



Working paper No. 5



Social protection and the middle class: evidence from Egypt, Jordan and Tunisia

Working paper series on the middle class

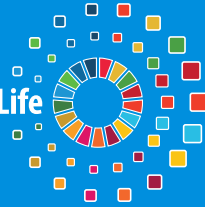


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email: publications-escwa@un.org.

Authors: Irene Selwaness and Marco Schaefer.

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Key messages

Consolidation of Government budgets

in recent years has contributed to a

decline in public-sector employment,

a sector which previously provided comprehensive social insurance coverage for many households. The decline has not taken place in tandem with formal employment creation in the private sector.



Consolidation of Government budgets



Decline in public-sector employment

Social insurance coverage is in decline



Upper middle-class households



Lower middle-class households

Social insurance coverage – the most important form of social protection among middle-class households – **is in decline for both upper and lower middle-class households.**



High-earning contributors



Social insurance funds



Decreasing numbers of relatively

high-earning contributors to public

social insurance schemes **reduce**

the financial potential of social

insurance funds to subsidize the social

insurance coverage of low-earning income groups.

Introduction

Public-sector employment, pension schemes, free education and health care, food and fuel subsidies, and subsidized housing were cornerstones of the social contract for the middle class under the so-called “authoritarian bargain”.¹ However, that social contract has eroded and a new type of social contract has emerged since the macroeconomic reforms of the 1980s and 1990s. Those reforms included austerity cuts, a reduction in public-sector hiring in most of the Arab region and significant reductions in subsidies.²

The economic transformations that occurred as a result of structural reforms affected middle-class access to decent jobs and social protection. The pace and pattern of economic growth and a sectoral transformation towards relatively low-value-added economic sectors and non-tradable goods resulted in a more precarious labour market in several Arab countries.³ Private-sector formal wage employment has played a limited role in job creation and has not made up for the substantial decline in public-sector employment.⁴ Private-sector informal wage employment, including temporary and irregular work, is among the most rapidly expanding types of employment.⁵ Rising informal employment has meant that a growing share of workers have no social insurance coverage and that access to decent, socially insured jobs for many workers is limited, including those in the middle class. In addition, since access to health insurance, family/child benefits and other provisions is often linked to formal employment, a decline in formal employment means that middle-class access to those benefits is at risk. Moreover, given that the middle class is largely excluded from non-contributory schemes,⁶ their ability to navigate the aftermath of the aforementioned structural reforms and the resulting inflationary waves, external shocks and crises has become quite limited.



An important question to ask is, to what extent are middle-class households covered by social protection schemes, compared to owning- and working-class households? Furthermore, what are the main forms of social protection that they can rely on? Has their access to social protection coverage declined over time, and how is that related to labour market developments? This paper investigates those questions in three countries of the Arab region, namely, Egypt, Jordan and Tunisia, and focuses on four social protection indicators for which data are available, as follows:

1. Contribution to social insurance schemes: the share of households with at least one working individual actively contributing to social insurance schemes in their primary job.

2. Receipt of cash benefits from contributory social insurance schemes: share of households with at least one member receiving a retirement, or employment-related, pension during the last 12 months.
3. Receipt of non-contributory social assistance cash transfers: share of households that received at least one type of non-contributory social assistance payment during the last 12 months.
4. Health insurance coverage: share of individuals who have health insurance coverage and the types of available health insurance.

This paper uses nationally representative household- and individual-level data for Egypt, Jordan and Tunisia, with data taken from the Egypt Labor Market Panel Survey (ELMPS),⁷ the Jordan Labor Market Panel Survey (JLMPS)⁸ and the Tunisia Labor Market Panel Survey (TLMPS),⁹ respectively. The middle class is defined in terms of position in the labour market, according to

Rising informal employment has meant that a growing share of workers have no social insurance coverage and that access to decent, socially insured jobs for many workers is limited, including those in the middle class.

occupation and employment status, following the methodology outlined in working paper No. 1. Chapter 2 of this report presents key findings on coverage patterns among middle-class households relative to other classes for the four social protection indicators. Chapter 3 proposes policy recommendations regarding potential actions that could extend and strengthen social protection for the middle class.

Middle-class access to different forms of social protection

6

01

A. Highest effective coverage rates are among the middle class, yet those rates are still low

For the objectives of this paper, it is appropriate to measure social protection coverage at the household level rather than at the individual level, because the size and structure of households in terms of children, older persons and individuals of working age is likely to differ among classes: any inference made with regard to coverage at the individual level in a particular class may, therefore, have a bias due to household differences. Therefore, this report uses the aggregate effective coverage indicator on social protection coverage as defined by the International Labour Organization, which reflects indicator 1.3.1 of the Sustainable Development Goals (SDGs), namely “Proportion of population covered by social protection floors/systems, by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women, newborns, work-injury victims, and the poor and the vulnerable”¹⁰ and measures it at the household level. A household is effectively covered if it benefits from any of the following three social protection

schemes: (a) receipt of a non-contributory social assistance transfer; (b) receipt of a contributory employment-related pension (this could be through retirement, survivorship, disability, or injury, depending on the set of risks covered by the contributory social insurance scheme in each country); or (c) has at least one family member who works in a job that provides social insurance coverage and thus is actively contributing to a social insurance scheme.¹¹

Relative to those in the owning or working classes, households in the middle class have the highest effective coverage rates, reaching an average of 64 per cent in Egypt, 66 per cent in Jordan, and 69 per cent in Tunisia, as shown in figure 1. However, those rates mean that one third of households in the middle class is entirely left out of the purview of social protection coverage, making these households especially vulnerable in times of economic crises or periods of high inflation caused by structural/stabilization reforms or austerity cuts.

B. Social insurance coverage is a primary form of social protection, highlighting middle-class reliance on formal jobs

Effective coverage rates are highest among middle-class households due to a higher propensity for having at least one household member who actively contributes to a social insurance scheme, as seen in figure 1. Social insurance coverage is the most important form of

social protection among middle-class households, highlighting the vital role that formal employment with social insurance coverage plays in securing effective social protection for households.¹² More than half of middle-class households in Jordan and Tunisia, at 54 per cent and 53 per cent,

respectively, have at least one working member who is currently socially insured. This insured rate falls to 43 per cent in Egypt, ranking it last in social insurance coverage for the three countries. Middle-class households in Egypt have the lowest effective coverage rate compared to Jordan and Tunisia, likely due to the rapid expansion of employment with no social security coverage, including informal and irregular wage work.¹³ To varying degrees in the three countries, the pattern of precarious job creation and an expansion of low-quality jobs has had a greater effect on new workers from the middle class versus workers from other classes, as shown in figure 1.

Middle-class households in Egypt have the lowest effective coverage rate compared to Jordan and Tunisia, likely due to the rapid expansion of employment with no social security coverage, including informal and irregular wage work.

