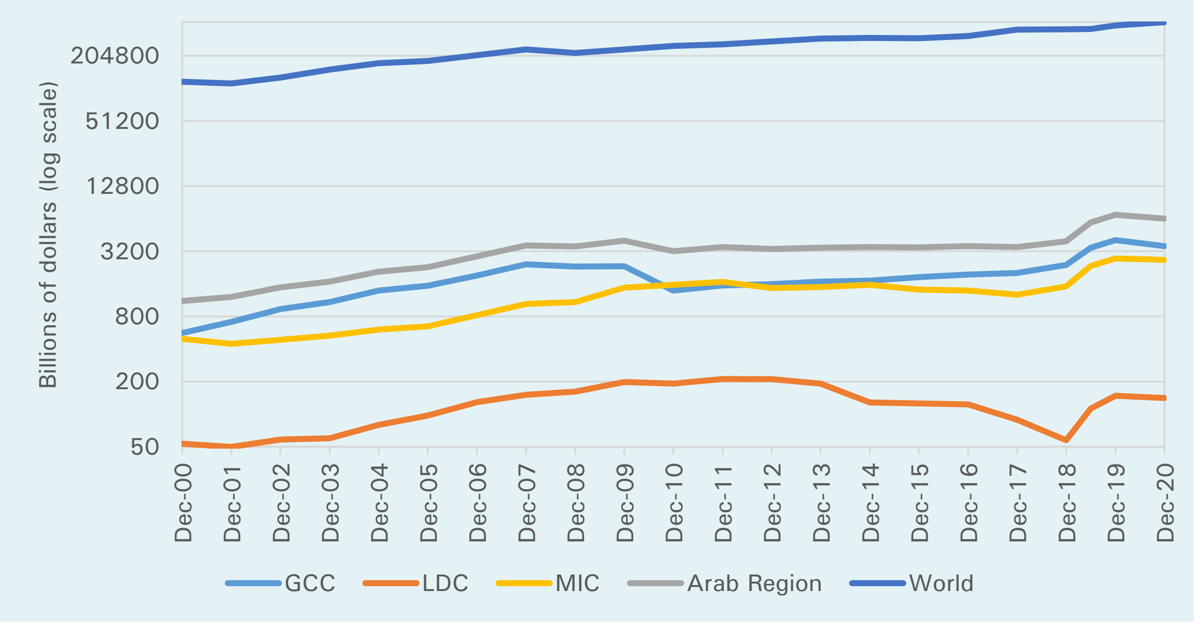
With $N = 100{,}000$, $x = \{{}^{1}/_{2N}, {}^{3}/_{2N}, \ldots, {}^{2N-3}/_{2N}, 1 - {}^{1}/_{2N}\}$. To aggregate the national wealth distributions across countries and derive distributions for the Arab subregions and the region at large (which are not lognormal), each synthetic observation is assigned a weight of ${}^{Adults\ in\ Country}/_{N}$.

