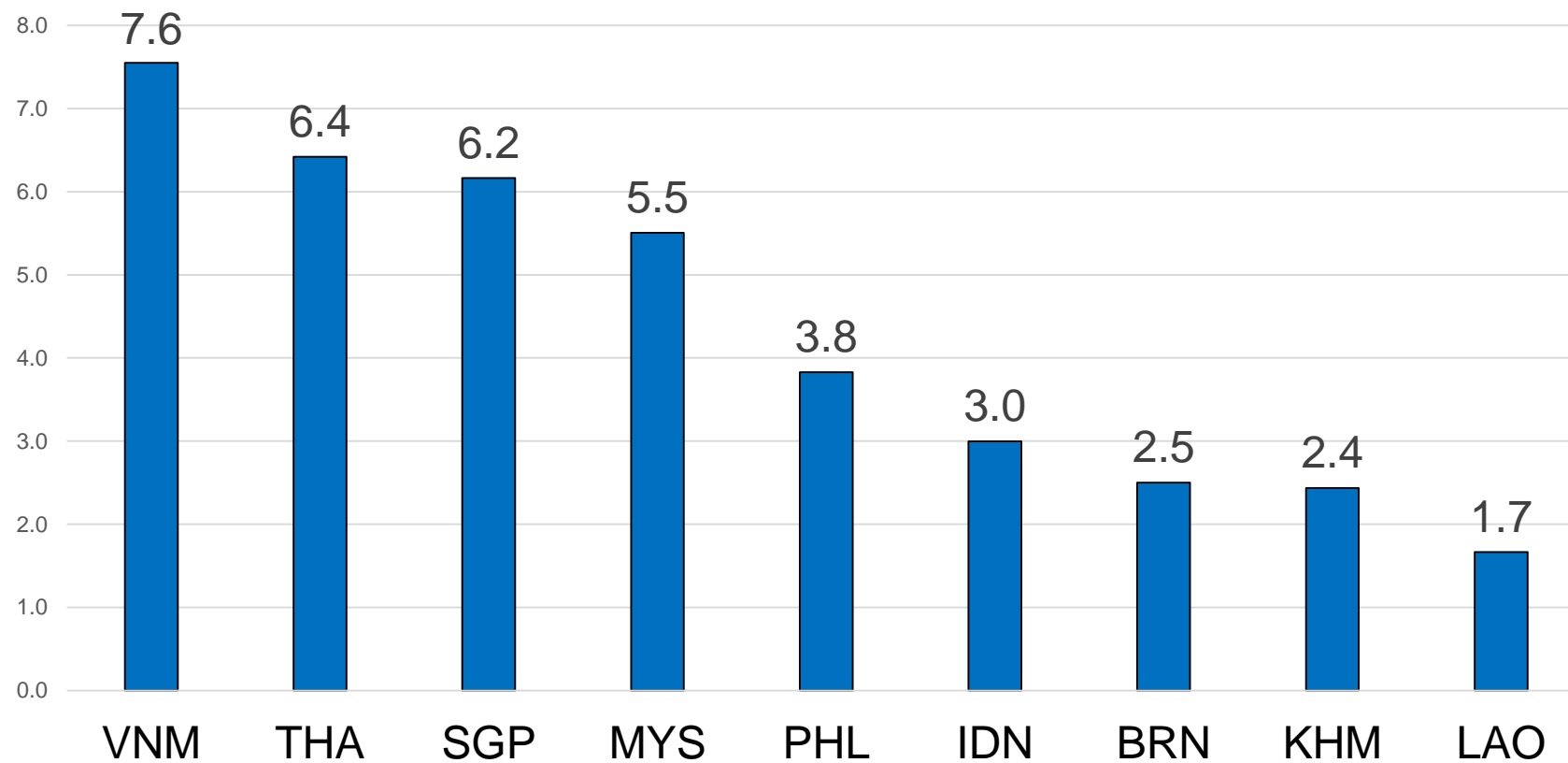# Social Protection for Workers Under Informal Employment: Challenges and Strategies