C. Higher effective coverage rates for upper-middle-class workers, lower rates for lower-middle-class workers

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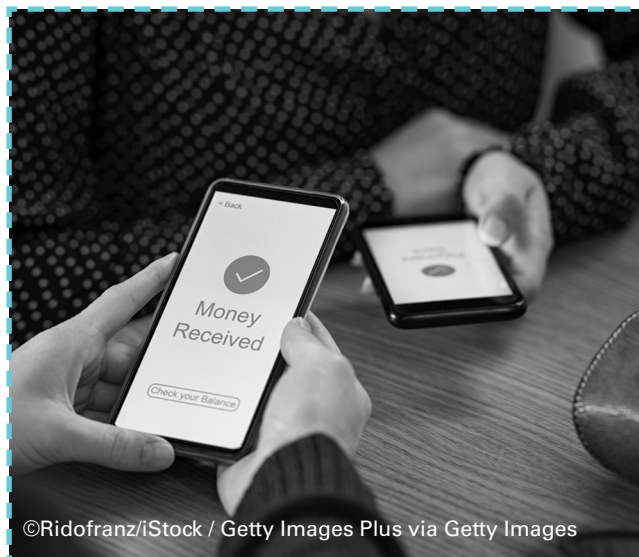
Although, on average, middle-class households have the highest effective social protection rates, there is great disparity between upper- and lower-middle-class households. In all three countries, upper-middle-class households are 1.2 to 1.3 times more likely than lower-middle-class households to be effectively covered by at least one social protection scheme, at rates of between 75–83 per cent and 62–67 per cent, respectively. This is mainly because lower-middle-class households are considerably less likely than upper-middle-class households to have a household member who works in a formal job and contributes to a social insurance scheme. The difference highlights the challenges lower-middle-class households face when seeking formal employment in the emerging labour market environment. The gap between upper- and lower-middle-class households in terms of having at least one actively contributing, or formal, worker is largest in Egypt, where upper-middle-class households are 1.6 times more likely (64

per cent) to have at least one contributing worker when compared to lower-middle-class households (40 per cent). Jordan has the second largest gap, and upper-middle-class households are 1.3 times more likely (65 per cent) than lower-middle-class households (50 per cent) to have one contributing worker. The smallest gap is in Tunisia, where upper-middle-class households are only 1.2 times more likely (64 per cent) to have a contributing worker than lower-middle-class households (51 per cent). Assuming that job creation and labour market conditions remain the same and a lack of other forms of social protection for lower-middle-class households continues, many households will be increasingly vulnerable to the economic impact of life cycle risks, causing further downward social mobility (see working paper No. 1). The extent to which this will occur will vary among countries and will depend, primarily, on the size of gaps between upper- and lower-middle-class households in terms of their access to formal jobs.

D. Receipt of contributory retirement pensions is the second most important form of protection for middle-class households

The second most important social protection area for middle-class households under indicator 1.3.1 of the SDGs is the receipt of retirement pensions. Pensions are employment-related and based on previous social security contributions. Retired living household members receive pensions if they contributed during their working years and are eligible to claim them. Eligibility is based on having accrued a minimum number of contribution years by the time of reaching retirement age. Households may also be entitled to those pensions even if no member is a retiree, such as in the case of a death of a contributing working member,¹⁴ or in cases of sickness, disability or injury, depending on which risks are covered by contributory social insurance schemes in each country.

Among the three countries reviewed in this report, the proportion of middle-class households receiving retirement pensions is highest in Egypt. That rate is remarkable in that, compared to the other two countries, Egypt has the lowest proportion of households with at least



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one socially insured worker. In total, some 24 per cent of Egyptian middle-class households have at least one member who receives a retirement pension, followed by 22 per cent in Jordan and 19 per cent in Tunisia.

The incidence of retirement pensions among Egyptian middle-class households, and especially among those in the upper-middle class, is comparable to rates in the owning class in the three countries. In contrast, this benefit is much more prevalent in the middle class than among the working class. Fewer working-class households receive retirement pensions because they are less likely to have worked in public-sector jobs due to the eroded social contract,¹⁵ and, therefore, most members of the working class work in jobs that either do not provide social insurance coverage, as discussed in working paper No. 1, or because they are excluded due to social insurance regulations, as in the case of agricultural and domestic workers.

Households may also be entitled to those pensions even if no member is a retiree, such as in the case of a death of a contributing working member, or in cases of sickness, disability or injury, depending on which risks are covered by contributory social insurance schemes in each country.

Figure 1. Household social protection coverage by type of social protection benefit and household class in Egypt, Jordan and Tunisia (Percentage)



Source: Authors calculations using ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

E. Access to non-contributory social assistance cash transfers is low, but varies substantially among countries

The least important component of social protection for middle-class households are non-contributory social assistance transfers. The middle class receives fewer of these types of transfers as compared with retirement pension payments or social insurance scheme benefits. However, there are important variations among countries. Egypt has the highest proportion of middle-class households that receive non-contributory social assistance transfers, including 9 per cent of upper-middle-class and 10 per cent of lower-middle-class households. At 10 per cent, the middle class in Egypt is 1.5 times less likely than working-class households (15 per cent) to receive

non-contributory social assistance transfers. In Tunisia, rates of non-contributory social assistance transfers are 4 per cent among upper-middle-class households, 7 per cent among lower-middle-class households, and average 7 per cent across middle-class households, compared to 10 per cent among working-class households. When comparing those statistics across countries, the middle class in Jordan has the smallest share of households who receive social assistance transfers, with only 1 per cent of upper-middle-class households and 2 per cent of lower-middle-class households receiving them. Among working-class households, 3 per cent receive assistance.



Evolution of social protection coverage over time and associations with labour market developments

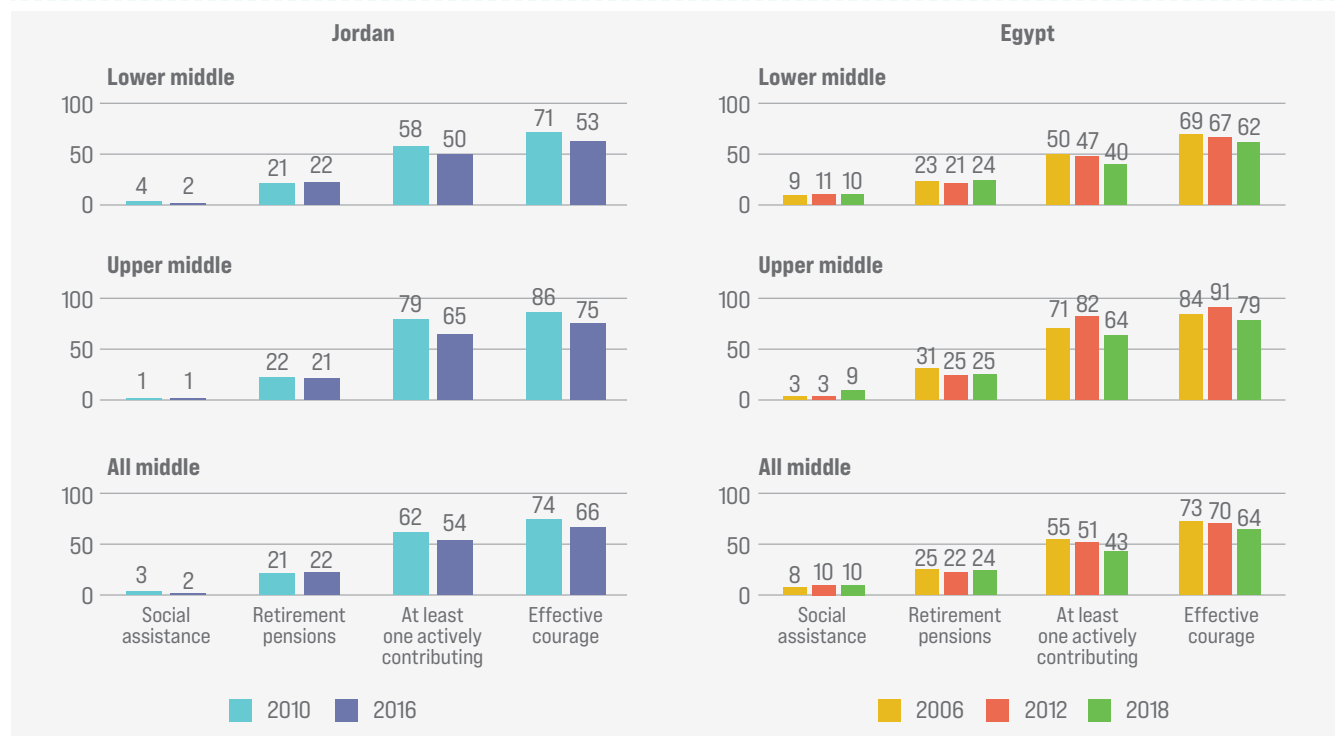
02

A. Effective social protection coverage has fallen over time

In Egypt and in Jordan,¹⁶ middle-class households have become less likely over time to include at least one worker contributing to mandatory social insurance schemes. Thus, the likelihood of being covered by at least one social protection benefit, also known as the effective coverage rate, has decreased over time. Figure 2 shows that the decline in effective coverage was around 8 percentage points in Jordan over the six years between 2010 and 2016, and about 9 percentage points in Egypt over the 12 years between 2006 and 2018. This means that, on average, there was a decrease in coverage from between 73–74 per cent to between 64–66 per cent in both countries. The decrease in effective social protection coverage is due to increased informality and a significant reduction in the percentage of households with at least one socially insured worker in the family.

