

SOCIAL PROTECTION FOR ALL IN THE RURAL ECONOMY:

Extension of social protection to workers in informal employment

09 August 2021

Zoom, Indonesia

**WHAT IS THE INTERNATIONAL DEFINITION OF
INFORMALITY?**

DEFINITION

Employment In The Informal Sector (15th ICLS 1993)

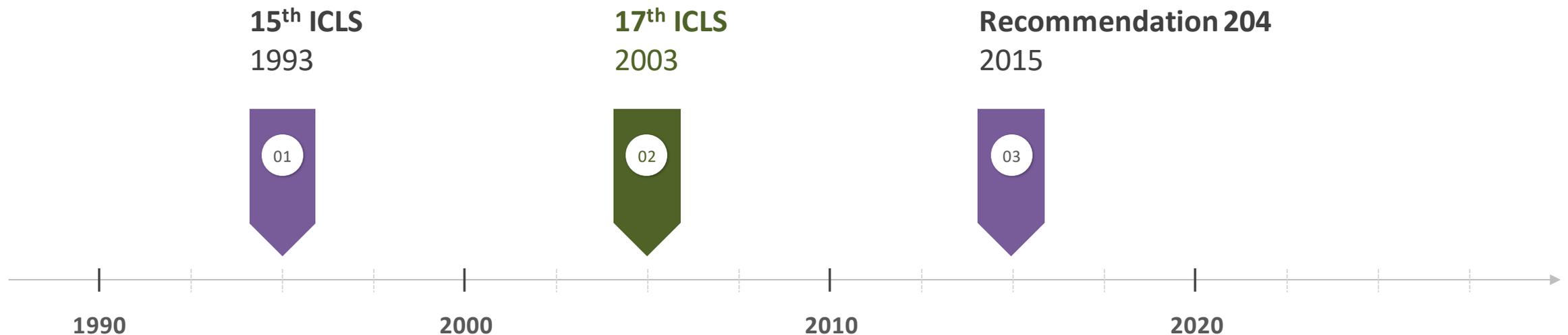
All jobs in informal sector enterprises



DEFINITION

Informal Employment (17th ICLS 2003)

All informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households



DEFINITION

Informal Economy (Recommendation 204, 2015)

All economic activities **both** by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements



DEFINITION

Informal Sector

Enterprise-based definition

Informal Employment

Job-based definition

WHAT IS INFORMAL **SECTOR**?

PRODUCTION UNITS

Formal Sector Enterprises

Informal Sector Enterprises

Households

Criteria

1. **Employment protection**

- ✓ Social protection
- ✓ Working hours
- ✓ Paid leave
- ✓ Severance payment etc.

2. **Registration**

3. **Tax obligations**

4. **Size of enterprises***

WHAT IS INFORMAL EMPLOYMENT?

Criteria

1. Employment protection

- ✓ Social protection
- ✓ Working hours
- ✓ Paid leave
- ✓ Severance payment etc.