Peter Whiteford, Crawford School of Public Policy, the Australian National University
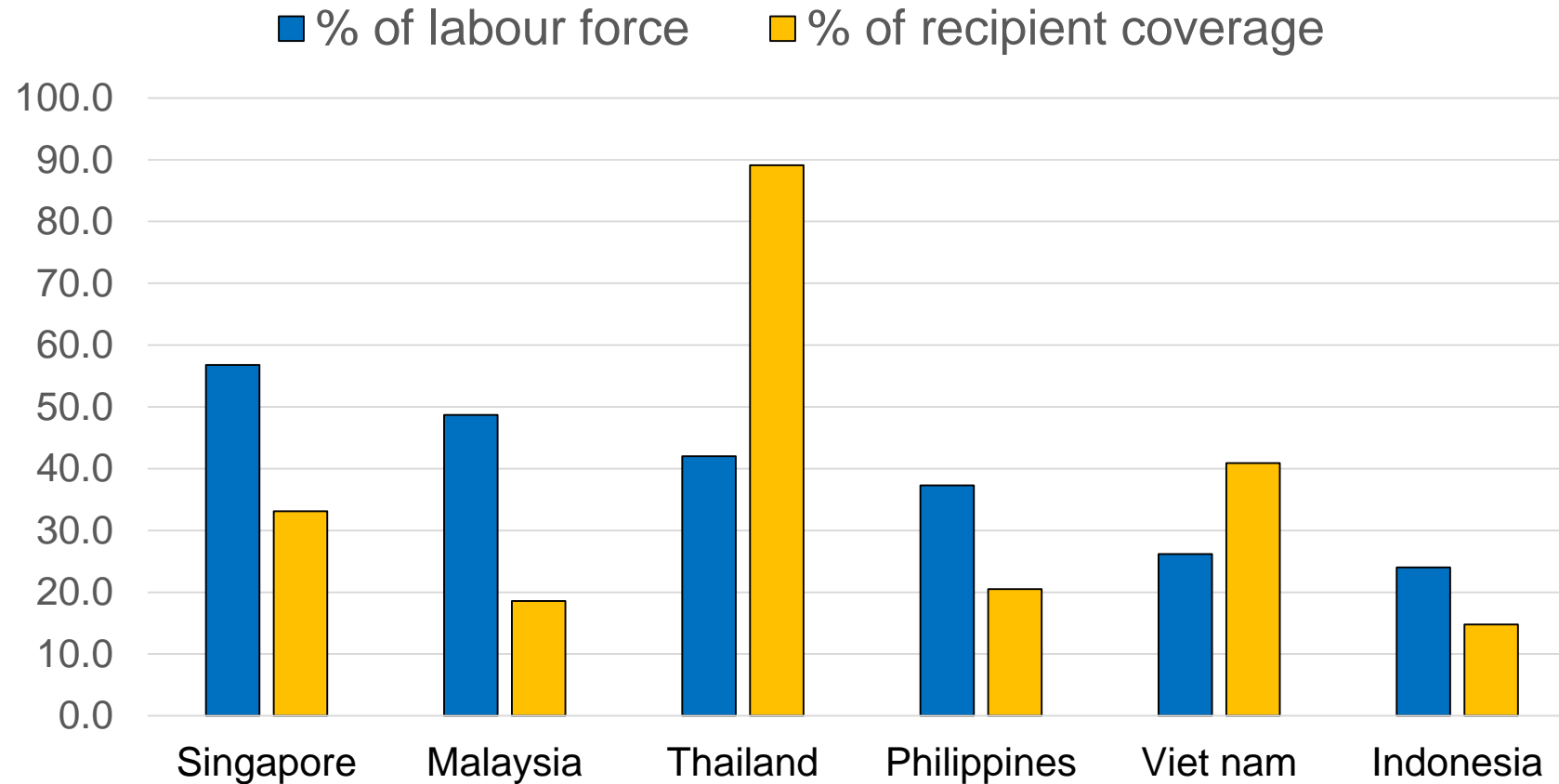
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# Outline

- Context
- The prevalence of the informal sector within the ASEAN labour market.
- Challenges in extending social protection to informal workers.
- Approaches to bolster social protection for informal sector workers.
- Concluding questions

