

# **Extending social protection to workers in the informal economy: Lessons from international experience (working title)**

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[Preface and acknowledgements to follow]

## 0 About this guide

### *Objective*

For most workers in the informal economy, the lack of social protection is not only a challenge in their daily struggles to make ends meet, but it also holds them back in their aspirations for decent work, rights and dignity. For the societies in which they live, the lack of social protection coverage undermines inclusive growth, weakens social justice and undermines the realization of human rights. The 2030 Agenda for Sustainable Development commits to nationally appropriate social protection systems and measures for all, including floors, and sets a clear target to achieve by 2030 substantial coverage of the poor and vulnerable (SDG target 1.3). In addition to SDG 1 on eradicating poverty, social protection also contributes to SDG goal 2 on eradicating hunger, SDG goal 3 on good health and well-being, SDG 5 on gender equality, SDG 8 on decent work and economic growth, SDG 10 on reduced inequalities and SDG 16 on peace, justice and strong institutions (ILO, 2017a; UN, 2018, 2017).

The extension of social protection to uncovered workers in the informal economy is one of the main priorities in many countries with high rates of informality, and at the same time a major challenge (ILO, 2018a). Some countries have made impressive progress in covering larger groups of workers and the wider population. These experiences, together with number of recent research, offer a growing knowledge base that can provide useful lessons learnt and inspiration for other countries. Moreover, the international normative framework has been enriched by the recent adoption of two important new international labour standards, the ILO Social Protection Floors Recommendation, 2012 (No. 202), and the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

The main objective of this guide is to provide policy makers, workers' and employers' organizations and other stakeholders, with a practical tool that can help them in developing viable policy options to address the multi-fold challenges of extending social protection to workers in the informal economy and facilitating transitions to formality. The guide aims at addressing and removing the barriers that prevent workers in some forms of employment from being protected, also with a view to encourage transitions from the informal to the formal economy. This guidebook will be particularly relevant for national dialogues on social protection policies and strategies.

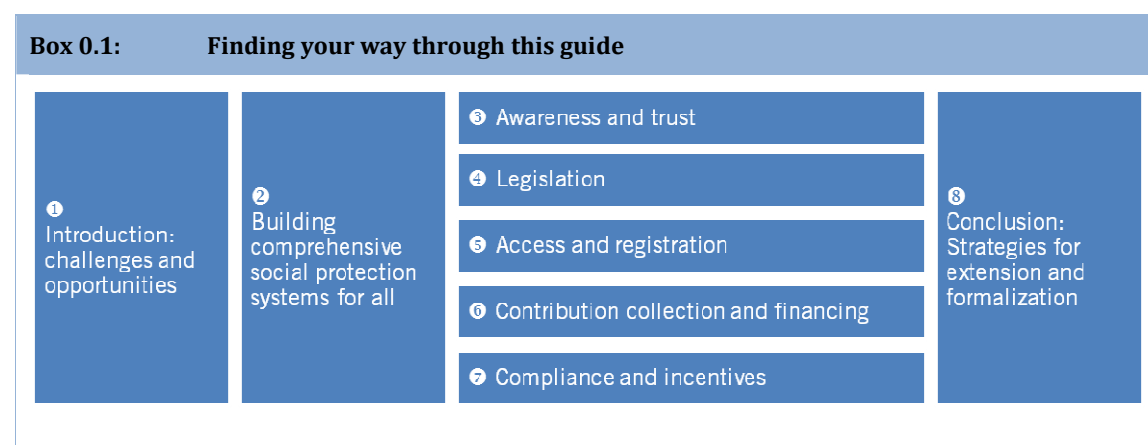
This guide provides evidence on good practices, challenges and constraints, and addresses a broad range of relevant aspects, including analysis of needs, adapting social security legislation, compliance and enforcement mechanisms, administrative procedures, benefit design, contribution schedules, service delivery and monitoring mechanisms. Recognizing the heterogeneity of workers' realities, the guidebook reflects specific challenges and good practices for selected sectors and categories of workers (domestic workers, workers in agriculture, self-employed workers, workers in small and micro-enterprises, etc.), and refers to links to more specific guidance material focusing on these groups. The guide emphasizes the need to combine contributory mechanisms (social insurance and other forms) with solid non-contributory (tax-financed) mechanisms to achieve universal social protection coverage.

This guide complements other materials and tools developed by the ILO and others, both in the areas of social protection, as well as with regard to facilitating the transition from the informal to the formal economy. Cross-references to relevant tools developed by the ILO or partner organisations are provided throughout the text.

With this first edition of the guide, the ILO would like to invite interested readers to provide comments, additional country experiences and tools, so that further editions can reflect a broader set of experiences and tools.

## Structure

This guide is organized in eight chapters that address different aspects of the extension of social protection coverage to workers in the informal economy. Starting with an introduction to the topic and the identification of barriers to an extension of coverage (Chapter 1), the guide addresses key question around the extension of coverage and the building of comprehensive social protection systems for all (Chapter 2). Chapters 3-7 then address specific barriers to the extension of coverage, namely barriers related to a lack of awareness and trust (Chapter 3), legal barriers (Chapter 4), administrative barriers (Chapter 5), financial barriers (Chapter 6) and barriers related to weak compliance and incentives (Chapter 7). The guide concludes with a discussion of strategies for the extension of coverage and transitions from the informal to the formal economy (Chapter 8) (see Box 0.1).



## Finding your way through this guide

The guidebook contains quite a number of references to specific groups of workers that in many countries represent a significant share of workers in the informal economy, and which are often considered as groups that are particularly difficult to cover.

For those users of the guide who are particularly interested in these groups, please refer to the symbols that have been used throughout this book:

AW – agricultural workers

CW – construction workers

DW – domestic workers

SE – self-employed workers/own account workers

MSE – workers in micro and small enterprises

## How to use this guide?

This guidebook serves as a reference book for policy makers, workers' and employers' organisations and other stakeholders engaged in the development of social protection strategies, or the planning, design, implementation and monitoring of systems and schemes.

In addition to this guidebook, a separate set of training materials is available that can be used for capacity-building. This material is available here: xxxxxx

# 1 Introduction: Challenges and opportunities in extending social security to workers in the informal economy

## Key questions

- ? What are the barriers that exclude workers in the informal economy from social security coverage?
- ? How can the extension of social security coverage to uncovered workers improve their situation in the short and medium term?
- ? How can the extension of social protection coverage contribute to facilitating transition from the informal to the formal economy?

## Key messages

- \* In developing countries, informal employment represents an opportunity for many people to secure a living and satisfy basic needs. In fact, the informal economy is a life line for those people that fail to find employment in the formal economy and are thus forced to rely on informal wage employment, self-employment or alternative activities to survive;
- \* However, the persistence – or even growth – of the informal economy, often associated with low productivity, obstinate decent work deficits, working poverty and excessive inequality, calls for urgent attention towards the double challenge of extending protection to workers in the informal economy and facilitating their transition to the formal economy. Particular attention should be given to those in the most vulnerable segments of informal employment.
- \* Barriers to social protection coverage for workers in the informal economy include the exclusion from legal coverage; costs and inadequate financing arrangements; complex and burdensome administrative procedures; a lack of enforcement and control; a lack of information, awareness and trust; as well a lack of representation and organisation.
- \* Particular attention should be paid to ensuring that extension strategies address promote gender equality and women’s empowerment.
- \* To facilitate transition to formality, the ILO has adopted an integrated strategy promoting decent work, aimed at boosting employment, improving social protection coverage, enhancing social dialogue and realizing human rights at work.

## 1.1 Informal employment and social protection coverage gaps

About half of the global workforce is in informal employment, and the large majority of these people face serious decent work gaps, including a lack of social security<sup>1</sup>. In fact, many of the workers in the informal economy are among the 55 per cent of the global population who do not

<sup>1</sup> The human right to social security is rooted in Art. 22 of the Universal Declaration of Human Rights (1948) and Art. 9 of the International Covenant on Economic, Social and Cultural Rights (1966). The latter provision refers to the “right of everyone to social security, including social insurance” (ILO, 2017a, 2017b).

enjoy access to social protection at all, and many others are only partially protected (ILO, 2017a). This lack of protection is a major source of vulnerability, as these workers cannot count on access to health care and at least a basic level of income security.<sup>2</sup> As a result, many of these workers are locked in a vicious cycle of vulnerability, poverty and social exclusion, which constitutes an enormous challenge not only for their individual welfare and their enjoyment of human rights (in particular the right to social security), but also for their countries' economic and social development (ILO, 2017a; RNSF, 2017). The lack of social protection of those workers significantly inhibits progress towards achieving the 2030 Sustainable Development Goals (SDGs), particularly SDG 1 on ending poverty, SDG 3 on good ensuring healthy lives and promoting well-being, SDG 5 on achieving gender equality and empowering women and girls, SDG 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work, SDG 10 on reducing inequalities and SDG 16 on promoting peace, justice and strong institutions (ILO, 2017a, 2018a).

Informal workers' lack of social protection is usually associated with their lack of coverage through contributory mechanisms (social insurance and other contributory schemes). In fact, many (but not all) workers in the informal economy do not have sufficient contributory capacity to pay contributions on a regular basis; they may face difficulties in meeting the administrative requirements, or they may simply not be covered by the applicable legislation. In addition, financing and administrative arrangements of social insurance may not be adapted to the needs and capacities of self-employed workers and other categories of workers.

Yet, workers in the informal economy are also facing difficulties in accessing poverty-targeted social protection mechanisms. Proxy-means testing mechanisms may exclude them from coverage if they dispose some assets or are otherwise deemed to be not "poor enough". They will also be excluded from programmes which are targeted towards households with no or a very limited earnings potential, and therefore exclude workers in the informal economy. Yet, more universal tax-financed programmes, such as those providing child benefits, social pensions or disability benefits as an individual entitlement, can benefit workers in the informal economy and their families, contribute to the household income in a predictable way and enable families to plan ahead.

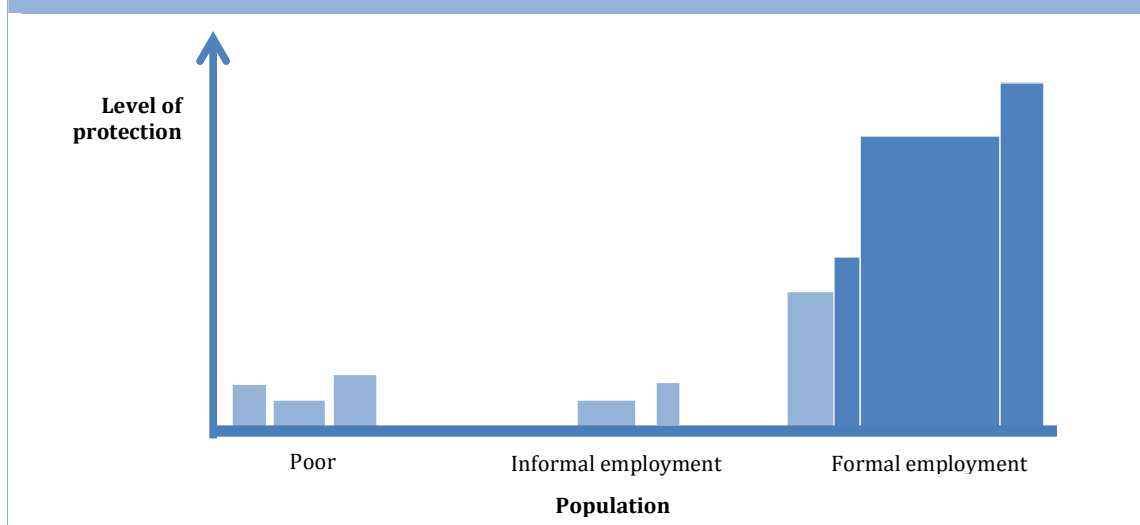
In many countries, the two dominant types of social security schemes are social insurance and other contributory provision for those in the formal economy, and poverty-targeted social assistance or "safety net programmes" for the poor, workers in the informal economy tend to be excluded from coverage, both from schemes for those in formal employment, as well as from schemes for the poor. This lack of protection has been described as the "missing middle" (see Box 1.1).

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<sup>2</sup> There are varying definitions of the terms "social protection" and "social security". The ILO usually uses these two terms interchangeably to refer to the set of policies and programmes designed to reduce and prevent poverty, vulnerability and social exclusion throughout the life cycle. Social protection systems address a broad range of policy area, including child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection (medical care), disability benefits and old age and survivor pensions (ILO, 2017a, pp. 194–195).

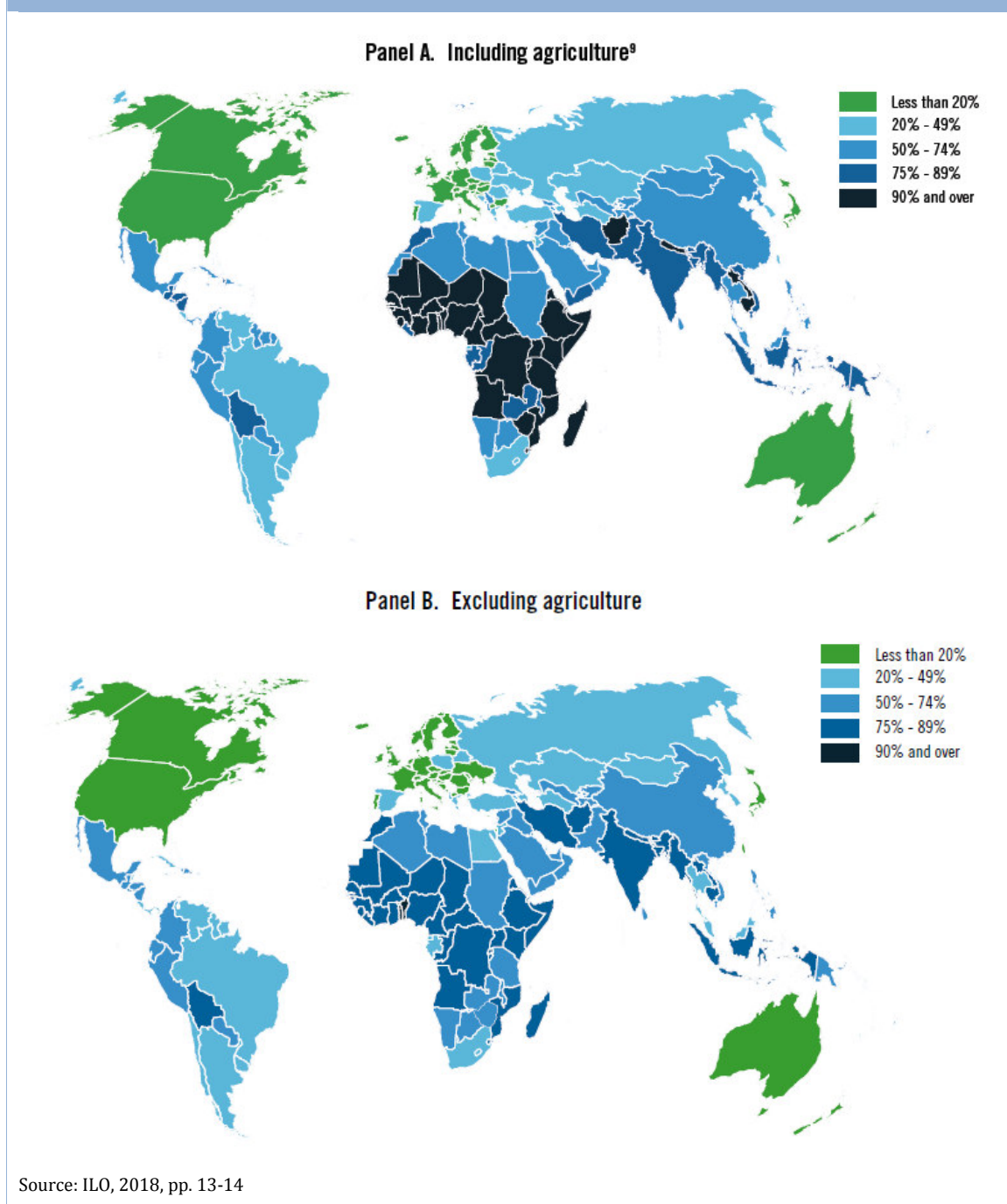


**Box 1.1: Coverage gaps for those in the informal economy: a schematic representation for a low-income or lower middle income country**



The exclusion of workers in the informal economy from social protection constitutes an enormous challenge for economic and social development (see Box A1.1 in the Annex for definitions). The scope of this challenge appears daunting, considering that informal employment represents in many countries the large majority of the labour force – in some countries more than 80 per cent of total employment (see **Error! Reference source not found.**). For example, in India, 88 per cent of working men and 90 per cent of working women are in informal employment. In most countries of Sub-Saharan Africa, the large majority of workers are in informal employment: more than 75 per cent of non-agricultural employment, and more than 90 per cent of total (ILO, 2018; see Box 1.2 and Box 1.3).

**Box 1.2: Share of informal employment in total employment, including and excluding agriculture, latest data**

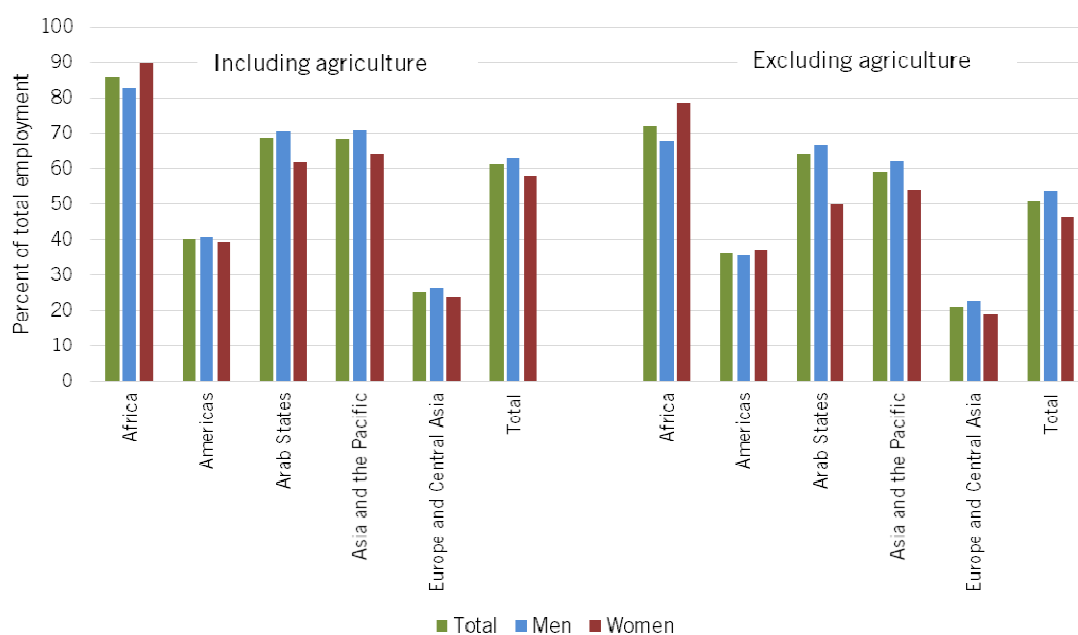


While some countries have made great strides in creating more formal employment, in other countries, informal employment has expanded due to a variety of factors, including structural changes in the labour market, changes in the regulatory environment, as well as both economic downturns and economic upturns (ILO, 2013a, 2018a).

Several factors have been identified for keeping workers in the informal economy:

- Despite high growth rates and sometimes a rapid industrialization of emerging economies, labour markets are not able to absorb jobseekers into productive jobs; particularly where the manufacturing and service sectors offer poor working conditions.
- Inadequate labour legislation, onerous regulations, inefficient bureaucracy and high transition costs can increase operational costs for companies and the self-employed and discourage their participation in the formal economy.
- Strong competitive pressures force enterprises to employ workers on temporary or casual contracts which do not guarantee social security and a secure income.
- Globalization and a reduction in trade costs and barriers have incentivized businesses to reallocate parts of their supply and production chain in countries where manufacturing and labour costs are lower, yet this is often associated with precarious and insecure working conditions (ILO, 2016a).
- Economic crises typically reduce the number of formal jobs, and informal employment is often the only possibility for those having lost their jobs to ensure their livelihoods, often through self-employment. Economic recovery is often not associated with a full recovery of (formal) employment (ILO, 2017a, 2014a).
- A lack of trust in the State and public authorities may discourage enterprises and workers to operate in the formal economy, and avoid bringing themselves to the attention of tax officials (ILO and GIZ, 2014).

**Box 1.3: Share of informal employment in total employment, including and excluding agriculture, latest data**



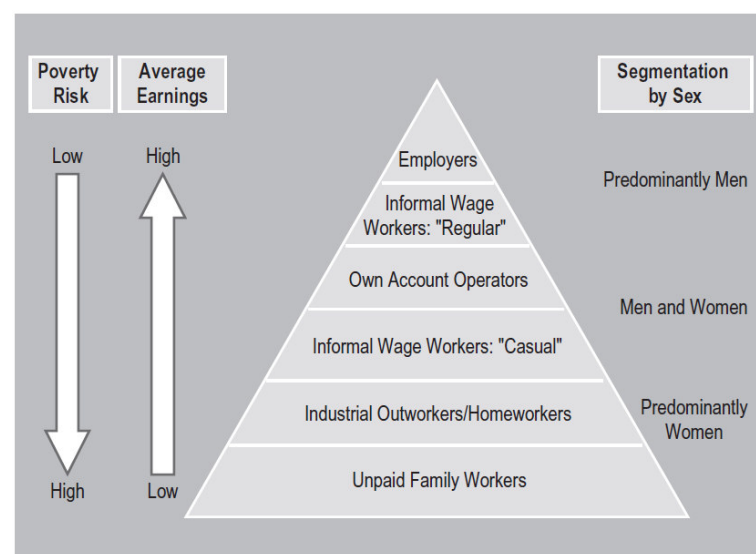
Source: Based on ILO, 2018, pp. 23-24.

In many parts of the world, women are more likely to find themselves in informal employment than men, particularly in the more vulnerable forms of informal employment (see **Error! Reference source not found.**). In fact, informal employment is closely related to gendered patterns of employment, and is associated to gender gaps in access to education, skills training,

land, assets, rights and the fact that care responsibilities are predominantly shouldered by women in most societies (Holmes and Scott, 2016). In many cases, these inequalities are related to discrimination and gender stereotyping. These factors contribute to a situation where are more likely to find themselves in informal employment than men in most regions of the world. What's more, women are more likely to find themselves in those types of informal employment that offer the smallest revenues, such as homeworkers and unpaid family workers (Lund, 2012, see Box 1.4).

In view of women's particularly vulnerable position within the informal economy, it is essential that the situation of women is specifically considered, given that women tend to have lower earnings than men, and have more limited access to economic resources, assets, services and technologies.

#### Box 1.4: Segmentation of the informal economy by gender and average earnings

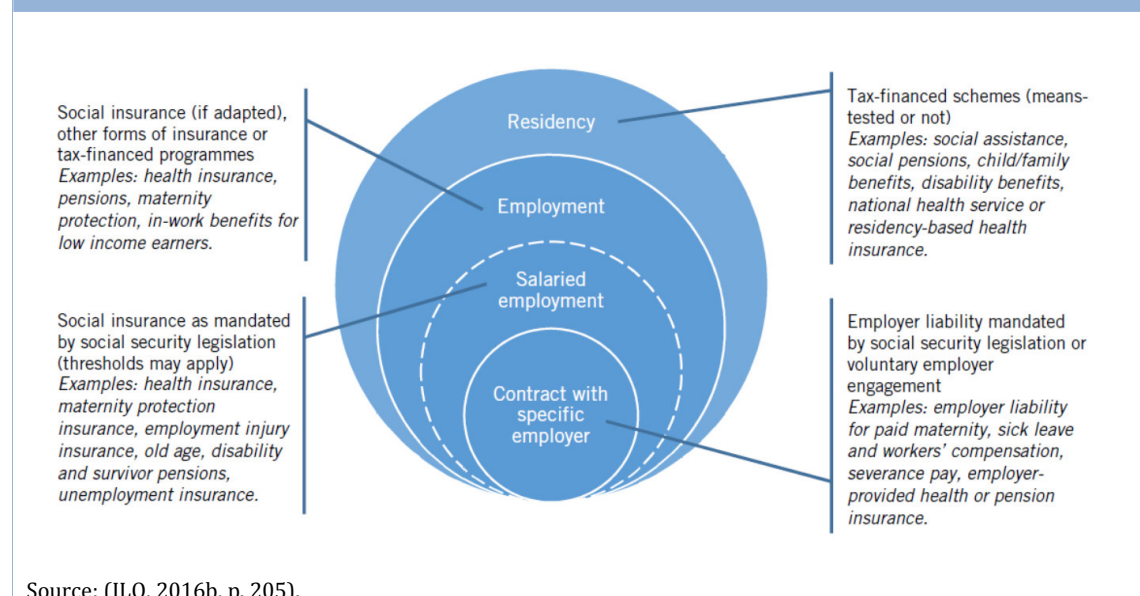


Source: (Lund, 2012)

## 1.2 A closer look at the relationship between employment patterns and social protection coverage

The large share of informal employment in many parts of the world poses a particular challenge for social protection coverage. For this reason, it is necessary to take a closer look at the relationship between employment and social protection (see Box 1.5).

### Box 1.5: How is social protection related to employment?



The strongest connection between employment and social protection exists for benefits tied to a contract with a specific employer, either under national labour or social security law, or provided on a voluntary basis by employers. Examples include employer liability for paid maternity leave, sick leave or workers' compensation in case of employment injury, severance pay or employer-provided health or pension insurance. Such benefits may be available only to the regular core workforce of a company, and as entitlements are tied to the specific employment contract, benefits are often not portable. Because of these limitations, ILO social security standards usually privilege other solutions, namely social insurance.

Social insurance coverage is not linked to a specific employment contract, but to participation in (covered) types of employment.<sup>3</sup> In most countries, social insurance covers workers in salaried employment (subject to certain minimum thresholds<sup>4</sup>); in addition, many countries also cover self-employed workers and other categories of non-salaried workers in their social insurance schemes through adapted mechanisms, thereby broadening coverage beyond employees. Such extended social insurance coverage for workers in all types of employment facilitates labour market mobility while ensuring continued coverage. Most countries use social insurance coverage for a several or all of the following risks and contingencies, including maternity, sickness, disability, employment injury, unemployment, old age, as well as health insurance and in some cases also family benefits. Many countries also ensure continued coverage during periods of non-employment, for example during unemployment, care for family members, or participation in training measures.

Other contributory mechanisms are also directly or indirectly linked to employment. Virtually all contributory social protection mechanisms, including private insurance or savings schemes, are indirectly linked to employment in the sense that the payment of contributions requires a steady stream of income, which usually comes from some kind of gainful economic activity (ILO, 2017a,

<sup>3</sup> This implies that – in contrast to forms of protection tied to a specific employer, workers moving from one job to another continue to be covered by social insurance, as long as they meet the conditions set out in the social security legislation. While some of the literature on this topic wrongly assumes that social insurance covers only workers in so-called “standard employment relationships”, this is not the case, as many workers in non-standard forms of employment are also covered. For a clarification, see ILO, 2016b, pp. 299–306.

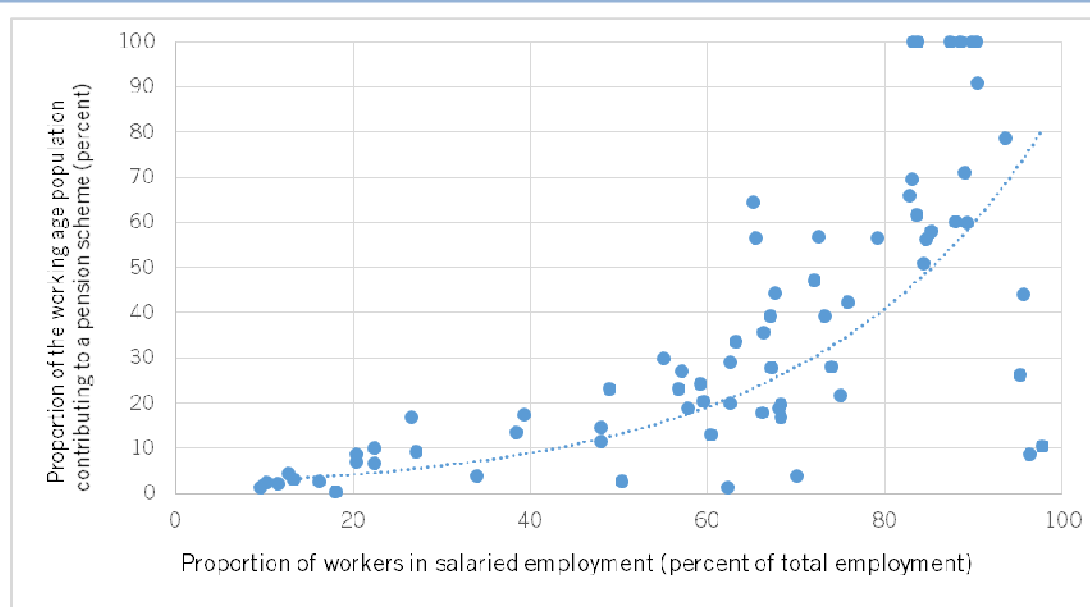
<sup>4</sup> Such minimum thresholds typically refer to the number of hours worked, length of employment or salary; this may lead to the exclusion of certain categories of temporary or part-time workers, most frequently affecting workers in casual employment or marginal part-time employment (ILO, 2016b, pp. 299–306).

2016b). For some types of provision, there is a more direct link, such as in the case of occupational schemes (e.g. occupational pensions), or group insurance schemes for certain categories of workers (e.g. for members of a producers' or workers' cooperative).

In the case of non-contributory schemes financed through general taxation and other sources, usually there is no direct link to employment at the individual level (in fact, there may be a negative link in the sense that benefits are provided only to those not working). However, there is an important link at the macro-economic level, considering that the fiscal space necessary to provide such benefits depends on sufficient government revenues, and in particular a sufficiently broad tax base.

Against this background, it is not surprising that social protection coverage is higher in countries with a higher proportion of workers in salaried employment (see Box 1.6). Yet, countries with similar levels of salaried employment reach different results in terms of social protection coverage, which suggests that other policy factors also play a major role in shaping outcomes.

**Box 1.6: Workers in salaried employment and proportion of the population contributing to a pension scheme (2015 or latest available data)**



Source: Based on ILO World Social Protection Database and ILOSTAT.

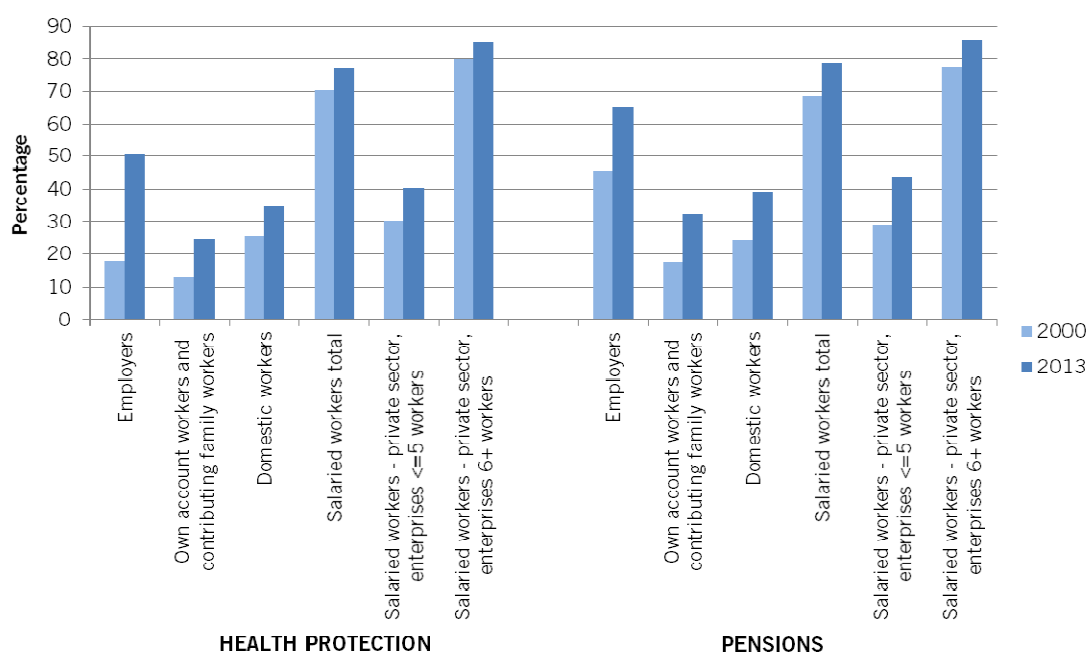
In many developing countries, workers in (formal) wage employment constitute only a small share of the labour force. As a result, some categories of workers tend to be not or not sufficiently covered, either because they are excluded from the scope of social security legislation, or because the legislation is not fully enforced for various reasons. This can include certain categories of workers in informal wage employment, such as domestic workers, agricultural workers, and certain categories of migrant workers and in some countries also workers in micro and small enterprises (ILO, 2013a, 2018a). The other major category are self-employed workers, including most prominently, own account workers which in some countries constitute the majority of the labour force. Covering these categories of workers requires not only an extension of legal coverage, but also additional measures to ensure that mechanisms are adapted to their situation (see Chapters 5 and 6 in particular).

Yet, in many parts of the world, great strides have been made to extend social protection coverage to previously uncovered workers. For example, in Latin America, health and pension coverage has significantly increased for different categories of workers (see Box 1.7, see also ILO, 2018b). This

includes those categories of wage workers which are notoriously difficult to cover. For example, pension coverage rates for workers in small enterprises increased between 2000 and 2013 from 29 per cent to 44 per cent, and coverage of domestic workers increased from 24 per cent to 39 per cent. Similarly, among self-employed workers, coverage for own account workers and contributing family members also increased from 18 per cent to 33 per cent, and for employers from 46 per cent to 65 per cent. Health protection coverage rates also saw a significant increase during this period.

However, despite a significant success in extending coverage between 2000 et 2013, coverage for own account workers and contributing family workers, domestic workers and workers in enterprises with up to 5 workers still lag behind other categories of workers.

**Box 1.7: Health and pension coverage by status in employment in Latin America**



Source: Based on (ILO, 2014b).

### 1.3 What are the barriers to the extension of social protection to workers in the informal economy?

Despite significant progress in extending social protection coverage to workers in the informal economy (ILO, 2017a), too many workers remain unprotected. Understanding and analyzing the factors behind coverage gaps is essential in the context of each country, with a view to formulating policies and undertaking reforms aimed at protecting this vulnerable category of workers and facilitating the transition to the formal economy. Various factors contribute to constraining social protection coverage.

#### *Exclusion from legal coverage*

The legal framework may exclude or constrain the participation of certain categories of workers in social protection schemes, and as a result, they remain in the informal economy. In many countries, legislation links social security coverage to an *identifiable employment relationship*



*between an employer and a dependent worker.* This excludes those categories of workers who lack of such identifiable relationship, or for whom such a relationship is disguised.<sup>5</sup>

In addition, legislation may include rules based on place of work, type of contract, size of the enterprise, number of working hours or income thresholds or minimum length of contract, which can effectively exclude some categories of workers.

In some cases, some categories of workers may be formally covered by the legislation, yet the scheme may not be adapted to the specific situation and needs of those workers (e.g regarding contribution amounts and benefits), and are therefore unlikely to be enforced.

### ***Lack of information, awareness and trust***

A lack of information and awareness on social security is one of the factors that contribute to weak incentives to register for social security (Bertranou, 2007; ILO, 2013a). In particular, illiteracy and language barriers, usually higher among rural populations, can make it more difficult for workers to understand legal rules which are usually written only in the official languages. In addition, a lack of trust in the social security institution can also contribute to a certain reluctance to join a social security scheme (ILO, 2013a).

### ***Benefits not aligned with priorities***

Workers and employers may be reluctant to contribute if they are not convinced that the benefits provided will meet their priority needs (ILO, 2013a). Depending on the situation of workers in question, different types of benefits and services may be necessary to meet workers' needs, in particular their most immediate needs.

### ***Costs and inadequate financing arrangements***

#### ***Specific costs of social protection***

A high level of contributions is often considered as an economic barrier to participate in a contributory social protection scheme. Contributions may not be adapted to the level of earned income, and may be perceived as too high both by employers and workers, particularly if they do not value the benefits of social insurance coverage. For the self-employed, contributing to a social protection scheme can be particularly burdensome when they have to bear also the employers' share of contributions. However, inadequate financing arrangements and institutional factors may be more important than contribution levels (Williams and Kedir, 2017).

#### ***Inadequate financing arrangements***

Aside from the level of contributions, workers and employers may face difficulties in contributing if financing arrangements and in particular contribution collection arrangements are not adapted to their situation.

One of the potential barriers is *fluctuating or instable income*. Many workers in the informal economy rely on volatile incomes, which may require some adaptations for contributory forms of protection (ILO, 2013a). This is for instance the case of agricultural workers [AW] whose incomes often follow seasonal patterns, which makes it difficult for them to pay contributions on a monthly basis, but they may be able to pay contributions after selling their crops or animals.

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<sup>5</sup> Workers without an identifiable employment relationship can include the self-employed including own-account workers, members of the family of the entrepreneur or the owner of the business (contributing family members), member of producer cooperatives, and in some countries, persons exercising an activity of a religious character. The ILO Employment Relationship Recommendation, 2006 (No. 198) calls for the formulation and application of national policies for reviewing at appropriate intervals and, if necessary, clarifying and adapting the scope of relevant laws and regulations, in order to guarantee effective protection for workers who perform work in the context of an employment relationship (para. 1), including with regard to identifying and combating disguised employment relationships.



Likewise, fluctuations in the incomes of the self-employed, particularly own-account workers, can make it difficult for them to pay regular contributions [SE].

### *General costs of formalization*

In addition, those operating in the informal economy may shy away from the general cost of formalization, which are associated with operating in the formal economy. These cost include entry costs and operational costs, and may vary by business environment of each country (ILO and GIZ, 2014). Especially for small economic units operating on a low productivity level, such cost of formalization may surpass their financial capacity.

*Entry costs* refer to all the costs associated with the registration procedures including registration fees and opportunity costs that enterprises could potentially earn if they do business as usual instead of spending time in the administrative process.

*Operational costs* are the other type of costs, associated with operating in the formal economy, such as taxes, license fees and social contributions, as well as costs to comply with labour regulations, the time required to obtain property registration and apply for formal loans, and inefficient contract enforcement mechanisms.

### *Complex and burdensome administrative procedures and services*

*Complex and burdensome procedures* may discourage employers and workers from registering for social protection schemes and thus qualify for benefits. Particularly micro and small enterprises with limited administrative capacities often struggle to comply with the requirements [SME]. Own account workers do not benefit from the intermediary role of an employer, and often struggle with time consuming and complex administrative procedures.

Particularly in rural areas, people may face difficulties in accessing social protection schemes due to a *low density of administrative structures and services*. Long distances to the next office, and poor means of transport can inhibit access to the administrative structures to register or pay contributions, or to access benefits or services, and opportunity cost in terms of the cost of transport and time spent may be prohibitively high. As a result, if social protection systems fail to deliver adequate services in rural areas, workers will have less interest in contributing to them [AW]. Such exclusion might happen even when universal schemes are in place (ILO, 2013a).

*Labour mobility* can place a particularly high burden on the administration of the scheme. Some workers, such as seasonal workers other temporary workers, frequently change jobs, and may move between wage employment and self-employment. Such high labour mobility places a particular high burden on the administration of the scheme to ensure that changes are correctly and timely reflected in the administrative records and do not lead to undue breaks in the contribution history, which may prevent workers from receiving benefits even if they would normally meet the qualification criteria.

### *Lack of enforcement and control, and low compliance*

The lack of effective enforcement of the applicable labour and social security regulation, which can contribute to a low level of compliance. Controls are made difficult by the fact that some activities are concealed or not declared by employers.

Governments might be less inclined to ensure inspections of small economic units due to the relatively high costs involved and to the complexity of the procedures, especially where this requires coordination between several inspection services.

### *Lack of representation and organization*

It is widely acknowledged that there is a direct link between the workers' organization capacity and the ease of including them in contributory schemes. The lack of organization of some categories of workers makes them more marginalized and reduce their chances of being

represented in open debates. However, one should not underestimate the degree of organisation in the informal economy (ILO, 2013a; RNSF, 2017). Many informal workers are indeed organized in some way or another, and in many cases represented in, or associated with established workers' organisations. Likewise, many informal economic units are represented. The involvement of trade unions in the informal economy is unfortunately rather limited and workers are not able to claim their rights and establish contacts with institutions.

#### **1.4 How do workers, employers and societies at large benefit from the extension of social protection coverage?**

The extension of social protection coverage improves the situation of workers in the informal economy and contributes to facilitating their transition to the formal economy. This entails benefits for workers, enterprises and societies at large.

##### *How do workers benefit?*

Ensuring access to social protection addresses one of the major decent work gaps for workers in the informal economy, and can make an important difference for their lives.

If workers can count on effective access to health care in case of illness, without having to pay the cost of treatment out of their pocket, makes an important difference for preserving and improving their health (and that of their family), considering that health risks also constitute an enormous economic risk for workers in the informal economy. If workers can count on at least a minimum level of income security in case of illness, injury, disability, maternity and during old age, they can better plan for the future, and are better able to seize economic opportunities (ILO, 2017a, 2014a). Social protection coverage therefore contributes to enhancing the productive capacities of workers in the informal economy, and can help to facilitate their transition to the formal economy.

There is an important intergenerational dimension with regard to the effects of social protection on children: social protection contributes to break the vicious cycle of poverty by promoting better access to nutrition, health, education and skills (ILO, 2017a), preventing child labour (ILO, 2013b) and ensuring better life chances for the next generation.

##### *How do enterprises benefit?*

Enterprises benefit from covering their workers in several ways. Better social protection for workers positively impacts on labour productivity and competitiveness through better access to health care, lower absentee rates, higher employee retention and higher motivation (ILO, 2017a; Scheil-Adlung, 2014). For example, a recent study found that in Viet Nam, firms which increased the social security coverage by 10 per cent between 2006 and 2011, experienced a revenue gain per worker of between 1.1–2.6 per cent and a profit gain of around 1.3–3.0 per cent (Lee and Torm, 2017).

Social insurance is an important instrument of pooling financial risks for enterprises, particularly to cover the risks of employment injury (workers' compensation), maternity (paid maternity leave) and dismissal (severance pay). Where employers can rely on social insurance mechanisms instead of being individually liable for the compensation of workers (employer liability), they can better plan and manage financial flows and handle risks in a more predictable way. For this reason, social insurance offers important benefits to employers, such as in the case of maternity benefits, employment injury insurance and unemployment insurance (ILO, 2017a; Kuddo et al., 2015).

Ensuring full social protection coverage for workers therefore makes good business sense, as it helps to strengthen labour productivity, competitiveness and offer more business opportunities.

In addition, compliance further enhances access to financial and insurance services, business services, public procurement, the enforcement of business contracts and the protection of property rights (ILO and GIZ, 2014).

### *How do societies at large benefit?*

Extending social protection coverage to workers in the informal economy also entails a number of benefits for society at large, particularly where these contribute to facilitating transition from the informal to the formal economy in the short or longer run. Social protection constitutes an investment in people, and its impacts on human capital, human development and labour productivity yield benefits not only for workers and employers, but also aggregate benefits for societies as a whole (ILO, 2017a, 2014a).

Many countries extend coverage to those in the informal economy through a combination of contributory (typically social insurance) and non-contributory (usually tax-financed) schemes. The expansion of social insurance mechanisms to larger groups of previously uncovered workers can help to achieve a better financing mix for the social protection system by mobilizing additional financing sources from categories of previously informal workers (provided that these have the necessary contributory capacity), which alleviates pressures on tax-financed social assistance benefits. This would also allow to share the burden of financing the social protection system through contributions and taxes in a more equitable way among those who have contributory capacity, and ensuring that contributions and taxes are in line with contributory capacities (ILO, 2013a). This will also help to ensure that sustainability and adequacy of the social protection system in the long run (ILO, 2017a).

More broadly, higher levels of formality also help to broaden the tax base available for public investments in economic and human development. This is also expected to increase states' earning capacity and international competitiveness through improved productivity of workers and enterprises, supply more employment opportunities, improve income distribution and boost inclusive growth. The extension of social protection coverage thus also contributes to enhancing the functioning of labour markets, strengthening national economic capacity and macroeconomic stability.

#### **Box 1.8: How do workers, employers and societies at large benefit from the extension of social protection coverage?**

Extending social protection to workers in the informal economy addresses important challenges and contributes to sustainable development. The following videos show the views of workers, employers and the government, focusing on specific sectors of the economy:

- Kenya: [Extending social protection intake and quality services in Kenya](#)
- Malawi: [Social insurance: a way forward for Malawi's workforce](#)
- Namibia: [Social protection: making Namibia's informal economy workforce a priority](#)
- South Africa: [Extending social protection to all workers in South Africa](#)
- Tanzania: [Extending social protection to all workers in the forestry sector value chain](#)
- Zambia: [Making Zambia's social protection work for SME's in the construction value chain](#)

## 1.5 How can the extension of coverage be achieved?

Given these constraints, how can social protection coverage be extended to workers in the informal economy? In other words, how can universal protection be achieved?

### 1.5.1 *Extending social security coverage and facilitating transition to the formal economy: a two-track approach*

Successful examples of the extension of social security coverage to workers in the informal economy have focused on two broad policy approaches.

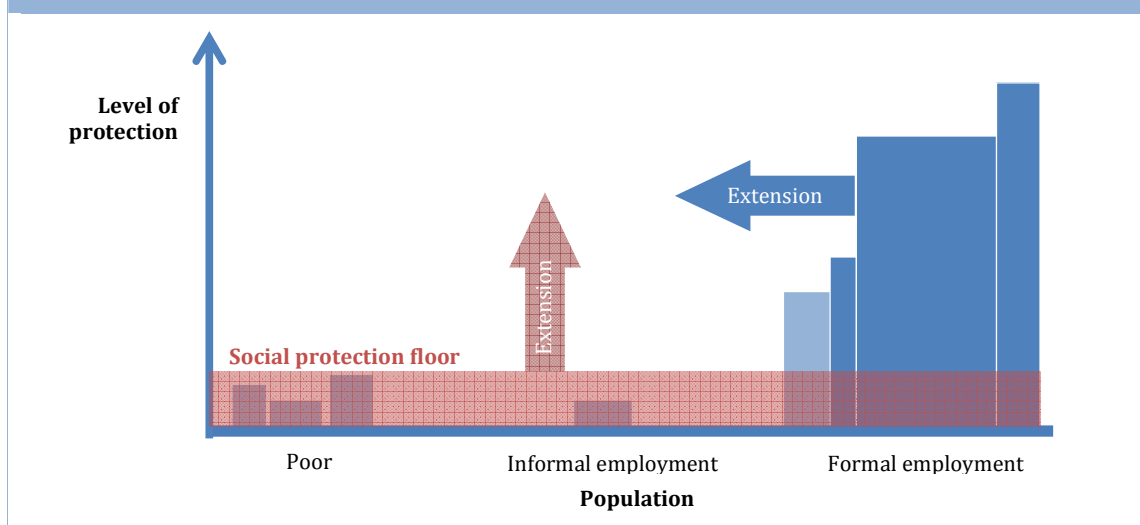
In many countries, the extension of social security to larger groups of the population has followed an approach that could be summarized as **“extend social protection by formalization”**, focusing mainly on employment-based social protection mechanisms (typically social insurance, to some extent also mutual funds (mutuelles) and other community-based micro-insurance). This approach tends to focus on specific groups of workers who already close to the formal economy and have some contributory capacity, and which are therefore relatively easily to be covered by employment-based social protection mechanisms. In many cases, the extension strategy includes not only a change in legislation, but also measures to remove administrative obstacles to contributions, by facilitating administrative processes, as well as adapting contribution rates and benefit packages. Examples include inclusion of domestic workers in maternity and unemployment insurance (South Africa), occupation-/sector-based mutual funds (mutuelles) (Senegal), facilitating registration and the collection of taxes and contribution collection through monotax mechanisms (Argentina, Uruguay), inclusion of self-employed workers in social insurance schemes (e.g. Algeria).

In other countries, the extension of social security to larger groups of the population was pursued through a large-scale extension of non-contributory social protection mechanisms to previously uncovered groups, independently of their employment status, and largely financed through government revenue stemming from taxation, mineral resource revenue or external grants. This approach could be summarized as **“extend social protection independently of status”**, based on the expectation that “investing in people” through social protection, helps to facilitate access to health and education, enhance income security and enable workers to take greater risks, thereby enhancing productivity and facilitating the formalization of employment in the medium and long term. Examples include the introduction and expansion of cash transfer programmes for children and families (Brazil, Mexico, Mongolia, etc.), persons with disabilities (e.g. South Africa) and older persons (social pensions in Lesotho, Mauritius, Namibia, Nepal, Timor Leste, South Africa etc.), and national health services.

These two basic approaches of closing social protection coverage gaps can be illustrated in a schematic way. Expanding the schema presented in Box 1.1 above, Box 1.9 illustrates these two approaches of closing social protection coverage gaps:

- Bringing uncovered workers under the umbrella of existing social protection schemes or establishing new schemes, focusing largely on contributory mechanisms (see blue arrow in Box 1.9).
- Establishing a nationally-defined social protection floor through a combination of non-contributory and contributory mechanisms (see red area in Box 1.9). Such a social protection floor guarantees a basic level of social security to all, consisting at least of effective access to health care and a basic level of income security.

**Box 1.9: Strategies for the extension of social protection coverage for workers in the informal economy**

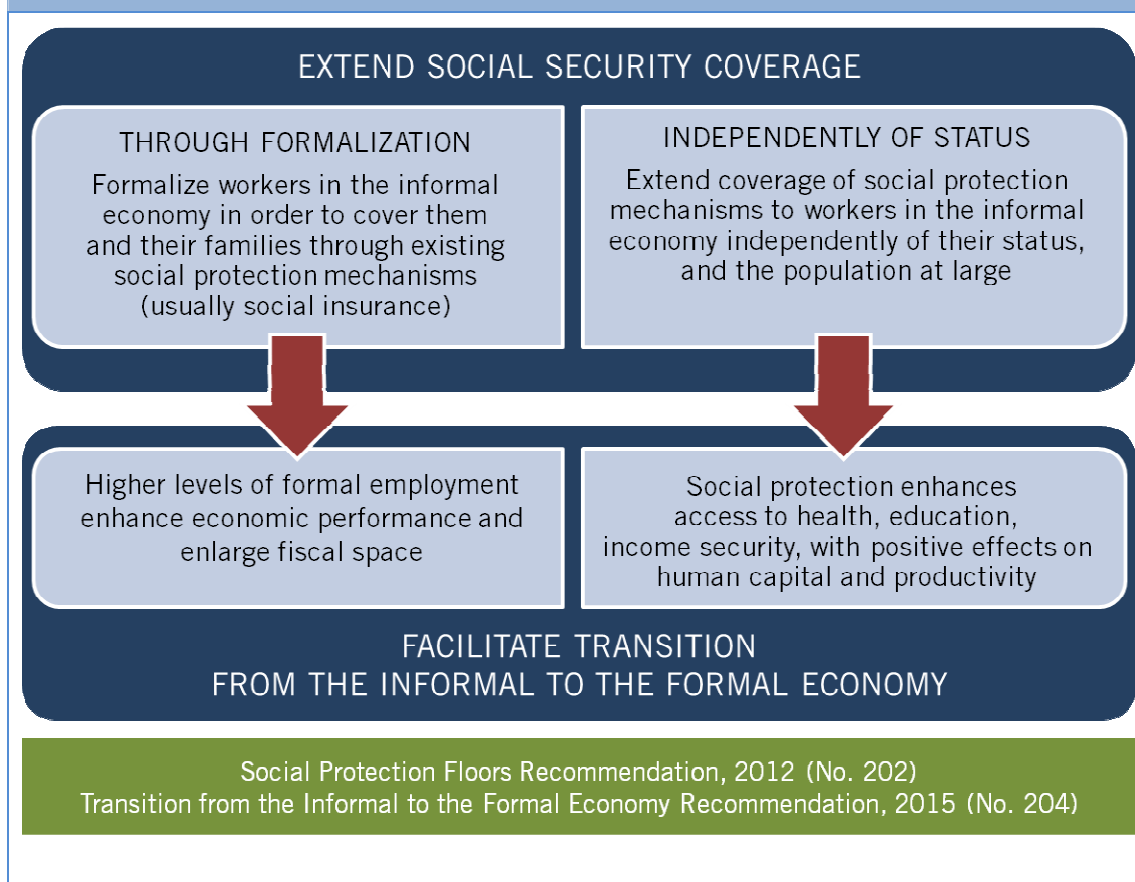


Both approaches are not mutually exclusive, but can support each other in many ways. In fact, many of the countries that have successfully extended social protection coverage have combined the two approaches in **integrated two-track social protection strategies** that pursue the principle of universal protection, while taking into account the contributory capacities of different groups of the population. This includes, for example, the extension of health protection in Thailand (UHC scheme, formerly 30 baht scheme, see Box 6.20) and Ghana (national health insurance, subsidized for vulnerable groups, see Box 6.21). Other examples include the combination of contributory and non-contributory social protection programmes in Argentina (child and maternity benefits), Brazil (e.g. rural pension scheme, *Bolsa Família*), Cabo Verde, South Africa (social insurance and large grants programmes), among others.