2. Registration

- ✓ Written contract

3. Tax obligations

STATUS IN EMPLOYMENT

**Informal
Employment**

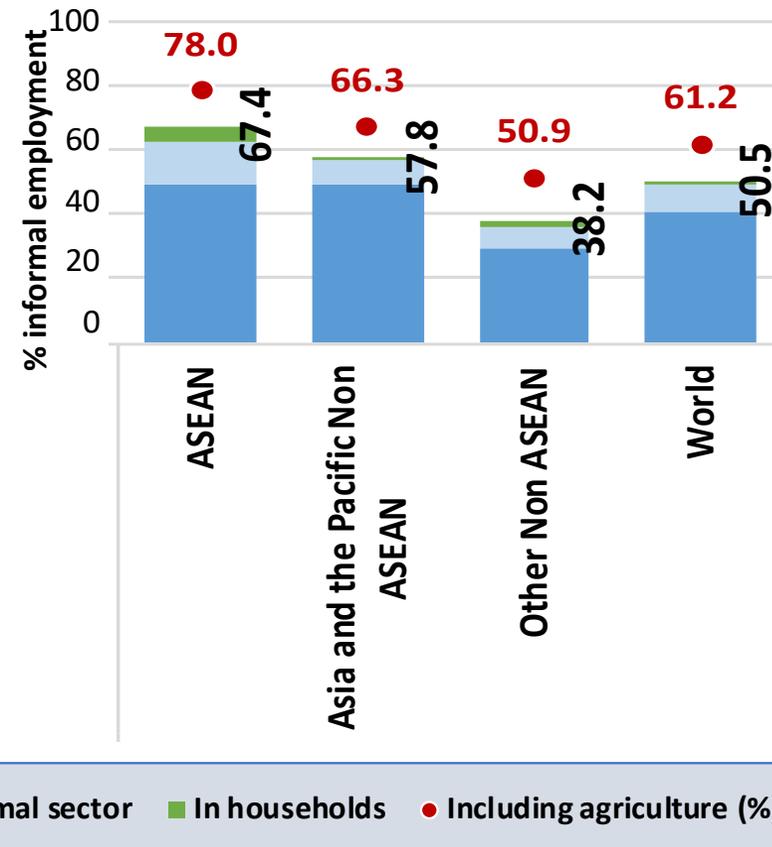
**Formal
Employment**

WHY IS IT IMPORTANT TO DEFINE INFORMALITY?

- Different categories of workers have **different challenges**
- Different challenges require **different solutions**
- **Defining informality** helps identify challenges and customise solutions

