

EXTENDING SOCIAL PROTECTION TO INFORMAL WORKERS

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EXTENDING SOCIAL PROTECTION TO **INFORMAL WORKERS** IN CAMBODIA

* POLICY BRIEF



1 Key findings

- The informal workforce in Cambodia is highly heterogeneous and includes wage employees working in both formal and informal firms, as well as self-employed workers and household workers. In turn, there is great diversity in terms of the sectors in which they are employed, and the business type and location.
- Current data on informal workers is patchy in coverage and detail. Little is known about the earnings of self-employed workers or about the size of some parts of the workforce, and the detailed profiles obtained so far are not representative. Identifying effective measures to extend social protection coverage is therefore a challenge.
- The operational procedures of the NSSF – based on a formal employment model – are inflexible and not well suited for the great diversity of characteristics of informal workers. As such, the current eligibility criteria, registration procedures, and contribution arrangements present a barrier to access for many workers.
- The Government lacks a coherent definition of – and strategy for – informal employment. This prevents the NSSF from coordinating with other relevant ministries which, in turn, undermines the ability of the government to achieve formalization.

2 Recommendations

- The Government will need to develop an integrated and holistic policy towards formalization, based on a coherent definition and improved coordination between ministries and development partners.
- The Government should invest in better data. Data collection should enable a better understanding of the characteristics of many groups of workers in the informal sector and their employers, as well as the drivers of informality. This presents an opportunity to pilot various approaches and attract funding.
- The NSSF should recognize the diversity in the informal economy and adopt tailored approaches that expand effective coverage to all categories of workers. There are various options for reforming NSSF procedures and identifying the most effective will require better data, a clear understanding of their fiscal implications, and, potentially, the use of pilots.
- The NSSF should enact gradual expansion strategies to address the sheer size of the informal workforce. Current prioritization criteria – including employment status, firm size, and geography – will need to be divided into smaller and more manageable categories based on additional criteria which will have to be developed.

The National Social Security Fund (NSSF) – the government agency vested with the responsibility of providing social security to workers in the private sector – was only established in 2008. Since then, it has made great strides in extending social protection coverage to wage employees in the labour force, and currently provides access to employment injury insurance, social health insurance, and maternity and sickness benefits to roughly 1.4 million workers. **However, over seven million Cambodian workers remain without access to contributory social protection.**



There is great political will to extend NSSF coverage. Recent legislative reforms have extended social protection to much smaller enterprises and have extended access to the non-contributory Health Equity Fund (HEF) to self-employed workers. In turn, the National Social Protection Framework for 2017-2025 includes a number of objectives on the expansion of coverage of and provisions for social protection. Finally, the planned roll-out of a pension system, to be established in 2019, will extend the range of benefits to which NSSF members are eligible.

The ILO and the EU-SPS/Finland commissioned the ODI to identify the main challenges to extending social protection to informal workers and outline practical options for reform as part of the ‘Social Protection for Informal Workers (SP-IW)’ project. The first phase of the project sought to build evidence on the key characteristics of three groups of workers: construction sector workers, tuk-tuk drivers, and domestic workers. The ODI report is based on a literature review, a quantitative analysis of socio-economic survey data, and key informant interviews with stakeholders in Phnom Penh, and also drew from international experience. This policy brief summarizes some of the key findings and policy recommendations of the final report.

The challenges to extending social protection to informal workers stem both from the nature of the informal economy itself, as well as the limited ability of the Government – and the NSSF itself – to formalize the informal economy.

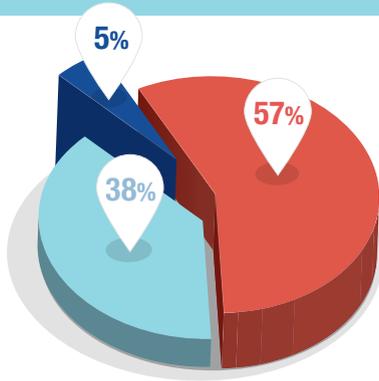


FIGURE 2
Structure of the informal economy in Cambodia

● Wage Employees ● Self-Employed ● Other

The informal workforce is large and heterogeneous

The informal workforce in Cambodia is composed of a number of different employment status. As NSSF schemes are only applicable to wage employees, this means that self-employed and household workers are all informal, accounting for 57% and 5% of the informal labour force respectively.

