INTERNATIONAL SOCIAL SECURITY ASSOCIATION

Crisis country case study

Jordan

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ISSA crisis case study: Jordan

Summary

Despite having minimal exposure to precarious financial products, Q3 unemployment in Jordan was up 2 per cent compared with the same quarter in 2008 as a result of the global economic downturn. Investor confidence was also shaken as evidenced by a sharp drop on the Amman Stock Exchange (ASE) index in 2008 resulting in unrealized losses of -20.4 per cent for Jordan's largest investor and administrator of social security benefits – the Social Security Corporation (SSC).

Under King Abdullah's orders, a "social safety net" to provide universal social protection and support for poor families and the unemployed was created in February 2009. In the same year, the government also passed a temporary law which included the extension of social security coverage to informal workers and an increase in the monthly minimum wage from US dollar (USD)155 to USD211 in 2009.

Though modest in scale, the government remains committed to universal social security, spending over 14 per cent of GDP on social protection and health in 2007 alone – considerably higher than some developed countries. Despite limited fiscal space the SSC is confident that its funds will soon deliver healthy returns due to sound regulation and tight monetary and fiscal policies from the Central Bank of Jordan and the Ministry of Finance.

Social security institutions covered

The Social Security Corporation (SSC).

Overview of the social security system

The provision of social security in Jordan dates back to the Social Security Law of 1978 when the Kingdom created a socio-economic umbrella to protect working groups and their dependants. Three public pensions plans cover roughly 54 per cent of the labour force: (a) the Civil Servants Pension (5 per cent), (b) the Military Personnel Pension (10 per cent) and (c) the Social Security Corporation – SSC (39 per cent, provides defined pension benefits to persons mainly in the private sector) (Hadid, 2003). Old-age pensions start from age 60 (men) or age 55 (women) with at least 180 months of coverage, including 60 months of paid contributions. A reduced old-age pension is paid from age 45 (US Government, 2010).

After 25 years of operation the SSC has built a portfolio of over USD6.bn[1] and is currently the sole provider of pensions. As a publicly owned but independently governed institution, the SSC is considered to be both the largest and most important investor in the Jordanian economy (valued at almost 42.2 per cent of GDP) (Al-Wazani, 2005).

[1] Exchange rate as of March 2010.

Social insurance is provided to the following five categories (the last three are currently not in place but are planned from 2010):

- Old age pension (mandatory, early), disability (total, partial) and death.
- Work injury and occupational diseases.
- Temporary disability due to sickness or maternity.
- Unemployment.
- Health insurance for the worker and beneficiaries.

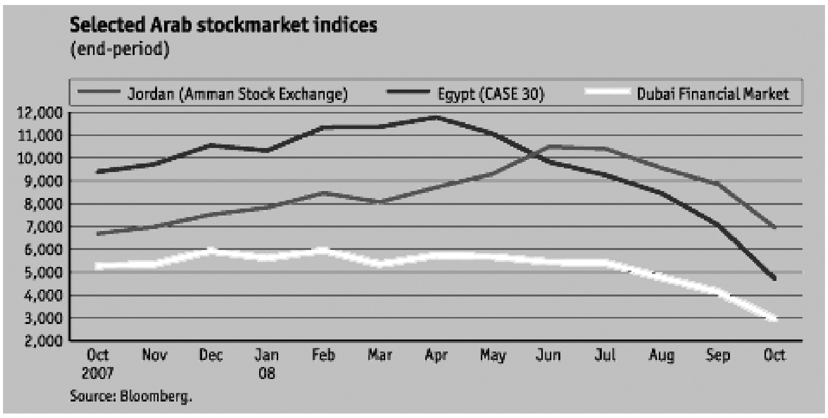
The SSC is funded via mandatory contributions by employees or by the employer for his/her employees. In 2003, a specialized investment unit (IUSS) was created to manage reserves. The IUSS is allowed to diversify into international markets to maximize the real value of assets (Sharaf, 2009).

