WIEGO
Women in Informal Employment: Globalizing and Organizing

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Social Protection for Informal Workers: Trends and Changes

What do we mean by universal social protection?

Introduction

In broad terms, universal social protection coverage means that everyone in a society is adequately covered by social protection policies and programmes. The International Labour Organization (ILO) defines universal social protection as the "actions and measures to progressively build and maintain nationally appropriate social protection systems that are comprehensive, sustainably financed and provide adequate protection over the life cycle"[1]. Thus, universal social protection aims to ensure equitable access to ALL people and protect them throughout their lives against poverty and risks to their livelihoods and well-being[2].

Many different organizations and specialists talk about universal social protection. But their vision of how to achieve universal social protection is very different. In this briefing note, we will look at how two of the main actors in this debate, the World Bank and the ILO, look at the issue, so that we better understand how the two interpretations differ.

The World Bank and ILO Debate

We can summarize the debate by identifying the two main positions in regard to universal social protection, championed by two international organizations: the International Labour Organization and the World Bank. These are presented in broad terms – of course there will be nuances, but this brief aims to provide a basic sketch.

In the table below, there is a summary of the different approaches to universal social protection that each organization stands for.

Aspect	ILO	World Bank
What is the role of the state?	Contributor and enforcer of universal social protection systems	Regulator of private schemes; enable and create social protection schemes (smaller role); tax collection for social assistance
What is the model?	Everyone should be covered by social protection schemes, which are ideally made up of a combination of social assistance and social insurance schemes	A basic safety net in place for the very poor, and private insurance mechanisms for those who are not poor, while limiting the expansion of existing social insurance schemes
State expansion	Horizontal and vertical expansion	Horizontal expansion

[1] ILO (2021). Recurrent Discussion. ILC. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_802572.pdf

[2] Dankmeyer, Christina (2019). "Universal Social Protection – What it means and why it concerns all of us." OECD Development Matters. Available at: https://oecd-development-matters.org/2019/02/06/universal-social-protection-what-it-means-and-why-it-concerns-all-of-us/

Aspect	ILO	World Bank
Who pays?	Employers, workers and government pay for social protection through taxes and social insurance contributions	Governments finance through tax revenues. These tax revenues can include raising of consumption taxes (e.g., VAT) or by ensuring tax compliance in the informal sector. Employers should not contribute too much as it is claimed this increases the cost of labour and discourages job creation
Labour rights	Based on ILO labour standards	Little reference to ILO labour standards
	Social dialogue and tripartism	No mention of social dialogue/tripartism
Who manages?	Government-managed pension and health social insurance schemes with tripartite oversight	Encourages workers to contribute to private pension and health-care insurance with no worker representation
Who is included in cash transfers?	All should be reached through universal cash transfers	Poor should be reached through targeted safety nets

There are some common ideas that these organizations share, particularly regarding some general trends, diagnostics and social protection challenges. For instance, both the ILO and the World Bank agree that social protection today does not cover the majority of workers. In particular, they recognize that workers in the informal economy do not benefit from social protection. Furthermore, they also agree that the standard employment relationship is not the norm and that non-standard forms of work are increasing. Finally, they uphold that universal social protection is needed to build a social contract.

However, there are very big differences on the approach each takes to achieve universal social protection – and they also differ on what this universalized social protection system would look like. These differences are a reflection of the distinct perspectives of the ILO and the World Bank about what the role of the state should be, but also how it should be financed and whether the system should be based on greater solidarity, such as social insurance, or not.

One key difference is in relation to coverage. The World Bank advocates for a layered model of universal social protection, with a focus on horizontal expansion. In other words, governments should ensure some sort of coverage is provided to a larger base of the population, and then different layers of greater provision should be in place, funded and delivered by private agents, to cater for the better-off groups of the population.

On the bottom layer, the World Bank states that the very poor or/and those hit by catastrophic losses should receive a guaranteed minimum defined benefit, financed by broader public spending. This would be the so-called safety net, which provides minimum social assistance benefits. There are many examples in the world of countries that have extended protection to more people living in or vulnerable to poverty, regardless of employment status, such as Ethiopia, Indonesia, Pakistan and the Philippines.

Moving up the ladder, they advocate a mandated and individually financed scheme, with minimum “adequate smoothening”, actuarially-fair defined benefits. This benefit, on the one hand, should be sufficient to ensure income above the minimum, but on the other hand, should not be too generous so that it “safeguards against moral hazard”. Examples of countries adopting this approach are Chile and Singapore.

