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Facilitating transition between social assistance and social insurance in the Arab Region: Conceptual framework and review of global good practices[1]

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1 Introduction

In most developing countries, the large size and vast heterogeneity of the informal economy has posed a challenge to governments to implement social protection policies and systems for all and, at the same time, ensure that measures to extend social protection coverage do not become a hurdle for the transition to the formal economy.

In the Arab region, this issue is particularly relevant given that informality is high and social protection coverage is relatively low. In the Arab States,[6] approximately 51 per cent of total employment is informal. As for effective coverage, only 30 per cent of the population in the Arab States and 36 per cent of the population in North Africa are covered by at least one social protection benefit, excluding health insurance.

Ensuring bridges between different social protection programmes and financing mechanisms—including smooth transition paths (forward and backward)—between social assistance[7] and social insurance schemes—has increasingly become an important issue in many developing countries due to its potential to create better impetus for accessing formal employment, increase social protection coverage, stabilize income and reduce vulnerabilities, and, in doing so, to ensure both the right to decent work—for those of working age—and to social protection for all.

The 2012 International Labour Organization (ILO) Social Protection Floors Recommendation, No. 202, acknowledges social security as "an important tool to support the transition from informal to formal employment", as well as recognises this transition and the establishment of social security systems as mutually supportive. The interconnection between the extension of social protection and formalisation is also fully recognised in the 2015 ILO Recommendation No. 204 on Transition from the Informal to the Formal Economy. Formalisation of enterprises and employment provides access to social insurance to a larger number of workers (horizontal coverage), but also often protection against more risks/contingencies and higher benefits (vertical coverage) than are typically available through tax-financed schemes.

The complementary nature of tax-financed benefits and contributory mechanisms can also increase the financial sustainability of the social protection system as a whole and unlock new avenues for social protection financing. The extension of contributory coverage and the formalisation of enterprises and employment contribute both to reducing the burden of coverage of social assistance and to broadening the tax base for government-financed social protection.

For this, it is important to ensure coherence between social assistance and social insurance policies and administration. This will avoid, for example, that eligibility criteria and "exit rules" of social assistance programmes create disincentives to a smooth transition of informal and self-employed workers into the formal economy—especially for working-age members of low-income households—or that social insurance administrative procedures, benefit attractiveness and contribution levels discourage registration and retention in the contributory system.

1. This policy brief is based on the report "Facilitating transition between social assistance and social insurance: Conceptual framework and review of global good practices for countries in the Arab Region" jointly developed by the International Labour Organization (ILO) and International Policy Centre for Inclusive Development (IPCid)/Institute of Applied Economic Research (IPEA), with the support of Organization of Ibero-American States (OEI).
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6. According to ILO definition, they include Bahrain, Iraq, Jordan, Kuwait, Lebanon, Palestine, Oman, Qatar, Saudi Arabia, Syria, UAE, Yemen and excluding North African countries. The Arab region can be divided into two further categories: the Gulf Cooperation Council and other Middle Eastern Countries. The GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. Other Middle Eastern Countries are Iraq, Jordan, Lebanon, Palestine, Syria, and Yemen.
7. In the report we define Social Assistance, in line with the ILO, as benefits for poor and needy groups that are financed by tax revenues.

BOX 1
From graduation to transition

Graduation: Reaching a state in which one has exited (extreme) poverty, based on a given poverty metric or the act of going through a set of phased-in and overlapping interventions meant to improve the well-being of their participants'.

Transition: Movement from one form of social protection to another in the context of changes to socio-economic, lifecycle and work status. Social protection is a human right of all and, hence, it is not expected that individuals will graduate from social protection. Policies should aim at keeping individuals in social protection throughout their lives, regardless of their work status or level of income, by facilitating the transition across different components of a holistic social protection system.

