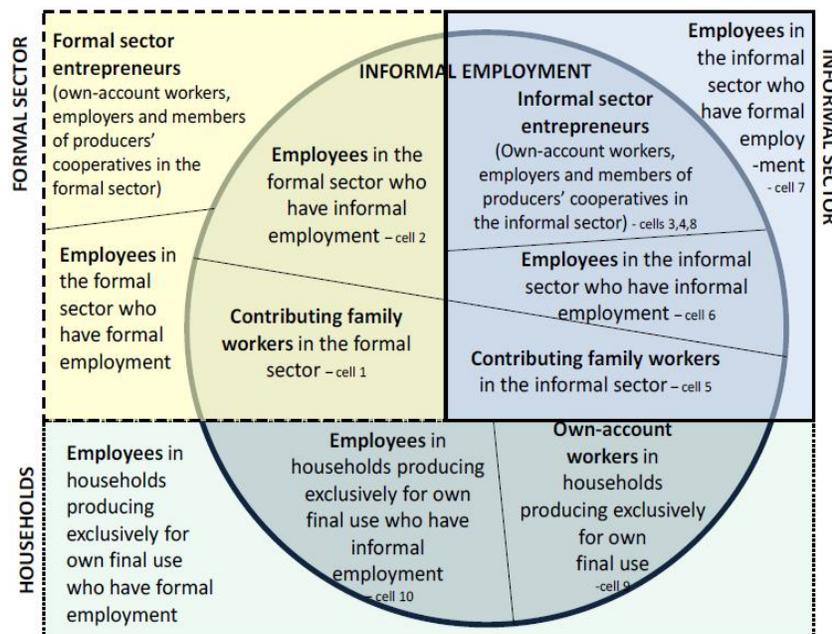


Providing Social Protection to the Informal Sector

Research Notes No. 2 Research Framework

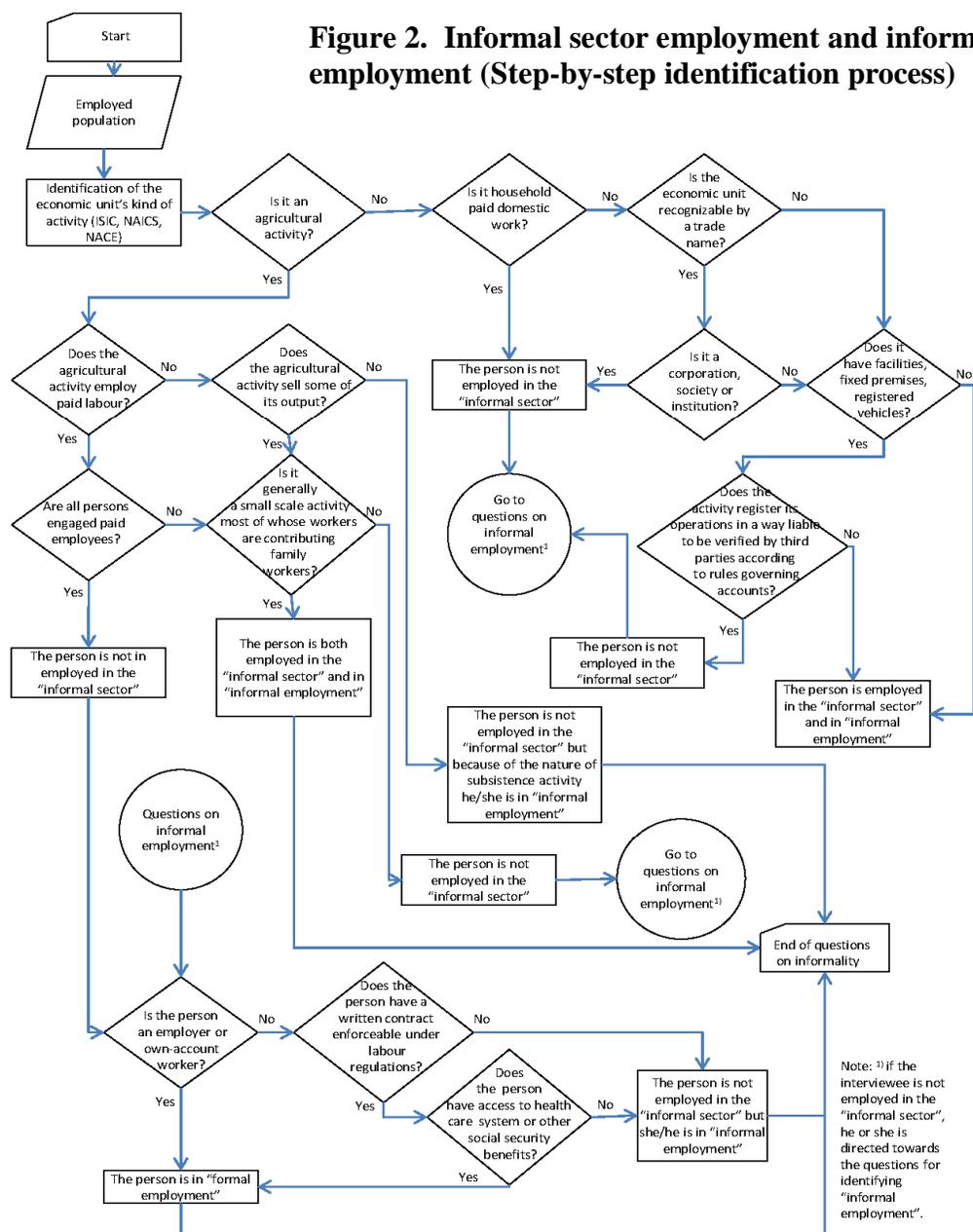
The International Labor Organization (ILO) asserts in their statistical manual on measuring informality that the terms 'employment in the informal sector' and 'informal employment' are not interchangeable for they are concepts which refer to different aspects of the 'informalization' of employment. Figure 1 shows a diagram that summarizes the intersections between the description of informal employment and informal sector.

