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Social Protection for Informal Workers in Asia

Sri Wening Handayani (Ed.)

Asian Development Bank

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Abstract
[Excerpt] Social Protection for Informal Workers in Asia addresses social protection gaps ranging from issues of financing, design, governance, and political economy of social protection for informal workers in Asia. It presents various case studies from countries with distinct social protection systems and analyzes the institutional aspects and design challenges of each system. It also makes recommendations for improving program implementation and for expanding social protection systems for informal workers in Asia.

Keywords
social protection, informal workers, Asia

Comments
Suggested Citation

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SOCIAL PROTECTION FOR INFORMAL WORKERS IN ASIA

Edited by Sri Wening Handayani
# Contents

<table>
<thead>
<tr>
<th>Tables, Figures, and Boxes</th>
<th>v</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>x</td>
</tr>
<tr>
<td>Acknowledgments</td>
<td>xii</td>
</tr>
<tr>
<td>Contributors</td>
<td>xiii</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>xvii</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
</tr>
<tr>
<td>Sri Wening Handayani</td>
<td></td>
</tr>
<tr>
<td>1 Designing and Delivering Social Protection Programs</td>
<td>1</td>
</tr>
<tr>
<td>for Informal Sector Workers in Asia</td>
<td></td>
</tr>
<tr>
<td>Michael Samson and Kaleigh Kenny</td>
<td>9</td>
</tr>
<tr>
<td>2 Financing of Social Protection for Informal Sector</td>
<td>9</td>
</tr>
<tr>
<td>Workers in Asia: Challenges and Opportunities</td>
<td></td>
</tr>
<tr>
<td>Michael Cichon and David Cichon</td>
<td>63</td>
</tr>
<tr>
<td>3 The Political Economy of Social Protection for</td>
<td>120</td>
</tr>
<tr>
<td>Informal Economy Workers in Asia</td>
<td></td>
</tr>
<tr>
<td>Stephen Kidd and Verena Damerau</td>
<td></td>
</tr>
<tr>
<td>4 Governance of Social Protection for Informal Sector</td>
<td>172</td>
</tr>
<tr>
<td>Workers in Asia</td>
<td></td>
</tr>
<tr>
<td>Babken Babajanian</td>
<td></td>
</tr>
<tr>
<td>5 Social Protection for Informal Workers in Pakistan:</td>
<td>219</td>
</tr>
<tr>
<td>A Case Study of Small and Medium-Sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>Hina Shaikh</td>
<td></td>
</tr>
<tr>
<td>6 Social Protection for Informal Workers in the People’s</td>
<td>253</td>
</tr>
<tr>
<td>Republic of China: A Study of Micro, Small, and Medium-</td>
<td></td>
</tr>
<tr>
<td>Sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>Xiulan Zhang and Yuning Wu</td>
<td></td>
</tr>
<tr>
<td>7 Social Protection for Informal Workers in Bangladesh:</td>
<td>276</td>
</tr>
<tr>
<td>A Case Study of Micro, Small, and Medium-Sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>Mohammad Yunus</td>
<td></td>
</tr>
<tr>
<td>8 Social Protection for Informal Workers in Indonesia:</td>
<td>308</td>
</tr>
<tr>
<td>A Case Study of Micro, Small, and Medium-Sized Enterprises</td>
<td></td>
</tr>
<tr>
<td>D. Setyonaluri and D. Radjiman</td>
<td></td>
</tr>
</tbody>
</table>
9 Social Protection for Informal Workers in the Philippines: A Study of Micro, Small, and Medium-Sized Enterprises
Ahmid Bualan 336

10 Overcoming Barriers and Addressing Gender Dimensions in Universal Health Care for Informal Workers: Lessons from India and Thailand
Martha Chen and Frances Lund 356

11 Expanding Social Protection Coverage to Informal Workers: Implications for Policy
Sri Wening Handayani 394
Tables, Figures, and Boxes

Tables
1.1 Portable Social Protection Programs for Formal Sector Workers 21
1.2 Examples of National Social Protection Systems Incorporating Comprehensive Social Assistance Programs 24
1.3 Examples of Poverty-Targeted Transfer Schemes 25
1.4 Examples of Grants for Children and Families 26
1.5 Examples of Noncontributory Social Pensions 27
1.6 Examples of Public Services Currently Extended to Informal Sector Workers 29
1.7 Examples of Fee-Waiver and Subsidy Programs 30
1.8 Examples of Social Insurance Schemes Targeting the Informal Sector 31
1.9 Examples of Microinsurance Schemes 33
1.10 Informal Sector Unemployment Benefit Programs 35
1.11 Examples of Public Works Programs 36
1.12 Loan-Based Employment Generation Schemes 36
1.13 Skills Development Training Programs 37
1.14 Comparison of Social Protection Instruments in the Formal and Informal Sectors 38
1.15 Viet Nam’s Tiered-Benefit Social Pension Program 52
2.1 Changes in Vulnerable Employment, 2000–2013, and Level of Social Protection Noncoverage in Sample Countries in the Latest Year for Which Data are Available 72
2.2 Measures of Health Care Coverage and Quality in the Sample Countries 76
2.3 Share of Pension Recipients in the Total Population above Retirement Age in Sample Countries 80
2.4 Noncontributory Social Pension Schemes in Selected Countries in Asia 82
2.5 Approximate Alternative Estimates of Public Social Expenditure in the Sample Countries, 2010 84
2.6 Total Social Expenditure by Social Protection Guarantee and by Expenditure Allocated to the Formal and Informal Sectors in the Sample Countries 86
2.7 Realistic Options for Extending Social Protection to the Informal Economy in Asia 93
2.8 Cost of Closing the Social Protection Gap in the Sample Countries, Stationary State, Lower Estimate
2.9 Cost of Closing the Social Protection Gap in the Sample Countries, Stationary State, Upper Estimate
2.10 Comparison of Cost of Closing the Protection Gap in Sample Countries, Stationary State for Alternative Poverty Lines
2.11 Estimated Cost of Closing the Social Protection Floor Gap in Selected Sample Countries in a Stationary State, Year of Around 2020, Using International Labour Organization Estimates
2.12 Central Government Total Revenue, Total Expenditure, and Fiscal Balance in Sample Countries, 2013 or Latest Year for Which Data are Available
A2.1 Principal Options for Extending Social Protection to the Informal Economy
A2.2 Possible Strategies for Financing Closure of Social Protection Gaps in Selected Sample Countries
A2.3 Mean and Standard Deviation of Tax–Gross Domestic Product Ratios in Low- and Lower Middle-Income Countries, around 2010
A3.1 Social Pension Schemes in Asia
A3.2 Tax-Financed Disability Benefits in Asia
A3.3 Poor Relief Schemes in Asia
A3.4 Selected Child Benefits in Asia
A4.1 Social Protection Program Outcomes and Governance Shortcomings in Asia
A4.2 Social Protection Programs Reviewed
5.1 Literacy Rates of Respondents by Subsector
5.2 Percentage Shares of Respondents Based on Labor Skills
5.3 Respondents with Various Types of Employment
5.4 Employment Status of Respondents
5.5 Type of Employment Contract by Subsector
5.6 Working Hours by Respondents
5.7 Safety at Workplaces of Respondents
5.8 Payment Terms of Respondents
5.9 Monthly Salary Range of Respondents
5.10 Respondents’ Knowledge on Social Protection
6.1 Workers Covered by Social Insurance Programs
6.2 Share of Migrants in Urban Areas Covered by Social Insurance Programs
6.3 Classification Standards for Some Micro, Small, and Medium-Sized Enterprises in the People’s Republic of China
6.4 Percentage Share of Respondents with Employment Contracts by Economic Sector
6.5 Number of Hours Respondents Worked per Week 268
6.6 Number and Percentage Share of Respondents Receiving Work-Related Allowances and Benefits 269
6.7 Percentage Share of Respondents Who Had a Formal or Informal Organization Represent Their Interests as Workers by Economic Sector 270
7.1 Definitions of Micro, Small, and Medium-Sized Enterprises Used by the Ministry of Industries and Bangladesh Bank 280
7.2 Distribution of Manufacturing Establishments Employing at Least 10 Workers, 2010–2011 281
7.3 Output–Labor, Capital–Output, and Capital–Labor Ratios for Firms in the Manufacturing, Services, and Trade Sectors in Bangladesh 283
7.4 Sociodemographic Characteristics of Respondent Households 288
7.5 Major Occupations of Wage-Earning Members of Respondent Households 289
7.6 Average Monthly Household Income of Respondent Households and Percentage Share of Respondent Workers in Monthly Income 289
7.7 Percentage Share of the Managerial, Clerical, and Operative Categories of Workers 290
7.8 Reasons for Apprehension of Job Loss by Respondent Workers 291
7.9 Employment Category of the Respondents by Sex 295
7.10 Types of Work Performed by Respondent Male and Female Workers 296
7.11 Respondents’ Length of Current and Previous Employment by Gender 298
7.12 Monthly Earnings from Employment by Gender 300
8.1 Typology of Micro, Small, and Medium-Sized Enterprises 311
8.2 Share of Micro, Small, and Medium-Sized Enterprise Subsectors in Total Economic Activity and Employment, 2011 312
8.3 2015 Premiums under Indonesia’s National Health Insurance System 316
8.4 Indonesia’s National Population Covered by Health Insurance in 2013, by Type of Insurance Coverage 317
8.5 ASKESKOS (Employment Insurance for Informal Workers) Contributions, Benefits, and Eligibility 320
9.1 Classification Criteria for Micro, Small, and Medium-Sized Enterprises 339
9.2 Social Security System Participation by Type of Occupation 347
9.3 PhilHealth Membership by Type of Occupation 348
9.4 Pag-IBIG Fund Membership by Type of Occupation 350
9.5 Lack of Provisions for Work-Related Benefits 352
10.1 Average Percentage Share of Informal Employment in Total Nonagriculture Employment, 2004–2010, and Range of Percentage Share by Region 363
10.2 Years Working in Major Activity by City 367
10.3 Reasons for Working Fewer Hours than Usual by Sector and Gender 369
10.4 Selected Health Indicators for India and Thailand 373

Figures
1.1 Three Levels of Formulation and Operation of Social Protection Systems 15
1.2 Contingencies and Risks at Various Stages of a Life Cycle 16
1.3 Development Planning Matrix 18
1.4 Instruments Comprising the Three Types of Social Protection Initiatives 23
1.5 Indonesia’s Unified Database 49
2.1 Approximate under $2.00-per-Day Poverty Rates versus Gross Domestic Product per Capita in Purchasing Power Parity Terms in Developing Countries in Asia, 2010–2011 67
2.2 Gini Coefficients versus Gross Domestic Product per Capita in Purchasing Power Parity Terms in Several Developing Countries in Asia, 2010 68
2.3 Indicators of Informal Employment in Sample Countries, 2000 and 2013 70
2.4 Total Public Social Expenditure as a Percentage of Gross Domestic Product versus Gross Domestic Product per Capita in $ Purchasing Power Parity, Selected Countries in Asia, around 2010 88
2.5 Under $2.00-per-Day Poverty Rates and Government Revenue as a Percentage of Gross Domestic Product in Selected Sample Countries, 2010–2013 104
3.1 Distribution of Total Employment in Asia, by Status in Employment and Sex 125
3.2 Impact on the Poverty Rate of Social Assistance Transfers across Age Groups in Viet Nam (2012) and Georgia (2013) 134
10 The Women in Informal Employment Globalizing and Organizing Model of Informal Employment: Hierarchy of Earnings and Poverty Risk by Status in Employment and Gender 363

Boxes
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Social Insurance Systems in the Former Soviet Union or Transition Economies</td>
<td>130</td>
</tr>
<tr>
<td>3.2</td>
<td>The Rural Pension of the People’s Republic of China</td>
<td>131</td>
</tr>
<tr>
<td>3.3</td>
<td>Crowding Out: Is It a Problem?</td>
<td>136</td>
</tr>
<tr>
<td>3.4</td>
<td>Technical Challenges to Incorporating the Informal Economy Workforce into Social Insurance Schemes</td>
<td>137</td>
</tr>
<tr>
<td>3.5</td>
<td>Misunderstandings on the Political Economy of Targeting</td>
<td>142</td>
</tr>
<tr>
<td>3.6</td>
<td>The Myth of Brazil’s Bolsa Família Program</td>
<td>143</td>
</tr>
<tr>
<td>3.7</td>
<td>Social Protection and Reductions in Inequality as Drivers of Growth</td>
<td>146</td>
</tr>
<tr>
<td>3.8</td>
<td>Democratic Drivers behind Mongolia’s Universal Child Money Scheme</td>
<td>149</td>
</tr>
<tr>
<td>3.9</td>
<td>The Financial Feasibility of Investing in Inclusive Life Cycle Schemes</td>
<td>150</td>
</tr>
<tr>
<td>7.1</td>
<td>The Tenuous Balance between Working Life and Family Life</td>
<td>298</td>
</tr>
<tr>
<td>7.2</td>
<td>Gender Wage Difference in the Ready-Made Garment Sector</td>
<td>300</td>
</tr>
</tbody>
</table>
The 2030 Agenda for Sustainable Development sees poverty reduction in all its dimensions and inclusive growth as one of the world’s greatest challenge. The 17 Sustainable Development Goals for transforming our world include the universal agenda of implementing nationally appropriate social protection systems with substantial coverage for the poor and vulnerable, in recognition of the value of unpaid care and domestic work. This will be achieved through provision of public services and through the adoption of equitable policies within, and among, countries.

In the World Employment and Social Employment Outlook Trends 2016, the International Labour Organization suggested that a lack of decent jobs has resulted in more than 50.0% of workers turning to informal employment that results in low productivity and a volatile income. This problem is exacerbated in many developing countries in Asia by a gender divide in the availability and quality of jobs available to men and women. The new agenda calls for greater compliance with labor standards for those engaged in informal employment.

Strategy 2020 of the Asian Development Bank (ADB) recognizes the demographic changes in the region’s population and the effect on the existing labor force, such as the need for adequate pension systems, health insurance, and flexible labor policies for populations in developing member countries. ADB’s Social Protection Operational Plan 2014–2020 also supports policy reforms that improve social insurance and pension schemes for both formal and informal sectors.

Social Protection for Informal Workers in Asia addresses social protection gaps ranging from issues of financing, design, governance, and political economy of social protection for informal workers in Asia. It presents various case studies from countries with distinct social protection systems and analyzes the institutional aspects and design challenges of each system. It also makes recommendations for improving program implementation and for expanding social protection systems for informal workers in Asia.
It is our hope that this publication will identify practical solutions and guide policy responses that better address the needs of a growing informal economy in the region.

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Sustainable Development and Climate Change Department
Asian Development Bank
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### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Ps</td>
<td>Pantawid Pamilyang Pilipino Program (conditional cash transfer program)</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>APINDO</td>
<td>Asosiasi Pengusaha Indonesia (Association of Indonesian Entrepreneurs)</td>
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<td>ASKES</td>
<td>Asuransi Kesehatan (health insurance for government employees)</td>
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<td>ASKESOS</td>
<td>Asuransi Kesejahteraan Sosial (social welfare insurance)</td>
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<tr>
<td>BAPPENAS</td>
<td>Badan Perencanaan Pembangunan Nasional (Ministry of National Development Planning)</td>
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<td>BBS</td>
<td>Bangladesh Bureau of Statistics</td>
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<td>BISP</td>
<td>Benazir Income Support Programme</td>
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<td>BPJS</td>
<td>Badan Penyelenggara Jaminan Sosial (Social Security Administering Body)</td>
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<tr>
<td>CFPR-TUP</td>
<td>Challenging the Frontiers of Poverty Reduction-Targeting the Ultra Poor</td>
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<td>DOLE</td>
<td>Department of Labor and Employment</td>
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<td>DSWD</td>
<td>Department of Social Welfare and Development</td>
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<td>EOBI</td>
<td>Employees Old-Age Benefits Institution</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
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<tr>
<td>HIES</td>
<td>household income and expenditures survey</td>
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<td>ICT</td>
<td>information and communication technology</td>
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<td>IEMS</td>
<td>Informal Economy Monitoring Study</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>Jamkesmas</td>
<td>Jaminan Kesehatan Nasional (national health insurance)</td>
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<td>Jamsostek</td>
<td>Jaminan Sosial Tenaga Kerja (social insurance for formal workers)</td>
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<td>KTP</td>
<td>Kartu Tanda Penduduk (official identification card)</td>
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<tr>
<td>Lao PDR</td>
<td>Lao People's Democratic Republic</td>
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<td>MGNREGA</td>
<td>Mahatma Gandhi National Rural Employment Guarantee Act</td>
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<tr>
<td>MIS</td>
<td>management information system</td>
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<td>MLSG</td>
<td>Minimum Living Standard Guarantee</td>
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<td>MOI</td>
<td>Ministry of Industries</td>
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<td>MOSA</td>
<td>Ministry of Social Affairs</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<td>MOSME</td>
<td>Ministry of Cooperatives and Small and Medium Enterprises</td>
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<td>MSMEs</td>
<td>micro, small, and medium-sized enterprises</td>
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<td>NADRA</td>
<td>National Database and Registration Authority</td>
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<td>NBS</td>
<td>National Bureau of Statistics</td>
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<td>NGO</td>
<td>nongovernment organization</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PDS</td>
<td>Public Distribution System</td>
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<tr>
<td>PhilHealth</td>
<td>Philippine Health Insurance Corporation</td>
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<td>PKH</td>
<td>Program Keluarga Harapan (Family Hope Program)</td>
</tr>
<tr>
<td>PPP</td>
<td>purchasing power parity</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>RMG</td>
<td>ready-made garment</td>
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<td>RSBY</td>
<td>Rashtriya Swasthya Bima Yojana (health insurance scheme)</td>
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<tr>
<td>SEWA</td>
<td>Self Employed Women’s Association</td>
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<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>SMI</td>
<td>survey of manufacturing industries</td>
</tr>
<tr>
<td>SSS</td>
<td>Social Security System</td>
</tr>
<tr>
<td>TNP2K</td>
<td>Tim Nasional Percepatan Penanggulangan Kemiskinan (National Team for the Acceleration of Poverty Reduction)</td>
</tr>
<tr>
<td>TSA</td>
<td>targeted social assistance</td>
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<tr>
<td>UCS</td>
<td>Universal Coverage Scheme</td>
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<tr>
<td>UHC</td>
<td>urban health center</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<tr>
<td>UPP</td>
<td>Unit Penyelarasan Pelaksanaan (program implementation unit responsible for socialization, monitoring, and evaluation of direct cash transfer system)</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
<tr>
<td>WIEGO</td>
<td>Women in Informal Employment: Globalizing and Organizing</td>
</tr>
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</table>
Overview

Sri Wening Handayani

Social Protection for Informal Workers in Asia

On the international stage, social protection has been increasingly recognized beyond the Millennium Development Goals and is now part of the 2030 Agenda for Sustainable Development, which brings it to the forefront of the development agenda. Specifically, these goals recognize that the needs of the poor and vulnerable groups must be addressed.

Social protection—that is, 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—can improve the capacity of individuals, thereby contributing to the goal of inclusive, equitable, and sustainable economic growth (ADB 2001). Labor market programs are considered key elements of a social protection strategy, since only through work—not assistance—can people gain the capacity to provide for themselves and their families, exercise the right to make their own choices, and eventually become active members of the society in which they live. Enabling people to provide for themselves is the best formula for social protection, as well as for strengthening human capabilities and allocating social and economic resources more efficiently and equitably.

However, few labor market programs play major roles in social protection in Asia, when a flexible definition of social protection incorporates both active and passive labor market programs. Traditional passive labor market programs, such as unemployment benefits and severance payments that mostly cover employees in the formal sector, are virtually nonexistent or ineffective in most Asian countries.

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1 Implementing nationally appropriate social protection systems through achieving substantial coverage of the poor and vulnerable is reflected in Goal 1, eradicating extreme poverty by 2030. Goal 5, on gender equality, recognizes the value of unpaid care and domestic work through social protection policy provision, while Goal 10, reducing inequality, includes adopting social protection policies for greater equality as one of its targets.
In many countries in Asia, social protection benefits accrue mostly to well-off households that can afford to make contributions to social insurance, and poor households that have some access to social assistance. A large number of households (missing middle) are neither covered by social insurance nor social assistance (ADB 2013). This missing middle usually works in the informal economy, placing themselves in a vulnerable group.

The informal sector comprises economic activity that functions outside of official institutional frameworks: a heterogeneous set of workers in income, employment status, and sector of activities. Migrants, women, and youth comprise much of Asia’s growing informal economy workforce; these persons do not have contracts, worker benefits, or adequate representation. Without proper documentation, the invisible status of these activities is not covered in the formal social protection system or in conventional labor force surveys.

Informal employment is widespread in most developing countries; although associated with low productivity in low-income countries, it also contributes to nonagriculture gross domestic product (WIEGO). While some of the very poor are engaged in subsistence activities, some informal workers also have profitable business ventures. Informal employment includes an estimated 60.0% of the workforce in the Asia and Pacific region (ILO) and as much as 90.0% in South Asia and Southeast Asia (ILO 2014a).

Yet today, informal workers in Asia are increasingly vulnerable, occupying hazardous, low-income jobs with poor working conditions. Despite this increased risk and susceptibility, only 27.0% of the global population has access to comprehensive social protection systems (ILO 2014b). Less than 25.0% of the working population in Asia and the Pacific is covered by social insurance, such as pensions or health care benefits (PEP 2013). Social insurance is mostly geared toward formal sector employees and remains difficult to attain for countries with a huge informal sector (ADB 2013).

Increasing social protection access and coverage to the informal sector can lead to a number of benefits. First, social protection can increase workers’ access to credit, education, new technologies, and markets, raising the sector’s productive potential. Second, protective instruments can provide vulnerable workers with increased security and dignity, help them invest in future generations, and

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2 For example, they function outside of existing labor regulations or fiscal obligations of enterprises that require registration or licensing.


improve their chances to escape poverty. Third, spending and consumption among members of the informal economy can stimulate economic growth and promote social cohesion. Fourth, economic activity of the informal sector can generate greater demand and support entrepreneurship. Fifth, inclusion of untaxed workers’ wages in the formal institutional framework can ease the burden of social protection financing.

This publication reflects 2 years of research and consultation to build strategies for expanding coverage of social protection to informal workers in Asia. The first four chapters present the conceptual framework of expanding social protection for informal workers by discussing four different themes (design and delivery, financing, political economy, and governance), assess social protection coverage, identify practical programs, and recommend policy solutions to expand social protection schemes for informal workers in Asia. These chapters also offer suggestions to close social protection gaps and to explain the challenges and constraints of setting up a social protection system for informal workers within the larger economic and institutional context of countries in Asia.

Chapter 1 examines general challenges in the design and delivery of social protection systems for informal workers. The authors raise two important challenges in designing and implementing social protection programs for informal workers at the program level: long-term fiscal sustainability and heterogeneity of the informal sector. There are also administrative and fiscal constraints when implementing social protection programs for informal workers in Asia, including limited human and technical resources. To address these constraints, program monitoring and evaluation should inform design, implementation, or expansion of new programs. The authors also recommend a single-registry management information system to coordinate targeting and to benefit delivery, monitoring, and evaluation of social protection systems that cover informal workers.

Social protection coverage can also be extended by having complementary programs that are implemented within the context of an overall social protection framework. Designing complementary frameworks—the life cycle approach to provide coverage across all age groups alongside the development planning approach to deepen and maximize overall development impact—provides continuous coverage and fewer coverage gaps. Innovative solutions, such as partnerships with microfinance institutions and community organizations, can also increase access to social protection in the region.

Chapter 2 estimates current social protection expenditure in the informal sector by analyzing 20 developing countries in Asia and identifies financing options for closing coverage gaps. The study reveals that in the majority of the
20 Asian countries that were sampled, at least a basic level of social protection for all appears affordable without causing high levels of taxation. In fact, the authors find that the major gaps in the protection of the informal sector can be closed with only about 2.0%–3.0% of GDP. Financing social protection for all requires possible reallocation of existing expenditure within the government or national budget, improving tax collection and savings, or increasing taxation.

Chapter 3 explores the link between political economy and low social protection coverage. The authors argue that social insurance and poverty-targeted schemes are ineffective in reaching the majority of the informal sector and cite reasons of political economy, such as the widespread belief in the family’s role as the main provider of social protection or the use of social protection for patronage or political settlement by elites, to explain the lack of social protection coverage. The authors argue that as democracy strengthens in the region and political parties become more resolute in using social protection to win a majority of the electorate, there will be a movement toward more inclusive life cycle social protection schemes.

Chapter 4 examines the effect of governance at the system and program levels, on the service delivery outcomes of social protection systems, particularly social assistance programs, which are the primary means of support for informal workers in Asia. The author argues that extending social protection coverage to the informal sector, or closing social protection gaps, requires a long-term effort to address broad governance issues at the national level, including setting service quality standards for programs, developing a well-coordinated system for effective service delivery, and improving institutional arrangements in program design.

The author recommends that program design for social protection should be accompanied by a feasibility assessment of government agency resources and capacities that include availability of financial resources, staff, and equipment. Equitable social protection provision needs streamlined financial arrangements with a transparent mechanism for fiscal transfers from the central government. At the same time, central government involvement in eligibility criteria and benefit calculation should be accompanied by local adjustments in service provision to promote program inclusiveness and equity. The author further suggests horizontal accountability, or effective oversight and enforcement of the rule of law at the program level, to improve governance and feedback. Political commitment and adequate administrative and implementation capacity also strengthen national agencies’ ability to establish effective government mechanisms for social protection programs.

The succeeding chapters are case studies of various Asian countries—Bangladesh, the People’s Republic of China (PRC), Indonesia, Pakistan, and the Philippines. These case studies explore the variety of policies and initiatives
relating to social protection in the informal sector in the region. Specifically, a large number of micro, small, and medium-sized enterprises (MSMEs) are informal (ADB 2014), and an estimated 80.0% of all enterprises in developing countries are informal firms, with South Asia, East Asia, and Pacific island countries having the highest number of informal MSMEs (IFC 2013). The last case study also presents lessons learned in overcoming barriers and addressing gender dimensions in universal health care for informal workers in India and Thailand.

Surveys, covering specific policy areas where most MSME workers lack social protection coverage, were conducted in these countries. Further analyses consisted of desk reviews, focus group discussions, and key informant interviews with respondents from various sectors—construction, services, manufacturing, and wholesale and retail trade (including self-employed and industrial home-based workers, employers, and government agencies) across the countries. These case studies present the challenges of informal workers and suggest interventions to inform design and implementation and to improve coverage of social protection for informal workers.

Chapter 5 presents a case study of Pakistan as a country that lacks adequate social protection coverage, with most informal workers unrecognized by official policies and in need of better labor protection and social welfare. Informal workers in Pakistan often earn around, or even below, the legal minimum wage. Women are particularly vulnerable because they are largely concentrated in the informal sector in home-based work and have lower overall average wages than their male counterparts. The author argues that beyond short-term safety nets or targeted social assistance, government support is needed to provide some basic level of economic security in terms of wages or regularity of work. She recommends including budgetary expansions into the government’s medium-term framework to allow social protection provision for informal workers, creating training programs to reach informal workers with little education, hiring from registered contractors to provide incentives to register, and linking registration with computerized identity cards to gather information on informal workers and to extend social protection coverage. The author further encourages the increased participation of informal workers and civil society organizations in collective bargaining to improve representation—and thus benefits—of informal workers.

The PRC is another case study presented in Chapter 6, because it has a wide social protection system, and the government functions as the main provider of social protection. The authors find that despite this system, benefit levels are low. Informal workers, the majority of whom are migrants, have difficulty accessing social protection programs due to the hukou registration system (the official registry of residents at their place of birth). Social insurance for residents is also limited and disadvantages migrant workers who can only participate in
their place of *hukou*, not where they have migrated. Further, the initial design of the social insurance system for formal workers, which was later extended to informal workers, can be too expensive for informal workers receiving lower wages. The high rates of social insurance contributions required of employers also make it difficult for MSMEs to comply with social insurance laws and labor contracts. The authors thus recommend policy adjustments in social insurance programs for MSMEs, such as reforming the PRC’s laws requiring participation in all five social insurance programs simultaneously, allowing employees to opt out of individual programs, and requiring lower contributions of MSME employees. They also suggest that benefit levels should be recalculated, thus allowing informal workers to participate in social protection programs for residents.

Chapter 7 presents the need for a well-designed social protection system in Bangladesh to facilitate information sharing and implementation among various government agencies responsible for social protection, and to avoid current program duplication and patchwork solutions. The informal sector, too, faces structural challenges, such as the informal status of employees and their corresponding lack of social protection coverage, the absence of employment contracts acting as disincentives for employers to offer social protection programs, and the weak administration of labor law and regulations. The author urges the establishment of a comprehensive social protection framework along with a national social protection strategy to ensure the economic viability of MSMEs, the heart of the country’s economy. Coordination of social protection programs among government agencies must also be improved through better monitoring and evaluation mechanisms to determine program impact. Active political support would also help ensure better enforcement of labor law, as would a redesign of existing policies to upgrade systems of labor inspection.

Chapter 8 turns to the low participation rates of MSME workers for social protection programs (e.g., pension and health insurance) in Indonesia, finding various constraints that limit informal worker participation. These include low awareness of social protection programs and registration procedures, regulations that limit the obligation of firms to provide employment insurance for workers, lack of coordination in regulatory enforcement, and strict requirements for claiming benefits. The irregular income of informal workers and the financial incapacity of MSMEs contribute to employer and employee unwillingness to pay insurance premiums. Almost half of informal workers are not covered by health insurance; the extent of employment insurance coverage among informal sector workers is even lower. The Jaminan Sosial Tenaga Kerja (Jamsostek) microinsurance scheme, for instance, covers only 0.6% of all workers. The authors state that expanding the participation of social insurance programs in Indonesia requires more simplified registration and collection methods. Improved coordination among government line ministries would also help ensure employer compliance with existing labor regulations. MSME
empowerment, through better access to financial services and skills training, can further help facilitate workers’ participation in social protection programs.

Chapter 9 shows that nearly half of MSME workers in the Philippines are nonmembers of the mandatory health insurance scheme, and rates of social security coverage among industrial home-based workers and self-employed respondents are extremely low. While low social security coverage is due to a lack of awareness of program benefits and unaffordable premiums, low coverage for MSME workers results from dependence on employers to register them for social protection programs and weak enforcement of labor laws. Informal employment is also found in formal enterprises, particularly where legal enforcement of employee protection is weak or absent. The author thus recommends intensifying information campaigns on participation benefits, partially subsidizing insurance premiums for informal workers, providing unemployment benefits for a defined period, and improving coordination among government agencies to support a movement toward universal social protection coverage.

The last case study, in Chapter 10, focuses on gender dimensions and health care, comparing the different models of health care systems in India and Thailand. The authors note that increasing access to information on preventive measures, and addressing systemic problems in the health system, such as creating more efficient public health services, can improve the health care access of informal workers, especially women. The authors conclude that universal health care is an achievable goal for countries at any income level, but this requires strong political commitment and a collaborative effort among civil society, informal worker representatives, and technocrats.

The growing informal sector in Asia lacks social protection coverage and needs innovative solutions that can reduce risks, mitigate impacts of crises, and ensure income security to the majority of the working population, particularly those involved with MSMEs. While each country is unique in terms of its institutional, political, and social context, the same policy guidelines apply whether it is a call to improve fiscal sustainability, streamline administrative procedures, or design simpler delivery systems. This publication posits that extending social protection coverage to informal workers is financially feasible and, with good governance, coordinated systems, and political will, better social protection programs can be created that are equitable and inclusive for both employers and informal workers in the region.
References


Abstract

Challenges in designing and delivering social protection systems that extend to informal sector workers arise not only from informal sector workers’ lack of access to traditional forms of social protection, but more generally from the heterogeneity of the sector itself. As a result, social protection programs that target informal sector workers must employ more creative and active forms of outreach than those used by formal sector programs.

The success of social protection initiatives depends not only on their ability to protect beneficiaries from the negative impacts of the risks and vulnerabilities that they face, but also on their ability to facilitate achievement of broader development objectives such as equity, social inclusion, and fiscal sustainability. This requires coordinated effort at numerous levels of social protection policy formulation and implementation. Providing guidance on how social protection systems—regardless of whether these target formal or informal sector workers—should be conceptualized, formulated, and implemented requires a comprehensive approach that addresses requisite actions at the policy, program, and administrative levels.

At the policy level, coordination is required among social protection policy and social protection programs, their sources of financing, and their institutional arrangements. At the program level, coordination is also needed between social protection programs that fulfill the surveys, covering specific policy areas where most micro, small, and medium-sized enterprise (MSME) workers lack social protection coverage, as well as programs that are complementary. Such coordination is required if coverage gaps are to be reduced and the impact of all social protection interventions deepened. The administrative level is the basic
level of provision of social protection. It encompasses the day-to-day tasks of ensuring adherence to program design and implementing efficient, effective, and accessible delivery systems. The formulation and implementation of social protection programs for informal sector workers is often hampered by administrative and fiscal capacity constraints, as well as by the limitations of human and technical resources. However, despite limited capacity for administration and evaluation, it is very encouraging that several countries in Asia are able to design and implement effective social protection programs that target informal sector workers.

Introduction

Ensuring the availability of social protection to Asia’s large and growing informal sector labor force is one of the region’s major social policy challenges. As the informal sector comprises all economic activity that remains outside of the official institutional framework, it spans a broad spectrum of employment that includes street vendors, home-based workers, self-employed workers, and workers who are paid wages. For the most part, formal social protection programs, such as contributory pensions, health insurance, unemployment insurance, or disability benefits, do not cover these individuals.

The informal sector comprises an estimated 40.0%–50.0% of Asia’s total labor force, with estimates reaching as high as 90.0% in some countries (Unni and Rani 2003). While informal sector workers account for a significant share of the region’s overall workforce, most are not covered by social protection programs, as these are more easily extended to the formally employed. Innovative design, targeting, and implementation of social protection programs adapted to the conditions of the informal sector are thus necessary to address the current exclusion of this large—yet nearly invisible—labor force from the formal social protection system.

Challenges in designing and delivering social protection systems that extend to informal sector workers arise not only from their lack of access to traditional forms of social protection, but more generally from the heterogeneity of the sector itself. In short, the difficulties faced by governments in providing social protection to workers who lack requisite registration and documentation are compounded by the fact that the informal sector varies widely across industry lines, types of organizations, geographic locations, and salary ranges. The design of social protection programs that meet the requirements implicit in such heterogeneity must cover the informal sector’s entire range of activities and individuals. Further, social protection programs and systems that target this significant segment of the overall labor force must also employ more creative and active forms of outreach than those used by formal sector programs.
The nature of informal sector employment differs substantially from that in the formal sector. Lacking contracts and documentation, workers in the informal economy face high levels of income and job insecurity, and are often subject to dangerous or unhealthy work environments. Further, if an individual becomes sick or injured working under these conditions, he or she has no access to income replacement through guaranteed unemployment or employment injury benefits. Comprehensive approaches to mitigating such risks and to promoting inclusive growth are required if social protection systems are to adequately respond to the specific conditions of informal sector workers and the vulnerabilities that they face.

This chapter addresses considerations that must be taken into account when designing and implementing social protection programs and systems for informal sector workers in Asia. However, as the chapter addresses social protection systems that respond to contingencies that are likely to occur at the various stages of life regardless of the employment status of an individual, it does not exclude references to programs that benefit the formal sector labor force. This chapter perceives social protection as a requisite component of the overall development effort and social protection for informal sector workers as a subset of that component.

Providing guidance on how social protection systems—regardless of whether these target formal or informal sector workers—should be conceptualized, formulated, and implemented requires a comprehensive approach that addresses requisite actions at the policy, program, and administrative levels. In addition to policy and program considerations as these relate to social protection, the quality of day-to-day administration of social protection programs greatly affects the degree to which these programs result in their intended beneficial impacts.

This chapter details best practices at each level of design and implementation of social protection programs as a means of offering guidance on how these programs can best serve the requirements of informal sector workers. It thus incorporates examples of social protection programs and systems that address the vulnerabilities faced by informal sector workers in Asia.

The Informal Sector in Asia

The degree to which social protection is provided to informal sector workers varies widely across Asia. The factors that account for this variation include (i) share of the informal sector in the total labor force, (ii) amount of resources devoted to social protection, (iii) nature and design of social protection policy, and (iv) level of effort devoted to providing social protection to the most
excluded members of society (Kabeer et al. 2010). There is similarly wide variation in the social protection programs and benefit delivery methods used to address the specific needs of informal sector workers.

Broadly speaking, the informal sector comprises all economic activity that remains outside of the official institutional framework. Given this definition, informalization of the workforce can occur through self-employment, wage work in enterprises in both the formal and informal sectors, or home-based work. In 2003, the 17th International Conference of Labour Statisticians broadly defined the informal sector to include (i) own-account workers who work in their own informal sector enterprises; (ii) employers who work in their own informal sector enterprises, and contributing family members; (iii) members of informal producers’ cooperatives; (iv) employees holding informal sector jobs as defined by the employment relationship; and (v) own-account workers engaged in the production of food for final use by their own household (Rys 2013). Such a definition encompasses all workers outside of the formal regulatory environment, and therefore outside of the typical coverage of social services, rather than workers who are simply employed by informal sector enterprises or who work without employment contracts. This definition has broad implications for the design and coverage of social protection systems.

There is wide variation in the level of informality in labor markets across Asia’s subregions and countries. East Asian countries have benefited from substantial economic growth in recent years, and have thus seen increasing levels of formalization of their labor markets. In contrast, while Southeast Asian countries are projected to experience substantial employment growth over the coming years, this growth has been coupled with a continued high incidence of vulnerable employment (i.e., 59.0% of all employment in 2013). Vulnerable employment comprises informal sector employment that lacks an income or employment guarantee, home-based work, and uncompensated household work, the latter disproportionately characterizing employment of women in the region (i.e., 63.1% for women as compared with 56.0% for men in 2013) (ILO 2014).

In South Asia, the informal sector accounts for a relatively large share of the total labor market. For example, during 2009–2010, informal employment comprised 83.6% of all nonagriculture employment in India, and 78.4% in Pakistan, with similar corresponding figures for other South Asian countries. Such heavy reliance on the informal sector suggests a high level of income and employment insecurity in South Asia, a situation further exacerbated by low

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labor force participation rates, in large part due to differences in rates between genders. For example, while the region’s total labor force participation rate was 56.1% in 2012, it was 80.6% for men but only 30.4% for women (ILO 2014). Such statistics demonstrate that women are more likely than men to engage in uncompensated work at home, which is a form of vulnerable employment since women’s autonomy within a household or community is lessened by their lack of an independent income source.

Thus, in tandem with expansion of the informal sector in many parts of developing Asia, the share of women and youth employed in the informal sector has increased. One component of the informal sector driving this trend is growth in subcontracted home-based work in manufacturing and services (Mehrotra and Biggeri 2002). While an increase in home-based work simultaneously encourages development of microenterprises by women, contractors looking to cut costs by outsourcing product manufacturing or service delivery also tend to exploit home-based workers. This outcome has caused the relative income and living standards of informal sector workers to deteriorate, as it diminishes their bargaining power with respect to wage offers (Kudva and Benería 2005).

Youth are also disproportionately represented in the informal economy (Rys 2013). As individuals are increasingly able to work into their later years, fewer opportunities are left for youth who lack the requisite experience and skills for procuring formal sector employment. Their only alternative is work in the informal sector. However, engaging in low-skills activities may limit the opportunities available to youth for finding more productive forms of employment later in life.

The 90th Session of the International Labour Conference identified the lack of representation and rights in the workplace and lack of social protection as key decent work deficits in the informal economy (Shrestha 1991). These deficits are due to the informal sector operating outside of legislation, such as factory or commercial acts and tax or social security laws (Chen, Jhabvala, and Lund 2001). This causes informal sector workers to be more vulnerable to shocks arising from job and income insecurity and unsafe working conditions. It makes them more vulnerable to contingencies such as illness, injury, or death. From a fiscal perspective, ultimate inclusion of untaxed workers’ wages in the social protection system would greatly ease the financing of social protection, as an insufficient tax base can diminish both the number and coverage of social protection initiatives.

Although there are vast differences between most formal and informal sector enterprises, the two are often inextricably linked, as most segments of the informal economy have connections to production, trade, and services in the formal economy (Chen, Jhabvala, and Lund 2001). This notwithstanding,
informal sector workers do not benefit from the rights afforded to those who work in the formal sector.

**Designing and Delivering Social Protection Programs for Informal Sector Workers: The Policy Level**

The primary goal of providing social protection to informal sector workers is to ensure that all individuals are able to access decent forms of work that sustain their livelihoods throughout their life cycles. Further, social protection can guarantee a minimum level of income and dignity that allows informal sector workers better protection against income shocks and other vulnerabilities.

The success of social protection initiatives depends not only on their ability to protect beneficiaries from the negative impacts of the risks and vulnerabilities that they face, but on their ability to achieve broader development objectives as well, such as equity, social inclusion, and fiscal sustainability. As a result, social protection initiatives should focus on outcomes and establish incentives for beneficiaries that help ensure that these outcomes are achieved rather than narrowly perceiving social protection as a purely humanitarian initiative.

Achieving the above objectives requires coordinated effort at various levels of social protection policy formulation and implementation. Figure 1.1 depicts these levels of operation of social protection policy. At the policy level, coordination is required between social protection policy on one hand and the social protection programs implemented, their sources of financing, and their institutional arrangements on the other.

At the level of the individual social protection program, coordination is required among social protection programs that fulfill the same function, as well as programs that are complementary. Such coordination at the program level is required if coverage gaps are to be reduced and the impact of all such interventions deepened. The administrative level—which is the basic level of provision of social protection—encompasses the day-to-day tasks of ensuring adherence to program design and implementing effective and accessible delivery systems.

At the policy level, the primary task of formulating and operating social protection programs is embedding social protection into a system of coordinated financing and institutional arrangements. This requires the cooperation of many government ministries and numerous sources of financing.
Unfortunately, this contrasts sharply with the current state of affairs at the policy level, in which provision of social protection is often hampered by fragmentation and inefficiency. This could be mitigated if the national government employs a framework for coordinating social protection initiatives and clearly defines the objectives of each program within a wider set of development objectives. Two frameworks are described below that can be used by national governments to establish coordinated, efficient social protection systems.

**Life Cycle Approach**

The life cycle approach to formulating social protection systems assumes that individuals face different risks and vulnerabilities at different stages of life, and that social protection can be designed in a way that addresses the risks that dominate each stage. This approach defines a life cycle as a period in which an individual’s level of vulnerability is constant, and the composition of the risks that the individual faces remains unchanged. An individual thus enters a new life cycle “when the set of risks and certainties that define the level of vulnerability changes in a positive or negative way” (Bonilla-García and Gruat 2003). Thus, life cycle changes that result from negative shocks in social or economic status cause an individual to enter a new life cycle marked by an increased level of risk.

Social protection instruments can protect individuals from negative life cycle changes. They can also adjust an individual’s livelihood in a way that makes
the current phase of the life cycle less prone to vulnerability. Provision of social protection throughout the life cycle even has positive impacts on nonbeneficiaries within households. For example, available evidence suggests that providing social pensions increases expenditure on children within pensioner households (Willmore and Kidd 2008).

Figure 1.2 depicts contingencies and risks that emerge during an individual’s life cycle. To a significant extent, social protection can mitigate the shocks that result from such contingencies.

Figure 1.2: Contingencies and Risks at Various Stages of a Life Cycle

- Pregnancy and Early Childhood
  - Stunting
  - Reduced cognitive development
  - No immunizations
  - Lack of antenatal and/or postnatal care

- School Age
  - Child labor
  - Lack of access to schooling
  - Malnutrition
  - Loss of parent

- Adolescence
  - Inadequate skills
  - Unemployment
  - Training inaccessible
  - Alienation
  - Early motherhood

- Working Age
  - Inadequate wages, excessive debt
  - Need to care for children and/or parents
  - Gender discrimination

- Old Age
  - Increasing frailty
  - Inability to work
  - No care from family
  - Discrimination in labor force

- Death
  - Unemployment and underemployment

Many countries have integrated the life cycle approach into national social protection planning. For example, Bangladesh’s National Social Protection Strategy addresses contingencies during childhood, school age, working age, and old age, and also provides social protection for persons with disabilities (Planning Commission, Government of Bangladesh 2014).

The life cycle approach to social protection is particularly effective in addressing the needs of informal sector workers who often face vulnerabilities and risks greater than their formal sector counterparts. This is because the life cycle approach allows the forms of social protection to be tailored to the vulnerabilities of particular demographic groups. Further, because the life cycle approach ensures that individuals are provided continuous coverage during all stages of life, it improves the level of social protection provided to the overall population.

**Development Planning Approach**

The development planning approach helps governments maximize the linkages between social protection and other components of the overall development effort such as education, health care, and provision of infrastructure. The assumption underlying the development planning approach is that the beneficial impact of social protection interventions at the household and community levels are maximized when they are integrated into the overall development planning framework. Embedding social protection into overall social and economic planning requires policy coordination at all levels of government, as well as between government and nongovernment entities such as service providers.

The development planning matrix (Figure 1.3) depicts the impacts of social protection and related development objectives, as well as how these impacts can be maximized by integrating social protection into the overall development planning agenda. The three types of social protection initiatives (social assistance, social insurance, and labor market programs) form a subset of the policy instruments that comprise inputs into the development planning matrix. These three types of social protection initiatives directly address the needs of informal sector workers. However, they also contribute to beneficial social and economic development outcomes, which form the overall policy outputs presented in the right-hand column of the matrix.

Integrated development planning through incorporating social protection for informal sector workers into overall development objectives allows these instruments to contribute to the achievement of overall development goals such as poverty alleviation, management of social risk, social inclusion, and
human capital development. Thus, integrating social protection into the overall development effort links it with other development objectives, as it facilitates human capital development, livelihood development, and inclusive economic growth.

The development planning matrix defines inputs as government policies, programs, and instruments that further national policy objectives (i.e., outputs). It thus emphasizes the linkages within and between sectors. The box shaded in the first quadrant shows how intrasector linkages (i.e., linkages between social protection initiatives) mutually strengthen the impact of all other social protection initiatives taken together in a way that facilitates achievement of social protection objectives. For example, when social transfers finance contributions to social health insurance for destitute households, household members are protected against catastrophic health shocks, for which simple cash transfers would be inadequate.

Social protection initiatives also facilitate achievement of policy objectives in other sectors, such as promoting inclusive economic growth. Thus, a national coordinating mechanism that plans, prioritizes, and integrates social protection policies and initiatives in a coordinated fashion also deepens the impact of all social protection initiatives taken together. It does this by maximizing the

Figure 1.3: Development Planning Matrix

<table>
<thead>
<tr>
<th>Policy Instruments (Inputs)</th>
<th>Social Participation</th>
<th>Other Sectors</th>
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<td>Social Assistance</td>
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<td>Insurance Mechanisms</td>
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<td>Labor Market Programs</td>
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<td>Legal Rights</td>
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<td>Organization and Self-Determination</td>
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<tr>
<th>Policy Objectives (Outputs)</th>
<th>Social Protection</th>
<th>Other Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Reduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Risk Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Inclusion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Livelihoods Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Equality Reduction</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors.
Designing and Delivering Social Protection Programs for Informal Sector Workers in Asia

likelihood of achieving social protection policy objectives, while at the same time minimizing associated risks and costs.

The development planning framework also recognizes the potential for intersector impacts. For example, social protection programs that operate at the individual and household levels can complement one other, thus producing synergies that produce broader beneficial macroeconomic impacts. The Government of Indonesia recognizes the benefits of such synergies. As a result, it has delegated all aspects of development planning including social protection to the Ministry of National Development Planning (Badan Perencanaan Pembangunan Nasional [BAPPENAS]). BAPPENAS is responsible for ensuring coherence between institutional arrangements and financing that relate to social protection, as well as ensuring coherence among all development initiatives in Indonesia. It is also responsible for coordinating development partner and donor funding of all development initiatives, including those that relate to social protection (BAPPENAS, Government of Indonesia 2016).

Benefit Portability

One of the most pressing policy objectives for social protection coverage for informal workers in Asia is benefit portability or “the ability to preserve, maintain, and transfer vested social security rights or rights in the process of being vested, independent of nationality and country of residence” (Avato, Koettl, and Sabates-Wheeler 2009). Portability of social protection benefits provides coverage to migrants, either by allowing them to access social protection benefits from their home country while abroad, or by obtaining access to social protection measures in their country of residence. Benefit portability minimizes the vulnerabilities that migrant workers face, thus protecting their basic human and social rights.

The importance of establishing portable social protection benefits has become clear in recent years. Adopted at the 12th Association of Southeast Asian Nations Summit, the 2007 Declaration of the Promotion and Protection of the Rights of Migrant Workers includes provisions for promoting the welfare and upholding the dignity of migrant workers (Avato, Koettl, and Sabates-Wheeler 2009). This declaration recognizes that migrant workers have limited access to formal social protection benefits, thus ratifying the need for portable social protection benefits. Moreover, the declaration serves as a framework for designing portable social protection programs for all workers in the region, including those who work in the informal sector (Pasadilla 2011).

Ultimately, labor migration benefits both the country of origin and the receiving country. The country of origin benefits from foreign exchange remittances,
while the receiving country benefits from access to affordable labor. Yet little has been done to provide social protection for migrant populations, particularly those working in the informal sector.

Agreements do exist for protecting formal sector workers in some countries in Asia. For example, Thailand extends social protection rights to legal migrants from Cambodia. Similarly, the Lao People’s Democratic Republic gives work permits to legal migrants from Cambodia for 2 years, extendable to 4 years (Samydorai 2012). Canada, Caribbean Community countries and areas, and New Zealand provide further examples of portable social protection benefits. Table 1.1 summarizes examples of social protection benefit portability worldwide. Although these examples primarily refer to formal sector workers, they can guide extension of such coverage to informal sector workers, including undocumented (and possibly illegal) informal sector migrant workers (Hall, Manajit, and Nga Na 2011).

Ensuring Coherence at the Policy Level

Coherence of social protection initiatives at the national policy level requires all social protection programs to be integrated, both with regard to their institutional arrangements and their financing. However, many of the region’s national social protection systems are fragmented, which in turn causes gaps in coverage and system inefficiencies.

A number of government agencies—typically at different levels of government—implement social protection initiatives. As a result, these agencies often derive their funding from different sources. Without adequate communication between these agencies, parallel social protection programs often provide similar benefits to different geographic areas. This typically deprives some areas of the country of social protection coverage altogether; alternatively, it results in minimal coverage.

Thailand’s social protection system provides an example of such fragmentation. Numerous government agencies are involved in programming and funding social initiatives in Thailand. These initiatives include the government officials’ pension system, Government Pension Fund, Civil Servant Medical Benefit Scheme, Workmen’s Compensation Fund, Social Security Fund, Private School Teacher Welfare Fund, Universal Coverage Scheme (UCS), Universal Non-Contribution Allowance for People with Disabilities, Universal Non-Contribution Allowance for Older People, Compulsory Migrant Health Insurance Scheme, and Education for All Policy (UN/RTG 2013). Similarly, Bangladesh implements more than 95 social protection programs, funded and administered by 30 different government ministries; however, no mechanism
Table 1.1: Portable Social Protection Programs for Formal Sector Workers

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahatma Gandhi Pravasi Suraksha Yojana, India (Pension and Life Insurance Fund Scheme)</td>
<td>The scheme allows citizens employed overseas under formal contracts to access social protection benefits upon repatriation. These benefits include (i) savings for return and resettlement, (ii) contributions to an old-age pension, and (iii) life insurance coverage against natural death.</td>
</tr>
<tr>
<td>Overseas Workers Welfare Administration, Philippines</td>
<td>This agency provides a broad range of services including (i) regulation of recruitment, (ii) predeparture training and information, (iii) repatriation and financing assistance, and (iv) support for family members left behind. The program is fully funded by a mandatory membership fee of $25.00 per contract for temporary migrant workers. This membership fee is mostly paid by the migrant, but can also be paid by his or her employer.</td>
</tr>
<tr>
<td>Seasonal Agricultural Worker Program, Canada</td>
<td>The program offers migrants the same social protection rights as national workers. Employers participate in designing and implementing the program.</td>
</tr>
<tr>
<td>Recognized Seasonal Employers Scheme, New Zealand</td>
<td>This program is mutually beneficial to New Zealand’s horticulture and viticulture sectors, as well as to Pacific island workers. It ensures a secure labor supply to these sectors, while allowing workers from Pacific island countries to repatriate with both work experience and remittances. The program’s monitoring and evaluation component has helped improve the design and operation of departure training, as well as the below-expectation savings rates of migrants.</td>
</tr>
<tr>
<td>Caribbean Community Reciprocal Agreement</td>
<td>This agreement qualifies legal migrant workers for the maximum pension benefits. It also allows them to claim workers’ compensation and unemployment benefits. Sixteen Caribbean Community states have ratified the agreement.</td>
</tr>
</tbody>
</table>


exists for coordinating between these programs or ministries (Planning Commission, Government of Bangladesh 2014).

In many of the region’s developing countries, consolidating the social protection function by involving fewer ministries or finding ways to improve coordination
between ministries would progress both the coverage and efficiency of social protection, without adding to the fiscal burden of the country. Another solution is to make a single government agency responsible for overall coordination and efficiency of the social protection system, as in Indonesia with BAPPENAS. Thus, although Indonesia’s social protection programs are implemented by a number of government ministries, making BAPPENAS responsible for coordinating these efforts mitigates the adverse effects of program fragmentation (Satriana and Schmitt 2012).

Designing and Delivering Social Protection Programs for Informal Sector Workers: The Program Level

As with the policy level discussed previously, efficient implementation of national social protection policy requires coherence at the program level. This means providing individuals with continuous coverage across all ages and income groups. Operationally, this denotes designing national social protection systems that respond to the particular risks and vulnerabilities faced by the populations that these systems serve, and putting into place fiscally sustainable programs that address these risks and vulnerabilities over time. The two best mechanisms for achieving this objective are the life cycle and development planning frameworks for designing social protection programs described earlier.

As for informal sector workers, addressing the particular risks and vulnerabilities that they face requires that social protection programs are designed and financed in a way that enables them to reach marginalized populations. That said, designing and implementing social protection programs for informal sector workers is more complicated than for formal sector workers, due to financing and appropriateness.

Regarding financing, the fact that work in the informal sector is not taxed raises the issue of how such programs can be financed in a way that makes them sustainable over the long term. With regard to appropriateness, the inherent heterogeneity of the informal sector makes designing social protection programs that target this sector particularly complex, as few programs adequately respond to all risks of all individuals and households in the sector.

Some design considerations that address the issues of financing and appropriateness are described.
Social Protection Initiatives

Social protection initiatives are generally of three types: (i) noncontributory social assistance, (ii) contributory insurance programs, and (iii) labor market programs. Each of these types of initiatives comprises a broad array of instruments that can be used to mitigate risk and reduce the impact of negative shocks faced by informal sector workers (Figure 1.4).

![Figure 1.4: Instruments Comprising the Three Types of Social Protection Initiatives](source)

Social Assistance

Because few countries operate social protection programs that directly target informal sector workers, coverage is mostly extended through social assistance (Cook and Pincus 2014). Social assistance is generally delivered to informal sector workers through social transfers and social services.

Social assistance helps manage risk by (i) reducing poverty that results from shocks; (ii) directly reducing vulnerabilities; and (iii) strengthening the coping mechanisms used by individuals, communities, and countries to address such shocks. Social assistance can also promote productive risk taking, such as enterprise development or investment in human capital. Both stimulate the economy at the local and national levels. Because of this, several countries in Asia have incorporated social assistance programs into their overall social protection systems (Table 1.2). This helps ensure that resources and infrastructure that decrease poverty and increase resilience to shocks are available to all members of the population, including informal sector workers.
Social Protection for Informal Workers in Asia

Poverty-targeted transfers. Many social transfers are poverty targeted. Such transfers provide cash or productive assets to individuals or households whose income falls below a certain threshold. However, rather than outright “gifts,” social transfers should, in fact, be used as a poverty alleviation tool. By ensuring at least a minimum standard of living for beneficiaries, they are able to take on productive risks and to mitigate the negative effects of shocks to the livelihood of a beneficiary household. Because informal sector workers living in poverty are exposed to greater risks and vulnerabilities than their formal sector counterparts, the risk management function of social assistance is of particular importance to this population. Further, the incidence of relative poverty is greater in the informal sector than in the formal sector. This is particularly true of informal sector agriculture workers, who face the highest risk of poverty (Heintz and Vanek 2007). Table 1.3 lists examples of conditional and unconditional poverty-targeted transfer mechanisms that meet the needs of informal sector workers.

Grants for children and families. These grants are provided to both individuals and households with children to reduce poverty and vulnerability and to improve children’s access to basic services. Such transfers take the form of unconditional family allowances and child grants, or cash transfers dependent on fulfilling stated conditions that deepen the development impact of social transfers. For informal sector workers, parents are afforded a minimum level of income to provide for their children, even when the household faces income instability. By focusing on children, these grants encourage expansion of the stock of human capital and allow recipient children to be more productive workers later in life.

Table 1.2: Examples of National Social Protection Systems Incorporating Comprehensive Social Assistance Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Strategy</th>
<th>Social Assistance Component Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>National Social Assistance Program</td>
<td>• Indira Gandhi National Old Age Pension Scheme</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Indira Gandhi National Widow Pension Scheme</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Indira Gandhi National Disability Pension Scheme</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• National Family Benefit Scheme</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>National Social Protection Strategy</td>
<td>• Old Age Allowance Programme</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Vulnerable Group Feeding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Allowance for Financially Insolvent Persons with Disabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Widow and Distressed Women Allowance Programme</td>
</tr>
</tbody>
</table>

These grants thus produce a positive economic impact at the national level. Investing in early childhood development through these grants is particularly beneficial for countries with populations of young average age, as they stand to benefit when the cohort that has received such grants enters the labor force. Such grants would thus be particularly beneficial to South Asian countries in which the average age of the population has not yet begun to rise at a significant rate (ADB 2011). Table 1.4 lists examples of grants for children and families that are either already in operation, or are proposed.
Social Protection for Informal Workers in Asia

Social pensions. Social pensions are noncontributory transfers provided to individuals of old age that guarantee a minimum income. Social pensions are particularly important for informal sector workers, as they are typically denied access to contributory pensions, and often continue to be employed in old age. In many developing countries in Asia, older workers are typically employed in the informal sector in less-attractive jobs that pay wages less than those received by individuals still of working age (Kidd and Whitehouse 2009).

Social pension programs bridge the gap in old age between those with access to contributory pension schemes and the means to participate in them, and those that lack both. Such schemes restore dignity to older persons by ensuring that they are not left in deep poverty and regarded as a burden by their families (Kidd and Whitehouse 2009). Social pensions have also been shown to offer benefits within the household itself. Older persons often share their pension with the rest of the household, thus reducing the financial burden associated

Table 1.4: Examples of Grants for Children and Families

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia</td>
<td>Child Money Program</td>
<td>A conditional cash transfer program for families with children, eligibility for the program was originally determined by the official poverty threshold and the number of children in the household. Since July 2006, benefits have been provided universally to all families with children under 18 years of age who live with their families and attend school or nonformal education.</td>
</tr>
<tr>
<td>Nepal</td>
<td>Child Grant</td>
<td>Introduced in 2009–2010 with the objective of improving childhood nutrition, the program is designed to reach all children under 5 years of age, but is currently limited to children in five Karnali districts and poor Dalit children.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Child Support Grant</td>
<td>The government intends to introduce a child grant of B400.00 (over $11.00) per month to parents and caregivers of children under 6 years of age to support the education and development of children.</td>
</tr>
</tbody>
</table>

with their care. The security of a minimum income later in life is also likely to lead to more productive spending of income during working age (Willmore and Kidd 2008). Such implications are particularly important for informal sector workers. By reducing the need to provide for elderly relatives or to save intensively for their own future, social pensions allow working-age individuals to invest in productive assets or skills.

Many higher-income countries in Asia are experiencing rapid aging of their populations due to falling fertility rates and increased longevity (ADB 2011). Under such conditions, social protection should increasingly focus on providing for individuals in old age. This is already occurring in these countries where pensions are an increasingly important component of the national social protection system. Table 1.5 lists a number of examples of noncontributory social pensions currently operating in developing countries in Asia.

### Table 1.5: Examples of Noncontributory Social Pensions

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>Senior Citizens’ Allowance</td>
<td>Both universal and noncontributory, this program has proven to be affordable for beneficiaries, as it cost only about 0.3% of national income in 2007–2008. It is provided to all individuals over the age of 70 years. In the case of Dalits and residents of the Karnali Zone, eligibility begins at 60 years of age, a feature of the program that recognizes the heightened vulnerability of older individuals in these groups.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Old-Age Allowance</td>
<td>This offers a universal, noncontributory social pension to individuals aged 60 years or over who are not covered by a contributory government pension. As of 2013, the program covered 5.69 million beneficiaries.</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Social pension scheme</td>
<td>In addition to Viet Nam’s social pension, two contributory pension schemes are also offered. The social pension scheme is tiered, allowing it to provide benefits commensurate with need. The scheme is also targeted with respect to age, health status, and income.</td>
</tr>
</tbody>
</table>

Noncontributory health care. Access to health care is often the first security that poor and vulnerable people seek. Further, universal health care is recognized as a human right, and a key factor in stimulating labor productivity and overall economic growth. Such findings make universal health care a cost-effective endeavor (Rys 2013).

Extending access to basic health care to informal sector workers in a way that guarantees their security and livelihood is an important feature of social protection for the informal sector, given that work environments in the informal sector often pose a threat to workers’ health. However, the scale of the assistance provided must be sufficient to ensure that informal sector workers can afford basic health care services, and that the resulting improved level of general health of the informal sector workforce is sufficient to achieve a development impact commensurate with the cost of such a program.

Thailand’s provision of noncontributory health care is an example of a program that specifically targets informal sector workers. The UCS provides health care to every citizen not covered under any other publicly funded scheme—approximately 80.0% of the country’s population. This scheme, which provides basic preventive services as well as emergency medical care, is estimated to have prevented 88,000 households from falling below the poverty line in 2008 (Sakunphanit and Suwandra 2012).

While the scope of services provided must cover the basic needs of informal sector workers, unnecessary health care measures should be excluded from the program. The coverage of Thailand’s UCS includes both preventive services and emergency services but excludes certain services such as treatment for infertility or cosmetic surgery (Sakunphanit and Suwandra 2012). By providing protection against adverse health shocks but excluding elective treatments, the UCS ensures health care coverage while at the same time containing program costs.

Public services. Informal sector workers and their households are often excluded from accessing public services for two reasons. First, they fall outside of the formal institutional framework of the country concerned. Second, the government lacks the capacity to serve the needs of vulnerable populations.

Public services may include universal education through publicly funded schools, public housing, food aid, access to clean water, and adequate sanitation facilities. Of these, universal education is particularly important, as it produces a broad array of economic benefits. Examples include higher wages, greater agriculture productivity, and more rapid economic growth than would otherwise be possible. It likewise confers large-scale health benefits to the countries that provide it and it also empowers women (Sperling 2005).
Ultimately, informal sector workers often live or work on vacant public or private land, although this is illegal (GDRC). Providing public housing or land for work could remove the risk of eviction and provide workers with more secure means of maintaining their livelihoods. Ensuring access to clean water and sanitation improves public health and reduces the burden on the health care system of the country concerned. Table 1.6 lists a number of examples of public services currently extended to informal sector workers in developing countries in Asia.

### Table 1.6: Examples of Public Services Currently Extended to Informal Sector Workers

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Total sanitation services</td>
<td>In 1999, the government implemented a sanitation services program to address poor sanitation and public health. The government provides financial support, as well as policy and institutional guidance, to the program, but delegates its design and administrative aspects to state and local governments, thus allowing it to respond to the specific needs of each geographic area.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Universal education</td>
<td>Thailand provides universal education as a constitutional right, stating that it is the duty of every person to receive free, quality education. This free education policy applies to all children, including children of refugees, migrants, and ethnic minorities. This program covers the cost of tuition and associated fees, textbooks, learning materials, and school uniforms.</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Compulsory education</td>
<td>Viet Nam provides free, compulsory education to children from the age of 3 years and upward. The government also provides free child care for children under 3 years of age.</td>
</tr>
</tbody>
</table>


**Fee waivers and subsidies.** In situations in which social services cannot be 100.0% subsidized, fee waivers and subsidies are used to allow poor individuals to access basic services. Examples include education vouchers, scholarship programs, and financial support for basic foodstuffs. Table 1.7 lists examples of fee waivers and subsidies currently in operation in developing countries in Asia.
Table 1.7: Examples of Fee-Waiver and Subsidy Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Program Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Secondary school stipend, primary school stipend</td>
</tr>
<tr>
<td></td>
<td>Bangladesh offers stipends for payment of school fees at both the primary and secondary levels.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Subsidy for poor students</td>
</tr>
<tr>
<td></td>
<td>Subsidies are offered directly to poor children and students from primary school through high school. The number of beneficiaries assisted each year depends on the extent of program funding offered through the provincial authorities of the Ministry of Education and Culture.</td>
</tr>
</tbody>
</table>


Social Insurance Schemes

Insurance manages risk by protecting insured individuals against the negative impacts of economic shocks. This is achieved by pooling the risk of all insured individuals (i.e., all of the insured individuals pay into a single fund). This fund is then used to financially compensate any member of the pool who is affected by a shock.

For insurance schemes to be sustainable, two conditions must be fulfilled. First, the pooled fund must be large enough to compensate all members who experience an economic shock in any given time period. Second, the risks faced by the members of the pool must be uncorrelated. That is, all members of the pool should not experience economic shocks at the same time. Thus, for insurance schemes to be sustainable, the risks faced by the members of the pool must be uncorrelated.

The conditions on which insurance schemes depend are violated in the case of natural disasters, since these events negatively impact all members of the pool at the same time. This makes such risks difficult to insure against, unless the pool is very large and its members live in geographic areas remote from one another. However, in the case of contingencies that affect individuals across the life cycle, the risks that members of the pool face are highly uncorrelated. This allows pooling of such risks, even at the community level.

This uncorrelated nature of life cycle risks allows relatively small pools of individuals to use insurance schemes to finance their own protection against shocks. This has beneficial economic impacts over the long term, as it allows
individuals to engage in productive risk taking, such as using a portion of current income to establish a business rather than saving it to provide individual—rather than pooled—protection against an economic shock. However, in the short term, insurance schemes do not produce the same immediate beneficial impacts on poverty that other social protection instruments do.

Because social insurance schemes are financed through a combination of contributions and tax financing, they can be offered to target groups with contribution requirements that are subsidized through tax financing. Four types of social insurance are currently in use in developing countries in Asia: (i) health insurance, (ii) unemployment insurance, (iii) disability insurance, and (iv) pensions. However, for the most part, these social insurance programs serve the formal sector. Thus, insuring small enterprises, farmers, and the informal sector in general requires programs funded by voluntary contributions (Cook and Pincus 2014). Table 1.8 lists examples of social insurance programs.

Table 1.8: Examples of Social Insurance Schemes Targeting the Informal Sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Rashtriya Swasthya Bima Yojana (Health Insurance for the Poor)</td>
<td>This health insurance scheme links universal health care to voluntary health insurance that requires only small contributions. It insures beneficiaries with incomes that fall below the poverty line for hospitalization-related expenses. It likewise improves access to quality health care by allowing beneficiaries to visit any public or private health care provider.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Employment insurance for workers in the private sector</td>
<td>This scheme offers informal sector workers health insurance, as well as coverage against occupational injury and death. Currently implemented on a voluntary basis, the coverage that it provides is relatively limited.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Voluntary social insurance scheme</td>
<td>Expanded in 2011, this voluntary insurance scheme provides insurance against sickness, disability, and death for B100.00 ($3.20) monthly. For B150.00 ($4.80) monthly, a contributory pension is also included.</td>
</tr>
</tbody>
</table>

Note: Exchange rates are derived from ADB. 2012. Key Indicators for Asia and the Pacific 2012. Manila. $1.00 = B31.08, on average, in 2012.

Microinsurance is defined as “protection of low-income people against specific perils, in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved” (ADA Microinsurance 2003). Microinsurance functions in the same way as traditional insurance, except microinsurance serves populations that face levels of risk higher than beneficiaries protected by traditional insurance. Reaching marginalized populations also necessitates other differences between microinsurance and traditional insurance. For example, insurance premiums tend to be smaller than for traditional insurance. Similarly, to accommodate the relatively erratic cash flows of its beneficiaries, microinsurance premium payments may be collected more frequently or even on an irregular basis (Lloyd’s of London 2009).

Microinsurance allows informal sector workers to insure themselves against risk in the absence of coverage provided by other means, or in cases in which they require insurance that neither the public nor the private sector can provide. That said, relatively small, stand-alone, and self-financed microinsurance schemes that attempt to reach large segments of target populations face sustainability and efficiency issues that must be addressed if they are to fulfill this objective.

One of the best ways to address such issues is to establish linkages between microinsurance schemes and the formal social insurance system (Rys 2013). However, some features of microinsurance schemes mitigate such linkages. For example, microinsurance schemes often lack quality data regarding the risk profile of their clients. Similarly, the low-income or otherwise marginalized populations that they serve may lack awareness of how traditional insurance schemes function or their service delivery systems may be weak (Tan 2012). Table 1.9 lists examples of microinsurance schemes currently operational in developing countries in Asia that have successfully addressed these issues.

Microinsurance schemes are ideally suited to informal sector workers for a number of reasons. First, microinsurance schemes can be voluntary, which allows them to extend coverage to individuals unable to access traditional forms of insurance. In contrast, mandatory formal sector insurance schemes typically depend on formal sector registration mechanisms such as employers registering workers with tax authorities. Second, because microinsurance schemes are financed by beneficiary contributions, they do not face the substantial financing constraints of social assistance mechanisms. Third, microinsurance schemes can be adapted to the wide variation in exposure to risk of informal sector clients, as well as their widely varying levels of income.
Table 1.9: Examples of Microinsurance Schemes

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Unit Trust of India Micropension Scheme</td>
<td>This micropension scheme requires only small contributions and offers a flexible payment schedule. Its partnership with multilateral financial institutions and nongovernment organizations facilitates the expansion of its client base, reduces costs to providers and beneficiaries alike, and streamlines service delivery.</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Tao Teu May Mutual Assistance Fund</td>
<td>Tao Teu May provides both financial and social support to women. Marketed as a solidarity mechanism for members, the scheme partly supports the expenses incurred by member households that have experienced an economic shock. The scheme’s solidarity aspect is intended to positively impact the communities that it serves and to attract additional members.</td>
</tr>
</tbody>
</table>


Designing either social insurance or microinsurance schemes for informal sector workers means taking account of the perverse incentives that operate at the individual level in the informal sector, as well as the systemic risk endemic to that sector. Similarly, the risks posed by asymmetric information and moral hazard must be taken into account when designing such schemes.

Asymmetric information refers to the fact that one individual entering into an agreement may have more information relevant to the agreement than the other. In the case of insurance schemes, clients have far more information about their own risk profiles and the likelihood of the insurance having to pay out than does the insurer. Moral hazard refers to insured individuals being incentivized to take on more risk than they would in the absence of insurance coverage, since they know that the insurer will incur the bulk of the cost of any negative consequences to their taking on that additional risk. This has important implications in the case of the informal sector. In particular, if informal sector workers have access to health, employment injury, or even life insurance, they may take on more dangerous occupations than they would if they lacked such insurance, since they know that in the event of an accident or even death, they would be compensated for such losses. The ability of an insurance scheme to address these two forms of perverse incentives greatly impacts that scheme’s sustainability.
When designing insurance schemes, one must also take account of correlated or systemic risk. This refers to large numbers of members of a risk pool being vulnerable to the same large-scale risk. For example, informal sector members of an insurance pool living in a single geographic area that is prone to natural disasters would negatively impact the sustainability of a property insurance scheme. The same is true of informal sector workers being employed in the same industry. In such a case, an industry-wide downturn could cause widespread unemployment, which could, in turn, drain the unemployment insurance pool. In short, for insurance mechanisms to be sustainable, their client base must be sufficiently wide and diverse to ensure that the risks faced by their members are uncorrelated.

**Labor Market Programs**

Labor market programs are interventions that increase access to decent work. These programs can help informal sector workers in two ways. First, they may directly improve access to decent work through employment development opportunities. Second, they may help informal sector workers acquire employable skills. This section describes four types of labor market programs: unemployment benefits, public works programs, loan-based employment generation schemes, and skills development training.

**Unemployment benefits.** Considered a form of social protection, unemployment benefits have two major objectives. First, they at least partially replace income from work when a beneficiary becomes unemployed. Second, they support unemployed workers in seeking new employment and increasing their employability (Carter, Bédard, and Bista 2013). The Association of Southeast Asian Nations has formally recognized the importance of unemployment benefits (Carter, Bédard, and Bista 2013), but the number and kinds of benefits extended to the informal sector is limited. Both Thailand and Indonesia have found innovative ways to extend unemployment benefits (Table 1.10).

**Public works programs.** Public works programs involve the regular payment of money (or in some cases, in-kind benefits) by government or nongovernment organizations to individuals in exchange for work, with the objective of decreasing chronic or shock-induced poverty. Public works programs are thus essentially cash transfers paid on the condition that beneficiaries perform work provided under the program. These programs provide social protection, address social risk, and reduce economic vulnerability (Samson, Niekerk, and MacQuene 2010).

Public works programs function most efficiently when they address poverty that is linked to unemployment. They are thus particularly appropriate for
Table 1.10: Informal Sector Unemployment Benefit Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>Health Insurance Program</td>
<td>This program provides a modest one-off cash benefit in case of sickness, work injury, or death. While limited in scale, the program targets informal sector entrepreneurs such as street vendors and microenterprise owners.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Social Security Act</td>
<td>The unemployment benefits provided under this act are part of the country’s comprehensive social protection floor, the purpose of which is to provide all members of society—including the unemployed—with sufficient income to ensure access to basic goods.</td>
</tr>
</tbody>
</table>


addressing transient poverty such as poverty due to seasonal unemployment, a climate change-related or economic shock, or an economic downturn. Public works programs can either supplement seasonal work or replace informal sector work (World Bank 1995). Table 1.11 lists examples of public works programs.

**Loan-based employment generation.** Loan-based employment generation programs provide financing for microenterprises and small businesses. Due to their heterogeneity, small businesses are established in both the formal and informal sectors (Western Cape Provincial Government 2007). As a result, loan-based employment generation programs are suitable for stimulating commercial activity in the informal sector.

By linking employment with social protection, these programs both expand the human capital stock and increase labor productivity (ADB 2013a). As individuals working in the informal sector are often wary of formal sector financial institutions, including those offering microfinance, these programs may be useful for expanding access to finance by informal sector entrepreneurs. Table 1.12 briefly describes the loan-based employment generation schemes currently active in India and Indonesia.

**Skills development training.** Skills development training helps informal sector workers acquire the skills necessary for decent work. This ultimately improves their quality of life, prospects for work, and geographic mobility. Expanding the level of commercial activity in both the formal and informal sectors ultimately
Social Protection for Informal Workers in Asia
depends on semi-skilled and unskilled workers acquiring requisite skills (Martinez-Fernandez and Choi 2012). Many countries in Asia invest in skills development as a matter of policy, as it is key in accelerating the overall pace of economic advance (ADB 2013a). In 2011, India, Pakistan, and Timor-Leste

### Table 1.11: Examples of Public Works Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Cash-for-Work, Food-for-Work</td>
<td>These programs provide cash and food to rural households in exchange for work. The cash-for-work program has significantly improved anthropomorphic and nutritional outcomes for women and children.</td>
</tr>
<tr>
<td>India</td>
<td>Mahatma Gandhi National Rural Employment Guarantee Act</td>
<td>The act provides seasonal agriculture employment in rural areas. The program pays piece-rate wages sufficient to ensure a minimum income level for households, but not high enough to distort local labor markets or disincentivize job searching or building of human capital. The program provides employment for both skilled and unskilled labor. In addition to the direct employment the program provides, it likewise stimulates additional commercial activity in the areas that it serves.</td>
</tr>
</tbody>
</table>


### Table 1.12: Loan-Based Employment Generation Schemes

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Prime Minister’s Employment Generation Programme</td>
<td>Administered by the Ministry of Micro, Small and Medium Scale Enterprises, this program facilitates the establishment of microenterprises in both rural and urban areas.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Kredit Usaha Rakyat (Credit Program for Microenterprises)</td>
<td>This scheme finances the establishment of microenterprises and subsidizes 70.0% of the total loan amount.</td>
</tr>
</tbody>
</table>

adopted national technical and vocational education and training policies, while formulation of such policies was under way in Bangladesh, Mongolia, and Tajikistan (ADB 2013a, ILO 2011). A report on skills development in the Asia and Pacific region urged countries to develop policies that expand access to market-related skills by disadvantaged populations (ADB 2013a). Table 1.13 describes initiatives of this type in Indonesia and Thailand.

Table 1.13: Skills Development Training Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>Apprenticeship Program</td>
<td>This program provides vocational training and job placement services, at no cost, for informal sector workers.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Skill Development Promotion Act</td>
<td>This act encourages employers to provide skills training to employees. It also encourages private providers to establish vocational and skills training centers under the authority of the Ministry of Labour’s Department of Skills Development.</td>
</tr>
</tbody>
</table>


Some types of social protection instruments can benefit both formal and informal sector workers. However, instruments that depend on existence of an explicit employer–employee relationship are generally only provided to formal sector workers, since such relationships by definition do not exist in the informal sector. The key to enabling the latter types of instruments that benefit informal sector workers is disentangling benefit eligibility from employment status. This is done by changing the format of the particular social protection instrument to allow it to fulfill the same function as its formal sector counterpart, but without being dependent on formal sector employment status. Table 1.14 compares formal and informal sector variants of three types of social insurance instruments: pensions, health insurance, and insurance against unemployment, injury, and accidental death.

An alternative approach to enabling benefits to be extended to informal sector workers is to employ forms of social protection unrelated to employment, while maintaining traditional contributory forms of social protection for formal sector workers.
Ensuring Coherence at the Program Level

Coherence at the policy level means ensuring that social protection is complemented by other development initiatives. In contrast, coherence at the program level ensures that social protection instruments complement one another by minimizing gaps in the populations served, and by ensuring that the forms of social protection that they provide complement one another in a way that deepens the impact of all programs that comprise the national social protection system.

The coverage of all social protection schemes taken together can be expanded if these schemes are implemented within the context of an overall social protection framework, as this ensures that such schemes neither overlap nor exclude particular populations. Indonesia’s social insurance schemes illustrate the benefits of such a framework. Social insurance in Indonesia is provided through five distinct schemes that serve the formal private and public sectors, as well as a noncontributory health insurance scheme that covers the poor and near poor.

The government recognizes that both overlaps and coverage gaps occur under this arrangement, particularly with regard to nonpoor informal sector workers. While the pilot scheme Jamsostek Luar Hubungan Kerja (Employment Insurance for Workers in the Informal Sector) offers insurance to informal sector workers, its scope is limited, and client turnover is high (Satriana and Schmitt 2012). The lesson to be learned from Indonesia is that implementing social protection programs in the context of an overall framework with coverage being determined on the basis of income, employment status, and need allows program coverage to be continuous and coverage gaps to be avoided.

Coherence at the program level also allows social protection programs to complement one another, and thus to deepen the impact of each program.

<table>
<thead>
<tr>
<th>Formal Sector Instrument</th>
<th>Informal Sector Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributory pensions</td>
<td>Voluntary contributory old-age allowances</td>
</tr>
<tr>
<td>Contributory health insurance</td>
<td>Social health insurance, microinsurance, noncontributory health care</td>
</tr>
<tr>
<td>Contributory unemployment, employment injury, or life insurance</td>
<td>Subsidized, noncontributory social insurance, microinsurance</td>
</tr>
</tbody>
</table>

Source: Authors.
For example, the success of cash transfers provided on the condition that children attend school or receive health care requires access to schools and health care services. In the absence of schools and health clinics, the impact of such a program would be negligible. This may have, in fact, been the outcome of the Pantawid Pamilyang Pilipino Program (4Ps), a conditional cash transfer program in the Philippines. The program’s 2012 impact evaluation found that wide variation in access to, and provision of, health care services may have contributed to regional variation in its impact (Chaudhury, Friedman, and Onishi 2013). Similarly, health insurance interventions are fruitless if health care services are unavailable.

The lesson to be learned is that social protection systems must ensure that the preconditions to the success of the interventions that comprise that system have been met. More generally, the degree to which the interventions that comprise a social protection system are coherent and integrated ultimately determines the overall impact of any given social protection system. Thus, coherence at the program level is a precondition to maximizing the impact of a social protection system.

Designing and Delivering Social Protection Programs for Informal Sector Workers: The Administrative Level

Another precondition to maximizing the overall impact of a social protection system is the cost-efficiency with which a particular social protection program is administered. In this regard, three considerations must be taken into account: (i) targeting (i.e., determining the population eligible for the benefit); (ii) benefit determination (i.e., the size and nature of the benefit); and (iii) conditionality (i.e., whether benefit receipt should be conditional on a particular type of beneficiary behavior).

Targeting

Targeting is the most contentious design issue, as it relates to both financing and coverage. A major benefit of targeting social transfers is that by reducing the number of beneficiaries, money is saved. However, it is important to allocate targeted program benefits to those who need assistance the most. In contrast, to targeted benefits, universal social transfers extend benefits to all individuals who meet eligibility criteria other than need.

In cases in which the administrative and financial costs of targeting are considerable, a universal transfer scheme may be cheaper than a targeted
scheme. For example, due to the informal sector’s inherent lack of documentation, heterogeneity, and fluidity of employment, programs that attempt to target informal sector workers may face administrative and financial costs so high that a universal scheme sensitive to the needs of informal sector workers may cost less than the targeted alternative.

Whether a program is targeted also affects the poverty reduction impact of the program, as numerous political, social, administrative, and economic factors can alter the magnitude of this impact. First, exclusion and inclusion errors can greatly alter the poverty alleviation impact of targeted social transfers. An exclusion error occurs when eligible individuals or households are denied access to program benefits, an outcome that undermines the poverty reduction impact of the program concerned. In contrast, an inclusion error occurs when a benefit is provided to individuals outside of the target group. Reducing inclusion errors is a potential benefit of targeting, as reducing the number of ineligible individuals or households able to access program benefits reduces the cost of the program concerned.

The results of a cost–benefit analysis that takes account of administrative, private, social, and incentive costs should be used to determine whether a particular program should be targeted. In this regard, administrative costs generally tend to increase as accuracy increases. However, they tend to be higher when individual assessment methods are used, but lower when categories of individuals are lumped together in performing the assessment.

Private costs are the costs of program participation borne by beneficiaries. Such costs include the costs associated with transport, documentation, and queuing time, and the opportunity cost of applying for social transfers. In some cases, private costs can be prohibitive, which causes inadvertent exclusion of eligible individuals. In some cases, private costs are deliberately set at relatively high levels to cause potential beneficiaries to self-target.

Social costs include division of communities into beneficiary and nonbeneficiary groups, which can undermine social capital and community cohesion. In this regard, targeted transfers may stigmatize beneficiaries employed in the informal sector, thus exposing them to further vulnerability. Incentive costs result from changes in applicant behavior. For example, providing program benefits to informal sector workers may encourage individuals to seek employment in the informal sector instead of the formal sector as a way of accessing program benefits. There is some empirical evidence that this in fact occurred in Thailand, where extending access to health care to informal sector workers under the UCS may have provided an incentive for workers to shift from formal to informal sector work (Wagstaff and Manachotphong 2012). Monitoring of such outcomes allows adjustments to be made to the targeting methodology.
used under particular programs with a view to minimizing incentive costs (Devereux et al. 2015).

