ASEAN-ILO study on Expansion of Social Security to Workers in Informal Employment

COUNTRY EXPERIENCES AND LESSONS FOR THE EXTENSION OF SOCIAL PROTECTION TO THE INFORMAL ECONOMY IN ASEAN

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OUTLINE

- Typology of extension strategies of social security coverage
  - Expanding/adapting existing schemes
  - New schemes
  - Efforts beyond social security

- Country practices

- Lessons and preliminary recommendations
Expansion of social protection high on regional agenda

– ASEAN Declaration on Strengthening Social Protection
  • Expansion of coverage, particularly social insurance, to the informal sector
– Vientiane Declaration on Transition from Informal Employment to Formal Employment towards Decent Work Promotion
Diverse strategies used to extend coverage

- Different risks
- Different reasons for informality
- Different socio and economic conditions
Horizontal and vertical extension strategies

- Social protection floor
- Poor
- Rest of informal employment
- Formal employment

Extension population coverage, scope and level of protection
Typology of extension strategies

1) EXPANSION AND/OR ADAPTATION OF EXISTING SCHEMES
   e.g. financial incentives, legislative changes and administrative/operational measures

2) NEW SCHEMES
   e.g. specific schemes with subsidies, specific sectorial schemes

In reality, strategies are not mutually exclusive and more nuanced
Extension strategies (I): Expanding or adapting existing schemes

- Mainly employment-based schemes
- Strategy usually targeted at those closer to the formal economy who have some contributory capacity

**HOW?**

- through financial incentives, such as subsidies
- through legislative changes and/or
- through administrative/operational measures

Many countries use a combination.
Introducing financial incentives: subsidies

Expanding or adapting existing schemes with subsidies

Mandatory coverage

Pensions: Japan, South Korea
Social Health Insurance: Viet Nam, South Korea, Mongolia, Philippines

Voluntary coverage

Social Health Insurance: Indonesia
Pensions: Viet Nam, Mongolia
Art.40 in Thailand

Distinction between subsidies on contributions (e.g. Indonesia, Viet Nam) and benefits (e.g. pensions in China)
BPJS Health:
Voluntary for self-employed and subsidies by the State

**Employee:**
4.5% of salary for private sector (employer 4%; employee 4%) and public sector employees (employer 3%; employee 2%)

**Self-employed:**
Rp25,000/51,000/80,000 per month, depending on treatment class (100% paid by member)

**Poor and near-poor:**
Rp19,225 (100% subsidized by gov.)

Extending **mandatory coverage** to self-employed workers can be more effective than a voluntary scheme, e.g. SHI in Viet Nam, Mongolia, South Korea
Viet Nam Social Health Insurance
Mandatory and subsidization of premiums for special groups

Employee:
4.5% of salary (employer 3%; employee 1.5%)

Poor, ethnic minorities, children below 6, persons receiving SA, civil servants:
4.5% of minimum wage (100% paid by the government)

Near poor:
4.5% of minimum wage (gov. supports at least 70% of the premium; recently changed to 100% for those living in poor districts)

Students:
4.5% of minimum wage (gov. supports 30% of the premium)

Workers in agriculture, fishery and forestry:
4.5% of the minimum wage (gov. supports 30% of the premium)
Viet Nam SHI

Family based members compulsorily participate with subsidies

<table>
<thead>
<tr>
<th></th>
<th>HI contribution per month (4.5% of min. wage)</th>
<th>State subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st member</td>
<td>VND 58,500</td>
<td>0%</td>
</tr>
<tr>
<td>2nd member</td>
<td>VND 40,950</td>
<td>30%</td>
</tr>
<tr>
<td>3rd member</td>
<td>VND 35,100</td>
<td>40%</td>
</tr>
<tr>
<td>4th member</td>
<td>VND 29,250</td>
<td>50%</td>
</tr>
<tr>
<td>5th member</td>
<td>VND 23,400</td>
<td>60%</td>
</tr>
</tbody>
</table>

Reference wage: 1.3 mio. VND
Increased enrolment with introduction of subsidies

**Viet Nam Social Health Insurance**

**Coverage (2018): 86%**

*“Other voluntary” refers to the remaining informal population.*
Sometimes financial incentives are not sufficient...