2. Results

A. Growth of regional wealth

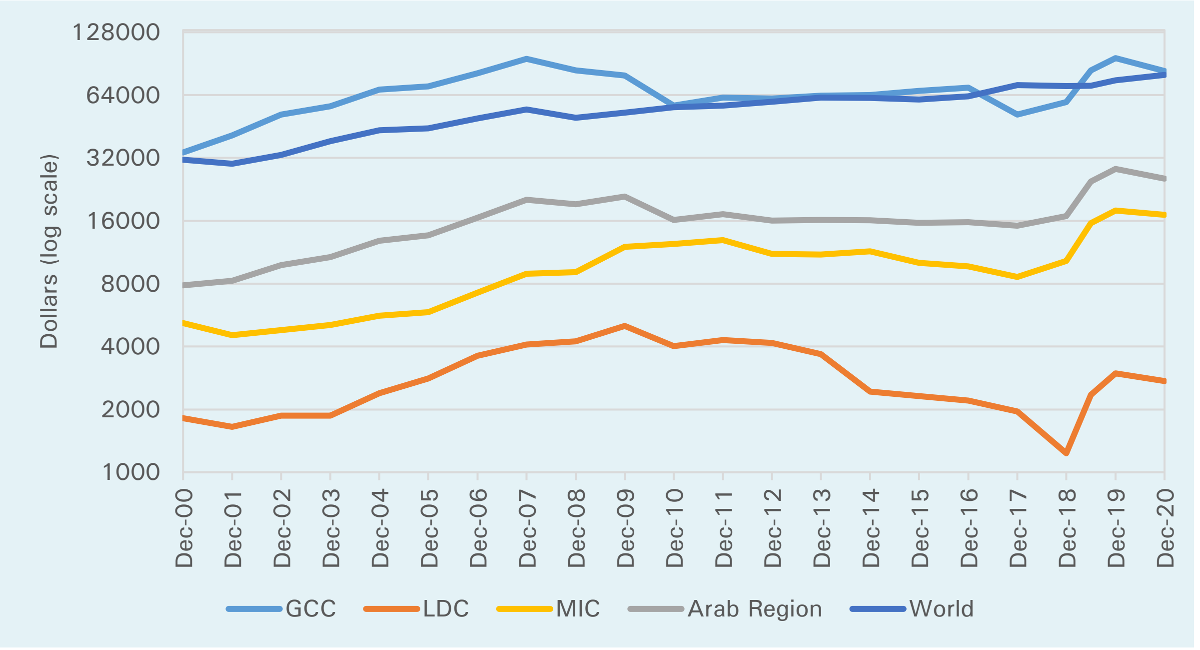
At the end of 2020, the region's total net wealth held in private hands was estimated at $6.4 trillion, compared with a global wealth of $418 trillion. In mid-2019, the region's total net wealth was estimated at $5.9 trillion out of the global stock of $361 trillion (figure 1). This means that while the region hosts 4.9 per cent of the world's population, the region's wealth represents only 1.5 per cent of global wealth, a further decline from 1.6 per cent since 2019. Between mid-2019 and end-2020, regional wealth grew a timid 8.4 per cent (in nominal terms), while wealth rallied 16 per cent on account of uninterrupted economic progress – and more controlled economic reverberations from COVID-19 – in the global south, including in China, Southeast Asia and sub-Saharan Africa.

Figure 1. Total net private wealth per adult, 2000–2020 trend (Billions of dollars, log scale)



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

Figure 2. Mean net private wealth per adult, 2000–2020 trend (Dollars, log scale)



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

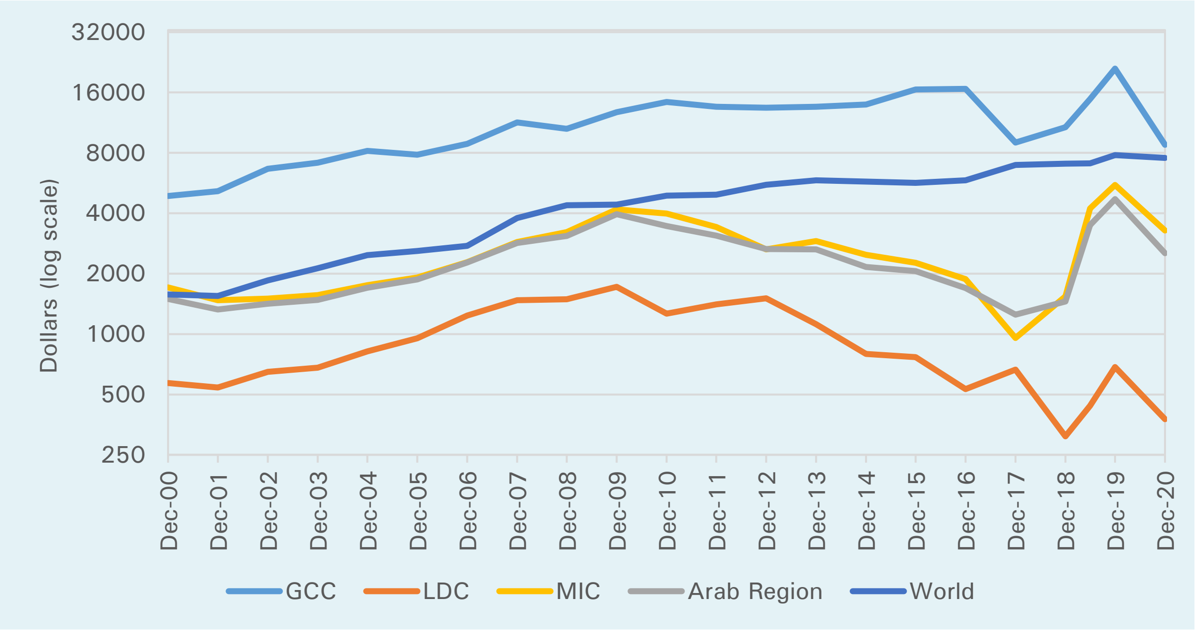
The growth in total region-wide wealth is not necessarily experienced by any Arab resident. This is in view of population changes in the region, and of systematic differences in wealth composition and wealth appreciation across distinct socioeconomic groups. It is therefore important to look at the level and growth of wealth at the individual level. On average, Arab residents held $25,500 in net assets at the end of 2020, compared with $24,700 in mid-2019, for a middling 3.4 per cent growth rate in individual-level holdings. This is in nominal terms, amid elevated price inflation during the COVID-19 era, suggesting that, on average, Arab residents have nothing to cheer.
For reference, average wealth worldwide increased by a healthy 12.8 per cent, from $71,000 to $80,000 (figure 2).

