

ERF Policy Brief

Is Jordan Achieving the Social Insurance Goals of its New Social Contract?

Susan Razzaz and Irene Selwaness

About the authors

Susan Razzaz is an Economist and a consultant.

Irene Selwaness is an Associate Professor, Faculty of Economics and Political Science Cairo University, Egypt. and Research fellow, ODI, UK

In a nutshell

- There is a regulatory gap in social insurance schemes for private sector jobs. The Jordanian social insurance scheme covers almost all types of jobs, except two types of wage work representing 35% of private sector wage employment: agricultural, domestic workers; those who work for wage but less than 16 days.
- In addition, there is a compliance gap as well. Among those jobs that are covered by provisions of the social insurance law, the effective coverage rate among private sector wage employment is on average 39%.
- Although the Social Security law does not discriminate by gender or nationality, yet there are significant differences in effective coverage rates by nationality. Jordanians are more than 6 times more likely to have social insurance coverage in their private sector wage work than non-Jordanians.
- Economic sector, firm size in terms of number of workers, and regularity of employment among key factors that determine access to social insurance coverage in the private sector.
- True irregular employment – in which a worker does not remain with any employer for more than a few days – is among the most challenging forms of employment to effectively cover.

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For many decades, key social protections including social insurance were provided directly through public employment. When fiscal constraints made this impossible, the Government articulated its goals for a new social contract including the private sector as the main source of employment with Government as a regulator and facilitator to ensure those jobs meet the needs and aspirations of its citizens. Based on a recent paper (Razzaz & Selwaness, Forthcoming), we assess the extent to which Jordan is achieving these goals and, if there are challenges, where efforts should be focused.

1. Social insurance under the old social contract

State-society relations in Jordan – as in much of MENA throughout the 1950s, 1960s and 1970s – were based on the so-called “authoritarian bargain” social contract. Under this social contract, key social protections including social insurance were provided directly through public employment. Under the old social contract, the main components of social insurance were provided through several features of public employment. Income during old-age and in case of disability was assured through pensions. Income during maternity was provided through paid maternity leave. And, crucially, income was protected from sudden shocks by job security – the fact

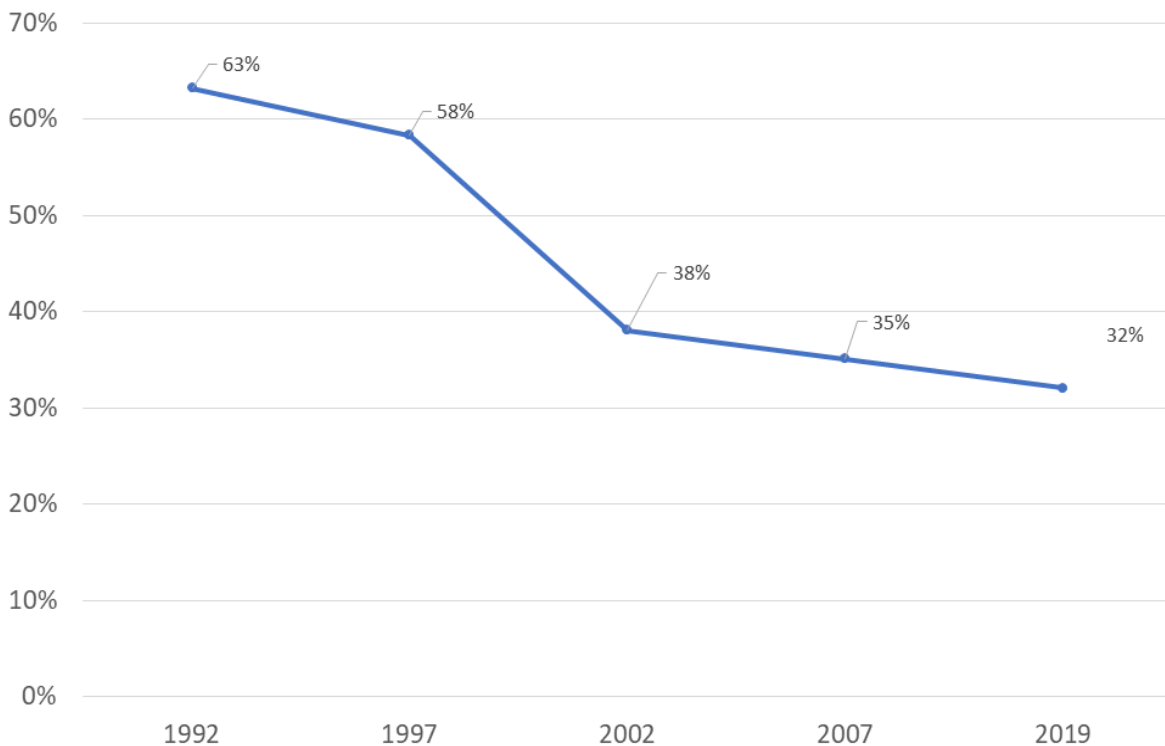
that a public sector job was a job for life. Twenty years ago, nearly two-thirds of Jordanians worked directly for the public sector (Figure 1).

