



THE KEY TO A SUCCESSFUL EMPLOYMENT INJURY INSURANCE SYSTEM

ITCILO E-CAMPUS / ONLINE KNOWLEDGE

Module 14

Extension of EIIIS Coverage to Workers in
Informal Economy



International Labour Organization



International Training Centre

Overview

This module aims to explain the main causes and consequences of informal economy and to analyze different approaches to combat informality. It also illustrates the role of regulatory environment and labour administration and inspection to help the transition towards formality. Finally, it focuses on how self-employed workers are covered under EISS schemes in several countries and the contribution rate needed to cover the costs of this category of workers.

Learning Outcomes

By the end of Module 14, participants will:

- Have learned the main causes and consequences of informal economy and the different approaches to combat informality;
- Become familiar with the role of regulatory environment and labour administration and inspection to help the transition towards formality;
- Gain knowledge on how self-employed workers are covered under EISS schemes in several countries and the contribution rate needed to cover the costs of this category of workers.

Legend

If you find this icon , you are facing an **EXTERNAL** link

In order not to lose the current page, it can be useful to open a web page in a new tab. By default, the rule is that an external link (to another site) opens in a new tab, and an internal link (to another page on the site) opens in the same tab. But this is not always the case, and it is also sometimes useful to want to open several pages of the same site at the same time, in several tabs.

If you want to open a link in a new tab, **right click on the link and select “Open in new tab”**. You can also use the keyboard shortcut **“Ctrl”+left mouse click** on the link.

If you find one of these icons    , you are facing an **INTERNAL** link



left mouse click on the icon (link) to see more information.



left mouse click on the icon (link) to return to the original slide.



left mouse click on the icon (link) to go to the next page.



if this icon is grey, you have reached the last page.



left mouse click on the icon (link) to return to the previous page.



if this icon is grey, you have reached the first page.

What is the current status and main characteristics of informal economy around the world?

- Two billion of the world's employed population aged 15 and over work informally, representing 61.2 per cent of global employment.
- The proportion of informal employment varies in different regions. Among the five main regions, the vast majority of employment in Africa (85.8 per cent) is informal.
- Asia and the Pacific (68.2 per cent) and the Arab States (68.6 per cent) have almost the same level of informality.
- In the Americas (40.0 percent) and Europe and Central Asia (25.1 per cent), less than half of employment is informal.
- The ILO third edition of *Women and Men in the Informal Economy: A Statistical Picture* (2018) provides direct and estimated measures of informal employment inside and outside informal enterprises for more than 100 countries.



[To learn more click here](#)

Work in informal economy

Informality and working conditions

- Globally, 15.7 per cent of employees in permanent full-time employment hold informal jobs, i.e. having no employment related social and labour protections.
- The proportion of employees in informal employment increases significantly among part-time employees (44.0 per cent), and among employees in temporary employment (59.6 per cent) and is highest for employees in “temporary part-time jobs” (64.4 per cent), especially among men (68.1 per cent).
- Women part-time employees are less likely than men to be informal. Just above one-third of women employees working less than 35 hours a week are in informal employment, as compared to 54.2 per cent among men.

How does the ILO define informality?

- According to the guidelines endorsed by the 17th International Conference of Labour Statisticians (ICLS) in 2003, informality is defined as “*all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements*”;
- Informal employment now refers to all employment arrangements that do not provide individuals with legal or social protection through their work, thereby leaving them more exposed to economic risk than the others, whether or not the economic units they work for or operate in are formal enterprises, informal enterprises or households;
- To further classify workers within formal or informal employment, a distinction is made according to the categories of the International Classification of Status in Employment (ICSE-93).
 - Informality concerns two groups of workers:
 - Persons employed in the *informal sector*;
 - Persons in *informal employment* outside the informal sector.

How does the ILO define informality?

