

SOCIAL PROTECTION FOR WORKERS IN THE INFORMAL ECONOMY: NEW CHALLENGES FOR ASIA AND THE PACIFIC

Wouter van Ginneken, ILO

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One of the key global problems facing social protection today is the fact that more than half of the world's population (workers and their dependants) are excluded from any type of statutory social security protection. They are covered neither by a contribution-based social insurance scheme nor by tax-financed social benefits. In sub-Saharan Africa and South Asia, statutory social security coverage is estimated at 5 to 10 per cent of the working population and decreasing. In India for example, less than 10 per cent of workers were in the formal sector in the mid-1990s, compared to more than 13 per cent in the mid-1980s. In Latin America, coverage lies roughly between 10 and 80 per cent, and is mainly stagnating. In South-East and East Asia, coverage can vary between 10 per cent for a country such as Cambodia to 100 per cent for a country such as the Republic of Korea (for health insurance). In most transition countries of Europe, coverage varies between 50 and 80 per cent, while most developed countries have reached practically 100 per cent.

The lack of social protection coverage is closely related to the extent of poverty. Of the world's 6 billion people, 2.8 billion - almost half - live on less than US\$2 a day, and 1.2 billion - a fifth - live on less than US\$1 a day, with 44 per cent living in South Asia. In East Asia the number of people living on less than US\$1 a day fell from around 420 million to around 280 million between 1987 and 1998. However, in Latin America, South Asia, and sub-Saharan Africa the number of poor people has been rising (World Bank, 2000).

The large majority of the non-covered and poor workers are employed in the informal economy, which includes both urban-based and rural-based activities. This term has been used widely to refer to that segment of the economy and labour market which has absorbed significant numbers of job seekers and unemployed workers, mostly in self-employment and in very small production units. For the most part these units have a number of features in common: low levels of capital, skills, access to organized markets and technology; low and unstable incomes and poor working conditions; outside the scope of official statistical enumeration and government regulations; and, almost invariably, beyond statutory systems of labour and social protection.

Three main segments can be identified in the informal sector workforce. The first segment corresponds to the owners and employers of micro-enterprises. They may have reasonable levels of income and include farmers who may employ a few workers and/or apprentices. The second segment comprises own-account workers, which include nominally self-employed, street vendors and small farmers. It is the largest and most visible segment of the informal economy. Despite being nominally self-employed, many workers in this segment are economically dependent on a single enterprise or a middleman for their survival. The third segment encompasses employees engaged in full-time or casual employment. It includes wage labourers working in micro-enterprises on a regular, casual or contract basis, unpaid workers, including family members and apprentices, homeworkers and paid domestic workers. The workforce in this segment is often physically hidden and therefore more difficult to locate, contact and organize.

The question of social protection coverage is in general related to a country's level of economic development, its social institutions and the degree of informalization of employment. However, in the Asian context more distinctions will have to be made between various regions. There are groups of countries that are in the process of transition to a market economy, such as in Central Asia. Then there are the two most populous countries: China and South Asia, which are characterized by their own specific social and economic conditions. Finally, South East Asia, East Asia (Japan and South Korea) and the Pacific Islands have also followed quite distinctive

paths of social and economic development.

This report will explore a number of ways in which social protection can be extended to the majority of the workers in the Asian informal economy. The first section will examine the role of social protection in the overall development process. The second section will discuss three ways to extend social protection, i.e. encouraging micro-insurance and area-based schemes; extending and adapting statutory social insurance; and promoting cost-effective tax-based social benefits. The third section will review ILO action towards the extension of social protection: research and policy development, standard setting and technical cooperation. The report will end with some conclusions.

1. Social protection and the process of development

There is growing awareness that social protection should be understood within the context of the development process. Classical development theory had traditionally anticipated that as a result of economic growth all workers would sooner or later end up in secure formal sector employment. However, the experience in the developing countries - and more recently also in the transition and 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. This section will therefore examine social protection coverage in the context of globalization, and analyze the various linkages of social protection with other development policies. It will also explore the role that social protection can play in the fight against poverty.

1.1 Globalization, adjustment and social protection coverage

Globalization, either alone or in combination with technological change, often exposes societies to greater income insecurity. A cross-section analysis covering OECD-countries (Rodrik, 1997) investigated the relationship between social protection expenditure (averaged over the period 1985-89) and two explanatory variables: the openness of the national economy (measured by the ratio of trade to Gross Domestic Product) and the level of external risks a country faces (measured by the variability of its terms of trade, i.e. the relative prices of its imports and exports, from 1971 to 1990). The results suggest that income transfers tend to be largest in economies that are simultaneously very open and subject to a substantial price risk in world markets.

More recently, other observers (Shin, 2000) claim that governments are increasingly having to compete with each other, in order to promote competitiveness and attract direct foreign investment. This competition influences in turn the social policy formation towards a "business-friendly social policy", possibly leading to reduced taxation on capital incomes, lower shares of employers' contributions in social protection revenues, more limited income security programmes, and an increased allocation of resources for active labour market programmes.

The world today also faces a large number of complex crises, often with global repercussions. One of the most visible recent examples has been the Asian financial crisis which led to massive job losses in the formal sector of the economy, rapidly rising unemployment, and an expansion of employment in the informal economy. In addition, some Asian countries are

facing the difficult process of making economic as well as political transitions, such as from a centrally planned economy to a market-oriented system. In some countries of Central Asia this has led to unprecedented unemployment. In these countries and in the former Soviet Union the responsibility for income security and certain social services has often shifted from enterprises in the context of centrally planned economies to other, often weak and inadequate schemes, a situation which threatens to leave many workers with reduced benefits or no protection whatsoever.

