

**DEVELOPMENT CENTRE
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Informality and Social Protection in the time of COVID-19

Governing Board Thematic Session on COVID-19 & Social Resilience

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The aim of this background policy note is to support the discussion of the Governing Board Thematic Session on COVID-19 and Social Resilience (Item 2 of the Draft Annotated Agenda).

This document is circulated to the Members of the Governing Board for INFORMATION and DISCUSSION.

This document is available in English and in French.

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Informality and Social Protection in the time of COVID-19

Informal economy workers have been hit hard by the COVID-19 crisis.

1. A majority of people in the Global South depend on informal employment for subsistence. They contribute to the economy and society through market and non-market activities that are not well recognised or valued, which leaves a majority of economic agents and their dependents outside the realm of public policy.
2. To the extent that lack of employment-based social insurance is a key parameter used to measure informal employment by definition, few informal workers are covered by social insurance that is usually financed through contributions paid by, or on behalf of, insured members, typically workers and their employers.
3. By contrast, social assistance programmes are usually financed by general taxes, address specific populations and particular contingencies and are often targeted at people living in poverty. While they are, in principle, provided regardless of employment status, in most developing and emerging countries, their coverage and benefit levels have been very limited. In many cases, informal workers cannot access these benefits, as eligibility criteria typically require proper identification documents and exclude individuals or households with a certain level of income, assets or work capacity.
4. Workers in the informal economy are often referred to as the “missing middle”, alluding to the fact that they may not be protected by contributory or tax-financed social insurance or social assistance. Lack of coverage for most workers in the informal economy is one reason that 55% of the world’s population, or more than 4 billion people, is not or is only partially covered by social protection (ILO, 2017^[1]).
5. The outbreak and spread of coronavirus, and some of the early administrative responses such as large-scale confinement and workplace closure, has had a disproportionate impact on informal economy workers throughout the world, especially in developing countries where informal employment is dominant. Not only social distancing and the ability to properly self-isolate seems to have been difficult to manage in context of large informality and poor living conditions, but also “stay-at-home” policies in the absence of social protection have threatened the livelihoods of informal workers and the very survival of poor communities, with millions of people losing jobs without any access to income. While the prospects of economic recovery remain uncertain, many informal workers will likely continue to require income support.
6. Such social protection gap constitutes an enormous challenge for economic and social development and human rights. The International Labour Organisation (ILO) Social Protection Floors Recommendation, 2012 (No. 202) and the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) stress the importance of extending coverage to workers in the informal economy through a combination of contributory and non-contributory mechanisms (ILO, 2015^[2]). The Joint Statement on the Role of Social Protection in Responding to the COVID-19 Pandemic by member organizations of the Social Protection Inter-Agency Cooperation Board (SPIAC-B) calls for urgent social protection measures to respond to the rapidly evolving COVID-19 pandemic. The recently approved Policy Dialogue on Social Protection and Development by Member States of the OECD Development Centre identifies the extension of social protection to informal economy workers as one of its priority work stream.

Many countries have scaled up their social protection programmes as a response to the COVID-19 crisis...

7. The COVID-19 crisis has required countries to strengthen their social protection programmes and support the most vulnerable as quickly as possible. Countries have responded to this challenge in three important ways: (i) expanding coverage and benefits of existing programmes, (ii) developing new temporary programmes, and (iii) making administrative requirements simpler and more user-friendly (Gentilini et al., 2020^[3]).

8. One important way countries have helped to sustain the incomes of workers and minimise initial job losses was to extend social insurance. In many countries with well-established social insurance programmes, existing schemes such as paid sick-leave schemes, short-time work schemes and unemployment benefits were made more widely available and more generous.

9. At the same time, many countries have relied on non-contributory schemes, especially cash-transfer programmes, to support groups that were not covered by social insurance, typically informal workers. Often, countries have adapted their social assistance programmes by loosening the conditions for benefit receipt during the pandemic (e.g. Algeria, Malaysia, Philippines), increasing benefits among pre-existing programmes (e.g. Chile, Egypt), and expanding the number of potential recipients through existing and new programmes. In addition, several countries have introduced temporary cash support programmes to help people in urgent need that were most affected by the crisis.

10. Crisis support has also been channelled in several countries through labour market interventions. These include wages subsidies, activation measures, and shorter-time work arrangement. Direct in-kind support and moratoria on taxes and rents were also implemented in several countries to reduce or delay household expenses.

...yet few programmes are in place to reach informal economy workers in a sustainable manner.

11. As part of their efforts to mitigate the socio-economic impact of the COVID-19 crisis on the most vulnerable groups, several countries have sought to expand and adjust their social assistance programmes to support the need of informal economy workers. New programmes have been introduced that can be rolled out quickly as they do not depend upon the income, assets, or prior contributions of the recipient. Often, these programmes provide time-limited targeted cash transfers to groups who are outside existing welfare programmes and whose incomes were directly affected by compulsory confinement (e.g. Colombia, Morocco, Philippines). In some cases, cash transfers programmes were complemented by temporary public work programmes (Gentilini et al., 2020^[3]).