2 Conceptual framework

This policy brief summarises the conceptual framework and policy recommendations by ILO & IPEA (2024), which were based on a review of international experiences in ensuring better transition between tax-financed social assistance and employment-related social insurance. The review identified four key factors to ensure better transition (see Figure 1):

(i) design features of social assistance programmes;

(ii) design features of social insurance programmes;

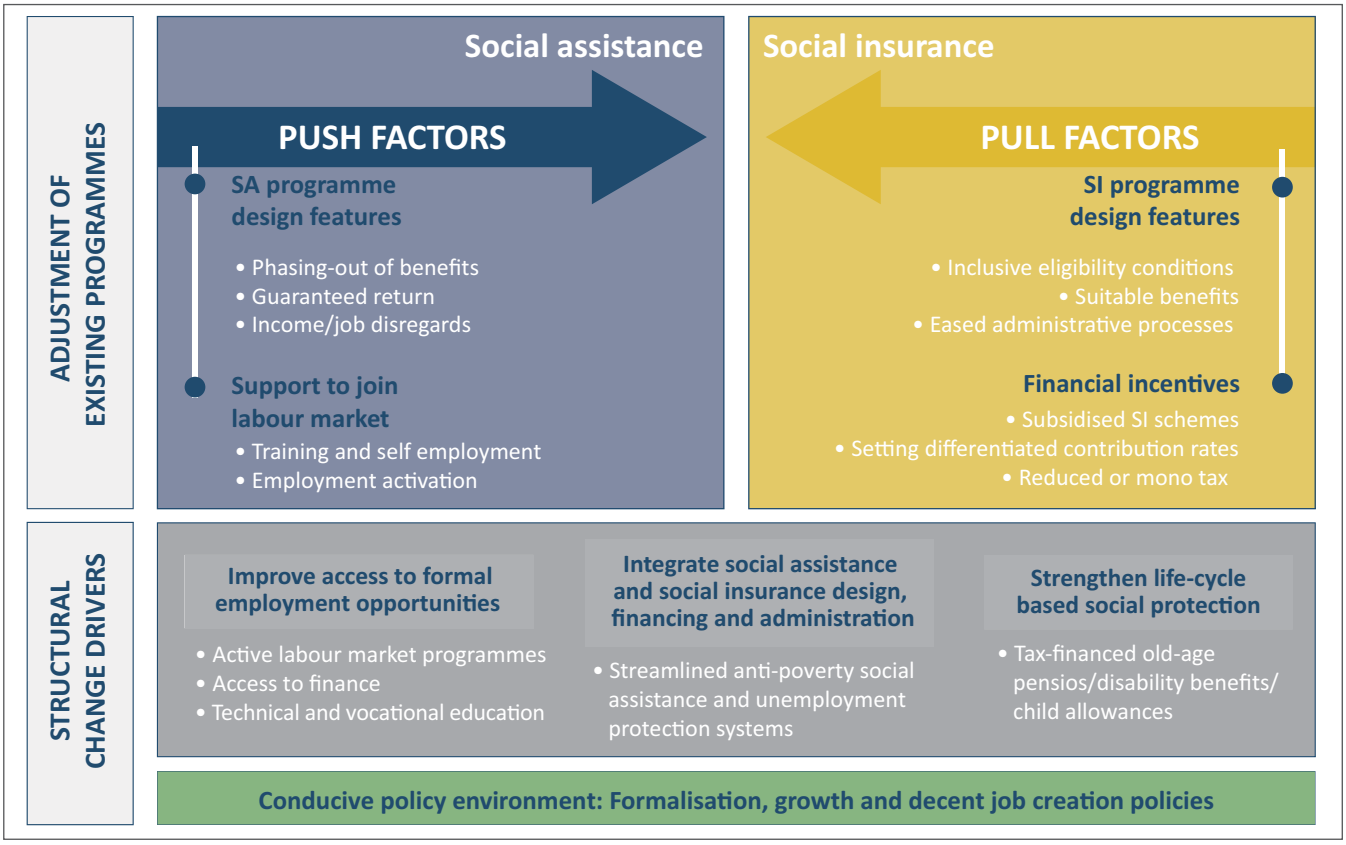
(iii) measures that support workers to join the labour market; and

(iv) financial incentives for workers to join social insurance schemes.

Items (i) and (iii) are **push factors** that facilitate or incentivise workers in social assistance programmes to enter the formal economy and join a social insurance scheme, whereas items (ii) and (iv) are **pull factors** that attract social assistance beneficiaries and informal workers into social insurance schemes.