In turn, 66% of wage employees continue to be informal, and these workers comprise 38% of the informal labour force. There are a number of reasons for the continued dominance of informality among wage employees. Firstly, social protection coverage was until recently only open to firms employing over eight workers. However, only 8% of firms in Cambodia fall in this category, and the coverage expansion means that the NSSF will have to identify and enrol 92% of (or 487'000) firms that employ less than eight workers, including 44% of firms which employ only one worker. Another reason why informality continues to dominate wage employment is because only 4% of SMEs were formally registered with relevant authorities. This is due in large part to burdensome registration processes and non-negligible financial costs related to formalization (ADB, 2015).

There is also great diversity in terms of the sectors in which informal workers are employed. For example, 41% of the labour force is employed in the agricultural sector (NIS, 2015), while service industries account for the largest proportion of non-agricultural employment, as shifts into the manufacturing sector have been hampered by skills-mismatch (ADB, 2015). Over a third (34%) of all informally employed workers are in services and sales occupations, with a further 19-20% each in the craft and related sales and machine operator occupations. Similar concentrations of informal employment are seen in select industries: the wholesale and retail trade (28%); garment manufacturing (14%); other

manufacturing (14%) and construction (11.1%), together make up 67% of all informally employed. Many of these workers live just above the poverty line, despite a wide spread in earnings levels (OECD, 2017).

Finally, there is, in turn, variety in the location of employment. Of the 505,000 firms surveyed in the economic census of 2011, almost 65% operate from their homes, while just under 19% operate in traditional markets and 8.3% are street businesses (NIS, 2011). Only 4.2% operate from office blocks or buildings.

Further research needed to understand informal workers



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Data on some crucial characteristics of the informal labour force is missing

The discussion above overshadows a second important challenge to the extension of social protection: that of the limited availability of accurate and comprehensive data about informal employment. The LFS collects good data on employment and wages but is less regular than the CSES. And while the CSES is published annually, it collects very limited information about self-employed workers' and household workers incomes and living standards, which, together, account for 51% of the labour force. In turn, the definition of workers' status is inconsistent across the two surveys, which makes contemporary regular analysis difficult.

These data problems pose challenges for the NSSF to develop successful approaches towards extending social protection coverage. For example, the lack of information about incomes of self-employed workers prevents a comprehensive analysis of their contributory capacity. In turn, more accurate data on the seasonal nature of employment would enable the NSSF to optimally design contribution conditions and records, essential for maternity benefits and soon, pensions. At a more basic level, the limited information about their numbers in many instances, their needs, and their vulnerabilities has significant implications for the elaboration of an effective strategy for social protection expansion.

Box 1. The Construction Sector

The construction sector – which employs between 9% and 13% of the adult population, depending on data source and definitions – is a prime example of the heterogeneity that can be found in informal employment in Cambodia.

The sector is characterised by complex sub-contracting arrangements, wherein main contracting firms are likely to be formalised, but smaller sub-contractors work both in the formal and informal sector. While the status of the firms themselves varies considerably, that of the workers does not: indeed, 99% of workers in the sector are informally employed.

Workers in the sector demonstrate great diversity in terms of their work location occupations, salary, and length of employment. Firstly, only 26% of workers in this sector are employed on construction of buildings while 72% work in other specialised construction activities. As such, a large number of workers in the sector work off building sites higher up the value chain, including architects working in office buildings and construction material suppliers working in factories.

Among the workers who do work directly in construction, low- and medium-skilled workers employed by sub-contractors are often employed on a casual/daily basis without written contracts, which leads to low and irregular incomes which vary by location and skill-level. Finally, the sector is characterised by high levels of seasonality: between 30% and 60% of workers are employed in the sector all year round. This leads to wide inter-sectoral mobility as many construction workers engage in seasonal agricultural work part of the year.