Persons employed in the informal sector	Persons in informal employment outside the informal sector
<p>Employers and employees in informal enterprises;</p> <p>Own-account (self-employed) workers in their own informal enterprises;</p> <p>Contributing family workers working in informal enterprises;</p> <p>Members of informal producers' cooperatives.</p>	<p>Employees in formal enterprises not covered by social protection through their work;</p> <p>Paid domestic workers not covered by social protection through their work; and</p> <p>Contributing family workers working in formal enterprises.</p>

How does the ILO define informality?

- Employment in the *informal sector* and *informal employment* are concepts which refer to different aspects of the “informalization” of employment and to different targets for policy-making;
- While the informal sector refers to informal enterprises, informal employment refers to informal jobs;
- Employment in the informal economy can be defined as the sum of employment in the informal sector and of informal employment found outside the informal sector;
- The two concepts are not interchangeable, but they are both useful for descriptive and analytical purposes and are hence complementary (see box 9.1).

 To know more [click here](#)

What are the roots of informality?

- The growth of the informal economy can often be traced to:
 - Macroeconomic and social policies that are inappropriate, ineffective, misguided or badly implemented (frequently developed without tripartite consultation);
 - Lack of appropriate legal and institutional frameworks;
 - Lack of good governance for the proper and effective implementation of policies and laws;
 - Lack of trust in institutions and administrative procedures.
- Macroeconomic policies (including structural adjustment, economic restructuring and privatization policies) which have not given enough focus to employment, have reduced jobs or failed to create sufficient numbers of new jobs in the formal economy.

What are the social and economic costs of informality?

a) *Poverty trap*

- The prevalence of the informal economy in many parts of the world;
- Pervasive trends towards higher levels of precarious and informal employment not only affect the current living standards and working conditions of the population but also:
 - Prevent households and economic units in the informal economy from increasing productivity, reducing vulnerabilities and finding a route out of poverty;
 - Trap individuals and enterprises in a spiral of low productivity and poverty.
- A coherent national strategy to facilitate transitions to formality needs to recognize that *the costs of working informally are high for businesses, workers and the community.*

What are the social and economic costs of informality?

b) Informality cost for individuals

- Workers in informal economy are lack of protection in the following events:
 - Non-payment of wages;
 - Compulsory overtime or extra shifts;
 - Lay-offs without notice or compensation;
 - Unsafe working conditions; and
 - Absence of social benefits (ex. pensions, sick pay and health insurance).
- Women, young persons, migrants and older workers are especially vulnerable to the most serious decent work deficits in the informal economy;
- They are vulnerable to violence, including sexual harassment, and other forms of exploitation and abuse, including corruption and bribery;
- Child workers and bonded labourers are also found in the informal economy.

What are the social and economic costs of informality?

c) Informality cost for businesses

- Most economic units in the informal economy (mainly micro and small enterprises):
 - Do not enjoy secure property rights, which deprives them of access to both capital and credit;
 - Have difficulty accessing the legal and judicial system to enforce contracts;
 - Have limited access to public infrastructure and public markets;
 - Lack the necessary size to exploit economies of scale fully (which inhibits investment in bigger businesses and impedes trade);
 - Are less capable to generate sufficient profits to reward innovation and risk taking (essential ingredients for long-term success).
- Company size, productivity growth and export opportunities are closely linked. Large firms:
 - Benefit from economies of scale;
 - Have easier access to high-skilled labour and banking credit;
 - Tend to be more reliable in fulfilling contracts on time (crucial for long-term client relationships).
- Studies show that high rates of informality drive countries towards the lower and more vulnerable end of global production chains (they attract capital flows related to the existence of a large low-wage labour pool).

What are the social and economic costs of informality?

