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ISSUES IN SOCIAL PROTECTION
Discussion paper No. 5

Social security for the informal sector:

Investigating the feasibility of pilot projects in Benin, India, El Salvador and Tanzania

Edited by

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INTERNATIONAL LABOUR OFFICE GENEVA

This Discussion Paper was produced under the ILO Interregional Project on Social Security for the Informal Sector. The project aims to strengthen the capacity of governments, social security agencies, social partners, NGOs, insurance companies and other interested partners to design and implement social security schemes for the informal sector. Pilot project activities, later to be extended to other countries, are being preparing in Benin, El Salvador, India and Tanzania. For further information, contact address: International Labour Office, Social Security Department, CH 1211 Geneva 22, Switzerland. Fax 41-22-799-7962

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Abstract

Describes the design of pilot projects to implement social security schemes for informal sector workers. These projects will focus on health, invalidity and survivor insurance and are to be carried out in collaboration with various partners under the auspices of the Government. The contribution by W. van Ginneken outlines the project strategy and options of promoting social security, followed by feasibility studies in Benin (B. Gauthé), India (S. Jain), El Salvador (S. de Barraza & C. Umaña) and Tanzania (A.D. Kiwara & F. Heijnis)

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Foreword

This discussion paper series was conceived as a market place of ideas where social protection professionals could air their views on specific issues in their field. Topics may range from highly technical aspects of quantitative analysis to aspects of social protection planning, governance and politics. Authors may come from within the ILO or be independent experts, as long as they have "something to tell" concerning social protection and are not afraid to speak their mind. All of them contribute to this series in a personal capacity - not as representatives of the organisations they belong to. The views expressed here are thus entirely personal, they do not necessarily reflect the views of the ILO or other organisations. The only quality requirements are that the papers either fill a gap in our understanding of the functioning of national social protection or add an interesting aspect to the policy debates.

The ILO believes that a worldwide search for a better design and management of social protection is a permanent process that can only be advanced by a frank exchange of ideas. This series is thought to be a contribution to that process and to the publicizing of new ideas or new objectives. It thus contributes to the promotion of social security which is one of the ILO's core mandates.

The papers included in this volume are part of the preparation for an interregional ILO project on social security for the informal sector. The volume is aimed at practitioners in the four countries covered, but will also be of interest to all those who wish to develop practical ways to extend social security coverage in developing countries.

The conceptual work as well as the monitoring and editing of the four feasibility studies was undertaken by Mr. Wouter van Ginneken who is responsible for work on the informal sector within ILO's Social Security Department.

The feasibility study on Benin was written by Mr. Bernardin Gauthé who holds a Ph.D in Educational Science. Ms. Shashi Jain - the author of the study on India - is presently on a sabbatical year and used to be Principal Secretary of Labour in Madhya Pradesh and Joint Secretary for Social

Security of the Union Ministry of Labour. Ms. Sandra de Barraza and Mr. Carlos Umaña who wrote the feasibility study on El Salvador are both sociologist consultants. The study on Tanzania was written by Dr. A. D. Kiwara who holds a degree in medical science and in development studies and who is the Director of the Institute of Development Studies at Muhimbili (Dar es Salaam). He was assisted by Mr. Frans Heijnis who, at the time of writing, was a Dutch Associate Expert in Dar es Salaam and is now established as a consultant in the Netherlands.



1. Social security for the informal sector: Designing pilot projects

Wouter van Ginneken, Social Security Department, International Labour Office, Geneva

1. The context and aims of pilot activities

It is estimated that well over two billion people in the world are not covered by any type of formal social security protection, i.e. neither by a contribution-based social insurance scheme nor by tax financed social assistance. If one takes the number of covered persons as a percentage of the number of persons of working age, it is estimated that in Africa some 90 per cent of the population are without any formal protection whatsoever, while in the more developed parts of the world only about 20 per cent remains outside the scope of social security protection (Jenkins, 1993).