Three different targeting methodologies are available for channeling program benefits to particular target groups:

(i) **Individual (or household) assessments.** These evaluate income, expenditure, assets, or other personal characteristics. Individual assessments may employ means testing, which assesses the income, assets, wealth, or employment status of an applicant. Further, means testing may be verified or unverified. Proxy means testing uses a statistical estimate of the probability that a person (or household) is eligible for program benefits. In performing proxy means testing, particular characteristics expected to be highly correlated with eligibility are analyzed. Proxy means testing thus estimates the probability that an individual or household meets program eligibility requirements. In the case of informal sector workers, criteria that particularly relate to informal sector employment could be substituted for those used in assessments of applicants who work in the formal sector. In this regard, Indonesia’s survey—which uses proxy means testing for a number of its social protection programs—may be used as a starting point (Satriana and Schmitt 2012).

(ii) **Categorical targeting.** This identifies easily distinguishable attributes that characterize the households to be targeted. Categorical targeting includes geographic targeting, which identifies the location or residence of applicants. Categorical targeting of informal sector workers is inherently difficult. As a result, either geographic targeting or targeting benefits on the basis of the life cycle can be used to target program benefits to informal sector workers. The pilot stage of Nepal’s Child Grant program used categorical targeting to identify eligible families in the five districts of Karnali, as well as poor Dalit families with children (Okubo 2014).

(iii) **Self-targeting.** This uses the principle of self-election to allocate social protection benefits. While participation is therefore voluntary, self-targeting often makes accessing noncontributory benefits so unattractive that it disincentivizes anyone but the neediest from applying for them. Due to the informal sector’s inherent lack of employment documentation and heterogeneity, self-targeting can be used to target informal sector beneficiaries. However, the personal costs of beneficiaries’ demonstrating need could be prohibitive, thus causing exclusion of the poorest informal sector beneficiaries. Voluntary forms of social insurance are, in fact, self-targeted social protection programs. Further, because they can be financed by worker contributions, the benefits of voluntary insurance can be both sustainable and inclusive.
Because the voluntary social insurance programs currently operating in Indonesia and Thailand include informal sector participation, these may form useful starting points for formulating similar schemes for implementation elsewhere (ILO 2008; Social Security Office, Ministry of Labour, and Government of Thailand 2012).

(iv) While community-based targeting can use any of the targeting methodologies described above, determinations are made at the community level. Community-based targeting allows social protection to be adapted to a wide variety of socioeconomic contexts. This targeting methodology could thus be used to identify informal sector beneficiaries with diverse backgrounds. However, community-based targeting has a number of drawbacks. First, it is vulnerable to both corruption and social, political, or ethnic fragmentation of communities (Conning and Kevane 2001). Corrupt officials often are able to allocate program benefits to relatives or friends in exchange for political favors. Similarly, fragmented communities are susceptible to discrimination in allocating program benefits, making it difficult to reach target groups. Community-based targeting is also difficult to scale up. To fulfill its intended objective, the individuals to be targeted must be personally acquainted with other members of the community. Further, the community in question may be too small for community-based targeting to be cost-effective (Conning and Kevane 2001).

Its potential inefficiencies and pitfalls notwithstanding, there is some evidence that community-based targeting can improve beneficiary perceptions of social protection programs. An evaluation in Indonesia, performed by the Abdul Latif Jameel Poverty Action Lab, concluded that although proxy means testing provided more efficient targeting than community-based targeting, program satisfaction on the part of beneficiaries was greater when community-based targeting was used (Alatas et al. 2013). Similarly, the evaluation of Bangladesh’s Gratuitous Relief disaster response program and Vulnerable Group Feeding Program, performed by the International Food Policy Research Institute, found that community-based targeting succeeded in reaching the target populations of these two programs (Gilligan and Hoddinott 2004).

Methodologies for targeting beneficiaries increasingly use a combination of the approaches described above. For example, the 4Ps in the Philippines uses both geographic and community-based targeting together with proxy means testing. The Philippine Statistics Authority uses a survey to target the poorest municipalities, and then uses proxy means testing to identify the poorest households in these municipalities. The resulting list of selected households is then submitted for community approval before eligibility is finalized (Fernandez and Rosechin 2011). Using multiple targeting methodologies facilitates efficient
disbursement of program benefits for national-level programs, while at the same time allowing eligibility to remain context-specific. A similar approach can be used to target beneficiaries under programs that focus on the informal sector.

**Determining the Level of Benefits**

For social transfer programs to fulfill their intended objectives, the benefits that they provide must be both adequate and context specific (Siddiki et al. 2014). As a result, the first benefit determination issue to be decided is whether benefits should be provided in cash or in kind. Cash transfers allow beneficiaries to decide how best to meet their individual needs (Hanlon 2010). However, in-kind transfers may be best suited for individuals living in extreme poverty.

A study performed by the International Food Policy Research Institute in 2009 found that the poorest households tend to prefer in-kind transfers provided in the form of food over cash transfers, and that preference for cash transfers grows as beneficiary income increases (Ahmed et al. 2009). If in-kind transfers are chosen, the assets provided must be appropriate to the intended beneficiaries. Asset transfers suitable for informal sector workers include food, livestock, manufacturing inputs, or land for a workspace. Cost is likewise a consideration when deciding between cash or in-kind transfers. The administrative cost of cash transfers is significantly lower than it is for in-kind transfers, a factor that, in turn, facilitates implementation of cash transfer schemes (Hanlon 2010).

Trade-offs among adequacy, acceptability, and affordability inevitably come into play in determining the actual size of the transfer to be provided. Adequacy refers to ensuring that the value of the transfer is sufficient to meet program objectives. In this regard, a benefit level set too low inadequately mitigates income insecurity and poverty reduction, whereas a benefit value set too high constrains coverage, as it limits the number of potential beneficiaries. As a result of such trade-offs, decisions regarding benefit levels are largely normative and political in nature. Regardless of the level set, adjustments for inflation are necessary if the purchasing power of the transfer is to be maintained.

Program funding issues often make determining an appropriate benefit level for informal sector workers particularly difficult. While social transfer pilot programs are often funded by nongovernment organizations (NGOs) or development partners, the expanded forms of government-provided social transfer programs tend to be tax-funded, although informal sector activity makes no contribution to the tax base. Given that the informal economy comprises a substantial share of total economic activity in many developing countries, noncontributory social transfer programs may seem either impossible or unsustainable. Creating adequate fiscal space in a government budget to fund such programs therefore requires some innovation. Alternatives for achieving this objective include
reallocating public expenditure, increasing the operational efficiency of other government programs or reducing their administrative costs, and seeking assistance from development agencies.

In cases in which fiscal capacity varies widely, funding from the central government may be an option, particularly if the latter sets national guidelines. For example, both the transfer amount and eligibility threshold for the People’s Republic of China’s Minimum Living Standard Guarantee (MLSG) are determined at the local level, although both must fall within broad national guidelines. The benefit amounts provided depend on the financial capacity of the local government concerned; the level of benefits provided is thus often lower in poor, rural areas than it is in wealthier, urban centers, an outcome that impacts interregional poverty incidence (Golan, Sicular, and Umapathi 2014). Programs of this type may thus benefit from national oversight in ensuring that social protection initiatives reach their intended objectives.

**Conditionality**

Conditional cash transfers offer benefits on the condition that beneficiaries comply with certain requirements such as school attendance, nutritional outcomes, or visits to a health care provider. The expectation is that these requirements will induce broader development impacts than a cash or asset transfer in isolation. While conditional cash transfers have been proven to be effective, whether conditionality is responsible for this outcome remains unclear (Fiszbein and Schady 2009). In fact, any of the components of conditional cash transfers may be responsible for this positive outcome—the cash benefit itself, increased investment in human capital or social services, improved awareness of the prospects for economic advance, denying benefits in the face of noncompliance, or even effective program monitoring.6

Conditional cash transfers have been widely used in Southeast Asia, primarily for childhood development. For example, investment in children’s education and health and maternal health services are conditions of receiving benefits under the 4Ps of the Philippines. A 2012 impact assessment of the program found measurable increases in the use of health services by mothers and their children as well as school enrollment, perhaps indicating the benefit of linking conditions to cash benefit receipt (Chaudhury, Friedman, and Onishi 2013).

If programs that target informal sector workers incorporate conditionality into their design, the conditions stipulated should facilitate achievement of outcomes beneficial to this group. Examples include school attendance by

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6 When individuals know that their compliance is being monitored, they often change their behavior (Levitt and List 2011).
beneficiary children, participating in skills development courses, or maintaining a safe workspace, since all of these mitigate the risks and vulnerabilities faced daily by informal sector workers. Investment in the education of children and adults builds skills and expands employment opportunities, thus ensuring better livelihoods for the beneficiaries and their children. Making social transfers conditional on workplace safety could be equally beneficial for self-employed and home-based workers who operate unsafe work environments as a means of cutting costs. However, regardless of their beneficial impact, the monitoring and enforcement costs of administering such restrictions on benefits may be prohibitive, particularly in the informal sector. Nevertheless, targeting the specific vulnerabilities and risks faced by informal workers with conditionalities may result in investment in more productive and less harmful employment and business endeavors.

**Benefit Delivery**

Delivering social protection to informal sector workers is complicated, as they comprise a marginalized population. In particular, the unregistered nature of informal sector activity makes it difficult to determine which individuals and households comprise this sector. Ultimately, delivery of program benefits to informal sector workers requires appropriate administrative systems, minimizing inclusion and exclusion errors, efficient payment and delivery mechanisms, and monitoring and evaluation of program performance.

**Developing Administrative Capacity**

Implementation of any social protection program requires administrative capacity in identifying and registering beneficiaries and their dependents, delivering program benefits, and monitoring and evaluating program success.

Social protection programs that target informal sector workers require substantial outreach capacity. Due to difficulties associated with registration and documentation as well as the heterogeneous nature of informal sector activity, social protection measures currently operating in developing countries are often voluntary, as in Indonesia and Thailand (Social Security Office, Ministry of Labour, Government of Thailand; Satriana and Schmitt 2012). In fact, identifying informal sector workers requires extensive marketing campaigns that encourage potential beneficiaries to participate. Knowledge building is likewise required if program design is appropriate.

Further, if the program is to be efficient, it must minimize inclusion and exclusion errors. This requires identifying the factors that could cause inclusion of ineligible beneficiaries or exclusion of those eligible. For example, means tests will likely need to be reformatted to the informal sector context, discrimination
or corruption that would negatively impact the outcome of community-based targeting will need to be exposed, and whether self-targeting mechanisms will attract the most marginalized segments of the informal economy must be determined.

The People’s Republic of China provides an example of policy formulation in a country with large variation in local administrative capacity. As mentioned earlier, eligibility requirements for the MLSG program are primarily determined at the local level. Due to the variation in administrative and funding capacity that exists between the country’s urban and rural areas, numerous methods have been used to determine beneficiary eligibility. In provinces or cities with substantial administrative capacity, consumption indexes are used in determining eligibility, while areas with weaker administrative capacity use income levels alone for this purpose (Umapathi, Wang, and Keefe 2013). Although this system of determining beneficiary eligibility causes coverage and benefit levels to vary widely across regions, it is sensitive to administrative capacity at the local level.

**Benefit Payment and Delivery Systems**

Payment and delivery systems are important elements of service delivery, as they greatly influence both the cost and impact of a social protection program. Regardless of whether they relate to transfers of cash or assets, inefficient delivery mechanisms can make the cost of a program borne by beneficiaries prohibitively expensive or can greatly diminish the development impact of the program concerned. The appropriateness of a particular delivery system depends on both the type of program implemented and the sociopolitical context of the beneficiary community.

In light of the above, the accessibility of the benefits provided is key to successful program outcomes. One study that assessed access to microfinance by poor and vulnerable populations found that the physical distance to the nearest financial institution most strongly impacted whether beneficiaries used financial institutions (Annim, Arun, and Kostov 2012). This suggests that facilities necessary for accessing program benefits—such as insurance providers, health clinics, and schools—must be available locally if the positive impact of a program is to be maximized. In many cases, partnering with local organizations improves access to program services.

While authorized pay points have traditionally been used to deliver benefits paid in cash, more innovative delivery methods—such as direct deposit, “smart cards,” or even mobile phones—have increasingly been employed. Such mechanisms both increase beneficiary convenience and reduce delivery costs. Allowing beneficiaries the option of using either physical or digital forms of collecting benefits may encourage additional beneficiaries to participate. This was the logic
underlying the direct deposit and physical collection of benefits under India’s National Social Assistance Programme, which was expanded to include informal sector beneficiaries as a result of the Unorganised Workers Social Security Act 2008 (Fasih 2011). This program allows beneficiaries to access benefits through accounts at commercial banks, the Post Office Savings Bank, postal money orders, at local government meetings in rural areas, or at neighborhood meetings in urban areas (Indian National Social Assistance Programme).

Monitoring and Evaluation

The primary objective of evaluation is to assess the degree to which a particular program achieves its objectives. Effective monitoring and evaluation also allows program design and implementation to be improved, political will for expansion or sustainability to be strengthened, and the global evidence base concerning social protection initiatives to be expanded. Monitoring—which occurs over the entire lifetime of a program—refers to identification and tracking of performance indicators and reviewing program implementation. Evaluation links outcomes to causes through objective and systematic assessment of a program’s impact. Because monitoring and evaluation serve multiple functions, the design of a program should lend itself to frequent review of the entire social protection system, of which the program concerned forms just one part.

When used as part of a credible monitoring and evaluation framework, a management information system (MIS) can protect program success, reduce program costs, and allow a program to be scaled up in an affordable and appropriate manner. A well-functioning MIS contains all data, information, and processes required for evaluating program success. This includes data and information for identifying and addressing all factors that could threaten that success, maximizing the development impact of a particular intervention, and reporting all information relevant to the program in question. A well-functioning MIS also provides a means by which program risk can be managed and connections to complementary interventions established.

Indonesia’s BAPPENAS oversees monitoring, evaluation, and annual assessment of all social protection initiatives. Its online administrative system (e-Monev) assists line ministries in collecting and integrating data relating to social protection initiatives, and reporting these to BAPPENAS. e-Monev has substantially improved reporting to BAPPENAS. In 2010, only 30.0% of all line ministries submitted reports, but following implementation of e-Monev, 65.0% of line ministries submitted reports to BAPPENAS (Haryana 2013). Further, because it makes information regarding program performance and budgeting available online, e-Monev also improves accountability.7

Ultimately, comprehensive program evaluations are necessary for mobilizing political support for expanding the scope or coverage of existing social protection programs. Finally, by identifying problems and proposing solutions, program monitoring and evaluation serves not only the program itself but also the global community that designs and implements social protection programs.

**Ensuring Coherence at the Administrative Level**

Coherence across social protection programs is best safeguarded by maintaining beneficiary enrollment and operational processes in a single registry MIS. This streamlines administration of social protection systems by making distribution of resources more equitable, facilitating oversight of multiple programs, and establishing links between programs and instruments that increase the efficiency of design and delivery.

A single registry also allows a universal targeting procedure to be adopted, which, in turn, minimizes inclusion and exclusion errors and increases the cost-effectiveness of social protection programs. For single registries to work properly, they must be implemented within an appropriate context, which at the minimum requires a system approach to social protection. Ideally, this includes a sound national identification system, high-quality data at the level of the individual, sufficient administrative capacity, and enabling governance and institutions (Barca and Chirchir 2014).

Single registries could also benefit informal sector workers who are potential program beneficiaries. Once entered into the system, these individuals would be able to receive all benefits for which they are eligible without applying for each program individually. However, exclusion from national household datasets (as in the case of migrant workers) may complicate such registration. Thus, other forms of enrollment and outreach may be necessary if informal sector workers are to be included in a single registry.

Indonesia’s Unified Database illustrates the benefits of a single registry with regard to administration of social protection. This database includes 96 million individuals in 24 million households. It also manages the administration of five national social protection programs: Jaminan Kesehatan Masyarakat (the national health insurance program), Bantuan Siswa Miskin (educational stipend for poor students), Program Keluarga Harapan (Family Hope Program), Beras untuk Rumah Tangga Miskin (rice for poor households), and Bantuan Langsung Sementara Masyarakat (a temporary unconditional and direct cash transfer provided to offset an increase in fuel prices) (Hatt et al. 2009).

Proper maintenance of the database requires coordinated institutional arrangements. While system data is collected by Statistics Indonesia through
the census and other national surveys, data processing and maintenance is managed by Unit Penetapan Sasaran Penanggulangan Kemiskinan (Unit for Targeting Program of Poverty Alleviation), which reports to The Indonesian National Team for the Acceleration of Poverty Reduction. TNP2K’s national targeting unit is responsible for processing data and running proxy means tests that determine eligibility for social protection initiatives, maintaining data, providing operational advice to government entities hoping to use the unified database, and conducting research relevant to monitoring and evaluation of social protection programs. Figure 1.5 depicts coordination of Indonesia’s Unified Database graphically.

Other countries have likewise recognized the value of a single registry MIS. Bangladesh formally recognizes the value of a single registry system in its
National Social Protection Strategy. As a result, the country will establish a single registry MIS for all citizens. While the Ministry of Social Welfare is to develop this MIS, each ministry will be responsible for overseeing the part of the MIS that relates to each scheme for which it is responsible (Planning Commission, Government of Bangladesh 2014).

Accommodating Administrative Capacity Constraints

Those formulating and implementing social protection programs for informal sector workers in developing countries often face administrative and fiscal capacity constraints, as well as human and technical resources limitations. For example, an assessment by the International Labour Organization found Indonesia’s social protection system ill-equipped to provide for informal sector workers. Much of this related to difficulties with the registration, compliance, and payment processes that resulted from the undocumented nature of informal sector employment. In addition, the fact that informal sector workers were unaware that they may be eligible for the program or its compliance requirements further constrained program participation rates (Satriana and Schmitt 2012).

Despite limited capacity for administration and evaluation, it is still possible to design and implement effective social protection programs that target informal sector workers. However, this depends on three conditions being fulfilled: (i) monitoring and evaluative processes must be appropriate; (ii) the design and implementation of social protection programs must take account of existing administrative, fiscal, and resource constraints; and (iii) assistance from outside sources must be sought.

First, program monitoring and evaluation procedures must allow feedback from ongoing programs to inform the design and implementation of new programs or expansion of existing initiatives. In short, the monitoring and evaluation procedures employed must, over time, allow delivery mechanisms to be improved, the results of ongoing programs to be documented, the efficacy of alternative approaches to program processes to inform both ongoing and future programs, and the capacity and financing requirements of social protection interventions to be identified.

In addition to improving program outcomes, effective monitoring and evaluation also provides policy makers with the information necessary to secure the requisite resources for sustaining and expanding social protection programs and for civil society organizations to demand transparency in social protection policy and the initiatives funded (OECD 2009). In short, effective monitoring and evaluation systems are essential for ensuring long-term sustainability of social protection programs.
Second, program design and implementation must acknowledge existing capacity constraints. In fact, it is possible to design and implement effective social protection programs that place few demands on existing administrative and fiscal capacity and recognize limitations on the availability of human and technical resources. Building an effective social protection system should initially focus on implementing such programs. Then, as administrative capacity strengthens and initial program successes and weaknesses inform the design and implementation of new programs and expansion of existing initiatives, more comprehensive programs that require additional resources and more sophisticated administrative capacity can be undertaken.

Basic social protection programs with limited administrative requirements can be easily implemented, even under decentralized systems. Examples include basic targeted or universal social transfer programs, provision of basic services that uses preexisting delivery channels, and simply defined insurance mechanisms.

Similarly, monitoring and evaluation systems—including their component MISs—can be simple as program implementation begins, and then expand progressively with evolving program requirements. Ideally, a single registry MIS would coordinate key administrative functions (i.e., targeting, registration, and enrollment), payments, and monitoring and evaluation of one or more social protection programs. As program implementation progresses and political will for social protection measures grows, a larger-scale social protection system can evolve.

Viet Nam’s social pension program illustrates how a social protection initiative implemented under significant financial constraints can grow in sophistication and complexity over time. Upon its inception in 2000, the pension was only offered to individuals aged 90 years or over who were unable to access contributory pensions or other social allowances. Over time, eligibility requirements were progressively relaxed, and the size of the benefit expanded, thus increasing the program’s scope and coverage. As a result, two forms of social pension are now offered: a pension for older persons who live in poor households, either alone or with an ill, older spouse and who have no other form of financial support, and a pension provided to persons aged 80 years or over who receive no other retirement or social allowance benefits (Table 1.15). The multitiered nature of this program curtails the cost to the government of noncontributory pensions, while providing benefits commensurate with the level of vulnerability of the individuals it serves (Long and Wesumperuma 2013).

Third, support from development agencies and NGOs can often accelerate development of social protection systems when the capacity for establishing, monitoring, and evaluating social protection programs is limited. This is
particularly true with regard to building administrative capacity or scaling up more limited initiatives. In fact, designing and implementing national-level social protection programs and systems is an area in which numerous development agencies have significant comparative advantage.

In seeking such assistance, a shift away from donor-specific financing and delivery mechanisms toward funding national programs through joint financing instruments should be emphasized (OECD 2009). Such support allows leveraging of international experience in formulating social protection systems as well as funding that can catalyze program development. However, care should be taken in managing donor support in a way that prevents implementation of programs not tailored to the receiving country’s particular social, political, and economic context, as such an outcome could potentially diminish the positive impact of the social protection program concerned.

### Opportunities for Development Partner Support

While development partners can help catalyze development of social protection systems when the receiving country’s administrative capacity is constrained, the role of development partners in designing and delivery of social protection systems transcends this relatively limited function. In fact, development partners can play an important role at the level of formulation and administration of social protection systems.

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**Table 1.15: Viet Nam’s Tiered-Benefit Social Pension Program**

<table>
<thead>
<tr>
<th>Category</th>
<th>Beneficiary</th>
<th>Benefit Level (D’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older persons living in poor households, and living (i) alone, or (ii) living with an ill older spouse and without children, grandchildren, or relatives who provide support</td>
<td>Aged 60–79 years</td>
<td>180.00</td>
</tr>
<tr>
<td></td>
<td>Aged 60–79 years, severely disabled</td>
<td>270.00</td>
</tr>
<tr>
<td></td>
<td>Aged 80+ years</td>
<td>270.00</td>
</tr>
<tr>
<td></td>
<td>Aged 80+ years, severely disabled</td>
<td>360.00</td>
</tr>
<tr>
<td>Individuals aged 80 years or more who do not receive retirement or other social allowance benefits</td>
<td>Aged 80+ years</td>
<td>180.00</td>
</tr>
</tbody>
</table>

Note: $1.00 = D20,935.00, on average, in 2013.
At the policy level, development agencies and NGOs can help evaluate the efficiency and existing coverage of national social protection systems, and suggest how coverage can best be expanded. Further, they can develop a framework that assists the design and implementation of the receiving country’s social protection system over time. Such a framework can then be used to assess the adequacy of the receiving country’s social protection system, and to identify how best to improve this system.

The Social Protection Floor Initiative of the International Labour Organization provides one example of such a framework. In particular, it guides formulation of nationally defined basic social protection guarantees that prevent or alleviate poverty, vulnerability, and social exclusion throughout a life cycle (ILO 2012). Further, it has also formulated a set of analytical instruments that facilitate formulation of national social protection floors. These two types of assistance are now packaged together as the Assessment-Based National Dialogue.

Similarly, the Asian Development Bank’s Social Protection Index quantifies a country’s scope and depth of social protection coverage, as well as its impact within and between population groups. It measures currently available data and quantifies the degree of social protection offered by developing member countries in terms of social assistance, insurance, and labor market programs (ADB 2013b).

Evaluation frameworks such as the Social Protection Floor Initiative and the Social Protection Index facilitate evaluation of the extent of social protection coverage currently offered, including that extended to informal sector workers. In sum, development agencies and NGOs can make a substantial contribution to national social protection systems by providing consultation and evaluation services relating to social protection systems and programs, as well as assisting in the application of the analytical frameworks that they have formulated.

It is at the program level that development agencies can provide the most tangible assistance to the social protection systems of receiving countries. In particular, they can assist by implementing and financing the pilot stage of national social protection programs. Such pilot programs can then be used to provide the evidence base necessary for procuring the requisite political and financial support for taking these pilot programs to scale. However, once at scale, national authorities must assume full overall responsibility for such programs if longevity and coherence with other development initiatives are to be ensured.

At the administrative level, development partners can offer guidance and funding for formulating, implementing, monitoring, and evaluating national social protection systems, particularly in the case of establishing a single registry
MIS (Barca and Chirchir 2014). In this regard, training programs that build national and local capacity for administering social protection programs is an area in which numerous development partners have significant expertise. The same is true of conducting external evaluations of program implementation that highlight areas in which program operations can be strengthened.

Policy Lessons and Recommendations

Current economic, social, political, and demographic conditions in developing countries in Asia suggest that social protection programs that respond to the vulnerabilities of informal sector workers are required if the region is to fulfill the productive potential of its vast labor force. This suggests that the design of social protection programs must be sensitive to the specific vulnerabilities of informal sector workers and their households. At the very least, these programs should avoid exposing them to further vulnerability. Safeguarding adequate social protection coverage for informal sector workers requires that, as with all other social protection initiatives, such programs must be coordinated at the policy, program, and administrative levels.

At the policy level, social protection systems must be sensitive to the needs of informal sector workers by providing coverage for all citizens, rather than just the poor and vulnerable. In particular, due to the informal sector’s inherent heterogeneity, nonpoor informal sector workers may be excluded from social protection schemes. Thus, an entire range of contributory and noncontributory services must be provided in addition to those that respond to the needs of the poor and vulnerable. Both the life cycle and development planning approaches to provision of social protection should be employed at the policy level to ensure adequate scope and depth of impact of such programs.

Social protection systems can provide for informal sector workers by encouraging establishment of, or taking advantage of, existing national identification registration systems. This would ensure that informal sector workers are not excluded from social protection coverage for lack of identification. Further, benefit portability should be adopted to extend coverage to migrant workers employed outside of their home countries. Countries should likewise enter into bilateral and multilateral agreements that make social protection system continuous across the region.

At the program level, an entire range of contributory and noncontributory forms of social protection should be made available to individuals regardless of employment status. This may require disentangling access to social protection
from employment, or allowing individuals access to social protection through avenues other than formal employment. Further, all social protection instruments must be coordinated to ensure that the coverage gaps of any particular instrument are minimized. For example, one scheme could offer benefits and corresponding contribution requirements that vary with need or ability to pay. Alternatively, an agency that manages program coordination could be instituted. Access between different social protection instruments should also be coordinated to ensure greater development impact of the entire social protection system.

At the administrative level, all social protection systems including those that cover informal sector workers would benefit from a single registry MIS that coordinates targeting, benefit delivery, monitoring, and evaluation. Innovative forms of outreach may also be required if access to social protection programs is to be available in all regions of a country. Partnerships with microfinance institutions and community-level organizations would be of significant assistance in this regard. The same is true of establishing a network of agents for facilitating enrollment and benefit delivery.

Formulation of policy relating to social protection, as well as implementation and administration of particular social protection programs, must be coordinated at all levels if continuity of coverage is to be ensured across the entire range of social protection initiatives. This is necessary to ensure that national social protection systems respond to the needs of all inhabitants of a country at every stage of life, particularly with respect to informal sector workers who are easily excluded from the traditional forms of social protection currently in place. As informal sector workers account for a significant share of the total labor force in most developing countries in Asia, their access to social protection is critical to ensure social protection for Asia’s population at large.

References*


* ADB recognizes “China” as the People’s Republic of China and “Vietnam” as Viet Nam.


Indian National Social Assistance Programme. http://nsap.nic.in/


CHAPTER 2

Financing of Social Protection for Informal Sector Workers in Asia: Challenges and Opportunities

Michael Cichon and David Cichon

Abstract

This chapter identifies options for financing the closure of social protection gaps for the informal workforce in Asia, including prospects for concrete government action. Gaps are analyzed in four dimensions of social protection: health security during all ages; and income security during childhood, adulthood, and old age.

The share of people in the informal sector is estimated to be 40.0%–90.0% of the total population in the 20 sample countries in Asia. Total public social expenditure in the sample ranges from 1.0% of gross domestic product (GDP) in Myanmar to 18.6% of GDP in the Kyrgyz Republic. The weighted average public social expenditure in the sample is 4.4% of GDP. Social expenditure as a share of GDP in all of Asia is slightly higher than 50.0% of the overall global average expenditure on social protection. The weighted average of the cost of closing social protection gaps across all sample countries is 3.0% of GDP.

Social protection gaps, at least in the majority of countries in Asia, can be closed by a limited set of social protection benefits and mobilized within a period ranging from 5 to 10 years. Some increase in population coverage may be possible through extension of contribution-financed social protection systems, but most of the coverage extension should be financed from general revenues. In exceptional cases, this may be accommodated within current budget surpluses, but in most cases, additional revenue is needed.

Private expenditure is ignored in the analysis due to the excessive level of uncertainty of expenditure estimates.
Investments are required in responsible social and fiscal governance to reduce severe poverty. Political will is key in addressing major social protection financing challenges.

Introduction

This chapter seeks to identify options for financing the closure of social protection gaps for the informal workforce in Asia. The main objective is to identify prospects for concrete government action. Twenty Asian countries were selected to provide an overview of the heterogeneous social and economic situations and social protection systems in Asia: Armenia, Bangladesh, Cambodia, the People’s Republic of China (PRC), Fiji, India, Indonesia, the Republic of Korea, the Kyrgyz Republic, the Lao People’s Democratic Republic (Lao PDR), Malaysia, Myanmar, Nepal, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, Thailand, Uzbekistan, and Viet Nam. Throughout this chapter, these countries are referred to as the sample countries. Nineteen are developing member countries of the Asian Development Bank (ADB), while the Republic of Korea is a developed member country. Economic and fiscal analyses were undertaken for all 20 countries, but in some cases, fewer countries were analyzed, as not all country-specific databases are complete.

The main organizations that produce internationally available data are ADB, the International Bank for Reconstruction and Development, International Labour Organization (ILO), International Monetary Fund (IMF), International Social Security Association, United Nations, and World Health Organization. These data were complemented with data from national sources if needed.

To cross-check the quality of aggregated international data and information, six countries were selected for detailed analysis of their existing social protection systems: Bangladesh, the PRC, India, Indonesia, the Lao PDR, and Pakistan. This selection ensures that the majority of Asia’s population is included in the analysis, and that the full range of the magnitude of national challenges in extending coverage to the informal sector is included. This range of challenges extends from “easy” (PRC), to “manageable” (Indonesia), to “formidable but possible” (India and the Lao PDR), to “almost impossible” (Bangladesh).

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9 The Republic of Korea’s largely mature social protection system serves as a benchmark for comparison and interpretation of data for the other countries.

10 Metastudies, like this one, must rely on international data, which may not be compatible and are often incomplete. For this chapter, data of different sources were linked together, and data gaps were closed by estimates or assumptions. This may affect the accuracy of some parts of the analysis.
The analysis proceeds in five steps. First, the socioeconomic environments in which national social protection systems in Asia currently operate are analyzed. Second, the development and present state of social protection in the region are described. Third, on the basis of analysis of the existing systems, the principal options for closure of social protection coverage gaps in Asia are examined. This is followed by a presentation of a new way of estimating the cost of closing such gaps, as well as broad identification of financing strategies for this purpose. Finally, the chapter concludes with recommendations for the future extension of, and financing strategies for, social protection in Asia.

Social and Economic Context and the Informality Challenge

Ultimately, the performance of, and expenditure on, social protection systems depends on decisions of policy makers as well as the quality of governance. The social and economic environment in which social protection systems operate determines the challenges for governance and policy. The key determinants of these challenges are (i) the demographic structure and dependency ratio of the country concerned, (ii) the structure of pretax and pretransfer income distribution, (iii) the functioning of the national economy, and (iv) the structure of the labor market.

Demographic Context

Demographic development and ongoing demographic transition set the economic and social development of countries. While old-age dependency rates will increase in most countries in the region, Asia’s projected total dependency ratios until 2050 (i.e., youth under 15 years of age plus older people over 60 or 65 years of age as a proportion of people in active age) will stagnate, slightly decline, or only slightly increase (UNDESA 2015). The overall dependency rate for all of Asia will increase from 2010 to 2050 from 47.6% to 54.5%. Armenia, the PRC, the Republic of Korea, and Thailand are the exceptions, as they will face a more than 50.0% increase in their overall dependency ratios, a development similar to rapidly aging countries elsewhere.

Within the stagnating overall dependency rate in Asia, a substantial structural shift will occur between old-age dependency and child dependency rates. The overall old-age dependency rate in Asia is expected to increase from 10.1% in 2010 to 27.0% in 2050, and the child dependency rate is expected to decline from 37.6% to 27.7%. However, on the whole, the level and development of the overall dependency ratios in developing Asia for the next 4 decades do not signal any unmanageable risks for present or future social protection.
Social Protection for Informal Workers in Asia

Economic Context

Most of the sample countries showed solid long-term economic growth during the past few decades. Despite the global financial crisis, real average per capita growth exceeded 3.0% per year in most countries, with the PRC experiencing the highest average long-term real growth rate of over 9.0%, and the two Pacific island countries (i.e., Fiji and Papua New Guinea) realizing the lowest growth rates. Figures for GDP per capita (measured in 2013 US dollar purchasing power parity [PPP] terms) range between $2,200.00 and $33,000.00.

The resilience of economies in Asia was demonstrated during two financial crises, which Asia experienced within 1 decade. In both cases, recovery was relatively quick in most countries. The Asian financial crisis in 1997–1998 and the global financial crisis in 2008–2009 provided serious stress tests for Asia’s labor markets and social protection systems, showing that countries with established social protection systems could contain the social repercussions from the crises better than those that lacked such systems.

Poverty and Inequality

Overall, national poverty and inequality levels remain high in the sample countries, albeit not as extreme as in other developing regions. Nonetheless, due to its large population, Asia is still home to the majority of the world’s poor, including most of its working poor. According to ILO (2011), “around 868 million workers in Asia and the Pacific—around 46.0%—still live on less than $2.00 per day, of whom nearly 422 million survive on less than $1.25 per day. Asia still accounts for nearly 73 per cent of the world’s working poor.”

The under $2.00-per-day poverty ratio in developing countries (i.e., the arithmetic average of 25 countries) currently stands at 32.0%. The average in the sample of countries (i.e., an 18-country average) stands at 34.0%. Figure 2.1 shows that the under-$2.00-per-day poverty rate in developing Asia declines sharply as GDP per capita rises. This is no surprise, as this poverty line represents a lower percentage of GDP per capita in countries with relatively high GDP per capita than in countries with low GDP per capita.

Figure 2.1 also shows that GDPs per capita of $1,000.00 PPP–$5,000.00 PPP are compatible with a wide range of poverty rates. In other words, national poverty rates are influenced not only by the per capita GDP level of the country concerned but also by other factors, including governance decisions for or

\[\text{Regression analysis of 25 developing countries in Asia for which complete data are available (ILO 2014b).}\]
against income redistribution through taxes and transfers. India ($3,600.00 PPP) and Viet Nam ($3,400.00 PPP) have similar levels of GDP per capita, but India’s under $2.00-per-day poverty rate is 60.0% higher than that of Viet Nam, which in part is due to the fact that India spends about 1.7% of GDP on social protection while Viet Nam allocates 5.7% to it.

The level of income inequality in developing Asia tends to rise with increasing per capita GDP levels. The arithmetic average of the Gini coefficient stands at 0.35 in developing Asia, but countries with relatively high levels of GDP per capita (e.g., the PRC, Georgia, Indonesia, and Malaysia) have Gini coefficients above 0.4.

The national values around the regression line shows that a wide range of Gini coefficients, hence various levels of inequality, can be realized at similar levels of GDP per capita (Figure 2.2). Again, the level of inequality is a matter of governance and policy choice.
In line with the pace of economic growth, employment in Asia has grown substantially over the past few decades. However, between 1990 and 2010, Asia’s overall labor force participation rate dropped from 73.0% to 69.1%, with the rate for women dropping faster than that for men (from 58.4% to 53.7%, and 85.5% to 83.8%, respectively). These falling rates partially compensated for the growing population of active age, and, together with increasing employment, led to overall stagnating levels of unemployment. The impact of the global financial crisis on Asia was thus relatively small and short-lived.

National labor markets in Asia are still marked by significant vulnerability and informality, however. Nearly 60.0% of workers in Asia and the Pacific—around 1.1 billion—worked in vulnerable employment in 2009. The proportion was highest in South Asia at 77.0%, followed by Southeast Asia at 62.0%, and East Asia at 51.0%. The persistence of this kind of low-productivity and low-wage

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**Figure 2.2: Gini Coefficients versus Gross Domestic Product per Capita in Purchasing Power Parity Terms in Several Developing Countries in Asia, 2010**

(approximate)

GDP = gross domestic product, PPP = purchasing power parity.

employment has also limited the growth of the domestic market—inhibiting a virtuous cycle of increasing labor demand, wages, and production (ILO 2011).

The terms “informal employment” or “employment in the informal sector” are difficult to define. In fact, the 17th International Conference of Labour Statisticians struggled to find definitions for these terms (ILO 2004). Due to the complexity of these concepts, it is almost impossible to provide statistical estimates of the size of informal employment or employment in the informal sector that are internationally compatible. As a result, in this chapter, the term “vulnerable employment” is used as a proxy for “informal employment.”

Vulnerable employment is defined as the sum of own-account workers and contributing family workers. In the 20–country sample, the share of vulnerable employment in total employment ranges from 20.0% to 25.0% in the Republic of Korea and Malaysia, to over 80.0% of total employment in Bangladesh, the Lao PDR, Myanmar, Nepal, and Viet Nam, with the PRC, Fiji, Indonesia, the Kyrgyz Republic, Pakistan, Sri Lanka, and Thailand in the middle with vulnerability shares of 40.0%–60.0% in total employment.

People who are in vulnerable employment are usually not covered by any form of social insurance or universal tax-financed social protection scheme that requires registration as an employee, citizen, or legal resident. However, the number of people who are vulnerable and socially insecure is greater than the estimate of people in vulnerable employment, because workers exist in formal sector enterprises for which employers do not comply with their obligations to pay contributions; hence, these workers are left unprotected.

Figure 2.3 presents indicators of informal employment in sample countries. It is clear that the share of noncovered workers in total employment is greater than the share of vulnerable workers and legally noncovered workers. Legal, effective coverage of social protection schemes is approximated by the coverage of pension schemes. The extent of vulnerability and effective noncoverage is nothing less than dramatic in all countries, except the Republic of Korea.

Figure 2.3 also shows the development of vulnerability between 2000 and 2013. In this period, vulnerability dropped by a sizable proportion only in Viet Nam, where it fell by about 20 percentage points. In all other countries, the reduction of vulnerability is either substantially less (not even reaching 1 percentage point

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12 Even universal pension schemes may require proof of residence during years when a worker is actively working. Alternatively, eligible residents may have to be identified and be registered. Such processes may not reach all de jure eligible workers in a developing country context (e.g., such processes would generally exclude undocumented migrant workers).

13 The two estimates are based on different statistical sources, and thus may not be 100.0% compatible.
per year) or stagnant. These figures demonstrate that the trickle-down strategy of extending social protection coverage by waiting for formalization of the labor force to take place will most likely leave many workers and their dependents uncovered for several decades.

**State and Financing of Social Protection for the Formal and Informal Sectors in Asia**

Table 2.1, which refers to the same data used for Figure 2.3, provides an overview of the state of current social protection coverage in the sample countries. It indicates that the share of workers not protected by social protection schemes (approximated by the share of workers who are not actively contributing...
to national social insurance pension schemes or who are not covered by tax-financed schemes) is substantially greater than the estimated level of vulnerable employment in all of the sample countries, other than in the PRC and the Republic of Korea.14

The wide discrepancy between legal coverage and effective coverage—in the Philippines and Sri Lanka, the difference is more than 50.0% of total employment—shows that the potential for increasing coverage through full enforcement of existing social protection legislation is substantial. This fact should play a major role when designing national strategies for achieving universal protection. However, a high proportion of the workforce, ranging from 20.0% in fairly developed economies (e.g., the Republic of Korea and Malaysia) to 80.0% in others (e.g., Bangladesh and Myanmar) will not easily be reached by the usual social protection schemes designed for the formal sector.

Analytical Framework

The next step is to analyze the nature of the social protection gaps in more detail. This requires a structural framework. The concept of the social protection floor adopted by the United Nations and put into an international instrument by the ILO in 2012 provides a globally accepted framework for the extension of social protection to uncovered groups, notably in the informal economy (ILO 2012). It is also a useful framework for identifying structural coverage gaps as well as estimating the cost of closure of these gaps. Box 2.1 describes the salient features of the social protection floor framework and its historical origins in the global financial crisis.

Using the Social Protection Floor to Analyze Social Protection Gaps

The four social protection guarantees from R202, the ILO’s Social Protection Floor Recommendation, are used to estimate coverage and protection gaps in this chapter. They are (i) income security during childhood, (ii) income security during adulthood, (iii) income security during old age, and (iv) health security during an entire lifetime. The term “guarantees” underscores the fact that the focus is on social protection outcomes that can be achieved by different types of benefits and schemes, rather than on concrete means or particular types of benefits. R202 clearly formulates a protection objective: “these guarantees should ensure that all in need have access to essential health care and basic

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14 Increases where legal coverage is less-than-effective coverage due to statistical discrepancies that could not be clarified or to short-term frictional unemployment, which leads to temporary interruptions of contribution payments.
Table 2.1: Changes in Vulnerable Employment, 2000–2013, and Level of Social Protection Noncoverage in Sample Countries in the Latest Year for Which Data are Available

<table>
<thead>
<tr>
<th>Country</th>
<th>Vulnerable Employment</th>
<th>Legally Not Covered by Mandatory, Voluntary, and Noncontributory Pension Schemes</th>
<th>Effectively Not Covered by Mandatory, Voluntary, and Noncontributory Pension Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>44.7</td>
<td>26.5</td>
<td>62.5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>83.3</td>
<td>97.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>81.3</td>
<td>...</td>
<td>100.0</td>
</tr>
<tr>
<td>PRC</td>
<td>59.1</td>
<td>71.7</td>
<td>41.9</td>
</tr>
<tr>
<td>Fiji</td>
<td>38.4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>India</td>
<td>82.0</td>
<td>96.6</td>
<td>87.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>62.2</td>
<td>85.1</td>
<td>91.1</td>
</tr>
<tr>
<td>Republic of Korea (b)</td>
<td>22.8</td>
<td>0.0</td>
<td>17.9</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>52.1</td>
<td>14.4</td>
<td>54.5</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>89.2</td>
<td>91.5</td>
<td>98.5</td>
</tr>
<tr>
<td>Malaysia (a)</td>
<td>22.0</td>
<td>27.5</td>
<td>55.7</td>
</tr>
<tr>
<td>Myanmar</td>
<td>94.7</td>
<td>...</td>
<td>87.5</td>
</tr>
<tr>
<td>Nepal (a)</td>
<td>71.4</td>
<td>97.4</td>
<td>94.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>63.0</td>
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<td>94.4</td>
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<td>Papua New Guinea</td>
<td>75.9</td>
<td>100.0</td>
<td>95.9</td>
</tr>
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<td>Philippines</td>
<td>40.3</td>
<td>20.9</td>
<td>73.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>40.3</td>
<td>15.8</td>
<td>88.3</td>
</tr>
<tr>
<td>Thailand (a)</td>
<td>55.2</td>
<td>55.5</td>
<td>71.8</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>46.5</td>
<td>0.0</td>
<td>...</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>80.7</td>
<td>62.8</td>
<td>72.7</td>
</tr>
</tbody>
</table>

... = no data, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Notes:
- Estimated on 2011 employment data for the Republic of Korea.


The term “social protection floor” was first used as the title of one of nine crisis initiatives promulgated by the United Nations during a meeting of the United Nations System Chief Executives Board in April 2009. The initiative was joined by 19 United Nations and international agencies, and a number of major bilateral donors and nongovernment organizations. Since then, the concept of the social protection floor has been widely endorsed in the development community, including the Open Working Group on Sustainable Development Goals, which proposed a set of 17 new development goals for the global post-2015 development agenda.

With the support of a coalition of United Nations agencies—notably the World Health Organization and United Nations Children’s Fund—the International Labour Organization (ILO) obtained a mandate from the 100th Session of the International Labour Conference in 2011 to develop a new international social protection standard. R202, the Social Protection Floors Recommendation, was unanimously adopted by the 101st Session of the International Labour Conference in June 2012. As a result, it is an instrument of international law that all 184 ILO member states must take into account when drafting national social legislation. It aims to (i) establish and maintain, as applicable, social protection floors as a fundamental element of national social security systems; and (ii) implement social protection floors within strategies for the extension of social security that progressively ensure higher levels of social security to as many people as possible, guided by ILO social security standards.

National social protection floors should comprise at least the following four social security guarantees: (i) access to a nationally defined set of goods and services, constituting essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability, and quality; (ii) basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, care, and any other necessary goods and services; (iii) basic income security, at least at a nationally defined minimum level, for persons of active age who are unable to earn sufficient income, in particular, in cases of sickness, unemployment, maternity, and disability; and (iv) basic income security, at least at a nationally defined minimum level, for older persons.


income security, which together secure effective access to goods and services defined as necessary at the national level” (ILO 2012, Article 4).

This formulation also defines the floor as a combination of income security provided through cash transfers and transfers in kind, or in the form of access to essential social services as listed in Articles 11–13 of the International
Covenant on Economic, Social and Cultural Rights (United Nations 1966) and the concept developed by the Bachelet Advisory Report to the United Nations Crisis Initiative on Social Protection established in 2009 (Bachelet 2011). R202 also casts social protection floors into the context of wider social security extension strategies that countries are required to adopt.

Overview of Social Protection Gaps in the Sample Countries

The overall picture of social protection systems in the region is one of extreme fragmentation (Cichon and Cichon forthcoming, 17–18). Country profiles reveal that many of the social protection systems of the sample countries comprise a set of uncoordinated programs, each focusing on specific aspects of social insecurity. Thus, in their entirety, these systems have major deficiencies in terms of their extent and quality of coverage.

Health Security

The degree of effective access to essential health services (i.e., health security coverage) is the indicator of social protection coverage that is the most difficult to estimate. There is no accepted indicator that measures population coverage and quality of care. In the literature, coverage, access, and quality of care are generally measured by a variety of proxy indicators, such as density of medical staff, staff resources per medical act, or total expenditure and out-of-pocket payments. Each of these indicators has its merits and demerits; however, none effectively combines aspects of physical access (e.g., staffing ratios), financial access (i.e., the extent of third-party coverage of health care cost), and quality of care.

Thus, a new health protection indicator is defined in this chapter, combining (i) an indicator of physical access to health facilities (i.e., calculated on the basis of staffing ratios of health professionals per 1,000 population, which compares the national staffing ratios with the World Health Organization benchmark of adequate health sector staffing ratio of 41.1 health professionals per 1,000 population);\(^{15}\) (ii) an indicator of quality of health services (i.e., proportion of live births attended by qualified health professionals benchmarked against 100.0% attendance by qualified health professionals); and (iii) an indicator of financial access (i.e., proportion of total expenditure covered by out-of-pocket payments benchmarked against the relatively low out-of-pocket co-payment rate of Thailand).

\(^{15}\) The indicator simply calculates the ratio of national health professionals by the benchmark of 41.1 per 1,000 population. Ratios over 1 are cut to a value of 1 (ILO 2014b, 296).
The construction of the health care coverage indicator deliberately confines itself to input indicators of the health delivery and health financing systems. It does not incorporate health outcome indicators (e.g., life expectancy or quality-adjusted life years), since health outcomes are as much a consequence of general living conditions as of the health delivery system itself. Likewise, the specific nature of third-party financing arrangements (e.g., social insurance, private insurance, health insurance, or national health services) does not enter into the indicator (Table 2.2). Instead, to what extent health care users are required to cofinance services by out-of-pocket payments is key, as this is indicative of the extent to which the health financing system may discourage utilization.

The three individual components of the new coverage indicator, as well as the combined coverage indicator, are summarized in Table 2.2. The PRC, the Republic of Korea, and Thailand are currently achieving a coverage indicator of about 75.0% of a theoretical perfect score of 100.0%. Thailand achieves that score with an expenditure of 3.9% of GDP, while the Republic of Korea uses 7.5% of GDP. Aided by successful formalization of its labor force, the Republic of Korea rapidly extended health access through its social health insurance scheme. In contrast, Thailand complemented a stagnating social health insurance scheme in 2001 by the tax-financed Universal Coverage Scheme. A score similar to that of the Republic of Korea and Thailand is achieved by Sri Lanka, which operates a national health service.

The largest protection gaps in the region are in countries with high levels of labor force informality. Bangladesh, Cambodia, the Lao PDR, Nepal, Pakistan, and Papua New Guinea show dramatic shortfalls in their overall coverage indicators as compared with the benchmark, indicating a need for investment in their national health delivery systems.

Whether the level of protection in these countries can best be improved by a social health insurance scheme aimed at universal coverage or another health financing system aimed at universal coverage is unclear, as this depends on national circumstances and preferences. From a governance point of view, there is little difference between a universal health insurance scheme and any other universal health financing system where the purchaser and delivery functions are separated. However, from international experience, it is obvious that private insurance schemes or community-based schemes have not been able to demonstrate that they can achieve universal coverage, other than in cases in which private insurance is mandated (e.g., the Netherlands, Switzerland, and more recently, the United States).
### Table 2.2: Measures of Health Care Coverage and Quality in the Sample Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Health Care Staff-Based Access Gap</th>
<th>% Share of Live Births Attended by Skilled Health Care Professionals in Total Live Births</th>
<th>Out-of-Pocket Payments as a Percent of Total Health Care Expenditure</th>
<th>Combined Coverage Indicator&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>0.0</td>
<td>99.5</td>
<td>54.6</td>
<td>52.0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>75.7</td>
<td>31.1</td>
<td>63.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Cambodia</td>
<td>55.8</td>
<td>71.0</td>
<td>61.7</td>
<td>13.8</td>
</tr>
<tr>
<td>PRC</td>
<td>0.0</td>
<td>99.6</td>
<td>34.3</td>
<td>75.3</td>
</tr>
<tr>
<td>Fiji</td>
<td>0.0</td>
<td>99.7</td>
<td>22.8</td>
<td>88.6</td>
</tr>
<tr>
<td>India</td>
<td>33.1</td>
<td>57.7</td>
<td>57.6</td>
<td>18.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>31.6</td>
<td>79.8</td>
<td>45.3</td>
<td>34.4</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>0.0</td>
<td>100.0</td>
<td>34.8</td>
<td>75.0</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>0.0</td>
<td>98.3</td>
<td>36.1</td>
<td>72.3</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>57.3</td>
<td>37.0</td>
<td>38.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.0</td>
<td>98.6</td>
<td>35.6</td>
<td>73.1</td>
</tr>
<tr>
<td>Myanmar</td>
<td>41.0</td>
<td>70.6</td>
<td>71.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Nepal</td>
<td>72.8</td>
<td>36.0</td>
<td>49.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>43.0</td>
<td>45.0</td>
<td>61.9</td>
<td>11.2</td>
</tr>
<tr>
<td>Papua New Guinea&lt;sup&gt;b&lt;/sup&gt;</td>
<td>80.7</td>
<td>42.7</td>
<td>9.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.0</td>
<td>62.2</td>
<td>52.0</td>
<td>34.4</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.0</td>
<td>98.6</td>
<td>49.9</td>
<td>56.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>24.7</td>
<td>99.4</td>
<td>13.1</td>
<td>74.8</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>6.6</td>
<td>91.9</td>
<td>48.8</td>
<td>50.6</td>
</tr>
</tbody>
</table>

Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

**Notes:**
- The combined coverage indicator is from the authors’ calculations.
-<sup>a</sup> Defined as benchmark coverage indicator = (100 – access gap) / 100 * % of births attended /100 * (100 – out-of-pocket payments)/(100 – Thailand out-of-pocket payments) * 100
-<sup>b</sup> Compensation of two dimensions of coverage gaps by extent of third-party payment is allowed.

Income Security during Childhood

There is little statistical information on the extent of income security programs for children. Tax-financed universal cash benefits or benefits in kind for children sometimes occur, as can be seen in the country profiles. Yet only 17 out of 49 countries and areas in Asia have some form of family allowance system built into their social protection systems for the formal sector.\(^ {16} \)

Child income security is, to some extent, provided for in the survivor benefit regulations of public pension schemes. It can thus be assumed that at least the same proportion of children’s benefits are available from the income security provisions in case of the loss of one or two parents as those that are available to workers who are covered by formal sector pension schemes.

In Asia, only 4.3% of total public social protection expenditure is spent on social protection transfers to children. This indicates that in Asia—as in most other developing regions of the world—childhood income security is not the top priority of governments or societies (ILO 2014b, 306). Thus, most children, and in particular most children in need, remain unprotected today.

Income Security during Active Age

Income security in active age can be provided through many schemes. Formal sector workers often benefit from income transfers for specific contingencies such as employment injury benefits, unemployment and severance pay benefits, maternity benefits, sickness benefits, and disability pensions. These benefits may be combined with other allowances such as constant attendance or dependents’ allowances. However, people in the formal sector who exhaust their employment-related benefits, as well as unprotected people in the informal sector, must instead rely on general means-tested social assistance benefits.

Most countries in Asia have some form of provision for employment-related social security benefits. Traditionally, the greatest legal coverage is reached by employment injury schemes.\(^ {17} \) However, much of that coverage is still organized in the form of employer liability schemes, in which injured workers often have to prove employer fault and claim their benefits through cumbersome legal

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\(^ {16} \) Indirect child benefits, in the form of tax credits for parents with children, are not analyzed here. The statistical data regarding their financial volumes in a region with generally low income tax revenues are nonexistent. However, when revenues for financing national child benefit schemes are explored, it may be worthwhile to look at such tax credits and to consider them among the public subsidies that may be reduced or abolished to refinance a new, more universal, or better-targeted benefit.

\(^ {17} \) In the sample, ranging from under 10.0% in India to 85.0% in the Republic of Korea.
proceedings that often are unsuccessful or very slow. Comparable data on coverage of maternity, sickness, and invalidity schemes are scarce. However, since most of these schemes are organized in the form of social insurance, their coverage can be assumed to be similar to the coverage provided under pension schemes (Table 2.1).

Most income security during working age is provided by unemployment benefits and general social assistance. Unemployment benefits are paid in periodic payments for a number of months by social insurance schemes, periodic payments by social assistance schemes, or one-off severance pay that is generally an employer liability.

While 67.0% of countries in Asia have some form of unemployment scheme, the actual coverage of these schemes is rather limited. The overwhelming majority of the unemployed in Asia receive no benefits. In developing Asia, only Thailand and Uzbekistan have a beneficiary coverage rate of 30.0%–40.0% of all workers. Workers in the informal sector and their dependents do not benefit from any unemployment benefit provision, as this generally pertains exclusively to the formal sector.

Instead, workers in the informal sector depend on general social assistance, public employment schemes, or charity. In fact, social assistance schemes that attempt to support people in poverty are relatively new. It is important to note that in all of Asia, only 0.4% of GDP is spent on general social assistance for people in active age.

Social assistance is defined as comprising all schemes that provide benefits in cash or in kind, are income- or means-tested, and are financed by taxation. Traditionally, social assistance was a means-tested cash benefit targeting the very poor, but recently, new forms of social assistance have become the focus in the global social protection debate. For example, the World Bank rebranded time-bound social assistance as “social safety nets.” The terms “conditional” and “nonconditional” social transfers have also sprung up recently, and mean that in addition to being poor, recipients have to meet one or more additional behavioral conditions.

The applicability of general means-tested social assistance schemes to developing countries with high levels of poverty has been contested on the grounds that they may be too expensive, or that efficient, effective, and corruption-free means testing is not possible. In 2014, Cook and Pincus

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18 The World Bank (2014b, 1) definition of social safety nets is “non-contributory transfers designed to provide regular and predictable support to targeted poor and vulnerable people . . . [and] regular and predictable social protection for the poor and vulnerable.”
(2014, 5) described the limited reach of social assistance in Asia, and concluded that for Southeast Asia, “social assistance is largely delivered through safety net programs that are either means-tested, geographically targeted or both.” The World Bank (2014a, 5) estimated that of the poorest quintile of the population in South Asia, only about 25.0% is covered by some form of social assistance, with corresponding percentage shares for East Asia and the Pacific being less than 50.0%.

However, in 2009, Handayani and Burkley (2009, 6) concluded that, based on exchange of experiences of social assistance and cash transfers during a regional workshop in Manila, “social assistance experience is rich in Asia and the Pacific region.” Exchanges during that workshop validated the idea that most countries in the region have some form of social assistance, especially during economic downturns, and that conditional cash transfers are fast becoming a popular tool. Similarly, in its Social Protection Operational Plan, 2014–2020, ADB (2013, 6) observed that the “use of direct income transfers is gaining greater attention in Asia and the Pacific after the widespread adoption and scaling up of conditional cash transfers in Latin America and the Caribbean since the 1990s.”

While public employment schemes have often been viewed as alternatives to social assistance schemes, their coverage, in general, has remained low for decades. However, a major innovation in social protection was devised in India in 2005 by the National Rural Employment Guarantee Act, which combines elements of public employment schemes with a social assistance objective. It has created a new form of self-targeted social assistance that provides cash income in the form of a minimum wage payment in exchange for a guaranteed maximum of 100 workdays per year per household. Its self-targeting design overcomes some of the traditional implementation problems of social assistance schemes in developing country contexts. A number of developing countries have shown interest in replicating this scheme.

Income Security in Old Age

In all of Asia, only about 47.0% of all people above statutory retirement age receive a pension (ILO 2014b). This represents about half of the coverage rate of North America and Europe. Table 2.1 already reported the proportion of the employed that are not actively contributing to a pension scheme or are not covered by a noncontributory pension scheme, identifying huge coverage gaps in the active population in developing Asia. Noncoverage in active age logically leads to nonreceipt of employment-related pensions in old age.

Table 2.3 demonstrates that in developing Asia—except for countries with planned or formerly planned economies—pension coverage in old age is
Table 2.3: Share of Pension Recipients in the Total Population above Retirement Age in Sample Countries (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pensionable Age</th>
<th>Elderly with Contributory Pensions</th>
<th>Elderly with Noncontributory Pensions</th>
<th>Total Coverage of the Elderly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>63m/62.5f</td>
<td>64.6</td>
<td>15.4</td>
<td>80.0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>65m/62f</td>
<td>4.9</td>
<td>34.6</td>
<td>39.5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>55</td>
<td>...</td>
<td>...</td>
<td>5.0</td>
</tr>
<tr>
<td>PRC</td>
<td>60m/55f</td>
<td>32.2</td>
<td>42.1</td>
<td>74.4</td>
</tr>
<tr>
<td>Fiji</td>
<td>55</td>
<td>...</td>
<td>...</td>
<td>10.6</td>
</tr>
<tr>
<td>India</td>
<td>58</td>
<td>9.9</td>
<td>14.2</td>
<td>24.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>55</td>
<td>...</td>
<td>...</td>
<td>8.1</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>60</td>
<td>...</td>
<td>...</td>
<td>77.6</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>63m/58f</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>60</td>
<td>...</td>
<td>...</td>
<td>5.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>55</td>
<td>16.2</td>
<td>3.6</td>
<td>19.8</td>
</tr>
<tr>
<td>Mongolia</td>
<td>60</td>
<td>62.6</td>
<td>37.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Nepal</td>
<td>58</td>
<td>9.2</td>
<td>53.3</td>
<td>62.5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>60m/55f</td>
<td>...</td>
<td>...</td>
<td>2.3</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>55</td>
<td>...</td>
<td>...</td>
<td>0.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>60</td>
<td>24.3</td>
<td>4.2</td>
<td>28.5</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>55m/50f</td>
<td>...</td>
<td>...</td>
<td>17.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>60</td>
<td>13.1</td>
<td>68.6</td>
<td>81.7</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>60m/55f</td>
<td>97.8</td>
<td>0.3</td>
<td>98.1</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>60m/55f</td>
<td>25.8</td>
<td>8.7</td>
<td>34.5</td>
</tr>
</tbody>
</table>

... = no data, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

Note: m denotes male pension age; f denotes female pension age.


substantially below 50.0% (other than in the Republic of Korea, Nepal, and Thailand). While the high coverage in the Republic of Korea is largely a result of the rapid expansion of the contributory National Pension Service after its inception in 1988, which was facilitated by successful formalization.
of the economy and labor force, the remarkably high coverage rates in Nepal and Thailand resulted from introduction of noncontributory social pension schemes.

Old-age income security systems in historically market economies (e.g., the Republic of Korea, the Philippines, and Thailand), as well as in some former planned economies (e.g., the PRC, the Lao PDR, and Viet Nam), have a strong social insurance component but generally combine this with social pensions for those who do not qualify for contributory social insurance. Interestingly, countries that experienced a strong British colonial influence—regardless of whether they historically leaned toward planned economies (e.g., India and Sri Lanka) or market-oriented systems (e.g., Malaysia and Singapore)—still have provident funds at the core of their old-age benefit systems. Nepal has a long provident fund tradition but has combined it with a social pension scheme that was a pioneer noncontributory pension scheme in the region.

While the provident funds in Malaysia and Singapore are considered to be successful in economic terms, regarding rates of return on mandatory savings accounts, they do not provide long-term income replacement rates that create real income security in old age (OECD 2013, 29). Formerly planned economy countries, including the PRC, introduced variants of the provident fund in the form of mandatory defined-contribution schemes following economic liberalization.

The major innovation in old-age income security over the past 2 decades in Asia is the emergence of new, or now more prominent, noncontributory or social pension schemes. Noncontributory pension schemes now operate in 13 countries, virtually all of these being social pensions that are either means- or income-tested (Table 2.4). The benefit levels of these schemes are relatively low; as a consequence, their cost in all cases remains below 0.5% of GDP.

Noncontributory pension schemes are also currently the major old-age benefit system for the informal sector in Asia. The many decades of experience in Asia with provident funds and social insurance schemes show that with only the rare exceptions of countries with strong central governance systems (e.g., the PRC, the Republic of Korea, and Singapore), classical social insurance and savings schemes do not have the potential to overcome coverage gaps, particularly in the informal sector.
Table 2.4: Noncontributory Social Pension Schemes in Selected Countries in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Year Introduced</th>
<th>Residency or Citizenship Required</th>
<th>Income, Asset, Pension Test Required</th>
<th>Eligible Age Given</th>
<th>Level of Monthly Benefit (latest available year) in $ PPP</th>
<th>Level of Monthly Benefit in % of Average Wage</th>
<th>Recipients as % of Population above Eligible Age (last available year)</th>
<th>Cost in % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>...</td>
<td>Yes</td>
<td>Yes</td>
<td>65</td>
<td>49.60</td>
<td>9.1</td>
<td>14.2</td>
<td>...</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1998</td>
<td>...</td>
<td>Yes</td>
<td>65m/62f</td>
<td>8.80</td>
<td>5.5</td>
<td>39.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Fiji</td>
<td>...</td>
<td>Yes</td>
<td>Yes</td>
<td>70</td>
<td>...</td>
<td>...</td>
<td>28.9</td>
<td>...</td>
</tr>
<tr>
<td>India</td>
<td>1995</td>
<td>...</td>
<td>Yes</td>
<td>60</td>
<td>10.00</td>
<td>23.2</td>
<td>19.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2006</td>
<td>Yes</td>
<td>Yes</td>
<td>60</td>
<td>43.80</td>
<td>30.7</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>2007</td>
<td>...</td>
<td>Yes</td>
<td>65</td>
<td>118.80</td>
<td>3.3</td>
<td>70.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>...</td>
<td>...</td>
<td>Yes</td>
<td>63m/58f</td>
<td>32.50</td>
<td>5.7</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1982</td>
<td>...</td>
<td>Yes</td>
<td>60</td>
<td>158.70</td>
<td>12.7</td>
<td>5.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Mongolia</td>
<td>...</td>
<td>...</td>
<td>Yes</td>
<td>60m/55f</td>
<td>45.00</td>
<td>8.1</td>
<td>29.0</td>
<td>...</td>
</tr>
<tr>
<td>Nepal</td>
<td>1995</td>
<td>Yes</td>
<td>Yes</td>
<td>70</td>
<td>13.60</td>
<td>9.8</td>
<td>84.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>2011</td>
<td>Yes</td>
<td>Yes</td>
<td>77</td>
<td>19.90</td>
<td>6.0</td>
<td>18.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>1993</td>
<td>Yes</td>
<td>Yes</td>
<td>60</td>
<td>33.70</td>
<td>6.0</td>
<td>68.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2005</td>
<td>...</td>
<td>Yes</td>
<td>60</td>
<td>16.10</td>
<td>4.8</td>
<td>12.5</td>
<td>0.0</td>
</tr>
</tbody>
</table>

... = no data, f = female, m = male, GDP = gross domestic product, PPP = power purchase parity.

Note: Viet Nam also has a scheme for people over 80 years of age with higher benefits than appear in the entry above.

Current Level and Composition of Social Expenditure in the Sample Countries

According to ILO data, total public social expenditure in Asia ranges from 1.0% of GDP in Myanmar to 18.6% in Mongolia, with an average level of 4.6% of GDP (ILO 2014b, 310). The weighted average expenditure in the sample of developing Asia (including the Republic of Korea) is 4.4% of GDP. This roughly tallies with the estimate of ADB’s Social Protection Index for 2012 for all Asia (ADB, Social Protection Index). Since ILO data are the most current, allow for disaggregation of social expenditure along the four social security guarantees, and include more comprehensive health expenditure, they are used for the analysis.

Social expenditure as a share of GDP in all of Asia is about half of the global average expenditure on social protection. Roughly three-quarters of total social expenditure in the region is devoted to pensions (43.0%) and health care (33.0%). The wide range of expenditure levels again reflects the diverse social and economic histories of the countries in the region. Uzbekistan has social expenditure of over 10.0%; Armenia, the PRC, the Republic of Korea, the Kyrgyz Republic, and Thailand show a range of expenditure between 5.0% and 10.0% of GDP; while the rest of the countries in the sample have total public social expenditure below 5.0% of GDP (Table 2.5).

Allocating Current Social Expenditure in the Sample Countries to the Formal and Informal Sectors

Table 2.6 allocates total social expenditure to recipients in the formal and informal sectors, but there is no direct statistical information on the percentage of some public social expenditure, such as on public health or social assistance allocated to recipients in the informal sector. The expenditure allocation is made

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19 Private expenditure had to be ignored, as the level of uncertainty concerning expenditure estimates is considered to be too high. Data are from 2011–2012.

20 However, there are serious inconsistencies between expenditure estimates of the different institutions that cannot be clarified without an in-depth statistical study, which is beyond the scope of this chapter. The ILO data allow for disaggregation of total social protection according to the four guarantees. ADB data obtained from the Social Protection Index database do not contain all public health expenditure. ADB data also do not allow for the same level of disaggregation as ILO data. There are major discrepancies between the overall public social expenditure estimates of international institutions (and sometimes even between different departments of the same institution) due to the use of different definitions and different national and international statistical sources. Some data sources also show inexplicable differences in social expenditure between consecutive years. The ILO data seek to establish a consistent time series of social expenditure since 1990. Their expenditure data draw on national sources, ILO sources, and the ILO social security inquiry, as well as data from ADB, Eurostat, Government Spending Watch, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the United Nations Children’s Fund, the United Nations Economic Commission, and the World Bank.
Table 2.5: Approximate Alternative Estimates of Public Social Expenditure in the Sample Countries, 2010 (% of gross domestic product)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Public Social Expenditure</th>
<th>Public Social Expenditure</th>
<th>Social Protection Expenditure</th>
<th>Government Social Security and Welfare</th>
<th>Social Protection and Health Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
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<td>4.2</td>
<td>1.9</td>
<td>8.7</td>
<td>8.9</td>
</tr>
<tr>
<td>Bangladesh</td>
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<td>2.8</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1.8</td>
<td>2.0</td>
<td>0.6</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>PRC</td>
<td>6.8</td>
<td>7.0</td>
<td>5.0</td>
<td>3.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Fiji</td>
<td>3.4</td>
<td>4.7</td>
<td>1.5</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>2.6</td>
<td>2.7</td>
<td>1.5 (2009)</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
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<td>2.0</td>
<td>0.7</td>
<td>...</td>
<td>0</td>
</tr>
<tr>
<td>Republic of Korea</td>
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<td>9.6</td>
<td>6.3</td>
<td>4.7</td>
<td>5.8</td>
</tr>
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<td>15.0</td>
<td>8.1</td>
<td>8.8</td>
</tr>
<tr>
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<td>0.7</td>
<td>...</td>
<td></td>
</tr>
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<td>3.5</td>
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<td></td>
<td>...</td>
<td></td>
</tr>
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<td>2.2</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.7</td>
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<td>0.4</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>4.4</td>
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<td>0.1</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
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<td>3.5</td>
<td>2.1</td>
<td>0.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Sri Lanka</td>
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<td>4.8</td>
<td>2.8</td>
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<td>3.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.2</td>
<td>5.5</td>
<td>2.7</td>
<td>3.3</td>
<td>4.1</td>
</tr>
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<td>Uzbekistan</td>
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<td></td>
<td>8.4</td>
<td>...</td>
<td>12.4</td>
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<tr>
<td>Viet Nam</td>
<td>6.3</td>
<td>6.5</td>
<td>5.0</td>
<td>...</td>
<td></td>
</tr>
</tbody>
</table>

... = no data, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

Note: Data are from the central government, whichever is higher.

Sources:

5. International Monetary Fund. 2013. Regional Economic Outlook, Update. Washington, DC.
on the basis of an analysis of the coverage of the different social protection programs in the country concerned, as well as by using the degree of overall formalization of the population (approximated by the share of vulnerable employment in total employment), or the degree of coverage of contributory versus noncontributory pension schemes as allocation weights, wherever appropriate.21

The results show an average allocation of total social expenditure of roughly 64:34 in favor of the formal sector, which means, due to the high level of the population in the informal sector, that social protection expenditure per capita in the formal sector in the sample is about 2.6 times higher than per capita social protection expenditure in the informal sector. This differential is a rough indicator of the different degrees of social insecurity in the formal and informal sectors of the sample as a whole. The differential also aggravates the level of income inequality between the formal and informal sectors. The statistical basis does not allow the splitting of the overall expenditure into the proportion financed by social insurance contributions and shares financed by taxation.

Based on the relative distribution of social expenditure of the ADB Social Protection Index between the poor and nonpoor, Table 2.6 also estimates how much of social expenditure is allocated to the poor.22 The result is that roughly 38.0% of all social expenditure for the informal sector is allocated to the poor, if one assumes that all of the poor are in the informal sector. This also means that, on average, the countries in the sample spend about four times as much per capita on social protection for the nonpoor as they spend per capita on the poor. This imbalance is due to a combination of the low level of benefits designated for the poor and inadequate coverage of the poor.

While these estimates are crude, they provide sufficient reason to conclude that social protection expenditure in the sample countries is heavily biased toward the formal sector and nonpoor. In other words, existing social protection systems fail to focus on the poor and informal sector, where they could make the largest difference in reducing absolute poverty and inequality.

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21 The general principle followed in the allocation process is as follows. Public health expenditure is allocated according to the share of vulnerable with respect to nonvulnerable employment (which probably leads to an overestimation of the health care expenditure for the informal sector). Pension expenditure is allocated according to the statistical data on expenditure of contributory schemes (allocated to the formal sector) versus noncontributory schemes (allocated to the informal sector, as virtually all noncontributory pension schemes are means-tested), or based on the information on the nature of the schemes (e.g., for countries with provident funds, all pension expenditure was interpreted as expenditure on social pensions and allocated to the informal sector), or on the basis of the coverage of the contributory versus noncontributory schemes. Expenditure for children, general social assistance, and expenditure on labor market programs (i.e., probably mostly public employment programs) are allocated to the informal sector.

22 Applying the Social Protection Index allocation rates to the overall ILO levels of social expenditure.
Table 2.6: Total Social Expenditure by Social Protection Guarantee and by Expenditure Allocated to the Formal and Informal Sectors in the Sample Countries
(in the year for which latest data are available)

<table>
<thead>
<tr>
<th>Country</th>
<th>Public Health Expenditure</th>
<th>Expenditure for Children</th>
<th>Expenditure for People in Active Age</th>
<th>Expenditure for People in Old Age</th>
<th>Total Public Social Expenditure</th>
<th>Estimated Allocation of Expenditure to Formal Sector</th>
<th>Estimated Allocation of Expenditure to Informal Sector</th>
<th>Estimated Expenditure Allocation to the Poor Using ADB Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>1.7</td>
<td>2.1</td>
<td>1.0</td>
<td>3.6</td>
<td>8.5</td>
<td>5.0</td>
<td>3.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.1</td>
<td>0.1</td>
<td>0.8</td>
<td>0.7</td>
<td>2.7</td>
<td>0.7</td>
<td>2.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Cambodia</td>
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<td>0.1</td>
<td>0.3</td>
<td>0.2</td>
<td>1.8</td>
<td>(0.1)</td>
<td>1.9</td>
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</tr>
<tr>
<td>PRC</td>
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<td>6.8</td>
<td>5.3</td>
<td>1.5</td>
<td>0.1</td>
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<td>Fiji</td>
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<td>0.8</td>
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<td>1.1</td>
<td>2.3</td>
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<td>0.8</td>
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<td>1.5</td>
<td>1.0</td>
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<td>0.5</td>
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<td>0.0</td>
<td>2.6</td>
<td>0.6</td>
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<td>1.9</td>
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<td>9.2</td>
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</tr>
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<td>1.5</td>
<td>8.3</td>
<td>6.2</td>
<td>2.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Lao PDR</td>
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<td>0.4</td>
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<td>1.7</td>
<td>0.3</td>
<td>1.5</td>
<td>0.9</td>
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</table>

continued on next page
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<thead>
<tr>
<th>Country</th>
<th>Public Health Expenditure</th>
<th>Expenditure for Children</th>
<th>Expenditure for People in Active Age</th>
<th>Expenditure for People in Old Age</th>
<th>Total Public Social Expenditure</th>
<th>Estimated Allocation of Expenditure to Formal Sector</th>
<th>Estimated Allocation of Expenditure to Informal Sector</th>
<th>Estimated Expenditure Allocation to the Poor Using ADB Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>2.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.9</td>
<td>3.0</td>
<td>1.8</td>
<td>1.2</td>
<td>0.3</td>
</tr>
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<td>Myanmar</td>
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<td>0.1</td>
<td>0.6</td>
<td>1.0</td>
<td>0.0</td>
<td>1.0</td>
<td>0.3</td>
</tr>
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<td>0.1</td>
<td>0.1</td>
<td>0.5</td>
<td>2.3</td>
<td>0.6</td>
<td>1.8</td>
<td>0.3</td>
</tr>
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<td>Pakistan</td>
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<td>1.7</td>
<td>0.1</td>
<td>1.5</td>
<td>0.9</td>
</tr>
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<td>Papua New Guinea</td>
<td>3.3</td>
<td>0.1</td>
<td>0.9</td>
<td>0.2</td>
<td>4.4</td>
<td>0.9</td>
<td>3.5</td>
<td>0.1</td>
</tr>
<tr>
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<td>0.3</td>
<td>0.6</td>
<td>1.6</td>
<td>0.8</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.3</td>
<td>0.2</td>
<td>0.1</td>
<td>1.7</td>
<td>3.1</td>
<td>0.8</td>
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<td>7.2</td>
<td>5.8</td>
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<td>8.2</td>
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<td>0.6</td>
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<td>6.3</td>
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<td>Total Sample</td>
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<td>1.7</td>
<td>4.4</td>
<td>2.8</td>
<td>1.6</td>
<td>0.6</td>
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<tr>
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<td>2.2</td>
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<td>8.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Social Protection for Informal Workers in Asia

Social Expenditure as a Percentage of Gross Domestic Product in the Sample Countries

Figure 2.4 indicates that social expenditure as a percentage of GDP in the sample tends to increase with the levels of GDP per capita. However, more interesting is the wide dispersion of data points around the regression line. This indicates that countries at the same level of GDP per capita may have different levels of social protection expenditure.

Due to prevailing overall low levels of social protection spending of 4.4% of GDP in the sample—which is exactly half of the global average—and the wide dispersion of total public expenditure among countries with the same level of per capita GDP in PPP terms, there may be additional fiscal space for investment in social protection that may have a rapid, positive impact on Asia’s level of poverty and inequality. Additional social expenditure could have a longer-term positive effect on the level of informality in developing Asia, and hence on employability and economic growth.

Figure 2.4: Total Public Social Expenditure as a Percentage of Gross Domestic Product versus Gross Domestic Product per Capita in $ Purchasing Power Parity, Selected Countries in Asia, around 2010


Social Protection for the Informal Economy: Principal Options

Only a few principal conceptual options exist for extending social protection to workers and their families in the informal sector: subsidized social insurance, tax-financed means- or nonmeans-tested transfer schemes, conditional or nonconditional transfers, community-based insurance schemes, and private sector–executed insurance solutions provided on a voluntary or mandatory basis.

During the 1990s and the early 2000s, governments were slow to extend social protection coverage, and civil society and communities tried to take action in many countries in the developing world. Supported by a number of donors, community-based or group-specific social protection schemes were created. It was hoped that these initiatives would lead to a new bottom-up movement toward national social protection systems that would successfully cover the population in the informal sector. However, only a few of these schemes were truly successful, and global coverage of such schemes remained low.

One of the schemes that defied the general trend was the health care scheme operated by the Self Employed Women’s Association (SEWA) in India. In that case, social protection was only one aspect of a wide range of activities of a strong national organization. With its health coverage probably still around 1 million people, the major contribution of SEWA to extension of social protection in India is its successful lobbying for national social security schemes, rather than its direct operation of cooperative-based insurance schemes.

Understanding that civil society cannot provide the answer to major social protection financing challenges, in 2012, more than 80 global and national nongovernment organizations and trade unions formed a coalition for promoting national social protection floors worldwide.23 Following the SEWA example, global civil society added a new role of advocating for public social protection for the uncovered population, as well as creating political will (and fiscal space), to its traditional role as providers of charitable social transfers and services.

Donors and some international organizations have moved on from supporting microinsurance schemes to supporting conditional or nonconditional social transfer schemes often modeled on the Bolsa Família scheme in Brazil or the Oportunidades scheme in Mexico. One prominent example is the Benazir

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Income Support Programme in Pakistan, which provides cash transfers to poor women. Further examples on varying scales can be found in the PRC, Nepal, and the Philippines. McKinley and Handayani (2013, 4) observed that the largest social transfer scheme in Asia has, in the meantime, surpassed the absolute population coverage of the Bolsa Familia scheme:

the People's Republic of China's Minimum Living Standard Guarantee for the poor in both urban and rural areas is one of the most ambitious unconditional social transfer programs in the world....[I]n 2009, it accounted for 47.0% of all social assistance expenditures in the country and benefited 79 million people.

Donor roles are usually limited to supporting countries in preparing the analytical basis and capacity building for the introduction of these schemes or to financing limited pilot projects. Transitional cofinancing of benefits through donors does exist, but such cofinancing is not sustainable over long periods or in more than a few countries. Ultimately, all national social protection systems have to be financed by national resources and be organized by the country concerned.

Conceptual Options for Extending Coverage to the Informal Sector

As already mentioned, in a number of the sample countries, overall social protection coverage gaps can be partially closed by reducing the discrepancy between legal and effective coverage of existing formal sector social protection schemes. Some people in the informal sector may be reached by extending these formal sector schemes by offering voluntary coverage or special contribution and protection arrangements for groups whose informal employment shows a sufficient degree of regularity. However, the core of the vulnerable workforce will remain difficult to reach by schemes that are designed for people who have regular and well-documented monthly or weekly incomes from regular employment.

Worldwide, there is ample experience concerning the potential contribution of each of the principal options for extending social protection to the informal

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24 For example, the Pantawid Pamilyang Pilipino Program (4Ps) in the Philippines, which is supported by the Asian Development Bank, United Nations, and World Bank.

25 For example, the one-contribution system for small-scale earners in Argentina and Uruguay allows people on a self-assessment basis to make one payment to cover their tax and social security liabilities. This reduces the administrative complexity of compliance with tax and social security regulations, but still requires some paperwork that may prove prohibitive for some of the extremely vulnerable in Asia. For more information, see Administración Federal de Ingresos Publicos.
Financing of Social Protection for Informal Sector Workers in Asia

When developing national social protection systems, virtually all countries opt for a combination of solutions for several reasons, such as inherited and historically expanded organizational structures, fiscal policy principles, societal values, group interests (e.g., the interest of the formal sector to enjoy a predictable level of income replacement in case of sickness, maternity, disability, unemployment, and old age), political economy considerations, and the nature and structure of administrative capacity. Essentially, all systems are outcomes of implicit or explicit societal negotiations on desired levels of protection for different populations and interest groups and the acceptable degree of income redistribution. Pluralistic systems offer a balance of interests that accommodate a compromise solution with regard to the protection and political preferences of most groups.

Only a few countries adopt explicit universal (and uniform) coverage policies for all social protection guarantees. They may do so for one or two guarantees (e.g., flat-rate child benefits or universal old-age pensions), but not for other income security benefits for the active population, or they may seek differential levels of health care or income security for different population groups. In many cases, these differential levels stem from the fact that at some point, decades ago, social insurance coverage for the formal economy was introduced, and later additional subsidiary systems were devised to cater for people, who due to volatile incomes, have difficulty in contributing on a regular basis.

Whether universal or conditional benefits are socially more effective is currently widely debated. It is obvious that targeted, conditional transfers are administratively more complex than universal schemes, and hence more costly to administer. In addition, they may lead to exclusion errors. There is no database that allows delineation of a general rule for the relative cost of administering universal versus mean-tested, conditional benefits or the differences in social effectiveness between these models. Only a proxy consideration can provide some guidance in this regard.

If one were to take the cost difference between an efficiently administered, dominantly universal national social protection system (e.g., Sweden), and an efficiently administered system that relies on a combination of social insurance and social assistance (e.g., Germany) as a guide, then the administrative cost of a universal system may be half as high as that of a scheme that relies on individually calculated and/or means-tested benefits. However, in some

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low-income countries, public agencies able to administer sophisticated individual means- or conditionality testing may simply not exist. Ultimately, it has to be explored on a case-to-case basis whether targeting benefits through means testing or conditionalities is justified, given their potential administrative cost or potential exclusion errors.

However, since R202, all countries have acknowledged that they would honor the right to social security for all members of society by aiming to introduce universal protection as soon as possible. What is important is that national social protection systems in their entirety do not leave anyone in need without adequate protection. This leaves individual countries and societies with the option to choose whether to introduce targeted benefits for those in need only, introduce contract-based social insurance benefits earned through contribution payments, or opt for universal and uniform benefits for entire categories of people.

Realistic Options for Extending Coverage to the Informal Sector

From an analysis of coverage and protection gaps and synopsis of international experience, only a limited number of benefit options are rational, efficient, and effective ways to extend basic, reliable, and robust levels of social protection to the informal economy in Asia (Table 2.7). The options presented do not exclude that at a later stage, higher levels of protection can be achieved by combining these options with social or private insurance cover for groups that wish to organize better protection for themselves.

Due to perceived or real resource constraints, priority choices of policy measures may have to be made in individual countries. One way to prioritize these measures is to rank policy options by their closing impact on the average or aggregate poverty gap per currency unit spent on their respective benefits. However, this approach is academic, and a coherent poverty strategy should pursue a mix of policy options. There can, for example, be no income security without health security, and no health security without income security (in particular, food security). Realistically, determination of protection priorities must be a matter of national consensus building. Rational analysis can only deliver the evidence for such a consensus-building process.

