

Builders' Social Fund: A bipartite sectoral approach for construction workers



International
Labour
Office

Romania

Since 1998, Romania's Builders' Social Fund, or Casa Socială a Constructorilor (CSC), has provided income protection for workers in the construction sector during the interruption of work in winter.¹ The CSC is a non-profit organization based on a sectoral social agreement. It operates on a bipartite basis. It is governed by a general assembly which is composed of representatives of social partners.

Following the implementation of the CSC, social partners made a sectoral social agreement to extend its scope. Today the CSC provides a wider range of services for the construction sector in Romania.

National social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons.

185 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), an approach to achieve universal social protection.

This note presents a successful country experience of expanding social protection.



Main lessons learned

- By providing income support and job security against the risk of seasonal unemployment, the CSC improves working conditions in the construction sector in Romania.
- The benefits and services of the CSC contribute to prevent informal employment in the construction sector.
- The CSC has expanded its services to provide vocational trainings, cover selected medical and pharmaceutical costs and conduct safety inspections in select construction sites.
- The CSC is based on a joint initiative of social partners at the sectoral level. The involvement of workers' and employers' representatives ensures ownership and dialogue in the policy making process.
- The financial contribution of the construction sector not only adds a unique characteristic to this sector-based bilateral scheme, but also provides a crucial source of financing for the CSC.
- The CSC has limitations inherent to a sector-based welfare organisation; the scheme is exposed to risks due to changes in the economy and the construction sector. These can be overcome by having larger national public schemes.

¹ Law No. 215 of 1997 on the Builders' Social Fund, published in the Official Gazette No. 372 on 22 December 1997.

1. What is the coverage of CSC?

CSC covers workers employed in construction companies and manufacturers of building materials in Romania. Its coverage is voluntary in two ways: 1) an employer in the construction sector can decide to become a member of the CSC and 2) an employee of a member company can decide whether or not to join the CSC.²

Table 1 presents data on CSC coverage for 2010-14. In 2013, CSC covered 70,800 workers or 13.8 per cent of employees in the construction sector. However, due to the economic downturn which has resulted in a recent contraction of the construction sector in Romania, the CSC lost 28 per cent of its membership in 2014, leaving 50,725 members representing 10.7 per cent of the employees in the sector. It is also reported that the CSC lost 16 per cent of its member companies in 2013.

Table 1. Coverage of CSC, 2010-14

	2010	2011	2012	2013	2014
Member companies	356	390	359	-	-
Employees covered	72025	67238	68420	70800	50725
Employees covered (% of employees in construction)	14.0	13.2	13.1	13.8	10.7
Employed population in construction	701600	677100	674100	673400	633900
Of which: Employees in construction	516100	508600	521300	513600	473300

2. What benefits are provided by CSC?

The core activity of the CSC is the provision of a cash benefit called a “cold weather allowance” to cover employees during the interruption of work in winter months (from November to March). The benefits are paid directly to employees based on a payment request from member companies and endorsed by a trade union or employees’ representative.

² The CSC is considering the introduction of a voluntary membership option for all employees in construction companies and building material manufacturers irrespective of their employers’ CSC membership status.



The cash benefit is 75 per cent of the individual employee’s average base salary over the last three months and paid in proportion to the interruption of work for a maximum duration of 90 days. The level and duration of the benefit do not depend on the contributions made by individual employees. Throughout the period in which the worker receives the cash benefit, the beneficiary retains their employment status, including seniority, leave, and social insurance coverage.

Table 2 presents the number of beneficiaries and expenditures on the cold weather allowance during 2010-14. In 2014, a total of 21,178 workers received cash benefits, representing 41.8 per cent of the covered employees in the same period. Each beneficiary in 2014 received an average of 1,231 Romanian lei (RON) (€277) for 15 days during the winter months.