2. Social insurance under the new social contract

Jordan’s social contract began to fray as the public sector could not afford to maintain its side of the bargain. In its effort to shift toward a new social contract, the Government of Jordan has consistently articulated its vision of a private sector led economy, including the private sector as the source of employment that meets the needs and aspirations of Jordanian citizens. Furthermore, the Government has articulated its intention to implement this vision through a shift from direct public provision of the social insurance components of the social contract to government as a regulator and facilitator of social insurance through private sector employment. Numerous official documents have articulated the specific actions Government would take to ensure the quality of private sector jobs, with an emphasis on social insurance:

- Encouraging Jordanian workers to obtain jobs in the private sector. (National Employment Strategy and Jordan Economic Growth Plan)

Figure 1. Share of employment in the public sector (Jordanians only)



Source: DOS, *Employment in Enterprise Surveys*.



- Legislation requiring the provision of a minimum set of benefits for private sector employees and the self-employed including social security, health insurance, and maternity benefit. (Jordan Vision 2015)
- Verifying private sector enterprises' compliance with the Labor Law and relevant regulations for all employees, prior to providing the enterprise with any Government service. Revising regulations to ensure working conditions in all sectors are appropriate for Jordanian workers, including social security coverage, including through bylaws for agriculture. (National Social Protection Strategy)
- Address the imbalance between public and private wages. (Government Economic Priorities Program, i.e., the reform matrix)

3. The legal framework for social insurance

The framework for private sector employment to provide social insurances has existed since 1978. From the beginning, coverage has been required for a very broad set of workers “without any discrimination as to nationality, and regardless of the duration and form of the contract, or the nature or amount of the wages.” Over the years, the types of insurance provided through the Social Security Corporation has expanded with

the goal of leveling the playing field between private and public sector jobs. Specifically, to ensure private sector workers are insured against sudden shocks and guaranteed income during maternity, the 2010 law introduced unemployment insurance and maternity insurance.

But the current Social Security Law specifies three main categories of private sector workers that are outside of the purview of the social insurance scheme:

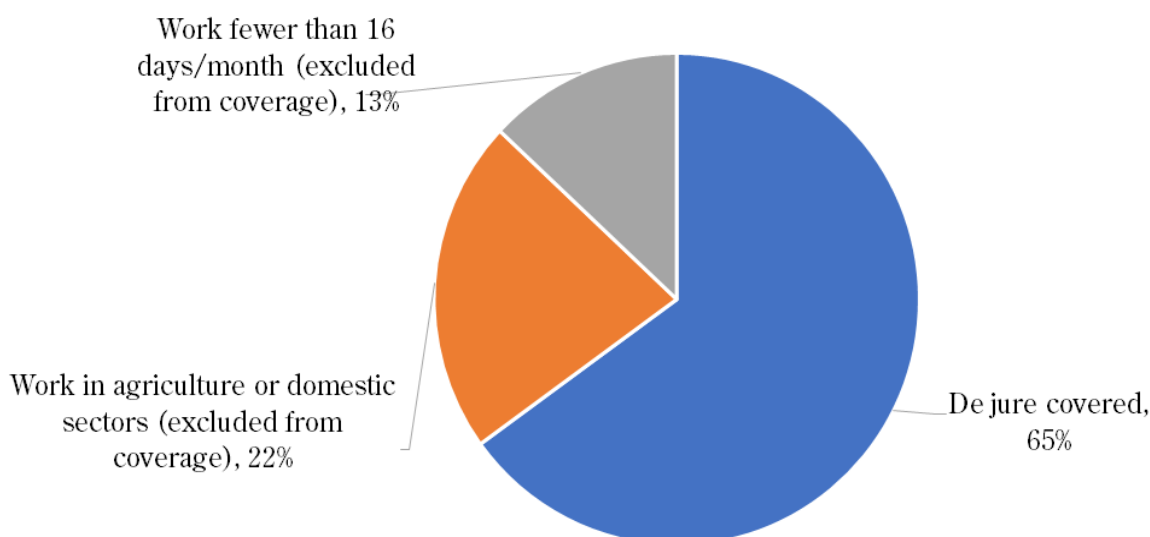
- Most employees in agriculture and domestic work sectors
- Employees who work fewer than 16 days in a month
- Most non-wage workers (note that our analysis was focused on wage workers.)

