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# A new social welfare model

**Encouraging economic participation**



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## EXECUTIVE SUMMARY

**Social welfare has long existed in Gulf Cooperation Council (GCC)<sup>1</sup> countries, primarily as generous social assistance. In their move toward economic diversification and greater private-sector participation, GCC countries are rethinking their social welfare systems, which have grown organically thus far. Beyond providing a safety net for the disadvantaged and the needy, GCC countries should build a holistic social welfare model that incentivizes those who can work to participate in the labor force.**

The existing social welfare model in GCC countries can appear incoherent and fragmented. As in many countries, that is an unintended consequence of the model's organic development over the years, which has been guided by the development of the economy and the social contract. Often, multiple ministries oversee various aspects of social welfare. Different programs are commonly designed independently to serve specific policy objectives, with limited integration and coordination with the broader social welfare system. That can render initiatives inconsistent, or at times in conflict with each other. In some cases, governments have introduced short-term programs to respond to urgent needs, relegating the long-term impact to an afterthought. Social welfare programs can lack a proper contextual understanding of the beneficiary's situation, and other programs they could be receiving, because of limited data sharing and a single beneficiary view. Consequently, these programs are less efficient than they could be in how they are designed and implemented. Another issue is that social welfare programs can prioritize relief to low-income citizens, focusing on income supplementation and not deliberately encouraging economic participation. However, some GCC countries started to correct this by introducing benefit conditionality as of 2023. This emphasis on social assistance can be better complemented with a varied offering of social insurances, whereby beneficiaries contribute to reduce the uncertainty that can arise from potential future loss of income.

GCC countries can develop a holistic social welfare model that encourages activation (getting people from welfare into work), enables beneficiaries to improve their skills, and supports people joining the workforce. To achieve this change, GCC countries should follow three imperatives:

- Strengthen coherence among social protection programs by designing integrated beneficiary-oriented programs
- Expand social insurance with a clear link between social policy and the labor market
- Focus on the activation and behavioral change of beneficiaries

Governments also need to change public perceptions given that some people perceive welfare to be an entitlement. That requires effective public engagement to communicate the need for a new social welfare model that promotes prosperity.



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## SOCIAL PROGRAMS ARE CRITICAL FOR ECONOMIC DEVELOPMENT

Over the past four decades, discussions about social programs in developed countries have often focused on cost reduction. However, the conversation in GCC countries is markedly different because social programs are growing in line with regional economic development. The expansion of welfare is often a functional requirement that emerges as market economies become the core resource allocation mechanism and economic activity becomes more diversified.

A market-led economy requires a well-designed social welfare system for several reasons. Such a system creates a protection mechanism for society against both the risk of interrupted income and the negative outcomes of poverty; it also balances possible inequalities. A properly designed social welfare system can sustain spending and consumption levels should government spending decline. It can use financial transfers to the needy and a social safety net to provide dignified living conditions to the disadvantaged and those unable to work.

A well-designed social welfare system is also a critical functional input to sustainable growth. The system can provide methods to get people into the workforce and help them acquire the skills to thrive and become self-sufficient, thereby building the country's human capital wealth, and supporting economic development. That is particularly important for GCC countries, because their move toward higher value-added activities increases the demand for skilled labor.

Some GCC countries are already changing their social welfare systems along these lines. For example, Saudi Arabia and the United Arab Emirates (UAE) have announced initiatives to strengthen labor market competitiveness and provide a social safety net for those seeking employment. In 2020, Saudi Arabia announced a Job Seekers' Benefit Program to allow people who lose their job to claim unemployment insurance.<sup>2</sup> In July 2022, the UAE Ministry of Community Development revamped its social welfare program for low-income citizens, including a housing allowance, a higher education allowance, a job-seeking allowance, an allowance for unemployed citizens over the age of 45, and increased allowances for employed household heads.<sup>3</sup>



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## THE INEFFICIENCIES AND SHORTCOMINGS IN SOCIAL WELFARE PROGRAMS

Social welfare programs in the GCC are realizing less impact than they should. The core issue in GCC countries is that there is no coherent philosophy behind these programs, which have developed organically over time. Sometimes programs are out of date and do not align with national economic development programs. Countries frequently have a plethora of programs managed by various ministries and agencies that target too many groups, while the most vulnerable can fall through the cracks. The result is unnecessary spending and unequal distribution of funds.

