



Technical Note on the Extension of Social Security to the Informal Economy in Thailand



International Labour Office
Sub-regional Office for East Asia
Bangkok, Thailand

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CONTENTS

LIST OF TABLES, FIGURES AND BOX	iv
ABBREVIATIONS	v
PREFACE	vii
EXECUTIVE SUMMARY	ix
CHAPTER 1: SOCIAL SECURITY AND THE INFORMAL ECONOMY	1
1.1 Background information	1
1.1.1 Informal economy	1
1.1.2 Social security and the informal economy	2
1.1.3 Workers in the informal economy	2
1.2 Key issues relating to social security coverage of the informal economy	3
CHAPTER 2: APPROACHES TO EXTENDING SOCIAL SECURITY TO THE INFORMAL ECONOMY	5
2.1 Considerations in the design of social security schemes	5
2.1.1 Compulsory vs. voluntary participation	5
2.1.2 Scheme financing	7
2.1.3 Financial organization	9
2.1.4 Benefits package design	9
2.1.5 Administrative issues	11
2.2 The menu of extension strategies	11
2.2.1 Extension of the current SSO scheme	13
2.2.1.1 Extension to the self-employed and farmers	14
2.2.1.2 Extension to atypical employees	15
2.2.1.3 Extension of health care coverage to dependents	16
2.2.1.4 Extension of health care coverage to retirees	17
2.2.1.5 Extension through strengthened compliance	17
2.2.2 Special schemes	18
2.2.3 Micro-insurance schemes	19
2.2.4 Universal schemes	21
2.3 Summary of extension strategies	23

CHAPTER 3: WORKPLAN	25
3.1 Overview	25
3.2 Preparatory stage	25
3.2.1 Policy mapping	25
3.2.2 Mapping social security coverage	27
3.2.3 Social protection income and expenditure reviews (SPERs)	28
3.2.4 Administrative capacity	28
3.2.5 Legal issues	29
3.2.6 Survey of social security needs	29
3.2.7 Institutional capacity building	30
3.2.8 Project proposal	30
3.3 Planning stage	30
3.3.1 Extension policy and design	30
3.3.2 Awareness-raising	31
3.3.3 A strategy of gradual expansion	32
3.4 Implementation stage	32
3.4.1 Awareness-raising for the target group	32
3.4.2 Administration	32
3.5 Summary and timetable	33
3.5.1 Preparatory stage (2004)	33
3.5.2 Planning stage (2004-2005)	34
3.5.3 Implementation stage (2006)	35

ANNEX 1: THAI GOVERNMENT POLICY AND SOCIAL SECURITY SCHEME EXTENSION TO DATE	37
A1.1 Review of Thai government policy	37
A1.1.1 National development plans	37
A1.1.2 Labour and social security	38
A1.1.3 Healthcare	38
A1.1.4 Agricultural economy	39
A1.1.5 Pensions	39
A1.2 Review of social security scheme extension to date	39
A1.2.1 Development of social insurance protection	39
A1.2.2 Extension to enterprises with less than 10 employees	40
A1.2.3 Voluntary coverage	42
ANNEX 2: SELECTED STATISTICS ON SSO COVERAGE, 2002	43
ANNEX 3: CASE STUDIES ON INTERNATIONAL EXPERIENCES OF SOCIAL SECURITY EXTENSION	45
A3.1 Universal extension	45
A3.1.1 Universal pension schemes	45
A3.1.2 Non-contributory schemes: Denmark and Mauritius	45
A3.1.3 Universal pensions as a strategy for poverty alleviation: Namibia	46
A3.1.4 Universal healthcare schemes	47
A3.1.5 Universal health coverage: United Kingdom	47
A3.2 Special schemes	47
A3.2.1 Developed country examples of special schemes	47
A3.2.2 Developing country examples of special schemes	49
A3.3 Micro-insurance	50
A3.3.1 International examples: Bangladesh, India and the Philippines	50
A3.4 Extension of statutory schemes	52
A3.4.1 Achieving full population coverage for healthcare	52
A3.4.2 Achieving full population coverage for pensions	56
A3.5 Overcoming obstacles in coverage of the self-employed	58
A3.5.1 Reduced benefit packages for low-income self-employed: UK	58
A3.5.2 Government subsidy to a voluntary scheme: Costa Rica	58
A3.5.3 Linking contribution rates to age: Sri Lanka	59
A3.5.4 Case study: Benefits packages for the self-employed among EU countries	59
A3.6 Spouse or family extension	61
ANNEX 4: BIBLIOGRAPHY	63
Government of Thailand	63
International Labour Organization	63
International Social Security Association	64
Others	64

LIST OF TABLES, FIGURES, AND A BOX

Table 1: Comparison of benefits, numbers of insured, and numbers awarded of benefits in the SSO schemes, as of February 2004	7
Figure 1: Social insurance coverage for the self-employed in the EU	10
Box 1: Specific issues relating to the structure of pension benefits of Thai social security scheme	13
Table 2: Social security scheme contribution by benefit and contributor	40
Table 3: Social security scheme extensions during the last six years	41
Table 4: Number of establishments and insured persons by region, as of December 2002	43
Table 5: Number of establishments and insured persons by size of establishment as of December 2002	43
Table 6: Numbers of insured persons by age and sex, as of December 2002	44
Table 7: Numbers of insured persons by wage and sex, as of December 2002	44
Table 8: Social insurance coverage of the self-employed in the European Union	60

ABBREVIATIONS

30 Baht scheme	National Health Insurance scheme (NHI)
ASEAN	Association of Southeast Asian Nations
CSMBS	Civil Service Medical Benefits Scheme
EII	Employment Injury Insurance
ILO	International Labour Organization
ILO-EASMAT	ILO East Asia Multi-Disciplinary Advisory Team, currently Sub-regional Office for East Asia in Bangkok or SRO-Bangkok
MOAC	Ministry of Agriculture and Cooperatives
MOF	Ministry of Finance
MOL	Ministry of Labour
MOPH	Ministry of Public Health
MOSDHS	Ministry of Social Development and Human Security
NESDB	National Economic and Social Development Board
NHI	National Health Insurance
NSO	National Statistical Office
OSH	Occupational safety and health
SPERs	Social Protection Expenditure and Performance Reviews
SSO	Social Security Office
UI	Unemployment Insurance

PREFACE

Background information

Low social security coverage is a problem of global dimension and is increasingly attracting the attention of policy makers in a context of low economic growth, widespread unemployment and underemployment, and the persistence of poverty on a large scale. The process of globalization is a major force for economic growth, but it has underlined the vital need to strengthen social security in increasingly uncertain times. Social security is one of the keys of Decent Work¹ and it has been agreed that the highest priority should be accorded to policies and initiatives to extend social security coverage to those who have none; the ILO “Global Campaign on Social Security and Coverage for All” was launched during the International Labour Conference in 2003. The Report of the World Commission on the Social Dimension of Globalization stresses the need for better social protection to cope with the greater vulnerability to sudden changes that exists in a competitive international economy as opposed to a protected national market; because of financial constraints, globalization today does not strengthen social protection systems².

The majority of workers, and people, in developing countries have no form of social security protection.³ In many developing countries, only 10 or 20 per cent of the economically active population, working in the formal economy, is covered by social security. The majority work in low-income, unregulated occupations, making an uncertain living in the informal economy, and have no social security at all. These unprotected groups are demanding their basic human right to social protection, and many developing countries are facing complex issues and challenges in identifying strategies to realize those demands.

The Ninth National Economic and Social Development Plan (2002-2006) of the Royal Thai Government devotes a whole chapter to the development of human potential and social protection. This includes an objective to enhance universal social security on an equitable basis, and to assist the poor and under-privileged to become self-reliant through various policies including extension of social security coverage to both formal and informal workers. In line with the Ninth Plan, the Social Security Office (SSO) adopted the Operational Direction for 2003 and 2004, which encompasses preparatory studies to devise suitable schemes for *all* persons not eligible for the formal social security.

In December 2002, the SSO and the ILO concluded an Agreement regarding the execution of a project on the extension of social security to the informal economy following technical cooperation between the two organisations in 2001 and 2002⁴. This technical note corresponds to the technical assistance that ILO agreed to provide under that Agreement; it included a detailed plan of activities and studies to determine the best approach to extension and to assess informal economy needs and priorities, together with a series of awareness raising events for a range of key groups in SSO, Ministry of Labour and other relevant organizations.

¹ ILO-*Decent Work Report of the Director-General*, International Labour Conference June 1999.

² World Commission - *A Fair Globalization Creating Opportunities for all* World Commission on the Social Dimension of Globalization 2004.

³ ILO- *World Labour Report 2000 Income security and social protection in a changing world*. ILO Geneva 2000.

⁴ The following reports were provided to SSO: “Thailand Extension of Social Protection for the formal and informal sectors” Monica Burns, ILO EASMAT January 2002, “Technical Report Considerations for the Extension of Social Security Protection in Thailand Administration and Operations” Mike Whitelaw December 2001; and ILO-“Legal Constraints on Full Coverage of Workers, the Main Target Group for Social Insurance and Social Assistance Measures.” K. Thompson, ILO Consultant, December 2001.

Outline of the Technical Note

Chapter 1 of this Note presents an overview of the informal economy and the main issues relating to social security coverage for this sector; it focuses on the challenges posed by the different social security needs of this huge and diverse target group, the low and irregular incomes, and the general lack of reliable information.

Chapter 2 looks at approaches to extending social security. It opens with a discussion of key aspects of the design of social security schemes, such as financing, benefit package design (including issues relating to the current pensions system), and whether participation should be voluntary or compulsory. Next, it introduces different extension approaches and targets – extending social security not only on the basis of schemes currently in place but through the introduction, for example, of special new schemes, micro-insurance schemes and the universal scheme.

Chapter 3 outlines the studies required and actions that will need to be undertaken in order to design and implement a strategic and cost-effective programme to extend social security coverage to the informal economy and to other population groups not yet covered.

Annex 1 provides an overview of Thailand's national policies and laws relating to social security, and particularly those affecting extension to the informal economy. It also gives brief descriptions of existing schemes, and extensions of the national social insurance scheme to date. Annex 2 provides some relevant statistics from Thailand. Annex 3 comprises case studies of different approaches to social security provision around the world, focusing on the coverage of the informal economy.

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ILO consultant Mr. Kenneth Thompson produced a draft of this technical note. It was finalized by the social security team in ILO's Bangkok Sub-regional Office for East Asia: Mr. Suguru Mizunoya, Associate Expert on Social Security Extension to the Informal Economy; Ms. Parissara Liewkeat, Programme Officer for Thailand; and Mr. Hiroshi Yamabana, Social Security Specialist. Special thanks are due to:

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EXECUTIVE SUMMARY

Target of Social Security Extension

According to the SSO's Operational Direction on the extension of social security to the informal economy, all persons who are not currently insured under the national social insurance scheme, or by other statutory schemes, should be provided with social security; hence the target of social security extension in this Technical Note includes all persons and workers presently not covered by statutory schemes. In Thailand this concerns the vast majority of the Thai population, a non-homogenous cross-section ranging from large groups in the Thai labour force such as farmers or self-employed workers to those under-privileged workers such as home-workers, seasonal workers, daily and temporary workers, to the poorly covered population such as dependents of the SSO scheme.

Common and important characteristics of the target population include 1) lack of official and legal status; 2) limited and irregular incomes; 3) different needs and priority for social security; and 4) no employer. The implications of such characteristics on the social security extension policy are the following.

Lack of official and legal status: There is no point of contact between the informal workers. Data such as tax or business registration records, which are usually used to establish target population lists, are often not available. This implies the possibility of future problems of compliance.

Limited and irregular incomes: Currently, social security contributions are calculated according to the member's income, and the burden is shared between the member, the employer and the government. There are many difficulties inherent in assessing the income of the self-employed, casual workers and other informal economy groups, and it may be advisable to introduce flat-rate contributions and cash benefits in some schemes.

Different social security needs and priorities: Informal workers may have different social security needs and priorities and any benefit package may require adaptation in line with needs and priorities. In order to minimize the discrepancy between needs and availability of benefits, it is necessary to carry out a survey on social security needs and priorities.

No employer: Most informal workers have no employer to 1) contribute an employer's contribution and 2) provide proof of workplace-related sickness or injury, nor termination of contract. Without employers, the benefit level may be reduced due to the lower level of contribution, or substantial financial support from the government will be required. Moreover, it may be difficult to include work injury benefit, cash sickness benefit and unemployed benefit into the benefit package for workers in the informal economy.

Design of social security schemes

Prior to determining the social security extension approach, careful consideration should be given to the design of social security schemes since extension of coverage to the informal economy will bring different kinds of challenges to the SSO, especially concerning financing and administration.

Compulsory vs. voluntary participation: Experience in other parts of the world suggests that any social security coverage for the informal economy needs an element of compulsoriness to avoid adverse selection and poor uptake. SSO has voluntary coverage under Section 39 of Social Security Act and its statistics indicate evidence of adverse selection in the invalidity pension: 44% of new invalidity pensioners in 2001 were under Section 39 although the number of insured under Section 39 consists of only 2% of the total insured in the SSO scheme.

Finance: Schemes can be financed entirely from tax revenues, entirely from contributions paid by (or on behalf of) scheme members, or through a mix of contributions and tax revenues. A series of preliminary studies will be necessary to examine the contribution capacity and determine the most appropriate forms of finance for any scheme covering the informal economy. Extension to the informal economy will undoubtedly require substantial financial commitment from the government, not least because of the limited capacity of most informal economy workers to pay contributions, many not having employers to share the burden of the contributions; also as a matter of equity with enterprise workers who enjoy government subsidy.

Financial organization: The current SSO scheme has a major deficiency in its financial organization i.e. all benefits both short-term and long-term, are mixed in one fund. It is recommended to have separate autonomous funds for each benefit branch in order to ensure accountability and long-term financial sustainability. Also, it is recommended to further separate funds for formal employees from funds for workers in the informal economy in the event of establishing a new special scheme for the workers in the informal economy.

Benefits package design: Key issues in designing a benefit package include reducing benefit levels, excluding some benefits⁵, and requirements for substantial government subsidy as already mentioned. Some deficiencies in pension structure in the current SSO benefits package were pointed out such as the low replacement ratio, the pensionable age for old-age pension, and a short qualifying period for invalidity pensions which may lead to adverse selection for voluntary contributors. These deficiencies should not be replicated in pension and invalidity benefit schemes for the informal economy.

Administration: Currently, the primary responsibility for collecting contributions under the SSO scheme lies with employers. Different arrangements for collecting contributions from the informal economy may be needed, depending on what types of schemes are adopted. For example, tax-financed universal schemes will not require contributions at all; on the other hand, for insurance-based schemes it will probably be necessary for the SSO to establish a system of agents to collect contributions from informal economy members.

Extension approaches

This Technical Note categorizes extension approaches into two groups: the extension approach through the modifications of current SSO schemes, and the extension approach through the establishment of new schemes. Determination of the extension approach to be taken will depend on the target group and benefit package. For example, extension through the modification of SSO schemes would be most suitable for covering home-workers and daily and temporary workers, but might be difficult for farmers.

⁵ Please see “Social insurance Coverage for the Self-employed in the EU” in Figure 1 and Table 8 for more information.

The first extension approach through modifications to the current SSO scheme aims to bring uncovered population into the SSO scheme through changes in legislation such as the Labour Protection Act and Social Security Act (e.g. changing the definition of “workers”). Possible targets for coverage under this approach will include: farmers and self-employed; atypical workers such as home-workers and daily, temporary, and seasonal workers; dependants of current SSO members; and retirees. Even if the necessary legislation amendment were made, social security provision will not be effective unless administrative capacity is carefully assessed and potential difficulties identified. Thus, careful attention should be paid to administrative capacity and appropriate measures taken to solve the problems identified.

The second option of establishing new schemes will achieve coverage extension by complementing the existing SSO scheme for formal sector employees. This approach includes the following scheme options:

Universal schemes, offering benefits to all Thai citizens or qualifying residents. In the context of pensions, universal schemes could provide a “first tier” offering basic pensions to all, which could be supplemented and complemented by more limited schemes such as the existing SSO scheme;

Special schemes that might be set up to cover particular industries, occupations or other groups, such as self-employed or farmers; and

Micro-insurance schemes, covering groups of individuals or households with similar interests and administered by the members or non-governmental organizations with encouragement and support from the state and the SSO.

The importance of studying and assessing administrative capacity was emphasized for the approaches through the modification of SSO schemes, and applies equally to the second. However, further studies on targets such as socio-economic information or social security needs as well as a study on public finance will be necessary for the establishment of a more feasible and cost-effective scheme.

Workplan

This report provides a timetable for designing and commencing implementation of the extension programme, broken down into a preparatory stage (2004); a planning stage (2004–2005), and the implementation stage (2006 onwards). It also recommends a range of actions, studies and consultations that the SSO in collaboration with other stakeholders such as government organizations, employers and employees should carry out at each stage.

The studies in the preparatory stage will provide baseline information and contribute to determine extension strategy including scheme financing, and benefit package options. A summary of studies and their implications to the scheme design follows.

Study	Determination of scheme option				
	Extension strategy	Benefits package	Finance of the scheme		Administration
			Contribution capacity	Public finance	
A policy map of Thai government on the informal economy and social protection	✓	✓			
Social security coverage map	✓	✓			
Social protection expenditure and performance reviews (SPER)	✓	✓	✓	✓	
Legal studies on the statutory exclusion of certain groups in the informal economy	✓				
A survey of social security needs	✓	✓	✓		
Administration capacity study					✓

In addition to the above studies, it is recommended to institutionalize the current informal working group of the SSO on social security extension into a formal body, and to draft a project proposal for activities in the following stages.

In the planning stage, detailed scheme design and extension programme should be finalized, based on findings from studies carried out in the preparatory stage. Further studies such as actuarial valuations, legal studies, and administration studies may be needed to finalize extension options. Extensive awareness-raising activities among line ministries and related organizations should also be carried out in this stage.

The implementation stage should begin with establishing the necessary administrative systems for extension. Awareness-raising for the target group will be needed to alert and inform the concerned population about new social security obligations and rights, as well as details of the new or extended scheme.

CHAPTER 1: SOCIAL SECURITY AND THE INFORMAL ECONOMY

1.1 Background information

1.1.1 Informal economy

The term *informal economy*⁶ generally refers to economic activities falling outside the scope of government regulations and laws, including those on labour protection and social security. Informal enterprises tend to operate with low levels of capital, skills and technology and limited access to markets; they provide low and unstable incomes and poor working conditions. Some countries only include urban-based activities in their national definitions, while others also include rural activities, particularly small-scale agriculture.

For the purposes of this Technical Note, the concept of *informal economy* includes rural activities and follows this description from the ILO:⁷

The informal sector consists of small-scale self-employed activities (with or without hired workers), typically at low levels of organization and technology with the primary purpose of generating employment and incomes. The activities are usually conducted without proper recognition from the authorities, and escape the attention of the administrative machinery responsible for enforcing laws and regulations.

Typically among developing economies, Thailand's informal economy is very large, and provides employment and income for the great majority of the working population; the estimated total workforce in Thailand is 34 million, of which an estimated 20 million are in the informal economy.⁸ The informal economy alleviated a good deal of the potential social costs of the Asian economic crisis of 1997–1998 by providing incomes for many people laid off from formal-economy businesses.