This means that social insurance coverage for these types of workers is not required by law.

4. Snapshot of coverage of private sector wage workers

It is important to distinguish between the extent to which coverage is required by law (*de jure coverage*) and the extent to which workers actually receive coverage

Figure 2. Structure of private wage employment related to *de jure* coverage



Source: Constructed by the authors' using JLMPS 2016



(*effective coverage*). This distinction is important to identify what additional efforts are needed to ensure full coverage of private sector wage workers.

De jure coverage. Based on the 2016 JLMPS, we estimate that 65% of private sector wage workers are required to be covered. Twenty-two percent are excluded because they work in agriculture or domestic sectors and 13% because they work fewer than 16 days per month.

Effective coverage. Among private sector wage workers who are *de jure* (required to be) covered, effective coverage is 39%.

Key demographic groups

In examining the Jordanian labor market, it is useful to distinguish workers based on two demographic characteristics: gender and nationality.

The labor force participation rate among Jordanian women is among the lowest in the world, and is particularly unusual given the high level of education among women as well as men (Assaad et al., 2020). Unemployment rates are very high especially among the most educated women. When Jordanian women

are employed, they are disproportionately working in the public sector and in education and health services.

Despite high unemployment rates among Jordanians, there are a large number of non-Jordanians working in the country. The majority of these are migrant workers (mostly from Egypt) with refugees (mostly from Syria).

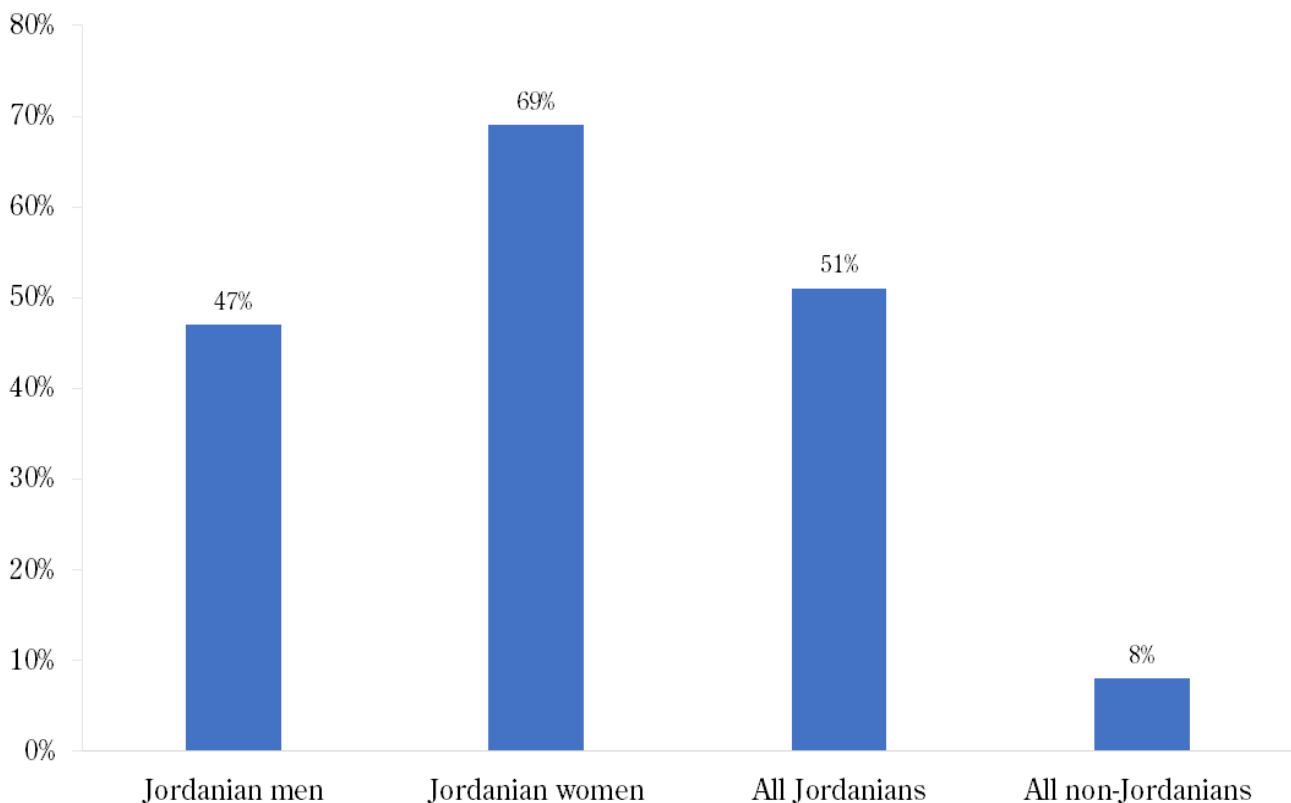
While public sector employment is dominated by Jordanians (95%), non-Jordanians comprise nearly half (47%) of private sector wage workers.

