

First meeting of the Policy Dialogue on Social Protection and Development: Extending Social protection to Informal Economy Workers

Summary of the discussion

26 & 27 November 2020

Objectives of the PD-SPD:

Provide an interactive and equal footing setting for issue-based dialogue among peers, experience-sharing, mutual-learning and the collective production of new knowledge to support the global agenda on universal social protection as well as national agendas.

Improve our understanding on the opportunities and challenges for the extension of social protection to become a real driver and/or beneficiary of other global agendas on respectively (i) inequality reduction, (ii) gender equality, (iii) the transition from the informal economy to the formal economy, and (iv) domestic resource mobilisation, discussing research findings and policy implications.

Engage delegates and experts from capitals tasked with decision-making on social protection and development to not only exchange policy experiences but also to identify potential areas of co-operation in the field of social protection and development.

Introduction

Recent years have seen a heightened recognition of the potential role of social protection in the development process. Universal social protection now constitutes an essential component of the global agenda for sustainable development and it appears amongst the key policy priorities in several regional and national commitments. Yet, the road to universal social protection remains difficult in many countries.

A common challenge in developing and emerging countries where informal employment dominates is to find appropriate modalities to expand social protection coverage in a way that recognises the diversity of informal economy workers and provides them with mechanisms that are fair, efficient and sustainable. As governments intend to build informality-robust social protection systems, another challenge is to make social protection instruments gender-sensitive and gender-transformative. In this context, learning from countries' experiences on the extension of social protection to men and women in the informal economy appears critical.

The very recent COVID-19 crisis, which is disproportionately affecting the most vulnerable, sadly confirms the centrality of social protection to build more resilient societies. Recent evidence shows that the outbreak and spread of the coronavirus, and some of the early administrative responses such as large-scale confinement and workplace closure, has had a disproportionate impact on informal economy workers throughout the world, especially in developing countries where informal employment dominates. Not only social distancing and the ability to properly self-isolate seems to have been difficult to manage in the context of large informality and poor living conditions, but "stay-at-home" policies in the absence of social protection have threatened the livelihoods of informal workers and the very survival of poor communities, with millions of people losing jobs without any access to income. While the prospects of economic recovery remain uncertain, many informal workers will likely continue to require income support.

The objective of this first meeting of the policy dialogue on social protection and development was to provide an interactive setting between member countries of the OECD Development Centre and other stakeholders for issue-based peer dialogue, experience sharing, mutual learning and the collective production of new knowledge to support the extension of social protection to informal economy workers. The dialogue was articulated around the following sessions: Session 1 looked at the importance and the way to capture the different social protection needs of informal economy workers; Session 2 and Session 3 discussed the role respectively of social assistance and social insurance for informal economy workers in times of COVID-19; the last session addressed the role of innovative financing schemes for informal gig-economy workers.

Session 1: Identifying the diverse social protection needs of informal workers

Informality affects most workers in the world and is pretty much the norm in developing countries, representing 70% of all employment. In Indonesia, informal workers are disproportionately concentrated among the poor and found in many different sectors such as services, agriculture,

forestry and fisheries. In Paraguay, informal employment remains widespread despite the strong growth performance observed in the last 15 years that allowed the emergence of a middle class and a decline in poverty. In Mexico, although informal employment has declined over the past ten years, it remains the dominant form of employment. The COVID-19 pandemic and the measures undertaken to refrain it also stroke harshly informal economy workers and poverty has recently started to increase in many countries after several years of reduction.

Informal workers are an extremely diverse group, with some population, such as the youth, older workers, and women more likely to be at risk. The conventional approach to social protection coverage is an individual approach. As countries at different stage of development confront the challenge of extending social protection to informal economy workers, questions about how to use informality profiles for social policy-making and how to collect timely and relevant data on informal economy workers become critical.

