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► **Expanding coverage or reducing protection?**

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Schemes in Jordan's social protection system

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Considerations on Voluntary Savings Schemes in Jordan's social protection system

In this note the International Labour Organization (ILO) and Women in Informal Employment: Globalizing and Organizing (WIEGO)¹ reflect on a recent proposal by the World Bank to introduce a voluntary savings scheme (VSS) in Jordan with the objective to expand social protection coverage to informal workers. Drawing on existing research and expertise on Jordan's social protection system, international experiences with voluntary schemes, and international labour standards, the note highlights a number of concerns regarding the compatibility of such proposal with International Social Security Standards ratified by Jordan, and the potential negative impacts of such a scheme on the adequacy and sustainability of Jordan's social security system, including its ability to ensure adequate protection to low-income informal workers.

The note highlights the risk that the VSS proposal will lead to partially replacing the solidarity-based pillar of the social security system, currently administered by the Social Security Corporation (SSC), with a system of voluntary contributions to an individual-risk based pillar, with uncertainty on benefits adequacy entitlements. This implies in effect the retrenchment of acquired social security rights of certain categories of workers and an erosion of the principle of collective financing of the social security system across economic sectors, as well as between workers and employers.

Instead of further fragmenting the social security landscape in Jordan, ILO and WIEGO recommend stepping up efforts to expand the national social security system by gradually facilitating the contributions of additional categories of workers. Building on existing initiatives of the SSC, the expansion of mandatory social security coverage to workers in all forms of employment should be accompanied by sustainable contribution subsidies to ensure up-take and adequate benefits for all. These efforts should be based on nuanced understanding of informal workers social protection needs and contributory capacities, as well as their voice and participation.

The expansion of social security should be accompanied by reforms of the SSC scheme to improve inter- generational equity, affordability and sustainability. Such an approach would be consistent with the history and principles of social security system in Jordan, as reflected in the Social Security (Minimum Standards) Convention No. 102 of the ILO, to which Jordan is a ratifying party.

¹ WIEGO is a global action-research-policy network that seeks to improve the status of the working poor in the informal economy.

Over the last decade, Jordan has weathered a number of social and economic shocks. Regional conflicts have disrupted trade routes and the supply of natural resources, while displacing communities across borders into already strained economies. In the aftermath of the Arab Spring, Jordan's economic growth rate hovered around 3 per cent, down from over 8 per cent in 2004². During the COVID-19 pandemic, the economy contracted by an additional 1.6 per cent and lost an estimated 260 thousand working hours. The pandemic exacerbated pre-existing socio-economic vulnerabilities, most notable in rising unemployment, particularly among women and younger people, of which approximately half are unemployed. As a result, poverty was estimated to have risen by 38 percentage points among Jordanians and 18 percentage points among Syrians, who were already worse off. Two years later, the Kingdom still had a poverty rate of approximately 24 per cent³.

While growth has rebounded to pre-pandemic levels in 2020, those pushed into vulnerability risk being left behind. This includes a large number of people who are excluded from the social protection system and therefore lack income security and access to health care. Prior to the pandemic, it was estimated that approximately half of the Jordanian workforce was in informal employment and were largely excluded from social protection.

In the face of persistent poverty and widespread vulnerability, it is now more critical than ever to increase efforts to expand Jordan's social protection system. This will require strengthening the existing system and investing in mechanisms to reach groups that are currently excluded, including informal workers, women, young people and older persons. Efforts to expand coverage to excluded groups will be essential for Jordan to achieve adequate protection throughout the lifecycle in line with the National Social Protection Strategy 2019-2025, international human rights frameworks and International Labour Standards.

► Expanding protection to informal workers is central to achieving universal social protection in Jordan

The right to social and health services is enshrined in Jordan's constitution, as are the right to work and education. The Labour code further defines rights, protections and responsibilities for all workers, irrespective of the mode of contract, or nationality. The Social Security Cooperation Law No 1 of 2014 and its amendments provides for the right to social security for all workers, as defined in the Labour code. Jordan's social protection system combines non-contributory social assistance and contributory social insurance. The main provider of social assistance is the National Aid Fund (NAF), a poverty-targeted programme under the Ministry of Social Development, which provides cash assistance and subsidised services to poor Jordanian households. As the NAF assistance is only available to Jordanians, vulnerable refugee households rely on assistance provided by UNHCR and WFP.