Access to non-contributory social assistance transfers increased in Egypt from 8 per cent in 2006 to 10 per cent in 2018 but declined in Jordan from 3 to 2 per cent over the same time period. The increase in access to non-contributory schemes in Egypt may reflect the introduction of the Takaful and Karama conditional cash transfer programmes, which, although targeting the poorest households, also reached some of the higher wealth quintiles.¹⁷ It is worth mentioning that a slight increase in access to non-contributory schemes has helped slow the trend of middle-class households losing their effective coverage rates in Egypt. This is supported by the fact that it took Egypt 12 years to experience a 9 percentage point drop, while Jordan experienced virtually the same drop in only six years. Access to retirement pensions did not change over time in either country.

Figure 2. Evolution in effective social protection coverage rates among middle-class households over time in Egypt and Jordan (Percentage)



Source: Authors calculations using ELMPS waves 2006, 2012 and 2018, and JLMPS waves 2010 and 2016.

B. Limited social insurance coverage in private-sector wage employment

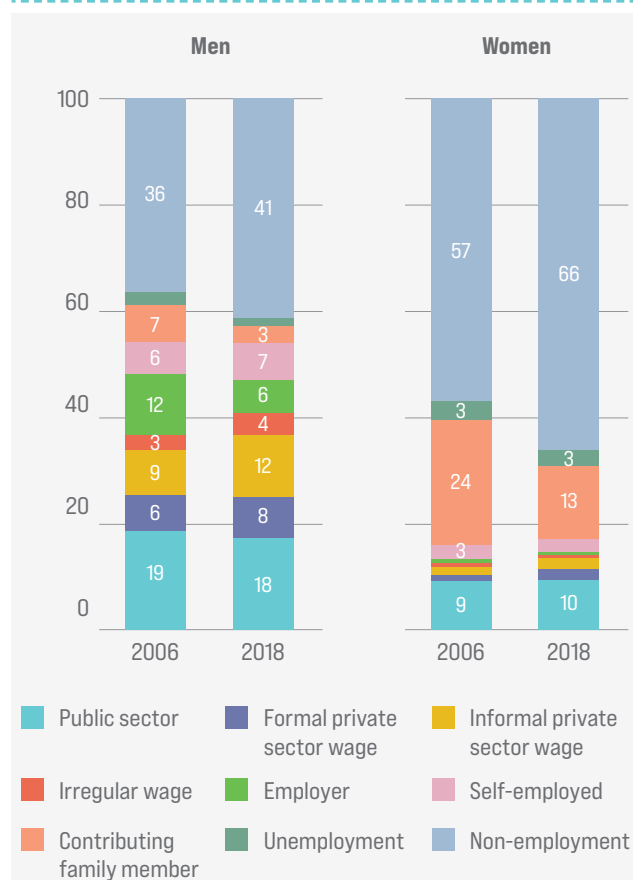
With the decline in public-sector employment as the main source of contributory social insurance coverage, the emerging social contract relies on access to Government-regulated social insurance schemes via private-sector employment.¹⁸

To what extent has the private sector provided an attractive alternative to the public sector and acted as a primary source of jobs with social insurance coverage among middle-class households? Figure 3 shows the distribution of employment statuses for middle-class individuals between the working ages of 15 and 64 years in Egypt. Results indicate that the types of wage employment that are growing for the middle class are largely forms of private-sector informal wage employment, which is associated with lack of access to mandatory social insurance coverage. Thus, there is a need to redesign social insurance policies to accommodate small firms and their employees. Making contributions paid by firms and employees more affordable is a key step towards achieving that objective. Subsidizing social insurance contributions has led to positive results in some countries, as have efforts to raise awareness of the benefits of formality for firms and workers.¹⁹ In general, Governments should focus on how to improve macroeconomic growth to promote work that ensures decent wages and working conditions, including social insurance coverage. That premise lies at the heart of efforts to protect the middle class.

Figure 3 also illustrates an accelerating trend of women not participating in the labour market. In Egypt, this is reflected in an increased proportion of unemployed women of working age, reaching 66 per cent in 2018, up from the already substantial figure of 57 per cent in 2006. Previous studies have discussed this trend in the region.²⁰ The current social protection system in the Arab region,

where contributory social insurance schemes can only be accessed through paid work, means that women are disproportionately deprived of social protection coverage because of their low labour-force participation rates. In addition, this means that households with higher proportions of women have reduced access to social insurance coverage, making them more vulnerable than households with lower proportions of women.²¹ To address that issue, Jordan launched reforms by changing the social insurance law to include inactive persons,²² but little evidence has emerged so far regarding the impact of the reforms on women and other inactive groups.

Figure 3. Employment distribution of working-age individuals (15–64) from middle-class households in Egypt by sex (Percentage)



