

# **Kingdom of Bahrain**

## **Technical note**

**Social protection for the unemployed:  
Preliminary findings on unemployment  
insurance and assistance**

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## Abbreviations and acronyms

|        |   |
|--------|---|
| BD     | Bahraini dinar  |
| CIO    | Central Informatics Organisation  |
| CPR    | Central Population Register   |
| CR     | Commercial Registration (for employers)   |
| GCC    | Gulf Cooperation Council  |
| GOSI   | General Organisation for Social Insurance   |
| HDI    | Human Development Index – by UNDP   |
| HRC    | Human Resources Council   |
| ID     | Identification number   |
| IT     | Information technology  |
| ILO    | International Labour Office   |
| MENA   | Middle East and North Africa  |
| MOLSA  | Ministry of Labour and Social Affairs, Kingdom of Bahrain                             |
| NPET   | National Programme on Employment and Training   |
| SOCFAS | Financial, Actuarial and Statistical Activities Branch, Social Protection Sector, ILO |
| UI     | Unemployment Insurance  |
| US\$   | United States dollar  |
| UNDP   | United Nations Development Programme  |

### ***Exchange rate***

As of April 2004: 1 US\$ = 376 BD



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## Foreword

In the context of the development of a national Decent Work Programme, the Ministry of Labour and Social Affairs of the Kingdom of Bahrain identified three policy priorities including unemployment insurance, vocational and educational training and modernization of the labour code. The ILO is committed to assisting Bahrain on such matters in the context of its follow up to the previous consultations on Bahrain's Decent Work Programme conducted since 2001<sup>1</sup> and to satisfy the request of the Government of Bahrain for technical support, namely on unemployment insurance.

In this context, Mr. Taleb Rifai, ILO Regional Director for the Arab States, organized in consultation with technical departments of the ILO in Geneva a technical assistance programme for the support towards the introduction of unemployment insurance and other social protection assistance measures for the unemployed. A team of ILO specialists visited Bahrain from 11 to 18 March 2004 of which the International Actuarial and UI Expert, Mr Michel Bedard, former Chief Actuary of Canada's Unemployment Insurance Programme.

The International Financial and Actuarial Service of the Social Protection Sector of the ILO was responsible for the inputs related to this technical note in close consultation with the Policy and Development Branch (SOCPOL).

The ILO expert on unemployment insurance met with government officials from MOLSA, other ministries and public organisations, employers' and workers' representatives and members of civil society. A list of the main contacts made is provided in Annex 2. Several sources of information were referred to as indicated in Annex 3. In view of the high degree of multi-disciplinarity involved in unemployment insurance, the ILO is pleased to continue providing inputs on the dimensions of UI related to social insurance, re-training, employment services, labour legislation, social dialogue and other technical issues.

<sup>1</sup> Vide ILO (2002): "Employment, Social Protection and Social Dialogue – An Integrated Policy Framework for Promoting Decent Work in Bahrain".





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## Acknowledgements

The Director General of the ILO appointed Mr. Michel Bédard to represent the ILO for this assignment. The International Financial and Actuarial Service of the ILO assumed technical responsibility for this assignment under the authority of Mr. Michael Cichon, Chief of SOCFAS. Ms. Anne Drouin has undertaken the technical coordination and review of the report for its submission to Mr. Taleb Rifai, Regional Director for the Arab States, and its onward transmission to the Government of Bahrain. Comments were received from Ms. Corinne Vargha, Integration Department, Mr. Krzysztof Hagemeyer, SOCFAS, Ms. Ursula Kulke, SOCPOL and Mr. Clive Bailey, SOCPOL. Mr. Peter Poschen, Integration Department, and Mr. Fährad Mehran, Statistics Department also provided useful background information and guidance.

The Director General of the ILO expresses his gratitude to the Minister of Labour and Social Affairs of the Kingdom of Bahrain for his support extended to the ILO during this activity on unemployment insurance.



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## Executive summary

The Ministry of Labour and Social Affairs (MOLSA) is conscious of the raising needs of the unemployed population, especially young persons entering the labour market for the first time, and recognized that the country's economic situation, and in particular trends in the labour market, require innovative social protection measures accompanied by sound employment-focussed actions. The economic situation, the institutional infrastructure as well as trends in the labour market of Bahrain provide sufficient grounds to justify investigating further the possibility of introducing social protection measures for the unemployed, namely unemployment insurance for salaried workers and unemployment assistance for other persons who may not have any entitlement to social insurance. It is believed that social insurance and social assistance measures supported by effective job placement assistance and training programmes could improve access of Bahraini nationals to the labour market and foster economic stability.

The proposal for UI as prepared by the MOLSA in January 2004 (attached as Annex 1) provides a significant starting point to further develop policy and implementation aspects.

There is however concern that key considerations for a successful introduction of unemployment insurance and unemployment assistance measures for non-qualifying persons in Bahrain need further technical review to improve and extend the focus of the UI proposal formulated by MOLSA before it can be submitted for official endorsement. The ILO stresses the importance of meeting minimum levels in the general economic performance of the country's labour market and in the implementation capacity of the institutions involved before the introduction of UI should actually take place. These external factors are key for the future assessment of the cost and financial sustainability prospects of UI and other social protection measures for the unemployed.

This report provides preliminary findings only on the issue of unemployment insurance and social protection measures for non-qualifying unemployed persons. The ILO does not take any standpoint in view of the limited knowledge. A few suggestions are made and a proposed national plan of action following the preliminary technical review of the feasibility of introducing UI as discussed in the sections of this report.

The ILO recommends that immediate actions be taken to move towards the Action Plan presented in Section 5.2 namely to achieve the following milestones:

1. a dedicated UI Task Force appointed;
2. prerequisites for success identified;
3. a detailed work plan of the UI Task Force adopted;
4. regular labour force surveys established;
5. international best practices on UI investigated;
6. preliminary recommendations of the UI Task Force on the revised UI proposal submitted;
7. actuarial review of the revised UI proposal based on the preliminary recommendations of the UI Task Force submitted; and actions taken for a definitive UI proposal;
8. drafting legislation on UI for its submission to Parliament;

- 
9. administrative structures and operations as well as institutional arrangements put in place;
  10. UI scheme implemented.

In relation to the recommended actuarial review, the ILO is ready to provide technical assistance. It encourages policy-makers to prepare for the necessary inputs and data collection as discussed in much details in Section 6.

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## **1. General context**

### **1.1. A favourable context for unemployment insurance and social assistance measures for the unemployed**

The Kingdom of Bahrain has enjoyed a healthy rate of economic growth over the last few years, along with the other countries of the Gulf Cooperation Council. The country's GDP has grown at an average annual rate of about 4.5 per cent since the mid-1990s while GDP per capita was amongst the highest across Arab States at 4,554 BD (equivalent to US\$ 12,189) in 2001, and 28<sup>th</sup> in the world. Inflation has remained low and stable at less than 1 per cent annually. While oil prices have risen over the period despite fluctuations during the late 1990s, these favourable results can also be ascribed to ongoing efforts of economic diversification, including the modernization of institutional and economic structures. The political reforms effected in 2001 also represent an important step towards improving the country's political and socio-economic climate.

The overall unemployment rate in Bahrain stood at 5.5 per cent at the time of the last Census in April 2001, although the rate for Bahraini nationals was much higher at 12.7 per cent. However, according to a labour force survey conducted for the UNDP, the unemployment rate for Bahrainis was reduced to 10.1 per cent by December 2002/January 2003.

In spite of this improvement, one should keep in mind the challenges that Bahrain will face over the coming years in terms of job creation: by one estimate, there could be about 100,000 Bahraini nationals looking for jobs over the next 10 years, compared to the 111,000 reported in employment in the 2001 Census. This includes newcomers completing their studies (50,000), the current group of unemployed (perhaps from 16,000 to 20,000) as well as more female entrants due to an increasing participation rate (30,000).<sup>2</sup>

It seems unlikely that there will be enough new jobs to accommodate these jobseekers if the pattern observed between 1991 and 2001 is repeated. During this period job creation amounted to 79,000, only 34,000 of which were taken by nationals. It does seem inevitable that some of the jobs now occupied, or that would in future be occupied, by foreign workers will have to be taken by Bahrainis, even if the actual numbers are unknown.