The Social Security Corporation is the main provider of social insurance, covering 1.48 million workers and providing support to 293 thousand pensioners. Jordan has progressively moved towards a unified public social security system based on a defined-benefit scheme and collectively financed from workers and employers' contributions. The system covers six branches, including old-age, disability, death, maternity, unemployment⁴ and work injury. The contribution rate for private sector workers is 21.75 per cent of the monthly wage, with workers' contributions 7.5 per cent and employers 14.25. While refugees and migrant workers do not generally benefit from social assistance in Jordan, they are entitled to accessing social insurance. Since 2010, the social security scheme has undergone a series of

2 ILO (n.d.). COVID-19 and labour statistics. Labour market impacts. Jordan country data.

3 ILO (2021). Opportunities for extending social security coverage in Jordan. ILO Regional Office for the Arab States

4 The only branch where benefits are accrued on the basis of individual savings accounts with no collective financing.

reforms aiming to expand coverage and improve long term financial sustainability. Between 2011 and 2014 SSC has integrated unemployment and maternity protection into the social insurance scheme and extended legal coverage to SMEs and self-employed workers. In 2014, Jordan ratified ILO Social security (Minimum Standards) Convention, 1952 (No.102) which placed the continued development of the national social protection system under the framework of internationally recognized principles of financing and administration and established minimum benchmarks securing adequacy of benefits to be provided.

In recent years, efforts have been undertaken to expand social insurance coverage to informal workers. This includes amendments to the labour law covering agriculture that introduced mandatory social security contributions. Acknowledging that a gradual transition into social security would be more sustainable for their long-term participation, the Social Security Corporation (SSC) temporarily waived contributions for selected branches for certain categories of agricultural workers. The SSC has also extended legal coverage to self-employed workers and introduced a tranche system for old-age pensions, where workers can select contributions ranging from 10 to 75 per cent of their earnings. Draft regulations for the coverage of part-time and flexi-time workers have also been developed. Despite these efforts, significant gaps and challenges remain in ensuring effective protection for informal workers, who often struggle to afford social security contributions but are at the same time excluded from social assistance.

With a view to further supporting the extension of coverage, the SSC, with support from international partners, has recently launched a dedicated initiative to promote the extension of social security to the most vulnerable workers while also aiming at the formalisation of employment: Estidama++ Extension of Coverage and Formalisation. The initiative enables a gradual transition of workers, who are poor, but not poor enough to benefit from poverty targeted social assistance, into social security. Through contribution subsidies that are phased, workers gain protection against life cycle contingencies that otherwise disrupt their social and economic contributions, notably their productive potential. At the same time, it shifts away from protection regimes that rely on tax financed assistance, and instead integrate workers into existing, solidarity-based protection.

► **Box 1. ESTIDAMA++: SSC initiative on the extension of social security coverage in Jordan**

Objective: The gradual and sustainable extension of social security to vulnerable workers in the informal economy in Jordan

Target Groups	Benefit Package	Duration
• Self-employed • Waged workers in MSMEs	• Phased social security contribution subsidies • Social Security coverage incentive reward	• 18 months

Cross Cutting Groups of Concern: Women, non-nationals (including refugees)

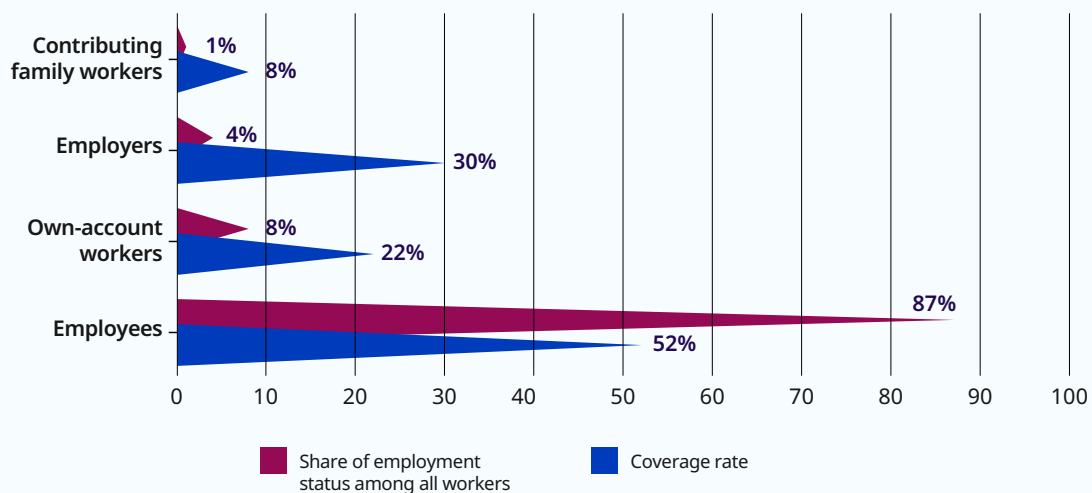
Sustainability strategy: Development of a national social security contribution subsidy scheme for most vulnerable categories of workers to participate in the main SSC scheme

► Profile of workers not registered with social security

Most informal Jordanian workers have an employer and work in sectors covered by the social security law. Contrary to global trends, most informal workers in Jordan are not self-employed but workers in informal dependent employment relationships, working for both formal and informal structures⁵. The workforce in Jordan is overwhelmingly composed of employees, while far fewer are own account workers. Nonetheless, 78 per cent of own-account workers lack social security coverage. Among all wages workers, coverage rates are 46 per cent, meaning that 54 per cent of waged workers are informal⁶.