Impact of the crisis

Ailing market sentiment

Despite a liquidity surplus equivalent to USD7.8 billion and having minimal exposure to precarious financial products that shook global markets, Jordan's banking sector was adversely affected via falling investor confidence (see figure 1). This was evidenced in a sharp drop on the Amman Stock Exchange (ASE) index in 2008 which led authorities and two of the largest banks in the country (Arab Bank and the Housing Bank for Trade and Finance) to reassure both investors and savers that the financial sector was healthy.

Figure 1: ***Falling confidence in Jordan and regional trading partners, 2008***



Source: EIU (2010b).

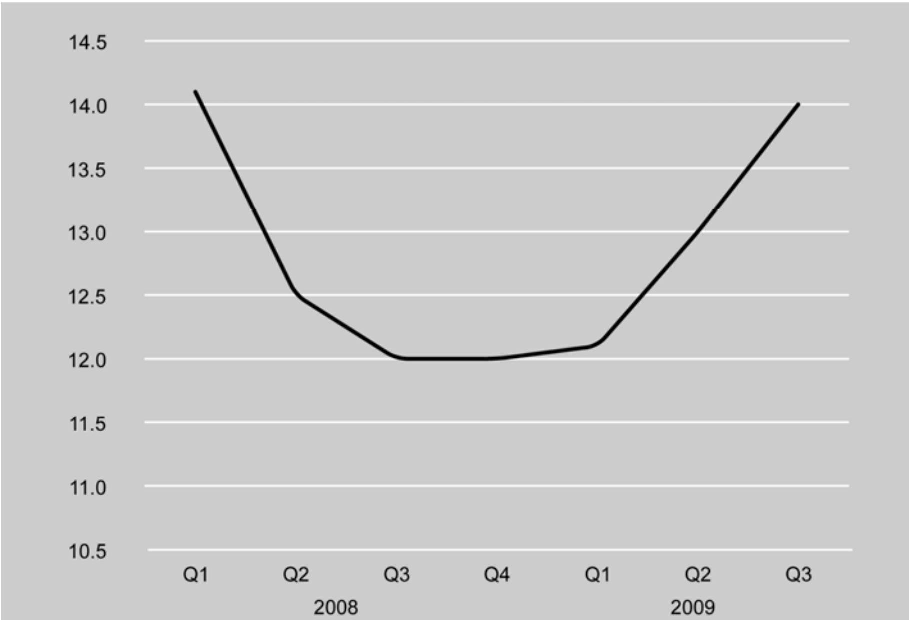
The importance of local and foreign investor confidence is paramount to Jordan's open economy given its heavy reliance on exports, tourism, remittances and foreign direct investment. Therefore, although Jordanian banks were not officially facing any problems, in 2008 the government guaranteed all bank deposits until the end of 2010.

In light of the global recession, the dependence on external assistance remains a major structural weakness of the economy. Sluggish global performance had adverse knock-on effects as companies laid off staff and reportedly a large number of expatriates in the Gulf lost their jobs in 2009 (SSC, 2009).

Lower economic growth and rising unemployment in 2009

Though market fundamentals were relatively stable in 2008, GDP growth fell nearly 6 per cent (from 8.9 per cent) compared to the same period a year before. In addition to this, third-quarter unemployment was up 2 per cent compared with the same quarter in 2008 (see figure 2).

Figure 2: ***Quarterly unemployment rates in Jordan, 2008–2009 (%)***



Source: ILO (2009).

Although Jordan was not in recession, it is worth noting that the total revenue and grant figure in the 2010 budget was lower than the equivalent figure in the 2009 budget of USD7.9 billion, suggesting that the government was expecting the impact of the global and regional economic recession to continue into 2010 (Economist Intelligence Unit (EIU, 2010a)).