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27 Slater and Farrington (2008) concluded in their review of means testing on social transfer schemes, “the costs and capacity requirements of designing and implementing approaches that rely on the formal means-testing of households or individuals, or embodies significant ‘conditionality’ is likely to be prohibitively costly for many countries in Sub-Saharan Africa. Approaches that rely on proxy and/or informal assessments (including community-based assessment) may offer an alternative. But... categorical targeting is likely to remain a popular policy option, partly because of the difficulty of means-testing, and partly for other reasons, for instance, the political and community-level acceptability of targeting specific categories such as older people, more than that of simply targeting the poor, where ‘we are all poor.’”
Table 2.7: Realistic Options for Extending Social Protection to the Informal Economy in Asia

<table>
<thead>
<tr>
<th>Social Security Guarantee</th>
<th>Options</th>
<th>Objective</th>
<th>Examples of Schemes in Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health security</td>
<td>Universal health service or national health insurance (with earmarked health tax)</td>
<td>100.0% protection of the total population</td>
<td>Indonesia, Thailand</td>
</tr>
<tr>
<td></td>
<td>Universal social insurance, tax-subsidized for low-income workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Combination of social insurance (formal sector) and residual national health service for informal economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income security for children</td>
<td>Universal child income transfers (in cash or in kind)</td>
<td>100.0% of all children in need of protection</td>
<td>People's Republic of China, Indonesia, Mongolia</td>
</tr>
<tr>
<td></td>
<td>Means-tested or conditional child income transfers (in cash or in kind)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income security for adults</td>
<td>Self-targeting employment guarantee schemes for unemployed</td>
<td>100.0% of all people who cannot make sufficient income in the labor market (i.e., people under the national poverty line)</td>
<td>People's Republic of China, India, Kyrgyz Republic, Mongolia</td>
</tr>
<tr>
<td></td>
<td>Social assistance for the sick and disabled</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transfers for pregnant women</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income security for the elderly</td>
<td>Universal tax-financed pensions</td>
<td>100.0% of all, or all in need of protection</td>
<td>Nepal, Thailand, Viet Nam</td>
</tr>
<tr>
<td></td>
<td>Means-, income-, or pension-tested social assistance pensions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors.
Estimating the Cost of Closing Social Protection Gaps

The next step in the analysis is to estimate the cost of closing these coverage gaps. According to the ILO rapid assessment methodology, a sound basis for national decision-making processes on the reform of national social protection systems normally consists of full-fledged social budget analyses, actuarial valuations, or abbreviated social budget analyses. To undertake such analyses for 20 countries is outside of the scope of this study; as a result, a simplified methodology is applied here. The estimates produced serve as an indication of the cost of policy options for closing the coverage gap that may be pursued in the future.

Methodology

It is assumed that countries will seek to close coverage gaps by first providing social protection floor benefits for the noncovered population in the informal sector. A robust two-benchmark methodology, based on stationary-state calculations (i.e., for a fictitious year following maturation of the introductory phase [roughly 2020]), is formulated. These cost estimates provide a lower and higher estimate of the cost of closing coverage gaps for the four basic social protection guarantees, based on the following methodological concepts.

Lower Estimate

This approach establishes a crude estimate of the cost of a targeted, efficient, means-tested social assistance scheme that provides for basic income security for all people during childhood, adulthood, and old age, plus an increase (if necessary) in expenditure for health care. The cost of closing health security gaps is estimated by an increase in national public health expenditure sufficient to make it consistent with that of Thailand (i.e., 3.0% of GDP). Thailand is used here as a benchmark country as it has achieved combined coverage of 75.0% at a reasonable overall cost. The costs of closing the income security gap are considered equal to the amount of resources needed to close absolute poverty gaps up to the international poverty line of $2.00 per person per day in PPP terms.

In total, this calculation should be an estimate of the minimum cost of completing a national social protection floor that provides universal protection

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28 It is assumed that if preparations for introduction of the social protection benefit schemes were to commence in 2015, stationary state operations—after gradual increases in uptake and outreach during the transition phase—would be reached in about 5 years.

on the basis of an income-tested social assistance approach. Such a scheme in each of the sample countries closes all of the protection gaps that have been left by the present social protection schemes. It is assumed here that the majority of beneficiaries under this approach are those in the informal economy, as most in the formal sector are either protected through higher-level protection systems or do not qualify for social assistance due to incomes or assets beyond social assistance thresholds.

Higher Estimate

The second approach provides rough cost estimates for closing the protection gap by using tax-financed universal benefit schemes, notably tax-financed child benefits; India’s National Rural Employment Guarantee Act–type public employment with social assistance benefit schemes for the poor in active age; a disability benefit for all persons with disabilities; as well as a flat-rate, tax-financed pension scheme. Health costs are estimated by the increase in the cost of reducing out-of-pocket payments down to the level of Thailand, which has the lowest share of out-of-pocket payments in total health care cost in the region. This is a high-cost estimate that is based on largely nonmeans-tested universal benefits except for the National Rural Employment Guarantee Act–type scheme, which constitutes a form of self-targeted income security benefits for people in active age. The protection gap for the informal sector is actually closed through benefits for the entire population.

Assumptions in Calculating the Lower Estimate

It is assumed that all countries are to reach the share of public health expenditure in the GDP of Thailand. Countries with lower current expenditure will increase their expenditure accordingly. Countries that have already higher costs require no increase in overall cost. Further, the social assistance scheme closes the individual poverty gap for poor people of all ages to the level of the international poverty line of $2.00 per person per day in PPP terms.

Assumptions in Calculating the Higher Estimate

It is assumed that the additional costs of health care are calculated as in the lower estimate, but in addition, the national co-payment rates (i.e., the share of out-of-pocket payment in total health expenditure) are brought down to the level of Thailand, which is 13.0% of total national health expenditure.

While these countries may be required to change the allocation of health expenditure to reach Thailand’s level of the combined protection indicator, such structural shifts are not relevant for estimating additional cost.
Further, all children under 15 years of age receive a benefit of 50.0% of the global poverty line of $2.00 per day in PPP terms, or 50.0% of the national poverty line in PPP terms, whichever is higher. All persons with disabilities in active age receive a benefit of $2.00 per person per day in PPP terms or the national poverty line, whichever is higher. A disability rate of 3.0% of the population in active age is used (WHO and World Bank 2011, 30).

Fifty percent of the population in vulnerable employment is assumed to receive an allocation of 100 days of public employment per year, paid at the national minimum wage. All people, over age 65 years, receive a pension of $2.00 per person per day in PPP terms or the national poverty line in PPP terms, whichever is higher. Finally, all countries operate some protection schemes for the informal sector. The current costs of social protection for the informal sector are subtracted from the gross amounts of benefit expenditure calculated for the higher estimate.

Assumptions Common to Both Estimates

Administrative costs are added to the cost of benefits. Administrative costs in mature social protection schemes are normally well below 5.0% of the total benefit cost. However, in countries with less-developed administrative capacities that are charged with administering new benefit schemes, it is assumed that the administrative overhead will be 20.0% of the total benefit cost for means-tested cash benefit schemes, and 10.0% of the total benefit cost for universal benefit schemes. The administrative cost of health schemes is assumed to be included in the calculation of the increase in the overall cost as described above.

Results

The results of the cost estimates are summarized in Tables 2.8 and 2.9. The lower estimates range from less than 0.5% of GDP in additional cost in the PRC and Thailand to perhaps prohibitively high costs of 12.2% of GDP in Bangladesh. For all other countries, except the Lao PDR and Nepal, the additional cost is

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31 The PPP poverty lines in 2005 international dollars are used, as these were the only data available for a wide range of countries.

32 The data from the WHO and World Bank publication indicate a severe disability rate of 2.9% for people aged 15–59 years in lower- and middle-income countries in Asia (WHO and World Bank 2011).

33 The calculations actually use the relationship between the national minimum wage per year and GDP per capita. In Bangladesh, Nepal, and Pakistan, these rates exceeded 100.0% and are considered implausible. Hence, a rate of 33.3% of per capita GDP is used. Unemployment rates could have been used to calculate the number of beneficiaries; however, the unemployment rates in developing countries tend to hide the degree of underemployment, which is widespread. It is assumed here that unemployment is about 50.0% of the underemployed in vulnerable employment, who seek work from a 100-day employment scheme.
estimated to be 5.0% of GDP. The weighted average for all sample countries is 3.0% of GDP.

The higher estimate shows an anomaly in the case of Bangladesh, in which the higher estimate returns a lower result than the lower estimate, denoting that due to the extremely high poverty rate of $2.00 per person per day in PPP terms, closing the aggregate national poverty gap is actually more expensive than trying to close the gaps through categorical universal or self-targeted benefits. For Bangladesh, the assumption that only 50.0% of

<table>
<thead>
<tr>
<th>Country</th>
<th>Closing the Health Expenditure Gap</th>
<th>Closing the $2.00 per Day Aggregate Poverty Gap</th>
<th>Administrative Cost (20%)</th>
<th>Total Additional Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>1.1</td>
<td>0.3</td>
<td>0.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.8</td>
<td>8.7</td>
<td>1.7</td>
<td>12.2</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1.7</td>
<td>2.5</td>
<td>0.5</td>
<td>4.6</td>
</tr>
<tr>
<td>PRC</td>
<td>0.0</td>
<td>0.3</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Fiji</td>
<td>0.4</td>
<td>0.6</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>India</td>
<td>1.7</td>
<td>2.7</td>
<td>0.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.8</td>
<td>1.0</td>
<td>0.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>0.0</td>
<td>1.2</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1.5</td>
<td>3.4</td>
<td>0.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Nepal</td>
<td>0.8</td>
<td>6.0</td>
<td>1.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2.0</td>
<td>2.1</td>
<td>0.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>0.0</td>
<td>3.8</td>
<td>0.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.3</td>
<td>1.6</td>
<td>0.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.8</td>
<td>0.4</td>
<td>0.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0.2</td>
<td>0.4</td>
<td>0.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.
Source: Survey of Informal Workers 2015 compiled by the author.
Table 2.9: Cost of Closing the Social Protection Gap in the Sample Countries, Stationary State, Upper Estimate
(in % of gross domestic product)

<table>
<thead>
<tr>
<th>Country</th>
<th>Closing the 3% of GDP Gap Plus Reduction of Out-of-Pocket Payments</th>
<th>During Childhood</th>
<th>Employment Guarantee during Adult Age</th>
<th>Disability Benefit during Inactive Age</th>
<th>During Old Age</th>
<th>Subtotal of Income Security</th>
<th>Administrative Cost (10%)</th>
<th>Total Gross Cost</th>
<th>Minus Estimated Current Expenditure</th>
<th>Total Additional Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>3.0</td>
<td>2.4</td>
<td>1.0</td>
<td>0.5</td>
<td>2.4</td>
<td>6.2</td>
<td>0.9</td>
<td>10.1</td>
<td>3.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>3.6</td>
<td>4.3</td>
<td>1.8</td>
<td>0.6</td>
<td>1.4</td>
<td>8.1</td>
<td>1.2</td>
<td>12.8</td>
<td>2.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Cambodia</td>
<td>4.3</td>
<td>3.7</td>
<td>1.9</td>
<td>0.5</td>
<td>1.2</td>
<td>7.3</td>
<td>1.2</td>
<td>12.8</td>
<td>1.9</td>
<td>10.9</td>
</tr>
<tr>
<td>PRC</td>
<td>1.1</td>
<td>0.6</td>
<td>1.6</td>
<td>0.1</td>
<td>0.6</td>
<td>2.8</td>
<td>0.4</td>
<td>4.4</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Fiji</td>
<td>0.8</td>
<td>2.5</td>
<td>1.0</td>
<td>0.3</td>
<td>0.9</td>
<td>4.8</td>
<td>0.6</td>
<td>6.2</td>
<td>2.3</td>
<td>3.9</td>
</tr>
<tr>
<td>India</td>
<td>3.5</td>
<td>2.0</td>
<td>2.1</td>
<td>0.3</td>
<td>0.7</td>
<td>5.0</td>
<td>0.8</td>
<td>9.3</td>
<td>1.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.8</td>
<td>1.1</td>
<td>1.3</td>
<td>0.2</td>
<td>0.4</td>
<td>2.9</td>
<td>0.6</td>
<td>6.3</td>
<td>2.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>1.7</td>
<td>5.0</td>
<td>0.6</td>
<td>0.6</td>
<td>1.3</td>
<td>7.6</td>
<td>0.9</td>
<td>10.2</td>
<td>2.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>2.2</td>
<td>2.7</td>
<td>2.8</td>
<td>0.6</td>
<td>1.6</td>
<td>9.9</td>
<td>1.3</td>
<td>14.0</td>
<td>1.8</td>
<td>13.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.7</td>
<td>0.6</td>
<td>0.4</td>
<td>0.1</td>
<td>0.2</td>
<td>1.3</td>
<td>0.3</td>
<td>3.4</td>
<td>1.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.8</td>
<td>5.7</td>
<td>0.6</td>
<td>0.6</td>
<td>1.6</td>
<td>9.9</td>
<td>1.3</td>
<td>14.0</td>
<td>1.8</td>
<td>13.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.5</td>
<td>2.6</td>
<td>1.1</td>
<td>0.2</td>
<td>0.6</td>
<td>4.7</td>
<td>0.8</td>
<td>9.0</td>
<td>1.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>0.0</td>
<td>5.5</td>
<td>1.8</td>
<td>0.5</td>
<td>0.9</td>
<td>8.6</td>
<td>0.9</td>
<td>9.5</td>
<td>1.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.1</td>
<td>1.9</td>
<td>1.5</td>
<td>0.2</td>
<td>0.4</td>
<td>4.0</td>
<td>0.7</td>
<td>7.8</td>
<td>3.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2.9</td>
<td>0.9</td>
<td>0.5</td>
<td>0.1</td>
<td>0.6</td>
<td>2.2</td>
<td>0.5</td>
<td>5.6</td>
<td>0.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.0</td>
<td>0.5</td>
<td>2.6</td>
<td>0.1</td>
<td>0.5</td>
<td>3.6</td>
<td>0.4</td>
<td>4.0</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2.6</td>
<td>1.6</td>
<td>0.7</td>
<td>0.3</td>
<td>0.6</td>
<td>3.1</td>
<td>0.6</td>
<td>6.2</td>
<td>3.0</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
all people in vulnerable employment resort to the 100-day wage guarantee scheme is probably an underestimation.

The additional cost that would have to be financed to close the protection gap lies between 1.6% of GDP in Thailand and 10.9% of GDP in Bangladesh and Cambodia. The estimated additional cost for all other countries ranges from 2.0% to 8.0% of GDP. The weighted average across all countries is 5.2% of GDP. While this appears high, Table 2.9 also indicates that individual components (e.g., universal pensions or employment guarantee schemes) of the set of categorical benefits designed for the higher estimate may well be affordable, even in the near future.

Table 2.10 shows that the cost of the lower estimate could be reduced if the lower international poverty line of $1.25 per day per capita in PPP terms is applied. In fact, the average cost of the lower estimate would drop from 3.0% of GDP to 1.5% of GDP, and the average cost of the higher estimate to 4.5% of GDP. However, the poverty line of $1.25 per day is extremely low for most countries in the region. The ADB estimate for the average poverty line in Asia (i.e., $1.51 per person per day in PPP terms) would put the average cost of the lower estimate around 2.0% of GDP.34

Table 2.10: Comparison of Cost of Closing the Protection Gap in Sample Countries, Stationary State for Alternative Poverty Lines (% of gross domestic product)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.25 PPP</td>
<td>1.3</td>
<td>4.5</td>
<td>PRC (0.0)</td>
<td>Cambodia (10.5)</td>
</tr>
<tr>
<td>$2.00 PPP</td>
<td>3.0</td>
<td>5.0</td>
<td>Thailand (0.1)</td>
<td>Bangladesh and Cambodia (10.9)</td>
</tr>
</tbody>
</table>

PPP = power purchasing parity, PRC = People’s Republic of China.
Source: Survey of Informal Workers 2015 compiled by the author.

34 The costs cannot be calculated more precisely, as poverty gap ratios for the $1.51 estimate are not available.
For purposes of comparison, Table 2.11 summarizes the results of recent ILO cost estimates for several countries in Asia. The benefit packages are not compatible with those developed in this study, as they reflect national priorities and benefit packages designed through national consultation processes. However, they confirm the order of magnitude of these conservative estimates.

Table 2.11: Estimated Cost of Closing the Social Protection Floor Gap in Selected Sample Countries in a Stationary State, Year of Around 2020, Using International Labour Organization Estimates (in % of gross domestic product)

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Total Cost (Stationary State) Low-Cost Variant</th>
<th>Estimated Total Cost (Stationary State) High-Cost Variant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>0.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Myanmar</td>
<td>2.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2.0</td>
<td>6.1</td>
</tr>
</tbody>
</table>


With only about 2.0%–3.0% of GDP, major gaps in the protection of the informal sector can be closed. Since social protection country profiles show a need to overcome the chronic fragmentation of income security schemes for adults, possible priority candidates are, for example, employment guarantee schemes, as they would benefit entire households (Cichon and Cichon forthcoming). Further, their estimated cost seems to indicate affordability.

Closing Coverage and Protection Gaps: Financing Options

The potential for including the informal sector in existing self-financing social insurance schemes for the formal sector or organizing effective community- or charity-based security systems is limited. Thus, financing additional protection for the informal sector must focus on finding new fiscal space.
While reallocation of existing expenditure may be possible, financing substantial social protection for all requires an increase in the tax–GDP ratio in a number of countries in the region that now have fairly low tax revenues. This, in turn, requires major investments in the tax collection system.

Historically, the tax–GDP ratio has increased in many countries without jeopardizing economic growth. While the overall level of taxation is a constant debate between neoclassical and Keynesian or neo-Keynesian economists, some of the most successful economies in Europe have relatively high tax–GDP ratios. The optimal level of taxation for a society will always be elusive, and the politically acceptable and economically sustainable level will always be algorithmically approached by a complex system of implicit and explicit negotiations and compromises that test the limits of societal acceptance of taxation rather than by textbook economics.

**Fiscal Situation in the Sample Countries**

Table 2.12 depicts the governments’ financial positions in the sample countries. Total revenue ranges between 9.4% of GDP in India and 29.1% of GDP in the Kyrgyz Republic. Except for Armenia, the Republic of Korea, and Uzbekistan, all countries are in deficit, with deficits in the Lao PDR, Papua New Guinea, and Sri Lanka ranging above 5.0% of GDP, and most others 1.0%–5.0% of GDP. Countries with the highest level of informality (i.e., Bangladesh, India, and Pakistan) have the lowest revenue rates (below or around 10.0% of GDP). Cambodia, Indonesia, the Philippines, Sri Lanka, and Thailand have revenue rates under 20.0% of GDP.

Since there is no correct level of tax–GDP ratio in an economy, the only pragmatic solution in assessing fiscal space in individual countries is by comparison (i.e., by benchmarking their tax–GDP ratios against each other). In this regard, the first assumption is if the tax–GDP ratio in a given country is much lower than that of other countries at a similar level of GDP, then there may be additional fiscal space; hence, there may be policy space for providing additional social protection benefits. Should this not be the case, then reprioritization of the current budget offers an alternative for finding some of the resources necessary for funding additional social protection. However, reallocating existing expenditure may be as politically difficult as financing new expenditure from new revenues.

**Tentative Financing Strategies for Closing the Basic Social Protection Gap**

The financing strategies considered here for the sample countries are (i) increased taxation, (ii) improved tax collection, (iii) savings, (iv) reallocation of
expenditure within the government budget, and (v) reallocation of expenditure within the national budget for social expenditure. Given the present deficit levels of most of the sample countries, the option of increasing deficits is not considered. The same applies to external financing. While external financing may be an option for financing or cofinancing the startup of national social

Table 2.12: Central Government Total Revenue, Total Expenditure, and Fiscal Balance in Sample Countries, 2013 or Latest Year for Which Data are Available (% of gross domestic product)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Revenue</th>
<th>Total Expenditure</th>
<th>Fiscal Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>24.8</td>
<td>24.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>11.2</td>
<td>14.5</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Cambodia</td>
<td>18.1</td>
<td>19.9</td>
<td>(1.8)</td>
</tr>
<tr>
<td>PRC</td>
<td>22.5</td>
<td>24.2</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Fiji</td>
<td>28.1</td>
<td>29.2</td>
<td>(1.1)</td>
</tr>
<tr>
<td>India</td>
<td>9.4</td>
<td>14.0</td>
<td>(4.6)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15.7</td>
<td>18.0</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>22.1</td>
<td>21.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>29.1</td>
<td>29.8</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>24.3</td>
<td>29.9</td>
<td>(5.6)</td>
</tr>
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<td>Malaysia</td>
<td>21.7</td>
<td>25.6</td>
<td>(3.9)</td>
</tr>
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<td>Myanmar</td>
<td>24.3</td>
<td>29.2</td>
<td>(4.9)</td>
</tr>
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<td>Nepal</td>
<td>20.0</td>
<td>21.9</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9.5</td>
<td>13.7</td>
<td>(4.2)</td>
</tr>
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<td>Papua New Guinea</td>
<td>27.1</td>
<td>34.3</td>
<td>(7.2)</td>
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<td>Philippines</td>
<td>14.9</td>
<td>16.3</td>
<td>(1.4)</td>
</tr>
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<td>Sri Lanka</td>
<td>13.2</td>
<td>19.1</td>
<td>(5.9)</td>
</tr>
<tr>
<td>Thailand</td>
<td>18.1</td>
<td>20.1</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>22.0</td>
<td>21.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>21.3</td>
<td>26.0</td>
<td>(4.7)</td>
</tr>
</tbody>
</table>

( ) = negative, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

Note: Calculated fiscal balances differed substantially from published ADB figures in some cases (e.g., Cambodia, Lao PDR, Nepal, and Papua New Guinea); in these cases, revenue was adjusted to reported fiscal balance.

Financing of Social Protection for Informal Sector Workers in Asia

In the long run, most social protection financing will have to come from domestic sources.

Closing the social protection gap in the sample countries—even when the cheapest variant is considered—requires about 1.5% of GDP on average. However, individual components of the social protection floor are less costly. It is not realistic to assume that development partners at the present level of global official development assistance can support more than a few countries at the same time in this regard.

The following sections address five groups of countries with similar combinations of public expenditure and poverty levels. The first group faces no real financing challenge. Identifying possible financing strategies for modifying national social protection systems in the other four country groups is a more complex issue.

**Country Group I: The No-Deficit Group**

The first group comprises Armenia, the Republic of Korea, and Uzbekistan—the only countries with positive fiscal balances. There are no estimates of the size of the protection gaps for Uzbekistan, as its database was incomplete. However, the overall access indicator in health signals that there may be need for action. Given Uzbekistan’s overall social expenditure, it may be possible to solve the problems within the present overall resource envelope through reallocation of funds within the social protection system.

The Republic of Korea’s social protection floor is virtually complete, but may need some minor adjustment to close residual gaps through reallocation of expenditure. Armenia should not have to resort to mobilizing new revenues to complete at least a modest social protection floor. In all three countries, national dialogue should begin to analyze the basic protection gaps in detail, with strategies then developed for closing these gaps.

**Country Groups II, III, IV, and V: The Deficit Groups**

Figure 2.5 maps the under $2.00-per-day poverty rate—as the main trigger for rapid, remedial social protection action—against the level of government revenue in percent of GDP. Four quadrants can be distinguished, created by a horizontal line depicting a poverty rate of 25.0% of GDP and a vertical line depicting government revenue of 25.0% of GDP. Each of these quadrants contains a number of countries with similar policy challenges.

The first quadrant (i.e., country group II) has countries with relatively low poverty rates and less than 25.0% of GDP in revenue. The next quadrant (i.e., country group III) comprises countries with relatively low poverty rates and
more than 25.0% of GDP in revenue. The next quadrant (i.e., country group IV) comprises countries with relatively high poverty rates and more than 25.0% GDP in revenue. The final quadrant (i.e., country group V) comprises countries with relatively high poverty rates and less than 25.0% of GDP in revenue.

In contrast to group I referred to above, all countries in the other four groups require additional revenue or reallocation of current expenditure to finance closure of the social protection gap. Possible expenditure reallocation is limited to reduction of defense spending, subsidies, and public service.

Principal revenue-generating mechanisms suggested here are an increase in income tax, improving the efficiency of tax collection, and an increase in social insurance coverage. The use of these mechanisms is justified below.

**Increase in Income Tax**

This measure is only suggested for countries with a revenue level of less than 25.0% of GDP. Income tax levels in the region are extremely low by international
Financing of Social Protection for Informal Sector Workers in Asia

standards, and overall tax–GDP ratios are relatively low in a number of countries. As a result, there should be space for a modest to substantial increase in the income tax depending on the country.

The Organisation for Economic Co-operation and Development (OECD) considers Asia’s low tax–GDP ratios to be a chronic regional governance problem. An International Monetary Fund (IMF) study suggested that, on average, low-income countries can increase their tax–GDP ratio by 2–4 percentage points without jeopardizing economic performance (IMF 2011, 4).

An alternative to increasing the income tax is to impose or increase a value-added tax. However, the value-added tax is a regressive tax that would reduce the value of additional social assistance benefits, in particular for poorer people in the informal sector.

Improve Tax Collection

Findings from OECD and the IMF support the common assumption that there are considerable inefficiencies in tax collection mechanisms in all of the region’s countries (OECD 2012, IMF 2011). IMF data showed that the average tax effort (i.e., the measure of the difference between the amount of tax collected and the amount that should be collected when all tax rates are perfectly applied to the full tax base) in 10 countries in Asia only stands at 53.3%. The average tax effort of all lower-middle-income countries stands at 63.2% (IMF 2011, 60).

If it is assumed that the sample countries can achieve that level of tax effort, then overall tax revenues could theoretically be increased by 18.6% without increasing tax rates. It is conservatively assumed here that the maximum increase in the tax effort achievable in the sample countries is 10.0%. However, the potential gains from improved tax collection is used as a residual revenue category, which is only used to its full extent (i.e., 10.0%) if other measures are insufficient to finance closure of the protection gap.

35 It states: “The revenues in emerging Asia average 15.0% of GDP...The comparatively low tax revenue relative to GDP is not a new phenomenon in the region. In addition, in some countries (for instance, Indonesia), tax revenues relative to GDP have declined since 1990. Such experience suggests that there is room for improved resource mobilisation through tax reform” (OECD 2011, 39–40).

36 See OECD (2012, 40): “Tax revenues can be increased by strengthening tax administration including tax audits and enforcement.”

37 The tax effort is a factor between 0 and 1 (or 0 and 100.0%). All factors smaller than 1 indicate that due to tax exemptions, noncompliance, nonenforcement, or other reasons for noncollection of taxes that are due, less than the potentially full amount of taxes are collected. Much of the noncollection can normally be attributed to bad governance.

38 Countries in the average calculation are Armenia, Bangladesh, the PRC, India, Indonesia, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, and Thailand.
Increase Social Insurance Coverage

Most of the sample countries operate some form of social insurance for the formal sector. However, these schemes neither de facto cover all of the people that should be legally covered, nor do they reach all nonvulnerable (i.e., formal sector employees) persons in the workforce. If social insurance coverage is extended to all people who are thus far de facto and de jure not covered, but could be covered without undertaking painstaking efforts, then tax-financed social assistance or universal schemes could save the resources that otherwise are needed for this group of people.

Social insurance schemes are generally financed by employer and worker contributions that are not regarded as taxes but as part of the general government account. Normally, these schemes should be in financial equilibrium (i.e., revenues should cover expenditure in the long run), and no subsidies from general tax revenues should be required. It is assumed here that the cost of the lower estimate of the social protection floor–costing exercise can be reduced by the share of social protection floor expenditure that would be consumed by the people who could be covered by an extended social insurance scheme.

Summary of Possible Financing Strategies for Closing the Coverage and Protection Gaps

Appendix Table A2.2 summarizes the potential financing strategies for the sample countries arranged according to the five country groups. The model calculation demonstrates that a low-cost version of the social protection floor seems to be affordable in at least 17 countries. Only in the countries belonging to group V would increases in taxation be necessary. In all of the other countries, improved tax and contribution collection, combined with some expenditure reallocation (notably a reduction in subsidies), are deemed sufficient to finance closure of the gap in basic social protection.

Increased Taxation

Even the suggested increases in taxation do not seem to constitute an undue burden by international standards. Appendix Table A2.3 shows the mean and standard deviation of tax–GDP ratios in the low- and lower middle-income sample countries. It also groups these into brackets of “mean plus one standard deviation” and “mean plus two standard deviations.” Except for five cases, all countries fall in the “mean plus one standard deviation” bracket. If increases in

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39 Some countries actually have lower tax rates than “mean minus one standard deviation.” This is not specifically mentioned here.
taxes (measured in percentage points of GDP) suggested here in six countries (i.e., Cambodia, India, the Lao PDR, Nepal, Pakistan, and the Philippines) are added to the present tax–GDP ratios of these countries, none of these countries would leave the “mean plus one standard deviation” bracket. This may serve as an indication that the tax hikes suggested here are by no means excessive.

The volume of revenues that theoretically can be generated by the income tax increases listed in Appendix Table A2.3 could also be realized by increases in other existing tax categories, or by introducing new taxes, such as

(i) **Excise taxes.** An increase in excise taxes, such as “sin taxes” on alcohol, tobacco, and luxury goods, or introduction of new excise taxes at the same level (as measured in percentage points of GDP) would not lead to indirect tax rates outside of the “mean plus one standard deviation” bracket for that category of taxes.

(ii) **New form of income taxation earmarked for social protection.** This could be a social protection tax applied to all personal income, which would finance all, or part, of the social protection expenditure for the informal sector on the basis of national solidarity.\(^{40}\) Levying a social protection tax of 4.0%–4.5% on all incomes would probably solve the social protection financing problem in all countries, and would, in some cases, even contribute to general consolidation of the government budget.\(^{41}\)

**Exceptional Cases**

Only in two countries (i.e., Bangladesh and Papua New Guinea) could realistic proposals for financing closure of basic social protection gaps from domestic resources not be made. Since these countries have very high poverty rates, there may be a case for external financial support. The annual support for closing the basic social protection gap in Bangladesh requires $5.40 billion, with support for Papua New Guinea requiring $0.70 billion per year.

The present level of global official development assistance only amounts to $125.00 billion. This demonstrates that external funding of social protection in the longer term for more than a very few countries would not be possible without a major new global funding facility for social protection, such as the Global Fund for Social Protection, which the United Nations special rapporteurs on the right to food and on extreme poverty and human rights suggested in

\(^{40}\) Since 1991, France has charged such a general social tax, the *contribution sociale generalisée*, which is levied at a flat rate of 7.5% on all incomes, and by now constitutes a larger share of all income tax revenues than the normal progressive personal income tax.

\(^{41}\) Assuming a share of taxable income in GDP of about 50.0%.
October 2012. Such a fund could be fueled by part of the proceeds of a global financial transaction cost.

**Conclusions**

Except for two of the sample of 20 countries in Asia (i.e., Bangladesh and Papua New Guinea), financing at least a basic level of social protection for all people appears affordable without triggering undue overall levels of taxation.42

The above notwithstanding, an important caveat remains: investment in good governance is a prerequisite to all new social protection financing and delivery strategies. Whenever new benefit systems are designed, or preexisting benefits are extended to new groups, investments in human resources who must administer these benefits, as well as in the machinery necessary for collecting additional taxes or contributions, must be made. This means that countries should begin addressing the problem of informality. Without reductions in informality, revenues are not likely to increase substantially, and new expenditure cannot be financed. Further, if contributions and tax collection are not effectively enforced, no sustainable extension of social protection to the uncovered population is possible. Even before the first new social protection benefits can be paid and the first additional currency unit of taxes or contributions can be collected, such upfront investments should be made and financed.

The following recommendations are made for closing the social protection gaps in Asia, at least at the level of the social protection floor.

Governments should undertake investments in tax and contribution collection mechanisms, as well as in capacity development of social protection planners, managers, and administrators. They should also begin a national dialogue with the objective of establishing a consensual national social protection development plan, along with national social protection diagnostic exercises. This includes taking stock of existing schemes, their expenditure levels, their incidence of financing, and their performance. Further, a social protection gap analysis should be undertaken to support the national dialogue.

42 The database for Myanmar did not allow full exploration of a financing strategy, thus, the Myanmar country case must remain inconclusive in this chapter. However, the United Nations system in Myanmar suggested the feasibility of a social protection floor in Myanmar: “This opportunity to reduce poverty through the extension of social protection and to finance it at least in part through a combination of budgetary reallocations and modest tax increases may warrant a critical public expenditure and revenue review” (ILO and United Nations Country Team in Myanmar 2015). This indicates that in Myanmar, some closure of social protection floor gaps is also probably fiscally feasible.
Governments should also consider extending social insurance coverage to workers in the informal sector. Perhaps even introducing tax-financed universal—or where necessary—means- and benefit-tested child benefits, employment guarantee schemes, and invalidity and old-age pensions in a gradual process, but within a set time frame of not more than 1 decade, should occur. All schemes would, in principle, be schemes for the entire population, but the majority of new beneficiaries would be in the informal sector. Introducing new schemes exclusively for the informal sector or even the poor does not seem a rational strategy and would just lead to further fragmentation of the national social protection system. There would also be the risk that schemes for the poor would turn into poor schemes.

In exceptional cases, governments should begin to consider obtaining external financing. However, in the long run, social protection financing should be largely domestic. External financing should not be considered without a clear exit strategy from exogenous financing.

Where necessary, the revenue-generating potential and redistributive effects of tax increases (notably in notoriously low personal income tax rates) or introduction of new taxes (in the form of new or higher excise taxes, or a general social protection income tax) should be analyzed. Following this, revenue-generating measures should be expeditiously introduced.

Civil society organizations and trade unions should actively promote the right to social protection floors, and thus help create the political will for its institutionalization. They can also support national stocktaking exercises and the design of national social transfer schemes. Further, civil society organizations and trade unions should monitor implementation of national social protection.

Multilateral and bilateral donors should continue and intensify funding of projects that invest in good social and fiscal governance, as well as national capacities for designing, implementing, and administering national social protection systems efficiently and effectively. They can provide, in exceptional cases, transitional financial support for financing benefits.

Finally, the United Nations and other development partners should develop a support facility that helps countries invest in good governance, as well as development of an analytical framework for stocktaking exercises and fiscal space analyses, and possibly for setting up new, or revamping existing, social protection institutions. This may be linked to the new Social Protection Inter-Agency Cooperation Board created in 2012 at the behest of the G20 countries. They can also consider the creation of a new global financing facility, such as a special multidonor fund for social protection that provides transitional financing for social protection in exceptional cases.
References


———. 2013. Regional Economic Outlook, Update. Washington, DC.


Table A2.1: Principal Options for Extending Social Protection to the Informal Economy

<table>
<thead>
<tr>
<th>Features</th>
<th>Option I</th>
<th>Option II</th>
<th>Option III</th>
<th>Option IV</th>
<th>Option V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primarily designed for the formal sector and will not easily reach more than a limited proportion of the total population</td>
<td>Extending social insurance (Bismarck Model)</td>
<td>Extending tax-financed schemes (conditional, unconditional, means-tested, universal schemes, often called social transfers or means-tested social assistance)</td>
<td>Introducing community-based and mutual insurance schemes</td>
<td>Extending mandated private insurance (health insurance and pensions)</td>
<td>Extending and supporting voluntary private insurance or other forms of private financing</td>
</tr>
<tr>
<td>Designed to reach entire population groups or targeted to groups in need</td>
<td>Designed as voluntary substitutes for the informal sector where state provision fails or remains inadequate in coverage and level of protection; offers a possibility to empower the demand side of social protection, notably in health care</td>
<td>Designed as a private sector-executed alternative to social insurance, which reduces fiscal commitment and labor cost</td>
<td>Without appropriate regulation, systems are likely to lead to lower coverage due to imperfect enforcement,</td>
<td>Voluntary coverage will not lead to widespread population coverage; the poor most in need of protection are not likely to be able</td>
<td></td>
</tr>
<tr>
<td>Problems</td>
<td>No cross-subsidization of noncovered portion of the population</td>
<td>Universal schemes are relatively easy to administer, but depending on the complexity of conditionalities</td>
<td>Generally fails to reach the very poor; organizationally often unstable, since administrative complexity may exceed</td>
<td></td>
<td>continued on next page</td>
</tr>
<tr>
<td></td>
<td>Option I</td>
<td>Option II</td>
<td>Option III</td>
<td>Option IV</td>
<td>Option V</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Problems</td>
<td>and mean tests, require substantial administrative capacity</td>
<td>local capacity; often suffers from adverse selection and moral hazard</td>
<td>exclusion of the poor due to uniform contribution amounts that are independent of income, loss of solidarity, and individualization of risks due to limited redistributive effects, efficiency losses due to higher administrative costs and less effective cost containment, and unpredictable benefit levels (pensions in particular)</td>
<td>to afford voluntary contributions</td>
<td></td>
</tr>
<tr>
<td>Financial and fiscal implications</td>
<td>Contributions formally increase labor cost (the real incidence most likely is on workers through reduced wages and disposable income) but financing can be kept fiscally neutral</td>
<td>Designated budget lines in federal, regional, and local government budgets are necessary</td>
<td>Is generally fiscally neutral in its stand-alone form; offers possibility to tax the informal sector, but schemes are rarely financially stable</td>
<td>Can be kept fiscally neutral; leads to formal reduction of labor cost (due to transfer of contributions to insured persons); can relieve the government of some of the burden of social security financing, but huge transition cost to be financed (pensions) in</td>
<td>In principle, no fiscal implications but second-tier schemes enjoyed in many countries tax subsidies, which raises equity issues</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th><strong>Table A2.1  continued</strong></th>
<th>Option I</th>
<th>Option II</th>
<th>Option III</th>
<th>Option IV</th>
<th>Option V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and fiscal implications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>case of a paradigmatic system change; if full population coverage is pursued, fiscal subsidies will be necessary; transition cost may be prohibitive; in health care, the option can provide reasonable coverage, albeit at relatively high administrative cost</td>
</tr>
<tr>
<td>Assessment of potential to contribute to extension of coverage to the informal sector</td>
<td>Recently showed some potential to extend health coverage to the informal sector through premium subsidization (e.g., Ghana)</td>
<td>Probably yields the largest potential to extend coverage; the simplest administrative solution (complexity depends on nature of means-test and conditionalities)</td>
<td>Is no stand-alone solution; requires financial links to national or international sponsoring agencies</td>
<td>The crisis impact on pension schemes in Latin America and Eastern Europe has shown that schemes hardly provide reliable social security; hence, this option is not an ideal model for first-tier coverage of the informal economy.</td>
<td>As a first-tier option, not relevant to increasing coverage of the informal sector</td>
</tr>
</tbody>
</table>

Source: Authors.
### Table A2.2: Possible Strategies for Financing Closure of Social Protection Gaps in Selected Sample Countries

<table>
<thead>
<tr>
<th>Group</th>
<th>Country</th>
<th>Low Estimate of Financing Requirement (% of GDP)</th>
<th>Budget Deficit or Surplus</th>
<th>Total Revenue (% of GDP)</th>
<th>Measure to Increase Revenue</th>
<th>Possible Yield (% of GDP)</th>
<th>Measure to Reduce or Reallocate Expenditure</th>
<th>Possible Yield (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I (Relatively low poverty and budget surplus)</td>
<td>Armenia</td>
<td>1.5</td>
<td>0.8</td>
<td>24.8</td>
<td>None</td>
<td></td>
<td>Reallocation within social protection budget</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>Republic of Korea</td>
<td>Negligible</td>
<td>1.0</td>
<td>22.1</td>
<td>None</td>
<td></td>
<td>Minor reallocation within social protection budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uzbekistan</td>
<td></td>
<td></td>
<td></td>
<td>None</td>
<td></td>
<td>Reallocation within social protection budget</td>
<td>1.2</td>
</tr>
<tr>
<td>II (Relatively low poverty rates, less than 25.0% of GDP in revenue)</td>
<td>PRC</td>
<td>0.4</td>
<td>(1.7)</td>
<td>22.5</td>
<td>Improve tax collection</td>
<td>0.4</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Malaysia</td>
<td>0.9</td>
<td>(3.9)</td>
<td>21.7</td>
<td>Social insurance</td>
<td>0.3</td>
<td>Reduce subsidies</td>
<td>0.5</td>
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<tr>
<td></td>
<td>Sri Lanka</td>
<td>2.3</td>
<td>(5.9)</td>
<td>13.2</td>
<td>Increase social insurance cover</td>
<td>1.1</td>
<td>Decrease defense spending</td>
<td>1.2</td>
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<tr>
<td></td>
<td>Thailand</td>
<td>0.1</td>
<td>(2.0)</td>
<td>18.1</td>
<td>Improve tax collection</td>
<td>0.1</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Viet Nam</td>
<td>0.7</td>
<td>(4.7)</td>
<td>21.3</td>
<td>Increase social insurance cover</td>
<td>0.3</td>
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### Table A2.2 (continued)

<table>
<thead>
<tr>
<th>Group</th>
<th>Country</th>
<th>Low Estimate of Financing Requirement (% of GDP)</th>
<th>Budget Deficit or Surplus (% of GDP)</th>
<th>Total Revenue (% of GDP)</th>
<th>Measure to Increase Revenue</th>
<th>Possible Yield (% of GDP)</th>
<th>Measure to Reduce or Reallocate Expenditure</th>
<th>Possible Yield (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>III (Relatively low poverty, over 25.0% of GDP in revenue)</td>
<td>Fiji</td>
<td>1.1</td>
<td>(1.1)</td>
<td>28.1</td>
<td>Collection</td>
<td>0.5</td>
<td>Reduce defense spending</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>Kyrgyz Republic</td>
<td>1.4</td>
<td>(0.7)</td>
<td>29.1</td>
<td>Improve income tax collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV (Relatively high poverty, over 25.0% of GDP in revenues)</td>
<td>Papua New Guinea</td>
<td>2.2</td>
<td>(7.2)</td>
<td>17.1</td>
<td>Social insurance deficit too high to formulate further proposals</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V (Relatively high poverty, less than 25.0% of GDP in revenue)</td>
<td>Bangladesh*</td>
<td>4.2</td>
<td>(3.3)</td>
<td>11.2</td>
<td>Increase social insurance cover Too high closure cost to formulate</td>
<td>2.1</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Cambodia</td>
<td>4.6</td>
<td>(1.8)</td>
<td>18.1</td>
<td>Increase income tax Improve social insurance cover Improve tax collection</td>
<td>2.5 1.7 0.4</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>India</td>
<td>4.9</td>
<td>(4.6)</td>
<td>9.4</td>
<td>Increase income tax Improve tax collection Increase social insurance cover</td>
<td>3.0 0.4 0.5</td>
<td>Reduce subsidies</td>
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<td></td>
<td>Indonesia</td>
<td>3.0</td>
<td>(2.3)</td>
<td>15.7</td>
<td>Increase social insurance cover</td>
<td>0.9</td>
<td>Reduce subsidies</td>
<td>2.1</td>
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<tr>
<th>Group</th>
<th>Country</th>
<th>Low Estimate of Financing Requirement (% of GDP)</th>
<th>Budget Deficit or Surplus (% of GDP)</th>
<th>Total Revenue (% of GDP)</th>
<th>Measure to Increase Revenue</th>
<th>Possible Yield (% of GDP)</th>
<th>Measure to Reduce or Reallocate Expenditure</th>
<th>Possible Yield (% of GDP)</th>
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</thead>
<tbody>
<tr>
<td>V (Relatively high poverty, less than 25.0% of GDP in revenue)</td>
<td>Lao PDR</td>
<td>5.6</td>
<td>(5.6)</td>
<td>24.3</td>
<td>Increase income tax&lt;br&gt;Improve tax collection&lt;br&gt; Increase social insurance cover</td>
<td>1.5&lt;br&gt;1.2&lt;br&gt;0.8</td>
<td>Reduce subsidies&lt;br&gt;Reduce public service cost</td>
<td>1.6&lt;br&gt;2.0</td>
</tr>
<tr>
<td></td>
<td>Nepal</td>
<td>5.3</td>
<td>(1.9)</td>
<td>20.0</td>
<td>Increase income tax&lt;br&gt;Improve tax collection&lt;br&gt; Increase social</td>
<td>1.6&lt;br&gt;1.5&lt;br&gt;2.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pakistan</td>
<td>4.5</td>
<td>(4.2)</td>
<td>9.5</td>
<td>Double income tax&lt;br&gt;Improve income tax&lt;br&gt; Increase social insurance cover</td>
<td>2.8&lt;br&gt;0.2&lt;br&gt;1.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>3.2</td>
<td>(1.4)</td>
<td>14.9</td>
<td>Increase income tax&lt;br&gt;Improve social insurance cover&lt;br&gt; Income tax collection</td>
<td>1.6&lt;br&gt;1.1&lt;br&gt;0.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(−) = negative, GDP = gross domestic product, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

*The lower cost estimate of $1.25 poverty line was used.

Source: Survey of Informal Workers 2015 compiled by the author.
Table A2.3: Mean and Standard Deviation of Tax–Gross Domestic Product Ratios in Low- and Lower Middle-Income Countries, around 2010

<table>
<thead>
<tr>
<th>Mean plus One Standard Deviation, Upper Limit</th>
<th>Mean plus Two Standard Deviations, Upper Limit</th>
<th>Countries in Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Standard Deviation</td>
<td>Upper Limit Countries in Range</td>
</tr>
<tr>
<td>Lower-income countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government tax revenue</td>
<td>13.0</td>
<td>18.5</td>
</tr>
<tr>
<td></td>
<td>5.5</td>
<td>Bangladesh, Cambodia, Lao PDR, Myanmar, Nepal</td>
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<tr>
<td></td>
<td></td>
<td>29.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kyrgyz Republic</td>
</tr>
<tr>
<td>Income tax</td>
<td>3.5</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>2.5</td>
<td>Bangladesh, Cambodia, Kyrgyz Republic, Lao PDR, Myanmar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11.0</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>2.2</td>
<td>4.4</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
<td>8.8</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>1.6</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Tax on goods and services</td>
<td>5.0</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>3.0</td>
<td>Bangladesh, Cambodia, Lao PDR, Myanmar, Nepal</td>
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<tr>
<td></td>
<td></td>
<td>14.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kyrgyz Republic</td>
</tr>
<tr>
<td>Value-added tax revenue</td>
<td>4.9</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>2.1</td>
<td>11.2</td>
</tr>
<tr>
<td>Lower middle-income countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government tax revenue</td>
<td>17.7</td>
<td>25.6</td>
</tr>
<tr>
<td></td>
<td>7.9</td>
<td>Armenia, PRC, India, Indonesia, Pakistan, Papua New Guinea, Sri Lanka, Thailand, Uzbekistan, Viet Nam</td>
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<tr>
<td></td>
<td></td>
<td>41.4</td>
</tr>
<tr>
<td>Income tax</td>
<td>5.0</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>4.7</td>
<td>Armenia, PRC, Fiji, Republic of Korea, Malaysia, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand</td>
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<tr>
<td></td>
<td></td>
<td>19.1</td>
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<tr>
<td></td>
<td></td>
<td>Malaysia</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>2.9</td>
<td>5.4</td>
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<tr>
<td></td>
<td>2.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>1.9</td>
<td>3.1</td>
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<tr>
<td></td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Tax on goods and services</td>
<td>6.1</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>3.1</td>
<td>India, Indonesia, Republic of Korea, Malaysia, Pakistan, Papua New Guinea, Sri Lanka</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Armenia, PRC</td>
</tr>
<tr>
<td>Value-added tax revenue</td>
<td>5.0</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>2.4</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.
Source: International Monetary Fund. 2011. Revenue Mobilization in Developing Countries. Washington, DC.
CHAPTER 3
The Political Economy of Social Protection for Informal Economy Workers in Asia

Stephen Kidd and Verena Damerau

Abstract

Around 60.0% of Asia’s working-age population works in the informal economy. The majority of the informal economy workforce is unable to access social protection. A comprehensive national social protection system is an essential component of a successful, sustainable market economy.

This chapter examines the impact of political economy on the development of social protection for workers in the informal economy. It uses an analytical approach known as the adopted political settlement that refers to the balance of distribution of power between contending social groups and political classes on which the state is based. It discusses how political economy and relations of power have influenced the nature of social protection for informal economy workers across Asia.

As democracy strengthens, some countries are investing in higher-quality inclusive life cycle schemes, such as universal old-age pensions and child benefits, which include the majority of workers in the informal economy and their families. To build political commitment for expansion of social protection for informal economy workers, there is a need to present evidence that social protection is an essential component of the market economy, and that markets will function much more effectively if a comprehensive social protection system is in place. Development partners can play a key role in supporting this process by generating and offering evidence on the social, economic, and political benefits of comprehensive, inclusive national social protection systems.
Introduction

Social protection is a core component of a market economy, contending that the state should establish systems that protect citizens from the effects of profit maximization in unfettered markets. Without social protection, there could be no market economy since it would not be sustainable in the face of societal opposition (Polanyi 1944).

In recent decades, the importance of establishing social protection in developing countries as part of a market economy has been increasingly recognized. For example, many countries agreed to the ideal of creating national social protection floors (ILO 2012). In addition, there is growing international understanding in the post-2015 development agenda that, if the Sustainable Development Goals are to be reached, countries must establish effective national social protection systems.

As countries in Asia have become more integrated into the global market economy, much of their populations work in the informal economy. A range of challenges have accompanied their economic growth, which, to be addressed effectively, require states to invest in social protection. Countries are becoming more urbanized, and growing rural–urban migration is weakening social ties and traditional forms of informal social protection. Further, there is a demographic transition under way, with many countries rapidly aging. Already, 11.6% of the population of the region is aged over 60 years, and by 2030, this demographic will reach 17.0%—24.0% by 2050 (UNDESA 2015). Inequality is also increasing in many countries, resulting in social tensions and waning social cohesion. Despite the growth of market economies, many continue to live in poverty facing challenges in providing for their families.

Only a few countries in Asia offer the informal economy workforce adequate access to social protection. A range of factors has influenced the size and nature of national social protection systems across Asia, with many shaped by the political economy within countries.

This chapter will examine the impact of political economy on the development of social protection for informal economy workers in Asia. It uses an analytical approach known as adapted political settlement, based on the framework outlined in Lavers and Hickey (2015). As Di John and Putzel (2009) explained, a political settlement refers to the balance or distribution of power between contending social groups and social classes on which the state is based. While this concept has mainly been applied to the politics of economic growth, Lavers and Hickey (2015) argued that it can also be applied to social protection, since similar factors are at play. Relations of power between elites—that
is, those regarded as rich and powerful in any society, as well as their allies in government—and other social and economic groups can explain how resources are distributed through social protection schemes and can influence the quality of their provision. In effect, elites control national resources, and the nature of their political settlements with other groups determines how resources are shared across society. A market economy, and the social tensions that it can generate if left uncontrolled, creates the motivation for elites to share resources to maintain their power and wealth, as well as broader social stability.

The World Bank (1990), Sen (1995), Mkandawire (2005), Pritchett (2005), and Kidd (2015) have implicitly used the political settlement approach when explaining the political economy of targeting of social protection. They argued that, in a well–functioning democracy, alliances across social and economic classes influence levels of investment in social protection and the quality of social protection schemes. Since the poor have limited political influence, programs targeted at those living in poverty are likely to have low budgets and low transfers, as well as low quality. Sen (1995) noted that benefits for the poor often end up being poor benefits, and Kidd and Hossain (2015) argued that the term “the poor” is, in reality, often shorthand for the most socially excluded members of society who lack power.

In contrast, when social protection programs are inclusive in their design—that is, incorporating not only the poor but also those with more political power, such as those in the middle of the income spectrum, taxpayers, and the wealthy—levels of investment in social protection schemes increase, as do the value of transfers and quality of program delivery. Governments mostly respond to the demands of the more powerful.

When examining the influence of political economy on social protection, it is important to develop criteria that can be used to assess the level of government commitment to particular schemes. This chapter thus assesses commitment by the size of a state’s investment in a scheme, most easily measured as a percentage of national gross domestic product (GDP), and the quality of a program. Quality is more challenging to measure, of course, but it broadly refers to the value of transfers offered to beneficiaries and the extent to which the right people receive the right amount of money and the ease with which they receive it.

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43 See also Kidd and Hossain (2015).
44 The extent to which people receive the right amount of money at the right time is dependent on the level of investment in the administration and management of schemes.
To understand the impact of political economy on the development of social protection for the informal economy, it is necessary to understand the nature of the informal economy as well as the shape of national social protection systems and how they differ among countries. Thus, the chapter begins by describing the characteristics of the informal economy in Asia and then details the shape of social protection systems across Asia. The next section examines how politics and relations of power have influenced the nature of social protection for informal economy workers across the region, and it concludes by outlining how political economy can be influenced to extend social protection to the informal economy workforce.

In this chapter, social protection—sometimes known as social security—is defined as schemes that provide individuals, families, and households with regular, predictable income transfers. Generally, there are two main types of social protection transfers: those that are financed from general government revenues, which can be referred to as social transfers; and those financed by contributions from employees and employers, often known as social insurance.

### The Informal Economy in Asia

There are many definitions of the informal economy, but, in general, the term refers to workers not registered with the state who do not pay income taxes or receive protection from labor legislation (Evers and Seale 2015). The International Labour Organization (ILO), which has increasingly referred to informal economy employment as vulnerable employment, estimated that it encompasses around 60.0% of workers in Asia (ILO 2011). The proportion is highest in South Asia at 77.0%, encompassing over 80.0% of the workforce in Bangladesh (World Bank 2008). In many middle-income countries in Southeast Asia, the proportion is 40.0%–65.0%, although in the Lao People’s Democratic Republic (Lao PDR), it reaches over 80.0%. East Asia has around 50.0% of its workforce in the informal economy, while in Central Asia, the size of the informal economy has grown dramatically since the fall of the Soviet Union and may still be expanding. Only in the wealthier countries of Asia, such as Japan, the Republic of Korea, and Malaysia, do those in vulnerable employment number less than 30.0% of the overall workforce (Cichon and Cichon 2015).

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45. This chapter does not examine other aspects of social protection such as health financing or access to a broader range of social services.
46. OECD (2009, 1) defined informal economy employment as “jobs or activities in the production and commercialisation of legal goods and services that are not registered or protected by the state and, accordingly, are not covered by the social security system.”
47. See Cichon and Cichon (2015) for a more comprehensive discussion on the size of the workforce in the informal economy in Asia and the Pacific.
The nature of informal economy employment varies among countries and areas in Asia. In most, a high proportion of those in the informal economy are in the agriculture sector, either as owners of small plots of land or unskilled laborers (or both). In Bangladesh, for example, nearly 50.0% of the labor force is in the agriculture sector (World Bank 2008). Informal economy workers outside of agriculture engage in a range of employment arrangements and activities either as employer-owners of informal firms, own-account workers (i.e., self-employment with no employees), informal employees of both formal and informal firms, subcontracted workers and wage workers for households (i.e., domestic workers), casual day workers, and unpaid family members. Common activities include street traders; home-based, piece-rate workers in the garment industry; transport workers; rubbish collectors; domestic servants; and shoe cleaners.

Within Asia, women are more likely to be in informal employment than men; in South Asia, for example, 84.5% of women are in vulnerable employment, compared with 74.8% of men (ADB and ILO 2011).\(^{48}\) As Figure 3.1 indicates, nonpaid work in family businesses is dominated by women, while men make up the own-account and employer statuses. In fact, only 1.0% of all female workers in Asia run their own businesses with paid employees. Gender differentials in income in the informal economy surpass those in the formal sector, and, among women, there is a stronger correlation between poverty and informal economy labor. As the Asian Development Bank (ADB) and ILO (2011, 14) noted, “Informal women workers are the ‘working poor,’ struggling in survivalist activities, working arduous and long hours but not earning enough to support themselves or their families.”

For many workers in the informal economy, underemployment is endemic, meaning that workers are unable to maximize their incomes. In Bangladesh, around 25.0% of the labor force is either unemployed or underemployed, with 9.0% of those employed working less than 20 hours per week. In Indonesia, ADB estimated that those who are underemployed work an average of only 28 hours per week (World Bank 2008, Sugiyarto 2007).\(^{49}\)

The challenges are greater for young people, as they experience much higher rates of unemployment or underemployment. In Bangladesh, 2.7 million young people enter the labor market each year, but only 0.7 million are able to find employment (Islam 2012). In Viet Nam, ILO estimated that around 53.0% of those under the age of 25 years have obtained vulnerable employment (Thanh Nien News 2013), and, in 2012, around 40.0% of young people remained out of education, training, or work, a situation that has hardly improved with most

\(^{48}\) The main exceptions are the Mongolia and Philippines.

\(^{49}\) In Indonesia, ILO estimated that the underemployed work an average of 21 hours per week.
of those with limited schooling ending up in low-paid jobs in the informal economy (World Bank 2013b).

Although some workers in the informal economy generate good incomes, in general, employment in the informal economy is associated with low, insecure wages (Huitfeldt and Jutting 2009). However, the understanding of the relationship between informal economy employment and poverty is distorted by unrealistically low poverty lines in many countries. The use of the $1.25 purchasing power parity (PPP) per day poverty line as the international standard for poverty has ignored the reality that survival on such a sum is extremely challenging and that it should be more accurately regarded as indicating extreme poverty.50

More in-depth analyses of national household surveys have indicated that a high proportion of the population in most countries in Asia should be regarded as living on low incomes, with a $2.00 PPP per day poverty line a better indicator of deep poverty. In some countries, the figures are stark; in Bangladesh in 2008,

50 ILO (2011) noted that 422 million workers in Asia and the Pacific live on less than $1.25 PPP per day.
while 43.0% of the population lived on under $1.25 PPP per day, 84.0% had per capita consumption of less than $2.00 PPP per day (World Bank 2012a). Other low-income countries, such as India, Nepal, and Pakistan, have 50.0%–60.0% of their populations living on less than $2.00 PPP per day. In the middle-income countries of the Philippines and Indonesia, the rates are 41.7% and 43.3%, respectively. The People’s Republic of China (PRC) and Viet Nam perform better, with 18.6% and 12.5% of their populations living on less than $2.00 PPP per day, respectively. However, overall, it must be emphasized that over 868 million workers in Asia and the Pacific survive on less than $2.00 PPP per day (ILO 2011).

Even in middle-income countries, few people can be regarded as middle class, since the majority survives on relatively low incomes. With no adjustment for PPP, only around 20.0% of the population in Viet Nam lives on more than $4.60 per day; in Indonesia, only 18.0% live on more than $2.60 per day; and, in Georgia, only 32.0% live on more than $4.70 per day. Therefore, most families, including most of those engaged in the informal economy, do not have sufficient income to invest in the well-being of their families or to save for the future. In Indonesia, many in this group have been characterized the “scooter class,” which could also apply to other middle-income countries in Asia, such as Viet Nam (Schlogl and Sumner 2014, Kidd et al. 2015). Consequently, even in middle-income countries, the majority of the population can be regarded as either living in poverty or vulnerable to it, obliged to sell their labor in uncertain and informal labor markets.

The growing availability of panel datasets, which track households over time, indicates that the simplistic dichotomy of poor and nonpoor, which is often used in social analysis and policy development, is an imaginary construct. Household consumption and incomes are highly volatile, as people respond to opportunities and are hit by shocks. For example, in Georgia, around 60.0% of households in the poorest quintile of the population in 2013 were not in that quintile in 2011; therefore, they can be regarded as having fallen into poverty (Baum, Mshvidobadze, and Tsuruoka 2015). In Viet Nam, the proportion falling into the poorest quintile between 2010 and 2012 was nearly 40.0% (Kidd et al. 2015). Further, among the majority in the second, third, and fourth consumption quintiles (where many people in the informal economy can be found), the movement between quintiles was significant, indicating a high level of insecurity. Indeed, in Georgia, over 50.0% of those in the richest quintile in 2011 experienced a relative fall in living standards by 2013, with some having fallen completely into extreme poverty.


52 The term “scooter class” refers to those in the middle of income distribution, with sufficient income to purchase cheap scooters but, generally, with low incomes and insecure employment.

53 See Knox-Vydmanov (2014) for further discussion.
The insecurity faced by most people in the informal economy is linked to the risks that they face across their life cycles, which are exacerbated by low incomes. Life cycle risks begin in early childhood, with undernutrition particularly important. While stunting rates are, as expected, high in low-income countries, they are also high in the middle-income countries of Southeast Asia. In 2011, in Viet Nam, 22.0% of children under 5 years of age were stunted (General Statistics Office 2011), and, in Indonesia, 35.6% were stunted in 2010 (UNICEF 2013). Undernutrition impacts negatively on children’s cognitive development, subsequently hindering their ability to perform well at school and reducing their productivity and earning potential as adults, enhancing the likelihood that they will remain in vulnerable employment. Undernutrition also increases the likelihood of being overweight or obese in later life, with the associated heightened risks of cardiovascular disease, diabetes, and other noncommunicable diseases, which, in the long term, will increase the risks faced by workers in the informal economy.

Children of school age risk not being able to access a good education. Again, this threatens their long-term well-being and their chances of gaining formal sector employment. For example, in Indonesia, only 25.0% of the labor force has completed senior secondary education, and there are concerns that secondary schools, including vocational schools, are not providing children with adequate skills for the labor market (Alatas and Newhouse 2010). Further, across Asia, many children face the risk of being employed in the informal economy at a young age, particularly in low-income countries. In South Asia, 13.0% of boys and 12.0% of girls are involved in child labor, while in East Asia, the figures are 10.0% and 7.0% (UNICEF 2015).

People of working age in the informal economy face significant risks. Many are in insecure jobs and/or underemployed and, as a result of low educational attainment, find it difficult to gain decent work. Women in the informal economy face particular risks, since they are often in more vulnerable employment, are unable to access adequate child care, and, as a result, cannot return to work after giving birth. If they do, they may experience a fall in their productivity. Ill health and disability are further risks to workers in the informal economy, which can undermine standards of living. In Bangladesh, one study found that around 87.0% of working-age people who became disabled left employment within 1 year (Chowdhury and Foley 2006). In Viet Nam, people aged 25–29, 54

It can be argued that risks begin when children are still in the womb, since risks faced by their mothers (e.g., poor nutrition) will impact their offspring.

55 In Bangladesh, 41.0% of children are stunted (NIPRT, Mitra and Associates, ICF International 2013).

56 The impact of undernutrition can be seen in estimates that its prevalence in Asia reduces overall gross national product by 11.0% (IFPRI 2014).

57 The study by Chowdhury and Foley (2006) took place in Chuadanga District.
living with a disability, have poverty rates that are more than double those of people without a disability (Kidd and Abu-el-Haj 2015).

Migrants are a category of workers in the informal economy at particular risk. In some countries, restrictions on internal migration mean that people moving to another part of the country may find themselves without protection and unable to enter the formal labor market. Viet Nam, for example, provides inadequate protection to those considered temporary migrants. A survey in 2008 demonstrated that around 94.0% of employed migrants were in the informal economy, and only 5.0% of migrants had written job contracts (Duong, Linh, and Thao 2011). They are also unable to access social protection benefits unless they return to their home areas. Overseas migrants also face challenges since, while overseas, they are usually unable to pay into their home country’s social insurance schemes. This is particularly significant in the countries of Central Asia where social insurance schemes are still relatively large; in the Kyrgyz Republic and Tajikistan, hundreds of thousands of people work overseas and cannot contribute into national social insurance schemes (Mikkonen-Jeanneret, Rayapova, and Yefimov 2011).

However, the biggest risk faced by workers in Asia’s informal economy is associated with old age. The majority of older people are women, and older people become increasingly susceptible to disability as they age. In many countries, more than half of the population over age 70 years is likely to be experiencing some form of disability, thereby hindering their ability to continue to work. Yet across the region—as a result of factors such as poverty and processes such as urbanization and migration—the support provided to older people by their families is weakening.

Many older people continue to work in the informal economy for as long as they can. In Viet Nam, between the ages of 60 and 64 years, around 70.0% of older people are engaged in some form of employment, falling to around 40.0% at 70–74 years of age, and 20.0% at 80–84 years of age (Kidd and Abu-el-Haj 2015). Older women are more likely to engage in unpaid domestic work, including child care.

Many working-age families with low incomes experience the strains of caring for people with disabilities, including older people, with little or no support

58 The PRC has had similar problems, but, in recent years, it has taken steps to protect the rights of migrants.
59 In the Kyrgyz Republic, up to 13.7% of the labor force may be working overseas (Mikkonen-Jeanneret, Rayapova, and Yefimov 2011).
60 Older women are more likely to be single compared with men, which, in many societies, can result in greater isolation. Often, widows have limited property rights, with property remaining with their spouse’s family.
from the state. In fact, in the absence of effective pension systems, this can be regarded as an ad hoc caring tax that is placed on working-age families, reducing their ability to care for their own children. It should also be noted that families with children face even more challenges, especially when a family member has to give up work to care for children.

In sum, the majority of Asia’s informal economy workforce survive on low incomes with high levels of insecurity. If they experience a shock, such as unemployment, ill health, or disability, most have no safety net to offer them protection. Investing in social protection for workers in the informal economy can offer a wide range of benefits, both for families and the national economy. Access to social protection can provide working-age families, people with disabilities, and older people with increased security and dignity, helping them invest in children and offering them the chance of escaping the intergenerational poverty trap. At the national level, investment in social protection can help tackle inequality and promote national social cohesion while strengthening political stability. It can also provide a significant stimulus to economic growth, and through increased spending and consumption among members of the informal economy, it can generate greater demand in the economy, thereby supporting entrepreneurs.

### Social Protection Provision across Asia

Despite the strong rationale for significant investment in social protection across Asia, coverage of workers in the informal economy and their families is limited. Governments offer social protection to their citizens either via social insurance or social transfers. The general pattern found across the region is that many formal sector workers can access social insurance, while social transfer schemes are often offered only to those deemed to be living in extreme poverty. Thus, most families with breadwinners working in the informal economy are unable to access social protection, since they are deemed not to be “poor.” The main exception is old-age pensions, which, in a few countries, are accessible to everyone once they reach a specific age, and which are largely financed through general taxation. Across much of Asia, there is a “missing middle” that cannot access social protection, mainly corresponding to workers in the informal economy (ADB 2013).

### Social Insurance Schemes

Only around 34.0% of the labor force in Asia contributes to social insurance and, in many countries, coverage is below 10.0% (ILO 2014). Those countries with higher coverage rates are, in general, either former Soviet Union transition
Social Protection for Informal Workers in Asia

In most of the countries that have attempted to extend social insurance to the informal economy, coverage is also minimal. In 2010 in Viet Nam, for example, only 60,000 people contributed voluntarily to the national social insurance scheme (Long and Wesumperuma 2012). Sri Lanka has a range of programs for different categories of workers, such as fishers, farmers, and the self-employed (Willmore and Kidd 2008). Despite low contributions, only 36.0% of potential members of the largest scheme are actual members, and only half of these are active (Mackellar 2009). Further, the value of the pensions is low (the highest is around 5.4% of GDP per capita), and the schemes themselves are not

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**Box 3.1: Social Insurance Systems in the Former Soviet Union or Transition Economies**

Several former Soviet Union transition economies (e.g., in Central Asia and Mongolia) have inherited extensive social insurance schemes that provide high levels of social protection coverage to specific categories of the population, particularly older people. Yet these schemes are for those who have worked in the formal sector, and there are signs that the coverage gaps of the informal economy workforce may grow over time, unless effective tax-financed mechanisms are put in place. For example, although Uzbekistan currently has high old-age pension coverage, in coming decades, coverage is likely to fall significantly as the informal economy workforce finds it more challenging to enter into the social insurance system (Kidd 2014b). While the country has implemented a social pension, it is directed toward those living in poverty with no family support and, as a result, other former workers from the informal economy are not likely to have access to pensions.

Further, many of the current schemes in former Soviet Union transition economies are actually recent. For example, most of Georgia’s social protection system (in particular its old-age pension and poor relief scheme) are innovations from 2006 and are financed from general taxation rather than from social insurance. Another example is Uzbekistan’s child benefit, which was introduced as part of a stimulus package following the fall of the Soviet Union.


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61 ILO (2011) provided alternative figures, stating that 57.0% of farmers and 42.0% of fishers in Sri Lanka are members of contributory pension schemes.
The coverage of the informal economy labor force by social transfers financed from general taxation is limited across most of the region. While old-age pensions are the most common social transfers in developing countries, few countries in Asia offer universal pension coverage (Table A3.1). Countries that provide more than half of people over 60 years of age with a social pension are Brunei Darussalam, Georgia, the Republic of Korea, the Maldives, Thailand, and Timor-Leste. Some countries offer high coverage at an older age, such as Nepal, which provides a pension to every person aged over 70 years, and Viet Nam, which offers universal access at 80 years of age. In most countries, budgets are low; although many developing countries invest more than 1.0%
of GDP in social pensions, the only countries to do so in Asia are Georgia and the Maldives.

The other main life cycle social transfer program to be offered across Asia is a disability benefit. In most countries, the levels of investment and coverage are limited (Table A3.2). The highest investment is in Uzbekistan, where coverage is universal and the scheme is embedded within the social insurance system. However, even there, the program has recently been withdrawn from those with less-severe disabilities (Kidd 2014b).

Social transfer schemes directed mainly at informal economy families with children are also limited and have low coverage. A number of countries have established poor relief schemes, in which benefits are directed at the poorest households (Table A3.3). Well-known examples include the PRC’s Minimum Living Standard Guarantee Scheme, Pantawid Pamilyang Pilipino Program of the Philippines, and Pakistan’s Benazir Income Support Programme. However, coverage is low, rarely reaching more than 20.0% of households.

Budgets for poor relief programs are relatively low. The scheme with the largest expenditure is Georgia’s Targeted Social Assistance (TSA) program, with a budget of 0.9% of GDP, but most have budgets below 0.4% of GDP. India’s Mahatma Gandhi National Rural Employment Guarantee Scheme has a budget around 0.3% of GDP (Tewari 2015).

Some countries have taken a different approach to supporting working-age families by focusing on children through child benefit schemes (Table A3.4). Mongolia provides a child benefit with the highest relative coverage in the region, offering a child benefit to all children aged under 18 years (UNICEF 2012). Other countries with child benefits include Uzbekistan, with around 14.0% of children aged 3–17 years benefiting, while Nepal introduced a child grant for Dalit children aged 0–4 years living in extreme poverty in 2009, reaching around 13.0% of children in the age group (Hodges et al. 2007, Kidd and Wylde 2011, Kidd 2014b, and Fritz 2014). Other countries and areas, such as Bangladesh, Indonesia, and Pakistan, offer education stipends to encourage children to attend school. While the Pakistan programs offer universal access to girls in public secondary schools, in Bangladesh and Indonesia, the schemes are directed to all of those living in poverty (Kidd and Khondker 2013, Jellem and Noura 2012, Kidd 2014a).

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62 Budget estimated from information in Baum, Mshvidobadze, and Tsuruoka (2015).
63 During the first payment of the allowance in October 2012, 79.6% of children received the benefit.
In addition, some countries provide a maternity benefit. In Uzbekistan, this reaches around 36.0% of children aged 0–2 years, while, in Bangladesh, it is very small, benefiting only 100,000 women (Kidd et al. 2014). Some countries provide support to widows and/or single women, many of whom are of working age and are likely to be engaged in the informal economy. In Nepal, all single women over age 18 years can access a transfer, while, in Bangladesh, it is targeted at those living in poverty, reaching just over 1 million women (Kidd et al. 2014). Some countries offer benefits to those deemed to have performed a valuable service to the nation. In Viet Nam, around 1 million people involved in wars of liberation receive merit payments. Most beneficiaries are elderly or living with a disability, and the budget, in 2014, was around 1.0% of GDP (Kidd and Abu-el-Haj 2015). Another example is in Timor-Leste, which provides a benefit to war veterans, people disabled during the war of independence, and the families of martyrs (Rigolini 2008).

Overall Social Protection Provision

Across Asia as whole, social protection coverage for workers in the informal economy and their families is limited, although there are significant variations among countries. Social insurance schemes provide minimal coverage of workers in the informal economy, and few countries invest a significant proportion of their GDPs in social transfer schemes that could reach this group. Georgia, which invests over 6.0% of GDP in social transfer schemes, is an exception, while Uzbekistan, with expenditure of over 12.0% of GDP in both social insurance and social transfer schemes, is the other large investor. In contrast, a high proportion of countries invest less than 1.0% of GDP in total, and some large middle-income countries, such as Indonesia, the Philippines, and Viet Nam, spend less than 0.5% of their GDPs in total on core social transfer schemes.

Figure 3.2 illustrates the difference that high and low levels of investment can make to countries. It shows the impact on poverty rates by different tax-financed social transfer schemes across age groups. In Viet Nam, a low investor, the impacts on poverty are minimal and mainly restricted to the elderly. In contrast, in the high investor country of Georgia, the impacts are much more significant. While the largest impacts are, again, among the elderly, there are also relatively significant impacts across the population.

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64 In India, Bihar provides an allowance to all widows over age 18 years who have a family income below Rs60,000 (Department of Social Welfare 2007).
Figure 3.2: Impact on the Poverty Rate of Social Assistance Transfers across Age Groups in Viet Nam (2012) and Georgia (2013)

Poverty rate (\%)  
Age  

Viet Nam

Georgia

Poverty  Other social assistance  Old-age allowance  Electricity subsidy

General poverty  Pre-TSA general poverty  Pre-categorical general poverty  Pre-pension general poverty

TSA = targeted social assistance.

Political Economy of Social Protection for the Informal Economy

Although there is a range of reasons for the low coverage of social protection schemes for informal economy workers in Asia, to a large extent, the pattern of social protection provision can be explained by political economy factors within each country. Ideologies and deeply held beliefs have interacted with the structural changes under way to shape how elites and political leaders have made decisions on the nature of social protection. Politicians have also been influenced by their political regimes, societies, and economies. Ultimately, the main decisions on investment in social protection are made by politicians to gain political advantage and to agree on “political settlements” with powerful groups and constituencies. The following sections explore how political economy has influenced the development of social protection for the informal economy workers across Asia.

Responsibility of Families to Care for the Vulnerable

A key influence on social protection decision making among policy makers in Asia derives from widespread beliefs in the family’s role in caring for vulnerable members of society. Across Asia, families have traditionally been the main providers of informal social protection, such as children caring for their parents in old age. As in much of the world, this practice is still prevalent, although it is weakening as a result of widespread poverty, the expansion of the market economy, and processes such as urbanization and migration. Many policy makers, however, cling to the belief that families—rather than the state—should be the main source of support for vulnerable people, particularly older people.

The belief has influenced the design of social protection schemes. In Viet Nam and Uzbekistan, many older people can only receive a social pension if they do not have children to care for them (Kidd 2014b, Kidd et al. 2015). This stance has also been supported by many economists, who have argued that the provision of social protection will “crowd out” family support. In other words, if people receive state benefits, then families will reduce their support to the beneficiaries. Yet the belief in crowding out is highly simplistic and not based on a robust understanding of kinship and social dynamics (Box 3.3).

65 For further discussion, see Kidd (2013b).
66 The belief that children should be responsible for caring for their parents has, in some countries, been converted into legislation. For example, India and the PRC have passed laws obliging children to care for their parents (Coonan 2013).
67 In Viet Nam, the restriction only applies to those aged 60–79 years. For those aged above 80 years (and younger in some provinces), pension coverage is supposed to be universal.
However, while this belief has probably hindered the development of effective old-age pension systems for the informal economy workforce, there are signs that it is beginning to weaken. The National Social Security Strategy in Bangladesh used the deterioration in traditional support systems for older people to expand the country’s old-age allowance and to transform it into a citizens’ pension (General Economics Division, Planning Commission 2015).

**Clientelistic Politics**

As Lavers and Hickey (2015) argued, elites often use social protection as a form of patronage to secure backing from powerful factions. Indeed, Khan (2010) characterized political settlements in many countries in Asia as “clientelistic” with social policy, that is, used by elites to pay off powerful groups that pressure them by providing them with social programs, including social protection. In many instances, these groups do not comprise the poor or socially excluded but those with greater power and influence.

As an example, several countries have established large fuel subsidies, which mainly benefit the most affluent rather than the majority of the population.

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**Box 3.3: Crowding Out: Is It a Problem?**

The concept of “crowding out,” used by some economists to challenge the introduction of formal systems of social protection in developing countries (Calder and Tanhchareun 2015), does not reflect the reality of social and kinship relations in much of Asia (Kreager and Schröder-Butterfill 2008, 2010, 2012; Kidd 2013b).

Anthropological studies across the world have highlighted how people build kinship relations by offering “gifts” to others. So, by receiving old-age pensions, older people are in a position to strengthen their kinship relations, as they have resources or “gifts” to share with others. Indeed, evidence from around the world indicates that older people who are members of kinship networks living in poverty—and who do not receive a pension—may experience a greater likelihood of social exclusion (Kidd 2009, Miguel 2005).

Furthermore, the belief that a reduction in family support to pensioners is bad must be challenged. For example, if, as a result of receiving an old-age pension, families can reduce their support to their parents, they can invest more in their own children, while their relationship with their parents is simultaneously strengthened.

Source: Authors.
The Kyrgyz Republic spends around 9.0% of GDP on fuel subsidies, while Bangladesh’s expenditure is over 3.0% of GDP (World Bank 2015). Indonesia has consistently invested over 2.0% of GDP per year in its fuel subsidy, also transferring the majority of benefits to the most affluent members of society (DFAT, Government of Indonesia, unpublished). In recent years, the Government of Indonesia has tried to reduce the subsidy, putting in place short-term cash transfer programs for the poorest sectors of society as a form of compensation. Yet, until recently, the reductions were only partial, and, it could be argued that the target group of the compensation programs was the wrong group, which probably explains the failure of the reforms.\textsuperscript{68}

Despite the evidence that it is difficult to offer adequate social protection to the majority of workers in the informal economy (Box 3.4), policy makers have continued to promote social insurance to extend social protection to

\textsuperscript{68} The group benefiting most from the fuel subsidy, when calculated as a percentage of household consumption, has been middle-income households, mainly workers in the informal economy.

**Box 3.4: Technical Challenges to Incorporating the Informal Economy Workforce into Social Insurance Schemes**

Many of the challenges to incorporating the informal economy workforce into social insurance schemes are technical, deriving from the nature of informal economy employment, in which low and irregular incomes predominate, making it difficult for people to contribute to schemes. Furthermore, the levels of contribution required from employers and employees, which average around 17.0% of salaries across the region, are a strong disincentive to businesses to enter the formal economy. If they remain in the informal economy, they can avoid these additional costs (SSA 2012). The self-employed workforce in the informal economy does not have the option of employers paying the majority of the contribution, thereby reducing their incentives to enter social insurance schemes.

There are further practical difficulties in making contribution payments. Many informal economy workers live in areas where social insurance agencies are not present or where financial services are limited. As a result, people cannot physically make payments. In addition, the limited investment by most governments in Asia in labor inspectors means that formal sector firms are able to employ people on an informal basis to avoid paying contributions, without facing sanctions. Across Viet Nam, there are only 130 labor inspectors, far too few to effectively police the system (Kidd and Abu-el-Haj 2015).

Source: Authors.
the informal economy workforce. In 2004, for example, Indonesia passed Law 2004/40 on the National Social Security System, with the aim of offering all older people and people with disabilities access to pensions (Kidd 2013b). However, the law mandated that universal pension coverage must be achieved through social insurance, but, since then, little progress has been made.69

One reason for policy makers prioritizing the incorporation of the informal economy workforce in contributory schemes may be to mobilize resources for investment in economic development, as happened successfully in some East Asian countries (Kwon 2004, Yi and Mkandawire 2014). Although contributory pension schemes necessarily exclude the informal economy workforce, they may be supported by policy makers as a response to business interests—a powerful political constituency—given their potential to provide funds for investment.

During the 1990s and early 2000s, the extension of contributory and privatized pension schemes was strongly promoted by the World Bank. It proposed a three-pillar pension model, with social insurance as the public pillar and the other two pillars comprising funded pensions managed by the private sector (World Bank 1994). While recognizing the advantages of universal social pensions, which would have benefited the informal economy workforce, it argued against their use on the basis that they would be beyond the financial capacity of developing countries. Instead, priority was given to the privatization of contributory public pensions. One example of the World Bank successfully promoting pension privatization was in Kazakhstan, where it worked in partnership with ADB and the United States Agency for International Development (Hujo and Cook 2012).

However, an independent internal evaluation by the World Bank suggested that it had been quite inflexible in promoting private pensions during the 1990s and early 2000s, including in the PRC and the Republic of Korea (IEG 2007). Indeed, the World Bank’s Independent Evaluation Group (2006, xxiii) found that “[w]ith the exception of a limited number of countries that offered social pensions, particularly in Europe and Central Asia, the Bank provided little support to develop social assistance for the aged poor, even though this was a stated element of the Bank’s strategy on pension reform.” Furthermore, the World Bank’s drive to deliver privatized pension systems meant that, in some cases, they were promoted “in countries with high fiscal deficits, weak financial systems, and ineffective implementation capacity.” (IEG 2006, xxiii)

69 Indonesia has been more successful in implementing the health insurance components of Law 2004/40.
In some cases, governments have offered matching contributions to incentivize the inclusion of informal economy laborers into social insurance schemes, such as India's Unorganised Sector Workers Social Security Scheme, and a number of schemes across Andhra Pradesh, Madhya Pradesh, Rajasthan, and West Bengal (Chakraborty 2007, Cai et al. 2012). As expected, there is little evidence of these schemes succeeding to attract large numbers of members from the informal economy. Nonetheless, the promotion of matching contributions indicates a desire by governments to prioritize more influential higher-income informal economy workers over those with lower incomes, given that the latter cannot afford to enter social insurance schemes even with government support and would be better served by social pensions financed from general taxation.

Some development agencies continue to promote social insurance pensions for the informal economy workforce. In Viet Nam, both Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and ILO have argued for matching payments for informal economy workers. Other experts, such as MacKellar (2009), have argued in favor of voluntary pension schemes for the informal economy, run privately by microfinance institutions. While the rationale behind these proposals is unclear, their promotion is not evidence-based and will, again, only benefit more affluent informal economy workers.

Other examples of governments prioritizing investment in social protection for government employees can be seen in the financing of civil service and military pensions over pensions for the general population. While Viet Nam invests over 1.0% of GDP in pensions for civil servants who retired before 1995, its investment in social pensions for the majority of the population is less than 0.2% of GDP (Khondker unpublished). Furthermore, between 2007 and 2013, the real value of Viet Nam’s civil service pensions more than doubled, while the value of the social pensions fell by around 25.0% (Kidd et al. 2015). Similarly, in Bangladesh, the civil service pension costs 0.5% of GDP, while only 0.1% of GDP is invested in the national old-age allowance (Kidd et al. 2014).

The investment by some countries in schemes for former “freedom fighters” and “national heroes” is also evidence of governments responding to powerful groups. Viet Nam spends around 1.0% of GDP on its schemes for “meritorious people,” with transfer values that are around four times higher than the value of the social pension for the general population (Kidd et al. 2015). A similar pattern emerges in Timor-Leste, where, in 2008, veterans received transfers of $85.00–$550.00 per month, compared with the $20.00 per month provided by the social pension (Rigolini 2008).

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70 See, for example, ILSSA and GIZ (2013). ILO has, however, also argued for the expansion of social pensions (ILO and UNFPA 2014).
Moreover, many social protection schemes have been initiated by governments in response to potential social unrest. The PRC’s establishment of the Minimum Living Standard Guarantee Scheme was a response to the high proportion of people, often middle-aged men, who were being laid off from state-owned enterprises in the late 1990s (Ngok 2010). Social unrest was on the rise and only after a number of years was the program extended to the rural population. Similarly, during the 1997–1998 Asian financial crisis, the Republic of Korea established a social transfer to compensate those losing their jobs, largely formal sector workers (Kwon, Dong, and Moon 2010).

In Indonesia, the government has been unwilling to reform problematic aspects of the national social protection system due to its desire to avoid confrontation with trade unions. Indonesia’s hiring and firing regulations are among the most inflexible in the world; severance pay rates are particularly high, rising to around 30 months salary for employees with more than 20 years of service. However, this is a bad situation for both employers and employees, as it deters investment in business and employees do not necessarily benefit. In 2008, only 34.0% of employees eligible for severance pay received anything, and, of those who did, 78.0% received less than their legal entitlement (Alatas and Newhouse 2010). The government’s inability to address the issue means that a major disincentive to formalization of the economy remains in place, while informal economy workers are unable to benefit from existing legislation.