- Adapt legal frameworks
- Reduce administrative burden
- Facilitate access to services
- Strengthen enforcement & compliance
- Increase information and awareness
Adapting legal frameworks

Expanding or adapting existing schemes

Legislation

Modifying legal thresholds on minimum earnings, working time, duration of employment, size of enterprise

Vietnam, Cambodia, Thailand, Korea

Extending legal coverage

self-employed (Philippines, Indonesia); domestic workers (Philippines, Viet Nam); platform workers (Indonesia and Malaysia)
EXAMPLE: MODIFYING LEGAL THRESHOLDS

Vietnam


Thailand


Cambodia

8 employees – 1 employee (2017)
WORKERS IN NON-STANDARD EMPLOYMENT

Possible Solutions

- allow for interrupted contribution periods (temporary workers)
- count every hour worked into social insurance contribution (part-time workers)
- enhance portability of entitlements (workers w. multiple employers)
SOMETIMES EXTENDING LEGAL COVERAGE IS NOT SUFFICIENT ON ITS OWN …

… but there is a need to adapt administrative and operational frameworks to the situation and needs of workers and employers in the informal economy.
Expanding or adapting existing schemes

Administrative/operational measures
- Facilitating and simplifying registration, payment and contribution collection
- Monotax (Uruguay, Argentina)
  Collective insurance agreements (Indonesia, Philippines)
  Flexible contributions payment schedule and contributory categories (Brazil)
  Innovative delivery mechanisms (one-stop shop, mobile money)

Enforcement & compliance
- Reinforcing coordination/information sharing between SS and tax authorities
- Strengthening Social Security Inspections (more staff, technology-based solutions)
INNOVATIONS FOR NEW FORMS OF WORKERS

Malaysia – Taxi drivers (including GRAB and UBER) are required to register with SOCSO since 2017

- Payment will be done upon registration
- Drivers capacity to renew their license to operate will depend on their registration
- Drivers are able to register online via i-Perkeso

Uruguay – Harnessing digital technology

Drivers download a phone application which automatically deducts social insurance contributions
Combination of interventions can be more effective ...
Adapting existing approaches to respond to the needs of a broader range of workers

- PhilHealth, the national health insurance scheme, subsidies for certain groups, e.g. poor and near-poor. National Social Security System (retirement, sickness, maternity, disability and death benefits)

The aggregator model – enrolling groups instead of individual

- Servicing Partner Agent Agreement for cooperation
- Using Informal Sector Groups as intermediaries between SS and workers to support registration and contribution collection processes

Development of a mechanism to collect daily contributions

- Steel boxes in which workers can deposit their contributions daily (+ electronic version of box)
- High level of flexibility on the contribution amount
MONOTAX SCHEME
Uruguay, Brazil, Argentina

- **Monotax** (unified taxes and social insurance contributions, simplified accounting requirements)
- **Financial Incentive** (lower taxes and contributions)
- **Flexible and gradual approach**: Contribution categories, gradual and progressive contribution payments
- Social security office transfers tax portion to fiscal authority

*Reduce administrative burden rel. to registration and payment*
*Reduce financial burden*
Extension strategies (II): New schemes

Not necessarily targeted at informal economy workers but can facilitate their social security coverage

i) Universal schemes

ii) Specific schemes

- Insurance-tested schemes, e.g. social pension
- Specific group, e.g. urban or rural residents
- Sector- or occupation specific schemes or programmes
- Means-tested schemes
Strategies to extend coverage (II): universal schemes

NEW SCHEME

Universal scheme

Universal Pensions in Timor Leste, Thailand, National Health System in Malaysia, Universal maternity and family benefits in Mongolia
Strategies to extend coverage (II): new schemes

New scheme

Specific scheme

- Insurance-tested
  - Insurance-tested (Thailand: health; Vietnam: pensions)

- Means-tested
  - Means-tested (Korea: pension)

