Extending social protection to informal workers: Conceptual framework, regional extension modalities and comparative developments

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Overarching question: appropriate SP interventions

**SP definition**: "Policies and actions that extend protection to those who are exposed to social risks through contributory and/or non-contributory transfers, and that enhance the capacity of poor and vulnerable people and groups, to escape or avoid falling into poverty, and to better manage risks and shocks, through access to health and essential services and income security throughout active and inactive periods"

- Various mechanisms available to achieve this
Informal economy covers all sectors and various categories of “workers”.

Covers activities falling de facto or de jure outside the reach of law/protection.

Important considerations need to be factored in - the blurring of divides:
- Continuum and fluidity between the informal and formal economy.
- Informal workers may nevertheless perform work in framework of care work, and also dependency relationships.

Informal employment comprises several categories:
- Wage employment in jobs without SP
- Self-employment – e.g. own account workers
- “Supply chain workers”
- Care economy workers

Heterogeneity: contributory capacity and coverage options?
Characterisation according to broad economic activity and income-generating potential: the need to appreciate the impact of heterogeneity
- Upper-tier top performers
- Lower-tier survivalists
- “Constrained gazelles” – structurally part of the lower-tier survivalists, but displaying strong entrepreneurial dynamism
  - Recent ISS study (Grim, Knorringa & Lay)
  - Characteristics
  - Social protection implications

Beware of standard classifications and be mindful of changes occurring

For example, the limited ability of agricultural employment in SSA to provide sufficient work opportunities to accommodate the rapid population growth of 3% per annum

Implying, according to Norman & Stiglitz (see also Koehler), the need for economic diversification, implying further a structural change from agriculture to industries (urbanisation) – currently being debated as part of the post-2005 MDG Agenda
Conceptual context: At-risk groups and distinctions

- Particular at-risk groups -
  - Women
  - Migrant workers
  - The aged, children and persons with disabilities
- There is need to distinguish between:
  - Different sub-sectors (where relevant)
  - Professionally & institutionally organised self-employed as opposed to informal economy workers
  - Small employers and other providers of work, who may themselves be in need of appropriate protection
  - Own account operators, often involved in subsistence work
  - Non-employee workers

Coverage: the contextual framework
Coverage: the contextual framework

**World Social Security Report 2010 (ILO):**
- Only 20% of world's working-age population (and their families) have access to social security
- One-third of countries covered (28% of global population) have comprehensive systems, covering all nine social security branches
- However, in many instances (e.g. unemployment and employment injury), coverage is restricted to formal sector workers

Coverage: the contextual framework

- Outside the developed world, coverage is concentrated on formal sector workers
- Yet, some innovative developments are occurring in the developing countries

- Dichotomy reflected in spending patterns:
  - On average, 17.2% of global GDP is allocated to social security
    - High-income countries: 19.4%
    - Middle-income countries: 7.0%
    - Low-income countries: 4.1%
Coverage: the contextual framework

- SSA: informal employment constitutes 66% of all non-agricultural employment (excluding RSA and some SADC countries)
  - If informal employment in agriculture is added: 90% of employment in some countries

- Gender dimensions: 84% of women non-agricultural workers are informally employed, as opposed to 63% of male workers

- ILO: persistence and depth of poverty in Africa is strongly related to both the structure of employment and low productivity

Coverage: Reasons for and impact of lack of coverage in the informal economy

- Global financial crisis, as was the case with 1997–1998 Asian crisis, a major consideration

- Changing nature of work and labour market segmentation: Informalisation has led to, but is also caused by
  - Casualisation: displacement of standard employment by temporary or part-time employment
  - Externalisation: Economic restructuring with employment regulated by a commercial contract
Coverage: Reasons for and impact of lack of coverage in the informal economy (cont)

- **Inability** of formal economy to create jobs

- Until recently, little evidence of a **dedicated approach** to extend protection

- **Disparate impact** of weak coverage on, e.g.:
  - Perpetuation of high income inequality and poverty
  - Gender disadvantage

Coverage: Reasons for and impact of lack of coverage in the informal economy (cont)

- **Impact**: Extreme vulnerability, compounded by low and irregular household income levels