# **Public Social Expenditure, % of GDP**, 2018-19

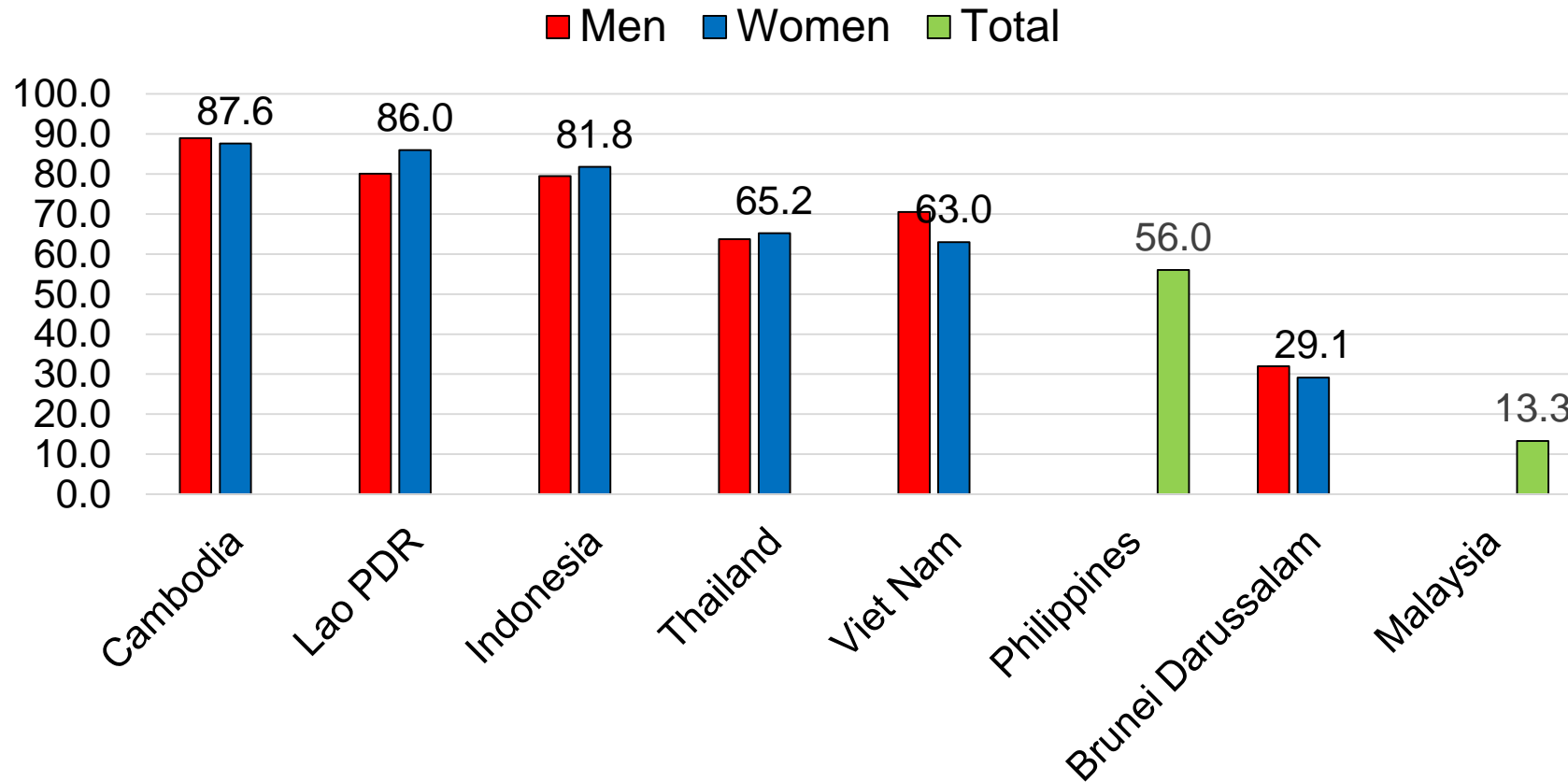Coverage of mandatory pension systems, %, latest year available

# Measuring informal employment

- <u>What we do about a problem depends on how well we understand what the problem actually is.</u>