- Sector specific programme
  - Employment Injury Scheme for self-employed taxi drivers (Malaysia); Construction Welfare Funds (India and Indonesia)

- Specific target group
  - Health scheme for rural and urban residents with subsidy on premium in China; Pension scheme rural and urban residents with subsidy on benefit in China
Universal Coverage Scheme (UCS)
- Funded from general taxation
- Benefits include medical services, inpatient/outpatient treatments at registered hospitals, health promotion and prevention services
- Administration by the National Health Service Office
Health Insurance schemes in China

Urban Employee-Basic Medical Insurance (UEBMI)
1994: pilots, 1998: national wide scale up

New Rural Cooperative Medical Scheme (NRCM)
2003: pilots, 2006: national wide scale up

Urban Residents Basic Medical Insurance (URBMBI)
2007: pilots, 2009: national wide scale up

- Urban employees
- Rural residents
- Children, students, elderly, disabled, other non-working urban residents
### Health Insurance in China

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Urban Employee-Basic Medical Insurance (UEBMI)</th>
<th>New Rural Cooperative Medical Scheme (NRCM)</th>
<th>Urban Residents Basic Medical Insurance (URBMI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration</strong></td>
<td>Municipal level</td>
<td>County level</td>
<td>Municipal level</td>
</tr>
<tr>
<td><strong>Mandatory/voluntary</strong></td>
<td>Mandatory for employers and individuals Voluntary for the self-employed &amp; flexibly employed</td>
<td>Voluntary at household</td>
<td>Voluntary at household</td>
</tr>
<tr>
<td><strong>Source of revenues</strong></td>
<td>8% of employee wages: 6% of the reference payroll from employers and 2% from employee</td>
<td>120 yuan from individual contribution, and average 380 yuan from government contribution (2015)</td>
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China: Expansion of social old-age pension coverage (1994-2013)

Covered population by three schemes in 2016 (mio.)

- Employees’ scheme: 353.6 mio (39%)
- Residents’ scheme: 504.7 mio (56%)
- Civil servants and government workers’ scheme: 40 mio (5%)

Graph showing the covered population (in million) from 1994 to 2012.
Extension efforts need to go beyond social security

Formalization of enterprises

- Incentives for business registration, e.g. lower taxes for MSMEs, unified taxation and social security contributions
- Enhance administrative coordination, e.g. unified registry
- Reduce entry barriers through streamlined business registration e.g. electronic registration, lower entry costs
- Provide information and support to register and license a business
- Strengthen enforcement and compliance through preventive and corrective measures
LESSONS LEARNT AND RECOMMENDATIONS
Usually countries face a mix of challenges and develop a mix of solutions.
Combination of approaches key to reach informal economy

- Extend legal coverage and adapt the legal framework
- Tailor approaches, e.g. affordable premiums, attractive benefit packages, simple and flexible registration and payment procedures, innovative delivery mechanisms (one-stop shops, partnerships with aggregators)
- Introduce financial incentives (e.g. subsidies) for those with low contributory capacities
- Improve enforcement and compliance
- Increase information and awareness and enhance trust
PRELIMINARY RECOMMENDATIONS

- Complement extension of contributory coverage with efforts to ensure a social protection floor for all
  - appropriate financing mechanisms (taxes and contributions)

- Particular attention on vulnerable groups such as women, persons with disabilities and those living HIV/AIDS, ethnic minorities, migrant workers, elderly etc.

- Extension of coverage to the informal economy guided by national social protection strategy rather than piecemeal approaches
PRELIMINARY RECOMMENDATIONS

- **Social security extension strategies** to be **embedded** within integrated **formalization** framework

- **Participation of social partners**: key in design, implementation and monitoring of strategies and policies
- MS need to speed up efforts for the extension of coverage through a combination of contributory and non-contributory mechanisms
- Implement monitoring and evaluation systems (enhance data collection, regional monitoring framework, etc)
- Ensure good governance, effective coordination and delivery of social protection policies
- Increase social protection expenditure (creating fiscal space is feasible)
Thank you

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