### The problem of fragmentation

Too often there is fragmentation and inconsistency at the governance, programmatic, and operational levels, which leads to inefficiencies as these programs expand. At the governance level, multiple ministries oversee various aspects of social welfare, which means no central oversight or monitoring of programs exists. For example, there are numerous federal and emirate-level social custodians and agency-led programs in the UAE responsible for the provision of housing as a form of social assistance.

At the programmatic level, policymakers design initiatives in silos, with the unintended effect that one program offsets the intended outcome of another. Sometimes, governments introduce temporary programs to address imminent challenges without taking a long-term view of how these initiatives integrate into the social welfare system. At the operational level, there are delivery inefficiencies because of the lack of unified beneficiary and household information, along with limited opportunities for knowledge sharing among government agencies.

Meanwhile, the silos and lack of a holistic approach undermine the effectiveness of achieving goals and create other issues. One such problem is that countries create initiatives that are complementary to social welfare programs—such as food and fuel subsidies—leading to increased spending, an unequal distribution of funds, and operational complexity associated with administering an uncoordinated portfolio of initiatives. There are also inconsistencies among some programs' intended outcomes and design rules that hinder the achievement of desired outcomes.

## **Overreliance on social assistance, underuse of social insurance**

GCC countries tend to rely on social assistance programs while underutilizing unemployment and social insurance, which is a mutual relationship—people pay into the system and then take out funds when they need to. The result is pressure on government budgets that may not be fiscally sustainable over the long term. Social assistance is a one-way relationship as the state provides funds and help to recipients.

By contrast, GCC countries do not sufficiently use social insurance to. In the GCC, social insurance is limited to basics such as old age and survivor pension, along with disability and work-injury insurance; it often excludes unemployment insurance and additional options common in other regions. Moreover, the absence of well-developed social insurance offerings, such as defined-contribution pensions, discourages people from remaining active in the GCC labor market for a long time. Early exits from the labor market and career interruptions, such as people taking time off unproductively, are more common than in comparable economies. For instance, the minimum retirement age in the UAE by law is 49, compared with age 60 or greater in OECD countries. This greater population of early retirees places further pressure on social assistance.

Given the underdeveloped social insurance ecosystem, smooth transitions between the systems of social assistance and social insurance are not yet possible for beneficiaries. In developed welfare states, the two systems work in tandem. To illustrate, beneficiaries of social assistance receive training and job search support under the guidance of a caseworker to maintain conditional benefits, and after they graduate from the social assistance program, they can be gradually transferred to a social insurance scheme. On the other hand, workers who lose their job and whose unemployment benefits expire may be temporarily transitioned into the social assistance program until they can get back on their feet. These handovers between the two systems can be made possible and the beneficiary journey made smooth and uninterrupted if governments take a systemic view.

## **Limited focus on activation**

The greatest hindrance to social welfare programs having more impact is that too few of them stress activation, that is, getting people off welfare and into work. Many social welfare programs in the GCC provide economic relief to low-income segments without encouraging or requiring economic activity from those who can work.

Governments have not sufficiently sought effective social policy instruments that promote activation because of the popular belief that welfare is an entitlement rather than an earned benefit. This entrenched belief prompts governments to avoid negative perceptions by directly or indirectly providing handouts that create dependencies.

Despite some changes, too few programs seek to encourage people to join the workforce or impose conditions that require them to receive capability development and readiness or placement support to become economically active. Nor are there enough mechanisms for people graduating from social welfare programs who are able to work to eventually stop depending on the state. However, GCC governments realize that by not improving labor market participation, they are indirectly undermining their own economic development and diversification ambitions.







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## A PROPOSAL FOR A NEW SOCIAL WELFARE MODEL

The goal of a new social welfare model is to increase efficiency and effectiveness to ensure the greatest social benefit for individuals and society. Each GCC country should also consider how state and private-sector roles should change with respect to social welfare systems that promote economic participation while considering their distinct social solidarity, cultural, economic, and governance contexts.

### The ability to evaluate trade-offs

What GCC countries need is a social welfare system that enables policymakers to make trade-offs and consider specific contexts while operating a coherent, beneficiary-centered, holistic model. Policymakers need to be able to design and operate programs that complement one another and that are consistent with national economic development ambitions.

### The primary considerations of social welfare design

Social welfare design has two primary considerations: **the functional mix** and **the target groups**.

**The functional mix** means activation, consumption smoothing (i.e. balancing saving and spending), and poverty reduction.

**The target groups** are those who either permanently or temporarily require assistance. Defining the functional mix and target groups simultaneously allows policymakers to select the programmatic mechanisms and financing for the welfare model as a whole, rather than having to decide them for each program in isolation.

