

Extending social security to workers in the informal economy

Key lessons learned from international experience

Informal employment and social protection coverage gaps

More than 60 per cent of the global workforce is in informal employment (ILO 2018) and the large majority of those people face serious decent work gaps¹ and are among the 71 per cent of the global population who have no or little access to social protection (ILO 2017). For most of them, the lack of social protection is both a cause and a consequence of informality.

The lack of protection of such workers is a significant obstacle to achieving the Sustainable Development Goals (SDGs), particularly goal 1 on ending poverty; goal 3 on ensuring healthy lives and promoting well-being; goal 5 on achieving gender equality and empowering women and girls; goal 8 on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work; goal 10 on reducing inequality; and goal 16 on promoting peace, justice and strong institutions (ILO 2017).



The lack of social protection constitutes a significant source of vulnerability for workers in the informal economy. If they do not have access to health care and at least a basic level of income security, they are likely to be trapped in a vicious cycle of vulnerability, poverty and social exclusion. This constitutes an enormous challenge not only to their individual welfare and enjoyment of human rights (in particular the right to social security²), but also to their countries' economic and social development (ILO 2017; OECD and ILO 2019; RNSF 2017).

Informal workers' lack of access to social protection is usually associated with their lack of coverage through contributory mechanisms (social insurance and other contributory schemes) owing to various legal, financial or

administrative barriers. However, workers in the informal economy also face challenges in gaining access to social assistance benefits that target poor individuals or households with no or limited earning capacities, because such benefits effectively exclude many workers in the informal economy and their families. For this reason, informal workers are often being described as the “missing middle” – protected neither through social insurance nor social assistance.

There is an urgent need to tackle this challenge given that informal employment represents the large majority of the labour force in many countries (ILO 2018) (see box 1).

Based on a more comprehensive publication (ILO 2019a), this issue brief discusses the specific challenges involved in extending social security to workers in the informal economy and explores policy options for enhancing social security coverage, based on



¹ There are various definitions of the terms “social protection” and “social security”. In many contexts, the two terms are used interchangeably, especially when referring to social protection systems that include both tax-financed and contributory (social insurance) elements (ILO 2017).

² The right to social security is rooted in Article 22 of the Universal Declaration of Human Rights (1948) and Article 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”.

Lack of enforcement and control, and low compliance

Weak enforcement of applicable labour and social security regulations may impede the extension of coverage and contribute to a low level of compliance. Inspections are even more difficult where employment relationships are concealed or undeclared. Inspectorates also face challenges where the characteristics of the workplace (such as private homes used as workplaces for home workers and domestic workers, or public spaces used as workplaces for street vendors and waste-pickers) or the geographical dispersion of the workplace make inspections complex and expensive.

Governments may neglect inspections of small enterprises owing to the higher resources or complex procedures involved. Especially where several institutions are involved in the process, effective coordination is critical in order to ensure compliance with the law.

Lack of information, awareness and trust

A lack of information about and awareness of social security are additional factors that contribute to weak incentives to register (Bertranou 2007; ILO 2013). Illiteracy and language barriers, which are usually higher among rural populations, may make it more difficult for workers to understand legal rules that are usually written only in official languages.

In addition, a lack of trust in the social security institution may also contribute to a certain reluctance to join a social security scheme (ILO 2013). If workers perceive the system to be inefficient and do not believe that it is well governed and able to effectively deliver the benefits that address their needs, they will be less willing to contribute to it.

Lack of representation and organization

It is widely acknowledged that a higher capacity of workers to organize makes it easier to include them in contributory schemes. The lack of organization of some categories of workers contributes to their marginalization and reduces their chances of representation in open debates. However, the degree of organization of the informal economy is significant (ILO 2013; RNSF 2017). In fact, many workers in the informal economy are in one way or another organized and represented in, or associated with, established workers' organizations. However, the involvement of trade unions in the informal economy is limited overall and few informal workers are able to claim their rights and establish contacts with institutions.

Lack of integration and policy coherence

In many countries, there is a high degree of fragmentation within the social protection system and a lack of coordination between the social protection system and other relevant policy areas, such as enterprise formalization policies, labour market and employment policies, enterprise development policies, macroeconomic policies, as well as health, education policies and care policies. For example, the lack of

registration of enterprises makes social protection coverage for those working in such enterprises more difficult. A lack of integration and policy coherence, both among social protection institutions and between social protection and other policy areas, often leads to coverage and adequacy gaps, duplication, inefficiencies and distorted incentives structures (ILO, 2019, Chap. 11).

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 in their lives. If workers enjoy at least a minimum level of income security in case of illness, injury, disability or maternity and during old age, as well as effective access to health care without having to pay the cost of treatment out of pocket, they can plan better for their futures and are better able to seize economic opportunities (ILO 2017; 2014). Social protection coverage therefore contributes to enhancing the productive capacity of workers in the informal economy and can help to facilitate their transition to the formal economy.