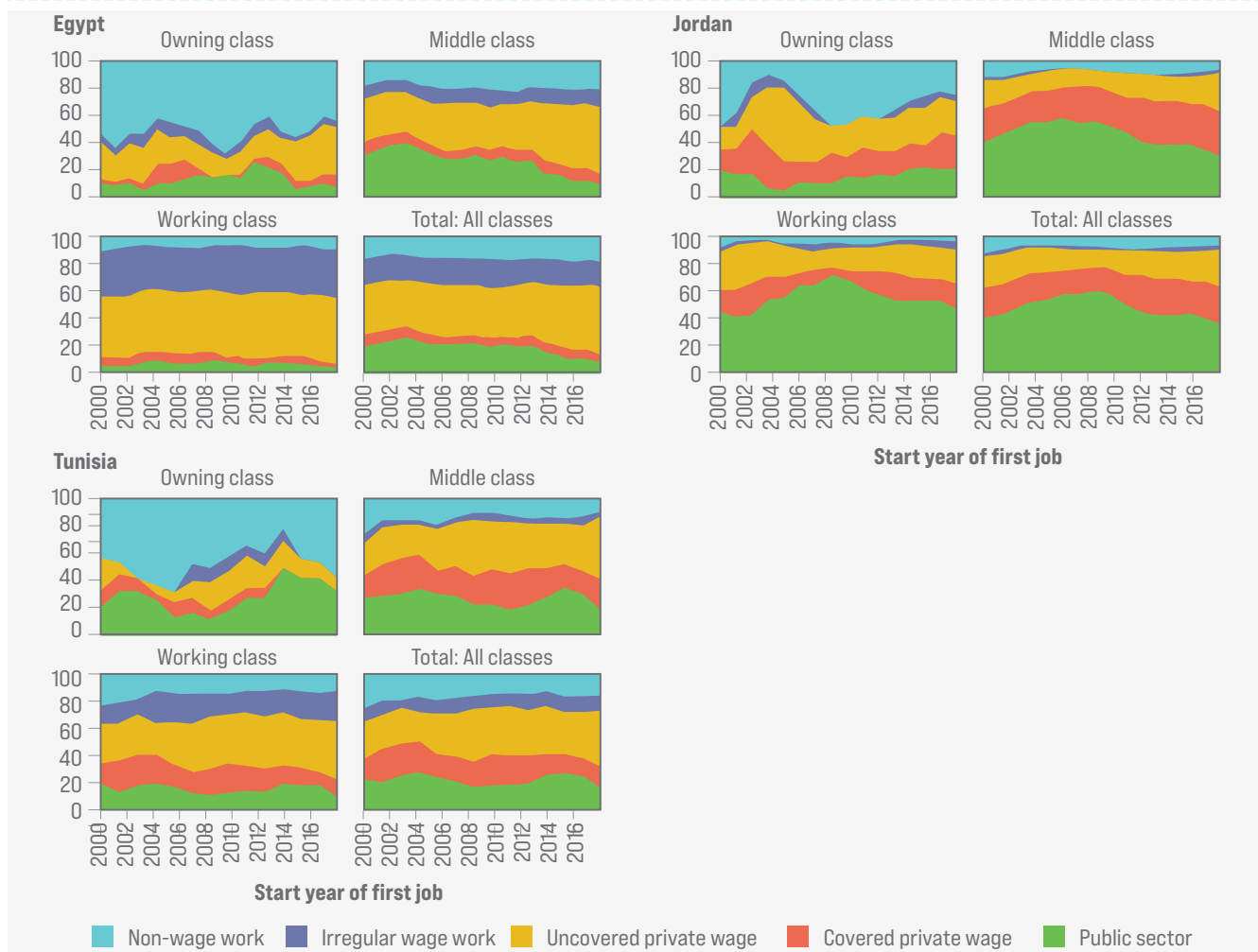
Source: Authors calculations using ELMPS waves 2006 and 2018.

C. Entry into first jobs is increasingly challenging, more so for the middle class

Due to the limited capacity of the formal private sector to absorb the supply of new labour-market participants in the region, younger generations in the middle class have experienced a significant erosion of upward social mobility opportunities. Figure 4 presents the evolution of first jobs for new entrants to the labour market since 2000. It shows that first jobs, especially after 2011, are increasingly concentrated in private-sector wage work without social protections. This is even more likely for new labour-market

participants from the middle class as compared with other classes. Previous studies show that new labour-market participants who start in informal employment without social insurance coverage are unlikely to move into formal employment.²³ Therefore, with new workers increasingly lacking social insurance coverage in their first jobs, the reliance of the middle class on social insurance coverage as a primary means of social protection is expected to continue to decrease over time.

Figure 4. Evolution of first jobs for new entrants to the labour market by household class in Egypt, 2018; Jordan, 2016; and Tunisia, 2014 (Percentage)



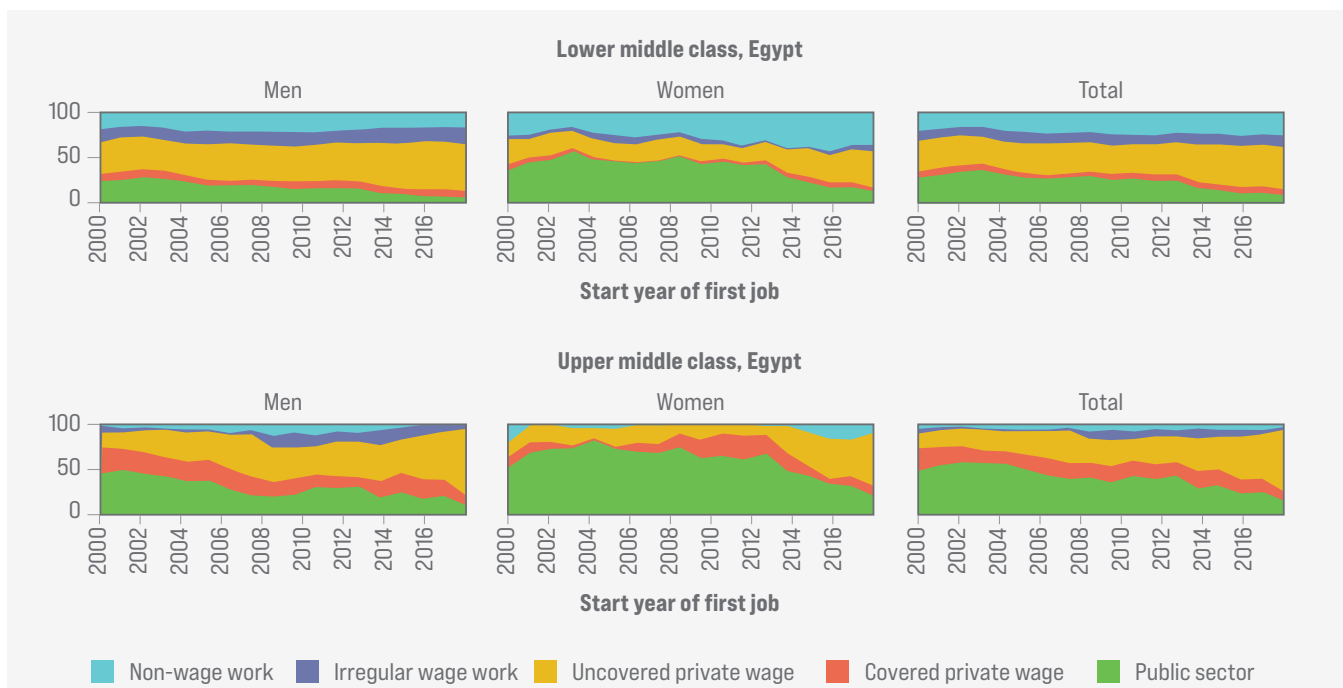
Source: Authors calculations using retrospective data from ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

D. Informal first jobs for women in upper-middle-class households while women in lower-middle-class households undertake more non-wage work

The increase in informality among new entrants to the labour market from the middle class has affected both men and women as well as both lower- and upper-middle-class households. For example, in Egypt, figure 5 shows a rapid drop in the share of new entrants in the public sector, and this lack of public-sector employment has been replaced by an expansion of private-sector wage work without social insurance. Although new women entrants have considerably higher social insurance coverage through employment than their male peers, the rise in informality has affected new women entrants in upper-middle-class households more substantially than women in lower-middle-class ones. That does not mean that new women entrants in the lower-

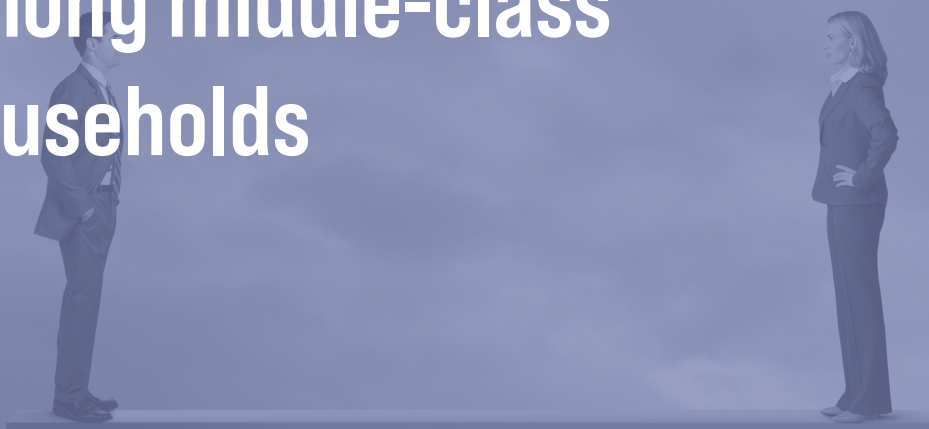
middle class are more fortunate. On the contrary, new women entrants from the lower-middle class are forced to seek alternatives to the public sector, relying on non-wage work as a primary source of employment, which is usually associated with minimal access to social insurance coverage.²⁴ This means that new women entrants from lower-middle-class households tend to be in a much more vulnerable state than those from upper-middle-class ones. Access to social assistance pensions by middle-class women remains out of reach for most. Failure to address work and social protection challenges facing new members of the labour market put women at risk of falling into poverty.