Despite the undoubtedly crucial role of the informal economy in Thailand's national economy, informal economy workers continue to lack opportunities for decent work and have poor legal and social protection. Tackling the social and economic problems of the informal economy in Thailand deserves to be treated as an urgent priority, as has been indicated in the Ninth National Economic and Social Development Plan (2002–2006); the ILO believes that it should be the responsibility of society as a whole to support vulnerable groups in the informal economy.⁹

Some of the most significant informal economy groups in Thailand who currently lack any formal social security are: farmers, fishermen, home workers, taxi drivers, casual construction workers,

⁶ While the term informal sector may be more familiar, it does not adequately convey the very diverse nature of the workers and enterprises that function outside the legal or regulatory framework. For this reason, informal economy has come into use, and is used throughout this technical note.

⁷ From ILO Regional Department for Asia and the Pacific: The informal sector (1998), p.3.

⁸ Source: Thai Labour Force Survey. The figures include rural and urban self-employed; workers in small enterprises (with less than five employees); and unpaid family workers.

⁹ “The fundamental challenge posed by the informal economy is how to integrate it into the formal economy. This is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for vulnerable groups in the informal economy should be financed by society as a whole... For persons of working age the best way to provide a secure income is through decent work”, from ILO: Social security: A new consensus, Resolutions and conclusions concerning social security of the International Labour Conference 89th Session, 2001, p.2.

entertainment venue workers, domestic staff, street-side or market vendors, and other categories of self-employed workers. However, it should be noted that the Operational Direction of the Social Security Office for 2003–4 on extension of social security coverage to the informal economy actually calls for extension of coverage to *all persons* not insured or eligible for the formal economy social insurance scheme.

1.1.2 Social security and the informal economy

Improving access to social protection is one of the many objectives of the strategies to alleviate social and economic problems in the informal economy. Healthcare and insurance for illness and injury are two obvious areas where extension to informal economy workers would be in the interests of both equity and economic productivity. Without social security for the informal economy, the vast majority of the population continues to suffer from the various risks which prevent sound and sustainable social and economic development, or there is a risk of great social cost in the event the government steps in, burdening national budgets and affecting standards of living and competitiveness.¹⁰

The Royal Thai Government recognizes the importance of extending social security coverage to the informal economy. A whole chapter of Thailand's Ninth National Economic and Social Development Plan (2002–06) is devoted to the development of human potential and social protection. Among the development guidelines is upgrading of the effectiveness of the social security system to provide greater income security and quality of life for people, especially protection and assistance for the poor and the under-privileged, by focusing on extending coverage of the existing social security scheme to both formal and informal workers. It is on this basis that the Ministry of Labour and Social Security Office (SSO) is planning to extend coverage of social security to the informal economy.

1.1.3 Workers in the informal economy

Although the informal economy is hugely diverse, some typical characteristics of informal economy workers can be summarized as:

- Working in informal economy enterprises and activities that lack official or legal status (rather than being illegal);
- Limited and irregular incomes;
- Unstable employment or business conditions;
- Atypical modes of employment, such as casual work, or seasonal work;
- Extreme vulnerability to risks such as work-related accidents and sickness, and the resultant loss of income, due to the lack of coverage by labour and social security legislation.

People and enterprises in the informal economy are currently outside the mandates of, or receive insufficient attention from government agencies responsible for programmes to develop small enterprises, improve access to credit, and upgrade occupational safety and health. (In practice, this

¹⁰ This issue is addressed in ILO: Social security: Issues, challenges and prospects, Report VI, International Labour Conference, 89th Session, Geneva, 2001, pp. 3-4.

is also true of many enterprises in the formal economy in Thailand, especially the smaller enterprises operating with limited capital and access to credit.) One result is poor compliance with legislation on minimum wages, severance pay and labour protection – such as compensation for work-related accidents and paid maternity leave – as well as legislation on social insurance, where applicable. In many countries, the inspectorates responsible for enforcement are unable to counter these trends.

The majority of informal economy workers work to survive, with incomes barely enough to cover daily expenses. Although they are not covered by formal social security, they sometimes benefit from informal protection in the form of credit societies and funeral clubs as well as depending on traditional solidarity.

1.2 Key issues relating to social security coverage of the informal economy

One of the first challenges in extending social security coverage is the few points of contact between government and the informal economy. For example, compulsory social insurance schemes sometimes rely on data from business registration or tax records in order to build compliance lists. This is not possible with the informal economy because of the lack of official records.

Determining informal economy workers' income is another problem. This is relatively easy in the formal economy, because salaries and wages are recorded (although the recent inclusion of small enterprises under the SSO scheme has met with considerable challenges in compliance); but accurately determining the incomes of the self-employed is a problem worldwide. If there is a well-developed direct income tax system that covers the self-employed, it may be feasible, by using tax records, to cover the informal economy through a national scheme with earnings-related contributions and/or pension benefits. If the income tax system is less developed, as is the case in Thailand, it is possible that incomes in the informal economy will be under-declared or not declared at all.

Because of the nature of workers in the informal economy is so diverse, there are technical difficulties to provide certain type of benefits. For example, there are many difficulties in providing unemployment protection for self-employed workers and employees without formal work contracts. Similarly, without a clear and officially designated workplace, and employers who supervise and could prove the accidents, it is extremely difficult to cover informal economy workers for employment injuries.

Relevant information on the target groups in the informal economy is lacking in Thailand. Knowledge of numbers of multiple job holders and annual employment patterns is crucial to the design of schemes for certain occupations or industries; information on the potential participants' capacity to pay contributions is also important for the financial design of any scheme; and knowledge of the different target groups' social security needs is essential for designing benefits packages. To fill these information gaps, Chapter 3 of this Technical Note includes research on social security needs and other socio-economic factors during the preliminary stages of planning social security extension to the informal economy.

Another major challenge is the scale of Thailand's informal economy. The SSO experienced huge administrative burdens extending coverage to smallest enterprises in 2002, which brought about 1 million new members into the national social insurance scheme. Extending coverage to another 20 million people in the informal economy, almost three times the number of formal economy workers currently enrolled in the scheme, will be much more difficult. Thus, a review of the current administrative capacity and careful planning of how to deal with the new administrative burden are vital in the preliminary stages of extension planning. It may be necessary to engage local people, organizations or NGOs to act as agents for the scheme, who would be responsible for assessing earnings and contributory capacity, collecting contributions, assessing claims and distributing benefits.

Inevitably, the Government will have to commit a good deal of money to the expanded social security system, whatever types of scheme and financing are chosen. The national social insurance scheme uses a tripartite contribution system, whereby employers, employees and government share the burden of paying contributions. If insurance cover offering benefits comparable to those of the current national scheme is extended to the informal economy, the Government will need to subsidize contributions to a greater extent because there will be no employer to share the burden and because informal economy workers generally have less money to contribute than formal economy workers. Actuarial valuations and Social Budget analyses to estimate the financial implications of covering the informal economy will be necessary, not only to review the finances of the social security scheme but also to review government fiscal policy and expenditure on social protection for the future strategy on the provision of social protection to Thai citizens.

CHAPTER 2: APPROACHES TO EXTENDING SOCIAL SECURITY TO THE INFORMAL ECONOMY

Many challenges are involved in extending social security to the enormous and heterogeneous informal sector in Thailand – a group that is largely undocumented, unregulated and poor. By adjusting the current national social insurance scheme administered by the SSO, it may be possible to bring in large segments of the informal economy under the coverage of the scheme. According to the SSO's Operational Direction on extension of social security to the informal economy, all persons who are not currently insured under the national social insurance scheme, or by other statutory schemes, should be provided with social security; hence this Technical Note also covers extending social healthcare insurance to retirees and dependents of contributors, and raising compliance among the eligible enterprises. However, it may be found that introducing new schemes to cover certain groups in the informal economy, for at least some contingencies, is more feasible and cost-effective than trying to cover them through the existing national social insurance scheme. The overall objective in planning the social security extension programme for the informal economy is to identify the best mix of new, existing and adapted schemes so that, as near as possible, all members of Thai society are covered at least by some form of social protection appropriate to their needs.

This chapter examines some of the major issues in the design of social security schemes. It then goes on to discuss possible approaches to extending social security to the informal economy, including the extension of current SSO scheme and introduction of various types of new schemes that may be considered: universal schemes; special schemes for particular occupational/industrial groups or groups with a particular type of employment condition (e.g. the self-employed); and/or promoting the establishment of voluntary micro-insurance schemes. A table at the end of this chapter summarizes the various approaches and their major pros and cons.

2.1 Considerations in the design of social security schemes

2.1.1 Compulsory vs. voluntary participation

Most social security schemes worldwide operate on the principle of compulsory participation; that is, everyone who meets the criteria for membership should, by law, contribute and enjoy the insurance benefits that the scheme offers. This means that, in principle, the entire target group is covered. An earlier study by the ILO has recommended that schemes for the informal economy in Thailand should be compulsory.¹¹

Insurance schemes in which participation is voluntary often suffer from three serious drawbacks, particularly when they try to include poor and marginalized groups:

Missing the target: Substantial numbers of those people who are most in need of social security protection fail to join or to pay contributions regularly;

Adverse selection: People who believe they have a high chance of qualifying for benefits – for example because of an existing medical condition or because they plan to have children soon – are more particularly motivated to join a voluntary scheme than others. This means that the proportion of claimants to contributors

¹¹ ILO-EASMAT: Thailand: Extension of social protection for the formal and informal sectors, by Monica Burns (Bangkok, 2002). Currently Sub-regional Office for East Asia in Bangkok or SRO-Bangkok.

will be higher than in a compulsory scheme (a phenomenon known as “adverse selection”), with the result that individual contributions need to be larger, or the benefits package more limited in range and/or levels, to ensure the scheme’s financial sustainability. In turn, this may discourage potential members from joining, especially those with low incomes. Providing more comprehensive benefit packages, providing cover for a wider range of contingencies, may help to attract a wider group of members, but this will require larger individual contributions or financial input from the government.

Difficult long-term financial planning: In a voluntary scheme, there is no guarantee of a constant flow of new entrants, making estimation of future income and expenditure of the scheme unreliable. Thus it becomes more difficult to identify appropriate contribution rates and to design benefit packages that will give a guarantee of long-term sustainability.

It is worth noting that even schemes that are supposed to be compulsory are in practice more or less voluntary depending on how efficiently they are administered and enforced. This means that the drawbacks of voluntary schemes need to be taken into account to some extent even in the planning of a compulsory scheme.

Thailand’s own experiences with voluntary social insurance have been problematic. Section 39 of the Social Security Act allows former members of the SSO scheme who have paid contributions for 12 months or more the option to apply for continued full insurance on a voluntary basis. Even with the introduction of the MOPH’s National Health Insurance (30 Baht) scheme, Section 39 has attracted increasing numbers of voluntary members. There are clear indications that the more than 150,000 voluntary members¹² are making many more benefit claims than the compulsory members: while voluntary members constitute only 2 per cent of scheme members, they accounted for around 33 percent of invalidity pensions awarded in 2000 and around 44 percent of those awarded in 2001.¹³ By contrast, the separate voluntary scheme established in 1994 by the SSO under Section 40 of the Social Security Act for population groups not eligible for the schemes under Section 33 and 39, including the self-employed, provides only limited death, maternity and invalidity benefits. It has attracted only seven contributors out of the total non-covered population of more than 20 million. These experiences strongly suggest that extending social security through voluntary schemes needs careful consideration before introducing. The table below shows the benefit packages, membership and invalidity-benefit claims figures for the SSO schemes.

¹² Source: Research and Development Division, Social Security Office, 2003

¹³ According to SSO statistics, out of 480 and 435 new invalidity pensions in 2000 and 2001, 159 and 191 respectively, were awarded to voluntary contributors.

Table 1: Comparison of benefits, numbers of insured, and numbers of invalidity benefits in the SSO schemes, as of February 2004

		Under Section 33	Under Section 39*	Under Section 40
Coverage		Employees working for enterprises with one or more employees	Formerly insured under Section 33	Those not eligible under Sections 33 or 39, including the self-employed
Participation		Compulsory	Voluntary	Voluntary
Contribution	Insured person	5.0% of salary	432 baht per month	3,360 baht per year***
	Employers	5.0% of salary	-	-
	Government	2.75% of salary	120 baht per month	-
Current Members		7,502,476	177,741	7
Current numbers of invalidity benefits**		2,350	977	-
Benefits package	Sickness	○	○	-
	Maternity	○	○	○
	Invalidity	○	○	○
	Death	○	○	○
	Old-age pension	○	○	-
	Child allowance	○	○	-
	Unemployment	○	-	-

* The base salary of member workers for Section 39 would be 4,800B and the insured pays 9.0% and the government pays 2.5 % for all benefits except unemployed.

** As of January 2004

*** Contribution is paid annually

Source: Research and Development Division, Social Security Office 2004

2.1.2 Scheme financing

There are two possible sources of financing for social security schemes: government tax revenues and contributions from scheme members. Many, if not most, statutory schemes in practice derive their financing from a combination of both sources.

Fully tax-financed schemes: Some social security schemes are financed entirely from tax revenues. Any member of the scheme's target group is potentially eligible for benefits under a tax-financed social security scheme; no contributions need to be paid by individuals, nor is eligibility dependent on payment of taxes. Unlike social assistance, there is no means or income test to determine whether individuals qualify for benefits. The lack of contributions and income/means tests significantly reduces the administrative burden in such schemes.

Full tax financing is most often used for national universal benefit schemes, which provide benefits to all citizens and qualified residents. Some countries have opted for fully tax-financed universal schemes, sometimes with means tests, for healthcare and pensions, and this approach is increasingly being considered in middle-income countries.

An argument sometimes used against fully tax-financed social security schemes is that many people who benefit from the schemes (including informal economy workers) do not pay direct income tax on their earnings, and instead are being supported by formal economy workers who do pay taxes. However, in the case of informal economy workers it can be argued that they contribute significantly to the economy in other ways, through supplying agricultural and other products overseas and to urban areas, but do not receive their fair share of the benefits of national prosperity, particularly when they lack access to quality healthcare, education and other services. These workers also contribute to general revenues through indirect taxes, which account for a substantial proportion i.e. 43% of overall government revenue in Thailand¹⁴.

Contribution financing: Social insurance, micro and commercial insurance schemes are fully, or principally, financed by contributions from individual scheme members in return for insurance cover. These contributions are placed in a pooled fund or funds, which are used to finance benefits. Social insurance schemes (i.e. insurance-financed statutory schemes providing social security to large population groups) generally collect contributions from, or on behalf of, working people. Individual contributions are usually calculated as a share of the individual member's earnings; long-term benefits may be linked to the length of time contributions have been paid by (or on behalf of) the member; the size of their contributions; and (particularly in the case of pensions and maternity benefit) to the member's average earnings over a particular period. The burden of individual members' contributions is often shared with the employer and/or others, including government (see *Mixed financing* below). Government often pays administration costs.

An argument often advanced for insurance-type schemes is that contributions go directly to provide insurance benefits to the member and their families, while taxes may be used for a variety of purposes. Another advantage of social insurance schemes with income-related contributions is that members with higher incomes indirectly subsidize to a certain extent the insurance of those with lower incomes. Also, in schemes with insurance-based finance more balanced discussions can be expected on the subject of benefit increases when there is a direct link between benefit levels and contributions levels.

Mixed financing: There are several situations in which it may be appropriate for some state financing to be used in financing insurance-based schemes. These include:

The target groups can afford to pay contributions up to a certain level, but not enough for the scheme to be able to offer an adequate benefits package. This may apply especially to social security schemes designed for low income earners;

Without subsidies, the scheme would not be attractive enough to the target groups. For example, self-employed workers may be reluctant to participate fully in a scheme unless

¹⁴ Bank of Thailand, 2002

the state is willing to make up the share of contributions normally paid by employers. This would be particularly important if the scheme were (in principle or in practice) voluntary. The cases of the governments of Costa Rica and the Republic of Korea, which provide such subsidies for self-employed workers, are described in Annex 3;

The scheme has some special features that require state support. For example, to promote equity within a scheme, state subsidy could allow the lowest wage earners to enjoy cover under the scheme without deduction of contributions from their earnings (although employers would still have to contribute), could allow people to continue being insured while they stop work to care for children or elderly relatives or, when new pension schemes are introduced, allow people who are too old to contribute for the qualifying number of years to benefit from the scheme.

The main SSO scheme in Thailand uses a tripartite social insurance financing model, where individual members, their employers and the state all pay a share of individuals' contributions.

2.1.3 Financial organization

It is important to establish separate, autonomous funds for each branch of benefits (pensions, healthcare and so on), as well as for different schemes. This allows greater accountability. It also discourages easy compromises in the transfer of contributions between funds to meet temporary shortfalls, which can cause serious financial problems in the long run because income and expenditure for each benefit and target group should be carefully calculated to meet current and anticipated future expenditures.

Currently in Thailand SSO scheme, there is no system of autonomous funds for each benefit branch, and short-term and long-term benefits are both paid from a single fund. It is thus hard to tell whether reserves are adequate to pay long-term benefits; statistics regarding the reserve funds may be misleading. Since the SSO expanded the benefits paid under the existing compulsory scheme to include unemployment insurance from January 2004, it will be more than ever advisable to establish autonomous funds. Extension of social security to the informal economy will be a much greater challenge for the SSO, and financial organization will be considerably more important. Not only should funds for different benefit branches be separated, but funds from new schemes and existing schemes should also be autonomous. This will help the SSO to make projections and take timely action to solve problems in providing social security to the informal economy.

2.1.4 Benefit package design

The main questions in the design of benefit packages are what range and level of benefits should be offered. The design of benefit packages needs to balance the social security needs of the target group with the costs of the scheme (to the state and/or to contributors).

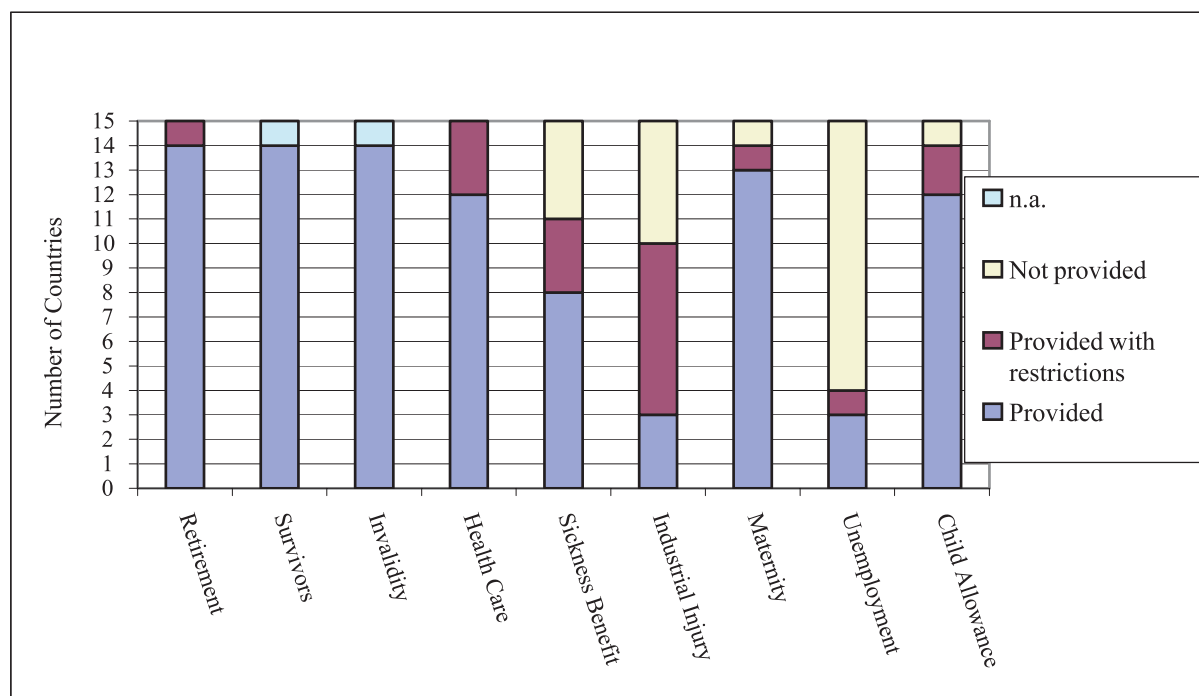
In the case of extension to the informal economy, the benefit packages should be attractive enough to ensure satisfactory levels of compliance. To assist in the design of benefit packages, the social security needs of the informal economy target groups should be researched during preparations for planning the extension. At the same time, the benefit package in the current national social insurance scheme should also be reviewed, particularly the structure of pension and invalidity benefits. This will be discussed later in this section.

