



Extending Social Protection to Informal Economy Workers by the OECD. Some Notes

by Oliver Plavin

The OECD-published report, *Extending Social Protection to Informal Economy Workers*, shines a spotlight on a pressing concern within the informal economy. It illuminates how the absence of appropriate risk management tools, coupled with pervasive poverty and occupational risks, propels informal economy workers into the precarious realm of income insecurity and vulnerability to poverty. Utilizing data from *The Key Indicators of Informality Based on Individuals and Their Household* (KIIbIH), the report dissects the challenges faced by informal workers. The report's analysis emphasizes the need for increased investment in social protection tailored to the unique circumstances of those engaged in the informal economy. To guidestakeholders in their decision-making, the importance of comprehending the diverse needs of informal workers is underscored, acknowledging the variations in individual and household characteristics.

The research highlights disparities in social protection for informal workers, revealing challenges in accessing contributory schemes, especially for low-income individuals. It explores options for contributory schemes, considering factors like mandatory vs. voluntary approaches, subsidies for low-capacity workers, and collaboration with formal household members. The findings stress the need for realistic fiscal strategies to enhance social assistance for informal workers and efficient delivery mechanisms.

The paper defines social protection coverage to include contributory pensions, employment-based health insurance, universal health programs, unemployment insurance, and cash transfers. It categorizes social protection into contributory (employment-based pensions, health insurance, unemployment insurance) and non-contributory (cash transfers and non-contributory pensions). Focusing on categories with sufficient data, the methodology estimates coverage based on reported direct and indirect beneficiaries. Direct beneficiaries are identified at the individual level, while indirect beneficiaries include individuals in households reporting social protection receipt (p. 10). The report combines data from surveys at both individual and household levels, aiming to maximize information reporting.

In the first section, the report reveals global disparities in social protection coverage. African countries exhibit the lowest percentage of workers benefiting, contrasting with higher coverage in Latin American, Eastern European, and Central Asian nations. A substantial gap exists between formal and informal workers, with over 70% of formal workers, on average, covered compared to about 37% of informal workers (p. 14). The disparity is pronounced in Africa but more balanced in Latin America. Formal workers are mainly covered by contributory schemes, while informal workers face barriers but benefit from programs facilitating their transition to formality. Non-contributory programs show more balanced distribution, reflecting informal workers' greater

reliance on government assistance for basic needs. Coverage patterns vary across regions, emphasizing the nuanced nature of social protection challenges.

In addition, the social protection gap between formal and informal workers is marked by significant disparities in access to contributory schemes. While formal workers enjoy a coverage rate of 43.7%, informal workers lag behind at 8.9%, primarily due to exclusion from social security and practical barriers (p. 14). Certain programs have facilitated informal workers' access to contributory schemes, aiding their transition to formality. In contrast, non-contributory programs exhibit a more balanced distribution. The overall social protection coverage rates do not significantly differ across employment statuses, both for contributory and non-contributory schemes. For contributory schemes, informal employers tend to have higher coverage rates, reflecting improved statutory access in some countries.

The likelihood of social protection coverage for informal workers is also often influenced by firm size. A significant majority of informal workers, 73.1% on average, operate in micro and small enterprises (MSMEs) with five or fewer employees, while 11.3% work in medium-sized firms (6-20 employees) (p. 18). MSMEs, crucial in developing economies, often struggle to provide decent wages and employment-based social protection due to lower productivity and skilled workforce limitations. This situation may lead informal workers in MSMEs to rely more on non-contributory social protection, facing challenges in accessing contributory programs (p. 19). Generally, accessing contributory social protection appears easier for informal workers in the formal sector compared to those in the informal sector, with significant variations across countries. Conversely, non-contributory program coverage seems higher among informal workers in the informal sector than those in the formal sector.

Informal workers experience varying benefits from social protection depending on their income classes. Contributory schemes tend to favor wealthier informal workers, with only 5% of poor informal workers covered compared to 20.4% of affluent ones. Conversely, 39.3% of poor informal workers benefit from non-contributory programs, while 31.4% of affluent informal workers are covered (p. 20). These coverage patterns also exhibit country-specific variations, with non-contributory programs often catering more to vulnerable informal workers in Latin American and Asian countries, while affluent informal workers in African countries have higher coverage in both contributory and non-contributory schemes.