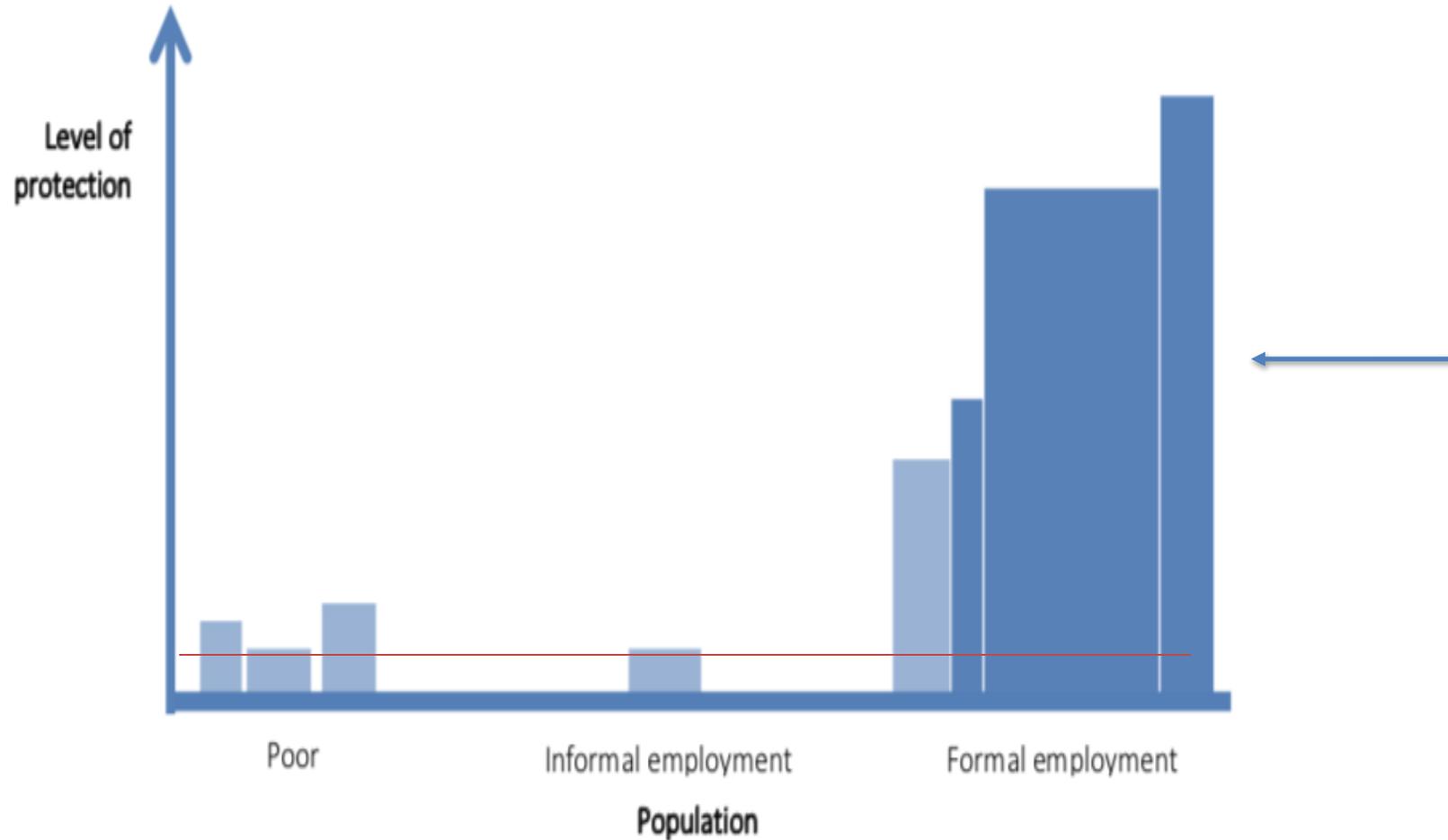
INFORMAL EMPLOYMENT IN ASEAN

- 78% of total employment informal employment (243 out of 312 million workers)
- 67.4% when excluding agriculture



WHY ARE INFORMAL WORKERS OFTEN NOT COVERED BY SOCIAL PROTECTION SCHEMES?

MISSING MIDDLE OFTEN EXCLUDED



Lack of balance or coordination between contributory and non-contributory schemes

REMOVE 4 BARRIERS

- Remove legal barriers
- Reduce administrative burden
- Reduce financial burden
- Improve compliance

LEGAL BARRIERS



Legal frameworks may exclude certain groups of workers

- Employment status, occupation, industrial sector
- Place of work
- Type of contract
- Size of enterprise
- Number of working hours
- Income thresholds

Legal frameworks not sufficiently specific to cover new forms of employment

- e.g. ambiguous employment relationships
- e.g. multiple employers
- e.g. disguised self-employment



FINANCIAL BARRIERS



Low and volatile incomes contribute to financial barriers:

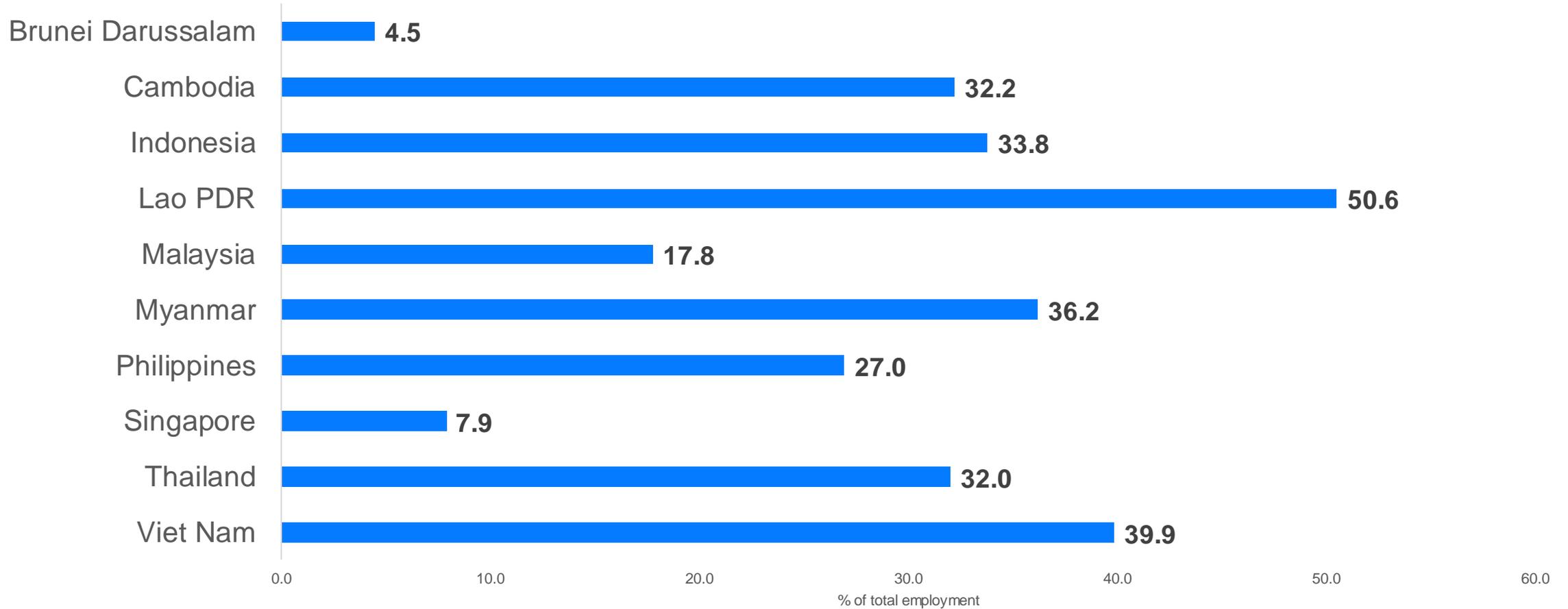
- **Limited contributory capacities**
e.g. self-employed workers “double contribution challenge”
- **General costs of formalization**
e.g. entry costs or operational costs

Administrative barriers

- Low administrative and accounting capacity
- Limited access to social security services in remote areas
- Low level of knowledge and awareness about social security topics