In fact, both approaches, and their combination in a integrated two-track approach, are reflected in both the ILO Social Protection Floor Recommendation, 2012 (No. 202) and the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Box 1.10 illustrates the two-track approach to the extension of social security coverage – through formalization and independently of status. Both policy tracks can facilitate transitions from the informal to the formal economy: The first policy track aims at encouraging formalization directly, and aims at fostering higher levels of formal employment, better economic performance and enlarged fiscal space. The second policy track focuses on the extension of coverage independently of employment status, which may not have immediate formalization effects, but which can foster transition to the formal economy in the longer term by enhancing access to health, education, income security, with positive effects on human development and productivity (ILO, 2017a, 2014a, chap. 6.6).

**Box 1.10: Two-track approach to the extension of social security coverage and facilitating transition from the informal to the formal economy**



The guidance provided by the two recently adopted Recommendations points to the importance of achieving universal social protection coverage for all. Recommendation No. 202 calls for the establishment of nationally-defined social protection floors as part of progressively comprehensive social security systems (see Box 1.11).

### Box 1.11: Extending social protection coverage: guidance from international social security standards

International labour standards clearly support the importance of extending social protection coverage. The Universal Declaration on Human Rights in 1948 (Art. 22 and 25) and the International Covenant on Economic, Social and Cultural Rights, 1966 (Art. 9 and 11) recognize social security, including social insurance, as a human right.

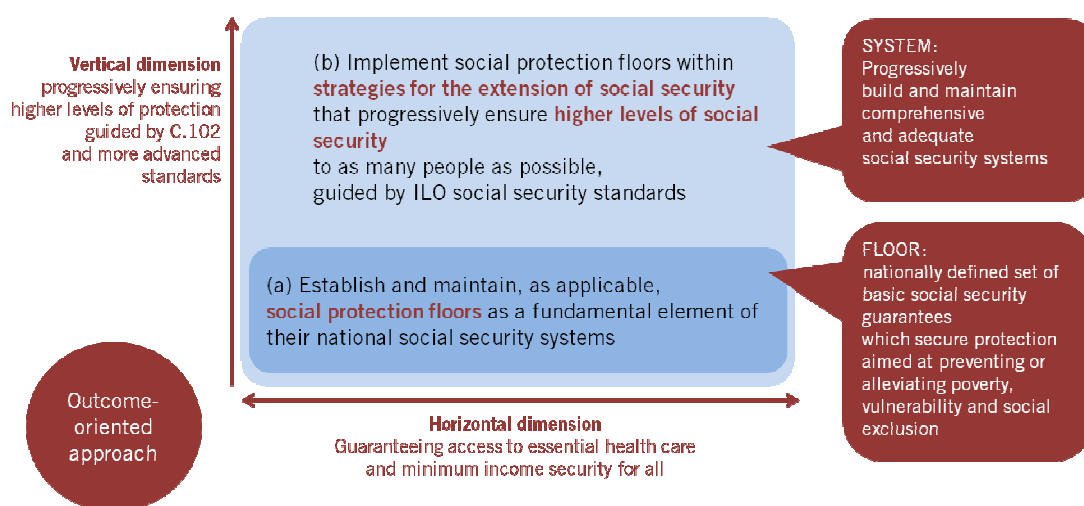
The Social Protection Floors Recommendation (No. 202) provides guidance for the extension of at least a basic level of social security to all through nationally-defined social protection floors, including to workers in the informal economy. This Recommendation complements earlier standards, including the Social Security (Minimum Standards) Convention, 1952 (No. 102).

Recommendation No. 202 calls on the ILO's now 187 member States to establish as quickly as possible and maintain their **social protection floors** comprising basic social security guarantees. The guarantees should ensure at a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level (para. 4).

The establishment of social protection floors is part of national social security extension strategies", which should

- a) prioritize the implementation of **social protection floors** as a starting point for countries that do not have a minimum level of social security guarantees, and as a fundamental element of their national social security systems; and
- b) seek to provide **higher levels of protection** to as many people as possible, reflecting economic and fiscal capacities of Members, and as soon as possible. (para. 13(1)).

The Recommendation emphasizes that "social security extension strategies should apply to persons both in the formal and informal economy and should support the growth of formal employment and the reduction of informality" (para. 15).



Source: Based on ILO, 2014b, chap. 6.6, see also 2017a, 2017b.

Recommendation No. 204 echoes this important point as part of broader strategies to foster transition from the informal to the formal economy (see Box 1.12).



**Box 1.12: Main elements of Recommendation No. 204**

The *Transition from the Informal to the Formal Economy Recommendation*, 2015 (No. 204) recognizes the lack of protection of workers in the informal economy, and provides guidance for improving their protection and facilitating transitions to the formal economy. It also recognizes that decent work deficits – the denial of rights at work, the absence of sufficient opportunities for quality employment, inadequate social protection and the absence of social dialogue – are most pronounced in the informal economy, and that most people enter the informal economy not by choice, but as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood.

Recognizing the complexity of informality, the Recommendation covers various policy areas, including legal and policy frameworks; employment policies; rights and social protection; incentives, compliance and enforcement; freedom of association, social dialogue and role of employers' and workers' organizations; as well as data collection and monitoring.

With regard to social protection, the Recommendation sets out that countries should:

- include an integrated policy framework to facilitate the transition to the formal economy in national development strategies or plans as well as in poverty reduction strategies and budgets, taking into account the role of different levels of government, and ensuring close coordination between the relevant bodies and authorities. This integrated policy framework should address the **establishment of social protection floors**, where they do not exist, and the **extension of social security coverage**. (paragraphs 10, 11 and 12)
- progressively extend in law and practice, through the transition to the formal economy, to all workers in the informal economy, **social security, maternity protection**, decent working conditions and a minimum wage that takes into account the needs of workers and considers relevant factors, including but not limited to the cost of living and the general level of wages in their country. (para. 18)
- pay particular attention to the needs and circumstances of those in the informal economy and their families in **building and maintaining national social protection floors within their social security system** and facilitating the transition to the formal economy. (para. 19)
- progressively extend through the transition to the formal economy the coverage of **social insurance** to those in the informal economy and, if necessary, adapt administrative procedures, benefits and contributions, taking into account their contributory capacity. (para. 20)
- encourage the provision of and access to affordable **quality childcare and other care services** in order to promote gender equality in entrepreneurship and employment opportunities and to enable the transition to the formal economy. (para. 21)
- reduce compliance costs by introducing **simplified tax and contributions assessment and payment regimes**, and **improve access to social security coverage** with respect to the formalization of micro and small economic units. (para. 25)

Recommendation No. 204 emphasises in particular the important links between different policy areas, which should ideally be combined in an integrated approach (Box 1.13). Such an integrated approach makes it easier to combine, social protection interventions with complementary policy interventions to address barriers to enter the formal sector and support transition to the formal economy. Such complementary policy interventions can include in particular employment and labour market policies, labour market regulation and public procurement policies.



Experience from many countries has shown that isolated policy interventions stand a small chance to succeed, if barriers in other policy areas persist. Integrated formalization strategies, which address a broad range of barriers to formalization in several policy areas have led to a genuine transformation of employment patterns and have led to a marked extension of social security coverage. For example, Brazil has combined policies to extend social protection coverage by facilitating access to contributory schemes for workers in rural areas (rural pensions), the self-employed and workers in micro-enterprises and so on.



### 1.5.2 Key lessons learnt on the extension of coverage

The extension of social protection coverage to workers in the informal economy requires a comprehensive strategy to overcome the various barriers to social protection coverage. In most cases, a combination of different measures will be necessary to address different barriers, and to offer an effective, equitable and sustainable solution. As sketched out above, there is no one-size-fits all approach – solutions always need to respond to the concrete challenges and realities. However, some general lessons learnt can be offered below, which are spelled out in more detail in the following chapters.

#### *Meeting priority needs and designing adapted solutions*

The needs of informal workers might differ depending on their social and family status or on the exposure to specific types of risks associated with working conditions/environment. Social protection benefits should be designed in a way to meet workers' priority needs, covering both short-term and long-term risks and providing quality benefits and services in a transparent way.

Strengthening voice and participation of those in the informal economy is essential for ensuring that social protection responds to the need and circumstances of workers in the informal economy. Their participation in decision-making processes can contribute to ensuring that policy solutions meet their needs and are adapted to their situation. In particular, governments should ensure that the views of workers and employers are reflected in the formulation of strategies to extend social protection coverage to workers in the informal economy (ILO, 2017c). See chapter 2 for more detail.

### ***Raising awareness, share information and enhance trust***

Awareness raising is important to inform both for workers and enterprises about social protection and the benefits of formalization. This can include educational and awareness campaigns to enhance knowledge and understanding of the operations of social insurance schemes, as well as information programmes, information centres, help lines, publications, leaflets, websites and visits to employment centres can be developed, tailored to the needs and circumstances of specific categories of workers and employers.

In addition, it is important to ensure that workers, and the population at large, have access to adequate communication channels and receive information on the level of the benefits. Information can be provided through information campaigns or online platforms (more common in developed countries) where beneficiaries learn about eligibility requirements, rights, obligations and entitlements. See chapter 3 for more detail.

### ***Extending legal coverage and adapting the legal framework***

It is necessary to ensure that legal frameworks are appropriate and adapted to the needs of both workers and employers, and encourage transition to the formal economy. Based on a review of legal frameworks and their applications to identify gaps in coverage, adapting social protection mechanisms to labour market realities, and including categories of workers outside an employment relationship, is essential as to cover a larger group of workers. See chapter 4 for more detail.

### ***Simplify administrative procedures***

In order to address barriers to coverage, administrative procedures could be simplified, including the registration of enterprises and workers, payment of taxes and contributions, ensuring that these are adapted to the needs and capacities of the target group. In this respect it is essential to facilitate access to the administration (e.g. through more physical, online or mobile access points), the simplification of procedures and a reduction in the number of required documents, the pooling of different administrative services in single window services or one-stop shops, or the simplification of tax and contribution payment mechanisms. See chapter 5 for more detail.

### ***Taking into account the financial capacity of workers in the informal economy***

Given that the income of the large majority of workers in the informal economy is rather low, their contributory capacities are limited. It is therefore necessary to design schemes in a way that takes into account the contributory capacity of the worker, and foresees appropriate mechanisms to adapt contribution rates and contribution schedules. The combination of contributory and non-contributory schemes, or the subsidization of contributions for those with limited contributory capacities can help to overcome these barriers. See chapter 6 for more detail.

### ***Facilitating the enforcement of the law and enhancing compliance***

Ensuring compliance with the legal framework is essential in enforcing the law in a uniform way and ensuring a level playing field for enterprises. In this regard, labour and social security inspections should be better adapted to the situation in sectors with a high prevalence of informal employment. An appropriate balance between sanctions and incentives should be found. See chapter 7 for more detail.

### ***Embed access to social protection in an integrated approach to facilitate transition from the informal to the formal economy***

The extension of social protection coverage is one important component of larger strategies to facilitate transition from the informal to the formal economy. Linking different policy areas, and strengthening synergies can multiply positive impacts. For example, training and skill-upgrading

programmes with social protection can help to develop the productivity of workers and enhance their employability. See chapter 7 for more detail.

#### Further reading on challenges and opportunities in extending social security to workers in the informal economy

- Holmes, R., Scott, L., 2016. [\*Extending social insurance to informal workers: a gender analysis\*](#) (London, ODI).
- ILO, 2013. [\*The Informal Economy and Decent Work: supporting transitions to formality: a resource guide\*](#) (Geneva, ILO).
- ILO, 2017. [\*World Social Protection Report 2017-19: Universal social protection to achieve the Sustainable Development Goals\*](#) (Geneva, ILO).
- ILO, 2017. [\*Building social protection systems: International standards and human rights instruments\*](#) (Geneva, ILO).
- ILO, 2018. [\*Women and men in the informal economy: a statistical picture\*](#) (Geneva: International Labour Office).
- RNSF. 2017. [\*Extending Coverage: Social Protection and the Informal Economy\*](#) (Rome, Milan and Brussels: Research, Network and Support Facility, ARS Progetti; Lattanzio Advisory; AGRER).

## 2 Building comprehensive social protection systems for all: key considerations

### Key questions

- ? How to identify social protection coverage gaps and priority needs of workers in the informal economy? How to identify the main barriers to wider social protection coverage?
- ? How can universal coverage be achieved through a combination of different financing mechanisms, including namely contributory and non-contributory mechanisms?
- ? How can contributory schemes be adapted to the needs and situation of workers in the informal economy? In particular, how can these be designed in a way that responds to their contributory capacities? Should the extension of coverage prioritize mandatory or voluntary coverage?
- ? How can strategies for the extension of coverage be formulated through a national dialogue process? What is the rule of regular monitoring and reviews? How can voice and participation for workers in the informal economy be ensured?

### Key messages

- \* Extending social security coverage for workers in the informal economy requires a comprehensive understanding of the situation of different groups of workers, the risks they face, and the different factors contributing to their vulnerability.
- \* Formulating strategies for the extension of coverage should be based on a thorough diagnosis of the situation and needs of workers in the informal economy, taking into account the diversity of contexts and needs, which depends, among other factors, on their status in employment and sector of activity.
- \* When formulating strategies for the extension of social protection to workers in the informal economy, some fundamental policy choices need to be made, particularly with respect to the extent to which the protection mechanisms should be contributory or not, whether mandatory coverage can be realized in the specific circumstances, how to ensure the coordination of different protection mechanisms within the broader social protection system.
- \* The formulation of extension strategies should be based on a dialogue which includes the voice and participation of workers in the informal economy.
- \* The implementation of extension strategies should be regularly monitored line with Recommendation No. 202.

### 2.1 Formulating strategies for the extension of coverage to workers in the informal economy: some key points

Extending social security coverage for workers in the informal economy requires a comprehensive understanding of the situation of different groups of workers, the risks they face, and the different factors contributing to their vulnerability. This chapter addresses some of the

key components of national strategies for the extension of coverage to workers in the informal economy. Such a strategy can follow the guidance that is set out in Recommendation No. 202 (see Box 2.1), as well as in Recommendation No. 204 (see Box 1.12).

Setting objectives and identifying social protection coverage gaps and priority needs ensures that the formulation of policy options is based on a sound diagnosis of the situation and needs of workers in the informal economy, as sketched out in section 2.2. Such a diagnosis needs to take into account the enormous heterogeneity of situations of workers in the informal economy, which depends, among other factors, on their status in employment and sector of activity. In order to illustrate this heterogeneity, this guide focuses on five categories of workers who often find themselves in informal employment: workers in micro and small enterprises, agricultural workers, construction workers, domestic workers and own-account workers.

When formulating strategies for the extension of social protection to workers in the informal economy, some fundamental policy choices need to be made. Section 2.3 discusses some of these choices, namely the relationship between contributory and non-contributory schemes, their respective strengths and weaknesses, and their coordination within comprehensive social security systems, as well as the question of whether coverage extension strategies should prioritize mandatory or voluntary coverage.

Chapter 8 then addresses the more procedural questions pertaining to the formulation of extension strategies, focusing in particular on the importance of a national dialogue which includes the voice and participation of workers in the informal economy. The regular national monitoring of progress made in the extension of coverage is also addressed in line with Recommendation No. 202.

**Box 2.1      Extending social security to workers in the informal economy: Guidance provided by Recommendation No. 202**

The Social Protection Floors Recommendation (No. 202) provides guidance for the **formulation of national strategies for the extension of social security**:

13(1) Members should **formulate and implement national social security extension strategies**, based on **national consultations through effective social dialogue and social participation**. National strategies should:

- (a) **prioritize the implementation of social protection floors** as a starting point for countries that do not have a minimum level of social security guarantees, and as a fundamental element of their national social security systems; and
- (b) **seek to provide higher levels of protection** to as many people as possible, reflecting economic and fiscal capacities of Members, and as soon as possible.

(2) For this purpose, Members should **progressively build and maintain comprehensive and adequate social security systems** coherent with national policy objectives and seek to coordinate social security policies with other public policies.

14. When formulating and implementing national social security extension strategies, Members should:

- (a) **set objectives** reflecting national priorities;
- (b) **identify gaps** in, and barriers to, protection;
- (c) **seek to close gaps** in protection through appropriate and effectively coordinated schemes, whether contributory or non-contributory, or both, including through the extension of existing contributory schemes to all concerned persons with contributory capacity;
- (d) **complement** social security with active labour market policies, including vocational training or other measures, as appropriate;
- (e) **specify financial requirements and resources** as well as the **time frame** and **sequencing** for the progressive achievement of the objectives; and
- (f) **raise awareness** about their social protection floors and their extension strategies, and undertake information programmes, including through social dialogue.

15. **Social security extension strategies should apply to persons both in the formal and informal economy and support the growth of formal employment and the reduction of informality**, and should be consistent with, and conducive to, the implementation of the social, economic and environmental development plans of Members.

16. Social security extension strategies should ensure support for **disadvantaged groups and people with special needs**.

17. When building comprehensive social security systems reflecting national objectives, priorities and economic and fiscal capacities, Members should **aim to achieve the range and levels of benefits set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102)**, or in other ILO social security Conventions and Recommendations setting out more advanced standards.

18. Members should consider ratifying, as early as national circumstances allow, the Social Security (Minimum Standards) Convention, 1952 (No. 102). Furthermore, Members should consider ratifying, or giving effect to, as applicable, other ILO social security Conventions and Recommendations setting out more advanced standards.

## 2.2 Identifying social protection coverage gaps and priority needs

The extension of coverage to workers in the informal economy should start with an informed assessment of current social protection coverage gaps and priority needs, and should take into account the priority needs, and should take into account the diversity of situations of those in the informal economy.

### 2.2.1 Identifying social protection gaps and barriers to coverage

In order to develop a strategy to improve social protection coverage for workers in the informal economy, it is important to better understand the existing barriers to social protection coverage for specific groups of workers in the informal economy.

#### Checklist 2.1: Identifying social protection gaps of workers in the informal economy

- What are the social protection gaps for different categories of workers in the informal economy?
  - Differentiate between different categories of workers, such as wage workers and self-employed, workers in different sectors and occupations (e.g. agricultural workers, domestic workers), etc. in order to reflect the diverse situations of workers in the informal economy (see section 2.2.3 below).
  - Take into account the different situations and experiences of women and men, different age groups, urban and rural populations, persons with disabilities, migrant workers, and other particularly vulnerable groups.
- Identify possible barriers to social security coverage and formalization, including legislative, administrative, financing and other barriers.
- Do the existing data provide an accurate and detailed picture of the situation of the population with regard to informal employment and social protection coverage? In order to strengthen the knowledge base, consider exploiting additional available data sources, which can include
  - Labour force surveys
  - Household consumption or income surveys
  - Health surveys
  - Census
  - Enterprise surveys
  - Administrative data from ministries and social security institutions
- What social protection gaps are identified by the workers themselves? Which barriers to protection do they identify? Which areas of protection do they identify as priorities? This may be done through one or several of the following channels (see Section **Error! Reference source not found. Error! Reference source not found.**):
  - Consultations with formal or informal organisations of informal workers (trade unions, associations)
  - Surveys of workers in the informal economy
  - Focus group discussions with workers in the informal economy

In order to systematically identify social protection gaps and barriers to coverage, an expanded assessment matrix can be used (see Checklist 2.2), which adds more detail to the social protection floor assessment matrix used as part of an assessment-based national dialogues (ABND) (ILO, 2016c). This assessment can be conducted as part of a national dialogue process (see chapter 8), or as a separate exercise.



This assessment matrix offers a detailed analytical framework for a detailed analysis of the current situation, social protection gaps and barriers to coverage. Given the diversity of workers in the informal economy, the assessment matrix should be filled for specific groups of workers (such as own account workers in a specific sector, domestic workers, agricultural workers), being as specific as possible. To the extent possible, this assessment should be based on statistical information available at the national or international level (ILO, 2018a).

The assessment matrix (see Checklist 2.2) contains the following elements:

- **Objectives:** What are the stated objectives and priorities according to national priorities and international obligations?
- **Current situation:** What is the current situation policy situation, particularly with respect to the available schemes and programmes
  - **Existing:** Which schemes and programmes do exist? What are their main characteristics (fully or partially contributory or non-contributory/tax-financed; geographic and personal coverage; institutional structures; etc.)?
  - **Planned:** Which reforms already envisaged for the near future? Are existing schemes or programmes to be reformed, or new ones to be introduced?
- **Policy gaps:** Where does the current policy and legal framework leave specific groups of workers in the informal economy uncovered?
  - **Legal barriers:** Does the existing legal framework exclude specific groups of workers altogether? Do certain legal provisions (e.g. minimum thresholds for size of the enterprise, working time, salary, etc.) lead to the exclusion of workers from legal coverage? (see Chapter 4 for more detail).
  - **Other policy gaps:** Which other policy gaps contribute to an exclusion of coverage? Is there an appropriate balance between contributory, partially contributory and non-contributory schemes and programmes, and are these adequately coordinated?
- **Implementation gaps:** How do implementation issues obstruct the implementation of the existing legal and policy framework, and leave specific groups of workers without effective coverage?
  - **Financial barriers:** Which financial barriers obstruct the extension of coverage to the specific group of workers? Are the financing mechanisms in line with the contributory capacity of workers (and their employers)? Are the contribution payment schedules and procedures adapted to their needs and circumstances? (see Chapter 6 for more detail).
  - **Administrative barriers:** Which administrative barriers obstruct social protection coverage for workers in the informal economy? (see Chapter 5 for more detail).
  - **Enforcement gaps:** To what extent does a lack of enforcement hamper social protection for workers in the informal economy? Which are the specific barriers and gaps in this respect? What could be done to enhance compliance? (see Chapter 7 for more detail).
  - **Other barriers:** Which other implementation gaps impede the social protection coverage of the specific group of workers? These could include a lack of awareness or trust, or other factors not yet accounted for (see Chapter 3 for more detail).
- **Policy recommendations (policy options):** Which policy options could help to close the policy and implementation gaps and extend social protection coverage to workers in the informal economy? These initial policy options should be further assessed for their financial, administrative and political feasibility.



This matrix in Checklist 2.2 should be used to support the assessment of the current status of coverage of workers in the informal economy, and the identification of policy gaps and barriers.

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Checklist 2.2: Expanded assessment matrix for the identification of social protection gaps and barriers to coverage for workers in the informal economy										
	Objectives	Current situation		Policy gaps		Implementation issues				Recommendations (policy options)
		Existing provisions	Planned (strategy)	Overall policy gaps	Legal barriers	Financial barriers	Administrative barriers	Enforcement gaps	Other barriers	
Health										
Financial protection										
Other aspects of access to health										
Income security										
Children										
Cash and near-cash benefits										
Child care services										
Persons of working age										
Maternity										
Employment injury										
Sickness										
Disability										
Unemployment or loss of livelihood										
Other benefits										
Older persons										
Old age pensions										
Other benefits										
Source: Based on (Bonnet et al., 2012; ILO, 2016c, 2012a).										

## 2.2.2 *Identifying priority needs*

Workers in the informal economy are particularly exposed to social risks, and the lack of social protection renders them, and their families, particularly vulnerable. These risks may negatively affect the earnings capacities and productivity of workers in the informal economy; therefore they constitute not only a social risk, but also an economic risk to their livelihood (ILO, 2017a; RNSF, 2017).

Depending on the context and already available protection mechanisms, different social protection areas may be identified as constituting a particular priority for the extension of social security coverage.

**Health protection:** Ensuring effective access to health care through adequate health protection is essential for workers in the informal economy. Health-related out-of-pocket expenses are still one of the main causes for poverty. In recent years, increased efforts to achieve universal health coverage have led to significant progress, including through the extension of social health insurance with subsidization mechanisms for low-income groups, yet there is still a significant coverage gap that leaves many workers in the informal economy and their families unprotected (ILO, 2014a, 2017a; WHO and World Bank, 2017).

**Maternity-related risks:** Risks related to pregnancy and childbirth are a threat for most of the women employed in the informal economy. Ensuring effective access to maternity care is a critical element of any strategy to enhance maternity protection for women in the informal economy (ILO, 2014c, 2017a, chap. 3.2). In fact, Recommendation No. 202 emphasizes the importance of maternity care by calling for free prenatal and postnatal medical care for the most vulnerable (para. 8a). In addition, cash benefits are important to allow women workers in the informal economy to rest and recover around childbirth, to establish breastfeeding, to prevent health risks for women and their children, and to ensure income security for women and their families during this critical period (ILO, 2016d). The large majority of workers in the informal economy maternity leave is not supported with cash benefits, leading to a loss of income for women during the final stages of their pregnancy and/or after childbirth. The lack of income guarantees during this time forces many women to return to work prematurely, putting at risk their lives and the lives of their children (ILO, 2017a).

**Employment injuries and occupational diseases:** Many workers in the informal economy are particularly exposed to the risk of employment injuries or occupational diseases throughout their working life. These are particularly acute in contexts where prevention mechanisms to promote occupational safety and health are weak or non-existent (Alfers et al., 2017; Lund, 2012). The lack of preventive and protective measures against employment injuries and occupational diseases put at risk the majority of informal workers excluded from national legal frameworks. The extension of employment injury protection to workers in the informal economy, along with prevention mechanisms, can play a key role in preserving and restoring workers' productive capacities, facilitating access to health care and rehabilitation and ensuring income security (ILO, 2017a, chap. 3.4).

**Disability:** Many persons with disabilities work in the informal economy, partly owing to difficulties to secure formal employment, due to the difficulties they face in accessing decent work that would match their skills, potentials and qualifications. Social protection measures play a key role in ensuring income security, health protection and social inclusion for them and their family members. This includes both disability benefits, as well as access to "mainstream" benefits which together ensure that social protection systems are inclusive for persons with disabilities (ILO, 2017a, chap. 3.5).

**Unemployment, underemployment and loss of livelihood:** Many workers in the informal economy face a high and constant risk of losing their job or their livelihood. Agricultural workers for instance, being subject to income losses and/or reductions caused by draughts, seasonality of harvest, price distortions, are excluded from the dynamics of the economic market and exposed to a substantial risk of income insecurity [AW]. Social protection schemes and programmes play a key role in ensuring income security and facilitate access to employment. Relevant programmes include various types of cash benefit programmes, as well as employment guarantee programmes and other public employment programmes. In addition, contribution- or tax-financed unemployment benefit schemes can play a key role in protecting unemployed workers from slipping into informal employment and facilitating their search for a new (formal) job, and facilitating structural changes in the labour market (ILO, 2017a, chap. 3.3).

**Income security in old age:** Most workers in the informal economy face income insecurity in old age, and in fact, many are forced to continue working, often in difficult working conditions. Extending the coverage of old age pensions to workers in the informal economy, financed from contributions, taxes or a combination of both, can ensure at least a basic level of income security; thereby significantly improving the lives of older persons and their families, and strengthening their autonomy and dignity (ILO, 2017a, chap. 4; UNFPA and HelpAge International, 2012; HelpAge International, 2015).

While these areas may all be of importance for workers in the informal economy, it may not be possible to address all of these at the same time; therefore mechanisms of prioritization and sequencing may have to be found. In doing so, it is important to listen to the priorities and concerns and priorities workers in the informal economy, ensuring their effective participation (see Section **Error! Reference source not found.**).

#### Checklist 2.3: Addressing priority needs

In view of the existing social protection gaps (see Section 2.2.1 above), which needs of workers in the informal economy should be addressed as a matter of priority, considering their impact, workers' concerns and feasibility?

- Which unmet needs affect the well-being of workers most significantly? (impact)
- Which do workers in the informal economy themselves consider as a priority? (workers' concerns)
- Which unmet needs can be addressed relatively easily? (feasibility)

Are there opportunities to find integrated solutions that address more than one priority concern at a time (e.g. health protection and income security)?

### 2.2.3 *Taking into account for the diversity of situations and needs of workers in the informal economy*

A single approach cannot sufficiently address challenges that workers in the informal economy encounter, as the informal economy consists of various groups with different characteristics. This guide focuses on four specific groups with a high risk of informality, but with very different characteristics, namely workers in micro and small enterprises, domestic workers, agricultural workers and self-employed workers.

#### *Self-employed workers, including own account workers*

Self-employed workers, including own-account workers, may be excluded from coverage where social security legislation focuses on employees only. However, where legal coverage exists, it often does not translate into actual coverage, as the lack of an employer (who would have the role

of a co-financer and intermediary for employees) implies a greater administrative and financial burden for the self-employed person.

### ***Workers in micro and small enterprises (MSEs)***

In many countries, workers in micro and small enterprises face a high risk of informality. This is almost certainly the case for workers in informal economic units, but also many workers in registered MSEs are left without social security coverage. The lack of coverage may be due to an exclusion from the legal framework (e.g. some social security laws are not applicable to enterprises with less than a certain number of workers), or to non-compliance with the legal framework, considering that many MSEs struggle with the administrative and financial requirements of social security coverage.

### ***Agricultural workers***

Exclusion of agricultural workers tends to be a result of inapplicable eligibility criteria on working duration or hours as well as lack of legislation and enforcement, particularly for temporary/seasonal workers, particularly day labourers, or part time workers.

### ***Construction workers***

Construction tends to be one of the sectors of the economy with a relatively high prevalence of informality and undeclared work. The widespread lack of social security coverage tends to be associated with temporary work, often in the form of casual or seasonal work, high labour mobility, a high prevalence of subcontracting and unclear employment relationships, and a high proportion of migrant workers. Typically, the majority of workers in the construction sector are men – yet in many countries there is a significant proportion of women workers in construction.

### ***Domestic workers***

Many domestic workers are excluded from social security coverage, due to a combination of factors. In some countries, domestic workers are not covered by labour and social security legislation altogether; in others, they are covered in principle but do not meet the eligibility criteria (such as minimum thresholds for working time, earnings or duration of employment). Many domestic workers are also excluded due to a lack of compliance and enforcement (ILO, 2016e, 2013c). Typically, the large majority of domestic workers are women.

**Table 2.1: Overview of potential factors behind non-coverage for different categories of workers**

	<b>Self-employed/ own account workers</b>	<b>Workers in micro and small enterprises</b>	<b>Agricultural workers</b>	<b>Construction workers</b>	<b>Domestic workers</b>
<b>Legal exclusion (or enforcement of special regulations)</b>	<ul style="list-style-type: none"> <li>Labour and social security legislation may not apply to the self-employed</li> <li>In some cases, own account workers may be effectively dependent on one “employer” (dissimulated employment relationship)</li> </ul>	<ul style="list-style-type: none"> <li>Labour and social security legislation may not apply to enterprises with a number of employees under a certain threshold for mandatory affiliation.</li> </ul>	<ul style="list-style-type: none"> <li>Labour and social security legislation may not or not fully apply to agricultural workers. It may also be that some relevant categories of workers (seasonal workers, temporary workers, day workers, smallholders) are excluded.</li> </ul>	<ul style="list-style-type: none"> <li>Prevalence of temporary, seasonal and casual work which may be excluded from labour and social security coverage.</li> <li>High incidence of subcontracting, which makes it difficult to discern employment relationship</li> </ul>	<ul style="list-style-type: none"> <li>Labour and social security legislation may not apply to domestic workers</li> <li>Special regulations applying minimum working hours and/or income thresholds</li> <li>Where applicable social security schemes have lower contribution bases and reduced cover for contingencies.</li> </ul>
<b>Lack of enforcement and control</b>	<ul style="list-style-type: none"> <li>Limited labour inspection capacities for MSMEs and own account workers.</li> </ul>	<ul style="list-style-type: none"> <li>Limited labour inspection capacities for MSMEs</li> <li>Common violation includes the failure to declare workers to the social security administration and to make social security contributions.</li> <li>Neglected inspection to detect evasion by small enterprises because of the high costs involved.</li> </ul>	<ul style="list-style-type: none"> <li>Labour administration may not dispose of sufficient human and other resources to inform, assist and inspect remote agricultural enterprises.</li> <li>Difficulties to locate workers, to follow up their membership and ensure compliance with the scheme due to frequent labour rotation.</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties to locate workers, to follow up their membership and ensure compliance with the scheme due to high mobility.</li> <li>High incidence of subcontracting, which makes it difficult to discern employment relationship</li> </ul>	<ul style="list-style-type: none"> <li>State control is made difficult by the fact that employment in the service of a household is not considered a business activity.</li> </ul>
<b>Complex and burdensome administrative procedures and services</b>	<ul style="list-style-type: none"> <li>Disincentive to participation due to complex and costly registration and payment procedures.</li> <li>Difficulties in estimating actual incomes due to assumptions on the timing of payment of invoices.</li> </ul>	<ul style="list-style-type: none"> <li>Micro and small enterprises tend to have limited administrative capacities and therefore struggle more with administrative requirements than larger enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>In absence of local offices, registration might become challenging and expensive.</li> </ul>	<ul style="list-style-type: none"> <li>Short employment contracts (if at all) and subcontracting complicate registration of workers.</li> </ul>	<ul style="list-style-type: none"> <li>Cumulation of jobs with more than one employer</li> </ul>

**Table 2.1: Overview of potential factors behind non-coverage for different categories of workers**

	<b>Self-employed/ own account workers</b>	<b>Workers in micro and small enterprises</b>	<b>Agricultural workers</b>	<b>Construction workers</b>	<b>Domestic workers</b>
<b>Costs and inadequate financing arrangements</b>	<ul style="list-style-type: none"> <li>• In some cases very small contributory capacity due to low and unstable income, particularly for new entrepreneurs</li> <li>• Lack of willingness to contribute due to a gap between types of benefits provided and priority needs.</li> <li>• Job mobility might exclude workers from receiving benefits even if they had contributed.</li> </ul>	<ul style="list-style-type: none"> <li>• Many micro and small enterprises have weak financial capacities</li> <li>• Low administrative capacities to deal with the payment of contributions.</li> </ul>	<ul style="list-style-type: none"> <li>• Payment of contributions linked to the seasonality of the harvest and subject to idiosyncratic and covariate risks.</li> <li>• The remoteness of agricultural activities prevents social security systems to deliver adequate services, thus decreasing interest in contributing to them.</li> </ul>	<ul style="list-style-type: none"> <li>• Low wages, high incidence of temporary employment, and subcontracting relationship complicate the payment of contributions</li> <li>• Job mobility might exclude workers from receiving benefits even if they had contributed.</li> </ul>	<ul style="list-style-type: none"> <li>• Sometimes the contribution is borne exclusively by the household employee</li> <li>• Low wages</li> <li>• Part of wage may be paid in kind if domestic worker is living in the household of the employer</li> </ul>
<b>Lack of organization and representation</b>	<ul style="list-style-type: none"> <li>• Many self-employed are not organized, and many of the existing organisations lack capacities.</li> </ul>	<ul style="list-style-type: none"> <li>• Low degree of organization in employers' organizations compared to larger enterprises.</li> <li>• Few specific organizations of MSEs have sufficient capacities.</li> </ul>	<ul style="list-style-type: none"> <li>• Less organization and voice due to remoteness of workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Uneven degree of organization: high for larger enterprises and permanent workers, low for small enterprises and temporary/casual workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Incapability to denounce evasion or conspire with the employer to evade.</li> </ul>
<b>Lack of information or awareness</b>	<ul style="list-style-type: none"> <li>• Poor knowledge on social security</li> <li>• New entrepreneurs may undervalue the importance of social security to protect them against current and future risks</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge and awareness about the business case for social protection and the importance of covering workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge of existing social insurance schemes or on how to participate.</li> <li>• Difficulties to understand legal rules rising from illiteracy and language barriers.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge of importance of social security and existing schemes, particularly among casual and migrant construction workers</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of knowledge of existing social security schemes, particularly among migrant domestic workers</li> </ul>



## **2.3 Achieving universal coverage through a combination of contributory and non-contributory provision: policy choices**

Achieving universal social protection coverage requires the seamless combination of contributory and non-contributory schemes. Hardly any country has ever achieved universal coverage and adequate benefit levels with either of these approaches alone – there are good reasons for combining both approaches within a comprehensive and well-coordinated social security system (see section 2.3.1). The combination of both approaches has been, and will remain key for the social protection of workers, and for extending protection to those in the informal economy (Alfers et al., 2018).

Another fundamental policy choice is whether the extension of coverage can be achieved through mandatory mechanisms, or whether voluntary approaches are being favoured (see section 2.3.2).

Finally, the key question is how to achieve a comprehensive social protection system that can guarantee universal coverage for all through appropriate and well-coordinated mechanisms (see section 2.3.3).

### **2.3.1 Combining contributory and non-contributory schemes**

#### ***The role of contributory schemes***

Contributory social protection schemes, most commonly social insurance, are an important element of social security systems. Such schemes are based on the payment of contributions by the protected persons (or their employers), which give rise to entitlements (acquired rights).

Social insurance, guarantees protection through an insurance mechanism based the principles of risk-sharing (risk-pooling) and solidarity. This implies that contributions are usually proportionate to the individual's earnings or defined as a uniform amount (as opposed to individually calculated risk premiums, as in commercial insurance); and that benefits are guaranteed in line with the applicable legal framework (ILO, 2017a). In many cases, social insurance schemes contain some non-contributory elements such as transfers from the government budget to facilitate the coverage of workers with low incomes (partially contributory schemes). The level of protection offered in contributory schemes is usually higher than for many tax-financed schemes, aiming at maintaining a certain standard of living in the event of a risk or contingency, and smoothing consumption across the life course.

In most countries, statutory social insurance schemes cover workers in (formal) waged or salaried employment, and in many cases also some categories the self-employed. Historically, social insurance schemes are designed largely around the concept of (formal) wage employment, assuming a defined employment relationship based on a (written) contract, relatively stable over time, remunerated through regular salaries or wages, and with contributions shared between workers and employers.<sup>6</sup> However, social insurance schemes have involved to include also other categories of workers, such as the self-employed, for whom special rules may apply.

Workers in the informal economy are usually not covered by social insurance and other statutory provisions – by definition, as social insurance coverage is in many cases used as one of the criteria to distinguish between formal and informal employment (ILO, 2018a). This also implies that the extension of social insurance coverage to workers in the informal economy is one key element of the transition to the formal economy.

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<sup>6</sup> In practice, employers usually transfer the employee contribution to the social security institution on behalf of workers, together with their own share of the contribution.

Social insurance plays a key role for the financing of the social security system. They can reduce the fiscal burden on the government budget by offering a reliable and stable financing mechanism that is insulated from day-to-day fiscal pressures.

#### **Checklist 2.4: The role of contributory schemes**

- Which contributory social protection schemes, such as social insurance schemes, exist in the country?
- Which categories of workers or of the population are covered by contributory schemes? Where are the main coverage gaps in terms of legal and effective coverage?
- Which risks and contingencies do contributory schemes cover? Which priority risks and contingencies are not covered?
- Are measures in place to facilitate coverage for those with low and irregular earnings?

#### ***The role of non-contributory schemes and programmes***

Non-contributory schemes do not require contributions from protected persons, but are mostly financed directly from the government budget, that is, from general taxation, other state revenues, or in some cases external grants or loans.

This broad type of schemes encompasses a wide range of schemes, such as universal schemes for all residents (such as a national health service), categorical schemes covering certain broad groups of the population (such as social pension or universal child benefit schemes)<sup>7</sup>, or means-tested social assistance schemes that provide benefits for groups of the population living in poverty (usually based on a means-test, proxy means-test or other targeting mechanism).

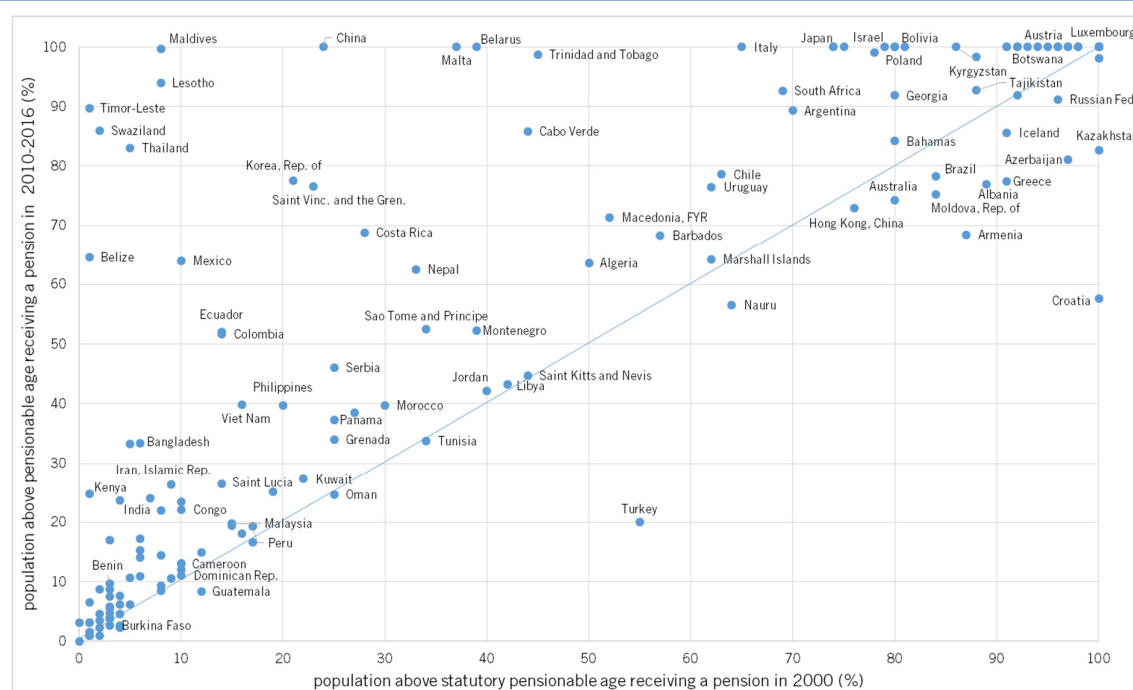
For example, the expansion of non-contributory forms of social protection has contributed to significantly expanding social protection coverage (ILO, 2017a; World Bank, 2017). For example, the large majority of countries have seen a marked increase in pension coverage of older persons between 2000 and 2010, which in many cases can be explained by the introduction or expansion of non-contributory pension schemes, as was the case, for example, in Bolivia, Lesotho, Nepal, Thailand and Timor Leste. These non-contributory pensions play a key role in ensuring at least a basic level of protection for older persons, especially those not receiving a pension from a contributory scheme.

Non-contributory schemes play a key role in ensuring a basic level of protection within the social protection system, in particular for poor and vulnerable groups who do not have access to any other mechanisms. As such, non-contributory schemes are an essential component of any nationally-defined social protection floor.

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<sup>7</sup> Categorical schemes are also frequently referred to as universal schemes.

**Figure 1.2: Expansion of pension coverage, 2000-2010**



Source: ILO, 2017, figure 4.5.

Many countries, including Brazil, Cape Verde, Colombia, Ghana and Thailand, have managed to extend social protection coverage through a combination of contributory and non-contributory schemes, often combining social insurance with universal or categorical schemes and social assistance (ILO 2014). The combination of these approaches allows ensuring a basic level of protection for all, while at the same time providing higher levels of protection to those who have some contributory capacities. This strategy has the potential to fostering a social contract which includes a certain degree of risk-sharing and redistribution among different groups of the population.

#### Checklist 2.5: The role of non-contributory schemes and programmes

- Which non-contributory (tax-financed) social protection schemes, such as universal programmes, social assistance schemes or relevant programmes exist in the country?
- Which categories of workers in the informal economy are covered? Where are coverage gaps?
- Which needs are covered by the existing non-contributory schemes and programmes? Where are gaps?

### 2.3.2 Mandatory versus voluntary coverage

One of the policy choices that governments need to make is whether the extension of coverage should be mandatory or voluntary, that is, whether the covered workers should have a choice of joining the scheme or not. This is not an easy choice to make, particularly in situations where there is limited information on the contributory capacity of the workers. Forcing workers (and possibly their employers) with low contributory capacities to pay contributions that they cannot afford, could do more harm than good.

This is one of the reasons why many governments decide to extend coverage on a voluntary basis. Yet, many examples show that voluntary coverage rarely leads to a significant extension of effective coverage. In many cases, less than 10 per cent of those who would have the possibility to contribute, actually do. For example, in Namibia, self-employed workers can voluntarily join the social security schemes under the Social Security Act of 1994, yet the uptake of this option has been so far very low.

Similarly, non-government schemes, such as a micro-insurance or community-based health insurance schemes, also face difficulties in reaching significant levels of coverage. In Cambodia, the SKY community-based insurance scheme, launched in 1998 by a NGO as a voluntary health insurance targeting workers in the informal economy, reached 3-40 per cent of the target population in the implementation districts.

There are several reasons for this:

**Adverse selection:** Voluntary coverage tends to be riddled with problems of adverse selection. For example, health insurance schemes may attract mostly those with pre-existing health conditions, as they benefit most from health insurance coverage in the short run. Such adverse selection may trigger a spiral of higher contribution rates due to higher cost, which may lead to a situation where the scheme will become even less attractive due to a significant increase in contributions.

**Small risk pools:** In many cases, voluntary coverage is associate with small risk pools that are not large enough to cope with certain types of risks, and that are vulnerable to large shocks. For example, if a mutual health fund includes only members from a limited geographic area or a certain occupational group, the risk pool is small and not able to provide effective protection in case of major shocks affecting a large number of members, such as an epidemic or a natural disaster. Larger risk pools are able to absorb large shocks and systemic risks to a much greater extent, and are therefore better geared to provide a stable and sustainable protection for all members of the scheme.

<b>Table 2.2: Advantages and disadvantages of mandatory and voluntary coverage of contributory schemes</b>		
<b>Dimension</b>	<b>Mandatory coverage</b>	<b>Voluntary coverage</b>
Coverage and adequacy	<ul style="list-style-type: none"> <li>+ Minimizes adverse selection effects</li> <li>+ Ensures broad or even universal coverage, provided that adequate measures are taken to subsidize the contributions of those with low contributory capacities</li> </ul>	<ul style="list-style-type: none"> <li>+ Allows those with some contributory capacity to enjoy social protection in the absence of other mechanisms.</li> <li>- Limited coverage potential for low-income individuals/households</li> <li>- Risk of adverse selection of high-risk individuals</li> </ul>
Financing and sustainability	<ul style="list-style-type: none"> <li>+ Potential for greater risk pooling among the insured population</li> <li>+ If contribution rates are differentiated according to the contributory capacity of members, there is greater potential for solidarity among members and redistribution.</li> <li>+ Higher potential for financial sustainability, particularly if government can step in to complement contributions of those with low contributory capacities.</li> <li>+ Potential for government subsidies of those with limited contributory capacity</li> <li>- Requires significant financial engagement of the government or other sources in the context of limited contributory capacities</li> </ul>	<ul style="list-style-type: none"> <li>+ Potential for self-financing social protection mechanisms for those in the informal economy</li> <li>- Limited potential for risk-pooling and solidarity</li> <li>- Where it is not possible to offer reduced contribution rates for low-income individuals, the most vulnerable are excluded.</li> </ul>
Governance and administration	<ul style="list-style-type: none"> <li>+ Government can act as a guarantor for the scheme</li> <li>+ Large-scale schemes can benefit from economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>+ Can constitute an incentive for the organization of informal economy workers</li> <li>- Governance and administration can be more demanding in smaller schemes than in larger ones</li> </ul>

Given the limitations of voluntary coverage, many governments have moved from voluntary coverage to mandatory coverage (see Box 2.2).

**Box 2.2: Moving from voluntary to mandatory coverage: Experiences in Ghana, the Philippines, Rwanda and Thailand**

Voluntary coverage of workers in the informal economy can improve the situation for some groups of the population, particularly those that have a certain contributory capacity. However, country experience shows that in many cases, these programmes reach only a small proportion of those in the informal economy. In some cases, faced with low coverage rates of voluntary schemes, governments have made the effort of putting in place large-scale schemes with mandatory coverage.

In the Philippines, three years after its implementation (1999) the Individual Paying Program, addressed to self-employed workers, was covering only 8.4% of the target population. The programme was in debt and the enrolment unstable. The government subsequently put in place the PhilHealth scheme that led to a significant extension of coverage.

The Voluntary Health Card Scheme implemented in Thailand between 1983 and 2002, aimed at providing access to health care for workers in the informal economy. The program, addressed to non- poor households not eligible for the Medical Welfare Scheme recorded a coverage of 19% of the target population in 1999. The scheme was subsequently scaled up by creating a mandatory and subsidized scheme to achieve universal health coverage (see Box 6.20).

Ghana's National Health Insurance Scheme (NHIS) was implemented as a mandatory scheme based on differentiated financing strategy. Those in formal employment contribute a certain percentage of their salary to the scheme; workers in the informal economy pay a reduced flat-rate contribution, and a several categories of the population (children, older persons, pregnant women, indigent population) are exempted from contribution. As of 2012, 34.4% of the population was covered (see Box 6.24 for more details).

Rwanda gradually extended health insurance coverage since 2000, ensuring mandatory coverage in mutual health organizations (Sekabaraga et al., 2013). Today, roughly 96% of the total population are covered through a differentiated schedule of contributions, supported by substantial transfers from the government budget and external funding (ILO, 2016f, 2017a; WHO and World Bank, 2017).

**Checklist 2.6: Considerations for the extension of an existing social insurance scheme to previously uncovered groups of the population, or the introduction of a new social insurance scheme**

To what extent does a new scheme address priority needs? People are more willing to contribute if they understand the value of social security coverage in meeting their needs. In this respect, social security schemes meeting immediate needs (e.g. health care) may be easier to “sell” than schemes meeting needs occurring in a distant future (old age pensions).

To what extent does the target population have the capacity to contribute to the social insurance scheme?

- Would mandatory contributions create hardship for some of the target population?
- Is there the possibility for differentiated contribution rates that reflect the contributory capacities of individuals or households?
- What mechanisms could be foreseen to fully or partly subsidize contributions for low-income households?

To what extent would social insurance contributions offset other expenditures of individuals and households? For example, household expenditure on health insurance contributions should be offset by a reduction in out of pocket expenditure for health care.