In Indonesia, data collection and the expansion of the social registry are at the cornerstone of the government strategy to support the expansion of social assistance and social insurance to informal economy workers. An innovative way to identify and communicate with the informal economy workers is to rely on trade unions to persuade informal economy workers to join social insurance schemes.

In Mexico, a territorial approach is now underway to measure informal work at the municipal level using small area estimation technique and following the ILO Manual 2012 for measuring informality. The collection of relevant information on informal economy workers will allow to have targeted social protection schemes and policy interventions, taking into account the existence of disparities among the states.

Social protection needs of informal workers also vary depending on their household characteristics. A household perspective on informality is needed to capture the level of income poverty and income insecurity among informal workers, measure the capacity to pay for social protection, identify the possibility of accessing social protection through other household members and assess the extent to which informal workers' vulnerability is passed on to their dependants.

In Paraguay the gathering of all the relevant data of the beneficiaries to create a nationwide common database and the expansion of the social protection system became the cornerstone to improve the quality of the information about the beneficiaries and their households, to adequately reach the most vulnerable population, to increase the quality of the services and control mechanisms and also to avoid overlaps between institutions. The Social Protection Integrated file has been established to provide a comprehensive set of information that will allow to assess, with a multilevel perspective, the needs of the informal workers. It will help to categorise them and identify their needs with a preventive objective in mind. This file will also allow the assessment of the transmission mechanism of poverty and vulnerability within the household.

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The development of comparable data on informal economy workers and their household is also under way. A new OECD database - the OECD Key Indicators of Informality based on Individuals and their Households (KIIBIH) –relies on household surveys from developing and emerging countries to derive harmonised and comparable indicators across countries related to informal employment measured at the level of individuals and their households.

By covering both individuals and their households, the database allows for a comprehensive monitoring of informality that captures the heterogeneity of informal economy workers and that takes into account the broader context of their households. The household dimension allows the monitoring of how workers' vulnerability in the informal economy is passed on to other segments of the population and also enriches our understanding of the different channels through which social protection can reach out to informal workers as part of the formalisation agenda.

Such data suggest that a strategy to extend social protection to informal economy workers may well be articulated around the following three pillars: (i) closing the social protection gap among poor informal economy workers through non-contributory schemes; (ii) extending contributory schemes to non-poor informal workers that have the capacity to contribute; and (iii) creating incentives to levy higher social security contributions from employers of wage workers and workers in hidden employment relationships. The level and amount of coverage is also an important aspect to look at within the social protection packages. Effective public financial management (PFM) will be critical to ensure adequate budget allocation for social protection.

References:

Tackling Vulnerabilities in the informal economy, by OECD:

<http://www.oecd.org/publications/tackling-vulnerability-in-the-informal-economy-939b7bcd-en.htm>

Information on the EU-funded project “Improving synergies between social protection and PFM”:

https://www.ilo.org/brussels/information-resources/news/WCMS_732062/lang--en/index.htm

Session 2: Social assistance for informal economy workers in times of COVID-19

As part of their efforts to mitigate the socio-economic impact of the COVID-19 crisis on the most vulnerable groups, several countries have sought to expand and adjust their social assistance programmes to support informal economy workers. New programmes that do not depend upon the income, assets, or prior contributions of the recipients were rolled out quickly. These programmes tend to provide time-limited targeted cash transfers to groups who are outside regular welfare programmes and whose incomes were directly affected by compulsory confinement.

In Brazil, an emergency aid (EA) of approximately \$6.5 billion per month was rolled out since April 2020 (planned until end 2020). It is targeted to the most vulnerable households, freelancers,

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unemployed and includes Bolsa Familia beneficiaries. In terms of budget it is the biggest income transfer in history. Each person receives, on average, \$110 per month and so far 68 million eligible people have been reached. This is in addition to the Bolsa Familia CCT which currently benefits 13 million families.