However, even this average Arab resident is just a theoretical construct that may not correspond to any real person. Consequently, looking at individuals across different wealth quantiles helps us evaluate the incidence of wealth growth across the Arab population.

Starting at the top, the region now has more – and richer – millionaires. These so-called “high net worth individuals” (holding $1 million or more) hold on average $2.79 million, or a comfortable 20 per cent over the $2.33 million that millionaires held in 2019. Jointly, millionaires control $1.85 trillion of regional wealth, 44 per cent higher than the $1.28 trillion that they controlled in mid-2019. One reason is that the region’s millionaires now number 662,000, 21 per cent more than the 549,000 estimated in mid-2019.[17] Millionaires now make up 1 per cent or more of the population in Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates: these 5 Arab countries are among the "elite" 34 countries worldwide with the distinction of having 1 per cent or more of millionaires. By contrast, only 3 Arab countries out of 32 worldwide had this distinction in 2019.[18]

On the other end of the wealth scale, significant erosion of wealth occurred. Among the poorest half of the Arab population, people's wealth fell by a third, from $1,130 to $770. The median regional residents saw a 28 per cent decline in their wealth, from $3,500 in mid-2019 to $2,500 at the end of 2020. This means that the typical resident lost or dis-saved over a quarter of their wealth (in nominal terms) over the course of just 18 months, or over the first year of the pandemic. This is a far cry from the massive gains experienced by the region's most privileged (figure 3).

Figure 3. Median net private wealth per adult, 2000–2020 trend (Dollars, log scale)



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

17 This is slightly higher than the growth of the list of high net worth individuals worldwide, which increased 20 per cent from 47 million in mid-2019 to 52 million on the eve of the pandemic at the end of 2019, and 56 million at the end of 2020.

18 For comparison, the current list of the Forbes real time billionaires from 28 January 2022 shows 22 individuals (all of whom are men) from seven Arab countries with a joint net worth of $54.7 billion, compared with $53.5 billion in March 2021 (for 22 individuals but one replaced person: one deceased and one added), and $52.6 in March 2020 at the onset of the pandemic. This illustrates that the economic elites in the Arab region have managed to consistently maintain their wealth despite the aggregate economic setbacks and losses experienced by lower wealth-quantile groups. See www.forbes.com/sites/kerryadolan/2021/04/06/forbes-35th-annual-worlds-billionaires-list-facts-and-figures-2021.

In the middle of the wealth distribution, people's wealth stagnated, failing to keep up with inflation. Those holding $100,000–$1 million had on average $251,100 at the end of 2020, compared with $246,600 in mid-2019, or a paltry 1.84 per cent increase. Their number actually fell 9 per cent (to 8 million individuals), despite a 4.4 per cent overall population growth in the region. This suggests a degree of depletion of the middle-wealth group in the region.

People holding $10,000–$100,000 had on average $30,786 at the end of 2020, compared with $30,254 in mid-2019, or a 1.76 per cent increase. Their number has increased by a mere 2.5 per cent. The group holding assets above the median amount of $2,500 but less than $10,000 saw their wealth backslide from an average of $5,380 in mid-2019 to $5,320 at the end of 2020.