### ***2.3.3 Building integrated social protection systems***

Effectively reaching universal coverage will require the implementation of several complementary instruments adapted to the specific characteristics of the different groups. To avoid the exclusion of some groups of workers, especially of low-income groups in the informal economy, contributory schemes usually need to be complemented by non-contributory schemes addressing those that will not be able to pay any contributions. Table 2.3 summarizes the respective strengths and weaknesses of both types of schemes.



<b>Table 2.3: Strengths and weaknesses of contributory and non-contributory schemes for the extension of social security coverage to workers in the informal economy</b>		
<b>Dimension</b>	<b>Contributory schemes</b>	<b>Non-contributory schemes</b>
Coverage	<ul style="list-style-type: none"> <li>+ Social insurance can cover those with contributory capacities; yet for those with limited contributory capacity, subsidization mechanisms are necessary.</li> <li>- Other contributory mechanisms (provident funds, mutual funds, private insurance) offer no or limited potential for redistribution.</li> </ul>	<ul style="list-style-type: none"> <li>+ Universal/categorical schemes can cover the broad majority of the population, including those in the informal economy.</li> <li>+ Means-tested schemes provide critical support to those living in poverty or the most vulnerable, yet often cover only few of those in the informal economy.</li> </ul>
Adequacy	<ul style="list-style-type: none"> <li>+ Can offer a higher level of protection</li> <li>+ Legal frameworks usually set out benefit formula, eligibility conditions and rules for the indexing of benefits.</li> </ul>	<ul style="list-style-type: none"> <li>+ Usually offer a basic level of social protection.</li> <li>+ Legal framework may not exist, or not specify benefit levels and indexing procedures.</li> </ul>
Financing and sustainability	<ul style="list-style-type: none"> <li>+ Financing through contributions provides a certain insulation from the political dynamics of budgetary processes.</li> <li>+ Willingness to pay is potentially higher for social insurance compared to general taxation.</li> </ul>	<ul style="list-style-type: none"> <li>+ Usually financed from general taxation or other state revenues – potentially a broad tax base, yet in many developing countries the actual tax base is rather small.</li> <li>- Programmes are vulnerable to yearly budget decisions, which negatively impacts financial stability.</li> <li>- Where financial resources come from external grants or loans, sustainability may be limited.</li> </ul>
Governance and administration	<ul style="list-style-type: none"> <li>+ Social insurance usually based on strong legal framework.</li> <li>+ Social security institutions are normally administered with the participation of representatives of protected persons and employers</li> </ul>	<ul style="list-style-type: none"> <li>+ Universal/categorical schemes usually enjoy broad political support; less so means-tested programmes.</li> <li>- Complex targeting mechanisms may limit transparency and accountability.</li> </ul>

For these reasons, most social security systems combine contributory and non-contributory schemes in one way or another. This allows them to reach universal coverage, build a nationally-defined social protection floor, and ensure higher levels of protection to as many people as possible.

Many countries, including Brazil, Cabo Verde (see Box 6.4), China, Colombia, Ghana (see Box 6.21) and Thailand (see Box 6.20), have managed to extend social protection coverage through a combination of contributory and non-contributory schemes, combining social insurance with universal or categorical schemes and social assistance (ILO, 2017a). The combination of these approaches ensures a basic level of protection for all, while at the same time providing higher levels of protection to those who have some contributory capacities. This strategy has the potential to fostering a social contract which includes a sufficient degree of risk-sharing and redistribution among different groups of the population.

For example, Thailand introduced a Universal Health Coverage Scheme to complement the existing two contributory health insurance schemes to reach universal health coverage

Coordinating contributory and non-contributory benefits is essential for the sustained extension of coverage to workers in the informal economy: As labour mobility is frequent amongst this group of workers, they are likely to move between employment and self-employment, and between formal and informal work. It is therefore important to take labour mobility into account

in designing social protection systems, ensuring that continued coverage can be ensured (Bender et al., 2013).

In this context, it is important to highlight the importance of effective and equitable financing structures and incentives for compliance. Schemes and programmes should be designed in a way that ensure adequate coverage, while strengthening incentives to operate in the formal economy. If government subsidies for workers with limited contributory capacity are associated with their informality status rather than with their income status, such subsidies may generate perverse incentives for operating in the informal economy (Bender et al., 2013). For this reason, it is essential to link government subsidies to other characteristics of workers, such as a low level of income or other vulnerability indicators. In this way, government subsidies do not lock people in informality, but can help workers to move from the informal to the formal economy.

Good coordination between the different elements of a social security system is essential for ensuring equitable and sustainable financing, and optimize the efficient allocation of resources.

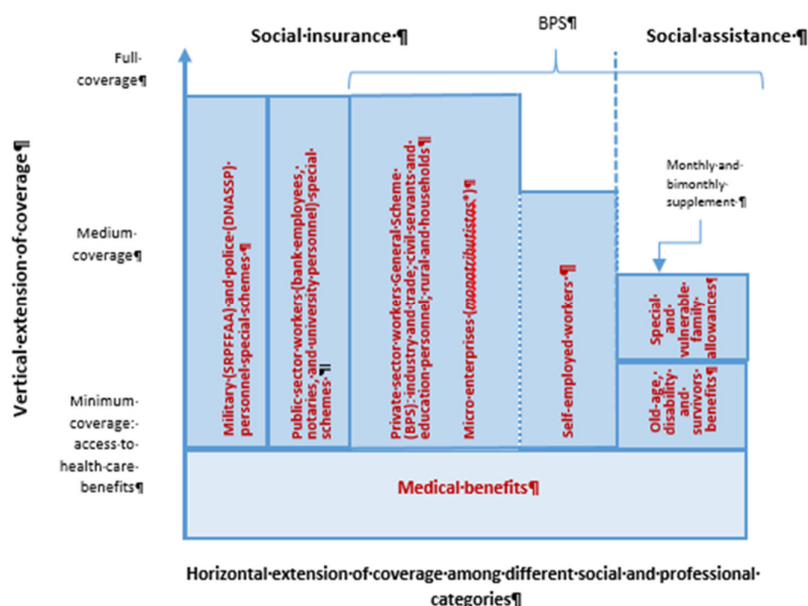
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### Box 2.3: Building social security systems: ensuring universal protection in Tunisia and Uruguay

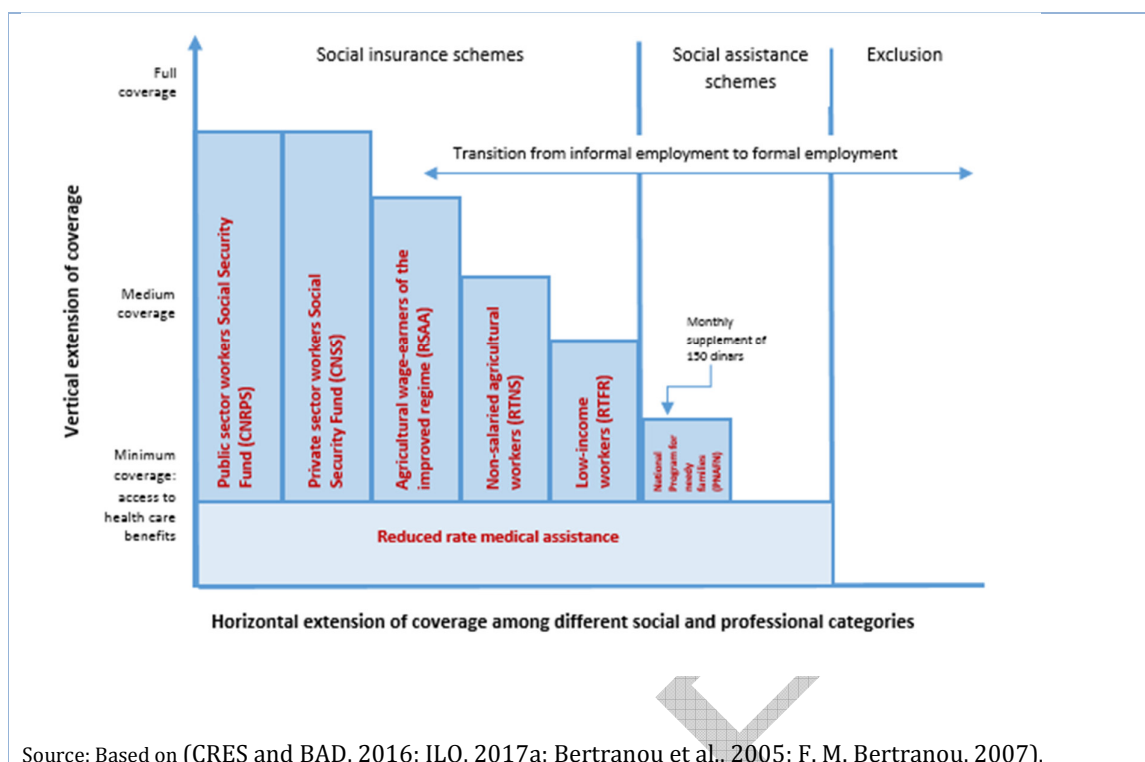
Social protection systems develop over decades. In most countries, several schemes exist alongside each other, and coordination between these schemes is at times more challenging compared to more unified systems. Nonetheless, fragmented systems can also successfully reach the extension of social protection coverage, yet this may require more investments in effective coordination mechanisms, as to ensuring that people are covered throughout labour market and life transitions, and that financing mechanisms are equitable and sustainable.

Despite having different types of systems, both Tunisia and Uruguay have both made enormous progress with regard to the extension of coverage to workers in the informal economy.

Uruguay is an example of a relatively unified social protection system that covers the large majority of workers, including self-employed workers, under the general scheme. For some of these categories of workers, special rules apply to facilitate their coverage, as is the case for example for some self-employed workers and micro-enterprises.



Tunisia can be described as a more fragmented system composed by a several schemes for different categories of workers.



Source: Based on (CRES and BAD, 2016; ILO, 2017a; Bertranou et al., 2005; F. M. Bertranou, 2007).

#### Checklist 2.7: Coordination of social protection schemes and programmes including contributory and non-contributory schemes

Does a national social protection strategy exist that provides a framework for the existing social protection schemes?

Does the social protection system as a whole cover the entire population in need?

Do benefit levels of existing programs sufficiently address the needs of beneficiaries?

Does a coordination mechanism fully function between institutions and programmes?

Which mechanisms are in place to ensure coordination of the different elements of the social security system, including with regard to

- Coordination of different contributory schemes, namely social insurance schemes
- Coordination between contributory and non-contributory schemes
- Coordination between different authorities involved in the governance and administration of social security, including different ministries and social security institutions

Which mechanisms exist to ensure continued social security coverage during labour market transitions, e.g. if a worker moves between different sectors of the economy, from wage employment to self-employment and vice versa?

**Further reading on achieving universal coverage through a combination of schemes**

- ISSA, 2016. [ISSA Guidelines: Administrative Solutions for Coverage Extension](#) (Geneva, International Social Security Association).
- ILO, 2017. [World Social Protection Report 2017-19: Universal social protection to achieve the Sustainable Development Goals](#). International Labour Office, Geneva.
- ILO, 2017. [Building social protection systems: International standards and human rights instruments](#). International Labour Office, Geneva.

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### 3 Raising awareness and building trust

#### Key questions

- ? Why are awareness and trust so important for extending social protection coverage and facilitating transitions to the formal economy?
- ? Why and how should employers and workers be better informed about social security rules and regulations?
- ? What are the benefits of formalizing informal enterprises and extending coverage to workers in the informal economy?
- ? Why are transparency, accountability and good governance so important for the extension of social protection to workers in the informal economy?

#### Key messages

- \* Transparency, accountability and good governance are key to ensuring that people can trust in the social protection system, can realize their rights and honour their obligations.
- \* Information on rules and regulations (such as entitlements, processes, etc.) should be made easily accessible to both workers and employers, so that they are aware of the importance of social protection, about their rights and entitlements, as well as obligations.
- \* Social insurance schemes rely on the continued commitment of workers and their employers (if applicable) to comply with their obligation to register in the scheme, pay contributions if required, and to ensure the financial sustainability of the scheme.

#### 3.1 The importance of raising awareness, ensuring good governance and building trust

Raising awareness, ensuring good governance and building trust are crucial for any strategy to extend social protection coverage to workers in the informal economy. Unless these elements are in place, policies and programmes have little chance to succeed (ILO, 2013a).

Knowledge and information about social protection is key. Workers and employers need to know which social protection schemes are available to them, what are their rights and obligations, and how they can access these schemes as to ensure their protection. It is however not sufficient to disseminate information – building trust is equally important. Both workers and employers need to fully understand the value of social protection for them, and they need to know that the social protection system is well governed and can effectively deliver.

Good governance and transparency are preconditions for making sure that social protection systems respond to the needs of workers, taking into account the constraints faced by employers (see Box 3.1). If a social protection system effectively delivers the benefits and services that meet workers' and employers' expectations, it will also have the trust and the support of the population (ILO, 2017a; ISSA, 2014a).

The emphasis on good governance, information and trust may appear obvious. However, in many cases, a lack of trust in the system is stated by both employers and workers as one of the main

driving factors of contribution evasion. At the same time, many of the measures that can be taken to raise awareness and improve governance do not require a complex reform of the legal framework or a change in the financing structures, but they can be undertaken within an existing budget.

For these reasons, this chapter has been placed intentionally as the first of the five chapters that summarize country experiences and good practices, and that provide practical guidance for measures to extend social security coverage to workers in the informal economy.

This chapter discusses effective strategies of raising the awareness of workers and employers on social protection (chapter 3.2). This includes strategies on how such information can be made better accessible for workers in general, and in particular with regard to individual entitlements. In addition, the chapter discusses the importance of good governance and highlights ways to strengthen the governance of social protection schemes (chapter 3.3). This includes recommendations about strategies for better access to complaint and appeal procedures, and the importance of effective and efficient procedures, and cost-efficiency.

## **3.2 Raising awareness through better communication and social security education**

Efforts to extend social security coverage to workers in the informal economy critically depend on the capacity of the government to make available information about the relevant rules and regulations, and ensure that social protection is accessible to all. Limited access to information can be a key constraint for covering workers in social security schemes. Not only should this information be easily available, it should also be provided in formats that are simple to grasp and not overly complicated. Workers' and employers' organisations, as well as civil society organisations, can also play an important role in disseminating information on social protection and raising awareness (ILO, 2011; RNSF, 2017).

### **3.2.1 Informing workers and employers about their rights and obligations**

#### ***What do workers and employers need to know?***

Employers and workers need to know about their rights and obligations with regard to social security, in particular regarding the following aspects:

- Which are workers' and employers' obligations with regard to the payment of contributions? Which obligations do employers have in this respect? Which obligations do workers have in this respect, and how can they make sure that contributions are being paid on their behalf?
- Which benefits are available and under which conditions?
- Where and how to register for the payment of contributions and the receipt of benefits?
- Where and how can people appeal against a decision or submit a complaint if they are unhappy with a decision or if benefits are seen as inadequate?
- What is the process for the payment of contributions and receiving benefits?
- Who is liable if benefits are not delivered in time and what are the redress mechanisms available?

For the self-employed, additional questions arise:

- What are the specific modalities for self-employed workers?
- Are there simplified contribution payment mechanisms available to them?



The implementation of new laws and schemes should always go along with campaigns that inform workers on the importance of social protection in general and the specific scheme in particular. This should include a detailed explanation of the law/scheme, the available benefits and eligibility conditions, contribution requirements if any, administrative procedures, as well as the respective rights and obligations for workers and employers (see also chapters 5, 6 and 7).

For example, in the Philippines, the extension of social security to domestic workers through the Domestic Workers Act, was accompanied by a wide information campaign (see Box 4.7). A creative way to do so was found in Kenya, where information on the Mbao scheme was passed to artisans during free ear check-ups (ISSA, 2011a).

### *How can such information be made better accessible?*

Once the relevant information on social security programmes has been put together and is ready to be disseminated, it is important to make sure that this information is actually accessible to the people.

Provide the information in simple, straightforward and accessible language, so that comprehending it does not require previous knowledge on the subject and is not a time consuming or confusing process. Information should be translated into all the languages spoken in the region/country, including languages spoken by minorities and migrants. This is important in order to make sure that the information dissemination process is not exclusionary, and to ensure the highest possible participation in these programmes.

Proximity can be a critical factor for disseminating information in a way that is meaningful to the people. For this reason, it may also be useful to establish more physical access points. This can be facilitated by the opening of local social security offices or information terminals where people can take their queries or find out more. Staff in these offices should be trained in spreading information in an interactive and useful manner (see Box 3.1 and Chapter 5.2).

#### **Box 3.1      Increasing access to information through proximity in Madagascar**

In order to be closer to their members, the National Social Insurance Fund (CNPS) of Madagascar decided in 2012 to increase the number of its regional level agencies. In some isolated areas, a mobile office was set up in order to disseminate information and raise awareness about social protection schemes and benefits. Populations that were earlier cut off from information distribution now had access to knowledge on the social security institutions and programs. This was specifically useful as the team in the local offices could give people advice, services and information adapted to their specific needs. The team therefore raises awareness on social protection entitlements and prospects, as well as receiving and processing claims. Being close to the insured population means that people have a way to access relevant information first hand.

Source: (ISSA, 2014b).

### *Which information channels can be used?*

Different channels and formats should be used to spread information, so that it is not restricted only to users of a specific type of media or technology. Information can be broadcast through the print media, internet, radio, television, toll-free telephone numbers, text messages and billboards. This will ensure that access to information is not limited because of lack of a particular source or personal habits. Box 3.2 summarizes public awareness campaigns conducted in Moldova and Thailand.

### Box 3.2 Using media to raise awareness about social security: experiences from Moldova and Thailand



In Thailand, a public service announcement focused on the importance of social security for people. [“Why is social protection important to me, and to you?”](#) was the key headline for this campaign. This campaign was used in the context of the national dialogue on a social protection floor for Thailand in 2013, and was prepared with the support of the ILO.

In Moldova, the government with the support of the ILO initiated a media campaign to raise awareness about the pitfalls of undeclared work with a set of clear messages, such as: Ask for your employment contract! Say NO to envelope wages! The key message on social security was: [“I contribute, therefore I benefit from social security”](#). The campaign included a daily broadcast of video and radio clips, billboard panels and posters in public places, and leaflets to reach a wide range of the population currently or potentially involved in informal employment across the country.



Source: ILO website; Hirose and Hetteš. 2016.

In reaching out to workers and employers, is important to disseminate information through appropriate communication channels, as to reach people where they are. Depending on the target group, unusual channels may be chosen. For example, in Jamaica, leaflets in the rights of domestic workers were distributed along popular transport routes, and in Paraguay, potential employers of domestic workers received information brochures attached to their electricity bill (ITUC and UN Women, 2013; Both et al., 2018). In South Africa, the Basic Condition of Employment Act requires that the employer displays a statement with the employee’s rights under the act at the workplace where it can be read by employees and in the official language spoken in the workplace.

It is important that information and awareness raising campaigns respond to the specific needs and characteristics of the workers and employers they expect to address. For example, an information and awareness-campaign addressing self-employed workers in Cape Verde collaborated with different workers’ organisations to effectively channel information to this group (see Box 3.4).

**Box 3.3: Raising awareness among self-employed workers in Cape Verde**

In Cape Verde, a pro-active approach was used to implement a well-planned, intense campaign specifically addressing self-employed workers in urban and rural areas. This campaign includes working with children and youth to already make future contributors aware of the benefits of social protection and with the perspective that they might also encourage their parents to register. During workshops with different groups (e.g. religious, producers' and women's organizations) direct information on social insurance was passed to the self-employed workers. Cape Verde provides a good example on how this may be done in a comprehensive way (see box 6.5 in chapter 6). [SE]

Source: (Durán Valverde et al., 2013)

In the case of agricultural workers, remoteness and often lower education may lead to the fact that many agricultural workers are not well informed regarding their rights in general and existing public laws, policies and schemes in particular [AW]. For this reason, efforts to incorporate agricultural workers into social insurance schemes should take this into account and adapt information/awareness-raising activities to the specific needs and situation of this group. For example in Tunisia, a publicity campaign conducted by the government, employers and workers organizations was an important element for the success of the reform of the social security system in 1996 (see also Box 3.4).

**Box 3.4: Publicity campaign in collaboration with employers and workers organizations in Tunisia**

In Tunisia, reforms in the social security system in 1996 were accompanied by an extensive publicity campaign. The campaign was conducted by the Government in collaboration with employers and workers organizations to raise awareness of the changes regarding legislation and to explain the new set-up. The campaign was an important element for the success of the reform which brought a large number of employers and workers into the scheme. Trade unions also played an educational role in raising awareness on the importance of social protection.

Source: Based on (Bailey 2004; Olivier 2009)

***Better understand workers' and employers' needs***

Public authorities also need to ensure that they fully understand workers' and employers' needs and situations, as to be able to adequately respond. In this regard, surveys among enterprises and workers can also help to establish the level of satisfaction with the benefits and services provided, as well as interactions with the social security administration.

For example, in Cambodia, the National Social Security Fund undertook surveys to better understand the level of information among workers and enterprises, especially with regard to rights and obligations, and to gauge the level of satisfaction (NIER, 2017a, 2017b). On this basis, it developed its communication strategy to raise awareness among employers and workers and to increase social security coverage (NSSF Cambodia, 2018).

***Establishing partnerships with others***

Workers' and employers' organizations, including those representing those in the informal economy, can play an important role in disseminating information, raising awareness and facilitating access to social protection (ILO, 2013a; RNSF, 2017).

The engagement of civil society organisations can also be an important factor. In the Philippines, an information campaign by civil society organizations was an important factor in the

implementation of the law as well as the recognition of domestic workers [DW] (see Box 4.7). In Cameroon, the national social security institution accredits “social secretariats” to disseminate information (see Box 3.5).

**Box 3.5: Awareness and information campaigns to promote the coverage of self-employed workers in Cameroon**

In 2014, the National Social Insurance Fund of Cameroon (*Caisse nationale de prévoyance sociale*, CNPS) established a voluntary insurance scheme for self-employed workers and other informal sector workers. In order to make this scheme known to the potential beneficiaries, the CNPS accredited “social secretariats” (either physical entity or public institution) to reach out and educate interested individuals. The CNPS provided the accredited social secretariats with training and information kits, and they receive a fee for each new member. Since 2015, 137,574 people affiliated with the voluntary insurance scheme. Between 2014 and 2016 social security coverage increased from 10 per cent to 16.34 per cent, including 1.54 per cent from the voluntary scheme.

Source: Based on (ISSA, 2017a).

**Checklist 3.1: Informing workers and employers about social protection rights and obligations**

- How can workers and employers be better informed of their social protection rights and obligations?
- How can such information be made better accessible?
  - Is information on social protection accessible in all the languages spoken in the country?
  - Is the information accessible for all, including illiterate persons and persons with disabilities?
  - Is information available in different forms (simplified and more complex information, through different forms of media,
  - Do marginalized groups have access to this information?
- Do workers’ and employers’ organisations engage in the dissemination of information and awareness raising? Could they engage more in raising awareness and providing information to their members? Which other partners could be mobilized?
- Which other information channels may be used?

### 3.2.2 Individualized information on social security entitlements

In many countries, social security administrations have stepped up their efforts to actively inform their members about their contribution records and entitlements. For example, in Jordan, insured persons receive a letter every year that informs them about the contributions paid on their behalf, details of their contribution period and deductible wage. This Annual Account System for insured persons provides them with an estimate of the level of pension that they can expect upon retirement (ISSA, 2009a). The Mexican Social Security Institute (IMSS) has developed an online system to provide participating workers with information on the number of weekly contributions made per year, and contribution records of their five most recent employers (ISSA, 2009b). In Turkey, insured members can check their insurance status online (see Box 3.6). In Uganda, insured workers can receive information about the contributions paid on their behalf by SMS message (see Box 6.12).

Being better aware about their contribution records and social security entitlements, workers are more likely to monitor their own contribution record, and also insist with their employers that

contributions are paid correctly and regularly on their behalf. Participation of members in their social security system makes it more accountable, thereby enhancing its effectiveness and efficiency.

**Box 3.6: Online information for insured members about health insurance in Turkey**

Turkey created a unified information system combining the databases of three different social security institutions in 2012. By using simply their citizenship identification number and date, members can gain quick access to information on pension and health insurance status, registration and premiums, without the need to make burdensome trips to the social security office. Updates are made in the system automatically every time there is a change in a member's entitlements – payment of contributions, change in insurance status, benefit payments, etc.

Through this unified database, information from three independent social security establishments has been combined in one database so as to make it easier for individual members to easily access information on their insurance entitlements.

Source: Based on (ISSA, 2013).

**Checklist 3.2: Individualized information on social security entitlements**

- Do social security schemes actively inform their members about their contribution records and entitlements?
- Do social security schemes encourage workers to participate by providing sufficient information?

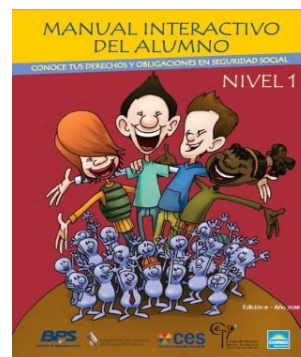
### 3.2.3 Educating youth about social security and building a social security culture

In order to raise awareness for social security rights and responsibilities, some countries have introduced social security awareness raising programmes as part of the general education curriculum and as part of vocational training. This is the case, for example, in Argentina, Belize, Ghana and Peru. The most comprehensive social security education programme exists in Uruguay, where learning units, adapted to different ages, are incorporated in school curricula at various levels, starting at age 5, continuing until university and vocational training (see Box 3.7).

**Box 3.7: Social security education in Uruguay**

In Uruguay, the social security institution (Banco de Prevision Social, BPS) develops activities which aims to inform and educate citizens about the social security system, their rights and duties, as well as the role and relevance that social security has in people's lives.

A sophisticated social security education programme is part of the curriculum of public schools and universities, as well as vocational training institutes, starting from a very early age (5 years) until graduation. The programme includes learning units adapted to every age, ensuring that children learn about social security every year of their education as part of civic education.



Source: Based on (BPS Uruguay, 2018). Video: <https://www.youtube.com/watch?v=9q4GMfWkOtw>



Such social protection education can be a core element of building a “social security culture” that ensures that people are aware of their rights and obligations, and understand the value of social protection coverage (ISSA, 2007). It is part of broader civic education, and particularly important for children and youth. It is also an important component of vocational training programmes (ILO, 2017d).

Even where a comprehensive education programme does not (yet) exist, punctual initiatives may help to raise awareness from an early age. For example, in Madagascar, junior clubs and activities during festive activities have been used to raise awareness (ISSA, 2015a). In some countries, awareness-raising about social security coverage is also linked to initiatives to enhance financial literacy and improve knowledge about pension coverage.

More broadly, social protection education aims at improving people’s understanding and awareness of the different risks faced across life-cycle, raising awareness about their social security rights and responsibilities, providing information about available social security schemes and benefits, and how to use them effectively, and enable them to make informed choices and take effective actions to improve their social security coverage.

**Checklist 3.3: Educating youth about social security and creating a social security culture**

- Do the education curricula at primary, secondary and tertiary level include lessons on social security rights and responsibilities?
- Are social security rights and responsibilities part of all curricula for vocational education and training?

### ***3.2.4 Promoting “social security literacy” in entrepreneurship and business development programmes***

Information on social security rights and obligations should be available widely, through sources that have the potential to reach a large variety of people. This could be achieved by integrating knowledge on social security programs and benefits into other forms of educational training programmes.

One such possibility is to include modules on social security in relevant training, skills development and entrepreneurship programs, since they are accessed by people to whom information on social security would be extremely relevant (see Box 3.8).

**Box 3.8: Know about business, know about social security: Social security in entrepreneurship and business training programmes and related tools (MSE)**

The ILO provides a broad range of different training packages for entrepreneurs who seek to start an own business, or expand and improve their business. These include the following:

- The [\*Start and Improve Your Business Programme \(SIYB\)\*](#) is a management-training programme with a focus on starting and improving small businesses as a strategy for creating more and better employment in developing economies and economies in transition.
- The [\*Women's Entrepreneurship Development \(WED\) Programme\*](#) has been empowering women entrepreneurs in developing countries and supporting them in starting and growing their businesses since the mid-2000s.
- The [\*Know About Business \(KAB\)\*](#) training package is widely used worldwide to teach entrepreneurship in vocational, secondary, and tertiary schools.
- The [\*Sustaining Competitive and Responsible Enterprises \(SCORE\)\*](#) programme supports practical training and in-factory counselling that improves productivity and working conditions in small and medium enterprises.

In addition, the [\*Enabling Environment for Sustainable Enterprises \(ESEE\)\*](#) methodology allows governments, employers and workers to identify the major constraints hampering business development, foster dialogue between workers, employers and the government to reach shared policy recommendations, supports the adoption of effective reforms in order to unlock entrepreneurial potential, boost investments and can generate overall economic growth, create better jobs and reduce poverty.

These tools highlight the importance of social security for entrepreneurship and business development. For entrepreneurs and owners of small and micro-businesses, risks such as sickness or employment injury, whether affecting themselves or their workers, are not only a personal issue, but in many cases threaten the existence of their business. It is therefore all the more important that entrepreneurs are aware of the importance of social security, their rights and responsibilities, and how to ensure social security coverage. At the same time, tools such as the ESEE tool can also help to enhance the policy environment with regard to facilitating social security coverage for MSEs.

Source: Based on ILO website.

In addition, information campaigns tailored to the needs and situations of workers and economic units in specific sectors are a very useful tool to reach out to specific groups. This can be particularly useful for micro and small enterprises, own account workers and agricultural workers, as these groups may not necessarily see their situation and interests reflected in general information campaigns. For example, in **Zambia**, an information campaign targeted specifically micro- and small enterprises in the construction sector (see Box 3.9).



**Box 3.9: Making the business case for social security: Tailored information for micro- and small enterprises in the construction sector in Zambia**

In Zambia, an information campaign was launched in the construction sector with the support of the ILO, focusing specifically on compliance with the labour law for micro- and small enterprises in the construction sector. This campaign includes a section on “[why insure workers against workplace accidents](#)”, which demonstrates the business case for employment injury insurance.



Source: ILO website.

**Checklist 3.4: “Social security literacy” in entrepreneurship and business development programmes**

- Do training and capacity building programmes for entrepreneurs and business development programmes systematically include a section on social security? If yes, does it provide adequate information on why social security is important, about rights and responsibilities, and on how to access social security? Can they be further improved?
- Do social security institutions, business development services or other institutions provide accessible information and advice to current and future entrepreneurs and small business owners regarding their social security rights and responsibilities? Could these be further improved?

**Further reading on raising awareness, communication and social security education**

- ILO. forthcoming. Guide on social protection education and culture [working title], Geneva.
- ISSA 2014. [ISSA Guidelines: Service Quality](#) (Geneva, International Social Security Association).
- ISSA 2016. [ISSA Guidelines: Administrative Solutions for Coverage Extension](#) (Geneva, International Social Security Association).
- ISSA, 2016. [Guidelines: Communication by Social Security Administrations](#) (Geneva: International Social Security Association).
- ISSA, 2016. [Guidelines: Information and Communication Technology](#) (Geneva International Social Security Association).
- RNSF, 2017. [Extending coverage: Social protection and the informal economy](#) (Rome, Milan and Brussels: Research, Network and Support Facility, ARS Progetti; Lattanzio Advisory; AGRER).

### 3.3 Strengthening transparency, accountability and good governance

The governance of a social protection system, in particular how accountable and transparent it is, has a strong impact on not only how the system is viewed from the outside, but also how its members participate. In situations where employers and workers do not have adequate information on how social protection schemes operate, and where they do not perceive them as reliable and efficient schemes, they are less likely to contribute to these schemes (ILO, 2011). Strengthening transparency, accountability and good governance is therefore essential for building trust and ensure that the social protection system lives up to people's expectations.

Building on human rights principles and the rule of law, ILO international social security standards set out a range of principles that are relevant to good governance and the extension of social protection coverage (see Box 3.10).

#### **Box 3.10 Good governance principles in ILO social security and other international labour standards**

ILO social security standards and Recommendation No. 204 include a set of principles that contribute to ensuring good governance of social security systems, such as the following:

- *Overall and primary responsibility of the State* (C.102, art. 72(3), R.202, para. 3)
- *Entitlements anchored in national law*: the scope, coverage and level of benefits, including basic social security guarantees, should be prescribed in national law or regulations (particularly C.102, art. 1, 5; R.202, para. 3b, 6, 7).
- *Right of appeal*: Persons protected should have a right of appeal "in case of a refusal of the benefit or complaints as to its quality and quantity (C.102, art. 70). Complaint and appeal procedures should be impartial, transparent, simple, rapid, accessible, inexpensive and free of charge to the applicant (R.202, para. 3o, 7).
- *Participation*: Participation of representatives of protected persons and employers in the management of administering institutions (C.102, art. 72); tripartite participation, consultation and social dialogue with regard to social protection floors and strategies for the extension of social security (R.202, para. 8d, 13(1), 19); full respect for collective bargaining and freedom of association for all workers (R.202, para. 3q).
- *Accountability and transparency*: Transparent, accountable and sound financial management and administration (R.202, para. 3j); C.102, art. 71(3)).
- *Financing*: solidarity in financing while seeking to achieve an optimal balance between the responsibilities and interest among those who finance and benefit from social security schemes (R.202, para. 3h; collective financing through social insurance contributions or taxation or both in a manner which avoids hardship to persons of small means (C.201, art. 71) and limited contributory capacity (R.204, para. 20).
- *Promotion of gender equality, non-discrimination and responsiveness to special needs* (R.202, para. 3d; R.204, para. 7h).
- *Rights and dignity*: Respect for the rights and dignity of people covered by the social security guarantees (R.202, para. 3f); effective promotion and protection of the human rights of all those operating in the informal economy (R.204, para. 7e); special attention to the most vulnerable (R.202, para. 2, 3e, 16; R.204, para. 7i and 19).

These principles complement and concretize the related principles embodied in human rights instruments and other relevant international standards (ILO, 2017b, 2017a).

### 3.3.1 Enhancing delivery

Providing quality benefits that meet people's needs are the best argument for building trust in social protection systems, and for convincing workers and employers to honour their obligations. Social protection systems that work effectively and efficiently, and that deliver quality benefits, earn the trust of the population (ILO, 2017a; ISSA, 2016a). Trust in the institutions and processes involved is essential in this respect. This is particularly important in voluntary schemes that are aimed at increasing coverage to groups that may otherwise be excluded – people are unlikely to feel engaged in these systems unless they have sufficient knowledge about the processes, are aware of why they may be beneficial and have access to mechanisms of redress in case it is needed.

Workers need to know that they are effectively protected and can access the benefits they are entitled to. Similarly, employers need to know that their workforce is well protected, that administrative processes are efficient, and that social protection supports them in maintaining and enhancing the productivity of their workforce, so that they honour their obligations, register workers and pay social insurance contributions. If the system is seen as inefficient or corrupt, employers are less likely to take an active interest in the social security of their workers. Trust that the registration of workers and payment of contributions is not a burden but an investment will mean that employers feel more engaged in the social protection system.

How is this trust developed? Good governance and an effective administration are key. One important element is social dialogue among the government, employers' and workers' organizations, as to create a common understanding of the situation, and to enhance governance and service quality. Such social dialogue should also be inclusive of organisations of those in the informal economy (ILO, 2017c). Social protection administrations are an important interface of the government towards its citizens. The more open, approachable, accountable and transparent is they are, the more people are likely to engage and perceive the administration in a positive way. However, if such administrations are perceived as remote, technocratic and with little understanding of their clients, they will not be able to effectively engage and extend coverage (RNSF, 2017, pp. 61–62). Accountability and transparency, other than being ends in themselves, are thus essential to building a social protection system that people can trust and ensure that people can realize their rights, but also respect their obligations. This is essential for a social protection system to function effectively, in a credible, equitable and sustainable way, as well as for a broader agenda on building institutions, which is reflected in SDG 16 (ILO, 2017a).

Some lessons may be also drawn from a reform in the State of Lagos, Nigeria, where the local government started with relatively simple, but highly visible improvements in the public services, which helped to build trust in the effectiveness of public administration and helped to increase people's willingness to comply with their tax obligations (see Box 3.11).

#### **Box 3.11: Improving public services and building trust in the State of Lagos, Nigeria**

In the State of Lagos, Nigeria, a set of policy reforms initiated by the Governor of the State of Lagos 2007-2015 improved the provision of public services, including investments in roads and education. These reforms significantly enhanced trust in public authorities. As a result, people were more willing to pay taxes (including a new consumption tax on eateries), and tax compliance significantly increased.

Starting with relatively simple, but highly visible reforms, such as the cleaning and improvement of public spaces such as parks and roadsides, the reforms helped to boost government legitimacy, including among marginalized groups, and push back informality. This experience demonstrates that prioritizing tangible services to the population, raising awareness about rights and responsibilities can generate positive change.

Source: Based on (IIG, 2013, 2011).

### 3.3.2 Strengthening transparency and accountability in social protection systems

Transparency and accountability are at the heart of good governance, and are critical in social protection systems, also as safeguards against corruption and wastage.

Key information about social protection institutions should be available to stakeholders on a timely basis, and this information should be reliable, relevant and accurate. Those making decisions within social security institutions should also be held legally accountable for the decisions, and be liable for their actions. Without adequate systems of transparency and accountability in place, there is an increase in chances of funds allocated for social protections being misused or mismanaged. People are also more likely to support higher social protection investment if they know that such systems are reaching the right beneficiaries and that accountability mechanisms can be used to hold people/institutions responsible if this is not the case.

#### **Box 3.12: Strengthening the Pension Fund's governance to improve efficiency in Morocco**

In 2011, the Pension Fund (*Caisse marocaine des retraites* – CMR) of Morocco, which is managed by a tripartite Board of Directors, further strengthened its governance system by setting up an Asset Allocation Committee and an Audit Committee, with a view to better ensure the implementation of their decisions and the dissemination of the information to the stakeholders. The goal was achieved through the appointment of independent experts who supervise and guarantee the transparency of the decision-making process. Strengthening the Fund's governance system has improved the quality of the management of the pension schemes entrusted to the CMR.

Source: Based on (ISSA, 2017b).

Where social security institutions are managed with the active participation of employers' and workers' representatives in the board, these play an important role in ensuring the good governance of these schemes (see Box 3.13).

**Box 3.13: Participation of employers' and workers' representatives in the boards of social security institutions**

In most social insurance institutions, the boards include social partners (government, workers and employers) as members. These boards play a key role in ensuring the good governance of the social security schemes administered by each organisation.

The role of the board includes in particular financial governance, that is, ensuring that resources entrusted to the social protection scheme are used effectively and efficiently so as to avoid waste or deficient delivery of promised benefits. Inefficiency and ineffectiveness undermine the credibility of a scheme, lead to contribution evasion and result in financial problems. They can lead to the failure of the scheme and possibly the entire national social protection system. Credibility is a social protection system's most important capital. Inefficient use of resources also has an opportunity cost in terms of social protection which could otherwise have been provided.

The participation of employers' and workers' representatives in the boards of social security institutions is also set out in Convention No. 102, which states that "where the administration is not entrusted to an institution regulated by the public authorities or to a Government department responsible to a legislature, representatives of the persons protected shall participate in the management, or be associated therewith in a consultative capacity, under prescribed conditions; national laws or regulations may likewise decide as to the participation of representatives of employers and of the public authorities." (Art. 72 (1)). The State retains however the general responsibility for the proper administration of the institutions, and the benefits and services provided by the social security system.

Ensuring effective representation of both workers and employers are essential for the functioning of participatory governance in social security institutions. A particular challenge is organizing those in the informal economy, so that they can represent their interests in an effective way.

Source: Based on (ILO, 2005; ITCILO, 2010).

For transparency to be a genuine part of social protection programs, it should not be limited to the financial management and administration. Different components of the programs must have transparency mechanisms in place, such as targeting mechanisms, eligibility criteria, benefit levels, and complaint and redress mechanisms. People will then have access to information on how authorities are performing their obligations. Internal and external monitoring and evaluation programs could also be made public to increase transparency (Sepúlveda and Nyst, 2012). For example, in India, transparency and accountability has been strengthened with the Right to Information Act.

### **3.3.3 Effective and efficient procedures ("value for money")**

Effective and efficient administrative procedures are a precondition for well-functioning social security systems. Administrative procedures that are complex, inaccessible, ineffective or inefficient can constitute an effective hindrance for people to access social protection benefits and to contribute to social insurance. Workers and economic units at the brink of the informal economy tend to be more affected by administrative hurdles than those established in the formal economy, as they have little administrative capacities and cannot afford to spend time off work to deal with administrative procedures.

Even the perceived inefficiency of a social protection scheme may constrain people's trust and support for the social protection system, and create a situation where the system is seen as a web of bureaucratic procedures rather than an open and engaging process. Efforts to improve



administration of social security and make administrative procedures more accessible and efficient are thus extremely important.

‘Value-for-money’ in this scenario does not simply mean that costs need to be minimised – what it means is that impact of the money spent should be maximised so as to carry out the aims of the social security programmes as far as possible. Instead of looking at cutting costs, this approach supports a comprehensive cost-benefit analysis at all stages of a program – the design and appraisal, implementation, and evaluation. The idea is to make sure that all of what is being spent on social security programs pays off in terms of output (what is given to beneficiaries) and impact (the initial aim of the project is reached). By creating this system where the ‘value-for-money’ of social protection programs can be calculated and evaluated, it becomes easier to gain wider support for such programs and increase investments and build trust of the citizens (White et al., 2013).

#### Checklist 3.5: Ensuring effective and efficient administrative procedures

- Are administrative procedures accessible, effective and efficient enough for workers to be enrolled in and contribute to programs?
- Is the impact of social protection programs maximized compared to the money spent?
- What administrative adjustments need to be done to facilitate access for those the informal economy?

#### Further reading on strengthening accountability, transparency and good governance

- ILO 2005. [Social Security Governance: A Practical Guide for Board Members of Social Security Institutions in Central and Eastern Europe](#) (Budapest: Subregional Office for Central and Eastern Europe).
- ISSA, 2014. [ISSA Guidelines: Service Quality](#) (Geneva: International Social Security Association).
- ISSA, 2014. [ISSA Guidelines: Good Governance](#) (Geneva: International Social Security Association).
- ITCILO. 2010. [Governance of Social Security Systems: A Guide for Board Members in Africa](#). (Turin, International Training Centre of the ILO).
- Sepúlveda, M.; Nyst, C. 2012. [The Human Rights Approach to Social Protection](#) (Helsinki: Ministry of Foreign Affairs of Finland).
- [www.socialprotection-humanrights.org](http://www.socialprotection-humanrights.org)

### 3.3.4 Access to complaint and appeal procedures

Access to complaint and appeal procedures are an integral part of a social security system which is based on the rule of law, and in which entitlements to social security are anchored in national legal frameworks. As set out by Convention No. 102 and Recommendation No. 202, national law should offer the possibility to challenge decisions of the administration regarding social security benefits through accessible and effective complaint and appeal procedures, which are free to the applicant (see Box 3.5). Such mechanism are an important element of ensuring the effective realization of the right to social security, including the basic social security guarantees of the nationally-defined social protection floor (ILO, 2017b; Behrendt et al., 2017).

**Box 3.14: Provisions on access to complaint and appeal procedures in ILO social security standards**

ILO social security standards provide specific guidance on complaint and appeal procedures.

Recommendation No. 202 includes the following provisions:

3. Recognizing the overall and primary responsibility of the State in giving effect to this Recommendation, Members should apply the following principles:

(b) entitlement to benefits prescribed by national law;

(c) efficiency and accessibility of complaint and appeal procedures;

7. Basic social security guarantees should be established by law. National laws and regulations should specify the range, qualifying conditions and levels of the benefits giving effect to these guarantees. Impartial, transparent, effective, simple, rapid, accessible and inexpensive complaint and appeal procedures should also be specified. Access to complaint and appeal procedures should be free of charge to the applicant. Systems should be in place that enhance compliance with national legal frameworks.

Convention No. 102 includes the following provisions:

Art. 70 (1) Every claimant shall have a right of appeal in case of refusal of the benefit or complaint as to its quality or quantity. (2) Where in the application of this Convention a Government department responsible to a legislature is entrusted with the administration of medical care, the right of appeal provided for in paragraph 1 of this Article may be replaced by a right to have a complaint concerning the refusal of medical care or the quality of the care received investigated by the appropriate authority. (3) Where a claim is settled by a special tribunal established to deal with social security questions and on which the persons protected are represented, no right of appeal shall be required.

Where decisions made by the administration are found to be flawed, effective solutions need to be found to reinstate the rights of beneficiaries. For example, in Argentina, an effective solution was found to review cases and implement settlement agreements through an efficient procedure that significantly reduced the waiting time for pensioners (see Box 3.15).

**Box 3.15: Argentina's National settlement agreements for pensions' adjustments**

Due to the large amount of errors committed in pension payments by the National Social Security Administration (ANSES) over the last 25 years, hundreds of thousands of complaints were filed against the State, thus generating an unbearable level of litigation. In order to address the problem, the ANSES implemented the National Historical Reparation Programme - a voluntary settlement agreement mechanism to settle pension debts owed to beneficiaries who met the criteria laid out in Act No. 27.260. Concomitantly, a tax disclosure programme was established to meet the outlay involved, in line with the parameters set out by the Organization for Economic Cooperation and Development (OECD) and the Financial Action Task Force (FATF).

As a result, more than a million pensioners were awarded adjustments within nine months, compared with an average waiting time of eight years prior to the implementation of the National Historical Reparation Programme.

Source: Based on (ISSA, 2017c).



## 4 Extending legal coverage: Bringing previously uncovered workers under social security legislation

### Key questions

- ? What are the legal barriers that workers and employers in the informal economy face? Which groups of workers are excluded from the scope of social security and labour legislation, and which are the gaps with regard to the implementation and enforcement of the law?
- ? How can workers in the informal economy be brought under the scope of legislation in an effective way, adapted to their needs and circumstances?
- ? How can legal frameworks be adapted to cover previously uncovered workers, and what other measures are necessary to ensure effective protection?

### Key messages

- \* In order to extend social security coverage to workers in the informal economy, legal frameworks need to be adapted in a way that they can effectively cover and protect these workers – not just on paper, but in reality.
- \* International labour standards in general, and social security standards in particular, provide important guidance for more effective national legal frameworks that are adapted to the realities of both workers and employers.
- \* The extension of legal coverage is not sufficient to achieve effective coverage and facilitate the transition to the formal economy. Additional measures are necessary to make sure that the legal frameworks are effectively implemented and enforced, including awareness raising and building trust, removing administrative and financial barriers to coverage, and ensuring that these measures take into account, and are adapted to, the specific needs and circumstances of workers and their employers.

### 4.1 Bringing previously uncovered workers under the scope of social security and labour legislation: What are the challenges?

Many workers in the informal economy are not, or only insufficiently, protected by the existing legal framework, namely social security and labour legislation. Several factors can account for this lack of protection.

First, many workers in the informal economy work in sectors of the economy, in occupations or types of employment which are outside the scope of the existing legal framework – they are simply not regulated. For example, social security legislation may explicitly or implicitly exclude workers in agriculture, domestic workers, self-employed workers, or workers in enterprises with less than five workers.

Second, legislation may exist, but it may not be implemented at all, or only partially. In some cases, this can be explained by a lack of sufficient institutional capacity for its implementation. In

other cases, a law may have been enacted at some point, but it may be out of sync with its environment, and in need of amendments or detailed regulations (ILO, 2013a, sec. 4.a1). Under these circumstances, non-implementation may be a conscious political choice, if it is felt that an ill-drafted legislation may do more harm than good to those who earn their living in the informal economy. However, the lack of implementation leaves workers unprotected.

Third, legislation may be implemented, but it may not, or only half-heartedly, be enforced. In many cases, such a lack of enforcement may be associated with a lack of inspection capacities, particularly in sectors of the economy which require a higher level of resources than others, because of geographic distance or the structure of the economic units. However, in addition to leaving many workers unprotected, the uneven enforcement of the legislation also leads to an unequal treatment of workers and enterprises (see Chapter 7).

In order to extend social security coverage to workers in the informal economy, legal frameworks need to be adapted in a way that they can effectively cover and protect these workers – not just on paper, but in reality.

International labour standards in general, and social security standards in particular, provide important guidance for more effective national legal frameworks that are adapted to the realities of both workers and employers. For workers, compliance with international social security standards usually implies, for example, more certainty, higher income security and better protection, better access to health and education, all of which have positive spill-over effects on the economy and the society (ILO, 2013a, sec. 4.a1). For employers, compliance implies healthier and better educated workers, higher productivity, less absenteeism and workers turnover, better workplace relations, a more predictable cost structure, and a more level playing field with competitor companies. If competition based on wages and minimum employment costs is eliminated, for instance, a competition based on productivity, improved management, work organisation and worker competence is likely to emerge and will squeeze out inefficient firms leading to an overall more efficient economy (ILO, 2013a, sec. 4.a1).

**Box 4.1: Relevant international standards and principles for the extension of social security coverage to workers in the informal economy**

The internationally defined normative framework of the ILO provides detailed guidance to the extension of social security to workers in the informal economy. Elaborated and adopted by the Organization's tripartite constituents, governments, employers' and workers' representatives of all ILO member States, the Conventions and Recommendations establish standards that States set for themselves, building on good practices and innovative ways of providing enhanced and extended social protection in countries from all regions of the world. They are built on the notion that there is no single perfect model for social security; on the contrary, it is for each society to develop the best means of guaranteeing the protection required. Accordingly, they offer a range of options and flexible routes for their application, which can be achieved through a combination of contributory and non-contributory benefits, general and occupational schemes, compulsory and voluntary insurance, and different methods for the administration of benefits, all directed at ensuring an overall level of protection which best responds to each country's needs.

The Social Security (Minimum Standards) Convention, 1952 (No. 102) provides minimum coverage standards for each of the nine classical social security contingencies (medical care, sickness, unemployment, old age, employment injury, family responsibilities, maternity, invalidity, survivorship).

Aiming at closing social security coverage gaps and achieving universal coverage, the Social Protection Floors Recommendation, 2012 (No. 202) calls upon States to guarantee at least minimum levels of protection to all, and to progressively ensure higher levels of protection. National social protection floors should comprise basic social security guarantees that ensure effective access to essential health care and basic income security at a level that allows people to live in dignity throughout the life cycle. These should include at least:

- access to essential health care, including maternity care;
- basic income security for children;
- basic income security for persons of working age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;
- basic income security for older persons.

Recommendation No. 202 sets out that social security extension strategies should apply to persons both in the formal and the informal economy, and support the growth of formal employment and the reduction of informality (para 15).

The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) further specifies that, in building and maintaining social protection floors within their social security systems, countries should pay particular attention to the needs and circumstances of those in the informal economy and their families (para. 19). It also emphasizes the important role of the extension of social insurance coverage to those in the informal economy (para. 20), which may require the adaptation of administrative procedures, benefits and contributions, taking account their contributory capacities.

\* Convention No. 102 has been ratified to date by 55 countries, most recently by Argentina (2016), Brazil (2009), Bulgaria (2008), Chad (2015), the Dominican Republic (2016), Honduras (2012), Jordan (2014), Romania (2009), Saint Vincent and the Grenadines (2015), Ukraine (2016) and Uruguay (2010), and provides guidance for all 187 ILO member States. ILO Recommendations are not open for ratification.

Source: Based on ILO, 2017a, p. 8, see also ILO, 2017b.