While the analysis focuses primarily on the mechanisms that can be implemented in relation to existing anti-poverty social assistance and social insurance schemes, it recognises the importance of more structural and holistic policy reform agendas to improve the transition to the formal economy, access to decent work and coordination between social assistance and social insurance (bottom part of Figure 1).

FIGURE 1
Better transition from social assistance to social insurance: Conceptual framework



Source: Authors' additions to Almeida et al. (2012).

The report also identifies three key areas for structural or systemic reforms that are necessary for better transition:

1. **Strengthening non-contributory life-cycle benefits such old-age, disability, maternity and child benefits**, by providing a basic floor of protection throughout key life transitions free of poverty or employment conditionalities.

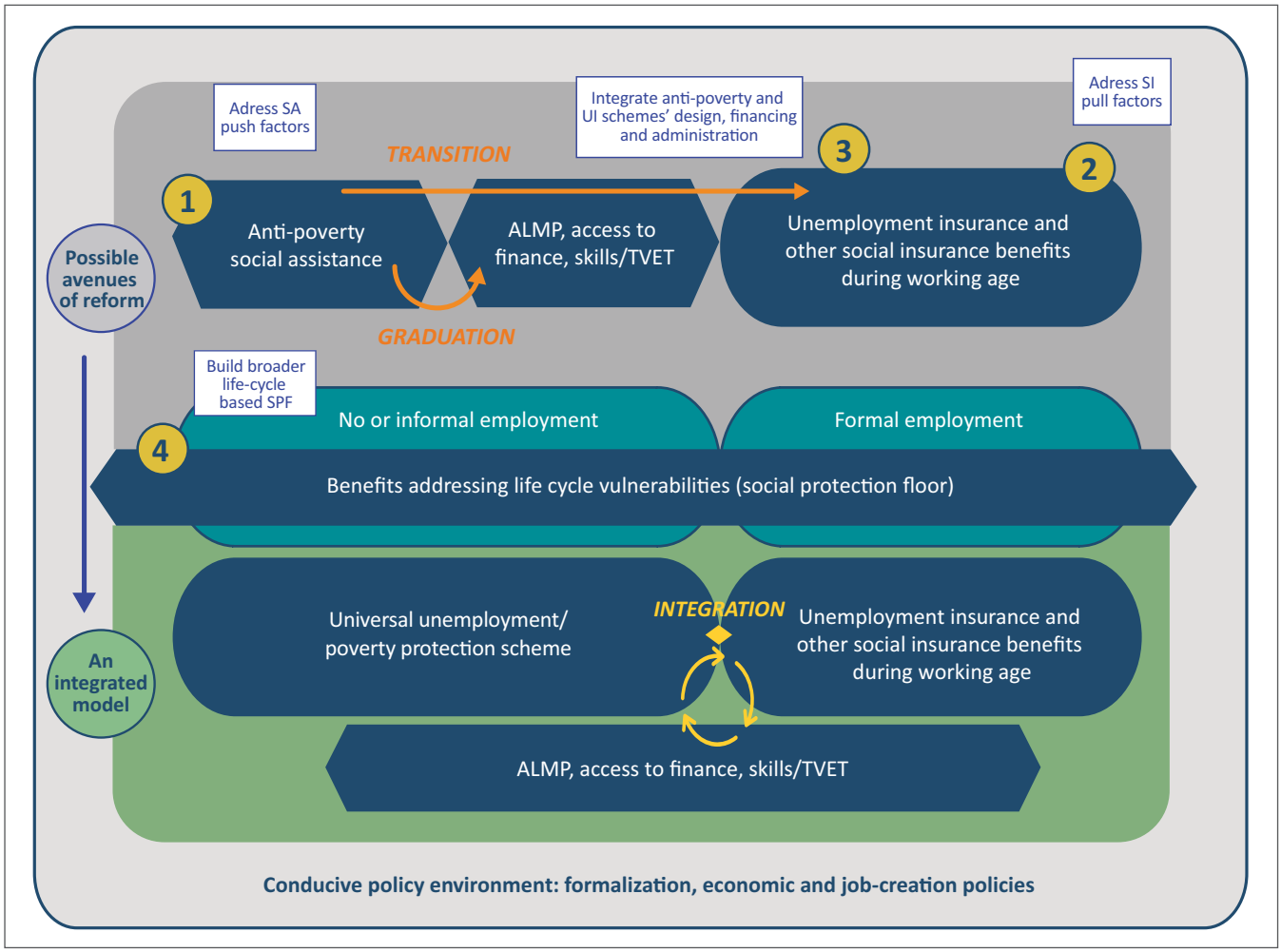
2. **Integrating the design, financing and administration of contributory and non-contributory social protection schemes**, including and particularly by streamlining unemployment and poverty protection programmes, and