One of the institutional arrangements which could help in making the needed economic adjustments over coming years could be an unemployment insurance programme, provided it is implemented in a cost efficient manner and avoids negative impacts on job search. Such a scheme has been discussed for many years in Bahrain, and was indeed anticipated by the Social Insurance Act of 1976. There has been renewed interest in this subject under the current Minister of Labour and Social Affairs. An IMF analysis of labour market issues had recommended such a plan as far back as 1997 for all GCC countries, as a way of increasing the attractiveness of private sector jobs for nationals. A World Bank report in 2000 indicated the desirability of UI in MENA countries. It was also recommended for Bahrain in a more recent analysis by the GWIT group.<sup>3</sup> Finally, the Arab Human

<sup>2</sup> A similar phenomenon is likely to occur across the MENA region, see for example the World Bank's 2003 study: "Unlocking the Employment Potential in the Middle East and North Africa: Toward A New Social Contract".

<sup>3</sup> See GWIT analysis in Annex III: "Bahrain: A Plan for Reforming the Bahrain Labor Market".

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Development Report in 2002 also recommended effective safety nets that would include “adequate unemployment compensation” for the 22 countries that it covered.

It should be mentioned at this point that no UI programme exists among Bahrain’s GCC partners, but one can assume that any action taken by the Kingdom in this direction would prompt interest among the others. This could be especially so as GCC countries have engaged in a process to achieve a common market by 2007 and a monetary union by 2010.

The country’s high degree of social development and organisation is evidenced by Bahrain’s ranking at 37 in the world, according to the United Nations Human Development Index,<sup>4</sup> and ranking at 27 out of 133 countries according to the Corruption Perceptions Index of Transparency International in 2003. It also ranked 20<sup>th</sup> on the 2004 Index of Economic Freedom, the highest ranking among Arab countries. Noteworthy also for “UI readiness” are the high literacy rate in Bahrain as well as the extent of urbanization (coincidentally both at 88 per cent in 2001). Public institutions appear well structured and competent. A mature social security system exists and there is a satisfactory development outlook for the employment policies that usually interact with the operations of unemployment insurance.

The Government and social partners should adopt a plan of action towards UI in which the need to define a set of prerequisites is included at an early stage before the implementation of UI can actually take place.

<sup>4</sup> Bahrain’s HDI is the highest among the Arab States.

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## **2. Policy considerations**

### **2.1. Differences between unemployment insurance and social assistance for the unemployed**

The ILO clearly distinguishes social protection and employment measures aimed at the unemployed at two levels:

- unemployment insurance is provided to salaried workers who earn entitlements as a result of their prior affiliation to UI. Such workers who become unemployed can qualify to receive compensation cash benefits and other in-kind employment assistance for job-search and retraining. UI is financed through contributions collected on insured salaries;
- unemployment assistance benefits are provided to persons who are unemployed and have no entitlement under the unemployment insurance system, namely the case of young persons who enter the labour market and do not find any employment opportunity. Unemployment assistance cash benefits are normally financed from general revenues.

It appears in Bahrain that the discussions around UI are meant to comprise both of the above components of social protection and employment measures for the unemployed. The ILO will need to insist on the above distinctions, especially when addressing financing considerations.

### **2.2. General objectives of unemployment insurance**

The ILO suggests that the compensatory, job-search assistance and re-training objectives of UI be approached in parallel, with equal weight for each component. The coverage of the UI scheme should take account of the corresponding needs of the population in terms of income support, re-training and job-search assistance. For coherence and effective use of public resources, the objectives of UI should be developed giving due account to the existing policies and programmes and practices on similar matters.

The compensatory objective of the benefit and financing provisions of the UI scheme should follow clear social insurance principles representing the social protection objectives of the Government and social partners. The UI scheme's main objective should include focussing on poverty "prevention" rather than poverty "reduction" (the latter being the goal of assistance rather than of insurance programmes). It should be noted that the objective of UI is not employment creation, but rather to provide temporary income replacement to eligible unemployed workers, supported by job-search assistance and retraining opportunities so they can be in an effective position to look for suitable employment.

By nature, the UI scheme should assist in dealing with both structural adjustments and occasional unemployment situations. It would allow unemployed workers to retain their dignity, by providing benefits as a right rather than according to their personal means or needs. It should provide them with some flexibility to deal with and accept restructuring decisions, temporarily or permanently, as required by employers when economic conditions are changing. This should be an efficient tool to support economic change, to help stabilize the economy and to minimize social costs.

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An integrated programme of social protection measures, namely social insurance and social assistance programmes, and current practices in relation to unemployment should be put together.

The demographic and socio-economic context, labour market situation and trends, and the social protection environment and expenditure should be carefully assessed. It is suggested that Bahrain could learn from the experience of other countries, accepted insurance principles for UI as well as applicable guidelines found in relevant ILO conventions such as:

- the Employment Promotion and Protection against Unemployment Convention (No. 168), 1988;
- the Employment Promotion and Protection against Unemployment Recommendation (No. 176), 1988; and
- the Social Security (Minimum Standards) Convention (No. 102), 1952.

It is noted that according to ILO Convention No. 168, the definition of suitable employment needs to be carefully formulated. It should take account of various factors such as the comparison of past and future proposed wages, distance from the home, qualifications, etc. It may be considered that the UI scheme should provide compensation for short periods of unemployment and, according to ILO Convention No. 102, the waiting period should not be of more than seven days.

It is important to pay careful attention to the inter-relationships between UI benefits and the treatment of severance and vacation pay, concurrent earnings from other employment or other sources, labour disputes, etc.

As has been pointed out in a number of evaluations that active labour market policies, despite their relevance and usefulness, may have limitations and may be costly given the small share of the labour force that they are likely to address. These policies would need to be carefully targeted and monitored but may “do little to remedy structural problems in labor markets or to reduce high unemployment.”<sup>5</sup> As a corollary, one cannot expect to rely heavily on such policies to control the potential costs of the UI programme, making it imperative to design sound policies and procedures from the very onset.

## **2.3. Coverage**

### **2.3.1. UI coverage of national and foreign salaried workers**

It is recommended that UI should not be planned or managed as a passive programme, but as a proactive scheme that provides benefits to job seekers who are firmly engaged in an effective job search and/or in effective efforts at improving their employability. This should avoid the trade-off between active and passive labour market interventions, by instilling a dynamic stance in the UI programme itself so that it serves to reinforce positive work attitudes.

<sup>5</sup> See for example the World Bank’s website on “Unlocking the Employment Potential in the Middle East and North Africa: Toward A New Social Contract.” A web search on the evaluation of ALMP’s will reveal many other similar views and cautions against over-emphasizing the role of ALMP’s.



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The ILO suggest that a UI scheme should cover as many workers as possible from an early stage: at least in principle. The importance of undertaking an in-depth stock taking exercise of the various options available, namely with respect to the inclusion or not of migrant workers, and their implications is pointed out. For example, the exclusion of migrant workers could lead employers to discriminate against hiring Bahraini nationals. The inclusion of migrant workers, on the other hand, could take place in the context of the relevant labour legislation if it allows migrant workers to remain on Bahraini territory when unemployed.

UI cash benefits and other services should be available to migrants in such cases. Otherwise, the inclusion of migrant workers without their access to benefits (assuming they have to leave the Bahrain territory as soon as they would become unemployed) should take place only if provisions are in place to reimburse their contributions and other entitlements under the UI scheme or to provide other types of benefits to be defined.

A balance should be sought between seeking total coverage of employees and ensuring that it is possible to administer the scheme effectively. The extension of coverage in the initial stage of the introduction of UI should take place gradually to account for the necessary build up of administrative capacities for the payment of UI cash benefits, for providing re-training and for job-search assistance. It may be appropriate to start the implementation of coverage in localities where the administrative capacities are most developed and gradually extending to all other areas.

It is noted that the coverage normally refers to wage workers as their employment and earnings records are more readily verifiable.