Together with globalization and crises, the structural adjustment policies pursued consistently in many Asian countries have contributed to a decline in the small percentage of the working population in the formal economy. The successive waves of structural adjustment programmes have also led to wage cuts in the public and private sectors, thereby eroding the financial base of statutory social insurance schemes. Simultaneously, some of these schemes have suffered from bad management and bad governance, which has often strongly reduced the trust of members in the scheme. In addition, structural adjustment programmes have often resulted in severe cuts in social budgets. While in some Asian countries, such as South Korea, there is universal health insurance coverage for the population, in most (low-income) Asian countries governments can no longer guarantee access to free health and education. As a result, there is greater demand for group arrangements to finance and organize these social services. It is often more efficient to be part of a group insurance scheme than to have to face health and - possibly education - expenditures individually.

Structural adjustment, socio-economic changes and low levels of economic development have also produced large vulnerable groups that cannot contribute to social insurance schemes. The most vulnerable groups outside the labour force are the disabled and old people who cannot count on family support, and who have not been able to make provisions for their own pensions. Some countries, such as China and India, have adopted specific social assistance measures to meet the needs of these groups.

The fundamental reason for exclusion from social protection coverage is that many workers outside the formal sector are unable or unwilling to contribute a relatively high percentage of their incomes to financing social protection benefits that do not meet their priority needs (van Ginneken, 1999a). In general, they prioritize more immediate needs, such as health and education, in particular because structural adjustment measures have reduced or eliminated access to free health care and primary education. Within the range of pension benefits, they seek protection in case of death and disability, rather than for old age. In addition, they may not be familiar with, and/or distrust, the way the statutory social protection scheme is managed. As a result, various groups of workers outside the formal sector have set up schemes that better meet their priority needs and contributory capacity. Moreover, there are also a host of factors that restrict access to the statutory social protection schemes, such as legal restrictions, administrative bottlenecks and problems with compliance.

1.2 Social protection, employment and productivity

There is considerable controversy about the social and economic effects of social protection, and most of the current debate is focussed on its supposedly negative effects. Social protection is said to discourage people from working and saving, to reduce international competitiveness and employment creation, and to encourage people to withdraw from the labour

market prematurely. On the other hand, social protection can also be seen to have a number of very positive economic effects. It can help to make people capable of earning an income and to increase their productive potential; it may help to maintain effective demand at the national level; and it may help create conditions in which a market economy can flourish, notably by encouraging workers to accept innovation and change. In fact, social protection and decent employment are both necessary components for a market economy to provide income security for all. Social protection is also designed to have important positive effects on society as a whole, by promoting social cohesion and a general feeling of security among its members.

As demonstrated by the latest International Labour Office World Labour Report (2000), there does not seem to be a clear macro-economic relationship between social protection expenditure, productivity and unemployment, at least for the industrialized countries. The evidence in this Report also shows that employer contributions do not seem to have a long-term impact on labour costs and international competitiveness, since the burden of most social security contributions is in the end absorbed by workers in the form of lower wages. Finally, there is evidence - for some industrialized countries - that the level and duration of unemployment benefits exert a small but significant adverse effect on unemployment, but that this effect can be reduced through better design of benefits and supporting labour market policies.

However, at the sectoral and enterprise level there is good reason to believe that there is a positive relation between productivity and social protection. Various types of social protection are particularly relevant to labour productivity:

- Health care systems help to maintain workers in good health and to cure those who become sick. Poor health is a major cause of low productivity in many developing countries where workers do not have access to adequate health care. Not only does it limit their ability to cope with the physical demands of their jobs, but it also leads to sickness absence and can seriously undermine efficiency even among workers who do not absent themselves from work. Providing care for workers' family members helps to ensure the good health of the future labour force.
- Pension systems facilitate the departure of older workers from the labour force, thereby helping to avoid the problem of workers remaining in employment when their productivity has fallen to a low level.
- Maternity insurance is of particular importance in producing a healthy workforce, as well as for the maintenance of the health of working mothers.
- Work injury schemes - the oldest and most widespread form of social protection - are playing an increasingly important role in preventing work-related accidents and sickness and in rehabilitating workers who fall victim to these. Such activities are of considerable relevance to productivity, given the enormous numbers of days off work attributable to health risks which can be avoided.
- Unemployment benefits provide unemployed workers with the breathing space they need in order to find suitable work which makes full use of their talents and potential; the associated employment and training services are also highly relevant in this respect.
- Child benefits (and other cash benefits provided when the breadwinner is unable to work) help to ensure that families with children have enough income to provide proper nutrition and a healthy living environment for their children. In developing countries, child benefits can also be a powerful instrument to combat child labour and promote school attendance. Children can thus receive an education that will permit them in the

long run to attain much higher levels of productivity and income.

More indirect effects on productivity may also be important. The existence of a good unemployment insurance system creates a feeling of security among the workforce which can greatly facilitate structural change and technological innovations which might otherwise be seen by workers as a very great threat to their livelihoods. The link between these issues was graphically illustrated in the Republic of Korea by the Tripartite Accords of 1998 under which workers' organizations accepted greater labour market flexibility, including lay-offs, in exchange for better social protection.

Social protection can be an important factor in the maintenance of effective demand and of business confidence. This effect is most obvious in the case of unemployment benefits which help to maintain the purchasing power of workers who have lost their jobs. However, other social protection benefits also act as an economic buffer during a recession or crisis. Without social protection benefits, the multiplier effects of the first round of job losses could be followed by second and third rounds that could cut deep into the social fabric of the community, as well as leaving much of the economy working well below capacity. Social protection thus helps to prevent production from falling too far and to keep companies in business, with their workforce intact, ready to participate in the upswing when it comes.