3. **Adopting a policy framework that fosters employment creation, formalization and decent work**, improving access to formal employment opportunities at scale, strengthening ALMPs—including Public Employment Services—TVET policies and improving access to finance.

Countries should adopt gradual policy reforms that, within a broader policy environment that is conducive to formalisation and decent employment, facilitate the integration of these different elements (Figure 2). As push and pull factors are addressed for social assistance and social insurance policies respectively, advanced reforms should seek to more fundamentally integrate the design, financing and administration of contributory and non-contributory schemes. For example, by focusing on streamlining eligibility criteria, adopting common databases and payment mechanisms, and rearranging benefits and financing in an integrated multi-tiered fashion.

FIGURE 2

An integrated model to facilitate transition from social assistance to social insurance.



Source: Authors' elaboration.

Expanding life-cycle based tax-financed social protection programmes—such as old age, disability, maternity and child benefits—is essential to shift part of the social assistance burden from household-based poverty-targeted schemes, which can more easily create disincentives to join the formal labour market and social insurance. Achieving a better balance between different components of an integrated social assistance system —life-cycle individual benefits and poverty-targeted "safety nets"— would not only support progressive coverage expansion, in line with the vision of building universal social protection floors, but also facilitate stronger integration between contributory and non-contributory social protection systems, noting that social

insurance schemes are also modelled around life-cycle risks. A better integrated social protection system can pool revenue and taxes for the financing of universal benefits and then rely on contributions for the provision of social security benefits.

Better integrating anti-poverty and unemployment protection schemes can be one of the mechanisms to synchronise social assistance, employment activation and social insurance and facilitate transition. This requires innovation with the development of a more unified and universal approach to unemployment protection, breaking current silos between contributory and non-contributory tools for poverty and unemployment protection, in parallel to extending lifecycle benefits for those unable to work. Essentially, this could mean a streamlined approach for the design, financing and administration of poverty alleviation (or guaranteed minimum income programmes) and unemployment insurance schemes thereby ensuring the coverage of those not working but capable to work, those in informal work and those in formal employment. Making an unemployment protection scheme universal would entail extending it not only to those who lose their jobs but also to first-time jobseekers and those in temporary or seasonal unemployment, those underemployed and those who do not meet qualifying conditions for social insurance, for example because they were long-term unemployed. Integrating administration and ensuring interoperability of social insurance, social assistance and labour market information can facilitate coverage improvements and timeliness of the income support, as well as prevent fraud and errors. Integrated financing could involve utilising contributions and tax-financing for universal unemployment protection.

Finally, it is important to ensure the existence of both a conducive policy environment and institutional framework that foster employment creation, formalisation and decent work (Figure 2). Improving formal employment opportunities and promoting decent work, including fundamental principles and rights at work should be sought in tandem and in a coherent manner with initiatives to extend social security coverage to informal workers. Improving access to formal employment opportunities at scale through labour market and formalisation policies can enhance possibilities for those without jobs or informal workers to join the formal economy. By introducing or strengthening labour market policies, including ALMPs and access to finance/credit, governments can improve the functioning of the labour market by inducing changes in labour demand and labour supply, as well as their matching process.

Such a conducive policy environment includes a comprehensive policy and institutional framework that encompasses labour market policies and institutions, as well as access to finance, education, and skills development policies, among others. It requires keeping coherence and linking social protection policies and administration with different other strategies (e.g., formalisation, wage, working conditions and labour market activation), public institutions and private actors.

This conceptual framework provides a simplistic representation of the ways different transition pathways could occur given differences in individual circumstances and country contexts.

