

Informal labor and the expansion of social security programs: evidence from Jordan and Tunisia

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Introduction

- Unemployment in the Middle East and North Africa (MENA) is mainly linked to the youth school to work transition (Assaad and Krafft, 2015; Assaad, 2008, 2014).
- Young people often fail to find formal employment and are likely to fall into the informal sector (Assaad Krafft, 2016).
- Social protection is far less established in MENA but is today a preferred instrument of the Millennium Development Goals
- Social protection reforms implemented in MENA could have an impact on formal job.



Research question : What is the impact of the extension of social protection on informal labor (as defined by ILO)?

MENA region



Reforms

- ❖ Tunisia (2004) : Merger of the sickness benefit programs of the various social security schemes into a new unified scheme financed by contributions, levied at a rate of 6.75% of salary or income.
- ❖ Jordan (2010) : unemployment insurance financed by contribution, levied at a rate of 1.5% of salary ; Maternity benefit through a 0.75% payroll contribution.

Literature review

Question widely addressed in Latin American countries :

- Mexico : Campos-Vazquez & Knox (2011); Azuara & Marinescu (2013); Aterido, Hallward-Driemeier & Pages (2016)
- Colombia : Camacho, Conover & Hoyos (2014)
- Argentine : Gasparini, Haimovich & Olivieri (2009); Garganta & Gasparini (2015)

Literature review

Researches dealing with this issue for MENA region are very limited (lack of information about various labour market flows).

- Ben Braham & Marouani (2016) : Contribution density of the most vulnerable groups is very low compared to other workers in Tunisia.
- Arouri & Cuong (2016) : the receipt of contributory pension reduces the probability of working of people aged 15 to 60 as well as people above 60 years old in Egypt.
- CRES (2017) : disincentive to the labor market formalization of PNAFN & AMG2 programs' beneficiaries in Tunisia.
- Alhawarin & Selwaness (2018) : workers who started their first job after the 2010's reform in Jordan experienced a decline in their proportion of acquiring social insurance coverage upon their job start.

Empirical methodology & data

- Difference in differences methodology: evaluate the program impact on the informality status of workers.
- $y_{it} = \alpha \times time_t + \beta \times treated_i + \Gamma did_{it} + \Delta X_{it} + \varepsilon_{it}$
- Labor Market Panel Surveys, Economic Research Forum. Tunisia (2014 round) & Jordan (2010 & 2016 rounds)
- 4 521 households (Tunisia); 5 102 & 2 950 households (Jordan; 2010 & 2016)

Results

- Main result : Reform has a non-significant effect on labour market formalization.

Reform	Estimates
Tunisia	-0,027
Jordan	0,032

- Explanation : workers do not value health benefits much regarding to the scheme contribution. This could be explained by low quality in health infrastructure.

Results

- Workers are more likely to get out informal employment as they advance in their career.
- Then we evaluate the program impact considering university graduates and women under 45 years old.
- Main result : the reform has a non-significant effect on labor market formalization for these two groups.

Conclusion

- Non-significant effect of reforms on formal employment.
- Workers are more likely to get out informal employment as they advance in their career.
- Economic incentives have also to be considered → social insurance mechanisms design and workers protection need economic incentives changes (Barr and Diamond, 2006)

Limits

- Analysis on two specific countries
- Limited data on region.
- Heterogeneous infrastructures depending on the country

Thanks for your attention