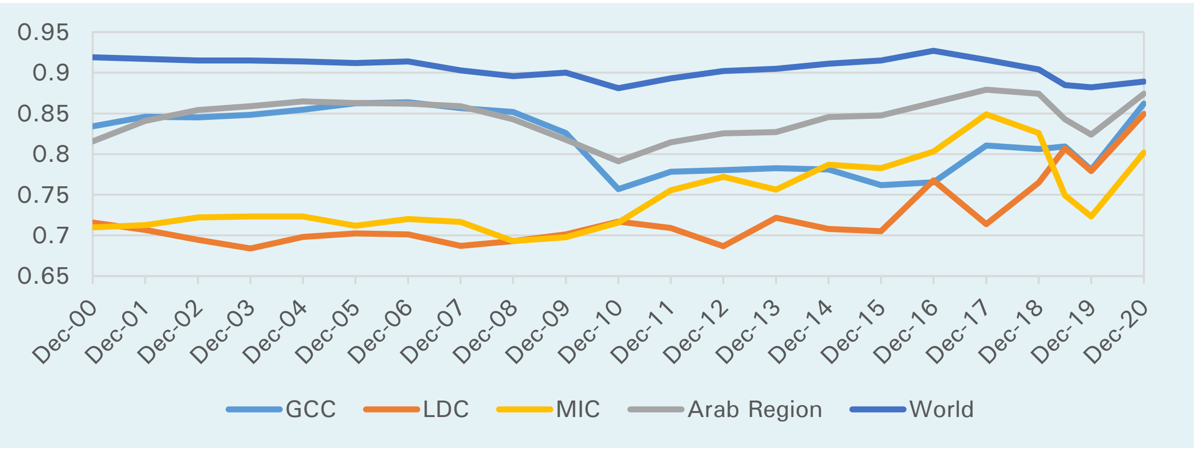
These figures suggest that wealth growth during the first year of the pandemic, worldwide and particularly in the Arab region, was most pronounced at the top of the wealth distribution. While a large number of younger self-made not-the-richest individuals broke through the $1 million or higher marks, individuals in the middle and bottom of the pyramid remained trapped behind, and saw their holdings eroded.

B. Growth in wealth inequality and polarization

The distribution of wealth in the Arab region widened and became more polarized during the first year of the pandemic. This trend is not unique to the region. Since pre-COVID times, wealth inequality became aggravated worldwide, and the Gini increased in 134 of 162 countries, where it could be measured. However, the increase was disproportionately high in the Arab region, as wealth inequality increased in all but two Arab countries, namely Lebanon and Qatar.

The rate of increase in the Gini was also higher in the region than globally. While global Gini inched up from 0.885 to 0.889, the Arab region's Gini jumped from 0.828 to 0.874. This points to unequalizing development within Arab economies, and to a trend of polarization between high human development and low human development Arab countries (figure 4).

Figure 4. Gini index of wealth, 2000–2020 trend



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

Even if we disregard the contribution of between-country gaps to overall inequality, Arab countries experienced distinctly high increases in inequality. On average, their national Gini indices stood at 0.802 at the end of 2020, compared with 0.736 in mid-2019, equivalent to a 6.6 point (9 per cent) increase. In contrast, across non-Arab countries worldwide, the increase was a more muted 3.9 points (5.3 per cent) from 0.730 to 0.769 over the same period.

Eight Arab countries were among the 16 countries with the greatest increase in the Gini worldwide (in descending order: Bahrain, Kuwait, Libya, Algeria, the United Arab Emirates, Mauritania, Yemen and Oman). In Bahrain, the Gini rose by 14.2 points (19 per cent), the single greatest increase among all countries worldwide. Among the next highest rates of growth, the Gini of Kuwait rose by 10.2 points (13.4 per cent), and the Gini of Libya by 10.1 (or 15.3 per cent). In contrast, the Gini of Qatar decreased by 5.2 points (8.2 per cent), and the Gini of Lebanon by 2.2 points (2.7 per cent).

As a result of these trends, six Arab countries are among the 20 most wealth-unequal countries globally in terms of the Gini index (in descending order: Bahrain, the United Arab Emirates, Yemen, Saudi Arabia, Oman and Kuwait), and three of them (Bahrain, the United Arab Emirates and Yemen) are now among the global top 10. By comparison, in 2019, only two countries – Lebanon and Saudi Arabia – were among the top 20 most-unequal countries worldwide.