1.3 Social protection: concept and linkages

The ILO's research on the informal sector has demonstrated that a wider concept of social protection is needed in order to respond to the realities faced by informal economy workers, who constitute the majority of the world labour force. The traditional concept of social protection is included in various ILO standards. According to the Income Security Recommendation, 1944 (No. 67), income security schemes should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost due to inability to work (including old age) or to obtain remunerative work, or by reason of the death of the breadwinner. Income security should be organized as far as possible on the basis of compulsory social insurance, and provision for needs not covered by compulsory social insurance should be made by social assistance. In the same vein, the Medical Care Recommendation, 1944, (No. 64), suggests that medical care should be provided either through a social insurance medical care service with supplementary provision by way of social assistance, or through a public medical service. The Social Security (Minimum Standards) Convention, 1952 (No. 102), identifies nine areas for social insurance, i.e. medical care as well as benefits in case of sickness, unemployment, old age, employment injury, family circumstances, maternity, invalidity and widowhood.

Various authors have considered that this definition is too narrow for the problems faced by developing countries. Guhan (1994) claims that social protection in poor countries will have to be viewed as part of, and fully integrated into, anti-poverty policies, such as access to productive assets, employment guarantees, minimum wages and food security. Drèze and Sen (1991) as well as Burgess and Stern (1991) distinguish two aspects of social security, which they define as the use of social means to prevent deprivation (promote living standards) and vulnerability to deprivation (protect against falling living standards). The definition provided by Eurostat (1996) also includes housing and rent subsidies in the definition of social protection. The Eurostat statistical definition of social protection - which is increasingly accepted internationally - makes a distinction between social protection in cash and in kind.

The goal and concept of decent work matches this broader concept of social protection. In his first report to the International Labour Conference (ILO, 1999a), the ILO Director-General, Mr. Juan Somavia, introduced the “decent work for all” strategy, which established as the primary goal of the ILO “to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity”. The decent work strategy adopts a broad perspective on work which includes not only (paid) employment, but also work at home so as to take gender roles into consideration. Decent social protection can therefore play an important role in achieving gender equality, if all people - working men and women (remunerated or not), as well as children and elderly - can have independent access to social protection.

One of the essential features of the decent work approach is that everybody is entitled to basic social protection. The right to social security for everyone is already laid down in article 9 of the International Covenant of Economic, Social and Cultural Rights. A decent work strategy therefore aims at universality of coverage, which has now been translated in the official goal of ILO’s Social Protection Sector: “Enhancing the coverage and effectiveness of social protection for all”.

Social protection is defined here as “benefits that society provides to individuals and households - through public and collective measures - to guarantee them a minimum standard of living or to protect against low or declining living standards arising out of a number of basic risks and needs”. Table 1 lists the basic needs as well as the basic risks related to employment capacity and family cohesion. It also lists the various social protection measures (in cash and in kind) and promotional policies that can have an impact on these contingencies.

Table 1: Linkages between social protection and promotional policies

Contingencies	Social protection		Promotional policies
	In cash	In kind	
<i>Risks related to employment capacity and family cohesion</i>			
Un(der)-employment	Unemployment insurance	Employment guarantee; training & placement	Regulatory & other labour market policies; micro-finance
Sickness, injury, disability & death	Social insurance benefits	Home help; care and rehabilitation	Safety & health at work; labour market integration.
Old age	Social insurance pensions	Old people’s homes; home help	Savings
Family cohesion	Maternity, child & family benefits	Crèches; parental leave	Labour market integration
<i>Satisfaction of basic needs</i>			
Subsistence	Social assistance	Social work	Anti-poverty policies
Food	Food stamps and subsidies	Food aid	Food production

Health care	Health insurance	National health service	Other preventive, promotive and curative services
Housing	Rent & energy subsidies	Shelter for the homeless	Construction; savings
Education	Fee waivers	School meals and books	Schools; teachers, etc.

These social protection and promotional policies can interact with each other through substitution and complementarity. For example, among social protection policies social assistance may - for certain groups or in certain circumstances - be a more effective mechanism to extend social protection than an employment guarantee or food subsidy scheme. On the other hand, unemployment insurance and employment guarantee schemes are generally complementary, because they target different groups in the labour force. It is therefore important to assess what are the main linkages between and among social protection and promotional policies, since they can have a significant impact on the effectiveness of efforts to extend social protection.

1.4 Social protection and the fight against poverty

The Asian Development Bank (ADB) (1999) has now committed itself to the fight against poverty. It claims that poverty can be eliminated through the combination of pro-poor growth, social development and good governance. The World Bank's strategy (2000) for poverty reduction is based on promoting opportunity (jobs, credit, infrastructure and social services), facilitating empowerment (active collaboration between poor people, the middle class and other groups in society) and enhancing security (at the household, organizational and national levels).

These strategies are fairly broad and do not address the specific impact of social protection on poverty. Subsection 1.2 already mentioned the various productivity enhancing effects of social protection. There are two aspects in which the ILO approach with regard to poverty and social protection differs from that of the ADB and the World Bank. The first difference is that for the ILO social protection is a matter of right and entitlement. As noted in the previous subsection, one of the aims of social protection is "to guarantee a minimum standard of living". *Certainly, the poor can be assisted in various ways to better manage their risks, but if they do not manage, then they are entitled to basic social protection.* Secondly, the ILO sees social protection not so much as a "targeted" approach, but rather as a system that ties all people together.