### **2.3.2. Coverage of national non-salaried unemployed persons**

The Government of Bahrain envisages to also extend UI benefits to first-time job seekers, i.e. to individuals who have never worked before or at least not for the required minimum time. It is unusual to provide benefits in those circumstances for the following reasons:

- for first-time job seekers, no insurable interest has yet been proven, i.e. it is not yet known if the individual has anything of value to lose (the income from a job) – unless one assumed that all such job-seekers are actively pursuing employment at that time, which is not so;<sup>6</sup>
- for those with insufficient time worked, the granting of (even reduced) benefits would still be detrimental to the concept of the qualification requirements;
- the occurrence of the risk, or of a significant event which is to be the onset of unemployment, might be unspecified unless it could be accurately tied to, for example, separation from school: barring that, it could be difficult to determine when one could even enter into potential benefit status;
- the value of the loss would have to be presumed because there would as yet be no observable income stream to be replaced;

<sup>6</sup> That is especially the case for drop-outs from the education system, whether during primary or secondary school or while transiting from a lower to a higher level of education, even at university level. These individuals have effectively demonstrated a disinterest in investing further time and effort to pursue a career, and may in many instances be resorting to informal employment, increasing the risk to the UI system.

- depending on the definition of first-time job seekers, and the justification for coverage, it might be that some (or many) would never qualify: for example, school drop-outs,
- depending on definitions and procedures, there could be a large initial influx of claimants representing a backlog of unemployed persons, straining the program's financial and operational resources from the very onset, even before expertise, public credibility and financial reserves could be built up.

It is recommended to consider any scheme of benefits targeted to this special group of unemployed persons as “unemployment assistance” regardless of its source of financing, e.g. if it were cross-financed from UI contribution remittances paid by employers and salaried workers.

## **2.4. Benefits**

### **2.4.1. UI Cash benefits and in-kind benefits for salaried workers**

Provisions on coverage and benefit entitlement (initial and recurring), benefit levels, benefit duration (maximum and waiting period) and financing need to be further reviewed as a whole. The ILO feels it may be too early at this stage to analyse nominal levels of the UI cash benefit component. More information is required on the wage structures for example before the ceiling can be determined. Nonetheless preliminary comments are made to raise the awareness on selected issues.

Special attention should also be focussed on the conditions for the continuation of benefits after establishing a valid claim for benefits, namely such requirements as job search, acceptance of suitable employment, referrals to training and other reemployment assistance.

In broad terms, UI benefits should be payable only to those amongst the unemployed who are capable of working, whose actions show them to be available for any suitable position and who demonstrate at all times that they are actively seeking employment – but not to those refusing to accept reasonable employment offers.<sup>7</sup>

The current MOLSA proposal includes an allowance for two job refusals, with denial of benefits only upon a third refusal. Any suitable job offer should provoke disqualification if it is turned down, as is the case in most, if not all, countries with UI programs. If there is a concern about the definition of “a suitable job”, there is ample international precedent on this issue that can be referred to. An alternative could be to impose a temporary disqualification for any job refusal, with a more severe penalty imposed at each successive “incident”.

Without a minimum wage in Bahrain, there may be significant risks in adopting a minimum payment level for UI purposes, as now proposed, since an unknown but potentially significant number of individuals could be affected and should in those circumstances be expected to draw benefits for extended periods. This would increase program costs and would be detrimental to the very credibility of the UI system, leading to criticism and the need for reactive adjustments.

<sup>7</sup> Detailed definitions of eligibility conditions should be provided in the regulations pertaining to the UI scheme.

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In general, claimants could be allowed, at least during the first few weeks after losing their job, to look for employment similar to the one they held previously and for which they are suited by education and experience. But after some time they should be expected to gradually expand their search and to be available for jobs with fewer and fewer restrictions.

The proposed maximum benefit of 500 BD per month might seem high relative to average wages which now seem to be in the 300 BD range overall, and about 460 BD even in the public sector. As a rule, the maximum benefit should be below the average wage, so as not to compete with typically available jobs. As mentioned above, it may be too early at this stage to talk of nominal benefit levels.

Given the structure of unemployment in Bahrain, it should be expected that the effective beneficiary coverage of unemployed workers may be quite low, since most (about two-thirds) have never worked and most of the others have been unemployed for extended periods (and would thus be expected to eventually exhaust their benefits).

As an illustration, countries such as Canada (6-7 per cent unemployment) or the United States of America (5-6 per cent unemployment) have at any time only about 30-40 per cent of the unemployed receiving UI benefits, in spite of a much lower average duration of unemployment than Bahrain (e.g. an average of about 16 weeks for Canada, but almost 3 years for Bahrain). Thus, an even lower percentage of benefit receipt should be expected for Bahrain. This consideration does not diminish the role and importance of UI but should induce caution and realism with respect to its eventual impact.

The UI system should include benefits oriented towards job-search assistance and re-training.

#### ***2.4.2. Unemployment assistance benefits to non-qualifying unemployed persons***

It is not yet clear at this stage what the level of cash benefits would be for unemployed persons who have not been attached to the labour market before and have not contributed to the UI scheme. In addition, it is important to carefully review the in-kind services they would receive for job-search assistance and training, either through the traditional institutional approach or through the UI scheme. A careful and detailed review of all aspects and an analysis of gainers and losers are recommended.



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### **3. Financing considerations**

The overall feasibility of meeting the objectives of the UI scheme should take account of their financial and fiscal implications.

An actuarial review could be conducted with the following aims:

- to assess the projected cost of UI cash benefits, unemployment assistance cash benefits and other in-kind benefits provided under the UI system;
- to assess the implementation costs of the UI scheme;
- to assess the expected implementation and operational costs of the entire UI scheme;
- to identify financing sources and financing options;
- to provide a short- to long-term budgetary outlook; and
- to indicate reserve requirements to account for economic and unemployment cycles.

The costing of the UI options should entail reviewing not only the cost of the cash benefit component of the proposed scheme but also the relevant cost related to re-training, job-search assistance and other aspects.

The administrative cost considerations are usually most important under a UI scheme given the need for frequent inter-relations between the UI scheme and the insured members in need of benefits. These start-up and on-going costs need to be carefully assessed in close consultation with the institutions involved.

The last section of this report reviews the data situation and necessities for undertaking a full-blown actuarial valuation.



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## 4. Institutional and administrative considerations

It is important to give due attention to any consequential recommendations concerning other legislation or practices which it could be desirable or essential to modify in order to align them with the operations of the Unemployment Insurance program, and to permit all programs to operate together efficiently.

Detailed technical studies need to be undertaken in order to determine the most effective ways in which the appropriate labour market agencies can interact and link, i.e., training and retraining, the provision of labour market information, the registration of job vacancies and job seekers, and the counselling and placement of job seekers. The ILO recommends that all institutions involved in UI should have reached a minimum level of development to meet the requirements of UI once established. It is often found that the administrative demands on the UI administration compared to the existing social security schemes for pensions can require up to ten times more service units to serve UI claims and their follow up. Pensioners usually visit the social security office once to file their claim for a new monthly pension to be paid until they die. UI beneficiaries on the other hand need to visit the UI premises once a month usually depending on the method used to monitor progress with UI claimants.

Other institutional arrangements that offer income protection and support to workers and citizens in Bahrain should be investigated to avoid overlaps and minimize inconsistencies between them and the proposed UI programme.

The segmentation of labour markets in Bahrain (public sector for nationals, private sector for non-nationals) could make it difficult to effectively administer job referrals and job search, unless steps are taken first to remove at least some of the factors behind such segmentation (cf. minimum wage, labour code, work permits, employer “ownership” of expatriate workers, etc.).

## 5. Preparations for the implementation of UI and other measures for the unemployed

### 5.1. Social dialogue

Discussions with employers' and workers' representatives pointed to the necessity of incorporating on-going social dialogue and public consultations, as there is concern that the unemployment insurance scheme meets the needs of workers and employers through a solid social consensus.