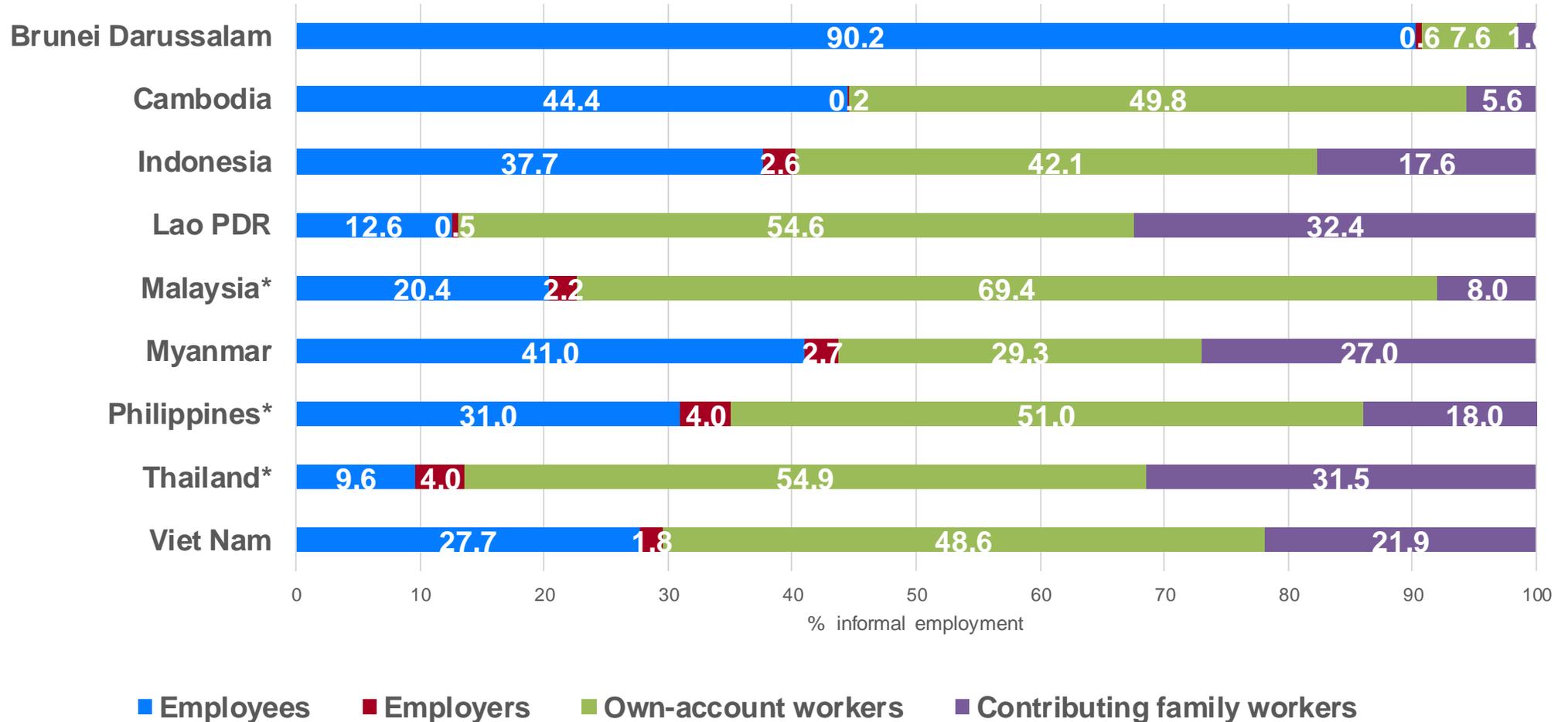
SPECIFIC CHALLENGES

HIGH SHARE OF OWN-ACCOUNT WORKERS



74.4% of own-account workers are informal

OWN-ACCOUNT WORKERS MAKE UP BIGGEST GROUP AMONG INFORMAL WORKERS



SOME FEATURES OF OWN-ACCOUNT WORKERS AND THEIR CHALLENGES