In its standard setting and most of its technical cooperation activities on social security, the ILO followed by most Ministries of Labour - have traditionally assumed that all workers would sooner or later end up in large enterprises, or at least in the formal sector. However, the experience in the developing countries - and more recently also in the developed countries - has shown quite the contrary. Even in countries with high economic growth, more and more workers are in less secure employment such as the self-employed, the casual and home workers. So the extension of formal social security programmes cannot be the simple answer to satisfying the social protection needs of increasing numbers of workers (and their families) outside the formal sector. The most vulnerable groups outside the labour force are the disabled, widows, orphans and old people who cannot count on family support, who cannot be reached by other social policies and who have not been able to make provisions for their own pension. New institutions and forms of social security will have to be developed to meet the specific social security needs of these various groups.

As early as the 1980s, the ILO Social Security Department undertook in-depth studies into the extension of social protection in Gabon (ILO, 1982), Cameroon (ILO, 1989) and Morocco (ILO, 1990). As well, it published a study on social protection for the informal sector in India (Wadhawan, 1989). In 1994-95, under the ILO Interdepartmental Project on the urban informal sector, the Social Security Department started to document social security projects in Bogota, Dar es Salaam and Manila (Hernández and van Ginneken, forthcoming; Forastieri and van Ginneken, forthcoming). Since the end of 1995, a health insurance pilot project has covered 1,500 informal sector workers and their families in Dar es Salaam. On request of the Indian government, the ILO Social Security Department undertook a UNDP-financed technical advisory project on *Social Protection for the Unorganized Sector* (ILO-SAAT, 1996).

The ILO interregional project on *social security for the informal sector* covers four developing countries (Benin, El Salvador, India and Tanzania) for which pilot projects are being prepared. The main function of the project is to strengthen the capacity of governments, social security agencies, social partners, NGOs and insurance companies to design and implement social security schemes for the informal sector. This capacity can be strengthened by experimenting with pilot activities that

would concern the setting up and/or monitoring of special social insurance schemes for informal sector workers, of social assistance schemes and of extending formal sector social insurance to hitherto uncovered groups. The aim of the feasibility studies included in this discussion paper is to assess how and under what conditions these pilot activities can be successfully implemented and replicated. On the basis of experience gained with these activities, the social security partners can then also be trained and helped to formulate their own policies and activities with regard to social security for informal sector workers.

One novel feature of these pilot projects is the experimentation with so-called area-based social insurance schemes which are mainly run by the Government but with the possibility of collaboration with the various social security partners. In comparison with sector- or occupation-based schemes area-based schemes may have the advantage that administration costs are low and that local participation and control can be included in the design of the project. And most importantly coverage could be extended in relatively short periods, because governments would be able to replicate the schemes to other areas on the same conditions.



2. Intended beneficiaries and their social security needs

The intended beneficiaries of the project are first of all the informal sector workers and their dependants. However, also included in this project are workers who have informal labour relations with their employers, which often means the absence of written labour contracts. Such informality does not only affect wage earners and other groups such as home workers in the informal sector, but also casual labourers who work - directly or indirectly - for formal sector enterprises. A considerable part of these informal (sector) workers and their families live in poverty and a large proportion of them are women. Increasing numbers of these workers, however, are willing and able to contribute to schemes that meet their priority social security needs. Finally, some population groups, such as widows, orphans and old people, are neither protected by the employment income of family members nor by any other family protection; these groups need to be protected by tax-based social assistance.

Most formal sector workers can contribute regularly to social security and generally have a long term planning horizon. Unemployment and/or incapacity for work are the main risks that jeopardize their earning power. And, given their regular earnings, they can provide for their retirement. This is not the case for informal (sector) workers who, in practice, cannot afford to be unemployed and who do not have the regular earnings to finance pensions. They often live from one day to the other and are faced with risks and calamities that can throw them into a state of permanent indebtedness. These risks and calamities can be grouped into the following four categories:

- calamities (flood, fire, civil unrest and famine);
- loss of earning power (disability, ill health, loss of assets);
- life-cycle crises (death and marital breakdown);
- sudden and large expenditures (hospital, wedding).

Social security schemes cannot protect informal sector workers against all these risks and calamities. Most informal sector households already spend a considerable part of their budget on vital life areas such as health, education, death and disability. And it is exactly in these areas that collective action can improve the cost-effectiveness of their expenditure.