### 5.2. Establishment of a national UI Committee and Action Plan

The ILO suggests that the Government should establish a Tripartite Technical Task Force on Unemployment Insurance as soon as possible whose mandate could include the organization and undertaking of the technical assessments required before UI can possibly be adopted and then implemented.

A detailed plan of action on UI should be developed and agreed with all parties concerned before it is put into practice. A proposed plan of action is provided in the following table for tentative purposes only.

**Table 1. Action plan for the introduction of UI and unemployment assistance**

| Milestones  | Duration<br>(estimated) |
|---|-------------------------|
| <b>1. A dedicated UI Task Force appointed</b>   |                         |
| <ul style="list-style-type: none"><li>- It should be composed of three to five full-time national specialists knowledgeable in public and social security policy, administration, governance and financing, labour policy and legislation, employment services, vocational training, labour statistics, information technology (IT), and immigration policies.</li><li>- In view of the limited national experience on UI, external technical assistance from the ILO could be sought notably on UI actuarial and financial considerations, UI administration and UI legislation.</li><li>- The UI Task Force should include, in addition, permanent technical advisors representing workers and employers.</li><li>- A clear mandate, required commitments, authority and reporting lines should be agreed upon and stipulated in a binding government document.</li></ul> | 1 month                 |
| <b>2. Prerequisites for success identified</b>  |                         |
| <ul style="list-style-type: none"><li>- These should result from close consultation with its members.</li><li>- <i>Core prerequisites</i> for success should be identified, including a brief set of core economic, social, legal and institutional prerequisites. They should be communicated immediately to the responsible authorities of the public institutions concerned with the implementation of UI and social partners. Examples:</li><li>- Sound employment and economic policies</li><li>- Linkages to efficient public employment services and vocational and educational training systems</li><li>- Adequate record-keeping systems for reporting wages and layoffs</li><li>- Complementary programmes for those not covered by UI</li></ul>  | 6 months                |



| Milestones   | Duration<br>(estimated)   |
|--|---|
| <p><b>3. A detailed work plan of the UI Task Force adopted</b></p> <ul style="list-style-type: none"> <li>- The contents of the work plan should address: <ul style="list-style-type: none"> <li>• <i>conceptual aspects</i> (policy planning and coordination across institutions involved, authority and performance monitoring for governance); this should entail collecting all information relevant to other social protection programmes for the unemployed,</li> <li>• <i>legal considerations</i> (e.g. amendments to the labour code and social legislation, regulations on UI, appeals procedures),</li> <li>• <i>employment policy (training and employment services) considerations</i>,</li> <li>• <i>statistical and financial aspects</i> (e.g. costing, investment of contributions, accounting, financial reports),</li> <li>• <i>labour force surveys</i></li> <li>• <i>administrative considerations</i> (e.g. collection of contributions, claim administration, benefit control functions),</li> <li>• <i>IT requirements</i>, and</li> <li>• <i>public information</i> components.</li> </ul> </li> <li>- The assignment of specific technical studies to national members of the UI Task Force and to external technical advisors, e.g. the ILO, where necessary. This includes the necessity to provide for the necessary resources in terms of human resources and financial inputs to cover the work of experts.</li> <li>- The ILO remains available to provide technical assistance on the introduction of UI in the form of a technical assistance agreement with the Government of Bahrain.</li> <li>- The list of expected recommendations,</li> <li>- Consultations and reporting requirements with relevant Government institutions and social partners, where appropriate.</li> </ul> | 6-12 months   |
| <p><b>4. Regular labour force surveys established</b></p> <ul style="list-style-type: none"> <li>- LF surveys should provide comprehensive and up-to-date information on the labour market at three or six month intervals (covering employed, unemployed and inactive persons). The ILO has already conducted preliminary technical work on this subject. Questionnaires were already developed. Mr. Farhad Mehran completed a mission report on the issue (26.07-6.08.2002).</li> <li>- The Statistics Department of the ILO estimates it would take four to five months to set up the LF surveys and another four to five months to carry out a first round of LF surveys. The ILO remains available to assist the Government of Bahrain in this respect.</li> </ul>  | 9-12 months   |
| <p><b>5. International best practices on UI investigated</b></p> <p>In parallel to the work of the UI Task Force, visits to selected countries where recent UI programmes have been enacted (e.g. South Korea, Algeria, Poland and Egypt) and to selected countries with long experience on UI (e.g. Canada, USA, United Kingdom, Germany) should be organised for the members of the UI Task Force as well as for key government authorities and social partners.</p>   | 3 months  |
| <p><b>6. Preliminary recommendations of the UI Task Force on the revised UI proposal submitted</b></p> <p>The recommendations of the UI Task Force should be delivered in the form of a preliminary report excluding the actuarial review but including:</p> <ul style="list-style-type: none"> <li>- Social security policy and governance considerations,</li> <li>- Employment considerations,</li> <li>- Legal considerations,</li> <li>- Administrative considerations,</li> <li>- IT requirements, and</li> <li>- Public information considerations.</li> </ul>  | 4 months<br><br><i>(This could take longer given complexity of issues reviewed and constraints faced)</i> |

| Milestones  | Duration<br>(estimated) |
|---|-------------------------|
| <b>7. Actuarial review of the revised UI proposal based on the preliminary recommendations of the UI Task Force submitted; and actions taken for a definitive UI proposal</b>   |                         |
| <p>An actuarial review should report on all the financial, actuarial, statistical, investment and accounting considerations necessary to ensure the viability and good governance of the UI scheme as proposed by the UI Task Force. It may include recommendations on fine-tuning of aspects of the revised UI proposal.</p> | 2 months                |
| <b>8. Drafting legislation on UI for its submission to Parliament</b>   | Very uncertain          |
| <p>The final UI proposal should be submitted by the UI Task Force to the relevant Government authorities for its further submission to Parliament for adoption.</p>   |                         |
| <b>9. Administrative structures and operations as well as institutional arrangements put in place – once the enabling legislation is passed</b>   | 6 months                |
| <b>10. UI scheme implemented</b>  |                         |
| <p>In line with the legislation requirements, the administration(s) in charge of operating the UI scheme should start collecting contributions and providing benefits in terms of income replacement benefits, supported by job-search assistance, re-training and other employment and employability measures.</p>           |                         |

### 5.3. Initial transition period at onset of UI implementation

A gradual implementation plan starting, once prerequisites are met, with a limited UI coverage of insured workers and collection of contributions could be adopted to gradually build up operational capacities and public credibility whilst ensuring its financial soundness. Following an initial phased implementation period, the UI scheme could be expanded in line with financial and operational capacities.

A gradual implementation plan would require a formal monitoring and reporting process on the experience of the UI scheme, to be written into legislation along with strict reporting dates to Parliament so as to guarantee the implementation takes place in a timely and transparent manner.

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## 6. Preparation for the actuarial review: Demographic, financial and economic data

There are four main sources of data for the evaluation of an unemployment insurance scheme including:

- census data (snapshots taken at 5 or 10-year intervals, usually depicting activity and status during a given week);
- survey data (either produced at regular intervals, e.g. monthly or quarterly labour force or wage surveys, or for special ad hoc requests);
- operational and financial data (from the UI system itself, or from other public programs, or employer and job-seeker registrations, taxation authorities, etc.);
- macro-economic data (produced in respect to national accounts, e.g. total wages, wages by sector, etc.).

In the absence of national data, it may be possible, and perhaps unavoidable, to fill the missing information from available information for other countries with similar characteristics.

### 6.1. Census data

A primary source of data, perhaps the most evident, is the regular Census. In Bahrain, a Census is conducted every 10 years, the last one being in 2001, for the week ended April 7, 2001.

The Census is considered reliable and complete, with much accumulated experience in performing such a task, this being the eighth census exercise since 1941. It was carried out by the Central Informatics Organisation, the country's central statistical authority. Its results are relied upon by various Ministries and organisations, such as Finance and National Economy, Commerce, MOLSA as well as by external researchers and organisations. It is especially useful that the CIO has posted all of the tables derived from that Census on the Internet.