Some of these pathways may resemble the following:

- An **unemployed social assistance beneficiary** would benefit from a transitional pathway focused on push factors such as direct *support to join the labour market*—if they are able to work—and they would also benefit from social assistance design features that guarantee them basic protection, such as *phased-out benefits* and *guaranteed return*. *Support to join the labour market* is of course also highly dependent on countries' economic contexts and the ability to generate jobs.

- A **social assistance beneficiary working informally** would require a different transitional pathway, which would likely be focused on pull factors, such as making social insurance contributions more affordable either through (i) direct subsidies or differentiated contribution rates, (ii) providing a suitable range of social insurance benefits for the informal worker to choose from, or (iii) strengthening awareness regarding if and how their standard social assistance benefits may be affected if they declare a formal income and register in a social insurance scheme.

- For **non-poor informal workers**, a transitional pathway would require a combination of different pull factors, and a strong communication strategy and behavioural nudges showcasing the value of social insurance contributions.

- For **low-income migrants and refugees** whether working informally or unemployed, a transitional pathway is predicated firstly on the existence of inclusive labour regulations concerning their work permits and their access to economic sectors, as well as accessible social security regulations, which are often exclusionary and inaccessible.

- An **unemployed female social assistance beneficiary** may prioritise external factors such as the availability of childcare services over push factors such as social assistance design features, when compared to an unemployed male social assistance beneficiary. Thus, gender mainstreaming is important while developing transitional pathways for different groups. Thus, gender mainstreaming is important mainstreamed while developing transitional pathways for different groups.

4 Overall findings from the review of good practices

ILO & IPEA (2024) analyse features of social assistance poverty-targeted programmes and social insurance schemes for a sample of countries in the Arab region. Information was compiled on whether they implement any of the push and pull factors of the conceptual model (Figure 3). As for the push factors, the research findings show that most social assistance programmes in the Arab region adopt *income discounts or job disregards* in eligibility rules. As expected, this practice mostly concerns income from informal work, home-based production, and other social assistance programmes, and does not cover formal economy income.

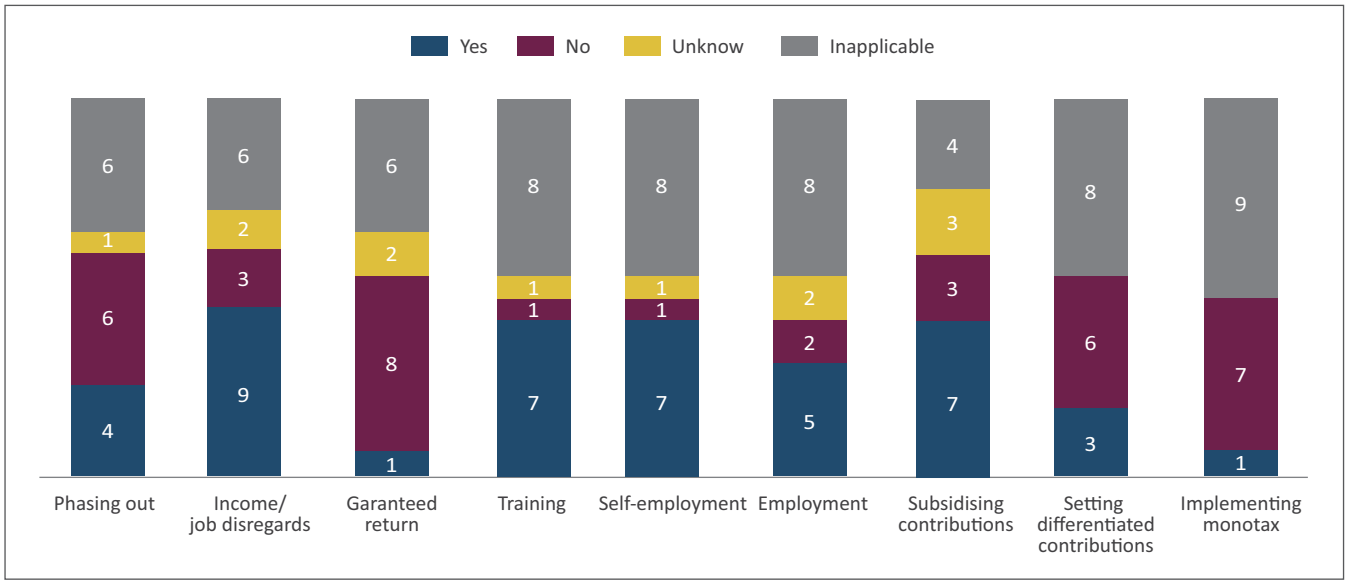
Moreover, while some countries offer programmes with a "graduation" element, e.g., *training or self-employment support*, they seldom offer financial incentives for workers to join a social insurance scheme, or even information concerning existing