Men represent a disproportionate share of informal workers in Jordan, mainly due to women's lower labour force participation. Women account for a smaller proportion of the total workforce, with a labour force participation rate of only 14 per cent, and those that are in the workforce are concentrated in the public sector. Women that are dependent family members of spouses employed in the formal sector are covered through their spouses, but this is against a backdrop where only 27.8 per cent of the entire population in Jordan are covered by at least one social protection benefit. Partially a result of their lower labour force participation, both in the formal and informal economy, women of working age are far less likely to have access to contributory protection mechanisms related to employment, as compared to their male counterparts. For instance, 11 per cent of women of working age have access to unemployment insurance, compared to 55.6 per cent of men of working age. Women, regardless of their employment status, are therefore generally less protected than men in their own right⁷.

► Figure 1. Social security coverage and share of workforce by employment



Source: ILO (2021)

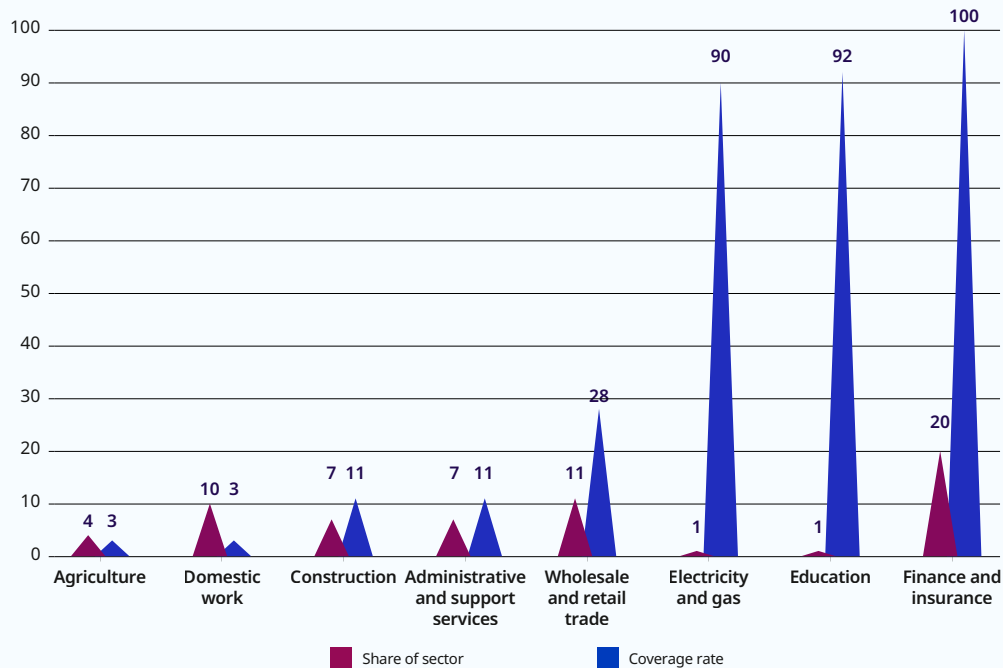
5 ILO (2021). Opportunities for extending social security coverage in Jordan. LO Regional Office for the Arab States.

6 Susan Razzaz and Irene Selwaness (2022). The Jordanian Social Contract: Shifting from Public Employment as a Source of Social Insurance to Government-Regulated Social Insurance. Working Paper No. 1582.

7 ILO (n.d.). World Social Protection Data Dashboards. Jordan country data.

A large majority of employees without social security work informally in the service sector, construction and manufacturing, all of which are required by law to affiliate their workers to contributory social security. It is important to note that rates of social security coverage are lowest in sectors that generally have more precarious forms of work such as agriculture and construction. However, these sectors represent a smaller share of the total workforce.

► **Figure 2. Social security coverage and share of workforce by sector (percent)**



Source: ILO (2021)

► A new proposed voluntary individual savings scheme for informal workers in Jordan

In 2022, following an analysis of drivers of informality, a report⁸ by the World Bank proposed the introduction of a voluntary savings scheme (VSS) for informal workers in Jordan. The proposal would allow workers to self-select into customised benefit packages with different contribution levels. Under the proposal, four benefit packages are targeted based on the wage differentials between formal and informal workers across six different sectors and skill-levels, and four sub-categories, including gender and nationality. Those with higher contributory capacity are afforded higher benefits.

Several elements of the proposal are unclear, especially the relationship of the VSS with other existing pillars of the public national social security system. The proposed VSS packages provide a combination of short-term benefits and incentives, such as access to low-interest micro-credit, vehicle insurance and subsidised housing credit, that are thought to incentivise enrolment. The design includes the option to withdraw short-term savings and roll over unused savings into pension schemes offered by the private sector. It assumes that lower-income groups would self-select into a heavily subsidised package (Package 1), while better off groups would self-select into packages with higher contribution requirements and benefits (packages 2-4). The proposal provides relatively high levels of benefits to those that can afford higher contributions and relatively basic ones with lesser contributory capacity.