In some cases, cash transfers programmes were complemented by temporary public work programmes. However, while these emergency programmes can be an important source of income security for informal households in the short-run, they do not address longer-term needs. Programmes must look at sustaining livelihoods and helping vulnerable people cope with risks that may occur throughout the lifecycle. In El Salvador, the government's approach was one of empowerment and transformation rather than subsidies. Out of the 1.2 million businessmen, 78% are informal and 96% of all businesses earn less than \$3,000. The COVID lockdown measures affected 89% of these businesses and their income were totally reduced. The government provided support in the form of business development, sales strategies and networks, helping the majority of them to diversify their activities. Some examples of diversification included tourism companies using their vehicles to distribute food and protection equipments; agriculture and fish farmers working with home delivery companies for direct sales. In Tanzania, Irish Aid has been working with the government to support informal workers, who constitute the majority of the labour force, through public works programme and cash for work and small business training and development. This generated jobs allowing them to make the link with social protection services.

The COVID-19 has also forced social protection systems to improve their targeting and outreach through innovative approaches. In Brazil, more vulnerable households and ultra-poor have been included in the banking system to allow for smoother social transfers. The single registry system is being modernised so that citizens can request directly for aid. This modernisation includes an artificial intelligent system to predict individual profiles for aid, jobs, as well as identify potential donors. In El Salvador, some cash aid and food vouchers were also provided to the ultra-poor through home-to-home delivery in order to reach vulnerable households not registered in any programme. In Ethiopia, the government waved the conditionality of the productive safety net programme, allowing more informal workers to benefit.

Income risks have escalated during confinement and will remain very high in the post confinement period as many important sectors for informal economy workers have been devastated. Protecting livelihoods is critical, especially for informal economy workers, who are often the missing middle in terms of social assistance or social insurance coverage. A study by WIEGO on the impact of COVID on the livelihoods of informal economy workers reveals contradictory measures at the state and municipal levels. For example, on the one hand the state is trying to provide basic social protection and on the other local authorities are evicting street vendors and forbidding any income generating activities. Informal workers are often not poor enough to be eligible for social assistance and not eligible for small business grants or aid. In Bangkok, Thailand and Tirupur, India, the governments extended long-term social protection programmes to informal workers and not just cash grants. In Sudan, with the support of the Italian cooperation

(AICS), social assistance but also social insurance schemes are being extended to informal workers to improve their livelihoods.

References:

Sudan's social protection system by the IPC-IG and UNICEF:

https://ipcig.org/pub/eng/RR53_Social_protection_in_Sudan_system_overview.pdf

"Where is the money coming from" by UNICEF and OECD:

<https://openknowledge.worldbank.org/bitstream/handle/10986/34802/Where-is-the-Money-Coming-From-Ten-Stylized-Fact-on-Financing-Social-Protection-Responses-to-COVID-19.pdf?sequence=1&isAllowed=y>

WIEGO's COVID impact study: <https://www.wiego.org/covid-19-global-impact-study>

And related blog: <https://www.wiego.org/blog/informal-workers-see-long-road-recovery-ahead-unless-governments-act>

Session 3: Social insurance for informal economy workers in times of COVID-19

Another approach to reduce the exclusion of informal economy workers from social protection programmes is to extend coverage of contributory social insurance, such as health care, pension, maternity protection or unemployment benefits. A common challenge, however, is to find appropriate modalities to expand social insurance coverage in a way that recognises the diversity of informal economy workers, their possible transition in and out of informality, and that provides them with mechanisms that are fair, efficient and sustainable.

Argentina has been actively moving towards labour formalization, especially in rural areas where informal employment is highest. The Collective Agreements on Social Security Collection provides social protection to informal economy workers. It is a tripartite agreement between employers, workers' organisations and the ministry of labour and social security to formalize rural activities and give access to social security benefits to rural workers. Various incentives are in place to allow employers to contribute, such as variable fees on the basis of the unit of production and flexible payment schedule based on seasonality of the activity.