The questions on labour force activity may or may not indicate the extent of unemployment with total accuracy, however for two reasons: first, the questions about unemployment status were direct rather than probing; and second some respondents' responses may have been influenced by the introduction of a national program to provide cash benefits to unemployed persons during the data collection period.

The first issue is explained as follows: while the Census did ask respondents about their employment status, it did not deal with unemployment in accordance with international criteria, namely by asking whether respondents were capable of working, available for work and had actually looked for a job during the previous four weeks – but instead the Census just asked about employment status and accepted a direct response of “unemployed.” This has already been recognized by the CIO as an actionable item for the future.

On the second issue, a National Programme on Employment and Training (NPET) was announced by the Bahraini government on or about April 30, 2001, while Census data was still being collected (the collection period went from April 7, 2001 to May 6, 2001). Some people might thus have incorrectly reported themselves as unemployed to Census

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interviewers in the hope of receiving compensation, given the negative experience (of severe misuse) that ensued with the cash-benefits component of the NPET. Indeed, it is reported that 80,000 applicants came to the Employment Service Bureau after that announcement. Although the number was reduced to 23,000 after screening, it is still much higher than the reported number of unemployed in the Census, which was 16,965.

There was a question on job-seeking efforts in the 2001 Census but results for that question are not currently available, apparently because they may not be reliable. This is unfortunate because the effectiveness of active job search is crucial to the operation of UI. If available, such data could have shed some light on these issues.

In any event, it has to be borne in mind that the 2001 Census, as is normal for any census, addressed labour force status for only a single week of 2001, and that employment and unemployment conditions may and usually do vary significantly over time.

Information available on those who were identified as unemployed in the Census is limited: for example, the distribution of unemployment by duration is only given in full years up to eight, however, the actual Census question directed at individuals asked for duration in months, so that more refined distributions could probably be produced. In any event, it is noted that, based on mid-point interpolation of the available data, the average duration of unemployment in Bahrain was about three years and the proportion of those who had then been unemployed for more than a year was 71 per cent. This statistic is relevant both to the eventual role of a UI programme as well as to labour market issues. By comparison, OECD countries have about 30 per cent long-term unemployment, with only Italy registering more than 60 per cent.

## **6.2. Labour force surveys**

Labour force surveys are a low-cost and reliable method of providing continuous updates on labour market conditions including the number of unemployed and their characteristics.

Such a survey is referred to in the UNDP's October 2003 report on Millennium Development Goals for Bahrain. It is said to have been conducted in December 2002/January 2003 under the auspices of the UNDP office in Bahrain and the Statistical Authority in Bahrain, and is described as a household survey of 1,210 Bahraini families composed of 7,779 individuals. Details of its design and results have not yet been obtained, but it is noteworthy that it reports an unemployment rate of 10.1 per cent in 2003 amongst Bahrainis, as compared to a rate of 12.7 per cent from the Census in April 2001.

Note that the rate of 12.7 per cent amongst Bahrainis in April 2001 translated into a total rate of unemployment (for the entire labour force of Bahrain, i.e. including a non-Bahraini workforce that accounted for 59 per cent of the total workforce) of only 5.5 per cent. This is due to the fact that unemployment amongst non-Bahrainis was almost non-existent (0.5 per cent), given that such workers are in principle only allowed into the country when there is a designated job awaiting them. Assuming a similar relationship at the time of the later survey, in Dec. 2002/Jan. 2003, the total rate of unemployment in Bahrain could then have been as low as 4.4 per cent, quite a low rate indeed.

Without undertaking a labour force survey on a regular basis, it is difficult to remain current on labour market trends, such as the current rate of unemployment, how it evolves over time, the number of underemployed workers, etc. It would therefore be desirable to establish such a survey in Bahrain, to be conducted on a monthly, quarterly or other timely frequency and in accordance with international statistical standards and definitions.

It should not be expected that the eventual establishment of a UI programme and the resultant collection of information for qualifying jobseekers would ever replace such a

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survey<sup>8</sup>. The data collected under UI would exclude many legitimately unemployed persons, for example those whose benefits had run out or not yet begun (due to the waiting period), those who previously quit their jobs but then started seeking one, along with persons who were not able to qualify for unemployment benefits or chose not to claim benefits. In addition, a labour force survey is ideally suited to provide current data on and the characteristics of employed as well as inactive persons. As a result, such a tool would be an invaluable asset in understanding labour market conditions and formulating policies, including those dealing with UI.

As aptly stated in the Arab Human Development Report of 2002: “Any programme is only as good as the information on which it is based. Countries need to put in place an efficient, comprehensive system for monitoring employment and poverty. The system should include regular monitoring of basic parameters together with less frequent in-depth analyses of the characteristics and dynamics of employment and poverty.” Labour force surveys can be one important tool in such a system.

The ILO has already provided technical assistance on the development of labour force surveys in Bahrain, for example questionnaires were already developed.<sup>9</sup> The ILO will continue to be available to extend its technical assistance for the establishment of the required labour force surveys, especially in respect of the possible introduction of UI.

### **6.3. Operational and financial data**

Much operational and financial data related to the future implementation of UI in Bahrain can be obtained from the existing public schemes, through the sources detailed below.

#### **6.3.1. GOSI social insurance data**

First, GOSI (General Organisation for Social Insurance) covers most private sector employees, namely those working for employers with 10 or more employees – which limit will be reduced to five in June 2004, with full coverage of all employers and employees irrespective of size one year later, in 2005. The data that is provided to GOSI is not the employer’s actual payroll records each month, but the list of employees with their individual rates of monthly pay as they stand each January, with a provision for reporting changes as they occur.

There is some concern that some of the stated rates of pay may be incorrectly reported, at less than the actual rate of pay, in order to minimize social insurance contributions. While GOSI has inspectors to investigate such occurrences, it is nevertheless felt to be a common situation and one difficult to disprove. The current absence of minimum wage legislation in Bahrain, quite apart from its impact on individual livelihoods, does make it easier to perpetrate such under-reporting. As there are no taxes on personal incomes in Bahrain, there is no other centralized databank on individual incomes than GOSI’s.

<sup>8</sup> The differences between an administrative series on UI claimants and the surveyed numbers of unemployed persons have been discussed and explained at length and in many countries (see for example in the UK, “Measuring The Jobless: What are unemployment and claimant count?” or in Canada, Statistics Canada).

<sup>9</sup> Vide, ILO Mission Report, Mr. Fhrad Mehran, ILO, Statistics Department, 26-07 to 06.08.2002.

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### **6.3.2. Civil Service Bureau and Pension Fund Corporation data**

Complementary information on public sector employment is available from both the Civil Service Bureau and the Pension Fund Commission, but the data available from the latter organisation is more inclusive as it covers a number of activities or agencies not included within the Civil Service Bureau.

### **6.3.3. MOLSA Employment Service Bureau data**

As regards unemployed persons or job seekers, data are available within MOLSA at its Employment Service Bureau (ESB), but only for individuals who register with that office. There are currently approximately 10,000 persons registered there, and approximately 1,200-1,600 immediate job vacancies, mostly low-end jobs.

Not unexpectedly, it is felt that many individuals, especially those with qualifications that are in demand, do not register with ESB and will carry out their job search on their own. Conversely, a large proportion of those who are now registered (according to one view, perhaps as many as 85 per cent) are purportedly not even willing to take a job. As such, most of them could be waiting for some government initiative, hoping to eventually land an “easy” public service employment of some sort. In the meantime, it is assumed that these “unemployed” persons live on informal sector employment, as well as by “selling” their CPR cards (as described further below). In such circumstances, the extent of abuse of any public program (including UI) is likely to be high unless strict initial and continuing qualification requirements are imposed.

### **6.3.4. Central Informatics Organisation data**

Fourth, the Central Informatics Organisation (CIO) maintains the Central Population Register (CPR), which provides a unique ID number and card to all persons living in Bahrain, from their birth or entry into the country. Apart from vital statistics and address, the CPR card shows the occupation and employer of its holder. The Register itself also holds information on education, religion, and family status and is linked to the employer’s Commercial Registration (CR) number. (The latter is delivered and controlled by the Ministry of Commerce.)