- **LDCs** with high poverty rates and levels of informal economy least able to generate sufficient funds from taxes and contributions to finance social security interventions

- Thus: shift of managing risks to workers, families and other State systems (e.g. welfare systems)
Limitations of current approaches: national, international and regional standards and structures

- Exclusionary impact of
  - Contributory schemes: focus on formal employment and the formal economy
  - Non-contributory schemes: largely cover particular categories of the poor

- Legal coverage is focused on a formal employment contract, which invariably does not exist in the informal sector (limited employee/employer definition)

- Membership is usually voluntary, with little incentive to join
National regulatory and institutional frameworks

- Limited definition of “workplace”, “health”, etc – leading to exclusionary approaches in OHS
- Limited definition of “trade union”
- Weak inspection arrangements

International and regional standards

- International labour and social security standards – in particular ILO-standards – are not altogether appropriately suited for the informal work context
- Exceptionally weak ratification record of post-World War II ILO social security Conventions by Asian and SSA countries
- ILO Convention 102 not appropriately developed for the informal work context, or the developing world (see work done by Meknassi & others; ISSA 2009 report)
- Some important exceptions – certain ILO instruments

- ILO Recommendation 202 of 2012 (National Floors of Social Protection) a welcome step and instrument, but not without its challenges in this area
Regional instruments

- Important AU instruments, structures and developments

- SADC instruments and their relevance
  - SADC Treaty
  - SADC Social Charter
  - SADC Code on Social Security
  - SADC Protocol on Employment and Labour

Coverage extension: the case for enhanced protection
Coverage extension: the case for enhanced protection

- Concentrating attention on institutionally reforming that part of the social security system which covers only a small part of the labour force active in the formal labour market at the expense of those involved in non-traditional work and in the informal economy is inherently unequal, as it directs the attention of government and other stakeholders away from a huge segment of the population with no or little social security coverage.

The need for reconceptualisation
The need for reconceptualisation

- “Informal/unorganised economy/sector”
  - Tanzania: Social Security (Regulatory Authority) Act, 2008
  - Domestic workers extension in the SADC region

- Examples from other jurisdictions – OHS and workers compensation

- Recent social security laws in Lesotho and Swaziland – coverage of self- and informally employed persons foreseen

The need for reconceptualisation

- Extended notion of “employees” introduced in labour laws to also cover dependent and at times independent contracts (Caribbean; some Southern African countries)

- Extended notion of “employer” may be required to indicate wider sphere of liability/responsibility, but also to allow some “employers” to be covered
The need for reconceptualisation

- Supply chain regulation and dependency relationships: Importance of contractual tracking procedures and regulation of supply chains

- The need to legally and otherwise enable representative institutions (e.g. unions, etc)

- Targeting disguised employment relationships and employment relationships involving multiple partners – of limited value
  - ILO Recommendation 198 of 2006 – legal presumption to determine employment relationship

Complementary institutional and operational framework
Social assistance and cash transfer initiatives

- Recent OECD study (Promoting pro-poor growth: Social Protection, 2009) concludes, with specific reference to the developing world (also recent ILO and ISSA studies):
  - Comprehensive impact of larger scale programmes (e.g. Bolsa Familia (Brazil), Opportunidades (Mexico), South Africa (social assistance benefits))
  - South Africa: More than 30% of population covered by non-contributory benefits
    - Direct and indirect impact: Successfully addressing poverty at the individual and household levels, promoting entrepreneurial activities

Social assistance and cash transfer initiatives

- Providing pathways to pro-poor growth
  - Investment in human capital (see below)
  - Management of risks and vulnerability
  - Empowerment and sustainable livelihoods
  - Contribution to pro-poor macro-economic strategy
  - Strengthening of social cohesion and nation-building
Social assistance and cash transfer initiatives

- Well-developed and -designed programmes in the developed world –
  - Targeted and universal schemes (North America; EU; Australia)
  - Underpinned by range of complementary transfers and services: a true safety net
  - But position in Southern Europe is different (Ian Cough, OECD study results)