Figure 5. Evolution of first jobs for new labour market entrants – lower- and upper-middle class in Egypt, 2018 (Percentage)



Source: Authors calculations using retrospective data from ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

Gender patterns of social protection coverage among middle-class households



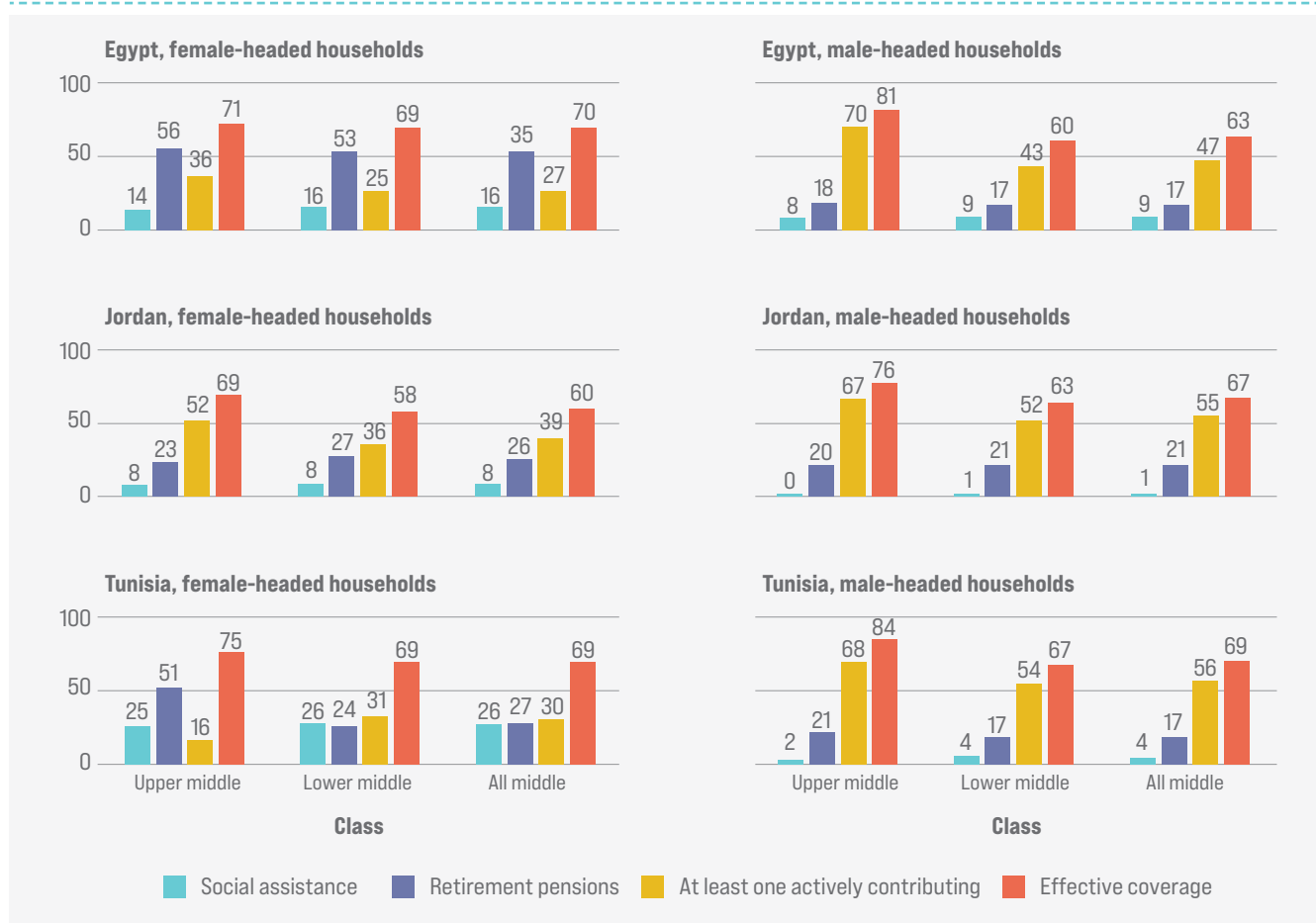
A. Similar effective coverage by headship but differing social protection instruments

Generally, female-headed middle-class households are more likely than male-headed households in Egypt, and equally as likely as male-headed households in Tunisia, to be effectively covered by at least one social protection instrument, as shown in figure 6. Effective social protection coverage rates in Egypt stand at 70 per cent for female-headed middle-class households and 63 per cent for male-headed ones. In Tunisia, effective coverage rates reach approximately 69 per cent of households overall. However, in Jordan, female-headed households are slightly less likely to be

effectively covered, with figures of 60 per cent and 66 per cent respectively for female- and male-headed households.

The fact that the aggregate effective coverage rate is higher for female-headed households does not mean that female-headed households, or individual women, are more protected than their male counterparts. Each household type shows quite different coverage patterns for the three separate social protection indicators used to calculate the effective coverage rate.

Figure 6. Social protection coverage and its components among middle-class households – by head of household and class (Percentage)



Source: Authors calculations using ELMPS waves 2006, 2012 and 2018; JLMPS waves 2010 and 2016; and TLMPS, 2014.

Note: Female-headed households in the upper-middle-class in Tunisia are not shown here since the sample size was smaller than 30.

B. Although female-headed households have higher effective coverage rates, access to contributory social insurance schemes is limited

Figure 6 illustrates that the primary form of protection for female-headed households are retirement pensions, while male-headed households primarily rely on at least one employed household member who has actively contributed to a social insurance scheme. A high reliance on retirement pensions is primarily because those households are mostly headed by widows who are likely receiving survivor retirement pensions. For example, in Egypt, the receipt of retirement pensions among middle-class female-headed households is more than three times that of male-headed households and is the highest of the three countries examined (Egypt, Jordan and Tunisia) at rates of 53 per cent, 26 per cent and 27 per cent, respectively. Other factors contributing to this difference include women self-selecting to work in public-sector jobs, a tendency to retire early and longer life expectancy.

Despite the small proportion of middle-class households receiving non-contributory social assistance transfers overall, as shown in figure 1, female-headed households are considerably more likely than male-headed households to receive them. That pattern is consistent in the three countries. Tunisia had the highest receipt rate for non-contributory social assistance transfers among female-headed households at 26 per cent, which is nearly seven times that of male-headed households at 4 per cent. Egypt had the second-highest rates, with female-headed middle-class households at 16 per cent, almost double the rate for male-headed households at 9 per cent. Of female-headed households in Jordan, 8 per cent receive social assistance pensions, making them the lowest receiving group among the three countries. However, Jordan demonstrated the largest gender gap in terms of access to social

assistance pensions across the three countries, with female-headed households' receipt of non-contributory pensions reaching eight times that of male-headed households (1 per cent). That gap is potentially because social assistance programmes in Jordan have historically been targeted toward female-headed households, and widows in particular. It is worth investigating whether a future switch to proxy means testing will affect the gender distribution among beneficiaries.