Investment performance

The devaluation of the Jordanian stock market harmed the overall performance of Jordan's largest investor – the Social Security Corporation. In response to the International Social Security Association (ISSA) survey, the SSC stated that the greatest impact on their investments were unrealized losses. The variance between 2007 and 2008 (from 21.9 per cent in 2007 to -20.4 per cent in 2008) in total real investment return is very large as illustrated in table 1. To a large extent this has been driven by poor performance in more risky financial instruments such as equities which the SSC plans on gradually reducing its exposure through a number of mechanisms.

Table 1: ***SSC's unrealized losses and gains***

	2008	2007	Last 3 years	Last 5 years
Total real investment return (%)	-20.4%	21.9%	-5.7%	15.24%
Equities (%)	-12.85%	37%	-1.18%	28.38%
Bills and bonds (%)	7.13%	6.45%	6.43%	5.84%
Cash or equivalents (%)	6.5%	6.4%	6.32%	4.96%
Property (%)	-10% a	32.19%	28.7%	19.66%
Others (%) Loans	7.54%	7.35%	7.15%	7.11%

Note: Figures in brackets are negative. a = assumed.
Source: SSC response to ISSA questionnaire.

According to the SSC, the end of year results for 2009 reflected an appreciation (growth) in the entire social Security portfolio that reached 1.5 per cent. Over the medium term however, the SSC remained confident that the portfolio would deliver healthy returns akin to their performance prior to the crisis. Much of its confidence rested on sound regulation and tight monetary and fiscal policies from the Central Bank of Jordan and the Ministry of Finance.

Administrative capacity

Reportedly, the SSC did not require any assistance in meeting social security needs. In fact, the SSC injected cash into publicly listed companies that were adversely affected by the crisis.

Nonetheless, low or negative returns did diminish the SSC's capacity to deliver social security. Furthermore, Jordan's reliance on foreign aid and grants for debt financing could impact its capacity to deliver benefits. Without external assistance, debt financing would have to come from local banks, which in turn would mean fewer funds available for the SSC.

Responses to the crisis

Social safety net programme

In his parliamentary speech in November 2008, King Abdullah II claimed that economic and social policies were to be a priority for the current administration. He outlined the creation of a "social safety net" to provide universal social protection in addition to increased support for poor families and vulnerable unemployed groups. In February 2009, the USD424 million social safety net programme was launched and benefits were increased by USD70 a month for those earning less than USD420 a month. Some 440,000 Jordanians who were members of households not working for the government and earning less than USD1,400 a year were made eligible for this cash payment (EIU, 2010b).

A new but "temporary" social security law

Limited fiscal space and conservative politics shaped the overall crisis response. Fiscal constraints forced the government to withdraw a previously announced USD256 million fiscal stimulus package and instead, brought forward planned capital expenditures and extended social services to those most in need (International Labour Organization (ILO), 2009)).

Earlier the government failed to achieve political consensus on a controversial new social security law that aimed to extend coverage to workers in enterprises with less than five workers (many of which are in the informal sector), the self-employed, housewives and to nationals working abroad. As a result, in early October 2009, the government passed the measure as a temporary law which included:

- *Early retirement cut-backs*
  As early retirement provisions were haemorrhaging SSC funds, the Ministry of Labour intervened to stop early retirement for those who subscribed to the SSC after 6 October 2009. It is planned that those who still qualify for early retirement will have to wait an additional five years (age 50) to benefit. New amendments also set a USD7,050 upper limit for pensions.

- *New individual saving accounts to combat unemployment*
  A unique form of unemployment insurance was proposed under the new law in which social security coverage was extended to include agricultural workers, fishermen, housewives, employers and self-employed persons. It is intended that unemployment insurance will be financed by monthly contributions from both employees and their employers, with a deduction rate of 1 and 0.5 per cent of monthly wages respectively. It is expected that around 80 per cent of existing small enterprises will be covered by social security by 2011 (ILO, 2009).

- *Targeted support for the most vulnerable groups*
  The monthly minimum wage was increased from USD155 to USD211 and funding to the National Aid Fund (which provides cash assistance and support for poor families) was enhanced by USD28 million. Through this additional allocation, the Fund provided monthly cash assistance to 12,335 new families, extending the total number of families covered in 2009 to 82,694 (or roughly 7 per cent of Jordan’s total population in 2009). The government has also expanded the eligibility criteria for support under the Special Cases Programme (for the disabled and elderly) from USD282 to USD352, and increased the amount paid under the programme.