- Highly diverse group
- Instable and unpredictable incomes
- Irregular employment
- Absence of employer who pays contributions and takes on administrative procedures on behalf of the worker

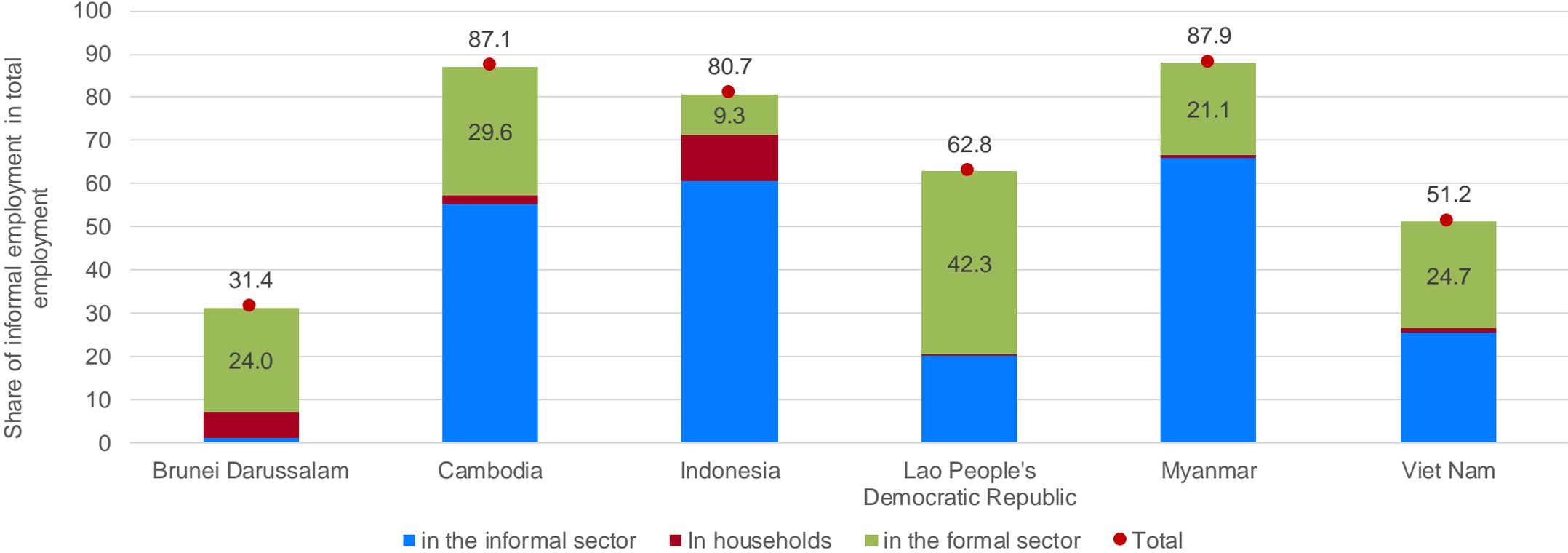
OWN-ACCOUNT WORKERS AND THEIR CHALLENGES