- "Because government reports differ widely in their detail of reporting on informal employment, the statistics cited across AMS also differ widely in terms of content." ASEAN (2019), https://asean.org/asean2020/wp-content/uploads/2021/01/Regional-Study-on-Informal-Employment-Statistics-to-Support-Decent-Work-Promotion-in-ASEAN-2019.pdf
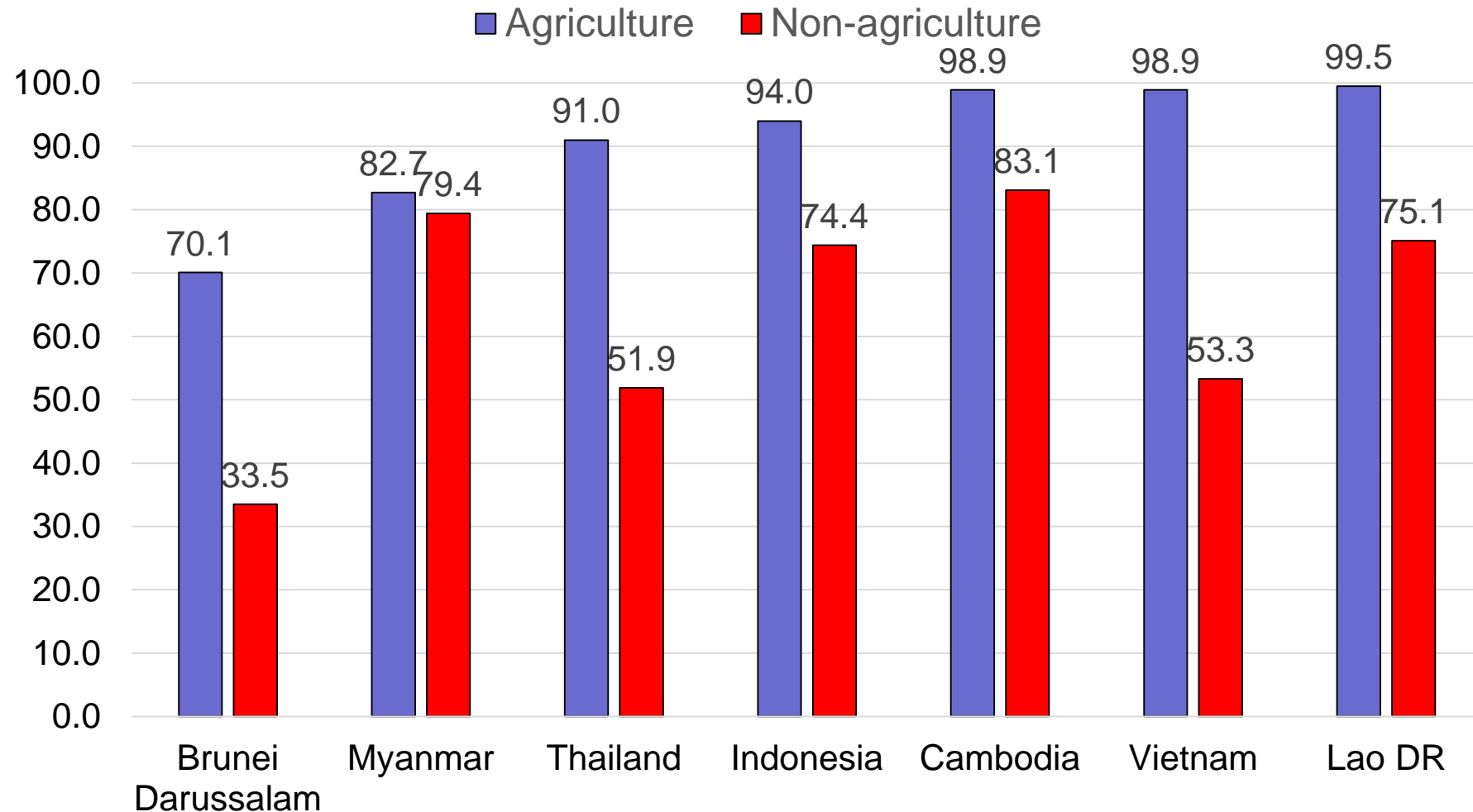
- ILO data at https://ilostat.ilo.org/topics/informality/