8 World Bank (2022). Voluntary Savings Schemes to Protect Informal Workers in Jordan (English). Social Protection and Jobs Discussion Paper; No. 2206.

► **Table 1. The proposed voluntary savings scheme for Jordan**

Package	General characteristics of target Group(s)	Basic elements
Package 1	Low or no contributory capacity. Workers with lower levels of education, employed in agriculture, service, sales, crafts or MSMEs; Workers with an average monthly wage of 76 JD.	Contributions to privatised pension (DC) with ability to withdraw individualised savings or roll them over to pensions. Heavily subsidised and potentially linked to other government assistance programmes (one-stop-shop).
Package 2	Limited contributory capacity. Semi-skilled workers, or higher skilled workers that are non-Jordanian, including in crafts, trade, services and sales.	Contributions linked to private savings, insurance and government licences or authorization processes with ability to withdraw savings or roll them over into privatised pensions (DC). Some features to be added to incentivize contributions.
Package 3	Some contributory capacity. Elementary occupations, women in higher skilled occupations, non-Jordanian semi-skilled workers employed in medium sized enterprises.	Contributions linked individualised savings, if unused, will be rolled over to privatised pensions. Some features will be added to incentivize contributions.
Package 4	Contributory capacity. Highly educated workers in administration and professional activities across firm sizes with monthly wages between 219-321 JD.	Linked to individualised medium and long-term savings, with potential to withdraw or role into privatised pension.

Source: World Bank (2022)

► Voluntary individual savings schemes and international social security standards

As an ILO Member State and party to the Social Security (Minimum Standards) Convention No. 102 and Equality of Treatment (Social Security) Convention No. 118 Jordan assumes an obligation to give effect to their provisions, including legal and administrative architecture and financing that promote adequate levels of protection, including unemployment protection. The level, duration and qualifying conditions of benefits is to be established by law, and therefore predictable. The international social security Conventions ratified by Jordan also require that benefits be financed collectively by both workers and employers, and not place undue hardship on workers of lesser means. In addition, the Social Protection Floors Recommendation No.202, further explicates solidarity in financing and social inclusion, including of persons in the informal economy. Ultimately, the State remains responsible for the implementation of policies that are coherent and well-coordinated in achieving adequate levels of protection in line with international standards.

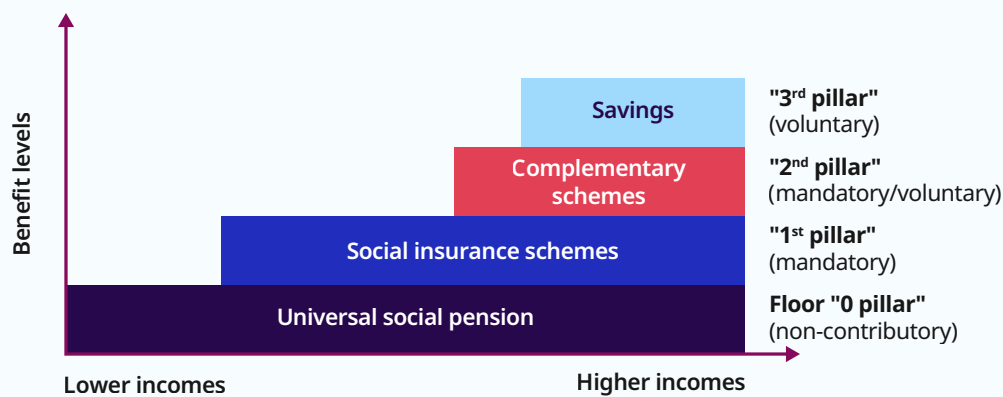
Voluntary schemes can be validated if they meet criteria established under ILO Convention No.102, namely that they (1) are supervised by the public authorities or administered by joint operation of employers and workers; and (2) cover a substantial part of the persons whose earnings do not exceed those of skilled workers. The examined voluntary savings scheme would not appear to meet these criteria. Social security schemes based on individual savings accounts transfer risks – macroeconomic, financial and demographic – onto individuals rather than offering collective insurance against them. Individual savings accounts allow individuals to withdraw benefits and use them across contingencies, which can drawdown savings to cover short-term risks at the expense of adequate coverage for longer-term needs, such as old-age pension. Importantly the proposal would contribute to the creation of a dual social security system, with better-off formal workers participating in a more adequate national

solidarity-based scheme, and vulnerable workers primarily managing risks individually, including with more limited participation in financing by respective employers.

International Social Security Standards provide concrete guidance on the relative role and objectives of different types of rights-based schemes within a multi-pillar social security system.⁹

The below model describes a system that combines contributory public social insurance with non-contributory social pensions, sometimes supplemented by complementary schemes for those who contribute more towards their retirement.