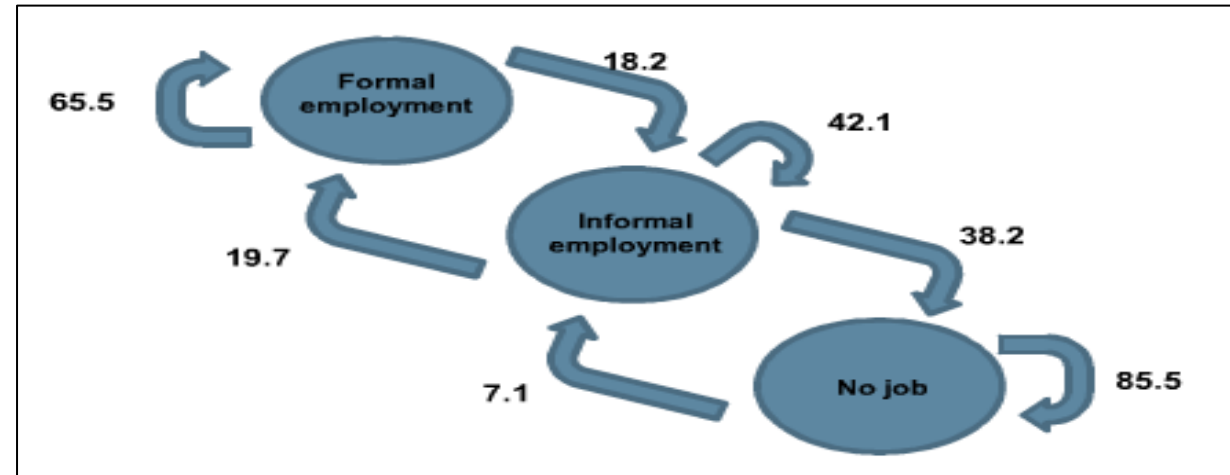
d) Informality cost for the community

- Unregistered and unregulated enterprises often do not pay taxes or benefits/entitlements to workers.
- Consequence of non-compliance include:
 - Workers are often denied of protection;
 - Unfair competition among enterprises (more burden placed on registered businesses);
 - Public revenue is deprived (governments are limited in their fiscal space and ability to extend social protection schemes and other systems vital to national development, such as infrastructure and education and health systems);
 - Informality is often associated with weak institutional arrangements and poor governance structures, therefore with susceptibility to corrupt practices.
- Private means of imposing order in the informal economy are often very costly for businesses and workers. Easing costs of moving to formality may bring businesses to come above ground, pay their taxes, observe labour laws and benefit from the judicial system.

What are the social and economic costs of informality?

Figure 8.3 - Mobilization rate among formal, informal employment and no job in Mexico

Case Study: Mexico



- Figure above:
 - Displays transition probabilities (in percentages) among individuals aged 20 to 60 years old across different segments in the Mexican labour market between 2002 and 2005.
 - Illustrates that workers are twice likely to remain in informal sector than to return to formal employment.
- Informality is often a trap in which informal workers are caught. Comprehensive social protection should contribute to prevent formal workers from falling into informality and help informal workers to escape from an informality trap.

ILO comprehensive policy approach towards formality

What is the ILO comprehensive approach towards formality?

- Workers in the informal economy differ widely in terms of:
 - Income (level, regularity, seasonality);
 - Status in employment (employees, employers, own-account workers, casual workers, domestic workers);
 - Sector (trade, agriculture, industry);
 - Type and size of enterprise, location (urban or rural);
 - Employment protection (type and duration of contract, annual leave protection); and
 - Social protection.
- Extending coverage to such a heterogeneous set of workers and economic units requires the implementation of several (coordinated) instruments adapted to:
 - The specific characteristics of the different groups;
 - The contingencies to be covered; and
 - The national context.

What is the ILO comprehensive approach towards formality?

- To address the diversity of the informal economy, a common framework at the national level is needed;
- It can be built on the reflection and action ground already set out by the Decent Work Agenda;



According to the ILO, *decent work* sums up the aspirations of people in their working live, which involves:

- Opportunities for work that is productive and delivers a fair income;
- Security in the workplace and social protection for families;
- Better prospects for personal development and social integration;
- Freedom for people to express their concerns, organize and participate in the decisions that affect their lives and;
- Equality of opportunity and treatment for all women and men.