# Definition of informal employment

- "A worker in informal employment refers to any workers who does not have access to at least one social security scheme or employment benefit. The social security schemes and employment benefits refer to: pension fund; basic health insurance; injury insurance; disability benefits; survivors' benefits; paid annual leave; paid sick leave; paid maternity leave; and unemployment insurance. Based on the International Conference of Labour Statisticians (ICLS) guidelines, informal employment is defined as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households.£
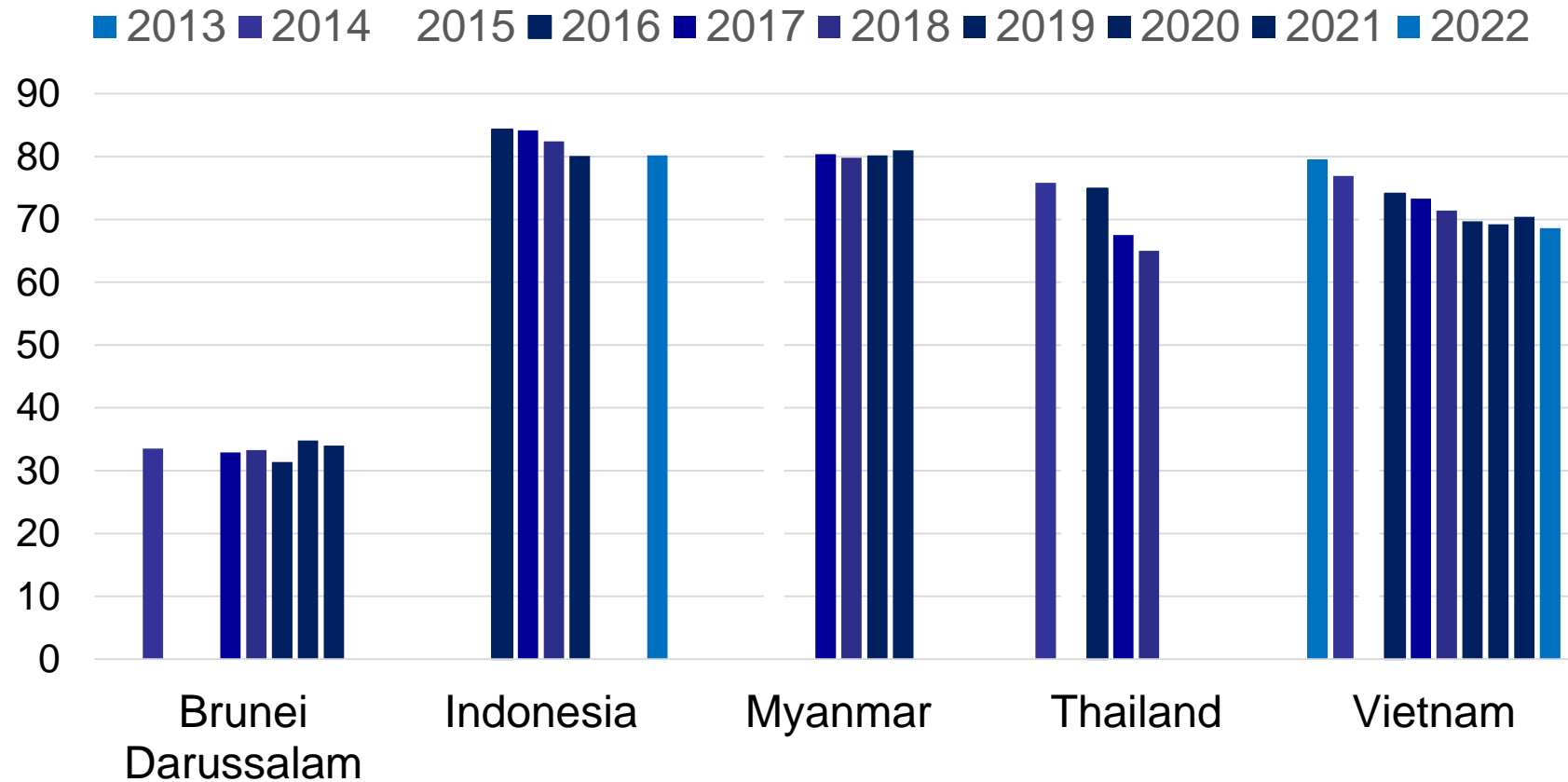
# Proportion of informal employment in total employment by sex (%)