That also allows policymakers to decide how much they should fund the social welfare model directly from budget contributions and how much from insurance programs to which participants contribute.

### Programming mechanisms

When designing programming mechanisms, policymakers have to make choices as to whether a benefit or program is universal or targeted. They must detail the eligibility criteria based on beneficiary profiles and circumstances, while keeping in mind broader national strategic objectives such as promoting fertility and family cohesion. They also need to decide the nature of the transfer to the recipients, such as cash transfers, minimum income guarantee schemes, and benefits. They should consider conditionalities, such as a means test, participation in training, or adoption of positive behaviors (for example, requiring high attendance of the beneficiary's children in school). Programs can include earnings-related social insurance, such as pensions, unemployment, and parental health insurance.

## THREE IMPERATIVES FOR RESHAPING THE SOCIAL WELFARE MODEL

Given their economic and development ambitions, GCC countries should adopt a social welfare model that is activation-oriented and, where possible, financed by contributions. In such a model, programs become earnings-related or conditional, rather than universal and social assistance-oriented. Activation-focused conditional benefits could include requiring registration for employment insurance programs, means testing, investment in training and empowerment, and creation of job opportunities or job placement support. These approaches reduce dependence on government assistance and promote individual self-sufficiency. The gradual introduction of these activation-focused benefits can further redirect government resources to the most productive uses.

No country designs its social welfare model from scratch. GCC countries therefore need to reshape their social welfare programs by following three imperatives and then communicating the changes to the public. By doing so they can make trade-offs, design choices, and select programming mechanisms in a manner that strengthens the system rather than resulting in more fragmentation and inefficient use of resources (see *Exhibit 1*).

### 1. Strengthen coherence among social protection programs

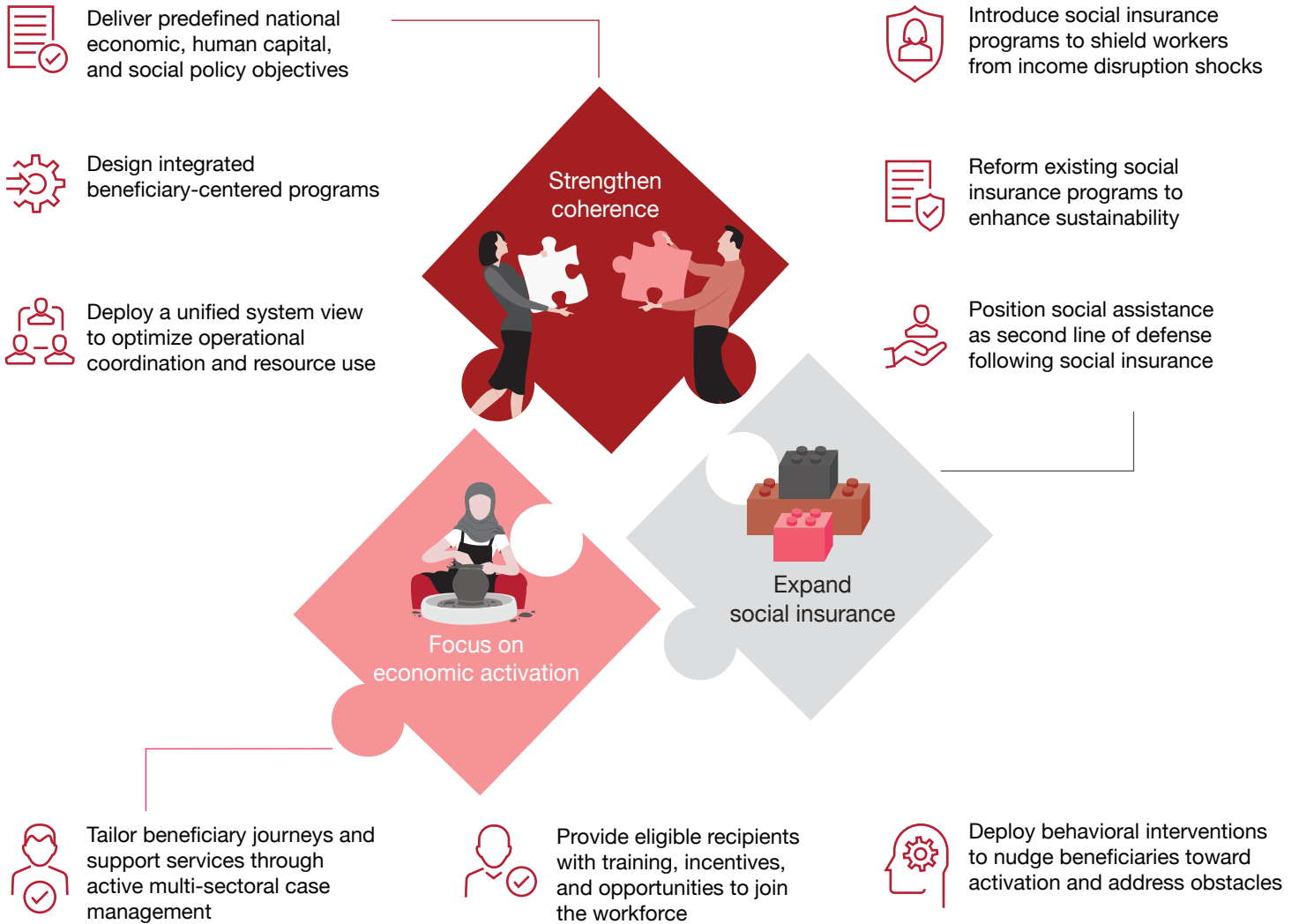
Building a new model calls for systemic adjustments in program design and funding. Social welfare programs should aim to deliver predefined national economic, human capital, and social policy objectives.

