Best Practices on Social Security and Non-Standard Forms of Work

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Non standards forms of work

Informal Employment

Different concepts but in many occasions representing the same group of workers – particularly in countries like Indonesia
Social Security coverage is often one of the indicators used to distinguish between formal and informal employment.
Informal Employment
Complex and extremely Diverse

Source: (Lund 2012)
Challenges faced by workers in non standard forms of work (1) – contributory schemes

• Mismatch between the scheme design and working patterns

• Sometimes legislation includes elements which lead to exclusion
  – Requirement for an identifiable employment relationship between an employer and a dependent work
  – Type of contract
  – Size of the Enterprise
  – Number of working hours
  – Income threshold
  – Minimum length of the contract

• It is however not only a legal problem:
  – Lack of Enforcement and Control
    • Low compliance
    • Limited inspection capacity
    • Challenges to deal with many individual or micro units
  – Lack of organization/representation from workers
Challenges faced by workers in non standard forms of work (2) – contributory schemes

• Difficulties in meeting administrative procedures (including the costs related with them);

• Lack of information, awareness and trust

• Benefits not always aligned with priorities

• Costs (particularly for self-employed who need to bear the burden of double contribution)

• Lack of capacity to contribute to pay social insurance contributions on a regular basis;
  – Fluctuating or instable income
    • Difficult to calculate income
    • Difficult to pay in a monthly basis
Challenges faced by workers in non standard forms of work (3) – contributory schemes

• Not related directly with employment status
  – Still limited coverage (scope and personal coverage)
  – Some are targeted to the most poor and exclude those in the informal economy
  – Problems of adequacy

• Large sectors of workers/activities in the informal economy might also lead to a reduction in the tax basis
Social Protection coverage
The missing middle

For many countries the missing middle represents the majority of the workers.
2 Tracks Strategy to extend Social Protection

- **Track 1 – Extension through formalization**
  - Focus in groups that are closer to the formal economy and have some contributory capacity
- **Track 2 – Extension through non contributory schemes (SP Floors)**
  - Independently of the working status

Not mutually exclusive and can be mutually supportive
Making it convenient for SMEs and workers in non-standard forms of work to participate

• **Allowing small contributions**: Affordability of contributions will always be a key concern in voluntary schemes.
  - Ex: Mbao scheme in Kenya; Philippines

• Increase the investment in **inspection services**

• **Need for a balance between sanctions and incentives**
  - Building in some degree of flexibility: In general, schemes targeted at low-income workers try to minimise penalties for non-contributions in order to account for the likelihood that workers may miss some payments

• **Keeping down overhead costs**: Transaction costs such as management fees become more significant in the context of small contributions
Improving physical access: Many social protection schemes for informal workers strive to create more convenient access to services

- One way to do this is to incorporate some level of partnership:
  - Financial institutions, such as banks or micro-finance institutions;
  - Employer or business organisations, including sectoral professional associations and small business organisations;
  - Trade unions and worker organisations;
  - Non-government organisations and other community based organisations

- The aggregator model – enrolling groups instead of individuals
  - Ex: Philippines; Equador

Innovating through technology:

- Mobile phone technology provides new possibilities to create better pathways to social protection
  - Ex: Mbao scheme in Kenya where contributions can be paid by mobile phone
Making it convenient for SMEs and workers in non-standard forms of work to participate

• Use of simplified schemes (Monotax)

• For SME below a certain level of income allowing the payment of one (monthly) flat payment instead of various tax and social security contributions

• Level of contributions differs according to a classification based on annual incomes; the number of employees; in some cases the area of land used and electricity consumptions

• Scheme benefits from state subsidization (SMEs that opt for this scheme are exempt from some taxes and part of SS contributions)
Providing financial incentives for participation

- Government co-contributions can be a powerful motivation.
  - Ex: **Rwanda** – Government subsidizes 50% of contribution for informal workers
  - **Costa Rica** – depending on the level of income
  - In some states in **India** under the Welfare Workers Fund the Government makes co-contributions
  - In **India** health insurance for domestic workers and their families is fully subsidized – workers only pay a registration/renewal fee (annually)

<table>
<thead>
<tr>
<th>Table 9. Costa Rica: Contributory scale of independent workers by salary range, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribution percentage</strong></td>
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<tr>
<td><strong>Salary range</strong></td>
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<tr>
<td></td>
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<tr>
<td>110 000</td>
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<tr>
<td>From 110 001 to less than 2 MS</td>
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<tr>
<td>From 2 MS to less than 4 MS</td>
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<tr>
<td>From 4 MS to less than 6 MS</td>
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<tr>
<td>From 6 MS to less than 8 MS</td>
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<tr>
<td>From 8 MS to less than 10 MS</td>
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<td>From 10 MS to more than 10 MS</td>
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</tbody>
</table>

*Note: MS is the minimum legal salary for unskilled workers, set at 206,045 colones (US$ 368.80) in January, 2010.*

*Source: Caja Costarricense de Seguro Social, 2010.*
• Adapting existing approaches to respond to the needs of a broader range of workers.
  • In the Philippines, the government has developed alternative contribution methods to improve access to two existing streams of the national social security system: PhilHealth, the national health insurance scheme, and the national Social Security System, which provides retirement, sickness, maternity, disability and death benefits.