pathways from social assistance to self-employment and social insurance coverage. Finally, guaranteed return is the least implemented push factor for social assistance schemes, while the promotion of employment opportunities is the least implemented for labour market activation programmes in the region.

As for the pull factors, some Arab countries are implementing financial incentives for *informal workers to join social insurance schemes*. While some *subsidise social insurance contributions, others set differentiated contribution rates or partially subsidise participation* in health insurance schemes.

FIGURE 3

Implementation of push and pull factors for better transition in selected social assistance and social insurance programmes across the Arab Region



Source: Authors' elaboration.

The recommendations in the next section highlight the need for a coherent design of programmes pertaining to these different pillars of a social protection system in a way that they complement each other in incentivising and supporting the transition of social assistance beneficiaries into social insurance.

5 Recommendations based on reviewed good practices

Push Factor: Design of Social Assistance Programmes

Design can ensure social assistance benefits are **phased out** to allow beneficiaries a gradual shift into the formal labour market with a smoother transition to social insurance coverage. Possible design features to achieve this objective include maintaining the standard cash assistance payment for a defined period of time or adjusting the benefit amount over time and depending on the worker's wage level. In Brazil, for instance, the Bolsa Família programme's design has a "protection rule" that allows beneficiary households whose per capita income has risen above the eligibility threshold of the programme up to a defined maximum to remain in the programme and continue to receive cash transfers for a 2-year period. Other countries like Mexico, Jamaica, Oman, and Chile have instituted design features that allow for the gradual removal of social assistance benefits.

Disincentives to join the labour market for social assistance beneficiaries can also be reduced by removing social assistance eligibility rules that preclude those in employment, especially formal, from participating or discounting a certain percentage of earned income from eligibility calculations. Countries like Jordan, Saudi Arabia, Chile, and Brazil implement poverty-targeted programmes that disregard certain income increases or changes in job status of beneficiaries in the process of reassessing the eligibility of households.

Social assistance programmes may also allow a 'guaranteed return' after beneficiary exits, to maintain a 'revolving door' to benefits in case of a renewed need for protection against poverty. Programmes in Mexico and Brazil provide an option to former beneficiaries who exited the programmes to return; in Brazil, for example, returnees are given the chance to enter the programme without going through its waiting list.

Push Factor: Support to Join the Labour Market

Weigh the suitability of self-employment versus traditional employment opportunities when considering adoption of "graduation" mechanisms. While "graduation" through self-employment, facilitated by income transfers or livelihood programmes, may seem viable, it could yield unsatisfactory outcomes, particularly concerning social insurance coverage. From a social protection perspective, the effectiveness of such a strategy is contingent on whether self-employed individuals are covered within the existing social insurance policy and legal frameworks, which is often not the case.

Implement complementary interventions for social assistance beneficiaries such as training courses and self-

employment support. In Colombia, for example, the 'My Future' pilot was linked to the conditional cash transfer programme 'Mas Familias en Acción' and offered farming techniques and financial literacy training to beneficiaries of the CCT, as well as home visits, and business coaching.

Address both supply and demand side barriers for social assistance beneficiaries to enter the formal economy and join labour activation measures. Initiatives should be integrated into wider public employment services, following an effective sequence modelled after global best practices, starting with job-search services, counselling, and monitoring, followed by training programmes. Structural barriers to join the labour market must be addressed when designing employment activation programmes, which is especially relevant to migrant workers and refugees. For example, in Mexico, Jordan and Türkiye wage subsidies and job placements have been adopted to support their transition to the formal economy and into social insurance. In all cases, particular consideration should be put in avoiding explicit labour activation conditionalities being imposed on social assistance beneficiaries, recognising that not all have the capacity to engage in economic activities.