Most of the international financial institutions tend to speak of "social safety nets". This concept was born at the time of structural adjustment programmes that were known to have negative social effects. In order to palliate such effects, social safety nets seemed to be the correct answer. However, there is now a growing awareness that even in times of crisis and structural adjustment, economic and social aspects of development must be tackled jointly and simultaneously taking into account the interaction between social and economic policies.

The World Bank uses a very wide concept of social safety net (Subbarao et al., 1997) which includes social services (health, education), all what is defined in this report as social protection, as well as food security measures, labour-intensive public works, and credit schemes

for micro-enterprises. The International Monetary Fund uses a somewhat narrower concept, excluding social services and credit schemes for micro-entrepreneurs (Chu and Gupta, 1998). The advantage of a relatively broad concept is that it expresses the need for an integrated package of measures - a concern that is shared by the ILO and expressed in table 1. However, the term "social safety net", as used by the World Bank and the IMF, is ambiguous because it traditionally refers to basic protection as a last resort, and in particular to social assistance. Most social protection - and unemployment benefit - systems aim to provide more than just basic, and often means-tested, benefits (ILO, 1999b).

Another disadvantage of the concept of social safety net is its excessive focus on "targeted" interventions towards the poor. Broad contribution-based social insurance is necessary, first of all because this makes the country as a whole more resistant against crises and shocks. Secondly, the financing of broad-based social protection schemes allows for more redistribution from the relatively rich to the relatively poor. Such broader schemes also have the advantage of greater social and political support among the population as a whole.

2. Three ways to extend social protection

In the low-income countries of Asia, not more than 10-25 per cent of the working population and their dependants are covered by statutory social insurance, mainly for pensions and sometimes for health care-costs. Extension and reform of the statutory social insurance system could reach about another 5-10 per cent of the working population, i.e., most of the so far non-covered regular workers and some casual wage-workers in the formal economy. At the other end of the income scale are the 30 per cent of poor households who can probably only be helped by tax-based social benefits, social services and poverty alleviation measures. In between these two groups are the bulk of the working population (about 40-60 per cent) - above the poverty line but not eligible for or not interested in statutory social insurance - who have some contributory power and are interested in contributing to micro-insurance programmes that are tailored to their needs (van Ginneken, 1999a).

The first challenge of a comprehensive social protection policy is therefore to reach the majority of the aforementioned working population, with micro-insurance schemes that are specially designed for them and often managed with their participation (Dror and Jacquier, 1999). Such schemes are generally effective in protecting against poverty, while at the same time promoting productivity and employment. Workers are willing to contribute to special insurance if they feel that they will get value for money, if the benefits correspond to their priority needs and if the system that administers the benefits is trustworthy.

The second challenge is the reform of statutory social insurance schemes and their extension to larger groups of regular and casual wage workers in the formal sector.

The third challenge is the promotion of cost-effective social benefits aimed at poor and vulnerable groups. The effectiveness of such benefits depends to a large extent on their design, and - in a general sense - also on the overall willingness of society to show solidarity to those who in most cases are not part of the labour market, such as children, old-age pensioners, widows, orphans and disabled people.

2.1 Encouraging micro-insurance and area-based schemes

In recent years various groups of workers in the informal economy have set up their own micro-insurance schemes. These schemes are independently managed at the local level and sometimes the local unit links into larger structures that can enhance both the insurance function and the support structures needed for improved governance. Such schemes typically have the advantages of cohesion and direct participation, although this is not true of provider-based systems. They can also achieve low administrative costs, but views differ widely about their cost-effectiveness. They may operate within the context of a credit scheme, such as the Grameen Bank, which has already had experience with the collection of contributions and administration of payments. On the other hand, in some cases they developed jointly with organizations such as the Self-Employed Women's Association of India which have a good understanding of the needs of their members.

Grameen Kalyan is a not-for-profit company that in 1997 took over the Rural Health Programme (RHP) founded by the Grameen Bank (Lund and Srinivas, 2000). The RHP acts both as an insurer and as a health provider, i.e. through health centres attached to branches of the Grameen Bank. Outpatient treatment is available as well as consultation, treatment and laboratory tests. Referral to government health centres - where available - are carried out by the health centre directly. The RHP also acts as an insurer, and annual premiums (about \$5 per family) are collected from members associated with a health centre. Non-Grameen Bank members can also use the facilities of the health centre for a fee commensurate with the market rate for the service. About 75,000 families are covered by the scheme.

The Self-Employed Women's Association (SEWA) is a registered trade union working mainly with women in the unorganized sector. Since 1972 its struggle has been to ensure that the minimum wage is obtained; to provide legal recourse where necessary; to target overall work-security; and to ensure democratic representation at every level of the organization. SEWA's Integrated Social Security Programme is the largest contributory social protection scheme for informal workers in India today and presently insures over 32,000 women workers. One-third of the premium is financed through interest paid on a grant provided by the German Technical Development Agency (GTZ), one-third through the direct contributions by women workers, and one-third through a subsidized packaged scheme provided by the Life Insurance Corporation of India and the United India Insurance Company. SEWA members can choose whether to become members of the scheme (at present, approximately 14 per cent of all SEWA members are insured). The scheme covers health insurance (including a small maternity benefit component), life insurance (death and disability) and asset insurance (loss of or damage to housing unit or work equipment). The asset and health components come as a package and life insurance is an option. The total insurance premium package is approximately Rs. 60 (or US\$1.5) per year for the combined asset and health insurance package and an additional Rs. 15 provides life insurance as well. SEWA has also designed the payment of premiums to suit different income groups among the very poor, with a fixed deposit scheme of Rs. 500 and Rs. 700 available for those who can make a one-time payment for life membership of the insurance scheme. The interest on their fixed deposit goes towards paying the yearly premiums. Premiums can also be paid on an annual or even monthly basis.