Table 2. CSC’s cold weather allowance, 2010-14

	2010	2011	2012	2013	2014
No. of beneficiaries	29101	31301	39010	30312	21178
No. of beneficiaries (% of covered workers)	40.4	46.6	57.0	42.8	41.8
Average annual benefit (RON)	986	976	1092	1261	1231
Minimum wage as of 1 Jan (RON)	600	670	700	700	850
Cash benefit expenditure (thousand RON)	28690	30540	42580	38230	26060
Average no. of days for which benefits were paid	-	13.9	14.9	15.9	15.0

In contrast, under the current Law on Unemployment Insurance System and Employment Stimulation, the unemployment benefit is payable to involuntarily unemployed persons who have contributed for at least 12 months in the last 24 months before their registration at an employment office.³ The monthly amount of the unemployment benefit is 75 per cent of the social reference indicator,⁴ plus a salary-related increment ranging from 3 to 10 per cent if the contribution period is three years or longer.⁵

The maximum duration of the unemployment benefit depends on the contribution period: six months if the contribution period is one to five years; nine months if the contribution period is five to ten years; and 12 months if the contribution period is ten years or more. In terms of the average figures in 2014, there were 475,790 registered unemployed workers in Romania and 142,474 unemployment beneficiaries, comprising 30 per cent of the registered unemployed. The average monthly benefit was RON424 (€95) for the unemployed who have made contributions and RON226 (€51) for new graduates.

3. How is CSC financed?

CSC's main source of income comes from contributions paid by the employers and employees of the member companies, and contributions from the construction sector as a whole. The breakdown is as follows:

- Employee contributions equal 1 per cent of the gross base salary.
- Employer contributions equal to 1.5 per cent of the turnover of construction projects.⁶
- Construction sector contributions equal 0.5 per cent of the estimated value of all construction work in Romania, irrespective of CSC membership.

³ Law No. 76 of 2002 on the Unemployment Insurance System and Employment Stimulation, published in the Official Gazette No. 103 on 6 February 2002.

⁴ The social reference indicator is the base amount of social assistance benefits. In 2015, the social reference indicator was RON500, which is slightly over half the minimum wage.

⁵ For new entrants to the labour market, the unemployment benefit at 50 per cent of the social reference indicator is payable for up to six months.

⁶ In practice, employers pay their contributions in proportion to the number of their employees covered by the CSC based on the estimated amount of annual turnover.

In addition, the CSC retains a reserve fund. Income earned from reserve fund investments also adds to the total income of the CSC. The Law also stipulates that the administrative costs should not exceed 10 per cent of the total income of the CSC.

Table 3 presents fund operations of the CSC during 2010-14. The following observations are made:

- Throughout this period, total income of the CSC exceeded its total expenditures with relatively large surpluses. On average, almost half of the CSC's income comes from contributions from the construction sector, more than a quarter comes from employer contributions, and about 20 per cent of total income comes from investment income. Employee contributions account for only 6 to 7 per cent of total income.

Table 3. Fund operations of CSC, 2010-14 (in thousands of RON)

	2010	2011	2012	2013	2014
Total income	56 020	56 180	57 190	48 940	45 540
- Employee contributions (1%)	3 680	3 877	4 079	3 135	2 898
- Employer contributions (1.5%)	14 570	14 371	15 969	14 940	8 000
- Construction sector contributions (0.5%)	25 460	27 730	25 990	20 790	25 660
- Investment income	12 300	10 190	11 150	10 070	8 990
Total expenditures (est.)	33 650	35 370	47 810	43 000	33 160
- Cash benefit	28 690	30 540	42 580	38 230	26 060
- Other (est.)	4 960	4 830	5 230	4 770	7 100
Reserve fund	168 810	189 620	199 000	204 940	217 320
Reserve fund / Benefit exp.	5.0	5.4	4.2	4.8	6.6

- The surpluses in the recent past are largely due to the contributions from the construction sector. Without the sectoral contributions or investment income, the bipartite contributions from employers and employees would cover only 40 to 60 per cent of benefit expenditures.

- There are no data on how many contributions are paid per covered worker per year. Assuming that all covered workers contribute at the minimum wage, it is estimated that the average contribution period was at most 8.5 months per year for 2010-12. In 2013 and 2014, under the same assumption, the average contribution period decreased to at most 6.5 months per year.
- Due to past surpluses, the CSC has accumulated a substantial level of reserve funds. At the end of 2014, the reserve fund totalled RON217.3 million, which equals 6.6 times total annual expenditures. The assets of the CSC were composed of bank deposits (58.7 per cent), government securities and bonds (32.4 per cent), and corporate bonds and Credit Linked Notes (8.9 per cent).
- Benefit expenditures peaked in 2012 and then gradually declined mainly due to the decrease in the number of beneficiaries. Other expenditures, which include administrative costs, had been steady at 9 per cent of total income until 2013. However, these expenditures increased sharply to 15.6 per cent of total income in 2014.
- The **Occupational Safety and Health House of Builders** (*Casa de Siguranță în Mediul de Muncă a Constructorilor* (CASIMMCO)), established in 2007, provides consultations and trainings on occupational safety and health and conducts safety inspections in line with the agreement with the State Labour Inspectorates.
- The **Paritarian Committee for Multinational Companies** (*Comitetul Paritar pentru Trusturi Transnaționale* (TT)), established in 2007, provides facilitations between multinational and domestic companies, particularly in the areas of subcontracting and social dialogue.
- The **Paritarian Committee for Migrant and Posted Workers** (*Comitetul Paritar pentru Muncitori Migranți* (MM)), established in 2007, implements the regulation on foreign worker quotas and provides assistance to potential migrant workers.
- The **House of Vacation of Builders** (*Casa de Concedii a Constructorilor* (3C)), established in 2007, provides services covering the payment of annual and medical leave and oversees a network of clinics and pharmacies across the country.