Although this CPR system might seem to offer a valuable source of information on individuals’ employment status, it may not always be up-to-date for workers who have recently lost or changed their jobs. In addition, an undetermined but apparently significant number of Bahraini nationals are said to “sell” their CPR affiliation by erroneously allowing an employer to declare them as employees while actually hiring non-Bahraini workers.

A project is currently under way to consolidate and cross-reference the information held on individuals by a number of government agencies and institutions (commerce, health, immigration, education, etc.) as a decision-support system for labour market planning and other purposes. In addition, the CPR card is about to be replaced by a Smart Card, the rollout of which is to begin in the second half of 2004 for gradual adoption over a number of years. This card will carry combined data from the Central Population Register (CPR) card, driver's license and passport and ID details. It will also include information related to the cardholder's health records, banking details, education file and fingerprints.

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## 6.4. Macro-economic data

For Bahrain, national accounts data, apart from showing the evolution of economic aggregates over time, also show the structure of GDP by economic activity and the value added by income factors including the total wages paid by sector.

One should in principle be able to reconcile those wages with estimated employee counts times their average wages, and perhaps do so by economic sector. For 2002, total wages were indicated at 1,194.9 million BD in the national accounts; whereas the estimates put forward in MOLSA's project proposal imply total wages of 887 million BD. This difference of 25 per cent may be reasonable considering factors such as: employer contributions to social insurance, benefits to employees paid in kind instead of wages and wages paid by businesses to their owners. Subject to confirmation, it may thus be reasonable to assume a taxable wage base of about 75 per cent of total wages for UI purposes.

## 6.5. Availability and reliability of data

Based on the preceding review of data sources, what can be said of the availability of data related to the establishment and operations of a UI programme in Bahrain?

The population that is to be subject to premium contributions and coverage is reasonably well defined as to its numbers and characteristics, from the 2001 Census as well as from GOSI and Pension Fund Commission data. That population may be described as all paid workers who work as employees of an employer, excepting owners of businesses and their relatives (unless they hold bona fide employment at arm's length), also excluding part-time workers (a group which will require a clear definition), with a minimum age of 18 and maximum age equal to the retirement age.

According to MOLSA's UI proposal, there could be additional at risk groups, namely individuals who have never worked previously nor contributed to the UI programme. That group is for now still undefined, as it might be deemed to include only graduating students unable to find a job, but might also be extended (depending on future policy decisions) to dropouts from school, to those who were previously in the informal economy and thus have no previous "recorded" job, as well as to some who previously chose not to participate in the labour force (e.g. women now choosing to engage in employment). These groups would require careful definition before any coverage could be provided and before any financial and actuarial assessment could be conducted.

As to the unemployed, there is historical information available on their numbers and on many of their characteristics, but it is incomplete and not current. Available data does suggest that the overall unemployment rate in Bahrain is quite low, subject to the caveat that the rate is about at double-digit levels for Bahraini nationals and almost nil for non-nationals.<sup>10</sup>

There is little information on the numbers of people who have or may become unemployed over a given period of time, either by losing their jobs or newly joining or rejoining the labour force in search of employment (leaving open for now the question of whether or not the latter should be covered by UI). A hypothetical model of new unemployed persons could be derived from more detailed Census durational data if appropriate tabulations can

<sup>10</sup> The latter however should not be considered better off, as their working conditions and salary levels are quite poor, being sometimes described as near-slavery.

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be produced, but would also require judgment in choosing an assumption for the likely unemployment stock over all periods of a full year.

The tentative proposal also sets out a basic monthly benefit for new labour market entrants and for those not having contributed to the UI system for at least three years. In effect, anyone able to establish that they were unemployed could get some level of benefit, subject to waiting periods and to other conditions, in particular requirements to avail themselves of employment measures and to register at the Employment Service Bureau. All of these conditions as well as the waiting period would be crucial in determining feasibility, numbers and costs. It is not possible to be more precise concerning such categories as yet.

New claims for the usual form of UI, namely for job-losers, would be submitted by those who met the qualifying conditions amongst the new unemployed. There is very little information available on previous work tenure so one would have to make broad assumptions based on informed judgement or on experience from other countries. The Census does at least distinguish between unemployed persons with or without previous work experience. Although such work experience could predate the period of unemployment by any length of time, one would have to assume that in most cases the period of unemployment started when previous employment was lost.

There is no solid information available on previous wage levels of those unemployed persons in Bahrain, except indirectly through limited Census data on characteristics such as previous occupation groups, or sex, age and attained educational level. It should be possible to draw partial and approximate inferences from such data as well as from GOSI data on wages by occupation or age, adjusted for the fact that unemployed persons would on average be mostly low-wage earners.

All of the above reinforce the desirability of establishing a labour force survey in order to assess labour market trends, including for UI purposes. Such a labour force survey on a sample basis is normally conducted on a monthly or quarterly basis in developed countries. The costs for such a survey need not be very high, and there is ample international expertise to assist in developing and initiating one. The actuarial consultant for the UI evaluation should be involved in its planning – though it should primarily be developed by qualified statisticians with expertise and knowledge of international standards and methods.



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## **7. Conclusion**

The ILO feels that no conclusion can be reached at this stage on the actual feasibility of introducing unemployment insurance until the economic performance of the country and the implementation readiness of the institutions involved is monitored and assessed accordingly.

A tentative plan of action for the introduction of UI has been included in this report, starting with the establishment by the government of a Tripartite Technical Task Force on UI as soon as possible.

The ILO also recommends the establishment of a labour force survey in order to adequately assess labour market trends. All in all, one concludes that Bahrain does possess adequate statistical systems and information but that existing gaps would need to be filled.



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## **Annex 1. Project of the Social Security Institution (Unemployment Insurance)**

– reproduced unofficial translation –

### **KINGDOM OF BAHRAIN MINISTRY OF LABOUR AND SOCIAL AFFAIRS**

First of all, it is essential to assert that it would be unrealistic to compare the unemployment insurance system with other social insurance systems covering old age, disability, death and occupational injuries. This is due to the fact that while it is easy for actuaries to determine, with reasonable accuracy, the extent and timing of future commitments of social insurance systems, the situation is entirely different when trying to determine those of future hazards and commitments of the unemployment insurance project given that it is not governed by the demographic factors that usually influence social insurance results. Thus, it would be extremely difficult to determine the hazards resulting in unemployment, the timing of their occurrence and the sectors and number of employees likely to be affected by them.

Moreover, it is important to point out that an unemployment insurance system should not be considered as a solution for the unemployment problem and mainly recent unemployment in the labour market, and that it does not spare states from the necessity of seeking to create new job opportunities for the unemployed, nevertheless, it does provide a temporary solution until this is achieved.

There are no doubts that the unemployment insurance system is considered as one of the most complicated, problematic and misused social insurance systems. Thus, in order to be successful, it necessitates undertaking more studies on unemployment and the reasons thereof and introducing complementary systems all over the kingdom. It would be difficult to enhance this unemployment insurance system without the presence of all the other systems given their importance in making it succeed, the most important systems being: the system of recording job-seekers' and unemployed persons' names, training and rehabilitating job-seekers and unemployed persons and distributing job-seekers in vacancies in both the private and public sectors in accordance with their competencies and experiences and in such a way that there would be total consistency between these activities.

What is even more important is seeking to create new job opportunities through setting up projects that would absorb the new labour flow and those who haven't found jobs yet.

One of the challenges this system faces is determining the beneficiary and defining him, in a clear and accurate manner, so as to restrain fraud, deceit and illegal or unlawful attempts to misuse the system. This also includes the specification of the conditions the beneficiary should meet and the method of their verification, among other things.

#### **I. General Idea**

The short-term work plan aims to enhance the application of the law articles relating to unemployment insurance (Clause 4 of the Social Insurance Law issued by virtue of Law no. (24) in 1976) and Article (5), clause (c) of the Bahraini Constitution. The positive aspects of this project are the following:

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1. providing financial assistance to the unemployed during their job-seeking period,
  2. carrying out an accurate valuation of the unemployment level in the country,
  3. performing an accurate specification of unemployed persons' qualifications.