- Limited social assistance arrangements in most developing countries
  - Generally weakly developed in majority of Asian countries (see 2008 ADB report) and many sub-Saharan African (SSA) countries (2012 EU study)
  - Mostly targeted programmes, but some universal initiatives (e.g. old age pension: Namibia, Nepal)

- Some significant recent attempts at widening the funding basis of means-tested programmes
  - E.g. India: 2012 National social security budget represents an increase of 37% over 2011–2012

- More recently, a concerted focus on cash transfers (CT) and conditional cash transfers (CCT) schemes (e.g. Pakistan; Nepal; Bangladesh; several SSA countries)
Social assistance and cash transfer initiatives

- Of particular importance is the range of comprehensive CT and CCT schemes in middle-income countries (in particular, Latin American countries)
  - In these countries there is a deliberate attempt to link cash transfers to complementary programmes (e.g. access to other social security benefits and to developmental institutions)
- Temporary anti-crisis measure – e.g. Thailand (replacement by a permanent pension scheme considered)

Social assistance and cash transfer initiatives

- Some conclusions:
  - Effective social security/protection requires a comprehensive mix of instruments that appropriately address coverage, and the challenges of targeting – i.e. a multi-tiered approach
  - Some targeted schemes could have regressive outcomes – and may exclude the most vulnerable/poorest
  - Universal schemes have a greater effect on coverage extension
Social assistance and cash transfer initiatives

Some conclusions:
- Positive outcomes of conditionalities? Some indication, but proper evidence base is still required.
- Potential to serve as a bridge towards higher levels of protection via contributory-based arrangement.
- Financial scope exists in low- and middle-income countries to increase coverage via social assistance/cash transfers.

Including the self- and informally employed and the role of incentives

- Including the self-employed on a compulsory basis – some Latin American examples.
  - E.g., Chile (full pension scheme coverage foreseen by 2016).
  - Incentives play an important role: e.g. eligibility for other social security benefits (family allowances; employment injury benefits).
- Mesa–Lago (2010): The few Latin American countries that require (compulsory) membership generally have better and more effective coverage.
- Other incentives: lowering the contribution rate, e.g. for low-income self-employed.
Coverage extension: Complementary institutional measures (cont)

- Historically public measures have been seen as the preferred method to ensure social security coverage
  - Through dual framework of social insurance and social assistance
- This simple classification and limited framework of measures are no longer sufficient in a developing country context
- Importance of the complementarity of a range of measures to effect more comprehensive coverage has to be recognised
- See now the importance of the SPFI (and the new ILO SP Recommendation)

Coverage extension: Complementary institutional measures (cont)

- Employment guarantee schemes and public works programmes
  - Most prominent: India National Rural Employment Guarantee Scheme (NREGS, 2005) – one of the largest rights-based SP initiatives in the world, reaching 55 million households living below the poverty line
    - Important achievements, despite challenges
    - Extension to urban areas foreseen
  - SSA and SADC examples – see separate presentation (Govindjee and Olivier)
Coverage extension: Complementary institutional measures (cont)

- Employment guarantee schemes and public works programmes (cont)
  - Extension/creation of public employment schemes as a result of the GFC – e.g. Philippines
  - SSA: See also the Ethiopian PSNP, Kenyan LIPW, and Lesotho Integrated Watershed Management programmes: two important matters
    - Links to longer-term income-generation capacity and opportunities
    - Links to SP, and in particular the social security system, with specific reference to the contributory part of the system

Coverage extension: Complementary institutional measures (cont)

- Hybrid models; sector-specific modalities; special coverage arrangements; bottom-up approaches; micro-insurance
- Sector-specific approaches – examples:
  - Sri Lanka – scheme for fishers (42% coverage) and farmers (57% coverage)
  - India – Government welfare funds, such as “beedi” fund (“top down”)
  - Tunisia – workers’ compensation & pensions – a gradualist sector-by-sector extension; specialised income scales and benefit packages
Coverage extension: Complementary institutional measures (cont)

- **Provisos**: Successful extension requires that –
  - The affected group must be **sufficiently sizeable** and relatively homogenous
  - A **clear need** for enhanced protection exists
  - Political will, policy determination and public awareness and persuasion, backed by consultative approaches and possibly development partner support, are core to success of these arrangements