Another challenge facing governments is how to make social insurance schemes gender-sensitive and gender-transformative and avoid that the extension of social insurance becomes the main vehicles for transmitting gender inequality from market incomes to social transfers. Uruguay is well-known for its Monotax system, implemented since 2001, which has increased the social security coverage to independent workers with small revenues, in particular women that represent 60% of monotax affiliates. Monotax offers a simplified and unified regime for the payment and collection of taxes to independent workers and a combination of tax and social security collection method. It offers the same coverage that formal workers have, with the exception of unemployment benefits. During the COVID-19 crisis many measures were

implemented such as flexibilities of contributions, loans for ceasing operations, illness allowance for the elderly, etc.

Simplifying the process of enrolling in social insurance is a critical aspect of formalisation. In Togo, the government is pushing for universal health coverage through a contributory scheme and a social assistance regime implemented through a single social registry. Digitalisation and the use of social media has helped tremendously in data collection and targeting, as well as payments. The adaptability of the social protection system to different technologies is key to reach all the possible beneficiaries, for instance the use of the mobile phones combined with a diversification of partners – diaspora, unions, chamber of commerce – and the use of traditional microfinance systems like the “Tontines” allowed to reach more than a million persons in Togo.

Other innovative approaches have been tested by SOLSOC, a Belgian NGO working with partners in developing countries on community-based mutual health insurance schemes. In Senegal, as part of the campaign towards universal health coverage imams were asked to use the charity culture to cover for the contributions of vulnerable workers. In Burkina Faso, a group of small business women created a mutual fund to cover for health risks. The association now has over 5,000 contributing members. The government of Burkina Faso is bringing these small and varied community-based initiatives that have sprouted spontaneously out of users’ needs to integrate them into regional and national structures. The country counts 125 such community-based insurance groups reaching 85,000 beneficiaries, 10 regional unions and 1 national federation group.

In many countries, another important challenge with the extension of social insurance is how to mobilise a large enough pool to spread the risks when enrollment is voluntary. When health insurance schemes are not obligatory, the system have its own limitations. Social protection systems must look at both contributory and non-contributory schemes and how they can work together. One of the lessons is covering workers in all types of employment, including self-employed, beyond formal and informal, and creating a unified system. In this regard, sectoral solutions are also important. It is equally important to think of short-term benefits of the system, in order to show immediate practical importance of the system, and this is what helps building trust in it. Social dialogue is therefore critical to build social protection systems.

References:

More on Uruguay’s Monotax:

<https://www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=48020>

The ILO resource package on extending coverage to workers in the informal economy:

<https://www.social-protection.org/gimi/Emodule.action?id=30>

Dominican Republic’s risk-sharing mechanism for informal economy worker, by WSM:

<https://www.wsm.be/files/files/publicaties/eng/WSM-brochure-Amusol-ENG-8063.pdf>

Bangladesh's voluntary social insurance scheme, by WSM:

https://www.wsm.be/files/files/publicaties/fr/120211_ghonoshasthaya_kendra_EN.pdf

Session 4: Innovative financing schemes for informal gig-economy workers

The world of work is changing rapidly. New types of jobs emerge and profiles of informal economy workers also change over time. Social protection financing schemes should not only adapt to these changes but also take advantage of them to provide innovative solutions for protecting informal workers and their families. The gig economy is a new phenomenon that emerged in the past two decades. It encompasses, on the one hand, work accessed through mobile apps and executed locally, such as driving or delivery; and on the other hand, work accessed through online labour platforms for clients located worldwide, such as freelancing in IT or creativity professions. Despite this diversity, two things are common to all gig economy workers: 1) their work is mediated by internet technologies, 2) they are usually self-employed, and in the vast majority of cases informal. The recent Covid-19 crisis has highlighted their vulnerability, in terms of financial and health risks in particular.