This program also encompasses the provision of additional financial resources to support the project and the adoption of a mechanism to calculate the due amounts in correspondence with the previous work duration as well as a mechanism to check out the fact of unemployment, that is, the maturity of insurance. The Public Social Security Institution entrusted an actuary with carrying out a study in order to set up a fund or a special treasury for this purpose. It is suggested that this fund shall be equally financed by workers, employers and the government. In the event that the workers are government employees, the government shall pay the share of both the employer and the government.

In order to carry out this program, a direct correspondence shall be maintained with the Recruitment Institution and an electronic connection shall be installed between the Central Information Organ, the Public Social Security Institution and the various concerned ministries and institutions in the Kingdom.

In order to set up these mechanisms with the required precision that would ensure the accomplishment of the aspired objectives, it is necessary to benefit from the experiences and experiments of the states currently applying this system and to be informed about the mechanism adopted in determining the beneficiaries, financial resources, expenditure mechanisms and other matters.

## **II. Definition**

It is a subsidiary institution emanating from the *Human Resources Council* that works on organizing unemployed persons' social security (unemployment insurance) and verifying whether the unemployed person is entitled to benefit from social security as decided. It falls under the authority of the Assistant Undersecretary for labour affairs.

### ***Composition of the Institution***

The Social Security Institution is composed of:

- the Institution Director (having the grade of administrative director),
- a specialist/expert in the social security field,
- an employers' representative,
- a workers' representative.

### ***Work Frame of the Institution***

The Social Security Institution operates according to the internationally acknowledged laws and regulations in order to ensure the beneficiaries' provision with the necessary insurance and prohibit fraud and deceit.

### ***Specializations and Competencies***

1. Gathering and organizing the necessary information on social security beneficiaries,

2. coordinating with the Recruitment and Training Institutions so as to provide unemployed persons with job opportunities and the necessary training and to ensure that the system would not be misused,
3. coordinating with the social insurance institution regarding disbursement and collection matters,
4. performing an annual evaluation of the economic inflation levels and living standards in the country,
5. presenting suggestions and opinions to the Human Resource Council in order to develop the system and improve its performance.

## **General Structure**

Minister of Labour and Social Affairs

Undersecretary of the Ministry of Labour  
and Social Affairs

Human Resource Council

Studies and Planning Unit

Secretariat of the Council

Recruitment Institution

Supervision and Labour

Social Security Institution

Training Institution

Relations Institution

Social Security Institution

Institution Director

Evaluation unit of applications  
and standards

Compensations unit

Quality and internal  
verification unit

Archives

Users' Service Unit

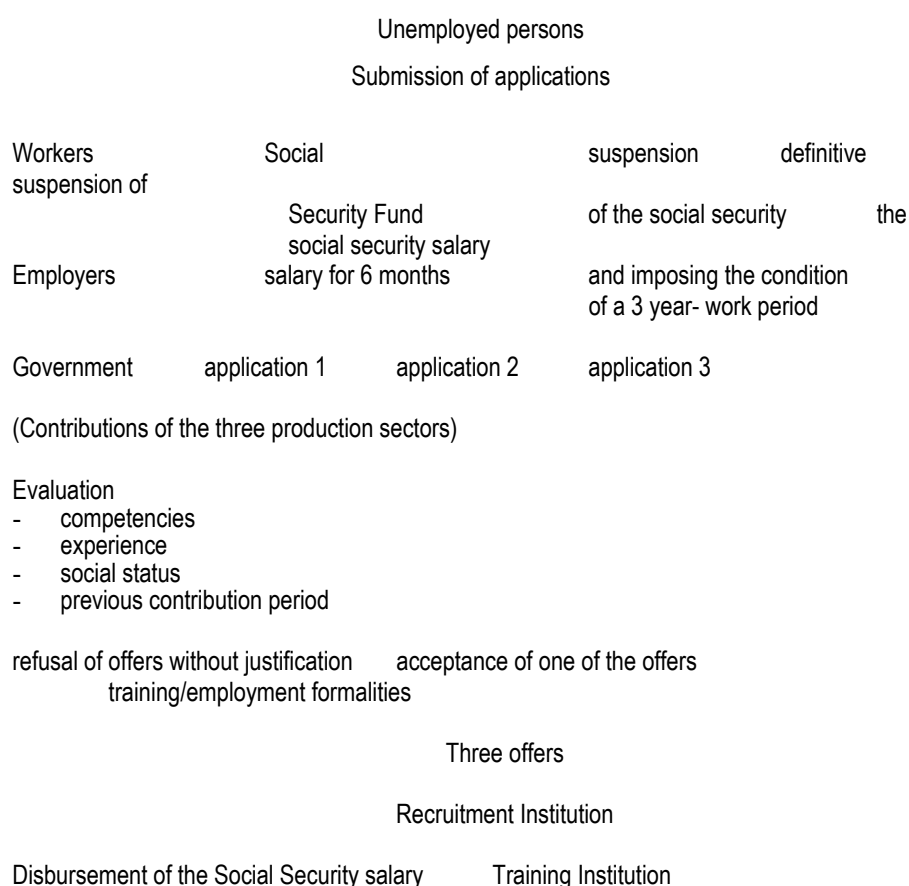
## **Primary Concept of the Institution's Work Mechanism**

According to this concept, Social Security should act in parallel with the training, employment and replacement program; it shall lift its coverage once an unemployed person refuses to accept three job opportunities and shall only restore it six months thereafter. If the refusal occurs twice, the unemployed person shall not be registered again unless after having worked and contributed in the Social Security System. This procedure is applied in Britain, whereas in Japan, the coverage is not restored once lifted.

The Ministry is, in principle, in favor of setting up a special Social Security fund equally financed by the three production parties (the government, employers, and workers). In case the worker is a public sector employee, the government would participate with both the employer's and government's shares.

The Ministry shall endeavor to draw up its final concept of this project following its examination of the necessary reports and the other above-mentioned experiences, in coordination with General Federation of Trade Unions, the Chamber of Commerce and Industry in Bahrain and the other concerned parties in the kingdom.

The following chart represents the primary concept of the Social Security work mechanism (Unemployment Insurance):



### III. Persons covered by the system

All citizens capable of working, are seeking a job and are registered in the recruitment office of the Ministry of Labour and Social Affairs whose ages vary between 18 and 60 years for males and 55 years for females, with the exception of part-time workers, apprentices, self-employed persons, those having free professions and employers' relatives who come in the second degree, besides those who are voluntarily subjected to the security system.

#### ***Conditions for benefiting from the system***

- Having a Bahraini nationality,
- being a resident in the Bahraini Kingdom,
- being physically fit and capable as well as desirous of assuming a job,
- not having lost one's job willingly,
- not having been dismissed from work because of a disciplinary measure resulting from misconduct,
- being registered at the recruitment office of the Ministry of Labour and Social Affairs,

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- not having refused the training program set by the recruitment office,
  - not having refused, for the third time, the job proposed by the recruitment office,
  - not obtaining or benefiting from any kind of salary, whether from the Public Social Security Institution or the Public Pension Fund Institution,
  - not having an other source of income from any other activity such as a self-employment or a free profession,
  - not being a student registered in any educational phase.

## **IV. Financing Sources of the Project**

### ***IV.1 First: Suggested Financing Concept***

Contribution rates should be determined by an actuary, in correspondence with the expected expenses and commitments of this project, provided it is financed by the following parties:

- Bahraini workers,
- Foreign workers,
- Employers,
- Government employees,
- The government.

#### **Wage liable to Contribution**

The wage liable to insurance at the Public Social Security Institution or the Public Pension Fund Institution.

#### **Collection of Contributions**

Contributions of employers and their workers shall be collected through the monthly invoice issued by the Public Social Security Institution to its registered employers; they shall be paid in the same manner observed in the currently operating insurance branches.

The government's contributions shall be collected through a monthly invoice sent to the Ministry of Finance and National Economy provided its value is paid within a period not exceeding one month from the request date, in order to preserve the fund's solvency.