For example, even poor households in developing countries spend a significant part (5- 10%) of their incomes on health care costs. As a result of structural adjustment and privatization, most

government are not able anymore to provide free access to basic social services. Health insurance is therefore the most pressing social security need for most informal sector workers. Some of the reasons why informal sector workers would prefer social security schemes over individual spending and financing are the following:

- (i) by regular contributions, they can avoid indebtedness when they face large medical bills;
- (ii) as a group, they can negotiate on price and quality with private health providers;
- (iii) within a group, they may be willing to spend on preventive and health promotion activities so as to keep down the cost of curative services.

Generally speaking, the perceived principal social security needs by informal sector workers are the following:

- improving the effectiveness of health care expenditure;
- death, survivor and disability benefits;
- regularizing expenditure on basic education;
- maternity and child care benefits.

Perceived social security needs naturally also vary according to the type of informal sector worker and their families as well as according to the various risks that they run. So, help with housing cost often is a high priority for urban residents where housing prices are high; social assistance is a high priority for old-age pensioners, orphans and widows who cannot be reached with employment and labour market policies; food security measures (social assistance) is appropriate in famine and civil unrest situations; and finally, crop and productive assets insurance is crucial for the self-employed.



3. The three options

There are three major ways in which the interregional project intends to promote social security for informal sector workers and their dependants: through specially designed social insurance schemes through social assistance and through the extension and reform of formal sector social insurance.

3.1 Social insurance for the informal sector

Many informal sector associations have set up their own social insurance scheme covering their priority needs. The analysis of the experience with these schemes shows that there are two fundamental requirements for success (van Ginneken, 1996):

- the existence of an association based on trust;
- an administration capable of collecting contributions and providing benefits.

The benefits that they provide are usually the same as were already mentioned earlier, but they may also include other benefits such as crèches or loans for education and housing. In some cases, social protection may also be provided together with credit for productive purposes. Most of these schemes are limited to small groups of workers, so that the administration costs are relatively high. Such associations or organizations are either directly organized by the informal sector worker

themselves, such as producer and employer organizations, cooperatives and credit associations; or they use some intermediate carriers such as trade unions, NGOs and insurance companies.

The interregional project will also experiment with so-called area-based social insurance schemes which are mainly run by the Government but with the possibility of collaboration with NGOs and other social security partners. In comparison with sector- or occupation-based schemes, area-based schemes may have the advantage that administration costs are low and that local participation and control can be included. And most importantly, replication may be realized more rapidly and at a wider scale since the Governments would be able to extend schemes to other areas on the same conditions.

One important implementation and design issue is to define social insurance packages that are affordable and meet the priorities of workers. As well, there are also a number of other issues that need to be analysed so as to establish conditions for replicating and extending such schemes. Some of these issues are:

- dependence on the input and charisma of one person or group of persons;
- dependence on money from outside for the scheme's long-term financial viability;
- an evaluation of the implicit costs and the capacity of the scheme's administrators who are usually not remunerated;
- the possibility of pooling resources among different schemes;
- the possible link-up with insurance companies and/or social insurance agencies.

3.2 Fostering cost-effective social assistance

A considerable number of developing countries have set up social assistance schemes that are aimed at people in need, who cannot be reached by policies for productive employment. Such schemes which provide benefits in cash or in kind may either apply to wide societal groups such as children, the disabled and retired people, or be limited to certain occupational groups. The advantage of social assistance benefits are that they can be targeted to those who are most in need, but it requires sophisticated administration to determine who is really deserving and to make sure that the benefits reach the target population effectively. The size of these schemes depends on the resources, the administrative capacity and the priorities of the countries concerned.

For the project to contribute to the design and implementation of cost-effective social assistance schemes, it is necessary to carry out experiments in the project areas and to examine the results on the following questions:

- What are the responsibilities of the central and local government levels in the financing, administering and fixing of the social assistance benefits?
- What should be the criteria for the means test (income, land, assets) and at what level should eligibility be determined (local government, local community)?
- How to design corruption-free delivery mechanisms?
- The estimation of the implicit administrative costs incurred by the Government.
- To compare the cost-effectiveness of social assistance in relation to other social policy interventions, such as food for work, employment guarantee schemes etc.

3.3 Extending and reforming formal social insurance

The main question here is how currently available social security programmes in the formal sector can be extended to all regular workers and - in as far as possible - to casual wage and some self-employed workers. The main obstacles for the extension are that the benefits offered do not correspond to the priority needs of most informal sector workers and that the contributions required are much higher than what informal sector workers are prepared to pay. There are as well some

obstacles of quantitative and qualitative nature that further limit the extension of formal sector social insurance schemes.