In the case of informal economy workers, it may be appropriate to offer limited benefit packages – in terms of both the contingencies covered and the levels of benefit paid – compared with those offered to formal economy workers. For example, in benefit packages for self-employed workers, there are strong arguments for excluding: employment injury protection - because of the difficulty of independent verification that accidents occurred at and during work, and unemployment benefit - since these groups are not employed by third parties and therefore are not subject to retrenchment. Also, old-age pension schemes with earnings-related contributions and providing earnings-related benefits may be vulnerable to manipulation by self-employed workers where the pension levels are based on the pensioner's earnings averaged over the last few years before pensionable age - some individuals could declare unrealistically low earnings for many years so that they pay smaller contributions, and then declare high earnings over the averaging period in order to increase the pension benefit. To avoid this kind of abuse, flat-rate contributions and benefits could be offered for the self-employed based, for example, on average incomes of a region or industrial or occupational group.

Because of the reduced benefits package for informal economy groups, their contribution levels could be lowered, thus helping to overcome another challenge in coverage of the informal economy.

As can be seen in Figure 1, most of the 15 EU Member States do not provide unemployment benefit for the self-employed, and provide no - or limited - industrial injury benefits. A case study on benefit packages for the self-employed among EU countries can be found in Annex 3.

Figure 1: Social insurance coverage for the self-employed in the EU



2.1.5 Administrative issues

Improvement of administration capacity will be a basic requirement for implementing any schemes to cover the informal economy. In the case of contributory schemes, agents of various kinds (e.g. NGOs, occupational associations or credit unions) will be needed to function as the interface between the insured and the SSO, in respect of all the main administrative procedures, including calculation and collection of contributions, inspections, assessing claims, and distributing cash benefits, as well as public education. International examples of agents used in social insurance schemes for the informal economy include agricultural cooperatives used in the Farmers' Pension scheme in Japan, described in Annex 3.

A major difficulty will be the lack of information about the informal economy, and of reliable data, such as tax records or business registration, that could be used to improve compliance. Working with organizations which have a close relationship with the target groups will help to achieve better compliance. Legislation relating to the schemes should give the SSO the right to enter into agreements on administrative collaboration with these organizations, and should specify how charges for these services will be met. For flexibility in the implementation of an informal economy scheme, it is advisable to include legal provisions empowering the Minister of Labour to issue Notifications whenever particular provisions have to be applied to a new target group.

2.2 The menu of extension strategies

Schemes to extend social security coverage could target the informal economy in several different ways. Essentially four different strategies can be developed as follows:

(1) Extension of coverage through the current SSO

This strategy could aim at the SSO successively reaching out to specific categories or groups of workers. Such groups could include: employment categories (self-employed workers, unpaid family workers, piece-rate workers etc); groups of industries; location (urban or rural, business districts and home-based enterprises); and size of enterprise. Some of the principal target groups could be:

Industrial and occupational groups: It may be effective to focus on some industrial or occupational groups with large numbers of informal workers, such as agriculture, which accounts for about one-third of the labour force in Thailand; or on occupational groups with relatively high, regular incomes and willingness to join social security schemes, such as taxi drivers. A disadvantage of this mode of targeting is that many occupational and industrial groups include both formal workers and informal workforces. There is a danger that covering these two groups with different schemes would be seen to reinforce inequity between the formal and informal workers, as well as leading to administrative complications. As in all schemes with a smaller number of insured persons, there is also the danger of financial instability because of the smaller risk pool and the financial risks of imbalance between contributions and benefits in the long-term.

Self-employed workers: This group constitutes more than 10 million workers¹⁵ out of a total workforce of 34 million in Thailand. This distinction is made on the grounds of employment category. Because the main social insurance schemes in Thailand already target according to employment category

¹⁵ Thailand Population and Housing Census 2000

(full-time public-sector workers and private employees), extension to self-employed workers would avoid duplication of coverage. Defining the target groups according to employment category avoids the perception of unequal treatment of formal and informal economy workers. However, the administration, especially enforcement of compliance, would be more difficult than the scheme for employed workers, and the scheme may face long-term financial risks, as mentioned under ‘Industrial and occupational groups’.

People who could be covered by the current SSO scheme with some technical adjustments: Extending the coverage of the current national social insurance scheme would be an indirect way to cover some informal economy groups along with several other important population groups. For example, the SSO scheme could be adjusted so that dependents of current members and SSO pensioners are also eligible for the health care benefit; private-sector employees lose their rights to most of the social security benefits under the SSO scheme when they retire, and this could be changed; other groups of workers who are specifically excluded from cover by the Social Security Act and related legislation could be included through legislative amendments – these would include, temporary workers including workers in the construction sites, workers in entertainment venues, domestic workers, seasonal workers and home-based workers.

(2) The introduction of new specific schemes

Specific social protection schemes could be designed for particular social population subgroups. Such specific schemes, for example for farmers and particular groups of self-employed, exist in other countries with established social insurance systems, (such as Germany and France). Such schemes which may often have developed for historical reasons cover groups that enjoy specific state subsidies (such as farmers) or have a different benefit structure tailored to the specific needs of the group (such as the self-employed). These schemes are an alternative approach for reaching out to the first two groups listed in the previous section.

(3) Micro-insurance schemes

Micro-insurance schemes are organised in countries where national or group specific schemes cannot be organised for financial or governance reasons. Essentially they seek to substitute the role of the state as organiser and ultimate underwriter of national social protection schemes through the mobilisation of community efforts and resources. These schemes are most prevalent in West Africa and South Asia. So far they deal mostly with the financing of basic health care for communities.

(4) Universal schemes

Universal schemes, which generally financed from taxation, provide benefits to all residents in a country who satisfy certain qualifying conditions. Universal benefit schemes cover all citizens (as well as foreign residents meeting certain criteria) and are funded by the state, not by individual contributions; they thus ensure that even the poorest and most marginalized people, including informal economy workers, can access at least basic benefits. Target groups of universal schemes could also be groups that are not otherwise covered by other schemes, which would turn the wider concept of universalism into a “residual universalism”. Thailand already has (residual) universal healthcare under the National Health Insurance (“30 Baht”) scheme; a universal pension scheme could also be considered.

The above-mentioned strategies are not exclusive. Different strategies can be pursued for different benefits. For example, one could envisage a gradual development approach executed by SSO in pensions while a universal coverage approach is pursued in health care. Even within one benefit branch one could allow for two different strategies to address parts of the coverage problem. For example, Thailand could consider introducing a universal pension scheme with a modest benefit

level as a base instrument to combat old age poverty, while SSO extends its coverage gradually to all population groups that can possibly contribute. Both pensions could be paid either in parallel making the SSO a potential second tier scheme or in a complementary way making the universal pension scheme in effect a residual universal scheme that only covers those who do not enjoy coverage by the SSO. What ultimately matters is that the country embarks on a medium- to long-term path towards universal or virtually universal coverage.

The following sections analyse the strategic options in more detail.

2.2.1 Extension of the current SSO scheme

In designing Thailand's national social insurance scheme, policy makers decided to first target only formal economy private-sector employees. This group could afford to pay contributions, while their employers could act as agents for collecting the contributions. Thus it was possible for the scheme to have a good impact, with earnings-related contributions (and benefits), relatively reliable financial planning, and relatively simple administration. In terms of normal life cycles of national social protection schemes, which take at least 70 to 80 years to mature, the scheme is still in its infancy. Hence it wrestles with some conceptual and administrative challenges which are described in Box 1.

Box 1: Specific issues relating to the structure of pension benefits of Thai social security scheme

The current benefits package under the SSO scheme has problems in the areas of old-age pension and invalidity benefits, which should be addressed before, or in parallel to, the extension of social security coverage to the informal sector and other groups.

The introduction of Thailand's social insurance pension scheme in 1998 was timely, as a national system of old age protection is an essential component of social protection, ensuring continued income and as the basis for an orderly retirement system. However, the scheme has some major defects and does not meet the requirements of the Social Security (Minimum Standards) Convention of 1952.

The main deficiencies related to old-age pensions are:

- 1) Replacement ratio: The old-age pension rate after 30 years of contributions is only 30 per cent of average earnings, which is below the minimum standard of 40 percent for a man with a wife of pensionable age (i.e. old enough to qualify for old-age pension);
- 2) Survivors are not entitled to pensions as they should be, only to lump-sum payments;
- 3) A minimum pension rate is not prescribed; and
- 4) Lack of transitional provisions: People who in 1998 were too old to complete the 180 months of contributions before reaching the pensionable age of 55 are required to pay contributions but will simply receive a lump-sum refund of their contributions when they reach age 55 rather than qualifying for a reduced-rate pension, meaning that the pension scheme is essentially functioning as a provident fund. Table 6 in Annex 2 shows that this will affect around 450,000 people aged between 45 and 55 – nearly 6 per cent of the total number of people insured.

There are also deficiencies in the invalidity pension scheme:

- 1) The provision of invalidity pensions at the rate of 50 per cent of earnings is inconsistent with the old-age pension benefit formula; and

- 2) The qualifying condition for the invalidity benefit of three months of contributions paid during the preceding 15 months is exceptionally short for voluntary contributors.

The SSO should consider reviewing the scheme urgently, and determine how to integrate invalidity benefits and meet the costs of bringing the scheme into conformity with the Social Security (Minimum Standards) Convention. Introduction of survivors' pensions is another urgent priority, especially for widows in view of the fact that women have longer life expectancy.

In case health care benefits are provided to old-age pensioners in the future, earlier introduction of partial pensions rather than refunds for older contributors (see point 4) above) would allow old-age pensioners under the SSO scheme to continue with the social insurance healthcare coverage they have been used to during their working lives, as is the practice in the Civil Service Medical Benefits Scheme.

Another important issue is the pensionable age, which has a critical impact on the cost of the pension scheme and tends to influence retirement ages for employees. The current pensionable age of 55 is low by any standards. The SSO should examine the many implications of adopting a higher pensionable age, such as 60 years, with entitlement to early retirement (with reduced pension) and late retirement (with additional pension). A review should be based on proper actuarial assessments. This more flexible approach would better meet the differing personal needs of contributors. A higher standard pensionable age would reduce projected costs and therefore increase the feasibility of the changes in key provisions proposed above.

The extension of the national scheme could provide social security coverage to significant groups in the informal economy, as well as other groups not yet covered, such as retirees and dependents of scheme members. This should be achievable with minor adjustments to the existing Social Security Act and related legislation.

There are four major aspects that need to be considered in planning extension of the SSO scheme: legislation, administration, financial assessment, and awareness-raising. Laws and regulations related to social security, such as the Social Security Act and the Labour Protection Act, should be examined in order to identify the reasons why particular groups are excluded and any potential difficulties in amending the law. Since the Social Security Act covers all employees under the Labour Protection Act, recognition under the Labour Protection Act automatically entitles workers to coverage under the Social Security Act.

Even if the necessary legal amendments were made, they would not be effective unless potential administrative difficulties in implementation were identified and action taken to solve them. As with the recent extension of the SSO scheme to include small enterprises of one to ten employees, a period of awareness-raising on changes to the relevant legislation would be needed, targeting potential new members and their employers, prior to any drive to bring these new members into the scheme.

Perhaps the greatest finance-related obstacle that is likely to be encountered in extension of the existing scheme to new groups of workers is determination of earnings, which is essential to calculating individual contributions and cash benefits under the scheme. An important question is whether groups for whom assessment of earnings is difficult should join the general scheme and contribute on their declared earnings, should contribute at a flat rate, or should be covered by special schemes.

2.2.1.1 Extension to the self-employed and farmers

The current SSO scheme excludes the great majority of Thailand's labour force. Farmers, the self-employed and unpaid family workers, the largest groups not covered by any social insurance, together constitute around 20 million out of a labour force of 34 million.¹⁶ Inclusion of these groups would

¹⁶ Population and Housing Census 2000

be an enormous step towards social security coverage of the entire workforce. However, assessing earnings is likely to be especially difficult.

2.2.1.2 Extension to atypical employees

The Social Security Act and related legislation specify certain categories of workers as not being eligible for insurance under the scheme. Some of these groups, such as private-school teachers, civil servants as well as workers in State Enterprises, are covered by separate schemes; but others are probably excluded because they are likely to present technical difficulties in implementing the scheme, because they do not fall within the typical model of a tax-paying employee of a registered company, receiving regular remuneration.¹⁷ These employees are referred to in this Technical Note as “atypical employees”. Such excluded workers due to present technical difficulties include the following types of employee:

1. Daily temporary employees and hourly temporary employees of Central Administration, Provincial Administration and Local Administration;
2. Casual employees or seasonally active employees; and
3. Workers over 60 years old, excluding those who have had a continuous employment relationship up to age 60.

It is sometimes argued that people with only brief periods of employment would not benefit from membership of a social insurance scheme because of the usual waiting periods before eligibility for benefits. This misses the point that some low-skilled workers have no other source of income than seasonal, casual or temporary work and need coverage for health and income protection at least as much as other workers. Furthermore, unscrupulous employers seeking to avoid liabilities under labour and social security laws may deliberately classify even long-serving employees as casual or temporary.

While some workers are specified as excluded workers by relevant legislation there is another kind of exclusion, that of atypical workers i.e. employees such as home-workers, sub-contracted workers and domestic staff who are excluded due to the lack of recognition by the relevant laws of their employment relationship. These workers are invisible under the current Labour Protection Act and Social Security Act; changing the legislation to remove legal causes of exclusion may be the most viable approach to include them. New definitions of employer and employee would be needed in the Ministerial Regulations for Home-workers under the Labour Protection Act, since these changes would automatically change the coverage of social security. The similar regulations for domestic staff and seasonal agricultural workers that are currently being drafted should be examined when they are promulgated to see what legal barriers they present to cover such workers under the SSO scheme. Individuals who change employment status frequently may present some difficulties in the implementation of the scheme and some thought should be given to legal and practical solutions that would benefit the insured and minimize administrative problems.

¹⁷ Section 4 of Social Security Act excludes 1) government officials and regular employees of the central administration, provincial administration and local administration except for temporary employees;;2) employees of foreign government or international organization, 3) employees of employers who have offices in the country and being stationed abroad; 4) teachers or headmasters of private schools under the law on private school; 5) students, nurse students, undergraduates or interning physicians who are employees of schools, universities or hospitals, and 6) other activities or employees as may be prescribed in the Royal Decree. The Royal Decree excludes 1) employees of Thai Red Cross; 2) employees of State Enterprises; employees in agricultural activities, fishery, forestry and livestock whose employers do no hire employees for the whole year; and 3) casual employees or seasonally active employees. Section 33 of social security act stipulates eligible age of insured person which is over 15 years and not more than 60 years old.

Hiring sub-contracting workers, whilst a legitimate and common method of implementing large contracts, can be used to evade financial obligations under social insurance legislation. It is also a form of exploitation of the workers, since it deprives them of social security coverage. Past compliance campaigns have often pinpointed construction sites as particularly prone to under-reporting the number of workers and their earnings. Changes to social security legislation may be needed to stipulate clearly the legal responsibility of the principal contractor and sub-contractors, in order to facilitate enforcement. There is also a clear need for regular monitoring of sub-contracting arrangements by social insurance inspectors to prevent abuse or at least to detect it as early as possible.

Similar to the recent registration of small enterprises, the inclusion of atypical workers would not only require further legal and financial studies on possible extension options but also entail a considerable range of preparations, with awareness-raising as a major activity. Experience has shown that, whatever new approaches are adopted, ways are found to circumvent new rules in order to avoid or reduce the financial liabilities or to victimize individuals who try to assert their rights. Labour inspectors and other responsible government officials would need to give their full commitment and support to ensuring that home-based workers did, in fact, benefit from the changes. Regular monitoring would also be needed of progress and problems in implementation.

2.2.1.3 Extension of health care coverage to dependents

Extension of health care insurance coverage to dependents of scheme members is more common in longer-established and more complex social insurance schemes in industrialized countries such as France, Netherlands and the UK, which have the necessary administrative capacities.

Although there is a technical difficulty in estimating exact number of SSO member's uncovered dependants, extension to uncovered dependants would include substantial amount of uncovered population i.e. the number of uncovered dependants (spouse and children) would be around the same order of current insured. An important benefit is that it could also help to ease pressure on the MOPH's 30 Baht universal healthcare scheme. Expenditure on the 30 Baht scheme has continuously risen and will probably continue to rise due to the inflation of medical costs. An earlier ILO report¹⁸ questioned whether the Government could secure the additional resources necessary to continue the 30 Baht scheme in its current form, and whether the health system could cut costs while still maintaining the quality of medical care.

It is also worth noting that healthcare coverage under the SSO scheme is financially less costly to government per person than the 30 Baht scheme. The ILO study demonstrated that, in 2002, the state subsidy per person under the SSO scheme was 665 baht, while the state paid 1,202 per capita under the 30 Baht scheme.¹⁹

Extension to dependents has the potential, therefore, not only to achieve equity in healthcare among the members of insured persons' families and significantly extend social healthcare insurance coverage, but also to help reduce government expenditure on healthcare. In view of this, the SSO should conduct studies on the national health policy as well as on national fiscal policy on social security and on the informal economy.

¹⁸ ILO: Technical note on the financing of the universal health coverage scheme (Bangkok, TN/Thailand/ TN.1, 2002).

¹⁹ In 2002, government subsidy per capita was 2,398 baht for the Civil Service Medical Benefits Scheme, 665 baht for the SSO scheme, and 1,202 baht for the 30 Baht scheme; source: ILO: Technical note on the financing of the universal health coverage scheme (Bangkok, N/Thailand/ TN.1, 2002).

Overall, the additional administrative burden associated with extension to dependents would seem to be minor; however, there would be significant administrative tasks in registering and issuing social security identity cards to all eligible dependents, and in keeping track of changing circumstances, such as children exceeding the eligible age limit. There is also scope for abuse in obtaining healthcare through impersonation of dependants, especially children.