#### **Independent Fund**

- The unemployment insurance project shall establish an independent fund in which all the relevant contributions shall be placed in addition to investment proceeds of excess money;
- such resources from contributions and investments shall be used for the payment of insurance and administrative expenses relating to the project;

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- the money of this fund shall not, in any case, be transferred or mixed with the money of other funds;
  - the Government shall undertake to cover deficits, if any.

### Unemployment Grants

- If the worker is new in the labour market and/or hasn't contributed to the unemployment insurance system for 3 years or more before having stopped working, he shall be entitled to a monthly grant of 100 dinars;
- if the worker has contributed to the unemployment insurance system for a period of three years or more before having stopped working, he shall be entitled to a monthly grant equivalent to 60% of his wage liable to insurance provided that the monthly grant is not less than the last minimum wage applied in the social insurance system or the wage liable to insurance, if it is less than that, provided the monthly grant does not exceed 500 dinars at the most;
- the minimum and maximum levels of the grant shall be determined and modified by virtue of an order issued by the President of the Council of Ministers, as required by the economic conditions.

### Waiting period

The insurer's waiting period to obtain an unemployment grant shall be set later on according to the data provided by the study. Some states give this grant immediately as soon as unemployment occurs, while others limit it to short periods of time. The grant shall be disbursed to the unemployed person, while he is attending the training program set by the recruitment office provided that it does not exceed three months.

### Unemployment grant benefit period

- The unemployment grant shall be disbursed for a maximum period of six months, including the training period set by the recruitment office;
- the grant shall be paid every two weeks, according to the procedures set in virtue of the orders issued by the Minister of Labour and Social Affairs.

### Suspension of the Grant

The disbursement of the unemployment grant shall be suspended in the following cases:

- if the unemployment grant has been disbursed during six months,
- if the unemployed person finds a job before that,
- if the unemployed person is not committed to the training program set for him,
- if he refuses the job offered by the recruitment office, after three attempts at the most,
- if the unemployed person does not cooperate with the recruitment office nor abides by the procedures, or if he stalls in order to unlawfully benefit from the unemployment grant.



## Benefiting from the Grant Again

Unemployed workers who previously benefited from the unemployment grant may benefit from it one or several other times in accordance with this system, provided they contribute again in the unemployment insurance system pursuant to the periods suggested below, on the basis of the actuarial study results:

- the second time: 12 months;
- the third time: 18 months;
- the subsequent times: 36 months.

### IV.1 Second: Estimative concepts for financing the Social Security Project

In order to assess the amounts required to finance the Social Security fund and the amounts to be paid to beneficiary unemployed persons, the following concepts have been prepared on the basis of the monthly average wages of all the insured workers in the Public Social Security Institution as well as public sector workers (military men and civilians). The average wages were determined by the state's concerned parties.

#### Financing Sources

##### *First Concept*

The employer, worker and government shall all contribute 1% of the worker's salary in such a way that the overall contribution rate would be 3%. In the case of the public sector workers, the government shall pay its share in addition to that of the employer.

| Sector                              | No. of employees | Average Wage<br>(in Dinar) | Amount of public<br>financing (Dinar) |
|-------------------------------------|------------------|----------------------------|---------------------------------------|
| Private- Bahrainis                  | 59639            | 356                        | 7643334                               |
| Private- non-Bahrainis              | 127405           | 177                        | 8118247                               |
| Total amounts in the private sector | 187044           |                            | 15761581                              |
| Public                              | 65482            | 460                        | 10843819                              |
| Total Financing Amount              | 252526           |                            | 26605400                              |

##### Share of each contributor

| Contributing party             | Amount per year (Dinar) |
|--------------------------------|-------------------------|
| Private sector- Workers (1%)   | 5253860                 |
| Private Sector- Employers (1%) | 5253860                 |
| Public Sector- Employees (1%)  | 3614606                 |
| Government*                    | 12483072                |
| Total Financing Amount         | 26605400                |

\*The government's contribution consists of 1% of the private sector workers and 2% of the public sector workers

##### *Second Concept*

The employer, worker and government shall all contribute 1% of the worker's salary in such a way that the overall contribution rate would be 3.5%. In the case of the public sector workers, the government shall pay its share in addition to that of the employer.

| <b>Sector</b>                       | <b>No. of employees</b> | <b>Average wage<br/>(in Dinar)</b> | <b>Amount of public<br/>financing (Dinar)</b> |
|-------------------------------------|-------------------------|------------------------------------|---|
| Private- Bahrainis                  | 59639                   | 356                                | 8917223                                       |
| Private- non-Bahrainis              | 127405                  | 177                                | 9471288                                       |
| Total amounts in the private sector | 187044                  |                                    | 18388511                                      |
| Public                              | 65482                   | 460                                | 12651122                                      |
| Total Financing Amount              | 252526                  |                                    | 31039633                                      |

#### Share of each contributor

| <b>Contributing party</b>      | <b>Amount per year (BD)</b> |
|--------------------------------|-----------------------------|
| Private sector- Workers (1%)   | 5253860                     |
| Private Sector- Employers (1%) | 5253860                     |
| Public Sector- Employees (1%)  | 3614606                     |
| Government*                    | 16917306                    |
| Total Financing Amount         | 31039633                    |

\* The government's contribution consists of 1.5% of the private sector workers and 2.5% of the public sector workers

### *Compensation of unemployed persons*

The proposal encompasses two concepts in such a way that the number of unemployed persons benefiting from Social Security would be 15000 to 18000 per month. Moreover, different grants were set for each unemployed person of a value of 100, 120 or 150 dinars per month.

#### *First Concept*

| <b>No. of unemployed persons</b> | <b>Grant (dinar)</b> | <b>Annual total</b> |
|----------------------------------|----------------------|---------------------|
| 15000                            | 100                  | 18000000            |
| 15000                            | 120                  | 21600000            |
| 15000                            | 150                  | 27000000            |

#### *Second Concept*

| <b>No. of unemployed persons</b> | <b>Grant (dinar)</b> | <b>Annual total</b> |
|----------------------------------|----------------------|---------------------|
| 18000                            | 100                  | 21600000            |
| 18000                            | 120                  | 25920000            |
| 18000                            | 150                  | 32400000            |

### *Consulting the Actuary*

This concept was set up without carrying out an actuarial study on the proposed system, for it would be useless to perform this study before adopting the broad lines of the system in accordance with the actuary's view.

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## **Annex 2. List of main contacts**

M. Bédard in Bahrain, 11-18 March 2004

- Ministry of Labour and Social Affairs
- H.E. Dr. Majeed Bin Muhsen Al-Alawi, Minister of Labour and Social Affairs
- Nader Al Mallah, Advisor, Minister's Office (and colleagues)
- Ausamah A. Al-Absi, Director of Employment
- Dr. Ahmed Abdulla Nasser, Director of Technical Services
- Civil Service Bureau
- Ahmed Abdullatif Al-Bahar, Asst. Undersecretary for Civil Service Affairs
- Pension Fund Commission
- Jaffer A. Hussain Sabt, Director, Subscriber Relations
- Ministry of Finance and National Economy
- Yousif A. Humood, Director of Economic Planning
- Ministry of Commerce and Industry
- Ali Ahmed Radhi, Asst. Undersecretary for Domestic Trade Affairs
- General Organisation for Social Insurance
- Yousif Najim Yousif, Insurance Contributions and Statistic Director
- Yacoub Y. Majid, Asst. Director General
- Bahrain Center for Studies and Research
- Dr. Abdullah M. Alsadiq, Asst. Secretary-General for Research Programmes
- General Federation of Bahrain Workers Unions
- Abdul Qaffar A. Hussain Abdulla, President
- Bahrain Chamber of Commerce and Industry
- Dr. Hussain M. Almahdi, Chairman, Training & HRD Committee
- Jassim Mohammed Seyadee
- Mahdi Khalaf
- Mirza Saeed
- Central Informatics Organisation
- Ms. Huda Ebrahim Al-Shrooqi, Head, Population and Social Statistics Section
- Bahrain Transparency Society
- Dr. Jassim Al Ajmir
- Bahrain Human Rights Society



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