Providing Social Protection to the Informal Sector

Research Notes No. 1
Review of Related Literature

The informal sector accounts for a great portion of GDP in many countries (Schneider et. al., 2010). Its proliferation is attributed to the increased burden of taxation combined with labor market regulations (which likely include social protection) and the quality of public goods and services (Schneider et. al, 2010; Sibal, 2007). Lack of alternative employment opportunities of those in the informal sector is also one of the main motivations in moving into that sector. Yet, most people in this sector are relatively more exposed to (and can be less protected from) various risks than their counterparts in the formal sector. In fact, the adverse impact of the last global economic downturn on informal sector workers can be long-lasting and irreversible.

While there has been a propagation of social protection agenda and social protection has emerged as a policy framework, formulating policies and programs that are designed to mitigate or manage risks of vulnerability in the informal sector remains a challenge given the existing linkages of informality and social protection. Although social protection is crucial to developing countries given their vulnerability to ever changing global markets and concentration of socio-economic hazards, implementing social security programs is a difficult task due to their fragile capital and insurance markets and budget restrictions. Moreover, exposure to vulnerabilities and hazards is characterized by growth of informality and in the household level, this likely imply absence of social protection. In short, informality and social protection are not two independent phenomena that must be clarified in such a way that people in informal employment and/or in the informal sector can be identified and strategies to provide social protection to them can be identified.

Issues facing Social Protection and the Informal Sector

Reiterating the challenge of establishing SP in developing countries due to their innate limitations, there are several common issues that face this kind of intervention particularly in the context of the informal sector aside from their definitions and determinants.
**Coverage**

Although SP systems are available in most countries, some of them have low coverage and are often inefficient. For example, not more than 25 percent of the working population in the Asia Pacific region is covered by statutory social insurance which mainly includes old-age pensions and some health-care benefits. Furthermore, some do not cover comprehensive insurance for health while the social security system only covers a small number of formal sector workers such as the case in Myanmar urban areas (Yoshimi and Koehler, 2011). There are also cases wherein there is no mechanism to ensure income transfers for old aged population outside the covered government workers, formal sector employees and armed forces.

The study of Cho (2009) in Yemen reveals only a portion of wage workers have health insurance. However, the insurance does not cover the informal sector workers. In addition, since there is no existing health insurance in Yemen and a large proportion of population has limited access to service, health expenditures mostly came from the out-of-pocket payment which generally occurs only to the well-off or severely ill. In the case of the Philippines, the study of Gonzalez and Manasan (2002) identifies the occurrence of coverage gaps in the country. These are due to statutory exclusions, poor enforcement, or the lack of attractive benefits despite high contributions for particular groups. Self-employed workers, who are classified as informal sector workers, have the option to voluntarily contribute to the social security system. However, other workers in this sector remain to be unprotected due to the administrative difficulties involved in collecting their contributions. Specifically, given the irregular and seasonal nature of their incomes, it is difficult to determine the appropriate amount of contribution that will be required of the informal sector worker.

Coverage issues also stem from the difficulty in identifying and reaching informal sector workers due to unavailable statistics. Furthermore, the capacity to contribute of those in the informal sector is low while the default rates (if not penalty) are high in developing countries which can compromise voluntary contributors’ ability to meet requirements such as in Sri Lanka’s case. However, there are innovative approaches such as community-based saving schemes in Thailand and subsidizing poor worker’s contribution by well-off ones in Indonesia. But still, scheme operating costs are high and government subsidies are necessary such as the case of rural saving in Vietnam and CCT of the Philippines. The question here is sustainability and how it will work together with good governance.

**Poor design**

Many SPs have limited types of provisions. In Myanmar, only two types of benefits is available: free medical care and cash payment benefits. Hence, the current system leaves even those employed in the small formal sector vulnerable due to its limited coverage, absence of unemployment insurance and minimal levels of pension and health insurance benefits. In addition, coverage are mostly urban residents. It fails to cover informal workers and the rural population such as farmers without land or with only small area of land (Yoshimi and Koehler, 2011). There are also cases wherein benefits were often too small to have any significant impact and assistance provided in-kind was of inferior quality (Rasmus et al, 2012).
There are also programs that are not able to address the particular vulnerabilities that mattered to respondents. An example is widespread indebtedness in countries like Cambodia and the Philippines, or the pervasive food insecurity in Senegal, CAR and Zambia. In addition, people in rural Kenya complained that those few who were fortunate enough to access the food-for-work program found it to be a mixed blessing, as the excessively hard work involved was barely compensated for by the amounts of food earned. In addition, after the long period of chronic food insecurity resulting from the drought and election violence, most people who sought such work were physically weak and generally malnourished, and found it difficult to perform the work required (Rasmus et al, 2012).