Extending social protection coverage to workers in the sector is an urgent priority, as construction sector employment is characterised by high risk of work-related injury.

Source: ILO-EU SPS, 2018; NIS, 2015

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The operational procedures of the NSSF are rather **inflexible**

The reason it is important to highlight the diversity in - and limited data on - the informal labour force in Cambodia is because both these elements have significant implications for elaborating NSSF strategies and operational procedures that would enable the Fund to extend effective coverage to informal workers. Indeed, the operational procedures of the NSSF are currently inflexible, having been designed on a “formal employment” model which does not account for the great diversity in the labour force. Therefore, some of the procedures implemented by the NSSF will themselves present barriers to extending social protection to informal workers. Below we provide a few examples of such challenges.

Firstly, *eligibility* for the NSSF is currently limited to wage employees, which together account for 49% of the labour force. Self-employed workers – many of which have expressed an interest in joining the scheme – are currently ineligible, while domestic workers are excluded both from labour law protection and social insurance.

In turn, *registration procedures* currently require ‘employers’ as separate legal entities to register workers, which presents a challenge for self-employed workers. Registration also requires a number of documents which small firms and informal workers may lack. The procedures for registering are also understood as being relatively burdensome and lengthy for small- and medium-enterprises which may not have the required administrative capacity.

Finally, *contribution arrangements* are currently borne exclusively by the employer, which imposes a significant financial cost on firms, yet many SMEs operate at very low levels of profitability. For self-employed workers and the employers of domestic workers, the burden of contributions would be even more penalizing. The financial cost – which will increase further with the roll-out – therefore represents a significant disincentive. The fact that contributions are paid monthly is also identified as a challenge – including among existing members. Indeed, according to NSSF data from 2016, average contributions were made 7 months of the year, which undermines workers’ ability to develop full contributory histories. This is likely to worsen for informal workers, many of which have multiple ‘jobs’ (in agriculture and construction, for example) and high levels of seasonal employment.



Such procedures therefore present clear barriers to access. However, defining alternative modalities which may be more suitable for the diversity of the labour force will require a lot more information – particularly about income levels and seasonality of employment, for example. That is the reason why the practical options presented in the report for addressing these barriers are outlined as options, rather than recommendations.

The Government has a weak definition of – and strategy for – informal employment

Before defining practical options for extending social protection, however, the Government and NSSF will need to address some underlying issues. Firstly, there is currently no coherent definition of “informal workers” used across Government institutions. The only explicit definition is currently found in the Inter-Ministerial Prakas No. 404 of late 2017, wherein “informal workers” *are those working no more than eight hours a week, part-time workers, casual workers, or seasonal workers, who have been registered with the NSSF.* There are a number of issues with this definition. The Prakas was issued to allow for the temporary expansion of HEF coverage to additional workers, and this definition is not the working definition most stakeholders use. In turn, the definition is not consistent with international definitions of informal workers and provides insufficient clarity on the workers – and firms – to whom coverage is to be extended. Furthermore, there is a danger that this definition is creating perverse incentives, as firms may identify themselves as “informal” in order to benefit from free coverage. Finally, it entrenches exclusion of workers who may be willing to join NSSF-administered schemes.



Another constraint on the ability of the Government and the NSSF to expand social protection coverage stems from the limited institutional coordination. A number of ministries and governmental agencies operating alongside the NSSF have complementary and, at times, overlapping responsibilities, but synergies between them are rarely realised. The creation of the National Social Protection Council (NSPC) provides the opportunity to develop an overarching executive forum to direct and co-ordinate processes that cut across agencies, but there remains no cross-ministerial strategy regarding registration of firms and workers in which NSSF can operate most effectively.

The advantages from **improved coordination** could be significant, including:

- Many ministries engage separately in the identification and registration of firms and workers, resulting in duplication and affecting both efficiency and effectiveness.
- Similarly, the inspection of workplaces and worksites to enforce compliance is undertaken by a number of line ministries, and while there have been some efforts to improve joint-inspection, greater coordination and clearer division of tasks could be achieved.
- Currently, each ministry holds specific databases containing information about their respective constituents and these are not inter-operable, frustrating the sharing of information.
- More generally, better sharing of knowledge and the improvement in levels of trust would improve communication and coordination between ministries with similar/overlapping responsibilities and improve awareness of social protection programmes across other ministries.



