

SOCIAL PROTECTION AND THE INFORMAL ECONOMY

Author: Jacques Charmes



INTRODUCTION

Social protection is a generic term that covers two main elements:

- 1) **'social security'** which is based on workers' contributions that employers and their employees as well as the self-employed pay. It provides benefits to workers and all their entitled family members who are inactive.
- 2) **'social assistance'**—also called safety nets—that governments provide. These are financed through taxes and generally, though not always, target poor and vulnerable populations.

Moreover, in the absence of state support, vulnerable populations may rely on **self-help groups** that can provide assistance to needy members.

Social protection systems thus have three dimensions:

- an insurance dimension that relates to the formal sector,
- an assistance dimension that relates to vulnerable populations uncovered by social security,
- a community-based dimension.

ILO Convention 102 (1952) indicates the 9 main branches of social protection: healthcare, sick leave and allowances, unemployment benefits, old age pensions, accident at work and professional illness benefits, family allowances, maternity leave and benefits, invalidity and survival allowances.

Within this context it is important to recall the definition of informal employment adopted in 2003 that states, *"employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)"*¹.

SOCIAL SECURITY: A SYSTEM OF SOCIAL INSURANCE FOR THE OCCUPIED POPULATION AND THEIR FAMILIES.

Social security is a form of social insurance for paid employees (and also for the self-employed) and their family dependents – spouses, children under a certain age or disabled, old aged parents. Social security covers various risks related to health, family, old age, unemployment, etc.

In its broad sense (vertically), social protection aims to guarantee protection against:

- absence or insufficiency of income from work, due to sickness, invalidity, maternity, accidents at work and occupational diseases, unemployment, old age, decease of a family member,
- lack of or unaffordable access to health care,
- insufficiency of family support, especially for children and dependent adults,
- poverty and social exclusion in general.

Horizontally, social security has been extended to most economic activities and all statuses in employment: agriculture, fishery, domestic workers, the self-employed, etc. In some countries, however, these activities

¹ http://www.ilo.org/global/statistics-and-databases/standards-and-guidelines/guidelines-adopted-by-international-conferences-of-labour-statisticians/WCMS_087622/lang--en/index.htm

and statuses remain still uncovered.

It is usually admitted that social security is an advantage provided to employees of the formal sector and is not accessible to people working in the informal economy. This is because, in many countries, social contributions are based on salaries with wage-earners paying a part of the contributions and employers paying another part (generally higher). It is a compulsory formal economy insurance mechanism. This is why both employers and employees-beneficiaries have usually interpreted it as a tax. The levels of contributions have increased together with the cost of expenditures and the life expectancy and aging of populations.

The rising cost of social security has become a handicap in companies' competitiveness. This has led governments to adopt measures to restrict health expenditures and pensions in many countries. It has also led informal economy entrepreneurs not to declare their workers or to declare them at a minimum wage level instead of their "real" salary.

SOCIAL ASSISTANCE AND SAFETY NETS FOR THE POOR AND THE VULNERABLE

Social assistance generally benefits the poor and vulnerable. It consists of free access to healthcare, conditional (or not) cash transfers, or transfers in kind. Traditionally, Ministries of Social Affairs draw up lists of persons or families in distress. This may include persons with disabilities, elderly or female-headed households, or large households. The transfers are intended to help them meet their consumption needs or support their income-generating activities such as transfers of small equipment or livestock. An example of the latter is the National Programme for Needy Families in Tunisia.

Price subsidies on basic goods and/or cash transfers have sometimes become conditional to infants' vaccination and children's schooling or other pre-conditions. The most well-known and successful of these new conditional cash transfers programme is the Brazilian "Bolsa Familia" that dramatically lowered the poverty rate. Such schemes are, however, often criticised for their deficient targeting, especially when non conditional.

MICRO-INSURANCE: AN ASPECT OF MICRO-FINANCE

In sub-Saharan African countries, inter-households transfers—including remittances—may represent a share of the average household income that is equivalent to the share of public transfers in European countries. Extended families provide support to cover health expenditures, unemployment, and other benefits and allowances.

Self-help community-based saving and lending groups are also widespread in traditional societies in developing countries, especially in sub-Saharan Africa. They represent an important aspect of micro-finance. Through these groups, members are led to save and can use their right to borrow to meet their consumption or investment needs. Members may also use their savings as a micro-insurance mechanism to fall back on when they are affected by health risks.

An increasing trend is for micro-finance institutions to offer micro-insurance—including to protect against the impact of crop failures, death of relatives, or chronic health issues. Many of the EU projects aimed at enhancing livelihoods for poor populations dependent on the informal economy include such actions.

IMPORTANT RECENT DEVELOPMENTS

In 2012, the International Labour Conference adopted recommendation 202 on social protection floors: *"Social protection floors are nationally defined sets of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national*

level.” Recommendation 202 applies to all, including workers in the informal economy.

«National social protection floors should comprise at least the following four social security guarantees, as defined at the national level:

1. access to essential health care, including maternity care;
2. basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
3. basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability;
4. basic income security for older persons.»

But there is a long way to reach such objectives. In many countries, only paid employees of the formal sector have access to these minimum rights. Even in the formal sector, health services are frequently not yet accessed at even reduced costs. For the majority of people, relying on social assistance programmes remains the only way to benefit from health care services and obtain a minimum income. These programmes still do not target the majority of the population who work in the informal economy. Reliance on self-help community-based groups is their primary resort, i.e. they use their own savings.

CONCLUSIONS

Despite international recommendations, ensuring the minimum standards of social protection for people depending on the informal economy remains a challenging objective for projects. Micro-finance institutions are often the only tool that can be used reliably towards achieving this aim.

REFERENCES

ILO (2011), *Social Protection Floors for Social Justice and a Fair Globalisation*, Report IV (1), ILC 2012. http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_160210.pdf

ILO (2012), *Social Protection Floors Recommendation R202*, ILC 2012.

http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

ILO (2015), *World Social Protection Report, Building economic recovery, inclusive development and social justice 2014/15*, Geneva, 336p.

http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf

OECD (2009), *Promoting Pro-Poor Growth : Social Protection*, Paris, 217p. <http://capacity4dev.ec.europa.eu/iesf/document/promoting-pro-poor-growth-social-protection-oecd-2009>

CONTACTS

Jacques Charmes – Research Expert – IESF working group

E-mail: j.charmes@arsprogetti.com

The opinions and recommendations included in this Thematic Brief are those of the author(s) and do not necessarily reflect those of the European Commission.