► **Figure 3. A multi-pillar social security model: the case of old age pensions**



Source: ILO (2018)

► **Table 2. Function of different components in a multi-pillar pension system**

Pillar 0 – the Pension Floor	It is aimed at establishing a rights-based social protection floor for older persons. This pillar is usually provided through a non-contributory social pension scheme financed from general taxation. Universality of coverage can be achieved through a universal social pension or by a combination of social insurance and means-tested or pension-tested social pensions. Such a pension floor, pursuant to C102, should guarantee an income that is adequate for a life in health and decency for all older people.
1st Pillar – Social Insurance (mandatory and solidarity based)	This pillar, which together with the pension floor, represents the core of any developed pension system, generally consists of a mandatory social insurance scheme that provides a defined benefit and is financed collectively by contributions from employers and workers (with in many countries a subsidisation from the general budget to subsidise existing contribution waivers or reductions and cover potential financing deficits); tax financing can complement the contributions made by employers and workers, especially for workers who are self-employed or those who have low contributory capacity.
2nd Pillar – Complementary Schemes	This pillar is facultative and meant to complement the contributory component by a voluntary or mandatory one or both. Such complementary schemes are either employment-based or non-occupational and may provide both defined-benefit or defined-contribution. It is usually financed by employer and worker contributions and managed privately, with a view to supplementing the pension benefits in conjunction with the other pillars. It requires effective State capacity to ensure appropriate regulation but also supervision.
3rd Pillar – Voluntary Personal Savings Pillar	This pillar is also complementary, consisting of a set of voluntary savings schemes for those having the economic capacity to make additional personal savings, generally managed by private pension administrators under full market competition and government regulation and supervision.

Source: ILO (2018)

⁹ ILO (2018), Social protection for older persons: Policy trends and statistics 2017–19.

ILO supervisory bodies have generally observed that pension schemes based on the capitalization of individual savings managed by private pension funds were organised in disregard of the principles of solidarity, risk-sharing and collective financing, as well as in disregard of the principles of predictability of benefit levels as well as of transparent, accountable and democratic management. The ILO Committee of Experts on the Application of Conventions and Recommendations has pointed out that these principles underpin all international social security standards and technical assistance and offer the appropriate guarantees of financial viability and sustainable development of social security; neglecting them, and at the same time removing State guarantees, exposes members of private schemes to greater financial risk.

► International experiences with individual savings schemes

As only a few countries implement VSS, they lack a robust evidence base making it difficult to understand their effectiveness, efficiency, sustainability, and adherence to international social security standards. In 2022, the World Bank recognises “that there is not much experience to draw on in this area, and several challenges are already evident.”¹⁰ Much of the existing evidence is limited to a number of high-income countries, mainly Italy, New Zealand, the United Kingdom and the United States. This lack of evidence extends to issues fundamental to the effective functioning of proposed VSS schemes. As such, the “impact of matching contributions on take-up or the persistency of people in the informal economy to save remains to be determined empirically.”¹¹

Countries that have introduced VSS for informal workers appear to struggle with take-up and persistency of contributions. A number of country experiences suggest that while VSS can reach a substantive number of informal workers, the majority struggle to make regular contributions. Kenya’s Mbao voluntary savings scheme, for instance, has 250,000 registered members but only 92,927 active contributors. The country’s other savings scheme, called Haba Haba, has 140,094 registered members but only 14,249 are regularly contributing. Nigeria’s Micro Pension Plan faces similar challenges with only 6,270 active members out of 64,464 registered members.¹²

A forthcoming evaluation by WIEGO of an informal sector pension scheme set up by Ghana’s Union of Informal Workers Associations (UNIWA) highlights the challenges for informal workers to make sufficient contributions. Average monthly contributions were just US\$15 or 3 per cent of reported average monthly income. At this rate and the average age (48) of the members, the average savings with interest and adjusting for inflation would amount to just US\$2,468 by the age of 60. In reality, the amount will likely be lower, as most workers will have gaps in their contributions. It also does not consider the high administrative costs of 2.5 per cent charged.

Voluntary schemes tend to be plagued by adverse selection effects, often resulting in a lack of protection for the most vulnerable workers¹³. Moreover, insofar as individual accounts are linked to incomes, they may not adequately protect poorer informal workers, unless other measures have provided at least a basic level of protection for all. The reason is that workers need to accumulate a sufficiently high income to enjoy adequate protection, which is particularly difficult for those with low contributory

10 World Bank (2022). Charting a Course Towards Universal Social Protection: Resilience, Equity, and Opportunity for All.

11 World Bank (2021). Social Protection for the Informal Economy. Operational lessons for developing Countries in Africa and beyond.

12 Ibid.

13 ILO (2021). Extending social security to workers in the informal economy. Lessons from international experience.

capacities. The World Bank rightly cautions that “it is still unclear how much financial protection can be achieved by promoting voluntary saving alone.”