C. Top wealth shares

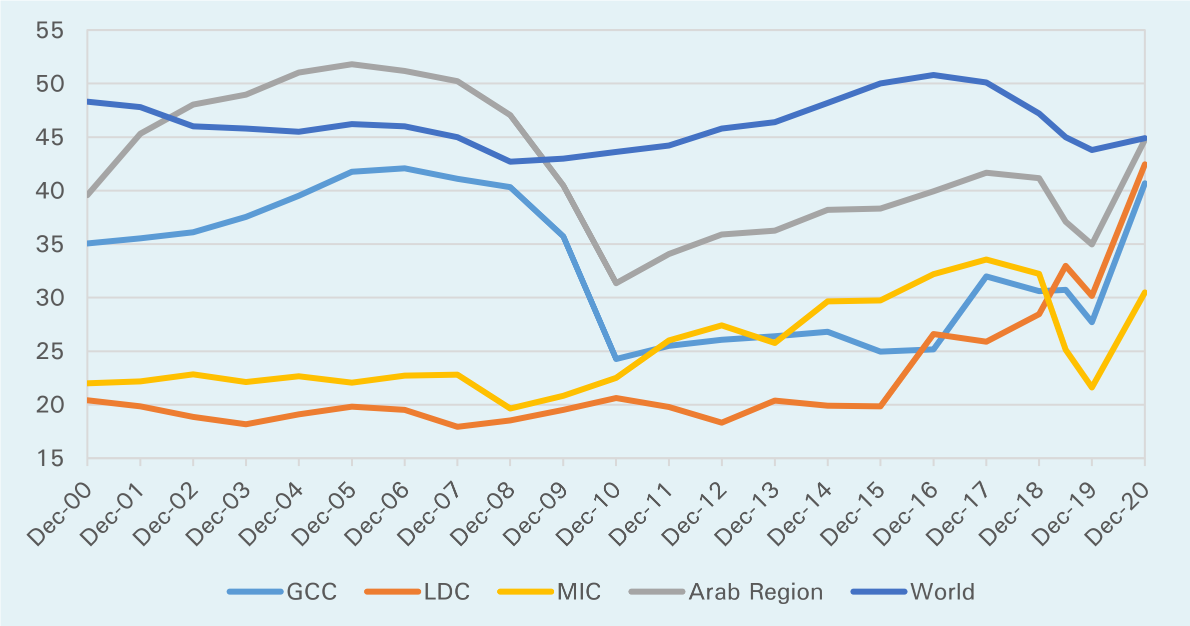
As the trends in millionaire and billionaire wealth demonstrate, the rise in inequality can be traced to an ever greater concentration of assets among the Arab region’s wealthiest. This phenomenon sets the region apart from the rest of the world. While the degree of wealth concentration in the region was substantially lower compared with the rest of the world before the pandemic, it is at the same level as worldwide now.

By the end of 2020, the wealthiest 0.1 per cent of the region’s population, holding more than $2.2 million each, jointly controlled $1.3 trillion in net privately held wealth, or 20 per cent of the region’s total. This is equivalent to the assets of the least wealthy 90.4 per cent of the region’s population. By comparison, in mid-2019, the wealthiest 0.1 per cent held more than $1.7 million each, for a joint control of $877 billion, or 14.8 per cent of the region’s total, equivalent to the wealth of the poorest 83 per cent of the population.

Similarly, in 2019, the wealthiest 1 per cent of Arab residents controlled 37 per cent of aggregate wealth, while by the end of 2020, they amassed 45 per cent (figure 5). The wealthiest decile of individuals held 75 per cent of aggregate wealth in 2019, while by the end of 2020 they controlled as much as 81 per cent (figure 6). By comparison, Credit Suisse estimates that in mid-2019, the wealthiest 1 per cent of adults worldwide – roughly the 51.9 million individuals holding $1 million or more[19] – controlled 45 per cent of global wealth, and the top 10 per cent controlled 81.7 per cent. This receded slightly by the end of 2020, with the top wealth shares at 44.9 per cent and 81.8 per cent, respectively, worldwide.[20]