The use of the term micro-insurance refers to the ability to handle small-scale cash flows (by way of both income and expenditure), not to the size of the scheme, though often such

schemes are in fact of a local character and have a very small membership. The primary aim of many of these schemes is to help their members in meeting the unpredictable burden of out-of-pocket medical expenses. They do not usually aspire to provide comprehensive health insurance, still less to pay income replacement benefits.

It is estimated that in localities where they exist, these schemes usually attract about 25 per cent or less of the target population. The only schemes which manage to achieve high penetration rates (between 50 and 100 per cent) are those in particularly close knit communities or those that all members of the target group (e.g. trade union or professional association) are required to join. This percentage, though far from satisfactory, is much higher than that achieved by social insurance schemes open on a voluntary basis to all the self-employed, no doubt because micro-insurance contributions are very much lower and because the schemes focus on providing only those benefits which are perceived by people as most urgently necessary.

As most of these schemes remain fairly small, it is important to know with what mechanisms and under what forms of partnership the coverage of these schemes can be expanded. One option is that such schemes form organizations among themselves, which will enable them to achieve various objectives, such as a stronger negotiating power in relation to the government as well as (public and private) health providers, sharing of knowledge and greater financial stabilization through re-insurance. A second approach is to devote more effort to the marketing of micro-insurance, as a large percentage of the target population is still not well informed of the benefits of being insured. Linked to this is the need to strengthen the credibility of micro-insurance. Subsidization of micro-insurance is undoubtedly a promising way to expand its coverage, but this is entirely dependent on the capacity and will of the State to redistribute income through the tax system from the rich to the poor.

However, with the growth of micro-insurance schemes, other forms of partnerships may also be necessary. Such schemes may team up with, and/or receive support from, larger organizations in civil society (cooperatives and trade unions for instance). They may also seek to involve private companies and social security agencies who already have a well-functioning administration. Experience with successful scaling-up efforts shows that two sorts of changes are needed; i.e. in the culture and organization of participating organizations as well as in linkages and forms of collaboration between organizations. The role of the government is critical for the successful up-scaling of these schemes.

At the local level, there is a need for experimenting with so-called area-based social insurance schemes, which aim at full coverage within an area and are mainly run by the (local) government in collaboration with a wide variety of possible partnerships. In comparison with sector- or occupation-based schemes, area-based schemes have the advantage that administration costs are low, and that local participation and control can be included in the design of the project. The area-based approach is particularly suitable for social health-care financing, since it can take into account the provision of not only curative but also preventive and promotional activities. In addition, most importantly, coverage could be extended to other areas relatively quickly, because governments would be able to replicate the schemes under similar conditions.

At the national level, governments are in the best position to ensure that particular experiences can be replicated to embrace other occupations, sectors and areas. Moreover, governments can create an enabling environment for the development of micro-insurance

schemes. By means of regulation, they need to clarify the relationship between the role of micro-insurance and that of the compulsory social insurance system, in order to prevent contribution evasion and in order to promote, in the longer term, closer links between the two. In the case of health insurance governments can fulfil the following functions:

- (i) Promoting health insurance through recommendations on design (benefits package, affiliation and administration) and the setting up of a management information system.
- (ii) Monitoring and regulating micro-insurance, possibly within the context of legislation on the efficient and transparent administration of schemes.
- (iii) Improving and decentralizing the public provision of health care, which is an essential pre-requisite for the development of micro-insurance in many countries.
- (iv) Undertaking and organizing training, based inter alia on the promotion and monitoring activities mentioned under (i) and (ii).
- (v) (Co)financing the access of low-income groups to health insurance, possibly through subsidies or matching contributions.

Examples of specific government-supported schemes for workers in the informal economy are the labour welfare schemes in India, financed from resources derived from a tax on the produce of about five million workers in the cigarette (beedi) and cinema industries as well as in certain mines. A similar scheme operates in the Philippines for sugar workers. In general, however, the level of resources generated is low and only limited social protection is provided.

Trade unions and employers could also play a major role in setting up new special funds at the state or provincial levels - such as for construction workers - and in experimenting with area-based social protection schemes. The trade unions would ensure that the benefits provided correspond to the priorities of workers, while employers' organizations could convince their members to comply with their contribution obligations.

2.2 Extending and adapting statutory social insurance

In some countries from East and South-East Asia the process of economic growth has resulted in the transfer of a large part of the labour force to the formal sector. In addition, in such countries the government had - and used - sufficient resources to subsidize the extension of the statutory social insurance schemes. The most striking example is the Republic of South Korea, which achieved universal health insurance coverage in 1989 within about 12 years of the commencement of compulsory medical insurance in 1977 (Kwon, 1998).

However, in most Asian countries this has not been the case. In such countries the administration of social security systems have often been unable to deal with the special circumstances of the self-employed and casual wage workers (Jenkins, 1993). When statutory 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 method and timing of the payment of contributions. In the case of casual workers, contributions are difficult to collect, and maintaining up-to-date and correct records is administratively complicated as 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 the income to be replaced cannot always be determined clearly.