What is the ILO comprehensive approach towards formality?

- Transition from the informal economy to the formal economy is clearly an important target in the *ILO Decent Work Agenda*, which is a balanced and integrated programmatic approach to pursue the objectives of full and productive employment and decent work for all at global, regional, national, sectoral and local levels;
- The comprehensive policy approach across the Decent Work Agenda has resulted in a policy and diagnostic framework based on seven key avenues towards formalization;
- This framework emphasizes the importance of *vertical integration* and coherence across the range of policies to curb informality, while the *horizontal dimension* focuses on intensifying action in each policy area;

Decent Work Agenda	
Four pillars	Seven policy areas
Standards and rights at work	Quality employment generation and growth strategies
Employment creation and enterprise development	Regulatory environment
Social protection	Social dialogue, organization and representation
Social dialogue	Promoting equality and addressing discrimination
	Measures to support entrepreneurship, skills and finance
	Extension of social protection
	Local development strategies



[Click here for a description of the ILO's instruments making reference to informal economy.](#)

National regulatory environment^{*}

^{*}based on ILO. 2013g. *Transitioning from the informal to the formal economy*, Report V(1), section 2.2.

How national regulatory environment can be adapted in order to facilitate the extension of coverage to the informal employment?

- Different approaches have been adopted to channelling workers from informal employment into formal employment and providing them with better social and labour protection, depending on each country circumstances;
- Governments in developed countries have combined sanctions against illegal employment (e.g. employment of irregular migrant workers) and undeclared work, with incentives to encourage employers to declare workers;
- In countries where the informal economy makes up a larger percentage of overall employment, the focus tends to be on extending the legislative framework to cover workers in the informal economy and adopting measures to facilitate their integration into the formal economy;
- In the majority of countries, labour legislation applies to *workers in general*, in others it excludes certain categories of workers, who are often found in the informal economy.

How national regulatory environment can be adapted in order to facilitate the extension of coverage to the informal employment?

- Several countries have simplified their labour laws and procedures by:
 - Reducing or eliminating the costs involved in registering enterprises with labour administrations and social security authorities;
 - Simplifying the requirements, forms and procedures for hiring workers through public employment offices; and
 - Recognizing contracts of employment, irrespective of their form, and accepting any means of evidence.

- In many developing countries, the main challenge is to include the huge masses working in the informal economy under some kind of social protection scheme.

- Two approaches have been adopted:
 1. Reducing the cost of formalization
 2. Increasing productivity.

How national regulatory environment can be adapted in order to facilitate the extension of coverage to the informal employment?

Examples of developing countries where the above approaches have been implemented are:

- In **Colombia**, Act No. 1429 provides micro, small and medium-sized enterprises (MSMEs) with incentives (e.g. tax reductions) to formalize their structures and to create new employment for vulnerable groups such as young workers. Measures to increase productivity include modernizing the institutional framework for MSMEs, improving their access to financial markets and providing assistance for technological development.
- In 2010, the General Act on SMEs in **Brazil** created the legal concept of “individual micro-entrepreneur” and simplified registration.
A single contribution gives access to social security, medical care and maternity leave.
A certificate facilitates their access to markets and credit.
It is estimated that 3 million workers have been formalized in this way.
- In **Chile**, the 2006 SME Act constitutes an important step towards a more enabling environment for the formalization of SMEs and introduces a series of changes in the regulatory framework and in SME support services.

How national regulatory environment can be adapted in order to facilitate the extension of coverage to the informal employment?