This chapter addresses the extension of coverage from a legal perspective, focusing on bringing previously uncovered workers under the scope of social security and labour legislation. The chapter discusses specific challenges and policy options, guided by international social security

standards and good practices. It will focus particularly on four of the five categories of workers identified in Chapter 2, which are often fully or partially excluded from social security coverage: workers in micro- and small enterprises (section 4.2), domestic workers (section 4.3), agricultural workers (section 4.4) and the self-employed (section 4.5).

#### Further reading on extending legal coverage to previously uncovered workers

- ILO (2017) [World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable Development Goals](#). Geneva: International Labour Office.
- ILO (2017) [Building Social Protection Systems: International Standards and Human Rights Instruments](#). Geneva: International Labour Office..
- ILO (2016) [Non-Standard Forms of Employment: Understanding Challenges, Shaping Prospects](#). Geneva: International Labour Office.
- ILO (forthcoming) *How-to-guide to drafting social security law in line with international social security standards (working title)* (Geneva: ILO).
- ISSA (2016) ISSA Guidelines: Administrative Solutions for Coverage Extension, 2016. (Geneva, International Social Security Association).
- RNSF (2017) [Extending Coverage: Social Protection and the Informal Economy](#). Rome, Milan and Brussels: Research, Network and Support Facility, ARS Progetti; Lattanzio Advisory; AGRER.

## 4.2 Extending legal coverage to workers in micro and small enterprises [MSME]

### 4.2.1 What are the specific challenges with regard to including workers in micro and small enterprises under social security legislation?

The large majority of employees worldwide work in micro and small enterprises.<sup>8</sup> A large proportion of these employees work in informal economic units and therefore do not benefit from social protection coverage (ILO, 2017e; Kushnir et al., 2010). However, many employees in formal MSEs are not protected either, which is in some cases related to their exclusion from legal coverage. In some cases, legal frameworks do not apply to employees in small and micro enterprises below a certain minimum size, leaving the labour force of workers in micro and small firms unprotected by statutory social insurance (ILO, 2013a, p. 408; Mesa-Lago, 2008a, p. 82). For example, in Viet Nam, until 2005, workers in enterprises with less than 10 employees were not covered by social security legislation, and were therefore not covered by social insurance.

In many cases the introduction of social insurance mechanisms prioritized workers in larger enterprises, yet in many cases, the extension to smaller enterprises has not yet been undertaken, sometimes linked to concerns about limited administrative capacities of small enterprises. This legal exclusion of MSEs contributes to low coverage rates of their workers. In Latin America, for example, social insurance coverage in microenterprises is between one-third and one-thirtieth of coverage levels in large enterprises (Mesa-Lago, 2008a, p. 82).

In addition to the exclusion from labour and social security legislation, incomplete enforcement may further hamper the social security coverage of workers in micro and small enterprises (Pena

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<sup>8</sup> There is no single definition of micro and small enterprises, and the number of employees may not be the sole defining criterion. Typically, micro-enterprises are defined as enterprises with up to ten employees, small enterprises as those that have ten to 100 employees, and medium-sized enterprises as those with 100 to 250 employees (ILO, 2015a, p. 2). This is also the definition used in this publication, unless specified otherwise.

et al., 2012). A further complication arises from the fact that in some cases the employment relationship may not be easily identifiable, ambiguous or hidden, which is often the case particularly in micro and small enterprises (ILO, 2013a, p. 408; Smit and Mpedi, 2010).

#### ***4.2.2 How can workers in micro and small enterprises be included under social security legislation?***

Legally including employees of all firms into social security legislation can be achieved through different means:

- a) by lowering or removing minimum thresholds with regard to enterprise size in the social security or labour legislation;
- b) including additional categories of workers in the legislation to take account of the diversity of employment situations.

##### ***Lowering or removing minimum thresholds with regard to enterprise size***

Many countries have gradually lowered or removed minimum thresholds with regard to enterprise size in their social security legislation.

In **Thailand**, coverage of social security legislation was gradually extended within 12 years from enterprises with 20 or more employees in 1990 to enterprises with 10 or more workers in 1993 and to those with one or more employee in 2002 (Thailand Development Research Institute, n.d.).<sup>9</sup> In the **Republic of Korea**, health and pension coverage was also gradually expanded to workers in smaller companies. The compulsory health insurance scheme was initially implemented in 1977 for those working in companies of more than 500 employees, but it was expanded in 1979 to firms with more than 300 employees, in 1981 to those with more than 100 employees, in 1983 to those with more than 16 employees and in 1988 to firms with more than 5 employees. Mandatory pension coverage started in 1988 for companies with more than 10 employees and was expanded to those with more than 5 employees in 1992 (Kwon, 2009).

In **Jordan**, the Temporary Social Security Law of 2010 extended coverage to workers in enterprises with less than five employees, which had previously been excluded from social insurance, as well as Jordanians working abroad. In order to facilitate this extension of coverage, the government's *Outreach to all Strategy* included an information and awareness-campaign that subsequently addressed enterprises in workers in all regions (see box 4.3 and country profile).

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<sup>9</sup> This extension of coverage was also accompanied by an expansion of benefits in 1998, adding old age pension and child allowances to the existing sickness, maternity, invalidity and death benefits.

**Box 4.2: Jordan's strategy to expand social security for workers in small enterprises**

The Jordanian Social Security Corporation (SSC) initiated in 2008 its Outreach to All Strategy in order to extend social security coverage. The strategy is based on three components: (a) extend social security coverage to enterprises employing less than 5 workers; (b) reach Jordanians working abroad; and (c) redefine the insured person in the social security law to avail the right for SSC to cover employers, housewives, the self-employed, agricultural workers, fishermen and those working in the informal sector.

Regarding the first component, the objective was to extend social security coverage to 150,000 enterprises with less than five workers and approximately 340,000 workers which has been successfully reached by gradually extending to enterprises on a geographic basis from zone to zone. Besides expanding coverage to micro and small enterprises, the benefits were also expanded from old-age, disability, death insurance and work injuries to now also including maternity and unemployment.

Source: (ISSA, 2009c; NSour, 2011).

In **Viet Nam**, the Labour Code (Law of 23 June 1994, art. 138) states that the State shall establish policies with the aim to gradually expand social security and protect workers and their families in the events of sickness, maternity, termination of working age, death, occupational accidents and diseases, loss of work, mishaps and other difficulties to each category of beneficiaries of enterprises (section 140 (1)). While originally, mandatory coverage was restricted to enterprises with 10 or more employees (section 141), in 2005 it was expanded to all enterprises for employees with a labour contract of three months or longer (Castel, 2009; Daza, 2005a). Thus, in theory all employees with contracts of at least three months should be covered by social security. However, in 2010 less than 50 per cent of all registered private enterprises contributed to the Vietnam Social Security Fund. The low compliance rate is partly attributed to limited regulatory knowledge and weak enforcement mechanisms, which hinder the government from ensuring that the relevant laws are implemented (Lee and Torm, 2017).

*Extending legal coverage to additional categories of workers*

Some countries have also extended legal social security coverage by broadening the scope of covered workers, for example by including those that do not have a formal contract under the category of "employee".

In **Swaziland**, the Industrial Relations Act 1 of 2000, extended the scope of labour legislation to workers who do not have a written employment contract by defining an employee as "a person, whether or not the person is an employee at common law, who works for pay or other remuneration under a contract of service, or under any other arrangement involving control by, or sustained dependence for the provision of work upon, another person". "Arrangements", indicating control by or sustained dependence upon another person, will be sufficient to trigger the protective labour rights contained in the legislation.

Similarly, in **Malawi**, the Employment Act of 2000 defined an employee as a person "who offers his services under an oral or written contract of employment, whether express or implied", and as "any person, including a tenant share cropper, who performs work or services for another person for remuneration or reward on such terms and conditions that he is in relation to that person in a position of economic dependence on, and under an obligation to perform duties for, that person more closely resembling the relationship of employee than that of an independent contractor".

In **India**, Unorganized Workers' Social Security Act, 2008<sup>10</sup> defined different categories of workers in the unorganized sector, including wage workers, home-based workers, self-employed workers, considering the specific circumstances in the informal economy. Wage workers are defined as "persons employed for remuneration in the unorganised sector, directly by an employer or through any contractor, independent of place of work, whether exclusively for one or more employers, whether in cash or in kind, whether as a home-based worker, or as a temporary or a casual worker, or as a migrant worker, or workers employed by households including domestic workers..." (Art. 2(n)). A home-based worker is defined as a "person engaged in the production of goods or services for an employer in his or her home or other premises of his or her choice other than the workplace of the employer, or remuneration, irrespective of whether or not the employer provides the equipment, materials or other inputs." (Art. 2(b)). The Act guides the extension of coverage to workers in the informal economy, as set out in specific legislation.

While the extension of legal coverage is an important step towards the extension of effective coverage, it may be necessary to combine the extension of legal coverage by other measures to raise awareness and to facilitate registration, the payment of contributions and compliance (see chapters 3, 5, 6 and 7).

#### ***4.2.3 What else needs to be considered when aiming at including workers in micro and small enterprises in social protection schemes?***

Bringing workers in micro and small enterprises under social security and labour legislation is obviously one critical step in extending coverage for these groups, yet in many cases this will not be sufficient to effectively ensure coverage for this group. Additional measures are needed with regard to ensuring that administrative processes do not pose an overly high burden on small enterprises (see Chapter 5), contribution rates do not pose an excessive burden on small enterprises (see Chapter 6), social security and labour inspection mechanisms are effective and adequate and that compliance is encouraged (see Chapter 7), and that both workers and employers are informed of the regulations in place and are aware of the importance of social security coverage (see Chapter 3).

##### **Checklist 4.1: Considerations on bringing employees in micro and small under social security legislation**

- What are the main obstacles to extending legal coverage to workers in small enterprises? Is there a legal threshold that defines a minimum enterprise size for the coverage of employees? Is the definition of "employee" overly restrictive? Other provisions?
- In case there is a legal threshold with regard to a minimum enterprise size, could this threshold be eliminated or gradually be reduced? What additional measures would be necessary to ease the administrative burden for micro and small enterprises and facilitate the registration of their employees? (see Chapter 5 for more guidance).
- In case the definition of "employee" in the legislation factually excludes many workers in micro and small enterprises, is there scope to revise this definition? What additional measures would be needed to facilitate social security coverage for a larger group of workers?

<sup>10</sup>

[http://www.ilo.org/dyn/travail/docs/686/Unorganised%20Workers%20Social%20Security%20Act%202008.p  
df](http://www.ilo.org/dyn/travail/docs/686/Unorganised%20Workers%20Social%20Security%20Act%202008.pdf)



### Further reading on extending legal coverage to workers in medium and small enterprises

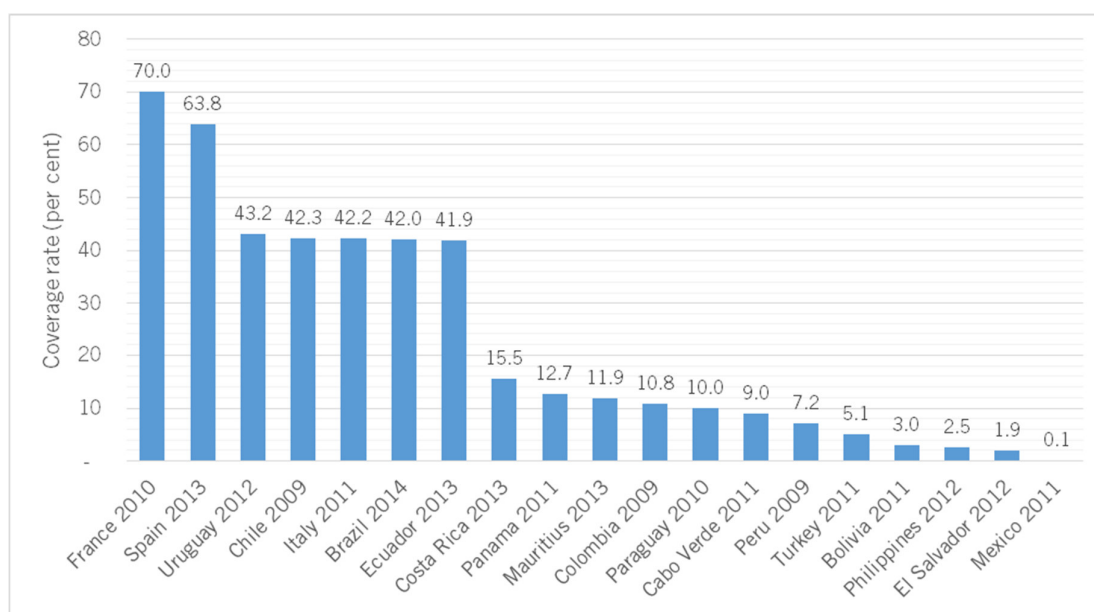
- ISSA, 2016. [Guidelines: Administrative Solutions for Coverage Extension](#). International Social Security Association, Geneva.
- ILO, 2015. [Small and medium-sized enterprises and decent and productive employment creation](#), Report IV, submitted to the 104th session of the International Labour Conference. International Labour Office, Geneva.
- ILO, GIZ, 2014. [Enterprise Formalization: Fact or Fiction?](#) Gesellschaft für Internationale Zusammenarbeit, Eschborn.
- ILO, 2013. [The Informal Economy and Decent Work: a policy resource guide supporting transitions to formality](#). International Labour Office, Geneva.

## 4.3 Extending legal coverage for domestic workers

### 4.3.1 What are the specific challenges with regard to including domestic workers under social security legislation?

In many countries, domestic workers represent an large share of those not covered by social security schemes, despite progress made in recent years (ILO, 2013c, 2016e). While 70 countries have in place legal provisions to provide social protection to domestic workers, a considerable deficit exists in terms of effective coverage (ILO, 2016e, see Box 4.3). In addition, more than a third of domestic workers are excluded from key maternity protection provisions, such as maternity leave with adequate compensation to ensure income security. Pregnancy therefore often entails job loss for domestic workers.

**Box 4.3: Social protection coverage of domestic workers**



Source: Based on ILO, 2016, p. 68.

**Box 4.4: The situation of domestic workers and their rights as set out in international instruments**

With at least 67 million domestic workers over the age of 14, this sector accounted for 2 per cent of the global workforce and 4 per cent of the female workforce in 2013. The sector is especially significant in Latin America with 11.9 per cent of all paid employees being domestic workers and the Middle East with 8.0 per cent. There is a strong gender dimension with an average of 80 per cent of domestic workers being women, many of whom are in childbearing age (ILO, 2013d, 2015b). Many domestic workers (globally on average 17 per cent) are international migrant workers, which also affects their social security coverage (ILO, 2013d).

Domestic workers are not a homogenous group, thus they differ regarding their demographic profile (age and gender, as well as migration status), but also the nature of their jobs (full-time or part-time; live-in or live out) and the tasks they perform (cleaning, looking after elderly people or children, guarding the house, driving children to school, gardening or cooking and beyond). This means, that defining the term “domestic worker”, should not rely on a listing of specific tasks or services but rather find a general formulation that draws on the common feature of domestic workers, which is that they work “in or for a private household or households.”

The ILO Domestic Workers Convention, 2011 (No. 189) is based on the following definitions (Article 1):

- a) the term “domestic work” means work performed in or for a household or households;
- b) the term “domestic worker” means any person engaged in domestic work within an employment relationship;

A person who performs domestic work only occasionally or sporadically and not on an occupational basis is not a domestic worker.

At international level, this has been recognized and various standards on domestic work have recently been adopted, such as the ILO Convention (No. 189) and Recommendation (No. 201) concerning Decent Work for Domestic Workers, both adopted in 2011. The Domestic Workers Convention, 2011 (No. 189) defines domestic work as “work performed in or for a household or households”...“within an employment relationship.” A person who performs domestic work only occasionally or sporadically and not on an occupational basis is not a domestic worker. (Art. 1) The Convention calls upon Member states to extend protections to domestic workers equal to those enjoyed by workers generally with respect to terms and conditions of employment, the fundamental principles and rights at work, and social security, among others.

The rights of domestic workers are also set out in the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), and the General Recommendation No 26 on Women Migrant Workers (including domestic workers), adopted by the CEDAW Committee in 2008. The Committee on the Protection of the Rights of All Migrants and Members of their Families (CMW) adopted a General Comment on Migrant Domestic Workers in 2010.

Source: Based on ISSA 2012a; ILO 2013b.

One reason for the low level of effective coverage lies in the exclusion from the scope of labour and social security legislation. Estimates show that only 10 per cent of all domestic workers are covered by general labour legislation to the same extent as other workers, whereas 47.8 per cent are partially covered, and 29.9 per cent not at all (ILO, 2013c, p. 51).

Domestic workers may be explicitly excluded from legislation as a category, or they may be effectively excluded due to less likely to comply with the eligibility criteria set out in the legislation, for example with regard to minimum working hours or salary thresholds. For example

in **Belgium**, domestic workers are excluded from social security if they work less than 24 hours a week. In **Panama**, domestic workers working less than three days per week for the same employer are excluded from medical coverage and the retirement pension. In **Argentina**, medical coverage is provided only if a domestic worker works at least 6 hours for the same employer, which excludes many of those working for shorter hours or for multiple employers (ISSA, 2012, p. 49). In addition, they may not have clear terms of employment or a formal employment contract (Mesa-Lago, 2008a), or they may be excluded on the ground of their nationality, considering that some legislation only applies to nationals, which effectively excludes migrant domestic workers.

Even where legislation exists, workers may be excluded from social security coverage in practice because legislation is not enforced (Daza, 2005b). This may be due to the nature of domestic work which is carried out in private homes, making domestic workers less visible and more prone to informality and vulnerable to abusive practices (ILO, 2013d). Social security registration is also difficult to monitor and enforce due to the usually low capacity of labour inspectorates to access households, for legal, financial and practical reasons (ILO, 2015c). Inspections may not take place, where inspectors do not have the legal power to enter private homes and even if they do, the dispersion of workplace makes inspections more costly and time consuming compared to inspection of other worksites (Daza, 2005b) (see also chapter 7). Adding to this, domestic workers often have few possibilities to access grievance mechanisms and voice their concerns, which is related, among other factors, to the dispersion of their workplaces (ISSA, 2012) (see also chapter 7).

While labour laws and associated regulations still exclude the majority of domestic workers worldwide, many countries have reformed their labour and social security laws to include domestic workers, including in Argentina, Bolivia, Brazil, Chile, France, South Africa, Spain, Switzerland, and Uruguay. The extension of labour protection to these workers is a first step in extending social security to this group, and to bring national legislation in line with the relevant international human rights and labour standards (see Box 4.4) (ILO, 2012b, 2013c; ITUC and UN Women, 2013).

#### **4.3.2 How can domestic workers be included under social security legislation?**

Including domestic workers in labour and social security legislation is an important first step towards ensuring better protection. This can be done through extending the coverage of existing legislation to include domestic workers, or by developing legislation that are specifically addressed to them.<sup>11</sup> Such legislation has to take into account the specific nature of domestic work, including the fact that many domestic workers work for more than one employer..

In recent years, several countries have developed and implemented labour and social security legislation for domestic workers. **South Africa** has extended legal coverage of unemployment, maternity and sickness insurance to domestic workers through the Unemployment Insurance Amendment Act adopted in 2003, which has led to a significant improvement in the protection of domestic workers (see Box 4.6). In **Brazil**, mandatory unemployment and employment injury insurance was extended to domestic workers in 2013 (see Box 4.7). In the **Philippines**, the Domestic Workers Act 2013 made social security benefits legally available to domestic workers (see box 4.8). In **Bolivia**, legislation protecting domestic worker has been existing since 2003 but has not been implemented until 2008. This changed with the introduction of a new legislation, strong government commitment and a strong women-led advocacy (see box 4.9). In **Saudi Arabia**, domestic workers were covered for medical care and sick leave in 2013.

<sup>11</sup> Examples for specific laws on domestic work include **Bolivia** (Act No. 2450, law to regulate domestic work), the **Philippines** (Domestic Workers Act, 10361/2013), **Mozambique** (Decree no. 40/2008 on domestic workers), **Uruguay** (Act 18.063 on domestic work) and **Brazil** (constitutional amendment no. 72/2013 on domestic work).

**Box 4.5: Extending unemployment and maternity insurance to domestic workers in South Africa**

In 2003 domestic workers in South Africa for the first time were legally granted some social protection benefits. The Unemployment Insurance Amendment Act included domestic workers in the Unemployment Insurance Fund (IUF), which provides a) relief in case of partial or full unemployment due to dismissal, retrenchment, illness or death of the employer; and b) maternity benefits for pregnant domestic workers before or after their children are born, depending on their contributions. Recognizing the specific situation of domestic workers, the right to unemployment benefits was included even when the person is still partially employed e. g. when she/he has lost employment with one employer, but still works for another. It also entitles to unemployment benefits in the case of the death of the employer. Employers and domestic workers each contribute one per cent of the monthly salary into the Fund. The implementation of the law was accompanied by the provision of financial and human resources to train and employ additional labour inspectors to strengthen control mechanisms.

By 2008, the number of registered workers has reached 633,000, employed by 556,000 employers with 324,000 domestic workers having received benefits. By April 2009, an additional 23,000 employers (total 579,000) had registered their worker.

Source: Based on ILO, 2012, p. 146; ITUC and UN Women, 2013; Olivier, 2009

**Box 4.6: Unemployment and employment injury insurance for domestic workers in Brazil**

In Brazil, constitutional amendment no. 72/2013 established equality of labour rights between domestic and other workers. Regarding social protection, it added to the already existing right to maternity leave, the right to unemployment insurance and insurance in case of occupational accidents for domestic workers. Until then, domestic workers were covered by unemployment benefit only if the employer contributed to the Time-In-Service Guarantee Fund (Fondo de Garantía por Tiempo de Servicio, FGTS). As this was an optional payment for the employer, coverage was very low (11,793 out of 6.7 million domestic workers). The unemployment insurance has not been put in practice yet as the amendment states that payment to the Unemployment Compensation fund and unemployment insurance needs to await the drawing up of regulations before they come into effect.

Source: Based on (ILO, 2013d, p. 33)

**Box 4.7: The Philippines: the Domestic Workers Act (Batas Kasambahay)**

The Domestic Workers Act, 10361, 2013 (Batas Kasambahay) extends social security rights, including health insurance, to an estimated 1.9 million domestic workers. It derives guidance from the ILO Domestic Workers Convention, 2011. Eligible are those workers that have at least rendered one month of service, and which will be covered by the Social Security System (SSS), the Employees Compensation Commission (ECC), the Philippine Health Insurance Corporation (PHIC) and the Home Development Mutual Fund (Pag-IBIG Fund). Contributions are fully paid by employers for those domestic workers earning less than P5.000; and shared between employers and workers for those earning higher wages, as defined by the law.

The Act also provides for mechanisms to quick response to abuse and accessible means for grievances. To implement the act, civil society organizations have conducted a campaign with the objective of changing attitudes towards domestic workers, which among others changed the term to “kasambahay” (household helper). The Government declared April 30 as National Domestic Workers’ Day. Media outreach is also regularly been done and a National Domestic Workers’ Summit is frequently been organized.

These awareness raising tools, together with strong political commitment at national and local level, strongly contributed to the successful implementation of the law.

Source: (ILO, 2013d, p. 33)

**Box 4.8: Expanding social security coverage for domestic workers in Bolivia**

In Bolivia domestic work has been legally regulated since 2003 by Act No. 2450 (ley de regulación del trabajo asalariado del hogar). However this act had not been implemented until 2008, when the National Plan for Equal Opportunities (decreto supremo no. 29850) brought up domestic work again to the political agenda by recognizing that “*domestic work is a social contribution without which the economic system cannot function*”. In the same year, a law was passed that extends healthcare coverage to domestic workers, providing healthcare and hospitalization coverage for workers and their children, and making doctors available in the evenings (from 5pm-9pm) so that workers can actually access medical care.

With the new constitution in 2009, the implementation of Act No. 2450 and other related provisions was prioritized again, focusing on two priority areas: Eliminating informal and insecure employment of domestic workers through labour laws; and enforcing social security by proposing unemployment benefits and extending pension coverage to domestic workers. The latter implemented in 2010, allows domestic workers to join the Comprehensive Pension System (SIP) and make a monthly contribution of about 14% of the minimum wage. If they contribute over 10 years, they can apply for a pension. However, most domestic workers are likely to be excluded from this pension, as many will probably not be able to afford contributions.

Relevant factors for successfully bringing rights of domestic workers back to the political agenda in Bolivia, can be seen in a strong women-led advocacy, as well as a government committed to empowering women workers.

The Labour Code provides domestic workers with better maternity leave entitlements than other workers benefitting from a total of 90 days of maternity leave, rather than the 60 days applicable to other workers. This is an exceptional example of more than equivalent maternity leave provisions for this category of workers.

Source: Based on (ITUC and UN Women, 2013)(ILO, 2013d, p. 33) (ILO, 2012b, p. 146) (ILO, 2013d, p. 33)

Including domestic workers in social security and labour legislation does not only provide better social protection for domestic workers, but it also contributes to valuing social protection as work

rather than a voluntary, non-valuable activity. Thus, in various cases, the implementation of new laws went along with campaigns that aimed at changing the attitude towards domestic work as a valuable and necessary work that needs to be respected and adequately remunerated. In South Africa domestic workers were described as professionals with skills; in the Philippines the government introduced the National Domestic Workers Day. In Mozambique it was stated by law that domestic work is a “social contribution without which the economic system cannot function”.

All countries discussed here that have expanded social security coverage to domestic workers, counted with strong political commitment and the support of civil society organizations. In South Africa, “political will, policy determination and public awareness, backed by some measure of international support, have been central to the relative success of extending protection to domestic workers” (Olivier, 2009, p. 26). In Bolivia, the engagement of women-led advocacy was crucial for successful starting to implement the law on domestic work in 2009.

Therefore strong government commitment at different levels of government will be essential when designing and implementing laws and schemes for domestic workers. This should go along with the collaboration with civil society and domestic workers organization and maybe some international support. Also lawmakers need to be involved in the developmental stage.

#### ***4.3.3 What else needs to be considered when aiming at including domestic workers under social security legislation?***

While the extension of legal coverage is essential, legislation itself does not guarantee the inclusion of domestic workers into social protection schemes. Thus, legislation needs to be accompanied by mechanisms to ensure the application of the laws in practice. These mechanisms can include the creation of incentives for registration (see Chapter 5), the adaptation of labour inspection mechanisms to the situation of domestic workers (see Chapter 7), effective grievance mechanisms (see Chapter 7) and/or the raising of awareness regarding existing laws and schemes (see Chapter 2).

#### ***Policy Coherence***

As domestic workers law interferes with various public policy fields, policy coherence is also relevant. Multi-stakeholder social dialogue and consultation is important, that should include domestic workers organizations.

#### ***Collective Bargaining***

Although not directly related to social protection, collective bargaining and the right to organize can play an important role in pushing forwards legislation that includes domestic workers in social protection schemes and/or implementation instruments that guarantee that they have access also in praxis. Due to the nature of domestic work that refers to usually personalized private, individualized work as well as geographic dispersion and isolation, domestic workers tend to be less organized and/or have no bargaining rights. However, in cases where they are organized, domestic workers groups played a leading role in improving the situation of domestic workers, as for example in **Bolivia**. Therefore it will be essential to support the organization of domestic workers.

#### ***Adapted solutions***

Finally, it needs to be stressed that domestic work is very diverse, including live-in and live-out workers, full-time and part-time work, as well as particularly vulnerable categories of workers, such as child labourers, migrant workers and internal migrants from rural areas. This means, that there is not one solution for all countries and probably not even for all domestic workers within



one country. Policy responses need to take these differences into account, and combine the extension of legal coverage with complementary measures.

#### Checklist 4.2: Considerations on bringing domestic workers under social security legislation

- What are the main obstacles to extending legal coverage to domestic workers? Are they excluded from coverage altogether? Are the criteria used to define an “employee” overly restrictive?
- Does the legislation require private households employing domestic workers to register them with the social security institute?
- In case there are legal threshold with regard to the minimum hours of work per day, week or month, could these be reduced? Could measures be taken that allow for the recognition of total working hours provided for more than one employer?
- In case the definition of “employee” in the legislation factually excludes many domestic workers, how could it be adapted to cover this group of workers more effectively? What additional measures would be needed to facilitate social security coverage for a larger group of domestic workers?
- In case the legislation excludes migrant workers, which measures could be taken to eliminate discrimination and ensure equal treatment?
- What additional measures would be necessary to ease the administrative burden for employers of domestic workers? (see Chapter 5 for more guidance)
- What additional measures would be necessary to ease the financial burden for employers and domestic workers? (see Chapter 6 for more guidance)
- What additional measures can be taken to ensure that enforcement and inspection mechanisms are adapted to the specific nature of domestic work? (see Chapter 7 for more guidance)
- What additional measures could be taken to ensure that domestic workers and their employers are aware of the legislation that applies to them, and that they can effectively access appropriate grievance mechanisms? (see Chapter 2 for more guidance)

#### Further reading on the extension of legal coverage to domestic workers

- ILO. 2012. [\*Effective Protection for Domestic Workers: A guide to designing labour laws\*](#). (Geneva: ILO).
- ILO (2015) [\*Labour inspection and other compliance mechanisms in the domestic work sector: Introductory guide\*](#) (Geneva: ILO).
- ILO (2016) [\*Social protection for domestic workers: Key policy trends and statistics\*](#). (Geneva: ILO).
- ILO (2016) [\*Formalizing domestic work\*](#) (Geneva: ILO).



## **4.4 Extending legal coverage to agricultural workers**

### ***4.4.1 What are the specific challenges with regard to including agricultural workers under social security legislation?***

Worldwide over 1 billion people work in the agriculture sector, making it the greatest source of employment after services. Of these, many are operating in the informal economy with variable and often low levels of income, and without adequate social protection coverage (FAO, 2015, 2017; ILO, 2015d, 2017a).

However, many times agricultural workers are legally or practically excluded from social protection coverage. This is especially the case for self-employed peasants, sharecroppers and squatters. Estimates for Latin America show that social security coverage for rural populations is one-third to one-sixth of that of the urban population (Mesa-Lago, 2008b, p. 54). Regarding health coverage, many categories of rural workers are often legally excluded, and rural populations in general face much greater difficulties in accessing health care services than urban populations (Mesa-Lago, 2008b; Scheil-Adlung, 2015).

Several factors contribute to the legal exclusion of agricultural workers from social security coverage. In some countries, workers in the agricultural sector, or some categories of workers in this sector, are generally excluded from coverage of the main social security of labour legislation, or may be subject to a separate legislation which often provides for a lower level of protection. However, even where the legislation does not explicitly exclude agricultural workers, criteria on the duration of employment or working hours may effectively exclude large groups of agricultural workers, such as temporary/seasonal workers, particularly day labourers, or part time workers. For example, in Tunisia, seasonal agricultural workers are not included in the general scheme for the self-employed (see Box 4.10).

In addition, many agricultural workers do not have an identifiable employment relationship and may therefore not be included in legislation covering employees only. Moreover, low and fluctuating incomes due to seasonality, the remoteness of the work and living place, high labour mobility and a lack of organization also contribute to the exclusion of many agricultural workers from legal or effective coverage.

### ***4.4.2 How can agricultural workers be included under social security legislation?***

Measures to include agricultural workers under social security and labour legislation need to recognize the specific conditions of work in the agricultural sector, including seasonality and remoteness of the living and work place.

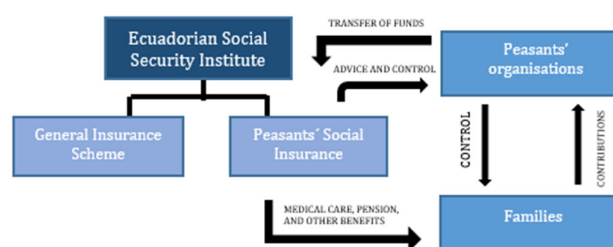
To expand legal protection for agricultural workers, some countries have implemented specific legislation or have extended their general social security legislation. Ecuador covers agricultural workers through the Peasants' Social Insurance Scheme, which is regulated by the general social security law and administered by the main social security institution (see Box 4.9). Tunisia unified the schemes for self-employed non-agricultural workers and for self-employed agricultural workers in 1995 with the objective of expanding coverage of agricultural workers (see Box 4.10).

#### Box 4.9: Ecuador: Peasants' Social Insurance (SSC)

Regulated as part of the general social security law, the Peasants' Social Insurance (*Seguridad Social Campesino*, SSC) own account workers in agriculture. SSC includes health and maternity coverage for the whole family and in case of old age, invalidity and death of the insured person.

The SSC is managed by the Social Security Institute (IESS), which also manages the general social security scheme. Agricultural workers can register individually or through a peasants' organisation, which is responsible for collecting contributions and for transferring them to the IESS. Access to the scheme is facilitated through the availability of a good service infrastructure in all provinces. Based on the principle of solidarity, the scheme is financed through a combination of contributions of the insured, a cross-subsidization from employers and employees registered in the general insurance scheme, a contribution by public and private insurances and a subsidy from the state.

SSC has enabled the Ecuadorian rural population to benefit from social insurance based on the principle of solidarity. It is the main social security mechanism for rural workers, of which 73 per cent are covered under the SSC (23 per cent under the IESS general insurance). In 2017, the SSC covered 1.2 million people, and provided pensions to 74,000 people.



Source: Based on Durán Valverde et al., 2013; IESS, 2016; ILO, 2018.

#### Box 4.10: Tunisia: Unifying social protection schemes for non-agricultural and agricultural own-account workers

Tunisia introduced a new legislation in 1995 that, among others, created one unified social insurance scheme for the self-employed, merging the separate schemes for the self-employed in the non-agricultural and agricultural sector. This unified rules and benefits and increased the number of the insured considerably.

Besides, a scheme of free medical assistance was introduced for low-income groups of the population not covered by other social insurance system. Eligible persons include seasonal agricultural workers under a certain income threshold.

These changes, together with the establishment of different income categories (see chapter 6) contributed to a considerable improvement in social security coverage for health care, old age pension, maternity and employment injury. Within 10 years, coverage of workers and their families raised from 60 to 84 per cent. However, while today nearly all Tunisians who work in the public and private non-agricultural sectors are covered, coverage of agricultural workers and the self-employed still remains below 50 per cent. Those still legally excluded are mainly casual and seasonal agricultural workers (working less than 45 days per quarter for the same employer).

Source: Based on Bailey, 2004; Ben Cheikh, 2013; Olivier, 2009.

Extending legal coverage to agricultural workers may not only necessitate adjustments in the law, but may also require adjustments in the regulations accompanying the law. For example, many agricultural workers do not have stable incomes throughout the year, but their income fluctuates with the seasonality and productive cycles. Due to the structural characteristics of their economic activity, they are prone to experience difficult economic situations which may result in the reduction of their income, and consequently of their contributory capacity. Adapting the

regulatory framework to take account of these characteristics can help to facilitate their coverage and to provide better protection for this group of workers.

For example, in Colombia, various decrees have been enacted to better adapt the regulatory framework to the circumstances of agricultural workers, including with regard to the assessment of incomes and the possibility to temporarily opt out of pension insurance in case of lack of contributory capacity (see Box 4.12).

**Box 4.11: Adapting legislation to the specific situation of agricultural workers in Colombia**

In Colombia, Laws No. 100 of 1993 and No. 797 of 2004 determine the framework guidelines for the social security system and its subsystems. It was recognized that many of these guidelines were not practicable for certain groups of workers, a number of decrees have led to a series of regulatory changes which have facilitated access for agricultural workers. These changes included

- Allowing insured persons to declare their income throughout the year (instead of only at the beginning of the year, as it was previously the case), in order to take into account productive cycles and variations of the economic activity over the circle of the year (see Chapter 6).
- Introducing the possibility to inform the social insurance of changes in their circumstances (“news report”) which allows the insured self-employed, employees or their employers to adjust their contribution to the health insurance.
- Allowing own account workers to temporarily opt out of pension insurance in case they do not have the contributory capacity to contribute to both health and pension insurance.

With such adjustments in the regulations, Colombia facilitated the extension of social protection for agricultural workers.

Source: Based on Durán Valverde et al., 2013

When adapting schemes to the situation of agricultural workers, it will also need to be taken into account that different groups of agricultural workers may be excluded for different reasons, including their employment status, income level, land size and ownership status and nature of their agricultural production. While the majority of agricultural workers may be low-income own-account or temporarily employed workers with no or very little land, there are also agricultural workers who are employed on a permanent basis and those who are employers, usually possessing large plots of land.

In order to ensure the effective coverage of agricultural workers, schemes should be designed in a way that is as specific to the needs and financial capacities of this group as possible. This usually requires a detailed assessment of the situation of different groups of agricultural workers, to better understand their specific needs, their contributory capacity, the available infrastructure etc. (Chaabane, 2002). Such assessments should be conducted, if possible, with the participation of social partners and other stakeholders. For example in Argentina, the *Convenios de Corresponsabilidades Gremial* were a result of active participation of trade union entities. In Tunisia, part of the successful implementation can be explained by the fact that the government initiated the scheme, but always consulted representatives of the groups to which coverage was been expanded as well as employers and workers representatives.

#### **4.4.3 What else needs to be considered when aiming at including agricultural workers in social security legislation?**

In addition to extending legal coverage, other measures are necessary to ensure that the legislation is applied in practice and leads to the effective coverage of agricultural workers. Such

mechanisms can include finding mechanisms that allow for flexibility regarding the time and amount of contribution (see Chapter 6), facilitate registration and administration (see Chapter 5), the adaptation of labour inspection mechanisms to the situation of agricultural workers (see Chapter 7), effective grievance mechanisms (see Chapter 7); and inform agricultural workers about existing schemes and how to access them the raising (see Chapter 3).

#### **Checklist 4.3: Considerations on bringing agricultural workers under social security legislation**

- What are the main obstacles to extending legal coverage to agricultural workers? Are they excluded from coverage altogether? Are the criteria used to define an “employee” overly restrictive?
- In case there are legal threshold with regard to the minimum duration of employment, could these be reduced to take into account temporary (seasonal) employment?
- In case the legislation factually excludes many agricultural workers, is there scope to broaden the definition of covered workers? What additional measures would be needed to facilitate social security coverage for a larger group of agricultural workers?
- In case the legislation excludes migrant workers, which measures could be taken to eliminate discrimination and ensure equal treatment?
- What additional measures would be necessary to ease the administrative burden for employers of agricultural workers? (see Chapter 5 for more guidance).
- What additional measures would be necessary to ease the financial burden for employers and workers? (see Chapter 6 for more guidance).
- What additional measures can be taken to ensure that enforcement and inspection mechanisms are adapted to the specific nature of the agricultural sector? (see Chapter 7 for more guidance).
- What additional measures could be taken to ensure that agricultural workers and their employers are aware of the legislation that applies to them, and that they can effectively access appropriate grievance mechanisms? (see Chapter 3 for more guidance).

## **4.5 Extending legal coverage to self-employed including own account workers**

### ***4.5.1 What are the specific challenges with regard to including the self-employed under social security legislation?***

In many countries, social security legislation has traditionally focused on the protection of employees. Although many countries have extended social security coverage for self-employed workers, in many countries own account workers, and other categories of self-employed are still excluded from legal coverage (ILO, 2013a; Mesa-Lago, 2008a).

The exclusion of the self-employed from legal coverage has often been explained by the following factors (ISSA, 2012):

- the diversity of circumstances, needs and contributory capacities among the self-employed. The situation of liberal professions or business owners is very different from the situation of small farmers, contractors, members of cooperatives or contributing family workers (see Box 4.13);

- the “double contribution challenge”, that is the requirement that self-employed workers assume the full contribution (employer and employee contribution), unless specific measures are in place to reduce the contribution rate; and
- the administrative burden in terms of income declaration, record-keeping, contribution collection and benefit claims.

Yet, in many countries, the self-employed, or at least certain categories of the self-employed, have been brought under social security legislation. These countries have found ways of addressing the specific challenges through a range of measures to adjust to the situation of the self-employed and to extend coverage to this group (ISSA, 2012).

However, even if workers are formally covered by labour and social security legislation, in practice they might not have access to the available social and labour protection. This may be because the law is not applied or not enforced or because compliance with the law imposes excessive costs and procedures may be complex or inappropriate. Also, existing legislation and schemes might not respond to the situation and needs of own account workers and other categories of self-employed, e. g regarding contribution terms and amount and benefits or because of a lack of information (F. Bertranou, 2007; ILO, 2013a, p. 33f.).

A particular challenge relates to the fact that some workers may declare themselves as self-employed to benefit from less rigid tax and contribution obligations, although their terms of employment are in fact very similar to paid employment, particularly if the person works only for one client/employer. In fact, such “disguised self-employment” has in fact been used by some companies to increase their flexibility by transferring economic risks to workers and limiting their employment and social protection. In order to avoid such abuses, many countries have put measures in place to more carefully define self-employment. For example, in Spain, persons who work more than 75 per cent of their time for one client are considered as a salaried employee and therefore obliged to contribute to the unemployment insurance (ISSA, 2012, p. 18).

#### **Box 4.12: Definition of self-employed and own-account workers**

Defining the category of self-employed workers can be challenging. In line with the international statistical standards (Resolution concerning the International Classification of Status in Employment, ICSE-93), the following sub-types of *self-employment jobs* can be distinguished according to the type of authority they will have over the productive unit which they represent or for which they work:

- *Employers* engage on a continuous basis one or more persons to work for them as ‘employee’.
- *Own-account workers* have the same authority over the economic unit as the ‘employers’, but do not engage ‘employees’ on a continuous basis.
- *Members of producer cooperatives* take part on equal footing with other members in determining the organization of production etc.
- *Contributing family workers* cannot be regarded as partners in the operation of the productive unit because of their degree of commitment to the operation of the unit, in terms of working time or other factors, is not at a level comparable to that of the head of the enterprise.”

Self-employment can take place both in the formal and informal economy.

In many cases, the distinction between employees and the self-employed can be ambiguous, and some categories of workers may fit in both the categories of paid employment and self-employment, depending on the criteria applied. For example, owner-managers of incorporated enterprises from a contract perspective are ‘employees’ but from an authority perspective can be seen as ‘employers’. Contractors, outworkers (homeworkers) and franchisees from a contract perspective are ‘self-employed’ but from an authority perspective frequently may be seen as in a situation similar to ‘employees’.

Source: Based on (ILO, 2015e).

#### **4.5.2 How can the self-employed be included under social security legislation?**

There are different approaches and measures to legally extend social security coverage to own-account workers and the self-employed at large. In view of securing large risk pools and facilitating labour market mobility, it would be preferable to prioritize the extension and adaptation of existing social insurance schemes to the self-employed; otherwise specific schemes could be established for this group.

The success of strategies of extending coverage to the self-employed will depend on the extent to which the legislation and its application takes into account the circumstances and needs of the self-employed, particularly with regard their ability to pay contributions, priority needs and adapted administrative procedures.

#### ***Inclusion of self-employed and own-account workers in social security legislation and schemes***

Various countries included the self-employed and own-account workers into the general social security scheme, including Brazil, Cabo Verde, Costa Rica, Ghana, Jordan, Kenya, Mexico and the United Kingdom (ISSA, 2012, p. 18).

The inclusion of self-employed workers under the general social security scheme has the advantage of allowing for workers to remain in the same social security scheme independent of their employment status, and allow for adequate coverage in situations when workers combine (part-time) paid employment with self-employment. Given that the self-employed do not have a (clear) employment relationship, it may be necessary to foresee specific provisions for the self-employed, especially with regard to the calculation of contributions.



In addition, the inclusion of the self-employed will also require the redefinition of relevant terms in the legislation, such as “contributor” or “insured person”. For example, in Jordan, in order to expanding social security to all people working inside the Kingdom and to Jordanians abroad as part of the “Outreach for All” initiative, the notion of covered workers in the Social Security Law was changed: Instead of “the employee” it now includes “any person”, thus the law also applies to the self-employed and own-account workers (ISSA, 2009c). In Brazil, an important step for including own-account workers into social security legislation was the creation of the legal concept of self-employed micro-entrepreneur (*Microempendedor Individual*, MEI) and the facilitation of their coverage through the Plan Simples (see Box 4.13, see also Section 6.2.3).

**Box 4.13: Brazil: Micro empreendedor Individual (MEI)**

Brazil established the legal category of self-employed micro-entrepreneurs in 2008 through the Complementary Law nº 128, revised by subsequent laws. Micro-entrepreneurs are defined as self-employed persons with a maximum gross annual income of BRL 81,000 (approx. USD 20,800) who do not participate in another company as a partner or shareholder and have no more than one employee.

This law simplified registration and payment by combining tax payments and social security contributions for the entrepreneur within one flat payment. It is part of the special unified taxes and contributions scheme *Simples Nacional* that addresses micro and small enterprises. However, the rates charged under the MEI mechanism are lower than those under the regular *Simples Nacional*.

Micro-entrepreneurs covered under the law are provided with access to a basic pension, disability and survivor benefits, health and maternity protection, as well as a family allowance in the case of imprisonment or death of the household’s main income earner. Medical care is provided through the public system (Sistema Único de Saúde, SUS), as is the case for workers affiliated to the general regime. Micro-entrepreneurs can access additional benefits provided under the general regime, such as old age pensions based on individual contributions, by opting to change their status, paying a 20% contribution rate and covering any other differences.

Micro-entrepreneurs can also hire one employee at reduced social insurance contribution rates (8% instead of 20% for employer contribution), which provides the employee with the same social security entitlements as all other employees.

The MEI programme has succeeded in quickly increasing coverage. By 2017, more than 4.9 million micro-enterprises had registered under the law.

Source: Based on ILO, 2014b, 2013a; ILO and GIZ, 2014; Nagamine Costanzi et al., 2013; Santiago, 2018.

The reforms conducted in Costa Rica and Cabo Verde are good examples in how self-employed workers were included into the general pension and/or health insurance schemes by making participation mandatory, reducing contribution levels and adapting benefits to those of employed workers (see Box 4.14 and Box 4.15). In Latin America, similar reforms took place (F. Bertranou, 2007; Bertranou, 2014).



**Box 4.14: Costa Rica: Making social health and pension insurance mandatory for the self-employed**

In 2000, the Worker Protection Law made registration for social health and pension insurance mandatory for the self-employed, establishing a gradual implementation procedure. In 2004 a regulation established that the self-employed must register within eight working days after the start-up or acquisition date of the company or business. Initial registration requires name, personal data, identification number, company name, and worker activity, physical address, telephone numbers, fax, and e-mail address. In March 2005, a national programme for the registration of self-employed workers established different registration requirements for different categories of the self-employed (active physical employers, liberal professionals, other economic activities and those linked to collective insurance agreements by small and medium farmers).

Contributions are subsidized for low-income self-employed and are lower for those with small incomes, the smaller the income of the insured person is (see box 5.13). The strategy was accompanied by actions to control payment deadlines of participating employers and own-account workers. For that purpose, new inspectors were hired focusing on those economic activities, country areas and working shifts that tend to be more likely for evasion (see also chapter 7).

Source: Based on (Durán Valverde et al., 2013).

The example of Cabo Verde (see Box 4.15) demonstrates that legislative reform alone is likely not to be enough and that additional measures need to be taken to ensure the implementation of the laws.

**Box 4.15: Expanding coverage for the self-employed in Cabo Verde**

In Cabo Verde, coverage of the self-employed was enacted in 2003 (Decree-Law No. 28). However, in practice this law only started to be implemented with a reform (decree-law no. 49/2009) in 2009, accompanied by a plan of action extending social security to self-employed and domestic workers (*Plano Operacional para a Extensão da Segurança Social aos Trabalhadores Independentes e Domésticos*) in 2010. Among others, registration of the self-employed was made mandatory and contribution rates were established according to income categories.

Within one year of implementation, coverage rates for self-employed workers increased from zero to nine percent. It is expected that coverage will continue to improve in the short and medium term.

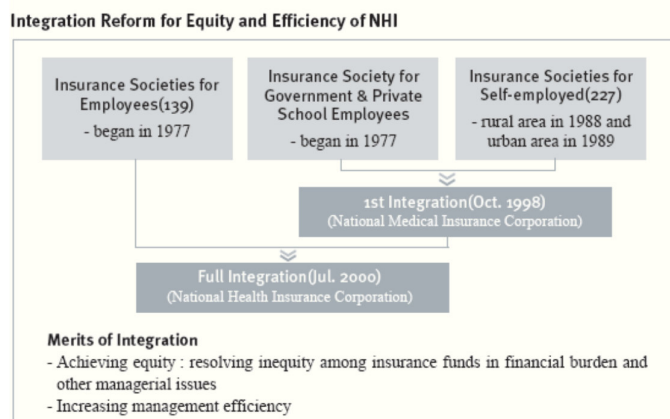
Source: Based on (Durán Valverde et al., 2013).

In the Republic of Korea, mandatory health insurance was gradually extended from large to smaller companies and finally to self-employed workers through three social insurance schemes. Once everyone was covered under one of the three schemes, these were merged (see Box 4.16).

**Box 4.16: Korea: Gradually expanding health insurance to the whole population**

Between 1977 and 1989 the Republic of Korea gradually extended health insurance to the entire population, starting with mandatory coverage of employees of large corporations, government employees and teachers and gradually including smaller companies. In 1981/82 a pilot was conducted to extend insurance coverage to the self-employed in five rural and one urban area. In 1988, it was extended to all rural and one year later to the urban self-employed. In 2000 the three existing health insurance societies (for Employees, for Government and Private School Employees and for Self-employed), were merged into a single national health insurer, the *National Health Insurance Corporation* (NHIC).

For the self-employed in low income brackets, contributions are subsidized by the government, including from a tobacco tax. With the merger of the three main schemes, solidarity mechanisms were created through larger risks pools, which allowed the reduction of government contributions over time. Administrative costs were also reduced to 3.8 per cent in 2008 from before 4.8 per cent for government and school employees and 9.5 per cent in the scheme for the self-employed.



The coverage of the self-employed increased from 83.6 to 92.7 per cent between 1989 and 1999. In 2007, total coverage of health care insurance amounted to 96.3 per cent of the population.

Source: Based on Kwon, 2009; ISSA, 2012

Many countries have opened pension insurance to the self-employed on a voluntary basis, as for example in Ghana and Namibia, yet this has not led to a significant expansion of coverage. In the case of Ghana, while the uptake of voluntary pensions coverage has been very low, the Ghana National Health Insurance Scheme has been able to extend protection mandatory coverage to the self-employed through flat-rate contributions and exemptions (ILO, 2015d, see Box 6.21).

***Establishment of specific social insurance schemes for own-account/self-employed workers***

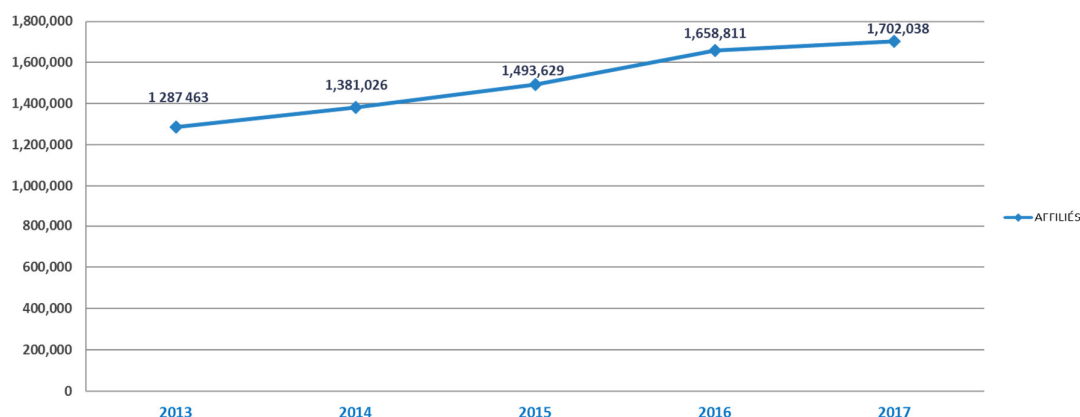
Some countries have established specific schemes for (different categories of) self-employed workers addressing their particular situation. Some countries have introduced one scheme for all self-employed workers (e.g. Algeria, Belgium, see Box 4.17); others have introduced separate schemes for different categories of self-employed workers (e.g. France, Germany, Spain) (ISSA, 2012; Spasova et al., 2017; Eurofound, 2017).