How do enterprises benefit?

Ensuring full social protection coverage for workers makes good business sense, because better social protection for workers has positive impacts on labour productivity and enterprise competitiveness by ensuring better access to health care, lower absentee rates, higher employee retention and higher motivation (ILO 2017; Lee and Torm 2017; Scheil-Adlung 2014; Torm 2019). Furthermore, social insurance is an important instrument for pooling the financial risks of enterprises, particularly the risks of employment injury, maternity and dismissal, because employers are not individually liable for the compensation of workers (employer liability).

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 they contribute to facilitating transition from the informal to the formal economy in the short or longer terms. Social protection constitutes an investment in people and its impacts on human capital, human development and labour productivity yield not only benefits for workers and employers but also aggregate benefits for societies as a whole (ILO 2017; 2014).

Furthermore, the expansion of social insurance mechanisms to larger groups of previously uncovered workers may 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 they have the necessary contributory capacity), thus alleviating pressures on tax-financed social assistance benefits.

Strategies for extending social security

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 focused on the extension of **contributory mechanisms (typically social insurance)** and in that way has contributed to the formalization of employment. Frequently, this approach prioritizes groups of workers who are relatively close to the formal economy and have some contributory capacity and who are therefore more easily included in social insurance mechanisms. To be effective, this approach usually combines a change in legislation with measures to remove financial and administrative barriers, such as measures to adapt contribution rates and benefit packages. Examples include the inclusion of domestic workers in maternity and unemployment insurance (South Africa); facilitating registration and the collection of taxes and contributions through monotax mechanisms (Argentina, Brazil, Uruguay); and the inclusion of self-employed workers in social insurance schemes (Algeria, Philippines).

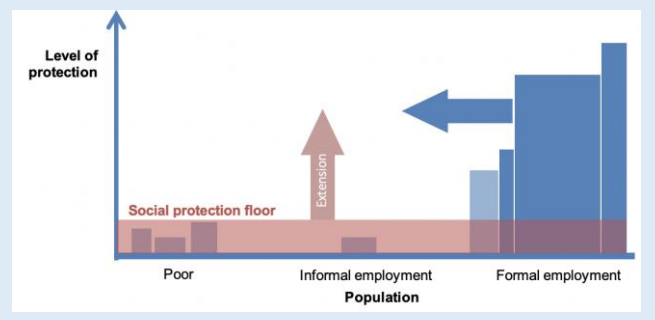
In other countries, social security coverage has been extended to larger population groups through the large-scale extension of **non-contributory (tax-financed) social protection mechanisms** to previously uncovered groups, independently of their employment status. Such schemes are largely financed by government revenue stemming from taxation and in some cases by mineral resource revenue or external grants as well. This approach is 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 generating positive results in terms of human capital and productivity that will facilitate the formalization of employment in the medium and long terms. Examples include the introduction and expansion of cash transfer programmes for children and families (Brazil, Mexico, Mongolia and other countries); persons with disabilities (South Africa); older persons (social pensions in Lesotho, Mauritius, Namibia, Nepal, Timor Leste, South Africa and other countries); and national health services (ILO 2019a).

These two approaches to extending social protection coverage are not mutually exclusive but may be mutually supportive 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. Examples of the combination of both approaches include the extension of health protection in Thailand (universal health coverage scheme, formerly known as the “30 baht scheme”), Rwanda and Ghana. Other examples of the combination of contributory and non-contributory social protection programmes may be found in Argentina (child and maternity benefits), Brazil (rural pension scheme, Bolsa Família), Cabo Verde and South Africa (social insurance and large grants programmes), among other countries (ILO 2019a).

In fact, both approaches, and their combination in an integrated 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 5. Strategies for the extension of social protection coverage for workers in the informal economy



In the light of the changes in the world of work today – shaped by digitalization, climate change, migration, globalization and widespread inequality – both approaches will remain crucial for achieving universal and adequate social protection, and for extending social protection to workers in the informal economy.

Many observers agree that the way forward to universal social protection requires a combination of contributory and non-contributory social protection mechanisms. Non-contributory schemes play an important role in ensuring that everyone enjoys a basic level of protection, in particular population groups that do not have access to any other social protection mechanisms. Contributory mechanisms will continue to play a vital role in providing adequate benefits, because they tend to offer broader scope and higher levels of protection.

Therefore, rather than dismantling existing forms of social protection, social protection systems will need to evolve to deliver continued protection for workers in all types of employment, including those who move between wage employment and self-employment, between different enterprises and sectors of the economy or between countries. This is also an important element of a human-centred approach to the future of work that strengthens the social contract by placing people at the centre of economic and social policy (Global Commission on the Future of Work 2019).