Figure 1. Component of informal employment



Source: International Labour Organization (ILO). "Measuring informality: A statistical manual on the informal sector and informal employment"

It is evident from the figure that the two segments have different aspects of informality. Hence, the way to operationalize the definition is crucial in identifying them. In the context of this research, majority of the targets may fall on identifying those employed in the informal sector or those who have informal employment. Figure 2 is a flow chart that shows the step-by-step classification of an employed person whether he/she is employed in an informal sector or has informal employment.



Source: International Labour Organization (ILO). "Measuring informality: A statistical manual on the informal sector and informal employment"

Determinants of informality and social protection

What is social protection?

According to the Asian Development Bank (ADB), "social protection is a set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks and enhancing their capacity to protect themselves against hazards and interruption or loss of income." This is also in line how the International Labour Organization (ILO) characterizes social protection which is about having safety measures of people and families in times of vulnerabilities and contingencies; having healthcare and safe work. Pragmatically, most SP focuses on reducing chronic poverty, building assets of the poor, ensuring opportunities for them to use their assets more productively, and transferring cash or quasi-cash through social assistance program (e.g. food transfers, food stamps, food price subsidies, social housing programs and utility subsidies) and conditional cash transfers (CCTs). For instance, in Brazil, social protection is based on three pillars: social security; health; and social assistance (Henley et al, 2006). In the Philippines, there is a social security system which covers the mostly formal sector individuals and a meager portion of the informal sector classified as self-employed members. The informal sector is mostly covered by social assistance programs which serve a dual role as a poverty alleviation program and a social protection program.

According to ILO, SP can be viewed as either social security or social assistance while ADB considers five components of SP:

1. *Social Assistance*. A transfer program aiming at poor people as well as those vulnerable to economic shocks. It is non-contributory; hence, it provides protection to those who are not able to qualify for insurance payment or would otherwise receive inadequate benefits.
2. *Labor Market*. A preventive intervention which features measures that reduce risks in the labor market such as unemployment, underemployment and relatively low wages as a result of skill mismatch or insufficiency or poor labor market conditions. It can be an active or passive intervention:
 - Active intervention. This intervention seeks to put people to work. Furthermore, it seeks direct generation of employment, develop and enhance services on employment and skills enhancement. Some examples include skills development, either through vocational and technical education or assistance to vulnerable groups.
 - Passive intervention. This, on the other hand, aims at better labor protection. This includes market policies such as unemployment insurance, income support and an appropriate legislative framework that balances economic efficiency and labor protection. Appropriate legislative frameworks may include provisions on issues such as minimum age, maximum hours and overtime, labor contracts, industrial relations, and anti-discrimination to protect women and minorities policies.

