**MENA-OECD Resilience Task Force Annual Meeting, Jeddah 4 – 5 December 2018**

Background Paper for Session 1: Rebuilding a Social Contract Based on Social Dialogue

What are Social Contracts?

The social contract is a key concept in international efforts to support socio-economic development. It is especially relevant in fragile and conflict-affected countries where development challenges are greatest (UNDP, 2016). Weak or underperforming social contracts are defining factors in state and societal fragility. Broken social contracts exacerbate the root causes of forced migration and displacement, especially state repression, inter-communal conflict and injustice.

Figure 1: Conceptual Representation of the Social Contract in a Conflict-Affected Country
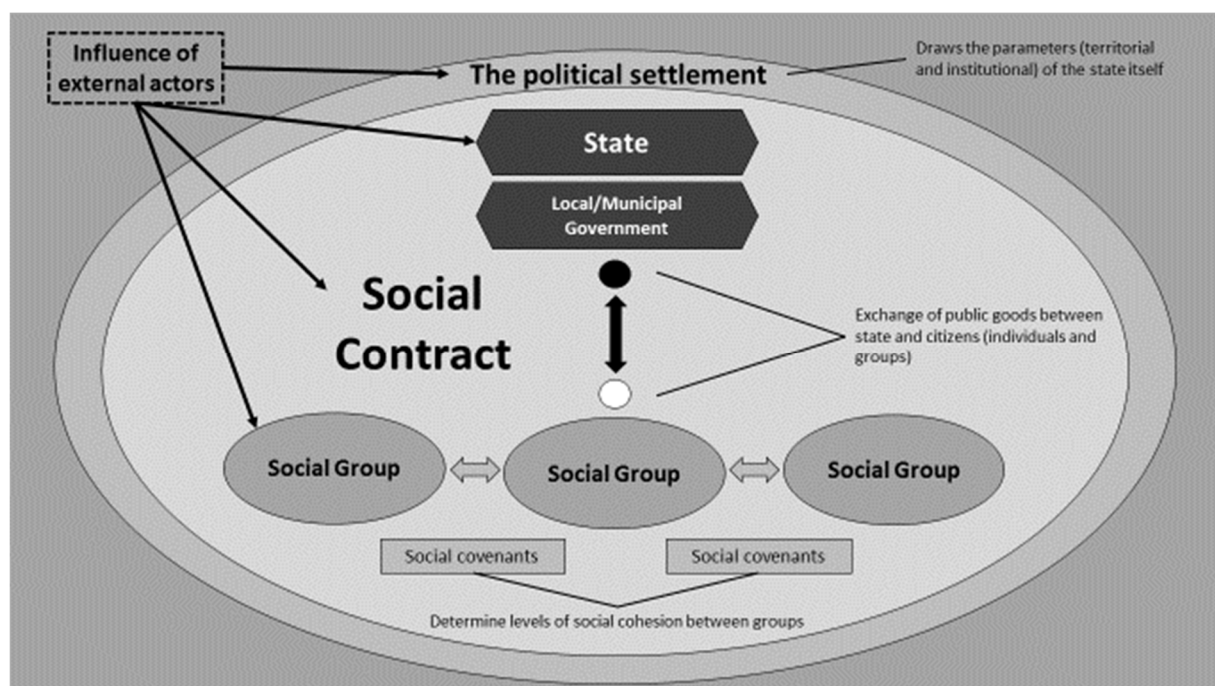
A 'social contract' can be understood as an explicit or implicit agreement between the relevant social groups or actors that make up a society, and the government about mutual rights and obligations, in particular the exchange of public goods and services. It is the set of formal and informal rules and behavioural norms that regulate state-society relations in a given country, with relevance both for individuals and for the social groups that constitute a society (Kaplan, 2017).[1] A social contract is a

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[1] A 'social group' can be any group of people that expresses a shared identity and is capable of actions that influence the emergence and/or the evolution of social norms in a society. These include ethnic or tribal groups, other kinds of local communities, religious groups, business groups, labour groups, political movements, genders, and generations.

living thing, in a constant state of negotiation and renegotiation based on basic acceptance of the legitimate parameters of state-society relations.

Figure 1 illustrates three linked processes crucial for the formation and evolution of a state-society social contract in a conflict-affected country: the political settlement, the social covenants between and among the groups that make up the society, and the social contract itself. These processes are conceptually distinct, but they are seldom linear. Rather, they can be considered as iterative steps or mutually reinforcing building blocks. The first step is usually the agreement of a political settlement, through a process of domestic negotiation and/or international sponsorship. The next key process is the formation of social covenants between and among the social groups and communities that specify how they can live peacefully together (UNDP, 2016). A critical mass of social covenants supports the emergence of the state-society social contract, which embeds and legitimises the political settlement, through the institutions of the state.