Coverage extension: Universal schemes

- Focusing on informal sector as a whole, to attain **universal coverage**
  - Framework provision: Unorganised Sector Social Security Act, 2008 (India) – covering the whole unorganised sector, allowing for sector-specific schemes; see also Indonesia (SJSN law of 2004)
  - **Specific contingencies**
    - Pensions: New Pension Scheme (India) extension
    - Health insurance/coverage: Indian RSBY scheme (covering 24 million BPL (Below Poverty Line) family members) – proposal for universal health insurance by 2017; see also Universal scheme (Thailand)
Coverage extension: Complementary institutional measures (cont)

- **China**: Extension of rural pension scheme to 240 million
- Similarly **Indonesia**: extension of (rudimentary) health insurance scheme to 240 million informal workers
- **Remarkable achievements** over short time period
  - E.g. extension of health insurance achieving high coverage rates in **Ghana (67%)**, **Rwanda (85%)**, Philippines (85%), China (Rural scheme – 97.5% in 2012, 3% in 2003)

Coverage extension: Complementary institutional measures – the need to adjust

- **Recent World Bank criticism** ("Social protection for changing India" – 2011): Insurance-based protection schemes have not impacted the unorganised sector due to poor design and improper implementation
- **India Review Report on implementation of NPS in the informal sector (July 2011)** – considerable problems indicated, in particular low take-up:
  - Certain steps already taken by Indian government to modify arrangements
- **Indonesia** – problems with introduction and envisaged implementation of recently introduced law
- **Mongolia** – decline in near universal SHI coverage
Provisos: Wide-scale extension may be possible and even required, provided that
- Extension instruments have been carefully selected and fine-tuned
- Extension and measures have been thought through
- Consultative approaches have been adopted
- Required institutional and fiscal capacity is existing
- Public awareness has been raised, with indication of incentives

“Bottom-up” approaches – e.g., mutuality-based arrangements
- Self Employed Women’s Association (SEWA) – has branched out in areas of social security provisioning (e.g.: special micro-pension scheme for workers in the informal sector)
- Micro-insurance: Important (cf Philippines), but has to be supported by wider SP framework of interventions
- Micro-health insurance: A few successes
  - SSA: See the new proposed rationalisation framework (Senegal)
- Challenges: Relatively low coverage, financial literacy, supervision, legal framework either non-existent (Sri Lanka) or in need of modification
Complementary institutional mechanisms: some developments in SSA

- Coverage extension to informal sector: a national priority
- Many of the initiatives taken are of recent origin –
  - Extension of non-contributory arrangements on a category basis – e.g. South Africa, Namibia, Cape Verde
  - National/universal non-contributory arrangements – e.g. universal health care (Cape Verde) and other arrangements (Mauritius)
  - Universal contributory schemes: in particular universal health insurance (Ghana: 67% coverage; Rwanda: 85% coverage), other countries in process
  - Scaling up of limited/fragmented contributory schemes
  - Development of a dedicated framework suited to the informal work context: see below
  - Job-creation and labour market insertion programmes?

Coverage extension: Specialised contribution modalities, eligibility criteria and benefit packages
Coverage extension: Specialised contribution modalities, eligibility criteria and benefit packages

- Dedicated tailor-made approaches required
  - Informal workers often excluded as a result of
    - Obligation to pay double contribution
    - Voluntary participation
    - Lack of incentives

- Specialised contribution modalities/benefit packages & context-specific/dedicated eligibility criteria could be used for the whole informal sector or for individual sectors

Coverage extension: Specialised contribution modalities and benefit packages (cont)

- Special and flexible contribution modalities – e.g. Ghana: Informal Sector Fund
- Could involve government co-contributions
- Developing flexible income scales
- Ringfencing of informal workers’ contributions within social insurance schemes
- Provide dedicated benefit packages reflective of short- and long-term needs of informal workers – e.g.,
  - India (2008 framework legislation)
  - Ghana (Informal Sector Fund)
Importance of a legal basis and human rights–based approach