2.2.1.4 Extension of health care coverage to retirees

In some social insurance schemes, retiring scheme members remain entitled to health care benefits for their lifetime, thus enjoying health security at a period in their lives when their needs are likely to increase. Where family members are also protected as dependents, this is also important in ensuring continued access to medical care without financial barriers. As life expectancy increases, healthcare coverage of retirees assumes ever greater significance. Social insurance schemes that do not allow continued coverage to retirees face criticism that they have collected contributions during members' working lives, when it was presumed that they would have relatively satisfactory health, and then terminate the eligibility to the benefit at the time when it is most needed and incomes are low. This is similar to some types of private insurance and is contrary to the concept of social insurance and the natural expectations of retired persons. The financial options vary worldwide and each country finds its solution from a combination of various financing mechanisms such as taxation for people over a certain age, and a contribution if the old age pension is provided (but no contribution from former employers); as well the scheme includes a premium for the retiree's health care in the contribution from current members in case the retiree contributed to that scheme for more than a certain number of years (e.g. 20 years).

2.2.1.5 Extension through strengthened compliance

In the SSO scheme, as in most compulsory social insurance schemes, a proportion of enterprises fail to comply fully, or at all. The most serious manifestations of this are failure to register enterprises and/or their employees, and failure of registered enterprises to comply, since the excluded employees are denied their right to social security protection. Persistent under-reporting of employees' incomes is another practice that undermines the system.

There are two main reasons why enterprises may not be registered. The first is failure on the part of social security offices to register enterprises that are legally registered as businesses or have tax records in the provincial or central government. Compilation of information from official databases such as that of the Tax Department may help to solve this problem, as well as addressing the problem of under-reporting of contributors' incomes. The other reason is failure to recognize and register legally liable enterprises that stay in the informal economy. Close coordination and cooperation with tax authorities, the Ministry of Commerce and provincial governments will be necessary to improve compliance.

To address failures of compliance, extensive awareness-raising is needed targeting employers and employees, to ensure that they understand the benefits of membership as well as the legal obligations and procedures to be followed. The SSO also needs to consider initiatives such as opening small local offices, street-by-street collection of contributions, and using contribution collection agents who are paid a small fee according to the amounts collected. Regular monitoring and adjustment of tactics will be required to identify and address problems. A basic requirement will be a fully staffed and well-trained inspectorate.

2.2.2 Special schemes

Special schemes are new schemes tailored for, and limited to, a particular target group, such as workers in a particular industry or occupation (for example the social insurance scheme for private-school teachers and principals in Thailand), or police, military personnel and civil servants, who may require a lower pensionable age than in the general old-age pension scheme. Introducing a special scheme may involve new legislation; new administrative set-ups, such as use of agents to collect contributions; new ways of calculating contribution rates, such as introducing flat-rate contributions or determining contributions according to occupation, rather than individual income; and a benefit package that reflects the social security needs of the target group. To avoid the problems involved in voluntary schemes that have been discussed above, any special schemes for informal economy workers should probably be compulsory.

Special schemes may be one of the best ways to extend social security coverage to the self-employed and/or to farmers – who constitute the majority in the informal economy – if covering them through extension of the current SSO scheme and/or universal schemes proves not to be viable. Special schemes could be designed to overcome many difficulties of covering these groups, including the lack of an employer to pay a share of the contribution; assessment of earnings; and different benefit needs.

An additional advantage of a special scheme for farmers in Thailand could be to reinforce agricultural policy. For example, in Germany and Japan, special schemes for farmers help to facilitate the transfer of farm ownership to the next generation by stipulating that retiring farmers must have transferred farm ownership in order to qualify for a subsidized pension. Germany's special scheme for self-employed farmers and their families and Japan's farmers' pension scheme are described in Annex 3. SSO should consult with the Ministry of Agriculture over its policies in case they bring farmer's pension within their scope.

A major disadvantage of special schemes is that they are more financially vulnerable to long-term demographic change than larger schemes, especially in the case of pension schemes. Benefit packages for special schemes should be designed carefully in order to ensure that the scheme can continue to pay benefits to its members in the future without requiring too much additional funding from the state. While numbers of private employees are likely to increase steadily in Thailand, the number of workers engaged in agriculture has been falling in the last 10 years, and will probably continue to do so. However, more research will be needed into these issues to test the feasibility of special schemes for these groups.²⁰

Considering the administrative complications and problems with financial sustainability, special schemes are generally not a first choice for providing social security coverage; however, their use in reinforcing national agricultural policy, such as food security or structural adjustment in the agricultural sector, may make such special schemes desirable for the agricultural sector.

²⁰ While the ratio of private employees to the total labour force increased from 24.5% to 32.2% from 1991 to 2002, the ratio of agricultural workers to the total labour force decreased from 60.3% to 44.7%, according to Labour Force Survey Q3 in 1991 and Q3 in 2002.

2.2.3 Micro-insurance schemes

There is increasing recognition internationally that micro-insurance scheme initiatives should be encouraged as a strategy to strengthen social protection for sections of the labour force with little hope of coverage by public social security schemes or with specific insurance needs, such as agricultural crop insurance.²¹ Comprehensive voluntary social security schemes such as that operated by the Self-employed Women's Association (SEWA) for many years in Gujarat State, India (which is described in Annex 3) demonstrate what can be achieved through micro-insurance schemes.

In micro-insurance, groups of people with shared insurance needs establish simple, restricted insurance schemes. They may be set up by individual members of a community or a group of communities, through existing occupational or community groups, or by any other grouping of people with similar circumstances and needs. The benefit packages and contributions are tailored to the specific urgent or immediate needs of the group. This is why micro-insurance schemes are frequently for healthcare, where groups can organize and negotiate better quality and cost-effective services, and/or provide lump sum cash benefits in the event of death or accident. Many such schemes originate from other types of mutual-support system, such as revolving credit schemes or emergency and solidarity funds for households; or from general disaster relief following floods, typhoons and other catastrophes. Traditions of self-help and mutual support provide a good foundation for micro-insurance.

Present experience shows that there is a plurality of formulas, actors and levels which organize and manage community based risk pooling schemes. As of now, four main categories of actors have been organizing micro-insurance: 1) community groups – the term is used in a broad sense. It can be geographically defined, such as village, urban neighbourhood or regional grouping. It also includes groups organized around common interests such as informal trade associations, agricultural associations, cooperatives, and women's associations. 2) support structures – including health service providers, workers and employers associations 3) governments – local governments and districts are very much involved in certain countries. National governments are starting to be involved also as it is important to provide linkages between micro-insurance schemes and national policies and strategies and avoid that micro-insurance schemes remain “stand alone” initiatives. 4) international donors and development organizations – especially those involved in poverty alleviation.

There are many challenges to be overcome in incorporating a social security extension programme for the informal economy. Micro-insurance schemes share the problems inherent in any voluntary scheme: no assurance of a steady flow of new entrants and small unstable group of insured with fluctuating income, which makes financial planning and benefit package design difficult; and risk of adverse selection or other moral hazard – though due to their relatively small membership, local knowledge, bonds and social pressures may help to limit this. Ways to avoid adverse selection include carefully screening of potential new members (but there is then a good chance that poorer people, or individuals or groups who are not trusted by the other members, may be rejected, thus reinforcing social exclusion), or the inclusion of family members in the scheme (the latter has been favoured in recent years).

²¹ ILO's Strategies and Tools against Social Exclusion and Poverty (STEP) programme promotes the design and implementation of innovative systems of social protection for excluded groups in national populations. More information is provided in ILO/STEP: Towards decent work: Social protection in health for all workers and their families, Conceptual framework for the extension of social protection in health, Working Paper (Geneva, 2002).

Small-scale, community-based schemes are particularly vulnerable to having their reserve funds wiped out by an epidemic, for example. This problem may be dealt with by re-insurance, but as this requires considerable technical knowledge which may not be available at local level, the statutory social security system could provide technical assistance on this issue.

Based on regular business insurance standards, some micro-insurance schemes have found it difficult to ensure long-term sustainability. Rural health insurance schemes in China are progressing with financial support from local governments,²² but such subsidies are generally not a viable option for micro-insurance schemes in other countries, as few local governments have the necessary funds to do so. Another approach to financing could be the use of excise taxes on the products of the members of the scheme, as seen in non-contributory welfare funds in India. This would require a higher level of government involvement in the management of the funds - which often causes administrative costs to rise unnecessarily, as studies of the Welfare Funds of India show.

As a strategy for extension of social security in Thailand, micro-insurance schemes will need substantial external support from the state and/or from suitable NGOs if they are to provide the same extent of benefits as formal schemes do. Promotion of the schemes for the key target groups should be coordinated or guided within a framework established by the Government. This should eventually include regulatory framework and support such as tax relief on contributions where schemes meet legal requirements. Social insurance institutions such as the SSO may need to provide technical advice and support to the individuals or groups who will manage the schemes on key aspects such as contribution and benefit structures, fund management, re-insurance and record-keeping. The Ministry of Public Health could provide assistance with contracts between micro-insurance schemes and public health facilities. In case of the introduction of micro health insurance schemes, steps should be taken to facilitate the overall cooperation of public healthcare providers with community healthcare schemes and government should increase efforts to rectify deficiencies in the health infrastructure in deprived areas rather than relying solely on market forces to meet organized demand from micro-insurance schemes.

Another important role for the Government in promoting micro-insurance schemes is organizational assistance and communications. Action is needed to identify and motivate networks such as cooperatives, associations and other suitable bodies and groups to consider how to establish schemes for their members. There is an on-going initiative to collect information on existing schemes in South-East Asia, South Asia and Africa. This information should be collected and disseminated regularly, highlighting best practices and pitfalls. The process can be assisted by advice and technical support by various organizations at national and international levels.

The incorporation of voluntary micro-insurance schemes in the national health policy, as has been done in the Philippines (described in Annex 3), could help to improve equitable and affordable access to healthcare for households in the informal economy.

²² “Challenges to providing social security to the informal sector in the People’s Republic of China”, paper presented by Xiaoyi Hu, Director-General of the Social Insurance Administration, Ministry of Labour and Social Security, People’s Republic of China, International Social Security Association Regional Conference, Bangkok 2000.

2.2.4 Universal schemes

In a universal scheme (or universal benefit scheme), all citizens – as well as foreign residents meeting specific criteria – have access to essential benefits. Thus, universal schemes are probably the most effective approach to achieving universal social security coverage, including farmers, the self-employed and vulnerable groups such as minorities or disabled people. The most common use of universal schemes in industrialized countries is for pensions and healthcare.

Universal schemes can play an important role in poverty alleviation and in realizing social equity. Social assistance and other poverty alleviation programmes must identify genuinely needy groups and individuals and find viable ways to channel limited resources to them, both of which can be very challenging. By contrast, universal schemes ensure that the same groups and individuals have access to basic benefits when they need them. Because eligibility for benefits is not linked to poverty or other forms of social disadvantage, there is less stigma involved in claiming benefits under a universal scheme than there is in receiving benefits from social assistance.

Although it is possible to fund universal benefit schemes from contributions, it is suggested that they should be subsidized from tax revenues with supplementary financing from social security contribution and from charges levied in healthcare schemes (for example the 30 baht charge per case in Thailand's National Health Insurance scheme).

At first sight, universal tax-financed schemes may seem to put great financial pressure on government budgets compared with insurance-based schemes, which may mean there is less to allocate for social assistance and social development programmes. In reality, any extension of social security to the informal economy will inevitably be costly to the state because the target population is so large. This principle applies to any extension scheme, whether based on the universal approach or a social insurance approach.

Two other factors add to the financial attractiveness of universal schemes. The first is that universal schemes reduce the need for social assistance, as has already been discussed. Another is the reduced need for administration: The most costly administrative tasks in a contributory scheme are the collection and recording of contributions over the entire working lives of the participants; these are unnecessary in a universal scheme.

Universal healthcare is already provided in Thailand under the 30 Baht scheme; however, the SSO should consider introducing a universal pension scheme. As well as extending pension coverage to the informal sector and other disadvantaged groups, a universal pension scheme could help to address some of the problems in the current SSO scheme, particularly the low replacement ratio, by providing a first-pillar, basic pension that members could draw in addition to their SSO pension.

Universal pension schemes provide flat-rate pension benefits payable for life from pensionable age and proportional to the length of residence. In practice, benefits amounts tend to be modest or basic and the age of eligibility may be high. The aim of universal pension schemes is not to replace earnings, as in social insurance pension schemes, but to ensure that the retired elderly have a guaranteed basic income which gives them self-sufficiency as well as personal dignity.

In the context of developing countries, universal pension schemes can have a crucial role in poverty alleviation (see the case of Namibia in Annex 3), for it is often the older generation that maintains poor households, with a significant proportion headed by females (– females who are even less likely than men to be covered by contributory schemes for formal employees). The reasons of course are the impact of HIV/AIDS, and the consequences of labour migration, chronic unemployment and underemployment, as well as typical health problems affecting poor informal economy workers, and all of these apply well also in the case of Thailand.

A universal pension scheme need not be very costly if pensions are payable at low rates from a relatively high pensionable age of 65 or 70 years. The following indicative reasoning supports that view.

According to Preliminary calculations of ILO's Financial and Actuarial Service (ILO FACTS) the cost of a model universal pension scheme of around 1000 Baht per month for all persons over 65 would be in the order of 55 to 60 billion Baht per annum (values for 2003), or about one percent of GDP. If pensions were to be adjusted in line with the CPI index, then the cost could drop to about 0.7% of GDP in 2020. The initial pension level would be about 25% of the average wage. That level would gradually be reduced to about 10-11% of the average wage as wages are expected to increase faster than prices (and hence pension levels). The drop would be justified as gradually pension entitlements from the social security scheme would increase over time. The scheme could theoretically be financed by an increase of VAT by about 1.7% points, i.e. hardly more than 50% of the reduction of VAT (from 10% to 7%) during the financial crisis. Clearly further studies are needed, but the issue appears worth exploring.

2.3 Summary of extension strategies

Extension Options		Finance	Target	Benefit package	Advantages	Disadvantages
Extension of current SSO scheme	Extension to self-employed and farmers	Contributions, with possible government subsidies	Self-employed/farmers	Same as SSS package	Extension of the coverage to large groups	Administrative difficulties for registration and income assessment/ cost of coverage
	Legal extension to atypical employees		Legally excluded workers, such as seasonal/domestic/sub-contracted/home workers.		Equity among employees	Difficulty in enforcing laws with employers/difficulties in income assessment
	Extension to dependents		Dependents of SSS members	Health care, survivor's pension	Equal access of household members to the same standard of healthcare; administratively cost-effective.	Technical difficulties in administration for registering all family members and keeping data up to date
	Extension to retirees		Retired SSS member	Health care	Coverage of retirees	Increase of the cost of social security in line with aging
	Extension by strengthening compliance		Non-compliant enterprises	Same as SSS package	Equity among legally covered employees	Difficulties and heavy workload in administration
Universal scheme	Universal pension	Tax as the main source of financing	Whole population	Pensions with possibly flat amount benefits	Provision of old-age protection to all the citizen/simple to administer/effective coverage of vulnerable groups/ poverty reduction	Cost of coverage*
Special schemes	Occupational or regional schemes / a scheme for self-employed	Contributions/mixed finance	Self-employed/farmers/occupations/ industries/regions	Same as SSS package excluding UI, EEI, cash sickness benefit with possibly flat amount benefits	Coverage of relatively large groups/ coverage of those with fluctuating or hard-to-measure income	Necessity of government financial support to design attractive benefit packages/vulnerability of the scheme to long-term demographic change.
Micro-insurance schemes	Occupational schemes/ communitybased schemes	Saving scheme or insurance scheme, with or without government support	Persons sharing similar characteristics, such as occupation or community	Limited e.g. only outpatient coverage for health or lump sum only for sickness or injury	Provision of benefits which meet basic social protection needs among excluded groups	Missing targets/Adverse selection/vulnerability of the scheme to long-term demographic change/ no steady flow of entrants to the scheme

SSS – Social Security Scheme (SSO scheme)

* This problem could be minimized through pensions at low rates from a relatively high pensionable age as explained in the section 2.2.5. Scheme may need adjustment to demographic change in the long run.

CHAPTER 3: WORKPLAN

3.1 Overview

Because of the size and diversity of the target populations for social security extension and the very different social and economic characteristics of the major informal economy groups, it is essential for the Social Security Office to examine carefully all of the various extension options described in Chapter 2, in order to find the most appropriate mix of schemes and mechanisms. This chapter recommends stages and activities that the SSO should go through in order to plan, design and implement a suitable mix of schemes to extend social security coverage to the informal economy and other groups.

The proposed timetable for introduction of the new social security structure is divided into three stages. The first is a preparatory stage starting in 2004, the main purpose of which will be to obtain baseline information to guide selection of extension options. During the planning stage, from 2004 to 2005, a final selection should be made of the mix of extension options, and various other preparations should be made in the areas of administration and awareness-raising. The last stage, implementation, should start in 2006. A summary of the proposed workplan is attached at the end of this chapter.

3.2 Preparatory stage

3.2.1 Policy mapping

Planning of social security extension must take into account a wide variety of government policies and strategies expressed in the Ninth National Economic and Social Development Plan and in the operational plans of certain line ministries. A thorough understanding of the policy context will be essential. To assist and guide the planning process, SSO should prepare a policy map showing the various policies and strategies and any connections, overlaps or conflicts between them. To start this process, background information relating to current policies in the line ministries has been assembled in Annex 1.

The policy map should help to answer the following key questions:

Whether government is ready to subsidise contributions of new members of the social insurance scheme to the same or a greater extent than they currently do for formal economy employees;

Whether expansion of social health insurance is desirable as a strategic step to facilitate the sound development of the National Health Insurance (30 Baht) scheme²³;

Whether tax-based financing or a combination of tax-based and contributory finance would be more appropriate; and

²³ The bigger the proportion of the population covered by the SSO, the less people need to be covered by the UC scheme and the more affordable it becomes.

Whether schemes for the informal economy should be introduced all at once, or phased in by initially restricting it to a few of the higher-priority contingencies for selected groups, and later extending it to others once conditions for expansion are satisfied.

The minimum consideration required to make the policy map will be:

The SSO's current strategies for the extension of coverage in the formal economy and for development of the existing social insurance scheme; in particular regarding strengthening of pension protection, functioning of the tripartite contribution system (employer, employee, government), and review of voluntary insurance;

The future plans and policies for universal coverage under the National Health Insurance scheme and MOPH's policies on extension of coverage of the social insurance scheme, from the National Health Security Office of MOPH;

Policies of the Ministry of Labour for improvement of working conditions of various types of workers, including home-based workers, agricultural workers and domestic staff;

The Ministry of Finance's policies on the role of government in financing the current formal economy social security scheme; and on implementing a multi-pillar pension system involving compulsory and voluntary contributory schemes, especially any plans for compulsory contributions from employers and employees;

The Ministry of Agriculture's plans and initiatives to facilitate farmers' access to social protection and to strengthen farmers' organizations; and

The Ministry of Social Development and Human Security's policies and plans on social welfare and social assistance schemes, including financial support for vulnerable groups and for elderly people without other means of support.

The Prime Minister's Office's initiatives for the informal economy.

The policy map should be updated every time major policy changes occur.

One very important policy issue to be considered is whether the SSO social insurance health scheme should expand in order to relieve pressure on the 30 Baht scheme. No clear policy statements have yet been made. If the SSO extends coverage of social security health insurance to the dependants of insured persons – as was intended, with full support from the MOPH until the plans were shelved following the financial crisis in 1997 – this would meet the objective of providing standard medical care for families, while reducing governmental financial and administrative demands on the 30 Baht scheme. The same advantages might be achievable through extending social insurance health coverage to other uncovered population segments.