In sum, some governments in Asia have frequently used social protection schemes as part of a political settlement, building implicit alliances with powerful factions or rewarding those who have supported them. In most countries, governing elites cannot afford to alienate the rich, the business community, the civil service, or formal sector workers. As a result, social protection for these groups is often prioritized rather than schemes for the majority of the informal economy labor force. Indeed, as Claus, Martinez-Vazquez, and Vulovic (2012, 2013) have pointed out, social protection spending in Asia is regressive, benefiting affluent members of society more than those living in poverty, an indication of the extent to which social protection policy has been used for patronage of the more powerful sectors of society to the detriment of the majority of the population and the informal economy workforce (ADB 2014, Bastaglia 2015).

Influence of Neoliberal Ideology on the Shape of Social Protection in Asia

The neoliberal ideology, particularly from Europe and North America, has some influence on the thinking of policy makers in Asia. The post-war European political settlement, which facilitated an expansion of inclusive social protection
systems, happened at a time when a social democratic consensus prevailed, and higher levels of taxation and investment in social policy were generally seen in a positive light and not impediments to winning elections (Lavers and Hickey 2015). Through a significant redistribution of national wealth via the tax system and a concomitant investment in social services, including social protection, inequality across Europe was, for the first 30 years of the post-war period, relatively low.

However, from the early 1980s, neoliberal ideology began to dominate international thinking on economic and social policy, influencing policy development in many countries. In addition to a strong belief in liberalized markets, the new neoliberal ideology promoted lower levels of taxation and social spending. In many countries influenced by neoliberal thinking, such as the United Kingdom, there were rises in inequality.

This neoliberal ideology provided the underpinnings for the Washington Consensus, with the International Monetary Fund (IMF) and World Bank pursuing structural adjustments in developing countries during the 1980s and 1990s, focusing on reducing the size of the state. This included policy proposals to remove food subsidies, privatize pension funds, and introduce user fees for health, often as a prerequisite for loans (Lavers and Hickey 2015). Alongside this structural adjustment, IMF and the World Bank promoted social safety nets for those living in extreme poverty, since they recognized that their reforms could be a source of political discontent. The 1990 World Development Report on Poverty encapsulated these ideas, recommending the targeting of “social safety nets” at the “poor,” without recognizing that effective methodologies for accurately identifying the “poor” did not exist in developing countries (World Bank 1990). The focus on poverty-targeted “safety nets” aligned closely with the neoliberal belief in limiting social spending. As the World Bank (2014d, 27) itself has argued, a key motivation for poverty targeting was a desire to reduce public spending: “The historical….evidence suggests that the forces pushing for better targeting are more regularly motivated by cutting entitlement bills and ensuring financial sustainability than by helping the poor.”

This dominant neoliberal ideology influenced the design of several social protection schemes that started during the 1990s, with a strong focus on targeting the “poor.” For example, social pensions that commenced in Bangladesh, India, and Thailand in the 1990s were targeted at older people living in poverty.71 The limited commitment by governments to these schemes is indicated by their very low transfer values and the inadequate level of

71 Currently, the Bangladesh social pension reaches only around 33.0% of the eligible age group, while India’s reaches 25.0%.
administrative resources allocated to their management. As a result, the old-age pensions in Bangladesh and India are ridden with governance issues, with local elites manipulating selection processes for political patronage purposes, while bribery is widespread. Unfortunately, the poor reputation of these schemes, which are often denounced in the media, filters back to influence political opinion, with policy makers much less likely to invest significant resources in schemes that are regarded as engendering corruption.

While the Washington Consensus has now been largely discredited, the neoliberal ideology underpinning it continues to have strong supporters both in international institutions and national governments in Asia, and among elites. Across the region, there is still support for targeting social protection programs at those living in extreme poverty. In part, this was strengthened by the Millennium Development Goals on tackling extreme poverty and prioritizing those living under the $1.25 PPP per day poverty line. While the prioritization of those living in extreme poverty was welcome, it distracted policy makers from addressing the needs of the majority of informal economy workers and their families. Furthermore, many policy makers and social protection experts mistakenly conflated tackling extreme poverty with poverty targeting (Box 3.5). Yet international evidence strongly indicates that investment in more universal schemes is much more effective in tackling extreme poverty than schemes targeted at the “poor.”

Box 3.5: Misunderstandings about the Political Economy of Targeting

Across all types of stakeholders involved in social protection, including policy makers, development partners, government officials, academics, and nongovernment organizations, there have been calls in favor of poverty targeting, often derived from the erroneous belief that it is beneficial for those living in poverty. The crux of the argument is that if there is a fixed pot of funding, it is better to distribute funds only to those living in poverty, since they will receive higher transfers (Hanlon et al. 2010, Kidd 2015). Yet this does not take into account the well-accepted theory of the political economy of targeting that higher coverage of schemes can result in higher transfer values. It also ignores the argument of Pritchett that, in government social policy, there is no such thing as a fixed budget, and governments are able to vary their budgets in line with their political decisions (Pritchett 2005).

Source: Authors.

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72 See, for example, Pellissery (2005) and Hossain and Zahra (2008).
73 See, for example, Sen (1995), Pritchett (2005), and Mkandawire (2005).
The World Bank has continued to influence the direction of social protection provision in Asia by promoting poverty targeting and limited investment in social protection, essentially continuing a key thrust of the Washington Consensus. By targeting the “poor,” these conditional cash transfer schemes in countries such as Indonesia, Pakistan, and the Philippines necessarily exclude the majority of the informal economy workforce and are similar in design to Latin America’s conditional cash transfer schemes, which target the “poor” by using a proxy means test to identify beneficiaries and to provide transfers to beneficiaries only if they fulfill certain conditions, such as sending their children to school. In some countries, however, the condition has been employment in public works schemes, such as in Bangladesh’s Employment Generation Program for the Poorest program. Many international agencies have strongly promoted Latin America’s conditional cash transfer schemes as success stories to policy makers in Asia, even creating myths about their efficacy and popularity (Box 3.6). In contrast, little is said about the much larger and more successful life cycle schemes in Latin America, in particular the continent’s old-age pensions and Argentina’s almost universal system of child benefits.74

It can also be argued that the poor relief programs that have arisen recently across Asia and Latin America follow the model of social protection that formed the cornerstone of social protection in Northern Europe in the 18th and 19th centuries (Lindert 2004). These schemes were developed under authoritarian regimes, when elites were able to tax the middle class—who could not vote—and allocate those resources to the “poor.” At the time, investment in some poor relief schemes was relatively high, reaching 2.7% of GDP in England’s Poor Laws scheme.

Box 3.6: The Myth of Brazil’s Bolsa Família Program

Across many countries in Asia, a myth has been created around Brazil’s Bolsa Família program, with many policy makers sent to Brazil to study the scheme. Bolsa Família has been promoted as a success story and the social protection model for other countries to follow (Lavers and Hickey 2015). Yet, in reality, within Brazil, Bolsa Familia is a small program compared with the country’s much more significant investments in life cycle social protection programs, in particular the old-age pension, which, as part of the Previdência Social scheme, has annual expenditure around 15 times the size of Bolsa Familia (Kidd and Huda 2013). Indeed, the old-age pension in Brazil has generated much higher impacts on poverty and inequality (SSA 2012).


74 For further discussion on Latin America’s transition to life cycle schemes, see Kidd (2013a).
There was a range of political economy drivers behind these poor relief programs. In England, for example, elite landowners used the Poor Laws to maintain their agriculture labor force during periods of low employment, so that they did not migrate to the cities of northern England. However, elites were also concerned about avoiding the type of social conflict that provoked the French Revolution and hoped that the redistribution of benefits to the “poor” would pacify potential opposition to their rule.

Yet as predicted by the political economy of targeting, as democracy strengthened and the middle class gained the ability to vote, they increasingly began to oppose their taxes being spent on programs for the “poor” since they themselves were excluded. As a consequence, expenditures on poor relief fell—reaching only 0.8% of GDP in England by 1880—and the programs were made conditional, so that the benefits could avoid being seen as handouts. This resulted in “poor” beneficiaries engaging in public works, known as workhouses.

Increasingly, and as a result of the middle class gaining political influence, Europe moved toward an inclusive life cycle approach to its social protection system, which addressed the needs of the middle class and initially prioritized old-age pensions. Poor relief eventually came to comprise only a very small component of expenditure in most European and other developed countries.

As in Europe, poor relief schemes in Asia have tended to be introduced in countries with either authoritarian regimes or weak democracies, where election results do not reflect the aspirations of the majority. Indeed, a similar process occurred in Latin America when poor relief schemes were first introduced. Democracies were still in their early stages following long periods of authoritarian rule, but, as democracy strengthened, inclusive life cycle social protection schemes have become more prevalent. The same is likely to happen in Asia. The Republic of Korea introduced a social pension in 2007, reaching 70.0% of people aged over 65 years, while the Philippines commenced a social pension in 2011, although, as noted earlier, it is still small and highly targeted.

The minimal commitment to poor relief programs by Asia is indicated by countries’ limited budgets. The one exception is Georgia, which has invested around 0.9% of GDP in its TSA scheme, yet this is dwarfed by the country’s investment of 4.3% of GDP in its universal pension (Baum, Mshvidobadze, and Tsuruoka 2015). In May 2015, the Government of Georgia, responding to policy advice from the United Nations Children’s Fund, announced a reduction in the TSA scheme, reallocating around 10.0% of the budget into a child benefit, which will reach 35.0% of children, compared with the TSA’s coverage of only 15.0% of households. It is likely that the child benefit will continue to grow at the expense of the TSA, given that it is more likely to be popular and provides
higher coverage of the informal economy workforce. In Kazakhstan, the total annual expenditure on its TSA poor relief program fell from $36.80 million to $12.50 million between 2005 and 2012 (Babajanian, Hagen-Zanker, and Salomon 2015). Indeed, none of Latin America’s poor relief schemes have budgets above 0.4% of GDP, despite some having been in existence for almost 2 decades, and do not reach the majority of the informal workforce.

In Asia, poor relief schemes tend to be of low quality. They exclude the majority of their intended beneficiaries, often using the proxy means test–targeting methodology, which has high design errors and produces low accuracy and arbitrary results.\textsuperscript{75}

It is possible for elites to impose the proxy means test on the poorest and weakest sections of society, since they are not in a position to effectively oppose it, despite it generating significant social conflict within communities. For example, a number of studies have documented social unrest in Indonesia as a result of the use of the proxy means test (Hannigan 2010, Widjaja 2009, Cameron and Shah 2011, Hossain 2012). The proxy means test acts as a rationing rather than targeting mechanism, allocating limited resources to a small group of the poor who are selected from a much larger group of equally deserving families.\textsuperscript{76}


\textbf{Alternative Economic Drivers of Social Protection for the Informal Economy}

A key driver behind neoliberal policies is the belief that low levels of taxation are good for economic growth; by reducing taxes on the rich, it is thought that they will invest more in business (rather than, as often happens, move their wealth overseas). Yet, as Polanyi (1944) stated, social protection is an essential component of a market economy, with markets functioning more effectively if a comprehensive social protection system is in place. In addition, as evidence from many developed countries indicates, higher levels of taxation and social spending are not an impediment to economic success.

In contrast to the belief of neoliberals, investment in well-designed social protection can generate economic growth, such as by encouraging people to take more risks, enabling families to invest in their children (i.e., the future

\textsuperscript{75} For an explanation of the arbitrariness in the proxy means test–targeting methodology, see Kidd and Wylde (2011) and Kidd and Hossain (2015). For examples of targeting errors in poor relief schemes in Asia, see Kidd et al. (2014), Fernandez and Velarde (2012); and World Bank (2012a).

\textsuperscript{76} See Kidd and Wylde (2011) and Kidd and Hossain (2015) for a further explanation of how the proxy means test functions as a rationing mechanism.
workforce), and stimulating higher consumption and creating greater demand in the economy, thereby enabling entrepreneurs to sell their services and goods (Box 3.7). Much of this thinking is derived from basic Keynesian economics, which is opposed by neoliberals but has had a significant influence on the growth of comprehensive social protection systems in many developed countries.

Some countries in Asia are increasingly beginning to understand how social protection can generate economic growth, which has resulted in higher levels of investment and more comprehensive national systems. In particular, some countries have established social protection schemes as a means of stimulating growth in the economy. For example, Uzbekistan introduced a universal child benefit costing 4.0% of GDP in 1994 to stimulate demand, which resulted in its economy experiencing much less damage than other former Soviet Union states. It subsequently decided to means test the child benefit, although during the global financial crisis, it was temporarily expanded as part of a stimulus package (Kidd 2014b). Thailand’s expansion of its social pension to offer universal coverage was undertaken, in part, to generate greater consumption during the global recession (Suwanrada and Wesumperuma 2012). In addition, the PRC’s significant extension of its pension system in recent years was part of a broader stimulus package during the global financial crisis (ADB 2009). Khondker (unpublished) undertook simulations that indicate that investments in inclusive social transfers will have similar impacts on economic growth in Bangladesh and Viet Nam as the same level of investment in infrastructure.

Box 3.7: Social Protection and Reductions in Inequality as Drivers of Growth

Investment in social protection is a core policy for reducing high levels of inequality, and, it is increasingly understood that high inequality is not only problematic for poverty reduction but can impact negatively on economic growth (Cingano 2014, Ostry et al. 2014, Oxfam 2014). One benefit of lower levels of inequality is greater social cohesion, which benefits both elites and economic growth since more peaceful countries are likely to attract greater foreign investment. International evidence indicates that inequality is most effectively tackled by social protection schemes offering higher coverage and higher-value transfers (and, implicitly, higher levels of investment). For example, in Georgia, the universal old-age pension has reduced the national Gini coefficient by 8.3%, while the reduction from the Targeted Social Assistance poor relief program has been only 2.9% (World Bank 2009b).

Source: Authors.
In sum, the expansion of social protection schemes as components of stimulus packages is the result of politicians moving beyond narrow neoliberal thinking to encompass alternative economic theories. These social protection schemes are not targeted at the “poor” since the main aim is to stimulate growth, which is best achieved by broadening the number of beneficiaries. These increases in investment are not necessarily undertaken to generate short-term political gains through boosted popularity.

Several countries in Asia have introduced inclusive life cycle schemes. As the name suggests, these schemes address key life cycle challenges and, while many life cycle schemes are targeted at the “poor,” a growing number offer high or universal coverage, incorporating the majority of the informal economy workforce and their families. An inclusive life cycle social protection system is typical of most countries with more developed social protection systems, with poor relief comprising only a residual component within national systems.

In almost all countries with life cycle systems, old-age pensions tend to be prioritized initially, especially as societies begin to age. The population and policy makers are willing to accept that older people are “deserving,” and, in many countries, the elderly are valued. Pensions also fit with a broader understanding that people should be able to retire from the labor force as they age. In addition, of course, pensions are for everyone, as everyone hopes to grow old. Other popular life cycle schemes include disability benefits, survivors’ benefits, child benefits, and unemployment schemes.

The Growing Democracy and Inclusive Life Cycle Scheme

A key driver behind some inclusive life cycle schemes in Asia has been growing democracy. Politicians have proposed inclusive schemes as a means of generating popular support, including around elections. As happens in other regions, old-age pensions have been at the forefront of the growth of inclusive schemes, given the aging of populations across Asia. It is not coincidental that in Georgia, the country with the largest old-age pension scheme, older people comprise over 20.0% of the population and are present in more than half of households (World Bank 2009c, UNDESA 2015). Similarly, other countries that have recently decided to offer social pensions to the majority of the population also have high proportions of older people, such as the Republic of Korea, with 18.5% aged over 60 years, and Thailand with 15.8% (UNDESA 2015). In a democratic environment, the imperative for governments to respond to the needs of a growing older population will become increasingly important. Even in Bangladesh, a country with a relatively low elderly population at present 7.1%

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77 See Kidd (2015) for further discussion.
aged over 60 years, (UNDESA 2015), once those aged over 50 years are taken into account, older people will comprise 32.0% of voters by 2030 and 46.0% by 2050, a potentially powerful political constituency.78

Social pensions offering universal coverage have grown in a number of Asian countries, in response to the desire of politicians to build political support in more democratic environments. For example, Nepal’s universal coverage pension system and its accompanying Single Women’s Allowance began in the mid-1990s as small programs, with the pension directed only at people aged over 75 years (Samson 2012). Yet, following the end of Nepal’s civil war, the schemes expanded significantly as political parties sought to position themselves with the electorate.79 Similarly, the decision of the Government of Thailand to provide universal pension coverage in 2009 was partly influenced by a populist approach, despite the government’s assertion that the “Old Age social pension is not a populist policy, but rather a basic human right that everyone deserves” (Suwanradada and Wesumperuma 2012, Brustad 2012).

Although child benefits are much less common than pensions in Asia, the history of the universal child benefit in Mongolia illustrates the influence of democracy and the desire to gain electoral rewards on the design and development of a life cycle social transfer scheme (Box 3.8).

As predicted by the theory on the political economy of targeting, some universal schemes offer high benefits, helping both low- and middle-income families, including many in the informal economy. The value of Georgia’s pension is around 30.0% of GDP per capita, Nepal’s 24.0%, and the Maldives’ 21.0%, which are among the highest across developing countries (Kidd 2015). In comparison, the targeted schemes in India and Bangladesh offer only 2.0% and 5.0% of GDP per capita, respectively. In effect, these universal schemes have built alliances across the majority of the population, and governments are responding to demands from more powerful sectors of society, not just those living in extreme poverty (Box 3.9). A functioning democracy means that governments need to agree to a “political settlement” with the majority of the population. There are universal or high coverage pensions in Asia with low transfer values. Some, however, are in less-democratic regimes where governments do not need to respond to political pressures from the population in the same way as in democracies. So, the PRC’s pension offers only a transfer value of 1.0% of GDP per capita, Viet Nam’s 7.0%, and Brunei Darussalam’s 6.0%.

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78 Calculations based on UNDESA (2015).
79 Hujo and Cook (2012) noted how social pension reform in Nepal is linked to elections.
Nonetheless, it is likely that, as democracy strengthens across the region and political parties increasingly realize how to use social protection policy to win favor with the majority (including the informal economy workforce), there will be a move toward more inclusive life cycle social protection schemes. This trend may be strengthened by some development partners advocating for more inclusive life cycle schemes. In Thailand, in early 2015, the government agreed to introduce a child benefit for 135,000 children aged 0–1 year, following intensive policy dialogue by the United Nations Children’s Fund. The United Nations Development Programme (UNDP) is also becoming increasingly influential. In Bangladesh, in collaboration with Australia’s Department of Foreign Affairs and Trade, it provided technical advice to the government for its National Social Security Strategy, which proposes a more inclusive life cycle social protection system for the country. In Viet Nam, UNDP is currently working closely with the Ministry of Labour, Invalids and Social Affairs, providing evidence on the benefits of a life cycle social protection system and a significant increase in investment in social transfers.

Box 3.8: Democratic Drivers behind Mongolia’s Universal Child Money Scheme

Mongolia’s Child Money Program was first proposed by the Motherland Democratic Coalition political party in its platform for the 2004 election, and was credited with contributing to its electoral success. Following the election, a coalition government was formed, and, by 2006, as a result of the significant fiscal space afforded by natural resource revenues, the government made the Child Money Program universal. This move was supported by the United Nations Children’s Fund.

In 2010, Mongolia introduced a basic income grant—the Human Development Fund—offering each citizen a cash grant of $90.00 per year in 2010, which was increased to $190.00 in 2011. In January 2012, the government amended the Social Welfare Law to introduce targeted benefits and introduced annual payments of $900.00 for retirees and people with disabilities, and monthly payments of $50.00 for students. Yet, following the July 2012 elections, the new coalition government abolished the Human Development Fund and reintroduced a universal child benefit, which currently has annual expenditure of around 1.5% of gross domestic product. The expenditure in 2012 is an assumption, however, based on the program being implemented throughout the year. In reality, it was only implemented in 2012 for a few months, and the expenditure for 2013 is likely to have been in the range of 1.1% of gross domestic product (Fritz 2014).

Box 3.9: The Financial Feasibility of Investing in Inclusive Life Cycle Schemes

The evidence from Asia and developing countries indicates that establishing an inclusive life cycle system of social protection, which goes beyond a social pension, is fiscally feasible. Given that Nepal can provide an old-age pension to the majority of its older population, a benefit for single women aged over 18 years, a small disability benefit, and the beginnings of a child benefit, more affluent countries should be able to do much more. In Viet Nam, for example, the United Nations Development Programme demonstrated that it would cost less than 0.8% of gross domestic product for the country to provide universal pension coverage for everyone aged over 65 years, a disability benefit for everyone under 65 years with a severe disability, and a child benefit for 70.0% of children aged 0–7 years (Kidd et al. 2015). The schemes would reach around 58.0% of the population, including a high proportion of those in the informal economy, and would reduce the national poverty rate by 13.4%.


In the Maldives, the World Bank was a key actor in the development of its universal social pension, indicating that individuals in the institution are able to diversify beyond a neoliberal paradigm. ADB has also highlighted the importance of social protection in a number of publications. In July 2015, both the World Bank and ILO signed an agreement to support universal social protection (ILO 2015).

Nonstate actors are also likely to have a growing role in promoting inclusive life cycle schemes. In Nepal, in 2011, Women for Human Rights Nepal successfully appealed to the Supreme Court for the age of eligibility for the Single Women’s Allowance to be reduced from 60 to 18 years (WUNRN 2011). In Thailand, the National Committee on Elderly was influential in the expansion of the pension to offer universal coverage (Hujo and Cook 2012). HelpAge International has also undertaken significant advocacy on universal pensions in Asia, including collaborating with ADB in the publication of a book on social protection for the elderly (Handayani and Babajanian 2012). Nonetheless, the degree of influence of nonstate actors is often difficult to attribute. For example, HelpAge International undertook advocacy on the social pension in Bangladesh to influence Bangladesh’s National Social Security Strategy, but it is difficult to

80 See, for example, ADB (2006, 2013), and Handayani and Babajanian (2012).
Conclusion and Recommendations

The coverage of Asia’s workers in the informal economy by social protection schemes is limited. In most countries, few workers in the informal economy are covered; when schemes do reach some (usually those living in extreme poverty), their effectiveness is limited by low transfer values of their overall investment in social protection and the relative value of the transfers that they provide.

Decisions on the shape of national social protection systems in countries are highly influenced by politics, ideologies, and beliefs. Much of the evolution of social protection across Asia can be explained by an adapted political settlement approach. In Asia, the dominance of a paradigm reflecting the values of the Washington Consensus has hindered the development of social protection, with policy making across the region influenced by a commitment to a minimal social spending and poverty targeting. As ADB (2014a) noted, Asia has focused on using fiscal policy to support economic growth rather than income distribution. Further, the weakness of democratic institutions in many countries has meant that electoral politics have not yet resulted in significant expansion of social protection, although there are signs that this is beginning to change.

However, social protection in Asia is still in the early stages of its evolution. Developed countries took decades to establish comprehensive systems of social protection, and it could be argued that social protection in Asia is, in fact, progressing more rapidly. Nonetheless, it is evident that the only means of guaranteeing access to social protection for informal economy workers is through social transfers financed from general taxation. Social insurance and other forms of contributory social protection are not the solution, except for a small proportion of more affluent informal economy workers who may be in a position to contribute consistently to well-designed schemes.81

If politicians and elites are to be convinced that investment in social protection should increase so that the majority of informal economy workers are covered, they need to understand that expansion is in their interest. Small schemes that target the “poor” bring few benefits to politicians and elites, as the “poor” are

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81 Even those countries introducing health insurance to improve access to health systems are dependent on general taxation to make health insurance more inclusive.
politically weak and are much less influential in elections than those in the middle of the income spectrum and the affluent. Furthermore, the “poor” are much less likely to actively engage in political protests than the majority of the informal economy workforce, many of whom still experience high levels of income insecurity. Across middle-income countries in recent years, it has been those in the middle of the income spectrum who have been protesting in the streets. In a democracy, the citizens ultimately determine the shape of social protection systems, and they will respond to politicians who offer schemes to the majority—building alliances across economic classes—rather than only to those living in extreme poverty or the affluent.

To build political commitment for social protection, there needs to be a push back against the ideology that values minimal social spending and low taxation. Politicians and other politically influential groups, including powerful civil servants, need to be presented with the evidence that social protection is an essential component of a market economy, and that markets will function much more effectively if a comprehensive social protection system is in place.

An important shift in thinking for policy makers is likely to happen once they recognize that social transfers can be entitlements rather than handouts. There are a number of national constitutions in Asia that already recognize the right to social security for all, such as Bangladesh, Indonesia, and Viet Nam, and the shift from a “hand-out” mentality to that of a rights perspective will be visible once countries move away from a commitment to poor relief and toward inclusive life cycle schemes.

Ultimately, a significant expansion in effective social protection for the informal economy workforce in Asia will only happen as democracy strengthens and the majority of workers begin to vote for political parties that promise and deliver inclusive schemes. As has happened in developed countries, politicians will begin to realize that social protection should be a key area of debate in elections, and that progressive commitments can help them win power. Gradually, this should lead to growing investment in inclusive social transfer schemes, with higher coverage and higher-value transfers.

Development partners can play a key role in this evolution. They should ensure that their policy proposals are based on evidence, challenging the myths that have been used to promote small-scale, poverty-targeted schemes. They can invest in research that demonstrates the benefits of greater investment in social protection and can build evidence on the inclusive life cycle schemes in the region, such as universal pensions and the child benefit in Mongolia, challenging the current tendency to evaluate mainly poor relief schemes. In addition, they can ensure that policy makers and other influential stakeholders across Asia are
exposed to the evidence and question the neoliberal consensus that has held back the development of social protection in the region.

References*


* ADB recognizes “China” as the People’s Republic of China, “Kyrgyzstan” as the Kyrgyz Republic, “Timor Leste” as Timor-Leste, and “Vietnam” as Viet Nam.


Cakraborty, M. 2007. *ILO/SSA/AIM Study on Linkages between Statutory Social Security Schemes and Community Based Social Protection Mechanisms to Extend Coverage: Case Study India*. http://www.social-protection.org/gimi/gess/RessourcePDF.action;jsessionid=e666a8b86c230b4b9938e219905ce25bccc3df494bf37ace973cbbab5fb671.e3aTbhuLbNmSe34MchaRah8TbNn0?ressource.ressourceId=5439


Social Protection for Informal Workers in Asia


Widjaja, M. 2009. An Economic and Social Review on Indonesian Direct Cash Transfer Program to Poor Families: Year 2005. Jakarta: Department of Economics, University of Indonesia and Institute of Economic and Social Research, University of Indonesia.


## Table A3.1: Social Pension Schemes in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Scheme</th>
<th>Age of Eligibility</th>
<th>Selection Method</th>
<th>Value of Transfer (% of GDP per capita)</th>
<th>Coverage of Those over 60 (%)</th>
<th>Coverage of Eligible Population</th>
<th>Cost (% of GDP)</th>
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<tr>
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<td>...</td>
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<td>...</td>
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<tr>
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<td>100.0</td>
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<td>75.0</td>
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<td>77.0</td>
<td>97.0</td>
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<td>16.0</td>
<td>25.0</td>
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</tr>
<tr>
<td>Indonesia</td>
<td>Asistensi Sosial Lanjut Usia Terlantar</td>
<td>70 (60 if chronically ill)</td>
<td>Means-tested</td>
<td>9.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<th>Country</th>
<th>Scheme</th>
<th>Age of Eligibility</th>
<th>Selection Method</th>
<th>Value of Transfer (% of GDP per capita)</th>
<th>Coverage of Those over 60 (%)</th>
<th>Coverage of Eligible Population</th>
<th>Cost (% of GDP)</th>
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<tr>
<td>Kazakhstan</td>
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<td>0.6</td>
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<td>Regional and universal</td>
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Table A3.1 continued

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<th>Country</th>
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<th>Selection Method</th>
<th>Value of Transfer (% of GDP per capita)</th>
<th>Coverage of Those over 60 (%)</th>
<th>Coverage of Eligible Population</th>
<th>Cost (% of GDP)</th>
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<td>45.0</td>
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... = no data, GDP = gross domestic product, PRC = People’s Republic of China.

Note: The budget for Nepal is estimated taking into account the increase in the value of the pension in July 2015.

### Table A3.2: Tax-Financed Disability Benefits in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Scheme</th>
<th>Selection Mechanism</th>
<th>Number of Recipients</th>
<th>Value of Transfer (as % of GDP per capita)</th>
<th>Cost of Scheme (% of GDP)</th>
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</thead>
<tbody>
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<td>Armenia</td>
<td>Disability (social pension)</td>
<td>Means-tested</td>
<td>186,384 (2012)</td>
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<td>150,800 (2010)</td>
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<td>Bangladesh</td>
<td>Allowance for financially insolvent persons with disabilities</td>
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<td>298,000 (2012)</td>
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<td>Indira Gandhi National Disability Pension Scheme (in 28 states)</td>
<td>Means-tested</td>
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<td>Republic of Korea</td>
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<td>Malaysia</td>
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<td>Means-tested</td>
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<td>Universal</td>
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<th>Country</th>
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<th>Number of Recipients</th>
<th>Value of Transfer (as % of GDP per capita)</th>
<th>Cost of Scheme (% of GDP)</th>
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</thead>
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<tr>
<td>Nepal</td>
<td>Disabled Allowance (fully or partially disabled)</td>
<td>Universal (but regional quota)</td>
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<td>Interim Disability Assistance Programme for the Elderly (IDAPE)</td>
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<td>3.0–5.0</td>
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<td>Sri Lanka</td>
<td>Assistance for the Disabled (Mahinda Chintana)</td>
<td>Means-tested</td>
<td>2,129 (2011)</td>
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<td>0.0</td>
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<td>Timor-Leste</td>
<td>Support allowance for elderly and people with disabilities</td>
<td>Universal</td>
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<tr>
<td>Uzbekistan</td>
<td>Allowances to people disabled since childhood (adults)</td>
<td>Universal</td>
<td>119,700 (2012)</td>
<td>39.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Social assistance</td>
<td>Universal</td>
<td>942,190</td>
<td>7.0</td>
<td>0.5</td>
</tr>
</tbody>
</table>

... = no data, GDP = gross domestic product, PRC = People’s Republic of China.

Notes: Viet Nam has three disability benefits that have been combined here into one (S. Kidd et al. 2015). Uzbekistan has, in addition, a tiny allowance for disabled people who do not have the necessary record of service.

<table>
<thead>
<tr>
<th>Country</th>
<th>Scheme Description</th>
<th>Coverage (overall population)</th>
<th>Value of Transfer (% of GDP per capita)</th>
<th>Cost of scheme (% of GDP)</th>
<th>Selection Method</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Employment Generation Program for the Poorest, geographic-, household-, and gender-targeted</td>
<td>1.9</td>
<td>5.4</td>
<td>15.0</td>
<td>Means-tested</td>
<td>The actual wage rate is Tk125.00 ($1.61) per day (Kidd et al. 2014). The assumption used for this calculation is 50 working days per year.</td>
</tr>
<tr>
<td>PRC</td>
<td>Minimum Living Standard Guarantee (Dibao)</td>
<td>4.0</td>
<td>3.3</td>
<td>0.1</td>
<td>Means-tested</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>Targeted Social Assistance Program</td>
<td>15.0</td>
<td>6.3</td>
<td>0.3</td>
<td>Proxy means-tested</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Monthly Benefit for Poor Families</td>
<td>17.0</td>
<td>11.0</td>
<td>0.7</td>
<td>Means-tested</td>
<td></td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Targeted Social Assistance Scheme</td>
<td>13.6</td>
<td>10.0</td>
<td>0.3</td>
<td>Proxy means-tested</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Pantawid Famiyng Pilipino Program</td>
<td>10.0</td>
<td>10.0</td>
<td>0.1</td>
<td>Proxy means-tested</td>
<td></td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Low-income allowance</td>
<td>3.0</td>
<td>3.0</td>
<td>0.0</td>
<td>Means-tested</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Samurdhi cash transfer program</td>
<td>30.2</td>
<td>30.2</td>
<td>0.2</td>
<td>Means-tested</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
- Data: $GDP = gross domestic product, PRC = People’s Republic of China, TSA = targeted social assistance.
- The value of the targeted social assistance transfer is calculated using household income minus the poverty line and multiplied by the number of household members.
- The benefit is a health grant of $500.00 ($11.30) per month and an education grant of $300.00 ($6.76) per month for every child (maximum of three per family).
- The actual wage rate is Tk125.00 ($1.61) per day (Kidd et al. 2014). The assumption used for this calculation is 50 working days per year.
- The value of the targeted social assistance transfer is calculated using household income minus the poverty line and multiplied by the number of household members.
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Sources:
<table>
<thead>
<tr>
<th>Country</th>
<th>Scheme</th>
<th>Age of Eligibility</th>
<th>Selection Method</th>
<th>Value of Transfer (as % of GDP per capita)</th>
<th>Coverage</th>
<th>Cost (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Child Benefit</td>
<td>0–4 years</td>
<td>Means-tested</td>
<td>5.0</td>
<td>100,000</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>Primary Education Stipend Project</td>
<td></td>
<td>Primary schoolchildren</td>
<td>1.0</td>
<td>8,430,000</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Girls at school in grades 6–10 plus some boys</td>
<td>Means-tested</td>
<td>2.0</td>
<td>3,800,000</td>
</tr>
<tr>
<td></td>
<td>Stipend for dropouts</td>
<td>School-age children</td>
<td>Means-tested</td>
<td>1.0</td>
<td>500,000</td>
<td>0.0</td>
</tr>
<tr>
<td>Georgia</td>
<td>Targeted Social Assistance Program</td>
<td>0–17</td>
<td>Means-tested</td>
<td>2.0</td>
<td>260,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Bantuan Siswa Miskin (educational transfers for poor students)</td>
<td>Schoolchildren aged 5–18 years</td>
<td>Means-tested</td>
<td>1.0–3.0(^a)</td>
<td>15,500,000</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>Program Kesejahteraan Sosial Anak (Child Benefit Program)</td>
<td>At-risk children</td>
<td>Means-tested</td>
<td>4.0</td>
<td>...</td>
<td>0.0</td>
</tr>
<tr>
<td>Mongolia</td>
<td>Child Money Program</td>
<td>All children up to 18 years</td>
<td>Universal</td>
<td>4.0</td>
<td>967,900</td>
<td>1.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>Nepal Child Grant(^b)</td>
<td>0–4 years</td>
<td>Dalits and means-tested(^c)</td>
<td>5.0</td>
<td>409,000</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>Education stipends(^d)</td>
<td>Female and Dalit school-age children</td>
<td>Universal</td>
<td>2.0</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Waseela-e-Taleem (Child Benefit Program)</td>
<td>Schoolchildren aged 5–12 years</td>
<td>Means-tested</td>
<td>2.0</td>
<td>52,000</td>
<td>0.0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Family allowance</td>
<td>2–14 years</td>
<td>Mean-tested</td>
<td>13.0(^f)</td>
<td>13% of families</td>
<td>0.6</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>School stipend program</td>
<td>Children at school and on poor list</td>
<td>Means-tested</td>
<td>1.0(^e)</td>
<td>6,504,000</td>
<td>0.1</td>
</tr>
</tbody>
</table>

\(^a\) Target number of beneficiaries and benefit level based on 2009 data.

\(^b\) The child grant is provided to poor Dalit families, with the maximum number of beneficiaries set at two children per family, aside from the Karnali Zone (the poorest region in Nepal), where it is given to all families (Ministry of Local Development, Government of Nepal 2009).

\(^c\) In the Karnali Zone, the program is universal.

\(^d\) About 13.0% of children based on 85,642 children outside of the Karnali Zone.

\(^e\) Besides the scholarships for girls and Dalits, there is a much higher scholarship (Rs1,000.00 per year) for children of martyrs and a regional stipend for the Karnali Zone, with the same higher amount. There is another scholarship for children with disabilities, which is Rs500.00–Rs15,000.00 per year.


\(=\) no data, GDP = gross domestic product.
CHAPTER 4

Governance of Social Protection for Informal Sector Workers in Asia

Babken Babajanian

Abstract

This chapter addresses the extent to which governance of social protection in developing countries in Asia translates into effective and equitable support to informal sector workers. The methodology used is a desk review of a number of sources, including published program reports and papers.

The chapter identifies several weaknesses in the governance of social protection programs at a broader, system level as well as at the operational, program level. These weaknesses negatively affect efficiency, effectiveness, and equity of service delivery. At the system level, bottlenecks pertain to the extent of coordination and linkages across social protection programs as well as the depth of decentralization of governance functions. At the program level, governance challenges exist at all stages of the program cycle, including communications and outreach; targeting; benefit delivery; payment methods; monitoring, evaluation, and oversight; and grievance redress. These governance constraints are largely caused by inadequate design and implementation arrangements, along with weak institutional capacity.

Promoting systemic integration necessitates setting coherent policy goals and coordinating programs in terms of their objectives, target groups, benefit levels, and administrative systems. Responsive, equitable service delivery requires careful delineation of institutional and financing arrangements among different levels of government. Governance risks at the program level can be prevented,

82 The author gratefully acknowledges guidance and feedback from Sri Wening Handayani, Andrew Parker, and Warren Turner, Asian Development Bank. The author also appreciates the insights of Silvia Masiero, London School of Economics, on India’s information and communication technology–enabled monitoring of social protection programs.
Governance of Social Protection for Informal Sector Workers in Asia

Introduction

Governance in social protection is defined as “the set of incentives and accountability relationships that influence the way in which providers are held accountable for their behaviours and [their] ability to deliver services with quality and efficiency” (Bassett et al. 2012). Governance in a social protection context thus relates to two separate but related functions: (i) putting into place appropriate institutional arrangements (i.e., rules, regulations, and procedures for performing core service delivery functions), and (ii) implementation. Given the centrality of these two functions to the overall social protection effort, governance is critical for effective, accountable, and responsive service delivery.

This chapter examines governance of social protection for informal workers in Asia. To date, there has been relatively limited analysis of how governance affects service delivery outcomes under social protection schemes. Several World Bank–commissioned reports (Bassett et al. 2012, Gianozzi and Kahn 2011, Rubio 2011, van Stolk 2010) have explicitly explored governance in social assistance, initiating a discussion on governance of social protection as a distinct policy and operational domain and offering concepts and frameworks that can be used as a starting point for further research and analysis.

This chapter is not meant to be comprehensive, given the variety of programs, modalities, and governance arrangements in the region. Existing studies on governance of social protection acknowledge this challenge (e.g., Bassett et al. 2012). This chapter uses case studies and examples that identify both the challenges and opportunities facing improvement of social protection programs in developing countries in Asia. It examines governance at a broader system level as well as at an operational program level.

Background

In the last decade, many countries and areas in the region have intensified efforts to strengthen social protection for supporting the poor and vulnerable, the majority of whom are employed in the informal economy. Informal sector workers make up as much as 80.0% of the labor market in some countries in the region (UNESCAP 2014a). The share of people working in the informal economy varies from 22.0% in the People’s Republic of China (PRC), to over...
The informal economy comprises economic activities outside of the official regulatory framework that governs the establishment and functioning of enterprises as well as labor, fiscal, and environmental matters (Canagarajah and Sethuraman 2001). The term “informal economy” used in this chapter is therefore relatively broad. Its coverage extends from agriculture workers—both in the for-profit and subsistence subsectors—to unpaid workers in the home-care economy, most of these being women engaged in productive work.

The region has undergone an impressive expansion of programs that protect the poor and vulnerable over the past decade. However, it is social assistance—as opposed to social insurance—that has become the region’s major vehicle for supporting poor and vulnerable informal sector workers. This chapter is therefore mainly concerned with social assistance, i.e., cash and food transfers, and public works programs.

As for social insurance, there are ongoing efforts to extend its coverage. To date, however, social insurance programs do not protect informal workers against the negative economic impacts of sickness, unemployment, disability, and old age (Canagarajah and Sethuraman 2001, ILO 2013, Lund 2009). It is unsurprising that little evidence relating to the governance challenges facing social insurance schemes for workers in the informal economy is available.

**Methodology**

The chapter is based on a desk review and draws on a wide range of sources, including published program reports (e.g., program assessments, analytical reports, and policy briefs) and papers (e.g., working papers and academic articles).

Reviewing existing literature relating to governance of social protection is challenging. Other than a few studies, governance of social protection does not comprise a research topic of its own. One reason for this is that “governance” is a broad term that encompasses institutional arrangements and practices at the system, sector, and program levels. Analyzing the available evidence relating to the governance of social protection thus requires disaggregating this information into its various components such as targeting, benefit delivery, monitoring, and grievance redress. These aspects of governance tend to appear as components of more general studies of social protection programs. The chapter thus reviews a broad range of reports and papers that focus on different aspects of social protection as a means of identifying analyses, data, and other information relevant to the topic.
The studies that are available often focus on the operational aspects of social protection programs, and contain limited analysis of the contextual social, institutional, and political conditions that impact social protection outcomes. Where possible, the chapter addresses the context in which social protection programs are implemented.

**Social Protection for Informal Workers**

Workers in the informal economy experience high levels of income insecurity and are more vulnerable to various economic and social risks than those in the formal economy. The risks that they face include health risks; deterioration in the value of, or loss of, productive assets; a wage less than the legal minimum; income fluctuations due to market-related risks; and income insecurity in old age (Canagarajah and Sethuraman 2001).

In addition, certain geographic regions or areas may be more prone to economic or political shocks, both of which compound the income insecurity of informal sector workers. Moreover, a number of gender-related risks impact women employed in the informal sector to a greater degree than men. Examples include levels of remuneration less than those of men for identical types of work, lack of support for enterprises headed by women, and invisibility of female workers generally (Lund and Srinivas 2000).

The informal economy comprises income-earning activities that lie outside of legally regulated enterprises and employment relations. This includes self-employment in informal enterprises (i.e., those that are small and/or unregistered) and wage employment in informal jobs. Informal workers do not have secure contracts, worker benefits, social protection, and representation. They are more vulnerable to various economic and social risks than those in the formal economy (ILO 2002).

This chapter considers the informal economy in relation to social protection, rather than labor market participation and outcomes. Therefore, it conceptualizes the informal economy broadly to include both reproductive and agriculture activities, where individuals generally are more vulnerable than those in the formal sector and do not have work-related social protection entitlements.

Social protection in Asia has undergone remarkable growth over the past decade. Many of the region’s low- and middle-income countries have strengthened existing programs, and developed new programs for supporting the poor and vulnerable. Despite significant progress, social protection programs do not
provide adequate support and protection to workers in the informal economy. The existing social insurance schemes in the region do not cover the majority of informal workers, while social assistance programs tend to provide partial coverage and benefits of limited value. This is largely conditioned by policy design and fiscal constraints. Furthermore, as discussed in this chapter, the effectiveness of the region’s social protection programs is also constrained by inadequate governance.

Social Insurance

Existing social insurance schemes in developing Asia mainly support workers in the formal sector. As a result, most informal sector workers have minimal protection against income insecurity associated with illness, disability, unemployment, and old age. For example, only 47.0% of the population above statutory pensionable age is covered by old-age pensions, and only 34.0% of the labor force provides contributions toward pensions in Asia and the Pacific (ILO 2014). When the PRC is excluded from these calculations, the corresponding figures drop to 32.0% and 25.0%, respectively. Similarly, although 58.0% of the region’s population is covered by some form of health insurance, this statistic drops to 37.0% when the PRC is excluded, since 95.0% of the PRC population enjoys some form of health insurance (ILO 2014).

The key challenge to expanding social insurance to informal workers in the region and beyond is the difficulty of raising social insurance payments. An effective social protection system requires broad-based, sustained participation, which, in turn, requires workers who can contribute part of their earnings toward social insurance schemes in a sustained manner (Yeates 2009). In the case of informal sector workers, earnings are either too low or too unstable to allow them to make contributions to social insurance schemes (ILO 2013).

Even if informal sector workers can afford to pay social insurance premiums, they are reluctant to do so for a number of reasons, including lack of trust in social protection institutions, a perceived mismatch between the types of benefits offered and their priority needs, and time-intensive or cumbersome application procedures. Finally, entitlement to benefits may require a long period of contribution, which discourages many informal workers who often have insecure and unstable jobs (ILO 2013).

Inadequate administrative and financial capacity presents yet another challenge to expanding social insurance systems beyond the formal sector. Limited institutional capacity coupled with high administrative and transaction costs prevent pension systems from reaching out to workers in rural areas and in the informal economy (Park and Estrada 2012).
Over the last decade, several countries in Asia have used a range of approaches to expand social insurance coverage to informal workers. Some countries in the region have established innovative tax-funded old-age and health insurance programs. Through its tax-financed Universal Coverage Scheme, Thailand has achieved nearly universal health coverage for its population. Further, poverty-targeted, tax-financed health insurance schemes exist in India and Indonesia (e.g., the Rashtriya Swasthya Bima Yojana [RSBY] national health insurance program for below-poverty line cardholders and Jaminan Kesehatan Masyarakat health insurance for the poor and near-poor). In the PRC, Medical Financial Assistance for urban and rural residents supports health-related expenses of poor individuals by subsidizing their insurance contributions or providing direct cash assistance.

Some countries established new national voluntary schemes. In 2009, India expanded its National Pension Scheme to informal sector workers (Meissner 2014). The scheme is based on voluntary defined contributions and uses a group-based approach. It tops up individual contributions to encourage informal sector workers to save for their retirement and to lower the cost of operations. Mongolia has recently extended its compulsory social insurance scheme to herders, the self-employed, and informal workers on a voluntary basis. The 2006 Law on Social Insurance in Viet Nam expanded the coverage of the pension system to farmers and the self-employed on a voluntary basis (MacKellar 2009). The coverage of the scheme, however, is very low: only around 140,000 people contributed, equivalent to 0.3% of the total workforce (Meissner 2014).

There are also various microinsurance models, including health, life, disability, agriculture, and livestock insurance. Most microinsurance programs are initiated and managed by trade unions, local cooperatives, nongovernment organizations (NGOs), and community-based groups. Microinsurance has especially proliferated in India; for example, the Self Employed Women’s Association (SEWA), registered in Ahmadabad, Gujarat in 1972, provides an umbrella for vulnerable self-employed women engaged in home-based work and various types of casual work. Its insurance packages cover sickness, personal accidents, widowhood, loss of assets, and accidental death.

**Social Assistance**

Social assistance is the primary means of supporting informal sector workers in Asia. It includes a variety of conditional and unconditional cash transfers, in-kind transfers, public works programs, and asset transfer schemes.

Many programs focus on poverty relief, providing basic subsistence support to chronically poor through targeted cash transfers. Eligibility in these programs
is determined by income. There are also cash transfer programs that provide assistance to address life cycle–related vulnerabilities, such as Nepal’s Child Grant, Cambodia’s social welfare for families living with HIV/AIDS, and Viet Nam’s social assistance for vulnerable children and ethnic minorities. The difficulty in instituting contributory social insurance has prompted governments in Bangladesh, India, Nepal, the Philippines, Thailand, and Viet Nam to develop tax–financed, noncontributory old-age pensions (or social pensions).

Social assistance in the region does not provide comprehensive support to individuals throughout their life cycles. While there are some universal schemes, most social assistance programs are designed to provide partial coverage of the poor and vulnerable. Many programs do not have a national coverage and are not available to groups residing in areas outside of their operation.

The region’s poverty-targeted programs support only a limited share of the population that falls within their target groups. For example, Pakistan’s flagship Benazir Income Support Programme (BISP), covers 4.8 million families or approximately 40.0% of Pakistan’s poor (World Bank 2015). Similarly, Indonesia’s Program Keluarga Harapan (PKH), the Program of Family Hope, conditional cash transfer scheme supports 2.8 million people (Bankable Frontier Associates 2015), and Pantawid Pamilyang Pilipino Program (4Ps) conditional cash transfer program supports 4.4 million of the poor in the Philippines. Many poor and vulnerable individuals remain outside the coverage of these programs.

The limited coverage of social assistance programs in the region is often due to financing constraints. For example, increasing the coverage of Indonesia’s PKH from 1.5 million to 3.0 million households would require an estimated increase in the number of program facilitators from 6,700 to 12,500 (Nazara and Rahayu 2013).

Social assistance programs often have a bias toward urban or rural areas. India retains a strong rural bias, despite the growing urbanization and increasing share of the urban poor (World Bank 2011a). Until recently, the existing schemes in the PRC disproportionately favored urban areas in terms of coverage and benefit levels (World Bank 2009). Finally, due to budget constraints, programs in the region provide only limited benefits, which are not adequate to lift beneficiaries out of poverty.

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84 Interim measures on social assistance in 2014 established a basis for unifying the PRC’s urban and rural social assistance programs.
The effectiveness of social protection, including both social insurance and social assistance, often depends on governance at both the system and program levels. As this chapter demonstrates, existing institutional arrangements and implementation practices affect targeting effectiveness, accountability, and responsiveness of service delivery.

## Linkages within Social Protection Systems and Intragovernment Arrangements

### Coordination of Social Protection Programs

Effective governance requires the development of coordinated systems of social protection (Robalino, Rawlings, Walker 2012; World Bank 2012d). Fragmentation across programs is a major challenge facing most low- and middle-income countries globally. It results in administrative inefficiency, as many programs have similar objectives and overlapping target groups. Fragmentation also contributes to a coverage gap when uncoordinated programs focus on distinct regions and particular groups without complementing each other, and leave other disadvantaged groups without support (World Bank 2012d). Finally, fragmentation of basic management, information, and administrative tools undermines implementation effectiveness of social protection programs. Coordination can be promoted at a policy, program, and administration level.

The reality is that governance of social protection in developing Asia is fragmented. Existing programs tend to be administered by different agencies, including agencies at various levels of government, as well as nonstate actors such as NGOs and international development partners. They often have different objectives and capacities, and use different institutional arrangements, including targeting criteria and procedures, benefit delivery methods, data management, outreach and communication, monitoring and evaluation, and grievance redress.

For example, there are more than 90 food- and cash-based social assistance programs in Bangladesh (Ahmed et al. 2013). Of these, at least 30 are directly operated by the government. The 90 programs are administered by multiple agencies, including various government ministries, NGOs, international aid agencies, and bilateral donors, and coordination among these actors is ineffective (Ahmed 2007). In particular, Bangladesh has at least 13 ministries engaged in delivering social protection services, and all of them administer their programs independently, without much coordination between them (Ahmed 2007). The
lack of coordination and linkages constrains the development of a coherent approach to the implementation of these programs (Sharif 2009).

Social protection programs in Pakistan are similarly fragmented and uncoordinated in terms of their objectives, target groups, and administrative procedures (Malik and Pop 2013). Pakistan’s programs are operated by various ministries and departments at both the federal and provincial levels, resulting in inconsistent administrative practices, which often lack objective and transparent beneficiary targeting, and unreliable and unpredictable benefit delivery (Malik and Pop 2013).

The actual measures and avenues for promoting coordination depend on initial conditions and country-specific institutional shortcomings. In Pakistan, for example, there is a need to harmonize social protection policies and programs to ensure complementarity and to clarify the roles and responsibilities of federal and provincial governments (Malik and Pop 2013). Greater consistency can be promoted by setting minimum standards for program administration for all social protection programs in the country. These include procedures for beneficiary identification and selection, data management, and grievance redress (Malik and Pop 2013). In the PRC, the level of integration is relatively advanced, but there is a need to deepen the ongoing efforts to address the duality in urban–rural provision (ADB unpublished).

### Integrating Data and Information Management

This section discusses coordination at administration level, which involves building basic management, information, and administrative tools and integrating data and information management. Establishment of a single registry and associated management information system (MIS) can enhance coordination of social protection programs and result in operational benefits. It can unify and improve program oversight and monitoring, facilitate planning across programs, consolidate beneficiary targeting, minimize inclusion and exclusion errors, and enhance access of beneficiaries to programs and services in other sectors (Barca and Chirchir 2014).

There are ongoing initiatives in several countries to integrate data and information management. Cambodia’s Ministry of Planning has established a national registry that uses a standardized targeting system called IDPoor. Government institutions, NGOs, and international aid agencies use this system, which is integral to the government’s National Social Protection Strategy, 2011–2015. Linking IDPoor with a computerized MIS will ultimately facilitate use by, and coordination among, Cambodia’s social protection programs.
Indonesia’s Basis Data Terpadu (Unified Database) national registry unifies information used for beneficiary targeting across the country’s largest social assistance programs (Barca and Chirchir 2014). The National Team for Accelerating Poverty Reduction or Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K) manages the database, which is used for determining eligibility for five national social protection programs: (i) the national health insurance program; (ii) scholarships for poor families; (iii) the Program of Family Hope, a conditional cash transfer program; (iv) Rice for Poor Households; and (v) a temporary unconditional cash transfer program (Barca and Chirchir 2014).

In 2011, Central Bureau of Statistics Indonesia conducted a large-scale survey that assessed household income, updating the list of poor households (World Bank 2012e). The resulting unified database contains data for 24 million households (96 million individuals) in more than 77,000 villages (Barca and Chirchir 2014). This system allows web access to data that includes 16 indicators. Presently, data are received by e-mail or hand-delivered computer disks, and then entered manually into the database.

In the Philippines, the government has developed a sophisticated national database under its flagship 4Ps. The National Household Targeting System for Poverty Reduction uses proxy means targeting, which replaced the ineffective targeting mechanisms in place before 2007 (Fernandez 2012). The associated database is a cornerstone of the government’s convergence strategy, the aim of which is to link all social protection programs (Fernandez 2012). Government regulations stipulate that all conditional cash transfer beneficiaries be enrolled in the subsidized health insurance program of the Philippine Health Insurance Corporation (PhilHealth) (Chaudhury, Friedman, and Onishi 2013). Some local governments and NGOs have expressed willingness to use this national database for targeting local programs.

There are some other promising initiatives in the region. For instance, the government in Pakistan has developed a national targeting system using a proxy means test (poverty scorecard) under its flagship BISP. The BISP national database includes 27 million households (Malik and Pop 2013). Using the database may enable various provinces to undertake new programs or to adjust existing programs to respond to local needs and priorities. It can also help reduce duplication and overlap of interventions (World Bank 2013).

**Intragovernment Arrangements**

Decentralization can improve responsiveness in the provision of social protection and social services (UNDP and UNCDF 2011). In particular, the proximity of local agents to the population groups that they serve can help
identify needs and preferences effectively and provide contextually appropriate services.

In India, a criticism of centrally administered social protection programs is that they have a “one-size-fits-all” approach that allows little scope for flexibility and services tailored to local conditions (World Bank 2011a). In recent years, state governments have been allowed increased flexibility in adapting social protection program administration to local context. However, India’s social protection policy mix is largely determined in a top-down fashion, with little scope for adapting programs to local needs. This poses particular problems for poorer states in that they have limited resources for financing and implementing their own programs. Due to India’s sheer size and diversity, giving states greater autonomy in the use of centrally allocated social protection funds would enable them to better respond to local conditions (World Bank 2011a).

At the same time, a high degree of decentralization contributes to policy fragmentation, as well as interregional variations in levels of social assistance benefits, often resulting in inadequate benefit levels in poorer regions (UNDP and UNCDF 2011). This problem presents a challenge for central government policy makers, who have the mandate to ensure equitable development and access to services across regions and population groups.

The social assistance programs in the PRC are highly decentralized, including the means-tested Minimum Living Standard Guarantee (MLSG) Scheme. This allows local governments significant autonomy in decision making with regard to regulation, financing, and implementation (ADB unpublished). District and county-level city governments are responsible for regulating the eligibility thresholds, which determine who is to be covered as well as the level of support provided.

The MLSG eligibility thresholds are often set by the local governments to reflect their fiscal capacity rather than the difference in the cost of living. As a response to fiscal difficulties, richer regions, with more resources and fewer poor residents, tend to set higher lines; poorer regions set lower ones, despite their greater need (Ravallion 2009, World Bank 2009). The significant degree of local discretion in setting MLSG thresholds thus restricts eligibility and the adequacy of benefits to meet people’s basic needs in poorer areas. It also undermines horizontal equity, resulting in a variation in the extent to which individuals with similar standards of living are treated across locations.

The challenge is to design and establish institutional roles of different levels of government to balance responsiveness in service provision with the objectives of inclusion and equity. There are three main governance functions that need to be adequately addressed in developing intragovernment systems to ensure...
quality and equity of service delivery: (i) setting policies, standards, and rules; (ii) implementation; and (iii) financing (UNDP and UNCDF 2011).

Under centralized systems, the national government defines broad policy and identifies the main service delivery rules and procedures. In particular, the central government determines eligibility criteria, size of benefits, and implementation rules such as procedures for determining eligibility in targeted programs. Conversely, a high level of decentralization, such as in the PRC, implies that local governments are responsible for most aspects of program governance.

The involvement of the central government in regulating key rules and procedures, while allowing local adjustments to reflect contextual circumstances, can help balance policy priorities. In particular, in countries with moderate decentralization, central governments have an important role in regulating program rules, but they also allow significant local autonomy. They set requirements governing eligibility and benefit calculations, limiting excessive local discretion. Local governments in these countries still play key roles in determining eligibility and setting benefit levels, although the extent of local discretion is controlled, helping ensure greater inclusion and interregional equity.

Program Implementation

Communication and Outreach

The issue of communication is at the heart of social protection governance and permeates all stages of the program cycle, including application, beneficiary selection, benefit delivery, monitoring, and grievance redress. It is crucial that people be aware of their entitlements and procedures for claiming them. During beneficiary selection, access to information is key to ensure that people understand selection criteria and accept the decisions made by program administrators and community leaders. At the stage of benefit delivery, beneficiaries must know the amount of benefits and their entitlements. Finally, beneficiaries must be aware of the avenues for involvement in program monitoring as well as procedures for grievance redress.

Empirical evidence from numerous countries in the region demonstrates that inadequate communication and outreach negatively impact all phases of the program cycle. A major constraint to effective outreach and information dissemination in the region is institutional capacity. For example, staff limitations often prevent local governments from disseminating information
regarding social protection programs across large geographic areas (UNDP and UNCDF 2013). Further, local government officials, as well as members of NGOs involved in program delivery, often lack the knowledge required for implementing effective information awareness campaigns (UNDP and UNCDF 2013).

Generally speaking, access to information by women in the region is often far more restricted than it is for men. As a result, many social protection entitlements—cash transfers in particular—specifically target women to ensure that women receive much-needed support. Yet, women have less time due to domestic work and care responsibilities to engage in the public arena and thus to receive information about social protection programs. In some contexts, limited opportunities for public engagement are due to restrictive cultural norms. Limited awareness may result in exclusion from services due to non-take up or improper paperwork. It may also make it difficult to apply and comply with all the program requirements, such as conditionalities of cash transfer programs.

This section discusses empirical evidence from Viet Nam and India. In both of these countries, communication and outreach greatly impact the degree to which socially excluded groups are able to access program benefits. In particular, these individuals are often constrained in their ability to take advantage of entitlements under existing programs because of various barriers, such as geographic isolation, language, disabilities, prejudice, and social discrimination.

In Viet Nam, information regarding social assistance programs is normally communicated through bulletins issued by the relevant commune people’s committee, verbal communication by commune officers at village and neighborhood meetings, and through representatives of mass organizations (Gianozzi et al. 2010). The provincial department of labor, invalids, and social affairs usually conducts training sessions for the staff of the district division of labor, invalids and social affairs, as well as for ward social officers.

In some cases, existing communication and outreach efforts may be insufficient to reach residents living in remote areas or vulnerable groups (Gianozzi et al. 2010). Language and literacy barriers—particularly for minority groups who neither speak nor read Vietnamese—further mitigate against access to program benefits. Similarly, migrants, as well as women who lack the time to participate in neighborhood meetings or who are not members of mass organizations, may also be disadvantaged in this regard.

Similarly, the literature identifies a number of barriers to accessing health care by socially excluded scheduled castes in India (Sabharwal et al. 2014). In addition to affordability, such barriers include discriminatory attitudes on
the part of health care providers and remoteness of health care facilities from the areas in which potential beneficiaries live. Access to information likewise appears to be a major factor in restricting access to health care services. For example, a review of the Janani Suraksha Yojana (Maternal Safety Program) scheme in seven states found that women belonging to scheduled castes were not informed, or were otherwise unaware of, auxiliary midwife timings or village and health nutrition meetings (Sabharwal et al. 2014).

Low levels of awareness among persons with disabilities is yet another factor that limits access to benefits under social protection programs in India, such as social pensions and the unemployment allowance for persons with disabilities (O’Keefe 2009). A World Bank survey suggested that more than 60.0% of persons with disabilities in rural Uttar Pradesh and Tamil Nadu states did not even know that these programs existed. As a result, only 9.0% of such persons benefited from them. The level of awareness of the rights of persons with disabilities to participate in public works programs has also been found to be quite low, even though the 1995 Persons with Disabilities Act requires state governments to reserve not less than 3.0% of their resources under poverty alleviation programs, including public works, for persons with disabilities. Nevertheless, more than 90.0% of households included in the survey were unaware of this reservation under public works programs.

**Targeting the Poor**

Social protection programs in the region use different methods for identifying and selecting program beneficiaries, including categorical targeting based on geographic location and/or socioeconomic and demographic characteristics, means testing, proxy means testing, community-based targeting, and self-targeting. As mentioned, many programs are income or means-tested; that is, they distribute benefits to people whose income falls below a minimum threshold. A major challenge associated with means testing in countries with sizable informal economies is how to accurately measure and verify people’s income in the selection of program beneficiaries.

Targeting effectiveness largely depends on a program’s governance, that is, the design and implementation arrangements and practices. The review of

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85 Most states in India have disability social pension programs and unemployment allowance programs for persons with disabilities registered with employment exchanges for more than 2 years, who have not found employment. Unemployment allowance benefit levels in 2004 varied from Rs50.00 ($1.03) in Meghalaya to Rs500.00 ($10.33) in Sikkim. The corresponding figures for disability social pension benefits were Rs60.00 ($1.24) in Chandigarh and Rs500.00 ($10.33) in West Bengal and Goa (O’Keefe 2009).

86 The study surveyed slightly more than 1,400 households that both included and lacked members with disabilities.
evidence suggests that poor governance of social protection programs has contributed to targeting errors. Some of the key governance bottlenecks in the region include inadequate outreach and communication, lack of clear and transparent eligibility criteria, low awareness of eligibility criteria among implementers and inadequate knowledge about weighing different criteria, inconsistent application of scoring criteria, inadequate income verification, limited community participation in the verification of beneficiary lists, weak monitoring and oversight, and ineffective grievance redress.

The well-documented case of Indonesia’s temporary Bantuan Langsung Tunai (direct unconditional cash transfer program) illustrates how weaknesses in program implementing arrangements result in significant social exclusion and poor program performance (SMERU 2006; World Bank 2012a, 22–27; Hossain et al. 2012). The program used a variant of proxy means testing to select households with monthly expenditures of less than Rp175,000.00 ($16.80).87 Evidence suggests that the program was poorly targeted and that households who were neither poor nor near-poor received 30.0%–40.0% of all program benefits (World Bank 2012a). This outcome led to community-wide tension, envy, allegations of corruption, and protests (Hossain et al. 2012).

Lack of transparency and clarity regarding eligibility criteria contributed to a high degree of community dissatisfaction with the program (Hossain et al. 2012). Moreover, information was provided to beneficiaries in a nonsystematic or inconsistent manner (World Bank 2012a). The entire beneficiary identification process was largely top-down in nature, and verification of beneficiary lists did not rely on participation by local residents (Hossain et al. 2012). Beneficiary lists thus failed to take into account the knowledge of local residents regarding who was poor, which further contributed to the mistrust and frustration of local residents.

As a result of weak program monitoring and evaluation procedures, and ineffective grievance mechanisms, few opportunities existed for rectifying targeting errors under the program (World Bank 2012a). In particular, the program’s poor grievance redress system contributed to many beneficiaries either not knowing how to complain about the existing procedures, or to a perception that complaints would not result in any positive outcome (World Bank 2012a). In fact, there was a perception on the part of program administrators and supervisors that complaints did not necessarily require appropriate responses.

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While Bangladesh’s social safety net programs provide important support to the poor, targeting errors prevent these programs from reaching a substantial number of the poor or marginally poor (Barkat et al. 2013, Ahmed 2007, Sharif 2009). A World Bank review of the Vulnerable Group Development program and the Primary Education Stipend Program suggested that 27.0% and 47.0% of beneficiaries from each program, respectively, were not poor at all (World Bank 2006). The 2005 Household Income and Expenditure Survey confirmed that one-fifth of all beneficiaries belonged to Bangladesh’s two highest income quintiles (Ahmed et al. 2013). Inclusion of ineligible households meant displacement of eligible poor households.

Ineffective governance arrangements, including rules and procedures for beneficiary selection and monitoring systems, contribute to targeting errors in Bangladesh. Limited administrative capacity makes it difficult to accurately verify whether individuals meet the selection criteria. The respondents of a qualitative study complained about the existing selection criteria, which they perceived to be cumbersome and difficult to implement (Barkat et al. 2013). Local government officials receive little guidance and support on how to effectively conduct beneficiary identification and selection. For example, the government manual for implementing the Old Age Allowance outlines several priority criteria but fails to explain how these criteria are to be applied (Begum and Wesumperuma 2012). Further, the Union Parishad chair or members are often unaware of existing criteria, and rarely read the government manual.88 Finally, as discussed, the monitoring systems employed are weak and do not effectively identify or address targeting shortcomings (World Bank 2006, Ahmed 2007).

Available evidence further suggests that effective governance arrangements positively impact service delivery outcomes. For example, elite capture and corruption were not problematic features of Pakistan’s National Rural Support Programme. This outcome in large measure resulted from procedures for monitoring beneficiary identification incorporated into program design (Yusuf 2010). Similarly, under Nepal’s Food for Work program, appropriate program design mitigated elite capture and misappropriation of program benefits. The program conducted regular audits and displayed information in public areas; it exposed cases of misappropriation at public meetings and required the persons culpable to reimburse funds equal to the shortfall in benefits (Yusuf 2010).

88 Union Parishad (union councils) are Bangladesh’s lowest-level governmental units. These bodies comprise 1 chair and 12 members elected by local residents. Each union comprises nine wards.
Benefit Delivery

To adhere to good governance standards, cash or in-kind transfers must be predictable, that is, must be provided on a timely and regular basis. Accountability requires that beneficiaries receive their entitlements in full, and that leakage or misappropriation of cash or in-kind resources do not take place.

Examples from food transfers in Bangladesh illustrate how poor governance contributes to leakage and mismanagement in the absence of effective mechanisms and capacity to control and adequately finance benefit delivery.

Evidence from Bangladesh suggests the capture of food transfers is possible due to lack of transparent procedures for their distribution and inadequate monitoring (World Bank 2006). Leakages in food transfer programs such as the Vulnerable Group Development and other similar programs were estimated to range from 10.0% to 50.0% (World Bank 2006). A number of intermediaries are involved at various stages of the food distribution process in Bangladesh, under which loading and unloading of food is frequent. Institutional arrangements under these programs have to offer sufficient incentives for service providers to achieve the level of services envisioned. Moreover, no sanctions were levied against service providers who failed to deliver food (World Bank 2006). As discussed in this chapter, most implementing ministries in Bangladesh lack sufficient capacity for monitoring programs or controlling the behavior of food supply chain intermediaries.

Payment Methods

High-quality service delivery requires service providers to be responsive. That is, they must be able to identify public needs and preferences, and adjust service delivery to make it consistent with people’s needs. In this regard, responsiveness refers not only to the type, mix, and quantity of services, but also to delivering services in a manner that is convenient, cost-free, and respectful of beneficiaries.

Benefit payments may be delivered through banks, local government offices, electronic transfers, or directly through home delivery. The choice of benefit payment methods can have significant implications for beneficiaries’ experience. In fact, alternative benefit delivery mechanisms vary widely in terms of the monetary, physical, or time-cost that they impose on beneficiaries. This variation in cost is best illustrated by the benefit delivery arrangements used by social pension programs in Bangladesh, Nepal, and Thailand.
A study conducted in Nepal’s Rolpa District identified two methods by which the Old Age Allowance was delivered to beneficiaries. In two village development committees studied, residents collected their pensions either from a bank or a village development committee office (KC et al. 2014). Distributing benefits in this manner compelled many beneficiaries to travel long distances, which often entailed long wait times for vehicles to transport them to their designated collection points. In the case of residents living in remote wards, this required significant expenditure on transport, and in some cases, food. Both the requisite travel time and the physical ability required for enduring the journey to the collection point was difficult for older people, often frail beneficiaries who did not have relatives to collect benefits on their behalf. The respondent beneficiaries, therefore, preferred to have their benefits delivered directly to their homes.

In Bangladesh, the Old-Age Allowance is distributed through the banking system, a method clearly favored by beneficiaries (Begum and Wesumperuma 2012). While this delivery method reduces the corruption and leakage likely to occur when payments are collected at physical delivery points, the banks that distribute the benefits lacked the capacity to service large numbers of beneficiaries. The result was long queues, which in turn imposed significant physical costs on beneficiaries. For example, the number of seating and toilet facilities provided for beneficiaries was insufficient in light of the number of beneficiaries serviced and the extended wait times. As in the case of Nepal, the beneficiaries incurred significant monetary costs for transport and food. Moreover, on some occasions, the banks were unable to disburse the full amount of beneficiary payments, thus necessitating a return visit the following day, which multiplied the costs imposed on the beneficiaries.

In Thailand, the Old-Age Allowance is delivered in cash directly to the beneficiary’s home or through banks (Suwanrada and Wesumperuma 2012). Most beneficiaries prefer home delivery in cash by designated officers, since this avoids the travel and time-cost associated with collecting benefits at local banks.

Ultimately, the responsive design of payment arrangements depends on the existing channels for effective identification and assessment of people’s needs and preferences. This implies the need to set mechanisms for beneficiary feedback to inform the design of convenient payment methods.

**Program Monitoring, Evaluation, and Oversight**

The capacity of service providers to systematically monitor program performance is crucial for promoting accountable, transparent, and efficient
service delivery. Routine program monitoring can help generate evidence of whether the program meets its objectives and make adjustments to improve implementation.

The region’s existing systems for monitoring are weak. The examples pertaining to Bangladesh, Indonesia, and Viet Nam that appear below illustrate this weakness. A fourth example, the 4Ps conditional cash transfer program of the Philippines, provides an example of an effective monitoring system.

In Bangladesh, inadequate monitoring of social safety net programs contributes to leakage and misallocation (World Bank 2006). In fact, most of the country’s implementing ministries lack sufficient capacity to effectively assess program implementation progress, measure quality and effect of processes and procedures, and inform program design and implementation. For example, the Bangladesh Ministry of Food and Disaster Management, implementing the Employment Generation Program, carries out little monitoring of the program (van Stolk and Tesliuc 2010). The ministry has a weak monitoring system to assess whether funds were spent according to regulations; generate estimates of errors, fraud, and corruption; and observe systematic outcomes of program inspections.

In Viet Nam, there is no coherent national framework and standardized procedures for monitoring and evaluation of social assistance (cash transfers for different categories of vulnerable persons under Decree 67/13) (Giannozzi et al. 2010). There is no formal national registry of beneficiaries based on a common electronic format. The information on beneficiaries is transmitted and stored on paper. District social affairs departments maintain simple Excel files with beneficiary information, but do not regularly transfer them to province and central levels. Program administrators create these files by their own initiative and do not have an obligation to share, store, or update them. The format of these files is different across districts and provinces. The existing data are not consolidated; as a consequence, it is not possible to cross-check beneficiaries across districts or to monitor the program at the national level.

As for Indonesia’s Jaminan Kesehatan Masyarakat (Jamkesmas) national health insurance program, the Ministry of Health collects and assesses information relating to health insurance claims to identify statistical outliers and potential abuse (Harimurti et al. 2013). A number of weaknesses affect the program’s current routine monitoring system. For the most part, program monitoring focuses on budgetary allocations and aggregate utilization rates, rather than tracking health insurance payments or financial outcomes (Harimurti et al. 2013). Existing data relating to utilization rates are not used to inform service delivery or to improve health outcomes.
Monitoring of the 4Ps conditional cash transfer program of the Philippines ensures transparency and accountability in both targeting and benefit delivery (World Bank 2014). The country’s national-level MIS stores data on each of the 4 million beneficiary households, including information obtained during the initial assessment of each beneficiary household. This allows beneficiary compliance with eligibility requirements, payments, and grievances to be recorded and tracked (World Bank 2014). The MIS allows processing administrative and financial transactions handling a large volume of data. It contributes to the quality and integrity of program implementation (World Bank 2014).

Program evaluations are important for assessment of program outcomes and impacts. Program evaluations include beneficiary and institutional assessments, as well as impact assessments, and typically use both quantitative and qualitative evaluation methods. Many programs integrate evaluations directly into the program cycle and use them to inform implementation procedures and practices.

In addition to monitoring and evaluation, effective program oversight is crucial for promoting effective and accountable service delivery. Program oversight can be performed through a variety of mechanisms, including internal and external audits, program reviews, and periodic spot checks. As the examples below illustrate, program oversight was found to be weak in Viet Nam, but it was better utilized in Indonesia’s Jamkesmas and the 4Ps of the Philippines.

In Viet Nam, due to institutional capacity constraints, the frequency of supervision visits by staff of the district divisions of labor, invalids and social affairs at both the provincial and district levels is limited (Gianozzi et al. 2010). Similarly, the Ministry of Food and Disaster Management in Bangladesh has a limited internal capacity for conducting internal audits or fraud investigations (van Stolk and Tesliuc 2010).

Jamkesmas uses both internal and external audits to verify use of funds and payment for services (Gianozzi and Khan 2011). The Inspectorate General of the Ministry of Health conducts regular internal audits to verify that funds are used in a manner consistent with program objectives. The State Audit Agency performs external audits of Jamkesmas, and the Local Audit Agency performs external audits of local health insurance schemes.

The Department of Social Welfare and Development in the Philippines performs third-party biannual reviews of key aspects of program design and implementation of the 4Ps using both quantitative and qualitative methods (Arulpragasam et al. 2011). These reviews incorporate interviews with beneficiary households, school principals, and health care providers. Spot
checks of key aspects of program design and implementation also form part of the program’s oversight system. Finally, to ensure accountability and services quality, the program also incorporates an extensive grievance redress system.

Information and Communication Technology

Over the past decade, a number of innovative information and communication technology (ICT)–based monitoring mechanisms have been used in the region’s social protection programs. These include mobile banking, digitized monitoring of food distribution, and use of biometric smart cards (Bhatnagar 2014).

Biometric cards, such as the card used by India’s national health insurance program, Rashtriya Swastha Bima Yojana (RSBY) and the national identification Aadhaar card, have been extensively promoted by the government. The RSBY card holds beneficiary information, including fingerprints and photographs of all family members belonging to each beneficiary’s household. The card can be used in any hospital registered under the program, and enables cashless, paperless payment for health care services (Sabharwal et al. 2014). The cost of the services provided is then reimbursed to the hospital concerned by the insurance company. Such costs are automatically deducted from the total stored on the card, until use exceeds the annual allowance of Rs30,000.00 ($619.80) (JLN 2011). Use of the RSBY card has reduced fraud (JLN 2011).

Full use of the Aadhaar card faces a number of challenges (Bhatnagar 2014). First, the card is not mandatory, and to be useful in service delivery, it requires enrollment of a significant share of the population. Second, technical errors associated with use of the card must be minimized (Bhatnagar 2014). For example, there are documented cases when the biometric system failed to recognize the user, which may result in denial of entitlements (Masiero and Prakash unpublished). Finally, government agencies need to use the Aadhaar card for delivering services, and front-end delivery points (e.g., PDS shops) need to be adequately equipped to capture electronic transactions (Bhatnagar 2014).

A study in Kerala suggested that while ICT-based monitoring of PDS transactions improved governance, it did not prevent leakage (Masiero 2014). Recently, the system was integrated with the Aadhaar card, which allows not only identification of PDS users through fingerprints, but the amount of commodities purchased in each transaction to be registered. This decreases the ability of authorized ration dealers to fabricate sales. Yet while this system checks fraud by ration dealers and ineligible persons, it cannot monitor the entire PDS supply chain (Masiero 2014).
Ultimately, ICT-based monitoring in India does not address structural causes of corruption (Masiero 2014). A major impact of the government’s transition from a universal system to a targeted subsidized food distribution system was a significant reduction in the number of program beneficiaries. However, as pointed out earlier, this shrank the ration shops’ customer base and profitability, thus exposing them to debt. In the end, this caused ration dealers to engage in additional illegal practices as a means of boosting profits and ensuring the viability of their businesses.

**Grievance Redress**

Grievance redress systems are formal accountability mechanisms that enable citizens to provide feedback to service providers and to voice concerns regarding problems that they experience with particular programs or services (Ringold et al. 2012). Grievances may concern administrative errors, exclusion from benefits, or negative attitude of service providers. Grievance redress is critical for mitigating targeting errors, as well as for monitoring corruption and mismanagement (Bassett et al. 2012).

Grievance redress mechanisms use both physical and virtual means of reporting complaints (Ringold et al. 2012). Physical mechanisms require proximity to local social services centers, while virtual mechanisms only require access to the internet. Regardless of the mechanism used, effective grievance redress requires institutional arrangements for recording, tracking, and evaluating complaints (World Bank 2012b). Effectiveness of grievance redress can be enhanced through integration in MIS to allow effective registration and tracking of complaints.

There are two types of appeal mechanisms under social protection programs: administrative and judicial (Grosh et al. 2008). Administrative appeals are processed by frontline service providers and a specialized branch within the agency concerned. Frontline service providers provide quick responses, particularly in cases in which errors or misunderstandings have occurred. For example, a grievance may relate to a clerical error in the applicants’ file; or it may require an explanation or additional information regarding application procedures. When a grievance cannot be satisfied by a frontline service provider, it is referred to the specialized branch of the agency concerned. This line of appeal may provide recourse with regard to eligibility decisions or help rectify targeting errors that could leave out eligible applicants.

Judicial appeals use the legal system to resolve grievances relating to rights-based social protection services. Legal redress is a powerful way to invoke changes in governance systems, as it often causes rules or their interpretations to be modified (Grosh et al. 2008).
People’s abilities to express grievances and to claim their entitlements depend on the extent of their awareness of their rights and grievance redress opportunities (Babajanian 2014). Effective information dissemination and proactive citizen outreach are crucial for informing people about the opportunities for complaints and feedback. An outreach campaign and a comprehensive communication strategy are especially crucial for promoting people’s participation in grievance redress in remote areas and among disadvantaged groups (World Bank 2012b). Many poor and marginalized communities have limited access to grievance redress because they may be illiterate, lack awareness about their rights, have limited access to ICT, or perceive that complaining will be a hassle or that the government or project staff will not properly address their appeal (World Bank 2012b).

While the region’s social protection programs typically include grievance redress mechanisms, not all of them function effectively. A review of grievance redress mechanisms in World Bank projects suggested that grievance redress mechanisms “exist on paper, but not always in practice” (World Bank 2013, 16). In particular, while many project appraisal documents incorporate a grievance redress component, few projects develop and enforce such mechanisms (World Bank 2013, 16). The reasons for this include resource constraints and time constraints faced by project staff. Most crucially, enforcing effective grievance redress requires a genuine conviction of project leaders and client governments about the value of implementing grievance redress.

Many of the region’s social protection programs suffer from inadequate grievance redress. This often results in unfair beneficiary selection, as in the case of Bangladesh’s Old-Age Allowance. The program’s beneficiaries are envisaged to file complaints with the ward committee formally responsible for beneficiary selection (Begum and Wesumperuma 2012). As the Union Parishad chair or other influential members dominate the selection process, residents appeal to them with their complaints. These complaints, however, are not lodged in writing but are only conveyed verbally. As discussed, the Union Parishad officials often allocate benefits to ineligible people driven by political affiliation or rent seeking and often exclude eligible persons. As a consequence, they are reluctant to accommodate grievances to address unfair benefit allocation for which they are responsible in the first place.

A study of four social protection programs in Indonesia found that all four had weak grievance redress mechanisms, although the PKH scored higher than the other three programs. Most survey respondents—which included both beneficiaries and nonbeneficiaries—expressed dissatisfaction with the way these programs function, particularly with regard to beneficiary targeting (OPM 2012). However, none of the respondent beneficiaries lodged complaints, since none of these four programs systematically promoted socialization of grievance
redress mechanisms. In addition to these program-related problems, there were also sociocultural factors underlying people’s attitudes. Thus, the prevailing perception was that “complaining was not really worth the trouble for fear of receiving no response, approaching people of authority, appearing ungrateful, embarrassment, losing face, revealing one’s ignorance, or retaliation” (OPM 2012, 8).

Evidence from Nepal’s remote Karnali Zone suggests that local residents—a large share of whom are socially excluded Dalits—were often unaware of their rights, rarely claimed their entitlements, and seldom demanded accountability (Adhikari et al. 2014). This contributed to limited accountability of local governments, who, as respondents claimed, were responsible for payment irregularities and nepotism. Women were especially reluctant to voice their concerns in the public arena (Adhikari et al. 2014), and existing sociocultural norms reinforced this. Women perceived public participation to be a man’s job and they were worried that complaining may result in losing access to services and benefits that they were receiving.

The World Bank (2013) suggested that it is important to design institutional arrangements that take into account context-specific local governance arrangements. This includes, for example, linking grievance redress to existing traditional and social structures such as village chiefs and local councils. The review found that in Viet Nam and the PRC, where grievance redress systems were disconnected from existing institutions, most project beneficiaries did not use them and sought redress through existing channels such as village leaders.

The grievance redress system under the 4Ps in the Philippines, which is considered to be one of the most successful in the region, is directly integrated into the program’s design and operations. A primary goal of the mechanism is to address estimation errors due to possible misclassification and the use of proxies as well as errors incurred through implementation (Fernandez 2012). Between 2008 and 2014, the program recorded more than 485,000 grievances (World Bank 2014). A total of $71.00 million was paid retroactively to beneficiary households following verification of grievances. Approximately 40,000 households (equivalent to 1.0% of all beneficiaries) were de-listed after being found to be ineligible for the program.

Grievances can be submitted through multiple mechanisms, including through the municipality concerned, directly to program officers, a text-messaging hotline, an e-mail, a letter, or through drop boxes located in each village (Arulpragasam et al. 2011). The majority of grievances are submitted face-to-face through parent leaders at the village level to city or municipal links (World Bank 2014).
The quality of grievance redress is upheld through the existing system of regular internal monitoring and reporting of the program (World Bank 2014). Routine spot checks by senior officials and independent parties are used to determine the quality and effectiveness of grievance redress. The program convenes periodic communication activities to increase public awareness about grievance redress.

The 4Ps grievance redress system is supported by a comprehensive database that efficiently records and tracks grievances (World Bank 2014). Three different databases are used for this purpose, all of which are currently being integrated into the Unified Information and Communication System–Client Relation Management database. This system tracks the nature, origin, location, and status of complaints. The grievance officers also consult the information on program beneficiaries in the MIS to verify and check the complaints.

Citizen Participation and Feedback

Social monitoring is a demand-side accountability mechanism that involves citizens in oversight. Its purpose is to generate citizen feedback that improves both accountability and service delivery. Social monitoring allows citizens to monitor service delivery and outcomes, and to scrutinize the behavior of government officials and service providers. Numerous monitoring and evaluation tools are used, including citizen report cards, community score cards, social audits, and opinion surveys.

Social audits are widely used in public works and food distribution programs in India, their use being facilitated by the 2005 Right to Information Act that gives citizens unrestricted access to government records (Posani and Aiyar 2009). Social audits are often initiated by civil society groups that mobilize people and organize public hearings, at which irregularities in service delivery are revealed and accountability is demanded. The MGNREGA has institutionalized social audits in its operations in Andhra Pradesh, making it an integral part of the program’s monitoring system. Strong state government support has been essential for the viability of the social audits, and this has included giving the auditors access to documentation and ensuring their safety (Maiorano 2014).