It is important to note the high administration of individual savings accounts, especially relatively small schemes limited to lower-income workers, can significantly reduce members’ savings. It is worthwhile to remember that an annual management charge of just 1 per cent over a full career reduces a pension by about 20 per cent. Many voluntary schemes charge considerably higher fees¹⁴. A recent report, recognizes the high administrative costs of such a scheme in Ghana, where trustees, fund managers and custodians, regulatory levies create “an automatic 2.5 percent headwind that the fund must overcome each year, together with the impact of inflation, to deliver a meaningful real return.”¹⁵

Finally, setting up a standalone VSS would require significant up-front costs. A new scheme would require resources to finance activities before it reaches sufficient scale to accumulate reserves and returns to be able to self-finance the cost of running the scheme. Initial “costs would be high because the scheme managers would need to invest in communication and awareness building and try out different approaches to help build a savings habit among informal economy workers who face challenges in capabilities, opportunities, and motivation.”¹⁶ This excludes software and hardware costs and operating costs required to the setting up of a standalone scheme.

► Box 2. Lessons from the privatisation and individualisation of pensions

From the early 1980s to the mid-2000s, 30 countries fully or partially privatised their public pension systems. Affiliation to the private pension system was made mandatory for employees and voluntary for the self-employed. Employers’ contributions were eliminated. Workers, instead of receiving a pension with a defined benefit at the end of their careers, were required to deposit defined contributions into individual accounts. At retirement, these savings were to be used to buy an annuity from a private insurance company.

Across countries and indicators such coverage, adequacy, affordability and governance, the privatisation experiments have consistently worsened the performance of pension systems. Coverage rates have stagnated or decreased, benefits deteriorated, and gender inequalities increased. Risks of financial market fluctuations were shifted to individuals. Administrative costs increased, further reducing benefits. The high costs of transition created large fiscal pressures. While private sector administration was supposed to improve governance, reforms weakened it, as workers’ participation in management was eliminated. The regulatory and supervisory functions were captured by those responsible for managing the pension funds, creating conflicts of interest.

Amongst the most concerning impacts of pension privatisations were the worsening gender and income inequalities. Public pension systems traditionally offset inequalities by guaranteeing a minimum pension for low-income earners, redistributing between richer and poorer members and compensating for interruptions in career and contributory periods due to child-caring or family care responsibilities. However, with the introduction of individual accounts, the redistributive components of social security systems were eliminated. The predictable result was that those with low incomes or unstable access to formal paid work, had small savings and consequently ended with small pensions. As a result of these clear failings, 18 countries have reverted the privatisation of their pension system by 2018 and re-established public systems.

Source: ILO (2018b)¹⁷

14 Nicholas Barr (2013). The pension system in Finland: Adequacy, sustainability and system design.

15 World Bank (2021). Social Protection for the Informal Economy. Operational lessons for developing Countries in Africa and beyond.

16 World Bank (2022). Charting a Course Towards Universal Social Protection: Resilience, Equity, and Opportunity for All.

17 ILO (2018b) Reversing Pension Privatizations. Rebuilding public pension systems in Eastern Europe and Latin America.

► Considerations and concerns with the VSS proposal in the context of Jordan

The VSS proposal is presented as intending to complement the existing solidarity based social security pillar under SSC but would lead to effectively shrinking existing social security rights of the most vulnerable workers. The proposal appears to target categories of self-employed workers and wage workers that are currently mandatorily covered by the social security law. In practice VSS participants - and their employers - would be given the choice to significantly reduce contributions to the existing national social security scheme¹⁸, in order to create space for them to accumulate private individual savings in a complementary pillar. This would represent an erosion of social security rights and obligations currently established by the Jordanian social security law.

Introducing an additional savings scheme risks diverting limited contributions financing, tax revenue and attention away from Jordan's main public social security pillar and could lead to its weakening. The proposed VSS can play a role in augmenting protection when introduced alongside an adequately financed social insurance scheme. However, given the challenges of Jordan's social security systems,¹⁹ it is more likely to detract than add protection. Introducing a complementary private scheme at this time risks diverting much-needed contributions and potential members away from the solidarity-based national social security system, thereby undermining its sustainability and compromising its ability to ensure the adequacy of pensions for those who are currently of working age. Dividing limited resources and members between the solidarity-based pillar and the proposed voluntary scheme may result in the public system being weakened to a point of unsustainability and gradually be replaced by an individualised system that will likely exclude those with limited contributory capacity at the expense of adequacy, equity and universality.

The VSS may result in informal workers facing perverse incentives to divide their limited contributions between the mandatory scheme and a subsidised voluntary one, and a significant reduction in benefits. While the proposal acknowledges that contributory capacity is limited for lower-income workers, all packages still add a financial contribution on the part of the worker, even if subsidised by the government. Without sufficient incentives and, where relevant, financial support, many workers will find it difficult to select higher contribution levels in the main SSC pension pillar.²⁰ As a result, they will be left without adequate protection in older age. Allowing early withdrawal of savings from VSS schemes during workers' career can also negatively affect the adequacy of benefits. The experience with mass withdrawal from the SSC unemployment insurance scheme in the years preceding the COVID-19 crisis has taught a sobering lesson on the need to preserve the fundamental link between social security funds and the social contingencies they are meant to respond to.