Although the Social Security law does not discriminate by gender or nationality, there are significant differences in effective coverage among the key demographic groups, as demonstrated in Figure 3.

4. Factors that explain effective coverage

Although the law does not discriminate by gender or nationality, the types of jobs held by each demographic group partially explains the differences in effective coverage. Figure 4 shows that when we restrict our attention to workers whose jobs require coverage, the coverage gap between Jordanians and non-Jordanians is

Figure 3. Effective social insurance coverage rates in private sector wage employment



Source: Constructed by the authors' using JLMPS 2016.



reduced but is still very large, so we need to look at a variety of factors beyond what is in the law.

The factors that are essential for explaining effective coverage are:

- *Economic sector.* As expected, given the legal exemption, effective coverage rates are very low in agriculture and domestic work. There are also significant variations in coverage among sectors in which coverage is required. Perhaps more surprisingly, effective coverage rates vary significantly across economic activity sectors even when coverage is required. Among Jordanians, effective coverage rates are 63% in manufacturing, 55% in construction, 43% on trade and 38% in transportation.
- *Size of firm.* The law does not exempt small enterprises from providing coverage to their workers. Nevertheless, effective coverage rates vary significantly by enterprise size.
- *Existence of a written contract.* Jordanian labor law considers an oral agreement equivalent to a written agreement. Accordingly, all employees are assumed to have a contract – whether oral or

written – and social security is required “regardless of the form of the contract.” Although the law does not distinguish, in practice it is easier to hold an employer accountable for compliance if the contract is written. The difference in ease of enforcement is likely responsible for the fact that having a written contract is an important factor for both Jordanians and non-Jordanians. Among Jordanians for whom coverage is required, the existence of a written contract increases effective coverage rates from 32% to 77%.