Interestingly, in all three countries, female-headed households are far less likely than male-headed households to have a family member who actively contributes to social insurance schemes. The differences in access to social insurance ranges are as follows: 16 percentage points in Jordan, with 39 per cent of female-headed households and 55 per cent of male-headed households; 20 percentage points in Egypt, with 27 per cent of female-headed households and 47 per cent of male-headed households; and 26 percentage points in Tunisia, with 30 per cent of female-headed households and 56 per cent of male-headed households having access to social insurance.

The problem of low women's employment rates is symptomatic of structural problems within regional labour markets and results in a substantially higher reliance of female-headed households on non-contributory social assistance transfers and a low likelihood of having an active household contributor to social insurance coverage. From a cross-regional perspective, women are less likely to be active labour-market participants, meaning they are deprived of their rights to social security, which can only be accessed through formal employment. Consequently, affected households seek

social welfare through non-contributory social assistance programmes, although assistance is not guaranteed, especially following the switch to proxy means-tested enrolment. Boosting women's employment in decent jobs with good

working conditions would allow those households to access coverage through employment and would also alleviate fiscal pressures so that Governments have funds to support other vulnerable groups in the population.

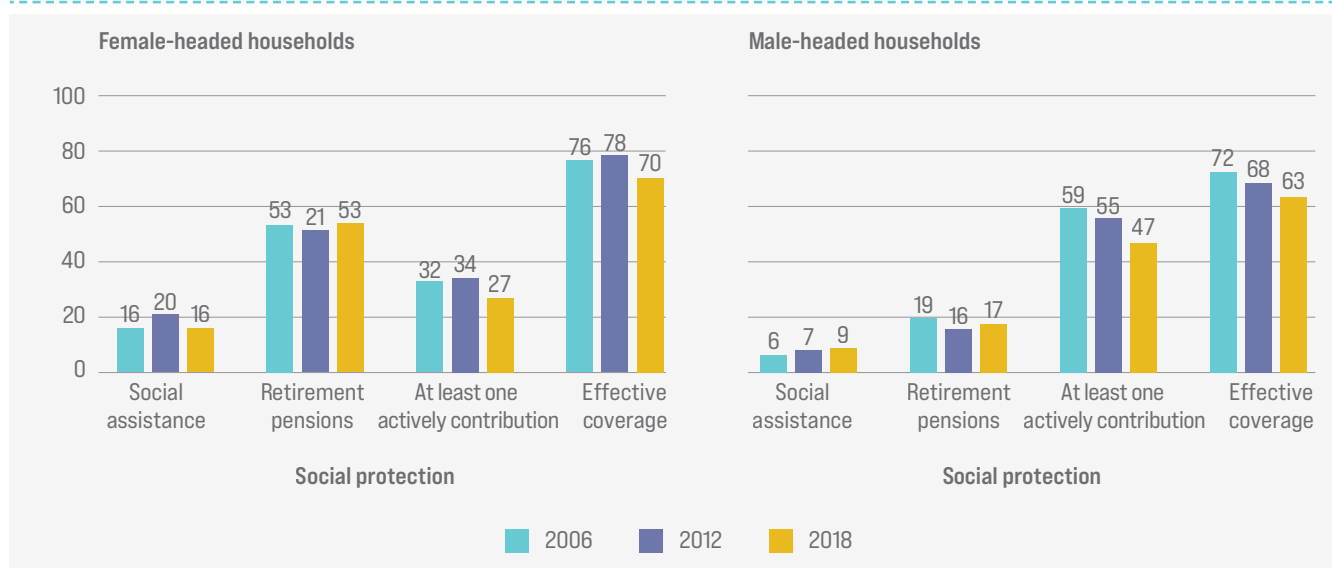
C. Effective coverage rates fell faster for male-headed households, but for a different reason than for female-headed households

In Egypt, male-headed households in the middle class experienced a drop of about 8 percentage points between 2006 and 2018, as shown in figure 7, primarily due to the limited number of working household members with access to social insurance coverage. Female-headed households also experienced a decrease in effective coverage rates (with 6 percentage points), also due to a falling number of socially insured workers in their households.

However, the reasons behind the drop in social insurance coverage rates at the household level

differ between women and men. For women in Egypt, for example, the increasing lack of social insurance coverage could be due to high rates of women leaving the labour force in the past two decades in Egypt.²⁵ However, for male-headed households, the drop is primarily attributed to the rapid expansion of informal and precarious employment rather than to a drop in labour-force participation. In Jordan, the effective coverage rate of female-headed households remained stable between 2010 and 2016, largely because of increased access to retirement pensions.

Figure 7. Evolution of social protection coverage for middle-class households in Egypt by gender of head of household (Percentage)



Source: Authors calculations using ELMPS, 2006, 2012 and 2018.



Access to health insurance among the middle class

20

04

This chapter explores patterns of health insurance coverage for the middle class, measured at the individual level because, unlike transfers, health insurance cannot be shared among household members.

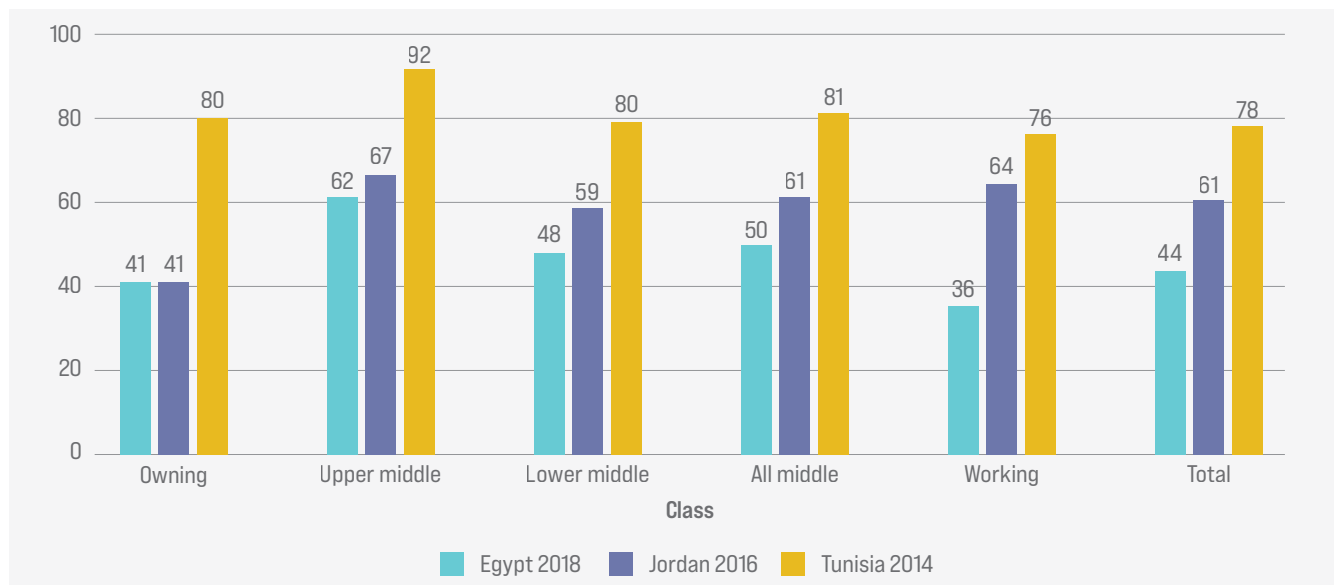
A. Health insurance coverage is highest among the middle class, especially the upper-middle class -----

Health insurance rates, as shown in figure 8, are highest in Tunisia. Across all classes in the population of Tunisia, 78 per cent have some type of health insurance coverage. Approximately 81 per cent of the middle-class population have health insurance, while 80 per cent of the owning class and 76 per cent of the working class have coverage. Jordan ranks second, where about 61 per cent of the middle class and 41 per cent of the owning class have health insurance. Jordan is the exception across the three countries for health insurance rates among the middle class since 64 per cent of the working class have coverage, a higher rate than among the middle class. Egypt has the lowest health insurance coverage rates in the region across the three

classes, as only about 50 per cent of middle-class Egyptians have health insurance. Although the health insurance coverage rate for the middle class in Egypt is the lowest across the three countries, the middle class in Egypt still enjoys greater access to health insurance than other classes in the country, given that only 41 per cent of the owning and 36 per cent of the working class have access.