This does not mean that the system of social covenants must be complete, nor does a political settlement have to include all social groups or cover the states' entire territory to come into being. Indeed, in most conflict-affected countries, both the system of social covenants and the political settlement are incomplete. While in some parts of a country a political settlement may have been agreed, in others it does not yet apply; some groups may have made good progress towards a social covenant independent of the state while others are still fighting, while elsewhere a partial social contract may have emerged even though other building blocks are missing. But, as a general rule, all three processes need to be advancing so that a peacebuilding process can be considered sustainable.

Figure 2: The Exchange of Public Goods in a Social Contract

Figure 2 captures some of the 'deliverables' that are 'exchanged' by the state and society under the terms of a social contract. The state should provide public goods such as national and human security,

it should protect rights such as political participation, justice and religious and other freedoms, and it should provide institutions, opportunities, and services such as healthcare and education. Society – both at the level of social groups and individuals – should provide recognition and loyalty to the state as a sovereign entity, taxes, and public services so that the state can function.

It is important to remember that social and political transformations are long-term processes. In Europe, nation-states and their social contracts were forged over centuries. They were fundamentally challenged in the 20th Century by wars and their terrible consequences, resulting in new domestic and regional political and economic structures that have supported peace and prosperity in the 21st Century. The MENA region is facing similar epoch-defining challenges and the international community must be a reliable partner, providing patient support to the countries of the region in their efforts to define and reach more inclusive social contracts.

The OECD Resilience Task Force: supporting a new social contract for the Middle East and North Africa

After independence, MENA governments established a specific kind of social contract with citizens, mainly based on the redistribution of rents from natural resources, development aid and other forms of transfers (Faria and McAdam, 2015). They provided subsidised food and energy, free public education and government jobs to citizens. The latter were thus 'compensated' for the lack of political participation. However, with growing, young populations, weak institutions and declining state revenues, many governments lost the ability to fulfil their duties and had to focus spending on strategically important social groups (Hertog, 2017). This exacerbated socio-political inequalities and eroded formal and informal relationships between the well-connected and the excluded, between ethnic and sectarian groups, and in particular between generations.

In the wake of the Arab Uprisings, most MENA countries have re-established similar social contracts to the old ones, with a focus on preserving short-term stability, but leaving some people with the impression that they are excluded from core state functions like accountability and inclusion (World Bank, 2016). As many citizens know that their socio-economic and political conditions have not improved, these 'new' social contracts are likely to break down, risking in new revolts and potentially civil wars that could be more destructive than the conflicts that started in 2011.

Several key themes for discussion and concrete action by the Resilience Task Force can support the creation and embedding of a new social contract in the MENA region:

In this context, the MENA-OECD Resilience Task Force addresses several issues crucial to the emergence of stable and legitimate social contracts in the region. The Task Force's main objectives are to define measures that link short-term responses with longer term, structural reforms; assist MENA countries' efforts to improve their investment climates and private sector job creation; work with governments to strengthen institutions; and improve the knowledge base through resilience systems analysis (OECD, 2018 a). Achieving these objectives will require dialogue on socio-economic inclusion and cohesion as well as on governance and reforms, supported by the targeted provision of technical and financial support to addressing socio-economic development bottlenecks.

- **Support for stakeholder dialogue:**

Social dialogue among relevant stakeholders can facilitate reform and the legitimation of a new social contract. Bringing together stakeholders from different social groups to work on specific initiatives can help strengthen alliances among them with concrete objectives in mind. These processes may also have a broader impact, building horizontal relationships (known as 'social covenants') among social groups, and thereby contributing to the emergence of social contracts across the society as a whole (UNDP, 2016). Based on previous experiences in conflict mediation and peacebuilding, the Resilience Task Force can work to develop models and support dialogue processes between state agencies, businesses, unions and other domestic and external stakeholders. This includes organising reach-out activities to relevant organisations such as UN ESCWA, UNDP the World Bank and the EU, regional research networks such as FEMISE, ERF and EuroMeSCo, civil society networks and local 'change makers'. The Task Force can develop these models through organising peer-learning workshops and using their results for the design and implementation of specific technical assistance programmes and projects in support of reforms.

- **Support for governance, accountability and transparency:**

Donor activities, including sector policies and technical measures, need to be committed to improving governance as the basis for a new social contract. This can be achieved by supporting both 'top down' measures, such as central government taxation and industrial policies, and 'bottom up' measures for governance in specific sectors. Based on the OECD's experience in other contexts, the MENA-OECD Resilience Task Force can establish principles and provide technical support for governance, accountability and transparency in the design and implementation of economic reforms in the MENA region. The Task Force could develop this theme further by establishing a working group on governance and making the issue a key focus of its annual conference.