# Proportion of informal employment in total employment by sector (%)

# Trends in informal employment, 2013 to 2022

# Approaches

- Economic growth and the shift from agriculture to manufacturing and services
- Enhancing productivity in all sectors
  - Education
  - Technology and capital investment
- Addressing informal work in the formal sector
  - Sequencing?
- Social security and taxes
  - Regulation or incentives?
  - Mix of both?
  - Designing (more) effective compliance measures

# Examples of innovation in regulation

- <u>Brazil:</u> Simples National was introduced in 2006 to replace multiple taxes with a single "monotax", with simplified procedures for own-account workers and micro and small enterprises (MSEs) on business registration, taxation, social security, financial inclusion and government procurement. It includes a special statute called 'Individual Micro Entrepreneur' (IME) and a simplified tax and social security regime for own-account workers and MSEs.

- **Australia:** Randomised control trial (RCT) to see whether small changes to audit processes (by Fair Work Ombudsman) for small business improved compliance with correct payments of wages and entitlements (superannuation). Measured to reduce non-compliance from 19.3% to 14.6%. **Involved simplified language, saliency of most important information, checklists and progress graphic, and timely reminders**.

# Behavioural biases affecting compliance

- Cognitive overload
  - Too much information may lead to forgetfulness or delays due to too much to do
- Present bias
  - Delay action on complex tasks and concentrate on day to day running
- Social norms
- Status quo bias
  - People stick with what they know

# Incentives

- Tax incentives
- Automatic enrolment – opt-outs by positive choice
- Structure of benefits, including adequate minimum benefits (more redistribution)
- Government co-contributions
- Complexity of system
- Thresholds for increased payments – avoid discontinuities

# Concluding observations/questions

- Other people in this room are the experts! So you are best placed to answer the questions.

- Are there easier to include groups?

- Are the harder to improve groups the most disadvantaged and therefore the priority?

- Can you see opportunities for simplification?

- Have you been making progress? If so, why?
  - Informal employment in Thailand has fallen from 75% to 65% and in Vietnam from 80% to 69% - why?
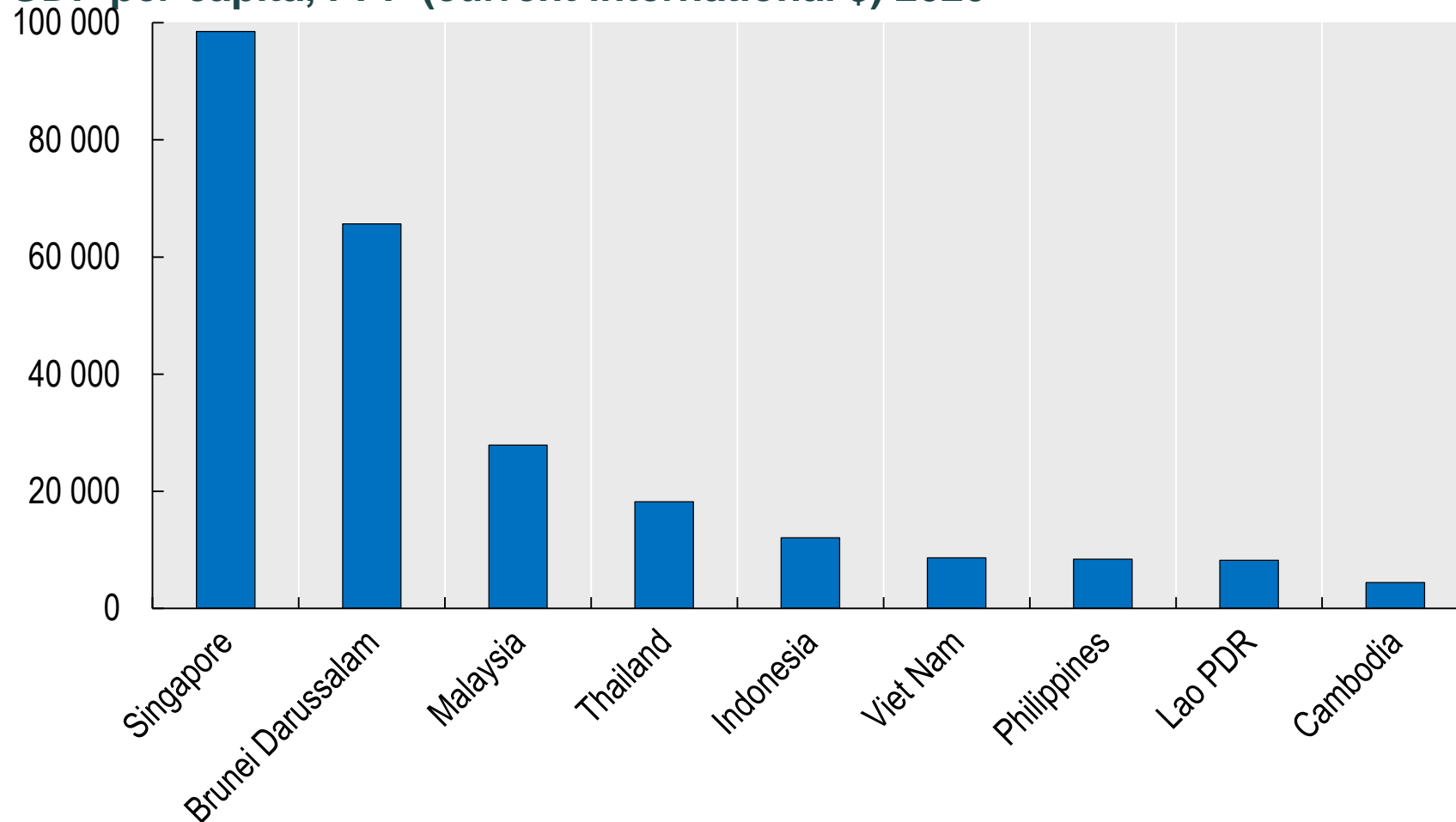
# Additional background material