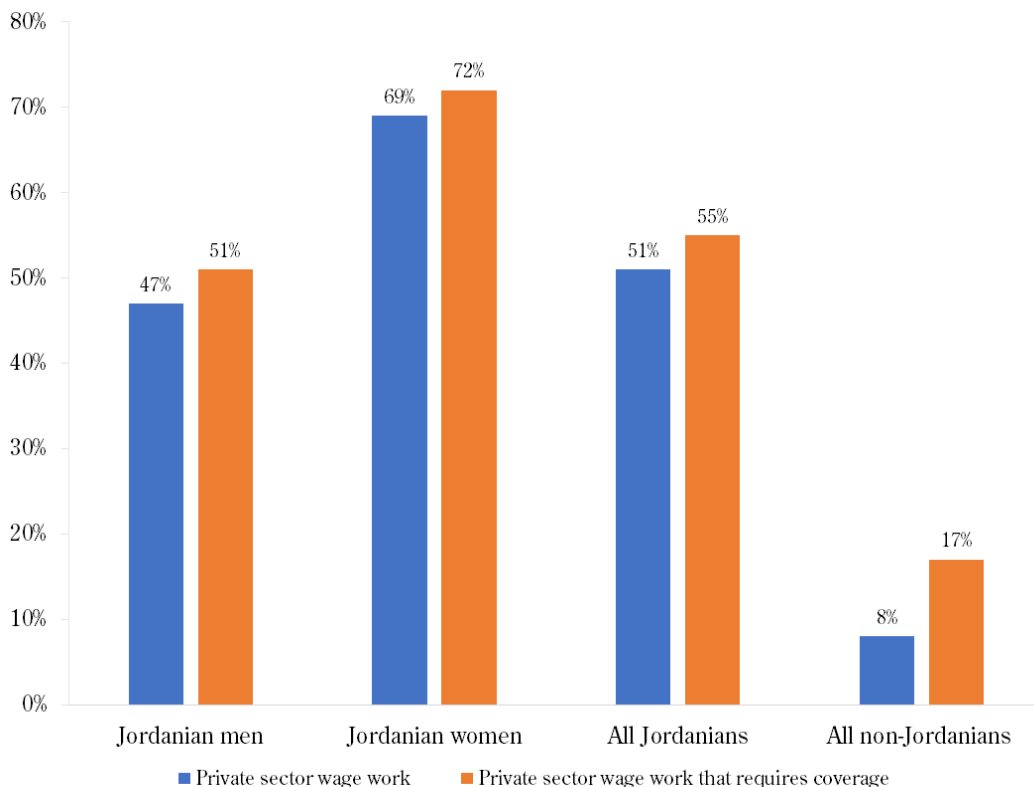
- *Regularity of employment.*

5. Transitions into and out of coverage

Despite Government strategies to shift toward employment of Jordanians in good jobs in the private sector, it has become increasingly difficult for Jordanians to obtain private sector employment that provides effective coverage.

Over the past 15 years, it has become increasingly difficult for Jordanian youth to obtain a first waged job

Figure 4. Percent socially insured by gender and nationality and by whether their jobs are covered by law, private sector wage employment



Source: Constructed by the authors' using JLMPS 2016.



that provides effective coverage. Figure 5 shows trends in effective coverage in the first jobs held by Jordanian men and women. It shows that since 2006, the share of first jobs providing effective coverage fell from about 80% to about 60%. Jordanian women exhibit the same trend for their first jobs in wage work and indicates that over the same time period, the share of women whose first waged job provided effective coverage fell from about 95% to about 75%.

Furthermore, for Jordanians who starts working in a job that lacks effective coverage, it is unlikely they will be able to shift later in a job that provides coverage (Alhawarin & Selwaness, 2019). Among Jordanian men in private wage employment who lacked coverage in 2010, only 12% moved into comparable jobs that provided coverage by 2016, and 8% to public sector jobs. Among Jordanian women, only 6% moved into comparable jobs providing coverage, and 2% to public sector jobs. The majority (52%) of women who were in informal wage employment in the private sector in 2010 left the labor force by 2016. Moreover, obtaining a private sector job that provides coverage does not guarantee the employee will remain covered. Among Jordanian men with private sector wage employment with coverage in 2010, 17% moved into comparable jobs without coverage by 2016.

Given the difficulty in obtaining effective coverage in the private sector, it is not surprising that public sector employment remains desirable and – if a worker obtains a public sector job – they rarely shift out of the public sector. Among men, 69% of those in public sector employment in 2010 were still there in 2016. Of those who left, the largest group (15%) left the labor force. Only 5% left public employment to go to private formal

employment. Among women, 73% of those in public employment in 2010 were still there in 2016. Of those who left, the largest group (20%) left the labor force. Only 2% left to go to formal private wage employment.

6. Implications

The analytical findings in this paper indicate that the strategic goal of the new social contract – shifting away from public provision of employment towards private employment that meets the needs and aspirations of the citizens – is a long way from being achieved. The findings, do, however, provide important guidance as to where future efforts could usefully be focused.

As we showed, the differences in effective coverage rates by gender and by nationality are fully explained by the types of jobs each group holds. Jordanian men have lower rates of effective coverage than Jordanian women. This is in large part due to the fact that Jordanian women rarely work outside of education and health sectors and rarely work for small firms. Non-Jordanians have lower rates of effective coverage than Jordanians. This is potentially because non-Jordanians are over-represented in agriculture and domestic sectors (where coverage is not required) and in small firms.

It may be impossible to ever get Jordanians – especially Jordanian women – to work in the full range of private sector jobs including in small firms, unless the quality of those jobs is improved. The Government understood this when it articulated strategies to ensure private sector jobs provide employees with a minimum set of benefits.