- **Support for socio-economic inclusion and cohesion:**

Socio-economic cohesion and inclusion are crucial for the design, implementation and legitimation of reforms, and therefore need reinforcing in support of a new social contract. The Task Force can help facilitate the identification of specific sectors, regions and populations to be included in resilience support activities in order to overcome polarization. In order to focus on job creation in these sectors, regulatory and other framework conditions for supporting foreign and domestic investors and businesses need to be created, while respecting the principles of 'do no harm' and 'leave no-one behind.' This issue is particularly relevant when considering the balance of private and public sector employment in many MENA countries. The Task Force can develop this theme further by commissioning studies on the most promising sectors and their specific framework conditions.

German Development Cooperation has started to identify cooperation programmes and projects that can play a role in supporting and embedding new social contracts:

Several donor agencies and countries have started to take concrete steps towards supporting the emergence of new social contracts in the MENA region as a key aspect of their resilience support programmes. The social contract will be a core theme of the World Bank's forthcoming Flagship Report

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on reconstruction for peacebuilding in the MENA. The United Nations Development Programme has conducted a study of 11 conflict-affected countries, including Tunisia and Yemen, to identify key drivers of resilient social contracts (McCandless et al, 2018). The OECD is developing technical assistance initiatives based on analytical work on fragility and resilience that reflect the key social contract themes of stakeholder dialogue, governance and inclusion.

In early 2018, the German Federal Ministry for Economic Cooperation and Development (BMZ) asked Germany's implementation agency (GIZ) and the German Development Institute (DIE) to translate their conceptual understanding of the MENA social contract into concrete relevance for sector programmes and cooperation projects. Several programmes and projects have been identified that have significant potential to contribute to strengthening social covenants between groups at the sub-national level, and thereby supporting the broader evolution of national, state-society social contracts. Some of these initiatives are already well set up to do this, while others will need re-focussing and adjusting. This process is still in its early stages, but Germany has identified several examples that could inspire other actors, with potential links to the activities of the MENA-OECD Resilience Task Force:

- **Support for stakeholder dialogue:**

The Tunisian Social Dialogue for Employment (Employment Alliance):

The social dialogue among business groups, unions, government officials and civil society actors has the objective of building alliances for job security and promotion in Tunisia. In the aftermath of the 2011 revolution, a social contract (*Contrat Social*) between the government, unions and employers organisations was adopted in January 2013. In addition to active labour market policies, it envisaged reforms to education and vocational training, better employment relations, reforms to social security systems and health care, and minimum income for the poor. This social dialogue process has been supported by several international partners. The project 'Tunisian Social Dialogue for Employment', funded by German technical assistance, aims to improve the quality (working conditions, advocacy), and quantity (new prospects) of employment, thereby reducing poverty. The project contributes to the achievement of SDG 8 (Decent Work and Economic Growth). It also aims to include previously unrecognized issues and groups, such as informal workers and youth, and to provide stakeholders with a dialogue model that be adapted for other contexts. It is currently financed from 2017 – 2020.

Libya Socio-economic dialogue process (together with UNESCWA):

This project provides a forum for Libyan stakeholders to discuss and propose options for viable economic, state and social models that can flow into relevant political processes for the transformation of Libya. It was initiated by UNESCWA and is financed by Germany and several other donors. The Libya socio-economic dialogue aims to support the exchange of ideas on future social, state and economic models, as a complement to Libya's peacebuilding process. The discussion, by focusing on economic and social development in parallel to political and security issues that are currently blocking the process, is intended to build trust and partnerships for a viable economic, state and social model. It is currently financed from 2017 – 2020.

- **Support for governance, accountability and transparency:**

Palestine Municipal Development Programme (MDP):

The MDP aims to strengthen the institutional capacity of local governments and to improve the delivery of public services at the local level. The improved services are benefiting the entire population in the Palestinian Territories. The programme has been running since 2009, and has been complemented by the Local Governance and Services Improvement Program (LGSIP) since 2017. In addition to Germany via GIZ and KfW, the World Bank, France, Denmark, Belgium, the Netherlands and Switzerland are also involved. The MDP is designed as a long-term financing and reform mechanism to support the larger municipalities with investment (through incentive-based grants), municipal innovation and efficiency, capacity building, and program management. Evaluations have found that the participative, inclusive and transparent planning processes have helped increase trust in local government. The programme is currently financed until 2021.