With regard to obstacles of a quantitative nature, there may be various legal regulations that exclude categories of workers from the scope of social security, such as the self-employed as well as the group of "casual" workers, including seasonal workers in agriculture. Workers may also be excluded from coverage, because they are not eligible for benefits. Many schemes exclude enterprises with less than a prescribed number of workers and/or ignore earnings above and below certain limits. In addition, some social insurance schemes require a minimum period of contributions before members become eligible.

With regard to obstacles of a qualitative nature, there is, first and foremost, the difficulty for social security administrations to deal with the special circumstances of the self-employed and casual wage workers. When formal social insurance is extended to smaller enterprises, each new employer has to be identified, registered, educated and persuaded to comply with all the rules of the scheme in so far as they relate to the registration of existing and new employees and to the mode and timing of the payment of contributions. In the case of casual workers, contributions are difficult to secure, and maintaining up-to-date and correct records is administratively complicated when such persons work intermittently and irregularly for different employers. There is also some conflict with the underlying concept for the receipt of benefits, i.e. that of "replacement" income, in situations where it is not always clear that the income to be replaced can be determined efficiently. Other qualitative obstacles may be that workers have no confidence in the scheme, because of abuse, low-quality benefits or poor management. For various reasons employers may also not comply with the regulations so that many workers remain unprotected.

Social insurance in the formal sector is generally based on compulsory participation because this is the best guarantee that workers with good risks support those with bad risks. However, for the time being, it cannot be expected from informal sector workers to join on a compulsory basis. So, most informal sector workers will therefore have to be covered by schemes specially designed for them even though some informal sector workers may be linked up to the formal social insurance system through the creation of special windows.

Another important condition for the success of such a system is that the transitions between the various parts of the system is guaranteed and, in particular, between social assistance and social insurance. In other words, people dependent on social assistance should feel encouraged to join the social insurance system when their income situation improves.



4. The project strategy

The core of the project strategy is to set up pilot projects in at least two areas per country, which after two or more years will be replicated and/or extended in other (and/or adjacent) areas of the country. The objective of the pilot projects is to cover the whole population within one area, with a combination of the three social security options defined earlier. So, social security schemes will be set up and monitored that will include special social insurance components for informal sector workers, social assistance measures targeted at disadvantaged groups and extension possibilities of formal sector social insurance to hitherto uncovered groups. On the basis of experience gained with these activities, the project can then train the social security partners and help them to formulate their own policies and activities.

The formal sector social insurance system presently covers about 20, 10, 5 and 5 per cent of the

labour force in, respectively, El Salvador, India, Benin and Tanzania. So, in all four countries Governments are keen to extend social security coverage to informal sector workers and their dependants. In Benin, the Government has asked the ILO for assistance in a study on social security in both the formal and informal sectors. In India - at the request of the Ministry of Labour - the ILO has already produced a report (ILO-SAAT, 1996) with various recommendations many of which can be realized within the context of the interregional project. In Tanzania, the ILO has recently completed a policy review on the development of social security (ILO, 1996). This report recommends that the planning of new social insurance schemes should be coordinated with parallel ILO activities of research and experiments for the strengthening of employment injury and health protection for organized groups of workers in the informal sector. El Salvador is going through an intensive pension reform which intends to change the financial basis from a Pay-as-you-go (PAYG) to a funded system. An extension of the health insurance towards so far uncovered workers is planned.

During the first two years of the project, various new social security pilot projects will be set up and monitored. In Benin, pilot projects are planned for various groups in Cotonou and Parakou as well as for the area of Pahu. In El Salvador, the identified project areas are three groups of municipalities i.e. Ataco (Achuapán), Caluco (Sonsonate) and Perquín (Morazán) where the project will work together with the mayor and local NGOs (respectively, ADECOA, Caritas and ADEL Morazán). These municipalities were selected as they are representative of various regions of the country and since reliable and competent local mayors and NGOs were available. Each municipality includes between 10,000 and 20,000 inhabitants. In India, two project areas were selected: the Kheda District of Gujarat, a relatively rich State in the North-West and the Nizamabad District of Andhra Pradesh, a relatively poor State in the South. Within Kheda District the Anand taluka (about 800,000 inhabitants) was selected, because it has a well-developed dairy cooperative movement. Within the Nizamabad District the Nizamabad revenue division was selected as the project area, with a population of about one million inhabitants. In Tanzania some informal sector associations in the urban and nearby rural areas of Arusha (in the North) and Mbeya (in the South) were selected as the initial project areas.