A financial argument for expanding the SSO scheme is that the average subsidies that the Government pays for members of the SSO scheme are much smaller than the government subsidy (capitation rate) under the 30 Baht scheme; however, the precise position will only be known when decisions are taken on the extent of any other subsidies for informal economy and other newly covered groups.²⁴ If the SSO decides to expand social security health insurance coverage only to specific population groups, the major issue will be striking the best balance between insurance-based and universal schemes in order to improve access to adequate and affordable healthcare.

3.2.2 Mapping social security coverage

To identify potential gaps in social security coverage for the different contingencies, a coverage map should be prepared. The map should record for each population group the extent to which it is covered by all existing or potential future social protection schemes, including social welfare programmes.

As a minimum, the map should include the following population groups, giving details of the size of the group and the percentage of the labour force/total population that it represents:

Civil servants and other public employees,

State enterprise employees (who are members of a special scheme under the State Enterprise Relations Act of 1991),

Teachers and principals of private schools,

Private-sector employees,

Self-employed within non-agricultural sectors,

Self-employed in agricultural sectors,

Unpaid family workers employed in agriculture and non-agricultural sectors, and

People not in the labour force.

Economically disadvantaged people such as old people and widows living alone.

An example of a coverage map is provided in the 2001 ILO-EASMAT publication *Thailand: On the road to wider and better social protection*.

²⁴ In 2002, the government subsidy per capita was 2,398 baht for the Civil Service Medical Benefits Scheme, 665 baht for the SSO scheme, and 1,202 baht for the 30 Baht scheme. ILO: "Technical note on the financing of the universal health coverage scheme" (Bangkok, TN/Thailand/ TN.1, 2002).

3.2.3 Social protection income and expenditure reviews (SPERs)

Before extension of social security to the informal economy and other groups, it will be necessary to review the Government's social protection income and expenditure. This will provide vital information for consideration of extension options that require substantial financial commitment from the Government.

3.2.4 Administrative capacity

Strengthening administrative capacity will be all-important, as many countries have discovered that weaknesses in governance and operational activities significantly limit the impact of social security legislation. In relation to coverage of formal economy employers, these weaknesses translate into failure to register all liable enterprises or their entire workforces. Extension to the informal economy workers will be much more complex and demanding.

In 2001, prior to the extension to enterprises with less than 10 employees, the compliance rate of the current SSO scheme, which is the contribution collection rate from registered enterprises, was as high as 97.7 per cent, according to the Contributions Department. However, the impact of the extension to smaller enterprises is unknown and should be assessed. An assessment should also be made of the types of administrative problems expected in implementing a scheme for informal economy groups. Particularly important areas to look at are registration, assessment of contribution base and payment of contributions; and methods of paying cash benefits.

Existing procedures also need to be scrutinized, since some will be less appropriate for informal economy contributors and benefit claimants and may need to be overhauled. For example, benefits are now paid mostly in cash at SSO offices, but compulsory payment into bank accounts was adopted for unemployment insurance.

Information that will be needed on the SSO's strategies for strengthening its administrative capacities includes assessments of the impact of the introduction of the Results-Based Management System in 1999, and development of IT systems.

Also relevant are the potential advantages and improvements if the SSO were to become an autonomous body. Although there would certainly be many benefits from such a move, there may be short-term problems as some experienced staff will certainly choose not to transfer to the new autonomous SSO but to remain within the civil service; 2,048 out of a total of 4,930 current SSO staff are civil servants. These problems will need to be considered in planning such a move.

The SSO can consider ILO recommendations on administrative and operational issues for the extension of coverage,²⁵ including proposals on the use of agents, such as farmers' organizations, taxi cooperatives and credit unions,²⁶ to provide an interface between the SSO and certain large groups in the informal economy. Suggestions on how such agents could collaborate with the SSO, what types of organizations are equipped for these roles, and specifications for their participation could be helpful. Some insights may be gained from looking at the methods the SSO currently uses to administer voluntary insurance under Section 39 of the Social Security Act.

²⁵ For example, Sections 4.1 and 5 of ILO: Technical report: Considerations for the extension of social security protection in Thailand, Administration and operations, by Mike Whitelaw (Bangkok, 2001).

²⁶ For example, Sections 3.1.7 and 3.2 of ILO-EASMAT: Thailand: Extension of social protection for the formal and informal sectors, by Monica Burns (Bangkok, 2002).

3.2.5 Legal issues

The Social Security Act stipulates the scope of compulsory coverage and contains provisions for certain types of voluntary insurance. The Act targets employed persons, and around 7 million persons are insured under it. Even so, the Act excludes certain relatively large categories of employees. In the definition of *employees* in Section 5, domestic workers are specifically excluded, along with other substantial groups listed in a Royal Decree by virtue of Section 4 and a Royal Decree made under Section 4 (6).

A study should be made regarding the groups who are legally excluded under the Act, and it should include the following points:

- Review of labour-related laws in Thailand, such as the Social Security Act, the Civil and Commercial Codes, and the Labour Protection Act;

- Identification of groups of workers who are legally excluded from the national social insurance scheme, plus analysis of why they are excluded; and

- Research on current government policies for inclusion of unprotected workers under relevant labour-related legislation.

Based on the study, legal amendments should be proposed that would allow currently legally excluded workers to participate in the SSO scheme. The study should also identify administrative challenges for the SSO scheme once these groups are legally included.

Also, legislation related to the National Health Insurance Act 2002 on coordination between the 30 Baht scheme, CSMBS and social health insurance should be studied. The interpretation of relevant sections of the Act is highly relevant and needs to be clarified before planning social security extension to the informal sector.

For the development of micro-insurance schemes, relevant legislation includes the Sub-district Council and Sub-district Administration Organization Act 1994 and the Cooperatives Act 1999. Confirmation of the legal rights of cooperatives to introduce welfare and insurance schemes and participate as intermediaries in a new scheme would be helpful, as prior to enactment of the Cooperatives Act these organizations could only operate loan protection schemes.

3.2.6 Survey of social security needs

Some of the most important information for planning social security extension is the social security needs of the groups who are currently excluded, and their ability to participate in various types of schemes. These needs are influenced by a range of occupational, gender, geographic and financial factors. The factors need to be assessed before designing a scheme or schemes for new population groups. A survey to gather this information is an essential step, and organizations representing these groups should be asked to participate in the process.

The survey should seek information on, among other things:

- The social and economic characteristics of the target groups, including the proportion not currently covered by formal social security;

- Their willingness and capacity to pay social insurance contributions;

Their need for different types of social security benefits;

Their interest in social security protection, and priorities for action, including preferences between the 30 Baht scheme and the SSO system of healthcare insurance.

A national social security needs survey was conducted from October to December 2003 as a joint project among SSO, NSO and ILO by attaching a social security needs module to the Thai Labour Force Survey. The analytical report should be completed by the middle of 2004.

3.2.7 Institutional capacity building

It is crucial that there is sufficient institutional capacity to plan and implement this round of social security extension. Many important and difficult decisions will need to be taken on a wide range of issues. For this reason, it may be advisable for the SSO's informal working group on the extension to be turned into a formal body during the extension process. Awareness-raising, capacity building (including a study tour to countries which cover workers in the informal economy), and conceptual discussions among potential stakeholders and decision-makers would also be advantageous.

3.2.8 Project proposal

Since the preparatory and planning period will be necessarily lengthy, a project proposal should be drawn up in order to access further activities. The proposal should include a timetable of planned activities showing the decisions required at each stage and the milestones to be reached during the planning processes. The SSO should be in a position to draft the project proposal in 2004.

3.3 Planning stage

The planning stage should commence in the middle of 2004, following the analysis and reporting of the studies in the preparatory stage. Activities during the planning stage will focus on awareness-raising, finalization of an extension policy, and financial simulations of the different scheme design options. Some limited additional surveys may be needed to collect further information as required for the planning process.

3.3.1 Extension policy and design

Decisions on extension policy will be the culmination of a range of planning exercises, including actuarial valuations, legal studies, and extensive consultations amongst the responsible parties: primarily between the Social Security Committee, MOL and MOF, in order to formulate proposals for Cabinet approval. The extension policy can be determined once a possible form of extension programme has been clarified.

The design of the programme should be based on the outcomes of the preparatory stage, particularly the survey of needs, and discussions between the relevant stakeholders and actors. Some factors that need to be considered during the design are:

The target group and the contingencies to be included;

The structure of cash benefits, especially whether these are paid at flat rate or are earnings-related;

Projected costs of the proposed scheme and of variations and options;

Possible sources of financing;

Legislative implication of the design;

The short-term and long-term implementation plans.

Because most informal economy groups will not be able to pay high levels of contribution, some level of government financial input will be essential to make sure the extension programme is sustainable and can provide cover and benefits comparable with those under the SSO scheme. Although the Government already has financial commitments to various social security schemes including the 30 Baht scheme, the mid- and long-term financial analysis has not yet been done, which is the basis for the discussion for any social protection intervention using tax resources. It may be advisable to carry out a social budgeting exercise in order to gauge the financial costs to the Government of the social security schemes, 30 Baht scheme and social assistance schemes; the findings could inform discussions about future government policy towards the informal economy.

The costs of administering the scheme can be included in the projections at up to 10 per cent of annual contribution income, which the Social Security Act stipulates for the SSO scheme. Cost estimates will also need to take into account the costs of the recent extension to small enterprises, as well as the potential costs of using agents.

3.3.2 Awareness-raising

The main targets for awareness-raising will be agencies and groups who will be involved in developing and designing the extension scheme. Among the groups and agencies could be certain NGOs, who might be able to contribute in any additional research needed during the planning process.

Furthermore, awareness-raising should target the Ministry of Labour, Ministry of Public Health and Ministry of Finance, whose full cooperation and collaboration will be vital for the extension programme's success. Planning cannot go ahead without information and commitment from the MOF on the amount of funding that can be expected from the government for administration, to finance universal schemes, or to subsidize special or contributory social insurance schemes. The attitude of the MOPH's National Health Security Office – which administers the 30 Baht scheme – towards extending social insurance health insurance will also be an important factor in the planning and design of the extension programme.

Dissemination of relevant reports and studies among the concerned parties, along with awareness-raising through seminars for relevant officials, agencies and NGOs, will help to build constructive collaboration. These activities should aim to improve understanding of the objectives of the extension plan as well as the issues that need to be addressed.

3.3.3 A strategy of gradual expansion

Except for the case of introduction of the universal scheme, social security schemes could be gradually introduced and/or expanded, allowing potential and existing members to adjust to new contribution levels. This will also allow adjustments and improvements to be made quickly in response to continuous close monitoring. Efficient working models can then be developed that will allow quicker expansion to the remaining groups and areas.

The question will be whether the first aim should be to extend schemes insuring against a limited number of contingencies to as many other groups as possible, or to focus on expanding the number of contingencies covered for a few initial target groups. In the case of extension to the informal economy (except in the case of a universal scheme), the best choice is probably to target a limited number of groups and gradually expand the contingencies covered; extension to other groups can come later. The reasons for this is that it will be extremely difficult to obtain reliable data on earnings and contributory capacities (i.e. the amounts people can afford to contribute) across the whole informal economy; their contributory capacities are likely to be low; and there will be major administrative challenges even in covering a limited number of groups. This has been the approach used in the SSO scheme since it was launched in 1991.

Another issue is geographic coverage. It is advisable not to repeat the experiences of 1991, when the SSO attempted to implement the Social Security Act nationwide in only 180 days (as required under Section 2 of the Act). At least in the initial period, any new schemes should be implemented gradually, area by area.

It is important that gradual expansion *should not* mean long delays in extending coverage to all people dependent on the informal economy.

3.4 Implementation Stage

3.4.1 Awareness-raising for the target group

Whether new or extended schemes are limited to small target groups and a few contingencies or are more extensive, the target groups will need a sufficient period of awareness-raising to develop clear understanding of their rights and obligations under the scheme. One issue that needs to be stressed in awareness-raising is the difference between savings schemes and risk-pooling schemes. The target groups should also understand the contribution and benefits systems.

The recent extension of the national social insurance scheme to include small enterprises should have provided the SSO with some useful lessons, and the SSO should deploy staff experienced in this type of awareness-raising. Adequate investment in awareness-raising will improve the prospects of an efficient start to the extension programme. The SSO's mobile public relations units have proved their worth in the past and should be fully utilized in the preparatory and implementation stages.

3.4.2 Administration

SSO will also need time to implement changes in its procedures, as the administrative system may include a role for agents and new registration procedures. Before implementation gets underway, improvements in administrative capacity should be made, based on fact-finding during the preliminary stage. Lessons from the expansion to small enterprises and use of the mobile public relations units should help in planning and implementing registration campaigns.

3.5 Summary and timetable

3.5.1 Preparatory stage (2004)

Objective: To obtain necessary background information in order to identify target groups, benefits packages, types of scheme, and financing.

Action	Tasks	Design implications
Policy mapping	To identify Thai government policies towards the informal economy;	Determination of the target group; policy coordination.
	To identify current SSO strategies for the extension of coverage;	Policy coordination; review of pension scheme; review of health care scheme; review of voluntary scheme.
	To identify MOL policy on extension of labour protection;	Need to access up-to-date information on which workers could be covered by labour protection Act.
	To obtain information about the policy on coordination between the 30 Baht scheme and the SSO scheme;	Need baseline information on healthcare policy; extension of SSO coverage to dependents.
	To identify MOF policies on government's role in financing social security scheme, pension reform, and other relevant issues related to social protection;	Policy coordination and baseline information for decision on the scheme design and options (e.g. universal vs. social insurance scheme; degree of government contributions to special schemes; etc.)
	To identify Ministry of Agriculture's policy on social protection for farmers;	Baseline information on policy on farmers.
	To identify Ministry of Social Welfare and Human Development's policy on social welfare scheme.	Baseline information on vulnerable groups and government policy on social assistance.
	To identify initiatives of Prime Minister's Office for the informal economy	Baseline information on policy for informal economy
Coverage mapping	To review the current social security coverage and government expenditures on social protection.	Review of current coverage; baseline information on target groups in the informal economy
SPERs	To review the public finance of Thai government especially on current social security schemes.	Baseline financial information on the current SSO scheme.
Administrative capacity	To review administrative capacity of the SSO in contribution collection, benefit delivery and assessment of IT systems. Stress on assessing impact of the extension of coverage to small enterprises and identification of tasks prior to extension to the informal economy;	Baseline information for the improvement of administrative capacity.
	To assess the administrative capacity of possible agents.	Use of agents in administration.
Institutional capacity building	To institutionalize activities in the subsequent stages;	Institutionalization of activities in the subsequent stages and capacity-building.
	To carry out awareness-raising activities and discussions;	

Action	Tasks	Design implications
Survey	To obtain data about the informal economy;	Baseline information.
	To obtain socio-economic data on target groups;	Contribution capacity and scheme design (flat-rate vs. income-related vs. non-contributory).
	To identify needs for social security;	Benefit package design.
	To assess the contribution capacity;	Contribution capacity and scheme design (flat-rate vs. income related vs. non-contributory).
	To assess the willingness to pay for dependents.	Extension to dependents.
Legal studies	To identify workers who could be legally classified as employees, as well as legal and administrative difficulties of inclusion of such workers. To obtain information on direct and indirect tax systems.	Inclusion of workers by amendment of the Labour Protection Act and Social Security Act.
Project proposal for next stages	To produce a project proposal.	To fund the activities in the following stages

MOAC – Ministry of Agriculture and Cooperatives; MOF – Ministry of Finance; MOL – Ministry of Labour; MOPH – Ministry of Public Health; MOSDHS – Ministry of Social Development and Human Security

3.5.2 Planning stage (2004–2005)

Objectives:

- 1) To design the extension programme for the informal economy and other groups;
- 2) To raise awareness and carry out consultations in order to build consensus;
- 3) To prepare the launch of the programme.

Action	Purpose
Actuarial valuation	To review the voluntary insurance system for formerly insured employees under Section 39 of the Social Security Act.
	To review the voluntary scheme under Section 40 of the Social Security Act.
	To design options of the contribution rate and the benefit package.
	To assess financial sustainability of options.
Drafting Legislation	To draft new legislation or rectifications of the relevant legislation which are required for implementation of the proposed scheme.
Awareness-raising	To raise awareness among target groups, the Social Security Committee, and line ministries, including MOF, MOL and MOPH, on the social security extension to the informal economy as well as its gradual extension plan.
Social budgeting	To estimate and analyze long-term government expenditure on social protection.

3.5.3 Implementation stage (2006)

Objective: To implement the extension programme for the informal economy.

Actions:

To improve administrative capacity;

To carry out a public education programme.

ANNEX 1: THAI GOVERNMENT POLICY AND SOCIAL SECURITY SCHEME EXTENSION TO DATE

A1.1 Review of Thai government policy

A1.1.1 National development plans

The Ninth National Economic and Social Development Plan (2002–2006) includes a wide range of policies aimed at guiding national development as the country recovers from the financial and economic crisis of 1997 and 1998. The economy is expected to grow at 4 to 5 per cent per year, with an annual current account surplus of 1 to 2 per cent of GDP in order to generate new employment of 230,000 jobs per year. The development vision for the next 20 years focuses on alleviating poverty and upgrading the quality of life of the Thai people.

Absolute poverty, which had fallen significantly before the crisis, increased from 11.4 per cent in 1996 to 15.9 per cent of the population (9.9 million people) in 1999. Income distribution also became less equitable, with the income of the poorest 20 per cent falling from 4.2 per cent of gross domestic product (GDP) to 3.8 per cent, while the richest 20 per cent increased their share from 56.5 per cent to 58.5 per cent of GDP. Measures have been introduced to reduce poverty and to enhance the quality of life of lower income groups and empower the poor. It is envisaged that by 2006, absolute poverty should be reduced to only 12 per cent of the population or less. A priority goal is to promote good governance in order to achieve genuinely sustainable people-centred development.

One of the key objectives of the Ninth Plan is to assist lower-income groups to improve their earning capacity through revolving funds provided to grassroots communities, and through access to support schemes. Two important current schemes are the “One Million Baht Village and Urban Community Funds”, which is to provide one million baht to every village and urban community in the country; and the “One Tambon One Product” programme, which promotes local products. Under the One Million Baht scheme, a total of 105 billion baht has been paid to 74,393 villages. The village funds are much more than simple financing mechanisms for small-scale local projects: they are designed to promote self-reliance and to play a part in stimulating communities to participate in the planning of their own development. After evaluation of fund management by each village, the best-performing 23,945 villages are to receive from 100,000 to 200,000 baht in additional funds as an incentive. The scheme is to be extended to small urban communities in Bangkok and other provinces.

Important initiatives targeting farmers are to improve access to credit by making it available not just through the Bank of Agricultural Cooperatives but also through commercial banks by means of schemes for capital creation through utilization of land, machinery, and other assets. A land reform programme is envisaged for the near future.

A whole chapter of the Ninth Plan is devoted to the development of human potential and social protection. This includes an objective to enhance universal social security on an equitable basis, and to assist the poor and under-privileged to become self-reliant. Health insurance is also to be expanded. Among development guidelines is the upgrading of the effectiveness of the social security system to provide greater income security and quality of life, especially protection and assistance for the poor and the under-privileged, by focusing on:

Extending coverage of the existing social security scheme to both formal and informal workers, while improving management efficiency of both voluntary and compulsory pension funds;

Upgrading the management efficiency of human and social development funds, so that they can serve as the main engine for the development of education, public health, occupational skills and the social security system; and

Raising safety, occupational health and workplace standards to international levels. The Labour Protection Act should be revised to ensure fair treatment of female and informal male workers, especially of those employed in the farm economy and sub-contracted businesses.