Accordingly, GCC governments can design beneficiary-centered programs that are integrated into one portfolio. That provides the maximum coordinated impact and the best use of resources. To do so, GCC governments need a new architecture for program administration that will ensure proper coordination, oversight, and data gathering. The information aspect is vital so that policymakers can evaluate impact, share data, and learn lessons. Knowing what impact their choices will have allows policymakers to design programs that are flexible enough to withstand shifting economic conditions and remain relevant. It also means that they have the necessary data and understanding to end programs that no longer serve their purpose. One example of a successful framework is the Social Protection Information System (SPIS), a unified and integrated system with benefits received at the individual level. It is used as a best practice by the World Bank to manage and deliver benefits to poor and underserved communities.<sup>4</sup>



**EXHIBIT 1**

**Three imperatives for reshaping the social welfare model in GCC countries**



Source: Strategy&

## **2. Expand the social insurance offering**

GCC governments should establish a clear link between the labor market and social policy to improve the efficiency of the overall social protection framework. That is achieved through a comprehensive social insurance system.

GCC countries need a social insurance system that is beneficiary-centered, i.e., one that stems from, and is designed for, beneficiaries' needs and circumstances. It should provide financial support to workers and families during specific events or conditions such as accidents, disability, involuntary job loss, and retirement. GCC governments can achieve this by reforming existing social insurance programs to enhance sustainability and instituting new ones to ensure they maximize workforce coverage and achieve labor market policy objectives. Such an approach would allow governments to ensure that social assistance, which is a handout, goes to the neediest cases and those unable to participate in the labor market.

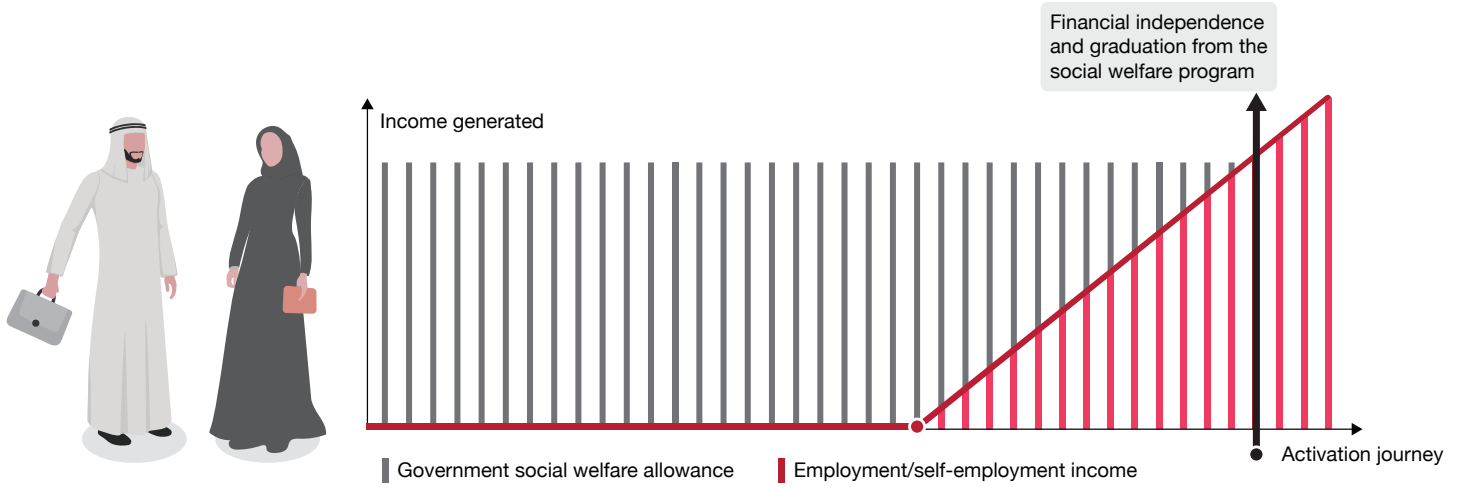
## **3. Focus on economic activation and behavioral change**