Figure 5. The structure of first waged jobs (percentage) by year of first waged job, from 2006 to 2015 for Jordanians, three-year moving average, JLMPS 2016

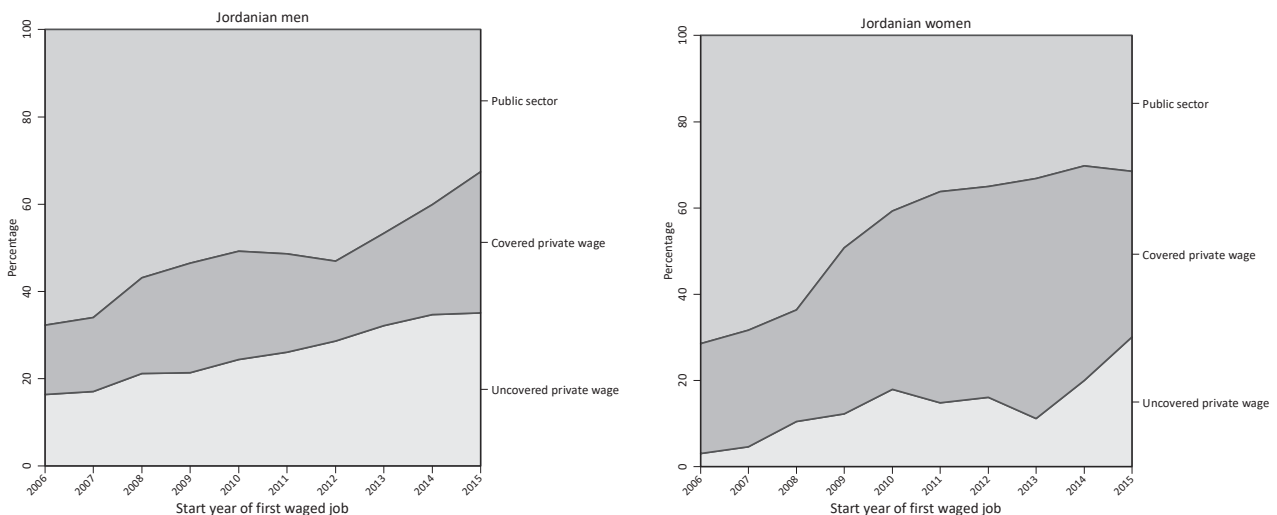
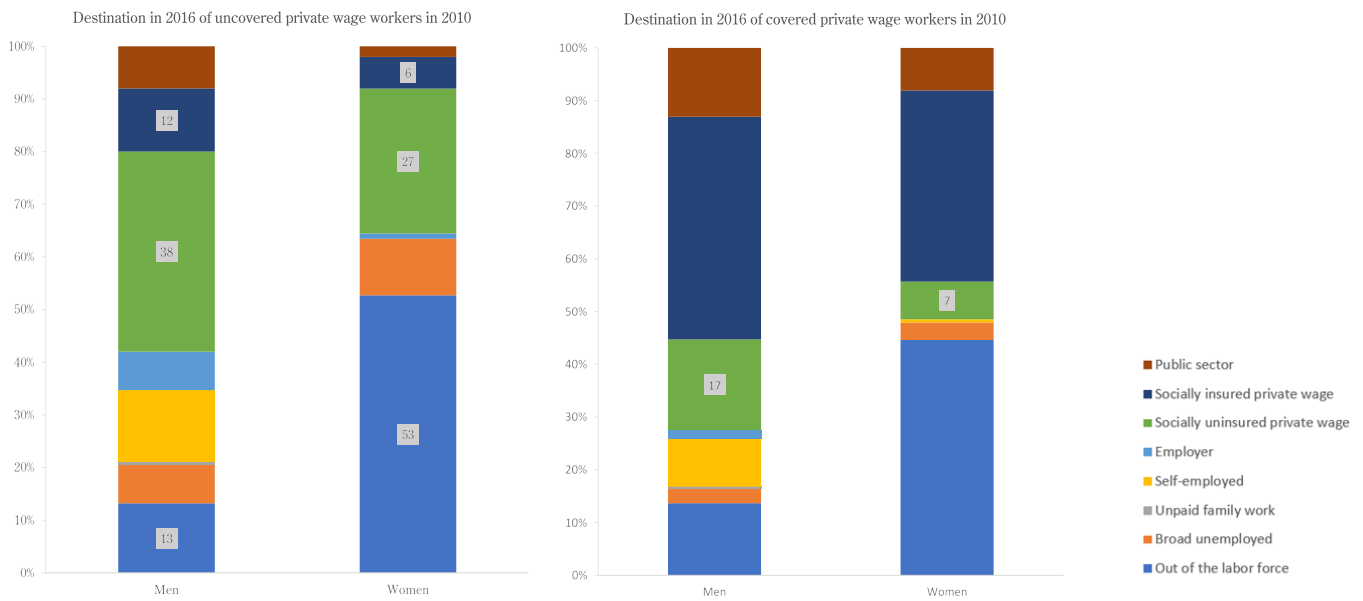