A1.1.2 Labour and social security

The Ministry of Labour (MOL) is responsible for the formulation of policies and strategies in the labour field. These include the extension of labour protection to home-workers and agricultural workers, and coverage of the informal economy by the social security system. To this end, the MOL is undertaking research to compile sufficient information for planning purposes. Also a Ministerial Regulation has been drafted to bring home-based workers within the scope of the Labour Protection Act. This is comprehensive, covering all aspects of employment such as the issuing of contracts, rules on wages, occupational safety and health (OSH), and the resolution of disputes; but its main importance for social protection is that the Act prescribes sickness and maternity leave on basic pay for up to 30 days per year for sickness and a maximum of 45 days for maternity (with no limit on the number of births, although currently a limit of two births is in force). The next targets for regulations will be domestic staff and agricultural workers.

Bringing these new categories of worker within the framework of the Act is intended to rectify rights deficits and ensure that the labour inspectorate can be called upon to protect these rights as necessary. According to the home-workers' organization HomeNet, the priorities of home-workers are fair wages paid on time, strengthening of OSH, the support of labour inspectors when disputes occur, and cover for social health insurance in preference to the 30 Baht scheme.

The SSO has adopted an Operational Direction for 2003 and 2004, which encompasses preparation studies to extend social security coverage to the informal economy. According to this Operational Direction, this means devising suitable schemes for *all* persons not eligible for the formal economy social insurance scheme or insured under other schemes, such as the scheme for civil servants. Other policy and operational objectives in the current period include improvement of the social security organization model and the old-age pension scheme, while the extension of social security coverage to fishery and forestry workers is scheduled for 2006.

A1.1.3 Healthcare

The Thai Constitution states that access to good quality and effective health services is the right of all Thai citizens. The introduction in 2001 of policies for universal healthcare coverage marked the culmination of efforts over many years to improve access to medical care for different population segments and to enhance social inclusion. These had led to the establishment of state-funded schemes for free medical care for relatively large sections of the population and abolishment of health cards for low-income families and subsidized health cards intended for rural households and informal economy groups, complementing the contributory health insurance scheme for formal economy workers and the medical benefits scheme provided for civil servants and their families. The universal healthcare scheme is presently designed for persons not insured under the SSO and civil service schemes, and thus ended the special health card schemes; it covers in principle about 47 million persons. This requires a substantial government budget equivalent to 7 per cent of general government expenditures or 1.3 per cent of GDP.

The National Health Insurance (NHI) Act of 2002 established a National Health Security Office to run the universal scheme under the National Health Insurance Committee, giving it essentially the role of fund manager and purchaser of medical care. The passage of the Bill through Parliament was marked by intense debate on the issue of whether the CSMBS and SSO schemes should be merged with the new scheme or continue in a coordinated manner. The latter view prevailed, and Section 10 of the Act upholds the rights of SSO members to services provided by SSO. The NHI Act also refers to agreements between the NHI Committee and the Social Security Committee on extending coverage under the Social Security Act. The NHI scheme is known as the 30 Baht scheme, as claimants must pay 30 baht (around US\$0.75) every time they seek medical care under the scheme.

A1.1.4 Agricultural economy

The Bureau of Farmers Development in the Ministry of Agriculture has reported that efforts to develop a social security scheme for farmers have been suspended due to the lack of sources of financing. For the same reason, crop and livestock insurance, normally the first priority of farmers for insurance protection, were not envisaged. Farmers are said to be interested in gaining entitlement to social health insurance as an alternative to the 30 Baht scheme.

A1.1.5 Pensions

In the last few years, Thailand has been engaged in pension and provident fund reform following proposals made within the framework of loans and financial support following the 1997 financial crisis. The stated aim is to establish a multi-pillar system and to modify the existing voluntary provident fund legislation to fit into the new framework. Pillar 1 is the SSO scheme, allocated the role of providing basic pensions; Pillar 2 is to be a defined contribution scheme operated by the private economy. The Ministry of Finance has a leading role in pension reform and has indicated that plans are still being formulated. It is understood that the Provident Fund Act is being amended with a view to the gradual introduction of mandatory provident funds in all enterprises that currently have none (in May 2003 there were 5,342 enterprises operating approved voluntary provident funds).

Meanwhile, SSO has taken no action to effect changes such as the introduction of a minimum pension. This is understandable under the present system of deferring pension payments until 15 years elapses in 2013. However, improvements in old-age pensions are on the SSO agenda under its Policy Framework and Operational Plans for the current period.

A1.2 Review of social security scheme extension to date

A1.2.1 Development of social insurance protection

The social insurance scheme was launched in March 1991, by the newly established SSO, for employees in enterprises with 20 or more workers, providing healthcare coverage along with invalidity, sickness and maternity protection. Civil servants have a special pension scheme, provident fund and health insurance protection. Permanent government employees are members of a provident fund. State enterprises are outside the SSO scheme and operate welfare schemes, including a provident fund.

The introduction of social security protection for private-sector employees came relatively late compared with similar countries, such as members of ASEAN, but the Social Security Act provided for phased expansion into a comprehensive social insurance scheme. In December 1998, old-age pensions and child allowances were introduced. By December 2002, expansion of the scheme had brought 6.9 million employees within its compulsory scope, divided almost equally between men

and women (see Annex 2, Tables 4, 6 and 7). There are over 150,000 voluntary contributors in addition to compulsory contributors.

The contribution rates for 2003 are 4.0 per cent of the member's salary each for employers and employees and 2.0 per cent for the government; from 2004 they are due to revert to the levels in force before the financial crisis of 4.5 per cent each for employers and employees, and 2.5 per cent for the government. Moreover, Unemployment Insurance started from January 2004 and employers, employees, and government pay additional contributions of 0.5 %, 0.5 %, and 0.25%, respectively. Under the new financial structure, these resources are allocated as follows:

Table 2: Social security scheme contribution by benefit and contributor

Contributions going to:	Employers	Employees	Government	Total
Sickness, maternity, invalidity and death benefits	1.5%	1.5%	1.5%	4.5%
Old-age pension, survivors' benefits and child allowance	3%	3%	1%	7%
Unemployment	0.5%	0.5%	0.25%	1.25%
Total contribution	5.0%	5.0%	2.75%	12.75%

Under the Workmen's Compensation Scheme, only employers contribute and contribution rates vary between 0.2 and 2 per cent of earnings according to the past experience.

The SSO states that compliance in 2001 was about 97.7 per cent, a reasonably satisfactory rate, which needs to be regularly checked, especially since the extension to the enterprises with fewer than 10 employees (see below), and used as a benchmark for further improvement.

Furthermore, the full potential of risk-pooling is still to be realized in such respects as:

Extension of social health insurance to all dependants, or at least to non-working spouses and children;

Removal of restrictions on the number of births eligible for maternity benefit (now limited to two children) and for which child allowances are paid (two children under age six);

Development of effective old-age protection, since the scheme introduced in 1998 has a number of major defects, outlined in Chapter 2 of this technical note; and most importantly,

Rectifying legislations that effectively exclude significant numbers of persons who wish to be insured and have a strong case for inclusion in the same scheme as private-sector employees.

A1.2.2 Extension to enterprises with less than 10 employees

This extension, which came into effect in 2002, was planned on the basis of NSO data indicating that this would bring another 1.36 million establishments and over 4 million insured persons under the SSO scheme coverage. The extension does not include those workers who work for employers with no business registration, such as nursing care, private drivers, and domestic workers. These categories are protected by employers under the Labour Protection Act. Street vendors or stall owners are excluded from coverage because they operate without permanent workplaces, and there are high turnover rates, which would affect their contributions and the entitlements of their employees.

When implementation started, it became apparent that these figures were too high. The SSO then collected data from provincial government sources, which estimated that this economy comprised 321,102 enterprises with 1,220,685 workers.

In December 2001 the SSO operated with 110,814 enterprises employing 5,865,208, workers the extension programme still constitutes a formidable challenge despite a smaller than expected number of new members.

The SSO's effort resulted in a total of 202,175 new establishment registrations in 2002, compared with an annual average of 13,500 over the previous three years. Insured person registrations in 2002 were 1,013,891, compared with the annual average between 200,000 and 250,000 over the preceding three years. Total coverage at December 2002 was 301,518 establishments and 6,900,223 insured persons, representing annual increases of 172 per cent and 17.65 per cent respectively. It is of course the case that these increases are due mainly to the extension to small enterprises, but other factors play a part, such as normal business development adding new firms and additional employees, as shown in the following table:

Table 3: Social security scheme extensions during the last six years

Year	Thai year	Registered enterprises	% increase on previous year	Insured persons	% increase on previous year
1998*	2541	93,093	2.69	5,418,182	-10.96
1999	2542	100,360	7.81	5,679,567	4.82
2000	2543	107,228	6.84	5,757,968	1.38
2001	2544	110,814	3.34	5,865,208	1.86
2002	2545	301,518	172.09	6,900,223	17.65
2003	2546	305,839	1.43	7,013,234	1.64

*Year after the Asian economic crisis.

Source: SSO monthly report, April 2003.

In December 2002, establishments with fewer than 10 employees represented 70 per cent of all establishments in the scheme (see Annex 2, Table 4) but only 10.95 per cent of insured persons. Their average size was 3.57 employees, compared with 22.88 per establishment overall. The challenges for contribution collection are obvious.

The target is estimated about 430,000 enterprises and their employees. By the end of April 2003, the number of insured persons had reached 7,083,718 and the registered establishments totalled 309,037, a shortfall of approximately 121,000. Assuming an average size of only 2.0 employees, this would mean that about 240,000 workers are still to be registered.

Despite this progress in a relatively short period of time, it should be noted that some sections of the formal economy still remain outside the scope of the scheme by virtue of the Royal Decree made under Section 4 (6) of the Social Security Act.²⁷ This aspect has already discussed in Chapters 2 and 3.

²⁷ ILO: *Legal constraints on full coverage of workers, the main target group for social insurance and social assistance measures*, by K. Thompson (Bangkok, 2001).

A1.2.3 Voluntary coverage

Under Section 39, the Social Security Act allows persons formerly insured under the SSO social insurance scheme who have paid contributions for 12 months or more to apply for voluntary insurance within six months of ceasing to be insured. In order to maintain their cover for all benefits, they are required to pay contributions at the combined employer and employee rates, but at a fixed rate rather than based on their former earnings. In 1995, this fixed rate was set at 4,800 baht (around US\$117) per month, which was then the average earnings of insured persons. Even so, this figure is not inconsistent with the earnings patterns of current contributors, as the largest single group of 1.752 million, or 25.40 per cent, contributes in respect of the earnings band 4,000 to 5,000 baht (see Annex 2, Table 7).

The contribution of 8 per cent, comprising both employer and employee shares, amounts to 384 baht per month for the cover in respect of all SSO benefits under the Social Security Act, supplemented by a State contribution of 2 per cent (96 baht). This type of insurance has attracted increasing numbers of former insured persons. The numbers so insured have gradually increased year by year, and by April 2003 had reached 155,298.

Payment can be made to SSO offices, certain banks and post offices. The voluntary insurance ends if:

No contributions are paid for three months in a row, or

The voluntary contributor pays less than nine monthly contributions in a period of 12 months.

Policy issues arise in a new approach to the extension of coverage to persons not previously insured, including the pros and cons of compulsory and voluntary insurance for these persons, the selection of contingencies - as usually partial membership is involved, and methods of financing. Including medical care as a minimum is needed to make this provision more attractive and meaningful. Another major issue is whether government could contribute to support the voluntary membership of certain categories of low-income persons in the SSO scheme under Section 39. Government financial support would be in the interests of avoiding cross-subsidization from compulsory contributors for the insurance of lower-income persons which, if implemented on a non-transparent basis would be considered inequitable.

The social insurance scheme was opened to other types of voluntary contributors from 1994 (under Section 40 of the Social Security Act) but on a more restricted basis than for formerly insured employees. The benefits provided are maternity, invalidity and death benefit for a contribution rate of 280 baht per month. The main drawbacks for interested persons are the exclusion of medical care and the low contribution and benefit levels. As a result by April 2003 there were only six voluntary contributors under Section 40.

The decision to exclude health care coverage may be attributable to concerns about adverse selection for social health insurance. But invalidity pension set at 50 per cent of insurable earnings for life for the payment of only three contributions in the preceding 15 months (a most generous provision that would be difficult to match in any social security or private insurance scheme worldwide) could be a target for any person with serious health problems who is able to pay contributions for three months. Even so, in 2001 the SSO undertook a review of experience with Section 40 to determine the scope for liberalizing the conditions, but the review was suspended when the 30 Baht scheme was introduced.

ANNEX 2: SELECTED STATISTICS ON SSO COVERAGE, 2002

Table 4: Number of establishments and insured persons by region, as of December 2002

Region	Establishments	Insured persons
Bangkok Metropolis	116,918	2,500,584
Provinces around Bangkok Metropolis	38,514	1,540,251
Central region	45,441	1,409,651
Northern region	32,589	477,919
North-eastern region	37,315	483,050
Southern region	30,741	488,768
Whole Kingdom (total)	301,518	6,900,223

Note: Excludes voluntary contributors

Source: Contributions Division, Social Security Office

Table 5: Number of establishments and insured persons by size of establishment, as of December 2002

	Number of establishments	%	Number of insured persons	%
<10 persons	211,524	70.2	755,843	11.0
10-19 persons	41,196	13.7	553,850	8.0
20-49 persons	27,796	9.2	847,083	12.3
50-99 persons	9,565	3.2	667,220	9.7
100-199 persons	5,740	1.9	803,943	11.7
200-499 persons	3,887	1.3	1,184,748	17.2
500-999 persons	1,154	0.4	782,611	11.3
>=1,000 persons	656	0.2	1,304,925	18.9
Total	301,518	100	6,900,223	100.0

Note: Excludes voluntary contributors

Source: Research and Development Division, Social Security Office

Table 6: Numbers of insured persons by age and sex, as of December 2002

Age (years)	Male	Female	Total	%
15-16	15,008	14,930	29,938	0.4
17-18	71,774	70,197	141,971	2.1
19-20	178,816	208,498	387,314	5.6
21-25	735,475	877,086	1,612,561	23.4
26-30	766,709	821,905	1,588,614	23.0
31-35	609,993	622,206	1,232,199	17.9
36-40	429,286	416,568	845,854	12.3
41-45	274,746	247,696	522,442	7.6
46-50	170,127	126,466	296,593	4.3
51-55	97,516	57,208	154,724	2.2
56-60	43,154	20,441	63,595	0.9
>60	17,702	5,946	23,648	0.3
Unknown	474	296	770	0.0
Total	3,410,780	3,489,443	6,900,223	100.0

Note: Excludes voluntary contributors

Source: Research and Development Division, Social Security Office

Table 7: Numbers of insured persons by wage and sex, as of December 2002

Wage (baht)	Male	Female	Total	%
Under 1,650	82,850	109,714	192,564	2.8
1,651 - 2,000	59,514	64,277	123,791	1.8
2,001 - 3,000	210,056	243,786	453,842	6.6
3,001 - 4,000	526,050	691,647	1,217,697	17.6
4,001 - 5,000	805,064	947,495	1,752,559	25.4
5,001 - 6,000	372,959	352,256	725,215	10.5
6,001 - 7,000	264,839	258,181	523,020	7.6
7,001 - 8,000	186,591	161,846	348,437	5.0
8,001 - 9,000	126,873	107,637	234,510	3.4
9,001 - 10,000	117,899	94,455	212,354	3.1
10,001 - 11,000	70,853	56,308	127,161	1.8
11,001 - 12,000	65,861	51,663	117,524	1.7
12,001 - 13,000	48,660	39,989	88,649	1.3
13,001 - 14,000	39,701	32,311	72,012	1.0
14,001 - 15,000	433,010	277,878	710,888	10.3
Total	3,410,780	3,489,443	6,900,223	100.0

Note: Excludes voluntary contributors

Source: Research and Development Division, Social Security Office

ANNEX 3: CASE STUDIES ON INTERNATIONAL EXPERIENCES OF SOCIAL SECURITY EXTENSION

A3.1 Universal extension

A3.1.1 Universal pension schemes

As discussed in Chapter 2, universal social security schemes provide benefits to all citizens and legal residents as a right. In principle, governments are responsible for financing the schemes, but allocations from tax revenues may need to be supplemented from other sources to meet the high levels of expenditure incurred by universal benefits. Some nominally universal pension schemes with means-tests reduce this expenditure by being coordinated with earnings-related social insurance schemes, and provide benefits only to people who qualify according to income and earnings tests.

A3.1.2 Non-contributory schemes: Denmark and Mauritius

Denmark

In Denmark, the Government has since 1984 financed a two-scheme system for universal old-age and invalidity pensions. The system consists of a basic scheme providing earnings-tested benefits and a supplementary scheme which is means-tested in relation to other pension income. A contributory scheme is also available that pays old-age and survivors' benefits on a defined contribution basis. The universal system is open to resident citizens and to foreigners meeting minimum residence conditions or covered by reciprocal agreements on social security. The qualifying age for old-age pensions is 67, as in the national contributory scheme. The maximum universal basic old-age pension is 4,377 Krone per month for residence of 40 or more years (shorter periods qualify for proportionately lower rates), which is subject to earnings. The universal old-age supplementary pension is means-tested for income from other pension schemes and pays up to 4,406 Krone per month for single persons and 2,056 Krone for others (also subject to 40 years' or more residence).²⁸ In practice, as the thresholds are high, they affect very few pensioners.

Denmark has since undergone pension reform and a multi-tier system has evolved. However, even though most persons have more than one pension, it is the universal pension that provides the main source of retirement income and this situation is expected to continue for many years.²⁹

Mauritius

A universal pension scheme was introduced in 1951 and remains an important source of support to the elderly despite the introduction of an earnings-related pension scheme in 1976. The universal pensions are payable without any means-testing or other qualification at age 60, as long as the pensioner has resided in the country for at least 12 years between age 18 and 70 (for nationals) or for 15 years after the age of 40 in the case of foreign citizens. Monthly pension rates are as follows:

²⁸ At 1 May 2003, US\$1.00 = 6.76 Danish Krone

²⁹ Niels Ploug: "The recalibration of the Danish old-age pension system", in *International social security review* (Geneva, ISSA), April 2003, Vol. 56, Issue 2.

age 60–89: 1,700 rupees (US\$58)

age 90–99: 6 400 rupees (US\$220)

age 100 years above: 7,300 rupees (US\$252)

Additional allowances are payable for total blindness and paralysis. The Government has been paying an additional month's pension at the end of each year as a "bonus" (13th payment).

The full costs of the scheme are met by government budgets; however, with growing life expectancy (men at age 60 now live a further 15 years on average and women 20 years, with life expectancies for both sexes projected to increase), suggestions have been made to reduce costs by such means as higher pensionable ages, application of means testing and indexing pensions to consumer prices rather than to national average earnings. At present, some cost recovery occurs through taxation on the benefits.

The original plan was to introduce universal pensions as a temporary measure until a contributory scheme could be organized, but this was never carried out in full. The earnings-related scheme has a narrow cover of contingencies and has not attracted self-employed voluntary contributors in sufficient numbers despite the lower contribution rates compared with those payable by and on behalf of employees. The universal scheme has maintained its importance due to its major advantages of automatic coverage and the history of paying reasonably adequate pensions that are increased from time to time.