• Sectoral social protection programmes can be used to link workers with existing government social protection scheme
  • WWFs as a channel to enrol informal workers in the new national healthcare scheme for those living below the poverty line (Rashtriya Swasthya Bima Yojana - RSBY)

• Extending coverage of existing schemes often means improving awareness and access to information
• (Un) Employment Benefits
Objective: To protect workers and their families against loss of employment and income

Maintaining the unemployed and their family in *healthy and reasonable living conditions* (C168, art.16)

Promoting active labour market policies for *full, productive and fully chosen employment* (C168, art.2&7)

1. providing income security
2. upgrading skills and matching labour supply/demand
Definitions: Employment Insurance (C.168)

- **Unemployed**: not working, capable to work and willing to work
- **Social Insurance** Principle (pooling risks)
- **Periodical payment** (limitations of the one time severance payment)
- Employment promotion
- Skills development and employability
## Benchmarks recommended by ILO Convention 168

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Coverage</th>
<th>Maintenance of SS entitlements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income replacement (not less than 50% of previous earning, minimum wage, or minimum guarantee for living)</td>
<td>Exclusion: Miss-conduct, voluntary leaving without good reason, Special attention: part-time and seasonal workers</td>
<td>Medical insurance, pension, maternity and family allowances</td>
</tr>
<tr>
<td>Allowances: vocational training and retraining, travel costs to claim benefits</td>
<td>Exclusion: fail to use employment and VT services</td>
<td></td>
</tr>
<tr>
<td>Services: job placement and counseling</td>
<td>Exclusion: Refuse suitable employment</td>
<td></td>
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</tbody>
</table>
Why are the severance pay regulations often not strictly enforced?

1. In the case of bankruptcy and retrenchment, employers often lack resources to provide severance pay to the laid-off workers.

2. It is very difficult for the government to monitor whether the employer has provided severance pay properly.
   In the case of the employer's breach of conduct, laid-off workers can get severance pay only when they file a complaint to the government agency, many workers don’t have the means

The better organized and vocal workers tend to get severance pay, while the rights of unorganized workers with weak voice are often ignored.
## The Difference between UI and Compulsory SP

<table>
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<tr>
<th></th>
<th>Unemployment Insurance</th>
<th>Compulsory Severance Pay</th>
</tr>
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<tbody>
<tr>
<td>Who bear the cost?</td>
<td>Widely and thinly shared by all the employers and the employees (and the government in some countries)</td>
<td>All the burdens are put exclusively and heavily on employers who fire workers.</td>
</tr>
<tr>
<td>Chances for employer's non-compliance</td>
<td>low</td>
<td>high</td>
</tr>
<tr>
<td>Deterrence of Lay-off</td>
<td>Not so strong</td>
<td>Strong (if strictly enforced)</td>
</tr>
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- Design of UI is extremely complex (various design options)
- How to balance existing SP with new UI scheme?
  - Big political challenge
  - Tripartite dialogue
  - Custom made policies
The Governance of Social Security Institutions

- **ISSA** selected 5 principles as of particular relevance for the Governance of Social Security Institutions:
  - **Accountability**
    - Participation refers to the active education, engagement and effective involvement of stakeholders to ensure the protection of their interests.
  - **Transparency**
    - The meaningful participation of stakeholders depends on their access to information and their capacity to understand and act on such information.
  - **Predictability**
  - **Participation**
    - Members and beneficiaries must have channels to monitor those responsible for the management of the social security programme.
  - **Dynamism**
C.102 Social Security (Minimum Standards) Convention, 1952

Article 72(1) requires the participation of representatives of:

- Persons Protected
- Tripartite Administration
- Employers
- Public Entities
Growing recognition in Asia

- Unemployment benefits & other income security measures facilitate recovery and economic growth
- Smooth consumption
- Boost domestic demand for goods and services
- Need for additional protection in context of Labour Law reforms which include more flexibility in hiring and firing
- Challenges regarding the effectiveness of some employment protection mechanisms such as severance payments
- How many workers do actually benefit from it?
- How many companies are able to comply with it?

Thank you

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