Labour market policies and programmes

In October 2009, the government began accepting applications under the "Support Programme for the Unemployed and Agriculture Workers", which aimed to increase job opportunities for low-skilled workers through the provision of social security matching schemes with employers. This programme is especially beneficial to women who are over-represented in the agricultural sector. The National Vocational and Training Programme also targets women in remote areas to provide training for self-employed females in the hospitality and service sectors.

The Ministry of Labour claimed credit for 8,000 jobs created during 2009 as a result of its employment initiatives, e.g. more than 3,000 trainees had participated in the National Company for Training and Employment initiative run by the Jordanian Armed Forces, designed to provide skilled labour for the construction sector (Jordan Ministry of Labour, 2010).

Lessons learned

Jordan’s experience demonstrates a key lesson for all social security institutions worldwide, that even with limited fiscal space and limited exposure to international financial markets, a developing country can, at least modestly, increase provisions and support for poor families and vulnerable unemployed, while maintaining its commitment to universal social security. It has become increasingly clear that the extension of social security coverage is an increasing policy priority for Jordan's SSC and policy-makers now and in the future.

SSC managers have been prudent and have learned to keep away from high-risk investments such as complicated derivatives, and mortgage-backed securities or complex collateral debt obligations. Yet, the crisis also exposed the shortcomings of an anachronistic Social Security Law and weakly diversified portfolio (25 per cent of the SSC fund is in one stock and a further 57 per cent of the assets are in local public equities).

In a speech at the 2009 ISSA Seminar on Social Security in Times of Crisis: Impact, Challenges and Responses (Sharaf, 2009), Mr Sharaf, Chairman of the Social Security Investment Unit, claimed that the relatively weak impact of the crisis on Jordan's economy has been more a matter of luck than prudent decision-making. In his opinion, more diversification and more investors are needed to better balance the SSC's risk portfolio and build reserves when the economy is faring better. This includes increasing international investments to 10 per cent of the fund, asset swaps with sovereign wealth funds in the region, establishing index-linked funds and establishing private equity funds with third-party managers.

More controversially, a difficult lesson that early pensioners have learned is that the social security system is arguably over-generous. Periodic actuarial SSC evaluations claim that long-term sustainability (e.g. over 50 years) requires further cutbacks in provision, eroding any headway that the government has recently made in extending social security coverage. According to the International Monetary Fund (IMF) over 14 per cent of Jordan's GDP was spent on public social protection and health expenditure in 2007 – this is considerably higher than some developed countries. Some ruling party and main opposition party members vehemently claim that Jordan's accelerating liabilities warrant matching benefit cutbacks in order to stockpile social security assets for future generations (SSC, 2009).

Conclusion

Unintentionally or intentionally, Jordan escaped relatively unscathed from the global economic crisis, suffering little by way of unemployment. In keeping with other countries, a government bank bail-out was offered, though this was arguably more preventative than a reactive response to the crisis.

The government successfully maintained its phased implementation of universal social protection (proposals include unemployment benefit and health insurance) via targeted support to vulnerable groups – a strategy which has been recognized by ISSA for its dynamism and partnership between stakeholders (ISSA, 2009). This demonstrates that extended programmes are feasible, even in low-income countries with limited fiscal space.

To make the most of recovery when it does arrive, the SSC fund is planning to increase its investments abroad to reduce the large (-20.4 per cent) unrealized loss and raise unrealized gains going forward. In turn, this would imply aggressive portfolio diversification of asset classes and investing prudently at home and abroad (12–15 per cent of SSC's portfolio may be invested outside Jordan but currently only 2 per cent is). Failure to do this would most likely mean the country remains dependent on foreign aid or grants (roughly USD1 billion in 2009).

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