# Resources and References

- ASEAN (2019), *Regional Study On Informal Employment Statistics To Support Decent Work Promotion In ASEAN*, https://asean.org/asean2020/wp-content/uploads/2021/01/Regional-Study-on-Informal-Employment-Statistics-to-Support-Decent-Work-Promotion-in-ASEAN-2019.pdf

- ILO (2019), *Simples National: Monotax Regime for Own-Account Workers, Micro and Small Entrepreneurs: Experiences from Brazil* https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_715864.pdf

- Behavioural Economics Team of the Australian Government (2017), *Building Persistent Compliance With Labour Law: Evidence From A Randomised Controlled Trial*

-  https://behaviouraleconomics.pmc.gov.au/projects/building-persistent-compliance-labour-law-evidence-randomised-controlled-trial

# GDP per capita varies considerably across the region

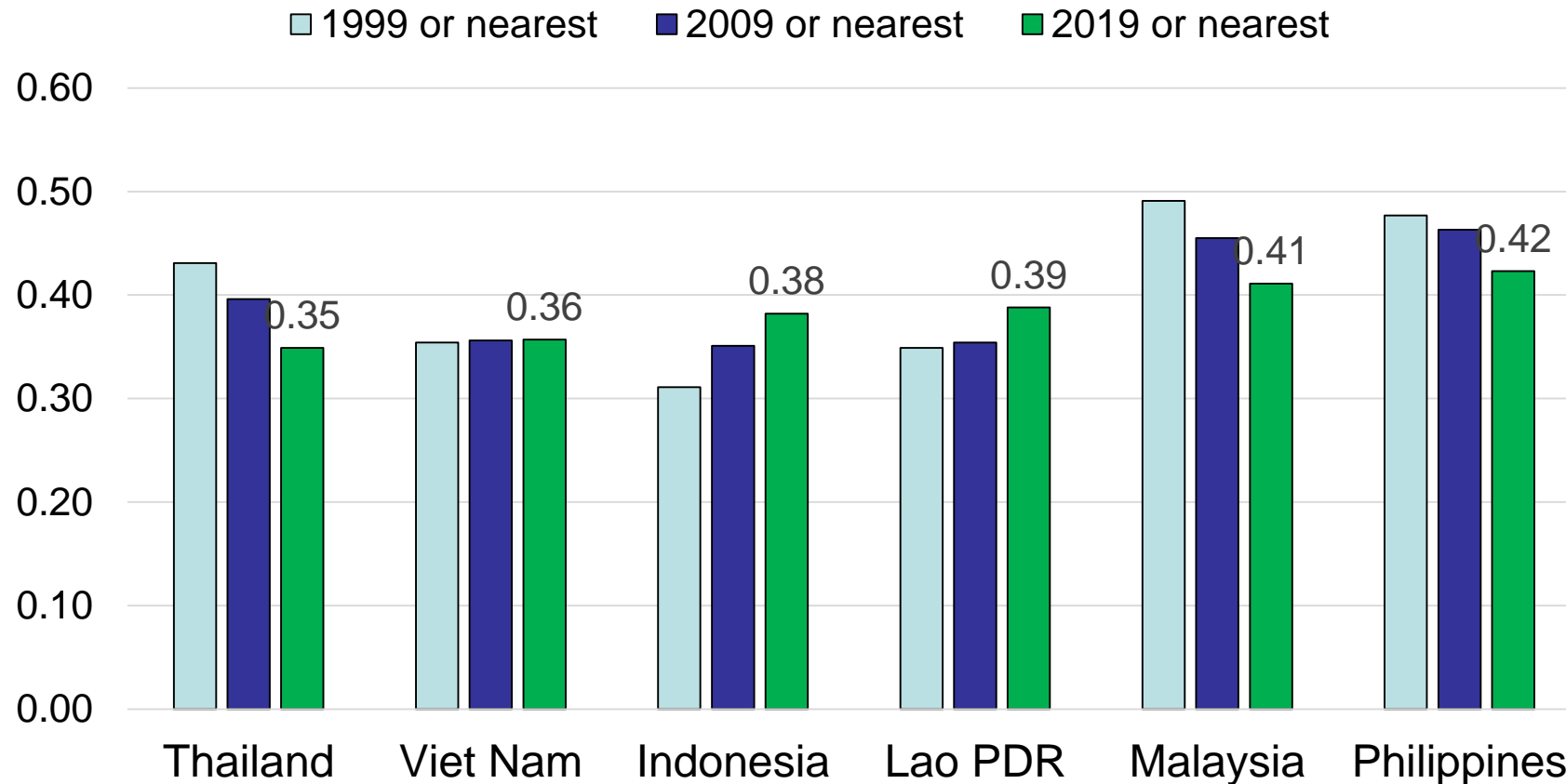GDP per capita, PPP (current international $) 2020

# Percentage of population living with less than USD 1.90 and USD 3.20 per day, 2000 and 2019 or latest available

| | Poverty headcount ratio at $3.20 a day (2011 PPP) (% of population) | | Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) | | Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) | |