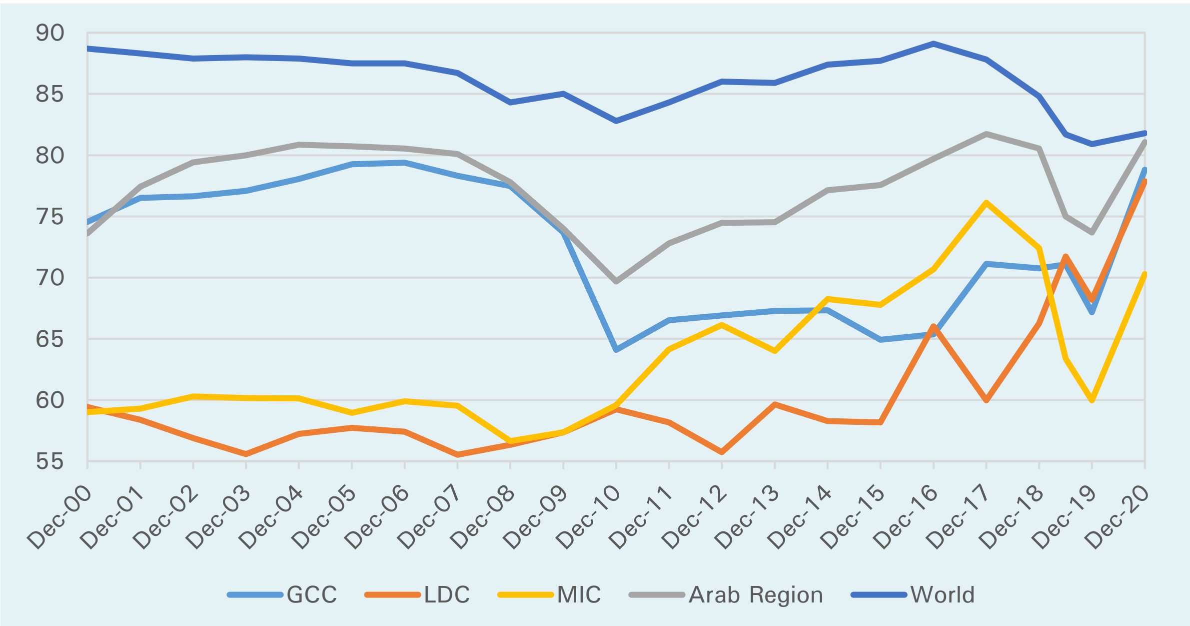
19 Credit Suisse, 2020.
20 Credit Suisse, 2021.

Figure 5. Top 1 per cent wealth share, 2000–2020 trend (Percentage)



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

Figure 6. Top 10 per cent wealth share, 2000–2020 trend (Percentage)



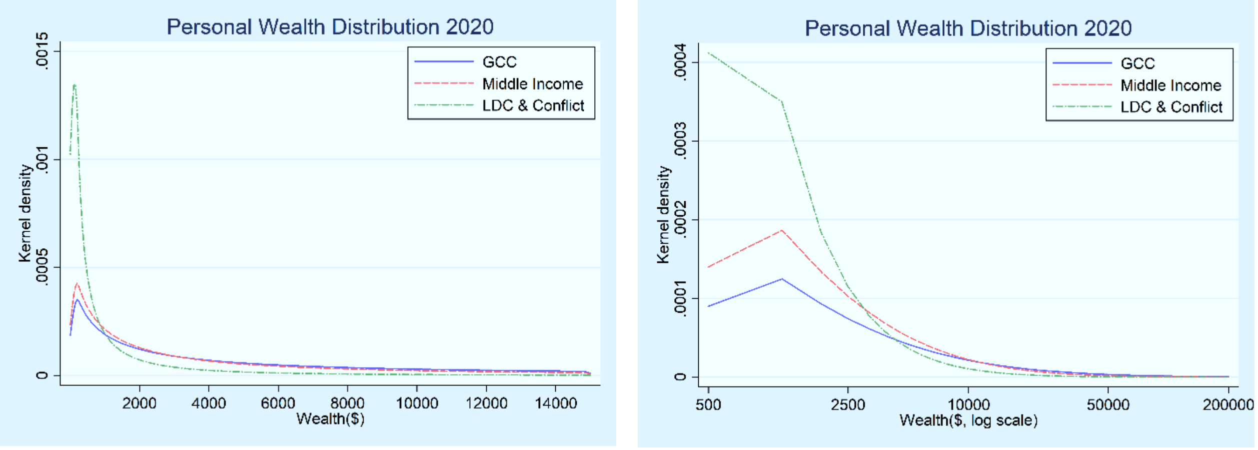
Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