Modelling suggests that allowing for partial insurance in the main national pensions scheme would lead to greatly insufficient pension benefits, by far inadequate to the minimum requirements of ILO Convention No. 102, which prescribes at least a 40 per cent replacement rate after 30 years of contributions (Figure 4). This is particularly concerning for lower income workers and workers with short and fragmented careers.

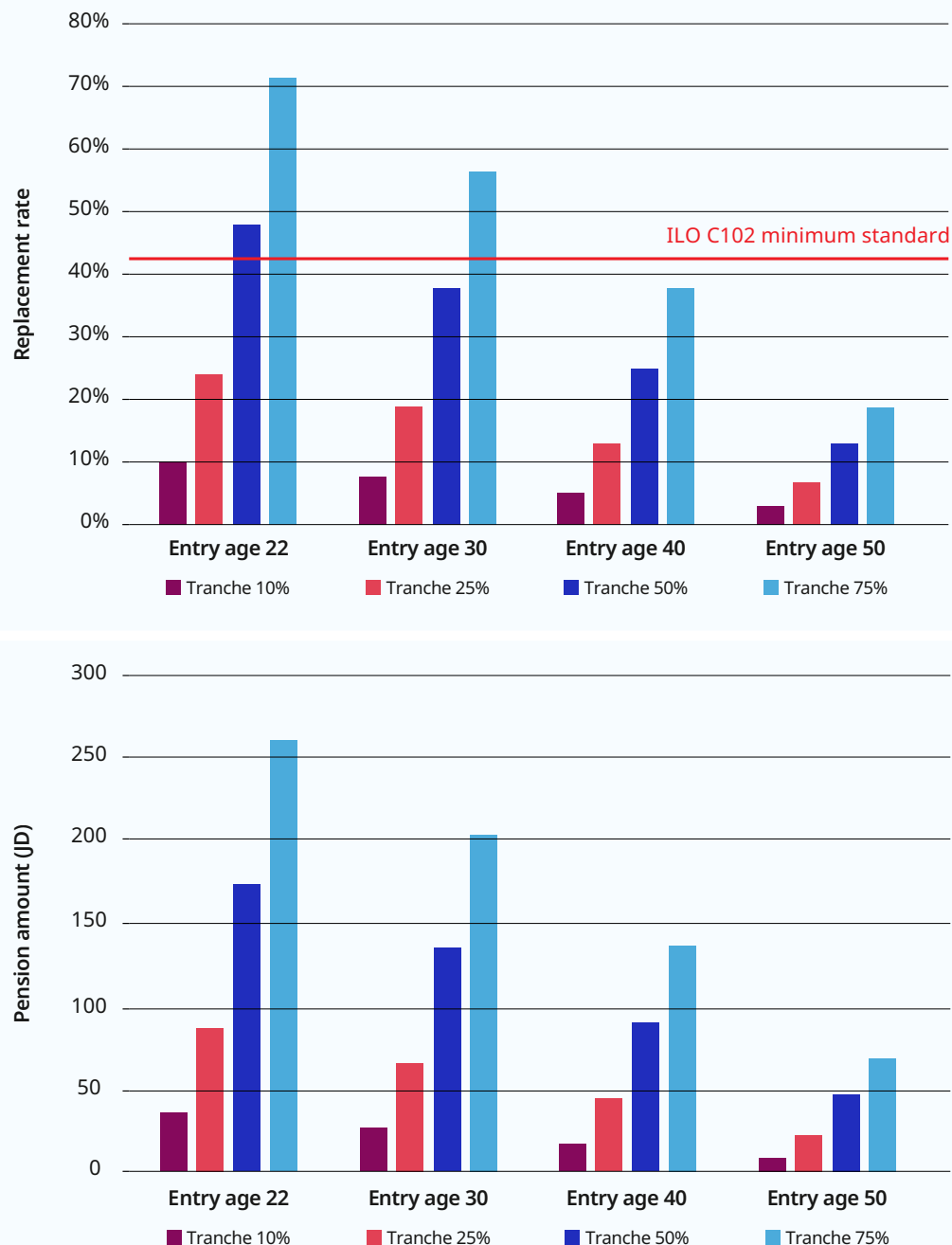
18 The VSS proposal appears to rest on the premise that the mechanism of partial insurance ("contribution by tranches") for old-age would be extended to new categories of workers – such as wage workers employed in micro-enterprises – who are currently subject by law to full insurance in all branches. It is important to note the mechanism of partial insurance that was recently introduced for self-employed which were not previously mandatorily covered.

19 Actuarial valuations of the old age, death and disability branch of the SSC point to the need to rebalance revenue and expenditure in the medium term. The pension scheme remains under pressure from elevated administrative costs, relatively generous benefits and an ongoing decrease of the ratio between contributors and pensioners as a result of demographic changes and labour market transformations. Expansion of coverage is an important factor to enhance financial sustainability of the main social security pillar.