In some countries, gig economy became an important phenomenon. For example, in Estonia, it is estimated that 8.1% of all workers are in the gig-economy. In contrast, in France, only around 1% of workers are in the gig economy, with mobility and home delivery dominating this type of work. In Morocco, while the phenomenon is new, the gig economy is expected to grow in the future. In this country, even if this type of work is viewed as an interesting solution to the general lack of jobs, there is a concern that it replaces existing jobs instead of genuinely creating new ones. The unclear position of the gig-economy workers in the law, the variability of their incomes, and practical aspects of law enforcement make it difficult for governments to address the issue of their protection.

To address the issue of informality and social protection of these workers, the government of Estonia implemented several different measures. One of them is the creation of 'small business' accounts, specifically destined to workers considered as a middle line between self-employed and employees, and with limited earnings. Administrative procedures for opening such accounts are simplified, as compared to registering a regular business, and are ensured through a cooperation with the banks. For the 'small business account' holders, banks pre-fill tax sheets and transfer a single payment to the Tax and Customs Administration, which in its turn divides the sum for three purposes: income tax, social tax, and obligatory private pension contribution. No bookkeeping is required. The simplified procedure is estimated to be a successful way of formalizing these workers. Also in Estonia, there is an ongoing discussion on a possible cooperation with the platforms, such as using digital accounts of workers to track their incomes for social security purposes. While it is not fully operationalized yet, it is nevertheless technically possible, since tax systems know about the total amount of transactions on the platforms immediately through the banking system. For an effective future cooperation, it would be important to acquire the consent of the platforms, especially in light of individual data protection requirements. Data protection

laws may need to be modified; hence cooperation with various ministers (such as ministry of justice, of finance) is important.

France is another example of a country that introduced several innovative solutions for gig-economy workers. First, in the case of drivers operating through mobile apps, the State mandated early on that car-hire could not be operated by private physical persons, but only by registered self-employed with a special license for passenger transportation; thus drying up a major source of informality in the gig economy. Second, in some cases, France successfully reclassified some of its gig-economy workers into employees, setting important precedents. In this light, the role of its courts was paramount. Third, in order to reduce informality of workers operating through online labour platforms, in 2019, France also mandated an obligatory transfer by the online labour platforms of the information about workers incomes to the tax authorities. It also implemented the principle of social responsibility of platforms, by providing, in 2016, that platforms should co-finance workers' protection in case of accidents. Finally, for some categories of workers, such as freelancers, a special simplified "micro entrepreneurs" regime was created. Through this regime, self-employed workers are able to get access to the mainstream health and pension coverage. For workers providing domestic services in particular, universal service vouchers were introduced; the users of these services automatically pay social contributions for the workers by using these vouchers.

Another example is Morocco that initiated a social dialogue with the stakeholders involved in the gig-economy, including banks and the private sector. Even if there is a strong interest in the generalisation of social protection, including to gig-economy workers, specific problems with regulating gig-economy work include: a) the difficulty for labour inspectors to identify employers without a fixed location; b) articulating the provisions of the labour code with those of the code of commerce by which some of the contractors abide; and c) coordinating policy responses across several ministries and services.

All in all, recent evidence suggests that while the size and the characteristics of the gig-economy differ from one country to the other, many countries face a number of similar challenges with the protection of gig-economy workers.

One common issue relates to the employment classification and the way to tackle bogus self-employment. In this light, it is important to minimize incentives for enterprises to recur to forms of employment other than salaried employment for the sole reason of reducing labour costs. For governments and social security services, it is important not to unduly multiply employment forms, and to respect the principle of neutrality of social protection: ensure that different regimes do not create competition between them in terms of social security payments, and that switching between the regimes does not lead to the erosion of the contribution base of existing social security schemes.

Another common challenge is to provide social protection to gig-economy workers. Main issues include coverage of gig-economy workers by either existing, or by specifically designed, schemes;

but also ensuring portability and preservation of entitlements across various employment statuses. If the idea of voluntary schemes to cover gig-economy workers is often discussed, it is also often problematic, because it may lead to adverse selection and falling coverage over time. Yet, social protection for these workers is needed not only to protect them, but also to avoid a duality in the labour markets with unfair treatment of other workers.