3. *Social insurance.* This type ranges from social security, unemployment insurance, old-age insurance, work injury insurance, and pension reforms to extension of health insurance packages in rural communities.
4. *Micro and area-based schemes.* Provide the same sort of social protection to small-scale agriculture and the urban informal sector that the more traditional social insurance programs supply to the labor force. Together with well-designed types: micro-insurance, agriculture insurance, social funds, and disaster preparedness and management.
5. *Child protection.* Interventions can include early childhood development, school feeding programs, scholarships, fee waivers, youth programs, family allowances, and street children initiatives.

The emergence of social protection provided a strong policy framework in addressing poverty and vulnerability in developing countries. The integral role of SP and its institutions in developing countries has been emphasized particularly during the recent economic downturn. For instance, evidence exists that countries with SP programs for children are more likely to minimize the crisis spell. However, given the fragile capital and insurance markets as well as budget restrictions among developing countries, introduction of SP remains to be a difficult task. Sustained economic growth may improve the living condition of the population, however, it is not empirically clear that social development with increased equality can be brought about by economic growth. The view can be also mixed with the nuance that developing economies are typically characterized by traditional structures of labor which is dominated by the informal sector.

Targeted SP, to those involved in the informal sector in particular, has proliferated. In fact, lately, a number of Asian economies have formulated initiatives to implement and develop schemes to cover informal sector workers (see McKellar, 2009) due to perceived lack of alternative opportunities and exposure to shocks. These initiatives entailed identifying these informal sector dwellers and workers.

The informal sector

Tackling informality entails defining it or at least roughly identifying its determinants so as to link to social protection and eventually identify how to provide it to those in the informal economy. Although, no consensus on how to define labor market informality in developing countries, a range of alternative empirical definitions of informal activity have been employed in the literature. Choice of definition is often dictated by data availability and different definitions may imply very different conceptual understandings of informality (Henley et al, 2006).

It is cited in the work of Hussmanns (2004) that the 15th International Conference of Labour Statisticians (15th ICLS) adopted an international statistical definition of the informal sector.

Two types of approach in defining informality:

- a. *Enterprise approach.* This is the employment in the informal sector. The informal sector had to be defined in terms of the characteristics of the production units.

The 15th ICLS defined Employment in the Informal Sector as comprising all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment or whether it was their main or secondary job (ILO, 2000)

Enterprise – refers to any unit engaged in the production of goods and services for sale or barter. It covers not only production units, which employ hired labour, but also production units that are owned and operated by single individuals working on own account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner's home, and they may be carried out in identifiable premises, unidentifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-based workers, etc. are all considered enterprises.

An Enterprise is considered as informal if:

- it is an unincorporated enterprise
- goods or services produced are meant for sale or barter
- employee size is less than five
- it is not registered under specific forms of national legislation
- it is not engaged in agricultural activities

- b. *Labour approach or the informal employment.* The characteristics of the persons involved or of their jobs should be defined.

The 17th ICLS in 2003 approved the operational definition of informal employment. Guidelines were created in order to define informal employment and according to these guidelines, jobs are distinguished according to status-in-employment categories and to their formal or informal nature. For status in employment, the following groups are used: own-account workers; employers; contributing family workers; employees; and member of producer's cooperatives.

Informal employment comprises the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households (i.e. households producing goods exclusively for own final use and households employing paid domestic workers) during a given reference period.