- Legal protection should cover vulnerable categories of workers (domestic work, homework and agriculture);
 - **South Africa:** the Basic Conditions of Employment Act of 1997 was amended to establish conditions of employment and minimum wages for domestic work;
 - **Asia and the Pacific:** the extension and application of existing laws to vulnerable categories of workers has helped to ensure their health, safety and financial security;
 - Several countries have extended social protection provisions to self-employed workers (**Austria, Bahrain, Croatia, Belgium and Singapore**) and to particularly vulnerable groups of workers such as market workers (**Algeria**) and small enterprises and handicraft workers (**Mauritius and Peru**);
 - **The Philippines:** the Domestic Workers Act of 2013 defines “domestic work” and “domestic worker” and establishes their rights and protections;
 - **Thailand:** the Home Workers Protection Act of 2010 requires written contracts between hirers and homeworkers with certain minimum information and establishes a non-compliance fine of 10,000 Thai baht. Homeworkers producing outputs of the same nature, quality and quantity may not be paid less than the minimum wage. The Act established a Home Work Protection Committee to advise on remuneration, safety and other policies, and labour inspectors are permitted to enter the workplace of homeworkers.

Labour administration and inspection

What is the role of labour administration and inspection to track, report and help the transition to the formalization of workers?

- **The Labour Administration Convention, 1987 (No. 150):**
 - Extension of the functions of the system of labour administration to include the activities of appropriate categories of workers who are not employed persons.
- **The Labour Inspection Convention, 1947 (No. 81):**
 - Applies to industrial and commercial workplaces and the Labour Inspection (Agriculture) Convention, 1969 (No. 129);
 - Covers commercial and non-commercial agricultural undertakings.
- **The Safety and Health in Agriculture Convention, 2001 (No. 184):**
 - Expands the scope and need for labour inspection in agriculture.

What is the role of labour administration and inspection to track, report and help the transition to the formalization of workers?

- Most countries define the scope of labour inspection in the general labour legislation and the determining factor is often the existence of an employment or apprenticeship relationship:
 - **Turkey:** inspection officers determine whether or not employees are insured and report to the social security institution information on those employed without insurance. An action plan was adopted to combat the informal economy (raising awareness of the disadvantages of the informal economy, promoting the registration of employment, simplifying the legislation and procedures, developing an effective monitoring system and sanctions, and strengthening the sharing of data and coordination among the institutions concerned).
 - Very few countries have formally extended the labour inspection system to members of cooperatives (Article 5(1) of Convention No. 129).
 - **Some European countries**, labour inspectors provide OSH training to self-employed agricultural workers, farmers, sharecroppers and family members working on farms.

What is the role of labour administration and inspection to track, report and help the transition to the formalization of workers?

- **Norway:** the application of the Work Environment Act has been extended to the many agricultural enterprises that do not employ workers.
- **Republic of Moldova:** enterprises and workers operating in the informal economy fall within the scope of the legislation on labour inspection and the employment and social protection of persons seeking employment. In this framework, the labour inspectorate has tracked and helped to legalize informal employment in enterprises operating in the formal sector.

Cost of extension of EIS coverage to self-employed persons

How EIS coverage is extended to self-employed persons and at what cost?

- Although the demand for work injury benefits is particularly high among the self-employed workers, there are problems of moral hazard, adverse selection (if such benefits are voluntary) and with the monitoring of such claims;
- Practice of providing benefits in case of work injury, long-term disability and short-term sickness for the self-employed workers varies and is often subject to strict conditions;
- The examples of some countries in Europe highlight the different approaches:
 - In Belgium, there is a separate sickness and maternity scheme for the self-employed, but they are not covered for work injury.
 - In Denmark, the self-employed workers (and their spouses) are covered for sickness, work injury and maternity through a voluntary contributory system. Incapacity cash benefits are paid for up to two weeks.
 - In France, there is a separate sickness, work injury and maternity scheme for the self-employed.
 - In Germany, there is no such coverage for the self-employed*.

* *HANDBOOK on the extension of social security coverage to the self-employed* published by the ISSA in 2012 (www-issanet.issa.int)

How EIS coverage is extended to self-employed persons and at what cost?