Other administrative reforms may improve compliance and enforcement, for example by developing cooperation with other public agencies, such as tax agencies, to identify individuals and businesses which should be covered by the social security scheme. Moreover, improved governance supported by effective public relations and educational activities to increase awareness as to rights and obligations need to be underpinned by compliance and enforcement procedures and powers that reinforce the mandatory character of the scheme.

Approaches adopted by Governments to integrate self-employed workers into the formal pension insurance programmes have met with very mixed success (Bailey and van Ginneken, 2000). Some groups that are part of, or close to, the formal sector may be induced to join such schemes, but the self-employed are usually not prepared to pay the “double”, that is employers’ plus workers’ contribution. Some special schemes for these workers tend to have more success, particularly if the Government is willing to subsidize them. If individual self-employed workers are not willing to join, however, they have much greater opportunities for non-compliance than employees working in formal sector enterprises. In various developing countries Governments have also attempted to create special schemes for casual and home workers outside the formal sector. These have had some success, in particular if such schemes can be supported by earmarked taxes.

China (Hu, Cai and Zhai; 1999) is one country where a revision of the benefit and contribution structure has facilitated the entry of the self-employed and the informal sector. Firstly, a clear distinction has been drawn between the mandatory pension schemes for urban workers and the pension scheme for rural workers, which is government-supported and provides for the voluntary participation of farmers. However, there are also considerable variations in the benefit and contribution structures of pension schemes for different groups of workers in the urban areas.

Another way to adapt pensions to the priorities and contributory capacities of different groups of workers would be to design benefit packages for the self-employed and the informal sector which would range from a basic core of social protection obligatory for all gainfully occupied persons to a more comprehensive provision which would remain compulsory for certain groups of workers (from the formal sector). Survivors’ and disability benefits would be the first candidates for such a core package. Statutory social insurance schemes would have a comparative advantage in dealing with such benefits, because insurance against these risks requires a large pool of contributors. In this light, the Government of Malaysia is currently considering an ILO proposal for legislation of a compulsory scheme for self-employed workers. It would provide similar benefits as those for employees; and it would cover rehabilitation expenses as well as cash benefits for serious employment injuries and invalidity. The scheme is proposed to be administered by the Social Security Organization, but to be financially independent from the scheme for employees.

Given the variety of Asian countries, with regard to the level of economic development as well as to that of social security institutions, it is difficult to propose general policy conclusions. It may be possible to distinguish between two types of developing countries. The first consists of the middle-income countries, some of whom have well-developed social security institutions. Such countries could aim at covering the population as a whole through the extension of the statutory social insurance programme. And secondly, there is the large group of low-income countries where a rapid increase in social security coverage has to be achieved

through the setting up of social insurance schemes directly financed and managed by informal sector workers. However, for both types of countries some of the following conclusions may be suggested (Bailey and van Ginneken, 2000):

- Consider a revision of the statutory schemes to facilitate partial membership by the self-employed, domestic workers, agricultural workers and those with a regular income from informal sector activities;
- Strengthen the administrative capacity of the social security schemes particularly in compliance, record keeping and financial management;
- Undertake education and public awareness programmes to improve the image of the social security system;
- Extend coverage within a prescribed timetable to all persons working as employees except in special groups such as domestic servants, family workers, casual workers;
- Open up new “windows” and offer benefits that suit the needs and contributory capacity of non-covered groups.

2.3 Promoting cost-effective tax-based social benefits

A considerable number of developing countries have set up category-based and social assistance schemes that are aimed at people in need, who cannot be reached by employment or other social policies and who have not been able to protect themselves through social insurance. Such schemes are predominantly contingency-based as they limit support in cash or in kind to specific needy groups, such as children, widows, orphans and aged persons without income and family support.

In mid-1995 the Government of India introduced the National Social Assistance Programme (NSAP) covering - amongst others - more than 10 million old-age pensioners. It consists of three cash benefits: a pension of Rs. 75 per month for people older than 65 years, with low incomes and generally without relatives; a lump-sum payment of Rs. 5,000 for families whose prime income earner dies before the age of 60 years; and a payment of Rs. 300 per pregnancy up to the first two live births.

In Mongolia local "Assistance Councils" provide social assistance benefits in kind, such as winter clothing and boots for children who would otherwise not be able to go to school. They also provide free lunches as well as discounts for rent and fuel costs for the disabled and elderly who either have no family support or have not been able to insure themselves during their working life (van Ginneken, 1995).

In its transition to a market economy, China has also recently modernized its social relief system. The minimum livelihood protection scheme for urban residents is a scheme in which poor urban households whose average per-capita income is lower than the minimum livelihood protection line can get supplementary subsidies from the government. This scheme provides relief to three million people out of a total of 13 million poor people in urban areas. In rural areas the Government has started to experiment with a minimum livelihood protection system that provides a combination of benefits in cash and in kind. In the mid-1990s more than three million poor people in rural areas received regular relief allowances and subsidies.

There are various difficulties associated with the administration of a social assistance

scheme. These commence with the design of the system and the basis for distinguishing those persons among many who are poor who are potentially entitled to help and then determining to what extent account should be taken of support provided (or expected) from other members of the household and family. A recent field study on the application of the Indian old-age social assistance scheme in Gujarat, Orissa and Uttar Pradesh (Sankaran, 1998) showed various cases of patronage, for example at the selection stage, and of abuse, in particular in the case of cash payments. It also highlighted the various problems in determining a suitable means-test.

The provision of category-based benefits, such as child benefit conditional upon school attendance, can be a powerful instrument for ensuring that both girls and boys receive an education and for combatting the scourge of child labour (ILO, 2000). Such benefits can take the form of waivers of school fees, which is probably the most powerful incentive for children to go to school. The experience with cash grants to families and children shows that they are a useful initial incentive for families to withdraw their children from work and send them to school. If possible these should be reinforced by other provisions such as school lunches, books, uniforms, pads and pencils, transport, accommodation and counselling, which encourage children to attend school and to remain in school.