The consortium of these non-profit organizations, which together provide comprehensive services for the construction sector, is called the **Self-regulatory Sectoral System in Construction** (*Sistemul de Autoreglementări Sectoriale în Construcții* (SASeC)).

4. How have CSC's services for the construction sector been further expanded?

Since the implementation of the cold weather allowance, the scope of CSC services has gradually expanded to cover various support services aimed to foster the building industry. Since 2001, the CSC started issuing bank guarantee letters to member companies—those who have made contributions—to participate in bidding for new construction projects. The CSC facilitates preferable purchase or exchange of goods and services, including building materials and equipment, between CSC member companies. Furthermore, based on the sectoral social agreement in the construction sector, the following non-profit organizations were subsequently established.

- The **Vocational Training House of Builders** (*Casa de Meserii a Constructorilor* (CMC)), established in 2004, organizes vocational trainings, issues skill certifications, develops occupational standards.⁷



Source: CSC

⁷ The **Sectoral Committee in Construction** (*Comitet Sectorial în Construcții*) was initially established within CMC and was

previously called the Sectoral Committee for Vocational Training in Construction. It was reorganized as an independent non-government organization of public utility in 2011, when Law No. 268 of 2009 came into force.

5. What are CSC's good practices?

The main advantages of the CSC are summarized here. First, workers have an obvious advantage in securing their income and employment status, including social insurance coverage during the seasonal disruption of construction work. The level of the cold weather allowance is higher than the unemployment benefit, while the qualifying period is shorter.

Second, the CSC benefits provide an incentive for workers (especially skilled workers) to stay in the domestic labour market, thereby preventing the emigration of skilled workers from Romania.

Third, CSC provides member companies with support services, such as bank guarantee letters, preferable access to the commodity market, vocational training, occupational safety and health services, and other business assistance.

Fourth, the CSC contributes to better industrial relations and improved social dialogue. The bipartite structure underpinning the governance of the fund administration ensures ownership and social dialogue in the policy-making process. It also enables social partners to represent their common interest vis-à-vis the Government and other national and international actors.

Fifth, by requiring covered workers to have employment contracts and be registered at local labour inspectorates, the CSC creates an incentive for informally employed workers to move into formal employment. It should be noted that about one third of the workers in the construction sector in Romania are employed informally.

6. What are the challenges and limitations of CSC?

Despite the success of the programme, the CSC still has remaining challenges and limitations.

First, the CSC must further enhance the enrolment of companies and workers, particularly small and medium-sized firms. At the same time, the CSC should take steps to improve compliance and contribution collection with respect to member companies and covered employees. The issue of coverage extension is especially pertinent in view of the contributions collected from the whole construction sector.

Second, yearly surpluses and the cumulative reserve fund can be used to enhance the income security provided by CSC benefits. Subject to a more in-depth assessment, one could develop possible options, including improving the replacement rate of the cold weather allowance, extending the benefit duration, and paying benefits in cases of income stoppage due to other adverse weather conditions (e.g. floods, heat waves, among others).

Third, the CSC has limitations inherent to a sector-based bilateral model. Coverage of a single sector exposes the scheme to risks due to changes in the economy and the industry's employment structure in the domestic labour market, as observed by the recent decline in membership.⁸

Fourth, the CSC takes significant advantage of contributions from the construction sector. Such an advantage may not exist in other sectors. If the replication of a CSC-type scheme in other sectors is to be considered, then benefits have to be designed by taking into account the contributory capacity of employers and workers, as well as the availability of any complementary sources of income.



⁸ It should be noted that the CSC has been providing support to Moldovan social partners to establish a similar system in the Republic of Moldova.

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