D. Regional disparities

The key to explaining unequalizing development in the Arab region lies in the regional disparities between the industrialized high-human-development GCC countries, Arab MICs and the Arab LDCCs. While the world has seen a convergence between the Global North and the Global South, offsetting the increase in inequality within most countries, the Arab region has seen no such convergence. Between mid-2019 and end-2020, Arab LDCCs did not advance to catch up with their richer neighbours in terms of wealth growth, or in terms of lifting up their wealth-poor population groups, despite starting much lower growth levels.

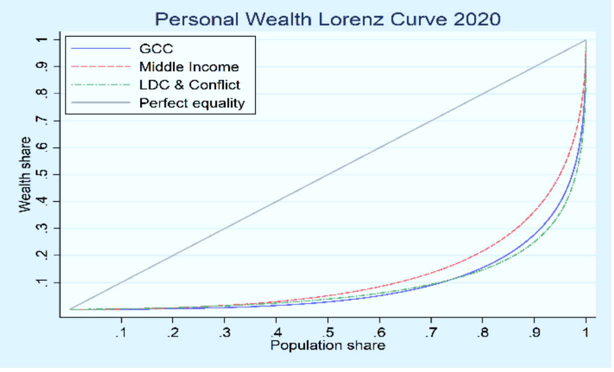
The growth in inequality between mid-2019 and end-2020 affected poor and rich Arab countries alike. However, development during the pandemic has been particularly unequalizing within the GCC subregion and within the Arab LDCCs (figure 7and figure 8). This has had a significant effect on overall inequality growth, as the full regional distribution of wealth widened both at the lower tail (LDCCs) and the upper tail (GCC subregion).

Figure 7. Smoothed distribution function of wealth (Wealth unit scale versus log scale)



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

Figure 8. Lorenz curve of personal wealth, year end 2020



Source: ESCWA calculations based on Credit Suisse Global Wealth Databook (2021).

The GCC subregion exhibits high inequality of wealth by both regional and global standards. This inequality is higher than in the Arab LDCCs, and particularly higher than in Arab MICs. The Gini coefficient for wealth is 0.862 in the GCC subregion, compared with 0.802 in Arab MICs, and 0.849 in the Arab LDCCs. In mid-2019, their Gini coefficient was 0.809, 0.749 and 0.807, respectively. Even if we disregard the between-country gaps, GCC countries have an average Gini index of wealth at a whopping 0.826, compared with the average of 0.783 in Arab MICs, and of 0.802 in the Arab LDCCs. All these national averages exceed those in mid-2019 (0.760, 0.723 and 0.730, respectively) by 6 to 7 points.

For illustration of the degree of inequality, the wealthiest decile of GCC nationals hold 78.8 per cent of the subregion’s privately-held wealth, and the wealthiest percentile control 40.7 per cent. In Bahrain, the wealthiest decile hold 83.3 per cent of national wealth, and the wealthiest percentile hold as much as 46.6 per cent.

3. Conclusion

It should be noted that the results in the present study are rather conservative estimates for the true degree of inequality and concentration of wealth in the region, since they do not account for all forms of capital, such as intangibles, illicit assets, or offshore holdings. Illicit financing is thought to be rife in some of the region's economies, as the Panama, Pandora and various offshore leaks suggest, given that Arab countries remain only partially integrated in global investment markets. The results also rely on conservative assumptions about the wealth of the richest individuals, as discussed in chapter 2. Based on recent capital market price data and their volatility, the estimated mean wealth and distribution in 2019–2020 may change significantly as a result of developments in relation to COVID-19, world oil prices, and other economic and political developments across the region.

Policy recommendations

Notwithstanding the limitations related to data sources and methodology, the results of the present study paint a worrying picture of the state and trends in the distribution of wealth across the Arab region. By the same token, the estimated trends present an opportunity for policymakers to tap into the gains of the ultra-rich to boost transfers, thus funding poverty reduction and other social welfare-enhancing and opportunity-creating initiatives.