Social audits in the MGNREGA are designed to promote public participation in obtaining and verifying government records and expenditure on services against the testimonies of the beneficiaries. The information generated through this process is discussed at public meetings, where beneficiaries, panchayat (local self-government) members, and public officials discuss the discrepancies and violations, including misuse of funds, working conditions, and poor-quality implementation.
Effective information dissemination and outreach are crucial for promoting people’s willingness and ability to take part in consultations and social monitoring activities. It is especially important to reach out to marginalized groups and to facilitate their participation. Due to their proximity to the local population, civil society organizations are often well placed to carry out social mobilization and to catalyze public participation.

Demands for accountability and exposure of corruption may not improve service delivery, unless they are backed by investigations into corruption, formal sanctions, and adjustments in service delivery (Joshi 2010, 12; Aiyar et al. 2009, 49). This, in turn, depends on the existing mechanisms for horizontal accountability, and more specifically, the ability of state institutions to enforce the rule of law and to guarantee fair redress.

Ultimately, if citizen participation is to be sustained, social accountability mechanisms need to be institutionalized. However, in Asia, most social monitoring initiatives are not integrated into public service delivery systems (Babajanian 2014). This has implications for the sustainability and regularity of public engagement. It is unlikely that one-off initiatives can result in long-lasting changes in citizens’ ability to participate in service delivery in the absence of institutional spaces for engagement with service providers and channeling grievances.

**Gender-Sensitive Governance of Social Protection Programs**

Social protection for female informal workers is crucial, as they are often more economically and socially disadvantaged than men and experience a high degree of vulnerability and deprivation (Lund and Srinivas 2000, ISST 2012). Context-specific social, political, and institutional constraints may contribute to exclusion and discrimination of women in accessing social protection and influencing service delivery. Social protection programs must be accompanied by effective governance arrangements that address these constraints and promote the ability of women to access benefits, articulate their needs and preferences, and voice concerns. Women can be vulnerable to the risk of exclusion and discrimination at various stages of a program cycle, including information and outreach, benefit delivery, monitoring, and grievance redress.

As discussed, even when programs specifically target women, information opportunities for women are often more restricted than for men due to women’s heavy workload and, in many contexts, more limited mobility and restricted participation in the public sphere due to existing sociocultural norms. The limited awareness may result in exclusion from services due to non-take up or improper paperwork; women may not be aware of key requirements (e.g., conditionalities) for complying with program rules.
Some sociocultural contexts directly restrict the participation of women in social protection programs. For example, rigid gender roles affect women’s access to public works as specific types of activities, such as construction, promoted through public works programs are often traditionally associated with men (Kabeer 2010, 178). Women may also be discriminated against in accessing benefits. For example, women are often paid less than men for equivalent work under public works programs.

Restrictive informal sociocultural norms often rigidly prescribe women’s roles in the public space and limit their ability to express themselves and influence communal decision making (World Bank 2011b; Hutagalung, Arif, Suharyo 2009). For example, they may constrain women’s ability to speak collectively, engage with government agencies in participatory monitoring initiatives, or attempt to influence service providers through grievance redress mechanisms. Women face enormous time pressure due the heavy burden of domestic and child care responsibilities, which can preclude them from participating in public meetings (MacPherson 2008).

Over the past decade, programs that promote the well-being of women and girls have expanded considerably in the region. These programs seek to alleviate poverty and to diminish the vulnerability that women experience at specific stages of their life cycle. Examples include programs that offer assistance to adolescent girls, mothers, widows, and older people.

Some of these programs have in-built institutional arrangements for addressing gender-specific constraints and women’s empowerment. For example, specific design and implementation features of the Bangladesh Rural Advancement Committee’s Challenging the Frontiers of Poverty Reduction-Targeting the Ultra Poor (CFPR-TUP) program facilitate women’s access to program benefits (Holmes and Jones 2013). The program directly addresses exclusion of women in the poorest households by providing them with both productive assets (e.g., livestock) and a stipend. The program also provides these women with training and support in managing assets, subsidized health and legal services, training in social development, and a support network.

CFPR-TUP activities are informed by a gender-based assessment of the poverty and vulnerability of each beneficiary household (Holmes and Jones 2010). The program acknowledges the greater labor constraints that households headed by women face in comparison with households headed by men, because there are generally fewer income earners in households headed by women, and there are additional care responsibilities. Each beneficiary household’s productive capability is assessed to provide the productive asset that would be most appropriate. For example, raising chickens is less labor-intensive than caring for dairy cows or goats. The CFPR-TUP’s monitoring and evaluation system
Governance of Social Protection for Informal Sector Workers in Asia

uses data disaggregated by gender, as well as indicators of socioeconomic and women’s political empowerment (Holmes and Jones 2013).

There are also programs that do not specifically target women but are designed in a gender-sensitive manner. They incorporate institutional arrangements to address gender constraints to enhance program benefits for women. The design of the MGNREGA provides an example of such institutional arrangements (Holmes and Jones 2013). Under this program, a minimum of one-third of all workers in each state must be women; wages paid to both women and men must be equal; and women must be represented in the “mates committees” that supervise work and record attendance, local committees, and state and central councils. Further, all social audit processes are required to include women.

Conclusion

This chapter identifies a number of weaknesses in the governance of social protection programs aimed at supporting informal workers in Asia at a broader, system level as well as at the operational, program level. Governance shortcomings associated with particular program outcomes described are summarized in the Appendix Tables A4.1 and A4.2.

At the system level, social protection systems are fragmented. Existing programs are administered by different agencies, including agencies at various levels of government, as well as nonstate actors. They often have different objectives and capacities and use different institutional arrangements. There are also successful efforts to consolidate programs by integrating basic management, information, and administrative systems. Some countries, such as Cambodia, Indonesia, and the Philippines have taken action to integrate data and information management through a single registry and MIS.

Institutional arrangements that determine the roles and responsibilities of various levels of government in governing social protection programs affect the responsiveness, inclusiveness, and equity of these programs. For example, while service delivery in India is centralized and top-down, with little responsiveness to local needs, the PRC has a highly decentralized system, which gives rise to local discretion in setting eligibility and benefit levels and undermines horizontal equity. The challenge for central government policy makers is to develop intragovernment institutional arrangements to balance responsiveness in services provision with the objectives of inclusion and equity.

At the program level, governance challenges exist at all stages of the program cycle, including communication and outreach, targeting, benefit delivery,
monitoring, evaluation and program oversight, and grievance redress. Information constraints negatively impact the uptake of program benefits, inclusion, benefit delivery, and participation in program monitoring and grievance redress. Informal sector workers often have difficulty accessing their entitlements due to limited awareness; information opportunities are especially restricted for women, ethnic minorities, persons residing in remote areas, and other marginalized groups.

Many poverty-targeted programs exhibit a high degree of exclusion and inclusion at the stage of beneficiary identification and selection. While accurate targeting poses perhaps the greatest governance challenge, the process of benefit delivery is also prone to irregularities. Limited information dissemination, weak monitoring and supervision, and inadequate administrative capacity result in discretionary practices and make it possible for local officials to distribute partial and irregular benefits. Food distribution and public works programs are particularly susceptible to misappropriation and leakage.

Service providers may not be responsive to people’s needs, as they lack adequate capacity and mechanisms to identify benefit delivery methods that are convenient, cost-free, and respectful. Evidence from Nepal and Bangladesh shows that the choice of payment methods affects benefit receipt and may impose a significant cost on beneficiaries. Electronic benefit transfers tend to improve delivery effectiveness (Andhra Pradesh), but require significant technical and financial capacity.

Most countries of the region have weak monitoring and evaluation systems. This translates into a limited ability to systematically track and assess program performance, generate feedback, and make adjustments. Some countries lack electronic national registries to manage information on beneficiaries. Due to the highly fragmented nature of social protection, however, monitoring arrangements of different programs are often distinct and poorly coordinated. In addition to monitoring and evaluation, effective program oversight is crucial for promoting effective and accountable service delivery.

The region has enjoyed some success in institutionalizing ICT-enabled systems for monitoring disbursement of cash transfers and food. Use of participatory social audits has achieved significant results by exposing corruption and empowering citizens, although it did not rid the system of opportunities for corruption.

Grievance redress systems in the region are underdeveloped. This undermines effectiveness in mitigating exclusion and inclusion errors and controlling corruption and mismanagement.
Social protection programs must be accompanied by effective governance arrangements that address gender-specific constraints and promote the ability of women to access benefits, articulate their needs and preferences, and voice concerns.

**Recommendations**

Appropriate analysis, planning, design, and implementation of social protection programs can help prevent, reduce, or mitigate governance risks. Good governance in social protection also requires long-term effort to address broader institutional and governance constraints at the national level.

**Assessing Context and Capacity Constraints**

Analysis of the context of the social, institutional, and political economy is crucial for informing design and implementation arrangements. Careful analysis can reveal social and community characteristics, sociocultural norms, power structures, and social inequalities that influence service delivery standards. Such analysis can help identify governance risks and inform the design and implementation of institutional arrangements to prevent or mitigate them. It can also be used to determine why specific problems occur, or persist, in ongoing programs.

Analysis of institutions and governance must be integrated into the assessment of the effectiveness of existing programs to identify bottlenecks and to improve governance arrangements and practices. At a system level, this includes mapping social protection programs and assessing institutional linkages. At a program level, it requires an assessment of institutional arrangements such as rules, roles, and control mechanisms governing a program. It also involves analyzing the incentives and interests of all relevant actors, including program staff, government officials, and other actors involved in benefit delivery.

Program design must be accompanied by a feasibility assessment to establish whether available resources and capacity will enable agencies to support good governance standards. This can entail an assessment of (i) financial and technical resources, that is, the mix and amount of resources to finance staff salaries, maintenance and administrative costs, equipment, and technology; and (ii) existing administrative capacity, including the mix, type, and amount of human resources with adequate qualifications and skills (Mathauer 2004).
Setting Good Governance Standards

Setting normative benchmarks is a key precondition for improving governance. It is important that programs develop service quality standards, such as responsiveness, accountability, and transparency, and use them as goals and indicators to inform program design and to measure performance. Promoting good governance is an incremental process, and it cannot be achieved at once. These benchmarks can guide the process of identification and development of institutional arrangements to address governance constraints. They can also be used for identifying indicators for measuring and monitoring progress in achieving good governance.

Improving System Governance

Developing a well-coordinated and coherent social protection system is crucial for effective service delivery. This necessitates setting coherent policy goals and coordinating programs in terms of their objectives, target groups, benefit levels, and administrative systems.

Systemic integration can be promoted through developing integrated MIS. Adequate financial and technical capacity of the central government is important for formulating and implementing institutional arrangements to promote integration. The establishment of single registries can be facilitated with donors’ financial and technical support.

Responsive and equitable service delivery requires careful delineation of institutional and financing arrangements between different levels of government. The involvement of the central government in regulating eligibility criteria, benefit calculation, and eligibility thresholds, while allowing local adjustments to reflect contextual circumstances, can help balance responsiveness in service provision with the objectives of inclusion and equity.

Improving Program Design and Implementation

It is important to establish and enforce context-specific institutional arrangements for good governance, including transparent and clearly defined rules and procedures for communication and outreach, targeting, service delivery, monitoring, evaluation and oversight, and grievance redress.

Communication and outreach. Programs need to incorporate requirements for information dissemination and outreach. The program design needs to account for the resources required to implement effective information dissemination and outreach. Programs must contain indicators to allow policy makers to
assess the effectiveness of outreach efforts to promote participation of women and socially excluded groups.

**Targeting.** Global evidence suggests that accurate poverty targeting is technically and operationally challenging, and programs are unlikely to achieve “perfect” targeting. Designing feasible mechanisms for measuring and verifying income in countries with large informal economies is especially difficult. At the same time, carefully designed institutional arrangements and effective governance practices can reduce targeting errors. Clearly defined eligibility criteria and procedures are essential for fair and transparent beneficiary selection. It is important that the rules be transparently documented and communicated. Potential beneficiaries and community members need to be aware of eligibility requirements and selection procedures. The capacity of line agencies to undertake appropriate monitoring and effective oversight can ensure fairness in beneficiary selection. Effective grievance redress and social monitoring can reduce the likelihood of unfair selection and exclusion.

**Benefit delivery.** ICT-assisted benefit delivery and monitoring mechanisms can minimize the likelihood of benefit capture and improve the transparency and accountability of cash transfer delivery. For example, secure and direct payments to beneficiaries through bank or postal transfers and ICT-enabled methods (e.g., mobile phones and mobile ATMs) can reduce opportunities for misappropriation (Chêne 2010, van Stolk and Tesliuc 2010). Digitalized program monitoring involving links with registries, front-end sales points, and smart cards can minimize food leakage.

**Payment methods.** Benefit payment methods (e.g., banks, local governments, and home delivery) must take into account the specific vulnerabilities of beneficiaries related to their life cycles as well as geographic and infrastructure constraints. The choice of payment methods must be done to minimize the monetary, time, and physical cost to beneficiaries. Effective benefit delivery may be constrained by geographic remoteness, inadequate banking facilities, and limited administrative capacity of local governments or branches of line ministries in charge of social protection. Introduction of ICT-based payment methods requires significant financial investments and technical capacity. It is, however, important that programs set benchmarks for developing convenient and cost-free delivery methods and identify contextually appropriate options that can be achieved incrementally as they develop service delivery capacity. International partners and donors have an important role to play in strengthening capacities for effective benefit delivery.

**Monitoring, evaluation, and oversight.** Consolidating existing administrative monitoring systems, and developing new ones, is essential for managing the flow
of information and finance. The financial and technical support of international organizations can promote the development of effective monitoring systems. The decisions to undertake ICT-enabled monitoring must be based on a careful analysis of the availability of technical infrastructure and human resources. In addition to regular monitoring, program evaluations can provide valuable information about program outcomes and impacts to improve program implementation. Effective oversight mechanisms are crucial for monitoring and controlling program implementation and promoting quality control. This requires public agencies to be able to undertake internal and external audits, periodic program reviews, and spot checks.

**Grievance redress.** The availability of channels for feedback, appeals, and complaints must be supplemented with adequate institutional arrangements for registering and processing grievances. Regular monitoring and spot checks are important to ensure the effectiveness of grievance redress mechanisms. As the 4Ps shows, the link to a computerized database can significantly enhance the effectiveness of the system in recording and tracking complaints. Finally, effective communication and outreach is key to promoting people’s awareness about grievance redress opportunities.

**Social monitoring.** Effective social monitoring depends on the existing capacity to mobilize citizen participation. It also requires that service providers and government officials establish spaces for citizen participation. Social monitoring must contain rules and procedures to ensure inclusion of diverse social groups such as women, ethnic minorities, and other marginalized groups. Social monitoring has its limits; it may not tackle the long-standing roots of corruption, which need to be addressed through broader structural changes. Social monitoring needs to be institutionalized to make citizen participation systematic and continuous; this, however, poses the risk of cooptation into the formal bureaucratic system and erosion of a grassroots basis.

**Gender-sensitive governance.** Social protection programs, even if they do not seek to promote female empowerment or to target women, must be designed to benefit women. They must take into account gendered constraints in their institutional arrangements to ensure women’s access and inclusion. Program design must be based on a careful assessment of contextual constraints and vulnerabilities that may restrict women’s access to social protection benefits and services. Operational rules must stipulate women’s participation in social monitoring. Programs must incorporate indicators to assess the extent of women’s participation and empowerment. For example, these include gender-disaggregated indicators to monitor the usage of grievance mechanisms, and quantitative and qualitative criteria for assessing the nature and depth of women’s participation in social monitoring.
Cross-Sector Reform

Governance arrangements at a program level cannot be effective without reference to the broader institutional and political economy environment at the national level. Structural reform and improvements across the public sector are necessary to remove legal, administrative, and informal barriers that prevent people benefiting from their entitlements.

Upholding good governance requires robust systems of horizontal accountability, that is, the ability of public institutions to carry out effective oversight of program administrators and service providers and to enforce the rule of law. Ineffective horizontal accountability mechanisms can lead to officials who may not fear punishment for preferential treatment and rent seeking. National institutions, including the judiciary and all relevant sector line agencies, must regularly monitor, expose, and sanction violations of program rules and illegal behavior such as exclusion of eligible individuals, corruption, and misuse of funds.

Horizontal accountability is crucial for guaranteeing serious consideration of citizen feedback and adequate rule enforcement for fair redress. It is equally important for promoting demand-driven mechanisms that involve citizen participation in service delivery monitoring.

Political Commitment and Institutional Capacity

Political commitment and institutional capacity for policy formulation, analysis, and implementation are several factors that affect the ability of national agencies to establish effective governance mechanisms in social protection.

Formulating and implementing institutional arrangements for good governance of social protection requires vision and the commitment of political leadership. For instance, the Government of the Philippines was committed to the goal of poverty reduction and decided to undertake an ambitious social welfare reform (Fernandez 2012). It allocated appropriate funding and mobilized human and technological resources to achieve this task. Similarly, the support and commitment of senior state officials was essential for the effective institutionalization of social audits in the MGNREGA in Andhra Pradesh (Singh and Vutukuru 2008).

Inadequate capacity can restrict the ability of government agencies to undertake social and institutional assessments, as well as plan and design policies and programs. Equally challenging is the ability to finance effective program execution. Poor implementation capacity can undermine the effectiveness of
program design and ultimately impact program outcomes (van Stolk 2010). Outreach and dissemination activities are costly and require qualified and well-trained staff, while development and use of ICT-based monitoring and payment systems require significant monetary investment and technical expertise. Adequate staff remuneration and capacity are crucial for minimizing errors and fraud and to improve implementation processes (van Stolk 2010).

It is important that governments undertake a realistic assessment of existing capacity constraints, but limited capacity must not preclude them from initiating and undertaking measures to promote good governance. There are various policy and programming options, and not all of them require significant resource investments. Institutional analysis can help assess possible options and prioritize choices. For example, developing transparent criteria and procedures for program implementation may be less resource-intensive than introduction of ICT-based payment systems. Therefore, policy makers may prioritize the task of establishing effective rules and procedures as a solid governance foundation, before directing efforts toward identifying options for more costly activities. When effectively delivered and utilized, technical assistance by international partners and donors can strengthen national capacity for policy formulation and implementation.

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* ADB recognizes “China” as the People’s Republic of China and “Vietnam” as Viet Nam.


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Governance of Social Protection for Informal Sector Workers in Asia


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———. 2012a. BLT Temporary Unconditional Cash Transfer. Washington, DC.


### Table A4.1: Social Protection Program Outcomes and Governance Shortcomings in Asia

<table>
<thead>
<tr>
<th>Program Outcome</th>
<th>Governance Shortcoming</th>
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</thead>
<tbody>
<tr>
<td>Duplication and coverage gaps</td>
<td>Fragmentation at the system level, with limited coordination and linkages between programs</td>
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<tr>
<td>Inefficient program performance</td>
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<tr>
<td>Limited horizontal equity across the country concerned</td>
<td>High degree of decentralization of services regulation and delivery</td>
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<tr>
<td>Limited uptake and low levels of awareness in remote areas and among disadvantaged groups</td>
<td>Inadequate communication and outreach</td>
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<tr>
<td></td>
<td>Weak monitoring and oversight</td>
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<tr>
<td>Exclusion and inclusion errors in beneficiary selection</td>
<td>Inadequate communication and outreach</td>
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<tr>
<td></td>
<td>Lack of transparent eligibility criteria</td>
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<td></td>
<td>Low levels of awareness of eligibility criteria among implementers and inadequate knowledge about how criteria should be applied</td>
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<tr>
<td></td>
<td>Inconsistent application of eligibility criteria</td>
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<tr>
<td></td>
<td>Inadequate income verification procedures</td>
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<td></td>
<td>Limited community participation in beneficiary verification</td>
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<td></td>
<td>Weak monitoring and oversight</td>
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<tr>
<td></td>
<td>Weak grievance redress mechanisms</td>
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<tr>
<td>Leakage, mismanagement, and corruption</td>
<td>Inadequate outreach and communication</td>
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<tr>
<td>Partial and irregular payments</td>
<td>Inadequate division of roles and responsibilities in implementation</td>
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<tr>
<td></td>
<td>Inadequate monitoring and oversight</td>
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<tr>
<td></td>
<td>Limited use of positive and negative incentives to motivate service providers</td>
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<tr>
<td></td>
<td>Disbursement constraints resulting from central budgetary problems</td>
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<td></td>
<td>Weak grievance redress mechanisms</td>
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### Table A4.1  continued

<table>
<thead>
<tr>
<th>Program Outcome</th>
<th>Governance Shortcoming</th>
</tr>
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<tbody>
<tr>
<td>Weak monitoring and oversight</td>
<td>Poor use of evaluation results in informing program design and implementation</td>
</tr>
<tr>
<td>Inconvenient, irregular, and costly benefit delivery</td>
<td>Limited identification and assessment of beneficiary needs and preferences</td>
</tr>
<tr>
<td></td>
<td>Inappropriate choice of payment methods</td>
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<tr>
<td></td>
<td>Weak grievance redress mechanisms</td>
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<tr>
<td>Exclusion of women, persons with disabilities, ethnic minorities, and other</td>
<td>Inadequate outreach and communication</td>
</tr>
<tr>
<td>marginalized groups</td>
<td>Design and implementation practices fail to address sociocultural and institutional factors that restrict people’s inclusion or access to program benefits</td>
</tr>
</tbody>
</table>

Source: Author based on the review of literature.
### Table A4.2: Social Protection Programs Reviewed

<table>
<thead>
<tr>
<th>Program</th>
<th>Coverage</th>
<th>Benefits</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rashtriya Swasthya Bima Yojana (India)</strong></td>
<td>Total hospitalization cases: 7.164 million (2014)</td>
<td>Inpatient treatment of Rs30,000.00 per year for five members of the household</td>
<td>Rs1,096.70 million (2012–2013)</td>
</tr>
<tr>
<td><strong>Janani Suraksha Yojana maternal health scheme (India)</strong></td>
<td>10,000,000 beneficiaries (2009)</td>
<td>Graded assistance scales: Rs700.00–Rs2,000.00 urban completely paid by the government</td>
<td>Rs14,768.00 million (2009)</td>
</tr>
<tr>
<td><strong>Public Distribution System (India)</strong></td>
<td>65.200 million persons (2009)</td>
<td>Below-poverty line families: 35 kilograms subsidized rice or wheat per month</td>
<td>Rs289,340.00 million (2009)</td>
</tr>
<tr>
<td><strong>Mahatma Gandhi National Rural Employment Guarantee Act (India)</strong></td>
<td>54.900 million persons (2010–2011)</td>
<td>100 days of guaranteed employment at minimum wage of a state, varies from Rs162.00 to Rs500.00 per day</td>
<td>Rs39,377.27 million (2010–2011)</td>
</tr>
<tr>
<td><strong>Benazir Income Support Programme unconditional cash transfer (Pakistan)</strong></td>
<td>2.275 million persons (2010)</td>
<td>PRs1,000.00 per person per month</td>
<td>PRs34,000.00 million (2010)</td>
</tr>
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Table A4.2  continued

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<thead>
<tr>
<th>Program</th>
<th>Coverage</th>
<th>Benefits</th>
<th>Budget</th>
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<tbody>
<tr>
<td>Jamkesmas (Indonesia)</td>
<td>76.4 million persons (2010)</td>
<td>Premium Rp6,500.00 per capita per month</td>
<td>Rp5,343.00 billion (2010)</td>
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<td></td>
<td></td>
<td>Comprehensive health coverage</td>
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<td></td>
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<td>Drugs are covered if prescribed within formulary</td>
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<tr>
<td>Bantuan Langsung Tunai</td>
<td>18.5 million households (2008–2009)</td>
<td>Rp100,000.00 per month for 9 months (Rp900,000.00 total)</td>
<td>Rp18,966.00 billion (2008–2009)</td>
</tr>
<tr>
<td>unconditional cash transfer (Indonesia)</td>
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<tr>
<td>Program Keluarga Harapan</td>
<td>1.454 million households (2012)</td>
<td>Average transfer per family per year Rp1,800,000.00 (2013)</td>
<td>$228.29 million (2012)</td>
</tr>
<tr>
<td>conditional cash transfer (Indonesia)</td>
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<tr>
<td>Social assistance transfers for</td>
<td>12.173 million persons (2009)</td>
<td>Basic allowance of D180,000.00 per person living in communities and</td>
<td>D2,011,037.50 million (2009)</td>
</tr>
<tr>
<td>vulnerable persons</td>
<td></td>
<td>D360,000.00–D450,000.00 per person living in social protection centers</td>
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<tr>
<td>Old-Age Allowance (Thailand)</td>
<td>6.785 million persons (2012)</td>
<td>Age cohort-based, B600.00–B1,000.00</td>
<td>B52,535.00 million (2012)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>conditional cash transfer (Philippines)</td>
<td></td>
<td>Education grant: P300.00 per child per month for 10 months</td>
<td></td>
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<td>(PRC)</td>
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<table>
<thead>
<tr>
<th>Program</th>
<th>Coverage</th>
<th>Benefits</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rural) Minimum Living Standard Guarantee (PRC)</td>
<td>53.445 million persons (2012)</td>
<td>Average transfer per person per month CNY104.00</td>
<td>CNY71.80 billion (2012)</td>
</tr>
<tr>
<td>Child Grant (Nepal)</td>
<td>551,916 (2011–2012)</td>
<td>NRs200.00 per child per month</td>
<td>NRs1.30 billion (2013)</td>
</tr>
<tr>
<td>Universal Old Age Allowance (Nepal)</td>
<td>644,000 (2008–2009)</td>
<td>NRs500.00 per person per month</td>
<td>NRs8.50 billion (2012)</td>
</tr>
<tr>
<td>Employment Generation Program (Bangladesh)</td>
<td>4.5 million (2010)</td>
<td>Tk100.00 per person for 7 hours work per day</td>
<td>Tk10,761.10 (million) (2010)</td>
</tr>
<tr>
<td>Rural Advancement Committee’s Challenging the Frontiers of Poverty Reduction Targeting the Ultra Poor (Bangladesh)</td>
<td>271,700 (2011) households (ultra poor especially targeted)</td>
<td>Asset transfer: Tk3,000.00–Tk9,000.00 Monthly stipend: Tk10.00 daily for 12–15 months Training Health support</td>
<td>Tk2.40 billion (2013)</td>
</tr>
<tr>
<td>Vulnerable Group Development Programme (Bangladesh)</td>
<td>750,000 persons (2010)</td>
<td>Monthly stipend: Tk100.00 for 24 months</td>
<td>Tk5,951.70 million (2010)</td>
</tr>
<tr>
<td>Primary Education Stipend Programme (Bangladesh)</td>
<td>5,200,000 persons (2010)</td>
<td>Tk100.00 per month per first child Tk125.00 per month for second child</td>
<td>Tk5,748.40 million (2010)</td>
</tr>
<tr>
<td>Old Age Allowance (Bangladesh)</td>
<td>2,250,000 persons (2010)</td>
<td>Tk300.00 per month per person, every 3 months</td>
<td>Tk8,100.00 million (2010)</td>
</tr>
<tr>
<td>Allowance for the Widowed, Deserted and Destitute Women (Bangladesh)</td>
<td>920,000 persons (2010)</td>
<td>Tk300.00 per beneficiary every 3 months</td>
<td>Tk3,312.00 million (2010)</td>
</tr>
</tbody>
</table>

*B = baht, CNY = yuan, D = dong, NRs = Nepalese rupees, P = peso, PR = Pakistan rupees, PRC = People’s Republic of China, Rp = rupiah, Rs = Indian rupees, Tk = taka.

Sources: ADB Social Protection Index Country Reports (http://spi.adb.org/spidmz/index.jsp); various program reports and policy briefs.
CHAPTER 5

Social Protection for Informal Workers in Pakistan: A Case Study of Small and Medium-Sized Enterprises

Hina Shaikh

Abstract

Extending social protection to Pakistan’s diverse, growing informal economy is a challenge. This study contributes to the policy discourse on extending social protection coverage to informal workers. It also provides insight into some pervasive factors that impede the extension of social protection to informal workers. Central to this study is a survey of 202 informal workers employed in three subsectors of Pakistan’s small and medium-sized enterprise sector (construction, garment manufacturing, and street vending). Most workers surveyed are uneducated and live in rural or semi-urban areas. Members of their households lack adequate employment skills and have incomes that are too low to support savings. Thus, they remain vulnerable to transitory poverty and economic shocks.

Around half of the workers surveyed receive monthly payments that amount to less than, or around, the minimum wage. About 45.0% of respondents have no employment contracts, and of those that did, only 21.6% have written contracts, while the rest have only verbal contracts. The study finds that overall working conditions in the informal sector to be unsatisfactory. There is little evidence of factory owners ensuring safety measures for workers exposed to hazardous materials or providing appropriate safety equipment. Women are particularly vulnerable because of their concentration in home-based work with lower wages and limited access to social protection. Trade unions are largely absent from the informal economy, and there is also a general lack of awareness among informal workers about their basic labor rights.
This study recommends hiring only from registered contractors, applying recommended minimum wage rates for domestic workers, and introducing adequate labor welfare standards for factory workers. Informal workers need government support, such as a basic level of economic security through regular work or wages, to integrate into mainstream social protection schemes.

Introduction

Pakistan’s labor force in the informal economy is generally poorly educated, highly segmented by gender, concentrated in low value-added activities, and lacking in access to social protection. These characteristics hinder economic growth and poverty reduction. The International Labour Organization (ILO) stated that the country’s unemployment rate will remain around 6.0% in the coming years, indicating shrinking income opportunities available in the legal labor market and an increasing trend of finding employment in the growing informal sector (Naseer 2014).

Most informal workers are employed on a temporary, casual, or contractual basis. They can be retrenched at any time without any legal recourse, and they normally do not have access to any form of social protection. Informal sector activities are not regulated by the government, nor are they reflected in national statistics. Lack of access to social protection is part of the definition of informal employment (Tahir and Tahir 2013).

With a population of over 182 million and the 10th-largest labor force in the world, Pakistan’s informal sector is rapidly expanding. Most informal workers are employed on a temporary, casual, or contractual basis. They can be retrenched at any time without any legal recourse, and they normally do not have access to any form of social protection. Informal sector activities are not regulated by the government, nor are they reflected in national statistics. Lack of access to social protection is part of the definition of informal employment (Tahir and Tahir 2013).

With a population of over 182 million and the 10th-largest labor force in the world, Pakistan’s informal sector is rapidly expanding. Nearly 34.0% (60 million) of the total population constitutes the recorded civilian labor force (for all age groups), of which males comprise 77.0%. Nearly three-quarters of nonagriculture employment is in the informal sector. Simultaneously, the country’s growing informal sector is reducing the already narrow coverage of social protection programs and applicability of minimum wage laws. The low productivity of informal employment was accompanied by a decline in paid employment from 40.4% in 2002 to 36.5% in 2010, and an increase in unpaid family work from 18.8% to 24.2% over 2002–2013 (ILO 2014).

At the same time, the percentage share of women in total employment rose from 22.3% in 2002 to 38.7% in 2013. Women constitute just slightly less than

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89 As per government calculations performed in 2013 and released in 2014 (MOF 2014).
90 The share of informal sector employment in nonagriculture employment increased from 63.8% in 2002 to 73.3% in 2013, as per the most recent ILO figures (ILO 2014).
91 Although it remains only a portion of the median wage, the minimum wage has increased since 2001.
30.0% of the total adult workforce (MOF 2014). Of the more than 3 million jobs created for women over the periods 2001–2002 and 2005–2006, 72.0% were in unpaid family work in agriculture, and 19.0% were in paid nonfarm jobs (World Bank 2011). The share of women in informal nonagriculture employment in Pakistan (4.0% of all employment) is the lowest in the world (GOP 2011). These women are highly concentrated in home-based and domestic work. In fact, it is estimated that out of the 8.5 million domestic workers in Pakistan, the majority are women (ILO 2015).

Despite their sizable contribution to the national economy (36.8% of gross national product), women in Pakistan remain largely invisible and disempowered, both socially and economically (GOP 2011). Their presence in the workforce is also conspicuous in the informal sector. Most women earn less than their male counterparts (Mete and Jamil 2013), and the latest gender wage gap is reported at 38.5% (van Klaveren, Gregory, and Schulten 2015).

The small and medium-sized enterprise (SME) sector in Pakistan absorbs significant numbers of informal workers as contract or temporary employees. For example, nearly 90.0% of the work in garment manufacturing is subcontracted to home-based workers. Smaller enterprises are labor-intensive and hire workers informally to reduce both direct and indirect costs. Such workers are not covered by any type of social protection programs. Absence of employment contracts creates worker insecurity, while poor working conditions and ineffective administration make these workers quite vulnerable and insecure.

Objectives

This study assesses the provision of social protection to informal workers in Pakistan, and provides recommendations for improving coverage for these workers. It is based on a survey of labor conditions in three SME subsectors: construction, garment manufacturing, and street vending.

The study analyzes how workers are regulated by the government, private sector organizations, and national and international legislation, and examines the degree to which different groups of informal workers are able to access social protection programs through their employment as well as through general public provisions. It also presents implications for policy and practice with
regard to both reshaping existing social protection mechanisms and enforcing labor regulation and legally mandated social protection.

Methodology

The study is based on (i) a desk review, (ii) data generated through a quantitative survey in Lahore, (iii) focus group discussions, and (iv) key informant interviews with stakeholders. A total of 202 surveys were completed: 70 respondents in the construction subsector, 61 respondents in garment manufacturing, and 71 street vendors. The study also draws on the qualitative findings of recently conducted research in Sheikhupura (a city adjacent to Lahore) that examined linkages between labor law and the implementation of social protection schemes (Altuf 2014).

Informants who live in Lahore and work in the three SME subsectors under study were selected through a mix of purposive snowball and convenience-sampling techniques that provided qualitative and quantitative data. A questionnaire was used to construct a database that included information on the demographic characteristics of the informants, as well as quantitative indicators pertaining to their levels of skills training, job satisfaction, working conditions, access to social protection, remuneration, and pay structures. These data and information were then used to identify the primary variables that shape access to social protection by informal workers in Pakistan.

Limitations of the Study

During the survey phase of the study, some employers were reluctant to share information regarding access to social protection by their employees. Thus, at times, the survey questionnaire had to be redesigned to exclude direct questions about the role of employers in the provision of social protection. Further, personal contacts often had to be used to facilitate access to construction sites or garment factories.

In addition, except for the garment-manufacturing subsector, it was difficult to find female workers in the subsectors under study. To compensate for this, data and information relating to domestic and home-based workers were appended.

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93 Lahore is the capital of Punjab Province and is the second-largest city in Pakistan.
94 Purposive sampling, also referred to as criterion-based selection, is a sampling technique in which particular settings, persons, events, or areas are deliberately chosen for the purpose of obtaining certain information that is central to study objectives. The term “snowball” refers to using one contact to help recruit another contact, which in turn puts the researcher in touch with yet another contact. The initial contact may be a friend, relative, neighbor, or someone from a social group or formal organization. As the term implies, this method allows recruitment of contacts to gain momentum as the researcher builds up layers of contacts.
as female workers are particularly concentrated in the latter two subsectors in Pakistan. Finally, some of the questions in the original survey questionnaire were not applicable to street vendors, as the questionnaire was originally designed for obtaining data and information from employees who work in small enterprises.

The Small and Medium-Sized Enterprise Sector in Pakistan

Overview

The State Bank of Pakistan (2011) defined an SME as any entity, ideally not a public limited company, that does not employ more than 250 persons if it is a manufacturing company, and not more than 50 persons if it is a trading or services company. This definition was used to target the firms for the primary research underlying this study. The latest economic census (PBS 2005) listed 3.2 million business enterprises nationwide, with SMEs constituting about 90.0% of all enterprises in Pakistan. SMEs are mainly concentrated in the services, construction, and small-scale manufacturing sectors.

Generally, the SME sector is less formally organized than larger firms. More than 96.0% of SMEs are owned and managed by a single individual. Only 2.0% of SMEs are partnerships, and few (if any) corporate entities are represented.

Most SMEs operate on a modest scale. Nearly 98.0% of SMEs engaged in wholesale and retail trade employ fewer than 5 workers, and 99.0% of them employ fewer than 10 workers. Similarly, almost 87.0% of SMEs in manufacturing employ fewer than 5 workers, and 98.0% employ fewer than 10 workers. The sole exception is mining, in which SMEs tend to employ larger numbers of

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95 There has been no comprehensive survey of SMEs in Pakistan since the last economic census. There is thus an urgent need to update these data to reflect changes in the SME sector over the past decade. Further, data collection for the 2005 economic survey actually took place in 2001–2003. Due to the limitations of the census (PBS 2005), these statistics should be interpreted with caution. In particular, most of the larger firms in both the private and public sectors did not provide complete information. The survey normally covers firms that are registered; however, a large number of small-scale firms were not recorded because they wished to remain hidden. Further, in some cases, the enumerators were not fully motivated to include small-scale firms in the dataset. Similarly, the survey did not cover mobile units, such as street vendors and other small businesses that do not have permanent locations. While some updated data on SMEs are available in World Bank (2013a), these are still based on a subsample of those on which PBS (2005) was also based.

96 The service sector includes wholesale and retail trade, eating and drinking establishments, and tourism (e.g., hotels and entertainment establishments). The construction sector includes construction of buildings, both residential and commercial. Small-scale manufacturing mainly includes the garment, textile, and leather industries, as well as fabrication of metal products, manufacturing of furniture, repairs, and food processing.
workers. The same patterns are similar for all other SME subsectors. In short, 96.6% of SMEs employ 1–5 workers, 2.7% employ 6–10 workers, 0.9% employ 11–50 workers, and 0.1% employ more than 50 workers (PBS 2005).

The SME sector is critical to the growth of the national economy, as its percentage share in GDP is 40.0%. Nearly 53.0% of SMEs engage in wholesale and retail trade, and restaurants and hotel activities. Community, social, and personal services SMEs account for an additional 22.3% of all SMEs, and manufacturing, 19.7% (PBS 2005). The SME sector produces 30.0% of all goods exported, nearly 35.0% of all value addition in manufacturing, and 78.0% of nonagriculture employment.

While the government acknowledges the importance of SMEs in propelling economic growth, several constraints restrict the sector’s growth: (i) limited technology base, (ii) lack of access to finance, (iii) lack of market information, (iv) limited opportunities for skills development, (v) regulatory obstacles, and (vi) low value addition.

As mentioned, SMEs are constrained by the lack of a knowledge-based economy in Pakistan. According to the most recent Enterprise Survey, only 32.5% of firms offer formal training (World Bank 2013a). Further, because most SMEs deal in traditional products, they are unable to climb the technology ladder. Banks also view SMEs as a high-risk sector, and thus are unwilling to extend credit to them, despite their potential for expansion. Finally, SMEs are more prone than their larger-scale counterparts to external risks and tend to find tax-related issues more restrictive.

Pakistan has no specific SME regulatory regime in place. The SME sector’s extensive size limits the ability of the government and business support institutions to achieve complete coverage of SMEs with usual business support programs. There is also evidence that small firms are discriminated against by government and business support institutions and the banking sector, relative to large firms.97

Subsector Profiles

Construction

Alongside rising infrastructure activities, increasing demand from the housing sector, rapid urbanization, and construction recovery—especially after the

97 See, for example, Nenova, Niang, and Ahmad (2009); SMEDA (2002); Afraz, Hussain, and Khan (2013); Bari, Cheema, and Ehsan-ul-Haque (2005); World Bank (2010); and World Bank Group Enterprise Surveys.
severe earthquake in 2005 and flooding in 2010—Pakistan’s construction industry has expanded significantly. The Pakistan Bureau of Statistics put construction spending at nearly $5.20 billion per year, accounting for 3.0% of the country’s gross domestic product in 2012–2013 (MOF 2014).

Construction and maintenance of buildings are labor-intensive activities, generating many jobs per unit of investment, both on and off a building site. Compared with other countries, construction in Pakistan is more labor-oriented, involving 2.5 to 10 times as many workers per activity (Farooqui and Arif 2009). About 9.0% of the country’s workforce (mostly male) is involved in construction (GOP 2011). However, the efficiency of this labor force is poor, and availability of skilled and semi-skilled labor is inadequate. Construction is also ranked as the third-most hazardous industry in Pakistan, with high rates of injuries, occupational diseases, and fatalities (GOP 2011).

Garment Manufacturing

The textile and garment subsector accounts for nearly 50.0% of Pakistan’s exports, and is the largest component of the manufacturing sector (MOF 2014). The share of garment manufacturing in total textiles is growing, with around 4,000 manufacturing units across major cities. This sector also accounts for 30.0% of value addition in large-scale manufacturing and 40.0% of industrial employment.

The garment industry is labor intensive which generates significant economic growth and employment. The industry consists of a large number of SMEs sandwiched between large textile firms that sell yarn and raw fabric, and mega-sized retailers that buy the finished products. Garment manufacturing requires skilled labor, and many of the workers receive their training on the job. Overall, the garment industry is expected to do well, given Pakistan’s attainment of Generalised Scheme of Preferences-Plus status by the European Union, which has opened up a large market for the country’s garment exports.98

Street Vending

The bulk of the unskilled, low-wage, and semi-permanent migrant workforce works as street vendors or roadside traders. Street vendors vary not only with respect to the economic activities undertaken, but also in terms of working hours and average income. Many are self-employed, running their

98 The main challenge in maximizing the benefits from Pakistan’s access to this preferential tariff scheme is ensuring labor law compliance in the four provinces, and in both the formal and informal sectors, as a significant portion of global production is outsourced to contractors and subcontractors that hire informal workers to produce their output.
own enterprises and preferring to work independently, while others are wage earners who are employed by other informal operators. Most own carts or stalls, and sell products using public spaces such as parks, streets, and rail and bus stations. While the goods traded and services offered are predominantly legal, the legality of their status as workers may be tenuous. They work in hazardous conditions, often near fast-moving traffic, and are thus exposed to smoke, dirt, and noise.

Most street vendors are also internal migrants, and are deprived of basic services. Internal migration is a fundamental demographic, social, and economic feature of Pakistan, affecting up to half of the population. It refers to the movement of people from rural areas to urban centers. Internal migration is not mentioned in the Labour Policy (GOP 2010), and no laws exist in Pakistan for protecting the rights of such workers.

**Regulatory Framework for Providing Social Protection to Informal Workers**

Labor welfare and social protection laws in Pakistan generally originate from the Constitution, collective agreements, international treaties, customary laws, human rights treaties, trade agreements, and national commitments. Pakistan’s national social protection strategy defines social protection as a set of policies and program interventions that address poverty and vulnerability by contributing to raising the incomes of poor households, controlling the variance of income of all households, and ensuring equitable access to basic services (Planning Commission 2007).

In Pakistan, social assistance, social insurance (including pensions), community programs (i.e., social funds), and labor market interventions are all components of social protection (GOP 2007). The Constitution also contains a range of provisions with regard to labor rights. It ensures social protection, and holds the state responsible for the “well-being of people,” “social protection by compulsory social insurance,” and provision of “basic necessities of life” to the indigent, disadvantaged, and socially excluded (GOP 1973). However, translating these rights into legislation for informal workers remains a challenge.

Laws pertaining to social protection of informal workers have mostly been formulated through a series of ad hoc initiatives undertaken by successive governments over time. Such extensive labor legislation is prohibitive, as

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99 Estimates using household surveys, labor force surveys, and census data in Memon (2005).
enterprises have to deal with 56 labor laws. However, not all laws are equally important or applicable. Findings from a recent study found five laws to be the most relevant today: (i) the Factories Act of 1934, (ii) the Minimum Wages Ordinance of 1961, (iii) the Payment of Wages Act of 1936, (iv) the Punjab Industrial Relations Act of 2010, and (v) the Workmen’s Compensation Act of 1923 (Altaf 2014). These laws collectively determine several dynamics of employment that include employment contracts, working hours, paid leave and other leave entitlements, maternity benefits, minimum age for work and protection of young workers, occupational safety, and access to social protection.

Promulgated in 2010, the 18th Constitutional Amendment devolved financial and administrative powers to the provinces, altering the power-sharing dynamic between the provinces and the central government. Following devolution of certain powers of the Ministry of Labour and Manpower, the provincial labor and human resources departments became responsible for protecting labor rights. This change caused the federal government to lose its mandate for declaring minimum wage levels for unskilled labor, and the provincial governments to be assigned this responsibility. Minimum wage boards, which are constituted in each province, now recommend wage levels for workers of different skills levels and in different industries. In light of this devolution of power, flexibility across all levels of government is required if labor laws are to be harmonized with international commitments.

Legislation for Informal Workers

Application of most labor laws does not extend to informal workers. Multiple laws with differing definitions of “worker,” “employer,” “establishment,” and “ensuing wages” also imply lack of uniform coverage. Own-account and unpaid family workers, agriculture, home-based, and domestic employees are not recognized as workers, nor are their places of work as “workplaces” (PILER 2011). Upon legal recognition, these workers can register with their provincial employees social security institutes (PESSIs) to receive social protection for health and education.

Most labor laws only apply to firms with 10 or more workers. As a result, most small establishments are exempted from them. Moreover, it is common practice for SMEs and informal establishments to hire labor on a contractual basis, either directly or through outsourcing, to avoid declaring their employees as “workers.” Because most labor legislation applies only to workers employed

100 The status of provincial minimum wage boards is only advisory. As a result, the power to declare wage levels rests with the provincial government.
directly, this arrangement lets employers circumvent labor legislation, reduce overhead costs, and allows a cheap supply of labor.

Over the years, superior courts have taken notice of this legal subterfuge or strategy to conceal (Hisam 2015). They now hold that a laborer is considered a factory owner’s employee, even if the laborer is technically the employee of a subcontractor. Liability for labor now rests with the individual who effectively benefits from its production. Nonetheless, laborers usually lack the capacity to acquire adequate knowledge of the law or legal representation.

Labor policies have also remained divorced from legislation. As a result, the country’s five official labor policies (1955, 1959, 1969, 1972, and 2001) have not resulted in any significant pro-labor legislation. The 2001 Labour Policy—that came out after 29 years—did not even acknowledge the right of association for all workers. It also failed to extend this right to agriculture and informal sector workers. The most recent Labour Policy (GOP 2010) is also considered deficient on several accounts. For example, it only applies to agriculture workers who work on mechanized farms. Even then, this coverage only extends to compensation for work-related injuries or death, which is already a provision of the Workmen’s Compensation Act (1923).

Women and Labor Laws

The only labor laws specific to women include the right to maternity leave and protection from sexual harassment, the latter resulting from the Protection of Women against Harassment at the Workplace Act (2010). However, a new law for home-based workers (mostly women) is currently under consideration.

There is also a law that grants working women and children the right to work fewer hours than men, but this is rarely implemented.

The Labour Policy (GOP 2010) fails to outline strategic actions for addressing gender disparities in the workforce and at the workplace. There are no provisions for post-delivery conditions, such as for breast-feeding mothers. Moreover, as mothers with young children are not given any concessions, or options for child care, they are often forced to abandon their employment.

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101 Most recently in Fauji Fertilizer Company Ltd. v. National Industrial Relations Commission (Pakistan Labor Case 2014 Supreme Court 10).

102 This applies to two basic categories of home-based workers: (i) those who are self-employed, and (ii) those who are subcontracted, piece-rate workers (i.e., home-based workers). Starting in 2006, civil society went through a long consultative process to prepare a draft national policy on home-based workers. Later, this draft was endorsed by the Ministry of Women Development, who then handed over the policy in November 2009 to the Ministry of Labour and Manpower for presentation to the federal cabinet for approval.
Labor Inspection Laws

The Labor Inspection Policy was issued in 2006, but actions to implement it have been slow (ILO 2014). At present, only registered factories and shops are covered by the inspection system, while the larger informal sector—including agriculture and service sector workers—remains excluded.

Generally, workers are not consulted during labor inspections, nor are they made aware of what an inspection reveals. Although the number of labor inspectors has increased from 293 in 2001 to 337 in 2012, there is only one inspector for every 250,000 workers in the formal nonagriculture sector (Dawn 2014). Furthermore, working conditions have become especially worrisome after the provincial governments of Punjab and Sindh suspended labor inspections on manufacturing premises for 9 years (2003–2012) under pressure from factory owners.103

Occupational Safety and Health

Existing labor laws are not harmonized with prevalent health and safety standards and practices and are practically inadequate to protect workers, as they do not conform to international practices. Post-devolution, the Provincial Directorate of Labour Welfare is now responsible for implementing laws relating to health and safety in industrial and commercial establishments. However, there is no independent legislation on safety and health. Instead, occupational safety and health considerations are mainly governed by the Factories Act (1934) and the Hazardous Occupations Rule (1963), which prescribe few technical standards.

Although they are common all over the world, occupational exposure limits on concentrations of any hazardous substance in workplace for a particular material or class of materials are also absent from Pakistan’s labor legislation.104 Many sectors, such as agriculture, construction, and cottage industries that entail grave occupational health and safety hazards, are not covered by any law. Neither are informal, home-based, or seasonal workers.

103 Factory inspections have been banned in many areas, supposedly with the aim of ensuring a better investment climate. Unfortunately, this change has only served to advance unsafe, unhealthy work environments.

104 Occupational exposure limits have been in force for airborne workplace chemicals by multiple regulatory and authoritative organizations around the world for more than 60 years. These are quantitative standards that set an upper limit on acceptable concentrations of hazardous substances in workplace air that apply to a particular material or class of materials.
Workers’ Welfare and Social Protection

A major social insurance program, the old-age pension program for civil servants and military personnel, covers only formal government employees. Total federal and provincial pensions payments in 2012–2013 stood at 1.3% of gross domestic product, showing that pension expenditures in Pakistan are extremely low. As per ILO’s social protection floor databank (2010), only 2.3% of the total population receives an old-age pension (ILO 2014).

A much smaller contributory pension program, the Employees Old-Age Benefits Institution (EOBI) provides employees of private sector enterprises with 20 employees or more with pensions. However, even within this segment of the population, it does not achieve full compliance. Although businesses with fewer employees can get their employees registered with the EOBI on a voluntary basis, this rarely occurs. In 2011, the EOBI started a self-registration scheme, but due to administrative and compliance issues, the scheme could only cover 1,500 workers and had to be canceled until a law supporting it was drafted. In 2012–2013, the EOBI covered 0.373 million beneficiaries (MOF 2014).

Established under the Provincial Employees Social Security Ordinance of 1965, the Employees Social Security Institution is the country’s major social security program. It is financed through a levy of 7.0% of workers’ wages, up to a maximum payable by employers of industrial and commercial establishments that employ five or more workers. Registered workers are entitled to have access to medical facilities through a network of hospitals and dispensaries in the provinces, while cash benefits relate to sickness, injury, and maternity benefits; a disablement gratuity and pension; and death grant. The target group is similar to the EOBI’s. In 2012–2013, it covered about 1.56 million workers employed in 41,498 establishments across Pakistan. However, its coverage is very low, at less than 3.0% of the total formal sector labor force (Labour Watch Pakistan 2011).

Established in 1971, the Workers Welfare Fund provides housing for workers. This other sizable social protection program in Pakistan is financed through a 2.0% levy on the total income of employers as is assessable under the Income Tax Ordinance. However, its coverage remains extremely low, and of those covered, many are not even aware of the current benefits paid under the

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105 An amendment to the EOBI Act limiting its area of applicability to establishments employing more than 20 workers instead of 10 further shrunk its coverage.

106 The assessment of income is made in accordance with income tax returns deposited under the Income Tax Ordinance.
scheme. Several SMEs and informal sector establishments avoid registration of their workers with the fund to evade the requirement of having to pay their mandated contributions. In 2012–2013, the number of beneficiaries under the scheme was quite small, at 29,473.

Another major insurance program is run by retired army officials under the Fauji Foundation. This program provides social insurance to retired army officers and their dependents. The welfare services provided under the scheme include health care, education, and vocational and technical education. Although it provides employment opportunities for retired army officers, 60.0% of its beneficiaries are drawn from the civil sector. While its beneficiaries total nearly 9 million or 5.0% of the population, the scheme only covers the formal sector (Nishtar 2006).

Health insurance programs are in their infancy in Pakistan, and several conditions that favor mandatory social health insurance are not yet evident (World Bank 2013b). Although civil servants, both serving and retired and their dependents, are provided a fairly comprehensive health coverage, health insurance for the private sector remains limited. Where it does exist, subscription is optional, and practices differ across establishments.

The National Rural Support Programme has provided micro health insurance for the poor in collaboration with Adamjee Insurance since 2005. The Benazir Income Support Programme (BISP) also introduced a group life insurance program called Waseela-e-Sehat in collaboration with State Life Insurance. This latter program covered 4.10 million beneficiaries as of 2012. While the BISP has also begun piloting a micro health insurance program, its coverage is limited to BISP beneficiaries. As per figures from 2013, the total number of microcredit-linked microinsurance holders in Pakistan is 3.17 million. This includes 1.38 million health insurance holders and 1.79 million life insurance holders (Arshad 2013).

107 Fauji Foundation is among the largest business conglomerates in Pakistan that oversees the welfare of its beneficiaries through healthcare, education, training, and employment. http://www.fauji.org.pk/fauji/

108 Established in 1991, the National Rural Support Programme is the largest rural support program in terms of outreach, staff, and development activities. Adamjee Insurance, a leading insurance company in Pakistan, was incorporated as a public limited company on 28 September 1960.

109 The BISP is a nationwide income support program that provides a minimum income package to the poor to protect them against chronic poverty. It has become the country’s flagship social protection initiative since 2008, having disbursed over $3.00 billion to more than 5 million beneficiary families.

110 State Life Insurance Corporation, a state-owned enterprise established by the Nationalization Order of 1972, carries out business associated with life insurance.
Quantitative and Qualitative Assessment

This section presents the results of the survey of informal workers in three SME subsectors (construction, garment manufacturing, and street vending) conducted as part of the study.

Sources of Livelihood

Most respondents were primary earners. Hence, their job security is critical to ensuring sustainability of their household’s income. The average number of earning members per household was 2.0, which corresponds to the 1.9 average number of earning members per household reported by the Household Income and Expenditure Survey (HIES) (PBS 2015). Apart from the primary earner, other earning members were also likely to be engaged in low-paying, high-risk work. Almost 37.0% reported that their households have no alternate source of income other than that brought in by the primary and secondary earners. There was, thus, heavy reliance on informal work as the main source of livelihood among the households.

Household Size and Average Age

Workers from the construction subsector had larger families (i.e., seven members on average) and more dependents than the other two subsectors, a larger family being an important indicator of the vulnerability of such households. The latest HIES recorded the average household size at 6.4, with a slightly lower urban household size of 6.1 (PBS 2015). The average number of dependents per worker surveyed was 6.7. This is slightly higher than the average household size of 6.4 reported by the HIES, which may reflect the fact that these households belong to the low-income stratum that has higher-than-average fertility rates (PBS 2015).

The average age of the respondents was 30–35 years. More than 40.0% of the workers were in their 20s, and around 65.0% were married with dependents. This is not surprising, given that Pakistan is currently going through a demographic transition.

Literacy and Educational Background

A high percentage of the construction workers (41.4%) and street vendors (45.1%) were illiterate (Table 5.1). This figure was much lower for the garment sector (14.3%), possibly due to the sector’s demand for more skilled work such as stitching, operating machines, and cutting. Generally, the respondents
belonged to households with a huge deficit of core skills (i.e., literacy and numeracy), which employers value and allow a worker to command a relatively high wage. On average, 6.4% could only read, 55.2% could both read and write, and 34.5% were completely illiterate.

The majority of respondents had low levels of education, with 30.0% having received no schooling at all. Barely 14.0% of the workers had completed secondary schooling (i.e., grades VI–VII), while 25.0% had completed primary schooling (i.e., grades I–V). Only 5.2% of the respondents had completed intermediary schooling (i.e., grades IX and X).

### Valid Identity Cardholders

One positive finding is the relatively high number of Computerized National Identity Cardholders among the respondents, at nearly 80.0%. The government’s recent drive to enhance registration of the country’s population by the National Database and Registration Authority (NADRA), especially for those belonging to the low-income strata, now means that access to social protection services can potentially be targeted through the Computerized National Identity Card database, as is already being done under the BISP.111

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111 Established in 2000, Pakistan’s NADRA, is one of the earliest developing country identification agencies to use biometrics to ensure unique identification numbers for its citizens. With the estimated coverage of the adult population at almost 90.0%, the Computerized National Identification Card has become the dominant form of identification for most transactions. NADRA has worked closely with the BISP to ensure robust identification of the beneficiaries of the country’s largest cash-transfer program, and has helped implement an e-payment system that is linked to this form of identification.
Type of Employment

The respondents included managerial, clerical, and operative workers, with sharp variations across the three subsectors.\(^{112}\) In the construction sector, 27.1% of the respondents were unskilled workers who were hired as daily wage earners to do menial physical labor, while 51.4% were low-skilled workers. In the garment subsector, 77.1% were high-skilled, 9.8% were low-skilled, and none were unskilled (Table 5.2).

<table>
<thead>
<tr>
<th>Skill Level</th>
<th>Construction</th>
<th>Garment Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisory</td>
<td>12.9</td>
<td>13.1</td>
</tr>
<tr>
<td>High-skilled</td>
<td>8.6</td>
<td>77.1</td>
</tr>
<tr>
<td>Low-skilled</td>
<td>51.4</td>
<td>9.8</td>
</tr>
<tr>
<td>Unskilled</td>
<td>27.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Average number of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>dependents per</td>
<td>7.0</td>
<td>6.3</td>
</tr>
<tr>
<td>household of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>respondent (person)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

This variation across subsectors is associated with the dynamics of the product sold or services offered in the subsector concerned. For instance, the garment sector requires highly skilled labor. In contrast, while highly labor-intensive, the construction sector does not require all labor to be skilled. Street vendors operate on a much smaller scale, with several working as self-employed persons, and often only one worker being employed. Hence, the variation in the skillset required by the street vendor subsector was less distinctive.

Employment Status

Most employees at the managerial or supervisory level were recruited directly by industrial establishments, while others were hired indirectly through a subcontractor with whom the employer had formally contracted for providing

\(^{112}\) For the garment-manufacturing subsector, low-skilled occupations include helpers, storekeepers, and guards. High-skilled occupations include cutters, machine operators, packers, pressers, stitchers, and technicians. For the construction subsector, supervisors include contractors and supervisors; low-skilled occupations include aluminum workers, beam fillers, carpenters, lantern fillers, masons, painters, scaffolders, steel fixers, and welders; while high-skilled occupations include electricians, engineers, and machine operators.
such services. Overall, around 42.0% were permanent, 24.0% were contract-based, 16.0% were daily wage earners, and 17.0% were self-employed, all of the latter being street vendors. The highest number of permanent employees was in the garment subsector (Table 5.3). Contract-based work was mostly concentrated in the construction sector. Daily wagers were found only in the construction sector and among street vendors. Street vendors were mostly hired on a casual or temporary basis.

### Table 5.3: Respondents with Various Types of Employment (%)

<table>
<thead>
<tr>
<th></th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garments</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>34.0</td>
<td>24.0</td>
<td>71.0</td>
<td>41.7</td>
</tr>
<tr>
<td>Contractual</td>
<td>40.0</td>
<td>4.0</td>
<td>30.0</td>
<td>24.3</td>
</tr>
<tr>
<td>Seasonal</td>
<td>1.0</td>
<td>1.0</td>
<td>0.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Daily wage</td>
<td>24.0</td>
<td>21.0</td>
<td>0.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Unpaid family worker</td>
<td>0.0</td>
<td>1.0</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Self-employed</td>
<td>0.0</td>
<td>48.0</td>
<td>0.0</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

### Previous Experience

About 30.0% of the respondents had previous employment experience, mostly in similar jobs elsewhere. The majority of the workers in the construction subsector had been in their current job for 11 years on average, as opposed to 6 years in garment manufacturing, and 5 years in street vending. The results for the construction subsector seem to indicate that construction work is not a temporary occupation for most workers. This may be due to the fact that transition to higher-paying jobs is difficult from such low-paying, unskilled jobs. On the whole, the study finds hardly any evidence of upward mobility.

### Periods of Unemployment

About 36.7% of the respondents had experienced unemployment during the past 5 years, with the average duration of unemployment being a little

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113 The subcontractor, in turn, hires labor informally. The factory owner pays the subcontractor a fixed price per worker. As can be expected, even if a firm pays the subcontractor the legal minimum wage per worker, the workers receive less than the legal minimum wage. The majority of subcontracted workers are not represented in official records.
over 1 year (Table 5.4). The study also finds that workers in the construction and street vending subsectors experienced more frequent episodes of unemployment (43.0% and 45.0%, respectively) in contrast to workers in garment manufacturing (20.0%). Seasonal fluctuations were also common throughout the three subsectors, and job availability oscillated in tandem with rises and falls in demand, especially in vending fruits, vegetables, and other food items.

<table>
<thead>
<tr>
<th>Table 5.4: Employment Status of Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Previously unemployed</td>
</tr>
<tr>
<td>Current employment less than 1 year</td>
</tr>
<tr>
<td>Current employment more than 1 year</td>
</tr>
<tr>
<td>Average number of years in current employment (year)</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

Perceived Degree of Job Security

Around 38.8% of respondents felt that it would be easy to lose their job at any time, as they had no job security. Almost 60.0% of the workers in construction, 39.0% of street vendors, and 13.0% in garment manufacturing felt they could easily lose their jobs. The major reasons cited included lack of employment contracts and susceptibility to external shocks, particularly in the case of street vendors. Those working at the supervisory or contractor level found their jobs to be more secure and assumed that their employers would find it harder to let them go.

Job Satisfaction

Most workers felt relief that they are currently employed. However, they were well aware that there is an excess supply of unskilled labor, and that they could be fired at any time and be replaced with more compliant workers. For this reason, workers were willing to stay away from home for months to earn an income.
Relationship with Current Employer

In terms of employer accessibility and interaction with senior management, most workers responded positively. Some of this frequent interaction was attributable to the nature of the work itself, such as in the construction subsector, which demands that management regularly engage with labor on-site. For the garment subsector, systems were more streamlined in a factory setup. More than 47.0% of the street vendors interviewed were own-account workers and, as such, this question was not applicable to them.114

Work Agreements

About 45.0% of the respondents had no employment contracts. Of those that did, 21.0% had written contracts, while the rest had only verbal agreements. Overall, barely 11.0% of the respondents had written contracts or employment letters from their employers (Table 5.5). For street vendors, work agreements were not always possible.

Table 5.5: Type of Employment Contract by Subsector (%)

<table>
<thead>
<tr>
<th>Type of Contract</th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garments</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written</td>
<td>14.0</td>
<td>0.0</td>
<td>20.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Verbal</td>
<td>57.0</td>
<td>15.0</td>
<td>48.0</td>
<td>39.5</td>
</tr>
<tr>
<td>No contract</td>
<td>29.0</td>
<td>70.0</td>
<td>33.0</td>
<td>44.6</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

Skills and Training Requirements

Only 4.3% of respondents (excluding street vendors) had received any kind of formal training. Most learned their job skills from experience in the informal sector. Around 36.7% of the workers in the garment subsector and 14.0% in the construction subsector felt that they could use their skills in another job. Since workers in the garment subsector had skills that were more specialized than in the other two subsectors, their chances of finding other employment were correspondingly higher. Only 14.0% of the respondents were aware of any

114 Defined in ILO (International Classification by Status in Employment).
opportunities for improving their skills. Even fewer (around 9.0%) were aware of training opportunities provided by the government.

**Working Conditions and Hours of Work**

On average, most workers worked 9.9 hours per day, 6.6 days per week. Around 34.5% also worked regular night shifts, and around 7.0% worked night shifts only when the employer demanded it (Table 5.6). The demand for night work was usually in the garment subsector, particularly when deadlines were approaching. Close to 66.0% of the workers in the garment subsector and 81.0% in construction worked 8 hours per day. Street vendors worked significantly longer hours; around 72.0% worked more than 12 hours per day, and all worked

<table>
<thead>
<tr>
<th>Table 5.6: Working Hours by Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours worked per day</td>
</tr>
<tr>
<td>Less than 8</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>More than 12</td>
</tr>
<tr>
<td>Average hours per day</td>
</tr>
<tr>
<td>Days worked per week</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>Average days per week</td>
</tr>
<tr>
<td>Breaks during the day</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Worked at night</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Sometimes</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
7 days per week. Almost 10.0% of the respondents did not take a break during the day. Again, this number was highest, at 23.0%, among street vendors.

**Occupational Health and Work Safety**

Around 21.0% of workers in the construction subsector and 3.0% in garment manufacturing felt unsafe at work. Of the workers who felt that adequate safety regulations were in place, in garment manufacturing, 8.6% said that emergency exits are in place, 31.0% said that masks and gloves are regularly used during work, 11.4% use helmets and goggles, and 5.7% claimed that regular fire drills occur. In the construction subsector, 53.0% reported helmet use, 53.0% wore proper boots during work, 13.0% wore masks and gloves, and 13.0% followed safety regulations (Table 5.7).

<table>
<thead>
<tr>
<th></th>
<th>Construction</th>
<th>Garments</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feel safe at work</td>
<td>79.0</td>
<td>97.0</td>
<td>56.7</td>
</tr>
<tr>
<td>Gender-specific dimensions</td>
<td>0.0</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Negative impact on health</td>
<td>11.0</td>
<td>7.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Ever been injured</td>
<td>56.0</td>
<td>22.0</td>
<td>26.1</td>
</tr>
</tbody>
</table>

Note: There are no data for street vendors.
Source: Survey of Informal Workers 2015 compiled by the author.

However, 11.0% of construction workers and 7.0% of garment workers claimed that their work negatively impacts their health. The main health and safety risks cited included workers (i) inhaling dust and poisonous chemicals, (ii) developing breathing problems and dust allergies, and (iii) falling from heights. It was obvious from direct observation during the surveys that working conditions are unsatisfactory in some factories and on some work sites. Few, or no, safety precautions were advised, particularly in the construction and garment subsectors. In fact, two of the firms surveyed did not allow questions about safety regulations. Workers eagerly expressed their desire to be shielded against hazardous environments and to be provided with adequate safety equipment.
Remuneration and Benefits

Payment Terms

All of the workers were paid in cash. Of these, 38.0% received monthly payments, 26.0% (mostly in the garment subsector) were paid per piece, and 14.0% (mostly in the construction subsector and street vending) received daily payments. Workers were usually paid on time, with 94.0% paid just before the end of the month (Table 5.8). A significant number (42.0%) were also paid overtime. However, 33.0% of the respondents said there were instances in which they had been paid late or not paid at all.

Fines are usually imposed for legal violations, and additional compensation is mandated if workers are underpaid, particularly those who work in factories. However, the study confirms that the fines levied constitute an insufficient disincentive. As most employers underreport employment because of the outsourcing loophole, fines and compensation add up to less than the increase

Table 5.8: Payment Terms of Respondents (%)

<table>
<thead>
<tr>
<th>Payment Term</th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garments</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>26.0</td>
<td>25.0</td>
<td>67.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Daily</td>
<td>19.0</td>
<td>23.0</td>
<td>0.0</td>
<td>14.7</td>
</tr>
<tr>
<td>Hourly</td>
<td>6.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Piece-rate</td>
<td>0.0</td>
<td>52.0</td>
<td>25.0</td>
<td>25.8</td>
</tr>
<tr>
<td>Bimonthly</td>
<td>21.0</td>
<td>0.0</td>
<td>8.0</td>
<td>9.8</td>
</tr>
<tr>
<td>Weekly</td>
<td>23.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Lump sum</td>
<td>6.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Paid on time?</td>
<td>90.0</td>
<td>95.0</td>
<td>97.0</td>
<td>93.9</td>
</tr>
</tbody>
</table>

Frequency of Payment

<table>
<thead>
<tr>
<th></th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garments</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of the month</td>
<td>3.0</td>
<td>2.0</td>
<td>21.0</td>
<td>8.1</td>
</tr>
<tr>
<td>End of the month</td>
<td>27.0</td>
<td>23.0</td>
<td>52.0</td>
<td>33.1</td>
</tr>
<tr>
<td>Daily</td>
<td>16.0</td>
<td>75.0</td>
<td>0.0</td>
<td>31.9</td>
</tr>
<tr>
<td>Weekly</td>
<td>29.0</td>
<td>0.0</td>
<td>7.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Bimonthly</td>
<td>20.0</td>
<td>0.0</td>
<td>18.0</td>
<td>12.4</td>
</tr>
<tr>
<td>Lump sum</td>
<td>6.0</td>
<td>0.0</td>
<td>2.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Not paid</td>
<td>20.0</td>
<td>80.0</td>
<td>2.0</td>
<td>33.1</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
Salaries also vary greatly within the subsectors. A few high earners at the supervisory level may have inflated the average income for construction workers.

Almost 23.0% of the workers in the construction subsector earned more than PRs20,000.00 per month. Among the street vendors, only 14.0% earned more than PRs20,000.00 per month, with the corresponding figure for garment workers being only 7.0%.

Interviews with laborers across all subsectors indicated that monthly compensation for unskilled workers range from PRs6,000.00 to PRs20,000.00.

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Table 5.9: Monthly Salary Range of Respondents

<table>
<thead>
<tr>
<th>Wage ('000)</th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than PRs10.00</td>
<td>14.0</td>
<td>31.0</td>
<td>21.0</td>
<td>22.4</td>
</tr>
<tr>
<td>PRs10.00–PRs15.00</td>
<td>31.0</td>
<td>38.0</td>
<td>46.0</td>
<td>37.7</td>
</tr>
<tr>
<td>PRs15.00–PRs20.00</td>
<td>31.0</td>
<td>17.0</td>
<td>26.0</td>
<td>24.9</td>
</tr>
<tr>
<td>More than PRs20.00</td>
<td>23.0</td>
<td>14.0</td>
<td>7.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Average PRs per month</td>
<td>18,229.00</td>
<td>14,342.00</td>
<td>18,028.00</td>
<td>16,802.00</td>
</tr>
</tbody>
</table>

PRs = Pakistan rupees. Exchange rate in 2015 is $1.00 = PRs102.77.
Source: Survey of Informal Workers 2015 compiled by the author.

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115 In the event of noncompliance (i.e., nonpayment of the legal minimum wage by employers), the law specifies a penalty of up to 6 months of imprisonment, a fine (PRs200.00–PRs500.00 [$1.95–$4.87]), or both, along with payment of arrears to the employee. Such punishments are too mild to provide an appropriate disincentive for noncompliance, and need to be made more stringent if complete compliance with the law is to be ensured.
Female respondents reported lower wages for equivalent work. The average monthly salary of female workers in garment manufacturing was PRs8,500.00 against the overall average of PRs14,000.00. Almost all respondents agreed that their compensation is barely enough for subsistence, leaving little or no opportunity for saving. In their opinion, higher wages would make them more productive.

**Minimum Wage**

According to recent research, a family of four in Pakistan requires two household members earning the legal minimum wage just to survive (WIEGO 2015). Field findings indicated that around half of the respondents were unable to earn the legal minimum wage, and that they had more than six dependents on average. Only 17.0% of the respondents in construction and garment manufacturing were aware of the concept of a legal minimum wage, while none knew the correct amount. Far fewer workers in construction (13.0%) were aware of the legal minimum wage than garment workers (44.0%). Results from a different survey found that only 30.0% of the factories in Shiekhupura paid the legal minimum wage to their employees.¹¹⁷

**Benefits**

Regarding benefits, 42.5% of the construction and garment worker respondents did not receive any benefits, probably because (i) these workers are not officially enrolled in any welfare scheme; and (ii) due to a general lack of awareness about social protection and welfare schemes, these workers do not expect any benefits from their employers. Of those that did receive benefits, 11.0% received end-of-year bonuses, 13.0% received medical aid, 2.0% received funeral benefits, 9.0% contributed to a pension fund, 11.0% were entitled to paid sick leave, and just under 2.0% received a housing subsidy. Around 42.0% were also paid overtime for extra work, and 31.0% had taken 1 month’s advance salary at some point during their current employment, this latter figure being highest among garment workers at 56.0%.

¹¹⁶ Details on minimum wage levels applicable in Punjab Province can be found at Paycheck.pk. In his Federal Budget 2015–16 speech, Finance Minister Ishaq Dar announced an increase in the minimum wage for private sector workers from PRs12,000.00 to PRs13,000.00 ($126.50) per month. Provincial budgets are expected to be released soon, and it is hoped that the minimum wage will be increased in these locations as well.

¹¹⁷ Altaf (2014) mentioned this in the explanation of the methodology employed by that study.
Knowledge and Awareness of Social Protection

Access to, or awareness of, social protection was very limited among the respondents. Only 22.3% had knowledge of any public social protection scheme, and only 21.0% recognized the benefits of having access to social protection programs (Table 5.10). Only 4.2% of the construction and garment workers were currently beneficiaries of any welfare scheme. Again, because they did not recognize the benefits of social protection programs, these workers were unwilling to enroll in them. Of these, only 36.5% knew how to access social protection schemes. Only 8.8% contributed to any social protection program.

Discussions with government departments also revealed that construction workers—especially daily wagers—often refuse to register with PESSIs, as they are unwilling to pay a certain proportion of their income as a contribution to pension and health insurance. In larger firms, trade unions put constant pressure on employers to register their employees for access to social protection provisions. In the informal sector, however, the absence of trade unions and collective bargaining units allow smaller firms to bypass social security laws.

Table 5.10: Respondents’ Knowledge on Social Protection (%)

<table>
<thead>
<tr>
<th></th>
<th>Construction</th>
<th>Street Vendors</th>
<th>Garment Workers</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently a beneficiary of a welfare scheme</td>
<td>6.0</td>
<td>0.0</td>
<td>7.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Know how to gain access</td>
<td>33.0</td>
<td>0.0</td>
<td>83.0</td>
<td>36.5</td>
</tr>
<tr>
<td>Contribute to any social security scheme</td>
<td>0.0</td>
<td>0.0</td>
<td>29.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Aware of any public social security scheme</td>
<td>13.0</td>
<td>0.0</td>
<td>59.0</td>
<td>22.3</td>
</tr>
<tr>
<td>Aware of the benefits of social security</td>
<td>9.0</td>
<td>0.0</td>
<td>59.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Taken any loan in the past 6 months</td>
<td>16.0</td>
<td>17.0</td>
<td>11.0</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
Employee Representation and Associations

One of the significant findings is the absence of unions in most factories and worksites visited. This is despite the fact that the rights to organize, form unions independent of government or employer influence, and bargain collectively are all recognized as fundamental rights of workers by ILO and the government. In the construction subsector, only one respondent was a member of a labor union. The fact that the law is silent on absence of unions in the informal sector is itself a loophole that facilitates noncompliance with the current labor legislation.

In the more organized garment-manufacturing subsector, nearly 35.0% of workers were aware of the role of labor unions. However, only 7.0% of the construction workers had any knowledge about them. Hence, attempts to organize workers are inadequate, despite the fact that 23.0% of the workers said they would welcome a union in the firm for which they worked. In fact, 12.0% of construction and garment workers had already attempted to organize themselves for a common objective. Nonetheless, several are afraid of losing their jobs, and thus have refrained from collective action altogether. Many also felt that since they are receiving their salaries on time, they should not act against their employers, even if just to ask for a raise to which they feel rightfully entitled.

Gender Dimensions

Women are essential to the subcontracting system, especially in the SME sector. Most of these workers operate either in small workshops or in their own homes. Madadgaar, a working women’s helpline, estimated at least 12 million women among the 20 million home-based workers in Pakistan. As per other estimates, home-based female workers constitute almost 75.0% of the entire informal sector labor force, and include own-account (13.4%), piece-rate or subcontracted (24.6%), and unpaid family workers (61.9%) (Azhar 2011). These workers have limited access to education, health services, safety provisions, and social protection schemes.

The study finds generally low rates of female participation in paid labor, particularly in the construction and street vendor subsectors in which no women were among the workers surveyed. In contrast, 16.0% of the garment sector respondents were female.

Most females surveyed (i) were young (the average age was 29 years); (ii) were unmarried (70.0%); (iii) were literate (i.e., had a few years of formal schooling); (iv) had around three dependents on average; (v) lived in low-income settlements adjacent to manufacturing units and factories in urban areas; and
(vi) worked either as home-based or piece-rate workers, or were employed on a contract basis.

In the garment subsector, female workers were mainly concentrated in low-paid, labor-intensive, downstream production activities, while men dominated capital-intensive activities such as spinning, and weaving. None of the female garment workers surveyed worked in a senior-level position except one who was a batch auditor, which is a supervisory position. Despite this, the number of small, formally registered factories employing women is significant (Altaf 2014).

SMEs often struggle with regulations that require them to provide maternity leave and other benefits for women, as this acts as a disincentive to hire women. The lack of supportive facilities such as child care, transport, and accommodation in the formal sector discourages women from gaining formal employment. The lack of human capital investment in women also results in many women from poor and low-income households taking jobs in the informal sector that pay little, and that do not require high levels of skills or education (Nikitin 2011).

In the absence of facilities for these women, extended family support systems often fill the void, although not all working women have access to such systems. Further, the uneven division of household labor makes full-time employment difficult for many women, particularly poor women who cannot afford the cost of child care, even when it is available.

Role of Employers

Most factory owners have found ways to avoid implementing the social protection provisions of Pakistan’s labor laws. Even the representative of a government agency indicated that factory owners and business people often do not cooperate with the social security departments in contributing funds for their employees as required by law.

For instance, it is common practice for factories to underreport their number of employees. Also confirmed by interviews with members of the PESSI, and by Altaf (2014). Fieldwork in Sheikhupura revealed that a factory employing 1,300 workers reported only 200 on its books, and only these workers were insured and eligible for social protection entitlements. Second, many factory owners hire workers on a temporary basis, thus limiting access by these workers to social security and insurance schemes. For example, the Pakistan Readymade Garments Manufacturers and Exporters Association accounts for only those
workers who are registered with the EOBI and PESSIs. For example, if a unit has 2,000 workers and only 500 are regular workers, the association only reports those 500 workers. As verified through field visits, workers in each registered unit include a mix of salary-based registered workers, a larger number of piece-rate unregistered contract workers who work on the production line (on the factory premises), and piece-rate home-based workers.

While on-the-spot inspection of enterprises and construction sites can act as a deterrent to concealing facts that would necessitate compliance with labor laws, collusion between employers and labor inspectors is common. It is often implicitly understood that factory owners know when inspections take place, thus giving them ample time to misrepresent numbers. Despite the fact that the minimum wage introduced by the government is rarely implemented, inspections also fail to uncover violations of the minimum wage law. Such weak inspection systems enable factory owners to get away with noncompliance with labor laws generally.

Conclusions and Policy Implications

Informal workers in Pakistan come from a full spectrum of economic backgrounds, and are more prone to transitory poverty than their formal sector counterparts, because most informal workers are uneducated, lack adequate core skills, have minimal income to enable savings, belong to large families with a significant number of dependents, and experience seasonal fluctuations in employment. Hence, the household income, of informal workers are commonly fluctuated.

Most informal workers (especially home-based and domestic workers, street vendors, and other unskilled laborers) are not recognized as workers by official policies. As a result, they are denied access to labor protection and social welfare. Information or knowledge among workers about social protection initiatives, entitlement to welfare and labor protection, and overall labor rights are also limited, making it easier for SMEs and informal employers to circumvent social security provisions.

The earnings of most informal workers are just around, or even below, the level of the legal minimum wage, the latter being neither publicized widely nor enforced properly. Women are particularly vulnerable with regard to wage discrimination toward informal workers, because (i) they are concentrated in the informal sector, particularly in home-based work; and (ii) their average wages are lower overall than those of their male counterparts.
Long-term employment relationships have been replaced by contract employment, outsourced or part-time, or home-based work. Firms prefer short-term contractual arrangements, as these save on financial contributions toward social security, including those paid to provident funds, pensions, insurance, compensation for occupational injury or death, maternity benefits, and education access. In short, there is no effective social protection for workers hired indirectly through subcontractors.

Employers frequently underreport the number of their employees and pay wages below the minimum wage. Further, they discriminate against workers who complain about such behaviors, and discourage collective action that would reveal that they are evading compliance with legal requirements. Fines, where imposed, are an insufficient deterrent to violations, as they are much less than the cost factories would incur to comply with labor laws. Trade unions are largely absent from the informal economy, in part because informal workers remain mostly disparate and spread out.

The recent substantial rise in the total number of computerized national identity cardholders in Pakistan has significant implications for expanding social protection coverage to informal workers. This is because workers with cards are qualified to receive skills training at any vocational training institute and/or employment in the formal sector.

Overall working conditions in the informal sector are unsatisfactory. Factory owners do not ensure safety measures for workers exposed to hazardous materials or provide them with appropriate safety equipment. Unlike formal businesses, street vendors often lack access to basic infrastructure such as shelter, toilets, electricity, and water.

Much needs to be done to integrate informal workers into mainstream social protection programs beyond short-term targeted social assistance. Despite institutional and legal frameworks for securing basic workers’ rights, implementation excludes the vast majority of informal workers from social protection. Informal workers need government support that focuses on providing some basic level of economic security in terms of wages; regularity of work; and other factors that allow regular, decent, and productive work, in addition to ensuring provision of basic amenities (e.g., shelter, education, and health).

To improve social protection coverage for informal workers, it is important to increase budgetary allocations for social protection that built into the government’s medium-term budgetary framework.
There is a need for compulsory coverage of social protection for informal sector workers by allowing workers to self-register with social security institutions. Where applicable, payments linked to social protection provisions should be matched to the status of the enterprise concerned and the ability of the worker to pay.

Any effective and well-grounded skills development strategy should incorporate the informal sector workers and identify areas for appropriate interventions. Since many informal workers are poor and have little education, courses must be tailored to their needs. Training programs that integrate on-the-job training with classroom components are seen as being more successful than courses that exclusively include classroom components (Horati and McArdle 2013). Public training funds can be transferred to private and nonprofit providers on a competitive basis. Performance-based tendering creates incentives for ensuring the relevance of training courses, while contracting can be designed so that the groups that are the most difficult to reach are not excluded.

A formal structure within the existing legal framework can be made for contractors who supply informal labor to factories and other establishments. Companies could be allowed to hire only from registered contractors. This would, in turn, provide an incentive for contractors to register themselves as a prerequisite for operating in the labor market.

Minimum wage boards need to be able to recommend minimum wage rates for domestic workers, and to also have the right to announce enforceable minimum wages. Publication of a detailed minimum wage notification in a provincial government’s official gazette is not by itself sufficient to ensure that employers and workers know about the newly announced rates. Minimum wages should be widely publicized through print and electronic media. Detailed notifications must also be made available on provincial labor departments’ websites.

The government needs to establish a council on health and safety or a similar institution that ensures a legal framework that covers all workers. It must also establish and empower tripartite monitoring committees at the district, provincial, and federal levels that efficiently and strictly monitor compliance with labor rights, and initiate an incentive scheme for employers to directly commit to improving working conditions in their companies.

In addition, labor welfare standards need to be introduced for all factory workers, including those employed through subcontractors. Independent monitoring units must periodically assess factories, and assign ratings based on the degree to which the standards have been met. Employers who receive high ratings can be rewarded through tax benefits or other financial incentives.
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CHAPTER 6

Social Protection for Informal Workers in the People’s Republic of China: A Study of Micro, Small, and Medium-Sized Enterprises

Xiulan Zhang and Yuning Wu

Abstract

Two-thirds of employees who work in micro, small, and medium-sized enterprises (MSMEs) in the People’s Republic of China (PRC) are informal workers; most are migrant workers. Informal employment is largely concentrated in the construction, small-scale manufacturing, and service sectors.

This study aims to assess various social protection programs for informal workers in the PRC. It reveals that the PRC’s high social insurance contributions make it difficult for MSME employers to comply with labor laws. The hukou system (the official registry of residents at their places of birth) also makes it cumbersome for migrant workers in the informal sector to access social protection programs in their new jurisdiction. Moreover, fewer female employees have labor contracts compared with their male counterparts, and female MSME employees participate less in social protection programs.

The study recommends amending policies to accommodate the participation of MSME employers and employees in social protection programs, including increasing the level of benefits to narrow the gap between the levels paid by programs for residents and those for employees. There should also be streamlined administration of social insurance programs to facilitate participation and benefit payments, particularly in transferring vested rights from one residence to another. Furthermore, it is recommended to provide
more training opportunities for informal workers, increase awareness of labor rights, and represent employee interests in trade unions or other organizations.