- Often legal exclusion from mandatory social insurance schemes
- Mostly covered by voluntary schemes
 - Adverse selection issues, high drop out rates
 - Mismatch between benefits provided and priority needs (often lack of short-term benefits)
- Complex and burdensome administrative procedures
- Lack of information and awareness
- Lack of organization and representation

WAGE WORKERS

- Informal wage employment large and growing
 - 57% of all employees in informal employment
 - Particularly workers in MSMEs, part-time workers, casual day labourers and paid domestic workers
 - often in unregistered and/or small household businesses

MANY INFORMAL EMPLOYEES ALSO IN FORMAL SECTOR

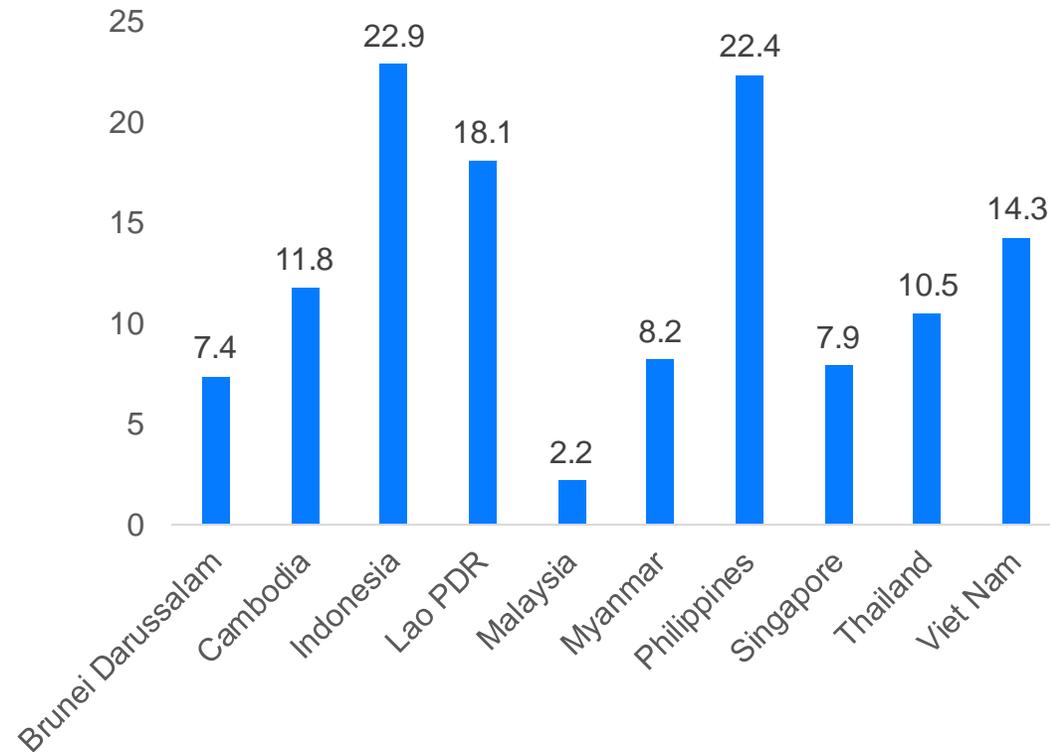


MSME WORKERS

- Not covered if thresholds on minimum size of enterprise
- Incomplete enforcement
 - Limited inspection capacities for MSMEs (high costs involved)
 - Lack of compliance (non-registration, non-payment of contributions)
- Limited financial and administrative capacities of employers
- Lack of knowledge



PART-TIME WORKERS



% of total employment
Source: ILO estimates, latest year

- Not covered if thresholds on minimum working hours or days are not met.
- Not covered if schemes not adapted to workers with multiple employers



TEMPORARY AND CASUAL WORKERS

- In some countries, most paid employees have temporary contracts:
 - Indonesia: 78.1%, Viet Nam: 68.2%, Myanmar: 50.3%
- Not covered if thresholds on minimum duration of employment or continuity of employment are not met
- Those with short contracts and casual workers are often excluded from social security legislations

TYPOLOGIES OF EXTENSION STRATEGIES

2 STRATEGIES



Expand existing schemes



Create new schemes

EXPAND EXISTING SCHEMES

LEGAL COVERAGE

Lowering legal thresholds of mandatory schemes

- Lowering contract duration (Viet Nam)
- Lowering enterprise size (Viet Nam, Cambodia, Korea)

ADMINISTRATIVE MEASURES

Simplifying registration, payment and contribution collection

- Monotax (Uruguay)
- Online registration (Brazil)

ADMINISTRATIVE MEASURES

Improve compliance

- Strengthen inspections (Peru)
- Awareness raising (Chile)

SUBSIDY WITHIN SOCIAL INSURANCE

Mandatory insurance + subsidy

Japan (subsidy for all, pension)

Voluntary insurance + subsidy

Viet Nam (subsidy for the vulnerable, health insurance)

CREATE NEW SCHEMES

UNIVERSAL SCHEME

No requirement of employment relationship

- Universal pensions (Timor Leste, Thailand)
- National health system (Malaysia)

SPECIFIC SCHEME

Fully subsidized schemes

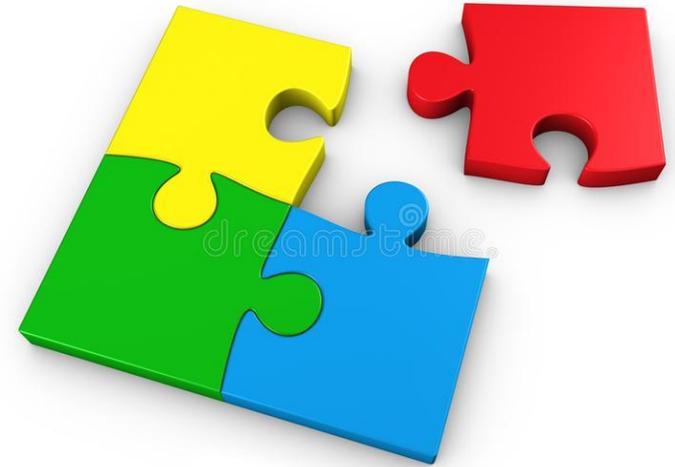
- Means-tested pensions (Korea)
- Insurance-tested health (Thailand)

SPECIFIC SCHEME

Partially subsidized schemes

- Subsidy on premium (health insurance, China)
- Subsidy on benefit (pension, China)

Countries face **mixed challenges**
and develop **combined solutions**



WHAT ABOUT THE INDONESIAN CONTEXT?

Thank you

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