Geographical location further influences social protection access for informal workers. Urban informal workers tend to have better access to contributory programs, whereas rural informal workers are better covered by non-contributory schemes. The rural-urban income gap and challenges in distributing and managing contributory schemes contribute to this disparity (p. 21). Additionally, KIIbIH data reveals a relative disadvantage for foreign informal workers compared to native ones in accessing overall social protection, particularly in non-contributory schemes. In countries like China and Chile, informal migrant workers are about half as likely to benefit from non-contributory programs compared to nationals (p. 24).

Considering the impact of social assistance on poverty reduction, cash transfers are estimated to have reduced the share of informal workers living in poverty by 7.6 percentage points on average, with regional differences. ECA (Europe and Central Asia) countries witnessed the most substantial reduction, at 18.1%, while Asian countries showed a more moderate impact of 3.5% (p. 24). Overall, the effectiveness of government transfers in poverty reduction varies across regions,

emphasizing the importance of considering the extent to which social assistance contributes to alleviating poverty among informal workers.

The preceding section illustrates the gaps in social protection for informal workers and suggests a viable approach for extension through a mix of contributory and non-contributory schemes. Achieving universal social protection requires a progressive, country-specific strategy rooted in a nuanced understanding of diverse worker groups. While anti-poverty programs could cover a significant share of informal workers, challenges arise in designing approaches for non-poor informal workers with contributory capacity, necessitating decisions on entitlements, social insurance, registration, and subsidies (p. 25).

Non-contributory schemes, financed directly by government budgets, play a crucial role in providing basic protection to poor and vulnerable groups within the social protection system. These schemes are essential components of a nationally defined social protection floor (p. 26). Cash transfers, identified as significant in combating poverty among informal workers, may require an additional 0.03% to 4.5% of GDP annually to close the poverty gap, the paper claims. Child benefits and social pensions are also identified as valuable mechanisms to extend social protection to informal workers, given that over half of children and older dependents reside in households where all workers are informal (p. 27).

Affordability considerations are integral to developing social insurance schemes for informal workers, the paper emphasizes, necessitating a focus on individual contributory capacity. Examining earnings categories of informal workers reveals that about 53.7% are low-paid workers, suggesting limited contributory capacity, requiring potential subsidies or employer contributions. However, 17.6% to 61.4% of informal workers, depending on the country, fall into medium or high-paid categories, indicating some capacity for contributions (p. 30). Affordability also varies based on employment status, with informal employers often at the higher earnings end, contributing family workers at the lower end, and informal employees and own-account workers in the middle. This information is valuable for assessing the feasibility of existing schemes for different groups of informal workers, considering their earnings and employment status.

The receipt of remittances by informal workers' households can impact their contributory capacity and provide a potential source for financing voluntary contributory schemes. Remittances, acting as informal insurance, may signal a demand for social protection, especially among financially stable households, leading to enrollment in formal contributory schemes.

Around 10.5% of informal workers in remittance-receiving, food-secure households have the capacity to contribute to social protection (p. 31). Developing informality-robust social insurance schemes targeting middle-class informal workers receiving remittances could be a mutually beneficial solution. Additionally, labor law enforcement's effectiveness in expanding contributory coverage depends on factors such as institutional capacity, legal social security coverage, and the contributory capacity of informal workers, which varies across countries. From the sample, 3.5% to 82.3% of informal workers may have individual contributory capacity, and about 43.5% of informal employees work in the formal sector.

Further, approximately one-fourth of informal workers (24.9%) live in households with formal workers, offering potential indirect access to social protection coverage that they might not otherwise have (p. 33). Certain programs, like survivor pensions in Latin America, funded through

contributions from formal workers, can benefit informal workers within the household after the formal worker's passing. The KIIBIH dataset demonstrates this in health insurance coverage for informal workers, particularly in mixed households with both formal and informal workers. In several countries, informal workers in mixed households have higher health insurance coverage (e.g., Argentina, Namibia, Indonesia, Kyrgyzstan) compared to those in purely informal households, showcasing the potential for indirect access through formal household members.

In its conclusion, the paper recommends closing gaps through non-contributory schemes for the poor and extending contributory schemes for non-poor individuals (p. 36). Moreover, it highlights the potential of tax-financed universal programs and explores options for contributory schemes, considering mandatory and voluntary approaches, subsidies, and collaboration with formal household members.

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