**Introduction**

The People’s Republic of China (PRC) has a labor force of 773 million, of which 393 million work in urban areas (MOHRSS 2015). No specific statistics concerning informal workers are available, as there is no official definition of informal workers in the PRC. Those in urban areas with no official labor contracts or social insurance are defined as informal workers. In all, five types of work-related social insurance programs for employees are available in the PRC: (i) basic pension insurance for employees, (ii) basic medical insurance for employees, (iii) unemployment insurance, (iv) work-related injury insurance, and (v) maternity insurance.

Eighty-eight percent of the labor force works for enterprises under labor contracts, but not all of these workers participate in social insurance programs, despite such participation being legally required by both labor contract law and social insurance law. Informal workers, including part-time workers, casual workers, and self-employed persons, can participate in social insurance programs for employees on a voluntary basis. However, such participation is limited to pension insurance and medical insurance for employees.

Park, Wu, and Du (2012) estimated the extent of informal employment in the urban labor market by using 2010 household survey data. They concluded that informal urban workers accounted for 37.2% of all urban workers. Their estimate differs from that of this study, because their calculations were based on six large cities, whereas this study uses national data. Table 6.1 shows the numbers of workers participating in the five social insurance schemes, as well as their percentage shares in the total number of urban workers.

In the PRC, migrants constitute the bulk of informal workers. Most are farmers who have farmland in rural areas under the *hukou* system (official registry of residents at their places of birth), but who work in nonfarm activities. According to a survey conducted by the National Bureau of Statistics (NBS), there were 274 million migrant workers in 2014. Of these, 168 million migrated to urban areas where they now work and live, while the rest remained in their villages and continued to work, but in nonagriculture occupations (State Council of China 2015). About 41.0% of migrants living in urban areas had contracts with their employers.
If the rate of participation in social insurance programs is used to estimate the percentage share of formal workers in the total number of migrants, the resulting estimated percentage share is rather low—much lower than if the share of formal workers in the total number of migrants is estimated by using the share of migrant workers with employment contracts (Table 6.2).

### Table 6.1: Workers Covered by Social Insurance Programs

<table>
<thead>
<tr>
<th>Type of Coverage</th>
<th>Number of Workers (millions)</th>
<th>Percentage Share in Total Urban Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension insurance</td>
<td>255</td>
<td>64.9</td>
</tr>
<tr>
<td>Medical insurance</td>
<td>210</td>
<td>53.5</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>170</td>
<td>43.4</td>
</tr>
<tr>
<td>Work-related injury insurance</td>
<td>206</td>
<td>52.5</td>
</tr>
<tr>
<td>Maternity insurance</td>
<td>170</td>
<td>43.3</td>
</tr>
</tbody>
</table>


This study aims to assess various programs and policies designed to expand social protection programs for workers in micro, small, and medium-sized enterprises (MSMEs). It also seeks to offer a pragmatic approach for assisting workers in the informal economy to address risks and reduce poverty and to
distill policy lessons for expanding social protection programs for workers in MSMEs.

Methodology

A survey of 273 randomly selected MSME workers across the country was conducted to analyze the implementation of social protection for informal workers. Of these, 119 were located in Chongqing (the southwest), 104 in Changsha (the central region), and 50 in Beijing (the east). These firms were in the construction, small-scale manufacturing, and service sectors. Of the 273 respondents, 12.5% worked in construction, 25.3% in manufacturing, and 62.3% in the service sector. Their gender composition was 36.8% female and 62.8% male.

In addition to using a survey questionnaire, statistical data released by the government were gathered. Data on migrant workers is based on the annual NBS surveys.

Limitations of the Study

This study is not meant to be exhaustive, and its limitations are as follows. First, the study does not differentiate between migrant workers and local workers. As a result, comparing the disparity between local and migrant workers on the degree of access to social protection programs is not possible. Second, the survey was performed in large cities such as Beijing and Chongqing directly under the administration of the State Council. Thus, the urban focus may overestimate the number of informal workers who have employment contracts, since the study focused on Changsha, the provincial capital of Hunan Province and the results may have been used as proxy variables for entire provinces or the nation as a whole. Similarly, the study’s urban focus may overestimate the degree to which employees are covered by social insurance programs. Finally, the same constraints apply to results on the remuneration levels of MSME employees.

Micro, Small, and Medium-Sized Enterprises in the People’s Republic of China

There are more than 50 million MSMEs in the PRC, and the contribution of these firms to the national economy is significant. In fact, the share of MSMEs in gross domestic product (GDP) exceeds 60.0%. These firms have contributed significantly to the PRC’s economic and social development (Wang 2014). The
2002 SME Promotion Law sets guidance and standards for government support to SMEs such as training, environmental protection, or starting a business.

In 2011, the Ministry of Industry and Information Technology issued the Regulations on MSME Classification Criteria. The new guidelines replaced the previous set of criteria promulgated by the State Economic and Trade Commission in 2003. Significant differences between the two sets of criteria include a narrowed scope of the definition of medium-sized enterprises, expanded scope of the definition of small enterprises, and establishment of a new category for micro enterprises (Table 6.3).

The 18th National Congress of the Communist Party of China in 2012 emphasized the development of small and micro enterprises, especially in technology, as an important driver in promoting transformation of the national economy. According to the 2013 report on small and micro enterprise development by the State Administration for Industry and Commerce (2014), there were 15.3 million enterprises, of which 11.7 million were small or micro (76.6% of the total). If the 44.4 million individual businesses are included in this total, small and micro enterprises account for 94.2% of all MSMEs.

Micro and small enterprises have become the PRC’s major source of employment since they (i) create 4–5 times more workplaces than large and medium-sized enterprises at the same level of assets per capita, (ii) are easy to establish, (iii) provide jobs for the urban unemployed and redundant-labor farmers who have migrated from rural areas to urban locales, (iv) absorb 70.0% of new employment and reemployment, and (v) employ more than 80.0% of all migrants (State Administration for Industry and Commerce 2014).

Most informal employment is concentrated in the three sectors of construction, small-scale manufacturing, and services. In 2013, the PRC’s construction GDP was CNY3.90 trillion ($629.00 billion),119 equivalent to 6.9% of the national GDP. It is difficult for some construction workers to participate in and contribute to social insurance programs because workers are paid by the day or task. As a result, work-related injury insurance has very low coverage among construction workers (about 14.0% based on the NBS [2014]).

The small-scale manufacturing sector is geographically scattered, located in rural–urban junction areas, and generally characterized by few technical skills with undesirable work environments and low pay. As a result, this sector primarily hires migrant workers. Meanwhile, the service sector is relatively

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119 US dollar amounts are derived from ADB (2014). The average exchange rate is CNY6.20 to $1.00.
Table 6.3: Classification Standards for Some Micro, Small, and Medium-Sized Enterprises in the People’s Republic of China

<table>
<thead>
<tr>
<th>Sector</th>
<th>Specific Standard (upper limit)</th>
<th>Medium-Sized</th>
<th>Small</th>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, livestock, farming, and fisheries</td>
<td>Operating revenue less than CNY200.00 million</td>
<td>Operating revenue more than or equal to CNY5.00 million</td>
<td>Operating revenue more than or equal to CNY0.50 million</td>
<td>Operating revenue less than CNY0.50 million</td>
</tr>
<tr>
<td>Retail sales</td>
<td>Number of employees less than 300 persons or operating revenue less than CNY300.00 million</td>
<td>Number of employees at least 50 persons and operating revenue at least CNY30.00 million</td>
<td>Number of employees at least 10 persons and operating revenue at least CNY1.00 million</td>
<td>Number of employees less than 10 persons or operating revenue less than CNY1.00 million</td>
</tr>
<tr>
<td>Transport</td>
<td>Number of employees less than 1,000 persons or operating revenue less than CNY30.00 million</td>
<td>Number of employees at least 300 persons and operating revenue at least CNY2.00 million</td>
<td>Number of employees at last 20 persons and operating revenue at least CNY2.00 million</td>
<td>Number of employees less than 20 persons or operating revenue less than CNY2.00 million</td>
</tr>
<tr>
<td>Restaurants and catering</td>
<td>Number of employees less than 300 persons or operating revenue less than CNY100.00 million</td>
<td>Number of employees at least 100 persons and operating revenue at least CNY20.00 million</td>
<td>Number of employees at least 10 persons and operating revenue at least CNY1.00 million</td>
<td>Number of employees less than 10 persons or operating revenue less than CNY1.00 million</td>
</tr>
<tr>
<td>Software and information technology services</td>
<td>Number of employees less than 300 persons or operating revenue less than CNY100.00 million</td>
<td>Number of employees at least 100 persons and operating revenue at least CNY10.00 million</td>
<td>Number of employees at least 10 persons and operating revenue at least CNY0.50 million</td>
<td>Number of employees less than 10 persons or operating revenue less than CNY0.50 million</td>
</tr>
<tr>
<td>Real estate development</td>
<td>Operating revenue less than CNY2.00 billion or total assets less than CNY100.00 million</td>
<td>Operating revenue at least CNY10.00 million or total assets at least CNY50.00 million</td>
<td>Operating revenue at least CNY1.00 million or total assets at least CNY20.00 million</td>
<td>Operating revenue less than CNY1.00 million or total assets less than CNY20.00 million</td>
</tr>
</tbody>
</table>

Note: CNY6.46 = $1.00.
Social protection for informal workers mainly includes work security and social insurance, both of which are mainly mandated by the Ministry of Human Resources and Social Security (MOHRSS) under the State Council. According to the Law of Labor Contract, the administrative department of labor under the MOHRSS is in charge of supervising and administering implementation of the labor contract system nationwide. Counterpart administrative departments of labor have likewise been established as local government units at the provincial, city, and county levels. These agencies are responsible for the supervision and implementation of the labor contract system in their respective jurisdictions.

The Law of Labor Contract also stipulates that trade unions should protect the legitimate rights and interests of workers, including implementation supervision of collective contract agreements by employing units. In the event that an employing unit violates labor laws or regulations, or breaches the provisions of a collective labor contract, the trade union has the right to put forward its case and to request rectification. Further, if a worker requests arbitration or initiates a lawsuit against an employing unit, the trade union has the right to provide him or her with support and assistance in accordance with the law.

The Social Insurance Law stipulates that the social insurance administrative departments of the State Council are responsible for administering social insurance programs throughout the country. Other relevant departments of the State Council are responsible for certain aspects of social insurance programs per their respective duties. There are also counterpart social insurance administrative departments at the provincial, county, and city levels that are responsible for various aspects of administration of social insurance programs.

Social insurance agencies affiliated with government social insurance administrative departments are responsible for providing social insurance services such as social insurance registration, creation of personnel records, and payment of social insurance benefits. Trade unions also protect the legal interest of workers in accordance with the law. As a result, they are entitled to study social insurance issues, join social insurance supervision commissions, and supervise issues related to the social insurance interests of workers.
Compliance and Effectiveness of Labor-Related Laws

The labor contract and social insurance laws entitle all full-time workers employed by MSMEs to social protection. They allow such workers to clarify the responsibilities of administrative departments and trade unions as these relate to protecting employee interests.

However, not all of the provisions of the laws are fully implemented. Migrant workers, particularly who work in MSMEs, provide a notable exception. In fact, only 41.4% of rural migrants in urban areas work under written employment contracts. Further, less than half of these participate in employee social insurance programs as required by both laws.

Several factors are responsible for this. First, many informal employees—migrant workers in particular—are not aware of their rights under the labor contract and social insurance laws. Second, it is not uncommon to have agreements between MSME employers and employees to not participate in employee social insurance programs due to the relatively high rates of contribution. Young, healthy workers often prefer to maximize their take-home pay and have their insurance premiums included in their net income than to make the contributions themselves. Third, migrant workers already participate in medical and pension insurance schemes for residents in their hukou; as a result, they are not eligible to participate in schemes of the areas to which they have migrated. Fourth, the government faces a difficult choice regarding enforcing legally mandatory participation in social insurance schemes by MSMEs and their employees.

Most MSME employers cannot fulfill their obligation to pay insurance contributions due to the high levels of contribution relative to their low financial capacity. Government labor and social insurance departments try to ensure compliance with the labor contract and social insurance laws, but they are also aware that employer contributions account for about 30.0% of payrolls. Forcing full compliance could result in closure of many MSMEs, resulting in significant increase of unemployment rate. Thus, employers’ participation has become voluntary and, in effect, a violation of existing law.

Labor unions do not generally exist in MSMEs. The focus of the All-China Association of Trade Unions is mostly on working conditions, ensuring that workers are paid the full amount of wages that they are due, and ensuring compliance with work-related injury insurance.

120 Typically, pension insurance accounts for 20.0% of the total payroll, medical insurance, at least 6.0%; unemployment insurance, 2.0%; work-related injury insurance, 0.9%; and maternity insurance, 0.8%.
Social Protection Programs

Social Insurance Programs for Employees

Basic Pension Insurance for Employees

Basic pension insurance for employees was established in 1991 to replace the retirement scheme. This program benefits all working units and their employees. The benefits payable under the program consist of the social pooling pension and individual account pension. The social pooling pension is calculated as the average (i.e., mean) level of wages in relevant localities paid during the previous year, plus the indexed contributory wages of the employee concerned paid during all contributory years times the number of years of employment.

The employer’s contribution to the social pooling fund should not exceed 20.0% of that employer’s payroll. Employees then pay 8.0% of their contributory wages to their individual accounts. To receive a monthly pension, the employee must have (i) made contributions into the social pooling fund for at least 15 years; and (ii) reached the legal retirement age, which is 60 years for males, 55 years for female management staff members and professionals, and 50 years for female laborers. In 2014, the national monthly average pension was about CNY2,000.00 ($326.00).\textsuperscript{121}

Basic Medical Insurance for Employees

Basic medical insurance for employees, which covers all working units and their employees in urban areas, was established in 1999. Both employers and employees contribute to basic medical insurance. The only exceptions are employees who work irregular hours, for whom participation is voluntarily. An employer’s required contribution is 6.0% of the total payroll, while individuals contribute 2.0% of their gross wages.

This program has both a social pooling fund component and an individual account component. The social pooling fund covers medical expenses for inpatient care and chronic illnesses that are treated in clinics, while the individual account covers outpatient services and minor illnesses.

Individuals are also required to make co-payments when medical services are received, which are paid through deductibles. For the social pooling fund,

\textsuperscript{121} The exchange rate is CNY6.14 to $1.00. ADB (2015).
the deductible paid by the individual is 10.0%. There is a ceiling on individual payments, which is six times the annual local average wage of the previous year.

Retirees who have completed the required number of years of contributions are eligible for medical benefits without having to make further contributions. Their deductibles and co-payments are also lower than those of the working population.

**Unemployment Insurance**

The PRC established unemployment insurance in 1986, and the State Council promulgated the Regulation on Unemployment Insurance in 1999. The eligibility requirements include (i) having contributed for at least 1 year, (ii) being involuntarily unemployed, and (iii) being actively engaged in seeking work. The level of benefits paid is subject to a ceiling, which is equal to the minimum wage, and a floor, which is equal to the minimum living guarantee amount set by the local government concerned. The maximum duration of unemployment insurance benefits depends on the duration of employment, which is (i) 12 months for those who have contributed for 1–5 years, (ii) 18 months for those who have contributed 5–10 years, and (iii) 24 months for those who have contributed more than 10 years.

**Work-Related Injury Insurance**

Issued in 2003 and revised in 2010, the Regulation on Work-Related Injury Insurance governs administration of this program. Employers are fully responsible for funding the program. There are three contribution rates, each related to the level of risk of work-related injury in the industry. In addition, floating rates are applied to each enterprise according to its incidence of work-related injury over the previous 1–3 years. The national average contribution rate is less than 1.0% of the total amount of the payroll of the enterprise.

Benefits are paid to workers injured at their workplaces as a result of their employment, or for any work-related reason. Benefits include payment for medical treatment and rehabilitation from work-related injuries, lump-sum payment in the event of death or loss of capacity to work, lifetime injury allowance for complete or partial loss of capacity to work, allowance for nursing expenses, and survivors’ allowance.

**Maternity Insurance**

Maternity insurance mainly covers enterprises and employed workers in urban areas. Employers are fully responsible for funding the entire program. Currently,
the maximum contribution rate is not more than 1.0% of the total payroll of the firm. In addition to covering medical and maternity costs incurred in a hospital, participating female workers who give birth can receive a maternity allowance for a duration of not less than 90 days. This allowance is equal to the average wage at the working unit of the employee.

Social Insurance Programs for Residents

Basic Pension Program for Residents

In 2008, a new national rural pension program was introduced, consisting of a basic pension and individual account pension (State Council of China 2009). According to the State Council policy, all rural residents aged 16 years or above (excluding students) are required to make a monthly contribution of CNY60.00 ($8.21) to the basic pension. The central government is financially responsible for contributions to programs operating in the middle and western provinces, and incurs half of the funding for programs operating in eastern provinces such as Guangdong.

To encourage residents’ participation in the program, the Guangdong provincial government, for example, provides CNY10.00 ($1.37), while the city and county government each provides an additional CNY10.00 ($1.37) to the participant (Guangdong Government 2009). In practice, the local government can increase its level of contribution at its own discretion. Meanwhile, residents contribute to the individual account pension, with the government matching the funds.

The new basic pension program for residents who live in rural areas was piloted in 10.0% of all counties nationwide in 2009. Coverage was expanded nationwide to 40.0% of all counties in 2011 and 100.0% of all counties in 2012. The basic pension program for urban residents was established in 2011; contributions for urban residents were set at a higher level than rural residents. By 2012, the basic pension program for urban residents covered all urban areas. In 2014, the State Council merged the programs for rural and urban residents into one program, with an expected average contribution of CNY100.00 (about $16.00) per month.

By the end of 2014, 842.3 million, or 70.6%, of eligible people participated in at least one pension insurance program (MOHRSS 2015). Of these participants, 229 million were those who received pension benefits.

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122 Exchange rate of CNY7.30 to $1.00.
123 See footnote 124.
New Rural Cooperative Medical Scheme

The Rural Cooperative Medical Program was based on the collective economy that operated during the 1960s and 1970s. In 2003, the PRC initiated the New Rural Cooperative Medical Scheme to cover expenses associated with serious illnesses contracted by rural residents. This scheme is pooled at the county level with voluntary household participation and administered by the National Health and Family Planning Commission.

In 2014, the per capita contribution level was CNY362.00 ($59.00), of which CNY320.00 ($52.00) was paid through government subsidies, with individuals bearing the remainder of the cost. In 2010, 836 million rural residents, or 96.0% of the population, participated in the program. However, by 2014, the number of participants declined to 802 million, in part because the program was integrated into the medical insurance program for urban residents in some localities. Program participation for rural residents will likely continue to decline in the coming years due to increasing urbanization.

Medical Insurance for Urban Residents

In 2007, the State Council required local government units to establish a medical insurance system for urban residents who had no jobs and lacked medical insurance coverage. Due to individual contributions being heavily subsidized by the local governments, today enrollment is growing rapidly. By the end of 2014, about 1.3 billion people were covered by one medical insurance scheme or another.

In 2014, the annual local government subsidy for each urban resident was CNY320.00 ($52.00), while the average individual contribution was CNY120.00 ($19.00). Participant co-payment of this program is quite high, but reimbursement rates are relatively low. In 2014, only 70.0% of medical expenses within the covered range were reimbursed by the fund.

Social Assistance Programs

Minimum Living Standard Guarantee

The minimum living standard guarantee is of two types: urban dibao\textsuperscript{124} and rural dibao. Both are means-tested programs that provide regular cash and/or in-kind support to poor households whose income falls under a certain threshold. However, there are significant disparities in the allowance levels.

\textsuperscript{124} Dibao is defined as regular cash and/or in-kind support to poor households up to a locally defined poverty line.
of urban and rural areas across provinces, including allowances paid in cities within a single province. In addition, government units responsible for setting the level of the allowance locally often set their allowance levels based on their own financial capability.

Initiated by some of the more economically developed regions in the 1990s, urban dibao was subsequently expanded to include all regions under the Regulation on Urban Dibao, which the State Council issued in 1998. While both the central government and local government units share the financial responsibility for the urban dibao program, the central government fully finances the program in the middle and western regions. In 2014, the average level of monthly benefits paid to recipients of the urban dibao program was CNY275.00 ($45.00).

Following the expansion of the urban dibao program to all of the country’s urban areas, the PRC began expanding the program to rural areas, replacing the traditional low-level and less-regular support systems that operated there. Currently, local governments finance the rural dibao program, with the central government supporting the program. In 2014, the national average level of monthly benefits paid to individuals under the rural dibao program was CNY125.00 ($20.00).

By the end of 2014, the Minimum Living Standard Guarantee program—the country’s largest social assistance initiative—covered 52.1 million rural poor residents and 18.8 million of the PRC’s urban poor.

Medical Assistance Program

Launched in late 2003, the medical assistance program protects poor households against the impact of serious illness, a major source of poverty in the PRC. Jointly financed by the central and local governments, the medical assistance program supports participation by poor households in the New Rural Cooperative Medical Scheme or its counterpart medical insurance scheme for urban residents, and provides payment for the medical expenses of these poor households.

Implementation Challenges and Opportunities

The PRC provides social protection to all of its citizens. However, some constraints to delivering social protection to informal workers remain.

First, the social insurance system for employees was initially designed for formal workers, and was only later extended to informal workers. As a result, the system faces challenges to match affordability to pay the contribution with the
willingness of informal sector employers and employees to participate in them. The wages that informal workers receive are lower than their formal sector counterparts. On average, the percentage share of informal workers’ income on social insurance contributions is larger than that of the formal sector. MSME employers also face affordability challenges, paying only contributions to their core employees or none at all. Strict enforcement of compliance regulations for employer participation becomes a challenge.

Second, many social protection programs for residents were designed for those with hukou status. Local government units finance these programs, but they are not responsible for financing social protection benefits for hukou residents of jurisdictions outside of their own, unless these out-of-jurisdiction residents are employed and contribute as employees in the jurisdiction to which they have migrated. As a result, migrant workers can only participate in social insurance programs as residents of the jurisdictions in which they are hukou-registered, which means returning to their jurisdictions of origin to participate in these programs. If they become ill in an area to which they migrated, the rate reimbursed in that city is lower than the rate paid in their jurisdiction of origin. However, if there were no hukou constraints on migration, the relatively high levels of social protection benefits paid in major cities—already overpopulated—would act as a magnet for yet more migrants, further burdening their urban financial and administrative systems.

Third, migrant workers are allowed to transfer their social insurance rights as employees to the jurisdictions to which they have migrated. However, the amount of time required for completing the administrative procedures for transferring their vested rights is significant. This lengthy process hinders migrants from participating in employee social insurance programs administered by the jurisdictions to which they have migrated.

Some opportunities to improve coverage of social insurance for informal workers have emerged. First, the State Council now requires local government units to establish residents’ medical insurance programs for serious illnesses, which are complementary to current medical insurance for residents, effectively increasing the overall level of reimbursement of medical costs of residents. This will help narrow the gap between medical benefits paid by social insurance programs for employees and those paid by social insurance programs for residents. Narrowing this gap would benefit informal workers currently unable to participate in medical insurance schemes for employees, but who can still participate in medical insurance schemes for residents. Second, development of information technology, will facilitate enrollment, transfers of contributions between programs administered by different jurisdictions, and direct settlement of costs between jurisdictions. In the long term, these developments will facilitate informal workers’ participation in the social insurance programs.
Results and Assessment

This study surveyed 273 workers employed by 71 MSMEs in selected provinces. Information at the individual level pertaining to employment, job security, training, participation in social protection programs, and membership in trade unions were collected.

Level of Educational Attainment and Number of Dependents

Among the respondents, 3.3% completed primary education, 4.8% completed intermediate education, 31.5% entered secondary school, 19.0% received vocational training, and 40.0% received tertiary education. Of the 255 respondents who answered the question on dependent support, 6.6% had one dependent, 24.5% had two dependents, 20.5% had three dependents, and 31.5% had four or more dependents. In all, 83.1% were supporting dependents.

Employment History and Relationship

Of the 273 respondents surveyed, 48.4% had held their current job for 5 years or more, while only 16.8% had held their current job for 1 year or less. Regarding previous employment, 141 respondents completed the survey question pertaining to their previous job. Of these, 39 (27.7%) had worked in their previous job for 1 year or less, 32 (22.7%) for 2 years, and 37 (26.2%) for 5 years or more.

Respondents generally felt that it was easy for informal workers to find a similar new job. Of the 93 respondents who responded to the question on previous unemployment experience, only 11 remained unemployed for 1 year or more, and most found their current job within 6 months. Further, 51 of these workers had changed their jobs within the previous month. This suggests that the PRC’s rapid pace of economic growth in recent years has resulted in many work opportunities. However, 69 respondents (25.0%) expressed fear of unemployment, either because of a possible idle economy or due to their low skills level.

Of all workers surveyed, 142 (54.8%) had signed contracts with their employers; 18 (6.9%) had only verbal contracts, while 99 (38.3%) had no contracts (Table 6.4). Thus, workers in manufacturing are more likely to be employed formally than workers in the services or construction sectors.

Skills and Training Requirements of Current Employment

Two-thirds of respondents received formal training for their current jobs that could be useful in another job. Of the 255 respondents who answered this question, 72.5% said that they have opportunities for improving their skills
at their current job. Of these, more than 70.0% said their employers would organize and finance improvement of their skills, and about 30.0% said that they could pay for training themselves. However, responses to this question varied widely across the three economic sectors.

### Working Conditions and Hours of Work

Of all of the respondents, 80.0% said that their jobs were safe, while only 20.0% (most of whom worked in construction) said that their jobs were unsafe. Among the respondents, 61.5% worked 8 hours a day, 25.0% worked more than 8 hours a day, and only 7.3% worked less than 8 hours a day.

According to labor law, work hours should not exceed 44 hours per week. However, 58.3% of the respondents worked more than 44 hours a week. Of the three economic sectors, 85.2% of construction workers worked more than 44 hours a week, along with 63.1% of manufacturing workers and 51.6% of service workers (Table 6.5).

### Table 6.5: Number of Hours Respondents Worked per Week (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Hours Worked per Week</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 44</td>
<td>More than 44</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>36.9</td>
<td>63.1</td>
</tr>
<tr>
<td>Construction</td>
<td>14.8</td>
<td>85.2</td>
</tr>
<tr>
<td>Services</td>
<td>48.4</td>
<td>51.6</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>41.7</strong></td>
<td><strong>58.3</strong></td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the authors.
Remuneration, Social Protection, and Union Representation

Of the total number of respondents, 23.0% had a monthly income of less than CNY2,000.00; 19.0% had a monthly income of CNY2,000.00–CNY3,000.00; and 33.5% had a monthly income of CNY3,000.00–CNY4,000.00. The incomes of 75.1% of respondents fell short of the national average monthly wage, which was CNY4,164.00 at the time that the survey was conducted. Table 6.6 shows work-related allowances and benefits.

Table 6.6: Number and Percentage Share of Respondents Receiving Work-Related Allowances and Benefits

<table>
<thead>
<tr>
<th>Type of Benefit</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-end bonus</td>
<td>124</td>
<td>45.4</td>
</tr>
<tr>
<td>Medicaid</td>
<td>105</td>
<td>38.5</td>
</tr>
<tr>
<td>Death benefit</td>
<td>48</td>
<td>17.6</td>
</tr>
<tr>
<td>Annuity</td>
<td>74</td>
<td>27.1</td>
</tr>
<tr>
<td>Long leave, sick leave, paid leave</td>
<td>96</td>
<td>35.2</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>44</td>
<td>16.1</td>
</tr>
<tr>
<td>Transport allowance</td>
<td>86</td>
<td>31.5</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>5.9</td>
</tr>
<tr>
<td>No response</td>
<td>4</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the authors.

For all three economic sectors, 61.8% said that their employers make social insurance contributions on their behalf. In manufacturing, 74.6% of respondents had social insurance with employer contributions, while the corresponding percentage shares for construction and service were 69.7% and 54.8%, respectively.

Regarding participation in individual social protection programs, 61.5% participated in pension insurance schemes, 63.5% in medical insurance programs, 46.9% in work-related injury insurance programs, 34.8% in unemployment insurance, 33.0% in maternity insurance, and 18.3% in a housing provident fund. The lowest participation rates were in unemployment insurance and maternity insurance. Only one-third of respondents participated in all five

125 See Footnote 124.
social insurance schemes as mandated by law, which made them compliant with the strictest definition of formal sector workers.

The study indicates that 73.3% of respondents were satisfied with their current jobs, and that only 26.7% were dissatisfied due to low wages, long work hours, fatigue, or other factors. Even in the absence of employment contracts or participation in social insurance programs, many respondents were satisfied with their current jobs. However, this may be a result of lack of awareness of social insurance rights.

Among the respondents, 15.9% said that formal organizations represent their interests as workers, 20.2% said that they rely on informal organizations to represent their interests as workers, while the remaining two-thirds said that no organization represents their interests as workers (Table 6.7). On membership in formal work-related organizations, 46.2% who worked in manufacturing belonged to such an organization, along with 36.1% in service and only 15.6% in construction.

Table 6.7: Percentage Share of Respondents Who Had a Formal or Informal Organization Represent Their Interests as Workers by Sector (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Formal Organization</th>
<th>Informal Organization</th>
<th>No Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>24.6</td>
<td>21.5</td>
<td>53.8</td>
</tr>
<tr>
<td>Construction</td>
<td>6.3</td>
<td>9.4</td>
<td>84.4</td>
</tr>
<tr>
<td>Services</td>
<td>14.2</td>
<td>21.9</td>
<td>63.9</td>
</tr>
<tr>
<td>Average</td>
<td>15.9</td>
<td>20.2</td>
<td>63.9</td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100.0% because of rounding.
Source: Survey of Informal Workers 2015 compiled by the authors.

Only 18.3% of respondents had heard of an active union at work, while the majority believed that unions have limited functions. Among the respondents, 25.6% said there is an opportunity for collective representation and action, and 62.9% would welcome unions at their places of work. Some of those uninterested in unions doubted their functions, while some thought that the firms at which they worked are too small for unions to be organized. Those
who worked in manufacturing were the most welcoming to trade unions (74.1%), followed by construction workers (64.5%), and in the service sector (57.5%). Many respondents focused on wages, work conditions, and provision of additional training and benefits as possible areas of improvement in social protection schemes.

Gender-Related Considerations

The labor and social security rights of female workers are protected under the Law of Protecting Women’s Rights, which provides that the government should guarantee female workers the same labor and social security rights as male workers, particularly with regard to equal pay for equal work. That said, the survey results indicate a significant difference in the degree of social protection extended to male and female workers. First, 42.1% of female respondents had no employment contracts, while the corresponding figure for male workers was 35.4%. Second, the average wage of female respondents was approximately 85.0% of that of male respondents. Third, only 58.6% of female respondents received formal training, compared with 67.3% of their male counterparts. Fourth, 51.2% of female respondents said that their employers do not make contributions to social insurance programs on their behalf, while this applied to only 31.4% of male respondents. Finally, fewer female respondents had employment contracts than male respondents, with female MSME employees more likely to be informal workers than their male counterparts.

The rate of satisfaction in current employment reveals that female respondents (68.4%) are less satisfied with their jobs than men (77.5%). The survey results also show no difference between male and female respondent attitudes on representation, as about 60.0% of both genders stated that they would welcome trade unions that represent their interests as workers.

Conclusions

The relatively high rates of social insurance program contributions make it difficult for MSMEs to comply with the labor contract and social insurance laws. Since most MSMEs use labor-intensive production techniques and are thus sensitive to labor costs, the lowest-paid employees are those who typically cannot afford to contribute to social insurance programs as required by law. Labor and social insurance administrative departments generally do not enforce mandatory participation for social insurance schemes by MSMEs due to a possible increase in overall production costs that can lead to possibility of operations ceasing.
In the PRC’s current social protection system, informal workers not covered by employee social insurance programs can still participate in government schemes offered to residents. However, as the government heavily subsidizes these schemes, the level of the benefits is relatively limited. Further, laws on labor relations require workers to participate in all five social insurance programs simultaneously. Thus, informal workers who do not participate in employee pension and medical insurance schemes are excluded from participation in work-related social insurance programs such as employment insurance, work-related injury insurance, and maternity insurance.

The current birth registry system, *hukou*, makes it difficult for migrant workers in informal sector to access social protection programs in the jurisdiction to which they have migrated. They can generally only access such programs in their jurisdiction of origin. Further, if they are covered by employee social insurance programs in their current jurisdictions and then later move to another jurisdiction, they must transfer their vested social insurance rights to their new jurisdiction, which involves a lengthy and cumbersome administrative process.

Under law, women are entitled to the same rights as men. However, females are less often employed in the formal sector, such as in the public sector or in state-owned enterprises, than men. The percentage share of female employees in MSMEs that have labor contracts is lower than that of their male counterparts. Further, their rate of participation in social insurance programs is significantly lower than male employees.

In the PRC, government is the main provider of social protection programs. As a result, the role of nongovernment organizations and charities is limited. Only one-third of respondents said that a formal or informal nongovernment organization protected their interests as workers, although 60.0% of respondents would welcome trade unions at their places of work.

**Recommendations**

The government should modify policies to accommodate participation of MSME employers and employees in social insurance. First, the government should amend current regulations to allow MSME employees to opt in or out of individual social insurance programs. For example, if MSME employees cannot afford to participate in pension and medical insurance programs for employees, then they should be allowed to participate in pension and medical insurance programs for residents. However, work-related injury insurance should remain mandatory. The second option is to not simply enforce mandatory participation in social insurance programs for employees, but to require lower contributions.
of MSME employees. For example, social insurance contributions of employees earning only the legal minimum wage, or whose wage rate falls short of a mandated threshold, should be based on their actual wage. This would relieve employees of the relatively disproportionate contribution rates.

The benefits paid by social insurance programs for residents, which are mainly financed by the government, should be recalculated to reflect the PRC’s current, relatively high rate of economic growth. These recalculated benefits would comprise wage increases, including those related to changes in the cost of living. Many informal workers have irregular schedules and earn relatively low wages that cannot support participation in social insurance programs for employees. Such individuals should be able to participate in social protection programs for residents, the benefit levels of which should guarantee them a minimum standard of living.

The next step should be improving the administration and management of the country’s social insurance programs, particularly using information technology to ensure universal participation and convenience in social insurance programs. Increased uptake of information technology could also facilitate the transfer of vested rights from one jurisdiction to another, which would, in turn, help protect the rights of migrant workers.

The government should also continue its public awareness initiatives to make every worker, particularly every migrant worker, understand his or her rights. This would help facilitate employee monitoring of employer compliance with laws on provision of universal social insurance.

The government should further encourage employees to establish trade unions or other organizations that protect their interests as workers and ensure that they receive the social insurance benefits to which they are entitled. For MSMEs, trade unions based either on the economic sector to which the firm belongs, or the geographic location in which the firm operates, could be established with government support. The role of such organizations should be expanded to include protection of employee rights, and participation in negotiations with employers to improve employee salaries, job security, and employer participation in social insurance programs.

Labor administration departments should also pay particular attention to protecting the rights of workers, particularly female workers. It is important to expand the training opportunities available to female workers, which could facilitate higher income and increase job security for female employees.

Finally, in addition to government social protection programs, nongovernment organizations should be allowed to provide social protection services and
to share the government’s burden of meeting the diverse needs of workers nationwide. Additional scope for allowing market-based entities to provide social protection services should also be considered.

References*


* ADB recognizes “China” as the People’s Republic of China.


CHAPTER 7

Social Protection for Informal Workers in Bangladesh: A Case Study of Micro, Small, and Medium-Sized Enterprises

Mohammad Yunus

Abstract

The importance of a well-designed social protection system within a comprehensive framework is an overarching issue in Bangladesh. This study aims to evaluate the status of social protection for workers in the informal sector and to highlight the challenges of designing a social protection framework for them.

The survey results reveal that the majority of workers have no permanent employment contracts with their employers. They are not paid the legal minimum wage and do not have access to other social protection benefits. These workers also reported limited access to safety equipment and lack of medical supplies in their workplaces, ineffective human resources divisions, the absence of training and a lack of awareness in maintaining a healthy working environment, and no penalties when rules and regulations are breached. Also, almost none of the workers know of any organization that represents their work-related interests. Male workers mostly dominate the managerial and clerical services, while the majority of workers in the operative services are female, particularly in the ready-made garment sector.

This study recommends focusing on two areas of social protection for the working-age population—unemployment insurance and work-related injury insurance—to address the needs of the growing informal sector in Bangladesh. Financing options, such as employer and employee contributions and government tax and nontax revenue, can also be explored. Finally, the government has an important role to play in ensuring effective labor law enforcement and necessary interventions to initiate social protection for informal workers.
Introduction

Social protection coverage for workers in the informal sector in Bangladesh is inadequate. Despite the well-accepted notion that “informal work is normal work” and that those who work informally have the right to social protection (Lund and Nicholson 2006), most workers in the informal sector are exposed to significant risks in terms of their employment tenures, work environments, and precariousness of their livelihoods. There are a number of reasons for this. First, the conditions under which they live and work expose them to substantial risks. Second, their income is low. They are therefore less likely to save for contingencies than those with higher incomes. Third, they have little or no access to formal means of managing life-related risks such as through insurance, pension funds, or social assistance.

Given Bangladesh’s sustained rate of growth of its gross domestic product (GDP) in recent years, the informal sector is growing rapidly. Of the country’s total labor force of 56 million in 2010, about 89.0% of all jobs were in the informal labor market. Of these, about 76.0% of workers were informally employed in urban areas, with the corresponding figure for rural areas at 92.0%. The informal sector accounted for more than 40.0% of Bangladesh’s total gross value added, with the greatest contributions to total value added occurring in the agriculture, fisheries, trade, and industry sectors, where the capital–labor ratio was relatively low. Informal enterprises generated about 77.0% of total employment (ADB 2012).

About 40.0% of men and 76.0% of women in the informal sector were laborers and unskilled workers. About 94.0% of these workers were employed in single proprietorships, individual businesses, or farms, about two-thirds of which did not keep any accounting records. While employees in the formal sector worked 51 hours per week, those in the informal sector worked 53 hours per week. The former group received Tk2,320.00 ($29.76)126 per month on average, as compared with Tk1,710.00 ($21.94) per month for the latter.

The sectors in which this informal labor force works are characterized by several structural problems that make the firms that comprise these sectors either incapable of providing social protection programs for their workers, or unwilling to do so. First, both the relatively high labor intensity of the output of these firms, as well as the informal status of their employees, results in exclusion from social protection schemes. Second, the absence of employment contracts creates worker insecurity, which in turn provides a disincentive for employers to offer social protection programs to their employees. Third, administration of

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126 Data were collected 15–30 December 2014, and the exchange rate was in 2015 Tk77.95 to $1.00.
Bangladesh’s laws, rules, and regulations pertaining to labor relations is relatively weak and inefficient.

This study assesses the position of informal workers in the construction, hospitality, and ready-made garment (RMG) sectors, given their importance in employment generation, gross value addition, and labor productivity. The discussion pays particular attention to (i) the different ways in which people are employed in the three sectors and how this makes them vulnerable in different ways at different points in the chain of production and distribution; (ii) the different ways in which men and women are able to participate in these sectors, the conditions under which they work, and their relative degree of control over work-related conditions; (iii) how workers in different settings and of a different employment status are regulated, including regulation by the government, organizations of employers, and formal and informal organizations of workers, as well as by national and international labor standards; (iv) the different entitlements of groups of workers to social protection, both through their employment and through wider public provision; (v) the link among stakeholders in these sectors, and the role that they can play in strengthening social protection; and (vi) implications for policy and practice with regard to reshaping existing mechanisms and enforcement of labor regulations covering workers at the national level, strengthening and scaling up social protection for workers, particularly in the informal sector.

Methodology

Workers in the informal sector are often not included in official statistics. As the survey conducted under this study was limited to the construction, hospitality, and RMG sectors, the space from which the survey sample was drawn is the total number of informal workers in these three sectors, irrespective of their working category. The formula for determining the sample size in case of proportions was

\[ n = \left[ \frac{Z_{a/2} \sqrt{r(1 - p)} + Z_\beta \sqrt{p_1(1 - p_1) + p_2(1 - p_2)}}{r(p_1 - p_2)^2} \right]^2 \]

where \( Z_{a/2} \) and \( Z_\beta \) are z scores of significance level and power. It may be noted that the above expression is not only a function of \( p_1 \) and \( p_2 \) but also of \( p(1 - p) \).

The general expression for \( \bar{p} \) is

\[ \bar{p} = \frac{p_1 + p_2}{r + 1}, \]

where \( r \) is the ratio of the larger group to the smaller group. Since the ratio of gross value added in the informal sector may be assumed to be equal to that in the formal sector, \( r \) becomes unity.
In that case, \( p = \frac{p_1 + p_2}{(r + 1)} \) becomes \( p = \frac{p_1 + p_2}{2} \), where \( r \) is the ratio of the larger group to the smaller group.

With approximately \( p_1 = 0.60 \) and \( p_2 = 0.40 \) as the shares in average value added in the formal and informal sectors in Bangladesh, and assuming a 10.0% error probability level (90.0% level of significance) and 80.0% power (in a two-tailed test), the above expression gave rise to the required sample, the estimated size being 76 \( \approx \) 80 (with nonresponse adjustment) in each of the three sectors. Since the study was conducted in three sectors, the total sample of workers was 240.

The criterion used for selecting the firms to be surveyed was their contribution to output or employment in the three economic sectors. For the construction sector, the Real Estate and Housing Association of Bangladesh was contacted for the approximate number of establishments in Dhaka and Chittagong, as well as their relative size distribution. Once the factories to be included in the survey were identified, four or five workers from each factory were interviewed. For the RMG sector, the directory of members of the Bangladesh Garment Manufacturers and Exporters Association was used to determine the number of garment factories in Dhaka and Chittagong. Since there was no known association of hospitality firms, a few officials from large hotels were contacted to estimate the size distribution of the firms in this sector, as well as the number of workers that they employ. Based on this information, the required number of hotels was visited, and the requisite number of workers was interviewed.

The survey sample included managerial, clerical, and operative workers in the three sectors, with roughly one-third of each of these three categories being interviewed. A total of six focus group discussions and nine key informant interviews were conducted in the three sectors. Two-thirds of the respondents were from Dhaka, as it has the highest concentration of industrial firms; the remaining one-third of the respondents were from Chittagong, which has Bangladesh’s second-highest concentration of industrial firms.

Profile of Micro, Small, and Medium-Sized Enterprises in Bangladesh

Numerous definitions of micro, small, and medium-sized enterprises (MSMEs) are used in Bangladesh, as government agencies such as the Ministry of Industries (MOI), Bangladesh Bank, and Bangladesh Bureau of Statistics (BBS) all have their own definitions. Even within the same government agency, the
definition used has varied considerably over time. While the definitions used by MOI and Bangladesh Bank focus on capital and employment, BBS focuses solely on employment. Other than this difference, the three definitions are quite similar (Table 7.1).

### Table 7.1: Definitions of Micro, Small, and Medium-Sized Enterprises Used by the Ministry of Industries and Bangladesh Bank

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>Sector</th>
<th>Fixed Assets (Tk million)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ministry of Industries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cottage</td>
<td></td>
<td>&lt;0.50</td>
<td>&lt;10</td>
</tr>
<tr>
<td>Micro</td>
<td></td>
<td>&gt;0.50–≤5.00</td>
<td>&gt;10–≤24</td>
</tr>
<tr>
<td>Small</td>
<td>Manufacturing</td>
<td>&gt;5.00–≤100.00</td>
<td>&gt;25–≤99</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&gt;0.50–≤10.00</td>
<td>&gt;10–≤25</td>
</tr>
<tr>
<td>Medium-Sized</td>
<td>Manufacturing</td>
<td>&gt;100.00–≤300.00</td>
<td>&gt;100–≤250</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&gt;10.00–≤150.00</td>
<td>&gt;50–≤100</td>
</tr>
<tr>
<td><strong>Bangladesh Bank</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cottage</td>
<td></td>
<td>&lt;0.50</td>
<td>&lt;10</td>
</tr>
<tr>
<td>Micro</td>
<td>Manufacturing</td>
<td>&gt;0.50–≤5.00</td>
<td>&gt;10–≤24</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&lt;0.50</td>
<td>≤10</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>&lt;0.50</td>
<td>≤10</td>
</tr>
<tr>
<td>Small</td>
<td>Manufacturing</td>
<td>&gt;5.00–≤100.00</td>
<td>&gt;25–≤99</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&gt;0.50–≤10.00</td>
<td>&gt;10–≤25</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>&gt;0.50–≤10.00</td>
<td>&gt;10–≤25</td>
</tr>
<tr>
<td>Medium-Sized</td>
<td>Manufacturing</td>
<td>&gt;100.00–≤300.00</td>
<td>&gt;100–≤250</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&gt;10.00–≤150.00</td>
<td>&gt;50–≤100</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>&gt;10.00–≤150.00</td>
<td>&gt;50–≤100</td>
</tr>
</tbody>
</table>

Notes:
1. Tk77.17 = $1.00.
2. The value of fixed assets excludes land and buildings.
3. Under Bangladesh Bank (2011), if any enterprise falls under a particular category with regard to one criterion (i.e., total fixed assets or employment), but under a larger category following another criterion, then the enterprise is classified as belonging to the larger category.

In its Survey of Manufacturing Industries (SMI) 2012, BBS provides establishment and employment distributions that follow the definitions in Table 7.1, except for the cottage industry category (BBS 2013). Table 7.2 summarizes the information available from the SMI, which includes the number of firms, total number of workers engaged, and category of establishment concerned.

**Table 7.2: Distribution of Manufacturing Establishments Employing at Least 10 Workers, 2010–2011**

<table>
<thead>
<tr>
<th>Description</th>
<th>Micro (10–24 workers)</th>
<th>Small (25–99 workers)</th>
<th>Medium-Sized (100–249 workers)</th>
<th>Large (250 or more workers)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of establishments</td>
<td>17,384 (40.6%)</td>
<td>15,666 (36.6%)</td>
<td>6,105 (14.3%)</td>
<td>3,639 (8.5%)</td>
<td>42,792 (100.0%)</td>
</tr>
<tr>
<td>Total persons engaged</td>
<td>271,644 (5.4%)</td>
<td>738,801 (14.7%)</td>
<td>1,041,220 (20.8%)</td>
<td>2,964,272 (59.1%)</td>
<td>5,015,936 (100.0%)</td>
</tr>
<tr>
<td>Gross value added (Tk million)</td>
<td>92,092.00 (5.9%)</td>
<td>369,974.00 (23.7%)</td>
<td>363,646.00 (23.3%)</td>
<td>737,235.00 (47.2%)</td>
<td>1,562,947.00 (100.0%)</td>
</tr>
<tr>
<td>Value added per worker (Tk ’000)</td>
<td>339.00</td>
<td>501.00</td>
<td>349.00</td>
<td>249.00</td>
<td>312.00</td>
</tr>
</tbody>
</table>

Note: Tk77.17 = $1.00.

According to Tables 7.1 and 7.2, 43,000 manufacturing establishments in Bangladesh had 10 workers or more in 2010–2011.\(^{127}\) These firms employed nearly 5 million workers, each of whom contributed Tk311,596.00 ($3,998.00)\(^{128}\) in gross value added on average. In fact, these MSMEs were a significant component of Bangladesh’s manufacturing sector, in that they accounted for 51.0% of all firms, 36.0% of total employment, and 52.0% of gross value added. That MSMEs were more productive than larger enterprises is evident from the extent of MSME value added per worker. More specifically, the weighted average value added per worker for MSMEs was Tk4,029.00 ($51.69), compared with Tk249.00 ($3.19) for larger firms. Further, nearly 64.0% of all establishments were located in rural areas, generating about 60.0% of total employment (BBS 2005).

\(^{127}\) Bakht and Basher (unpublished) reported that the number of manufacturing units with 10 or more workers was recorded to be 59,748 in the 2013 census, as compared with 42,792 recorded in the SMI in 2012. Since the SMI is basically a sample survey and the BBS lacks satisfactory arrangements for updating the manufacturing universe, one would suspect the SMI figure to be an underestimate.

\(^{128}\) Gross value added per worker is derived from 1,562,947 x 1,000,000/5,015,936.
Bakht and Basher (unpublished) reported that during the inter-census period between 2001–2002 and 2013, firms that employed 10–49 workers and 50–99 workers experienced more rapid growth in output than did firms that employed fewer than 10 workers and 100 or more workers. This suggests that MSMEs that employed 10–99 workers were the most dynamic component of Bangladesh’s manufacturing sector during this period.

Thus, it can be concluded that achieving Bangladesh’s target of double-digit annual growth in GDP largely depends on the performance of micro and small enterprises. However, such enterprises contributed only about 5.2% of total GDP in 2011–2012, and this share has not increased much over the past decade.

Given the importance of MSMEs to the economy, it is important to examine their efficiency levels with regard to resource use (i.e., their factor intensity), and their potential for contributing to industrial development (i.e., their factor productivity) (Table 7.3). Most estimates indicate that MSMEs as a whole are more efficient users of resources, except for their capital–labor ratios, and that they are also economically more productive than their larger counterparts (Ahmed 2008).

A significant number of literature suggests that MSMEs face numerous constraints (Miah 2007, Ahmed and Chowdhury 2009). These constraints can be categorized as structural and policy-induced. The former includes constraints such as lack of access to finance, modern technology and information, and infrastructure.

### Table 7.3: Output–Labor, Capital–Output, and Capital–Labor Ratios for Firms in the Manufacturing, Services, and Trade Sectors in Bangladesh

<table>
<thead>
<tr>
<th>Type</th>
<th>Gross Output–Labor</th>
<th>Capital–Output</th>
<th>Capital–Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>214.4</td>
<td>0.9</td>
<td>189.7</td>
</tr>
<tr>
<td>Services</td>
<td>356.3</td>
<td>0.6</td>
<td>196.3</td>
</tr>
<tr>
<td>Trade</td>
<td>143.2</td>
<td>3.1</td>
<td>449.4</td>
</tr>
<tr>
<td>All</td>
<td>219.2</td>
<td>1.1</td>
<td>238.5</td>
</tr>
</tbody>
</table>


129 It should be noted that these estimates are based on a survey with a small sample of 70, and thus are not expected to provide precise estimates of the indicators concerned.
Further, MSMEs in Bangladesh struggle to obtain credit and loans, as many financial institutions are reluctant to offer loans to MSMEs on the pretext that they are high-risk borrowers. MSMEs also have limited access to modern technology and training facilities, which leads to lack of expertise, innovation, and ideas and, in turn, results in poor marketing and promotional strategies. MSMEs also have limited access to information technology; in fact, only 15.0% of MSMEs use computers, and only 8.0%–10.0% of MSMEs are internet users (Ahmed and Chowdhury 2009). Moreover, MSMEs require targeted fiscal incentives to become successful, but they receive no deferential treatment with regard to tax incentives or business subsidies, contrasting sharply with the tax holidays that large firms enjoy. Most MSMEs pay practically the same value-added tax of 15.0% as do their large counterparts. Registration is also a cumbersome process for MSMEs due to legal, regulatory, and administrative constraints. Lack of transparency and corruption are still other problems (Hossain 1998). As a result, many entrepreneurs—especially female entrepreneurs, who run many MSMEs—do not register their businesses, and they forego the government incentives that are provided.

Regulatory Framework and Enforcement of Social Protection for Workers

Comprising 354 articles, the Bangladesh Labour Act (2006) is fairly comprehensive and progressive. The act was amended in 2013 to make more consistent with the Conventions of the International Labour Organization (ILO)—in particular, the right of workers to organize and to bargain collectively. This amendment saw some of the original articles modified, and new articles included.

The comprehensive nature of the law can immediately be seen from its coverage. It addresses conditions of service and employment, youth employment, maternity benefits, health and hygiene, safety, welfare, working hours and leave, wages and payment, compensation for injured workers, trade unions and industrial relations, disputes, labor courts, participation of workers in company profits, regulation of employment and safety of dock workers, provident funds, apprenticeships, penalties and procedures, administration, and inspections (Jabbar 2003).

Employment Standards

Appointment letters and service books are both mandatory and free of charge for workers. The law specifies which information is to be included in appointment letters and service books, and requires the latter to be signed by
both the employer and worker. In the case of retrenchment or discharge, the employer is required to serve prior notice and to pay compensation or a gratuity. However, the employer is allowed to terminate the services of workers without providing an explanation by simply invoking *termination simplicitor*.

The Bangladesh Labour Act also addresses the issue of wages, including (i) any bonus payable or any other additional wages as per the terms and conditions of employment; (ii) any remuneration payable during leave, holiday, or overtime; (iii) any amount payable against an order of the court or under an award or settlement; (iv) any amount payable upon expiry of employment by dismissal, discharge, retrenchment, or termination, whether arising out of a contract or under the law; and (v) any amount payable due to layoff or temporary suspension.

Workers are entitled to holidays, casual leave, festival leave, annual leave, and sick leave. Employers must pay equal wages for male and female workers for work of an equal nature or value. The new law increases the length of maternity leave from 12 weeks to 16 weeks, and decreases the duration of the qualifying service period for claiming this benefit from 9 months to 6 months. No children under 14 years of age are allowed to work in any occupation or establishment.

The Minimum Wage Board determines minimum wage rates in various sectors, taking into consideration numerous criteria that include cost of living, standard of living, cost of production, productivity, price of products, capability of the business concerned, and economic and social conditions in the country. However, the act is silent on the issue of forced labor, even though it is prohibited by the Constitution.

### Occupational Safety and Health

The Bangladesh Labour Act entrusts inspectors with ensuring that adequate measures for the safety and health of workers have been taken. Establishments are required to have one first-aid box and one trained person per first-aid box for every 150 workers, as well as an equipped dispensary with a patient room, doctor, and nursing staff. Employers are required to take appropriate measures for protecting workers from danger, as well as damage due to fire. Every establishment is required to provide drinking water, sufficient light and ventilation, and separate toilets for male and female workers, and to be kept clean.

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130 *Termination simplicitor* means termination of the services of an employee in accordance with the contract of services, without casting any stigma on his or her performance.

131 Article 34 of the Constitution states, “All forms of forced labor are prohibited, and any contravention of this provision shall be an offence and shall be punishable in accordance with Law.”
Workers’ Welfare and Social Protection

The Bangladesh Labour Act defines wages by referencing both inclusion and exclusion lists. Gratuity as a severance payment is defined as the amount of the wages of at least 30 days payable to a worker who had worked in a factory for not less than 6 months at the expiry of her or his employment. Similarly, the provident fund is considered to be wages, and is thus payable within 30 days of expiry of employment. The act provides that if any worker dies after completing 2 years of continuous service with an employer, the worker shall be entitled to benefits of 30 days’ wages for each year of service completed, or 6 months thereof, or gratuity, whichever is greater. Every establishment or employer is required to form a provident fund if three-quarters of its workers demand it by written application, as well as a workers’ participation fund and a workers’ welfare fund. Establishments with 200 or more workers are to offer group insurance.

Labor Relations and Social Dialogue

Every worker has the right to form and join a trade union of his or her choice. Trade unions have the right to draw up their own constitution and rules and to elect representatives. Also, trade unions have the right to form and join a federation, and such unions and federations have the right to affiliate with any international organization or confederation of trade unions. Trade unions are allowed to serve as a collective bargaining agent in any establishment. Employers cannot recruit new workers during the period of a strike. They are also prohibited from terminating workers during the period when a trade union is organizing in a particular establishment.

The Bangladesh Labour Act stipulates a list of activities on the part of an employer that are considered to be unfair labor practices. These include

(i) imposition of any condition in a contract of employment that seeks to restrain the right of a person to join a trade union or to continue her or his membership in a trade union;
(ii) refusal to employ or continue to employ an individual on the grounds that he or she is, or is not, a member or officer of a trade union;
(iii) discrimination against any person with regard to any employment, promotion, or condition of employment on the grounds that such person is, or is not, a member or officer of a trade union;
(iv) discharge or dismissal of any person on the grounds that that person is, or is not, a member or officer of a specific trade union;
(v) instigating or pressuring a person to become a member of a particular trade union;
(vi) inducing a person to refrain from becoming, or to cease to be, a member or officer of a trade union;
(vii) compelling any officer of a collective-bargaining agency to sign a memorandum of settlement by intimidation or by coercion;
(viii) interfering with, or in any way influencing, balloting in the election of a collective-bargaining agency;
(ix) recruitment of new workers during a legal strike;
(x) willful failure to implement the recommendations of a participation committee;
(xi) failure to respond to any communication made by the collective-bargaining agency regarding any industrial dispute;
(xii) transfer of the president, general secretary, organizing secretary, or treasurer of a trade union; and
(xiii) imposition of an illegal lockout and continuance thereof, or persuading a person to participate in such an illegal lockout.

Enforcement

The Bangladesh Labour Act makes it mandatory for a factory where more than 50 permanent workers are employed to form a participation committee comprising representatives of both workers and employers. The law makes a provision for implementing the committee’s recommendations within a time period set by itself. Otherwise, willful negligence will result, and will be treated as an unfair labor practice.

The government appoints the director of labor and “such number” of additional directors of labor as necessary for monitoring workplace activities. The government appoints a chief inspector, and a requisite number of deputy chief inspectors and assistant chief inspectors. These officers have the power to enter, inspect, and examine workplaces and to ascertain compliance with labor laws. The government has the power to establish as many labor courts as it considers necessary.

The act also provides that a labor court shall consist of a chair and two members (one representing employers and the other representing employees) to advise him or her. The chair shall be a serving district judge or an additional district judge. The court shall be constituted with all three members, except for the trial of any offence under Section 215, or for the trial of any matter under chapters X and XII of the Bangladesh Labour Act, where the court shall consist of the chair only. The act likewise specifies that no labor court shall recognize any offense 6 months after the date on which the offense was alleged to have been committed. Another change is that no magistrate court may try offenses under the act.
The Department of Inspection for Factories and Establishments, under the Ministry of Labour and Employment, is the organization authorized to monitor compliance with standards in Bangladesh. The department has a headquarters, 23 district offices, and 993 staff members. Of these, 679 new posts were created in the revenue budget. From 2013 to 2015, the number of inspectors increased from 92 to 270. It is encouraging to note that 44 of these inspectors are female. Despite its significant staff strength, infrastructure and logistical support are meager when compared with the total number of factories, shops, and commercial establishments over which it has jurisdiction.132

Study Results

Those who work informally have the right to social protection as stipulated in the Bangladesh Labour Act (2006) and its amendment in 2013. This study assesses if conditions differ across the construction, hospitality, and RMG sectors—the sectors that employ informal workers to the greatest extent in Bangladesh. To that end, 240 respondents were surveyed, roughly one-third drawn from each of the three sectors.

Socioeconomic Profile of Respondents

The average size of the households surveyed was 3.9 (Table 7.4). This is smaller than the average size of urban households as reported in the Household Income and Expenditure Survey 2010 (BBS 2011a). This smaller household size may be attributed to both a lower fertility rate than is average for Bangladesh, and the disintegration of extended families into nuclear families. The demographic dependency ratio in the respondent households was estimated at 72.1%, which compares with the demographic dependency ratio of 60.3% in Bangladesh’s urban areas.133

More than 60.0% of the members of respondent households aged 10 years or over were married, which is about 10 percentage points higher than the urban average for the country as a whole. The higher percentage of married members of respondent households is perhaps due to the employment status of members of these households as compared with average urban households.

133 The demographic dependency ratio is the sum of the population aged 0–14 years and 60 years and older divided by the total population at any given point in time.
The literacy rate\(^{134}\) of the members of respondent households aged 7 years and above was 79.0%. About 15.0% of the members of respondent households did not pass grade I at the primary level, whereas about 19.0% passed grades I–V. Another 37.0% of the members of respondent households completed grades VI–X, and 13.0% of members of respondent households were graduates or had additional education. These rates roughly correspond with those reported for urban areas.

The average number of wage-earning members per respondent household was 1.9 persons. Unsurprisingly, the most common occupation among wage-earning members of respondent households was salaried employment, which accounted for 45.0% (Table 7.5). This was followed by self-employment, and wage employment in the farm and nonfarm sectors at 11.0% and 6.0%, respectively. 25% of members of respondent households—particularly female members—performed unpaid domestic chores. Consequently, the economic dependency ratio of respondent households was 62.0%. This compares with the 69.0% economic dependency ratio calculated by the 2010 labor force survey (BBS 2011b).

The average monthly income per household was estimated at Tk18,120.00 (Table 7.6), which ranged from a low of Tk15,192.00 for RMG workers to Tk22,092.00 for construction workers.\(^{135}\) Per capita income was Tk5,374.00, and the same pattern held for workers in all three sectors. Respondent workers

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Table 7.4: Sociodemographic Characteristics of Respondent Households

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Respondent Households</th>
<th>Household Income and Expenditure Survey 2010 (Urban)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household size (person)</td>
<td>3.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Demographic dependency ratio (%)</td>
<td>72.1</td>
<td>60.3</td>
</tr>
<tr>
<td>Not married (%)</td>
<td>34.0</td>
<td>44.6</td>
</tr>
<tr>
<td>Married (%)</td>
<td>60.6</td>
<td>50.9</td>
</tr>
<tr>
<td>Widow, divorced, or separated (%)</td>
<td>5.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

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\(^{134}\) For purposes of this study, the literacy rate of the population aged 7 years and above is the ratio of the population aged 7 years and above who passed grade III, divided by the total population in the same age group, expressed as a percentage. In contrast, BBS (2011a) defined it as the ratio of the population aged 7 years and above who can write a letter, divided by the total population in the same age group, expressed as a percentage.

\(^{135}\) Tk77.17 = $1.00.
Table 7.5: Major Occupations of Wage-Earning Members of Respondent Households

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Share of Particular Occupations of All Wage-Earning Members of Respondent Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage employment in farm and nonfarm sectors</td>
<td>6.1</td>
</tr>
<tr>
<td>Salaried employment</td>
<td>45.1</td>
</tr>
<tr>
<td>Self-employment in farm and nonfarm sectors</td>
<td>10.5</td>
</tr>
<tr>
<td>Unpaid domestic chores</td>
<td>24.6</td>
</tr>
<tr>
<td>Unemployed</td>
<td>4.2</td>
</tr>
<tr>
<td>Students</td>
<td>6.8</td>
</tr>
<tr>
<td>Others</td>
<td>2.9</td>
</tr>
<tr>
<td>Economic dependency ratio (%)</td>
<td>62.3</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

Table 7.6: Average Monthly Household Income of Respondent Households and Percentage Share of Respondent Workers in Monthly Income (Tk)

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Total</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household income</td>
<td>18,120.00</td>
<td>22,092.00</td>
<td>17,187.00</td>
<td>15,192.00</td>
</tr>
<tr>
<td>Per capita income</td>
<td>5,374.00</td>
<td>6,892.00</td>
<td>5,027.00</td>
<td>4,245.00</td>
</tr>
<tr>
<td>Respondent’s contribution</td>
<td>9,242.00</td>
<td>14,142.00</td>
<td>8,019.00</td>
<td>5,698.00</td>
</tr>
<tr>
<td>Share of respondent’s</td>
<td>51.0</td>
<td>64.0</td>
<td>46.7</td>
<td>37.5</td>
</tr>
<tr>
<td>contribution (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Tk77.17 = $1.00.
Source: Survey of Informal Workers 2015 compiled by the author.
Social Protection for Informal Workers in Asia

contributed about half of the total monthly income of their households, which ranged from Tk4,245.00 for RMG workers to Tk14,142.00 for construction workers. For their part, construction workers contributed 64.0% of the total monthly income of their households, as compared with 38.0% in the case of RMG workers.

**Employment Profile of Respondents**

There was significant variation in the employment profiles of respondents across the three sectors (Table 7.7). While the managerial category dominated the construction sector, the operative category dominated the RMG sector. In the hospitality sector, the managerial and clerical categories were equally dominant. This variation across these three categories of workers is associated with the nature of the goods and services that the three sectors produce. While the RMG sector is labor-intensive and therefore requires large numbers of unskilled operatives, the other two sectors require skilled labor and are relatively capital-intensive.

**Table 7.7: Percentage Share of the Managerial, Clerical, and Operative Categories of Workers (%)**

<table>
<thead>
<tr>
<th>Work Category</th>
<th>Total</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial</td>
<td>34.2</td>
<td>60.8</td>
<td>43.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Clerical</td>
<td>32.5</td>
<td>24.1</td>
<td>50.6</td>
<td>23.2</td>
</tr>
<tr>
<td>Operative</td>
<td>33.3</td>
<td>15.2</td>
<td>6.3</td>
<td>76.8</td>
</tr>
<tr>
<td>Average years in current employment (year)</td>
<td>3.8</td>
<td>3.5</td>
<td>4.5</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

About half of the respondent workers had previous similar employment experience. In comparing their past and present employment, there was hardly any upward mobility for the workers in the three sectors. Most of the respondent workers had several years of work experience in their current job. For the managerial category, the number of years in current employment varied between 0 and 30 years, the average being 4.7 years. For clerical posts, the corresponding range was 0–13 years, with an average of 3.1 years, and for operative posts, 0–20 years, with an average of 3.5 years.

About 27.5% of all respondents reported that they had been unemployed for a significant period during the previous 5 years. While the average
duration of unemployment was more than 5 months, for hospitality workers it was about 10 months, with construction workers experiencing the second-longest periods of unemployment. One reason for this significant duration of unemployment for informal workers in the hospitality sector is the seasonality of demand for their services. December to February are usually the peak months for domestic tourism, which increase demand for employment in the service industry.

Majority of respondents (90.0%) reported that they can easily lose their jobs at any time as there is no job security. The main reason that 98.0% of them cited for this was lack of permanent employment contracts with their employers (Table 7.8). About 30.0% also reported that the lack of scope for promotion in their current jobs, is another factor that makes their positions insecure. An almost equal percentage of respondents felt that they could be fired at any time, as their workplaces are not unionized.

Table 7.8: Reasons for Apprehension of Job Loss by Respondent Workers (%)

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Total</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>No permanent contract with employer</td>
<td>98.2</td>
<td>96.9</td>
<td>100.0</td>
<td>97.4</td>
</tr>
<tr>
<td>No scope for promotion in current job</td>
<td>30.1</td>
<td>42.2</td>
<td>35.5</td>
<td>14.5</td>
</tr>
<tr>
<td>No labor union at the workplace</td>
<td>29.6</td>
<td>35.9</td>
<td>39.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Underqualified for the job</td>
<td>6.0</td>
<td>6.3</td>
<td>7.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Other</td>
<td>5.6</td>
<td>7.8</td>
<td>4.0</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.

Only about 25.0% of respondents reported that they have employment contracts. However, of these, about 82.0% reported that their contracts are verbal rather than written. Those with written contracts with their employers reported that they have an option for compensation for wrongful termination, and that their employment contracts include penalty clauses for breach of contract by the employee.

In most cases, the contracts revealed significant uncertainty regarding the duration of employment. About 71.0% of all respondents said that their
employers can terminate their contracts at their discretion, while only 44.0% of respondents said that the contracts can be terminated at the employee’s discretion. Provisions for mandatory notice before termination existed in 46.0% of all contracts, the notice period varying from 1 week to 3 months. About 34.0% of respondents reported that despite the probation period specified in their contracts, the contracts do not specify the terms for achieving permanent employment status. Thus, there is no guarantee that their jobs are permanent, even after successful completion of the probationary period. In contrast, only about 30.0% reported that their contracts provide for permanent employment upon completion of a specified probationary period.

About 40.0% of respondents reported that they learned their job skills in informal settings from experienced employees in related jobs. About 69.0% of respondents believed that their current job skills could be used in another job. However, about 70.0% of respondents did not believe that there are opportunities for them to upgrade their job skills. The finding was similar across the three sectors. About 40.0% of those who believed that there are opportunities for upgrading their skills thought that these opportunities are presented in their current jobs. About 37.0% thought that they can improve their skills from learning materials provided by their employers.

Working Conditions

On average, respondents worked 10.5 hours per day and 6.4 days per week. About 41.0% reported that they work at night. The average number of nights worked per week was 4.2, and the average duration of work at night was 5.6 hours.

About 60.0% of respondents reported that they feel safe at work. Those who feel safe at work cited the following reasons: (i) an adequate number of exits are available if they have to evacuate the premises due to an accident (91.0%); (ii) the number of fire extinguishers available at the workplace is adequate (76.0%); and (iii) the light, ventilation, and sanitation facilities available at the workplace are adequate (78.0%). Other reasons cited included availability of first-aid boxes, medical supplies, and safety equipment such as masks and gloves.

Respondents who do not feel safe at work cited insufficient safety equipment (70%), and 49.0% cited an inadequate number of first-aid boxes and medical supplies. Other reasons for feeling unsafe at work included lack of a permanent medical officer or nurse; lack of availability of transport to the hospital if required; lack of health insurance; and inadequate light, ventilation, and sanitation facilities.
About 54.0% of the workers reported that the work that they perform exerts a negative impact on their physical and mental health, as evidenced by illness or disease. Those who said there was a negative impact on their health described headaches (54.0%); colds, coughs, or fevers (40.0%); and musculoskeletal pain (37.0%). Other reasons cited were poor appetite, vision-related problems, chest pain, and fatigue. About 22.0%–30.0% of respondents reported major health problems such as jaundice, respiratory diseases, tuberculosis, and typhoid.

When asked about their work environments, 66.0% reported feeling safe and comfortable at work. The major reasons cited were transparent and comfortable relationships between co-workers (76.0%), between workers and employers (62.0%), the presence of an alert and accessible human resources division (60.0%), a zero-tolerance policy for verbal and physical abuse (51.0%), a zero-tolerance policy for sexual harassment (28.0%), presence of an adequate number of vigilant guards and caretakers during overtime hours or late-night work, and child support or daycare facilities at the workplace.

Those who do not feel safe or comfortable at their workplaces mainly cited an ineffective or inaccessible human resources division (62.0%); lack of employer-provided training, which led to a lack of awareness about healthy working relationships; and no penalties for breaching rules and regulations (44.0%). Other reasons included lack of sanctions for verbal or physical abuse, and an inadequate number of security guards during late-night work hours.

**Remuneration and Benefits**

On average, respondents earned Tk9,944.00 ($129.00) per month. About 76.0% of the respondents reported that they earn the same amount of money regularly, with 24.0% reporting that they earn different amounts of money at different times, or that their wages depend on the number of orders received for production each month (68.0%).

About 63.0% of the respondents reported that their employer does not pay the legal minimum wage. Regarding benefits, 67.0% of the respondents reported that they receive two festival bonuses (paid in equal installments twice a year, or in more installments). About one-fifth received housing allowances, about 19.0% received year-end bonuses, 18.0% had sick leave and paid leave, and 17.0% received one festival bonus (paid once a year). However, very few had maternity leave or received commissions from the profits earned by their firms.

More than 92.0% said that they do not contribute to a pension fund. Further, 99.0% of the respondents reported that their employers do not pay the full amount of the gratuity upon exit or retirement, and that they do not have health insurance. About 77.0% of the respondents reported that they do not have any
benefits for work-related accidents. About half of those who do have benefits for work-related accidents reported that their employer has paid the full amount of any medical bill, as well as compensation in case of a work-related accident.

About 46.0% of the respondents were satisfied with their current jobs, because they felt that their wages are lucrative, they receive bonuses, have opportunities to work overtime, have job security, and can advance in their current employment. Those who were not satisfied with their jobs (54.0%) cited unsatisfactory payment (88.0%); lack of availability of overtime, bonuses, benefits, or other incentives (54.0%); job insecurity (54.0%); irregular payment (46.0%); lack of scope for promotion (40.0%); lack of scope for training and development (36.0%); or health and safety issues not being properly addressed (21.0%).

**Employee Representation and Associations**

Nearly 90.0% of the respondents reported that they had not heard of a trade union in the sectors in which they worked. Of these, about 95.0% reported that there had not been any attempt to organize workers in the firms in which they worked. When asked why there had been no attempt to form a union, 67.0% reported that either the employer or the employees are not interested, while 65.0% reported that there is no regulation. A few also reported that there is no awareness among workers about the benefits of unionization, and that there is no donor or sponsor demand for forming a union.

Despite this scenario, about 78.0% of the respondents said that they would welcome unionization in the firms in which they work. All of the respondents believed that a union would ensure that workers receive timely wages, bonuses, and benefits. Others felt that unionization would prevent wrongful termination of an employee (72.0%), ensure that workers receive full compensation for the health and safety hazards to which they are exposed (63.0%), ensure proper working schedules for all employees (60.0%), help resolve any internal and external disputes between workers or between employers and employees (31.0%), and resolve contractual problems between employers and workers (29.0%).

In the respondents’ view, a number of people in their overall work environment needed improvement. More than half of the respondents felt that employers could increase or regularize wages, incentives, bonuses, pensions, or remuneration based on job performance; ensure favorable working hours, paid and nonpaid leave (i.e., sick, casual, and festival), and overtime; and address grievances regarding remuneration and solve them immediately. Meanwhile, less than half of the respondents reported that employers could initiate or upgrade health and safety measures (e.g., precautions, preventions, and compensation for work-related accidents) as a one-time investment and maintain the
upgraded standards afterward; improve regulation (i.e., policy intervention) related to workers’ rights, and allow unions to ensure zero tolerance for verbal, physical, or sexual abuse.

Some also suggested that awareness programs and training relating to improvement of the work environment and attitude of employers, co-workers, and supervisors could be arranged; cooperation of employers in day-to-day work management could be increased; and presence of industrial police or other external monitoring authorities should be facilitated.

**Gender Disparities in the Sectors**

Table 7.9 reports gender disparities of workers in the wage and salaried categories in the three sectors. Less than one-third of the workers in all three sectors were female, although the highest female participation occurred in the RMG sector. About 89.0% of workers reported having salaried employment with a higher male participation rate than female, despite the fact that the study concludes that male and female workers are comparable in terms of educational attainment.

As the study finds hardly any difference in the level of educational attainment when the workers were disaggregated by gender, male and female workers should have roughly equal treatment in the labor market. Based on this assumption,

<table>
<thead>
<tr>
<th>Employment Category</th>
<th>Total (number)</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage employment, female</td>
<td>20</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Salaried employment, female</td>
<td>55</td>
<td>1.8</td>
<td>1.8</td>
<td>96.4</td>
</tr>
<tr>
<td>Total number of females</td>
<td>75</td>
<td>1.3</td>
<td>1.3</td>
<td>97.3</td>
</tr>
<tr>
<td>Wage employment, male</td>
<td>7</td>
<td>0.0</td>
<td>42.9</td>
<td>57.1</td>
</tr>
<tr>
<td>Salaried employment, male</td>
<td>158</td>
<td>49.4</td>
<td>47.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Total number of males</td>
<td>165</td>
<td>47.3</td>
<td>47.3</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
the gender aspects of respondent workers were analyzed in terms of the type of jobs that they performed, their length of service in their current jobs, the workload they endured, their compensation levels and other benefits that they received, the specific problems that they encountered at their workplaces, and the suggestions that they made for improvement of their workplaces.

**Employment Status Disaggregated by Sex**

Employment status reflects working conditions and work arrangements, the latter notably including (i) the presence or absence of an explicit or implicit employment contract; (ii) the degree of control a worker has over the work performed and output attained; and (iii) the degree of exposure to, and responsibility for, the level of risk borne by the worker.

The study finds significant differences in the type of worked performed by male and female workers (Table 7.10). Male workers dominated the managerial and clerical services category, whereas female workers dominated the operative services category, in large measure because female workers are predominant in the RMG sector. As a result, the distribution of employment is uneven across the sectors under study, with male workers dominating in two of the three sectors. It would be interesting to examine whether this lagging female representation—notably in the hospitality sector—is a result of the work performed, or female representation in particular economic sectors.

Male workers, on average, worked 11 hours per day, while female workers worked 10 hours per day. While the highest number of hours worked per week for male workers was in the construction sector, it was in the RMG sector for female

<table>
<thead>
<tr>
<th>Job Category</th>
<th>Total</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial (male)</td>
<td>98.8</td>
<td>98.0</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>Managerial (female)</td>
<td>1.2</td>
<td>2.1</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Clerical (male)</td>
<td>75.6</td>
<td>100.0</td>
<td>97.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Clerical (female)</td>
<td>24.4</td>
<td>...</td>
<td>2.5</td>
<td>94.7</td>
</tr>
<tr>
<td>Operative (male)</td>
<td>31.3</td>
<td>100.0</td>
<td>100.0</td>
<td>12.7</td>
</tr>
<tr>
<td>Operative (female)</td>
<td>68.8</td>
<td>...</td>
<td>...</td>
<td>87.3</td>
</tr>
</tbody>
</table>

_... = data not available._

Source: Survey of Informal Workers 2015 compiled by the author.
workers. Similarly, while male workers worked more than 6 days per week, the female workers worked slightly more than 6 days per week and too little time for performing household chores.

In disaggregating hours of work per week by sector, the study finds that both male and female workers worked the longest hours in the hospitality sector. About 41.0% of male workers in all three sectors together reported having worked night shifts, although the corresponding figure for the hospitality sector was about half of that. However, in the RMG sector, about 44.0% of female workers reported having worked night shifts. Since the study finds that both male and female workers worked about 5–6 hours per night, about 50.0% of working hours were found to occur at night. That said, the study finds that male workers completed their night shift work in 5 of their 6 working days per week, while female workers completed their night shift work in about 3 working days per week.

As the respondents were unsure about the exact working hours at their workplaces, they reported that extended working hours plays a negative role in various aspects of their lives. Most of the female workers reported too little rest time within their work hours and too little time for performing household chores. The resulting lack of rest made them tired and hampered overall productivity. Female workers reported that unexpectedly working longer than their normal work shifts negatively impacted their personal lives, as for the most part, the contribution of respondent women workers to household income was of a supportive rather than a primary nature.

The dual role played by female respondents of housewife and income earner undermines both the position and negotiating power of female workers in the paid labor market. For example, women tend to seek employment of a particular type—such as informal or part-time employment—that offers sufficient flexibility in work arrangements to permit them to combine work with household responsibilities (Box 7.1). This vulnerability hampers the productivity of female workers, which in turn adversely impacts the overall welfare of their households.

There are also security issues relating to long working hours, especially at night. Most respondents reported that they feel insecure when they work late. Sexual harassment is also an issue in workplaces.

Most respondent workers had been employed for 3–4 years. However, the average length of current employment was greater for male workers than for their female counterparts (Table 7.11). The length of current employment for male workers was greatest in the hospitality sector at 4.8 years. This compares with 3.6 years for female workers in the RMG sector. Similar
observations can be made about the previous employment of respondent workers. While the duration of previous employment for male workers was 4 years, the corresponding figure for female workers was 3 years. Thus, in terms of duration of current and previous employment, respondent male workers had been in both types of employment marginally longer than their female counterparts.

**Box 7.1: The Tenuous Balance between Working Life and Family Life**

Reshma is a 36-year-old mother of two who works in a ready-made garment factory in Dhaka. She shared her problems in balancing family life with working life:

I am working in a factory as an operator. My working conditions are very inflexible and rigid. I work 12 hours a day. Very often I have to work the night shift, and also have to work the next-day morning shift. When I return home from the night shift, it is already very late. To catch up for the morning shift, I have to wake up very early in the morning and have to prepare food for my family. I have to be in a hurry because if I am late, it will cause a lot of problems in my job; it may even cause the employer to fire me. Definitely, I feel very tired, but I have no other options. When I work the night shift consecutively, I feel very anxious about my children. Most of the time, I feel that I am not giving them proper time and care.

Source: Survey of Informal Workers 2015 compiled by the author.

**Table 7.11: Respondents’ Length of Current and Previous Employment by Sex (in year)**

<table>
<thead>
<tr>
<th>Job Duration</th>
<th>Total</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration at current job (male)</td>
<td>4.3</td>
<td>3.7</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Duration at current job (female)</td>
<td>3.5</td>
<td>2.3</td>
<td>0.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Duration at previous job (male)</td>
<td>3.8</td>
<td>4.0</td>
<td>3.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Duration at previous job (female)</td>
<td>2.9</td>
<td>3.3</td>
<td>0.8</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Survey of Informal Workers 2015 compiled by the author.
A large number of male workers reported that they were unemployed for a significant period in the past 5 years. The average duration that they remained unemployed was about 6 months. In contrast, female workers remained unemployed less than 2 months. The longest duration of unemployment was experienced by workers in the hospitality sector (11 months), followed by those in the construction sector (5 months). In contrast, in the RMG sector where female workers dominate, the duration of unemployment was about 1–2 months.

### Table 7.12: Monthly Earnings from Employment by Gender

<table>
<thead>
<tr>
<th>Earnings and Differentials</th>
<th>Average for the Three Sectors</th>
<th>Construction</th>
<th>Hospitality</th>
<th>Ready-Made Garment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings by male workers (Tk)</td>
<td>11,875.60</td>
<td>15,844.40</td>
<td>8,337.20</td>
<td>8,144.40</td>
</tr>
<tr>
<td>Earnings by female workers (Tk)</td>
<td>5,693.50</td>
<td>9,000.00</td>
<td>4,000.00</td>
<td>5,671.40</td>
</tr>
<tr>
<td>Gender earnings gap (%)</td>
<td>52.1</td>
<td>43.2</td>
<td>52.0</td>
<td>30.4</td>
</tr>
<tr>
<td>Share of worker’s contribution, male (%)</td>
<td>56.5</td>
<td>64.1</td>
<td>46.5</td>
<td>58.8</td>
</tr>
<tr>
<td>Share of worker’s contribution, female (%)</td>
<td>35.6</td>
<td>58.5</td>
<td>31.0</td>
<td>35.0</td>
</tr>
</tbody>
</table>

Note: Tk77.17 = $1.00.
Source: Survey of Informal Workers 2015 compiled by the author.

### Monthly Earnings and Contribution to Household Income by Gender

The average monthly earnings of respondent female workers was Tk5,693.00. In contrast, that for respondent male workers was Tk11,876.00 (Table 7.12). The lower earnings of female workers is expected, as most worked as operatives in the RMG sector. Further, there is large variation in the earnings across the sectors under study. Workers in the construction sector—irrespective of gender—earned more per month than their counterparts in the other two sectors. Given that the study finds that the respondent male and female workers are similar in terms of educational attainment, and that the female workers lag behind male workers in terms of duration of employment only marginally, it is interesting to assess the gender earnings gap between the two groups.\(^\text{136}\)

\[^\text{136}\] The gender earnings gap can be measured as: $GW_G = \frac{w^m \cdot w^f}{w^m}$ where $w^m$ is wage rate for male workers in sector $i$, $w^f$ is earnings (wage rate) for female workers in sector $i$. This measurement conveys the extent of gender-based discrimination in wages.
The overall gender earnings gap is about 50.0% when all three sectors are taken together. The gender earnings gap when disaggregated by sector is also notable. The smallest gender earnings gap is in the RMG sector at about 30.0%, while the largest is in the hospitality sector at 52.0%. The smallest gender earnings gap of 6.0% occurred in the construction sector, where female earnings were about 43.0% of male earnings.

As female workers seem to perceive employment uncertainty to a greater degree than male counterparts (described in Box 7.2), most female workers work under mental pressure, which in turn hampers their concentration and lowers their productivity levels. Many of the respondent female workers reported that gender segregation is widespread in their workplaces. This segregation causes women to be concentrated in only a few positions such as operators or helpers (i.e., horizontal gender segregation) and to be underrepresented in power and decision-making positions (i.e., vertical gender segregation).

Female respondents reported that maternity leave is rarely available in their jobs. Instead, their employers try to lay female workers off on any pretext at the earliest opportunity once it is known that they are pregnant. Female workers are also reluctant to participate in any representative organization, as the leaders of these organizations are predominantly male.