For the next level, the World Bank advocates voluntary contributory schemes, privately financed, in which the role of the state would be merely to “nudge” and encourage its adoption. And, finally, for the top, they argue in favour of purely voluntary, privately financed schemes, in which the state would have only the role of regulating the market provision of secure savings and insurance[3]. Examples of this approach can be found in developed countries such as New Zealand, with their Kiwi Saver retirement-savings scheme, and in developing countries such as Kenya, with commitment devices in telephone payment platforms. Where social insurance schemes already exist, the World Bank recommends reducing contribution rates for employers to reduce labour costs and attract more private sector investment. It sees contributions to social insurance as a tax on employers, rather than considering it as a form of protection for workers and employers against crises and risks across the lifecycle.

The ILO’s approach is very different. It is based on human and labour rights to social protection, including the notion of nationally defined social protection floors (ILO Recommendation on Social Protection Floors no. 202). One key difference from the World Bank’s safety net concept is that social protection floors are more encompassing. They include four essential guarantees: 1) access to essential health care for all; 2) income security for children; 3) social assistance for the unemployed, underemployed and the poor; and 4) income security for disabled and older people. Examples of countries that have set national social protection floors are Brazil, Mexico and Mozambique[4]. These social protection floors are then complemented by a second layer of protection, with mandatory social insurance or social security benefits of guaranteed levels for contributors.

It is important to make a distinction here between social insurance and private insurance. Social insurance schemes are state-managed schemes in which social contributions are paid by employers, employees, and government in order to secure entitlement to social insurance benefits (such as health insurance, parental benefits, unemployment benefits and pensions). These schemes are often mandatory and are based in law[5]. As all registered employees and employers contribute to the scheme, high-income earners’ contributions subsidize those of lower-income earners, allowing for greater social solidarity.

On the other hand, private insurance schemes are not managed by the state and can include large-scale private pension schemes as well as smaller microinsurance schemes. Contributions to private insurance are often voluntary and not based on the principles of collective financing and solidarity. Voluntary insurance schemes, such as these, are in the higher level of protection, according to the ILO’s approach.

Another difference in relation to the World Bank is that the ILO adopts a more evolutionary approach to universal social protection in time. It advocates that countries should progressively ensure higher levels of social security for as many people as possible and as soon as possible[6], with the provision that “contributory capacity” should be taken into

[3] Packard, T., Gentilini, U., Grosh, M., O’Keefe, P., Robalino, D., & Santos, I. (2019). Protecting all: Risk sharing for a diverse and diversifying world of work. World Bank Publications. Available at https://openknowledge.worldbank.org/handle/10986/32353

[4] ILO (2011). Sharing Innovative Experiences: Successful Social Protection Floor Experiences. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_secsoc_20840.pdf

[5] WIEGO (2021). Social Protection Glossary. Available at: https://www.wiego.org/sites/default/files/resources/file/WIEGO_SocialProtection_Glossary_EN_10Aug2021.pdf

[6] ILO (2021). Recurrent Discussion. ILC. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_802572.pdf

account. It is through this "mix of non-contributory and contributory schemes" that the "missing middle" – workers in the informal economy – would be reached, argues the ILO[7]. This is another example of how the ILO perspective calls for both higher vertical expansion (i.e., a higher level of social protection) as well for horizontal expansion (level of population coverage), while the focus of the World Bank is only with the latter.

Lastly, social insurance programmes funded by employer and worker contributions may open up greater space in the public budget for social assistance programmes, which rely on general taxation. They may even cross subsize such programmes, thereby playing an important redistributive role. For example, Ghana's National Health Insurance Scheme uses formal-sector social security contributions to finance access for informal workers. Social insurance schemes also ensure that employers contribute to protecting those from whose work they profit – something they are more likely to be able to avoid via general taxation.

[7] Alfers, L. and Moussié, R. (2020). The ILO World Social Protection Report 2017–19: An Assessment. Development and Change, 51: 683-697. Available at: https://onlinelibrary.wiley.com/doi/abs/10.1111/dech.12563

About WIEGO

Women in Informal Employment: Globalizing and Organizing (WIEGO) is a global network focused on empowering the working poor, especially women, in the informal economy to secure their livelihoods. We believe all workers should have equal economic opportunities, rights, protection and voice. WIEGO promotes change by improving statistics and expanding knowledge on the informal economy, building networks and capacity among informal worker organizations and, jointly with the networks and organizations, influencing local, national and international policies. Visit www.wiego.org.

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