Key lessons learned 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 the extension of social protection coverage. In most cases, a combination of different measures is required to address different barriers and to offer an effective, equitable and sustainable solution. While solutions always need to respond to the concrete challenges faced by workers and employers, a number of general lessons learned may be provided, as outlined below.

Promoting a comprehensive and integrated strategy for the extension of coverage

The extension of coverage to workers in the informal economy should be part of a comprehensive and integrated national social protection strategy, which should be led by the government and built around fundamental principles, including the universality of protection; the adequacy and predictability of benefits; financial, fiscal and economic sustainability; non-discrimination, gender equality and responsiveness to special needs; transparent and sound administration; and tripartite participation. Such an approach not only allows for broader risk-sharing and redistribution but also strengthens a rights-based approach to social protection grounded in human rights and international social security standards.

Extending legal coverage and adapting the legal framework

In order to extend coverage to workers in the informal economy, legal frameworks should be appropriate and adapted to the needs of both workers and employers, and should encourage the transition to the formal economy. Covering a larger group of workers requires social protection mechanisms to adapt to labour market realities and include categories of workers outside an employment relationship.

Extending social protection to informal workers requires not only the extension of legal coverage but also additional measures to adapt social protection mechanisms to their specific situation (ILO 2019e; 2019d; 2019f; 2019c; 2019b).

Meeting workers' needs and designing adapted solutions

It is important to take into account the diversity of situations and needs of workers in the informal economy. Social protection benefits should be designed in a way that meets workers' priority needs, covering both short-term and long-term risks and providing quality benefits and services in a transparent way.

The specific needs of vulnerable groups, such as women, persons with disabilities, the elderly, migrant workers, rural workers, indigenous people and persons living with HIV/AIDS, should be taken into account when designing and implementing extension strategies.

Strengthening the voice and participation of those in the informal economy is essential for ensuring that social protection responds to their specific needs and circumstances. In particular, the formulation of strategies to extend social protection coverage to workers in the informal economy should be based on a dialogue that includes the participation of workers and employers to ensure that their views are reflected.

Raising awareness, share information and enhance trust

Awareness-raising is important in order to inform both workers and enterprises about social protection and the benefits of formalization. Communication methods and channels should be tailored to the needs and circumstances of specific categories of workers and employers. Information should be made accessible to workers and employers so that they are aware of the importance of social protection and about their rights and entitlements as well as their obligations.

Guaranteeing an adequate level of benefits

It is important to provide benefits that are adequate to ensure a decent living throughout the life cycle. In that context, States have the overall and primary responsibility to guarantee sufficient financing.

Ensuring adequate resources for the extension of coverage

It is key to ensure that adequate resources are provided for the extension of social protection coverage, based on equitable and sustainable financing sources, including contributions and taxes. Given the low levels of social protection expenditures in many countries, it is important to step up investments in social protection. International experiences show that opportunities to increase the fiscal space exist virtually in every country (Ortiz, Cummins, and Karunanethy 2017). Social security contributions will remain important in financing social protection systems. In that regard, a stronger link with tax, labour market, employment and enterprise formalization policies will be vital to promote transitions from the informal to the formal economy (IMF 2017; Gaspar, Gupta, and Mulas-Granados 2017).

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

A large majority of workers in the informal economy have limited capacity to contribute to social protection schemes owing to their low incomes. It is necessary to design schemes in a way that takes into account the contributory capacity of workers and envisages appropriate mechanisms for adapting contribution rates and schedules. The combination of contributory and non-contributory schemes or the subsidization of contributions for those with limited contributory capacity may help to overcome those barriers.

Simplifying administrative procedures

To enhance the coverage of workers and employers in the informal economy, administrative procedures, including the registration of enterprises and workers and

the payment of taxes and contributions, should be simple, comprehensible, accessible and adapted to the needs and capacities of the target group. In that respect, it is essential to facilitate administrative access, such as by providing more physical, online or mobile access points; to simplify procedures and reduce the number of required documents; to pool different administrative services in single window services or one-stop shops; and to simplify tax and contribution payment mechanisms.

Ensuring the enforcement of the law and enhancing compliance

Ensuring compliance with the legal framework is essential in order to enforce the law in a uniform way and ensure a level playing field for enterprises. In that 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.

Embedding social protection in an integrated approach to facilitate the transition from the informal to the formal economy

The extension of social protection coverage is an important component of larger strategies to facilitate the transition from the informal to the formal economy. Linking social protection with different policy areas – such as labour market and employment policies, tax policies, and health, education and care policies – and strengthening synergies between those different areas can multiply positive impacts and provide stronger incentives for the extension of social protection coverage and the formalization of employment.

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