A3.1.3 Universal pensions as a strategy for poverty alleviation: Namibia

Namibia gained independence in 1990. One early initiative of the new government was to transform the social assistance pension scheme inherited from South Africa into a universal scheme. The National Pensions Act 1992 entitles all resident Namibian citizens to an old-age pension from age 60. There were 96,767 pensioners receiving N\$200 (US\$25) per month in March 2001. Financing for the scheme comes entirely from the government budget.

With widespread poverty, especially in rural areas and among vulnerable groups such as female-headed households, the pensions are a vital source of support for much of the population. In view of the difficulty of increasing pension benefits for all and projected demographic trends, reforms are under consideration that would allow government to target benefits at the same or higher rates to the poorest groups using the same total resources, principally through the introduction of means-testing. A social security contributory pension scheme is planned, and when introduced may bring into being a two-tier system of universal means-tested and social insurance pensions.

Due to criticism of the public-sector administration of the universal scheme for bureaucratic delays and lack of a service ethic, a private company was given the task of making payments to rural pensioners. This has worked well, with a system of electronic identity cards and mobile pay points; but other problems remain. Accurate means-testing, if introduced, will be a formidable task, perhaps requiring simplification of declaration procedures for income, assets and need for financial assistance.³⁰

³⁰ Source: "Namibia's universal pension scheme: Trends and challenges", by Eckard Schelberger, ILO ESS Paper No.6, ILO, Geneva, 2002.

A3.1.4 Universal healthcare schemes

Some European countries, such as Italy and the UK, provide universal health coverage through national health services. Citizens and residents can, in principle, access healthcare free at the point of delivery. The intention is to remove financial barriers to seeking healthcare. The main source of financing is general taxation. Other countries have adopted an insurance-based approach through the development of national health insurance systems which rely mostly on revenue from contributions and some subsidies from the national budgets. The examples of Japan and the Republic of Korea (South Korea) are given in A 3.4 below.

A3.1.5 Universal health coverage: United Kingdom

The National Health Service (NHS), dating from 1948, provides the entire population with comprehensive healthcare through a system of doctors' clinics and hospitals. The benefits include care by the registered local doctor, and by specialists as necessary; hospitalization; maternity care; dental care; medicines; medical appliances; home nursing; and family planning services. Access to hospital care is normally through referral by the patients' local doctors.

Financing for the scheme comes mainly from general government revenue, with a small proportion from transfers from the National Insurance fund and from co-payments. These co-payments are confined to a fixed charge for every prescription by a doctor and 80 per cent of all dental charges, up to a maximum co-payment. Exemptions from co-payments are allowed for persons over pensionable age, those on low incomes, pregnant women and some other categories.

Although the National Insurance fund provides a limited degree of financial support for the NHS, this is not an insurance-based scheme because there are no earmarked contributions to be paid or insurance conditions to be met, and all UK citizens and residents are entitled to benefits regardless of employment or insurance records. Whilst the principle of universal coverage is generally accepted, the main debates revolve around the balance between meeting demand and financing the scheme in an equitable way.

The UK government announced during the parliamentary budget debates in April 2003 that public expenditure on the NHS would increase by an annual average of 7.4 per cent over the next five years. By the budget year 2007–8, public expenditure on the NHS would amount to 9.4 per cent of gross domestic product (GDP). In the current budget, National Insurance contributions payable by employers, employees and the self-employed were increased by 1 per cent. The Government stated that the basic aim was to make healthcare accessible on the basis of need and not ability to pay and that financing the NHS through general taxation and National Insurance contributions ensured that the costs of providing comprehensive healthcare were “spread as widely and fairly as possible”.

A3.2 Special schemes

A3.2.1 Developed country examples of special schemes

Extending coverage to the agricultural workforce and self-employed farmers poses problems because their contributory capacities and their needs for social security protection often differ widely from those of employees in urban-based enterprises. Social insurance legislation in developing countries tends to exclude the agriculture sector, but longer-established social security systems have been able to include farmers and their workers one way or another. In the case of the 15 Member States

of the EU, agricultural employees and self-employed farmers are covered by compulsory comprehensive insurance schemes.

Some countries have simply integrated these groups into their general social security systems (for example Denmark, the Netherlands and the UK), but some others (France, Italy and Germany) have established special schemes for the agricultural population. The essential points of the special strategies for farming households in Germany are given below.

Germany

This special scheme is for self-employed farmers and their families and provides old-age pension insurance, health insurance, long-term care insurance and accident insurance. Farm workers benefit from accident insurance but otherwise cannot participate in the special system and instead are covered by the general social security system. This arrangement was established under the Federal Republic of Germany (West Germany), and was continued after reunification with East Germany and throughout the rapid restructuring of the agricultural economy.

The special system was launched in 1886, when it provided just accident insurance, and has been gradually extended to incorporate old-age pensions (1957), health insurance (1972) and long-term care (1995). As well as ensuring that farmers have adequate social security protection, a key objective of the present scheme is to facilitate structural change in agriculture. For example, the old-age pension is only payable if ownership of the farm has been transferred to a younger person. The system is largely financed by government subsidies in order to allow self-employed farmers to pay lower contributions than employees in the general system, and to suit prevailing agricultural policy.

A shift in the balance between numbers of contributors and numbers of beneficiaries is causing concern. While the scheme succeeds in facilitating the retirement of farmers, it is increasingly losing contributors and gaining beneficiaries. One important step has been to introduce compulsory insurance of spouses of farmers, requiring them to pay contributions for their own pensions instead of receiving a spouse's supplement under the farmers' pension. Reform of the special scheme is under discussion in respect to benefit entitlement and liabilities to pay full-rate instead of reduced-rate contributions, and to deal with deficits in health insurance for farmers.³¹

Japan

The Farmers' Pension Scheme, dating from 1970, is designed to facilitate structural changes in agriculture; in particular to expedite transfer of ownership to the younger generation and the development of large-scale agricultural enterprises. The scheme pays an additional pension to the universal old-age basic pension provided under the National Pension Scheme. Farm owners and managers who are members of the National Pension Scheme and own 0.5 hectares of land or more are compulsorily insured. Others may join voluntarily if eligible as farmers. Contributions are paid at a flat rate and government subsidizes 50 per cent of the benefit costs. The pension is payable on the following conditions:

Retired after 20 or more years of contributions, and

Has transferred ownership of the farm to his or her child, grandchild or specified third person before age 65. If they have already transferred ownership, retiring farmers may start to draw their pension at age 60.

³¹ Information for this section was obtained from several sources, including: Konrad Hagedorn and Peter Mehl: "Social policy reforms for German agriculture: Challenges and recommendations", in *International Social Security Review* (Geneva, ISSA) March 2001, Vol. 55, Issue 1.

The rate of pension is calculated by reference to the number of months of contributions and the value of pension units.

A3.2.2 Developing country examples of special schemes

Although the agricultural economy is excluded from the mainly urban-focussed social security schemes in developing countries, some examples of special schemes for farmers and other rural occupational groups exist. All such schemes face problems due to structural change in agriculture. This is particularly the case when farm ownership is not transferred to the next generation because they have moved to other sectors, which reduces the number of contributors to the schemes. Supplementary financing from government resources, however, also poses serious problems due to the large size of the target groups.

China

Concerns at the lack of social security protection in rural areas led to the introduction in 1992 of a voluntary defined contribution scheme entitled the “Old-Age Pension Insurance in the Rural Areas”, building on pilot schemes in selected areas of the country. The scheme is organized at the city and country government levels and contributors pay contributions into individual accounts held at local institutions. Additional income is also received from: contributions made on behalf of employees of town and village enterprises that have absorbed surplus labour into farming areas; local governments; and accrued interest from fund investments after a member’s declaration of interest and after deduction of administrative expenses.

The benefit comprises a life annuity payable from the age of 60 at a monthly rate determined by division of each claimant’s account balance by 180. The pension is guaranteed for 120 months, even when a pensioner dies before 10 years have elapsed. At the end of 1999 there were 300,000 pensioners and 62 million accounts. There are around 2,000 county-level social insurance organizations.

Since 1999, a central government review of the pension fund investment practices of local governments and other aspects of the scheme has led to suggestions that the scheme be administered in the future by private organizations.

Sri Lanka

In 1987, legislation was enacted to establish a special voluntary scheme for pension and other benefits for farmers, as they were excluded from the statutory schemes for public-sector and private-sector employees. This allows the Government to subsidise the system with tax revenues and to pool risks among a wider membership.

Members pay according to age on entry, and there is a schedule of half-yearly contributions to be met by the age of 60 in order to qualify for specified levels of pension benefit. Minimum pension rates are prescribed. The pension is payable for life from the age of 60. The scheme also pays death and disability benefits. By 1999, approximately 508,000 persons were enrolled in the scheme. The Agricultural Insurance Board, which administers the scheme, envisages its extension to other occupational groups such as tea cultivators and those employed in small rubber plantations.

In 1991, a similar voluntary scheme for fishermen was introduced. This group was considered to be vulnerable and disadvantaged, engaged in a risky occupation, and to have urgent need for social security protection that was unlikely to be met by the general social security scheme. By 1999, membership of this special scheme reached 40,000.

These schemes, which specify the actual monetary amounts to be paid in the future that are in practice reduced in value by the time of receipt due to inflation, impose financial commitments on government to supplement them in order to ensure pensions are adequate and to guarantee the solvency of the schemes.³²

A3.3 Micro-insurance

A3.3.1 International examples: Bangladesh, India and the Philippines

Social health insurance schemes in developing countries have excluded significant numbers of low-income households who are required to pay user fees and other costs when seeking medical treatment. This results in delays in seeking medical care with the risk that minor illnesses may become more serious, which results in increased expenditure on treatment as well as loss of earnings. Community-based non-statutory, non-profit, voluntary schemes have developed in some countries and areas to organize limited risk pooling among groups connected by residence in a certain area, a particular occupation, or membership of a trade union or religion. These schemes are usually restricted to covering expenses for outpatient treatment, hospitalization under certain conditions, or both. Their aim is to allow people to access treatment even when they cannot themselves cover the demanded pre-paid user fees and other costs because they have lost earnings due to absence from work or because they simply do not have the funds available when they need them.

Mutual aid societies in some African countries have utilised the close relationships established between members to overcome concerns relating to adverse selection and moral hazard, which can hinder the establishment and further expansion of such micro-insurance schemes.

Bangladesh

Bangladesh does not yet have a national social health insurance scheme and much of the required basic health infrastructure is provided by the various NGOs operating in the country. One of the better known NGOs is the Grameen Bank, which has had notable successes in providing credit to informal economy groups seeking to escape from poverty, and improving access to adequate and affordable healthcare in rural areas. Its success as a health service provider and promoter of health care has encouraged the Bank to launch micro-insurance initiatives. Its Rural Health Programme, under a separate company called Grameen Kalyan, has set up a network of twenty rural health centers providing outpatient care and referrals, as necessary, to government hospitals. Approximately 230,000 beneficiaries are insured, paying 60 Rupees (US\$5) per year. BRAC, another very important NGO in Bangladesh, which also manages micro-credit programmes, health centers, education and various development and poverty alleviation programmes has recently set up a micro-insurance scheme which presently benefits over 30,000 poor and ultra poor persons. Other NGOs in Bangladesh also offer different schemes facilitating access to health care for the poor. The ILO is presently conducting an inventory of such schemes in Bangladesh and preliminary information indicates that over 20 community based risk pooling schemes cover 14,700,000 beneficiaries for health care, life, accidents, etc.

³² “Challenges to providing social security to the informal sector in Sri Lanka”, paper presented by Sraath Kamal Siri Ranaweera, Commissioner of Labour, EPF, Sri Lanka, ISSA Regional Conference, Bangkok, 2000.

India

India has a long-established social insurance scheme for formal economy workers providing healthcare coverage. The Self-Employed Women's Association (SEWA, established in 1971), is famous for its achievements as a registered trade union for women in the informal economy, such as market traders. In 1991, it developed an Integrated Social Security Programme called Vimo SEWA, the largest contributory scheme for informal economy workers in India with over 102,000 female members in 2004. SEWA has established a partnership with the state-owned Life Insurance Company whereby the company charges 50% of the regular cost of the premium for the poor insured via Vimo SEWA. In the case of health insurance which is linked also to assets insurance for loss of tools or dwelling, the cost is 60 Rupees (US\$1.5) per year.

A recent inventory (2003) of micro-insurance schemes in India has identified 51 micro-insurance schemes benefiting over 5 million persons. A recent trend in India is the availability of micro-insurance products by state and privately owned insurance companies who reach poor people via NGOs and other community based organizations. There is an ongoing study on this recent phenomenon. India's informal economy includes 93% of its workforce.

The Philippines

In the Philippines, social health insurance covers the formal economy to a large extent, and campaigns have been mounted to expand coverage to rural and poorer urban communities. The informal economy is estimated as about 45 per cent of the labour force of the country. Households in the informal economy typically have to pay the full price for medical care. The National Health Economy Reform Agenda has, as its first policy area, the expansion of social health insurance, along with accrediting alternative financial schemes such as community-based health insurance schemes.

The ORT Health Plus micro-insurance scheme was set up in 1997 in La Union Province to respond to chronic problems of access to healthcare among poor and marginalized rural and suburban communities.³³ It was built up from a Mother and Child Development Programme established by an international NGO in the province. The unit of membership is the family which, together with a qualifying period for out-patient care of one month and for hospitalization of two months, is one of the elements to mitigate the effects of adverse selection. The monthly contributions are scaled for single persons (70 pesos per month); standard families up to six persons (120 pesos); and large families of seven or more persons (150 pesos).³⁴

In the ORT Health Plus scheme, there are no exclusions on grounds of age or previous medical history. The benefit package was designed for the most essential services using primary care, secondary care and limited tertiary care. Agreements with medical providers ensure that doctors are available part-time, on salary, at satellite clinics at certain hours and days, and the hospitals have agreed to capitation for the most essential services and provision of items from the Essential Drugs List.

Over the period 1997 to 2000 the total coverage ranged from 513 to 674 members, with total beneficiaries numbering from 2,006 to 2,447 persons. The scheme had a small surplus in 1997 (38,591 pesos) a deficit in 1998 (82,875 pesos) and a large surplus (130,596 pesos) in 1999. The administration had to tighten up the eligibility rules, as close relationships in the community were making it difficult to refuse treatment to people who had not paid sufficient contributions, and publicity was increased about some high-expenditure cases that were dealt with by the Fund through the solidarity principle of the scheme. The organizers noted that relatively high drop-out rates (failure to pay contributions for two consecutive months ends eligibility) were due to lack of experience

³³ Information on this scheme was obtained from: STEP/ILO: ORT Health Plus scheme, in the province of La Union, Philippines: A case study of a community-based health microinsurance scheme (Manila, 2002).

³⁴ The exchange rate when these rates were in force was about 50 pesos = US\$1.

of pooling funds as well as the financial difficulties of low-income households. There are plans to increase awareness-raising and to inculcate better understanding of the value of prevention and health promotion among the citizens of La Union. It is thought that the Philippines Health Insurance Corporation (PhilHealth) could adapt this type of scheme and replicate it in other areas of the country.

The national health insurance scheme, called PhilHealth, cannot support a huge basin of indigents by providing them with free health insurance. It has made provisions to work more closely with existing community based risk pooling schemes. One of its programmes includes the accreditation of cooperatives or other community based organizations to act on behalf of PhilHealth to collect contributions, give information on the scheme, etc, thus reducing PhilHealth's administrative costs. PhilHealth is also looking at the possibility of merging some existing community schemes with its own scheme in order to broaden benefits for informal economy workers and capture their specific capacity for contribution. This requires PhilHealth to customize some of its benefit packages and a feasibility study for such an initiative is planned for mid-2004.

An on-going inventory of community based schemes in the Philippines has identified some 60 schemes so far, with 55 documented in a basic manner.

A3.4 Extension of statutory schemes

A3.4.1 Achieving full population coverage for healthcare

Japan

Japan has a highly developed and very comprehensive social security system for the population as a whole. Social security expenditure was 14.1 per cent of GDP in 1996. The system has evolved over many decades. Medical care insurance for employees was established in 1922. A National Health Insurance System for farmers and the self-employed was introduced in 1938. Much restructuring occurred after World War II. The entire population is now covered by means of insurance schemes divided into Employees' Health Insurance, special schemes for civil servants and seamen and National Health Insurance which covers the rest of the population.

Employees Health Insurance (EHI) is for wage and salary earners and comprises separate schemes for private-sector employees. The private sector scheme is compulsory for all enterprises with employees, with the exception of the seamen covered by Seamen's Insurance, the national and local government employees who are covered under Mutual Aid Association Schemes, and part-time workers in the operational sector. EHI provides medical care and cash benefits for sickness, injuries, childbirth and death. Dependants (parents, spouse, children, grandchildren and certain other family members dependent on the insured person) are entitled to medical benefits, as well as cash payments in the event of childbirth by the spouse. There is a degree of cost-sharing through co-payments by insured persons and dependants.

The implementation of the scheme is under the responsibility of (1) the Social Insurance Agency for government-managed programmes for private-sector workers who are not covered by insurance societies, and (2) insurance societies (approximately 1,800) for programmes set up by large companies or jointly by groups of enterprises. Premiums are set by insurers for payment by employees and employers. National subsidies consist of:

13.0 per cent of benefit costs (none if managed by insurance societies);

16.4 per cent of healthcare costs for the elderly (none if managed by insurance societies);
and

Cost of administration (partially subsidized if managed by insurance societies).

Special attention is paid to daily labourers (and their dependants), who have their own insurance society running a scheme with employers who usually employ such casual workers. This ensures that casual workers and their families have social security coverage. Employers have to buy special stamps for each day of work and affix them to insurance books held by each casual worker. Post offices transfer the income to the insurance funds and the workers can submit their stamp books when claiming benefits.

National Health Insurance (NHI): Introduced during comprehensive social security reforms starting in 1958, National Health Insurance complements dependent employees' schemes, such as EHI, Seamen's Insurance and Mutual Aid Associations, in principle by covering all persons not covered by the employees' scheme, in particular the self-employed and non-employed persons such as retirees. NHI is run by municipalities or voluntarily established NHI Associations using income from contributions paid by the insured persons and resources provided by the national government. Similar medical benefits to EHI are paid, but there are no cash benefits. There is a degree of cost-sharing through the system of insurance societies used in the Japanese social security systems for medical care.

As regards financing for NHI, this consists mainly of insurance premiums and national subsidies. Householders are responsible for the payment of insurance premiums for themselves and their dependants. The rates are determined by (1) size of income; (2) value of property; and (3) the principles of equal sharing per insurer and equal sharing of households in accordance with the solvency of the insured person. There is an upper limit for the annual premiums and insurers have some flexibility in reducing premiums for low-income residents and households.

National subsidies are as follows:

50 per cent of medical benefit costs are distributed to the insurers;

National government and local governments subsidize reduced premiums;

Administration costs; and

Grants for the development of hospitals and clinics.

Health Services System for the Elderly: In the insurance-based system, special arrangements have been made for financing healthcare for the elderly, because Japan has the highest life expectancy in the world.³⁵ The Health Services System for the Elderly provides a comprehensive system of medical care and services designed to promote the health and well-being of the elderly and their capacity to live independent lives through equitable sharing of the costs involved. The costs are partially borne by the elderly themselves through co-payments and the balance is provided by transfers from social insurance funds and by national and local governments and insurers. The special system comes into force from age 70, but can start from age 65 if the insured person develops a serious illness. However, from age 40 insured persons can access certain services (health education examinations and counselling) designed to inculcate the principles of healthy living and avoidance of ill-health.