These separate schemes may not cover the same range and level of benefits as the schemes for salaried workers. In many countries, unemployment protection is not included under those schemes, and in many countries cash sickness benefits may be missing or may be voluntary (OECD, 2015, p. 181). For example, in Colombia, coverage for old age pensions and health is mandatory, whereas employment injury coverage is voluntary (ISSA, 2012).

**Box 4.17: Algeria: social insurance scheme for non-salaried workers (CASNOS)**

Algeria's national social security fund for non-wage earners (*Caisse Nationale de Sécurité Sociale des Non-Salariés*, CASNOS) was established in 1992 to consolidate and improve social protection for different categories of the self-employed and other non-wage earners, including business owners, artisans, farmers and members of liberal professions.

The CASNOS ensures mandatory coverage of all non-wage earners based on the principles of solidarity and the collective sharing of risks. The fund covers health protection (medical care), maternity, disability, survivorship, old age pensions. In 2017, the fund had 1.7 million affiliated members.



The CASNOS follows a strategy that combines the simplification of procedures and the facilitation of access, information and awareness-raising to ensure the effective extension of coverage and to promote formalization of employment.

Source: Based on a presentation by the Director General of the CASNOS, Dr Acheuk Youcef Chawki, Turin, November 2018.

The creation of separate social insurance schemes for specific groups always entails the risk of creating barriers for labour mobility, particularly if these schemes are not managed by the same institution. Such difficulties may occur if workers move between different jobs, between paid employment and self-employment, or if they combine (part-time) paid employment and self-employment (ILO, 2016b). Appropriate mechanisms need to be found as to account for such situations in a way that minimizes negative effects on labour mobility and protects workers' entitlements. Such mechanisms can include, for example, a unified social security number that facilitates the portability of social security entitlements across institutions in the case of a change in employment status (ISSA, 2016a; ILO, 2018d). The absence of such mechanisms may constitute a barrier to labour mobility and favour the informalization of employment.

Thailand provides an example of a voluntary social insurance scheme for self-employed workers for old-age pensions. Partly subsidized, this scheme is based on flat-rate contributions, which facilitates the administration of the scheme. Members of the scheme can select between two different levels of contributions, which give rise to two different levels of benefits. It is assumed that members will automatically choose the category that fits their contributory capacity and/or necessity (see box 6.2). In Kenya, the Mbao Pension Plan is a voluntary individual savings account plan addressing own-account workers that are members of different Jua Kali Associations (artisans operating their own small business in open air) (see box 6.17). However, as discussed in Section 2.1.2, voluntary schemes usually do not lead to a substantial extension of coverage.

#### 4.5.3 *What else needs to be considered when aiming at including the self-employed in social security legislation?*

Given the specific characteristics of the self-employed workers, and the heterogeneity of this group, a range of additional measures is necessary to ensure that the legislation is applied in practice and can be effectively enforced. Such measures can include adapting the modalities for facilitating registration and other administration procedures (see Chapter 5), calculating and paying contributions (see Chapter 6), the adaptation of labour inspection mechanisms to the situation of different groups of self-employed workers (see Chapter 7), effective grievance mechanisms (see Chapter 7); inform and sensitize the self-employed about existing schemes and how to access them (see Chapter 3).

##### **Checklist 4.4: Considerations on bringing the self-employed under social security legislation**

- What are the main obstacles to extending legal coverage to the self-employed? Are they excluded from coverage altogether? Are the criteria used to define the categories of covered workers overly restrictive?
- If the legislation covers the self-employed, does it foresee a sufficiently differentiated approach that takes into account contributory capacities, circumstances and needs of different groups of the self-employed?
- What additional measures would be needed to facilitate social security coverage for a larger group of domestic workers?
- What additional measures would be necessary to ease the administrative burden for the self-employed? (see Chapter 5 for more guidance)
- What additional measures would be necessary to ease the financial burden for self-employed with limited contributory capacities? (see Chapter 6 for more guidance)
- What additional measures can be taken to ensure that enforcement and inspection mechanisms are adapted to the different categories of self-employed workers? (see Chapter 7 for more guidance)
- What additional measures could be taken to ensure that the self-employed understand the importance of social protection, that they are aware of the legislation that applies to them, and that they can effectively access appropriate grievance mechanisms? (see Chapter 3 for more guidance)

##### **Further reading on the extension of legal coverage the self-employed**

- ILO, 2017. [Building social protection systems: International standards and human rights instruments](#) (Geneva, International Labour Office).
- ISSA. 2012. [Handbook on the extension of social security coverage to the self-employed](#) (Geneva, International Social Security Association).
- ISSA 2016. ISSA [Guidelines: Administrative Solutions for Coverage Extension](#) (Geneva, International Social Security Association).
- Spasova, S., Bouget, D., Ghailani, D., Vanhercke, B., 2017. [Access to social protection for people working on non-standard contracts and as self-employed in Europe: A study of national policies](#). European Commission, Brussels.

## 5 Removing administrative barriers: Facilitating access and simplifying procedures

### Key questions

- ? What are the administrative barriers that workers and employers in the informal economy face, particularly with regard to registration, accessing benefits and other administrative procedures?
- ? How can access to and registration in social protection systems be facilitated for both employers and workers in the informal economy?
- ? How can administrative procedures be adapted to the needs and circumstances of workers and employers in the informal economy, such as through facilitating access and simplification of procedures?

### Key messages

- \* Removing administrative barriers is key to enhancing the coverage of workers and employers in the informal economy.
- \* Much can be done within current legal frameworks and budgets, yet some measures may require additional efforts in adapting laws, regulations and in strengthening administrative capacities.
- \* Reaching out to workers in the informal economy and facilitating access to registration and other administrative procedures can help to enhance social protection coverage. International experiences demonstrate that expanding physical access points, using mobile technology and digital services, coordinated IT solutions and delivery mechanisms offer a range of possibilities that can help to expand coverage.
- \* Simplifying procedures can further help to expand coverage, namely through making information more accessible, reducing the need for supporting documents, facilitating registration through collective registration agreements and accounting for labour market mobility, and can also facilitate transitions to the formal economy.
- \* Administrative procedures should be made as accessible, comprehensible, simple and efficient as possible, to ensure that potential barriers for potential members are reduced. Outreach and registration campaigns can help to raise awareness and facilitate access to schemes, yet they need to be accompanied by a broader set of measures to remove administrative barriers for workers and employers in the informal economy.

### 5.1 What are the administrative barriers faced by workers and employers in the informal economy?

Many workers in the informal economy face difficulties regarding administrative procedures in social protection schemes, including registration, and may find themselves unprotected, even if covered by the legislation. While employees in formal employment can rely on employers to register them with the social security institution and pay contributions on their behalf, yet most workers in the informal economy do not benefit from this intermediary role of an employer.

Those who are self-employed (own account workers, contributing family members) do not have an employer who could act as an intermediary to handle the interaction with social security institutions. Their own capacities are often very limited: they may not have the necessary knowledge about social security coverage and how to avail it; they cannot afford to spend the time away from their business to go through lengthy registration procedures; and many of them face additional obstacles, such as illiteracy, in coping with the requirements of administrative procedures (ISSA, 2012; RNSF, 2017). [SE]

In the case of domestic workers, the employer are private households who often have limited capacities to deal with complex registration procedures. As a result, even where domestic workers are included in legislation and where insurance is mandatory, many employers do not comply with the obligation to register their workers with the social insurance fund. For instance, in Namibia, employers are obliged to register domestic worker who works at least one day per week with the Social Security Commission (SSC), but fewer than 20 per cent of all domestic workers are registered (ILO, 2013d). [DW]

Yet, even many of those who work in a dependent employment relationship in an enterprise often cannot count on being duly registered and covered.

- Some employers (especially small and micro enterprises) may not have the administrative capacities and/or the necessary knowledge/information to register workers with the social security institution, or may be reluctant to do so. [MSE]
- Employers may be particularly reluctant to register workers employed for a short time, particularly short-term, seasonal or casual workers, and those with varying work schedules (unspecified hours of work). [AW] [DW]

As many social security schemes were designed for employees in the formal economy, the extension to workers in the informal economy usually requires adaptations in the administration of the scheme, with regard to reducing complexity as well as the direct and indirect costs of registration and accessing benefits (ISSA, 2016a). It will also be essential to make sure that all workers and employers are well-informed about existing schemes, how to register, contribute and access benefits (ISSA, 2016b). In many cases, a review of administrative procedures, and the adaptation of such procedures, will not only benefit those who can join the scheme, but will also smoothen administrative procedures for the already existing members.

The cost of complying with administrative requirements create effective barriers to social security coverage for different categories of workers in the informal economy, namely those

- who do not have an employer (the self-employed including own account workers);
- whose employer has limited administrative capacities (workers in micro- and small enterprises; domestic workers employed by private households); or
- whose situation is particularly complex due to frequent changes of employers and employment status (namely workers on temporary contracts, seasonal workers); work for multiple employers (namely domestic workers); or instable revenues (namely the self-employed, workers in agriculture).

In many cases, workers in the informal economy fall in more than one of these categories.

The following sections discuss specific barriers that all or different groups of workers in the informal economy can face, namely geographical barriers, barriers related to complex procedures, lack of information, as well as financial barriers and the cost of compliance.

In addition, some groups of workers may face additional barriers. For example, persons with disabilities may have difficulties accessing an office or reading written information unless provided in an accessible format. In the interest of ensuring an inclusive social protection system, ensuring accessibility should be a priority for social security administrations.



### **5.1.1 Lack of information and awareness**

Remoteness or isolation of the workplace and home, illiteracy and/or a low degree of organization can also cause a lack of information regarding the right to social protection in general and existing laws, policies and schemes and the costs and benefits involved in particular as well as on how to access them.

A lack of information and awareness can be addressed through registration campaigns tailored to the specific needs and situation of the workers and employers (see Section 5.2); more general awareness raising campaigns also play an important role (see Section 3.2). In addition, simplifying administrative procedures and facilitating access (Sections 5.3 and 5.4) also contribute to enhancing access to information.

### **5.1.2 Geographical barriers: access to social security offices**

If social security offices are not located in areas close to the enterprise, or workplace or home of the addressed person, information and registration can become particularly difficult and costly. In many countries, social security offices may not be available in rural and remote areas, and transport facilities to the next office may not be available or expensive. Visiting social security offices can mean a considerable cost for transportation as well as an investment in time for both employers and workers. Such cost are particularly prohibitive for small and micro enterprises, as well as the self-employed, given that most of them limited administrative capacities, and time spent on administrative procedures has a direct opportunity cost in terms of lost earnings [SME]. Especially for the self-employed, long distances and inadequate opening hours can also involve an indirect cost (opportunity cost) if they have to close their business for the time required to visit a social security office during office opening hours, which causes a loss of income [SE].

Such geographical barriers are a particular concern for workers and employers in rural areas. Remoteness and sometimes illiteracy, renders registration and payment of contributions more challenging and more costly for farmers and agricultural workers. As farms are scattered and often located far away from local branches of social security institutions and as there is usually a low number of persons concerned in one zone, attendance might become very costly and workers may need to travel increasing cost and time for registration and contribution.

For agricultural or construction workers, a frequent change of the workplace can become an additional barrier to registering in social security institutions. As a result, employers or workers may therefore not have the opportunity to visit the social security offices [AW].

Several options exist with regard to overcoming geographical barriers. Providing additional access points to facilitate access to services is one option (see Section 5.3.1), as are collective registration agreements (see Section 5.4.4). In addition, mobile and online access may be able to facilitate access, provided that employers and workers have access to the Internet and feel comfortable using this channel (see Section 5.3.2).

### **5.1.3 Barriers due to complex registration procedures**

Registration procedures can be complex and demanding, especially where separate registration procedures are required for each scheme. Filling complex registration forms can constitute an enormous challenge for workers and employers in the informal economy, particularly for those who cannot read or write (illiteracy), or if documents are not available in the language spoken by the applicant.

In addition, the requirement to provide supporting documents can become a hurdle where these documents do not exist or are difficult and/or expensive to obtain. Providing the necessary documents for registration may involve considerable costs and require quite some time.

Overcoming such barriers necessitates a careful analysis of the potential of simplifying complex registration and other administrative procedures (see Section 5.4). Facilitating access to services



through more physical access points or innovative services delivery mechanism taking advantage of the full potential of technology (see Section 5.3) can also help to overcoming such barriers.

#### 5.1.4 Cost of compliance

Financial barriers include not only the regular cost of paying contributions (these are discussed in Chapter 6), but also the cost associated with complying with administrative requirements, including transportation to the offices of the social security institution, as well as indirect costs such as foregone earnings (opportunity costs) during the time spent on administrative processes.

Micro and small enterprises tend to have limited administrative capacities to deal with the administrative requirements, as opposed to larger enterprises which normally employ specialized staff to deal with social security matters for a larger number of employees. [MSME]

Other categories of workers and employers in the informal economy may face even greater financial barriers. In particular, own account workers face significant opportunity costs because they need to close their business when they go to a social security office.

The main entry point for containing the cost of compliance are the facilitation of access and the simplification of administrative procedures (see Sections 5.3 and 5.4).

#### 5.1.5 What are possible options for overcoming administrative barriers?

In order to facilitate registration in social security schemes and other administrative procedures, different mechanisms can be used that will be outlined below (see also Table 5.1). Administrative procedures that are related to the payment of contributions, if any, specifically are discussed in Chapter 6.

Table 5.1: Barriers to access registration and other administrative procedures and possible responses					
Possible response	Barrier	Lack of information and awareness	Access to social security offices	Complex registration procedures	Cost of compliance
Information and registration campaigns (Section 5.2)		+	(+)		(+)
Simplifying registration procedures (Sections 5.3 and 5.4)		+	(+)	+	+
Expanding the number of (physical) access points, including mobile offices and officers, information terminals (Section 5.3.1)		+	+		+
Better use of technology, such as electronic registration etc. (Section 5.3.2)			+	(+)	+
Integrated services (single window services) (Section 5.3.3)		(+)	+	+	+
Collective registration agreements (Section 5.4.4)		+	+	+	+
Changing the burden of proof		+		+	

Efforts to facilitate registration and other administrative procedures, as well as access to benefits, should take into account the specific circumstances, and adapt mechanism as necessary. It may be necessary to combine several of the strategies sketched out below.

## **5.2 Reaching out to workers and employers: Registration campaigns and other outreach measures**

Reaching out to workers and employers in the informal economy is a key element to ensure their effective coverage. In addition to general information and awareness-raising campaigns (see chapter 3.2), registration campaigns can also be an effective tool to raise awareness about the importance of social security, to disseminate information about available schemes, rights, and obligations, and to facilitate registration for both employers and workers (see also Chapter 3.2). Such campaigns are important means to overcome the lack of knowledge on social protection particularly among workers and employers in the informal economy.

Registration campaigns should not constitute a one-way street, but public authorities and social security institutions should actively listen to the concerns voiced by workers and employers during these campaigns. In fact, it may be useful to organize specific social dialogue fora, where such concerns can be voiced and addressed. This is key to address shortcomings, ensure good governance and build trust.

### ***5.2.1 Reaching out, raising awareness and disseminating information through different channels***

Facilitating access to information on available schemes and benefits, employers' and workers' rights and obligations, as well on the registration procedures is a precondition for extending social security coverage to those in the informal economy. This seems to be an obvious point, but yet, in many cases employers and workers in the informal economy are not sufficiently informed about their rights and obligations.

Making information on registration procedures easily available for employers and workers is a key component of any effort to simplify administrative procedures. Disseminating this information through various channels (see sections 5.3.1 and 5.3.3) is essential. Where appropriate, forms and documentation should be made available in multiple languages as to facilitate access for those not reading the dominant language.

One of the key elements of any registration campaign should be awareness-raising and the dissemination of information, ideally customized to the specific situation of the group(s) addressed. As outlined in Chapter 3.2 (see there for more detail), workers as well as employers should be informed about:

- their rights to social protection and their obligations in this respect
- existing social security legislation
- existing social protection schemes and benefits
- the benefits of coverage, and the costs involved
- registration procedures and/or
- possible sanctions

Such information should be accessible, correct, adequate and easy to understand. Thus, adequate channels for reaching those addressed need to be identified, staff has to be well-informed and information (material) should be interactive as much as possible. As individuals often do not know about existing legislation and available schemes and benefits, appropriate channels should be found to actively approach workers and employers in the informal economy. Such active approaches can include information campaigns that address the needs of the target group, or outreach activities that directly approach workers with information on available benefits and eligibility criteria, as well as their rights and obligations (Daza, 2005a; ISSA, 2012; RNSF, 2017).

Outreach activities can use various channels, such as TV and radio spots, newspapers, leaflets and/or online information, combined with direct interaction with the social security administration, e.g. through the involvement of mobile social security officers (see Chapter 3 and Section 5.3).

Media campaigns can be a useful instrument to support efforts to reach uncovered workers and to raise awareness. If adequate channels are chosen, media campaigns can also be successful in reaching the groups addressed. In general, they should combine different, well determined, channels to reach those addressed. Experiences in several countries (see Box 5.1) demonstrate that media campaigns can play an important role in supporting registration campaigns.

**Box 5.1: Using the media to support registration campaigns: country experiences from Jordan, the Philippines and Uruguay**

Different media channels can play an important role in supporting registration campaigns.

In Jordan, the expansion of social security to workers in small and micro enterprises within the *Outreach for All Strategy* was accompanied by a specifically targeted media campaign. The campaign was addressed to both workers and employers and aimed at raising awareness of the importance of social security. It was launched by the government in cooperation with employers' and workers' organizations and also involved students. [SE]

In the Philippines, the implementation of the Domestic Workers Act in 2013 was accompanied by an information campaign conducted by civil society organizations. The campaign was not only addressed at domestic workers and their employers but also to the general population and, among others, aimed at changing attitudes towards domestic workers. Media outreach is regularly been done and the Government declared April 30 as National Domestic Workers' Day. [DW]

In Uruguay, the adoption of law 18.065 regulating domestic work was followed by a broad-base information campaign in 2006. This helped to widely publicize the law. [DW]

Source: Based on (ITUC and UN Women, 2013; Kwena and Turner, 2013; ISSA, 2009c).

## 5.2.2 Actively reaching out to individuals, communities and employers

Registration campaigns should aim at actively reaching out to uncovered workers and to address their concerns. In doing so, detailed knowledge on the target populations as well as on social security coverage is critical. The involvement of local organizations can be a very effective means of multiplying information, particularly in rural areas.

Experiences from Rwanda (see Box 5.2), Cabo Verde (see Box 5.3) and Brazil (see box 5.16) demonstrate the importance of an active involvement of the administration. [AW] [SE] Such involvement is essential to ensure that the social protection administrations fully understands the situation and needs of informal workers and finds effective ways of engaging with them. In Azerbaijan, the social security institution created a specialized unit to reach out to employers and workers in the informal economy (Enoff and McKinnon, 2011).

**Box 5.2: Encouraging registration in Rwanda's Community Based Health Insurance Scheme**

Membership in Rwanda's Community-based Health Insurance Scheme (CBHI) is annually renewable. In order for people to take an active interest in their insurance scheme, be aware of the annual registration mechanisms and know the benefits of CBHI, the Ministry of Health organizes regular sensitization campaigns across the 30 districts. The campaigns target local political and administrative authorities and health officials, who in turn are to spread the message and mobilize the population to join the scheme. Around 45,000 community health care workers are a part mobilizing individual enrolments in the scheme.

Source: (Makaka et al., 2012; Ministry of Health, Rwanda, 2012)

**Box 5.3: Cabo Verde: Pro-active approach to extending coverage to self-employed workers**

In Cape Verde, part of the strategy to expand social insurance to self-employed workers as laid down in the *Operational Plan for Extending Social Security to Self-employed and Domestic Workers*, is the adoption of a pro-active approach. This approach consists of communication campaigns that specifically address self-employed workers and are accompanied by a set of education and awareness-raising activities at local level in urban and rural areas and with the objective to increase knowledge on the topic. The activities conducted by the National Institute of Social Security (INPS) can be divided into three stages:

1. *Addressing groups that are easier to access*, such as the self-employed in urban areas and those working in a concentrated area (e.g. traders, fish sellers). The strategy included the analysis and verification of already registered people, the elaboration of a contact plan of those excluded and the provision of bimensal reports regarding the development of registration. The eligible people are contacted through continuous information campaigns using different channels, such as information brochures, TV spots, and advertisements in printed newspapers. Also a radio station was launched. Besides collaboration with municipal chambers and associations of different labour groups (doctors, engineers, architects artists etc.) was started with the objective to increase inscriptions in associations and thus facilitate the contact to the self-employed.
2. *Development of Partnership and International Cooperation*: In this stage it was focused on establishing alliances and partnerships with different agents, institutions and associations, such as self-employed workers' organizations, development agents, community associations, syndicates and religious institutions and to jointly realize communication and awareness-raising activities, such as workshops providing information on social security.
3. *Consolidation of presence of INPS in the country's rural areas*, where the majority of self-employed workers is located. The strategy included the identification of leaders in each community and the initiation of cooperation with leaders regarding the implementation of educational and sensitization activities adapted to specific groups, such as women. The strategy also set one focus on working with children and teenagers with the objective to show future contributors the benefits and importance of social security as well as with the aim that they would also encourage their parents to register.

Thus, the INPS moved from a passive strategy which relied on workers' own initiative to an active intervention strategy that includes different components addressing the situation in rural as well as in urban areas. The INSP actively approaches the target group, and cooperates with workers' organizations and communities, aiming to educate, raise awareness, promote and facilitate registrations.

Source: (Durán Valverde et al., 2013; Pena et al., 2012)

Local authorities can also play an important role in engaging with informal workers, which may facilitate outreach activities. For example, the municipality of Belo Horizonte (Brazil) has allocated space for child care facilities for waste-pickers (RNSF, 2017, p. 66).

For any campaign it will be important to find channels through which workers and employers in the informal economy can be reached. Besides those mentioned above (e.g. workers' organizations, professional associations, media, local authorities, community leaders, mobile social security officers), there can also be other ways to establishing contact to uncovered workers and employers, as for example done in Kenya: To reach and sensitize members of different Jua Kali associations<sup>12</sup> on the importance of saving for old age and the set-up of the

<sup>12</sup> "Jua Kali" is derived from two Kiswahili words, Jua, meaning sun and Kali, meaning hot small. Those scale workers eking out their living by manufacturing products and/or providing services in open air under the tropical sun". Jua Kali has also been defined as "a skilled artisan operating his/her small business" (Maundu, 1997).

MBao Pension Plan, the “Operation Ear Drop Kenya Hearing Conservation Programme” offered free ear check-ups for artisans during which they were informed (Kwena and Turner, 2013).

### 5.2.3 Involving employers’ and workers’ organizations

Employers as well as workers organizations, including trade unions, professional organisations and cooperatives, usually know best the situation of their respective constituencies and have direct contact to their members. Therefore, registration campaigns are often more effective, when such organizations are included in the set-up as well as in the implementation of campaigns.

In Cabo Verde for example, an important element of the pro-active campaign was the cooperation with workers’ and employers’ organizations (see box 5.12). In Tunisia, employers’ and workers’ organizations played a strong role in raising awareness on social security (see Box 3.5). In Morocco, the progressive extension of coverage to the self-employed under the *autoentrepreneur* scheme is undertaken in close collaboration with professional associations.

#### Checklist 5.1: Reaching out to workers and employers

- Which channels could be used for raising awareness and disseminating information on registration?
- Which mechanisms could be used to listen to the concerns voiced by workers and employers, and receive their feedback? Consider social dialogue mechanisms, focus group discussions or a dedicated (real or electronic) mailbox?
- How can the registration campaign actively reach out to workers, employers and communities? Which innovative mechanisms could be used in this respect?
- How can employers’ and workers’ organisations be actively involved in the campaign?

## 5.3 Facilitating access to benefits and services

Facilitating access to benefits and services is key to removing barriers to social protection coverage. The following sections will thus focus on different options to facilitate such access, namely the expansion and optimization of physical access points (section 5.3.1), the better use of technologies, including mobile technologies (section 5.3.2) and integrated service delivery and information management (section 5.3.3).

Such measures are not only relevant for facilitating registration procedures, but will also help to bring benefits and services closer to the people and to ensure adequate benefits and quality services.

### 5.3.1 Facilitating physical access

Access to registration and other administrative procedures can be enhanced by expanding the number of physical access points. Expanding the number of physical access points may be facilitated by the use of new information technologies.

#### Expanding or adapting opening hours

Many workers and economic units in the informal economy face particularly high constraints with regard to the time that they can spend to follow up on administrative matters. Many workers and employers in the informal economy, especially women, face significant time constraints, and often time poverty, which can significantly limit their ability to visit offices during opening hours (Lund and Douglas, 2017).

In order to ensure that a greater number of employers and workers can benefit from personalized support from social security officers, office hours could be adapted to their needs, considering in

particular their work schedule. For example, office hours could be extended in the early morning or late evening, or during the weekend.

For example in Bolivia, the law that extends health coverage to domestic workers and their children (passed in 2008) also foresees the availability of medical services in the evenings (5-9 pm) when domestic workers actually have time to consult medical services (ITUC and UN Women, 2013).

### *Offering greater flexibility with regard to contact points*

Many workers in the informal economy also face difficulties in securing transport from their homes to their workplaces, and often are away from their homes over extended periods. Many of them are also moving from one workplace to another, depending on the nature of their work.

However, for them to be registered in a social security programme, often requires that they personally report to one specific office (often close to their registered home). The same often applies with regard to accessing benefits and services. Restrictions put in place for administrative reasons (such as the obligation to use a particular health centre) or understaffing (leading to long waiting times), can effectively exclude some workers in the informal economy from accessing social security benefits, even where universal coverage has been realized (see Box 5.4).

#### **Box 5.4: Barriers to accessing health services in India, South Africa and Thailand**

Even in countries which offer universal health coverage, workers in the informal economy can face difficulties in accessing health services. A study conducted by WIEGO in collaboration with partners in India, South Africa and Thailand found that workers in the informal economy faced a set of specific difficulties when accessing public health services, which often forced them to forego the use of health services or use private facilities instead, with often negative consequences for their health and income security.

One specific challenge is the time that is needed to access the health facility and to wait for consultation and treatment, which keeps the worker away from his or her economic activity - time is very literally money. Another challenge relates to restrictions that allow people to use only specific health facilities close to their home, rather than others which may be closer to their workplace. Such restrictions can effectively prevent many workers in the informal economy, many of whom work very long hours, from accessing health services.

Overcoming such barriers to accessing health services requires a good understanding of the constraints that workers in the informal economy face, and an adaptation of the way how the services are delivered, as to making sure that the services actually benefit the people. Policy dialogue platforms may be helpful in identifying the constraints and in finding innovative ways to addressing these challenges. In addition, mobile services can be used to deliver health prevention messages and inform workers in the informal economy about the availability of health services.

Link to video: [https://www.youtube.com/watch?feature=player\\_embedded&v=G0AhLKJrgCY](https://www.youtube.com/watch?feature=player_embedded&v=G0AhLKJrgCY)

Source: Based on information from WIEGO and Alfars et al., 2018.

Offering greater flexibility with regard to the choice of contact points (offices, services) can greatly facilitate access to benefits and services for those in the informal economy. Digital technology can be harnessed to facilitate such improved service offers through better identification mechanisms and better access to information (shared databases).

### *Increasing the number of local offices*

One approach for improving access to social protection schemes is to increase the number of local offices/access points also in rural and remote areas, and thereby reducing time and costs



associated with registration and other administrative procedures, and enhancing access to benefits and services. This however requires greater investment in the number and qualification of staff. In order to provide for a more efficient decentralized service network, integrated service delivery mechanisms (see section 5.4.4 below) may be considered.

Increasing the number of access points can also facilitate the dissemination of information about existing social security schemes, their set-up, and their costs and benefits, can be directly explained to and that officers can support them with the registration process. This is especially relevant where illiteracy is an issue.

Increasing the number of contact points for the population is an important part of the efforts of bringing services closer to the people and extending social security coverage, as the example of Cabo Verde (see Box 5.5) shows.

**Box 5.5: Cabo Verde – Opening of service centres**

As part of the pro-active approach of the *Operational Plan for Extending Social Security to Self-employed and Domestic Workers*, service centres were opened that serve as an information point and facilitate procedures for registering, payment and withdrawal of benefits. All centres are equipped with an integrated computer system (*Sistema Integrado de Previdência Social*), which allows to perform about 80 per cent of administrative procedures on site. Sites for the opening of service centres were chosen according to where the flow of self-employed workers is highest. The first centre opened in 2010 in the capital's largest popular market. By 2011 about nine service centres had opened in several cities across the country.

Source: (Durán Valverde et al., 2013)

The decentralization of social security administration and services might need to be combined with the implementation of an efficient information and communication technology (ICT) structure, including the necessary infrastructure as well as training for local staff (ISSA, 2012). In addition, such a strategy also requires adequate investment in human resources, making sure that a sufficient number of staff is available and is well-trained. Such investments can significantly enhance the effectiveness and efficiency of operations, and contribute to enhancing coverage of workers in the informal economy, as the example of Rwanda demonstrates (see box 5.6).

**Box 5.6: Rwanda's decentralization strategy**

Before 2007, most social security services were only provided at the administration head office in Kigali. Although local offices existed, they acted as "post offices"; local decision-making was not possible and the branches typically had unqualified staff and poor record-keeping. The result was low coverage, problems with compliance and poor customer service. The Social Security Fund of Rwanda (SSFR) embarked on a significant decentralization process in 2006–2007. Offices were opened in all 30 districts of the country, which were staffed by highly qualified personnel, and ICT systems were introduced. The average time required to process a claim was reduced from two months to two weeks. The impact was immediate, showing a significant improvement of the contributions collected by over 50 per cent from 2006 to 2007 and a significant extension of coverage of those in the informal economy.

Source: (ISSA, 2012)

When considering such an approach, it needs to be considered that setting up additional local offices involves considerable costs for social security institutions. These refer to the provision of the necessary infrastructure as well as additional personnel and training. This needs to be calculated carefully and the places where permanent offices are to be set-up need to be determined according to where most people can be reached. Experience shows that the setting-up of new offices has especially been successful when they were placed close to potential members (ISSA, 2012).



Decisions about the number and location of additional offices will have to find a compromise between the objective of bringing services closer to the people and ensuring access, and not incurring excessive costs for offices that serve only a small number of people. In the case of remote areas, the cost of setting up offices may be disproportionately high. However, under no circumstances, this should mean that people living in remote areas should be left out. In case permanent offices may not be feasible, alternative solution should be envisaged, such as mobile offices (see below) or single window services (see section 5.2.4).

### Mobile social security offices

Mobile offices can be an effective and efficient way to reach populations in remote areas, including rural populations [AW]. Such mobile offices may be set-up for one or more days or weeks in one village and then move to another one, thus reaching a larger number of persons (ISSA, 2012).

Such offices are being used, for example, in **Brazil** and **South Africa** (see Box 5.7). In **Jordan**, the extension of social insurance to workers in small enterprises was supported by an outreach initiative supported by mobile offices (ISSA, 2009c).

#### Box 5.7: Mobile social security offices in Brazil and South Africa

In Brazil mobile agencies (*agências móveis*) consisting of busses (PREVMóvel) and ships (PREVBarco) are used to also reach potential beneficiaries of the rural pension scheme (Prêvidência Rural) that live in very remote areas. They are mainly used in the North (Amazonas, Pará, Rondonia) and provide the same services than permanent offices.



In South Africa, mobile services of the *Integrated Community Registration Outreach Programmes (ICROP)* facilitate the registration and payment of social assistance benefits

(grants). Mobile services regularly visit remote villages in order to allow rural populations to access benefits and services.

Source: (ILO, 2015g; MPS Brazil, 2014; SASSA and UNICEF, 2013)

Depending on the equipment and time schedules, mobile offices can be used for information and registration only or also for more regular services, such as contribution collection, payment of (some) benefits and delivery of services. Mobile offices may require a higher level of technology than fixed-term offices and specific staff training, so investment costs may be high. However, these costs are likely to pay off by reaching a larger number of people.

### Outreach officers

Social protection administrations can also deploy outreach officers to visit remote areas or to areas where social security coverage is generally low [AW]. They can explain the costs and benefits of social protection schemes, eligibility conditions and administrative procedures, and can directly support the registration process, ideally supported by mobile computer facilities (tablets, laptops, smartphones). Firm visits may be timed in a way to ensure that a maximum number of staff can be reached, e.g. to coincide with staff meetings or payment days. Mobile office

operations can also be organised in partnership with employers and workers organisations, which may also help to enhance collaboration and trust.

For example, in Brazil, outreach officers are used as part of the *campanhas de busca*. Within the *Brasil Sem Miséria Plan*, this approach aims at actively searching those extremely poor people that are not yet registered under the Bolsa Família programme (Governo Brasileiro, 2014).

Setting up a network of outreach officers requires sufficient human and financial resources, but may be less costly than the setting-up of fixed local offices, while at the same time increasing the number of people reached (ISSA, 2012). However, while outreach officers can inform potential beneficiaries and support their registration, they usually are not able to provide the full range of services available in offices.

### ***Self-service terminals***

Self-service terminals can be used for delivering information and – depending on the functions – for registration and other administrative procedures. If they are adequately equipped and secured, they might also serve for consulting personal data, e.g. regarding contribution payments. However, such terminals can provide a limited number of services and may be less accessible for some categories of the population, especially for those who are illiterate. On the other hand they can reduce personnel costs. In any case, it is essential that the user surface is designed in a self-explanatory way and that indications are clear. Self-service terminals need to be very robust and frequently checked.

In the **Philippines**, self-service terminals have been used to facilitate administrative procedures in social security offices (see Box 5.8).

#### **Box 5.8: Installing self-service information terminals in the Philippines**

The Social Security System (SSS) of the Philippines introduced three innovations to increase information efficiency, effectiveness and quality: Firstly, the SSS implemented the use of smart cards to registered persons and programme beneficiaries; secondly, it installed Self Service Information Terminals (SSIT); and thirdly, it initiated the use of a web platform with free access to the Institution's members.

SSITs were placed from 1999 onwards in different parts of the country. They consist of touchscreen machines, designed with a user-friendly interface. The use of the SSS card at the terminals allows registered persons the possibility to obtain information on contribution payments, balance, and other information on existing loans, as well as to perform other operations in the institution. With the application of such a technology, and in addition of offering a service to its members, the machines can also be used for advertisement since they hold the capacity to display signs and electronic alert. Furthermore, the terminals are used to perform searches on different themes regarding the services provided by the institutions, i.e. it allows gathering information on registered persons at a low cost.

Source: Based on (ISSA, 2009d)

### ***Increasing the number of access points through agreements with other agencies, organizations or private-sector enterprises***

Another way of expanding access points without considerably increasing costs is to enter into agreements with other agencies, organizations or enterprises that are already present in the area and can assume part of the services provided by social security offices, such as postal services, commercial banks, community organizations, cooperatives or local small shops/kiosks, among others. Such partnerships can greatly facilitate access by offering a denser network of contact points, especially in remote areas, and more flexibility with regard to opening hours.

Experience shows that such partnerships work particularly well for simple processes, such as the provision of simple information, awareness-raising and payment of contributions, provided that the staff is sufficiently trained (ISSA, 2012). However, it needs to be considered such external access points provide a limited capacity for information and decision-making, as staff will often not have the required specialized knowledge. Entrusting external partners with more responsibilities requires the training of the respective staff. In **India**, post offices, banks and other agencies are authorized to carry out operations on behalf of the National Pension Scheme. In the **Philippines**, cooperatives support the enrolment of members as well as the collection of contributions which lead to a reduction in costs and an improvement in coverage levels (ISSA, 2012).

***Making the right choice: advantages and disadvantages with regard to the expansion of physical access points***

In light of the above, the expansion of physical access points requires careful consideration of the advantages and disadvantages of different options, which are sketched out in Table 5.2.

<b>Table 5.2: Options for expanding physical access points: advantages and disadvantages</b>		
<b>Possible solution</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Permanent offices</b>	+ Comprehensive services possible + staff can explain set-up, costs and benefits	- might only be efficient where offices can be accessed by many people (urban or semi-urban areas) - high investment and current costs (ICT structure, training of staff, infrastructure)
<b>Mobile offices</b>	+ can efficiently reach people in rural areas and directly target those not yet covered + staff can explain set-up, costs and benefits + Comprehensive services might be possible (depending on equipment and schedules)	- high investment costs - might only be used for information and registration if mobile offices are less well equipped
<b>Outreach officers</b>	+ can efficiently reach people in rural areas and directly target those not yet covered + staff can explain set-up, costs and benefits + little investment costs	- limited services (probably only for information, maybe for registration)
<b>Self-service information terminals</b>	+ little costs of operation + can provide information and maybe be used for registration	- not adequate for complex procedures - not adequate for illiterate people
<b>Agreements with other organizations / enterprises</b>	+ greater proximity + low additional costs + more adequate opening hours + facilitates access and reduces opportunity costs for employers and workers	- only suitable for simple procedures unless staff are sufficiently trained - decisions on registrations and benefit claims must be referred to social security institution

A combination of a higher number of physical access points and electronic services (see below) may offer a viable solution in many contexts.

#### Checklist 5.2: Expanding physical access points

- Do social security institutions dispose of a sufficient number of physical access points, including in rural and remote areas?
- Are these services available in a sufficient quality and quantity? What is the feedback from users of these services?
- Could these services be improved to facilitate the extension of coverage to workers in the informal economy? Could an increase in the number of offices, the use of mobile offices or mobile officers, self-service terminals, or possible partnerships with other agencies or organizations provide a cost-effective solution to facilitate access for workers in the informal economy and their employers?
- Could these services be combined by mobile, online or other remote access points (see Section 5.3.3) or incorporated in single window services (section 5.4.4)?

### 5.3.2 Facilitating access through digital services (phone and online services)

The expansion of physical access to social security offices should be complemented by making online and/or telephone registration possible. This might be especially relevant for those groups that have access to the internet and are generally well-informed about existing schemes and their set-up.

Where possible, information and registration should be made available through electronic means as this reduces cost, time and errors for applicants as well as for social security administrations (ISSA, 2016c). It is however important to ensure that personal data are being accessed, processed and stored in a way that ensures privacy and the protection of personal data (Sepúlveda Carmona, 2018).

#### Telephone helplines

Telephone helplines can be used to provide information or to facilitate access to registration and other administrative procedures. If they are free of charge for the applicant, this can considerably reduce time and cost for registration. If they are served by (well-trained) social security officers, information can be comprehensive and individualized but administrative costs for operating the helplines are higher. However, if they are operated by automated services, administrative costs may be lower, but the information and services provided are more limited and less individualized. Telephone helplines might be especially useful where there is no stable access to the internet, for example in rural areas. [AW], [SE], [MSME]

#### Mobile phone applications and services

Given that mobile phones have become more and more common in many parts of the world, social security institutions should consider facilitating access to registration and other administrative procedures through mobile phones. Such mobile phone services can be particularly important for rural populations, very mobile workers (transport workers, street vendors), provided that they are adapted to the situation of these populations.

Governments and social security institutions should make sure that their websites are adapted to being displayed on mobile phones. They can also develop specific applications to allow employers and insured workers to consult their personal information, contribution and benefit payment records, provided that adequate data security mechanisms are in place to protect personal information and ensure privacy. Mobile payment applications may even allow for the payment of contributions or benefits (see Chapter 6.4 for more information).

In Hungary, the registration of a new domestic worker can be made through a SMS to the responsible social security institution (ILO, 2015c, p. 23). In Mexico, the Social Security Institute (*Instituto Mexicano del Seguro Social*, IMSS) provides insured persons with easy access to relevant information and administrative procedures through a popular application running on smartphones and tablets (see Box 5.9).

**Box 5.9: Facilitating access to social security through a digital mobile application in Mexico**

The Mexican social insurance institution launched a mobile application in 2015 (IMSS DIGITAL) to facilitate access to its services. The design of the app is based on an innovative service and business model to provide several services to members, such as the allocation of the social security number; information to locate clinics according to the user's address; booking primary medical care appointments, and supporting users' inquiries on existing rights. The application contributed to saving time and money for members and providing a more efficient assistance. Between 2015 and 2017, the IMSS DIGITAL application had been downloaded more than 1.3 million times, processing more than 4.4 million of requests in a month.



Source: (ISSA, 2017d).

### Online platforms and other electronic services

Online platforms or other electronic services are an interactive approach that can, depending on the particular set-up and functions, provide services without the need to physically visit the office. Depending on the set-up and staffing, services can be provided also in the early mornings, late evenings and on the weekends. Services provided include:

- General information on existing schemes and benefits, including eligibility conditions, benefit levels, contribution requirements (if any) and administrative procedures
- Calculation of specific individual contribution requirements
- Registration
- Payment of contributions
- Estimation of benefit entitlements (e.g. pension levels)

Besides facilitating access for workers and employers, information and communication technologies (ICT) can also reduce errors and costs for social security administrations as data is directly saved in an online databank. Thus, it is a very powerful tool which generally allows to increase information efficiency, effectiveness, and quality, provided that access to ICT infrastructure is available, and that alternative methods are found for those who do not have access to online services (ISSA, 2012). For example in Brazil's *Microempreendedor Individual* (MEI) scheme, registration for micro entrepreneurs is free of charge and can be done through an online portal (see Section 5.3.2). There is no need for presenting any documents and entrepreneurs can count on the support of an accounting firm free of charge for a first consultation.



### Checklist 5.3: Mobile, online and other remote access points

- Do social security institutions already use mobile and online services to facilitate access for workers and employers?
- Are these services available in a sufficient quality and quantity? What is the feedback from users of these services?
- Could these services be improved to facilitate the extension of coverage to workers in the informal economy?

## 5.4 Simplifying procedures and improving services

The simplification of registration procedures can lower some of the barriers faced by workers and employers in the informal economy by providing easy and free or low-cost registration and payment mechanisms. Such simplification is particularly important for own-account workers and other categories of workers which cannot count on the administrative capacities of an employer.

### 5.4.1 Reducing the need for supporting documents and simplifying other procedures

Registration procedures can be facilitated by reducing the number of supporting documents required for registration. In order to account for the fact that many workers and employers in the informal economy may lack some of the documents required for registration, it may be necessary to relax requirements for supporting documents, where possible, or to allow for alternative ways of providing the necessary proofs. For example, in **Brazil's** rural pension scheme (see box 5.11), registration procedures were modified to facilitate access for workers.

#### Box 5.10: Reducing the need for supporting documents: Registration procedures in Brazil's Bolsa Família and Rural Pension

In Brazil's rural pension scheme, until 2010, rural subsistence workers with not more than one employee and owning land below a determined size ("specially insured") had to provide documents that proof that they have been working for the last 15 years in a family activity in agriculture. This could be proven by sales receipts, purchase, rental or leasing contracts of the land used or a professional license issued by the rural trade union *Instituto Nacional de Colonizacao e Reforma Agrária (INCRA)*, among others (Casa Civil and Presidência de República, 2008). Since the introduction of the *Cadastro Nacional de Informações Sociais Rurais* (CNIS-Rural) in 2010, these documents are no longer necessary. Registration only requires a questionnaire that can be filled out online or during an interview with social security officers. To reach people living in remote areas, social security officers use mobile offices (see above). Once registered, the person receives a number and access to data saved about him/her. When becoming eligible for the payment of the pension, insured persons can request the disbursement of the pension with their personal number and one identification document

Registration in Brazil's means-tested conditional cash transfer programme Bolsa Família, is conducted at municipal level. The local staff conducts an interview with the applying family, in which the family makes a self-estimation of its income. The interview is done through a standardized questionnaire (*cadastro único questionário*) which is based on the multidimensional index for the measurement of poverty and living conditions (*Índice de Desenvolvimento Familiar*, IDF). In addition to information regarding household composition and income, it also asks for other indicators regarding the level of vulnerability, e.g. access to knowledge, development of children and living conditions. If the interviews are not conducted at the applicant's home, municipalities have to make random ex-post visits with at least 10 per cent of applicants to confirm the information collected.

Source: Based on (Lindert et al., 2007; MPS Brazil, 2010; Receita Federal do Brasil, 2015).

In **Cameroon**, the National Social Insurance Fund reviewed administrative procedures and achieved a significant improvement of the claim processing procedure (see Box 5.12).

**Box 5.11: Streamlined administration of claims in the National Social Insurance Fund of Cameroon**

In Cameroon, members of the National Social Insurance Fund (*Caisse nationale de prévoyance sociale* or CNPS) were experiencing very long waiting times as their files had to be reviewed by several departments (reception, benefits and accounting). In order to fix this weakness in the systems, the CNPS developed and implemented a unified process for processing and validating files – the “Total Office” (le Bureau Total). All client benefit application forms are now processed at one central facility, and all departments involved in processing are housed at the same location. Implementation of this system is said to have reduced processing time for old age, disability and survivors’ files from 30 days to a maximum of 48 hours. For family benefits, the processing time has gone from a week to less than one hour.

Source: (ISSA, 2014c).

**Box 5.12: Facilitating the social security declarations through electronic services in Ivory Coast, Thailand and Fiji**

The National Social Insurance Fund (IPS-CNPS) of Ivory Coast facilitated the declaration of worker data by employers through the introduction of an electronic tool (Electronic Declaration of Annual Earnings, eDISA). Introduced in 2013, the tool was used for close to 65 per cent of declarations by 2016.

The Social Security Office (SSO) of Thailand initiated a significant digital service reform in 2017 aimed, on one side, at incentivising electronic contribution payments for employers via computers and mobile phone web browser; and on the other, at providing to insured persons access to relevant information such as registered hospitals, contribution and claim records, retirement savings, etc. through the SSO mobile application. Both targets were achieved by the end of 2017: the number of enterprises paying contributions online increased by almost 50% and 20% of all insured persons have downloaded the app.

The Fiji National Provident Fund (FNPF) created in 2016 an Employer Online Portal through which employers can report their social security declarations. As a result, contribution compliance increased significantly, reaching 98% of due payments in 2017. Moreover, while staff productivity and data integrity improved, errors in posting of contributions diminished considerably.

Sources: (ISSA, 2017e, 2018a, 2018b).

With the development of better ICT systems, a better coordination of information between different public authorities, e.g. through a unified database or the linking of databases, can help to reduce the demands on workers and employers to bring supporting documents based on the principle of give once for multiple use. For example, if another government department already has records of the individual’s date of birth and family status, the validation of such information can be facilitated through direct exchange of information between the social security administration and other government units. Such centralized databases or data exchange among public authorities can help to improve administrative procedures, provided that it takes place within a legal framework that provides for the effective protection of personal information and privacy (Sepúlveda Carmona, 2018).



#### Checklist 5.4: Reducing the need for supporting documents and simplifying procedures

- Is the amount of information and supporting documents required for registration really necessary?
- Could some of the documents be acquired through a direct exchange of information between public authorities, e.g. through linked databases?
- How could the registration procedure, and other procedures be simplified to facilitate access for workers in the informal economy and their employers?

#### 5.4.2 Facilitating labour market mobility, ensuring portability and transferability of entitlements

Many workers in the informal economy move between different occupations, economic sectors and status in employment. Many also combine dependent employment and self-employment. In countries with multiple social security schemes for different sectors of the economy or different types of workers, high labour market mobility is often associated with a high risk to be excluded from coverage. This may be the case, for example, where workers do not meet the minimum requirements for contribution periods, length of contract or earnings (ILO, 2016b).

How can this challenge be addressed? The most far-reaching solution would be to merge existing schemes into one unified scheme that covers all sectors and all types of workers. However, other possibilities exist to deal with such a situation.

First, social security schemes may cover not only employees, but also self-employed workers, and may even allow combining wage employment and self-employment. For example, in **Costa Rica**, the general social insurance scheme covers both employees and the self-employed, which facilitates labour market mobility and ensures access and right to benefits (see Box 5.13). This takes into account that self-employed workers often switch between different types of jobs.

##### Box 5.13: Costa Rica: social insurance coverage for self-employed workers

Costa Rica's social security system is public and universal, and based on the principles of solidarity, contributory equity and State subsidiarity. As a consequence, social insurance is mandatory for all workers - including self-employed workers, who represent nearly one third of active workers -, and for those who combine wage employment and self-employment.

The law defines self-employed workers as "any person who runs on his/her own account any type of activity that generates income". Those with earnings greater than the minimum wage contribute to social insurance, covering disability/invalidity, maternity, old age and survivor benefits, with some government subsidies for those with low contributory capacities.

Currently six out of ten independent workers contribute to the health insurance, and four out of ten contribute to the pension insurance.

Source: Based on Duran-Valverde and Pacheco, 2012; ILO, 2014a; Schwarzer et al., 2016.

Second, the portability of social security entitlements across schemes can be improved through various mechanisms. This allows workers to remain insured when changing the sector of employment (in the case of schemes covering a specific sector), geographic area (in the case of state/province/district-level schemes) or status in employment (in the case of schemes covering specific types of workers). Such mechanisms could include a uniform system of social security numbers which facilitate the identification of workers and the tracking of their insurance records and entitlements, possibly with unified smart cards such as used in the Philippines (see Box 5.12).

Third, mechanisms should be in place to facilitate social security coverage and access to social security for migrant workers, many of whom find themselves in informal employment due to a combination of factors. In some countries, legislation does not provide for equal treatment of non-nationals with regard to social security coverage. In addition, migrant workers are more likely to work in sectors or types of employment not or insufficiently covered by social security legislation, and thus face practical difficulties of coverage.

#### **Checklist 5.5: Accounting for labour market mobility**

- How can the portability of social security entitlements across schemes be facilitated, as to guarantee that workers remain insured if they change their status of employment, economic sector, or move from one place to another? This could be achieved through better coordination, or possibly also the merging of separate schemes.
- What can be done to facilitate social security coverage and access to social security for migrant workers? What can be done to avoid discrimination and ensure equal treatment? Would it be necessary to improve legal frameworks or their application? Could specific measure to raise awareness help to enhance compliance and to ensure social protection for migrant workers?

### **5.4.3 Coordinated ICT solutions**

Coordinated ICT solutions can improve the exchange of information between different institutions, and can thus also facilitate access to social security for workers and employers, particularly those with a high degree of labour mobility. For example, unified social insurance numbers, stored in a central database used by all institutions can facilitate cooperation avoid problems such as double registration, and ease the portability of entitlements. This facilitates access, and increases administrative effectiveness and reduces costs. It is however essential to keep control of the use of data and ensure that the appropriate legal framework is in place to protect the right to privacy (Sepúlveda Carmona, 2018).

Multi-functional national social security identity card systems may also facilitate the connection of different parts of administration and of different schemes. They may be an effective tool in enhancing record-keeping, improving the quality of service delivery and extending coverage to different groups. (ISSA, 2012, p. 29) Examples for such smart cards include India and the Philippines (see box 5.14).

Single window services (see above) combined with the necessary IT infrastructure would also make registration, contribution and payment processes more effective and by definition require a good coordination between the involved institutions/ministries.

**Box 5.14: The Philippines: using multifunction unified smart cards**

Since 2005, the main social security institutions of the Philippines put into service a multifunction unified card (Unified MultiPurpose ID, UMID). This smart card stores information that allows to perform transactions across several institutions, including the Social Security Scheme (SSS), the Government Service Insurance System (GSIS), the Home Development Mutual Fund (Pag-Ibig), and the Philippine Health Insurance Corporation (PhilHealth). All insured and beneficiaries in these programmes have the same card, which aims at identifying social protection participants, facilitating the implementation of procedures and monitoring, and fighting fraud. Such a unified card system can facilitate access to social security especially for self-employed workers, and those in temporary employment.