|---|---|---|---|---|---|---|
| | 2019 (USD 3.20/ day) | reference | 2019 (USD 1.90/ day) | reference | 2000 (USD 1.90/ day) | reference |
| Lao PDR | 37.4 | 2018 | 10 | 2018 | 32.1 | 2002 |
| Indonesia | 19.9 | 2019 | 2.7 | 2019 | 34.9 | 2000 |
| Philippines | 17 | 2018 | 2.7 | 2018 | 13.7 | 2000 |
| Viet Nam | 6.6 | 2018 | 1.8 | 2018 | 37 | 2002 |
| Thailand | 0.3 | 2019 | 0.1 | 2019 | 2.4 | 2018 |
| Malaysia | 0.3 | 2015 | 0 | 2015 | 0.4 | 1997 |

Source: World Bank, World Development Indicators, https://databank.worldbank,org

# Income inequality trends, 1999 to 2019
# Gini coefficient for equivalised household disposable income

Legend: 1999 or nearest | 2009 or nearest | 2019 or nearest

Data labels (2019): Thailand 0.35, Viet Nam 0.36, Indonesia 0.38, Lao PDR 0.39, Malaysia 0.41, Philippines 0.42

# Pension replacement rates, 2019

| Country | Men: 50% average earner | Women: 50% average earner | Men: average earner | Women: average earner |
|---|---|---|---|---|
| Viet Nam | 75.0 | 75.0 | 75.0 | 75.0 |
| Philippines | 73.8 | 73.8 | 71.9 | 71.9 |
| Malaysia | 70.3 | 64.9 | 69.4 | 64.1 |
| Indonesia | 55.3 | 53.0 | 55.3 | 53.0 |
| Singapore | 53.1 | 47.3 | 53.1 | 47.3 |
| Thailand | 38.8 | 38.8 | 37.5 | 37.5 |