The national and area project coordinators in each country will set up coordination mechanisms with national and local social security partners, so that practical comments can be obtained and findings from the project can be fed directly into policy making and extension and replication activities.

At the end of the second project year, the experience of the four project countries will be evaluated independently, and three regional workshops will be organized to disseminate the information so far obtained and to galvanize other countries into setting up their own schemes. Possibilities for replication within the four project countries will be identified, and during the second phase of the project some of these replications will be carried out with minimum support from the project. The monitoring and experimenting in the original project areas will continue.

Already in progress during the second project year but particularly to continue during the third and fourth project years, is the training of various social security partners in the financing and administration of social security schemes. At the same time, the national coordinators will write a national policy paper setting out how full coverage can be achieved in the next five to 10 years.

During the whole project, period national and area coordinators will be assisted by international and ILO specialists to set up and monitor pilot projects. This assistance will concentrate on specific issues or schemes, such as health cost insurance, pension insurance, social assistance, as well as the extension and reform of formal social insurance. This action will ensure that the most recent information is available to the national and area coordinators and that individual country experience can be assessed in an international context.

At the end of the fourth project year, a second independent (external) evaluation will be carried out

in addition, an international conference will be held disseminating the main results of the project.

The third phase of the project will consist of six months during which the main results will be published and disseminated.

As indicated in the four feasibility studies, activities will vary among the project countries, but a rough common activity schedule for the project as a whole is attached in Annex 1. The terms of reference for the feasibility studies can be found in Annex 2.



5. Conclusions

Social security can play an important role in preventing poverty. In many developing countries, no more than 10 per cent of the working population is covered by formal sector social security schemes and it is therefore important to examine what social security options are open to informal sector workers. A considerable number of these workers and their families live in poverty and a large proportion of them are women. But increasing numbers of such workers are willing and able to contribute to schemes that meet their priority social security needs. However, other population groups, such as widows, orphans and old people, are neither protected by the employment income of the breadwinner nor by any other family protection; these groups need to be protected by tax-based social assistance.

The main aim of ILO *technical cooperation on social security for the informal sector* is to strengthen the capacity of governments, social security agencies, social partners, NGOs and insurance companies to design and implement social security schemes for the informal sector. This capacity can be strengthened by experimenting with pilot activities that would concern the setting up and/or monitoring of special social insurance schemes for informal sector workers, of social assistance schemes and of extending formal sector social insurance to hitherto uncovered groups. The aim of the feasibility studies included in this discussion paper is to assess how and under what conditions these pilot activities can be successfully implemented and replicated. On the basis of experience gained with these activities, the various social security partners can then also be trained and helped to formulate their own policies and activities with regard to social security for informal sector workers.

One novel feature of ILO technical assistance would be to experiment with so-called area-based social insurance schemes which are mainly run by the Government but with the possibility of collaboration with the various social security partners. In comparison with sector- or occupation-based schemes, area-based schemes may have the advantage that administration costs are low and that local participation and control can be included in the design of the project. Most importantly also is that coverage could be extended in relatively short periods, because governments would be able to replicate the schemes to other areas on the same conditions.

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Annex 1: Schedule of the main project activities (divided into trimesters)

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Annex 2: The terms of reference for the feasibility studies

The central idea behind the national projects is to set up pilot activities in at least two areas, which after two or more years may be replicated and/or extended in other areas. The pilot activities concern the setting up and/or monitoring of special social insurance schemes for informal sector workers, of social assistance schemes and of extending formal sector social insurance to hitherto uncovered groups. On the basis of experience gained with these activities, the project can then train the social security partners and help them to formulate their own policies and activities with regard to social security for informal sector workers.

The feasibility studies aim to assess how and under what conditions the outputs produced and the activities deployed by the project will contribute to the achievement of three immediate objectives formulated in the project document. In order to measure the achievement of the objectives, the project document formulates a (non-exhaustive) list of success indicators. The following three objectives should be reached by the project within a period of four years:

1. New and improved social insurance schemes will have been established and become operational for informal sector workers in the project country.