An internally consistent social welfare strategy should accompany and align with the goals of the national economic transition. It should serve as an input to increase labor market participation.

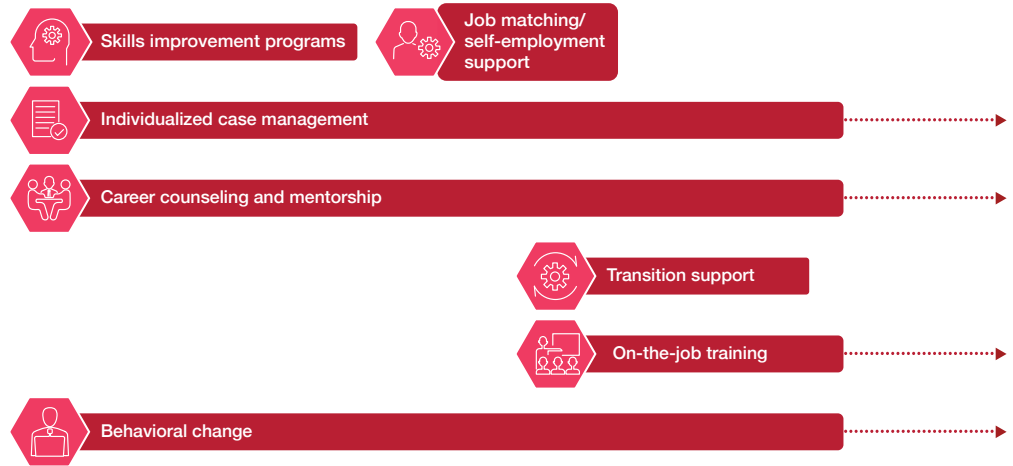
GCC countries can incorporate mechanisms into social programs that activate and motivate beneficiaries who are able to work to become active participants in the economy. Such mechanisms provide eligible recipients with the necessary skills, training, education, and incentives to join the workforce. They also provide work opportunities to beneficiaries that match their skills. Governments can engage relevant multi-sectoral agencies and beneficiaries in a coordinated manner through a case management approach. They can also integrate beneficiary data management to make it easier to assess eligibility, tailor services, and monitor impact. Further, governments can use behavioral interventions to encourage people to enter the workforce (see *Exhibit 2*).



**EXHIBIT 2**  
**Social welfare beneficiary journey**



**Activation services**



Source: Strategy&

**The need for public engagement**

Promoting activation also requires engagement and dialogue with communities that is designed to change public perceptions. Long-term generous government-financed assistance has given some people a sense of entitlement. People are understandably wary of reforms that could take away their benefits, particularly when they are locked into long-standing programs. Governments need to communicate these changes through effective public engagement, which can include the use of behavioral interventions focused on promoting shared responsibility, evoking reciprocity, or a sense of “earning” benefits.

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## CONCLUSION

GCC countries are going through significant economic changes, with new sectors emerging and vast investments being made in infrastructure and cities. Social welfare reforms will be critical for these countries' transition to diversified, private sector-led economies. The development of a modern, internally consistent, holistic social welfare model can support economic transformation and a new era of prosperity; improve labor market efficiency; and provide people with a stake in the system.



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## ENDNOTES

1. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
2. Saudi Arabia, Unified National Portal, Social Protection, Social Welfare System (<https://tinyurl.com/4857a2u4>).
3. UAE, Social Welfare Programmes (<https://tinyurl.com/5f5xdfzv>).
4. Asha Williams and Vanessa Moreira, “Making Social Protection Information Systems Adaptive,” World Bank, 2020 (<https://tinyurl.com/53mztfwc>).



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