The UMID card built on the SSS card system, introduced in 1998, which facilitated the management of administrative procedures, contribution compliance, and has allowed to improve management transparency.

Source: Based on (Durán Valverde et al., 2013; ISSA, 2009d)

In **Argentina**, a simplified online registration system allows the registration of domestic workers and the administration of their social security contributions and payslips (see Box 5.15). [DW]

**Box 5.15: Argentina: Simplified online registration system for domestic workers**

Argentina has introduced a simplified online registration system for domestic workers that is linked to all social security bodies, including the National Social Security Administration (ANSES), health insurance, and occupational risk insurance companies, which receive contributions on behalf of workers. This registration system facilitates the social security coverage of domestic workers and guarantees them the full exercise of their rights.

Employers of domestic workers are responsible for uploading the relevant information using their tax identification number, including current domestic work employment relationships, as well as the hiring and dismissal of staff. Registration can be carried out via three channels: the web page of the Federal Public Revenue Administration (*Administración Federal de Ingresos Públicos (AFIP)*), online banking, and a free telephone line, which facilitates compliance by employers and ensures real time registration in the AFIP data bases. The computer application generates an employment certificate for the worker, payslips, and the electronic payment receipt of contributions via online banking.

Source: Based on (ISSA, 2015b).

**Box 5.16: Coordinated information system connecting the four national social insurance schemes in Korea**

The National Pension Service (NPS) of Korea introduced in 2003 the Social Insurance Information Center that allows citizens to access all four social security schemes (pensions, health, employment and workers' compensation) by visiting in person or electronically any of the three administering organizations. The integration of information systems facilitates administrative procedures by, as insured persons can more easily make inquiries, change, request or submit claims, and administration has made significant efficiency gains through simplifying and streamlining of various application forms and documents. It is estimated that this one-stop processing of claims or applications and the issuance of integrated statement on insurance history are estimated to save a significant amount of working hours and money both for insured persons, employers, as well as the administration itself.

Source: Based on (ISSA, 2018c).

#### Checklist 5.6: Coordinated IT solutions

- How can coordinated IT solutions facilitate access to social security for workers and employers?
- Could institutions store unified social insurance numbers in a central database in order to avoid unnecessary procedures?
- Could the implementation of a multi-functional social security identity card system facilitate the connection of different parts of administration and of different schemes?
- Could a simplified online registration system increase employers' compliance?

#### 5.4.4 Integrated service delivery mechanisms (single-window services, one stop shops)

Integrated service delivery mechanisms, such as single window services (SWSs) or one-stop shops, can help to improve access to social protection in particular in rural areas, and realize economies of scale in the administration of social security schemes. Through the provision of one integrated point of service, workers and employers can access several social protection programmes and other services (e.g. employment services, business services) at one facility. Depending on the institutional set-up, one office may be able to provide the full range of administrative services related to social protection, such as information, registration, contribution collection (if any) and benefit payment. Such social protection related services can be combined with other services, including employment services, business services, or the possibility to register for tax payments combining municipal, state and federal registration procedures in one office.

Such integrated services can considerably reduce time, costs and effort for future and present members by avoiding multiple visits to different offices. Single window services can facilitate registration in social security schemes by providing contact points close to the workplaces or homes of the groups addressed, which cover several social protection schemes or programmes, as well as other public services. Thus, a single contact point facilitates not only access, but also the referral between different social protection, employment and business services. SWSs can facilitate access to (individualized) information, for example, regarding available programmes and their eligibility as well as involved costs, benefits and processes. Applicants can receive individual advice by an assigned “case manager” who assesses vulnerabilities and skills of potential beneficiaries, develops a personal plan and provides assistance for registration to schemes, among others. SWSs thus allow for a close response to the individual needs of current and future members and avoid the necessity of multiple visits to different offices reducing time and costs of registration.

For example, in Mongolia, public service delivery through one-stop-shops (OSS) ensure access to quality social services in one of the most sparsely populated countries in the world (see Box 5.17). In Australia, a reform of service delivery mechanisms combined the reorganisation of public services through a network of Community Engagement Officers with easier electronic access, which facilitated access especially for those in rural communities (ISSA, 2015c). In Cambodia, a single-window delivery service was piloted in two provinces (see Box 5.18). In Brazil and South Africa, mobile social protection offices fulfil a similar function (see Box 5.7). In other countries, other solutions have been found to facilitate access to benefits and services (see Box 5.19).

### Box 5.17: Integrated service delivery mechanism in Mongolia: One-stop-shops

Living in the most sparsely populated country in the world, workers in Mongolia needed to travel for a long time to access different government services located at significant distance from each other. Launched in 2007, the one-stop shop (OSS) initiative increased accessibility, transparency and efficiency of public service, while enhancing coordination between institutions and reducing duplications. The OSS is a delivery point that enables people to access information on existing schemes, programmes and facilities, such as social insurance, social welfare, employment promotion, land management, civil registration and bank and notary service. In addition, telephone hotlines have been installed by many local administrations in order to provide information about services and documents needed when visiting the OSS. Over 60 per cent of the population use the OSS on regular basis (1.8 million in 2011). This case is also documented in a [video](#).

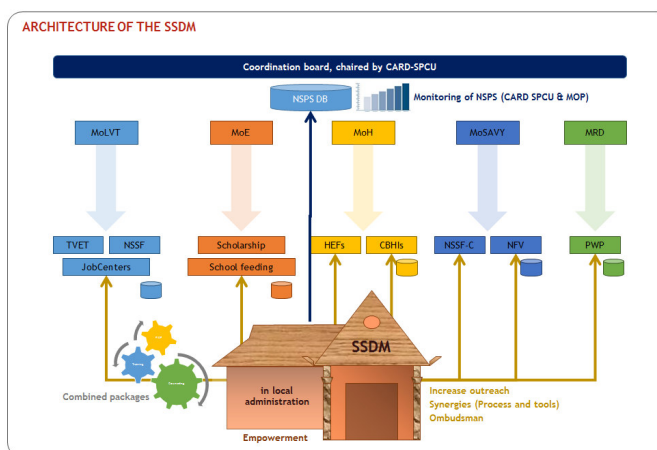


Source: Based on (ILO, 2016g).

### Box 5.18: Cambodia's Social Service Delivery Mechanism (SSDM)

In **Cambodia**, the Social Service Delivery Mechanism (SSDM) was designed as the main tool to operationalize the National Social Protection Strategy for the Poor and Vulnerable (NSPS-PV) launched in December 2011 by the Prime Minister. The mechanism was piloted at the central level and in two provinces of Siem Reap and Banteay Meanchey from June 2014 to June 2016. The main objectives of the SSDM were (i) to extend social protection effective coverage and reduce vulnerabilities, (ii) to increase efficiencies and traceability, (iii) to trigger cross-ministerial coordination, and (iv) to empower communities and local administrations in the provision of social services.

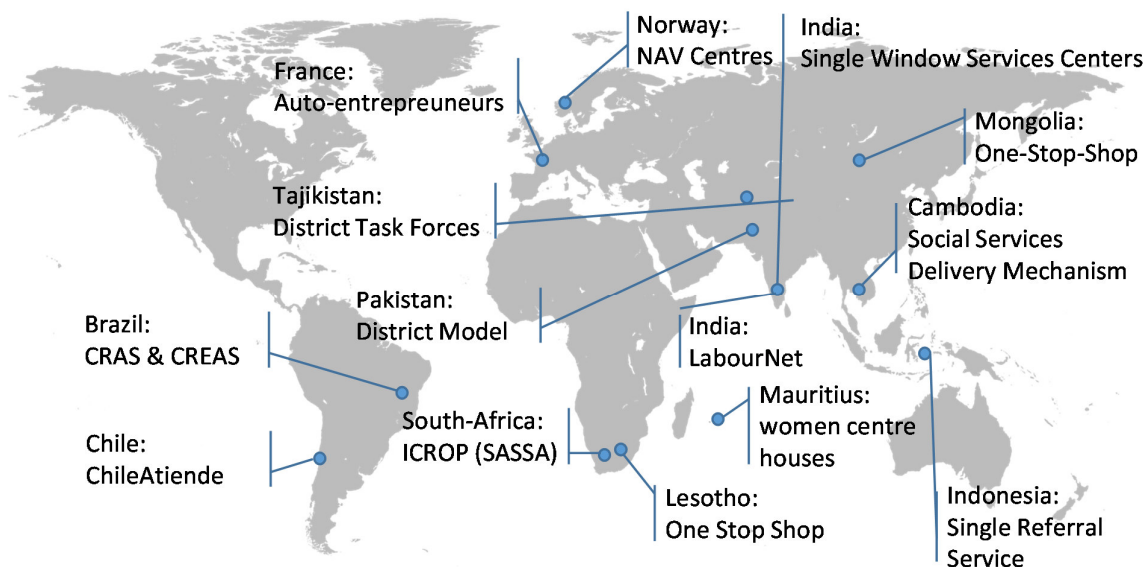
The main advantages of an integrated SSDM are the possibility for families or individuals to register in a single office at sub-national level, and access support provided through an assigned "case manager" to assess their situation, develop a personalized plan with them covering skills development, enterprise creation or job placement, channel information on all social services they are entitled to, provide support for registration to the schemes, deliver social protection ID cards, facilitate access to benefits in cash or in kind, and collects contributions (if any).



Source: Based on (ILO, 2014e, 2015h).

**Box 5.19: Examples for integrated service delivery mechanisms: single window services, one stop shops and related mechanisms**

There is a wide variety of integrated service delivery mechanisms worldwide, which take different forms. For example, in Chile, social protection benefits, social services and other public services are delivered through an integrated portal (*ChileAtiende*), accessible through local administration centres or mobile offices, or by internet or phone. In Brazil, the Social Assistance Reference Centres (CRAS) and Social Assistance Specialized Reference Centers (CREAS) channel social protection services to the population using a unified registry (*cadastró único*) as the backbone of service delivery. In Mongolia, one-stop shops (OSS) offer access to social insurance, social assistance, and other services in a single location at the local level of the administration.



Source: (ILO, 2015g, 2016g; UNDP et al., 2011).

In order to provide the population with integrated service delivery, a significant level of coordination is necessary to ensure the efficient provision of services. Such coordination is necessary along several axes: On the one hand, integrated service delivery requires horizontal coordination between different schemes and programmes, which can be facilitated by a single registry, or coordinated databases (ILO, 2015i; ILO and GIZ, 2014). On the other hand, such integrated delivery mechanisms also require a sufficient degree of vertical coordination between different levels of government, from the national/central level to the local level, to ensure that policy development, planning, service delivery as well as monitoring and evaluation are adequately aligned to ensure the effective and efficient provision of benefits and services to the population.

One-stop shops have also been established to facilitate access to public services for micro and small enterprises, and to promote business registration with a view to facilitating formalization (see Box 5.20). [SME]



**Box 5.20: One-stop shops to facilitate registration of micro and small companies and promote formalization in Colombia, Mexico and Peru**

One stop shops could add social protection related services to business services. In this regard, it is useful to consider experiences made with one-stop shop service points to promote business registration and formalization. These have been used to lower administrative barriers to business registration and to facilitate transitions to the formal economy (Bruhn and McKenzie, 2014). However, results differ according to the context. Lowering cost and complexity of registration is a necessary step, but it may be necessary to combine simplified administrative procedures with other measures to strengthen incentives and ensure the enforcement of the simplified rules.

- In Mexico a reform starting in 2002 that combined municipal, state and federal business registration procedures reduced the time to start a business from 30.1 to 1.4 days which increased the number of registered business owners by 5 per cent (Bruhn, 2011) and the number of new firm registrations with the Mexican Social Security Institute by 5 per cent. The reform also created jobs (Kaplan et al., 2007). The increase in registered business was mainly due to previous wage earners opening new businesses. While some informal business owners became workers due to the reform and some others registered their business, these effects remain small and most informal business owners remain informal (Bruhn, 2013, 2011; Kaplan et al., 2007).
- In Colombia the introduction of a one-stop shop reduced the time to register a business from 55 to less than 9 days while also lowering registration fees by 20 per cent. This led to a 5 per cent increase in business registrations in six major cities, where administrative data was analysed (Cárdenas and Roza, 2007).
- In Peru a municipal licensing reform in Lima assigned a single contact person to each business owner and reduced fees for registration. This reform increased the number of firm registrations from 1,758 in the year before the reform to 8,517 in the year after the reform. 75 per cent of these were previously informal while 25 per cent were new firms. However, the majority of newly issued licenses were provisional and many firms did not renew them after they expired after a year. The number of registrations dropped again to 3,500 in the second year after the reform (Mullainathan and Schnabl, 2010).

Source: Based on (Bruhn and McKenzie, 2014; ILO and GIZ, 2014).

**Checklist 5.7: Integrated service delivery mechanisms**

- Could geographic and administrative barriers to coverage be possibly addressed through the introduction or expansion of single window services or one-stop shops?
- Are integrated service delivery mechanisms, such as one-stop shops or single window services (SWS) for public services, already effective in the country? Do these include access to social protection? If not, could these be added to existing service delivery mechanisms, or newly created?
- How could coordination and monitoring mechanisms for SWS be organized to ensure an effective and efficient delivery of services?



### Further reading on integrated service delivery mechanisms

- ILO. 2016. [Social protection assessment-based national dialogue: A global guide](#) (Geneva).
- ILO. forthcoming. Guide on social security for migrant workers [working title]
- ILO and UNDG. 2016. [UNDG social protection coordination toolkit](#) (Geneva).
- ISSA. 2016. [ISSA Guidelines on Administrative Solutions for Coverage Extension](#) (Geneva).
- ISSA. 2016. [Communication by Social Security Administrations](#) (Geneva)
- RNSF. 2017. [Extending coverage: social protection and the informal economy](#) (Milan and Brussels).

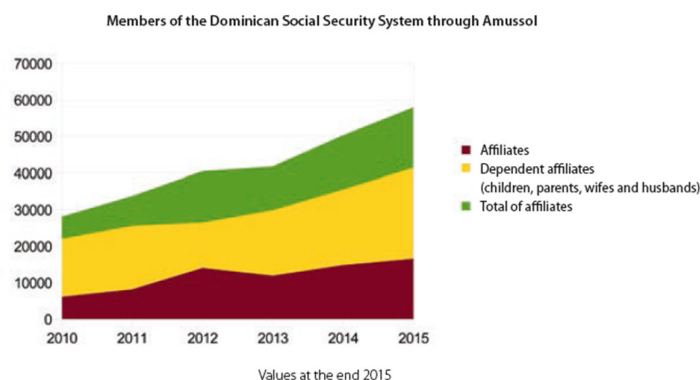
## 5.5 Collective registration or insurance agreements

Collective registration agreements can constitute a practicable way to overcome some of the barriers to extending coverage and facilitate administrative procedures through using an organization of workers (such as a trade union, cooperative or rural producers' association) as an intermediary between workers and the social security institution. Such agreements allow own-account workers to enter collective or group insurance agreements with a social insurance scheme, provided that they belong to an organization which has the capacity to be an effective partner in such an agreement. [AW] [SE]

For example, the trade-union supported association AMUSSOL in the Dominican Republic facilitates access to the public social insurance scheme for self-employed workers and other categories of vulnerable workers (see Box 5.21).

### Box 5.21: AMUSSOL: Extending social protection coverage to self-employed and informal workers in the Dominican Republic

In the Dominican Republic, Law 87-01 foresees that self-employed workers should be covered by a subsidized scheme under the Dominican System of Social Security (SDSS), yet this scheme is not yet implemented. In order to facilitate coverage for these workers, a Mutual Association of Solidarity Services (AMUSSOL) was founded in 2005 at the initiative of the Confederación Autónoma Sindical Clasista (CASC), which works in collaboration with 129 organisations of informal workers (trade unions, cooperatives or associations). As a “virtual employer”, the association operates as an intermediary for those workers who should be eligible for the contributory-subsidised regime, but are in practice excluded. AMUSSOL collects the social security contributions from its members and transfers these (excluding a 1% fee for operating expenses) to SDSS. AMUSSOL members thereby gain access to social security for health insurance for themselves and their families, employment injury coverage, and old age, disability and survivor pensions and workplace accidents insurances while having access to a pension fund. AMUSSOL so far covers around 60,000 people.



Source: Based on WSM, 2016.

Usually, the organization is in charge of grouping and registering the workers and collecting previously negotiated contributions from its members, which it then transfers to the social insurance institution. It works in cooperation with the state institution responsible for the management of the social insurance scheme. In this way, registration and payment procedures are organized and conducted by the organization while the members are provided with the benefits granted by social insurance. Thus, procedures are simplified for workers while costs for social security administrations are reduced. Especially among organized self-employed workers in the agricultural sector, experience shows that this mechanism can have very favourable impacts in rural areas (Durán Valverde et al., 2013). In addition, such organizations can play an important role in enhancing the voice and agency of the organized workers (Daza, 2005a). In addition to facilitating social security coverage, organizing into cooperatives can also mean a gain in legal recognition, enhance economic efficiency and security and a basis for accessing credit (Durán Valverde et al., 2013).

However, such a mechanism requires the existence of a rural organization that is willing and able to take over the task of administering and conducting activities related to the affiliation of its members to social security programmes. It might also be necessary to find mechanisms to guarantee that everyone has the same opportunities of joining such agreements and to avoid discrimination, e.g. due to certain (power) relationships within a community.

Examples of collective registration with public social insurance schemes can for example be found in Ecuador (Peasants' Insurance Scheme, see Box 4.9), Costa Rica (see Box 5.22), Argentina and Colombia.

#### **Box 5.22: Collective insurance agreements with farmers in Costa Rica**

In Costa Rica, own-account workers, including farmers, can group into organizations and enter collective insurance agreements with the social insurance since 1984.

For registration, the organization files an application with the social insurance, together with documentation proving its legal personality and associate number. After the organization is accredited, the negotiation procedure begins. Only own-account workers and those performing activities consistent with the nature of the organization can participate. The organization also negotiates group contributions with the Board of Directors. It is charged with collecting the previously negotiated contributions from the insured and transferring them together with a monthly report to the CCSS (social insurance institution). The CCSS Board of Directors is responsible for establishing general guidelines, approve increase in contribution scales and settle force majeure disputes. Collective Agreement registrants have the same rights as those established for employed workers. The agreement may be terminated with a three month notice by any of the parties subscribing it within the one year duration term.

Contribution levels are set according to the specific productive activity performed by the registered workers of the organization and according to the contributory capacity of the registered group. They are established through specific and regular reference incomes for certain members rather than according to income categories as done in the case of individual registration. Within the same organization, different contribution scales are established for individual members. The organization itself decides for each member which scale is most appropriate to the person's income. This is periodically verified by inspectors.

This mechanism has had a favourable impact on rural development in Costa Rica and especially on organized own-account workers in the agricultural sector, particularly among female farmers. Besides improving access to social insurance schemes they represent a tool for strengthening social cohesion and organizational and political capacity for farmers organized into cooperatives and associations.

Source: Based on (Durán-Valverde, 2013)

Where public social insurance schemes are not available, group insurance with a private scheme can provide an alternative option to provide protection to uncovered workers, such as in the case of group insurance through a waste-picker cooperative (*Kagad Kach Patra Kashtakari Panchayat*, KKPKP) sponsored by the municipality in city of Pune (India) in recognition of the value of the services of waste-pickers to the public (Chikarmane and Narayan, no year).

**Checklist 5.8: Collective registration or insurance agreements**

- Could collective registration agreements facilitate the registration of workers, and ensure access to benefits?
- Which existing organisations (e.g. trade union, cooperative, rural producers' association) could be interested and able to conclude collective registration or insurance agreements for their members?
- Which adjustments in administrative procedures would be necessary to allow for a collective registration or insurance agreements with the social security institution?
- Where public social insurance schemes are not available to address the workers' needs, would other forms of insurance be available?

## 6 Facilitating contribution collection and financing mechanisms

### Key questions

- ? How can contributions be determined in a way that is better adapted to the needs of workers in the informal economy, to take account of their often low and volatile incomes?
- ? How can the payment of be facilitated for both workers and employers, as well as the social security administration?
- ? How can differentiated income categories facilitate the establishment and calculation of contributions? How can they be established?
- ? How can the subsidization of contributions for some categories of workers from government funds facilitate the extension of coverage?

### Key messages

- \* Low and volatile incomes constitute important barriers to the extension of coverage to workers in the informal economy. Policies to extend social security coverage will need to address these challenges through (a) adapting the way in which contributions are determined; (b) facilitating contribution payment mechanisms and/or (c) combining non-contributory and contributory financing mechanisms.
- \* Adapting the way how contributions are determined can facilitate coverage of workers in the informal economy, including through redefining reference incomes for the calculation of contributions, using contributory categories to determine earned income, using simplified contribution and tax payment (monotax) mechanisms, or considering alternative reference incomes other than earnings.
- \* Facilitating the payment of contributions can further support the extension of coverage, including through the expansion of access points for the payment of contributions, the provision of individual support for the declaration of contributions, unified social insurance contributions, or adapting the timing of contribution collection schedules.
- \* For those workers with limited contributory capacities, it may be necessary to combine non-contributory and contributory financing mechanisms to ensure universal coverage and financial sustainability.

### 6.1 What are the main challenges with regard to contribution collection and financing mechanisms?

One of the key obstacles to social security coverage for those in the informal economy is the payment of contributions in the case of contributory schemes, namely social insurance.

For many workers and employers in the informal economy, one or more of the following three main challenges constitute effective obstacles to social security coverage: low incomes and limited contributory capacity, volatile incomes and the lack of an employer.

### **6.1.1 Low incomes and limited contributory capacity**

Many workers and employers in the informal economy generate low incomes which hardly allow them to make ends meet. Many of those currently not covered by social protection live in poverty or are vulnerable to fall into poverty, and have limited contributory capacity.

Particularly vulnerable are those in temporary (particularly day labourers) and involuntary part-time wage employment and those in subsistence self-employment. Among the self-employed (many of whom own account workers and contributing family members), poverty risks are high: Close to than 70 per cent of self-employed workers live in poor households, and more than 80 per cent in Sub-Saharan Africa (Cho et al., 2014; Gindling and Newhouse, 2014).

### **6.1.2 Volatile incomes**

Another challenge to the extension of coverage to workers in the informal economy is the fact that many social insurance schemes are built around the notion of a worker in a clear and stable employment relationship, with regular wages and a long-term contract.

However, many workers in the informal economy have volatile incomes, associated with forms of employment with high job insecurity (such as casual labour), seasonality (especially in the case of agricultural workers) and/or self-employment. Workers and enterprises in the informal economy may also be more strongly affected by unforeseen shocks which can cause a (complete) loss of income, such as natural disasters. In addition, informal employment is often characterized by a high level of mobility in terms of status of employment (between dependent employment and self-employment), sector of employment (e.g. between construction and agriculture), and in some cases also between formal and informal employment. Variable income may also be caused by a time lag between the time when the work was done and when the payment was received. Due to these reasons, workers and firms in the informal economy may not be able to always contribute the same amount at the same time (ISSA, 2012, p. 33).

### **6.1.3 Lack of employer or multiple employers**

A third challenge for the extension of coverage is that many workers in the informal economy cannot count on the support of an employer for the payment of contributions, or work for several employers with an unclear division of responsibilities.

In the case of self-employed who are not in an employment relationship, the social insurance scheme may provide for mandatory or voluntary coverage, yet in many cases the self-employed may not be in a position (or unwilling) to pay the full amount of contributions, which in these cases cannot be shared between workers and employers (ISSA, 2012).

In addition to a limited financial capacity, many self-employed also lack sufficient capacity to administer the regular payment of contributions. Complex, time consuming and costly declaration and payment procedures can be another barrier to formalization and participation in social security schemes. Similar challenges of limited financial and administrative capacities also apply to some micro- and small enterprises.

If a worker has employment relationships with several employers, it may be difficult to identify the respective obligations of each employer. It may also be the case that the social insurance administration may not be able to handle multiple employers. This situation can affect part-time workers with more than one job, casual workers, temporary workers or temporary agency workers (ILO, 2016b). In many cases, workers with more than one employer may end up not being covered at all, or being covered partially through one main employer, yet underreporting their total earnings, and as a result also not enjoying the level of benefits that they should be entitled to.

#### 6.1.4 Possible solutions

While these three challenges render the coverage of workers in the informal economy difficult, many countries have found solutions to address these, and these experiences will be sketched out in this chapter.

Workers and employers may not be able to provide regular monthly contributions, yet they may be able to follow alternative contribution payment schedules (see section 6.2). It may not be possible to calculate contributions based on monthly earnings, but on other reference values (see section 6.3). They may face difficulties in using regular contribution collection mechanisms, but simplified contribution collection mechanisms may overcome those difficulties (see section 6.4). However, in some cases, the limited contributory capacities require that other resources are found to guarantee coverage of these groups, such as the use of government resources to fully or partially finance the coverage of those on low incomes (see section 6.5).

##### Checklist 6.1: Main challenges with regard to contribution collection and financing mechanisms

- What are the main challenges with regard to contribution collection and financing mechanisms?
- To what extent do low incomes and limited contributory capacity negatively affect social security coverage? Which groups are particularly affected? Have specific studies been conducted to assess the contributory capacity of these groups?
- To what extent are social protection gaps related to the volatility of incomes? Are there specific mechanisms in place to facilitate contribution collection for workers in with volatile incomes?
- Are there mechanisms in place to ensure the social security coverage of own account workers and other categories of self-employed workers? Are there mechanisms in place to ensure social security for those with multiple employers?
- Is the contribution collecting mechanism simple enough for informal workers and micro and small firms?

## 6.2 Adapting the way contributions are determined

One of the options for facilitating social security coverage for workers and employers in the informal economy is to adapt the way how contributions are determined. This can facilitate coverage especially for workers with low and volatile incomes for whom it is difficult to calculate social insurance contributions as a certain percentage of the person's monthly salary. For the self-employed, including own-account workers, such adaptation mechanisms may be particularly relevant, as they cannot count on the sharing of contributions between workers and employers, and who therefore have to cover the full contribution rate alone (double contribution challenge) (ISSA, 2012).

Such measures may also address the difficulties that many workers in the informal economy might have. They include difficulties in estimating, proving and documenting their exact level of earnings, which further hampers the calculation of contribution levels. Therefore, calculating contributions on the basis of (monthly) income might become complex and subject to errors (ISSA, 2012).

Calculation methods should therefore be as simple as possible to facilitate the preparation of declarations on by employers and insured persons, and to avoid errors from the side of the social security administration. Enabling the insured persons to better understand the calculation of contributions and expected benefit levels, e.g. through the provision of an online calculation tool, can also facilitate registration.



Various approaches have been developed to address the difficulties of fluctuating incomes and the challenge of estimating exact earnings for the purpose of calculating contribution rates. These approaches aim at reducing the information that needs to be provided by the insured person or the employer, and therefore facilitate or eliminate the preparation of declarations while facilitating the calculation and recording of contributions for social security administrations (ISSA, 2012).

Table 6.1 summarizes the advantages and disadvantages of each approach, which may be used alone or in combination.

<b>Table 6.1: Different options in determining contribution levels: advantages and disadvantages</b>		
<b>Dimension</b>	<b>Advantages</b>	<b>Disadvantages</b>
Considering quarterly or annual rather than monthly incomes	<ul style="list-style-type: none"> <li>+ Can facilitate coverage for those with volatile incomes</li> <li>+ Limits number of declarations that need to be prepared by the insured person</li> <li>+ facilitates record keeping for social security institutions</li> </ul>	<ul style="list-style-type: none"> <li>- If re-adjustment needs to be done at the end of the year, well trained staff will be essential, increasing administrative costs of the system</li> </ul>
Uniform contributions (capitation payments)	<ul style="list-style-type: none"> <li>+ Simple rules</li> <li>+ Easy to implement</li> </ul>	<ul style="list-style-type: none"> <li>- Less exact and equitable than other measures, as it does not reflect contributory capacity</li> </ul>
Contribution categories based on earnings	<ul style="list-style-type: none"> <li>+ Facilitates or eliminates necessity to prepare income declarations (eliminates the necessity to proof exact incomes)</li> <li>+ Facilitates administrative procedures for the social security system</li> <li>+ Reduces errors in the calculation of contributions</li> </ul>	<ul style="list-style-type: none"> <li>- Might not be the most exact and equitable way to determine income (some people might pay more than they would using percentages, while others might pay less)</li> </ul>
Contribution categories based on proxy measures	<ul style="list-style-type: none"> <li>+ Facilitates or eliminates necessity to prepare income declarations (eliminates the necessity to proof exact incomes)</li> <li>+ Reduces errors in the calculation of contributions (easier to determine than income)</li> <li>+ declaration of income not necessarily needed</li> </ul>	<ul style="list-style-type: none"> <li>- Might be less exact than categories based on earnings</li> <li>- Might require staff to visit workplaces or home of insured persons, which could create additional costs for the system</li> </ul>

### 6.2.1 Redefining reference earnings

Determining social security contributions based on monthly incomes may not be appropriate for those in the informal economy who face a high volatility of incomes on a daily or seasonal basis. It may therefore be necessary to adapt the reference incomes to the situation of the target group.

For some categories of employers and workers, determining contributions based on annual or quarterly basis can facilitate coverage both for the employer, the workers and the social security administration. For example, the Brazil's *Simples Nacional* that covers micro-enterprises requires one annual payment (see Box 6.1).

**Box 6.1: Facilitating coverage for micro- and small enterprises in Brazil (*Simples Nacional* and *Microempreendedor Individual*)**

The simplified tax regulation for micro and small enterprises was introduced in Brazil by the *Simples Federal* Law 9317 in 1996, and further reformed by the introduction of *Simples Nacional* in 2007. This mechanism allows eligible companies to file a single simplified annual tax declaration, instead of monthly tax declarations for eight different taxes. Micro and small businesses with a gross annual income of less than BRL 3.6 million can use this option. Micro-entrepreneurs with a maximum of one employee can use the *Microempreendedor Individual (MEI)* mechanism (see Box 4.13), which allows for one flat payment integrating seven different taxes and social security contributions.

Regarding the preparation of declarations, accounting firms support the micro-entrepreneur with the first tax declaration free of charge. Payments can be effectuated online, through *casas lotéricas* (units that enter contracts with and provide the services of the federal bank Caixa at municipal level) or through banks. They can be made monthly or quarterly in order to attend to the situation of workers with income fluctuations or seasonable revenues.

Source: Based on (ILO, 2014d; Santiago, 2018b).

For other categories of workers, namely those in the agricultural sector, seasonal contributions (e.g. in Brazil's rural pension scheme, see Box 6.5) may be more appropriate.

For other categories of workers, such as self-employed traders or drivers, a weekly or daily contribution collection schedule may be more appropriate. Mechanisms to allow for the deposit and transfer of very small amounts can facilitate their coverage. For example, the contribution collection boxes used in the AlkanSSSy programme in the Philippines (see Box 6.2) allow workers to contribute on a weekly or even daily basis. Similarly, digital payment mechanisms that allow the possibility to transfer small amounts by mobile phone (such as in Kenya's Mbao programme, see Box 6.15) can also facilitate coverage for certain categories of workers.

**Box 6.2: Innovative contribution collection for self-employed workers: the AlkanSSSy programme in the Philippines**

The AlkanSSSy Programme (SSS) of the Philippines introduced an innovative mechanism to facilitate contribution collection for workers with irregular earnings in 2011. Supported by associations of informal workers (informal sector groups), contribution collection boxes were introduced that allow workers to save small amounts in an individual slot when they have money available, allowing for daily or weekly deposits of small amounts. These amounts are then counted and collected on a monthly basis, using computer-generated payment transaction reports. These contribution collection boxes are installed in or close to people's workplaces, such as the tricycle transport terminals. As of the end of April 2015, 107,091 workers were covered.

Source: Based on Damerou, 2015; ISSA, 2015.

### Checklist 6.2: Redefining reference earnings

- If the determination of income at a monthly level constitutes a barrier to coverage for those with volatile incomes, would it be possible to consider annual incomes for these categories of workers? How could the mechanisms of assessing incomes and fixing contributions be adapted to the needs of those with volatile incomes?
- Which mechanisms, if any, could be put in place for adjustments to account for differences in expected and actual income?

### 6.2.2 Uniform contributions (capitation payments)

When capitation payments are used, the same uniform flat contribution is fixed for all workers in a certain category. As contributions are not calculated as a percentage of the income, it will not be necessary to proof exact incomes (ISSA, 2012, 2016a). Capitation payments can be based on an average notional income for a certain activity or region. For example, in the People's Republic of China, the average income is fixed region by region and used to calculate contributions (ISSA, 2012). In the Philippines, PhilHealth provides the possibility for those not covered under another category to contribute as "self-earning members", offering two contribution categories based on average monthly income<sup>13</sup>, allowing for the possibility to contribute on a monthly, quarterly, semi-annually or annual basis.

In voluntary schemes, it is common to establish one or several contribution levels. For example, in Thailand's *100- and 150-Baht Scheme*, the self-employed can decide between two contribution categories with different levels of contributions and benefit packages for sickness, invalidity and death benefits and a lump-sum old age benefit (ESCAP, 2011; ISSA, 2012).

While this approach may be helpful in simplifying administrative procedures, the contribution level needs to be carefully fixed. The level of contributions needs to be low enough to allow for the coverage of those with limited contributory capacities, but high enough to ensure at least a basic level of benefits without jeopardizing the financial sustainability of the scheme, unless the government is committed to make the necessary resources available to ensure broad coverage.

### 6.2.3 Contribution categories

Many countries also use broad contribution categories for categories of workers for whom the tracking of exact earnings is too difficult. Such an approach allows to differentiate according to the contributory capacity of the worker, yet does not require an exact proof of the level of income (Durán Valverde et al., 2013, p. 17). Such an approach may be particularly relevant for extending coverage to the self-employed. Contribution categories can be defined based on earned income or proxy measures for earned income (see below).

The income of the insured person obviously is relevant when deciding on the contribution level and rate (and possible subsidies for low-income group). In Costa Rica, different contribution rates are applied for the different income categories (see Box 6.3) while in Cabo Verde the same rates are applied for all income groups (see Box 6.4).

<sup>13</sup> Those earning on average up to P25,000 contribute P200 monthly or P2,400 per year; those earning P25,000 and above pay P300 monthly or P3,600 per year.

**Box 6.3: Costa Rica: Contribution categories for the self-employed, subsidizing contributions inversely proportional to the contributory capacity**

In Costa Rica, the mandatory social insurance for the self-employed uses contributory categories. Depending on the income of the self-employed person, the state subsidizes part of the self-employed person's contribution to achieve a total contribution rate of 11 per cent of their monthly income for health and 7.75 per cent for pension insurance. To facilitate the calculation of income, the self-employed are grouped into different income categories based on the national minimum wage. In order to determine reference income, the self-employed are required to submit proof of income and expenses for the last six months as well as an income tax statement and other administrative forms and certificates.

Contribution rate (%) Income range	Health Insurance			Pension Insurance		
	Contributors	State	Total	Contributors	State	Total
Up to CRC 110,000	3.75	7.25	11.00	4.25	3.50	7.75
CRC 110,001 < 2 MW	5.50	5.50	11.00	6.00	1.75	7.75
2 MW to less than 4 MW	6.25	4.75	11.00	6.25	1.50	7.75
4 MW to less than 6 MW	7.25	3.75	11.00	6.50	1.25	7.75
6 MW to less than 8 MW	8.25	2.75	11.00	6.75	1.00	7.75
8 MW to less than 10 MW	9.50	1.50	11.00	7.25	0.50	7.75
More than 10 MW	11.00	0.00	11.00	7.75	0.00	7.75

Note: MW is the minimum wage for unskilled workers, set at CRC 206,045 (USD 368.80) in January 2010.

Source: Caja Costarricense de Seguro Social, 2010.

This financing mechanism takes into account that the self-employed are a very heterogeneous group, allowing for State subsidies for those on lower incomes.

Between 2005 and 2009 the proportion of self-employed workers contributing to health and/or pension social insurance grew from 30.5 to 59.9 per cent in the case of health insurance and from 15.9 to 44.8 per cent in the case of pension insurance.

Source: Durán Valverde et al., 2013, Caja Costarricense de Seguro Social (web).

**Box 6.4: Cabo Verde: free choice of contributory category for the self-employed**

In Cabo Verde's mandatory social security scheme for the self-employed, the contribution rate is fixed and amounts to 19.5 percent of the reference income that reflects the minimum wage for public sector workers. The contribution rate of 19.5 per cent of income is lower than the total contribution rate of 25 per cent of the salary of employed workers, yet lower than the 8 per cent employee contribution rate, which complements the employer contribution rate of 17 percent (2013).

Contribution base for self-employed workers, 2009 Category Calculation Contribution amounts (for reference income of 13.986 Escudo de Cabo Verde).

Reference income category	Formula	Contribution
1	1 x reference income x 19.5%	2.730
2	2 x reference income x 19.5%	5 460
3	3 x reference income x 19.5%	8 190
4	4 x reference income x 19.5%	10 920
5	5 x reference income x 19.5%	13 650
N	n x reference income x 19.5%	n * 13 986 * 19.5%

Benefits granted to the self-employed correspond to those granted for employed workers and include the events of disability, old age, survivor, maternity and paternity leave and sickness. In order to receive old age benefits, the worker must have contributed for at least 15 years, whereas for disability and life benefits, the worker must have contributed for at least 5 years.

Source: (Durán Valverde et al., 2013, 2012; SSA, 2013)

The main disadvantage is that the stepwise increase in the level of contributions, which is not strictly proportional to the level of earnings, may have some dysfunctional effects. Thus, someone whose earnings increase might move from one category to another and thus increases social security contributions, which can mean that in the end he/she may be worse off than before the increase of earnings. This may provide a disincentive to earn more or encourage the under-declaration of income.

Some countries use proxy measures to determine contributory capacities of the worker, as to as a way to estimate earned income, where this is difficult to establish directly. Using proxy measures can facilitate the calculation of contributions and reduce the necessity to prepare declarations for the insured person. Such proxy measures can for example refer to the size of the land or firm, the number of employees, the value of a person's house or the type of activity carried out. Usually various such measures are combined.

In Brazil's rural pension scheme, contribution categories for self-employed farmers are established according to the size of the land and the number of employees, while contribution categories of employed workers are based on their salary (see Box 6.5).

**Box 6.5: Brazil's rural pension scheme: Establishing different contributory categories for agricultural workers**

In Brazil's Rural Pension Scheme, rural workers are classified into three categories for which different contribution rules are established: employees, individual contributors and the "specially insured" (*segurados especiais*).

- Employees are classified in three income categories for which different contribution rates (8-11 percent of reference income) apply
- Individual contributors include self-employed farmers with a land size of more than four *módulos fiscais* (1 *módulo fiscal* refers to between 5 and 110 hectares depending on the municipality) who employ fixed-term workers. Individual contributors can choose the contribution rate. They can contribute the minimum rate of 20 per cent of the minimum monthly salary or a minimum contribution fee set at 11 per cent of their earnings. The system provides the flexibility to increase or decrease contribution percentage at any time.
- The category of the "specially insured" refers to rural subsistence farmers without employees other than family members and with a land of less than four *módulos fiscais*. They contribute 2.1 per cent of the total sales value of their products (+0.2% for the SENAR, National Rural Learning Service). (Ministério da Previdência Social, n.d.).

Members of all three categories have access to the same benefits as those under the General Social Welfare Scheme. Their pension is calculated on the basis of the minimum wage.

Along with other efforts on the part of the INSS, this type of differentiated contributory mechanism has enabled one in four own-account workers in Brazil to be protected by the social insurance system.

Eligibility for benefits is determined by the number of years worked in the rural activity but not by the number of contribution years.

Source: Based on Barbosa, 2010; Durán Valverde et al., 2013; Schwarzer, 2003.

In Niger, contribution rates for a taxi drivers in the main social insurance scheme (voluntary coverage) are based on an assessment of typical earnings for different activity profiles (ILO, 2016h).

In Tunisia, categories depend on the activity carried out and the size of firm or land (see Box 6.6). In Argentina, the Law to promote registered work and prevent labour fraud (Ley de Promoción del Trabajo Registrado y Prevención del Fraude Laboral) provides subsidies for a defined period of time for micro and small enterprises, which differ according to the number of employees of the firm (see Section 6.4). In the Republic of Korea, the car used, rent paid or value of a person's house, among others, can be used to determine the income class (ISSA, 2012).



**Box 6.6: Tunisia: Establishing contribution categories for the self-employed**

In Tunisia, the self-employed are grouped into ten income brackets regarding the occupational group (physician, shopkeeper, architect, artisan, etc.) and the size of the firm or farm. The scale is based on the average incomes for each occupation and income brackets vary between one to 18 times the inter-trade minimum wage or the minimum agricultural wage. The insured person must contribute according to the basis of the income bracket on this scale. He/she is free to contribute on the basis of a higher income bracket and can request to be grouped into a lower bracket, if he/she can prove that the real income is lower than the income set for their category.

Benefits provided are the same than for employed workers and include old age, disability, survivorship, illness and maternity benefits.

While in 2009 nearly all Tunisians who work in the public and private non-agricultural sectors are covered by social security schemes, in the informal sector and particularly among agricultural and/or self-employed workers, coverage still is below 50 per cent. Those still excluded mainly correspond to casual and seasonal agricultural workers (working less than 45 days per quarter for the same employer), domestic workers and fishers in rural areas.

Source: Based on Ben Cheikh, 2013; Chaabane, 2002; Olivier, 2009.

**Checklist 6.3: Contribution categories**

- Could the use of contribution categories help to overcome the difficulties that workers with volatile incomes face?
- How could such contribution categories be determined, and which implications would they have for setting benefit levels?
- How could contribution categories be taken into account in the calculation of benefit entitlements?

#### **6.2.4 Simplified contribution and tax payment mechanisms (monotax mechanisms) [SME] [SE]**

Monotax (monotributo) mechanisms offer the possibility for some categories of micro and small enterprises and own account workers to pay one (monthly) flat payment instead of various tax and social security contributions. The level of contributions usually differs according to income categories. While participation in monotax mechanisms usually is voluntary, simpler procedures and in some cases also lower contribution rates render this mechanisms attractive for eligible categories of self-employed workers and micro-enterprises. The subsidization of the monotax schemes aims at providing incentives for the formalization of enterprises, under the assumption that, as these enterprises grow, they will be able to pay the regular level of tax and social security contributions at a later stage.

One of the major advantages of these mechanisms is that it facilitates the payment of social security contributions and taxes, considering the limited administrative capacities of micro-entrepreneurs and micro and small enterprises, which can constitute a considerable barrier to formalization. Monotax mechanisms reduce the need to keep accounting records and facilitate the declaration of incomes and effecting payments to different social security and tax sub-systems.

The example of Uruguay shows that monotax mechanisms can lead to a marked increase in social security coverage of the self-employed and microenterprises (see Figure 6.1).

In Brazil, the *Simples Nacional* mechanism contributed to an increase in registration and more effective tax collection (see Box 6.1 and Box 6.7). Between its introduction in 2007 and 2012, the number of micro and small enterprises registered nearly doubled from 2.5 million to 4.4 million.

Studies also confirm that 32 per cent of entrepreneurs reporting that Simples National reduced their total tax burden. Tax revenues significantly improved from BLR 8.3 billion to BLR 46.5 billion in the same period because more small firms joined the formal sector (ILO, 2014d).

While the most prominent examples of monotax mechanisms were implemented in Argentina, Uruguay and Brazil in 1998, 2001 and 2006 respectively (see Box 6.7), a number of other countries have also implemented such mechanisms, or are considering their introduction, including Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Moldova, Morocco, Senegal and Serbia (ILO, 2015j).

#### *How can monotax schemes facilitate payment procedures?*

In many countries, tax and contribution obligations require various payments to different sub-systems, at different levels of government (municipal, regional and state) and to different social security institutions, and often according to different calculation methods and payment schedules (ILO, 2014f). Combining different contributions into one simplified payment therefore facilitates the payment process (see Box 6.7).

#### **Box 6.7: Monotax mechanisms: simplification of payment procedures**

In **Argentina**, *monotributo* contributors can make one payment instead of payments to four different systems. Payments have to be effected monthly before the 20<sup>th</sup> of the following months in cash, online, by credit or debit card. Contributors do not need to submit a sworn declaration concerning VAT and income taxes and do not have to keep accounting records. They have to make a self-categorization into one of the eleven contributory groups every four months which is subject to verification by the entity in charge.

In **Brazil**, companies can file one single simplified annual tax declaration instead of various tax and social security declarations that they had to present at municipal, state and federal levels before. Instead of paying each tax or contribution separately and according to different calculation methods and payment schedules, through Plan Simples, taxpayers contribute one single amount.

In **Uruguay**, small businesses that fall into the category of *monotributo* contributors can choose between paying a *monotributo* on revenue generated by their activities, or paying the ordinary social security contributions and normal taxes. Monotax contributions are collected by the Uruguayan Social Security Institute (BPS), which transfers the tax share to the fiscal authority, and uses the contribution share to finance social security benefits for those members affiliated through the scheme and their families.

Source: Based on (ILO, 2014d, 2014f; ILO and GIZ, 2014), as well as national sources.

In addition, the establishment of a fixed contribution amounts for a small number of contributor categories reduces the necessity to provide regular detailed income declarations. Instead, an estimation of income and the classification into the adequate contributory group will be sufficient.

#### *How are payment obligations assessed?*

In some countries, the classification into contribution categories is usually based on the annual income of the self-employed or micro-enterprise, the number of employees, and in some cases also the area of land used and electricity consumption (see Table 6.2).

<b>Table 6.2: Contribution categories within the monotax schemes of Argentina, Brazil and Uruguay</b>			
	<b>Argentina</b>	<b>Brazil</b>	<b>Uruguay</b>
<b>Annual income limits for participation</b>	USD 34,520 USD 51,780 for firms selling goods	Micro-entrepreneur: USD 20,000 Micro-enterprises: USD 120,300 Small enterprises: USD 1.2 mill.	One-person business: USD 15,793 Micro and small enterprises: USD 26,321
<b>Limits regarding the number of employees</b>	No limits (registration as employer and simplified monthly statements regarding number and salaries of employees are required)	Micro-entrepreneur : 1 Micro enterprises: 5	Only enterprises without employees (but up two partners, or three partners in the case of family businesses)
<b>Criteria taken into account for the determination of contributions</b>	Depending on annual turnover, area of land used and level of electrical energy consumed	Progressive contributions: According to income group (MEI, micro or small enterprise) different percentage on income is set.	One-person business: depending on inclusion of spouse and benefits provided (health included or not) Micro/small enterprises: depending on the number of partners
<b>Level of contribution</b>	Depending on category: ARS 429 -3,090 (USD 50.5-363.6)	Micro-entrepreneur: 5 % of minimum wage Micro-enterprises: 3-5 % of gross revenue Small enterprises: 5.4-8.6 % of gross revenue	Depending on category, inclusion of spouse/children and benefits provided: fixed amount of UYU 541-2,924 (USD 21.6-117)
<b>Taxes and contributions replaced</b>	Income tax, the value added tax (VAT) and social security contributions to the health and pension system	Eight (until 2014 seven) different taxes (five federal, one state and one municipality tax) and social security contributions	All taxes and social security contributions
<b>Benefits provided</b>	Health care (general scheme), minimum pension	Same social insurance benefits as salaried employees.	All social security benefits except for unemployment protection. Affiliation to health insurance is voluntary. Voluntary coverage for spouse and children.
Source: (Amarante and Perazzo, 2013; ILO, 2014d, 2014f; ILO and GIZ, 2014); national sources.			

All three countries have introduced special schemes for the lowest income self-employed and/or lowest-income micro firms. Argentina and Uruguay implemented the *Monotributo Social* (MS) and Brazil the *Microempreendedor Individual* (MI) through which contributors benefit from additional reductions of contributions.

#### *Which social security branches are covered?*

Monotax mechanisms can provide access to a range of social security benefits. In Argentina, the monotax mechanism is linked to health insurance coverage and pensions, yet limited to minimum pensions. Brazil's monotax mechanism opens the way for access to all social insurance benefits. In Uruguay, the monotax mechanism provides access to all social security benefits except for unemployment benefits. With the objective to encourage affiliation and address low incomes, there is some flexibility regarding social security contributions. While the contribution to pension coverage is mandatory, affiliation in the health insurance regime is voluntary. The entrepreneur can also choose to make voluntary contributions to include his/her children and spouse (see Table 6.3).

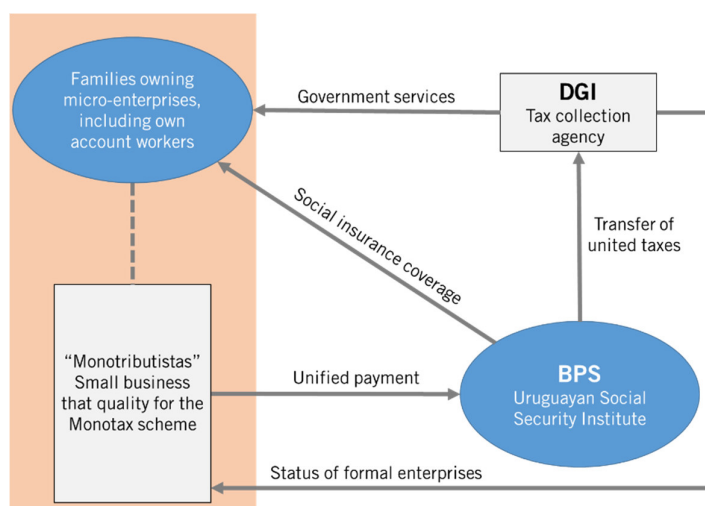
Monotax mechanisms can replace a broad range of different taxes and social security contributions. The more taxes and contributions are included, the greater will be the effect of facilitating payment procedures for the contributor and the stronger will be the incentive to participate. However, it also needs to be considered, that the system needs to have the capacity to coordinate between different institutions.

*What administrative capacity is necessary to implement monotax mechanisms?*

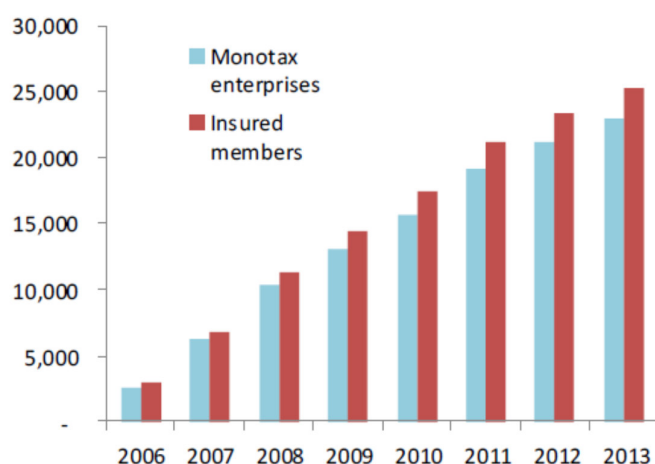
Monotax mechanisms require the coordination between different social security institutions and tax authorities and often also between different levels of government (municipal, state, federal). One entity is usually responsible for collecting the payment and then passes on the agreed part to the different institutions and authorities. In Uruguay, for example, contributions are collected by the Uruguayan Social Security Institute (BPS) which then transfers the share corresponding to tax payments to the fiscal authority (see Box 6.8).