Pull Factor: Design of Social insurance Schemes

Eligibility criteria of social insurance schemes should be inclusive of various types of informal and self-employed workers. This entails providing statutory coverage for flexi workers, migrants, refugees, all categories of domestic workers, agricultural workers, and fishermen, among others. It requires minimising legal and design barriers to eligibility to social insurance benefits, such as minimum qualifying periods, whenever possible. Experiences in South Africa, Thailand, and Jordan, among others were reviewed. In South Africa, coverage of unemployment insurance was extended to domestic workers; in Thailand and Jordan, coverage of micro and small enterprises was extended.

A **suitable range of benefits, including portability**, can ensure workers' varying needs and risks are addressed while considering their ability to contribute financially. For this, it is critical to put a strong emphasis on short-term benefits that can be enjoyed by insured members (and their families) during working age, as opposed to after retirement only. And it is important to raise awareness and incentivise potential beneficiaries to join. In Algeria, for example, the National Social Security Fund for non-wage/salaried workers was established to unify the social insurance schemes for self-employed workers, and provides medical care, maternity, disability, survivors allowance, old-age pensions, as well as family allowance, which is found to be a particularly valuable social security benefit, especially to poor households. Moreover, the portability of benefits to aid labour mobility into wage employment must be considered.

Easing administrative processes can facilitate subscription to social insurance schemes by workers previously excluded. For instance, in Jordan, the Social Security Corporation established digital mechanisms for registration of workers and contribution payments. And, in Tunisia, a mobile app was launched to integrate female agricultural workers into the Government's social insurance schemes. The app also provides the option for online contribution payments.

Pull Factor: Financial Incentives

To subsidise social insurance contributions either temporarily or permanently, ensuring a gradual transition and sustained support. Several countries are implementing such subsidies, including Jordan, Egypt, Morocco, Tunisia, Costa Rica, Oman, Colombia, and Peru. For instance, in Egypt and Peru, informal workers receive partial and full contribution subsidies, respectively.

To implement flexible contribution rates and schedules that align with the level and seasonality of income. In Brazil and Tunisia, workers outside the formal economy can pay lower contributions to join social insurance schemes, relative to those in the formal economy.

Consider the adoption of complementary incentives linked to the tax system for formalisation to pursue broader synergies with the formalisation agenda and reduce administrative costs for micro-entrepreneurs and self-employed workers. Examples reviewed include Argentina, Ecuador, Brazil and Uruguay. In Uruguay, payment of taxes is simplified in the *Monotributo* system, which also offers additional incentives for formalisation. Design of effective *monotax* regimes must consider a broad definition of informal workers to reduce potential exclusions, and the adoption of incentives for businesses to register. Importantly, implementation of these regimes must be coupled with investments in tax infrastructure and extensive coordination across different state entities.

Recommendations Related to the Structural Rethinking of Social Protection Systems and Approaches

The value and success of different mechanisms in fostering transition from social assistance to decent work with social insurance is highly contextual, depending on the characteristics of the individuals themselves and the country context in question. The applicability of different transitioning routes may differ depending on the strength and structure of a country's social protection system, its labour market institutions and the nature of barriers and opportunities.

Deeper, more structural reforms of the social protection system's architecture are also critical to support better transition from social assistance to social insurance. These, as described below, can enable the development of a more integrated, comprehensive, and effective social protection system that allows movement from one form of social protection to another during contingencies faced by individuals and families.

1. **Integrate contributory and non-contributory approaches for poverty/unemployment protection,** with a view to developing more "universalistic" measures of protection against low income, as opposed to exclusively loss of income, which can more efficiently operate at the intersection between contributory, non-contributory, and tax systems.

2. **Expand statutory coverage through tax-financed schemes for life-cycle contingencies** to ensure people

can maintain an adequate level of consumption at all times. It also creates better incentives for social insurance subscription as people are assured of the existence of a core floor of protection throughout their life transitions. This can be done, for example, by introducing inclusive child benefits, disability, and social pensions.

3. **Continue to shape labour markets through setting standards in legislation or strengthening labour market policies and institutions.** These will eventually help improve labour market outcomes in the medium and long term, promote inclusion, and provide pathways for transition to decent work and continuity in social protection.

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