**Box 7.2: Gender Wage Difference in the Ready-Made Garment Sector**

Salma is a 21-year-old woman working in a ready-made garment factory in Chittagong. During a focus group discussion, she described gender inequality:

I am working in a factory as a helper. In my department, two helpers are designated to do the work. My male colleague is also working as a helper. One of our main duties is to carry fabrics from the ground floor to the third floor, and to move other inputs and products from one part to another part of the factory. As most of the supervisors are male, they have good relationships with the male helper. So he gets to rest during working hours and hence shoulders less work. Despite being female, I work a lot and endure the majority of the work load. But at the end of month, the male helper draws Tk300.00 ($3.85) more than I do.

*Source: Focused group discussion conducted by the author.*
About half of the respondent female workers reported provision for minimum wage in their workplaces. About 60.0% of the female workers reported that other than wages, they receive two festival bonuses of an equal amount. The other group receives one festival bonus, or one year-end bonus. While 19.0% received long paid leaves of absence for sickness and housing allowances, only 5.5% received health insurance and transport allowances.

### Social Protection Programs in Bangladesh

Bangladesh’s current social protection system is fragmented, comprising a large number of programs managed by many ministries. The Ministry of Finance lists 146 programs under the country’s social protection system. Of these, 138 programs were financed through the budget in fiscal year 2015, with the total amount spent on these programs in that year being Tk307.50 billion ($3.94 billion), which is equivalent to 2.3% of the GDP.\(^{137}\) Although this level of funding is modest by international standards, when measured against the government’s budget constraints, this represents a substantial commitment, as it accounts for 12.0% of total government spending.

Bangladesh’s social protection programs are administered by 30 line ministries and agencies, without any formal mechanism for sharing information between them. These programs are often duplicative, have low budget allocations for individual programs, and involve multiple implementation agencies. The monitoring and evaluation aspects of these programs are inadequate, and implementation progress is mainly measured in terms of the amount of money disbursed rather than results achieved. It is reported that there are serious overlaps among the various programs, with many being too small to have any significant impact on the target groups. About 58.0% of the programs have an annual budget of less than Tk500.00 million ($6.41 million) and collectively account for only 4.0% of the government’s total social protection spending (GED 2015). In addition, many of these programs do not qualify as social protection programs in the strict sense of the term. It is only 35 programs listed in the assessment of Social Protection Index (SPI) of Bangladesh in 2012 (ADB 2015) were considered as social protection programs. These programs were classified into three major social protection components: (i) social assistance, (ii) social insurance, and (iii) labor market.

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General Challenges Facing Implementation of Social Protection Programs

Despite the pledge by the government to implement social protection programs as part of its poverty reduction strategy, many of these programs have operational shortcomings. These include lack of transparency in the selection of beneficiaries, a plethora of programs that leads to high transaction costs for beneficiaries, and inadequate administrative capacity to implement the programs.

The importance of well-designed social protection programs within a comprehensive framework is an overarching issue for Bangladesh. Ideas such as social protection floors would serve social protection well within the development agenda. It is a priority increasingly reflected in policy documents, such as the Sixth Five Year Plan, as well as Vision 2021, of inclusive growth and middle-income status. However, realization of the country’s social protection goals set out in these documents would encounter legal, institutional, and financing challenges.

Two missing areas of social protection for the working-age group are unemployment insurance and work-related injury insurance for informal workers. As Bangladesh continues to develop its manufacturing and service income and employment opportunities, the importance of these two social security interventions will grow. The lack of social insurance is more pronounced for the informal sector, which accounts for 87.5% of all employment. Any strategy for reforming the present social protection system will need to pay attention to these aspects of protection for the working-age population.\textsuperscript{138}

Legal Issues

The current legal framework, mostly set forth in the Bangladesh Labour Act (2006) and its amendment in 2013, is the backbone of the basic structure of social protection for workers in all sectors, public and private, including the informal sector (see earlier section on legal framework).

For example, Chapter XVII discusses issues relating to provident funds. The major features of the latter section include the category of workers entitled to provident funds in private sector establishments, board of trustees of the fund, cost of administration, contributions, recovery of damages, nonliability of the provident fund to attachment, setting of priority of payment of contribution

\textsuperscript{138} However, ILO is consulting with stakeholders in Bangladesh’s RMG sector to introduce an employment injury insurance scheme for workers in this top export-earning sector. The scheme will be made up of contributions from employers and managed by an autonomous body under the country’s Ministry of Labour and Employment, including government, worker, and employer representatives. For details, see Donaldson (2015).
over other debts, and employer’s compulsion for not reducing wages or other amenities in providing provident funds.

However, establishment of a provident fund is not mandatory. It is dependent on demand by a prerequisite number of workers. Group insurance is also dependent on a requisite number of workers, and that number is quite high. The amount of compensation given to workers due to work-related injury, disability, or death is not adequate for workers and their families. The provision of compensation is also discriminatory in terms of age of the worker, with an adult worker getting Tk125,000.00 ($1,604.00) for complete permanent impairment, whereas a child, adolescent, or young worker gets nothing. Other aspects of social protection have remained untouched in labor law, such as provisions for pensions and medical and life insurance for workers.

As for social protection for informal workers, including gratuities, provident funds, group insurance, and maternity benefits, there are frequent noncompliance of the laws that pertain to these, as workers often have no access to these protections. According to the law, employers should provide compensation to workers for work-related injuries, disability, and death. However, most employers intentionally try to avoid paying compensation. Such an outcome frequently occurs, since law enforcement agencies including the police, courts, and government department or ministry concerned fail to follow up on such cases due to corruption and bureaucratic complexity. In particular, laws pertaining to discrimination against women are violated to an even greater extent.

**Institutional Issues**

Bangladesh’s social protection system is plagued by duplication of program activities, ad hoc approaches, thin dispersal of resources, and absence of a comprehensive and strategic framework. As a result, there is a need for strategically addressing the country’s long-term vision, governance, leadership, and administration in implementing the national social protection strategy.

It may be noted that improving institutional framework for setting up social protection for informal workers will be an enormous challenge in view of the involvement of several ministries, the problem of vested interests, and overall bureaucratic resistance. It is also important that consultation with key stakeholders be pursued to encourage an exchange of ideas and public debate with active involvement of development partners.
Financing Issues

There are several sources of finance for social protection programs for workers. Following the Bangladesh Labour Act (2006) and its amendment in 2013, some portion of social protection, such as benefits relating to illness, accident, and maternity, can be financed through contributions by employers and employees, once the appointment letter and identification card sections of the act are strictly enforced. For the other sections, especially coverage during the post-retirement period, government tax and nontax revenue should be the financing vehicle.

Financial sustainability of social protection programs is a major challenge in Bangladesh. It may be noted that developed countries are able to finance social protection of workers through payroll taxes. However, it is unlikely that Bangladesh could replicate such a means of financing due to both its limited capacity to raise revenue through taxation, and the sheer size and importance of informal employment to the national economy. However, the experience of developed countries shows that social protection financing issues cannot be considered in isolation. Instead, their political and economic underpinnings must be acknowledged.

Finally, financing issues cannot be examined fully within a resource mobilization framework. Instead, they need to be set in a broader context if they are to accomplish the following objectives: (i) generate the resources necessary for establishing and strengthening appropriate social protection systems, and (ii) secure legitimacy for social protection institutions and policies. Ultimately, sustainability and legitimacy are the most important prerequisites for long-term resource mobilization.

Conclusions and Policy Implications

Despite the fact that “informal work is normal work,” and that those who work informally have the right to social protection measures in Bangladesh, most informal sector workers are exposed to significant risks in terms of job tenure, the environment in which they work, and the precariousness of their livelihoods. In 2010, about 89.0% of all jobs in Bangladesh’s labor market were filled informally, with women comprising the majority of these workers.

Several sections of the Bangladesh Labour Act (2006) and its amendment in 2013 affect workers in the formal and informal sectors directly or indirectly.

139 The ratio of tax revenue to GDP remains sticky at around 11 in recent years.
The most important relate to employment standards, occupational safety and health, welfare and social protection, labor relations and social dialogue, and enforcement. The aim of the act and other related laws is to ensure the rights of workers. However, these laws have lost their appropriateness because of implementation weaknesses, as the agencies responsible for ensuring compliance are dependent on other institutions for enforcement. Existing policies and programs need to be revised and redesigned to extend the coverage of social protection programs to informal workers. Unless the government takes appropriate steps to establish labor rights, a development path of sustainable work environments—especially for MSME workers—will remain an elusive goal for Bangladesh.

This study also reveals that it is easy to lose a job at any time. There are usually no permanent employment contracts, and most contracts are in verbal rather than written form. The study also finds that most workers have never heard of organizations that represent their work interests, nor has there been any attempt to organize workers, as the workers themselves do not see any opportunity for collective representation or action. Further, employers are not interested in seeing their firms unionized.

Two areas of social protection are notably missing for the working-age group: unemployment insurance and injured workers’ insurance. The importance of the latter emerged in the wake of a series of devastating fires and building collapses in the RMG sector. As Bangladesh continues to develop its manufacturing and services opportunities, the importance of these two social protection interventions will grow.

Following the Bangladesh Labour Act (2006) and its amendment in 2013, some part of the social protection system, such as benefits relating to illness, accident, and maternity, can be financed through contributions by employers and employees, once the appointment letter and identification card sections of the act are strictly enforced. For the other sections—especially coverage during the post-retirement period—government tax and nontax revenue should be the ultimate choice of a financing vehicle.

Since MSMEs are at the heart of the economy, a two-pronged intervention is necessary to initiate social protection for workers: the economic viability of firms must be ensured, and the safety and security of workers in these firms must be addressed. To this end, the following policies and actions are recommended.

The government should take all steps necessary to ensure that labor laws are enforced, even if that requires revision and redesign of existing policies and programs. The government should also enact laws that prohibit unfair labor practices by employers.
The government should also strengthen enforcement of laws and regulations. For example, *termination simplicitor* should be removed and replaced by a provision that makes serious misconduct grounds for dismissal of a worker only after that worker is provided with due process, including the right to be informed, right to be heard, and right to seek the truth through an objective and fair process.

Finally, the implementation of labor inspection should be upgraded, and labor unions should be involved in the development of inspection standards and norms. The Ministry of Labour and Employment should specify how organized and unorganized workers can seek redress for grievances in various forums—in the workplace, through a relevant government agency, or in labor courts.

**References**


Abstract

Informal workers in Indonesia have limited access to social protection programs, particularly health and unemployment insurance. This study assesses the current status of, and gaps in, social protection for informal workers, and provides recommendations for closing these gaps.

The study reveals that participation in social protection programs by informal workers in micro, small, and medium-sized enterprises (MSMEs) is relatively low. The inability to pay insurance premiums, lack of national identity cards, low awareness of and knowledge about registration procedures, and poor coordination in enforcing existing legislation are major obstacles to expanding social protection for informal workers in Indonesia.

This study has four key recommendations: (i) improve awareness of social protection program benefits among employees and MSMEs, (ii) simplify requirements for registration procedures and collection of contributions, (iii) create a mechanism for flexible payment of premiums for health and unemployment insurance, and (iv) improve the financial and institutional capacity of MSMEs to provide decent work with social protection programs for their employees.
Introduction

Indonesia’s Constitution mandates that every citizen has the right to social protection. However, despite many efforts to expand coverage of social protection programs in the country, it remains inadequate for many. The lack of social protection is largely concentrated among workers in the informal economy. As recent trends suggest that the informal sector is likely to grow, expanding social protection to them is an important part of the country’s overall strategy for improving the welfare of its population.

The term “informal economy” generally refers to economic activities that lie outside of formal institutional arrangements, particularly as those activities relate to legal rules and institutions (Angelini and Hirose 2004, World Bank 2010). In contrast, the definition provided by Badan Pusat Statistik Indonesia (Central Bureau of Statistics) relates to both work status and type of occupation (Anwar and Supriyanto 2012, World Bank 2010). “Formal employment” thus includes employees, employers with permanent workers, and professionals or managers other than those classified as family workers. A simplified working definition of informal employment, for this study, includes all family workers, self-employed persons who employ temporary or family workers, casual workers, and unpaid family workers (Anwar and Supriyanto 2012).

Indonesia has the world’s fourth-largest population. Both the overall population and labor force have grown continually over the past decade. In fact, total employment grew by nearly 4.0% between 2004 and 2013, with the number of workers increasing from 65.3 million to 66.0 million. Over the same period, the number of informal workers in Indonesia declined by 6.0%, which suggests that the share of formal employment in total employment grew over this period. Since 2010, economic growth has occurred against a backdrop of increasing labor productivity, regulatory reform, and expansion of social protection. All of these factors together may have played a role in the growth of formal employment over the period as well (ILO 2014).

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140 Statistics Indonesia’s definition of the “informal economy” differs from that of the International Conference of Labour Statisticians. The conceptual framework developed by the International Labour Organization links the enterprise-based concept with the job-based concept of informal employment. As a result, the International Labour Organization variously defines informal employment as (i) employment in the informal economy, (ii) informal employment, (iii) employment in the informal sector, and (iv) informal employment outside of the informal sector, including in both the formal sector and households. As a consequence, Statistics Indonesia’s definition of informal workers suffers from exclusion–inclusion problems. See ADB and Statistics Indonesia (2011).

141 This calculation employs the simplified definition of informal employment used by Statistics Indonesia. For a more detailed definition, see Anwar and Supriyanto (2012).
Providing a relatively large informal sector with social protection creates numerous challenges. In particular, the informal sector mainly comprises small firms and family businesses with irregular incomes that employ unpaid family workers (World Bank 2012).

Tambunan and Purwoko (2002) found that as a result of lack of capital, technology, and skilled workers, small businesses in the informal sector are generally characterized by low productivity and wages. Many view these characteristics as major obstacles in providing social protection for workers in the informal sector.

This study has two major objectives: (i) to examine the gaps in the current provision of social protection to informal workers in Indonesia, especially for those who work in micro, small, and medium-sized enterprises (MSMEs), and to identify factors that contribute to their nonparticipation in social protection programs; and (ii) to examine the institutional arrangements for implementing social protection programs, to identify strategies to overcome obstacles to improve coverage, and to provide recommendations for expanding social protection for informal workers.

The study employs both a quantitative survey and a qualitative assessment. The quantitative survey examined the current status of social protection coverage among MSME workers through interviews with 250 workers in three major MSME subsectors: clothing manufacturing, individual services, and retail trade. The majority of interviewees were employed by micro and small enterprises (48.0% and 48.4%, respectively), with only 3.6% employed by medium-sized enterprises.¹⁴²

The qualitative assessment examined gaps in social protection coverage for informal workers, as well as obstacles to, and strategies for, expanding such coverage. This was done from the perspective of both workers and other stakeholders, such as government agencies, MSMEs, and nongovernment organizations (NGOs). Four focus group discussions were conducted, convened separately for male and female workers. Similarly, 10 key informant interviews were conducted with representatives of government agencies that implement social insurance schemes, other government agencies, representatives of groups of informal workers, MSMEs, and NGOs.

¹⁴² Whether an enterprise is defined as micro, small, or medium-sized is determined by the number of workers that it employs. A micro enterprise employs 1–4 workers; a small enterprise, 5–19 workers; and a medium-sized enterprise, 20–99 workers. Note that the size of the enterprise in question was determined by the number of workers employed at the time of the survey.
Profile of Micro, Small, and Medium-Sized Enterprises in Indonesia

Based on the definition set out in Law No. 20/2003 on MSMEs by the Ministry of Cooperatives and Small and Medium Enterprises (MOSMEs), enterprises are classified on the basis of total assets and the value of annual sales. In contrast, the definition used by the Central Bureau of Statistics is based solely on the number of workers employed by the firm in question (Table 8.1).

Table 8.1: Typology of Micro, Small, and Medium-Sized Enterprises

<table>
<thead>
<tr>
<th>Size</th>
<th>Ministry of Cooperatives and Small and Medium Enterprises (Law No. 20/2008)</th>
<th>Statistics Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets (Rp million)</td>
<td>Annual Sales (Rp million)</td>
</tr>
<tr>
<td>Micro and home industry</td>
<td>0–50.00</td>
<td>0–300.00</td>
</tr>
<tr>
<td>Small</td>
<td>50.00–500.00</td>
<td>300.00–2,500.00</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>500.00–10,000.00</td>
<td>2,500.00–50,000.00</td>
</tr>
</tbody>
</table>

Note: Rp8770.43 = $1.00 based on ADB. Key Indicators for Asia and the Pacific 2012. Manila.

The contribution of MSMEs to the national economy has been significant. For 2011, the share of these firms in the gross domestic product (GDP) of Indonesia was approximately 57.0% (BAPPENAS 2014). Further, between 2009 and 2013, the total number of these enterprises increased from 52.8 million to 57.9 million (BAPPENAS 2014). In terms of employment, in 2010, 99 million individuals worked in MSMEs (MOSMEs 2012). Of this, the share of micro enterprises in total employment exceeded 90.0%, while small and medium-sized enterprises accounted for about 10.0% of total employment.

Most MSME activities were concentrated in the agriculture sector, followed by retail trade, hotels and restaurants, transport and communications, and manufacturing (Table 8.2). Similarly, the agriculture sector accounted for nearly half of MSME employment, followed by retail trade, hotels and restaurants, and manufacturing.
Table 8.2: Share of Micro, Small, and Medium-Sized Enterprise Subsectors in Total Economic Activity and Employment, 2011 (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Activity</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>48.9</td>
<td>44.8</td>
</tr>
<tr>
<td>Mining</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufacture</td>
<td>6.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Electricity, gas, and water</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Construction</td>
<td>1.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Trade, hotels, and restaurants</td>
<td>28.8</td>
<td>22.1</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>6.9</td>
<td>7.2</td>
</tr>
<tr>
<td>Finance, rent, and company services</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Other individual services</td>
<td>4.5</td>
<td>8.8</td>
</tr>
</tbody>
</table>


Despite their significant contribution to the economy, development of MSMEs has been challenging, in large part because most of them operate in the informal economy. Similarly, the percentage of MSMEs in Indonesia that remain unregistered is significantly higher than in other countries (World Bank 2009). Further, the average amount of time that MSMEs in Indonesia remain unregistered is an average between 2.4 to 2.8 years (World Bank 2009). Thus, MSMEs tend to suffer from low productivity, lack of investment, constrained access to financial resources, and lack of business development capacity.

Labor productivity of MSMEs in Indonesia is lower than their larger-scale counterparts (Tambunan 2012). This is manifested in the continued use of traditional production methods and marketing techniques by MSMEs, even when businesses are growing.¹⁴³ Their comparatively low rate of labor productivity also results from their limited uptake of skilled workers, which in turn is a consequence of their continuing use of manual, labor-intensive production methods (Mourougane 2012; Sandee, Isdijoso, and S ulandjari 2002).

¹⁴³ Weijland (1999) found that most MSMEs in Indonesia started as traditional activities catering to the needs of local communities, and that these activities grew when entrepreneurs helped expand the business to surrounding areas. However, although their businesses are growing, many MSMEs continue to use the same production methods that they used when their businesses were first established. As a result, developing MSMEs is challenging, particularly in the face of the mass production techniques used by larger firms (Wicaksono 2013).
MSMEs also lack investment capital, which is a consequence of their limited access to financing (Mourougane 2012, Tambunan 2012). MSMEs generally fund their businesses with the personal savings of the owners; retained earnings; or loans from nonfinancial institutions, families of owners, or even their employees (Zakir and Huda 2011). For the most part, their access to credit is limited because of (i) the size of their firms, (ii) lack of collateral, and (iii) lack of skills necessary to apply for credit from formal financial institutions (Bank Indonesia 2012, Mourougane 2012).

Bureaucratic constraints encountered in obtaining business licenses also constrain MSME growth (Tambunan 2012, Mourougane 2012). Obtaining numerous business licenses is a prerequisite for running and expanding a business in Indonesia, and they are expensive. While such licenses are not required of micro firms with assets of less than Rp5.00 million ($394.00), they are required for small firms with assets in excess of this amount. For small firms, licensing fees are considerable in relation to their cost of production (Mourougane 2012).

The government has implemented a number of policies and programs intended to increase the contribution of MSMEs to the national income. For the most part, these strategies focus on supporting the establishment of enterprises, expanding their access to financing, building their managerial capacity, supporting partnerships between MSMEs and large enterprises, and facilitating MSME access to both local and global markets.

In 2015, MOSMEs set four main targets to support MSME development: (i) increase the productivity and competitiveness of MSMEs, particularly in the market that comprises the Association of Southeast Asian Nations; (ii) reach an annual growth rate of MSME exports of 20.0%; (iii) expand the supply of innovative entrepreneurs; and (iv) expand access to credit by MSMEs. With regard to the latter, the total amount of such credit to be made available in 2015 under the Kredit Usaha Rakyat (Credit for MSMEs) program was Rp20.00 trillion ($1.60 billion) (Coordinating Ministry for Economy 2015).

While numerous policies for strengthening the MSME sector have been planned and implemented, these policies have given little attention to the welfare of MSME workers. Instead, the majority of these policies support marketing of MSME products through exhibitions or introducing MSMEs to potential

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144 Tambunan (2012) found lack of capital to be the biggest constraint to MSME expansion, followed by marketing problems, and accessing affordable raw materials. Respondents were less concerned about labor costs and skills levels, although labor costs increased more than five times between 2005 and 2010.

145 US dollar amounts are derived from the Bank Indonesia website.
customers. Meanwhile, policies for improving MSME human resources generally only aim to improve MSME managerial and marketing strategies.

Social Protection Systems and Coverage of Informal Workers

In 2004, the government promulgated Law No. 40/2004 on the National Social Security System, targeting universal social protection coverage. Labor Law No. 13/2003 outlines the rights of workers, as well as the obligations of employers, to provide for employee participation in social protection programs, occupational health and safety, the legal minimum wage, and training. According to these laws, a worker is entitled to four types of employment insurance: old-age benefit, health insurance, death benefits, and work-related accidental benefits.

Under Law No. 40/2004, social protection for workers is implemented in two stages. The first stage comprises achievement of universal health coverage for all. The second stage comprises establishment of employment insurance for all workers. Two badan penyelenggara jaminan sosial (BPJSs), and national boards for implementing national social security programs, were established. The BPJS for the health insurance scheme, which became fully operational on 1 January 2014, implemented Jaminan Kesehatan Nasional (Jamkesmas) (national health insurance program) with the aim of covering the entire population. The BPJS for employment insurance, which began operation on 1 July 2015, covers workers employed in both the formal and informal sectors.

Neither law—No. 40/2004 nor No. 13/2003—explicitly requires employers to contribute to their workers’ pension funds. Article 167 only states that employers can terminate employment when workers reach retirement age, and that employers must provide severance pay, even if the employee has contributed to a worker’s pension fund.

Law No. 1/1970 on Health and Safety at Work and Law No. 23/1992 on Health provide guarantees on the implementation of occupational health and safety requirements. The law defines work-related accidents and health hazards to include fires and explosions. The safety measures required include fire evacuation plans, health and safety gear for workers as appropriate, and plans for reducing the spread of hazards that could potentially harm the health of workers, including those associated with temperature, humidity, dirt, smoke, gas, and radiation. The law also requires provision of a clean, healthy, and safe work environment.
employees, health care services for maintaining health at work, and prevention of work-related illnesses.  

The rights of workers to receive benefits and allowances are not stipulated in Indonesia's labor law. However, the Ministry of Manpower Regulation No. 4/1994 states that employers are required to pay *Tunjangan Hari Raya* (religious holiday allowances) for all workers who have worked at least 3 consecutive months. The amount of this allowance is stipulated to be equivalent to 1 month's salary, or prorated according to the duration of employment for employees who have worked less than 12 months in their current jobs.

Provision of social protection for informal workers is regulated by Ministry of Manpower Decree No. 24/2006. This decree limits the definition of “informal workers” to those who do not have a formal employment relationship with an employer, or those who do not receive a salary or wage from an individual or company; the definition of “informal workers” provided under this decree thus also includes self-employed workers. The decree sets out the details of a voluntary social protection scheme for informal workers that includes accidental, death, and health insurance.

### Health Insurance

The current national health insurance system, Jamkesmas, has two types of beneficiaries: those with subsidy and without subsidy. There are 86.4 million beneficiaries with subsidy, which include poor and vulnerable households (TNP2K 2014). The premium for people without subsidy is presented in Table 8.3.

The nonsubsidized group comprises individuals who can afford health insurance premiums. This group is further disaggregated into three categories, based on their employment status:

1. *Pekerja penerima upah* (paid workers) are those who receive a salary from their employers, regardless of whether they are civil servants or work in the private sector.

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147 Ministry of Health Decree No. 1405/2002 further regulates the health-at-work requirements imposed on employers.

148 Central Bureau of Statistics and Tim Nasional Percepatan Penanggulangan Kemiskinan (National Team for the Acceleration of Poverty Alleviation) use the unified database derived from Pendataan Program Perlindungan Sosial (the Data Collection of Social Protection Programs) 2001 to determine the eligibility of the subsidized group. In 2014, members of households drawn from the lowest 35.0% of the national income spectrum were eligible for subsidized health insurance premiums. The Ministry of Social Affairs (MoSA) and local government agencies further verify eligibility for subsidized premiums as per Government Regulation No. 101/2012, which addresses eligibility for being *penerima bantuan iuran jaminan kesehatan nasional* (beneficiaries of the subsidized premium for national health insurance).
(ii) *Pekerja bukan penerima upah* (unpaid workers) are those who work but do not receive a salary directly from their employers, such as self-employed individuals and unpaid family workers.

(iii) *Bukan pekerja* (nonworkers) are individuals who do not work but receive income from investments, which includes investors, business owners, and beneficiaries of government transfer payments.

### Coverage of Social Health Insurance

Table 8.4 shows that 50.5% of Indonesia’s population lacks any type of health insurance (Ministry of Health 2013). The World Bank (2010) estimated an even lower rate of insurance coverage for informal workers, with only 2.3% of informal workers having voluntary insurance or access to health or life insurance through a family member. Similarly, BAPPENAS (2012) found that only 27.1% of informal workers in both rural and urban areas were covered by Jamkesmas, while another 5.6% were covered by Jaminan Kesehatan Daerah (local or subnational health insurance). In 2014, 32.5 million (44.3%) informal workers remained uncovered by health insurance.

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149 The World Bank’s calculations were based on Statistics Indonesia (2008), and followed the definitions of the formal and informal sectors formulated by Statistics Indonesia.
If Indonesia is to reach its target of achieving universal health insurance coverage by 2019, the gaps in coverage must be addressed. Further, the current scheme that separates zero-level contributions to health insurance from full contributions based on a single income threshold results in inequity for informal workers, as those with an income slightly higher than the threshold level are required to pay the full contribution (Mukti unpublished), whereas those whose incomes are slightly lower than the threshold level pay no contribution. This means that there are significant differences in the health insurance contributions of workers with nearly the same income levels. Conversely, subsidizing the health insurance premiums paid by informal workers means that individuals with the same ability to pay are differentiated solely on the basis of their employment status (as either formal or informal sector workers).

Several studies have argued that coverage could be improved if contributions were collected from some of the beneficiaries who are currently fully subsidized, particularly nonpoor informal sector workers who have the ability to pay the full amount of their contributions (ILO 2009; GIZ, AusAID,

### Table 8.4: Indonesia’s National Population Covered by Health Insurance in 2013, by Type of Insurance Coverage (%)

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Membership</th>
<th>Percentage of National Population Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASKES or ASABRI</td>
<td>Civil servants or military personnel</td>
<td>6.0</td>
</tr>
<tr>
<td>Jamsostek</td>
<td>Formal, private sector workers</td>
<td>4.4</td>
</tr>
<tr>
<td>Private insurance</td>
<td>Voluntary coverage at individual level</td>
<td>1.7</td>
</tr>
<tr>
<td>Company insurance</td>
<td>Private sector company workers</td>
<td>1.7</td>
</tr>
<tr>
<td>Jamkesmas</td>
<td>Poor and near poor (lowest 40.0% of income spectrum)</td>
<td>28.9</td>
</tr>
<tr>
<td>Jamkesda</td>
<td>Subnational health insurance scheme</td>
<td>9.6</td>
</tr>
<tr>
<td>No health insurance</td>
<td></td>
<td>50.5</td>
</tr>
</tbody>
</table>

Note: Riset Kesehatan Dasar (basic health research) notes that as participation in more than one health insurance scheme is permitted, some beneficiaries may be covered by more than one health insurance program.

BAPPENAS 2013). One study found that 55.0% of informal workers prefer to pay the contribution directly to the BPJS health insurance scheme at branch offices, field offices, or via bank transfer (BAPPENAS 2012). The study also found that 67.0% of informal workers prefer to pay their contributions on a monthly basis, while the remainder prefer other payment frequencies. GIZ, AusAID, and BAPPENAS (2013) suggested using a third party to collect contributions since administrative costs of direct collection from informal workers are relatively high. This was supported by the evaluation of Sirojudin (2013) on Asuransi Kesejahteraan Sosial (ASKESOS) (social welfare insurance), which revealed that third-party collection of contributions could extend coverage.

Insurance Schemes for Workers

The insurance schemes include four programs: old-age benefit, accident and disability benefits, death benefit, and health insurance. This program, previously implemented by PT Jamsostek (Social Insurance for Private Sector Workers), originally catered to employees in private sector and some state-owned enterprises.

Before the establishment of the BPJS for employment insurance, the insurance scheme for workers was based on government regulation nos. 14/1993 and 53/2012. Under these regulations, formal sector employees were registered for all four employment insurance schemes, while government regulation nos. 24/2006 and 5/2013 were added to address the needs of informal workers (e.g., self-employed or employees without formal contracts).

Coverage of Insurance Scheme for Workers

The insurance scheme for workers mainly targets government and formal private sector workers. The extent of coverage and amount of contributions collected for this insurance from formal sector workers are expected to increase after this BPJS becomes fully operational in July 2015.

Although the labor law makes employment insurance compulsory, coverage of formal sector workers under Jamsostek (social insurance for private workers)

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150 Before 2014, employment insurance was implemented by four state-owned enterprises, with their programs mainly covering formal sector employees including civil servants and military personnel.

151 In early 2014, the program offered by the BPJS for employment insurance had 12.1 million active members, and by the end of 2014, it had collected Rp2.40 trillion ($189.00 million) in contributions for work-related accident insurance, Rp20.10 trillion ($1.60 billion) for old-age benefit insurance, and Rp110 trillion ($87.00 million) for death benefit insurance (BPJS Ketenagakerjaan 2015).
is low. In 2012, only 27.0% of formal workers in Indonesia were covered by the scheme (Setyonaluri et al. 2014).152

Further, the rate of coverage of informal sector workers by the employment insurance provided by PT Jamsostek is even lower. The World Bank (2010) estimated that in 2008, only 2.5% of all workers had access to pension benefits.153 In 2013, 67.7 million individuals worked in the informal sector (Statistics Indonesia 2013), which means that Jamsostek covered only less than 1.0% of all workers.

ILO (2009) identified several constraints that limit informal worker participation in Jamsostek:

(i) The regulations that address social protection for workers limit the obligation to provide employment insurance to firms employing 10 workers or more, or to workers with a monthly salary of more than Rp1.00 million ($79.00), both of which are generally characteristics of formal sector enterprises.

(ii) The irregular income of informal workers limits their ability to pay fixed contributions on a scheduled basis. Similarly, their generally limited disposable income constrains the amount of income that they can allocate to insurance contributions. Finally, informal workers are geographically dispersed, and are generally excluded from formal financial institutions, which complicate the collection of contributions on a regular basis (World Bank 2012).

(iii) Informal workers have limited awareness of the concept of social protection. This negatively impacts their willingness to pay insurance premiums.

(iv) The scheme lacks flexibility, in that it requires documentation for claiming benefits, as well as documentation for registration, collection of contributions, and recordkeeping.

ASKESOS is an employment insurance program for informal workers. Implemented by the Ministry of Social Affairs (MOSA) in 1996, this program targets poor informal sector workers, and pays one-off cash benefits for illness, work-related injuries, and death (Table 8.5).154 Lembaga Pengelola ASKESOS

152 In 2012, the National Labour Force Survey reported 42.1 million individuals working in the formal sector, while the number of active participants in the employment insurance schemes offered by PT Jamsostek was 11.5 million workers. See Setyonaluri, Wisana, and Perkasa (2014) for further details.

153 The World Bank’s calculations were based on Statistics Indonesia (2008), and used the definitions of the formal and informal sector formulated by the Central Bureau of Statistics.

154 Asuransi Kesejahteraan Sosial (ASKESOS) was terminated in 1998 due to the economic and political crisis, but was reinstated in 2003. See Sirojudin (2013) for further details.
(community-based organizations) selected by MOSA manage funds on behalf of program participants (ILO 2012). Half of the government’s contribution is used for developing productive activities such as rotating savings accounts and credit associations, microenterprise development, and agriculture activities, while the other half comprises reserve funds used for paying insurance benefits (MOSA 2011).

In 2011, ASKESOS covered 358,000 participants, who were managed by 1,790 local organizations in 33 provinces (ILO 2012). In 2011, total expenditures were Rp12.6 trillion ($1.4 billion), which increased to Rp15.6 trillion ($1.5 billion) in 2013. In addition to limited coverage, the program faced constraints similar to those faced by PT Jamsostek because its beneficiaries were all informal sector workers.

In 2012, MOSA piloted a modification of ASKESOS. Referred to as ASKESOS New Initiative, it pays the same work-related injury, disability, and death benefits as those paid by PT Jamsostek’s worker’s insurance benefit schemes

<table>
<thead>
<tr>
<th>Table 8.5: ASKESKOS (Employment Insurance for Informal Workers) Contributions, Benefits, and Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribution</strong></td>
</tr>
<tr>
<td>• Government: Rp20.00 million–Rp30.00 million for 3 years per organization</td>
</tr>
<tr>
<td>• Members pay Rp5,000.00 per month</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>• Cost of emergency hospitalization up to 20 days</td>
</tr>
<tr>
<td>• Medical treatment costs up to Rp300,000.00 per person per year</td>
</tr>
<tr>
<td>• Death benefit of Rp400,000.00 (first-year membership), Rp600,000.00 (second-year membership), Rp800,000.00 (third-year membership)</td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
</tr>
<tr>
<td>• Must work in informal sector</td>
</tr>
<tr>
<td>• Earn income of up to Rp300,000.00 per month</td>
</tr>
<tr>
<td>• Reside in the geographic area of the local organization’s jurisdiction</td>
</tr>
</tbody>
</table>

Note: Exchange rate is $1 = Rp10,461.24 in 2013.

155 ASKESOS level of coverage reported in ILO (2012) exceeded that reported by the MoSA.
156 Based on $1 = Rp8,770.0 in 2011.
157 Based on $1 = Rp10,461.0 in 2013.
The amount of premium paid by the ministry to PT Jamsostek was Rp8,000.00 ($0.63) per month per individual for work-related accidents, and Rp2,400.00 ($0.19) per month per individual for death benefits. A BPJS representative interviewed indicated that the program would be integrated into the new system after the BPJS became fully operational in July 2015.

Impact of Labor Laws on the Welfare of Informal Workers

Labor Law No. 13/2003 aims to improve the overall welfare of workers and addresses four new aspects of labor relations: (i) flexibility with regard to hiring, (ii) increased severance payments, (iii) minimum wage legislation, and (iv) legislation pertaining to industrial relations. However, enactment of the law sparked a debate regarding increased labor market rigidity that arose in the wake of the law’s enactment.

The World Bank (2014) argued that the larger size of the severance payment mandated by the law increases the costs of terminating employees. The law requires employers to provide a severance payment of at least 100 weeks of wages. This requirement is, in fact, equivalent to a “hiring tax” of one-third of a worker’s annual wage (World Bank 2010, 2014). This provision makes Indonesia one of the Asian countries with the highest severance pay requirements, which creates the highest degree of labor market rigidity (World Bank 2010, 2014). As a result, the increase in severance pay mandated by the law impedes expansion of formal sector employment.

Such a significant increase in the legally mandated severance pay requirement incentivizes the majority of companies to either avoid signing formal contracts with workers altogether, or to hire workers solely on a short-term contract basis. In fact, the World Bank (2014) noted that the rate of compliance of companies with this regulation is relatively low, which causes the majority of workers receiving severance pay to be awarded an amount less than that to which they are legally entitled.

Another aspect of Labor Law No. 13/2003 that has been extensively discussed is the impact of the legal minimum wage on improving the overall welfare of workers. The minimum wage in Indonesia has increased 30.0% since 2010.
Further, in the capital, Jakarta, it increased 44.0% in 2013 (World Bank 2014). However, enforcement of the legal minimum wage remains low because (i) a significant share of all workers are self-employed, (ii) many of them work in the informal sector and thus lack formal work contracts, and (iii) enforcement of the minimum wage by both the central government and local government agencies is limited (World Bank 2014). Empirical evidence supports the argument that increases in the minimum wage inhibit growth of formal employment and fail to protect vulnerable workers. In this case, as well, minimum wage legislation has failed to improve the overall welfare of workers.

Current labor legislation also excludes the majority of workers in the informal sector, or those who work without an employment contract. Although the Ministry of Manpower and Transmigration has established regulations that provide social protection, enforcement of these regulations is also lacking.

**Study Findings**

Data were collected from a survey of 250 respondents with an average age of 28 years (19–60 years). The respondents were 58.0% male, 42.0% female, and more than half were married. Fifty-one percent had received senior secondary education, with females having a higher level of education (51.5%) compared with males (36.1%).

Of the 250 survey respondents, 40.0% worked in the retail sector, while the remainder worked in clothing manufacturing (30.0%), and individual services (30.0%). The majority of respondents worked in micro and small enterprises (96.0%), while only 3.6% worked in medium-sized enterprises. The percentage of respondents who worked in micro enterprises in the individual service sector was the largest (63.0%), followed by retail (53.0%), and clothing manufacturing (27.0%).

Ninety-four percent of the respondents who worked in retail were shop attendants, while others worked as cashiers and administrative workers. In the clothing manufacturing sector, 55.0% of respondents were apparel workers.

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161 Sukmana and Ichihashi (2014) found that the increase in the relative minimum wage had a negative impact, as it decreased employment among the working-age population in rural areas, but not in urban areas. Comola and de Mello (2009) also found that the increase in the relative minimum wage had a lighthouse effect, as higher wages in the formal sector were associated with higher wages in the informal sector.

162 The number of workers employed by an enterprise determines its scale. Footnote 137 provides further details.
(e.g., custom tailors or sewers), while 8.0% worked as managers or supervisors. In the individual service sector, the percentage of respondents who worked as hairstylists or barbers was the highest (35.0%), followed by laundry workers (25.0%) and cashiers (15.0%).

The study reveals that the majority of respondents (71.0%) were regular workers. The percentage of female nonregular workers (31.0%) was slightly higher than that of male nonregular workers (26.4%). The percentage of both male and female nonregular workers was highest in clothing manufacturing (45.0%) and individual services (43.0%), while nonregular workers comprised only 5.0% of respondents who worked in retail.

Only 2.0% of workers had written employment contracts, while the majority had either a verbal contract or no employment contract. The service industry had the highest percentage of workers without verbal or written contracts. Female workers had more written and verbal contracts than their male counterparts, although the greater number was not particularly significant.

On average, the respondents worked 9.5 hours a day. Longer average working hours were found among male respondents (9.8 hours) and those working in clothing manufacturing (10.4 hours). The shorter working hours in retail may be correlated with the opening times of retail centers that generally follow regular office hours. The working hours of respondents working in clothing manufacturing depended on production levels, and sales volumes or the size of the orders received by a clothing manufacturing firm.

### Remuneration

The survey finds that about 42.0% of respondents received a fixed salary, while 33.0% received a combined fixed salary with piece-rate payments.\(^{163}\) The remaining 25.0% were paid solely by the piece. This means that the amount of the monthly take-home pay of more than half of the workers in the sample was irregular. The average monthly remuneration of respondents receiving only a fixed salary was Rp1.6 million, while the average monthly piece-rate salary was Rp1.45 million, and that of workers whose remuneration combined a fixed salary with piece-rate payments was approximately Rp2.0 million. This total reported income earned by respondents was less than the minimum monthly wage in Jakarta in 2014 (about Rp2.45 million).

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\(^{163}\) In Indonesia, piece-rate remuneration systems are tied to sales volumes or production levels, rather than simply being paid as a fixed amount per piece produced.
The average monthly income earned by female workers (Rp1.5 million) was lower than that of males (Rp2.4 million). This may be a result of female respondents working fewer hours (9.0) than male respondents (9.8). The choice of occupation may also have been a factor. The study finds that women typically worked in low-income occupations (e.g., as shopkeepers, cashiers, and laundresses) while male respondents worked in higher-income jobs (e.g., managers, supervisors, hairstylists, and tailors).

Retail workers had a higher average monthly income (Rp2.4 million) than workers in manufacturing and services (Rp1.9 million and Rp1.8 million, respectively). This salary difference is a result of different skills requirements and geographic locations of MSMEs (i.e., urban, semi-urban, and rural).

Only 0.4% of respondents said that their employers make contributions to their pension funds. However, the majority of respondents received *Tunjangan Hari Raya* (Bonus during Islam Traditional holiday). The value of this allowance was mostly less than that required by labor laws (i.e., 1 month’s salary for those who have worked for a minimum of 1 year).

**Knowledge and Participation of Workers on Social Insurance**

Forty percent of respondents had knowledge of health insurance benefits and government health insurance schemes as well as providers. However, only 34.0% of respondents knew the names associated with health insurance programs provided by the government (e.g., *Kartu Indonesia Sehat* [Indonesian Health Card] or *Kartu Jakarta Sehat* [Jakarta Health Card]). Of those who were familiar with the health insurance programs provided by the government (85 respondents), 47.0% knew the amount of the least costly premium for Jamkesmas.

Despite their familiarity with health insurance, only 24.0% of respondents participated in health insurance programs. This relatively low rate of health insurance coverage seems to be unrelated to the irregularity of their incomes, but rather closely related to their income levels. The study finds also that the percentage of respondents not covered by health insurance who received a fixed salary was significantly lower than those paid on a piece-rate basis, or who were paid under a combined fixed-salary and piece-rate remuneration system. Nonparticipation was highest among respondents from the lowest-income, fixed-salary group.

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164 This finding should be interpreted with care, since the number of respondents who worked in medium-sized enterprises or had written contracts (nine and five respondents, respectively) was quite small.
Fifty-nine percent of respondents lacked knowledge about procedures to obtain health insurance, 15.0% of respondents felt that health insurance is not important, and 13.0% had no time to register for health insurance. Some of the respondents indicated that high insurance premiums, particularly for the entire family, are unaffordable. Further, the lack of awareness of the benefits of social protection programs result more from the fact that the benefits of social insurance occur in the future, whereas payment for these benefits occurs in the present, and thus must compete with current needs.

Willingness to pay for health insurance premiums was discussed. Sixty-three percent of respondents were willing to pay a monthly premium of Rp20,000.00–Rp30,000.00 ($1.70–$2.50), while 6.4% felt that the government should provide free health insurance. This finding suggests that the majority of MSME workers are willing to pay a small health insurance premium and that urban workers tend to have more willingness to pay than rural workers since the latter have less income than urban workers.

However, the study suggests that affordability could limit extending social protection to informal workers. For example, the health insurance program provided by Jamkesmas requires informal workers to enroll not just as individual members but also all of their family members under individual premium schemes. However, the current premiums for individual health insurance programs are beyond the financial reach of most informal workers.

The study indicates that a payment schemes and rate of premium of health schemes that caters to the specific requirements of informal workers is needed if participation is to be expanded. The benefit packages currently offered by existing social protection programs are directly based on the amount of the contribution of the participant concerned. This applies to all types of members, including informal workers. Due to the irregular income of most informal workers, sustaining contributions to such a scheme is problematic. Instead, the amount of the premium paid by informal workers should somehow be based on affordability and income level. As one representative of the BPJS employment insurance scheme said,

Ideally, there has to be layers of voluntary schemes. The premiums are what matter the most. For [the] work-related accident scheme, the premiums should be based on the income of the participants. If the income is low, the premiums will automatically be low.

This affordability issue also relates to the social insurance schemes, and health insurance in particular. According to a representative of the BPJS health insurance scheme,
Based on the regulations, MSMEs are counted as enterprises, and [thus] should comply with the paid worker’s insurance scheme [in which] the monthly premium contribution would be based on the worker’s basic salary. When workers do not have [a] fixed salary, the health insurance premium should be based on the regional minimum wage, which is generally higher than the wage of workers in MSMEs. I think most MSMEs in Indonesia will not be able to contribute to their workers’ [health insurance schemes] because of this reason.

In addition, the majority of respondents were not aware of employment insurance (e.g., accidental, disability, death, and old-age insurance), and only 15.0% knew of government employment insurance programs. This reflects the results of the study that only 2.0% of respondents participated in employment insurance.

The study also reveals that the majority of respondents (83.0%) did not know the application procedures for the program, and some did not view the program as important. Less than 4.0% of respondents felt that they cannot afford the premium. The study shows that 40.0% of respondents were willing to allocate, on average, 2.1% (1.4%–3.5%) of their monthly income to pay for premium employment insurance, while 6.4% said that employers should provide 100.0% of the premium. Employers also had limited knowledge of social protection programs, including the procedures necessary for facilitating and managing employee participation in social protection programs. Further, most employers had not considered that providing social protection for their employees could provide benefits such as increased worker productivity.

The study further shows that the financial capability of MSMEs constrained their capacity to contribute to worker participation in social protection programs. In the words of a representative of Asosiasi Pengusaha Indonesia (APINDO), an association of MSMEs, “MSMEs cannot be compared to large enterprises ... with all of [the MSMEs’] limitations, they cannot pay the minimum wage and contribute to social protection of workers as mandated by the labor law.”

Compensation for Sickness and Work-Related Accidents

The study finds that 38.0% of respondents were not guaranteed compensation for sickness or work-related accidents, although 10.0% of respondents did not know whether they are guaranteed such compensation.

Employers in Indonesia have widely varying policies regarding sick leave for their employees. Some do not pay employees any salary at all when they are absent from work for any reason, while others pay the full salary during periods in which
sick leave is taken. The study finds that 48.0% of respondents did not get paid for sick leave. The highest percentage of respondents who are not paid when they take sick leave (53.0%) were those who worked in clothing manufacturing. This was followed by those who provided individual services (47.0%) and respondents who worked in retail (42.0%). This outcome may be because respondents who work in clothing manufacturing generally have their salary tied to production volume. Finally, more than 30.0% of respondents said that their employers do not provide full compensation for medical costs incurred from work-related accidents.

**Occupational Health and Safety**

Regarding health and safety facilities at work, most respondents reported having access to a clean water source (94.0%), and clean toilets and sanitation facilities (86.0%). Only half of the respondents reported availability of fire extinguishers and facilities for responding to work-related accidents. This is significant, since the risk of fire and work-related accidents is relatively high for workers in clothing manufacturing as compared with those who work in retail and services. This notwithstanding, the survey finds that the percentage of respondents who reported availability of fire extinguishers and safety gear was lower in clothing manufacturing than it was in the service sector.

Only half of the respondents reported that their employers promoted health and safety requirements. Only 18.0% were required to wear or use safety gear, 30.0% were provided with guidance about workplace health and safety, and 24.0% reported the presence of signs reminding them about the need for maintaining health and safety in their workplaces.

**Representation in Workers’ Associations**

Only 6.0% of respondents were aware of the role and function of workers’ associations, while the majority (65.0%) had no knowledge of workers’ associations and their functions. This lack of knowledge includes facilitating members’ participation in employment insurance and lobbying employers for improving working conditions.

**Skills Development Opportunities for Workers**

Only 21.0% of respondents had formal training, either at work or outside of the workplace. The percentage of female workers who received such training (25.0%) was slightly higher than that of male respondents (17.0%). The highest percentage of respondents who received formal training (36.0%) worked in the individual services subsector, while training for clothing manufacturing
was 17.0%, and 12.0% for retail sales. These include training on the use of computers, beauty salon operation and hairstyling, and sewing and embroidery. The percentage of respondents who had been provided with English-language training was particularly low at 2.0%.

Challenges of Expanding Social Protection Programs

Registration Requirements

Possessing a Kartu Tanda Penduduk (KTP), a national identification card, is the main requirement for an individual to register with Jamkesmas. The Nomor Induk Kependudukan (population identification number) is also needed by the BPJS to create a database of insured members. However, many still do not have KTPs. There is also some anecdotal evidence that some have more than one KTP, with different names or residential addresses. Lack of official identification is a major constraint to recruiting new program participants, particularly for individual memberships, which are voluntary.

Lack of Coordination and Enforcement of Regulations

The relatively low rate of social protection coverage among informal workers also results from the lack of enforcement of existing regulations, as well as a lack of coordination among stakeholders, particularly government agencies. This issue was raised in the interviews conducted for the study, particularly by the agencies that implement social insurance programs. As one representative from the BPJS employment insurance scheme said, “The line ministries only focus on their own objectives, and not the national goal [to provide] social protection for all Indonesian citizens.”

A representative from the BPJS health insurance scheme felt that “[s]anctions should be implemented for those who [do] not comply with the laws, including employers who do not provide health insurance for their workers. The BPJS can only provide names to the line ministries who have the authority to give the sanctions. However, we do not know what actions have been taken.”

Socialization and Education

Representatives of the BPJS health and employment insurance schemes revealed that to expand social protection coverage for informal workers, awareness campaigns are being put on for various stakeholders, including informal workers’ associations at both the national and regional level. In addition, they are providing information concerning social protection programs
to informal workers at markets and other places where informal workers congregate.

Meanwhile, the BPJS employment insurance scheme is developing a strategy that it calls “active protection,” which is a direct approach to educating informal workers about the benefits of participating in employment insurance schemes and to recruiting their participation.

One socialization strategy would be to have informal workers disseminate information regarding social protection programs directly to other informal workers. In addition, socialization through media—particularly television—could be effective in disseminating information about registration procedures, as well as the benefit of participating in social protection programs generally.

**Enrollment of Health and Employment Insurance**

A gradual approach may be needed to increase the rate of compliance of MSMEs with the social protection aspects of the labor law. In the short term, employers can register their workers for individual memberships, aggregate their workers’ contributions, and pay them directly to the BPJS, even without employer contributions to workers’ premiums. This strategy can be applied to MSMEs at an early stage of business development when firms have limited financial capacity for employee premium contributions. One MSME has already begun following such a procedure.

An alternative strategy is having a third-party function as an intermediary between the BPJSs and informal workers. One MSME owner stated that her workers are informally planning to collectively enroll in Jamkesmas. Using an intermediary agency may be an option for reducing the cost of collecting contributions.

Designing effective systems for collecting contributions is also an important aspect of expanding social protection for informal workers. One strategy raised in the interviews was locating service points nearer to the areas where informal workers live and work. Service points of this type should also cater to the characteristics of informal workers. Accordingly, as part of its “active protection” strategy, the BPJS employment insurance scheme plans on establishing service points that accommodate the needs of informal workers. It plans to collaborate with commercial banks, minimarket chains, and local government agencies and authorities, using internet and mobile banking services to facilitate collection of contributions.
Empowerment of Micro, Small, and Medium-Sized Enterprises

The study also indicates a need to facilitate development of the MSMEs themselves. Some of the informants felt that MSMEs could provide social insurance for workers once their firms were better established in terms of procuring business licenses, obtaining access to formal credit, and attaining more regular production levels and revenue streams. Although the rate of compliance with labor regulations by large firms is relatively low, ensuring that MSMEs are able to grow is an important aspect of ensuring that MSMEs will ultimately have the financial capacity to support employee participation in social insurance schemes.

One way of supporting empowerment of MSMEs is to facilitate their sustainability as businesses. The MSMEs Center at the University of Indonesia, an NGO that facilitates development of MSMEs, suggested providing insurance for MSMEs that covers the risk of total loss of a business, as well as protection for their workers. Such an insurance package could be accompanied by training programs that help MSMEs develop. Associations of informal workers can also be used to support participation in social protection programs by their members. One way of accomplishing this would be for the government to acknowledge that formal and informal sector workers both have equal rights under the law with respect to implementation of labor-related legislation.

Conclusions and Recommendations

Despite the efforts that have been made to extend social protection to informal workers in Indonesia, their current rate of participation in social protection programs remains limited. Understanding both the current relatively low rates of social protection coverage and the challenges inherent in increasing such coverage are important aspects of expanding social protection coverage among informal workers.

There are few major obstacles to increasing coverage among informal workers: the nature of informal employment itself, and the lack of institutional capacity for including them under existing social protection programs. The quantitative survey and qualitative assessment reveal three major challenges in expanding participation in social protection programs for informal workers:

(i) **Lack of awareness of the benefits of social protection programs among workers and employers in the informal sector.** Lack of information on enrollment procedures, the affordability of insurance premiums, and the low priority given to social protection are some of the reasons for low enrollment in health and employment insurance.
(ii) **Lack of financial capability.** The majority of MSME workers have irregular incomes with no written contracts and cannot afford to pay premiums for health and employment insurance. Furthermore, MSMEs lack the financial capacity to provide premium contributions due to limited resources and inadequate law enforcement.

(iii) **Lack of regulatory enforcement.** Of particular note in the study is the lack of a coordinated effort among government stakeholders to ensure employer compliance through existing labor-related legislation. In this regard, improved coordination and collaboration between the relevant government line ministries and BPJSs is needed, particularly to develop systems and programs that are appropriate to the informal sector.

The results of both the quantitative and qualitative assessments underscore the following policy recommendations for supporting provision of social protection to informal workers:

(i) **Improve awareness of micro, small, and medium-sized enterprise employees and employers of social protection programs.** A capacity development program should be designed that not only increases the level of awareness of informal workers but also increases their willingness to participate in social insurance programs. Informal workers and MSME owners should also become the main agents for this program. The major responsibility for conducting such education programs should be that of the BPJSs in collaboration with government agencies at both the national and local levels, associations of informal workers, associations of MSMEs, and NGOs.

(ii) **Design methods to register and collect insurance premiums for informal workers.** The challenges of participant registration and collection of contributions include the large number of informal workers and unique characteristics of the sector itself. Simple registration and contribution collection to expand participation in social protection programs requires the involvement of stakeholders such as government agencies, NGOs, and financial institutions. Payment methods can be tailored to match the irregularity of informal workers’ income such as adopting advance payments, and adjusting monthly contributions to the level of the individual worker’s monthly salary.

(iii) **Empower micro, small, and medium-sized enterprises.** Current efforts to support the development of MSMEs should be continued. Further, policies that address MSMEs should be directed to facilitating their growth into established enterprises. Improving access to financial resources, streamlining procedures for obtaining business licenses and processing applications, and providing training to improve the skills of managers and workers are of particular importance in this regard. It is
important to note that empowerment of MSMEs will not automatically expand social protection coverage among informal workers. However, ensuring MSME growth in both production volumes and revenues would increase the capacity of MSMEs to facilitate their workers’ participation in social protection programs.

(iv) **Reduce the business risks that micro, small, and medium-sized enterprises face.** One option is to design insurance programs that provide comprehensive protection for MSMEs as well as their employees. Insurance may include compensation in the case of bankruptcy, damage by fire or natural disasters, and severance payments for workers should the firm close. Such an insurance program would require the involvement of the MOSMEs, Ministry of Manpower, and the BPJS for the employment insurance scheme.

**References**


CHAPTER 9

Social Protection for Informal Workers in the Philippines: A Study of Micro, Small, and Medium-Sized Enterprises

Ahmid Bualan

Abstract

The informal sector plays a major role in economic growth and poverty reduction in the Philippines, and majority of businesses are micro, small, and medium-sized enterprises (MSMEs). This study assesses various programs and policies of social protection schemes for informal workers in the Philippines.

The study reveals that most MSME workers in urban Manila are nonregular employees. They have low participation in workers’ associations, low benefit and work compensation, and limited social protection coverage. These informal workers are less represented in labor organizations. About 40.0% of MSME workers and more than half of industrial home workers are paid below the minimum wage. Lack of awareness of social protection programs and affordability issues are among the reasons for low social protection coverage.

The study recommends expanding social protection coverage to informal workers by intensifying awareness campaigns, providing affordable insurance, establishing a unified database for informal workers, providing unemployment benefits, improving avenues for worker representation in labor-related organizations, and ensuring strict enforcement of existing labor-related laws.
Introduction

The informal sector has played an important role in accelerating economic growth in the Philippines, as a significant portion of the country’s lower-income population works in the informal sector.

Informal workers comprise (i) industrial home workers, usually paid on a piece-rate basis who work at or near their homes in the production of goods under agreements with employers or contractors; (ii) self-employed or own-account workers who have no employer, operate their own businesses, and have no paid employees; (iii) employers similar to self-employed workers, but who employ one or more paid workers; (iv) employees who are paid employees of informal enterprises; and (v) unpaid family workers who work occasionally without pay on farms or at businesses operated by a member of their immediate family (Sibal 2007).

Department of Labor and Employment (DOLE) statistics show that the informal sector accounts for a significant share of total employment nationally. The country’s estimated 21 million informal sector workers accounted for about 75.0% of the total working population in 2013 (World Bank 2013).

The number of self-employed and unpaid family workers has increased significantly over the past few years. Data published by the Philippine Statistics Authority showed that from 2013 to 2014, the number of self-employed workers grew from 11.9 million to 12.1 million. Over the same period, the number of unpaid family workers expanded from 3.9 million to 4.1 million.165

Among the reasons for engaging in self-employed or industrial home-based work are the lack of skills, lack of opportunities, and ease of making money for daily sustenance.166 Further, because of the lack of opportunities for decent work in the Philippines, many are compelled to look for short-term or temporary employment, or to even create their own employment to survive (Pastrana 2009).

Informal employment occurred in almost all sectors, including construction, manufacturing, services, and sales when legal enforcement for protecting employees is weak or absent. For example, Soriano (n. d.) observed that in

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165 This figure refers to self-employed persons without any paid employees, and employers in family-operated farms or businesses.

166 Data obtained during focus group discussions from industrial home-based worker and self-employed respondents in Valenzuela City, Metro Manila.
the construction sector, compliance with labor and safety standards virtually disappears at levels of subcontracting.

These practices are not limited to the construction sector. Several studies have shown informal employment subcontracting arrangements in the formal garment-manufacturing subsector, which is evident in its relatively low wages and lack of provision of social protection. Such arrangements are so common that an entire industry of subcontracting agencies outsourcing production on behalf of formal sector establishments has become profitable, with formal sector establishments paying agencies to ensure output. While these practices minimize production costs for formal sector firms, they also induce possible noncompliance through nonpayment of contributions to social protection programs such as social security, health insurance, or other employee benefits.

Profile of Micro, Small, and Medium-Sized Enterprises and Informal Workers in the Philippines

A micro, small, and medium-sized enterprise (MSME) (Table 9.1) is defined as any business activity or enterprise engaged in industry, agribusiness, and/or services that (i) has assets (excluding land) not exceeding P100.00 million ($2.20 million), and (ii) employs less than 200 workers. Business ownership is not a factor in such classifications (Senate Economic Planning Office 2012).

<table>
<thead>
<tr>
<th>Scale</th>
<th>Assets ('000)</th>
<th>Number of Employees</th>
</tr>
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<tbody>
<tr>
<td>Micro</td>
<td>Up to P3,000.00</td>
<td>1–9</td>
</tr>
<tr>
<td>Small</td>
<td>P3,000.00–P15,000.00</td>
<td>10–99</td>
</tr>
<tr>
<td>Medium-Sized</td>
<td>P15,000.00–P100,000.00</td>
<td>100–199</td>
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Note: P44.19 = $1.00.

This definition is based on Republic Act No. 9501—the Magna Carta for MSMEs—which was amended by Republic Act No. 8289 and Republic Act No. 6977. The definition is further based on the establishment category used by the National Statistics Office.
In 2014, the Philippines had about 950,000 business enterprises. Of these, 99.6% were MSMEs. Micro enterprises accounted for 90.3%; small enterprises, 9.3%; and medium-sized enterprises, 0.4% (Department of Trade and Industry 2014). Many MSMEs were engaged in wholesale and retail sales. Automobile and motorcycle repair accounted for 46.0% of all MSMEs; accommodation and food services, 13.0%; and manufacturing, 12.0%.

MSMEs provided about 4.9 million jobs in 2014. MSMEs contributed almost 63.0% of the total jobs generated by all types of business establishments for that year. Of the total number of jobs that MSMEs created, micro enterprises accounted for 30.5%; small enterprises, 25.5%; and medium-sized enterprises, 6.8% (Department of Trade and Industry 2014).

The magnitude of employment created by MSMEs underscores the vital role these firms play in the national economy. However, the value added by MSMEs remained relatively low. The Department of Trade and Industry estimated that MSMEs accounted for only 35.7% of the total value added, which is a smaller percentage share than in other Asian economies. For example, Indonesia’s MSMEs accounted for 53.3% of total value added; Viet Nam’s, 39.0%; and Thailand’s, 37.8% (Senate Economic Planning Office 2012).

Growth of the MSME sector has also not been sufficient to propel economic growth at the national level (MSMED Council 2011). This is in part due to the constraints that MSMEs face, which include (i) nonfinancial barriers such as the cost of electricity, heavy regulatory burdens, relatively high tax rates, and corruption; (ii) financial barriers such as difficulty in accessing formal financial services; and (iii) technological barriers such as using low-quality technology (Senate Economic Planning Office 2012).

**Policy and Regulatory Framework of Workers to Promote Their Welfare**

The Philippine Constitution of 1987 reflects the requirements of the International Labour Organization by guaranteeing protection for workers and promoting their welfare (Government of Philippines 1987). The Constitution also guarantees full protection of labor, regardless of whether the place of employment is in the Philippines or a foreign country, and whether labor is formally organized.
Social Protection for Informal Workers in Asia

Labor Regulations on Wages and Employee Benefits

Most of this section is directly quoted from Bureau of Working Conditions (2014). Labor regulations include several provisions that guarantee social protection for workers, which include the following.

Minimum Wage

Republic Act No. 6727 (also known as the Wage Rationalization Act) mandates setting minimum wage levels for a broad range of nonagriculture subsectors, such as work on plantation and nonplantation agriculture, cottage and handicraft enterprises, retail sales, and services. However, in some economic sectors, application of minimum wage levels depends on the number of workers, capitalization, or gross annual sales.

Minimum wage levels apply to all private sector workers and employees regardless of position, designation, or employment status, and irrespective of the means by which their wages are paid. The only exception to this rule is workers of duly registered barangay micro business enterprises operating under a certificate of authority issued by the relevant office of the municipal or city treasurer.

As of 4 April 2015, the daily minimum wage in the National Capital Region was P481.00 ($10.60) for nonagriculture work. An 8-hour working day is typical for application of this rate. Minimum wage levels are also prescribed for output-based workers such as home and piece-rate workers, as well as pakyawan (task-based workers). The law requires that workers paid according to output should not receive less than the minimum wage rate prescribed by the Regional Wage Orders for normal working hours, which should not exceed 8 hours per day.

Holiday Pay and Premium Pay

The legal definition of holiday pay is a regular daily-wage payment made to an employee for an unworked regular holiday. Employees who work during regular holidays are entitled to at least twice their regular daily wage. This applies to all employees except government employees, retail and service establishment

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168 A barangay is roughly equivalent to a village.
169 The National Capital Region (NCR) is the seat of government, the second most populous region and is the most densely populated region of the country. The NCR is composed of Manila, Quezon City, Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Marikina, Muninlupa, Navotas, Parañaque, Pasay, Pasig, San Juan, Taguig, Valenzuela and the Municipality of Pateros.
170 At exchange rate of P45.50 = $1.00.
171 http://www.dole.gov.ph/labor_codes/view/4
employees who regularly employ less than 10 workers, household helpers, managerial employees, officers or members of managerial staff, and field personnel. In contrast, premium pay is additional compensation for work performed within 8 hours on nonwork days such as rest days and “special days.” Workers not permitted to work on special days are not entitled to premium pay.

Overtime Pay

Overtime pay is additional compensation for work performed beyond an 8-hour day. Exceptions include government employees, managerial employees, officers or members of a managerial staff, household helpers, output-based workers, and field personnel.

Night Shift Differential

Night shift differential pay is additional compensation of 10.0% of an employee’s regular wage for each hour of work performed between 10 p.m. and 6 a.m. Exceptions to those entitled to night shift differential pay are government employees, retail and service establishment employees with no more than five workers, household helpers, managerial employees, officers or members of a managerial staff, and field personnel.

Thirteenth-Month Pay

Thirteen-month pay is applied to all rank-and-file employees, regardless of the nature of their employment and the method by which they are paid. However, to be eligible for 13th-month pay, an employee must have worked for at least 1 month during a calendar year. Exceptions include government employees; employees already paid by employers of 13th-month pay in a calendar year during issuance of Presidential Decree No. 851; and employees in the service industry, including employees paid on commission, boundary, or a specific task.

Severance Benefit

This monetary benefit is given to employees who are terminated for authorized causes. The amount is equivalent to one-half of 1 month’s pay for each year of service rendered. Computation of the severance benefit of an employee is based on the employee’s most recent salary rate. Grounds for termination

172 According to the Philippine Manual on Labor Standards (DOLE 2004), special days are calendar days (i.e., from 12 midnight to 12 midnight or a 24-hour period) that include All Saints Day (1 November) and the last day of the year (31 December).
that result in forfeit of severance benefit are gross and habitual neglect of duty, fraud, commission of a crime, and other similar causes.

**Retirement Pay**

Labor law prescribes retirement pay for employees aged 60 years and above who have served a company for at least 5 years. This privilege applies to all employees except government employees, and employees of retail, service, and agriculture establishments that regularly employ not more than 10 workers.

**Labor Regulations Governing Nonmonetary Benefits**

All workers are eligible for several types of leave from work, including service incentive leave, weekly rest periods, paternity leave, maternity leave, and leave granted to single parents.

The law provides special leave of 7 working days for single parents each year. This is in addition to leave granted under existing laws to employees who have rendered at least 1 year of service to a company. Such individuals are given full pay, including basic salary and mandatory allowances. Further, leave for victims of violence against women and their children can be provided to private sector female workers.

**Occupational Safety and Health Regulations**

Adherence to occupational safety and health regulations is generally accepted as a basic right that calls for concerted action by all stakeholders, including government agencies, employers’ and workers’ organizations, and civil society organizations (OSHC 2006). Occupational safety and health regulations aim to protect all workers against risk of injury, sickness, or death through maintaining safe and healthy working conditions. Workers are likewise responsible for ensuring adherence to regulations by reporting to supervisors any hazard that may be discovered in a workplace, and making proper use of all safeguards and safety devices. Such regulations specifically require training of personnel and workplace health and safety committees (DOLE 1989).

173 The Manual on Labor Standards (DOLE 2004) defined service incentive leave as a leave privilege of 5 days with pay per year for those with at least 1 year of service; it is commutable to its monetary equivalent if not used within 1 year.

174 This is provided for by Republic Act No. 8972, which also provides for flexible work schedules where applicable for single parents.
Participation of Workers in Labor Unions and Labor Organizations

The Labor Code of the Philippines (1974) states that the government must promote collective bargaining and negotiations, awareness of workers’ rights and obligations as union members and employees, and free-trade unionism to enhance democracy and social justice. It also seeks to foster free, voluntary organization of a strong, united labor movement; provide adequate administrative machinery for prompt settlement of labor or industrial disputes; ensure stable, just, and dynamic industrial peace; and guarantee workers’ participation in decision- and policy-making processes that affect their rights, duties, and welfare.

The Labor Code further states that labor organizations have the right to act as representatives of their members for collective bargaining, and to be certified as exclusive representatives of all employees in an appropriate bargaining unit for collective bargaining. Membership in unions or labor organizations is open to all persons employed in commercial, industrial, and agriculture enterprises, including employees of government-owned or -controlled corporations without original charters established under the Corporation Code, as well as employees of for-profit and nonprofit religious, charitable, medical, or educational institutions (DOLE 2003).

Study Findings

The findings of this study is based on the survey and focus group discussions with informal workers of industrial home workers, self-employed, and employees of MSME manufacturing subsector in Metro Manila.

Methodology

The geographic area chosen for the study is Metro Manila, because it has the largest share of MSMEs in the country (22.0%), and the largest share of total MSME employment (32.0%). According to the Philippine Statistics Authority, manufacturing, wholesale and retail trade, and automobile services—which are the sectors targeted by this study—are the primary MSMEs in the region and a relatively large share of the total number of informal workers175 (NSO 2012). The study used surveys, interviews, and focus group discussions in data gathering.

175 The industry classifications are those used by Philippine Statistics Authority (2009), which are commonly reported in National Statistics Office and DOLE publications.
There were 318 respondents comprising 198 MSME workers, 48 industrial home workers, 51 self-employed, and 21 employers, owners, or supervisors. The study was conducted in selected barangays of Valenzuela, Quezon City, and Makati. The selection of the three cities is based on analysis of industry-wise and city-wise data on a number of MSMEs and total employment in MSMEs in the 2012 List of Establishments (NSO 2012).

Sociodemographic Characteristics of Respondents

The average age of all respondents was 36 years, with most respondents being 26–35 years old, although industrial home workers were typically 36–45 years old. Most self-employed respondents were more than 36 years old. While male respondents outnumbered female respondents (58.0% versus 42.0%), women accounted for 69.0% of industrial home workers and 75.0% of self-employed respondents. This is because self-employment—particularly sari-sari (small-scale convenience store) retail and food and garment manufacturing—are typically home-based activities that attract female entrepreneurs, allowing income to be combined with household tasks.

Female respondents dominated the MSME manufacturing subsector, with 59.0% of entrepreneurs engaged in informal sector garment and food manufacturing. Corresponding percentage shares for industrial home workers and self-employed food and garment manufacturers were 69.0% and 91.0%, respectively. More than half (62.0%) of self-employed respondents engaged in wholesale and retail were women.

Only 2.0% of industrial home workers, 8.0% of MSME workers, and 10.0% of self-employed respondents were university graduates or had completed some university. 62.0% who were either university graduates or had completed some university were women. However, more male respondents than women had completed vocational training. The majority (60.0%) of respondents were high school graduates, as most establishments require job applicants to have a high school diploma.

Employment Status

More than half (53.0%) of all respondents were engaged in irregular employment. Among these respondents, 34.0% engaged in project-based or contractual employment, with the corresponding figure for casual, seasonal, or on-call employment at 14.0%; 3.0% on probationary employment or employment as an apprentice or trainee; and 2.0% were hired through an agency. Of the respondents who were regular workers, 55.0% were men.
Approximately 40.0% of respondents were paid below the legal minimum wage, 32.0% were paid the legal minimum wage, and 11.0% were paid above the minimum wage. Of the respondents who work for MSMEs, 38.0% were engaged in wholesale, retail, and automobile repair subsectors, while 51.0% worked in MSME manufacturing firms. Daily wages are below the legal minimum wage in MSME manufacturing firms. 54.0% of industrial home workers were paid below the minimum wage. Some of the respondents who worked for MSMEs who were not paid the minimum wage enjoyed other benefits, such as live-in workers who were provided free room and board.

49.0% of the respondents who worked for MSMEs mentioned that their employers did not provide retirement benefits or severance benefit. Similarly, 45.0% of MSME workers and 94.0% of industrial home workers did not receive holiday pay. Very few (2.0%) of industrial home workers said that their employers provided 13th-month pay. Of respondents who worked in MSMEs, 35.0% said that regular employees were provided 13th-month pay.

The study finds that most workers—even those who worked for formal sector enterprises—have no protection against contract termination. Only 37.0% of MSME worker respondents had a written contract, 10.0% had a verbal contract, and 32.0% said that they can be terminated at any time. Respondents who had an employment contract tended to be those who had worked fewer months at their current job than other workers. MSME workers who had an employment contract (64.0%) had worked at their current job for only 5 months. In most cases, employees were provided 5-month employment contracts, as the Labor Code requires employees to be regularized after 6 months of employment.

For the industrial home worker respondents, only 17.0% had a written employment contract, while 71.0% had no employment contract. In fact, during a focus group discussion for industrial home workers, some respondents said that their jobs were always at risk due to lack of written employment contracts.

The study finds that few respondents had been formally trained to perform the duties required in their current jobs. Only 21.0% of MSME and industrial worker respondents said that they had received such training, and only 14.0% of self-employed respondents had received formal training in starting their own businesses. Similarly, few MSME and industrial home workers had been provided with training for improving their skills. Only 3.0% of MSME workers and 6.0% of industrial home workers said that they were provided with such training in their current jobs.
Social Insurance

Social insurance in the Philippines consists of several programs. While several government agencies have initiated social protection programs in the event of calamity, sickness, old age, or death, this list is not exhaustive.

Social Security System

Established in 1957, the Philippine Social Security System (SSS) is a defined-benefit program that pays benefits based on the number of contributions paid and the monthly salary credit of the participant. The SSS also pays benefits in the event of sickness or pregnancy (de Quiros 2014). As of September 2014, 4.3 million registered self-employed individuals (35.0% of all self-employed persons) were SSS participants, and 4.3 million individuals were voluntary SSS participants (SSS 2014).

Several attempts were made to expand SSS coverage to informal workers. In early 2012, the SSS AlkanSSSya Program—a microsavings program offering convenient collection and remittance of contributions by informal workers—was launched. The program was designed to encourage informal sector workers to save. Metal safety boxes with secure mini compartments have been installed in various accessible locations to store AlkanSSSya savings. Every member is assigned a mini compartment to drop P10.00–P12.00 ($0.20–$0.30) per day for 30 days to complete his or her minimum SSS contribution of P330.00 ($7.80) per month. As of May 2014, this program attracted more than 74,000 members from 748 informal sector groups nationwide. In fact, a total of 180 informal sector groups representing more than 17,000 members joined the program during the first 5 months of 2014 (PTV News 2014).

The study reveals that only 62.0% of the 318 respondents were MSME workers who were active SSS participants, while 8.0% were inactive participants. Inactive participants are those who were registered with the SSS, but have discontinued their payments because they transferred to another company and their new employers failed to contribute to their monthly premiums. Of all MSME workers, 30.0% were not registered with the SSS (Table 9.2).

The most common reason for inactive SSS status given by industrial home workers and self-employed respondents was “loss of job” and “no employer to share the contribution,” both of these being related to the cost of the premiums required. Half of the industrial home workers and 63.0% of self-employed individuals previously worked with other companies before becoming home-based.

176 Social insurance includes programs that cover the risks associated with unemployment, sickness, maternity, disability, industrial injury, and old age (ADB 2011).
workers or self-employed entrepreneurs. As a result, they were SSS members, but discontinued their contributions because they cannot afford to pay their premiums independently.

More than half (56.0%) of MSME workers said that they are not SSS participants because their employers had not registered them, while 17.0% said that they do not have registration information. Of the industrial home workers, 33.0% said that they do not know how to join, 17.0% said they cannot afford their premiums, and another 17.0% consider SSS participation to be unimportant. Finally, 51.0% of the respondents were completely or only partially aware of the benefits of SSS participation. Forty percent of the self-employed respondents said that they do not know how to apply for SSS participation, while 35.0% said they cannot afford the premium, since they are expected to pay the full amount. Fifty nine percent of the self-employed respondents were unaware or only partially aware of the benefits of SSS participation.

The low rates of SSS coverage of industrial home workers, self-employed respondents, and MSME workers result from lack of awareness of program benefits, nonaffordability, and dependence on their employers to pay the share of premium of social insurance programs. Ultimately, both of these outcomes also relate to weak enforcement of labor laws.

**Philippine Health Insurance Corporation**

The Philippine Health Insurance Corporation (PhilHealth) is a tax-exempt government corporation attached to the Department of Health. In October 1997, PhilHealth replaced the Government Service Insurance System as implementing agency of the Medicare program for government and private sector employees, and replaced the SSS in April 1998. In 1999, PhilHealth

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**Table 9.2: Social Security System Participation by Type of Occupation (%)**

<table>
<thead>
<tr>
<th>Type of Membership</th>
<th>MSME Workers</th>
<th>Industrial Home Workers</th>
<th>Self-Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members (active)</td>
<td>62.0</td>
<td>18.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Members (inactive)</td>
<td>8.0</td>
<td>40.0</td>
<td>33.0</td>
</tr>
<tr>
<td>Nonmembers</td>
<td>30.0</td>
<td>42.0</td>
<td>42.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

MSME = micro, small, and medium-sized enterprise.

Source: Survey of Informal Workers 2015 compiled by the author.
programs began covering self-employed persons and informal workers. In 2005, PhilHealth replaced the Overseas Workers Welfare Administration as the implementer of functions pertaining to overseas Filipino workers.

PhilHealth has undertaken several initiatives to improve health services such as the introduction of a primary and catastrophic benefit package to provide universal coverage to all. In 1997, PhilHealth began its indigent program, partnering with local government units to enroll families with lack of access to health care (PhilHealth 2013). Administrative Order No. 2010–0036 ensured health care coverage of vulnerable groups through an operational strategy called Kalusugan Pangkalahatan (universal health care), which seeks to ensure equitable access to quality health care by all, especially those in the lowest-income quintiles. Informal workers also have access to PhilHealth’s Individually Paying Program.

As of 31 December 2014, PhilHealth’s membership included 2.4 million informal sector and self-employed individuals. Findings of this study further reveal that nearly one-half of all MSME workers and 71.0% of industrial home workers were not PhilHealth members. Table 9.3 shows that only 43.0% of self-employed respondents were active PhilHealth members, probably due to subsidized contributions by the sponsorship program, or through programs such as conditional cash transfers or the Pantawid Pamilyang Pilipino Program (Bridging Program for the Filipino Family) or other programs under which the government finances the cost of PhilHealth membership.

**Table 9.3: PhilHealth Membership by Type of Occupation (%)**

<table>
<thead>
<tr>
<th>Type of Membership</th>
<th>MSME Workers (198)</th>
<th>Industrial Home Workers (48)</th>
<th>Self-Employed (51)</th>
<th>Total (297)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>46.0</td>
<td>23.0</td>
<td>43.0</td>
<td>42.0</td>
</tr>
<tr>
<td>Inactive</td>
<td>5.0</td>
<td>6.0</td>
<td>29.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Nonmembers</td>
<td>49.0</td>
<td>71.0</td>
<td>28.0</td>
<td>49.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

MSME = micro, small, and medium-sized enterprise.

Source: Survey of Informal Workers 2015 compiled by the author.
The study finds that the lack of awareness of program benefits accounts for the relatively low rate of PhilHealth membership among respondents, as 55.0% of MSME worker respondents, 71.0% of industrial home worker respondents, and 59.0% of self-employed respondents were unaware or only partially aware of the benefits of PhilHealth membership. Industrial home workers cited the unaffordable premium cost, payment inconvenience, difficulty in claiming benefits, small benefit amounts, and long waiting periods as reasons for letting their memberships lapse.

The study also reveals that very few MSME workers were covered by the various forms of private insurance, such as life insurance, health insurance, and personal accident insurance. In fact, the study finds that only 14 of the 198 MSME worker respondents had some sort of private insurance.

**Pag-IBIG Fund (Home Development Mutual Fund)**

In 1978, Presidential Decree No. 1530 (later amended by Presidential Decree No. 1752 and Republic Act No. 7742) established the Pag-IBIG Fund (Home Development Mutual Fund), a national savings program that provides affordable home financing for workers, with a parallel fund for government employees and the SSS for private sector workers, both administered by the Government Service Insurance System.

The Pag-IBIG Fund introduced several innovative benefit programs to expand its membership and to target groups of informal sector self-employed individuals, overseas Filipino workers, and nonearning spouses. Members contribute at least 2.0% of their income to the fund. However, the fund also provides schemes to ensure inclusion of informal workers by reducing the required monthly contribution to as low as P80.00 for those earning at least P1,000.00 per month.

At the end of 2013, the Pag-IBIG Fund had 13.5 million members, with its self-employed membership having grown by 18.0% from 160,331 in 2012 to 189,940 in 2013 (Pag-IBIG Fund 2013). As of December 2014, the total self-employed membership was 199,795, about 1.7% of the total number of self-employed persons in the Philippines.

Membership is mandatory for all employees, regardless of employment status. However, while registration is required of all persons with a monthly income of P1,000.00 or more, the study finds that only 39.0% of MSME workers were active members, and the corresponding figures for industrial home workers and self-employed respondents were only 8.0% and 14.0%, respectively (Table 9.4).

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177 Data provided by the Pag-IBIG Fund (2013).
Of MSME worker respondents who were active Pag-IBIG Fund members, 53.0% said that their employer shares the cost of their monthly contributions, while 39.0% said that their employers pay the full cost. Industrial home worker and self-employed respondents who were active members said that they pay the full cost of membership.

A number of reasons for inactive Pag-IBIG Fund membership were given during the survey interviews and focus group discussions. Most respondents said that monthly premiums are unaffordable. The study also reveals that 70.0% of MSME worker respondents were only somewhat aware of the benefits of membership.

**Working Conditions**

The conditions under which MSME worker respondents worked were far better than those of industrial home workers and self-employed respondents. Only 14.0% of the self-employed respondents and 38.0% of industrial home workers owned fire extinguishers, and only 31.0% of self-employed respondents had access to health or safety equipment.

Although 40.0% of MSME worker respondents were not paid the legal minimum wage, 30.0% worked more than the prescribed 8 hours per day. While only 18.0% of MSME workers and 8.0% of industrial home workers received training in occupational health and safety, none of the self-employed respondents received such training.

### Table 9.4: Pag-IBIG Fund Membership by Type of Occupation (%)

<table>
<thead>
<tr>
<th>Type of Membership</th>
<th>MSME Workers (198)</th>
<th>Industrial Home Workers (48)</th>
<th>Self-Employed (51)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>39.0</td>
<td>8.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Inactive</td>
<td>3.0</td>
<td>13.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Nonmember</td>
<td>58.0</td>
<td>79.0</td>
<td>64.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

MSME = micro, small, and medium-sized enterprise.

Source: Survey of Informal Workers 2015 compiled by the author.
Representation in Labor Unions and Organizations

DOLE data shows that as of 2013, there were 32,424 workers’ associations in the Philippines with about 1.3 million members, and 16,638 private sector unions with about 1.4 million members.

The study shows that only 2.0% of the 318 respondents were members of labor unions. One of the reasons for nonparticipation of MSME workers in labor organizations was frequent resignation and termination of workers. Such resignations mainly relate to salary or work environment issues. The study also finds that in some cases, labor unions and workers’ organizations were simply inaccessible to rank-and-file workers, and that union leaders were typically chosen by the employers themselves.

Employer Compliance with Labor Regulations

One of the issues mentioned during the interviews was that the labor laws are too protective of workers. For example, existing labor law provisions make discharging regular workers difficult, and the process for firing employees requires many cumbersome requirements.

The study, which included interviews with 21 MSME employers and supervisors, finds that 90.0% of supervisors were aware of the legal minimum wage set by the government for the National Capital Region. Of those interviewed, 57.0% believed that some employers were not compliant with the current minimum wage legislation. Of these interviewees, 54.0% felt that such noncompliance resulted from inadequate enforcement of labor laws.

Only 38.0% of the employers and supervisors interviewed said that they provide regular employees with retirement benefits. More than half (52.0%) said they do not provide regular workers with severance benefits (see Table 9.5).

DOLE’s role as an enforcer of labor law compliance is challenging, interviewees pointed out that in most cases, labor law compliance officers have difficulty executing their functions because some enterprises simply refuse to cooperate. While other government agencies are attempting to facilitate the formalization of informal enterprises, most prefer their current informal status, as it allows them to avoid strict compliance with labor laws.

The study finds that only 52.0% of the employers and supervisors interviewed said that they paid SSS contributions on behalf of their regular employees the previous year, with nonregular workers being even less likely to be covered by SSS participation. Only 43.0% said that they paid SSS contributions on behalf of their nonregular workers the previous year.
As for PhilHealth, 52.0% paid PhilHealth contributions for their regular employees the previous year, although less than half (43.0%) said that they paid contributions for their nonregular workers the previous year. Pag-IBIG Fund MSME worker coverage was likewise low, as less than half (48.0%) said that they made Pag-IBIG Fund contributions for their regular workers the previous year, and only 43.0% paid contributions for their nonregular workers.