20 The proposal seems to suggest contribution subsidies will only be on the DC component, effectively creating a perverse incentives for members to contribute least possible on the main solidarity-based pension pillar, under SSC. So far, the application of the "partial insurance" tranches system for self-employed shows that the vast majority of workers will likely choose the lowest possible tranche, which will lead to pension entitlements by far insufficient to minimum international standards. The ILO has previously advocated for the elimination of the lowest two tranches, and these are not envisaged under Estidama ++.

Women would be particularly adversely impacted, given they are more likely to shoulder additional responsibilities, experience career disruptions and take on negative coping strategies when protection needs are unmet at the household level. Low levels of pensions would fall largely below tax-funded benefits, such as those provided through the National Aid Fund: workers will be more likely to rely on social assistance, adding strain to Jordan's already stretched non-contributory system.

► **Figure 4. Pension Amounts in the main SSC scheme under partial insurance scenarios²¹**



Source: ILO analysis

²¹ 10% tranche refers in the graph to the application of 10% of the full contribution rate for pensions as currently envisaged in the SSC law. Same accordingly for all other tranches. The four "partial insurance" tranches have been envisaged in the internal ILO regulations for coverage of self-employed. Simulation is based on monthly earnings of 363 JD.

The proposal may also underestimate the complexity of the decision demanded from informal workers: How much should be contributed to social security vis-a-vis the VSS and its different packages? Informal workers in some of the target groups have limited financial literacy and basic understanding of social security concepts. It is hard to imagine a fully informed choice can be made on the differences between defined benefit and defined contribution schemes and their implications in terms of risks, returns and entitlements. The better off may also opt into lower contribution packages when they could in fact afford more. If individual savings are intended to purchase private pension plans, this could also tie workers to the financial industry with little information on alternative options and associated risks.

While reforms to the current social security pillar are warranted to extend coverage, this should be done through tripartite consultation and with organisations representing informal workers. Worker representatives have already expressed concern about a potentially diminished role for social security contributions and the redistribution of contributory responsibilities away from employers, and towards workers alone. The risk is that the VSS proposal would further release employers from their responsibility to contribute to the protection of workers in their value chains, undermine systems of collective solidarity and redistributions, increase lack of trust and decrease social cohesion while reinforcing a trend towards placing the burden of financing social protection in individual workers. The proposal remains silent on the responsibility of employers to contribute to the DC pillar and does not appear to contain mechanisms that would compel employers to contribute voluntarily.

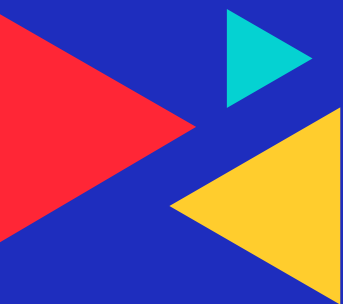
The administration of the proposed VSS may be delegated to the private sector and the proposed links with the national social security infrastructure are unclear. According to the proposal the VSS “could be managed by a public authority, such as the Ministry of Planning and International Cooperation or by private funds”, in both case separately from the national institution – the Social Security Corporation – which is mandated by law to provide social security to all workers in Jordan. Adding another institutional layer risks unnecessarily fragmenting the social insurance and social protection system further.²²

The VSS proposal can be put in better sync with pre-existing and ongoing initiatives aimed at extension of social security. The SSC has already a voluntary scheme for workers who are not mandatorily covered. This voluntary scheme was initially targeted to Jordanian self-employed workers, providers of family care and Jordanian expatriates abroad. Around 5 per cent of SCC members contribute to the voluntary scheme. Elements of the VSS proposal could be reoriented to the redesign and enhancement of the voluntary scheme to improve financial accessibility and attractiveness. For categories of workers’ who are currently subject to mandatory coverage, the SSC has already recently launched a mechanism for extension of coverage (Estidama++) which aims to reduce financial barriers to accessing the national social security as well as introducing complementary incentives and benefits.

The analysis underpinning the VSS proposal sheds light on a broadly recognized and critical challenge for the social security system in Jordan: the need to fill the gap between legal and effective social security coverage. This requires addressing the issue of affordability of participation in the social security system, especially for most vulnerable workers and those working in small establishments, including by focussing on finding a better mix between short and long-term benefits, coupled with mechanisms to ensure enforcement and compliance. However, for the reasons mentioned above the proposed solution risks pushing the social security system outside its historical trajectory and foundations, which are rooted in international social security standards.

Instead of focussing on new complementary initiatives, any additional effort should be put at ensuring a progressive reform of the main collectively financed national social security pillar and broad participation of the largest possible pool of workers into it at an affordable contribution rate, while delivering adequate and sustainable benefits. This approach - already taken under existing SSC initiatives - requires further support and eventually institutionalisation into a national contribution subsidy scheme, similar to what has been developed in many countries globally.

²² The social insurance system is already administered separately from social assistance, and transitioning individuals between the two systems is proving to be difficult due to conflicting criteria, administrative barriers and adverse selection.



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