Country	SEP Contribution Rates
Cabo Verde	6%
Côte d'Ivoire	Voluntary basis depending of the assessed degree of risk
Djibouti	7% (medical benefits)
Gabon	Special system
Liberia	1.75%
Mali	2.5% (1 - 4% depending on assessed risk). Voluntary basis
Niger	1.4%
Nigeria	Financing mechanisms still undetermined
Senegal	1%, 3% or 5% depending on assessed risk
Sudan	Global contribution, under old age (25% of declared monthly income)
Togo	2%
Tunisia	Voluntary contributions
Indonesia	1% of monthly declared earnings. Voluntary basis
Israel	0.17 - 0.78% of earnings above 60% of the national average wage
Japan	0.3 – 5.2% of declared earnings
Korea, Republic of	0.7 - 28.1% of declared earnings or payroll. Voluntary basis

How EIS coverage is extended to self-employed persons and at what cost?

Austria	1.9% of covered income or flat rate
Bulgaria	0.4 - 1.1% of income, according to the assessed risk. Voluntary basis
Croatia	0.50%
Estonia	Global contribution, under sickness (13% of declared earnings)
Italy	Variable contribution according to assessed risk
Liechtenstein	Variable contribution according to the coverage required and the assessed risk. Voluntary basis
Luxembourg	0.9% of covered income
Poland	1.8% of declared earnings
Spain	Voluntary contributions depending on the level of coverage chosen
Sweden	0.2% of declared earnings
Turkey	Provided under sickness (included in 1 - 6.5% monthly earnings, according to degree of risk)
Bahamas	2%
British Virgin Islands	0,5% of declared monthly earnings
Chile	0.95% declared income + up to 3.4% declared earnings depending on the occupation
Colombia	0.348 – 4.089% of declared covered earnings according to assessed risk. Voluntary basis
Grenada	1%
Mexico	Variable contributions. Voluntary basis
Peru	Flat-rate contribution from 13 to 37 nuevos soles according to the sector and associated risk

- The table presents the contribution rate for a sample of EIS schemes that cover self-employed persons*.
- The sample contains more than 30 countries with EIS that are taken from 181 countries reported. Many of the schemes provide the coverage to self-employed persons on a voluntary basis.

*World Social Protection Report 2014-15: Building economic recovery, inclusive development and social justice, Table B4

Case study: South Korea – Extension of Workers Compensation Insurance (WCI) to small and business employers and special types of workers

Compulsory WCI scheme in Korea, Korea Worker's Compensation & Welfare Service (COMWEL), covers workplaces with more than one worker regardless of types of employment and all construction workplaces. Workers covered by the scheme are those who are included within the definition of the term “worker” stated in Labour Standard Act.

Small business owners and special types of workers such as golf caddies and courier workers have not been protected from the Labour Standard Act despite the fact that working conditions are similar to other workers defined by the law. In order to address the problem, WCI act and WCI enforcement decree have had special articles for some of those who used to be situated in grey areas of the traditional WCI scheme.



[To know more click here](#)

Additional resources

Additional readings

-  [ISSA Guidelines on Administrative Solutions for Coverage Extension](#)
-  [Annex Employment Relationship](#)
-  [Appendix 10 - Migrant Workers](#)
-  [Extension of Workers Compensation Insurance Coverage to Small and Medium Business Employers and Special Types of Workers](#)

* It is for South and Eastern Europe. However, its Chapter 4.2 provides for a short description of the ILO instruments, which can be useful.



THE KEY TO A SUCCESSFUL EMPLOYMENT INJURY INSURANCE SYSTEM

ITCILO E-CAMPUS / ONLINE KNOWLEDGE

Pop Ups - Module 14



International Labour Organization



International Training Centre

✘ How does the ILO define informality?

Box 9.1 - Conceptual framework: Informal employment

Source: “Guidelines concerning a statistical definition of informal employment”. 2003, the Seventeenth International Conference of Labour Statisticians (17th ICLS)

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises ^(a)	3		4		5	6	7	8	
Households ^(b)	9					10			

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note: Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment: Cells 1 to 6 and 8 to 10.

Employment in the informal sector: Cells 3 to 8.

Informal employment outside the informal sector: Cells 1, 2, 9 and 10.