Promoting decentralization and local development in Iraq:

This project aims to strengthen the capacity of key actors at national and sub-national level to implement decentralization in a citizen-oriented manner in Iraq. The project's pilot phase is near completion and its further implementation is currently being planned in coordination with the Iraq government and other donors. The project follows a multi-level approach, focussing on three areas of action: (i) improving the skills of key actors in decentralization and accountability; (ii) strengthening the capacity of elected officials in selected provinces and districts; (iii) strengthening mechanisms for participation of citizens in the implementation of decentralization and local development. This approach not only allows project activities to be linked, but also paves the way for an integrated development cycle that starts with citizens' needs and reflect them in the national development plan. The project's pilot phase is financed from 2017 – 2019, with a further extension planned.

- **Support for socio-economic inclusion and cohesion:**

Lebanese Host Communities Support Programme (LHCSP – together with UNDP):

Germany has supported the LHCSP since 2014, and the project is currently in its fourth phase. The programme objective is to improve access to quality services for Syrian and Palestinian refugees and the local population. The ongoing conversations and cooperation among national and local government, private sector stakeholders, different confessional groups and refugee groups should contribute to social stability in the host communities. In addition, the measures should contribute to improving the living conditions of women and reducing social tensions. UNDP has proposed the project implementation in three components. Component 1 is at the centre of the project and involves the improvement of basic infrastructure and, as a result, the reduction of tensions in communities particularly affected by the refugee crisis. Component 2 focuses on improving living conditions in informal Palestinian settlements, especially regarding water, sanitation and health. In component 3, UNDP proposes to assist the Ministry of Education with a national campaign against violence in schools, thus strengthening the awareness of teachers, parents and students about peace, conflict prevention and acceptance of others. The programme thus works horizontally, to identify needs that can be addressed vertically by central government.

Promoting conflict resolution mechanisms and creating perspectives for vulnerable groups and regions in Jordan:

The objective of this programme is for people, regardless of origin, economic status, location, age, gender or place of residence, to be better able to shape their lives with a future perspective. The programme is not only aimed at refugees, but also at other marginalised social groups including women, youth, poor people and people that feel excluded by the central government. Targeted peace-building measures should provide a paradigm shift in society, through (i) creative-cultural approaches to peacebuilding strategies, thus giving marginalized groups of the population new perspectives; (ii) by facilitating exchange between different population groups through the creation of safe spaces, thereby contributing to greater social cohesion; and (iii) by underpinning societal change processes at the municipal level, thereby reducing the potential for frustration. The project is implemented by Germany's Civil Peace Service and local partners, and is currently financed from 2017 – 2021.

Conclusions and recommendations for the MENA-OECD Resilience Task Force

Germany's experiences in working with other donor organisations and partner countries on programmes and projects relevant to the MENA social contract has resulted in lessons that may be of wider relevance for the MENA-OECD Resilience Task Force. Perhaps the most important of these is the need to think of the bigger picture when designing technical and financial cooperation programmes. Sometimes, development actors face inherent contradictions between short-term goals and the longer-term needs of partners. This is especially relevant when thinking about 'resilience', which can take the form of risk-averse resistance to change, or in specific processes that some actors want to continue despite of the changes taking place around them. It is therefore important to consider the broader socio-political implications of technical and financial assistance programmes, especially larger interventions that inevitably impact on a country's social contract. This can work better when decisions are taken on the basis of sound analysis of the socio-economic context, and with a long-term view.

A second key conclusion is the need to negotiate the buy-in of the state where possible. This is not always easy in conflict-affected countries, and in many cases the 'state' may mean regional, local or municipal administrations. It is, however, crucial to have active state participation in planning processes in order to secure ownership. This implies that international partners sometimes need to work with local partners that they may not like. MENA countries have to develop their own social contracts, and donors do not decide who the relevant social, political and economic partners are. On the other hand, experiences have shown that broadening the groups of stakeholders and including marginalised groups in planning processes can have positive results for the legitimacy and therefore the resilience of infrastructure and institutions. When state agencies include people in planning and decision-making processes, they enable political participation.

Finally, the principles identified by the OECD in the Peacebuilding and Statebuilding Goals are highly relevant to the social contract and resilience in MENA countries. Core among these is the principle 'do no harm'. Not all societies are pluralistic and open to outside efforts to influence the social contract. Many of the issues under consideration are highly politically sensitive, and brokering cooperation among social groups in conflict-affected countries is risky. Some measures will fail, and others will not

be able to address key political or social issues. The social contract concept offers a means of better understanding the social and political implications of measures aimed at strengthening economic resilience.

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