The most common reason for not paying social insurance contributions was the cost of the Pag-IBIG Fund, PhilHealth, and SSS premiums. Other reasons included employees not being registered with the SSS, employees paying their own contributions, or having those contributions paid by other sources.

The study also finds that the lack of access to payment collection centers in some areas is one of the reasons for the relatively low informal worker coverage rates (DOLE et al. 2014). Representatives of most government agencies interviewed believed that social insurance awareness campaigns should be intensified through the assistance of local government units, colleges and universities, nongovernment organizations, and religious organizations.

### Conclusions and Recommendations

Extending social protection coverage to an estimated 21 million informal workers requires considerable resources. The number of informal workers
covered by PhilHealth as of 31 December 2014 was only about 2.4 million (11.0%) of the total estimated number of informal workers.\(^\text{178}\)

The lack of awareness of the benefits of social insurance is a major constraint to extending such coverage. There are few informal workers who have secured personal insurance to protect themselves against the financial burden associated with sudden death, illness, or accidents. The workers should be informed on the benefits of program participation and their rights under the existing social protection programs.

The affordability of social security and health insurance premiums is another major constraint to expanding social protection coverage for informal workers. Subsidizing social insurance premiums is not a sustainable solution, in part because provision of such subsidies depends on local government financial capacity. Instead, flexible social insurance programs that are tailored to the budget constraints of low-income groups would be welcomed by informal workers.

To achieve universal coverage, coordination among government agencies tasked with provision of social protection must be improved. This is particularly important to avoid the duplication of efforts that occurs when multiple social protection programs target the same population. Regular data collection on informal workers is encouraged. This unified database that covers the entire informal sector\(^\text{179}\) can then be used to facilitate the expansion of social protection coverage for informal workers.

Representation of workers in trade unions and collective-bargaining agreements has also shown a decreasing trend in recent years. Worker representation in workers’ associations or unions can help them assert their legal rights as workers. The working conditions of industrial home workers and self-employed persons need more frequent monitoring by authorities, if the safety of these workers is to be ensured. Further, government efforts at fostering MSME worker participation in policy discussions on social protection for informal workers should be intensified.

\(^\text{178}\) The figure includes self-earning individuals, as reflected in PhilHealth (2014).

\(^\text{179}\) Cited during focus group discussions with food factory workers.
References


CHAPTER 10

Overcoming Barriers and Addressing Gender Dimensions in Universal Health Care for Informal Workers: Lessons from India and Thailand

*Martha Chen and Frances Lund*

**Abstract**

This chapter explains the necessity of health care for the working poor, especially women. It also provides solutions to address barriers to health care access. India and Thailand, which have very different health care systems, are used as case studies to explore these barriers and to examine the extent to which these are gendered. The chapter is based on research done in collaboration with organizations of informal female workers in both countries: the Self Employed Women’s Association in India and HomeNet Thailand.

Informal employment comprises 84.0% of nonagriculture employment in India, the highest percentage share in South Asian countries for which data are available. In contrast, it comprises only 42.0% of nonagriculture employment in Thailand, the lowest percentage share in East and Southeast Asian countries. Informal workers, by definition, work without employment-based social protection. There is gender segmentation in informal employment, with men more likely than women to be employed in informal enterprises.

180 The authors are grateful for the inputs of Mirai Chatterjee and Susan Thomas (Self Employed Women’s Association [SEWA]) and Poonsap Tulaphan and Chonticha Tangworamongkon (HomeNet Thailand).
The chapter presents a framework for classifying health care risks and barriers, including three major employment variables (status in employment, branch of economic activity, and place of work). Although the two countries studied have different health systems and standards, the barriers to health care access faced by informal workers are similar, despite the fact that both countries have been in the process of health reforms that are inclusive of informal workers. The chapter further identifies problems on the demand side but reveals that problems on the supply side present more significant barriers to health care access for informal workers, all of which impact women’s incomes.

**Introduction**

Slow recovery from the global recession, as well as growing inequality, have moved universal social protection and universal health care to the forefront of the development agenda. More countries are considering how to extend social protection as well as access to health care, particularly to those who lack such access. This includes low-income households, vulnerable groups, and the informal workforce. Yet recent reforms in the health systems of some countries include capping the number of health workers and increasing fees for health services, making access to health care more difficult for low-income households, vulnerable groups, and the informal workforce.

This chapter (i) examines the health care systems of India and Thailand, (ii) presents recent findings on the health care needs and challenges of informal workers in one city in each country, and (iii) establishes some guidelines and principles for health policy reform that supports access to health care by informal workers.

In most developing countries more than half of the workforce is employed in the informal sector, with the percentage share of informal workers in the total labor force reaching 90.0% in some South Asian countries. The overall burden of illness, accidents, and disability tends to be high for informal workers, given what they do and where they work and live. At the same time, their access to health care services tends to be low, given the relatively low employment status of these workers and their disadvantaged social status.

This chapter explains why access to health care for the working poor in the informal economy—female members in particular—is necessary to reduce poverty and inequality. It likewise outlines necessary actions to extend health care to informal workers. More specifically, it details efforts undertaken in India and Thailand to increase access to health care by informal workers. On that basis, recommendations are provided for improving the design and delivery of
health services, including how organizations of informal workers can be involved in policy reform as well as in extending access to health care.

The scope of the topic of increased access to health care by informal workers is as broad as the issue itself. As a result, this study does not aim to treat this topic in a comprehensive manner, either geographically or substantively. Instead, its focus is restricted to the urban rather than the rural setting. Similarly, this chapter does not address financing of health care in any significant detail. Instead, recent experience and research findings in two Asian cities—Ahmedabad, India, and Bangkok, Thailand—are presented. The fact that these two countries have different health systems allows the chapter to illustrate the issues pertaining to access to health care by informal workers in two distinctly different settings. Thailand has a strong national commitment to universal access to health care; in contrast, while many parts of India’s health system are good, overall access to it is patchy. Nevertheless, similar mechanisms of exclusion operating in both settings are found.

The chapter draws on two recent studies by the Self Employed Women’s Association (SEWA) in Ahmedabad, India, and HomeNet Thailand, based in Bangkok, which were conducted in collaboration with Women in Informal Employment: Globalizing and Organizing (WIEGO). The first study—the Informal Economy Monitoring Study (IEMS)—investigated recent changes in the urban informal economy. This study, which covered 3 economic sectors and 10 cities, surveyed home-based workers and street vendors in Ahmedabad, as well as home-based workers in Bangkok. The sources for the data included (i) a survey questionnaire distributed to 150 informal workers in each sector in each city, (ii) focus group discussions with half of the sample, and (iii) interviews with key informants.

The second study—Informal Workers’ Health—explored the barriers to health care access faced by informal workers. The data and information underlying this study were obtained from respondents who included (i) home-based workers and street vendors in Ahmedabad (Chatterjee and Thomas 2014a, 2014b); and (ii) domestic workers from Thailand and Myanmar, as well as home-based workers in Bangkok (Tangworamongkon and Tulaphan 2014a, 2014b).

In addition to the two studies, the conclusions and recommendations of this chapter also draw on the extensive knowledge and experience of HomeNet Thailand, SEWA, and WIEGO. The collective experience of these organizations was mainly obtained by organizing informal workers around health and other issues, researching the health status of informal workers, and advocating for universal health care, the latter being broadly defined to include occupational health and safety (e.g., Namsomboon unpublished).
Before entering into the specific domain of the informal economy and informal workforce, some general points are presented that relate to gender and the labor force. This chapter is, of necessity, highly stylized. For deeper analysis of the points presented, see Chen et al. (2005), ILO (2008, 2010), and Kabeer (2012).

In short, there is a gender wage gap in both the formal and informal labor markets. That is, men earn more than women, even when years of education and skills levels are controlled for. In its 2010 study on this wage gap, the International Labour Organization (ILO) reported a slight decrease in the gap between women and men’s earnings from 26.2% in 1995 to 22.0% in 2005. Given this, the question remains whether women choose jobs with lower earnings (because these jobs are part-time and thus allow more time for family and care responsibilities, for example), or whether there are structural forces that limit women to lower-paid positions. Although more women in both developed and developing economies are now entering the labor market at lower earning levels than men, women still shoulder the main tasks of unpaid domestic and care work in families. The only exceptions to this are families that can afford to employ domestic or care services, most of which, however, are usually other women.

Informal Workforce

There are three official statistical terms or definitions relating to the informal workforce: (i) the informal sector, which refers to production and employment that takes place in unincorporated small-scale or unregistered enterprises (ILO 1993); (ii) informal employment, which refers to employment without legal and social protection, both inside and outside of the informal sector (ILO 2003); and (iii) the informal economy, which refers to all units, activities, and workers so defined, and the output that they produce. Together, workers employed in the informal economy form the broad base of the workforce and economy in many countries, especially in the developing world (Chen 2012).

Informal employment is a large, heterogeneous category. For the purposes of this chapter, it is useful to subdivide informal employment into self-employment and wage employment, and then, within these broad categories, into more homogeneous subcategories according to status in employment:

(i) **Informal self-employment.** This includes employers in informal enterprises, own-account workers in informal enterprises (owner-operators who do not employ others), contributing family workers in
informal and formal enterprises, and members of informal producers’ cooperatives.

(ii) **Informal wage employment.** This includes employees hired without social protection contributions by formal enterprises, informal enterprises, or households. Certain types of wage work are more likely than others to be informal, including employees of informal enterprises, paid domestic workers,\(^{181}\) and casual or day laborers (Chen 2012).

Increasingly, formal firms are hiring workers under informal conditions without making contributions to their health insurance or other health care assistance. In many countries, therefore, informal wage employment outside of informal enterprises is a large and growing segment of informal employment. While efforts should be made to mandate that employers, in both formal and informal firms, help ensure access to health care for their employees, the trend is in the opposite direction. By definition, then, neither self-employed nor wage-employed informal workers enjoy contributions to health insurance, paid sick leave, or other health care assistance from employers.

**Global Overview**

In the late 1990s, WIEGO commissioned two reviews of the links among informality, poverty, and gender: one of these was of available literature (Sethuraman 1998), and the other was of available statistics (Charmes 1998).\(^{182}\) Both reviews found that average earnings in the informal economy are quite low, and that most informal workers are poor. Both reviews also found a similar hierarchy of earnings and segmentation by status in employment and gender within the informal economy. These findings provided the basis for WIEGO’s multisegmented model of informal employment, which is illustrated in Figure 10 (Chen et al. 2005, Chen 2012). Subsequent analyses of national data by WIEGO and others have tested and reaffirmed this model (Chen et al. 2005).

In Figure 10, health risks are subsumed under poverty risks. As SEWA has often pointed out, ill health is both a cause and an effect of poverty. The figure shows the gendered distribution of visibility, earnings, and risk of poverty across the different types of employment, with women overrepresented at the bottom of the pyramid, having lower earnings than men and facing higher risks of poverty.

\(^{181}\) With the establishment of the International Domestic Workers Federation in 2008, passage of International Convention C189 on Decent Work for Domestic Workers in 2011, and subsequent ratification of this convention in a growing number of countries, more domestic workers are likely to receive workers’ benefits and social protection coverage.

\(^{182}\) Both reviews were funded by the World Bank.
Over the years, through research on the health status of informal workers, WIEGO and its partners have found the following:

(i) **Informal workers face high health risks.** They face relatively high exposure to general health risks because of where they live and work, often without adequate shelter, sanitation, water, or electricity, all of which are key social determinants of health. They also face occupational health risks due to what they do, where they work, and the arrangements of their work.

(ii) **Status in employment, branch of economic activity, and place of work impact the health risks and needs of informal workers.** Status in employment places higher risks on specific groups of informal workers. For example, industrial outworkers (who are more likely to be women) are more likely to suffer injuries than factory workers doing similar work. Similarly, casual day laborers in the construction sector (where there are more men than women in many countries, although large numbers of working poor women in India are in the construction
sector, usually as unskilled manual laborers) are more likely to suffer injuries than regular employees in the construction sector. Further, the branch of economic activity and place of work expose specific groups of informal workers to greater risks than others. For example, street vendors are more exposed to the elements, pollution, and traffic accidents than are market traders, who are more exposed to fires. Similarly, waste pickers who work in dumps are more exposed to injuries than waste pickers who collect waste from homes or streets.

(iii) **Female informal workers tend to face greater health challenges than male informal workers.** Women are more likely to be outworkers and unpaid contributing family workers, and less likely to be employers. They are more likely to work at home or on the streets, rather than in workshops or factories. They are more likely to be assigned the most menial tasks. For example, in the waste-recycling sector, women and children tend to be overrepresented among those who do the primary collection and sorting of waste. They, likewise, are conditioned to assume the primary responsibility for caring for the young, elderly, and ill members of households. However, because they tend to work longer hours each day combining paid and unpaid work, they have less time to access health services for themselves, or to accompany young, old, and sick members of their households to health facilities.

(iv) **For informal workers, health care is a high priority.** Because they do not enjoy employer contributions to health insurance and are not usually covered by existing health insurance systems, informal workers are often further impoverished by health expenditures, not only for hospitalization but also for outpatient services and the cost of medications. Yet many informal workers compromise their health by working in hazardous conditions because of their need to earn an income (Lund and Marriott 2011).

In regard to occupational injuries by status in employment, a comparative study of factory-based and outworkers in the clothing industry in Australia found that the level of self-reported injury was over three times higher among outworkers than factory-based workers undertaking similar tasks. The most significant factor explaining this difference was the payment system. All outworkers were paid solely by the piece, whereas factory workers were paid either under a time–plus-production bonus system, or solely on a time basis. While the incidence of injury was far higher among outworkers, factory-based workers paid under an incentive system reported more injuries than those paid solely on a time basis. Increasing injury rates were correlated with piecework payment systems (Mayhew and Quinlan 1999).
With regard to occupational injuries, a major obstacle to obtaining data is that neither workers nor their injuries are properly reported. Examples include the porter who gets knocked over while crossing a busy street, the waste picker who is cut by broken glass from the garbage, and the industrial outworker who is burned while packing fireworks at home with gunpowder that ignites. While men predominate in some occupations that are especially hazardous (e.g., construction and transport), informal female workers are also found in hazardous occupations (e.g., waste picking) and places of work (e.g., streets and dumps).

Regional Comparisons of Informal Employment

Size

Informal employment comprises more than half of nonagriculture employment in most regions of the developing world, except for the Middle East and North Africa, where it represents 45.0% of nonagriculture employment (Vanek et al. 2014). While regional estimates provide a useful overview, they hide the diversity that exists within regions. It is important to note that the incidence of informal employment in Thailand is below the regional average for East and Southeast Asia, while the incidence of informal employment in India is above the regional average for South Asia (Table 10.1).

Table 10.1: Average Percentage Share of Informal Employment in Total Nonagriculture Employment, 2004–2010, and Range of Percentage Share by Region

<table>
<thead>
<tr>
<th>Region and Country</th>
<th>Average Percentage Share of Informal Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>82.0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>62.0</td>
</tr>
<tr>
<td>India</td>
<td>84.0</td>
</tr>
<tr>
<td>East and Southeast Asia</td>
<td>65.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>42.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>73.0</td>
</tr>
</tbody>
</table>

Composition

Informal employment inside of the informal sector comprises all employment in informal enterprises, which includes employers, employees, own-account workers, contributing family workers, and members of cooperatives. Informal employment outside of the informal sector includes employees in formal enterprises (including public enterprises, the public sector, private firms, and nonprofit institutions) not covered by social protection through their work; employees in households (e.g., domestic workers) without social protection through their work; and contributing family workers in formal enterprises who lack social protection through their work.

In Asia, informal employment inside of the informal sector is a larger component of nonagriculture employment than informal employment outside of the informal sector. The former ranges from a high of 69.0% of nonagriculture employment in South Asia to 57.0% of nonagriculture employment in East and Southeast Asia (Vanek et al. 2014). In Asia, nonagriculture informal employment is almost evenly split between wage and self-employment. Self-employment comprises employers, employees, own-account workers, and contributing family workers. Across Asia, own-account workers who do not hire others are the largest category. Self-employment accounts for two-thirds of nonagriculture employment in East and Southeast Asia, and nearly 40.0% of nonagriculture informal employment in South Asia. The second-largest category is contributing family workers, who comprise about 9.0% of nonagriculture informal employment in East and Southeast Asia, and 12.0% in South Asia. Few informal workers are employers: only 2.0% in South Asia and 9.0% in East and Southeast Asia.

Gender

Informal employment is a greater source of nonagriculture employment for women than it is for men in three of the six regions for which data are available. For example, in South Asia, the percentage share of informal employment in total nonagriculture employment is 83.0% for female workers, but only 82.0% for male workers. In East and Southeast Asia, the percentage shares are roughly the same, 64.0% for women and 65.0% for men. In most countries, more men than women are in the workforce. As a result, men typically account for a larger percentage share of total informal employment than women (Vanek et al. 2014).

Status in employment. There is also gender segmentation within informal employment by status in employment. In general, women in informal employment are more likely to be self-employed than are men. The self-employed can be further disaggregated into employers, own-account
operators, and unpaid contributing family workers. The proportion of women in own-account work tends to exceed that of men, following the same broad pattern as total self-employment. The exception to this is South Asia, in which the percentage share of male own-account workers in nonagriculture informal employment exceeds that of females because contributing family workers account for a particularly sizable share of women’s informal employment in South Asia.

Contributing family workers account for the second-largest percentage share in self-employed informal employment after own-account workers. The percentage share of contributing family workers in total self-employed informal employment is about 12.0% in South Asia. For all contributing family workers taken together, the percentage of women is three times greater in the subregions of Asia.

Employers comprise only 2.0%–9.0% of nonagriculture informal employment. However, more men are employers than are women. In fact, very few women in informal employment are employers: 0% in South Asia, and 9.0% in East and Southeast Asia (Vanek et al. 2014).

**Branch of economic activity.** There is also gender segmentation within informal employment by branch of economic activity. Very few women work in informal construction and transport activities, the one modest exception being female construction workers in South Asia. In fact, informal construction and transport are clearly male-dominated. In contrast, manufacturing accounts for an equal or greater share of women’s informal employment than men’s in Asia. Services other than trade and transport (e.g., domestic work) account for a larger share of women’s employment than men’s across all regions (Vanek et al. 2014).

**Place of work.** Although available regional estimates do not include analysis by place of work, other recent statistical analyses have indicated that women are overrepresented in two forms of employment that take place in private homes: home-based work (in the home of the worker) and domestic work (in the home of the employer) (Chen and Raveendran 2014; Raveendran, Sudarshan, Vanek 2013).

Recent statistical analyses have also indicated that women are less likely than men to be engaged in workshops or factories outside of the home. However,
they are engaged alongside men in public spaces outside of the home, including, to varying degrees, construction, street trade, and waste picking, depending on the country concerned (Chen and Raveendran 2014, ILO and WIEGO 2013).

Study Findings

This section summarizes the findings of the 2012 IEMS. The sources of data and information on which this study was based include a survey questionnaire and focus group discussions in Ahmedabad, India and Bangkok, Thailand.

Sample Notes

In the 10 IEMS study cities, a stratified sample was drawn from the membership of a local organization of informal workers. In Ahmedabad and Bangkok, the sample was entirely female, as the membership of SEWA in Ahmedabad is all female, and the membership of HomeNet Thailand in Bangkok is mainly female. The sample is thus not representative of informal workers in the study cities, of the specific sectors surveyed, or even of female informal workers in these sectors. The findings are, nonetheless, indicative.

Demographic Profile

As noted earlier, the IEMS study sample included home-based workers plus street vendors in Ahmedabad, while the entire Bangkok sample comprised home-based workers.

The average age of the sample was 41 years in Ahmedabad and 46 years in Bangkok. The majority of individuals included in the sample were married. In Ahmedabad, 10.0% of the home-based workers and 4.0% of the street vendors were single or had never married. For the entirely home-based worker sample in Bangkok, 7.0% were single or had never married.

The Bangkok sample had more years of schooling than the Ahmedabad sample. Only 5.0% in Bangkok had no education; the corresponding figure for Ahmedabad was 43.0%. Among those in Ahmedabad with no education, there was a notable difference by sector: 61.0% of the street vendors had no education, whereas this was true of only 25.0% of the home-based workers. Further, of the Ahmedabad sample, 18.0% of home-based workers had some secondary education or had completed secondary education, whereas the corresponding figure for street vendors was just 7.0%. In Bangkok, just over one-third of the sample—all home-based workers—had some secondary education or had completed secondary education.
All of the home-based workers in Ahmedabad were industrial outworkers (i.e., subcontracted to firms), whereas in Bangkok, 56.0% were industrial outworkers, 22.0% were own-account workers, around 9.0% were employers, and a few were members of cooperatives or were casual day laborers (Chen 2014).

Among the street vendors in Ahmedabad, 88.0% were own-account workers, while the remaining 12.0% were contributing family workers. This outcome presumably reflects the fact that street vending is often a hereditary, family-based occupation in India (Roever 2014). Women and men often work together when street vending is inherited. However, in household enterprises in India, men tend to be seen as the owner-operators, while women are seen as unpaid contributing family workers.

The IEMS survey asked respondents how long they had been working in their current main activity (Table 10.2). Many in the sample had been in their current main activity for a long time, an outcome that could, in part, be due to sampling bias. However, other studies have concluded that street vending is often a hereditary caste occupation in India, and that home-based workers tend to not change their work.

### Table 10.2: Years Working in Major Activity by City (%)

<table>
<thead>
<tr>
<th>Years in Main Activity</th>
<th>Ahmedabad</th>
<th>Bangkok</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–1</td>
<td>0.3</td>
<td>3.6</td>
</tr>
<tr>
<td>2–5</td>
<td>12.2</td>
<td>33.3</td>
</tr>
<tr>
<td>6–10</td>
<td>18.2</td>
<td>24.8</td>
</tr>
<tr>
<td>10+</td>
<td>69.3</td>
<td>38.3</td>
</tr>
<tr>
<td>Mean years</td>
<td>17.2</td>
<td>11.9</td>
</tr>
<tr>
<td>N</td>
<td>299</td>
<td>150</td>
</tr>
</tbody>
</table>

N = number of samples


The mean number of years spent in the current main activity was 17 years in Ahmedabad and 12 years in Bangkok. A remarkably high percentage of the Ahmedabad sample—around 70.0%—had worked at their current main activity for 10 years or more. This contradicts the commonly held view that informal workers enter informality to cope with a crisis, and then exit when times improve. Informal work is what the informal workers included in this sample often do.
Assets

Home ownership. A high percentage of IEMS survey respondents (over 60.0% in Ahmedabad and 86.0% in Bangkok) reported that they—meaning their family—own the homes in which they live.

Source of start-up capital. In Ahmedabad, there were marked differences between street vendors and home-based workers in terms of their sources of start-up capital. For home-based workers, 17.0% did not need start-up capital, whereas this was true of only 6.6% of vendors. Many more vendors (20.4%) than home-based workers (2.7%) borrowed money from a private informal lender to finance the start-up of their business. Nearly one-quarter (23.8%) of home-based workers used household capital and borrowed from family to launch their businesses, as compared with half (51.6%) of the street vendors.

Access to formal financial institutions. For the Bangkok sample, 90.0% had a formal bank account (or access to one), whereas this was true of three-quarters of the Ahmedabad sample. In Ahmedabad, all SEWA members are entitled to use SEWA Bank. However, for the study sample, a far higher percentage of home-based workers (82.0%) than street vendors (68.0%) had bank accounts. More than one-quarter (27.0%) of the Bangkok sample had credit cards. In contrast, this was true of very few in Ahmedabad.

Health

The working poor in the informal economy are susceptible to the same health problems as the general population. However, like other members of low-income communities and households, they face greater exposure to these common health problems given their living conditions. Furthermore, they face additional occupational health hazards, because of what they do to earn a living as well as their status in employment, working conditions, and place of work.

General health. Limited data are available on the health status of informal workers in Asia.\(^\text{184}\) A notable exception is the research that SEWA has done on the health of its members. Among SEWA membership, as with the general population in India, communicable diseases such as diarrhea, malaria, respiratory infections, and tuberculosis are the most common. However, there has recently been a marked increase in the incidence of noncommunicable diseases such as heart and kidney disease (Chatterjee and Thomas 2014a). A similar trend was found in a recent health survey of Bangkok’s general population, with 25.0%

\(^{184}\) Most demographic and health surveys do not include sufficient indicators on employment to disaggregate the data by formal and informal workers. Similarly, most labor force surveys do not include sufficient indicators on health to allow such disaggregation.
having noncommunicable diseases, the most common being diabetes, heart disease, hyperlipidemia, hypertension, and stroke (Tangworamongkon and Tulaphan 2014b).

While the IEMS study did not focus on health, survey respondents were asked a few questions regarding their health status. For instance, they were asked whether they had worked fewer hours than usual over the past week, and if so, the reason for this. Table 10.3 presents the reasons for working fewer hours.

### Table 10.3: Reasons for Working Fewer Hours than Usual by Sector and Gender

*(full Informal Economy Monitoring Study sample in 10 cities in %)*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Home-Based Workers</th>
<th>Street Vendors</th>
<th>Waste Pickers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Work reduction</td>
<td>42.5</td>
<td>7.5</td>
<td>8.0</td>
</tr>
<tr>
<td>End of contract or season</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Weather</td>
<td>1.1</td>
<td>8.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Forced eviction</td>
<td>0.0</td>
<td>1.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Power outage</td>
<td>0.0</td>
<td>0.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Holidays</td>
<td>6.1</td>
<td>1.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Illness or accident</td>
<td>18.2</td>
<td>19.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Child care</td>
<td>2.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Care for elderly</td>
<td>1.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Care for sick person</td>
<td>3.3</td>
<td>5.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Other personal</td>
<td>12.2</td>
<td>20.6</td>
<td>40.0</td>
</tr>
<tr>
<td>Maternity</td>
<td>0.6</td>
<td>0.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Found other temporary work</td>
<td>0.6</td>
<td>2.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Fewer materials available</td>
<td>2.2</td>
<td>0.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>9.4</td>
<td>29.0</td>
<td>36.0</td>
</tr>
<tr>
<td>N</td>
<td>181</td>
<td>107</td>
<td>25</td>
</tr>
</tbody>
</table>

N = number of respondents.

Notes:
1. The home-based worker sample is all women.
2. The total indicates the percentage of the study sample for each sector in all cities.
3. Data include only those respondents who said that they worked fewer hours than normal in the last week. As a result, the full sample is significantly larger than the values for N that appear in the final row.

among 483 informal workers, out of the total sample of 1,949 workers across 10 cities, who reported that they had worked fewer hours than usual during the last week.

Two findings are striking. First, nearly one-fifth (18.4%) of all respondents reported working less due to an illness or accident. Second, no men in any sector had reduced their work hours to care for children, the sick, or elderly, whereas women in all sectors reported reducing work hours to care for these groups. It is important to note that women—more than men—have to take time off work to visit health services, both for themselves and for their younger, older, or ill family members.

**Sanitation at home and at work.** Whereas nearly all (97.0%) of the Bangkok sample had toilets inside of their homes, this was true of just under half of the Ahmedabad sample, which included both street vendors and home-based workers. Lack of toilets at workplaces is a multidimensional problem that is associated with great personal inconvenience and shame, especially for women. Lack of sanitation facilities clearly impacts personal health, the ability to trade hygienically, ability to attract customers, general public health, and self-esteem. The IEMS focus groups reported that the lack of home- and work-based sanitation in Ahmedabad was associated with shame or embarrassment, and also a decrease in productive working time.

**Position of migrants.** One segment of the informal workforce—migrants—is especially vulnerable in general terms, and in terms of being able to gain access to health care. The precise ways in which migrants (internal and cross-border) are included or excluded from health services is a special focus of HomeNet Thailand’s work.

Preliminary engagements with migrant female workers in Bangkok show that—as a relatively young group—they do not cite health problems as a high priority. However, because they have very little knowledge about how the health system works, they are not aware of their entitlements. A major reason for this is that there is no public information about this in their own language.

**Occupational health.** The working poor in the informal economy face health hazards or problems related directly and specifically to their work. Some of these hazards are associated with where they work (e.g., exposure to the elements if they work outside or exposure to petrol fumes if they work on the street). One of the most commonly reported problems across all sectors is lower-back problems, which results from working seated on the ground or at low, poorly designed tables or counters. Another commonly reported problem is joint or muscular pain due to repetitive physical movements (e.g., cleaning or scrubbing by domestic workers, rolling incense sticks, or using homemade cigarette
There are impacts also on family life and health as a consequence of small houses that double as workplaces. Both SEWA and HomeNet Thailand have dedicated initiatives that address the occupational health and safety problems faced by their members.

In sum, informal workers face specific occupational health risks that the formal workforce and the general public do not face, including (i) ergonomic risks relating to poor posture from sitting on the floor or at low tables (e.g., incense stick and cigarette rolling), making repetitive motions (e.g., incense stick and cigarette rolling and domestic tasks), carrying heavy loads (e.g., market porters and construction workers), and working long hours with limited rest time (all groups); and (ii) exposure risks to the elements and pollution (e.g., street vendors and construction workers) and to toxic substances (e.g., waste pickers, shoemakers, and metal workers). These risks are compounded when the place of work does not have shelter, water, sanitation, lighting, or ventilation (Chatterjee and Thomas 2014b).

### Access to Health Insurance

Across Asia, the share of female and male workers who are informally employed is roughly equal: around four-fifths in South Asia and two-thirds in Southeast Asia. All informal workers, both men and women, lack social protection through their work (i.e., contributions to health insurance, paid sick leave, or other forms of health care assistance from an employer).

India and Thailand offer very different models of access to health insurance by informal workers. In Thailand, all citizens who are not in the civil service or military, or whose formal work status guarantees access to health insurance, have access to the Universal Coverage Scheme (UCS) (Namsomboon unpublished, Tangworamongkon and Tulaphan 2014a).

Research has shown that female informal workers have reacted very favorably to the UCS (Namsomboon unpublished), drawing attention to their own improved productivity and their ability to use money saved from health expenditures to invest in better work equipment. However, later research with similar groups of female workers showed two barriers:

First, their informal terms of employment—[that is,] employment without a written contract, with workers having little awareness of existing protection laws—means that employers and contractors can arbitrarily impose long hours of work....There have been cases among domestic workers where employers deduct wages or dismiss them if they take sick leave. Second, travelling costs and complicated means of travelling can discourage them from using UCS services (Tangworamongkon and Tulaphan 2014a).
India has a plethora of health insurance schemes (Jain 2012a). Recently, the federal government started a national health insurance scheme, the Rashtriya Swasthya Bima Yojana (RSBY) (Jain 2012b, Chatterjee and Thomas 2014a). It has successfully introduced identification cards, and use of RSBY services has spread rapidly. However, within the past 3 years, further expansion has been suspended, owing to a number of design problems. These include problems at the state level with identifying those living below the poverty line who should be exempt from premiums and probable increases in unnecessary surgery because of the payment system (Berman, Ajuha, Bhandari 2010; Chatterjee and Thomas 2014a).

SEWA is well known internationally for VimoSEWA, health insurance for SEWA members that has been built over 30 years (Chatterjee and Ranson 2003). Currently, VimoSEWA has slightly fewer than 100,000 members, which represents only a small fraction of SEWA’s 1.9 million members. However, VimoSEWA’s membership is vast in comparison to any other insurance scheme that has been built by informal worker organizations. In fact, VimoSEWA has shown that (i) it is possible for an organization of poor workers to build a health insurance scheme from the bottom up; (ii) it is possible to go to scale, as well as remain flexible and worker-managed; (iii) women are more reliable savers and insurers than men; and (iv) insurance claims can be contained. SEWA has also paid a great deal of attention to formulating insurance products that respond to female workers’ needs.

Another union of informal workers in India is Kagad Kach Patra Kashtakari Panchayat, a union of waste pickers in Pune, the majority of whose members are women. It created a cooperative called SWaCH, which then entered into a partnership with the municipality to form the Pune Municipal Corporation, which controls waste removal. In recognition of the contribution that the waste pickers make, the Pune Municipal Corporation pays their annual premium for basic health insurance. This is the only municipality in which the local government contributes to the health insurance of informal workers.

Female informal workers are more likely than male informal workers to be in the lowest-earning segments of informal employment, as own-account workers, casual day laborers, subcontracted workers, or unpaid contributing family workers. All of these types of employment status lack recognized employers, who could be mandated to make contributions to health insurance and to provide paid sick leave and other health care assistance. Also, women are more likely than men to be engaged in private homes, making it more difficult to disseminate health information to them. In their own homes, female informal workers are more likely than male informal workers to assume responsibility for domestic chores and the care of children, the elderly, sick, and disabled. Thus, female informal workers have to work longer to earn the same income as male informal workers, and yet
they have less time to do so. These pressures restrict the time that women have available to seek health care for themselves, or for other family workers.

Health Care in India and Thailand

India and Thailand are different in important respects. India has the second-largest population in the world (about 1.3 billion), which compares with Thailand’s relatively small population of 68.2 million. In fact, the population of Gujarat State alone—where SEWA is headquartered and has a large share of its members—is roughly equal to the entire population of Thailand. India has a federal government system that is undergoing decentralization. In contrast, Thailand has a centralized governance system, with the center controlling Thailand’s provinces to a greater extent than India controls its various states.

Table 10.4 presents selected health indicators for both countries. Both have seen significant improvements across all indicators—for both men and women—from 2000 to 2013.

<table>
<thead>
<tr>
<th>Health Indicator</th>
<th>India</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Life expectancy at birth, 2000 (years)</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Life expectancy at birth, 2013 (years)</td>
<td>64</td>
<td>68</td>
</tr>
<tr>
<td>Maternal mortality ratio, 2000 (per 100,000 live births)</td>
<td>682</td>
<td>449</td>
</tr>
<tr>
<td>Maternal mortality ratio, 2013 (per 100,000 live births)</td>
<td>116</td>
<td>73</td>
</tr>
<tr>
<td>Under age 1 year infant mortality rate, 2000 (per 1,000 live births) (no gender disaggregation)</td>
<td>92</td>
<td>23</td>
</tr>
<tr>
<td>Mortality rate for infants under 1 year old, 2012 (per 1,000 live births) (no gender disaggregation)</td>
<td>56</td>
<td>13</td>
</tr>
<tr>
<td>Measles immunization coverage among 1-year-olds, 2000</td>
<td>59</td>
<td>74</td>
</tr>
<tr>
<td>DTP3 immunization, 2012 (no gender disaggregation)</td>
<td>72</td>
<td>99</td>
</tr>
</tbody>
</table>

DTP3 = diphtheria–tetanus–pertussis.
Health System in Thailand

Thailand began its reforms with a solid network of primary health care facilities in both urban and rural areas. In 2001, the Government of Thailand began the 30-Baht Scheme, with the public initially required to make a small payment of B30.00 (less than $1.00) per visit to access public health care, although the very poor were exempt from this fee. This was later transformed into the free universal coverage scheme (UCS), under which the B30 contribution became voluntary. In practice, while primary health centers tend not to ask for this voluntary contribution, hospitals do, often without informing the public that they are not required to pay.

Those who are eligible for coverage, including the informal workforce, must register with a primary care unit. Hospitals and other health facilities, such as clinics, can register as UCS facilities, allowing a wide range of preventive and curative services to be obtained free of charge.

Thailand’s UCS is not means-tested or insurance-based. Instead, it is financed from general revenues. However, it is not truly universal in the sense of one system for all, as the health care and health insurance systems for the civil service, armed forces, and the formal workforce continue to operate as separate systems.

Health System in India

India’s national health care system was designed as a three-tier system. Its vast network of government-funded primary health centers (at the local level) are, in principle, open to all persons with referral linkages to secondary-care facilities (at the district level) and tertiary care. However, it is difficult—if not impossible—given India’s size to run a centralized system that directly delivers health services. Given the sheer size of the population and the underresourcing of its health sector, there has never been a sufficient number of hospitals, doctors, medical staff, medicines, or ambulance services. As a result, the availability and quality of care have remained very poor. Many people thus use private health providers.

To address these deficiencies, the Government of India recently introduced several large-scale health reforms that have decentralized health service delivery. In particular, the government has issued policy directives and funds that allow state and local governments to deliver health care services.

In 2005, the government launched the National Rural Health Mission to provide effective health care to rural people, particularly in 18 states that have poor public health indicators and/or weak infrastructure. However, this resulted
in all primary health care efforts being focused on rural areas, with little or no emphasis on the health of urban workers. As a result, in 2014, the government launched the National Urban Health Mission, the purpose of which is to address urban primary health care. Both missions are under the umbrella National Health Mission, which is funded by the central government. However, state governments and municipalities are expected to supplement the programs and services offered.

In 2008, as part of broader health reforms, the government launched a national health insurance scheme, the RSBY. Financed largely by the central government with contributions from state governments, the scheme covers hospitalization charges up to Rs30,000.00 ($450.00)\(^{185}\) for up to five members of families below the poverty line. It also covers transport costs up to Rs1,000.00 ($15.00) per year. Beneficiaries are required to pay only a small registration fee, and the scheme works through private insurance companies and enrolled hospitals, both private and public.

Although coverage has risen rapidly, the scheme has encountered several systemic problems. Most notably, the RSBY has been accused of incentivizing unnecessary treatments, as there is limited regulation of treatments and no cap on provider payments (Jain 2012a, 2012b). Furthermore, the state-level data for below-poverty-line households are in disarray, causing great inconvenience and frustration to those applying for the RSBY insurance coverage. This appears to disadvantage women in particular, as applications have to be made by heads of household, and many male heads of households have migrated in search of work.

The government has also committed itself to universal health care in its Twelfth Five Year Plan, 2012–2017 and the landmark report of the High Level Expert Group on Universal Health Coverage. In particular, the policy calls for (i) universal health insurance with a strong emphasis on primary health care, (ii) integration of health insurance with primary and secondary care, (iii) free essential drugs, (iv) regulation of the health sector and adherence to standards, (v) community action for health, (vi) fullest attention to the social determinants of health, (vii) investment in human resources, and (viii) increasing investment in public health to at least double its current level of 1.1% of gross domestic product (GDP) to about 2.5% of GDP in the next few years.

The government has also placed a welcome emphasis on preventive and promotive health care, such as occupational health, yoga, mental health, women’s health, and care of the elderly. It has sought to integrate Ayurveda,
Unani, Siddha, and homeopathy—all indigenous systems of medicine—as well as these practitioners, within the public health system. In addition, it has called for vertical integration of disease control programs with primary health care, and for emphasis on noncommunicable diseases along with communicable ones. Finally, the government has called for developing quality standards in both the public and private sectors, as well as a national debate on possible right-to-health legislation that will entitle all to basic levels of health care.

Today, the public and private sectors are the primary sources of health care for the majority of households in India, both in urban and rural areas. However, the public sector health system works better in certain states than others. For instance, Gujarat State has introduced its own health insurance scheme, MA Amrutam, which provides insurance coverage for catastrophic illness up to Rs200,000.00 (about $2,900.00) to persons from households below the poverty line.

Comparison of the Health Systems of India and Thailand

A useful way to understand the differences between the health systems in India and Thailand is to examine the roles and responsibilities played by the government at various levels. In Thailand, the central state retains a firm hold on how the health system is structured, although administration is done through regions. In India, the central government is partly responsible for funding, and the individual states have more autonomy as to the amount of resources that they allocate to health, with the result that differences in health provision between states are stark.

Both countries have a mix of public and private provision. The private health sector in Thailand is relatively well regulated; it is less so in India, where there is greater corruption and inefficiency in both the public and private health sectors. In both countries, aspects of the public–private mix provide incentives to doctors and nurses to shift from the public to the private sector. In both countries, informal workers, among others, use alternative—usually nonallopathic—health systems either routinely or when they cannot access services at formal hospitals or clinics.

India and Thailand both have mechanisms for informal workers and their allies to engage in health policy reform, as well as in oversight of health service delivery. Thailand stands out for its decade-long inclusion of civil society organizations in an alliance for health reform, with HomeNet Thailand as one of the partners when the 30-Baht Scheme was first introduced (Namsomboon and Kusakabe 2011, Alfers and Lund 2012). When the 30-Baht Scheme was replaced by the free UCS, an alliance of 11 civil society networks, including HomeNet Thailand,
were again involved in the design of the scheme, legislation, and thereafter in facilitating, monitoring, and evaluating implementation.

Mechanisms for civil society engagement in health policy reform and health service delivery also exist in India. SEWA has been involved at many levels in initiatives that promote inclusive health policy reforms and implementation. At the local level, it participates in local health committees. At the national level, it has been active in, among others, the National Advisory Committee, Commission on the Unorganised Sector, and High Level Expert Group on Universal Health Coverage. At the international level, Mirai Chatterjee of SEWA was a commissioner on the World Health Organization’s Commission on Social Determinants of Health and is a member of the National Health Commission’s Action Group on Community Action.

There are several reasons for the high quality of Thailand’s health care system. First, the medical profession enjoys a particularly high status in Thailand. Second, the 3-year compulsory rural service required of doctors trained in Thailand has exposed successive batches of doctors to the realities of both service delivery and rural life. Some doctors so trained have formed a professional association which, together with other professional associations in Thailand, has remained active in health reform and the public health sector. Third, the National Health Act of 2007 mandates that at least one National Health Assembly be organized each year to bring together all stakeholders—government, civil society, and the private sector—to discuss health issues and to reach a consensus on specific health policies. Over several decades, the above factors have also helped coalesce a cross-sector movement in Thailand that supports health care reform, and which culminated in the introduction of the UCS.

Finally, it should be noted that as of 2014, both India and Thailand have allocated a limited percentage of their GDPs to health. In particular, India’s 1.0% and Thailand’s 2.0% were far less than the percentage share that the region’s other economies have allocated. For example, Singapore and the People’s Republic of China have both allocated 5.0%; Taipei, China, 7.0%; the Republic of Korea, 8.0%; and Japan, 10.0% (Yip and Hsiao 2014).

Barriers to Health Care Access for Informal Workers in Urban Health Systems

Three main variables determine health care risks and act as barriers to health care access for informal workers: (i) a worker’s status in employment, (ii) the
branch of economic activity in which a particular worker operates, and (iii) a worker’s place of work.

**Status in Employment**

Workers’ status in employment varies according to his or her degree of autonomy and control. All informal workers lack social protection through employment. However, there are differences relating to who is responsible for paying and who is able to pay health insurance premiums or health service user fees, and this is determined by the informal worker’s status in employment.

(i) **Employers.** They are owner-operators of informal enterprises who hire others. Informal employers are the only category of informal workers who, on average, are nonpoor. Some employers are, therefore, able to afford health insurance premiums or health services user fees. Few informal workers, and even fewer female informal workers, are employers.

(ii) **Employees.** They are nonformal employees with known employers in formal enterprises, informal enterprises, or households. In most countries, men are more likely than women to be informal employees. Their employers can be mandated to make contributions to health insurance, provide paid sick leave, or provide other forms of health care assistance. However, more employers (even formal employers) are hiring employees under informal contracts that exclude such benefits.

(iii) **Own-account workers.** These are self-employed persons who do not hire others. The self-employed are poor; therefore, they usually cannot afford health insurance premiums or health services user fees.

(iv) **Casual day laborers.** These are wage workers who perform work on a daily basis and thus often have a different employer each day. These workers are poor on average and cannot afford health insurance premiums or health service user fees.

(v) **Subcontracted workers.** They are workers who produce goods on a piece-rate basis under a subcontract from an outsourcing firm or a contractor of an outsourcing firm. These workers are also poor, and most cannot afford health insurance premiums or health services user fees.

(vi) **Unpaid contributing family workers.** These are unpaid family workers who work in a family firm or on a family farm. These workers remain dependent on the earnings and worker benefits of other household members.

Status in employment also determines relative health risks. As noted, industrial outworkers and casual day laborers are more likely to suffer injuries than formal workers in their respective sectors. Further, industrial outworkers and casual day laborers often suffer mental stress due to their lack of control over when they will receive work orders or be hired.
Branch of Economic Activity

The main branches of economic activity in which the urban informal workforce is engaged are manufacturing and a range of services that includes construction, personal services (notably domestic work), street vending and market trading, transport, and waste collection and recycling. The occupational health risks faced by informal workers—both women and men—differ by their branch of economic activity. For example, construction and transport workers are more exposed to serious work-related accidents than are informal workers in other branches of activity, while workers in other branches of activity are exposed to ergonomic stress or toxic substances.

Place of Work

Most informal workers are engaged in places of work other than formal factories or firms, most notably, in private homes (home-based workers and domestic workers) and in public spaces such as construction sites, streets, dumps, or landfills. There are occupational health risks specific to each of these workplaces. Home-based workers in manufacturing, who often work sitting on the floor under poor lighting, are exposed to significant ergonomic stress and eyestrain—probably more than factory workers who are manufacturing the same products.

Further, some places of work make it difficult to disseminate health information to informal workers, particularly home-based workers and domestic workers who are mainly women working in private homes.

Demand- and Supply-Side Barriers

A summary follows of findings from research in Ahmedabad and Bangkok on both demand- and supply-side barriers to access to health services for the informal workforce, particularly women. The roles of the Ahmedabad Municipal Corporation and Bangkok Municipal Authority are specifically included in the discussion.

Demand-Side Barriers

The research in Ahmedabad and Bangkok confirms that informal workers tend to lack knowledge about preventive and curative health, which health services are available and where, and their health entitlements. The research also confirms that many informal workers—especially in India—have limited
confidence in public and primary services and overuse private and tertiary services.

Other barriers to accessing health care include opportunity costs of time spent in transport (e.g., waiting in queues for services); time or timing constraints such as long work days and few days off; inability to negotiate complex registration and referral systems; distance requirements (e.g., distance of health services from the home, workplace, or facility where workers are registered to receive public care; lack of transport; and high transport costs); and lack of documentation required for registration.

Clearly, lack of knowledge about health constrains the health-seeking behaviors of informal workers. However, the inability to navigate the health system due to lack of documentation, time constraints, and direct or indirect costs may likewise be equally important barriers to access health services, as lack of knowledge may contribute to negative attitudes toward public and primary health systems.

It is important to highlight that the opportunity cost of time spent in accessing health services is particularly high for informal workers, who must forfeit work time and related earnings to access health care services. Further, they are not compensated for medical expenses or sick leave. SEWA members reported that it took about half of a day on average, but often the whole day, to access health care services. A major concern is that they cannot earn income during the time that they are seeking care, either for themselves or for their family members, and there is no compensation or special allowance made for this.

The same is true for transport costs. Half of the women in SEWA focus group discussions said that they have to take auto-rickshaws to hospitals or clinics. Approximately 40.0% said that they walked, and a few took public transport. In sum, accessing health services involves both foregone income and out-of-pocket expenses (Chatterjee and Thomas 2014b).

Bangkok has the best-resourced health infrastructure in Thailand. However, informal workers who were relocated from the center to the periphery of the city in the 1980s and 1990s, as well as recent migrants to the city who also live on the periphery (except domestic workers who live in their workplaces), face difficulties in accessing health care. Migrants and those relocated must register as residents at the nearest government office. Registering as citizens is also necessary to become eligible for the UCS at the nearest primary health facility. Both processes require time and money. If their home is not registered, community leaders can certify that they live in the district in which they want to access the services. According to the health system rules, families or persons
are allowed to shift the facility at which they are entitled to services up to four times a year. However, community leaders are often not available or not willing to help them.

Further, they may not be granted registration at their preferred facility, as each facility has a quota for patients. To use services once registered, informal workers often have to travel long distances, spending much time and money. In other words, disparities in health care access depend in part on where they live and work, and whether they are able to navigate health system registration rules that must be complied with if they are to be registered at their facility of choice.

Supply-Side Barriers

A number of focus groups were held in Ahmedabad in 2014, and in Bangkok in 2011, to identify perceived barriers to accessing health services, and the relationship between access to health care and the ability to work. Also, in both cities, key informant interviews were held with health officials. Barriers to health care access as perceived by informal workers include the following:

(i) **Inconvenient location and timing of services.** Government health facilities are often too few and far between, and their operating times may not be convenient for informal workers, many of whom leave home before the facilities open and return home after they have closed.

(ii) **Insufficient dissemination of health information.** Thailand has a good public health service that devotes a fair amount of attention to distributing information. However, informal workers still often do not understand their entitlements, or even know that they exist. India has a weak public health system and invests less in public information, except during crises. The challenge is that health facilities are available, but there is little information about what sorts of services are available, where, and at what times.

(iii) **Formal rules of exclusion.** In Bangkok, to obtain access to the UCS, workers must be registered at a particular health facility. This is likely to be near where they live, not near the place where they work. Further, while they can change registration, this also takes time and money, and many do not know how to do it. In Ahmedabad, informal workers are excluded from the statutory health insurance scheme for formal workers, while the facilities covered by the scheme have the capacity and could easily take in informal workers. Also, in Ahmedabad, workers who live on the city periphery are excluded from rural facilities, but there are fewer urban facilities, and little attention is paid to urban health.
(iv) **Lack of coordination between different facilities.** With little or no linking through referral systems, informal workers easily get lost in the system, or fall through the cracks between facilities.

Once inside the health facility, other common barriers include time taken in queues (waiting for services or ending up the wrong queue is time away from work, with implications for lower productivity and reduced income); poor quality of clinical care, which is a disincentive to return to the service provider; and limited supply or high cost of medicines.

As a case in point, the range and quality of services provided by urban health centers (UHCs) in Ahmedabad need expansion and improvement. Among the issues that SEWA members raised is the quality of care, lack of medicines that forces them to buy these on the open market, and the behavior of health staff both at the UHCs and in large municipal hospitals. In Ahmedabad, SEWA members reported that the bulk of expenditure, even in the public hospitals, were for medicines, followed by laboratory and other diagnostic tests (Chatterjee and Thomas 2014b). In fact, in India, 70.0% of out-of-pocket payments are for medicine, a much higher proportion than for hospitalization (Chatterjee and Thomas 2014a; Berman, Ajuha, and Bhandari 2010).

Workers often resort to private care—which is expensive—because they do not get the services that they need at the quality that is required at public facilities. SEWA has been working with several UHC doctors over the past 2 years, and has developed a good rapport with them. They have found many public and private health providers who are open and willing to extend services to informal workers (Chatterjee and Thomas 2014b).

Government facilities tend to be much more crowded than private facilities. While the consultation and treatment are either free or low-cost, the opportunity cost of spending an entire day to get treatment is something most informal workers can ill afford. A street vendor said, “In a government hospital, it takes the whole day, as I have to stand in line everywhere” (Chatterjee and Thomas 2014b, Appendix 1, 21).

Often, if a test is required, and if the case is not an emergency, the patient is asked to come back a few days later. These repeated visits discourage informal workers from going to government facilities. They do not have the luxury of time, and a day at a government hospital means loss of an entire day’s income. The worker would rather go to a private hospital, get treated, pay the fee, go back to work, and earn at least half a day’s earnings. As one street vendor in Ahmedabad explained, “For us daily income earners, time is money. Who understands this? I spent the whole day recently in the Civil Hospital when I got sick. I had to stand in line for a long time” (Chatterjee and Thomas 2014b, 7).
Another factor limiting the use of government facilities is distance. There is one UHC per ward (approximately 80,000 population), and these facilities are often located far from some locations. Some prefer to go to a nearby private clinic, as illustrated here: “I will have to pay the auto rickshaw Rs35.00–Rs40.00 ($0.57–$0.66)\(^{186}\) to go to the UHC. Plus the Rs5.00 fee there. Instead, I can go to a nearby private doctor and pay Rs50.00 for a consultation. It will cost me the same, and I will save so much time.” (Chatterjee and Thomas 2014b, Appendix 1, 21)

Hours of operation at government facilities, especially primary health centers, need to be changed to suit the working hours of informal workers. Private providers and large public, private, and charitable trust hospitals tend to remain open for longer. As one SEWA member put it, “I prefer to go to the private, charitable trust hospital because it is open all day and night and even on Sundays” (Chatterjee and Thomas 2014b, 7).

With regard to affordability, it is important to note that the costs of health care include fees for services and medicines, transport costs, transaction costs, and opportunity cost. Transaction costs include what is required to negotiate the registration and referral systems (e.g., necessary documentation and a long waiting time for documents to be approved), and what is required once inside a health facility (e.g., long queues and waiting time for services). The opportunity cost includes productive time and related earnings that are foregone due to the time involved in transport and transactions.

With regard to eligibility, it is important to distinguish between *de jure* exclusion (e.g., the rules for registration) and *de facto* exclusion (e.g., the attitudes and practices of health service providers). Further, it is not always clear what an informal worker, especially a migrant informal worker, is entitled to under the health care system.

As part of the study on informal workers and health access, SEWA and HomeNet Thailand interviewed personnel from the health systems at both the city and national level at facilities in both the public and private sectors. Health personnel in Ahmedabad noticed how some of the health systems work to the disadvantage of informal workers, especially with regard to opening hours, long queues, disarray with below-poverty-line identification cards, and insensitivity and rudeness of some staff members. They recognized that many poorer workers choose to go to private facilities, despite the expense, because of the savings in time. The health personnel also pointed out how frustrating it was to work in a situation where there were far too many patients who had

\(^{186}\) The exchange rate was derived from ADB (2015). On average, $1.00 was equivalent to Rs61.00 in 2014.
to be seen each day, with the same questions about procedures being asked repeatedly. They also said that many people, including informal workers, do not follow the procedure of first going to a UHC and then being referred to a higher-level hospital. Other frustrating factors for the staff were the low levels of punctuality in keeping appointments and lack of medication adherence. In the key informant interviews in both Ahmedabad and Bangkok, interviewees said that moves are under way to increase the operating hours of facilities.

In focus groups and key informant interviews, switching between public and private health sectors by informal workers was evident. The results in Bangkok and Ahmedabad are strikingly similar to their findings from other countries. Basu et al. (2012) undertook a systematic review that compared the performance of private and public sector health services in middle- and low-income countries (one-third of the articles included were about countries in Southeast Asia). Private services were better in terms of timeliness and more positive attitudes of staff. The main limitations of the public services were inadequate equipment and scarcity of well-trained health workers. Contrary to popular stereotypes, private health care was less efficient than public health care, with poorer outcomes and more unnecessary diagnostic tests and procedures. However, the studies had too little emphasis on patients’ experiences (e.g., no patients were asked what they thought about waiting times).

Informal workers in India and Thailand both clearly experience more barriers to access, on the supply side. An overarching problem is that health systems are not designed with an adequate understanding of the realities of informal work (e.g., that informal workers may work far from their places of residence, that they work long hours, that time away from their work in accessing health services affects productivity and income, and that they face sector-specific occupational health and safety hazards). There is also a need for informal workers to have more information about preventive measures to improve their own health, as well as how to access health services. At the same time, there are systemic problems on the supply side, such as lack of coordination between facilities, inefficiencies within facilities, and formal and informal rules of exclusion of informal workers. Also, some keys to improved health are outside the control of the health system; much depends on the provision and quality of urban infrastructure (e.g., electricity, sanitation facilities, and water supply at both the home and workplace) as well as transport services between the home, place of work, and health care facilities.

Addressing Barriers to Health Care Access for Informal Workers

Lifting the barriers that prevent access to health care will require local action with informal workers at their places of work or residence, as well as systemic reform in the health care system. This will, in turn, require efforts to bridge both the
on-the-ground reality of informal workers and the design and implementation of the health care system.

System-Wide Interventions

First, there is the need for improved data on the risks faced by informal workers, patterns of ill health that they experience, barriers to health care access that they face, and outcomes of their health-seeking behaviors. Second, informal workers must and can be included in health policy reforms and oversight of health service delivery. Informal workers know best the health risks that they face, the barriers to accessing health care that they encounter, and their health priorities. These workers should be represented (through elected or nominated leaders of their organizations) in negotiating health policy reforms, planning health services and related interventions, and monitoring health service delivery.

Local Interventions

Interventions are needed where informal workers work and live that (i) educate them on preventive, promotive, and curative health; (ii) inform them about health care services; (iii) collect information on their health status; and (iv) monitor health conditions and disease outbreaks. Organizations of informal workers, where they exist, are well placed to engage in these local interventions in collaboration with health officials and health care providers in both the public and private sectors. The following ideas for interventions were derived from the experience of, and intensive research with, organizations working with informal workers in Ahmedabad and Bangkok.

(i) **Health information and advice centers.** Health information and advice centers, located close to densely populated worksites and staffed by people who understand the conditions of informal workers, should be run and staffed by organizations of informal workers. Where female informal workers are better organized than men, these centers could be women-focused, safe places. They could be a venue for providing education on preventive and promotive health, as well as information on existing health services, including locations and operating hours of health facilities. They could also stock the forms required for registration and referral, and assist informal workers with filling in these forms and compiling other necessary documents.

(ii) **Digital technology.** Use of digital technology, notably handheld tablets and mobile phones, should be used to promote preventive health education; provide information on health services and schemes; report health conditions to health care providers; and provide feedback on health services obtained, including their quality, from informal workers. This would be a direct attempt to address issues of lack of information
that exclude informal workers, and notably women who work in their own homes as home-based workers or in the homes of employers as domestic workers. This information should include the location of health facilities, services that they offer, and operating hours. Digital technology could also be used, as noted above, to facilitate the two-way flow of information between workers and health care providers in an attempt to secure better services, and to help in early detection and monitoring of epidemics.

(iii) **Community health workers.** Women consistently expressed the need for community health workers to staff information centers and engage with informal workers at their homes or workplaces. It was striking how many times in these cities, and in other areas where WIEGO works, poorer female workers expressed the need for people who can advise and support them in interpreting health messages and understanding how to navigate the health system. Community health workers could be provided with handheld tablets and mobile phones and trained in their use.

(iv) **Health screening.** Health screening near workplaces or homes of informal workers, including mobile health diagnostic camps, would be ideal. This model of bringing health services to the people has been successful in many countries, with health personnel offering their services voluntarily. Diagnostic testing can be done for general diseases, occupation-specific health hazards, sight and hearing problems, and gynecological illnesses.

(v) **Low-cost pharmacies.** Low-cost pharmacies that distribute free essential drugs, sell other medicines and surgical equipment at low cost, and help workers understand how to use drugs including the importance of completing prescribed dosages, are vital. Organizations of informal workers could be trained to run such facilities, learning from the model already developed by SEWA. As in the SEWA case, local governments could offer such organizations a no-cost loan to establish a round-the-clock pharmacy in or near public hospitals.

**Linking Platforms**

An overarching policy issue, which underpins successful implementation of these recommendations, is the need for engagement between informal workers and those in the health services as well as other departments that have control over working environments. Institutionalization of such platforms by the Government of Thailand in alliance with civil society, including organizations of informal workers such as HomeNet Thailand, was essential to the success of health care reforms there.
To promote health care for informal workers, there are different types of platforms that have been tested and are needed.

(i) **Negotiating platforms.** These assess barriers to health care access for informal workers and secure commitments for necessary health system reform. These should be enduring—ideally statutory—institutional spaces where informal workers can meet with health officials, health service providers, and city officials on an ongoing basis.

(ii) **Planning platforms.** These platforms are for planning and implementing appropriate health services; practical immediate solutions (e.g., fire extinguishers in crowded markets); and provision of urban infrastructure (e.g., water supply, sanitation services, garbage removal, street lighting, and emergency services at places where informal workers work and live).

(iii) **Implementation platforms.** These facilitate and monitor implementation of health service delivery (such as Thailand’s local health committees) and of urban infrastructure services (e.g., local residence and workplace committees).

It is critical that representatives of organizations of informal workers be invited to participate in these platforms, be trained in negotiating skills, and be equipped with the necessary data and information to negotiate effectively. If this does not occur, such dialogues become one-off events that sometimes secure concrete commitments (e.g., the clearing of blocked drains in a market), but result in little follow-through or sustained action.

Ideally, there should be permanent statutory platforms at the municipal level in which informal workers are represented in the same way that formal businesses have such platforms. Careful attention must be paid to representation of women, if the typical pattern is to be broken in which the overwhelming majority of members of informal workers organizations are women, but men occupy the leadership positions.

There is a common logic behind the set of local interventions and linking platforms recommended above. First is an emphasis on health education for the workers themselves, using digital technology, including education on protection and prevention at the workplace (e.g., stressing the importance of posture). Second is recognition of the need to go beyond the simple “health education for workers themselves” model to one that promotes comprehensive health care and requires changes to health systems and policies. Third is a focus on preventive health services, not just curative health services, as a normal part of comprehensive health care. Fourth is emphasis on additional human contact (through health volunteers and community health workers) to reinforce health education messages, and to help facilitate access to services.
Fifth is bridge building through ongoing communication and negotiation among informal workers, health authorities, and other stakeholders. The logic underlying the solutions presented above also points to the need for system-wide institutional change.

**System-Wide Institutional Change**

Both India and Thailand are in the process of health system reform. In India, it has been recognized that rapid urbanization has led to an underemphasis on urban health provision and to an increase in noncommunicable diseases.

Thailand’s UCS has been widely acclaimed, including by informal workers. Occupational health is in the process of moving into public health, as in other countries. Reproductive health issues will continue to be covered because of the emphasis within public health on primary health care. However, HomeNet Thailand, SEWA, and WIEGO are concerned that such institutional migration will lead to a lack of focus on worker-related health provision, unless some public health personnel are trained in work-related health diagnosis and treatment.

**Recommendations**

The reforms suggested below are normative principles, not operational recommendations. Concrete recommendations require analysis of the financial, institutional, and administrative capacity of the public and private sectors in each country or city, as well as analysis of the composition of the informal workforce in each country or city. More importantly, concrete recommendations should emerge out of consultative health policy reform processes that involve representatives of informal workers and their organizations, including SEWA and HomeNet Thailand.

It is important that the recommendations are for the benefit of all informal workers and their families, but all need to recognize and take into account women’s additional responsibilities for domestic and care work.

From the evidence and experiences featured in this chapter, it is clear that an effective health care system for informal workers should include

(i) **Extensive health care infrastructure.** This also necessitates adequate personnel, including women, especially at the primary health care level. As this chapter shows, the location and hours of operation of health services should meet the needs of those targeted for universal care, such as informal workers.
Health care workers who operate close to where informal workers live and work. SEWA in India has trained some female informal workers to be frontline health workers. In this way, they can both serve their communities and earn incomes doing so. Similarly, HomeNet Thailand is taking advantage of the system of local health volunteers (some of whom are HomeNet members) to introduce work-related health interventions.

Efficient, appropriate, and user-friendly health registration and referral systems. If the target population does not receive information, or receives the wrong information, about services and has to stand in long queues for services, this creates a disincentive to take advantage of public services. In particular, the working poor, whether men or women, cannot afford the time to engage with a cumbersome and unfriendly system. Women are additionally disadvantaged by having to take family members to health services.

Choice of registering at a health facility nearest a workplace or a residence, or ideally, both. In many countries, access to health services is governed by registration at a particular facility, which is usually the facility nearest to the worker’s home. For many, access would be improved if they could register near their place of work as well. A female worker needing to take her child to a clinic would probably prefer to go to the facility near home; if she needs to see to her own health problem, she may prefer to go to the clinic nearest her work, at a slow time during the day. Ideally, a portable “smart card”—like the one used by the RSBY in India—would allow informal workers to avail of care from any facility.

A comprehensive package of services. These should be: preventive, promotive, and curative; primary, secondary, and tertiary; outpatient and inpatient. Universal health care without a focus on prevention makes no economic sense in terms of promoting health and well-being, as well as productivity.

Basic infrastructure services. These are needed to make the homes and workplaces of informal workers healthier, safer, and more productive. Similarly, more accessible, affordable transport services are needed between the homes and workplaces of informal workers and health facilities. This will require engagement with government departments other than health, especially at the local level.

Reforms grounded in an understanding of the reality of work in the informal economy for women and men. This chapter presents a framework for understanding and addressing the health risks and barriers to health care access faced by different categories of informal workers (i.e., differentiated by status in employment, branch of economic activity, and place of work).
Universal health care is an achievable goal for countries at any income level. When Thailand achieved universal health care in 2002, the gross national income of the country was less than $2,000.00 per capita per year (Thai UHC Team 2011). Such an achievement requires a strong commitment—and a way of working together—on the part of politicians, technocrats, and civil society, including representatives of informal workers.

Another key policy lesson is that increasing access to health care is key to reducing poverty and inequality. The Government of Thailand estimates that the UCS protected more than 75,000 households from medical impoverishment in 2009 alone (Thai UHC Team 2011).

This chapter highlights three important components of equitable health care systems: (i) regulation of services, costs, and service providers, including a cap on provider payments; (ii) equity in financial contributions and the use of health services; and (iii) affordable medicines, which is of critical importance to any equitable health system.

It is essential to promote a national consensus and agenda around health care reform by institutionalizing platforms for politicians, technocrats, and civil society to engage in an ongoing process of negotiating, planning, and implementing health reform. The importance of building bridges between the users and providers of health services and relevant policy makers cannot be overemphasized, nor can the importance of including those who have been excluded—notably informal workers—as key stakeholders.

References*


* ADB recognizes “China” as the People’s Republic of China.


This chapter highlights the findings and policy implications of expanding social protection for informal workers in Asia. Most literature focuses on social protection for the formal sector and does not cover the growing informal workforce. There is a knowledge gap on the design, financing, political economy, and governance of social protection coverage to this growing informal sector workers in Asia, particularly workers in micro, small, and medium-sized enterprises (MSMEs). Social protection for informal workers needs to be analyzed at the administrative, program, and policy levels, and various case studies examined to determine best practices for policy and practice.

The case studies have shown that social protection improves the human development capacities of informal workers such as education, health, and economic well-being. While the previous chapters present policy solutions and recommendations that are applicable to various country conditions and institutional frameworks, there is still much room for further research and impact studies on how these social protection programs can be financially and institutionally sustainable in the long term. For instance, reform of national social protection systems can be analyzed through social budget analysis or actuarial valuations.

The weakening social ties and traditional forms of social protection, rural–urban migration, and demographic transition to a rapidly aging population have intensified efforts to strengthen social protection in the region. The informal economy workforce comprises 80.0% of the labor market in some countries in Asia (UNESCAP 2014). Globally, the informal economy is more than 90.0% of micro, small, and medium-sized enterprises (ILO 2015a).
At the international level, high global incidence of informality and lack of social protection prompted 85 International Labour Organization (ILO) member states to adopt Recommendation No. 204, concerning the transition from the informal to the formal economy, at the 104th International Labour Conference (ILO 2015b). This calls for members to improve access to social protection coverage for informal sector workers, issue better infrastructure and services, and ensure decent work conditions.

The succeeding sections will highlight benefits of expanding social protection coverage to informal workers and the components of building an effective social protection program. It will discuss (i) limited coverage and women in the informal labor market; (ii) challenges and constraints in expanding social protection coverage; (iii) kind and level of benefits, targeted versus universal provision, and benefit delivery; (iv) funding of social protection programs; (v) stages of social protection development, government commitment, and political economy; and (vi) role of donors in supporting effective social protection for informal workers.

Benefits of Social Protection for Informal Workers

Social protection has benefits to offer informal sector workers. First, it helps reduce poverty and sustains livelihood development. Social protection such as unemployment benefits, work injury insurance, or health insurance provides better protection against income shocks and reduces vulnerabilities. For instance, ASKESOS or Social Welfare Insurance in Indonesia provides poor, informal workers with one-off cash benefits to members for illness, work-related injuries, and death. The Philippines’ Social Security System, AlkanSSSy Program—a microsaving program encouraging informal workers to save—can enhance livelihood capabilities and supplement household needs.

Second, social protection provides economic growth and supports employability. Informal workers should be recognized as economic agents who buy goods from formal and informal suppliers, pay licenses and use of public space, even creating revenue for local government. These street vendors and home-based workers surveyed in the case studies are important components of the local and global value chain of production. Likewise, waste pickers sustain environmental sustainability, while domestic workers who perform care functions enable women to leave home and work in the formal sector.

Third, social protection is a human capital investment. Conditional cash transfers and child grants, for instance, allow children to invest in productive assets or skills. Health care insurance also helps labor productivity, such as Thailand’s Universal Health Care (UCS) that offers informal workers access
to health facilities, including preventive and curative services. Finally, the increased security and dignity that social protection provides helps families with disabilities and older people invest in their children and allow them a better future.

Coverage and Women in the Informal Sector

Despite the progress of social protection coverage, there is still inadequate support and protection to informal economy workers. Existing social insurance schemes mainly support workers in the formal sector, and they do not cover the majority of informal workers in the region. Most informal workers have minimal protection against income insecurity caused by illness, disability, unemployment, or old age. Less than half of the population above statutory pensionable age is covered by old-age pensions, and only 34.0% of the labor force provides pension contributions in Asia and the Pacific (ILO 2014). Meanwhile, social assistance provides partial coverage with limited benefits.

In Asia, women are more likely to be in informal employment than men (ADB and ILO 2011). The Social Protection Indicator in Asia and the Pacific found that women have less access and fewer benefits than men regarding social insurance, social assistance, and labor market programs (ADB 2016). The case studies also reveal that women are generally less employed in traditional formal sector work, have lower program participation rates, face greater health challenges, and receive lower wage rates than men. Women having lower earnings than men also lead them to face higher risks of poverty. Training opportunities should be expanded to female workers that can lead to higher pay and better job security.

Women, especially those engaged in domestic work and care responsibilities, also have access to less information than men in the region and receive less social protection such as cash transfers. In social insurance programs, there is more difficulty in reaching women because of eligibility, participation, and types of risks (Holmes and Scott 2016). Eligibility is a constraint, with women highly represented in informal work (ILO and WEIGO 2013) and less likely to work in the formal sector (Floro and Meurs 2009). Thus, they are not covered by social insurance programs. Even when these programs are extended of the informal sector, women may not be able to participate because they receive irregular income and have casual jobs that pay lower wages. Women, due to life cycle risks, also have greater need for health services in reproductive health, but social insurance may not include these services in health insurance. In India, the launch of the national health insurance scheme, Rashtriya Swasthya Bima Yojana (RSBY), further disadvantaged women whose applications needed to be made by male heads of household, some of whom have migrated.
Some programs have built-in institutional arrangements that address these constraints and empower women such as India’s Self Employed Women’s Association (SEWA) and Bangladesh’s Rural Advancement Committee’s Challenging the Frontiers of Poverty Reduction-Targeting the Ultra Poor (CFPR-TUP) program, which includes women in the poorest households by providing them with productive assets such as livestock and a stipend. It also uses a monitoring and evaluation system that has data disaggregated by gender and indicators that empowers women (Holmes and Jones 2013).

Those that are not covered by social protection receive informal support from families and other kinship ties. Families are the traditional providers of informal social protection in Asia, with children expected to care for older parents. The family also has a role in caring for other vulnerable members of society. While this is still prevalent, market expansion, urbanization, and migration has weakened this practice. However, some policy makers still promote this belief that the family and not the state is the main source of support. This has influenced the trajectory of social protection design, such as in Viet Nam, where older people can only receive a social pension if they do not have children to care for them (Kidd et al. 2015). There is, however, progress away from this thinking in some countries, such as Bangladesh, wherein the National Social Security Strategy used the weakening of traditional support systems to expand the country’s old-age allowance into a citizen’s pension (Government of Bangladesh, Planning Commission, General Economics Division 2015).

Challenges and Constraints in Expanding Social Protection

There are many challenges in including the informal economy workforce in social protection programs. Lack of affordability and low awareness of program benefits and registration are some of the reasons for limited social protection coverage among informal sector workers. In Pakistan, for example, construction workers are unwilling to part with a portion of their income and are reluctant to register to the Employees Social Security Institution, as they prefer to spend on more immediate needs. In the People’s Republic of China (PRC), the high contribution rates and laws that require participation in all five social insurance programs simultaneously provide a disincentive to informal workers with low, irregular incomes.

Inadequate administrative and financial capacity is another challenge to expanding social protection beyond the formal sector. There are high administrative and transaction costs such as registration of pension systems in remote, rural areas. There is also lack of coordination in social protection
programs for countries, such as Bangladesh where 13 ministries are involved in the delivery of social protection services. This lack of coordination constraints the development and implementation of these programs (Sharif 2009). Similarly, in Pakistan, involvement of various ministries and departments results in lack of consistency, weak beneficiary targeting, and unreliable benefit delivery (Malik and Pop 2013).

Benefit portability of social protection programs is also a pressing policy objective in extending social protection to informal sector workers. Benefit portability minimizes the vulnerabilities that migrant workers face, thus protecting their basic human and social rights. In the PRC, for instance, migrant workers are registered in social insurance programs for residents in their hukou or place of participant’s birth and not eligible to participate in areas to which they have migrated. Similarly, in Viet Nam, temporary migrants are unable to access social protection benefits unless they return to their home country.

Another critical challenge is the political economy factors involved in social protection design and implementation. The governing elites still prioritize formal sector workers and more prominent groups rather than the majority of informal sector workers, which makes social protection spending in Asia regressive (Claus, Martinez-Vazquez, and Vulovic 2012). Mongolia’s political party first proposed the Child Money Program as a platform for the 2004 election, and, after its electoral success, was given fiscal space to make the program universal. There are universal pensions in Asia with low transfer values, such as the PRC, which only offers 1.0% of gross domestic product (GDP) per capita, or Viet Nam at 7.0% (Kidd and Damerau 2016).

Some innovations in the microinsurance sector have overcome these challenges by introducing flexible payment options and covering the cost of participation in insurance schemes. Other lessons in microfinance include elimination of fixed fees, facilitation of easy payments, and reduction of indirect costs (Holmes and Scott 2016). Allowing MSMEs to opt in and out of social insurance programs may also be favorable to employees with low, irregular incomes in the informal sector.

A successful collaboration in India is the union of waste pickers in Pune who created a cooperative and entered into a partnership with the municipality to form Pune Municipal Corporation. The latter pays their annual premium for basic health insurance. It is the only municipality in which the government contributes to the health insurance of informal workers (Chen and Lund 2016).

Extending social protection outside of contributory schemes to reach informal workers needs benefit eligibility to be disentangled from employment status. This means allowing the social protection program to be independent from
formal sector employment. Examples of these are voluntary contributory pensions, noncontributory health care, and microinsurance. These programs enhance the education, health care, housing, and well-being of beneficiaries.

Benefit Determination, Targeting, and Delivery

Benefit determination denotes whether benefits should be provided in cash or in kind. Cash transfers give beneficiaries the choice to decide on how best to meet their individual needs, while in-kind transfers may be better suited for individuals in extreme poverty. Determination of benefit levels for the informal sector may be dependent on program funding or the financial capacity of local governments. They can benefit from asset transfers such as food, livestock, or land.

A benefit level set too low lessens income insecurity and poverty reduction, while a benefit value that is set too high will limit the number of potential beneficiaries. Program funding issues are a challenge in the determination of an appropriate benefit level for informal workers, particularly since they do not make contributions to the tax-based social transfer programs.

Targeting social protection programs or ensuring universal provision is also a widely contested debate. The informal sector lacks documentation, heterogeneity, and stability of employment, and targeting informal sector workers may result in high administrative and financial costs despite the benefits of inclusion error reduction.

The pattern of relative benefits presents a situation where nonpoor households receive no or relatively few benefits from social protection. They are called the “missing middle” of social protection systems—households that are neither in a position to benefit from social insurance because they are not employed in the formal sector (public or private sector firms) nor in a position to benefit from social assistance because they are not identified as poor (ADB 2013).

Some universal schemes offer higher benefits and help both low- and middle-income families, including those in the informal economy. For instance, the value of Nepal’s cash transfer program is one-third of the country’s social protection spending, and the Maldives’ new health insurance program, Aasandha, accounts for 45.0% of all social protection expenditures in the country (ADB 2016). Comparatively, targeted schemes in India and Bangladesh offer only 2.0% and 5.0% of GDP per capita, respectively.

Program governance, design, and implementation arrangements also affect targeting effectiveness. Among those issues considered in the previous chapters
are lack of awareness and transparency of eligibility criteria, inconsistencies in scoring criteria, inadequate income and beneficiary verification, weak monitoring and oversight, and ineffective grievance redress. Indonesia’s temporary Bantuan Langsung Tunai (direct cash assistance) unconditional cash transfer program reveals weaknesses in program implementation, with poor targeting of households that were neither poor nor near-poor, receiving 30.0%-40.0% of program benefits (World Bank 2012). Ultimately, targeting must be done on a case-to-case basis that considers potential administrative costs and possible exclusion errors.

Meanwhile, benefit payment methods affect beneficiaries’ choice of program selection and participation. It also affects the cost and impact of the social protection program. It can increase the cost or diminish the impact of the program if delivery is inefficient. The supply side should be accessible, such as having health clinics and schools available locally.

Delivering social protection to informal workers is challenging since it is difficult to determine which individuals and households are part of this sector. The use of information and communication technology (ICT) in beneficiary enrollment through a single registry management information system (MIS) can ensure more equitable distribution and establish linkages that increase the efficiency of design and delivery. It also allows universal targeting, which minimizes inclusion errors and increases cost-effectiveness of social protection programs. Indonesia’s Basis Data Terpadu (Unified Database) national registry unifies informal workers across the country for beneficiary targeting. Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K) manages the database to determine program eligibility. The Philippines also has a sophisticated national database under the Pantawid Pamilyang Pilipino Program (4Ps). An MIS can further reduce costs and scale up affordable programs.

Other delivery methods used are direct deposit (e.g., in India’s Mahatma Gandhi National Rural Employment Guarantee Act), smart card and mobile phone banking (e.g., in Pakistan’s Benazir Income Support Programme [BISP]), and home delivery (e.g., in Thailand’s Old-Age Allowance). India’s National Social Assistance Program, which included informal sector beneficiaries in 2008, allows beneficiaries to access benefits through commercial banks, post offices, and local government meetings in rural areas.

Financing Social Protection

There is evidence in Asia that the establishment of an inclusive life cycle system of social protection is fiscally feasible. However, the only means to guarantee access to social protection for informal workers is through social transfers
financed by general taxation. While transitional cofinancing of benefits through donors is helpful, social protection systems should be financed through national budgets for long-term sustainability.

Major gaps in social protection of informal sector workers can be closed with only about 2.0%–3.0% of GDP (Cichon and Cichon 2016). ADB’s Social Protection Index (SPI) (ADB 2013) highlights the Republic of Korea’s SPI as an attainable benchmark for at least middle-income countries in Asia and the Pacific. Its total social protection expenditures per intended beneficiary in 2009 was equivalent to 20.0% of poverty-line expenditures, or 5.0% of GDP per capita (as poverty-line expenditures average one-quarter of GDP per capita).

Financing additional social protection consists of finding new fiscal space from possible reallocation of existing expenditure or reprioritization of the current budget. Social protection financing can also be drawn from domestic sources and improved tax collection.

Increasing taxation is recommended only for countries with a revenue level of less than 25.0% of GDP, but improved tax collection or expenditure allocation is sufficient to finance closure of basic social protection gaps. Only a few countries cannot finance closure of basic social protection gaps because of extremely high poverty rates and may require transitional and external financial support, such as development assistance.

**Some Policy Implications**

Implementation of social protection programs with limited administrative requirements is possible. Monitoring and evaluation with an MIS can be simple initially and then expand progressively as program requirements evolve. A larger-scale social protection system can reform and adjust with political will for new social protection measures.

To finance these social protection programs for informal workers, governments should invest in tax and contribution collection. Political commitment to higher social spending and taxation, with policy makers placing value on social protection, is also needed as a beneficial component of the market economy that functions more effectively when a comprehensive system is in place.

Governance, institutional framework, and labor law enforcement are indicators of government commitment that drive initiation and expansion of social protection coverage. For instance, India employs a top–down approach and leaves little room to adapt to local conditions, while other countries, such as
the PRC, are highly decentralized and allow autonomy in government decision making on beneficiary selection and level of benefits. The PRC’s Minimum Living Standard Guarantee (MLSG) scheme, the centerpiece of the country’s social welfare system, determines income transfers to households below a stated threshold locally. Local governments set MLSG eligibility thresholds, which reflect the government’s fiscal capacity more than the difference in costs of living. However, richer regions with more resources and fewer poor residents tend to set higher lines, and this restricts eligibility and adequacy of benefits to meet people’s needs in poorer areas (Babajanian 2016).

The involvement of the central government in regulation and procedures while allowing for local adjustments to reflect local circumstances is a means to balance policy priorities. Moderate decentralization is key where central governments regulate program rules governing eligibility and benefit calculations but also allow for local autonomy to ensure inclusion and equity.

Structural reforms that inhibit further participation of informal workers in social protection programs are necessary in countries like Pakistan, where implementation of labor law is weak on the absence of unions in the informal sector, or in the PRC, which requires participation in all five social insurance programs at the same time. The MSME case studies of Bangladesh, the PRC, Indonesia, Pakistan, and the Philippines reveal that favorable work hours, awareness programs on work environments, access to health and safety equipment, and better enforcement of minimum wage can improve working conditions. The absence of contracts in countries such as Bangladesh exacerbates worker insecurity and provides a disincentive for employers to offer social protection programs. Informal workers should be included in the scope of labor laws to improve their employment arrangements and productivity.

Effective labor law enforcement is another indicator of good governance. About half (45.0%) of informal workers in the case studies are not registered with the social security system, and 68.0% are not covered by health insurance. There is weak compliance of labor requirements that informal workers must be covered by social protection. Further, countries such as Pakistan have labor laws that are subject to employment of 10 or more workers, and it becomes common practice for MSMEs and informal establishments to hire contractual laborers and not declare them as workers, effectively depriving them of their legal social protection coverage. Thus, informal workers need an organized voice that recognizes their rights as economic agents and empowers them through increased access to quality, relevant skills training. Improving labor laws and rights, and eligibility criteria of social protection programs, can promote fair treatment and decent work conditions.
Governments can further capitalize on civil society organizations’ proximity to local populations and empower them to effectively mobilize social groups and encourage public participation. For example, HomeNet Thailand presented a health reform bill to the Parliament in Thailand, a move that helped support health care reform in the country and encourage the introduction of the UCS. India is also an example of the positive force of unions and organizations in pushing the social protection agenda. VimoSEWA, a health insurance for the Self Employed Women’s Association (SEWA), is organized and managed by poor workers.

Social protection addresses the economic and social needs of informal workers—a sector often exposed to hazardous risks and poor working conditions without adequate social security, health insurance, or unemployment benefits. When contributory schemes for formal sector workers do not meet the needs of the growing informal workforce in Asia, voluntary contributory pensions, noncontributory health care, and microinsurance are some of the important policy alternatives. Another way to extend social insurance to informal workers is for governments to subsidize insurance premiums or contributions for low-income groups.

The effectiveness of social protection depends on the design and implementation arrangements, the effectiveness of benefit delivery and choice of eligibility criteria, financing, governance, and political will. Donor support from development agencies and nongovernment organizations are also important in the establishment, monitoring, and evaluation of social protection programs. It is necessary to manage donor support and tailor programs to a country’s social, political, and economic context to maximize the positive impact of social protection programs. Multilateral and bilateral donors also provide funding that supports good social and fiscal governance.

Employers or owners of capital who currently evade responsibility for social provisions should be given incentives to contribute to informal workers’ social protection. A multistakeholder approach is needed wherein donors, governments, the corporate sector, trade unions, and member organizations of the informal sector can build empowerment among workers. This requires the informal workforce to be organized with sufficient voice and bargaining power to enter into national dialogues that help them shape policies that suit their local circumstances and livelihoods.

Last, social protection needs to be seen as a long-term investment that enhances productive capacities and addresses gender inequalities at the intrahousehold and societal level. Access to basic services contributes to economic growth during the life cycle, increases labor productivity in informal work, and strengthens societal relations among communities. A gradual
approach in expanding social protection to informal sector workers can achieve the broader development objectives of equity and social inclusion that remain one of the region’s major social policy challenges.

References


Social Protection for Informal Workers In Asia

Asia’s growing labor force needs innovative solutions to reduce risks and ensure social protection of workers in vulnerable employment with informal arrangements. This book examines the need to expand social protection coverage of the informal sector to support working age productivity, reduce vulnerability, and improve economic opportunity. Case studies from Bangladesh, the People’s Republic of China, India, Indonesia, Pakistan, the Philippines, and Thailand offer suggestions to close social protection gaps and recommend policy solutions to create equitable and inclusive social protection programs for informal workers.

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