A third common challenge relates to the social responsibility of the platforms. If some platforms have put some measures in place to help their workers during the Covid-19 crisis, according to a recent OECD survey, many workers wished there were more help and engagement on behalf of the platforms. Moreover, a more sustainable and transparent cooperation between platforms and public authorities is needed. The latter would require data transmission from platforms to tax systems. Such cooperation is technically possible, moreover. Platforms' transactions are traceable and there is a real opportunity to bring them into tax and social security systems. However, for this, there is a need for new legal frameworks, which would build bridges between labour and commercial laws, and which will need to be implemented and enforced both at the international and national levels.

Finally, many issues regarding the gig-economy could also be tackled by removing barriers to organizing and collective bargaining of the gig economy workers.

Conclusion

A lot is happening in all parts of the world to achieve the goals set by the 2030 Sustainable Development Agenda to implement nationally appropriate social protection systems and measures for all, especially for informal economy workers that often fall through the cracks of public policy. While many of the measures put in place remain to be properly reviewed, a number of lessons can already be drawn from the first meeting of the Policy Dialogue on Social Protection and Development.

First, what is becoming increasingly clear is the need to establish sound profiles of informal economy workers to inform the different possible pathways to extend social protection in the informal economy, taking into account individual and household circumstances. Identifying informal economy workers in the context of their households remain often a challenge due to the lack of data but current data collection efforts at country level and the development of new comparable indicators on informality based on individuals and their household is a very encouraging trend.

Second, while many countries have sought to adapt their social assistance programmes to mitigate the impact of the COVID-19 crisis as quickly as possible, there were groups that were not covered, typically informal workers, and a number of implementation challenges emerged. First, digital technology are increasingly used to facilitate delivery but relying solely on digital transactions comes with risk. Keeping a human dimension in the delivery of social assistance at local level appears essential to avoid errors of exclusion. Second, there is a need to provide cash money to

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vulnerable people that do not have a bank account. Third, extending social protection to informal economy workers shall come hand in hand with the need to protect their livelihoods. The latter calls for a careful cost-benefit analysis of lockdown policies that were carried out during the crisis which threatened the livelihoods of informal workers and the very survival of poor communities.

A third lesson is that ensuring the sustainability and the extension of contributory social insurance schemes can be complex in countries where informality is the norm. Still there are many ways to address this issue, including, for instance, by relying more on social dialogue; by engaging with migrant communities that send remittances to find innovative financing solutions for social protection; by developing appropriate incentives for enrolment, including making contributory schemes compulsory or making access to credits conditional on enrolment; and by enhancing the horizontal and vertical solidarity aspects of social protection schemes as part of the development of integrated systems that can accommodate for the reality of different employment status.

Finally, as the size of the gig economy is growing, the question of the adequate protection for workers in the digital economy is becoming more pressing. To address this challenge, a number of countries have introduced new measures such as, for instance, the set-up of special provisions for platform workers, the integration of platforms into tax systems and the inclusion of platform workers into regulated employment status. Further attention is needed, however, on the way to strengthen the social responsibility of platforms and to remove barriers to organising and collective bargaining of gig economy workers.

As the next steps, and recalling the Call to Action for Universal Social Protection (USP2030), the OECD Development Centre plans to organise the second meeting of the Policy Dialogue on Social Protection and Development (PD-SPD) in November 2021. The dialogue was set-up in 2020 following a decision from the Governing Board of the OECD Development Centre to establish an interactive setting between member countries of the OECD Development Centre and other stakeholders for issue-based peer dialogue, experience sharing, mutual learning and the collective production of new knowledge on USP 2030. The PD-SPD is managed by the OECD Development Centre Secretariat, in consultation with its Governing Board, and under the guidance of a Steering Committee currently composed of representatives from Brazil, Ireland, France, Mexico, Morocco, Togo, the United Kingdom, and Uruguay.