Tax-based social benefits have been slow to develop, because governments are often under intense pressure to cut existing public expenditure, within the framework of structural adjustment programmes. Social assistance schemes are often costly, because they involve high administrative costs for applying complex means test. Category-based benefits need not be too costly, if the category of persons eligible can be narrowly defined. Both types of benefit provided by the State can help those who are in greatest need. Categorical benefits tend to cost more but they are simple to administer and they are a foundation on which individuals can build better income security for themselves and their families. They can be a powerful tool to promote gender equality and, more generally, to enhance individual autonomy, since they can free people from destitution without subjecting them to the controls and conditions usually associated with poor relief.

3. ILO action towards the extension of social protection

The ILO has defined its primary goal as the promotion of opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. Social protection is a key ingredient of the goal of decent work and is recognized as a human right. One of the four strategic objectives of the ILO - to enhance the coverage and effectiveness of social protection for all - is directed at giving effect to this right. The mandate and the structure of the ILO is uniquely relevant to this challenge as it and indeed the goal of decent work both point to the need for linkages between employment and social protection policies.

In order to address this objective, the ILO is developing an integrated programme with the following core components:

- research and policy development;
- providing a normative framework through standard setting; and
- technical cooperation and other means of action.

3.1 Research and policy development

The objective here is to strengthen ILO's knowledge base on the extension of social protection, and on making schemes more effective and more equitable. This necessitates research and analysis of problems in providing effective coverage, in the financing of schemes and in their governance, and a comparison with other schemes where reform initiatives have been successful. The aim is: (i) to better understand the nature, cause and effect of weaknesses in schemes; (ii) to formulate strategies for the development of effective social protection mechanisms; and (iii) to develop an ILO social protection policy framework through the following components.

(i) Analysing weaknesses in coverage and effectiveness by

- reviewing statistical trends on coverage and social expenditure to document the extent of exclusion;
- collecting data on the employment, income and expenditure situation of non-covered groups including those in the informal economy to examine the need for social protection and contributory capacity at the household and local level;
- identifying the factors contributing to exclusion from coverage;
- identifying the factors which limit the effectiveness of schemes.

The Planning, Development and Standards Branch of the ILO Social Protection Sector is responsible for a special programme on the extension of coverage. In the present biennium (2000-2001) this will include research on the statistical trends on coverage and social expenditure as well as on the effectiveness of efforts to extend social protection. Consideration could be given to establishing a social protection observatory to monitor progress in the operationalisation of the decent work concept.

(ii) Identifying and developing effective social protection mechanisms by:

- assessing the effectiveness of efforts to extend social protection through statutory social security and micro-insurance schemes and the linkages between them;
- reviewing the role of social actors to identify the conditions under which they can work together to extend or improve social protection;
- testing options for design and financing by exploring the feasibility of schemes
 - (i) for special sections of the labour force,
 - (ii) financed from tax revenue rather than contributions,
 - (iii) for supporting micro-insurance schemes through mechanisms such as re-insurance,
 - (iv) for international financial support for basic social protection in the least developed countries;
- exploring various options for emergency benefits to meet social protection needs in countries affected by a crisis or natural disaster and for the subsequent (re)construction of social security systems;
- establishing linkages between social protection and employment policies, for example between micro-insurance and micro-enterprise development programmes and between unemployment benefit schemes, social assistance and active labour market policies;
- identifying ways for social protection to contribute to gender equality through the design of benefits that guarantee equality of treatment and reduce inequities both in the labour market and in the division of work between men and women.

(iii) Developing an ILO policy framework to take account of research and experience which provides the basis for policy guidance on enhancing the coverage and effectiveness of social protection schemes. This may, inter alia, imply the evolution of new or alternative national or international strategies to finance social transfer systems.

It should be recalled that the relevant ILO standard-setting activities flow in part from the research conducted into the development of social security. Such research would seek notably to identify any gaps in the areas of social security covered by “up-to-date” standards and to evaluate the overall real impact of these standards among member States.

3.2 Standard setting

In principle, everyone should be covered by a social protection scheme and international standards should reflect this right and facilitate its fulfilment. As noted earlier, however, most ILO social security standards focus on wage-earners in the formal sector and do not readily fit the needs and circumstances of the self-employed and those who work on an irregular or flexible basis outside a conventional employer/employee relationship. How should ILO standards contribute to the extension of coverage to those presently excluded?

This is a difficult area with conflicting considerations compounded by the complexity and variety of working relationships and by the desire of many employers and even workers to avoid paying contributions. As many workers as possible should be brought within the scope of social protection schemes based on the solidarity principles of compulsory membership and uniform treatment. Essentially persons who have the characteristics of employees, even if temporary or part-time, should be treated as employees for social security purposes and their “employer” expected to comply with the appropriate obligations.

However, all this is easier said than done and the less workers look like “employees” the more difficult the process becomes. For the self-employed or for those where any employer/employee relationship is extremely tenuous, a different approach might be justified. The established self-employed with a place of business or profession could gradually be brought within the scope of the same social security scheme as employees or perhaps covered by a separate scheme based on similar principles. Those working on their own account at a lower level are perhaps best covered by special arrangements which will vary depending on fiscal and economic factors and on their capacity to contribute but which would constitute a more basic level of social protection. Consideration may therefore be given to the formulation of standards to promote the extension of social protection on this basis. Such standards could: reaffirm the right to social security as included in the International Covenant on Economic, Social and Cultural Rights; seek commitment from Governments and their social partners to elaborate and carry out strategies for extending basic social protection; and adopt statistical indicators for measuring progress towards universal coverage. In addition, standards could provide recommendations on guidelines to design, manage and administer social protection schemes and to develop national and international policies and strategies.