Figure 6. Distribution (in percentage) of employment statuses in 2016, among uncovered and covered private wage work in 2010



Specific policy implications fall into three categories: addressing regulatory gaps, addressing compliance gaps, and rethinking adequate social insurance coverage for the rising irregular work.

Regulatory gaps. Although the law is relatively comprehensive in requiring coverage – 65% of private sector wage workers are covered de jure – there are some categories of wage workers for whom coverage is not required. 22% of private sector wage workers are exempted from coverage because they work in agriculture/domestic sectors. Jordan is not unique in having regulatory gaps in agriculture, domestic work and very short-term employment. Many countries have developed special social insurance mechanisms for agriculture, often subsidizing the contributions. If special contribution subsidies were made available for the agriculture sector, further criteria may be useful to ensure subsidies go to vulnerable employees and employers. Farm size could potentially be used as a proxy for affordability, as it is the practice for example in Tunisia and Brazil. If Jordanian farm owners with holdings over 1,000 dunums were required to pay the full unsubsidized employer contribution, more than a third of employer contributions would not require subsidy.

Compliance gaps. The analysis in this paper shows that gaps in compliance are as important as regulatory gaps. The evidence is very clear that effective coverage rates are low in small firms. Although the law does not exempt small firms, enforcement of small firms is insufficient for two reasons. First, a perception that small firms

cannot afford to provide coverage for their employees may make enforcement officers lenient with small firms. To the extent this phenomenon exists, an explicit discussion is warranted. By default, lack of enforcement based on perception results in benefiting the firms' owners at the expense of the employees. Second, traditional mechanisms of enforcement (i.e., focused on inspections) are inadequate given the limited resources available to SSC. The Social Security Corporation has recently identified other government agencies whose databases can be compared to SSC's own database in order to identify non-compliant firms. For example, a large number of firms – including very small firms – obtain annual profession- or service-specific licenses from the municipality. It is a simple matter to identify any that are not registered with SSC and to contact them electronically. This approach is useful because it relies on emails or SMSs and therefore can be easily automated. To date, the approach has been used to remind firms of their obligations. Ultimately, links with other government agencies can be used for enforcement as well.

A final point to mention related to small firms. Most of what we know about effective coverage of social insurance comes from surveys of workers (conducted as household surveys based on residential listings). In order to better understand reasons for firm non-compliance, it is crucial to also obtain data from the firms themselves. Such data not only allows forming a characterization of the types of firms that are non-compliant, but it can also identify if there are gaps in knowledge about the law, if there are administrative procedures that are overly cumbersome,



and the extent to which there is an issue of unaffordability of contributions.

Regularity of employment. The third key determinant of effective coverage identified in the analysis is regularity of employment. Irregular employment – in which a worker does not remain with any employer for more than a few days – is among the most challenging forms of employment to effectively cover because tracking a large number of employers is cumbersome. In principle – and as evidenced in the empirical literature – social security contributions could be collected from anywhere along the value chain: the full cost of the final product is paid by the consumer, no matter where along the value chain compensation is paid. Several countries address challenges in collecting contributions by shifting where in the value chain the contributions are collected. In the Indian construction industry, for example, collection of contributions is cumbersome, due to employment arrangements that involve several levels of subcontractors as well as a large amount of day labor. To address this challenge, contributions are collected in the form of levies paid by principal contractors based on the total value of the construction contract, successfully reaching over 70% of workers. In another successful approach cell-phone based ride hailing applications in Indonesia and Uruguay automatically take a small fee from consumers that is then transferred to drivers' social security. Similar approaches may be useful in Jordan – especially given the large number of dependent self-employed workers as well as to address social protection of those who work for different employers each day or each week.

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Contact Information

ERF Office

Address: 21 Al-Sad Al-Aaly St. Dokki, Giza, Egypt

PO Box 12311

Tel: +202 333 18 600 - 603

Fax: +202 333 18 604

Email: erf@erf.org.eg

Website: <http://www.erf.org.eg>

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