In all three countries, the upper-middle class has higher rates of health insurance than the lower-middle class. Those higher insurance coverage rates among upper-middle-class workers may be because they often have private health insurance through their employer.

Figure 8. Health insurance rates at the individual level in Egypt, Jordan and Tunisia by household class (Percentage)



Source: Authors calculations using ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

B. Public health providers are a key insurance source for the middle class

Figure 9 highlights the fact that, in all three countries, health-insured individuals in the middle class are slightly more likely than the insured from other classes to rely on public health insurance, such as the insurance provided by the Health Insurance Organization (HIO) in Egypt, the Civil Insurance Programme (CIP) in Jordan, or the Caisse Nationale d'Assurance Maladie (CNAM) (the National Health Insurance Fund) in Tunisia.

In Egypt, HIO covers 78 per cent of health-insured individuals in the middle class. In Jordan, about 48 per cent of the middle class report that their main source of health insurance is through the Ministry of Health, and primarily through the CIP. An additional 31 per cent receive insurance coverage through the Jordanian Royal Medical Services. In Tunisia, CNAM is the primary source of health insurance and covers 55 per cent of health-insured individuals in the middle class. As the public health insurance scheme for socially insured workers, CNAM also covers workers' spouses

In Egypt, HIO covers 78 per cent of health-insured individuals in the middle class. In Jordan, about 48 per cent of the middle class report that their main source of health insurance is through the Ministry of Health, and primarily through the CIP. An additional 31 per cent receive insurance coverage through the Jordanian Royal Medical Services.

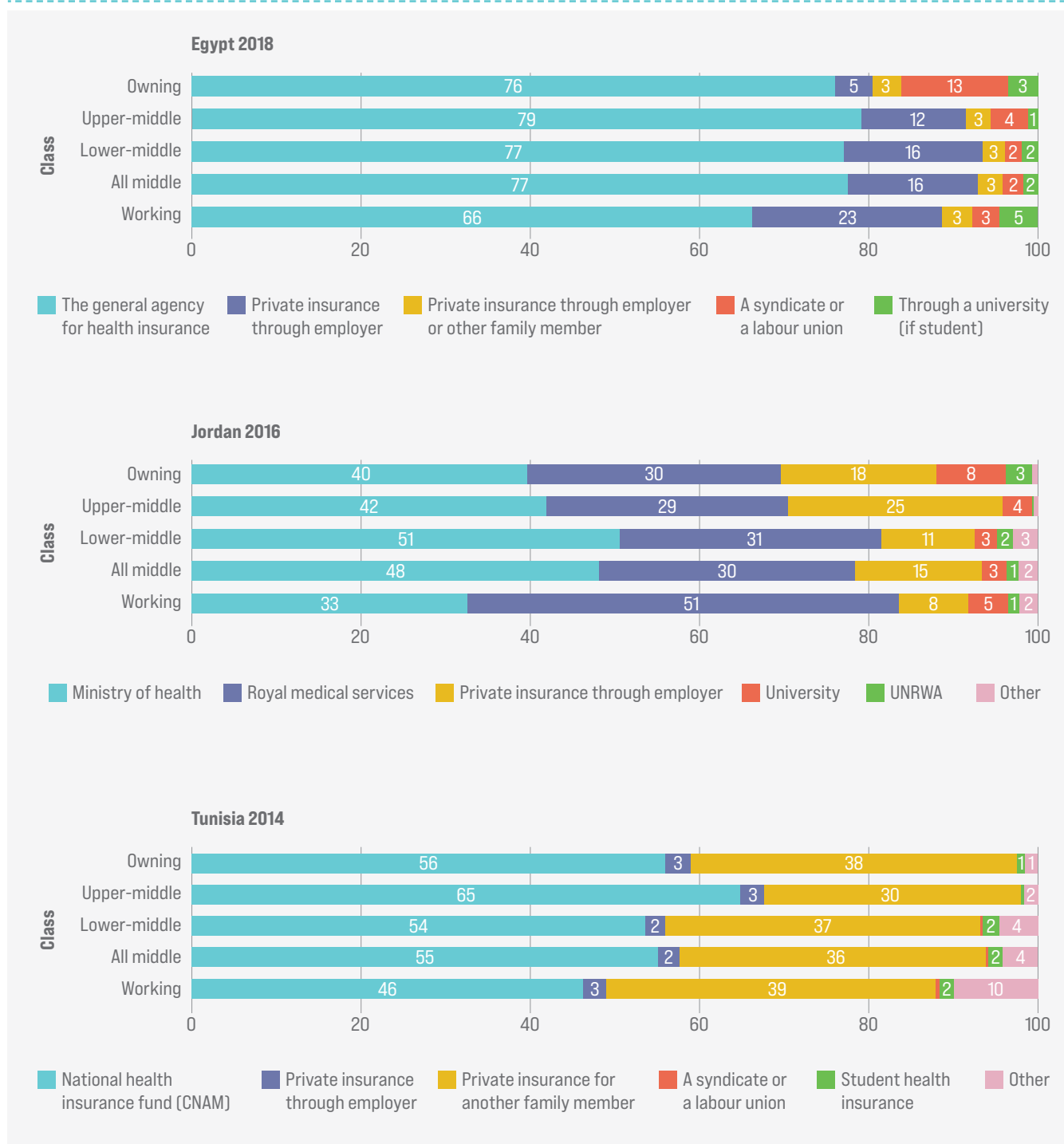


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and dependents.²⁶ Figure 9 indicates that about 36 per cent of health-insured individuals in the middle class are covered as dependents and that coverage is likely through CNAM.

Since middle-class households mostly rely on public providers of health insurance, the quality of public health services and provisions is a key factor in ensuring their social welfare. Previous research on the Arab region documents deteriorating quality of public health services, meaning that middle-class households have resorted to coverage from the private sector and their out-of-pocket expenditure has increased, as discussed in working paper No. 3. A similar trend has occurred in education as well.²⁷ Those trends signal the need for Governments to restructure the health insurance system to increase spending, inclusion and coverage.

Figure 9. Distribution of health insurance types for individuals with health insurance coverage in Egypt (non-students), Jordan and Tunisia by household class (Percentage)



Source: Authors calculations using ELMPS, 2018; JLMPS, 2016; and TLMPS, 2014.

Note: UNRWA stands for United Nations Relief and Works Agency for Palestine Refugees.

Conclusion



05

This paper provides evidence that middle-class households in Egypt, Jordan and Tunisia are most likely to be effectively covered by at least one out of three social protection benefits when compared with other classes, and provides useful data that can be used to monitor these countries' progress, or lack thereof, with regard to indicator 1.3.1 of the SDGs. The effective coverage rate for middle-class households is relatively high because those households are most likely to have workers who actively contribute to social insurance schemes. It can, therefore, be assumed that, for middle-class households, the main form of social protection is through employment-based contributory social insurance schemes, which guarantee a pension income during retirement. Recent labour market developments in the Arab region have greatly affected social protection coverage for middle-class households. Following the adoption of structural reforms in the 1990s, which curtailed public-sector employment, informality has been on the rise. Public-sector employment was historically a core element of the social contract with the middle class and one of the most important means through which people accessed social protection. In addition to universal energy/fuel and food subsidies, public-sector jobs provided social insurance coverage and other benefits, and were used as a tool for maintaining social cohesion among the middle class and authoritarian control by Governments.