12. While these short-term emergency programmes can be an important element of income security for informal households in the short-run, they do not address the longer-term need of informal economy workers. One reason is the longstanding vulnerability in the informal economy that limits the ability of informal workers to cope with risks that may occur throughout the lifecycle. Another reason is that income risks have escalated during confinement and will remain very high in the post confinement period as many important sectors for informal economy workers have been devastated (Alfers L, Moussié R, 2020^[4]).

Looking forward, building informality-robust/informality-proof social protection systems is key and different options exist.

13. While recent social protection responses to the COVID-19 crisis have helped to sustain the incomes of many informal workers in the short-run, the longer-term needs of informal economy workers

continue to fall through the cracks of most social protection systems. As countries move into the gradual de-confinement phase, it is critical that longer-term thinking about how social protection may be extended to informal economy workers are a part of the policy response. Post-crisis social protection systems should be strengthened to close the gaps in the informal economy and pave the road towards universal social protection.

14. Emerging trends show that reducing exclusion of informal economy workers is complex but possible (OECD/ILO, 2019^[5]). Innovative policy solutions to extend social protection coverage to informal economy workers are within reach for countries at various levels of development. Many countries use a combination of social insurance and social assistance, in line with the ILO Recommendation No. 202 and Recommendation No. 204.

15. One approach to extend social protection in the informal economy is to rely on non-contributory, tax-financed social assistance delivered in various forms. Calls for the upgrade of social assistance in the face of persistent informality largely relate to the fact that many informal workers fall into poverty while others have suffered during the crisis and will likely continue to require income support for the coming months, and even years.

16. Among social assistance programmes, cash transfers are increasingly popular and are spreading across Africa, Asia and Latin America. These programmes target low-income households and are sometimes conditional on human development requirements, or unconditional. Social pensions are another trend in low- and middle-income countries. These non-contributory pensions provide basic income to all older individuals, even in low-income contexts. More recently, universal cash transfers, sometimes also referred to universal basic income (UBI), have gained increased policy attention, as they guarantee payment to every individual, irrespective of employment status, income or means and avoid costly and time-consuming means tests. However, there are concerns about the disincentives and distributional effects of UBI and the fact that a fiscally realistic UBI would be too low to provide reliable poverty alleviation on its own (OECD, 2017^[6]; Browne and Immervoll, 2018^[7]; Gentilini et al., 2020^[3]). Altogether, these social assistance schemes can be an important element in the overall development of informality-robust social protection systems.

17. Another approach to reduce the exclusion of informal economy workers is to extend coverage of contributory social insurance, such as health protection, pensions, maternity protection or unemployment support. A wide range of instruments have been used to encourage formalisation and ease eligibility criteria for contributory coverage, including reduced contribution levels for smaller firms on a temporary basis, simplified special mechanisms for categories of workers, tax deductions to promote payment of contributions, tax breaks and favourable modalities for firms that formalise, and simplified social security registration for workers and employers.

18. Labour market programmes, such as public works programmes (PWPs) and skills training, have also receiving renewed policy attention in many developing countries, where decent jobs deficits are large. PWPs are widely implemented throughout Africa, Asia and Latin America as an instrument of social policy often with funding from donor agencies, and tend to have a broad coverage of informal economy workers. While these programmes can facilitate the formalisation of informal economy workers, they may also prevent formal workers from going into informal jobs. Policy makers often see PWPs as an option to enhance income security for poor workers.

19. Looking forward, as countries at all income levels confront the challenge of extending social protection to informal economy workers, they need to take the diversity of informal workers and the context of their household into account, especially when it comes to differences in work-related risks, eligibility for social protection programmes, household income level, degree of informality in the household, capacity to build up entitlements and disguised employment relationships.

20. Recent analysis from the OECD Key Indicators of Informality based on Individuals and their Households (KIIBIH) suggests that a strategy to extend social protection to informal economy workers may well be articulated around the following three pillars: (i) closing the social protection gap among the poor through non-contributory schemes; (ii) extending contributory schemes to non-poor informal workers that have the capacity to contribute; and (iii) creating incentives to levy higher social security contributions from employers of wage workers and workers in hidden? employment relationships.

Main questions to be addressed

1. Given the current context and based on your national and international experiences, what do you consider to be the most pressing issues related to the extension of social protection including to informal economy workers?
2. With specific reference to universal basic income (UBI), do you consider this instrument an important element for policy makers engaged in the extension of their social protection systems?
3. How has the COVID-19 crisis impacted the universal social protection agenda and the way to deliver it?
4. How can the Policy Dialogue on Social Protection and Development (PD-SPD) be used to support policy development/reform during the gradual post-confinement phase and impact at the national level in favour of the Global Partnership for Universal Social Protection to achieve the Sustainable Development Goals (USP2030) and Agenda 2030?

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