Indicators of achievement:

- newly created schemes function after two years;

- five per cent increase in the number of covered persons by existing schemes in the project area;
- schemes outside the project area take pilot schemes as an example.

Under this heading a short description should be given of the already existing schemes in the country and a more detailed description of the schemes that will be developed in the project area. The key question then to be analysed is how and under what conditions the project will contribute to the indicators of achievement. The answers to the following questions could help with the descriptions and the analysis:

- On what criteria were the project areas selected? Is there a reasonable balance between rural and urban participants within the project area?
- What are the social insurance benefits that selected target groups in the project area are willing to contribute to? To what extent will women be involved in the design and operation of the schemes?
- How much are different groups willing to contribute themselves? Are other sources of funding likely to be available?
- What is the organizational capacity of participating organizations in the project area? Are they trusted by their members? Are they capable of regularly collecting contributions, of running a financial administration, and of administering benefits?
- Is sufficient expertise available to animate and coordinate the project work at the local level? (This is also relevant for objective 2).
- What are the economic, social, political or cultural conditions for the sustainability of the schemes? How will the project contribute to sustainability?

2. Improved access to, and cost-effective delivery of, social assistance and formal social insurance to informal (sector) workers and their dependants in the project area.

For **social assistance**, the *indicators of achievement* are:

- decreased administrative cost per social assistance beneficiary;
- more than 75 per cent of entitled persons receive social assistance benefits in the project area;
- persons receiving but not entitled to social assistance benefits constitute less than 10 per cent of the entitled persons;

Under this heading, a short description should be given of social assistance programmes in the country and in the project area. If there are no social assistance programmes it should be indicated whether they are desirable in the country and project area concerned. The key question then to be analysed is how and under what conditions the project will contribute to the indicators of achievement. The answers to the following questions could help with the descriptions and the analysis:

- Which target groups would need to have priority with regard to tax-financed social assistance (the old, widows, pregnant women, children, the disabled, low-income families)? What are the

perceptions of the target groups themselves?

- What resources - at the local, regional and/or national levels - would be available? Would these resource be available in the long run?
- What would be the conditions of cost-effective delivery of the social assistance benefits (control of administrative costs, absence of corruption etc.)?

For **extending formal social insurance schemes** the *indicators of achievement* are:

- more than 75 per cent of eligible workers in the project area are covered by formal sector social security schemes;
- extension mechanisms developed by the project applied outside the project area.

Under this heading, a short description should be given of the formal social insurance programme in the country and in the project area. The key question then to be analysed is how and under what conditions the project will contribute to the indicators of achievement. The answers to the following questions could help with the descriptions and the analysis:

- Which groups would be targeted for extension (uncovered regular workers, part-time workers self-employed)? What are their priorities in terms of benefits and willingness to contribute?
- Are various groups of employers in the project areas interested in extension to their workers? For what benefits and at what rate of contribution? What are the problems faced by employers (administration, labour costs) and how can their cooperation be obtained?
- What is the perception of the local government? How can their cooperation be obtained?

3. Policy makers and social security partners will have strengthened capacity to formulate contribute to, implement and evaluate social security schemes for the informal sector.

Indicators of achievement

- social security partners use project training material in their activities outside the project areas
- social security partners set up, implement and evaluate social security schemes;
- governments outside the four project countries ask for technical advisory services on integrated social security policy making for the informal sector.
- requests for working papers, evaluation reports, articles and publications produced by the project;
- information material from the project are quoted in policy documents and articles and are referred to in the press, TV and other media;

Under this heading, a short description should be given of the existing policies towards social security for the informal sector and an analysis done as to their implications for the project. The key question then to be examined is how and under what conditions the project will contribute to the indicators of achievement. The answers to the following questions could help with the description and the analysis:

- To what extent are the Government and the various social security partners (social partners, social security institutions, NGOs and private insurance companies) committed to the cause of social security for the informal sector? What will the project do to bolster this commitment at the local and at the national level?
- What are the conditions under which successful pilot experiments can be extended and/or replicated to other parts of the country?
- What are the policies of the Government and the social security partners towards social security for the informal sector? What are the conditions for formulating a national policy on social security for the informal sector?
- Is training capacity available for conducting the various workshops foreseen in the project document?



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