**Box 6.8: Administration of the monotax scheme in Uruguay**

Eligible own-account workers and small businesses eligible can choose between paying a “monotax” (*monotributo*; unified contribution) on their revenue generated by their activities, or paying the regular social security contributions and taxes (with the exception of import taxes). Monotax payments are collected by the Uruguayan Social Security Institute (BPS), which is also responsible for transferring the share corresponding to tax payments to the fiscal authority.



**Uruguayan Social Security Institute: Registration of Monotax enterprises and insured members**



Source: Based on (ILO, 2014f; Naranja Sotelo, 2014).

The introduction and expansion of the monotax mechanisms has led to a significant expansion of social security coverage among micro-enterprises. While less than 3000 micro-enterprises were insured in 2009, by 2013 their number had almost tripled, leading to a marked improvement of the level of social security of owners of micro-enterprises and their workers.

Combining social security contributions and taxes requires coordination between social security institutions and tax authorities and between different levels of government (municipal, regional, state). For example, the introduction of *Simples Nacional* in Brazil required closer cooperation between states and municipalities, which included the adaptation of state-level legislation and signed agreements with the Federal Revenue Secretariat.<sup>14</sup> At municipal level the same procedure was required regarding taxes on services.

Such improved coordination between tax authorities and social security institutions play an important role in establishing simplified and unified collection scheme for small contributors and to allow for the extension of coverage to the self-employed and workers in small and micro enterprises. It thus can incentivize formalization and improve social security coverage.

#### Checklist 6.4: Simplified contribution and tax payment mechanisms

- Could simplified contribution and payment mechanisms overcome some of the constraints faced by the self-employed and micro-enterprises?
- Which mechanisms could be used to assess payment obligations?
- Which social security branches could be including in such a mechanism?
- What administrative capacity is necessary to implement monotax mechanisms?
- If a subsidization of contribution and taxes for low-income earners is foreseen, how could it be financed? (see section 6.4).

### 6.2.5 Considering alternative reference values (other than earnings) for the determination of contributions

In some contexts, it may not be feasible to base contributions on earnings. For example, in sectors where many workers tend to be employed on a casual basis for a short period of time (often only a day), and with a very high turnover of workers, more flexible approaches can facilitate the coverage of the most vulnerable workers. Additional factors, such as unclear employment relationships, can further complicate the coverage of workers.

This is for example the case in the construction sector, where many workers are hired through subcontractors and labour brokers for only days or weeks. One of the approaches employed to ensure at least a minimum of social security coverage for construction workers has been to base contributions not on the payroll, but rather on the overall value of the construction project to ensure coverage for all workers involved in this project (ILO, 2015k). In India, 1 per cent of the value of construction projects are channelled into *Worker Welfare Funds* for construction workers, in which contributing workers are covered for employment injury, access to health care (through RBSY scheme) and pensions (see Box 6.9). In Indonesia, principal contractors are required to pay a certain percentage of the value of the project into the compulsory insurance scheme to protect all involved workers in the case of employment injury and occupational illness (Newitt et al., 2014) (see Box 6.10). [CW]

<sup>14</sup> In Brazil, before the introduction of the *Simples Nacional*, states and municipalities levied taxes directly, among others on the movement of merchandise and services, interstate and inter-municipal transport and communications service.

**Box 6.9: Worker Welfare Funds for construction workers in India**

The Indian central government obliged federal states in 1996 through the Building and other Construction Worker Welfare Act (BOCWA) to establish tripartite Worker Welfare Boards, which offer a range of social protection benefits to workers and their families through Worker Welfare Funds (WWFs). While the set of benefits varies between states, most include old age pensions (payable after 60 years), immediate assistance in the case of an accident, coverage of medical expenses for the treatment of major illnesses or injury for both the worker and his/her family, health insurance for all other medical needs, as well as guaranteed payment of maternity benefits for women.

These funds are financed through a nominal (flat rate) contribution of the worker, combined with a levy (“cess”) of 1 per cent of the total value of construction projects to the WWF. The responsibility for paying this levy rests with the principal contractor, yet all workers involved in the project, including those employed by subcontractors, are eligible for the benefits. By linking the main funding source to the value of the project rather than to the earnings of individual workers, the WWFs address some of the challenges for the coverage of workers in the construction sector, namely the complex relationship between contractor and different levels of subcontractors, and the difficulties associated with covering workers who work for a short period of time with the same employer. While the implementation of these funds varies across states, some states (Kerala, Tamil Nadu, Madhya Pradesh) have achieved coverage rates of 70-99 per cent of construction workers.

Similar WWFs exist in some states in other sectors of the economy, including for transport and agricultural workers. They are all based on the principle to raise funds through a levy on the value of the production, sale or export of goods and services.

Source: Based on (Newitt et al., 2014).

**Box 6.10: Providing social security to workers in the construction industry in Indonesia**

In the Indonesian construction industry, principal contractors are required to pay a certain percentage of the value of the project (e.g. 0.24% for projects of less than IDR 100 million, approximately USD 8,300) into the compulsory insurance scheme (*Jaminan Sosial Tenaga Kerja, Pekerja Konstruksi*) to protect all involved workers in the case of employment injury and occupational illness. The scheme is administered by PT Jamsostek, one of four state-owned companies with responsibility for managing and delivering social security in Indonesia, complementing the more comprehensive portfolio of social insurance benefits provided by Jamostek for enterprises with 10 or more workers.

The employment injury component covers medical care and treatment, cash sickness benefits for up to 12 months, as well as a compensation to the family in case of the death of the worker. In addition, a life insurance provides benefits in the case of a non-work-related death of the insured worker.

While the scheme has reached many workers, there have been concerns about incomplete coverage and a lack of integration with prevention programmes and a stricter enforcement of occupational safety and health regulations.

Source: Based on (Newitt et al., 2014)

A similar situation exists in other sectors with a high prevalence of short-term and casual work. One of these sectors of employment are arts professions (such as performing arts). In **Uruguay**, workers in this sector can register in the national Register of Artists and access social security through the monotributo mechanism (see section 6.2.3; (Ortiz, 2016).



In **Germany**, an adapted social insurance financing model has been found to cover self-employed artists and publicists through mandatory coverage in the *Künstlersozialkasse* (KSK, see Box 6.11), which mandates enterprises contracting with self-employed artists and publicists to pay a global contribution of a certain percentage of the total value of the contracts to the KSK, to complement the workers' contribution, as well as a government subsidy, recognizing the value of art and publishing for society.

**Box 6.11: Providing social security to artists and publicists in Germany: *Künstlersozialkasse* [SE]**

In Germany, since 1983, self-employed artists (e.g. musicians, actors, graphic designers) and publicists (e.g. journalists) are covered on a mandatory basis by the *Künstlersozialkasse* (KSK), provided that they earn more than EUR 3900 per year (or less in the case of those starting their careers). The KSK administers the contributions paid by the members, and transfers their contributions to the pension insurance, and health and long-term care insurance.

The self-employed members of the scheme pay the same contribution rate as employees (50 per cent of total contribution rate) on the remuneration received. The employer share of the contribution (50 per cent) is financed through a government subsidy (20 per cent) and a global contribution from enterprises regularly contracting self-employed artists, publicists, journalists and related occupations, such as publishing companies, theatres, radio and TV stations, art galleries, as well as advertising and public relations companies (30 per cent). This global contribution is calculated as 5.2 per cent of the total remuneration paid to self-employed artists and publicists.

In this way, the KSK ensures the coverage of workers in this sector usually characterized by casual work often arranged on a short-term basis outside a regular employment relationship.

Source: Based on information from [www.kuenstlersozialkasse.de](http://www.kuenstlersozialkasse.de).

The German example provides an interesting solution for a sector with a high prevalence of “economically dependent self-employment”. This term describes a situation where workers are formally self-employed, yet they are highly dependent on one or several main clients/employers, so that their work relationship is similar to that of an employee (Eichhorst et al., 2013). The way of calculating the global contribution as a percentage of the total value of contracts recognizes the responsibility of the contracting enterprises as “employer”, while facilitating the payment of contributions through one global contribution instead of individualized contributions. However, such a solution can only be applied in sectors and contexts where the compliance of contracting enterprises can be effectively ensured.



#### Checklist 6.4: Alternative reference incomes for the determination of contributions

- In sectors with a high prevalence of casual work and high turn-over, could alternative forms of reference incomes be considered?
- Which are the options for alternative reference incomes, other than earnings? These could include the total value of contracts in a certain sector.
- Could existing social insurance schemes incorporate alternative reference incomes in their operations? If yes, how?
- How could equity between different categories of workers be ensured in such a context?
- How can compliance be ensured in such a setting?

### 6.3 Facilitating the payment of contributions

Many employers and workers in the informal economy face practical difficulties in paying social insurance contributions, for different reasons.

- Own account workers, as well as some other categories of the self-employed, may not have the necessary IT skills, knowledge and/or the time to provide, prepare, process and send the information requested and effect payments. (ISSA, 2012) [SE]
- Employers, particularly in micro and small enterprises might also not have the administrative capacity and/or knowledge to prepare declarations and effect payments. [SME]
- For those living in remote areas, often agricultural workers, payment procedures may require an additional amount of time and costs for travelling, as they often do not have access to locations where payments can be effected. [AW]

Having to declare income and effect payments to different social security (and tax) sub-systems might be administratively challenging and costly for many micro-entrepreneurs and micro and small firms. It is therefore relevant to reduce burden and costs of settling contributions. There are various approaches and technologies on how to do this (see table 6.4).

The strategy needs to be adapted to:

- the situation of the country (e.g. administrative capacities, availability of technology including central databanks, resources) and
- of each group addressed (e.g. availability and use of the Internet, mobile phones, e. g. those living in cities might easily be able to pass by an office, bank etc. to settle payments while there need to be other solutions for those living in remote areas; the latter also might not have access to the internet)
- usually a combination of different approaches is necessary

In general coordination between different ministries/institutions (e.g. in the case of monotax mechanisms) or different companies/institutions, such as banks and kiosks will be essential; the collaboration with banks or other institutions that can take over the contribution collection part can improve access for the insured people while reducing costs for the system

Facilitating declarations and payment procedures does not only reduce costs and time for the insured but also for social security systems. However, it needs to be guaranteed that contributions can still be calculated as exactly as possible to avoid underfinancing of the system

Declaration statements should be made as easy to understand as possible, do not need the provision of many documents and, if possible, provide support in filling the forms out.

<b>Table 6.3: Approaches to facilitate declaration and payment procedures</b>		
<b>Dimension</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Expansion of number of social security offices</b>	<ul style="list-style-type: none"> <li>• saves travel time and costs for insured people</li> <li>• provides individual support in preparing declarations</li> </ul>	<ul style="list-style-type: none"> <li>• high investment costs for social security administration</li> <li>• high costs of operation for social security administration</li> </ul>
<b>Online services</b>	<ul style="list-style-type: none"> <li>• can provide a wide range of services</li> <li>• reduction of cost and time for preparing declaration and effecting payments (visit to an office not necessary)</li> <li>• facilitation of administration of contributions for social security contributions</li> <li>• low costs of operations for social security administrations</li> </ul>	<ul style="list-style-type: none"> <li>• may not be the adequate method for all groups</li> <li>• no direct support</li> <li>• may require high investment costs</li> </ul>
<b>Mobile phone services</b>	<ul style="list-style-type: none"> <li>• may be accessible to more groups than online services, including in rural areas</li> <li>• reduction of cost and time for effecting payments for insured persons</li> <li>• facilitation of administration of contributions for social security administrations</li> <li>• if done through a human telephone operator, it can be more individualized than online services</li> <li>• little investment costs for social security administrations</li> </ul>	<ul style="list-style-type: none"> <li>• limited services possible</li> <li>• may be more costly for insured people than online services</li> <li>• if done through an human telephone operator, high costs of operation</li> </ul>
<b>Agreements with banks or other institutions</b>	<ul style="list-style-type: none"> <li>• saves travel time and costs for insured people</li> <li>• little costs of operation for social security administration</li> <li>• little investment costs for social security administration</li> </ul>	<ul style="list-style-type: none"> <li>• Limited services, e.g. no individual support in preparing declarations (exception: if banks are involved that take an active role in the collection of contributions)</li> </ul>
<b>Free/low cost support for preparing declarations</b>	<ul style="list-style-type: none"> <li>• facilitation of declarations for insured workers</li> <li>• reduction of errors, which may save time for social security institutions</li> </ul>	<ul style="list-style-type: none"> <li>• high costs of operation for social security administration</li> <li>• might take time for insured persons</li> </ul>

### **6.3.1 Expanding access points for the payment of contributions**

The payment of contributions can be facilitated through expanding the number of access points and offering alternative channels of payment, such as an increased number of physical access points, online platforms and mobile services.

### ***Physical access points***

To avoid travel costs and time, locations where the payment of contributions can be effected should be close to the workplaces or homes of the concerned workers, or to the enterprises concerned. Such decentralized service points could be local social security offices, or alternatively social security institutions could integrate contribution payment services into the services offered by other public institutions already present in the region, or conclude agreements with public or private sector entities, such as post offices or local bank branches. Such decentralized services could include the provision of additional paypoints for the payment of contributions and benefits (banks, post offices). Social security institutions could also conclude service agreements that would devolve specific services to these entities, such as providing support with regard to the calculation of contributions or recording contribution payments in a central database.

Such partnerships could potentially reduce administrative costs for social security institutions. In **Singapore** for example, the *Service Standards for Members and Beneficiaries* of the Central Provident Fund among others increased the access points to its members. Besides smartphone applications and an online platform, these access points include private sector news kiosks in the street for those who prefer this approach to paying contributions (ISSA, 2012).

### ***Online platforms***

Declaration and payment procedures can considerably be facilitated by using online services, such as electronic statements, online money transfers and online platforms providing a wide range of services. For example, being able to effect payments online reduces time and cost for traveling to the respective office. Some countries have implemented more comprehensive online services, among others related to declarations and payments. These, for example, may allow for making declarations, calculating and effecting payments online without the need to physically visit the office, as in **Uganda** (see Box 6.12). When using an online platform, it will be essential that the interface is easy to understand and self-explanatory.

**Box 6.12: Uganda: Moving from the necessity to visit offices to electronic statements**

When seeking information about their social security accounts, members of the National Social Security Fund (NSSF) of Uganda had to visit its offices to access NSSF's services. Member statements were only issued in hard copy and follow-up on claims required visiting the NSSF offices. This was costly and inconvenient to both the members and NSSF as members needed to travel long distances and queues were long.

To make access to its services more convenient for members and to reduce the costs of its operations, the NSSF introduced electronic service delivery channels. These enable members to view their contribution balances and follow up their claim processing on mobile phones, through the Internet and via a toll-free line managed through the call centre. The NSSF took advantage of already existing resources, such as an existing website, phone networks, the required staff and full time internet access and therefore reduced the necessary investment cost.

To be able to access electronic statements, the client needs to send an e-mail requesting a password and including his/her 13-digit NSSF Number, the full name, date of birth, father's and mother's full names and the employer. Within 24 hours, NSSF automated system sends a password to the member's email. The member then only has to enter the 13-digit NSSF number and the password on the website and log-in.

In addition, the NSSF introduced a Short Message Service (SMS) platform to allow members to access services on their mobile phones reducing time and cost to travel to the offices. Members can now send a SMS to the Fund and query their balance via their mobile phone. Today, over 270,000 registered members use the platform, which have led to a reduction of 30% in the number of walk-in customers in 2013-2014.

This made the process easier for members while reducing the NSSF administrative costs: 46 per cent of statements are now issued electronically meaning that there are 4,041 clients daily that do not need to visit an NSSF office giving staff time for other administrative tasks and thus improving its efficiency. Feedback from members indicates that services through the electronic channels are quicker, cheaper, customer friendly, convenient and have improved service delivery.

Source: Based on (ISSA, 2011b, 2014d; Waiswa and Okello-Obura, 2014).

Obviously, these approaches are only applicable where there is access to the internet and where people are able to and used to working with computers and the internet. As usually this is not the case for everyone and especially not for those living in rural areas and the elderly, such an approach should be accompanied by other ways to effect payments that are addressed to those groups, as is the case in Colombia (see Box 6.13).

**Box 6.13: Colombia: Integrated Form for Contribution Settlement (PILA)**

PILA (*Planilla Integrada Para Liquidación de Aportes*) is an electronic platform through which contributions to the General System of Social Security can be settled. It works through an internet authorized operator that is connected to banks and the central repository of the social security system. It can be used by both employers and self-employed workers and aims at facilitating smoother user access to the social security system. Users can make payments to several social security subsystems in a unified way. PILA therefore saves time for users and other people involved in the procedure. Payment through PILA is mandatory (Decree 1931, of 2006). People or firms who do not have access to computer and internet can use the Assisted Form Procedure and request the settlement of their contributions by telephone to a human telephone operator. The operator registers the data, settles the contributions and gives the contributor a form number and a code he/she must use to make the payment. The payment can be cancelled between one and five days after the settlement in a financial institution in cash, by check, debit or credit card.

By the end of 2007, all firms with more than 30 employees were paying social security contributions for their workers through PILA. The platform has enabled great progress in the collection effectiveness by facilitating user access to Colombia's social security system while at the same time promoting effective monitoring and supervision through centralized payments.

Source: (Durán Valverde et al., 2013; The World Bank, 2007) (Calderón, n.d.)

In the **Philippines**, service level agreements with banks have facilitated contribution payments (see Box 6.14).

**Box 6.14: Facilitating payments through the banking system in the Philippines**

With the purpose of facilitating contribution payments to workers and employers and thus reducing their transaction costs, the Philippines Social Security System (SSS) has entered into agreements with local banks. Contributors settle their payments through the banks' service platform. Thus, collection management has been transferred to the banks, generating efficiency and reducing administrative costs for the SSS.

The SSS also developed the Auto-Debit Arrangement system (ADA), which allows affiliates to register voluntarily, with the purpose of making the automatic payment of contributions, and other commitments with the institution, such as the payment of debts on loans (Ortega, 2006). Affiliates may voluntarily register in any of the banks offering the service. The purpose is to allow the bank to make automatic monthly debits in the savings account or the checking account, and therefore transfer such funds to the SSS to pay social security contributions. Registration in the system may be made online in most banks. With this measure, the SSS aims at reducing non-payment or delay fees, since the bank debit takes place in the day of payment. Furthermore, the development of the ADA system allows to reduce the transaction costs workers must bear to induce the monthly payment of their contributions to social security.

Source: (Durán Valverde et al., 2013).

Online services can considerably reduce cost and time for insured people as well as for the social security system. However, they need to be easy to use and will only be accessible for some people. Therefore alternative ways should also always be offered.

**Mobile phone services**

Mobile phones are increasingly being used around the world, including in low-income countries and rural areas. In some contexts, mobile phones are used more commonly than computers. Therefore mobile phone services can provide a good alternative to online services in some

countries and/or for some groups. For example in Colombia, those who do not have access to the internet, can facilitate payments via a telephone operator (see Box 6.13).

Mobile phone services can allow making contribution payments and/or accessing balances conveniently from anywhere and at any time. If they work through a human telephone operator, services can be more individualized than online services, although requiring hire costs of operations for the system. Services are likely to be more limited than those that can be offered through online platforms. The costs involved for members also need to be evaluated. Examples of such services are the mobile money transfers of the MBao pension plan in Kenya (Box 6.15) and the introduction of SMS services of Uganda's National Social Security Fund (NSSF) (see Box 6.12).

**Box 6.15: Mobile phone money transfers in Kenya's MBao Pension Plan [SE]**

The Mbao Pension Plan was launched at the end of June 2011 after a study had shown that only 15 per cent of the total work force was covered by a registered retirement plan. The Mbao Pension Plan is a voluntary individual account savings plan addressed to workers that are members of different Jua Kali Associations (artisans operating their own small business in open air).

The name "Mbao" refers to the minimum daily contribution that members can make – 20 Kenyan Shilings. Members need to settle a registration fee of KES100 and can then save at least KES20 a day, 100 a week or 500 a month. Contributions can be sent via money transfer services offered by the two leading mobile networks. The transaction fee is 10 per cent of the value of the amount transferred up to KES25 per transaction. Payments can therefore be made conveniently from anywhere and at any time. For example, also those living in remote areas do not need to travel for making settlements. This is made possible by technological innovations that have reduced the costs of cell phones and airtime, and by the entrepreneurial innovation of mobile money. At the end of July 2011, within only one month, 42,000 members had registered.

Source: Based on (ISSA, 2011a; Kwena and Turner, 2013; Odera, n.d.).

Mobile phone services might be accessible for more people, including those in rural areas and can therefore provide a good alternative to online services and/or complement online services. However, they are usually limited regarding the services they can provide.

It is essential to reduce costs to access these services for members as much as possible and to provide clear instructions on how to use them.

### **6.3.2 Providing individual support in preparing declarations**

Preparing declarations can be facilitated by providing free or low-cost support at the social security office directly or via accounting firms, as done for micro-entrepreneurs in **Brazil** (see Box 6.19) or in Japan. This support can be provided for the first declarations or on a longer-term basis, but requires some investment and therefore costs and benefits need to be considered carefully. [SME] [SE]

Collective registration agreements (see section 5.4.4) can also facilitate payment procedures for both the insured person as well as social security administration as the organization takes over an intermediary role by collecting contributions from its members and transferring them to the responsible social security entity. For members, this means that they don't have to prepare declarations and don't have to travel to settle their contributions but are approached directly by the organization. However, this requires that such an organization exists and is able to assume the tasks related to the collection of contributions. [AW]

#### Checklist 6.5: Facilitating the collection of contributions

- How could more payment options facilitate the payment of contributions for both worker and employers?
- How could the number of physical access points for the payment of contributions be increased, particularly in rural areas?
  - Could existing government structures at the regional/district/municipal level be used for this purpose?
  - Could post offices or public banks be charged with this function?
  - Could bank transfers be facilitated and ensured at no or little additional cost?
- How could individualized support mechanisms facilitate the payment of contributions for certain groups of workers and enterprises?
  - Could group insurance mechanisms be considered to facilitate coverage for certain groups of workers?
- If several social security exist in the country, could contribution collection procedures be unified to reduce the efforts that employers and workers need to interact with several institutions for the payment of contributions?
- How could online and mobile channels be used to facilitate the collection of contributions, considering the penetration of online and mobile services in the country?
  - Could online and mobile services facilitate checking contribution obligations and checking payment balances?
  - Could mechanisms be established to allow insured persons and employers to pay contributions through online and mobile services?
  - Which measures can be taken to prevent exclusion of those without access to online and mobile services and to facilitate access for them?
- Are adequate legal frameworks and enforcement mechanisms in place that ensure the protection of personal data and privacy?

### 6.3.3 Unified social insurance contributions

Some countries have put unified social insurance contributions in place, whereby all social security contributions are collected by a single social security institution, which is then responsible for transferring the funds to other institutions. This facilitates contribution payment procedures by reducing complexity, and allowing workers and employers to interact with one single institution instead of having to interact with several different social security schemes.

Unified social insurance contributions have been used as a tool to facilitate the extension of social security coverage for domestic workers. In France and Luxembourg, the employer pays the net wage to the domestic worker, fills in a single declaration form and sends it to social security, which calculates the gross salary and collects the contribution from the employer; every six months, a declaration showing the payments made is sent to the domestic worker and the employer (ILO, 2013c, pp. 36–37, 2015c). Similar arrangements, often combined with the possibility to deduct social security contributions from their taxable income, exist in some other countries (see Box 7.8). [DW]



#### **Checklist 6.6: Unified social insurance contributions**

- How are contributions currently collected, as one unified contribution, or do employers and workers interact with different social security institutions?
- Could unified contributions help to overcome some of the barriers that workers and employers face, particularly for categories of workers that are prone to find themselves uncovered, such as workers in MSMEs, domestic workers or self-employed workers?
- Could a system of unified contributions be implemented? What would be necessary in terms of the coordination of institutions, management and information systems (MIS) etc.?

#### **6.3.4 Adapting contribution collection schedules**

As outlined above, the volatility of incomes poses one of the major obstacles for social insurance coverage for workers in the informal economy.

Greater flexibility in scheduling contribution collection may contribute to overcoming obstacles to coverage for some categories of workers. Allowing for the payment of contributions according to seasonal patterns can facilitate social insurance coverage especially for agricultural workers. In other cases, weekly or daily payments may be more appropriate. Greater flexibility with regard to the temporary reduction or interruption of contribution obligations in the case of shocks or the scope of coverage may further help to facilitate coverage for workers in the informal economy (see Table 6.4).

When considering how to adapt contribution payment schedules to fluctuating incomes and non-continuous work administrative and financial challenges for the social security system always need to be taken into account. Thus, non-continuous contributions will represent a cost for programmes and systems, which may pose a challenge for the sustainability of the scheme, and which may require transfers from other sources (see section 6.5)

<b>Table 6.4: Approaches regarding the adaptation of contribution payment periods</b>		
<b>Approach</b>	<b>Can respond to....</b>	<b>Implications</b>
Allow for greater flexibility regarding the scheduling of contribution payments (quarterly or seasonal; occasional lump sum contributions)	<ul style="list-style-type: none"> <li>Seasonality [AW] [CW]</li> <li>Volatile incomes [SE] [MSME]</li> </ul>	<ul style="list-style-type: none"> <li>Contributions need to be well registered (IT system might be necessary)</li> <li>If different payment modality (quarterly, annual) is agreed beforehand, social security institutions can better plan</li> <li>Allowing for occasional lump sums add more complexity with regard to recording of contributions and calculation of entitlements</li> </ul>
Allow for contribution levels to changes in the situation of the worker, including reduced earnings	<ul style="list-style-type: none"> <li>Job insecurity [AW] [CW] [DW]</li> <li>Labour mobility [AW] [CW] [SE]</li> <li>Delayed payments for work done [SE]</li> </ul>	<ul style="list-style-type: none"> <li>Contributions need to be well registered (IT system might be necessary)</li> <li>Financing and financial planning mechanisms may need to be adapted to change in the level of contributions.</li> </ul>
Allow for contribution payment to be delayed or interrupted, or temporary suspension of membership	<ul style="list-style-type: none"> <li>Job insecurity [SE] [AW] [DW]</li> <li>Labour mobility [SE] [AW]</li> <li>Seasonality [CW] [AW]</li> <li>Delayed payments for work done [SE]</li> </ul>	<ul style="list-style-type: none"> <li>Data regarding the payment and non-payment of contributions need to be well registered (IT system might be necessary)</li> <li>Adequate regulations have to be in place to define adequate criteria for the maximum duration of the suspension and recovery mechanisms.</li> <li>Financing and financial planning mechanisms may need to be adapted to temporary shortfall in contributions.</li> </ul>
Allow for contributing to priority social security branches	<ul style="list-style-type: none"> <li>Low earnings [SE] [AW] [DW]</li> </ul>	<ul style="list-style-type: none"> <li>Exclusion from membership for some social security branches implies a lack of coverage, unless alternative protection mechanisms are available.</li> </ul>

### ***Allowing for daily, quarterly, seasonal or annual contribution payments or occasional lump sum contributions***

Regular monthly contributions may not be a good option for many workers and employers in the informal economy. It may therefore be considered to render payment terms should be as flexible. A number of approaches have been used as illustrated in Table 6.1.

In order to adapt contribution collection mechanisms to the situation of workers in the informal economy, contribution collection schedules could be spaced over time, allowing workers to make daily, quarterly or annual contributions, or allowing for occasional additional lump-sum contributions. Allowing for contributions to be made at a time when workers' income is highest may facilitate social security coverage especially for those in the agricultural sector, who depend on crop schedules, weather conditions and opportunities to market their harvest [AW]. Similarly, many self-employed, including own-account workers, may benefit from such more flexible payment schedules to account for variability in their economic activity.

Such an approach can also include planning different contribution levels for seasons of low and seasons of higher income. Providing for payments that are less frequent than monthly, e.g. quarterly, may give the worker the possibility to compensate lower incomes of some months with higher incomes of subsequent months and thus reducing the difficulty to contribute during

months of low-income. Allowing for occasional lump sum contributions provides even more flexibility for the insured person to contribute whenever he/she is able to.

While these approaches are likely to facilitate payment of contributions for the insured people and might provide additional incentives to register, they might provide administrative challenges as contributions need to be registered in a more flexible way. A centralized IT system may be necessary. Allowing for occasional lump sums involves a financing challenge, as social security administration may have difficulties planning the amounts received by the insured. It is likely that additional financing will be needed.

Examples for flexible payment terms can be found in several countries. Brazil's Plan Simples provides micro, small and medium firms with the opportunity to choose whether they want to contribute on a monthly or quarterly basis (see Box 6.1). The *Convenios de Corresponsabilidad Gremial* in Argentina are agreements between workers associations and producers of the rural activity in which the employer is allowed to replace the monthly contribution to the social security system by a 'substitutive' rate (*tarifa sustitutiva*) paid in the "most adequate moment of the productive cycle" (Bertranou and Casanova, 2013, p. 128). This is only possible for activities with rural character in which due to seasonality of labour relations and/or a high rotation in the labour, registration and control of fulfillment of obligations of social security is difficult (Bertranou and Casanova, 2013, p. 107).

For some categories of informal workers, allowing for the daily payment of contributions may be useful. For example, in Kenya, workers can contribute to the Mbao pension plan on a daily basis through their mobile phones (Kwena and Turner, 2013). In the Philippines, the AlkanSSSy scheme uses individual savings boxes as a possibility for workers to accumulate the necessary contributions for the participation in the scheme (Damerou, 2015).

**Checklist 6.7: Adapting contribution collection schedules to the situation of workers and employers**

- To what extent do the existing regulations and practice allow for the choice of different contribution collection schedules depending on the situation of workers and employers?
- Could contribution collection schedules be adapted to allow for more flexibility and facilitate contribution collection for workers and employers?
- How would eligibility rules and benefits need to be adapted?
- How would existing enforcement mechanisms need to be adapted to take account of more flexible contribution collection schedules?

***Adapting contribution levels to changes in the situation of the worker, including reduced earnings***

Workers in the informal economy are very vulnerable to income shocks that might arise due to natural catastrophes, illness or death of the worker, a drop in the market price of their product or a loss of employment. This means, that the worker may not always be able to contribute the same amount. Therefore allowing for reduced contributions if a shock or reduction in earnings is important to allow workers in the informal economy to be covered. For example in Colombia, employers and workers can inform the health insurance scheme of major income fluctuations which affect their ability to contribute (see Box 6.16).

In this case, it is essential to guarantee that the right to access benefits are maintained to the extent possible. As with adapted payment schedules such an approach may also go along with the administrative challenge to keep track of contributions.

**Box 6.16: Colombia: Allow for adaptation of contribution levels for the self-employed**

In Colombia, various changes have been made in the social security legislation (laws No. 100, 1993 and No. 797, 2004) adapting rules to the reality of the self-employed.

The first change refers to the declaration of the Basic Contribution Income which originally had to be made in January. There was no possibility to make changes throughout the year. With the objective to take into account the productive cycles and variations of the economic activity over the circle of the year, this rule was made flexible and workers are now able to make changes to their Basic Contribution income and thus adjust their contributions.

Secondly, the News Report was introduced. This is an information note that can be drafted by independent workers or employers and that allows for describing any circumstances that affect the amount to be cancelled at the health insurance (partially or permanently). Thus, independent workers have given a legal tool allowing them to conform to the law while taking into account fluctuations.

Source: Based on (Durán Valverde et al., 2013).

Providing flexibility regarding contribution levels can also include allowing for changes of the reference income on which contributions are calculated. This is especially relevant for the self-employed who may not now at the beginning of the years how much they will earn each month. In Colombia for example, they can therefore make changes to their base income throughout the year (see Box 6.13)

More flexibility can also include allowing contributions to be delayed without losing access to the benefits or even to allow for a temporary suspension of membership during difficult times with facilitated rejoining procedures. This would require ensuring that benefit entitlements do not depend on a minimum length of uninterrupted service, but that minimum contribution periods can be spaced over a longer period of time (Durán Valverde et al., 2013). For example, rather than requiring an uninterrupted contribution period over the last five years, a scheme could require the equivalent of five years of contributions during the last 10 years.

Such an approach also provides the challenge, that reduced contributions, which will mean a reduced 'income' for the scheme, will be difficult to plan. Thus flexible alternative financing mechanisms as well as reserves of resources will be necessary.

**Checklist 6.8: Adapting contribution collection schedules to changes in the situation of the worker**

- How quickly do the existing social insurance schemes adapt the level of contributions to a change in the level of earnings?
  - Are there limits to how often the declared earnings can change during a year?
  - Is the notification process easy, or does it require lots of paperwork and time?
- Does the government support enough to ensure informal workers continuously contribute?
- Is there a flexible system to allow informal workers for temporary suspension of membership during a period of reduced earnings?

*Ensure continuous contributions through government support*

Social security schemes may not only allow for the interruption of contributions for a certain period of time, but it may also foresee under certain circumstances the continuation of the payment of contributions funded by the government. For example, in Mauritius, the government pays contributions to the pension scheme on behalf of laid off workers participating in a workfare

programme (see Box 6.17). Through this measure, the government ensures that unemployed workers continue to be insured and have access to health insurance.

**Box 6.17: Mauritius: continued pension contributions for unemployed workers**

Mauritius' Workfare Programme guarantees laid-off workers a minimum benefit of at least MUR 3,000 per month for a maximum period of 12 months. During this time, the worker's pension contributions are continued to be paid: the government assumes the full contribution to the National Pensions Fund, that is both the employee share (3%) and the employer share (6%). The Workfare Programme is funded by employee contributions to the National Saving Fund Account of 1 per cent of basic salary, subject to the National Pensions Fund ceiling.

The Workfare Programme, with its large panoply of benefits for laid-off workers, has significantly helped reduce the negative impact of closures. Under the previous legislation, when an enterprise closed on grounds of insolvency or receivership many redundant workers did not receive any compensation due to lack of funds.

Source: Based on (ISSA, 2011c).

**Checklist 6.9: Ensuring continuous contributions through government support**

- Are mechanisms in place that allow the continuation of the payment of contributions funded by the government, e.g. during periods of unemployment; during maternity, paternity or parental leave; during sick leave?
- Could the introduction of such mechanisms support the continued social security of workers during

*Allow for temporary suspension of social insurance membership under certain circumstances*

If the membership in the social insurance schemes cannot be upheld during a period of reduced earnings, it may be necessary to allow for temporary suspension of membership with facilitated joining again procedures and without losing the access to rights and benefits. However, this should be done only if there is no possibility of ensuring continued coverage, even with the support of the government (see previous point).

A temporary suspension of social insurance membership needs to guarantee that already effected contributions are taken into account in the benefit levels when joining again. This may require adapting rules with regard to the minimum length of uninterrupted service. Minimum contribution periods could be adapted for example by spreading the number of required months of contributions over a longer period (e.g. requiring six months of contributions within the last twelve months instead of an uninterrupted contribution period of six months). For example, in Cabo Verde, it is possible to temporarily suspend contributions (see Box 6.18).

**Box 6.18: Cabo Verde: allowing for the temporary suspension of contributions**

In Cabo Verde the self-employed have the right to the same benefits than employed workers. They can access benefits in the events of disability, survivor and old-age, sickness, maternity, paternity and adoption.

In order to receive these benefits, the insured person has to have contributed for a defined minimum period. However legislation allows for the temporary suspension of contributions. Thus, for an old-age pension, the worker must have contributed for at least 15 years and for disability and survivor benefits, he/she must have contributed for at least 5 years. But contributions can be interrupted. For being counted as one contribution year, at least 120 days of contributions needed to be paid within the year.

To be eligible for sickness, maternity, paternity and adoption benefits, the insured person has to have contributed for at least four months, even if interrupted, with a minimum contribution of 30 days during the three previous months (art. 35, 36, 37, 38).

Source: Based on (Durán Valverde et al., 2013, 2012) and national sources.

Such an approach should provide for facilitated rejoining procedures when the economic situation of the worker improves. This means that registration procedures may need to be adapted. A central databank where all data and already submitted documents of the insured as well as effected contributions and times of suspension are registered would facilitate administration of suspensions and rejoining procedures for social security administration (ISSA, 2012) (Durán Valverde et al., 2012).

**Checklist 6.10: Allowing for the temporary suspension of social insurance membership under certain circumstances**

- Are there mechanisms in place to allow for the temporary suspension of social insurance membership during a period of reduced earnings?
- Could the introduction of such mechanisms facilitate social insurance coverage for categories of workers with breaks in employment and volatile earnings?
- Could alternative mechanisms, such as ensuring continued contributions through government support (see Checklist 6.9) be considered?

***Allow for contributing to some selected (priority) social security branches***

For people with low incomes, it might not be possible to contribute to all social security branches. If other solutions are not available (such as the subsidization of contributions, see Section 6.4), countries may consider to give people a choice whether to affiliate to all branches or just to some, according to their needs, priority benefits and contributory capacity.

For example in Colombia own-account workers can decide if they want to contribute to the health and pension systems or only to the health insurance (Durán Valverde et al., 2013). This takes into account that they might not be able to contribute to both insurances and instead of excluding them completely, allows for at least contributing to one priority scheme. In Uruguay's Monotax scheme, it is the other way around. Affiliation to the pension scheme is mandatory for micro and small firms while affiliation in the health insurance regime is voluntary. The entrepreneur can additionally choose to make voluntary contributions to also protect their children and spouse or not. In Indonesia, a scheme for casual workers differentiates the scope of coverage depending on the duration of employment, covering employment injury and life insurance for all workers, and health and old age only for those working at least 20 days a month (see Box 6.19).

**Box 6.19: Differentiating the scope of coverage for casual workers in Indonesia**

In Indonesia, a social security programme was introduced for casual workers and workers with single job or piecework contracts in 2000. It provides economic benefits for the events of work-related accidents, illness, maternity, old age and death. The scope of coverage depends on the duration of employment. If it is less than three months, a contribution is made to cover work-related accidents and life insurance while if the work lasts for more than three months and, for casual workers, at least 20 days per month, contributions are also made to health and old age pension schemes.

Source: Based on (Daza, 2005a).

**Checklist 6.11: Allow for contributing to priority social security branches**

- Does the social protection system allow certain categories of workers to select priority social security branches in case not all branches are equally important for this category of workers?
- Are there mechanisms in place to ensure that coverage is ensured, either through contributory or non-contributory mechanisms, for priority social protection needs?
- 

## 6.4 Subsidizing contributions for workers with insufficient contributory capacities

The adaptation of contribution collection mechanisms described in Sections 6.2 and 6.3 can go a long way in facilitating social security coverage for workers and employers in the informal economy. However, these may not be sufficient to ensure coverage for workers and employers with limited contributory capacities. In order to ensure broader coverage, countries have chosen one of two broad policy options, or use a combination of both:

- Coverage through non-contributory schemes financed by general taxation or other sources, which should be well coordinated with contributory schemes (see Chapter 2).
- Coverage through partially contributory schemes, which supplement financing through contributions by subsidies from general taxation or other sources with a view to ensuring coverage for workers with limited contributory capacities (see section 6.4.1).

### 6.4.1 Rationale for the subsidization of contributions for workers with insufficient contributory capacities

Why do countries opt for the subsidization of contributions for workers with insufficient contributory capacities?

The rationale for this subsidization is that it is preferable to have workers and employers with low contributory capacities to be contributing to social insurance schemes, even at a reduced rate, assuming that they may be able to contribute more during other times. This allows those workers to remain insured in a social insurance scheme throughout their lifetime, even throughout difficult periods where their own contributory capacities are insufficient. They can therefore continue building entitlements in the same scheme, which facilitates labour mobility and contributes to greater stability, better protection and an effective safeguard against the informalization of employment.



Second, such an approach is particularly for young workers, for whom this approach facilitates joining the social insurance scheme at an early age, which enhances their social protection and prevents them from slipping into informal employment.

Third, such an approach can also contribute to preventing the fragmentation of the social protection system, by providing for schemes to cover a large proportion of the population and allowing for large-scale risk pooling and sustainable financing based on the principle of solidarity.

However, subsidizing contributions goes along with a number of challenges, especially regarding the financial sustainability of the system. Government subsidies may account for a significant proportion of the total cost of a scheme. For example, for schemes covering agricultural workers, government subsidies can cover 30 to 80 per cent of the total cost of social security benefits (ISSA, 2012). Ensuring the financial sustainability of such subsidized schemes is a key challenge.

When setting contribution rates, it is therefore essential to find ways how to reduce or waive contributions for those with limited means, while at the same time guaranteeing financial sustainability of the system. Establishing contribution levels that adequately reflect the contributory capacity of the workers is one of the key challenges for the extension of social security coverage for workers in the informal economy.

### *Subsidizing health insurance coverage*

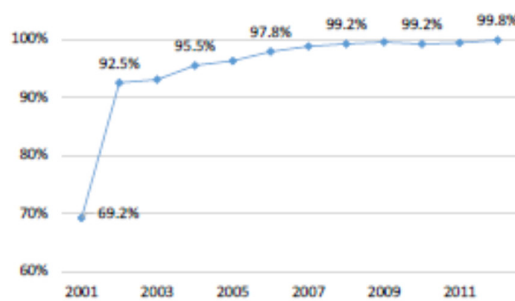
Health protection is probably one of the areas where government subsidies to a contributory scheme have been most prominent. The examples of Colombia (see Box 6.16) and Thailand (see Box 6.20) demonstrates how the establishment of an integrated health care financing system that combines contributions and taxes can lead to the fast extension of coverage and allows to grant universal access to health protection for the population (ILO, 2017a, chap. 5). In the Philippines, the national health insurance scheme known as PhilHealth covers 93 per cent of the population, based on a differentiated contribution schedule based on people's ability to pay (PHIC, 2017). In all three countries, large-scale government subsidies has allowed to achieve virtually universal health care coverage.

**Box 6.20: Thailand's Universal Coverage Scheme: Subsidizing health contributions for all those not covered by the general health scheme**

In October 2001, the compulsory Universal Coverage Scheme (UC) was established combining the previously existing Medical Welfare Scheme and the Voluntary Health Card Scheme to expand health coverage to an additional 18 million people. The UC Scheme covers all those not belonging to the General Social Security Health Insurance Scheme (SSO, for private formal sector employees) or the Civil Servants' Medical Benefit Scheme (CSMBS, for government retirees and their dependents). The target group largely consists of workers in the informal economy and their families, with low and volatile incomes.

Initially, a 30 Baht co-payment was required from the insured person, but it was abolished in 2006. Now the system is now totally free of charge. The scheme is financed solely from general tax revenue, paid to local contracting units on the basis of population size. The benefits package of the UC scheme is a comprehensive package very similar to the one under the other schemes, except for cash sickness benefits and annual check-ups. It includes inpatient and outpatient services in public and private facilities, maternity benefits, immunization and health education.

Before the introduction of the UC scheme in 2001, 30 per cent of Thailand's population was not covered by any health insurance. Already one year after its introduction, UC included 47 million people amounting to 74 per cent of the population, while 13 per cent were covered by the general social security scheme and 10 per cent by the CSMBS leaving approximately 3 per cent unprotected. By 2011, the schemes covered 99.8 per cent of the population.



Source: Based on (de la Rosa and Scheil-Adlung, 2008; Health Insurance System Research Office, 2012, p. 40; ILO, 2016i, 2017a). Link to video: <https://www.youtube.com/watch?v=poUm7GCj3ZM>.

Among African countries, Ghana (see Box 6.21) has achieved health coverage of about one third of the population through an innovative health financing mechanism involving the combination of social insurance contributions, earmarked taxes (VAT on alcohol, tobacco and luxury goods) and other government sources. Rwanda has almost achieved universal health coverage through an integrated health protection strategy based on a combination of adapted contributions, taxes and external grants (ILO, 2017a, chap. 5).

**Box 6.21: Progressively reaching universal coverage through a differentiated financing strategy: Ghana's National Health Insurance Scheme**

Ghana's National Health Insurance Scheme (NHIS) aims at achieving universal health coverage through a national social health insurance scheme based on a differentiated financing strategy that takes into account people's contributory capacity and exempting vulnerable segments of the population from paying contributions. Children under 18, people aged 70 or more, pregnant women and the indigent are exempted from paying contributions.

The scheme was established by the National Health Insurance Act (No. 650) in August 2003. Benefits include outpatient and inpatient services – such as diagnostic testing, specialist care, most forms of surgery, hospital accommodation, maternity care services, emergency care, and drugs.

The NHIS is funded by three main sources: social security contributions from employees in the formal sector, and flat-rate contributions from workers in the informal economy, and an earmarked VAT on alcohol, cigarettes and luxury goods (national health insurance levy, NHIL). The NHIL is by far the largest source of financing and in 2008 and 2009 accounted for about 61.5 per cent and 61.0 per cent of the NHIS's total income respectively. In those two years contributions from employees in the formal sector made up 16.9 per cent and 15.6 per cent and from the informal sector only 5.0 per cent and 3.8 per cent respectively.

In 2012, the NHIS reported that 8.2 million persons (33.4 per cent of the population) were registered, of which more than half (55.8 per cent) were in one of the exempt categories. The largest group (3.9 million) was children under the age of 18, followed by 392,000 persons aged 70 and over (not counting SSNIT pensioners) and 335,000 indigents. In order to facilitate registration for vulnerable groups, beneficiaries of the LEAP cash transfer programme are being registered automatically, which is expected to increase the registration of indigents by at least 200,000 individuals.

Source: Based on (ILO, 2015f, 2017a).

Other countries have taken measures to subsidize health insurance contributions for specific groups of vulnerable workers with limited contributory capacities.

For example, in India, contributions to health insurance for domestic workers are fully subsidized by the government (see Box 6.22) [DW]. As their health insurance coverage is financed by the State and Central government, there are no costs involved for the employer or the employee, but domestic worker are granted access to health insurance while at the same becoming registered and thus legally “visible”.

**Box 6.22: India: fully subsidizing health insurance contributions for domestic workers**

In India, subsidized health insurance under the *Rashtriya Swasthya Bima Yojana* (RSBY) programme is provided for poor families. The scheme was extended to domestic workers between the age of 18 and 59 and their families (up to 5 members per family) in 2011, and completely financed by Central and State governments (75:25).

Funds are allocated from the National Social Security Fund for Unorganized Workers. Insured persons only need to pay an annual amount of INR 30 as registration/renewal fee. It covers their health expense up to INR 30,000 (US\$ 570) per year.

For registration, the potential beneficiary needs to provide a certificate from two of the following institutions: employer, police, resident welfare association, or registered trade union.

The scheme foresees the use of smartcards, to make the scheme cashless and easier to administer. It concerns some 4.8 million domestic workers, many of whom are illiterate.

Source: Based on (ISSA, 2012).

Under some circumstances, public subsidies for health insurance coverage can take a different form. For example, in the city of Pune in India, the municipality is funding from the municipal budget a group health insurance for waste pickers under an agreement with the local waste-picker cooperative (*Kagad Kach Patra Kashtakari Panchayat*, KKPKP) in recognition of the value of the services of waste-pickers to the public (Chikarmane and Narayan, no year).

### *Subsidizing social insurance coverage in other areas*

In areas other than health protection, subsidized contributions for workers with low contributory capacities often aim at facilitating entry into the labour market for young people, or are focused on vulnerable categories for workers, such as agricultural workers or domestic workers. For example, many countries foresee subsidized social insurance coverage focus on agricultural workers, many of whom have limited contributory capacities. This is the case for example in Brazil's rural pension scheme (see Box 6.5) or for Ecuador's Peasants' Social Insurance Scheme (see Box 4.9).

It is not always clear to what extent the funding gap is accommodated through risk-sharing within the social insurance scheme, and to what extent through transfers from the general budget.

In addition to subsidizing contributions directly, some countries also provide minimum benefit guarantees for insured persons with a certain minimum years of contributions in their social insurance schemes. These provisions benefit workers whose lifetime contributions are not sufficient to reach a certain minimum level of contributions.

### *Tax incentives*

Another way of indirect subsidization of social insurance coverage is the provision of tax incentives for employers to register their workers. For example, in Argentina, employers can deduct social security contributions for domestic workers from their taxable income (see Section 7.3.3).

## **6.4.2 Estimating the financing needs for the extension of coverage to workers in the informal economy**

[to follow]

## 7 Compliance and incentives: Adapting inspection mechanisms and strengthening incentives for formalization

### Key questions

- ? How can labour and social security inspections be better adapted to promote social security coverage for workers in the informal economy?
- ? What are the challenges regarding labour and social security inspections in the informal economy?
- ? How can labour and social security inspection mechanisms be introduced or enforced to reach workers in the informal economy?

### Key messages

- \* Compliance and incentives have an important role to play in promoting the extension of social security to workers in the informal economy. Ensuring the uniform application and enforcement of the law not only promotes the protection of workers, but they also contributes to creating an enabling environment for employers, in particular with regard to creating a level playing field in which all enterprises comply with the applicable rules.
- \* Labour and social security inspection approaches may need to be adapted to take account of the specific circumstances and needs of employers and workers, particularly in sectors with high levels of informal employment. In order to meet these needs, it may be necessary to adapt the applicable legal framework, to enhance the human and financial resources available for inspection, and to adapt the way in which inspections are conducted.
- \* Extending the reach of labour and social security inspections beyond larger enterprises in many cases requires additional human and financial resources to ensure that all enterprises and workers can be effectively reached, including micro-enterprises, the self-employed and domestic workers, and those in rural and remote areas. With regard to human resources, the extension of inspection services requires investments both in the number of staff and their equipment, as well as in their qualifications.
- \* Information about social security is essential for ensuring compliance. Adequate mechanisms to disseminate information and raise awareness about the importance of social security among workers and employers, and their respective obligations with respect to social security are essential.
- \* IT solutions and a good coordination between the different institutions, organizations and agencies (at different levels of government) involved, can support the implementation of effective labour inspection mechanisms.
- \* An adequate balance needs to be found between sanctions and incentives, in order to promote a sustainable and equitable approach to ensuring compliance and the uniform application of the law.
- \* Well-designed linkages to other policy areas, such as public procurement policies, or access to government credit and business services, should be harnessed to encourage compliance and the extension of social security coverage.

## **7.1 The role of compliance and incentives for the extension of social security coverage**

Effective mechanisms to promote compliance with regulatory frameworks and enhance incentives are key for the extension of social protection to those in the informal economy. Ensuring the uniform application of the law and its effective enforcement not only ensures the protection of workers, but they also contributes to creating an enabling environment for employers, in particular with regard to creating a level playing field in which all enterprises comply with the applicable rules (Daza, 2005a; RNSF, 2017). As such, effective labour and social security inspection services are one of the mechanisms that governments have at their disposal to ensure well-functioning social protection systems that are financed in an equitable and sustainable way (ILO, 2015c, 2017a). These issues are discussed in Section 7.2 below.

Compliance can be fostered through a coherent policy framework that sets the right incentives for desirable behaviour. In this respect, smart linkages between the social protection system and other policy areas can potentially enhance incentives for social security compliance, and facilitate transition to the formal economy. For example, public procurement policies, access to government credit and business services, tax policies and employment policies can play a key role in this respect (see section 7.3).

The importance of a conducive policy framework to encourage compliance and set the right incentives is highlighted in Recommendation No. 204 (see Box 7.1).

**Box 7.1: Guidance set out in Recommendations No. 202 and No. 204 with regard to compliance and incentives**

Recommendation No. 202 states in Section II on National Social Protection Floors:

7. Basic social security guarantees should be established by law. National laws and regulations should specify the range, qualifying conditions and levels of the benefits giving effect to these guarantees. Impartial, transparent, effective, simple, rapid, accessible and inexpensive complaint and appeal procedures should also be specified. Access to complaint and appeal procedures should be free of charge to the applicant. Systems should be in place that enhance compliance with national legal frameworks.

11(1) Members should consider using a variety of different methods to mobilize the necessary resources to ensure financial, fiscal and economic sustainability of national social protection floors, taking into account the contributory capacities of different population groups. Such methods may include, individually or in combination, effective enforcement of tax and contribution obligations, reprioritizing expenditure, or a broader and sufficiently progressive revenue base.