With the decrease in public-sector employment and subsidies, the question is whether the private sector has succeeded in providing an alternative channel for middle-class employment, with the possibility of social insurance coverage and retirement pensions. This paper concludes that the formal private sector has only limited

capacity for creating sufficient decent jobs, which has made continuity of access to social insurance coverage for the middle class difficult. Additionally, increasing inequality, political turmoil and recent economic shocks have all contributed to a shrinking middle class in the Arab region, as discussed in working paper No. 2. The existence of adequate social protections is crucial for buffering the effects of those crises and preventing middle-class households from falling into poverty. This paper provides evidence that a lack of social protection mechanisms contributes to increased vulnerability and can be a driver for downward mobility. For example, the country with the least social protection coverage rates, Egypt, also experienced the largest decline in the size of the middle class, which shrank by 12 per cent between 2006 and 2018, as discussed in working paper No. 2.

Enabling access to social protection for individuals performing all types of work, including those in non-standard forms of employment and self-employment, together with effective coordination and a combination of contributory and non-contributory schemes are key components for maintaining the social and economic stability of the middle class in all three countries discussed here. Contributory social insurance schemes exclusively available to paid workers may also reinforce gender inequality given that women's labour market participation in the region is the lowest in the world.²⁸ Adapting social protection systems to the realities that men and women in the region face in the labour market and in society is a crucial step towards establishing more inclusive social protection systems and maintaining social stability.²⁹

Policy recommendations

06

Given the economic and social policy trajectories described earlier, a multi-pronged approach is required if policymakers aspire to achieve universal social protection coverage and extend protection to the “missing middle”. Therefore, the following is recommended:

- a. Since the main channel of social protection for the middle class is through the labour market, improving the business environment and lowering the transaction costs of doing business are essential factors in boosting the capacity of the private sector to create decent employment opportunities. Going forward, budgetary, economic and social protection policies must be discussed and coordinated accordingly to ensure that existing social protection gaps are not exacerbated;
- b. In terms of social protection policy design, existing social insurance schemes must be legally and practically made more attractive and/or available to informal workers, for example by:
 - i. Subsidizing the contributions of low-income individuals, including through subsidies from high-income contributors or from tax-financed public subsidies. Best practices for the latter can be learned from countries such as Chile, which provides a tax-financed solidarity component in conjunction with a savings account function;
 - ii. Introducing a so-called “monotax”, which is a simplified taxation regime, for small and microenterprises, including family-run businesses. The collected taxes are usually levied at a flat rate for the whole business and its employees, and are earmarked as social insurance contributions. This process formalizes small and family-run businesses and recognizes their respective contributions to economic development. Given expected apprehension towards taxation from family business and small and microenterprise owners, this type of combined taxation and policy reform must include a comprehensive communication strategy that outlines the benefits for those enrolling, including access to banking, loans and other types of insurance.
- c. In terms of social protection delivery mechanisms, it is important that outreach, registration and enrolment procedures be simplified and/or automated for lower-middle-class households or those in non-standard forms of employment. Automated compulsory enrolment circumvents major pitfalls of voluntary opt-in schemes, including the compromised financial sustainability of many voluntary schemes. Automation could be enabled by:
 - i. Harnessing the potential of digital public records and developing interoperability across civil registry, social assistance and social insurance databases;
 - ii. Creating automated cross checking of unique identifiers provided by civil registries with membership and beneficiary databases of social insurance funds and social assistance programmes. Automation establishes the basis for an extensive list of potentially informal/irregular workers to be pre-registered for enrolment;
 - iii. Requiring pre-registered workers – once notified of their pre-registration – to actively opt out of the scheme, for instance, by providing relevant documentation of being otherwise insured or covered.

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Endnotes

- 1 Diwan, 2013; El-Haddad, 2020; Devarajan and Ianchovichina, 2018; Devarajan, 2022; Karshenas, Moghadam and Alami, 2014.
- 2 El-Haddad, 2020.
- 3 International Labour Organization (ILO), 2021a.
- 4 ILO, 2021a; Assaad and Barsoum, 2019; Assaad, 2014.
- 5 Assaad and others, 2022; Assaad and Salemi, 2019; Selwaness and Ehab, 2022; ILO, 2021a; Assaad and Barsoum, 2019; World Bank, 2004.
- 6 The scoring criteria used to select beneficiaries of non-contributory schemes prioritize the poorest households, thus denying access to middle-class households.
- 7 Further information is available at <https://www.erfdataportal.com/index.php/catalog>.
- 8 Further information is available at <https://www.erfdataportal.com/index.php/catalog>.
- 9 Further information is available at <https://www.erfdataportal.com/index.php/catalog>.
- 10 For further information, see ILO, 2021b, annex 2, p. 230.
- 11 ILO, 2021b.
- 12 ILO, 2022.
- 13 Assaad, AlSharawy and Salemi, 2019; Selwaness and Ehab, 2022.
- 14 These types of pensions are usually known as survivorship pensions. Recipients may be widows with children, unmarried daughters or daughters who are less than 21 years old.
- 15 Public-sector hiring targets individuals with at least a secondary education. Since the members of the working class have lower average education levels, they are less represented in public-sector jobs, as discussed in working paper No. 1.
- 16 ELMPs and JLMPs are available for three and two waves, respectively, facilitating an examination of the evolution over time using a cross section of samples. Tunisia, however, has completed one TLMP wave, which was conducted in 2014.
- 17 Selwaness and Ehab, 2022.
- 18 El-Haddad, 2020; Razzaz and Selwaness, forthcoming.
- 19 Melguizo, 2015.
- 20 Assaad and others, 2020; Selwaness and Krafft, 2021.
- 21 AbdelLatif, Ramadan and Elbakry, 2019.
- 22 Alhawarin and Selwaness, 2019.
- 23 Alhawarin and Selwaness, 2019; Selwaness and Ehab, 2022.
- 24 Selwaness and Selwaness, 2022; Alhawarin and Selwaness, 2019.
- 25 Assaad and others, 2020; Selwaness and Krafft, 2021; Assaad, Krafft and Selwaness, 2022.
- 26 Nasri, Amara and Helmi, 2022.
- 27 Karshenas, Moghadam and Alami, 2014.
- 28 World Economic Forum, 2022.
- 29 Behrendt and Nguyen, 2019; World Bank, 2004.



The main channel for social protection for the middle class in the Arab region, other than subsidies, used to be through decent jobs. For example, contributory social insurance coverage used to represent, and to some extent still represents, the primary social protection instrument for middle-class households in the region. Historically, social protection coverage rates were highest among middle-class households due to their greater access to jobs that provided social insurance coverage in comparison to other social classes.

However, social insurance coverage has eroded for the middle class due to the expansion of informal employment. A large disparity can be observed between the upper and lower middle classes in terms of their patterns of social protection coverage. Members of the lower middle class often lack social protection due to their high propensity to work in informal employment and limited access to other non-contributory governmental support, such as poverty-targeted social assistance programmes. The continued erosion of social insurance coverage for workers in the middle class in Egypt means that there are no employment-related pensions for those workers; they are thereby exposed to the socioeconomic impacts of life cycle risks. Regarding health insurance, Tunisia has a relatively inclusive health insurance system, followed by Jordan in contrast to Egypt. Given the heavy reliance of the middle class on public providers of health services, the quality of these services remains key to maintaining the welfare of the middle class.