3.3 Technical cooperation

The ILO, either through the Planning, Development and Standards Branch (SOC/POL) and its global programme Strategies and Tools against Social Exclusion and Poverty (STEP), or

through the Financial, Actuarial and Statistical Services Branch (SOC/FAS), all located in the Social Protection Sector, or through social security specialists in multi-disciplinary teams, provides technical advisory services and implements technical cooperation programmes which correspond to the requests of member States concerning social security. A key objective in the ILO's social security programme is to strengthen the capacity of governments, social security schemes, social partners and, where appropriate, Non-Governmental Organizations to ensure that the long term sustainability of reforms and training programmes are given high priority in most technical cooperation projects. Social protection policies should be based on sound financial, fiscal and economic analyses and the International Financial and Actuarial Service (ILO FACTS) will continue to provide actuarial services and social budget analyses to ILO constituents. In addition, the QUA TRAIN initiative will provide specific university level training to financial managers in these systems.

More and more countries are asking the ILO for technical assistance on the extension of social protection either to uncovered sections of the labour force or to new or previously unprotected contingencies. There is clearly considerable scope for existing social security schemes to extend coverage to more people and to more contingencies but often a prerequisite is technical assistance to address governance and legislative weaknesses and to build the capacity which institutions need if they are to assume new responsibilities. This may include an in-depth analysis of the financial structure of the scheme which may be conducted in a macro context through a social budget analysis.

A second field of action is to assist the Governments and the social actors with the formulation of a comprehensive social protection policy. In the field of statutory social insurance, the ILO provides extensive technical assistance with policy development, preparation of draft legislation and administrative implementation of health, old-age, disability, death, employment injury, sickness, maternity and family benefit schemes. Highest priority is given to technical assistance concerning the extension of social protection to groups not currently covered. The ILO also assists with the development and administration of social assistance schemes that are affordable for low-income countries and consistent with other anti-poverty policies.

In some countries, the ILO, and in particular its STEP programme, has focussed attention on health insurance which is one of the key unmet social protection priorities for workers in the informal economy. The ILO provides assistance with carrying out feasibility studies, with the aim of assessing how and under what conditions these pilot activities could be successfully implemented and replicated. On the basis of experience gained, the ILO is developing practical tools and training material for the various social actors to help them to formulate their own policies and activities with regard to micro-insurance, and it is also providing network services for social and labour groups involved in micro-insurance.

4. Conclusions

More than half of the world's workforce is excluded from coverage by statutory social protection, and the proportion is often much higher in developing countries. The deficiency is greatest in sub-Saharan Africa and South Asia, where fewer than 10 per cent of workers are covered. There is a great variety of coverage rates in other part of Asia.

The fundamental reason for exclusion from coverage is that many workers outside the formal economy are unable or unwilling to contribute a relatively high percentage of their incomes to financing social protection benefits that do not meet their priority needs. In general, they prioritize more immediate needs, such as health and education, in particular when structural adjustment measures have reduced or eliminated access to free health care and primary education. Within the range of pension benefits, they tend to seek protection in case of death and disability, rather than for old age. In addition, they may not be familiar with, and/or distrust, the way the statutory social insurance scheme is managed. As a result, various groups of workers outside the formal economy have set up schemes that better meet their priority needs and contributory capacity.

Social protection is an integrated part of the development process. Coverage has often suffered from the process of globalization and adjustment. In times when insecurity is growing, there is an increasing need for social protection. This report has shown the need for broadening the concept of social protection, so as to respond to the realities of the informal economy and to establish linkages with other social and economic policies. Well-designed social protection policies can stimulate productivity and contribute to the creation of employment. There is an urgent need to rethink the role of social protection in small and medium-sized enterprise development and in the fight against poverty.

The report has distinguished three ways in which social protection can be extended to workers in the informal economy. Particularly in low-income Asian countries, it is imperative to encourage the development of micro-insurance and area-based schemes that respond to the social and economic needs of these workers. There is also an important scope to extend and adapt statutory social insurance schemes, by creating appropriate benefit and contribution structures, improved governance and more effective compliance procedure. An additional way is to promote cost-effective tax-based social benefits aimed at vulnerable and poor groups in the population.

The widening of the social protection concept, as developed in this report, implies the broadening of the partnership for the extension of social protection. While for the formal sector it is logical to use the national tripartite formula of employers, workers and governments, this partnership has to be broadened to make social protection a reality for workers in the informal economy. A larger role will have to be played by local government, by associations that directly represent informal economy workers (such as cooperatives, mutual benefit societies and communities) and by intermediary organizations that work on behalf of informal economy workers (such as workers' and employers' organizations as well as NGOs). In addition, there is room for participation of the private sector who - when correctly regulated and supervised - can provide a useful contribution in the form of efficient administration and management of some social insurance schemes.

In general, there should be ample room for experimentation to reach workers in the informal economy. There is also the need for greater social dialogue and thinking about new and innovative ways to extend social protection. In 2001, the International Labour Conference will discuss some key issues and prospects for social protection in the years to come. The extension of social protection is high on the agenda. An international consensus on this issue will be of great importance to the workers in the informal economy. It may well pave the way to the achievement of at least basic social protection for all.

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