A final challenge to extending social protection to informal workers stems from the NSSF's own capacity constraints. Firstly, due to its status as an Institution of Public Administration, the NSSF is unable to recruit new permanent staff which means that most of the current employees are contractual rather than permanent, which limits efficiency and continuity. Changes will be required if the NSSF is to expand social protection coverage to informal workers, as the stock of registered workers and firms, as well as the flow of new registrations, will both increase. The NSSF also lacks the authority to enforce compliance as, unlike inspectors from other Ministries, NSSF inspectors do not have the authority to impose sanctions for non-compliance.

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Recommendations

Develop an integrated and holistic policy towards formalization based on a **coherent definition** and **improved coordination**

It is essential to recognize that informality is the result of a combination of economic, social and political factors and thus cannot be addressed through a single policy area. Formalization will require coherence and coordination across a broad range of policy areas such as business registration and licensing, taxation policy and administration, labour regulations, etc. It is recommended that the government adopt an integrated policy framework to facilitate the transition to the formal economy, and that it be included in national development strategies and budgets.

Such a strategic approach will need to be based on a coherent, and commonly acceptable definition of “informality” and “informally employed workers”. One option would be to adopt the international definition of informal workers (used in this research), wherein the criteria used to define a formal worker is if they are ‘registered’ with the relevant ministry or government agency. In the context of social protection, this means that all workers not registered with the NSSF are considered informal.



Invest in data

The large evidence gaps undermine our ability to understand of the characteristics of many groups of workers in the informal sector, or their employers, if they have one. A priority for improved evidence should be the analysis of formalisation across businesses and workers, rather than seeing enterprises and their workforces as separate areas of data and research. The drivers of informality in such micro-economic terms can then be assessed alongside larger macro drivers of Cambodia’s changing economy, as agriculture slowly recedes, and tourism, manufacturing and services expand.

There is an opportunity for applied research based on pilots or other approaches to test how best to implement incremental change and evaluate them robustly. A commitment to rigorous evaluation of policy changes and their implementation is likely to attract funds from other funders and should be considered.

Recognize the **diversity** in the informal economy in adopting differentiated practical options

The SP-IW project has demonstrated that there is a diversity of characteristics, circumstances and needs of workers and economic units in the Cambodian informal economy. It is necessary to address such diversity with tailored approaches that ensure appropriate and effective coverage for all categories of workers.

The full report for this project outlines multiple options for reforming communication and outreach strategies, eligibility criteria, registration procedures, contribution arrangements and enforcement strategies, each specific to the employment status under consideration. These can be implemented in combination or as complementary strategies. However, no single option will be adequate for all workers. Identifying the most effective reforms moving forward will require using improved data on the characteristics of the informal labour force, together with a clear actuarial evaluation to understand the fiscal implications of the reforms, and, potentially, the testing and/or piloting of selected options. All this should be brought together into a clear plan for the next five to 10 years overseen by an executive body to ensure implementation.

Enact gradual **expansion strategies**

Finally, considering the sheer size of the informal workforce, the NSSF will need to elaborate a gradual and systematic approach towards identifying groups of firms and workers to be enrolled. The NSSF has always adopted a gradual approach based on employment status, firm size, and geography. Moving forward, however, even such criteria will need to be divided into smaller and more manageable categories and prioritization criteria will have to be developed. Options include:

- The level of *vulnerability* of specific population groups, wherein firms and workers in occupations with high risk of work injury and occupational disease would be targeted first.
- The existence of *labour-market institutions and/or local partners* within sectors of employment, which would be responsible for registering workers.
- The *geographical or physical location of the business*, wherein enterprises are prioritized based on their type of location (e.g. street businesses, or businesses operating in markets).
- *Cohorts*, wherein workers would be identified and registered at specific stages of the lifecycle, before individuals enter the labour market, or at the end of their schooling/education, for example.