**Targeting**

As mentioned earlier, most governments do not have statistics involving the informal sector. Hence, we might expect targeting problems in the case of providing protection for them. Thus, if SP fails to have proper targeting, then logically it will likely fail in targeting the informal sector. MacKellar (2009) asserts that although targeting can reduce costs, it can be costly to implement. While several methods exist to target SP to the desired groups based on efficiency, leakage and administrative costs, there are cases wherein negative targeting issues are inevitable.

In Myanmar, 99 percent of the population has no access to predictable social protection and relies on the few social assistance schemes offered by the ministries, on programmes from civil society organizations and on traditional, informal community and family based systems (Yoshimi and Koehler, 2011). In Thailand, the government launched a utility subsidy program for electricity and water as well as the loan refinancing program wherein there are leakage and exclusion of some of the most vulnerable groups of similar phenomenon in Mongolia (Rasmus et al, 2012).

In some countries, political considerations and corruption were alleged to play a role for targeting. In Mongolia, government’s fodder and hay distribution never reached some of the subdivisions headed by opposition party governors. In Cambodia, food aid in rural areas was provided based on the loyalty to local authorities rather than based on the objective poverty criteria. In Ukraine, interviewees indicated that jobs could sometimes be found by paying a bribe to employees of the state employment centers. And, in Kazakhstan, nepotism and corruption were alleged to be widespread in the implementation of the Roadmap Program, aimed at helping the vulnerable groups obtain employment or receive vocational training (Rasmus et al, 2012).

**Gender Issues**

In Mongolia, women reported discrimination in hiring decisions based on their physical appearance. In Thailand, some interviewees said that women received less in severance payments when companies incorrectly reported laid-off female employees as having resigned voluntarily while reporting laid-off male employees correctly, resulting in higher severance payouts. In export factories in Indonesia, workers reported that as the sector recovered there was a stronger demand for female employees who would agree to work long hours without secure contracts and accept more pressure for productivity at work. In Serbia and Ukraine, it became much more difficult for women with small children to find work as job market competition increased, and these women were also more likely to be laid off if the company was downsizing. In addition, interviewed single mothers in Serbia
said that employers were trying to take advantage of their vulnerability by asking them to work long hours and weekends for low pay; they also reported instances of sexual harassment. Social insurance programs need to be designed to take into account the longer life expectancies of women, the additional implications for women of the risk of loss of support due to death, abandonment, and the less stable earnings patterns commonly found among women workers.

**Accountability and transparency**

It is the poor who suffer most due to poorer access, little bargaining power and influence on local officialdom and service providers. The success of social protection depends on effective administration and good implementation of adequately designed programs. Common operational problems among government agencies include corruption, cronyism and favoritism (Gonzalez and Manasan, 2002). In some countries, political considerations and corruption were alleged to play a role for targeting. In Mongolia, where the winter dzud has compounded the effects of the crisis, government’s fodder and hay distribution never reached some of the soums (subdivisions) headed by opposition party governors. In Cambodia, food aid in rural areas was provided based on the loyalty to local authorities rather than based on the objective poverty criteria. In Ukraine, interviewees indicated that jobs could sometimes be found by paying a bribe to employees of the state employment centers. And, in Kazakhstan, nepotism and corruption were alleged to be widespread in the implementation of the Roadmap Program, aimed at helping the vulnerable groups obtain employment or receive vocational training (Rasmus et al, 2012).

**Others**

Many countries lacked effective pre-existing social assistance programs and governments were rarely able to design and launch new programs in a timely manner as the crisis unfolded. There were also instances of downscaling and termination of pre-crisis initiatives due to fiscal constraints. With the onset of the crisis, some governments were no longer able to continue their social assistance programs at the previous scale.

Because of the dearth of official statistics, there is little appreciation of the magnitude and importance of the informal sector. As a result, lack of data translates to policy and budget invisibility. In addition, informal sector workers are not organized. This fragmentation perpetuates the invisibility of the sector to policy makers (Gonzalez and Manasan, 2002)
References


The Global Network. Social Protection in the Philippines: A case study on the country’s social security model and conditional cash transfer program.