³⁵ In 2000 life expectancy at birth was 77.64 for men and 84.67 years for females. By 2050 these figures are projected to increase to 80.95 years for men and to 89.22 for women. Source: Noriyuki Takayama: "Japan's never-ending social security reforms", in *International Social Security Review* (Geneva, ISSA), October–December 2002, Vol. 55, Issue 4.

Due to rising costs, the qualifying age is to be raised gradually from 70 to 75, and a higher proportion of costs will fall on the elderly. The financing of EHI is also to be reformed.

Republic of Korea

The Republic of Korea (South Korea) launched social health insurance in 1977 and by 1989 had accomplished universal coverage by following a strategy of gradual extension starting with the largest enterprises and ending with the most difficult group: the self-employed. A system of insurance societies has ensured that finances were kept separate throughout the period of expanding coverage.

The extension to paid employees was achieved in these following stages:

The scheme was introduced by enrolling employees in large enterprises with 500 or more workers; Medicaid for poor people was launched at the same time.

Government employees and teachers were brought into the scheme, and coverage was extended to companies with 300 or more employees.

The threshold for inclusion of companies was lowered to 100 or more workers.

Coverage was extended to enterprises with 16 or more workers.

Enterprises with five or more workers became liable to participate. This threshold was eventually phased out completely.

The social health insurance scheme with three different types of programmes for 1) government employees and teachers and their dependents, 2) industrial workers and 3) their dependents, and self-employed now covers 96.5 per cent of the population, while the remaining 3.5 per cent are covered by Medicaid.

Two factors are worth noting in the extension of coverage. The first is that dependants of insured persons have been covered from the outset. The second is that contribution rates have been held at relatively low levels despite the restrictions this has imposed on the benefit package. These are examined in more detail below.

Inclusion of dependants is always important, but has been very significant in South Korea because of the wide definition in use. The following are entitled to the same medical benefits as the insured: spouse; parents of the insured and spouse; sons and daughters and their spouses; and any brothers and sisters supported mainly by the insured persons. The average numbers of dependants per insured person in 1998 were 2.5 for government employees and school teachers and 2.1 for industrial workers. Contributions for health insurance for government and school employees and for industrial workers do not increase in relation to the number of dependants; although contributions of the self-employed do rise with the number of dependants.

The current contribution rates are set as follows, with prescribed minimum earnings levels for employees and the self-employed:

For paid employees in general, from 1 to 4 per cent of insurable earnings for employers and workers respectively (average for each is 1.6 per cent);

For government employees and school teachers, 2.61 per cent of insurable earnings, plus 2.1 per cent paid by government for its employees and 1.26 per cent paid by private schools and 0.84 per cent paid by government for private school employees;

For the self-employed, rates are worked out according to income, assets, age and gender of the insured (this is described in detail later on).

The statutory benefit package includes: medical and surgical services; maternity care; hospitalization; prescribed medicines; treatments such as acupuncture; and a health check-up every two years for the insured persons and any dependants over age 40. The package does not cover: vaccinations; ultrasound; MRI (magnetic resonance imaging); meals during hospitalization; home care; traditional medicines; or private hospital rooms with less than six beds. Co-payments consist of 20 per cent of hospitalization costs and from 30 to 50 per cent of out-patient care (30 per cent in clinics, 40 per cent in regular hospitals, and 55 per cent in general hospitals), subject to maximum limits. Another cost-saving measure was a ceiling on entitlement of 180 days per year; but this was gradually raised and then abolished in 2000.

The limited benefit package and system of co-payments means that patients must meet a significant proportion of expenses for treatment. In 1997 this amounted to almost 40 per cent of in-patient costs and 61 per cent of out-patient costs. This has raised doubts about the effectiveness of the system, because the financial barriers faced by poorer patients persist, while the full potential of risk-pooling is still to be realized.

Before the self-employed were brought within the scope of the scheme, they faced rising healthcare costs because healthcare providers were tending to charge more to patients not seeking treatment under the social insurance scheme in order to compensate for the regulated fees paid by the health insurance societies. This inequity underlined the urgency of covering the self-employed. There was already controversy due to the resistance of farmers and others to paying contributions, and to their insistence on wide or full risk pooling to absorb the costs of providing healthcare to all residents of the country. In the event, government retained the separation of finances but increased its subsidy from 33 to 50 per cent of contributions for the self-employed.

The contribution structure for the self-employed uses schedules specifying the amounts to be contributed according to income and property of the insured person:

Income-based: There are 30 categories of estimated income for those with annual incomes under US\$4,500 (takes into account not only household property and vehicle tax but also age and sex of the insured); and 50 categories of taxed income for those with greater incomes.

Property-based: for assets, excluding vehicle, there are 50 categories and for vehicles another seven categories.

The Government subsidizes a proportion of the lower income groups' contributions and meets administrative costs of the insurance societies. It has had to increase its subsidy from time to time; however, between 1988 and 1999, the subsidy for regional health insurance fell from 44 per cent to 25 per cent.

In 2000 the National Health Insurance Corporation was established, with the merger of the health insurance societies. Before this, there were 142 for industrial workers, one for government employees and school teachers, and 227 for the self-employed (92 in rural areas and 135 for the urban-based insured). A revenue-sharing mechanism for risk pooling, called the Fiscal Stabilization Fund, reallocated the revenues of the societies to take account of catastrophic expenses and to adjust for the varying proportion of the elderly among the insured. This reduced the financing problems of the societies for the self-employed, but fundamental obstacles to assessing contributions accurately and achieving solvency remain.

After the merger, pooling of funds was limited to the industrial workers and government employees and school teachers. The self-employed scheme funds remain separate but should be merged with the others in the near future if concerns about the accurate assessment of income and contribution liabilities of self-employed can be allayed. This is a critical challenge for achieving equity in financing of universal coverage for healthcare in South Korea.

A3.4.2 Achieving full population coverage for pensions

Japan

The pension provisions in Japan have undergone various reforms over their long history. In 1985, restructuring resulted in a two-tier system of compulsory coverage for all residents and voluntary coverage for citizens living abroad. Income protection is provided for old age, invalidity and death through two major schemes as follows and some special schemes called Mutual Aid Associations for civil servants:

Employees' Pensions Insurance (EPI) includes all private employees under age 65 and provides earnings-related pension benefits. There are special schemes called Mutual Aid Association for national and local government staff.

The National Pension Scheme (NP) provides flat-rate pension benefits and includes all residents aged 20 to 59 regardless of their contributions to EPI (except those who are already receiving a pension under EPI).

The result is that employees are covered by two schemes (e.g. EPI and NP) while their spouses and others such as the self-employed receive one. To allow people the chance to increase their pension protection, a voluntary National Pension Fund was established in 1991.

National Pension Scheme:

Membership of this scheme is compulsory for resident citizens aged 20–59 years; those aged 60–64 and non-residents can contribute voluntarily. It is financed by means of contributions collected by different means. Contributions by employees for themselves and dependant spouses are collected along with the contributions for EPI and are transferred to the special account for the Basic Pension. Other groups pay fixed-rate contributions, while those with low incomes are temporarily exempted and allowed to pay up to 10 years later. Government pays one-third of the benefit expenditures and the administrative costs; this is due to increase to one-half in the future. The basic pension is paid from age 65 at fixed rates according to the length of insurance; the maximum pension is paid for contributors who contributed 40 years or more. Pensions may commence earlier than 65 (with actuarial deductions) or later than 65 (with actuarial increase). Annual adjustment of pension benefits are linked to rises in the CPI during the actuarial valuation periods and to the rises of cost of living once the actuarial valuation is carried out.

Employees' Pension Insurance (EPI):

This is a scheme for private-sector employees, including seamen. There are several special schemes called mutual associations for public employees; private school teachers and school employees. Financing is from earnings-related contributions paid by employers and employees, while government is responsible for administrative costs. The pensionable age is 65 but transitionally, specially paid old-age employees pension is payable from 60 to 64 according to the schedule.

National Pension Fund:

There are two types of fund: one for regional subscribers; and professional funds for persons in the same occupation throughout the country. A Federation of National Pension Funds maintains

centralized records. The pension is based on units, as selected by the subscribers, and may be increased by bonuses from investment returns.

Pension costs reached 12 per cent of national income in 2002 and are projected to increase to 16 per cent by 2025. A rise in pensionable age in EPI to 65, to match the National Pension Scheme, is planned over the period from 2013 to 2025 for men and between 2018 and 2030 for women. Further pension reforms are expected to strengthen the capacities of the system to fulfil its aim to provide pension protection for all citizens in an aging society.³⁶

Republic of Korea

Since 1986, South Korea has been extending coverage of the National Pension Scheme (NPS), which provided old-age, permanent invalidity and survivor protection. NPS is complemented by the Public Employees' Pension Scheme and the Private School Teachers' Pension Programme.

The NPS has followed the usual strategy of progressive expansion to different categories of enterprise, and in July 1995 the most difficult phases began with compulsorily extension to farmers, fishermen and the rural self-employed. As of March 1999, about 16 million farmers, fishermen and other rural self-employed were insured under the scheme. In April 1999 NPS was further extended to include another estimated 10 million new members from the urban self-employed. Voluntary insurance is permitted and supplements for dependents are paid with the pensions. South Korea considers full population coverage to have been achieved since 1999.

Contributions for wage and salary earners are nine per cent of eligible earnings, with the burden evenly split between employer and employee. After much negotiation, a contribution rate for the self-employed of 3 per cent of earnings was agreed, with increases of another 3 per cent of earnings every three years up to the maximum of 9 per cent. The Government has accepted responsibility for part of the administrative and programme costs for farmers' and fishermen's insurance equivalent to one-third of the lowest wage class contribution, until the end of 2004. The basis for calculating contributions for the self-employed is taxable income, details of which can be obtained as a statutory right by the National Pensions Corporation.

Pension benefits are earnings-related and are payable at age 60 if the person has contributed for at least 20 years and from age 65 unconditionally. Reduced pensions can be claimed after 10 years' contributions. Larger benefits are paid for dependants (children, spouse and parents).

The NPS is designed to achieve universal coverage through insurance of all employed and self-employed persons and through voluntary insurance. However, some problems of enforcement have been noted, particularly among temporary and daily workers, who are quite numerous in South Korea. Compliance in the construction sector, along with certain other sectors providing short-term employment, has presented challenges that the social security institutions have yet to overcome. Improvements in employment record systems for such workers are being advocated.³⁷ This factor has caused difficulties for the unemployment insurance scheme, despite the interest of workers with unstable employment in maintaining eligibility for unemployment benefits. The pension and unemployment insurance schemes may be affected, but it is considered likely that these workers benefit from National Health Insurance, as they should contribute to this scheme as residents.³⁸

³⁶ Source: Noriyuki Takayama, op.cit.

³⁷ Jai-Joon Hur: Economic crisis, income support, and employment generating programs: Korea's experience, paper prepared for the UN-ESCAP regional seminar on "Evaluation of income/employment generating programs to alleviate socio-economic impacts of the economic crisis, Bangkok, 2001.

³⁸ Huk-ju Kwon: "Welfare reform and future challenges in the Republic of Korea: Beyond the developmental welfare state", in *International Social Security Review* (Geneva, ISSA), October–December 2002, Vol. 55, Issue 4.

A3.5 Overcoming obstacles in coverage of the self-employed

A3.5.1 Reduced benefit packages for low-income self-employed: UK

In the UK, the social security system in principle covers the whole population. The great majority of employees are compulsorily insured in the comprehensive and complex National Insurance scheme, to which they and their employers pay earnings-related contributions.

Two groups are exempted by law from paying contributions at the full rate, which provide access to all cash benefits, and may decide whether to join the national pension scheme. These groups are: employees with earnings below a prescribed level (currently set at 72 per week³⁹); and self-employed persons with annual net income below a prescribed level (currently set at 3,995). The self-employed do not pay towards employment injury or unemployment insurance, for which they are ineligible.

If the exempted groups voluntarily contribute to the pension scheme, it is at the same fixed rates for all (presently 6.75 per week); this ensures continued entitlement to the flat-rate retirement pension and widows' benefits. Voluntary contributors can pay in arrears by means of direct debits from their bank accounts or quarterly bills payable at banks or post offices.

The basic retirement pension is 72.50 per week plus 43.40 per week for a dependant adult, 9.70 per week for the first child, and 11.35 per additional child. These are low rates by any standards. Most employees have additional earnings-related pensions. People who have inadequate incomes in retirement can receive means-tested supplements.

In addition to universal healthcare benefits, the system provides for persons who are not entitled to old-age pension or only to a low pension. At age 80, a non-contributory retirement pension is payable to persons who can prove that they have lived in the UK for 10 years during any 20-year period since age 60.

Government budgets meet the full cost of means-tested and other non-contributory benefits and subsidize benefit expenditures to the extent of 17 per cent. On the other hand, part of the revenue from contributions is allocated to the NHS to go towards the costs of medical care.

A3.5.2 Government subsidy to a voluntary scheme: Costa Rica

Costa Rica has succeeded in covering all, or almost all, of its population with social health insurance, including rural workers, domestic servants, and employees of micro-enterprises on a compulsory basis. The self-employed may join on a voluntary basis, and this voluntary membership has proved popular because the contributions are subsidized by government; virtually all self-employed people in Costa Rica participate. Another incentive for the self-employed is that medical benefits are available in the month of registration and cash sickness benefits after just one month's contributions prior to the onset of illness. The social insurance organization also administers a non-contributory health insurance programme for the poor, with funds provided by government, ensuring integration of services and equal treatment of the poor.

Some of the credit for this achievement is due to a constitutional amendment dating from 1961 which stipulates that mandatory coverage must be extended to the self-employed as well as manual workers. The financial arrangements are: employees are liable for 5.5 per cent of earnings, and employers pay 9.25 per cent of payroll; the self-employed contribute on average 7.67 per cent of

³⁹ 1 was equal to US\$1.59 on 1 May 2003.

their earnings, and government supplements this with an average of 6.08 per cent of the self-employed person's earnings. In practice, many self-employed people under-declare their earnings in order to pay low contributions. Furthermore, government is liable to make up any difference when earnings are lower than the minimum wages.

Efficient methods of contribution collection are a prerequisite for enforcing cover of the self-employed. Costa Rica has promoted special arrangements with associations of self-employed persons, peasants, cooperatives and unions to act as agents for the collection of contributions and their transfer to the Social Security Fund

A3.5.3 Linking contribution rates to age: Sri Lanka

In Sri Lanka, the voluntary Pension and Social Security Benefit Scheme for the Self-employed was introduced in 1996, to assist the 2 million self-employed people who are without social security coverage. The scheme includes the self-employed and people employed on an informal basis but excludes members of the special schemes for farmers and fishermen described in A1.1.2.

Participants pay contributions according to their age at entry to the scheme, following a schedule specifying quarterly contribution rates and the amount of old-age pension due at age 60. By 1999, around 45,000 people had joined the scheme. The Government paid sums into the fund in 1996, 1998 and 1999 and is expected to ensure the solvency of the scheme. Disability and death benefits are also available to members and their families.

Administrative methods include use of enrolment agents and payment of contributions through post offices.⁴⁰

A3.5.4 Case study: Benefits packages for the self-employed among EU countries

The 15 Member States of the European Union (EU) have long-established systems of social protection that have been gradually extended to most, if not all, segments of the population, including the self-employed. Employment policies encourage self-employment, so the state social security systems have the responsibility to ensure adequate compliance and/or voluntary participation. While there are some patterns in the way these countries go about covering the self-employed (as can be seen in the table at the end of this section), there are different policies on establishing special schemes or including the self-employed in the general social security schemes for employees:

Denmark, Sweden, Ireland, Luxembourg, and the UK include the self-employed in the same scheme as employees;

Austria, France, Italy, Spain, and Greece have separate schemes on an occupational basis;

Finland, Germany, and Portugal include all or most of the working population, formal and informal, in employees' schemes; they also operate special occupational schemes;

Belgium and the Netherlands run general schemes from which the self-employed are excluded in respect of certain provisions.

In the EU, provision for the self-employed may be less favourable than for employees in some schemes because of features such as more stringent qualifying tests and the provision of flat-rate instead of earnings-related benefits, as shown in Table 8.

⁴⁰ Sraath Kamal Siri Ranaweera: op. cit.

Unusually, three countries, Denmark, Luxembourg and Sweden, provide unemployment insurance to self-employed workers. This may be possible in Denmark and Sweden because they have their own systems, such as strong unions in various occupations. Luxembourg is a geographically small country, making it easier for the government to monitor false claims. In all three cases, peculiar local conditions exist that make unemployment insurance for the self-employed viable; they do not apply in Thailand.

Table 8: Social insurance coverage of the self-employed in the European Union

	Retirement	Survivors	Invalidity	Healthcare	Sickness benefit	Industrial injury	Maternity	Unemployment	Child allowance
Belgium	+	+	+	Large risk only	+	No	+	No	Lower for 1st child
Denmark	+	+	+	+	+	Minority only	+	+	+
Germany	Yes, for the majority but some voluntary	n.a.	n.a.	Yes, but some voluntary	Yes, if in public health insurance	Farmers and craftspeople, the rest voluntary	+	No	+
Greece	+	+	+	+	Only those in IKA*	No	+	No	No
Spain	+	+	+	+	+	Farmers	+	No	+
France	+	+	+	Large risk only	No	Farmers	+	No	+
Ireland	+	+	No	+	No	No	No	No	+
Italy	+	+	+	+	No	Manual workers	+	No	Farmers
Luxembourg	+	+	+	+	+	+	+	+	+
Netherlands	+	+	+	+	No	No	Voluntary	No	+
Austria	+	+	+	+	Voluntary only	+	+	No	+
Portugal	+	+	+	+	+	Occupational illness only	+	No	+
Finland	+	+	+	+	+	Farmers compulsory, others voluntary	+	No, but flat-rate scheme	+
Sweden	+	+	+	+	+	+	+	+	+
UK	+	+	+	+	+	No	+	No	+

("+" denotes covered; "n.a." denotes data not available)

Source: European Commission: *Social protection in Europe 1995* (Brussels, 1995).

* The Social Insurance Institute, which insures most private-sector workers and some urban self-employed in a comprehensive scheme.

A3.6 Spouse or family extension

Social health insurance schemes often extend coverage to spouses and children and sometimes other dependant relatives of the contributor. These family members are entitled to the same standards of medical care as the contributor. Similarly, cash benefits may be designated for dependants by means of additional allowances for spouse and children. These features are seen as cost-effective and equitable compared with providing these persons with other forms of social security protection.

As mentioned above, South Korea has included dependants in its social health insurance scheme, with broad definitions of *dependent* to accommodate the varying family structures amongst its membership. However, in order to limit liabilities, definitions are more often rather narrow and may focus on spouse plus a specific number of children.

In the case of cash benefits, the two main approaches of pension schemes are to pay standard rates, on the basis that wages and salaries are also paid regardless of numbers of dependants; or to design benefit packages for insured persons only, with additional allowances for family members. The latter may be defined as a spouse and children up to numerical and age limits, with higher age limits for children continuing further education.

Many developing countries prefer to pay standard rates rather than attempt to register dependants and establish their entitlements. One exception is the Philippines, which pays 10 per cent of the retirement pension rate per child up to a maximum of five children. This is also the system for invalidity and survivors benefits and applies to social health insurance.

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