Economic trends witnessed in the region during the pandemic have not been pro-poor or pro-development, and have led to exacerbated inequality. Governments' responses have been insufficient and ineffective at tackling the crisis and assisting the needy. The burden of developments and of Governments' inaction has thus fallen on the poor.

Within-country inequality across much of the region, particularly in the GCC subregion, and its perpetuation over time, should be tackled for a number of reasons. Humanitarian and social-equity gaps are not the only reasons for tackling inequality, and justifying the introduction of social assistance programmes. Mitigating existing inequality may break the vicious cycle of poverty, and enable human-capital acquisition among the poor. Redistribution from the wealth-endowed to the income-poor may also help quell outmigration of those fleeing unemployment or stagnant wages, without causing capital flight as long as the overseers of any transfer schemes commit to keeping tax rates modest, simple and unchanging.

To remedy the unequalizing development witnessed in Arab economies since pre-pandemic times, a robust policy response is needed. Reducing inequality and vulnerability to poverty requires assisting the poor in alleviating their socioeconomic challenges, and working with the wealthy to put their wealth to the best social use in a sustainable and equitable way. An integrated policy approach is needed, based on a portfolio of complementary measures, as follows:

1. **Social protection and relief efforts remain crucial measures toward mitigating inequality.** It is evident that during crises, the rich can retain their assets to a larger extent compared with the poor who tend to sell a large part of their assets to facilitate consumption, in the absence of adequate social protection policies. This explains the widening disparities between the rich and the poor, where the wealth and holdings of the poor contract in contrast to the rich. This calls for revising fiscal support systems to mitigate potential rises in poverty and minimize the disproportionate impacts on different population segments. Public procurement programmes and employment guarantee schemes are examples of actions to be undertaken by Governments in middle and high income Arab countries.
2. **Properly valuing the assets of the ultrawealthy and using them to introduce and expand crucial social programmes remains an unutilized policy instrument.** Since tax buoyancy in the region is low relative to other regions worldwide with similar income per capita, there is potential for the implementation of a socially-advantageous transfer scheme. High debt and widening deficits in Arab countries also make tax reforms an urgency. Efforts to mobilize revenues have largely relied on regressive indirect taxation or on broadening the tax base. Most tax reforms across the region do not target wealth, and tend to burden the poor and the middle class more than the richest segments of population.
3. **Tax authorities should implement inspection and enforcement mechanisms to design appropriate wealth transfer policies with a focus on mitigating poor compliance.** Tax evasion and exclusion of illicit assets and offshore holdings must be tackled. A key entry point is to require all individuals to file tax returns capturing estimates of taxable wealth. This would improve poverty targeting since ministries of finance, social affairs and other related domains could target individuals' accumulated wealth, not only income streams. These measures should help policy makers secure fiscal space to support the rising social and economic costs of an enduring multifaceted crisis, while keeping public budgets undented.
4. **The effective implementation of fiscal reforms is contingent on laying foundations for solid governance, which should be accompanied by wide social dialogue,** knowing that fiscal reforms are never a purely technical matter. It is easy to introduce a wealth redistribution scheme, but its ultimate success depends on the strength of existing governance systems, including trust in the public sector, institutional effectiveness and sound accountability frameworks.

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Despite the economic crisis precipitated by the COVID-19 pandemic, the Arab region's economic elites have further increased their grip on the region's assets, both in terms of their share and in absolute value. While most economic groups in the region saw their holdings eroded to some degree between mid-2019 and end-2020, and those in the lower middle and the bottom of the wealth pyramid plainly backslid in terms of their holdings, a large number of individuals broke through the $1 million or higher wealth marks. From a global perspective, half of the 16 countries with the highest increase in wealth inequality have been Arab countries. Consequently, a third of the 20 most unequal countries today are Arab countries.

Development has been unequalizing across all Arab subregions, but especially in Gulf Cooperation Council countries and Arab low-income and conflict-affected countries. Reducing inequality and vulnerability to poverty calls for an integrated approach based on a portfolio of complementary measures. This entails assisting the poor in alleviating their socioeconomic challenges, as well as working with the rich to put their wealth to the best social use, in a sustainable and equitable manner. The effective implementation of fiscal reforms should be grounded on solid governance and accompanied by wide social dialogue.

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