Coverage extension: Legal basis and human rights–based approach

- Coverage is a human rights issue
- Absence of minimum labour and social security standards has undermined social protection for informal economy
- Conceptual framework of ILO social security instruments not sufficiently designed for informal work, although SP Recommendation may to some extent be helpful
- Require reconceptualisation and remodeling
- Adoption and implementation of regional and international instruments
  - UNICESCR – see General Comment No 19
  - Regional: E.g., SADC Social Charter and Social Security Code
Coverage extension: Legal basis and human rights–based approach

- The value of dedicated constitutional protection

- ILO report (Social security and the rule of law): Strong legal foundations have a direct relationship with
  - Higher levels of resources and
  - Higher levels of coverage

Coverage extension: Legal basis and human rights–based approach

- UN Committee on Economic, Social and Cultural Rights: General Comment No. 19
  - The social security system of a ratifying country should cover informal (economy) workers.
  - It defines the circumstances under which coverage for social risks such as occupational injuries, maternity and disability should be provided for in such a way as to include informal workers as well.
  - It expects of governments to respect and support social security schemes developed within the informal economy, such as micro–insurance schemes.
  - Despite limited financial capacity, countries should consider lower–cost and alternative schemes to provide for marginalised groups, and should ensure the progressive inclusion of informal (economy) workers.
Other preconditions

- **High-level political commitment** recommended
  - E.g. Ghana (presidential commission); India (government-appointed commission)
- **Investigation** and considered **evaluation** of options
- Appropriate **stakeholder consultation**
- **Communication**
- **Supportive framework**
- Sector-specific approaches require **homogenous beneficiary groups**

Overall conclusions

- Important **conceptual and policy shifts** support the coverage extension agenda
  - Change in cultural values and perceptions (e.g. SSA and Asia)
  - Welfare enhancement is good for economic growth and must be specifically arranged for
  - A new perspective on the social contract between the state/government and citizens – dialogue, serving the interests of the people, and no longer merely focus on economic growth
Overall conclusions

- A complementary approach is required – otherwise coverage, in terms of its personal sphere, as well as the quality and quantity of transfers will remain piecemeal, fragmented and exclusionary.

- To impact significantly on coverage, this complementary approach should ideally relate to –
  - Adopting a multi-tiered framework of protection
  - Developing or graduating towards universal schemes

 overall conclusions

- Appropriate coverage extension arrangements, in order to have longer-term impact –
  - Should be supported by labour market interventions
  - Should be country-specific and context-sensitive
  - Should address the plight of particularly marginalised groups
Overall conclusions

- Need to **address lack of legal foundations and resource allocations** (see World Social Security Report 2010 (ILO))
  - Often, policy frameworks only provide for protection (e.g., in old age provision) – a proper legal framework is absent
  - Room for enhanced resource allocations exists in a range of countries
  - ILO standards, including Decent Work and Social Protection Floor arrangements are important, but pose some challenges
  - UN instruments are potentially of great significance

Overall conclusions (cont)

- Information on informality not sufficiently captured in labour market and household surveys – this complicates proper planning/modelling
- Understand different contexts of various categories in need of social protection, including particular at risk groups
- Need to specially accommodate informal economy workers – complementarity of measures
- Advisable to provide tailor-made and informal worker-dedicated contribution and benefit modalities
Overall conclusions (cont)

- Social protection constitutes an integral part of inclusive growth, also because of its developmental impact, and to meet the MDGs

- In fact, social security measures for the informal economy should be strengthened by a supportive developmental framework, aimed at, for example,
  - Access to credit markets;
  - Skills training and capacity-building

Overall conclusions (cont)

- Focus should also be kept on the multi-dimensional role of social security/protection – social security provisioning is not only about providing compensation/monetary transfers, but also, and in the first place about
  - Preventive strategies; and
  - Remedial and integrative strategies (e.g., inclusion in the labour market)
Overall conclusions (cont)

- Development/revision of national strategies/SP policies may be advisable to provide the overall country-based framework for introducing targeted interventions
- See, for example, the newly adopted Kenyan National Social Protection Policy; also Rwanda and Ghana
- Important role of development partners