11(2) In applying such methods, Members should consider the need to implement measures to prevent fraud, tax evasion and non-payment of contributions.

Recommendation No. 204 states in section I. Incentives, compliance and enforcement:

22. Members should take appropriate measures, including through a combination of preventive measures, law enforcement and effective sanctions, to address tax evasion and avoidance of social contributions, labour laws and regulations. Any incentives should be linked to facilitating the effective and timely transition from the informal to the formal economy.

23. Members should reduce, where appropriate, the barriers to the transition to the formal economy and take measures to promote anti-corruption efforts and good governance.

24. With respect to the formalization of micro and small economic units, Members should: ...

(b) reduce compliance costs by introducing simplified tax and contributions assessment and payment regimes; ...

(f) improve access to social security coverage.

26. Members should put in place appropriate mechanisms or review existing mechanisms with a view to ensuring compliance with national laws and regulations, including but not limited to ensuring recognition and enforcement of employment relationships, so as to facilitate the transition to the formal economy.

27. Members should have an adequate and appropriate system of inspection, extend coverage of labour inspection to all workplaces in the informal economy in order to protect workers, and provide guidance for enforcement bodies, including on how to address working conditions in the informal economy.

28. Members should take measures to ensure the effective provision of information, assistance in complying with the relevant laws and regulations, and capacity building for relevant actors.

29. Members should put in place efficient and accessible complaint and appeal procedures.

30. Members should provide for preventive and appropriate corrective measures to facilitate the transition to the formal economy, and ensure that the administrative, civil or penal sanctions provided for by national laws for non-compliance are adequate and strictly enforced.

Source: ILO Recommendations No. 202 and 204, both are included in ILO, 2017b



## 7.2 How can labour and social security inspections mechanisms be better adapted to effectively reach workers in the informal economy?

Ensuring effective labour and social security inspections in sectors prone to high levels of informality constitutes a particular challenge. On the one hand, most workers in these sectors are particularly vulnerable and in need of protection, yet, on the other hand, labour and social security inspectorates often lack the capacities to effectively intervene in the informal economy (Lund, 2012; Lund and Nicholson, 2003). In a way, this can create a vicious cycle in the sense that the limited ability to intervene and enforce national laws means that the vulnerable situation of informal economy workers cannot be properly addressed; which may further encourage enterprises to engage in informal employment practices, to the extent that they believe that the probability of being detected and inspected is very low (ILO, 2015l, p. 20).<sup>15</sup> It is however important to ensure that employers take their responsibilities seriously, including with regard to ensuring social protection coverage (ILO, 2013a; Alfers et al., 2018).

The due registration of workers with the social security institution(s) and the full payment of social security contributions (ISSA, 2015e) is one of the relevant areas of inspection. There are also important linkages with respect to the inspection of working hours, wages, health and safety at work, and maternity protection. In some countries, these areas are being monitored through integrated inspectorates; in others, labour and social security inspectorates are operating separately.

Various aspects will need to be considered to improve labour and social security inspection mechanisms to workers in the informal economy. These refer to the legal provision of inspections, the resources allocated going along with the employment and training of sufficient inspectors and the effectiveness of administration of inspections which may be improved through IT solutions. Effective warning and sanctioning mechanisms will also be relevant, but should be combined with awareness raising and educational activities regarding existing legislation.

The following factors are particularly relevant in determining specific challenges and strategies for extending labour and social security inspection to those in the informal economy:

- the characteristics of the economic units, with high numbers of small and micro enterprises, own account workers and private households as employers of domestic workers;
- the characteristics of the workplace, such as private homes as workplaces for homeworkers and domestic workers; or public spaces as workplaces for street vendors, wastepickers, etc.
- the geographic dispersion of the economic units and workplaces, particularly with respect to covering rural areas;
- the characteristics of the employment relationship, with a strong preponderance of different forms of self-employment, including own-account work, contributing family workers and members of cooperatives;
- the characteristics of the work itself, including long and irregular working hours, short-term or seasonal employment, irregular incomes, etc.

Each of these challenges can render inspections more demanding and expensive. Given that labour and social security inspections already face serious resource constraints in many countries, an extension of the scope of labour and social security inspection to new areas can constitute enormous challenges. As a result, in many countries, inspections are effectively concentrated on larger enterprises and often on activities in urban areas, where more people can be reached at shorter distances and controls are therefore more cost effective (Mesa-Lago, 2008a).

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<sup>15</sup> Studies showed that inspection visits at randomly allocated 577 firms lead to the registration of between 22 and 27 per cent of firms (Andrade de et al., 2013; Bruhn and McKenzie, 2014; ILO, 2010, p. 73).

The extension of labour and social security inspection to new categories of economic units and workers can incur specific challenges (Daza, 2005a; ILO, 2010, p. 73). This includes the following categories:

- For micro- and small firms with no or few employees, inspections can be more demanding and more costly than for larger enterprises. One of the reasons for this is that inspectorates cannot benefit from the same economies of scale compared to larger enterprises; that is, they can cover a small number of workers for every visit to the enterprise. Given their more limited administrative capacities, smaller enterprises may also have a greater need for information and guidance from labour and social security inspectors [SME] [SE].
- For domestic workers, a particular challenge is that the work typically takes place in the private home of the employer, which renders inspections more complex and will require legal and practical mechanisms to allow for home inspections while ensuring employer's privacy. [DW]
- Inspections in rural areas can be challenging because of longer distances, the often seasonal nature of the work in the agricultural sector, and in some cases additional challenges such as higher levels of illiteracy. [AW]

For these reasons, it is necessary that labour and social security inspections aiming at enhancing access to social protection should use adapted mechanisms where relevant, including participatory approaches (ILO, 2018e). In this respect, it is essential that labour and social security inspectors, and their management are familiar with specific strategies to improve working conditions and access to social security and for promoting the transition from the informal to the formal economy.

### ***7.2.1 Raising awareness and developing partnerships***

Raising awareness about the need for social protection and related rights and obligations is critical for the extension of social protection to those in the informal economy

#### ***Tackling information deficits***

Non-compliance with social security regulations is often associated with a lack of information and awareness. It is often not well known that labour and social security inspectors are not only concerned with sanctioning, but play a strong role in providing information and guidance on how to respect legislation (ILO, 2013a, sec. 4.c2). Experience shows that approaches that prioritize education, persuasion, transparency and participation tend to be particularly successful in reaching the informal economy (ILO, 2013a, sec. 4.c2). Awareness-raising and information campaigns (see also Chapter 2) should be implemented alongside sanction mechanisms. In Finland, France and the Netherlands, for example, labour inspection campaigns for farmers are combined with education and awareness-raising activities focusing on serious occupational hazards.

In China, under the grid-based management system, labour inspectors and assistants follow clear, traceable steps to promote awareness of laws, monitor compliance and carry out enforcement in specific areas (ILO, 2013a). In Peru, inspectors must give preventive technical guidance to employers and workers in the informal sector (ILO 2013c sec.4.c2, p. 225).

Some countries, such as Chile, have integrated information and capacity-building into their sanctioning framework (see Box 7.4).

#### ***Ensuring effective grievance mechanisms***

Another element of an effective compliance strategy are effective grievance mechanisms for both employers and workers (RNSF, 2017). Especially for workers, these mechanisms can help to

ensure that they can submit complaints in case their employers do not register them at all, or in an incorrect way (for example by underestimating the salary). It should be noted that Recommendation No. 202 requires that complaint and appeal procedures should be impartial, transparent, effective, simple, rapid, accessible and inexpensive, that complaint and appeal procedures should be free of charge to the applicant, and that systems should be in place that enhance compliance with national legal frameworks (para. 7).

### *Developing partnerships*

In order to reach sectors with a high incidence of informal employment more effectively, approaches building on partnerships with other stakeholders are key to facilitating outreach and a sustainable approach. Potential partners can include ministries with strong community outreach, such as ministries of health, or agriculture and rural development, local governments; tax inspectorates; trade unions, employer associations and other organizations of employers' and workers concerned; and communities. Tripartite partnerships are particularly effective. Means of action could include voluntary codes of conduct, monitoring mechanisms, and information and capacity-building campaigns (ILO, 2013a, sec. 4.c2).

Such partnerships are particularly important in sectors with a low penetration of other government control mechanisms, such as domestic work, homework, or in agricultural work. Given the high incidence of informal employment in these sectors, it is essential for the government to forge partnerships to disseminate information about workers' and employers' rights and obligations.

Workers' organizations can play a key role in disseminating information and facilitating registration. For example, in the Philippines, an organization of domestic workers (*Samahan at Ugnayan ng Manggagawang Pantahanan sa Pilipinas*, SUMAPI) organizes trips to social security registration booths, counselling centres and other government agencies (ILO, 2015c, p. 38).

#### **Checklist 7.1: Raising awareness and developing partnerships**

- Could partnerships be further explored to support the sharing of information and monitoring, for example with trade unions and other workers' organisations, particularly organizations of vulnerable groups of workers, such as domestic workers or agricultural workers; employer organizations or others?
- How could employers' and workers' knowledge about their rights and obligations be strengthened? How could they be made more aware of the importance of social protection?
  - Consider information and awareness-raising campaigns, partnerships (see above) and the linking of labour inspections with education and awareness-raising sessions.
  - Do workers have access to accessible and effective complaint and appeal mechanisms? (see Chapter 3)

### *7.2.2 Ensuring adequate legal frameworks for labour and social security inspection*

In order to ensure that the legal framework for labour and social security inspection can apply to the sectors with a high level of informality, it may be necessary to adapt certain aspects of this framework, and ensure that the mandate of labour and social security inspection services, as well as its resource allocations, are in line with the extent of legal social security coverage.

### *Facilitating the inspection of small enterprises*

Legal thresholds with regard to the size of the enterprise (number of employees or turnover) may need to be reduced or removed to allow for the inspection of small and micro-enterprises and the self-employed. It may also be necessary to foresee measures to enable inspectorates to conduct inspections for small and micro-enterprises.

For example, Peru specifically initiated annual inspections of micro-enterprises by law: The Small and Medium Enterprises Promotion and Formalization Act, 2003 (law 2,815) provides for annual inspections of 20 per cent of the registered micro enterprises (Daza, 2005a, p. 45). In the Dominican Republic, Law 87-01 gives pensions and occupational safety inspectors the power to carry out investigations as appropriate for early detection of evasion or fraud by both employers and/or workers. They also have the power to examine any documents or records of the employer (Daza, 2005a, p. 45).

### *Adapting regulations with regard to inspection of private households*

Legal frameworks may need to foresee specific regulations for inspections of private households as workplaces of domestic workers and homeworkers. These specific regulations need to consider not only the needs of workers, but also the needs of the household, particularly with regard to privacy. The implementation of these legal frameworks may require specific capacity-building of labour and social security inspectors in conducting house visits.

For example, in South Africa, the extension of unemployment and maternity insurance to domestic workers (see box 4.5) required the allocation of additional human and financial resources. Inspectors were trained on how to conduct house visits while maintaining employers' privacy, which worked well with little negative feedback from household employers, even though labour inspections sometimes happen without notice (ITUC and UN Women, 2013). [DW]

In Uruguay a special inspectorate was founded that is legally allowed to enter the house of an employer provided it has a court decision (see box 7.2). [DW]

#### **Box 7.2: Enhancing labour inspection for domestic workers in Uruguay**

In Uruguay, Act No. 18.065 adopted in 2006 sets norms to regulate domestic work, which requires all employers, including those of domestic workers, to register with the social security institution (Banco de Prevision Social). A special unit within the labour inspectorate monitors compliance and regularization of domestic workers with respect to the payment of social security contributions (General Labour and Social Security Inspectorate). The inspectorate is authorized to inspect workplaces, including private residences "in cases of presumed non-compliance with labour and social security regulations provided that it has obtained a court order issued by a Labour Court of First Instance or a Court of First Instance of the Interior in full possession of the facts" (art. 13).

The law also allows domestic workers to file complaints with the inspectorate. In order to publicize information about the new regulations, the adoption of the law in 2006 was followed by a broad-based information campaign to inform domestic workers and potential employers.

In terms of implementation, worth noting is that there are also formidable challenges. First, there are 100,000 households that employ at least one domestic worker, which makes routine inspection practically difficult. By dedicating additional resources, the authority conducted routine inspection to 9,200 households between 2010 and 2011. Second, it may take time to encourage employers to comply with the law. The inspection found that 80 percent of the cases lacked compliance, mostly related to some aspects of social security.

Source: Based on ILO 2012; ITUC and UN Women 2013.

### Checklist 7.2: Legal framework for labour and social security inspection

- What are the main obstacles to extending labour and social security legislation to employers and workers in the informal economy in the given context?
- Is the existing legal framework adequate to provide for the inspection of small and micro-enterprises, the self-employed and private households? Does it provide an adequate mandate to labour and social security inspectorates which is in line with the legal provisions for social security coverage (see [Chapter 4](#))? If not, would it need to be adjusted, and how?
- Does the legal and institutional framework include thresholds with regard to the size of the enterprise (number of employees, turnover) which exclude small and micro-enterprises from the reach of inspection services, although they should be covered according to the law?
- Does the legal and institutional framework foresee adequate provisions for maintaining the privacy of private households in the context of labour and social security inspections?

### 7.2.3 Ensuring adequate resources for the monitoring of compliance

One of the barriers to an effective monitoring of compliance is the limited resources allocated to inspection services. In view of the specific requirements of extending inspection services to the informal economy, the allocation of adequate human and financial resources to inspection services, and improving their efficiency, is essential for achieving the desired results.

#### *Increase the resources allocated to inspection services*

Expanding the scope of labour and social security inspections to workers in the informal economy will in most cases require an increase in the resources allocated. These resources are needed for increasing the number of labour and social security inspectors, administering inspections, information and awareness-raising activities, as well as for covering costs of transportation to also reach remote areas. It will also be relevant to provide sufficient resources for training labour and social security inspectors as well as staff of other services involved in some aspects of the work (e.g. customs officers, police officers, immigration officials).

Ensuring adequate funding is one of the lynchpins for labour and social security inspections, as funding levels determine the inspectorates' ability to address problems associated with employment in the informal economy. Especially in countries where the informal economy is the main source of employment, available resources often very limited. Nonetheless, even in these contexts, measures can be taken to organize inspection services more effectively and better exploit synergies (ILO, 2015).

For example, a better coordination of labour and social security inspection, or even an integration of some elements of their work, can help to create synergies and allow a more efficient allocation of resources (see also section 7.3.7 below). For example, in Latin America, integrated inspection services exist in Argentina, Bolivia, Colombia, Cuba, Chile, Paraguay and Peru, whereas specific social security inspectorates exist in Honduras and El Salvador (Vega Ruiz, 2009).

Various countries have increased the number of inspectors in order to ensure effective inspections. For example in Guatemala and El Salvador the number of inspectors has been doubled and in the Dominican Republic and Honduras they have been tripled. In Costa Rica, additional resources were provided for inspections (see box 7.3).

**Box 7.3: Costa Rica – Allocating resources for inspections**

Costa Rica's social insurance institution implemented a range of measures to improve the collection of social insurance contributions by the self-employed and employers. The institution employs a group of specialized inspectors to oversee the registration of the self-employed. The inspectors work in several economic sectors and according to different schedules, to enable both daytime and night-time supervision. In addition, more administrative staff and inspectors were hired to enhance the administrative capacity to follow-up cases of evasion. The institution has also allocated more resources to acquire the physical, material, and technologic resources needed to successfully implement this strategy. This strategy has allowed for the extension of contributory coverage to all parts of the country, including to the self-employed in rural areas.

Source: Based on Durán Valverde et al., 2013.

***Improving efficiency by using automatized solutions and effective coordination mechanisms***

Costs for social security inspections and especially administration can be considerably reduced by using information and communication technologies as for example introduced in **Colombia** (see box 7.3). Such technologies can be used for following up contributions of already registered enterprises and workers. A central database where contributions are recorded for example would allow to only visiting enterprises physically when there is a discrepancy between the expected and actual contribution payments (ILO, 2013a).

Automated solutions and effective IT systems do not only help in identifying non-declaration, but are one important tool to identify cases of under-declaration (ILO, 2015c). For example, Malaysia and Saudi Arabia use digital tools to support social security inspections (see Box 7.4).

**Box 7.4: Using digital tools to strengthen enforcement in Malaysia and Saudi Arabia**

In Malaysia, the introduction of a mobile application to verify enterprise registration (Nforce Refuge) and a mobile application that locates unregistered enterprises with a GPS via Google map (IDEAL) have significantly reduced the time to detect and verify unregistered enterprises. Between 2015 and 2016, the total number of enterprises visited increased by 14 per cent, and the number of unregistered enterprises visited increased by 23 per cent.

In Saudi Arabia, the General Organization for Social Insurance (GOSI) implemented a new system (RASED) to consolidate all inspection data (paper-based and electronic) and reduce the duration of inspection process by organizing field inspections based on the inspector's geographical location and expertise. This full business intelligence system uses real time field inspection data and is able to calculate information in seconds, allowing for a significant increase in the number of field visits.

Source: Based on ISSA, 2018a, 2018b.

In Qingdao (China), the Inspectorate has developed an integrated IT system to build up a more efficient labour and social security inspections mechanism and thereby extend the coverage (see Box 7.5).



**Box 7.5: Developing digital tools to promote an effective labour and social security inspections mechanism in Qingdao (China)**

The labour and social security inspectorate of Qingdao (Shandong Province, China) developed a set of tools that allowed to enhance the allocation of inspectors and the collection and analysis of data. In addition, a mobile phone application allows for the real-time filming and transmission of data, to ensure a fairer inspection mechanism and better enforcement. The introduction of these tools was accompanied by a campaign to promote compliance, as well as an improved monitoring system. As a result, social security coverage expanded significantly thanks to more effective inspections, leading to an increase in social insurance coverage of 43,000 previously uncovered workers between 2012 and 2014.

Source: Based on ILO, 2016; link to video: <https://www.youtube.com/watch?v=79qcQqlcluw>.

Colombia uses an integrated registry of contributors to manage the administrative records of workers insured in the different social security schemes (see Box 7.6).

**Box 7.6: Colombia: Integrated Form for Contribution Settlement (PILA) and Single Registry of Contributors (RUA)**

In Colombia, the Single Registry of Contributors (RUA) allows for cross-referencing information about insured workers contained in several social security subsystems: the General System of Social Security in Health, the General System of Pensions, and the General System of Occupational Hazards. Together with the introduction of the Integrated Form for Contribution Settlement (PILA), an electronic platform through which contributions can be settled, RUA has facilitated supervision and control of the population registered in the social security system. The RUA has established itself as a tool for detecting irregularities such as contribution evasion, levy evasion or multi-registration. When irregular cases are detected, the information is reported to the competent authorities and different control bodies who check the information and take necessary corrective measures.

Source: Based on Durán Valverde et al. 2013.

In India, an initiative in the state of Maharashtra aiming at extending labour inspection to the informal economy uses a computerized labour management system that enables employers to access online all the necessary forms to obtain and renew licences and provides workers with bank cards and accounts for the payment of their wages. In addition to removing bureaucratic hurdles, this initiative also allows labour inspectors to detect irregularities through an automatized warning system (ILO, 2013a, p. 224).

When considering effectiveness, it will also be relevant to guarantee good coordination between different institutions involved regarding the exchange of information. For example, in the Dominican Republic, coordination and collaboration between the Secretariat of State for Labour, the Directorate of Inland Taxes and other public and private agencies which could provide relevant information was established by law 87-01 to ensure registration and control (Daza, 2005a).

Specific registration requirements may also help to render labour and social security inspection more effective, especially for the self-employed or for domestic workers. For example, in Mali, a copy of any labour contract that exceeds three months' duration or is of indefinite period must be filed with the labour inspectorate. In the Philippines employers are required to register their domestic employees with the barangay (local district). Where the employment is facilitated by a private employment agency, the agency must keep a copy of all contracts of domestic workers, which must be available for inspection by the Department of Labour and Employment.



Regularization campaigns can also enhance compliance. In Spain, a deadline for the registration of domestic workers who were already employed was set (1 July 2012), after which employers faced sanctions. By April 2012, the social security registration rate had risen to 47 per cent of the total estimated number of domestic workers in the country (ILO, 2013e).

Automatic exchanges of information are however difficult in contexts where there is no established registry that could be used for this purpose. For example, in many countries there are no registries of domestic workers and the households in which they are employed (ILO, 2015c, p. 19). The lack of such registration, as well as of written employment contracts renders domestic work invisible, and therefore hard to detect and regulate. [DW]

One way of addressing such challenges for compliance is the introduction of an automatic enrolment mechanism for certain categories of employers. For example, in Argentina, where the employment of domestic workers is very common among better-off households, it is assumed that – unless proven the opposite – every middle and high income household employs a domestic worker. This on the one hand might be a successful mechanism to improve compliance with the law and on the other hand means that compliance can also be checked through a central social security database without requiring visits to all households in person. [DW]

### *Integrated strategies to enhance labour and social security inspections*

Strengthening the coordination between labour and social security inspection mechanisms, or foreseeing integrated services, can help to overcome some of the obstacles to effective inspection mechanisms, especially with regard to overcoming resource constraints.

For example, **Argentina** has pursued a differentiated strategy to enhance labour and social security inspection in sectors prone to high levels of informality, including most of the elements mentioned above (see Box 7.5).

#### **Box 7.7: Argentina: Integrated labour and social security inspection as an element of national strategies for the formalization of employment**

Argentina launched in 2003 a national plan for the regularization of workers. One measure to increase compliance was to match information between different databases, combining information collected by inspectors with data on social security contributions. Fines imposed on the enterprise were reduced if workers were regularized. These efforts were also supported by an increase in the resources allocated to inspection, including in particular an increase in the number of staff, as well as investments in capacity-building and equipment (cars, IT systems). These measures resulted in an increase of the workers visited being regularized by 24 per cent. These measures also considered the capacity of the enterprise to pay contributions, so as not to penalize formal enterprises in financial difficulty.

The Integrated Plan to Reduce Non-Registered Employment, adopted in 2013, foresees the strengthening of integrated labour and social security inspection, a public registry of employers with labour sanctions, and awareness-raising campaigns on workers' rights, particularly for domestic workers and in the rural economy.

Source: Based on Bertranou and Casanova, 2013; ILO, 2014a, 2013a, p. 224; Vega Ruiz, 2009.

The sharing of information between inspection services can also be a useful strategy to improve compliance. For example, strengthened minimum wage inspections in Costa Rica have also been associated with an increase in social security compliance (Gindling et al., 2015).

In other contexts, it may be useful to set up specialized groups or units responsible for labour and social security inspections for certain categories of workers in the informal economy. Such groups could also foster collaboration with partners other than labour and social security inspectorates (see above).

### Checklist 7.3: Ensure adequate resources for the monitoring of compliance

- Do labour and social security inspectorates dispose of adequate information that is able to improve awareness on the services beyond larger enterprises?
- Do labour and social security inspectorates dispose of adequate human resources, equipment and IT systems to be able to effectively extend their services beyond larger enterprises?
- Could labour and social security inspection mechanisms be rendered more effective and efficient by using automatized solutions and establishing coordination mechanisms? This could include
  - Automated exchange of information and matching databases, while respecting and protecting personal data and the right to privacy.
  - Closer coordination among different inspection services, and between inspection services and other parts of government.
  - Integrated labour and social security inspection services, or integrated inspection units for certain categories of workers in the informal economy may further enhance the effectiveness and efficiency of inspection services.
  - Could a closer coordination between labour and social security inspection enhance the monitoring of compliance and a more efficient use of resources?
- Could integrated strategies for labour and social security inspection mechanisms contribute to enhancing compliance and the protection of workers?

### Further reading on labour and social security inspections

#### General

- ISSA. 2014. [\*Guidelines on Contribution Collection and Compliance\*](#) (Geneva: International Social Security Association), particularly sections D, E and F.
- ILO. 2013. [\*The Informal Economy and Decent Work: supporting transitions to formality: a resource guide\*](#) (Geneva, International Labour Office), particularly section 4.c2.
- ILO. 2015. [\*Extending labour inspection to the informal economy: a trainer's handbook\*](#) (Geneva, International Labour Office).
- ILO, 2018. [\*A Guide on Labour Inspection Intervention in the Informal Economy - A participatory method\*](#) (Geneva: International Labour Office).

#### Specifically on domestic workers:

- ILO. 2012. [\*Effective Protection for Domestic Workers: A guide to designing labour laws\*](#). (Geneva International Labour Office).
- ILO. 2015. [\*Labour inspection and other compliance mechanisms in the domestic work sector: Introductory guide\*](#). (Geneva, International Labour Office).

### 7.2.4 Applying meaningful and adequate sanctions

The design and application of meaningful and adequate sanctioning mechanisms are particularly important for labour and social security inspection in sectors prone to a high incidence of informal employment. Possible sanctions should be applied carefully, being aware that for many of those in the informal economy, the non-respect of rules is not a choice, but a result of various

barriers addressed in previous chapters. Being aware that ineffective sanctions are a major obstacle to law enforcement, fines and other forms of sanctions should effectively deter non-compliance, and should set incentives for compliance in the future.

With a view to encouraging lasting change, it is important to consider financial penalties (fines) in conjunction with information and awareness-raising. It is however important to consider other measures beyond fines within the sanctions framework. A graduated system of penalties can be useful, ensuring in particular that those with high degree of vulnerability are not adversely affected.

For example, in **Chile**, the level of fines is dependent on the size of the enterprise and the number of workers affected (ILO, 2013a, sec. 4.c2). The sanctions framework also foresees the possibility that small enterprises can discharge themselves from sanctions by regularizing workers and attending training sessions (see Box 7.6). Given that senior staff time is usually a scarce resource small enterprises, participation in such training session has a penalty element (foregone revenue), as well as an awareness-raising element.

**Box 7.6: Integrating information and capacity-building into the sanctioning framework in Chile**

Chile introduced a system whereby enterprises with fewer than nine workers can apply for replacing the fine by a free training for the employer, under the condition that the situation in question is corrected. Employers cannot exercise this option more than once a year, and if they fail to attend the course, they are liable to pay a 100 per cent surcharge.

Source: Based on (ILO, 2013a, sec. 4.c2).

Finally, giving due consideration to the setting of adequate incentives for compliance will further help to facilitate transition from the informal to the formal economy (see Chapter 8).

**Checklist 7.4: Applying meaningful and adequate sanctions**

- How can penalties and other sanctions be rendered more effective and meaningful?
- Are the sanctions applied appropriate? Consider introducing a graduated system of sanctions that ensures that penalties are meaningful, effective and appropriate.
- Could sanctions be combined with promotional measures to raise awareness and build capacities, where this is appropriate?

#### Further reading related to chapter 7.2

- ISSA. 2014. [\*Guidelines on Contribution Collection and Compliance\*](#) (Geneva: International Social Security Association), particularly sections D, E and F.
- ILO. 2013. [\*The Informal Economy and Decent Work: supporting transitions to formality: a resource guide\*](#) (Geneva, International Labour Office), particularly section 4.c2.
- ILO. 2015. [\*Extending labour inspection to the informal economy: a trainer's handbook\*](#) (Geneva, International Labour Office).
- ILO, 2018. [\*A Guide on Labour Inspection Intervention in the Informal Economy - A participatory method\*](#) (Geneva: International Labour Office).

Specifically on domestic workers:

- ILO. 2012. [\*Effective Protection for Domestic Workers: A guide to designing labour laws\*](#). (Geneva International Labour Office).
- ILO. 2015. [\*Labour inspection and other compliance mechanisms in the domestic work sector: Introductory guide\*](#). (Geneva, International Labour Office).

### 7.3 Strengthening incentives for formalization: harnessing linkages to other policy areas

Smart policies for strengthening incentives for the extension of social security coverage and the formalization of employment should also consider linkages to other policy areas. This includes, as mentioned in Recommendation No. 202, policies that promote productive economic activity and formal employment, such as public procurement, government credit provisions, labour market policies and tax incentives, as well as policies that promote education, vocational training, productive skills and employability.

By this token, innovations in other policy areas can be harnessed to provide incentives for the extension of social security coverage and the formalization of employment. Such measures can provide positive incentives for enterprises to honour their social security obligations and can reward compliance through measures that entail little or no additional cost for the government. Such policies contribute to creating a more level playing field between enterprises and ensure a fairer competition.

Particular care should however be taken to making sure that such policies do not formally or de facto exclude micro-enterprises, particularly those that have recently been created. It may be necessary to foresee specific measures to make sure that micro enterprises can also benefit from such measures, so that their potential for enterprise development and growth can be fostered in a way that ensures at the same time the social protection of their workers.

#### 7.3.1 Public procurement and investment policies

Public procurement and investment policies can support the formalization of employment and the extension of social security coverage by ensuring that enterprises participating in public tenders and publicly financed investment projects comply with the applicable legislation. Such policies should be accompanied by effective monitoring to ensure that the promotion of compliance is effective and sustained.

For example, in South Africa, companies that intend to submit a public tender need to submit a "Letter of Good Standing" from the Department of Labour. This letter confirms that the enterprise

has duly paid its contributions to the Compensation Fund which ensures workers' coverage in case of employment injury.

At the international level, the environmental and social safeguard of the World Bank (IFC, 2012; World Bank, 2018) and other development banks provide a guiding framework that includes dedicated sections on workers' rights, including with respect to social security, which apply to workers directly or indirectly employed in projects financed by these banks. Governments and other stakeholders can refer to these frameworks to promote compliance with national law and these frameworks.

### 7.3.2 Access to government credit and business services

Some countries have also put policies in place with regard to access to government credit and business services, which positively support the extension of social security and the formalization of employment.

Streamlined services for the registration of new businesses, including social security registration, can greatly reduce administrative burdens on new entrepreneurs. For example, in Portugal, enterprises can be created within hours, and the necessary documents are immediately available (ILO, 2013e, p. 36).

In Costa Rica, the Business Information System of the Ministry of Economy, Industry and Trade (Sistema de Información Empresarial Costarricense) does not issue Micro- and Small Enterprise (MSE) certificates to companies that are behind on their tax or social security payments (ILO, 2014h). These certificates are necessary, among others, for exempting MSEs from paying some types of taxes, namely the tax for legal persons (*impuesto a las personas jurídicas*)<sup>16</sup>. Besides creating financial incentives, enterprises may also be motivated to formalize and contribute to tax and social security systems through the provision of access to credit, training and/or technology as in Costa Rica's *Programa de Apoyo a la Pequeña y Mediana Empresa* (PROPYME) (see box 7.7).

#### **Box 7.8: Costa Rica's SME support programme (PROPYME): providing non-financial incentives for formalization**

The *Programa de Apoyo a la Pequeña y Mediana Empresa* (PROPYME, SME Support Programme) was implemented in 2002 (Law 8.262). It co-finances projects of micro, small and medium enterprises in the areas of technology development and innovation (up to 80% of the project value). It also introduces mechanisms to increase their participation in public procurement, internal trade promotion programmes, sectorial training and technical assistance programs. To be eligible, SMEs must comply with social security contributions, tax regulations and labour standards. They must also be up to date in their contributions to the national social security system (Caja Costarricense de Seguro Social, CCSS) and the Family Welfare Fund (Fondo de Desarrollo Social y Asignaciones Familiares, FODESAF). Funding comes from the national budget and the Ministry of Finance. Although the law was implemented in 2002, promotion and implementation only really began in 2010 with the launch of the Costa Rica Entrepreneurship Programme (Costa Rica Emprende). So far, the beneficiaries of the programme are mainly SMEs of a certain size; participation of microenterprises has been limited.

Source: Based on (ILO 2014b).

<sup>16</sup> This tax is based on the Ley de impuesto a las personas jurídicas (no. 9,024 23/12/2011) (tax law for juristic persons), which establishes an annual tax equivalent to 50% of a monthly minimum wage to be paid by all corporations and limited liability companies. The same law exempts small and microenterprises from paying this tax, provided they are registered with the Ministry of Economy, Industry and Trade and with the internal revenue service (Dirección General de Tributación) and that they are not behind on their tax or social security payments.

### ***7.3.3 Tax policies***

#### ***Monotax mechanisms***

Monotax mechanisms contribute to simplifying contribution and tax payment mechanisms, by offering the possibility for some categories of micro and small enterprises and own account workers to pay one (monthly) flat payment instead of various tax and social security contributions, as is the case in countries such as Argentina and Uruguay. Such mechanisms reduce the need to keep accounting records and facilitate the declaration of incomes and effecting payments to different social security and tax sub-systems (See Chapter 6.2.3).

#### ***Tax incentives for the registration of workers***

The provision of tax incentives for employers can provide incentives for the registration of workers. For example, in many countries, such as France and Belgium, employers of domestic workers can deduct part of the social security contributions from their taxable income. Such mechanisms provide an indirect way to subsidize the social security coverage of this vulnerable category of workers from general taxation, and promote their employment in the formal economy (see Box 7.9). In Argentina, employers are mandated by law to pay the total amount of contributions, while domestic workers are exempted and may contribute only on a voluntary basis. Similarly in the Philippines, where employers are responsible to assume the full social security contributions when domestic workers earn less than P 5,000 (ILO, 2016e).



### Box 7.9: Fiscal incentives to favour social insurance coverage for domestic workers in France and Belgium

In France, social insurance coverage of domestic workers is facilitated through a service voucher system that has significantly contributed to the formalization of the sector since 2006. Through the *chèque employ service universel* (CESU) mechanism, employers of domestic workers can easily register their workers and pay contributions. Employers can deduct half of the social insurance contributions for domestic workers from their income tax up to a limit of EUR 6,000 per year. In addition, households of persons with disabilities (assessed degree of disability of at least 80 per cent) and other categories are entitled to a full exemption. Studies demonstrated that two thirds of CESU users declared a previously undeclared employee (Farvaque, 2013).



In Belgium, fiscal incentives are provided through a service voucher system (*‘Titres-services, TS’*) introduced in 2004 at the initiative of the Federal Government. Differently from the French model, domestic workers are employed by a temporary agency (i.e. the formal employer), and households are being considered as a user of their services. The service voucher system is managed by a firm (Sodexo). From a tax point of view, users can benefit from a twofold benefit: a 30 per cent discount on voucher purchases (up to an annual deductible of €1,400), and a further nominal reduction of €0.9 on each voucher with the first 156 vouchers. Between 2008 and 2011, the number of Titres-Services users increased from 557,482 to 834,959, and employees under the scheme increased from 103,437 to 149,827; in the same period, approximately 17 per cent Belgian households used *Titres-Services* vouchers.

Source: Based on ILO, 2016b, 2016c.

### 7.3.4 Labour market and employment policies

Labour market and employment policies can also play an important role in setting the right incentives for social security coverage. Such incentives are critical when designing and implementing policies aiming at employment promotion and job creation. Such policies should factor in social security coverage, as to ensuring the protection of workers and the facilitation of transition to the formal economy. Such measures may include temporary wage and contribution subsidies for marginalized groups of workers (see Box 7.10), ensuring social protection coverage for participants in public employment programmes, or additional measures to facilitate the transition from education or public employment programmes into formal employment.

This is particularly important for young workers. As young people have a particularly high risk of being in the informal economy and becoming trapped in informal employment, it is important to ensure that youth employment policies also include measures to ensure social security coverage, as to facilitate the transition into formal employment for young people. For example, if employment programmes for young people ensure social security coverage, young workers enjoy better coverage, are more familiar with the social security system, and are more likely to continue their careers in the formal economy. Such coverage is not only an important mechanism to promote the employment of young workers in the formal economy, but it also has a positive effect



on raising their awareness about the importance of social protection and building a social security culture (see Chapter 3).

Apprenticeship programmes and other vocational training programmes can play an important role in this respect (ILO, 2017d). For example, in Austria and Germany, vocational training programmes (apprenticeships) include compulsory social insurance coverage, which allows young workers to be insured from the beginning of their career. In addition, such measures also contribute to awareness-raising, particularly where dedicated learning units are incorporated in vocational training and employment promotion programmes (see Chapter 3).

#### **Box 7.10: Promoting job creation in the formal economy in Argentina**

As a response to the economic crisis, Argentina introduced in 2008 the *régimen de promoción y protección del empleo registrado* (law no. 26.476, Scheme to promote and protect registered work). Employers' social security contributions for newly registered workers were reduced by 50 per cent for the first and by 25 per cent for the second year and payment and registration procedures were facilitated. Through this anticyclical programme, more than 330.000 workers were registered between the end of 2008 until the mid of 2009, despite of the economic crisis. Most of these were working in the service sector (20.3%), followed by the trade (14%), construction (12.2%) and industrial (12.2%) sectors, traditionally the sectors with the highest informality. In 2010, 714.000 jobs were created in the formal economy due to this measure.

Source: (Bertranou and Casanova, 2013; ILO, 2015m).

#### **Checklist 7.5: Considerations on strengthening incentives through linkages with other policy areas**

- Can innovative measures in other policy areas can be harnessed to provide incentives for the extension of social security coverage and the formalization of employment?
- Do public procurement and investment policies incorporate conditions with regard to the fulfilment of social security obligations? Could such conditions be introduced or strengthened?
- Do tax policies include provisions that facilitate access to social security, such as simplified tax and contribution payment mechanisms (monotax) or tax breaks for the employment of domestic workers? Could such mechanisms be introduced or strengthened?
- Do labour market and employment policies include provisions to facilitate access to social security coverage? Could such mechanisms be put in place, particularly for young workers?

#### **Further reading on strengthening incentives for the extension of coverage and transitions from the informal to the formal economy**

- ILO. 2013. [The informal economy and decent work: supporting transitions to formality: a resource guide](#) (Geneva, ILO), particularly sections 7.1 and 7.2.
- ILO. 2016. [Formalizing domestic work](#) (Geneva: ILO).
- ILO and GIZ. 2014. [Enterprise formalization: fact or fiction?](#) (Eschborn, GIZ).
- ISSA. 2015. [ISSA Guidelines: Contribution collection and compliance](#) (Geneva: ISSA).

## **8 Strategies for extension and the transition from the informal to the formal economy**

[to follow]

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## 9 Annex A: Glossary

This glossary focuses on the basic concepts, definitions and methodology guiding the analytical work of the ILO on social security or social protection.<sup>17</sup> It does not set out to assert any universal definitions; its purpose is rather simply to clarify terms and concepts as they are used in the ILO.

**Cash transfer programme.** Non-contributory scheme or programme providing cash benefits to individuals or households, usually financed out of taxation, other government revenue, or external grants or loans. Cash transfer programmes<sup>18</sup> may or may not include a means test.

Cash transfer programmes that provide cash to families subject to the condition that they fulfil specific behavioural requirements are referred to as conditional cash transfer programmes (CCTs). This may mean, for example, that beneficiaries must ensure their children attend school regularly, or that they utilize basic preventative nutrition and health-care services.

**Contributory scheme.** Scheme in which contributions made by protected persons directly determine entitlement to benefits (acquired rights). The most common form of contributory social security schemes is a statutory social insurance scheme, usually covering workers in formal wage employment and, in some countries, the self-employed. Other common types of contributory schemes, providing – in the absence of social insurance – a certain level of protection include national provident funds, which usually pay a lump sum to beneficiaries when particular contingencies occur (typically old age, invalidity or death). In the case of social insurance schemes for those in waged or salaried employment, contributions are usually paid by both employees and employers (though in general, employment injury schemes are fully financed by employers). Contributory schemes can be wholly financed through contributions, but often are partly financed from taxation or other sources; this may be done through a subsidy to cover the deficit, or through a general subsidy supplanting contributions altogether, or by subsidizing only specific groups of contributors or beneficiaries (e.g. those not contributing because they are caring for children, studying, in military service or unemployed, or have too low a level of income to fully contribute, or receive benefits below a certain threshold because of low contributions in the past).

**Employment guarantee scheme.** Public employment programme which provides a guaranteed number of workdays a year to poor households, generally providing wages at a relatively low level (typically at the minimum wage level if this is adequately defined).

**Informal economy.** All activities that are, in law or practice, not covered or insufficiently covered by formal arrangements. See Box A-I.1.

<sup>17</sup> The glossary is largely based on (ILO, 2014a, pp. 161–170).

<sup>18</sup> Strictly speaking, this term would encompass all social transfers provided in cash, including fully or partially contributory transfers, yet it is usually understood as limited to non-contributory transfers.



#### Box A-I.1: Key definitions regarding the informal economy

Within the statistical community, application of accurate terminology is important. To the layperson, the terms “informal sector”, “informal economy”, “employment in the informal sector” and “informal employment” might all seem to be interchangeable. They are not. The nuances associated with each term are extremely important from a technical point of view. The following can serve as an easy reference for the terminology associated with informality and their technical definitions:

It is generally understood that the term **informal economy** covers all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO Recommendation No. 204, para 2).

**Employment in the informal sector** is an enterprise-based concept, defined in terms of the characteristics of the place of work of the worker. According to the international standards adopted by the 15<sup>th</sup> International Conference of Labour Statisticians (ILO, 1993), the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal sector is a subset of unincorporated enterprise not constituted as separate entities independently of their owners, typically operating at a low level of organisation, on a small scale and with little or no division of labour and capital as factors of production.

**Informal employment** is a job-based concept and is defined in terms of the employment relationship and protections associated with the job of the worker (ILO, 2003; Hussmanns, 2004). This concept includes certain categories of employees (wage workers) and the self-employed:

- self-employed: employers (self-employed with hired workers) and own-account workers (self-employed without hired workers) if their enterprise is classified as informal, as well as all contributing family members independently of whether the enterprise in which they are working is informal or not.
- employees: those whose employment relationship is, in law or in practice, not subject to national labour legislation income taxation, social protection or entitlement to certain employment benefits. In practice, the formal or informal nature of a job held by an employee is determined on the basis of operational criteria, such as the payment of social insurance contributions by the employer on behalf of the employee, and entitlement to paid sick leave and paid annual leave.

Informal employment includes informal workers in formal enterprises.

Source: Based on (ILO, 2018a, pp. 7–12).

**Means-tested scheme.** A scheme that provides benefits upon proof of need and targets certain categories of persons or households whose means fall below a certain threshold, often referred to as *social assistance schemes*. A means test is used to assess whether the individual's or household's own resources (income and/or assets) are below a defined threshold and determine whether the applicants are eligible for a benefit at all, and if so at what level benefit will be provided. In some countries, proxy means tests are used: that is, eligibility is determined without actually assessing income or assets, on the basis of other household characteristics (proxies) that are deemed more easily observable. Means-tested schemes may also include entitlement conditions and obligations, such as work requirements, participation in health check-ups or (for children) school attendance. Some means-tested schemes also include other interventions that are delivered on top of the actual income transfer itself.

**Non-contributory schemes.** Non-contributory schemes, including non-means-tested and means-tested schemes, normally require no direct contribution from beneficiaries or their employers as a condition of entitlement to receive relevant benefits. The term covers a broad

range of schemes, including universal schemes for all residents (such as a national health services), categorical schemes for certain broad groups of the population (e.g. for children below a certain age or older persons above a certain age), and means-tested schemes (such as social assistance schemes). Non-contributory schemes are usually financed through taxes or other state revenues, or, in certain cases, through external grants or loans.

**Public employment programme.** Government programme offering employment opportunities to certain categories of persons who are unable to find other employment. Public employment programmes include employment guarantee schemes and “cash for work” and “food for work” programmes (see box 3.2).

**Social assistance scheme/programme.** A scheme that provides benefits to vulnerable groups of the population, especially households living in poverty. Most social assistance schemes are means-tested.

**Social insurance scheme.** Contributory social protection scheme that guarantees protection through an insurance mechanism, based on: (1) the prior payment of contributions, i.e. before the occurrence of the insured contingency; (2) risk-sharing or “pooling”; and (3) the notion of a guarantee. The contributions paid by (or for) insured persons are pooled together and the resulting fund is used to cover the expenses incurred exclusively by those persons affected by the occurrence of the relevant (clearly defined) contingency or contingencies. Contrary to commercial insurance, risk-pooling in social insurance is based on the principle of solidarity as opposed to individually calculated risk premiums.

Many contributory social security schemes are presented and described as “insurance” schemes (usually “social insurance schemes”), despite being in actual fact of mixed character, with some non-contributory elements in entitlements to benefits; this allows for a more equitable distribution of benefits, particularly for those with low incomes and short or broken work careers, among others. These non-contributory elements take various forms, being financed either by other contributors (redistribution within the scheme) or by the State.

**Social protection.** The term “social protection” is used in institutions across the world with a wider variety of meanings than “social security”. It is often interpreted as having a broader character than social security (including, in particular, protection provided between members of the family or members of a local community), but it is also used in some contexts with a narrower meaning (understood as comprising only measures addressed to the poorest, most vulnerable or excluded members of society). Thus, in many contexts the two terms, “social security” and “social protection”, may be largely interchangeable, and the ILO certainly uses both in discourse with its constituents and in the provision of relevant advice to them. In this report, reference is made to “social protection” both as an alternative expression for “social security” and to denote the protection provided by social security in case of social risks and needs.

**Social protection floor.** ILO Recommendation No. 202 sets out that member States should establish and maintain national social protection floors as a nationally defined set of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion (ILO, 2012a). These guarantees should ensure at a minimum that, over the life cycle, all in need have access to at least essential health care and basic income security. These together ensure effective access to essential goods and services defined as necessary at the national level. More specifically, national social protection floors should comprise at least the following four social security guarantees, as defined at the national level:

- a. access to essential health care, including maternity care;
- b. basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- c. basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and



d. basic income security for older persons.<sup>19</sup>

Such guarantees should be provided to all residents and all children, as defined in national laws and regulations, and subject to existing international obligations.

Recommendation No. 202 also states that basic social security guarantees should be established by law. National laws and regulations should specify the range, qualifying conditions and levels of the benefits giving effect to these guarantees, and provide for effective and accessible complaint and appeal procedures.

Social protection floors correspond in many ways to the existing notion of “core obligations”, to ensure the realization of, at the very least, minimum essential levels of rights embodied in human rights treaties (OHCHR, 2013).

**Social protection programme/scheme (social -security programme/scheme).** Distinct framework of rules to provide social protection benefits to entitled beneficiaries. Such rules would specify the geographical and personal scope of the programme (target group), entitlement conditions, the type of benefits, benefit amounts (cash transfers), periodicity and other benefit characteristics, as well as the financing (contributions, general taxation, other sources), governance and administration of the programme.

While “programme” may refer to a wide range of programmes, the term “scheme” is usually used in a more specific sense referring to a programme that is anchored in national legislation and characterized by at least a certain degree of “formality”.

A programme/scheme can be supported by one or more social security institutions governing the provision of benefits and their financing. It should, in general, be possible to draw up a separate account of receipts and expenditure for each social protection programme. It is often the case that a social protection programme provides protection against a single risk or need, and covers a single specific group of beneficiaries. Typically, however, one institution will administer more than one benefit programme.

**Social security.** The fundamental right to social security is set out in the Universal Declaration on Human Rights (1948) and other international legal instruments. The notion of social security adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from

- a. lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member;
- b. lack of (affordable) access to health care;
- c. insufficient family support, particularly for children and adult dependants;
- d. general poverty and social exclusion.

Social security thus has two main (functional) dimensions, namely “income security” and “availability of medical care”, reflected in the Declaration of Philadelphia (1944), which forms part of the ILO’s Constitution: “social security measures to provide a basic income to all in need of such protection and comprehensive medical care” (III(f)).<sup>20</sup> Recommendation No. 202 sets out that, at least, access to essential health care and basic income security over the life cycle should be

<sup>19</sup> Recommendation No. 202, Para. 5.

<sup>20</sup> These two main dimensions are also identified in the ILO Income Security Recommendation, 1944 (No. 67), and the Medical Care Recommendation, 1944 (No. 69), respectively, as “essential element[s] of social security”. These Recommendations envisage that, first, “income security schemes should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of a breadwinner” (Recommendation No. 67, Guiding principles, Para. 1); and, second, that “a medical care service should meet the need of the individual for care by members of the medical and allied professions” and “the medical care service should cover all members of the community” (Recommendation No. 69, Paras 1 and 8). Recommendation No. 202 also reflects these two elements in the basic social protection guarantees that should form part of national social protection floors (for more detail, see box 1.1).

guaranteed as part of nationally defined social protection floors, and that higher levels of protection should be progressively achieved by national social security systems in line with Convention No. 102 and other ILO instruments.

Access to social security is essentially a public responsibility, and is typically provided through public institutions, financed from either contributions or taxes or both. However, the delivery of social security can be and often is mandated to private entities. Moreover, there exist many privately run institutions (of an insurance, self-help, community-based or mutual character) which can partially assume selected roles usually played by social security, such as the operation of occupational pension schemes, that complement and may largely substitute for elements of public social security schemes. Entitlements to social security are conditional either on the payment of social security contributions for prescribed periods (contributory schemes, most often structured as social insurance arrangements) or on a requirement, sometimes described as “residency plus”, under which benefits are provided to all residents of the country who also meet certain other criteria (non-contributory schemes). Such criteria may make benefit entitlements conditional on age, health, labour market participation, income or other determinants of social or economic status and/or even conformity with certain behavioural requirements.

Two main features distinguish social security from other social arrangements. First, benefits are provided to beneficiaries without any simultaneous reciprocal obligation (thus it does not, for example, represent remuneration for work or other services delivered). Second, it is not based on an individual agreement between the protected person and the provider (as is, for example, a life insurance contract); the agreement applies to a wider group of people and so has a collective character.

Depending on the category of applicable conditions, a distinction is also made between non-means-tested schemes (where the conditions of benefit entitlement are not related to the total level of income or wealth of the beneficiary and her or his family) and means-tested schemes (where entitlement is granted only to those with income or wealth below a prescribed threshold). A special category of “conditional” schemes includes those which, in addition to other conditions, require beneficiaries (and/or their relatives or families) to participate in prescribed public programmes (for example, specified health or educational programmes).

**Social security system/social protection system.** Totality of social security/protection schemes and programmes in a country, taking into account that the latter term is often used in a broader sense than the former.

All the social security schemes and institutions in a country are inevitably interlinked and complementary in their objectives, functions and financing, and thus form a national social security system. For reasons of effectiveness and efficiency, it is essential that there is close coordination within the system, and that – not least for coordination and planning purposes – the receipts and expenditure accounts of all the schemes are compiled into one social security budget for the country so that its future expenditure and financing of the schemes comprising the social security system are planned in an integrated way.

**Social transfer.** All social security benefits comprise transfers, either in cash or in kind: i.e. they represent a transfer of income, goods or services (e.g. health-care services). This transfer may be from the active to the old, the healthy to the sick, or the affluent to the poor, among others. The recipients of such transfers may be in a position to receive them from a specific social security scheme because they have contributed to such a scheme (contributory scheme), or because they are residents (universal schemes for all residents), or because they fulfil specific age criteria (categorical schemes), or specific resource conditions (social assistance schemes), or because they fulfil several of these conditions at the same time. In addition, it is a requirement in some schemes (employment guarantee schemes, public employment programmes) that beneficiaries accomplish specific tasks or (conditional cash transfer programmes) adopt specific behaviours. In any given country, several schemes of different types generally coexist and may provide benefits for similar contingencies to different population groups.

**Targeted scheme/programme.** See *social assistance scheme*.

**Universal scheme/categorical scheme.** Strictly speaking, universal schemes provide benefits under the single condition of residence. However, the term is also often used to describe categorical schemes that provide benefits to certain broad categories of the population without a means-test. The most frequent forms of those schemes are those that transfer income to older persons above a certain age or children below a certain age. Some categorical schemes also target households with specific structures (one-parent households, for example) or occupational groups (such as rural workers). In some schemes, entitlement to benefits may be conditional on performing or accomplishing certain tasks. Most categorical schemes are tax-financed.

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