Employees holding informal jobs operational criteria:

- Lack of coverage by social security system
- Lack of entitlement to paid annual or sick leave
- Lack of written employment contract

There are several definitions of informality in different contexts. In Brazil, definition of informality is based on employment contract status, social protection and nature employment and characteristics of the employer. In terms of employment contract status, not having signed labor cards is the same as being informal. Self-employed are as well informal if they do not have signed cards from their second jobs. In terms of social

protection, absence of contribution to a social security institute (federal, state or municipal) is considered informal. Almost similar to Annual Survey of Philippine Businesses and Industries (ASPBI), workers in an establishment are classified as informal if the firm has less than 5 employees. In the case of the self-employed, informality depends on the nature of their work. If the occupation cannot be classified under either "creative and technical" or "administrative" industry, then the workers belong to the informal sector (Henley et al, 2006). There are similar definitions in other contexts. The International Labour Organization (ILO) classifies employees of firms under the informal sector if the firms have fewer than 5 or 10 employees. Cho (2009) finds the composition of the informal sectors in Yemen as wage workers without social insurance or the self-employed. Canagarajah (2001) asserts that all economic activities that remain outside the official institutional framework are classified in the informal economy.

ILO also provides a broader definition as cited by Gonzalez and Manasan (2002):

"a small scale self-employed activities (with or without hired workers) at a low level of organization and technology with the primary objective of generating employment and incomes. Moreover, the activities are usually conducted without proper recognition from authorities and escape the attention of the administrative machinery responsible for enforcing laws and regulation."

In the Philippines, the informal sector based on the Social Reform Agenda (SRA) is defined as

"a very small scale units producing and distributing goods and services and consisting of independent, self-employed producers in urban and rural areas some of whom also employ family labor and/or a few hired workers or apprentices, which operate with very little capital or none at all; which utilize a low level of technology and skills; which operate at a low level of productivity; and which provide low and irregular incomes and highly unstable employment."

which is also in line with the National Statistical Coordination Board's (NSCB) conceptual definition. However, NSCB and the National Statistics Office (NSO) operationalize this definition for statistical purposes:

- "...the informal sector shall refer to household unincorporated enterprises (HUE) which consist of both informal own-account enterprises and enterprises of informal employers;
- Informal own-account enterprises are household unincorporated enterprises owned and operated by own-account workers, either alone or in partnership with member/s of the same or other households which may employ unpaid family workers as well as occasionally / seasonally hired workers but do not employ employees on continuing basis;
- Enterprises of informal employers are household unincorporated enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other household which employ one or more employees on a continuing basis..."

The Department of Labor and Employment (DOLE), in addition to the definition above, includes those who are unemployed as part of the informal sector. Informal sector in the Philippines is usually not covered by social insurance except for the self-employed who contribute on a voluntary basis.

In Haiti, informal sector participants are characterized by “a firm generating less than five thousand gourdes or ___ USD of monthly income and employing at most five people, including the owner. In addition, individuals, that is a one-person firm, were also included if they were not members of liberal professions (doctors, lawyers, and so forth” (Delatour and Duggleby, 1993).

In Bolivia, the informal economy comprises of the salaried micro-enterprise and self-employed sectors. They are classified as informal if they have one to four employees including domestic employees (Pianto, et al, 2004).

In Bangladesh, “informal jobs comprise work undertaken by wage workers under verbal agreement or under employment arrangements not subject to contractual agreement. In general, distinguishing formal from informal wage job entails identifying the presence of minimum legal entitlements for an employment. It is also defined that informal jobs include work of employers and own-account workers who only maintained informal financial records for personal use. Jobs of all unpaid and contributing family workers are considered informal”.

Pakistan’s informal sector enterprises is officially defined as all household enterprises owned and operated by own-account workers, irrespective of the size of the enterprise (informal-own account enterprise) and household enterprises owned and operated by employers with less than 10 persons. Excluded from informal sector are all households enterprises engaged in agricultural activities or wholly engaged in non-market production (Federal Bureau of Statistics, Statistics Division, Pakistan).

Despite the apparent need to monitor people in the informal economy, governments either have little or no statistics on them (Canagarajah, 2001). The importance of this information is further elevated since workers in the informal sector apparently are more exposed to various shocks due to existing working conditions such as job loss, health shocks and income losses and governments have little control over this kind of employment. This is exacerbated by the limited if not absence of access to social insurance. Note that in some definitions, the notion of informality is dependent on social protection. Furthermore, informal sector workers often are in low quality jobs and less educated and low skilled. They are also more likely to live in poverty and face liquidity constraints (Cho, 2009).

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